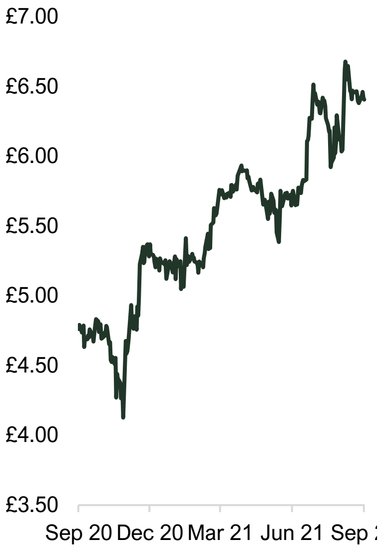
Ocean Outdoor

OOUT | AIM | Media | 641p | £345m

H1 results – Strong recovery momentum, material upgrades

1 Year Chart



14th September 2021

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Ocean Outdoor Limited is a research client of Radnor Capital Partners Ltd.

MiFID II – this research is deemed to be a minor, non-monetary benefit.

As much as is possible for an Out of Home media specialist, Ocean has had a good pandemic. Cost actions and management responses were swift to protect the P&L and balance sheet from the worst impacts yet the group did not go into stasis. Underpinning the H1 results are notable new contract wins and innovation roll outs. Ocean went into the pandemic as a clear digital leader in the sector and is exiting with that position enhanced. Relative to the peer group; the current valuation discount suggests the market has yet to catch up with the reality of Ocean's progress over the last 18 months.

This sector leadership is important to the Ocean equity story. Out of Home media had been outperforming other areas of ad spend heading into the pandemic, with Digital Out of Home leading the charge. Ocean is the leading digital player in the sector and we see them as ideally positioned as the recovery accelerates.

Within the H1 numbers it is the Q2 vs Q1 sequential improvement that demonstrates just how steep revenue recovery is likely to be. Our previous estimates had been cautious about the timing and pace of this recovery, although we had greater visibility over the inevitable cost rebuild. Our upgrades today (+102% for FY21 EBITDA and +32% for FY22) reflect this accelerating revenue dropping through accordingly.

- **H1 results:** Headline revenue growth of +11% masks a sharp Q2 vs Q1 sequential recovery. Q1 2021 was comparable to Q2 2020. H1 EBITDA was held back by the Nordics and variable rent structures kicking in. We expect these effects to unwind in H2 as revenue drop through accelerates.
- **Accelerating momentum into H2:** Forward trading commentary is positive as the group sees its predominantly digital portfolio across premium locations ideally placed to leverage the broader recovery in Out of Home spend. The pace of the Q2 sequential rebound has not slowed over recent months and the outlook for the remainder of H2 is positive in the absence of any further lockdowns.
- **Stronger foundations:** Progress has been made across all the group territories in terms of expanding Ocean's already peer leading digital portfolio. The Canary Wharf and St James Quarter contracts in the UK and Westfield in Denmark are especially notable. Alongside the impact of futher technical innovation, these contract wins underpin growth expectations.
- **Estimate upgrades:** Given the pace of the H1 exit momentum driving relatively high drop through rates, it is clear just how cautious our initial estimates were. We have upgraded our FY21 net revenue / adjusted EBITDA estimates by +9% / +102% respectively and FY22 by +18% / +32% respectively. We now see FY22 coming in ahead of the pro forma pre Covid FY19.

December, £m	Revenue	EBITDA adj	PBT adj	EPS (p)	Net Cash	EV/EBITDA	PER
FY 2019A	139.6	32.9	26.4	41.4	26.9	9.7	15.5
FY 2020A	86.2	-0.4	-10.7	-18.1	25.1	-	-
FY 2021E	*115.1*	*15.0*	*5.7*	*9.4*	*17.5*	*21.4*	*67.9*
FY 2022E	*148.0*	*33.3*	*24.6*	*37.1*	*30.7*	*9.6*	*17.3*
FY 2023E	*170.8*	*40.1*	*31.2*	*44.2*	*43.2*	*8.0*	*14.5*

