

Lleida.net

BUY

4Q16 Results: earnings growth continue to gain momentum

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Lleida.net has reported the strongest quarterly results since it listed on the MAB in 2015. The headline EPS came in at 8 cents in 4Q16 vs. a loss of 6 cents in 4Q15.

A good operating result was again behind the consolidation of the turnaround already observed in 3Q16. Headline revenues rose some 31% to €2.3 million in 4Q16 versus 4Q15 and the gross profit number grew even faster, by 65%, to €1.3 million compared to 4Q15.

The software side of the business (certificated messaging and ID identification) even exceeded the kind of strong rates of growth seen in prior quarters. 4Q16 was 129% higher compared to 4Q15, with revenues of €667k.

The telecomm side (SMS and Interconnection) has also contributed to growth this 4Q16 with an increase of 12% to €1.6 million versus 4Q15. The SMS side grew revenues by 10% versus the same quarter last year and the Interconnection side rose by 16%.

Costs were also well contained during 4Q16 and fell by 14% relative to last year. As a result the Ebitda number (excl. R+D capitalized costs) was €218k vs -€504k last year, paving the way to a stronger Ebitda in 2017.

The net debt fell by over €100k to €2.5 million in 4Q16 vs 3Q16 reflecting the positive cash flow generated by Lleida.net. Without the exceptional cash charge of €482k, earlier in the year, the net debt of would have fallen slightly during 2016.

We are revising upwards our forecasts for 2017 and 2018 and raising our 12-month target price to €1.05 per share, an upside of 70% relative to current price of the shares.

Equities

Spain Telecom/Software Services

Price: €0.62
RIC: LLN.MC

Trading Data

52 week range (€):	0.64 - 1.18
Mkt Cap (€ millions):	9.95
No. Shares (millions):	16.04
Avg Daily vol (LTM):	5,322

Share Price Chart



(€ millions)	2016a	2017e	2018f	2019f
Turnover	7,8	9,2	10,6	11,7
Ebitda	0,1	0,9	1,4	1,7
Net Profit	-1,2	0,5	1,1	1,1
EPS	-0,08	0,03	0,07	0,07
Net Debt	2,5	2,1	1,0	-0,1
EV/sales	1,6	1,3	1,0	0,8
EV/Ebitda	215	14	8	6
P/E	n.m.	20	9	9

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Quarterly results

(€ millions)	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16
Sales by division								
Certified Comm	n.a.	n.a.	0,16	0,17	0,16	0,19	0,23	0,43
Data Validation	n.a.	n.a.	0,11	0,12	0,17	0,19	0,21	0,24
Software	n.a.	n.a.	0,27	0,29	0,33	0,38	0,44	0,67
SMS Solutions	n.a.	n.a.	0,66	0,77	0,66	0,78	0,72	0,85
ICX	n.a.	n.a.	0,70	0,67	0,64	0,73	0,81	0,77
Telecomm	n.a.	n.a.	1,36	1,44	1,30	1,51	1,53	1,62
Sales by division (%)								
Certified Comm	n.a.	n.a.	10	10	10	10	12	19
Data Validation	n.a.	n.a.	6	7	10	10	11	10
Software	n.a.	n.a.	16	17	20	20	22	29
SMS Solutions	n.a.	n.a.	40	44	41	41	36	37
ICX	n.a.	n.a.	43	38	39	39	41	34
Telecomm	n.a.	n.a.	82	82	80	80	78	71
Turnover	2,41	2,59	1,65	1,75	1,63	1,88	1,98	2,29
Capitalized costs (R&D)*	0,36	0,35	0,27	0,27	0,28	0,26	0,19	0,19
Cost of sales	-1,75	-1,66	-0,99	-0,98	-0,90	-1,07	-0,89	-1,02
Gross Profit*	0,66	0,94	0,66	0,78	0,73	0,81	1,09	1,27
% y-o-y growth	n.a.	n.a.	n.a.	n.a.	11	-13	66	64
<i>Gross Margin</i>	<i>27%</i>	<i>36%</i>	<i>40%</i>	<i>44%</i>	<i>45%</i>	<i>43%</i>	<i>55%</i>	<i>56%</i>
Personnel Expenses	-0,45	-0,49	-0,48	-0,57	-0,46	-0,49	-0,55	-0,49
Other SG&A	-0,49	-0,34	-0,35	-0,71	-0,45	-0,46	-0,37	-0,57
Depreciation	-0,27	-0,28	-0,28	-0,26	-0,30	-0,30	-0,27	-0,27
Other	0,00	0,00	0,00	0,00	-0,10	0,00	0,00	0,00
Total Operating Costs	-1,21	-1,11	-1,11	-1,54	-1,32	-1,26	-1,19	-1,32
% y-o-y growth	n.a.	n.a.	n.a.	n.a.	8	13	8	-14
Operating Income	-0,20	0,18	-0,18	-0,50	-0,31	-0,19	0,09	0,14
<i>Operating Margin</i>	<i>-8%</i>	<i>7%</i>	<i>-11%</i>	<i>-29%</i>	<i>-19%</i>	<i>-10%</i>	<i>5%</i>	<i>6%</i>
Ebitda	-0,28	0,10	-0,17	-0,50	-0,28	-0,14	0,17	0,22
<i>Ebitda Margin</i>	<i>-12%</i>	<i>4%</i>	<i>-10%</i>	<i>-29%</i>	<i>-17%</i>	<i>-8%</i>	<i>8%</i>	<i>10%</i>
Financial Income	0,01	0,00	0,02	0,03	0,00	0,02	0,00	0,02
Financial Costs	-0,05	-0,04	-0,05	-0,05	-0,04	-0,04	-0,03	-0,04
Extraordinaries	0,00	0,00	0,00	0,28	0,00	-0,86	0,00	0,00
Financial Results	-0,04	-0,04	-0,03	0,26	-0,04	-0,88	-0,03	-0,02
Profit Before Tax	-0,23	0,14	-0,20	-0,24	-0,35	-1,07	0,06	0,12
Tax	0,00	0,00	0,00	0,14	0,00	0,00	0,00	0,00
Net Income	-0,23	0,14	-0,20	-0,10	-0,35	-1,07	0,06	0,12

