



Dom Maklerski BDM S.A.

# AGORA

## RAPORT ANALITYCZNY

# BUY

(MAINTAINED)

### PRICE TARGET 10,46 PLN

13 SEPTEMBER 2023, 10:10 CEST

We are issuing a Buy recommendation for Agora's shares with a target price of PLN 10.46/share, 38% above the current market price. The company is currently trading at EV/EBITDA multiples for 2024-2025 in the range of 5.4x and 4.3x. We note that these levels are still significantly out of line with how investors are valuing other players in the media/entertainment space. A successful end to the current year, in our view, should reinforce the observed improvement in investment sentiment around the company. Agora remains our top pick in the TMT group for the entire current 2023.

We view Q2'23 results positively. On the revenue side, we see a number of upward momentum. Confirmation of moderate optimism (in today's still challenging advertising market) can be found in the fact that Agora has raised its forecasts for the whole of 2023. The company now expects growth in the range of +4 to +6% (previously it was +2% to +4%).

We maintain our previous outlook that Agora is at a very interesting juncture. After many, many years of constant perturbations, the company, according to our assumptions, has begun a period of dynamic earnings recovery starting in 2023. The next quarters, in our view, should confirm that the company is on a sustainable path of earnings recovery.

The company's strategy for 2023-2026 points to a number of the group's strengths and assumes the emergence of impulses that Agora will want to exploit in rebuilding its market position. At a minimum, the goal is to achieve PLN 200 million EBITDA (excluding MSSF 16) before 2026. Our current model assumes that in 2025-2026 the company should be able to generate EBITDA (excluding MSSF 16) of respectively

180 million and PLN 226 million, respectively.

We view the acquisition of control of Eurozet very positively. The project to consolidate the radio market in Poland is a unique opportunity for Agora to demonstrate considerable shareholder value. In our view, this is a business that Agora knows how to do, and it currently has the tools and competencies to achieve the goal announced by Agora's CEO, which is to become the number one player in the radio market in Poland.

The forecasts presented in this report for the next few years, in our view, do not take into account the full potential represented by Agora's focused businesses.

In particular, when considering the advertising revenue base, we pay attention to the reach available to Agora. Therefore, we are mindful that potentially once the company's media return to the "advertising pie table" in Poland on an equal footing with other media entities, a significant revenue stream could be restored.

Price target [PLN]	10,46
DCF valuation [PLN]	10,49
Peer valuation [PLN]	10,43
Potential upside/downside	+38%

Price [PLN]	7,6
Market Cap [PLN mln]	354
Shares outstanding [mln]	46,6

Max. price 6M [PLN]	6,68
Min. price 6m [PLN]	8,84

Rate of return 3M	-2%
Rate of return 6M	27%
Rate of return 9M	50%
Rate of return YTD	60%

Shareholders	
Agora-Holding	11,6%
PTE PZU	16,3%
Media Development Investment Fund	11,5%
NN PTE	9,7%
Free float	51,0%

#### Analyst:

Maciej Bobrowski  
maciej.bobrowski@bdm.pl  
Dom Maklerski BDM S.A.

	2021	2022	2023E	2024E	2025E	2026E
Total revenue [PLN mln]	966	1 113	1 372	1 441	1 585	1 705
EBITDA adj. [PLN mln]	128	143	213	237	287	332
EBIT [PLN mln]	-41,9	-64,8	41,3	68,0	118,9	165,8
Net income [PLN mln]	-44,5	-102,7	19,9	18,9	50,4	87,0
P/E	---	---	17,8	18,7	7,0	4,1
EV/Sales	1,1	1,0	0,8	0,9	0,8	0,7
EV/EBITDA	8,0	7,6	5,3	5,4	4,3	3,5
DPS [PLN]	0,00	0,00	0,00	0,00	0,50	0,65
Dividend yield	0,0%	0,0%	0,0%	0,0%	6,6%	8,6%

\*EBITDA adjusted calculated by BDM may differ from the EBITDA readings Agora presents in its reports



## VALUATION AND SUMMARY

**We are issuing a Buy recommendation for Agora's shares with a target price of PLN 10.46/share, 38% above the current market price. Agora remains as our top pick in the TMT group for the entire current 2023.**

We prepared our valuation based on a DCF model and a multiplier analysis. Using the DCF method, we arrived at a value of PLN 10.49/share. In turn, our adopted EV/EBITDA multiplier (5.5x) for the years 2023-2025 indicates a price of PLN 10.43/share. The final valuation of PLN 10.46/share is the arithmetic average of the two methods used.

