

# Thunderbird Entertainment Inc. Media

Rating

**BUY**

unchanged

Price Target

**C\$2.50↓**

from C\$3.00

TBRD-TSX

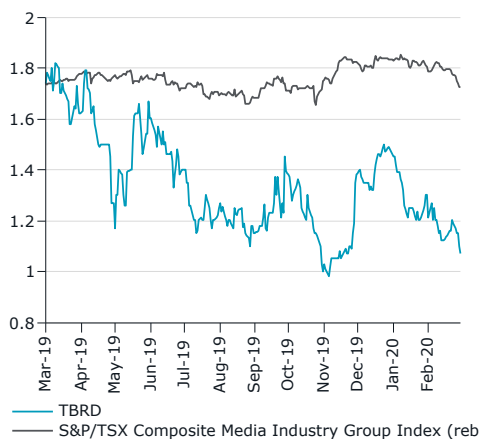
Price

**C\$1.07**

## Market Data

52-Week Range (C\$) :	1.06 - 1.40
Avg Daily Vol (000s) :	25
Market Cap (C\$M) :	58.7
Shares Out. (M) :	54.8
Dividend /Shr (C\$) :	0.00
Dividend Yield (%) :	0.0
Net Debt (Cash) (C\$M) :	(9.2)

FYE Jun	2018A	2019A	2020E	2021E
Sales (C\$M)	142.4	61.5	77.6↓	94.8↓
Previous	-	-	82.1	98.9
EPS Adj&Dil (C\$)	0.05	(0.10)	0.05↓	0.06↑
Previous	-	-	0.07	0.02
EV/EBITDA (x)	3.3	3.3	3.4	3.1
EBITDA (C\$M)	10.1	10.3	11.9↓	14.1↓
Previous	-	-	12.3	14.4
P/E (x)	21.9	(10.8)	22.3	17.6



Source: FactSet

Priced as of close of business 28 February 2020

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## Q2/20 EBITDA lighter but H2 expected to be notably stronger

**Thunderbird released Q2/F20 results and held conference call today:** TBRD reported Q2/20 with revenues coming in at \$14.3M, up 23.1% y/y, albeit lower than our estimate of \$16.5M. Adj EBITDA was \$0.7M, down from \$1.5M the prior year and well below our \$1.9M. The lower-than-expected adj EBITDA was due to a) lower distribution revenues and b) higher direct and G&A costs incurred to support the expansion in its animation division. As a result, EPS was -\$0.03, vs -\$0.19 the prior year but lower than our \$0.00 estimate. FCF (management definition) came in at -\$3.9M, a downtick from \$2.1M the prior year, due to higher working capital use (including flows within interim production financing) and investment in content. Note that the company has adopted IFRS16 starting F20, which provides a moderate tailwind to EBITDA.

**Solid production revenue growth but distribution lighter:** Total revenue growth of 23% y/y was driven by production services, which rose 65% to \$11.5M in Q2. This was ahead of our \$10.5M. The solid growth here was led predominantly by the animation division. This was reflective of the ramp-up in activity in that segment on the back of strong demand from both SVOD and linear platforms, with total Q2 deliveries of 32 HHs and 15 1-hour episodes. On the other hand, the miss vs our estimates was due to higher-margin Licensing and distribution coming in below expectations at \$2.7M, down 41% vs our \$5.9M expectation. We understand that this was partly due to lower theatrical distribution and also scripted.

**A solid pipeline of new children's content.** Despite the variance vs. our expectations in H1, we remain positive on the outlook due to the quality of the current pipeline of shows. Management highlighted that through Q2 the company was in production for 21 shows commissioned by Netflix, NBCUniversal, PBS, WGBH, Corus, CBC etc. The company anticipates 13 proprietary productions to be delivered in F2020.

**Content-related highlights:** Atomic's new show, *Molly of Denali*, was named in *The New York Times* "best TV episodes of 2019" list. In addition, *Hello Ninja* (in partnership with Netflix) was identified as one of the most binged shows across all streaming platforms in December. This, in our view, offers continued evidence of TBRD's production quality and growing profile as an emerging independent producer. Importantly, the merchandise release for *Last Kids on Earth* is slated for the spring.

**Estimate revisions:** We have made only modest revisions to estimates despite the lighter Q2 as we believe much of the variance reflected the timing of revenues in distribution. On the call, management specifically alluded to very strong Q3 and Q4 returns.

**Valuation:** While our estimate revisions are modest, we recognize market realities and tightening valuation multiples in the small cap space. We are therefore moving to 8x (from 8.5x) EV/EBITDA (2021E) in deriving our target. This pushes down our target price to \$2.50 per share from \$3.

