

Mondo TV

Budget update

YooHoo! Netflix deal drives significant upgrades

Underpinned by its recently announced Netflix global deal for *YooHoo and Friends*, as well as a couple of major new productions for the Chinese market, Mondo has significantly increased net profit expectations over the next five years. We upgrade our forecast net profit by 4%, 40% and 44% for the three forecast years, respectively. FY18 P/E and EV/EBIT parity with peers could drive the shares up towards €9.0 per share.

Year end	Revenue (€m)	EBIT (€m)	PBT* (€m)	EPS* (€)	DPS (c)	EV/EBIT (x)	P/E (x)
12/15	16.8	5.6	5.4	0.12	0.0	35.9	53.0
12/16	27.4	12.7	12.7	0.32	2.0	15.8	19.2
12/17e	37.6	20.0	18.7	0.46	0.0	10.0	13.6
12/18e	47.0	22.1	21.8	0.53	0.0	9.1	11.7

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Global deal with Netflix, new Chinese productions

Mondo's recently announced deal with Netflix for the global distribution of its new flagship production, *YooHoo and Friends*, represents a milestone for the group. As well as being its first deal with an OTT major player, it is its first US premiere and with production cost already covered, we expect it to have a significant impact on profitability from 2019. Mondo has also announced two new major productions for a total value of \$16m with a new Chinese partner, of which one has already been licensed in China.

Significant increase to five-year plan

Having already edged ahead its full-year guidance after the H117 results, following the Q3 results in November, which showed revenues increase of 43% and net earnings growth of 92% to €9.2m, management increased its net profit guidance once again for the current year to €12.5m (from €12.0m). The deals outlined above have also prompted a material upgrade to its five-year business plan to 2022, with EBITDA expected to more than quadruple over the period, on a broadly unchanged level of investment in content. We are upgrading our earnings forecasts significantly over the next three years, reflecting our confidence that the budget is well underpinned.

Valuation: Upgrades should drive further re-rating

The shares have deservedly performed well over the last few months. Following the upgrades, they now trade on a 40-60% discount to peers based on FY18e EV/EBIT and P/E multiples despite higher forecast earnings growth over the three-year period. A rating in line with peers could provide upside to €9.0 per share. We note that the strong share price performance could result in exercising up to 3.6m of warrants (€6.5/share, €8/share and €10/share), which would bring extra cash.

Media

4 December 2017

Price €6.2

Market cap €187m

Net debt (€m) at end September 2017 0.5m

Shares in issue 30.2m

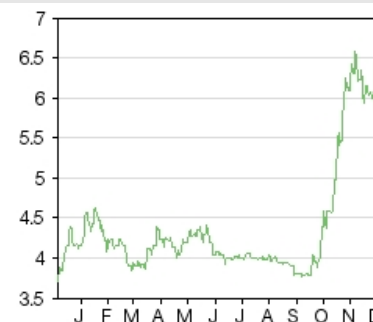
Free float 52%

Code MTV

Primary exchange Borsa Italiana Star

Secondary exchange N/A

Share price performance



%	1m	3m	12m
Abs	0.2	63.5	66.9
Rel (local)	4.2	61.4	27.5
52-week high/low		€6.6	€3.6

Business description

Mondo TV is a global media group with a focus on the production, acquisition and exploitation of animated children's television series. Headquartered in Rome, it also holds controlling stakes in listed subsidiaries Mondo TV France (47%), Mondo TV Suisse (67%) and Mondo TV Iberoamerica (72%). It owns the rights to over 1,500 TV episodes and films, which it distributes across 75 markets. 80% of revenues are generated in Asia, 10% in Italy, 7% in Europe and 3% in America.

Next events

Full-year results	March 2018
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Trading update

Nine-month results – FY17 net profit guidance increased by 4%

2017 is shaping up to be an excellent year for Mondo, which is starting to see good returns on some of its newer brands. Revenue growth at nine months was 43% (34% at H1), and EBITDA of €17.4 increased by 52%, with margins increasing to 72% as a result of a greater share of revenues from rights sales and licensing, now accounting for the larger part of revenues. After adjusting for the amortisation on an increasing budget for content investment, EBIT increased by 74% to €12.9m and net earnings increased 92% to €9.2m.

