

CentralNic Group

Recent updates

A busy end to a momentous year

CentralNic (CNIC) announced on 19 December that it is acquiring a portfolio of niche websites as part of its vertical integration strategy for its Online Marketing segment. The portfolio provides the company with exclusive special internet traffic to monetise and will be immediately earnings accretive. This is the latest in a multi-year series of acquisitions that has been transformative for the business, driving strong free cash flow generation. Combined with recent debt restructuring, CNIC is now in a position to start to return cash to shareholders and expects to launch its first share buyback by the end of FY22. We have upgraded our FY22 and FY23 revenue and profit forecasts to reflect these recent announcements, as well as the group's strong trading. The acquisition follows the recent announcement of CEO Ben Crawford's retirement from the CNIC board, with group CFO Michael Riedl appointed as his successor.

Year end	Revenue (\$m)	Adjusted EBITDA* (\$m)	PBT* (\$m)	Dil. EPS (c)	EV/EBITDA (x)	P/E (x)
12/20	240.0	29.4	17.6	6.9	19.7	26.0
12/21	410.5	46.3	31.9	10.9	12.5	16.3
12/22e	708.2	83.6	69.0	17.9	6.9	10.0
12/23e	811.0	94.4	79.6	19.3	6.1	9.2

Note: *Excludes impact of share-based payments, foreign exchange charges and non-core operating costs.

Upgrades to estimates

CNIC's trading has been robust through Q422 and it expects a full year outcome at least in line with the upper end of market expectations (revenue \$701.0–709.6m, EBITDA \$80.0–84.1m). We have upgraded our FY22 revenue and EBITDA forecasts to \$708.2m and \$83.6m, respectively. In FY23, we have raised our revenue and EBITDA forecasts to \$811.0m and \$94.4m, respectively, reflecting management's guidance for its latest website portfolio acquisition. On a standalone basis, management expects the websites to generate annualised revenue and EBITDA of at least \$1.9m and \$1.4m, respectively, post acquisition. The consideration consists of \$5.2m in cash and assumed working capital liabilities in an asset deal from multiple sellers, which will be financed from available liquidity.

Strong trading supports share buyback

With an improved net debt position and major strategic acquisitions completed, the company has decided to allocate some of the strong free cash flow generated to a maiden share buyback by year-end. Management plans to review cash flow deployment within the business and expects to have a greater focus on returns to shareholders versus mergers and acquisitions.

Valuation: Material discount despite upgrades

Relative to its online marketing peers, CNIC has been able to achieve superior revenue and profit growth using lower leverage over FY22. While the discount has slightly reduced since we last [wrote](#), the group still trades at a c 59% discount to peers on FY22 and FY23 EV/EBITDA multiples.

Software and comp services

21 December 2022

Price **146p**
Market cap **£421m**

\$1.22:£1

Net debt (£m) at end Q322 63.4

Shares in issue 288.7m

Free float 73%

Code CNIC

Primary exchange AIM

Secondary exchange N/A

Share price performance



%	1m	3m	12m
Abs	15.0	24.3	4.4
Rel (local)	15.8	21.8	6.0
52-week high/low		146p	111p

Business description

CentralNic Group provides the essential tools for businesses to go online, operating through two divisions: Online Presence (reseller, corporate, and SME) and Online Marketing. Services include domain name reselling, hosting, website building, security certification and website monetisation.

Next events

FY22 trading update	30 January 2023
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Changes to estimates and management update

On 12 December, CentralNic provided a brief trading update for Q422, confirming that trading has remained robust and that management now expects a full year outcome at least in line with the upper end of market consensus (revenue \$701.0–709.6m, EBITDA \$80.0–84.1m). We have upgraded our FY22 revenue forecast by 0.8% to \$708.2m and EBITDA forecast by 3.1% to \$83.6m. We have also revised our year-end net debt figure, reflecting both its balance sheet position at the end of Q322 and the consideration for its latest acquisition (\$5.2m cash and assumed working capital liabilities).

