

MONDO TV

BUY

SECTOR: Media

Price (Eu):

2.01

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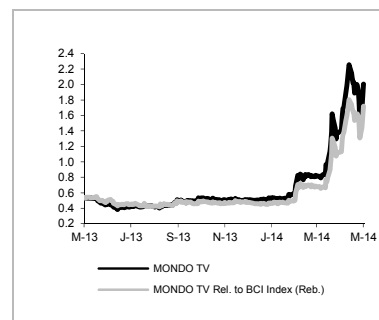
Target Price (Eu):

3.00

Flow of Deals Supports New Higher Business Plan Targets, Upgrade to BUY

- New business plan: ambitious but feasible targets.** After the signing of the agreement with the US company Animagic Media Group for the co-production and distribution of a new 3D animated series ("Bug Rangers") and the start of promising new negotiations with other operators in the US, UK and Europe, Mondo TV has decided to update the 2014-16 business plan that was published in March, revising 2015 and 2016 targets upwards. In 2016, the value of production is forecast to reach Eu26.9mn (vs. Eu25.0mn previously), with EBITDA of Eu15.5mn (vs. Eu14.0mn) and EBIT of Eu7.3mn (vs. Eu5.7mn). The company confirmed it may start distributing dividends again as of 2014. Looking further ahead, management expects to record a value of production of Eu44.5mn, EBITDA of Eu26.8mn and EBIT of Eu16.0mn by 2020.
- We have raised our estimates: the market environment is extremely favourable to Mondo TV.** In recent months, Mondo TV's competitive environment has changed dramatically: some competitors (Spanish company Zinkia and French company Moonscoop) have gone bankrupt, while others are suffering from significant financial constraints. Mondo TV is therefore well placed to gain market share by exploiting its reputation for high quality/low cost productions and its established network of relationships with co-producers, broadcasters and toy manufacturers. We acknowledge that visibility on the business plan is very high (recent newsflow has been strong and supportive) and Mondo TV has an effective and skilled managerial structure in place to execute the plan. We have therefore increased our 2015-2016 estimates for the value of production, EBITDA and EBIT accordingly. All in all, we have lifted 2015 and 2016 EPS by 20.2% and 31.2% respectively. We expect the net financial position to turn positive by the end of 2015; we have also assumed a dividend will be paid in 2015, based on a 33% payout ratio on 2014 results.
- Quarterly results highlight business plan execution is on track.** In 1Q14 the value of production came to Eu4.0mn, +26.7% YoY and +6.2% above our expectations, boosted by an increasing contribution from productions. EBITDA increased steadily to Eu1.6mn, +37.9% YoY and in line with our forecast, due to sound operating leverage. EBIT was positive to the tune of Eu0.33mn, +23.5% YoY and 14.0% above our estimates after lower than expected provisions. Mondo TV posted net profit of Eu0.11mn, +24.4% YoY. Net debt came down slightly QoQ to Eu3.5mn at the end of March 2014 from Eu3.6mn at the end of December 2013.
- Upgrade to BUY, target price lifted to Eu3.00.** Despite the strong share price rally, we have raised our recommendation from Outperform to BUY as we believe Mondo TV is in a unique position to benefit from the current lack of competition. We appreciate Mondo TV's focus on new productions (with high merchandising potential), co-productions with brand owners and toy manufacturers, and the distribution of third parties' libraries. The positive conclusion of all ongoing negotiations, and faster than expected success from the exploitation of new emerging markets (Middle East, Russia, China), and/or new distribution channels (web, mobile) might provide additional upside to our estimates. Our updated DCF-based valuation yields a new target price of Eu3.00 per share.

