

## Lleida.net

# BUY

Growth quickens, valuation multiples follow

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7am, 21<sup>th</sup> January 2020

The reported EPS for the quarter was 2.43 cents, a 8-fold increase compared to 4Q18, resulting mainly from a 38% increase in sales and a 114% in Ebitda. The reported numbers, largely in line with our expectations, come to confirm the robust operational trend.

The strong (+67%) increase in ICX Wholesale sales during the quarter (€2.5 million) coincide with announcement of Lleida.net obtaining a licence to operate (fixed line and SMS) in the Dominican Republic together with an inter-connexion agreement with China Mobile and China Telecom (some 1 billion customers combined).

The SaaS division came in strong as well, with a 38% increase to €1 million that compares with an average growth of 12% during the first nine months of the year. Both announcements of Zurich and BNP taking the certified messaging product over to Poland and Germany respectively, is a demonstrable positive step forward in Lleida.net's European ambitions.

The SMS Solutions division was the laggard again with a 17% decline for the quarter and 6% for the year. It's been known now for the last 2-3 years Lleida.net is shifting its corporate customer sales efforts to SaaS.

The reported Ebitda grew 117% to €747k and excluding R+D capitalizations the increase was of 397% to €542k (the highest ever). Cost containment continues to be the dominant feature, enabling the trend in margin expansion observed during the last 3 years. This 4Q19 cash operating costs grew just 3%.

**We are raising our target price to €1.80, on the back of our increased confidence in 2020 numbers. We see the share price currently undervalued relative to its historical multiples and relative to our DCF calculations.**

### Equities

#### Spain Telecom/Software Services

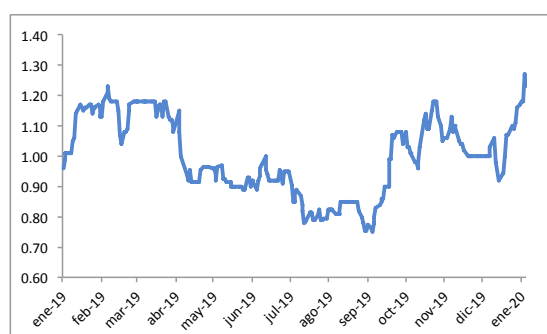
Price (4 pm 20/01/20): €1.35 (LLN.MC),  
€1.26 (ALLLN.PA)

Target Price: €1.80

#### Trading Data

52 week range (€): 0.84 - 1.35  
Mkt Cap (€ millions): 21,67  
No. Shares (millions): 16.04  
Avg Daily vol (€ LTM): 11,369

#### Share Price Chart (LTM)



(€ millions)	2018	2019e	2020f	2021f
Turnover	12,4	13,6	15,7	17,5
<b>Ebitda</b>	<b>0,9</b>	<b>1,3</b>	<b>2,1</b>	<b>2,6</b>
Net Profit	0,2	0,9	1,3	1,9
<b>EPS</b>	<b>0,02</b>	<b>0,06</b>	<b>0,08</b>	<b>0,12</b>
<b>Net Debt</b>	<b>1,9</b>	<b>1,1</b>	<b>0,0</b>	<b>-1,5</b>
<b>EV/Ebitda</b>	<b>27,2</b>	<b>17,8</b>	<b>10,3</b>	<b>7,6</b>
P/E	89,0	22,9	16,1	11,5
FCY	3%	5%	8%	11%

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## Our focus is now on the undervaluation of Lleida.net shares

We are raising our 12 month target price to €1.80 per share on the back of the strong 4Q19 results coupled with our improved long-term view of the company.

The main change in our sum-of-the-parts valuation is related to the ICX division, which we now estimate it to be worth some €14.2 million. This division has consistently reported better than expected numbers for the last two years, a reflection of the growing opportunity of selling to aggregators and operators wholesale SMS services. The recent announcement of the interconnexion agreement with China Mobile and China Telecom further underpins our confidence.

