

Mondo TV

Q3 figures

Good pipeline into FY21 and beyond

Mondo TV continues to report production, distribution and licensing deals that will drive its future revenue and profits, supported by the €10.5m funding agreed with Atlas Special Opportunities. Q3 figures show broadly flat revenues for the year-to-date, with nine-month EBITDA margins up from 71.4% to 74.7%, reflecting reduced operating costs. We have pulled our full year revenue estimate back by 14% to reflect lower growth than we originally expected, translating to a reduction of just 4% at EBITDA level due to the margin uplift. The shares remain valued at a discount to peers.

Year end	Revenue (€m)	PBT* (€m)	EPS* (c)	DPS (c)	EV/EBIT (x)	P/E (x)
12/18	18.9	(30.1)	(56.3)	0.0	N/A	N/A
12/19	23.1	6.2	11.3	0.0	6.4	13.1
12/20e	24.5	7.0	11.7	0.0	5.0	11.8
12/21e	28.0	8.7	13.9	0.0	4.2	10.6

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

Deal flow continues

Our [May and September](#) notes ran through deals struck in the earlier parts of the year. During Q3, Mondo TV Iberoamerica (79% owned) confirmed co-production of *Annie & Carola* with RTVE, to be made at the Canary Islands studio and consisting of 52 11-minute episodes in high-definition 2D, scheduled for release in H222. Mondo and Toon2Tango have teamed up with ZDF to co-produce a new 3D/CGI series *Grisù* (52 11-minute episodes), based on the classic Italian property, also scheduled for delivery H222. ZDF will handle distribution outside Italy, Spain, France and China. In a broader licensing approach taking on representation of third-party brands, Mondo has recently added character and lifestyle brand *Phat Kandi* in Spain and Portugal to add to its portfolio that includes *The Gruffalo* and *Feisty Pets*.

Atlas funding coming through

The 42 convertible bonds issued to Atlas (see our [September update note](#) for details) have started to be converted, with the first tranche of 25 bonds issued in October, alongside 1.5m warrants. The warrants give the right to subscribe to Mondo shares on a one-for-one basis over a five-year period at €3, well ahead of the current price. At the time of writing, 10 of this first tranche have been converted, at prices of €1.30–1.31. As with the previous bonds, there is dilution for existing shareholders. However, it gives management the confidence to take up opportunities, such as the projects with Toon2Tango and the 3D CGI animation production suite in the Canary Islands, putting the group in a stronger longer-term position.

Valuation: Discount persists

Mondo's valuation discount to global peers has widened, with the drift in the share price from a high of €2.26 in June. Parity on averaged earnings multiples across FY19–21e would imply a value of €3.27/share (Sept: €3.43). A DCF (WACC of 11.5%, terminal growth 2%) suggests a price of €2.19 (Sept: €2.22). The mid-point of these is €2.73 (Sept: €2.83). We would expect Mondo's valuation discount to start to close as the financial benefit of recent deals flows through to revenues.

Media

24 November 2020

Price **€1.48**

Market cap **€54m**

Net debt (€m) at 30 September	5.7
Shares in issue	36.4m
Free float	62%
Code	MTVI
Primary exchange	Borsa Italiana Star
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(7.7)	(19.8)	17.0
Rel (local)	(17.7)	(26.8)	25.6
52-week high/low		€2.70	€1.11

Business description

Mondo TV is a global media group with a focus on the production, acquisition and monetisation of animated children's television series.

Headquartered in Rome, it also holds controlling stakes in listed subsidiaries Mondo TV France (21%), Mondo TV Suisse (56%) and Mondo TV Iberoamerica (79%). It owns the rights to over 1,600 TV episodes and films, which it distributes across 75 markets. In total, 74% of revenues are generated in Asia, with the remainder from Europe and South America.

Next events

Final results	March 2021
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Q3 summary results

Results for Q320 and the first nine months of 2020 (9M20) are shown below, demonstrating a resilient year-to-date revenue performance, down just 1% on the prior year, and an improvement in EBITDA of 3%. EBITDA margin was up from 71.4% in 9M19 to 74.7% in 9M20, with Q320 margin coming in at 76.9%.

Exhibit 1: H120 Mondo TV Group results summary

€m	H120	% change on H119	Q320	% change on Q319	9M20	% change 9M20 on 9M19
Revenue	11.2	+2	5.2	-8	16.4	-1
Capitalised content development	1.7	-3	1.2	+44	3.0	-12
Production value	12.9	+1	6.5	-1	19.4	+1
Operating costs	(4.6)	-8	(2.5)	+5	(7.1)	-3
EBITDA	8.3	+7	4.0	-4	12.3	+3
D&A (including exceptionals)	(4.7)	+6	(2.6)	-2	(7.3)	+3
EBIT	3.6	+9	1.4	-8	5.0	+4
Net financial costs	(0.2)	+131	(0.1)	-43	(0.2)	+25
PBT	3.4	+6	1.4	-5	4.8	+3
Tax	(1.2)	+1	(0.4)	-35	(1.6)	-11
Minorities	0.2		0.0		0.4	
Net profit	2.5	+22	1.1	+16	3.6	+16

Source: Mondo TV accounts, Edison Investment Research. Note: May not tally due to rounding.

