

CentralNic Group

Growth at an attractive valuation

CentralNic provides domain name services and online marketing, focused on consolidating a highly fragmented global market. It offers a broad range of internet services, including reseller services, to corporates and SMEs (the online presence segment), as well as online marketing (the group's second segment) to domain investors. Ahead of Q421, its seasonally strongest quarter, CentralNic reported 9M21 trading ahead of market expectations, with organic growth of 29%, driven by the group's investment programme. Based on this strong trading, we raised our FY21 revenue estimate by 10% to US\$384m, with adjusted EBITDA rising to US\$43m, an 11.2% margin. CentralNic has recorded five-year revenue CAGR to FY20 of 78%. Further M&A should be expected.

A business model with attractive dynamics

CentralNic's Online Presence division operates in a growing low-value, high-volume, subscription-based technology-enabled global market (a US\$30bn addressable market, 6% growth). Online Marketing operates in a US\$400bn market, with 20%+ growth. Both divisions offer attractive cash flows, with operating cash conversion of c 100%. Customers tend to be sticky, and become stickier the longer they remain clients (95%+ recurring revenues). CentralNic operates a leveraged 'buy and build' model, with organic growth supplemented by M&A.

Resilient, M&A-driven business model

CentralNic completed one major acquisition in FY20, Codewise (Monetisation), which follows four acquisitions in FY19: TPP Wholesale, Hexonet and Ideegeo (Indirect), and Team Internet (Monetisation). In FY21, CentralNic has already completed the US\$3.7m (plus a US\$0.7m earn-out) acquisition of SafeBrands (Direct), a French-based brand protection software provider, and Wando Internet Solutions (Monetisation), for US\$13.0m in cash (including a US\$6.5m earn-out). With 9M21 net debt of US\$79m, CentralNic retains capacity for further M&A.

Valuation: Discount despite market-leading growth

With 59% expected sales growth in FY21, CentralNic offers some of the strongest growth among its peers, yet trades on P/E multiples of 16.0x in FY21e and 15.1x in FY22e. Whether we compare it to web services or 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.

Edison estimates

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.

Software & comp services

1 November 2021

Price 135p
Market cap £309m

Share price graph



Share details

Code	CNIC
Shares in issue	228.8m
Net debt (US\$m) at 30 Sept 2021	79

Business description

CentralNic is a leading global domain name services provider. The group supplies the tools needed for businesses to develop their online presence, providing domain names, hosting, websites, email, security certification and brand protection; as well as online marketing. The group delivers services to c 40m domains.

Bull

- Sticky customer model, with 95%+ recurring revenues and high cash conversion.
- Strong organic growth (9M21: 29%), driven by the group's investment programme.
- Five-year revenue CAGR of 78% to FY20, with 59% revenue growth forecast for FY21.

Bear

- CentralNic remains a small player in large global markets for domain names and online marketing.
- EBITDA margins have been falling as Online Marketing has outgrown Online Presence.
- With few quoted peers, CentralNic's business remains poorly understood by investors.

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