

Lleida.net

BUY

Profits are on the rise, multiples expansion should follow

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lleida.net has reported a strong set of 2Q24 numbers, both compared to 2Q23 and 1Q24, with a €1 million drop in Net Debt since the beginning of the year:

- 2Q24 Ebitda (cash) came in at €492k (10% sales margin) vs -€336k a year ago. The €828k improvement was the result of a 13% increase in Gross Profits combined with a 17% in cash Opex.
- Numbers also stronger sequentially, Ebitda (cash) was 16% higher in 2Q24 vs 1Q24 which confirms the positive momentum of the results.
- A 26% increase in the number of active clients vs 1H23, a powerful predictor of future growth.

The divisional winner in 2Q24 was ICX SMS (wholesale) with a 54% increase in Sales to €1.9 million, followed by SMS Solutions (corporates) with a 16% increase to €1 million and a 1% increase in SaaS Sales to just under €2 million.

Forecasts and Price Target

We are maintaining our 2024 Sales and EBITDA (cash) forecasts virtually unchanged (some adjustments to our sales forecasts)

The stock is now trading on 2024 and 2025 EV/ Ebitda(cash) multiples of 12.8x and 9.2x respectively, not consistent with valuation multiples of a growth company.

We are maintaining our 12-18 month price target of €3.00 (which would place the stock on a 2026 EV/ Ebitda (cash) multiple of 16x. We fundamentally believe that Lleida.net remains a sound SaaS play with a strong franchise in the SMS space.

Equities

BME Growth

Price (5pm 23/7/24): €1,22

RIC: LLN.MC

Target Price (12-18 m): €3.00

52-Wk range (€):	1.51 - 0.67
Cap. Bur. (€ millones):	19.3
No. Shares (millions):	16,05
Avg. daily Vol. (€,12m):	48k
Daily volatility (avg. LTM):	4,7%

Price Chart (12 months)



(€ millions)	2023	2024e	2025e	2026e
Turnover	16,6	19,4	21,2	23,0
Ebitda	-1,2	2,1	2,8	3,4
Net Profit	-2,7	0,5	1,1	1,6
EPS	-0,17	0,03	0,07	0,10
Net Debt	9,5	8,0	6,2	3,5
EV/Sales	1,7	1,4	1,2	1,0
EV/Ebitda	-23,9	12,8	9,2	6,7
P/E	-7,2	35,1	18,0	11,8
CFY	-7%	10%	12%	15%

The current valuation multiples suggest little growth going forward; they are probably wrong.

Our EV/Ebitda (12m fwd) multiple chart shows Lleida.Net trading between a 10x and 12x multiple since the beginning of the year.



Our 12-18 month target price of €3 (Market Capitalization of €48 million) suggests an EV/Ebitda multiple of 16x by December YE 2025, a 45% premium to the current levels.

The moving parts are estimated to work as follows:

- (1) We expect **Ebitda (cash)** to increase from €2.1 million in 2024 (halfway there) to €2.8 million in 2025 and €3.4 million in 2026 (we use the 2026 for our target EV/Ebitda 12m fwd estimate).
- (2) We expect the company's **Net Debt** to be €6 million by YE 2025, resulting from using the Free Cash Flow to repay debts.

From a valuation perspective, we believe three additional positive factors that can play in favor of a lleida.net's higher EV/Ebitda multiple.

- (1) **No cash for Capex is drained from the company's Ebitda:** like most software services companies, it does not have much in the way of Capex (less than 10% of Ebitda most of the time). Capex was €94k in 2022 and €131k in 2023, and we expect similar spend going forwards.
- (2) **Operating cash flows benefit from a favorable R&D tax regime.** The current tax regime in Spain provides tax credits to the €0.9 million in declared R&D spend by lleida.net, where we estimate cash-flow savings of around 10% of the R&D spend. Although not very significant, we estimate it adds around €1-1.5 million of value to shareholders.
- (3) **Debt interest rates were negotiated before the rate increases started in 2022.** Although not hugely significant from a valuation point of view, it has provided some relief from a cash-flow drain perspective in the last couple of years.

With these particulars in mind, our discounted cash flow simulations suggest the market is discounting low single-digit growth (c.3%-4%) in Ebitda going forwards. We believe the market is still somewhat "shell-shocked" from a dismal 2023, and it is taking time to adjust its expectations.

As the market shifts its expectations towards growth rates of 10% or more (like we have seen in 2024), we expect the EV/Ebitda multiple to move accordingly.

In our DCF simulations, our target 16x multiple by YE 2025 (to reach our target price of €3 per share) is consistent with long-term profit growth expectations of 7%-10%. We believe that as the quarterly results go-by with favorable year-on-year comparisons, they will be accompanied by multiple expansions.

