

Impresa

Media

Buy

High-Risk

23rd October 2014

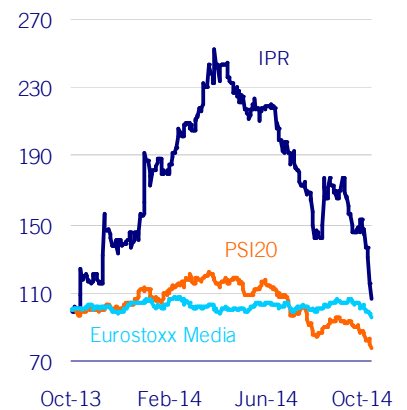
Portugal

Still facing headwinds

(YE15 Price Target cut to € 1.75 (-22%); Buy Recommendation maintained)

- Outlook for advertising market remains strong:** 3Q ad market showed some deceleration versus the 2Q but it seems to be short-lived. IPR is guiding a growth between 7% and 10% for October partially supported by price increases which fuels confidence for 2015. The economic risks are still relevant but consumer and business confidence are maintaining signs of improvement. We expect a 7.7% ad revenues growth for Impresa TV unit in 2014.
- Heavy clouds on non-advertising revenues:** Multimedia business has been a big disappointment culminating with a 39% fall in Q3. Self-regulation and a more rational stance has reduced the escalation of prizes but volumes are likely to stabilize well below 2013 figures (we estimate € 28mn in 2015 and a 2% yearly fall thereafter vs. € 34mn in 2013). The pressure in earnings is likely to remain in the next two quarters, but Q3 was probably the worst as the ad mkt seasonality implies an above normal weight of multimedia. The possibility of PT Portugal being sold increases our concern on the renegotiation of the subscription contract maturing in 2015. Given the relevance of PT Portugal for IPR subscription revenues we revised down our 2016 forecast (fall of 20% in 2016 [€ 8mn] vs. 5% fall before).
- Cheap but with a weak momentum:** The concerns on non-advertising revenues are the main reason that force us to revise down again our estimates and cut our **YE15 Price Target to € 1.75** (-22%). IPR continues to be an attractive alternative to play the Portuguese recovery but short term growth is being halted by the massive decline in multimedia revenues reducing the early cycle appeal. Aside from this, potential changes in the Telecom landscape and changes in the leadership of key Iberian funds also post some risks for the stock performance. **BUY**

Impresa vs. PSI20 vs. Eurostoxx Media



Source: Bloomberg.

Stock data

Price (22 nd Oct.):	1.00	Price Target (YE15):	1.75
# shares (mn):	168.0	Mkt. Cap (€ mn) / F. Float:	282 / 39.4%
Reuters/Bloomberg:	IPR.LS / IPR.PL	Avg. Daily Vol. ['000]:	216
Major Shareholders:	Impreger (50.4%); Fidelity (5.32%); Invesco (5.11%); Madre SGPS (5.0%); BPI (3.7%)		

Estimates

Estimates	2011	2012	2013	2014 ^F	2015 ^F	2016 ^F	2017 ^F
PE Adj.	-15.4	-57.9	25.4	17.6	13.0	11.6	7.8
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FCFE Yield	-10.8%	7.6%	11.6%	6.1%	6.9%	8.5%	12.0%
FCFF Yield	2.8%	6.1%	8.6%	6.1%	6.5%	7.2%	8.6%
PBV	1.18	1.38	1.37	1.27	1.17	1.07	0.96
EV/EBITDA ⁽¹⁾	16.6	18.5	11.7	11.3	10.0	9.8	7.9
EV/Sales ⁽¹⁾	1.5	1.6	1.5	1.4	1.4	1.4	1.3

(1) EV is fixed with current market cap and MV of remaining items.

Historical Recommendation

Date	Recommendation
11-Jun-13	Neutral
25-Nov-13	Buy
31-Mar-14	CoRe Buy
09-Sep-14	Buy

Source: BPI Equity Research.

