Industry Capital Research

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Entravision Communications Corporation (EVC)

CEO's Passing Unlikely to Affect EVC's Near-Term Plans, But Could Widen Scope of Eventual Strategic Options; Buy

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On Tuesday before market open, EVC disclosed the unexpected passing of CEO Walter Ulloa. CFO Christopher Young has been named interim CEO while EVC's board conducts a search for a full-time replacement for the CEO role and Paul Zevnik named interim Chairman of the Board.

We do not expect a near-term change in EVC's strategy or execution. Appointment of the CFO as interim CEO serves to reinforce the company's previously stated plans. The CFO has worked closely with the CEO in devising and executing on EVC's digital acquisitions, and has been in the CFO role since 2008, giving him great familiarity with the company's personnel and operations. Thus, in particular, we expect EVC to continue to: 1) pursue strategic acquisitions of digital media properties, likely of modest size (~$10-20m each, per comments at a December conference); 2) maintain low net leverage (0.5x EBITDA at 9/30/22), both as a bulwark against a possible recession and as a strategic tool; and 3) run the U.S. broadcast segments with a view to maintaining their healthy operating cash flow margins (for 2022, we estimate 44.7% for TV and 34.3% for radio) and high company conversion of EBITDA to free cash flow (for 2022, we estimate 68%).

Management succession has been a long-standing risk to our investment thesis, which we have noted consistently. Mr. Ulloa was 74, and yet EVC had no pre-arranged management succession plan. We estimate that the process of putting in place a CEO successor could be complete at some point in 2Q, although this timing is frankly uncertain at this early stage.

Mr. Ulloa's death triggers conversion of Class B to Class A shares, so that the largest block of voting power would now be under 20%, by our estimates. Per the 2022 annual proxy statement, Mr. Ulloa owned directly or indirectly 1.3m shares of Class A stock and 11.5m shares of super-voting Class B stock (mostly through a family trust), and thus had 59.4% of total voting power of EVC's shares. Without a controlling shareholder, the board will effectively have more discretion to shape strategy. Some constraints will remain, however, in particular, as long as TelevisaUnivision owns its Class U shares, it has the right to veto the merger of EVC with another company, among other actions.

Although we do not expect recent events to catalyze a major transaction such as sale of the company, we believe this does become more likely at some point. Mr. Ulloa seemed committed to actively managing EVC and guiding its transformation to a more digital and international media company, a transformation that is already well underway. As a result, he evinced little interest in pursuing a sale or merger of the company. A new CEO would not provide this same combination of involvement in and voting control over EVC's strategy and maintenance of its independence.

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

BUY

Price at 1/3/22 (USD)			4.81
Price Target			7.00
52-week range			3.96 - 6.80
Performance (%)	1m	3m	12m
Absolute	-12	16	-30
S&P 500	-6	4	-20
Market Cap (USDm)			422.3
Shares outstanding (m)			87.8
Float (%)			73
Average volume			188,311
S&P 500			3,824.1

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)	14.4	10.7	12.6
EV/EBITDA (x)	5.6	4.9	5.3
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 persisting supply shortages, and any transitional risks introduced by measures to mitigate Covid-19 variants, operating risk at the core U.S. media business continue to ebb 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) impact of upcoming management succession and change in voting control on company's strategy and pursuit of potential longer-term options, including sale of all or a portion of the company, 2) sensitivity of EVC's advertising-based businesses to macroeconomic shocks, such as a recession, 3) 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, 4) secular challenges and potentially increasing competition from TelevisaUnivision for EVC's broadcast media business, and 5) risk-off market sentiment as an overhang for valuation of EVC's fast-growing, less mature digital advertising businesses.

APPENDIX

Additional information relative to securities, other financial products or issuers discussed in this report is available upon request.