MONDO TV - 12m Performance


RATING: from OUTPERFORM to BUY
TARGET PRICE (Eu): from 1.10 to 3.00

Change in EPS est:	2014E	2015E
	0.0%	20.2%

STOCK DATA

Reuters code: MTV.MI
Bloomberg code: MTV IM

Performance	1m	3m	12m
Absolute	46.9%	190.7%	275.0%
Relative	51.3%	180.6%	258.2%
12 months H/L:	2.25/0.38		

SHAREHOLDER DATA

No. of Ord. shares (mn):	26
Total No. of shares (mn):	26
Mkt Cap Ord (Eu mn):	53
Total Mkt Cap (Eu mn):	53
Mkt Float - ord (Eu mn):	24
Mkt Float (in %):	46.0%
Main shareholder:	
CORRADI ORLANDO	49.0%

BALANCE SHEET DATA

	2014
Book value (Eu mn):	28
BVPS (Eu):	1.01
P/BV:	1.8
Net Financial Position (Eu mn):	-2
Enterprise value (Eu mn):	55

Key Figures	2012A	2013A	2014E	2015E	2016E
Value of Production (Eu mn)	16	12	18	21	27
Ebitda (Eu mn)	4	3	8	11	15
Net profit (Eu mn)	2	-7	1	3	5
EPS - New (Eu)	0.059	-0.268	0.031	0.116	0.189
EPS - Old (Eu)	0.059	-0.268	0.031	0.096	0.144
DPS (Eu)	0.000	0.000	0.010	0.038	0.062
Ratios & Multiples	2012A	2013A	2014E	2015E	2016E
P/E	34.3	nm	63.9	17.3	10.6
Div. Yield	0.0%	0.0%	0.5%	1.9%	3.1%
EV/Ebitda	12.9	16.3	6.8	4.7	3.2
ROCE	0.2%	-36.9%	5.5%	16.5%	23.7%

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MONDO TV - KEY FIGURES

		2012A	2013A	2014E	2015E	2016E
	Fiscal year end	12/12/2012	12/12/2013	12/12/2014	12/12/2015	12/12/2016
PROFIT & LOSS (Eu mn)	Value of Production	16	12	18	21	27
	EBITDA	4	3	8	11	15
	EBIT	0	(12)	2	5	7
	Financial income (charges)	(1)	(0)	(0)	(0)	(0)
	Associates & Others	0	0	0	0	0
	Pre-tax profit (Loss)	(1)	(13)	1	5	7
	Taxes	2	5	(1)	(2)	(2)
	Tax rate (%)	391.4%	43.6%	37.6%	35.0%	30.0%
	Minorities & discontinue activities	0	0	0	0	0
	Net profit	2	-7	1	3	5
	Total extraordinary items	0	0	0	0	0
	Ebitda excl. extraordinary items	4	3	8	11	15
	Ebit excl. extraordinary items	0	(12)	2	5	7
	Net profit restated	2	(7)	1	3	5
PER SHARE DATA (Eu)	Total shares out (mn) - average fd	26	26	26	26	26
	EPS stated fd	0.059	-0.268	0.031	0.116	0.189
	EPS restated fd	0.059	-0.268	0.031	0.116	0.189
	BVPS fd	1.231	0.983	1.014	1.169	1.323
	Dividend per share (ord)	0.000	0.000	0.010	0.038	0.062
	Dividend per share (sav)	0.000	0.000	0.000	0.000	0.000
	Dividend pay out ratio (%)	0.0%	0.0%	33.0%	33.0%	33.0%
CASH FLOW (Eu mn)	Gross cash flow	5	6	7	9	13
	Change in NWC	(9)	2	(0)	(2)	(3)
	Capital expenditure	(5)	(6)	(6)	(6)	(6)
	Other cash items	7	(3)	1	2	1
	Free cash flow (FCF)	(2)	(0)	1	3	5
	Acquisitions, divestments & others	0	0	0	0	0
	Dividend	0	0	0	(0)	(1)
	Equity financing/Buy-back	11	1	0	0	0
Change in Net Financial Position	10	0	1	3	3	
BALANCE SHEET (Eu mn)	Total fixed assets	23	19	18	18	16
	Net working capital	14	12	12	14	16
	Long term liabilities	(1)	(1)	(1)	(1)	(2)
	Net capital employed	37	30	29	30	31
	Net financial position	(4)	(4)	(2)	1	4
	Group equity	33	26	27	31	35
	Minorities	(1)	(1)	(1)	(1)	(1)
Net equity	34	27	28	32	36	
ENTERPRISE VALUE (Eu mn)	Average mkt cap - current	53	53	53	53	53
	Adjustments (associate & minorities)	0	0	0	0	0
	Net financial position	(4)	(4)	(2)	1	4
	Enterprise value	57	57	55	52	49
RATIOS(%)	EBITDA margin*	27.7%	27.8%	46.1%	53.1%	57.2%
	EBIT margin*	0.3%	nm	9.2%	23.3%	27.0%
	Gearing - Debt/equity	12.6%	14.0%	8.9%	-2.0%	-11.8%
	Interest cover on EBIT	0.1	nm	5.4	24.5	72.4
	Debt/Ebitda	0.92	1.05	0.29	nm	nm
	ROCE*	0.2%	-36.9%	5.5%	16.5%	23.7%
	ROE*	5.6%	-23.4%	3.1%	10.3%	14.8%
	EV/CE	1.6	1.7	1.9	1.8	1.6
	EV/ Value of Production	3.6	4.5	3.1	2.5	1.8
	EV/Ebit	nm	nm	34.0	10.7	6.8
	Free Cash Flow Yield	-2.9%	-0.3%	2.7%	6.4%	8.8%
GROWTH RATES (%)	Value of Production	-20.3%	-22.2%	42.1%	18.6%	27.6%
	EBITDA*	-53.7%	-22.0%	136.1%	36.6%	37.4%
	EBIT*	nm	nm	nm	200.8%	47.6%
	Net profit	36.3%	nm	nm	268.5%	63.5%
	EPS restated	36.3%	nm	nm	268.5%	63.5%

