Company report

Grupo Televisa

Overweight (V)

Target price (MXN)	50.60
Share price (MXN)	35.89
Potential total return (%)	43.2

	2008e	2009e	2010e
HSBC EPS	2.67	2.95	3.15
HSBC PE	13.4	12.2	11.4

Performance	1M	3M	12M
Absolute (%)	-13.1	-4.2	-27.3
Relative^ (%)	-5.7	-2.7	13.1

Note: (V) = volatile (please see disclosure appendix)

TV Azteca

Neutral

Target price (MXN)	5.00
Share price (MXN)	4.49
Potential total return (%)	15.2

	2008e	2009e	2010e
HSBC EPS	0.33	0.51	0.51
HSBC PE	13.6	8.8	8.8

Performance	1M	3M	12M
Absolute (%)	-2.2	-21.2	-27.8
Relative^ (%)	6.1	-20.0	12.3

20 February 2009

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Grupo Televisa and TV Azteca

Cameras rolling on growth opportunities and defensive revenues; initiating coverage on Mexican media

- **We see strong growth potential from Mexico's nascent telecom convergence, opportunities in the expanding US Hispanic market, and potential secular growth in advertising revenues**
- **Broadcast revenues could be much more defensive than media companies north of the border; the industry's structure should also support long term growth and returns**
- **Valuations are below 5 year averages, albeit with growth and defensive expectation premiums attached; our top pick is Televisa (Overweight(V), PT MXN50.60, USD16.9/ADR) given its positioning in all areas of growth identified and its diversified, defensive revenues; we rate TV Azteca Neutral with a MXN5 PT**

We initiate coverage of Grupo Televisa and TV Azteca, the world's largest producers and distributors of Spanish language programming and media content.

Our top pick is Televisa. Its cable & telecom business is optimally placed to benefit from Mexico's nascent telecom convergence, as incremental revenues from digital voice services drive rapid growth in revenues. Televisa's position as a leading producer of Spanish language programming and both in the US and Mexico should also ensure attractive long term growth, first from the fast growing US Hispanic market, and second from a potential secular increase in Mexico's commercial advertising expenditure.

TV Azteca is a wait and see story. TV Azteca's higher income target audience should play well with a secular increase in Mexico's advertising expenditure, and it too should benefit from the US Hispanic market. Concerns included the company's dependence on broadcast revenues and a lack of visible growth. This could change once its parent company repays its debt, allowing for increased reinvestment.

We expect broadcast revenues for both companies to be defensive during the downturn thanks to an advertising mix heavily weighted towards non-discretionary consumer goods. This is in stark contrast to media sectors in developed countries, where the floor has fallen on advertising for credit driven consumption of big ticket discretionary consumer goods. Mexico's media companies, in our view, are a pocket of long term growth potential and defensive characteristics in an otherwise declining global market.

Grupo Televisa	
Index^	MEXICAN IPC. IDX
Index level	18,641
RIC	TLVACPO.MX
Bloomberg	TLEVICPO MM
Enterprise value (MXNm)	92.081
Free float (%)	70%
Market cap (MXNm)	87,884

Source: HSBC

TV Azteca	
Index^	MEXICAN IPC. IDX
Index level	18,641
RIC	TVAZTCACPO.MX
Bloomberg	TVAZTCPO MM
Enterprise value (MXNm)	15,081
Free float (%)	53%
Market cap (MXNm)	13,044

Source: HSBC

HSBC

Mexican media companies´ valuation (MXN)

Company	Ticker	Price*	Target Price	Price Upside	Rating	Market Cap MXNn	P/E 2008e	P/E 2009e	P/E 2010e	EV/EBITDA 2008e	EV/EBITDA 2009e	EV/EBITDA 2010e
TELEVISA	TLEVICPO MM	38.22	50.60	32.4%	Overweight (V)	107,322	14.3	12.9	12.1	5.7	5.2	5.0
TVAZTECA	TVAZTCPO MM	4.41	5.00	15.7%	Neutral	12,811	13.3	8.7	8.7	4.4	4.4	4.3
Average							**13.8**	**10.8**	**10.4**	**5.0**	**4.8**	**4.7**

Source: HSBC estimates * Closing price as of February 13, 2009

Mexican media companies´ comparative table (MXNm)

Company	Revenues 2008e	Revenues 2009e	Revenues 2010e	Growth MXN EBITDA 2008e	EBITDA 2009e	EBITDA 2010e	Earnings 2008e	Earnings 2009e	Earnings 2010e	CAGR 07-10e Revenues	CAGR 07-10e EBITDA	CAGR 07-10e Earnings
TELEVISA	15%	9%	5%	11%	8%	4%	-7%	11%	7%	10%	8%	3%
TVAZTECA	5%	3%	4%	1%	-1%	2%	-7%	52%	0%	4%	1%	12%

Source: HSBC estimates

Mexico macroeconomic assumptions, 2007-2011e

	2007	2008e	2009e	2010e	2011e
GDP (% y-o-y)	3.2	1.4	-1.4	1.8	3.4
Inflation (% Dec/Dec)	3.8	6.5	3.5	3.6	3.4
Inflation (% average)	4.0	5.1	5.1	3.5	3.3
MXN/USD (Year-end)	10.92	13.81	15	14.4	14.9
MXN/USD (average)	10.93	11.15	15	14.7	15.1

Source: HSBC estimates

Global media peer group valuation as of 13 February 2009

Symbol	Company	Rating	PE 09e	PE 10e	EV/EBITDA 09e	EV/EBITDA 10e	Region
European wireline							
KPN.AS	KPN	Overweight	8.3	7.4	5.6	5.4	Netherlands
SCMN.VX	Swisscom	Overweight	9.0	8.5	6.1	5.8	Switzerland
TEF.MC	Telefonica	Overweight	8.3	7.4	5.2	5.1	Spain
FTE.PA	France Telecom	Overweight	10.4	9.5	4.5	4.2	France
Weighted average			**9.0**	**8.2**	**5.1**	**4.9**	
Media							
Symbol	**Company**	**Rating**	**PE 09e**	**PE 10e**	**EV/EBITDA 09e**	**EV/EBITDA 10e**	**Region**
BSY.L	BSkyB	Underweight (V)	16.0	15.0	8.9	8.5	UK
4676.T	Fuji TV Network	Overweight	15.0	13.1	2.0	1.6	Japan
ITV.L	ITV	Underweight (V)	18.0	14.0	10.7	9.3	UK
4817.Q	Jupiter Telecom.	Overweight (V)	15.7	14.9	5.1	4.6	Japan
LBTYA.O	Liberty Global	Overweight	13.5	6.2	5.6	4.8	US
MS.MI	Mediaset	Underweight	10.8	11.0	3.1	3.1	Italy
NETC3.SA	Net Servicos	Underweight	26.4	20.7	5.5	4.6	Brazil
9404.T	Nippon TV Network	Neutral	34.9	27.8	6.0	5.2	Japan
9412.t	Sky Perfect Jsat Cor.	Overweight (V)	12.0	11.3	3.4	3.1	Japan
TL5.MC	Telecinco	Underweight (V)	7.8	7.9	3.2	3.5	Spain
TNET.BR	Telenet	Overweight	11.3	10.1	5.9	5.4	Belgium
9401.T	Tokyo B. System	Underweight (V)	26.6	23.3	9.3	8.7	Japan
9409.T	TV Asahi Corp	Underweight	201.4	60.1	6.2	5.4	Japan
9411.T	Tv Tokyo Corp.	Underweight	47.4	47.0	10.6	10.2	Japan
VMED.O	Virgin Media	Overweight (V)	NM-	29.2	4.8	4.5	US
VIV.PA	Vivendi	Overweight	10.5	9.7	5.1	4.5	Italy
Weighted average			**14.0**	**14.0**	**5.7**	**5.2**	
Latam							
Symbol	**Company**	**Rating**	**PE 09e**	**PE 10e**	**EV/EBITDA 09e**	**EV/EBITDA 10e**	**Region**
TLPP4.SA	Telesp	Overweight	8.2	7.7	3.3	3.1	Brazil
TII.N	Telmex Inter. SAB	Underweight (V)	14.9	13.8	4.7	4.4	Mexico
MAXCOMCP MM	Maxcom	Not Rated	25.6	8.9	2.2	2.0	Mexico
MEGACPO MM	Megacable	Not Rated	8.3	7.5	5.5	4.9	Mexico
TVAZTCPO MM	TVAzteca	Neutral	8.9	8.7	4.4	4.3	Mexico
TLEVICPO MM	Televisa	Overweight (V)	12.9	12.1	5.2	5.0	Mexico
Weighted average			**11.6**	**10.8**	**4.4**	**4.1**	
US							
Symbol	**Company**	**Rating**	**PE 09e**	**PE 10e**	**EV/EBITDA 09e**	**EV/EBITDA 10e**	**Region**
T.N	AT&T Inc.	Overweight	8.3	7.9	4.4	4.2	US
VZ.N	Verizon Com.	Overweight	NM-	NM-	3.6	3.6	US
TWX.US	Time Warner	Not Rated	12.2	10.6	5.4	4.8	US
NWSA.US	Newscorp	Not Rated	8.4	7.7	5.3	5.1	US
CBS US	CBS	Not Rated	6.9	6.6	5.3	4.9	US
Weighted average			**6.2**	**5.1**	**4.9**	**4.5**	

Source: HSBC estimates. Data for companies Not Rated (Time Warner, Newscorp, CBS, Maxcom & Megacable) by HSBC is from Bloomberg. NM: Not meaningful

HSBC

Investment summary

Attractive media industry

We view Mexico's media industry as attractive thanks to a combination of the following factors:

- Low ad expenditures-to-GDP relative to other similar economies means secular upside potential if the economy continues to open up to competition.
- The Mexican cable industry is experiencing a secular growth phase thanks to the nascent telecom convergence enabling triple play.
- Both Televisa and TV Azteca have a presence in the fast growing US Hispanic market, whose purchasing power could grow by 30% between now and 2015.

Stable long term growth and returns for Televisa and TV Azteca should be possible thanks to a stable industry structure.

Televisa (TLEVISACPO, TV)

Overweight (V), Target price: MXN50.6/CPO (USD16.9/ADR)

Televisa is our preferred play in Mexico's media industry. Televisa's strengths lay in the strong competitive position of its diversified media operations and the growth that these businesses could realize in the coming years.

- The Cable TV & Telecom business, in particular, should experience strong growth from Mexico's telecom convergence. Bundled triple play services have just begun to gain traction.
- Televisa's renewed program licensing agreement with Univision could bring higher royalties to the company while keeping its programming at the forefront of the US Hispanic market.

Additional positives for Televisa include: its defensive broadcast advertising sales mix, its strong financial situation, and its strength as the leading producer of Spanish media content in the world. A key risk is the entry of Telmex into the Pay TV and triple play services market.

TV Azteca (TVAZTCACPO)

Neutral, Target price: MXN5.0/CPO

TV Azteca is a solid player in the competition for audience ratings and advertising revenues in Mexico thanks to an efficient and profitable business model. Positives include:

- A defensive broadcast advertising sales mix, strong cash generating capacity and a presence in the US Hispanic market.

Our main concerns with TV Azteca include:

- Reliance on broadcast advertising revenues and high leverage, which if economic conditions worsen, could negatively impact share returns.

TV Azteca should continue to operate uneventfully over the medium term. We look for new growth opportunities once its parent company Azteca Holdings repays its debt. For now, TV Azteca is a wait and see story.

Contents

Mexican media

- The Mexican media sector has attractive growth prospects driven by Mexico's telecom convergence, the US Hispanic market, and low economy-wide advertising expenditures
- A favorable industry structure should allow Televisa and TV Azteca to generate long term profitability and shareholder returns
- Broadcast television revenues in Mexico should also be more defensive than the global broadcast and media industry average, a further attraction for investors during the downturn

Mexican media drivers

The Mexican media industry should be attractive for investors thanks to its favorable structure and key long-term growth opportunities.

- **Industry structure.** The industry is a duopoly. High long term returns should be driven by strong bargaining power, barriers to entry, a lack of substitutes and a stable competitive landscape.
- **Defensive broadcast revenues.** Relative to US broadcasters, we believe Televisa and TV Azteca should fare better during the current economic downturn because of their defensive advertising sales mix. We also believe that the long-term outlook for the Mexican television industry is positive.
- **Mexico's telecom convergence.** Triple play is a big opportunity for Televisa's Cable TV & Telecom business to drive increasing revenues from bundled add-on services.
- **Low advertising spend/GDP.** Advertising expenditure in Mexico is very low relative to other countries. Greater internal industry competition should increase advertising expenditure over time.
- **US Hispanic market.** Favorable demographics should allow Televisa and TV Azteca to reap large gains from this market over the long term.

In conclusion, despite the current economic downturn, we see plenty of near term and long term opportunities for Televisa and TV Azteca.

The companies

Televisa

The outlook for Televisa is especially strong given that as a diversified media company; we believe it is well positioned to benefit from all of the opportunities we outlined above.

For example, Televisa has the largest combined cable TV operation in Mexico and stands to benefit from nascent triple-play services. It is also well positioned in the US Hispanic market through its recently renegotiated Programming License Agreement (PLA) with Univision. This market has enormous growth potential given favorable demographic trends in the Hispanic population.

Televisa's recent increase in Mexican audience shares and ratings should also give it a strong bargaining position with advertising clients even during the downturn. In the long run, its market leader position should ensure that it obtains growth from any secular increase in Mexican advertising expenditures relative to GDP.

TV Azteca

TV Azteca should be able to capture meaningful growth from a secular increase in advertising expenditure in Mexico. This is because it targets a higher income subset of the total television audience. This audience would likely be the focus of a secular increase in advertising expenditures.

The company also has a presence in the US Hispanic market, although its network there has lagged in popularity. Nonetheless, strong overall expected growth in this market should translate into good long term opportunities and returns.

The downside is that TV Azteca lacks a strong growth catalyst and does not currently have a foothold in Mexico's telecom convergence. In the coming years, it may be able to redirect cash resources towards new opportunities; for now it's a wait and see story.

Conclusion

Bearing the aforementioned industry drivers in mind and Televisa's and TV Azteca's relative positions in the media market, we favor long-term investment in Televisa based on its combination of defensive revenues and its strong growth profile. Moreover, Televisa currently has a strong net cash position of cUSD74m, which should appeal to investors in today's credit strapped economy.

Structurally attractive media industry

The Mexican media industry has benefited from an attractive structure, which we feel has enabled high margins and return on investment. Our analysis suggests that this situation should continue into the foreseeable future; we expect attractive long-term growth and profitability.

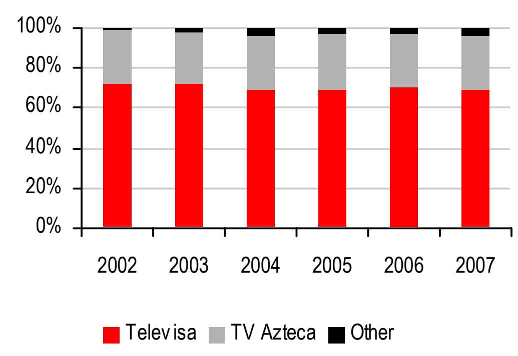
Media duopoly

The Mexican media industry is essentially a duopoly. The larger of the two companies is Televisa, a diversified media conglomerate and the world's largest producer of Spanish language programming. Its rival, TV Azteca, is a solid but smaller and less diverse television broadcaster.

Televisa controls c68-70% of the total Mexican television advertising market. TV Azteca controls most of the rest (see graph below). A handful of government and independent stations also exist, but barely figure in overall market share.

Both companies compete nationally for ratings based on the quality and popularity of their programming. This drives the advertising revenues, which generates c45% of Televisa's total revenues, and 95% of TV Azteca's.

Mexican media industry market share



Source: Company data & HSBC estimates

We believe Televisa's strategy is to use its enormous scale to reach as wide an audience as possible as a low cost producer. TV Azteca, by contrast, is a product differentiator, and focuses on a higher income segment (ABC+, C & D+) demographic of the market (see table below). TV Azteca captures between 38-40% of its target audience vs. 27% of the total Mexican television audience.

Mexico's television audience segmentation, 2007

	ABC+	C	D+	D/E
Mexican Household Income	57%	15%	21%	7%
Mexican Population	24%	15%	35%	26%

Source: Company data, IBOPE AGB, INEGI

TV Azteca's target audience controls 93% of Mexico's total household income, but accounts for 74% of Mexico's Population.

Strong bargaining power over buyers

Televisa is the industry price setter thanks to its sheer scale and production capacity. Although this makes TV Azteca the price taker, we believe that it too has some pricing power because it focuses on an audience with higher purchasing power. Advertisers realize this, and should be willing to pay TV Azteca to reach this market.

The industry's bargaining power was further enhanced in 2004 when Televisa changed its pricing scheme to a price per point of rating system. Since then, we estimate Televisa has been able to increase its advertising prices on average by 13% annually, driving strong returns for a mature industry.

Televisa's price increases have also benefited TV Azteca, whose management indicates that it too has been able to pass Televisa's price increases onto its clients as well.

