FitchRatings

RATING ACTION COMMENTARY

Fitch Revises DMGT's Outlook to Stable; Affirms IDR at 'BB+'

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Fitch Ratings - London - 27 Sep 2024: Fitch Ratings has revised Daily Mail and General Trust plc's (DMGT) Outlook to Stable from Negative, while affirming its Long-Term Issuer Default Rating (IDR) at 'BB+'. Fitch has also affirmed its senior unsecured instrument rating at 'BB+' with a Recovery Rating (RR) of 'RR4'.

The Outlook revision reflects our belief that DMGT's revenue and Fitch-defined EBITDA for the financial year to September 2024 will exceed our previous expectations, and that credit metrics will remain within our thresholds over FY24 to FY27, albeit with limited leverage headroom due to its business profile and scale.

DMGT has a portfolio of businesses with variable growth prospects and profitability. The company holds a strong market position within traditional print and online media, property information, and a successful events business, which supports the rating. However, it is heavily exposed to the UK economy. While DMGT's profitability is weak for the rating, this is mitigated by sound financial discipline, as reflected in its low leverage and strong available liquidity.

KEY RATING DRIVERS

Improved Metrics, Stable Outlook: We forecast Fitch-defined EBITDA net leverage to decline to 1.6x in FY24 from 2.1x in FY23, driven by revenue and profit growth. We expect EBITDA margin to rise above 8% from 6.8%. Strong performance in events, better-than-budgeted print media revenues, and growth in Trepp will offset weakness in Landmark. We expect EBITDA margin to remain flat in FY25, before it rises to 9% by FY27. This will be supported by cost savings although Landmark's reduced yet still higher fixed-cost business model exposes it to some earnings volatility.

With no further gross debt reduction expected before bond maturity in June 2027, we forecast leverage will remain within our thresholds of 1.2x-1.7x. This, along with our estimates of pre-dividend free cash flow (FCF) margin remaining above 3%, supports the revision of the Outlook to Stable.

Efficiency Drive in Focus: We anticipate a new joint venture (JV) with News UK, combining print operations, could generate run-rate cost savings of GBP13 million per year. Further cost reductions from efficiency programmes, IT upgrades, and rationalisation of operations in the US, will help enhance profit margin despite secular challenges in print media. We expect large one-off restructuring costs in FY24 to support these initiatives. If a portion of such costs becomes recurring we may reclassify them above EBITDA, potentially lowering EBITDA margin and leading to a negative rating action.

Events, Strategic Asset: We expect events revenue and earnings to be sharply higher in FY24, driven by a continued post-pandemic recovery across the events sector and the success of COP28. We believe events will contribute over 20% of total revenues on a run-rate basis, becoming a material value driver for the portfolio. This growth is supported by the traditional big five energy and construction events globally and strong performance in emerging markets like Saudi Arabia. Profit margins in events are higher than those in media, while revenue visibility is typically no longer than a year.

UK Property Market, 2024 Trough: Landmark's revenues and profitability have continued to be hit by a weak UK property market, with transaction volumes constrained by high interest rates. Listings per month have remained above FY23 levels, but searches and completions have been weak. We cautiously expect a general improvement in activity and completion rates from late 2024 into 2025 as falling rates lead to better mortgage deals, though the market may continue to experience interim volatility. As a market leader, Landmark stands to benefit quickly from any recovery.

Cover Prices Mitigate Circulation Decline: DMGT has made cover price increases to manage costs and mitigate falling circulation. As of August 2024, Mail circulation was 8%-10% lower year-on-year, with many other competing papers also experiencing declines in the mid-to-high teens.

Print revenues have benefited from a gradually improving advertising market but we believe regular price increases will become less feasible as cost inflation eases. We expect circulation and print advertising revenues to continue declining by mid-single digits. Reduced circulation and content will also hit advertising yield, but DMGT's online content will offset a portion of the lost revenues and earnings.

Focus on Digital Media: We expect MailOnline to help mitigate some of the revenue loss in print as DMGT leverages its strong brand, content, and wide reach. We expect its share of total dmg Media revenues to rise from around 30% currently, as print media continues its structural decline. DMGT is investing in improving content quality, better tailoring it to regions, and expanding its data repository to better target advertising to readers. However, growing scale takes time and it is uncertain if digital media will fully compensate for print losses due to stiff competition across media platforms.