Adjustments to forecasts

Management publishes five-year business plans to which we refer when building out our forecast model, while incorporating a degree of contingency. FY20 has not panned out as originally expected due to the pandemic. However, the disruption for Mondo has been manageable, with a relatively straightforward transition to remote working and little disruption to production in the Canary Islands. The more noticeable change has been on the way that the industry does business, with the major industry trade and licensing fairs having to transition to a virtual basis. The high need for content from broadcasters and streaming platforms, preferably fresh and of high quality, has made sure that deal-making has continued.

Exhibit 2: Adjustments to forecasts

	EPS (c)			PBT (€m)			EBITDA (€m)			Revenue (€m)		
	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
2020e	14.1	11.7	-17	8.5	7.0	-18	20.0	18.0	-10	28.6	24.5	-14
2021e	14.6	13.9	-5	9.2	8.7	-5	23.2	22.0	-5	32.0	28.0	-13

Source: Mondo TV accounts, Edison Investment Research

We have revisited our estimates considering the year-to-date figures and made adjustments, bringing back the top-line forecast from €28.6m to €24.5m for FY20, while upping the margins to reflect the lower operating costs in 9M20, as shown in the exhibit above. This results in a smaller reduction in EBITDA. Some of the advantage on the cost front may reverse once travel restrictions are lifted and the round of trade fairs recommences, although even these may be a partial hybrid of physical and virtual events.

We have also made an increase in our estimate of the capital investment for FY20 from €11.1m to €14.5m, as this was looking light on a run-rate basis, after a spend of €10.8m in the first nine months. The shape of the balance sheet by the year-end will obviously reflect the issue, timing and conversion of the Atlas convertible bonds. In all, our revised forecast currently projects year-end net cash of €1.3m (was €3.0m).

Valuation

Since we last published in September, there has been continuing divergence in share price performance between Mondo TV and the global peer group of content and related licensing companies. Mondo TV's share price has drifted back from €1.73 to €1.48, while stocks such as Mediawan (which has accelerated its plans to build a major European content provider, and despite a relatively heavy impact from coronavirus operating restrictions) and Toei (benefiting from increasing global interest in anime) are ahead over the year to date.

Exhibit 3: Peer group summary valuation ratings

Name	Share price	Market cap (m)	Ytd perf (%)	P/E last (x)	P/E 1FY (x)	P/E 2FY (x)	EV/Sales last (x)	EV/EBITDA last (x)	EV/EBITDA 1FY (x)	EV/EBITDA 2FY (x)	EV/EBIT last (x)	EV/EBIT 1FY (x)	EV/EBIT 2FY (x)	Div yield 1FY (x)
Xilam Animation (€)	44.10	217	-0.7	31.3	67.5	23.7	7.9	8.5	11.9	5.1	26.5	46.6	18.5	0.0
Mediawan (€)	11.50	389	10.2	15.1	26.1	12.9	1.9	12.1	16.7	10.3	15.2	18.2	12.1	0.0
Lions Gate Ent (US\$)	81.60	1,997	-11.0				1.2	10.3	10.2	10.3		46.6	29.4	0.0
Toei (¥)	6,910.00	290,220	23.4	24.7	27.4	26.4	4.6	15.0	16.3	15.3				0.9
Corus Ent (CA\$)	4.09	838	-23.1	5.5	5.6	5.4	1.7	5.1	5.1	5.1	7.5	7.9	7.3	5.9
Spin Master (US\$)	22.90	3,064	-24.3	25.4	46.8	21.9	1.4	10.1	13.3	8.9	15.6	40.8	15.2	0.0
Amuse (¥)	2,652.00	49,390	-11.9	15.3	28.0	20.4	0.4		5.7	4.6				1.3
Average			-5.3	19.6	33.6	18.5	2.7	10.2	11.3	8.5	16.2	32.0	16.5	1.2
Median			-11.0	20.0	27.7	21.2	1.7	10.2	11.9	8.9	15.4	18.0	15.2	0.0
Mondo TV (€)	1.48	56	-38	13.1	12.7	10.6	1.8	2.5	2.3	1.9	6.4	5.6	4.4	0.0
Discount to median				34%	54%	50%	-6%	75%	81%	79%	58%	79%	71%	

Source: Refinitiv, Edison Investment Research. Note: Priced at 19 November 2020.

With the revisions to our forecasts, the implied share price for Mondo TV to reach parity on averaged P/E and EV/EBIT multiples across FY19–21e is now €3.27/share from €3.43 in September. We would expect Mondo's valuation discount to start to close as the financial benefit of recent deals flows through to the revenue line.

