

TLEVISA

Quarterly Report

July 10, 2019

Valuation reflects excessive beating

- **2Q19 results stood in line with our estimates and slightly below the consensus. Figures show weakness in advertising from an overall government spending reduction and a difficult comparative basis**
- **Such difficult comparison resulted from two extraordinary items: the licensing of broadcast and digital rights of the World Cup (MXN\$1.7 billion) and the sale of 19% stake in Imagina (MXN\$3.5 billion)**
- **Televisa's current valuation shows an excessive beating given the impact of lower spending in advertising, an uncertain local environment and concerns over changes in content consumption**

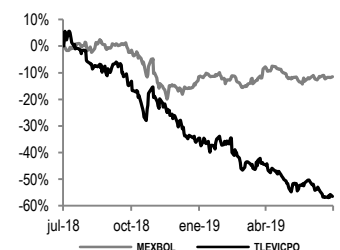
The company will assess strategic options in Univision. 2Q19 results stood in line with our estimates regarding operating level but above expectations in terms of net profit. The company reported weakness in advertising revenue due to lower government spending and a difficult comparative basis derived from two extraordinary items: MXN\$1.7 billion from the licensing of broadcast and digital rights of the World Cup and MXN\$3.4 billion from the sale of 19% stake in Imagina. Televisa posted MXN\$24.3 billion in revenue, up 9.0% and MXN\$9.4 billion in EBITDA, down 7.4% yoy, which equals a 39% margin, +70bps vs 2Q18. The Content segment reported a 26.6% drop in revenue and a 2.8pp downturn in profitability while the Cable business posted a 15.7% rise with a 1.6pp expansion in EBITDA margin. In terms of net profit, the company reported MXN\$919 million, a 78.6% reduction vs 2Q18 but above our MXN\$630 million estimate. Recently, Univision informed that the Board of Directors will assess strategic options, including a possible sale. We have adjusted our PT 2019 to MXN43.50 reflecting a lower valuation, we have changed our recommendation to BUY although downside risks linger.

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BUY

Current Price	\$33.44
PT 2019	\$43.50
Dividend 2019e	\$0.00
Dividend Yield (%)	0.0%
Upside Potential	30.1%
ADR current price	US\$8.74
ADR PT2019	US\$10.21
Shares per ADR	5
Max – Min LTM (P\$)	79.43 – 32.41
Market Cap (US\$m)	5,049
Shares Outstanding (m)	2,891
Float	80%
Daily Turnover (P\$ m)	115
Valuation metrics TTM	
FV/EBITDA	5.7x
P/E	38.0x

Relative performance to Mexbol
LTM

Financial Statements

	2017	2018	2019E	2020E
Revenue	93,697	101,282	99,420	101,244
Operating Income	14,243	20,253	16,402	16,670
EBITDA	35,175	38,524	37,841	38,208
EBITDA Margin	37.5%	38.0%	38.1%	37.7%
Net Income	4,193	6,009	2,950	2,628
Net Margin	4.5%	5.9%	3.0%	2.6%
Total Assets	297,220	297,842	309,802	307,021
Cash	38,735	32,068	34,383	27,442
Total Liabilities	197,563	193,061	213,845	220,336
Debt	133,404	131,135	152,080	156,978
Common Equity	99,657	104,781	95,957	86,685

Source: Banorte

Valuation and Financial metrics

	2017	2018	2019E	2020E
FV/EBITDA	5.9x	5.5x	6.0x	6.2x
P/E	23.3x	16.1x	32.4x	36.2x
P/BV	1.1x	1.1x	1.2x	1.3x
ROE	4.9%	6.7%	3.6%	3.5%
ROA	1.4%	2.0%	1.0%	0.9%
EBITDA/ Interest	3.8x	4.0x	3.6x	3.7x
Net Debt/EBITDA	2.7x	2.6x	3.1x	3.2x
Debt/Equity	1.3x	1.3x	1.6x	1.8x

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Document for distribution among public

