

Grupo Televisa (TV) - 15.50 USD on May 4, 2009 by mickey18 



Grupo Televisa. TV

## TV

### Thesis

We are recommending a long term investment idea on Televisa. A dominant media player in the Spanish speaking world, with a great and diversified business model, a solid Balance Sheet position, an impressive ability to maintain and grow profitability and returns in time, capable and conservative proven management and trading at a significant discount to its intrinsic value, with an upside of 41% based on our SOTP Valuation.

### The Business

Grupo Televisa is the largest media company in the Spanish-speaking world and is the world leader in Spanish-language television production. Televisa has a well diversified portfolio of leading media assets. In its core business, Mexican TV broadcasting, Televisa dominates 72% of the audience and has been able to maintain this share in the past several years. TV's other business include: SKY, the only DTH platform in Mexico Central America and the Caribbean with 1.8 million subscribers; Cable and Telecom business, in which TV is consolidating the Mexican Pay TV market; the world's largest Spanish-language magazine publisher with a circulation of 178 million magazines throughout Mexico, the US and Latin America; and other business that include: a radio network that extends to more than 86 owned and affiliated broadcast stations, Esmas.com: a leading digital entertainment web portal in Latin America, Gaming: Bingo parlors and an online lottery business. TV also has a minority stake in the Mexican low-cost airline Volaris and in La Sexta, a Spanish company that operates nationwide free to air TV Channels.

Revenue and EBITDA breakdown:

	Sales	EBITDA
TV Broadcasting	44%	51%
Sky	19%	24%
Pay TV Networks	4%	7%
Programing Exports	5%	5%
Publishing	7%	3%
Cable & Telecom	14%	11%
Others	7%	(1%)

Since taking control of the company's operations, TV's actual management team has focused on making Televisa the dominant player in all Mexican media industry and has succeeded in diversifying its revenues and media assets.

## Company Diversification:

	EBITDA 2000	EBITDA 2008
TV Broadcasting	92%	51%
Sky	0%	24%
Pay TV Networks	(6%)	7%
Programing Exports	6%	5%
Publishing	6%	3%
Cable & Telecom	4%	11%
Others	(2%)	(1%)

## Investment highlights

1. **The Industry.** Unlike the world's developed economies the Mexican advertisers have not been able to find a better channel than broadcast television for reaching their targeted market, 65% of the total Mexican advertising expense ends in this business. This is because Mexican main advertisers are large nation wide companies the federal government and political parties, and they seek national coverage for their publicity. As broadband TV is the only channel in Mexico that can provide this reach (94% of Mexican house holds owns at least one TV), it has become the first advertising budget allocation choice. Televisa has dominated 70% of this market over the past 10 years.

The nature of the Mexican advertising industry gives Televisa an advantage in times of economic slowdown in terms of its client mix, as this is more resilient than in other countries. More than half of TV's revenues come from the beverage, primary consumer products and health care/cosmetics industries; and has relative low exposure to industries like automotive and retail which are the main TV advertising consumers in the US.

TOP 10 Advertisers		
	USA	Mexico
1	P&G	P&G
2	Verizon	Bimbo (Bakery)
3	PSAs	Danone
4	GM	Coca Cola
5	AT&T	Sabritas (Snacks)
6	News Corp	Kimberly Clark
7	Time Warner	Nestlé
8	J&J	Grupo Modelo (Beer)
9	Ford Motor	Genoma Lab
10	Cerberus Capital Mgt	Kellogg

As well the Mexican total advertising spending shows growth potential: the Mexican advertising industry yearly expense is significantly low when compared with similar and developed economies. Accounting 0.43% of the country's GDP (vs. Brazil 0.75%, South Korea 0.8%, US 1.3%). It is expected that in 2008 Televisa received 63% of the total Mexican ad expense.

2. **Pay TV.** The Mexican market for Pay TV services is still under penetrated at 23% of households (vs. OECD avg. 63%). DTH services only provider is SKY and holds a

24% share of the Pay TV's subscribers, on the other hand the cable industry is fragmented and for years has been under invested, however in the last 5 years cable companies started a digitalization process and the industry has begun to offer triple play services, which gives the companies a substantial subscribers growth potential. In the last two years Televisa and Megacable began the industry consolidation and have become the two main players. Summing its cable and DTH operations Televisa holds the 55% of the Mexican Pay TV market.

In the last years the margin expansion came from the Sky Pay TV division. The company expects to see future margin expansion, and it will come from the Cable and Telecom division. The current operating margins for the Cable business are between 30-35% and the company projections show an expansion in a range of 40-45%. This projections are based on industry comparables, Megacable's (main cable peer) margins are around 50's%.

3. **Content is King.** Televisa produces 64,700h of TV content a year and it exports 40,700h to more than 100 countries.

One important catalyst for TV's programming sales growth is the opportunity lying in the US Hispanic Market. Currently the advertising expense targeting the Hispanic segment in the US represents US \$2,000 millions; this figure is close to the advertising expense for Mexican open TV (aprox. US \$3,000). 15% of the US population has a Hispanic origin and it is expected to grow 25% in the next decade. TV has leveraged its natural connection to the US Hispanic society by offering its contents through the Univision network. Televisa provides aprox. 45% of Univision programming (most of its prime time) and 40% of Univision's broadcasting revenues are generated by Televisa's content. As well TV's content represents 20% of Telefutura Networks programming and 90% of Galavision (both Univision's subsidiaries).

