HAITONG

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Haitong Bank in a report from 11th December (08:00) upgrades stock recommendations on companies from the TMT sector:

- **BUY on Cyfrowy Polsat (FV 26.0 PLN)**
- **BUY on Play Communications (FV 26.6 PLN)**
- **NEUTRAL on Orange Polska (FV 5.1 PLN)**
- **BUY on Netia (FV 5.54 PLN)**
- **BUY on Wirtualna Polska (FV 63.2 PLN)**
- **NEUTRAL on Agora (FV 12.2 PLN)**
- **NEUTRAL on Asseco Poland (FV 50.9 PLN)**
- **BUY on Comarch (FV 184.6 PLN)**
- **BUY on Live Chat (FV 61.8 PLN)**
- **BUY on Ten Square Games (FV 118 PLN)**
- **BUY on R22 Group (FV 23.7 PLN)**

Valuation Methodology

Cyfrowy Polsat: We value Cyfrowy Polsat using two methods: DCF and peer multiples. Our final fair value is an average of these two methods (each with a 50% weighting). We maintain our valuation methodology for Cyfrowy Polsat: we use a synthetic EV/EBITDA multiple derived from the average of EV/EBITDA multiples from the telco, DTH and TV businesses. We use weights corresponding to Cyfrowy Polsat's EBITDA generation from those three business segments. As a result, in our synthetic EV/EBITDA, 65% comes from the mobile exposed telco peer median group, 20% from the DTH peer median group and 15% from the TV peer median group during 2018 but due to the Netia acquisition (which we expect to happen in 2019) we change weightings in 2019 to: 70% telco/18% payTV and 12% TV ad. Using DCF we arrive at PLN 25.7/sh while our peer valuation yields PLN 26.2/sh. Our final fair value is PLN 26/sh, implying 14% potential upside.

Play: We value Play using a DCF, DDM and peer multiples. Using a DCF, we derive a fair value of PLN 25.4; using DDM we arrive at PLN 28.1 and peers of PLN 27. Applying an equal weighting to each valuation method we obtain a fair value of PLN 26.6 implying 40% upside potential to the current share price

Orange Polska: We value Orange Polska using a DCF and peer multiples where DCF and peers have a 50% weight each. As Orange Polska does not pay dividends, we stopped valuing the stock using the DDM method. Using a DCF, we derive a fair value of PLN 4.9 and using peers of PLN 5.2. Our fair value is PLN 5.1, implying 6% upside potential to the current share price.

Netia: We value Netia using the average of two methods: DCF and peer valuation. Using a DCF, we derive a fair value of PLN 4.2 while using peers it's PLN 3.7. We also take into account the planned full acquisition of Netia by Cyfrowy Polsat, which now directly controls a 66% stake. In this deal CPS expects to generate PLN 800m of synergies between 2019-23. We have prepared a long-term NPV analysis of synergies which we value at ca. PLN 1.65bn. Cyfrowy Polsat says those synergies will be proportionally divided between CPS and NET. As a result, to our blended FV of PLN 4.0 we add 50% of the total PLN 1.65bn expected discounted synergies and multiply by the 66% stake that CPS has in NET. As a result, we arrive at a FV of PLN 5.54.

Wirtualna Polska: We value Wirtualna Polska using two valuation methods: DCF and peer valuation. The final fair value is an average of those two methods where each method has an equal 50% stake. Under the DCF we derive a fair value of PLN 65.9/sh while using the peer valuation we derive PLN 60.5/sh. Our final value points to PLN 63.2/sh, which gives 21% upside potential.

Agora: We value Agora using a DCF method while we show a peer valuation just for illustrative purposes. Using a DCF, we value Agora at PLN 12.2/sh which implies 6% upside.

Asseco Poland: We value Asseco Poland using two methods: DCF and peer multiples. Our final fair value is an average of these two methods (each with a 50% weighting). Using DCF we arrive at PLN 54.9/sh while our peer valuation yields PLN 46.9/sh. Our final fair value is PLN 50.9/sh, implying 5% potential upside.

Comarch: We value Comarch using two methods: DCF and peer multiples. Our final fair value is an average of these two methods (each with a 50% weighting). Using DCF we arrive at PLN 192.2/sh while our peer valuation yields PLN 177/sh. Our final fair value is PLN 184.6sh, implying 15% potential upside.

Live Chat: We decided to change our valuation method to DCF only (vs DCF/peers before) due to abnormally high LVC global peers 1YF/2YF EV/EBITDA multiples of 59.6x/46.8x (see peer table) which are hard to fundamentally explain in our view and can be used mostly for illustrative purposes. We value Live Chat using DCF while we show peers for illustrative purposes. Using a DCF we arrive at PLN 61.8/sh, implying 125% potential upside.

Ten Square Games: We value TSG using three valuation methods - DCF, EV/EBIT and P/E - with each method having an equal weight. Using DCF, we value TSG at PLN 160.4/share, P/E at PLN 98.9/share and using EV/EBIT at PLN 94.5/share. Our final fair value is PLN 118/share implying 43% upside.