### Valuation summary

A	DCF valuation [PLN]	10,49
B	Peer valuation [PLN]	10,43
<b>C = (A*50%+B*50%)</b>	<b>Price Target [PLN]</b>	<b>10,46</b>

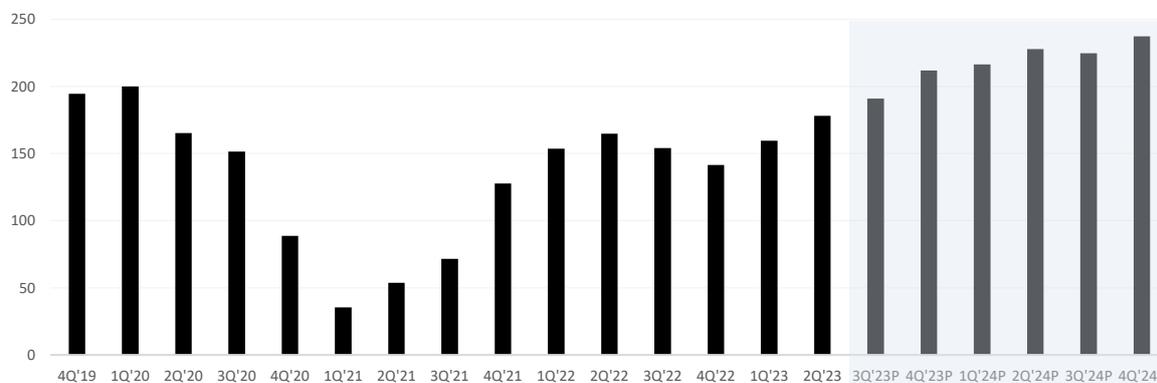
Source: Dom Maklerski BDM S.A.

We maintain our current outlook that Agora is at a very interesting juncture. After many, many years of continuous perturbations, the company, according to our assumptions, has started a period of dynamic earnings recovery starting in 2023. We view the results so far for Q1 and Q2 of 2023 positively. Subsequent quarters, in our view, should confirm that the company is on a sustainable path of earnings recovery.

The company's strategy for 2023-2026 points to a number of the group's strengths and assumes the emergence of impulses that Agora will want to exploit in rebuilding its market position. At a minimum, the goal is to achieve PLN 200 million EBITDA (excluding MSSF 16) before 2026. Our current model assumes that in 2025-2026 the company should be able to generate EBITDA (excluding the effect of MSSF 16) of PLN 180 million and PLN 226 million, respectively.

The forecasts for the coming years presented in this report, still do not take into account the full potential presented by the Agora-centered businesses. In particular, when considering the advertising revenue base, we pay attention to the reach available to Agora. Therefore, we are mindful that potentially once the company's media return to the "advertising pie table" in Poland on an equal footing with other media entities, a significant revenue stream could be restored.

### Our assumed future LTM EBITDA growth trajectory [PLN mln]



Source: Dom Maklerski BDM S.A.

We made our DCF valuation based on a 10-year free cash flow (FCFF) forecast. The cost of equity in our model is based on a modified CAPM model. The risk-free rate assumed in the model is 5.6% (previously 6%). The unleveraged beta was set at 1.0 in the valuation and then we apply the leveraged beta in each forecast period based on the model simulation. We set the market risk premium at 6.5%. The final cost of equity takes into account the additional premium of 1.5% required by us in investing in a mid-cap entity like Agora.

After the detailed forecast period, we made an assumption of 2.5% y/y flow growth in the residual period and used a wacc of 13.1% in the calculation.

