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Cyfrowy Polsat: buy (reiterated)

CPS PW; CPS.WA | TMT, Poland

Long-Awaited Return of Growth

Since we issued our 'buy' recommendation on Cyfrowy Polsat in May 2024, the company's share price has risen by 30.0%, outperforming the WIG index by >31%. Still, we believe the share price has potential to increase.

2023 was a turbulent year for Cyfrowy Polsat, whose adjusted EBITDA for the year fell 10.2% (including a huge 17.3% year-on-year drop in Q4'23). The downward pressure was visible in the two main segments: in the B2C & B2B services segment, Cyfrowy faced significant operating cost inflation with stable revenues (only +1% y/y in FY2023). In the Media segment, the company struggled with stagnation in the Polish advertising market. Despite weak financial results, Cyfrowy did not abandon its significant investments plans in renewable energy, and by the end of 2023 it significantly increased its debt to 3.8x EBITDA.

Q1'24 brought a long-awaited turnaround. Adjusted EBITDA rebounded by 2% thanks to improved trends in the core business segments and the first substantial earnings from clean energy. The results for Q2'24, published on 21 August, reinforce our conviction that the positive developments are sustainable. Green Energy has more than compensated for the losses in other parts of the business. Cyfrowy has also upgraded its guidance on TV ad market spend which should enable TV Polsat to regain its strength during 2H'24.

As a result, we raise our earnings forecasts for Cyfrowy Polsat. We expect the company to an adjusted EBITDA of PLN 3,168m in 2024, which implies year-over-year growth greater than 5%. This should significantly improve sentiment towards the company. We also update our valuation model to reflect a new RFR path and an ERP of 5.0%. As a result, we set our new price target at PLN 15.60, implying upside potential of 20%. We therefore reiterate a buy rating for Cyfrowy Polsat.

Results for 2Q'24 above expectations

Cyfrowy Polsat posted better-than-expected results for Q2'24 (adjusted EBITDA +4% vs. our forecast and consensus at PLN 865m) . The main reason for that came from the Green Energy segment where the company recognized PLN 71m in EBITDA (vs. PLN 46m our expectations). Cyfrowy posted relatively good commercial KPIs for Q2'24: ARPU per B2C contract customer was PLN 75.2 (+4.7% y/y) and the total number of B2C RGUs was stable q/q and y/y. Revenue from advertising and sponsorship of TV Polsat Group in Q2'24 increased by 4.8% y/y, to PLN 361m, however the EBITDA of the Media segment was under pressure from higher operating costs and dropped by 7% y/y. On the other hand, EBITDA in the B2C and B2B customers segment was just 1.5% lower y/y (vs. -4% y/y in Q1'24 and -14% y/y in Q4'23).

Green energy segment finally fetches visible earnings

The Q2'24 revenue of the green energy segment was supported by the launch of wind farms in Kazimierz Biskupi and Miłosław in Q3'23, and a technical commissioning in Człuchów (Q1'24). We expect the segment's earnings to increase from 3Q'24 thanks to the new Przyrów wind farm with 50.4 MW capacity, launched in in June 2024. The key point is that the quarters of investment in the segment are finally beginning to pay off.

(PLN m)	2022	2023	2024E	2025E	2026E
revenue	12,915	13,626	14,040	14,603	15,636
EBITDA (adj.)	3,352	3,012	3,168	3,349	3,633
margin	26.0%	22.1%	22.6%	22.9%	23.2%
EBIT	1,642	1,312	1,433	1,450	1,834
net profit	901	312	417	364	671
P/E	9.2	29.8	19.9	22.8	12.4
P/S	0.6	0.6	0.6	0.6	0.5
P/B	0.5	0.5	0.5	0.5	0.5
EV/EBITDA (adj.)	5.4	6.8	6.7	6.6	6.1
DPS	1.20	0.00	0.00	0.00	0.00
DYield	9.2%	0.0%	0.0%	0.0%	0.0%

current price*	PLN 12.98
target price	PLN 15.60
mCap	PLN 8.3bn
free float	PLN 3.2bn
ADTV (3M)	PLN 12.2m

*Price as of August 21, 2024, 5:00 PM

Shareholders

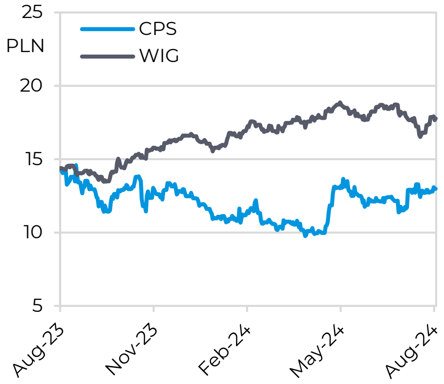
Zygmunt Solorz-Żak*	48.2%
Cyfrowy Polsat SA	13.9%
Others	38.0%

also indirectly

About

Cyfrowy Polsat is a leading Polish media group consisting of a satellite television platform, which is the largest in Poland and the fourth largest in Europe and the commercial TV broadcaster Polsat which in Q2 2024 had an audience share of 22.0%. In 2014, Cyfrowy took over the mobile telecom Polkomtel, one of the leading carriers in Poland.

