

CentralNic Group PLC (CNIC.L)

United Kingdom | Technology

Price: 84.0p

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Business: CentralNic Group PLC is a provider of domain name services including registry, domain monetisation and web hosting.

Investment case/Competitive advantages

Heavily regulated market - The market for online presence services is estimated to be worth \$30bn. The businesses authorised to operate in this market are heavily regulated. The Global regulator, ICANN, distributes and controls the global Top Level Domains (TLDs).

Earnings quality - The Group has high levels of recurring revenue (c.92%) from subscription products with highly predictable renewal rates of between c.65% and c.95% depending on the segment and maturity of customer. New revenue streams from related services such as hosting, cybersecurity and brand protection provide upside potential.

Global consolidator - Global business with successful acquisition strategy in a highly fragmented market. The Group's buy and build strategy has accelerated in recent years with a large number of acquisitions completed in 2019. The enlarged Group now has potential to realise significant synergies over the next 3 to 5 years and benefit from this increased scale.

Share price catalysts

Buy & build strategy - The acquisitions completed in 2019 and 2020, and ongoing M&A strategy will continue to increase the scale of the Group, improve economies of scale and create potential for margin expansion as cost synergies are realised through the integration of back-end registry platforms to CentralNic's platform.

Addressable market - The market for online presence services is estimated to be worth \$30bn with businesses increasing their focus on digital and online presence. As the Group's customers get online, businesses need websites, email and ecommerce capabilities, CNIC is well placed to take advantage of this growth.

Growing monetisation business - The Group completed the acquisition of Codewise in November 2020 for a consideration of \$36m. This business adds complementary services to the existing domain name monetisation segment that was introduced in 2019 through the acquisition of Team Internet.

Operating risks

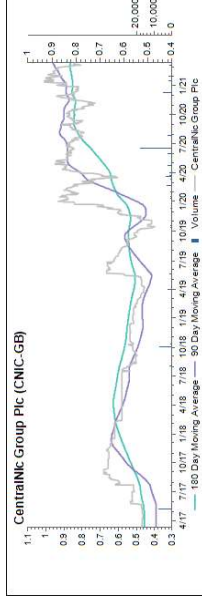
Financial risk - In order to complete a number of large acquisitions in 2019 the Group issued c.€UR90m of corporate bonds at EURBOR +7%. The interest coverage ratio is >4.0x mitigating short term cash flow risk.

Regulatory risk - Global internet regulator ICANN has huge influence over the distribution of TLDs, which are important assets for the Group. Maintaining a good relationship with ICANN is important for the continued success of the core business.

Integration risk - The Group completed 5 acquisitions in 2019, across 4 countries, adding 3 new services to the business. Integrating these businesses and realising synergies will be key to supporting the investment case.

Source: Investec Securities analysis

Share price (5 year)



Source: FactSet

Du Pont Analysis

	CNIC.L	Score
Return on Sales	-0.6%	1
Group currently/loss making given rate of acquisitions and related interest and exceptional costs.		
Asset Turnover	0.7x	3
High levels of goodwill and other intangible assets on balance sheet following acquisitions.		
Equity Multiplier	3.0x	1
The Group has leveraged up aggressively to finance the M&A strategy.		
Return on Equity	-1.3%	1
Currently no return for equity holders given significant interest costs and one-off costs relating to acquisitions.		

Porter's 5 Forces analysis

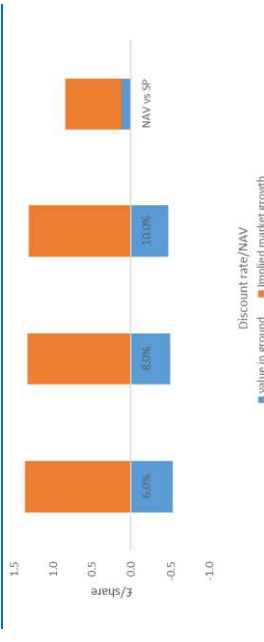
Competitive Environment	4
Heavily regulated - only a few businesses authorised to provide domain name registry services.	
Supplier Power	2
Monetisation business currently heavily reliant on Google ads.	
Buyer Power	4
The Group has over 250k customers and therefore has very low customer concentration.	
Threat of Substitution	5
Substitute products not currently available given structure of internet supply chain.	
Threat of New Entrant	5
Not possible to enter market legally without approval and oversight from ICANN.	

