

7digital

Media

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Snowite completes - profits on stream

7digital's acquisition of Snowite adds scale, reach and technical capabilities. It also tilts the revenue profile even further towards higher-growth, high-margin streaming services. Platform integration should afford considerable synergies, driving consensus EPS forecast upgrades of 50% for FY17. For a growth company, the post-deal FY17e EV/EBITDA rating of 5.2x and P/E of 9.6x is a very attractive entry point.

Snowite – French B2B music streaming services

Snowite provides music streaming services, similar to those of 7digital. It has invested over €2m in its platform and while it has had good traction in France (clients include FNAC, Leclerc and UMG), the group struggled to reach profitability and, unable to service its debt, entered insolvency proceedings. 7digital paid approximately £1.9m for Snowite, comprising £0.65m via the issue of 7.32m shares and £1.2m acquired debt (€1.7m non-interest bearing debt net of c €0.2m accumulated cash reserves). As the debt will be repaid over a period of eight years after a one-year moratorium, the total NPV of the acquisition price is closer to £1.3m (c 1.1x FY15 revenues).

Earnings enhancing after one year

7digital is making good progress in developing its high-margin licensing revenues and, with a strong pipeline, is on track to break-even in the second half of this year. The acquisition is another step in this direction; adding technical capabilities, scale, reach and new relationships in Francophone markets. Snowite is expected to generate revenues of £1.2m this year, of which MRR is £864k. This equates to c 25% of December 2015's annualised streaming MRR, improving the overall revenue profile of the group, which on a pro forma basis is now dominated by streaming. Through platform integration, management is also targeting £500k of cost savings after one year. Net of deal costs, it is expected to be broadly earnings neutral in the current year. However, with anticipated cost and revenue synergies, consensus EBITDA in FY17e has moved up by 42% and EPS by 50%.

Valuation: Pivotal year – discount unwarranted

Underpinned by a strong pipeline and cost savings, the path to FY17 profitability looks secure. Following these upgrades, for an operationally geared growth company, the shares look very attractive: on FY17e EV/ EBITDA of 5.2x and P/E of 9.6x, the shares trade at less than half the valuation of peers (a range of SaaS and video streaming companies and, on an FY17e EV/Sales of 0.6x, well below the 1.1x paid for the smaller and financially constrained Snowite.

Consensus estimates

Year end	Revenue (£m)	EBITDA (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	EV/EBITDA*
12/14	10.2	(3.1)	(3.8)	(4.3)	0.0	N/A	N/A
12/15	10.4	(2.1)	(2.9)	(2.8)	0.0	N/A	N/A
12/16e	13.9	(0.7)	(1.5)	(1.3)	0.0	N/A	N/A
12/17e	16.3	1.9	1.0	0.9	0.0	9.6	5.2

Source: Company accounts, Bloomberg. Note: *Net cash of £1m includes NPV of acquired debt.

Price 8.62p
Market cap £9m

Share price graph



Share details

Code 7DIG
Listing AIM
Shares in issue 108.4m
(including 7.32m new shares from 14 April, this will be 115.75m)

Business description

7digital is a B2B digital music and radio services company. Its platform and access to global music rights enables businesses in the radio, electronics and telecoms industries around the world to offer and commercialise music streaming and radio services. Customers include Onkyo, Panasonic, Guvera, Astro, Mariposa, Electric Jukebox, eMusic and i.am+.

Bull

- Well positioned in the global music industry's transition to streaming services. Customers in 33 markets.
- Strong pipeline of prospects, streaming MRRs growing and EBITDA profitability expected towards the end of this year.
- Snowite acquisition adds reach to Francophone markets.

Bear

- Disruptive business model, large B2C competitors could retaliate.
- The download business, while much lower margin than licensing revenues, is a drag on growth.
- Limited liquidity.

Analysts

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