

## CEE Equity Research

## Telecommunication, Poland

22 February 2024 08:05 CET

## Weak Fundamentals to Delay Rebound till 2H2024?

## Recommendation Neutral, TP cut to PLN12.2

We expect Cyfrowy Polsat to post weak set of 4Q2023 results, from customer bases and ARPUs, due to weakening equipment margin to the reported results (EBITDA down 17% y/y). Unfortunately, with no rebound at KPIs expected in 1H2024E, inflationary pressure in force, and potential accelerated post-election weakness at TV market shares, we believe the outlook for 2024E might come in as negative surprise to the market. Furthermore, the European electricity prices keep plummeting, exposing the company's renewable segment's FCFs and valuation. All these make us cut our forecasts substantially, with new 2024/25E EBITDA estimates falling 11-13% short of consensus. On the contrary, WSE trading patterns (CPS was key 2022/23 underperformer) and massive divergences at the RSI oscillator might make Cyfrowy Polsat shine bright as the potential 2024's performance star, acc. to the technical analysis. These might coincide with the first hypothetical positive fundamental signs (recovery at KPIs, decline at interest rates), both of which might come true in 2H2024E, we assume. The Gods of Trading laugh when analysts present their share price pattern assumptions, but we believe the fundamental weakness should depress CPS share price into single-digit territory, before AT's massive divergence or interest rate cuts would make it shine in 2H2024E.

**Weak 4Q23E, weaker FY24E?.** We expect CPS to post declining customer bases and weak-ish ARPU in 4Q2023E. Along with high inflationary pressures, declining equipment margin, and some provisioning should result in EBITDA's strong 17% slide y/y, we calculate. We also assume that continued pressures in telco/media segment might depress segment's EBITDA way below PLN3bn mark, and we see the room for potential FY2024E outlook disappointment (potentially 11% below consensus).

**Bullish AT and mosaic theory...** Acc. to the technical analysis, CPS has been building massive positive divergence at RSI. In this light, our technical analyst believes that in a few months' time a new bull market may emerge. Additionally, in January 2024 telko.in telecommunication portal suggested that Cyfrowy Polsat's delisting might represent one of the key themes for 2024.

**...Bearish fundamentals.** The outlook for pending interest rate cuts has seemingly gone for good until the late 2024, acc. to MPC members. Hence, the most potent CPS's driver, supportive of its bottom line, cash generation and valuation, seems delayed at best. Telco KPIs remain weak (falling customer bases, weak-ish ARPU growth), TV viewership remains in the lasting downtrend, and CPS's TV ads' share might fall at accelerated pace following the Parliamentary elections' outcome. All these are accompanied with inflation rate subdued until Jun2024 with G tariff freeze. Finally, plummeting electricity prices come in highly negative to future FCFs and current valuation of CPS's renewable segment.

**Risks.** The cancellation of Treasury shares, or the use of the shares to acquire operating assets would represent an upside to CPS valuation, just as creation of renewable or real estate SPVs (debt de-consolidation). ARPU growth matching the inflation rate would represent a material upside, but inflationary environment represents a challenge. The slide at Polish electricity prices represents high downside risk to renewable segment's valuation, just as CPS's hypothetical entry into nuclear energy, we conclude.

**Forecasts, Valuation, Recommendation.** The weakness of 4Q2023E results and KPIs, along with several negative pieces of fundamental news, make us cut CPS's EBITDA dozen pp in years 2024/25E, falling 11/13% short of consensus. Cuts to FCFs result in DCF valuation decline, forecasts' cuts trim comparable valuation to PLN11.4, and the blended TP slides 15% to PLN12.2. Single-digit share price upside makes us keep Cyfrowy Polsat at Neutral.

## Cyfrowy Polsat: Financial summary (year to December)

PLNmn	2020	2021	2022	2023E	2024E	2025E
Revenue	11,963	12,444	12,915	13,637	14,413	14,988
EBITDA	4,192	7,655	3,471	3,210	2,948	3,232
EBIT	1,887	5,752	1,642	1,299	802	1,110
Net profit	1,151	4,339	902	186	-318	8
P/E (x)	14.9	4.7	16.0	53.3	Neg.	967.8
EV/EBITDA (x)	6.8	3.2	6.1	6.0	6.0	5.5
DY	3.7%	3.7%	5.3%	0.0%	0.0%	0.0%
FCF Yield	3.3%	10.0%	0.4%	-11.4%	-3.4%	-2.4%

Source: Company data, Santander Brokerage Poland estimates

<b>Recommendation</b>	<b>Neutral</b>
<b>Target Price (Dec'2024, PLN)</b>	<b>12.2</b>
Price (PLN, 20 February 2024)	11.47
Market cap. (PLNmn)*	7,341
Free float (% shs)	38.7
Number of shares (mn)*	640

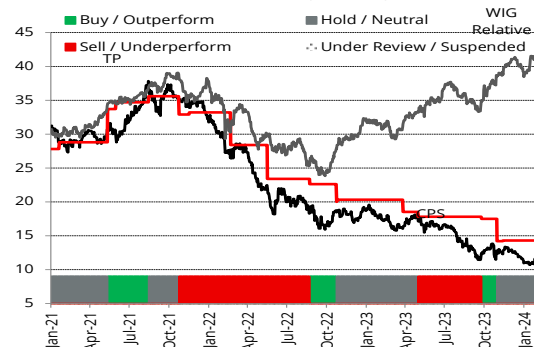
Previous report issued on Nov 30, 2023 with:

<b>Recommendation</b>	<b>Neutral</b>
<b>Target price (Dec'24, PLN)</b>	<b>14.3</b>

\* incl. Treasury shares

## What has changed

- Recommendation Neutral maintained, TP down 15% to PLN12.2
- We expect CPS to post weak 4Q2023e KPIs and results, with EBITDA sliding 17% y/y...
- ...and old (weak KPIs, weak ARPUs, inflation) and new (TV ads' share, weakening equipment margin, electricity prices) demons potentially resulting in disappointing outlook for 2024/25E
- AT-based massive RSI oscillator divergence suggests that CPS might be potentially a star of 2024. Also, telko.in portal suggested CPS might be hypothetically delisted in 2024, partially due to its two-year substantial share price underperformance
- New partner in renewable or real estate segments, accelerated ARPU growth, potential disposal of the remaining ACP stake or sudden interest rate slide could provide upsides to the stock



The chart measures performance against the WIG index

<b>Main shareholders</b>	<b>% of votes</b>
Zygmunt Solorz, incl.	70.36
Cyfrowy Polsat	10.85

Source: company

## Company description

Polish diversified telecommunications operator, with exposure to advertising market and content production. In late 2021 it diversified into energy and real estate sectors. It also holds a 10% stake in Europe's 6<sup>th</sup> largest IT software producer, Asseco Poland.

## Analysts

## Pawel Puchalski, CFA

Equity Analyst

+48 22 586 80 95 pawel.puchalski@santander.pl

## Marcin Dzialek, Investment Advisor

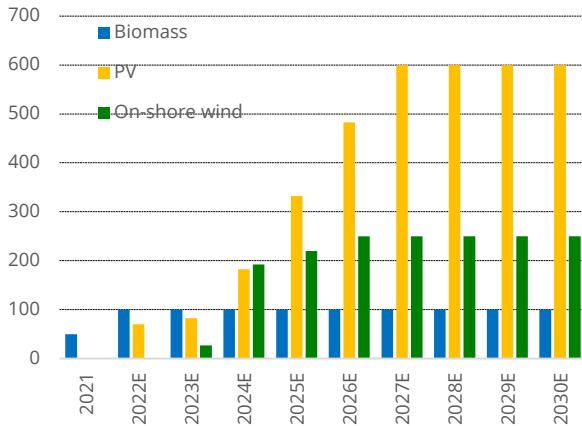
Technical Analyst

Marcin.dzialek@santander.pl

## Energy Segment

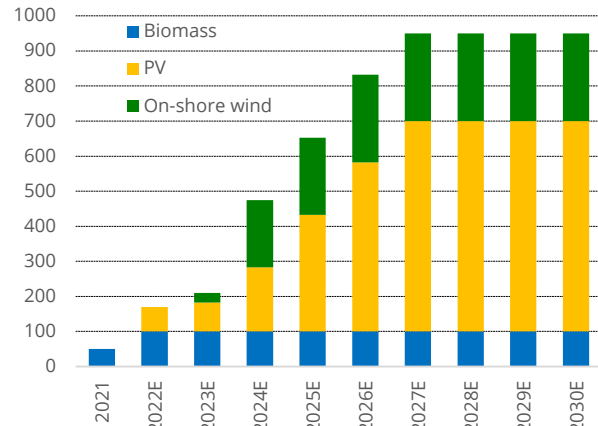
In its strategy update presented in December 2021, CPS announced its transformation to the energy segment. Below we present Cyfrowy Polsat's energy outlook in charts.

