

Canadian Equity Research
22 October 2019

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BUY

unchanged

PRICE TARGET C\$3.00

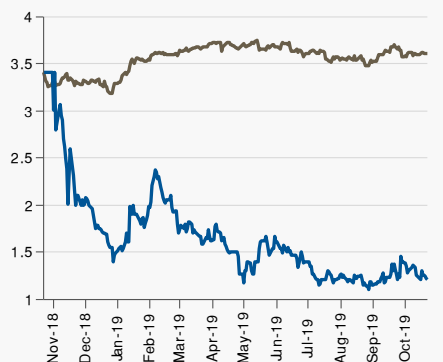
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Price (21-Oct) C\$1.17

Ticker TBRD-TSX

52-Week Range (C\$):	1.17 - 1.51
Avg Daily Vol (000s) :	32.1
Market Cap (C\$M):	49.9
Shares Out. (M) :	42.6
Dividend /Shr (C\$):	0.00
Dividend Yield (%) :	0.0
Net Debt (Cash) (C\$M):	(11.5)

FYE Jun	2018A	2019A	2020E	2021E
Sales (C\$M)	142.4	61.5	91.9↓	105.7
Previous	-	-	104.3	-
EV/EBITDA (x)	3.7	2.9	2.5	2.1
EBITDA (C\$M)	10.1	10.3	12.6	14.5
P/E (x)	24.0	(11.9)	11.3	9.2



Source: FactSet

Priced as of close of business 21 October 2019

Company Update

Well positioned for strong growth; deeply undervalued at 2.5x EV/EBITDA

Q4/19 Summary: Last night, Thunderbird released its Q4/19 results. Note that Q4 is seasonally the smallest quarter with almost all the EBITDA booked in Q1 and Q3. With that said, EBITDA for Q4 came in at -\$0.4M ahead of our -\$1.5M estimate. The company also reported higher revenue y/y (\$13.7M in Q4/19 vs. \$11.4M in Q4/18) led by both the family and factual divisions.

Balance sheet strong. Currently, TBRD carries \$13.4M in cash (\$11.5M net cash), which we believe could allow it to both expand its proprietary production and pursue acquisitions within the content space to help augment its solid library and IP portfolio.

Why TBRD is a key small cap pick for us: Thunderbird Entertainment, in our view, has a lot of the key ingredients to emerge as a formidable independent studio over the next few years and expand quickly in size. First, it has demonstrated a track record of producing high-quality shows. Productions including *Beat Bugs* (for Netflix), *Kim's Convenience*, *Highway Thru Hell* (distribution in 200 territories, now in season 8) have demonstrated that the company can punch well above its weight when it comes to producing high profile shows.

Second, a look at Thunderbird's slate depicts the high-quality buyers of their content extending from NBC Universal and Disney to Netflix in addition to the Canadian networks – HGTV, CBC, etc. Last month, the company announced its largest ever fall line-up yet with as many as eight productions. This included two shows for Netflix (*Last Kids on Earth*, *Hello Ninja*), two for Disney+, one of Nickelodeon, one for Hulu, etc., which in our view is evident of its growing profile in the industry.

Third, it is clearly succeeding in pulling in highly sought after projects. *Last Kids on Earth* is a case in point. The show emerged from Max Brallier's best selling book, which has been on the New York Best Seller list (top 5) for 19 weeks now. It also succeeded in optioning the rights to *Princesses Wear Pants*, another best seller written by Savannah Guthrie (NBC).

Fourth, it has delivered on expectations financially. Thunderbird has grown in EBITDA from \$2.2M in F2016 to \$10.2M in F2018, largely on an organic basis. Even F2019 was very much in line with our initial projections.

Growth rate going forward: Based on the quality of the slate and the significance of the new relationships being developed on the platform side, we believe that TBRD is well positioned to grow EBITDA at mid-teens rate over the next few years on an organic basis. This could also be supplemented with acquisitions, which could add additional EBITDA (say \$5M-10M) over the next couple of years (note balance sheet capacity). The math suggests that TBRD can lift from \$10M in EBITDA in F2019 towards \$25-30M in 3 years.

Deeply under-valued: TBRD shares currently trade at 2.5x EV/F20 EBITDA, which we believe is substantially undervalued considering our expectation of mid-teens growth, solid balance sheet, and a substantial pipeline. Our target now implies 8.5x F2020E EV/EBITDA. We have lowered our multiple from 10x to 8.5x to reflect market conditions for small cap names presently and a downswing in comps. Our \$3 TP is unchanged.

Figure 1: Summary of Financial Forecasts

June 30 year-end	F18	F19	F20E	F21E
Revenue				
Production	91,578	29,936	50,891	58,525
Distribution	48,618	31,494	40,942	47,084
Other	2,206	48	48	48
Total	142,402	61,478	91,881	105,656
Revenue y/y growth				
Production	34.6%	(67.3%)	70.0%	15.0%
Distribution	101.6%	(35.2%)	30.0%	15.0%
Other	(25.2%)	(97.8%)	0.0%	0.0%
Total	49.7%	(56.8%)	49.5%	15.0%
Gross profit	27,268	31,773	45,844	52,061
Gross profit margins	19.1%	51.7%	49.9%	49.3%
Gross profit y/y growth	51.3%	16.5%	44.3%	13.6%
EBITDA	10,112	10,288	12,623	14,497
EBITDA margins	7.1%	16.7%	13.7%	13.7%
EBITDA growth y/y	17.3%	1.7%	22.7%	14.8%
EPS	\$0.06	-\$0.11	\$0.11	\$0.14
Net investment in content	14,467	-6,430	-5,432	-5,716
Free cash flow	-5,267	-11,398	-1,651	37
Net debt (net cash)	-11,352	-11,493	-9,842	-9,879

Source: Company Reports, Canaccord Genuity estimates

Figure 2: TBRD NAV

Valuation	2017	2018	2019	2020E
(\$'000s)				
Adj. EBITDA	8,619	10,112	10,288	12,623
Multiple	8.5x	8.5x	8.5x	8.5x
EV	73,262	85,952	87,448	107,294
Net Debt	-16,566	-11,352	-11,493	-9,842
Cash from options			8,842	8,842
Equity Value	89,828	97,304	107,783	125,978
s/o ('000s)	42,023	42,023	42,608	42,608
Target price (\$/sh.)	\$2.14	\$2.32	\$2.53	\$2.96

1-Year Target	\$2.96
Return:	152.7%

Source: Company Reports, Canaccord Genuity estimates

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Investment Recommendation

Date and time of first dissemination: October 22, 2019, 16:03 ET

Date and time of production: October 23, 2019, 08:40 ET

Target Price / Valuation Methodology:

Thunderbird Entertainment Inc. - TBRD

We value Thunderbird using 8.5x 2020E 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 10/22/19)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	522	59.86%	52.11%
Hold	204	23.39%	33.82%
Sell	21	2.41%	23.81%
Speculative Buy	125	14.33%	76.80%
	872*	100.0%	

*Total includes stocks that are Under Review

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Thunderbird Entertainment Inc. Rating History as of 10/21/2019



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