Cellularline

MEDIOBANCA RESEARCH

25 March 2024	Consumer Goods	DCF	Change in Estimates

Price: € 2.80 **Target price: € 3.40 (from € 3.30)** **Neutral**

New customers sustain growth in a soft market

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4Q23 margins below estimates but stronger cash generation

On March 13th, Cellularline unveiled its 4Q23 results, which showed a profitability trend below our forecast, while cash generation was much better than expected. In details, in 4Q23 the company reported sales at €46.6m, up + 10% YoY (+5% YoY organic), in line with 3Q pace and 2% below our estimates. In terms of geography, growth was underpinned by EU markets, which increased by +27% YoY while the domestic business was down -2% YoY. Adj. EBITDA was €7.9m, growing by 38% YoY but below our estimates. The margin was 16.9%, expanding by 3.4pp YoY. Adj. net profit stood €3.7m, improving vs €2.0m reported last year. Net debt reached at €35.4m, improving vs 9M23 and well below our €40.4m forecast.

Growth to be driven by new commercial agreements as sell-out remains weak

As regards the outlook, the management sees the implementation of new distribution agreements, such as the latest signed with Media Market Italy, as key lever to support growth, in a context where sell-out trend is weak across some key regions. Besides, the management remains committed in implementing its long-term strategic plan, which remains in place on the back of the positive top-line growth outcome recorded in 2022-23. Other key messages from the call were about the channel mix, with travel retail performing well, while consumer electronics has been impacted by discounting activities of retailers and mass merchandise suffering from stores' capacity reorganisation. The telco channel is seen progressively improving in 2024, ii) the strong FCF generation recorded in the quarter was mainly driven by NWC efficiencies, which are seen normalising over 2024, iii) the M&A strategy, with the management keeping scouting for opportunities albeit the focus remains on organic growth initiatives.

EPS fine-tuned, anticipating stronger growth but with lower margins

We fine-tuned our estimates to reflect stronger organic growth prospects in part offset by lower margins. Overall, our FY24-25E EPS estimates stay unchanged. For FY24E, we project an organic sales growth in the high-single-digit area, as we expect new distribution agreements signed across key geographic markets to underpin momentum despite the weak sell-out trend reported by retailers. On margins, we expect operating leverage coupled with slight gross profit margin improvement to drive a 90bps of YoY adj. EBITDA margin expansion to 14.0%. In FY25E, we expect organic sales growth to moderate to mid-single digit with EBITDA margin seen further expanding to 14.4%. On cash generation, we factor in the better print reported in 4Q23 and dividend announcement, anticipating the company to reach a €25.6m net debt at year end, implying an FCF of €12m in FY24E. At the same time, with this report, we unveil our forecasts for FY26E pointing to mid-single-digit organic growth and EBITDA margin of 14.7%.

Neutral rating confirmed, new TP of €3.4/share from €3.3/share

We update our valuation to reflect the EPS fine-tuning and DCF model (9.2% WACC, 1.0% perpetual growth) roll-over to 2024. As a result, our target price slightly increases to €3.4/share from previous €3.3/share. The stock trades at 4x FY24E EV/EBITDA and 6x FY24E P/E. We confirm the Neutral rating. While we appreciate the delivery in terms of sales organic growth, we believe that further evidence on profitability improvement is needed to become more constructive on the name.

	2023	2024E	2025E	2026E
EPS Adj (€)	0.35	0.48	0.55	0.60
DPS (€)	0.09	0.08	0.10	0.11
BVPS (€)	6.16	6.33	6.57	6.84
EV/Ebitda(x)	5.2	3.7	3.1	2.7
P/E adj (x)	7.5	5.8	5.1	4.7
Div.Yield(%)	3.3%	2.8%	3.6%	4.1%
OpFCF Yield(%)	18.6%	17.6%	17.7%	20.0%

Market Data	
Market Cap (€m)	61
Shares Out (m)	22
Christian Aleotti (%)	12%
Free Float (%)	80%
52 week range (€)	2.99-2.10
Rel Perf vs DJGL Italy DJ Total Market Italy (%)	
-1m	-9.3%
-3m	6.3%
-12m	-25.9%
21dd Avg. Vol.	44,398
Reuters/Bloomberg	I: CELL / CELL IM

