Portuguese Media

Media

Ready to grow

5th March 2014

Portugal

- **Advertising market already growing:** We believe the ad market in Portugal has touched bottom and will close 2013 well below its historical average (0.24% of GDP vs. 0.38% on average since 2001). Comparing to other Southern European peers Portugal has the most depressed ad market and is one of the markets with the biggest fall since 2008. We believe that Portuguese ad market has the ingredients for a sharper recovery without the need of a very enticing macro outlook. For 2014 we expect a 6% growth and reaching 0.3% of GDP by 2020, well below the historical average.

- **TV and Radio leading and Press to follow:** TV advertising has been gaining share in last years and given the pattern of TV consumption we believe there is still room to grow. However, we estimate marginal increase from the 56% weight expected for 2013 up to 57% in 2020. Printed press advertising share should fall slightly during the following years though Cofina and Impresa could be able to explore sale of merchandising and the bolstering of their digital sites as a means to reach growth in the future. Radio has gained presence within the total Portuguese ad market, with Media Capital reporting yoy growth in ad revenues since 2009. Still, conventional radio advertising should lose market share in favour of online advertising.

- **Duopoly on TV ad market:** The prime time takes the lion's share of TV ad in Portugal and has been dominated by Impresa and Media Capital main channels (SIC and TVI, respectively) despite the growing competition from cable channels. Impresa has almost closed the gap in revenue market share after more than one decade and, going forward, we believe that in 2014 SIC might take advantage of its Soap Operas to gain a small slice of revenue market share (+0.4%). Both companies should close 2013 with c.78% of the total TV ad market.

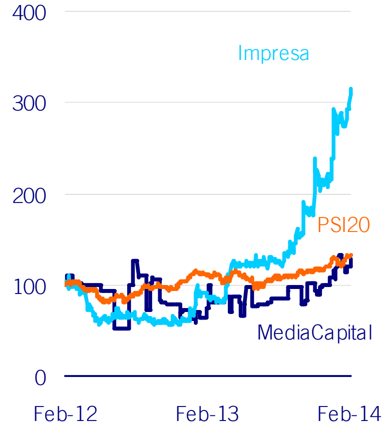
- **Positive outlook for Portugal's main players:** We have updated our estimates for the advertising market and fine tuned our revenues and opex expectations for IPR and CFN. We have also updated our DCF assumptions including the decrease of the country risk premium (Rf+CrP now at 4.9% vs. 5.6% before). All in all, we have upgraded IPR's YE14 Price Target to € 2.30 (+20% LfL) and CFN's to € 1.00 (+8 LfL) and maintained our Buy recommendation for both companies.

Summary of Recommendations

	Market Price	YE14	LfL	Recommendation		PE	EV/EBITDA
(€/share)	(24th Feb)	PT	chg.	New		14^F	14^F
Cofina	€ 0.63	€ 1.00	8%	Buy	Buy	12.5	7.0
Impresa	€ 1.57	€ 2.30	20%	Buy	Buy	19.7	9.0

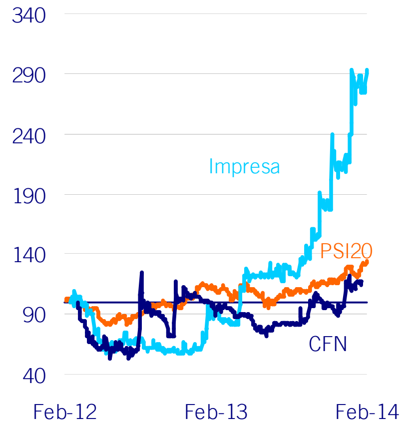
Source: BPI Equity Research.

Media Capital vs. Impresa vs. PSI20



Source: Bloomberg.

Impresa vs. vs. Cofina vs. PSI20



Source: Bloomberg.

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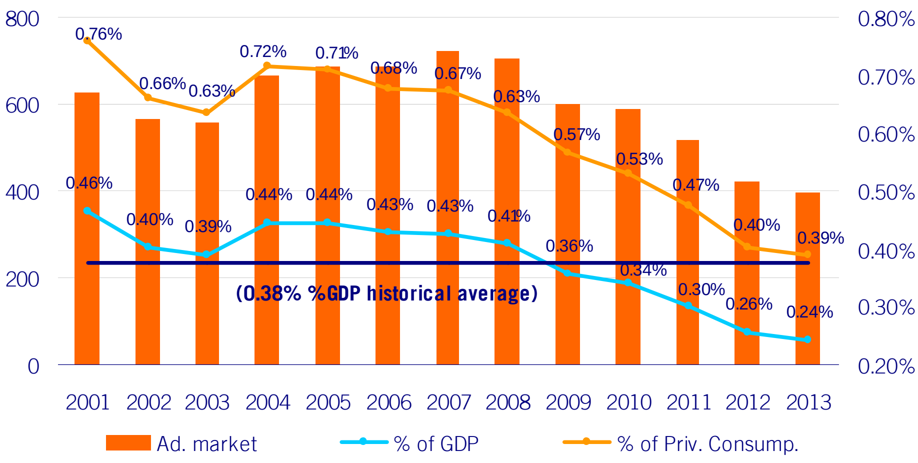
INDEX

ADVERTISING MARKET IN PORTUGAL

Historical evidence shows that advertising spending correlates with expectations of economic growth. In the case of Portugal ad spending has been declining since 2007 as a reflection of the tough economic period Portugal has been experiencing.

Advertising market vs. Private Consumption & GDP historic



Source: Companies data and BPI Equity Research.

Given the recent evidence of stabilization of TV ad market, which usually leads the sector, we believe the market is touching bottom. During 3Q13, the main players of the Portuguese Media sector showed an improvement in advertising revenues, leading the market to eventually grow yoy by +0.6% in TV ad revenues and to fall by 10% in Press, and therefore nursing the idea that the last quarter was effectively a turning point in the ad crisis. These positive surprises in the advertising side came in consequence of the first signs of optimism in the macroeconomic environment in Portugal, which has posted three consecutive quarters of growth (qoq) with domestic demand positively contributing to this improvement. Looking to the ad market as % of GDP it seems that 2013 should have closed well below the industry historical average.

Ad market in Portugal is the most depressed among Southern European countries

Portugal advertising spending has traditionally represented a smaller pie of the aggregate demand compared to its Southern European peers. Thus, whereas in 2007 advertising represented 0.76%, 0.58% and 0.57% of GDP in Spain, France and Italy respectively, in Portugal it represented just 0.43%. Probably as a reflection of this lower development the market is also significantly more concentrated than other markets. The top10 advertising investors in Portugal represented 31% of the total which compares with 19% in Spain.

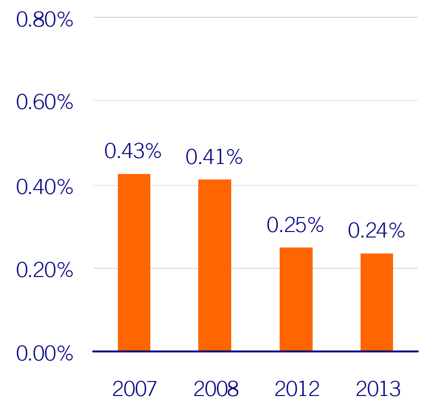
Top 10 Advertising Investors in Portugal in 2013

Company	Sector	Share of voice
Continente	Retail	5.8%
Fixeads	Retail	4.4%
L'Oreal	Cons Staples	3.4%
PT	Telecom	2.8%
Unilever	Cons Staples	2.7%
Vodafone	Telecom	2.7%
Puig	Cons Staples	2.5%
P&G	Cons Staples	2.5%
Cª Port. de Hiper.	Retail	2.1%
Worten Sonae SR	Specialized Retail	2.0%
Total		**30.9%**

Source: Media Monitor.

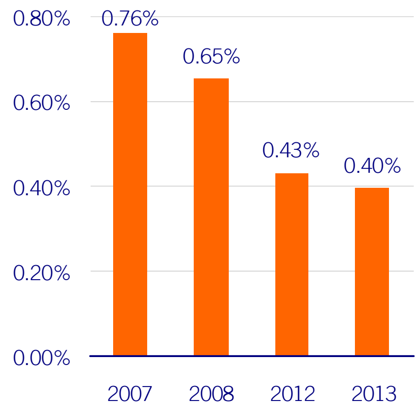
This gap was augmented in the last years as the fall since the peak of Portugal ad market weight on GDP (-44%) was only comparable to Spain (-48% vs. France -26% and Italy -15%). Moreover, we believe that the underperformance in Spain was partially justified by the weight of the ad market in the economy that was well above its Southern peers on the back of an overheated economy which was growing well in excess of 3% per annum. Considering that the market consensus for Spanish GDP growth in next years stands below 1.5% and long term expectations should not diverge much from EU average growth we argue that a correction is fully justified by the change in expectations. In the case of Portugal we believe the market is also expecting a convergence to EU average economic growth which does not differ much from expectations back in 2007. It's true that economic environment in Europe is riskier and we are not arguing Portugal ad market should return to 2007 levels. Nonetheless, we believe **it has the ingredients for a sharper recovery without the need of a very rosy macro outlook**.

Portugal Ad. Revenues as % of GDP

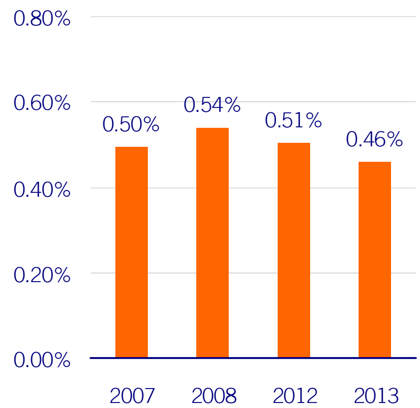


Italy Ad. Revenues as % of GDP

Spain Ad. Revenues as % of GDP



France Ad. Revenues as % of GDP

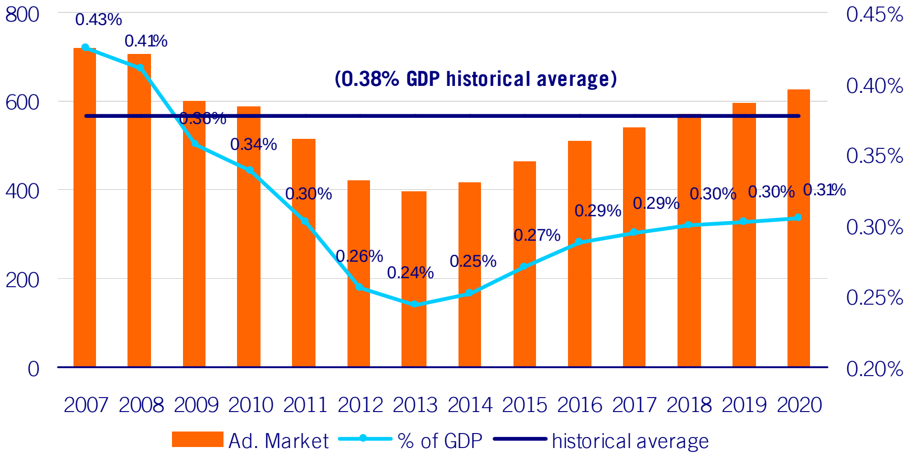


Source: Bloomberg, IMF & BPI Equity Research.

We expect an ad market CAGR13-20 of 6.8%!

Recession has lowered the relative importance of advertising spending in the overall aggregate demand of Portugal and its peers, but one might wonder which the actual structural weight is. The average since 2001 stands at 0.38% but we are sceptical it could return to those levels soon. Under our revised estimates, which we believe maintain some degree of conservativeness, the advertising market will grow to 0.30% of GDP in 2020 (roughly 2011 level), well below historical average. Improved sentiment on the Portuguese economy and enhanced expectations on the European media peers justify the upward revision from our previous 2020 target of a 0.28% weight of ad market on the overall economy.

