EDISON

Mondo TV

Final results

The deals keep coming

Media

Mondo TV produced good FY20 results, with production value up by 14% to €30.4m and an uptick in EBITDA margin (on production value) from 61.4% to 61.8%. The strengthening of the balance sheet through Atlas's capital injection (the €10.5m bond conversion is now complete) has given the group the resource to invest in its Toon2Tango JV and in the development of its own 3D CGI animation studio in Gran Canaria. The dispute with the tax authorities is now resolved. With robust global content demand and continuing deal flow, the valuation discount looks overdone.

Year end	Revenue (€m)	PBT* (€m)	EPS* (c)	DPS (c)	EV/EBIT (x)	P/E (x)
12/19	23.1	6.2	11.3	0.0	6.5	12.0
12/20	24.7	6.4	13.2	0.0	6.0	10.3
12/21e	29.2	10.5	15.0	0.0	4.3	9.0
12/22e	30.6	12.3	16.5	0.0	4.2	8.2

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

Good production progress

There was little disruption for the group due to COVID-19, with production in the Canary Islands continuing, a rapid transition to remote working elsewhere and even some benefit from reduced costs relating to presence at trade shows and travel. Thirteen key products helped deliver revenues up 9% on the year, with heavier investment on capitalised series development (mostly *Disco Dragon* and *Grisú*) lifting production value 14%. The group ended the year with net debt of €4.1m, up from €1.4m at end FY19, having invested €18.5m in new animated series. Since end FY20, the last tranche of Atlas convertible bonds has been converted, reducing debt by a further €4.25m. For FY21, management is guiding to a production value for the year of €34.9m, up 15% on prior year, generating EBITDA of €24.6m.

A growing portfolio of properties

There has been a steady stream of announcements on deals, continuing into FY21, which underscores further progress in both rights sales and co-production. We expect further substantial content investment in FY21. Rights revenues should flow from key properties including *Disco Dragon*, *MeteoHeroes*, and *Grisú* (made at the Canary Islands facility). *MeteoHeroes* has particularly captured the moment with its eco theme and is now showing in more than 125 countries. In co-productions, key main revenue drivers should be *Nina y Olga*, *Annie & Carola*, *Grisú*, *Agent 203* (with Toon2Tango), and *Robot Trains 3*. Several are set to continue their progress in FY22, when more co-productions with Toon2Tango should also come through.

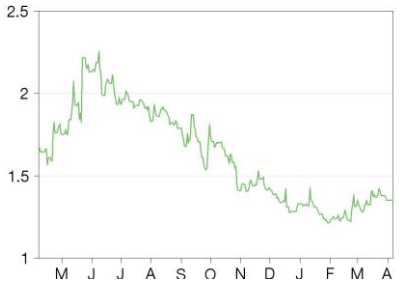
Valuation: Widened discount

Mondo Group's valuation remains at a deep discount to global peers. Parity on averaged earnings multiples across FY20–22e would imply a value of €3.81/share (November 2020: €3.27). A DCF (WACC of 11.5%, terminal growth 2%) suggests a price of €2.01 (November 2020: €2.19). The mid-point of these is €2.91 (November 2020: €2.73). We would expect Mondo's valuation discount to start to close as the financial benefit of recent deals flows through to revenues.

7 April 2021

Price	**€1.35**
Market cap	**€59m**
Net debt (€m) at 31 December 2020	4.1
Shares in issue	43.6m
Free float	58.8%
Code	MTVI
Primary exchange	Borsa Italiana Star
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	5.8	2.7	(15.3)
Rel (local)	(2.2)	(5.7)	(41.7)
52-week high/low		€2.26	€1.21

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 (63%) and Mondo TV Iberoamerica (78%). It owns the rights to over 1,600 TV episodes and films, which it distributes across global markets.

Next events

Q1 results	14 May 2021

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Edison profile page

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Improving prospects

Results for FY20 were a little ahead of our forecast (as revised after the Q3 figures in November) on revenue and EBITDA and a little behind at the pre-tax level. Revenues of €24.7m (Edison forecast: €24.5m) fed through to an EBITDA of €18.8m (Edison: €18.0m), with the benefit of some lower operating costs as trade fairs migrated online and general constraint on overheads in the pandemic. Production costs were ahead, partly due to the scaling up of the operations in Gran Canaria.

