

Edel

Media
12 February 2018

Booking record growth

Edel's results to September 2017 were comfortably ahead of earlier guidance, revised post year-end. Revenues were boosted by good demand at Optimal Media, particularly for vinyl records, increased music streaming and by a good performance in cookery and health-related books. The capital investment programme is boosting market positioning while the earlier refinancing has reduced the interest burden. The group is majority family-owned with limited market liquidity, which partly explains the modest rating. The shares trade at a discount to global entertainment content and publishing companies, and carry an attractive yield.

Market forecasts revised up post year-end

FY17 revenues of €198.1m were well ahead of previous guidance (€187m). FY18e consensus revenue forecast has been raised from €194.9m to €203m, while FY19e numbers show 3% further growth. This primarily reflects a strong performance from Optimal Media, where revenues were up 12% in FY17. Sales were buoyed by strong demand for vinyl records (+40%), benefiting from the company's market reputation for high quality and for being a 'one-stop-shop', as well as additional business from Universal, for which Optimal now carries out central storage and worldwide distribution of all vinyl products. Difficult underlying markets for other delivery media (CDs, DVDs) may play in Edel's favour as less efficient players withdraw from the market, although rising input costs will be less helpful. Kontor New Media also performed well, boosted by market growth in music streaming and its ability to handle distribution end-to-end from rights acquisition right through to the streaming.

Investing in product and capacity

The bulk of the spending programme at Optimal is now complete, with the benefits starting to show through in the numbers. The group has also been investing in high-quality book-binding, which will allow it to reduce external costs for its own publishing imprints and to offer full service to third parties.

Valuation: Discount to content, publishing

We have maintained the same valuation approach as our previous notes, comparing the rating of the company with the global media subsectors of entertainment content and publishing. Edel's shares trade on a significant discount on EV/sales, most likely reflecting the manufacturing contribution. On forward EV/EBITDA, the discount is 36%. On a P/E basis, the multiple is 12.4x vs 21.1x.

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	22.3	3.0
09/17	198.1	6.8	0.19	0.11	17.6	3.3
09/18e	203.0	8.6	0.27	0.11	12.4	3.3
09/19e	210.0	9.2	0.28	0.13	12.0	3.9

Source: Edel accounts, broker estimates (Montega)

Price €3.35
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 September 2017 €50.3m

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

Fiona Orford-Williams +44 (0)20 3077 5739
 Bridie Barrett +44 (0)20 3077 5757

media@edisongroup.com

[Edison profile page](#)

Edison Investment Research provides qualitative research coverage on companies in the Deutsche Börse Scale segment in accordance with section 36 subsection 3 of the General Terms and Conditions of Deutsche Börse AG for the Regulated Unofficial Market (Freiverkehr) on Frankfurter Wertpapierbörse (as of 1 March 2017). Two to three research reports will be produced per year. Research reports do not contain Edison analyst financial forecasts.

Financials

Exhibit 1: Full year to 30 September 2017 vs prior year			
€000s	2017	2016	% change
Year end 30 September	HGB/German GAAP	HGB/German GAAP	
Income statement			
Revenue	198,146	180,162	+10
EBITDA	16,131	15,261	+6
EBITDA margin (%)	8.1	8.5	
Profit before tax (as reported)	6,815	6,031	+13
Net income (as reported)	4,459	4,165	+7

Source: Edel accounts

New consensus forecasts are for EBITDA growth of 12.2% in FY18 and 5.0% for the year after, predicated on top-line growth of 2.4%, followed by 3.4% in FY19, showing the efficiency gains from the capital investment programme starting to come through. The growth at the pre-tax level shows the benefits of the new financing arrangement put in place in Q1/Q217, with interest costs falling to €2.2m from €2.7m in the prior year. These figures indicate the EBITDA margin rising from 8.1% for FY17 to 8.9% in FY18 and to 9.0% for FY19.

The capital investment programme of €22m during FY17 (€9.7m in FY16) was focused on upgrading and expanding the facilities at Optimal Media to meet market demand. Further sums of €11m and €6m are built into forecasts for FY18 and FY19 respectively. The investment programme also includes the expansion of 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 year-end was €50.3m, slightly lower than had been projected, with the expectations for end FY18 to be at a broadly similar level, before starting to fall away from the following year.

Valuation

The valuation framework for Edel is complicated by the range of the company's activities, from pressing of 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 pick 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	3.9	3.3	2.9	12.5	11.3	10.0
Broadcast & Entertainment	18.9	21.2	16.6	1.9	1.8	1.7	10.9	10.5	9.0
Edel	17.3	12.1	11.7	0.6	0.6	0.6	7.7	6.9	6.6

Source: Bloomberg, Edison Investment Research. Note: Prices as at 8 February 2018.

It would be expected that the multiple to sales would be lower due to the large volumes of third-party revenues, which will also distort margin comparisons. In this context, 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 does not reflect the higher rate of growth.

Edison is an investment research and advisory company, with offices in North America, Europe, the Middle East and AsiaPac. The heart of Edison is our world-renowned equity research platform and deep multi-sector expertise. At Edison Investment Research, our research is widely read by international investors, advisers and stakeholders. Edison Advisors leverages our core research platform to provide differentiated services including investor relations and strategic consulting. 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 Pty Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. www.edisongroup.com

DISCLAIMER

Any information, data, analysis and opinions contained in this report do not constitute investment advice by Deutsche Börse AG or the Frankfurter Wertpapierbörse. Any investment decision should be solely based on a securities offering document or another document containing all information required to make such an investment decision, including risk factors.

Copyright 2017 Edison Investment Research Limited. All rights reserved. This report has been commissioned by Deutsche Börse AG 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 Investment Research Pty Ltd (Corporate Authorised Representative (1252501) of Myonlineadvisers Pty Ltd (AFSL: 427484)) and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. 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") © FTSE 2017. "FTSE®" 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.