Strong bargaining power over suppliers

We view television broadcasting's means of production (actors and production staff) as the main suppliers of the programming that drive company revenues (through program ratings). Televisa and TV Azteca's dominance in the industry means that there are few choices for talented people to work for.

Both companies develop talent in house. Televisa, in particular, is a leader in developing talent through its CEA acting school, opened in 1978. Around 80% of its actors have been developed through CEA, some of which have become household names in the Spanish and English speaking world, including Salma Hayek.

TV Azteca for its part has also produced strong talent through its own acting school, and most recently through a cadre of marketable talent developed in its blockbuster song and dance reality show, *La Academia.*

Threat of substitutes

Another significant reason for Televisa and TV Azteca's bargaining power over buyers and suppliers lies in the predominance of television as a media outlet in Mexico. Other advertising media are making inroads, but we believe television is still the most efficient means of reaching a mass audience. (see more on the subject in the section, Defensive broadcast television outlook, later in this report).

Television's predominance is in part thanks to popularity of Mexican broadcast television's Telenovela, a genre of the soap opera in mini-series format. The Telenovela is what keeps Mexicans of all age and income groups tuned in to broadcast television throughout the weekday prime-time, a main driver of advertising revenues.

Televisa also has significant interests in substitute media outlets, such as radio and publishing. In addition, both companies have footholds in alternative media outlets such as internet portals and sport franchises.

High barriers to entry

Competition in the Mexican media industry has been kept at bay given the existing structural, technical, and legal barriers to entry.

Private Mexican television broadcasting began in 1950. Telesistema Mexicano, a Televisa predecessor began consolidating local television stations, and in 1972 acquired a rival, Television Independiente de Mexico, to form Televisa. Other broadcast stations remained mostly in government hands, and in 1993, TV Azteca was formed and privatized from Imevision with concessions for two national broadcast channels.

Since then, several attempts have been made to form a third national broadcast network (by Argos Comunicación, and later Telemundo). In each instance, legal issues impeded its formation. Telemundo, instead recently signed a licensing agreement to transmit its content through Televisa. This was widely viewed as a shrewd move by Televisa to keep competition at bay.

Technical issues have also limited the formation of a third private broadcast network. Today, the broadcast spectrum is taken up by Televisa, TV Azteca, and the Mexican government. Further spectrum auctions or privatizations are not currently on the government agenda, and we consider these unlikely to occur.

Defensive broadcast television outlook

We begin by noting that the Mexican television broadcast industry is not as cyclical as the US broadcast industry. This is because non-discretionary goods make up a larger part of Mexico's broadcast sales mix than in the US.

We also look at the long-term outlook for the television industry in Mexico. We conclude that Television will continue to be a dominant media platform relative to other competing platforms like radio, internet and publishing.

Defensive broadcast advertising sales

Revenues in Mexico's broadcast industry should not fall as much as seen in the US, thanks to the large portion of non-discretionary goods in its overall advertising mix. We believe that at least 65% of broadcast advertising in Mexico comes from consumer non-discretionary goods (like food and personal care products). A further 7% comes from the highly competitive mobile telecom market, and only 6% comes from the auto industry.

In contrast, 33% of 2007 US broadcast advertising revenues alone came from the highly cyclical US auto industry, according to a 2008 Standard & Poors report based on data from the Television Bureau of Advertising. A further 16%-24% of advertising comes from other discretionary sectors such as furniture, restaurants, travel, and leisure.

Our understanding is that non-discretionary goods advertising remains strong even during downturns because of the ongoing consumption of these goods. Otherwise, brands that reduce their advertising will lose market share to competing brands that continue to stay in the consumer's eye. Our conversations with companies in the food and personal care product sectors tended to confirm this view.

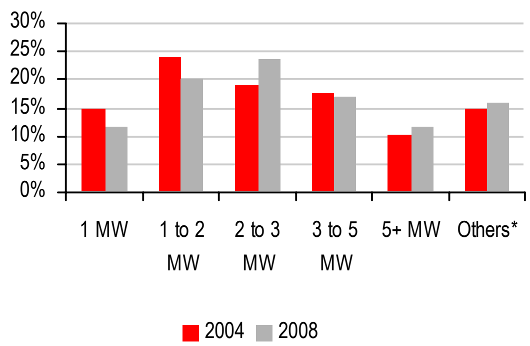
Thus we expect that Televisa's and TV Azteca's broadcast revenues could still grow between 0% and 1% in 2009, and 2% to 4% in 2010 , based on HSBC's current expectations of a -1.4% contraction in Mexico's GDP in 2009 and 1.8% growth in 2010.

Low income population determines defensive broadcast product advertising mix

The high proportion of non-discretionary goods in Mexico's overall advertising revenues mix is largely the result of a low income population.

Mexico has a population of 106m, of which 43m (41%) inhabitants make up the country's labor force. As of 3Q08, about 31m or 72% of Mexico's workers are segmented in the low-middle income class earning less than 5 minimum wages per day (approximately USD17.5/day – see graph below).

Mexico's minimum wage distribution as % of labor force



Source: INEGI

This large part of the population has less income to purchase discretionary items, so consumption and advertising is focused on non-discretionary items rather than on big ticket discretionary items, like cars and appliances.

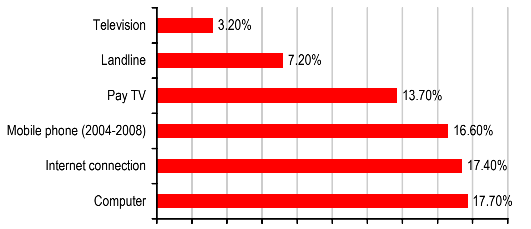
In light of the current economic downturn, several of the consumer goods' companies that we spoke with suggested that they were likely to increase prices on premium product brands, and rebalance advertising efforts without necessarily reducing advertising overall expenditures. We have also heard anecdotes of other non-discretionary consumer goods companies who are not expected to reduce their advertising during the downturn.

Media distribution: TV is still number one

In the long term, we do not expect television's importance as the preferred advertising medium to decline much in Mexico, relative to the declines seen in developed countries.

According to information published by INEGI, broadcast television is still the leading media distribution platform in Mexico. This is the case despite higher growth rates in other platforms like the Internet and pay TV.

Mexican Household IT growth, 2001-2008



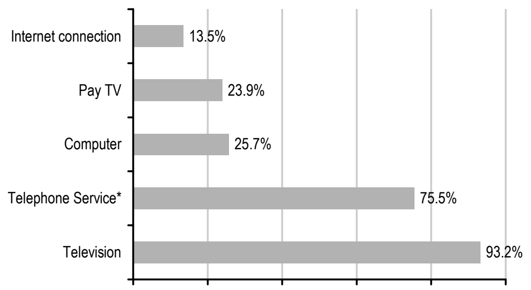
Source: INEGI Survey: Availability and use of IT services in the Mexican households, 2008

Broadcast television continues to dominate as a result of the low relative household penetration of other media platforms in Mexico.

For example, as of early-2008, only 13.5% of Mexican homes had an internet connection, and only one out of every four households has a computer (see chart on next page). This is roughly in line with similar economies like Brazil, Argentina, and Chile, with penetration rates of 16.9%, 9.1%, and 10.2%, respectively. In developed countries like the Netherlands and Switzerland, the percentage of households with computers and Internet access exceeds 70%.

In contrast, of 27.8m households in Mexico, 93.2% of them have a television set, according to INEGI. Thus, television still continues to be the best means for advertising to reach a mass population in Mexico (see graph below).

Percent of Mexican households with media services, 2008



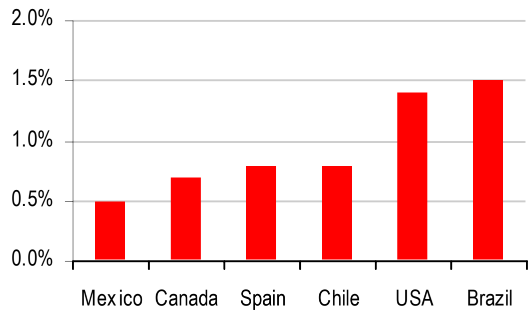
Source: INEGI Survey: Availability and use of IT services in the Mexican households, 2008. *Includes landlines and mobile phones

Low ad expenditure in Mexico

Long term growth opportunity

Mexico is often cited for its low levels of advertising expenditures to GDP (0.5%) compared to other developing and developed economies (see graph below). The comparison invites arguments in favor of an increase to levels seen in comparable countries, which we believe would greatly benefit both Televisa and TV Azteca over the long term.

2007 Advertising expenditure per country / GDP

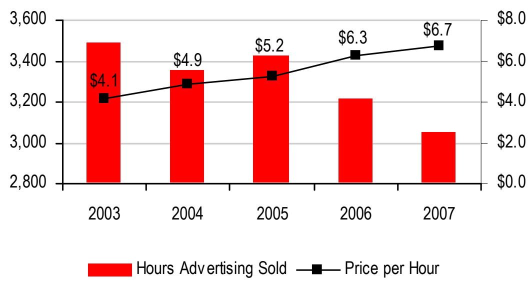


Source: Company data, AMAP

Recent growth in the overall Mexican broadcasting industry has grown at very respectable rates, given that it is a relatively mature industry. However, this growth has been largely driven by Televisa's pricing power (TV Azteca passes these increases onto its clients as well), but not necessarily because demand for advertising is increasing.

In the following graph and table, we estimated a price index based on revenues from Televisa's TV Broadcast business and hours of advertising sold during the year. We believe these price increases come from Televisa's pricing power (as the market leader), and also because in 2004, the company switched pricing to a price per rating point scheme (similar to what TV Azteca already had in place). As a result, Televisa has in recent years significantly raised its advertising prices (see graph and table below). However, price increases have their limits; and we believe further revenue growth will have to come from increases in demand for advertising.

Televisa hours advertising sold & estimated price per hour



Source: Company data & HSBC estimates

Televisa broadcast revenues & price per hour*

MXN	2003	2004	2005	2006	2007
Sales (m)	14,462	16,448	17,947	20,270	20,576
Hours Advertising	3,491	3,357	3,425	3,216	3,050
Price per Hour	4.14	4.90	5.24	6.30	6.75
Change in Prices		18%	7%	20%	7%

Source: Company data & HSBC estimates *Price per hour is estimated. Actual prices charged per minute/hour of advertising vary by season and time slot..

Drivers of advertising demand

We believe that advertising demand is affected by the purchasing power of a country's population, as well as the level of internal competition that drives competing companies to buy advertising to increase their market shares.

As per 2007 IMF estimates, Mexico already has among the highest PPP-adjusted GDP per capita ratio of the major Latin American economies (see graph on next page). Measured by the Gini coefficient (a statistical measure of dispersion frequently used to measure income inequality across countries), Mexico also has a better income distribution than other countries like Brazil, Argentina, and Chile (see table below).

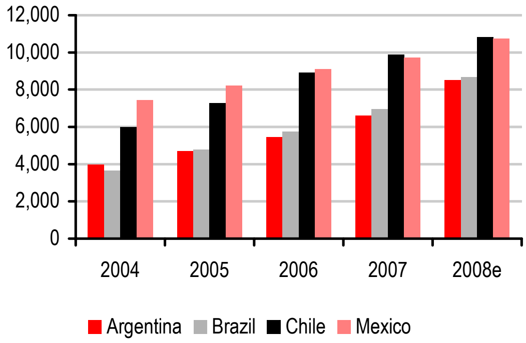
This means that average consumption levels in Mexico should drive sufficient demand for goods and services to warrant levels of advertising expenditure comparable to similar economies. Be that as it may, exceptions do exist. Canada, for example, has a higher GDP/capita and Gini coefficient than any major Latin American country, but a comparatively lower advertising expenditure to GDP ratio (0.7% vs. our sample Latam average of 0.93% - see Ad Expense/GDP graph on previous page).

Mexico's Gini (Income Inequality Coefficient)

	2007
Mexico	46.1
Argentina	51.3
Chile	54.9
Brazil	57.0

Source: UN

Nominal GDP per capita in USD



Source: IMF

We believe low levels of internal commercial and industrial competition partly explain Mexico's low advertising expenditure to GDP ratio. Several indicators compiled by the World Economic Forum's (WEF) Competitive Rankings tend to support our view.

The WEF indicators in the following table show that Mexico does in fact lag in areas that we believe affect levels of advertising expenditure, versus other major Latam countries. In the same table, Mexico consistently ranks in third or fourth place in each of the given indicators.

Nonetheless, since Mexico signed NAFTA and other bi-lateral trade agreements, trade and commerce has opened up a raft of new markets and products for advertisers to chase consumers with, driving increasing advertising expenditure.

WEF Competitive indicators - Global rankings

Indicator	Argentina	Brazil	Chile	Mexico
6.0 Goods Market Efficiency	122	101	26	73
6.1 Local Competition	109	43	19	78
6.2 Market Dominance	84	32	57	103
6.3 Anti-Monopoly Policy	106	36	25	92
11.0 Business Sophistication	71	35	31	58
11.1 Local Supplier Quantity	62	13	20	55
11.2 Local Supplier Quality	65	41	29	46
11.8 Extent of Marketing	43	27	19	53
12.0 Innovation	98	43	56	90

Source: World Economic Forum, The Global Competitiveness Report 2008-2009. Global rankings; the lower the score, the better the country's performance in the given area.

For example, in the 1980s, there were few choices for consumers who wanted to buy simple items like toothpaste or yogurt, and packaging was bland. Today, there are almost as many choices for consumers to choose from as can be found in many developed countries, and packaging and advertising is increasingly catchy and sophisticated.

However, there are still pockets of industrial and commercial activity within industries that we believe may be opened up to greater competition, which could further fuel increases in advertising expenditure.

One such industry is the fixed line telecom sector, which still limits foreign ownership to 49%. If Mexico's congress takes up measures aimed at allowing full foreign ownership of domestic telecom companies (which it put off after being on the agenda in December 2008), investment and competition in this highly concentrated sector could increase. We would then expect to see an increase in competing advertising, as has also occurred in the mobile telephony market.

Thus, we believe that in the long run, growth in advertising expenditures to GDP could increase as the Mexican economy opens up to greater commercial and industrial competition.

US Hispanic market

We believe the US Hispanic market holds a great deal of long term promise for both Televisa and TV Azteca. Favorable demographics and increasing purchasing power should continue to drive above average growth rates compared to the broad US media industry.

Televisa and TV Azteca both have a presence in this market. Televisa licenses its programming for transmission through Univision and TV Azteca has its own broadcast network. Both companies' signals are also transmitted in the US through pay TV networks.

Strong purchasing power potential

From an estimated population of 47.8m in 2010, the US Census Bureau estimates the US Hispanic population will reach 73m by 2030. This would represent 23% of the overall US population in 2030, from 15% today. By 2050, the Hispanic population could reach 30% of the total US population (see table below).

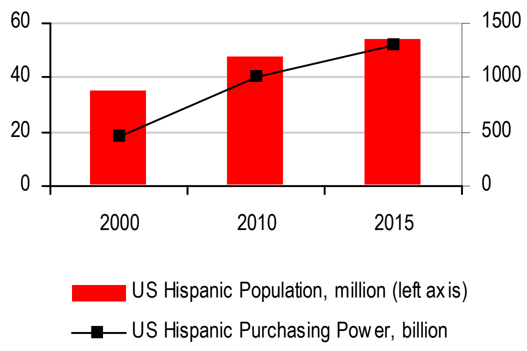
Hispanic presence in the US population

	2010e	2030e	2050e
Total U.S	310,233	373,504	439,010
Hispanic	49,726	85,931	132,792
Percentage change			
Total U.S		20.4%	17.5%
Hispanic		72.8%	54.5%
Percentage of total population			
Hispanic	16.0%	23.0%	30.2%

Source: US Census Bureau

During this time, US Hispanic purchasing power is also expected to continue to increase substantially. Purchasing power is expected to have doubled from USD456bn in 2000 to USD985bn in 2010e, according to Global Insight. During the same period, the Hispanic population is expected to have grown 35.4%. By 2015e, purchasing power could reach USD1,300bn, with a population of 53.8m (see next chart).

US Hispanic population & purchasing power



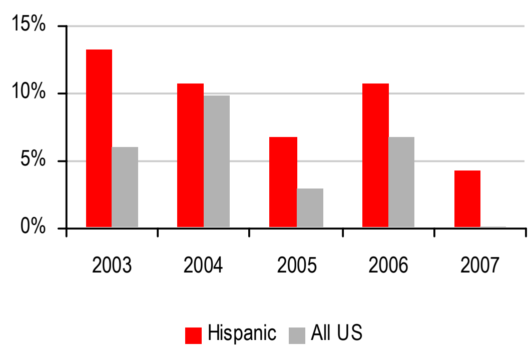
Source: Standard & Poors,, Global Insight

We expect to see Hispanic purchasing power to continue increasing at a faster pace than its population growth rate for at least the next five to 10 years. This is largely the result of our assumption of a new generation of Hispanic adults obtaining better paying positions than former generations did.

