

Mondo TV

Focus on profitable properties

Mondo TV is set to focus its efforts on a smaller number of more profitable properties, following a difficult H218. The group's geographic spread will also be readjusted – partly as a result of existing Asian clients scaling back their purchasing – giving a better balance between destination markets. The global market appetite for quality content remains strong with channel proliferation. On reduced forecast revenues, Mondo TV remains comfortably profitable, with net cash on the balance sheet, and should return to being cash flow positive in FY20 in our modelled scenario. Our view is that the attrition of the share price has been overdone.

Year end	Revenue (€m)	PBT* (€m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/16	27.4	12.7	31.1	2.0	3.6	1.8
12/17	32.0	15.4	43.0	0.0	2.6	N/A
12/18e	23.7	8.0	18.1	0.0	6.3	N/A
12/19e	23.9	6.1	6.0	0.0	18.8	N/A
12/20e	32.3	7.7	7.9	0.0	14.3	N/A

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

Revised FY19–23 guidance

Following the untimely death of the group's founder, Orlando Corradi, in November, management brought forward the publication of the next business plan (originally scheduled for January) to reassure shareholders that the board was on top of the issues facing the group. The Q3 interim statement in November showed lower revenues, ascribed to reduced library sales, with FY18 estimates unlikely to be met. The more recent statement indicates a further deterioration in trading, particularly in Asia. This is both macro-related (weakening Chinese consumer economy) and specific, whereby customers cancelled previous projects or revised investments in response to weaker broadcaster demand. New FY19–23 financial objectives were issued, indicating a lower revenue base than previous guidance and growth resuming from FY20. With a reduced production slate, capex is significantly reduced (€20m down to €11m for FY19). Our new forecasts (previous forecasts had been withdrawn) are based on these objectives, with some contingency built in.

Library write-down

The reduced Asian demand has prompted a re-evaluation of the library. A €31m impairment is being taken (intangible assets at end September were €52m). With the cancellation of existing pre-sales, a further €27m is taken off trade receivables (€65m at end September). Less the tax offset (€12m), this equates to an extraordinary charge of €46m. Year-end shareholders' funds will be around €59m.

Valuation: Retrenchment overdone

Mondo TV's share price has drifted back from €6.55 on 1 January. The founder's 36% shareholding has passed to his family, with Matteo Corradi the group's chairman and managing director. The current valuation is well below peers (trading on c 16x EV/EBITDA in FY19e). It is also below the €2.48 valuation suggested by a DCF on our numbers, as updated for the downgrade (using a WACC of 12%) and below the NAV of €1.71, as indicated in the December statement.

New business plan

Media

17 December 2018

Price €1.13

Market cap €41m

Net cash (€m) at 30 September 2018 9.3

Shares in issue 36.4m

Free float 64%

Code MTVI

Primary exchange Borsa Italia Star

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (55.2) (71.9) (83.1)

Rel (local) (54.7) (68.6) (80.0)

52-week high/low €6.8 €0.9

Business description

Mondo TV is a global media group, focused on the production, acquisition and exploitation of animated children's TV series. Based in Rome, it also holds controlling stakes in listed subsidiaries Mondo TV France (25%), Mondo TV Suisse (57%) and Mondo TV Iberoamerica (72%). It owns the rights to over 1,500 TV episodes and films, which it distributes across 75 markets. 83% of FY17 revenues were generated in Asia, with the remainder from Europe and South America.

Next event

FY18 results Q119

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Picking the winners

Mondo TV has developed a wide portfolio of property assets – arguably too many to manage from a rights, licensing and merchandising perspective for the scale of the group operation. The decision to focus on fewer, more profitable properties therefore looks very sensible and chimes in with the strategies of other successful operations within the children's segment.

With a view to obtaining some balance in the portfolio, Mondo TV is also expanding its activities in live action and in widening its target audience.

Management has identified five strategic targets that should enable the group to reach its financial objectives. In summary, these are:

- Improving **portfolio quality** by focusing on higher-yielding properties and with greater commercial scrutiny before green-lighting, working with partners and broadcasters for co-production opportunities and specifically targeting digital platform operators.
- Improving **geographic diversification** to reduce risk. The lower exposure to Asian markets is in part self-fulfilling following the cancellation of projects indicated above, and our revised modelling suggests the proportion of FY19 revenues from Asia will be less than one-third of the group total.
- **Optimising the licensing and merchandising** opportunities through greater emphasis on exploitable properties and a strengthened operational team. Mondo TV has just announced its first licensing agreement not connected to a production by taking on the sub-agency for Italy and the Iberian peninsula for *Feisty Pets* for US-based Surge Licensing Inc. If successful, this could lead to further similar arrangements and add a new, low-risk income source.
- **Broadening the product range** with more third-party distribution with lower risk than own-production and no significant capital funding requirement.
- Building on the expertise in Mondo TV Iberoamerica in **live action** to take proper advantage of the investment being made by the subscription video on demand (SVOD) channels in European programming to satisfy the needs of local markets and regulators. One such project, *2050*, a sci-fi live action series targeted at an adult/young adult audience, is looking particularly promising.

