

Lleida.net

BUY

3Q17 Results: the fifth straight cash-flow positive quarter

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3Q17 continues to be a consolidation of the trend seen in recent quarters; with reported quarterly consolidated sales growth of +25% on the software side combined with the SMS divisions remaining on the growth path with +16%. Our forecasts were anticipating a 30% increase in sales for the quarter compared to the 17% overall increase to €2.5 million.

The cash-flow for the quarter came at €169k compared to €210k in 3Q16. The main reason for the soft result resides in a drop in the Ebitda margin (excluding capitalizations) from 16% to 9%. We were expecting a similar Ebitda margin as in 3Q16. The squeeze in margins came from the larger contribution of the wholesale SMS business (grew 38% this quarter), whilst the SMS solutions side dropped 10%.

The company kept costs under tight control and non-payroll related expenses fell by 8% during 3Q17, helping to soften the pressure on profits. Profit before tax rose by 5% to €144k vs. €137k in 3Q16.

Lleida.net has moved its domicile to Madrid from Lleida. Given the diversified nature of revenues, both in terms of geography and product offering, we don't expect a meaningful impact from recent political events in Spain.

We are lowering our 2017 and 2018 EPS estimates to €0,02 (€0,05) and €0.07 (€0,09), but remain positive on the stock despite the recent declines. Even with our earnings revision, the stock trades on a free-cash flow yield of 6% expected to rise to 17% on 2018 estimates.

We lowering our 12 month target price to €1.13 (vs. €1,25) to account for our earning revision, but in our view the stock still provides a potential 117% upside.

Equities

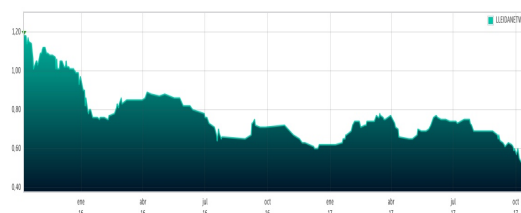
Spain Telecom/Software Services

Price: €0.52
RIC: LLN.MC

Trading Data

52 week range (€):	0.51 -0.78
Mkt Cap (€ millions):	8.34
No. Shares (millions):	16.04
Avg Daily vol (LTM):	5,322

Share Price Chart (LTM)



(€ millions)	2016a	2017e	2018f	2019f
Turnover	8,1	10,0	11,5	12,8
Ebitda	0,1	0,8	1,5	1,9
Net Profit	-1,4	0,3	1,1	1,2
EPS	-0,09	0,02	0,07	0,08
Net Debt	2,4	2,1	1,4	0,5
EV/Ebitda	85	13,0	6,5	4,6
P/E	-	31,0	7,5	6,8
FCY	n.m.	6%	17%	18%

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Consolidated quarterly operating results

(€ '000)	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17
Certified Comm	178	232	346	420	474	370	488
SMS Solutions	661	716	719	795	711	768	649
ICX	691	748	815	830	838	1.077	1.126
Data Validation	165	190	213	236	201	214	211
Other	-8	53	30	24	19	25	8
Total	1.687	1.939	2.123	2.305	2.243	2.454	2.482
Turnover	1.687	1.939	2.123	2.305	2.243	2.454	2.482
Cost of sales	-950	-1.179	-858	-923	-938	-1.240	-1.236
Gross Profit	737	760	1.265	1.382	1.305	1.214	1.246
<i>Gross Margin</i>	44%	39%	60%	60%	58%	49%	50%
Capitalized costs (R&D)*	280	257	194	188	184	203	222
Personnel Expenses	-468	-487	-488	-543	-600	-617	-618
Other SG&A	-445	-513	-438	-555	-564	-565	-403
Depreciation	-305	-303	-267	-267	-251	-271	-273
Amortization	0	-481	0	-174	0	0	0
Other	0	0	0	-5	5	2	2
Total Operating Costs	-1.218	-1.784	-1.193	-1.544	-1.410	-1.451	-1.292
Operating Income	-201	-767	266	26	79	-34	176
<i>Operating Margin</i>	-12%	-40%	13%	1%	4%	-1%	7%
Ebitda**	-176	-240	339	279	146	34	227
<i>Ebitda Margin</i>	-10%	-12%	16%	12%	7%	1%	9%
Extraordinaries	-100	-382	-85	0	-67	0	-21
Financial Costs	-58	-37	-44	-37	-36	-19	-35
FX	0	0	0	-6	0	-97	24
Non operating results	-158	-419	-129	-43	-103	-116	-32
Profit Before Tax	-359	-1.186	137	-17	-24	-150	144
Cash Flow	-334	-659	210	247	38	13	169

