Intermonte

Milan, 20 February 2023

Italian Equity Research – Change in view/4Q22 Preview

MEDIA FOR EUROPE

OUTPERFORM

Sector: Media

Price: Eu0.65 - **Target: Eu0.77**

Taking A More Positive View Based on Fundamentals

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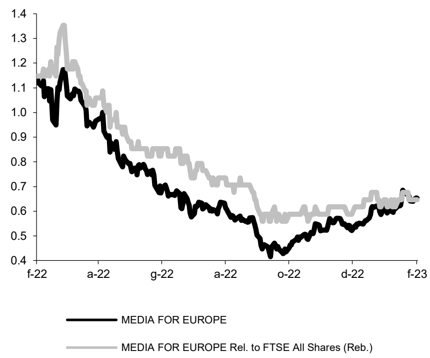
Stock Rating			
Rating:	from NEUTRAL to OUTPERFORM		
Target Price (Eu):	from 0.59 to 0.77		
	2022E	**2023E**	**2024E**
Chg in Adj EPS	-2.9%	19.6%	23.5%

Next Event: FY22 Results
Results Out 18 April 2023

MEDIA FOR EUROPE - 12M Performance



Stock Data			
Reuters code:			MFEB.MI
Bloomberg code:			MFEB IM
Performance	**1M**	**3M**	**12M**
Absolute	5.5%	24.6%	-43.1%
Relative	-1.1%	10.7%	-46.3%
12M (H/L)			1.17/0.42
3M Average Volume (th):			1,701.23

Shareholder Data	
No. of Ord shares (mn):	1,181
Total no. of shares (mn):	2,619
Mkt Cap Ord (Eu mn):	771
Total Mkt Cap (Eu mn):	1,365
Mkt Float - Ord (Eu mn):	182
Mkt Float (in %):	23.6%
Main Shareholder:	
Fininvest S.p.A.	49.2%

Balance Sheet Data	
Book Value (Eu mn):	3,745
BVPS (Eu):	1.43
P/BV:	0.5
Net Financial Position (Eu mn):	-940
Enterprise Value (Eu mn):	2,399

- **Estimates upgrade.** In the current report we are updating our estimates, raising 2023 and 2024 group EBIT by 11.0% and 8.3%. For Italian activities, we are assuming FY22 advertising revenues will be consistent with Nielsen data (-2.9% YoY), while trimming "other revenues", assuming a lower contribution from the DAZN contract. In terms of costs, we are leaving our forecasts unchanged, as we are already aligned to management guidance at Eu1.8bn (implying a cut of over Eu100mn in the 4Q22 underlying cost base in order to neutralise cost inflation). As for Spanish activities, we are also taking a less negative view on 4Q22, in line with recent consensus updates. As for 2023, management appeared confident of delivering additional cost efficiencies, partly thanks to integration between Italian and Spanish activities, but we are cautiously leaving our assumptions broadly unchanged. In terms of 2023 advertising trends, we are raising our Italian estimates, assuming a lighter decline. In Italy, the introduction of "total audience" should provide sizable support in 2H23 while in Spain there could be initial revenue synergies from the merger with Italian activities. Finally, we are factoring the merger with MS España into our model, assuming all minority shareholders will exercise withdrawal rights (i.e. a cash out of Eu175mn). We are also reducing the number of shares after the decision to cancel MFE treasury shares. The impact of these changes is clearly positive on EPS.
- **On 30 January, the group announced the merger of MS España (MES) into MFE**. The merger ratio will be 7 MFE-A shares for every MES share. MFE will issue a maximum of 374.5mn new MFE-A shares in the unlikely event that all the MES shares still on the market (53.5mn) accept the offer. On the other hand, the withdrawal price has been set at Eu3.2687 (average VWAP over the last 3 months). If all the shares were to exercise withdrawal rights, the cash-out for the group would be Eu174.9mn. Payment for the shares exercising withdrawal rights will be made directly by MES before completion of the merger. The timetable should be as follows: 15/3: MFE and MES EGMs approve the merger; within 1-2 working days: start of MES withdrawal period; mid-April (after 30 days): end of MES withdrawal period; June: payment of withdrawal rights, effective date of merger; Jul-Sep: listing of all MFE-A shares on Spanish stock exchange.
- **Upgrade to OUTPERFORM; MFE B target from Eu0.59 to Eu0.77 (MFE A target Eu0.61).** Our fair valuation is based on 6.0x 2023 EV/EBIT (unchanged) and reflects the change in estimates mainly favoured by a less negative macro scenario and the value accretion from the merger with MS España. In 4Q22 the group should confirm solid execution on cost savings and cash generation, providing fundamental support, and the dividend yield is very attractive, especially for MFE A. As for the group's European ambitions, as we have written in the past, the MFE industrial project that aims to achieve synergies via consolidation of broadcasters in Europe looks to be the only feasible project when all sector firms are facing declining advertising revenues, fiercer competition and cost inflation. The main unknowns in this sense relate to gauging the approach that the German and Bavarian authorities will take regarding this plan. However, convincing evidence on synergies from the MES merger might push PSM shareholders to back the MFE plan.

Key Figures & Ratios	2020A	2021A	2022E	2023E	2024E
Sales (Eu mn)	2,637	2,914	2,766	2,707	2,687
EBITDA Adj (Eu mn)	763	792	782	762	767
Net Profit Adj (Eu mn)	151	308	231	251	266
EPS New Adj (Eu)	0.059	0.119	0.088	0.096	0.102
EPS Old Adj (Eu)	0.057	0.115	0.091	0.080	0.082
DPS (Eu)	0.150	0.050	0.043	0.046	0.049
EV/EBITDA Adj	3.0	4.6	3.4	3.1	2.9
EV/EBIT Adj	13.2	11.2	9.1	8.8	8.1
P/E Adj	11.1	5.5	7.4	6.8	6.4
Div. Yield	23.0%	7.7%	6.5%	7.1%	7.6%
Net Debt/EBITDA Adj	1.4	1.1	1.2	1.2	1.0