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3Q14 Weak set of results

IPR 3Q14 Results: Details

(€ mn)	3Q14	3Q13	Change	BPI	Dev.
Turnover	53.5	56.7	-5.7%	55.7	-4%
TV	39.2	41.7	-6%	41.4	-5%
Publishing	14.0	14.9	-6%	14.1	-1%
Others and intersegments	0.3	0.3	-24%	0.1	151%
Operating Costs	50.0	51.9	-4%	51.2	-2%
EBITDA	3.4	4.8	-28.8%	4.5	-24%
EBITDA Margin	6.8%	9.3%		0.1	
TV	3.5	4.9	-28%	4.8	-27%
Publishing	0.8	0.9	-14%	0.8	-2%
Others and intersegments	-0.9	-1.1	n.s.	-1.1	n.s.
Depreciation	0.9	1.2	-29%	1.1	-20%
EBIT	2.5	3.6	-29%	3.4	-25%
EBIT Margin	4.8%	0.1		0.1	
Financial Results	-2.7	-3.1	-13%	-2.8	n.s.
EBT	-0.2	0.4	n.s.	0.6	n.s.
Income Tax	0.2	1.0	-81%	0.2	-15%
Minorities	0.0	0.0	n.s.	0.0	n.s.
Net Profit	-0.4	-0.6	-34%	0.4	n.s.

Television

	3Q14	3Q13	Change	BPI	Dev.
Turnover	39.2	41.7	-6%	41.4	-5%
Advertising	20.4	19.5	5%	22.0	-7%
Thematic Channels	11.2	11.1	0%	11.3	-1%
Others	7.7	11.1	-31%	8.1	-5%
Operating Costs	35.7	36.8	-3%	36.7	-2%
EBITDA	3.5	4.9	-28%	4.8	-27%
EBITDA Margin	0.1	0.1	-24%	0.1	-23%

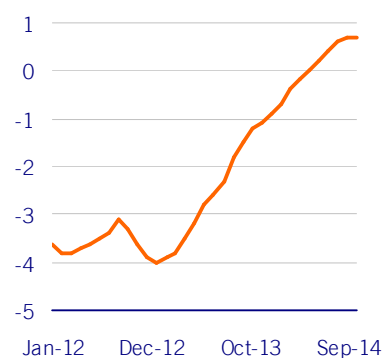
Source: BPI Equity Research.

IPR posted 3Q14 results with (1) **Topline 4% below our estimates** penalized primarily by a relevant fall of TV revenues in the quarter (-6% yoy) but with publishing also presenting revenues slightly below expectations, (2) **EBITDA 24% below our numbers** mainly due to relevant miss in TV (EBITDA 27% below our estimate) due to already mentioned disappointment in top line partially offset by a TV opex 2% below our numbers (3) **Net debt of € 188.7mn** dropping € 2.8mn qoq and on track to meet our YE targets. Its important to highlight that 3Q is the smallest quarter by far and that the deviation in EBITDA in the quarter only represents 3.2% of our FY EBITDA estimate.

TV revenues came 5% below our estimates pressured by a sharp fall of multimedia revenues in the quarter (-39% yoy) but also by a slower than expected growth in TV ad revenues (5% vs. 13% in our numbers). Subscription revenues were flat yoy, 1% below our numbers. Opex for the division was down 3% yoy (vs. flat estimation) with 11% fall in Programming costs (despite the launching of new channel SIC Caras in December 2013) and 8.5% growth in other costs (vs. our estimated 35.3% increase).

Portugal consumer confidence

Source: Bloomberg.

Portugal business climate

Source: Bloomberg.

Press division posted € 14.0mn revenues, down 6% yoy, 1% below our numbers, leading to an EBITDA of 0.8mn.

