

Company Note
MID CORPORATE
Cellularline
FY19 Results

Given the uncertainty on the temporal extension and the geographic spread of the health emergency, management stated that it is still difficult and premature to assess short-term potential effects on the group's financials. However, we highlight that: 1) supply chain from Far-East is ramping up and the group's business partners are operating and delivering almost normally since late February; 2) Cellularline revenues are concentrated in 2H, which accounts for more than 60% of yearly turnover; and 3) on average, each bimester of 1H historically accounted for less than 15% of yearly revenues.

FY19 results

Cellularline reported FY19 results broadly in line with our forecasts. In particular, we appreciated the positive operating cash-flow generation (EUR 20.4M), which led to a stable NFP, despite the first M&A transaction for the group and the appealing dividend distribution that at current prices implies an 8.3% dividend yield.

Outlook and estimates

As for 2020 outlook, the company stated that the turnover in the first two months of the year registered a 10% increase yoy, mainly due to the contribution of the consolidation of Systema. Going forward, we believe that the Covid-19 epidemic should likely generate repercussions on the entire economic system and therefore we also expect an impact on the group's financials. For now, we decided to revise our estimates to project a hypothetical scenario in which the group will lose around one-month of sales between March and April. We underline that March and April should account for about 6% of group's annual turnover, each. Lastly, we assumed that a great portion of the turnover that should be likely lost in 2020 should be recovered during 2021. We underline that some unpredictable further developments related to the Covid-19 health emergency could undermine the feasibility of these estimates.

Valuation

Following our estimates revision and the periodical update of the equity risk premium parameter, our updated DCF model points to a **new target price of EUR 9.3/share** (from EUR 10.4/share), **implying a BUY rating on the stock**.

23 March 2020: 12:24 CET

Date and time of production

BUY
Target Price: EUR 9.3
 (from EUR 10.4)

 Italy/Consumer Services
 Update

MTA-STAR
Price Performance
 (RIC: CELL.MI, BB: CELL IM)

Cellularline - Key Data

Price date (market close)	20/03/2020		
Target price (EUR)	9.3		
Target upside (%)	108.99		
Market price (EUR)	4.45		
Market cap (EUR M)	96.45		
52Wk range (EUR)	7.86/3.98		

Price performance %	1M	3M	12M
Absolute	-30.5	-35.5	-37.8
Rel. to FTSE IT All Sh	10.4	-1.9	-15.3

Y/E Dec (EUR M)	FY19A	FY20E	FY21E
Revenues	140.4	138.0	151.5
Adj. EBITDA	33.06	30.36	35.61
Adj. EBIT	29.36	26.76	32.01
Adj. Net income	23.31	20.04	23.66
EPS (EUR)	1.07	0.92	1.08
Net debt/-cash	24.60	10.94	-2.55
Adj P/E (x)	6.7	4.9	4.1
EV/EBITDA (x)	5.5	3.6	2.7
EV/EBIT (x)	9.0	5.2	3.6
Div ord yield (%)	4.6	6.2	7.3

Source: Company data, FactSet and Intesa Sanpaolo Research estimates

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4Q/FY19A Results

Revenues came in at EUR 140.4M, up 8.3% yoy (0.8% organically). The positive trend in organic growth registered in the first part of the year was impacted, in the last few months, by a decline in sales of smartphones, primarily due to the trade tensions between the US and China, which had an adverse impact on one of the three leading market brands in Europe since the third quarter. Growth on international markets was 3.8%, accounting for 44% of total revenues.

Cellularline - Revenues by product line and geography in FY19



1) Germany, Austria, France, Spain, Portugal, Benelux, Switzerland; Source: Company data

Adjusted EBITDA was EUR 33.1M vs. EUR 33.9M in FY18PF. The margin in FY19 was 23.5%, compared to 26.1% in the previous year. The decrease in the margin was mainly due to the dilution resulting from the integration of Systema, a company operating in the Telco channel, whose margin is lower than the group's average margin, the unfavourable trend in the EUR/USD exchange rate, and the increase in sales under the AQL brand, recently launched in international markets, with a more aggressive pricing.