* Excluded from Ebitda calculation

** Ebitda with no exceptional items and no R&D capitalization

Outlook and review of consolidated 3Q17 results

In 3Q17, Lleida.net continued to deliver consistent growth on the Software side, which is quickly becoming the main contributor to the gross profits of the company. The two software divisions combined reported sales of €699k, an increase of 25% relative to 3Q16. Given that the software side of the business carries an estimated 90% gross margin, they now represent around 50% of the reported gross profit.

The SMS divisions together grew in 3Q17 by 16% to €1.8 million, but the higher margin SMS solutions side fell behind with a 10% drop in revenues. The company does not disclose the gross margin by division but it is probably evident there was pressure in the margins during the quarter.

The overall gross profit stayed still at €1.2 million compared to 3Q16. Following 1Q17 and 2Q17 of +77% and +60% growth, the result felt like it was not enough given the recent momentum. Costs were kept under tight control (better than expectations). Whilst personnel expenses were a mirror image of the 27% increase in the numbers of employees to the current 57, general expenses fell by 8% to €403k.

The other main cash outflow item during the quarter was related to financial costs of €35k, a reflection of the around €4.2 million (as last reported in YE2016) of borrowings from banks (net debt €2.4 million). Below the operating line there were a couple of minor items such as a small gain in FX and a small one-off payment to an employee of €24k and €21k respectively.

The reported profit before tax grew by 5% to €144k. The main news is that Lleida.net had again a cash flow positive quarter, this time of €169k.

Outlook

The locomotive of earnings growth continues to be the software side of the business and given the current momentum we expect 2018 to be a robust year in terms of free cash flow generation. Following our earning revision, we now expect an improvement of €1 million to the gross profit from €5.2 million to €6.2 million, whilst the cash costs (excluding cost of sales) of the business should increase from €4,7 million to €4.8 million. This means an improvement in cash flow generation from €0.5 million in 2017 to €1,4 million in 2018.

In 2018, we now estimate a 34% increase in sales on the software side of the business to €3.8 million, with Certified Communications leading the way with a 41% growth rate. The growing patent portfolio around the product offering is enabling the strong growth and we believe the current momentum will continue into next year.

We estimate growth of 8% for the SMS side of the business in 2018. Lleida.net is playing its competitive advantages of being a low cost and very diversified provider of SMS services. A state-of-the-art management system allows the company to manage a very detailed P&L of all its SMS traffic, which has been essential to its international expansion. It is also true that there is generally more competition in this side of the business and has proven to be slightly less predictable, so we prefer to be slightly more cautious with our forecasts.

Enough sales capacity has been built up during 2017 for the sales expansion to continue into 2018 and we think there is enough operational leverage in the company to deliver a strong set of cash flow numbers next year.

