

# Cellularline

## 1H19A Results

Cellularline - Key estimates and data					
Y/E December		2018A	2019E	2020E	2021E
Revenues	EUR M	129.7	148.1	158.2	164.5
adj. EBITDA	EUR M	33.9	35.1	37.5	39.5
adj. EBIT	EUR M	31.0	31.8	34.0	36.0
adj. Net income	EUR M	23.1	23.4	23.9	25.3
Dividend ord.	EUR	0.30	0.32	0.33	0.35
adj. EPS	EUR	1.05	1.07	1.09	1.16
adj. EV/EBITDA	x	6.5	5.1	4.3	3.6
adj. P/E	x	6.8	6.6	6.5	6.1

A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

- 1H19A results.** Revenues were EUR 55.3M, up 13.5% yoy, broadly in line with our EUR 54.7M forecast. Organic growth was 6.3% (vs. 7% in our projections). We highlight that the top-line benefited from a positive contribution to revenues growth from all three product lines. Adjusted EBITDA was EUR 9.2M vs. EUR 8.3M in 1H18PF and EUR 9.1M in our estimates. The margin on revenues in 1H19 was 16.6%, compared to 17.1% in the previous year. The slight decrease in the margin is mainly due to the rising cost of goods sold and a moderate increase in general and administrative costs related to the STAR listing requirements. The adjusted net result stood at EUR 6.2M increasing by 32.6% yoy. Net debt was EUR 39.6M vs. EUR 24.5M posted at YE18.
- Outlook.** Despite the still difficult market context, the group returned to post a positive organic growth, thanks to both the result of the strategic and commercial actions taken since 2H18 and the disappearance of the non-recurring negative factors that had mainly influenced the Italian market during 1H18, which however continues to perform below the European average. Looking at the outlook for the FY, management expects: i) to complete the Systemaitalia integration by 4Q, with revenues and cost synergies at full speed in FY20; ii) to increase the contribution from the audio segment and value added services, combined with a significant new products pipeline in coming months; and iii) to increase brand awareness and to further support business growth with new upcoming strategic initiatives in 4Q19. Lastly, management stated that also following the acquisition of Systemaitalia last April, it is continuing to consider M&A opportunities for market consolidation both in Italy and abroad.
- Estimates and valuation.** We recall that we had recently slightly revised our forecasts (please see our report published on 3 September) mainly to include an expected weaker profitability due to a less favourable product mix as we expect a higher weighting of the AQL business line, distribution channel mix and higher structural costs to satisfy the MTA listing requirements. Following 1H19 results, we confirm our estimates and **our target price of EUR 10.8/share** which now implies a premium of around 52% on current prices. **We thus also confirm our BUY rating on the stock.** Overall, we believe that Cellularline can leverage on some company-specific positives, including: 1) a strong positioning and consolidated market shares in both Italy and Europe; 2) a wide and extensive product range; 3) a positive growth track record, outperforming all the major EU markets; 4) solid operating cash flow generation; and 5) a strong brand awareness, particularly in Italy.
- Key risks.** In our view, the key risks are: 1) an increase in competition from the main competitors and a potentially higher penetration of private labels and online competitors; 2) potentially rapid changes in consumer trends and needs, also given the fast-technological evolution of electronics' components and accessories, with a possible impact on the group's strategy and brand awareness; and 3) we see a potential dilution and overhang risk due to the conversion of special shares and warrants.

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Date and time of production

**BUY**

Target Price: EUR 10.8

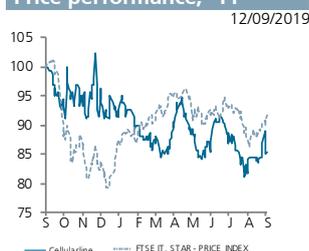
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Price performance, -1Y



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MTA-STAR

Priced at market close on 12/09/2019\*

Target price (€)	10.8
Target upside (%)	52.54
Market price (€)	7.08
52Wk range (€)	8.50/6.72
Market cap (€ M)	154.83
No. of shares	21.87
Free float (%)	75.0
Major shr	S.L.M.K. SA
(%)	10.4
Reuters	CELL.MI
Bloomberg	CELL IM
FTSE IT. STAR	34554