R22: We value R22 Group using three methods: DCF (Sum of the Parts), EV/EBITDA and P/E where each method has equal weight of 33%. We value R22 Group at PLN 336 or PLN 23.7/share which implies 43% upside potential.

Risks to Fair Value

Cyfrowy Polsat

- Weaker than expected delivery on Capex and EBITDA synergies on Netia acquisition.
- Weaker than expected monetization of UEFA TV content.
- Weaker than expected performance of SmartDOM offer.
- Price pressure on LTE offers.
- ARPU and margin dilution from bundling offer.
- Weaker than expected performance of TV ad market.
- Erosion of Polsat TV audience share.
- Weaker than expected macro situation that could reduce consumption spending on telecom-related services

Play

- Competition: The Polish mobile market remains highly competitive and changes in the business model of other operators and/or increased use of alternative technology could have a material negative impact on Play's business. Play faces strong competition for subscribers from established competitors, like Plus, Orange and T-Mobile.
- Subscriber acquisition pace: the success of Play's mobile operations depends on its ability to attract market share away from competitors and retain mobile subscribers. If Play is unable to successfully manage its subscriber turnover or otherwise lose mobile subscribers, it may face increased subscriber acquisition and retention costs, reduced revenues and/or lower cash flows.
- Change or unexpected termination of national roaming agreements: Play relies on national roaming to offer mobile telecommunications services to a certain part of subscribers.
- Limited spectrum: Play's future success partially depends upon its ability to secure new radio frequency spectrum, which might be necessary for the launch of new or enhanced technologies or, as business grows, to carry the traffic of its own subscribers. There is a risk Play could pay more for the renewal and acquisition of new spectrum in the future.
- Capex: Play is forecasting 11-13% Capex/Sales ratio until 2020 and below 10% starting from 2021, which is one of the lowest among all telcos. There is a risk the Capex/Sales ratio could be higher in the future

Orange Polska

- Price war in mobile broadband offer.
- Price pressure in B2B market.
- Competitive offer from CPS/NET putting pressure on OPL client base in dense areas.
- Higher than expected erosion of ARPU in the mobile voice segment.
- Acceleration of net adds erosion in fixed-voice and fixed-data.
- P4 accelerating price pressure in the market.
- Increasing competition in fixed-line due to FTTx upgrades

Netia

- CPS calling for remaining stake up to 100% at a lower price than PLN 5.77/sh.
- Unsuccessful CPS/NET merger and extraction of post-acquisition synergies.
- Acceleration in client erosion in fixed-voice and fixed-broadband.
- Increasing competition in fixed-line due to FTTx upgrades

Wirtualna Polska

- Macroeconomic situation – the advertising market is highly correlated to GDP. Correlation analysis of historical data shows that the overall Polish ad market grows when GDP grows at least 3% pa.
- Growth of internet ad market and e-commerce market – A change in the global economy affecting Polish GDP, the unemployment rate and average salary could also affect the growth rates of the online ad and e-commerce market, which is strongly correlated with general consumption trends.
- Competition – both online advertising and e-commerce are very competitive markets as the direct competitors of WPL Group are strong global and local brands such as Google, Facebook, Onet.pl, Gazeta.pl Group, Interia Group
- Risk of losing advertising clients – a substantial part of revenues comes from its stable and key client base like media houses (ca. 27% of revs in 2014).
- Unsuccessful acquisitions – WPL Group's growth is currently boosted by acquisitions. There is a risk that some acquisitions may be unsuccessful in terms of overpayment or wrongly chosen business profile.
- Development of ad blocking applications which are usually are part of web browser software or anti-virus software. Their further and faster development can negatively affect the online ad market as a marketing tool and result in a decrease in ad budgets of advertisers.
- Weak performance of WPL TV channel – after restructuring measures WPL's TV channel starts to improve its TV audience share and EBITDA numbers. However, competition in the TV ad market is strong while MUX8 faces problems with the TV coverage signal and this issue is currently under negotiation with Emitel. If MUX8 members do not reach a consensus and MUX8 keeps its low coverage ratio, it could reduce the pace of the expected WPL TV recovery

Agora

- Slowdown in the Polish advertising market.
- Stronger than expected erosion in press circulation.
- Slower/faster than expected development of cinema screens, triggering lower/higher admissions.
- Weak movie line-up resulting in lower admissions.
- Reducing popularity of Gazeta.pl internet portal triggering dilution of its internet ad market share

Asseco Poland

- Fierce competition in IT contracts from the new EU budget perspective.
- Salary pressure from low unemployment and the accumulation of IT contracts in the new EU budget.
- Unexpected fines and provisions on ongoing contracts.
- Delay in IT spending related to the new EU budget.
- A lower than expected growth rate at Formula Systems.
- Visibly lower than expected dividend forecasts.
- Cash flow deterioration.

Comarch:

- Failure in execution of ZUS maintenance contract.

