

Mondo TV

New funding in place

Mondo TV has announced a succession of distribution and licensing deals through H120, covering a wide range of properties and geographies. To fund the necessary investment and to build its in-house capabilities for 3D CGI animation, it has agreed further funding of up to €10.5m with Atlas Special Opportunities in the form of convertible bonds. Global appetite for children's TV content remains healthy, with animation benefiting from the reduced filming of live action, and we would expect the flow of deals to continue in H2. Our FY20 and FY21 forecasts are essentially unchanged.

Year end	Revenue (€m)	PBT* (€m)	EPS* (c)	DPS (c)	EV/EBIT (x)	P/E (x)
12/18	18.9	(30.1)	(56.3)	0.0	N/A	N/A
12/19	23.1	6.2	11.3	0.0	6.9	15.4
12/20e	28.6	8.5	14.1	0.0	5.0	12.2
12/21e	32.0	9.2	14.6	0.0	4.5	11.9

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

Top line marginally ahead, costs lower

H120 group production value at €12.9m was marginally ahead of the prior year, comprising revenue of €11.2m (+2% on H119) and capitalised development costs of €1.7m (-3%). The step up in EBITDA from €7.8m in H119 to €8.3m for H120 largely reflects lower operating costs from cancelled trade shows and reduced advertising costs due to the COVID-19 pandemic. Given the momentum of deal flow over the last year or so, the full-year forecasts should be achievable and there is negligible change to our published numbers, which are based on management's business plan, less a modest execution risk adjustment. The additional funding should enable the acceleration of some projects, and revenue expectations for FY21e may need to be raised, particularly with the relative drought of new available content in the market and continuing high levels of demand.

Investment secured for next stage

Mondo TV has agreed a further funding round with Atlas Special Opportunities, similar to that arranged in 2018 (for details, see our [Outlook note](#), May 2020). This new deal, reportedly on improved (but undisclosed) conditions, is for up to €10.5m in convertible bonds. There is also a warrant for 1.5m shares, exercisable within five years, at a price of €3, well ahead of the current share price. This additional funding should allow the group to green-light and accelerate existing projects, including those in joint development with Toon2Tango. Importantly, it also ramps up the planned investment in a new 3D CGI animation studio in the Canary Islands, which will give the group better control over production scheduling and quality.

Valuation: Discount persists despite solid trading

Mondo's valuation discount to global peers has widened since our May note, as the shares have drifted from a high of €2.26 in early June. Parity on averaged earnings multiples across FY19–21e would generate a value of €3.43/share (May: €2.96). A DCF (WACC of 11.5%, terminal growth 2%) suggests a price of €2.22. The midpoint of these is €2.83 (May: €2.70); we expect Mondo's discount to narrow.

Interim figures

Media

17 September 2020

Price €1.73

Market cap €63m

Net debt (€m) at 30 June 2020 (IFRS) 3.6

Shares in issue 36.4m

Free float 62%

Code MTVI

Primary exchange Borsa Italiana Star

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (8.5) (16.2) 45.7

Rel (local) (8.2) (17.8) 59.9

52-week high/low €2.70 €1.08

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 (56%) and Mondo TV Iberoamerica (79%). It owns the rights to over 1,600 TV episodes and films, which it distributes across 75 markets. In total, 74% of revenues are generated in Asia, with the remainder from Europe and South America.

Next events

Q3 figures 13 November 2020

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Half-year results

Exhibit 1: H120 Mondo TV Group results summary

€m	H120	H119	% change	FY19
Revenue	11.2	11.0	+2	23.1
Capitalised content development	1.7	1.8	-3	3.5
Production value	12.9	12.8	+1	26.7
Operating costs	(4.6)	(5.0)	-8	(10.3)
EBITDA	8.3	7.8	+7	16.4
D&A (including exceptionals)	(4.7)	(4.5)	+6	(9.9)
EBIT	3.6	3.3	+9	6.5
Net financial costs	(0.2)	(0.1)	+131	(0.3)
PBT	3.4	3.2	+6	6.2
Tax	(1.2)	(1.2)	+1	(2.1)
Minorities	0.2	0.0		(0.1)
Net profit	2.5	2.0	+22	4.0

Source: Company accounts

The revenue line has been stable through the main period of national lockdowns as revenues are derived from longer-term contracts. Mondo traded across the half with little interruption, with the transition to remote working quickly implemented and production in the Canary Islands continuing.

There has been some short-term impact on working capital as customers moved into lockdown, but this is now correcting as business, particularly in Asia, reverts to a more normal trading pattern. Payments from Asian customers have continued to be regular and management expects that collections will improve over the rest of the year.

Net debt at the half year on an IFRS16 basis was €3.6m, having been €3.3m at the end of Q1, from €1.4m at end FY19. Excluding lease liabilities, net debt at end June 2020 was €2.4m, versus net cash of €0.1m at the year-end.