**Fig. 1. Cyfrowy Polsat: Capacity forecasts [MW]**



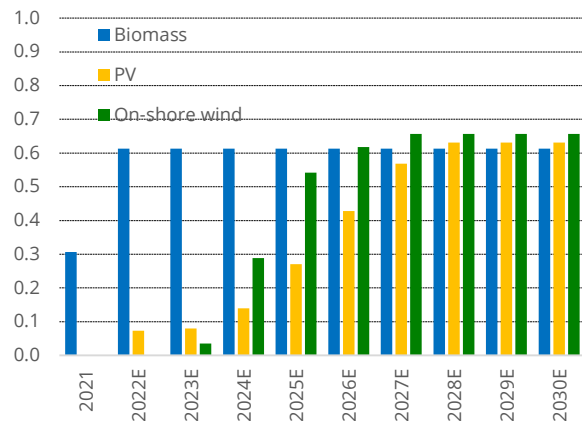
Source: Santander Brokerage Poland estimates

**Fig. 2. Cyfrowy Polsat: Capacity forecasts [MW]**



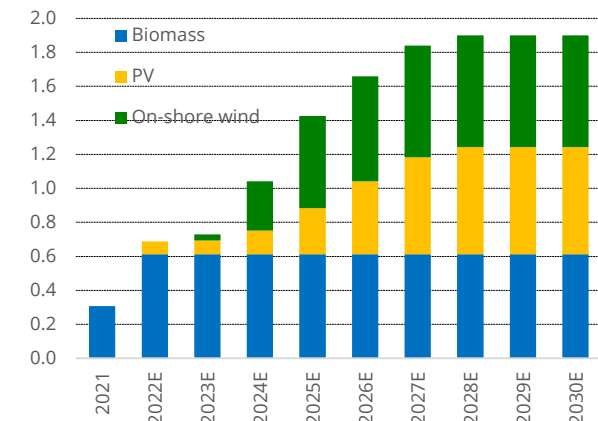
Source: Santander Brokerage Poland estimates

**Fig. 3. Cyfrowy Polsat: Electricity production fcasts [TWh]**



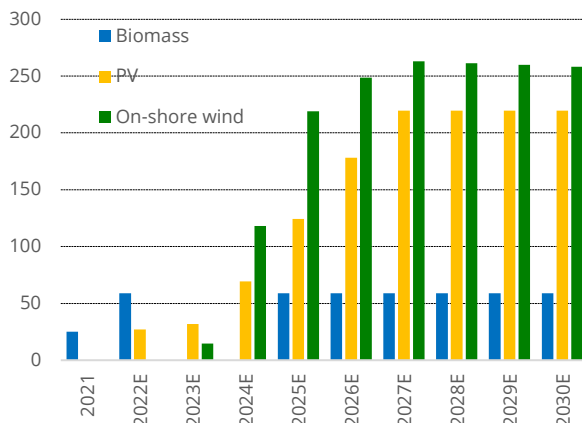
Source: Santander Brokerage Poland estimates

**Fig. 4. Cyfrowy Polsat: Electricity production fcasts [TWh]**



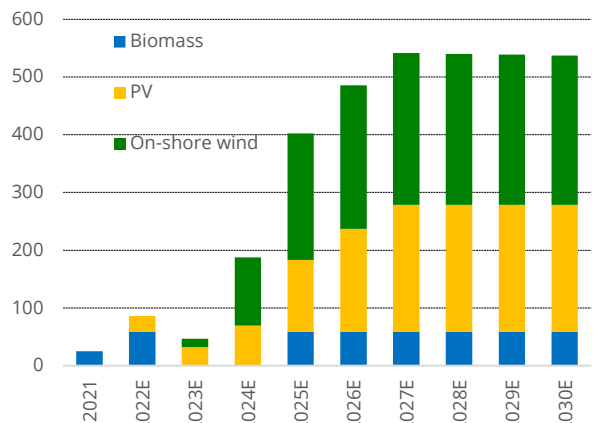
Source: Santander Brokerage Poland estimates

**Fig. 5. Cyfrowy Polsat: Energy EBITDA \* [PLNm]**



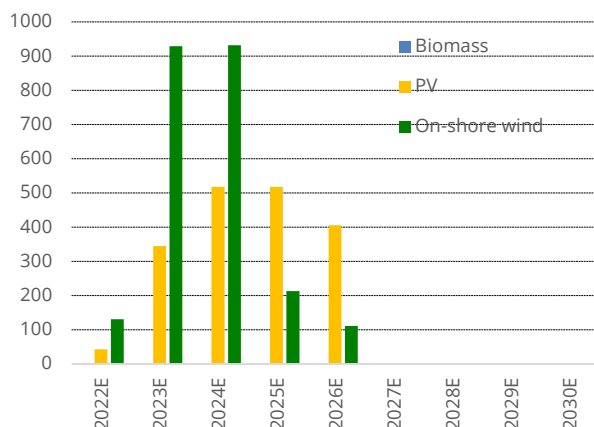
Source: Santander Brokerage Poland estimates

**Fig. 6. Cyfrowy Polsat: Energy EBITDA \* [PLNm]**



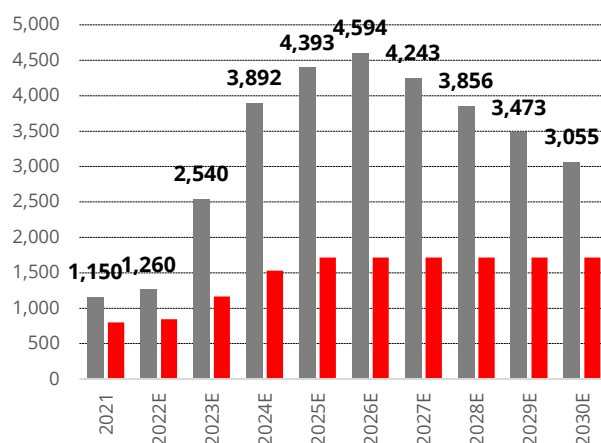
Source: Santander Brokerage Poland estimates

**Fig. 7. Cyfrowy Polsat: Energy capex \*\* [PLNmn]**



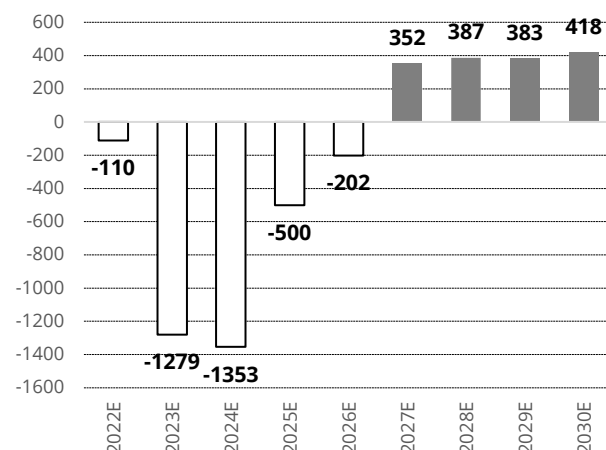
Source: Santander Brokerage Poland estimates

**Fig. 9. Cyfrowy Polsat: Net Debt fcasts \*\*\*\* [PLNmn]**



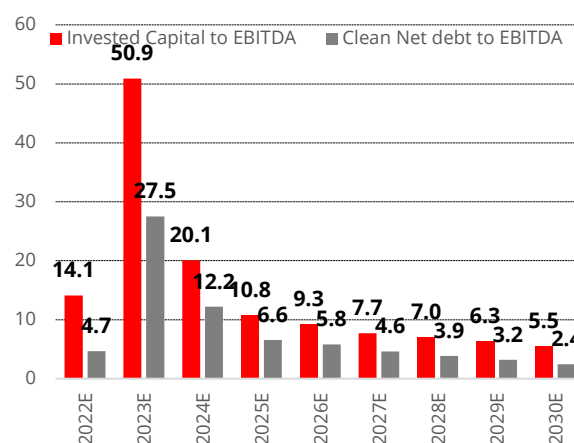
Source: Santander Brokerage Poland estimates

**Fig. 8. Cyfrowy Polsat: Energy FCF \*\*\* [PLNmn]**



Source: Santander Brokerage Poland estimates

**Fig. 10. Cyfrowy Polsat: Net debt-to-EBITDA \*\*\*\* [x]**



Source: Santander Brokerage Poland estimates

Notes to all charts:

\* EBITDA / FCF / net debt calculations under assumption of long-term PPAs priced at PLN450/MWh, cut from PLN550/MWh previously

\*\* capex at EUR1.5mn/MW for on-shore wind and EUR0.5mn/MW for PV, additionally we expect Cyfrowy Polsat to pay devex (payments to renewable developers) at EUR0.5mn/MW for on-shore wind and EUR0.15mn/MW for PV in years 2022-2024E

\*\*\* FCF is the sum of opCF and capex

\*\*\*\* net debt and net-debt-to-EBITDA forecasts including early PLN1.15bn outlays on acquisition of ZE PAK assets, disregarding equity input from Cyfrowy Polsat and ZE PAK (net debt represents 100% of cash required to finance CPS's energy segment expansion)

## Key Stories

### [+] Is the price making a bottom?

*[published in Santander's Daily on January 23, 2024 by Marcin Dzialek, Santander's AT analyst]*

**Fig. 11. Cyfrowy Polsat: Technical analysis**



Source: AmiBroker for tool, Santander Brokerage Poland for technical indicators

#### **Comment [Marcin Dzialek, Investment Advisor, Santander's Technical Analyst]:**

The price established a new multi-year low, elongating a massive positive divergence, which is forming on technical oscillator RSI. Cyfrowy may be developing an orange ending diagonal pattern, which is the last part of a bear market. Perhaps, the price will fall slightly below PLN10, reaching the lowest level in the history. Despite the potential technical structure, the price is likely bottoming, so that in a few-month time a new bull market may emerge.

## **[-] 4Q2023E: KPI & EBITDA Disappointments**

*[published as separate Flash Note on January 24, 2024]*

**Fig. 12. Cyfrowy Polsat: 4Q2023E results preview**

PLNmn	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23E	y/y	q/q
Sales	3,265	2,987	3,228	3,271	3,430	3,199	3,290	3,456	<b>3,692</b>	7.7%	6.9%
<b>EBITDA</b>	<b>881</b>	<b>767</b>	<b>893</b>	<b>953</b>	<b>858</b>	<b>761</b>	<b>799</b>	<b>995</b>	<b>712</b>	<b>-17.1%</b>	<b>-28.4%</b>
EBITDA margin	27.0%	25.7%	27.7%	29.1%	25.0%	23.8%	24.3%	28.8%	<b>19.3%</b>	-5.7	-9.5
EBIT	420	320	426	501	395	299	330	511	<b>217</b>	-45.2%	-57.6%
EBIT margin	12.9%	10.7%	13.2%	15.3%	11.5%	9.3%	10.0%	14.8%	<b>5.9%</b>	-5.7	-8.9
Net profit	334	213	283	186	174	71	8	102	<b>62</b>	-64.5%	-39.4%
Net margin	10.2%	7.1%	8.8%	5.7%	5.1%	2.2%	0.2%	3.0%	<b>1.7%</b>	-3.4	-1.3
<b>EBITDA adj.</b>	<b>891</b>	<b>801</b>	<b>893</b>	<b>840</b>	<b>819</b>	<b>761</b>	<b>799</b>	<b>775</b>	<b>712</b>	<b>-13.0%</b>	<b>-8.1%</b>

Source: Company data, Santander Brokerage Poland estimates

**Equipment.** We expect 4Q2023E to bring second-in-a-row mid-single digit decline in equipment sales, down 7% to PLN505mn. Additionally, top line weakness should expand into equipment profit, which we expect to narrow to PLN90mn, compared to 3Q23's PLN100mn and 4Q22's PLN120mn.

**Renewables.** We cannot imagine Esoleo delivering on (likely high) expectations, given the slowdown in the Polish PV installation market. Within renewable projects, PV still dominates Cyfrowy Polsat's capacity, and 4Q23's PV generation is down 73% q/q (negative to CPS's 4Q23E revenues / EBITDA). Despite little support of new on-shore wind projects', we still expect both revenues and EBITDA down very substantially q/q. Still, as CPS also took over trading business, we expect it to support 4Q2023E energy segment's revenues to PLN0.3bn, up 10% q/q. However, late-quarter electricity price declines should trigger minor provisioning, effectively turning 4Q2023E energy segment's EBITDA dozen million zloty in the red, we calculate.

**B2C / B2B telco segment.** We expect Cyfrowy Polsat to post weak ARPU's in 4Q2023E, respective up +3% in post-paid and down low-single digit in pre-paid, both under pressure of ongoing aggressive promo campaigns. Still, these should bring in continued weakness at customer based, with total number of RGUs and total client number still falling at 1.5-2.2% range y/y, only insubstantially (0.30.7pp) better vs 3Q2023's y/y decline. We see key opex lines rising by some 3% q/q, except for personnel costs higher by 13%, overall keeping segment's EBITDA under solid pressure.

We expect energy segment to drive top line's healthy 7.7% y/y growth. Though, as we see total opex 12.7% higher y/y, we forecast 4Q2023E EBITDA at PLN712mn, down 17% y/y. We assume the company would be unlikely to present any provisions etc. as one-offs, which would increase adjusted EBITDA and make 2024E's potential y/y growth thinner. Hence, we see adj. EBITDA equal to the reported one.

Below EBIT line, revaluation of electricity sales contract with Google and strengthening of zloty against EUR should support CPS's net financials by some PLN120mn, not to mention lack of 3Q2023's PLN100mn negative one-off. Overall, these should result in CPS's 4Q2023E net financials at PLN128mn, we calculate (compared to 3Q23's PLN340mn and 4Q22's PLN172mn), thus expectedly keeping the company's bottom line in the black.

**Comment: Negative.** KPIs and results of Cyfrowy Polsat have remained under strong negative pressure for several quarters now, and sadly we believe 4Q2023E data should bring little change to that trend. The declines at KPIs might begin slowing down very insubstantially q/q, but it seems these have been to a large extent achieved via ARPU eroding initiatives (post-paid up +3% y/y, pre-paid down y/y), we conclude. 4Q2023E's 17% y/y decline pace of CPS's EBITDA would set the new negative record of erosion. We believe the company might be willing to book in all the potential negatives / provisions etc. to lower the floor for 2024. Though, PLN0.7bn media/telco EBITDA represents quite a discouraging result, we believe. Most importantly, 4Q23E KPIs suggest that Cyfrowy Polsat might require minimum several quarters to reach the hard bottom, potentially, which should once again delay the hypothetical results' rebound.

**2024E Outlook: Negative, below consensus?** We expect FY2023E EBITDA at PLN3.27bn and adjusted EBITDA at PLN3.05bn. 4Q23E KPIs and the continued market pressures suggest media / telco segments' EBITDA should fall below PLN3.0bn mark in 2024E. With the assumed PLN200-250mn new-born EBITDA from the energy segment in 2024E, we could see CPS's consolidated 2024E EBITDA negligibly higher y/y and only a notch above PLN3bn mark, which would settle some 10% below market consensus and our forecasts, we note.

### **[-] MSCI INDICES: Cyfrowy Polsat's downgrade**

*[published within Santander's Daily on February 13, 2024]*

**Comment:** MSCI disclosed yesterday evening the outcome of the February index review. When it goes about the WSE-listed names, Cyfrowy Polsat (CPS PW) will be downgraded to the MSCI EM Small Cap portfolio. In our opinion, the downgrade of CPS was expected.

### **[-] Weak TV advertising market growth in 4Q2023, TV watching time down 8% y/y in 2023 – Publicis**

*[published as separate Flash Note on February 06, 2024]*

Below we present key takeaways from Publicis report on the Polish advertising and TV markets' developments in 4Q2023 and FY2023:

- FY2023 TV advertising market up 3.3% y/y. Y/y growth stood at 0.4% in 4Q2023, compared to 5.8% y/y growth in 9M2023;

- The fourth quarter of 2024 brought in slowdown in TV advertising market. Despite one-off support of the Parliamentary elections in mid-October 2023, Publicis noted a significant y/y growth deceleration in November 2023, followed by y/y decline in December 2023. Still, Publicis finds the latter might be distorted due to high 2022 base (FIFA World Cup, Nov 20<sup>th</sup> till Dec 18<sup>th</sup>, 2022);
- Outlook for 2024: same-scale y/y growth. Positive macro and consumption outlook, potential positive EURO 2024 impact should contribute to y/y growth of the Polish TV advertising market, acc. to Publicis;
- TV viewership. Publicis estimates the average Pole spent 3:20 watching TV, 12 minutes less y/y. adjusting this for video-streaming platforms (Netflix, Disney+, Player, etc.), the average time spent in front of TV-sets fell 15 minutes y/y in Poland, down 8% y/y.