* Excluding extraordinary items

Source: Intermonte SIM estimates

New Business Plan Targets

After the signing of the agreement with the US company Animagic Media Group for the co-production and distribution of a new 3D animated series ("Bug Rangers") and the start of promising new negotiations with other operators in the US, UK and Europe, Mondo TV has decided to update the 2014-16 business plan that was published in March, revising its 2015 and 2016 targets upwards (2014 targets remain unchanged). Below is a detailed comparison between the old business plan and the new one. Looking further ahead, management expects to record a value of production of Eu44.5mn, EBITDA of Eu26.8mn and EBIT of Eu16.0mn by 2020.

Mondo TV - Business Plan Comparison

(Eu mn)	Value of Production	YoY	EBITDA IFRS	YoY	EBIT IFRS	YoY	NFP
2014 Old	17.8	42.3%	8.0	132.2%	1.8	<i>nm</i>	negative
2014 New	17.8	42.3%	8.0	132.2%	1.8	<i>nm</i>	negative
% Ch.	0.0%		0.0%		0.0%		
2015 Old	19.9	12.0%	10.3	28.0%	4.0	121.1%	negative
2015 New	21.1	18.8%	11.3	40.5%	5.0	177.6%	negative
% Ch.	6.1%		9.7%		25.6%		
2016 Old	25.0	25.6%	14.0	35.9%	5.7	42.5%	positive
2016 New	26.9	27.5%	15.5	37.5%	7.2	44.3%	positive
% Ch.	7.7%		11.0%		27.2%		
2020 New	44.5		26.8		16.0		
CAGR 14'-20'	16.5%		22.2%		43.8%		

Source: Company Data

Recent Newsflow

8th April 2014 – CHINA / Guangdong Alpha Distribution

Mondo TV announced a distribution deal with Guangdong Alpha Animation, a Chinese leader in the animation and toy industry, to distribute 900 half-hours of animated series produced by Guangdong Alpha Animation across Europe, the Middle East and Africa. According to the agreement, Mondo TV will distribute all TV, Home Video, Internet, Mobile and VOD rights, together with the Licensing & Merchandising rights for a period of two years.

15th April 2014 – US / Animagic Media

Mondo TV and Animagic Media Group, a US company operating in the entertainment sector that owns, develops and produces animations, reached an agreement for the co-production and distribution of a new 3D animated series based on Animagic's successful "Bug Rangers" concept. The series will be made up of 26 episodes of 22 minutes each. Each partner will take 50% of the revenues coming from sales of the series and from related licensing and merchandising. Mondo TV will be responsible for the global distribution of the series (except in North America) as well as licensing and merchandising in Southern Europe and Russia.

