

# CELLULARLINE

# BUY

Price (Eu):

4.31

Target Price (Eu):

8.70

SECTOR: Consumers

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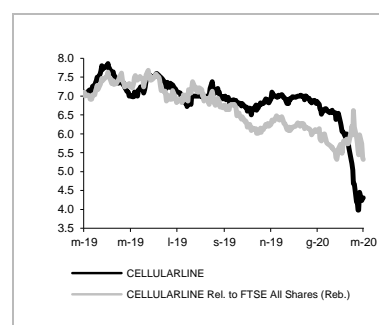
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## M&A supports growth ahead of an uncertain 2020

- M&A supports top-line amid difficult market conditions in 4Q.** On March 11<sup>th</sup>, CELL reported 4Q19 revenues of €47mn, 9% below our estimate of €52mn. Sales were up +1.5% YoY with the addition of Systema, accounting for +7.3% and an organic decline of -5.8%, principally due to poor market conditions caused by declining sales of smartphones (Huawei) in Europe amid US-China trade tensions. As a consequence, "Red-line" sales (86% of group) were down -11.8% YoY to €39mn in 4Q due to lower demand from a German distributor despite good performance in the audio segment. "Blue-line" sales were up +24%YoY to €7.3mn, supported by Systema.
- EBITDA margin in-line, net income and cash flow beat.** Adj. EBITDA was down -8.9% YoY to €14.1mn in 4Q19, 6% below our forecast, although the margin was 29.9%, 1pp above our estimate. An adverse FX (EUR/USD) impact on CoGS and Systema integration (consolidation costs and lower profitability vs group pre-deal) drove the 3.2pp EBITDA margin decline YoY. However, adj. net income came to €10.5mn in 4Q (down -6.7% YoY), beating our forecast by 7% due to lower financial costs and taxes. In addition, slightly lower capex (€0.5mn vs our €1.1mn) contributed to FCF reaching €16.6mn in 4Q (+20% YoY), taking the NFP to €-24.6mn (inclusive of €1.9mn IFRS16 impact), vs €-24.5mn for 2018.
- DPS €0.33**, up from €0.30 for 2018; our estimate was €0.35.
- Trading update on first few months.** January and February showed double-digit growth, mostly due to the Systema integration (consolidated from 2Q19). The virus outbreak impacted activities from March, with the Consumer Electronics (~60% of group sales) and Travel Retail & Telco (~20% of sales) distribution channels the most affected, recording double-digit impacts over the last two weeks. There were more reassuring messages on the Mass Merchandise channels (mostly supermarkets, ~20% of sales).
- No 2020 outlook.** Management expects little to no supply-chain impact (3/4 months inventories available) and did not provide FY20 guidance due to low visibility on its main markets amid virus-related measures. It still expects some recovery later in 2020 with the new Apple product launches and the arrival of 5G likely to drive an equipment demand rebound in 2H. The first 4 months of the year each amount to ~6%/7% of sales, partly limiting the impact on activities for 2020. CELL remains mostly exposed to Italy (56% of sales).
- Lowering our estimates amid low visibility.** We have lowered our estimates in the wake of the 4Q top-line miss and to reflect the impact of the virus on demand ahead of an uncertain 2020. We have lowered our sales growth forecast for Italy to -9% organically (from +4% previously) and the '20E consolidated sales estimate by -15%. We consequently bring down our '20E EPS forecast by -17% for 2020, despite lower extraordinary costs and a lower tax rate expected in 2020.
- TP cut to €8.7 (from €10.3); BUY rating reiterated.** CELL still trades at low multiples (4.6x PE and 4.0x EV/ adj. EBITDA '20E) and we have adjusted our TP to €8.7 (from €10.3), in-line with our estimate revision in order to reflect the lack of visibility entering 2020. The 8.8% average '20/'21E dividend yield remains attractive: BUY rating reiterated, 102% upside to last price.