Financial charges were higher at €2.8m vs €0.7m in the prior year, which management attributes mostly (€1.4m) to exchange rate changes in the euro vs the US dollar in H220 (H120: €0.907/$, H220: €0.847/$), as well as the interest of €0.4m due on the moneys paid to the tax authorities.

Our forecast for FY21 aligns with that of management, ahead of the levels we had previously anticipated. We believe this guidance looks reasonable considering the deals and delivery schedules agreed with the group's suppliers and customers. The group maintains its longer-term business plan through to FY23 and our new FY22 figures reflect this plan, less a contingency for execution.

There has been a good start to FY21, particularly with *Grisú*, where a new seven-year licensing agreement has been signed with Italian state broadcaster RAI and which has also been sold to ZDFE in Germany. This gives very good comfort on the production investment being made. The forecasts are also supported by prospects for *Annie & Carola*, a co-production with MB Producciones and RTVE, for 52x 11' episodes in 2D HD.

Exhibit 1: Revisions to forecasts

	Normalised EPS (c)			Normalised PBT (€m)			EBITDA (€m)		
	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
2020	11.7	13.2	+13	7.0	6.4	-9	18.0	18.8	+4
2021e	13.9	15.0	+8	8.7	10.5	+21	22.0	24.6	+12
2022e	-	16.5	N/A	-	12.3	N/A	-	26.9	N/A

Source: Company accounts, Edison Investment Research. Note: 2020 'old' is prior estimate and 'new' is actual figure.

Valuation discount persists

Mondo TV Group's share price is a little ahead of where it started the year at €1.32, having peaked at €2.26 in June 2020 and then continued to drift for the remainder of the year. While there is a wide range, most peers performed considerably more strongly, widening the rating differential. Parity with peers across FY20–22 on average P/E and EV/EBIT metrics suggests a share price of €3.81, while our DCF indicates a lower value of €2.01. The mid-point of these is €2.91, over double the current share price. With a good contract base and production slate and a robust balance sheet, the discount looks to be overdone.

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 (€)	48.20	234	2.9	36.6	83.0	26.0	8.5	9.2	14.1	5.7	28.7	56.1	20.4	0.0
Mediawan (€)	12.00	370	0.0	17.3			1.9	12.1			15.2			0.0
Lions Gate Ent (US$)	15.41	3,126	35.5				1.5	12.8	12.2	13.0		76.4	38.7	0.0
Toei (¥)	11,850	484,650	46.5	41.2	43.3	41.2	8.3	27.2	28.3	25.7				0.6
Corus Ent (C$)	5.74	1,176	34.1	8.0	6.9	6.9	1.8	5.4	5.3	5.3	7.9	7.7	7.7	4.0
Spin Master (US$)	35.62	3,650	22.8	55.3	24.4	20.4	1.7	14.6	9.4	8.6	30.6	15.8	14.0	0.0
Amuse (¥)	2,547	44,367	-1.3	14.2	25.4	18.5	0.4		5.0	4.1				1.4
Average			20.1	28.7	36.6	22.6	3.5	13.6	12.4	10.4	20.6	39.0	20.2	0.9
Median			**22.8**	**26.9**	**25.4**	**20.4**	**1.8**	**12.5**	**10.8**	**7.1**	**22.0**	**18.0**	**17.2**	**0.0**
Mondo TV (€)	1.37	60	2.9	10.5	9.2	8.4	2.2	2.8	2.2	2.0	6.1	4.4	4.3	0.0
Discount to median				**61%**	**64%**	**59%**	**-19%**	**77%**	**80%**	**72%**	**72%**	**76%**	**75%**	

Source: Refinitiv, Edison Investment Research. Note: Priced at 31 March 2021.

