

Price: € 2.62

Target price: € 3.40

Neutral

Moving steps in the right direction

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2Q24 results: high-single digit growth with improving margins and FCF

On September 11th, Cellularline reported a set of 2Q24 results highlighting a high-single-digit organic sales growth (accelerating vs 1Q) with improving margins and cash generation. In the quarter, the company reported sales at €40.8m, up +9% YoY, supported by the international market (+12% YoY) while the domestic business underperformed (+5% YoY). Adj. EBITDA was €5.8m, up vs €4.1m reported in 2Q23 and with the margin expanding to 14.0% from 10.8%, led by improving gross margin and operating leverage. Adj net profit stood at €2.6m, improving vs breakeven in 2Q23. Net debt stood at €27.5m, declining vs €31.1m in 1Q24 despite the €1.8m dividend cash-out, with cash generation supported by NWC efficiencies.

Growth seen continuing through the remainder of the year

On FY24E outlook, the management said to be confident that the growth momentum can continue in the next quarters. In 1H24 CELL outperformed a non-growing Consumer Electronics market thanks to the acquisition of new customers and increasing penetration among existing ones across all geographies. This was aided also by acceleration in CE retailers' consolidation that is ultimately favouring large and reliable suppliers as CELL. Profitability expansion was driven by gross profit margin improvement, which benefitted from favourable mix and FX dynamics, which is seen continuing in 2H. On capital allocation, the new financing agreement will optimise financial costs, extend debt maturity, and increase financial headroom for supporting growth, with organic developments being a priority vs M&A in the short term. During the call, the management also argued to be closely monitoring the ongoing tender offer launched by FNAN Darty on Unieuro (Restricted - Mediobanca acts as financial advisor in the context of the tender offer on shares of Unieuro), which, if successful, might bring either commercial opportunities (expansion in France) or risks for the domestic market (revision in the supply agreement).

FY24-26E EPS fine-tuned as we confirm the growth outlook

We made marginal adjustments to our FY24-26E EPS after the release, anticipating a milder top-line growth trajectory but with higher margins. For FY24E, we confirm the high-single-digit organic sales growth, which implies a continuation of the current footing over the remainder of the year supported by the new distribution agreements. On margins, we expect operating leverage coupled with slight gross profit margin improvement to drive a 120bps of YoY adj. EBITDA margin expansion to 14.3%. In FY25-26E, we expect organic sales growth to moderate to mid-single digit with EBITDA margin seen further expanding to 14.9% in FY26E. On cash generation, we factor in the solid print reported, anticipating the company to reach a €23m net debt at year end, implying an FCF of €14m in FY24E, flat vs FY23.

Focus on the upcoming peak season: Neutral, €3.4/share TP confirmed

Our TP (DCF-based - WACC of 9.2%, 1% g) stays unchanged at €3.4/share. The shares trade at -3.5x FY24E EV/EBITDA and -5x FY24E adj. P/E. We reckon that 2Q results were supportive and represented another step in the right direction. Yet, we confirm the Neutral rating as - given the weak consumer electronics environment - we wait for further delivery on 3Q and messages on the upcoming peak season to turn more constructive on the name.

	2023	2024E	2025E	2026E
EPS Adj (€)	0.35	0.49	0.55	0.60
DPS (€)	0.09	0.08	0.10	0.11
BVPS (€)	6.16	6.32	6.56	6.83
EV/Ebitda(x)	5.2	3.5	2.9	2.5
P/E adj (x)	7.4	5.4	4.8	4.4
Div.Yield(%)	3.3%	2.9%	3.8%	4.3%
OpFCF Yield(%)	18.8%	22.1%	18.3%	22.0%

Market Data

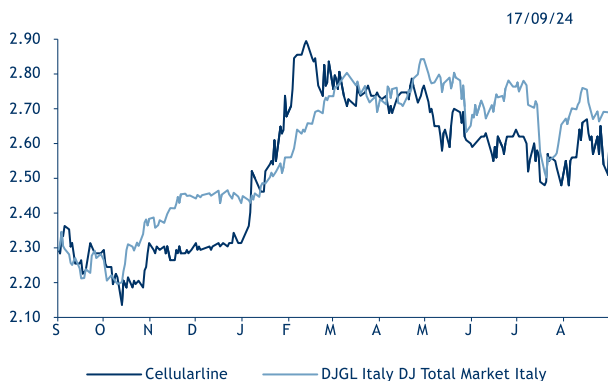
Market Cap (€m)	57
Shares Out (m)	22
Christian Aleotti (%)	12%
Free Float (%)	65%
52 week range (€)	2.89-2.14
Rel Perf vs DJGL Italy DJ Total Market Italy (%)	
-1m	4.2%
-3m	-0.7%
-12m	-0.6%
21dd Avg. Vol.	9,004
Reuters/Bloomberg	I: CELL / CELL IM

