

Pantaflix

Growing digital channels

Pantaflix's content production business continues to do well, although FY18 earnings were impacted by timing issues, with revenues slipping into FY19 and costs already incurred. The content pipeline is strong, including a first series for Netflix. Longer-term growth should come from expanding the Pantaflix platform from transactional video-on-demand (TVoD) to subscription and advertising-supported models (SVoD and AVoD). It should also open up white-label and commercial B2B2C opportunities.

Greater coherence in new CEO's strategy

Nicolas Paalzow took over as CEO in January 2019, having been running group creative agency Creative Cosmos 15. He was previously MD of ProSiebenSat.1 Media. His vision for the group involves a greater degree of integration between the group's content production, content distribution and marketing and social media activities. Adding SVoD and AVoD capability to the distribution platform gives a far larger addressable market, from c €170m to c €1700m in Germany (Source: Statista). The domestic AVoD market is set to grow in double digits over the next five years. White labelling for third parties on the platform will also drive revenues. The group's content production arm recently announced its first series for Netflix, *The Last Word*, for six 45 minute episodes. It has previously made successful series' for Amazon Prime, as well as its longer-established business producing films for theatrical release, which it is now also targeting at audiences outside Germany.

Operational update:

FY18 revenues were up 25%, a figure which would have been higher still but for slippage of revenue recognition for two film productions (*Resistance* and *So Near the Horizon*) into FY19. The costs, however, fell in FY18 and the group reported an EBIT loss of €9.0m (FY17: profit €2.2m). The route to profitability is predicated on building volumes on the Pantaflix digital streaming platform, with the expansion of the business model through AVoD and SVoD. Forecasting for specific reporting periods is complicated by the timescales of delivering the larger film productions.

Valuation: Production overshadowed by VoD

The retrenchment in the share price has resulted in an EV of c €23m, which suggests that the market is not yet convinced that the VoD strategy will pay off. It also implies a very low valuation for the production business, in a market where the major channels are hungry for quality content as they compete for viewer share.

Adjusted consensus estimates

Year end	Revenue (€m)	PBT (€m)	GAAP EPS (€)	DPS (€)	P/E (x)	EV/EBIT (x)
12/17	28.1	2.2	(0.28)	0.0	N/A	N/A
12/18	35.1	(9.0)	(0.64)	0.0	N/A	N/A
12/19e	45.7	(1.0)	(0.09)	0.0	N/A	N/A
12/20e	52.4	0.6	0.03	0.0	68.7	57.8

Source: Pantaflix, Refinitiv

Media & technology

19 June 2019

Price €2.06

Market cap €32m

Share price graph



Share details

Code	PAL
Listing	Deutsche Börse Scale
Shares in issue	15.4m
Last reported net cash as at end Dec 18	€9.0m

Business description

Pantaflix is a European media group. It consists of the VoD platform Pantaflix, the film production division (Pantaleon Films and Pantaleon Pictures), the music label PantaSounds, the brand integration unit March & Friends and the creative agency Creative Cosmos 15.

Bull

- SVoD, AVoD opportunities significant
- Strong production/ launch slate
- Path back to profit outlined

Bear

- VoD roll-out behind original timescale
- Project risk on film/series production
- Low liquidity in shares

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Review of FY18 results

The group does not split out the performance of the production and the distribution elements to the business, making it difficult to comment on their relative strengths. FY18 revenues were up by 25% despite the slippage of the film revenue from the two large projects into FY19. This reflects some successful projects; the film *Hot Dog* (which took around \$4.2m at the box office), *100 Dinge* (*100 Things*), with a box office of \$13.3m, series two of *You Are Wanted* and *Beat*, produced for Amazon Prime.

