Mondo TV

Half-year results

Setting the scene for profit recovery

Media

Mondo TV has returned to profit in the first half of FY19, on its rebased business model with a more concentrated portfolio. Financial performance is tracking to management's plan and our only forecast changes reflect IFRS 16 adoption. Visibility through H219 and into FY20 on the production pipeline is improving. The streaming of *YooHoo & Friends* on Netflix raises the group's profile and the Toon2Tango partnership opens more European opportunities. The shares are valued well below global content peers.

Year end	Revenue (€m)	PBT* (€m)	EPS* (c)	DPS (c)	EV/EBIT (x)	P/E (x)
12/17	32.0	15.4	43.0	0.0	1.5	2.7
12/18	18.9	(30.1)	(56.3)	0.0	N/A	N/A
12/19e	20.8	6.0	10.3	0.0	4.2	11.3
12/20e	27.8	7.8	12.8	0.0	3.3	9.1

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

On business plan target trajectory

Group H119 production value of €12.8m was 26% down on H118 but well ahead of the €4.9m achieved in H218. These figures put Mondo TV well on track to meet management's published business plan target of €24.5m for FY19. H119 EBITDA of €7.8m compares with the FY19 target of €14.3m, although this latter figure does not include the uplift from the adoption of IFRS 16 (€0.3m of amortisation of usage rights is identified for the half-year). The accounting change also reduces the reported net cash position by €1.8m to €1.7m at the period end, on gross cash resource of €10.5m. There is no new news on the outstanding disputes with Asian ex-customer New Information Tech and the Italian tax authorities (see May update).

Streamers content appetite unabated for now

The upcoming Mipcom at Cannes (12–17 October) will set the mood for the global content market. The disruption from new streaming platforms (Disney+, Apple TV+, WarnerMedia, NBCUniversal etc.) drives competition for quality content, but much of the additional spend is focused on 'tent pole' properties. Children's content is valued to attract household subscriptions and traditional broadcasters have been less open to commission new series for some time. Licensing and merchandising markets have been lacklustre in recent months, on poorer economic conditions and the impact of (and threat of further) US Chinese trade sanctions also weighing on advertising revenues.

Valuation: Deep discount persists

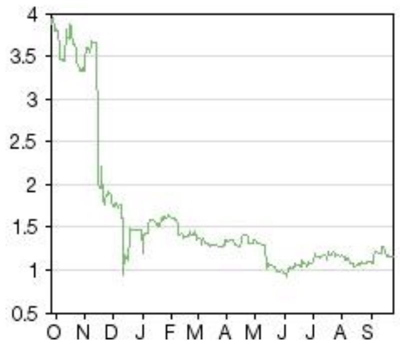
Since the start of 2019, Mondo TV's shares have traded in a €0.93–1.64 range. This represents a substantial discount to global peers (parity on EV/EBIT would indicate a share price of €2.82; on a P/E basis €1.75). This is slightly below levels in May as sector earnings expectations have moderated, despite the uplift in the EntertainmentOne valuation post Hasbro's bid. A DCF at a WACC of 11.5% and terminal growth of 2% suggests a price of €2.09. The average of these three values is €2.22 (€2.32 in May), nearly double the current market price.

25 September 2019

Price	**€1.16**
Market cap	**€42m**

Net cash (€m) at end June 2019, adj for IFRS 16	1.7
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	7.4	10.8	(69.9)
Rel (local)	0.7	7.8	(70.2)
52-week high/low		€3.96	€0.93

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 (23%), Mondo TV Suisse (56%) and Mondo TV Iberoamerica (71%). It owns the rights to over 1,600 TV episodes and films, which it distributes across 75 markets. 83% of revenues are generated in Asia, with the remainder from Europe and South America.

Next events

Interim results publication	14 November 2019

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Edison profile page

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Half-year results

Exhibit 1: H119 Mondo TV Group results summary

€m	H119 (IFRS 16)	H118 (non IFRS 16)	% change	FY18 (non IFRS 16)
Revenue	11.0	16.1	-32	18.9
Capitalised content development	1.8	1.1	+58	2.7
Production value	12.8	17.3	-26	22.2
Operating costs	(5.0)	(4.3)	+16	(11.0)
EBITDA	7.8	12.9	-40	11.2
D&A (including exceptionals)	(4.5)	(4.0)	+13	(65.7)
EBIT	3.3	9.0	-64	(54.5)
Net financial costs	(0.1)	0.5	N/A	0.5
PBT	3.2	9.5	-66	(54.0)
Tax	(1.2)	(2.8)	-59	11.5
Minorities	0.0	0.2		3.0
Net profit	2.0	6.8	-70	(39.5)

Source: Company accounts

A straight comparison against the first half of the prior year looks unfavourable, but should be seen in the context of the change of management strategy as outlined in our Outlook note in May. H218 delivered EBITDA of just €1.7m and a substantial library write-down. Compared to this previous reporting period, the group is now delivering substantial growth and looks set to deliver full-year results in line with management's published goals.

