

North Media

Major acquisition in Sweden

- Acquires Svensk Direktreklam for SEK 350m (fully paid in cash)...
- ...corresponding to 0.5x EV/Sales and 7.0x EV/EBITDA
- Positives outweigh the negatives; lowers net cash position

Acquires leading Swedish leaflet and newspaper distributor

Friday evening, North Media announced the acquisition of Svensk Direktreklam AB ("SDR") and EGRO Konsult AB from Ge-Te Media Aktiebolag. SDR is Sweden's largest distributor of leaflets and local newspapers, and is expected to distribute around 1.2bn leaflets and local newspapers to approximately 4.5m Swedish households in '23 (North Media's FK Distribution is Denmark's largest, distributing 1.3bn units to 2.3m households).

SDR expects to grow in the coming years

While the distribution of leaflets and local newspapers is also a structurally declining business in Sweden (as it is in Denmark), leaflets still remain the strongest and most efficient marketing channel for the retail industry (according to a survey from '22). SDR expects '23 revenues of SEK 650m and an EBITDA of SEK 50m (~8% EBITDA margin). We understand that the explanation behind SDR's lower margins (compared to FK Distribution with EBITDA margins of 24% in '22 and 21% in '23e) is mainly due to lower efficiency, as SDR does not use machine packaging. However, SDR expects to improve both the top line and bottom in the years ahead, e.g. helped by Postnord Sweden abandoning the distribution of printed matter in April '23 (the same happened in Denmark in '18), as it was no longer a profitable business.

Acquired at 0.5x EV/Sales and 7.0x EV/EBITDA

North Media will acquire SDR at a price of SEK 350m on a debt-free basis, which will be paid fully in cash. This implies EV/Sales of 0.5x and EV/EBITDA of 7.0x, which compares to North Media at 0.2x '23e sales and 1.2x EBITDA (but remember North Media's significant net cash position). SDR's communicated financial expectations for '23 should add 46% to pro-forma revenues (North Media + SDR), but only 18% to EBITDA, thereby reducing the pro-forma EBITDA margin by 3.6pp. Note, however, that the acquisition is expected to be completed by year-end, meaning that it will have no impact on FY'23 results.

Positives outweigh the negatives; lowers net cash position

While tricky to call, we argue that the positives from the acquisition outweigh the negatives. On a negative note, we acknowledge that North Media acquires what should be a structurally declining business (although SDR should benefit ahead from Postnord leaving the market), substantially lower margins compared to FK Distribution, and relatively limited synergies, in our view. However, we view the reduction in North Media's investment portfolio (as the acquisition will be paid in cash and thus require the company to divest parts of its portfolio) as a clear positive, as we have long been puzzled by the company's capital allocation strategy. We also view the pricing of 0.5x sales and 7.0x EBITDA as relatively attractive (this is higher than North Media's current multiples, but remember the significant net cash position).

Fast comment

Commissioned research

Not rated

Media

NORTHM-DK/NORTHM DC

Share price (DKK)	17/12/2023	59.00
MCap (DKKm)		1,124
MCap (EURm)		159
No. of shares (m)		19.1
Free float (%)		34.3
Av. daily volume (k)		32

Next event Q4 Report 28 February 2024

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Pro-forma numbers

DKKm	North Media 2023e (ABGSCe)	SDR 2023e (SDRe)	Pro-forma 2023e	% impact
Revenues	951	433	1383	46%
EBITDA	181	33	214	18%
EBITDA margin	19.1%	7.7%	15.5%	-3.6pp
EV	213	233	446	
EV/Sales	0.2x	0.5x	0.3x	
EV/EBITDA	1.2x	7.0x	2.1x	

Source: ABG Sundal Collier, company data

Footnote: SEKDKK of 0.67

North Media

DKKm	2021	2022	2023e	2024e	2025e
Sales	1,034	995	951	927	915
<i>Sales growth (%)</i>	-1.1	-3.7	-4.5	-2.5	-1.3
EBITDA	292	219	181	196	202
<i>EBITDA margin (%)</i>	28.3	22.0	19.1	21.1	22.1
EBIT adj.	244	192	154	168	174
<i>EBIT adj. margin (%)</i>	23.6	19.2	16.2	18.1	19.1
Pretax profit	347	1	320	218	230
EPS	14.71	0.11	13.19	8.96	9.42
<i>EPS growth (%)</i>	-11.7	-99.2	11,704.0	-32.1	5.2
EPS adj.	10.33	15.61	6.41	6.87	7.21
DPS	5.00	4.00	4.00	4.00	4.00
EV/EBITDA (x)	1.1	2.1	1.2	0.6	0.1
EV/EBIT adj. (x)	1.3	2.4	1.4	0.7	0.1
P/E (x)	4.0	528.2	4.5	6.6	6.3
P/E adj. (x)	5.7	3.8	9.2	8.6	8.2
EV/sales (x)	0.32	0.45	0.22	0.13	0.02
FCF yield (%)	11.9	14.7	12.9	9.8	10.2
Le. adj. FCF yld. (%)	11.9	14.7	12.9	9.8	10.2
Dividend yield (%)	8.5	6.8	6.8	6.8	6.8
Net IB debt/EBITDA (x)	-2.6	-3.0	-5.0	-5.0	-5.4
Le. adj. ND/EBITDA (x)	-2.6	-3.0	-5.0	-5.1	-5.4

Source: ABG Sundal Collier, Company Data

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