



Dom Maklerski

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Tuesday, July 07, 2015 | update

TVN: sell (downgraded)

TVN PW; TVN.WA | Media, Poland

Scripps Networks Makes Call For Remaining TVN Stake

Scripps Networks through its subsidiary Southbank Media on Monday, July 6th, announced a tender offer for the remaining 45.6% shares in TVN at PLN 20.0 per share, a price 6% higher than our target and 12.9% higher than the previous six-month average. Over and above PLN 20 TVN's upside potential is limited. In the last five years TVN's prime-time viewership among the most lucrative target audience of 16-49 year-old urban viewers has fallen by 5.7ppts to 25.1%, with the flagship TVN channel losing 7.3ppts. Increasing audience fragmentation, combined with mounting competition from free-to-air channels as well as the biggest rival commercial broadcaster Polsat, have contributed to the relatively slow growth in TVN's advertising revenues in the last several quarters. Further TVN may have a hard time fully monetizing its TVN Player streaming service in light of widespread content piracy and the expected entry into Poland of global VoD leaders like Netflix. On top of that TVN's pay-TV service nC+ is having a hard time achieving its PLN 550m EBITDA target. With all this in mind we recommend that investors accept Scripps's tender offer. At PLN 20.0 per share, after adjustment for noncore assets (stakes in nC+ and Onet.pl, deferred tax asset), TVN is trading at 13.5x EV-to-adjusted 2015E EBITDA compared to a median of 11.1x for comparable companies.

The tender offer

Scripps Networks finalized the acquisition of a 52.7% stake in TVN for EUR 584m on July, and as well as the shares the US media group agreed to take over the debts of TVN's owner Polish Television Holding in a total amount of PLN 300m. The implied per-share price was PLN 20.7. The tender offer announced yesterday is for the remaining 160.95 million shares representing an equity stake of 45.6% (47.3% after a planned reduction in share capital through the retirement of 12.5 million of the shares purchased on 2 July). The PLN 20 per-share bid being offered by Scripps is compliant with the relevant tender offer regulations.

Risks entailed in nC+

The weak competitive position of TVN's DTH platform nC+ is due to the fact that the platform does not have the capability to offer service bundles, thus losing subscribers to cable providers and Polsat (in Q1 2015 the subscriber base contracted 3% y/y while ARPU edged up just 1%). Even after being moved forward in time by more than a year, the PLN 550m EBITDA target that nC+ is aiming to achieve in 2017 is unrealistic in our view. Our 2015 EBITDA estimate for the pay-TV platform is PLN 331m, and this implies that TVN's 32% stake is worth about PLN 856m vs. a carrying value of PLN 1,520m recognized on TVN's books as of 31 March 2015 (with the respective per-share values at PLN 2.52 and PLN 4.51).

(PLN m)	2013	2014	2015E	2016E	2017E
Revenue	1,554.6	1,593.8	1,668.6	1,732.2	1,795.4
EBITDA	372.4	548.8	532.1	641.2	661.9
EBITDA margin	24.0%	34.4%	31.9%	37.0%	36.9%
EBIT	297.2	477.3	463.3	572.7	595.7
Net profit	-197.8	194.8	280.9	395.8	352.0
DPS	0.64	0.00	0.30	0.00	0.00
P/E	-39.6	26.4	28.8	20.5	19.1
P/CE	-55.9	25.3	19.2	14.5	16.1
P/BV	7.2	7.0	6.9	6.2	5.8
EV/EBITDA	24.1	16.0	16.5	13.4	12.8
DYield	3.2%	0.0%	1.5%	0.0%	0.0%

Current Price	PLN 19.78
Market Price	PLN 18.90
Market Cap	PLN 6.73bn
Free float	PLN 3.10bn
ADTV (3M)	PLN 9.63m

Ownership

Polish Television Holding B.V.	49.32%
ITI Holdings	1.51%
Treasury Stock	3.54%
Others	45.63%

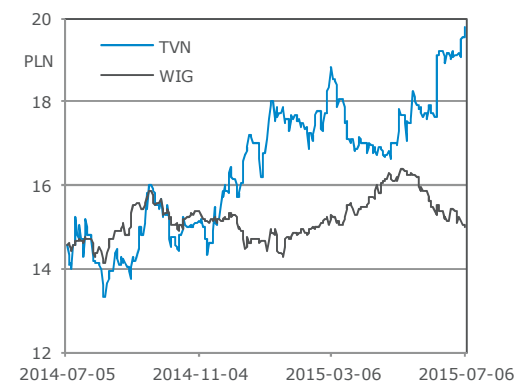
Sector Outlook

TV advertising is a late-cycle industry closely tied with GDP growth and investment. Companies operating in the industry are characterized by low operating leverage. As the Polish GDP picks up and investment rebounds, going forward we anticipate a steady increase in advertising expenses which as a proportion of GDP as well as on a per-capita basis are still much lower than the EU average.

Business Profile

TVN is a leading commercial television broadcaster in Poland with an audience share in Q2 2015 at 22.1% (including 14.7% for the main channel 'TVN'). TVN owns a 25% stake in the Web portal Onet.pl, and a 32% stake in nC+, the second-largest payTV provider in the country with a subscriber base of 2.1 million.

TVN vs. WIG



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EV – net debt + market value
EBIT – Earnings Before Interest and Taxes
EBITDA – EBIT + Depreciation and Amortisation
P/CE – price to earnings with amortisation
MC/S – market capitalisation to sales
EBIT/EV – operating profit to economic value
P/E – (Price/Earnings) – price divided by annual net profit per share
ROE – (Return on Equity) – annual net profit divided by average equity
P/BV – (Price/Book Value) – price divided by book value per share
Net debt – credits + debt papers + interest bearing loans – cash and cash equivalents
EBITDA margin – EBITDA/Sales

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BUY – we expect that the rate of return from an investment will be at least 15%
ACCUMULATE – we expect that the rate of return from an investment will range from 5% to 15%
HOLD – we expect that the rate of return from an investment will range from -5% to +5%
REDUCE – we expect that the rate of return from an investment will range from -5% to -15%
SELL – we expect that an investment will bear a loss greater than 15%
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Relative – based on a comparison of valuation multipliers of companies from a given sector; simple in construction, reflects the current state of the market; weak points include substantial variability (fluctuations together with market indices) as well as difficulty in the selection of the group of comparable companies.

Previous recommendations issued for TVN

rating	Accumulate	Hold
rating day	2015-01-26	2015-07-03
price on rating day	17.60	19.50
WIG on rating day	51680.12	53074.71

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