Growth in US Hispanic advertising

According to *Advertising Age*, all US Hispanic media has grown 54% between 2003 and 2007, outpacing the overall US media industry with growth of 24.8% over the same period (see graph that follows).

US Hispanic media vs. all US media growth, 2003 - 2007



Source: Ad Age

Long term growth in the Hispanic advertising segment should continue to outpace the general US market, largely due to the growth in this segment's population and purchasing power outlined above.

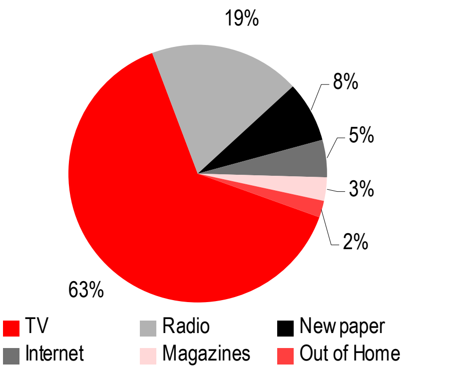
Television also continues to be the dominant media outlet for advertising in the Hispanic market, even though its recent growth is slower than other media outlets like the internet.

In 2007 for example, 63% of Hispanic media advertising expenditure was through television, having grown 3% over the year before. Internet advertising grew 36% from the year before, but it accounted for just 5% of total Hispanic advertising expenditure (see graph and table below).

Hispanic television programming is key

In our view, the above average growth of the US Hispanic population and its purchasing power means that Spanish language and Hispanic-oriented programming will be a major driver of television advertising revenues in the years to come.

US Hispanic media ad spending, 2007



Source: Ad Age

Hispanic media ad spending, 2006-2007

USDm	2007	2006	% Growth
TV	2,496	2,424	3.0%
Radio	745	726	2.7%
Newspaper	310	303	2.3%
Internet	180	132	36.3%
Magazines	111	100	10.4%
Out of Home	86	84	2.7%

Source: Ad Age

This is already evident with Univision's ratings and audience success, not just among Hispanics, but also relative to all major US networks.

According to *Entertainment Weekly*, *Cuidado con el Angel*, a Telenovela produced by Televisa and aired in the US by Univision, has an average nightly audience of 4.7m viewers, beating out prime-time offerings from other major US networks. Together with *Fuego en la Sangre* (another Televisa production aired after *Cuidado con el Angel*), Univision beat all five English US networks in the 18-34 age category.

Moreover, the Telenovela is not a strictly Hispanic phenomenon either. *Ugly Betty*, which aired on ABC was a hit adaptation of a Colombian Telenovela (*Yo soy Betty, la fea*). Although its format was altered to a night-time comedy, we believe its popularity proved the cross cultural appeal of the Telenovela, campy as it may sometimes be.

Fundamentally, we believe those media companies best able to successfully execute programming for the increasingly important US Hispanic demographic should reap large long term gains.

Telecom convergence

Triple-play bundled services in Mexico have just begun to gain traction. The Mexican cable industry began rolling out the earliest triple play services in 2006. 2007 and 2008 were a period of consolidation, and growth is expected to increase rapidly in 2009 and 2010.

So far, we believe the cable industry has had the advantage in terms of triple play roll out. Maxcom is currently the only fixed line telecom provider offering voice, data, and television services. However, it is a small player with only 2% of the fixed line market. Telmex, Mexico's incumbent fixed line player has not yet received regulatory approval to offer pay TV. Axtel, meanwhile, is still rolling out its WiMax network and we believe may eventually offer hybrid pay TV (through a third party) instead.

As a result, we believe the cable TV companies have an opportunity to take a significant lead in the market for bundled telecom services.

Megacable, Cablemas, and Cablevisión, the three largest cable operators in Mexico (the latter two are consolidated by Televisa), have already seen combined estimated revenue growth of 27% in 2007 from the year earlier. We believe that combined revenues from Cablemas and Cablevision will see yoy growth of 45% in 2008e when Televisa published its 4Q 2008 results in late February, and close to 13% in 2009e.

Even during the economic downturn, bundled triple play services should continue to grow significantly. Consumers could save 15% to 30% on costs through bundled services, rather than obtaining voice, data, and pay TV services through various providers. This may appeal to the average low to mid-income Mexican household, as cutting expenses takes priority during 2009.

Low cable TV penetration, strong growth

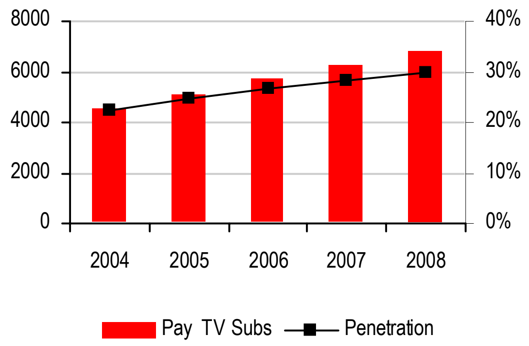
We believe that pay TV penetration in Mexico is still relatively low. This should create long term growth opportunities for the cable TV industry.

Measured by pay TV subscriptions per thousand inhabitants, Mexico has a 6.4% penetration level as of June 2008, with CAGR of 10.3% over the last four years, according to the most recent data available from COFETEL.

In terms of pay TV subscriptions per household with television sets, Mexico has a pay TV penetration rate of c30% as of June 2008.

Using this metric, pay TV subscriptions have seen a CAGR of 10.6% (see next graph).

Pay TV subscriptions per households with TV sets



Source: Company data

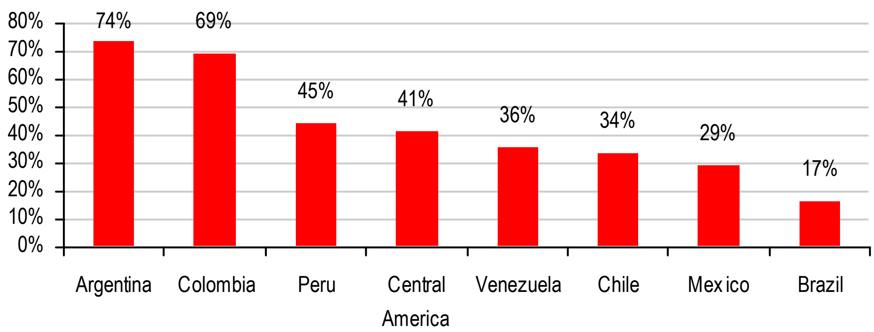
According to data published by the Latin America Multichannel Advertising Council (LAMAC), a pay TV industry trade group, Mexico's pay TV penetration is also well below the Latin American average (29% vs. an average of 43% - see graph, top next page).

This contrasts with the US, where according to a Gartner Research press release, pay TV penetration in 2006 was 82% of all US households.

Perhaps more importantly, though, is that cable pay TV has been growing faster than competing satellite DTH and microwave (MMDS) systems over the last four years. Cable TV also has the largest market share of pay TV services in Mexico (see graph below).

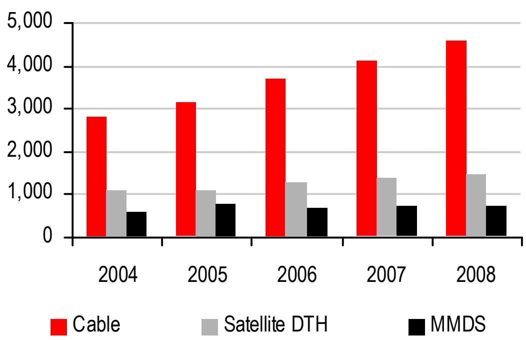
In particular, cable TV subscriptions have seen CAGR between 2004 and 2008 (mid-year) of 13%. Satellite DTH and MMDS have seen CAGR of 8% and 4% over this period, while overall pay TV subscriptions have grown 11%.

Pay TV penetration in Latin America, 2008e



Source: LAMAC with data from Nielson & IBOOPE

Pay TV subscriptions in Mexico, 2004 to 2008



Source: COFETEL

We believe cable TV subscriptions should continue to grow at a fast pace relative to satellite DTH and MMDS, thanks to the triple play convergence. We expect prospective pay TV clients to weigh the possibility of obtaining pay TV, data, and voice services in an all-in-one lower priced package through cable TV operators, versus obtaining these services through various providers at a higher average price.

Competition with Telco operators

Telmex's potential entry into the triple play game could alter competition in this market. Depending on the strategy it uses, it could either destroy profits for all players, or increase an under-penetrated pay TV market take if it sticks to a rational strategy. In our view, there is room for all players to obtain a profitable "piece of the pie" without disrupting each other's target market.

For example, Televisa has the programming content to compete for middle to high income households with a regional reach (including Mexico City). Telmex has a national reach, but it may not have sufficient content to appeal to higher income households. The Telecom/TV market in Mexico could therefore avoid a disruptive price war if all players follow rational strategies and compete in markets where they have an advantage.

Nonetheless, in case Telmex were authorized to offer pay TV, given its size and resources it may decide to forgo a rational competitive strategy and attempt to use its sheer size to take Televisa, Megacable, and other cable operators on directly in pay TV services. While we believe this is unlikely, such a move could seriously disrupt the market and lead to lower profits for all players.

Sector valuations

Valuations in the global wide media sector have been falling since mid 2007 in anticipation of the slowing economic environment, to no surprise.

Mexican media 2009e EV/Fwd EBTIDA multiples are also now well off recent highs: Televisa and TV Azteca are trading c44% and c41% below their respective peaks.

Our sample of global diversified and broadcast media peers is also now trading at an average of 5.7x 2009e EV/Fwd EBITDA, reflecting lower revenues and growth rates (see comparables table on page 2 of this report).

With this in mind, we believe current Mexican media valuations reflect the following:

- **Growth.** Companies with superior growth prospects are still commanding premium multiples, as is the case with Televisa. Premium multiples are no longer just about stronger-for-longer emerging market growth potential; they are now about tangible growth in a contracting global economy.
- **Safety.** Broadcasting revenues are fairly sensitive to the economic cycle, but not equally so in every country. Mexico boasts among the largest media companies in the Spanish-speaking world, and its broadcast revenues could be much more defensive than those in developed economies

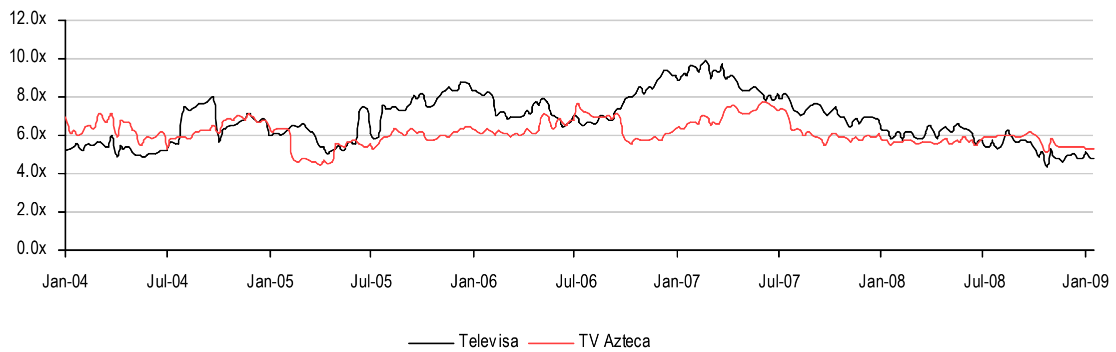
Thus, in looking at our comparables table (front inside cover of this report), we find that Televisa is trading at a slight premium to its Latam peers, and in line with global peers. Based on our DCF and EV/12m Fwd EBITDA valuation of the company, we still see attractive upside potential. So the market seems willing to pay premium multiples for growth and defensive revenues. TV Azteca's multiples tell a similar story, albeit without the premium for growth. As its revenues could also be defensive, it is trading at P/E and EV/Fwd EBITDA multiples close to US media peers including broadcast and diversified media.

We feel Televisa and TV Azteca could be trading at higher multiples (see Valuation section in each company's individual section) near end-2009. This could happen once its defensive revenue characteristics are evidenced and an economic recovery appears over the 2010 horizon.

Televisa and TV Azteca's strong multiples are also supported by what we believe is a solid media sector industry profile, which should ensure attractive long term profitability.

Lino Camargo contributed to this report. Mr. Camargo is employed by a non-US affiliate of HSBC Securities (USA) Inc., and is not registered-qualified pursuant to NYSE and/or NASD regulations.

Televisa & TV Azteca EV/12m Forward EBITDA



Source: Bloomberg, Company data & HSBC estimates

Grupo Televisa

- We are initiating coverage of Televisa with a 12-month target price of MXN50.6 per CPO (USD16.9 for the ADR), representing a total potential return of 43.2% (41% for the ADR) and an Overweight (V) rating.
- Televisa's businesses are well placed in its markets; its Cable TV & Telecom unit has significant near term growth opportunities; the US Hispanic market and the potential increase in ad spend in Mexico are also good long term opportunities.
- Televisa has a solid balance sheet with a net cash position of cMXN1,044bn, which under current economic times is a major plus.

Investment thesis

Initiating at Overweight (V)

We are initiating coverage of Grupo Televisa (TLEVISA.CPO) with a 12-month target price of MXN50.6 per CPO, for a total return of 43.2%. Based on our research rating model, our rating is Overweight (V) with a volatility flag (as of closing price, 18 February 2009).

Our 12 month target for the ADR (NYSE: TV), which is based on an end-2009 MXN/USD exchange rate expectation of MXN15 per USD, is USD16.9, which gives a total 41% potential return, including dividends.

We calculate our target prices using equal weighted EV/EBITDA multiples and a discounted cash flow to equity model.

We expect Televisa to weather the economic downturn well, as its broadcast revenues are much more defensive compared to the US broadcast industry. An increasing part of its revenues also come from the fast growing Cable TV & Telecom unit, which is expected to significantly boost Televisa's overall revenue growth in 2009 and 2010.

We like Televisa because of its enormous scale, efficiency and profitability. It is also the larger of the two media companies in Mexico. Given its near term growth opportunities, Televisa could come out of the economic downturn a stronger company than it was before the downturn began.

Investment positives

Highly profitable media conglomerate

Televisa is a diversified media conglomerate, but has not sacrificed profitability – it has produced consistently high margins and shareholder returns compared to the global media industry.

For example, Televisa's revenues have seen 12.6% CAGR between 2004 and 2008e, and its 2008e EBITDA margin is 40.9%. This compares favorably to a sample of US and global diversified media and broadcasting companies, whose revenues had average 2004 to 2008e CAGR of 4.6%, and average 2008e EBITDA margins of 27% (see table below).

Televisa revenues & EBITDA margins vs. peer group

	Revenue CAGR 2004-2008e	EBITDA % 2008e
Media Peer Group	4.6%	27.0
Televisa	12.6%	40.9

Source: HSBC estimates & Thomson. Peer group includes Time Warner, Newscorp, CBS, Telecinco and Vivendi.

Televisa has also generated average ROE's of 21% since 2004; a positive spread over an estimated 11.7% cost of equity, and an indicator of positive shareholder value creation over the years. For 2009, we expect a ROE of 16%, in part from lower revenue growth, higher costs, and the consolidation of Cablemas (a less profitable cable operator, but one that strengthens Televisa's overall cable business).

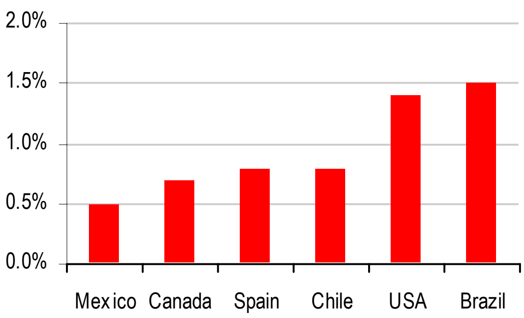
Strong growth opportunities

Televisa's businesses are strategically well-positioned in their sectors. We believe they could benefit from secular and long term growth trends:

- **Cable TV & Telecom.** Secular growth driven by the telecom convergence and expected favorable regulation should boost revenues strongly in 2009-2010. Mexico's emerging middle class may be attracted to recent launches of lower priced triple play packages (at estimated 15-30% savings vs. unbundled services by various providers).

- **Television broadcasting.** As the larger of Mexico's two media companies, Televisa stands to benefit from a potential secular increase in advertising spend, which is low in Mexico compared to other countries (see next graph).

Advertising expenditure per country / GDP, 2007

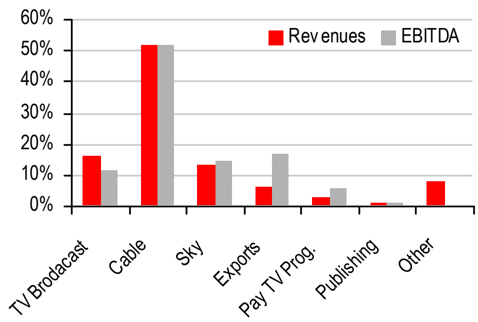


Source: Company data, AMAP

- **US Hispanic market.** This market is poised to grow well above the US average in the following decades. Televisa's programming is highly popular among US Hispanics and should drive high returns from this market (see sector overview).