Sum of the Parts: where we value LLN at present

Sector	Division	12 m		Year	Current (estimate)		Target (DCF based)	
		Current EV (€ m)	Target DCF (€ m)		EV/Sales	EV/Ebitda	EV/Sales	EV/Ebitda
Software	Saas	13,7	26,9	2024e	1,7	n.m.	3,3	n.m.
				2025e	1,5	n.m.	2,9	n.m.
Telecom	SMS	5,9	11,5	2024e	1,6	5,4	3,1	10,6
				2025e	1,5	5,2	2,9	10,2
	ICX	8,1	15,9	2024e	1,1	5,5	2,1	10,8
				2025e	1,0	4,9	2,0	9,6
Sum of Parts		27,7	54,3	2024e	1,4	10,2	2,8	20,0
				2025e	1,3	8,2	2,6	16,1
Net Debt (€ m)		8,4	6,4					
Equity Value (€ m)		19,3	47,9					
Per shr (€)		1,20	3,00					
Upside			150%					

Source: Checkpoint Partners

Our sum of the Parts valuation is an estimate of where we think the market is valuing each of Lleida.net divisions compared with what we would value them according to our target price of €3 per share.

We estimate how the EBITDA is distributed between each division, given that the actual numbers are not reported. Based on those estimates, we provide an EV/Ebitda multiple for each of the divisions, both in the way we think they are being valued today and how we value them based on our target price.

Compared to our sum of the parts valuation in our last report, we have left practically the same valuations for both the Software and SMS divisions. We estimate our target price based on a DCF analysis (WACC of 9.5%) for each division.

Profit and Loss Account by Quarter: 2023 and 2024

(€ 000')	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	% change	
<i>Contracting</i>	766	856	733	718	804	784	5	-8
<i>Notification</i>	506	374	324	436	507	525	0	40
<i>Other SaaS</i>	989	716	522	638	864	649	-13	-9
Software Services	2.261	1.946	1.579	1.792	2.175	1.958	-4	1
SMS Solutions	797	867	841	825	757	1.008	-5	16
ICX	1.633	1.230	1.349	1.371	1.781	1.897	9	54
Turnover	4.691	4.043	3.769	3.988	4.713	4.863	1	2
Cost of sales	-1.907	-1.833	-1.779	-1.801	-2.174	-2.359	14	29
Gross Profit	2.784	2.210	1.990	2.187	2.539	2.504	-9	13
<i>Gross Margin</i>	<i>59%</i>	<i>55%</i>	<i>53%</i>	<i>55%</i>	<i>54%</i>	<i>51%</i>		
Capitalized R&D	239	204	186	234	243	275	2	35
Personnel Expenses	-1.667	-1.719	-1.678	-1.924	-1.428	-1.412	-14	-18
Other SG&A	-983	-761	-649	-1.069	-691	-639	-30	-16
Depreciation	-526	-513	-538	-518	-519	-523	-1	2
Provisions	-24	-43	-79	-30	0	0	-100	-100
Other	16	-66	19	110	3	39	-81	-159
Operating Costs	-3.184	-3.102	-2.925	-3.430	-2.635	-2.535	-17	-18
Operating Income	-161	-688	-749	-1.009	147	244	n.m.	n.m.
<i>Operating Margin</i>	<i>-3%</i>	<i>-17%</i>	<i>-20%</i>	<i>-25%</i>	<i>3%</i>	<i>5%</i>		
Ebitda	389	-132	-230	-601	666	767	71	n.m.
<i>Ebitda Margin</i>	<i>8%</i>	<i>-3%</i>	<i>-6%</i>	<i>-15%</i>	<i>14%</i>	<i>16%</i>		
Ebitda (Cash)	150	-336	-318	-695	423	492	182	n.m.
<i>Ebitda Margin</i>	<i>3%</i>	<i>-8%</i>	<i>-8%</i>	<i>-17%</i>	<i>9%</i>	<i>10%</i>		
Extraordinaries	0	0	0	-230	0	0	n.m.	n.m.
Financial Costs (net)	-115	38	-48	-457	-36	-93	n.m.	n.m.
Profit Before Tax	-276	-650	-797	-1.466	111	151	n.m.	n.m.

*Reported Ebitda, with and without capitalized R&D expenses
4Q23 is estimated: given the company has not formally published individualized 4Q23 numbers, full 2023 numbers only.*

