Flash

TVN

16 March 2010

Changing channels

Media

Poland

Performance over	1M	3M	12M
Absolute %	17%	23%	89%
Rel. WIG20 %	11%	20%	19%
12M Hi/Lo	PLN 17.00 / 13.50		

Reuters	TVNN.WA
Bloomberg	TVN PW
Market cap € m	1,435 m
Next corporate event	
1Q10 results on 13 May 2010	
PLN / €	3.90

Current price PLN 16.40*

Fair value PLN 17.00

Hold

Rating downgraded

FY/e 31.12., PLN m	2009A	2010F	2011F	2012F
Sales	2 123.4	2 504.6	2 843.7	3 173.6
Adj. EBITDA*	540.5	683.7	869.2	1 028.4
Adj. EBIT*	357.9	414.1	577.7	706.6
Adj. Net profit*	166.6	243.1	247.8	372.9
Adj. EPS (PLN)*	0.5	0.7	0.7	1.1
Adj. P/E (x)*	33.8	23.0	22.6	15.1
DPS (PLN)	0.57	0.31	0.52	0.59
Yield (%)	3.5%	1.9%	3.2%	3.6%
Adj. EV/EBITDA (x)*	12.2	11.3	8.8	7.4

*Source: TVN, KBC Securities; *adj. for IFRS2 SOCs and non-cash one-offs*

We have cut our rating on TVN to Hold and recommend switching to more attractively valued CME and CTC Media. The stock has gained 17% and outperformed the WIG20 index by 11% over the last month. After the firm's better-than-expected 4Q09 results, we have raised our adjusted EBITDA forecast by 5% to PLN 683.7m (+26% y/y) for 2010. However, new cost assumptions for 'n' digital platform have dragged our adjusted EBITDA forecasts down 1% to PLN 869.2m (+27% y/y) for 2011 and 7% to PLN 1,028.4m (+18% y/y) for 2012. Our fair value is up 3% to PLN 17.00 per share, implying 4% upside.

**Priced at COB 15/03/10*

Rating downgraded to Hold

- **Polish ad market to be flat y/y in 2Q10:** While Poland's TV ad market is likely to remain down year-on-year in 1Q10, we forecast the market to be flat as early as 2Q10. We still expect Poland's TV ad market to post 5% y/y growth in full-year 2010, which is more bullish than TVN's assumption of a 2-3% rebound but more conservative than Poland's second-largest commercial TV company Polsat, which expects a 5-10% recovery.
- **TV programming expenses to grow 6% y/y in 2010:** We forecast TV programming amortization at TVN to grow 6% in 2010, which is more conservative than TVN's guidance for a flat performance. However, TVN expects slightly lower market growth. Programming expenses should be higher at both the main and thematic channels. Overall, we forecast the EBITDA margin of the TV business to be broadly flat in 2010 versus 2009.
- **New guidance for 'n' platform more realistic:** TVN's management has significantly lowered its ARPU and customer acquisition assumptions for 2010 and now assumes monthly ARPU above PLN 60 and net subscriber acquisitions at 172k for 2010. While our new ARPU assumption is in line with our forecast of PLN 61, we are more cautious about subscriber intake, which we assume at 105k in 2010.
- **Digital platform to deliver positive EBITDA in 2Q10 and 3Q10:** TVN's pay-TV business 'n' platform is expected to breakeven on EBITDA in 2Q10 and 3Q10, driven by strong subscriber acquisition in 4Q09, seasonally lower costs and the strong PLN. The projected breakeven should allow ITI to receive an additional € 40m in TVN's bonds, in line with the conditions laid out in the transaction to purchase the remaining 49% interest in 'n'. However, we only project full-year EBITDA breakeven at 'n' platform in 2012.
- **EBITDA at 3-year CAGR of 24%:** We expect TVN's adjusted EBITDA at a 2009-2012 CAGR of 24%, driven by a projected rebound in TV ad spending, stable audience shares, growing subscription revenues of thematic channels, robust growth of the internet arm and a recovery at the pay-TV unit as it shrugs off start-up losses.
- **Better value elsewhere:** The stock price has gained 17% over the past month outperforming the WIG20 by 11%. On a 2012F EV/EBITDA of 7.4x, TVN trades at a double-digit premium to regional peers. We believe TVN is fairly priced, whilst CTC and CME are undervalued (on 6.5x and 6.6x respectively).

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Important Polish Disclosure

Belgian Banking and Finance Commission is exercising the Supervision over KBC Securities NV Branch in Poland.

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The definitions of terms applied in the publication:

EBITDA = EBIT + amortization and depreciation

EPS = Net profit / No of shares outstanding

DPS = Dividend per Share

NBV per share = Net Book Value / No of shares outstanding

EBITDA margin = EBITDA / Revenue

EBIT margin = EBIT / Revenue

CFPS = Cash flow / No of shares outstanding

Net Financial Debt = Financial debt – Cash equivalents

ROE = Net profit / Average Equity

EV = Market Capitalization + Net Financial Debt

P/E = Stock Price / EPS

P/CF = Stock Price / (Net Profit + amortization and depreciation)

P/BV = Stock Price / NBV per share

P/S = Market Capitalization / Revenue

Gross Dividend Yield = Dividend per share / Stock

List of recommendations concerning TVN issued by KBC Securities NV Branch in Poland during the last 6 months

	Valuation	Market price	Recommendation	Date of issue
TVN	17.00	16.40	Hold	16 March 2010
TVN	16.50	14.05	Buy	28 January 2010
TVN	15.40	13.29	Buy	18 November 2009
TVN	16.50	14.99	Buy	27 October 2009
TVN	17.00	13.80	Buy	7 September 2009
TVN	10.87	11.30	Hold	20 July 2009
TVN	10.93	12.35	Sell	3 June 2009

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While preparing the publication and issuing the recommendation, KBC Securities NV Branch in Poland used the following valuation methods: Discounted Cash Flow (DCF) and peer group comparison. The advantage of DCF method is that future financial results are calculated; on the other hand, the disadvantage of the model is that prognoses for the future financial results are influenced by analyst judgment. Peer group comparison is more independent of analyst judgment but it is usually based on current financial results which may differ from the future performance

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BUY – total return is expected to appreciate 10% or more **HOLD** – total return is expected to be between 10% and –10% **SELL** – total return is expected to depreciate 10% or more

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During the last quarter KBC Securities NV Branch in Warsaw issued recommendations on 44 companies:

22 BUY	52%
14 HOLD	24%
8 SELL	24%

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