Kino Polska TV S.A.

East Value Research

Price target: PLN 18.30 | Initiating Coverage | Rating: BUY

Kino Polska TV S.A. (KPL) is a leading producer of thematic TV channels, which are broadcast worldwide. The company owns one of the largest catalogues with Polish movies, documentaries, interviews and music videos. Its channels can be watched on multiple platforms e.g. digital terrestrial TV (DVB-T), satellite & cable, the internet and mobile devices. All of them have shown improving audience statistics in H1/15 compared to last year.

Kino Polska TV S.A. operates under the four main brands Telewizja Kino Polska, Kino Polska Muzyka, Stopklatka TV and FilmBox. While the first two broadcast Polish content only, Stopklatka TV (41% are owned by KPL) and FilmBox channels offer high-quality international movies. Kino Polska TV generates revenues either from high-margin advertising sales or subscriptions, which it receives from cable, satellite or VOD operators each month. On 18 September 2015, KPL announced that its 100% subsidiary CRF had applied for concessions for two new channels on DVB-T. In our view, both could start contributing to the company's results from 2017.

Thematic channels are the most promising area of the TV market as they offer viewers high-quality specialized content with much less ad breaks and allow advertisers to target effectively specific customer groups. Their share in total TV viewership and spending in PL already amounts to c. 55% and 40% respectively and is expected to rise further, especially due to DVB-T, which is ad-financed. However, at the same time a growing number of people does not own a TV at all and instead watches TV shows online or on mobile devices, which allows them to decide what to watch, how and when. This trend will likely continue due to investments in high-speed internet access and an increasing number of smartphones and tablets.

We recommend to BUY Kino Polska TV S.A. with a 12-months PT (70% DCF, 30% peer group) of PLN 18.30, which implies an upside of 35.5% at present. We like the company due to its diversified revenue streams and a cash generating business model that allows it to pay attractive dividends. As main risk, we see the expected market entry of the US online streaming service Netflix in 2016 and potentially similar companies such as Amazon Prime Instant Video.

in PLNm	2013	2014	2015E	2016E	2017E	2018E
Net sales	108.45	102.40	113.82	124.91	135.04	145.09
EBITDA	29.85	32.04	35.85	38.97	41.73	44.40
EBIT	22.50	18.97	23.90	26.11	28.09	30.03
Net income	19.74	13.08	19.44	21.45	23.16	24.90
EPS	1.22	0.63	0.98	1.08	1.17	1.26
DPS	0.45	1.00	1.00	1.05	1.10	1.15
Dividend yield	3.33%	7.41%	7.41%	7.78%	8.15%	8.52%
RoE	29.79%	18.46%	26.19%	28.86%	30.75%	32.31%
Net gearing	-11.65%	-26.51%	-22.01%	-17.73%	-14.82%	-13.06%
EV/Sales	2.19x	2.32x	2.09x	1.90x	1.76x	1.64x
EV/EBITDA	7.97x	7.42x	6.63x	6.10x	5.70x	5.36x
P/E	11.07x	21.43x	13.77x	12.48x	11.55x	10.75x

Company profile

Kino Polska's main business is the production and broadcasting of thematic TV channels. Other business activities include publishing and distribution of content as well as re-construction and archiving of movies.

Website	www.kinopolska.pl
Sector	Media
Country	Poland
ISIN	PLKNOPL00014
Reuters	KPL.WA
Bloomberg	KPL PW

Share information

Last price	13.50
Number of shares (m)	19.82
Market cap. (PLNm)	267.59
Market cap. (EURm)	63.26
52-weeks range	PLN 17 / PLN 9.90
Average volume	3,894

Performance

4-weeks	-6.57%
13-weeks	0.00%
26-weeks	0.67%
52-weeks	31.84%
YTD	8.00%

Shareholder structure

SPI International B.V.	66.00%
Ipopema TFI S.A.	8.59%
ING PTE	5.24%
Free float	20.17%

Financial calendar

9M/15 results	November 12, 2015

Analyst

Adrian Kowollik
a.kowollik@eastvalueresearch.com

Content

Investment Case 2

Valuation 4

Recent results 8

Financial forecasts 10

Business description 14

Market environment 22

Profit and loss statement 28

Balance Sheet 29

Cash Flow Statement 30

Financial ratios 30

Disclaimer 31

Investment Case

- Kino Polska TV S.A. (KPL) is a leading producer and broadcaster of thematic TV channels. The company owns one of the largest catalogues with Polish content (movies, serials, documentaries etc.), which it broadcasts on own channels and licenses to third parties e.g. TV channels, VOD platforms. In addition, KPL has access to international movie content (on an exclusive basis in Poland) of its majority shareholder SPI International.
- KPL broadcasts channels under the four main brands Telewizja Kino Polska, Kino Polska Muzyka, FilmBox and Stopklatka TV (KPL owns 41% in it), which are either financed by advertising or subscriptions or both. They can be watched on multiple platforms including digital terrestrial TV (DVB-T), satellite & cable, the internet and mobile devices. The FilmBox channel family, which KPL produces, is already available in c. 10 countries in the CEE & SEE region, North- and South America and Asia.
- According to wirtualnemedia.pl, thematic TV channels, which already account for c. 55% of total viewership, increased their share in total TV advertising in 2014 (PLN 3.8bn) from c. 30% in the previous year to 40%. While TV advertising is forecast to grow at 4-5% in 2015, it is widely expected that thematic TV channels (especially those on free and ad-financed DVB-T) will become even more important as (1) they offer viewers access to specialized content with fewer ad breaks (2) often have privileged access to top content and (3) provide advertisers the opportunity to target effectively specific customer groups. Another trend is the growing popularity of video on-demand and streaming services as an increasing number of viewers watch their favorite content online or on their mobile devices instead on a TV.
- In H1/15, KPL's revenues grew by 18% y-o-y to PLN 56.6m, while net income of the dominant entity (+60.9% to PLN 9.7m) improved even more due to a lower share of D&A expenses and smaller loss of Stopklatka S.A. While Kino Polska and FilmBox channels increased their subscription base, the free-to-air channel Stopklatka TV that has been broadcasting only since April 2014 reached the No 2 position on Polish DVB-T, which should translate into growing advertising revenues in the coming months. For 2015, we forecast total revenues of PLN 113.8m (+11.2% y-o-y), an EBITDA of PLN 35.9m (+11.9%) and net income of PLN 19.4m (+48.5%). Due to further international expansion of FilmBox, solid development of viewership, especially of Stopklatka TV in Poland, and break-even of CRF and TV Okazje we estimate that in 2016 revenues will reach PLN 124.9m (+9.7%), EBITDA PLN 39m (+8.7%) and net income PLN 21.5m (+10.4%). In the future, results may be boosted additionally by two new channels, which KPL wants to launch on Polish DVB-T upon receiving the necessary concessions.
- We recommend to BUY KPL with a 12-months PT of PLN 18.30, which implies an upside of 35.5% at present. We like the company due to its diversified revenues and sound strategy, which foresees making attractive proprietary content available on multiple platforms and markets. Given its cash generating business model, we expect that KPL will continue to pay out attractive dividends in the future. The main risk, which we see, is the expected market entry of Netflix and potentially other video streaming services.

SWOT Analysis

Strengths

- Kino Polska owns one of the largest catalogues with Polish content e.g. movies, documentaries, music videos; moreover, it has access to the library with international movies of its majority owner SPI (on an exclusive basis in Poland)
- KPL's channels can be watched on different platforms e.g. DVB-T, cable & satellite, the internet and on mobile devices; they are already available in c. 10 countries in CEE & SEE, North- and South America and Asia
- Diversified revenue sources: (1) Advertising (2) Monthly fees from satellite and cable providers (3) VOD and (4) Licensing
- Cash-generating business model and excellent balance sheet structure; regular dividend payouts

Weaknesses

- Polish movies have limited market potential as there are just c. 57m Polish-speaking people worldwide
- CRF, Stopklatka TV and TV Okazje are still loss-making

Opportunities

- Thematic channels are likely to grow above the rate of the whole TV segment as (1) they offer viewers access to specialized content with fewer ad breaks (2) often have privileged access to top content and (3) provide advertisers the opportunity to target effectively specific customer groups
- New channels on Polish DVB-T: In September 2015, KPL applied for concessions relating to two new TV channels
- Further international expansion of FilmBox channels
- Introduction of technological innovations e.g. 4k/Ultra HD, interactive features (games, surveys etc.)
- Improvement of results of Cyfrowe Repozytorium Filmowe due to funds from the new EU budget 2014-2020

Threats

- Advertising revenues are highly cyclical; however, they only accounted for 21.2% of KPL's sales in 2014
- Risks relating to intellectual property rights and concessions
- Inability to acquire attractive content
- Inability to renew co-operation agreements with cable and satellite operators
- Intensifying competition e.g. the planned market entry of Netflix and new terrestrial TV channels
- Currency risks as KPL's revenues are in PLN, but content costs in EUR or USD

Valuation

We have valued Kino Polska TV S.A. by using a weighted average of our DCF model (70%) and peer-group-based fair value (30%). Our 12-months price target for the stock is PLN 18.30, which implies an upside of 35.5% at present.

DCF model

in PLNm	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
Net sales	**113.82**	**124.91**	**135.04**	**145.09**	**154.28**	**162.41**	**168.17**	**173.75**	**179.51**
(y-o-y change)	11.2%	9.7%	8.1%	7.4%	6.3%	5.3%	3.5%	3.3%	3.3%
EBIT	**23.90**	**26.11**	**28.09**	**30.03**	**31.78**	**33.31**	**34.34**	**35.32**	**36.33**
(EBIT margin)	21.0%	20.9%	20.8%	20.7%	20.6%	20.5%	20.4%	20.3%	20.2%
NOPLAT	**19.36**	**21.15**	**22.75**	**24.33**	**25.74**	**26.98**	**27.82**	**28.61**	**29.43**
+ Depreciation & amortisation	11.95	12.87	13.64	14.36	14.97	15.43	15.64	15.81	15.98
= Net operating cash flow	31.31	34.01	36.39	38.69	40.71	42.41	43.45	44.42	45.41
- Total investments (Capex and WC)	-14.78	-16.46	-17.01	-17.67	-18.10	-18.38	-18.35	-18.42	-18.58
Capital expenditure	-13.31	-15.37	-16.14	-16.86	-17.47	-17.93	-18.14	-18.31	-18.48
Working capital	-1.47	-1.09	-0.87	-0.80	-0.64	-0.45	-0.21	-0.11	-0.10
= Free cash flow (FCF)	16.54	17.55	19.38	21.02	22.61	24.03	25.10	26.00	26.83
PV of FCF's	**16.19**	**15.55**	**15.54**	**15.25**	**14.84**	**14.27**	**13.49**	**12.65**	**11.81**

PV of FCFs in explicit period	129.60
PV of FCFs in terminal period	166.90
Enterprise value (EV)	**296.50**
+ Net cash / - net debt (30 June 2015)	29.81
+ Investments / - minorities	0.23
Shareholder value	**326.54**
Number of shares outstanding (m)	**19.82**
WACC	**10.5%**
Cost of equity	10.5%
Pre-tax cost of debt	8.0%
Normal tax rate	19.0%
After-tax cost of debt	6.5%
Share of equity	100.0%
Share of debt	0.0%
Fair value per share in PLN (today)	**16.47**
Fair value per share in PLN (in 12 months)	**18.21**

WACC \ Terminal EBIT margin	17.2%	18.2%	19.2%	20.2%	21.2%	22.2%	23.2%
7.5%	26.11	27.13	28.16	29.18	30.20	31.22	32.24
8.5%	21.86	22.64	23.41	24.19	24.96	25.74	26.51
9.5%	18.91	19.52	20.13	20.73	21.34	21.95	22.56
10.5%	16.74	17.23	17.72	**18.21**	18.69	19.18	19.67
11.5%	15.07	15.47	15.87	16.27	16.68	17.08	17.48
12.5%	13.75	14.09	14.42	14.75	15.09	15.42	15.75
13.5%	12.68	12.96	13.24	13.52	13.80	14.08	14.37

Source: East Value Research GmbH

Peer Group Analysis

Our peer group comprises other listed TV producers and operators of thematic channels from Poland and abroad. We have weighted them equally in our fair value calculation.