TLEVISA –Results 2Q19

MXN million

Concept	2Q18	2Q19	Var %	2Q19e	Diff% vs Estim.
Revenue	26,702	24,308	-9.0%	24,247	0.3%
Operating Income	8,622	4,110	-52.3%	3,685	11.5%
Ebitda	10,233	9,472	-7.4%	9,023	5.0%
Net Income	4,297	919	-78.6%	630.28	45.8%
Margins					
Operating Margin	32.3%	16.9%	-15.4pp	15.2%	1.7pp
Ebitda Margin	38.3%	39.0%	0.6pp	37.2%	1.8pp
Net Margin	16.1%	3.8%	-12.3pp	2.6%	1.2pp
EPS	\$1.48	\$0.32	-78.4%	\$0.22	45.8%

Income Statement (Million pesos)

Year	2018	2019	2019	Change	Change
Quarter	2	1	2	% YoY	% QoQ
Net Revenue	26,702	23,395	24,308	-9.0%	3.9%
Costs of goods sold	15,080	13,264	13,815	-8.4%	4.2%
Gross profit	11,622	10,131	10,492	-9.7%	3.6%
General expenses	6,238	6,472	6,099	-2.2%	-5.8%
Operating Income	8,622	3,470	4,110	-52.3%	18.4%
Operating Margin	32.3%	14.8%	16.9%	(15.4pp)	2.1pp
Depreciation	4,848	5,216	5,079	4.8%	-2.6%
EBITDA	10,233	8,875	9,472	-7.4%	6.7%
EBITDA Margin	38.3%	37.9%	39.0%	0.6pp	1.0pp
Interest Income (Expense) net	(1,775)	(2,274)	(2,268)	27.8%	-0.2%
Interest expense	2,353	2,407	2,576	9.5%	7.0%
Interest income	439	296	349	-20.5%	17.7%
Other income (expense)	626	(303)	(366)	N.A.	20.9%
Foreign exchange gain (loss)	(488)	139	325	N.A.	133.9%
Unconsolidated subsidiaries	477	166	164	-65.7%	-1.2%
Income before taxes	7,324	1,362	2,005	-72.6%	47.2%
Income taxes	2,564	504	742	-71.1%	47.2%
Discontinued operations					
Consolidated Net Income	4,761	858	1,263	-73.5%	47.2%
Non-controlling interest	463	316	344	-25.7%	8.8%
Net Income	4,297	542	919	-78.6%	69.7%
Net Margin	16.1%	2.3%	3.8%	(12.3pp)	1.5pp
EPS	1.475	0.187	0.318	-78.4%	69.7%

Balance Sheet (Million pesos)

Total Current Assets	83,639	72,497	84,003	0.4%	15.9%
Cash & Short Term Investments	44,593	23,563	37,918	-15.0%	60.9%
Long Term Assets	212,367	228,634	227,497	7.1%	-0.5%
Property, Plant & Equipment (Net)	83,738	83,692	82,754	-1.2%	-1.1%
Intangible Assets (Net)	21,262	28,587	28,891	35.9%	1.1%
Total Assets	296,006	301,131	311,500	5.2%	3.4%
Current Liabilities	47,379	53,806	52,678	11.2%	-2.1%
Short Term Debt	4,234	5,284	5,219	23.3%	-1.2%
Accounts Payable	40,258	45,924	44,859	11.4%	-2.3%
Long Term Liabilities	145,163	143,560	156,359	7.7%	8.9%
Long Term Debt	128,311	128,811	141,718	10.4%	10.0%
Total Liabilities	192,542	197,366	209,037	8.6%	5.9%
Common Stock	103,464	103,765	102,463	-1.0%	-1.3%
Non-controlling interest	14,368	13,755	14,100	-1.9%	2.5%
Total Equity	89,097	90,010	88,363	-0.8%	-1.8%
Liabilities & Equity	296,006	301,131	311,500	5.2%	3.4%
Net Debt	87,953	110,532	109,019	24.0%	-1.4%

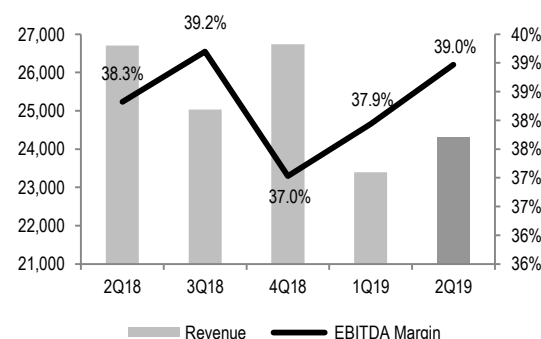
Cash Flow

CF from Operating Activities	10,499.5	856.9	9,446.2
CF from Investing Activities	1,540.9	(4,596.3)	(3,810.2)
CF from Financing Activities	(5,297.9)	(4,750.4)	8,737.4
FX effect on cash	145.0	(15.6)	(18.3)
Change in Cash Balance	6,887.5	(8,505.3)	14,355.1