Next event:  
1Q20 Results out 13 May 2020

### CELLULARLINE - 12m Performance



RATING: Unchanged

TARGET PRICE (Eu): from 10.30 to 8.70

Ch. in Adj.EPS est: 2020E 2021E  
-17.2% -3.8%

### STOCK DATA

Reuters code: CELL.MI  
Bloomberg code: CELL IM

Performance	1m	3m	12m
Absolute	-30.7%	-38.3%	-39.3%
Relative	-5.1%	-10.0%	-20.3%
12 months H/L:	7.86/3.98		

### SHAREHOLDER DATA

No. of Ord. shares (mn):	20
Total No. of shares (mn):	22
Mkt Cap Ord (Eu mn):	87
Total Mkt Cap (Eu mn):	87
Mkt Float - ord (Eu mn):	53
Mkt Float (in %):	61.0%
Main shareholder:	
Private Equity funds	14.0%

### BALANCE SHEET DATA

	2020
Book value (Eu mn):	211
BVPS (Eu):	9.49
P/BV:	0.5
Net Financial Position (Eu mn):	-13
Enterprise value (Eu mn):	100

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on the last page of this report

Key Figures	2018A	2019E	2020E	2021E	2022E
Sales (Eu mn)	130	140	132	151	156
Ebitda (Eu mn)	28	30	28	36	38
Net profit (Eu mn)	17	18	15	18	21
EPS - New Adj.(Eu)	1.020	1.051	0.841	1.016	1.120
EPS - Old Adj.(Eu)	1.019	1.001	1.015	1.056	
DPS (Eu)	0.300	0.330	0.360	0.400	0.400

Ratios & Multiples	2018A	2019E	2020E	2021E	2022E
P/E Adj.	4.2	4.1	5.1	4.2	3.8
Div. Yield	7.0%	7.7%	8.4%	9.3%	9.3%
EV/Ebitda Adj.	3.3	3.4	3.5	2.8	1.8
ROCE	9.6%	9.1%	8.5%	11.3%	12.8%

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**CELLULARLINE - KEY FIGURES**

		<b>2018A</b>	<b>2019E</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>
	Fiscal year end	31/12/2018	31/12/2019	31/12/2020	31/12/2021	31/12/2022
<b>PROFIT &amp; LOSS (Eu mn)</b>	Sales	130	140	132	151	156
	EBITDA	28	30	28	36	38
	EBIT	19	20	19	26	29
	Financial income (charges)	(8)	(0)	(1)	(1)	(1)
	Associates & Others	(0)	0	(0)	(0)	(0)
	Pre-tax profit (Loss)	12	20	18	25	28
	Taxes	5	(2)	(3)	(6)	(7)
	Tax rate (%)	-45.3%	9.3%	17.0%	24.8%	24.2%
	Minorities & discontinue activities	0	0	(0)	(0)	(0)
	Net profit	17	18	15	18	21
	Total extraordinary items	(6)	(5)	(4)	(4)	(4)
	Ebitda excl. extraordinary items	34	33	28	36	38
	Ebit excl. extraordinary items	31	29	25	32	34
Net profit restated	23	23	19	23	25	
<b>PER SHARE DATA (Eu)</b>	Total shares out (mn) - average fd	23	22	22	22	22
	EPS stated fd	0.747	0.820	0.658	0.833	0.937
	EPS restated fd	1.020	1.051	0.841	1.016	1.120
	BVPS fd	8.600	9.125	9.490	9.995	10.567
	Dividend per share (ord)	0.300	0.330	0.360	0.400	0.400
	Dividend per share (sav)	0.000	0.000	0.000	0.000	0.000
	Dividend pay out ratio (%)	36.1%	36.7%	49.9%	43.8%	38.9%
<b>CASH FLOW (Eu mn)</b>	Gross cash flow	23	27	24	28	30
	Change in NWC	(1)	(7)	(3)	(16)	11
	Capital expenditure	(2)	(3)	(3)	(3)	(3)
	Other cash items					
	Free cash flow (FCF)	20	17	18	9	39
	Acquisitions, divestments & others	26	(2)	0	0	0
	Dividend	0	(6)	(7)	(7)	(8)
	Equity financing/Buy-back	2	(3)	0	0	0
Change in Net Financial Position	41	(0)	12	2	31	
<b>BALANCE SHEET (Eu mn)</b>	Total fixed assets	181	182	175	168	162
	Net working capital	62	70	72	89	77
	Long term liabilities	(24)	(24)	(24)	(24)	(24)
	Net capital employed	219	227	224	233	215
	Net financial position	(25)	(25)	(13)	(11)	20
	Group equity	194	203	211	222	235
	Minorities	0	0	0	0	0
Net equity	194	203	211	222	235	
<b>ENTERPRISE VALUE (Eu mn)</b>	Average mkt cap - current	87	87	87	87	87
	Adjustments (associate & minorities)	0	0	0	0	0
	Net financial position	(25)	(25)	(13)	(11)	20
	Enterprise value	112	112	100	98	67
<b>RATIOS(%)</b>	EBITDA margin*	26.1%	23.5%	21.5%	23.6%	24.6%
	EBIT margin*	23.9%	20.4%	18.8%	21.0%	22.1%
	Gearing - Debt/equity	12.6%	12.1%	6.2%	5.0%	-8.4%
	Interest cover on EBIT	2.5	66.7	18.0	25.8	28.7
	Debt/Ebitda	0.89	0.82	0.46	0.31	nm
	ROCE*	9.6%	9.1%	8.5%	11.3%	12.8%
	ROE*	11.3%	9.2%	7.1%	8.6%	9.1%
	EV/CE	0.6	0.5	0.4	0.4	0.3
	EV/Sales	0.9	0.8	0.8	0.7	0.4
	EV/Ebit	3.6	3.9	4.0	3.1	2.0
Free Cash Flow Yield	22.6%	19.5%	21.0%	10.5%		
<b>GROWTH RATES (%)</b>	Sales	-7.0%	8.2%	-6.0%	14.1%	3.3%
	EBITDA*	-14.2%	-2.5%	-14.1%	25.1%	7.9%
	EBIT*	-15.1%	-7.5%	-13.3%	27.3%	9.0%
	Net profit	-28.8%	7.9%	-19.8%	26.6%	12.5%
	EPS restated	-2.6%	3.0%	-20.0%	20.8%	10.2%