<u>Polish operators of thematic TV channels (50% weight):</u>

(1) *ATM Grupa S.A.:* ATM Grupa S.A., which is based in Bielany Wroclawskie/Poland, is the largest independent television and film production company in Poland. Its produces movies, serials as well as game shows (incl. highly popular Polish "Swiat Wedlug Kiepskich", "Rancho" and "Ojciec Mateusz" serials). The company also has stakes in a developer of mobile games (Aidem Media) and an event company (FM Pro). Its entertainment channel ATM Rozrywka has been available on the first multiplex of Polish DVB-T (digital terrestrial TV) since 2012. In fiscal-year 2014, ATM Grupa generated revenues of PLN 152.8m, thereof 13% stemmed from the channel ATM Rozrywka.

	EV/Sales		EV/EBITDA		EV/EBIT		P/E		EBITDA margin	Net gearing	P/BVPS
Company	**2015E**	**2016E**	**2015E**	**2016E**	**2015E**	**2016E**	**2015E**	**2016E**	**2014**	**Latest**	**Latest**
ATM Grupa S.A. (PLN)	1.46	1.37	6.83	6.75	15.09	12.96	16.29	13.68	23.40%	-6.28%	1.33
Median	**1.46**	**1.37**	**6.83**	**6.75**	**15.09**	**12.96**	**16.29**	**13.68**	**23.40%**	**-6.28%**	**1.33**
Kino Polska TV S.A.	2.09	1.90	6.63	6.10	9.95	9.11	13.77	12.48	31.29%	-46.10%	4.14
Premium/discount	***42.82%***	***39.01%***	***-2.95%***	***-9.60%***	***-34.09%***	***-29.71%***	***-15.46%***	***-8.80%***			
Fair value Kino Polska TV (PLN)	**14.72**										

Source: Thomson Reuters Eikon, East Value Research GmbH

International operators of thematic channels (50% weight):

(2) *Central European Media Enterprises Ltd.*: CME, which is headquartered in Prague/Czech Republic, is a media and entertainment company operating in Central and Eastern Europe. The company is active in the following countries: Bulgaria (6 channels), Croatia (4), the Czech Republic (6), Romania (9), the Slovak Republic (3) and Slovenia (5). It generates revenues from both advertising and from fees, which it receives from satellite, cable and IPTV operators. It also has an own VOD portal called Voyo. In fiscal-year 2014, CME generated revenues of USD 680.8m.

(3) *ITV plc*: ITV, which is based in London/UK, is a TV producer and broadcaster. The company creates, owns and distributes content in multiple ways e.g. six channels in the UK, the ITV Player and through direct content deals. ITV Studios, which operates in the UK, US, Germany, France, Australia and the Nordics, is the company's international content business, creating and producing programs and formats. In fiscal-year 2014, ITV had revenues of GBP 2.6bn.

(4) *UTV Media plc*: UTV Media, which is based in Belfast/UK, has three divisions: Radio GB, Radio Ireland, UTV Television. The company's Radio GB division operates talkSPORT, a sports radio station; Sport magazine; 13 independent local radio stations in England and Wales as well as a number of digital radio multiplexes throughout UK. While its Radio Ireland division operates seven stations broadcasting from Belfast, Cork, Limerick, Dublin and Drogheda and an advertising sales house, the UTV Television division broadcasts Channel 3 and UTV Ireland and operates Simply Zesty and Tibus, two digital media businesses. In 2014, UTV Media had revenues of GBP 116m.

(5) *STV Group plc*: STV Group, which is based in Glasgow/UK, is engaged in the production and broadcasting of television programs, internet services and the sale of advertising airtime and space in these media. The company operates among others the STV channel in Scotland, the stv.tv web portal as well as the VOD service STV Player. Its hit productions include the well-known shows "X-Factor" and "Britain's Got Talent". In 2014, STV Group generated revenues of GBP 120.4m.

(6) *Next Radio TV SA*: Next Radio TV, which is based in Paris/France, is engaged in broadcasting and publishing activities. It operates radio stations (RMC and BFM Business), TV channels (RMC Decouverte, BMF TV, BMF Business), websites such as 01net.com and the press agency RMC Sport. In 2014, Next Radio TV had revenues of EUR 195.1m.

	EV/Sales		EV/EBITDA		EV/EBIT		P/E		EBITDA margin	Net gearing	P/BVPS
Company	**2015E**	**2016E**	**2015E**	**2016E**	**2015E**	**2016E**	**2015E**	**2016E**	**2014**	**Latest**	**Latest**
CME Ltd. (USD)	2.13	1.91	11.13	9.42	16.27	13.14	n.a	n.a	63.30%	299.30%	0.77
ITV plc (GBP)	3.53	3.32	11.66	10.70	12.68	11.49	16.39	14.97	29.20%	68.88%	11.41
UTV Media plc (GBP)	1.65	1.53	17.22	12.92	17.15	13.10	25.52	17.10	18.40%	49.95%	1.75
STV Group plc (GBP)	1.59	1.50	8.58	7.92	9.64	8.86	10.50	9.41	17.90%	614.04%	29.39
Next Radio TV SA (EUR)	2.76	2.48	14.31	11.29	17.74	13.84	28.70	22.06	20.50%	18.25%	4.09
Median	**2.13**	**1.91**	**11.66**	**10.70**	**16.27**	**13.10**	**20.96**	**16.03**	**20.50%**	**68.88%**	**4.09**
Kino Polska TV S.A. (PLN)	2.09	1.90	6.63	6.10	9.95	9.11	13.77	12.48	31.29%	-46.10%	4.14
Premium/discount	***-1.98%***	***-0.58%***	***-43.11%***	***-42.97%***	***-38.84%***	***-30.46%***	***-34.30%***	***-22.19%***			
Fair value Kino Polska TV (PLN)	**18.78**										

Source: Thomson Reuters Eikon, East Value Research GmbH

Price target calculation

Valuation method	Fair value	Weight
DCF model	16.47	70%
Peer-Group-based fair value	16.75	30%
Weighted average (present value)	**16.56**	
In 12-months (PV * (1+WACC))	**18.30**	

Source: East Value Research GmbH

Listed Polish operators of thematic TV channels, which we have excluded from our peer group:

(7) *Cyfrowy Polsat S.A.:* Cyfrowy Polsat, which is based in Warsaw, is a Polish operator of satellite platforms, TV channels and mobile services. Cyfrowy Polsat is the No 1 Pay-TV platform in Poland and one of the largest in Europe. Together with Polkomtel, the group's mobile operator, it also provides fast mobile broadband services (LTE), which have the best coverage in Poland. Finally, Telewizja Polsat is currently No 1 private TV broadcaster in Poland with 27 channels, thereof 6 in HD technology. In 2014, Cyfrowy Polsat generated total revenues of PLN 7.4bn, thereof 19% stemmed from the Broadcast & Signal Transmission segment. Its VOD service Ipla.tv has 1.8m monthly real users and also offers access to FilmBox, FilmBox Premium, FilmBox Extra HD and FilmBox Family.

We have excluded Cyfrowy Polsat from our peer group due to its diversified business model, which in contrast to Kino Polska TV S.A. also includes the operation of a satellite platform and provision of telecommunication services.

(8) *TVN S.A.:* TVN, which is based in Warsaw, is a leading Polish private TV broadcaster with currently 14 TV channels (thereof 3 free-to-air). In 2014, the company had revenues of PLN 1.6bn. Its VOD service Player.pl has 2.4m monthly real users and is the second most popular in Poland after VOD.pl, which is owned by the portal Onet.pl (Ringier Axel Springer Group, 4.5m monthly users). It also has FilmBox and FilmBox Premium in its offering.

On March 16, 2015, the US-based media company Scripps Networks Interactive Inc. announced its intention to buy 52.7% in TVN from ITI and Canal+ Group for EUR 584m plus EUR 856m of debt. On July 6, Scripps announced a tender call for the remaining shares at PLN 20 per share. TVN was delisted on 3 October 2015. Given the company's adjusted EBITDA in 2014 of PLN 530.4m and the total transaction value of PLN 8.7bn, Scripps Networks valued TVN at an EV/EBITDA multiple of 16.4x.

(9) *4fun Media S.A.:* 4fun Media S.A., which is based in Warsaw, focuses on the operation of thematic TV stations. It produces and broadcasts free-to-air music channels such as 4fun TV, 4fun Hits and 4fun Fit&Dance, as well as programs and video content adapted for distribution on TV stations, mobile phones, the internet and IPTV platforms. In 2014, 4fun Media had revenues of PLN 21.6m.

Although 4fun Media is listed, it is currently not covered by any sell-side analyst.

