

# Mondo TV

Q3 results

Growing library in a content-hungry world

Mondo TV's Q3 results continued in the more positive vein established in H1, with the flow of new content and licensing agreements carrying through into Q4 across a good range of properties, including new titles in the German JV with Toon2Tango. In October, the group announced new licensing deals in Russia with Gazprom Media and PJSC MegaFon for the streaming of Mondo TV library content. These deals help rebalance group revenues, historically heavily biased to Asia. Management's business plan for FY19–FY23 (to which we have built in a degree of contingency) is unchanged, as are our forecasts.

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	1.1	2.9
12/18	18.9	(30.1)	(56.3)	0.0	N/A	N/A
12/19e	20.8	6.0	10.3	0.0	3.0	12.0
12/20e	27.8	7.8	12.8	0.0	2.3	9.6

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

## Remains on business plan target trajectory

Group production value for the nine months to end September 2019 was €19.3m, 13% below the same period in FY18, a reducing percentage decline vs. H1, and well on track to meet management's €24.5m FY19 business plan target. EBITDA of €11.9m compares with the full year target of €14.3m. The period-end net debt position of €0.1m includes IFRS 16 liabilities of €1.7m, with gross cash of €9.4m. There was no update on the outstanding dispute with the Italian tax authorities (see [May update](#)) or on negotiations with its Asian ex-customer New Information Tech.

## Broadening the project range

In October, Mondo TV announced further cooperation with York Animation, a leading Chinese studio with which it worked on *YooHoo to the Rescue* (now airing on Netflix), *Invention Story* and *Robot Trains*, for four projects over three years, at an investment cost of \$17m. It will be producing a third series of *Robot Trains* with CJ in Korea. Four further animation projects are lined up with Toon2Tango. The first joint project, *Agent 203*, is launched. Mondo TV is now licensing agent for *The Gruffalo* in Italy, Spain and Portugal and, as rights holder for *Feisty Pets* in those regions, has awarded publishing rights to PRH. Its unscripted live action web series, *House of Talent*, is in production and looks set to provide additional exploitation opportunities. Mondo TV has also taken a first step in the video games market with a €90k investment in a UK developer.

## Valuation: Marked discount to peers and DCF

Mondo TV's shares trade at a substantial discount to global peers. Parity on EV/EBIT would indicate a value of €2.46/share and on P/E €1.82/share. EV/EBIT peer multiples have reduced and P/Es have slightly risen since our September note. A DCF (WACC of 11.5%, terminal growth 2%) suggests a price of €2.02. The average of the three values is €2.10 (€2.22 in September), well ahead of the current price.

Media

19 November 2019

**Price** €1.23

**Market cap** €45m

Net debt (€m) at end September 2019, adjusted for IFRS 16 0.1

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 (2.5) 17.3 (37.0)

Rel (local) (7.2) 1.9 (48.8)

52-week high/low €2.22 €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

Full year update End March 2020

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## On track to meet full year guidance

The Q3 report shows figures broadly in line with those achieved across the first two quarters, with the reductions over the prior year reflecting the revised strategy as put in place at the end of FY18 (see our December 2018 [update](#)). The FY19 business plan, published in December 2018, targeted revenue of €21.4m plus capitalised costs of €3.1m, generating EBITDA of €14.3m (which would be increased to around €14.6m because of the adoption of IFRS 16), EBIT of €6.8m and net profit of €4.1m. These targets are consistent with the published results for the first nine months of 2019.

**Exhibit 1: Mondo TV Group's Q319 results summary**

€m	H119 (IFRS 16)	Q319 (IFRS 16)	9M to September 2019	% change y-o-y
Revenue	11.0	5.7	16.7	(17.7)
Capitalised content development	1.8	0.9	2.6	37.3
Production value	12.8	6.6	19.3	(13.0)
Operating costs	(5.0)	(2.4)	(7.4)	21.7
EBITDA	7.8	4.2	11.9	(26.1)
D&A (including exceptionals)	(4.5)	(2.6)	(7.1)	20.8
EBIT	3.3	1.6	4.8	(52.9)
Net financial costs	(0.1)	(0.1)	(0.2)	N/A
PBT	3.2	1.5	4.6	(56.0)
Tax	(1.2)	(0.6)	(1.7)	(46.1)
Minorities	0.0	(0.1)	(0.1)	(62.3)
Net profit	2.0	1.0	3.0	(60.5)

Source: Company accounts

We forecast investment in content for the current year at €17.4m, reducing to €11m in FY20e and FY21e. €13.4m had been invested as at the end of September, so again broadly in line with the full year target. This implies a cash outflow for the year as a whole and our modelling suggests a year end net debt figure of €1.2m, increased to €2.9m on an IFRS 16 basis (was €5m in our previous note). We expect the group to be free cash flow positive in FY20e.

