

Impresa

2004 Outlook

A conservative posture?

SNAPSHOT

- Impresa disclosed a weaker outlook than our estimates.
- We view Impresa's estimates for advertising growth as somewhat conservative.
- We have downgraded our estimates for TV, both in terms of revenues as well as in terms of cash costs.
- We have upgraded our estimates for the newspapers and magazines areas, reflecting good operating performances.
- We view the asset disposal plan as a way to reduce gearing and value accretive.
- We upgraded our YE04 price target to €3.90 (up from €3.7) per share and maintain a Neutral (High Risk) rating.

The outlook and our current estimates

Impresa disclosed last Wednesday its prospects for year ahead. These came below our estimates, namely in what regards the growth of the advertising market. In fact, while we are looking to a 6.6% growth of advertising in 2004, Impresa is expecting a 5% increase. We believe that Impresa has been conservative in this regard but nevertheless we will fine-tune our estimates, something that we had already highlighted in our 9M03 earnings comment.

Looking to 2003, we are expecting a 3.9% growth of the net advertising market whereas Impresa is slightly more conservative and expects a 3.5% growth. In this regard, we highlight that up to end of August the market was growing 3.8%. With this in mind, we underline that our YE estimate implies a 4.1% growth in the last four months of the year while Impresa's implied growth for the four months is 3.0%. While we believe we are being a bit optimistic, we also think that Impresa is on the pessimistic side.

Outlook and Deviations - 2003

€ million	2002	2003			Growth	
		BCP	Impresa	Dev	BCP	Impresa
Revenues	250.7	267.6	263.0	-1.7%	6.7%	4.9%
Television	130.4	145.7	142.0	-2.6%	11.8%	8.9%
Newspapers	50.5	50.5	50.5	0.1%	-0.2%	-0.1%
Magazines	72.8	73.9	75.0	1.5%	1.5%	3.1%
Cash Costs	238.3	223.0	220.7	-1.0%	-6.4%	-7.4%
Television	133.8	118.4	119.0	0.5%	-11.5%	-11.0%
Newspapers	46.4	43.4	42.3	-2.5%	-6.4%	-8.8%
Magazines	59.6	62.3	62.9	1.0%	4.5%	5.6%
EBITDAP	12.4	44.6	42.3	-5.1%	259.7%	241.5%
Television	-3.4	27.4	23.0	-15.9%	nm	nm
Newspapers	4.2	7.1	8.2	15.9%	69.8%	96.9%
Magazines	13.2	11.6	12.1	4.1%	-11.8%	-8.2%
EBITDAP Margin	4.9%	16.7%	16.1%	0.6pp	11.7pp	11.1pp
Television	-2.6%	18.8%	16.2%	2.6pp	21.4pp	18.8pp
Newspapers	8.2%	14.0%	16.2%	-2.2pp	5.8pp	8.0pp
Magazines	18.1%	15.7%	16.1%	-0.4pp	-2.4pp	-2.0pp

Source: BCP Investimento

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In what concerns consolidated net debt, we highlight that Impresa is looking to €146.8mn (excluding financial leases) by the end of 2003, while we are looking to €140.3mn (including financial leases).

Regarding 2004 estimates, we also believe that Impresa is on the conservative side. Not only is the Portuguese economy already showing signs of recovery with some level of consistency, but also there will be several events that should warrant abnormal advertising growth. In this regard, we highlight the Euro2004, the Rock in Rio that will take place in Lisbon and the Olympics that will take place in Athens during the pre-Summer months. We will maintain our growth estimates at this stage, as we also highlight that, according to Impresa, there will be further reductions in the advertising commissions paid to agencies in the TV segment (from 11% to 8%). Finally, in what concerns net debt, Impresa is looking to a €116.8mn in consolidated net debt by the end of 2004, whereas our current estimate is €107.3mn.