Top 14 Movie and Music channels in Poland in August 2015

Pos	Movie channel	Aug 15 SHR	Aug 14 SHR	Music channel	Aug 15 SHR	Aug 14 SHR
1	TVP Seriale	1.66%	1.80%	Polo TV	0.98%	0.84%
2	**Stopklatka TV**	**0.93%**	**0.96%**	Eska TV	0.57%	0.81%
3	Polsat Film	0.60%	0.54%	Disco Polo Music	0.21%	0.17%
4	AXN	0.59%	0.71%	4FUN.TV	0.20%	0.22%
5	**Telewizja Kino Polska**	**0.44%**	**0.65%**	VIVA Polska	0.12%	0.18%
6	Comedy Central	0.37%	0.33%	**Kino Polska Muzyka**	**0.09%**	**0.08%**
7	13th Street Universal	0.31%	0.25%	Stars.tv	0.07%	0.09%
8	Canal+	0.27%	0.17%	ITV	0.05%	0.13%
9	Universal Channel	0.21%	0.14%	Power TV	0.05%	0.03%
10	Romance TV	0.17%	0.27%	Vox Music TV	0.04%	0.05%
11	**FilmBox**	**0.17%**	**0.11%**	VH 1	0.03%	0.04%
12	TCM	0.16%	0.16%	4FUN HITS	0.02%	0.05%
13	TVN Fabula	0.16%	-	4FUN FIT&DANCE	0.02%	0.06%
14	Ale Kino+	0.15%	0.18%	Muzo.tv	0.01%	

SHR: share in total TV audience at a given period of time

Source: Wirtualnemedia.pl, East Value Research GmbH

Recent results

Revenues and Profitability

In H1/15, Kino Polska TV S.A. generated total revenues of PLN 56.6m compared to PLN 48m last year. The growth rate of 18% y-o-y resulted mainly from better results of the segments "Sale of licenses" and "Others".

in PLNm	H1/15	H1/14
FilmBox and thematic TV channels	**28.68**	**23.92**
(% of net sales)	*50.7%*	*49.8%*
Gross margin	13.5%	3.9%
thereof: Transmission	88.8%	92.5%
thereof: Advertising	10.0%	7.5%
thereof: Others (e.g. streaming)	1.2%	0.0%
Kino Polska channels	**15.13**	**16.51**
(% of net sales)	*26.7%*	*34.4%*
Gross margin	44.9%	53.0%
thereof: Transmission	50.4%	46.7%
thereof: Advertising	49.6%	53.3%
Production of TV channels	**2.36**	**2.59**
(% of net sales)	*4.2%*	*5.4%*
Gross margin	16.5%	7.1%
Sale of licenses	**4.67**	**3.29**
(% of net sales)	*8.2%*	*6.9%*
Gross margin	51.9%	45.7%
Others (TV Okazje, CRF, DVD sales)	**5.78**	**1.69**
(% of net sales)	*10.2%*	*3.5%*
Gross margin	-6.4%	-127.8%
Total net sales	**56.61**	**48.00**

Source: Company information, East Value Research GmbH

In the "FilmBox and thematic TV channels" segment, total revenues grew by 19.9% y-o-y to PLN 28.7m, which resulted from both higher transmission and advertising sales. The number of active subscribers of FilmBox channels increased especially in Romania.

Number of active subscribers

Thematic channel	Number of active subscribers as of 30/06/2015	Number of active subscribers as of 30/06/2014	Change y-o-y
Telewizja Kino Polska	8,239	8,215	0.3%
Kino Polska Muzyka	6,643	5,965	11.4%
FilmBox channel family	12,442	11,958	4.0%
thereof: in Poland	*7,910*	*6,972*	*13.5%*
thereof: in Romania	*1,451*	*1,183*	*22.7%*
thereof: in Slovakia	*446*	*478*	*-6.7%*
thereof: in Hungary	*1,060*	*1,497*	*-29.2%*
thereof: in Czech Republic	*1,575*	*1,828*	*-13.8%*

Source: Company information, East Value Research GmbH

While transmission revenues of Kino Polska TV S.A. channels were stable y-o-y, those from advertising declined, which was the reason, why total revenues of the segment went down by 8.4% y-o-y to PLN 15.1m. TV Okazje Sp. z o.o., which has been consolidated by Kino Polska TV S.A. since September 2014, grew strongly on the top line in H1/15, however was still loss-making.

in PLNm	H1/15	H1/14	change (%)
Net sales	**56.61**	**48.00**	18.0%
EBITDA	**17.98**	**15.13**	18.8%
EBITDA margin	*31.8%*	*31.5%*	
EBIT*	**11.79**	**8.56**	37.7%
EBIT margin	*20.8%*	*17.8%*	
Net income**	**9.67**	**6.01**	60.9%
Net margin	*17.1%*	*12.5%*	

* EBIT does not account for KPL's share in net income of Stopklatka S.A.
** Net income of the dominant entity

Source: Company information, East Value Research GmbH

Between January and June 2015, Kino Polska TV's EBIT increased by 37.7% y-o-y to PLN 11.8m. This resulted from an improvement of profitability at most business areas as well as a lower share of Depreciation and Amortization expenses (10.9% vs. 13.7% in H1/14). Moreover, in H1/14 KPL conducted a write-down of intangible assets of PLN 2.1m.

Net income in H1/15 improved even more (+60.9% to PLN 9.7m), which was due to a lower loss at Stopklatka.pl (KPL's share: PLN -445k vs. PLN -973k in H1/14), higher net financial result (PLN 88k vs. PLN -333k) and a much lower loss from discontinued operations (PLN -9k vs. PLN -597k). In December 2014, Kino Polska TV S.A. took over the operations of Kino Polska Program TV Sp. z o.o, which subsequently ended its operations.

Balance sheet and Cash flow

At the end of June 2015, Kino Polska TV S.A. had equity (without minority interests) of PLN 64.7m (59.7% ratio). While fixed assets and long-term investments (building) together equaled PLN 6.5m (31/12/2014: PLN 6.7m), intangible assets, which mainly comprise film rights, concessions, software and licenses, amounted to PLN 32.9m (PLN 31.6m). At-equity investments, which refer to Kino Polska's 41% stake in Stopklatka S.A., were worth PLN 2.9m (PLN 3.3m). We estimate that working capital was worth PLN 10.5m (PLN 11.6m). As of 30 June 2015, Kino Polska TV S.A. had interest-bearing debt of PLN 0.7m (PLN 4.3m).

Between January and June 2015, Kino Polska TV S.A. generated an operating cash flow of PLN 15.5m compared to PLN 16m in H1/14. The reason, why it declined despite a higher net profit, was a loss from investments of PLN 16.2m in H1/14. While cash flow from investing was PLN -7.5m (H1/14: PLN -18.1m), cash flow from financing amounted to PLN -3.9m (PLN 273k) as the company repaid debt. Including FX effects of PLN 183k, Kino Polska's cash position in H1/15 increased by PLN 4.4m to PLN 26.7m.

Financial forecasts

Revenues and Profitability

Similar to the company's reporting, we have based our model of Kino Polska TV S.A. on the segments "FilmBox and thematic TV channels", "Kino Polska channels", "Production of TV channels", "Sale of licenses" and "Others".

FilmBox and thematic TV channels: We expect that the main growth driver for advertising sales will remain FilmBox Basic and the introduction of other free-to-air channels on digital terrestrial TV in Poland. Subscription revenues should benefit especially from further international expansion of the FilmBox channels. We believe that the CAGR 14-23E will be slightly higher in case of subscription revenues (6.4% vs. 6.2% for advertising revenues) as subscriptions are not that dependent on general economic conditions as advertising. Overall, the segment's revenues should increase by 6.4% on average to PLN 87.7m in 2023E.

The main risks, which we see for the segment, are deteriorating economic conditions (and thus lower advertising spending) as well as market entry of Netflix or other online streaming platforms with international movies and serials.

Kino Polska channels: We believe that "Telewizja Kino Polska" and "Kino Polska Muzyka" will develop at a slower pace than KPL's other channels as they broadcast exclusively Polish content. The main risk, which we see here, is competition by channels of larger local broadcasters, who produce or own high-quality Polish content e.g. TVP, TVN or Polsat. As in our view advertising will remain the most important source of revenues for the Kino Polska channel, a risk factor is also a weaker economy.

We expect that advertising sales will grow at a CAGR 14-23E of 4.1%, while for subscription-based revenues we forecast a CAGR 14-23E of 4.2%. Revenues of the whole segment should increase by 2023E at a CAGR of 4.1% to PLN 48.2m.

Production of TV channels: This business area is related to operations of 100% subsidiary KPTV Media Sp. z o.o. and KPL. KPTV Media Sp. z o.o. produces channels with movies, serials, interviews and documentaries in Polish and other languages, which it distributes to domestic and international customers e.g. Mediabox Broadcasting International Ltd., Erox International B.V., Stopklatka S.A. Our conservative assumption for the segment is that it will grow at a CAGR 14-23E of 4.1% to PLN 7.5m.

Sale of licenses: This segment deals with licensing Kino Polska's own content to other TV broadcasters, cinemas and VOD services. We expect that the segment's revenues will grow at an average rate of 6.2% to PLN 14m by 2023E.

Others (TV Okazje, CRF, DVD sales): This business area sums up Kino Polska's operations relating to the teleshopping platform TV Okazje Sp. z o.o., the provider of reconstruction and archiving services Cyfrowe Repozytorium Filmowe Sp. z o.o. (CRF) and DVD sales under the brand "Wydawnictwo Kino Polska".

We think that while DVD sales will become much less important in the future, the remaining businesses are highly promising. Especially, CRF should exhibit significant growth in the coming years due to ongoing digitalization of media content (it could be a large beneficiary of new funds from the EU budget 2014-2020 starting from next year). Together with TV Okazje Sp. z o.o., we think that all businesses together could grow at a CAGR 14-23E of 17.2% to PLN 22m. After just 13 months of operations, TV Okazje Sp. z o.o. offers >100 products (thereof many on an exclusive basis) on TV and online and is already present on the most important Polish TV channels. It is expected to reach the break-even in Q4/15.

in PLNm	2015E	2016E	2017E
FilmBox and thematic TV channels	**55.26**	**60.69**	**65.80**
(% of net sales)	*48.6%*	*48.6%*	*48.7%*
thereof: Advertising	4.04	4.34	4.67
thereof: Transmisson	51.22	56.34	61.13
- Average monthly subscription fee (in PLN)	309	309	309
- Average audience (in k)	13.82	15.20	16.49
Kino Polska channels	**32.97**	**35.20**	**37.58**
(% of net sales)	*29.0%*	*28.2%*	*27.8%*
thereof: Advertising	16.61	17.85	19.19
thereof: Transmisson	16.36	17.34	18.38
- Average monthly subscription fee (in PLN)	87	87	87
- Average audience (in k)	15.70	16.65	17.65
Production of TV channels	**5.09**	**5.35**	**5.61**
(% of net sales)	*4.5%*	*4.3%*	*4.2%*
Sale of licenses	**9.16**	**10.07**	**11.08**
(% of net sales)	*8.0%*	*8.1%*	*8.2%*
Others (TV Okazje, CRF, DVD sales)	**11.34**	**13.61**	**14.97**
(% of net sales)	*10.0%*	*10.9%*	*11.1%*
Total net sales	**113.82**	**124.91**	**135.04**
(change y-o-y)	11.2%	9.7%	8.1%