Adjusted net result stood at EUR 23.3M, increasing by 0.8% yoy. We recall that adjustments were related to amortisation originated by PPA (EUR 6M), extraordinary costs (EUR 3.1M), fair value of warrant (EUR -1.3M) and related taxes on adjustments (EUR -2.7M).

Net debt was EUR 24.6M, in line with the EUR 24.5M posted at YE18 (and better than our EUR 28M forecast) despite: i) the acquisition of Systema (overall impact, considering the cash-out and the fair value of the put/call option amounting to EUR 4.9M); ii) EUR 2.0M for the application of IFRS 16; and iii) dividends for EUR 6.1M and purchase of own shares for EUR 2.9M.

The BoD will propose to the Shareholders' Meeting **the distribution of an ordinary dividend of EUR 0.33/share** (a 31% pay-out ratio on adj. net result), for a total proposed dividend amount of EUR 7.2M (EUR 6.8M in our previous projections).

Cellularline - 4Q/FY19 results

EUR M	4Q18PF	4Q19A	4Q19E	FY18PF	FY19A	yoy %	FY19E	A/E %
Revenues	46.5	47.2	52.1	129.7	140.4	8.3	145.3	-3.3
Adj. EBITDA	15.4	14.1	15.1	33.9	33.1	-2.4	34.1	-3.0
Adj. EBITDA margin %	33.1	29.8	29.0	26.1	23.5		23.5	
Reported EBIT	12.2	10.3	13.1	18.9	20.3	7.7	23.1	-11.9
EBIT margin %	26.2	21.9	25.1	14.6	14.5		15.9	
Adj. net income	11.4	10.5	9.9	23.1	23.3	0.8	22.7	2.4
Reported net income	NM	NM	NM	16.9	18.2	7.9	17.1	6.5

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

Earnings Outlook

As for 2020 outlook, the company stated that that turnover in the first two months of the year was about 10% above the same period of 2019, mainly due to the contribution of the consolidation of Systema, which we recall entered in the perimeter since 1 April 2019. Looking at the market scenario, following the latest developments of the Covid-19 pandemic, management stated that given the complex and constantly evolving situation it is still difficult and premature to assess short-term potential effects on the group's financials. However, we highlight that:

- Supply chain from Far-East is ramping up and group's business partners are operating and delivering almost normally since late February;
- Cellularline revenues are concentrated in 2H, which accounts for more than 60% of yearly turnover;
- On average each bimester of 1H historically accounted for less than 15% of yearly revenues.

Estimates revision

We believe that the Covid-19 epidemic should likely generate repercussions on the entire economic system and therefore we also expect an impact on the group's financials. For now, we decided to revise our estimates to project a hypothetical scenario in which the group will lose around one-month of sales between the months of March and April. We underline that, according to our projections, the months of March and April should account for about 6% of group's annual turnover, each. We also take into consideration a positive impact on the group's top line vs. FY19 of about EUR 3M that should arise from the 12-month consolidation of Systema.

Furthermore, we assumed that a great portion of the turnover that should be likely lost in 2020 should be recovered during 2021. We also underline that some unpredictable further developments related to the Covid-19 health emergency could undermine the feasibility of these estimates.

Cellularline - Estimates revision 2020E-21E

EUR M	2020E Old	2020E New	yoy %	2021 Old	2021 New	yoy %
Revenues	155.2	138.0	-11.1	161.4	151.5	-6.1
Adj. EBITDA	36.6	30.4	-17.0	38.7	35.6	-8.0
Adj. EBITDA margin (%)	23.6	22.0		24.0	23.5	
Adj. EBIT	33.1	26.8	-19.2	35.2	32.0	-9.1
Adj. EBIT margin (%)	21.3	19.4		21.8	21.1	
Adj. net income	23.3	20.0	-14.0	24.8	23.7	-4.6
NFP	10.1	10.9		-8.0	-2.6	

