

Wednesday, 28 August 2024 | update

Wirtualna Polska: buy (reiterated)

WPL PW; WPL.WA | Media, Poland

Leaving Behind the Worst Quarter of 2024

Wirtualna Polska's share price has fallen 19% in the last five months, underperforming the WIG index by 22 percentage points. We believe this is partly a reaction to a significant slowdown reported in 2Q'24 earnings when adj. EBITDA in the key advertising segment posted a 14% Y/Y slump – the worst result in history.

Wirtualna's Management at the Q2'24 earnings call laid out a plan for a number of corrective measures. Although it is hard to compete against social media, which takes advertisers away from traditional display media, we believe the planned initiatives will translate to a visible improvement in the segment's earnings trends from Q3'24 (we expect a 3.3% increase in adj. EBITDA in Q3'24 and +11.0 % in Q4'24). The most important of the planned measures are job reductions and greater use of artificial intelligence to build advertising inventory.

Accordingly, at the current price level in our view Wirtualna is an attractive opportunity for investors. We have updated our financial forecasts for the company, including a 4% downward revision to adj. EBITDA expected in 2024 and a 6% cut to the 2025 estimate. We have also refreshed the valuation multiples of comparable companies in our relative valuation model, where we have separated travel companies into a separate category, and we have reduced ERP in the DCF model from 6.0% to 5.0%, and updated RFR. After all this, we set our new target price at PLN 122.00, which implies upside potential of 25%. Our current investment recommendation is buy.

WPL is trading at 7.2x 2024E EV/EBITDA and 6.4x 2025E EV/EBITDA, i.e., with a 20% and 22% discount to the peer group, respectively.

Q2 2024 Results

Cash revenue in the Advertising and Subscriptions segment increased 3% y/y in 2Q'24 to PLN 174.1m (vs. +1.9% y/y in Q1). Still, Adj. EBITDA fell 14% y/y, to PLN 58.1m, which implies EBITDA margin at 33.4% compared to 40.3% in Q2 2023. The margin contraction was due primarily to an increase in operating costs within the segment, particularly costs of labor.

Revenue in Travel segment rebounded 18% y/y up to PLN 144.5m, with adj. EBITDA rising 32% to PLN 31.4m.

The results of other segments were close to our expectations. Net debt at the end of Q2 2024 amounted to PLN 407.3m what was just 0.9x of EBITDA.

What is the Remedy for the Advertising Business?

Wirtualna Polska announced a number of measures to heal the earnings of the Ad&Subscription segment. The company wants to reduce its cost base by PLN 20-24m annually, increase the ad inventory, and improve the effectiveness of managed ad campaigns.

Moreover, Wirtualna wants to develop more content using AI technology, which currently generates ca. 10% of all content vs. 0% a year ago. In the near future, the company wants AI to build a half of its content.

(PLN m)	2022	2023	2024E	2025E	2026E
Revenue	1,077.7	1,436.8	1,559.1	1,688.2	1,827.7
EBITDA (adj.)	371.4	439.0	466.7	504.0	540.9
margin	34.5%	30.6%	29.9%	29.9%	29.6%
EBIT	239.6	281.2	285.4	324.0	350.6
Net profit	170.5	155.8	156.4	200.8	234.6
P/E	17.0	18.6	18.6	14.5	12.4
P/S	2.7	2.0	1.9	1.7	1.6
P/BV	3.1	3.2	2.9	2.6	2.3
EV/EBITDA (adj.)	9.3	7.8	7.2	6.4	5.7
DPS	1.20	2.47	2.00	2.79	3.59
DYield	1.2%	2.5%	2.0%	2.9%	3.7%

current price*	PLN 98.00
target price	PLN 122.00
mCap	PLN 2.83bn
free float	PLN 1.77bn
ADTV (3M)	PLN 1.2m

*Price as of August 27, 2024, 5:00 PM

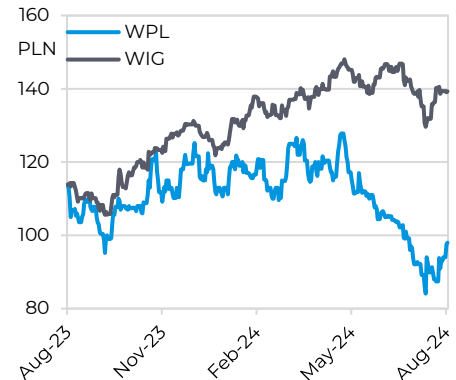
Ownership

Jacek Świdorski	12.8%
Michał Brański	12.8%
Krzysztof Sierota	12.7%
Allianz OFE	12.2%
Allianz TFI	6.9%
Others	42.7%

About Wirtualna Polska

Wirtualna Polska is a leading player in online advertising in Poland, ranking 4th domestically in real users after Google, Facebook, and YouTube. It is the owner of a number of popular websites, including the horizontal portals wp.pl and o2.pl, and a diverse portfolio of vertical portals spanning a variety of themes.

WPL vs. WIG



	Target Price		Recommendation		
	new	old	new	old	
Wirtualna Polska	122.00	145.50	buy	buy	
	Current Price	Target Price	Upside		
Wirtualna Polska	98.00	122.00	+24.5%		
Forecast Update			2024E	2025E	2026E
Revenue			-3.4%	-5.4%	-6.4%
EBITDA Adj.			-4.1%	-6.1%	-7.8%
Net profit			-18.3%	-11.2%	-17.7%

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List of abbreviations and ratios used by mBank:

EV (Enterprise Value) – Equity Value + Net Debt; **EBIT** – Earnings Before Interest and Taxes; **EBITDA** – EBIT + Depreciation & Amortisation; **Net Debt** – Borrowings + Debt Securities + Interest-Bearing Loans - Cash and Cash Equivalents; **P/E** (Price/Earnings) – Price Per Share Divided by Earnings Per Share; **P/CE** (Price to Cash Earnings) – Price Per Share Divided by Earnings + Depreciation & Amortisation; **P/B** (Price to Book Value) – Price Per Share Divided by Book Value Per Share; **P/CF** (Price to Cash Flow) – Price Divided by Cash Flow from Operations; **ROE** (Return on Equity) – Earnings Divided by Shareholders' Equity; **ROCE** (Return on Capital Employed) – EBIT x (Average Assets - Current Liabilities); **ROIC** (Return on Invested Capital) – EBIT x (1-Tax Rate) / (Average Equity + Minority Interest + Net Debt); **FCFF** (Free Cash Flow to Firm) – Cash Flow from Operations - CAPEX - Lease Payments; **FCFE** (Free Cash Flow to Equity) – Free Cash Flow to Firm - Net Interest Expense (incl. Debt + Leases)
EBITDA margin – EBITDA/Sales

OVERWEIGHT (OW) – a rating which indicates that we expect a stock to outperform the broad market
NEUTRAL (N) – a rating which indicates that we expect the stock to perform in line with the broad market
UNDERWEIGHT (UW) – a rating which indicates that we expect the stock to underperform the broad market

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BUY – we expect that the rate of return from an investment will be at least 10%
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NAV - valuation based on equity value, one of the most frequently used method in case of developing companies; the weak point of the method is that it does not factor in future changes in revenue/profits of a company.

mBank issued the following recommendations for Wirtualna Polska in the 12 months prior to this publication:

Wirtualna Polska (Paweł Szpigiel)

Rating	buy	buy	buy
Rating date	2024-05-06	2023-12-01	2023-10-02
Target price (PLN)	145.50	135.30	137.20
Price on rating day	120.40	112.00	100.40

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