

# Thunderbird Entertainment Inc. Media

**Rating**  
**BUY**  
unchanged

**Price Target**  
**C\$2.50**  
unchanged

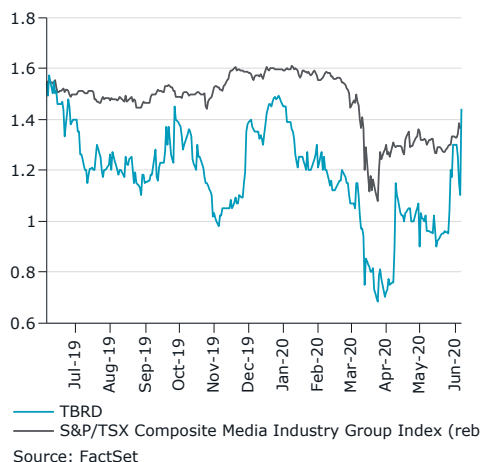
**TBRD-TSX**

**Price**  
**C\$1.44**

## Market Data

52-Week Range (C\$) :	1.06 - 1.40
Avg Daily Vol (000s) :	41
Market Cap (C\$M) :	79.1
Shares Out. (M) :	54.9
Dividend /Shr (C\$) :	0.00
Dividend Yield (%) :	0.0
Net Debt (Cash) (C\$M) :	(9.3)

FYE Jun	2018A	2019A	2020E	2021E
Sales (C\$M)	142.4	61.5	77.6	94.8
EPS Adj&Dil (C\$)	0.05	(0.10)	0.04↓	0.05↓
Previous	-	-	0.05	0.06
EV/EBITDA (x)	4.9	4.8	5.1	4.5
EBITDA (C\$M)	10.1	10.3	11.9	14.1
P/E (x)	29.5	(14.6)	32.8	27.5



Priced as of close of business 5 June 2020

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## A key small-cap pick firing on all cylinders

We highlight TBRD following the Q3 conference call last week and discussions with management, which suggest a period of strong growth in the near to medium term. We believe that TBRD is well set up to build on its solid Q3/20 ([link to note](#)) and the portfolio of relationships it has established with platforms like Netflix, Disney +, NBCUniversal, etc. In the meantime, we are also seeing a more receptive capital markets backdrop for smaller-cap growth names, both in Canada and the US. Our estimates suggest that TBRD is positioned to deliver EBITDA growth in the mid-teens on an organic basis, potentially further buoyed by M&A down the road; a profile which in our minds can justifiably claim the 'high growth' label.

**Near-term growth trajectory - an inflection point?** We believe that TBRD is poised for a potential step-change in the level of commitment it receives from key platforms like Netflix, Disney+, etc. First, using Netflix as an example, TBRD currently produces three series for the platform (in animation) including the highly prospective *Last Kids on Earth*, which recently launched its second season, and *Hello Ninja*. This is in addition to the successful run with *Kim's Convenience* (with seasons 5 & 6 approved). We suspect that this growing track record paves the way for much greater commitments, particularly at a time when these platforms are ramping up to satisfy increased consumption levels and subscriptions. Second, the company's effective navigation of production operations through COVID19 placed it in an enviable position to capitalise on delays and stoppages in the content production space in general, and thereby to fill in supply gaps. It appears that neither its animation work nor unscripted deliveries were noticeably disrupted during the present crisis. Supporting our expectations, management has alluded to conversations that are ongoing with major platforms with a view to increased output.

**Last Kids franchise offers optionality:** With Season 2 now released, additional episodes in production and initial releases of merchandise now occurring (both online and in select stores), we believe the Last Kids franchise is deserving of investor attention. We know the company is already working on a video game release in 2021 to further supplement the development of this brand. Needless to say, none of the merchandise upside is reflected in our estimates nor, in our view, in the stock price. Recall Last Kids is based on a New York Times bestseller (by Max Brallier) with the Netflix series carrying Mark Hamill and Rosario Dawson as part of the talent (voice).

**Balance sheet and M&A:** TBRD boasts a strong balance sheet with \$12.2M in net cash. On one hand, this provides comfort to investors that the company can continue to invest in its strategic plans, but it also allows the flexibility to capitalise on M&A opportunities.

**Valuation – still compelling despite recent momentum in share price:** While the share price has started to strengthen post the release of Q3, we note that the stock still trades at a compelling 4.5x EV/EBITDA F2021E. Considering the mid-teens growth expectation, upside from merchandise and solid balance sheet, we see this as attractive from a valuation standpoint. We continue to value the stock using 8x EV/EBITDA (2021E), to arrive at our target price of \$2.50/sh.

