

# NOTORIOUS PICTURES

**BUY**

Sector: Media

Price: Eu1.45 - Target: Eu2.00

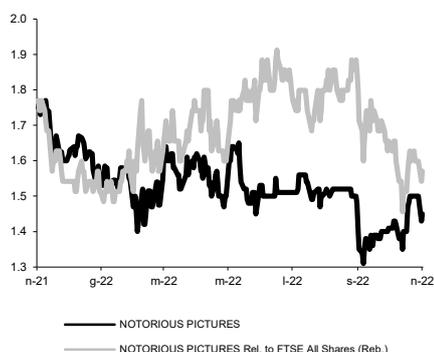
## Important Progress In The Film Production Business

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### Stock Rating

<b>Rating:</b>	Unchanged		
<b>Target Price (Eu):</b>	from 2.20 to 2.00		
	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>Chg in Adj EPS</b>	-11.5%	-13.0%	-9.0%

### NOTORIOUS PICTURES - 12M Performance



### Stock Data

 Reuters code: NPI.MI  
 Bloomberg code: NPI IM

Performance	1M	3M	12M
Absolute	2.8%	-4.0%	-18.1%
Relative	-5.4%	-14.9%	-10.9%
12M (H/L)	1.77/1.31		
3M Average Volume (th):	2.53		

### Shareholder Data

No. of Ord shares (mn):	22
Total no. of shares (mn):	22
Mkt Cap Ord (Eu mn):	33
Total Mkt Cap (Eu mn):	33
Mkt Float - Ord (Eu mn):	5
Mkt Float (in %):	15.2%
Main Shareholder:	
Marchetti Guglielmo	82.3%

### Balance Sheet Data

Book Value (Eu mn):	29
BVPS (Eu):	1.29
P/BV:	1.1
Net Financial Position (Eu mn):	-23
Enterprise Value (Eu mn):	55

- Production revenues reached 49% of half-yearly sales.** 1H22 results, unveiled on 28 September 2022, showed revenues at Eu17.6mn, +36% YoY thanks mainly to the production business that benefitted from the release of *"The Honeymoon"*, which generated Eu6.3mn of revenues for the sale of global distribution rights. This project provided important confirmation of the company's ability to realise successful important international productions, following on from the success of *"Love, Wedding, Repeat"*, sold to Netflix in 2019. At the end of June, Notorious still retained rights for the film's distribution in Italy and Spain (where the group is directly active in the distribution business) which are expected to generate a further Eu2.2mn of revenues in 2H22. The cinema management business (Notorious Cinemas) also recorded significant growth thanks mainly to a very easy comparison (cinemas were closed in 1H21 due to Covid lockdowns); Italian box office figures remained weak compared to pre-Covid levels, but Notorious performed better than the market. Finally, distribution business revenues were broadly in line YoY.
- New governance.** On 14 November 2022, Notorious Pictures announced that Guglielmo Marchetti will step down as Group CEO from 1 January 2023. On the one hand, Marchetti's role as key shareholder as well as strategic and executive head of the Group remains unchanged, on the other hand the group hired Stefano Bethlen as its new Chief Operating Officer. The arrival of Bethlen is good news, not only in terms of governance (separation of the Executive Chairman and Managing Director roles) but above all in operational terms. Thanks to his distinguished career, Bethlen's arrival could signal a significant acceleration in Group growth, above all in the field of film production. Moreover, on 25 October the group announced the appointment of Jorge Vázquez as the new Managing Director of the Spanish subsidiary.
- Change in estimates.** We are lowering our 2022-23 revenue forecasts, assuming normalisation of the cinema business will take longer. On the other hand, we are perceiving increasing visibility on our forecasts for the film production business, where Notorious has taken a number of important steps in the right direction, in particular with the production of the international film *The Honeymoon* and the Italian film *Improvvisamente Natale*, available on Amazon Prime as of 1 December. As has been pointed out in the past, film production activity has a less favourable cash flow profile, so we expect net debt, excluding the IFRS 16 effect, to go from Eu3.4mn at YE21 to Eu8.3mn at YE22 (still below our previous forecast of Eu10mn). At bottom line, we are cutting EPS by 11.5% and 13.0% for 2022 and 2023 respectively, partly to reflect the increase in the cost of financing.
- BUY; target from Eu2.2 to Eu2.0.** Even though industry momentum remained sluggish, Notorious was able to pave the way for a promising pipeline in each of its market segments, especially in the film production business. The group is also working to finalise the production of the first film series. Overall, we expect the company to benefit from recovering cinema attendance trends in 2023, but we underline that our estimates increasingly rely on the production business, which is less dependent on the recovery in the cinema channel. Our new target reflects a higher cost of capital (WACC).

Key Figures & Ratios	2020A	2021A	2022E	2023E	2024E
Sales (Eu mn)	13	26	37	48	62
EBITDA Adj (Eu mn)	5	10	17	22	30
Net Profit Adj (Eu mn)	-2	4	4	6	8
EPS New Adj (Eu)	-0.095	0.158	0.191	0.245	0.360
EPS Old Adj (Eu)	-0.095	0.158	0.216	0.281	0.395
DPS (Eu)	0.000	0.082	0.076	0.098	0.144
EV/EBITDA Adj	10.7	5.3	3.3	2.5	1.8
EV/EBIT Adj	nm	16.4	10.3	8.0	5.4
P/E Adj	nm	9.2	7.6	5.9	4.0
Div. Yield	0.0%	5.7%	5.3%	6.8%	9.9%
Net Debt/EBITDA Adj	2.6	1.6	1.3	1.0	0.7

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The main methods used to evaluate financial instruments and set a target price for 12 months after the investment recommendation are as follows:

- Discounted cash flow (DCF) 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)

Some of the parameters used in evaluations, such as the risk-free rate and risk premium, are the same for all companies covered, and are updated to reflect market conditions. Currently a risk-free rate of 2.5% and a risk premium of 5.0% are being used.

Frequency of research: quarterly.

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A draft copy of each report may be sent to the subject company for its information (without target price and/or recommendations), but unless expressly stated in the text of the report, no changes are made before it is published.

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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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BUY:	22.13 %
OUTPERFORM:	48.36 %
NEUTRAL:	27.87 %
UNDERPERFORM	01.64 %
SELL:	00.00 %

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BUY:	38.46 %
OUTPERFORM:	50.00 %
NEUTRAL:	11.54 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short
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