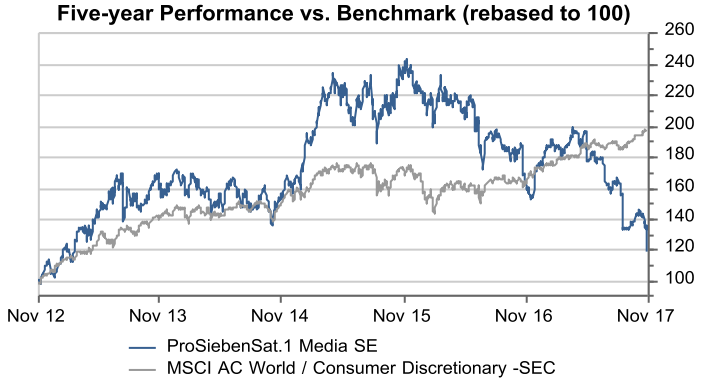
ProSiebenSat.1 Media SE

Isin / FactSet Code	**DE000PSM7770 / PSM-DE**	Market cap (in EUR mn)	**5 354**	52-week high	**41.77**	Rating	**NEUTRAL**
Sector	**Consumer Discretionary**	Market cap (in local curr. mn)	**5 354**	52-week low	**24.81**	12-month target price	**27.50**
Industry	**Media**	Local currency	**EUR**	YTD return%	**-31.84**	Last price (10/11/17)	**24.96**
Benchmark	**MSCI AC World / Consumer Discretionary -SEC**	Free-float	**98%**	12-month return%	**-26.72**	Potential upside	**10%**

Investment Case:

- PSM continues to increase its presence in the Digital segment (FY11–16 annual average growth rate of 28.6% in revenue), led by over-the-top (OTT) and VOD services, which are addressing the shift in consumer patterns from TV to online viewing.
- PSM has used the cash flow from its Broadcasting business to fund its Digital growth. With the duopolistic structure of German FTA broadcasting, PSM has ensured stable growth and a high EBITDA margin (34.4% in FY16). Also, demand for HD channels has improved its distribution fees and profitability. PSM's leadership position in the German TV ad market has enabled it to leverage client relationships to drive ad placements in its digital business, ensuring profitable growth. Its multi-platform presence has also allowed for effective utilisation of ad inventories.
- Following 3Q17 results, we reduce our target price to EUR 27.50 (from EUR 32.00) implying 12.0x FY18E P/E with -2.7%/4.1% EPS growth in FY17E/FY18E.

Five-year Performance vs. Benchmark (rebased to 100)



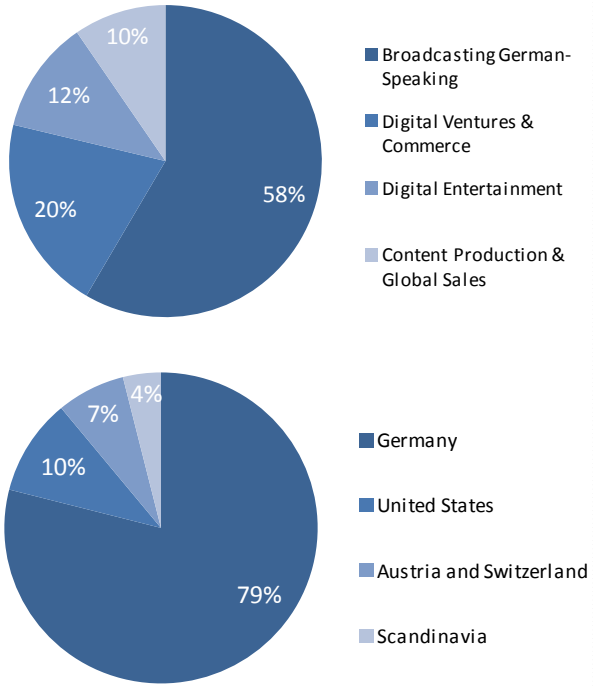
Sources: SGPB, FactSet

Company Description:

ProSiebenSat.1 Media (PSM) provides free-to-air (FTA) TV stations in Germany, Austria and Switzerland. In Germany, it has the highest market share in TV advertising and in audience share. It is growing rapidly in the digital media space through ads in the video on demand (VOD) and pay-VOD segments. It also has ecommerce presence.