Performance %			
Absolute	Rel. to FTSE IT. ST.		
-1M	4.4	-1M	-0.3
-3M	-1.1	-3M	-0.8
-12M	-14.7	-12M	-6.9

\*unless otherwise indicated within report. Source: FactSet and Intesa Sanpaolo Research estimates

See page 9 for full disclosures and analyst certification  
Banca IMI is Specialist to Cellularline

## 1H19A Results

Revenues were EUR 55.3M, up 13.5% yoy, broadly in line with our EUR 54.7M forecast. Organic growth was 6.3% (vs. 7% in our projections), while 7.2% was due to the acquisition of Systemaitalia which occurred in April 2019.

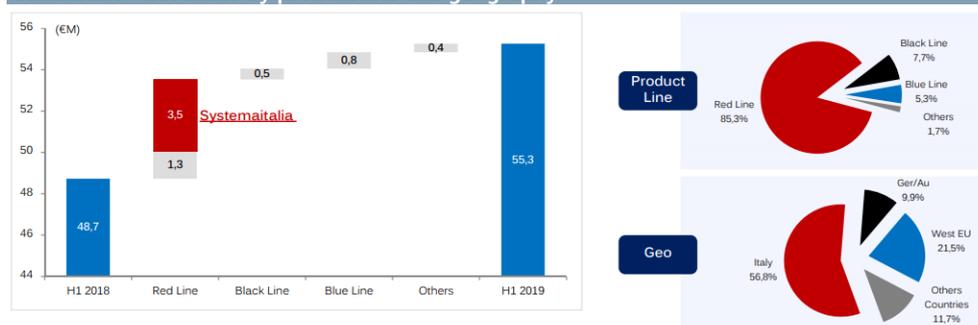
Cellularline – 1H19 results					
EUR M	1H18PF	1H19A	yoy %	1H18E	A/E %
Revenues	48.7	55.3	13.5	54.7	1.1
Adj. EBITDA	8.3	9.2	10.3	9.1	1.1
Adj. net income	4.7	6.2	32.6	NA	

NA: not available; A: actual; PF: pro-forma; E: estimates; Source: Company data and Intesa Sanpaolo Research

We highlight that the top-line benefited from a positive contribution to revenues growth from all three product lines. In particular:

- Red Line, which accounts for 85.3% of total revenue, underpinned the rebound in 1H19 thanks to: i) Multiyear contracts signed with top Consumer Electronics retailers; ii) the Reopening of some PoS; and iii) a positive contribution from the audio segment (AQL brand) and new services, which offset a moderate decline in some other product categories;
- Blue Line (5.3% of total revenue) increased thanks to the new contracts' distribution signed in 4Q18 with Samsung and Huawei;
- Black Line (7.7% of total revenues) benefitted from the launch of new interphone products.

### Cellularline - Revenues by product line and geography



Source: Company data

Adjusted EBITDA was EUR 9.2M vs. EUR 8.3M in 1H18PF and EUR 9.1M in our estimates. The margin on revenues in 1H19 was 16.6% compared to 17.1% in the previous year. The slight decrease in the margin was due to the rising cost of goods sold, partially offset by the net effect between a lower weighting of sales and distribution costs and a moderate increase in general and administrative costs, the latter also following the strengthening of the group's management structure and personnel, in accordance with the compliance requirements set by STAR and to support the strategic development of the business.

Adjusted net result stood at EUR 6.2M increasing by 32.6% yoy. We recall that the adj. net result does not consider the Purchase Price Allocation (PPA), whose effects are not related to ordinary business, as well as extraordinary costs and fair value warrant.

Net debt was EUR 39.6M vs. EUR 24.5M posted at YE18, including a EUR 2.1M negative impact arising from IFRS 16.

## Earnings Outlook

Despite the still difficult market context, the group returned to post a positive organic growth, thanks to both the result of the strategic and commercial actions taken since the second half of 2018 and the removal of the non-recurring negative factors that had impacted the Italian market during the first half of 2018, which nonetheless continues to perform below the European average.