We maintain our SaaS and SMS Solutions sum of the parts estimates almost intact relative to our previous estimate published last October. The company has and continues to succeed in its efforts to sell SaaS to its corporate customers. There have been notable contract wins recently that come to validate our confidence in continued growth into 2020. The main examples being the Zurich contract to provide SaaS in Germany and the Portability contract win in Spain. Overall, we are confident the increased legal security afforded by Lleida.net SaaS will continue to make inroads globally, not just in high burden-of-proof legal jurisdictions.

Sector	Division	DCF (€)	Year	EV/Sales	EV/Ebitda
Software	Saas	13,8	2020	2,9	23,5
			2021	2,4	14,9
Telecom	SMS	2,6	2020	1,1	12,6
			2021	1,1	11,3
	ICX	14,2	2020	1,7	10,9
			2021	1,5	9,5
	Sum of Parts	30,6	2020	2,0	14,6
			2021	1,7	11,6
	Net Debt	1,1			
	Equity Valuation	29,5			
	Target Price	1,80			
	Share Price	1,35			
	Upside	33%			

Source: Checkpoint Partners

To arrive at our sum of the parts valuation of €30,6 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 9.1%.

In addition to our sum-of-the-parts valuation, we have prepared the following four charts that in our view summarize what we perceive to be the current undervaluation of Lleida.net. (The following charts are based on taking the current daily price of the stock versus the 12-month forward sales or cash-flow actual or estimated numbers.)

Whereas in the first chart, the Enterprise Value to Sales ratio is now slightly above the last three years' average....

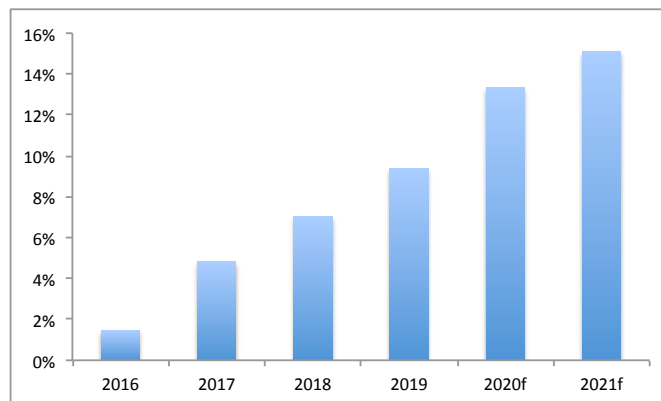
**Enterprise Value to Sales ratio**



Source: Checkpoint Partners

... Lleida.net Ebitda margin has been expanding in the context of continued doubled digit sales growth (averaging 19% during the past 3 years).

**Ebitda Margin**



Source: Checkpoint Partners

Based on the increasing profitability of the business, we would assume a multiple expansion as the Ebitda (ex-cap) growth averaged 144% over the past three years. But the evidence shows, that has not yet happened...

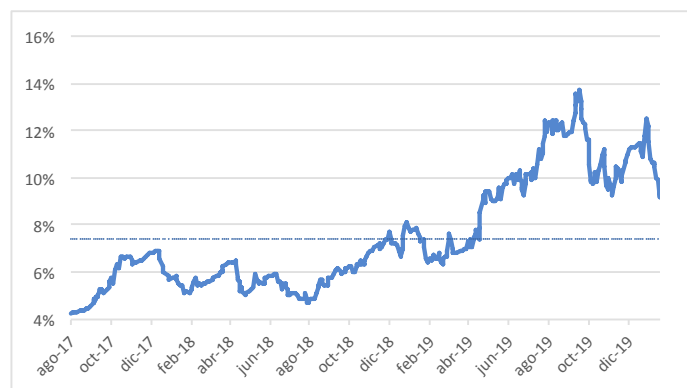
**EV/Ebitda (excl. capitalizations)**



Source: Checkpoint Partners

Another way of looking into our perceived undervaluation is by looking at the cash-flow yield. The current cash flow yield of 8.4% compares now to the 7.4% historical average and it is our view that a cash flow generating company growing at double digits should have a cash flow yield of 5% or lower. Our new target price of €1.80 per share points to a 2020e cash flow yield estimate of 6.4%, providing us with even more confidence.