Advertising market vs. GDP forecast (€ mn)



Source: Companies data and BPI Equity Research.

In a nutshell, our current estimates imply a 6.8% CAGR2013-20 for the total advertising market (or taking a broader period a 2.2% CAGR11-20). For 2014 we still expect a moderate 6% growth (4.5% before) but we believe that closer to YE it will become more visible the potential for a sharp recovery of the Portuguese ad market.

WHO'S WHO IN THE PORTUGUESE MEDIA INDUSTRY

The degree of concentration of the Portuguese media industry varies across sectors, with TV virtually duopolized by Media Capital and Impresa and press led by Cofina but with other relevant groups like Abola, Impresa and Control Investe. As for the radio, R/Com and Media Capital together own c.70% of the market.

Main groups of Portuguese ad market

Sector	Groups						
TV	Media Capital	IMPRESA	RTP	controlinveste	COFINA SGPS S.A.	A BOLA tv	ONGOING
Press	COFINA SGPS S.A.	A BOLA tv	IMPRESA	controlinveste	Impala	Público	ONGOING
Radio	r/com	Media Capital	RTP	controlinveste			

Source: BPI Equity Research.

Media Capital is 95% owned by Spanish media company Prisa and controls the leading FTA channel in Portuguese television TVI, which reached 28% prime-time audience share last December, in addition to another four thematic TV channels. It has also an important presence in radio, where its channels Radio Comercial, M80, Cidade FM and Smooth FM together represented 31.4% of the total audience share by the end of the year. Worth mentioning also the sports news website "maisfutebol".

Impresa owns the FTA channel SIC, with an average prime-time audience share of 24.5% in December, as well as 6 thematic channels. In addition, IPR controls leading weekly newspaper Expresso and several magazines such as Visão and Caras.

On the press side **Cofina** is the king. CFN owns the most-read newspaper in Portugal, Correio da Manhã, with a 40% circulation market share in paid daily press (exclude the sports newspaper "A bola" which does not report its figures). It also leads the free daily press market, with newspapers Destak and Metro, and edits sports newspaper Record as well as several magazines.

The audience leader in Radio is **R/Com**, also known as Grupo Radio Renascença, which is controlled by the Portuguese Catholic Church. R/Com owns RFM, Renascença, Mega Hits and R.Sim stations.

A Bola is the leading Sports newspaper in the country with rumoured daily circulation figures of around 100k (does report circulation figures). It has launched a channel in the Pay-TV with the same name.

Control Investe, through its subsidiary Controlinveste Media, owns newspapers such as Jornal de Noticias and Diario de Noticias, which together amount to 28.4% of the paid daily press market, some regional newpapers, a sports newspaper, magazines and radio station, TSF, which had a 4.4% audience share last December. Controlinveste Media was recently subject of a restructuring, which saw Controlinveste reducing its stake to 27.5% while entrepreneurs António Mosquito and Luis Montez should end up with 27.5% and 15% stakes, respectively, following a capital increase and a debt-to-equity conversion, that will lead BCP and BES to own 15% stakes each in the media assets. Controlinveste also owns, through a different subsidiary, the TV premium channel Sport TV.

Impala is a publishing and printing company which owns some of the leading magazines in Portugal such as "Maria", "TV 7 Dias", "Nova Gente" and "VIP".

Telecom operator Sonaecom also has a presence in the media sector, owning daily newspaper **Publico**, with 9% share in the paid-daily press market.

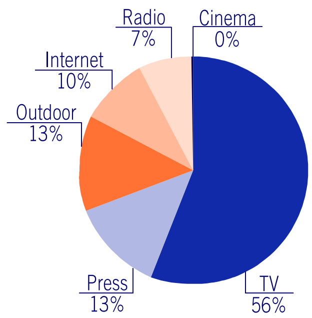
Ongoing is a holding group with important investments in the TMT sector in Portugal. In media, it owns finance newspaper Diario Economico, pay TV channel ETV and has a participation in EJESA, through which controls Brazilian newspaper Brasil Económico.

Finally, we can't forget the State presence in the Portuguese media through Grupo **RTP**, which has two national TV channels RTP1 and RTP2 as well as regional and thematic channels. In addition, it controls several radio stations which together reached 9.9% of audience share in December. In 2012, only 11% of its turnover came from advertising, with fees on energy bills (54%) and subsidies (29%) being the main revenue generating sources.

TV ADVERTISING MARKET

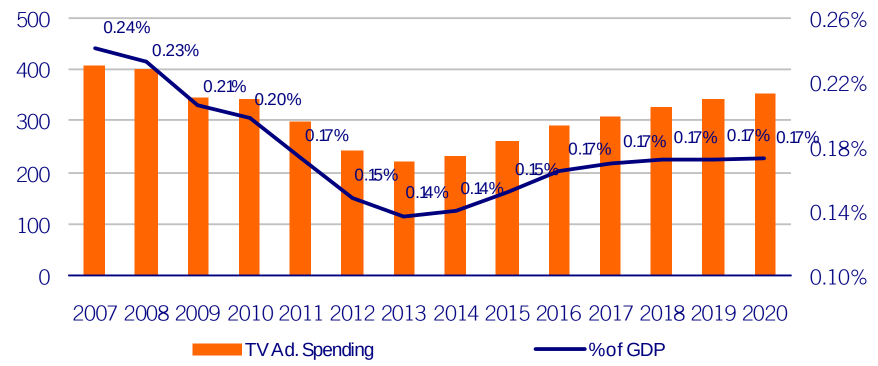
During the last decade, TV advertising weight in total advertising has grown mainly at the expense of Press and Cinema advertising and should have reached in 2013 a share of 56% of the overall market. While in a longer period TV has been gaining share, in the last years it has decreased from the 58% peak in 2010. Still, according to Marktest Audimetria, during 2012 Portuguese people watched TV 4h and 40 minutes a day on average, up 4 minutes from 2011. We believe the reason behind the mismatch relates with a higher elasticity of TV to the economy compared to other advertising vehicles. Therefore with Portuguese TV viewers growing yoy and improving signs from the economy it is hard not to expect TV advertising to increase its weight in the future. We estimate a weight of 57% for 2020. In addition, even though Internet advertising keeps on growing at a much faster pace than TV, part of this growth can be absorbed by online-TV.

Investment spending by Media in 2013



Source: BPI Equity Research.

TV ad spending vs. GDP forecast

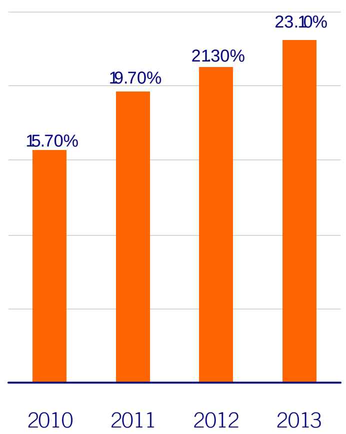


Source: Companies data & BPI Equity Research.

Pay-TV rules

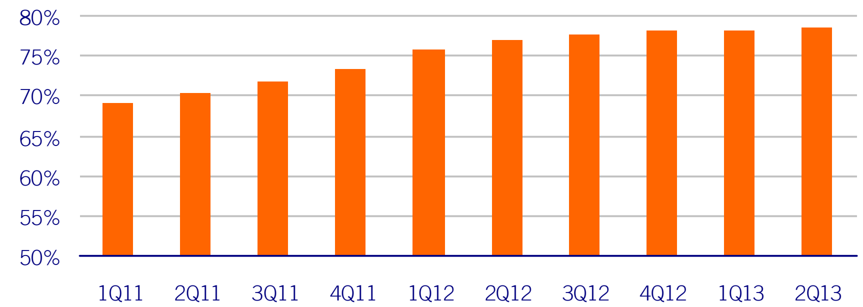
It's worth highlighting the importance of Pay-TV in the Portuguese TV space, and its growing importance in TV advertising. Pay-TV penetration has increased significantly in Portugal pushed by the forceful competition in the country reaching figures close to 80%. This growth in Pay-TV penetration has been followed by a strong push from Telecom operators in content which coupled with a scarce offer in free-to-air (4 channels only) has lead to a growing audience share of Pay-TV channels. In prime-time audiences share have risen on average to 22.9% in December vs. 15.7% in the end of 2010 (19.7% a year ago).

Pay-TV channels prime time audience share



Source: Dados GfK/CAEM.

Pay-TV Penetration in Portugal evolution



Source: Anacom.

New free-to-air channels to be launched?

The government is planning a new auction of FTA channels in the near future with the argument of scarce offer in FTA and the need to compete with Pay-TV. For the time being, the Government has planned a public consultation regarding a potential auction for new channels. The launching of new FTA channels would put some pressure on Impresa and MediaCapital which should force them to participate in the auctions to maintain their current market shares, while the public sector is also likely to increase the number of channels in FTA. Having said this, a new player entering into free-to-air is not completely unlikely.

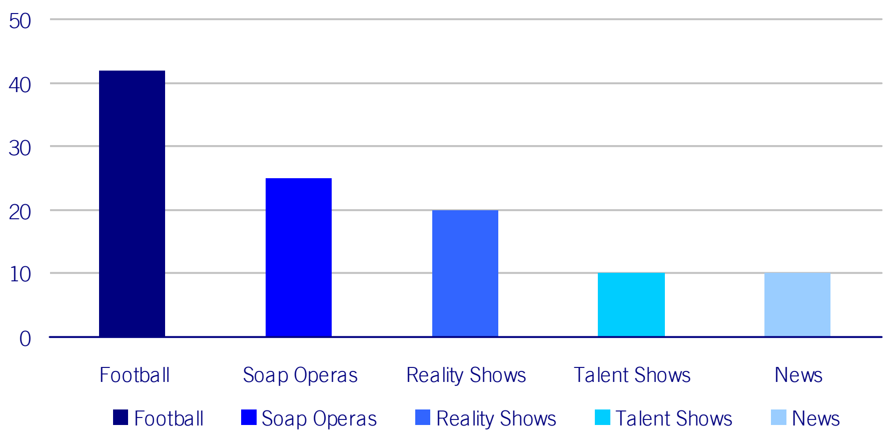
All in all we believe that this is a minor risk for broadcasters given that most of viewers come through Pay-TV which already possesses a wide offer of channels. Nonetheless, this could represent some additional costs with the auction and with the content for new channels. On the other hand, we believe that Telecom operators will try to ensure the minimum cannibalization on Pay-TV. Therefore broadcasters may have more bargaining power in renewing the subscription contracts. Given the uncertainty surrounding these Government plans and the possible outcomes we have not included yet this possibility in our forecasts.

Another trigger for the TV market could be the sale of state-owned group RTP. However, it appears that privatisation plans have fallen by the wayside and we don't expect any action regarding this in the foreseeable future.

What's on TV?

When trying to build an audience, FTA channels have tried to shape differentiated programming grids as part of their brand image. It is noteworthy that football games and soap operas rank annually as the most-watched broadcasts in Portugal and, for that reason, operators have tried to build their grids accordingly. Media Capital and Impresa currently broadcast 5 soap operas during the weekdays in TVI and SIC respectively, including prime time frame. While TVI's focus is on internal production, Impresa's SIC is more biased towards Brazilian soap operas thanks to its exclusivity agreement with Rede Globo.

Number of appearances in the monthly top10 most viewed programs (2013)



Source: CAEM GFK.

