

Full year trading update – Good H2 momentum leading to further upgrades

1 Year Chart



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Iain Daly

id@radnorcp.com

+44 (0) 203 897 1832

Ocean Outdoor Limited is a research client of Radnor Capital Partners Ltd.

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The positive H1 results released back in September 2021 pointed to strong recovery momentum heading into the seasonally more important H2. Today's trading update confirms that the strength of this recovery has been better than originally expected. We are upgrading, materially, our FY21 estimates and are nudging ahead our FY22 and FY23 estimates as a result.

Ocean's unique proposition of a digital first screen estate in prime retail, roadside and city centre locations has seen it lead the sector in terms of revenue recovery. We will need to wait until the full final results release (likely to be May) before we can see the full detail but it would appear that, at least in the UK, Ocean has materially outperformed its peers.

Performance outside the UK was always going to lag given timing differences in the easing of lockdown restrictions. However, the performance across all territories was positive and sets the scene well for FY22 and beyond. In the absence of external shocks, we see the risk to earnings lying on the upside.

Although the Ocean share price has outperformed both the broader market and the UK Media sector over the course of 2021, the PE of 18.3x and EV/EBITDA of 10.2x does not look excessive. The strength of the balance sheet (net cash £29.9m) is a further support to the valuation

- **FY results ahead of already upgraded expectations:** +44% revenue growth and 15% adjusted EBITDA margins are both ahead of expectations that had been upgraded in September 2021 post the H1 results. We are also now expecting a materially better than expected net cash position of £29.9m.
- **Recovery momentum maintained:** The trading outlook is positive and reflects the strong FY21 exit momentum. There is a recovery timing disconnect between the UK and other European markets with the UK very much leading the recovery. In the UK, Ocean appears to have materially outperformed the broader digital out of home market, which itself was one of the strongest performing media channels in the UK in 2021. This speaks to the strength of Ocean's unique combination of digital focus and prime site positioning.
- **Strategic review:** There is no specific outcome to the strategic review which was first announced in November 2021. We do not anticipate the market will have to wait long for clarity on the future path Ocean will seek to take.
- **Estimate upgrades:** Following our upgrades in September 2021, we are moving our estimates ahead again for FY21 and FY22. The upgrade for FY22 is more modest as we were already factoring a steep recovery in FY22 vs FY21. However, trading momentum is strong and in the absence of any major external shocks we see the risk to earnings on the upside.

December, £m	Revenue	EBITDA adj	PBT adj	EPS (p)	Net Cash	EV/EBITDA	PER
FY 2019A	139.6	32.9	26.4	41.4	26.9	10.6	16.7
FY 2020A	86.2	-0.4	-10.7	-18.1	25.1	-	-
FY 2021E	124.4	18.6	8.7	12.8	29.9	18.7	54.0
FY 2022E	152.0	34.0	25.0	37.7	36.1	10.2	18.3
FY 2023E	168.0	41.0	32.1	45.5	58.1	8.5	15.2

EBITDA on a pro-forma, pre IFRS16 basis

Source: Radnor Capital Partners

Full Year Trading Update – Key Headlines & Estimate Upgrades

Ocean Outdoor, the digital out of home advertising operator has released a full year trading update for the year ended December 2021. We had previously upgraded our FY21 and FY22 estimates following the H1 results in September 2021 (link to our H1 results coverage [here](#)), which had demonstrated a sharp revenue recovery in Q2 vs Q1.

Key headline from today's trading update are below.

