Industry Capital Research

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# Entravision Communications Corporation (EVC)

## Conference Presentation Has Positive Body English; Buy

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**We pull out a few nuggets from EVC's presentation on August 24 after market close at the Midwest IDEAS Conference.** CFO Chris Young presented for the company.

**We see management's comments reflecting favorable body English on current business trends relative to our model.** First, the company volunteered that 2022 consensus EBITDA was $99m, above our $98.0m estimate. Second, the company said that it expected $18-19m of political ad spending this year, an upward tweak from the $17-19m range referenced on the 2Q earnings call at the beginning of the month, and added that it expected political to surpass expectations. We model $18.2m in total political advertising for 2022. Third, although EVC allowed that there could be some choppiness in core ad spending, potentially reflecting macro pressures, it said that politlcal advertising was likely to pick up any resulting slack. This dynamic is in line with the negative core ad growth we assume for TV (even adjusting for affiliation losses at the end of 2021) and radio for 2H, reflecting some political displacement. Fourth, EVC said that radio OCF margins might be above the low-to-mid 30s generally targeted, reflecting political ad spending; we model 32.5% radio OCF margin for 2022. Fifth, the company said that corporate overhead is running at roughly $28m annually, and we are modeling $29.5m in cash corporate expense for 2022.

**We'll keep the $0.20 in our back pocket for now.** During the Q&A, management stated that there were roughly $60m in additional earn-out payments on its digital acquisitions. This is an estimate, and is below the $77.4m in contingent consideration on EVC's 2Q22 balance sheet. We surmise that the difference reflects lower internal forecasts for the cash flows of the remaining years of the earn-outs. In fact, in our valuation update dated 8/11/22, we reduced our out-year OCF growth forecasts for the digital acquisitions. However, we are not raising our price target now to reflect potentially lower earn-out payments, given the modest impact (~$0.20 per share) and the variability of these earn-out estimates.

**Rolling out new markets has been a key contributor to EVC's digital growth, in particular for Smadex this year.** EVC's digital business has two key growth drivers: in-market organic growth and adding new markets. Smadex is benefiting from being sold into new markets as a byproduct of EVC's ad-rep acquisitions, for example by MediaDonuts in Asia. Management said that it expects to announce expansion of its ad representation of Facebook into another market, outside of Latam.

**More clarity on the macro outlook is one factor that EVC's board is weighing in its regular review of the dividend.** In 2020, because of the pandemic, the board cut EVC's dividend in half, where it currently sits at an annual rate of $0.10 per share.

**Maintain our $7.50 price target; risks on page 2.** Our PT is supported by a DCF valuation based on explicit financial forecasts through 2027.

**BUY**

| | | | |
|---|---|---|---|
| Price at 8/24/22 (USD) | | | 5.52 |
| Price Target | | | 7.50 |
| 52-week range | | | 4.21 - 9.34 |
| Performance (%) | 1m | 3m | 12m |
| Absolute | 8 | 15 | -19 |
| S&P 500 | 4 | 5 | -8 |
| Market Cap (USDm) | | | 482.5 |
| Shares outstanding (m) | | | 87.4 |
| Float (%) | | | 73 |
| Average volume | | | 243,193 |
| S&P 500 | | | 4,140.8 |

**Forecasts and ratios**

| Year ended 12/31 | 2021A | 2022E | 2023E |
|---|---|---|---|
| 1Q EPS (USD) | 0.06 | 0.02 | 0.12 |
| 2Q EPS (USD) | 0.09 | 0.10 | 0.16 |
| 3Q EPS (USD) | 0.14 | 0.14 | 0.14 |
| 4Q EPS (USD) | 0.04 | 0.16 | 0.03 |
| FY EPS (USD) | 0.33 | 0.41 | 0.44 |
| % Change | NM | 24% | 7% |
| P/E (x) | 16.5 | 13.3 | 12.4 |
| EV/EBITDA (x) | 6.2 | 5.8 | 5.5 |
| Revenue (USDm) | 760.2 | 906.2 | 965.4 |
| % Change | 121% | 19% | 7% |

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## Investment Thesis and Valuation: Buy With $7.50 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; with U.S. GDP down in 1Q and 2Q, our PT assumes a 50% chance of a recession in 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, such as a recession, 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-off market sentiment as an overhang for valuation of EVC's fast-growing, less mature digital advertising businesses.