Looking at the FY outlook, management expects: i) to complete the Systemaitalia integration by 4Q, with revenues and costs synergies at full speed in FY20; ii) to increase the contribution from the audio segment and value-added services, combined with an important new products pipeline in the coming months; and iii) to increase brand awareness and to further support business growth with new upcoming strategic initiatives in 4Q19. Lastly, management stated that also following the acquisition of Systemaitalia last April it is continuing to consider M&A opportunities for market consolidation in both Italy and abroad.

### Estimates confirmed

We recall that we had recently slightly revised our forecasts (please see our report published on 3 September) mainly to include an expected weaker profitability due to a less favourable product mix as we expect a higher weighting of the AQL business line, distribution channel mix and higher structural costs to satisfy the MTA listing requirements. Following 1H19 results, we confirm our 2019-21E estimates.

**Estimates confirmed**

## Valuation

We valued Cellularline using a DCF approach. We highlight that our valuation does not include any potential opportunities arising from external growth which, according to management, should be a key strategic pillar for the group in the next few years.

Following 1H19 results, **we confirm our target price of EUR 10.8/share**, which now implies a premium of around 52% on current prices. **We thus also confirm our BUY rating on the stock.**

**EUR 10.8/share TP; BUY**

Overall, we believe that Cellularline can leverage on some company-specific positives, including: 1) a strong positioning and consolidated market shares in both Italy and Europe; 2) a wide and extensive product range; 3) a positive growth track record, outperforming all the major EU markets; 4) strong product innovation ability, capturing consumers' needs and trends; we highlight that the company's inventory obsolescence rate stands below 2%; 5) an experienced management team; 6) solid operating cash flow generation; and 7) a strong brand awareness, particularly in Italy.

### Discounted cash flow

We used the following key assumptions in our valuation:

- We confirmed our 8.1% WACC, also incorporating our updated parameters: risk-free rate of 1.75%; an equity risk premium of 7.0%; a re-levered beta of 1.2 (Source: Intesa Sanpaolo Research elaboration on Bloomberg data) and a long-term target gearing ratio of 30%;

Cellularline - WACC calculation (%)	
Risk-free rate	1.75
Equity risk premium	7.00
Beta (x)*	1.2
<u>Cost of equity</u>	<u>10.1</u>
Net cost of debt	3.5
Gross cost of debt	5.0
Tax rate	30
Gearing	30
<b>WACC</b>	<b>8.1</b>

\* Intesa Sanpaolo Research elaboration on Bloomberg data; Source: Intesa Sanpaolo Research estimates

- Terminal value growth is prudentially set at 0%, while in calculating the LT, we applied the average of 2017 restated-2021E for revenues and the level of EBIT margin we estimate for FY21E. As usual, LT depreciation equals capex;
- We adjusted the number of shares to include the effects arising from the potential conversion and warrants.

Cellularline - DCF model (2019E-21E)				
EUR M	2019E	2020E	2021E	LT
Sales	148.1	158.2	164.5	148.0
yoy %	14.2	6.8	4.0	
EBIT	31.8	34.0	36.0	32.4
EBIT margin (%)	21.5	21.5	21.9	21.9
Taxes	-4.5	-6.2	-6.8	-9.1
NOPAT	27.3	27.8	29.2	23.3
Non-cash items	2.9	3.1	3.1	
Investments	-8.2	-3.0	-3.0	
NWC changes	-8.3	-4.6	-2.9	
Others	0.0	0.0	0.0	
FCF	13.7	23.3	26.4	23.3
Discounted FCF	13.4	21.0	22.0	18.0
WACC (%)	8.1			
Perpetuity growth rate (%)	0.0			
NPV of cash flows	56.4			
NPV of terminal value (2022E)	221.7			
EV	278.1			
Net debt 2018	22.0			
Equity value	256.1			
No. of shares fully diluted (M)	23.6			
<b>Value per share (EUR)</b>	<b>10.8</b>			

