

Mondo TV

Q1 results

Tracking on trading

Mondo TV's Q119 figures are as flagged, tracking to its December 2018 business plan. Our revenue and earnings numbers are unchanged. *YooHoo to the Rescue* is now airing globally on Netflix, giving a strong start to management's ambitions to broaden geographic revenue spread. The group has settled with three of the four Asian customers that withdrew in H218, but remains in dispute with one. It has also disclosed that it is subject to a further tax authority investigation, which it is confident will find in its favour. A further mark down in the share price, now off the lows, leaves the valuation at a deep discount to peers and the DCF.

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	1.4	2.5
12/18	18.9	(30.1)	(56.3)	0.0	N/A	N/A
12/19e	20.8	6.0	11.0	0.0	3.8	9.9
12/20e	27.8	7.8	14.0	0.0	3.0	7.7

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

Trading as planned

Although revenue and earnings were well behind Q118 (-47% revenue, -55% EBITDA), this is as expected from the Q418 rebasing of the business (see [our previous notes](#)). Production value of €5m and net income of €1m are in line with earlier indications and the planned FY19e targets of €24m and €4m respectively. Net cash of €6.0m at 31 March compares to €8.1m at the year end and we have slightly reined in our year-end projection from €6.3m to €5.9m with investment in production, but this just reflects assumptions on timing. Management's emphasis on more co-production reduces the production risk but also increases the pool of creativity globally it can draw on. It has stated that it is particularly looking for new industry and commercial partnerships in Germany and Northern Europe.

Corporate issues sorted and outstanding

The Q1 statement included more detail on the Q418 ructions in Asia, where three of the four counterparties (Broadvision Rights, Hong Kong Yiqi Culture and Hong Kong Nine Technology) have now reached terms. The group remains in dispute with New Information Technology. Mondo has also disclosed a new tax investigation that involves verifying offsets made using tax credits from prepaid taxes in 2014, but with the period 2012–18 under scrutiny. The value of these offsets is €13.5m (plus any penalties plus interest). With previous tax authority investigations finding in Mondo's favour, no provision has been made for the latest.

Valuation: Deep discount

Following the setback, Mondo's valuation stands at a substantial discount to global peers (parity on EV/EBIT would indicate a share price of €2.89; on a P/E basis €1.95). A DCF at a WACC of 11.5% and terminal growth of 2% suggests a price of €2.11. The average of these three values is €2.32, more than double the current market price.

Media

16 May 2019

Price €1.08

Market cap €37m

Net cash (€m) at 31 March 2019 6.0

Shares in issue 34.4m

Free float 64%

Code MTVI

Primary exchange Borsa Italiana Star

Secondary exchange N/A

Share price performance



%	1m	3m	12m
Abs	(17.8)	(24.9)	(78.4)
Rel (local)	(13.5)	(26.9)	(74.8)
52-week high/low		€4.8	€0.9

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

Q2 figures 13 September 2019

Interim results 14 November 2019

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Tying up loose ends in Asia

Hong Kong Nine Technology, the principal client for *Rowly Powly* and *Dee and Doo*, withdrew shortly after the death of Orlando Corradi. Then, in the second half of November, three major Asian customers (Broadvision Rights, Hong Kong Yiqi Culture Film & Television Media and New Information Technology) gave notice that they wished to review their investments following weak demand in their local markets. Consequently, Mondo decided to suspend further investment in these projects, which have now been completely written off. The value of the assets was written down with the FY18 results for a total of €56.8m at the consolidated level. This represents a write-down of the library value of €32.9m, with a further adjustment to working capital in trade receivables (mainly from advance sales on these projects) of €23.9m. Net of the related tax offset, this made a total extraordinary non-recurring charge in FY18 of €43.8m.

Further details of the settlements have now been disclosed.

- The third series of *Playtime Buddies* for Broadvision Rights is cancelled, but Mondo retains ownership and distribution rights without any further payments. The third series of *Sissi* will now be 26 episodes and Broadvision is halving its contribution to \$2.4m and Mondo TV's minimum revenue guarantee no longer applies.
- Mondo TV retains the \$11.9m that Hong Kong Yiqi Culture paid for library assets plus the \$3.9m for new productions. No further payments will be made and Mondo regains the exploitation rights for both the library assets and the new properties (*Duckport*, *Partidei* and *Beastkeepers*). Contracts for other properties will continue as normal.
- Hong Kong Nine Technology has agreed that *Rowly Powly* and *Dee and Doo* should be swapped out for other properties currently in negotiation with third-party co-producers.

Mondo TV remains in legal dispute with New Information Technology regarding the contract termination.

Exhibit 1: 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)	(7.0)	(9.2)
Gross Profit		18.1	23.7	11.2	13.9	18.6
EBITDA		18.1	23.7	11.2	13.9	18.6
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	(1.6)	(2.0)
Profit After Tax (norm)		8.3	12.3	(22.0)	4.5	5.8
Profit After Tax (reported)		8.3	12.3	(42.5)	4.5	5.8
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)	3.8	4.8
Net income (reported)		8.6	12.8	(39.5)	3.8	4.8
Average Number of Shares Outstanding (m)		27	30	34	34	34
EPS - normalised (c)		31.1	43.0	(56.3)	11.0	14.0
EPS - normalised fully diluted (c)		31.1	43.0	(56.3)	11.0	14.0
EPS - (c)		31.1	43.0	(117.0)	11.0	14.0
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	66.6	66.9
EBITDA Margin (%)		66.0	74.0	59.2	66.6	66.9
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	36.6	50.7
Stocks		0.0	0.0	0.0	0.0	0.0
Debtors		31.7	47.9	20.6	21.9	29.2
Cash & cash equivalents		1.8	2.4	12.5	10.3	17.1
Other		4.3	3.3	4.2	4.4	4.4
Current Liabilities		(14.0)	(22.6)	(25.2)	(23.8)	(30.7)
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)	(3.1)	(3.1)	(3.1)
Other		0.0	(3.7)	(0.0)	0.0	0.0
Long Term Liabilities		(0.8)	(1.2)	(1.9)	(1.4)	(1.4)
Long term borrowings		(0.6)	(0.7)	(1.3)	(1.3)	(1.3)
Other long term liabilities		(0.2)	(0.5)	(0.6)	(0.1)	(0.1)
Net Assets		60.0	77.7	56.1	63.0	70.8
Minority interests		0.0	(0.6)	2.1	0.7	1.0
Shareholders' equity		60.0	77.1	58.2	63.7	71.9
CASH FLOW						
Op Cash Flow before WC and tax		18.1	23.7	11.2	13.9	18.6
Working capital		(1.9)	(11.2)	6.0	(2.6)	(0.4)
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	17.7	11.2	18.2
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)	10.1	(2.2)	6.8
Opening net debt/(cash)		0.2	0.9	2.0	(8.1)	(5.9)
FX		(0.1)	0.1	0.0	0.0	0.0
Other non-cash movements		0.0	0.0	0.0	0.0	0.0
Closing net debt/(cash)		0.9	2.0	(8.1)	(5.9)	(12.7)

Source: Company accounts, Edison Investment Research

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