

Company Update

Buy (maintained)

10 July 2017 – 5:30PM

MARKET PRICE: **EUR2.82**

TARGET PRICE: **EUR3.40 (unchanged)**

Entertainment

Data

Shares Outstanding (m):	14.88
Market Cap. (EURm):	41.96
Enterprise Value (EURm):	79.03
Free Float (%):	11.9%
Av. Daily Trad. Vol. (m):	0.03
Main Shareholder:	Lucisano family 82.3%
Reuters/Bloomberg:	LCMG.MI LMG IM
52-Week Range (EUR)	1.0 3.3

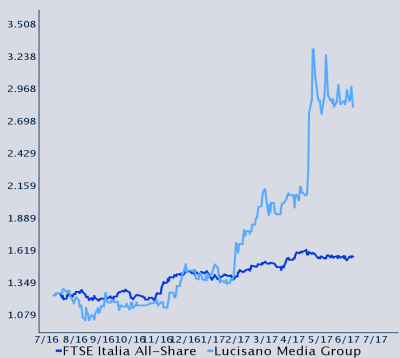
Source: Factset, UbiBanca estimates

Performance

	1m	3m	12m
Absolute	-13.2%	39.9%	92.1%
Rel. to FTSE IT	-13.9%	35.2%	40.6%

Source: Factset

Graph area Absolute/Relative 12 M



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New partner for Lucisano

Alevi, a media production company controlled by Paola Ferrari De Benedetti, a well known TV anchorwoman, has just acquired a 5.76% stake in LMG from the Lucisano family at EUR3.50 per share (or 22% above the market price prior to the announcement and in line with the IPO price) for a total of EUR3 million. Although the news does not have a significant impact on our forecasts, we see the entry of an industrial partner as an attractive strategic opportunity: 1) Mrs. Ferrari will become a board member of LMG and will be in charge of documentary film and new media sector development and will promote this new content; 2) entering a new segment could offer LMG an added growth opportunity to its traditional film and TV production and distribution activity, strengthening its competitive position, while simultaneously lowering its overall financial risk; 3) the entry price is much higher than the current market price indicating the confidence of an industrial player in LMG's business model. Despite the recent share price rally (+36% since our latest report "Better margins, rich line up, discount still wide" 16 May 2017), we confirm our positive stance on the shares which should benefit from an undemanding valuation (2017 EV/EBITDA of 2.7x, P/E of 4.9x), the increased focus on the Production division, which should gradually enhance the product mix giving a significant boost to margins, its huge discount to peers (around 50% on average), an attractive dividend yield (>5% on average in 2017-19 at the current market price), potential acquisitions and a solid financial structure (0.79x gearing and a net debt/EBITDA ratio of 1.5x). We confirm our estimates that incorporate >28% CAGR in sales in 2017-19, an EBITDA margin which is expected to exceed 35% in 2019 and a bottom line of close to EUR12 million in 2019. Our target price is confirmed at EUR3.40 per share and offers nearly 20% upside.

- > Alevi will become a shareholder in LMG in September with 5.76% stake. The two companies will sign a three-year shareholder agreement (renewable). Following the deal, the shareholding of the Lucisano family will decrease from 88.1% to 82.3%.
- > 2017 will be a crucial year for LMG given the significant pipeline (six movie productions, three TV productions and the distribution of 4/5 movies) and should drive sales up to >EUR70 million.
- > Our estimates and target price (EUR3.40 per share) are confirmed. Positive stance reiterated.

Financials	priced on 7 July 2017			
	2016	2017E	2018E	2019E
Revenues (EURm)	38.13	74.40	77.85	80.43
EBITDA (EURm)	14.97	29.46	32.96	34.17
EBITDA margin (%)	33.9%	32.2%	35.1%	35.8%
EBIT (EURm)	6.12	14.95	18.56	19.29
EPS (EUR)	0.26	0.58	0.77	0.80
CFPS (EUR)	0.42	-0.81	0.44	0.23
DPS (EUR)	0.05	0.11	0.15	0.17

Source: Company Data, UBI Banca Estimates

Ratios	priced on 7 July 2017			
	2016 *	2017E	2018E	2019E
P/E(x)	4.2	4.9	3.7	3.5
P/CF(x)	1.3	1.8	1.6	1.6
P/BV(x)	0.6	1.1	0.9	0.7
Dividend Yield	4.5%	3.9%	5.3%	6.0%
EV/EBITDA(x)	2.7	2.7	2.2	2.1
Debt/Equity (x)	0.8	1.0	0.7	0.5
Debt/EBITDA (x)	1.5	1.2	0.9	0.9