Having already increased its guidance for 2017 after the H117 results, management has again increased its guidance for FY17 net earnings to €12.5m (from €12.0m).

Global Netflix deal for *YooHoo and Friends*

We noted in our [initiation](#) that Mondo was close to signing its first agreement with a global OTT platform for its flagship series under production, *YooHoo and Friends*.

On 16 October, Mondo TV Suisse (67% subsidiary of Mondo TV) and its Korean partner, Aurora World, announced a deal with Netflix. The series will be presented as a Netflix Original with the first series scheduled to premiere in the US in late 2018. Netflix has acquired the global rights (with the exception of certain European markets where it will first premiere on free-to-air television before moving to Netflix).

This is the first deal Mondo has done with a global OTT platform and also represents its first premiere in the US market, a significant step forward for its international strategy and ambition to develop a global brand. It will also have a material financial impact from 2019 and is one of the key reasons behind management's update to its five-year business plan (see below). A high-profile sale of TV rights supports the potential for licensing and merchandising opportunities (which remain substantially owned by Mondo and Aurora).

Two new productions in China

Another significant announcement relates to two new 3D CGI animation projects (on 13 November) in partnership with Chinese firms Hong Kong HKHZ Media (production) and HKYueke (pre-production). Production will start in January 2018 and Mondo will contribute to the total \$16m budget. It has already covered its share of the production budget via a licensing agreement with Hong Kong Yiqi Culture Film & Television Media Co for €6.3m for distribution within China (Mondo retains 30% of the rights and 80% of licensing revenues).

Updated five-year plan

Along with some smaller licensing deals, the above two announcements underpin management's upgrades on 30 November to its five-year business plan (which now runs through to 2022), summarised in Exhibit 1.

Overall, on a broadly unchanged budgeted investment in content, the group has made little change to its aggregate revenue expectations, but, with the mix of revenues increasingly weighted towards rights and licensing sales, it has raised its EBITDA expectations substantially in 2019 and 2020, with an even more significant increase at the EBIT and net profit level. Rights sales and licensing can have a higher overall value but a lower EBIT margin).

Looking out five years, management budgets for a near tripling of net profit. The revenue/investment in content multiplier is forecast to increase from c 1.8x this year to 4.3x in 2022; this would bring it closer to but still much lower than those delivered by some of its larger peers; for example, the equivalent for eOne's Family division is c16.7x.

Exhibit 1: New business plan vs old						
€m	2017	2018	2019	2020	2021	2022
Revenue – new	37.64	47.0	61.8	76.0	88.6	100.24
Revenue – previous	37.64	52.3	60.6	73.3	84.5	N/A
Change – revenues	0%	-10%	2%	4%	5%	N/A
EBITDA						
EBITDA – new	28.03	36.2	47.3	58.8	65.9	75.24
EBITDA – previous	27.83	36.8	43.0	54.0	63.8	N/A
Change – EBITDA		-2%	10%	9%	3%	N/A
EBIT						
EBIT – new	20.00	22.1	31.7	38.6	45.3	50.2
EBIT – previous	19.80	19.6	25.4	31.7	38.2	N/A
Change – EBIT		13%	25%	21%	18%	N/A
Net profit						
Net profit – new	12.53	15.8	21.5	25.4	30.0	32.2
Net profit – previous	12.03	12.7	17.0	20.4	24.6	N/A
Change – net profit		24%	26%	24%	22%	N/A
Revenue/content multiplier – new	1.8	2.2	2.8	3.2	3.8	4.3
Revenue/content multiplier – previous	1.8	2.5	2.8	3.1	3.6	N/A

Source: Mondo TV

Edison's forecast changes

We increase our FY17 forecasts based on the improved outlook in the current year and update FY18 and FY19 forecasts with reference to management's new plan. Whereas previously we had provided for a 5% contingency against this plan in FY18 and FY19, we believe that the fact that management is increasing its expectations as a result of the recent deals, provides comfort that budgets are being set relatively conservatively. We remove the 5% contingency in 2018 although retain a small contingency in FY19. We summarise our forecast revision in Exhibit 2.

These changes result in a substantial c 25% increase to our forecast for EBIT in FY18 and 39% increase in 2019. At the net profit level, we increase forecasts by 4%, 40% and 44%, respectively, over the forecast period.