Outlook and Deviations - 2004

€ million	2003			2004			Growth	
	BCP	Impresa	Dev	BCP	Impresa	Dev	BCP	Impresa
Revenues	267.6	263.0	-1.7%	290.0	280.0	-3.4%	8.4%	6.5%
Television	145.7	142.0	-2.6%	161.6	152.5	-5.6%	10.9%	7.4%
Newspapers	50.5	50.5	0.1%	53.6	52.8	-1.5%	6.2%	4.6%
Magazines	73.9	75.0	1.5%	77.3	80.0	3.4%	4.7%	6.7%
Cash Costs	223.0	220.7	-1.0%	228.6	225.0	-1.6%	2.5%	1.9%
Television	118.4	119.0	0.5%	120.9	120.5	-0.3%	2.1%	1.3%
Newspapers	43.4	42.3	-2.5%	45.3	42.0	-7.3%	4.4%	-0.7%
Magazines	62.3	62.9	1.0%	63.4	66.4	4.8%	1.8%	5.6%
EBITDAP	44.6	42.3	-5.1%	61.4	55.0	-10.4%	37.8%	30.0%
Television	27.4	23.0	-15.9%	40.7	32.0	-21.3%	48.6%	39.1%
Newspapers	7.1	8.2	15.9%	8.3	10.8	30.7%	16.9%	31.7%
Magazines	11.6	12.1	4.1%	14.0	13.6	-2.7%	20.2%	12.4%
EBITDAP Margin	16.7%	16.1%	0.6pp	21.2%	19.6%	1.5pp	4.5pp	3.6pp
Television	18.8%	16.2%	2.6pp	25.2%	21.0%	4.2pp	6.4pp	4.8pp
Newspapers	14.0%	16.2%	-2.2pp	15.4%	20.5%	-5.0pp	1.4pp	4.2pp
Magazines	15.7%	16.1%	-0.4pp	18.1%	17.0%	1.1pp	2.3pp	0.9pp

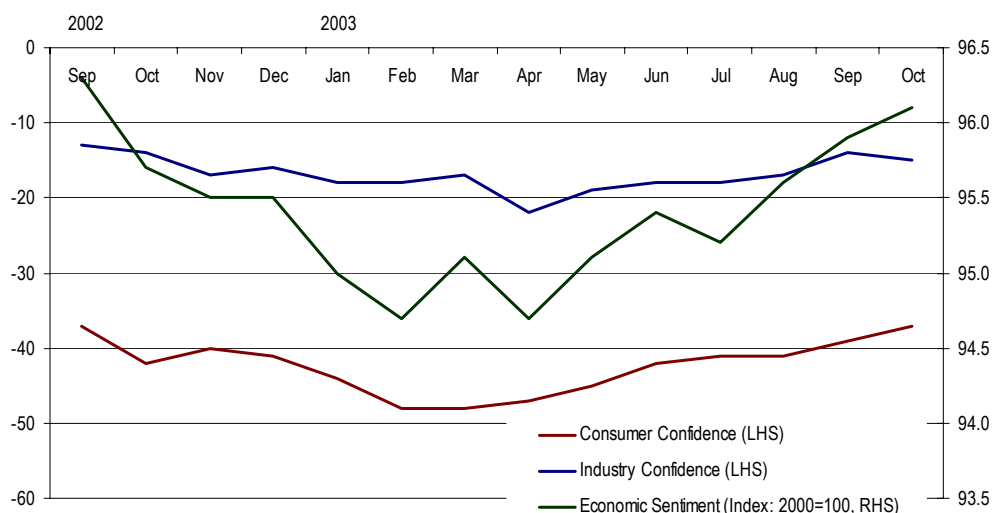
Source: BCP Investimento

Revising estimates

We believe that our current estimates have to be revised in some areas, in light of this new guidance. Nevertheless, we will maintain a more positive stance on the advertising market when compared with the view of Impresa.

We believe that the Portuguese economy is already showing some signs of recovery. In fact, the data points available indicate an evolution less unfavourable in the second half of the year when compared with the first. The confidence indicators of the industry and of the consumers have already initiated a trend that shows a consistent recovery in the confidence of these important economic participants. In addition, the indicator of economic confidence also shows a consistent recovery from May's bottom. Finally, we highlight that both the BoP and the European Commission are currently pointing to a 1.0% GDP growth in 2004, while OECD is slightly more optimistic and points to 1.2% in its November forecasts.

In what concerns the evolution of the advertising market, we believe that the several one-off events that will take place in 2004, namely the European Soccer Championship and the Rock In Rio festival should account for a higher than normal growth.



Taking into consideration the above, we have slightly adjusted the advertising market in 2003, namely regarding Radio and Outdoors and maintained our growth estimates for 2004. We have also slightly upgraded our long-term estimates in order to reflect a real growth of 2.0%.

