

# TLEVISA

Quarterly Report

February 21, 2019

## Neutral report, vertical integration to continue

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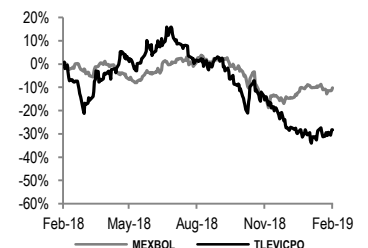
- **Televisa's earnings stood in line with our estimates at operating level, but reported below our projections at net level. The restructuring decision was to remain as a vertically integrated telecomm operator**
- **The Content business reported a decrease in revenue from lower sales in advertising to government entities and an adjustment in revenue from Univision but on improved profitability**
- **4Q18 figures slightly raise multiples (from 6.4x to 6.7x FV/EBITDA). The low valuation is not enough of a condition to boost the price of the share, we reiterate our HOLD rating**

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**HOLD**

Current Price	\$49.22
<b>PT 2019</b>	<b>\$57.00</b>
Dividend 2019e	\$0.35
Dividend Yield (%)	0.7%
Upside Potential	16.5%
ADR current price	US\$12.75
ADR PT2019	US\$13.38
Shares per ADR	5
Max – Min LTM (P\$)	79.43 – 45.26
Market Cap (US\$m)	7,429
Shares Outstanding (m)	2,892
Float	80%
Daily Turnover (P\$ m)	154
<b>Valuation metrics TTM</b>	
FV/EBITDA	6.7x
P/E	23.7x

**The company concludes that asset separation will not create value for shareholders.** After a year of analyzing strategic alternatives, the company decided to remain as a vertically integrated media and telecommunications operator. It will keep looking for growth opportunities in the Cable segment in addition to maximizing profits in Content and SKY. We consider these results to be neutral as they stood in line with our expectations at operating level. The company reported MXN 26.7 billion in revenue, +2.4% vs. 4Q17. This time, the segments that acted as growth engines were Cable and Other Business. At EBITDA level, the company produced MXN 9.9 billion, up an annual 3.9% and a 50bp margin expansion to 37% (vs. 36.8%e). On this occasion, the Content segment was the only division that increased profitability (+90bps to 37.9%) offsetting pressure on margins from other divisions. Net profit (MXN 56 million) missed our forecast considerably (MXN 786 million) due to a Finance Expense (+19.7%) and a tax rate increase, impairment of assets in the Cable segment and a drop in profit from Univision.

**Relative performance to Mexbol**  
 LTM

**Financial Statements**

	2017	2018	2019E	2020E
Revenue	93,697	101,282	100,217	103,447
Operating Income	14,243	20,253	16,375	17,095
EBITDA	35,175	38,524	38,114	39,625
EBITDA Margin	37.5%	38.0%	38.0%	38.3%
Net Income	4,193	6,009	3,113	3,409
Net Margin	4.5%	5.9%	3.1%	3.3%
Total Assets	297,220	297,842	307,634	313,815
Cash	38,735	32,068	34,201	38,245
Total Liabilities	197,563	193,061	202,246	205,177
Debt	133,404	131,135	138,207	139,628
Common Equity	99,657	104,781	105,388	108,638

Source: Banorte

**Valuation and Financial metrics**

	2017	2018	2019E	2020E
FV/EBITDA	7.2x	6.7x	6.9x	6.5x
P/E	34.3x	23.7x	45.7x	41.7x
P/BV	1.7x	1.6x	1.6x	1.5x
ROE	4.9%	6.7%	3.5%	3.7%
ROA	1.4%	2.0%	1.0%	1.1%
EBITDA/ Interest	3.8x	4.0x	3.7x	3.6x
NetDeb#EBITDA	2.7x	2.6x	2.7x	2.6x
Deb#Equity	1.3x	1.3x	1.3x	1.3x