Source: East Value Research GmbH

in PLNm	2015E	2016E	2017E
Net sales	**113.82**	**124.91**	**135.04**
EBITDA	**35.85**	**38.97**	**41.73**
EBITDA margin	*31.5%*	*31.2%*	*30.9%*
EBIT	**23.90**	**26.11**	**28.09**
EBIT margin	*21.0%*	*20.9%*	*20.8%*
Net income	**19.44**	**21.45**	**23.16**
Net margin	*17.1%*	*17.2%*	*17.2%*

Source: East Value Research GmbH

We expect good figures for Q3/15 mainly due to solid results of the FilmBox channels, very good viewership of the 41% shareholding Stopklatka TV as well as improving profitability of TV Okazje Sp. z o.o. and CRF. We forecast Q3/15 sales of PLN 29.3m (+22.5% y-o-y), an EBITDA of PLN 9.4m (+4.8% y-o-y) and net income of PLN 5.2m (Q3/14: PLN 0.6m).

in PLNm	Q1/13	Q2/13	Q3/13	Q4/13	*2013*
Net sales	**25.82**	**29.58**	**25.09**	**27.96**	***108.45***
y-o-y change	*11.8%*	*10.6%*	*-0.7%*	*-5.9%*	*3.5%*
EBITDA	**6.69**	**7.46**	**6.26**	**9.44**	***29.85***
EBITDA margin	*25.9%*	*25.2%*	*24.9%*	*33.8%*	*27.5%*
EBIT	**4.98**	**5.79**	**4.56**	**7.18**	***22.50***
EBIT margin	*19.3%*	*19.6%*	*18.2%*	*25.7%*	*20.8%*
Net income	**4.50**	**5.47**	**3.06**	**6.72**	***19.74***
Net margin	*17.4%*	*18.5%*	*12.2%*	*24.0%*	*18.2%*

in PLNm	Q1/14	Q2/14	Q3/14	Q4/14	*2014*	Q1/15	Q2/15	Q3/15E
Net sales	**24.13**	**23.87**	**23.91**	**30.49**	***102.40***	**27.50**	**29.12**	**29.29**
y-o-y change	*-6.6%*	*-19.3%*	*-4.7%*	*9.1%*	*-5.6%*	*14.0%*	*22.0%*	*22.5%*
EBITDA	**7.67**	**7.46**	**8.94**	**7.97**	***32.04***	**8.97**	**9.01**	**9.37**
EBITDA margin	*31.8%*	*31.3%*	*37.4%*	*26.1%*	*31.3%*	*32.6%*	*30.9%*	*32.0%*
EBIT	**4.46**	**4.10**	**5.56**	**4.85**	***18.97***	**6.04**	**5.75**	**6.24**
EBIT margin	*18.5%*	*17.2%*	*23.2%*	*15.9%*	*18.5%*	*22.0%*	*19.7%*	*21.3%*
Net income	**3.32**	**2.69**	**0.62**	**6.46**	***13.08***	**4.59**	**5.08**	**5.18**
Net margin	*13.7%*	*11.3%*	*2.6%*	*21.2%*	*12.8%*	*16.7%*	*17.4%*	*17.7%*

Source: Company information, East Value Research GmbH

CAPEX and Working capital

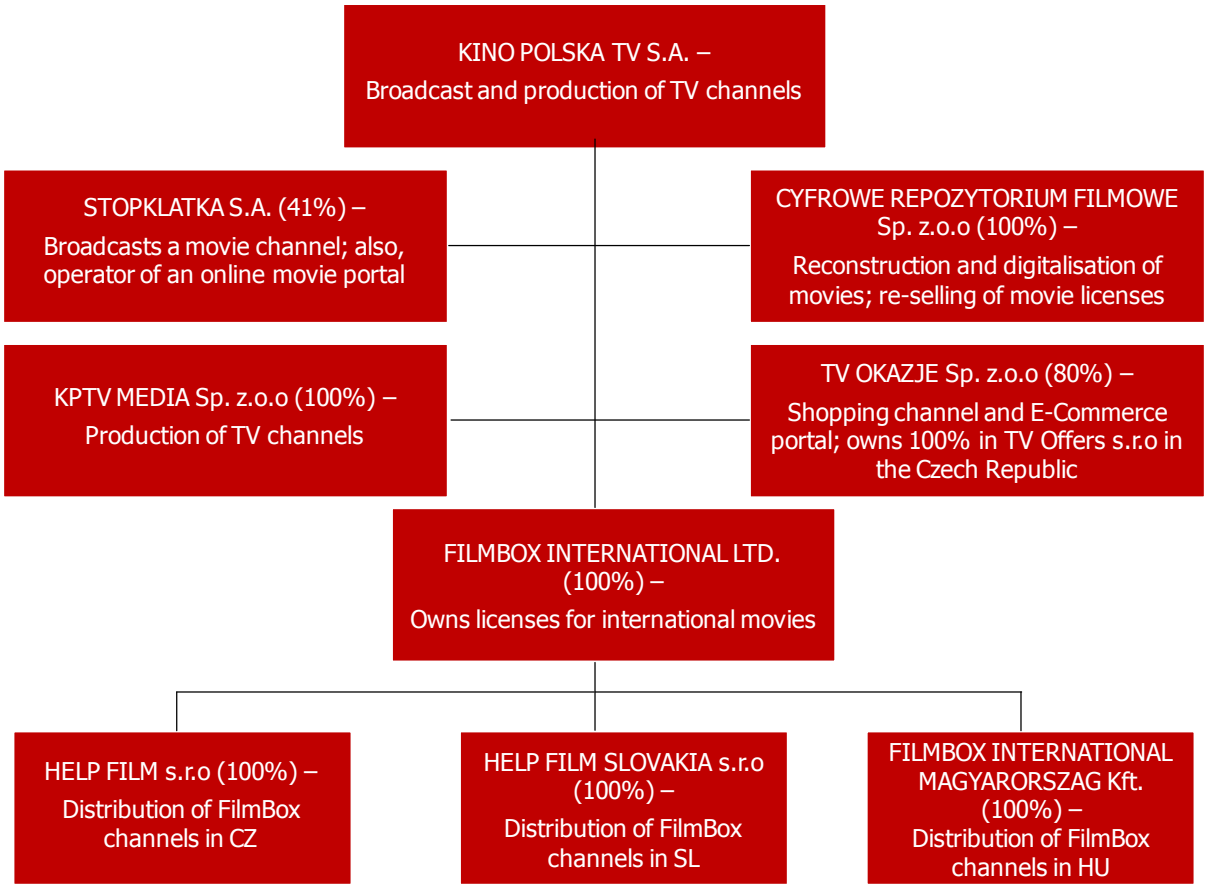
We expect that gross CAPEX will reach PLN 13.3m in 2015 and c. 10% of yearly sales in the long run. For working capital, we have assumed that it will amount to 9.5%-10% of yearly sales in the future compared to 11.4% in 2014. The cash conversion cycle should remain at -13 days, thus at the same level as last year.

If Kino Polska TV S.A. wins the two concessions, for which it has recently applied, gross CAPEX will increase by PLN 32m over the next 10 years (PLN 3.2m per year). However, as approx. 10 channels compete for just four places on the new DVB-T multiplex MUX-8, the result of the tender remains highly uncertain.

Business description

Kino Polska TV S.A., which is based in Warsaw, produces and broadcasts thematic TV channels in Poland and several international markets. The company owns one of the largest catalogues with Polish movies, documentaries, interviews and music videos. Moreover, it owns the distribution rights (exclusive in Poland) for the content library of its main shareholder SPI International, which comprises high-quality international movies. Kino Polska TV S.A. has been listed on the Warsaw Stock Exchange since 2011 and currently has 118 employees. In 2014, the company generated 28.1% of its total revenues outside Poland.

Organizational structure



Source: Company information, East Value Research GmbH

Company history

2003: Foundation of Kino Polska TV Sp. z o.o

The company receives the concession for coded re-transmission of its channel "Telewizja Kino Polska" through satellite.

The company signs first contracts for the re-transmission of its channel "Telewizja Kino Polska" with Cyfrowy Polsat, Canal+ Cyfrowy (Polish satellite platforms) and Multimedia Polska (Polish cable operator).

2004: Kino Polska's channel is re-transmitted by 64 Polish cable operators and thus is able to reach 600k subscribers.

2005: Kino Polska TV Sp. z o.o. starts operations in the area of movie licensing.

The number of signed agreements with cable operators for re-transmission amounts to 111. "Telewizja Kino Polska" technical reach is 1.2m subscribers.

2006: Agreement with satellite operator ITI Neovision for the re-transmission of "Telewizja Kino Polska".

Increase of the share capital from PLN 170.5k to PLN 987k and additional capital from PLN 2.8m to PLN 6.4m.

The number of signed agreements with cable operators reaches 142 and the technical reach 2.2m subscribers.

2007: SPI International Sp. z o.o acquires 89.7% in Kino Polska TV Sp. z o.o..

The number of signed agreements with cable operators reaches 165 and the technical reach 3.2m subscribers.

2008: SPI International Sp. z o.o increases its stake to 100%.

Kino Polska TV Sp. z o.o. starts publishing DVDs with Polish movies. It also starts distributing licenses for the re-transmission of the FilmBox channel and the FilmBox Premium package.

The number of signed agreements with cable operators reaches 222 and the technical reach 4.4m subscribers.

2009: Due to contract amendments with Canal+ Cyfrowy the technical reach of "Telewizja Kino Polska" increases by 1.7m subscribers and that of FilmBox by 700k.

At the end of the year, the technical reach of KPL's channels reaches 5.6m subscribers (Telewizja Kino Polska), 2.5m (FilmBox) and 250k (FilmBox Premium) respectively.

2010: The Kino Polska channel is No 1 in the area of movie channels.

Kino Polska TV receives the "TV Oscar" by Hot Bird TV Awards for the second time.

Kino Polska TV Sp. z o.o. starts delivering movies to operators of VOD platforms. The company acquires Stopklatka S.A., the operator of the most popular Polish movie portal.

At the end of the year, the technical reach of KPL's channels reaches 6m subscribers (Telewizja Kino Polska), 4.1m (FilmBox) and 560k (FilmBox Premium) respectively.

2011: IPO of Kino Polska TV, which was accompanied by a capital increase of PLN 38m (4m shares at PLN 9.50 per share).

Launch of the music channel Kino Polska Muzyka, which receives a 10-year satellite concession.

Acquisition of movie rights from Cinephil France S.A.S.

Acquisition of 60% in Cyfrowe Repozytorium Filmowe Sp. z o.o for PLN 2.6m.

2012: Start of transmission of Kino Polska International and Kino Polska Muzyka channels in the US through the satellite platform Dish Network.

FilmBox Live package becomes available on the VOD platform ipla and Kino Polska channel on the mobile TV platform of Cyfrowy Polsat.

