

# NOTORIOUS PICTURES OUTPERFORM

Price (Eu): **3.03**

Target Price (Eu): **3.60**

SECTOR: Media

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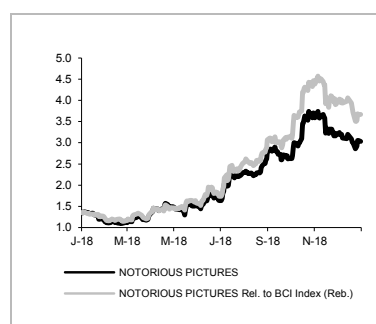
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## Estimates Update and Launch of a New Business

- A new venture with capable management and a credible business plan.** On 9<sup>th</sup> January 2019, Notorious announced that the group is to enter the business of managing cinemas in Italy via the formation of Notorious Cinema Srl, a fully-owned subsidiary; the stated aim is to manage 20 multiplex cinemas by 2023. Notorious anticipates financing the launch of this business through existing liquidity. This is good news for Notorious, as it represents an attractive growth option in a related business segment. The company says the cinemas will be managed exclusively through rental contracts, and there will be no need to raise capital to fund the investment given the favourable working capital profile in the industry. The project looks highly promising thanks to the involvement of Andrea Stratta, who boasts around 20 years' experience as CEO of UCI Cinemas Italy Group, during which time he created the largest network of multi-screen cinemas in the country. The development plan targets 5mn annual cinemagoers in the final year; based on our preliminary estimate, this translates into turnover of around Eu40-45mn considering box office and food & beverage revenues.
- First multiplex to be opened in Milan.** Yesterday, the group announced a preliminary agreement with IGD for the rental (9+9 years) of assets related to a 10-screen Multiplex in Milan-Sesto San Giovanni. The facilities will be renovated over the summer.
- 2H18 should be softer-than-previously expected, mainly due to the postponement of Lamborghini.** On 3<sup>rd</sup> May 2018, Notorious announced a Eu10.3mn contract related to executive production of the film "Lamborghini", starring Antonio Banderas and Alec Baldwin. Notorious expected to book about 70% of the contract in 2018, but the film has been postponed to 2019 and we are therefore obliged to adjust our estimates (ca. Eu6mn in revenues and Eu1.2mn EBITDA). As for the rest of the business, box office revenues should have been below expectations in 2H18 in quite a weak season overall for the industry. Positively, the two last films released (including Ben is back starring Julia Roberts) are performing reasonably well and the start to the year has been encouraging. We are leaving our 2019 revenue forecast broadly unchanged for the moment, even though the shifting of production on Lamborghini could create upside. We note that our estimates do not factor in the contribution from the new theatrical business, presented briefly below.
- OUTPERFORM confirmed; target Eu3.6 (from Eu3.8).** The delay to Lamborghini may be considered the only blot on a very positive 2018 for the group. We remain confident that our 2019 estimates point to further progress. On top of this, we consider the recently-announced new venture in theatrical management a highly worthwhile opportunity with an attractive risk-reward profile. We confirm our positive view on the stock, adjusting our target price following the estimate revision while factoring in a Eu0.15 per share premium related to the new business (calculated as a 15% probability of the NPV of the business plan).

Next event:  
Results out by the end of March (exp.)

### NOTORIOUS PICTURES - 12m Performance



RATING: Unchanged

TARGET PRICE (Eu): from 3.80 to 3.60

Ch. in Adj.EPS est: **2018E** **2019E**  
-37.1% -6.0%

#### STOCK DATA

Reuters code: NPI.MI  
Bloomberg code: NPI IM

Performance	1m	3m	12m
Absolute	-5.3%	15.2%	124.4%
Relative	-7.4%	16.8%	141.6%
12 months H/L:	3.74/1.11		

#### SHAREHOLDER DATA

No. of Ord. shares (mn):	22
Total No. of shares (mn):	22
Mkt Cap Ord (Eu mn):	68
Total Mkt Cap (Eu mn):	68
Mkt Float - ord (Eu mn):	12
Mkt Float (in %):	16.9%
Main shareholder:	
Marchetti Guglielmo	80.9%

#### BALANCE SHEET DATA

	2019
Book value (Eu mn):	28
BVPS (Eu):	1.25
P/BV:	2.4
Net Financial Position (Eu mn):	3
Enterprise value (Eu mn):	65

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on the last page of this report