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## TLEVISA –Results 4Q18

MXN million

Concept	4Q17	4Q18	Var %	4Q18e	Diff% vs Estim.
Revenue	26,103	26,735	2.4%	26,123	2.3%
Operating Income	3,630	3,664	1.0%	4,135	-11.4%
Ebitda	9,533	9,901	3.9%	9,622	2.9%
Net Income	563	56	-90.0%	786	-92.8%
<b>Margins</b>					
Operating Margin	13.9%	13.7%	-0.2pp	15.8%	-2.1pp
Ebitda Margin	36.5%	37.0%	0.5pp	36.8%	0.2pp
Net Margin	2.2%	0.2%	-1.9pp	3.0%	-2.8pp
EPS	\$0.19	\$0.02	-89.8%	\$0.27	-92.8%

### Income Statement (Million pesos)

Year	2017	2018	2018	Change	Change
Quarter	4	3	4	% YoY	% QoQ
<b>Net Revenue</b>	<b>26,103.1</b>	<b>25,033.2</b>	<b>26,735.3</b>	<b>2.4%</b>	<b>6.8%</b>
Costs of goods sold	15,009.1	14,208.5	15,490.4	3.2%	9.0%
Gross profit	11,094.0	10,824.7	11,244.8	1.4%	3.9%
General expenses	6,338.2	6,050.4	6,491.5	2.4%	7.3%
<b>Operating Income</b>	<b>3,629.7</b>	<b>4,341.8</b>	<b>3,664.2</b>	<b>1.0%</b>	<b>-15.6%</b>
<b>Operating Margin</b>	<b>13.9%</b>	<b>17.3%</b>	<b>13.7%</b>	<b>(0.2pp)</b>	<b>(3.6pp)</b>
Depreciation	4,777.0	5,037.8	5,147.5	7.8%	2.2%
<b>EBITDA</b>	<b>9,532.8</b>	<b>9,812.1</b>	<b>9,900.8</b>	<b>3.9%</b>	<b>0.9%</b>
<b>EBITDA Margin</b>	<b>36.5%</b>	<b>39.2%</b>	<b>37.0%</b>	<b>0.5pp</b>	<b>(2.2pp)</b>
<b>Interest Income (Expense) net</b>	<b>(1,933.3)</b>	<b>(2,489.3)</b>	<b>(2,314.5)</b>	<b>19.7%</b>	<b>-7.0%</b>
Interest expense	2,555.2	2,395.0	2,670.4	4.5%	11.5%
Interest income	823.0	419.2	405.1	-50.8%	-3.4%
Other income (expense)	894.0	(530.5)	253.8	-71.6%	-147.8%
Foreign exchange gain (loss)	(1,095.1)	17.0	(303.0)	-72.3%	-1884.1%
Unconsolidated subsidiaries	892.6	326.6	(378.0)	-142.3%	-215.7%
<b>Income before taxes</b>	<b>2,589.0</b>	<b>2,179.1</b>	<b>971.8</b>	<b>-62.5%</b>	<b>-55.4%</b>
Income taxes	1,459.4	699.5	591.8	-59.4%	-15.4%
Discontinued operations					
<b>Consolidated Net Income</b>	<b>1,129.6</b>	<b>1,479.6</b>	<b>380.0</b>	<b>-66.4%</b>	<b>-74.3%</b>
Non-controlling interest	566.7	501.6	323.5	-42.9%	-35.5%
<b>Net Income</b>	<b>562.9</b>	<b>978.0</b>	<b>56.5</b>	<b>-90.0%</b>	<b>-94.2%</b>
<b>Net Margin</b>	<b>2.2%</b>	<b>3.9%</b>	<b>0.2%</b>	<b>(1.9pp)</b>	<b>(3.7pp)</b>
<b>EPS</b>	<b>0.192</b>	<b>0.336</b>	<b>0.020</b>	<b>-89.8%</b>	<b>-94.2%</b>