On 6th May, Mondo TV announced the signing of the so-called "long form" contract with Animagic Media Group which heralds the start of production of the series, which is scheduled to be completed by the end of March 2016.

5th May 2014 – ITALY /RAI

Mondo TV announced the signing of a licence agreement with RAI Cinema to broadcast the young adult TV musical series Sueña con Migo. This series is composed of 120 episodes of 60 minutes each. The licence is valid until 1st January 2018 and the licensed series will be broadcast on state television network RAI's digital free-to-air channel "Rai Gulp" and/or other peripheral RAI channels. It is estimated that the direct and indirect revenues generated may account for approximately 15% of parent company Mondo TV Spa's revenues in 2014.

Change In Estimates

In recent months, Mondo TV's competitive environment has changed dramatically: some competitors (Spanish company Zinkia and French company Moonscoop) have gone bankrupt, while others are suffering from significant financial constraints. Mondo TV is therefore well placed to gain market share by exploiting its reputation for high quality/low cost productions and its established network of relationships with co-producers, broadcasters and toy manufacturers.

Our new detailed estimates are reported below. As we acknowledge that visibility on the business plan is very high (recent newsflow has been strong and supportive), and Mondo TV has an effective and skilled managerial structure in place to execute the plan, we have increased our 2015-2016 estimates for the value of production, EBITDA and EBIT accordingly.

Mondo TV - Change in estimates

(Eu mn)	2014E	2015E	2016E
Total Revenues new	13.8	16.9	22.5
Total Revenues old	13.8	15.5	20.2
% change	0.0%	9.0%	11.4%
Value of Production new	17.7	21.0	26.8
Value of Production old	17.7	19.6	24.5
% change	0.0%	7.1%	9.4%
EBITDA new	8.2	11.2	15.4
EBITDA old	8.2	10.0	13.8
% change	0.0%	11.9%	11.4%
EBIT new	1.6	4.9	7.2
EBIT old	1.6	4.0	5.6
% change	0.0%	22.8%	29.6%
PBT new	1.3	4.7	7.1
PBT old	1.3	3.8	5.5
% change	0.0%	24.0%	30.2%
Net profit new	0.8	3.1	5.0
Net profit old	0.8	2.5	3.8
% change	0.0%	20.2%	31.2%
Net debt new	(2.4)	0.6	4.1
Net debt old	(2.4)	(1.7)	1.5
% change	0.0%	137.3%	173.9%

Source: Intermonte SIM estimates

Results

In 1Q14 the increasing contribution of productions already had a positive impact on total revenues, which came in at Eu2.8mn, up 21.7% YoY. The value of production, which also includes the capitalisation of internally produced series, came to Eu4.0mn, +26.7% YoY and +6.2% above our expectations. EBITDA increased steadily to Eu1.6mn, +37.9% YoY and in line with our forecast, due to positive operating leverage (the company executed a cost cutting plan). EBIT was positive to the tune of Eu0.33mn, +23.5% YoY and 14.0% above our estimates after lower than expected provisions. Mondo TV posted net profit of Eu0.11mn, +24.4% YoY and 18.7% below our estimates because of a higher tax rate. Net debt came down slightly QoQ to Eu3.5mn at the end of March 2014 from Eu3.6mn at the end of December 2013, in line with expectations.

