Industry Capital Research

Update October 4, 2023

Entravision Communications Corporation (EVC)

After Positive Conference Comments, Still Reducing PT on Higher Interest Rates; Reaffirm Buy

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We pull out a few points from EVC's presentation on October 4 at a leveraged finance conference and update our valuation primarily for macro inputs and secondarily for out year broadcast segment assumptions. CFO Chris Young presented at the conference.

Near-term digital trends sound promising. EVC said that it was convinced that 2H would be much stronger than 1H, and it liked what it saw in 3Q, suggesting potential upside to our model, which assumes pro forma digital revenue +19% in 3Q and +18% in 4Q, vs. +15% in 1Q and +18% in 2Q. EVC said that it hoped to get digital OCF margins to high single digits in the next 6 months through opex initiatives. We model digital OCF margin of 4.1% for 3Q, 7.3% for 4Q and 6.4% for 2023.

Digital growth initiatives seem likely to center on new platforms and/or new geographies. EVC said it hopes to have updates on some of these in a few weeks. Geographic expansions with Meta appear to be more likely than with TikTok, per conference comments.

Comments continued bullish tone for Smadex. EVC said that 2H would look dramatically different for Smadex. Our 2Q note flagged that Smadex appeared to be turning a corner to solid double-digit growth. Smadex revenue was down 11% in 1Q and down 12% in 2Q, and we infer that in 2H it could return toward the type of surprisingly strong growth it saw last year.

Broadcast could benefit from stronger advertising trends. EVC said auto ad spending (27% of 2Q TV advertising) has been healthy, with no effects from the UAW strike, in part because of spending by foreign makes, and that some large local radio advertisers that cut in 2Q came back in 3Q. EVC reaffirmed that it was soft-circling ~$40m in total political for 2024 (we model $29m); surprisingly, EVC has just started to see some meaningful political orders. As to retransmission revenue, EVC said it expects low single digital percent growth; we model ~2% growth for both 2023 and 2024.

Conference still does not leave us expecting big M&A, or changes in capital allocation or leverage. Credit agreement leverage of ~2x is no issue versus the covenant of 3.5x (net of $50m of cash). EVC said that the dividend, currently at a yield of ~5.5%, appears to be at the right level.

Our valuation range drops by ~$0.50 per share on a higher risk-free rate, partially offset by higher out-year broadcast growth assumptions; our lower PT still offers ~40% upside. See Fig. 1. At the start of each month, we review U.S. Treasury 10-year rates and the U.S. market risk premium. Higher rates are driving up our DCF discount rates. However, we see broadcast growth, especially for TV, in 4-year cycles, and believe that our 2027 growth assumptions were a bit low after our cuts to 2023E advertising growth post EVC's 2Q23 results.

Reducing price target to $5.00 from $5.50; risks on page 2. Our PT is supported by a DCF valuation based on explicit financial forecasts through 2028.

BUY

Price at 10/4/23 (USD)			3.56
Price Target			5.00
52-week range			3.42 - 7.33
Performance (%)	1m	3m	12m
Absolute	-5	-21	-17
S&P 500	-6	-4	12
Market Cap (USDm)			321.3
Shares outstanding (m)			90.3
Float (%)			89
Average volume			353,693
S&P 500			4,263.8

Forecasts and ratios

Year ended 12/31	2022A	2023E	2024E
1Q EPS (USD)	0.02	0.02	0.08
2Q EPS (USD)	0.10	-0.02	0.02
3Q EPS (USD)	0.11	-0.02	0.10
4Q EPS (USD)	-0.02	0.13	0.11
FY EPS (USD)	0.21	0.11	0.31
% Change	-38%	-46%	179%
P/E (x)	17.3	31.7	11.4
EV/EBITDA (x)	4.4	6.3	4.3
Revenue (USDm)	956.2	1,111.3	1,262.4
% Change	26%	16%	14%

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Investment Thesis and Valuation: Buy With $5.00 Price Target

Positives supporting our Buy rating include: 1) EVC's share price is not fully capturing the potential of its digital media assets because their higher growth, different business models and strategic options are more difficult for investors to assess; 2) higher post-pandemic broadcast margins, stability of TV retransmission revenue (35% of 2022E EBITDA) and secular growth of political advertising revenue (31% of 2022E EBITDA), and potential monetization from future spectrum auction (as in 2017) reduce the operating risk profile of overall business; 3) pro forma net debt leverage under 2x and close to 10% free cash flow yield give senior management strategic flexibility; and 4) our DCF valuation supports sufficient 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 2023 and 2024. In structuring our DCF, first we adjust the current net debt for the value of any estimated payments remaining on the acquisitions (e.g., earnouts) and noncontrolling interest. Second, we adjust the current net debt by the estimated free cash flow to be generated by each valuation date. 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. 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 new incoming CEO 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) volatility and profitability 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.

