

Storytel AB

Sweden | Information technology | MCAP 9,6 BSEK

Buy

Target Price
Current Price
Up/downside

SEK 226,7
SEK 190,0
19,3 %

The digital Gutenberg shows a vast revenue growth, right on the verge of profitability

Storytel is a Swedish company that records, distributes, and publish literature on both national and international markets. Within the company, there are two main segments – Printing and Subscriptions, with the latter including streaming of e-books and audiobooks. Storytel’s business strategy constitutes of reinvesting in geographical growth and gaining market share through acquisitions. They’ve increased revenue from 302,1 MSEK to 1867,3 MSEK 2015A-2019A and grew paying subscriptions from 202k to 1,1M during the same period. With the subscription base expected to grow with a CAGR of 35,0 % between 2020E and 2023E, an expected revenue growth of 31,0 % CAGR 2020E-2023E has been estimated. With a target EV/EBIT multiple of 15,0x, a potential price per share of 226,7 SEK and a TSR of 19,3 % in three years (2023E) are motivated.

Storytel will gain market share through acquisitions of leading publishing companies and personalize the user experience.

Storytel mainly gain market share through acquisitions of leading publishing companies, enabling them to build on their scalable business idea of developing products that attract a broader spectrum of the population as well as create tools to seize and develop the social integration of reading and listening. Compounding a user platform with a diverse collection of streaming opportunities, offering their service in the native language of the new market. Storytel has 80,0% market share of the Swedish market and is growing globally.

Taking advantage of customer preferences and creating value by customizing their product on each individual market, Storytel is estimated to reach a subscription growth of 35,0 % CAGR 2020E-2023E.

By exploiting on customer preferences and creating value by customizing their product on each individual market, a subscription growth of 35,0 % CAGR in 2020E-2023E is estimated. Storytel delivers a product with a solid stock, continuously growing their range and has gained a market advantage by securing successful publishing firms. The company is currently present on 20 markets worldwide, increasing paying subscriptions from 202,0 k to 1,1 M 2015A-2019A. Storytel will continually become profitable on earlier launched markets, with an average profitable launch period of three years and acquiring new authors, thus keeping up to date with the latest book trends. With the global audiobook market expecting to grow 15,0 % annually and an average historical subscription growth of 40,0 % CAGR, a subscription base of 3,6 M by 2023E is deduced.

Alexandra Stertman
Equity Research Analyst

Market Data

Listing Venue	Nasdaq
Price (SEK)	171,2
No. of outstanding shares (m)	56,1
Market Cap (m)	9605,8
Cash & Cash Equivalents (m)	365,9
Debt (m)	705,3
Net Debt (m)	34,0
Enterprise Value (m)	9945,2

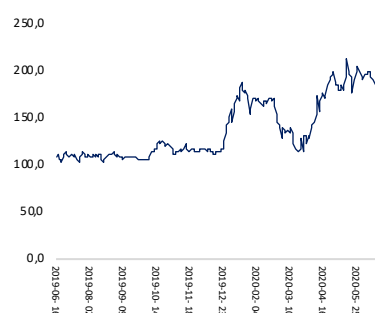
Key Financials (SEK)

	19A	20E	21E	22E
Sales (m)	1843,2	2411,4	3163,1	4085,7
Sales Growth y/y	26,3 %	30,8 %	31,2 %	29,2 %
Gross Profit	1464,5	1964,1	2642,9	3479,7
Gross Margin (%)	78,4 %	80,4 %	82,6 %	84,3 %
EBITDA (m)	-293,3	-145,4	111,6	442,1
EBITDA – Margin (%)	-18,1 %	-8,2 %	1,4 %	8,8 %
EBIT (m)	-360,6	-221,9	24,2	341,6
EBIT – Margin (%)	-19,3 %	-9,1 %	0,8 %	8,3 %
Net Income	-312,7	-190,2	1,7	249,2

Key Ratios (SEK)

	19A	20E	21E	22E
EV/EBITDA	-84,0	169,0	220,0	56,0
EV/EBIT	-68,0	-110,0	1012,0	72,0
EV/S	13,3	10,2	7,8	6,0
P/S	32,2	12,9	8,2	6,6

Share price (SEK)



Major shareholders

Roxette Photo NV	16,7 %
Handelsbanken Funds	9,7 %
Jonas Tellander	8,9 %
Swedbank Robur Funds	7,8 %
Annamaria Tellander	5,7 %
Total insider	14,6 %
Total institutional	34,2 %
Total	48,9 %

Investment thesis

Storytel will reach profitability by the year 2021E by former market entries becoming profitable and new market entries, eventuating in a growing subscription base of 35,0 % CAGR between 2020E and 2023E.

