

Tuesday, 26 November 2024 | update

Cyfrowy Polsat: buy (reiterated)

CPS PW; CPS.WA | TMT, Poland

Great Earnings Momentum, Improved Cash Generation

Cyfrowy Polsat's share price has risen almost 16% over the past five months, outperforming the WIG20 index by almost 30 p.p. However, we still believe the stock has the potential to grow significantly faster than the broader market.

Lower costs of sports broadcast rights, and accelerating growth in EBITDA from the green energy segment, were a major driver behind double-digit earnings growth in Q3'24. Adjusted EBITDA for the quarter showed big improvement with a 13% year-on-year rebound (vs. a 17.3% drop in Q3'23), but nevertheless we believe the fourth quarter of Q4 2024 will be even better, with adjusted EBITDA expected to grow 22% on a yoy basis. That should boost sentiment for Cyfrowy company.

We have raised 2024-2026 our earnings forecasts for Cyfrowy, and we now expect the company to generate adjusted EBITDA of PLN 3,317m in 2024, implying year-on-year growth of more than 10%. Our updated forecasts are 3-4% ahead of respective Bloomberg consensus. The 2023-26 CAGR of adj. EBITDA is forecast at 7.6%.

We think Cyfrowy Polsat is a good play for 2025, including due to the effects of expected interest rate cuts. The company pays over PLN 1bn in interest on loans and bonds, so, a 1.0 p.p. decline in the WIBOR rate should result in savings of about PLN 130-140m per year (which is about 12-13% of FCF LTM generated in 3Q'24).

We have also updated our valuation model to reflect a new RFR path. As a result, we set our new price target at PLN 16.40, implying upside of 16%. We therefore reiterate our Buy rating for Cyfrowy Polsat. Adjusted for non-operating assets (stake in Asseco Poland and treasury shares) CPS is trading at attractive multiples of 6.3x EV/EBITDA'24 and 10.2x P/E'24.

Strong 3Q'24 results with solid KPIs

Cyfrowy Polsat posted solid results for Q3'24. Adjusted EBITDA came in at PLN 873m, 3% ahead of our forecast, marking 13% growth y/y – a rare event for the company. The main surprise came in content costs – Cyfrowy recorded a significant decrease here (-19.6% y/y), mainly due to the absence of UEFA League broadcasting rights. As a result, the Media segment recorded an EBITDA increase of 74% in the third quarter. The Green Energy segment also generated an EBITDA of PLN 82m, an improvement of 217% y/y.

Cyfrowy recorded relatively good commercial KPIs in Q3'24: ARPU per B2C contract subscriber was PLN 77.2 (+5.0% y/y) and the total number of B2C RGUs increased by 1% y/y.

Anticipating even more growth in 4Q'24

We expect Cyfrowy Polsat to deliver strong results in Q4. We estimate the quarterly retail revenue at PLN 1.81bn (+2.7% y/y). Conservatively, we expect advertising revenues to grow by only 2-3% y/y and equipment revenues to decline by double digits (-13% y/y). Energy revenues will likely amount to PLN 312m (i.e., less than in 3Q'24) and content costs may post a decline of almost 15% y/y. The quarterly margin on equipment sales should be stable y/y at approx. 18%. After all this, adj. EBITDA is estimated at approx. PLN 828m, implying year-over-year growth of 22%.

(PLN m)	2022	2023	2024E	2025E	2026E
Revenue	12,915	13,626	14,150	14,622	15,245
EBITDA (adj.)	3,352	3,012	3,317	3,487	3,753
margin	26.0%	22.1%	23.4%	23.9%	24.6%
EBIT	1642	1312	1873	1897	2110
Net profit	900	279	693	710	879
P/E	10.0	32.4	13.0	12.7	10.3
P/S	0.7	0.7	0.6	0.6	0.6
P/B	0.6	0.6	0.5	0.5	0.5
EV/EBITDA (adj.)*	5.2	6.7	6.3	6.2	5.8
DPS	1.20	0.00	0.00	0.00	0.00
DYield	8.5%	0.0%	0.0%	0.0%	0.0%

*adjusted for the stake in Asseco Poland and treasury shares

Current Price*	PLN 14.09
Target Price	PLN 16.40
mCap	PLN 8.8bn
Free Float	PLN 3.3bn
ADTV (3M)	PLN 13.0m

*Price as of November 25, 2024, 5:00 PM

Shareholders

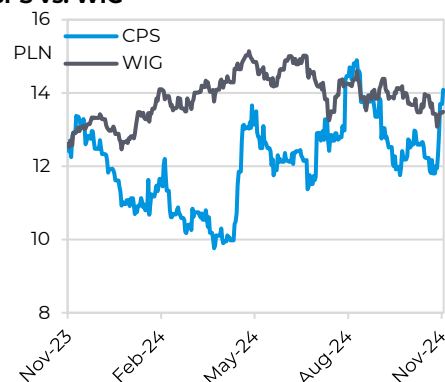
Zygmunt Solorz-Żak*	48.2%
Cyfrowy Polsat SA	13.9%
Others	38.0%

*directly and 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		Recommendation	
	new	old	new	old
Cyfrowy Polsat	16.40	15.60	buy	buy

Company	Current Price	Target Price	Upside
Cyfrowy Polsat	14.09	16.40	+16.4%

Forecast Update	2024E	2025E	2026E
Revenue	+0.8%	+0.1%	-2.5%
EBITDA (adj.)	+4.7%	+4.1%	+3.3%

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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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HOLD – we expect that the rate of return from an investment will range from 0% to +10%

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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	buy	hold
Rating date	2024-08-22	2024-05-06	2023-12-01
Target price (PLN)	15.60	12.60	14.00
Price on rating day	12.98	9.98	12.83

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