Kino Polska TV (Buy, TP PLN10.9)

Santander Biuro Maklerskie

Bloomberg: KPL PL, Reuters: KPL.WA

GPW Research Coverage Support Program – 3Q20 review

CEE Equity Research

Media, Poland

20 November 2020

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3Q20 results review: beating expectations

Revenues growth was driven by rebound in advertising…

Kino Polska TV delivered a 23% growth in revenues in 3Q20 to PLN53.4mn (SANe: PLN48.6mn). Top-line performance was driven by the advertising, which posted a 25% y/y expansion. We note that TV ad market in Poland slipped by 2% y/y in 3Q20, thus Kino Polska TV's performance was outstanding. As to subscription revenues, a 7% y/y growth rate we view as satisfactory only and point to a declining momentum.

…while earnings growth by the channels offered in pay-TV platforms

Operating profit more than doubled y/y and reached PLN7.6mn (SANe: PLN4.8mn). The channels distributed by pay-TV platforms (i.e. FIlmBox and Kino Polska) delivered a double-digit growth in earnings. The channels available in free-to-air segment (Stopklatka, Zoom) posted flattish earnings y/y. Kino Polska TV's net profit totalled PLN6.1mn in 3Q20 (SANe: PLN3.3mn), more than tripling y/y.

Weak cash flow on investments in programming

Despite strong quarter in the P&L, Kino Polska TV posted negative operating cash flow at PLN3.8mn, seemingly driven by still high investments in programing assets and increase in working capital. Net debt amounted to PLN55.1mn as of the end of 3Q20.

Fig. 1. Kino Polska TV: 3Q20E results review (PLNmn)

Income statement	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	y/y	SANe
Revenues	41.6	47.9	43.4	68.7	50.0	48.7	53.4	*23%*	48.6
Subscriptions	24.3	25.5	26.1	26.7	27.3	28.7	27.8	*7%*	29.2
Advertising	14.3	17.9	14.5	22.3	17.2	14.6	18.1	*25%*	16.4
Other	3.0	4.5	2.8	19.6	5.4	5.4	7.5	*167%*	3.0
Opex	35.4	40.0	38.8	59.8	42.2	43.1	45.4	*17%*	43.2
Other operating costs, net	0.7	-0.7	1.5	0.1	1.9	-0.9	0.4	*-72%*	0.5
EBIT	5.6	8.6	3.1	8.8	5.9	6.6	7.6	*147%*	4.8
Net financial costs	0.8	0.7	0.7	0.7	0.8	0.5	0.2	*-78%*	0.7
Pre tax	4.8	7.9	2.4	8.1	5.1	6.0	7.5	*215%*	4.1
Taxes	0.9	1.4	0.8	1.5	0.9	0.9	1.4	*69%*	0.8
Net profit	3.9	6.5	1.6	6.5	4.2	5.2	6.1	*291%*	3.3
EBITDA adj.*	7.6	10.9	5.0	10.9	8.0	8.6	9.8	*94%*	6.8

EBIT structure	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	y/y
FilmBox	5.3	4.6	5.1	3.3	5.2	6.5	7.3	*43%*
Kino Polska	2.8	2.8	2.9	3.2	2.9	2.9	3.7	*30%*
Stopklatka	-1.0	0.3	-0.8	1.1	0.3	-1.8	-0.7	*NM*
Zoom TV	-1.4	-1.0	-2.6	-0.4	-1.3	-2.6	-2.2	*NM*
Other	-0.1	1.8	-1.6	1.5	-1.2	1.6	-0.4	*NM*
EBIT	**5.6**	**8.6**	**3.1**	**8.8**	**5.9**	**6.6**	**7.6**	*147%*

Casf flow	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20
Operating cash flow	7.0	6.3	5.9	3.7	3.1	10.4	-3.8
Capex	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Organic FCF	**7.0**	**6.3**	**5.9**	**3.7**	**3.1**	**10.4**	**-3.8**
M&As and investments	-2.4	-0.1	-0.2	-1.7	-1.8	-0.1	-0.3
Total FCF	**4.6**	**6.2**	**5.7**	**2.0**	**1.3**	**10.3**	**-4.1**
Net debt	**60.6**	**58.7**	**59.9**	**60.6**	**60.0**	**50.6**	**55.1**

*Source: Company Data, Santander Brokerage Poland *NOTE: adjusted for amortisation of programming rights*

Fig. 2. Kino Polska TV: Earnings forecasts and ratios (priced at PLN7.3 as of 19 Nov. 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	7.7	6.6	5.8
EV/ EBITDA adj. (x)	9.9	10.4	8.0	5.6	4.5	3.9
Dividend Yield	9.7%	4.6%	2.8%	0.0%	3.9%	7.6%

*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 mid-cycle multiple valuation is based on long-term average valuation multiples of a sector or a peer group. The methodology aims to calculate a fair, through the cycle value of the company. Among its shortfalls is that at peaks and/or troughs of the cycle, the implied fair value may deviate substantially from the market's value of an analysed stock as well as the methods' reliance on the quality of external data (we usually use Bloomberg or Damodaran databases). Simplicity and average through-cycle value allowing to capture over- as well as under-valuation of a given stock are the main advantages of this methodology.

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The residual income method is conceptually close to the discounted cash flows method (DCF) for non-financial stocks, the difference being that it is based on expected residual income (returns over COE) rather than expected future cash flows. One advantage of this valuation method is that it captures the excess of profit potentially available to shareholders and the cost of money over time. Main disadvantage of the valuation method is that a large number of parameters and assumptions need to be estimated; and the valuation is sensitive to changes in those parameters.
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.
The Liquidation value method - liquidation value is the estimated amount of money that an asset or company could be quickly sold for, such as if it were to go out of business. Then, the estimated assets value is adjusted for liabilities and liquidation expenses. One advantage of this valuation method is its simplicity. This method does not account for intangible assets as goodwill, which is the main disadvantage.

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