

7digital

Media
9 May 2016

Winning business

7digital has announced seven new contract wins with a lifetime value of over £3.9m so far this year and news last week that its largest competitor, Omnifone, has been put into administration could lead to additional market share opportunities. On a FY17e consensus P/E of 8.2x, we believe the shares do not reflect the large and growing market opportunity.

Winning business – on track

7digital announced at its AGM on 28 April that it has won six new clients so far this year, with a collective lifetime deal value of £3.9m. This compares to 17 new clients in FY15 with a lifetime deal value of £4.2m and suggests 7digital is on track to hit its full year targets. In addition, the company has since announced a contract win with the popular international teen music app, musical.ly, which will also add to revenues this year. Marketing may also benefit from PR surrounding the launch last week of the i.am + wearable, with a free pre-installed music service, which represents a new streaming category for 7digital, as well as today's news that Warner Music Group will be the first major to license MQA high-resolution audio – 7digital is currently the only B2B platform that offers this technology.

Largest competitor placed in administration

While 7digital seems to be faring well in terms of new business wins, Omnifone, its largest competitor, announced last week that it has been placed into administration. Omnifone has struggled to recover from the closure of its largest clients' services last year: Sony's Music Unlimited and Blackberry's BBM Music. So soon after the Snowite acquisition, we do not see 7digital being a natural buyer for Omnifone's platform, particularly in light of its loss-making position. However, with Omnifone's future uncertain, there should be new customer opportunities available to 7digital; we estimate Omnifone's B2B operations to be roughly the same size as 7digital's.

Valuation: Pivotal year – discount unwarranted

7digital has made considerable progress transitioning from a B2C download model to one of licensing B2B streaming solutions, which represented 63% of revenues last year. April's Snowite acquisition tilts the group even further in this direction and with the encouraging new business pipeline management appears on track to reach EBITDA break-even in H216 as targeted. The uncertainty surrounding Omnifone should create opportunities to grow its market share further. On a FY17e P/E of 8.2x, the shares trade at less than half the valuation of its global small-cap SaaS and video streaming peers and do not capture the potential for 7digital to grow its share in the large and expanding market for music streaming services.

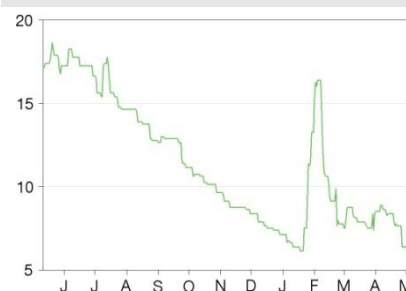
Consensus estimates

Year end	Revenue (£m)	EBITDA (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	EV/EBITDA* (x)
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	8.2	4.5

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

Price 7.38p
Market cap £9m

Share price graph



Share details

Code 7DIG
 Listing AIM
 Shares in issue 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

Bridie Barrett +44 (0)20 3077 5727
 Fiona Orford-Williams +44 (0)20 3077 5739

media@edisongroup.com

7digital is a research client of Edison Investment Research Limited

QUICKVIEW NOTES USE CONSENSUS EARNINGS ESTIMATES.

Edison, the investment intelligence firm, is the future of investor interaction with corporates. Our team of over 100 analysts and investment professionals work with leading companies, fund managers and investment banks worldwide to support their capital markets activity. We provide services to more than 400 retained corporate and investor clients from our offices in London, New York, Frankfurt, Sydney and Wellington. Edison is authorised and regulated by the [Financial Conduct Authority](#). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison and is not regulated by the Australian Securities and Investment Commission. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. www.edisongroup.com

DISCLAIMER

Copyright 2016 Edison Investment Research Limited. All rights reserved. This report has been commissioned by 7digital and prepared and issued by Edison for publication globally. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison Aus and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison US is registered as an investment adviser with the Securities and Exchange Commission. Edison US relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. As such, Edison does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison has a restrictive policy relating to personal dealing. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (ie without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision. To the maximum extent permitted by law, Edison, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. FTSE International Limited ("FTSE") (c) FTSE [2016]. "FTSE(r)" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.