

Mondo TV

Q3 results

Disco Dragon has all the moves

Mondo TV posted a strong Q3 performance, with production value for 9M21 up 32% on the prior year and EBIT ahead by 20%. Encouragingly, the progress is across several key properties. A further 13 episodes of *Disco Dragon* were delivered by Mondo France in Q3, while *Grisù*, *Agent 203* and *Meteoheroes* all continue to perform strongly. Properties in earlier stages of development are also building traction. The group is on track to meet its business plan projections and our forecasts are unchanged. The valuation remains at a significant discount to global peers.

Year end	Revenue (€m)	PBT* (€m)	EPS* (c)	DPS (c)	EV/EBIT (x)	P/E (x)
12/19	23.1	6.2	11.3	0.0	6.6	12.2
12/20	24.7	6.4	13.2	0.0	5.0	10.5
12/21e	29.2	9.1	14.6	0.0	4.5	9.5
12/22e	31.3	10.2	18.3	0.0	4.0	7.5

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

Studio's investment paying off

The reverse takeover of the group's Spanish subsidiary by that based in the Canary Islands is now complete, with the resulting Tenerife-based entity named Mondo TV Studios. This will be a more efficient structure and easier to market as an animation and pre-production facility to the industry, upgraded by previous investment. In Q3, Mondo TV Studios won the animation work for a new series for the Latin American market, *Nivis, amigos de otro mundo*, and the animation and pre-production for *One Love*, for T-Rex Digimation, for which the group will arrange worldwide distribution (excluding Italian-speaking territories and the Indian subcontinent). Studios is also to provide pre-production and artistic direction for *Letrabots*, for Cicaboom, with Mondo arranging animation and post-production for the project, for which it will be entitled to 40% of the resulting IP.

Balance sheet supports development

The balance sheet was secured with the conversion of the final Atlas bonds (see [Outlook note](#)), enabling the investment needed to bring multiple projects through to commercial realisation. Investment of €5.8m in Q321 takes the year-to-date total to €20.8m, with our full year estimate standing at €27.7m. This heightened level of investment obviously increases amortisation charges but lays the ground for driving the revenue line over the short to medium term. Net debt at end September was €5.2m, from €3.6m at the half year. We now expect year-end net debt of €2.0m.

Valuation: Deep discount persists

Parity to global peers on averaged earnings multiples across FY21 and FY22 would imply a value of €3.19/share, from €3.54 in September, since when peers' share prices have slipped back. A DCF (WACC of 11.5%, terminal growth 2%) suggests a price of €2.06/share (was €2.03). The midpoint of these is €2.61/share (was €2.79). We would expect Mondo's valuation discount to close further as the financial benefit of recent deals flows through to revenues and EBITDA.

Media

16 November 2021

Price €1.38

Market cap €60m

Net debt (€m) at end September 2021 5.2

Shares in issue 43.6m

Free float 71.1%

Code MTVI

Primary exchange Borsa Italiana Star

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (3.1) (10.4) (7.4)

Rel (local) (7.7) (14.2) (31.1)

52-week high/low €1.75 €1.21

Business description

Mondo TV is a global media group with a focus on the production, acquisition and monetisation of animated children's television series.

Headquartered in Rome, it also holds controlling stakes in listed subsidiaries Mondo TV France (21%), Mondo TV Suisse (63%) and Mondo TV Studios (78%). It owns the rights to more than 1,600 TV episodes and films, which it distributes across global markets.

Next events

FY21 results Mar 22

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Good progress continues

The table below splits out the progress made on a quarterly and a nine-month basis over the prior year. The good momentum continued into Q321, with a number of property and licensing deals, some of which are outlined above. The value of the existing library is easy to overlook but it is a useful asset, as shown by the latest deal to license around 20 earlier series in Albania, where the group had no active trading relationships prior to this deal.

Operating costs appear to be well under control, with the group having targeted €1.5m of savings over 12 months at the interim stage. This is within the scope of our forecasts.