**Comment: Negative.** Publicis data (TV advertising up 0.4% y/y in 4Q2023E) confirm our weak-ish estimates of Cyfrowy Polsat's media segment in 4Q23E, providing yet another argument supporting our thesis of very weak quarterly outlook (estimated EBITDA down 17% y/y).

Additionally, in our view the assumption of TV advertising market growth stable at +3.3% y/y in 2024E comes in a bit discouraging. The Polish GDP is set to rebound, the consumer remains strong, EURO2024 and Olympic Games should come in supportive – in light of these, +3.3% y/y growth does not come in strong reading, we conclude.

Finally, data concerning TV watching time do come discouraging, we assess. Aside of streaming platforms, the y/y decline in pure-TV watching time (down 15 minutes, or down 8% y/y) represents clear negative info for the future revenues of the Polish TV groups, CPS inclusive. At Cyfrowy Polsat, this lasting negative trend might be exacerbated in 2024E due to Group's past high (40-50%) share in the State-run companies' TV advertisements.

### **SB member purchased 25k CPS shs last Wednesday**

*[published within Santander's Daily on February 05, 2024]*

Last Friday after close the company informed that Pigreto Limited, the entity related to Tomasz Szelag (Cyfrowy Polsat's SB member), purchased 25k CPS shares on January 31, 2024. The average purchasing price stood at PLN10.68.

## **Polsat's viewership in the downtrend, acc. to Jan2024 data**

*[published within Santander's Daily on February 02, 2024]*

Yesterday the company presented viewership results for January 2024, all based on Nielsen research. The key takeaways include:

- Prime-time viewership of Polsat Group TV channels at 22.18%, 0.2pp lower y/y. This compares to Discovery viewership at 23.54% and TVP's at 17.18%;
- 24-hour viewership of Polsat Group TV channels at 21.87%, 0.3pp lower y/y. It compares to Discovery viewership at 24.11% and TVP's at 16.23%;
- Polsat main channel viewership at 7.06% (full-day), down 0.6pp y/y, and 7.79% (prime-time), down 1.2pp y/y.

**Comment: Minor negative.** No change in trends may be observed in Jan2024 viewership data. Polsat's main channel strong erosion in viewership should be seen as minor negative, we conclude.

## **Millenium IM has got 0.51% short position**

*[published within Santander's Daily on January 31, 2024]*

In total, four institutions have got short positions on Cyfrowy Polsat totalling 2.94%, acc. to the Polish SEC.

## **[-] Electricity Prices are Tumbling**

*[excerpts from separate Flash Note published on January 19, 2024]*

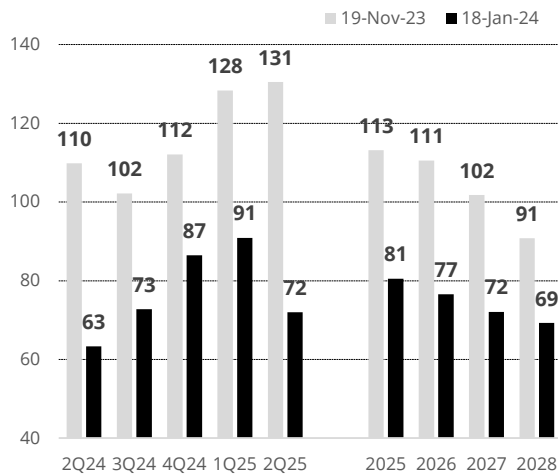
On December 7, 2023 we published a Flash Note highlighting that the European electricity prices have begun sliding at an accelerated pace. The trend we spoke about has significantly accelerated in the recent weeks, we observe. The German annual electricity prices stood at or above EUR100/MWh in early December, falling by 24-31% since to EUR69-81/MWh range.

In Poland, electricity price contracts (regardless of negligible liquidity at some of these) fell in the range of 18-23%, respectively to PLN450-460/MWh range presently.

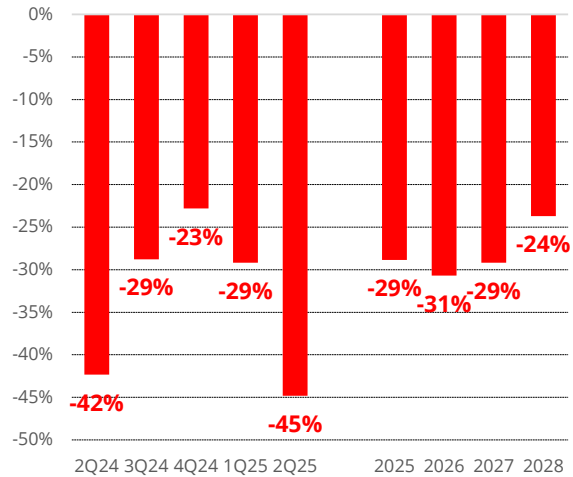
Please note that the short-term contracts (German next-quarter down 42%, Poland's Feb2024 contract down 30% and next-quarter down 27%) are plummeting at much stronger pace than the annual ones.



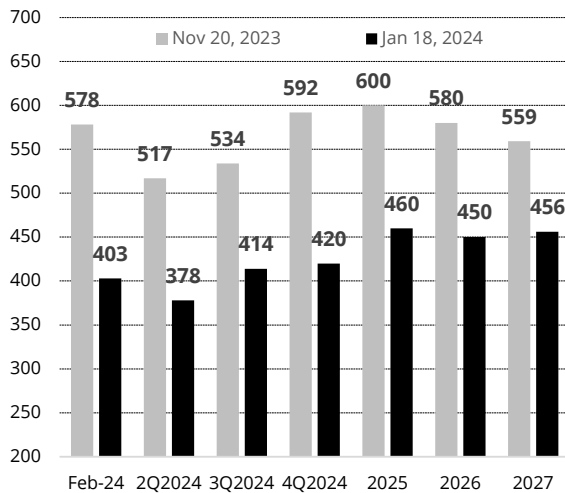
**Fig. 13. German electricity price, Jan24 vs Nov23 [EUR/MWh]**



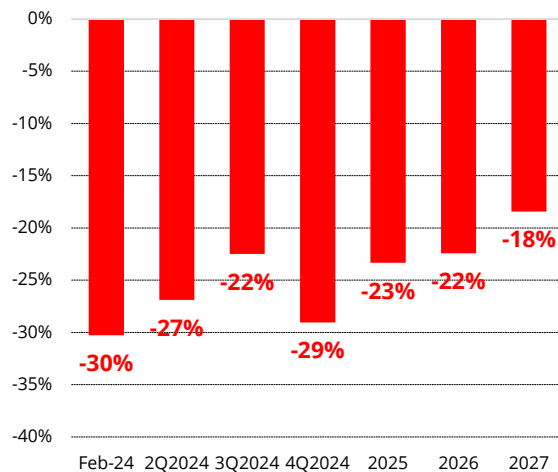
**Fig. 14. German electricity price, 3-month change**



**Fig. 15. Polish electricity price, Jan24 vs Nov23 [EUR/MWh]**



**Fig. 16. Polish electricity price, 3-month change**



Source for all graphs: Bloomberg (Germany), PSE (Poland)

**Fig. 17. German 2026 electricity price [EUR/MWh]**



**Fig. 18. German 2025 electricity price [EUR/MWh]**

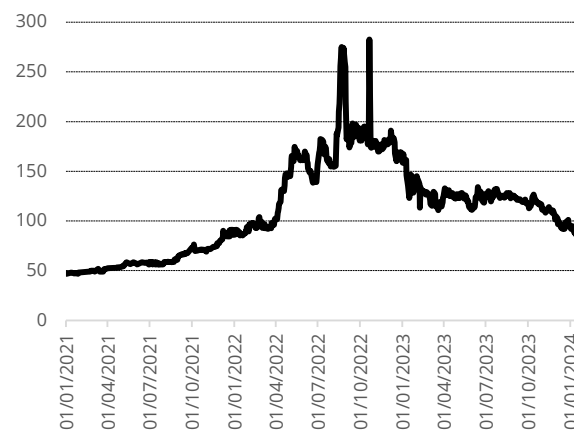
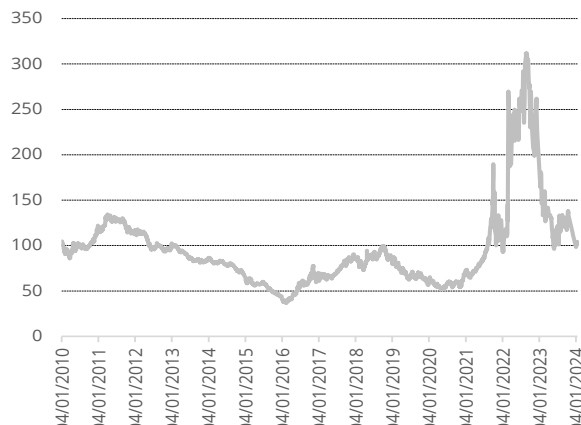


Fig. 19. Carbon Dioxide price [EUR/t] \*



Fig. 20. Thermal coal 2024 contract, ARA [EUR/t]



Source for all graphs: Bloomberg

### Comment: Negative to Nuclear, Renewables and CHPs (Heat).

The price of CO<sub>2</sub> certificate remains in downtrend, down to EUR65/t from EUR90/t several months ago. Additionally, the gas price continues its decline. We believe that we finally observe renewables and gas units idling coal-fired units, not to mention the continued weakness of the European industry. Please note that the above-mentioned trend occurred in the middle of relatively cold winter, where all-fossil fuels' prices should peak.