**Cash Flow Yield**



Source: Checkpoint Partners

## Quarterly Profit and Loss (consolidated)

(€ 000')	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	% y-o-y			
Software Services	819	803	725	771	781	993	854	1.034	-5	24	18	34
SMS Solutions	647	779	518	724	709	599	592	604	10	-23	14	-17
ICX	1.675	1.556	1.815	1.527	1.343	1.631	1.935	2.547	-20	5	7	67
<b>Turnover</b>	<b>3.141</b>	<b>3.138</b>	<b>3.058</b>	<b>3.022</b>	<b>2.833</b>	<b>3.223</b>	<b>3.382</b>	<b>4.185</b>	<b>-10</b>	<b>3</b>	<b>11</b>	<b>38</b>
Cost of sales	-1.597	-1.684	-1.632	-1.422	-1.337	-1.544	-1.675	-2.132	-16	-8	3	50
<b>Gross Profit</b>	<b>1.544</b>	<b>1.454</b>	<b>1.426</b>	<b>1.600</b>	<b>1.496</b>	<b>1.679</b>	<b>1.707</b>	<b>2.053</b>	<b>-3</b>	<b>15</b>	<b>20</b>	<b>28</b>
<i>Gross Margin</i>	<i>49%</i>	<i>46%</i>	<i>47%</i>	<i>53%</i>	<i>53%</i>	<i>52%</i>	<i>50%</i>	<i>49%</i>	<i>7</i>	<i>12</i>	<i>8</i>	<i>-7</i>
Capitalized R&D*	166	162	224	235	239	264	219	205	44	63	-2	-13
Personnel Expenses	-690	-642	-847	-780	-755	-823	-952	-869	9	28	12	11
Other SG&A	-630	-449	-384	-734	-667	-585	-345	-690	6	30	-10	-6
Depreciation	-290	-283	-290	-289	-286	-281	-285	-282	-1	-1	-2	-2
Other	0	9	-6	23	6	-1	1	48	n.m.	n.m.	n.m.	n.m.
<b>Operating Costs</b>	<b>-1.610</b>	<b>-1.365</b>	<b>-1.527</b>	<b>-1.780</b>	<b>-1.702</b>	<b>-1.690</b>	<b>-1.580</b>	<b>-1.793</b>	<b>6</b>	<b>24</b>	<b>3</b>	<b>1</b>
<b>Operating Income</b>	<b>100</b>	<b>251</b>	<b>123</b>	<b>55</b>	<b>33</b>	<b>253</b>	<b>346</b>	<b>465</b>	<b>-67</b>	<b>1</b>	<b>181</b>	<b>745</b>
<i>Operating Margin</i>	<i>3%</i>	<i>8%</i>	<i>4%</i>	<i>2%</i>	<i>1%</i>	<i>8%</i>	<i>10%</i>	<i>11%</i>	<i>-63</i>	<i>-2</i>	<i>154</i>	<i>511</i>
<b>Ebitda</b>	<b>390</b>	<b>534</b>	<b>413</b>	<b>344</b>	<b>319</b>	<b>534</b>	<b>631</b>	<b>747</b>	<b>-18</b>	<b>0</b>	<b>53</b>	<b>117</b>
<i>Ebitda Margin</i>	<i>3%</i>	<i>8%</i>	<i>4%</i>	<i>2%</i>	<i>1%</i>	<i>8%</i>	<i>10%</i>	<i>11%</i>				
<b>Ebitda**</b>	<b>224</b>	<b>372</b>	<b>189</b>	<b>109</b>	<b>80</b>	<b>270</b>	<b>412</b>	<b>542</b>	<b>-64</b>	<b>-27</b>	<b>118</b>	<b>397</b>
<i>Ebitda Margin</i>	<i>7%</i>	<i>12%</i>	<i>6%</i>	<i>4%</i>	<i>3%</i>	<i>8%</i>	<i>12%</i>	<i>13%</i>				
Extraordinaries	0	0	0	0	0	0	0	-11				
Financial Costs	-22	-32	-15	-31	-20	-20	80	-18	-9	-38	-633	-42
FX	17	-25	-34	25	25	-41	27	-46	47	64	-179	-284
<b>Non-op. Results</b>	<b>-5</b>	<b>-57</b>	<b>-49</b>	<b>-6</b>	<b>5</b>	<b>-61</b>	<b>107</b>	<b>-75</b>	<b>-200</b>	<b>7</b>	<b>-318</b>	<b>###</b>
<b>Profit Before Tax</b>	<b>95</b>	<b>194</b>	<b>74</b>	<b>49</b>	<b>38</b>	<b>192</b>	<b>453</b>	<b>390</b>	<b>-60</b>	<b>-1</b>	<b>512</b>	<b>696</b>
<b>Cash Flow</b>	<b>202</b>	<b>331</b>	<b>180</b>	<b>55</b>	<b>54</b>	<b>251</b>	<b>491</b>	<b>465</b>	<b>-73</b>	<b>-24</b>	<b>173</b>	<b>745</b>