### Balance Sheet (Million pesos)

<b>Total Current Assets</b>	<b>87,044.7</b>	<b>76,492.7</b>	<b>72,139.0</b>	<b>-17.1%</b>	<b>-5.7%</b>
Cash & Short Term Investments	38,734.9	42,426.8	32,068.3	-17.2%	-24.4%
<b>Long Term Assets</b>	<b>210,175.4</b>	<b>211,472.8</b>	<b>225,703.4</b>	<b>7.4%</b>	<b>6.7%</b>
Property, Plant & Equipment (Net)	85,719.8	84,265.8	87,342.5	1.9%	3.7%
Intangible Assets (Net)	21,773.8	20,901.2	28,949.9	33.0%	38.5%
<b>Total Assets</b>	<b>297,220.1</b>	<b>287,965.5</b>	<b>297,842.4</b>	<b>0.2%</b>	<b>3.4%</b>
<b>Current Liabilities</b>	<b>50,764.8</b>	<b>43,443.6</b>	<b>48,952.9</b>	<b>-3.6%</b>	<b>12.7%</b>
Short Term Debt	3,863.2	4,741.4	4,196.7	8.6%	-11.5%
Accounts Payable	44,353.8	35,628.1	41,699.8	-6.0%	17.0%
<b>Long Term Liabilities</b>	<b>146,798.4</b>	<b>138,956.0</b>	<b>144,108.5</b>	<b>-1.8%</b>	<b>3.7%</b>
Long Term Debt	129,540.6	123,168.3	126,938.2	-2.0%	3.1%
<b>Total Liabilities</b>	<b>197,563.2</b>	<b>182,399.6</b>	<b>193,061.4</b>	<b>-2.3%</b>	<b>5.8%</b>
Common Stock	99,656.9	105,565.9	104,781.0	5.1%	-0.7%
Non-controlling interest	13,995.2	14,751.9	15,070.3	7.7%	2.2%
<b>Total Equity</b>	<b>85,661.8</b>	<b>90,814.0</b>	<b>89,710.7</b>	<b>4.7%</b>	<b>-1.2%</b>
<b>Liabilities &amp; Equity</b>	<b>297,220.1</b>	<b>287,965.5</b>	<b>297,842.4</b>	<b>0.2%</b>	<b>3.4%</b>
<b>Net Debt</b>	<b>94,668.9</b>	<b>85,471.5</b>	<b>99,066.6</b>	<b>4.6%</b>	<b>15.9%</b>

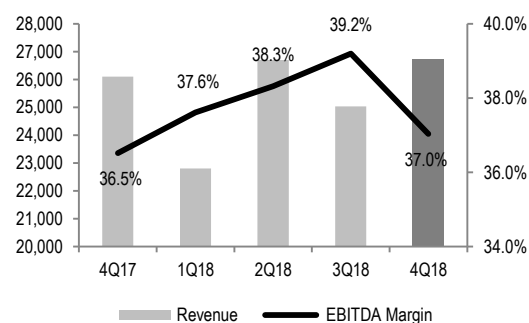
### Cash Flow

CF from Operating Activities	10,926.0	6,286.7	10,671.6
CF from Investing Activities	(5,293.2)	(5,614.9)	(16,975.8)
CF from Financing Activities	(5,663.8)	(2,738.1)	(4,178.8)
Difference in change of cash	107.4	(99.9)	124.6
<b>Change in Cash Balance</b>	<b>76.4</b>	<b>(2,166.2)</b>	<b>(10,358.5)</b>