A strong share price performance could trigger exercise of the warrants attached to the GEM and Atlas facilities. 20% (0.7m) of the warrants are at €6.5/share, 60% (2.2m) at €8/share and the balance is at €10/share. We note that while this could be somewhat dilutive to earnings, the exercise would also bring up to €29m in extra cash to the balance sheet.

Exhibit 2: Summary forecast changes									
€m	2017e			2018e			2019e		
	Old	New	Change	Old	New	Change	Old	New	Change
Revenues	37.6	37.6	0.0%	49.7	47.0	-5.6%	54.6	58.7	7.6%
EBITDA	27.8	28.0	0.7%	35.0	36.2	3.5%	38.7	45.0	16.2%
EBITDA margin	73.9%	74.5%	0.7pp	0.7	77.1%	9.6pp	70.9%	76.6%	8.0pp
Normalised EBIT	19.8	20.0	1.0%	17.7	22.1	24.7%	21.1	29.3	38.9%
Normalised EBIT margin	52.6%	53.1%	0.5pp	35.7	47.1%	11.4pp	38.7%	49.9%	11.2pp
Normalised net income	12.0	12.5	4.2%	10.9	15.2	40.1%	13.1	19.0	44.4%
Reported net income	12.0	12.5	4.2%	10.9	15.2	40.1%	13.1	19.0	44.4%
Normalised diluted EPS (€)	0.44	0.46	4.2%	0.4	0.53	40.1%	0.45	0.65	44.4%
Net debt/(cash)	-0.6	-1.4	125.9%	-11.4	-20.2	77.6%	-16.4	-41.6	153.3%

Source: Edison Investment Research

Valuation

Management's new plan targets a near tripling of EBITDA over the five-year budget period. Even on a shorter time horizon, we are forecasting a three-year CAGR in EBITDA of 35% to FY19e.

The shares have performed justifiably well – nevertheless, the scale of the upgrade means that they continue to trade at a discount to peers.

Adjusting the EV for approximately €15m value of the minority interests, our new forecasts imply that the shares trade on an EV/EBIT of 9.1x in FY18 and 6.8x in FY19. In 2018, this is a 40-60% discount to the children's entertainment peer set (13.8x in FY18) and the wider Italian media sector (12.4x in FY18). On an FY18 P/E of 11.7x and 9.5x in FY19 the discount is similarly large.

While Mondo TV's smaller scale arguably could demand a discount to peers, we believe that its higher growth potential counterbalances this; we believe the shares have the potential to increase towards €9.0/share based on peer group average EV/EBIT and P/E multiples.

