

CELLULARLINE

BUY

SECTOR: Consumers

Price (Eu):

4.98

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Target Price (Eu):

8.50

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1Q20 supported by Systema, strategy confirmed ahead of challenging 2Q

- Systema brings top-line stability amid Covid-19 impact in Italy.** Overall, sales were in-line with our expectations, i.e. broadly flat at €20mn (-3% YoY vs €20.6mn in 1Q19). The €2.7mn additional sales from Systema (acquired in April 2019) mostly offset the like-for-like sales drop of -16% as the virus outbreak impacted activity late in the quarter. Red-line sales dropped -12%YoY as all distribution channels were hit by the lockdown; Black-line sales also fell -7%, while Blue-line sales more than doubled thanks to the addition of Systema. Sales in Italy fell -24%, while International sales proved more resilient, up +22% YoY thanks to robust organic performance (+10%) and the contribution from Systema.
- Margins impacted by lower volumes, mix effect.** Adj. EBITDA was €0.8mn, down -48% YoY from €1.5mn for 1Q19. The adj. EBITDA margin was down -3.3ppt YoY to 3.8%, mostly due to the decline in the gross margin (-2.9ppt) caused by lower margins at Systema, the drop in volumes, and the adverse mix evolution as (high-margin) phone cases sales followed the decline in smartphone sales in March. The effect of the cost-containment actions implemented to mitigate the impact of Covid-19 should only materialise in 2Q. Adj. net income was €-0.8mn, down vs €-0.1mn in 1Q19 despite €0.7mn in one-off financial gains on warrants. Net debt remained under control, reaching €28.8mn or 0.9x LTM EBITDA, from €24.6mn as at YE19, as FCF remained steady YoY at €-4.2mn.
- No 2020 guidance given.** Visibility remains low on the impact of covid-19 on FY20, although management sees the overall market situation normalising by 3Q. CELL's seasonality could help mitigate the impact of Covid-19 as over 60% of sales are made in 2H. M&A scouting, dividend distribution and new projects were confirmed as leverage remains under control.
- The trading update on 2Q** indicated tougher market conditions across all distribution channels among tightening lockdowns in Europe. Some recovery in sell-out trends has been witnessed since late April and should materialise in sell-in numbers by the end of the quarter. Actions implemented on the cost base (furloughing of some Italian staff in April and May, SG&A cost cuts, savings on shipping costs) should help to partly mitigate the drop in volumes. Despite some postponements, new product launches are expected as early as 2Q given that R&D and marketing staff continued working during the lockdown.
- Adjusting our estimates** We have slightly adjusted our sales forecasts to reflect the challenging quarter ahead (we see 2Q sales -42%, 2Q accounts for 25% of annual sales) and our expectations for 2H (5% YoY rebound). Our 20E EPS forecast is lowered by -5% as we estimate that the cost-cutting in 2Q might partly offset the additional top-line decrease in our forecasts.
- New TP €8.5 (from €8.7), BUY rating confirmed.** CELL still trades at low multiples (3.3x EV/Adj. EBITDA and 4.5x PE '21E) and the expected dividend yield stands out in the current environment. We adjust our TP to €8.5 to reflect the marginal changes made to our estimates.

Key Figures	2018A	2019A	2020E	2021E	2022E
Sales (Eu mn)	130	140	129	151	156
Ebitda (Eu mn)	28	30	27	35	38
Net profit (Eu mn)	17	18	14	18	20
EPS - New Adj.(Eu)	1.020	1.051	0.803	1.000	1.103
EPS - Old Adj.(Eu)	1.020	1.051	0.841	1.016	1.120
DPS (Eu)	0.300	0.330	0.360	0.400	0.400

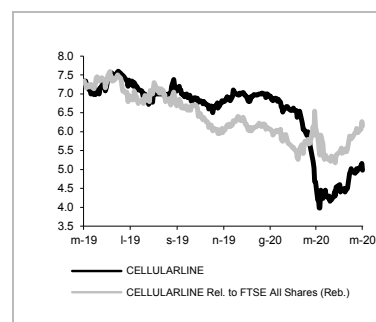
Ratios & Multiples	2018A	2019A	2020E	2021E	2022E
P/E Adj.	4.9	4.7	6.2	5.0	4.5
Div. Yield	6.0%	6.6%	7.2%	8.0%	8.0%
EV/Ebitda Adj.	3.7	3.8	4.2	3.2	2.1
ROCE	9.6%	9.1%	8.0%	11.1%	12.6%

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Next event:

2Q20 Results out on September 11th

CELLULARLINE - 12m Performance



RATING: Unchanged

TARGET PRICE (Eu): from 8.70 to 8.50

Ch. in Adj.EPS est:	2020E	2021E
	-4.5%	-1.6%

STOCK DATA

Reuters code: CELL.MI
Bloomberg code: CELL IM

Performance	1m	3m	12m
Absolute	8.3%	-24.1%	-32.2%
Relative	12.0%	7.5%	-13.0%
12 months H/L:	7.60/3.98		

