

Company Note

Cellularline

1Q20 Results

We started to see the first effects arising from the health emergency in 1Q20 financials. However, the prompt action taken by management and the limited weighting of 1Q on the annual total, given the seasonal nature of the business, allowed the impacts to be limited in absolute terms. Overall, we would expect a more pronounced impact from Covid-19 in 2Q20 due to a predictable decrease in business volumes.

1Q20 Results

After a positive performance in the first two months, organic revenues were impacted by the measures adopted in March across the EU to contain Covid-19. However, the negative impact was partially offset by a EUR 2.7M positive contribution from Systema (consolidated since 2Q19).

Earnings Outlook

Our understanding is that 2Q should be the toughest quarter of the year due to the impact of full lockdown measures in most countries. Some actions on costs such as the activation of a social safety net provided by the Government (we understand there is a temporary furloughing of staff in April and May) and savings on shipping costs should mitigate the temporary drop in volumes. Furthermore, management stated that, given the gradual easing of restrictions and the consequent gradual reopening of stores, the weekly sell-out figures received from the group's retail customers for the main channels and markets indicate a growing trend towards an initial demand recovering for the Group's smartphone and audio accessories starting with the second half of April. This should materialise in sell-in numbers by the end of the quarter.

Estimates & Valuation

We revised our forecasts mainly to incorporate a longer than previously expected lockdown period. We underline that these estimates are based on hypothetical assumptions of the evolution of the pandemic for which visibility is still very low. For instance, we do not assume any future re-introduction of containment measures. **Following our estimates revision, our updated DCF model points to a new target price of EUR 9.1/share** (from EUR 9.3/share), given the 82% upside, **we have a BUY rating on the stock**. 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.

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Date and time of production

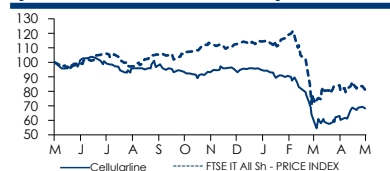
BUY

Target Price: EUR 9.1
(from EUR 9.3)

Italy/Consumer Services
Update

MTA-STAR

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



Cellularline - Key Data

Price date (market close)	15/05/2020
Target price (EUR)	9.1
Target upside (%)	82.00
Market price (EUR)	5.00
Market cap (EUR M)	108.37
52Wk range (EUR)	7.60/3.98

Price performance %	1M	3M	12M
Absolute	13.6	-23.8	-31.5
Rel. to FTSE IT All Sh	12.8	11.5	-15.4

Y/E Dec (EUR M)	FY19A	FY20E	FY21E
Revenues	140.4	128.5	150.9
Adj. EBITDA	33.06	26.99	35.30
Adj. EBIT	29.36	23.39	31.70
Adj. Net income	23.31	17.71	23.45
EPS (EUR)	1.07	0.81	1.07
Net debt/-cash	24.60	13.25	0.34
Adj P/E (x)	6.7	6.2	4.7
EV/EBITDA (x)	5.5	4.5	3.1
EV/EBIT (x)	9.0	7.1	4.3
Div ord yield (%)	4.6	4.9	6.4

Source: Company data, FactSet and Intesa Sanpaolo Research estimates

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1Q20A Results

Revenues came in at EUR 20.0M vs. EUR 20.6M in 1Q19A. The contribution attributable to Systema, consolidated from April 2019, was about EUR 2.7M and broadly offsets the decline in organic sales (around -16%) due to the effects arising from the beginning of the lockdown following the spread of Covid-19 starting in mid-March.

Looking at the business lines, the closure of the stores in the main channels had a particularly adverse impact on the Red Line (EUR -2.1M yoy), which accounts for 79% of total revenues. On the other hand, the Blue Line, which accounts for 13% of total revenues, was up by EUR 1.4M, mainly due to the positive contribution from Systema. Lastly, International markets reported a strong performance increasing by 22.4% yoy, of which 10.2% organically (although small in absolute terms).

