

# Entravision Communications Corporation (EVC)

Conference Presentation Keeps Laser Focus on Digital Media Opportunity; Buy

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**We hit the highlights of EVC's comments on April 20 at Noble Capital Markets' renewed in-person annual conference.** CFO Chris Young presented for the company.

**One digital nugget volunteered by management is its goal of digital OCF margins of closer to 10% in 12-18 months, a slight acceleration from a similar goal with a 2-year timeline given 3 months ago at a January conference.** This type of progress could result in upside to our current forecast of digital OCF margin of 6.5% in 2022 and 7.3% in 2023. On our 2023 estimates, a 1 point improvement in digital OCF margin would boost our EVC EBITDA estimate by nearly 10%.

**Presentation focused on digital, but Q&A did not, a bit of a missed opportunity by investors, in our view.** That is not to say the Q&A was without value, as answers included disclosure of management's focus on refinancing its current Term Loan B maturing November 2024 to extend the maturity out another 5-7 years, and confirmation that the company has been active with its share repurchase program. However, delving into potential upshot from digital rival Aleph Group's postponed IPO and its heavy Eastern European exposure or MediaDonuts' ability to drive the growth of its digital rep business despite less use of exclusive representation agreements might have been instructive.

**Our model already reflects the likelihood of higher interest rates from a potential debt refinancing, which management flagged.** We assume an interest rate for 2023 in the mid-4% range, up from the ~3% floating rate that EVC pays now on its \$212m in bank debt.

**Recently announced ad representation of Anzu in-game advertising could be a sleeper.** EVC's Cisneros Interactive will exclusively represent Israel-based Anzu in 18 Latin American markets, following in the footsteps of Cisneros' anchor exclusive representations of Meta's ad business in Latin America. Anzu already has a partnership with EVC's 365 Digital in South Africa. Not only is in-game advertising a big revenue opportunity, but Anzu has raised \$37m from some high-profile investors, including WPP, Sony, and NBCUniversal.

**Our 12-month price target is \$8.50; risks on page 2.** Our PT is supported by a DCF valuation based on explicit financial forecasts through 2027.

## BUY

Price at 4/20/22 (USD)	5.66		
Price Target	8.50		
52-week range	3.71 - 9.34		
Performance (%)	1m	3m	12m
Absolute	-10	0	54
S&P 500	0	-1	8

Market Cap (USDm)	507.1		
Shares outstanding (m)	89.6		
Float (%)	73		
Average volume	398,326		
S&P 500	4,459.5		

## Forecasts and ratios

Year ended 12/31	2021A	2022E	2023E
1Q EPS (USD)	0.06	0.04	0.07
2Q EPS (USD)	0.09	0.08	0.10
3Q EPS (USD)	0.14	0.13	0.12
4Q EPS (USD)	0.04	0.14	0.12
FY EPS (USD)	0.33	0.40	0.42
% Change	NM	20%	4%
P/E (x)	17.0	14.1	13.6
EV/EBITDA (x)	7.0	6.4	6.2
Revenue (USDm)	760.2	942.2	1,007.4
% Change	121%	24%	7%

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## Investment Thesis and Valuation: Buy With \$8.50 Price Target

**Positives supporting our Buy rating include:** 1) EVC's share price is not fully capturing the potential of digital media acquisitions in 2020-21 because their higher growth and different business models are 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, and any transitional risks introduced by measures to mitigate Covid-19 variants, 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) relative stability of net retransmission fee revenue (42% of 2021 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 12-month price target is a weighted average of projected equity valuations at year-end 2022 and 2023.** First, we adjust the current net debt with the estimated free cash flow to be generated by each valuation date. Second, we adjust the current net debt for any estimated payments remaining on the acquisitions (e.g., earnouts), which are currently scheduled to occur from early 2022 to 2025. Finally, we value EVC both using a weighted average cost of capital (WACC) reflecting its own stock price trading and using separate WACCs for its broadcast and digital media businesses based on sector comparables, applied to separate free cash flow forecasts for each of these businesses. The results of these two methods set the range for our valuation, with the EVC-specific method incorporating market data on EVC shares' actual volatility setting the upper bound, and the sector method relying on measures of risk of comparables setting the lower bound. Note that in our DCF, for our terminal value estimates, we assume that capex equals D&A, which results in a substantially higher capex estimate than in our financial statement forecasts because capex should be like D&A for a terminal value forecast, to support the need for an asset base in perpetuity.

**Risks to our investment thesis include:** 1) sensitivity of EVC's advertising-based businesses to macroeconomic shocks, 2) potential volatility of EVC's digital media business, given its increasing focus on emerging markets, its dependence on a small number of commercial relationships with media tech platforms, and increasing competition, 3) secular challenges and potentially increasing competition from TelevisaUnivision for EVC's broadcast media business, 4) potential barriers to sale of all or a portion of the company, and 5) 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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## Historical Recommendations and Target Prices: Entravision Communications (ticker: EVC)



1	7/6/21	Initiated Buy @ \$6.76, Target Price \$9.00
2	8/6/21	Reaffirmed Buy @ \$6.15, Target Price \$9.00
3	9/2/21	Reaffirmed Buy @ \$7.75, Target Price \$10.00
4	10/5/21	Reaffirmed Buy @ \$7.60, Target Price \$10.00
5	10/28/21	Reaffirmed Buy @ \$7.85, Target Price \$10.00
6	11/5/21	Reaffirmed Buy @ \$8.83, Target Price \$10.50
7	12/20/21	Reaffirmed Buy @ \$6.40, Target Price \$10.00
8	2/2/22	Reaffirmed Buy @ \$5.87, Target Price \$8.00
9	3/4/22	Reaffirmed Buy @ \$6.42, Target Price \$8.50
10	4/15/22	Reaffirmed Buy @ \$5.53, Target Price \$8.50

### Ratings Definitions

BUY: total return expected is >15% over a 12-month period

HOLD: total return expected is between 15% and -15% over a 12-month period

SELL: total return expected is <-15% over a 12-month period

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