Profit and Loss (consolidated)

(€ millions)	2016	2017f	2018f	2019f
Sales by division				
Certified Comm	1,1	1,9	2,7	3,4
Data Validation	0,8	0,9	1,0	1,3
Software	1,9	2,8	3,8	4,8
SMS Solutions	3,3	2,9	3,0	3,3
ICX	2,8	4,2	4,7	4,6
Telecomm	6,1	7,1	7,7	7,9
Turnover	8,1	10,0	11,5	12,8
Cost of sales	-3,9	-4,7	-5,3	-5,7
Gross Profit*	4,1	5,3	6,2	7,1
<i>% y-o-y growth</i>		27	18	14
<i>Gross Margin</i>	51%	53%	54%	55%
Capitalized costs (R&D)*	0,9	0,8	0,8	0,8
Personnel Expenses	-2,0	-2,4	-2,6	-2,8
Other SG&A	-2,0	-2,0	-2,2	-2,4
Depreciation	-1,1	-1,1	-1,1	-1,1
Other	0,0	0,0	0,0	0,0
Total Operating Costs	-5,2	-5,5	-5,8	-6,3
<i>% y-o-y growth</i>		7	5	8
Operating Income	-0,1	0,5	1,2	1,6
<i>Operating Margin</i>	-1%	5%	11%	13%
Ebitda	0,1	0,8	1,5	1,9
<i>Ebitda Margin</i>	2%	8%	13%	15%
Financial Income	0,0	0,0	0,0	0,0
Financial Costs	-0,2	-0,1	-0,1	-0,1
Extraordinaries	-1,1	-0,2	0,0	0,0
Financial Results	-1,3	-0,3	-0,1	-0,1
Profit Before Tax	-1,4	0,3	1,1	1,5
Tax	0,0	0,0	0,0	-0,3
Net Income	-1,4	0,3	1,1	1,2
Cash Flow	-1,2	0,5	1,4	1,5

Balance Sheet (consolidated)

(€ millions)	2016e	2017f	2018f	2019f
Fixed Assets	4,3	4,1	4,3	4,4
Intangible Assets	3,6	3,5	3,6	3,7
Tangible Assets	0,5	0,5	0,5	0,5
Investments in Group Companies	0,0	0,0	0,0	0,0
Other Investments	0,0	0,0	0,0	0,0
Deferred Assets	0,1	0,1	0,1	0,2
Current Assets	5,2	4,8	5,2	5,7
Inventory	0,0	0,0	0,0	0,0
Debtors	2,3	2,5	2,9	3,3
Investments in Group Companies	0,0	0,0	0,0	0,0
Short Term Investments	1,3	1,3	1,3	1,4
Deferred assets	0,2	0,2	0,2	0,2
Cash	1,5	0,7	0,8	0,8
Assets	9,6	8,9	9,5	10,1
Shareholders Funds	2,8	3,1	4,2	5,4
<i>Capital</i>	0,3	0,3	0,3	0,3
<i>Share Premium</i>	5,2	5,2	5,2	5,2
<i>Reserves</i>	-0,5	-1,9	-1,6	-0,5
<i>Repurchase of share capital</i>	-0,9	-0,9	-0,9	-0,9
<i>Profit and Loss account</i>	-1,4	0,3	1,1	1,2
Long Term Debt	1,9	1,4	1,4	0,7
Current Liabilities	4,7	4,4	3,9	3,9
Short Term Debt	3,2	2,8	2,1	2,0
Creditors	1,5	1,7	1,8	2,0
Liabilities	9,6	8,9	9,5	10,1
(€ millions)	2016e	2017f	2018f	2019f
Working Capital	0,8	0,8	1,1	1,3
Debtor Turnover (days)	52	87	85	87
Creditor Turnover (days)	34	62	63	63
Financial Debt	-5,1	-4,2	-3,5	-2,7
Cash	2,7	2,0	2,1	2,2
Net Debt	2,4	2,1	1,4	0,5

Sum of the parts valuation

Sector	Division	DCF (€)	Year	P/Sales
Software	Certified	8.485.235	2017	4,4
			2018	3,1
	ID Validation	2.284.989	2017	2,6
			2018	2,2
Telecommunications	SMS	5.402.076	2017	1,9
			2018	1,8
	ICX	3.992.477	2017	1,0
			2.018	0,9
	Sum of Parts	20.164.777		
	Net Debt	2.050.000		
	Equity			
	Valuation	18.114.777		
	Per shr	1,13		
	Share Price	0,52		
	Upside	117%		