Figure 1: Our discounted cash flow valuation range drops to $4.50-$5.00 per share

Entravision Communications															
Summary of Changes to Forecast and Valuation															
(in $ million except unit data)	2023		DCF Valuation		EBITDA CAGRs										
CAGRs	Rev	EBITDA	Low	High	2019-23	2021-25	2022-26	2023-27	2024-28	Risk Free Rate	Equity Premium	WACC-EVC	WACC-EVC-D	WACC-EVC-B
Prior	1,111.3	75.3	$5.00	$5.50	16%	5%	6%	9%	9%	4.1%	4.6%	9.4%	10.4%	7.4%
Current	1,111.3	75.3	$4.50	$5.00	16%	5%	6%	11%	11%	4.7%	4.5%	9.7%	11.5%	7.8%
Delta	0.0	0.0	($0.50)	($0.50)	0.0%	0.0%	0.0%	1.3%	1.3%	0.6%	-0.1%	0.3%	1.1%	0.4%

Source: Company data and Industry Capital Research estimates

Figure 2: DCF analysis supports $5.00 12-month price target within $4.50-$5.00 per share range

Entravision DCF analysis

$ in millions except per share amounts

	Current	YE 2023	YE 2024
Firm Value	542	555	536
(-) Total Net Debt	163	141	73
(+) Hidden Value (inc. NOLs)	9	9	9
(-) Options (Claims on Entravisior	0.0	0.0	0.0
Common Equity Value	387.7	421.9	472.1
Shares Outstanding	90.3	90.3	90.3
Current Share Price	$3.85	$3.85	$3.85
Value Per Share	**$4.30**	**$4.67**	**$5.23**
12-month	**$5.00**		
12-month (SoTP)	*$4.50*		

ASSUMPTIONS

Risk Free Rate	4.69%
Equity Premium	4.47%
Assumed LT Growth Rate (g)	0%
MV of Equity Calculation	
Share Price	$3.85
Outstanding Shares	90.3
MV of Equity	**347.5**
Estimate MV of Debt Calculation	
Interest Expense	6.9
Current Cost of Debt	6.0%
Wgtd Avg Maturity of Debt	
BV of Debt	163.2
Estimate MV of Debt	**163.2**

CAGRs	2018-22	2020-24	2022-26	2024-28	2027-28
EBITDA	18%	16%	6%	5%	19%
FCF to Firm	43%	11%	6%	5%	18%

CAGRs	2019-23	2021-25	2023-27
EBITDA	16%	5%	11%
FCF to Firm	NM	10%	16%

Discounted Cash Flow	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Terminal	
EBITDA	54.0	41.2	60.4	88.2	103.1	75.3	111.1	107.8	132.0	112.3	133.4		
EBIT	37.8	24.6	43.1	65.7	77.4	48.8	73.2	67.2	87.7	67.2	86.1	76.6	
Less Cash Taxes	(11.3)	(7.4)	(12.9)	(19.7)	(23.2)	(14.6)	(22.0)	(20.2)	(26.3)	(20.1)	(25.8)	(26.8)	
Plus D&A	16.3	16.6	17.3	22.4	25.7	26.5	37.9	40.6	44.3	45.1	47.3	47.3	
Less Cap Ex	(17.0)	(25.3)	(9.5)	(5.6)	(11.5)	(16.0)	(12.0)	(12.6)	(13.3)	(13.9)	(14.6)	(47.3)	
Less Increase in WC	(9.4)	(8.7)	8.7	(15.5)	(0.3)	(4.3)	(5.1)	(5.1)	(6.2)	(5.1)	(6.4)	(5.7)	
Free Cash Flow to Firm	**16.3**	**(0.1)**	**46.6**	**47.3**	**68.1**	**40.3**	**72.0**	**69.9**	**86.2**	**73.1**	**86.6**	**44.1**	
Tax Rate	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	35.0%	
Net Debt	163												
Leverage Mult.	2.7x												
D/Equity	47%												
D/EV	32%												
E/EV	68%												
Unlevered Beta	1.24												
Levered Beta	1.53												
D/Equity (long-term target)	33%												
Cost of Debt (AT)	4.2%												
Cost of Equity	11.5%												
WACC	**9.7%**		10%	10%	10%	10%	10%	10%	10%	10%	10%		
PV of CF					68.1	36.8	59.8	52.9	59.5	46.0	49.7		
						36.8	59.8	52.9	59.5	46.0	49.7		
							65.6	58.1	65.3	50.5	54.5		
								63.7	71.6	55.4	59.8		
												454.2	3x EBITDA