Exhibit 1: Summary of results

€m	2015	2016	2017	2018
Income Statement				
Revenue	13.7	15.1	28.1	35.1
Increase in working capital			10.8	(3.9)
Other own work capitalised	0.0	0.4	0.3	0.4
Other operating income	6.6	0.9	2.4	2.6
Gross revenues	20.3	16.5	41.5	34.2
Cost of purchased services	(9.2)	(3.6)	(15.0)	(19.0)
Gross profit	11.1	12.9	26.5	15.2
Opex	(2.3)	(3.7)	(8.9)	(12.3)
D&A	(9.4)	(10.9)	(15.3)	(11.9)
EBIT	(0.5)	(1.7)	2.2	(9.0)
EBITDA	8.8	9.2	17.5	2.9
Profit Before Tax (as reported)	(0.4)	(1.6)	2.2	(9.0)
Net income (as reported)	(0.4)	(1.7)	(0.3)	(8.9)
EPS (as reported) (€)	(0.35)	(1.52)	(0.26)	(0.64)
Balance Sheet				
Total non-current assets	1.1	7.6	4.5	8.5
Total current assets	12.4	10.4	41.4	31.7
Total assets	13.5	18.1	46.0	40.3
Total current liabilities	(8.7)	(14.8)	(16.9)	(21.6)
Total non-current liabilities	(0.1)	(0.2)	(2.3)	(0.9)
Total liabilities	(8.7)	(14.8)	(16.9)	(23.2)
Total Equity	4.8	3.1	26.1	17.1
Cash flow Statement				
Net cash from operating activities	10.7	11.7	7.4	12.9
Net cash from investing activities	(10.3)	(17.4)	(14.7)	(16.0)
Net Cash from financing activities	6.0	0.0	23.4	0.0
Net cash flow	6.4	(5.7)	16.1	(3.1)
Net cash/(debt) at end of year	1.8	(3.9)	12.2	9.0

Source: Company accounts, Edison Investment Research

Swings in working capital and higher input costs meant lower gross revenue, with higher operating expenses pushed EBITDA down from €17.5m to €2.9m and a pre-tax loss. A cash outflow of €3.1m meant the group ending the financial year with net cash of €9.0m.

Operating update

Repurposing the VoD platform

The earlier VoD strategy was centred on providing content to consumers using a transactional business model only. The new approach is looking at a much broader model, where the group will need to carve out a role in a market dominated by Netflix in SVoD and YouTube in AVoD. The third party white-label and the commercial B2B2C opportunities may be the more effective route, particularly given that the group has an in-house marketing agency. The cash on the balance sheet gives the benefit of some time to trial options to determine where efforts are best focused.

Continued content expansion

The film production business is inevitably uneven, although some of the risks can be offset by pre-sales and minimum guarantees. In addition to the two films mentioned above, two others are scheduled to be released in FY19; *Abikalyse* (provisional launch date July 2019) and *Auerhaus* (December 2019).

With major industry partners, such as Warner Brothers, the group has produced two seasons of *You are Wanted* and has recently been commissioned for its first series for Netflix, *The Last Word*, which will consist of six 45-minute episodes. With the rapid development of the VoD market (both in terms of growth and on corporate activity), demand for high quality content that can drive viewers onto each platform is currently strong.

Forecasts and valuation

The shares fell heavily over 2018, hitting a low of €1.15, before climbing back up to around €3 then drifting back down to current levels. The depressed levels of financial performance mean that it is difficult to draw conclusions from earnings-based valuations. With a market capitalisation of €31.7m, the EV is now just €22.7m, a little ahead of the €17.1m book value of the net assets per share.

The current year EV/sales ratio is 0.6x, well below the level of relevant media peers on 1.5x sales. However, given the uneven nature of the film business, even this is not a particularly satisfactory measure of relative valuation. Although the relative performance of the different aspects of the group's business is not split out, it is likely that the market's appraisal of the value of the platform potential is weighing heavily on the group.

Exhibit 2: Peer multiples

Name	Market cap (m)	Sales growth 1FY (%)	Sales growth 2FY (%)	EV/sales 1FY (x)	EV/sales 2FY (x)	EV/EBIT 1FY (x)	EV/EBIT 2FY (x)	P/E 1FY (x)	P/E 2FY (x)	Div yield 1FY (%)
Pantaflix (€)	32	33	15	0.6	0.5	N/A	57.8	N/A	68.7	0.0
Eros International (\$)	243	7	22	2.1	1.7	8.9	5.7	7.7	4.0	0.0
Entertainment One (£)	1,976	21	7	1.8	1.7	10.9	10.8	15.4	13.8	0.4
Lions Gate Ent. (\$)	2,929	6	7	1.6	1.5	29.3	21.8	13.3	10.3	0.0
Mondo TV (€)	36	13	26	1.3	1.1	5.2	3.8	12.2	8.7	0.0
Prosiebensat.1 Media (€)	3,530	3	4	1.6	1.5	8.8	8.4	7.6	7.3	6.9
Highlight Comms (€)	291	3	6	0.8	0.7	11.2	9.8	14.4	12.3	4.1
Average		9	12	1.5	1.4	12.4	10.0	11.8	9.4	1.9

Source: Refinitiv, Edison Investment Research. Note: Priced as at 10 June 2019. Average excludes Pantaflix.

BlackMars Capital continues to directly own more than a quarter of Pantaflix shares. The management of BlackMars Capital owns less than 50% of the shares.

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