BPI

EQUITY RESEARCH

Impresa

Media

Buy

High-Risk

7th February 2017

Portugal

Disappointing delivery

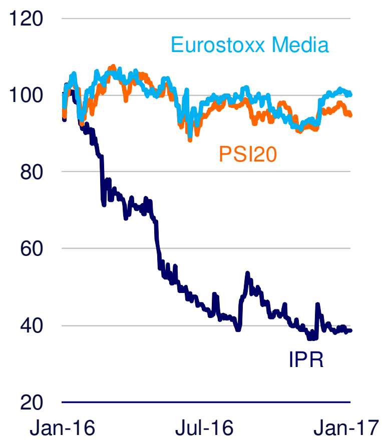
(YE17 Price Target of €0.28; Buy Recommendation)

- **Weak 3Q results**: Impresa (IPR) booked in 3Q falling revenues (-14% yoy) and EBITDA (€0.3mn) went down -93% yoy, with a negative performance across the board, but with TV segment as the main contributor due to its lion's share contribution to the company P/L. Net debt increased €4.1mn qoq to €200.5mn, which compares with €4.8mn of cash generated in 3Q15. The company expects a reasonable 4Q with improvements in the TV segment backed by a better performance in audience share and growing TV ad market. Moreover, IPR has also stated that CF generation in 4Q should improve yoy (€16.8mn in 4Q15).

- **M&A in the cards?** There has been persistent rumors of an alleged interest from Altice to acquire Mediacapital that could precipitate an M&A scenario for IPR. We believe that if Altice makes a move and is successful to integrate an FTA and telecom operator, it would force a paradigm change that would most likely lead to a situation where IPR would be a target candidate. This said, we do not believe that the regulator is likely to allow the consolidation between FTA and telecom operators. On the other hand, IPR's financial situation has deteriorated over the last 12 months and it is now more vulnerable to M&A moves that might not necessarily come from telecom operators.

- **M&A value provides a support!** In our Iberian Book "A brave new world" issued on January 23rd, 2017 we updated our estimates and our assumptions cutting our **YE17 Price Target to €0.28 (-59%)**. We reflected our revised estimates for the Portuguese ad market, macro figures and incorporated the most recent results. In spite of the strong underperformance of the company in the last months, we believe there is fundamental upside to current market price. Moreover, we believe IPR is an enticing target from an M&A perspective which should provide some support to the share price. **BUY.**

Impresa vs. PSI20 vs. EStoxx Media



Source: Bloomberg.

Stock data

Price (16th Jan.):	0.19	Price Target (YE17):	0.28
# shares (mn):	168.0	M. Cap (€mn) / F. Float:	32 / 37%
Reuters/Bloomberg:	IPR.LS / IPR PL	Avg. Daily Vol. [€'000]:	47
Major Shareholders:	Impreger (50%); Invesco (5%); Madre (5%); BPI (4%); Fidelity (2%)		

Estimates	2013	2014	2015	2016F	2017F	2018F	2019F
PE Adj.	4.8	2.9	4.7	8.8	5.5	4.2	3.3
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FCFE Yield	61.0%	46.0%	18.3%	-4.2%	19.0%	25.3%	31.3%
FCFF Yield	12.4%	14.7%	6.1%	3.3%	6.9%	7.9%	8.7%
PBV	0.26	0.24	0.23	0.22	0.22	0.21	0.20
EV/EBITDA (1)	6.6	6.3	7.6	12.2	10.7	9.5	8.5
EV/Sales (1)	0.8	0.8	0.9	0.9	0.9	0.9	0.9

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

Historical Recommendation

	Recommendation
25-Nov-13(1)	Buy

(1) Initiating coverage.

Source: BPI Equity Research.

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Impresa is one of the key players of the media sector in Portugal, owns the FTA channel SIC, 8 TV subscription channels broadcasted via both cable and satellite in Portugal and abroad, and has a publishing unit with newspapers and magazines. In TV, its main competitor and leader of the FTA TV is Mediacapital, 94% owned by the Spanish media company Prisa, its main channel is TVI.

Weak operational performance in both 2Q & 3Q combined with feeble cash flow generation: Impresa has experienced hurdles in the TV and publishing segment with a feeble cash conversion that made us revisit our numbers and adopt a more conservative outlook for the company.