Revenue by Key Segments & Geographies: FY16

(FY ending December)



Sources: SGPB, FactSet

Recent Developments Analysis:

- PSM's 3Q17 revenue grew 3% YoY to EUR 883 mn (consensus: EUR 885 mn), while adjusted EBITDA was flat YoY at EUR 202 mn (consensus: EUR 202 mn). EPS of EUR 0.43 (-5%) was higher than consensus by 4.9%.
- The Broadcasting German-Speaking segment saw 3% decline to EUR 460 mn, driven by a 5% decrease in TV advertising revenues, partially offset by 23% growth in distribution business. Adjusted EBITDA decreased by 3% to EUR 143 mn, higher than consensus of EUR 141 mn.
- Digital Ventures & Commerce revenues grew 25% to EUR 226 mn, driven by growth in online price comparison and lifestyle commerce. EBITDA was up 20%.
- Digital Entertainment revenue declined by 3% to EUR 96 mn. Ad Video-on-Demand revenue (AdVoD) grew 3% while PayVoD declined 9%. Adjusted EBITDA loss was EUR 2 mn vs. profit of EUR 4 mn YoY.
- Content Production revenue declined 6% to EUR 93 mn, led by weakness in the US, while EBITDA grew 27%.
- For FY17, PSM reduced its guidance to mid-single revenue growth (from high-single-digit). Adjusted EBITDA and net income guidance was changed to "slightly above" vs. "above" prior year.

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ProSiebenSat.1 Media SE

DESCRIPTION			VALUATION					GROWTH				PROFITABILITY			BALANCE SHEET		
FactSet Code	Company	Cap (mn€)	EV/EBITDA (e)		P/E (e)		Div. Yield	Sales Growth		EPS Growth		EBITDA Margin	Net Margin	ROE	Net Debt/ EBITDA		Net Debt/ Equity
			FY1x	FY2x	FY1x	FY2x	FY1%	FY1%	FY2%	FY1%	FY2%	FY1%	FY1%	FY1%	FY0x	FY1x	FY0x
RTL-BE	**RTL Group S.A.**	9 755	7.4	7.2	13.0	12.7	6.1	2.9	3.3	4.1	2.6	21.8	11.9	22.9	0.5	0.4	0.19
TL5-ES	**Mediaset Espana Comunicacion S**	2 882	10.9	10.2	15.0	14.1	6.3	0.1	2.4	10.6	6.4	25.5	18.9	19.8	-0.4	-0.5	-0.18
TFI-FR	**Television Francaise 1 SA**	2 562	6.6	6.6	18.7	21.0	3.1	2.3	2.1	38.4	-10.8	16.3	6.3	8.7	-0.5	-0.9	-0.13
MMT-FR	**Metropole Television SA**	2 527	7.3	6.7	17.4	16.0	4.4	5.3	9.7	8.8	9.2	25.5	10.7	22.0	-0.4	0.0	-0.21
A3M-ES	**Atresmedia Corporacion de Medi**	1 840	9.8	9.1	12.6	11.8	6.7	2.0	2.8	11.6	6.6	20.0	14.1	29.5	1.2	1.0	0.33
	Average:		**8.4**	**8.0**	**15.3**	**15.1**	**5.3**	**2.5**	**4.1**	**14.7**	**2.8**	**21.8**	**12.4**	**20.6**	**0.1**	**0.0**	**0.00**
PSM-DE	**ProSiebenSat.1 Media SE**	5 354	7.2	6.9	10.9	10.4	7.7	6.6	4.5	-2.7	4.1	25.2	12.9	36.8	2.0	1.5	1.36

na=Not available, nm=Not meaningful

Financial terms detailed in glossary

Sources: SGPB, FactSet

Risks To Our Investment Case:

- Lower-than-expected growth in the German ad market or a drop in audience share may impact PSM's earnings growth.
- Failure to execute on its Digital and Adjacent strategy may significantly erode the company's earnings.
- Intense competition in the OTT digital media space could lead to lower-than-anticipated growth in PSM's VOD services. It could also mean loss of market share in its core FTA broadcast business, as customers move from traditional TV viewing to online viewing.
- PSM has been pursuing M&A to scale up in the digital media space and raised EUR 515 mn (~6.5% capital increase) on 3 November for M&A funding. Any failure to generate sufficient return on investments may deteriorate its earnings.