Key Figures	2016A	2017A	2018E	2019E	2020E
Sales (Eu mn)	23	18	31	39	42
Ebitda (Eu mn)	7	6	10	14	14
Net profit (Eu mn)	3	1	4	6	6
EPS - New Adj.(Eu)	0.125	0.066	0.168	0.263	0.279
EPS - Old Adj.(Eu)	0.125	0.066	0.267	0.280	0.295
DPS (Eu)	0.053	0.054	0.071	0.080	0.080
Ratios & Multiples	2016A	2017A	2018E	2019E	2020E
P/E Adj.	24.3	46.1	18.0	11.5	10.9
Div. Yield	1.7%	1.8%	2.3%	2.6%	2.6%
EV/Ebitda Adj.	9.8	10.3	6.2	4.8	4.4
ROCE	20.5%	12.0%	25.1%	30.7%	27.2%

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**NOTORIOUS PICTURES - KEY FIGURES**

		<b>2016A</b>	<b>2017A</b>	<b>2018E</b>	<b>2019E</b>	<b>2020E</b>
	Fiscal year end	31/12/2016	31/12/2017	31/12/2018	31/12/2019	31/12/2020
<b>PROFIT &amp; LOSS (Eu mn)</b>	Sales	23	18	31	39	42
	EBITDA	7	6	10	14	14
	EBIT	3	2	4	7	7
	Financial income (charges)	(0)	(0)	0	0	0
	Associates & Others	0	0	0	0	0
	Pre-tax profit (Loss)	3	2	4	7	7
	Taxes	(0)	(0)	(0)	(1)	(1)
	Tax rate (%)	11.5%	18.6%	9.0%	11.0%	13.0%
	Minorities & discontinue activities	0	0	0	0	0
	Net profit	3	1	4	6	6
	Total extraordinary items	0	0	0	0	0
	Ebitda excl. extraordinary items	7	6	10	14	14
	Ebit excl. extraordinary items	3	2	4	7	7
Net profit restated	3	1	4	6	6	
<b>PER SHARE DATA (Eu)</b>	Total shares out (mn) - average fd	22	22	22	22	22
	EPS stated fd	0.125	0.066	0.168	0.263	0.279
	EPS restated fd	0.125	0.066	0.168	0.263	0.279
	BVPS fd	0.923	0.935	0.983	1.246	1.471
	Dividend per share (ord)	0.053	0.054	0.071	0.080	0.080
	Dividend per share (sav)	0.000	0.000	0.000	0.000	0.000
	Dividend pay out ratio (%)	42.5%	82.6%	42.3%	30.5%	28.7%
<b>CASH FLOW (Eu mn)</b>	Gross cash flow	7	6	10	14	14
	Change in NWC	(0)	5	(2)	(3)	(0)
	Capital expenditure	(7)	(7)	(8)	(10)	(10)
	Other cash items	0	(0)	(1)	1	0
	Free cash flow (FCF)	(1)	4	(1)	1	4
	Acquisitions, divestments & others	0	0	0	0	0
	Dividend	(2)	(1)	(1)	(2)	(2)
	Equity financing/Buy-back	0	0	0	0	0
Change in Net Financial Position	(3)	2	(2)	(1)	2	
<b>BALANCE SHEET (Eu mn)</b>	Total fixed assets	11	14	16	20	23
	Net working capital	11	6	8	11	11
	Long term liabilities	(5)	(5)	(5)	(6)	(6)
	Net capital employed	17	15	18	25	28
	Net financial position	4	6	4	3	5
	Group equity	21	21	22	28	33
	Minorities	0	0	0	0	0
Net equity	21	21	22	28	33	
<b>ENTERPRISE VALUE (Eu mn)</b>	Average mkt cap - current	68	68	68	68	68
	Adjustments (associate & minorities)	0	0	0	0	0
	Net financial position	4	6	4	3	5
	Enterprise value	64	62	64	65	63
<b>RATIOS(%)</b>	EBITDA margin*	28.7%	33.2%	33.5%	34.7%	34.6%
	EBIT margin*	13.8%	10.5%	13.5%	16.9%	17.3%
	Gearing - Debt/equity	-18.5%	-29.6%	-17.0%	-11.3%	-15.0%
	Interest cover on EBIT	825.8	23.9	nm	nm	nm
	Debt/Ebitda	nm	nm	nm	nm	nm
	ROCE*	20.5%	12.0%	25.1%	30.7%	27.2%
	ROE*	13.6%	7.1%	17.5%	23.6%	20.5%
	EV/CE	4.2	3.9	3.9	3.0	2.4
	EV/Sales	2.8	3.4	2.1	1.7	1.5
	EV/Ebit	20.3	32.6	15.5	9.8	8.8
Free Cash Flow Yield	-0.8%	5.2%	-1.8%	1.5%	5.3%	
<b>GROWTH RATES (%)</b>	Sales	-10.0%	-21.1%	69.7%	27.6%	6.1%
	EBITDA*	-49.7%	-8.8%	71.5%	32.1%	5.8%
	EBIT*	-68.8%	-40.1%	119.2%	59.4%	8.5%
	Net profit	-60.4%	-47.2%	155.8%	56.2%	6.1%
	EPS restated	-60.4%	-47.2%	155.8%	56.2%	6.1%