Top Cable TV channels in 2013

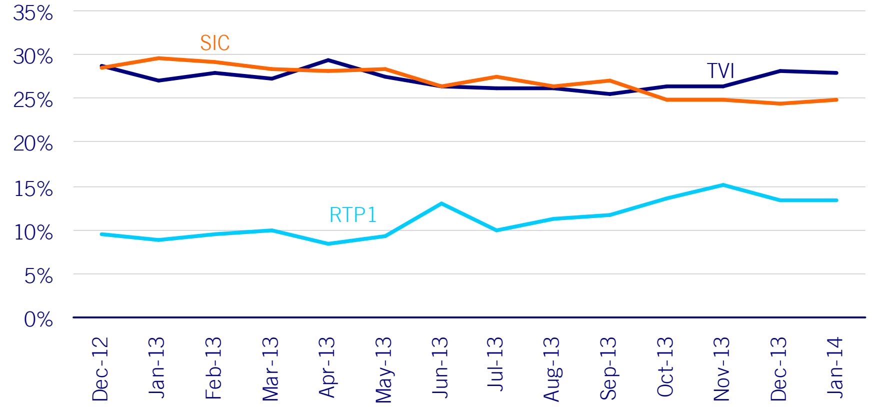
Channel	Share
Hollywood	2.2%
Disney Channel	2.0%
SIC Noticias (IPR)	1.9%
Panda	1.6%
Axn	1.6%
TVI 24 (MCP)	1.3%
FOX	1.3%

Source: GFK.

All about Prime Time

Advertising in Prime Time is the lion's share of TV advertising revenues, particularly in the current depressed market. Both Impresa and Media Capital main channels (SIC and TVI, respectively) have been dominating the prime time and we do not expect any major change despite some recent improvements from the main public channel. The gap in December between TVI and SIC widened more than any month in the recent past but we believe it has some non-recurrent effects.

Monthly Prime-Time Audiences evolution



Source: Dados GfK/CAEM.

TVI benefited from an abnormal number of relevant games in December that are not likely to be repeated soon which coupled with the final of its reality show "Secret Story" has allowed TVI to have 9 out of 10 top rated programs in December. Nonetheless, TVI was able to extend through January the gap (though a smaller one) due to some more games from League Cup as well as a shorter edition (4 weeks) of "Secret story" with participants from other editions.

Top10 TV Programs in December 2013

#	Program	Channel	Rating	Share	Date
1	League Cup: Sporting x FC Porto	TVI	27.5%	49.2%	29-12-2013
2	Champions League: Benfica x PSG	TVI	23.2%	46.1%	10-12-2013
3	League Cup: Nacional x Benfica	TVI	22.4%	40.9%	30-12-2013
4	Eight o'clock news	TVI	18.0%	33.8%	29-12-2013
5	Secret story 4 - Final	TVI	17.8%	47.5%	31-12-2013
6	Secret story 4 - Gala	TVI	16.1%	34.9%	22-12-2013
7	Secret story 4 - Daily resume	TVI	15.9%	33.0%	28-12-2013
8	Night news	SIC	15.8%	30.7%	16-12-2013
9	Soap Opera - Belmonte	TVI	15.4%	33.4%	30-12-2013
10	Stars Gala: Operation Smile	TVI	15.2%	37.6%	18-12-2013

Source: CAEM/GFK & BPI Equity Research

Going forward it will take some time for TVI to launch a new reality show and is unlikely to maintain the intense level of audience as December and January. Moreover, both FCPorto and Benfica will be playing in the UEFA League which will

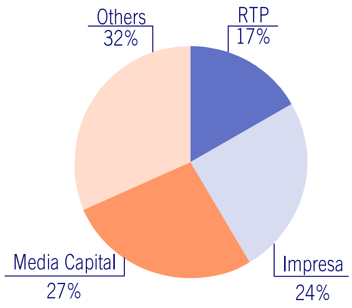
Top TV Shows by Operator in 2013

	Category
SIC	
UEFA Europa League	Football
Dancin' Days	Soap Opera
Avenida Brasil	Soap Opera
TVI	
Champions League	Football
Portugal's League Cup	Football
Secret Story	Reality Show
RTP	
World Cup Classification	Football
Portugal's Cup	Football
Portugal's League Cup	Football

Source: CAEM and GFK.

be broadcasting in SIC (minimum of 4 games) while League Cup should only two relevant games until the end of the season. Therefore, SIC and TVI audiences in February are already getting closer to our FY expectation. Aside from this, it's important to mention as well the Football World Cup that will be broadcasted entirely in the public channel (Portugal national team games and some other FTA rights) which should penalize both SIC and TVI.

2013 audience share per group

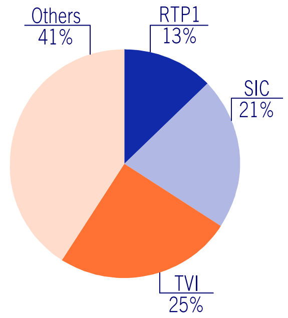


Source: Impresa.

Impresa leading revenue mkt share for the first time in the last decade

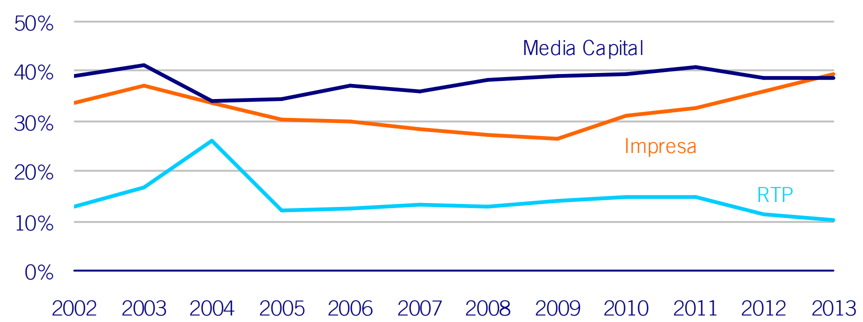
Impresa is recovering the leadership in revenue market share after more than one decade. There were two decisive moments in Portugal that impact significantly the imbalance between both groups both in favour of Media Capital. The first was in 2000 the launch of "Big Brother" by TVI which removed the structural leadership from Impresa. And the second was Media Capital bet on Portuguese Soap Operas which outshined the Brazilian soap operas broadcasted by Impresa which were its big audience's anchor. Impresa has been able to close the gap with a similar bet on Portuguese Soap Operas though still maintaining Brazilian soap operas in the mix. Still we believe that Impresa might have the upper hand in Soap operas now as its partnership with Globo is allowing not only a strong flow of Brazilian soap operas but also the support in the production of its Portuguese Soap Operas.

2013 audience share per channel



Source: Impresa.

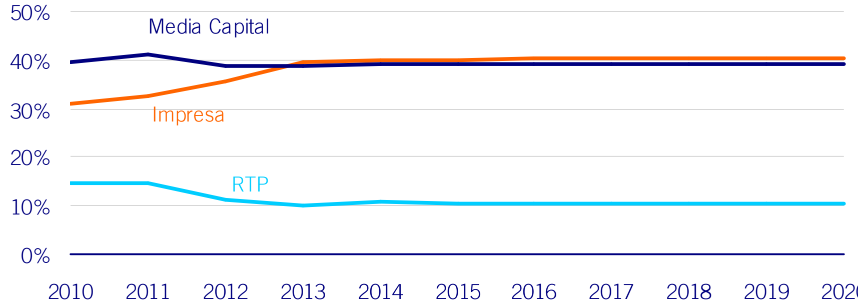
Revenue market share historical evolution



Source: Companies data & BPI Equity Research

Going forward we believe that in 2014 SIC might take advantage of its Soap Operas to gain a very small slice of revenue market share (+0.4%), particularly as Soap Operas perform better with the target audience than the reality shows. Beyond that we see the consumer patterns stabilized and we do not see any major trend that lead us to expect structural changes.

Revenue market share forecast



Source: Companies data & BPI Equity Research.

Similar TV businesses but with a different mix

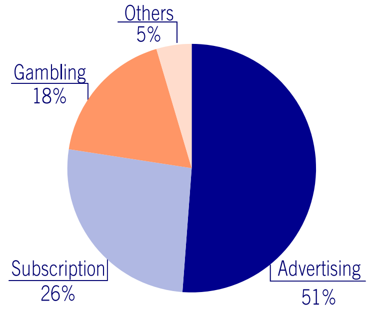
On a breakdown division of revenues by source, TVI, SIC and RTP differ materially. Aside from the logical differences in RTP due to its state-owned nature, the weight on advertising, gambling and subscription revenues also varies across broadcasters.

RTP's main revenue source is the fee applied on energy bills and collected by suppliers, whose value is established by law. Second source is subsidies from both the Portuguese Government and the EU, which are bound to come down close to zero in 2014. Advertising revenues come in the third place, with € 28.7mn turnover in 2012, well below SIC's € 87mn and TVI's € 95mn. RTP also generates income through fees paid by private operators to broadcast its cable TV signals.

As for Impresa's SIC, first revenue generating source is obviously advertising. Still what differentiates SIC revenue mix is the weight and the absolute value of subscription revenues (fee paid by telecom operators to offer SIC channels through its platform) compared to TVI and RTP. SIC reported in 2012 € 45mn from subscription revenues, o.w. € 38mn is domestic, which compares with € 10m in the case of TVI and € 15mn in RTP. SIC has been the first to make a strong bet on cable channels and its channels have anchor products in the history of Portuguese Pay-TV. PTC and Zonop, by this order, are the main clients and current contracts mature in 2015 and 2017, respectively. We expect a harsh negotiation process but the increase in Pay-TV penetration since the last contract, the Government will to favour further FTA channels and the maintenance of SIC key status within cable channels (SIC noticias consistently in Top5 channels) supports our view that risks on the downside for this caption are limited. The emergence of Vodafone as a relevant Pay-TV player may provide the final ingredient for a positive outlook on this front.

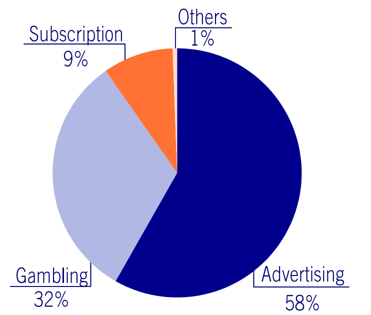
Gambling[1] revenues are a relatively new source of revenues in Impresa that has been growing significantly. Both SIC and RTP have been reinforcing the bet on these game shows. More precisely, SIC has increased significantly the number of programming hours dedicated to this in the 2H13 which lead other TV revenues to raise 94% yoy in the 3Q13. Consequently we expect gambling revenues to maintain similar growth levels in the next 3 quarters. Going forward we see some trade-offs between advertising and gambling as target audience differ and in some cases the programs dedicated to gambling are not the most friendly to audiences.

SIC Revenues by Source, 2013E (€ 171mn)



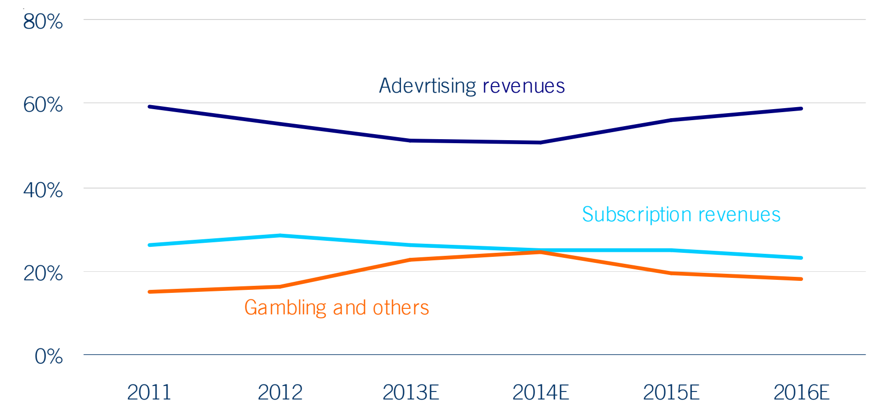
Source: BPI Equity Research.