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

Source: Lleida.Net, Checkpoint Partners

## Profit and Loss (consolidated)

(€ millions)	2018	2019e	2020f	2021f
<b>Sales by division</b>				
Software Services	3,1	3,7	4,8	5,8
SMS Solutions	2,7	2,5	2,3	2,3
ICX	6,6	7,5	8,6	9,4
<b>Sales by division (%)</b>				
Software Services	25%	27%	31%	33%
SMS Solutions	22%	18%	15%	13%
ICX	54%	55%	55%	54%
<b>Turnover</b>	<b>12,4</b>	<b>13,6</b>	<b>15,7</b>	<b>17,5</b>
Cost of sales	-6,3	-6,6	-7,6	-8,4
<b>Gross Profit*</b>	<b>6,0</b>	<b>7,0</b>	<b>8,1</b>	<b>9,1</b>
<i>% y-o-y growth</i>	15%	16%	16%	12%
<i>Gross Margin</i>	49%	51%	52%	52%
Capitalized costs (R&D)*	0,8	0,9	0,7	0,7
Personnel Expenses	-2,8	-3,3	-3,6	-3,8
Other SG&A	-2,3	-2,4	-2,5	-2,6
Depreciation	-1,2	-1,1	-1,1	-1,2
<b>Total Operating Costs</b>	<b>-6,3</b>	<b>-6,9</b>	<b>-7,2</b>	<b>-7,6</b>
<i>% y-o-y growth</i>	8	9	5	6
<b>Operating Income</b>	<b>0,5</b>	<b>1,1</b>	<b>1,6</b>	<b>2,1</b>
<i>Operating Margin</i>	4%	8%	10%	12%
<b>Ebitda</b>	<b>1,7</b>	<b>2,2</b>	<b>2,7</b>	<b>3,3</b>
<i>Ebitda Margin</i>	13%	16%	17%	19%
<b>Ebitda (ex-capitalizations)</b>	<b>0,9</b>	<b>1,3</b>	<b>2,1</b>	<b>2,6</b>
<i>Ebitda Margin</i>	7%	9%	13%	15%
Financial Income	0,0	0,0	0,0	0,0
Financial Costs	-0,1	0,0	-0,1	0,0
FX and Other	0,0	0,0	0,0	0,0
<b>Financial Results</b>	<b>-0,1</b>	<b>0,0</b>	<b>-0,1</b>	<b>0,0</b>
<b>Profit Before Tax</b>	<b>0,4</b>	<b>1,1</b>	<b>1,5</b>	<b>2,1</b>
Tax	-0,1	-0,1	-0,1	-0,2
<b>Net Income</b>	<b>0,2</b>	<b>0,9</b>	<b>1,3</b>	<b>1,9</b>
<b>Cash Flow</b>	<b>0,6</b>	<b>1,1</b>	<b>1,8</b>	<b>2,4</b>