Source: Intesa Sanpaolo Research estimates

Cellularline - Sensitivity analysis					
EUR/share	Growth (%)				
WACC (%)	-1.0	-0.5	0.0	0.5	1.0
7.1	11.2	11.8	12.5	13.4	14.3
7.6	10.4	11.0	11.6	12.3	13.2
8.1	9.8	10.3	<b>10.8</b>	11.4	12.1
8.6	9.2	9.7	10.1	10.7	11.3
9.1	8.7	9.1	9.5	10.0	10.5

Source: Intesa Sanpaolo Research estimates

Cellularline - Key data						
Rating	Target price (EUR/sh)	Mkt price (EUR/sh)	Sector	Free float (%)	Reuters Code	
BUY	Ord 10.8	Ord 7.08	IT Distributors	75.0	CELL.MI	
<b>Values per share (EUR)</b>						
		2017 Restated	2018PF	2019E	2020E	2021E
No. ordinary shares (M)		21.67	21.67	21.67	21.67	21.67
No. NC saving/preferred shares (M)		0.20	0.20	0.20	0.20	0.20
Total no. of shares (M)		21.87	21.87	21.87	21.87	21.87
Market cap (EUR M)		225.18	196.75	154.83	154.83	154.83
Adj. EPS		1.08	1.05	1.07	1.09	1.16
CFPS		1.2	0.90	0.96	1.1	1.1
BVPS		4.8	8.8	9.3	10.0	10.8
Dividend ord		2.73	0.30	0.32	0.33	0.35
<b>Income statement (EUR M)</b>						
		2017 Restated	2018PF	2019E	2020E	2021E
Revenues		139.5	129.7	148.1	158.2	164.5
Adj. EBITDA		39.5	33.9	35.1	37.5	39.5
Adj. EBIT		36.5	31.0	31.8	34.0	36.0
Adj. net income		23.7	23.1	23.4	23.9	25.3
<b>Cash flow (EUR M)</b>						
		2017 Restated	2018PF	2019E	2020E	2021E
Net income before minorities		23.7	16.9	17.8	20.2	21.6
Depreciation and provisions		3.0	2.9	3.3	3.5	3.5
Others/Uses of funds		0	0	5.3	5.3	5.3
Change in working capital		-3.2	3.3	-8.3	-4.6	-2.9
Operating cash flow		23.5	23.1	18.1	24.4	27.5
Capital expenditure		-1.4	-3.0	-3.0	-3.0	-3.0
Financial investments		0	0	-5.2	0	0
Acquisitions and disposals		0	0	0	0	0
Free cash flow		22.1	20.1	9.9	21.4	24.5
Dividends		-59.8	0	-6.1	-7.0	-7.2
Equity changes & Other non-operating items		-1.2	22.9	-5.7	2.5	2.5
Net cash flow		-38.9	43.0	-1.9	16.9	19.8
<b>Balance sheet (EUR M)</b>						
		2017 Restated	2018PF	2019E	2020E	2021E
Net capital employed		169.9	214.0	227.5	226.4	223.5
of which associates		0	0	0	0	0
Net debt/-cash		65.0	22.0	23.9	7.0	-12.8
Minorities		0	0	0	0	0
Net equity		104.9	192.0	203.7	219.4	236.3
Minorities value		0	0	0	0	0
Enterprise value		290.2	218.7	178.7	161.8	142.0
<b>Stock market ratios (x)</b>						
		2017 Restated	2018PF	2019E	2020E	2021E
Adj. P/E		6.6	6.8	6.6	6.5	6.1
P/CFPS		5.9	7.9	7.3	6.5	6.2
P/BVPS		1.5	0.8	0.8	0.7	0.7
Payout (%)		0	26	30	30	30
Dividend yield (% ord)		26.6	3.3	4.5	4.6	4.9
FCF yield (%)		14.1	12.9	6.4	13.8	15.8
EV/sales		2.1	1.7	1.2	1.0	0.9
Adj. EV/EBITDA		7.4	6.5	5.1	4.3	3.6
Adj. EV/EBIT		8.0	7.1	5.6	4.8	3.9
EV/CE		1.7	1.0	0.8	0.7	0.6
D/Adj. EBITDA		1.6	0.6	0.7	0.2	Neg.
D/Adj. EBIT		1.8	0.7	0.8	0.2	Neg.
<b>Profitability &amp; financial ratios (%)</b>						
		2017 Restated	2018PF	2019E	2020E	2021E
Adj. EBITDA margin		28.3	26.1	23.7	23.7	24.0
Adj. EBIT margin		26.1	23.9	21.5	21.5	21.9
Tax rate		28.7	NM	20.2	23.4	24.3
Adj. Net income margin		17.0	17.8	15.8	15.1	15.4
ROCE		21.0	8.8	10.6	12.5	13.5
ROE		21.6	11.4	9.0	9.6	9.5
Interest cover		NM	NM	24.1	28.2	30.2
Debt/equity ratio		62.0	11.5	11.7	3.2	Neg.
<b>Growth (%)</b>						
			2018PF	2019E	2020E	2021E
Sales			-7.0	14.2	6.8	4.0
Adj. EBITDA			-14.1	3.6	6.8	5.3
Adj. EBIT			-15.0	2.6	6.9	5.9
Adj. net income			-2.5	1.4	2.1	5.9

