

Agora *summary of initial report*

buy

media, entertainment

Current price: 12,0
Target price: 20,5

Direction of subscription and entertainment

Agora can be partially called a media company, as nearly 50% of its revenues come from the advertising market. The rest of the revenue is generated by diversified service and entertainment activities. The majority of advertising revenues are generated from outdoor advertising and from the Internet, while the press segment is increasingly transferred to the subscription model. Entertainment is currently mainly provided by cinemas, but a strong segment of family entertainment centers is to be created in the future. Agora also provides services in the field of media and film as well as IT technology. The restaurant segment, already functioning but relatively small, is supposed to grow and to become one of the pillars of the group.

Press in the subscription

In terms of the contribution to the profits of the company, the press ceased to have a bigger impact. However, this does not mean its end, as the model of this business is undergoing change. The number of digital subscriptions is fast approaching 200,000, while the number of paper copies sold has already dropped below 100,000. The new model is still in the "promotion" phase, which makes revenue per subscriber unsatisfactory. However, gradual changes in the habits of readers can be observed. In the era of mobility, habits are influenced by services of a similar model, such as, for example, products provided by Netflix or Spotify.

Entertainment and gastronomy

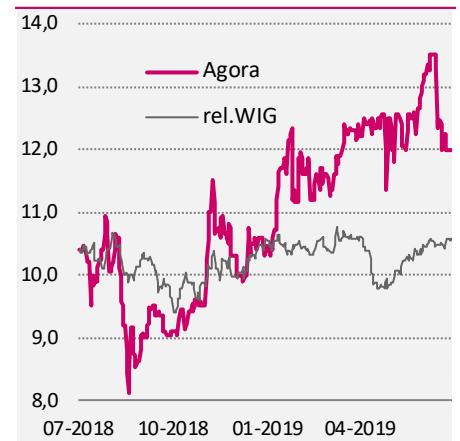
Profits of the Agora Group are currently generated from the cinema business, outdoor advertising and internet portals. The implemented strategy assumes the organic growth of cinemas, the transition to the subscription model in the press and a sizeable development of gastronomic business, so that it would become a separate and significant business segment. In addition, a completely new idea undertaken is to develop family entertainment centers. The movement already carried out is a significant increase in the role of the radio segment, as the company has the option to expand it with the execution date in the middle of 2022.

Eurozet

The possibilities of taking a strong position in an interesting market segment in one move are rare. This turned out to realize for Agora Group in the moment of Eurozet acquisition (owner of Radio Zet). Presently, Agora has bought a minority stake, but with the option to buy the remaining part. This move was not foreseen in the strategy and due to the amount of required capital (in total about 330/350 million by 2023), it has an impact on the possibilities to achieve other goals of the company.

Financing of the Agora's strategy

The strategy assumes to release of approximately PLN 930 million for development, of which PLN 450 million is to be financed with debt. However, the debt will have been taken gradually over several years. In relation to the current EBITDA, such level of indebtedness would be difficult to accept, but in relation to the forecast results this is the case, as the maximum net debt / EBITDA ratio should not exceed 2.5.



Max/min 52 weeks (PLN)	8.10 / 13.5		
Shares issued (m)	46,6		
Market cap. (m PLN)	571		
EV (m PLN)	784		
Free float (m PLN)	284		
Average turnover (mln PLN)	0,3		
Main shareholder	Agora-Holding sp. z o.o.		
% of shares, % of votes	11.6%, 35.36%		
	1 m	3 m	12 m
Price change	-3,2%	0,7%	20,1%
Change rel. WIG	-5,5%	0,4%	18,4%

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	Revenues	EBIT	EBITDA	Profit before tax	Net profit	EPS	CEPS	BVPS	P/E	P/BV	DY (%)	EV /EBIT	EV /EBITDA	ROE (%)
2018	1141,2	34,5	122,1	55,3	5,1	0,11	1,99	20,9	112,1	0,6	4,1%	22,7	6,4	0,5%
2019f	1198,7	41,8	126,0	30,3	19,7	0,42	2,23	21,3	28,9	0,6	4,1%	18,7	6,2	2,0%
2020f	1266,9	50,1	135,0	36,7	24,6	0,53	2,35	21,7	23,2	0,6	4,1%	15,6	5,8	2,5%
2021f	1352,9	62,4	148,7	51,7	36,4	0,78	2,63	22,4	15,7	0,5	4,1%	12,6	5,3	3,6%

f - MillenniumDM consolidated forecasts, mPLN

Risk factors

Macroeconomic:

- Almost half of the Agora Group's revenues comes from the advertising market, which value changes strongly in line with economic fluctuations. In case of market weakening, the Agora Group's result may deteriorate significantly.