Source: Banorte, MSE

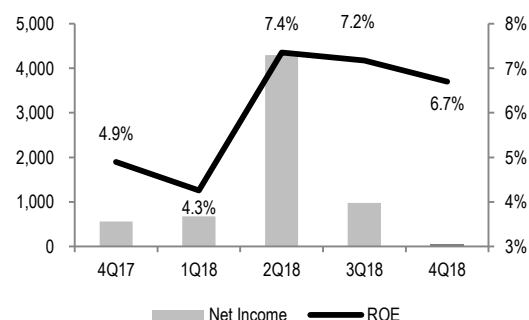
## Revenue & EBITDA Margin

MXN, million



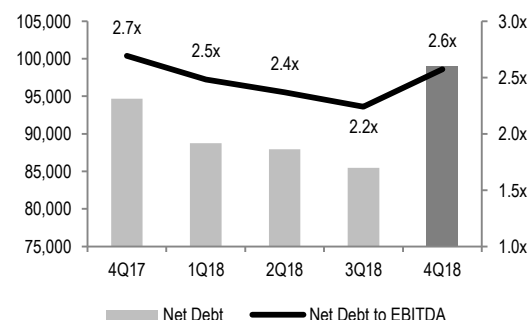
## Net Income & ROE

MXN, million



## Net Debt & Net Debt to EBITDA ratio

MXN, million



**Content Segment reported a moderate decline in revenue but on improved profitability.** Revenue from the Content segment fell 0.3% to MXN 10.6 billion mainly due to a 3.7% drop in advertising sales derived from the decline of sales to government entities. Conversely, the Sale of Channels rose 9.3% due to higher prices as these channels include additional rights. Furthermore, the Sale of Programming increased 7% yoy due to higher royalties from Univision by raising the rate from 11.9% to 16.5%. However, it is important to mention that Univision carried out an extraordinary adjustment of US\$ 65 million to the revenue base over which royalties are estimated, which translated into a negative effect for Televisa's revenue. The company managed a 90bp increase in EBITDA margin to 37.9% through cost and expense control, reaching an amount of MXN 4.0 billion.

**SKY to keep posting a moderate decline in sales and EBITDA.** During the quarter, SKY's subscription base reported 198 thousand net disconnections, representing an annual drop of 4.6% to 7.64 million users. On the other hand, the company continued with the launching of Blue Telecomm (Wireless internet access) closing with a 92 thousand subscriber base. Sales from this segment fell 1.9% to MXN 5.4 billion as the subscriber base could not be offset by a higher ARPU. Profitability decreased 120bps to 40.5% due to additional expenses from the launching of the Blue Telecomm advertising campaign and from the bundling of satellite television services (both SKY or VeTV brands). Hence, EBITDA from this segment fell 4.7% to MXN 2.2 billion (-3% vs our estimate).

**Cable acquired Axtel's fiber residential Business.** In December, Televisa acquired this business, gaining 553.2 thousand Revenue Generating Units (RGU) for MXN 4.7 billion. With such acquisition and an organic expansion of 316 thousand net additions, the Cable segment closed with an RGU base of 11.8 million, +17.2% yoy. Cable's revenue advanced to MXN 9.5 billion, +10.8% vs 4Q17 due to a higher ARPU of the video service and a solid performance in telecommunication revenue for the corporate segment. At EBITDA level, the Cable segment reported an annual 9.1% increase but a 60bp contraction in the corresponding margin to 42.1% (-10bps vs. our estimate).

**Other Businesses were boosted by movie distribution and the Gaming business.** Finally, other businesses reported a 16.5% increase in revenue to MXN 2.5 billion, representing a 9.3% contribution to consolidated revenue. The businesses that reported an annual improvement in sales were the following: Distribution of motion pictures +293%, Gaming and Raffles +10.8% and Events and Shows (soccer) +5%, offset by a fall in Radio, Editorials and Distribution of publications.

**Televisa renewed broadcasting concessions with a payment of MXN 5.7 billion.** Televisa renewed concessions of open television channels for a term of 20 years. Excluding the amount that was paid, the ND/EBITDA ratio would stand at 2.4x vs. 2.6x by 4Q18.

## Certification of Analysts.

We, Gabriel Casillas Olvera, Delia Maria Paredes Mier, Alejandro Padilla Santana, Manuel Jiménez Zaldivar, 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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	<b>Reference</b>
<b>BUY</b>	<i>When the share expected performance is greater than the MEXBOL estimated performance.</i>
<b>HOLD</b>	<i>When the share expected performance is similar to the MEXBOL estimated performance.</i>
<b>SELL</b>	<i>When the share expected performance is lower than the MEXBOL estimated performance.</i>

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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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