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The author, Director of Research at Industry Capital Research, is a CFA® charterholder who has 18 years of experience as an analyst at U.S. broker-dealers covering the media sector, was rated #2 Stock Picker in U.S. Media for 2016 by Thomson Reuters, holds a BA (Economics) and MBA from the University of Chicago and a JD from the University of Virginia, and is a member of the Beta Gamma Sigma and Phi Beta Kappa honor societies.

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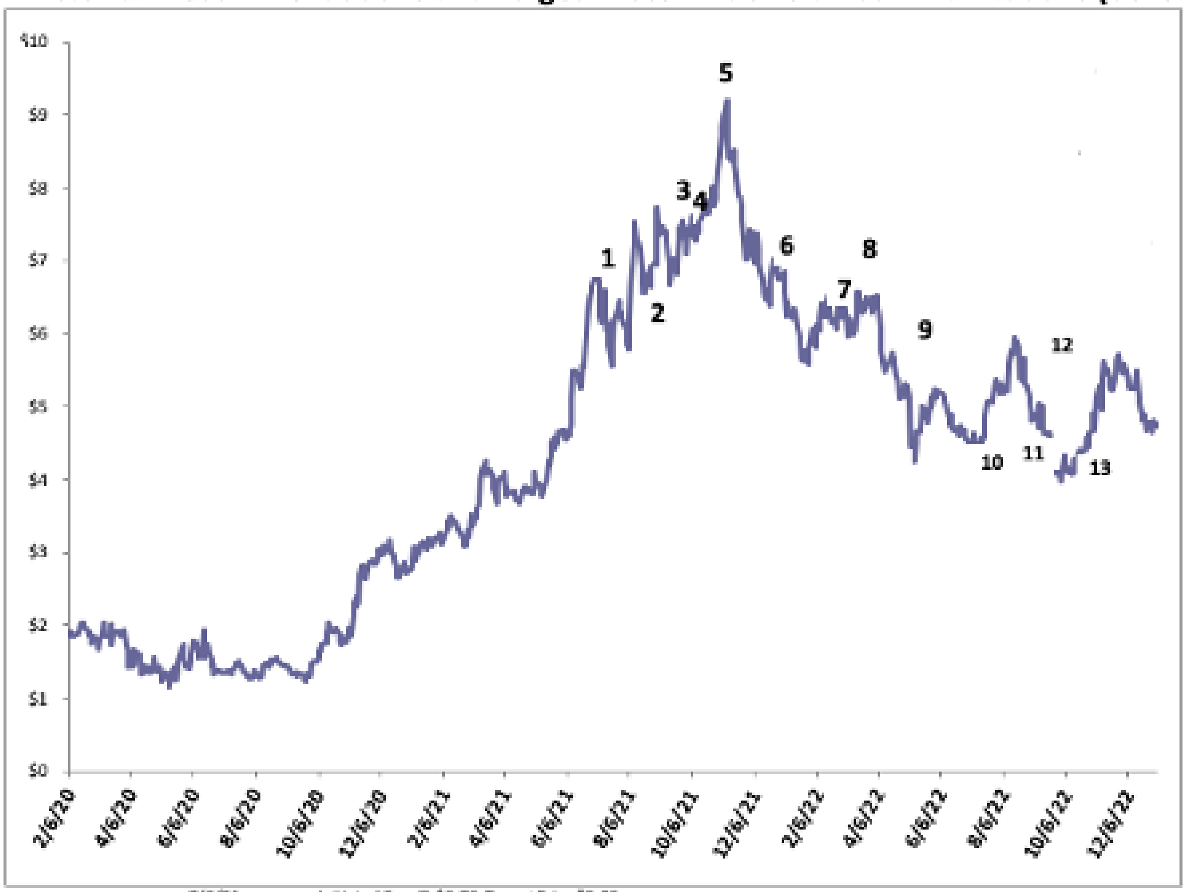
Historical Recommendations and Target Prices: Entravision Communications (ticker: EVC)



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	11/3/22	Reaffirmed Buy @ $4.69, 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

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