Deal flow continues

We laid out the deals struck in the first quarter in our May [Outlook note](#). Since that point, the group has announced the following:

- **Samsung.** A dedicated Mondo TV children's TV channel bundled onto Samsung TV Plus in Italy. This is a one-year contract on an advertising revenue-share model, with 50 movies and 20 series on the channel.
- **Huawei.** 58 of Mondo's animated series to be included on Huawei's online platform in 26 countries. This is a two-year contract (with the option for extension) on a revenue-share basis.

The other important development is at the group's 79%-owned subsidiary, Mondo TV Iberoamerica, where the latter's 100%-owned subsidiary Mondo TV Producciones Canarias is to expand its facilities in Santa Cruz de Tenerife to include a 3D CGI animation production suite. The regional government of the Canary Islands has put in place a favourable tax regime to encourage animation companies to base themselves there. The upfront cost was originally cited at €0.3m and it may be that the Atlas investment will allow for greater ambition here. This resource will be available across the group and should reduce third-party costs (although work will continue to be done externally as well) and allow closer monitoring of quality.

The pace of deals in the first half means there is no change to the published management business plans on which we based our forecasts, with modest contingency for execution risk.

Atlas funding allows progress to accelerate

Similar to the previous arrangement, the new Atlas funding is in the form of a series of convertible bonds: 42 at a value of €250k each, to be approved by shareholders at an EGM. The conversion period is up to four years from issuance. The number of shares into which each bond will convert will be subject to certain conditions and determined by the share price at the time, so we have made no assumptions about this in our modelling, which simply shows the convertible bonds as debt.

The warrants to be issued (again, subject to EGM approval) are for 1.5m new shares at €3, exercisable within five years. Again, this being out of the money, we have not included it in our modelling. There are outstanding warrants from the previous fund-raise exercisable at €6.5 and €10, which expire in April 2021 and 2022.

As well as funding existing projects, this injection will enable some prospects to be accelerated (particularly some in development with Toon2Tango). With the COVID-19 pandemic having had a more serious impact on some less well-funded market participants, there may also be opportunities for acquisitions. In our view, these are more likely to be of properties or licences than of companies. Management is especially keen to build exposure to the US market, and wants to increase market share in Northern Europe and in Russia to counter the traditional revenue bias to Asia and Southern Europe.

Valuation

Since we last published in May, there has been a divergence in share price performance between Mondo TV and the global peer group of content and related licensing companies. Mondo TV's share price has drifted back from €1.95 to €1.73, while stocks such as Mediawan (which has accelerated its plans to build a major European content provider) and Toei (benefiting from increasing global interest in anime) have gone from being down 26% and 27% respectively on the year to being ahead year to date.

Exhibit 2: Peer group summary valuation ratings

Name	Share price	Market cap (m)	Ytd perf (%)	P/E last (x)	P/E 1FY (x)	P/E 2FY (x)	EV/Sales last (x)	EV/EBITDA last (x)	EV/EBITDA 1FY (x)	EV/EBITDA 2FY (x)	EV/EBIT last (x)	EV/EBIT 1FY (x)	EV/EBIT 2FY (x)	Div yield 1FY (x)
Xilam Animation (€)	47.70	234	7.4	33.8	43.6	27.5	8.2	8.9	9.5	6.0	27.6	32.2	19.6	0.0
Mediawan (€)	11.94	383	14.4	15.7	26.8	14.5	2.0	12.4	15.4	10.0	15.6	19.4	12.1	0.0
Lions Gate Ent (US\$)	83.66	2,004	-10.2				1.3	10.6	11.2	10.0		38.2	32.2	0.0
Toei (¥)	6430	270,060	14.8	23.0	26.3	25.3	4.2	13.8	15.1	14.2				0.9
Corus Ent (CA\$)	3.05	621	-42.7	3.6	4.7	4.4	1.4	3.9	4.6	4.7	5.7	6.8	6.9	7.9
Spin Master (US\$)	22.43	2,997	-25.4	24.9	60.0	22.6	1.4	10.3	14.3	9.4	15.8	31.1	14.9	0.0
Amuse (¥)	2473	46,056	-17.8	14.2		26.3	0.4		49.1	7.0	15.8	31.1	14.9	0.0
Average			-8.5	19.2	32.3	20.1	2.7	10.0	17.0	8.8	16.1	26.5	16.8	1.3
Median			-10.2	19.4	26.8	24.0	1.4	10.5	14.3	9.4	15.8	18.0	14.9	0.0
Mondo TV (€)	1.82	66	-27.9	16.2	12.9	12.5	2.1	2.9	2.4	2.1	7.4	5.4	4.8	0.0
Discount to median				17%	52%	48%	-50%	72%	83%	78%	53%	70%	68%	

Source: Refinitiv, Edison Investment Research. Note: Priced at 10 September 2020.

These share price moves have widened the P/E and EV/EBIT discounts. This therefore increases the implied share price for Mondo TV to reach parity on averaged earnings multiples across FY19–21e to €3.43/share from €2.96 in May. We would expect Mondo's valuation discount to start to close as the financial benefit of recent deals flows through to the revenue line.

