

CELLULARLINE

BUY

Price (Eu):

6.84

Target Price (Eu):

10.30

SECTOR: Consumers

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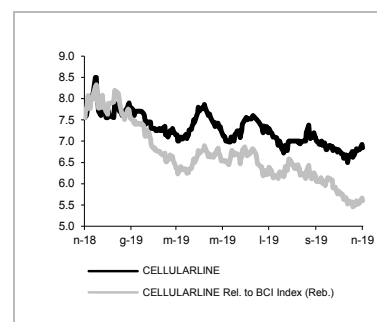
Revenue Set To Accelerate in 4Q After 3Q Slowdown

- Systema integration supports top line progress amid organic growth slowdown in 3Q.** On 14 November 2019, Cellularline reported 9M19 results. 3Q19 revenues were €38mn, up +10.2% YoY with organic growth of +2%, (vs +6% in 1H), a slight slowdown due to lower smartphone sales, (especially Huawei), which were particularly impacted by the US-China trade war (3Q Blue Line revenues down -50% YoY). Recent acquisition Systema contributed the most to top-line growth (8.2%), with €2.8mn in additional sales in 3Q, boosting Red Line sales growth (protective cases and films, chargers, audio, wearables: 88% of 9M19 sales) to +14% in 3Q. Red Line organic growth also accelerated in 3Q (+5% vs +3% in 1H) mostly thanks to: i) Italy, where CELL has enlarged its product offering and expanded its coverage to all of the country's top CE retailer stores (vs 60% in 2018) thanks to the new multi-year contract signed in late 2018 (partly offset by difficulties in the Telco segment); and ii) the continued good performance of the AQL brand.
- Systema & AQL expansion: channel mix hurts margins again in 3Q.** 3Q19 adj. EBITDA was down -3.5% YoY to €9.8mn, a 25.9% margin (-3.6pp YoY) due to: i) the integration of Systema, active in the less-profitable telco segment (no impact from synergies expected before late 4Q19, run rate in FY20); ii) the aggressive price strategy adopted for the AQL brand expansion; and iii) an adverse evolution of the client mix in Italy, as major CE retailers with higher pricing power gain share within Cellularline's portfolio. Consequently, adj. EBIT and adj. net income were down by -5% and -6% YoY in 3Q19 respectively. FCF was positive at €1.1mn in 3Q thanks to WC cash absorption, causing net debt pre-IFRS16 to remain steady QoQ at €37mn (still down from €24.5mn as at YE18).
- Focus on Black Friday, strategic initiatives and M&A going forward.** Conf call highlights included: i) high expectations for 4Q comprising Black Friday and Christmas, especially on audio products (AQL brand) and in Italy through the aforementioned wider presence within the country's top CE reseller network; ii) new strategic initiatives such as the rebranding of Cellularline in its main markets and the creation of a new brand by 1Q20 (developed in-house), targeting the lower-end of the market and mostly for Eastern Europe; iii) actively carrying on scouting of M&A opportunities; iv) Systema revenue and cost synergies to start in 4Q19 and be fully up and running in '20.
- Estimates fine-tuned.** We are lowering our 2019 sales estimate by 3.5 % to reflect the lower organic growth seen in 3Q, projecting +11.2% growth in 4Q19E, slightly above the +10% seen in 3Q19. We are also reducing our margin forecasts to a similar extent. For 2020, we are trimming EPS by 5.4% to reflect lower patent box benefits and net debt to €10mn to include higher NWC cash absorption due to the development of Systema.
- BUY confirmed, TP to €10.3 from €10.7.** We have revised our TP slightly downwards to €10.3 to reflect the aforementioned changes to estimates but we reiterate our positive stance on the stock as our new TP still represents potential 51% upside to the last closing price. The 15.3% FCF yield and 5.3% dividend yield for '20 still look attractive to us and we think the stock looks cheap at 6.7x P/E '20 and 4.5x EV/adj. EBITDA '20.