NM: not meaningful; Neg.: negative; A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

## Our Mid Corporate Definition

Italy is characterised by a large number of non-listed and listed micro, small and medium-sized companies. Looking at the revenues of these Italian companies, around 5,000 companies have revenues ranging from EUR 50M-EUR 1,500M based on Intesa Sanpaolo elaborations. We define these companies as 'Mid Corporate'. Looking more specifically at Italian listed companies, we include in our Mid Corporate segment all STAR companies and those with a market capitalisation below EUR 1Bn.

**Notes**

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The Intesa Sanpaolo SpA Equity Research Department values the companies for which it assigns recommendations as follows:

We obtain a fair value using a number of valuation methodologies including: discounted cash flow method (DCF), dividend discount model (DDM), embedded value methodology, return on allocated capital, break-up value, asset-based valuation method, sum-of-the-parts, and multiples-based models (for example PE, P/BV, PCF, EV/Sales, EV/EBITDA, EV/EBIT, etc.). The financial analysts use the above valuation methods alternatively and/or jointly at their discretion. The assigned target price may differ from the fair value, as it also takes into account overall market/sector conditions, corporate/market events, and corporate specifics (ie, holding discounts) reasonably considered to be possible drivers of the company's share price performance. These factors may also be assessed using the methodologies indicated above.

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Equity rating key (long-term horizon: 12M)	
Long-term rating	Definition
BUY	If the target price is 20% higher than the market price
ADD	If the target price is 10%-20% higher than the market price
HOLD	If the target price is 10% below or 10% above the market price
REDUCE	If the target price is 10%-20% lower than the market price
SELL	If the target price is 20% lower than the market price
RATING SUSPENDED	The investment rating and target price for this stock have been suspended as there is not a sufficient fundamental basis for determining an investment rating or target. The previous investment rating and target price, if any, are no longer in effect for this stock.
NO RATING	The company is or may be covered by the Research Department but no rating or target price is assigned either voluntarily or to comply with applicable regulations and/or firm policies in certain circumstances.
TARGET PRICE	The market price that the analyst believes the share may reach within a one-year time horizon
MARKET PRICE	Closing price on the day before the issue date of the report, as indicated on the first page, except where otherwise indicated

### Historical recommendations and target price trends (long-term horizon: 12M)

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### Equity rating allocations (long-term horizon: 12M)

Intesa Sanpaolo Research Rating Distribution (at August 2019)					
Number of companies considered: 113	BUY	ADD	HOLD	REDUCE	SELL
Total Equity Research Coverage relating to last rating (%)	47	19	33	1	0
of which Intesa Sanpaolo's Clients (%) (*)	79	41	43	0	0

(\*) Companies on behalf of whom Intesa Sanpaolo and the other companies of the Intesa Sanpaolo Group have provided corporate and Investment banking services in the last 12 months; percentage of clients in each rating category

### Valuation methodology (short-term horizon: 3M)

Our short-term investment ideas are based on ongoing special market situations, including among others: spreads between share categories; holding companies vs. subsidiaries; stub; control chain reshuffling; stressed capital situations; potential extraordinary deals (including capital increase/delisting/extraordinary dividends); and preys and predators. Investment ideas are presented either in relative terms (e.g. spread ordinary vs. savings; holding vs. subsidiaries) or in absolute terms (e.g. preys).