We expect consolidated revenue and EBITDA CAGR of 9.2% and 8.7%, respectively, for 2009e and 2010e. This growth will be driven mostly by the Cable TV & Telecom business. Estimated growth in other key business units like TV Broadcasting and Sky is not negligible either. The graph below shows contribution by business unit to the aforementioned expected revenue and EBITDA growth over the 2009 and 2010 period.

Share of 2009e-10e growth by business segment



Source: HSBC estimates

Defensively positioned revenues

We find that Televisa's TV broadcast revenues are much less cyclical than those of comparable broadcast companies in the US. We believe Televisa's Cable TV & Telecom revenues are also poised to grow substantially on the incipient triple-play market in Mexico, and a full year of Cablemas' consolidation (originally consolidated in late 2Q 2008). We therefore expect an increase of 8.8% in Televisa's overall revenues for 2009e.

The low cyclicality of TV advertising revenues in Mexico is thanks to the larger proportion of consumer non-durable products (personal & home care products, food) in the advertising sales mix.

For example, an estimated 68.5% of Televisa's broadcast advertising sales come from non-durable goods, while the cyclical automotive industry accounts for 6%-8% of sales. In contrast, 33% of US media companies' 2007 TV broadcast revenues came from the automotive industry, according to a 2008 Standard & Poors report, based on information from the Television Bureau of Advertising.

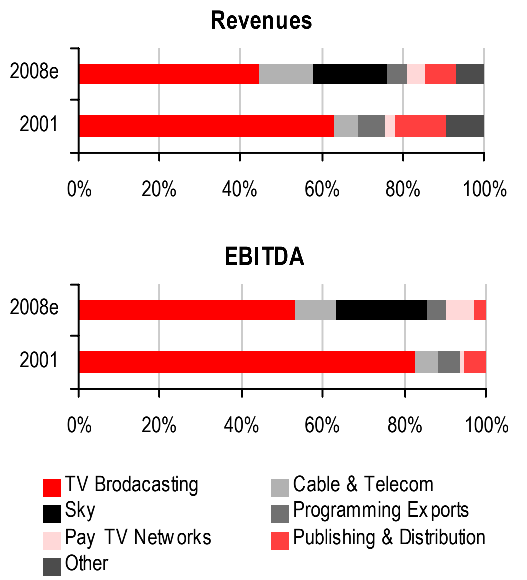
Today, Televisa's TV broadcasting unit also accounts for a smaller proportion of consolidated revenues and EBITDA than it did earlier in the decade (see graph below). Cable TV & Telecom, Sky, and Pay TV Networks units account for an increasing percentage of Televisa's consolidated revenues and EBITDA.

For example, in 2001 TV broadcasting accounted for 63% of revenues and 87% of EBITDA. In 2008e, we expect TV broadcasting to account for 45% of revenues and 53% of EBITDA.

The economic downturn in Mexico may also slightly favor growth in the Cable TV & Telecom business. This is because average savings of 15-30% can be obtained by consumers from switching to bundled triple-play services, which we believe should drive subscriber growth.

As a result, we expect Televisa's overall revenues to be relatively defensive, and look for flat yoy broadcasting revenue growth. The bulk of Televisa's growth should come from the Cable TV & Telecom business, as well as increased revenues in MXN-terms from the recently renegotiated programming license agreement with Univision (whose royalty payments are in USD), thanks to the MXN's recent devaluation.

Televisa revenue & EBITDA concentration, 2001 vs 2008e*



Source: Company data & HSBC estimates. *Other EBITDA was -6% and -1% in 2001 and 2008e respectively

For 2009, we expect Mexico GDP to decline 1.4%, but believe Televisa's overall revenues could increase 9% on a combination of the aforementioned defensive broadcast revenues, strong growth in the Cable TV & Telecom business, and MXN revenues from USD-denominated sales and royalties.

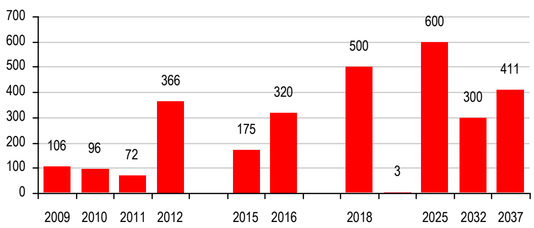
Strong financial position

Televisa has a strong financial position with cash and equivalents of MXN33.3bn as of 3Q 2008 (cUSD2.3bn) and a net cash position of cMXN1.0bn (USD74bn).

It has a conservative debt maturity profile, with payments spread out between 2009 and 2037. We believe the company has sufficient cash and resources to satisfy its near term obligations.

c65% of Televisa's debt is denominated in USDs, but the company has hedged its principal and interest rate payments against fluctuations in the MXN/USD exchange rate.

Televisa's debt maturity schedule (USDm)



Source: Company data

According to new Mexican financial reporting standards on derivatives disclosures, as well as management comments, Televisa´s derivative instruments are for hedging purposes only, and are not used for speculating.

Investment concerns

Worse than expected economic contraction

A major part of our investment case for Televisa is based on strong 2009 to 2010 revenue expectations. Much of this reflects expected growth from its Cable TV & Telecom unit and relatively defensive TV Broadcast revenues compared to the US broadcast media industry.

A worse than expected contraction in Mexico and the US (on which Mexico is highly dependent) could nonetheless force consumer capitulation. For example, instead of switching to lower-priced triple-play packages (which we believe could occur), consumers may altogether cancel cable/pay TV, internet, and even telephone subscriptions.

Such a scenario would affect our expectations for the Cable TV & Telecom unit, which offers triple play services. However, Televisa's Sky Satellite DTH Pay TV, Programming Exports and Pay TV Networks businesses would be impacted as well. In such a case, advertising revenues would be expected to drop considerably too.

HSBC currently expects Mexico's GDP to drop by 1.4% in 2009. We believe our revenue expectations are still reasonable in light of current revenue growth catalysts explained beforehand and expected 1.8% growth in 2010. However, risks are still clearly on the downside and further deterioration could cause us to revise our estimates and target price downward.

Telmex's potential entry into triple play market

Televisa's business portfolio is optimally placed to benefit from growth in the triple play services market. However, Telmex's potential entry into the triple-play market with pay TV services could undermine our growth expectations.

Telmex's potential threat is critical considering our estimate that 50% of Televisa's 2009e to 2010e growth will come from the Cable TV & Telecom business, driven mainly by triple-play services (see graph on page 18).

Yet we would not necessarily expect a disruptive price war in case Telmex entered the pay TV/ triple-play business. This is because players appear to have competitive advantages in different segments. Industry regulators also appear focused on creating an even playing field for all players.

For example, Televisa's cable business has the programming content to compete for middle-to-high income households with a regional reach (including Mexico City). Telmex has a national reach, but it may not have sufficient content to appeal to higher income households.

The latter is partly seen through Telmex's recent joint billing & marketing agreement with pay TV provider MVS, which we believe mostly appeals to lower income households. We understand that MVS' service includes 25-30 channels with a national reach (but excludes popular national over-the-air networks), compared to Televisa's 200+ channels with regional reach (but including over-the-air broadcast networks).

We believe rational competitors will service the market they have a competitive advantage in, with all players taking a profitable "piece of the pie". Nonetheless, should Telmex be authorized to offer pay TV, it could attempt to use its size to take on Televisa and the cable industry directly in pay TV services. By attempting to pay attention to all market segments, we believe Telmex could disrupt the market, leading to a price war.

Valuation

Our 12-month target price is MXN50.60 per CPO for total potential return of 43.2% including dividends. For the ADR, our target price is MXN16.9, which is based on an end-2009 MXN/USD exchange rate expectation of MXN15 per USD. This gives a total return potential of 41%, including dividends.

Under our research model, Grupo Televisa is classified as a volatile (V) stock. Volatile ratings are defined as stocks having historical volatility (defined as the past month's average of the daily 365-day moving average volatilities) of over 40%. As at 18 February, Televisa scored 43.5% on this measure. For stocks with a volatility indicator, the Neutral band is 10ppt around the 12.5% hurdle rate for Mexican stocks. This results in a Neutral band of 2.5% to 22.5% around the share price. Accordingly, our rating on Televisa is Overweight (V).

We use an equal-weighted combination of EV/EBITDA and Discounted Cash Flow to Equity to obtain our target price.

An EV/Fwd EBITDA and DCF valuation framework, in our view, fairly captures both what the market should be willing to pay for Televisa, as well as what the company should be worth based on fundamentals.

For our EV/12m Fwd EBITDA multiple, we use a 6.5x target, which is slightly below Televisa's average of 6.8x over the last five years. This results in a price target of MXN48.47 (see table below). We believe the market will pay higher multiples for Televisa close to end-2009, once growth in its Cable TV & Telecom business is evidenced and an economic recovery gets underway (HSBC currently expects 1.8% growth in 2010).

Televisa EV/12m Fwd EBITDA Valuation

MXNm, except per CPO	Current*	2009e Target
CPO Price	35.89	48.47
Market Cap	87.884	136.097
Net Debt	-0.938	-3.799
Minority Interest	5.135	5.985
EV	92.081	138.283
FY Fwd EBITDA	21.274	21.274
EV / FY Fwd EBITDA	4.3x	6.5x

Source: HSBC estimates. Price as of 18 February 2009

Our DCF valuation is based on a cost of equity of 11.7% (using a risk free rate of 4%, a country risk premium of 8.5%, and a beta of 0.90). We use a perpetual free cash flow to equity growth rate of 2%. We project free cash flow to equity until 2018 and then calculate a perpetuity (see DCF valuation table, next page). This results in an MXN52.83 price target.

In terms of an EV/EBITDA framework, our DCF target represents a multiple of nearly 7.1x. While this is slightly expensive under current conditions, we note that it is still below Televisa's maximum EV/Fwd EBITDA multiple of 9.8x in early 2007.

We believe Televisa's current lower-than-average multiples represent a return to discounted emerging market multiple valuations after a period of premium multiples. In our view, the upside based on our DCF, however, evidences that the growth potential that eventually justified premium multiples for Televisa is still present. Thus, Televisa's multiples could eventually re rate, although we would not necessarily expect them to reach their recent five year highs any time soon.

Relative valuation

In term of relative valuation, Televisa is trading at or above many of its global diversified media and broadcasting peers (see peer valuation table on the inside cover of this report).

We feel this situation is justified, since we expect Televisa to be more defensive than its comparables. Moreover, we believe expected revenue and EBITDA growth for Televisa will be on average higher than for its comparables throughout the 2009-2010 period.

Therefore, we think that Televisa's current multiples reflect the market´s willingness to pay high multiples for high expected growth during the economic downturn.

Sensitivity analysis

The following tables present sensitivities for both our DCF and EV/Fwd EBITDA valuations. The first table is a sensitivity of our DCF target price to changes in cost of equity and perpetual growth rate assumptions.

DCF target price sensitivity table

		Growth Rate				
		1.5%	2.0%	2.5%	3.0%	3.5%
Cost of Equity	10.7%	50.33	51.53	52.86	54.33	55.96
	11.2%	50.32	51.52	52.84	54.31	55.95
	11.7%	50.31	51.51	52.83	54.30	55.94
	12.2%	50.29	51.49	52.82	54.28	55.92
	12.7%	50.28	51.48	52.80	54.27	55.91

Source: HSBC estimates

We also ran a sensitivity analysis with different EV/Fwd EBITDA multiples and varying levels of 2009e EBITDA to determine effects on valuation of different profitability levels. This is relevant given the uncertain economic environment.

EV/Fwd EBITDA multiple and EBITDA sensitivity table

		EV/Fwd EBITDA Multiple				
		5.5x	6.0x	6.5x	7.0x	7.5x
EBITDA MXNm	19.200	36.83	40.25	43.67	47.08	50.50
	20.211	38.81	42.41	46.01	49.60	53.20
	21.274	40.89	44.68	48.47	52.26	56.04
	22.338	42.97	46.95	50.93	54.91	58.88
	23.455	45.16	49.34	53.52	57.69	61.87

Source: HSBC estimates

Televisa discounted cash flow valuation (Nominal MXNm)

	2009e	2010e	2011e	2012e	2013e	2014e	2015e	2016e	2017e	2018e
Net Sales	52,353	54,997	58,197	62,069	65,694	69,704	74,025	81,463	85,903	90,907
Growth yoy %	9.1%	5.1%	5.8%	6.7%	5.8%	6.1%	6.2%	10.0%	5.5%	5.8%
EBITDA	21,274	22,167	23,384	25,060	26,466	28,077	29,842	34,454	35,188	37,445
Growth yoy %	8.3%	4.2%	5.5%	7.2%	5.6%	6.1%	6.3%	15.5%	2.1%	6.4%
EBITDA Margin	40.6%	40.3%	40.2%	40.4%	40.3%	40.3%	40.3%	42.3%	41.0%	41.2%
Consolidated Net Income	9,986	10,672	10,983	11,914	12,509	13,308	14,126	16,319	16,662	17,733
Non Cash Charges	5,451	5,698	6,410	6,635	6,867	7,107	7,356	7,613	7,880	8,156
Cash From Working Capital	-1,775	-900	-574	-594	-615	-636	-658	-681	-705	-730
Capex	-4,000	-4,170	-4,343	-4,495	-4,652	-4,815	-4,983	-5,158	-5,338	-5,525
FCFE	9,662	11,299	12,477	13,460	14,110	14,965	15,840	18,094	18,498	19,634
Terminal Value										207,529
Discount Factor	1.12	1.25	1.39	1.55	1.73	1.94	2.16	2.41	2.70	3.01
Discounted FCFE	8,654	9,064	8,965	8,662	8,132	7,725	7,324	7,493	6,861	75,466
Equity Value	148,347									
CPO's Outstanding	2,808									
Target Share Price	52.83									

Source: HSBC estimates

Finally, we combine the prices in the previous sensitivity analyses around our target price (shaded in grey in the following table) based on our equal weighted EV/Fwd EBITDA and DCF valuation framework. This derives a mix of target prices based on the previous sensitivity scenarios.

Blended composite EV/Fwd EBITDA & DCF target prices

43.58	45.89	48.26	50.71	53.23
44.56	46.96	49.42	51.96	54.58
45.60	48.09	50.60	53.28	55.99
46.63	49.22	51.87	54.60	57.40
47.72	50.41	53.16	55.98	58.89

Source: HSBC estimates

Risks to investment thesis

Upside risks

- Faster than expected economic recovery would favor company sales and reduce concerns about the impact of lower GDP growth on Televisa's broadcast business.
- Continued delays in Telmex's potential approval to offer pay TV and bundled triple play services would favor Televisa and Mexico's cable industries penetration of the triple play and telephony market.

Downside risks

- A longer than expected economic downturn could force the Mexican consumer to capitulate, despite his resilience to date. This may negatively affect consumption and therefore advertising expenditure.
- Greater than expected competition from Televisa's broadcast rival, TV Azteca, whom we believe is stepping up efforts to recover lost market share.
- Telecom services consumer's reticence. Mexican consumers may resist switching telecom service providers on brand loyalty by more than we expect. This could negatively impact our Cable TV & Telecom subscriber growth estimates.
- Greater than expected competition from Telmex (if it is granted authorization to offer pay TV), reducing our ARPU, subscriber growth, and revenue estimates.
- Despite its small size, Televisa's gaming and lottery business has garnered much investor attention. Poorer than expected performance could weigh negatively on investor sentiment.
- Televisa's non-consolidated investments in low cost carrier Volaris and Spanish broadcast network La Sexta face difficult operating and competitive environments. They may require further capital increases, like Televisa's recent EUR52m cash injection into La Sexta, taking its total stake to EUR265m.

Earnings outlook

Revenues

For 2009, we expect overall revenues of MXN52,353m, 9.1% over expected full year 2008e revenues. Although this seems high given the current economic environment, we again note that much of this growth is from the effect of Televisa's late 2Q 2008 consolidation of Cablemas, as well as the expected growth of its overall Cable TV & Telecom business for 2009-2010. Also, the MXN's recent depreciation should offset slowing USD revenues from Televisa's Programming Exports & Pay TV Networks businesses in the US.

EBITDA & Operating profit

We expect an EBITDA and operating profit of MXN21,274m and MXN16,464m, respectively, (margins of 40.6% and 31.4% for 2009. In terms of margins, these are modest declines from 2008e on account of high recent costs and slower revenue growth. This margin contraction does not bother us though, as we think it is part of the economic cycle and not a systematic loss in company profitability. However, the MXN's recent depreciation could increase USD costs by more than we expect, further reducing margins.

EBITDA and operating profit margins could begin to recover again in 2011.

Televisa earnings summary 2008e-2010e & 2009e consensus

MXNm	2008e	2009e	2010e	2009e
Net Sales	47,991	52,353	54,997	52,411
EBITDA	19,642	21,274	22,167	21,077
EBITDA Margin	40.9%	40.6%	40.3%	40.2%
EBIT	15,309	16,464	16,812	16,215
Majority Net Income	7,500	8,289	8,857	9,200
EPCPO (MXN)	2.67	2.95	3.15	3.40
12m target price		50.60		58.8

Source: Company data, HSBC estimates & Thomson

Comparison to consensus

Our operating estimates are comparatively close to current Thomson consensus. Our net sales estimate is 0.1% below expected 2009e sales. We expect that costs will remain relatively high in 2009 and 2010, on the back of a run up in COGS and SG&A between 2007 and 2008 and the Peso's depreciation. Nonetheless, we note that our EBITDA figure is still higher than consensus; our 2009 EBITDA margin is 40.6% vs. a consensus estimate of 40.2%.