EBITDA on a pro-forma, pre IFRS16 basis *Source: Radnor Capital Partners*

H1 Results – Key Headlines

- Revenue growth YoY +11.2% to **£40.6m**. Group billings up 9.1% YoY
  - Within the half there was a material variation between Q1 and Q2, with Q2 revenue more than doubling to £25.9m versus Q2 2020, the primary Covid comparative
- H1 Revenue by key geographic segment
  - UK +22% to £18.5m
  - Netherlands +12% to £8.3m
  - Nordics flat YoY at £13.8m
- On a pre IFRS16 basis (the more relevant measure), adjusted EBITDA came in at **-£4.7m** (H1 2020: **-£4.4m**).
  - On a post IFRS16 basis, adjusted EBITDA was £15.3m, +12% vs H1 2020
- Gross cash on the balance sheet was £29.8m, with bank debt of £12.4m, giving a net cash position of £17.4m
  - Group debt facility has been extended by a further 12 months and £22.5m of the facility remains undrawn and available

The easing of lockdowns across the majority of the group's territories (with the exception of Sweden where initial restrictions were not as severe as in other territories) has, unsurprisingly, seen revenue recovery accelerate through the course of the year.

Given the premium nature of the Ocean digital out of home portfolio (premium retail and roadside primarily); the easing of restrictions around retail have been particularly important. Footfall volumes across large shopping malls and city centres have been recovering steadily and, in some cases, have even exceeded 2019 levels. There is also a very clear correlation between the pace and volume of Ocean's weekly bookings and the steadily increasing vaccination rate across the majority of Ocean's key markets.

As highlighted above, there is a clear disconnect between Q1 and Q2 contributions in these results with Q1 2021 delivering at equivalent levels to Q2 2020, while Q2 2021 has seen a very sharp recovery. This pace of this Q2 bounce and the continued strength in the rebound into Q3 is the primary factor behind the material revenue and EBITDA upgrades we are now pencilling in for both FY21 and FY22.

The decline in adjusted EBITDA (pre IFRS16) has been driven by two primary factors.

- Firstly; one of the management responses to the pandemic had been to remix the group's rent exposure away from fixed rents towards a higher proportion of variable revenue based arrangements. This was critical to protecting the P&L from the worst of the initial Covid impacts during the pandemic. As the revenue recovery has accelerated, this has driven a higher rent bill which is more pronounced at this still early stage of the recovery. We would expect the marginal impact of this remix to lessen at the group P&L level as the volume of recovery increases across the portfolio and the higher drop through from fixed price rental agreements flows through. The group has also been active in adding new sites and contracts through the period and these costs have also come into the mix for the first time.

- Secondly, the Nordic region saw EBITDA losses widen from £1.0m in H1 2020 to £2.4m. This was primarily driven by Sweden (the one country in the region that did not go into lockdown) where new inventory that came on stream during the period led to a decline in yields. This is expected to reverse in H2. Outside of Sweden, the other Nordic territories performed in a similar fashion to elsewhere in the group.

We cover the key highlights by territory below.

UK

- 10 year deal struck with Nuveen to manage out of home media at the recently opened St James Quarter regeneration project in Edinburgh. Total lifetime contract value is expected to be £25m.
- Post the H1 close, Ocean has signed a 10 year exclusive outdoor media contract with Canary Wharf Group. Total lifetime contract value is expected to be £30m.
- Exclusive digital content deal agreed with BT Sport to show Champions League highlights in seven UK cities.
- Successful launch of the DeepScreen immersive 3D technology across eight of the larger format screens in the UK portfolio. DeepScreen is a potentially very powerful new addition into the Ocean mix (especially with Ocean's higher exposure to large screen formats) and if industry acceptance grows, could deliver material benefits to already attractive large screen yields.
- Ocean's vehicle detection technology has been rolled out to eight premium roadside locations with a further eight expected to come on stream during H2.
- Ocean's leading position in Scotland has created a specific opportunity to leverage off the COP26 climate summit with Ocean creating a sealed bid opportunity for brands to access 45 screens across Glasgow and Edinburgh during what will be a high profile international event.

