

Pantaflix

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Name change reflects VOD strategy

Pantaflix has undergone significant transition over H117. The newly renamed company has delivered a number of functional improvements to its eponymous VOD platform, which has now begun to record revenues, and is expected to drive growth. Furthermore, the film production business continues to perform strongly. While we see risk to estimates, we do not believe that these should be the basis on which investors gauge the opportunity to participate in a disruptive, global VOD platform.

Progressing its VOD strategy

In order to fully exploit the VOD opportunity, the company (formerly Pantaleon) has been renamed, with the entire suite of operations now coming under the umbrella of the name of the platform: Pantaflix. The first half has seen a number of improvements to the platform's capabilities, including an increase in catalogue size, support for additional languages, integration with PayPal and optionality to download content in addition to streaming it live. However, these qualitative improvements aside, there are few operational metrics with which to gauge progress.

Overview of H117 results

Against a weak comparison last year, which did not see any major titles delivered, H117 revenues, which included revenues from the delivery of the much anticipated film *Hot Dog*, increased by almost 600%. EBITDA swung to a positive €8.4m, reflecting this success, although after amortisation charges of €10.2m, the group reported (reduced) operating losses of €1.8m (H116: loss of €2.6m). This was despite operating and staff expenses almost doubling in the period, mostly due to increasing headcount from the ramp up in the VOD platform's development.

Valuation: Starting to reflect strategic potential

Consensus estimates continue to forecast rapid uptake of the VOD platform, with FY17e revenues more than 2x higher than those in 2016. Almost two-thirds of this growth is forecast to come from the VOD platform, which would imply an increase in revenues from the platform of at least an order of magnitude vs H1. Management is yet to share KPIs against which progress could be judged. However, it has reiterated its confidence that the group will see "strong revenue and earnings growth" this year. We maintain our view that there remains much work to be done to deliver consensus forecasts. However, it is the direction of travel as opposed to meeting arbitrary short-term targets that will drive further share price increases.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	GAAP EPS (€)	DPS (€)	P/E (x)	EV/EBIT (x)
12/15	13.7	(0.4)	(0.4)	0.0	N/A	N/A
12/16	15.1	(1.6)	(1.5)	0.0	N/A	N/A
12/17e	35.8	(1.1)	(0.9)	0.0	N/A	N/A
12/18e	52.8	10.9	7.0	0.0	24.8	18.5

Source: Pantaflix, Bloomberg. Note: Consensus excludes outdated forecasts.

Price €173.8
Market cap €201m

Share price graph



Share details

Code PAL
Listing Deutsche Börse Scale
Shares in issue 1.155m
Last reported net cash as at 30 June €0.35m

Business description

Pantaflix, formerly Pantaleon Entertainment, is a VOD platform to which international film producers can upload and manage their content directly. The business also has a film production segment based in Berlin. Founded in 2009, the group has produced a string of successful films for German cinema. In December 2016 it launched a global VOD platform designed to serve the demand for local language film by expatriate and migrant communities.

Bull

- VOD opportunity is significant.
- Limited capital risk: successful core production business supports the funding of the platform.
- Chinese JV provides unique access to almost 100k titles providing a significant launch pad for the services.

Bear

- No visibility on the take-up of Pantaflix.
- Market not established; piracy a concern.
- Consensus estimates factor in aggressive growth, leaving risk to the downside.

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Review of H117 results

Exhibit 1: H117 results highlights						
€m	FY15	H116	H216	FY16	H117	y-o-y
Revenue	13.68	1.80	13.33	15.13	11.67	547%
Other own work capitalised	0.0	0.0	0.42	0.42	0.18	N/A
Other operating income	6.65	0.19	0.75	0.94	1.42	633%
Gross revenues	20.3	2.0	14.5	16.5	13.3	564%
D&A	(9.35)	(0.27)	(10.62)	(10.89)	(10.21)	3652%
EBIT	(0.54)	(2.55)	0.82	(1.73)	(1.79)	-30%
EBITDA	8.80	(2.28)	11.48	9.20	8.42	N/A
Profit before tax (as reported)	(0.44)	(2.51)	0.88	(1.63)	(1.78)	-29%
Net income (as reported)	(0.38)	(2.51)	0.83	(1.68)	(1.75)	-30%
EPS (as reported) (€)	(0.35)	(2.28)	0.76	(1.52)	(1.53)	33%
Cash	4.80	2.57	1.83	1.83	4.97	94%
Debt	3.00	3.62	5.76	5.76	4.62	28%
Net (debt)/cash	1.80	(1.05)	(3.94)	(3.94)	0.35	N/A
Source: Pantaflix, Edison Investment Research						

Pantaflix reported substantial revenue growth of 564% compared with H116. EBITDA was €8.4m (H116: loss of €2.3m), and after €10.2m of amortisation of production costs, EBIT losses were €1.8m (H116: loss of €2.56m). While optically impressive, the production business (Pantaleon) produces a small number of films and series each year and hence revenues and profitability from period to period can vary significantly subject to the release schedule of content (H116 saw no major deliveries).

With the emphasis of the strategy on growing the more scalable VOD platform, management no longer provides a detailed breakdown of contributors to revenues. However, we can infer from the €10.2m amortisation charge in H1 that the vast majority of H1 revenues relate to the completion of the production of the anticipated blockbuster film *Hot Dog*. Once a film is completed, the producer will receive (and recognise) the minimum guarantees from the distributor. *Hot Dog* is due for release in early 2018, and should also continue to generate secondary revenues from the home entertainment and television markets. The balance of revenues we believe come from growth across all the smaller divisions (PantaSounds, March&Friends), while the VOD platform also provided maiden contributions.

