

Lleida.net

BUY

Emerging as an SMS Interconnection champion

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7am, 18th October 2018

Lleida.Net has released 3Q18 results marked by continued strong operating performance, stained only by an exceptional item related to an employee redundancy expense. The reported quarterly Net Income was €74k vs. €131k in 3Q17, bar the exceptional item Net Profits would have increased by 40%.

Consolidated Sales and Gross Profits rose by 23% to €3.1 million and by 20% to €1.4 million respectively in 3Q18. Gross profits rose by 15% and 18% during 1Q18 and 2Q18, which reveals an underlying acceleration in this line item during this quarter.

A stellar performance of the SMS ICX division on the back of increased activity in Asia and Latin America resulting in a sales increase of 60% to €1.8 million.

The SaaS division remained largely flat compared to last year with revenues of €725k in the quarter. The accumulated sales of the first 9 months of the year rose by 17% to €2.3 million, which shows this division is still very much on a growth trajectory.

The laggard this quarter was the SMS solutions with a sales decline of 20%. Although negative was not unexpected given that Lleida.net now tends to emphasise its growth efforts on ICX and SaaS.

The Ebitda (ex-capitalizations) rose by 30% during the quarter to €296k, a reflection of Lleida.net continued capacity to generate positive free-cash flows. The Net Debt fell by €264k to €1.7 million, on course to meet our €1.5 million target by year-end.

We are reducing our EPS forecasts for 2018 to €0.03 (vs €0.04) to incorporate the exceptional item this quarter and still maintain our 12-month target price of €1.53 per share.

Equities

Spain

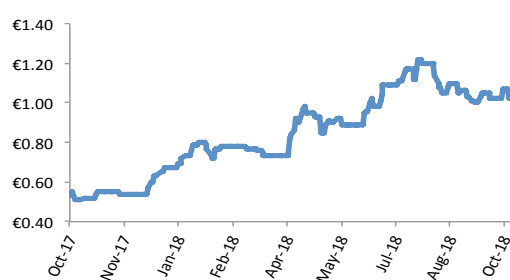
Telecom/Software Services

Price (4 pm 17/10/18): €1.03
RIC: LLN.MC

Trading Data

52 week range (€): 0.51 - 1.22
Mkt Cap (€ millions): 16,53
No. Shares (millions): 16.04
Avg Daily vol (€ LTM): 6,656

Share Price Chart (LTM)



(€ millions)	2017a	2018f	2019f	2020f
Turnover	9,9	12,8	14,2	16,2
Ebitda	0,6	1,3	2,0	2,3
Net Profit	0,0	0,5	1,6	1,7
EPS	0,00	0,03	0,10	0,11
Net Debt	2,4	1,5	-0,1	-1,5
EV/Ebitda	32,2	13,7	8,3	6,5
P/E	342,7	32,2	10,5	9,6
FCY	2%	7%	12%	12%

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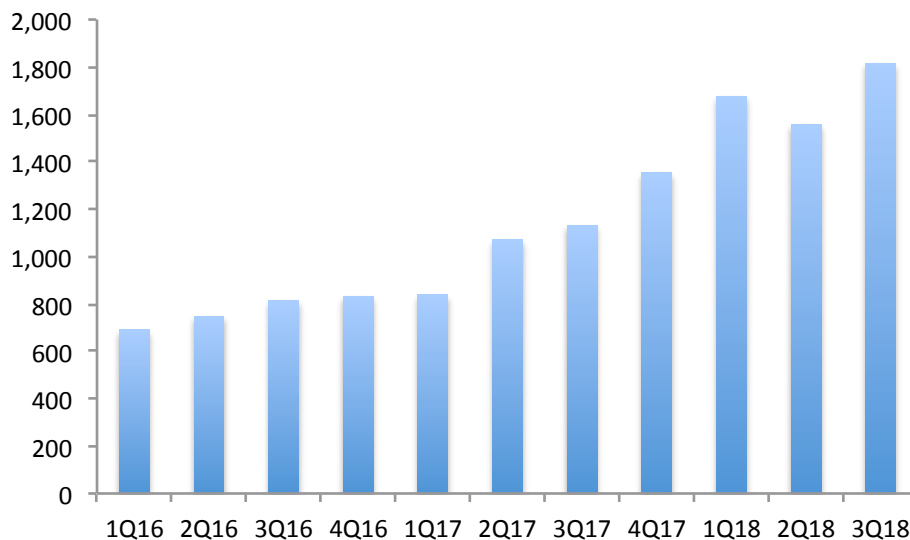
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Review of consolidated 3Q18 results: this quarter belongs to the SMS interconnection (ICX) division.