TVI Revenues by Source, 2013 (€ 145mn)



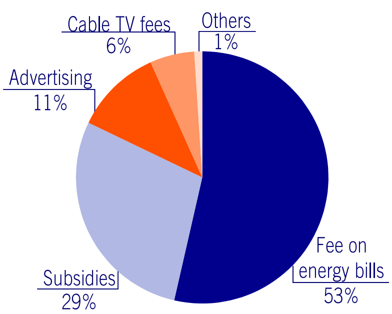
Source: BPI Equity Research.

SIC Revenues' weight evolution



Source: BPI Equity Research.

RTP Revenues by Source, 2012 (€ 257mn)



Source: RTP.

[1] *Game shows where viewers call or text to apply for a premium.*

Part of the growth in IPR's Others division is also explained by football games production and sale of contents. In 2013, producing BenficaTV games and the sale of soap operas to other countries has helped push revenues up. For the future, online TV revenues could become an important trigger within this division, as recent successful initiatives in Portuguese TV, such as TVI's online subscription to watch its reality show Secret Story, have shown.

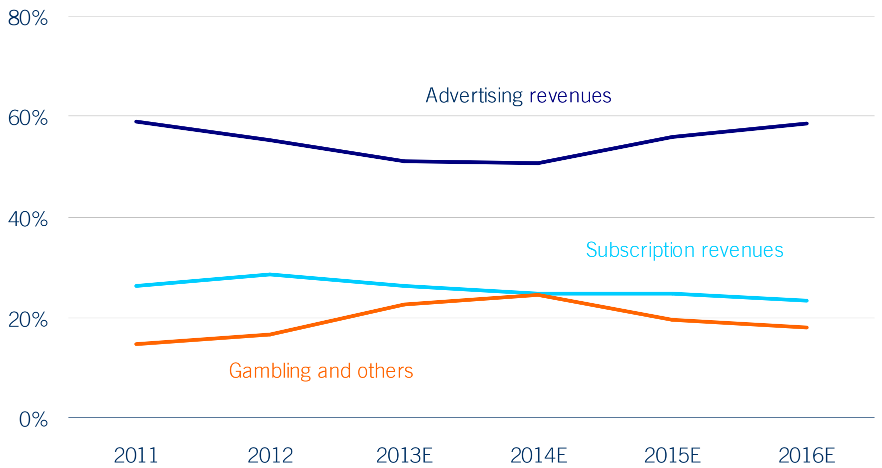
Impresa TV revenues breakdown

€ mn	2011	2012	2013	2014	2015	2016
Advertising	97	87	88	94	105	118
Subscription	43	45	45	45	46	46
o.w. domestic	*38*	*38*	*38*	*38*	*38*	*38*
Gambling	17	20	31	37	28	27
Others	7	6	8	8	8	9
Total	**164**	**159**	**171**	**184**	**187**	**201**

Source: Impresa & BPI Equity Research.

Media Capital's **TVI**, is the player with more exposure to advertising revenues with an expected weight in 2013 close to 60%. Moreover, it is the operator that played the gambling on TV more successfully which has allowed a supported performance during the crisis. TVI is generating € 45mn in TV gambling while SIC should have generated in 2013 € 31mn. Media Capital CEO in a recent interview recognized that does not expect growth in this caption for 2014. Subscription revenues should have some upside as the company seems more prone to invest in cable channels and recent audience share of its cable channels also supports this view.

TVI Revenues' weight evolution



Source: BPI Equity Research.

Apart from this Media Capital also owns Plural, a contents production company, reported separately, but we analyse it together with TVI as TVI represents more than 60% of Production revenues. This represents an important difference to

Impresa business model ensuring more control of the production and providing more guarantees in retaining production know-how. On the other hand, it implies less flexibility in adjusting the scale to the economic environment and in taking advantage of novelties/inovation in production. In 2012 Media Capital reported Eur 53mn of audiovisual production revenues, o.w. € 33mn sold internally.

Media capital TV revenues breakdown

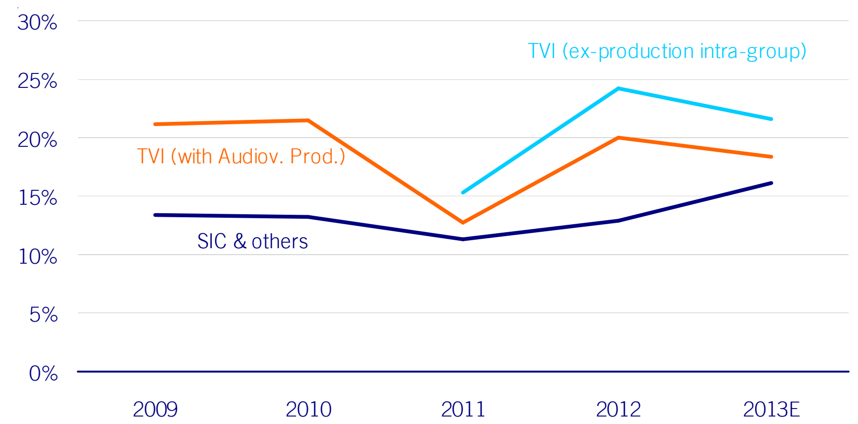
€ mn	2011	2012	2013	2014F	2015F	2016F
Advertising	121	95	86	92	103	115
Subscription	9	10	14	14	17	20
Gambling	19	33	45	45	37	36
Audiovisual	81	53	42	46	49	55
o.w. internally	*39*	*33*	*29*	*31*	*34*	*40*
Others	2	4	1	1	1	1
Total	**232**	**194**	**188**	**197**	**207**	**227**

Source: Media Capital & BPI Equity Research.

The different profile of the companies also reflects on margins...

There are a number of factors impacting differences on margins between Media Capital and Impresa. This is key to understand if with similar revenue market share of advertising we could expect a similar EBITDA potential. Looking to the recent past, Media Capital TV (including production that carries lower margins) has surpassed Impresa TV profitability (including others division)[2] by far.

Impresa and Media Capital TV margins evolution



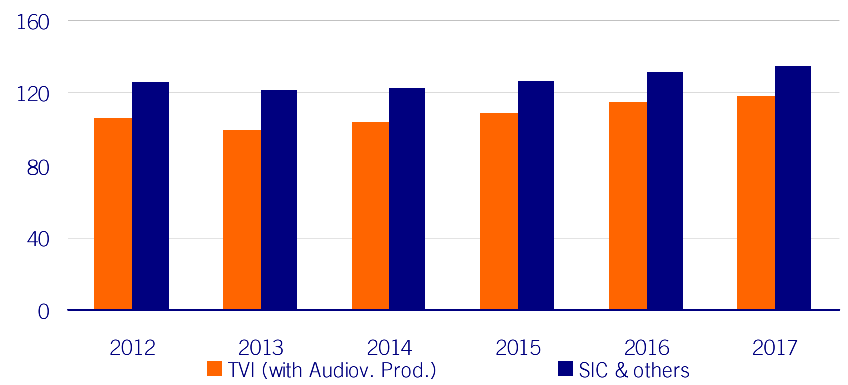
Source: Companies data & BPI Equity Research.

Looking in detail there are a number of reasons that justify the gap in profitability. The first reason is that Media Capital until 2013 has been generating significant more advertising revenues than Impresa and consequently benefiting from a higher operational leverage. As the gap in advertising closes the margin gap also shrinks.

[2] The others divisions negative EBITDA is cost of structure. For comparison purposes with TVI we believe it should be considered together with SIC.

Still this is not the only factor that impacts the comparison. Excluding production internal sales in Media Capital, Impresa will report more revenues in 2013 (mostly due to significantly more subscription revenues) but is nonetheless short on EBITDA. This gap is augmented if we consider that Media Capital is more exposed to gambling, which carries lower margins, and that it produces all of its soap operas which is significantly more expensive than Impresa mix (producing one soap opera and acquiring the rest to Globo). Moreover, our analysis for Media Capital TV includes production sold externally which is having a very depressed profitability. In sum, surprisingly enough Impresa Opex stands well above Media Capital.

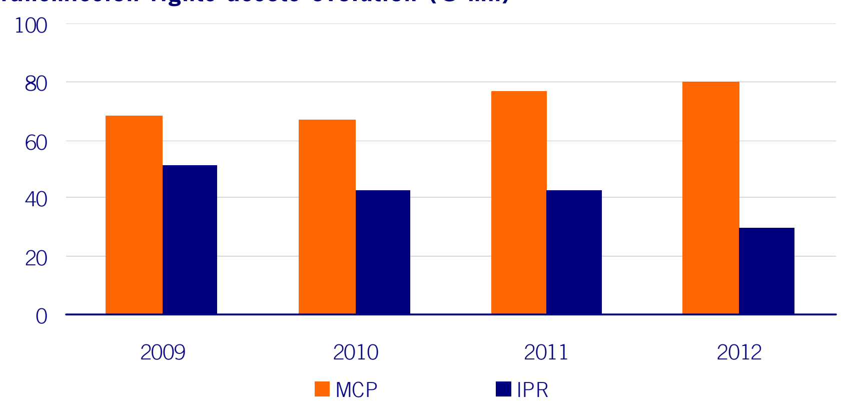
IPR vs MCP Opex TV (ex-Gambling and ex- double counting of contents sales)



Source: Companies data and BPI Equity Research.

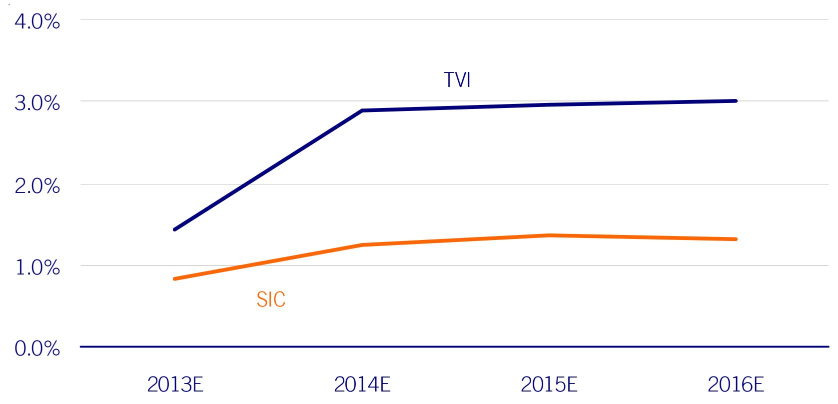
There are a number of reasons for it. The first is that the Media Capital context has always been more stressful and more prone to impose a tight cost control policy. Consequently, Media Capital benefits from an average salary inferior to Impresa. A second reason is that Impresa invests substantially more on its cable channels, the bases of its success in subscription revenues. Finally there are some accounting differences that partially justify the gap. Media capital has been capitalizing production costs with transmission rights assets growing every year, while IPR is in an opposite process. Moreover, as MCP has its own producer it means it has higher level of Capex, while IPR externalizes most of that investment.

Transmission rights assets evolution (€ mn)



Source: Companies Data.

SIC and TVI Capex/Sales forecast



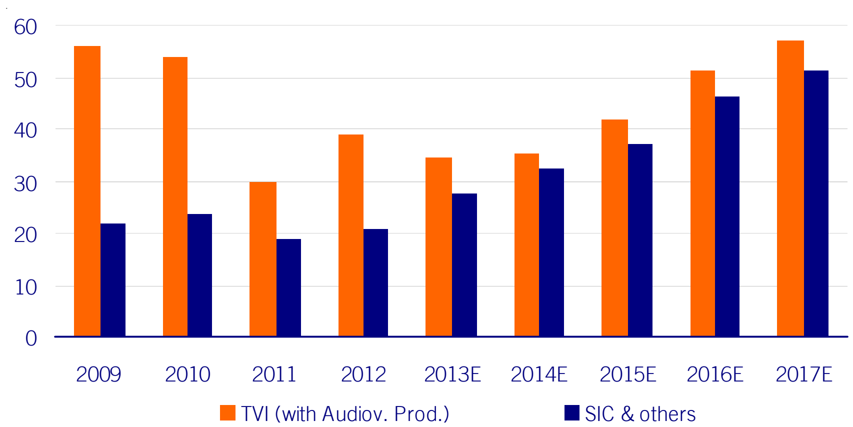
Source: BPI Equity Research.