Next event:

FY18 Results out March 11th 2020

CELLULARLINE - 12m Performance



RATING: Unchanged

TARGET PRICE (Eu): from 10.70 to 10.30

Ch. in Adj.EPS est: 2019E 2020E
-3.1% -5.4%

STOCK DATA

Reuters code: CELL.MI
Bloomberg code: CELL IM

Performance	1m	3m	12m
Absolute	0.6%	-2.3%	-9.4%
Relative	-4.2%	-14.4%	-31.5%
12 months H/L:	8.50/6.50		

SHAREHOLDER DATA

No. of Ord. shares (mn):	23
Total No. of shares (mn):	23
Mkt Cap Ord (Eu mn):	155
Total Mkt Cap (Eu mn):	155
Mkt Float - ord (Eu mn):	94
Mkt Float (in %):	61.0%
Main shareholder:	
Private Equity funds	14.0%

BALANCE SHEET DATA

	2019
Book value (Eu mn):	189
BVPS (Eu):	8.34
P/BV:	0.8
Net Financial Position (Eu mn):	-28
Enterprise value (Eu mn):	183

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Key Figures	2017A	2018A	2019E	2020E	2021E
Sales (Eu mn)	139	130	145	155	161
Ebitda (Eu mn)	39	28	32	36	39
Net profit (Eu mn)	24	17	17	19	20
EPS - New Adj.(Eu)	1.062	1.019	1.001	1.015	1.056
EPS - Old Adj.(Eu)	1.062	1.019	1.033	1.074	1.139
DPS (Eu)	0.000	0.271	0.317	0.362	0.362

Ratios & Multiples	2017A	2018A	2019E	2020E	2021E
P/E Adj.	6.4	6.7	6.8	6.7	6.5
Div. Yield	0.0%	4.0%	4.6%	5.3%	5.3%
EV/Ebitda Adj.	5.6	5.3	5.4	4.5	3.8
ROCE	22.9%	9.8%	10.6%	12.7%	14.1%

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CELLULARLINE - KEY FIGURES

		2017A	2018A	2019E	2020E	2021E
	Fiscal year end	31/12/2017	31/12/2018	31/12/2019	31/12/2020	31/12/2021
PROFIT & LOSS (Eu mn)	Sales	139	130	145	155	161
	EBITDA	39	28	32	36	39
	EBIT	36	19	23	27	29
	Financial income (charges)	(2)	(7)	(2)	(2)	(1)
	Associates & Others	0	0	0	0	0
	Pre-tax profit (Loss)	33	12	21	26	28
	Taxes	(10)	5	(4)	(7)	(8)
	Tax rate (%)	28.7%	-45.3%	19.3%	26.6%	29.4%
	Minorities & discontinue activities	0	0	(0)	(0)	(0)
	Net profit	24	17	17	19	20
	Total extraordinary items	(0)	(2)	(2)	0	0
	Ebitda excl. extraordinary items	39	34	34	36	39
	Ebit excl. extraordinary items	36	31	31	33	35
Net profit restated	24	23	23	23	24	
PER SHARE DATA (Eu)	Total shares out (mn) - average fd	23	23	23	23	23
	EPS stated fd	1.047	0.746	0.752	0.826	0.870
	EPS restated fd	1.062	1.019	1.001	1.015	1.056
	BVPS fd	4.641	8.483	8.344	8.892	9.406
	Dividend per share (ord)	0.000	0.271	0.317	0.362	0.362
	Dividend per share (sav)	0.000	0.000	0.000	0.000	0.000
	Dividend pay out ratio (%)	0.0%	36.4%	42.1%	43.8%	41.6%
CASH FLOW (Eu mn)	Gross cash flow	28	26	27	32	32
	Change in NWC	(5)	(1)	(9)	(4)	(4)
	Capital expenditure	(2)	(2)	(4)	(3)	(3)
	Other cash items	0	(3)	(6)	0	0
	Free cash flow (FCF)	9	23	13	24	24
	Acquisitions, divestments & others	0	0	(5)	0	0
	Dividend	(60)	0	(6)	(7)	(8)
	Equity financing/Buy-back	0	20	0	0	0
Change in Net Financial Position	(39)	40	(4)	18	18	
BALANCE SHEET (Eu mn)	Total fixed assets	110	180	175	168	162
	Net working capital	60	61	70	74	77
	Long term liabilities	(1)	(25)	(28)	(31)	(34)
	Net capital employed	170	216	217	211	205
	Net financial position	(65)	(24)	(28)	(10)	8
	Group equity	105	192	189	201	213
	Minorities	0	0	0	0	0
Net equity	105	192	189	201	213	
ENTERPRISE VALUE (Eu mn)	Average mkt cap - current	155	155	155	155	155
	Adjustments (associate & minorities)	0	0	0	0	0
	Net financial position	(65)	(24)	(28)	(10)	8
	Enterprise value	220	179	183	165	147
RATIOS(%)	EBITDA margin*	28.0%	26.2%	23.4%	23.4%	24.0%
	EBIT margin*	25.6%	23.7%	21.2%	21.3%	21.9%
	Gearing - Debt/equity	62.0%	12.8%	15.0%	5.0%	-3.6%
	Interest cover on EBIT	14.4	2.6	13.2	18.0	22.3
	Debt/Ebitda	1.67	0.88	0.89	0.28	nm
	ROCE*	22.9%	9.8%	10.6%	12.7%	14.1%
	ROE*	21.6%	11.4%	8.9%	9.6%	9.5%
	EV/CE	1.4	0.9	0.8	0.8	0.7
	EV/Sales	1.6	1.4	1.3	1.1	0.9
	EV/Ebit	6.2	5.8	5.9	5.0	4.2
Free Cash Flow Yield	5.6%	15.0%	8.7%	15.3%	15.6%	
GROWTH RATES (%)	Sales	-15.2%	-7.0%	11.8%	6.9%	3.5%
	EBITDA*	0.5%	-13.0%	0.0%	6.8%	6.2%
	EBIT*	0.2%	-13.8%	0.2%	7.3%	6.4%
	Net profit	200.0%	-28.7%	0.8%	9.9%	5.3%
	EPS restated	4.5%	-4.1%	-1.8%	1.5%	4.0%