Storytel will reach profitability by the year 2021E by former market entries becoming profitable when established which will finance further geographical expansion and thus increase their market share, eventuating in a subscription CAGR of 35,0 % 2020E and 2023E. Storytel has had an expansion rate of six new markets in 2018 and four new markets in 2019, leaving the opportunity to expand to both eastern Europe and Asia. Storytel enters new markets partly through acquiring established publishing firms thus lowering the entire barriers. The Dutch and German markets reached profitability within the first year, which concludes in a plausible scenario for Finland, Poland, and Russia to turn a profit in 2020E. Storytel was able to subside the entry barriers of the market through acquisitions of leading publishing firms and with that well-established foundation of a publishing firm, vastly shortening the market entry period. The average time to profitability per market is three years, which is faster than the management's statements of reaching profitability within five years. Divided from four new market entries, an estimation of 2,0 M subscriptions compounds to a positive revenue stream of 1,7 MSEK in 2021E and furthermore, profitability, as expressed by an estimated EBIT margin of 0,8 % in 2021E.

Net sales divided by Nordic and Non-nordic 2019

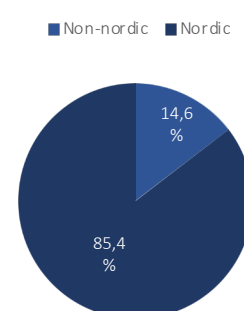
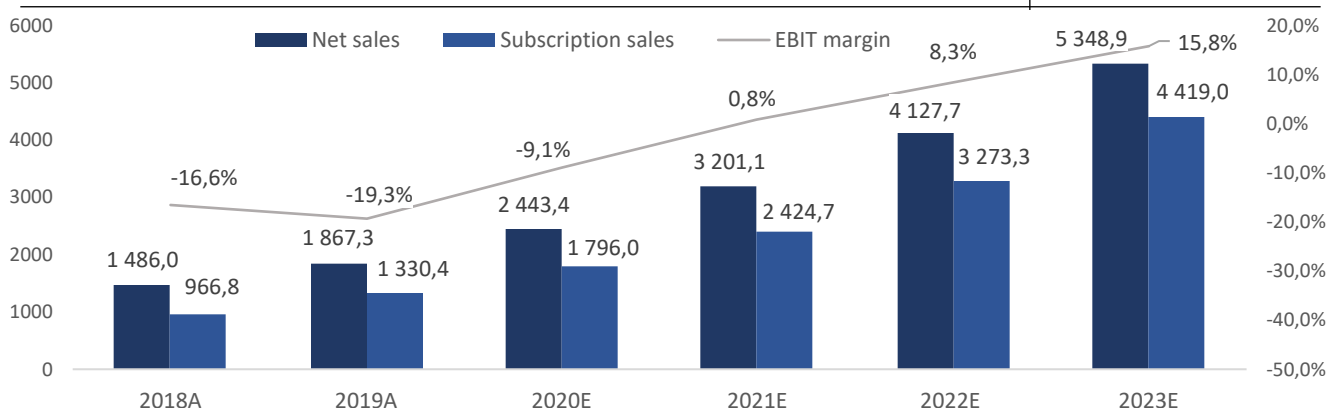


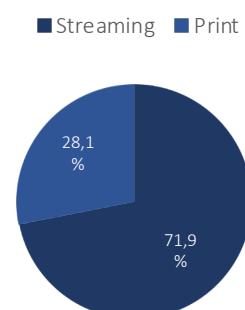
Chart 3 – Estimated revenue growth and EBIT margin



Storytel is estimated to grow net sales by 30,0 % CAGR between 2020E-2023E through expanding market share, reaching a revenue of 5358,0 MSEK by the year 2023E given a subscription stock of 3,6M.