In the model, depreciation and amortization was shown according to the treatment the company shows in its interim reports (i.e., after applying MSSF 16). We have also included in the forecast of capital expenditures (Capex) the estimated future cost of lease renewals.

The estimated level of net debt at the end of 2023 takes into account the MSSF 16 treatment. We further reduced the valuation by the value of the put option (for the acquisition of minority assets) and other estimated adjustments.

We have included in capital expenditures the acquisition of full control of Eurozet before the end of 2024.

The final DCF method suggests an equity value of AGO at PLN 10.49/share. The valuation was prepared as of 2024-01-03.

**Sensitivity of valuation to assumed parameters in the residual period (after the detailed forecast period)**

		FCFF growth in the residual period						
		1,0%	1,5%	2,0%	2,5%	3,0%	3,5%	4,0%
<b>WACC</b>	<b>8,6%</b>	15,8	17,1	18,6	20,4	22,4	24,9	28,0
	<b>10,1%</b>	12,7	13,6	14,6	15,8	17,1	18,6	20,4
	<b>11,6%</b>	10,5	11,2	11,9	12,7	13,6	14,6	15,8
	<b>13,1%</b>	8,8	9,3	9,9	<b>10,49</b>	11,2	11,9	12,7
	<b>14,6%</b>	7,5	7,9	8,4	8,8	9,3	9,9	10,5
	<b>16,1%</b>	6,5	6,8	7,2	7,5	7,9	8,4	8,8
	<b>17,6%</b>	5,7	5,9	6,2	6,5	6,8	7,2	7,5

Source: Dom Maklerski BDM S.A.

We based our valuation of the company using the multiplier method on EV/EBITDA according to our assumptions for 2023-2025. We set the target acceptable average EV/EBITDA level for 2023-2025 at 5.5x (as before). This approach suggests a valuation of the company at close to PLN 466 million, or PLN 10.43/share.

**Agora multiplier valuation (based on EV/EBITDA target)**

		Sensitivity analysis; average EV/EBITDA for 2023-2025						
		4,0x	4,5x	5,0x	5,5x	6,0x	6,5x	7,0x
Price Target [PLN]		2,51	5,15	7,79	<b>10,43</b>	13,06	15,70	18,34

Source: Dom Maklerski BDM S.A.

