

Impresa: Was It Too Much? We believe so!

14th February 2008

(Price Target maintained; Recommendation upgraded from Accumulate to Buy)

HIGHLIGHTS

- **FACT:** Impresa, as for that matter almost every other Iberian stock within the current market environment, has been severely penalised since 2008 started. Impresa lost 36% of its value in 2008 and 29% if we compare the current price with that at the time we released our latest valuation update on the company.

Despite the steep market downturn, Impresa's performance compares negatively with that of the PSI20, the Eurostoxx 50, the Eurostoxx Media and the average performance of a sample of broadcasting companies.

Impresa Performance

	YTD	9 th January 2008 ⁽¹⁾
Impresa	-36%	-29%
PSI20	-13%	-9%
Eurostoxx	-14%	-11%
Eurostoxx Media	-13%	-9%
Broadcasting Companies ⁽²⁾	-14%	-6%

(1) The date in which we released our latest valuation update on Impresa. (2) The simple average of the performance of Antena 3, Telecinco, TF1, Mediaset, Prosieben, M6 and ITV. Source: Bloomberg.

- **OPINION:** We believe Impresa has been over-penalised while investors' concerns lie on:

- **Audience shares.** In 2H07, Impresa was already penalised as its broadcasting unit, SIC, posted weak audience shares, which led to the replacement of the channel's Programming Director. SIC averaged a 24.2% audience share in 2H07 and became the 3rd most watched channel in Portugal behind TVI and RTP1. The first time in the channel's history it finished a year as the 3rd ranked channel.

Sine the beginning of the year, the new Programming Director, has tweaked the channel's grid without launching any new product (he launched two new soap operas to replace others that ended) was able to revert SIC's negative trend. SIC posted a 25.5% audience share in January and is currently averaging 26.0% in February.

We remind that our € 2.10 YE08 Price Target incorporates a 24% average audience share in 2008 and 25% in 2009 for SIC. At this point, SIC is well above our 2008 estimate, which we acknowledged as very conservative.

Highlights & Recommendation

Price ⁽¹⁾	1.34
Market Cap (€ mn)	225
YE08 Price Target ⁽²⁾	2.10
P/E 08	11.8
EV/EBITDA 08	7.7
DY 08	1.7%
FCF Yield 08	7.1%
Recommendation	BUY
Reuters	IPR.LS
Bloomberg	IPR.PL

(1) Today's Closing price.

(2) Detailed valuation and assumptions used in our Research Note "Facing A New Competitive Environment" dated 9th January.

Market Performance (%)

	1m	3m	YTD
Impresa	-25	-40	-36
PSI20 Index	-8	-13	-13
DJ Eurostoxx	-10	-11	-14

Source: Bloomberg.

Historical Recommendation

Date	Recommendation
12-Dec-06	Accumulate
31-May-07	Reduce
17-Sep-07	Hold
09-Jan-08	Accumulate

Source: BPI Equity Research.

- **The new FTA licence.** In early 2008 the Portuguese Government announced it would attribute a new FTA license within the upcoming DTT platform, which obviously represented negative news for incumbent Portuguese broadcasting operators.

No other novelties since then. The Portuguese Government has not launched yet the DTT contest that will precede the attribution of the new license. We still believe it will be possible for the Government to attribute the new FTA license in early 2009 and the new channel to be launched in 2H09.

This scenario, although in a necessarily simplistic way given the natural lack of detailed information regarding this subject, is already incorporated in our € 2.10 YE08 Price Target. We remind that if not for the change in the Portuguese TV competitive landscape our Impresa's YE08 Fair Value would lie at € 2.62 per share. As such, we are currently attributing a loss of 20% of Impresa's value to the entrance of a new competitor in the Portuguese TV market.

Please note that this also incorporates a scenario in which given the current macroeconomic scenario it is difficult to envision the advertising market with enough strength to absorb the entrance of a new competitor in the TV segment.

- **The Portuguese Advertising Market.** Currently, there are fears that an economic deceleration will also affect the advertising market. Although we will not dare to dispute such an evident statement, we do believe the Portuguese Advertising market could be more resilient to significant fall in advertising spending.

In fact, the Portuguese advertising market should have risen 18% since it bottomed out in 2003, following the 2000 dotcom bubble burst and the crisis that followed the September 11th attacks, until 2008. In comparison, the Spanish advertising market should have grown 36% within the same period. The Spanish TV advertising segment should have increased by 56% to the 18% the Portuguese TV advertising market should have registered.

