

Corporate

 Current price **26.0p**

 Sector **Entertainment**

 Code **AEO**

 AIM **AIM**

Share Performance



Source: Thomson Reuters, Allenby Capital

Share Data

 Market Cap (£m) **2.35m**

 Shares in issue (m) **9.05**

52 weeks High Low

33.0 **24.5**

 Financial year end **June**

Source: Company Data, Allenby Capital

Key Shareholders

Michael Hale (Chairman) 19.6%

J Hicking 13.0%

Brian Geary 5.8%

Spreadex Ltd 5.7%

S Quah – CEO 5.3%

Source: Company Data, Allenby Capital

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Aeorema Communications Plc (AEO)

Strong 2019 results, significantly undervalued

Once again Aeorema has delivered an impressive set of financial results. For the 12m period ended June 2019 the Company reported an increase in revenue and EBIT of 40% and 29% respectively. The net cash position at year end reached a new high of £2.2m which equates to over 90% of the current market capitalisation, or equivalent to c. 24.5p per share. The healthy cash position has enabled a 1.0p dividend to be declared, a 33% uplift on the 2018 figure. Reassuringly the Company remains confident of future growth with recent client wins expected to boost the current year's earnings. We have increased our 2020 revenue forecasts by 31% and our 2020 EBIT forecast by 21%.

- Continued growth from the London based 'Live events' agency.** Aeorema, through its events division Cheerful Twentyfirst, creates and delivers large scale events for its blue-chip client list. 2019 included 'inter alia' the successful delivery of four projects at the Cannes Lions International Festival of Creativity, work for a global law firm in the United States and a senior management event for a new client in London. Its clients operate in a wide range of end markets sectors with recent client wins being from the professional services, law, confectionery and technology industries.
- Strong 2019, EBIT +29.3% year on year.** FY revenues of £6.77m were up 40.4% on the prior year period. The Gross Margin, at 32.2%, was down on the prior year 37.1% which management attributes to Aeorema delivering an unusually high number of low profit margin events during the year but the expectation is for higher margin events to be delivered in 2020. Although margins declined, this was more than offset by the acceleration of the top line with the net result being healthy growth in profitability and cash flow generation.
- Upbeat outlook statement, forecasts revised upwards.** The Company states that Brexit has not had a significant impact on the Group to date with several contracts for large events in 2020 already won with new and existing clients. Combined with the company's expectation for higher margin events there is a case for a strong uplift in earnings being achieved. We err on the side of caution for now and forecast a 5% growth in revenue and 3.5% growth in EBIT.
- Significantly undervalued.** The Company sits on a large cash pile, has a track record of profitability and pays a dividend. Despite this, the shares trade on a 2020 EV/EBITDA multiple of just 1.75x and has a dividend yield approaching 5%. A more appropriate multiple, of say 7x, would imply a share price of 50.2p or 93% upside from the current price.

Year End: June	2016	2017	2018	2019	2020E
(£'000)					
REVENUE	4,583	4,157	4,820	6,765	7,104
EBITDA	383.3	299.8	310.1	395.9	417.3
ADJ. PRE TAX PROFIT	340.2	248.9	290.0	375.0	388.1
ADJ. EPS (p)	2.92	2.26	3.01	3.14	3.51
NET DEBT/(CASH) (£m)	(1,427.7)	(1,897.2)	(1,436.3)	(2,211.2)	(2,154.3)
EV/EBITDA (x)	3.70	2.44	2.36	1.85	1.75
PER (x)	8.89	11.49	8.63	8.28	7.41
Dividend Yield	7.69%	1.92%	2.88%	3.85%	4.81%

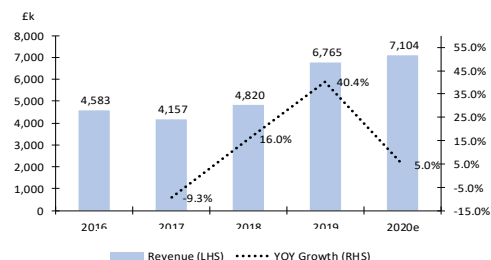
Allenby Capital acts as Nomad & Broker to Aeorema Communications Plc (AEO).

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FULL YEAR RESULTS TO END JUNE 2019

In the year to June 2019 Aeorema recorded a year on year increase in revenues of 40% to £6.77m. Although a reduction in the gross margin meant that profitability did not grow at the same rate, EBIT still increased by an impressive 29%. Cashflow generation was also strong with the year end net cash position increasing to £2.21m from £1.44m at the end of June 2018.