Exhibit 3: Financial summary

	€m	2014	2015	2016	2017e	2018e	2019e
31-December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT							
Revenue		11.3	16.8	27.4	37.6	47.0	58.7
Cost of Sales		(3.8)	(7.9)	(9.3)	(9.6)	(10.8)	(13.8)
Gross Profit		7.5	8.9	18.1	28.0	36.2	45.0
EBITDA		7.5	8.9	18.1	28.0	36.2	45.0
Normalised operating profit		2.2	5.6	12.7	20.0	22.1	29.3
Amortisation of acquired intangibles		0.0	0.0	0.0	0.0	0.0	0.0
Exceptionals		0.0	0.0	0.0	0.0	0.0	0.0
Share-based payments		0.0	0.0	0.0	0.0	0.0	0.0
Reported operating profit		2.2	5.6	12.7	20.0	22.1	29.3
Net Interest		(0.4)	(0.1)	0.0	(1.3)	(0.3)	(0.3)
Joint ventures & associates (post tax)		0.0	0.0	0.0	0.0	0.0	0.0
Exceptionals		0.0	0.0	0.0	0.0	0.0	0.0
Profit Before Tax (norm)		1.8	5.4	12.7	18.7	21.8	29.0
Profit Before Tax (reported)		1.8	5.4	12.7	18.7	21.8	29.0
Reported tax		(0.0)	(2.2)	(4.5)	(5.5)	(5.9)	(7.8)
Profit After Tax (norm)		1.8	3.3	8.3	13.2	15.9	21.2
Profit After Tax (reported)		1.8	3.3	8.3	13.2	15.9	21.2
Minority interests		(0.1)	(0.2)	0.3	(0.7)	(0.7)	(2.2)
Discontinued operations		0.0	0.0	0.0	0.0	0.0	0.0
Net income (normalised)		1.7	3.1	8.6	12.5	15.2	19.0
Net income (reported)		1.7	3.1	8.6	12.5	15.2	19.0
Basic average number of shares outstanding (m)		26	26	26	27	29	29
EPS - basic normalised (€)		0.07	0.12	0.32	0.46	0.53	0.65
EPS - diluted normalised (€)		0.07	0.12	0.32	0.46	0.53	0.65
EPS - basic reported (€)		0.07	0.12	0.32	0.46	0.53	0.65
Dividend (€)		0.00	0.00	0.02	0.00	0.00	0.00
Revenue growth (%)			48.5	63.2	37.3	24.8	25.1
Gross Margin (%)		66.4	52.7	66.0	74.5	77.1	76.6
EBITDA Margin (%)		66.4	52.7	66.0	74.5	77.1	76.6
Normalised Operating Margin		19.6	33.2	46.4	53.1	47.1	49.9
BALANCE SHEET							
Fixed Assets		19.6	25.0	37.0	50.5	57.5	63.7
Intangible Assets		9.7	16.1	31.4	44.9	51.9	58.1
Tangible Assets		0.3	0.3	0.3	0.3	0.3	0.3
Investments & other		9.7	8.5	5.3	5.3	5.3	5.3
Current Assets		27.5	32.2	37.8	47.5	59.2	74.6
Stocks		0.0	0.0	0.0	0.0	0.0	0.0
Debtors		18.4	22.3	31.7	41.1	36.0	30.0
Cash & cash equivalents		0.4	2.9	1.8	4.1	22.9	44.3
Other		8.7	7.0	4.3	2.3	0.3	0.3
Current Liabilities		(15.4)	(14.5)	(14.1)	(14.7)	(14.4)	(14.8)
Creditors		(10.2)	(10.9)	(11.7)	(12.3)	(12.0)	(12.4)
Tax and social security		(0.1)	(0.1)	(0.2)	(0.2)	(0.2)	(0.2)
Short term borrowings		(3.9)	(2.9)	(2.1)	(2.1)	(2.1)	(2.1)
Other		(1.3)	(0.7)	(0.1)	(0.1)	(0.1)	(0.1)
Long Term Liabilities		(0.6)	(0.4)	(0.8)	(0.8)	(0.8)	(0.8)
Long term borrowings		(0.2)	(0.2)	(0.6)	(0.6)	(0.6)	(0.6)
Other long term liabilities		(0.4)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Net Assets		31.2	42.3	59.9	82.6	101.5	122.7
Minority interests		1.0	1.4	0.6	0.6	0.6	0.6
Shareholders' equity		32.2	43.7	60.4	83.2	102.1	123.3
CASH FLOW							
Op Cash Flow before WC and tax		7.5	8.9	18.1	28.0	36.2	45.0
Working capital		(2.8)	(0.4)	(1.9)	(6.9)	6.9	6.4
Exceptional & other		(0.5)	1.0	0.7	0.0	0.0	0.0
Tax		(0.0)	(2.2)	(4.5)	(5.5)	(5.9)	(7.8)
Net operating cash flow		4.1	7.3	12.5	15.6	37.2	43.5
Capex		(7.3)	(9.8)	(20.6)	(21.6)	(21.1)	(21.8)
Acquisitions/disposals		0.0	0.0	0.0	0.0	0.0	0.0
Net interest		(0.3)	(0.2)	(0.2)	(0.3)	(0.3)	(0.3)
Equity financing		3.4	6.1	7.2	8.5	3.0	0.0
Dividends		0.0	0.0	0.0	0.0	0.0	0.0
Other		0.2	0.1	0.3	0.0	0.0	0.0
Net Cash Flow		0.1	3.4	(0.7)	2.3	18.8	21.4
Opening net debt/(cash)		3.7	3.6	0.2	0.8	(1.4)	(20.2)
FX		0.0	0.0	0.0	0.0	0.0	0.0
Other non-cash movements		0.0	0.0	0.0	0.0	0.0	0.0
Closing net debt/(cash)		3.6	0.2	0.8	(1.4)	(20.2)	(41.6)

Source: Mondo TV (historicals), Edison Investment Research (forecasts)

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