Exhibit 1: Mondo TV Group results summary

€m	H121	% change on H120	Q321	% change on Q320	9M21	% change 9M21 on 9M20
Revenue	15.0	+33	7.2	+37	22.1	+35
Capitalised content development	2.5	+48	0.9	-28	3.4	+16
Production value	17.5	+35	8.1	+25	25.6	+32
Operating costs	(5.5)	+18	(2.1)	-16	(7.5)	+5
EBITDA	12.1	+45	6.0	+52	18.1	+47
D&A (including exceptionals)	(7.9)	+66	(4.2)	+62	(12.1)	+67
EBIT	4.2	+17	1.8	+24	6.0	+20
Net financial costs	0.3	N/A	0.5	N/A	0.8	N/A
PBT	4.5	+33	2.3	+65	6.8	+42
Tax	(1.3)	+14	(0.7)	+75	(2.0)	+29
Minorities	(0.3)	N/A	(0.1)	N/A	0.3	N/A
Net profit	2.9	+16	1.6	+41	4.5	+24

Source: Mondo TV accounts, Edison Investment Research. Note: May not tally due to rounding.

Valuation

Exhibit 2: Peer group valuations

	Quoted	Current	Market	ytd	P/E			EV/Sales	EV/EBITDA			EV/EBIT		
Name	currency	price	cap (m)	perf. (%)	Last (x)	1FY (x)	2FY (x)	Last (x)	Last (x)	1FY (x)	2FY (x)	Last (x)	1FY (x)	2FY (x)
Xilam Animation	EUR	40.30	196	-14	74.2	28.1	21.8	10.4	14.9	6.4	5.1	53.7	21.7	17.3
Mediawan	EUR	12.00	370	0	17.3	N/A	N/A	1.9	12.1	N/A	N/A	15.2	N/A	N/A
Lions Gate Ent	USD	17.41	3,709	53	N/A	N/A	79.2	2.2	13.3	16.1	13.4	N/A	66.7	33.6
Toei	JPY	18,150	742,311	124	64.5	63.3	59.0	13.9	44.6	42.3	40.8	N/A	N/A	N/A
Corus Ent	CAD	5.73	1,174	34	6.4	6.4	6.3	1.8	5.3	5.1	5.1	7.5	7.1	7.0
Spin Master	CAD	47.98	1,523	65	75.0	21.4	19.7	0.6	5.1	2.5	2.4	10.7	3.8	3.5
Amuse	JPY	2,242	39,007	-13	22.5	N/A	N/A	0.4	4.2	N/A	N/A	N/A	N/A	N/A
Boat Rocker	CAD	7.00	241	-20	N/A	15.2	13.2	1.1	N/A	9.3	3.1	N/A	N/A	4.4
Average				29	43.3	26.9	33.2	4.0	14.2	13.6	11.6	21.8	24.8	13.2
Median				17	43.5	21.4	20.7	1.9	12.1	7.8	5.1	13.0	14.4	7.0
Mondo TV	EUR	1.33	60	0	10.5	9.5	7.5	1.7	2.3	1.7	1.6	5.0	4.5	4.0
Discount to Median					76%	56%	64%	6%	81%	79%	69%	62%	69%	43%

Source: Refinitiv. Note: Prices as at 12 November 2021.

The global children's content, animation and licensing peer group is very broad and their success or otherwise depends heavily on their IP portfolios. Given the range of activity and the high investment levels needed to drive revenues, we would view EV/EBIT as the most useful of these earnings metrics. Here, Mondo TV is clearly trading at a significant discount, in part reflecting its much smaller scale.