For FY23, our expectations for organic growth are unchanged, but we have increased our revenue and profit expectations on the back of the latest acquisition. On a standalone basis, management expects the websites to generate annualised revenue and EBITDA of at least \$1.9m and \$1.4m, respectively, post acquisition. As CNIC is already monetising part of the websites' traffic, this translates into c \$1.2m of additional revenue, c \$0.5m of reduced cost of goods sold and c \$1.4m of EBITDA in FY23. This is in line with our updated forecasts.

Exhibit 1: Changes to estimates

US\$'000s	2022e				2023e			
	Old	New	Change (%)	y-o-y (%)	Old	New	Change (%)	y-o-y (%)
Gross revenue	702,681	708,193	0.8	73	809,808	811,022	0.1	15
Net revenue	167,131	172,303	3.1	45	189,831	190,550	0.4	11
Adjusted EBITDA	81,059	83,567	3.1	81	93,017	94,416	1.5	13
Profit Before Tax (normalised)	66,476	68,953	3.7	116	78,182	79,570	1.8	15
Profit Before Tax (reported)	38,485	40,963	6.4	2534	46,641	48,030	3.0	17
Net income (normalised)	47,863	49,646	3.7	94	56,291	57,291	1.8	15
Basic ave. no. of shares outstanding (m)	270	270	-		289	289	-	
EPS - basic normalised (c)	17.73	18.39	3.7	64	19.50	19.85	1.8	8
EPS - diluted normalised (c)	17.24	17.88	3.7	64	18.99	19.33	1.8	8
Revenue growth (%)	71.2	72.5			15.2	14.5		
Gross margin (%)	23.8	24.3			23.4	23.5		
Adjusted EBITDA margin (%)	11.5	11.8			11.5	11.6		
Adjusted EBITDA/net revenue (%)	48.5	48.5			49.0	49.5		
Capex	(4,238)	(5,416)	27.8	13	(4,453)	(5,622)	26.3	4
Closing net debt/(cash)	37,584	62,655	66.7	(23)	(22,109)	2,846	N/A	(95)

Source: Edison Investment Research

Experienced CFO steps up to CEO role

On 12 December, CNIC announced that group CEO Ben Crawford had retired from the board and group CFO Michael Riedl had been promoted to the role of group CEO with immediate effect. Mr Riedl became group CFO in 2019 following CNIC's acquisition of KeyDrive, where he had been CFO since 2011. Current group financial director William 'Billy' Green has been promoted to the group CFO role, initially in a non-board capacity, but with the expectation that he will join the board in due course