- Net revenue growth YoY +44% to **£124.4m – ahead of our upgraded expectations** (prior Radnor estimate £115.1m).
 - The recovery trend through the year has been maintained with H2 net revenue +68% YoY and Q4 up 67.5% YoY
 - Critically, Q4 2021 was +7.2% compared to the pre Covid Q4 2019 comparative
 - H1 revenue growth was +11% YoY, although this masked a sharp difference between Q1 (in line with Q1 2020) and Q2 which more than doubled compared to Q2 2020.
- Revenue growth has been delivered across all the main territories for the full year with the variations being driven primarily by the difference in timing of lockdown restrictions easing. Although the company has not disclosed revenue by territory; our revised estimates for FY21 make the following assumptions:
 - UK +79% to £69.9m
 - Netherlands +21% to £20.9m
 - Nordics +13% at £33.6m
- The performance in the UK is especially notable as the headline revenue growth is materially ahead of the broader market. According to their latest UK advertising expenditure report, WARC estimated the UK out of home advertising market grew by 25.4% in 2021, with the digital component growing by 35.7%. This suggests that Ocean in the UK beat the broader UK market by more than double, which is testament to the combined strength of Ocean's digital and premium screen estate (prime retail, city centre and roadside). Notable news-flow in the UK included the signing of a 10 year deal with the St James Quarter development in Edinburgh and a long term exclusive deal with the Canary Wharf Group; both of these adding to Ocean's premium digital portfolio in the UK.
- The Netherlands and Nordics performance was broadly in line with their overall market averages and reflected the longer path out of Covid related restrictions compared to the UK market. Ocean is the largest digital player in the Dutch market. Both the Netherlands and the Nordics saw good new contract momentum with the Westfield Mall of the Netherlands deal and the Fisketorvet deal in Denmark both adding significant new prime retail estates into the group mix.
- On a pre IFRS16 basis (the more relevant measure), adjusted EBITDA came in at **£18.6m** (FY 2020: **-£0.4m**), - **ahead of our upgraded expectations** (prior Radnor estimate £15.0m).

- FY21 adjusted EBITDA margins came in at 15.0%, with H2 margins of 27.7% more than offsetting the £4.6m adjusted EBITDA loss in H1
 - We estimate the drop through rate of this revenue outperformance to be c.39%, which is an encouraging underpin to our FY22 adj EBITDA margin estimate of 22.4%. Ocean is H2 weighted in terms of revenue and profits.
- Although the company has not disclosed the group net cash position in this update, we have upgraded our net cash estimate for FY21 from £17.5m to **£29.9m**, comprising gross bank debt of c.£12.5m and gross cash of c.£42m.
- The key driver behind the better than expected net cash outcome was a combination of better profitability; a small reduction in the final capex outcome and material timing benefits for certain non trading creditors (Covid related) and overall good working capital management.
 - We would expect a portion of the working capital cash inflow (>£10m), implied by the better than expected net cash outcome to reverse through the course of H1 FY22. We have reflected this dynamic in our revised net cash estimates for the FY22 (£36.1m), where we expect just over half of the FY21 cash inflow to reverse.

Estimate Revisions: EBITDA +24% for FY 2021, +2% for FY 2022

We have revisited our forecast model and have made the following changes:

Figure 4: Radnor estimate revisions

	FY'20A	Previous		New		Change, %	
		FY'21E	FY'22E	FY'21E	FY'22E	FY'21E	FY'22E
Billings - Pro Forma	104.7	139.2	182.7	151.5	189.3	+ 9%	+ 4%
UK	39.2	61.5	76.0	69.9	82.8	+ 14%	+ 9%
Netherlands	17.3	20.0	27.4	20.9	24.6	+ 4%	- 10%
Nordics	29.7	33.6	44.5	33.6	44.5	+ 0%	+ 0%
Net Revenue - Pro Forma	86.2	115.1	148.0	124.4	152.0	+ 8%	+ 3%
EBITDA - Pro Forma (pre IFRS16)	-0.4	15.0	33.3	18.6	34.0	+ 24%	+ 2%
- margin %	-0.5%	13.0%	22.5%	15.0%	22.4%		
PBT - Pro Forma Adjusted	-10.7	5.7	24.6	8.7	25.0	+ 52%	+ 2%
EPS - Pro Forma Adjusted (p)	-18.1	9.4	37.1	12.8	37.7	+ 36%	+ 2%
Net Cash (Debt)	25.1	17.5	30.7	29.9	36.1	+ 71%	+ 18%

