Entravision Communications Corporation (EVC)

Conference Comments Reveal Silver Linings For Some Holiday Spirit; Reaffirm Buy

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We give some takeaways from, and gloss on, EVC's presentation on November 16 at the Midwest IDEAS Conference. CFO Chris Young presented for the company.

Political is the gift that keeps on giving: EVC said that total 2022 political ad revenue has come in at $31.5m, above the $30.0m given on the 3Q call and in our current forecast, adding to our confidence in our above-consensus 2022 EBITDA estimate. EVC offered that consensus EBITDA for 2022 is just over $100m, versus our $104m estimate. Moreover, the huge size of the pre-election displacement by political ads could be boosting post-election core advertising growth more than usual. EVC said that, for a more apples-to-apples comparison, four years ago, its total 2018 political ad revenue would have been a mere $8m, pro forma for the loss of Univision affiliations at the end of 2021, pointing to the seismic shift upward in political spending on U.S. Hispanic media.

One silver lining of FB's travails is that they may shift more business to EVC. As FB's staff shrinks globally—with recently announced layoffs of over 10% of its workforce—EVC sees FB as likely to depend more on key third parties, such as EVC's digital media representation unit. Moreover, the revenue growth EVC is delivering in Latin America, +11% in 3Q, shows that its operations are weathering the macro issues FB has identified as a drag on its business (FB's ad revenue in rest-of-world was just +3% in 3Q). EVC said it continues to like the growth trajectory of its Latam business. We do continue to model overall digital segment operating cash flow margins cautiously, essentially unchanged in 2022 and 2023 vs. 2021.

Capital markets flux, a weight on EVC's share price, may also have a silver lining. First, management noted that the pandemic helped shake loose some of the digital acquisitions that have been critical to its transformation. We think macro uncertainties now could help push more deals through the pipeline. Second, despite its updated SEC filings in October, there is still no word on any IPO by Aleph Group, EVC's primary competitor in the digital media representation business. Thus, EVC remains the only public company home for potential sellers.

At the end of this quarter, EVC's TV segment cycles the revenue hit from the Univision affiliation losses at end of 2021. The balance of EVC's TV affiliations look set until at least the end of the current master affiliation agreement in 2026, the renewal of which management said it would probably start negotiating in 2024.

Reaffirm our $7.00 price target; risks on page 2. Our PT is supported by a DCF valuation based on explicit financial forecasts through 2027.

BUY

Price at 11/16/22 (USD)			5.38
Price Target			7.00
52-week range			3.96 - 8.27
Performance (%)	1m	3m	12m
Absolute	23	-10	-35
S&P 500	8	-8	-16
Market Cap (USDm)			472.3
Shares outstanding (m)			87.8
Float (%)			73
Average volume			192,089
S&P 500			3,958.8

Forecasts and ratios

Year ended 12/31	2021A	2022E	2023E
1Q EPS (USD)	0.06	0.02	0.06
2Q EPS (USD)	0.09	0.10	0.11
3Q EPS (USD)	0.14	0.11	0.12
4Q EPS (USD)	0.04	0.23	0.09
FY EPS (USD)	0.33	0.45	0.38
% Change	NM	35%	-15%
P/E (x)	16.1	11.9	14.1
EV/EBITDA (x)	6.2	5.4	5.8
Revenue (USDm)	760.2	939.6	1,063.7
% Change	121%	24%	13%