Netherlands

- The Westfield Mall of the Netherlands opened in April and the initial performance has been encouraging. Ocean is the exclusive out of home partner for Westfield with this centre bringing 12 new faces into the portfolio.
- Further contracts signed for two new large format shopping centre based screens adding to three new screens rolled out elsewhere in the portfolio (in addition to Westfield).
- Strategic partnership with data insights provider, Precisely, which will allow mobile data to be used to profile audiences and provide more granular data on audience reach.

- The first edition of the Netherlands Digital Creative Competition was launched, following the success of the UK format which has become an industry benchmark event for showcasing Out of Home creative talent and innovation.

Nordics

- Sweden has been active in winning new contracts across a range of retail venues (nine new shopping malls and 23 supermarkets). Ocean has also won the contract for Helsingborg Central Station.

- In Norway, the focus has been on upgrading the retail focused screen estate which is now 24% digital compared to 5% previously.

- In Denmark, Ocean has extended its group strategic relationship with Unibail-Rodamco-Westfield and has been appointed the strategic media partner for Westfield Fisketorvet which will add one new large format and 25 smaller digital screens into the portfolio. This now places Ocean as the clear digital out of home leader in premium retail.

Estimate Revisions: EBITDA +102% for FY 2021, +32% for FY 2022

We have revisited our forecast model and have made the following changes:

Figure 4: Radnor estimate revisions

		Previous		New		Change, %	
	FY'20A	FY'21E	FY'22E	FY'21E	FY'22E	FY'21E	FY'22E
Billings - Pro Forma	**104.7**	**129.6**	**155.6**	**139.2**	**182.7**	***+ 7%***	***+ 17%***
UK	39.2	53.8	67.1	61.5	76.0	*+ 14%*	*+ 13%*
Netherlands	17.3	18.6	21.4	20.0	27.4	*+ 7%*	*+ 29%*
Nordics	29.7	33.1	36.7	33.6	44.5	*+ 2%*	*+ 21%*
Net Revenue - Pro Forma	**86.2**	**105.5**	**125.2**	**115.1**	**148.0**	***+ 9%***	***+ 18%***
EBITDA - Pro Forma (pre IFRS16)	**-0.4**	**7.4**	**25.3**	**15.0**	**33.3**	***+ 102%***	***+ 32%***
- margin %	*-0.5%*	*7.0%*	*20.2%*	*13.0%*	*22.5%*		
PBT - Pro Forma Adjusted	**-10.7**	**-1.9**	**16.6**	**5.7**	**24.6**	***n/a***	***+ 48%***
EPS - Pro Forma Adjusted (p)	**-18.1**	**-0.8**	**25.0**	**9.4**	**37.1**	***n/a***	***+ 48%***
Net Cash (Debt)	**25.1**	**11.1**	**21.4**	**17.5**	**30.7**	***+ 57%***	***+ 43%***

Source: Radnor

Valuation

Figure 1: Ocean Outdoor vs European & Global Out of Home peer group

Company	Ticker	Currency	Market Cap (local)	EV (local)	Revenue CAGR (FY20 - FY23)	EV/EBITDA 2021	EV/EBITDA 2022	EV/EBITDA 2023
Ocean Outdoor	**OOUT**	**GBP**	**345 m**	**327 m**	**+ 17%**	**22.1 x**	**9.9 x**	**8.2 x**
JCDecaux	DEC	Euro	5,033 m	6,119 m	+ 18%	22.9 x	11.7 x	9.8 x
Clear Channel	CCO	Dollar	1,154 m	5,941 m	+ 9%	18.8 x	12.0 x	10.2 x
Stroer	SAX	Euro	3,837 m	4,540 m	+ 10%	8.9 x	7.8 x	7.2 x
APG	APGN	Euro	668 m	596 m	+ 5%	16.2 x	12.5 x	11.7 x
European OOH					**+ 12%**	**16.7 x**	**11.0 x**	**9.7 x**
Lamar Advertising	LAMR	Dollar	11,260 m	14,220 m	+ 8%	18.0 x	16.9 x	15.7 x
OUTFRONT Media	OUT	Dollar	3,397 m	5,562 m	+ 15%	19.6 x	12.7 x	10.5 x
oOh Media	OML	Dollar	750 m	959 m	+ 19%	17.5 x	10.4 x	9.2 x
Focus Media Information	002027	Dollar	16,805 m	15,812 m	+ 25%	13.6 x	11.3 x	9.8 x
Global OOH					**+ 17%**	**17.2 x**	**12.8 x**	**11.3 x**
UK Media Sector						**16.3 x**	**13.7 x**	