Source: Radnor

Valuation

Figure 1: Ocean Outdoor vs European & Global Out of Home peer group

Company	Ticker	Currency	Market Cap (local)	EV (local)	Revenue CAGR (FY20 - FY23)	EV/EBITDA 2021	EV/EBITDA 2022	EV/EBITDA 2023
Ocean Outdoor	OOUT	GBP	345 m	315 m	+ 17%	18.7 x	10.2 x	8.5 x
JCDecaux	DEC	Euro	5,501 m	6,665 m	+ 11%	19.5 x	10.6 x	9.2 x
Clear Channel	CCO	Dollar	1,598 m	6,736 m	+ 9%	17.6 x	12.1 x	10.5 x
Stroer	SAX	Euro	4,008 m	4,714 m	+ 11%	9.3 x	8.0 x	7.1 x
APG	APGN	Euro	585 m	532 m	+ 3%	12.4 x	10.0 x	9.7 x
European Peer Group					+ 10%	14.7 x	10.2 x	9.2 x
Lamar Advertising	LAMR	Dollar	11,322 m	14,301 m	+ 10%	17.6 x	16.2 x	15.0 x
OUTFRONT Media	OUT	Dollar	3,715 m	5,880 m	+ 16%	18.7 x	13.2 x	11.4 x
oOh Media	OML	Dollar	707 m	916 m	+ 16%	16.9 x	10.7 x	10.4 x
Focus Media Information	002027	Dollar	18,406 m	17,412 m	+ 24%	15.2 x	12.7 x	10.9 x
Global Peer Group					+ 17%	17.1 x	13.2 x	11.9 x
UK Media Sector						16.3 x	13.7 x	

Source: FactSet, Radnor

In Figure 1 above we show the EV/EBITDA multiples for Ocean compared to the European and Global Out of Home peer group. In Figure 2 below we plot FY22 EV/EBITDA against a three year revenue CAGR. Against both the European and Global peer groups, Ocean offers superior growth (driven by its premium digital positioning) yet still trades at a material valuation discount.

Figure 2: Ocean EV/EBITDA vs Revenue growth

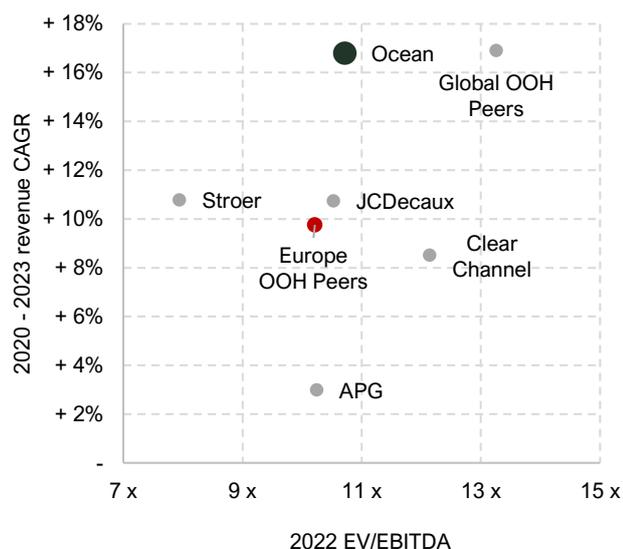
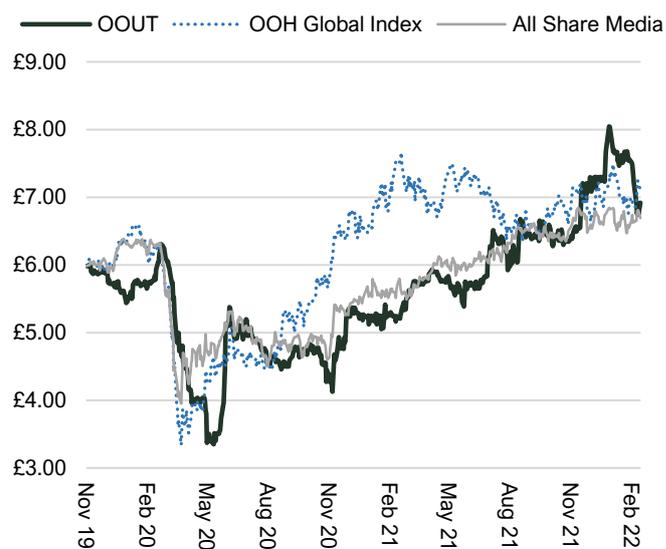