Source: Banorte, MSE

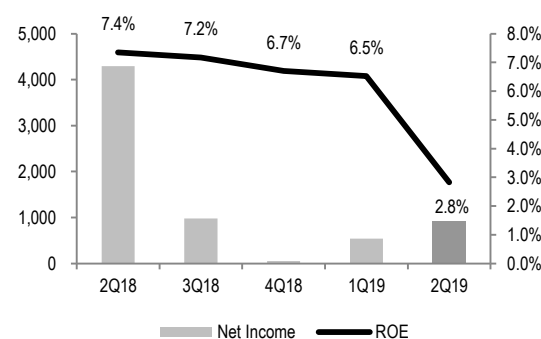
Revenue & EBITDA Margin

MXN, million



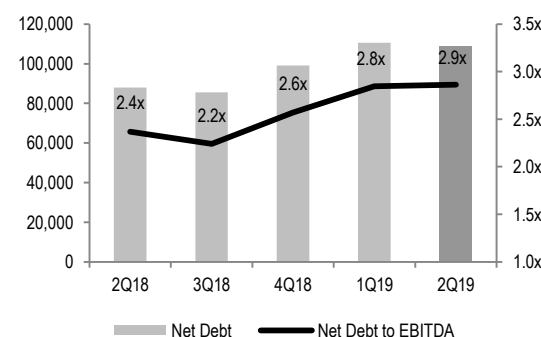
Net Income & ROE

MXN, million



Net Debt & Net Debt to EBITDA ratio

MXN, million



Revenue in line with our estimates. Televisa reported MXN\$24.3 billion in consolidated revenue, down an annual 9.0%. Excluding extraordinary revenue from the licensing of certain broadcast and digital rights of the World Cup, revenue fell 2.7% vs 2Q18. Breaking down consolidated revenue figures, Televisa reported the following variations: **Content -26.6% (vs -24.5%e)** mainly due to: (1) a 17% decline in advertising revenue derived from lower government spending; (2) a 58.8% reduction (vs -57.5%e) in the Sale of channels from a difficult comparative basis; and (3) an 11.1% setback (vs -3.9%e) in the Sale of programs and licenses given lower global wide demand of content and lower Univision royalties. The company mentioned that in terms of advertising revenue, the comparative basis is difficult vs. 2Q18 due to the year-ago broadcasting of the World Cup and from an Easter Week calendar effect (2Q19). Excluding such effects, revenue from the sale of advertising to the private sector fell 5% in view of an economic slowdown, exchange rate volatility and a cautious stance by the advertisers. **SKY -5.5% (vs -5.1%e)** due to a lower video subscriber base (-4.1% vs 2Q18) and a service bundling effect on rates. Sequentially, the company reported a 1% increase in the subscriber base due to net additions in video and broadband services, the latter commercialized under the name *Blue Telecom*. **Cable +15.7% (vs +12.9%)** resulting from a 16.1% increment of Revenue Generating Units (RGU's) to 12.4 million. This growth is due to the acquisition of Axtel's residential fiber-to-the-home business in 4Q18 and 286 thousand net additions during the quarter. Furthermore, average revenue per Unit (ARPU) stood flat at MXN\$247 (+0.9%).

Against our expectations, Televisa reported a 70bp expansion in profitability. The company reported MXN\$9.4 billion in EBITDA, down 7.4% yoy and a 39.0% margin (+70bps vs 2Q18). Excluding the gain from the World Cup's broadcasting and digital rights, EBITDA would rise 0.6% yoy due to an improved cost structure and economies of scale. In the Content segment, the EBITDA margin stood at 36.4%, beating our 32% estimate; in SKY, such margin came in at 43.1% vs 44%e due to higher expenses from the unfolding of Blue Telecom services; and in the Cable segment, the margin stood at 43.8%, slightly above our 43.2% forecast given greater economies of scale and synergies.