SHAREHOLDER DATA

No. of Ord. shares (mn): 20
Total No. of shares (mn): 22
Mkt Cap Ord (Eu mn): 101
Total Mkt Cap (Eu mn): 101
Mkt Float - ord (Eu mn): 61
Mkt Float (in %): 61.0%
Main shareholder:
Private Equity funds 14.0%

BALANCE SHEET DATA

	2020
Book value (Eu mn):	210
BVPS (Eu):	9.46
P/BV:	0.5
Net Financial Position (Eu mn):	-15
Enterprise value (Eu mn):	116

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CELLULARLINE - KEY FIGURES

		2018A	2019A	2020E	2021E	2022E
	Fiscal year end	31/12/2018	31/12/2019	31/12/2020	31/12/2021	31/12/2022
PROFIT & LOSS (Eu mn)	Sales	130	140	129	151	156
	EBITDA	28	30	27	35	38
	EBIT	19	20	18	25	28
	Financial income (charges)	(8)	(0)	(1)	(1)	(1)
	Associates & Others	(0)	0	(0)	(0)	(0)
	Pre-tax profit (Loss)	12	20	17	24	27
	Taxes	5	(2)	(3)	(6)	(7)
	Tax rate (%)	-45.3%	9.3%	16.8%	24.9%	24.3%
	Minorities & discontinue activities	0	0	(0)	(0)	(0)
	Net profit	17	18	14	18	20
	Total extraordinary items	(6)	(5)	(4)	(4)	(4)
	Ebitda excl. extraordinary items	34	33	27	35	38
	Ebit excl. extraordinary items	31	29	24	31	34
	Net profit restated	23	23	18	22	24
PER SHARE DATA (Eu)	Total shares out (mn) - average fd	23	22	22	22	22
	EPS stated fd	0.747	0.820	0.627	0.817	0.920
	EPS restated fd	1.020	1.051	0.803	1.000	1.103
	BVPS fd	8.600	9.125	9.459	9.947	10.503
	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%	52.4%	44.6%	39.6%
CASH FLOW (Eu mn)	Gross cash flow	23	27	23	28	30
	Change in NWC	(1)	(7)	(4)	(16)	13
	Capital expenditure	(2)	(3)	(3)	(3)	(3)
	Other cash items					
	Free cash flow (FCF)	20	17	16	9	41
	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)	10	2	33	
BALANCE SHEET (Eu mn)	Total fixed assets	181	182	175	168	161
	Net working capital	62	70	74	90	76
	Long term liabilities	(24)	(24)	(24)	(24)	(24)
	Net capital employed	219	227	225	234	214
	Net financial position	(25)	(25)	(15)	(13)	19
	Group equity	194	203	210	221	233
	Minorities	0	0	0	0	0
Net equity	194	203	210	221	233	
ENTERPRISE VALUE (Eu mn)	Average mkt cap - current	101	101	101	101	101
	Adjustments (associate & minorities)	0	0	0	0	0
	Net financial position	(25)	(25)	(15)	(13)	19
	Enterprise value	125	125	116	114	81
RATIOS(%)	EBITDA margin*	26.1%	23.5%	21.2%	23.3%	24.3%
	EBIT margin*	23.9%	20.4%	18.5%	20.7%	21.8%
	Gearing - Debt/equity	12.6%	12.1%	7.2%	5.9%	-8.4%
	Interest cover on EBIT	2.5	66.7	17.1	25.4	28.2
	Debt/Ebitda	0.89	0.82	0.55	0.37	nm
	ROCE*	9.6%	9.1%	8.0%	11.1%	12.6%
	ROE*	11.3%	9.2%	6.7%	8.4%	9.0%
	EV/CE	0.6	0.6	0.5	0.5	0.4
	EV/Sales	1.0	0.9	0.9	0.8	0.5
	EV/Ebit	4.0	4.4	4.8	3.7	2.4
Free Cash Flow Yield	19.6%	16.8%	16.1%	9.2%		
GROWTH RATES (%)	Sales	-7.0%	8.2%	-7.9%	16.5%	3.3%
	EBITDA*	-14.2%	-2.5%	-16.9%	27.7%	8.0%
	EBIT*	-15.1%	-7.5%	-16.3%	29.9%	9.1%
	Net profit	-28.8%	7.9%	-23.6%	30.4%	12.7%
	EPS restated	-2.6%	3.0%	-23.6%	24.5%	10.3%

* Excluding extraordinary items

Source: Intermonte SIM estimates

1Q20 results snapshot

Cellularline 1Q20 results snapshot

	1Q19	1Q20	YoY
Revenues	20.6	20.0	-2.9%
Adj. EBITDA	1.5	0.8	-46.7%
Margin	7.3%	4.0%	
EBIT	-1.5	-2.2	46.0%
Margin	-7.3%	-11.0%	
Profit Before Taxes	-1.9	-1.9	-1.2%
Net Income	-1.6	-1.7	-8.4%
Adj. Net Income	-0.1	-0.8	700.0%
Margin	-0.5%	-4.0%	
Adj. OpCF	-3.3	-3.4	
Capex	-0.8	-0.9	
FCF	-4.1	-4.2	4.3%
Net Debt		-28.8	
Net Debt/Adj. EBITDA		-0.9x	