2013: Stopklatka TV (a movie channel) receives a concession for re-transmission on the first multiplex (digital terrestrial TV). It is a joint-venture of Kino Polska TV S.A. and Agora S.A., one of the largest Polish media companies.

KPL receives a new 10-year license for "Telewizja Kino Polska". The company buys film rights from Cinephil France S.A.S for USD 7.9m.

Kino Polska TV S.A. issues 6m new shares to Oblio International B.V. at PLN 18.98 per share (PLN 113.9m) for 100% in FilmBox International Ltd.

2014: Kino Polska TV S.A. terminates its co-operation with the media broker Atmedia Sp. z o.o, who went bankrupt, and instead signs an agreement with Polsat Media Biuro Reklamy.

FilmBox International Ltd. grants Kino Polska TV S.A. an exclusive right for re-transmission of FilmBox channels in Poland and a non-exclusive one worldwide.

Kino Polska TV S.A. sells 41.0% of its shares in Stopklatka S.A. to Agora S.A. (before it had 82.1%). Stopklatka TV starts its operations on DVB-T and is also available on the satellite platform Cyfrowy Polsat.

Kino Polska TV S.A. increases its stake in Cyfrowe Repozytorium Filmowe Sp. z o.o from 60% to 100% (Price: PLN 380k; for 100% KPL paid in total PLN 3m). It also acquires 80% in TV Okazje Sp. z o.o. for PLN 59.5k.

New agreement for re-transmission of "Telewizja Kino Polska" due to the merger of the satellite platforms Canal+ Cyfrowy and ITI Neovision.

Business segments

FilmBox and thematic TV channels: This segment comprises the results of all FilmBox channels and the VOD platform FilmBox Live. In 2014, it generated PLN 50.2m of revenues (49.1% of KPL's total sales) and a gross margin of 20%. 92.7% of its sales stemmed from transmission fees from providers of satellite, cable and VOD services. The remaining 7.3% came from advertising sales of FilmBox Basic.

The FilmBox channels are available on multiple platforms incl. satellite, cable and VOD. Apart from Poland, the FilmBox channel family can currently be watched among others in the Czech Republic, Slovakia, Romania, Hungary, former Yugoslavia and Estonia.

Below is a description of the channels:

FilmBox Basic offers international movies and serials 7 days per week and 24 hours a day. It generates revenues through advertising.

High-quality movies, which are not yet available on digital terrestrial TV. The channel is available 24/7 and does not show advertising spots. Instead, it receives monthly payments e.g. from satellite and cable providers dependent on the number of subscribers, who have access to it.

Movies and serials in high definition, 24/7 and without advertising. Subscription-based revenues.

Entertainment for the whole family. 7 days per week, 20 hours a day. Subscription-based revenues instead of advertising.

Unique channel dedicated to more than 30 fight sports. Shows competitions from USA, Europe and Japan as well as news. Generates revenues through subscriptions.

Movie channel for fans of action cinema. Broadcasts productions (both movies and serials) from Europe, the US as well as Asia. Generates revenues through subscriptions.

Broadcasts movies and documentaries from independent producers from around the world, which can usually not be watched on terrestrial TV. Generates revenues through subscriptions.

Kino Polska channels: This segment comprises the results of the channels "Telewizja Kino Polska", "Kino Polska Muzyka" (available in Poland) as well as "Kino Polska International" and "Kino Polska Muzyka International" (available in the US). In 2014, it generated revenues of PLN 33.5m (32.7% of Kino Polska's total sales) and a gross margin of 56.7%. 53.9% of its sales came from advertising.

Telewizja Kino Polska, which shows Polish movies, documentaries and interviews, targets all age groups and is KPL's main product. It generates revenue both through advertising sales and fees from subscribers. Apart from satellite and cable operators, it is also available on VOD (Orange Tu I Tam, FilmBox Live) and mobile TV services (TV Mobilna).

According to Kino Polska TV, "Kino Polska Muzyka" is the only channel worldwide, which broadcasts Polish music. Viewers can watch/listen to best new and old video clips and concerts. "Kino Polska Muzyka" is available on cable platforms (e.g. UPC/Aster, Multimedia Polska, Vectra, Toya, Inea), on the satellite platform nc+ as well as on VOD service FilmBox Live. Like "Telewizja Kino Polska", it can also be watched in the US through the platform Dish Network.

Duration of concessions

Channel	Concession valid until
Telewizja Kino Polska	December 17, 2023
Kino Polska Muzyka	December 6, 2021
Kino Polska International	October 15, 2023
Kino Polska Muzyka International	October 15, 2023
FilmBox channels	Unlimited

Source: Company information, East Value Research GmbH

Production of TV channels: This segment made up 5.1% of Kino Polska's revenues in 2014 or PLN 5.2m. It relates to the production of the Kino Polska and FilmBox channel families and comprises operations of KPL and KPL's 100% subsidiary KPTV Media Sp. z o.o. KPL and KPTV Media Sp. z o.o. produce content in different languages, which they sell to customers from Poland and abroad. In 2014, the segment generated a gross margin of 10.4%.

Sale of licenses: "Sale of licenses" accounted for 8% of KPL's revenues in 2014 or PLN 8.2m. Its gross margin amounted to 30.2%. The segment relates to distribution of licenses for VOD and TV transmission, which generates one-off revenues, however on a regular basis.

Others (TV Okazje Sp. z o.o., CRF, DVD sales): In 2014, this segment generated sales of PLN 5.3m (5.2% of Kino Polska's total revenues). The gross margin equaled -30.6%, but mainly due to the loss of TV Okazje Sp. z o.o, which launched its operations in September 2014. "Others" relates to the following subsidiaries and activities:

1) Publishing and sale of DVDs with Polish movies under the brand "Wydawnictwo Kino Polska".

2) *Cyfrowe Repozytorium Filmowe Sp. z o.o*: Archiving (for storing and re-sale) and reconstruction of content; creation of digital copies and new language versions; re-sale of licenses relating to content after digital reconstruction. CRF's customers include other TV broadcasters, VOD platforms and cinemas. The subsidiary's business depends to a high degree on the availability of EU funds.

   On 18 September 2015, Kino Polska TV S.A. announced that Cyfrowe Repozytorium Filmowe Sp. z o.o. had applied for concessions for two new channels (one with movies, serials, shows and news; one on lifestyle topics), which are supposed to be broadcast on digital terrestrial TV (MUX-8 multiplex). Management estimate that the licenses would cost in total PLN 32m over 10 years. Lifestyle channels are among the most popular thematic channels in Poland.

3) *TV Okazje Sp. z o.o*: Teleshopping channel and E-commerce portal with currently >100 products from the following categories: House, Kitchen, Health & Beauty, Fitness, Kids. Its advertising is broadcast on the following channels: Kino Polska, Kino Polska Muzyka, FilmBox, Stopklatka TV, TVP Gdańsk, TVP Warszawa, TVP Kielce, TVP Szczecin, TVP Olsztyn, TV Republika, CBS Reality, CBS Action, CBS Drama, Extreme Sport, TVR and Adventure HD. Also, it currently operates two flagship stores in Gdynia and Gdansk and plans to open additional ones in other Polish cities.

   TV Okazje's main competitor is Mango 24, which is owned by TVN S.A. and has been broadcasting since 2002. The channel is available through satellite (incl. Cyfrowy Polsat , nc+, Orange TV) and cable.

At-equity investments (included in KPL's EBT):

stopklatka tv

Stopklatka TV is a joint-venture between Kino Polska TV S.A. (41.04%) and the media group Agora (41.04%) and broadcasts international movies. The channel is available free-to-air on digital terrestrial TV and for subscribers of satellite and cable operators such as UPC, INEA, Cyfrowy Polsat, nc+, Netia and Multimedia Polska.

Stopklatka S.A., which is listed in the NewConnect segment of the Warsaw Stock Exchange, currently has a market cap of PLN 62m, which values Kino Polska's 41.04% stake at c. PLN 25.5m. The company also owns the oldest and most popular Polish online movie portal Stopklatka.pl. Kino Polska TV's share in Stopklatka's net income is accounted for in its EBT.

Management

Boguslaw Kisielewski (CEO): Boguslaw Kisielewski has been with Kino Polska TV since 2007. Previously, he was Member of its Management Board. Boguslaw Kisielewski is also CEO of Stopklatka S.A. and serves as Member of the Board of TV Okazje Sp. z o.o. Boguslaw Kisielewski graduated with a Master's degree in Economics from the University of Economics in Krakow.

Berk Uziyel (Member of the Board): Mr Uziyel has been Member of the Board at Kino Polska TV S.A. since 2014. He is also Managing Director of the company's largest shareholder SPI International B.V., Managing Director of Filmbox International Ltd. and Mediabox Broadcasting International Ltd. Moreover, he acts as Director of Operations at Eftas AS. Mr Uziyel graduated with a degree in Business Administration from Babson College in Boston.

Marcin Kowalski (Member of the Board): Mr Kowalski has been Member of the Board at Kino Polska since June 2015. He is also Member of the Supervisory Board at the company's subsidiary Stopklatka S.A. and CEO at KPTV Media Sp. z.o.o. Between 2011 and 2015, he was Managing Director responsible for the Kino Polska and FilmBox channels. His previous work experience includes Operations and On Air Manager at Fox International Channels Polska. Mr Kowalski graduated with a Master's degree in Organisation of TV and Movie Production from the Silesian University in Katowice. He also completed post-graduate studies in Electronics and IT at the Technical University in Warsaw.

Alber Uziyel (Member of the Board): Mr Uziyel has been Member of the Board at Kino Polska since June 2015. He is also Consultant for the FilmBox Live project at Mediabox International Ltd. and Managing Director at Eftas AS. Mr Uziyel graduated with a Master's degree in Electronic Technology from the Istanbul Technical University.

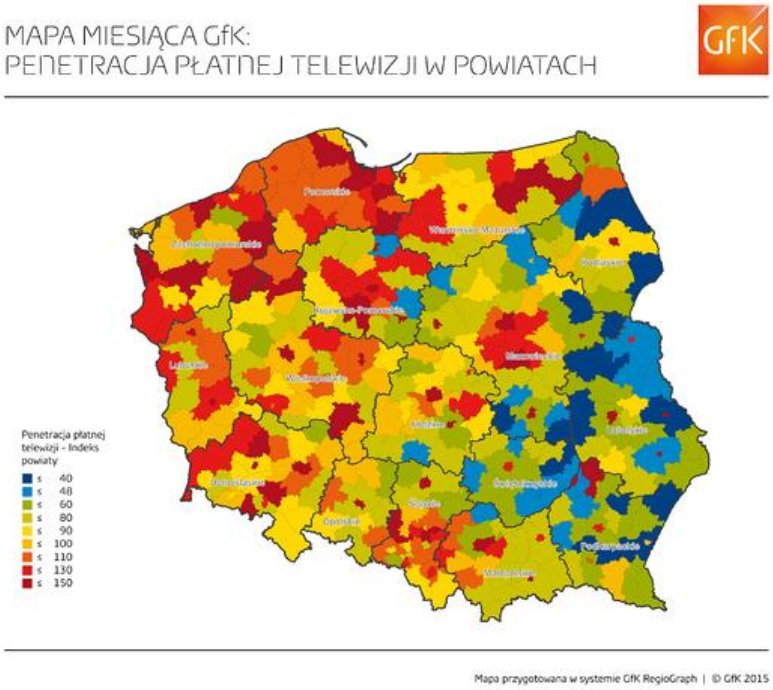
Market environment

The Polish TV market

The main players on the Polish TV market are the two public TV stations TVP1 and TVP2 and three larger private broadcasting networks Telewizja Polsat, TVN and TV Puls. In addition, there are >230 thematic channels, which are available through satellite, cable or digital terrestrial TV. With a penetration rate of 79% (Source: GfK), Poland is one of the most developed countries in Europe, when it comes to Pay-TV. Moreover, according to Nielsen Audience Measurement Poles watch on average 4 hours 29 min of TV every day (with a positive trend), which is significantly above the worldwide average (3 hours 14 min).