Financial expenses rose due to higher debt, derivative positions and accounting changes (IFRS 16). During the second quarter of the year, Televisa posted MXN\$2.2 billion in financial expenses, a 27.8% yoy increase, resulting from a 9.5% surge in interest expenses, including MXN\$104.8 million related to lease liabilities, an unfavorable change in the reasonable value of its derivative contracts, partially offset by a MXN\$325 million exchange gain vs. a MXN\$488 million loss.

Excluding non-recurring items, net profit rose. In 2Q18, the sale of 19% stake in Imagina produced MXN\$3.5 billion in extraordinary profit, raising the comparative basis. Excluding such figure, net profit grew 2.3%.

Net debt surges from lease liabilities (IFRS 16) and the contracting of new credits. The company ended the quarter with MXN\$144.9 billion in interest-bearing debt and MXN\$109.0 billion in net debt, up 23.9% (excluding non-current investments in financial securities). Such increase derives mainly from the recognition of lease liabilities, higher debt and less disposable cash. During the quarter, Televisa issued a bond in the international market for an amount of MXN\$750 million due in 2049 and at a 5.25% interest rate. These resources will be used for corporate purposes in general which may include early debt payment. Furthermore, during the month of July, Televisa contracted a 5-year syndicated credit for MXN\$10 billion at a variable rate of 105 to 130bps over TIIE depending on certain financial reasons and interests expense level.

We consider the valuation sidelines the company's fundamentals. During the last twelve months, the share has performed highly negative (-55.5% vs -13.0% the Mexbol) given concerns over the impact of lower government spending on the company's revenues. Moreover, investors question the performance of SKY against other integrated service competitors (voice, data and video) and over the impact this would have on Cable operations and the way people consume content. At current prices, the share trades at 5.7x FV/EBITDA, its historically lowest level.

We have incorporated results and updated PT 2019. In the multiples valuation, we have broken down the 2019E EBITDA by business segment and based on valuation parameters of international comparable companies, we have chosen multiples for each segment. In addition, we have applied a discount between 17% and 35% to each business due to local uncertainty and their business outlooks.

Multiples Valuation

MXN, million

Segment	EBITDA 2019E	FV/EBITDA	FV	Per share
Contents	11,723.8	5.5x	64,480.7	22.53
SKY	9,141.6	6.1x	55,855.3	19.52
Cable	17,705.0	7.0x	123,935.3	43.31
Others	1,370.5	1.3x	1,781.6	0.62
Corporate expenses	(2,099.5)		(2,099.5)	(0.73)
Total	37,841.4	6.4x	243,953.3	85.25
(-) Net Debt			(117,696.9)	(41.13)
(-) Minority Interest			(13,204.9)	(4.61)
(+) Univision @ 0.3x P/VL			11,466.5	4.01
Equity Value			124,518.0	
Shares (CPO)			2,861.7	
Theoretical Price			\$43.51	

Source: Banorte

Certification of Analysts.

We, Gabriel Casillas Olvera, Delia Maria Paredes Mier, Alejandro Padilla Santana, Manuel Jiménez Zaldívar, Tania Abdul Massih Jacobo, Katia Celina Goya Ostos, Juan Carlos Alderete Macal, Víctor Hugo Cortes Castro, Marissa Garza Ostos, Miguel Alejandro Calvo Domínguez, Hugo Armando Gómez Solís, Gerardo Daniel Valle Trujillo, José Itzamna Espitia Hernández, Valentín III Mendoza Balderas, Santiago Leal Singer, Francisco José Flores Serrano, Francisco Duarte Alcocer and Leslie Thalía Orozco Vélez, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

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HOLD	When the share expected performance is similar to the MEXBOL estimated performance.
SELL	When the share expected performance is lower than the MEXBOL estimated performance.

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PT and recommendation history

Stock	Date	Rating	PT
Tlevisa CPO	22/01/2019	Hold	\$57.00
Tlevisa CPO	26/04/2018	Buy	\$81.00
Tlevisa CPO	20/02/2018	Hold	\$88.00
Tlevisa CPO	26/10/2017	Hold	\$97.00

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