Royal Bank of Canada Capital Markets

Globo - Q1 update demonstrates why the shares should re-rate

Sentiment Indicator : positive

Posted by Andrew Dunn on Wednesday, June 03 2015, 2:21 AM ET

Globo (GBO, Outperform, Price Target 120p, Closed 55p 2nd June 2015)

Strong Q1 update indicates H1 on track, cash generation better than expected
Globo reports Q1 group sales up 36% to €23.7M, with EBITDA up 33% to €13.4M. For the first half, we forecast sales of €61.9M and EBITDA of €30.9M and believe the Q1 result is supportive of our estimates. In what is typically a weak quarter for cash generation, Globo generated €1.8M free cash flow (up from a €7.4M outflow in Q1 last year) which is impressive given the growth. With cash generation seasonally weighted to the second half, we remain comfortable with our €18.7M free cash flow generation forecast for the year which would represent an attractive FCF/EV of 8.2%.

GO!Enterprise driving free cash flow generation
The mix of revenue is broadly as we have expected with GO!Enterprise more than doubling to €13.3M (+108%), and the consumer CitronGO!/GO!Social growing marginally 2% to €8.9M. For the first half, we forecast GO!Enterprise revenue growth of 98% to €39.5M and a 15% contraction in consumer revenues to €17.2M. It is especially encouraging in our view to see better than expected free cash generation despite near flat growth in the consumer business, which again supports our FCF forecast for the year.

Outlook robust, US focus for FY15
Management commentary speaks of a strong start to 2015 with the focus for the remainder of the year on the core GO!Enterprise business, particularly in the US market where Globo continues to gather momentum.

Valuation - with metrics like these Globo deserves a re-rating. Globo is in our view producing increasingly solid results which have met or exceeded our challenging expectations. While we would not necessarily demand a high growth company like this to also produce meaningful amounts of free cash flow, Globo has been able to throw off cash for the last three years in a row and on our estimates will produce a material amount this year (forecast free cash flow yield of 7%). Globo trades on a forward PER of just 6.4x, which is significantly below its fair value in our view, and we believe the shares should re-rate from here.

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