The largest players in the area of Pay-TV are the satellite platforms Cyfrowy Polsat (c. 4.4m subscribers at the end of June 2015), which is also the owner of the largest private TV network Telewizja Polsat, nc+ (c. 2.5m subscribers, belongs to TVN S.A.) as well as the cable operators UPC/Aster (1.5m subscribers), Vectra (c. 920k) and Multimedia Polska (c. 828k). While the latter concentrate on larger cities as investments in cable networks can be very expensive, the last also target clients in small cities and rural areas. In Poland, the change to digital terrestrial TV was completed in July 2013 and there are currently c. 25 channels, with many more likely to be launched in the coming years.

Pay-TV penetration in Polish districts in %, data from 2015



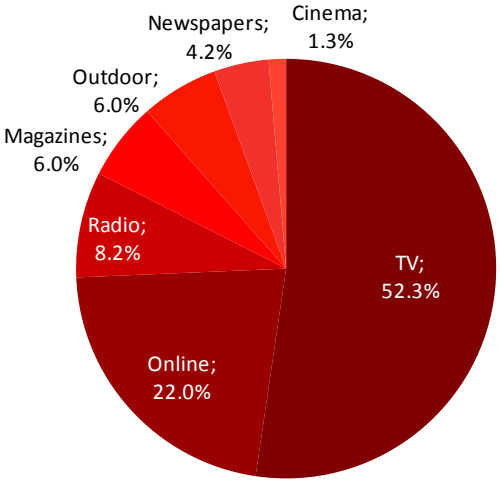
Source: GfK, East Value Research GmbH

According to Starlink, the Polish TV advertising market increased by 5.6% to PLN 3.8bn in 2014, which corresponded to a share in the total ad market of 52.3%. Only in Q4/14, the market grew by 4.1% y-o-y. The main reason was higher spending by clients from the sectors Retail and Pharma, who increased their budgets by 18.1% and 16.1% respectively.

Thematic TV channels (both coded and free-to-air) already had a share of c. 55% in viewership and accounted for 40% or c. PLN 1.5bn of all TV ad spending. However, it is likely that they will remain the main growth driver of the TV segment as (1) they allow advertisers to target specific customer groups with non-standardized campaigns e.g. sponsoring, dedicated shows (2) they often have privileged access to content and (3) broadcast less advertising spots than traditional TV channels.

Thanks to good economic conditions, Starlink estimates that in 2015 the Polish TV advertising segment will grow by 4%-5% compared to 2.7%-3.3% (or max. PLN 7.5bn) for the whole advertising market. PwC/IAB reckons that TV will maintain its position as the dominant advertising medium in Poland until 2018. Worldwide, TV advertising is expected to grow at a CAGR of 6.7% by 2018 compared to 7.3% for the whole ad market (Source: McKinsey).

Structure of the Polish advertising market in 2014



Source: Starlink, East Value Research GmbH

Trends on the TV market

The TV segment continues to be affected by the same trends as the whole media sector, which are digitalization, personalization and shift from owning to accessing content, (Sources: McKinsey, Wirtualnemedia.pl). McKinsey expects digital content to increase its share in total media spend from 25.1% in 2008 to >50% by 2018, which will develop in-line with a growing importance of the internet, thematic channels and mobile devices as they provide the best possibilities to individualize content and access it.

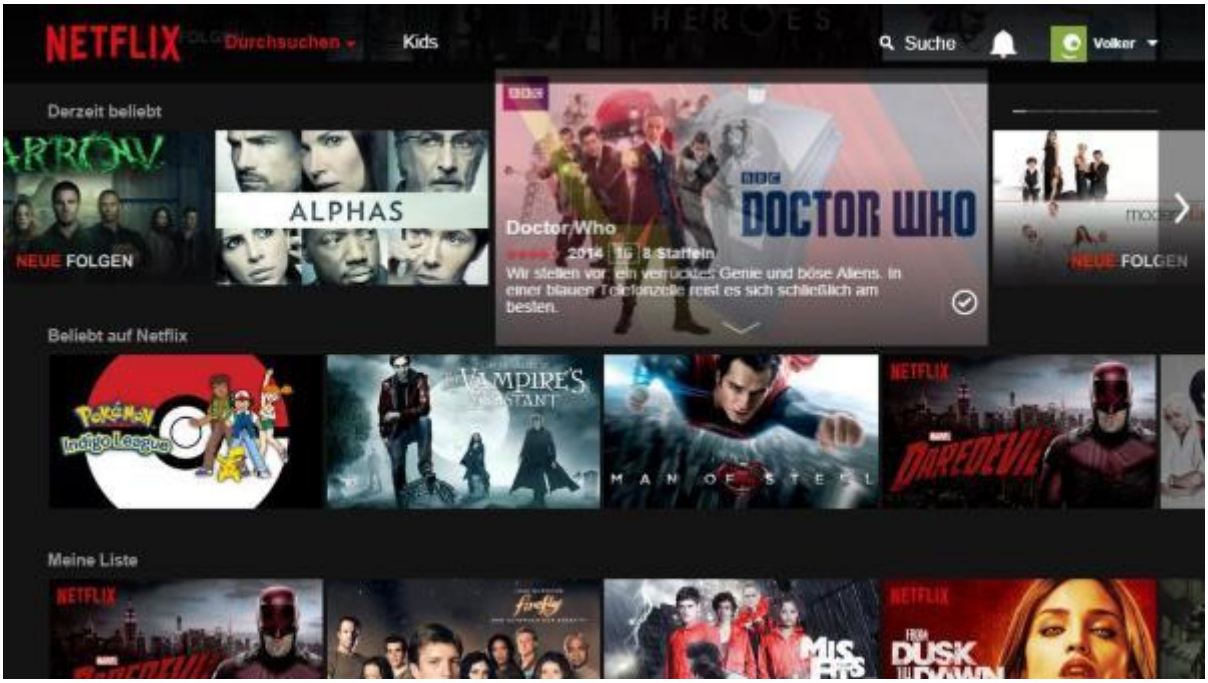
Market statistics show a growing share of thematic channels in total TV audience. Especially, digital terrestrial TV benefits from that as in contrast to cable and satellite it is for free and financed by advertising. However, according to newspaper Rzeczpospolita at the same time an increasing share of viewers does not have a TV device at all (3.8% in Poland vs. already 5% in the US). Instead, people watch their favorite TV shows and serials on the internet or on their mobile devices, which is the reason, why online video and streaming services such as Youtube, Netflix or Amazon Prime Instant Video have become that popular worldwide.

in USDm	2008	2013	CAGR 2008-13	2014	2018	CAGR 2013-18E
Digital	308,374	624,058	15.1%	704,940	1,069,251	11.4%
Share in %	*25.1%*	*40.1%*		*42.5%*	*50.3%*	
Non-digital	920,368	931,293	0.2%	952,156	1,055,204	2.5%
Share in %	*74.9%*	*59.9%*		*57.5%*	*49.7%*	
Total	**1,228,742**	**1,555,351**	**4.8%**	**1,657,096**	**2,124,455**	**6.4%**

Source: McKinsey & Co., East Value Research GmbH

Netflix, which has >69m customers, thereof c. 26m in >50 countries outside the US, increased its sales between 2010 (the year, when it initiated its international expansion) and 2014 at a CAGR of 26.3% to USD 5.5bn. The company continues to enter new markets and according to its management wants to be present worldwide by the end of 2016. It is widely expected to launch its operations in Poland in 2016, although it may face difficulties as the Polish audience is specific: (1) In order to be successful in Poland, the company will first need to acquire local Polish content (usually produced or owned by established players such as TVP, TVN or Kino Polska) as the most popular TV shows on Polish TV are local serials, and (2) Netflix' monthly fee of USD 7.99/c. PLN 33.75 may prove too high for Poles, especially given the fact that watching movies or serials through pirate web portals is common.

Netflix' web portal



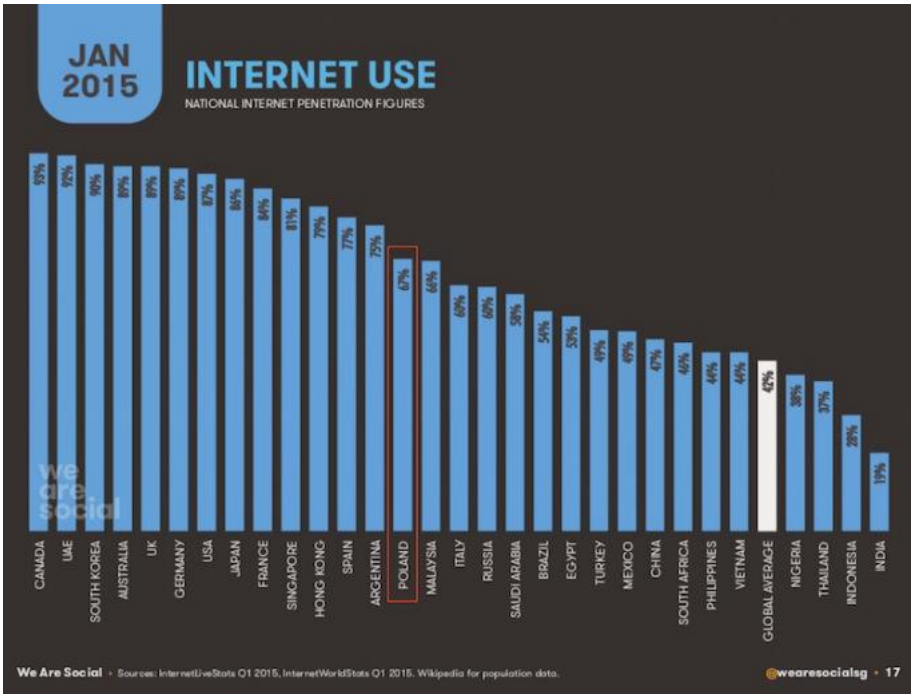
Source: Heise.de, East Value Research GmbH

Nevertheless, in other markets such as Germany Netflix has achieved a remarkable success despite having limited local content and offering mostly US movies. Although Germany is one of less developed countries in Europe when it comes to Pay-TV, the company has become the No 3 provider of video streaming services in a little more than a year (market share of 13% according to Deloitte), right after Amazon Prime Instant Video (c. 33%) and ProSiebenSat1' Maxdome (18%). In our view, Netflix' main competitive advantages are its very good technical infrastructure, user friendly website, a strong offering of movies and serials for kids as well as very popular own productions such as "House of Cards", "Orange Is the New Black" (received several Emmies) or "Narcos".