We are not bullish on the European industry's healthy revival, and the changes at the short-term electricity price curve (**Feb2024 and 2Q2024 contracts falling much more than the annual contracts**) might suggest that the annual contracts have more downside ahead, we conclude.

The Polish **renewable generation should suffer, as EBITDAs, FCFs and valuations of on-shore wind and PV projects are naturally highly exposed to the realized electricity price**. Moreover, investors should keep in mind that renewable installations are obliged to pay balancing fees etc., hence the effective realized price commonly settles 10-15% below market price. Finally, renewables usually cannot hedge in annual contracts, as profile changes make these use quarterly contracts instead, and the Polish quarterly contracts have fallen to PLN387-420/MWh range.

### **[-] NIK control shows Polsat's TV ad share close to 50% among State-controlled entities**

*[published within Santander's Daily on January 17, 2024]*

Yesterday the Polish NIK presented the results of investigation of nine unnamed State-controlled entities' spending on TV advertisements, and its breakdown among the key TVs. While TVP remained the dominant in years 2018-2021 (scope of the analysis), as of 2019 the share of TV Polsat in these spending settled at ~45% per annum.

**Comment: Potentially Negative.** We have no detailed info on the trends in 2022 and 2023, and the report did include only nine State-controlled companies' TV ads, while the total impact of the ruling party extended to much more entities, we believe.

We can observe that Polsat's share in TV ads stood substantially above Polsat's average viewership share, coming supportive of its past media segment results. If the trends from 2019-21 were maintained, or potentially magnified prior to the Parliamentary elections, we could claim that the government change might come in negative to Polsat's future EBITDA and FCF in its media segment.

### **[-] NN pension fund reduced its stake to 4.99% (votes)**

*[published within Santander's Daily on January 08, 2024]*

Last Friday after close NN PTE pension fund informed it reduced its number of Cyfrowy Polsat shares to 40.84mn, reducing its share in total votes to 4.99% from 5.01% previously. The fund's stake fell to 6.39% (shares) from 6.41% previously.

## Valuation

In our valuation process we use DCF, DDM and comparable valuation methodologies. DCF remains our preferred valuation approach, as it relies more on the company's long-term outlook. As changes in financial results or changes in investors' preferences drive the comparable valuation and management decisions may alter DDM valuation outcomes, we see these as supportive to the DCF. Hence, we use DCF as the primary valuation tool (50% weight), with DDM and comparable valuation having 25% weight each. We present our core DCF valuation, but we also adjust it for the impact of several potential scenarios in the next 12 months, so it is only a guide. Both the valuation impact and likelihood of these events rely on our own estimates. Naturally, our scenarios are not exhaustive, and other events might affect Cyfrowy Polsat's valuation.

### DCF valuation

In this report we maintain our short-term 2023-25E RFR at 6.0%, and long-term assumptions at 5.0%. These imply 2023-25E WACC at 11.5%, falling to 10.6% as of 2026E.

**Fig. 21. Cyfrowy Polsat: WACC calculation**

	Years 2023-25E	Years 2026E onwards
Risk-free rate	6.0%	5.0%
Unlevered beta	1.05	1.05
Levered beta	1.78	1.78
Equity risk premium	6.0%	6.0%
<b>Cost of equity</b>	<b>16.7%</b>	<b>15.7%</b>
Risk-free rate	6.0%	5.0%
Debt risk premium	0.8%	0.8%
Tax rate	19.0%	19.0%
After tax cost of debt	5.5%	4.7%
%D	46.1%	46.1%
%E	53.9%	53.9%
<b>WACC</b>	<b>11.5%</b>	<b>10.6%</b>

Source: Santander Brokerage Poland estimates

**Fig. 22. Cyfrowy Polsat: DCF valuation – telco&media business**

PLNmn	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
<b>Revenues</b>	<b>13,065</b>	<b>12,944</b>	<b>13,346</b>	<b>13,811</b>	<b>14,301</b>	<b>14,816</b>	<b>15,362</b>	<b>15,933</b>	<b>16,530</b>	<b>17,154</b>
EBIT	1,309	691	809	983	1,117	1,318	1,511	1,659	1,883	2,095
Cash taxes on EBIT	-262	-138	-162	-197	-223	-264	-302	-332	-377	-419
<b>NOPAT</b>	<b>1,047</b>	<b>553</b>	<b>647</b>	<b>787</b>	<b>894</b>	<b>1,054</b>	<b>1,209</b>	<b>1,327</b>	<b>1,506</b>	<b>1,676</b>
Depreciation	1,891	2,063	2,015	1,967	1,919	1,871	1,823	1,775	1,727	1,679
Change in operating WC	-658	304	58	-135	-85	-92	-100	-108	-117	-126
<b>Capital expenditure **</b>	<b>-3,263</b>	<b>-1,191</b>	<b>-1,221</b>	<b>-2,076</b>	<b>-1,221</b>	<b>-1,257</b>	<b>-1,952</b>	<b>-1,335</b>	<b>-1,665</b>	<b>-1,421</b>
<b>Free cash flow</b>	<b>-983</b>	<b>1,729</b>	<b>1,500</b>	<b>542</b>	<b>1,507</b>	<b>1,576</b>	<b>980</b>	<b>1,659</b>	<b>1,451</b>	<b>1,808</b>
WACC	11.5%	11.5%	11.5%	10.6%	10.6%	10.6%	10.6%	10.6%	10.6%	10.6%
PV FCF 2023-2032E	6,094									
Terminal growth	2.5%									
Terminal Value (TV)	17,648									
PV TV	6,971									
Total EV	13,065									
Net debt*	-6,811									
Cost of spectrum renewal**	-880									
Equity value	5,374									
Number of shares (mn)	640									
Value per share (PLN, Jan 2023)	9.8									
<b>Target Price (Dec2024, PLN)</b>	<b>10.4</b>									

Source: Santander Brokerage Poland estimates, \* based on 2022 net debt, adjusted for Asseco Poland's value of disposed and retained shares, own Treasury shares and real estate's PLN1bn valuation, \*\* includes acquisitions and spectrum purchases

Below we discuss potential scenarios and how likely we think they are, which we then attempt to value and average the results into our DCF.

**Fig. 23. Cyfrowy Polsat: Our analysis of possible scenarios and upside/downside risks, their likelihood and per share impact**

	Likelihood [own assessment]	Per share impact [PLN]	Probability- weighted share impact [PLN]	Likelihood [own assessment]	Per share impact, previous report [PLN]	Probability- weighted share impact, previous report [PLN]
<b>Corporate actions</b>						
Netia's FiberCo	20%	1.6	0.3	20%	1.6	0.3
Asseco PI takeover	0%	0.0	0.0	0%	0.0	0.0
New acquisition	0%	2.7	0.0	0%	2.7	0.0
<b>Media</b>						
Advertising tax	5%	-3.5	-0.2	5%	-3.5	-0.2
Lex-TVN	0%	7.3	0.0	0%	7.3	0.0
TVP's ad ban	0%	7.6	0.0	5%	7.6	0.4
<b>Services</b>						
Iliad's new offer*	0%	-5.9	0.0	5%	-5.9	-0.3
Viaplay	0%	-1.8	0.0	0%	6.6	0.0
<b>Energy</b>						
Nuclear	5%	-1.8	-0.1	5%	-1.8	-0.1
Off-shore	0%	3.2	0.0	0%	3.2	0.0
Distribution	0%	6.4	0.0	0%	6.4	0.0
Renewables	100%	2.7	2.7	100%	3.6	3.6
<b>Total</b>			<b>2.8</b>			<b>3.8</b>

Source: Santander Brokerage Poland estimates, \* seen as risk of new price-competitive offers, likely bundled with content offer and Iliad's inroads into OTT segment; \*\* previous report as of November 30, 2023

We believe the scenario analysis presented above may allow investors to make their own educated judgment (based on likelihood or per-share impact, or both) on the potential valuation of Cyfrowy Polsat, while we note that our list is certainly not exhaustive.