Figure 3: Ocean price performance vs Global Out of Home and FTSE All Share Media (all rebased)



Source: FactSet, Radnor

Ocean Outdoor

OOUT

Iain Daly
+44 203 897 1832
id@radnorcpc.com

Price (p): 692 p
Market Cap: £ 373m
EV: £ 348m

PROFIT & LOSS (Pro forma treats all acquisitions as if owned since 1st Jan 2018)

Year to 31 December, £m	2018	2019	2020	2021E	2022E	2023E
Billings - Pro Forma	152.7	171.6	104.7	151.5	189.3	209.5
UK	62.2	71.7	39.2	69.9	82.8	92.0
Netherlands	23.8	26.4	17.3	20.9	24.6	27.4
Nordics	38.5	41.5	29.7	33.6	44.5	48.5
Revenue - Pro Forma	124.5	139.6	86.2	124.4	152.0	168.0
Direct Operating Expenses	(65.0)	(75.5)	(59.8)	(75.9)	(82.1)	(89.0)
S,G & A	(29.1)	(31.2)	(26.8)	(29.9)	(35.9)	(38.0)
EBITDA - Pro Forma, pre IFRS16	30.4	32.9	(0.4)	18.6	34.0	41.0
EBITDA - Pro Forma, post IFRS16	30.9	51.2	40.1	62.1	82.7	94.7
Depreciation	(3.2)	(7.0)	(10.0)	(9.3)	(9.0)	(8.8)
Goodwill	(10.1)	(19.8)	(24.8)	(15.6)	(15.6)	(15.6)
Lease Depreciation - IFRS16	-	(19.7)	(32.9)	(32.5)	(33.9)	(35.9)
Lease Interest - IFRS16	-	(6.9)	(9.6)	(10.1)	(10.6)	(11.2)
Net Finance Charge (pre IFRS16)	1.7	(0.1)	(0.8)	(2.2)	(1.6)	(1.6)
PBT - Pro Forma Adjusted	28.9	26.4	(10.7)	8.7	25.0	32.1
PBT - Reported	21.0	(7.8)	(184.2)	(7.6)	11.9	21.6
Tax	(0.3)	(0.5)	4.8	(1.8)	(5.5)	(9.3)
Tax - Adjusted	(5.8)	(4.3)	1.0	(1.8)	(4.7)	(7.7)
No. shares m, diluted	50.9	53.6	53.7	53.7	53.7	53.7
EPS (p), Pro Forma Adjusted	45.4 p	41.4 p	(18.1) p	12.8 p	37.7 p	45.5 p
EPS (p), Reported	40.7 p	(15.5) p	(334.1) p	(17.5) p	11.9 p	22.9 p

CASH FLOW

Year to 31 December, £m	2018	2019	2020	2021E	2022E	2023E
Net Income - Reported	20.7	(6.7)	(179.5)	(9.4)	6.4	12.3
(+) Depreciation & Amortisation	13.3	26.7	177.8	24.9	24.7	24.5
(+) Lease Depreciation	-	19.7	32.9	32.5	33.9	35.9
(+) Net Finance Charge (incl Lease)	(1.7)	6.9	10.5	11.7	12.2	12.8
Other	0.1	(0.0)	0.1	-	-	-
Working Capital	(5.5)	0.1	0.8	13.9	(8.2)	8.2
Operating Cashflow	26.8	46.7	32.1	73.6	69.0	93.7
Cash Tax	(1.0)	(2.4)	(2.7)	(5.0)	(5.5)	(9.3)
Cash Interest	1.7	0.5	(0.3)	(0.6)	(0.6)	(0.6)
Net Op Cashflow	27.5	44.8	29.2	68.0	62.8	83.8
Capex	(5.2)	(12.1)	(6.4)	(6.0)	(8.0)	(8.0)
Lease Liability	-	(24.6)	(24.2)	(43.5)	(48.6)	(53.8)
Free Cashflow	22.2	8.1	(1.4)	18.4	6.2	22.0
Net M&A	(228.9)	(126.0)	-	(6.0)	-	-
Investment in Associate	-	(13.3)	-	-	-	-
Issue of Shares	86.7	-	-	-	-	-
Other Non Operating	0.0	(2.5)	4.6	-	0.0	-
Net Cashflow	(120.0)	(133.7)	3.2	12.4	6.2	22.0
Net Cash (Debt)	160.5	26.9	25.1	29.9	36.1	58.1