Net Income improved slightly yoy to € -0.4mn below our estimated € 0.4mn. All in all, a weak set of results with advertising revenues growing less than expected and multimedia revenues deteriorating very fast. **We will need to revise our estimates downward to reflect the weaker trends in top line.**

CONFERENCE CALL FEEDBACK:

The conference call did not bring any major novelties though it shed some light on important topics:

Advertising should keep a healthy pace in Q4: Up until now there were some expectations regarding the evolution of the 4Q. In order to record growth, IPR needs to experience price increases as volumes were already very close to full capacity in prime time last year. The company confirmed that in October is seeing trends of 7% to 10% TV ad growth and relevant part of this increase already related with price increases.

Gaining market share: The company states it has gained some revenue market share in the last month and that recently launched Soap Opera "Mar Salgado" is being a strong success with 1.5mn viewers / day. In October, IPR launched a Brazilian soap opera which is within the 3 most viewed in Portugal.

Multimedia revenues should maintain a similar trend in the next 2 quarters: Multimedia revenues have dropped close to 40% in Q3 on the back of self-regulation, change in telecom operators tariff plans and increased competition leading to market saturation. The company believes this trend should persist and highlights that comparables for Q4 and also Q1 next year are demanding.

Programming costs should be flat or record a slight decline in the FY: Despite the double digit decline of programming costs in Q3, the company expects programming costs up slightly yoy in Q4 reaching end of the year with a flat or slight decline trend.

Other TV costs in Q3 evolution have some non-recurrence: Other costs in TV grew 8.5% despite the fall of multimedia related costs of 15%. This increase was related with some items that could partially unwind in the short term.

Launching new channel for Angola and Mozambique: Impresa will launch in mid-November a channel in partnership with Multichoice for kids in the Angolan and Mozambique markets.

P&L

(€ mn)	2011	2012	2013	2014 ^F	2015 ^F	2016 ^F	2017 ^F	CAGR 13-17 ^F
Revenues	250	229	237	239	245	252	263	3%
EBITDA	22	19	30	31	34	35	44	9%
EBITDA adj.	22	19	30	31	34	35	44	9%
EBITDA adj. mg.	8.9%	8.5%	12.8%	12.8%	14.1%	14.0%	16.6%	7%
Depreciation & others	8	7	5	4	4	4	4	-7%
EBIT	14	12	25	26	30	31	40	12%
EBIT adj.	14	12	25	26	30	31	40	12%
Net financial results	-12	-12	-11	-10	-10	-10	-9	-5%
Income Tax	-2	-1	-7	-6	-6	-6	-9	7%
Others	0	0	0	0	0	0	1	n.s.
Minority Interests	0	0	0	0	0	0	0	2%
Net Profit reported	-35	-5	7	10	13	15	21	34%
Net Profit adj.	-35	-5	7	10	13	15	21	34%

Balance Sheet

(€ mn)	2011	2012	2013	2014 ^F	2015 ^F	2016 ^F	2017 ^F	CAGR 13-17 ^F
Net Intangibles	304	301	301	301	301	301	301	0%
Net Fixed Assets	38	31	29	28	27	27	28	-2%
Net Financials	11	13	13	13	13	13	13	0%
Inventories	28	20	19	20	23	21	25	7%
ST Receivables	29	29	37	37	41	38	45	4%
Other Assets	4	5	4	4	4	4	4	0%
Cash & Equivalents	4	2	1	1	1	1	1	1%
Total Assets	442	420	422	420	427	422	433	1%
Equity & Minorities	124	119	127	136	149	164	185	10%
MLT Liabilities	164	157	135	109	89	73	60	-18%
o.w. Debt	149	146	127	101	81	65	52	-20%
ST Liabilities	150	138	154	168	182	179	182	4%
o.w. Debt	68	60	63	82	94	100	93	10%
o.w. Payables	43	38	55	55	60	54	65	4%
Equity+Min.+ Liabilities	442	420	422	420	427	422	433	1%

Cashflow (€ mn)