Estimates Revision: Market

€ million	2003E	2004E	2005E	2006E	2007E	2008E	2009E	2010E	2011E
New estimates	585.7	624.5	659.6	693.3	726.6	760.6	794.9	830.7	868.0
Television	310.2	330.4	348.5	366.0	384.2	403.5	423.6	444.8	467.1
Press	144.9	154.3	162.0	169.3	176.0	183.1	190.4	198.0	205.9
Growth	3.9%	6.6%	5.6%	5.1%	4.8%	4.7%	4.5%	4.5%	4.5%
Television	7.5%	6.5%	5.5%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Press	-1.5%	6.5%	5.0%	4.5%	4.0%	4.0%	4.0%	4.0%	4.0%
Old estimates	577.1	615.3	648.2	679.5	708.4	737.6	766.8	796.9	828.2
Television	310.2	330.4	346.9	362.5	377.0	392.1	407.7	424.1	441.0
Newspapers	144.9	154.3	162.0	169.3	176.0	183.1	190.4	198.0	205.9
Growth	2.4%	6.6%	5.4%	4.8%	4.3%	4.1%	4.0%	3.9%	3.9%
Television	7.5%	6.5%	5.0%	4.5%	4.0%	4.0%	4.0%	4.0%	4.0%
Newspapers	-1.5%	6.5%	5.0%	4.5%	4.0%	4.0%	4.0%	4.0%	4.0%
Revision	1.5%	1.5%	1.7%	2.0%	2.6%	3.1%	3.7%	4.2%	4.8%
Television	0.0%	0.0%	0.5%	1.0%	1.9%	2.9%	3.9%	4.9%	5.9%
Newspapers	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: BCP Investimento

Estimates Revision: Revenues

€ million	2003E	2004E	2005E	2006E	2007E	2008E	2009E	2010E	2011E
New estimates	267.9	291.2	306.0	319.6	333.2	347.3	361.6	376.2	391.5
Television	145.0	159.5	168.5	176.3	184.3	192.6	200.9	209.7	218.8
Newspapers	50.5	53.6	56.3	59.1	61.7	64.5	67.3	70.0	72.7
Magazines	75.0	80.6	83.8	87.0	90.0	93.1	96.4	99.8	103.3
Old estimates	262.4	287.2	303.3	318.2	332.2	346.7	361.1	375.8	391.1
Television	145.7	161.6	171.5	180.3	188.7	197.3	205.8	214.7	224.1
Newspapers	50.5	53.6	56.3	59.1	61.7	64.5	67.3	70.0	72.7
Magazines	73.9	77.3	80.4	83.4	86.3	89.4	92.5	95.7	99.1
Revision	2.1%	1.4%	0.9%	0.5%	0.3%	0.2%	0.1%	0.1%	0.1%
Television	-0.5%	-1.3%	-1.8%	-2.2%	-2.3%	-2.4%	-2.4%	-2.4%	-2.3%
Newspapers	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Magazines	1.4%	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%

Source: BCP Investimento

In terms of top-line we have adjusted our growth estimates for TV in order to reflect lower gains in terms of power ratio as well as lower income from thematic channels. We have also applied the same trend over the coming years, with a particular emphasis on downgrades of revenues coming from this later area, although these revisions were partially offset by upgrades in the other revenues area, particularly SMS's. Still regarding top-line, we highlight that estimates for the newspaper area were maintained at previous level. Our estimates for the magazines area were upgraded, mainly reflecting the good performance in terms of circulation and cover prices.

In what regards cash costs, we have upgraded our estimates in TV, reflecting higher programming costs associated with the production of Portuguese content as well as the with trend to reinvest forex gains in programming. We have also revised our estimates in the newspaper area to reflect the very good operating performance that was already shown in 3Q03 results and lower paper prices. Finally, we have slightly upgraded our cash-costs estimates for the magazines area in order to reflect higher personnel costs and also the costs associated with the increase in the number of publications that carry higher launch costs and increased merchandising activities in order to face competition in several segments.

Estimates Revision: Cash Costs

€ million	2003E	2004E	2005E	2006E	2007E	2008E	2009E	2010E	2011E
New estimates	223.3	234.0	241.1	249.3	257.5	265.9	274.3	282.8	291.6
Television	119.2	125.8	130.4	134.5	138.6	142.7	146.8	150.9	155.3
Newspapers	42.2	42.9	44.6	46.4	48.1	49.9	51.7	53.5	55.3
Magazines	62.9	66.3	67.1	69.4	71.7	74.1	76.6	79.2	81.9
Old estimates	221.9	228.8	237.0	244.9	253.1	261.7	270.5	279.2	288.6
Television	118.4	120.9	125.6	129.5	133.3	137.6	141.9	146.1	151.0
Newspapers	43.4	45.3	47.2	49.0	50.8	52.7	54.6	56.5	58.4
Magazines	62.3	63.4	64.5	66.4	68.6	70.9	73.3	75.8	78.3
Revision	0.6%	2.3%	1.8%	1.8%	1.7%	1.6%	1.4%	1.3%	1.1%
Television	0.7%	4.0%	3.8%	3.9%	4.0%	3.7%	3.4%	3.3%	2.9%
Newspapers	-2.7%	-5.4%	-5.3%	-5.3%	-5.3%	-5.3%	-5.3%	-5.3%	-5.3%
Magazines	1.0%	4.7%	4.0%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%