Source: Mediobanca Research

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Valuation Matrix

Profit & Loss account (€ m)	2023	2024E	2025E	2026E
Turnover	159	172	181	186
Turnover growth %	15.3%	8.5%	5.3%	2.7%
EBITDA	18	24	26	27
EBITDA margin (%)	11.5%	14.0%	14.4%	14.7%
EBITDA growth (%)	52.7%	31.3%	9.0%	4.4%
Depreciation & Amortization	-13	-13	-14	-14
EBIT	5	11	13	14
EBIT margin (%)	3.1%	6.2%	7.0%	7.4%
EBIT growth (%)	nm	nm	19.3%	8.7%
Net Fin.Income (charges)	-1	-3	-3	-2
Non-Operating Items				
Extraordinary Items	0	0	0	0
Pre-tax Profit	4	7	10	12
Tax	-1	-2	-3	-3
Tax rate (%)	15.4%	25.0%	30.0%	30.0%
Minorities	0	0	0	0
Net Profit	4	6	7	8
Net Profit growth (%)	nm	55.8%	25.5%	15.4%
Adjusted Net Profit	8	11	12	13
Adj. Net Profit growth (%)	34.7%	38.1%	13.5%	9.0%

Multiples	2023	2024E	2025E	2026E
P/E Adj.	7.5	5.8	5.1	4.7
P/CEPS	3.4	3.2	3.0	2.8
P/BV	0.4	0.4	0.4	0.4
EV/ Sales	0.6	0.5	0.4	0.4
EV/EBITDA	5.2	3.7	3.1	2.7
EV/EBIT	19.6	8.4	6.4	5.3
EV/Cap. Employed	0.6	0.5	0.5	0.5
Yield (%)	3.3%	2.8%	3.6%	4.1%
OpFCF Yield(%)	18.6%	17.6%	17.7%	20.0%
FCF Yield (%)	25.5%	19.2%	16.8%	16.4%

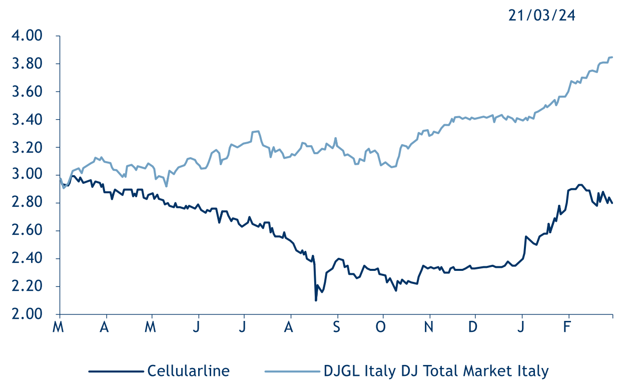
Per Share Data (€)	2023	2024E	2025E	2026E
EPS	0.16	0.26	0.32	0.37
EPS growth (%)	nm	55.8%	25.5%	15.4%
EPS Adj.	0.35	0.48	0.55	0.60
EPS Adj. growth (%)	34.7%	38.1%	13.5%	9.0%
CEPS	0.68	0.54	0.47	0.46
BVPS	6.16	6.33	6.57	6.84
DPS Ord	0.09	0.08	0.10	0.11

Balance Sheet (€ m)	2023	2024E	2025E	2026E
Working Capital	71	75	81	88
Net Fixed Assets	101	92	82	73
Total Capital Employed	173	166	163	161
Shareholders' Funds	135	138	144	150
Minorities	0	0	0	0
Provisions	2	2	2	2
Net Debt (-) Cash (+)	-35	-26	-17	-9

Key Figures & Ratios	2023	2024E	2025E	2026E
Avg. N° of Shares (m)	22	22	22	22
EoP N° of Shares (m)	22	22	22	22
Avg. Market Cap. (m)	58	61	61	61
Enterprise Value (m)	96	89	81	73
Adjustments (m)	2	2	2	2
Labour Costs/Turnover	0%	0%	0%	0%
Depr.&Amort./Turnover	8%	8%	7%	7%
Turnover / Op.Costs	1.1	1.2	1.2	1.2
Gearing (Debt / Equity)	26%	18%	12%	6%
EBITDA / Fin. Charges	-29.2	-7.6	-10.0	-12.6
Net Debt / EBITDA	1.9	1.1	0.6	0.3
Cap.Employed/Turnover	109%	97%	90%	87%
Capex / Turnover	2%	2%	2%	2%
Pay out	25%	16%	18%	19%
ROE	3%	4%	5%	5%
ROCE (pre tax)	3%	6%	8%	9%
ROCE (after tax)	2%	5%	5%	6%