Revenues by product line and geography



A: actual; Source: Company data

Adjusted EBITDA was EUR 0.8M vs. EUR 1.5M in 1Q19. The margin in 1Q20 was 3.8%, compared to 7.1% in the previous year. The contribution of Systema was 'not material'. The decrease was mainly attributable to: i) the consolidation of Systema (company active in the Telco channel characterised by lower margins); ii) a different product mix in organic revenues; and iii) increase in G&A and other costs, which in 2Q20 will mainly benefit from the significant actions put in place since March, to mitigate the economic impact related to Covid-19.

Adjusted net loss stood at EUR 0.8M, vs. a net loss of EUR 0.1M in 1Q19.

Net debt was EUR 28.8M vs. the EUR 24.6M posted at YE19, mainly due to the usual seasonality of the business (historically, the annual operating cash flow is mainly generated in the second half of the year).

Cellularline – 1Q20A results

EUR M	1Q19A	1Q20A	yoy %
Revenues	20.6	20.0	-2.9
Adj. EBITDA	1.5	0.8	-46.7
Adj. EBITDA margin %	7.1	3.8	
Reported EBIT	-1.5	-2.2	NM
Adj. net income	-0.1	-0.8	NM
Reported net income	-1.6	-1.7	NM

NM: not meaningful; A: actual; Source: Intesa Sanpaolo Research

Earnings Outlook

We started to see the first effects arising from the health emergency in 1Q20 financials. However, the prompt action taken by management and the limited weighting of 1Q on the annual total, given the seasonal nature of the business, allowed the impacts to be limited in absolute terms (we recall that the group historically generates over 60% of its sales in 2H; and that 1Q revenues accounted for around 37% of total 1H19 sales).

Overall, we would expect a more pronounced impact from Covid-19 in 2Q20 due to a predictable decrease in business volumes. Our understanding is that 2Q presumably should be the toughest quarter of the year due to the impact of full lockdown measures in most countries (not considering any future re-introduction of containment measures).

Some actions on costs such as the activation of a social safety net provided by the Government (we understand there is a temporary furloughing of staff in April and May) and savings on shipping costs should mitigate the temporary drop in volumes.

Looking at the supply chain from the Far-East, management stated that the situation is 'almost normal'. Furthermore, management stated that, given the gradual easing of the restrictions and the consequent gradual reopening of stores, the weekly sell-out figures received from the group's retail customers for the main channels and markets indicate a growing trend towards an initial demand recovering for the Group's smartphone and audio accessories starting from the second half of April. This should materialise in sell-in numbers by the end of the quarter.

Lastly, management stated that despite the current market context, some product launches are expected from 2Q (R&D and Marketing functions were operative also during the lock-down period).

Estimates Revision

We revise downwards our 2020E forecast mainly to incorporate a longer lockdown period than previously expected. Indeed, we recall that our previous projections were based on a hypothetical scenario in which the group would have lost only around one-month of sales between the months of March and April.

On the other hand we left our 2021E forecasts broadly unchanged.

We underline that these estimates are based on hypothetical assumptions of the evolution of the pandemic for which visibility is still very low. For instance, we do not assume any future re-introduction of the containment measures. Overall, we highlight 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	138.0	128.5	-6.9	151.5	150.9	-0.4
Adj. EBITDA	30.4	27.0	-11.2	35.6	35.3	-0.8
Adj. EBITDA margin (%)	22.0	21.0		23.5	23.4	
Adj. EBIT	26.8	23.4	-12.7	32.0	31.7	-0.9
Adj. EBIT margin (%)	19.4	18.2		21.1	21.0	
Adj. net income	20.0	17.7	-11.4	23.7	23.5	-1.0
NFP	10.9	13.2		-2.6	0.3	

E: estimates; Source: Intesa Sanpaolo Research

Cellularline - Adjusted vs. reported figures (EUR M)

EUR M	2020E	2021E
Adj. EBITDA	27.0	35.3
margin on revenues %	21.0	23.4
Adj. EBIT	23.4	31.7
margin on revenues %	18.2	21.0
Reported EBIT	17.4	25.7
margin on revenues %	13.5	17.0
Adj. Net income	17.7	23.5
Reported Net income	13.5	19.3

E: estimates; Source: Intesa Sanpaolo Research

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, our updated DCF model points to a **new target price of EUR 9.1/share** (from EUR 9.3/share), implying a **BUY rating on the stock**.

