

EQUITY - SPAIN

Sector: Media

Report date: 1 Dec 2021

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Important news

Closing price: EUR 3.75 (30 Nov 2021)

Important news

Opinion ⁽¹⁾: Positive

Impact ⁽¹⁾: We will have to raise our estimates

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Boost to the content area with the acquisition of audiovisual shareholdings from Vocento

Business description

Squirrel Media (SQRL), formerly Vertice 360, is a Spanish group present throughout the value chain of the entertainment and media sector through three businesses: (i) Media (essentially advertising; 75% of 2021e revenue), (ii) Content (production and distribution of audiovisual content; 14%) and (iii) TMT services (11% of revenue).

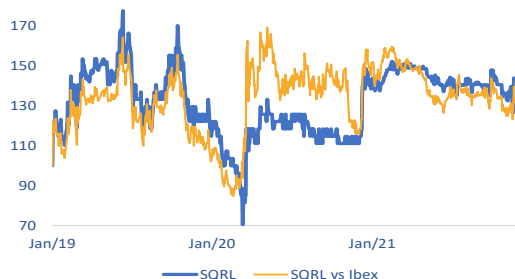
Market Data

Market Cap (Mn EUR and USD)	322.2	365.2
EV (Mn EUR and USD) ⁽²⁾	333.3	377.9
Shares Outstanding (Mn)	85.9	
-12m (Max/Med/Min EUR)	4.12 / 3.83 / 3.00	
Daily Avg volume (-12m Mn EUR)	0.09	
Rotation ⁽³⁾	7.3	
Factset / Bloomberg	SQRL-ES / SQRL SM	
Close fiscal year	31-Dec	

Shareholders Structure (%)

Squirrel Capital	92.6
Free Float	7.4

Relative performance (Base 100)



Stock performance (%)

	-1m	-3m	-12m	-5Y
Absolute	1.9	-2.2	25.0	n.a.
vs Ibex 35	11.1	4.4	21.6	n.a.
vs Ibex Small Cap Index	8.7	6.6	21.7	n.a.
vs Eurostoxx 50	6.6	1.1	7.4	n.a.
vs Sector benchmark ⁽⁴⁾	1.7	-1.0	-4.9	n.a.

(1) The opinion regarding the results is on reported EBITDA with respect to our estimate for the year (12m). The impact reflects whether, due to the results, we envisage a significant revision (>5% - 10%, depending on the sector) of our EBITDA estimate (for any of the estimated years).

(2) Please refer to Appendix 2.

(3) Rotation is the % of the capitalisation traded - 12m.

(4) vs Stoxx Europe 600 Media.

(*) Unless otherwise indicated, all the information contained in this report is based on: The Company, Factset and Lighthouse.

SQRL ACQUIRES AUDIOVISUAL SHAREHOLDINGS FROM VOCENTO... Specifically, they have agreed to the transmission of 55% of NET TV (a company with a national DTT licence that hosts and co-manages two national free-to-air channels, Paramount and Disney Channel) and 100% of Veralia Distribución de Cine (the owner of a catalogue of cinema distribution rights) for EUR 18Mn. The net financial positions of the acquired companies have not been released. The transaction is expected to be closed in January 2022.

... IN A DEAL VALUED AT EUR 22.4MN. In addition to the Vocento deal, SQRL has offered Disney EUR 4.4Mn for its 20% stake in NET TV. As a result, SQRL expects to execute the acquisition of 75% of NET TV and of 100% of Veralia Distribución de Cine for a total amount of EUR 22.4Mn. The other 25% of NET TV belongs to Homo Videns (a bankrupt company on which a pledge in favour of Caixabank is currently being executed).

THAT WILL BOOST ITS CONTENT BUSINESS (STILL SUFFERING FROM THE IMPACT OF COVID-19). In 2020 the companies acquired generated revenue of c. EUR 25.9Mn (-3% vs 2019), EBITDA of EUR 6Mn (-20% vs 2019) and net profit of EUR 4.7Mn (-24% vs 2019). For 2021e (still impacted by Covid-19) revenue of EUR 25Mn and EBITDA of EUR 7Mn (EBITDA margin of c. 28%) are expected. To put the deal into context, SQRL's content business generated revenue of EUR 5.2Mn in 9m21 (9% of total revenue). For further details, see annexe 1 on the following page.