Source: FactSet, Radnor

In Figure 1 above we show the EV/EBITDA multiples for Ocean compared to the European and Global Out of Home peer group. In Figure 2 below we plot FY22 EV/EBITDA against a three year revenue CAGR. Against both the European and Global peer groups, Ocean offers superior growth (driven by its premium digital positioning) yet still trades at a material valuation discount.

Figure 2: Ocean EV/EBITDA vs Revenue growth

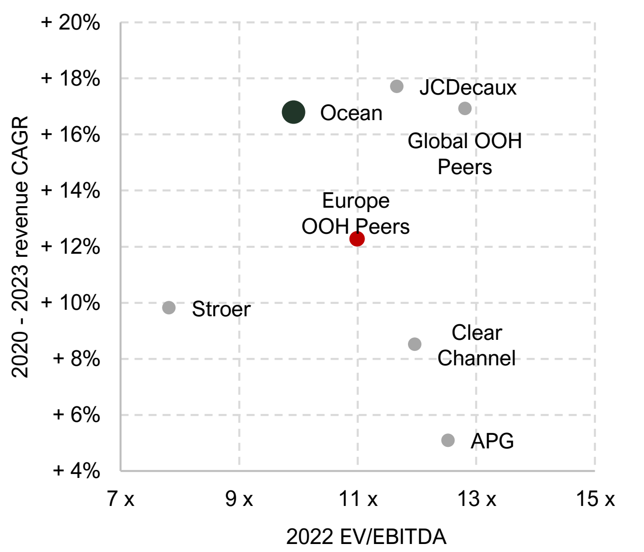
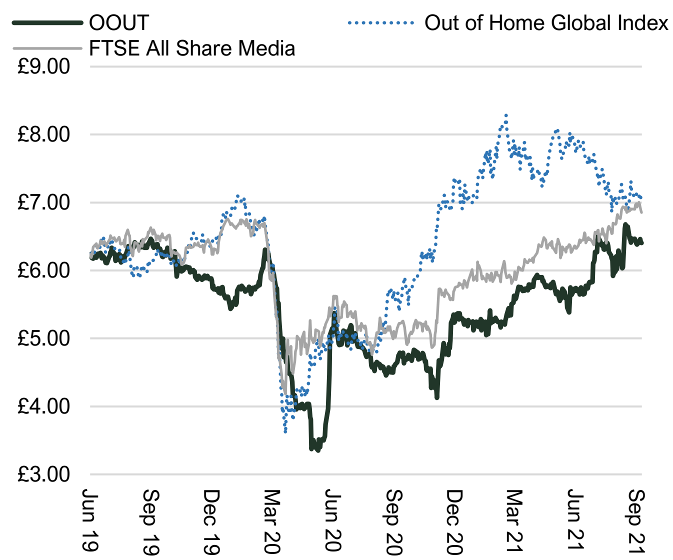


Figure 3: Ocean price performace vs Global Out of Home and FTSE All Share Media (all rebased)



Source: FactSet, Radnor

Ocean Outdoor OOUT

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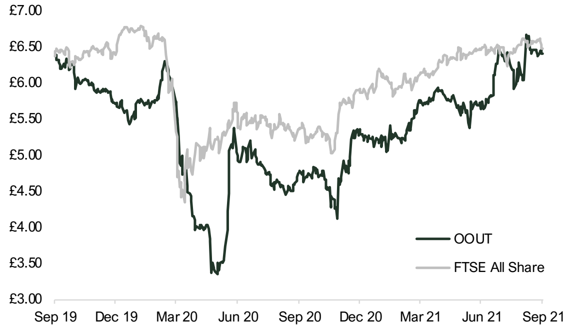
Price (p): 641 p
Market Cap: £ 345m
EV: £ 320m