This 3Q18 results have elevated the profile of the SMS ICX division for its accelerating growth trajectory with a sales increase of 60% during the quarter to €1.8 million. Despite its traditionally low margin contribution of this division, consolidated gross margins have remained stable at 47% suggesting this growth came in with better SMS ICX margins (the specific margins by division are not disclosed by Lleida.net).

Chart 1: Lleida.net SMS ICX division quarterly revenues (2016-2018). (€ 000´)



Source: Lleida.net, Checkpoint

The Lleida.net SMS ICX division has created a global infrastructure to improve for the flow of international SMSs between telecom operators. Lleida.net benefits from being a communications operator member of the GSMA, a network that makes possible to send and receive SMS on the back of the interconnection agreements established with mobile and virtual mobile phone operators.

The existence of an SMS ICX division enables Lleida.net to offer other operators an established capacity to increase their global connectivity (to over 1,500 international networks) without bilateral roaming agreements. Complex roaming agreements are a major challenge because it entails multiple payment schemes, legal and regulatory requirements and coordination of routing policies.

(€ 000')	1Q17	2Q17	3Q17	1Q18	2Q18	3Q18	y-o-y (%)		
Software Services	694	608	708	819	803	725	18	32	2
SMS Solutions	711	769	648	647	779	518	-9	1	-20
ICX	838	1.072	1.131	1.675	1.558	1.815	100	45	60
Turnover	2.243	2.449	2.487	3.141	3.140	3.058	40	28	23
Cost of sales	-938	-1.177	-1.299	-1.597	-1.676	-1.632	70	42	26
Gross Profit	1.305	1.272	1.188	1.544	1.464	1.426	18	15	20
<i>Gross Margin</i>	<i>58%</i>	<i>52%</i>	<i>48%</i>	<i>49%</i>	<i>47%</i>	<i>47%</i>			
Cap. costs (R&D)*	184	203	222	166	162	224	-10	-20	1
Personnel Expenses	-667	-606	-629	-647	-645	-659	-3	6	5
Other SG&A	-564	-635	-333	-673	-459	-466	19	-28	40
Depreciation	-251	-271	-273	-290	-283	-290	16	4	6
Other	5	2	2	0	4	-5	-100	100	-350
Operating Costs	-1.477	-1.510	-1.233	-1.610	-1.383	-1.420	9	-8	15
Operating Income	12	-35	177	100	243	230	733	-794	30
<i>Operating Margin</i>	<i>1%</i>	<i>-1%</i>	<i>7%</i>	<i>3%</i>	<i>8%</i>	<i>8%</i>			
Ebitda**	79	33	228	224	364	296	184	1.003	30
<i>Ebitda Margin</i>	<i>4%</i>	<i>1%</i>	<i>9%</i>	<i>7%</i>	<i>12%</i>	<i>10%</i>			
Extraordinaries	0	-12	-9	0	0	-107	n.m.	n.m.	n.m.
Financial Costs	-36	-14	-40	-22	-31	-15	-39	121	-63
FX	0	-76	3	17	-31	-34	n.m.	n.m.	n.m.
Non-op. Results	-36	-102	-46	-5	-62	-156	-86	-39	239
Profit Before Tax	-24	-137	131	95	181	74	-496	-232	-44
Cash Flow	38	5	177	202	329	179	432	6.480	1

* Excluded from Ebitda calculation

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

Source: Lleida.Net, Checkpoint Partners

The service is provided with the full coverage of mobile number portability (MNP) and proof of delivery report, SMS reception (MO), SMS sending (MT) and two-way messages, and delivery from and to any type of system (GSM, CDMA, etc.). Similar to the service offered to corporate customers the portability database is updated daily to optimize SMS messaging.

The current results are a demonstration of the strength and competitiveness of its SMS interconnection services. Particularly noteworthy is the software developed internally to manage million of daily SMS messages with an embedded daily P&L to manage the complexity of pricing structures across the globe. The company has recently strengthened its team by placing a greater emphasis with Latin American and Asian operators.

The SaaS and SMS Solutions divisions had a softer quarter mainly as a result of lower client activity, possibly explained by the perceived slowdown in the Spanish economy, observed during the quarter. Equally, the summer months do tend to be more volatile and it may be slightly premature to draw too many conclusions at this stage.

The company reported an increase of 2% in the SaaS division sales to €725k, which compares to 18% and 32% in the prior two quarters. We believe its more to do with the changing patterns of the sales cycle rather than a slowdown in the growth trend. The company continues to focus on attracting a wider audience to its product offering, but this time the financial sector might have been less aggressive in promoting its services during the summer months.