INCOME STATEMENT [PLN mln]	2021	2022	2023E	2024E	2025E	2026E	2027E
<b>Total revenue</b>	<b>965,9</b>	<b>1 113,1</b>	<b>1 371,9</b>	<b>1 441,1</b>	<b>1 585,1</b>	<b>1 705,2</b>	<b>1 810,1</b>
Advertising	509,4	511,9	702,1	772,8	861,6	931,2	988,5
Cinema tickets	126,8	192,3	227,9	223,6	252,1	275,2	296,2
Publishing sales	142,8	136,9	136,9	137,9	139,8	141,2	142,6
Cinema bars	62,4	103,5	125,7	125,0	141,3	154,6	166,9
Catering sales	28,7	38,3	41,8	44,9	48,3	51,9	55,8
Movie operations	12,7	31,2	19,8	19,1	20,4	20,7	21,6
Other sales	83,1	99,0	117,7	117,8	121,6	130,4	138,6
Operating costs	-1 007,7	-1 177,9	-1 335,2	-1 379,4	-1 474,9	-1 546,2	-1 616,1
<b>EBITDA adj*</b>	<b>127,8</b>	<b>142,7</b>	<b>213,3</b>	<b>237,4</b>	<b>286,6</b>	<b>332,4</b>	<b>367,3</b>
<b>EBIT</b>	<b>-41,9</b>	<b>-64,8</b>	<b>41,3</b>	<b>68,0</b>	<b>118,9</b>	<b>165,8</b>	<b>198,0</b>
Net interest and others	-17,5	-47,4	10,3	-22,5	-52,7	-53,4	-50,5
Share in profits under equity accounting method	9,4	8,5	-4,7	-1,6	0,0	0,0	0,0
Profit before income tax	-50,0	-103,7	46,9	44,0	66,2	112,4	147,5
Net profit	-46,6	-105,7	36,6	34,5	53,6	91,0	119,5
<b>equity holders of the parent company</b>	<b>-44,5</b>	<b>-102,7</b>	<b>19,9</b>	<b>18,9</b>	<b>50,4</b>	<b>87,0</b>	<b>114,8</b>
non-controlling interests	-2,1	-3,0	16,7	15,6	3,2	4,0	4,7
<b>EBIT by segment **</b>			<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
Film and book			43,2	47,7	59,2	73,3	86,5
Press			-11,4	-10,3	-8,4	-7,7	-6,8
Outdoor advertising			23,8	24,8	27,8	31,9	34,3
Internet			-4,6	0,5	19,1	34,7	45,3
Radio			43,2	54,3	70,6	84,6	91,0
Total segments			94,1	116,9	168,3	216,7	250,2
Reconciliation items			-52,8	-48,9	-49,4	-50,9	-52,2
<b>Group together</b>			<b>41,3</b>	<b>68,0</b>	<b>118,9</b>	<b>165,8</b>	<b>198,0</b>
<b>BALANCE SHEET [PLN mln]</b>	<b>2021</b>	<b>2022</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
PP&E + Goodwill	777	722	1 018	1 086	1 073	1 065	1 062
Right of use asset	610	587	622	620	615	608	600
Investments accounted for using the equity method	143	127	13	12	12	12	12
Other non-current assets	57	59	67	67	67	67	67
Non-current assets	1 587	1 496	1 720	1 785	1 766	1 751	1 741
Inventory	20	30	45	47	52	56	60
Trade receivables and other assets	177	195	226	237	261	280	298
Other current assets	2	2	2	2	2	2	2
Cash and cash equivalents	135	69	35	58	86	129	189
Current assets	334	297	307	344	400	467	547
Total assets	1 921	1 793	2 028	2 129	2 166	2 218	2 289
Equity	780	674	800	715	745	806	888
Long-term liabilities	694	709	771	844	840	834	828
Short-term liabilities	447	410	457	570	582	579	573
Total liabilities	1 141	1 119	1 228	1 414	1 421	1 412	1 401
Total liabilities & equity	1 921	1 793	2 028	2 129	2 166	2 218	2 289

\*EBITDA adjusted calculated by BDM may differ from the EBITDA readings Agora presents in its reports

Source: Dom Maklerski BDM S.A.

<b>CF [PLN mln]</b>	<b>2021</b>	<b>2022</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
Cash flow from operating activities	127	77	137	246	277	310	339
Cash flow from investing activities	-19	-39	-26	-281	-81	-89	-95
Cash flow from financing activities	-112	-104	-145	58	-168	-179	-184
including lease payments	-54	-81	-85	-76	-73	-70	-71
including dividends	0	0	0	0	-23	-30	-37
Cash eop	135	69	35	58	86	129	189
<b>FINANCIAL DEBT [PLN mln]</b>							
<b>FINANCIAL DEBT [PLN mln]</b>	<b>2021</b>	<b>2022</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
Total loan and lease liabilities	807	797	818	991	971	939	906
Debt % - resulting from the application of MSSF 16	660	662	678	676	671	664	657
Debt % - without recognition of MSSF 16	147	135	140	315	300	275	250
Net debt [PLN mln]	671	727	746	932	884	809	717
Net debt (excluding MSSF 16) [PLN mln]	11	65	104	256	213	145	60
<b>VALUATION AND OTHER METRICS</b>							
<b>VALUATION AND OTHER METRICS</b>	<b>2021</b>	<b>2022</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
Price [PLN]	7,60	7,60	7,60	7,60	7,60	7,60	7,60
Market Cap [PLN mln]	354	354	354	354	354	354	354
EV [PLN mln]	1 025	1 081	1 136	1 286	1 238	1 163	1 071
EV (excluding MSSF 16) [PLN mln]	365	419	458	610	567	499	414
EPS [PLN]	-0,96	-2,20	0,43	0,41	1,08	1,87	2,46
BVPS [PLN]	16,6	14,5	14,9	15,3	15,9	17,1	18,8
P/E (x)	---	---	17,8	18,7	7,0	4,1	3,1
P/BV (x)	0,5	0,5	0,5	0,5	0,5	0,4	0,4
EV/Sales (x)	1,1	1,0	0,8	0,9	0,8	0,7	0,6
EV/EBITDA (x)	8,0	7,6	5,3	5,4	4,3	3,5	2,9
Revenue change y/y	15,5%	15,2%	23,2%	5,0%	10,0%	7,6%	6,1%
EBITDA margin	13%	13%	16%	16%	18%	19%	20%
Net margin	-4,6%	-9,2%	1,4%	1,3%	3,2%	5,1%	6,3%
ROA	-2%	-6%	1%	1%	2%	4%	5%
ROE	-6%	-14%	3%	3%	7%	11%	14%
Dividend [PLN mln]	0	0	0	0	23	30	37
DPS [PLN]	0,00	0,00	0,00	0,00	0,50	0,65	0,80
Dividend yield (%)	0%	0%	0%	0%	7%	9%	11%

