Roularta (Buy): Start-up costs in digital weigh on profitability (EUR 23, TP EUR 29)

We have lowered our estimates and TP following the H1-16 results, triggered by sales trends and start-up costs

Medialaan again performed admirably

- Net income from participations of EUR 11.2m was close to the EUR 11.8m from last year, and better than the EUR 9.0m that we had pencilled in. The split between H1 and H2 is not always the same, and thus we had pencilled in an average for H1-16. There was a modest increase in profits at Medialaan (EUR 11.4m), offset by a modest decrease at Bayard (EUR 0.7) and other participations (EUR -0.9m). The performance at Medialaan was driven by solid growth in advertisement income, offset by investments in Mobile Vikings, their mobile telephony activity. We believe there will be another two years of investments at Mobile Vikings, after which profitability should improve as from 2019 because of lower investments and because we expect benefits from renegotiating a network fee as they should be able to shop around. Bayard suffered from lower advertisement income, and we have limited visibility on how this will develop going forward.

Printed Media faced a decline in sales, and start-up costs for new digital ventures

- EBIT of the consolidated operations (excluding associates) decreased to EUR 5.0m from EUR 6.6m a year-ago. However, last year's profits included EUR 1.6m in exceptionals, so the clean comparison base was EUR 8.2m. We had pencilled in EUR 8.0m. The shortfall was mainly caused by a stronger than expected decline in sales (-4.6% organic vs. flat expected), and a not-quantified impact from start-up costs related to the online retail platform StoreSquare, in which Roularta holds 65%. Sales suffered from a decline in traditional activities which could not be fully compensated by strong growth in digital/online activities. We estimate that StoreSquare was responsible for circa EUR 1.0m in the shortfall vs. our estimate, based on the increase y/y in the minorities item.

We have lowered our estimates and TP

- We believe the consolidated activities will continue to face pressure on sales until digital/online sales have reached critical mass so that their growth will outpace the decline in traditional. In the press release, management stated that Q3-16 trend so far has been in line with the H1-16 performance. Hence, we have slightly lowered our sales estimates for H2-16 and beyond.
- We expect additional start-up costs for StoreSquare in H2-16 and 2017 as the platform needs to be fine-tuned and the content needs to be expanded. Hence, we have also lowered our margin assumptions a bit. In general, online retail platforms are known for their slow path to profitability. StoreSquare, however, is asset-light as the company itself is not a (re-)seller, it is just a facilitator. Hence, we consider it an interesting alternative to other platforms, and we will monitor its development with great interest.
- Overall, we have lowered our estimates for sales and operating margins, which translates into a 6-9% reduction in EPS estimates for 2016-2018. Consequently, we lower our TP to EUR 29 (from EUR 33), which leaves 26% upside potential. We maintain our Buy rating.

Investment case

- After a successful turnaround in 2015, Roularta is facing new prospects and new challenges. Among the prospects are a boost in profitability as from 2019, driven by termination of a lease for the print equipment, maturity of an expensive bond, and a potential boost in profitability at Mobile Vikings (part of the Medialaan participation). A well-known challenge is the shift in consumer behaviour, as growth in digital/online sales has not yet been able to compensate for a decrease in traditional sales. StoreSquare is both a new challenge and a new prospect; it is an online retail platform, which requires upfront investments. The platform has potential, but online retail is known for its long path towards profitability. Our valuation models reflect these challenges and prospects, and they point to a fair value of EUR 29 p/s, based on the average of the fair values from our DCF-model and historic valuation multiples. This provides sufficient upside potential to warrant a Buy rating.

Degroof Petercam acts as a liquidity provider for this company and is paid for these services.

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