IPR's TV division should have achieved an impressive increase in profitability during 2013, in line with reported EBITDA margin for the 9M of 15.6% vs. 9.9% a year earlier. This reflects the audience and advertising revenue market share gains with lower programming costs. Going forward we expect programming costs to grow slightly in 2014 given the impact of the recently launched channel SIC Caras. Still the biggest increase in Opex should come from gambling direct costs, as it has been the case in the 2H of the 2013. We expect gambling direct costs to rise 86% in 2013. For 2014 in line with the growth envisaged for gambling revenues we expect gambling direct costs to rise by 40%.

As for Media Capital, we anticipate some additional programming costs going forward as the transmission rights assets stabilizes. On the other hand, gambling revenues are likely to have a more flattish evolution and consequently direct costs should not differ materially from 2013 levels.

Going forward we expect both companies to benefit from strong operation leverage as advertising market recovers. Moreover, we expect IPR to reduce the gap in EBITDA but not to close it.

IPR and MCP TV EBITDA evolution (€ mn)



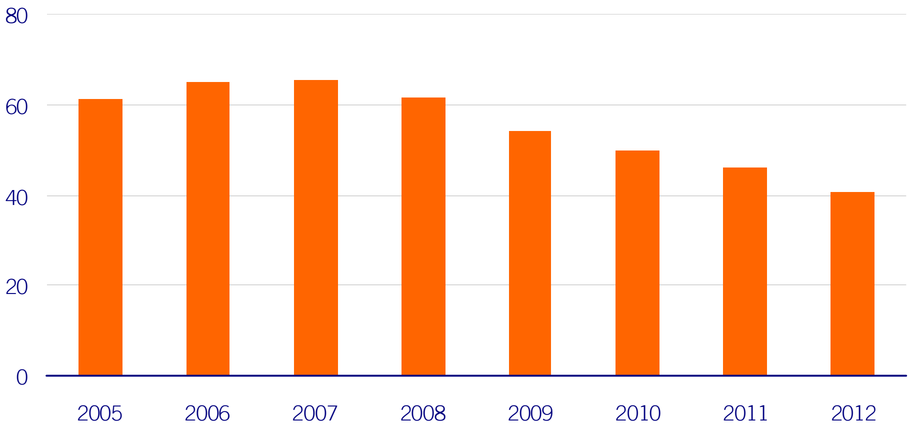
Source: Companies data & BPI Equity Research.

PRESS: THE CIRCULATION ISSUE

Press circulation reached its peak in Portugal in 2007 with more than 65.3mn distributed issues for the total market. Since then, numbers have been falling every year, with 2012's figures at 40.5mn.

In terms of revenues, circulation turnover of major players as Cofina and Impresa has been decreasing since 2011 and 2010 respectively. This is clearly not an isolated case and fall in circulation has become a global phenomenon nowadays which is raising questions about where print press is heading.

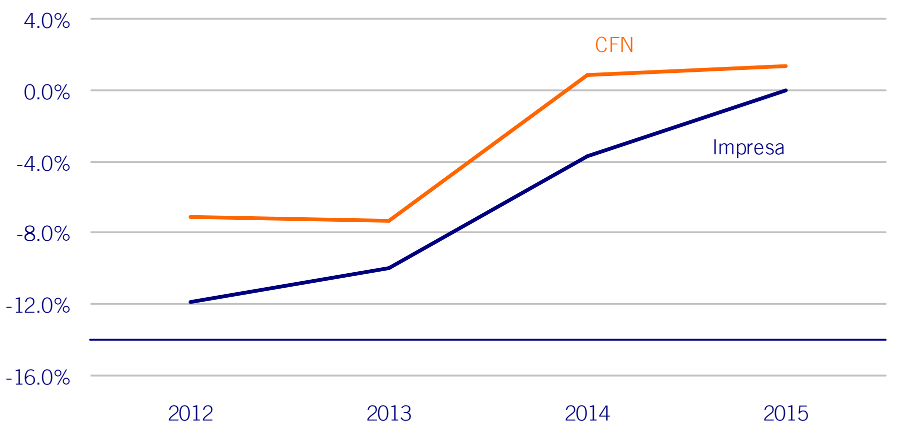
Press circulation (€ mn)



Source: APCT.

However, there's still room for optimism. We believe the underlying secular trend of online content replacing paper press is not the only factor driving circulation down. It's our view that the economic environment and the negative evolution on available income has also played a role in the last years. Consequently we believe that as the economy recovers stabilization on the fall of circulation is to be expected.

Circulation revenues yoy chg (%)



Source: Companies data & BPI Equity Research.

Top newspapers by circulation

Newspaper	Group	Publ.	Circul.
Correio da Manhã	Cofina	Daily	116 821
Jornal Destak	Cofina	Daily	69 864
Metro Portugal	Cofina	Daily	68 614
Jornal de Notícias	Control Investe	Daily	65 403
Record	Cofina	Daily	50 886
Público	Sonaecom	Daily	28 360
Expresso	Impresa	Weekly	93 707

Note: Data on "A Bola" daily newspaper not included because it does not report official figures. Press sources report a daily circulation around 100k.
Source: APCT, Sept and Oct 2013.

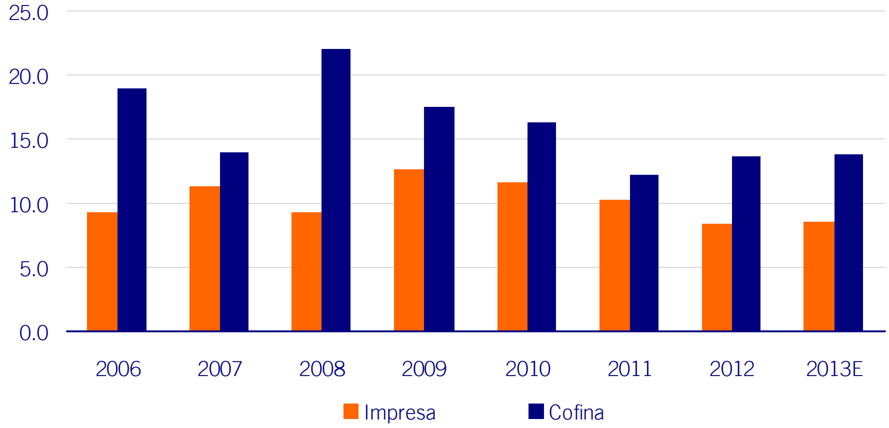
Top magazines by circulation

Magazine	Group	Publ.	Circul.
Maria	Impala	Weekly	177 770
TV 7 Dias	Impala	Weekly	140 605
Nova Gente	Impala	Weekly	101 175
Visão	Impresa	Weekly	77 693
TV Mais	Impresa	Weekly	65 039
TV Guia	Cofina	Weekly	65 012
Telenovelas	Impresa	Weekly	62 316
Caras	Impresa	Weekly	60 979
Lux	Masemba	Weekly	60 445
Sábado	Cofina	Weekly	57 261
Continente Magazine	Continente	Monthly	118 117
Happy Woman	Baleska Press	Monthly	102 206

Source: APCT, Sept and Oct 2013

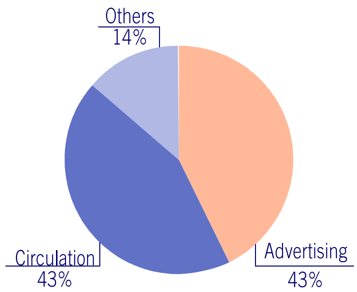
The sale of merchandising has been a strategy both IPR and CFN have used to offset the decline in circulation revenues. Still, the economic environment has also taken a toll on this source of revenues. We believe that both companies will be able to explore this strategy going forward with an improving economic environment.

Merchandising Revenues Evolution (€ mn)



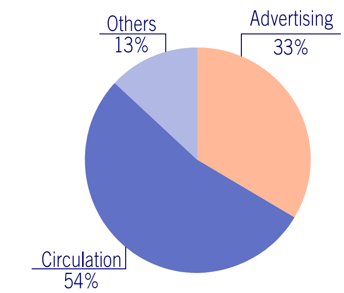
Source: BPI Equity Research.

IPR press 2013E revenues breakdown (€ 63mn)



Source: BPI Equity Research.

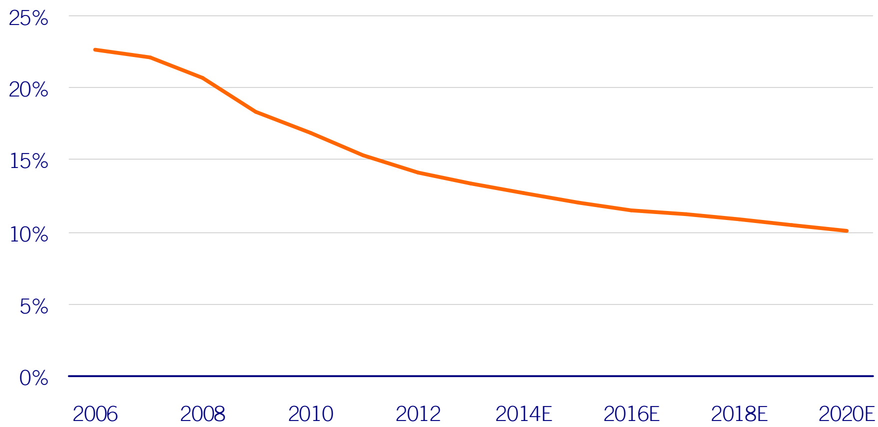
CFN press 2013E revenues breakdown (€ 104mn)



Source: BPI Equity Research.

Falls in circulation have not gone unnoticed by advertising agencies and printed press's ad market share has been falling year on year during the last decade. We expect printed press advertising share to fall slightly during the following years in favour of digital media advertising. For this reason, the ability to gain revenue market share within the press sector and the capacity to boost digital revenues will be key for the press media players to reach growth in the near future.

Press advertising weight in Total Ad market

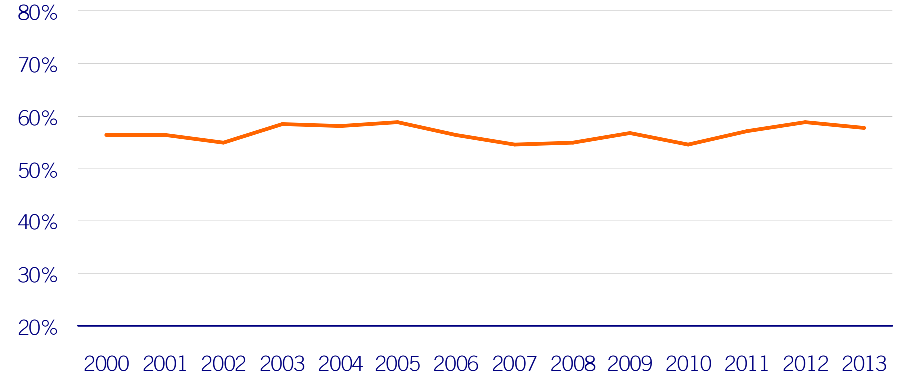


Source: BPI Equity Research (E).

RADIO: A STEADY WAVE

Portuguese radio seems to have built a solid audience, with total accumulated audience share (average percentage of population who listened to radio in a certain day regardless of the time spent) moving around 57% since 2000.