Cash Flow (€ m)	2023	2024E	2025E	2026E
Cash Earnings	17	19	21	22
Working Capital Needs	1	-3	-6	-7
Capex (-)	-3	-4	-4	-5
Financial Investments (-)	-4	0	0	0
Dividends (-)	0	-2	-2	-2
Other Sources / Uses	-7	0	0	0
Ch. in Net Debt (-) Cash (+)	-5	-10	-9	-8

Source: Mediobanca Research



Source: Mediobanca Research

Price: € 2.80 **Target price: € 3.40 (from € 3.30)** **Neutral**

4Q23: lower margins but stronger cash generation

On March 13th, Cellularline unveiled 4Q23 results, which highlighted a profitability trend below our forecast, while cash generation was much better than expected. In details, in 4Q23 the company reported:

- Sales at €46.6m, up + 10% YoY (+5% YoY organic), in line with 3Q pace and 2% below our estimates. In terms of geography, growth was underpinned by EU markets, which increased by +27% YoY while the domestic business was down -2% YoY
- Adj. EBITDA at €7.9m, growing by 38% YoY but below our estimates. The margin was 16.9%, expanding by 3.4pp YoY but sequentially compressing vs 3Q23 (18.8%)
- Adj. net profit at €3.7m, improving vs €2.0m reported last year
- Net debt at €35.4m, improving vs 9M23 and well below our €40.4m forecast

Table 1: 4Q23 results

€m	4Q23A	4Q22A	YoY chg.	4Q23E	A/E	FY23A	FY22A	YoY chg.	FY23E	A/E
Sales	46.6	42.3	10.2%	47.7	-2.3%	158.6	137.6	15.3%	159.7	-0.7%
Adj. EBITDA	7.9	5.7	37.9%	9.4	-16.1%	20.8	16.6	24.8%	22.3	-6.8%
margin	16.9%	13.5%		19.7%		13.1%	12.1%		13.9%	
Adj net profit (loss)	3.7	2.0	81.5%	4.6	-20.2%	7.7	5.7	34.7%	8.6	-10.8%
Net Debt	35.4	40.4		40.5		35.4	40.4		40.5	

Source: Mediobanca Research, Cellularline

Feedback from the call

On March 14th, Cellularline hosted a conference call. Key takeaways are about:

- **FY24E the outlook -** the management sees the implementation of new distribution agreements, such as the latest signed with Media Market Italy and El Corte Ingles in Spain, as key lever to support growth, in a context where sell-out trend is weak across some key regions
- **Channel mix -** In terms of channel mix, with travel retail performing well, while consumer electronics has been impacted by discounting activities of retailers and mass merchandise suffering from stores' capacity reorganisation. The telco channel is seen progressively improving in 2024
- **The strong FCF generation** - 4Q FCF print recorded in the quarter was mainly driven by NWC efficiencies, which are seen normalising over 2024. NFP trend was also helped by the changes in fair value of put/call options included in the calculation
- **M&A strategy -** the management keeps scouting for opportunities albeit the focus remains on organic growth initiatives

Price: € 2.80 **Target price: € 3.40 (from € 3.30)** **Neutral**

FY24-25E EPS fine-tuned

We fine-tuned our estimates to reflect a stronger organic growth in part offset by lower margins. Overall, our FY24-25E EPS estimates stay unchanged. In details:

- For FY24E, we project an organic sales growth in the high-single-digit area, as we expect new distribution agreements signed across key geographic market to underpin momentum despite the weak sell-out trend reported by retailers. On margins, we expect operating leverage coupled with slight gross profit margin improvement to drive a 100bps of YoY EBITDA margin expansion to 14.0%
- In FY25E, we expect organic sales growth to moderate to mid-single digit with EBITDA margin seen further expanding to 14.4%. On cash generation, we factor in the better print reported in 4Q23 and dividend announcement, anticipating the company to reach a €25.6m net debt at year end, implying an FCF of €12m in FY24E
- At the same time, with this report we unveil our forecasts for FY26E pointing to mid-single-digit organic growth and EBITDA margin of 14.7%

Table 2: Main changes in FY24-25 estimates

€m	2023	2024E			2025E			2026E		
	Actual	Old	New	Change	Old	New	Change	Old	New	Change
Sales	158.6	166.4	172.1	3.4%	173.2	181.3	4.7%	n.a.	186.2	-
YoY growth	15.3%	4.2%	8.5%		4.1%	5.3%			2.7%	
Adj. EBITDA	20.8	25.0	24.0	-4.0%	26.6	26.2	-1.8%	n.a.	27.3	-
margin	13.1%	15.0%	14.0%		15.4%	14.4%			14.7%	
Adj. EBIT	14.0	18.4	17.3	-5.9%	19.9	19.3	-2.8%	n.a.	20.4	-
margin	8.8%	11.0%	10.0%		11.5%	10.7%			11.0%	
Adj. Net profit	7.7	10.7	10.6	-0.5%	12.0	12.0	0.1%	n.a.	13.1	-
YoY growth	34.7%	23.7%	38.1%		12.8%	13.5%			9.0%	
Net Debt/(Cash)	35.4	30.5	25.6		19.6	17.0		n.a.	9.1	

