Cellularline

MEDIOBANCA SECURITIES

22 March 2021 | Consumer Goods | DCF | Earnings Release

Price: € 4.49 | Target price: € 5.00 (from € 5.20) | Neutral

Business recovery delayed by restrictions

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4Q20 results penalised by Covid-19 restrictions

On Thursday, Cellularline reported its 4Q/FY20 results, which highlighted a weaker than expected sales trend, affected by movement restrictions that penalised stores' traffic volumes. More in details, in 4Q20 Cellularline reported sales at €34m, down 28% YoY, a touch below expectations. Adj. EBITDA was at €7.3m, down 48% YoY and below MBe. The margin was 21.7%, 8.1pp lower than 4Q19 level but 2.2pp ahead of our expectations due to effective cost containment measures. Adj. net profit was at €2.6m, down 75% YoY and vs €6.3m MBe. The management proposed to not pay FY20 dividend, considering the uncertainty about future evolution of the pandemic. Finally, net debt at €49m, in line with our forecasts. Excluding the cash-out for Worldconnect acquisition (c.€25m), net debt would be in line with FY19 level, testifying that cash generation remains one of the key CELL's strengths, even in tough market conditions.

Soft start to the year. Return to growth seen gaining momentum from 2H21E

The management mentioned a soft start to the year, with Jan-Feb '21 sales slightly below FY20 level, still reflecting tough comparison base. Trend for the rest of 2021 will depend on pandemic evolution, with the acceleration of vaccination campaigns from 2Q21 fuelling cautious confidence about a slow and steady return to growth starting from the end of 1H21. In this context, management remains focused on i) developing a new route-to market for Germany, which may include moving away from the "indirect" model; ii) kicking off the distribution of Altec Lansing products; iii) developing new business agreements for both the offline and online business; and iv) integrating business operations of Worldconnect, whose full business recovery is expected from late '22, given its exposure to the air travel retail channel.

FY21-22E EBITDA cut by 15%. Full business recovery beyond FY22E

Following the release, we updated our estimates to factor in weaker than expected trend reported in 4Q20 and the softer start to the year. In particular, we cut our FY21-22E EBITDA forecasts by 15%. We now assume a 22% top-line recovery in FY21E, factoring in a gradual acceleration from 3Q21E. At the same time, we reduced our FY21E adj. EBITDA and adj. profit estimates by 17% and 28%, respectively, factoring in the impact of lower sales volumes. Going forward, we assume recovery to consolidate further in FY22E, projecting a 14% sales increase, with EBITDA margin expanding to c.17% level. With this report we also introduce our estimates for FY23E, which point to a 4% sales growth, EBITDA margin improving to 18.6% and net debt of €21m, implying net debt/EBITDA of <1x.

Neutral rating confirmed, new TP of €5.0/sh from previous €5.2/sh

We reduced our DCF-based (9.1% WACC, 1% g) TP to €5.0/share from previous €5.2/share, reflecting the slower recovery path and the rollover of our valuation model. As sector's prospects strongly depend on the effectiveness of vaccination campaigns, visibility on the strength of business recovery remains limited. While we appreciate CELL's discipline in cost containment and cash generation, we see company's current limited exposure to the online channel as a drag for multiple re-rating. We, therefore, confirm our Neutral rating on the name.

	2020	2021E	2022E	2023E
EPS Adj (€)	0.24	0.44	0.61	0.75
DPS (€)	0	0.08	0.13	0.18
BVPS (€)	9.53	9.78	10.12	10.53
EV/Ebitda(x)	14.1	7.4	5.6	4.3
P/E adj (x)	21.0	10.2	7.3	6.0
Div.Yield(%)	0.0%	1.8%	3.0%	4.0%
OpFCF Yield(%)	6.1%	4.5%	10.6%	18.5%

Market Data	
Market Cap (€m)	98
Shares Out (m)	22
Christian Aleotti (%)	9%
Free Float (%)	80%
52 week range (€)	5.38-3.96
Rel Perf vs DJGL Italy DJ Total Market Italy (%)	
-1m	-7.9%
-3m	-8.2%
-12m	-29.6%
21dd Avg. Vol.	38,483
Reuters/Bloomberg	I: CELL / CELL IM

Source: Mediobanca Securities

Cellularline

Price: € 4.49 **Target price: € 5.00 (from € 5.20)** **Neutral**

Valuation Matrix

Profit & Loss account (€ m)	2020	2021E	2022E	2023E
Turnover	105	128	146	152
Turnover growth %	-25.6%	22.3%	14.1%	4.1%
EBITDA	11	20	25	28
EBITDA margin (%)	11.0%	15.6%	16.8%	18.6%
EBITDA growth (%)	-61.7%	73.3%	23.3%	14.8%
Depreciation & Amortization	-15	-11	-11	-11
EBIT	-3	8	13	17
EBIT margin (%)	-3.3%	6.6%	9.0%	11.0%
EBIT growth (%)	nm	nm	54.3%	27.5%
Net Fin.Income (charges)	1	-0	-0	0
Non-Operating Items				
Extraordinary Items	0	0	0	0
Pre-tax Profit	-2	8	13	17
Tax	16	-3	-4	-5
Tax rate (%)	679.9%	33.0%	30.7%	29.8%
Minorities	0	0	0	0
Net Profit	14	5	9	12
Net Profit growth (%)	-26.8%	-60.9%	66.6%	32.0%
Adjusted Net Profit	5	10	13	16
Adj. Net Profit growth (%)	-77.2%	81.2%	39.2%	22.1%