## DDM valuation

**Fig. 24. Cyfrowy Polsat: DDM valuation [based on telco/media segment alone]**

PLNm	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Net profit	186	-318	8	287	414	612	774	904	1,114	1,322
Payout	0%	0%	0%	0%	0%	155%	105%	83%	71%	57%
Dividend paid *	0	0	0	0	0	640	640	640	640	640
Cost of equity	16.2%									
<b>Equity value per share [PLN]</b>	<b>10.9</b>									

Source: Santander Brokerage Poland estimates, \* not adjusted for Treasury shares

Last year, the key CPS's shareholder surprised investors, approving 2022 DPS at PLN1.2, 20% above official minimum threshold and management proposal. Cyfrowy Polsat's official dividend policy remains at minimum PLN1 a share per annum until 2024E, but we cautiously assume the company will put its dividend payments on hold for the next three years. We assume the first dividend payment could be made once the company's net debt-to-EBITDA ratio falls again below 3.0x, and we see CPS's DPS at PLN1.0 as of 2028E.

## Comparable valuation

In our comparable valuation approach, we stick to comparisons against telco, media and broadcasting peers, with energy segment's 9% weight (up from 6% previously, equaling the segment's share in 2023-25E Group EBITDA).

**Fig. 25. Cyfrowy Polsat: Comparable valuation**

Company	P/E			EV/EBITDA			P/CE		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
<b>Mobile telephony</b>									
Vodafone Group	10.1	8.5	7.4	4.2	4.1	4.0	2.0	2.1	2.0
Verizon	8.6	8.8	8.6	6.7	6.5	6.2	4.6	4.6	4.5
AT&T	7.0	7.7	7.4	6.1	5.8	5.5	3.3	3.4	3.4
Rogers Comm.	13.7	12.5	11.2	8.8	7.6	7.1	5.2	4.6	4.4
Orange PI	12.8	12.0	10.9	5.5	4.6	4.6	4.1	3.6	3.7
Turkcell	9.4	6.1	5.2	4.6	3.2	2.8	5.2	3.4	2.8
Telenor	23.3	15.4	14.1	7.1	7.0	6.9	5.0	6.0	5.8
<b>Median</b>	<b>9.9</b>	<b>9.0</b>	<b>8.2</b>	<b>5.0</b>	<b>4.8</b>	<b>4.5</b>	<b>2.9</b>	<b>2.8</b>	<b>2.7</b>
<b>DTH</b>									
Comcast Corp	10.5	9.7	8.9	6.8	6.6	6.5	5.4	5.3	5.2
Shaw Comm.s	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
SKY Network Television	7.8	7.1	6.7	2.4	2.1	1.9	3.0	2.8	2.7
<b>Median</b>	<b>9.1</b>	<b>8.4</b>	<b>7.8</b>	<b>4.6</b>	<b>4.4</b>	<b>4.2</b>	<b>4.2</b>	<b>4.1</b>	<b>4.0</b>
<b>TV Broadcasting</b>									
ITV	7.2	7.3	6.6	5.7	5.4	4.6	5.6	6.0	5.6
ProSiebenSat.1 Media	5.9	5.6	4.9	5.8	5.6	5.0	2.6	3.3	3.0
Television Francaise	8.7	8.1	7.6	2.6	2.1	1.8	4.1	3.7	3.5
Modern Times Group	13.4	11.4	10.6	5.3	4.9	4.2	6.8	6.4	6.1
Metropole Television	n.a.	n.a.	n.a.	3.8	3.5	3.3	2.5	2.3	2.3
RTL Group	7.4	8.0	7.9	3.4	3.6	3.5	5.5	5.6	5.8
<b>Median</b>	<b>8.1</b>	<b>8.1</b>	<b>7.8</b>	<b>5.3</b>	<b>4.9</b>	<b>4.2</b>	<b>5.5</b>	<b>5.6</b>	<b>5.6</b>
<b>Energy</b>									
<b>Median*</b>	<b>18.7</b>	<b>15.6</b>	<b>15.6</b>	<b>11.1</b>	<b>9.3</b>	<b>8.1</b>	<b>8.4</b>	<b>7.5</b>	<b>6.2</b>

Source: Bloomberg consensus estimates, share prices as of February 20, 2024

\* Energy segment's median calculated based on ratios for companies: Innergex, Orsted, Alerion, China Datang, Terna Energy, Greenvolt, ERG, Bolarex, Encavis, Volitalia, China Longyouan, Concord, EDP Renovaveis, Falck, SunPower, LONGI, Solaria, Geenergy, First Solar

With rising importance of the renewable segment, we have increased its share in comparable valuation to 9% from 5% previously. We have trimmed other segments' weights proportionately. Additionally, as depreciation should remain on the steep rise (due to the same renewable segment), we have introduced additional ratio (P/CE) into our comparative valuation approach.

**Fig. 26. Cyfrowy Polsat: Comparable valuation**

		P/E	EV/EBITDA	P/CE	Weighted valuation
	Weight	2023E-25E	2023E-25E	2023E-25E	
Telecommunication	63%	-0.5	10.3	11.3	<b>8.9</b>
DTH	9%	-0.5	5.5	12.8	<b>5.7</b>
TV broadcasting	9%	-0.5	7.5	17.5	<b>7.8</b>
Energy	9%	-0.7	30.6	23.2	<b>24.8</b>
<b>Blended</b>		<b>-0.5</b>	<b>11.5</b>	<b>13.1</b>	<b>9.9</b>

Source: Bloomberg consensus estimates, Santander Brokerage Poland estimates, share prices as of February 20, 2024, blended valuation weights: 15% P/E, 15% P/CE, 70% EV/EBITDA

## Valuation summary

**Fig. 27. Cyfrowy Polsat: Valuation changes\*\***

PLN per share	New	Previous	Change
DCF core valuation	10.4	12.6	-17%
Scenarios***	2.8	3.8	-27%
<b>Total DCF valuation</b>	<b>13.2</b>	<b>16.4</b>	<b>-19%</b>
DDM valuation	10.9	12.0	-9%
Comparable valuation (based on 2023-2025E)	11.4	12.4	-8%
<b>Blended valuation *</b>	<b>12.2</b>	<b>14.3</b>	<b>-15%</b>

Source: Santander Brokerage Poland estimates, \* 50% DCF / 25% DDM / 25% comparable, \*\* rounded figures, \*\*\* summarized in Fig. 23

## Forecast changes

**Fig. 28. Cyfrowy Polsat: Forecast changes**

PLNmn	2023E			2024E			2025E		
	New	Previous	Change	New	Previous	Change	New	Previous	Change
Sales	13,637	13,397	1.8%	14,413	14,447	-0.2%	14,988	15,076	-0.6%
EBITDA	3,210	3,393	-5.4%	2,948	3,531	-16.5%	3,232	3,794	-14.8%
EBIT	1,299	1,519	-14.5%	802	1,512	-46.9%	1,110	1,798	-38.2%
Net profit	186	369	-49.5%	-318	273	-216.5%	8	588	-98.7%

Source: Santander Brokerage Poland estimates

**Fig. 29. Cyfrowy Polsat: Santander forecasts vs. market consensus**

PLNmn	2023E			2024E			2025E		
	SANe	Cons.	Diff.	SANe	Cons.	Diff.	SANe	Cons.	Diff.
Sales	13,637	13,535	1%	14,413	14,231	1%	14,988	15,019	0%
EBITDA	3,210	3,228	-1%	2,948	3,320	-11%	3,232	3,727	-13%
EBIT	1,299	1,414	-8%	802	1,517	-47%	1,110	1,985	-44%
Net profit	186	193	-3%	-318	252	-226%	8	650	-99%