Mondo TV - Results

(Eu mn)	1Q13A	1Q14A	YoY	1Q14E	A vs E
Total Revenues	2.3	2.8	21.7%	2.9	-3.9%
Capitalization of internal productions <i>on tot revenues</i>	0.9 37.7%	1.2 43.4%		0.9 29.8%	
<i>yoy growth</i>		40.1%		0.0%	
Value of Production	3.2	4.0	26.7%	3.77	6.2%
Raw materials <i>on tot revenues</i>	(0.0) 0.7%	(0.0) 0.7%	26.7%	(0.0) 0.9%	
<i>yoy growth</i>		26.7%		70.9%	
Personnel costs <i>on tot revenues</i>	(0.6) (0.2)	(0.8) 28.5%	40.0%	(0.6) 20.0%	
<i>yoy growth</i>		40.0%		2.5%	
Other operating costs <i>on tot revenues</i>	(1.4) -62.9%	(1.6) 58.3%	12.7%	(1.6) 53.4%	
<i>yoy growth</i>		12.7%		7.5%	
EBITDA IFRS	1.1	1.6	37.9%	1.6	-2.9%
EBITDA margin	49.4%	56.0%		55.4%	
Depreciation and amortization <i>on tot revenues</i>	(0.8) 33.5%	(1.2) 43.4%		(1.2) 41.3%	
Allowance for doubtful debts <i>on tot revenues</i>	(0.1) -4.4%	(0.0) -1.0%		(0.1) -5%	
EBIT IFRS	0.3	0.3	23.5%	0.3	14.0%
EBIT margin	11.5%	11.7%		9.8%	
Net Financial Charges Associates	(0.1) 0.0	(0.1) 0.0		(0.1) 0.0	
Profit before tax	0.2	0.2	36.7%	0.2	2.4%
Income tax <i>tax rate</i>	(0.1) 55.7%	(0.1) 47.7%		(0.1) 37.6%	
Minorities	0.0	0.0		0.0	
Net profit	0.1	0.1	24.4%	0.1	-18.7%
Net Debt	(3.9)	(3.5)		(3.5)	

Source: Company data (A) and Intermonte SIM estimates (E)

Valuation

Our target price is based on a discounted cash flow (DCF) model. Details of the model are reported below. Based on a 10.4% WACC and a terminal growth rate of 2.0%, our model yields an equity value of Eu79.4mn, or Eu3.00 per share.

Our estimates are broadly in line with the company's 2014-16 targets, and some 20-30% below those for the years 2017-2020.

We assume Mondo TV won't pay cash taxes in the period from 2014 to 2018 because it currently has Eu10.9mn in net deferred tax assets booked on the balance sheet.

Mondo TV - DCF model

DCF (Eu mn)	2014E	2015E	2016E	2017E	2018E	2019E	2020E	TV
Revenues	12.0	15.0	20.5	23.6	25.9	27.7	28.9	29.4
YoY Growth	70.9%	25.0%	36.7%	15.0%	10.0%	7.0%	4.0%	2.0%
Value of Production	17.7	21.0	26.8	30.9	34.0	36.3	37.8	38.5
YoY Growth	42.1%	18.6%	27.6%	15.0%	10.0%	7.0%	4.0%	2.0%
EBITDA	8.2	11.2	15.4	17.7	19.4	20.8	21.6	22.0
YoY Growth	136.1%	36.6%	37.4%	15.0%	10.0%	7.0%	4.0%	2.0%
DA	(6.6)	(6.3)	(8.1)	(7.9)	(7.9)	(7.9)	(7.9)	(8.0)
EBIT	1.6	4.9	7.2	9.8	11.5	12.9	13.7	14.0
YoY Growth	-113.3%	200.8%	47.6%	35.0%	18.0%	12.0%	6.0%	2.5%
Cash Taxes	0.0	0.0	0.0	0.0	0.0	(3.9)	(4.1)	(4.2)
tax rate	-37.6%	-35.0%	-30.0%	-30.0%	-30.0%	-30.0%	-30.0%	-30.0%
Change in WC	(0.5)	(1.6)	(2.6)	(1.5)	(1.2)	(0.9)	(0.6)	(0.3)
Capex	(5.5)	(5.5)	(6.0)	(7.0)	(7.7)	(7.9)	(7.9)	(8.0)
Capex/Revenues	-45.8%	-36.7%	-29.3%	-29.7%	-29.7%	-28.4%	-27.5%	-27.3%
FCF	2.2	4.1	6.8	9.1	10.5	8.1	9.0	9.5
TV								113.0
year	1	2	3	4	5	6	7	8
Discounted WACC	0.91	0.82	0.74	0.67	0.61	0.55	0.50	0.45
Discounted Free cash flow	2.0	3.4	5.0	6.1	6.4	4.5	4.5	51.1
Discounted Free cash flows	31.9							
Terminal value	51.1							
Total EV (with DCF)	83.0							
NFP (end 2013)	(3.6)							
other								
Total EQUITY	79.4							
N. of shares fully diluted (mn)	26.4							
TARGET PRICE (Eu)	3.00							
WACC	10.4%							
Terminal growth	2.0%							