* Excluding extraordinary items

Source: Intermonte SIM estimates

3Q19 snapshot

Cellularline 3Q19 results snapshot

P&L (EuMn)	3Q18A	3Q19A	9M18A	9M19A	4Q18A	4Q19E	2018A	2019E
Total Value of Production	34.5	38.0	83.2	93.2	46.6	51.8	129.7	145.0
% YoY		10.2%		12.1%		11.2%	(7.0%)	11.8%
EBITDA adjusted	10.2	9.8	18.5	19.0	15.5	15.0	34.0	34.0
% margin	29.5%	25.9%	22.2%	20.4%	33.2%	28.9%	26.2%	23.4%
% YoY		(3.5%)		93.5%		(3.2%)		0.0%
EBIT adjusted	9.4	8.9	16.4	16.5	14.3	14.3	30.7	30.8
% margin	27.2%	23.4%	19.7%	17.7%	30.8%	27.6%	19.2%	17.2%
% YoY		(5.2%)		85.6%		(0.3%)	(30.2%)	0.2%
EBIT reported	11.8	11.2	6.7	10.0	12.2	13.0	18.9	22.9
% margin	34.2%	29.5%	8.1%	10.7%	26.1%	25.1%	14.6%	15.8%
% YoY		(4.9%)		48.2%		6.7%		21.5%
Net Financial costs	-4.1	0.3	-8.6	-0.5	1.4	-1.2	-7.3	-1.7
Pretax profits Adjusted	6.4	12.5	12.2	15.0	11.1	8.2	23.3	23.2
% YoY		32.9%		16.1%		15.8%		(0.4%)
Pretax profits reported	7.7	11.5	-1.9	9.4	13.5	11.8	11.6	21.2
% YoY		49.6%		nm		(12.9%)		82.7%
Income tax expense	-1.5	-0.4	7.7	-0.2	-2.4	-3.8	5.3	-4.0
% Tax rate	-19.4%	-3.6%	-401.0%	-2.1%	-18.0%	-32.1%	45.3%	-18.8%
Net profit reported	19.4	11.1	19.0	9.2	-2.2	7.9	16.9	17.1
% margin	56.5%	29.3%	0.0%	9.9%	(4.6%)	15.2%	13.0%	11.8%
% YoY		nm		nm		nm		1.5%
Net Profit Restated	7.0	11.0	11.7	12.8	11.3	9.8	23.0	22.6
% margin	20.4%	29.1%	0.0%	13.7%	24.3%	19.0%	17.8%	15.6%
% YoY		57.1%		15.9%		(13.4%)		(1.8%)
Change in WC	-11.4	-5.5	-2.8	-12.6	2.0	3.7	-0.9	-9.0
OpCF	-5.2	2.4	7.3	3.3	18.0	14.4	25.4	17.8
Capex	-0.2	-1.3	-1.5	-2.9	-1.0	-1.1	-2.5	-4.0
FCF	-5.4	1.1	5.9	0.5	17.0	13.3	22.9	13.8
Net Financial Position		-39.0		-39.0	-24.5	-28.3	-24.5	-28.3

