Johnston Press PLC

Sales Desk Note

11 January 2016

HYBRIDAN

Pressing on

Johnston Press shares fell circa 70% over 2015. The shares now trade on a sub 2x earnings multiple. The top line revenue decline (down 8.8% in the 17 weeks to October 2015) and debt burden are good reasons to question an investment in Johnston Press.

But the company generates high levels of cash, and is taking action to build audiences (in media, eyeballs have value), evolve its growing digital offering leveraging off its established customer base, whilst keeping an eye on costs and paying down/reducing the cost of servicing debt.

Rationalisation continues at Johnston Press. Operating costs were down 5.3% in H1 to £101.9m. The management structure has recently been streamlined with less autonomy being granted at a regional level allowing for a cohesive national strategy.

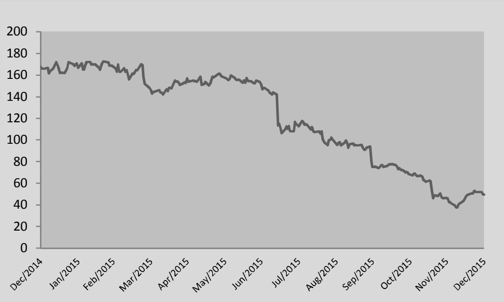
Audience growth and digital expansion remain core strategic pillars. In H1 digital revenues increased 17.5% to £16.5m, some 12.8% of total revenues. The November trading update pointed to further digital traction with the number of unique users growing on average by 22% to 21.5m per month. Johnston Press's unique profile makes it an attractive advertising platform for both national accounts, and local SMEs. The company continues to improve its digital offering through developments such as the AdPerfect self serve platform and real-time B2C news aiming to engage viewers for longer. Audience numbers like these mean that the major local news groups cannot be ignored by the nationals as per the acquisition of Local World by Trinity Mirror for circa £220m.

Whilst net debt of £183.3m and the £87m pension deficit currently dwarf equity holders, Johnston Press generates circa £50m per annum in cash from underlying operations. The debt reduction combined with a refinancing in 2014 allowed for H1 net finance costs to contract by 35.8% to £20m. A succesful delivery of strategy may allow for a further reduction of the cost of debt in due course. If one believes that the decline in print revenues can be effectively managed, which we do, investors in Johnston Press stand to be rewarded through a re-rating, potential corporate activity, and an eventual return to top line and earnings growth.

For disclosures, refer to the Disclosure Section

Key Statistics	
Code	: JPR
Listing	: LSE Main Market
Sector	: Media
Market Cap	: £46.4m
Share in issue	: 105.9m
Current Price	: 43.75p
12 month High/Low:	: 172.75p/37.5p

Stock Performance



Source: Fidessa

Company description

Johnston Press is one of the largest local and regional multimedia organisations in the UK. It provides news and information services to local and regional communities through an extensive portfolio of hundreds of publications and websites. Johnston Press's titles span Scotland, the North East, West Yorkshire, the North West & Isle of Man, South Yorkshire, the South, Midlands and Northern Ireland - delivering extensive coverage of local news, events and information. Its flagship titles are The Scotsman, the Yorkshire Post and the Falkirk Herald.

HYBRIDAN LLP
20 Ironmonger Lane, London, EC2V 8EP
Website: www.hybridan.com

Derren Nathan
Tel: 020 3764 2344
Email: derren.nathan@hybridan.com

Consensus Forecasts

Year Ending	Revenue (£m)	Pre-tax (£m)	EPS	P/E	Div	Yield
2015-12-31	246.65	30.80	21.99p	1.8	0.00p	0.0%
2016-12-31	235.50	29.25	21.90p	1.8	0.00p	0.0%

Source: DigitalLook

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