Source: Bloomberg, Santander Brokerage Poland estimates

## Financials

**Fig. 30. Cyfrowy Polsat: Profit & Loss account, 2018-25E (under IFRS16 as of 2019)**

PLNmn (year to December)	2018	2019	2020	2021	2022	2023E	2024E	2025E
Operating revenues (old businesses)	10,686	11,676	11,963	12,444	12,915	13,065	12,944	13,346
Operating revenues (energy)	0	0	0	0	0	572	1,468	1,641
<b>Revenues</b>	<b>10,686</b>	<b>11,676</b>	<b>11,963</b>	<b>12,444</b>	<b>12,915</b>	<b>13,637</b>	<b>14,413</b>	<b>14,988</b>
Costs, energy segment	0	0	0	0	0	-562	-1,275	-1,233
Costs of sales	-2,449	-2,311	-2,461	-2,850	-3,235	-3,328	-3,537	-3,692
Operating expenses	-4,559	-5,214	-5,307	-5,552	-6,326	-6,722	-6,689	-6,866
Other operating income/(expense)	20	46	-3	3,613	117	185	36	36
<b>EBITDA</b>	<b>3,698</b>	<b>4,197</b>	<b>4,192</b>	<b>7,655</b>	<b>3,471</b>	<b>3,210</b>	<b>2,948</b>	<b>3,232</b>
Impairment of fixed assets	0	0	0	0	0	0	0	0
Depreciation and amortization	-2,142	-2,230	-2,305	-1,903	-1,829	-1,911	-2,145	-2,122
<b>Operating Income</b>	<b>1,555</b>	<b>1,967</b>	<b>1,887</b>	<b>5,752</b>	<b>1,642</b>	<b>1,299</b>	<b>802</b>	<b>1,110</b>
Net financial income (expense)	-420	-493	-446	-206	-626	-1,158	-1,230	-1,083
Result attr. to JV / minority / dividends			2	75	95	80	36	40
<b>Income before taxes</b>	<b>1,134</b>	<b>1,467</b>	<b>1,443</b>	<b>5,621</b>	<b>1,110</b>	<b>221</b>	<b>-391</b>	<b>67</b>
Income taxes	-490	-353	-296	-1,286	-209	-44	78	-13
<b>Net profit</b>	<b>644</b>	<b>1,114</b>	<b>1,147</b>	<b>4,336</b>	<b>901</b>	<b>177</b>	<b>-313</b>	<b>54</b>
Minorities	-40	5	5	3	1	10	-5	-46
<b>Net Profit after minorities</b>	<b>604</b>	<b>1,119</b>	<b>1,151</b>	<b>4,339</b>	<b>902</b>	<b>186</b>	<b>-318</b>	<b>8</b>
<i>Gross profit margin</i>	<i>77.1%</i>	<i>80.2%</i>	<i>79.4%</i>	<i>77.1%</i>	<i>75.0%</i>	<i>75.6%</i>	<i>75.5%</i>	<i>75.4%</i>
<i>EBITDA margin</i>	<i>34.6%</i>	<i>35.9%</i>	<i>35.0%</i>	<i>61.5%</i>	<i>26.9%</i>	<i>23.5%</i>	<i>20.5%</i>	<i>21.6%</i>
<i>EBIT margin</i>	<i>14.6%</i>	<i>16.8%</i>	<i>15.8%</i>	<i>46.2%</i>	<i>12.7%</i>	<i>9.5%</i>	<i>5.6%</i>	<i>7.4%</i>
<i>Net profit margin</i>	<i>6.0%</i>	<i>9.5%</i>	<i>9.6%</i>	<i>34.8%</i>	<i>7.0%</i>	<i>1.3%</i>	<i>-2.2%</i>	<i>0.4%</i>
<b>Changes y/y</b>								
Operating revenues	8.7%	9.3%	2.5%	4.0%	3.8%	5.6%	5.7%	4.0%
Cost of sales & Operating expenses	12.4%	7.4%	3.2%	8.2%	13.8%	5.0%	1.8%	3.2%
EBITDA	2.2%	13.5%	-0.1%	82.6%	-54.7%	-7.5%	-8.2%	9.7%
Operating Income	-15.2%	26.5%	-4.1%	204.9%	-71.4%	-20.9%	-38.2%	38.4%
Net profit	-31.8%	72.9%	2.9%	278.1%	-79.2%	-80.4%	n.m.	n.m.

Source: Company data, Santander Brokerage Poland estimates



**Fig. 31. Cyfrowy Polsat: Per Share Ratios, Market Ratios, 2018-25E**

	2018	2019	2020	2021	2022	2023E	2024E	2025E
EPS	0.9	1.7	1.8	6.8	1.4	0.3	-0.5	0.0
CEPS	4.3	5.2	5.4	9.8	4.3	3.3	2.9	3.3
BVPS	20.7	21.6	22.6	24.1	23.9	24.1	23.6	23.6
<b>DPS</b>	<b>0.0</b>	<b>0.9</b>	<b>1.0</b>	<b>1.2</b>	<b>1.2</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Net debt* [PLNmn]	10,728	12,198	12,810	7,807	9,793	12,373	13,025	13,090
<b>Net debt/EBITDA*</b>	<b>2.9</b>	<b>2.9</b>	<b>3.1</b>	<b>1.0</b>	<b>2.8</b>	<b>3.9</b>	<b>4.4</b>	<b>4.0</b>
Net Debt to Total Capital	44%	46%	47%	34%	38%	44%	45%	45%
<b>P/E</b>	<b>25.1</b>	<b>15.4</b>	<b>14.9</b>	<b>4.7</b>	<b>16.0</b>	<b>22.1</b>	<b>30.0</b>	<b>13.9</b>
<b>P/CE</b>	<b>5.5</b>	<b>5.2</b>	<b>5.0</b>	<b>3.3</b>	<b>5.3</b>	<b>3.6</b>	<b>3.6</b>	<b>3.2</b>
<b>EV/EBITDA</b>	<b>7.2</b>	<b>7.2</b>	<b>6.8</b>	<b>3.2</b>	<b>5.7</b>	<b>5.1</b>	<b>5.0</b>	<b>4.6</b>
<b>EV/EBIT</b>	<b>17.1</b>	<b>15.3</b>	<b>15.9</b>	<b>4.2</b>	<b>11.6</b>	<b>11.0</b>	<b>11.4</b>	<b>9.5</b>

Source: Company data, Santander Brokerage Poland estimates, all ratios for years 2018-22 calculated on respective annual share price averages, \* does not include minorities, Asseco Poland's remaining stake or Treasury shares

**Fig. 32. Cyfrowy Polsat: Balance Sheet, 2018-25E (under IFRS16 as of 2019)**

PLNmn (year to December)	2018	2019	2020	2021	2022	2023E	2024E	2025E
<b>Non-Current Assets</b>	<b>23,825</b>	<b>25,274</b>	<b>27,605</b>	<b>27,838</b>	<b>25,775</b>	<b>27,624</b>	<b>28,419</b>	<b>28,566</b>
Intangible Assets	18,898	18,623	18,079	17,869	16,863	18,649	17,809	16,929
Property, plant and equipment and Investment property	3,192	5,057	5,240	5,684	3,883	4,427	6,062	7,089
Right-of-use assets	0	0	1,420	1,519	527	527	527	527
Long-term financial assets and lease assets	1,537	1,335	2,625	2,542	4,402	3,910	3,910	3,910
Deferred tax assets	197	260	241	223	100	111	111	111
<b>Current Assets</b>	<b>3,932</b>	<b>5,423</b>	<b>4,985</b>	<b>5,277</b>	<b>6,531</b>	<b>8,208</b>	<b>7,273</b>	<b>7,297</b>
Inventories	284	394	307	299	1,162	1,172	971	819
Trade and other receivables	1,983	2,370	2,512	2,390	2,751	2,928	2,846	3,086
Current tax receivable	493	1,480	1,413	1,222	1,672	1,607	1,607	1,607
Cash and cash equivalents	1,172	1,179	753	1,366	946	2,502	1,850	1,785
<b>Total assets</b>	<b>27,756</b>	<b>30,697</b>	<b>32,590</b>	<b>33,115</b>	<b>32,307</b>	<b>35,833</b>	<b>35,692</b>	<b>35,863</b>
<b>Equity</b>	<b>12,074</b>	<b>13,227</b>	<b>13,811</b>	<b>14,433</b>	<b>15,270</b>	<b>15,445</b>	<b>15,127</b>	<b>15,135</b>
Ordinary shares	26	26	26	26	26	26	26	26
Treasury shares	0	0	0	0	-2,853	-2,853	-2,853	-2,853
Share premium	0	0	0	0	0	1	1	1
Retained earnings, funds and reserves	12,049	13,201	13,786	14,407	18,097	18,271	17,953	17,961
<b>Non-controlling interests</b>	<b>43</b>	<b>648</b>	<b>653</b>	<b>-7</b>	<b>541</b>	<b>545</b>	<b>742</b>	<b>804</b>
<b>Non-Current Liabilities</b>	<b>11,724</b>	<b>11,803</b>	<b>12,257</b>	<b>13,414</b>	<b>10,180</b>	<b>13,201</b>	<b>13,201</b>	<b>13,201</b>
Long-term financial debts	10,286	9,597	10,610	11,988	8,871	12,000	12,000	12,000
Deferred tax liabilities	880	1,160	1,025	902	979	915	915	915
Non-current provisions for liabilities and charges	114	698	385	388	331	286	286	286
Non-current other liabilities	444	348	237	137	0	0	0	0
<b>Current Liabilities</b>	<b>3,916</b>	<b>5,019</b>	<b>5,868</b>	<b>5,274</b>	<b>6,315</b>	<b>6,642</b>	<b>6,621</b>	<b>6,723</b>
Short-term financial debt	1,394	1,662	2,341	2,188	1,867	2,875	2,875	2,875
Trade and Other payables	1,727	2,382	2,421	2,155	3,767	3,057	3,036	3,138
Income tax liability	61	151	277	129	74	81	81	81
Provisions for liabilities and charges	733	823	830	802	607	629	629	629
<b>Total Equity and Liabilities</b>	<b>27,756</b>	<b>30,697</b>	<b>32,590</b>	<b>33,115</b>	<b>32,307</b>	<b>35,833</b>	<b>35,692</b>	<b>35,863</b>