In terms of bottom line performance, we expect and EPCPO of MXN2.95 vs. MXN3.40 from consensus (15% lower).

Our target price for Televisa's CPO is MXN50.6 vs. the Street's current expectation of MXN58.8 (Thomson).

For the ADR, our target price is USD16.9, vs. a consensus of USD22.78 per ADR. Our current end-2009 MXN/USD exchange rate expectation is MXN15 per USD.

The company: Strategy & business outlook

Description

Grupo Televisa SAB is a diversified media conglomerate and the largest television broadcaster in Mexico. It is also the largest producer of Spanish speaking media in the world and an important global wide media player.

Mr. Emilio Azcarraga Jean is the company's Chairman and CEO. He and a group of tightly-knit associates have turned Televisa from a lumbering giant with large amounts of debt into a modern, professional and profitable media enterprise focused on cost efficiency and growth.

Group structure

Operationally, Televisa is divided into key business segments such as TV Broadcasting, Cable TV & Telecom, Sky DTH Satellite TV, Programming exports, Pay TV Networks and Publishing. It also has interests in radio, sports franchises and promotion, and gaming.

Today, no one business accounts for more than 50% of revenues or more than 60% of EBITDA (see graph on page 18). Although the Television Broadcasting business is still the major contributor to Televisa's top line, a growing proportion of revenues and EBITDA come from other business lines, especially the Sky Satellite DTH and Cable TV & Telecom businesses.

Television broadcasting

2008e: 45% Sales, 54% EBITDA

Televisa is the leading producer of Spanish television media in the world. It is the largest broadcaster in Mexico, with 70% share of the advertising market, and a similar share of nationwide audience. This business is 100% owned by Televisa, and is its largest single revenue source.

The company operates four broadcast networks, of which two transmit nationwide. It has 220 wholly or majority owned affiliate stations, and another 34 independent stations that transmit its signals throughout Mexico (see table below).

Televisa's broadcasting business strength lies in its enormous scale, operating efficiency, and its ability to turn out highly-rated Hispanic talent and programming. It has also successfully exported its television programming around the world.

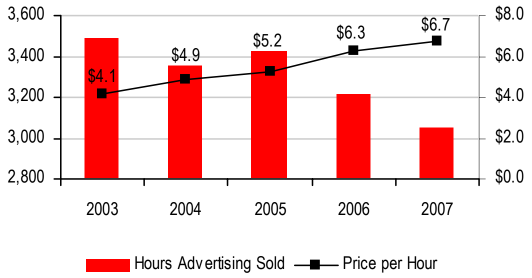
We believe that Televisa competes on scale and cost, whereas its smaller competitor TV Azteca is a product differentiator with a slightly different target market. This industry structure should be stable and allow high long term revenues and margins for both players over the long run without competitive disruptions.

Scale, efficiency & competitiveness

As the leading broadcaster in Mexico, Televisa sets the rules of the media industry game, most importantly as the advertising minute price setter.

Since establishing its prices based on a cost per rating point system beginning in 2005, Televisa has been able to increase its advertising prices and revenues while reducing the total amount of hours it programs for advertising (see graph and table below).

Televisa broadcasting hours advertising sold & price per hour



Source: Company data & HSBC estimates

Televisa broadcasting hours advertising sold & price per hour

	2003	2004	2005	2006	2007
Broadcast Sales	14,462	16,448	17,947	20,270	20,576
Hours Advertising	3,491	3,357	3,425	3,216	3,050
Price per Hour,	4.14	4.90	5.24	6.30	6.75
Change in Prices		18%	7%	20%	7%

Source: Company data & HSBC estimates

The preceding graph is a price index of Televisa's price per hour of TV advertising. The actual price per minute of advertising varies by season and time slot, but we believe the index is representative of trends in Televisa's pricing over the last several years.

Televisa broadcasting networks – Description

Channel	Affiliate Stations	National Reach (%)	Audience Share (%)	Programming Description	Target Audience	Total Televisa Audience (%)
2	128	99%	34%	Televisa's Flagship. Telenovelas, News, Variety, Reality & Sports. Majority produced by Televisa	Middle Income Family	52%
4	65	92%	17%	Reality Sitcoms, Drama, Movies, Children's Shows. Majority imported from US	18-34 Year olds	48% (Channels 4,5 & 9 combined)
5	-	23%	8%	News, Comedy, Sports produced by Televisa. Foreign Movies. Mexico City only audience	Young Adults, Stay at Home Parents	
9	28	72%	11%	Movies, Sports, Sitcoms, Channel 2 re runs	Middle Income Family	

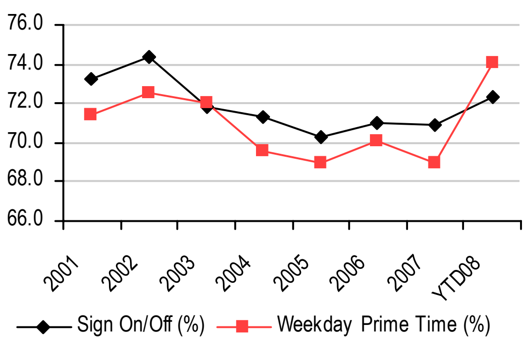
Source: Company data & HSBC estimates

Thanks to its ability to raise prices, Televisa's television broadcast business has been a strong performer over the years, especially for a relatively mature industry, with sales and EBITDA increasing a CAGR of 6.9% and 9.12%, respectively, between 2004 and 2008E.

TV broadcast EBITDA margins are also high, averaging 50% in the last three years. This is a result of high operating and production efficiencies, especially in the production of Telenovelas, the main driver of lucrative prime-time earnings and ratings.

Televisa's broadcast advertising market share and ratings has also recently increased against its main competitor, TV Azteca. Today, Televisa's advertising market share stands at c70% versus 66% in 2004. Audience shares have also gradually increased, recovering from recent lows between 2004 and 2007 (see graph below).

Televisa broadcasting: Average audience shares



Source: Company data, IBOPE

The company's increasing market and audience shares will be especially important during the present economic downturn. It should give Televisa additional leverage to negotiate pricing for 2009.

Defensive revenues

We are optimistic that revenues from this segment will be relatively defensive based on the low proportion of cyclical goods' advertising in its sales mix. Broadcast TV also continues to be the preferred advertising medium in Mexico (please see our Media Sector report in this publication for more detail).

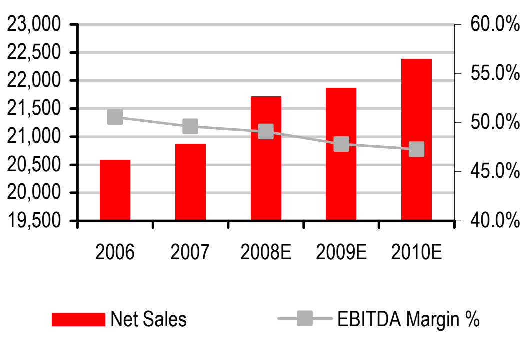
We also point out that broadcast TV viewership tends to increase during economic downturns, as consumers seek less expensive entertainment. This should only partially offset declining broadcast revenues, but at least provide some counter-cyclical strength to the industry.

Estimates

We expect the economic downturn to slow respective revenues and EBITDA growth to 0.7% and -1.9% in 2009. For 2010, HSBC currently estimates 1.8% GDP growth, which could translate to revenue and EBITDA increases of 2.4% and 1.3% respectively in that year. The high percentage of non-durables in Televisa's advertising sales mix may mitigate falling advertising spend seen in developed markets.

EBITDA margins may decline slightly in 2009 (130 bp approximately) from present levels, but should remain high thanks to the company's pricing power and efficiency (see chart below).

TV broadcasting revenues (MXNm) & EBITDA Margin



Source: Company data & HSBC estimates

TV broadcasting revenues and & EBITDA margin (MXNm)

	2007	2008e	2009e	2010e
Net Sales	20,872	21,715	21,864	22,385
Growth yoy	1.4%	4.0%	0.7%	2.4%
Cash Costs	10,516	11,056	11,409	11,799
EBITDA	10,356	10,659	10,455	10,586
Growth yoy	-0.5%	2.9%	-1.9%	1.3%
EBITDA Margin	49.6%	49.1%	47.8%	47.3%

Source: Company data & HSBC estimates

Sky Satellite DTH Pay TV
2008e: 19% Sales, 23% EBITDA

Televisa owns 58.7% of Sky, until recently the only DTH satellite TV provider in Mexico. It is Televisa's second largest consolidated business by revenues and has c22% of the Pay TV market in Mexico by subscriber as of June 2008. Sky also recently launched its services in Central America and the Caribbean.

Sky transmits open TV channels, popular US, international, and pay per view networks over the air. Its national coverage is a competitive growth advantage against cable pay TV operators who have regional operating boundaries and physical infrastructure limits.

Industry development & competition

Sky's competitive advantage vs. other pay TV technologies is increased channel capacity, improved video and audio quality, and exclusive rights to certain popular sports media events.

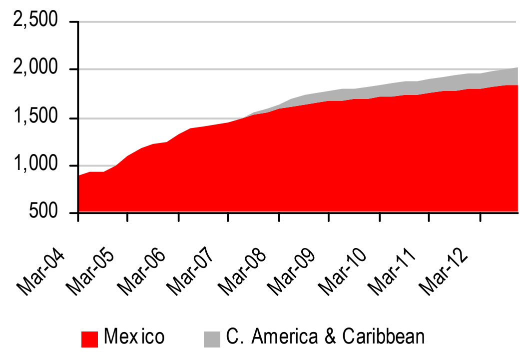
As a result, we believe Sky is well positioned in the high income market. Cable TV generally competes in the middle-to-high income category, and microwave television in the low income category. We believe the newly formed MVS/DISH Mexico satellite DTH service targets a lower income segment than Sky and should not pose a direct competitive threat.

Revenue growth & estimates

Sky's business grows mostly through subscriber additions. Sky's recent expansion into Central America should help it pick up new subscribers, as we believe growth in Mexico is slowing.

For instance, Sky's subscriptions and revenues had CAGR of 12% and 16% between 2005 and 2008e, respectively. We expect subscription and revenue CAGR to slow to 4% and 4%, respectively, between 2008e and 2012e.

Sky subscriptions (Actual & Estimated)



Source: Company data & HSBC estimates

EBITDA margins should remain stable at around 48.5% in 2009e and 2010e (see table above), as increasing revenues offset subscriber acquisition costs in Central America. We also expect stable ARPUs, thanks to Sky's higher income target market.

Sky revenues and sales metrics

	2007	2008e	2009e	2010e
Net Sales	8,253	9,092	9,486	9,791
Growth yoy	12.9%	10.2%	4.3%	3.2%
Cash Costs	4,288	4,613	4,885	5,043
EBITDA	3,965	4,479	4,601	4,749
Growth yoy	13.7%	12.9%	2.7%	3.2%
EBITDA Margin	48.0%	49.3%	48.5%	48.5%
Subscribers	1,585	1,754	1,825	1,899
Growth yoy %	10.8%	10.7%	4.1%	4.1%
ARPU	456	454	442	438

Source: Company data & HSBC estimates

Moderately favorable outlook

Sky is well positioned in its middle-to-high income market, despite greater competition from triple play cable service providers like

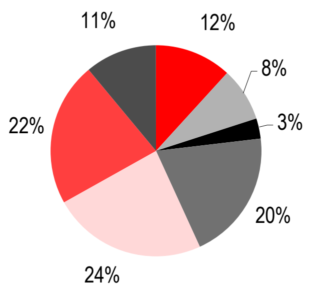
Cablevision and Cablemas (both Televisa units), and Megacable.

Nonetheless, we believe Sky's customers could forgo switching to triple play, which we believe appeals to a more cost conscious middle-to-low income population. This should be a mitigating factor for revenues and churn rates.

Cable TV & Telecom
2008e: 14% Sales, 11% EBITDA

Televisa's Cable & Telecom business includes controlling stakes in cable companies Cablevision and Cablemas, which operate in Mexico City and throughout Mexico. It also has a non-controlling stake in a Monterrey based cable company, TVI. These holdings give Televisa the largest combined cable TV operation in Mexico; a 23% share of the total pay TV market (excluding Sky), and 64% of the cable TV-only market.

Total Pay TV market in Mexico by subscriber, 2007



Source: COFETEL, Company data & HSBC estimates

Televisa also has a controlling stake in wireline data and long distance service provider Bestel. This company has 4,971 miles of fiber network across Mexico, Texas, and California.

Industry profile & development

The Mexican cable industry has seen a slew of consolidations recently, driven by technological development and favorable regulation. The motivating factor has been the incremental revenues available from bundled triple play services. Nonetheless, the Mexican cable industry remains highly fragmented, with several large players and another 200 regional cable companies.

Megacable is Televisa's largest single competitor in the Cable Pay TV business and has been a principal consolidator of smaller cable companies.

Because of the current size of Televisa's cable TV business (following the Cablemas acquisition), and a commitment by regulators to maintain an even playing field for all competitors, it seems increasingly unlikely to us that Televisa will continue to acquire significant rivals on anti-competitive grounds.

Nonetheless, Televisa's cable business is already the largest combined cable TV operation in Mexico, and the only cable TV operator in most of metropolitan Mexico City. Mexico City is a market whose combined population of nearly 20m inhabitants makes it the world's eighth richest urban agglomeration as of 2005, according to a Pricewaterhouse-Coopers study [March 2007]. With an estimated 36% penetration (subscribers/ homes passed), we think Mexico City offers strong long term growth potential for Televisa.

Televisa Cable TV & telecom assets & Megacable

	Televisa*		Megacable
Coverage	Consolidated Mexico City, various cities throughout Mexico	TVI Monterrey	Various cities throughout Mexico
Network, Km	25,199	NA	24,286
Bi-Directional	80.4%	NA	85%
RGU's, Th			
Cable	1,337	165	1,298
Internet	366	71.4	385
Voice	50	16.3	109
Total	1,753	253	1,792
Homes Passed, Th	3,761	785	3,594
Est. Penetration	36%	21%	36%

Source: Company data *Televisa's consolidated Cable TV & Telecom assets are Cablevision (51%) and Cablemas (54.6%). Televisa owns 50% of TVI.

Industry growth & outlook

CAGR in cable TV subscriptions in Mexico was 21% between 2005 and 2007, and was still growing at yoy rates of 13% as of June 2008 according to COFETEL. Combined revenues for the top three players (Megacable, Cablemas, and Cablevision) have nearly doubled between 2006 and 2008.

Although growth in the cable industry should continue to be strong thanks to triple play services, Telmex's potential entry into the triple play services could significantly alter competition in this market.

Telmex's choice of triple play marketing strategy could, in our view, either destroy profits for all players or enable high profits and returns for all players.

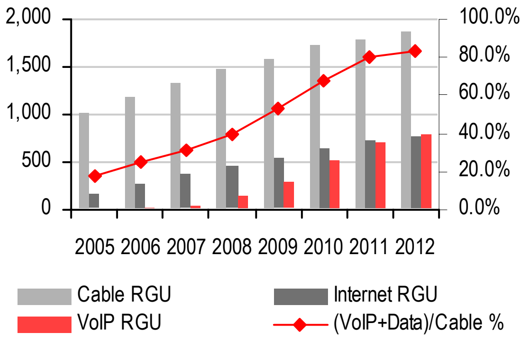
This view is because under a rational strategy, we think Telmex would stick to offering pay TV services to low-to-mid income households, similar to its recent joint billing agreement with satellite DTH provider MVS/DISH. Our view is that it makes less economic sense for Telmex to launch a full scale pay TV product when its product should be aimed towards complementing its telephone and broadband services (opposite cable companies whose voice services complement their cable & broadband services).

Of course, Telemx could attempt to use its scale and reach to launch a full line of basic and premium pay TV services, competing directly with Televisa, Megacable and other cable companies. This would significantly drive down revenues for all players, and we think is a less likely scenario.

Revenue growth & estimates

We estimate that revenues from Televisa's Cable & Telecom business will grow rapidly for the next two years on increasing revenue generating units (RGUs). Growth inflexion should be reached sometime in 2011 or 2012. We expect average revenue per unit (ARPU) to fall as triple play service providers compete aggressively on price (see graph below).