Source: Mediobanca Research

Neutral rating confirmed, new TP of €3.4/ share

We confirm the Neutral rating on the name, with a new TP of €3.4/share from previous €3.3/share, which reflects the EPS revision DCF roll-over. As a reminder, our DCF analysis is based on the following assumptions:

- A WACC of 9.2%, which takes into account a cost of equity of 9.5% and cost of gross debt of 4.5%
- A perpetual growth rate of 1%
- A 1-year deceleration in 2027E where we factored in a potential slowdown in the business cycle, simulating a 7.5% top-line decline coupled with a 300bps EBITDA margin contraction
- We consider 2030E as the reference year for computing the terminal value of our model, assuming a recovery of the deceleration in 2027E with an exit EBITDA margin close to 15%

DCF-based valuation

€m	2024E	2025E	2026E	2027E	2028E	2029E	2030E	TV
NOPLAT	**13.0**	**13.5**	**14.3**	**14.4**	**9.2**	**10.1**	**10.3**	
D&A	6.8	6.9	6.9	7.0	7.0	7.1	7.2	
Operating Cash Flow	**19.8**	**20.4**	**21.2**	**21.4**	**16.2**	**17.2**	**17.5**	
Capex/Acquisitions	(4.0)	(4.0)	(4.5)	(4.5)	(5.0)	(6.0)	(7.2)	
Change in Net Working Capital	(3.3)	(6.3)	(7.1)	(5.5)	4.8	(3.7)	(2.3)	
Cash Flow to the Firm	**12.5**	**10.1**	**9.6**	**11.4**	**16.0**	**7.5**	**8.0**	**99.1**
Time adjustment	2	3	4	5	6	7	7	7
Discount factor	1.00	0.92	0.84	0.77	0.70	0.64	0.59	0.64
Discounted Cash Flow to the Firm	**12.5**	**9.3**	**8.0**	**8.7**	**11.3**	**4.9**	**4.7**	**58**

Source: Mediobanca Research

Summary DCF

Perpetual growth rate	1.0%
WACC	9.2%
Terminal value end of projection period	99
Discounting rate of terminal value	0.59
Discounted terminal value	**58**
Cumulated DFOCF	**59**
Enterprise Value (€ mn)	**118**
Net Debt as of 31/12/23	(35.4)
Minorities	-
Treasury shares	2.0
Pensions Liabilities	(2.5)
Equity Value (€ mn)	**82**
10% liquidity discount	**(8.2)**
Value per share (€)	**3.4**

Source: Mediobanca Research

The sensitivity of our DCF analysis to different long-term growth rates and different WACC levels is provided below.

DCF sensitivity to WACC and g

Terminal growth rate		WACC						
		-0.50%	0.00%	0.50%	1.00%	1.50%	2.00%	2.50%
	7.7%	3.3	3.5	3.7	3.9	4.2	4.5	4.8
	8.2%	3.2	3.3	3.5	3.7	3.9	4.2	4.5
	8.7%	3.1	3.2	3.4	3.5	3.7	3.9	4.2
	9.2%	3.0	3.1	3.2	3.4	3.5	3.7	4.0
	9.7%	2.9	3.0	3.1	3.2	3.4	3.6	3.7
	10.2%	2.8	2.9	3.0	3.1	3.2	3.4	3.6
	10.7%	2.7	2.8	2.9	3.0	3.1	3.3	3.4

Source: Mediobanca Research

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Neutral (N). The stock’s total return is expected to be in line with the average total return of the analyst’s industry (or industry team’s) coverage universe, on a risk-adjusted basis, over the next 6-12 months.
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Proportion of all recommendations relating to the last quarter					
Outperform	Neutral	Underperform	Not Rated	Restricted	Coverage suspended
42.86%	48.85%	6.91%	0.00%	1.38%	0.00%

Proportion of issuers to which Mediobanca S.p.A. has supplied material investment banking services relating to the last quarter:					
Outperform	Neutral	Underperform	Not Rated	Restricted	Coverage suspended
47.22%	44.58%	50.00%	0.00%	66.67%	0.00%

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