

## Edel

**Media**
**4 July 2018**

### Pressing ahead

Edel's H118 results to March showed good top-line progress (+8%) and an uplift in EBITDA margins from 9.3% to 9.8% as digital activities gained in importance. While revenue was marginally behind expectations, an unchanged full-year forecast assumes a stronger H2 than usual, reflecting the good momentum. The investment programme is starting to pay back, with a full year's impact in FY19e, when forecast margins have edged up. Edel has changed its status to a partnership limited by shares, reflecting the importance of the founding family's interests (64% shareholding). The shares trade at a substantial discount to global entertainment content and publishing stocks, partly explained by the limited market liquidity.

### Feet in the digital and physical camps

Industry figures (IFPI) show revenues from streaming having outstripped those from physical music sales globally in 2017 for the first time. The latter, at \$5.2bn, were down 5% year-on-year, while the former were up 41% at \$6.6bn. While production of CDs and DVDs is obviously in decline, the resurgence of vinyl continues. optimal media (60% group revenues) is a leading partner to the major music groups in global markets. It has been investing in print and print finishing production, and has further plans to increase capacity in vinyl, where it is a leading global player. Kontor New Media (18% of group revenues in H118) has significant expertise in licensing and content management, and is well placed in music streaming, distributing content on platforms such as iTunes, Amazon and Spotify.

### Scaling up and improving margins

Edel's investment case rests on being in a strong position to take advantage of opportunities as a full-service provider to the rapidly shifting music, publishing and film markets. The capital spend across the group has been sizeable – €20.4m in FY17 and a forecast €26.5m in FY18. This is already starting to show through in improving EBITDA margins. FY17's refinancing has reduced the interest cost, boosting EPS despite a rising tax charge.

### 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 29%. On a P/E basis, the multiple is 12.4x vs 19.3x.

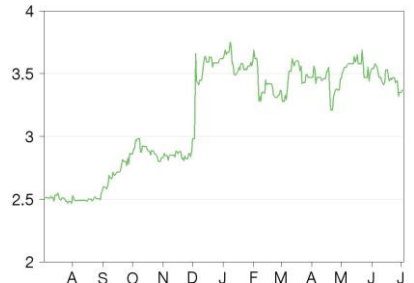
#### Consensus estimates

Year end	Revenue (€m)	PBT (€m)	Adjusted EPS (€)	DPS (€)	P/E (x)	Yield (%)
09/16	180.2	6.0	0.15	0.10	22.4	3.0
09/17	198.1	6.8	0.19	0.11	17.7	3.3
09/18e	203.2	8.6	0.27	0.11	12.4	3.3
09/19e	210.4	9.9	0.32	0.14	10.5	4.2

Source: Edel accounts, broker estimates (Montega)

**Price** €3.36  
**Market cap** €76m

#### Share price graph



#### Share details

Code EDL  
 Listing Deutsche Börse Scale  
 Shares in issue 22.73m  
 Last reported net debt as at March 2018 €59.8m

#### 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.
- Lack of comparators for valuation.
- Spotify dominance in streaming.

#### Analysts

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## Financials

<b>Exhibit 1: Half year to 31 March 2018 vs prior half year</b>			
€000s	2018	2017	% change
Year end 30 September	HGB/German GAAP	HGB/German GAAP	
Income statement			
Revenue	106,104	98,570	+8
EBITDA	10,400	9,148	+14
EBITDA margin (%)	9.8	9.3	
Profit before tax (as reported)	5,607	4,617	+21
Net income (as reported)	3,649	3,005	+21

Source: Edel accounts

Revised consensus forecasts are for EBITDA growth of 16.1% in FY18 and 8.0% for the year after, predicated on top-line growth of 2.5%, with 3.5% revenue growth forecast for FY19, showing the efficiency gains from the capital investment programme starting to come through. Progress at the pre-tax level shows the benefits of the new financing arrangement put in place in H117, with H118 interest costs of €0.8m from €1.3m in the comparative period. The revised broker forecast indicates the EBITDA margin rising from 8.1% for FY17 to 9.2% in FY18 (was 8.9%) and to 9.9% for FY19 (up from 9.0%).

The capital investment programme has continued in H118, with a spend of €11.5m (of which €2m was funded by subsidies) on buildings and equipment to increase capacity and capability in vinyl pressing, printing and book-binding. Earlier investment has upgraded the distribution and logistics capabilities. Broker forecasts indicate a spend for the full year of €26.5m (FY17: €20.4m), before reverting to a maintenance level of €6m for FY19e and in subsequent years. The planned investment spend at optimal media (60% group revenues) includes nine new presses, which will increase capacity from the current year 25m records to 28m. The investment programme has also allowed expansion at Kontor New Media, which has helped to increase its attraction as a one-stop-shop partner for the major global rights owners.

Net debt at the half-year was €59.8m, with market forecasts indicating that it reaches €69.2m by the year-end, before starting to fall away as operating cash flow continues to improve.

## 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	24.3	21.0	15.8	3.4	3.0	2.6	11.7	9.4	8.3
Broadcast & Entertainment	21.5	17.7	15.5	2.0	1.9	1.8	12.0	9.7	8.8
Edel	17.7	12.4	10.5	0.6	0.6	0.6	7.9	6.8	6.3

Source: Bloomberg, Edison Investment Research. Note: Prices as at 29 June 2018.

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

The change in corporate structure, to a partnership limited with shares, increases the influence of the founding Haentjes family as management shifts to the younger generation. This ensures stability but diminishes the potential sway of the minority shareholders.

This will have 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, on a 36% discount on current year P/E (29% discount on EV/EBITDA), does not reflect the higher rate of earnings growth.

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