# APPENDIX

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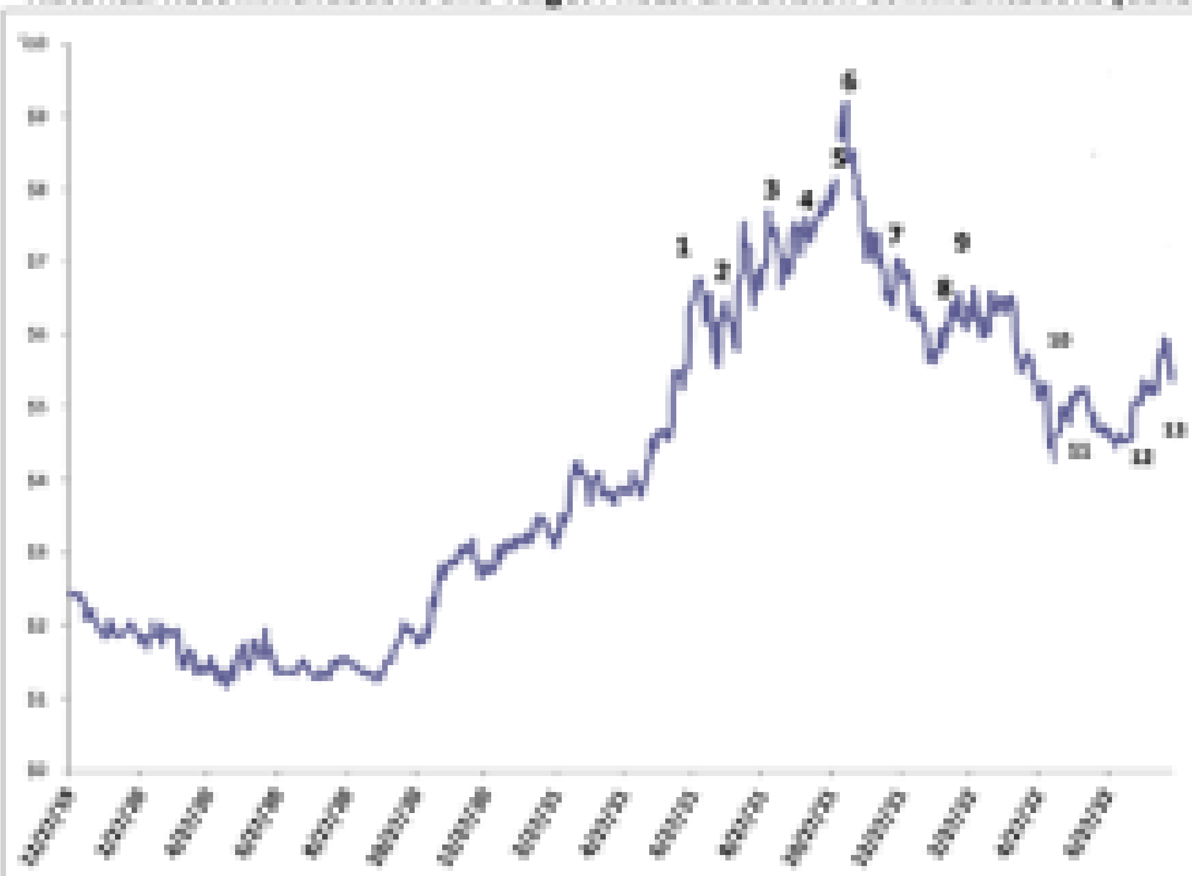
**Historical Recommendations and Target Prices: Entravision Communications (ticker: EVC)**



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| 1 | [illegible] | Initiated Buy @ [illegible], Target Price [illegible] |
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