Figure 1: Summary of Financial Forecasts

June 30 year-end	F18	F19	F20E	F21E
<b>Revenue</b>				
Production	91,578	29,936	45,851	57,314
Distribution	48,618	31,494	31,697	37,403
Other	2,206	48	70	70
<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%)	53.2%	25.0%
Distribution	101.6%	(35.2%)	0.6%	18.0%
Other	(25.2%)	(97.8%)	45.8%	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>38,614</b>	<b>45,528</b>
Gross profit margins	19.1%	51.7%	49.7%	48.0%
Gross profit y/y growth	51.3%	16.5%	21.5%	17.9%
<b>EBITDA</b>	<b>10,112</b>	<b>10,288</b>	<b>11,883</b>	<b>14,130</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</b>	<b>\$0.06</b>	<b>-\$0.11</b>	<b>\$0.05</b>	<b>\$0.07</b>
<b>Net investment in content</b>	<b>14,467</b>	<b>-6,430</b>	<b>-5,400</b>	<b>-5,998</b>
<b>Free cash flow</b>	<b>382</b>	<b>-4,598</b>	<b>-2,308</b>	<b>-3,047</b>
<b>Net debt (net cash)</b>	<b>-11,352</b>	<b>-11,493</b>	<b>-9,250</b>	<b>-6,203</b>

Source: Company Reports, Canaccord Genuity estimates

Figure 2: TBRD NAV

Valuation	2018	2019	2020E	2021E
(\$'000s)				
Adj. EBITDA	10,112	10,288	11,883	14,130
Multiple	8.0x	8.0x	8.0x	8.0x
EV	80,896	82,304	95,063	113,040
<b>Net Debt</b>	<b>-11,352</b>	<b>-11,493</b>	<b>-9,250</b>	<b>-6,203</b>
<b>Cash from options</b>			8,785	8,785
<b>Equity Value</b>	<b>92,248</b>	<b>93,797</b>	<b>113,098</b>	<b>128,028</b>
s/o ('000s)	42,023	42,608	54,822	54,919
<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>117.9%</b>

Source: Company Reports, Canaccord Genuity estimates

# Appendix: Important Disclosures

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## Investment Recommendation

Date and time of first dissemination: March 02, 2020, 13:06 ET

Date and time of production: March 02, 2020, 13:06 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 03/02/20)

Rating	Coverage Universe		IB Clients
	#	%	
Buy	520	60.32%	54.04%
Hold	207	24.01%	40.10%
Sell	22	2.55%	13.64%
Speculative Buy	113	13.11%	76.99%
	862*	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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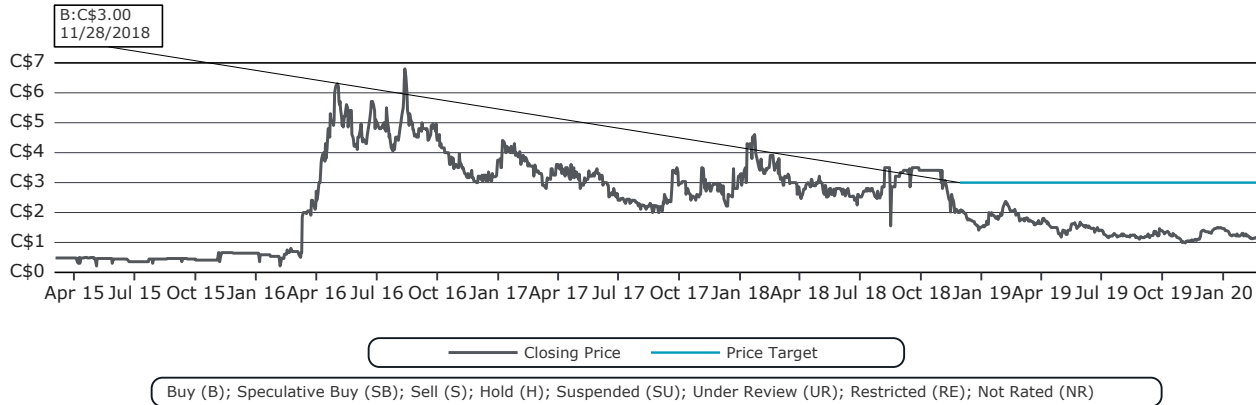
**12-Month Recommendation History** (as of date same as the **Global Stock Ratings** table)

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**Thunderbird Entertainment Inc. Rating History as of 02/28/2020**



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