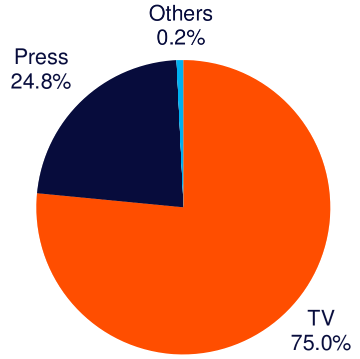
TV Segment (75% revenues)

Advertising revenues (60% of total): More specifically on the **TV segment (-21% in valuation cut)** we have seen the company underperforming the TV ad market with advertising revenues falling -8% yoy in the 3Q (9% behind our forecasts) with the market increasing by 2%, while in the 2Q these revenues were up 4% yoy (-4% below our estimates) and the market rose 9.5% yoy. Impresa's underperformed Mediacapital due to a poorer performance in audiences. Mediacapital was able to grow ad revenues in the same metric by +3% yoy. In September 2016 Impresa the company launched a new programming grid with the goal of mitigating the gap between the two broadcasters, but so far we have not seen a change in the status quo.

Consequently, we have decreased Impresa's market share by 2pp to 37.7% from 2016 onwards, lowering as well IPR's audience share by 0.1pp to 18.6% for the same time frame. In our advertising model, we have kept unchanged the estimated growth of FTA TV for 2016^F at 3.3% and increased our estimate for the cable TV from 3.8% to 4.25%.

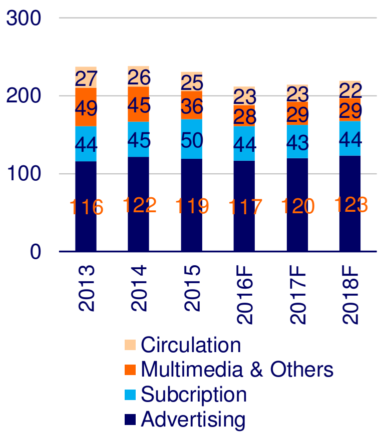
Going forward, in 2017 we have taken a more conservative stance, cutting by 0.5pp the expected growth for FTA and cable TV to 3.5pp, and by 0.1% for 2018^F and 2019^F to 3.5%.

Breakdown of Turnover by Division (2017^F: 215mn)



Source: BPI Equity Research.

Impresa's revenue evolution (€mn)



Source: Impresa & BPI Equity Research.

Change in % growth Portuguese Advertising Market

	Previous 2016	Current 2016	Previous 2017	Current 2017	Previous 2018	Current 2018
FTA TV	3.3%	3.3%	4.0%	3.5%	3.6%	3.5%
Cable TV	3.8%	4.3%	4.0%	3.5%	3.6%	3.5%
Newspapers	-10.5%	-14.5%	-3.0%	-3.0%	0.0%	0.0%

Source: BPI Equity Research.

Change in Audiences Forecasts

	Previous 2016	Current 2016	Previous 2017	Current 2017	Previous 2018	Current 2018
Impresa (SIC)	18.7%	18.6%	18.7%	18.6%	18.7%	18.6%
Mediacapital (TVI)	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%
RTP	16.8%	16.8%	16.8%	16.8%	16.8%	16.8%
Cable+Others	42.0%	42.1%	42.0%	42.1%	42.0%	42.1%

Source: BPI Equity Research.

Change in Market Shares Forecasts

	Previous 2016	Current 2016	Previous 2017	Current 2017	Previous 2018	Current 2018
Impresa (SIC)	37.9%	37.7%	37.9%	37.7%	37.9%	37.7%
Mediacapital (TVI)	39.8%	39.9%	39.8%	39.9%	39.8%	39.9%
RTP	4.7%	4.8%	4.7%	4.8%	4.7%	4.8%
Cable	17.6%	17.6%	17.6%	17.6%	17.6%	17.6%

Source: BPI Equity Research.

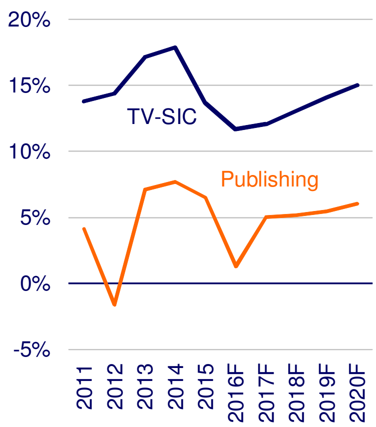
In subscription revenues (26% revenues), the renegotiation of the contract with Altice has had its toll which adds to the exposure to Angolan and Mozambican markets (main reason for the foreigner's subscribers declining). We were already estimating a negative trend in this revenue line (-9.6% yoy in 2016F), but the impact has been higher than expected so our revised forecast is now a drop of -13.5% yoy for 2016F.