\* Excluding extraordinary items

Source: Intermonte SIM estimates

## A new venture to manage multiplex cinemas

On 9<sup>th</sup> January 2019, Notorious announced that the group is to enter the business of managing cinemas in Italy via the formation of Notorious Cinema Srl, a fully-owned subsidiary; the stated aim is to manage 20 multiplex cinemas by 2023. Notorious anticipates financing the launch of this business through existing liquidity.

Notorious says the cinemas will be managed exclusively through rental contracts, and there will be no need to raise capital to fund the investment given the favourable working capital profile in the industry. The project looks highly promising thanks to the involvement of **Andrea Stratta**, who boasts around 20 years' experience as CEO of UCI Cinemas Italy Group, during which time he created the largest network of multi-screen cinemas in the country. The development plan targets 5mn annual cinemagoers in the final year; based on our preliminary estimate, this translates into turnover of around Eu40-45mn considering box office and food & beverage revenues.

### The new business should benefit from:

- (1) specific fiscal incentives;
- (2) lower rental costs compared to the current market average (rents were previously higher because the business was more profitable);
- (3) state-of-the-art cinema halls as judged on seat comfort and video/audio experience, which are key success factors for preserving the excitement of the out-of-the-home experience compared to home video consumption.

### Notorious Cinema – expected revenue evolution, 2019-2023

	2019 E	2020 E	2021 E	2022 E	2023 E
Newly Opened Cinemas	2	4	4	4	5
Cinemas YE	2	6	10	14	19
Av g Screens per Cinema	8	6	7	7	7
Total Screens	16	40	68	96	131
Av g Seats per Screen	150	150	150	150	150
Seats					
Initial		2,400	6,000	10,200	14,400
Final	2,400	6,000	10,200	14,400	19,650
Average	1,000	4,200	8,100	12,300	17,025
Occupancy ratio (ticket per seat)	280	280	280	280	280
<b>Tickets</b>	<b>280,000</b>	<b>1,176,000</b>	<b>2,268,000</b>	<b>3,444,000</b>	<b>4,767,000</b>
Average Price	6.3	6.4	6.5	6.6	6.7
<b>Box office revenues</b>	<b>1,764,000</b>	<b>7,519,932</b>	<b>14,720,267</b>	<b>22,688,293</b>	<b>31,874,976</b>
Bar revenue per ticket	2.0	2.0	2.1	2.1	2.2
<b>Bar revenues</b>	<b>560,000</b>	<b>2,399,040</b>	<b>4,719,254</b>	<b>7,309,601</b>	<b>10,319,908</b>
<b>Total Revenues</b>	<b>2,324,000</b>	<b>9,918,972</b>	<b>19,439,521</b>	<b>29,997,894</b>	<b>42,194,885</b>

Source: Intermonte SIM estimates

**Major Italian players:**

**UCI Cinemas** (United Cinemas International), recently purchased by AMC, has about 50 multiplexes;

**The Space Cinema**, set up in 2009 through the merger of Warner Village Cinemas and Medusa Multicinema, was sold in November 2014 by 21 Investimenti (Benetton) and Mediaset to Vue International, and today has about 40 cinemas;