Source: BCP Investimento

Estimates Revision: EBITDAP

€ million	2003E	2004E	2005E	2006E	2007E	2008E	2009E	2010E	2011E
New Estimates	44.6	57.2	64.9	70.3	75.7	81.4	87.4	93.5	99.9
Television	25.8	33.7	38.1	41.8	45.7	49.9	54.2	58.7	63.6
Newspapers	8.2	10.7	11.7	12.7	13.6	14.6	15.6	16.5	17.4
Magazines	12.1	14.3	16.7	17.6	18.3	19.0	19.8	20.6	21.4
Old estimates	40.5	58.4	66.4	73.3	79.2	84.9	90.6	96.6	102.5
Television	27.4	40.7	45.8	50.8	55.3	59.7	63.9	68.6	73.1
Newspapers	7.1	8.3	9.2	10.1	10.9	11.8	12.7	13.5	14.3
Magazines	11.6	14.0	15.9	17.0	17.7	18.4	19.2	20.0	20.8
Revision	10.1%	-2.1%	-2.2%	-4.0%	-4.4%	-4.1%	-3.6%	-3.3%	-2.6%
Television	-5.7%	-17.1%	-16.9%	-17.7%	-17.3%	-16.5%	-15.3%	-14.4%	-13.1%
Newspapers	16.4%	29.4%	27.4%	25.9%	24.8%	23.7%	22.7%	22.0%	21.4%
Magazines	4.0%	2.2%	5.2%	3.2%	3.1%	3.1%	3.1%	3.1%	3.0%

Source: BCP Investimento

The tables below synthesises our new estimates, versus Impresa's guidance. Our new estimates are now much more closer to Impresa's guidance, although still reflect our higher optimism in what regards the evolution of the advertising market, namely in TV.

Outlook and Deviations - 2003; New estimates

€ million	2002	2003			Growth	
		BCP	Impresa	Dev	BCP	Impresa
Revenues	250.7	267.9	263.0	-1.8%	6.9%	4.9%
Television	130.4	145.0	142.0	-2.1%	11.3%	8.9%
Newspapers	50.5	50.5	50.5	0.1%	-0.2%	-0.1%
Magazines	72.8	75.0	75.0	0.1%	3.0%	3.1%
Cash Costs	238.3	223.3	220.7	-1.2%	-6.3%	-7.4%
Television	133.8	119.2	119.0	-0.2%	-10.9%	-11.0%
Newspapers	46.4	42.2	42.3	0.2%	-8.9%	-8.8%
Magazines	59.6	62.9	62.9	0.1%	5.5%	5.6%
EBITDAP	12.4	44.6	42.3	-5.2%	260.2%	241.5%
Television	-3.4	25.8	23.0	-10.8%	nm	nm
Newspapers	4.2	8.2	8.2	-0.4%	97.7%	96.9%
Magazines	13.2	12.1	12.1	0.0%	-8.2%	-8.2%
EBITDAP Margin	4.9%	16.7%	16.1%	0.6pp	11.7pp	11.1pp
Television	-2.6%	17.8%	16.2%	1.6pp	20.4pp	18.8pp
Newspapers	8.2%	16.3%	16.2%	0.1pp	8.1pp	8.0pp
Magazines	18.1%	16.1%	16.1%	0.0pp	-2.0pp	-2.0pp