Televisa Cable TV & Telecom RGU's

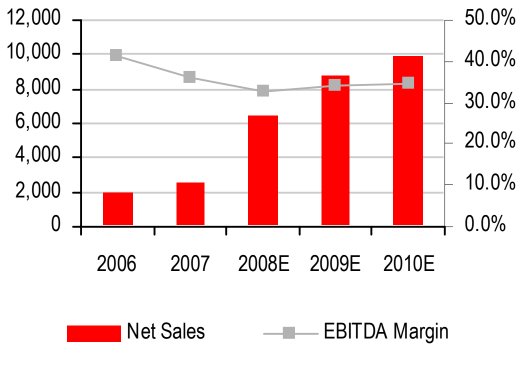


Source: Company data & HSB C estimates

Our assumption is that Cable RGU's will grow at 8% in 2009 and 4% thereafter, and that Data and Voice RGU's will grow substantially more until Televisa's consolidated Cable TV & Telecom business has a RGU/subscriber ratio of c1.8x by 2011.

We expect 2009e reported revenues to increase 12% over 2008e full year consolidated Cablevision and Cablemas revenues. Using reported figures (with Cablemas consolidated in late 2Q 2008), we expect revenues to increase 35% in 2009e over reported 2008e.

Televisa Cable TV & telecom revenues and EBITDA margin



Source: Company data & HSBC estimates

HSBC

Televisa Cable TV & Telecom estimates

	2007	2008e*	2009e	2010e
Net Sales	2,569	6,483	8,763	9,884
Growth yoy	31.9%	152.3%	35.2%	12.8%
Cash Costs	1,638	4,377	5,784	6,473
EBITDA	931	2,105	2,979	3,412
Growth yoy	16.2%	126.1%	41.5%	14.5%
EBITDA Margin	36.2%	32.5%	34.0%	34.5%
RGUs*				
Cable	1,337	1,472	1,593	1,725
Internet	366	450	547	640
Voice	50	140	302	527
ARPUs*				
Cable	263	266	262	256
Internet	212	205	198	194
Voice	244	279	272	272

Source: Company data & HSBC estimates. *Televisa began fully consolidating Cablemas in 2Q08. Estimated RGU and ARPU metrics are consolidated as of 2007

In terms of EBITDA, incremental revenues from triple play add on services should help increase margins over time, as should Televisa's use of Bestel's network for call interconnections.

Programming exports
2008e: 5% Sales, 5% EBITDA

Televisa licenses and exports its programming for transmission throughout North and South America, Europe, Africa, and Asia. Through this business, Televisa accounts for its Programming License Agreement (PLA) with Univision, which holds exclusive transmission rights to Televisa's programming in the United States.

Univision

Televisa recently settled legal action against Univision was over the latter's use of its programming and payment of royalties. Both companies agreed to a new PLA in which Televisa expects to receive greater revenues under a simplified royalty structure. The new agreement will last through 2017.

We believe that settlement was ultimately in the best interests of both parties. Televisa will now have a greater piece of the growing US Hispanic market pie, and Univision will continue to have exclusive access to Televisa's programming.

(Televisa's programming has made Univision by far the number one network among Hispanics – see table below).

US Hispanic network viewership, 2007

Rank	Network	HH Rating	HH Share	HH's (000)
1	**Univision**	**16**	**25**	**1,946**
2	Telemundo	5	8	621
3	Fox	3	5	416

Source: Ad Age 2008 Hispanic Fact Pack. HH denotes households.

Revenue growth & estimates

Univision royalties make up two-thirds of export revenues. These have had 7.9% CAGR in nominal MXNs between 2005 and 2008e. Overall export revenues have had 5.3% CAGR over the same period.

For 2009 and 2010, we expect flat growth from both non-US exports and Univision on the back of the US economic slowdown. However, average yoy estimated depreciation in the MXN of 17% between 2008 and 2009 and higher Univision royalties should mean estimated revenue growth of 24.5% in 2009 and 57% in EBITDA, in MXN-terms.

Programming exports estimates

	2007	2008e	2009e	2010e
Net Sales	2,221	2,303	2,899	3,019
Growth yoy	7.2%	3.7%	25.9%	4.1%
Cash Costs	1,208	1,276	1,248	1,269
EBITDA	1,012	1,027	1,651	1,750
Growth yoy	18.6%	1.4%	60.7%	6.0%
EBITDA Margin	45.6%	44.6%	56.9%	58.0%
Total Univison Royalties, USDm	138	147	149	151
Growth yoy	7.5%	6.8%	0.9%	1.8%

Source: Company data & HSBC estimates

Pay TV networks
2008e: 4% Sales, 7% EBITDA

Televisa produces and licenses specialty movie, music, entertainment, and variety channels for distribution over pay TV systems around the world. Programming is made by Televisa and also acquired by third parties.

In the US, Televisa distributes its pay TV network programming through Tu-Tv, a joint venture with Univision. Tu-TV has an agreement with EchoStar to distribute Televisa's pay TV channels in the US until May 2009.

This is an important business for Televisa, as it has recently generated EBITDA margins above 60%, by further leveraging Televisa's programming capabilities. It also provides Televisa with an outlet to transmit third party programming it believes will complement its own.

Revenue growth & estimates

We expect growth of 6.2% for 2009 in nominal MXNs from foreign currency revenues and average yoy estimated 17% depreciation of the MXN between 2008e & 2009e.

Pay TV networks estimates

	2007	2008e	2009e	2010e
Net Sales	1,820	2,051	2,177	2,249
Growth qoq / yoy	39.6%	12.7%	6.2%	3.3%
Operating Cash Costs	689	762	849	877
EBITDA	1,131	1,289	1,328	1,372
Growth qoq / yoy	68.9%	14.0%	3.0%	3.3%
EBITDA Margin	62.1%	62.9%	61.0%	61.0%

Source: Company data & HSBC estimates

Publishing & Publishing distribution 2008e: 9% Sales, 3% EBITDA

Televisa's publishing and publishing distribution business is among the largest in the Spanish speaking world. It circulates c165m magazines and 92 titles throughout more than 20 countries. 62 titles are published in house, and 30 from third party publishers.

According to Televisa's annual report, the company has a 49% market share in publishing in Mexico, while in the US, five of the top 10 Hispanic market magazines are published by Televisa.

Publishing & publishing distribution estimates

	2007	2008e	2009e	2010e
Net Sales	3,729	4,221	4,432	4,787
Growth qoq / yoy	14%	13%	5%	8%
Cash Costs	3,086	3,593	3,780	4,105
EBITDA	644	628	652	681
Growth qoq / yoy	14%	-2%	4%	5%
EBITDA Margin	17%	15%	15%	14%

Source: Company data & HSBC estimates

Other: Radio, Gaming, and Sports 2008e: 7% Sales, -1% EBITDA

Radio

Televisa radio business, Radiópolis, is operated under a joint venture with Grupo Prisa (a Spanish communication group), and focused on AM and FM radio broadcasting. The company owns and operates 17 radio stations in Mexico. Televisa radio reaches c38 cities in Mexico and 70% of its population. The business' revenue drivers include national and local advertising.

Gaming

Televisa's gaming concession includes a permit to operate 65 bingo and sports book halls. As of January 2009, 21 of these halls were opened, and operating under the PlayCity brand name. Televisa plans to open the remaining 44 halls between now and 2013. The company has also launched an on line-lottery business connected to electronic terminals nationwide.

The company expects its PlayCity business to break even in EBITDA-terms sometime in 2009, although we feel the impact of the economic downturn could delay this benchmark.

Downsides to Televisa's gaming business also include the 20% gross revenue gaming tax introduced in Mexico's 2007 fiscal reform. This tax is believed to have significantly impacted the profitability and growth of this industry.

Operationally, Televisa's partnership with electronic gaming terminal providers limits the upside to revenues (betting risk is outsourced), but reduces downside risks as well.

Finally, we think an additional risk concerns the strong attention this industry has garnered not only for Televisa, but other companies involved in the gaming business in Mexico. Weaker than expected performance could negatively weigh on investor sentiment.

Sports Franchises

Televisa owns several Mexican soccer clubs including Club America, one of the two most popular clubs in Mexico. It also owns the Estadio Azteca, the largest soccer venue in Mexico and the site of several historic events in soccer history.

Besides being a soccer venue, the Estadio Azteca is the site of many popular entertainment and social events, such as concerts.

This business also complements Televisa's Television Broadcasting with important advertising revenues, since soccer games generate high television audiences.

Other (Radio, Gaming & Sports) estimates

	2007	2008e	2009e	2010e
Net Sales	2,517	3,256	3,648	3,873
Growth qoq / yoy	38.5%	29.4%	12.0%	6.2%
Operating Cash Costs	2,778	3,376	3,830	3,975
Growth qoq / yoy	36.8%	21.5%	13.4%	3.8%
EBITDA	-260	-119	-181	-102
EBITDA Margin	-10.3%	-3.7%	-5.0%	-2.6%

Source: Company data & HSBC estimates

Corporate control and share structure

Emilio Azcarraga Jean is Grupo Televisa's Chairman of the Board, its CEO, and controlling shareholder. Under Mr. Azcarraga's stewardship and those close to him, Televisa has been transformed from a lumbering and patriarchal monopoly to a modern, professionally run, and highly profitable media enterprise focused on cost efficiency and growth.

Effective control of the Televisa is held by Mr. Azcarraga through the Stockholder Trust agreement, which is 87.3% controlled by Mr. Azcarraga, and 12.7% controlled by the Inbursa Trust through which Mr. Carlos Slim owns a share of Televisa. Through the Stockholder trust, Mr. Azcarraga controls 44% of the company's full voting Class A common shares, and gives Mr. Azcarraga the ability to elect 11 of 20 board members.

Share structure

Ordinary Participation Certificates (CPOs)

Televisa's shares trade on the Mexican Bolsa as Ordinary Participation Certificates (CPOs), which comprise 25 Class A, 22 Class B and 35 Class D and Class L shares.

- **Class A:** Full voting common shares. Power to elect 11 of 20 board directors.
- **Class B:** Limited voting common shares. Power to elect five of 20 board directors.
- **Class D:** Limited voting preferred shares. Power to elect two of 20 independent board members.
- **L Shares:** Limited voting common shares. Power to elect two of 20 independent board members.

ADRs & foreign ownership

Each ADR consists of five CPOs. Non-Mexican holders of either CPOs or ADRs are only entitled to vote on the Class L shares. Voting on the underlying Class A, Class B and Class D shares held by foreign owners is done by the CPO Trustee, which receives its voting instructions from the board of directors.

Dividends & share repurchases

In 2004, Televisa established an MXN0.35 ordinary dividend per CPO policy, but has also paid extraordinary dividends. In 2008, it paid out MXN2,231m, cMXN0.75 per CPO, an estimated 28% 2008e payout ratio.

In addition, the company has actively repurchased its own shares since establishing a repurchase program in 2002.

We expect that over the long run, Televisa will continue to both repurchase its shares and pay regular and extraordinary dividends, which we estimate using a 35% payout to the prior year's earnings.

Free float & volume traded

Televisa has c70% of its CPOs in free float (considering positions in any share class held in CPOs above 5%), but this number is somewhat deceptive in terms of corporate control since 44% of the company's class A shares (which entail the right to control the board of directors) are not traded as CPOs and held by Mr. Azcarraga.

On the New York Stock Exchange, Televisa's ADR has an average recent 3-month daily traded volume of 2.6m ADRs, which represents an estimated average daily turnover of USD39m. Trading on the Mexican Bolsa is lighter, with an average recent 3-month volume of 3.95m CPOs (790,000 equivalent ADRs) and an estimated average daily turnover of MXN160.8m (cUSD11.9m).

HSBC

Financials

Televisa income statement (Nominal MXNm)

	2007	2008e	2009e	2010e
Net sales	**41,562**	**47,991**	**52,353**	**54,997**
COGS	20,835	25,105	27,273	28,814
SG&A & Depreciation	6,245	7,577	8,615	9,371
Operating Profit	**14,481**	**15,309**	**16,464**	**16,812**
Operating Profit Margin	34.8%	31.9%	31.4%	30.6%
Plus: D&A	3,223	4,333	4,810	5,354
EBITDA	**17,704**	**19,642**	**21,274**	**22,167**
EBITDA Margin	42.6%	40.9%	40.6%	40.3%
Other Expense, Net	-953	-683	-304	-346
Integral Cost of Financing, Net	-410	-2,184	-1,807	-1,224
Interest Expense	-2,141	-2,705	-3,401	-3,275
Interest Income	1,813	1,385	1,751	1,973
FX Gain/Loss, Net	212	-863	-157	77
Monetary Gain/Loss, Net	-294	0	0	0
Equity in Affiliates, Net	-749	-563	-484	-421
Income Before Taxes	**12,368**	**11,879**	**13,870**	**14,822**
Taxes	3,350	3,307	3,884	4,150
Consolidated Net Income	9,018	8,572	9,986	10,672
Minority Interest	936	1,072	1,698	1,814
Net Income	**8,082**	**7,500**	**8,289**	**8,857**
Net Margin	19%	16%	16%	16%
EPCPO	2.87	2.67	2.95	3.15

Source: Company data & HSBC estimates

Televisa free cash flow (Nominal MXNm)

	2007	2008e	2009e	2010e
Net Income	8,082	7,500	8,289	8,857
Minority Interest	936	1,072	1,698	1,814
Depreciation	3,223	4,333	4,810	5,354
Other Non Cash Charges	831	1,426	641	343
Cash Earnings	**13,072**	**14,331**	**15,437**	**16,369**
Working Capital	7,649	-3,776	-1,775	-900
Cash From Operating Activities	**20,721**	**10,555**	**13,662**	**15,469**
Capex	-4,195	-2,453	-4,000	-4,170
Free Cash Flow	**16,526**	**8,103**	**9,662**	**11,299**

Source: Company data & HSBC estimates

HSBC

Televisa balance sheet (Nominal MXNm)

	2007	2008e	2009e	2010e
Assets	**98,544**	**115,881**	**129,886**	**138,651**
Current Assets	**52,027**	**63,735**	**72,511**	**77,075**
Cash & Equivalents	27,305	34,026	40,335	44,449
Accounts Receivable	20,080	23,038	25,005	25,571
Inventories	3,989	5,540	6,018	5,878
Other Current Assets	653	1,130	1,153	1,176
Long Term Assets	**46,517**	**52,146**	**57,375**	**61,576**
PP&E	25,171	31,078	35,882	39,650
Investments (NCS)	7,948	3,505	3,576	3,648
LT Transmission Rights & Programming	5,299	5,989	6,109	6,233
TV Concession & Intangible Assets	8,099	11,574	11,807	12,045
Liabilities	**58,044**	**69,827**	**74,315**	**76,510**
Current Liabilities	**8,337**	**9,745**	**10,473**	**10,005**
Bank Loans & Current Portion of LT Debt	586	1,367	1,402	1,384
Accounts Payable	4,458	5,170	5,844	5,374
Other Short Term Liabilities	2,609	2,590	2,605	2,621
Taxes Payable	684	619	622	626
Long Term Liabilities	**49,706**	**60,082**	**63,841**	**66,505**
Long Term Debt	25,469	32,326	35,134	36,464
Customer Deposits & Advances	19,810	22,745	23,696	25,029
Deferred Taxes & Other	4,428	5,012	5,012	5,012
Shareholder Equity	**40,500**	**46,053**	**55,571**	**62,141**
Minority Interest	3,611	4,756	5,985	6,753
Majority Interest	36,889	41,297	49,586	55,388

Source: Company data & HSBC estimates

TV Azteca

- We initiate coverage of TV Azteca (TVAZTCA.CPO) with a Neutral rating and an end-2009 target of MXN5.0 per CPO for a total return potential of 15.2% (including cash distributions)
- TV Azteca's operations are highly efficient and profitable; its solid competitive position in Mexico's media duopoly and strong cash generation is a plus during the economic downturn
- Concerns include: dependence on television broadcasting revenues, few visible growth opportunities, and high leverage; these factors and agency risks could limit the share's upside potential

Investment thesis

We initiate coverage of TV Azteca (TVAZTCA.CPO) with a Neutral rating and target price of MXN5.0 per CPO. This represents a potential 15.2% return including dividends & cash distributions (as of closing price, 18 February 2009).

We calculate our target price using equal-weighted EV/EBITDA multiples and a discounted cash flow to equity framework.

TV Azteca's highly efficient operations, solid position in Mexico's media duopoly and strong cash generation are a plus to consider during the economic downturn, in our view.

However, a marked dependence on television broadcast revenues (95% of total) increases downside risks if the Mexican economy takes a significant turn for the worse. We are also concerned with the stock's ability to hold on to long term gains, in part due to a lack of growth catalysts and past corporate agency risks.

Investment positives

Agile competitor in a media duopoly

TV Azteca is the smaller of the two Mexican media companies, but it has demonstrated a consistent ability to compete for advertising revenues against its much larger rival, Televisa.

Its agility comes from efficiencies in production and cost management. For example, it monitors the profitability of its programming on a weekly basis to ensure that it consistently obtains target margins. By monitoring its programming, it is able to quickly adapt its programming to local tastes and trends to maximize its audience shares.

TV Azteca's strategy of focusing on a narrower, higher income segment of the population (ABC+, C & D+ demographic segments) has allowed it to capture between 38% to 40% of its target audience, versus average total audience shares of 27% in the last three years (see following graph). This target audience makes up 74% of the population, but controls 93% of total household income.