\* Excluding extraordinary items

Source: Intermonte SIM estimates

## 4Q19/FY19 snapshot

### Cellularline 4Q19/FY19 results snapshot

	4Q18	FY18	4Q19	FY19	4Q19E	FY19E	AvE 4Q	AvE FY
<b>Revenues</b>	<b>46.5</b>	<b>129.7</b>	<b>47.2</b>	<b>140.4</b>	<b>51.8</b>	<b>145.0</b>	<b>-9%</b>	<b>-3%</b>
YoY		-7.0%	1.5%	8.2%	11.2%	11.8%		
Organic			-12.8%	0.8%	0.7%	5.6%		
<b>Adj. EBITDA</b>	<b>15.4</b>	<b>33.9</b>	<b>14.1</b>	<b>33.1</b>	<b>15.0</b>	<b>34.0</b>	<b>-6%</b>	<b>-3%</b>
YoY		-14.2%	-8.4%	-2.4%	-3.2%	0.0%		
Margin	33.1%	26.1%	29.9%	23.6%	28.9%	23.4%		
<b>EBIT</b>	<b>12.1</b>	<b>18.9</b>	<b>10.3</b>	<b>20.3</b>	<b>13.0</b>	<b>22.9</b>	<b>-20%</b>	<b>-11%</b>
YoY		-47.1%	-14.5%	7.7%	6.7%	21.5%		
Margin		14.6%	21.9%	14.5%	25.1%	15.8%		
Profit Before Taxes	13.5	11.6	10.6	20.1	11.8	21.2	-10%	-5%
<b>Net Income</b>	<b>11.0</b>	<b>16.9</b>	<b>9.0</b>	<b>18.2</b>	<b>7.9</b>	<b>17.1</b>	<b>14%</b>	<b>6%</b>
<b>Adj. Net Income</b>	<b>11.3</b>	<b>23.1</b>	<b>10.5</b>	<b>23.3</b>	<b>9.8</b>	<b>22.6</b>	<b>7%</b>	<b>3%</b>
YoY		-2.6%	-6.7%	1.0%	-13.4%	-1.8%		
Margin		17.8%	22.2%	16.6%	19.0%	15.6%		
Adj. OpCF	14.9	22.2	17.1	20.4	14.4	17.8		
Capex	-1.0	-2.5	-0.5	-3.4	-1.1	-4.0		
<b>FCF</b>	<b>13.8</b>	<b>19.7</b>	<b>16.6</b>	<b>17.0</b>	<b>13.3</b>	<b>13.8</b>		
<b>Net Debt</b>		<b>-24.5</b>		<b>-24.6</b>		<b>-28.3</b>		<b>-13%</b>
Net Debt/Adj. EBITDA		-0.7x		-0.7x		-0.8x		