Source: Lleida.net and Checkpoint Partners

## Balance Sheet (consolidated)

(€ millions)	2018	2019e	2020f	2021f
<b>Fixed Assets</b>	<b>4,4</b>	<b>4,5</b>	<b>4,6</b>	<b>4,7</b>
Intangible Assets	3,8	3,9	4,0	4,2
Tangible Assets	0,3	0,4	0,4	0,4
Inv. in Group Companies	0,0	0,0	0,0	0,0
Other Investments	0,2	0,2	0,2	0,2
Deferred Assets	0,0	0,0	0,0	0,0
<b>Current Assets</b>	<b>4,5</b>	<b>5,5</b>	<b>7,0</b>	<b>7,0</b>
Inventory	0,0	0,0	0,0	0,0
Debtors	2,4	2,8	3,2	3,5
Short Term Investments	0,7	0,7	0,7	0,8
Short Term Accruals	0,2	0,2	0,3	0,3
Cash	1,1	1,7	2,7	2,4
<b>Assets</b>	<b>8,9</b>	<b>10,0</b>	<b>11,6</b>	<b>11,7</b>
<b>Shareholders' Funds</b>	<b>3,1</b>	<b>4,0</b>	<b>5,4</b>	<b>7,2</b>
<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	-1,6	-0,7	0,7
<i>Repurchase of share capital</i>	-1,0	-1,0	-1,0	-1,0
<i>Profit and Loss account</i>	0,3	0,9	1,3	1,9
<b>Long Term Debt</b>	<b>1,4</b>	<b>1,7</b>	<b>1,8</b>	<b>0,0</b>
<b>Current Liabilities</b>	<b>4,4</b>	<b>4,3</b>	<b>4,4</b>	<b>4,4</b>
Short Term Debt	2,3	1,8	1,7	1,7
Provisions	0,1	0,1	0,1	0,1
Creditors	2,0	2,3	2,6	2,7
<b>Liabilities</b>	<b>8,9</b>	<b>10,0</b>	<b>11,6</b>	<b>11,7</b>
<b>(€ millions)</b>				
Working Capital	0,4	0,5	0,6	0,8
Debtor Turnover (days)	70	71	70	71
Creditor Turnover (days)	60	64	67	65
Financial Debt	3,7	3,5	3,5	1,7
Cash	1,8	2,4	3,5	3,2
<b>Net Debt</b>	<b>1,9</b>	<b>1,1</b>	<b>0,0</b>	<b>-1,5</b>

Source: Lleida.net and Checkpoint Partners



## Checkpoint Recommendation System

The Checkpoint Recommendation System is based on absolute returns, measured by the upside potential (including dividends and capital reimbursement) over a 12-month time horizon.

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- **Buy:** the stock is expected to generate total return of over 20% during the next 12 months time horizon
- **Neutral:** the stock is expected to generate total return of -20% to +20% during the next 12 months time
- **Sell:** the stock is expected to generate total return under -20% during the next 12 months time horizon.

Our rating system applies to companies with market capitalizations of below €50 million that in most cases refer to stocks that are illiquid and more volatile than its larger sized peers.

## History of recommendations

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
17.10.2018	BUY	1.03	1.53	12 months	Guillermo Serrano
24.01.2019	BUY	1.06	1.53	12 months	Guillermo Serrano
24.04.2019	BUY	0.92	1.40	12 months	Guillermo Serrano
23.07.2019	BUY	0.87	1.40	12 months	Guillermo Serrano
21.10.2019	BUY	1.01	1.60	12 months	Guillermo Serrano

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## Frequency of analyst reports

At present Checkpoint has committed to a quarterly update of Lleida.net financial and operational performance.

## Investment horizon

Our reports focus mainly on small capitalization and illiquid stocks where standard Venture Capital investment criteria should apply. An investment into sub €50 million market capitalization stock should be done on a 3-5 year time horizon in order to realized the full potential of the investment opportunity.

**Date of publication:** 7am, 21st January 2020