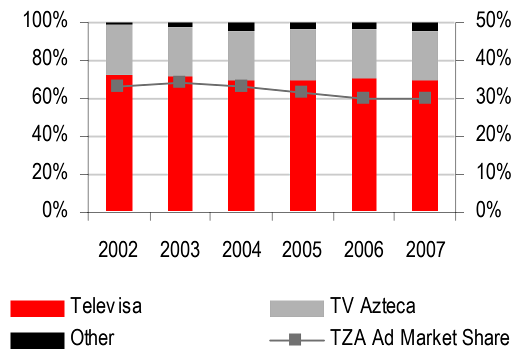
Mexcio's television audience segmentation, 2007

	ABC+	C	D+	D/E
Mexican Household Income	57%	15%	21%	7%
Mexican Population	24%	15%	35%	26%

Source: Company data, IBOPE AGB, INEGI

Therefore, TV Azteca should still have some pricing power (Televisa is the market's acknowledged price setter) over advertisers. Advertisers know TV Azteca captures a relatively higher proportion of an audience economically able to purchase their goods, and should be willing to pay to access this audience.

Broadcast audience share & TV Azteca ad market share



Source: Company data & HSBC estimates

We believe TV Azteca's product differentiation strategy should also be sustainable in the long term, alongside Televisa's low cost producer strategy. As a result, we expect that long term gains should be possible for TV Azteca.

Television broadcast industry hedge

Television broadcasting revenues in Mexico are much less cyclical than those observed in the US, thanks to the predominance of non-cyclical goods in the advertising sales mix. Moreover, economic downturns result in higher broadcast television audiences, as consumers spend less money on entertainment.

We believe at least 65% of TV Azteca's broadcast revenues in Mexico come from non-cyclical, non-discretionary goods (such as food, personal and household care products). Ongoing consumption of these goods during downturns means that competing brands must continue advertising to avoid losing market share.

The automobile industry also only accounts for about 6% of national advertising revenues in Mexico. This contrasts with the US, where 33% of US media companies' 2007 TV broadcast revenues came from the automotive industry, according to a 2008 Standard & Poors report, based on information from the Televivison Bureau of Advertising.

As a result of these factors, we estimate flat to 1% growth for TV Azteca's Mexican television broadcast business in 2009, despite expecting Mexican GDP to decline by 1.4%. For overall revenues, we expect a nominal increase of 2.8%, in part from higher revenues in MXN-terms from USD-denominated sales from Azteca America (the company's US broadcast network) and export sales.

Cash distributions & growth prospects

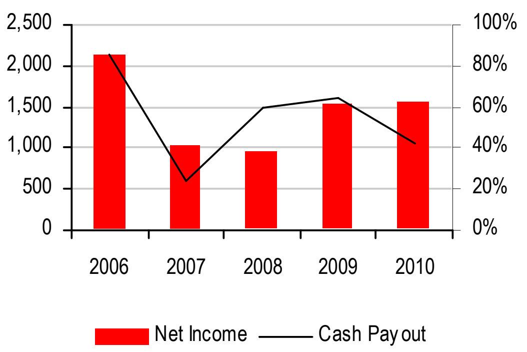
TV Azteca generates fairly large amounts of cash from operations (we estimate an average of MXN0.23 for every MXN1 of sales), with which it pays dividends and cash distributions (see next graph) above the Mexican Bolsa's average dividend yield (c4.7% vs. c2.81% respectively – trailing 12 months' distribution to current price).

TV Azteca has used its free cash to pay cash distributions to shareholders so its parent company, Azteca Holdings, can repay the debt it incurred to buy TV Azteca in 1993 from the Mexican government.

Disclosure of Azteca Holdings' debt is infrequent as the debt is private. However, company management has indicated that the debt should be below USD100m; we believe it could be lower, and paid off sometime in 2010.

Repayment of Azteca Holding's debt could mean a larger proportion of cash could be used by TV Azteca to improve its own balance sheet, invest in new growth opportunities or pay higher distributions to shareholders.

TV Azteca net income & cash payout ratio



Source: Company data & HSBC estimates

Investment concerns

Few visible growth opportunities & loss of market share

Although TV Azteca is a highly efficient and profitably run television broadcaster, it has grown relatively little over the decade as cash has been used to pay large distributions to shareholders.

Over this period of time, TV Azteca has also been losing advertising market share to its rival, Televisa. From a high of 36% in 1998, the company's advertising market share is now c30%.

We believe that TV Azteca is in the process of renovating its prime time line-up (a major driver of ratings and revenues) through new Telenovelas and reality show programs, in order to recapture market share. However, there is a risk that its renovated line-up will not meet expectations.

For example, its blockbuster song and dance reality show, *La Academia*, is due to end after eight seasons, and a similarly successful replacement may be hard to find.

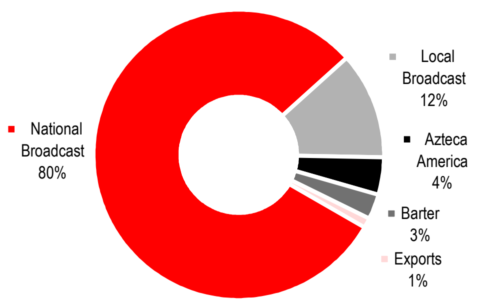
We also believe that TV Azteca is ambitious enough that upon Azteca Holdings' debt repayment, the company will begin to look for new sources of growth.

However, timing and execution risks of new growth projects may be high, especially for investing in the current telecom convergence, for example. We believe TV Azteca may find an opportunity in this market but a late entry could face low returns and saturated competition from Televisa, other cable operators, MVS and Telmex (should the latter receive license to offer pay TV)

Revenue concentration risk

TV Azteca has remained largely undiversified and sources roughly 95% of its revenues from the TV broadcasting business in Mexico and the US (see graph below).

TV Azteca Revenues by Segment, 3Q08



Source: Company data

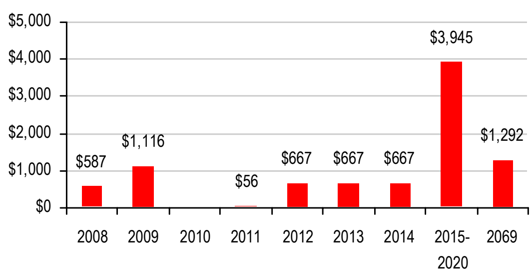
Broadcast revenue concentration leaves TV Azteca particularly vulnerable to a worse than expected economic downturn in Mexico. Despite our estimate of 2.8% revenue growth for 2009, risks are clearly on the downside. Further deterioration in expected GDP could negatively impact our sales estimates and target price.

Agency issues

Certain shareholder-management-debtholder agency issues have, we believe, been a source of overhang on TV Azteca's shares. We believe these issues merit attention by investors.

- **High leverage & share guarantee:** TV Azteca has a net debt of MXN6,297m, which represents a net debt to 12 month forward EBITDA ratio of 1.5x (to Televisa's -0.05x ratio). The company's longstanding high-wire act between paying large cash distributions and repaying its own debt has worked so far. Based on TV Azteca's debt schedule (see graph below), the company should be able to continue this balancing act into the near future.

TV Azteca debt maturities, MXNm



Source: Company data

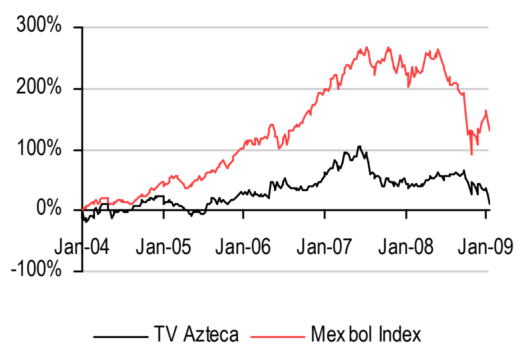
However, if Azteca Holdings' is unable to pay its obligations because of insufficient cash distributions from TV Azteca (a scenario we nonetheless consider unlikely), TV Azteca may be forced to issue new shares to keep creditors' collateral ratios at required levels. This is because Azteca Holdings' debt is guaranteed by TV Azteca's shares. Such a scenario could lead to a dilution of existing shareholders' positions in the company.

- **Minority shareholder rights:** Mr. Ricardo Salinas Pliego (TV Azteca's controlling shareholder) and other related parties were investigated by the SEC for the 2003 purchase at discount of a TV Azteca subsidiary's debt, and their subsequent receipt of full payment by the subsidiary. This led to a USD218m profit, which could otherwise have accrued to all TV Azteca shareholders.

  The SEC case was settled in 2007 through the payment of a fine, and no charges of impropriety against the parties investigated. The events, however, called the status of TV Azteca's minority shareholder rights into question.

We would welcome any improvement to perceptions of these agency issues, as we believe their overhang has muted the stock's performance. Such a highly profitable and efficient company should be able to generate long term gains for shareholders, which in the past five years have been below returns compared to the Mexican Stock Exchange.

TV Azteca vs. Mexbol Returns, 5 years



Source: Bloomberg

Valuation

Our 12 month price target is MXN5.0 per CPO, which implies a total return of 15.2% (including dividends and cash distributions).

Under our research model, TV Azteca is classified as a non volatile stock. For non-volatile stocks, the Neutral recommendation band is 7.5% to 17.5%. Accordingly, we initiate coverage of TV Azteca with a Neutral rating.

We use an equal weighted combination of EV/EBITDA and Discounted Free Cash Flow to Equity to obtain our target price.

A DCF and EV/Fwd EBITDA valuation framework, in our view, fairly captures both what TV Azteca is worth based on fundamentals, and what the market should be willing to pay in terms of multiples for such an asset.

For our EV/12m Fwd EBITDA multiple, we use a 5.0x target, which is below TV Azteca's five year average multiple of 6.1x. We estimate that TV Azteca currently trades at an EV/EBITDA 2009e multiple of 4.5x. With our target 5.0x multiple, we obtain a twelve month price target of MXN4.92 per CPO.

TV Azteca EV/12m Fwd EBITDA

Million MXN, except per CPO	Current*	2009e Target
CPO Price	4.49	4.92
Market Cap	13.044	14.291
Net Debt	5.005	5.767
Minority Interest	0.002	0.002
EV	15.081	20.060
FY Fwd EBITDA	4.012	4.012
EV / FY Fwd EBITDA	4.5 x	5.0x

Source: HSBC estimates. Price as of February 18, 2009

The market should begin to pay slightly higher multiples at year end, assuming that TV Azteca's defensive characteristics are evidenced, and economic growth appears on the horizon. HSBC estimates that Mexican GDP will recover in 2010, growing at 1.8%.

TV Azteca's current multiple is roughly in line with US media and TV broadcast companies (please see peer comparison table in the front cover of this report). We think that TV Azteca's revenues could be more defensive that its US comparables, and this explains our target 5.0x multiple for 2009.

Our second valuation method, a Discounted Cash Flow to Equity (FCFE) model, yields an MXN5.15 per CPO price. We use a 4% risk free rate, a country risk premium of 8.5% and a beta of 0.8. We assume a perpetual growth rate of 2.0% (please see DCF valuation table, below next page). We also adjust our FCFE estimates in years 2009 to 2011 to account for TV Azteca's cash distributions to shareholders. We feel these distributions are not discretionary (they are used by Azteca Holdings to repay its debt), and should deducted from FCFE.

Our DCF target price results in a nearly 5.2x EV/Fwd EBITDA multiple. This multiple is below TV Azteca's five year average of 6.1x. This is mostly due, we believe, to de-rated emerging market multiples, low expected growth from the large cash distributions that it is expected to continue paying out.

Sensitivity Analysis

The following tables present sensitivities for both our DCF and EV/Fwd EBITDA valuations. The first table is a sensitivity of our DCF target price to changes in cost of equity and perpetual growth rate assumptions.

TV Azteca DCF target price sensitivity table, MXN

		Growth Rate				
		1.0%	1.5%	2.0%	2.5%	3.0%
	9.8%	5.24	5.38	5.54	5.71	5.89
Cost	10.3%	5.06	5.19	5.34	5.50	5.68
of	10.8%	4.89	5.01	5.15	5.31	5.48
Equity	11.3%	4.72	4.84	4.97	5.12	5.29
	11.8%	4.56	4.68	4.80	4.95	5.10

Source: HSBC estimates

We also ran a sensitivity analysis with different EV/Fwd EBITDA multiples and varying levels of 2009e EBITDA to determine the flow through effects on valuation of different profitability levels. This is relevant given the uncertain economic environment.

EV/Fwd EBITDA multiple and EBITDA sensitivity table, MXN

		EV/Fwd EBITDA Multiple				
		4.0x	4.5x	5.0x	5.5x	6.0x
	3.621	3.00	3.62	4.25	4.87	5.49
EBITDA	3.811	3.26	3.92	4.57	5.23	5.89
MXNm	4.012	3.54	4.23	4.92	5.61	6.30
	4.213	3.81	4.54	5.26	5.99	6.71
	4.423	4.10	4.87	5.63	6.39	7.15

Source: HSBC estimates

Finally, we combine the prices in the previous sensitivity analyses around our target price (shaded in grey in the following table) based on our equal weighted EV/Fwd EBITDA and DCF valuation framework. This derives a mix of target prices based on the previous sensitivity scenarios.

Blended composite EV/Fwd EBITDA & DCF target prices, MXN

4.12	4.50	4.89	5.29	5.69
4.16	4.56	4.96	5.37	5.78
4.21	4.62	5.00	5.46	5.89
4.27	4.69	5.12	5.56	6.00
4.33	4.77	5.22	5.67	6.13

Source: HSBC estimates

Upside risks to our target price

- Sooner than expected repayment of Azteca Holdings' debt could free up cash that TV Azteca could use for multiple purposes. This could include the repayment of its own debt, which would have a positive impact on its balance sheet.
- The announcement of a new investment and growth programme using cash flow freed up from the repayment of Azteca Holding's debt.
- Successful execution of the company's renewed prime-time programming, allowing it to regain the advertising market share lost in recent years.
- Continued share repurchases by the company, which with thin trading activity should continue to support the share price.

Downside risks to our target price

- A worse or longer than expected recession would negatively impact sales and EBITDA, leading to a lower share price value based on our EV/EBITDA multiple.
- A continued downward de-rating of emerging market multiples from increased risk aversion, particularly after a period of under priced risk and premium emerging market multiples.
- Continued loss of advertising market share, particularly if the company's renewed prime time programming line up fails to meet expectations.

TV Azteca discounted cash flow valuation (Nominal MXNm)

	2009e	2010e	2011e	2012e	2013e	2014e	2015e	2016e	2017e	2018e
Net Sales	10,273	10,653	11,262	11,719	12,245	12,827	13,396	14,409	15,066	15,746
Growth yoy %	2.8%	3.7%	5.7%	4.1%	4.5%	4.8%	4.4%	7.6%	4.6%	4.5%
EBITDA	4,012	4,098	4,366	4,588	4,798	5,057	5,311	5,736	6,030	6,334
Growth yoy %	-0.8%	2.1%	6.5%	5.1%	4.6%	5.4%	5.0%	8.0%	5.1%	5.0%
EBITDA Margin	39.1%	38.5%	38.8%	39.2%	39.2%	39.4%	39.6%	39.8%	40.0%	40.2%
Consolidated Net Income	1,470	1,470	1,538	1,630	1,698	1,793	1,881	2,033	2,136	2,244
Non Cash Charges	494	568	650	673	697	721	746	772	799	827
Cash From Working Capital	-130	-216	-311	-322	-333	-345	-357	-369	-382	-396
Capex	-500	-521	-543	-562	-582	-602	-623	-645	-667	-691
Cash Distributions*	-600	-624	-649	0	0	0	0	0	0	0
FCFE	734	677	685	1,420	1,480	1,567	1,648	1,791	1,886	1,985
Terminal Value										20,985
Discounted FCFE	663	551	504	942	886	847	804	788	749	8,237
Equity Value	14,971									
CPO's Outstanding	2,905									
DCF Target Price	5.15									

Source: HSBC estimates

- TV Azteca's CPOs have traded with a recent 3-month average daily volume of 1.6m and turnover of cMXN8.7m (cUSD642,000). Excessive selling pressure may easily cause the share price to drop substantially.

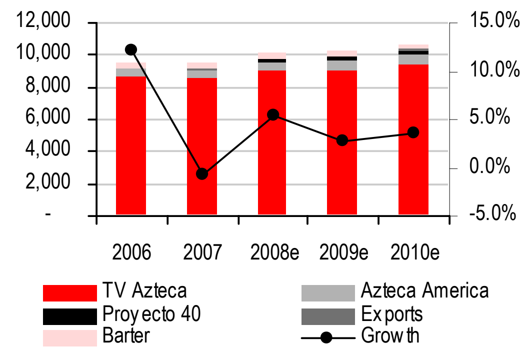
Estimates

Revenues

Our estimate for total 2009e company net sales is MXN10,273m, a 2.8% increase versus 2008e. This overall rate reflects flat growth from TV Azteca's Mexican broadcast network. It also includes increased revenues in MXN-terms from Azteca America and export sales, both denominated in USD. (See graph and table below).