Figure 1: Summary of Financial Forecasts

June 30 year-end	F18	F19	F20E	F21E
<b>Revenue</b>				
Production	91,578	29,936	46,627	58,284
Distribution	48,618	31,494	30,938	36,449
Other	2,206	48	54	54
<b>Total</b>	<b>142,402</b>	<b>61,478</b>	<b>77,619</b>	<b>94,787</b>
<b>Revenue y/y growth</b>				
Production	34.6%	(67.3%)	55.8%	25.0%
Distribution	101.6%	(35.2%)	(1.8%)	17.8%
Other	(25.2%)	(97.8%)	12.5%	0.0%
<b>Total</b>	<b>49.7%</b>	<b>(56.8%)</b>	<b>26.3%</b>	<b>22.1%</b>
<b>Gross profit</b>	<b>27,268</b>	<b>31,773</b>	<b>36,445</b>	<b>43,471</b>
Gross profit margins	19.1%	51.7%	47.0%	45.9%
Gross profit y/y growth	51.3%	16.5%	14.7%	19.3%
<b>EBITDA</b>	<b>10,112</b>	<b>10,288</b>	<b>11,884</b>	<b>14,127</b>
EBITDA margins	7.1%	16.7%	15.3%	14.9%
EBITDA growth y/y	17.3%	1.7%	15.5%	18.9%
<b>EPS (diluted)</b>	<b>\$0.05</b>	<b>-\$0.10</b>	<b>\$0.04</b>	<b>\$0.05</b>
<b>Net investment in content</b>	<b>14,467</b>	<b>-6,430</b>	<b>974</b>	<b>-7,894</b>
<b>Free cash flow</b>	<b>382</b>	<b>-4,598</b>	<b>-2,307</b>	<b>-3,037</b>
<b>Net debt (net cash)</b>	<b>-11,352</b>	<b>-11,493</b>	<b>-9,283</b>	<b>-6,249</b>

Source: Company Reports, Canaccord Genuity estimates

Figure 2: TBRD NAV

Valuation (\$'000s)	2018	2019	2020E	2021E
Adj. EBITDA	10,112	10,288	11,884	14,127
Multiple	8.0x	8.0x	8.0x	8.0x
EV	80,896	82,304	95,068	113,015
<b>Net Debt</b>	<b>-11,352</b>	<b>-11,493</b>	<b>-9,283</b>	<b>-6,249</b>
<b>Cash from options</b>			<b>8,891</b>	<b>8,891</b>
<b>Equity Value</b>	<b>92,248</b>	<b>93,797</b>	<b>113,242</b>	<b>128,155</b>
s/o ('000s)	42,023	42,608	54,942	55,049
<b>Target price (\$/sh.)</b>	<b>\$2.20</b>	<b>\$2.20</b>	<b>\$2.06</b>	<b>\$2.33</b>

<b>1-Year Target</b>	<b>\$2.33</b>
<b>Return:</b>	<b>61.7%</b>

Source: Company Reports, Canaccord Genuity estimates

# Appendix: Important Disclosures

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## Investment Recommendation

Date and time of first dissemination: June 08, 2020, 13:21 ET

Date and time of production: June 08, 2020, 13:21 ET

## Target Price / Valuation Methodology:

Thunderbird Entertainment Inc. - TBRD

We value Thunderbird using 8.0x 2021E EV/EBITDA, generally in line with the comps

## Risks to achieving Target Price / Valuation:

Thunderbird Entertainment Inc. - TBRD

Thunderbird is impacted directly by the trends in the content industry. If viewership trends move away from the content produced by TBRD, this could negatively impact revenue. Similarly, if competition in the space heats up with more content producers entering the space, this could reduce the rate at which the company could sell its TV series. Lastly, because Thunderbird is a relatively new company, a substantial miss on the financials could cause a breakdown in the shares.

## Distribution of Ratings:

### Global Stock Ratings (as of 06/08/20)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	500	59.52%	54.20%
Hold	193	22.98%	38.86%
Sell	18	2.14%	38.89%
Speculative Buy	129	15.36%	71.32%
	840*	100.0%	

\*Total includes stocks that are Under Review

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**SELL:** The stock is expected to generate negative risk-adjusted returns during the next 12 months.

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**Thunderbird Entertainment Inc. Rating History as of 06/05/2020**



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