Source: Intesa Sanpaolo Research estimates

Cellularline - Adjusted vs. reported figures (EUR M)

EUR M	2020E	2021E
EBITDA	30.4	35.6
margin on revenues %	22.0	23.5
Adj. EBIT	26.8	32.0
margin on revenues %	19.4	21.1
Reported EBIT	20.8	26.0
margin on revenues %	15.0	17.2
Adj. Net income	20.0	23.7
Reported Net income	15.8	19.5

Source: Intesa Sanpaolo Research estimates

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 our estimates revision and the periodical update of the equity risk premium parameter, our updated DCF model points to a **new target price of EUR 9.3/share** (from EUR 10.4/share), implying **a BUY rating on the stock**.

New EUR 9.3/share TP; BUY

Discounted cash flow

We used the following key assumptions in our valuation:

- An 8.2% WACC, incorporating a risk-free rate of 1.5%, an equity risk premium of 7.5% (vs. 7.0% used in our previous report), 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	1.50
Equity risk premium	7.50
Beta (x)	1.2
Cost of equity	10.5
Net cost of debt	2.8
Gross cost of debt	4.0
Tax rate	30
Gearing	30
WACC (%)	8.2

Source: Intesa Sanpaolo Research estimates

- Terminal value growth is prudentially set at 0%, while in calculating the LT, we applied the same level of revenues and EBIT margin we expect in 2021E. As usual, LT depreciation equals capex;
- We adjusted the number of shares to include the effects arising from the potential conversion and warrants (although at current prices we believe that it is very unlikely that it will happen).

Cellularline - DCF model (2020E-21E)

EUR M	2020E	2021E	LT
Sales	138.0	151.5	151.5
yoy %	-1.7	9.8	
Adj. EBIT	26.8	32.0	32.0
Adj. EBIT margin (%)	19.4	21.1	21.1
Taxes	-4.2	-5.8	-9.6
NOPAT	22.5	26.2	22.4
Non-cash items	3.2	3.2	
Investments	-3.0	-3.5	
NWC changes	-0.8	-5.4	
Others	0.0	0.0	
FCF	21.9	20.5	22.4
Discounted FCF	20.2	17.5	17.7
WACC (%)	8.2		
Perpetuity growth rate (%)	0.0		
NPV of cash flows	37.8		
NPV of terminal value (2022E)	216.0		
EV	253.8		
Net debt excl. IFRS 16 @ 2019A	22.6		
Equity value	231.2		
No. of shares fully diluted (M)	24.9		
Value per share (EUR)	9.3		

Source: Intesa Sanpaolo Research estimates

Cellularline - Sensitivity analysis

EUR/share	Growth (%)				
WACC (%)	-1.0	-0.5	0	0.5	1.0
7.2	9.6	10.1	10.8	11.6	12.4
7.7	8.9	9.4	10.0	10.6	11.4
8.2	8.3	8.8	9.3	9.9	10.5
8.7	7.8	8.2	8.7	9.2	9.7
9.2	7.4	7.7	8.1	8.6	9.0

