Industry Capital Research

Comment October 6, 2021

Entravision Communications Corporation (EVC)

No Big Surprises In Virtual Conference Remarks

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We hit the highlights of EVC's comments on October 6 at the Deutsche Bank Leveraged Finance Conference. CFO Chris Young presented for the company.

Although auto advertising continues to lag in the back half of year, other advertising categories have more than made up for what EVC has lost in auto advertising. We note that the company said with 2Q results that auto advertising was pacing down 4% for the TV segment in 3Q, below the overall core TV advertising pace of up 13%.

Management would not be surprised if 2022 political advertising set a midterm record. There could be unusually competitive races for perhaps half a dozen House seats in California, where EVC has a number of TV and radio stations. We note, however, that EVC will not benefit in 2022 from political advertising on Univision affiliates in two key Florida markets—Orlando and Tampa—as their Univision affiliations expire at the end of this year, and we estimate that the markets affected by affiliation changes generated roughly $3m in political advertising in the 2018 midterms.

Reflecting persistence of pandemic cost cuts, operating cash flow margin outlook looks if anything above our forecasts for broadcast, and in line for digital media. Management spoke of TV OCF margins being in the low-mid 40s in percent in political off years, pushing toward 50% in political years, and radio OCF margins to be stepping up strongly to low-mid 30s in percent for the foreseeable future. The expectation is for digital media margins to expand over time to the high single digits from the mid single digits in percent as revenue scales.

Barring acquisitions, net EBITDA leverage is heading to 0x. This highlights what we have in our model, namely, that forecast free cash flow should be more than sufficient to cover expected earnout payments for the acquisitions of Cisneros Interactive and MediaDonuts over the next few years. Under terms of EVC's bank credit agreement, which caps the cash applied to determine net debt leverage at $75m, net leverage at 6/30 was 1.75x, and management believes that keeping net leverage below 3x is prudent.

M&A focus remains on digital media, with few TV assets on the market and EVC not particularly bullish about the radio assets that are. The company is working on a couple digital deals currently, although it said that their outcome is not clear.

Our 12-month price target for EVC is $10.00; risks on p.2. Our PT is supported by a discounted cash flow valuation based on explicit financial forecasts through 2026. Our view could change based on 1) outlook for emerging markets digital media, 2) core growth or profitability of U.S. broadcast media, and 3) capital allocation.

BUY

Price at 10/6/21 (USD)			7.38
Price Target			10.00
52-week range			1.59 - 8.11
Performance (%)	1m	3m	12m
Absolute	-1	9	375
S&P 500	-3	0	30
Market Cap (USDm)			636.5
Shares outstanding (m)			86.2
Float (%)			72
Average volume			690,162
S&P 500			4,363.6

Forecasts and ratios

Year ended 12/31	2020A	2021E	2022E
1Q EPS (USD)	-0.42	0.06	0.02
2Q EPS (USD)	0.03	0.09	0.05
3Q EPS (USD)	0.11	0.11	0.10
4Q EPS (USD)	0.24	0.18	0.32
FY EPS (USD)	-0.05	0.44	0.49
% Change	NE	NM	11%
P/E (x)	NM	16.8	15.2
EV/EBITDA (x)	10.7	9.1	7.8
Revenue (USDm)	344.0	724.6	803.1
% Change	NE	111%	11%

Investment Thesis and Valuation: Buy With $10 Price Target

Positives supporting our Buy rating include: 1) EVC's share price is not fully capturing the potential of digital media acquisitions over the past year because the higher growth with a different business model is more difficult for investors to assess; 2) EVC's lower post-pandemic expense base looks sustainable; 3) apart from the industry-wide pressure on auto advertising because of supply shortages, operating risk at the core U.S. media business should be ebbing based on the cyclical rebound in the U.S. Hispanic economy and secular growth of political advertising; 4) stability of net retransmission fee revenue (61% of 2020 EBITDA) and pro forma net debt leverage under 3x enhance management's longer-term options; and 5) our DCF valuation supports substantial stock price upside over the next 12 months.

Our DCF-based PT is a weighted average of projected equity valuations at year-end 2021 and 2022. First, we adjust the current net debt with the estimated FCF to be generated by each valuation date. Second, we adjust the current net debt for any estimated payments on the acquisitions of MediaDonuts and Cisneros Interactive prior to the respective valuation dates. Finally, for each target valuation date, we discount the free cash flow generated by the digital media and broadcast media businesses separately, while deducting any additional forecast payments on the acquisitions, which are scheduled to occur from early 2022 to 2025. We value EVC both using its own weighted average cost of capital (WACC) and using separate WACCs for its broadcast and digital media business using sector comps, giving primary weight to the latter as sector measures of risk tend to be more stable.

Risks to our investment thesis include: 1) secular challenges and potentially increasing competition from Univision for EVC's broadcast media business, 2) potential volatility of EVC's digital media business, given its increasing focus on emerging markets and its dependence on a small number of relationships with digital ad platforms, 3) potential barriers to sale of all or a portion of the company; and 4) risk of regression to mean in share price performance given shares' substantial appreciation relative to the overall market and sector peers over the past year.