AND THAT IS ASSUMABLE WITH THE CURRENT BALANCE SHEET STRUCTURE. At 30 September SQRL's net debt amounted to EUR 7Mn (2021e ND/EBITDA < 0.5x) a favourable financial position from which to access new funding to close the deal announced.

A TRANSACTION THAT IMPLIES A SIGNIFICANT STEP-UP IN SIZE.... We are upbeat about this news and it leads us to significantly upgrade our estimates for 2022e and the following years to reflect: (i) the increase in size from the incorporation of c. EUR 25Mn of additional revenue and c. EUR 7Mn of additional EBITDA (c. 25% and c. 35% of our previous estimates for 2022e, respectively) and (ii) the c. EUR 23Mn increase in net debt; that, according to our estimates, will take the company's financial leverage to c. 1x ND/EBITDA 2022e (still a favourable level for making new investments in the content area catalogue and with margin to continue seeking non-organic growth opportunities).

... AND A POSSIBLE IMPROVEMENT OF ITS COMPETITIVE POSITION. Specifically, we highlight: (i) the acquisition of NET TV will position SQRL as the third largest private operator of free-to-air TV in Spain (only behind Mediaset and AtresMedia) and (ii) with Veralia Distribución de Cine, SQRL strengthens its position in content generation and distribution, enlarging its current catalogue that at the September 2021 close already included c. 40 films set for release between 4Q21-2023 in Spain, Italy, Portugal and Latam. In conclusion, good news that will evidently imply a significant step-up in size although the strategic fit and profitability of the acquisition remains to be seen. In other words, its effective impact in terms of earnings (EBITDA and EBITDA margin; the companies were acquired free of personnel) from 2022e.

Appendix 1. Main financial metrics of the companies acquired

EUR Mn	2019	2019	2019	2020	2020	2020	2021e	2021e	2021e
	VERALIA	NET TV	CONSOLIDADO	VERALIA	NET TV	CONSOLIDADO	VERALIA	NET TV	CONSOLIDADO
Total Revenues	2.0	24.8	26.7	1.9	24.0	25.9	1.4	23.6	25.0
EBITDA	1.7	6.1	7.9	1.6	4.5	6.1	1.3	5.8	7.0
<i>Rec. EBITDA/Revenues</i>	<i>87.1%</i>	<i>24.8%</i>	<i>29.4%</i>	<i>84.5%</i>	<i>18.7%</i>	<i>23.6%</i>	<i>89.3%</i>	<i>24.4%</i>	<i>28.1%</i>
EBIT	1.6	6.1	7.8	1.6	4.5	6.1	1.2	5.8	7.0
<i>EBIT/Revenues</i>	<i>83.1%</i>	<i>24.8%</i>	<i>29.1%</i>	<i>83.2%</i>	<i>18.7%</i>	<i>23.5%</i>	<i>88.6%</i>	<i>24.5%</i>	<i>28.1%</i>
Net Profit	1.5	4.7	6.2	1.2	3.5	4.7	0.9	4.6	5.5

Appendix 2. EV breakdown at the date of this report

	EUR Mn	Source
Market Cap	322.2	
+ Minority Interests	0.3	9m Results 2021
+ Provisions & Other L/T Liabilities	4.7	9m Results 2021
+ Net financial debt	7.1	9m Results 2021
- Financial Investments	0.9	9m Results 2021
+/- Others		
Enterprise Value (EV)	333.3	

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Notes and Reports History

Date of report	Recommendation	Price (EUR)	Target price (EUR)	Period of validity	Reason for report	Analyst
01-Dec-2021	n.a.	3.75	n.a.	n.a.	Important news	David López Sánchez
15-Nov-2021	n.a.	3.70	n.a.	n.a.	9m Results 2021	David López Sánchez
30-Jul-2021	n.a.	3.79	n.a.	n.a.	6m Results 2021 - Estimates downgrade	David López Sánchez
02-Mar-2021	n.a.	3.94	n.a.	n.a.	12m 2020 Preliminary results	David López Sánchez
29-Jan-2021	n.a.	3.86	n.a.	n.a.	Initiation of Coverage	David López Sánchez