Source: Intesa Sanpaolo Research estimates

Cellularline – Key Data

Rating	Target price (EUR/sh)	Mkt price (EUR/sh)	Sector	
BUY	Ord 9.3	Ord 4.45	Consumer Services	
Values per share (EUR)				
No. ordinary shares (M)	2018A	2019A	2020E	2021E
	21.67	21.67	21.67	21.67
Total no. of shares (M)	21.87	21.87	21.87	21.87
Market cap (EUR M)	196.75	157.02	97.31	97.31
Adj. EPS	1.05	1.07	0.92	1.08
CFPS	0.90	1.0	0.89	1.1
BVPS	8.8	9.3	9.7	10.3
Dividend ord	0.30	0.33	0.27	0.32
Income statement (EUR M)				
Revenues	2018A	2019A	2020E	2021E
	129.7	140.4	138.0	151.5
EBITDA	33.89	33.06	30.36	35.61
EBIT	18.89	20.26	20.76	26.01
Pre-tax income	11.61	20.08	20.06	25.31
Net income	16.87	18.21	15.84	19.46
Adj. net income	23.07	23.31	20.04	23.66
Cash flow (EUR M)				
Net income before minorities	2018A	2019A	2020E	2021E
	16.9	18.2	15.8	19.5
Depreciation and provisions	2.9	3.7	3.6	3.6
Others/Uses of funds	0	0	0	0
Change in working capital	3.3	-4.9	-0.8	-5.4
Operating cash flow	23.1	17.0	18.6	17.7
Capital expenditure	-3.0	-3.4	-3.0	-3.5
Financial investments	0	0	0	0
Acquisitions and disposals	0	-4.9	0	0
Free cash flow	20.1	8.7	15.6	14.2
Dividends	0	-6.1	-7.2	-6.0
Equity changes & Other non-operating items	22.9	-8.7	0	0
Net cash flow	43.0	-6.1	8.4	8.2
Balance sheet (EUR M)				
Net capital employed	2018A	2019A	2020E	2021E
	214.0	227.1	221.5	221.0
of which associates	0	0	0	0
Net debt/-cash	22.0	24.6	10.9	-2.6
Minorities	0	0	0	0
Net equity	192.0	202.5	211.2	224.6
Minorities value	0	0	0	0
Enterprise value	218.7	181.6	108.2	94.8
Stock market ratios (x)				
Adj. P/E	2018A	2019A	2020E	2021E
	8.5	6.7	4.9	4.1
P/CFPS	10.0	7.2	5.0	4.2
P/BVPS	1.0	0.78	0.46	0.43
Payout (%)	26	31	30	30
Dividend yield (% ord)	3.3	4.6	6.2	7.3
FCF yield (%)	10.2	7.7	21.5	20.0
EV/sales	1.7	1.3	0.78	0.63
EV/EBITDA	6.5	5.5	3.6	2.7
EV/EBIT	11.6	9.0	5.2	3.6
EV/CE	1.0	0.80	0.49	0.43
D/EBITDA	0.65	0.74	0.36	Neg.
D/EBIT	1.2	1.2	0.53	Neg.
Profitability & financial ratios (%)				
EBITDA margin	2018A	2019A	2020E	2021E
	26.1	23.5	22.0	23.5
EBIT margin	14.6	14.4	15.0	17.2
Tax rate	NM	9.3	21.0	23.1
Net income margin	13.0	13.0	11.5	12.8
ROCE	8.8	8.9	9.4	11.8
ROE	11.4	9.2	7.7	8.9
Interest cover	2.6	76.5	29.7	37.2
Debt/equity ratio	11.5	12.1	5.2	Neg.
Growth (%)				
Sales	2019A	2020E	2021E	
	8.3	-1.7	9.8	
EBITDA	-2.4	-8.2	17.3	
EBIT	7.3	2.5	25.3	
Pre-tax income	73.0	-0.1	26.2	
Net income	7.9	-13.0	22.9	
Adj. net income	1.0	-14.0	18.1	

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

Company Snapshot

Company Description

Cellularline is the European market leader in the design, manufacturing and distribution of accessories for connectivity devices. Leveraging on more than 5,000 points of sales, the company reaches more than 60 countries in the world and covers all the major distribution channels (CE, Telco, Travel Retail, Mass Merchandise, Sport stores as well as other retailers). Cellularline has a wide product portfolio composed of three major categories: (i) Protection & Style (cases and screen protectors); (ii) Charge & Utilities (battery chargers, powerbanks, car accessories and cables); and (iii) Voice & Sport (earphones and sports accessories). Moreover, the company recently launched the AQL brand (AudioQuality Lab), the product line dedicated to the world of music. Cellularline currently employs around 220 people.

Key Risks

Company specific risks:

- We see a potential dilution and overhang risk due to the conversion of special shares and warrants.

Sector generic risks:

- An increase in competition from the main competitors and a potentially higher penetration of private labels and online competitors;
- 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.