	Current	YE 2023	YE 2024
Sum of PV	**304.7**	**293.9**	**250.5**
PV of Terminal Value	**237.6**	**260.6**	**285.9**
NPV of all CF	**542.3**	**554.6**	**536.4**

Source: Industry Capital Research estimates and company data

APPENDIX

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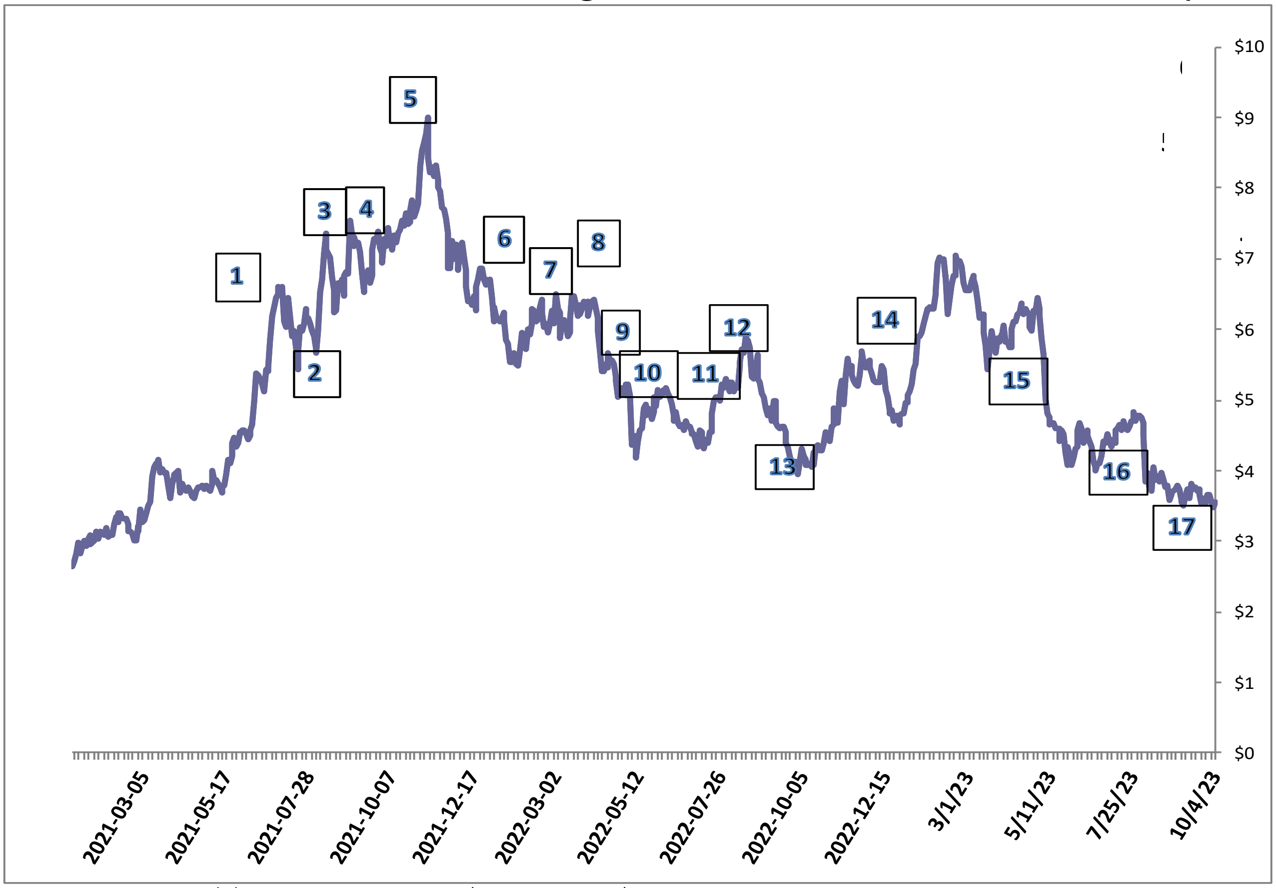

1	7/6/21	Initiated Buy @ $6.76, Target Price $9.00
2	8/6/21	Reaffirmed Buy @ $6.15, Target Price $9.00
3	9/2/21	Reaffirmed Buy @ $7.75, Target Price $10.00
4	10/5/21	Reaffirmed Buy @ $7.60, Target Price $10.00
5	11/5/21	Reaffirmed Buy @ $8.83, Target Price $10.50
6	12/20/21	Reaffirmed Buy @ $6.40, Target 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
14	1/27/23	Reaffirmed Buy @ $6.33, Target Price $7.50
15	5/5/23	Reaffirmed Buy @ $5.87, Target Price $7.00
16	8/4/23	Reaffirmed Buy @ $4.49, Target Price $5.50
17	10/4/23	Reaffirmed Buy @ $3.56, Target Price $5.00

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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