On the SMS solutions side, sales dropped by 20%, which is not entirely surprising given that at the start for the year we were anticipating that kind of decline. In our last results note, we raised our SMS Solutions projections to a slight +3% growth for 2018 given the positive performance in 2Q18, but it looks now we will see a decline for the whole year. The returns of this division are no longer as attractive and Lleida.net prefers to place its capital and talent to the more profitable ICX and SaaS divisions.

On the cost side of the equation, employee costs remained at similar levels with just a 5% increase relative to last year, which is very revealing of the growing productivity of Lleida.net's team. Other SG&A, mainly related to external services, jumped by 40% during the quarter to €466k mainly due to the initiation of a new R&D program and costs related to travel to international trade fairs in Latin America.

The result is an Ebitda (ex-capitalizations) growth of 30% to €296k, representing an Ebitda margin of 10%. The accumulated Ebitda (ex-capitalizations) year to

date of €883k is consistent with our year end projection of €1.3 million.

At the non-operating level, Lleida net reported an exceptional item of €107k related to an employee redundancy, not part of the management team. Financial costs were €15k compared to €40k last year, principally as a result of the declining debt levels at Lleida.net. Foreign exchange losses from the consolidation of foreign subsidiaries were €34k in 3Q18 vs. a small profit of 3k last year. None of this numbers impact the overall picture significantly.

The 3Q18 net results (Lleida.net still does not pay corporate tax given accumulated losses) came in at €74k vs. €131k. Beyond the different performances between divisions, the consolidated growth results have been positive and the company generated a free cash flow of €179k (without the exceptional item, they would have increased by 63% compared to last year).

We are maintaining our forecasts for year-end almost intact, except for the €107k exceptional item that is now incorporated into our earnings estimates. The outlook for 2019 remains unchanged as we expect the company to continue to grow along the same basis as 2018.

Profit and Loss (consolidated)

(€ millions)	2017	2018f	2019f	2020f
Sales by division				
Software Services	2,7	3,2	4,0	4,7
SMS Solutions	2,8	2,6	2,4	2,6
ICX	4,4	7,0	7,7	8,8
Sales by division (%)				
Software Services	27%	25%	28%	29%
SMS Solutions	29%	20%	17%	16%
ICX	44%	55%	54%	54%
Turnover	9,9	12,8	14,2	16,2
Cost of sales	-4,7	-6,6	-7,0	-8,1
Gross Profit*	5,2	6,2	7,2	8,1
% y-o-y growth	25%	19%	16%	13%
Gross Margin	52%	48%	50%	50%
Capitalized costs (R&D)*	0,8	0,6	0,6	0,6
Personnel Expenses	-2,5	-2,6	-3,0	-3,2
Other SG&A	-2,1	-2,2	-2,2	-2,6
Depreciation	-1,1	-1,2	-0,9	-0,9
Total Operating Costs	-5,7	-6,0	-6,1	-6,6
% y-o-y growth	9	7	2	8
Operating Income	0,4	0,7	1,6	2,1
Operating Margin	4%	6%	11%	13%
Ebitda	1,4	1,9	2,6	2,9
Ebitda Margin	15%	15%	18%	18%
Ebitda (ex-capitalizations)	0,6	1,3	2,0	2,3
Ebitda Margin	6%	10%	14%	14%
Financial Income	0,0	0,0	0,0	0,0
Financial Costs	-0,1	-0,1	-0,1	0,0
FX and Other	-0,2	-0,1	0,0	0,0
Financial Results	-0,3	-0,2	-0,1	0,0
Profit Before Tax	0,0	0,5	1,6	2,0
Tax	0,0	0,0	0,0	-0,3
Net Income	0,0	0,5	1,6	1,7
Cash Flow	0,3	1,1	1,9	2,0

Source: Lleida.net and Checkpoint Partners

Balance Sheet (consolidated)