BALANCE SHEET

Year to 31 November, £m	2018	2019	2020	2021E	2022E	2023E
Intangibles	230.0	367.4	202.4	186.8	171.2	155.6
P,P+E	32.0	47.4	42.9	39.6	38.5	37.7
Right of Use Asset	-	148.6	182.5	184.0	192.2	203.4
Tax Asset & Other	6.0	4.7	4.2	1.5	1.5	1.5
Total Fixed Assets	262.0	576.7	432.9	415.6	407.1	401.9
Debtors	36.7	55.5	39.3	37.3	53.2	53.8
Cash	160.5	26.9	30.0	42.4	48.6	70.6
Creditors	(44.7)	(76.4)	(64.0)	(75.9)	(83.6)	(92.4)
Lease & Tax	(3.3)	(29.3)	(41.2)	(34.6)	(37.9)	(39.3)
Net Current Assets	149.2	(23.3)	(35.9)	(30.8)	(19.7)	(7.3)
Lease	-	(136.2)	(161.0)	(174.1)	(181.8)	(192.5)
Bank Debt	-	-	(4.9)	(12.5)	(12.5)	(12.5)
Tax & Other	(23.6)	(43.0)	(35.0)	(35.0)	(35.0)	(35.0)
Net Assets	387.6	374.1	201.1	175.8	170.7	167.1

PRICE CHART - 2 YEAR ABSOLUTE vs FTSE ALL SHARE



Source: FactSet

SHAREHOLDERS

	% of ord. Share capital
Atairos	38.0%
Anchorage Capital	12.3%
Jupiter Asset Management	7.0%
Permian	6.9%
Directors	5.4%
	69.6%

Announcements

Date	Event
Feb 2022	Full year trading update
Nov 2021	Positive trading update & strategic review
Sep 2021	H1 results FY21
Sep 2021	Westfield Denmark contract
May 2021	Final results FY20
Feb 2021	BT Sport content partnership
Feb 2021	Q4 trading update
Nov 2020	Q3 trading update
Sep 2020	H1 results FY20

RATIOS

	2019	2020	2021E	2022E	2023E
RoE	5.9%	-4.8%	3.9%	11.9%	14.6%
RoCE (pre IFRS16)	6.0%	-4.1%	4.0%	10.9%	15.1%
Asset Turnover (x)	4.1x	5.0x	3.3x	2.7x	2.4x
NWC % Revenue	-36.0%	-76.5%	-58.9%	-44.9%	-46.4%
Op Cash % EBITDA	67.1%	n/a	161.5%	59.7%	97.4%
Net Debt / EBITDA	neg	neg	neg	neg	neg

VALUATION

Fiscal	2019	2020	2021E	2022E	2023E
P/E	16.7x	neg	54.0x	18.3x	15.2x
EV/EBITDA	10.6x	neg	18.7x	10.2x	8.5x
Price to Book	1.0x	1.9x	2.1x	2.2x	2.2x
FCF Yield	2.3%	-0.4%	5.3%	1.8%	6.3%
Revenue growth	12.1%	-38.3%	44.3%	22.2%	10.5%
EBITDA growth	8.2%	neg	neg	83.1%	20.4%
EPS growth	-8.9%	neg	neg	194.4%	20.7%
FCF growth	-63.6%	-117.6%	-1393.9%	-66.4%	255.0%

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*Radnor Capital Partners Ltd
1 King Street
London
EC2V 8AU*

www.radnorcp.com

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