**Spaziocinema**, led by Lionello Cerri, has 8 multiplexes in Milan and other cities in Lombardy;

**Circuito Cinema**, founded in 1996, controls 9 multiplexes between Rome and Florence;

**Multicompany Srl**, based in Catania, manages several "Pianeta" multiplexes in Sicily.

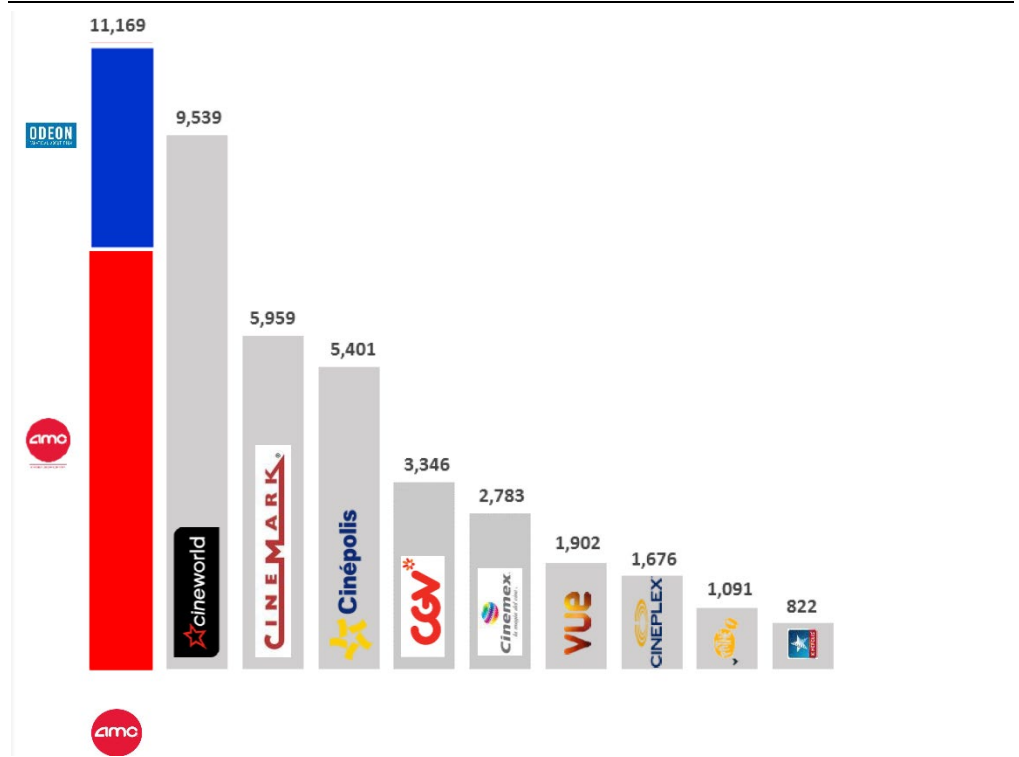
Internationally, there are a number of large players after recent M&A transactions.

**International peers**

Valuation	MCAP (EUR)	EV (EUR)	EV / Sales			EV / EBITDA			EV / EBIT		
			LTM	2018	2019	LTM	2018	2019	LTM	2018	2019
AMC Entertainment Hldg	1,274	5,662	1.20x	1.21x	1.17x	7.5x	7.3x	7.1x	20.1x	24.4x	19.9x
Cineworld Group	4,207	7,333	3.58x	2.07x	1.73x	16.4x	9.4x	7.7x	25.3x	14.5x	11.4x
Cinemark	3,997	5,445	1.97x	1.98x	1.91x	8.8x	8.3x	7.9x	13.8x	15.7x	14.4x
IMAX	1,074	1,047	3.07x	3.25x	2.99x	8.5x	8.8x	7.9x	15.8x	20.8x	13.0x
Cineplex	1,112	1,502	1.42x	1.41x	1.36x	9.1x	9.0x	8.3x	18.5x	17.5x	16.0x

