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Broadcast Sector: Improved Profitability, Undervalued Stocks

by Wayne Friedman
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Though TV stations continue to report hefty financial gains in recent periods, broadcasters are still trading below the stock market as a whole. "The sector appears undervalue by around 15%," says **Michael Alcamo**, president of New York-based media investment company **M.C. Alcamo & Co., Inc.**

In fact, Alcamo was a bit shocked looking at the results versus a year ago. "The results surprised us -- trading multiples were significantly lower than a year previously, possibly reflecting investor caution or uncertainty," he notes.

Looking at six pure-play publicly-traded broadcast TV station companies, Alcamo says selling cash-flow multiples -- earnings before interest, depreciation, taxes and amortization -- are down 20% from a year ago at the end of 2010. Currently at a 8.7 times rate, versus 10.7. Cash flow multiples are down 10% from a 9.6 number a three months ago.

The six companies include Belo Corp., Gray Television, Nexstar Broadcasting, Sinclair Broadcast Group, LIN Television and Fisher Communications Group. Analyzing an index of these companies shows stock prices at a 53% index to the S&P 500 Index of 98%.

This group posted $113.6 million in incremental revenue in the third-quarter 2010 -- a 19% over the third quarter 2009, and $81.8 million in incremental EBITDA.

At the broader integrated media companies -- those with other assets, such as magazines and newspapers -- it is the same story. Those stocks are down 25% to a 6.1 cash flow multiple from an 8.0 number -- though Alcamo says things improved for these companies a bit at the end of the third quarter.

Overall, he says, "investors remain cautious -- despite improved rising profitability, improved credit profiles, a good outlook for 2011, an exceptional outlook for 2012, and audience trends all pointed in the right direction."