EDISON

Scale research report - Update

Edel

Media

12 February 2018

Booking record growth

Edel's results to September 2017 were comfortably ahead of earlier guidance, revised post year-end. Revenues were boosted by good demand at Optimal Media, particularly for vinyl records, increased music streaming and by a good performance in cookery and health-related books. The capital investment programme is boosting market positioning while the earlier refinancing has reduced the interest burden. The group is majority family-owned with limited market liquidity, which partly explains the modest rating. The shares trade at a discount to global entertainment content and publishing companies, and carry an attractive yield.

Market forecasts revised up post year-end

FY17 revenues of €198.1m were well ahead of previous guidance (€187m). FY18e consensus revenue forecast has been raised from €194.9m to €203m, while FY19e numbers show 3% further growth. This primarily reflects a strong performance from Optimal Media, where revenues were up 12% in FY17. Sales were buoyed by strong demand for vinyl records (+40%), benefiting from the company's market reputation for high quality and for being a 'one-stop-shop', as well as additional business from Universal, for which Optimal now carries out central storage and worldwide distribution of all vinyl products. Difficult underlying markets for other delivery media (CDs, DVDs) may play in Edel's favour as less efficient players withdraw from the market, although rising input costs will be less helpful. Kontor New Media also performed well, boosted by market growth in music streaming and its ability to handle distribution end-to-end from rights acquisition right through to the streaming.

Investing in product and capacity

The bulk of the spending programme at Optimal is now complete, with the benefits starting to show through in the numbers. The group has also been investing in high-quality book-binding, which will allow it to reduce external costs for its own publishing imprints and to offer full service to third parties.

Valuation: Discount to content, publishing

We have maintained the same valuation approach as our previous notes, comparing the rating of the company with the global media subsectors of entertainment content and publishing. Edel's shares trade on a significant discount on EV/sales, most likely reflecting the manufacturing contribution. On forward EV/EBITDA, the discount is 36%. On a P/E basis, the multiple is 12.4x vs 21.1x.

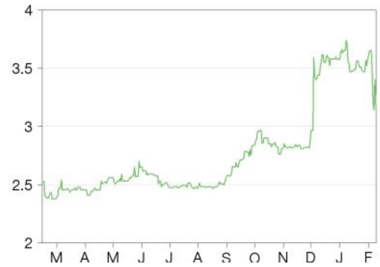
Consensus estimates

Year end	Revenue (€m)	PBT (€m)	Adjusted EPS (€)	DPS (€)	P/E (x)	Yield (%)
09/16	180.2	6.0	0.15	0.10	22.3	3.0
09/17	198.1	6.8	0.19	0.11	17.6	3.3
09/18e	203.0	8.6	0.27	0.11	12.4	3.3
09/19e	210.0	9.2	0.28	0.13	12.0	3.9

Source: Edel accounts, broker estimates (Montega)

Price	**€3.35**
Market cap	**€76m**

Share price graph



Share details

Code	EDL
Listing	Deutsche Börse Scale
Shares in issue	22.73m
Last reported net debt as at September 2017	€50.3m

Business description

Edel is one of Europe's leading independent media groups. It is both a publisher and a producer. Edel offers the music, film and book industry a unique full-service model, covering marketing and production as well as the distribution of audio content, video content and books.

Bull

- Diversity of revenue streams.
- Full-service third-party offering.
- Resurgence of vinyl.

Bear

- Small free float.
- Lack of comparators for valuation.
- Spotify dominance in streaming.

Analysts

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Edison profile page

Financials

Exhibit 1: Full year to 30 September 2017 vs prior year			
€000s	2017	2016	% change
Year end 30 September	HGB/German GAAP	HGB/German GAAP	
Income statement			
Revenue	198,146	180,162	+10
EBITDA	16,131	15,261	+6
EBITDA margin (%)	8.1	8.5	
Profit before tax (as reported)	6,815	6,031	+13
Net income (as reported)	4,459	4,165	+7

Source: Edel accounts

New consensus forecasts are for EBITDA growth of 12.2% in FY18 and 5.0% for the year after, predicated on top-line growth of 2.4%, followed by 3.4% in FY19, showing the efficiency gains from the capital investment programme starting to come through. The growth at the pre-tax level shows the benefits of the new financing arrangement put in place in Q1/Q217, with interest costs falling to €2.2m from €2.7m in the prior year. These figures indicate the EBITDA margin rising from 8.1% for FY17 to 8.9% in FY18 and to 9.0% for FY19.

The capital investment programme of €22m during FY17 (€9.7m in FY16) was focused on upgrading and expanding the facilties at Optimal Media to meet market demand. Further sums of €11m and €6m are built into forecasts for FY18 and FY19 respectively. The investment programme also includes the expansion of Kontor New Media, which has helped to increase its attraction as a one-stop-shop partner for the major global rights owners. Net debt at the year-end was €50.3m, slightly lower than had been projected, with the expectations for end FY18 to be at a broadly similar level, before starting to fall away from the following year.

Valuation

The valuation framework for Edel is complicated by the range of the company's activities, from pressing of CDs for third parties through children's animated TV, to being the market-leading publisher of cookery books and handling logistics and services for the world's largest music publishers. Any peer group comparison is therefore inevitably flawed. Given these constraints, rather than pick out a set of inadequate peers, we have looked globally across the key subsectors in which Edel operates, particularly entertainment content and publishing at key valuation metrics. We have stripped out the unprofitable companies from the EV/EBITDA and P/E calculations, as well as any obvious distortive outliers.

Exhibit 2: Sectoral valuations for related activities

	P/E (x)			EV/Sales (x)			EV/EBITDA (x)		
	Last	FY 1	FY 2	Last	FY 1	FY 2	Last	FY 1	FY 2
Publishing	24.3	21.0	15.8	3.9	3.3	2.9	12.5	11.3	10.0
Broadcast & Entertainment	18.9	21.2	16.6	1.9	1.8	1.7	10.9	10.5	9.0
Edel	17.3	12.1	11.7	0.6	0.6	0.6	7.7	6.9	6.6

Source: Bloomberg, Edison Investment Research. Note: Prices as at 8 February 2018.

It would be expected that the multiple to sales would be lower due to the large volumes of third-party revenues, which will also distort margin comparisons. In this context, Edel's share price looks to be well below the global market on both P/E and EV/EBITDA multiples, partly reflecting its comparatively modest size and limited liquidity. The current rating does not reflect the higher rate of growth.

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