New business plan targets

The changes outlined above describe an altogether different scale of business than that to which the company previously aspired. From the publication of the interim results in September, the FY18 revenue target was starting to look ambitious (Edison was expecting FY18 revenues of €47m, in line with management guidance, when we [last published](#) figures in May 2018). At the interim stage, revenues of €16.1m (plus €1.1m of capitalisation of internally produced cartoon series) were reported. By 30 September, this figure had increased to €20.3m, plus €1.9m of cost capitalisation, which at that stage would have required a significant Q4 turnaround to achieve the €47m target.

In light of the experience with the Asian customers, the impact of which carries through into FY19, the group has rebased its business plan in line with the strategic objectives described above. The new targets are shown in the table below with the previous business plan objectives for comparative purposes.

Exhibit 1: Mondo TV business plan targets, December 2018

	2018 (forecast)	2019	2020	2021	2022	2023 (new)
Revenue differential						
revenue - new	23.7*	24.5	34.0	38.5	40.8	44.4
revenue - old	47.0	61.8	76.0	88.6	100.2	-
change - revenues	-50%	-60%	-55%	-57%	-59%	N/A
EBITDA differential						
new EBITDA	17.9	14.3	19.9	24.2	28.2	31.5
old EBITDA	36.2	47.3	58.8	65.9	75.2	-
change - EBITDA	-51%	-70%	-66%	-63%	-63%	N/A
new D&A	(9.4)	(7.5)	(11.0)	(12.5)	(14.2)	(14.6)
old D&A	(14.1)	(15.7)	(20.2)	(20.6)	(25.1)	
EBIT differential						
New EBIT	8.5	6.8	9.0	11.7	14.0	16.9
old EBIT	22.1	31.7	38.6	45.3	50.2	-
change - EBIT	-62%	-79%	-77%	-74%	-72%	N/A
Net profit differential						
new net profit	5.91	4.12	5.425	7.044	8.384	10.489
old net profit	15.8	21.5	25.4	30.0	32.2	-
change - net profit	-63%	-81%	-79%	-77%	-74%	N/A

Source: Mondo TV. Note: *Edison estimate.

Our new forecasts, shown in Exhibit 2 below, are based around this plan, but with some contingency (increasing over time) built in to reflect the execution risk.

Financing secure

The final tranche of the Atlas Alpha Yield Fund and Atlas Capital Markets convertible bond subscription was exercised in September 2018, bringing the total amount raised from this source to around €21m, with around €12m coming in during Q3 in two tranches of €5m and €7m.

This funding means that the financial footing of the group is stable and that, under our modelled scenario, it will remain cash positive through FY19e, despite the reduced scale. On the basis of these projections, we expect Mondo TV to resume being cash generative in FY20e.

Valuation

The concerns over trading and strategy have undermined the share price for some time. The untimely death of the founder and chairman may also have led to some questions about the status of his 49.2% shareholding. The company has confirmed that this shareholding has passed to his family and that they are very much involved in the continued running of the business.

The significantly rebased expectations obviously have a direct impact on the implied valuation. With the change in strategy and different dynamic in the management (although no change in the executive team), there is bound to be a time lag before the market regains confidence in the team's ability to deliver in line with the significantly reduced guidance. Some degree of discount against the peer set is very reasonable in that context. With net cash on the balance sheet, a valuation based on EV/EBITDA or EV/EBIT will look low in comparison to debt-funded peers. Global family entertainment peers are currently valued at around 16.1x FY19e EV/EBITDA and 14.9x FY20e, considerably in excess of the 1.8x and 1.3x respectively currently accorded to Mondo TV based on revised estimates.

A DCF run on our revised estimates, using a 12% WACC and a 2% terminal growth rate, suggests a share price of €2.48 on an earnings basis. The NAV of €1.71 as at end FY18e is based on assets that include the library value after the write-downs, which is 51% above the current share price.