Storytel has a steady ARPU of 127,0 (SEK/month), estimating a subscription CAGR of 35,0 % in 2023E, increasing their net sales by 30,0 % annually will eventuate in a revenue of 5 358 MSEK per target year and a given subscription stock of 3,6 M. This is deduced by decreasing acquisition costs of new subscribers and increasing market awareness in the non-nordic regions. In 2019A the non-nordic markets amounted to 325 800 subscribers and, the nordic markets amounted to 757 600 subscribers. The average number of subscribers in the non-nordic segment for the first quarter of 2020 amounted to 369 000, an increase of 43 200 paying subscribers compared to Q4 of 2019A. Streaming revenues for the non-nordic segment was 79,0 MSEK in the first quarter of 2020A, corresponding to an annual revenue growth of 111,0 % for non-nordic in 2020A. Storytel had as of 2019 1,1 M paying subscriptions and are estimated to reach 3,6 M in 2023E. Based on existing operations and new market entries, a subscriber CAGR of 35,0 % is estimated for 2020E-2023E, eventuating in a revenue stream of 5 358 MSEK in 2023E.

Net sales divided by Streaming and print 2019



Valuation

Storytel is currently trading at a discount to four comparable companies which is deduced by peer analysis and historical valuations, yielding a potential upside of 19,3 % based on a target EV/EBIT multiple of 15,0x.

Storytel is currently trading a discount to four comparable companies operating on similar markets, yielding a potential upside of 19,3 % based on a target EV/EBIT multiple of 15,0x. The target multiple is justified based on a relative valuation with four peers and historical data. The target multiple is aggregated slightly lower than peer average due to a lack of profitability and a competitive market with small barriers of entry. All peers are operating within the entertainment segment and have business models similar to Storytel. They are offering products and services within the entertainment field such as publishing of books, broadcasting and digital entertainment products.

Chart 4: Comparable companies

Company Name	Market Cap (MSEK)	Enterprise value (MSEK)	EV/EBIT 2019 x	Gross Margin Q1 2019 %	Gross Margin Q1 2020 %	EBIT margin 2019 %	EBIT Margin Q1 2020 %
ScandBook	53,7M	141,3M	11,0x	45,8%	44,9%	3,5%	3,1%
Schibsted ASA	56,5B	59,4M	33,8x	20,4%	19,4%	10,9%	10,1%
Nordic Entertainment	18,0B	2,4B	28,2x	32,3%	30,7%	4,8%	4,9%
Mavshack	50,8M	51,4M	(7,0)x	66,3%	69,0%	(52,1)%	(36,3)%
<i>Average</i>	<i>18,6B</i>	<i>0,6B</i>	<i>16,5x</i>	<i>41,2%</i>	<i>41,0%</i>	<i>4,8%</i>	<i>4,5%</i>
<i>Median</i>	<i>9,0B</i>	<i>96,3M</i>	<i>19,6x</i>	<i>39,0%</i>	<i>37,8%</i>	<i>4,2%</i>	<i>4,0%</i>
Storytel	9,6B	9,9B	(18,6)x	37,9%	44,6%	-19,3%	(-16,0)%

Storytel is valued by a peer comparison between four companies in regard to gross margin, EBIT margin and future prospects of the market.

Storytel has increased their gross margin to 44,6 % Q1 2020A, compared to 37,9 % Q1 2019A while competitors have decreased their gross margin during the same period or increased with a lower percentage point. Storytel has the opportunity to decrease acquisitions cost when established on a new market by their solid position on the digital audiobook market. In addition, Storytel has increased their EBIT margin from (19,3) % 2019A to (16,0) % Q1 2020A, in comparison to competitors such as Schibsted ASA and ScandBook which has a decreasing EBIT margins. Validation is found in the first quarter of 2020A, increasing the amount of average paying subscribers to 1,2 M which was 71,4 K more compared to Q4 2019A. With above mentioned factors taken in to consideration, a 15,0x multiple is justified.

Storytel has shown a vast revenue growth during the last quarter and a historically steady cash flow that will continue to finance new market entries eventuating in a positive EBIT of 848,0 MSEK in 2023E.

Storytel has increased revenue to 571,9 MSEK in Q1 2020A, compared to 385,0 MSEK in Q1 2019A and reduced their negative EBIT to (50,9) MSEK, compared to (84,3) MSEK during the same period, validating the estimated EBIT of 848,0 MSEK in 2023E. Storytel will continue to gain market share through geographical expansion and changes in consumer patterns. Shown by the recent Covid-19 pandemic, consumers look for alternative and easily accessible entertainment. The audiobook market is expected to grow to from 40B to 200B in the upcoming three years. Based on historical data and future opportunities an estimated target CAGR of 35,0 % 2020E-2023E for the subscriber base is concluded, justifying a 31,0 % CAGR in revenue during the same period, which implies a subscription base of 3,6 million subscribers and an EBIT of 848,0 MSEK in 2023E.