Finally, the "**other revenues**" caption within TV (14% of weight) includes the multimedia revenue which has been impacted in the 2Q and 3Q by the closing of the Sunday's show and worse performance than expected in the other time frames, with top line falling -24% yoy and -43% yoy respectively. Consequently our former forecast of top line reduction of -10.8% yoy in 2016F has been adjusted to a plunge of -27.8% yoy for the same period.

TV EBITDA cut by 24% despite Opex control measures

The decline in top line was accompanied by costs control measures, resulting in a drop in opex of 8% yoy in both 2Q and 3Q. However, the acceleration of revenue erosion in the 3Q led to a 93% (down to €0.3mn)Edecline in EBITDA of the TV unit despite the cost control measures. In the 2Q, Impresa has been able to report a positive EBITDA evolution (+5.9% yoy), though. Consequently, we have cut our EBITDA estimates in television for FY16 by 24%.

Impresa EBITDA margin evolution per division



Source: Impresa, Media Capital & BPI Equity Research.

TV Segment Changes (€ mn)

	Previous 2016	Current 2016	Previous 2017	Current 2017	Previous 2018	Current 2018	Previous 2019	Current 2019
General TV Ad.	96	95	100	99	103	102	107	106
Subscription ver.	46	44	45	43	46	44	47	45
Others	26	21	26	22	26	23	26	23
Total Revenues	**168**	**160**	**171**	**164**	**175**	**169**	**180**	**174**
% Change yoy	-4%	-8%	2%	2%	3%	3%	3%	3%
Total Opex	**142**	**141**	**144**	**144**	**147**	**147**	**149**	**149**
% Change yoy	-4%	-5%	1%	2%	2%	2%	2%	2%
EBITDA	**25**	**19**	**26**	**20**	**29**	**22**	**31**	**25**
% EBITDA mg	15%	12%	15%	12%	16%	13%	17%	14%
% Change yoy	0%	-26%	5%	6%	9%	12%	9%	11%

Source: BPI Equity Research.

Publishing (25% revenues)

For the **publishing segment (-32% valuation cut)**, we have witnessed a similar pattern. In 2016 the secular declining trend of circulation revenues has been more pronounced (on average a range of -7.6%) than we had witnessed throughout 2015 and the 2H of 2014, in which the decline trend for this revenue source stood on average at -2.4%. The decline in circulation was augmented by the sunk of the press advertising market in Portugal, which fell -23% in the 2Q (including newspapers and magazines) leading to 15% yoy decrease of Impresa's press ad revenues in the quarter. In the 3Q, the press advertising market experienced a decrease of -15% yoy which compares with the -17% yoy reported by the company.

We have reflected in the press and magazines market figures the momentum, cutting from our previous targets of -10.5% and -6.8% to -14.5% and -17% yoy respectively for 2016^F. In our view this constitutes a more adjusted scenario given the evolution of the first 9M and the foreseeable behavior in the short term. We have also decreased the circulation revenues trend from our former -4% yoy to -7% yoy for 2016^F, and left the remaining years unchanged. These changes have led to a decrease in publishing revenues of 5% on average for the period 2016-2019^F and a decrease of -47% at EBITDA level for the same period.

Publishing Segment Changes (€ mn)

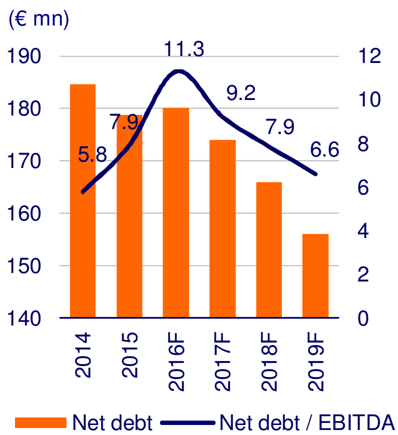
	Previous 2016	Current 2016	Previous 2017	Current 2017	Previous 2018	Current 2018	Previous 2019	Current 2019
Advertising	23	22	23	21	23	21	23	21
Circulation	24	23	24	23	23	22	23	22
Others	5	5	5	5	5	5	5	5
Total Revenues	**53**	**50**	**52**	**49**	**51**	**48**	**51**	**48**
% Change yoy	-6%	-11%	-2%	-2%	-1%	-1%	0%	0%
Total Opex	**48**	**49**	**48**	**46**	**47**	**46**	**47**	**46**
% Change yoy	-5%	-5%	-2%	-5%	-1%	-1%	-1%	-1%
EBITDA	**4**	**1**	**4**	**2**	**4**	**2**	**4**	**3**
% EBITDA mg	8.1%	1.3%	7.8%	5.0%	8.0%	5.2%	8.3%	5.5%
% Change yoy	17.4%	-82.2%	-4.9%	282.4%	0.9%	1.3%	4.1%	6.2%