Investment Thesis and Valuation: Buy With $7.00 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; our updated PT assumes a 50% chance of a recession in 2023, resulting in a target valuation range of $6.25-$7.75. 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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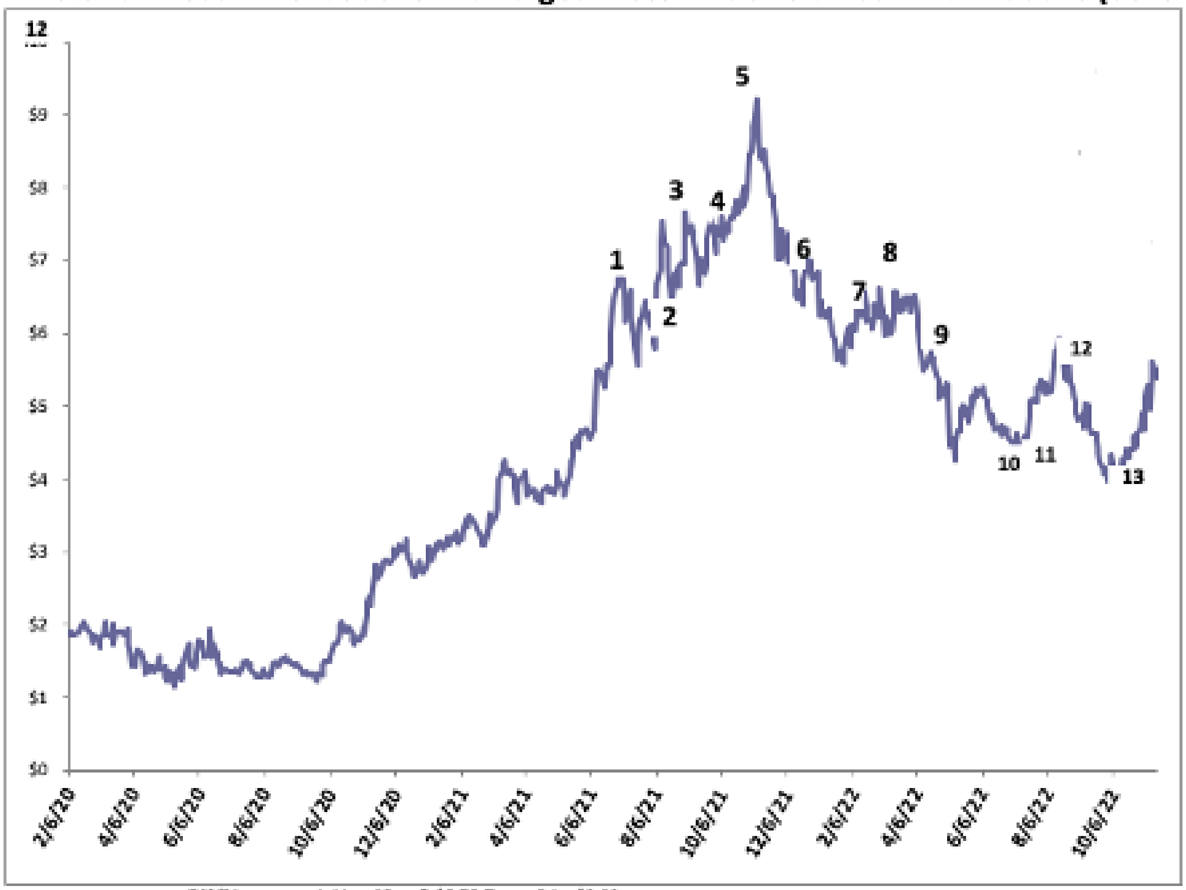
Historical Recommendations and Target Prices: Entravision Communications (ticker: EVC)



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	11/5/21	Reaffirmed Buy @ $8.83, Target Price $10.50
6	12/20/21	Reaffirmed Buy @ $6.40, Target Price $10.00
7	2/3/22	Reaffirmed Buy @ $5.87, Target Price $8.00
8	3/4/22	Reaffirmed Buy @ $6.42, Target Price $8.50
9	4/15/22	Reaffirmed Buy @ $5.53, Target Price $8.50
10	5/6/22	Reaffirmed Buy @ $5.14, Target Price $8.00
11	6/9/22	Reaffirmed Buy @ $5.16, Target Price $8.00
12	8/25/22	Reaffirmed Buy @ $5.52, Target Price $7.50
13	10/31/22	Reaffirmed Buy @ $4.65, Target Price $7.00

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

The target prices of shares mentioned in the accompanying text are based on the assumed investment horizon of 12 months. If company notes are published on these shares in the future, the target prices mentioned in the subsequent notes will have priority.

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