## Valuation

**Exhibit 2: Peer group valuation**

Name	Curr	Price	Market cap (m)	Ytd perf (%)	P/E last (x)	P/E FY1 (x)	P/E FY2 (x)	EV/Sales last (x)	EV/EBITDA last (x)	EV/EBITDA FY1 (x)	EV/EBITDA FY2 (x)	EV/EBIT last (x)	EV/EBIT FY1 (x)	EV/EBIT FY2 (x)	Yield FY1 (%)
eOne	GBp	557	2,778	56.2	54.9	21.0	18.6	3.0	14.2	12.9	11.8	18.1	16.6	15.9	0.3
Xilam Animation	EUR	40.95	201	8.8	31.1	27.1	20.4	6.9	8.2	8.3	7.0	21.7	19.1	14.2	0.0
Mediawan	EUR	9.48	303	(13.8)		12.7	11.7		8.7	8.7	7.6	10.1	10.2	8.7	0.0
Lions Gate Ent	USD	9.74	2,040	(39.5)	15.2	12.1	9.8	1.3	18.2	9.7	8.9	47.7	12.7	11.9	0.0
Toei	JPY	4,855	203,910	20.0	16.8	17.3	16.0	3.1	10.3			10.8	12.6	11.5	1.5
Corus Ent	CAD	5.60	1,187	17.9	6.7	5.8	6.1	1.8	5.1	5.2	5.3	7.4	7.0	7.1	4.3
Spin Master	USD	38.96	3,979	1.5	31.9	20.1	17.2	1.9	13.3	9.6	8.9	23.0	13.6	12.2	0.0
Amuse	JPY	3,010	56,057	29.0	11.8	17.2	16.6	0.6	6.6			7.2	6.3	6.1	1.2
<b>Average</b>				<b>10.0</b>	<b>24.1</b>	<b>17.3</b>	<b>14.6</b>	<b>2.7</b>	<b>10.6</b>	<b>9.1</b>	<b>8.2</b>	<b>19.0</b>	<b>12.3</b>	<b>10.9</b>	<b>0.9</b>
Mondo TV	EUR	1.24	45	(11.4)	(2.2)	12.1	9.7	1.0	1.7	1.3	1.0	(0.6)	3.0	2.4	0
Discount (%)					N/A	30	33	62	84	85	88	N/A	75	79	100

Source: Refinitiv, Edison Investment Research. Note: Priced at 15 November 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 group across all relevant metrics. We prefer to compare on EV/EBIT to avoid discrepancies from the varying treatments of capitalisation of production costs across the peers. Parity on this basis would imply a share price of €2.46 (€2.82 in September). On a P/E basis, again averaged across years one and two, parity equates to a share price of €1.82 (was €1.75).

**Exhibit 3: Financial summary**

	€'m	2016	2017	2018	2019e	2020e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS
<b>INCOME STATEMENT</b>						
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
<b>BALANCE SHEET</b>						
Fixed Assets		37.0	47.9	46.0	56.0	56.7
Intangible Assets		31.4	44.1	30.9	40.9	41.5
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	35.7	51.3
Stocks		0.0	0.0	0.0	0.0	0.0
Debtors		31.7	47.9	20.6	28.4	37.8
Cash & cash equivalents		1.8	2.4	12.4	3.2	9.3
Other		4.3	3.3	4.2	4.2	4.2
Current Liabilities		(14.0)	(22.6)	(25.1)	(28.8)	(36.7)
Creditors		(11.7)	(15.0)	(21.6)	(23.1)	(30.9)
Tax and social security		(0.2)	(0.4)	(0.5)	(0.5)	(0.5)
Short term borrowings		(2.1)	(3.6)	(3.0)	(5.3)	(5.3)
Other		0.0	(3.7)	(0.0)	0.0	0.0
Long Term Liabilities		(0.8)	(1.2)	(1.9)	(4.2)	(4.3)
Long term borrowings		(0.6)	(0.7)	(1.3)	(4.1)	(4.2)
Other long term liabilities		(0.2)	(0.5)	(0.6)	(0.1)	(0.1)
Net Assets		60.0	77.7	56.1	58.7	66.9
Minority interests		0.0	(0.6)	2.1	0.7	1.0
Shareholders' equity		60.0	77.1	58.2	59.4	68.0
<b>CASH FLOW</b>						
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	(4.7)	(1.6)
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	9.8	17.5
Capex		(20.6)	(19.2)	(28.6)	(17.5)	(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	1.2	0.0
Dividends		0.0	0.0	0.0	0.0	0.0
Other		0.3	0.1	0.0	(2.3)	0.0
Net Cash Flow		(0.7)	(1.2)	10.0	(9.2)	6.1
Opening net debt/(cash)		0.2	0.9	2.0	(8.0)	2.9
FX		(0.1)	0.1	0.0	0.0	0.0
Other non-cash movements		0.0	0.0	0.0	(1.7)	0.0
Closing net debt/(cash)		0.9	2.0	(8.0)	2.9	(3.2)

Source: Company accounts, Edison Investment Research

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