Exhibit 2: Financial summary

	\$'k	2019	2020	2021	2022e	2023e
31-December		IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT						
Revenue		109,194	240,012	410,540	708,193	811,022
Cost of Sales		(66,419)	(164,894)	(292,041)	(535,890)	(620,471)
Gross Profit		42,775	75,118	118,499	172,303	190,550
EBITDA		17,921	29,394	46,251	83,567	94,416
Normalised operating profit		16,615	27,310	42,737	79,606	89,880
Amortisation of acquired intangibles		(8,299)	(13,747)	(18,291)	(21,035)	(21,035)
Exceptionals		(8,259)	(10,529)	(7,087)	1,000	0
Share-based payments		(2,878)	(5,113)	(5,006)	(5,006)	(5,006)
Reported operating profit		(2,821)	(2,079)	12,353	54,565	63,839
Net Interest		(3,869)	(9,834)	(10,798)	(10,652)	(10,309)
Joint ventures & associates (post tax)		74	79	0	0	0
Exceptionals		0	0	0	(2,950)	(5,500)
Profit Before Tax (norm)		12,820	17,555	31,939	68,953	79,570
Profit Before Tax (reported)		(6,616)	(11,834)	1,555	40,963	48,030
Reported tax		39	975	(5,097)	(21,376)	(24,667)
Profit After Tax (norm)		10,256	14,044	25,551	49,646	57,291
Profit After Tax (reported)		(6,577)	(10,859)	(3,542)	19,587	23,363
Minority interests		64	0	0	0	0
Net income (normalised)		10,320	14,044	25,551	49,646	57,291
Net income (reported)		(6,513)	(10,859)	(3,542)	19,587	23,363
Basic average number of shares outstanding (m)		175	175	197	227	270
EPS - basic normalised (c)		5.89	7.14	11.24	18.39	19.85
EPS - diluted normalised (c)		5.72	6.86	10.91	17.88	19.33
EPS - basic reported (c)		(3.72)	(5.52)	(1.56)	7.26	8.09
Dividend (c)		0.00	0.00	0.00	0.00	0.00
Revenue growth (%)		95.0	119.8	71.0	72.5	14.5
Gross Margin (%)		39.2	31.3	28.9	24.3	23.5
EBITDA Margin (%)		16.4	12.2	11.3	11.8	11.6
EBITDA/Net Revenue (%)		41.9	39.1	39.0	48.5	49.5
Normalised Operating Margin		15.2	11.4	10.4	11.2	11.1
BALANCE SHEET						
Fixed Assets		217,544	270,578	271,830	346,945	335,411
Intangible Assets		206,055	255,716	254,169	329,284	317,750
Tangible Assets		6,427	8,677	8,601	8,601	8,601
Investments & other		5,062	6,185	9,060	9,060	9,060
Current Assets		67,433	77,606	128,391	187,241	261,272
Stocks		491	1,011	895	1,571	1,800
Debtors		40,760	47,941	71,363	119,326	133,319
Cash & cash equivalents		26,182	28,654	56,133	66,345	126,154
Other		0	0	0	0	0
Current Liabilities		78,767	96,421	137,129	170,656	195,006
Creditors		75,683	89,256	117,016	168,819	193,169
Tax and social security		0	0	0	0	0
Short term borrowings		2,213	5,819	18,276	0	0
Lease liabilities		871	1,346	1,837	1,837	1,837
Long Term Liabilities		129,206	137,867	149,110	167,536	177,314
Long term borrowings		98,967	107,820	119,251	129,000	129,000
Other long term liabilities		30,239	30,047	29,859	38,536	48,314
Net Assets		77,004	113,896	113,982	195,994	224,363
Minority interests		(69)	0	0	0	0
Shareholders' equity		76,935	113,896	113,982	195,994	224,363
CASH FLOW						
Op Cash Flow before WC and tax		2,989	3,997	23,360	65,959	73,601
Working capital		8,963	4,129	4,091	3,165	10,128
Exceptional & other		6,673	14,526	15,804	15,658	15,315
Tax		(2,309)	(1,957)	(2,230)	(12,698)	(14,889)
Net operating cash flow		16,316	20,695	41,025	72,083	84,155
Capex		(15,497)	(4,259)	(4,810)	(5,416)	(5,622)
Acquisitions/disposals		(60,900)	(37,065)	(18,344)	(92,150)	(5,500)
Interest paid		(1,970)	(9,512)	(8,695)	(10,652)	(10,309)
Equity financing		2,133	34,667	0	58,500	0
Change in borrowing		101,047	1,563	24,721	18,892	0
Other		(31,307)	(4,734)	(3,700)	(24,445)	(2,914)
Net Cash Flow		9,822	1,355	30,197	16,812	59,809
Opening net debt/(cash)		2,115	74,998	84,985	81,394	62,655
FX		(6,730)	1,117	(2,718)	(6,600)	0
Other non-cash movements		(75,975)	(12,459)	(23,888)	8,527	0
Closing net debt/(cash)		74,998	84,985	81,394	62,655	2,846

Source: CentralNic, Edison Investment Research

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