

CentralNic Group

Q3 trading update

Organic growth continues to accelerate

Ahead of CentralNic's seasonally strongest quarter, it has reported trading for the first nine months of FY21 (9M21) ahead of market expectations. Noting the acceleration of organic growth to 29% for 9M21, driven by the group's investment programme, management expects to trade comfortably at or above the upper end of market expectations for the year for both revenue and adjusted EBITDA (expectations disclosed as US\$355.3m and US\$42.0m respectively). Accordingly, we have raised our FY21 revenue estimate by 10% to US\$384m, with adjusted EBITDA rising to US\$43m, an 11.2% margin, with these changes flowing through to our estimates for FY22/23. Adjusted operating cash conversion was in excess of 100%, meaning that net debt fell to US\$79m as at 30 September 2021.

Year end	Revenue (US\$m)	Adjusted EBITDA* (US\$m)	PBT* (US\$m)	EPS** (c)	DPS (c)	P/E (x)
12/19	109.2	17.9	16.1	9.24	0.0	20.0
12/20	241.2	30.6	19.8	10.57	0.0	17.5
12/21e	384.1	43.0	29.7	11.57	0.0	16.0
12/22e	420.2	48.0	33.6	12.24	0.0	15.1

Note: *Excludes impact of share-based payments, share option expense, foreign exchange charges and non-core operating costs. **FY21e and FY22e EPS figures reflect 228.8m voting shares in issue.

9M21: 29% organic growth, up from 20% for H121

In its Q321 trading statement, CentralNic reported a further acceleration of organic growth to 29% for 9M21 (H121: 20% y-o-y organic growth), driven by its investment programme. As a result, the company expects to report 9M21 revenue of at least US\$280m (66% y-o-y growth) and adjusted EBITDA of at least US\$32m (45% y-o-y growth) versus 9M20 figures of US\$168.5m and US\$22.1m, respectively. This indicates an adjusted EBITDA margin of 11.4%, slightly below the 11.7% for H121, likely due to growth continuing to be led by the lower-margin Online Marketing over Online Presence. With adjusted operating cash conversion in excess of 100%, cash at period end rose to US\$54m (H121: US\$39.5m), with net debt falling to US\$79m (H121: US\$83.8m).

Upward revision to revenues and adjusted EBITDA

Assuming Q421 will be at least in line with Q321, we have raised our FY21 revenue estimate by c 10% to US\$384m, with adjusted EBITDA rising 5% to US\$43m, an adjusted EBITDA margin of 11.2%. These changes affect our estimates for FY22 (US\$420m, US\$48m) and FY23 (US\$454m, US\$52m) with an 11.4% adjusted EBITDA margin for both, but all other assumptions remain unchanged.

Valuation: Discount despite market-leading growth

Following our upgrade, we estimate that CentralNic will deliver 59% sales growth in FY21. It demonstrates some of the strongest growth in its peer group and yet trades on P/E multiples of 16.0x in FY21e and 15.1x in FY22e. Whether we compare it to web services or (European or US) online marketing, CentralNic continues to trade at a material discount to its peers. The web services peer group trades at average P/Es of 25x for FY21 and 19x for FY22. CentralNic's discount to its online marketing peers (FY21: 33x, FY22: 25x) is more marked.

Software & comp services

1 November 2021

Price **135p**

Market cap **£309m**

£1.37/US\$

Net debt (US\$m) at 30 September 2021 79

Shares in issue (excluding 22.4m shares held in employee benefit trust) 228.8m

Free float 49%

Code CNIC

Primary exchange AIM

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 21.6 39.2 81.8

Rel (local) 20.0 36.7 38.8

52-week high/low 137p 73p

Business description

CentralNic Group is a leading global domain name services provider, operating through two divisions: Online Presence (Reseller, Corporate, and SME); and Online Marketing. Services include domain name reselling, hosting, website building, security certification and website monetisation.

Next events

Q321 interim report 22 November 2021

FY21 trading update January 2022

FY21 results April 2022

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Revised estimates: Upgrade due to organic growth

Following the continued strong year-on-year organic growth that CentralNic has delivered throughout the year (Q121: 16% H121: 20%, 9M21: 29%), we have again upgraded our estimates, with our revised revenue estimates for FY21 now 28% higher than at the time of the SafeBrands acquisition in January 2021 (US\$299.3m).