New EUR 9.1/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%, 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	128.5	150.9	150.9
yoy %	-8.5	17.4	
Adj. EBIT	23.4	31.7	31.7
Adj. EBIT margin (%)	18.2	21.0	21.0
Taxes	-3.2	-5.8	-9.5
NOPAT	20.2	26.0	22.2
Non-cash items	3.2	3.2	
Investments	-3.0	-3.5	
NWC changes	-0.8	-6.4	
Others	0.0	0.0	
FCF	19.6	19.2	22.2
Discounted FCF	18.1	16.4	17.5
WACC (%)	8.2		
Perpetuity growth rate (%)	0.0		
NPV of cash flows	34.5		
NPV of terminal value (2022E)	214.0		
EV	248.5		
Net debt excl. IFRS 16 @ 2019A	22.6		
Equity value	225.9		
No. of shares fully diluted (M)	24.9		
Value per share (EUR)	9.1		

Source: Intesa Sanpaolo Research estimates

Cellularline - Sensitivity analysis

EUR/share	Growth (%)				
WACC (%)	-1.0	-0.5	0	0.5	1.0
7.2	9.3	9.9	10.6	11.3	12.2
7.7	8.7	9.2	9.8	10.4	11.2
8.2	8.1	8.6	9.1	9.6	10.3
8.7	7.6	8.0	8.5	9.0	9.5
9.2	7.2	7.5	7.9	8.3	8.8

Source: Intesa Sanpaolo Research estimates

Cellularline – Key Data

Rating	Target price (EUR/sh)	Mkt price (EUR/sh)	Sector	
BUY	Ord 9.1	Ord 5.00	Consumer Services	
Values per share (EUR)	2018A	2019A	2020E	2021E
No. ordinary shares (M)	21.87	21.87	21.87	21.87
Total no. of shares (M)	21.87	21.87	21.87	21.87
Market cap (EUR M)	196.75	157.02	109.34	109.34
Adj. EPS	1.05	1.07	0.81	1.07
CFPS	0.90	1.0	0.78	1.0
BVPS	8.8	9.3	9.5	10.2
Dividend ord	0.30	0.33	0.24	0.32
Income statement (EUR M)	2018A	2019A	2020E	2021E
Revenues	129.7	140.4	128.5	150.9
EBITDA	33.89	33.06	26.99	35.30
EBIT	18.89	20.26	17.39	25.70
Pre-tax income	11.61	20.08	16.69	25.00
Net income	16.87	18.21	13.51	19.25
Adj. net income	23.07	23.31	17.71	23.45
Cash flow (EUR M)	2018A	2019A	2020E	2021E
Net income before minorities	16.9	18.2	13.5	19.3
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	-6.4
Operating cash flow	23.1	17.0	16.3	16.4
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	13.3	12.9
Dividends	0	-6.1	-7.2	-5.3
Equity changes & Other non-operating items	22.9	-8.7	0	0
Net cash flow	43.0	-6.1	6.1	7.6
Balance sheet (EUR M)	2018A	2019A	2020E	2021E
Net capital employed	214.0	227.1	222.0	223.1
of which associates	0	0	0	0
Net debt/-cash	22.0	24.6	13.2	0.3
Minorities	0	0	0	0
Net equity	192.0	202.5	208.8	222.8
Minorities value	0	0	0	0
Enterprise value	218.7	181.6	122.6	109.7
Stock market ratios (x)	2018A	2019A	2020E	2021E
Adj. P/E	8.5	6.7	6.2	4.7
P/CFPS	10.0	7.2	6.4	4.8
P/BVPS	1.0	0.78	0.52	0.49
Payout (%)	26	31	30	30
Dividend yield (% ord)	3.3	4.6	4.9	6.4
FCF yield (%)	10.2	7.7	17.0	16.7
EV/sales	1.7	1.3	0.95	0.73
EV/EBITDA	6.5	5.5	4.5	3.1
EV/EBIT	11.6	9.0	7.1	4.3
EV/CE	1.0	0.80	0.55	0.49
D/EBITDA	0.65	0.74	0.49	0.01
D/EBIT	1.2	1.2	0.76	0.01
Profitability & financial ratios (%)	2018A	2019A	2020E	2021E
EBITDA margin	26.1	23.5	21.0	23.4
EBIT margin	14.6	14.4	13.5	17.0
Tax rate	NM	9.3	19.0	23.0
Net income margin	13.0	13.0	10.5	12.8
ROCE	8.8	8.9	7.8	11.5
ROE	11.4	9.2	6.6	8.9
Interest cover	2.6	76.5	24.8	36.7
Debt/equity ratio	11.5	12.1	6.3	0.2
Growth (%)		2019A	2020E	2021E
Sales		8.3	-8.5	17.4
EBITDA		-2.4	-18.4	30.8
EBIT		7.3	-14.2	47.8
Pre-tax income		73.0	-16.9	49.8
Net income		7.9	-25.8	42.5
Adj. net income		1.0	-24.0	32.4