Multiples	2020	2021E	2022E	2023E
P/E Adj.	21.0	10.2	7.3	6.0
P/CEPS	3.9	5.8	4.8	4.2
P/BV	0.5	0.5	0.4	0.4
EV/ Sales	1.6	1.1	0.9	0.8
EV/EBITDA	14.1	7.4	5.6	4.3
EV/EBIT	nm	17.3	10.5	7.3
EV/Cap. Employed	0.6	0.6	0.5	0.5
Yield (%)	0.0%	1.8%	3.0%	4.0%
OpFCF Yield(%)	6.1%	4.5%	10.6%	18.5%
FCF Yield (%)	nm	3.1%	11.3%	19.3%

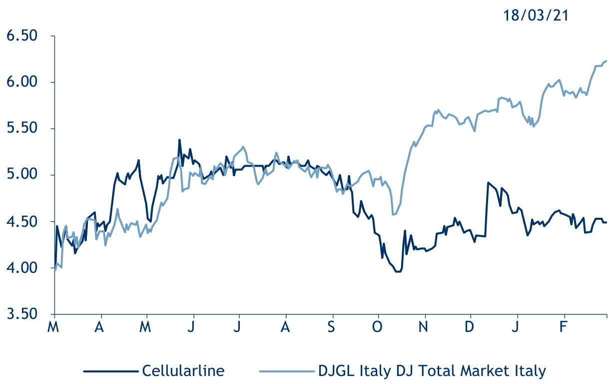
Per Share Data (€)	2020	2021E	2022E	2023E
EPS	0.64	0.25	0.41	0.55
EPS growth (%)	-23.7%	-60.9%	66.6%	32.0%
EPS Adj.	0.24	0.44	0.61	0.75
EPS Adj. growth (%)	-77.2%	81.2%	39.2%	22.1%
CEPS	0.31	0.14	0.51	0.87
BVPS	9.53	9.78	10.12	10.53
DPS Ord	0	0.08	0.13	0.18

Balance Sheet (€ m)	2020	2021E	2022E	2023E
Working Capital	68	79	85	86
Net Fixed Assets	192	184	176	168
Total Capital Employed	260	262	260	253
Shareholders' Funds	208	214	221	230
Minorities	0	0	0	0
Provisions	2	2	2	2
Net Debt (-) Cash (+)	-49	-46	-37	-21

Key Figures & Ratios	2020	2021E	2022E	2023E
Avg. N° of Shares (m)	22	22	22	22
EoP N° of Shares (m)	22	22	22	22
Avg. Market Cap. (m)	111	98	98	98
Enterprise Value (m)	162	147	137	121
Adjustments (m)	2	2	2	2
Labour Costs/Turnover	-1%	0%	0%	0%
Depr.&Amort./Turnover	14%	9%	8%	8%
Turnover / Op.Costs	1.1	1.2	1.2	1.2
Gearing (Debt / Equity)	23%	21%	17%	9%
EBITDA / Fin. Charges	>10	-53.0	-1402.0	>10
Net Debt / EBITDA	4.3	2.3	1.5	0.7
Cap.Employed/Turnover	249%	205%	178%	167%
Capex / Turnover	3%	3%	2%	2%
Pay out	0%	18%	22%	24%
ROE	7%	3%	4%	5%
ROCE (pre tax)	nm	3%	5%	7%
ROCE (after tax)	8%	2%	3%	5%

Cash Flow (€ m)	2020	2021E	2022E	2023E
Cash Earnings	29	17	20	23
Working Capital Needs	-19	-10	-6	-1
Capex (-)	-3	-4	-4	-4
Financial Investments (-)	-23	0	0	0
Dividends (-)	-7	0	-2	-3
Other Sources / Uses	-0	0	0	0
Ch. in Net Debt (-) Cash (+)	24	-3	-9	-16

Source: Mediobanca Securities



Source: Mediobanca Securities

Price: € 4.49 **Target price: € 5.00 (from € 5.20)** **Neutral**

4Q20 results penalised by Covid-19 restrictions

On Thursday, Cellularline reported its 4Q/FY20 results, which highlighted a weaker than expected sales trend, affected by movement restrictions that penalised stores' traffic volumes. On the positive side, we flag the better than expected EBITDA margin, which reflected effective cost savings put in place by the management, and net debt in line with our expectations, testifying that cash generation remains one of the key CELL's strengths, even in tough market conditions. More in details, in 4Q20 Cellularline reported:

- Sales at €34m, down 28% YoY, a touch below expectations, strongly penalised by Covid-19 restrictions that weighed on stores' traffic volumes. As regards the business segments, the drop was driven by the Red Line (group's core business), which was down-33% YoY, while we flag the positive performance of the Black Line (interphone accessories), up +5.5% YoY and the Blue Line (distribution of third-party product), up +55% YoY in the quarter. In terms of geography, the declining trend was similar in Italy and EU countries;
- Adj. EBITDA at €7.3m, down 48% YoY and below MBe. The margin was 21.7%, 8.1pp lower than 4Q19 level but 2.2pp ahead of our expectations due to effective cost containment measures;
- Adj. net profit at €2.6m, down 75% YoY and vs €6.3m MBe. The management proposed to not pay FY20 dividend, considering the persistent uncertainty of the current socio-economic context;
- Net debt at €49m, in line with our forecasts. Excluding the cash-out for Worldconnect acquisition (c.€25m), net debt would be in line with FY19 level.