Source: LLN, Checkpoint partners

Profit and Loss Account 2023-2026e

(€ millions)	2023	2024e	2025e	2026e
Sales by division				
<i>Contracting</i>	3,1	3,2	3,7	4,2
<i>Notification</i>	1,6	2,0	2,2	2,5
<i>Other SaaS</i>	2,9	3,0	3,4	4,0
Software Services	7,6	8,2	9,3	10,7
SMS Solutions	3,3	3,8	3,9	4,0
ICX	5,6	7,4	7,8	8,3
Turnover	16,6	19,4	21,2	23,0
Cost of sales	-7,3	-9,0	-9,4	-9,9
Gross Profit	9,3	10,4	11,7	13,1
<i>% y-o-y growth</i>	-14%	13%	13%	11%
<i>Gross Margin</i>	56%	54%	56%	57%
Capitalized costs (R&D)	0,9	0,9	0,9	0,9
Personnel Expenses	-7,0	-5,7	-5,9	-6,3
Other SG&A	-3,5	-2,6	-3,1	-3,4
Depreciation	-2,1	-2,2	-2,1	-2,2
Operating Income	-2,5	0,8	1,5	2,1
<i>Operating Margin</i>	-15%	4%	7%	9%
Ebitda	-0,3	3,0	3,6	4,3
<i>Ebitda Margin</i>	-2%	15%	17%	19%
Ebitda (ex-capitalizations)	-1,2	2,1	2,8	3,4
<i>Ebitda Margin</i>	-7%	11%	13%	15%
Financial Results	-0,3	-0,2	-0,2	-0,1
Profit Before Tax	-2,7	0,6	1,3	2,0
Tax	0,1	-0,1	-0,2	-0,4
Net Income	-2,7	0,5	1,1	1,6
Net income attr. to shareholders	-2,6	0,6	1,1	1,6
Minority Interest	0,0	0,0	0,0	0,0
Cash Flow	-1,4	1,8	2,3	2,9

Source: LLN, Checkpoint partners

Balance Sheet 2023-2026e

(€ millions)	2023	2024e	2025e	2026e
Fixed Assets	10,8	9,9	9,4	8,6
Intangible Assets	9,5	8,8	8,2	7,3
Tangible Assets	0,5	0,5	0,6	0,6
Investments in Group Companies	0,0	0,0	0,0	0,0
Other Investments	0,1	0,1	0,1	0,1
Deferred Assets	0,6	0,5	0,6	0,6
Current Assets	6,8	6,6	7,3	9,6
Debtors	5,1	5,7	6,2	6,5
Short Term Investments	0,4	0,4	0,4	0,4
Short Term Accruals	0,3	0,3	0,3	0,3
Cash	1,0	0,3	0,4	2,4
Assets	17,6	16,6	16,7	18,2
Shareholders' Funds	3,0	4,0	5,6	7,7
<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>	1,5	-1,0	-0,5	0,6
<i>Repurchase of share capital</i>	-1,4	-0,9	-0,4	0,0
<i>Profit and Loss account</i>	-2,6	0,6	1,1	1,6
Long Term Provisions	0,2	0,2	0,2	0,2
Long Term Debt	5,5	5,0	3,3	2,6
Current Liabilities	8,7	7,2	7,3	7,5
Short Term Debt	5,4	3,8	3,8	3,8
Provisions	0,0	0,0	0,0	0,0
Creditors	3,3	3,4	3,5	3,7
Liabilities	17,1	16,2	16,2	17,7
(€ millions)				
Dividends	0,0	0,0	0,0	0,0
Working Capital	1,9	2,3	2,6	2,8
Debtor Turnover (days)	118	102	102	101
Creditor Turnover (days)	65	70	69	68
Financial Debt	9,7	8,7	7,0	6,3
Cash	1,4	0,7	0,8	2,8
Net Debt	9,5	8,0	6,2	3,5

Source: LLN, 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. Checkpoint recommendations (or ratings) for each stock comprises 3 categories: Buy (B), Neutral (N) and Sell (S).

Buy: the stock is expected to generate total return of over 15% during the next 12 months time horizon

Neutral: the stock is expected to generate total return of -15% to +15% during the next 12 months time horizon

Sell: the stock is expected to generate total return under -15% during the next 12 months time horizon.

History of recommendations

Date	Recommen.	Price (€)	Target P.(€)	Period	Analyst
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
21.01.2020	BUY	1.35	1.80	12 months	Guillermo Serrano
21.04.2020	BUY	1.75	3.00	12 months	Guillermo Serrano
21.07.2020	BUY	4,34	6.00	12 months	Guillermo Serrano
26.10.2020	BUY	8,90	12.00	12 months	Guillermo Serrano
26.01.2021	BUY	6.00	11.35	12 months	Guillermo Serrano
20.04.2021	BUY	6.28	11.15	12 months	Guillermo Serrano
22.07.2021	BUY	5.59	11.15	12 months	Guillermo Serrano
11.11.2021	BUY	4.38	9.00	12 months	Guillermo Serrano
22.02.2022	BUY	3.24	9.00	12 months	Guillermo Serrano
04.05.2022	BUY	4.06	9.00	12 months	Guillermo Serrano
11.08.2022	BUY	2.50	7.50	12 months	Guillermo Serrano
25.10.2022	BUY	1.84	6.00	12 months	Guillermo Serrano
09.03.2023	BUY	2.27	5.00	12 months	Guillermo Serrano
10.05.2023	BUY	1.64	5.00	12 months	Guillermo Serrano
05.09.2023	BUY	1.15	3.00	12 months	Guillermo Serrano
12.12.2023	BUY	0.80	3.00	12 months	Guillermo Serrano
06.05.2024	BUY	1.10	3.00	12 months	Guillermo Serrano
24.07.2024	BUY	1.22	3.00	12 months	Guillermo Serrano

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