Exhibit 3: Financial summary

	€m	2017	2018	2019	2020e	2021e
31-December		IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT						
Revenue		32.0	18.9	23.1	28.6	32.0
Cost of Sales		(8.3)	(7.7)	(6.6)	(8.7)	(8.9)
Gross Profit		23.7	11.2	16.4	20.0	23.2
EBITDA		23.7	11.2	16.4	20.0	23.2
Operating Profit (before amort. and except.)		17.6	(30.6)	6.5	9.0	10.1
Amortisation of acquired intangibles		0.0	0.0	0.0	0.0	0.0
Exceptionals		0.0	(23.9)	(0.2)	0.0	0.0
Share-based payments		0.0	0.0	0.0	0.0	0.0
Reported operating profit		17.6	(54.5)	6.3	9.0	10.1
Net Interest		(2.2)	0.5	(0.3)	(0.4)	(0.9)
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)		15.4	(30.1)	6.2	8.5	9.2
Profit Before Tax (reported)		15.4	(54.0)	6.0	8.5	9.2
Reported tax		(3.1)	11.5	(2.1)	(2.4)	(2.6)
Profit After Tax (norm)		12.3	(22.0)	4.1	6.2	6.6
Profit After Tax (reported)		12.3	(42.5)	3.9	6.2	6.6
Minority interests		0.5	3.0	(0.1)	(1.0)	(1.3)
Discontinued operations		0.0	0.0	0.0	0.0	0.0
Net income (normalised)		12.8	(19.0)	4.0	5.1	5.3
Net income (reported)		12.8	(39.5)	3.8	5.1	5.3
Average Number of Shares Outstanding (m)		30	34	35	36	36
EPS - normalised (c)		43.0	(56.3)	11.3	14.1	14.6
EPS - normalised fully diluted (c)		43.0	(56.3)	11.3	14.1	14.6
EPS - (c)		43.0	(117.0)	10.8	14.1	14.6
Dividend per share (c)		0.0	0.0	0.0	0.0	0.0
Revenue growth (%)		16.8	(40.9)	21.9	24.2	11.8
Gross Margin (%)		74.0	59.2	71.3	69.7	72.3
EBITDA Margin (%)		74.0	59.2	71.3	69.7	72.3
Normalised Operating Margin		54.9	(162.0)	28.2	31.3	31.4
BALANCE SHEET						
Fixed Assets		47.9	46.0	50.5	51.5	50.1
Intangible Assets		44.1	30.9	35.8	36.5	35.0
Tangible Assets		0.4	0.4	1.6	1.9	1.9
Investments & other		3.4	14.7	13.1	13.1	13.1
Current Assets		53.6	37.2	35.7	56.2	66.2
Stocks		0.0	0.0	0.0	0.0	0.0
Debtors		47.9	20.6	24.9	30.9	35.2
Cash & cash equivalents		2.4	12.5	8.0	22.5	28.2
Other		3.3	4.2	2.9	2.8	2.8
Current Liabilities		(22.6)	(25.2)	(19.9)	(24.8)	(27.0)
Creditors		(15.0)	(21.6)	(13.8)	(18.4)	(20.7)
Tax and social security		(0.4)	(0.5)	(0.8)	(0.8)	(0.8)
Short term borrowings		(3.6)	(3.0)	(5.3)	(5.5)	(5.5)
Other		(3.7)	(0.1)	(0.0)	(0.0)	(0.0)
Long Term Liabilities		(1.2)	(1.9)	(4.7)	(15.0)	(15.0)
Long term borrowings		(0.7)	(1.3)	(4.1)	(14.4)	(14.4)
Other long-term liabilities		(0.5)	(0.6)	(0.6)	(0.6)	(0.6)
Net Assets		77.7	56.1	61.6	67.9	74.3
Minority interests		(0.6)	2.1	(1.2)	1.0	1.4
Shareholders' equity		77.1	58.2	60.4	69.0	75.7
CASH FLOW						
Op Cash Flow before WC and tax		23.7	11.2	16.4	20.0	23.2
Working capital		(11.2)	6.0	(10.6)	(1.3)	(2.1)
Exceptional & other		(0.8)	(11.0)	1.4	0.0	(0.9)
Tax		(3.1)	11.5	(2.1)	(2.4)	(2.6)
Operating cash flow		8.7	17.6	5.1	16.2	17.6
Capex		(19.2)	(28.6)	(14.2)	(11.1)	(11.1)
Acquisitions/disposals		0.0	0.0	(0.1)	0.0	0.0
Net interest		(0.2)	0.0	2.9	(0.4)	(0.9)
Equity financing		9.4	20.9	1.8	0.0	0.0
Dividends		0.0	0.0	0.0	0.0	0.0
Other		0.1	0.0	0.0	0.0	0.0
Net Cash Flow		(1.2)	10.0	(4.5)	4.7	5.7
Opening net debt/(cash)		0.9	2.0	(8.0)	1.4	(3.0)
FX		0.1	0.0	0.0	0.0	0.0
Other non-cash movements		0.0	0.0	(4.9)	(0.3)	0.0
Closing net debt/(cash)		2.0	(8.0)	1.4	(3.0)	(8.7)

Source: Company accounts, Edison Investment Research

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