Industry Capital Research

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Entravision Communications Corporation (EVC)

Generally Positive Implications from Conference, Cisneros and Aleph Updates; Buy

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Political ad spending is strong and Cisneros deal rework helps clear the decks for possible expansion, while Aleph IPO looks like an iffy catalyst. We give some thoughts on EVC's 9/20 conference presentation by CFO Chris Young, EVC's revised Cisneros Interactive deal disclosed in a 9/16 filing, and potential implications of the updated SEC filing of Aleph Group on 8/30.

Based on EVC's presentation, we remain comfortable with our 2022 EBITDA estimate of $98m. While national advertising for the broadcast segment is "choppy," political advertising is picking up the slack. Management said it now believes that total political advertising could exceed $20m for the year, up from the $18-19m expectation given at a conference less than a month ago. Management indicated that current consensus EBITDA of $99m for 2022 looked reasonable.

Management also said that digital deals in the pipeline could be handled with EVC's current liquidity. Any individual deals would most likely be in the $10-30m range.

Revised Cisneros Interactive deal disclosed on Friday helps secure key management for further expansion, with little impact on pro forma net debt. Net net, EVC reduces the contingent consideration for completing the buyout of the 49% minority interest, by agreeing to make a $21.7m payment now, with some incremental payments based on performance scheduled for 2023 and 2024. One of Cisneros' founders will exit, with a non-compete for Latin America running through the end of 2024, and Cisneros will also relinquish its EVC board representation. At EVC's presentation, management said that the company was in conversations with FB about expanding EVC's digital representation beyond Latam, and we believe the revised Cisneros deal should help secure the management needed for any such expansion.

Aleph's updated SEC Form F-1 filed on 8/30 could be a prelude to a 4Q IPO bid, although the timing still looks tough. Recall that we see Aleph as a potential new benchmark for the digital media representation sector and Aleph was reportedly looking to go public toward the beginning of the year, but the IPO window effectively closed. Shares of EVC and the 5 public comparables we reference for its digital business—FB, MELI, PERI, PUBM, and SFOR.L—are down 41% this year while the S&P 500 is down 19%. Thus, although Aleph's growth in 1H22 appears to have been generally on track with our expectations (see our prior report dated 2/22/22), we see current market conditions as problematic, at least for accessing the public equity markets at a favorable valuation. We note that in 1H22 Aleph generated ~1/4 of its revenue from three Eastern European countries—Slovenia, Latvia and Estonia—down from ~1/3 in 2021. The main driver of this diversification was Aleph's M&A in MENA/Africa, whose share of revenue grew to ~16% in 1H22 from less than 1% in 2021.

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 9/20/22 (USD)			4.56
Price Target			7.50
52-week range			4.21 - 9.34
Performance (%)	1m	3m	12m
Absolute	-21	-3	-33
S&P 500	-9	2	-12
Market Cap (USDm)			398.6
Shares outstanding (m)			87.4
Float (%)			73
Average volume			231,850
S&P 500			3,855.9

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)	13.6	11.0	10.3
EV/EBITDA (x)	5.2	4.9	4.7
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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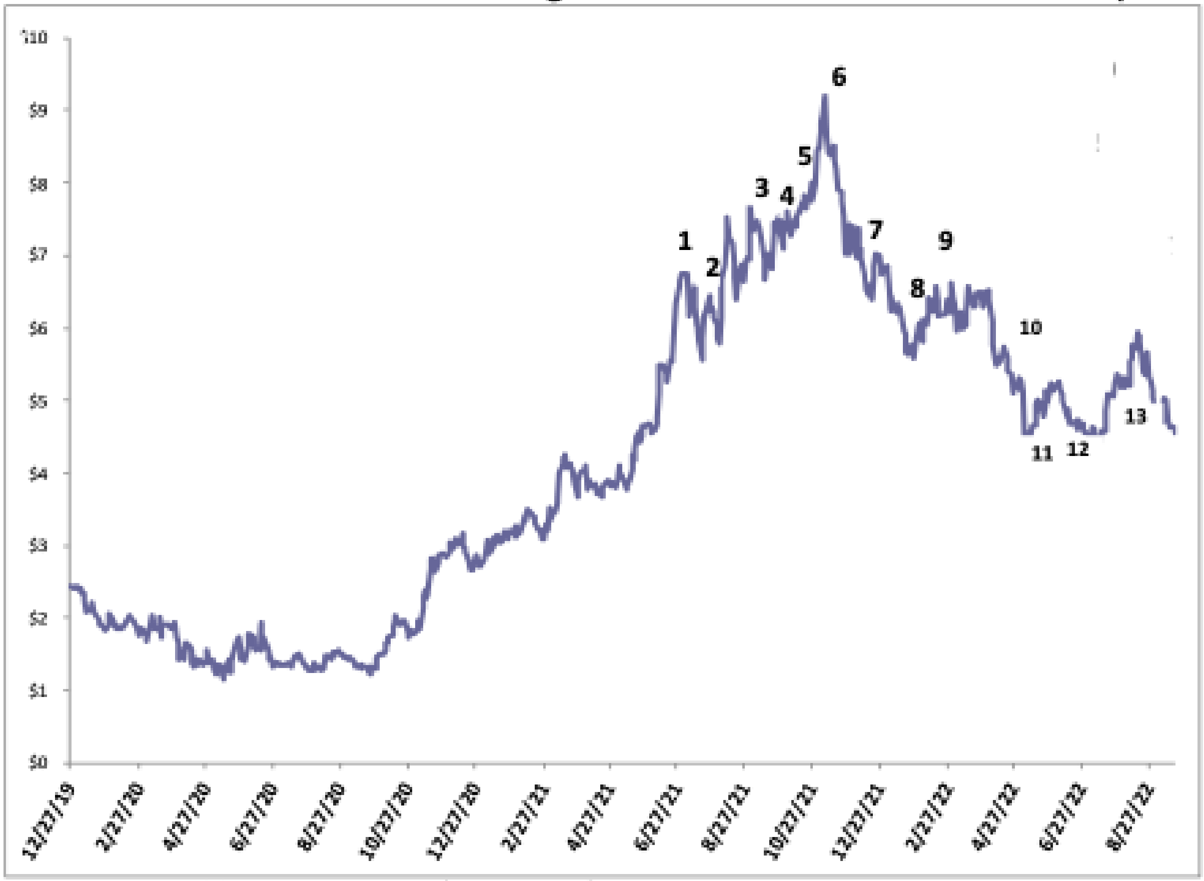
Historical Recommendations and Target Prices: Entravision Communications (ticker: EVC)



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
11	5/6/22	Reaffirmed Buy @ $5.14, Target Price $8.00
12	6/9/22	Reaffirmed Buy @ $5.16, Target Price $8.00
13	8/25/22	Reaffirmed Buy @ $5.52, Target Price $7.50

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

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