* capitalized costs are excluded from the Gross Profit calculation

Revision of forecasts

The 2016 year-end numbers were broadly in line with expectations. We were expecting Ebitda to come in at break-even and it was slightly better than expected at almost €60k (including R+D capitalization the reported Ebitda was €0.8 million in 2016).

The differences in our expectations were on the revenue side, where we went for an accumulated number of €8.2 million and it came in at €7.8 million. The software side was slightly above our expectations, whilst the telecommunications side was lower. This shortfall was made up by a better than expected gross margins that took the gross profit to €3.9 million, exactly in line with our expectations.

The shortfall in the headline revenue of telecom side of the business is relatively unimportant event given the trading nature of the Interconnection division (ICX). To increase or decrease revenues on the Interconnection division is relatively easy given that is based on traffic that can be attracted or refused just by lowering or increasing prices quickly ahead of competitors. The real measure of success is to maintain a level of activity that is consistent with an increased profit. That was very much the case throughout 2016 and in 4Q16 as well.

At the non-operating level, the non-recurring items (the settlement in the French market and the non-cash reversal of R+D cost capitalization) were already expected and should not be repeated in 2017. The net profit number came in the end at -€1.2 million versus our expectation of -€0.9 million. The difference is that we were expecting Lleida.net to benefit from tax credits for losses in 2016 but it did not materialize.

Overall, the second half of the year results have revealed a strengthening operational result that is expected to continue to gain momentum into 2017. We are specially encouraged by the better than expected numbers coming from the software side of the business and the signing up of brand quality customers like Zurich Insurance, Bankinter and Banco Pichincha. With increased demand of legal security on electronic communications and the recent patent approvals in the US and other jurisdictions, Lleida.Net is emerging as a leading company in this area with still great potential.

With increased cash flow generation and an improving balance sheet (net debt was an still is relatively low for the size and cash flow generation of Lleida.net) the management will continue to retain the firepower to continue to expand organically into 2017. We are assuming in our new forecasts an increase of 6% and 7% in the operational cost base for 2017 and 2018 to reflect the continued expansion in the business, led primarily by the software divisions.

As a result, and based on second half numbers 2016, we are more confident that Lleida.net can reach an Ebitda of €0.9 million and €1,4 million in 2017 and 2018 respectively versus our previous forecast of €0.5 million and €1,1 million. By the same token, we have revised our long-term forecasts and our sum of the parts valuation for Lleida.net thereby lifting our 12 month target price to €1.05 per share.