Operating cash flow in the reporting period was €5.2m, marginally ahead of H118 at €5.1m. €10.5m was invested, leaving net cash on a pre-IFRS 16 basis of €3.5m. The new accounting treatment adds a further €1.8m in leasing debt, reducing the published net cash to €1.7m. We expect the cash flow to improve in the second half. Traditionally, broadcasters pay for content on delivery. Netflix, however, extracts extended payment terms from its suppliers, so should be paying further instalments for *YooHoo & Friends* in H219.

Busy in all territories

As outlined in our Outlook report in May, Mondo TV group is based and quoted in Italy. This is the main operation, but it has operating subsidiaries in Iberia, France and Switzerland, with local stock market quotes.

Mondo TV France in the driving seat

The increase in capitalised costs relates primarily to Mondo TV France (19% owned by Mondo TV), where they increased from €0.6m in H118 to €1.14m in H119, alongside an increase in revenues from €0.1m to €0.8m, giving a production value of €2.0m from €0.8m. The business plan indicates a FY19 production value of €4.7m, driven by *Rocky Kwaternaire* and *Disco Dragoon*. For the second series of Rocky, 13 further episodes were delivered, making 26 out of the total 52, with production of the balance expected to complete in 2019. Development continues for *Disco Dragoon*, with production scheduled for Q419, airing in Q120.

Other operating costs rose €0.4m but personnel costs were relatively stable, leading to EBITDA of €0.5m from a loss of €0.2m in the comparative period. Heavier amortisation and write-downs pushed the company into a loss at the EBIT level, but less than that of the prior period.

Mondo TV France ended the half year with net debt of €0.3m, having received €1.0m funding from the conversion of Atlas bonds in the period. A further €0.3m has been raised from this source since the period end, giving Atlas a 12% shareholding. There remain 15 bonds (at €10k) left to convert.

Mondo TV Iberoamerica fundraising

The Spanish company of the Mondo TV group is conducting a capital raise targeting new funding of €3.5m. This would allow it to pursue various series' projects and capitalise on its strong relationship with the broadcaster, RAI. It would also accelerate its diversification from its historic emphasis of distribution in Spanish- and Portuguese-language territories.

Mondo TV plus Mondo TV Suisse in German JV

As outlined in June, Mondo TV has entered a co-operation agreement with Hans Ulrich Stoef's (former CEO of m4e and Studio 100 Media) new venture, Toon2Tango. The new venture is set to develop, co-produce and distribute at least eight new 3D CGI animated series over the next four years. These would be targeted at six- to 11-year-olds initially, then expand to pre-school and into live action, on properties with strong licensing and merchandising potential. The underlying IP will be co-owned between the two partners, sharing all revenues.

Outstanding corporate issues persist

We laid out the history of the disputes with ex-customers in Asian territories in an update note in May and there is no additional update on the last remaining dispute with New Information Tech, which is in the hands of lawyers. Other lawyers for Mondo TV continue to dispute the claim from Italian tax authorities for €1.1m (with potential for further verifications for other years).

Valuation

Exhibit 2: Peer group valuations

Name	Curr	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)	Yield 1FY (%)
eOne	GBp	571	2,845	60.1	56.3	21.6	19.1	3.1	6.7	12.4	11.4	41.2	16.0	15.4	0.3
Xilam Animation	EUR	34.4	169	-8.6	26.2	21.8	15.6	5.8	6.9	5.6	4.7	18.4	15.0	10.8	0.0
Mediawan	EUR	10.24	326	-6.9	16.8	12.1	10.3	1.5		4.8	4.4		10.1	8.9	0.0
Lions Gate Ent	USD	11.30	2,366	-29.9	21.5	11.2	9.2	1.5	22.2	10.8	9.2	63.0	13.4	12.4	1.6
Toei	JPY	4895	205,590	21.0	18.1	17.0	15.2	3.1	10.4			10.9	10.3	9.1	1.4
Corus Ent	CAD	5.38	1,141	13.0	6.0	6.5	5.7	1.8	5.1	5.2	5.2	7.1	7.5	7.0	8.7
Spin Master	USD	43.96	4,489	14.5	30.3	21.2	18.7	2.1	13.8	10.8	10.1	21.6	14.2	13.0	0.0
Amuse	JPY	2663	49,594	14.1	8.8	17.5	17.1	0.5	5.3			5.7			1.3
Average				**9.7**	**23.0**	**16.8**	**13.9**	**2.4**	**10.1**	**8.3**	**7.5**	**24.9**	**12.4**	**10.9**	**1.7**
Mondo TV	EUR	1.189	42	-15.1	-2.1	11.3	9.1	1.5	2.6	2.0	1.5	-1.0	4.6	3.6	0
Discount (%)					N/A	33	34	36	74	76	80	104	63	67	100

Source: Refinitiv, Edison Investment Research. Note: Priced at 17 September 2019.

We adjust Mondo TV's EV for the value of minorities in quoted subsidiaries. It continues to trade at a substantial discount to the global peer set across all relevant metrics. EBITDA ratios are difficult to compare in this peer group due to the varying treatments of capitalisation of production costs, which is less of an issue for Mondo TV than for some of the others. We therefore prefer to compare on EV/EBIT. Parity on this basis would imply a share price of €2.82 (€2.89 in May), more than double the current level. On a P/E basis, again averaged across years one and two, parity equates to a share price of €1.75 (was €1.95).