Source: Intermonte SIM and company data

Changes to estimates

Changes to estimates

	New			Old			Diff. %		
	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E
Revenue	129.4	150.7	155.8	132.0	150.7	155.7	-2.0%	0.1%	0.1%
% YoY	-7.9%	16.5%	3.3%	-6.0%	14.1%	3.3%			
Adj. EBITDA	27.5	35.1	37.9	28.4	35.5	38.4	-3.3%	-1.3%	-1.2%
% YoY	-16.9%	27.7%	8.0%	-14.1%	25.1%	7.9%			
Margin	21.2%	23.3%	24.3%	21.5%	23.6%	24.6%			
Adj. EBIT	24.0	31.2	34.0	24.8	31.6	34.5	-3.5%	-1.5%	-1.3%
% YoY	-16.3%	29.9%	9.1%	-13.3%	27.3%	9.0%			
Margin	18.5%	20.7%	21.8%	18.8%	21.0%	22.1%			
Adj. Net Income	17.8	22.2	24.5	18.7	22.5	24.9	-4.5%	-1.6%	-1.5%
% YoY	-23.6%	24.5%	10.3%	-20.0%	20.8%	10.2%			
Margin	13.8%	14.7%	15.7%	14.1%	15.0%	16.0%			
Net Debt/(Cash)	15.1	13.1	(19.5)	13.0	11.1	(19.8)	16.1%	18.2%	-1.4%
NFP/Adj. EBITDA	0.5x	0.4x	-0.5x	0.5x	0.3x	-0.5x			

Source: Intermonte SIM and company data

CELLULARLINE Peer Group - Absolute Performances

Stock	Price	Ccy	Mkt cap	1M	3M	6M	YTD	1Y	2Y
CELLULARLINE	4.98	EUR	101	8.3%	-24.1%	-26.8%	-28.9%	-32.2%	-48.4%
ACCO BRANDS	5.56	USD	525	-7.2%	-43.0%	-40.8%	-40.6%	-32.9%	-52.9%
FILA	7.52	EUR	383	1.6%	-40.2%	-47.4%	-47.6%	-43.0%	-60.7%
PLANTRONICS	12.50	USD	499	1.5%	-15.3%	-51.8%	-54.3%	-72.7%	-81.3%
ZAGG	2.83	USD	84	-19.8%	-66.2%	-65.8%	-65.1%	-57.8%	-81.5%
Mean performance				-3.1%	-37.8%	-46.5%	-47.3%	-47.7%	-64.9%
Italy FTSE Mib	16,867.8	EUR		-3.9%	-32.2%	-28.2%	-28.2%	-19.3%	-30.4%

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
CELLULARLINE	4.98	EUR	101	0.9	0.8	4.2	3.2	4.8	3.7	6.2	5.0	7.2%	8.0%
ACCO BRANDS	5.56	USD	525							9.1	4.8		
FILA	7.52	EUR	383	1.4	1.1	8.7	6.3	11.7	8.0	9.3	6.0	1.4%	2.2%
PLANTRONICS	12.50	USD	499	1.2	1.0	9.2	7.5	10.5	7.9	6.8	4.7	0.0%	0.0%
ZAGG	2.83	USD	84	0.3	0.3	3.3	2.5	6.2	4.2	6.0	4.7		
Median				1.2	1.0	8.7	6.3	10.5	7.9	8.0	4.7	0.7%	1.1%

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
Revenues	129.4	134.2	-3.6%	150.7	139.0	8.4%
Ebitda	27.5	29.5	-7.0%	35.1	31.0	13.2%
Net Profit	13.9	14.9	-6.6%	18.1	16.0	13.3%
EPS	0.803	0.924	-13.1%	1.000	0.940	6.4%
Net Debt	(15.1)	(10.0)	50.2%	(13.1)	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):	8.50	Previous Target (Eu):	8.70
Current Price (Eu):	4.98	Previous Price (Eu):	4.31
Date of report:	15/05/2020	Date of last report:	26/03/2020

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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)

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Frequency of research: quarterly.

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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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As at 31 March 2020 Intermonte's Research Department covered 123 companies. Intermonte's distribution of stock ratings is as follows:

BUY:	08,73 %
OUTPERFORM:	49,21 %
NEUTRAL:	37,30 %
UNDERPERFORM	04,76 %
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:	14,58 %
OUTPERFORM:	66,67 %
NEUTRAL:	18,75 %
UNDERPERFORM	00,00 %
SELL:	00,00 %

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IKF	0,57	SHORT
LIFE CARE CAPITAL	0,84	LONG
OLIDATA	0,74	SHORT
SPACTIV	1,08	LONG
THESPAC	0,89	LONG
VEI 1	0,87	LONG

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