Profit and Loss

(€ millions)	2015	2016	2017f	2018f	2019f
Sales by division					
Certified Comm	0,6	1,0	1,3	1,7	2,2
Data Validation	0,5	0,8	1,1	1,5	1,9
Software	1,1	1,8	2,4	3,2	4,0
SMS Solutions	2,8	3,1	3,7	4,1	4,3
ICX	4,4	2,8	3,1	3,3	3,3
Telecomm	7,2	6,0	6,8	7,4	7,6
Turnover	8,4	7,8	9,2	10,6	11,7
Capitalized costs (R&D)*	1,2	0,9	0,9	1,0	1,0
Cost of sales	-5,4	-3,9	-4,3	-4,8	-5,1
Gross Profit*	3,0	3,9	5,0	5,8	6,6
<i>% y-o-y growth</i>	14	29	27	17	14
<i>Gross Margin</i>	36%	50%	54%	55%	57%
Personnel Expenses	-2,0	-2,0	-2,2	-2,3	-2,8
Other SG&A	-1,9	-1,9	-1,9	-2,0	-2,2
Depreciation	-1,1	-1,1	-1,1	-1,1	-1,1
Other	0,0	0,0	0,0	0,0	0,0
Total Operating Costs	-5,0	-5,0	-5,2	-5,5	-6,0
<i>% y-o-y growth</i>	22	0	5	4	11
Operating Income	-0,7	-0,2	0,7	1,3	1,6
<i>Operating Margin</i>	-8%	-2%	7%	12%	13%
Ebitda	-0,9	0,1	0,9	1,4	1,7
<i>Ebitda Margin</i>	-10%	1%	9%	13%	14%
Financial Income	0,1	0,0	0,0	0,0	0,0
Financial Costs	-0,2	-0,2	-0,2	-0,2	-0,2
Extraordinaries	0,3	-1,0	0,0	0,0	0,0
Financial Results	0,2	-1,1	-0,2	-0,2	-0,2
Profit Before Tax	-0,5	-1,2	0,5	1,1	1,4
Tax	0,1	0,0	0,0	0,0	-0,3
Net Income	-0,4	-1,2	0,5	1,1	1,1

Balance Sheet

(€ millions)	2015	2016	2017f	2018f	2019f
Fixed Assets	6,7	6,2	6,3	6,5	6,7
Intangible Assets	4,3	3,8	3,9	4,0	4,1
Tangible Assets	0,4	0,4	0,5	0,5	0,5
Investments in Group Companies	1,8	1,8	1,8	1,9	1,9
Other Investments	0,0	0,0	0,0	0,0	0,0
Deferred Assets	0,1	0,1	0,1	0,1	0,2
Current Assets	6,7	5,1	5,2	5,3	5,5
Inventory	0,0	0,0	0,0	0,0	0,0
Debtors	2,2	2,2	2,2	2,3	2,4
Investments in Group Companies	0,0	0,1	0,1	0,1	0,1
Short Term Investments	0,3	1,3	1,3	1,3	1,4
Short Term Accruals	0,2	0,2	0,2	0,2	0,2
Cash	4,0	1,3	1,3	1,4	1,4
Assets	13,4	11,3	11,5	11,8	12,2
Shareholders' Funds	5,9	4,5	5,0	6,2	7,3
<i>Capital</i>	0,3	0,3	0,3	0,3	0,3
<i>Share Premium</i>	5,2	5,2	5,2	5,2	5,2
<i>Reserves</i>	1,4	1,5	-0,1	0,4	1,5
<i>Repurchase of share capital</i>	-0,7	-0,9	-0,9	-0,9	-0,9
<i>Profit and Loss account</i>	-0,4	-1,6	0,5	1,1	1,1
Long Term Debt	2,7	1,9	2,0	2,1	1,0
Current Liabilities	4,9	4,8	4,4	3,6	3,8
Short Term Debt	3,8	3,2	2,7	1,7	1,7
Creditors	1,1	1,6	1,8	1,9	2,2
Liabilities	13,4	11,3	11,5	11,8	12,2

Sum of the parts valuation

Sector	Division	DCF (€)	Year	P/Sales
Software	Certified	5.039.197	2017	3,9
			2018	2,9
	ID Validation	4.177.365	2017	3,8
			2018	2,9
Telecommunications	SMS	5.881.960	2017	1,6
			2018	1,5
	ICX	3.963.447	2017	1,3
			2018	1,2
	Sum of Parts	19.061.969		
	Net Debt	2.548.019		
	Equity Valuation	16.513.950		

We have raised our fair value estimate of Lleida.net business by €1.5 million on the back of 4Q16 results because they represent the confirmation of a trend already started in 3Q16. In addition, the faster growing software divisions came slightly ahead of expectations.

Therefore, we now value the certified software side at €5 million versus €4.5 million and the ID validation at €4.2 million versus €3.9 million in our October 2016 report. We have also increased the SMS side to €5.9 million versus €5.2 million and maintained the ICX broadly unchanged at €4 million.

As a result our 12 month target price has been revised upwards from €0.95 to €1.05 providing almost 70% upside on the current share price.