EDISON

Scale research report - Update

Edel

Media

12 July 2021

Digital and physical up in harmony

Edel's H121 figures showed good progress, with revenues ahead by 11% to €123.3m and an EBITDA margin of 13.0%, up from 9.2% in H120. Digital revenues continued to benefit from the growth of the music streaming platforms, while the continuing popularity of vinyl is supporting results at optimal media. The expansion of co-operation with Universal Music Group bodes well particularly for FY22 and on, with guidance increased also for FY21. The share price is up 83% over the past 12 months yet it continues to trade at a discount to global entertainment and publishing stocks on historical EV/EBITDA and EV/sales multiples, partly due to limited liquidity.

Universal Music agreement

The interim statement highlights good results from across the business, although no breakdown is given. The momentum behind Spotify, Amazon and Apple Music is both helping the digital distribution business of Kontor New Media and providing buoyant markets for the content generation elements of the group, such as Edel Kids and eBooks. While digital music continues its positive trajectory, the resurgence of vinyl has outlived initial expectations, with management citing a 24.7% gain in Germany in 2020, to a market share of 5.5%. optimal media's future is underpinned by the announcement of a long-term agreement with Universal Music Group, which covers logistics and distribution for the DACH region, Benelux and the Nordics, as well as production of vinyl, CDs, DVDs and Blu-Rays. This is a substantial commitment and strong endorsement of optimal media's capabilities.

Guidance revised upwards with caution on H2

At the time of the full year report in February, FY21 consolidated net income was guided at €2.0–2.4m, from the €2.7m achieved in FY20. This has now been revised upwards, to a wider range of €4.0–6.0m (reflecting the uncertainty over the tax position). H121 net income was €4.6m, with possible raw material price increases and supply issues being factors that may restrict H221 margins. 2021 group revenue is now guided at €220–230m, up from €207–211m. At the mid-point, this implies 5% growth for FY21, suggesting a degree of caution over H221 prospects.

Valuation: Discount to content, publishing

We have maintained the same valuation approach as previously, comparing Edel's rating with the global media subsectors of entertainment content and publishing. The share price has performed well over the past year, picking up in November then again post the annual results and the Universal Music announcement in March. The shares continue to trade at a significant discount to peers on EV/sales, most likely reflecting the manufacturing and physical distribution element.

Key financials

Year end	Revenue (€m)	EBITDA (€m)	PBT (€m)	Adjusted EPS (€)	DPS (€)	P/E (x)	Yield (%)
09/18	209.2	17.3	6.6	0.16	0.10	19.4	3.2
09/19	209.5	16.0	4.4	0.08	0.10	38.8	3.2
09/20	214.1	18.7	7.2	0.12	0.10	25.8	3.2

Source: Edel accounts

Price	**€3.10**
Market cap	**€70m**

Share price graph

Share details

Code	EDL
Listing	Deutsche Börse Scale
Shares in issue	22.73m
Last reported net debt at 31 March 2021	€39.4m

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 industries a unique full-service model, covering marketing and production as well as the distribution of audio content, video content and books.

Bull

- Full-service, third-party offering.
- Resurgence of vinyl.
- Strengthened relationship with Universal Music.

Bear

- Difficult CD, DVD and Blu-ray markets.
- Small free float.
- Spotify's dominance in streaming.

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Edison profile page

Financials

The group published its full year report to end September 2020 in February and has now reported on the results for the half-year to end March.

Exhibit 1: Half year to 31 March 2021 vs H120

€000s	H120	H121	%
Year end 30 September	HGB/German GAAP	HGB/German GAAP	change
Revenue	111,408	123,299	11
EBITDA	10,222	16,004	57
EBITDA margin (%)	9.2	13.0	
Profit before tax (as reported)	4,590	10,501	129
Net income (as reported), before minority interest	3,008	4,608	53

Source: Edel accounts

No revenue breakdown is given between the different operations of the group, but the commentary in the half year report indicates that both digital and physical aspects were in growth in the period. The digital distribution business of Kontor New Media is reported as having grown on the back of the streaming platforms, while the content businesses of Edel Kids, earMusic and Brilliant Classic all benefited from the overarching demand for quality content across channels. The publishing arm has recently expanded to include an imprint devoted to sport. There was little change in gross margin over the comparative period and operating costs were well controlled, meaning that there was a good level of drop through at the EBITDA level, reflected in a step up in margin from 9.2% in H120 to 13.0% in H121 (the H220 EBITDA margin was 8.3%).

There remains some uncertainty regarding tax liabilities relating to the accounting treatment around licences, as well as that on income from litigation over illegal rights. The provision in the balance sheet now stands at €7.0m, up from €2.8m at the year-end. The tax charge of €5.9m in H121 included €1.0m of deferred taxes (H120: €1.6m including €0.7m of deferred taxes).

There is a share buyback scheme in place for up to 984k shares (4.3% of the issued share capital) with a maximum spend of €3.0m. At the half year, the group had cash and equivalents of €15.9m and bank liabilities of €55.3m.

Outlook and guidance

Full year guidance is for revenue in the €220–230m bracket, implying a slower H2. Management's comments point out the risks to the business from further shut-downs of physical retail and low levels of consumer confidence, which will depend on the future development of the COVID-19 pandemic.

On the margin aspect, there is a further note of caution regarding input costs and availability, highlighting polycarbonate, PVC and polystyrene as materials causing particular concern. Net income guidance for the year of €4.0–6.0m, with €4.6m booked in the first half, shows the level of caution being built in, albeit that some of the uncertainty continues to relate to the unresolved tax position.

There are no broker estimates for Edel in the market currently.

Valuation

Our valuation framework for Edel is unchanged from our previous note. Analysis is complicated by the range of Edel's activities, from pressing CDs for third parties through to 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 limited. Given these constraints, rather than selecting a set of inadequate peers, we look globally across the main subsectors in which Edel operates, particularly entertainment content and publishing, to examine key valuation metrics based on consensus forecasts. We have stripped out unprofitable companies from our 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	FY1	FY2	Last	FY1	FY2	Last	FY1	FY2
Publishing	21.3	20.2	18.4	2.0	1.9	1.8	13.1	11.6	9.3
Broadcast & Entertainment	19.5	18.2	18.8	5.2	3.7	2.6	11.7	11.5	9.7
Edel	25.5	13.9*	N/A	0.5	0.5*	N/A	5.8	N/A	N/A

Source: Refinitiv. Notes: Prices as at 5 July 2021. *At mid-point of guided range.

We would expect that the multiple to sales for Edel would be lower than the comparator groups due to the large volumes of third-party revenues that it handles, which will also distort margin comparisons.

On EV/EBITDA, the discount remains high, despite the strong share price performance over the last year. For the last reported period, the discount currently stands at 53%. If the financial performance is considerably less strong in H221, for example if Edel just managed to breakeven at the EBITDA level, the EV/EBITDA multiple would only rise to 6.8x, over 40% lower than the global peers.

The group is a partnership limited by shares (deemed more appropriate for the family-based group structure), which reduces the potential influence of minority shareholders and so also has valuation implications. The founding family retains a 64% stake and the free float is 30.3%.

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