Acquisitions:

- Agora in the adopted strategy declares taking over entities in both well-known and new areas. Such activities are always associated with a high risk of failure and may result in unproportioned results compared to the funds invested.
- The strategy adopted for 2018-2022 assumes an increase in debt, which will be associated with a higher financial risk.

Press area:

- The basic title issued by Agora is Gazeta Wyborcza. The profile of the newspaper is assessed as opposed to the political option ruling in Poland, which is reflected in poor relations with the institutions subordinate to the central authorities (i.a. press orders).
- The press market has been under pressure of declining readership for many years. The company tries to oppose this by changing the model to the digital distribution of a premium content. However, the digital economy is subject to dynamic changes, and therefore there is a risk that Agora's development strategy will float away from the direction in which customers' technologies and preferences will follow.

Cinema area:

- The company's large share in the cinema market in Poland and the growing saturation of this market creates a risk for further growth. The possibility of competition intensifying may also result in the emergence of competitive objects. New competitive schemes may decrease the audience in Agora owned facilities, what would threaten the current level of profitability.
- Film productions, in which the company acts as a producer or co-producer, are associated with the risk of failure of one-off significant projects. Operations in this market due to its characteristics (premieres irregularity) increase the volatility of profits, which makes it difficult to assess the company's financial situation.

Radio area:

- The radio activity is licensed, which entails the risk of not renewing the concession.
- The company purchased a 40% stake in Eurozet, which is the owner of Radio Zet, the second in terms of listening station in Poland. The company has a purchase option for the remaining 60%. The current, minority level of involvement does not require the consent of both UOKiK (concentration) and KRRiT (concession), but the option will be exercised. This transaction has aroused great emotions (political) which may make it difficult to execute the purchase option.

Internet area:

- EU directive ACTA 2 introduces more protection of content on the Internet, imposing, among others, the obligation to verify that the content is legal. The Agora Group, as a content provider, is primarily a beneficiary of these provisions, however, in the part of business which is the Internet portals, new obligations will be imposed on it and the associated risk of penalties will arise. In addition, the Agora Group develops B2B tools for entities operating on the market, which may be subject to changes under the influence of new regulations, and whose effects are difficult to predict at the moment. The directive was enacted in the European Parliament in March 2019 and member countries have two years to adapt their national legislation. In practice, the effects of the directive will start to be more visible in mid-2021.

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EV - market valuation of the company + net interest debt
EBIT - operating profit
EBITDA - operating profit + depreciation
P/CE - ratio of the share price to net profit per share plus depreciation per share
P/E - ratio of the share price to the net profit per share
P/BV - ratio of the share price to the book value per share
ROE - return on equity
ROA - return on assets
EPS - net profit per share
CEPS - net profit and depreciation per share
BVPS - book value per share
DPS - dividend per share

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BUY - we believe that the company's shares have more than 20% upside potential
ACCUMULATE - we believe that the company's shares have more than 10% upside potential
NEUTRAL/ALLY - we believe that the price of the company's shares will remain stable (+/- 10%)
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Comparable companies method (comparison of relevant market indicators, where a company with a similar ratios for other companies in the same industry or related industries is listed) - better than the DCF method reflects the perception of the industry in which the company operates, by investors. The disadvantage of the comparable companies method is the sensitivity to the selection of the adopted comparative group and the indicators being compared, as well as the high variability of the valuation depending on the market situation.

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Recommendations for Agora S.A from Millennium DM S.A. for last 12 m

Company	Recommendation	Date of the recommendation	Market price on the day the recommendation issue	Target price
-	-	-	-	-

Structure of Millennium DM recommendation for the last 12 months

	Number of recommendations	Share
Buy	1	100%
Accumulate	0	
Neutral	0	
Reduce	0	
Sell	0	