Exhibit 3: Financial summary

€m	2018	2019	2020	2021e	2022e
Year end 31 December	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT					
Revenue	18.9	23.1	24.7	29.2	30.6
Production value	22.2	26.7	30.4	34.9	36.2
Cost of Sales	(7.7)	(6.6)	(5.9)	(4.6)	(3.7)
Gross Profit	11.2	16.4	18.8	24.6	26.9
EBITDA	11.2	16.4	18.8	24.6	26.9
Operating Profit (before amort. and except.)	(30.6)	6.5	8.7	12.1	12.4
Amortisation of acquired intangibles	0.0	0.0	0.0	0.0	0.0
Exceptionals	(23.9)	(0.2)	(0.4)	0.0	0.0
Share-based payments	0.0	0.0	0.0	0.0	0.0
Reported operating profit	(54.5)	6.3	8.3	12.1	12.4
Net Interest	0.5	(0.3)	(2.4)	(1.6)	(0.1)
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)	(30.1)	6.2	6.4	10.5	12.3
Profit Before Tax (reported)	(54.0)	6.0	6.0	10.5	12.3
Reported tax	11.5	(2.1)	(2.0)	(3.3)	(3.8)
Profit After Tax (norm)	(22.0)	4.1	4.6	7.6	8.9
Profit After Tax (reported)	(42.5)	3.9	3.9	7.3	8.5
Minority interests	3.0	(0.1)	0.4	(1.3)	(1.7)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Net income (normalised)	(19.0)	4.0	5.0	6.3	7.2
Net income (reported)	(39.5)	3.8	4.4	5.9	6.8
Average Number of Shares Outstanding (m)	34	35	38	42	44
EPS - normalised (c)	(56.3)	11.3	13.2	15.0	16.5
EPS - normalised fully diluted (c)	(56.3)	11.3	13.2	15.0	16.5
EPS - (c)	(117.0)	10.8	11.4	14.2	15.6
Dividend per share (c)	0.0	0.0	0.0	0.0	0.0
Revenue growth (%)	(40.9)	21.9	7.1	18.3	4.6
EBITDA Margin on production value (%)	50.4	61.4	61.8	70.5	74.3
Normalised Operating Margin on production value (%)	(138.1)	24.4	28.7	34.8	34.4
BALANCE SHEET					
Fixed Assets	45.9	50.5	59.1	67.4	73.7
Intangible Assets	30.9	35.8	44.8	53.0	59.2
Tangible Assets	0.3	1.6	1.2	1.3	1.4
Investments & other	14.7	13.1	13.1	13.1	13.1
Current Assets	37.2	35.7	43.6	48.3	51.7
Stocks	0.0	0.0	0.0	0.0	0.0
Debtors	20.6	24.9	30.7	36.3	38.0
Cash & cash equivalents	12.5	8.0	9.9	9.0	10.8
Other	4.2	2.9	3.0	3.0	3.0
Current Liabilities	(25.2)	(19.9)	(23.7)	(21.0)	(22.3)
Creditors	(21.6)	(13.8)	(14.6)	(16.9)	(18.0)
Tax and social security	(0.5)	(0.8)	(3.6)	(1.1)	(1.3)
Short term borrowings	(3.0)	(5.3)	(5.3)	(2.8)	(2.8)
Other	(0.1)	(0.0)	(0.2)	(0.2)	(0.2)
Long Term Liabilities	(1.9)	(4.7)	(9.6)	(7.9)	(7.9)
Long term borrowings	(1.3)	(4.1)	(8.8)	(7.0)	(7.0)
Other long term liabilities	(0.6)	(0.6)	(0.8)	(0.8)	(0.8)
Net Assets	56.0	61.6	69.3	86.8	95.2
Minority interests	2.1	(1.2)	(0.7)	(1.3)	(1.8)
Shareholders' equity	58.1	60.4	68.6	85.5	93.4
CASH FLOW					
Op Cash Flow before WC and tax	11.2	16.4	17.0	26.9	26.9
Working capital	6.0	(10.6)	(2.5)	(3.4)	(0.5)
Exceptional & other	(11.0)	1.4	(0.4)	(3.9)	0.0
Tax	11.5	(2.1)	(2.0)	(6.8)	(3.8)
Operating cash flow	17.6	5.1	12.1	12.8	22.5
Capex	(28.6)	(14.2)	(18.7)	(20.2)	(20.2)
Acquisitions/disposals	0.0	(0.1)	0.0	0.0	0.0
Net interest	0.0	2.9	4.8	2.3	(0.5)
Equity financing	20.9	1.8	3.8	4.3	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Net Cash Flow	10.0	(4.5)	2.0	(0.9)	1.8
Opening net debt/(cash)	2.0	(8.0)	1.4	4.1	0.9
FX	0.0	0.0	0.0	0.0	0.0
Other non-cash movements	0.0	(4.9)	(4.7)	4.1	0.0
Closing net debt/(cash)	(8.0)	1.4	4.1	0.9	(1.0)

Source: Company accounts, Edison Investment Research

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