Source: Mediobanca Research

Valuation Matrix

Profit & Loss account (€ m)	2023	2024E	2025E	2026E	Multiples	2023	2024E	2025E	2026E
Turnover	159	169	177	182	P/E Adj.	7.4	5.4	4.8	4.4
Turnover growth %	15.3%	6.3%	5.2%	2.7%	P/CEPS	3.4	3.1	2.8	2.6
EBITDA	18	24	26	27	P/BV	0.4	0.4	0.4	0.4
EBITDA margin (%)	11.5%	14.1%	14.7%	14.9%	EV/ Sales	0.6	0.5	0.4	0.4
EBITDA growth (%)	52.7%	29.5%	9.7%	4.2%	EV/EBITDA	5.2	3.5	2.9	2.5
Depreciation & Amortization	-13	-13	-14	-14	EV/EBIT	19.5	8.1	6.0	4.9
EBIT	5	10	12	14	EV/Cap. Employed	0.5	0.5	0.5	0.4
EBIT margin (%)	3.1%	6.1%	7.0%	7.4%	Yield (%)	3.3%	2.9%	3.8%	4.3%
EBIT growth (%)	nm	nm	21.3%	8.4%	OpFCF Yield(%)	18.8%	22.1%	18.3%	22.0%
Net Fin.Income (charges)	-1	-3	-2	-2	FCF Yield (%)	25.9%	24.9%	16.9%	17.8%
Non-Operating Items					Per Share Data (€)				
Extraordinary Items	0	0	0	0	EPS	0.16	0.24	0.32	0.37
Pre-tax Profit	4	7	10	11	EPS growth (%)	nm	48.9%	31.1%	14.6%
Tax	-1	-2	-3	-3	EPS Adj.	0.35	0.49	0.55	0.60
Tax rate (%)	15.4%	25.0%	30.0%	30.0%	EPS Adj. growth (%)	34.7%	38.8%	12.8%	8.5%
Minorities	0	0	0	0	CEPS	0.68	0.65	0.44	0.47
Net Profit	4	5	7	8	BVPS	6.16	6.32	6.56	6.83
Net Profit growth (%)	nm	48.9%	31.1%	14.6%	DPS Ord	0.09	0.08	0.10	0.11
Adjusted Net Profit	8	11	12	13	Key Figures & Ratios				
Adj. Net Profit growth (%)	34.7%	38.8%	12.8%	8.5%	Avg. N° of Shares (m)	22	22	22	22
Balance Sheet (€ m)					EoP N° of Shares (m)	22	22	22	22
Working Capital	71	72	79	86	Avg. Market Cap. (m)	57	57	57	57
Net Fixed Assets	101	92	82	73	Enterprise Value (m)	95	83	75	67
Total Capital Employed	173	164	161	159	Adjustments (m)	2	2	2	2
Shareholders' Funds	135	138	143	149	Labour Costs/Turnover	0%	-1%	-1%	-1%
Minorities	0	0	0	0	Depr.&Amort./Turnover	8%	8%	8%	7%
Provisions	2	2	2	2	Turnover / Op.Costs	1.1	1.2	1.2	1.2
Net Debt (-) Cash (+)	-35	-23	-15	-7	Gearing (Debt / Equity)				
Cash Flow (€ m)					Gearing (Debt / Equity)	26%	17%	10%	5%
Cash Earnings	17	19	21	22	EBITDA / Fin. Charges	-29.2	-7.5	-10.7	-13.4
Working Capital Needs	1	-0	-7	-7	Net Debt / EBITDA	1.9	1.0	0.6	0.3
Capex (-)	-3	-4	-4	-5	Cap. Employed/Turnover	109%	97%	91%	87%
Financial Investments (-)	-4	0	0	0	Capex / Turnover	2%	2%	2%	2%
Dividends (-)	0	-2	-2	-2	Pay out	25%	16%	18%	19%
Other Sources / Uses	-7	0	0	0	ROE	3%	4%	5%	5%
Ch. in Net Debt (-) Cash (+)	-5	-12	-8	-8	ROCE (pre tax)	3%	6%	8%	9%
					ROCE (after tax)	2%	5%	5%	6%