TV / Total EV 62%

Source: Intermonte SIM estimates

MONDO TV Peer Group - Absolute Performances

Stock	Price	Ccy	Mkt cap	1M	3M	6M	YTD	1Y	2Y
MONDO TV	2.0	EUR	53.0	46.0%	190.7%	301.2%	299.6%	275.0%	458.8%
AMUSE	1,604.0	JPY	13,847.7	-6.5%	-13.0%	-19.2%	-21.0%	-33.6%	68.0%
BFS ENTERTAINMENT & M	0.2	CAD	1.5	2.7%	2.7%	-5.9%	-2.5%	11.6%	5.5%
ENTERTAINMENT ONE	2.7	GBP	782.2	-14.3%	-21.2%	12.6%	4.4%	38.0%	108.1%
IMAX CORP.	27.1	CAD	1,841.6	-12.0%	-10.5%	-14.1%	-13.3%	-7.9%	27.0%
PLATIGE IMAGE	11.0	PLN	35.0	-6.1%	-8.4%	-37.1%	-12.0%	-45.0%	-66.0%
STARZ	29.8	USD	3,253.1	-6.3%	-4.3%	9.2%	1.9%	29.8%	214.3%
TOEI ANIMATION	2,499.0	JPY	34,091.5	-7.7%	-6.6%	-5.2%	-3.1%	-1.7%	46.5%
UNIVERSE INT.HOLDINGS	0.1	HKD	248.8	1.4%	-38.6%	-61.3%	-43.1%	119.7%	126.6%
XILAM ANIMATION	2.6	EUR	11.5	4.9%	25.4%	20.1%	28.5%	25.4%	13.2%
Mean performance				0.2%	11.6%	20.0%	23.9%	41.1%	100.2%
Italy Fixed	20,597.5	EUR	263,466	-4.7%	1.0%	9.3%	8.6%	18.2%	58.3%

Source: FactSet

MONDO TV Peer Group - Multiple Comparison

Stock	Price	Ccy	Mkt cap	EV/Sales	EV/Sales	EV/Ebitda	EV/Ebitda	EV/Ebit	EV/Ebit	P/E	P/E	Div Yield	Div Yield
				2014	2015	2014	2015	2014	2015	2014	2015	2014	2015
MONDO TV	2.0	EUR	53.0	3.1	2.5	6.8	4.7	34.0	10.7	63.9	17.3	0.5%	1.9%
AMUSE	1,604.0	JPY	13,847.7							6.3	6.3	1.9%	1.9%
BFS ENTERTAINMENT & M	0.2	CAD	1.5										
ENTERTAINMENT ONE	2.7	GBP	782.2	1.1	1.0	9.6	8.7	9.9	9.0	12.7	11.5	0.5%	0.7%
IMAX CORP.	27.1	CAD	1,841.6	5.4	4.4	13.2	9.7	23.4	15.2	27.6	20.6	0.0%	0.0%
PLATIGE IMAGE	11.0	PLN	35.0										
STARZ	29.8	USD	3,253.1	2.5	2.5	9.5	9.4	10.5	10.3	13.9	12.5	0.0%	0.0%
TOEI ANIMATION	2,499.0	JPY	34,091.5							14.2		1.2%	
UNIVERSE INT.HOLDINGS	0.1	HKD	248.8										
XILAM ANIMATION	2.6	EUR	11.5										
Median				2.8	2.5	9.5	9.0	16.9	10.5	14.1	12.5	0.5%	0.7%

Source: Intermonte SIM estimates for covered companies, FactSet consensus estimates for peer group

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 NEUTRAL: stock performance expected at between +10% and -10% compared to the market over a 12 month period ;
 UNDERPERFORM: stock expected to underperform the market by between -10% and -25% over a 12 month period;
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DETAILS ON STOCKS RECOMMENDATION

Stock NAME	MONDO TV		
Current Recomm:	BUY	Previous Recomm:	OUTPERFORM
Current Target (Eu):	3.00	Previous Target (Eu):	1.10
Current Price (Eu):	2.01	Previous Price (Eu):	0.96
Date of report:	22/05/2014	Date of last report:	02/04/2014

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