Momentum Score

Short term	3
Long term	4
	33

Source: FactSet/Investec Securities analysis

Implied valuation



Source: Investec Securities analysis

Valuation analysis implies that at discount rates between 8% and 10% all the market value is attributable to growth. High gearing undermines value in ground. The company is trading at 100% premium to NAV.

Recent news flow

Q1 trading update - In Q1 2021, CentralNic generated more revenue and EBITDA than in the whole of FY 2018. In the Direct and Indirect segments, which provide the essential tools for business to go online, growth in domain name sales has accelerated notably. The Company's market consolidation strategy continues, with opportunities being continually assessed in what is a large, globally fragmented and growing market. Management expects the full year results to be in line with market expectations

Source: Investec Securities analysis/Company data

Expected next updates

September 2021 - interim results

Source: Company data

Summary Financials (US\$m)

	2016A	2017A	2018A	2019A	2020A
Year end: 30 June					
Revenue	29.9	31.4	56.9	109.2	241.2
EBITDA	5.8	8.7	8.8	15.0	21.1
Adjusted PBT	3.3	4.3	2.3	2.5	(0.2)
Rep PAT	1.3	1.3	(6.5)	(8.1)	(8.4)
Adjusted PAT	1.9	2.4	(0.9)	(1.3)	(1.5)

Cashflow & Balance Sheet

	2016A	2017A	2018A	2019A	2020A
Year end: 30 June					
Funds from Operations	5.8	4.4	0.4	7.7	8.3
Changes in Working Capital	(1.3)	0.3	7.8	6.7	2.9
Cash from Operations	4.5	4.8	8.2	14.3	11.2
Net Investing Cash Flow	(20.7)	(23.0)	(17.6)	(79.3)	(45.0)
Cash dividends paid	0.0	0.0	0.0	0.0	0.0
Other	14.3	0.1	16.1	(12.6)	22.0
Change in Net Cash/(Debt)	(1.9)	(18.2)	6.7	(77.6)	(11.8)
Current Assets	22.9	29.5	47.6	65.7	76.2
Non-current Assets	45.6	82.0	135.2	219.3	273.2
Current Liabilities	26.9	39.7	62.1	78.8	94.4
Non-current Liabilities	10.4	36.1	43.0	129.2	137.9
Minorities	0.0	0.0	0.0	(0.1)	0.0
Shareholders Equity	31.2	35.8	77.7	77.1	117.1
Cash & Equivalents	12.2	14.7	23.0	26.2	28.7
Total Debt	(2.9)	(23.5)	(25.1)	(105.9)	(120.2)
Net Cash/(Debt)	9.3	(8.8)	(2.1)	(79.7)	(91.5)

Per Share data

	2016A	2017A	2018A	2019A	2020A
Year end: 30 June					
Adjusted EPS (c)	305.6	362.4	(96.3)	(135.2)	(119.3)
DPS (c)	0.0	0.0	0.0	0.0	0.0
NAVPS (c)	50.9	38.9	81.0	80.3	68.6

Margins

	2016A	2017A	2018A	2019A	2020A
Year end: 30 June					
Gross Margin (%)	24.7	30.8	35.6	30.4	25.6
EBITDA Margin (%)	19.4	27.7	15.4	13.7	8.7
Operating Margin (%)	9.5	18.3	4.9	4.9	2.7