EBITDA of €8.4 reflects the development in revenues, more than absorbing the near doubling of staff costs and other operating expenses (to €3.3m). Most of this increase relates to headcount for the continuing rollout and development of Pantaflix. As outlined above, EBIT losses of €1.8m include the amortisation of capitalised production costs of €10.2m, in line with industry norms to front load amortisation in line with a film's release. We note that this charge compares with €10.9m over the whole of FY16, and would therefore expect the charge in H2 to be significantly lower. Net losses for the period shrank 30% to €1.75m. Inclusive of the €5m February capital raise, the group reported net cash of €0.35m at the end of June.

Operational update: Name change reflects growth opportunity

Pantaflix is in the midst of changing from a project-based business model to one that is more scalable, and is based on technology. In order to reflect the growth opportunity for the business, Pantaleon Entertainment AG has renamed itself as Pantaflix AG as of 18 August.

As the company has yet to begin reporting its KPIs (eg number of users, number of downloads, etc) for the now eponymous Pantaflix, it is difficult to gauge the progress of the VOD platform. However, as stated above, we infer Pantaflix has started contributing to revenues (we estimate €0.5-1m over H1), and while other progress markers are limited, we do note that the platform now hosts a catalogue of "several tens of thousands" of TV shows and films. This compares favourably with

management's aim of 30,000 by YE17, and surpasses estimates of less than 6,000 combined TV shows and films on Netflix in the US. We await the release of further performance indicators with interest.

On a more qualitative level, Pantaflix has now successfully integrated with PayPal, which will improve both the credibility and the ease of payments via the platform. Furthermore, as of June 2017, the previously launched iOS and Android apps now feature in-app download functionality. This enables users to download films to their mobile devices when connected to Wi-Fi, and subsequently watch them in offline mode. This could significantly improve the appeal of the app, as it opens up usage to those who are traveling or do not have continued access to high-speed internet connections. Other improvements include the availability of Pantaflix on Amazon Fire TV as of July, and the addition of French and Chinese to the multilingual menus.

Production business continues to perform

While Pantaflix is now the business's key growth engine, the film production business, Pantaleon, and the brand integration unit, March&Friends, have continued their strong run of recent performances. After the record popularity of *You Are Wanted* earlier this year, with simultaneous production in 200 countries, in 70 of which it was one of the five most-watched series, management has successfully negotiated a second season with partners Warner Bros and Amazon. Filming started in Q3. Furthermore, both *Hot Dog* and *Vielmachglas* are expected to be released in early 2018. This level of activity represents a step increase when compared with Pantaleon's recent levels of production, demonstrating the company's continuing commitment to the production side of the business.

Valuation

The shares have continued their recent strong run and have now appreciated 278% in the last 12 months, and by 110% year-to-date. The very strong growth factored in by consensus estimates means that despite the recent strength in the share price, the shares currently trade at 10.6x FY18e earnings, a discount to the peer group average.

While management has reiterated its expectation of a substantial growth in revenues and earnings this year, we believe that there remains much work to be done to deliver to consensus forecasts, which in FY17 are looking for €35.8m revenues (excluding dated estimates). This would require a significant increase in the contribution from the VOD platform in H217. Such an increase would have to be even more marked than the H1 revenues run rate would suggest, as, with no major deliveries expected, revenues from the film production side of the business are likely to be lower in the second half.

Exhibit 2: Peer comparison summary

Name	Market cap (m)	Sales growth 1FY (%)	Sales growth 2FY (%)	EBIT margin last (%)	EBIT margin 1FY (%)	EBIT margin 2FY (%)	EV/ sales last (x)	EV/ sales 1FY (x)	EV/ sales 2FY (x)	EV/ EBIT 1FY (x)	EV/ EBIT 2FY (x)	P/E 1FY (x)	P/E 2FY (x)
PANTAFLIX AG	€212	137	47.5	(11)	(3)	20.6	14.0	5.9	4.0	(176)	19.4	54.4	10.6
NETFLIX INC	\$84,999	30.4	23	4	7.2	10.1	9.9	7.6	6.2	106.2	61.2	130.3	83.7
EROS INTERNATIONAL	\$883	6.5	26	10	16.4	21.3	3.5	4.3	3.4	25.9	15.9	79.5	24.5
ENTERTAINMENT ONE LTD	£1,220	7.8	8	6	12.7	12.7	1.1	1.0	0.9	8.0	7.3	13.1	11.5
LIONS GATE ENTERTAINMENT-A	\$6,406	32.2	6	(1)	6.6	10.5	2.9	2.2	2.0	32.8	19.5	21.6	20.4
CONSTANTIN MEDIEN AG	€198	(28.1)	(11)	6.9	8.2	7	0.4	0.6	0.7	7.4	9.4	13.2	14.1
MONDO TV SPA	€136	36.1	32	46.4	49.3	37	4.8	3.5	2.7	7.2	7.2	10.2	10.6
PROSIEBENSAT.1 MEDIA	€6,969	7.9	5	20.5	20.1	20	2.6	2.4	2.3	12.0	11.3	12.9	12.2

Source: Edison Investment Research, Bloomberg. Note: Priced 10 October 2017. Consensus excludes outdated forecasts.

Evidence of further progress with the Chinese JV or announcements of significant content deals will likely be the key drivers of share price performance over the short to mid-term, at least until management begins to publish KPIs for the progress of the platform.

As the film production segment is still the most substantive element of the business in terms of its contributions, the bulk of our peer group is made up of production businesses (Exhibit 2). Comparisons with the likes of Netflix are of little value due to scale and the differences in business models (subscription vs pay per view). However, we do note the similarities in that they both invest significant proportions of their capital on the production of their own content (albeit on scales with different orders of magnitude). For now, multiple comparisons with Netflix should be treated with caution.

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