	2011	2012	2013	2014 ^F	2015 ^F	2016 ^F	2017 ^F
+ EBITDA	22	19	30	31	34	35	44
- Chg in Net W.C.	2	-4	-5	1	2	0	1
- Income Taxes	4	2	1	6	6	6	9
= Operating Cash Flow	17	21	34	24	26	29	34
- Growth Capex	0	0	0	0	0	0	0
- Replacement Capex	8	1	4	3	4	4	4
- Net Fin. Inv.	-1	-2	0	0	0	0	0
= Cash Flow after Inv.	10	22	31	21	23	25	30
- Net Fin. Exp.	13	13	12	11	11	11	9
- Dividends Paid	0	0	0	0	0	0	0
+/- Equity	0	0	0	0	0	0	0
Other	15	-4	-1	0	0	0	0
=Change in Net Debt	18	-13	-19	-10	-12	-14	-20
Net Debt (+)/Net Cash (-)	232	219	199	189	178	163	143

Growth, per share data and ratios

	2011	2012	2013	2014 ^F	2015 ^F	2016 ^F	2017 ^F
Sales growth	-8%	-8%	4%	1%	3%	3%	5%
EBITDA Adj. growth	-34%	-12%	56%	1%	12%	2%	24%
EPS Adj. growth	n.s.	n.s.	n.s.	45%	35%	12%	48%
Avg. # sh (mn)	168	168	168	168	168	168	168
Basic EPS	-0.21	-0.03	0.04	0.06	0.08	0.09	0.13
EPS Adj. Fully diluted	-0.21	-0.03	0.04	0.06	0.08	0.09	0.13
DPS	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Payout	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
ROCE (after tax)	4.4%	2.3%	5.7%	5.9%	6.7%	6.6%	8.0%
ROE	-24.8%	-4.0%	5.4%	7.2%	9.0%	9.3%	12.3%
Gearing (ND/EV)	62.7%	60.7%	56.0%	54.7%	51.4%	47.3%	41.4%
Net Debt/EBITDA	10.4	11.2	6.6	6.2	5.1	4.6	3.3

Source: Company data and BPI Equity Research (F).

Sum of Parts Valuation (€ mn)

Business Area	€ mn	%
SIC	448	91%
Publishing	80	16%
Others & Holding	-37	-7%
Total	492	
Distribution &		
Other Non-Core Assets	11	
Net Debt	178	
Equity Value	326	
# Shares (mn)	168.0	
YE15 Fair Value (€)	1.94	
Small Caps Discount	10%	
YE15 Price Target (€)	1.75	

Source: BPI Equity Research.

Price Target Sensitivity Analysis (€/share)

	TV Advertising Growth 2014		
	4.7%	7.7%	10.7%
YE15 Fair Value	1.71	1.94	2.17
Chg. to B. Case	-11.9%		11.9%

Source: BPI Equity Research.

DCF Assumptions

	SIC & New Media Publishing	
Re	10%	10%
Rf + CRP	4.40%	4.40%
Beta Equity	1.00	0.94
Market Premium	6%	6%
Rd	5%	5%
Tax Rate	29%	29%
D/EV	20%	20%
WACC	9.0%	8.7%

Source: BPI Equity Research.

Change in estimates (%)

	2014	2015	2016
Revenues	-2%	-2%	-4%
EBITDA	-10%	-10%	-21%
Net profit	-13%	-15%	-33%
FCFE	-12%	-23%	-34%

Source: BPI Equity Research.

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	Low Risk	Medium Risk	High Risk
Buy/CoRe Buy	>15%	>20%	>30%
Neutral	>5% and < 15%	>10% and <20%	>15% and < 30%
Reduce	>-10% and < 5%	>-10% and < 10%	>-10% and < 15%
Sell	< -10%	< -10%	< -10%

These investment ratings are not strict and should be taken as a general rule.

INVESTMENT RATINGS STATISTICS

As of 30th September BPI Equity Research's investment ratings were distributed as follows:

CoRe Buy	11%
Buy	27%
Neutral	38%
Reduce	15%
Sell/Accept Bid	4%
Under Revision/Restricted	3%
Total	100%

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