Source: UBI Banca Estimates * Based on 2016 average price

Income Statement

(EURm)	2016	2017E	2018E	2019E
Net Revenues	44.10	91.44	93.89	95.34
EBITDA	14.97	29.46	32.96	34.17
EBITDA margin	33.9%	32.2%	35.1%	35.8%
EBIT	6.12	14.95	18.56	19.29
EBIT margin	13.9%	16.3%	19.8%	20.2%
Net financial income /expense	-0.98	-1.10	-0.80	-0.80
Associates & Others	0.00	0.00	0.00	0.00
Profit before taxes	5.14	13.85	17.76	18.49
Taxes	-1.14	-5.12	-6.22	-6.47
Minorities & discontinuing ops	-0.08	-0.07	-0.08	-0.08
Net Income	3.93	8.65	11.47	11.94

Source: Company data, UBI Banca estimates

Balance Sheet

(EURm)	2016	2017E	2018E	2019E
Net working capital	14.09	21.03	16.38	19.83
Net Fixed assets	41.66	55.22	65.38	71.88
M/L term funds	-4.17	-3.94	-4.59	-6.05
Capital employed	51.58	72.31	77.18	85.66
Shareholders' equity	28.70	36.60	46.43	56.14
Minorities	0.17	0.17	0.17	0.17
Shareholders' funds	28.86	36.77	46.60	56.30
Net financial debt/(cash)	22.71	35.54	30.58	29.36

Source: Company data, UBI Banca estimates

Cash Flow Statement

(EURm)	2016	2017E	2018E	2019E
NFP Beginning of Period	26.97	22.71	35.54	30.58
Group Net Profit	3.93	8.65	11.47	11.94
Minorities	0.07	0.07	0.08	0.08
D&A	8.85	14.51	14.40	14.88
Change in Funds & TFR	0.00	0.00	0.00	0.00
Gross Cash Flow	12.85	23.23	25.95	26.90
Change In Working Capital	0.98	-6.94	4.65	-3.45
Other	0.00	0.00	0.00	0.00
Operating Cash Flow	13.83	16.29	30.60	23.45
Net Capex	-7.63	-28.38	-24.00	-20.00
Other Investments	0.00	0.00	0.00	0.00
Free Cash Flow	6.20	-12.09	6.60	3.45
Dividends Paid	-1.04	-0.74	-1.64	-2.23
Other & Chg in Consolid. Area	-0.42	0.00	0.00	0.00
Chg in Net Worth & Capital Incr.	0.00	0.00	0.00	0.00
Change in NFP	4.74	-12.83	4.96	1.22
NFP End of Period	22.23	35.54	30.58	29.36

Source: Company data, UBI Banca estimates

Financial Ratios

(%)	2016	2017E	2018E	2019E
ROE	13.7%	23.6%	24.7%	21.3%
ROI (after tax)	7.3%	15.2%	15.7%	14.9%
Net Fin. Debt/Equity (x)	0.8	1.0	0.7	0.5
Net Fin. Debt/EBITDA (x)	1.5	1.2	0.9	0.9
Interest Coverage	6.3	13.6	23.2	24.1
NWC/Sales	32.0%	23.0%	17.5%	20.8%
Capex/Sales	17.3%	31.0%	25.6%	21.0%
Pay Out Ratio	18.9%	18.9%	19.5%	21.2%

Source: Company data, UBI Banca estimates

Per Share Data

(EUR)	2016	2017E	2018E	2019E
EPS	0.26	0.58	0.77	0.80
DPS	0.05	0.11	0.15	0.17
Op. CFPS	0.93	1.10	2.06	1.58
Free CFPS	0.42	-0.81	0.44	0.23
BVPS	1.93	2.46	3.12	3.77

Source: Company data, UBI Banca estimates

Stock Market Ratios

(x)	2016 *	2017E	2018E	2019E
P/E	4.2	4.9	3.7	3.5
P/OpCFPS	1.2	2.6	1.4	1.8
P/BV	0.6	1.1	0.9	0.7
Dividend Yield (%)	4.5%	3.9%	5.3%	6.0%
Free Cash Flow Yield (%)	37.3%	nm	15.7%	8.2%
EV (EURm)	40.74	79.03	74.10	72.93
EV/Sales	0.9	0.9	0.8	0.8
EV/EBITDA	2.7	2.7	2.2	2.1
EV/EBIT	6.7	5.3	4.0	3.8
EV/Capital Employed	0.8	1.1	1.0	0.9

Source: Company data, UBI Banca estimates

Based on average 2016 price

Growth Rates

(%)	2016	2017E	2018E	2019E
Growth Group Net Sales	-24.6%	107.4%	2.7%	1.5%
Growth EBITDA	-25.8%	96.8%	11.9%	3.7%
Growth EBIT	-19.1%	144.4%	24.2%	3.9%
Growth Net Profit	-21.9%	120.1%	32.6%	4.1%

Source: Company data, UBI Banca estimates

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Date	Rating	Target Price (EUR)	Market Price (EUR)
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