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.

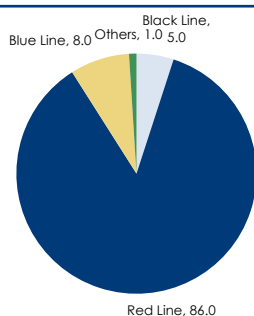
Key data

Mkt price (EUR)	5.00	Free float (%)	75.0
No. of shares	21.67	Major shr	S.L.M.K. SA
52Wk range (EUR)	7.60/3.98	(%)	10.4
Reuters	CELL.MI	Bloomberg	CELL IM
Performance (%)	Absolute		Rel. FTSE IT All Sh
-1M	13.6	-1M	12.8
-3M	-23.8	-3M	11.5
-12M	-31.5	-12M	-15.4

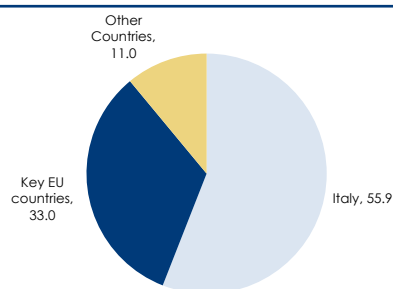
Estimates vs. consensus

EUR M (Y/E Dec)	2019A	2020E	2020C	2021E	2021C
Sales	140.4	128.5	130.1	150.9	143.0
EBITDA	33.06	26.99	27.69	35.30	32.00
EBIT	20.26	17.39	19.75	25.70	25.00
Pre-tax income	20.08	16.69	16.96	25.00	22.00
Net income	18.21	13.51	13.59	19.25	16.50
EPS	1.07	0.81	0.86	1.07	0.94

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 15/05/2020)

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.

Notes

Notes

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Valuation methodology (long-term horizon: 12M)

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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)

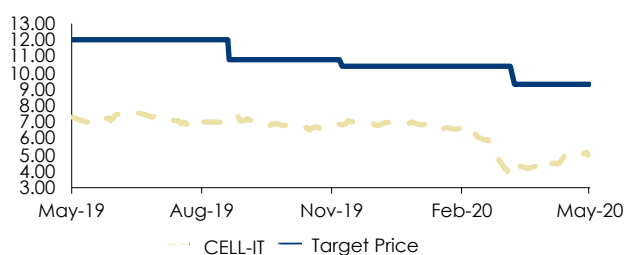
In its recommendations, Intesa Sanpaolo SpA uses an "absolute" rating system, which is not related to market performance and whose key is reported below:

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)
23-Mar-20	BUY	9.3	4.2
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 May 2020)**

Number of companies considered: 103	BUY	ADD	HOLD	REDUCE	SELL
Total Equity Research Coverage relating to last rating (%)	58	21	19	1	0
of which Intesa Sanpaolo's Clients (%) (*)	82	59	50	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
- 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
- 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
- Banca IMI acts as Specialist relative to securities issued by Cellularline

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