We believe our estimate is also supported by the defensive characteristics of TV Azteca's sales mix. The higher proportion of middle to high income household audiences that TV Azteca attracts should also appeal to advertisers during the downturn, keeping sales relatively stable.

Business segment revenues and Yoy consolidated growth



Source: Company data & HSBC estimates

TV Azteca sales & EBITDA, 2007 to 2010e

MXNm	2007	2008e	2009e	2010e
Net Sales	9,503	9,997	10,273	10,653
Growth yoy	-0.8%	5.2%	2.8%	3.7%
Cash Costs	5,481	5,954	6,261	6,555
EBITDA	4,022	4,043	4,012	4,098
Growth yoy	-5.0%	0.5%	-0.8%	2.1%
EBITDA Margin	42.3%	40.4%	39.1%	38.5%

Source: Company data & HSBC estimates

Cash costs & EBITDA

Margins may begin to contract in 2009 on slowing sales, a continuing a trend in increasing costs seen since 2006 (see table above), and higher USD denominated costs. Although we expect costs increases to outweigh sales growth in 2009, by 2011 margins should begin to stabilize and improve.

Although we expect costs to continue increasing, albeit at a slower pace than in recent years, TV Azteca's strong cost management could surprise with lower than expected cost increases and higher margins.

Comparison to consensus

At MXN10,273m, our 2009e net sales estimate is almost -2.3% lower than consensus published by Thomson. However, we note that consensus currently expects revenues to by -5.6% between 2008e and 2009e from a mean 2008e revenue estimate of MXN11,141.29 (vs. our 2008e revenue estimate of MXN9,997). We currently expect yoy revenues to increase 2.8%, partly the result of increased revenues in MXN-terms, from USD-denominated sales at Azteca America and programming exports. Otherwise we expect flat growth in the company's Mexican broadcast business.

In EBITDA and operating profit terms, our 2009e estimates are -4.7% below and 2.9% above consensus, respectively.

Finally, our 2009e net income estimate is MXN1,468m (MXN0.51 per CPO) vs. consensus' MXN1,345m (MXN0.48 per CPO) estimate.

Company description

TV Azteca is the smaller of Mexico's two major media companies. Its main business is television broadcasting, which accounts for approximately 95% of total company revenues. The company has successfully leveraged its programming to diversify its broadcasting geographically (into the US, for instance), but otherwise has not diversified into other media sectors.

We feel that in terms of operations, TV Azteca is a highly efficient and profitable broadcast company. Moreover, its product differentiation strategy has worked well over the years, giving it a firm place in Mexico's media duopoly.

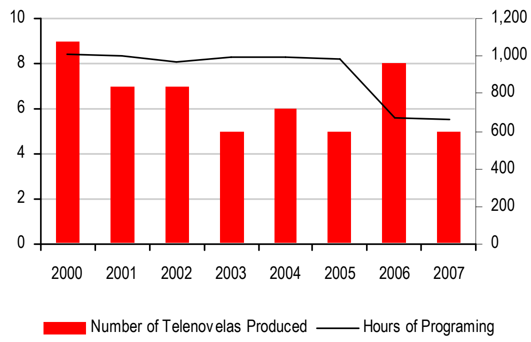
Revenue generation

TV Azteca's revenues are driven primarily by the ratings that it receives on its weekday prime time programming, the most lucrative advertising period in the week.

For example, TV Azteca's prime time programming represents about 20% of the company's total week long programming, but accounts for c55% of its total broadcast revenues. TV Azteca produces about 68% of its total programming, and 99% of prime time programming for its flagship Azteca 13 network.

As a result, TV Azteca's efforts are focused on producing successful prime time programming and in particular, the Telenovela, a genre of soap opera particularly popular in Mexico and Latin America across all income and age groups. Because of its popularity, the Telenovela is a major driver of TV broadcast earnings in Mexico (see graph below for TV Azteca's Telenovela production).

Telenovela production & programming hours per Telenovela



Source: Company data

TV Azteca also produces reality shows, the most important of which has recently been *La Academia*, a show in which contestants compete to become song and dance stars, and face weekly elimination. This show has been licensed for export to Asia. *La Academia* is now in its final season and is due for replacement.

Although the company's programming has continued to receive stable shares of its target audience (see following), we note that TV Azteca's advertising market share has decreased from 34% in 2003 to about 30% in 2008 (see graph on page 38).

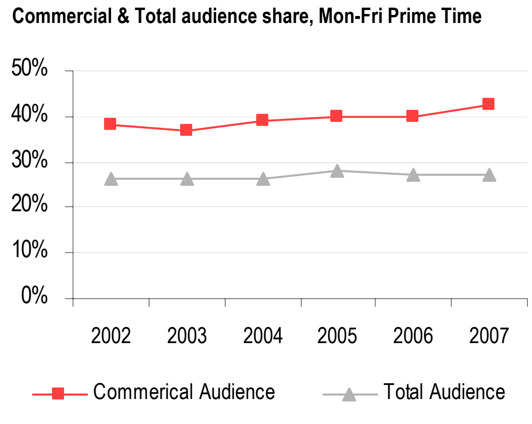
The company has stepped up efforts to regain lost market share by renewing its Telenovela line up, which in recent years have lost some of the appeal that originally made them a fresh alternative to Televisa's Telenovelas.

Strategy

Although the media industry in Mexico is a duopoly, competition for audience ratings is high despite both companies' pursuit of rational, differentiated strategies.

TV Azteca is essentially a product differentiator focused on a higher income segment of the population. Televisa in contrast competes on scale, reaching as wide an audience as possible as a low cost producer.

So far, we believe TV Azteca strategy has been successful. This is because over the years it has consistently obtained higher audience shares in its target commercial audience vs. the total Mexican broadcast audience. This target commercial audience has higher purchasing power relative to the total Mexican broadcast audience (see next graph).



Source: Company data, IBOPE

Despite also being the industry price taker, it has been able to pass on Televisa's price increases onto its own customers as well. TV Azteca should also have some pricing power, as advertisers pay to reach its higher income target audience.

We believe this is evidence that the media duopoly in Mexico is stable, and as long as both TV Azteca and Televisa continue to pursue rational strategies (cost vs. product differentiation), there should be enough room for both players to consistently obtain high profit margins over the long run without competitive disruptions.

The only disruption to the market would be the entry of a third national broadcaster, which seems unlikely to us. Also, the likeliest of entrants, Telemundo, recently signed an agreement with Televisa to air its programming in Mexico on Televisa's channels effectively neutralizing its direct entry into Mexico.

Pricing

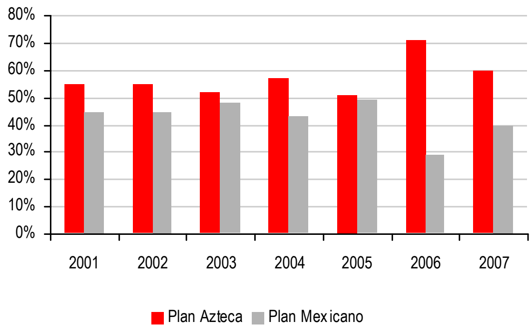
As with standard industry practices, TV Azteca sells a significant amount of its annual revenues from the upfront season, usually held around November and December of the year before. For example, for 2006 and 2007, it grabbed 40% and 58%, respectively, of annual revenues during the upfront season. Up front sales are usually offered at a 15% discount to spot prices, also consistent with industry practices.

TV Azteca offers clients two types of payment plans: Plan Azteca and Plan Mexicano. Plan Azteca requires clients to pay for the advertising within 4 months of signing the advertising contract. Plan Mexicano gives clients the flexibility to pay up to a year after signing the contract and making an initial 10-20% deposit, but clients must provide a promissory note of payment. Plan Azteca's rates are offered at a discount to Plan Mexicano to encourage clients to pay within four months, improving the company's cash cycle.

In the past, the majority of both upfront and spot sales have consisted of Plan Azteca sales. For example, in 2007, 60% of both upfront and spot sales were Plan Azteca sales.

TV Azteca believes its payment plans offer clients greater flexibility than its competitors, and is a competitive advantage.

Proportion of Plan Azteca and Plan Mexicano sales



Source: Company data

Azteca America

TV Azteca's second most important source of revenues is its US broadcast network, Azteca America. Revenues from this business accounted for 5.6% of total sales in 2007.

Azteca America began transmitting in 2001 and according to Nielsen, now covers c71% of the US Hispanic audience.

Between 2004 and 2007, Azteca America's revenues had 6.3% CAGR in MXN-terms vs. 5.2% for TV Azteca's Mexican broadcast revenues. 2008e has been an exception though, as full year revenues are expected to have fallen 14% owing to the weak US economy.

US Hispanic network preferences, 2007

Rank	Network	HH Rating	HH Share	HH's (000)
1	Univision	16	25	1,946
2	Telemundo	5	8	621
3	Fox	3	5	416
4	TeleFutura	3	5	383
5	ABC	3	5	361
10	**Azteca America**	**1**	**1**	**94**

Source: Ad Age 2008 Hispanic Fact Pack. HH denotes Households

In estimated USD-terms, Azteca America's revenues have seen a CAGR of 8% since 2004. We believe these good results owing to growth in the US Hispanic market. For 2009, we expect revenues from this market to increase 27% on the back of the MXN's depreciation. When growth in the US economy resumes, Azteca America should continue to see stable long term growth, even if its network currently lags in audience preferences (see table above).

Overall, Azteca America's Hispanic audience share is still low, but the company believes that the low relative cost of programming for this business makes its presence there worthwhile.

The company has also recently shifted more of its programming production for Azteca America to Mexico as a cost saving measure.

To put the US Hispanic population's potential into perspective, Global Insight estimates that US Hispanic purchasing power was USD456bn in 2000 with a population of 35.3m. It expects purchasing power to reach USD985bn with a population of 47.5m by 2010. By 2030, the US Hispanic population is expected to grow to 73m.

Other sources of revenues

TV Azteca owns a Mexican first division soccer team (Monarcas de Morelia), and has transmission rights to seven other teams. This is an important advertising outlet for TV Azteca given soccer's popularity in Mexico.

TV Azteca also recently purchased a 70% equity stake in Latitude TV in Guatemala in order to begin transmitting in that country. The network transmits on two UHF channels in Guatemala City, and is transmitted across the country through cable pay TV services. The company estimates the broadcast market in Guatemala to be worth USD100m. Although a small market, its value could still be of positive value if TV Azteca leverages its Mexican programming in Guatemala as it does in the US.

Operations

TV Azteca's operations make it the second-largest television broadcasting network in Mexico's media duopoly, and among the largest Spanish language programmers in the world. In Mexico, it owns concessions for, and operates two national broadcast channels: Azteca 13 and Azteca 7.

- Azteca 13 is the company's flagship network channel and targets middle income families of all ages. In 2007, it produced 99% of its total weekday prime time programming, and 70% of its total sign on-off programming. Its programming consists mostly of Telenovelas, reality shows, newscasts, talk shows, sports, and variety programs.
- Azteca 7 targets the 18-33 adult audience with middle to high incomes. In 2007, it produced 33% of its total weekday prime time programming, and 18% of its total sign on-off programming. Its programming consists mostly of newscasts, entertainment, sports programs, and movies.

The company has 321 affiliate stations. Of these 277 are repeater stations, and 44 are affiliate stations that transmit TV Azteca's signal as well as their own local programming and advertising.

The company also consolidates Proyecto 40, a third UHF channel with alternative social and cultural programming aired throughout Mexico City. This channel is also transmitted throughout Mexico, along with Azteca 7 and 13, through pay TV networks in Mexico.

In the US, the company broadcasts Azteca America in the US over 62 affiliate stations throughout the country. Azteca America is transmitted throughout the US on EchoStar's DISH Satellite DTH service.

TV Azteca now also owns and operates the aforementioned Guatemalan broadcast network.

Ownership & share structure

TV Azteca's majority owner is Mr. Ricardo Salinas Pliego, a Mexican businessman with interests in television, retail, banking and mobile telecommunications companies throughout Mexico, the US, and South and Central America. Mr. Salinas owns, directly and indirectly, 61.8% of TV Azteca's total share capital, and 75.4% of TV Azteca's full voting Class A (through self standing Class A shares and Class A shares bundled in CPOs).

The company has four classes of shares authorized, of which Series A, DA and DL have been issued. The Series A shares come with full voting rights, while the DA and DL shares have only limited voting rights and are preferred shares.

Trading and market liquidity

TV Azteca's shares are traded through the Mexican Stock Exchange in the form of Ordinary Participation Certificates (CPOs) under the ticker TVAZTCA.CPO. Each CPO consists of one A series, one DA series and one DL series share. As of 3Q08, there were 2,905m CPOs outstanding. The company's CPOs are also traded on the Madrid Stock Exchange's Latibex board under the ticker XTZA.

The company has a free float of approximately 53% of CPOs outstanding. However considering Mr. Salinas' stake in class A shares not traded as CPOs, the total ownership value of the company traded as free float is closer to 38.2%.

TV Azteca's recent 3-month average daily volume is 1.6m CPOs, with a daily turnover over the same period of cMXN8.7m (cUSD642,000).

Financials

TV Azteca balance sheet (nominal MXNm)

	2007	2008e	2009e	2010e
Net Sales	**9,503**	**9,997**	**10,273**	**10,653**
COGS	4,660	5,116	5,367	5,626
SG&A	1,255	1,311	1,422	1,537
Operating Profit	**3,588**	**3,570**	**3,484**	**3,490**
Plus: D&A	434	473	528	608
EBITDA	**4,022**	**4,043**	**4,012**	**4,098**
EBITDA Margin	42%	40%	39%	38%
Other Expense, Net	-770	-723	-583	-643
Integral Cost of Financing, Net	-763	-792	-838	-786
Interest Expense	-799	-793	-817	-786
Interest Income	110	100	136	155
Other Financial Expenses	-134	-138	-154	-156
FX Gain/Loss, Net	-10	38	-3	1
Monetary Gain/Loss, Net	70	0	0	0
Equity in Affiliates, Net	-2	36	37	39
Income Before Taxes	**2,053**	**2,090**	**2,100**	**2,100**
Taxes	1,013	1,123	630	630
Consolidated Net Income	1,040	967	1,470	1,470
Minority Interest	-1	1	1	1
Net Income	**1,041**	**966**	**1,468**	**1,468**
Net Margin	11.0%	9.7%	14.3%	13.8%
EPCPO	**0.35**	**0.33**	**0.51**	**0.51**

Source: Company data & HSBC estimates

TV Azteca free cash flow (Nominal MXNm)

	2007	2008e	2009e	2010e
Net Income	1,041	966	1,468	1,468
Minority Interest	-1	1	1	1
Depreciation	434	473	528	608
Other Non Cash Charges	-59	-74	-34	-39
Cash Earnings	1,416	1,366	1,964	2,038
Working Capital	2,104	-683	-130	-216
Cash From Operations	3,520	682	1,834	1,822
Capex	-204	-635	-500	-521
FCF Before Cash Distributions	3,316	48	1,334	1,301
Cash Distributions	-499	-585	-600	-624
FCF	2,817	-537	734	677

Source: Company data & HSBC estimates

HSBC

TV Azteca balance sheet (Nominal MXNm)

	2007	2008e	2009e	2010e
Assets	**19,173**	**20,539**	**21,660**	**22,656**
Current Assets	**7,226**	**8,813**	**9,293**	**9,626**
Cash & Equivalents	1,678	2,853	3,143	3,233
Accounts Receivable	4,594	4,755	4,887	5,067
Inventories	953	1,205	1,264	1,325
Long Term Assets	**11,947**	**11,726**	**12,366**	**13,030**
PP&E	2,985	3,119	3,619	4,141
LT Receivables (Pappas)	1,672	1,664	1,664	1,664
LT Investments (in NCS)	558	592	604	616
Intangible Assets (Concessions, Goodwill, Capitalized Expenses)	5,357	5,277	5,383	5,492
Other LT Assets	1,375	1,075	1,096	1,118
Liabilities	**14,785**	**16,053**	**16,304**	**16,455**
Current Liabilities	**3,755**	**4,534**	**4,639**	**4,710**
Bank Loans & Current Portion of LT Debt	0	1,081	1,125	1,171
Accounts Payable	379	362	404	410
Other Short Term Liabilities	3,377	3,092	3,110	3,129
Long Term Liabilities	**11,030**	**11,518**	**11,665**	**11,745**
Long Term Debt	7,301	7,642	7,785	7,714
Customer Deposits & Advances	3,693	3,859	3,863	4,014
Deferred Liabilities	36	17	18	18
Shareholder Equity	**4,389**	**4,487**	**5,356**	**6,200**
Minority Interest	0	1	2	2
Majority Interest	4,389	4,486	5,354	6,198

Source: Company data & HSBC estimates

Notes

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Underweight (Sell)	23%	(24% of these provided with Investment Banking Services)

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Company	Ticker	Recent price	Price Date	Disclosure
GRUPO TELEVISA	TLVACPO.MX	35.89	19-Feb-2009	2, 6, 7
TV AZTECA, S.A. DE C.V.	TVAZTCACPO.MX	4.49	19-Feb-2009	6

Source: HSBC

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