(€ millions)	2017	2018f	2019f	2019f
Fixed Assets	4,1	3,6	3,2	3,3
Intangible Assets	3,5	2,9	2,5	2,5
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	0,2	0,2
Current Assets	5,2	5,8	6,5	8,1
Inventory	0,0	0,0	0,0	0,0
Debtors	2,6	3,1	3,6	4,2
Short Term Investments	0,9	0,9	0,9	1,0
Short Term Accruals	0,2	0,2	0,3	0,3
Cash	1,6	1,6	1,7	2,7
Assets	9,4	9,4	9,6	11,3
Shareholders' Funds	2,9	3,4	5,0	6,7
<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>	-1,9	-1,8	-1,3	0,3
<i>Repurchase of share capital</i>	-0,9	-0,9	-0,9	-0,9
<i>Profit and Loss account</i>	0,1	0,5	1,6	1,7
Long Term Debt	1,2	1,2	0,6	0,3
Current Liabilities	5,3	4,8	4,1	4,3
Short Term Debt	3,7	2,9	1,9	1,9
Provisions	0,2	0,2	0,2	0,2
Creditors	1,5	1,8	2,0	2,3
Liabilities	9,4	9,4	9,6	11,3
(€ millions)				
Working Capital	1,1	1,3	1,6	1,9
Debtor Turnover (days)	89	81	86	88
Creditor Turnover (days)	58	52	57	57
Financial Debt	4,8	4,1	2,5	2,2
Cash	2,4	2,5	2,6	3,7
Net Debt	2,4	1,5	-0,1	-1,5

Source: Lleida.net and Checkpoint Partners

Sum of the parts valuation

Sector	Division	DCF (€)	Year	Target EV/Sales	Target EV/Ebitda
Software	Saas	14,4	2018	4,4	37,8
			2019	3,6	22,7
Telecom	SMS	1,9	2018	0,7	8,1
			2019	0,8	7,6
	ICX	10,0	2018	1,4	14,1
			2019	1,3	9,1
Sum of Parts		26,2	2018	2,1	20,0
			2019	1,8	13,3
Net Debt		1,7			
Equity Valuation		24,5			
Per shr		1,53			
Share Price		1,03			
Upside		48%			

Source: Checkpoint Partners

To arrive at our sum of the parts valuation of €24,5 million we have assumed Lleida.net has the potential to deliver a 15% Ebitda margin in the context of a long term average growth in sales of 7%. We have used a WACC of 9.2%.

This quarter we have maintained our target price unchanged at €1.53 per share, but we have raised our valuation of the ICX side of the business by just under €1 million, taking it away from the SaaS and the SMS solutions side, following their softer performance this quarter.

Comparable Valuations

	Price (17/10/18) (€)	Mkt Cap. (€ m)	Net Debt			EV		
			2017 (€ m)	2018e (€ m)	2019e (€ m)	2017e (€ m)	2018e (€ m)	2019e (€ m)
Altia	17,60	121,1	-16,4	-20,5	-24,9	104,6	100,6	96,2
Catenon	0,63	11,8	3,7	4,2	4,7	15,6	16,0	16,6
Commcenter	1,20	7,9	8,6	8,5	8,1	16,5	16,4	16,0
Eurona	0,65	27,5	91,8	128,5	145,4	119,3	156,0	172,9
FacePhi	0,79	10,5	2,1	2,9	4,3	12,5	13,4	14,8
Gigas	5,80	24,8	1,8	2,3	2,0	26,6	27,1	26,8
Lleida.Net	1,03	16,5	2,4	1,5	-0,1	18,9	18,1	16,4
Voz Telecom	1,95	8,8	2,4	3,3	3,9	11,2	12,0	12,6
Total		228,9	96,4	130,7	143,5	325,3	359,5	372,3

Mock Portfolio	Shares (#)	Price (01/01/18) (€)	Cost (€)	Price (17/10/18) (€)	Valuation (€)	Diff. (€)	Return (%)
Altia	61	16,39	1.000	17,60	1.074	74	7
Catenon	1.613	0,62	1.000	0,63	1.016	16	2
Commcenter	758	1,32	1.000	1,20	909	-91	-9
Eurona	474	2,11	1.000	0,65	309	-691	-69
FacePhi	917	1,09	1.000	0,79	725	-275	-28
Gigas	287	3,48	1.000	5,80	1.667	667	67
Lleida.Net	1.493	0,67	1.000	1,03	1.537	537	54
Voz Telecom	513	1,95	1.000	1,95	1.000	0	0
Total			8.000		8.237	237	3

