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Haitong Bank in a report from April 20 (08:30) upgrades Wirtualna Polska at BUY (FV PLN 137).

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 131.2/sh while using the peer valuation we derive PLN 142.9/sh. Our final value points to PLN 137/sh, which gives 19% 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 to 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.

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.

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