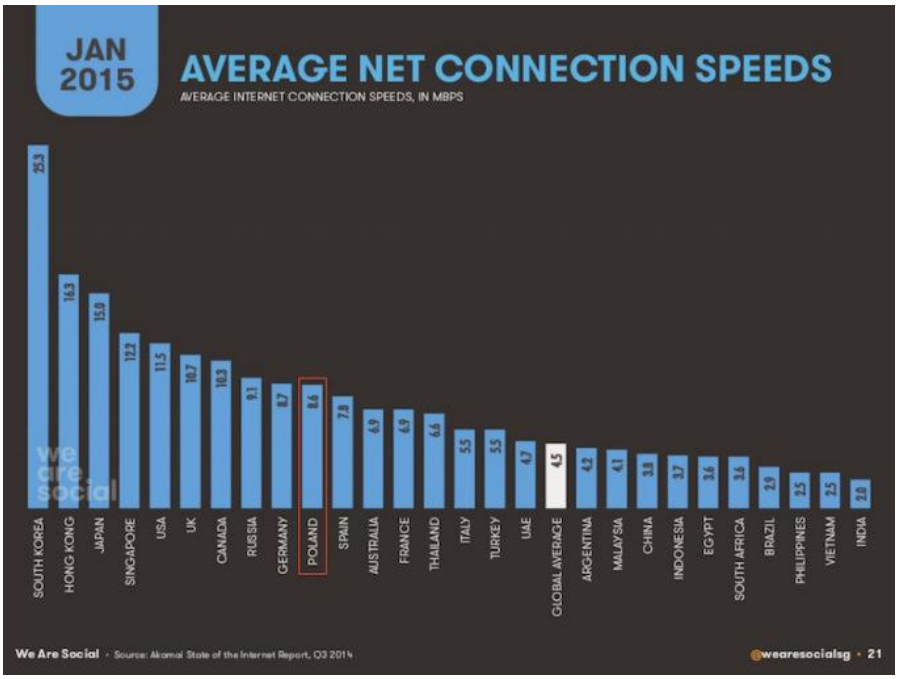
Online & Mobile market

According to „Digital, Social & Mobile in 2015" report by We Are Social, the number of internet users worldwide amounted to >3bn at the beginning of 2015. Due to rapid growth in developing countries the mobile internet penetration equaled 33% in Jan 2015 and will likely reach 50% by H2 2016.

At 81%, internet penetration in Western Europe was one of the highest worldwide. In Eastern Europe, it equaled 58%, however in Poland it was 67%. While the average net connection speed in Poland was relatively low (8.6 Mbps), it will likely increase significantly over the next years as the Polish government invests heavily to guarantee all Poles access to high-speed data connections with min. 30 Mbps transfer capacity by 2020 (EU program "Digital Agenda").

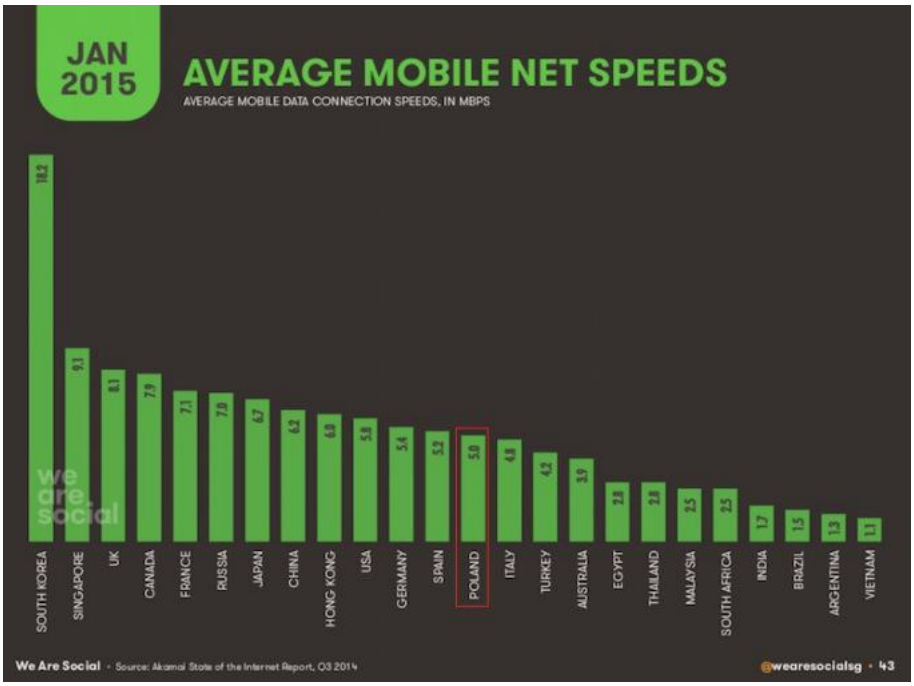


Source: Mobirak.pl & „We Are Social", East Value Research GmbH

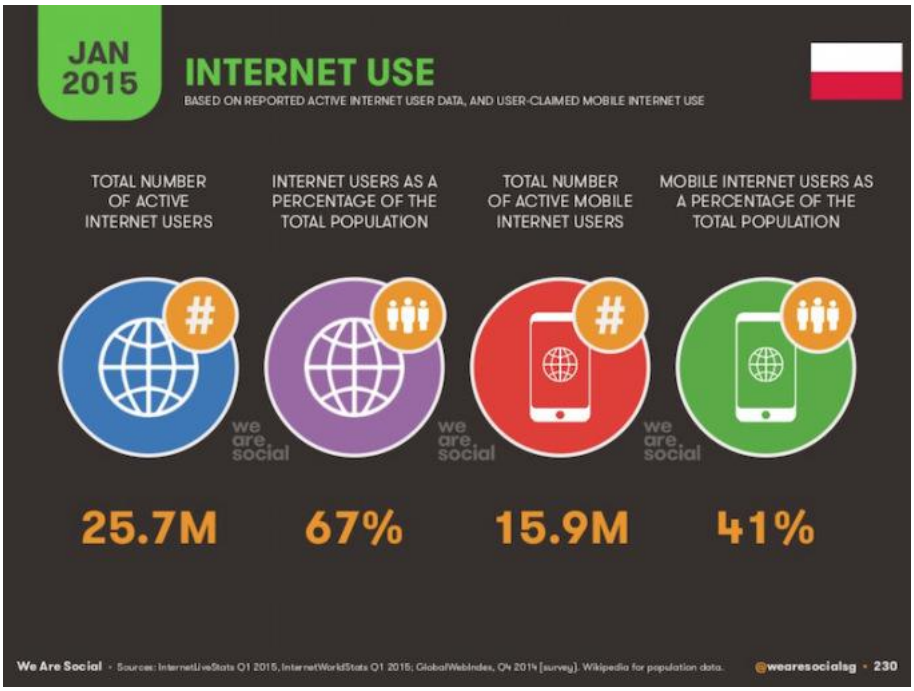


Source: Mobirak.pl & „We Are Social", East Value Research GmbH

When it comes to mobile internet, Poland is one of the best-developed countries in Europe, also because it was one of the first that introduced super-fast mobile transmission technology LTE. While mobile internet penetration is 41% (total mobile penetration of 147%), average speed of mobile internet is 5 Mbps and is thus similar to Germany (5.4 Mbps on average). This is an important fact as fast connections are essential in order to watch videos.



Source: Mobirak.pl & „We Are Social", East Value Research GmbH



Source: Mobirak.pl & „We Are Social", East Value Research GmbH

Profit and loss statement

in PLNm	2013	2014	2015E	2016E	2017E	2018E
Net sales	**108.45**	**102.40**	**113.82**	**124.91**	**135.04**	**145.09**
Cost of goods sold	-66.86	-52.65	-57.59	-63.83	-69.81	-75.88
Gross profit	**41.58**	**49.75**	**56.23**	**61.08**	**65.22**	**69.21**
Other operating income	3.42	0.33	0.60	0.63	0.66	0.69
Distribution costs	-4.87	-6.21	-6.90	-7.58	-8.19	-8.80
Administration costs	-8.29	-9.31	-10.35	-11.35	-12.28	-13.19
Other operating expenses	-1.99	-2.52	-3.72	-3.81	-3.69	-3.52
EBITDA	**29.85**	**32.04**	**35.85**	**38.97**	**41.73**	**44.40**
Depreciation & Amortization	-7.35	-13.08	-11.95	-12.87	-13.64	-14.36
EBIT	**22.50**	**18.97**	**23.90**	**26.11**	**28.09**	**30.03**
Result from at-equity investments	0.00	-2.84	-0.30	0.05	0.35	0.65
Net financial result	-0.05	-0.35	0.18	0.20	0.22	0.24
EBT	**22.45**	**15.78**	**23.78**	**26.36**	**28.66**	**30.92**
Income taxes	-1.23	-2.22	-4.52	-5.01	-5.45	-5.88
Loss from discontinued operations	-2.22	-0.60	-0.01	0.00	0.00	0.00
Minority interests	0.74	0.12	0.18	0.10	-0.05	-0.15
Net income / loss	**19.74**	**13.08**	**19.44**	**21.45**	**23.16**	**24.90**
EPS	1.22	0.63	0.98	1.08	1.17	1.26
DPS	0.45	1.00	1.00	1.05	1.10	1.15
Share in total sales						
Net sales	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
Cost of goods sold	-61.65 %	-51.42 %	-50.60 %	-51.10 %	-51.70 %	-52.30 %
Gross profit	38.35 %	48.58 %	49.40 %	48.90 %	48.30 %	47.70 %
Other operating income	3.15 %	0.32 %	0.53 %	0.50 %	0.49 %	0.48 %
Distribution costs	-4.49 %	-6.06 %	-6.06 %	-6.06 %	-6.06 %	-6.06 %
Administration costs	-7.65 %	-9.09 %	-9.09 %	-9.09 %	-9.09 %	-9.09 %
Other operating expenses	-1.84 %	-2.46 %	-3.27 %	-3.05 %	-2.74 %	-2.42 %
EBITDA	27.53 %	31.29 %	31.50 %	31.20 %	30.90 %	30.60 %
Depreciation & Amortization	-6.78 %	-12.77 %	-10.50 %	-10.30 %	-10.10 %	-9.90 %
EBIT	20.75 %	18.52 %	21.00 %	20.90 %	20.80 %	20.70 %
Result from at-equity investments	0.00 %	-2.77 %	-0.26 %	0.04 %	0.26 %	0.45 %
Net financial result	-0.05 %	-0.34 %	0.16 %	0.16 %	0.16 %	0.17 %
EBT	20.70 %	15.41 %	20.89 %	21.10 %	21.22 %	21.31 %
Income taxes	-1.13 %	-2.17 %	-3.97 %	-4.01 %	-4.03 %	-4.05 %
Loss from discontinued operations	-2.05 %	-0.58 %	-0.01 %	0.00 %	0.00 %	0.00 %
Minority interests	0.68 %	0.12 %	0.16 %	0.08 %	-0.04 %	-0.10 %
Net income / loss	18.20 %	12.78 %	17.08 %	17.17 %	17.15 %	17.16 %