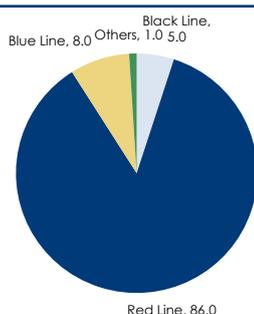
Key data

Mkt price (EUR)	4.45	Free float (%)	75.0
No. of shares	21.67	Major shr	S.L.M.K. SA
52Wk range (EUR)	7.86/3.98	(%)	10.4
Reuters	CELL.MI	Bloomberg	CELL IM
Performance (%)	Absolute		Rel. FTSE IT All Sh
-1M	-30.5	-1M	10.4
-3M	-35.5	-3M	-1.9
-12M	-37.8	-12M	-15.3

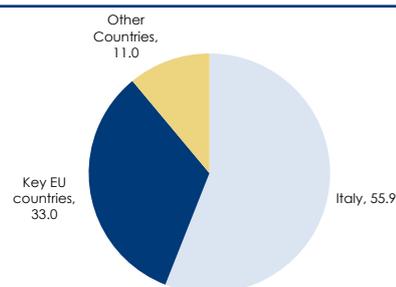
Estimates vs. consensus

EUR M (Y/E Dec)	2019A	2020E	2020C	2021E	2021C
Sales	140.4	138.0	135.0	151.5	139.0
EBITDA	33.06	30.36	29.00	35.61	31.00
EBIT	20.26	20.76	20.00	26.01	21.00
Pre-tax income	20.08	20.06	20.00	25.31	22.00
Net income	18.21	15.84	16.00	19.46	16.00
EPS	1.07	0.92	1.01	1.08	1.04

FY19A revenues by product line (%)



FY19A revenues by geography (%)



Source: Company data, Intesa Sanpaolo Research estimates and FactSet consensus data (priced at market close of 20/03/2020)

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.

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Valuation methodology (long-term horizon: 12M)

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.

Equity rating key: (long-term horizon: 12M)

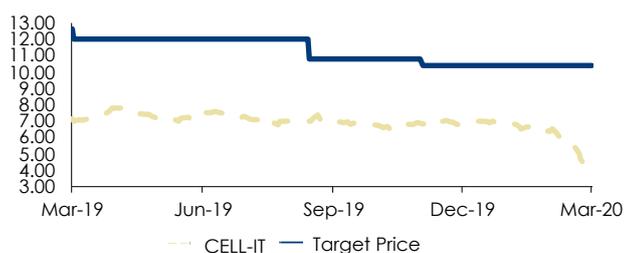
In its recommendations, Intesa Sanpaolo SpA uses an "absolute" rating system, which is not related to market performance and whose key is reported below:

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)

The 12M rating and target price history chart(s) for the companies currently under our coverage can also be found at Intesa Sanpaolo's website/Research/Regulatory disclosures: <https://group.intesasanpaolo.com/en/research/RegulatoryDisclosures/tp-and-rating-history-12-months->

Target price and market price trend (-1Y)**Historical recommendations and target price trend (-1Y)**

Date	Rating	TP (EUR)	Mkt Price (EUR)
22-Nov-19	BUY	10.4	6.8
03-Sep-19	BUY	10.8	7.0

Equity rating allocations (long-term horizon: 12M)**Intesa Sanpaolo Research Rating Distribution (at February 2020)**

Number of companies considered: 106	BUY	ADD	HOLD	REDUCE	SELL
Total Equity Research Coverage relating to last rating (%)	50	20	29	1	0
of which Intesa Sanpaolo's Clients (%) (*)	79	57	58	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)

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/sir0/si09/governance/eng_wp_governance.jsp, along with a summary sheet, webpage <https://www.bancaimi.com/en/bancaimi/chiamo/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 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 <https://group.intesasanpaolo.com/en/research/RegulatoryDisclosures/archive-of-intesa-sanpaolo-group-s-conflicts-of-interest> 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.

- 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
- Banca IMI acts as Specialist relative to securities issued by Cellularline

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