Source: Dom Maklerski BDM S.A.

**EQUITY RESEARCH DEPARTMENT:**
**Maciej Bobrowski**

Director

tel. (032) 208 14 12

e-mail: maciej.bobrowski@bdm.pl

strategy, industry, media/entertainment, TMT
**Krzysztof Pado**

Deputy Director

Investment Adviser

tel. (032) 208 14 32

e-mail: krzysztof.pado@bdm.pl

oil&gas, construction, building materials, real estate
**Krzysztof Tkocz**

Analyst

tel. (032) 208 14 38

e-mail: krzysztof.tkocz@bdm.pl

gaming
**Anna Tobiasz**

Junior analyst

Investment Adviser

tel. (032) 208 14 35

e-mail: anna.tobiasz@bdm.pl

**INSTITUTIONAL SALES DEPARTMENT:**
**Leszek Mackiewicz**

Director

tel. (022) 62-20-848

e-mail: leszek.mackiewicz@bdm.pl

**Tomasz Grzeszczyk**

tel. (022) 62-20-854

e-mail: tomasz.grzeszczyk@bdm.pl

**Maciej Fink-Finowicki**

tel. (022) 62-20-855

e-mail: maciej.fink-finowicki@bdm.pl

**Piotr Komorowski**

tel. (022) 62-20-851

e-mail: piotr.komorowski@bdm.pl

**Ratings and price targets history:**

rating	price target	previous rating	previous target price	report date	report date (hour)	price	WIG
<b>buy</b>	<b>10,46</b>	<b>buy</b>	<b>10,16</b>	<b>2023-09-13</b>	<b>10:10 CEST</b>	<b>7,60</b>	<b>66 609</b>
buy	10,16	resume	---	2023-03-28	10:05 CEST	5,7	57 132
buy**	21,5	buy	14,8	10.06.2021	07:00 CEST	10,0	66 115
buy**	14,8	buy	16,0	30.09.2019	12:00 CEST	9,8	57 380
buy**	16,0	buy	20,3	01.07.2019	09:12 CEST	13,2	60 917
buy	20,3	buy	19,4	26.05.2017	10:53 CEST	14,8	61 266
buy	19,4	hold	11,8	13.03.2017	10:07 CEST	15,0	58 820
hold	11,8	reduce	11,2	23.02.2016		11,5	45 761
reduce	11,2	buy	10,8	18.06.2015		12,1	53 408
buy	10,8	buy	10,0	03.02.2015		9,0	52 078
buy	10,0	buy	12,2	06.08.2014		7,8	50 692
buy	12,2	buy	10,2	07.02.2014		9,3	52 139
buy	10,2	reduce	8,1	04.09.2013		8,6	48 969
reduce	8,1	accumulate	8,8	18.03.2013		9,0	46 500
accumulate	8,8	accumulate	10,4	06.08.2012		7,8	40 594
accumulate	11,4	buy	16,5	18.05.2012		10,6	37 000
buy	16,5	reduce	18,0	26.10.2011		13,8	40 771
reduce	18,0	reduce	24,0	16.06.2011		20,2	49 077
reduce	24,0	---	---	23.02.2011		25,9	46 548