Source Factset

**Leading international players – Number of screens at YE17**



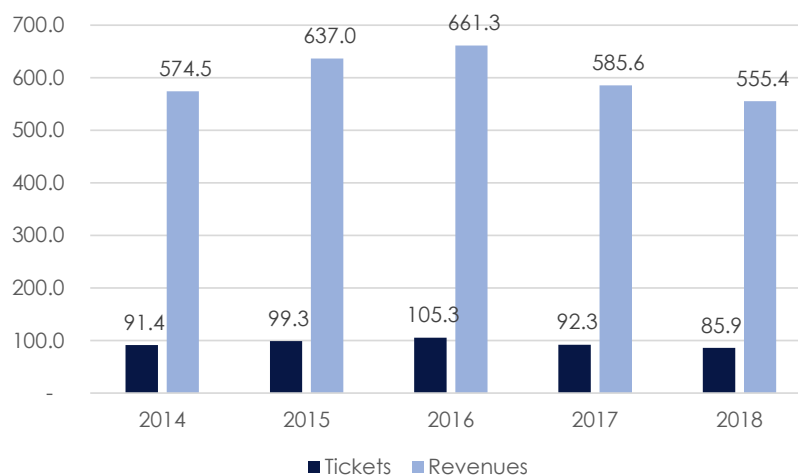
Source: AMC presentation

## Change in estimates

### Change in estimates

(Eu mn)	2017A	2018E	2019E	2020E
<b>Value of production new</b>	<b>18.14</b>	<b>30.79</b>	<b>39.30</b>	<b>41.70</b>
Value of production old		37.19	39.72	42.06
% change		(17.2%)	(1.1%)	(0.9%)
% YoY		70%	28%	6%
<b>EBITDA new</b>	<b>6.02</b>	<b>10.32</b>	<b>13.63</b>	<b>14.41</b>
EBITDA old		13.49	14.12	14.88
% change		(23.5%)	(3.5%)	(3.2%)
% YoY		72%	32%	6%
<b>EBIT new</b>	<b>1.90</b>	<b>4.16</b>	<b>6.63</b>	<b>7.20</b>
EBIT old		6.61	7.05	7.61
% change		(37.1%)	(6.0%)	(5.4%)
% YoY		119%	59%	9%
<b>Pretax profit new</b>	<b>1.82</b>	<b>4.16</b>	<b>6.64</b>	<b>7.21</b>
Pretax profit old		6.61	7.06	7.62
% change		(37.1%)	(6.0%)	(5.4%)
% YoY		129%	60%	9%
<b>Net profit new</b>	<b>1.48</b>	<b>3.78</b>	<b>5.91</b>	<b>6.27</b>
Net profit old		6.01	6.29	6.63
% change		(37.1%)	(6.0%)	(5.4%)
% YoY		156%	56%	6%

### Italian box office figures 2014-2018



Source: Cinetel

**NOTORIOUS PICTURES Peer Group - Absolute Performances**

Stock	Price	Ccy	Mkt cap	1M	3M	6M	YTD	1Y	2Y
<b>NOTORIOUS PICTURES</b>	<b>3.03</b>	<b>EUR</b>	<b>68</b>	<b>-5.3%</b>	<b>15.2%</b>	<b>85.3%</b>	<b>-5.3%</b>	<b>124.4%</b>	<b>200.0%</b>
ENTERTAINMENT ONE	3.65	GBP	1,691	-0.8%	-9.7%	-4.7%	2.4%	16.3%	57.0%
EROS INT'L	9.21	USD	564	12.3%	-11.4%	-32.5%	11.1%	-11.0%	-19.6%
LEONE FILM	4.70	EUR	66	-0.8%	0.0%	-2.1%	0.0%	5.4%	77.4%
LIONS GATE ENTERT.	18.18	USD	2,406	16.5%	-19.2%	-29.9%	12.9%	-46.1%	-35.2%
LUCISANO MEDIA	1.75	EUR	26	8.7%	-3.6%	-22.2%	10.1%	-30.8%	26.6%
MONDO TV	1.58	EUR	49	39.8%	-57.5%	-53.9%	32.5%	-74.2%	-64.3%
<b>Mean performance</b>				<b>10.0%</b>	<b>-12.3%</b>	<b>-8.6%</b>	<b>9.1%</b>	<b>-2.3%</b>	<b>34.6%</b>
<b>Italy FTSE Mib</b>	19,171.5	EUR		1.4%	-0.4%	-12.4%	4.6%	-18.2%	-1.8%

