

# NOTORIOUS PICTURES

Sector: Media

## OUTPERFORM

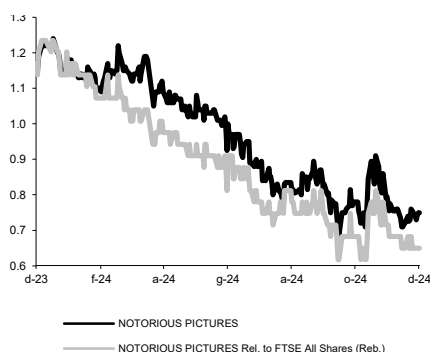
Price: Eu0.75 - Target: Eu1.00

### Estimate Revision To Reflect Business De-Risking Approach

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Stock Rating			
Rating:	from BUY to OUTPERFORM		
Target Price (Eu):	from 2.00 to 1.00		
	2024E	2025E	2026E
Chg in Adj EPS	-72.8%	-71.7%	

#### NOTORIOUS PICTURES - 12M Performance



Stock Data			
Reuters code:	NPI.MI		
Bloomberg code:	NPI IM		
Performance	1M	3M	12M
Absolute	-3.2%	-9.6%	-35.9%
Relative	-6.8%	-13.6%	-50.9%
12M (H/L)		1.24/0.69	
3M Average Volume (th):		20.11	

Shareholder Data	
No. of Ord shares (mn):	22
Total no. of shares (mn):	22
Mkt Cap Ord (Eu mn):	17
Total Mkt Cap (Eu mn):	17
Mkt Float - Ord (Eu mn):	3
Mkt Float (in %):	20.6%
Main Shareholder:	
Marchetti Guglielmo	76.7%

Balance Sheet Data	
Book Value (Eu mn):	32
BVPS (Eu):	1.42
P/BV:	0.5
Net Financial Position (Eu mn):	-43
Enterprise Value (Eu mn):	60

■ **Soft 1H24, especially in terms of profitability.** 1H24 results, approved on 26 September 2024, showed revenues of Eu16.8mn, up 19.7% YoY. Distribution revenues increased by 81% YoY to Eu7.2mn, thanks to some significant block sales from the library; cinema management revenues increased by 60% YoY to Eu5.7mn, while revenues from film production amounted to Eu1.1mn and other revenues and income fell from Eu6.1mn in 1H23 to Eu2.9mn in 1H24. EBITDA came to Eu5.7mn, in line YoY, but EBIT was negative to the tune of Eu-1.6mn vs. a Eu1.8mn positive result in 1H23: the D&A line is affected by some minimum-guaranteed distribution contracts that failed to meet budget expectations. At the end of June 2024, net debt, before Eu20.7mn of leasing liabilities (IFRS 16), was Eu19.3mn, from Eu15.7mn at YE23.

■ **Tough outlook for independent film production and distribution.** 4 years after the initial Covid outbreak, a period that also featured a long strike by Hollywood creatives against the use of artificial intelligence, movie theatres have recovered well thanks to the contribution of blockbusters, while box office revenues for independent films showed a much more worrying 70% drop vs. tickets sold in the pre-Covid period. This market trend does not affect the business of Notorious Cinemas (cinema management) but clearly has a significant impact on the film distribution and production activities segment in which Notorious Pictures operates. In addition, Over-The-Top broadcasters (OTTs) have significantly cut their budgets for the purchase of first-run windows for independent films. In conclusion, the margins of independent producers and distributors are under pressure.

■ **Change in estimates.** In light of this changed scenario, we imagine that Notorious will adopt a cautious approach when planning investments for the coming years. In particular, with regard to production, management has resolved only to launch new projects on the condition that they have agreements in place for the capitalisation of the work that can at least guarantee that costs are covered. Continuing to apply the same prudential approach, our estimates no longer assume the launch of projects related to TV series, an activity that is currently very risky for a new entrant. As for the distribution business, our estimates foresee the purchase and exposition of a smaller number of films than in the past, with a reduction in the investment in each individual film. At the same time, we are confident that Notorious will be able to find new agreements to capitalise on its rich library of film rights. Finally, we expect market conditions in the cinema management business to remain fairly positive, and expect revenues to continue to grow, albeit at a slightly more gradual pace.

■ **OUTPERFORM; target to Eu1.0 (from Buy, Eu2.0).** 1H results showed a sharp decline in margins, attributable to film production and distribution projects that performed below budget expectations. As this situation is unlikely to change in the near future, we are adjusting our estimates to factor in a reduction in leading media players' purchasing budgets. On the other hand, good cinema attendance is comforting for the cinema management business. Having factored in a significant estimate revision to reflect a de-risking approach by management, we still see reasons to remain positive on the stock, assuming an average FCF of c.Eu7mn in 2025-26. The company remains well positioned to benefit from an improvement of the industry outlook.

Key Figures & Ratios	2022A	2023A	2024E	2025E	2026E
Sales (Eu mn)	36	34	41	38	42
EBITDA Adj (Eu mn)	18	13	19	17	18
Net Profit Adj (Eu mn)	4	2	2	3	3
EPS New Adj (Eu)	0.194	0.091	0.077	0.112	0.130
EPS Old Adj (Eu)	0.194	0.195	0.283	0.395	
DPS (Eu)	0.115	0.000	0.031	0.045	0.000
EV/EBITDA Adj	3.1	5.5	3.1	3.3	3.2
EV/EBIT Adj	9.8	nm	15.4	11.8	10.6
P/E Adj	3.9	8.2	9.7	6.7	5.8
Div. Yield	15.3%	0.0%	4.1%	6.0%	0.0%
Net Debt/EBITDA Adj	1.2	2.9	2.2	2.3	2.2

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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) 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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Frequency of research: quarterly.

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BUY: stock expected to outperform the market by over 25% over a 12 month period;

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.

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BUY:	28.24 %
OUTPERFORM:	48.09 %
NEUTRAL:	23.67 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (61 in total) is as follows:

BUY:	55.74 %
OUTPERFORM:	34.43 %
NEUTRAL:	09.83 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short
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