Source: BCP Investimento

Outlook and Deviations - 2004; New estimates

€ million	2003			2004			Growth	
	BCP	Impresa	Dev	BCP	Impresa	Dev	BCP	Impresa
Revenues	267.9	263.0	-1.8%	291.2	280.0	-3.8%	8.7%	6.5%
Television	145.0	142.0	-2.1%	159.5	152.5	-4.4%	10.0%	7.4%
Newspapers	50.5	50.5	0.1%	53.6	52.8	-1.5%	6.2%	4.6%
Magazines	75.0	75.0	0.1%	80.6	80.0	-0.8%	7.6%	6.7%
Cash Costs	223.3	220.7	-1.2%	234.0	225.0	-3.9%	4.8%	1.9%
Television	119.2	119.0	-0.2%	125.8	120.5	-4.2%	5.5%	1.3%
Newspapers	42.2	42.3	0.2%	42.9	42.0	-2.1%	1.5%	-0.7%
Magazines	62.9	62.9	0.1%	66.3	66.4	0.1%	5.6%	5.6%
EBITDAP	44.6	42.3	-5.2%	57.2	55.0	-3.8%	28.1%	30.0%
Television	25.8	23.0	-10.8%	33.7	32.0	-5.0%	30.7%	39.1%
Newspapers	8.2	8.2	-0.4%	10.7	10.8	1.0%	29.9%	31.7%
Magazines	12.1	12.1	0.0%	14.3	13.6	-4.8%	18.0%	12.4%
EBITDAP Margin	16.7%	16.1%	0.6pp	19.6%	19.6%	0.0pp	3.0pp	3.6pp
Television	17.8%	16.2%	1.6pp	21.1%	21.0%	0.1pp	3.3pp	4.8pp
Newspapers	16.3%	16.2%	0.1pp	20.0%	20.5%	-0.5pp	3.6pp	4.2pp
Magazines	16.1%	16.1%	0.0pp	17.7%	17.0%	0.7pp	1.6pp	0.9pp

Source: BCP Investimento

Valuation Revision

Our valuation of Impresa, sum-of-the parts based, was upgraded to €3.90 per share. We provide below a description of the main effects:

- The reduction in terms of overall and TV EBITDAP margins was partially offset by reduced capex estimates that were clearly above the company guidance. Nevertheless, the TV unit was downwards revised by 4% versus our previous valuation.
- Both the magazines and newspaper units were upgraded as a result of the upgrades in the estimates for both units.
- Net debt (we include in this figure the debt raised with financial leases) was also revised upwards as a result of higher working capital investment, namely in SIC.
- Disposal of non-core assets, as describer below.

Impresa: Sum of the Parts

€ million	EV	Equity	Stake	Value to Impresa	Method	Weight	Implied Multiple	Revision
Television	482.6	422.0	51.0%	215.2	DCF	59%	EV/EBITDA 04 15.1x	-4%
Magazines	149.9	117.2	50.0%	58.6	DCF	16%	EV/EBITDA 03 14.1x	15%
Newspapers	101.6	85.6	100.0%	85.6	DCF	23%	EV/EBITDA 03 14.6x	42%
Other Investments		6.0		6.0	BV	2%	P/BV 1.0x	0%
Sum-of-the-Parts				365.4		100%		7%
Non Consolidated Net Debt				53.9				72%
Consolidated Net Debt				161.6				15%
Television				59.2				0%
Magazines				32.5				-4%
Newspapers				16.0				0%
Market value of assets not affected to operations				16.5				nm
Equity Value				328.0				6%
Number of shares				84.00				0%
Fair Value - YE 2003				3.91				6%
Price Target - YE 2003				3.90				5%

Note: Debt figures include leases

Source: BCP Investimento

Finally, we highlight that Impresa is willing to enter on sale and lease back agreements concerning several buildings that could lead to potential cash proceeds of €26mn, namely:

- SIC's building – a deal that may be closed in early 2004 and could lead to a cash inflow of about €10mn. This building will be sold via a sale-and-leaseback (operational lease) scheme and its cost is already included in the EBITDA objectives for 2004. When happening this deal will be value accretive with an impact of €0.11 per share. It is already included in our SoP.
- SIC's old FNAC site – with a likely sale in 2005 (book value of this building is about €4.2mn, or €0.05 per share). We maintain a cautious perspective in this regard as there is no indication of a market price of this site, although this asset is not affected to operation. Not included in our SoP
- Edimpresa's building - currently under a 15-year lease and that has a market value of around €20mn. Possible sale in 2004. This is a building affected to current operations and the operational leaseback should have a negative impact in EBITDA. As such, we maintain that this operation is value neutral and not included in our SoP.
- Bela Vista Site – Possible sale in 2004 of a site that has a permission to build 16k sqm of office space and that has been given as a warranty for a €7.5mn loan. We recognize that this loan acts as a good proxy for market value (meaning €0.09 per share) and will be included in our SoP.

In addition, we believe that this process could in fact lead to several cash inflows that can help reduce the relatively high gearing of Impresa (excluding the Edimpresa's building).