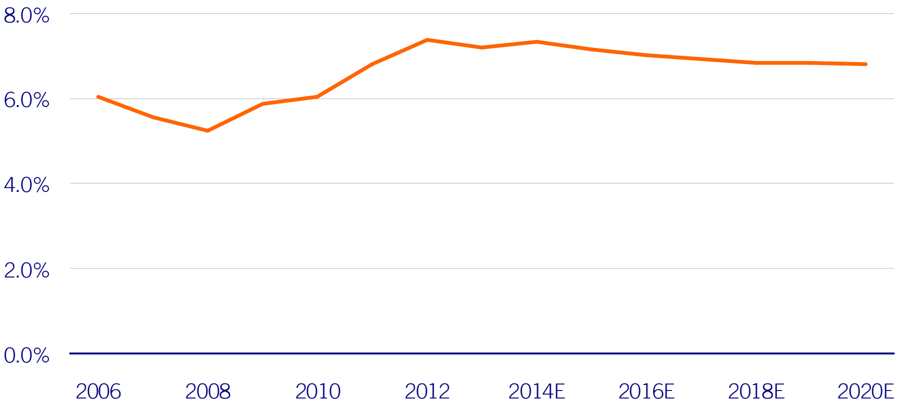
Radio accumulated audience share



Source: Bareme Radio.

Despite the steady audience share reached during the last decade, radio advertising weight has gained presence within the total Portuguese ad market, raising from 6% in 2006 to an estimated 7.2% in 2013. It is noteworthy that Media Capital, which had a 31.4% audience share last December, has been posting yoy growth in radio advertising revenues since 2009 and reached a 5% yoy growth during the first nine months of 2013.

Radio advertising weight in Total Ad Market



Source: BPI Equity Research (E).

Radio Stations by Audience Share

Group / Station	Share
R/Com	**36.4%**
RFM	20.6%
Renascença	9.3%
Mega Hits	4.2%
R. Sim	2.3%
Media Capital	**31.4%**
R Comercial	21.1%
M80	5.6%
Cidade FM	3.9%
Smooth FM	0.5%
TSF	**4.4%**
RTP	**9.9%**
Others	**17.9%**

Source: Marktest Dec 2013.

Regarding future growth possibilities, we expect conventional Radio advertising to record a slight decline in market share in favour of online advertising. According to a 2013 report by Marktest, one in five Portuguese adults listen to online radio frequently and this ratio could keep on growing given the increasing uptake of music streaming and podcasts platforms.

VALUING MEDIA COMPANIES

After revising our estimates for the Portuguese advertising market as well as including in our valuation models a downward revision of the Portuguese country risk premium (Rf+CRP down from S.C.Y. to y.a.y.) - and fine tuned our revenues and opex forecasts for the main media players in the country, we have estimated an EV for IPR, MCP and CFN of € 602mn, € 622mn and € 171mn respectively.

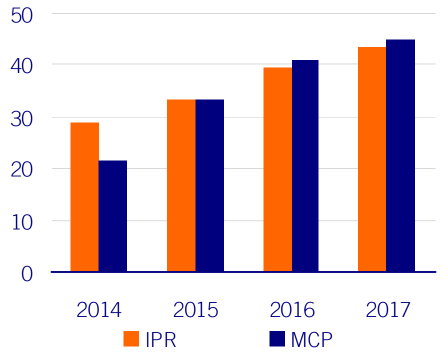
Concerning IPR and MCP, our base case assumes similar advertising revenues in the coming years but the different profiles of each broadcaster will likely ensure better profitability for Media Capital. Consequently as we detailed before we believe Media Capital will be generating higher EBITDA and FCF going forward.

Sum of Parts Comparison (€ mn)

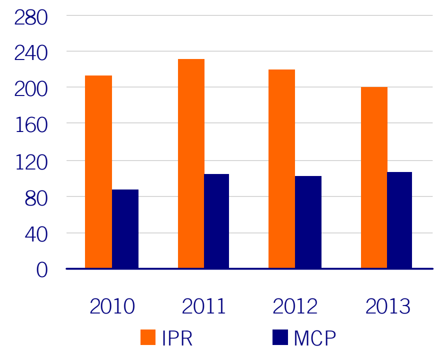
	Impresa	Media Capital
TV + Others & Holding	502	551
Press	100	-
Radio	-	71
Total	**602**	**622**
Others	11.3	-7
Net Debt (YE 14)	182	105
Equity Value	**432**	**510**

Source: BPI Equity Research.

Cash Flow after Investments forecast (€ mn)



Net Debt evolution (€ mn)

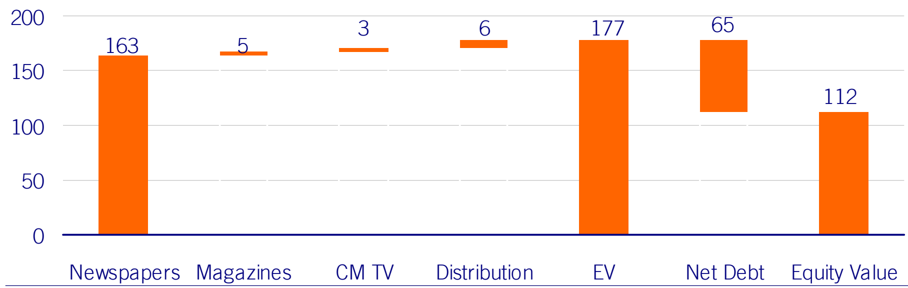


Source: BPI Equity Research.

The higher value of Media Capital TV business derives mostly from: 1) Including a production company with external sales; 2) higher exposure to advertising; 3) more efficient cost structure. Even though, at an EV level, the value differences are not meaningfull a significant lower Net Debt justifies the gap in Equity Value between IPR and MCP. If we were to **assume that advertising market recovers to its 0.38% historical average**, the overall market in 2020 would stand 24% above our base case. Under this scenario and assuming a marginal margin of 80% for the TV business would translate into **an increase of our valuation for IPR and MCP by 50% and 41%, respectively** (only considering the upside from TV business).

As for Cofina, we have valued its Newspapers, Magazines and TV divisions at € 163mn, € 5mn and € 3mn respectively. With a forecasted Net Debt of € 65mn in 2014 and other assets valued at € 5.5mn, we estimate an Equity Value of € 111mn.

Cofina Valuation (€ mn)



Source: BPI Equity Research Estimates.

FINANCIAL STATEMENTS

MEDIA CAPITAL

P&L (€ mn)

	2010	2011	2012	2013F	2014F	2015F	2016F	CAGR 12-16F
Revenues	**249**	**224**	**184**	**182**	**192**	**202**	**223**	**5%**
TVI	250	232	194	188	197	207	228	4%
Radio	14	15	14	14	16	17	19	7%
Others	-15	-23	-24	-20	-21	-22	-23	-1%
EBITDA	**39**	**29**	**42**	**39**	**41**	**49**	**59**	**9%**
TVI	54	30	39	34	35	42	51	7%
Radio	-2	2	3	3	5	6	7	22%
Others	-12	-3	0	1	1	1	1	n.s.
EBITDA mg.	*15.9%*	*12.8%*	*22.7%*	*21.4%*	*21.3%*	*24.1%*	*26.5%*	*4%*
Depreciation & others	12	12	12	9	9	9	8	-9%
EBIT	**27**	**17**	**30**	**29**	**32**	**40**	**51**	**14%**
Net financial results	-1	-4	-3	-9	-8	-8	-8	27%
Income Tax	-9	-8	-6	-7	-8	-10	-12	18%
Minority Interests	1	1	1	0	0	0	0	-100%
Net Profit reported	**12**	**1**	**12**	**14**	**16**	**22**	**30**	**n.s.**

Cashflow (€ mn)

	2010	2011	2012	2013F	2014F	2015F	2016F
+ EBITDA	39	29	42	39	41	49	59
- Chg in Net W.C.	9	11	7	13	7	2	2
- Income Taxes	9	8	8	7	8	10	12
= Operating Cash Flow	**22**	**9**	**27**	**19**	**26**	**38**	**45**
- Growth Capex	5	0	0	0	0	0	0
- Replacement Capex	5	-1	4	3	6	6	7
- Net Fin. Inv.	0	1	0	0	0	0	0
= Cash Flow after Inv.	**12**	**9**	**23**	**16**	**20**	**32**	**38**
- Net Fin. Exp.	5	6	7	9	8	8	8
- Dividends Paid	18	12	1	11	11	12	18
+/- Equity	0	0	0	0	0	0	0
Other	18	-7	12	-1	0	0	-2
=Change in Net Debt	**-18**	**17**	**-28**	**3**	**-1**	**-11**	**-14**
Net Debt (+)/Net Cash (-)	**88**	**105**	**103**	**106**	**105**	**93**	**79**

Source: Company data and BPI Equity Research (F).

IMPRESA

P&L (€ mn)

	2010	2011	2012	2013F	2014F	2015F	2016F	CAGR 12-16F
Revenues	**271**	**250**	**229**	**235**	**248**	**253**	**269**	**4%**
SIC	173	164	159	171	184	187	201	6%
Press	93	82	69	63	63	65	67	-1%
Others & Holding	5	4	2	1	1	1	1	-12%
EBITDA	**34**	**22**	**19**	**32**	**38**	**44**	**55**	**30%**
SIC	25	23	23	32	36	41	50	22%
Press	10	3	-1	4	6	7	9	n.s.
Others & Holding	-1	-4	-2	-4	-4	-4	-4	16%
EBITDA mg.	*12.4%*	*8.9%*	*8.5%*	*13.6%*	*15.5%*	*17.6%*	*20.5%*	*25%*
Depreciation & others	8	8	7	6	6	5	5	-10%
EBIT	**26**	**14**	**12**	**25**	**33**	**40**	**51**	**42%**
Net financial results	-9	-12	-12	-11	-10	-10	-8	-9%
Income Tax	-4	-2	-1	-7	-9	-10	-12	80%
Minority Interests	0	0	0	0	0	0	0	3%
Net Profit reported	**10**	**-35**	**-5**	**7**	**13**	**20**	**30**	**n.s.**

Cashflow (€ mn)

	2010	2011	2012	2013F	2014F	2015F	2016F
+ EBITDA	34	22	19	32	38	44	55
- Chg in Net W.C.	-3	2	-4	-2	-2	-2	0
- Income Taxes	4	2	1	7	9	10	12
= Operating Cash Flow	**33**	**18**	**22**	**27**	**32**	**36**	**43**
- Growth Capex	7	0	0	0	0	0	0
- Replacement Capex	7	7	1	2	3	3	3
- Net Fin. Inv.	-1	-1	2	0	0	0	0
= Cash Flow after Inv.	**21**	**13**	**19**	**25**	**29**	**33**	**39**
- Net Fin. Exp.	12	13	13	12	11	10	9
- Dividends Paid	0	0	0	0	0	0	0
+/- Equity	0	0	0	0	0	0	0
Other	-2	-35	-6	9	4	1	-2
=Change in Net Debt	**-18**	**0**	**-9**	**-4**	**-18**	**-23**	**-31**
Net Debt (+)/Net Cash (-)	**213**	**213**	**204**	**200**	**182**	**159**	**128**

Source: Company data and BPI Equity Research (F).

