

Pantaflix

Media & technology
22 October 2020

Production activities resumed

Pantaflix had a difficult H120 due to the COVID-19 pandemic, leading to film projects being suspended or postponed. This resulted in a significant dip in revenue from €14.5m in H119 to €4.9m in H120. Production resumed in late H120, with releases scheduled for H220 and H121. Encouragingly, B2B activities are building steadily as the group diversifies monetisation of its platform. H120 costs were reduced by short-time working, aided by state support, reducing the EBIT loss to €4.3m (H119: €6.3m). Management still expects FY20/21 aggregate revenues in line with earlier indications.

Broadening monetisation model

Pantaflix is continuing to diversify its revenues, growing its video on demand (VoD), increasing its B2B projects and extending its platform for B2B2C opportunities. In B2B, new projects have been set up with various organisations, including publisher Weltbild and the German Film Academy. With Airbus, the Pantaflix platform is being used as the base for communication and engagement with the German Federal Armed Forces across 15 locations. The platform has been used to good effect for the Goldener Spatz (German Children's Media Foundation) and for the LUCAS International Film Festival, which married VoD with cinema showings where permitted. The Munich Film School is also to use the Pantaflix platform to showcase its students' productions to wider global audiences. There is clearly good potential for further commercialisation, particularly for hybrid and digital-only solutions while lockdown arrangements remain in flux.

Content creation hiatus now past

Two large projects have been completed since the half year: *Generation Beziehungsunfähig* and *Oskars Kleid*. Both are slated for theatrical release through Warner Brothers in H121. *Resistance* is to be released in Germany in November, after showing in the US and UK. *The Last Word*, a six-part Netflix Original, launched on 17 September, while the relationship with Joyn continues with the 12-part series *Das Internat*, centred on a group of German social media stars.

Valuation: Production overshadowed by VoD

While FY20 revenues will clearly be much lower than the previous year, reduced costs should mean a smaller EBIT loss and improved cash flow. The group's €23m EV implies a very low valuation for the production business, in a market where quality content remains in short supply. Averaging across 2019 to 2021, to take some account of the impact of larger productions on revenue, Pantaflix trades on an EV/Sales multiple of 0.6x, compared with peers on 2.0x.

Adjusted consensus estimates

Year end	Revenue (€m)	PBT (€m)	GAAP EPS (€)	DPS (€)	P/E (x)	EV/EBIT (x)
12/18	35.1	(8.7)	(0.63)	0.0	N/A	N/A
12/19	28.7	(7.2)	(0.51)	0.0	N/A	N/A
12/20e	21.9	(3.4)	(0.22)	N/A	N/A	N/A
12/21e	33.9	0.3	0.02	N/A	70.0	75.0

Source: Pantaflix, Refinitiv

Price €1.40
Market cap €22m

Share price graph



Share details

Code	PAL
Listing	Deutsche Börse Scale
Shares in issue	15.4m
Last reported net debt at H120	€1.0m

Business description

Pantaflix is a European media group. It consists of the cloud-based VoD platform Pantaflix, the film production division Pantaleon Films, the production unit Pantaflix Studios, the music label PantaSounds, and the creative agency Creative Cosmos 15.

Bull

- VoD opportunities significant.
- Increasing B2B and B2B2C offerings.
- Platform focused on DACH region.

Bear

- COVID-19 project delays and postponements.
- Profitability horizon pushed out.
- Project risk on film/series production.

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Review of H120 results

The group does not split out performance of the production and distribution elements of the business, although it does split out the revenues from its creative agency and its music business. These generated €155k and €271k respectively in H120, from €638k and €405k in FY19 and representing 9% of the group revenues. Overall revenue fell 66% to €4.9m.

Exhibit 1: Summary of results

€m	H119	H120	% change
INCOME STATEMENT			
Revenue	14.5	4.9	-66
Increase (decrease) in working capital	(8.3)	(1.2)	-85
Other own work capitalised	0.2	0.5	+115
Other operating income	0.9	0.2	-73
Gross revenues	7.3	4.4	-40
Cost of purchased services	(3.6)	(3.0)	-16
Gross profit	3.7	1.4	-62
Opex	(4.8)	(4.7)	-3
EBITDA loss	(1.1)	(3.3)	+194
D&A	(5.2)	(1.0)	-81
EBIT loss	(6.3)	(4.3)	-32
Profit Before Tax (as reported)	(6.3)	(4.3)	-32
Net income (as reported)	(6.3)	(4.3)	-32
EPS (as reported) (€)	(0.41)	(0.27)	-34
BALANCE SHEET			
	End FY19	End H120	
Total non-current assets	6.0	10.8	+81
Total current assets	14.6	8.5	-42
Total assets	21.1	19.5	-7
Total current liabilities	(9.0)	(11.7)	+30
Total non-current liabilities	0.0	0.0	u/c
Total liabilities	(9.0)	(11.7)	+30
Total Equity	12.1	7.8	-35

Source: Company accounts, Edison Investment Research

With commissioned productions moving through to completion, the inventory of finished and unfinished projects reduced markedly in the period, with gross revenues consequently declining by 40%. The cost of purchased services, being co-producers' shares in revenues from licensing film rights and follow-up costs for marketing, dipped 16%, leaving gross profit 62% lower at €1.4m. Within operating expenses, personnel costs for employees not directly working on projects fell by 28% to €2.4m, partly from moves to short-time working and partly from the benefit of government employment subsidies implemented to mitigate the effects of the pandemic. The overall number of employees was higher at the end of the half year as projects were restarted (with these costs categorised as project costs).