Source: Intermonte SIM and company data

## Changes to estimates

### Changes to estimates

	New			Old			Diff. %		
	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E
<b>Revenue</b>	<b>132.0</b>	<b>150.7</b>	<b>155.7</b>	<b>155.1</b>	<b>160.6</b>		<b>-14.9%</b>	<b>-6.2%</b>	
% YoY	-6.0%	14.1%	3.3%	6.9%	3.5%				
		32.5	34/35						
<b>Adj. EBITDA</b>	<b>28.4</b>	<b>35.5</b>	<b>38.4</b>	<b>36.3</b>	<b>38.5</b>		<b>-21.7%</b>	<b>-7.8%</b>	
% YoY	-14.1%	25.1%	7.9%	6.8%	6.2%				
Margin	21.5%	23.6%	24.6%	23.4%	24.0%				
<b>Adj. EBIT</b>	<b>24.8</b>	<b>31.6</b>	<b>34.5</b>	<b>33.0</b>	<b>35.2</b>		<b>-24.8%</b>	<b>-10.1%</b>	
% YoY	-13.3%	27.3%	9.0%	7.3%	6.4%				
Margin	18.8%	21.0%	22.1%	21.3%	21.9%				
<b>Adj. Net Income</b>	<b>18.7</b>	<b>22.5</b>	<b>24.9</b>	<b>22.9</b>	<b>23.9</b>		<b>-18.7%</b>	<b>-5.5%</b>	
% YoY	-20.0%	20.8%	10.2%	1.5%	4.0%				
Margin	14.1%	15.0%	16.0%	14.8%	14.9%				
<b>Net Debt/(Cash)</b>	<b>13.0</b>	<b>11.1</b>	<b>(19.8)</b>	<b>10.0</b>	<b>(7.6)</b>		<b>29.3%</b>	<b>-245.7%</b>	
<b>NFP/Adj. EBITDA</b>	<b>0.5x</b>	<b>0.3x</b>	<b>-0.5x</b>	<b>0.3x</b>	<b>-0.2x</b>				

Source: Intermonte SIM and company data

**CELLULARLINE Peer Group - Absolute Performances**

Stock	Price	Ccy	Mkt cap	1M	3M	6M	YTD	1Y	2Y
<b>CELLULARLINE</b>	<b>4.31</b>	<b>EUR</b>	<b>87</b>	<b>-30.7%</b>	<b>-38.3%</b>	<b>-38.1%</b>	<b>-38.4%</b>	<b>-39.3%</b>	<b>-56.7%</b>
ACCO BRANDS	4.51	USD	436	-46.4%	-52.6%	-54.3%	-51.8%	-45.7%	-62.7%
FILA	7.05	EUR	359	-38.0%	-52.0%	-47.9%	-50.9%	-43.0%	-59.9%
PLANTRONICS	11.75	USD	469	-13.5%	-56.2%	-68.6%	-57.0%	-74.6%	-78.7%
ZAGG	3.08	USD	92	-56.6%	-61.0%	-50.2%	-62.0%	-66.8%	-74.9%
<b>Mean performance</b>				<b>-37.1%</b>	<b>-52.0%</b>	<b>-51.8%</b>	<b>-52.0%</b>	<b>-53.9%</b>	<b>-66.6%</b>
<b>Italy FTSE Mib</b>	17,243.7	EUR		-25.3%	-27.8%	-20.9%	-26.6%	-18.1%	-22.6%

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
				2020	2021	2020	2021	2020	2021	2020	2021	2020	2021
<b>CELLULARLINE</b>	<b>4.31</b>	<b>EUR</b>	<b>87</b>	<b>0.8</b>	<b>0.7</b>	<b>3.5</b>	<b>2.8</b>	<b>4.0</b>	<b>3.1</b>	<b>5.1</b>	<b>4.2</b>	<b>8.4%</b>	<b>9.3%</b>
ACCO BRANDS	4.51	USD	436							3.6	3.2		
FILA	7.05	EUR	359	1.3	1.1	8.5	6.1	11.4	7.8	8.7	5.6	1.5%	2.3%
PLANTRONICS	11.75	USD	469	1.2	1.1	9.1	7.7	10.2	8.1	5.9	4.3	5.1%	5.0%
ZAGG	3.08	USD	92	0.3	0.3	3.4	2.6	6.5	4.4	6.5	5.1		
<b>Median</b>				<b>1.2</b>	<b>1.1</b>	<b>8.5</b>	<b>6.1</b>	<b>10.2</b>	<b>7.8</b>	<b>6.2</b>	<b>4.7</b>	<b>3.3%</b>	<b>3.6%</b>

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

**CELLULARLINE - Estimates Comparison with Consensus**

(Eu mn)	2020			2021		
	Intermonte	Consensus	%diff	Intermonte	Consensus	%diff
<b>Revenues</b>	132.0	135.0	-2.2%	150.7	139.0	8.4%
<b>Ebitda</b>	28.4	29.0	-2.0%	35.5	31.0	14.7%
<b>Net Profit</b>	14.6	16.0	-8.7%	18.5	16.0	15.5%
<b>EPS</b>	0.841	0.940	-10.5%	1.016	0.940	8.1%
<b>Net Debt</b>	(13.0)	(13.0)	-0.1%	(11.1)	0.0	#DIV/0!