- Delay in launch of new EU budget related to change in the Government.
- Unfavorable court decision on ARiMR fine - in 2014 the Agriculture Agency (ARiMR) levied a PLN 32.5m fine on delays on the OFSA contract, while the total value of the 36-month contract is PLN 29m gross. Comarch does not agree with the fine and has made only a PLN2.3m provision for it.
- Slowdown in IT market and unsuccessful global expansion.
- Value destructive acquisitions.
- A weak euro has a negative impact on revenue and profitability

Live Chat

- Live Chat settles ARPU revenues in USD while incurring part of COGS and OPEX in PLN like rentals, headcount costs, equipment costs. Hence, Live Chat's P&L is exposed to USDPLN fluctuations. In our model, we assume USDPLN at 3.69 in 2018/19E and at 3.50 in 2019/20E and onwards.
- Increasing competition in the Live Chat market, especially from freemium and bundled providers. The Live Chat market, like many dotcom businesses, typically has low entry barriers which triggers competition. Live Chat has proved already that it can successfully build a client base and slightly increase ARPU without pressure on the profitability side.
- Salary pressure: Like IT businesses, Live Chat can experience salary pressure risk, especially from talented software developers. Live Chat is less exposed to this risk as it has a very efficient SaaS business model where sales are automated. Live Chat currently employs ca. 130 people and plans further hires.
- Risk of third-party providers: Live Chat is using third party providers on data server space for its Live Chat application and also uses third party providers to settle cash payments for the Live Chat app. If any of those providers fails to provide their service well, it can result in a bad customer experience and affect churn and future net adds

Ten Square Games

- Macro risks: Changes in macroeconomic factors in the global market, such as the GDP growth rate, household income and expenditure levels and remuneration levels can have an impact on TSG's revenues.
- FX risks: TSG incurs significant personnel costs and expenses related to the production of games in PLN, while a significant part of revenue is generated in foreign currencies. In 2017, USD and EUR represented ca. 69% of total revenues. The appreciation of PLN against USD and EUR may, by lowering revenues from sales with fixed costs, incur costs in PLN and negatively affect TSG's financial results.
- Competition risk: Free-to-Play (F2P) and the mobile game market have relatively low entry barriers for new entities and easy access to global distribution of new products which results in considerable competition in the market.
- Dependence on key distributors: Over 50% of TSG's revenue is generated by games that are distributed by Google, Facebook and Apple through their digital distribution platforms or online portals. A possible change in Google, Facebook and Apple policies regarding the acceptance of products for distribution would require TSG to adapt existing or future products, which may be difficult to achieve in the short term and generate additional high costs.
- Workforce risk: Personnel are TSG's key asset: the lack of a qualified workforce and higher than expected salary pressure might negatively affect the execution of TSG's strategy goals and its financial results.
- Technology risks: TSG uses the Unity 3D engine in the process of game production, periodically purchasing a subscription with access to this technology. There is a risk that fees may increase to a level negatively affecting the profitability of produced games.
- Delays in game production: Failure to meet the planned production schedule may delay the game's release, which in turn may have a negative impact on the sales level of the product and prevent TSG from achieving the expected financial results.

R22

- M&A execution risk: The possibility of acquiring potential targets or not being able to obtain them at a price regarded by R22 as attractive may have a negative impact on R22's future assets and financial position as well as its market position.
- Risk of changes in the rules of domain registration in Poland: NASK acts as a national register of Internet names in the .pl domain. Possible legislative changes, leading to a change in the entity conducting the

national Internet name register or change of the registration rules could adversely affect the future financial situation of R22 as well as its market position.

- The risk of changing the rules of transferring Internet domains between entities in Poland: Implementing regulations to facilitate the transfer of domains based on the model of the telecommunications market would significantly change the hosting market, which would, on the one hand, involve the risk of exposing some of H88's customers to competition.
- Risk of losing competitive position in the market: Due to the relatively short period of operation of the areas in which R22 operates (especially Vercom), they may undergo significant and dynamic changes as well as significant changes in competition also coming from consolidation processes in all of R22's markets.
- Risk of loss of customers: Increasing competition in R22 markets, technological development and consolidation processes can lead to intensified competition resulting in the client base reduction of R2 Group.
- Risk of cyber-attacks: R22 Group and its clients (own servers), the business activities of R22 are exposed to attacks by cybercriminals.
- Risk related to the macroeconomic environment: Changes in the macroeconomic environment, including economic growth, inflation, unemployment and interest rates, can affect R22's ability to create value. This in particular concerns the activities of the Vercom Group, whose services are more prone to the economic downturn than those offered by the H88 Group and the Oxylion Group.
- Risk related to cost increases: Due to the construction of some contracts with clients that do not allow for an increase in the remuneration for services provided by companies within the R22 Group over the life of the contract, significant changes in unit variable costs (some or all) or loss of control over fixed costs may have a negative impact on activity, development prospects, financial position or results of the R22 Group.