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Exhibit 3: Financial summary

€m	2016	2017	2018	2019e	2020e
31-December	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT					
Revenue	27.4	32.0	18.9	20.8	27.8
Cost of Sales	(9.3)	(8.3)	(7.7)	(6.4)	(8.6)
Gross Profit	18.1	23.7	11.2	14.4	19.1
EBITDA	18.1	23.7	11.2	14.4	19.1
Operating Profit (before amort. and except.)	12.7	17.6	(30.6)	6.3	8.1
Amortisation of acquired intangibles	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	(23.9)	0.0	0.0
Share-based payments	0.0	0.0	0.0	0.0	0.0
Reported operating profit	12.7	17.6	(54.5)	6.3	8.1
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	0.0	0.0	0.0
Profit Before Tax (norm)	12.7	15.4	(30.1)	6.0	7.8
Profit Before Tax (reported)	12.7	15.4	(54.0)	6.0	7.8
Reported tax	(4.5)	(3.1)	11.5	(1.7)	(2.2)
Profit After Tax (norm)	8.3	12.3	(22.0)	4.3	5.6
Profit After Tax (reported)	8.3	12.3	(42.5)	4.3	5.6
Minority interests	0.3	0.5	3.0	(0.7)	(1.0)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Net income (normalised)	8.6	12.8	(19.0)	3.6	4.6
Net income (reported)	8.6	12.8	(39.5)	3.6	4.6
Average Number of Shares Outstanding (m)	27	30	34	35	36
EPS - normalised (c)	31.1	43.0	(56.3)	10.3	12.8
EPS - normalised fully diluted (c)	31.1	43.0	(56.3)	10.3	12.8
EPS - (c)	31.1	43.0	(117.0)	10.3	12.8
Dividend per share (c)	2.0	0.0	0.0	0.0	0.0
Revenue growth (%)	63.2	16.8	(40.9)	10.2	33.2
Gross Margin (%)	66.0	74.0	59.2	69.3	69.0
EBITDA Margin (%)	66.0	74.0	59.2	69.3	69.0
Normalised Operating Margin	46.4	54.9	(162.0)	30.4	29.4
BALANCE SHEET					
Fixed Assets	37.0	47.9	46.0	51.6	52.3
Intangible Assets	31.4	44.1	30.9	36.5	37.1
Tangible Assets	0.3	0.4	0.4	0.4	0.4
Investments & other	5.3	3.4	14.7	14.7	14.7
Current Assets	37.8	53.6	37.2	36.8	51.4
Stocks	0.0	0.0	0.0	0.0	0.0
Debtors	31.7	47.9	20.6	21.5	28.7
Cash & cash equivalents	1.8	2.4	12.4	11.2	18.6
Other	4.3	3.3	4.2	4.2	4.2
Current Liabilities	(14.0)	(22.6)	(25.1)	(24.4)	(31.3)
Creditors	(11.7)	(15.0)	(21.6)	(20.3)	(27.2)
Tax and social security	(0.2)	(0.4)	(0.5)	(0.5)	(0.5)
Short term borrowings	(2.1)	(3.6)	(3.0)	(3.7)	(3.7)
Other	0.0	(3.7)	(0.0)	0.0	0.0
Long Term Liabilities	(0.8)	(1.2)	(1.9)	(2.5)	(2.5)
Long term borrowings	(0.6)	(0.7)	(1.3)	(2.5)	(2.5)
Other long term liabilities	(0.2)	(0.5)	(0.6)	(0.1)	(0.1)
Net Assets	60.0	77.7	56.1	61.5	69.8
Minority interests	0.0	(0.6)	2.1	0.7	1.0
Shareholders' equity	60.0	77.1	58.2	62.2	70.9
CASH FLOW					
Op Cash Flow before WC and tax	18.1	23.7	11.2	14.4	19.1
Working capital	(1.9)	(11.2)	6.0	(2.2)	(0.3)
Exceptional & other	0.7	(0.8)	(11.0)	0.0	0.0
Tax	(4.5)	(3.1)	11.5	0.0	0.0
Net operating cash flow	12.5	8.7	17.6	12.2	18.9
Capex	(20.6)	(19.2)	(28.6)	(13.1)	(11.1)
Acquisitions/disposals	0.0	0.0	0.0	0.0	0.0
Net interest	(0.2)	(0.2)	0.0	(0.3)	(0.3)
Equity financing	7.2	9.4	20.9	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)	10.0	(1.2)	7.4
Opening net debt/(cash)	0.2	0.9	2.0	(8.0)	(5.0)
FX	(0.1)	0.1	0.0	0.0	0.0
Other non-cash movements	0.0	0.0	0.0	(1.8)	0.0
Closing net debt/(cash)	0.9	2.0	(8.0)	(5.0)	(12.4)

Source: Company data, Edison Investment Research

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