The companies to which we assign short-term ratings are under regular coverage by our research analysts and, as such, are subject to fundamental analysis and long-term recommendations. The main differences attain to the time horizon considered (monthly vs. yearly) and definitions (short-term 'long/short' vs. long-term 'buy/sell'). Note that the short-term relative recommendations of these investment ideas may differ from our long-term recommendations. We monitor the monthly performance of our short-term investment ideas and follow them until their closure.

### Equity rating key (short-term horizon: 3M)

Equity rating key (short-term horizon: 3M)	
Short-term rating	Definition
LONG	Stock price expected to rise or outperform within three months from the time the rating was assigned due to a specific catalyst or event
SHORT	Stock price expected to fall or underperform within three months from the time the rating was assigned due to a specific catalyst or event

### Company specific disclosures

Intesa Sanpaolo S.p.A. and the other companies belonging to the Intesa Sanpaolo Banking Group (jointly also the "Intesa Sanpaolo Banking Group") have adopted written guidelines "Modello di Organizzazione, Gestione e Controllo" pursuant to Legislative Decree 8 June, 2001 no. 231 (available at the Intesa Sanpaolo website, webpage [http://www.group.intesasanpaolo.com/scripts/lir0/si09/governance/eng\\_wp\\_governance.jsp](http://www.group.intesasanpaolo.com/scripts/lir0/si09/governance/eng_wp_governance.jsp), along with a summary sheet, webpage <https://www.bancaimi.com/en/bancaimi/chisiamo/documentazione/normative>) setting forth practices and procedures, in accordance with applicable regulations by the competent Italian authorities and best international practice, including those known as Information Barriers, to restrict the flow of information, namely inside and/or confidential information, to prevent the misuse of such information and to prevent any conflicts of interest arising from the many activities of the Intesa Sanpaolo Banking Group which may adversely affect the interests of the customer in accordance with current regulations.

In particular, the description of the measures taken to manage interest and conflicts of interest – related to Articles 5 and 6 of the Commission Delegated Regulation (EU) 2016/958 of 9 March 2016 supplementing Regulation (EU) No. 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the technical arrangements for objective presentation of investment recommendations or other information recommending or suggesting an investment strategy and for disclosure of particular interests or indications of conflicts of interest as subsequently amended and supplemented, the FINRA Rule 2241, as well as the Financial Conduct Authority's Conduct of Business Sourcebook rules COBS 12.4 - between the Intesa Sanpaolo Banking Group and issuers of financial instruments, and their group companies, and referred to in research products produced by analysts at Intesa Sanpaolo S.p.A. is available in the "Rules for Research " and in the extract of the "Corporate model on the management of inside information and conflicts of interest " published on the website of Intesa Sanpaolo S.p.A.

At the Intesa Sanpaolo website, webpage [http://www.group.intesasanpaolo.com/scripts/lir0/si09/studi/eng\\_archivio\\_conflitti\\_mad.jsp](http://www.group.intesasanpaolo.com/scripts/lir0/si09/studi/eng_archivio_conflitti_mad.jsp) you can find the archive of disclosure of interests or conflicts of interest of the Intesa Sanpaolo Banking Group in compliance with the applicable laws and regulations.

Furthermore, we disclose the following information on the Intesa Sanpaolo Banking Group's conflicts of interest:

- 1 One or more of the companies of the Intesa Sanpaolo Banking Group plan to solicit investment banking business or intends to seek compensation from Cellularline in the next three months
- 2 One or more of the companies of the Intesa Sanpaolo Banking Group have an equity stake of 3% or more in Cellularline or in the Company that has a controlling interest in Cellularline or are a major shareholder of Cellularline
- 3 One or more of the companies of the Intesa Sanpaolo Banking Group have a Long position larger than the 0.5% of the issued share capital of Cellularline
- 4 Banca IMI acts as Nominated Advisor, Specialist relative to securities issued by Cellularline

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