Source: BPI Equity Research.

Cash is king

Apart from disappointing operational delivery IPR has also been struggling with a poor cash conversion. IPR recorded at the end of 3Q16 a qoq net debt increase of €4.1mn which compares with a €4.8mn cash flow generated in the 3Q15. However, the company provided a positive feedback regarding the CF in the 4Q16. Still, we have increased by 6% our FY16 net debt target to €180mn (+ €10mn). We now forecast a €20.3mn FCF generation for the 4Q. Given the evolution of the financial expenses due to the positive impact of the renegotiation of the financing lines we have cut down our estimates for the financial expenses of Impresa by 11% on average for the period 16-19^F.(- €1.0mn average cut).

Net Debt , Net Debt / EBITDA evolution



Source: BPI Equity Research.

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Triggers ahead: There have been many rumors on the press of an alleged interest from Altice to acquire Mediacapital that could precipitate an M&A scenario for Impresa. We believe that if Altice makes a move and is successful to integrate an FTA and telecom operator, it would force a paradigm change that would most likely lead to a situation where IPR could be an M&A target. This said, we do not believe that the regulator is likely to allow the consolidation between FTA and telecom operators.

Aside from this, the company should release in March its new Strategic Plan for the 2017-2019 triennium that will set mid-term goals bound to provide more visibility and anchor consensus estimates.

M&A potential value provides a support! In our Iberian Book "A brave new world" issued on January 23rd, 2017 we updated our estimates and our assumptions cutting our **YE17 Price Target to €0.28 (-59%)**. We reflected our revised estimates for the Portuguese ad market, macro figures and incorporated the most recent results. In spite of the strong underperformance of the company in the last months, we believe there is fundamental upside to current market price. Moreover, we believe IPR could be a potential an M&A candidate which would provide some support to the share price. **BUY**.

Change in Estimates

	2016F	2017F	2018F	2019F
Revenues	-4.5%	-4.2%	-4.0%	-3.9%
EBITDA adj.	-37%	-28%	-26%	-25%
Operating CF	-55%	-26%	-39%	-35%
Net Debt	6%	9%	13%	19%

Source: BPI Equity Research.

Change in SoP

Business Area	Previous 2017	Current 2017	% Change
SIC	216	273	-21%
Publishing	23	33	-32%
Others & Holding	-24	-31	-25%
Total	**216**	**275**	**-22%**
(+) Distribution	4.0	4.0	0%
(+) Other Non-Core Assets	5.9	5.9	0%
(-) Holding Net Debt	174	159	9%
Equity Value	**51**	**125**	**-59%**
# Shares (mn)	168.0	168.0	0%
Fair Value (€)	**0.31**	**0.75**	**-59%**
YE17 PT discount	**0.28**	**0.67**	**-59%**

Source: BPI Equity Research.

P&L

(€ mn)	2013	2014	2015	2016F	2017F	2018F	2019F	CAGR 15-19F
Revenues	**237**	**238**	**231**	**212**	**215**	**219**	**224**	**-1%**
EBITDA	**30**	**32**	**23**	**16**	**19**	**21**	**24**	**1%**
EBITDA adj.	**30**	**32**	**26**	**17**	**19**	**21**	**24**	**-3%**
EBITDA adj. mg.	13%	13%	11%	8%	9%	10%	11%	
Depreciation & others	5	4	4	3	3	3	3	-8%
EBIT	**25**	**28**	**19**	**12**	**16**	**18**	**21**	**3%**
EBIT adj.	**25**	**28**	**22**	**13**	**16**	**18**	**21**	**-2%**
Net financial results	-12	-11	-12	-8	-8	-8	-8	-11%
Income tax	7	6	3	1	2	3	4	8%
Others	0	0	0	0	0	0	0	n.s.
Minority Interests	0	0	0	0	0	0	0	n.s.
Net Profit reported	**7**	**11**	**4**	**3**	**6**	**8**	**10**	**24%**
Net Profit adj.	**7**	**11**	**7**	**4**	**6**	**8**	**10**	**9%**