Exhibit 2: Financial summary

	€'m	2016	2017	2018e	2019e	2020e
31-December		IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT						
Revenue		27.4	32.0	23.7	23.9	32.3
Cost of Sales		(9.3)	(7.0)	(5.8)	(9.9)	(13.4)
Gross Profit		18.1	25.0	17.9	13.9	18.9
EBITDA		18.1	25.0	17.9	13.9	18.9
Operating Profit (before amort. and except.)		12.7	17.6	8.5	6.4	8.0
Amortisation of acquired intangibles		0.0	0.0	0.0	0.0	0.0
Exceptionals		0.0	0.0	0.0	0.0	0.0
Share-based payments		0.0	0.0	0.0	0.0	0.0
Reported operating profit		12.7	17.6	8.5	6.4	8.0
Net Interest		0.0	(2.2)	(0.5)	(0.3)	(0.3)
Joint ventures & associates (post tax)		0.0	0.0	0.0	0.0	0.0
Exceptionals		0.0	0.0	(46.0)	0.0	0.0
Profit Before Tax (norm)		12.7	15.4	8.0	6.1	7.7
Profit Before Tax (reported)		12.7	15.4	(38.0)	6.1	7.7
Reported tax		(4.5)	(3.1)	(1.3)	(1.6)	(2.1)
Profit After Tax (norm)		8.3	12.3	6.7	4.5	5.6
Profit After Tax (reported)		8.3	12.3	(39.3)	4.5	5.6
Minority interests		0.3	0.5	(0.7)	(2.3)	(2.7)
Discontinued operations		0.0	0.0	0.0	0.0	0.0
Net income (normalised)		8.6	12.8	6.1	2.2	2.9
Net income (reported)		8.6	12.8	(40.0)	2.2	2.9
Average Number of Shares Outstanding (m)		27	30	34	36	36
EPS - normalised (c)		31.1	43.0	18.1	6.0	7.9
EPS - normalised fully diluted (c)		31.1	43.0	18.1	6.0	7.9
EPS - (c)		0.3	0.4	(1.2)	0.1	0.1
Dividend per share (c)		2.0	0.0	0.0	0.0	0.0
Revenue growth (%)		63.2	16.8	(26.0)	0.8	0.0
Gross Margin (%)		66.0	78.1	75.5	58.4	58.6
EBITDA Margin (%)		66.0	78.1	75.5	58.4	58.6
Normalised Operating Margin		46.4	54.9	35.9	26.8	24.7
BALANCE SHEET						
Fixed Assets		37.0	47.9	22.1	25.7	27.3
Intangible Assets		31.4	44.1	18.3	21.9	23.6
Tangible Assets		0.3	0.4	0.4	0.4	0.4
Investments & other		5.3	3.4	3.4	3.4	3.4
Current Assets		37.8	53.6	58.6	58.1	65.4
Stocks		0.0	0.0	0.0	0.0	0.0
Debtors		31.7	47.9	38.0	41.0	48.2
Cash & cash equivalents		1.8	2.4	17.3	13.8	13.9
Other		4.3	3.3	3.3	3.3	3.3
Current Liabilities		(14.1)	(19.0)	(21.2)	(19.8)	(23.1)
Creditors		(11.7)	(15.0)	(15.0)	(13.6)	(17.0)
Tax and social security		(0.2)	(0.4)	(0.4)	(0.4)	(0.4)
Short term borrowings		(2.1)	(3.6)	(5.8)	(5.8)	(5.8)
Other		(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Long Term Liabilities		(0.8)	(0.7)	(1.3)	(1.3)	(1.3)
Long term borrowings		(0.6)	(0.7)	(1.3)	(1.3)	(1.3)
Other long term liabilities		(0.2)	0.0	0.0	0.0	0.0
Net Assets		59.9	81.8	58.3	62.7	68.3
Minority interests		0.6	0.6	0.6	0.6	0.6
Shareholders' equity		60.4	82.4	58.8	63.3	68.9
CASH FLOW						
Op Cash Flow before WC and tax		18.1	25.0	17.9	13.9	18.9
Working capital		(1.9)	(11.2)	(10.1)	(4.4)	(3.8)
Exceptional & other		0.7	(2.1)	0.0	0.0	0.0
Tax		(4.5)	(3.1)	(1.3)	(1.6)	(2.1)
Net operating cash flow		12.5	8.7	6.5	7.9	13.0
Capex		(20.6)	(19.2)	(14.6)	(11.1)	(12.6)
Acquisitions/disposals		0.0	0.0	0.0	0.0	0.0
Net interest		(0.2)	(0.2)	(0.5)	(0.3)	(0.3)
Equity financing		7.2	9.4	23.5	0.0	0.0
Dividends		0.0	0.0	0.0	0.0	0.0
Other		0.3	0.1	0.0	0.0	0.0
Net Cash Flow		(0.7)	(1.2)	15.0	(3.5)	0.1
Opening net debt/(cash)		0.2	0.9	2.0	(10.3)	(6.8)
FX		(0.1)	0.1	0.0	0.0	0.0
Other non-cash movements		0.0	0.0	(2.7)	0.0	0.0
Closing net debt/(cash)		0.9	2.0	(10.3)	(6.8)	(6.9)

Source: Company accounts, Edison Investment Research

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