Source: Company data, Santander Brokerage Poland estimates

**Fig. 33. Cyfrowy Polsat: Cash Flow Statement, 2018-25E (under IFRS16 as of 2019)**

<b>PLNmn (year to December)</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
Profit before tax	910	604	1,119	1,151	902	186	-318	8
Non-cash adjustments for:	0	0	0	0	0	0	0	0
Depreciation	1,783	2,142	2,230	2,305	1,829	1,911	2,145	2,122
Other	294	40	0	0	0	0	0	0
Operating cash flow before working capital changes	3,419	3,165	3,793	3,859	3,296	2,097	1,827	2,130
Working capital adjustments:	-293	270	-16	-137	368	-896	262	13
Cash flows from operating activities	3,126	3,435	3,777	3,722	3,664	1,201	2,090	2,142
Income tax paid	-216	-477	-344	-288	-209	-44	78	-13
Net cash flow from operating activities	2,941	2,965	3,434	3,434	3,455	1,157	2,168	2,129
Purchase of property, plant, equipment, intangibles	-927	-1,070	-1,824	-2,411	-2,764	-5,018	-2,443	-1,907
Proceeds from sales of non-current assets	19	3	0	0	0	0	0	0
Net cash used in investing activities	-1,573	-3,295	-3,456	-2,514	-4,829	-4,550	-2,443	-1,907
Borrowings, net	-1,259	-492	1,692	1,225	-714	4,137	0	0
Acquisition of treasury shares	0	0	0	0	-394	0	0	0
Other financials / spectrum fees								
Dividends paid	-205	0	-595	-224	-661	0	0	0
Net cash used in financing activities	-1,528	-478	679	990	-1,848	3,940	-378	-287
Net increase/(decrease) in cash and cash equivalents	-160	-808	656	1,910	-3,222	547	-653	-65
Cash and cash equivalents at beginning of year	1,088	1,163	886	1,164	1,596	3,273	2,368	2,054
Cash and cash equivalents at the year end	1,174	339	939	1,769	2,006	2,502	1,850	1,785

Source: Company data, Santander Brokerage Poland estimates

# Santander Brokerage Poland

Jana Pawła II Avenue 17  
00-854 Warszawa  
fax. (+48) 22 586 81 09

## Equity Research

Kamil Stolarski, PhD, CFA, <i>Head of Equity Research Banks, Insurers, Strategy</i>	tel. (+48) 22 586 81 00	kamil.stolarski@santander.pl
Paweł Puchalski, CFA, <i>Equity Analyst Telecommunications, Metals &amp; Mining, Power</i>	tel. (+48) 22 586 80 95	pawel.puchalski@santander.pl
Tomasz Krukowski, CFA, <i>Equity Analyst Oil&amp;Gas, Pharma &amp; Biotech, CEE Non-Financials</i>	tel. (+48) 22 586 81 55	tomasz.krukowski@santander.pl
Adrian Kyrzcz, <i>Equity Analyst Construction, Real Estate, IT</i>	tel. (+48) 22 586 81 59	adrian.kyrzcz@santander.pl
Tomasz Sokołowski, <i>Equity Analyst Consumer, E-commerce</i>	tel. (+48) 22 586 82 36	tomasz.sokolowski@santander.pl
Michał Sopieli, <i>Equity Analyst Industrials, Chemicals, Quantitative Analysis</i>	tel. (+48) 22 586 82 33	michal.sopiel@santander.pl
Piotr Zielonka, CFA, <i>Equity Analyst Gaming, Strategy</i>	tel. (+48) 22 534 16 10	piotr.zielonka@santander.pl
Marcin Działek, <i>Analyst Technical Analysis</i>	tel. (+48) 22 782 93 09	marcin.dzialek@santander.pl

## Sales & Trading

<b>Kamil Kalemba, <i>Head of Institutional Equities</i></b>	tel. (+48) 22 586 80 84	kamil.kalemba@santander.pl
Mateusz Choromański, CFA, <i>Head of Sales Securities Broker, Investment Advisor</i>	tel. (+48) 22 586 80 82	mateusz.choromanski@santander.pl
Alex Kamiński	tel. (+48) 22 586 80 63	alex.kaminski@santander.pl
Błażej Leśków, <i>Securities Broker</i>	tel. (+48) 22 586 80 83	blazej.leskow@santander.pl
Michał Stępkowski, <i>Securities Broker</i>	tel. (+48) 22 586 85 15	michal.stepkowski@santander.pl
Marek Wardzyński, <i>Securities Broker</i>	tel. (+48) 22 586 80 87	marek.wardzynski@santander.pl
Adam Mizera, ACCA, CFA, <i>Securities Broker</i>	tel. (+48) 22 586 85 14	adam.mizera@santander.pl

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**The discounted cash flows (DCF) valuation method** is based on expected future discounted cash flows. One advantage of the DCF valuation method is that it takes into account all cash streams reaching Issuer and the cost of money over time. Some disadvantages of the DCF valuation method are that a large number of parameters and assumptions need to be estimated; and the valuation is sensitive to changes in those parameters.

**The comparative valuation method** is based on the economic rule of "one price". Some advantages of the comparative valuation method are that the analyst need only estimate a small number of parameters; the valuation is based on current market conditions; the relatively large accessibility of indicators for companies being compared; and that there is an extensive knowledge of the comparative method among investors. Some disadvantages of valuation by the comparative method are the considerable sensitivity of the results of the valuation on the choice of companies to the comparative group; the method can lead to a simplification of the picture of the company which in turn can lead to omitting certain important factors (e.g. growth dynamics, extra-operational assets, corporate governance, the repeatability of results, differences in applied accounting standards); and the uncertainty of the effectiveness of a market valuation of companies being compared.

**The mid-cycle multiple valuation** is based on long-term average valuation multiples of a sector or a peer group. The methodology aims to calculate a fair, through the cycle value of the company. Among its shortfalls is that at peaks and/or troughs of the cycle, the implied fair value may deviate substantially from the market's value of an analysed stock as well as the methods' reliance on the quality of external data (we usually use Bloomberg or Damodaran databases). Simplicity and average through-cycle value allowing to capture over- as well as under-valuation of a given stock are the main advantages of this methodology.

**The dividend discount model (DDM) valuation** is based on the net present value of the future dividends that are expected to be paid out by the company. Some advantages of the DDM valuation method are that it takes into account real cash flows to equity-owners and that the methodology is used in respect to companies with long dividend payout history. Main disadvantage of the DDM valuation method is that dividend payouts are based on a large number of parameters and assumptions, including dividend payout ratio.

**Residual income method** is conceptually close to the discounted cash flows method (DCF) for non-financial stocks, the difference being that it is based on expected residual income (returns over COE) rather than expected future cash flows. One advantage of this valuation method is that it captures the excess of profit potentially available to shareholders and the cost of money over time. Main disadvantage of the valuation method is that a large number of parameters and assumptions need to be estimated; and the valuation is sensitive to changes in those parameters.

**The warranted equity method (WEV)** is based on the formula  $P/BV = (\text{two year forward ROE less sustainable growth rate}) / (\text{Cost of equity less sustainable growth rate})$  which allows estimating a fair value (FV) of a given stock in two years' time. Subsequently the FV is discounted back to today. The main advantage of the WEV method is that it is a transparent one and based on relatively short term forecasts, hence substantially reducing the margin of forecasting error. The main disadvantage in our view is that the model is based on the principle that stock price should converge towards its fair value implied by company's ROE and COE.

**SOTP valuation** - different assets of a company are being valued according to different valuation methods, and the sum of these valuations represents the final valuation of the company. SOTP valuation advantages / disadvantages are identical to advantages and disadvantages of the specific valuation methods used.

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