

## Edel

**Media**
**13 July 2017**

### Making records

Edel AG's interim results show continued progress, particularly at Optimal Media where there was 'significant' progress in sales and earnings, buoyed by the continued resurgence of vinyl. Only the first few weeks of the new deal with Universal Music will have been included. Kontor New Media also made good progress and has been expanding its reach, while the books offering also performed well. The record label had less positive trading, with no major break-out hits released. The group is majority family-owned with limited market liquidity, which partly explains the modest rating. The shares trade at a discount to global entertainment content and publishing companies and carry an attractive yield.

### Forecasts revised upwards

Revenues in the six months to end March were up 5%, with EBITDA up 9% and EBIT +15% on the comparative period. This was above market forecasts (only one set of numbers is in the market) and these have been revised up for FY17e, FY18e and FY19e. The current year EBITDA estimate is raised from €15.5m to €16.3m; for FY18e the revision is from €16.2m to €16.8m, up 5% and 4% respectively. Top-line growth of 4% is anticipated for this year and next, with 3.5% for the following year.

### Investing in product and capacity

Management intends to take advantage of the favourable conditions to invest a further €22m in Optimal Media. The Universal Music contract in manufacture and distribution, launched in February 2017, has good scope for expansion. With some manufacturers of CDs and DVDs struggling, there are plenty of opportunities for Edel to continue to build share, even if the overall market for CDs and DVDs is in decline. By being an efficient, scale producer of quality product, Edel should be able to grow at good margins.

### Valuation: Discount to content, publishing

We have maintained the same valuation approach as our initiation note, comparing the rating of the company with the global media subsectors of entertainment content and publishing. Edel's shares trade on a significant discount on EV/sales, most likely reflecting the manufacturing contribution. On forward EV/EBITDA, the discount is 38%. On a P/E basis, the multiple is 14.8x vs 18.3x.

#### Consensus estimates

Year end	Revenue (€m)	PBT (€m)	Adjusted EPS (€)	DPS (€)	P/E (x)	Yield (%)
09/15	168.3	3.6	0.12	0.10	20.9	4.0
09/16	180.2	6.0	0.15	0.10	16.7	4.0
09/17e	187.4	6.0	0.17	0.11	14.8	4.4
09/18e	194.9	7.0	0.20	0.13	12.6	5.2

Source: Edel accounts, broker estimates (Montega).

**Price** €2.51  
**Market cap** €57m

#### Share price graph



#### Share details

Code EDL  
 Listing Deutsche Börse Scale  
 Shares in issue 22.73m  
 Last reported net debt as at 31 March 2017 €39.3m

#### Business description

Edel AG is one of Europe's leading independent media groups. It is both a publisher and a producer. Edel offers the music, film and book industry a unique full-service model, covering marketing and production as well as the distribution of audio content, video content and books.

#### Bull

- Diversity of revenue streams.
- Full-service third-party offering.
- Resurgence of vinyl.

#### Bear

- Small free float.
- Lack of comparators for valuation.
- Spotify dominance in streaming.

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## Financials

**Exhibit 1: Half year to 31 March 2017 vs prior half year**

€000s	2017	2016	% change
Year end 30 September	HGB/German GAAP	HGB/German GAAP	
Income statement			
Revenue	98,570	93,488	+5
EBITDA	9,148	8,416	+9
EBITDA margin (%)	9.3	9.0	
Profit before tax (as reported)	4,617	3,727	+24
Net income (as reported)	3,005	2,713	+11

Source: Edel accounts.

The growth at the pre-tax level shows the benefits of the new financing arrangements, as described in our previous note. New market forecasts are for EBITDA growth of 6.5% in FY17e and 3.0% for the year after, with a jump up to 6% growth in FY19e as the benefits of the investment programme start to come through. The group's EBITDA margin is forecast in the 8.5-8.8% range.

The market forecasts are predicated on a capital investment programme of €22m on upgrading and expanding the facilities at Optimal Media to meet market demand. There is also investment, albeit less capital intensive, in expanding the operations of Kontor New Media. The scale of this operation is easy to overlook. It is a major player across Europe in the distribution of digital media, hosting and managing around 600 channels on YouTube for various major licensees, including Disney. In music it handles around 2.3m songs; in video over 2,000 films and 300 TV series. Management is targeting the scaling up of the children's content offering in particular. The scale and breadth of its capabilities is increasing KNM's attraction as a one-stop-shop partner for the major global rights' owners.

The spending programme will lead to an uplift in net debt to a forecast €57.4m at the end of FY17e, €58.2m end FY18e, before starting to decline, with the additional interest taken into account in the revised earnings' forecasts.

## Valuation

A sensible valuation framework for Edel is complicated by the range of the company's activities, from the pressing of CDs for third parties through children's animated TV to being the market-leading publisher of cookery books and handling logistics and services for the world's largest music publishers. For this reason, any peer group comparison is inevitably flawed. Given these constraints, rather than pick out a set of inadequate peers, we have looked globally across the key subsectors in which Edel operates, particularly entertainment content and publishing at key valuation metrics. We have stripped out the unprofitable companies from the EV/EBITDA and P/E calculations, as well as any obvious distortive outliers.

**Exhibit 2: Sectoral valuations for related activities**

	Historical EV/sales (x)	Next EV/sales (x)	Historical EV/EBITDA (x)	Next EV/EBITDA (x)	Historical P/E (x)	Next P/E (x)
Entertainment content	3.40	2.70	10.60	9.80	21.40	18.00
Publishing	1.90	1.70	9.30	9.60	17.70	17.60
Edel	0.53	0.52	6.31	6.22	16.73	14.76

Source: Bloomberg, Edison Investment Research

It would be expected that the multiple to sales would be lower due to the large volumes of third-party revenues, which will also distort margin comparisons. In this context, Edel's share price looks to be well below the global market, partly reflecting its comparatively modest size and limited liquidity.

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