In 2008, the advertising market should also benefit from events that should help to attract advertisers: (1) Euro 2008 where Portugal will be present and (2) the Beijing Olympics. Additionally, in this early 2008 the Portuguese advertising market started on a strong note with three strong campaigns (Banif, Continente and Optimus).

In order to justify current Impresa's market prices we would have to reduce our 2008 advertising market growth estimate by 7 p.p. (from 4% growth to 3% fall). Alternatively, if maintaining all else stable, it could be justified by a 7.5 p.p. drop in 2009 growth (from 3.5% growth to a 4% fall). One other alternative to justify current prices would be to consider that the Portuguese advertising market would always grow 1.5 p.p. below our current estimates each year.

We also have to point out that all these scenarios still have a 24% and 25% audience share for SIC in 2008 and 2009, respectively, as a central scenario. However, the Impresa's TV channel is currently averaging 25.7% in 2008.

- ▶ **ACTION:** Although we are not updating our valuation just yet as we prefer to wait for the company's results disclosure, we have to acknowledge that audience share should be one item in which we will have to revise our estimates upwards. All in all, we maintain our **YE08 € 2.10 Price Target**, at current prices we reinforce our positive view on Impresa as a long-term investment and upgrade our Recommendation from Accumulate to **BUY**.

Iberian Media Multiples

	Price	EV/Sales		EV/EBITDA		P/E	
		2008	2009	2008	2009	2008	2009
Antena 3	8.93	2.0 x	2.0 x	7.2 x	7.1 x	9.8 x	9.5 x
Cofina	1.49	1.3 x	1.2 x	8.0 x	7.7 x	15.2 x	13.4 x
Media Capital	5.61	2.5 x	2.4 x	10.6 x	9.8 x	17.3 x	14.8 x
Prisa	9.89	1.7 x	1.6 x	7.5 x	6.7 x	10.2 x	8.4 x
Sogecable	27.75	2.5 x	2.3 x	10.7 x	8.7 x	22.1 x	14.4 x
Telecinco	14.18	2.6 x	2.6 x	5.8 x	5.8 x	9.5 x	9.4 x
Vocento	12.53	1.0 x	1.0 x	6.8 x	6.0 x	13.8 x	12.2 x
Average		1.9 x	1.9 x	8.1 x	7.4 x	14.0 x	11.7 x
Impresa	1.32	1.4 x	1.3 x	7.9 x	6.5 x	11.6 x	8.0 x

Source: BPI Equity Research.

TV Multiples

	Price	EV/Sales		EV/EBITDA	
		2008	2009	2008	2009
TF1	17.33	1.5 x	1.4 x	9.4 x	8.0 x
Mediaset	5.77	1.8 x	1.8 x	5.6 x	5.2 x
ProSiebenSat1	13.61	1.8 x	1.7 x	7.5 x	6.8 x
M6	15.67	1.3 x	1.3 x	6.9 x	6.3 x
ITV	0.97	1.6 x	1.6 x	10.4 x	8.6 x
RTL	81.15	1.9 x	1.7 x	11.1 x	9.6 x
Antena 3	8.93	2.0 x	2.0 x	7.2 x	7.1 x
Media Capital	5.61	2.5 x	2.4 x	10.6 x	9.8 x
Telecinco	14.18	2.6 x	2.6 x	5.8 x	5.8 x
Average		1.9 x	1.8 x	8.3 x	7.5 x

Source: BPI Equity Research (Antena3, Media Capital, Telecinco) and JCF.

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	Low Risk	Medium Risk	High Risk
Buy	> 15%	>20%	>25%
Accumulate	>10% and < 15%	>10% and < 20%	>15% and < 25%
Hold	>0% and < 10%	>0% and < 10%	>0% and < 15%
Reduce	>-15% and < 0%	>-20% and < 0%	>-25% and < 0%
Sell	< -15%	< -20%	< -25%

These investment ratings are not strict and should be taken as a general rule.

INVESTMENT RATINGS STATISTICS

As of 31st January BPI Equity Research's investment ratings were distributed as follows:

Buy	46%
Accumulate	22%
Hold	17%
Reduce	10%
Sell/Accept Bid	5%
Total	100%

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