Exhibit 4: Financial summary

	€m	2017	2018	2019	2020e	2021e
31-December		IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT						
Revenue		32.0	18.9	23.1	24.5	28.0
Cost of Sales		(8.3)	(7.7)	(6.6)	(6.6)	(6.0)
Gross Profit		23.7	11.2	16.4	18.0	22.0
EBITDA		23.7	11.2	16.4	18.0	22.0
Operating Profit (before amort. and except.)		17.6	(30.6)	6.5	7.4	9.5
Amortisation of acquired intangibles		0.0	0.0	0.0	0.0	0.0
Exceptionals		0.0	(23.9)	(0.2)	0.0	0.0
Share-based payments		0.0	0.0	0.0	0.0	0.0
Reported operating profit		17.6	(54.5)	6.3	7.4	9.5
Net Interest		(2.2)	0.5	(0.3)	(0.4)	(0.9)
Joint ventures & associates (post tax)		0.0	0.0	0.0	0.0	0.0
Exceptionals		0.0	0.0	0.0	0.0	0.0
Profit Before Tax (norm)		15.4	(30.1)	6.2	7.0	8.7
Profit Before Tax (reported)		15.4	(54.0)	6.0	7.0	8.7
Reported tax		(3.1)	11.5	(2.1)	(2.2)	(2.7)
Profit After Tax (norm)		12.3	(22.0)	4.1	5.0	6.2
Profit After Tax (reported)		12.3	(42.5)	3.9	4.8	6.0
Minority interests		0.5	3.0	(0.1)	(0.7)	(1.0)
Discontinued operations		0.0	0.0	0.0	0.0	0.0
Net income (normalised)		12.8	(19.0)	4.0	4.3	5.2
Net income (reported)		12.8	(39.5)	3.8	4.1	5.0
Average Number of Shares Outstanding (m)		30	34	35	37	38
EPS - normalised (c)		43.0	(56.3)	11.3	11.7	13.9
EPS - normalised fully diluted (c)		43.0	(56.3)	11.3	11.7	13.9
EPS - (c)		43.0	(117.0)	10.8	11.1	13.2
Dividend per share (c)		0.0	0.0	0.0	0.0	0.0
Revenue growth (%)		16.8	(40.9)	21.9	6.4	14.0
Gross Margin (%)		74.0	59.2	71.3	73.2	78.7
EBITDA Margin (%)		74.0	59.2	71.3	73.2	78.7
Normalised Operating Margin		54.9	(162.0)	28.2	30.2	34.1
BALANCE SHEET						
Fixed Assets		47.9	46.0	50.5	55.3	55.9
Intangible Assets		44.1	30.9	35.8	40.3	40.9
Tangible Assets		0.4	0.4	1.6	1.9	1.9
Investments & other		3.4	14.7	13.1	13.1	13.1
Current Assets		53.6	37.2	35.7	43.6	50.9
Stocks		0.0	0.0	0.0	0.0	0.0
Debtors		47.9	20.6	24.9	28.4	32.4
Cash & cash equivalents		2.4	12.5	8.0	12.3	15.7
Other		3.3	4.2	2.9	2.8	2.8
Current Liabilities		(22.6)	(25.2)	(19.9)	(23.6)	(26.0)
Creditors		(15.0)	(21.6)	(13.8)	(16.9)	(19.2)
Tax and social security		(0.4)	(0.5)	(0.8)	(1.2)	(1.2)
Short term borrowings		(3.6)	(3.0)	(5.3)	(5.5)	(5.5)
Other		(3.7)	(0.1)	(0.0)	(0.0)	(0.0)
Long Term Liabilities		(1.2)	(1.9)	(4.7)	(7.2)	(7.2)
Long term borrowings		(0.7)	(1.3)	(4.1)	(6.6)	(6.6)
Other long term liabilities		(0.5)	(0.6)	(0.6)	(0.6)	(0.6)
Net Assets		77.7	56.1	61.6	68.0	73.7
Minority interests		(0.6)	2.1	(1.2)	1.0	1.4
Shareholders' equity		77.1	58.2	60.4	69.0	75.1
CASH FLOW						
Op Cash Flow before WC and tax		23.7	11.2	16.4	18.0	21.1
Working capital		(11.2)	6.0	(10.6)	(0.4)	(1.7)
Exceptional & other		(0.8)	(11.0)	1.4	0.0	0.0
Tax		(3.1)	11.5	(2.1)	(2.2)	(2.7)
Operating cash flow		8.7	17.6	5.1	15.4	16.8
Capex		(19.2)	(28.6)	(14.2)	(14.5)	(12.5)
Acquisitions/disposals		0.0	0.0	(0.1)	0.0	0.0
Net interest		(0.2)	0.0	2.9	(0.4)	(0.9)
Equity financing		9.4	20.9	1.8	2.5	0.0
Dividends		0.0	0.0	0.0	0.0	0.0
Other		0.1	0.0	0.0	0.0	0.0
Net Cash Flow		(1.2)	10.0	(4.5)	3.0	3.4
Opening net debt/(cash)		0.9	2.0	(8.0)	1.4	(1.3)
FX		0.1	0.0	0.0	0.0	0.0
Other non-cash movements		0.0	0.0	(4.9)	(0.3)	0.0
Closing net debt/(cash)		2.0	(8.0)	1.4	(1.3)	(4.7)

Source: Company accounts, Edison Investment Research

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