- **Revenues:** we have revised our FY21 revenue upwards by c 10% to US\$384m, by conservatively assuming that the revenue seen in Q3 is repeated in Q4 in what is CentralNic's seasonally strongest quarter. We have also factored in the White & Case acquisition (annualised FY22 revenue contribution of US\$2m, US\$1.5m EBITDA) completed on 1 October 2021. Our prior revenue growth assumptions remain in place for FY22 and FY23, implying revenues of US\$420m and US\$454m respectively.
- **Adjusted EBITDA and adjusted EBITDA margins:** 9M21 adjusted EBITDA margins fell to 11.4% from 11.7%. We assume FY21 adjusted EBITDA margins of 11.2%, delivering adjusted EBITDA of US\$43m, 5% higher than our prior estimate. For FY22 and FY23, we assume adjusted EBITDA of US\$48m (11.4% margin) and US\$52m (11.4% margin) respectively, benefiting from the higher revenue forecasts together with a slight lift in margins over FY21e due to our anticipated improvements in operating leverage as opposed to a change in business mix.
- **Shares in issue:** following the share and option awards announced in June 2021, we assume that CentralNic has 228.8m voting shares, with 22.4m non-voting shares held by the employee benefit trust (EBT), together making 251.2m fully diluted shares in issue.

Exhibit 1: Edison's revised estimates for FY21e, FY22e and FY23e

US\$'000s	Actual	2021e			2022e			2023e		
	2020	Old	New	Change	Old	New	Change	Old	New	Change
Gross revenue	241,212	350,133	384,127	10%	378,848	420,183	11%	409,156	453,797	11%
Net revenues	76,318	112,042	122,921	10%	125,020	138,660	11%	135,021	149,753	11%
Adjusted EBITDA	30,594	41,086	43,022	5%	45,213	48,006	6%	48,830	51,846	6%
Normalised operating profit	28,510	37,686	39,622	5%	41,534	44,287	7%	44,857	47,830	7%
Profit before tax (norm)	19,817	27,759	29,696	7%	30,882	33,635	9%	34,208	37,181	9%
Profit before tax (reported)	(9,395)	6,553	8,471		11,464	14,174		18,508	21,413	
Reported tax	975	(2,644)	(3,315)		(4,624)	(5,437)		(5,552)	(6,424)	
Net income (normalised)	20,792	25,116	26,381	5%	26,258	28,198	7%	28,656	30,757	7%
EPS - basic normalised (c)	10.57	11.01	11.57	5%	11.40	12.24	7%	12.44	13.35	7%
EPS - diluted normalised (c)	10.16	10.03	10.53	5%	10.39	11.16	7%	11.34	12.17	7%
Revenue growth (%)	120.9	45.2	59.2		8.2	9.4		8.0	8.0	
Gross margin (%)	31.6	32.0	32.0		33.0	33.0		33.0	33.0	
Adjusted EBITDA margin (%)	12.7	11.7	11.2		11.9	11.4		11.9	11.4	
Normalised operating margin (%)	11.8	10.8	10.3		11.0	10.5		11.0	10.5	
Capex	(4,259)	(3,955)	(4,339)	10%	(4,280)	(4,747)	11%	(4,622)	(5,126)	11%
Closing net debt/(cash)	84,985	80,025	79,144	(1)%	62,267	59,873	(4)%	34,579	30,690	(11)%