Exhibit 1: 2019 revenue growth of 40.4%



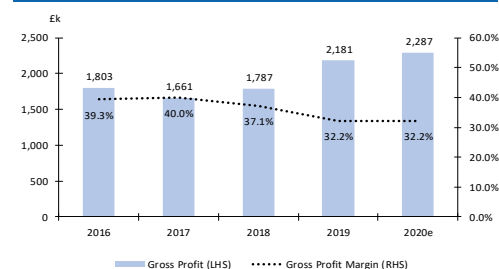
Source: Allenby Capital, Company data

Top line driven by both new clients wins and existing client repeat business

In 2019, Aeorema’s four largest clients accounted for 59% of revenues (down from 65% in 2018). The revenue concentration has decreased as the overall client list was increased in the year with wins coming from several sectors and in different countries. Although at 59% the client concentration remains relatively high, we note that this is mitigated somewhat by a typical large client doing over 20 events a year with Aeorema and so the Company is not exposed to one particular event being removed from a client’s calendar.

The outlook statement notes confidence in future growth and mentions new client wins in the current year which include a leading global law firm, a number within the technology sector and a high profile, established confectionery brand. Given this level of confidence our 5% growth forecast for the year to June 2020 may prove conservative but given the fragility of the European economy and UK political situation we prefer to err on the side of caution.

Exhibit 2: Gross margin decline to 32.2%



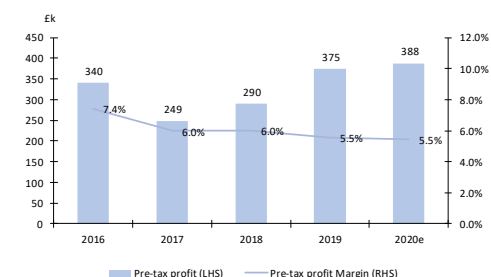
Source: Allenby Capital, Company data

Gross profits margin decline due to event mix

Gross margins fell to 32.2% in the year from 37.1% in 2018. Margins in 2018 had also declined on the prior year due to an increased use of freelancers. The reason for the decline in 2019 was due to an unusually high number of low profit margin events during the year. The Company expects that new events delivered in 2020 will have higher gross profit margins and so there is the chance that the decline in margins may be revert. We await evidence of this reversal in margins and for now our forecast 2020 gross margins is the same 32.2% achieved in 2019.

The decline in gross margins was more than offset by the growth in top line and so Aeorema still managed to deliver a very healthy growth in EBIT of 29% to £375k. We forecast further growth to £388k in 2020.

Exhibit 3: 2019 EBIT +29% yoy to £375k



Source: Allenby Capital, Company data

Year-end net cash balance of £2.21m

Cash generation in the year was strong with the year end balance being an increase of £773k after a £67k dividend payment. The £436k in operating cashflow was helped by favourable movements in working capital. Some of this working capital movement may reverse in 2020 and so we currently expect the company to end 2020 with a similar net cash balance to the current position.

The year end cash position of £2.21m is equivalent to over 90% of the current market capitalisation, or c.24.5p per share. Cash balances peak in the busy summer months as the Company receives around 50% of its fee for running events in advance and so there will likely be a decline in the net cash position by the end December half year mark yet we still expect balances to be maintained well in excess of £1m.

Dividend increased from 0.75p to 1.00p

The dividend has been increased to 1.0p but this will only lead to a cash outflow of c.£90k in the current year. The 1.0p compares to a diluted EPS for 2019 of 3.14p and so the dividend is comfortably covered. We forecast a further increase in the dividend in the current year to 1.25p.

VALUATION – compelling on every measure

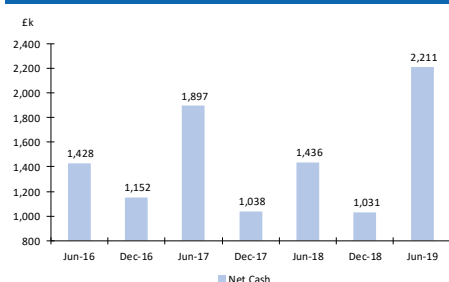
Aeorema has just reported another set of impressive results to add to the track record of profitability. The Company is run by a young and enthused management team keen to prove their worth after relatively recently taking control of the business. Furthermore, the balance sheet is cash rich which is enabling the payment of a modest but growing dividend. Despite these positive traits the shares trade on embarrassingly low multiples even after accounting for the small size of the Company. We believe Aeorema to be a relatively unknown gem on the AIM market. We expect the Company to slowly get on the radar of more investors and for the shares to be re-rated.

Enterprise Value multiples appropriate to account for net cash balance

On a simple Price Earnings Ratio (“PER”) the shares look attractive. The shares are trading on a 2019 PER of 8.3x falling to 7.4x in 2020. This is combined with a secure dividend yield of c.4%. Although attractive, there are many London listed shares on similar multiples. However, PER analysis does not give the Company the benefit of its large cash pile as it earns minimal interest and so has little positive impact on the EPS figure. For such a situation we believe Enterprise Value multiples help paint a more accurate picture.