CPS vs. WIG



Company	Target Price new	Target Price old	Recommendation new	Recommendation old
Cyfrowy Polsat	15.60	12.60	buy	buy

Company	Current Price	Target Price	Upside
Cyfrowy Polsat	12.98	15.60	+20.2%

Forecast Update	2024E	2025E	2026E
Revenue	-0.3%	-0.8%	+0.2%
EBITDA (adj.)	+3.0%	+.2.0%	+5.7%
Net profit	+22.3%	+13.4%	+30.2%

Analyst:

Paweł Szpigiel
Equity Analyst, Expert
+48 509 603 258
pawel.szpigiel@mbank.pl

List of abbreviations and ratios used by mBank:
EV (Enterprise Value) – Equity Value + Net Debt; **EBIT** – Earnings Before Interest and Taxes; **EBITDA** – EBIT + Depreciation & Amortisation; **Net Debt** – Borrowings + Debt Securities + Interest-Bearing Loans - Cash and Cash Equivalents; **P/E** (Price/Earnings) – Price Per Share Divided by Earnings Per Share; **P/CE** (Price to Cash Earnings) – Price Per Share Divided by Earnings + Depreciation & Amortisation; **P/B** (Price to Book Value) – Price Per Share Divided by Book Value Per Share; **P/CF** (Price to Cash Flow) – Price Divided by Cash Flow from Operations; **ROE** (Return on Equity) – Earnings Divided by Shareholders' Equity; **ROCE** (Return on Capital Employed) – EBIT x (Average Assets - Current Liabilities); **ROIC** (Return on Invested Capital) – EBIT x (1-Tax Rate) / (Average Equity + Minority Interest + Net Debt); **FCFF** (Free Cash Flow to Firm) – Cash Flow from Operations - CAPEX - Lease Payments; **FCFE** (Free Cash Flow to Equity) – Free Cash Flow to Firm - Net Interest Expense (incl. Debt + Leases)
EBITDA margin – EBITDA/Sales

OVERWEIGHT (OW) – a rating which indicates that we expect a stock to outperform the broad market
NEUTRAL (N) – a rating which indicates that we expect the stock to perform in line with the broad market
UNDERWEIGHT (UW) – a rating which indicates that we expect the stock to underperform the broad market

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NAV - valuation based on equity value, one of the most frequently used method in case of developing companies; the weak point of the method is that it does not factor in future changes in revenue/profits of a company.

mBank issued the following recommendations for Cyfrowy Polsat in the 12 months prior to this publication:
Cyfrowy Polsat (Paweł Szpigiel)

Rating	buy	hold	buy	buy
Rating date	2024-05-06	2023-12-01	2023-10-02	2023-09-01
Target price (PLN)	12.60	14.00	18.80	18.20
Price on rating day	9.98	12.83	12.09	13.56

Biuro maklerskie

mBank S.A.
Prosta 18
00-850 Warszawa
http://www.mbank.pl/

Research Department

Kamil Kliszcz
director
+48 667 770 837
kamil.kliszcz@mbank.pl
energy, power generation

Mateusz Krupa, CFA
deputy director
+48 571 608 973
mateusz.krupa@mbank.pl
strategy

Paweł Szpigiel
+48 509 603 258
pawel.szpigiel@mbank.pl
media, IT, telco, e-commerce

Michał Konarski
+48 515 025 640
michal.konarski@mbank.pl
banks, financials

Mikołaj Lemańczyk, CFA
+48 501 663 511
mikolaj.lemanczyk@mbank.pl
banks, financials, property developers

Piotr Poniatowski
+48 509 603 046
piotr.poniatowski@mbank.pl
gaming

Janusz Pięta
+48 506 065 659
janusz.pieta@mbank.pl
retail, e-commerce

Beata Szparaga-Waśniewska, CFA
+48 510 929 021
beata.szparaga-wasniewska@mbank.pl
biotechnology, healthcare

Jakub Sargsyan
+48 519 419 895
marlen.sargsyan@mbank.pl
industrials, mining

Sales and Trading

Traders

Piotr Gawron
director
+48 698 832 853 | +48 22 697 48 95
piotr.gawron@mbank.pl

Paweł Cylkowski
+48 503 684 130 | +48 22 697 47 31
pawel.cylkowski@mbank.pl

Piotr Brożyna
+48 512 756 702 | +48 22 697 48 47
piotr.brozyna@mbank.pl

Andrzej Kowalczyk
+48 789 868 634 | +48 22 697 47 44
andrzej.kowalczyk@mbank.pl

Andrzej Sychowski
+48 605 848 003 | +48 22 697 48 46
andrzej.sychowski@mbank.pl

Łukasz Płaska
+48 784 449 962 | +48 22 697 47 90
lukasz.plaska@mbank.pl

Karol Kułaj
+48 509 602 984 | +48 22 697 49 85
karol.kulaj@mbank.pl

Sales, Foreign Markets

Marzena Łempicka-Wilim
deputy director
+48 696 427 249 | +48 22 697 48 82
marzena.lempicka-wilim@mbank.pl

Private Client Sales

Maciej Sokołowski
director
maciej.sokolowski@mbank.pl

Jarosław Banasiak
deputy director
jaroslaw.banasiak@mbank.pl