\*\* the author of the reports was another analyst

**Explanations of terminology:**

EBIT - earnings before interest and tax  
 EBITDA — earnings before interest, taxes, depreciation, and amortization  
 Net debt – interest bearing debt minus cash and equivalents  
 WACC - weighted average cost of capital  
 CAGR - cumulative average annual growth  
 EPS - earnings per share  
 DPS - dividend per share  
 CEPS - net profit plus depreciation per share  
 EV – market capitalization plus interest bearing debt minus cash and equivalents  
 EV/S – market capitalization / sales  
 EV/EBITDA – EV / sales  
 P/EBIT – market capitalization / EBIT  
 MC/S – market capitalization / sales  
 P/E – market capitalization / net profit  
 P/BV – market capitalization / book value  
 P/CE - market capitalization / net profit plus depreciation  
 ROE – net profit / equity  
 ROA - net income / assets  
 Gross margin - gross profit on sales / sales  
 EBITDA margin – EBITDA / sales  
 EBIT margin – EBIT / sales  
 Net margin – net profit / sales

**Explanation of ratings:**

Buy – we believe that the security will reach the target price in the recommended period, which significantly exceeds the current market price (at least + 15%);  
 Accumulate – we believe that the security will reach the target price in the recommended period, which exceeds the current market price (in the range of +5 to + 14.99%);  
 Hold – we believe that a security in the recommended period will fluctuate around the target price, which is close to the current market price (in the range from -4.99% to + 4.99%);  
 Reduce – we believe that the security will reach the target price in the recommended period, which is lower than the market price (range of decline from 5% to 14.99%);  
 Sell – we believe that a security in the recommended period will reach the target price, which is significantly lower than the market price (suggested erosion of the value exceeds 15%).  
 Target price – the theoretical price which, in our opinion, should reach a security in the recommended period; This price is the result of the company's value (eg based on DCF, comparative and other valuations), market conditions and the industry as well as other factors subjectively considered by the analyst.  
 Recommendations made by BDM are binding for 12 months from the issue date or until the target level is reached, unless they are updated during this period of time.

**The strengths and weaknesses of the valuation methods used in the report:**

DCF – the most popular and the most effective of the valuation methods - it is based on the discounting of future cash flows generated by the company. The disadvantage is the high sensitivity to changes in the basic financial parameters forecast in the model (interest rates, exchange rates, profits, residual value).

DDM – the method is based on discounting future cash flows from dividends. The advantage of the valuation is the inclusion of future financial results and cash flows from dividends. The main disadvantages are the high sensitivity to changes in the basic financial parameters forecasted in the model (capital cost, profits, residual value) and the risk of changing the dividend payment policy.

Comparative – the method is based on current and forecasted market multipliers of companies from the industry or related industries, which better than DCF shows the current market situation. The main disadvantages are the difficulty in choosing the right companies for comparison, the risk of ineffective valuation of companies compared at a given moment, as well as high volatility (along with price fluctuations).

Distribution of BDM's recommendations in 3Q'23*:			, distribution of BDM's recommendations for the companies which BDM has supplied with investment banking services within the last 12 months	
	numbers	%	numbers	%
Buy	7	64%	0	0%
Accumulate	2	18%	0	0%
Hold	1	9%	0	0%
Reduce	1	9%	0	0%
Sell	0	0%	0	0%

\* detailed list of all analytical reports (recommendations) published by BDM during the last 12 months is included at <https://www.bdm.pl/analizy-i-informacje/analizy/historia-rekomendacji>

#### A Legal note:

This report (hereinafter also referred to as an analysis, a document) has been prepared in compliance with Regulation (EU) No. 596/2014 of the European Parliament and of the Council of 16 April 2014 (on market abuse), Commission Delegated Regulation (EU) 2016/958 and Commission Delegated Regulation (EU) 2017/565.

The report constitutes an investment research within the meaning of art. 36 §1 of Commission Delegated Regulation (EU) 2017/565.

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