APPENDIX

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The author, Director of Research at Industry Capital Research, is a CFA® charterholder who has 18 years of experience as an analyst at U.S. broker-dealers covering the media sector, was rated #2 Stock Picker in U.S. Media for 2016 by Thomson Reuters, holds a BA (Economics) and MBA from the University of Chicago and a JD from the University of Virginia, and is a member of the Beta Gamma Sigma and Phi Beta Kappa honor societies.

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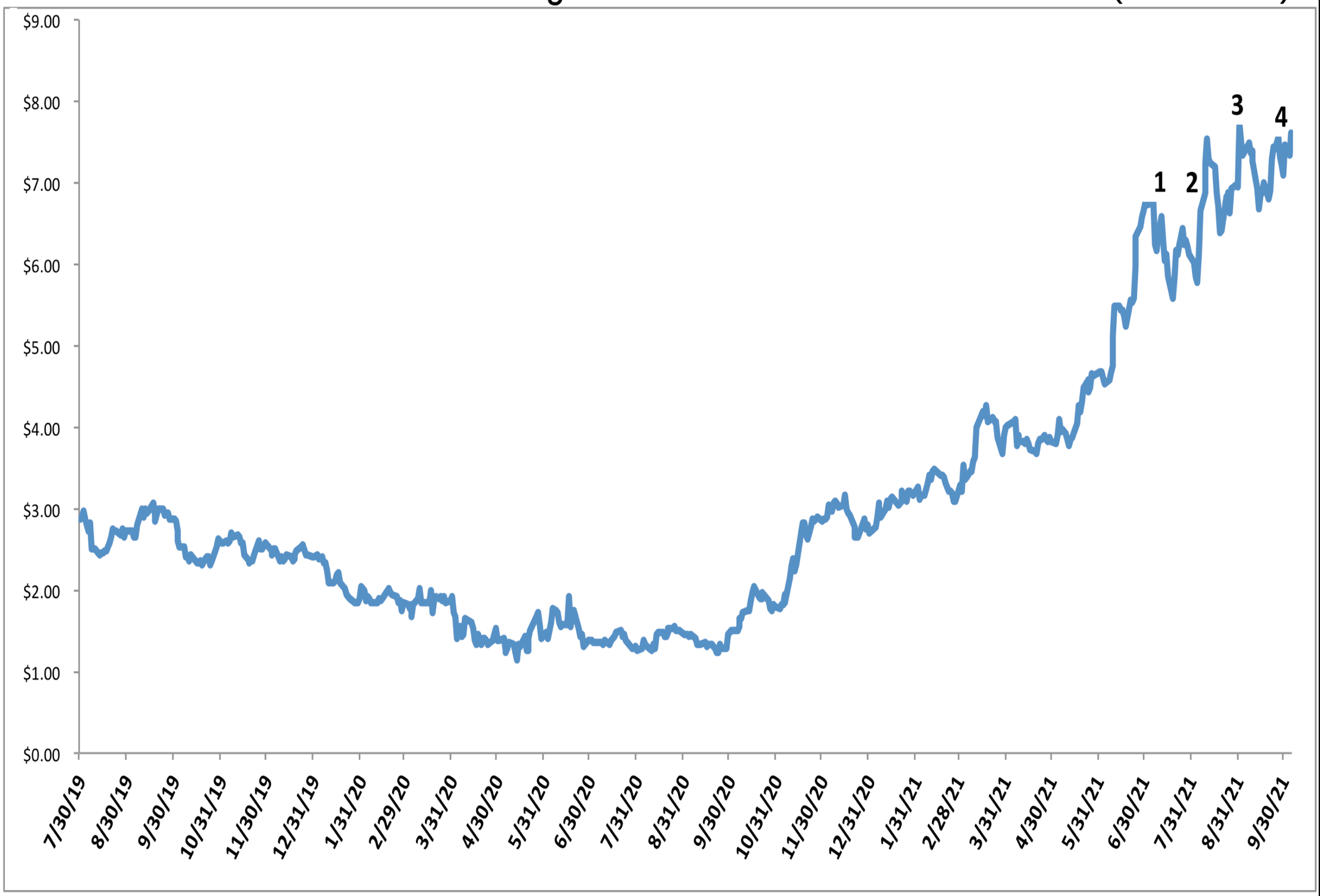
Historical Recommendations and Target Prices: Entravision Communications (ticker: EVC)



1	7/6/21	Initiated Buy, Target Price $9.00
2	8/6/21	Reaffirmed Buy, Target Price $9.00
3	9/2/21	Reaffirmed Buy, Target Price $10.00
4	10/5/21	Reaffirmed Buy, Target Price $10.00

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BUY: total return expected is >15% over a 12-month period	100%	0%
HOLD: total return expected is between 15% and -15% over a 12-month period	0%	0%
SELL: total return expected is <-15% over a 12-month period	0%	0%

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