Cofina

P&L (€ mn)

	2010	2011	2012	2013F	2014F	2015F	2016F	CAGR 12-16F
Revenues	**136**	**127**	**113**	**104**	**105**	**108**	**111**	**0%**
Newspapers	101	97	88	83	84	87	89	0%
Magazines	35	30	25	22	21	22	23	-3%
EBITDA	**23**	**20**	**17**	**15**	**16**	**18**	**20**	**5%**
Newspapers	23	20	16	15	17	18	22	7%
Magazines	1	0	0	0	0	0	1	73%
EBITDA mg.	*17.0%*	*15.6%*	*14.6%*	*14.0%*	*15.6%*	*16.4%*	*17.8%*	*5%*
Depreciation & others	4	3	3	3	4	4	2	-15%
EBIT	**19**	**16**	**13**	**11**	**13**	**14**	**18**	**8%**
Net financial results	-3	-3	-2	-3	-6	-5	-5	28%
Income Tax	2	-8	-6	-4	-2	-3	-4	-9%
Minority Interests	0	0	0	0	0	0	0	-56%
Net Profit reported	**5**	**5**	**4**	**4**	**5**	**6**	**10**	**25%**

Cashflow (€ mn)

	2010	2011	2012	2013F	2014F	2015F	2016F
+ EBITDA	23	20	17	15	16	18	20
- Chg in Net W.C.	1	0	-1	1	0	1	0
- Income Taxes	-2	8	6	4	2	3	4
= Operating Cash Flow	**24**	**12**	**12**	**9**	**14**	**14**	**16**
- Growth Capex	0	0	0	0	0	0	0
- Replacement Capex	7	1	1	3	2	2	2
- Net Fin. Inv.	-1	0	0	0	0	0	0
= Cash Flow after Inv.	**18**	**11**	**11**	**5**	**12**	**12**	**14**
- Net Fin. Exp.	16	3	3	3	6	5	5
- Dividends Paid	1	1	1	1	1	1	1
+/- Equity	0	0	1	0	0	0	0
Other	9	53	1	0	0	0	0
=Change in Net Debt	**-9**	**-60**	**-8**	**-2**	**-6**	**-7**	**-8**
Net Debt (+)/Net Cash (-)	**140**	**80**	**72**	**71**	**65**	**59**	**50**

Source: Company data and BPI Equity Research (F).

EQUITY RESEARCH

Cofina

Media

Buy

High-Risk

5th March 2014

Portugal

Ready for recovery

(YE14 Price Target upgraded to € 1.00 (+8% LfL); Buy recommendation maintained)

- **Press market recovery getting closer**: It appears that we are witnessing the start of the recovery of the Portuguese advertising market, particular if we focus on TV broadcasters performance. The press market should lag the TV ad market but recovery is close. We have upgraded our estimates for the Daily Press Ad Market to +5% for FY15 (+0.5% in FY14) vs our previous expectation of +4% implied in our latest note published in the "Iberian Book" last January.

- **Top-line ups and downs**: CFN has been able to gain advertising market share both in Journals and Magazines divisions and we believe it still can get a bigger slice of the cake. Our estimates for CFN's advertising revenues reflect the improvement in advertising market as well as the expectation of some stabilization in circulation revenues.We forecast a 0.9% revenue growth for 2014 vs. a 7.9% decline in 2013.

- **In shape for ad recovery**: CFN should continue to implement cost reduction initiatives during 2014 which coupled with an improvement in the mix (advertising revenues carries higher margins) justifies our 15.6% EBITDA margin estimate for FY14. After fine-tuning our base case we **upgraded on average our EBITDA estimates for FY13-16F by 0.6%**. We have also fine tuned our DCF assumptions and lowered our Country Risk Premium (Rf+CrP at 4.9% vs 5.6% before) raising our **YE14 Price Target to € 1.00 (+8% LfL)**. **BUY**.

Stock data

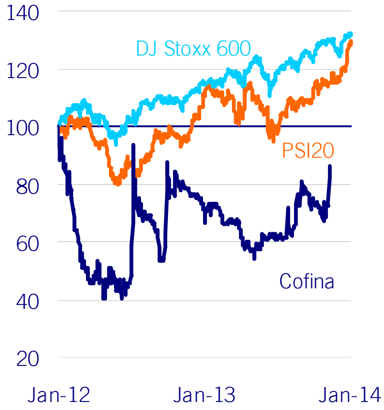
Price (24th Feb.):	0.63	Price Target (YE14):	1.00
# shares (mn):	102.6	Market Cap (€ mn) / Free-Float:	64 / 50%
Reuters/Bloomberg:	CFN.LS/CFN PL	Avg. Daily Vol. [€'000]:	240

Major Shareholders: Ms. Ana Mendonça (20.0%); Mr. João Borges (14.4%), Newshold (12.2%), Mr. Domingo Matos (12.0%), Mr. Paulo Fernandes (9.3%), Mr. Pedro Borges Oliveira (5.5%)

Estimates	2010	2011	2012F	2013F	2014F	2015F	2016F
PE Adj.	12.9	13.4	16.2	15.0	12.5	10.1	6.7
Dividend yield	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
FCFE Yield	16.4%	95.5%	12.2%	4.1%	10.3%	11.8%	14.5%
FCFF Yield	15.5%	9.5%	9.3%	4.7%	10.6%	10.7%	12.0%
PBV	13.55	7.66	5.23	4.04	3.27	2.63	2.05
EV/EBITDA (1)	5.0	5.8	6.9	7.9	7.0	6.4	5.8
EV/Sales (1)	0.8	0.9	1.0	1.1	1.1	1.1	1.0

(1) EV is fixed with current market cap and MV of remaining items.

Cofina vs. PSI20 vs. MSCI SC



Source: Bloomberg.

Valuation Summary

Business Area	Stake	EV	% EV
Newspapers	100.0%	163	93%
Magazines	100.0%	5	3%
CM TV	100.0%	3	2%
(+) Distribution	33.1%	5.5	3%
Total		**175.7**	
YE14 Net Debt		65.0	
Equity Value		**111.2**	
# Shares		102.6	
YE14 Fair Value (€)		**1.08**	
Small Cap Discount		10%	
YE14 Price Target (€)		**1.00**	

Source:

Historical Recommendation

Date	Recommendation
22-Jan-13	Reduce
11-Jun-13	Neutral

Source: BPI Equity Research.

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P&L

(€ mn)	2010	2011	2012	2013F	2014F	2015F	2016F	CAGR 12-16F
Revenues	**136**	**127**	**113**	**104**	**105**	**108**	**111**	**0%**
EBITDA	**23**	**20**	**17**	**15**	**16**	**18**	**20**	**5%**
EBITDA adj.	**23**	**20**	**17**	**15**	**16**	**18**	**20**	**5%**
EBITDA adj. mg.	17.0%	15.6%	14.6%	14.0%	15.6%	16.4%	17.8%	5%
Depreciation & others	4	3	3	3	4	4	2	-15%
EBIT	**19**	**16**	**13**	**11**	**13**	**14**	**18**	**8%**
EBIT adj.	**19**	**16**	**13**	**11**	**13**	**14**	**18**	**8%**
Net financial results	-3	-3	-2	-3	-6	-5	-5	28%
Income Tax	2	-8	-6	-4	-2	-3	-4	-9%
Others	-1	0	0	0	0	0	0	n.s.
Minority Interests	0	0	0	0	0	0	0	-56%
Net Profit reported	**5**	**5**	**4**	**4**	**5**	**6**	**10**	**25%**
Net Profit adj.	**5**	**5**	**4**	**4**	**5**	**6**	**10**	**25%**

Balance Sheet

(€ bn)	2010	2011	2012	2013F	2014F	2015F	2016F	CAGR 12-16F
Net Intangibles	96	94	94	94	95	95	96	1%
Net Fixed Assets	11	10	8	8	6	4	4	-18%
Net Financials	3	3	3	3	3	3	3	0%
Inventories	4	4	2	2	2	2	2	-1%
ST Receivables	13	9	7	7	7	7	8	2%
Other Assets	17	14	12	11	11	11	12	0%
Cash & Equivalents	25	39	16	16	15	15	15	0%
Total Assets	**220**	**174**	**142**	**141**	**139**	**139**	**140**	**0%**
Equity & Minorities	**8**	**12**	**16**	**19**	**23**	**29**	**37**	**24%**
MLT Liabilities	**23**	**2**	**14**	**14**	**14**	**14**	**14**	**0%**
o.w. Debt	20	0	13	13	13	13	13	0%
ST Liabilities	**186**	**155**	**106**	**102**	**96**	**90**	**83**	**-6%**
o.w. Debt	145	119	75	73	67	61	53	-8%
o.w. Payables	41	36	31	29	29	29	30	-1%
Equity+Min.+ Liabilities	**220**	**174**	**142**	**141**	**139**	**139**	**140**	**0%**

Cashflow (€ mn)

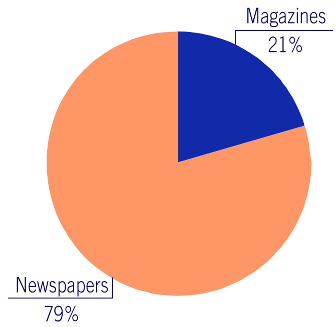
	2010	2011	2012	2013F	2014F	2015F	2016F
+ EBITDA	23	20	17	15	16	18	20
- Chg in Net W.C.	1	0	-1	1	0	1	0
- Income Taxes	-2	8	6	4	2	3	4
= Operating Cash Flow	**24**	**12**	**12**	**9**	**14**	**14**	**16**
- Growth Capex	0	0	0	0	0	0	0
- Replacement Capex	7	1	1	3	2	2	2
- Net Fin. Inv.	-1	0	0	0	0	0	0
= Cash Flow after Inv.	**18**	**11**	**11**	**5**	**12**	**12**	**14**
- Net Fin. Exp.	16	3	3	3	6	5	5
- Dividends Paid	1	1	1	1	1	1	1
+/- Equity	0	0	1	0	0	0	0
Other	9	53	1	0	0	0	0
=Change in Net Debt	**-9**	**-60**	**-8**	**-2**	**-6**	**-7**	**-8**
Net Debt (+)/Net Cash (-)	**140**	**80**	**72**	**71**	**65**	**59**	**50**

Growth, per share data and ratios

	2010	2011	2012	2013F	2014F	2015F	2016F
Sales growth	2%	-7%	-11%	-8%	1%	3%	3%
EBITDA Adj. growth	8%	-15%	-16%	-12%	12%	9%	11%
EPS Adj. growth	-71%	-4%	-17%	8%	20%	23%	50%
Avg. # sh (mn)	103	103	103	103	103	103	103
Basic EPS	0.05	0.05	0.04	0.04	0.05	0.06	0.09
EPS Adj. Fully diluted	0.05	0.05	0.04	0.04	0.05	0.06	0.09
DPS	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Payout	19.9%	20.8%	25.1%	23.2%	19.4%	15.7%	10.4%
ROCE (after tax)	17.7%	4.0%	4.9%	5.4%	8.8%	9.8%	12.6%
ROE	106.2%	57.6%	32.6%	27.2%	26.4%	26.2%	30.6%
Gearing (ND/EV)	122.3%	69.8%	63.0%	61.7%	56.8%	51.1%	43.8%
Net Debt/EBITDA	6.1	4.0	4.4	4.8	4.0	3.3	2.5

Source: Company data and BPI Equity Research (F).

Breakdown of Revenues by Division (2013F: € 104mn)



Source: BPI Equity Research.

Cofina DCF Assumptions

Re	12.0%
Rf (1)	4.9%
Beta Equity	1.2
Market Premium	6.0%
Rd	7.4%
Tax Rate	29.0%
D/EV	29%
WACC	**10.0%**
g	1.5%

(1) Includes country risk premium.
Source: BPI Equity Research.

Sensitivity Analysis (€/sh)

	Press Adv. Growth 2014		
	-2.50%	0.50%	3.50%
YE14 Fair Value	0.98	**1.08**	1.19
Chg. To Base Case	-9.4%		10.4%

Note: Sensitivity to each variable holding everything else constant.
Source: BPI Equity Research.