A company’s Enterprise Value is typically calculated by adding its market capitalisation to its debt figure (or subtracting the net cash position). The most recent net cash position of Aeorema is the £2.2m reported at the end of June. However, there is a certain seasonality to the cash flow due to upfront fees being paid for large corporate events that take place over the summer months. As such, in our Enterprise Value calculation for Aeorema we take an average of the June and December cash balances (£2.21m and £1.03m) which results in a figure of £1.62m.

Exhibit 4: Net cash at new high



Source: Allenby Capital, Company data

Using this lower than the reported net cash figure, when subtracted from the current market capitalisation of £2.35m, results in an Enterprise Value of just £0.73m. On an EV/EBITDA basis the shares are therefore trading on multiples of just 1.85x for 2019 and 1.75x for 2020. We believe there are few, if any, other London listed companies on such low multiples that have a track record of profitability and positive outlook for the year ahead.

A more sensible multiple would imply a price of 50.2p, 93% upside

Despite the Company’s small size, we feel an EV/EBITDA multiple of around 7x would be more appropriate. This would imply a price of 50.2p or 93% upside from the current share price.

Exhibit 5: Aeorema valuation summary

		Revenues (£m)			EBITDA (£m)			EPS (p) (underlying, Diluted)		
		2018	2019	2020e	2018	2019	2020e	2018	2019	2020e
Share Price (p)	26.0									
Shares (m)	9.051	4.820	6.765	7.104	0.310	0.396	0.417	3.01	3.14	3.51
Market Cap (£m)	2.353									
Net Debt / (Cash) (£m)	(1.62)									
Enterprise Value (£m)	0.73									
		Revenue growth			EBITDA growth			EPS growth		
		2018	2019	2020e	2018	2019	2020e	2018	2019	2020e
		16.0%	40.4%	5.0%	3.4%	27.7%	5.4%	33.2%	4.2%	11.7%
		Dividend per share (p)			EV/Revenues			EV/EBITDA		
		2018	2019	2020e	2018	2019	2020e	2018	2019	2020e
		0.75	1.00	1.25	0.15	0.11	0.10	2.36	1.85	1.75
		PE Ratio			Dividend Yield					
		2018	2019	2020e	2018	2019	2020e			
		8.63	8.28	7.41	2.88%	3.85%	4.81%			

Source: Company data, Allenby Capital.

FINANCIAL STATEMENTS

EXHIBIT 6: INCOME STATEMENT

Year End June (£'000)	2016	2017	2018	2019	2020e	Comments
Revenue	4,583	4,157	4,820	6,765	7,104	
<i>Growth</i>	<i>0.0%</i>	<i>-9.3%</i>	<i>16.0%</i>	<i>40.4%</i>	<i>5.0%</i>	
Cost of sales	(2,780)	(2,495)	(3,034)	(4,584)	(4,816)	
Gross Profit	1,803	1,661	1,787	2,181	2,287	
<i>Gross Profit margin</i>	<i>39.3%</i>	<i>40.0%</i>	<i>37.1%</i>	<i>32.2%</i>	<i>32.2%</i>	
Administrative expenses	(1,464)	(1,413)	(1,497)	(1,807)	(1,900)	
<i>as a % of sales</i>	<i>31.9%</i>	<i>34.0%</i>	<i>31.1%</i>	<i>26.7%</i>	<i>26.7%</i>	
EBIT (pre exceptionals)	339.2	248.4	289.7	374.4	387.3	
<i>EBIT margin</i>	<i>7.4%</i>	<i>6.0%</i>	<i>6.0%</i>	<i>5.5%</i>	<i>5.5%</i>	
Exceptional items	-	-	(231.4)	-	-	2018 - Costs associated with the change of management
EBIT	339.2	248.4	58.3	374.4	387.3	
Finance Income	0.92	0.52	0.39	0.61	0.75	
Profit before taxation (pre exceptionals)	340.2	248.9	290.0	375.0	388.1	
Profit before taxation	340.2	248.9	58.7	375.0	388.1	
Taxation	(66.7)	(37.3)	(8.3)	(86.7)	(66.0)	
<i>Tax rate</i>	<i>19.6%</i>	<i>15.0%</i>	<i>14.1%</i>	<i>23.1%</i>	<i>17.0%</i>	
Net profit (pre exceptionals)	273.5	211.6	281.8	288.3	322.1	
Net profit	273.5	211.6	50.4	288.3	322.1	
<i>Net profit margin (pre exceptionals)</i>	<i>6.0%</i>	<i>5.1%</i>	<i>5.8%</i>	<i>4.3%</i>	<i>4.5%</i>	
Profit per ordinary share						
Earnings per share (pre exceptionals)	3.0	2.3	3.1	3.2	3.6	
Earnings per share (pre exceptionals - diluted)	2.9	2.3	3.0	3.1	3.5	
Dividend per share	2.00	0.50	0.75	1.00	1.25	
Basic number of shares (m)	9.05	9.05	9.05	9.05	9.05	
Fully Diluted number of shares (m)	9.35	9.35	9.35	9.18	9.18	

