Industry Capital Research

Comment December 9, 2022

Entravision Communications Corporation (EVC)

Per Conference Comments, Demand Trends Positive and M&A Pipeline on Track; Reaffirm Buy

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We give a few takeaways from EVC's virtual presentation on December 8 at the Singular conference. CFO Chris Young presented for the company.

Since the U.S. elections demand has picked up for November and December, and company is poised to have a "great year." As we suggested might happen in a November comment, commercial advertisers displaced by the unusually high political ad spending on EVC's U.S. broadcast properties are coming back with higher-than-expected advertising spending after the elections. EVC said that it felt good about consensus EBITDA for 2022 of over $100m, and we remain comfortable with our $104m estimate.

M&A remains a potential catalyst, although pricing could delay deal accretion. Management said that it was looking at several digital deals, each in the $10-20m range. Noting that EVC shares traded at ~5x cash flow, management said that acquisition multiples might be initially higher, but could be accretive within 2-3 years of acquisition.

Stock buybacks have slipped to second priority, but boosting dividend over the next year remains under consideration. Extra hurdles of negative market perception and tax consequences weigh on stock buybacks as a use of cash. Key inputs to moving the dividend—currently at a ~2% yield—back to pre-covid levels are EVC's operating performance and the macro environment.

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. Lower interest rates over the past month give a ~$0.50 boost to our valuation range, but we see the odds of a 2023 recession impact on EVC's business—which we continue to assume at 50%—as still a more dominant driver of valuation.

BUY			
Price at 12/8/22 (USD)			5.27
Price Target			7.00
52-week range			3.96 - 7.39
Performance (%)	1m	3m	12m
Absolute	6	12	-29
S&P 500	6	-1	-16
Market Cap (USDm)			462.7
Shares outstanding (m)			87.8
Float (%)			73
Average volume			187,974
S&P 500			3,963.5
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)	15.7	11.7	13.8
EV/EBITDA (x)	6.1	5.3	5.7
Revenue (USDm)	760.2	939.6	1,063.7
% Change	121%	24%	13%

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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 2x 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 $7-$8. 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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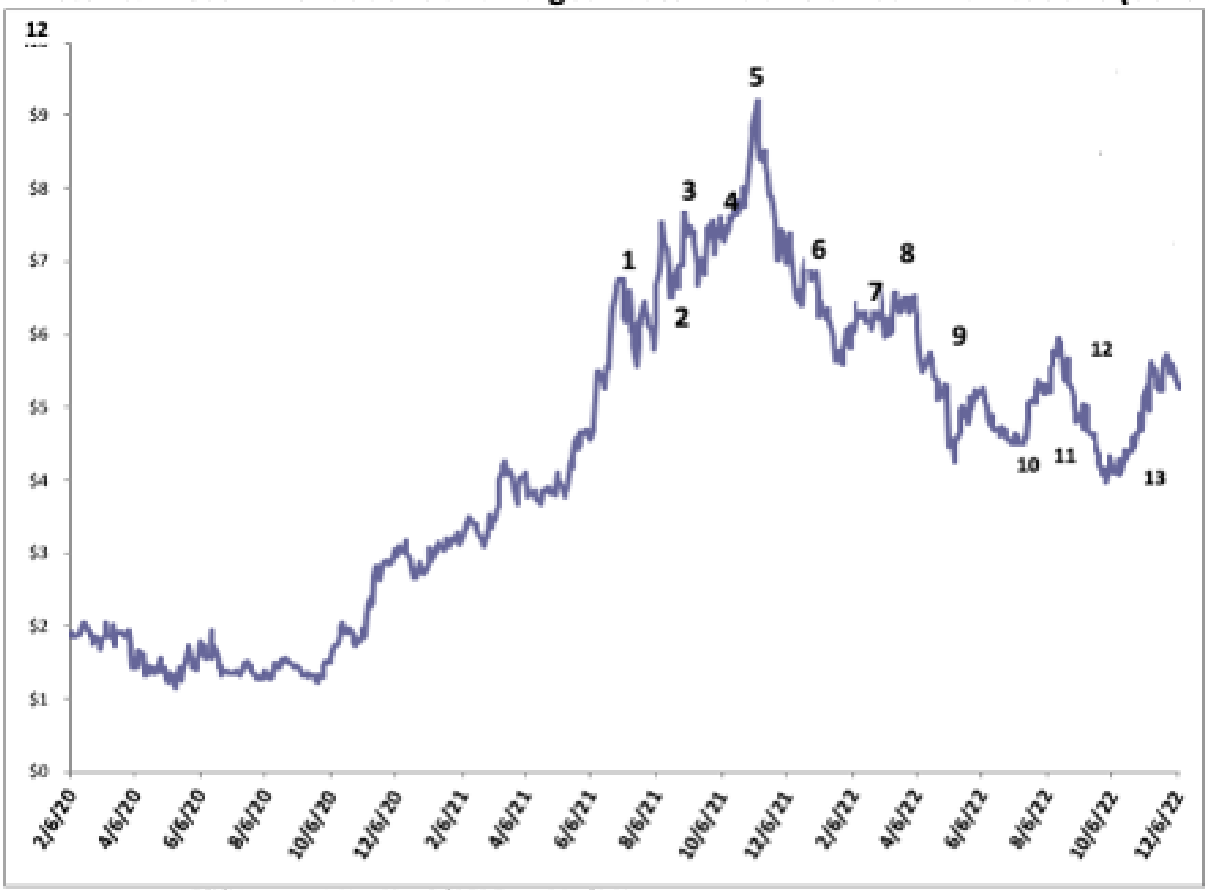
Historical Recommendations and Target Prices: Entravision Communications (ticker: EVC)



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	2/2/22	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

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