PROFIT & LOSS (Pro forma treats all acquisitions as if owned since 1st Jan 2018)

Year to 31 December, £m	2018	2019	2020	2021E	2022E	2023E
Billings - Pro Forma	**152.7**	**171.6**	**104.7**	**139.2**	**182.7**	**212.7**
UK	*62.2*	*71.7*	*39.2*	*61.5*	*76.0*	*92.4*
Netherlands	*23.8*	*26.4*	*17.3*	*20.0*	*27.4*	*30.3*
Nordics	*38.5*	*41.5*	*29.7*	*33.6*	*44.5*	*48.2*
Revenue - Pro Forma	**124.5**	**139.6**	**86.2**	**115.1**	**148.0**	**170.8**
Direct Operating Expenses	(65.0)	(75.5)	(59.8)	(71.3)	(80.7)	(91.4)
S,G & A	(29.1)	(31.2)	(26.8)	(28.8)	(34.0)	(39.3)
EBITDA - Pro Forma, pre IFRS16	**30.4**	**32.9**	**(0.4)**	**15.0**	**33.3**	**40.1**
EBITDA - Pro Forma, post IFRS16	*30.9*	*51.2*	*40.1*	*55.2*	*80.7*	*94.8*
Depreciation	(3.2)	(7.0)	(10.0)	(8.6)	(8.7)	(8.9)
Goodwill	(10.1)	(19.8)	(24.8)	(15.6)	(15.6)	(15.6)
Lease Depreciation - IFRS16	-	(19.7)	(32.9)	(32.5)	(33.9)	(35.9)
Lease Interest - IFRS16	-	(6.9)	(9.6)	(10.1)	(10.6)	(11.2)
Net Finance Charge (pre IFRS16)	1.7	(0.1)	(0.8)	(2.2)	(1.6)	(1.6)
PBT - Pro Forma Adjusted	**28.9**	**26.4**	**(10.7)**	**5.7**	**24.6**	**31.2**
PBT - Reported	**21.0**	**(7.8)**	**(184.2)**	**(13.8)**	**10.3**	**21.6**
Tax	(0.3)	(0.5)	4.8	(0.6)	(5.2)	(9.3)
Tax - Adjusted	(5.8)	(4.3)	1.0	(0.6)	(4.7)	(7.5)
No. shares m, diluted	50.9	53.6	53.7	53.7	53.7	53.7
EPS (p), Pro Forma Adjusted	**45.4 p**	**41.4 p**	**(18.1) p**	**9.4 p**	**37.1 p**	**44.2 p**
EPS (p), Reported	40.7 p	(15.5) p	(334.1) p	(27.0) p	9.4 p	22.8 p

PRICE CHART - 2 YEAR ABSOLUTE vs FTSE ALL SHARE



Source: FactSet

SHAREHOLDERS

	% of ord. Share capital
Atairos	19.9%
Anchorage Capital	12.3%
Senator Investments	11.5%
Jupiter Asset Management	7.0%
Permian	6.9%
Directors	5.4%
	63.0%