Balance Sheet

in PLNm	2013	2014	2015E	2016E	2017E	2018E
Assets						
Cash and cash equivalents	14.96	22.33	18.52	15.31	13.23	12.08
Other financial assets	0.28	1.70	1.78	1.82	1.84	1.83
Inventories	0.64	1.23	1.34	1.49	1.63	1.77
Trade accounts and notes receivables	32.04	24.03	26.71	29.31	31.69	34.05
Short-term movie licenses	10.58	2.69	2.28	2.37	2.43	2.47
Other current assets	3.87	1.68	1.87	2.05	2.22	2.38
Current assets	**62.36**	**53.65**	**52.49**	**52.36**	**53.03**	**54.57**
Property, plant and equipment	7.69	6.74	6.84	6.94	7.04	7.14
Other intangible assets	47.53	31.59	32.85	35.25	37.65	40.05
Goodwill	6.01	1.85	1.85	1.85	1.85	1.85
At-equity investments	0.00	3.33	3.39	3.46	3.53	3.60
Long-term receivables	0.88	0.19	0.21	0.23	0.25	0.26
Assets-held-for-sale	0.00	0.00	0.00	0.00	0.00	0.00
Deferred tax assets	0.21	0.07	0.00	0.00	0.00	0.00
Non-current assets, total	**62.33**	**43.77**	**45.15**	**47.73**	**50.32**	**52.91**
Total assets	**124.69**	**97.42**	**97.64**	**100.10**	**103.36**	**107.49**
Liabilities						
Trade payables	25.55	15.40	16.84	18.66	20.42	22.19
Short-term financial debt	7.12	4.11	4.01	3.91	3.81	3.71
Other short-term liabilities	10.13	2.11	2.21	2.32	2.44	2.56
Provisions	1.38	0.58	0.64	0.71	0.76	0.82
Current liabilities	**44.19**	**22.19**	**23.70**	**25.60**	**27.42**	**29.28**
Long-term financial debt	0.27	0.20	0.00	0.00	0.00	0.00
Liabilities relating to licenses	10.89	0.00	0.00	0.00	0.00	0.00
Other long-term liabilities	0.90	0.66	0.23	0.25	0.27	0.29
Provisions	0.35	0.03	0.03	0.03	0.04	0.04
Deferred tax liabilities	1.21	0.11	0.00	0.00	0.00	0.00
Long-term liabilities	**13.61**	**0.99**	**0.26**	**0.28**	**0.31**	**0.33**
Total liabilities	**57.80**	**23.17**	**23.96**	**25.88**	**27.73**	**29.61**
Shareholders equity	**67.34**	**74.39**	**74.01**	**74.64**	**76.00**	**78.11**
Minority interests	-0.45	-0.15	-0.33	-0.43	-0.38	-0.23
Total liabilities and equity	**124.69**	**97.42**	**97.64**	**100.10**	**103.36**	**107.49**

Cash Flow Statement

in PLNm	2013	2014	2015E	2016E	2017E	2018E
Net income / loss	19.74	13.08	19.44	21.45	23.16	24.90
Depreciation	7.35	13.08	11.95	12.87	13.64	14.36
Change of working capital	-10.51	2.69	-1.47	-1.09	-0.87	-0.80
Others	8.98	-4.29	-0.03	-0.07	-0.06	-0.06
Net operating cash flow	**25.55**	**24.56**	**29.89**	**33.16**	**35.87**	**38.40**
Cash flow from investing	**-7.29**	**-9.82**	**-13.31**	**-15.37**	**-16.14**	**-16.86**
Free cash flow	18.27	14.74	16.58	17.79	19.73	21.54
Cash flow from financing	**-10.30**	**-7.37**	**-20.39**	**-21.00**	**-21.82**	**-22.69**
Change of cash	7.84	7.37	-3.81	-3.21	-2.08	-1.15
Cash at the beginning of the period	7.11	14.96	22.33	18.52	15.31	13.23
Cash at the end of the period	14.96	22.33	18.52	15.31	13.23	12.08

Financial ratios

Fiscal year	2013	2014	2015E	2016E	2017E	2018E	2019E	2020E
Profitability and balance sheet quality								
Gross margin	38.35%	48.58%	49.40%	48.90%	48.30%	47.70%	47.10%	46.50%
EBITDA margin	27.53%	31.29%	31.50%	31.20%	30.90%	30.60%	30.30%	30.01%
EBIT margin	20.75%	18.52%	21.00%	20.90%	20.80%	20.70%	20.60%	20.51%
Net margin	18.20%	12.78%	17.08%	17.17%	17.15%	17.16%	17.11%	17.07%
Return on equity (ROE)	29.79%	18.46%	26.19%	28.86%	30.75%	32.31%	33.25%	33.73%
Return on assets (ROA)	19.75%	12.10%	19.74%	21.49%	22.55%	23.39%	23.81%	23.97%
Return on capital employed (ROCE)	26.43%	21.67%	26.18%	28.38%	29.96%	31.11%	31.76%	32.02%
Economic Value Added (in PLNm)	12.81	8.39	11.59	13.32	14.77	16.11	17.23	18.12
Net debt (in PLNm)	-7.84	-19.72	-16.29	-13.23	-11.26	-10.20	-9.86	-10.08
Net gearing	-11.65%	-26.51%	-22.01%	-17.73%	-14.82%	-13.06%	-12.22%	-12.05%
Equity ratio	54.01%	76.36%	75.80%	74.57%	73.54%	72.67%	72.02%	71.57%
Current ratio	1.41	2.42	2.21	2.05	1.93	1.86	1.82	1.80
Quick ratio	1.07	2.17	1.98	1.81	1.70	1.64	1.60	1.58
Net interest cover	432.49	54.30	-132.79	-130.53	-127.67	-125.14	-122.24	-118.96
Net debt/EBITDA	-0.26	-0.62	-0.45	-0.34	-0.27	-0.23	-0.21	-0.21
Tangible BVPS	4.44	3.66	3.64	3.67	3.74	3.85	3.98	4.13
CAPEX/Sales	-29.90%	7.78%	-11.69%	-12.30%	-11.95%	-11.62%	-11.32%	-11.04%
Working capital/Sales	0.50%	11.38%	11.53%	11.38%	11.17%	10.95%	10.71%	10.46%
Cash Conversion Cycle (in days)	-28	-13	-13	-13	-13	-13	-13	-13
Trading multiples								
EV/Sales	2.19	2.32	2.09	1.90	1.76	1.64	1.54	1.46
EV/EBITDA	7.97	7.42	6.63	6.10	5.70	5.36	5.09	4.88
EV/EBIT	10.57	12.54	9.95	9.11	8.47	7.92	7.48	7.14
P/Tangible BVPS	3.04	3.69	3.71	3.68	3.61	3.51	3.39	3.27
P/E	11.07	21.43	13.77	12.48	11.55	10.75	10.14	9.65
P/FCF	14.65	18.16	16.14	15.04	13.56	12.43	11.53	10.82

Disclaimer

This document does neither constitute an offer nor a request to buy or sell any securities. It only serves informational purposes. This document only contains a non-binding opinion on the mentioned securities and market conditions at the time of its publication. Due to the general character of its content this document does not replace investment advice. Moreover, in contrast to especially approved prospectuses, it does not provide information, which is necessary for taking investment decisions.

All information, which have been used in this document, and the statements that have been made, are based on sources, which we think are reliable. However, we do not guarantee their correctness or completeness. The expressions of opinion, which it contains, show the author's personal view at a given moment. These opinions can be changed at any time and without further notice.

A liability of the analyst or of the institution, which has mandated him, should be excluded from both direct and indirect damages.

This confidential study has only been made available to a limited number of recipients. A disclosure or distribution to third-parties is only allowed with East Value Research' approval. All valid capital market rules, which relate to the preparation, content as well as distribution of research in different countries, should be applied and respected by both the supplier and recipient.

Distribution in the United Kingdom: In the UK this document shall only be distributed to persons who are described in Section 11 (3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 (as amended). This research may not be distributed and forwarded directly or indirectly to any other group of individuals. The distribution of this document in other international jurisdictions may be restricted by law and individuals who possess this study should inform themselves about any existing restrictions and comply with them.

Neither this document nor any copy of it may be taken or sent to the United States of America, Canada, Japan or Australia or distributed, directly or indirectly, in the United States of America, Canada, Japan or Australia or to any resident thereof. Any failure to comply with these restrictions may constitute a violation of United States, Canadian, Japanese or Australian securities laws or the law of any other jurisdiction.

Declaration according to § 34b WpHG and FinAnV on potential conflicts of interest (As of July 24, 2013): East Value Research has been commissioned to prepare this report by Kino Polska TV S.A.

Declaration according to § 34b WpHG and FinAnV on additional disclosures (As of July 24, 2013):

It is the sole decision of East Value Research GmbH whether and when a potential update of this research will be made.

Relevant basis and measures of the valuations, which are included in this document:

The valuations, which are the basis for East Value Research‘ investment recommendations, are based on generally-accepted and widely-used methods of fundamental analysis such as the Discounted-Cash-Flow method, Peer Group comparison, or Sum-of-the-Parts models.

The meaning of investment ratings:

Buy: Based on our analysis, we expect the stock to appreciate and generate a total return of more than 10% over the next twelve months

Add: Based on our analysis, we expect the stock to appreciate and generate a total return between 0% and 10% over the next twelve months

Reduce: Based on our analysis, we expect the stock to cause a negative return between 0% and -10% over the next twelve months

Sell: Based on our analysis, we expect the stock to cause a negative return exceeding -10% over the next twelve months

The respective supervisory authority is:

Bundesanstalt für Finanzdienstleistungsaufsicht
Lurgiallee 12
60439 Frankfurt