Source: FactSet

**NOTORIOUS PICTURES Peer Group - Multiple Comparison**

Stock	Price	Ccy	Mkt cap	EV/Sales	EV/Sales	EV/Ebitda	EV/Ebitda	EV/Ebit	EV/Ebit	P/E	P/E	Div Yield	Div Yield
				2019	2020	2019	2020	2019	2020	2019	2020	2019	2020
<b>NOTORIOUS PICTURES</b>	<b>3.03</b>	<b>EUR</b>	<b>68</b>	<b>1.7</b>	<b>1.5</b>	<b>4.8</b>	<b>4.4</b>	<b>9.8</b>	<b>8.8</b>	<b>11.5</b>	<b>10.9</b>	<b>2.6%</b>	<b>2.6%</b>
ENTERTAINMENT ONE	3.65	GBP	1,691	1.7	1.6	9.5	8.9	9.5	10.2	13.6	13.0	0.4%	0.5%
EROS INT'L	9.21	USD	564	2.0	1.5	5.6	4.1	7.0	4.9	28.3	16.1	0.0%	0.0%
LEONE FILM	4.70	EUR	66	0.8	0.7	3.2	2.6	10.6	7.9	8.3	6.3	3.8%	5.1%
LIONS GATE ENTERT.	18.18	USD	2,406	1.4	1.3	9.3	8.1	16.2	13.3	25.0	19.8	1.2%	1.7%
LUCISANO MEDIA	1.75	EUR	26	1.1	1.0	2.9	2.5	7.7	7.4	5.5	5.5	2.9%	2.9%
MONDO TV	1.58	EUR	49	1.0	0.8	1.3	1.0	1.8	1.4	2.7	2.2	9.4%	15.0%
<b>Median</b>				<b>1.3</b>	<b>1.1</b>	<b>4.4</b>	<b>3.3</b>	<b>8.6</b>	<b>7.7</b>	<b>11.0</b>	<b>9.6</b>	<b>2.0%</b>	<b>2.3%</b>

Source: Intermonte SIM estimates for covered companies, FactSet consensus estimates for peer group

**DETAILS ON STOCKS RECOMMENDATION**

Stock NAME	NOTORIOUS PICTURES		
Current Recomm:	OUTPERFORM	Previous Recomm:	OUTPERFORM
Current Target (Eu):	3.60	Previous Target (Eu):	3.80
Current Price (Eu):	3.03	Previous Price (Eu):	2.85
Date of report:	15/01/2019	Date of last report:	19/09/2018

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- Discounted cash flow (DCF) model or similar methods such as a dividend discount model (DDM)
- Comparison with market peers, using the most appropriate methods for the individual company analysed: among the main ratios used for industrial sectors are price/ earnings (P/E), EV/EBITDA, EV/EBIT, price /sales.
- Return on capital and multiples of adjusted net book value are the main methods used for banking sector stocks, while for insurance sector stocks return on allocated capital and multiples on net book value and embedded portfolio value are used
- For the utilities sector comparisons are made between expected returns and the return on the regulatory asset base (RAB)

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 OUTPERFORM: stock expected to outperform the market by between 10% and 25% over a 12 month period;  
 NEUTRAL: stock performance expected at between +10% and -10% compared to the market over a 12 month period ;  
 UNDERPERFORM: stock expected to underperform the market by between -10% and -25% over a 12 month period;  
 SELL: stock expected to underperform the market by over 25% over a 12 month period.

Prices: The prices reported in the research refer to the price at the close of the previous day of trading

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OUTPERFORM:	46.62 %
NEUTRAL:	34.46 %
UNDERPERFORM	07.43 %
SELL:	00.00 %

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OUTPERFORM:	56.25 %
NEUTRAL:	22.92 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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IntermonTE SIM SpA holds net long or short positions in excess of 0.5% of the overall share capital in the following issuers:

Emittente	%	Long/Short
CAPITAL FOR PROGRESS 2	1,68	LONG
EPS EQUITA PEP2	0,81	LONG
Gambero Rosso	0,58	LONG
LIFE CARE CAPITAL	0,57	LONG
SPACTIV	0,69	LONG
THESPAC	1,34	LONG
VEI 1	0,72	LONG
WASTE ITALIA	0,65	SHORT

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