Kino Polska TV (Buy, TP PLN10.9)

Santander Biuro Maklerskie

Bloomberg: KPL PL, Reuters: KPL.WA

GPW Research Coverage Support Program – 3Q20E preview

CEE Equity Research

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3Q20E results preview: we expect sound quarter

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3Q20 was not a usual quarter. Economic activity rebounded after lockdowns witnessed in 2Q20 while many consumer goods benefited from pent up demand. TV ad market followed suit, we believe recording a double-digit growth rate. Against this backdrop, we forecast total revenues of Kino Polska TV to increase in 3Q20E by 12% y/y to PLN49mn, driven by continued growth in subscription-related revenues of channels available in pay-TV and a rebound in ad revenues in FTA channels. We point the latter witnessed further advances in the audience share which improved by 36bps y/y to 2.3%. We expect the effect of operating leverage to be well visible – we forecast EBIT of PLN4.8mn (+45% y/y) and net profit of PLN 3.3mn (+86% y/y). Kino Polska TV will announce 3Q20 results on November 19.

Short term outlook uncertain

The second wave of the pandemic and just-announced restrictions in operations of shopping malls in Poland bode ill for ad spending in 4Q20. Nevertheless we point that ad revenues account for only c. one-third of Kino Polska TV's total sales, which makes the company relatively resilient.

Fig. 1. Kino Polska TV: 3Q20E results preview

PLNmn	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20E	y/y
Revenues	41.6	47.9	43.4	68.7	50.0	48.7	48.6	*12%*
EBIT	5.6	8.6	3.3	8.8	5.9	6.6	4.8	*45%*
Net profit	3.9	6.5	1.8	6.5	4.2	5.2	3.3	*86%*

Source: Company Data, Santander Brokerage Poland

Fig. 2. Kino Polska TV: Earnings forecasts and ratios (priced at PLN6.3 as of 4 Novr 2020)

PLNmn	2017	2018	2019	2020E	2021E	2022E
Revenues	123.3	149.2	201.6	202.6	215.7	229.7
EBITDA adj.*	24.5	28.5	34.4	33.8	38.3	42.0
EBIT	21.2	41.7	26.1	25.7	29.7	32.8
Net profit	15.9	18.5	18.5	18.8	22.0	25.1
P/E (x)	14.5	12.7	11.6	6.6	5.7	5.0
EV/ EBITDA adj. (x)	9.9	10.4	8.0	5.0	4.0	3.4
Dividend Yield	9.7%	4.6%	2.8%	0.0%	4.5%	8.8%

*Source: Company Data, Santander Brokerage Poland historical 2017-19 valuation ratios based on historical average prices *NOTE: adjusted for amortisation of programming rights*

No recommendations, TPs or forecasts were altered in this note.

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EBIT - earnings before interest and tax
EBITDA - earnings before interest, taxes, depreciation, and amortization
P/E - price-earnings ratio
EV - enterprise value (market capitalisation plus net debt)
PEG - P/E to growth ratio
EPS - earnings per share
CPI - consumer price index
WACC - weighted average cost of capital
CAGR - cumulative average annual growth
P/CE - price to cash earnings (net profit plus depreciation and amortisation) ratio
NOPAT - net operational profit after taxation
FCF - free cash flows
BV - book value
ROE - return on equity
P/BV - price-book value
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The warranted equity method (WEV) is based on the formula P/BV = (two year forward ROE less sustainable growth rate)/(Cost of equity less sustainable growth rate) which allows estimating a fair value (FV) of a given stock in two years' time. Subsequently the FV is discounted back to today. The main advantage of the WEV method is that it is a transparent one and based on relatively short term forecasts, hence substantially reducing the margin of forecasting error. The main disadvantage in our view is that the model is based on the principle that stock price should converge towards its fair value implied by company's ROE and COE.
The SOTP valuation - different assets of a company are being valued according to different valuation methods, and the sum of these valuations represents the final valuation of the company. SOTP valuation advantages / disadvantages are identical to advantages and disadvantages of the specific valuation methods used.
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