EDISON

Scale research report - Update

Edel

Media

7 February 2019

Mixed media

Edel's FY18 results showed a 6% sales increase and 7% improvement in EBITDA as it benefited from continued demand for vinyl and subsidiary Kontor New Media's strong positioning in digital music. H2 was markedly tougher, as foreshadowed in the November trading update, reflecting pressure on the book publishing, one-off issues at Pandastorm Pictures and a write-down at Edel Italy. Guidance for FY19 indicates broadly stable revenues but significantly improved profitability, benefiting from the major investment programme completed in FY18. The shares trade at a clear discount to global entertainment content and publishing stocks, partly explained by the limited market liquidity.

Media services and content marketing

Edel is unusual in having its feet strongly planted in both physical and digital media camps. The capital investment programme – €20.4m in FY17 and a €19.3m in FY18 – has given the group state-of-the-art manufacturing facilities for vinyl pressing and book printing and publishing. These give the group competitive advantages in terms of speed, quality and cost in markets where margins can be tight. The German printing market is dominated by small firms unable to scale up volume or investment. Edel is one of the largest independent music companies in Europe and its digital music operation, Kontor New Media, has been selected as one of three Preferred Plus partners by Apple. In CD and DVD markets, reducing demand is putting pressure on all suppliers, but Edel has the advantages of efficient production and distribution, which places it well for market share gains.

Net income to rebuild FY19

The guided FY19 sales figure of €207.5m reflects an element of caution on some of the underlying markets. EBITDA margins should strengthen with the efficiency benefits of the investment programme, but depreciation will also step up. FY19 net income is guided to €4.7m, up from €4.0m in FY18 (FY16: €4.5m).

Valuation: Discount to content, publishing

We have maintained the same valuation approach as in our previous notes, comparing the rating of the company with the global media subsectors of entertainment content and publishing. Edel's shares trade at a significant discount on EV/Sales, most likely reflecting the manufacturing contribution. On forward EV/EBITDA, the discount is 38%. On a P/E basis, the multiple is 11.5x vs 17.8x.

Consensus estimates*

Year end	Revenue (€m)	PBT (€m)	Adjusted EPS (€)	DPS (€)	P/E (x)	Yield (%)
09/17	198.1	6.8	0.19	0.10	12.7	4.1
09/18	209.2	6.6	0.16	0.10	15.1	4.1
09/19e	207.5	7.8	0.21	0.10	11.5	4.1

Source: Edel accounts, * Note: company guidance

Price	**€2.41**
Market cap	**€55m**

Share price graph

Share details

Code	EDL
Listing	Deutsche Börse Scale
Shares in issue	22.73m
Last reported net debt as at Sept 2018	€56.3m

Business description

Edel is one of Europe's leading independent media groups. It is both a publisher and a producer. Edel offers the music, film and book industry a unique full-service model, covering marketing and production as well as the distribution of audio content, video content and books.

Bull

- Diversity of revenue streams.
- Full-service, third-party offering.
- Resurgence of vinyl.

Bear

- Small free float (30%).
- Lack of comparators for valuation.
- Spotify dominance in streaming.

Analysts

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Financials

Exhibit 1: Half year and full year progression to 30 September 2018						
€000s	H118	% change	H218		FY18	% change
Year end 30 September	HGB/German GAAP		HGB/German GAAP		HGB/German GAAP	
Income statement						
Revenue	106,104	+8	103,077	+4	209,181	+6
EBITDA	10,400	+14	6,898	-1	17,298	+7
EBITDA margin (%)	9.8		6.7		8.3	
Profit before tax (as reported)	5,607	+21	985	-55	6,592	-3
Net income (as reported)	3,649	+21	335	-77	3,984	-11

Source: Edel accounts

Splitting out the H1 from the H2 performance above shows the deterioration more clearly. The November trading update pointed out that some of this was due to weaker earnings in the book publishing operations of Edel Germany and ZS Verlag and some attributable to one-off effects at Pandastorm Pictures (75% owned) and the partial write-down in the equity holding in Edel Italy as the group refocused on its core DACH markets. These latter two were not separately quantified.

The small reduction in FY19 guided sales to €207.5m will be a function of the mix. Working backwards from the company guided net income of €4.7m suggests to us an EBITDA in the €18.5–19.5m range (we do not model the company financially in full and there are no broker forecasts). This implies recovery in EBITDA margin to back over 9%.

Valuation

Our valuation framework for Edel is unchanged from our previous commentary. Analysis is complicated by the range of the company's activities, from pressing CDs for third parties through children's animated TV, to being the market-leading publisher of cookery books, and handling logistics and services for the world's largest music publishers. Any peer group comparison is therefore inevitably flawed. Given these constraints, rather than picking out a set of inadequate peers, we have looked globally across the key subsectors in which Edel operates, particularly entertainment content and publishing, at key valuation metrics. We have stripped out the unprofitable companies from the EV/EBITDA and P/E calculations, as well as any obvious distortive outliers.

Exhibit 2: Sectoral valuations for related activities									
	P/E (x)			EV/sales (x)			EV/EBITDA (x)		
	Last	FY 1	FY 2	Last	FY 1	FY 2	Last	FY 1	FY 2
Publishing	16.5	17.1	15.2	2.1	2.0	1.9	10.8	9.2	8.3
Broadcast & Entertainment	21.5	18.5	15.3	2.8	2.6	2.5	9.4	9.3	7.9
Edel	15.1	11.5	-	0.5	0.5	-	6.4	5.7	-

Source: Refinitiv, Edison Investment Research. Note: Prices as at 4 February 2019.

It would be expected that the sales based multiple would be lower than the comparator groups due to the large volumes of third-party revenues, which will also distort margin comparisons.

The corporate structure will be changing (anticipated in Q2) to a partnership limited with shares, with a strong influence of the younger generation of the founding Haentjes family. Their 64% shareholding has an impact on the potential valuation. Nevertheless, Edel's share price looks to be well below the global market on both P/E and EV/EBITDA multiples, partly reflecting its comparatively modest size and limited liquidity. The current rating is at a 35% discount on current year P/E (38% discount on EV/EBITDA).

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