

Warsaw, May 10, 2019

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Haitong Bank in a report from May 9 (08:00) keeps Wirtualna Polska at a BUY and lifts FV to PLN 67.9 (from PLN 63.2) on the back of 2%/5%/6% upgrades to analysts' 19E/20E/21E EBITDA forecasts coming from: (1) a better than previously expected Wirtualna Polska growth profile thanks to its leading position in major online verticals. Improved ad viewability and big data have allowed more efficient ad spending and made Wirtualna Polska an internet group of choice for advertisers. Superior organic growth dynamics in ecommerce coupled with recent acquisitions means that ca. 52%/38% of 2018PF revs/EBITDA is ecommerce driven, which is positive as ecommerce, unlike online ads, is less cyclical and driven by local factors and thus helps protect Wirtualna Polska against any potential slowdown; (2) Haitong Bank's analysts update their model for the recent acquisitions of SuperAuto24 and Terpolan.

Valuation Methodology

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 66.8/sh while using the peer valuation we derive PLN 69.00/sh. Our final value points to PLN 67.90/sh, which gives 15% upside potential.

Risks to Fair Value

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 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 has started 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.

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