Business Quality Review:

- PSM continues to maintain a leading share in the German TV advertising market (42.7% in FY16) and also has the highest audience share (28.0% in FY16). This has enabled for a steady revenue growth at an annual average rate of 6.7% and EPS of 8.9% over FY06–16.
- EBITDA margin has expanded from 23.0% to 26.6% over FY06–16. ROE has increased from 19.3% in FY06 to 38.9% in FY16, and in this span, PSM has reported positive FCF every year.

Dividend Policy:

- The company has guided for FY17 dividend payout ratio to be in the range of 80–90%.
- PSM's dividend payout ratio averaged 81.7% over FY13–16.
- Its DPS grew at an annual average rate of 10.2% over FY11–16.

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Financial Terms And Acronyms

BV (Book Value): is the total value of net assets of a company.

BV/S (Book Value Per Share): is the total value of the net assets of a company divided by the total number of outstanding shares.

C/I (Cost Income Ratio): is used for valuing banks. It shows a company's costs in relation to its income.

CAGR (Compound Annual Growth Rate): is a term used for the geometric progression ratio that provides a constant rate of return over a specific time period.

CAPEX (Capital Expenditure): is the fund used by the company to acquire or upgrade the physical assets such as property, industrial buildings or equipment. The most capital intensive industries include oil, telecom and utilities.

CAR (Capital Adequacy Ratio): is a measure of a bank's capital. It is expressed as a percentage of a bank's risk-weighted credit exposures.

CET I (Common Equity Tier I Ratio) : is a measure of the bank's common equity capital as a percentage of risk-weighted assets. It is generally compared to a defined benchmark stipulated by the regulatory authority to determine whether a bank is sufficiently capitalised.

COMBINED RATIO: It represents the total of acquisition and administrative expenses, and claims and insurance benefits incurred, divided by net premiums earned.

DIVIDEND PER SHARE (DPS): Dividend per share or DPS (total dividend paid out divided by the total number of shares) expressed as a percentage of current stock price.

EBIT (Earnings Before Interest and Taxes): profit before taking into account interest payments and income taxes.

EBIT Margin: Ratio that expresses EBIT as a percentage of total sales (EBIT/Sales*100)

EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation): profit before taking into account interest payments, income taxes and non-cash operating expenses (depreciation and amortisation).

EPS (Earnings Per Share): is the division of total net profit by the number of shares.

EQUITY is the difference between the value of the assets and the cost of the liabilities.

EV (Enterprise Value) is a measure of a company's value, often used as an alternative to straightforward market capitalisation. It is calculated as (market cap + debt + minority interest + preferred shares) − total cash − cash equivalents.

FCF (Free Cash Flow): represents the difference between operating cash flow and capital expenditures.

FFO (Funds from Operations): measures a REIT's operating performance. It is net income plus gains (minus losses) from property sale and purchase. FFO per share is often used in place of earnings per share when analysing REITs.

FY0: Realised year, **FY1**: Current unrealised year, **FY2**: next year, **FY17E:** Fiscal year 2017 estimation

GOODWILL: is an intangible asset that arises as a result of the acquisition of one company by another company for a premium value.

GROSS INCOME: gross profit calculated as a company's total sales minus its cost of goods sold (COGS) that corresponds to labour and production costs.

GROSS MARGIN: expresses gross income as a percentage of total sales.

LIKE FOR LIKE (LFL) GROWTH: is a measure of growth in sales, adjusted for new or divested businesses.

Loan-to-deposit (L/D) ratio: Loans/Deposits. This helps in assessing a bank's liquidity, lending capacity and balance sheet quality.

LTV (Loan-To-Value Ratio): is a financial term used to express the ratio of a loan to the value of an asset purchased.

NAV (Net Asset Value): is similar to book value and is also called per investment unit. NAV is the marked-to-market value of the company's property investments less liabilities.

ND (Net Debt): is calculated as a company's total debt minus cash and other similar liquid assets.

