

NOTORIOUS PICTURES

BUY

Sector: Media

Price: Eu1.30 - Target: Eu2.00

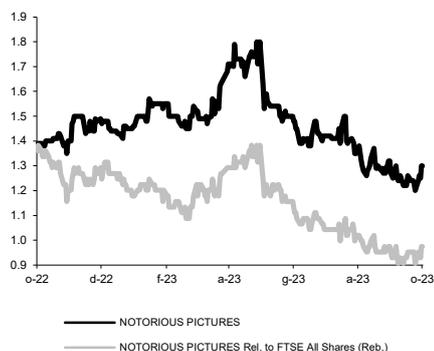
Navigating a Dynamic Landscape

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Stock Rating

Rating:	Unchanged		
Target Price (Eu):	from 2.20 to 2.00		
	2023E	2024E	2025E
Chg in Adj EPS	-20.5%	-20.8%	-2.9%

NOTORIOUS PICTURES - 12M Performance



Stock Data

Reuters code:	NPI.MI
Bloomberg code:	NPI IM

Performance	1M	3M	12M
Absolute	2.4%	-8.5%	-4.4%
Relative	3.7%	-5.9%	-37.3%
12M (H/L)	1.80/1.20		
3M Average Volume (th):	13.06		

Shareholder Data

No. of Ord shares (mn):	22
Total no. of shares (mn):	22
Mkt Cap Ord (Eu mn):	29
Total Mkt Cap (Eu mn):	29
Mkt Float - Ord (Eu mn):	6
Mkt Float (in %):	21.9%
Main Shareholder:	
Marchetti Guglielmo	75.4%

Balance Sheet Data

Book Value (Eu mn):	33
BVPS (Eu):	1.45
P/BV:	0.9
Net Financial Position (Eu mn):	-46
Enterprise Value (Eu mn):	75

■ **Soft 1H23, largely because film productions will be sold in 2H23.** 1H23 revenues were Eu14.0mn, down 20% YoY. Distribution revenues came to Eu4.0mn, down 29.0% YoY, as the sharp growth of cinema distribution revenues was more than offset by lower sales of PPV/PAY TV rights. There was a very positive trend for revenues linked to cinema management, going from Eu2.4mn to Eu3.5mn, +48% YoY, thanks to the full reopening of cinemas and the good recovery in audiences, which continued into 3Q23. Revenues from production activity fell from Eu8.7mn to Eu4.6mn, but this value is nearly cancelled out by the change in inventories, as several film productions were completed in July 2023 and will start to be marketed in 2H23. Other revenues and income, largely relating to public subsidies, increased considerably from Eu0.9mn to Eu6.2mn. In terms of margins, the drop in revenues, and in particular the reduced contribution from production activity, drove an important decline: EBITDA and EBIT closed at Eu5.7mn and Eu1.8mn respectively, down 42% and 34% YoY, while net profit was up 13% thanks to the positive effect of tax exempt public contributions.

■ **2H23: navigating a dynamic landscape.** In 1H23, Italian cinemas experienced a promising recovery and 2023 is now projected to end with approximately 70 million tickets sold, down 20% on pre-Covid levels, but up more than 50% on 2022. At the same time, there was a discernible cooling of demand for “first pay” content exploitation. All the main industry players have reduced purchasing budgets and consequently impacted independent producers. In conclusion, 2H23 should let Notorious capitalize on the resurgence in cinema-going via a promising film pipeline. Revenue outlook hinges on ongoing negotiations for the monetization of “first pay” rights, with potential for bundle sales, especially given the blockbuster potential of The Hunger Games and on the effective timing of the sales of newly completed productions. For 2024 and 2025, cautious optimism prevails, anticipating a reduced distribution slate, but the chance of acquiring higher-profile titles.

■ **Change in estimates.** In light of indications from 1H23 results we are reducing our 2023-25 revenue forecasts for the distribution business but also improving our estimates for the theatrical management business. We perceive increasing visibility on our forecasts for the film production business, where Notorious is working on a number of important projects and where there is a production project for an internally-developed series to be delivered in 2024. However, in 2023 it is not fully certain that the company will be able to finalise the sale of the most important film production (“A sudden case of Christmas”, starring Danny De Vito and Andie Mac Dowell); if sale is postponed to 2024, we assume a shift of about Eu8mn in revenues. Our estimates assume public subsidies to the film industry remain unchanged in the coming years. Below the EBIT line, we are increasing financial charges, partially offset by the assumption of lighter taxes.

■ **BUY; target from Eu2.2 to Eu2.0.** 1H results showed a sharp decline in revenues and margins, largely attributable to film production projects that were not sold by the end of the period but whose positive impact will come in 2H23 or 2024. While this shortfall is purely temporary, we have adjusted our estimates to account for a reduced purchasing budget from leading media players. On the other hand, the significant upturn in cinema attendance is comforting for the sector. All in all, we confirm our view on the stock, moving our target to Eu2.0 (DCF Model, Wacc 10%, t.g. 1.0%).

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	26	36	41	56	69
EBITDA Adj (Eu mn)	10	18	18	23	26
Net Profit Adj (Eu mn)	4	4	4	6	9
EPS New Adj (Eu)	0.158	0.194	0.195	0.283	0.395
EPS Old Adj (Eu)	0.158	0.194	0.245	0.357	0.407
DPS (Eu)	0.082	0.115	0.078	0.113	0.158
EV/EBITDA Adj	5.3	3.1	4.1	3.1	2.8
EV/EBIT Adj	16.4	9.8	14.5	8.8	6.7
P/E Adj	8.2	6.7	6.7	4.6	3.3
Div. Yield	6.3%	8.8%	6.0%	8.7%	12.2%
Net Debt/EBITDA Adj	1.6	1.2	2.5	1.9	1.7