Source: MAB, Checkpoint Partners

	Turnover			Ebitda			Net Profit			Cash Flow		
	2017	2018e	2019e	2017	2018e	2019e	2017	2018e	2019e	2017	2018e	2019e
	(€ m)	(€ m)	(€ m)	(€ m)	(€ m)	(€ m)	(€ m)	(€ m)	(€ m)	(€ m)	(€ m)	(€ m)
Altia	64,7	67,3	70,0	8,9	10,3	11,1	6,1	7,5	8,1	7,0	8,5	9,1
Catenon	13,3	13,5	14,6	1,4	1,2	1,1	0,0	-0,2	-0,3	0,8	0,7	0,7
Commcenter	48,8	50,8	52,8	2,2	0,0	0,0	0,0	-1,9	-1,9	1,9	0,1	0,2
Eurona	118,8	120,0	121,2	-4,3	-12,3	5,3	-28,1	-37,7	-17,7	-13,1	-21,8	-2,6
FacePhi	2,7	3,2	3,6	0,5	0,6	0,8	0,4	0,5	0,7	0,3	0,5	0,6
Gigas	5,9	7,3	8,4	0,4	0,6	1,3	-0,5	-0,4	0,2	0,4	0,5	1,1
Lleida.Net	9,9	12,8	14,2	0,6	1,3	2,0	0,0	0,5	1,6	0,3	1,1	1,9
Voz Telecom	9,7	10,4	11,1	-0,3	0,1	0,2	-1,6	-0,9	-0,6	-0,5	-0,1	0,0
	273,8	285,2	295,9	9,5	1,8	21,9	-23,7	-32,5	-9,9	-3,0	-10,6	10,9

	Turnover growth			Ebitda growth			Net Profit growth			Cash Flow Growth		
	2017	2018e	2019e	2017	2018e	2019e	2017	2018e	2019e	2017	2018e	2019e
	(€ m)	(€ m)	(€ m)	(€ m)	(€ m)	(€ m)	(€ m)	(€ m)	(€ m)	(€ m)	(€ m)	(€ m)
Altia	-3%	4%	4%	-4%	16%	7%	-3%	22%	8%	-4%	20%	7%
Catenon	-6%	2%	8%	-	-12%	-5%	-99%	368%	32%	-	-8%	-5%
Commcenter	-13%	4%	4%	-	-	-	-	-	0%	-	-94%	67%
Eurona	-26%	1%	1%	-	187%	-	135%	34%	-53%	14573%	67%	-88%
FacePhi	35%	17%	14%	-	26%	24%	-	49%	25%	-	59%	28%
Gigas	23%	23%	15%	-	46%	125%	-36%	-27%	-	-	35%	124%
Lleida.Net	29%	29%	11%	-	124%	50%	0%	965%	205%	-	299%	73%
Voz Telecom	4%	7%	7%	-	-	220%	82%	-42%	-32%	-	-86%	-
	5%	4%	4%	-4%	-81%	1125%	88%	37%	-69%	-217%	260%	-203%

	EV/sales			EV/Ebitda			P/E			FCY		
	2017	2018e	2019e	2017	2018e	2019e	2017	2018e	2019e	2017	2018e	2019e
	(x)	(x)	(x)	(x)	(x)	(x)	(x)	(x)	(x)	(x)	(x)	(x)
Altia	1,6	1,5	1,4	11,7	9,7	8,7	19,7	16,1	15,0	6%	7%	7%
Catenon	1,2	1,2	1,1	11,4	13,3	14,5	-	-	-	6%	6%	6%
Commcenter	0,3	0,3	0,3	7,4	-431,1	371,6	417,2	-	-	24%	1%	2%
Eurona	1,0	1,3	1,4	-27,9	-12,7	32,3	-	-	-	-47%	-79%	-10%
FacePhi	4,6	4,2	4,1	25,3	21,4	19,1	28,7	19,2	15,4	3%	4%	6%
Gigas	4,5	3,7	3,2	65,6	45,6	20,1	-	-	122,5	1%	2%	4%
Lleida.Net	1,9	1,4	1,2	32,2	13,7	8,3	342,7	32,2	10,5	2%	7%	12%
Voz Telecom	1,2	1,2	1,1	-	219,9	72,3	-	-	-	-6%	-1%	0%
	1,2	1,3	1,3	34,3	201,3	17,0	-	-7,0	-23,0	-1%	-5%	5%

Source: Checkpoint Partners

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Date	Recommen.	Price (€)	Target P.(€)	Period	Analyst
27.10.2016	BUY	0,71	0,95	12 months	Guillermo Serrano
16.01.2017	BUY	0,62	1,05	12 months	Guillermo Serrano
28.04.2017	BUY	0,66	1,25	12 months	Guillermo Serrano
20.07.2017	BUY	0,75	1,25	12 months	Guillermo Serrano
26.10.2017	BUY	0,52	1,13	12 months	Guillermo Serrano
31.01.2018	BUY	0,80	1,13	12 months	Guillermo Serrano
16.03.2018	BUY	0,84	1,13	12 months	Guillermo Serrano
17.03.2018	BUY	1.11	1.53	12 months	Guillermo Serrano
17.07.2018	BUY	1.15	1.53	12 months	Guillermo Serrano

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Date of publication

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