Cellularline: 4Q/FY20 results

€m	4Q20A	4Q19A	YoY chg.	4Q20E	A/E	FY20A	FY19A	YoY chg.	FY20E	A/E
Sales	33.8	47.2	-28.4%	40.1	-15.6%	104.5	140.4	-25.6%	110.8	-5.7%
Adj. EBITDA	**7.3**	**14.1**	**-47.9%**	**7.8**	**-6.5%**	**15.1**	**33.1**	**-54.3%**	**15.6**	**-3.3%**
margin	*21.7%*	*29.8%*		*19.5%*		*14.4%*	*23.5%*		*14.1%*	
Adj net profit (loss)	2.6	10.5	-75.4%	6.3	-58.9%	5.3	23.3	-77.2%	9.0	-41.1%
Net Debt	49.0	24.6		49.9		49.0	24.6		49.9	

Source: Mediobanca Securities, Company data

Feedback from the conference call

In our view, main takeaways from Friday's conference call are the following:

- **As regards the outlook,** the management mentioned a slight underperformance vs last year during Jan-Feb '21, still reflecting tough comparison base. Trend for the rest of 2021 will depend on pandemic evolution, with the acceleration of vaccination campaigns from 2Q21 fueling cautious confidence about a slow and steady return to growth starting from the end of 1H21. For the time being, CELL did not experience any disruptions in its supply chain due to the shortage of electronic components.
- In this context, management remains focused on the following priorities: i) new route-to market for Germany, which may include moving away from the "indirect" model based on a local distributor through new potential partners and the start of a possible direct relationship with the leading market player after the centralisation of its operations; ii) kicking off the distribution of Altec Lansing brand products and iii) developing new business agreements for both the offline and online business;
- **Scouting activities for further M&A targets are ongoing.** The integration of Worldconnet is proceeding smoothly, while its full business recovery it is expected from late '22, given its exposure to the air travel retail channel.

Price: € 4.49 **Target price: € 5.00 (from € 5.20)** **Neutral**

FY21-22E EBITDA cut by 15% on average

Following the release, we updated our estimates to factor in weaker than expected trend reported in 4Q20 and the softer start to the year. In particular, we cut our FY21E sales forecast by 3%. We now assume a 22% top-line recovery (20% organic), factoring in a gradual acceleration from 3Q21E. At the same time, we reduced our adj. EBITDA and adj. profit estimates by 17% and 28%, respectively, factoring in the impact of lower sales volumes.

Going forward, we assume recovery to consolidate further in FY22E, projecting a 14% sales increase, with EBITDA margin expanding to c.17% level. On cash generation, we expect a steady de-leverage, with net debt/EBITDA seen coming back to 1.5x.

At the same time, with this report we also introduce our estimates for FY23E, which point to a 4% sales growth, EBITDA margin improving to 18.6% and net debt of €21m, implying net debt/EBITDA of <1x.

Main changes in FY21-23E estimates

€m	2020	2021E			2022E			2023E		
	Actual	Old	New	Change	Old	New	Change	Old	New	Change
Sales	104.5	132.0	127.9	*-3.2%*	149.1	145.9	*-2.2%*	n.a.	151.8	n.m.
YoY growth	*-25.6%*	*19.2%*	*22.3%*		*13.0%*	*14.1%*			*4.1%*	
Adj. EBITDA	15.1	22.9	19.9	*-13.3%*	29.7	24.5	*-17.3%*	n.a.	28.2	n.m.
margin	*14.4%*	*17.4%*	*15.6%*		*19.9%*	*16.8%*			*18.6%*	
Adj. EBIT	6.4	*17.7*	14.7	*-17.1%*	*24.3*	19.3	*-20.5%*	n.a.	22.9	n.m.
margin	*6.1%*	*13.4%*	*11.5%*		*16.3%*	*13.2%*			*15.1%*	
Adj. Net profit	5.3	13.3	9.6	*-28.0%*	17.6	13.4	*-24.2%*	n.a.	16.3	n.m.
YoY growth	*-77.2%*	*48.3%*	*81.2%*		*32.4%*	*39.2%*			*22.1%*	
Net Debt/(Cash)	49.0	42.6	45.9		31.4	36.6			20.6	

Source: Mediobanca Securities

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Outperform	Neutral	Underperform	Not Rated	Restricted	Coverage suspended
33.75%	53.31%	11.04%	0.00%	1.89%	0.00%

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