DERIVATION SUMMARY

DMGT's credit profile is supported by the group's B2B and consumer media portfolio and measured financial policy providing the flexibility to manage operational risks. However, the medium- to long-term visibility of cash flow is affected by uncertainties in the evolution of print circulation and advertising, and the likely need for continued investment in new products and digital platforms. The company's active management of its asset portfolio leads to more limited visibility of the scale and scope of the business. As a result, the thresholds for DMGT have been set tighter at the rating relative to peers.

Higher-rated larger peers with greater leverage flexibility such as RELX PLC (BBB+/Stable) and Informa PLC (BBB/Stable), Adevinta ASA (WD) and Thomson Reuters Corporation (BBB+/Stable) benefit from a combination of factors such as increased scale, a stronger operating mix driven by a higher proportion of subscription-based revenue and higher Fitch-defined EBITDA margins, little/lower exposure to print, and more discretionary cash flows supporting higher leverage or ratings.

KEY ASSUMPTIONS

Fitch's Key Assumptions Within Our Rating Case for the Issuer:

-Revenue CAGR of 2.0% in FY24-FY27 as near-term pressures in the consumer business and challenging macroeconomic outlook are offset by improved growth prospects in the events and property information businesses and economic recovery in later years

-Fitch-defined EBITDA margin of 8.4% in FY24 and trending to 9% by FY25

-Capex averaging 1.1% of revenue in FY24-FY27

-Non-recurring cash outflows of GBP37 million in FY24 and GBP10 million in FY25

-Dividends around GBP20 million in FY24, growing steadily to GBP25 million by FY27

-M&A outflows of GBP15 million in FY24, GBP13 million in FY25 and GBP10 million in FY26-FY27

RATING SENSITIVITIES

Factors That Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

We do not expect positive rating action due to the company's limited scale and diversification. However, an upgrade could occur on the following:

-Tangible improvement in the overall scale and/or diversification of the business, along with visibility of Fitch-defined EBITDA margin rising above 12.5%

-Fitch-defined EBITDA net leverage below 1.2x on a sustained basis

-Pre-dividend FCF margin above 5% on a sustained basis

Factors That Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

-Fitch-defined EBITDA net leverage consistently above 1.7x

-Weakening of Fitch-defined EBITDA margin, exacerbated by continuing exceptional charges deemed by Fitch to be operating and/or recurring in nature

-Pre-dividend FCF margin below 3% on a sustained basis

LIQUIDITY AND DEBT STRUCTURE

Adequate Liquidity: Fitch expects DMGT to generate stable low single-digit FCF margins for FY24- FY27. This, along with cash on its balance sheet and a GBP205 million undrawn revolving credit facility (RCF), should be sufficient to support operations and cover short-term liabilities. The company's RCF and GBP150 million bond mature in FY27.

Generic Approach for Debt Ratings: Fitch rates DMGT's senior unsecured rating in accordance with its Corporates Recovery Ratings and Instrument Ratings Criteria, under which we apply a generic approach to instrument notching for 'BB' rated issuers. This results in a Recovery Rating of 'RR4', in line with its IDR.

ISSUER PROFILE

DMGT is a diversified company with a portfolio of assets in the B2B and B2C spaces. B2B investments include property information and an events business. DMG Media is the B2C print and online media business with most of the revenues earned by the Daily Mail, Mail on Sunday and MailOnline news outlets.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

MACROECONOMIC ASSUMPTIONS AND SECTOR FORECASTS

Click here to access Fitch's latest quarterly Global Corporates Macro and Sector Forecasts data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING			RECOVERY	PRIOR
Daily Mail and General Trust plc	LT IDR	BB+ Rating Outlook Stable	Affirmed		BB+ Rating Outlook Negative
senior unsecured	LT	BB+	Affirmed	RR4	BB+

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Corporate Rating Criteria (pub. 03 Nov 2023) (including rating assumption sensitivity)

Sector Navigators – Addendum to the Corporate Rating Criteria (pub. 21 Jun 2024)

Corporate Recovery Ratings and Instrument Ratings Criteria (pub. 02 Aug 2024) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

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Endorsement Policy

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