Depreciation and amortisation consist predominantly of the amortisation of internally generated intangible fixed assets and so reflect the timing of the creation of those assets.

Project timing of completion and delivery can have a major effect on the shape of the group's balance sheet and, over the first half year, there was a swing from current to fixed assets. Similarly, the group's liabilities are affected by the development stage of projects. The bulk of the bank liabilities reflect project finance, so should not be regarded in the same light as group debt. At the half year, bank liabilities amounted to €4.6m, from €2.7m at the previous year-end, with most being project financing (in production or completed but not yet invoiced), with an unspecified amount from a subsidised loan.

Cash resources as at 30 June amounted to €3.6m, down from €7.2m at the year-end. The group does not publish a cash flow statement at the interim stage.

Forecasts and valuation

While there remains no specific management guidance, the company anticipates a difficult FY20 and a considerably stronger FY21, which would together deliver a similar cumulative total to that previously anticipated. However, any reimposition of restrictions that would halt or delay filming might reduce forecast revenues by mid- to high single-digit millions of revenue.

Consensus market forecasts have not yet been updated post the interim figures.

The shares fell back from a high of €2.44 in February before falling away again sharply as the COVID-19 pandemic spread and its impact on activities such as filming became apparent. As the route to unlocking became clearer, there was a recovery in May and the shares have since been mostly trading in the €1.17–1.55 range.

The level of uncertainty over future management of the pandemic by the state and regional authorities means that market revenue and earnings forecasts for both Pantaflix and for its international peer set remain much more subjective and speculative than usual. On historical multiples, the available comparators are therefore simply EV/Sales and EV/EBIT (EV/EBITDA not being a useful metric due to differing international treatments of work in progress and depreciation). On FY20 EV/Sales, a ratio of 0.8x is clearly well below the level of relevant media peers on 2.1x. However, the company is yet to reach profitability and there is little to be learned from the comparative EV/EBIT multiple. Given the uneven nature of the film business, with projects falling across more than one year, even EV/Sales is not a particularly satisfactory measure of relative valuation. If we therefore look across the historic year plus two years of forecasts, Pantaflix trades on an average EV/Sales multiple of 0.6x, with peers on 2.0x.

With no split given between revenues from the production and the platform businesses, it is not possible to look at the market valuation on a 'sum-of-the-parts' basis. This may clarify if, indeed, management does look to realise some value through spinning off or selling a segment of the group.

Exhibit 2: Peer multiples

Name	Ytd perf (%)	Market cap (m)	Sales growth 1FY (%)	Sales growth 2FY (%)	EV/Sales 0FY (x)	EV/Sales 1FY (x)	EV/Sales 2FY (x)	EV/EBIT 0FY (x)	EV/EBIT 1FY (x)	P/E 0FY (x)	P/E 1FY (x)
Pantaflix (€)	-14	22	-24	55	0.6	0.8	0.5	N/A	N/A	N/A	N/A
Eros Stx (\$)	-32	445	24	20	4.4	3.5	3.0	N/A	61.7	25.7	55.0
Lions Gate Ent. (\$)	-22	1,759	-15	16	1.2	1.4	1.2	1667	36.3	N/A	N/A
Mondo TV (€)	-32	65	14	13	2.6	2.3	2.0	9.5	7.0	16.2	11.5
Prosiebensat.1 Media (€)	-20	2,580	-7	11	1.2	1.3	1.2	7.4	14.0	6.5	12.8
Highlight Event & Ent (€)	14	248	-25	41	1.6	2.1	1.5	24.4	75.3	34.3	N/A
Notorious Pictures (€)	-49	28	N/A	N/A	1.3	N/A	N/A	10.1	N/A	N/A	N/A
Average	-24		-2	20	2.0	2.1	1.8	12.9	38.9	20.7	26.4

Source: Refinitiv, Edison Investment Research. Note: Priced as at 19 October 2020. Average excludes Pantaflix and outlier.

BlackMars Capital holds over 25% of the equity and, together with the management team and the founding shareholders (Marco Beckmann, Dan Maag and Matthias Schweighöfer) owns around 50% of the shares. Austrian entrepreneur, Klemens Hallmann, was elected to the Supervisory Board in July 2019 and holds a 19% stake. The free float is approximately 31%.

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