CASH FLOW

Year to 31 December, £m	2018	2019	2020	2021E	2022E	2023E
Net Income - Reported	20.7	(6.7)	(179.5)	(14.5)	5.0	12.3
(+) Depreciation & Amortisation	13.3	26.7	177.8	24.3	24.3	24.5
(+) Lease Depreciation	-	19.7	32.9	32.5	33.9	35.9
(+) Net Finance Charge (incl Lease)	(1.7)	6.9	10.5	11.7	12.2	12.8
Other	0.1	(0.0)	0.1	-	-	-
Working Capital	(5.5)	0.1	0.8	(1.7)	0.0	1.6
Operating Cashflow	**26.8**	**46.7**	**32.1**	**52.3**	**75.5**	**87.1**
Cash Tax	(1.0)	(2.4)	(2.7)	(5.0)	(5.2)	(9.3)
Cash Interest	1.7	0.5	(0.3)	(0.6)	(0.6)	(0.6)
Net Op Cashflow	**27.5**	**44.8**	**29.2**	**46.7**	**69.6**	**77.2**
Capex	(5.2)	(12.1)	(6.4)	(8.0)	(9.0)	(10.0)
Lease Liability	-	(24.6)	(24.2)	(40.3)	(47.4)	(54.7)
Free Cashflow	**22.2**	**8.1**	**(1.4)**	**(1.6)**	**13.3**	**12.5**
Net M&A	(228.9)	(126.0)	-	(6.0)	-	-
Investment in Associate	-	(13.3)	-	-	-	-
Issue of Shares	86.7	-	-	-	-	-
Other Non Operating	0.0	(2.5)	4.6	-	-	-
Net Cashflow	**(120.0)**	**(133.7)**	**3.2**	**(7.6)**	**13.3**	**12.5**
Net Cash (Debt)	**160.5**	**26.9**	**25.1**	**17.5**	**30.7**	**43.2**

Announcements

Date	Event
May 2021	Final results FY20
Feb 2021	BT Sport content partnership
Feb 2021	Q4 trading update
Nov 2020	Q3 trading update
Sep 2020	H1 results FY20
Sep 2020	Westfield contract in Netherlands
Jun 2020	FY19 final results & Q1 update
May 2020	Financing update
Mar 2020	Covid-19 update

RATIOS

	2018	2019	2020E	2021E	2022E
RoE	6.0%	5.9%	-4.8%	2.7%	11.0%
RoCE (pre IFRS16)	9.7%	6.0%	-4.1%	2.6%	10.3%
Asset Turnover (x)	2.1x	4.1x	5.0x	3.6x	2.8x
NWC % Revenue	-9.1%	-36.0%	-76.5%	-39.1%	-32.6%
Op Cash % EBITDA	88.2%	67.1%	n/a	80.3%	84.3%
Net Debt / EBITDA	neg	neg	neg	neg	neg

BALANCE SHEET

Year to 31 November, £m	2018	2019	2020	2021E	2022E	2023E
Intangibles	230.0	367.4	202.4	186.8	171.2	155.6
P,P+E	32.0	47.4	42.9	42.2	42.5	43.6
Right of Use Asset	-	148.6	182.5	184.0	192.2	203.4
Tax Asset & Other	6.0	4.7	4.2	1.5	1.5	1.5
Total Fixed Assets	**262.0**	**576.7**	**432.9**	**418.2**	**411.1**	**407.8**
Debtors	36.7	55.5	39.3	43.7	59.2	68.3
Cash	160.5	26.9	30.0	22.4	35.7	48.2
Creditors	(44.7)	(76.4)	(64.0)	(54.1)	(69.6)	(80.3)
Lease & Tax	(3.3)	(29.3)	(41.2)	(34.6)	(37.9)	(39.3)
Net Current Assets	**149.2**	**(23.3)**	**(35.9)**	**(22.6)**	**(12.6)**	**(3.1)**
Lease	-	(136.2)	(161.0)	(174.1)	(181.8)	(192.5)
Bank Debt	-	-	(4.9)	(4.9)	(4.9)	(4.9)
Tax & Other	(23.6)	(43.0)	(35.0)	(35.0)	(35.0)	(35.0)
Net Assets	**387.6**	**374.1**	**201.1**	**186.6**	**181.7**	**177.3**

VALUATION

Fiscal	2019	2020	2021E	2022E	2023E
P/E	15.5x	neg	67.9x	17.3x	14.5x
EV/EBITDA	9.7x	neg	21.4x	9.6x	8.0x
Price to Book	0.9x	1.7x	1.8x	1.9x	1.9x
FCF Yield	2.5%	-0.4%	-0.5%	4.1%	3.9%
Revenue growth	12.1%	-38.3%	33.5%	28.6%	15.4%
EBITDA growth	8.2%	neg	neg	122.6%	20.5%
EPS growth	-8.9%	neg	neg	293.1%	19.1%
FCF growth	-63.6%	-117.6%	11.8%	-933.1%	-5.6%

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