Ratios

	2016A	2017A	2018A	2019A	2020A
Year end: 30 June					
PE (x)	0.4	0.3	(1.2)	(0.9)	(1.0)
EV/EBITDA (x)	48.7	34.6	33.4	24.8	18.2
Net Debt/EBITDA (x)	(1.6)	1.0	0.2	5.3	4.3
P/NAV (x)	0.0	0.0	0.0	0.0	0.0
Div Yield (%)	0.0	0.0	0.0	0.0	0.0

Source: FactSet/Investec Securities analysis

Shareholder structure



Top 8 Institutional	Current Holding (%)	Historic Holding (%)	Top 8 Institutional Holding (€M)	Current Holding (%)	Historic Holding (%)
Kestrel Partners LLP	22.53%	24.21%	Herald Investment Management Ltd.	3.81%	3.81%
Canaccord Genuity Wealth Ltd.	6.10%	4.77%	BlackRock Investment Management (UK) Ltd.	3.20%	1.22%
Chelveston Asset Management Ltd.	5.81%	4.20%	Sanford Deland Asset Management Ltd.	2.14%	0.00%
Schroder Investment Management Ltd.	5.43%	5.01%	Cavendish Asset Management Ltd.	2.01%	2.60%
Holder Analysis (€M)					
Buy	Sanford Deland Asset Management Ltd.			2.14%	
Sell	Majedie Asset Management Ltd.			-1.00%	

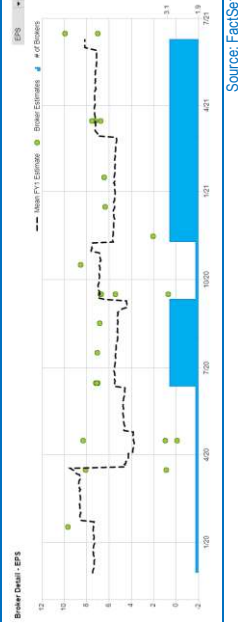
Source: FactSet

Other data

Market Cap (€m)	211	5 yr EPS CAGR	n/a	ADV (m)	0.306
EV (€m)	285	3 yr EPS CAGR	n/a	Free float (%)	61
Shares out (m)	251	Div.Growth Ratio	n/a		

Source: FactSet/Investec Securities analysis

Broker detail – EPS chart



Source: FactSet

Board/Management

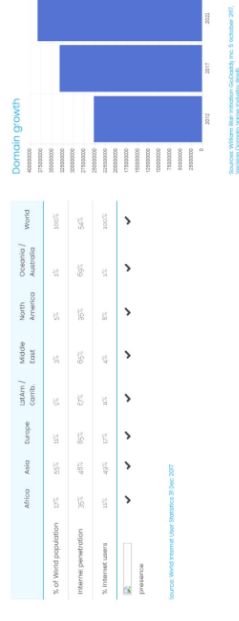
Position	Name
Non-Executive Chairman	Iain McDonald
Group Managing Director & Non-Executive Director	Donald Baladasan
Chief Executive Officer & Executive Director	Benjamin Crawford
Chief Financial Officer & Director	Michael Riedl
Chief Innovation Officer	Gavin Brown
Non-Executive Director	Samuel Dayani
Non-Executive Director	Thomas Fridmore

Source: FactSet

Three key slides from company presentation (FY20)

Large and growing market

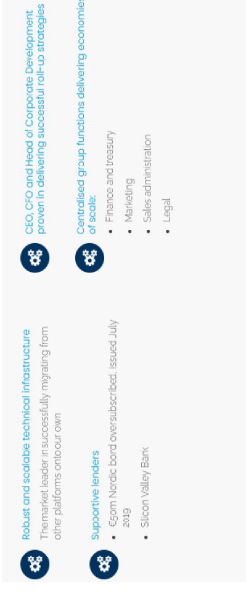
Market opportunity



Growth strategy built on M&A



Infrastructure in place as business scales up



Source: Company data