Newspapers Multiples

	PE		EV/EBITDA	
	13	14	13	14
Daily Mail	20.6 x	20.1 x	11.3 x	11.4 x
L'Espresso	59.2 x	25.4 x	10.4 x	7.3 x
Independent News & Media	11.8 x	7.7 x	6.9 x	9.0 x
Telegraaf	17.8 x	16.6 x	12.7 x	4.7 x
Trinity Mirror	6.8 x	7.0 x	4.7 x	4.0 x
Average	**23.2 x**	**15.4 x**	**9.2 x**	**7.3 x**
Cofina	15.0x	12.5x	7.9x	7.0x

Source: BPI Equity Research (Cofina), Factset.

EQUITY RESEARCH

Impresa

Media

Buy

High-Risk

5th March 2014

Portugal

At the bottom of the cycle

(YE14 Price Target upgraded to € 2.30 (+20% LfL); Buy recommendation maintained)

- **Recovery kicking-in**: The main players in the Portuguese media sector have been showing an improvement in advertising turnover enhancing market expectations for the recovery of the ad market. Media capital which has already reported 4Q results (ad revenues up 3% yoy) coupled with the Spanish broadcasters that have recorded high single digit TV advertising growth remove any doubt that recovery is knocking on the door. In 2014 we still expect IPR to experience some marginal gains in revenue mkt share which coupled with a still positive growth in 1H of the year in gambling should bring interesting levels of revenue growth.

- **Enhanced profitability**: During 9M13, IPR reached an 11.3% EBITDA margin, up from 7.3% in 9M12, with operational costs reducing 3.2% yoy so far. This improvement in profitability has been achieved during the weakest year for advertising and has bolstered both TV division (15.6% margin vs 9.9% a year earlier) and Press divisions (6.2% vs 2.9%). The company has managed to increase its audience and advertising revenue share with lower programming costs, which are expected to grow slightly on 2014 given the impact of the recently launched channel SIC Caras. We are forecasting 15.5% and 17.6% EBITDA margins for FY14 and FY15 respectively.

- **Buy recommendation maintained**: We expect IPR to continue to outperform the TV ad market during 2014, reaching an estimated growth of 7% vs market's 6%. IPR outlook seems highly positive while the company continues to trade at a significant discount to its Souther European peers. We have fine tuned our model, enhancing our forecasts for the ad market, revising our DCF assumptions to reflect the improved sentiment on Portuguese debt and lowered our Country Risk premium for Portugal (Rf+CrP at 4.9% vs. 5.6% before). Our revised **YE14 Price Target** stands at **€ 2.30** (+20% LfL). **BUY**

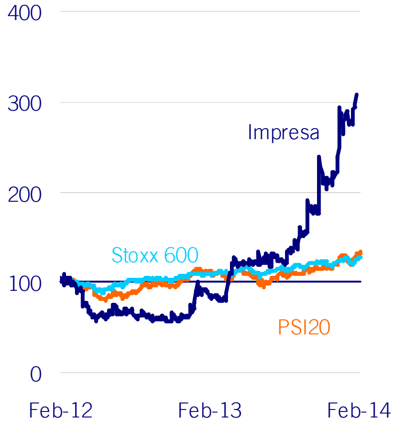
Stock data

Price (24th Feb.):	1.57	Price Target (YE14):	2.30
# shares (mn):	168.0	Market Cap (€ mn) / F.Float:	264 / 39.4%
Reuters/Bloomberg:	IPR.LS/IPR PL	Avg. Daily Vol. [€'000]:	174
Major Shareholders:	Impreger (50.4%), Invesco (5.11%); Madre SGPS (5.0%), BPI (3.7%); Otus Capital (2.68%)		

Estimates	2010	2011	2012	2013F	2014F	2015F	2016F
PE Adj.	26.2	-24.2	-91.1	38.4	19.7	13.3	8.9
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FCFE Yield	6.8%	0.2%	3.4%	1.7%	6.8%	8.7%	11.7%
FCFF Yield	4.5%	2.7%	4.2%	6.9%	8.4%	9.6%	11.4%
PBV	1.71	1.86	2.17	2.16	1.99	1.77	1.52
EV/EBITDA (1)	13.8	20.9	23.4	11.3	9.0	7.7	6.3
EV/Sales (1)	1.7	1.9	2.0	1.5	1.4	1.4	1.3

(1) EV is fixed with current market cap and MV of remaining items.

Impresa vs. PSI20 vs. MSCI SC



Source: Bloomberg.

Sum of Parts Valuation (€ mn)

Business Area	€ mn	%
SIC	541	90%
Publishing	100	17%
Others & Holding	-38	-6%
Total	**602**	
Distribution & Other Non-Core Assets	11	
Net Debt	182	
Equity Value	**432**	
# Shares (mn)	168.0	
YE14 Fair Value (€)	**2.57**	
Small Caps Discount	10%	
YE14 Price Target (€)	**2.30**	

Source: BPI Equity Research.

Historical Recommendation

Date	Recommendation
22-Jan-13	Buy
11-Jun-13	Neutral
25-Nov-13	Buy

Source: BPI Equity Research.

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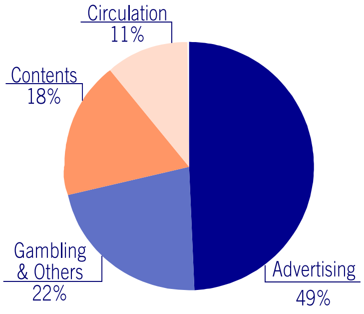
P&L

(€ mn)	2010	2011	2012	2013F	2014F	2015F	2016F	CAGR 12-16F
Revenues	**271**	**250**	**229**	**235**	**248**	**253**	**269**	**4%**
EBITDA	**34**	**22**	**19**	**32**	**38**	**44**	**55**	**30%**
EBITDA adj.	**34**	**22**	**19**	**32**	**38**	**44**	**55**	**30%**
EBITDA adj. mg.	12.4%	8.9%	8.5%	13.6%	15.5%	17.6%	20.5%	25%
Depreciation & others	8	8	7	6	6	5	5	-10%
EBIT	**26**	**14**	**12**	**25**	**33**	**40**	**51**	**42%**
EBIT adj.	**26**	**14**	**12**	**25**	**33**	**40**	**51**	**42%**
Net financial results	-9	-12	-12	-11	-10	-10	-8	-9%
Income Tax	-4	-2	-1	-7	-9	-10	-12	80%
Others	-1	0	0	0	0	0	0	n.s.
Minority Interests	0	0	0	0	0	0	0	3%
Net Profit reported	**10**	**-35**	**-5**	**7**	**13**	**20**	**30**	**n.s.**
Net Profit adj.	**10**	**-35**	**-5**	**7**	**13**	**20**	**30**	**n.s.**

Breakdown of Turnover by Source (2014F: € 248mn)

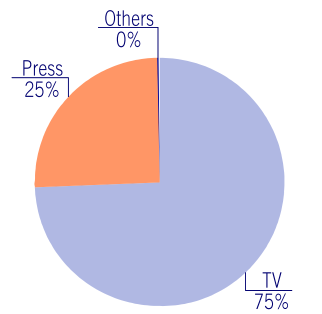


Source: Company Data.

Balance Sheet

(€ mn)	2010	2011	2012	2013F	2014F	2015F	2016F	CAGR 12-16F
Net Intangibles	339	304	301	301	301	301	301	0%
Net Fixed Assets	37	38	31	26	23	22	20	-10%
Net Financials	12	11	13	13	13	13	13	0%
Inventories	26	28	20	25	23	24	25	6%
ST Receivables	32	29	29	28	30	31	33	3%
Other Assets	6	4	5	5	5	5	5	0%
Cash & Equivalents	7	4	2	2	2	2	2	0%
Total Assets	**484**	**442**	**420**	**413**	**411**	**410**	**412**	**0%**
Equity & Minorities	**159**	**124**	**119**	**126**	**139**	**159**	**189**	**12%**
MLT Liabilities	**173**	**164**	**157**	**128**	**105**	**86**	**71**	**-18%**
o.w. Debt	159	149	146	117	94	75	60	-20%
ST Liabilities	**148**	**150**	**138**	**154**	**162**	**161**	**147**	**2%**
o.w. Debt	62	68	60	74	83	82	70	4%
o.w. Payables	39	43	38	44	46	49	52	8%
Equity+Min.+ Liabilities	**484**	**442**	**420**	**413**	**411**	**410**	**412**	**0%**

Breakdown of Turnover by Division (2014F: € 248mn)



Source: BPI Equity Research.

Cashflow (€ mn)

	2010	2011	2012	2013F	2014F	2015F	2016F
+ EBITDA	34	22	19	32	38	44	55
- Chg in Net W.C.	-3	2	-4	-2	-2	-2	0
- Income Taxes	4	2	1	7	9	10	12
= Operating Cash Flow	**33**	**18**	**22**	**27**	**32**	**36**	**43**
- Growth Capex	7	0	0	0	0	0	0
- Replacement Capex	7	7	1	2	3	3	3
- Net Fin. Inv.	-1	-1	2	0	0	0	0
= Cash Flow after Inv.	**21**	**13**	**19**	**25**	**29**	**33**	**39**
- Net Fin. Exp.	12	13	13	12	11	10	9
- Dividends Paid	0	0	0	0	0	0	0
+/- Equity	0	0	0	0	0	0	0
Other	-2	-35	-6	9	4	1	-2
=Change in Net Debt	**-18**	**0**	**-9**	**-4**	**-18**	**-23**	**-31**
Net Debt (+)/Net Cash (-)	**213**	**213**	**204**	**200**	**182**	**159**	**128**

DCF Assumptions

	SIC & New Media	Publishing
Re	11.5%	12.1%
Rf [1]	4.9%	4.9%
Beta Equity	1.1	1.2
Market Premium	6.0%	6.0%
Rd	7.4%	7.4%
Tax Rate	29%	29%
D/EV	29%	29%
WACC	**9.4%**	**10.0%**
g	2.0%	1.5%

(1) Includes Country Risk Premium.
Source: BPI Equity Research.

Growth, per share data and ratios

	2010	2011	2012	2013F	2014F	2015F	2016F
Sales growth	7%	-8%	-8%	2%	6%	2%	6%
EBITDA Adj. growth	1%	-34%	-12%	63%	21%	16%	24%
EPS Adj. growth	29%	n.s.	n.s.	n.s.	95%	48%	50%
Avg. # sh (mn)	168	168	168	168	168	168	168
Basic EPS	0.06	-0.21	-0.03	0.04	0.08	0.12	0.18
EPS Adj. Fully diluted	0.06	-0.21	-0.03	0.04	0.08	0.12	0.18
DPS	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Payout	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
ROCE (after tax)	5.1%	4.4%	2.3%	6.8%	10.6%	12.2%	14.1%
ROE	6.5%	-24.8%	-4.0%	5.6%	10.1%	13.3%	17.2%
Gearing (ND/EV)	45.8%	45.7%	44.7%	55.6%	52.7%	46.0%	37.1%
Net Debt/EBITDA	6.3	9.6	10.5	6.3	4.7	3.6	2.3

Source: Company data and BPI Equity Research (F).

Sensitivity Analysis (€/sh)

Tv Advertising Growth 2014	3%	6%	9%
YE14 Fair Value	2.36	2.57	2.78
Change to B. Case	-8.2%		8.2%

Note: Sensitivity to each variable holding everything else constant.
Source: BPI Equity Research Estimates.

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	Low Risk	Medium Risk	High Risk
Buy/CoRe Buy	>15%	>20%	>30%
Neutral	>5% and < 15%	>10% and <20%	>15% and < 30%
Reduce	>-10% and < 5%	>-10% and < 10%	>-10% and < 15%
Sell	< -10%	< -10%	< -10%

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Buy	22%
CoRe Buy	8%
Neutral	35%
Reduce	20%
Sell/Accept Bid	14%
Under Revision/Restricted	1%
Total	100%

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