Balance Sheet

(€ mn)	2013	2014	2015	2016F	2017F	2018F	2019F	CAGR 15-19F
Net Intangibles	301	301	301	301	301	301	301	0%
Net Fixed Assets	29	28	28	27	27	27	27	-1%
Net Financials	13	13	10	10	10	10	10	0%
Inventories	19	15	17	15	15	15	15	-3%
ST Receivables	37	25	24	26	27	27	28	3%
Other Assets	20	20	20	20	20	20	20	0%
Cash & Equivalents	1	5	4	1	1	1	1	-21%
Total Assets	**422**	**407**	**403**	**401**	**401**	**402**	**402**	**0%**
Equity & Minorities	**127**	**138**	**142**	**145**	**151**	**158**	**168**	**4%**
MLT Liabilities	**141**	**147**	**153**	**124**	**101**	**82**	**68**	**-18%**
o.w. Debt	127	135	144	115	92	74	59	-20%
ST Liabilities	**154**	**122**	**108**	**132**	**149**	**160**	**166**	**11%**
o.w. Debt	63	46	32	66	83	94	98	32%
o.w. Payables	55	45	43	39	39	40	41	-2%
Equity+Min. + Liabilities	**422**	**407**	**403**	**401**	**401**	**402**	**402**	**0%**

Cashflow (€ mn)

	2013	2014	2015	2016F	2017F	2018F	2019F
+ EBITDA	30	32	23	16	19	21	24
- Chg in Net W.C.	-5	-6	4	5	0	0	0
- Income Taxes	7	6	3	1	2	3	4
= Operating Cash Flow	**29**	**32**	**16**	**10**	**17**	**18**	**20**
- Growth Capex	0	0	0	0	0	0	0
- Replacement Capex	4	3	4	3	3	3	3
- Net Fin. Inv.	0	0	0	0	0	0	0
= Cash Flow after Inv.	**25**	**30**	**12**	**7**	**14**	**16**	**18**
- Net Fin. Exp.	12	11	12	8	8	8	8
- Dividends Paid	0	0	0	0	0	0	0
+/- Equity	0	0	0	0	0	0	0
Other	-6	4	-6	0	0	0	0
=Change in Net Debt	**-19**	**-15**	**-6**	**1**	**-6**	**-8**	**-10**
Net Debt (+)/Net Cash (-)	**199**	**185**	**179**	**180**	**174**	**166**	**156**

Growth, per share data and ratios

	2013	2014	2015	2016F	2017F	2018F	2019F
Sales growth	4%	0%	-3%	-8%	1%	2%	2%
EBITDA Adj. growth	56%	5%	-18%	-37%	14%	12%	12%
EPS Adj. growth	-328%	67%	-39%	-46%	59%	31%	27%
Avg. # sh (mn)	168	168	168	168	168	168	168
Basic EPS	0.04	0.07	0.02	0.02	0.03	0.05	0.06
EPS Adj. Fully diluted	0.04	0.07	0.04	0.02	0.03	0.05	0.06
DPS	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payout	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
ROCE (after tax)	5.9%	6.6%	4.3%	2.8%	3.5%	4.0%	4.5%
ROE	5.4%	8.3%	4.8%	2.5%	3.9%	4.9%	5.9%
Gearing (ND/EV)	99%	92%	89%	90%	87%	83%	78%
Net Debt/EBITDA	6.6x	5.8x	6.8x	10.9x	9.2x	7.9x	6.6x

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

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In November 2016, Banco Português de Investimento acted as a Joint Bookrunner in the private sale performed by "Amorim International Participations, BV" and "Investmark Holdings, BV" of 13.300.000 shares of Corticeira Amorim, representing at such date 10% of Corticeira Amorim's share capital, through an Accelerated Bookbuilding process.

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INVESTMENT RATINGS AND RISK CLASSIFICATION (12 MONTH TOTAL RETURN):

	Low Risk	Medium Risk	High Risk
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 December BPI Equity Research investment ratings were distributed as follows:

Buy	36%
Neutral	36%
Reduce	18%
Sell/Accept Bid	7%
Under Revision/Restricted	3%
Total	100%

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