Exhibit 3: Financial summary

	€'m	2018	2019	2020	2021e	2022e
31-December		IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT						
Revenue		18.9	23.1	24.7	29.2	31.3
Production value		22.2	26.7	30.4	34.9	36.9
Cost of Sales		(7.7)	(6.6)	(5.9)	(3.4)	(3.9)
Gross Profit		11.2	16.4	18.8	25.8	27.4
EBITDA		11.2	16.4	18.8	25.8	27.4
Operating Profit (before amort. and except.)		(30.6)	6.5	8.7	9.6	10.7
Amortisation of acquired intangibles		0.0	0.0	0.0	0.0	0.0
Exceptionals		(23.9)	(0.2)	(0.4)	0.0	0.0
Share-based payments		0.0	0.0	0.0	0.0	0.0
Reported operating profit		(54.5)	6.3	8.3	9.6	10.7
Net Interest		0.5	(0.3)	(2.4)	(0.5)	(0.5)
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)		(30.1)	6.2	6.4	9.1	10.2
Profit Before Tax (reported)		(54.0)	6.0	6.0	9.1	10.2
Reported tax		11.5	(2.1)	(2.0)	(2.7)	(3.2)
Profit After Tax (norm)		(22.0)	4.1	4.6	6.6	7.4
Profit After Tax (reported)		(42.5)	3.9	3.9	6.4	7.1
Minority interests		3.0	(0.1)	0.4	(0.5)	0.6
Discontinued operations		0.0	0.0	0.0	0.0	0.0
Net income (normalised)		(19.0)	4.0	5.0	6.1	8.0
Net income (reported)		(39.5)	3.8	4.4	5.9	7.7
Average Number of Shares Outstanding (m)		34	35	38	42	44
EPS - normalised (c)		(56.3)	11.3	13.2	14.6	18.3
EPS - normalised fully diluted (c)		(56.3)	11.3	13.2	14.6	18.3
EPS - (c)		(117.0)	10.8	11.4	14.1	17.6
Dividend per share (c)		0.0	0.0	0.0	0.0	0.0
Revenue growth (%)		(40.9)	21.9	7.1	18.4	6.9
EBITDA Margin on production value (%)		50.4	61.4	62.0	74.0	74.2
Normalised Operating Margin on production value (%)		(138.1)	24.4	28.7	27.6	29.0
BALANCE SHEET						
Fixed Assets		45.9	50.5	59.1	70.2	79.3
Intangible Assets		30.9	35.8	44.8	56.8	65.8
Tangible Assets		0.3	1.6	1.2	0.9	1.0
Investments & other		14.7	13.1	13.1	12.5	12.5
Current Assets		37.2	35.7	43.6	43.5	45.0
Stocks		0.0	0.0	0.0	0.0	0.0
Debtors		20.6	24.9	30.7	29.1	30.5
Cash & cash equivalents		12.5	8.0	9.9	12.8	13.0
Other		4.2	2.8	3.0	1.6	1.6
Current Liabilities		(25.2)	(19.9)	(23.7)	(24.6)	(24.6)
Creditors		(21.6)	(13.8)	(14.6)	(13.5)	(14.5)
Tax and social security		(0.5)	(0.8)	(3.6)	(4.2)	(3.1)
Short term borrowings		(3.0)	(5.3)	(5.3)	(6.8)	(6.8)
Other		(0.1)	(0.0)	(0.2)	(0.2)	(0.2)
Long Term Liabilities		(1.9)	(4.7)	(9.6)	(8.9)	(8.9)
Long term borrowings		(1.3)	(4.1)	(8.8)	(8.1)	(8.1)
Other long term liabilities		(0.6)	(0.6)	(0.8)	(0.8)	(0.8)
Net Assets		56.0	61.6	69.3	80.1	90.8
Minority interests		2.1	(1.2)	(0.7)	(0.8)	(0.7)
Shareholders' equity		58.1	60.4	68.6	79.4	90.1
CASH FLOW						
Op Cash Flow before WC and tax		11.2	16.4	17.0	25.3	27.4
Working capital		6.0	(10.6)	(2.5)	1.9	(0.3)
Exceptional & other		(11.0)	1.4	(0.4)	1.1	0.0
Tax		11.5	(2.1)	(2.0)	(3.4)	(3.9)
Operating cash flow		17.6	5.1	12.1	24.9	23.2
Capex		(28.6)	(14.2)	(18.7)	(27.7)	(25.2)
Acquisitions/disposals		0.0	(0.1)	0.0	0.0	0.0
Net interest		0.0	2.9	4.8	(0.5)	(0.5)
Equity financing		20.9	1.8	3.8	6.2	0.0
Dividends		0.0	0.0	0.0	0.0	0.0
Other		0.0	0.0	0.0	0.0	0.0
Net Cash Flow		10.0	(4.5)	2.0	2.9	(2.5)
Opening net debt/(cash)		2.0	(8.0)	1.4	4.1	2.0
FX		0.0	0.0	0.0	0.0	0.0
Other non-cash movements		0.0	(4.9)	(4.7)	(0.9)	0.0
Closing net debt/(cash)		(8.0)	1.4	4.1	2.0	4.5

Source: Company accounts, Edison Investment Research

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