Source: IntermonTE SIM and company data

Changes to estimates

Changes to estimates

	New			Old			Diff. %		
	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
Revenue	145.0	155.1	160.6	150.2	160.5	166.1	-3.5%	-3.4%	-3.3%
% YoY	11.8%	6.9%	3.5%	15.8%	6.8%	3.5%	-401 bps	9 bps	7 bps
Adj. EBITDA	34.0	36.3	38.5	35.1	37.6	39.9	-3.3%	-3.4%	-3.3%
% YoY	0.0%	6.8%	6.2%	3.4%	6.9%	6.1%	-337 bps	-12 bps	7 bps
Margin	23.4%	23.4%	24.0%	23.4%	23.4%	24.0%	5 bps	0 bps	0 bps
Adj. EBIT	30.8	33.0	35.2	31.8	34.2	36.4	-3.2%	-3.4%	-3.3%
% YoY	0.2%	7.3%	6.4%	3.6%	7.4%	6.4%	-336 bps	-15 bps	7 bps
Margin	21.2%	21.3%	21.9%	21.2%	21.3%	21.9%	5 bps	0 bps	0 bps
Adj. Net Income	22.6	22.9	23.9	23.3	24.3	25.7	-3.1%	-5.4%	-7.3%
% YoY	-1.8%	1.5%	4.0%	1.4%	4.0%	6.1%	-316 bps	-249 bps	-209 bps
Margin	15.6%	14.8%	14.9%	15.5%	15.1%	15.5%	6 bps	-32 bps	-64 bps
Net Debt/(Cash)	28.3	10.0	(7.6)	26.1	6.3	(14.2)	8.7%	60.3%	-46.4%
NFP/Adj. EBITDA	0.8x	0.3x	-0.2x	0.7x	0.2x	-0.4x	0.1x	0.1x	0.2x

Source: IntermonTE SIM and company data

CELLULARLINE Peer Group - Absolute Performances

Stock	Price	Ccy	Mkt cap	1M	3M	6M	YTD	1Y	2Y
CELLULARLINE	6.84	EUR	155	0.6%	-2.3%	-5.5%	-13.4%	-9.4%	-33.3%
ACCO BRANDS	9.49	USD	920	-3.1%	-0.7%	20.0%	40.0%	17.5%	-29.2%
FILA	14.06	EUR	715	0.7%	7.3%	10.4%	4.1%	-3.4%	-26.0%
PLANTRONICS	25.76	USD	1,028	-31.3%	-7.7%	-43.5%	-22.2%	-48.6%	-49.6%
ZAGG	8.13	USD	236	27.0%	40.2%	24.9%	-16.9%	-21.1%	-62.1%
Mean performance				-1.2%	7.4%	1.2%	-1.7%	-13.0%	-40.0%
Italy FTSE Mib	23,329.2	EUR		4.5%	12.6%	10.5%	27.3%	23.9%	5.6%