Source: Mediobanca Research



Source: Mediobanca Research

2Q24 results: high-single digit growth with margin expansion

On September 11th, Cellularline reported a set of 2Q24 results broadly consistent with our FY24E estimates, highlighting a high-single-digit organic sales growth (accelerating vs 1Q) with improving margins and cash generation. In details, in the quarter the company reported:

- Sales at €40.8m, up +9% YoY, supported by the international market (+12% YoY) while the domestic business underperformed (+5% YoY). In terms of business segments, Red Line (branded products) outperformed (11% YoY), while both Blue Line (third-party products, -2% YoY) and Black Line (interphones, -3% YoY) reported a negative growth trajectory.
- Adj. EBITDA was €5.8m, growing vs €4.1m reported in 2Q23 and with the margin expanding to 14.0% from 10.8%, chiefly led by improving gross margin and operating leverage.
- Adj net profit stood at €2.6m, improving vs breakeven in 2Q23.
- Net debt stood at €27.5m, declining vs €31.1m in 1Q24 despite the €1.8m dividend cash-out, with cash generation supported by NWC efficiencies.

Table 1: 2Q24 results

€m	2Q24A	2Q23A	YoY chg.	1H24A	1H23A	YoY chg.
Sales	40.8	37.6	8.6%	72.6	67.8	7.0%
Adj. EBITDA	5.8	4.1	43.7%	7.0	4.6	53.7%
margin	14.3%	10.8%		9.6%	6.7%	
Adj net profit (loss)	2.6	-0.1	nm	1.3	-1.1	nm
Net Debt	27.5	48.6		27.5	48.6	

Source: Mediobanca Research; Cellularline

Growth to continue over the remainder of the year

On September 12th, the management hosted a conference call to comment 2Q release. All in all, we noted a positive tone from the commentary, with the management being confident about the continuation of the growth outlook over the next quarters despite the softness in the underlying market. Key takeaways are about:

- **FY24E outlook**, with the management being confident that the growth momentum can continue through the remainder of the year. In 1H24 CELL outperformed a non-growing Consumer Electronics market thanks to the acquisition of new customers and increasing penetration among existing customers across all geographies through several commercial initiatives. Also, the management noted an acceleration in CE retailers' consolidation ultimately favouring large and reliable suppliers as CELL;
- **Profitability expansion was driven by gross profit margin improvement**, which benefitted from favourable customer/channel/product mix and stable FX dynamics. Looking ahead, the management sees these improvements as sustainable over the rest of the year;
- **Domestic market**, as the management stating to be closely monitoring the evolution of the ongoing tender offer launched by FNAC Darty on Unieuro (**Restricted - Mediobanca acts as financial advisor in the context of the tender offer on shares of Unieuro**), one of the key customer of Cellularline, which, if successful, might bring either opportunities (expansion into the France market leveraging the strong commercial relationship with UNIR), or risks for the domestic market (potential revision in UNIR's supply agreement).

- **New financing agreement** that optimises interest rate costs, extends debt maturity and increases financial headroom for supporting growth. On M&A, the management commented that they keep assessing opportunities albeit they prioritise organic growth developments due to the current unfavourable financing environment.

EPS fine-tuned

Table 2: FY24-26E EPS

€m	2023	2024E			2025E			2026E		
	Actual	Old	New	Change	Old	New	Change	Old	New	Change
Sales	158.6	172.1	168.6	-2.1%	181.3	177.3	-2.2%	186.2	182.0	-2.2%
YoY growth	15.3%	8.5%	6.3%		5.3%	5.2%		2.7%	2.7%	
Adj. EBITDA margin	20.8	24.0	24.1	0.3%	26.2	26.0	-0.7%	27.3	27.1	-0.9%
Adj. EBIT margin	13.1%	14.0%	14.3%		14.4%	14.7%		14.7%	14.9%	
Adj. Net profit	14.0	17.3	17.3	0.4%	19.3	19.1	-1.0%	20.4	20.2	-1.2%
YoY growth	8.8%	10.0%	10.3%		10.7%	10.8%		11.0%	11.1%	
Net Debt/(Cash)	7.7	10.6	10.7	0.5%	12.0	12.0	-0.1%	13.1	13.0	-0.5%
	34.7%	38.1%	38.8%		13.5%	12.8%		9.0%	8.5%	
	35.4	25.6	23.0		17.0	15.0		9.1	7.0	

Source: Mediobanca Research

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Outperform	Neutral	Underperform	Not Rated	Restricted	Coverage suspended
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