NET MARGIN: is a financial ratio which measures the profitability of the net income of a company.

NI (Net Income or Bottom Line): represents a company's total earnings (or profit) which is calculated by adjusting revenues for the costs, depreciation, interest, taxes and other expenses.

NIM: Net Interest Margin

NON-PERFORMING LOANS (NPL) RATIO: NPLs/Loans. This indicates the percentage of the loans that are non-performing or are in stressed segments.

OPERATING MARGIN: See definition of EBIT Margin.

ORGANIC GROWTH: is the growth rate that a company can achieve by increasing its output and enhancing sales, excluding any profits or growth from takeovers or M&A activities.

P/E or PER (Price Earnings Ratio): reflects the trading price of a share in relation to the expected earnings.

P/BV (Price To Book Value): expresses the share price with regard to the accounting value of the company.

PAYOUT RATIO: is the proportion of earnings paid out as dividends to shareholders and typically expressed as a percentage.

PROFIT WARNING: is the announcement made by the company before its earnings release indicating the investors that its earnings would not meet the analysts' expectations.

RWA (Risk Weighted Assets): is a measure of the bank's assets, weighted according to their risk. It involves the risk weighting of both on and off-balance-sheet exposures.

REVENUE GROWTH: Illustrates the growth of sales over a given period.

ROA (Return on assets): a financial ratio that is calculated as net income divided by total assets and shows how profitable a company is relative to its total assets.

ROC (Return on invested capital): a profitability ratio which is calculated as net income minus dividends divided by total invested capital.

ROE (Return On Equity): The amount of net income returned as a percentage of shareholders' equity. Return on equity measures a corporation's profitability by disclosing how much profit a company generates with the money shareholders have invested.

TBV (Tangible Book Value): is the book value excluding intangible assets.

TBV/S (Tangible Book Value Per Share): allows to estimate the accounting value of a company by measuring its stockholders' equity per share. Formula: Re-valued Net Assets/Total Shares of Company.

WACC (Weighted Average Cost of Capital): also referred to as the firm's cost of capital, it is the rate that a company is expected to pay on an average to all its security holders to finance its assets.

WORKING CAPITAL: is the difference between a company's current assets and current liabilities and shows whether the company has sufficient short-term assets to cover its short-term debts.

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Appendix

Investment Rating Definitions:

Buy	Stock that is expected to outperform its MSCI sector index over a 12-month investment horizon.
Neutral	Stock that is expected to perform in line with its MSCI sector index over a 12-month investment horizon.
Sell	Stock that is expected to underperform its MSCI sector index over a 12-month investment horizon.
Restricted	Covered stock that is not rated or assigned a target price as the Societe Generale group has a capital market transaction with that company.
Termination	Stock is subject to be deleted from the SGPB recommended universe and will no longer be followed. In this case, a coverage termination alert is issued.

Recommended Universe Principle:

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Product Risk Rating:

The product category of single equity, stock, share is rated at '4'.

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Risk Levels	Losses
0 - Lowest Risk	There is a 95% probability that the product will not depreciate in value in one year.
1 - Low Risk	There is a 95% probability that the product will not lose more than 5% of its value in one year.
2 - Medium Risk	There is a 95% probability that the product will not lose more than 15% of its value in one year.
3 - High Risk	There is a 95% probability that the product will not lose more than 30% of its value in one year.
4 - Highest Risk	There is a minimum of 5% probability that the product will lose more than 30% of its value in one year.

1Y Target Price:

Equity Note Timeline: First disseminated: 22-Nov-16 | Last updated: 4pm Paris time, 13-Nov-17

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SG makes a market in Mediaset warrants

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Risk Classification:

R0: Lowest Risk
R1: Low Risk
R2: Medium Risk
R3: High Risk
R4: Highest Risk

These internal indicators are based on the Value at Risk 95% 1 year (VaR). The VaR corresponds to the maximum amount that the portfolio being considered could lose in normal market conditions over a given period with a given probability (past performances and simulations of performance shall not be considered as a reliable indicator of future performance). If the VaR 95% 1 year is y%, this means that there is a 95% probability that the portfolio will not lose more than y% of its value in one year.

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