Source: FactSet

CELLULARLINE Peer Group - Multiple Comparison

Stock	Price	Ccy	Mkt cap	EV/Sales	EV/Sales	EV/Ebitda	EV/Ebitda	EV/Ebit	EV/Ebit	P/E	P/E	Div Yield	Div Yield
				2019	2020	2019	2020	2019	2020	2019	2020	2019	2020
CELLULARLINE	6.84	EUR	155	1.3	1.1	5.4	4.5	5.9	5.0	6.8	6.7	4.6%	5.3%
ACCO BRANDS	9.49	USD	920							8.3	7.2		
FILA	14.06	EUR	715	1.8	1.7	10.9	9.4	14.5	12.2	16.8	12.4	0.8%	1.1%
PLANTRONICS	25.76	USD	1,028	1.4	1.2	6.0	5.0	10.5	8.1	8.0	6.3	2.3%	2.3%
ZAGG	8.13	USD	236	0.5	0.4	4.7	3.6	10.4	5.7	13.3	8.0		
Median				1.4	1.2	6.0	5.0	10.5	8.1	10.8	7.6	1.6%	1.7%

Source: Intermonte SIM estimates for covered companies, FactSet consensus estimates for peer group

CELLULARLINE - Estimates Comparison with Consensus

(Eu mn)	2019			2020		
	Intermonte	Consensus	%diff	Intermonte	Consensus	%diff
Revenues	145.0	146.1	-0.7%	155.1	154.4	0.5%
Ebitda	32.0	34.0	-5.9%	36.3	36.3	-0.1%
Net Profit	17.0	17.6	-3.6%	18.7	19.9	-6.1%
EPS	1.001	1.146	-12.7%	1.015	1.140	-10.9%
Net Debt	(28.3)	(22.1)	28.1%	(10.0)	(13.8)	-27.2%

Source: Intermonte SIM estimates and Factset consensus estimates

DETAILS ON STOCKS RECOMMENDATION

Stock NAME	CELLULARLINE		
Current Recomm:	BUY	Previous Recomm:	BUY
Current Target (Eu):	10.30	Previous Target (Eu):	10.70
Current Price (Eu):	6.84	Previous Price (Eu):	7.08
Date of report:	20/11/2019	Date of last report:	16/09/2019

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- Discounted cash flow (DCF) model or similar methods such as a dividend discount model (DDM)
- Comparison with market peers, using the most appropriate methods for the individual company analysed: among the main ratios used for industrial sectors are price/ earnings (P/E), EV/EBITDA, EV/EBIT, price /sales.
- Return on capital and multiples of adjusted net book value are the main methods used for banking sector stocks, while for insurance sector stocks return on allocated capital and multiples on net book value and embedded portfolio value are used
- For the utilities sector comparisons are made between expected returns and the return on the regulatory asset base (RAB)

Some of the parameters used in evaluations, such as the risk-free rate and risk premium, are the same for all companies covered, and are updated to reflect market conditions. Currently a risk-free rate of 2.5% and a risk premium of 5.0% are being used.

Frequency of research: quarterly.

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Explanation of our ratings system:

BUY: stock expected to outperform the market by over 25% over a 12 month period;

OUTPERFORM: stock expected to outperform the market by between 10% and 25% over a 12 month period;

NEUTRAL: stock performance expected at between +10% and -10% compared to the market over a 12 month period ;

UNDERPERFORM: stock expected to underperform the market by between -10% and -25% over a 12 month period;

SELL: stock expected to underperform the market by over 25% over a 12 month period.

Prices: The prices reported in the research refer to the price at the close of the previous day of trading

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BUY:	14.39 %
OUTPERFORM:	46.21 %
NEUTRAL:	35.61 %
UNDERPERFORM	03.79 %
SELL:	00.00 %

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (50 in total) is as follows:

BUY:	20.00 %
OUTPERFORM:	56.00 %
NEUTRAL:	24.00 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Intermonte SIM SpA holds net long or short positions in excess of 0.5% of the overall share capital in the following issuers:

Emittente	%	Long/Short
LIFE CARE CAPITAL	0,52	LONG
SPACTIV	0,78	LONG
THESPAC	0,83	LONG
VEI 1	0,65	LONG

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