Source: Company data, Allenby Capital

EXHIBIT 7: BALANCE SHEET

Year End June (£'000)	2016	2017	2018	2019	2020e	Comments
Intangible assets	365.2	365.2	365.2	365.2	365.2	
P,P & E	60.3	31.3	37.0	58.1	78.1	
Deferred taxation	6.1	2.9	2.3	-	-	
Total non-current assets	431.5	399.4	404.5	423.2	443.2	
Trade and other receivables	1,174.3	1,007.6	1,106.3	1,612.3	1,633.8	
Cash and cash equivalents	1,427.7	1,897.2	1,437.9	2,211.2	2,154.3	
Total current assets	2,602.1	2,904.8	2,544.2	3,823.5	3,788.1	
Total Assets	3,033.5	3,304.2	2,948.6	4,246.7	4,231.3	
Bank loans and overdrafts	-	-	(1.6)	-	-	
Trade and other payables	(1,340.6)	(1,615.6)	(1,275.0)	(2,247.2)	(2,022.8)	
Current tax payable	(66.0)	(31.0)	(9.4)	(74.6)	(74.6)	
Total current liabilities	(1,406.6)	(1,646.6)	(1,286.0)	(2,321.8)	(2,097.4)	
Net assets	1,626.9	1,657.5	1,662.7	1,917.4	2,126.4	
Share Capital	1,131.3	1,131.3	1,131.3	1,131.3	1,131.3	
Share premium	7.1	7.1	7.1	7.1	7.1	
Merger reserve	16.7	16.7	16.7	16.7	16.7	
Other reserve	-	-	-	34.3	34.3	
Capital redemption reserve	257.8	257.8	257.8	257.8	257.8	
Retained Earnings	214.1	244.7	249.8	470.3	679.3	
Equity attributable to owners of the parent	1,626.9	1,657.5	1,662.7	1,917.4	2,126.4	
Balance sheet ratios - Y/E June	2016	2017	2018	2019	2020e	
Short term borrowings	-	-	1.6	-	-	
Long term borrowings	-	-	-	-	-	
Gross debt	-	-	1.6	-	-	
Cash and cash equivalents	1,427.7	1,897.2	1,437.9	2,211.2	2,154.3	
Net debt / (cash)	(1,427.7)	(1,897.2)	(1,436.3)	(2,211.2)	(2,154.3)	
Net cash per share (p)	15.8	21.0	15.9	24.4	23.8	

Source: Company data, Allenby Capital

EXHIBIT 8: CASHFLOW

Year End June (£'000)	2016	2017	2018	2019	2020e	Comments
Profit before taxation	340.2	248.9	58.7	375.0	388.1	
Depreciation	44.1	51.5	20.4	21.5	30.0	
Share-based payment	12.4	-	-	34.3	-	
Finance income	(0.9)	(0.5)	(0.4)	(0.6)	(0.8)	
Cash flows from operating activities	395.8	299.8	78.7	436.4	417.3	
Increase / (decrease) in trade and other payables	(71.8)	275.0	(340.6)	972.2	(224.4)	
(Increase) / decrease in trade and other receivables	178.1	166.7	(98.7)	(506.1)	(21.5)	
Taxation paid	(51.5)	(69.1)	(29.3)	(11.7)	(66.0)	
Net cash flow from operating activities	450.6	672.5	(389.9)	890.9	105.5	
Finance income	0.92	0.52	0.39	0.61	0.75	
Purchase of P,P& E	(39.2)	(22.5)	(26.1)	(48.7)	(50.0)	
Cash (used) / generated in investing activities	(38.3)	(22.0)	(25.7)	(48.1)	(49.3)	
Dividends paid to owners of the Company	(543.0)	(181.0)	(45.3)	(67.9)	(113.1)	
Cash flows from financing activities	(543.0)	(181.0)	(45.3)	(67.9)	(113.1)	
Net increase / (decrease) in cash and cash equivalents	(130.7)	469.5	(460.9)	774.9	(56.9)	
Cash at beginning of the period	1,558.5	1,427.7	1,897.2	1,436.3	2,211.2	
Closing cash balance	1,427.7	1,897.2	1,436.3	2,211.2	2,154.3	

Source: Company data, Allenby Capital

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