Key financials (TSEK)	2015A	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E
Net sales	298580,0	743900,0	1 170 861,0	1 459 953,0	1 843 267,0	2 411 481,5	3 163 185,2	4 085 747,3	5 312 739,3
Other operating income	3606,0	8045,0	28 352,0	26 055,0	24 037,0	31 922,0	38 206,4	41 977,0	46 124,7
Revenue	302186,0	751945,0	1 199 213,0	1 486 008,0	1 867 304,0	2 443 403,5	3 201 391,6	4 127 724,3	5 358 864,0
COGS									
Personal costs	-36352,0	-115426,0	207 378,0	284 974,0	402 622,0	477 844,1	556 922,5	646 508,2	747 991,8
Other operating costs	-310,0	-2250,0	2 524,0	4 238,0	100,0	1 500,0	1 500,0	1 500,0	1 500,0
SUM	-36662,0	-117676,0	209 902,0	289 212,0	402 722,0	479 344,1	558 422,5	648 008,2	749 491,8
Gross profit	265524,0	634269,0	989 311,0	1 196 796,0	1 464 582,0	1 964 059,4	2 642 969,0	3 479 716,1	4 609 372,2
OPEX									
Merchandise	-198133,0	-431937,0	692 576,0	892 904,0	1 142 305,0	1 370 766,0	1 644 919,2	1 973 903,0	2 368 683,6
Other external costs	-62432,0	-147048,0	308 022,0	486 164,0	615 577,0	738 692,4	886 430,9	1 063 717,1	1 276 460,5
SUM	-260565,0	-578985,0	1 000 598,0	1 379 068,0	1 757 882,0	2 109 458,4	2 531 350,1	3 037 620,1	3 645 144,1
EBITDA	4959,0	55284,0	11 287,0	182 272,0	293 300,0	145 399,0	111 618,9	442 096,0	964 228,1
Depreciation	-413,0	-20225,0	35 988,0	41 606,0	45 419,0	54 502,8	65 403,4	78 484,0	94 180,8
EBITA	4546,0	35059,0	47 275,0	223 878,0	338 719,0	199 901,8	46 215,6	363 611,9	870 047,2
Amortization	-1124,0	-7962,0	18 805,0	23 061,0	21 925,0	22 000,0	22 000,0	22 000,0	22 000,0
EBIT	3422,0	27097,0	66 080,0	246 939,0	360 644,0	221 901,8	24 215,6	341 611,9	848 047,2
Interest Income	15176,0	1506,0	3 647,0	3 782,0	11 674,0	7 000,0	7 000,0	7 000,0	7 000,0
Interest Expenses	-3571,0	-6943,0	19 635,0	18 049,0	31 294,0	29 000,0	29 000,0	29 000,0	29 000,0
EBT	15027,0	21660,0	82 068,0	261 206,0	380 264,0	243 901,8	2 215,6	319 611,9	826 047,2
Tax Expense	-6191,0	2936,0	10 833,0	48 764,0	67 520,0	53 658,4	487,4	70 314,6	181 730,4
Net Income	8836,0	24596,0	71 235,0	212 442,0	312 744,0	190 243,4	1 728,2	249 297,3	644 316,8

Outstanding shares	2017A	2018A	2019A	2020E	2021E	2022E	2023E
	51,5	55,9	55,9	55,9	55,9	55,9	55,9

	2017A	2018A	2019A	2020E	2021E	2022E	2023E
Sales growth	57,4%	24,7%	26,3%	30,8%	31,2%	29,2%	30,0%
Revenue growth	59,5%	23,9%	25,7%	30,9%	31,0%	28,9%	29,8%
Gross margin	82,5%	80,5%	78,4%	80,4%	82,6%	84,3%	86,0%
EBIT margin	-5,5%	-16,6%	-19,3%	-9,1%	0,8%	8,3%	15,8%
Net Income Margin	-5,9%	-14,3%	-16,7%	-7,8%	0,1%	6,0%	12,0%
Gross profit margin	82,1%	80,2%	78,2%	80,1%	82,3%	84,1%	85,9%

Subscription base