Source: CentralNic accounts, Edison Investment Research

Exhibit 2: Financial summary

	US\$'000	2019	2020	2021e	2022e	2023e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT						
Revenue		109,194	241,212	384,127	420,183	453,797
Cost of Sales		(66,419)	(164,894)	(261,207)	(281,522)	(304,044)
Gross Profit		42,775	76,318	122,921	138,660	149,753
Adj. EBITDA		17,921	30,594	43,022	48,006	51,846
Normalised operating profit		16,615	28,510	39,622	44,287	47,830
Amortisation of acquired intangibles		(8,299)	(12,508)	(14,424)	(15,511)	(15,768)
Exceptionals		(8,259)	(10,529)	(4,100)	-	-
Share-based payments		(2,878)	(5,113)	(1,700)	-	-
Reported operating profit		(2,821)	360	19,398	28,776	32,062
Net Interest		(471)	(8,693)	(9,927)	(10,652)	(10,649)
Joint ventures & associates (post tax)		74	79	-	-	-
Exceptionals		-	-	(1,000)	(3,950)	-
Profit Before Tax (norm)		16,144	19,817	29,696	33,635	37,181
Profit Before Tax (reported)		(6,616)	(9,395)	8,471	14,174	21,413
Reported tax		39	975	(3,315)	(5,437)	(6,424)
Profit After Tax (norm)		16,119	20,792	26,381	28,198	30,757
Profit After Tax (reported)		(6,577)	(8,420)	5,156	8,737	14,989
Minority interests		64	-	-	-	-
Discontinued operations		-	-	-	-	-
Net income (normalised)		16,183	20,792	26,381	28,198	30,757
Net income (reported)		(6,513)	(8,420)	5,156	8,737	14,989
Basic average number of shares outstanding (m)		175,084	196,680	228,080	230,381	230,381
EPS - basic normalised (c)		9.24	10.57	11.57	12.24	13.35
EPS - diluted normalised (c)		8.97	10.16	10.53	11.16	12.17
CNIC Adj EPS basic (c)		9.24	10.57	11.57	12.24	13.35
EPS - basic reported (c)		(3.72)	(4.28)	2.26	3.79	6.51
Dividend (c)		0.00	0.00	0.00	0.00	0.00
Revenue growth (%)		155.9	120.9	59.2	9.4	8.0
Gross Margin (%)		39.2	31.6	32.0	33.0	33.0
Adj. EBITDA Margin (%)		16.4	12.7	11.2	11.4	11.4
Normalised Operating Margin		15.2	11.8	10.3	10.5	10.5
BALANCE SHEET						
Fixed Assets		217,544	271,817	271,132	260,599	242,633
Intangible Assets		206,055	256,955	257,749	248,834	229,860
Tangible and Right-of-use Assets		6,427	8,677	7,198	5,579	7,250
Investments & other		5,062	6,185	6,185	6,185	5,524
Current Assets		67,433	77,606	101,447	120,718	150,365
Stocks		491	1,011	1,011	1,011	1,475
Debtors		40,760	47,941	47,941	47,941	47,941
Cash & cash equivalents		26,182	28,654	52,495	71,766	100,949
Other		-	-	-	-	-
Current Liabilities		(78,767)	(94,421)	(94,421)	(94,421)	(94,529)
Creditors		(75,683)	(87,256)	(87,256)	(87,256)	(87,256)
Tax and social security		-	-	-	-	-
Short term borrowings		(3,084)	(7,165)	(7,165)	(7,165)	(7,273)
Other		-	-	-	-	-
Long Term Liabilities		(129,206)	(137,867)	(155,867)	(155,867)	(155,867)
Long term borrowings		(102,799)	(113,024)	(131,024)	(131,024)	(131,024)
Other long term liabilities		(26,407)	(24,843)	(24,843)	(24,843)	(24,843)
Net Assets		77,004	117,135	122,291	131,028	142,603
Minority interests		69	-	-	-	-
Shareholders' equity		77,073	117,135	122,291	131,028	142,603
CASH FLOW						
PBT		(6,616)	(9,395)	8,471	14,174	21,413
Depreciation and amortisation		9,605	14,592	17,824	19,230	19,785
Share-based payments		2,878	5,113	-	-	-
Working capital		8,963	309	-	-	(464)
Exceptional & other		3,795	9,413	9,927	10,652	10,649
Tax		(2,309)	(1,957)	(3,315)	(5,437)	(6,424)
Net operating cash flow		16,316	18,075	32,907	38,619	44,959
Capex		(15,497)	(4,259)	(4,339)	(4,747)	(5,126)
Acquisitions/disposals		(63,840)	(42,532)	(12,800)	(3,950)	-
Net interest		(1,970)	(9,512)	(9,927)	(10,652)	(10,649)
Equity financing		2,133	37,287	-	-	-
Dividends		-	-	-	-	-
Other		-	1,814	-	-	-
Net Cash Flow		(62,858)	873	5,841	19,270	29,184
Opening net debt/(cash)		2,115	74,998	84,985	79,144	59,873
FX		(6,730)	1,117	-	-	-
Other non-cash movements		(3,295)	(11,977)	-	-	-
Closing net debt/(cash)		74,998	84,985	79,144	59,873	30,690

Source: Company accounts, Edison Investment Research

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