In the past years the royalties Televisa received from Univision for its programming represent aprox. 5% of TV's revenues.

US Hispanic TV viewers share (HH %)	
Univision	41%
Telemundo	13%
Fox	9%
Telefutura	8%
ABC	8%
CBS	7%
NBC	6%
CW	5%
Azteca America	2%
MNT	1%

4. **Gaming.** In 2006 the Mexican government approved a license for Televisa to operate 65 Sport Books and Bingo parlors. Televisa expects that these 65 establishments will be in full operations in 2014. The Mexican bingo industry has an installed capacity of 30,000 electronic-bingo machines and sector analysts expect the industry to reach a maturity point when it capacity gets close to 180,000 machines. As for today only three players have license to operate these particular business.

Current & Licensed Bingo & Sport Books Parlors:

	Current Parlors	Licensed Parlors
Caliente	113	250
CIE	44	65
Televisa	21	65

The concession also includes a national access to numeric and sports lottery electronic terminals, making Televisa the only non-government lottery operator in Mexico. Currently Televisa owns more than 5,700 of these terminals.

In Mexico only these three categories of gambling are permitted (Sports Books, Bingo and Lottery).

The gaming business is in its earlier stage and TV can leverage its position as a leading media player to integrate this business and become a leader in this industry.

5. **Cash Generation.** Historically Televisa has been a great cash generating machine, based on company guidance and industry analysts estimates, it is expected that TV generates US \$867 millions in 2008 and US \$1.1 billion in 2009. At this particular moment Televisa stock looks attractive when valuing its FCF Yield 2008E of 10% and 2009E 12%.
6. **Solid Balance Sheet.** Televisa holds a total cash position of MXN \$42.7 billion, which more than 70% is denominated in foreign currency, and net cash position of MXN \$3.7 billion. Since the new management took control the company has adopted a very conservative capital structure.  
**ROE.** Over the last 5 years the company has maintained its ROE above 20%. In these years increased profitability has offset the effect on ROE from the conservative capital structure.
7. **Profitability.** In recent years the margin expansion has come from DTH Pay TV supplier (SKY), and stable margins in the core broadcasting business. It is expected that the cable unit will continue the increase in profitability in the coming years.

Televisa	2003	2004	2005	2006	2007	2008
EBITDA						
Mgn	32%	36%	41%	43%	43%	41%

As well TV's broadcasting division is much more profitable than its Mexican and international peers.

EBIT Mgn	1T07	2T07	3T07	4T07	1T08	2T08	3T08	4T08
Televisa								
Consolidated	29%	35%	37%	37%	25%	35%	33%	32%
TV Azteca	27%	34%	37%	48%	23%	33%	44%	35%
Televisa (Broadcast TV)	40%	50%	52%	53%	39%	51%	52%	50%

8. **Cash returned to shareholders.** Over the last 5 years Televisa has returned more than US \$2.2 billion to shareholders in the form of dividends and share repurchases, representing 27% of TV's current market cap.

## Risks

- Competition in Pay TV market could increase as Telmex, the dominant telecom operator could be allowed to offer video services. As well the imminent joint venture between MVS and Dish to offer DTH TV in Mexico could pressure TV's dominant position.
- The TV broadcasting is a highly regulated industry. The government could become more restrictive on advertising times or increase regulation.
- More severe than expected economic downturn.

## Valuation

As well as other media stocks in the world, Televisa's multiples have contracted in the last years. For our SOTP Valuation we assigned a conservative multiple to each of TV's business based on global comparatives.

SOTP Valuación (US \$M)					
Business	TV Share	EBITDA 08E	EV/EBITD A 08E	EV	EV per Share
TV Broadcasting	100.0%	\$956.7	7.5x	\$7,175.2	\$12.7
Pay TV Networks	58.7%	\$119.1	5.6x	\$391.4	\$0.7
Programing Exports	100.0%	\$92.1	5.6x	\$516.0	\$0.9
Publishing	100.0%	\$65.0	7.0x	\$455.0	\$0.8
Publishing Distribution	100.0%	\$1.9	7.0x	\$13.3	\$0.0
Sky	100.0%	\$416.6	6.1x	\$2,541.4	\$4.5
Cable & Telecom	51.0%	\$194.0	7.5x	\$741.9	\$1.3
Others	100.0%	\$1.8		\$1.8	\$0.0
Corporate	100.0%	(\$33.8)		(\$33.8)	(\$0.1)
<b>Total</b>				<b>\$11,802.2</b>	
Ocesa	40.0%			\$110.3	\$0.2
La Sexta	40.0%			\$390.3	\$0.7
TVI	50.0%			\$71.4	\$0.1
Volaris	25.0%			\$39.6	\$0.1
<b>Total Afiliates</b>				<b>\$611.6</b>	
EV				\$12,413.8	
Net Debt				(\$79.0)	
Equity Value				\$12,334.8	
No Shares				563.5	
<b>Value per Share</b>				<b>\$21.9</b>	
Price				\$15.5	
<b>Upside</b>				<b>41.2%</b>	