Source: Intermonte SIM estimates and Factset consensus estimates

**DETAILS ON STOCKS RECOMMENDATION**

Stock NAME	CELLULARLINE		
Current Recomm:	BUY	Previous Recomm:	BUY
Current Target (Eu):	8.70	Previous Target (Eu):	10.30
Current Price (Eu):	4.31	Previous Price (Eu):	6.84
Date of report:	26/03/2020	Date of last report:	20/11/2019

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The main methods used to evaluate financial instruments and set a target price for 12 months after the investment recommendation are as follows:

- 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.

Reports on all companies listed on the S&P500 Index, most of those on the MIBEX Index and the main small caps (regular coverage) are published at least once per quarter to comment on results and important newsflow.

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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:	10.94 %
OUTPERFORM:	50.00 %
NEUTRAL:	35.15 %
UNDERPERFORM	03.91 %
SELL:	00.00 %

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (48 in total) is as follows:

BUY:	12.50 %
OUTPERFORM:	60.42 %
NEUTRAL:	27.08 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

**CONFLICT OF INTEREST**

In order to disclose its possible conflicts of interest Intermonte SIM states that:

within the last year, **Intermonte SIM** managed or co-managed/is managing or is co-managing an Institutional Offering and/or managed or co-managed/is managing or is co-managing an offering with firm commitment underwriting of the securities of the following Companies: Capital For Progress 2, IEG, Techedge.

**Intermonte SIM** is acting as placement agent in Il Sole 24 Ore's capital increase with an agreement with the company for the publication of an equity research regarding the company and the transaction. Intermonte will receive fees from the company for its activity as placement agent.

**Intermonte SIM** has provided in the last 12 months / provides / may provide investment banking services to the following companies: Aedes, Aeroporto di Bologna, Alkemy, Banca Ifis, Cellularine, ePrice, Falck Renewables, Gamenet, H-Farm, Iervolino, Mittel, Retelit, Saes Getters, Saras, Witi.

**Intermonte SIM** is Specialist and/or Corporate Broker and/or Sponsor and/or Broker in charge of the share buy back activity of the following Companies: Abitare In, Aedes, Alkemy, Aquafil, ASTM, Avio, Azimut, B&C Speakers, Banca Ifis, Banca Sistema, Be, Brioschi Sviluppo Immobiliare, Cattolica Assicurazioni, CFT, Cellularine, DeA Capital, DigiTouch, ELEn, Eles, Elica, Emak, ePrice, Falck Renewables, Fine Foods, Fimit Fondo Alpha, First Capital, Gamenet, Gefran, GO Internet, GPI, Guala Closure, H-Farm, Iervolino Entertainment, IEG, Indel B, Industrial Star of Italy 3, Italiaonline, LU-VE, Notorious Picture, Nova RE, Openjobmetis, QF Alpha Immobiliare, Reno de Medici, Reply, Retelit, Saes Getters, Servizi Italia, Sesa, Somec, Tamburi Investment Partners, Tesmec, Tinexta, TXT e-solutions, Vetrya, Witi.

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**Intermonte SIM** performs as a market maker for the following companies: A2A, Anima, Atlantia, Autogrill, Azimut Holding, BAMI, Banca Generali, Banca Mediolanum, Brembo, Buzzi, CNHI, Enel, ENI, Exor, Fineco, FCA, FTMB, Generali, Italgas, Iren, Intesa Sanpaolo, Leonardo, Mediobanca, Moncler, Mediaset, Pirelli&C, Prysmian, Poste, Ferrari, Saipem, Snam, STM, Tenaris, Telecom Italia, Telecom Italia sav, Terna, UBI, Unicredit, Unipol, UnipolSai.

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Through its Websim Division, **Intermonte SIM** carries out marketing / communication activities on behalf of the following equity crowdfunding 200Crowd, BacktoWork24, Crowdfundme, Opstart and the following issuers: Banca IMI, BNP Paribas, Credit Suisse, Exane, Leonteq, Unicredit, Vontobel, Wisdomtree.

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
GABELLI VALUE FOR ITALY AZ. ORD	0,54	LONG
LIFE CARE CAPITAL	0,52	LONG
SPACTIV	1,08	LONG
THESPAC	0,73	LONG
VEI 1	0,62	LONG

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