

Lleida.net

BUY

1Q17 Results: a positive surprise from the consolidated numbers

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Lleida.net has delivered a strong underlying set of 1Q17 results and for the first time it is disclosing consolidated numbers. 1Q is a seasonally soft quarter from a sales perspective, so the headline earnings before tax came in at a consolidated loss of €24k versus a parent company loss of €347k in 1Q16.

The just reported 2016 consolidated profit and loss account reveal a €277k improvement in turnover, €237k improvement in gross profits and a €62k improvement in Ebitda, relative to the parent company accounts. Similarly, the reported 1Q17 results show a €106k improvement in turnover, a €147k gross profit increase and a €93k increase in Ebitda, relative to parent company 1Q17 results.

Our newly revised 2017 consolidated accounts forecasts point toward a €1 million improvement in turnover, mainly from the US, Colombia and Ireland, a €800k increase in gross profits and €400k more in Ebitda, relative to our parent company forecasts that remain unchanged.

2017 is still expected to be a transformative year, but the contribution from the international subsidiaries is expected to make the overall result even better. The engine of growth in our forecasts continues to be the success of the certificated messaging business, which has now patents in all the relevant jurisdictions around the world.

Based on the expected additional contribution of Lleida.net subsidiaries in 2017, 2018 and 2019 we are raising our 12-month target price to €1.25 per share. The additional turnover and Ebitda contribution from these subsidiaries is worth in our view an estimated €3.4 million to the Enterprise Value of Lleida.net and therefore our change in the target price.

Equities

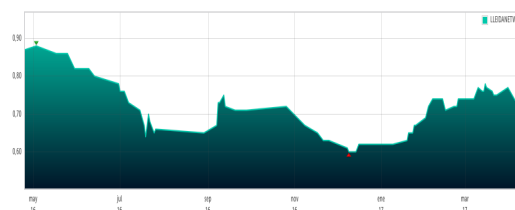
Spain Telecom/Software Services

Price: €0.66
RIC: LLN.MC

Trading Data

52 week range (€): 0.60 -0.88
Mkt Cap (€ millions): 10.59
No. Shares (millions): 16.04
Avg Daily vol (LTM): 5,322

Share Price Chart (LTM)



(€ millions)	2016a	2017e	2018f	2019f
Turnover	8,1	10,2	12,0	13,4
Ebitda	0,1	1,3	1,7	2,0
Net Profit	-1,4	0,8	1,4	1,3
EPS	-0,09	0,05	0,09	0,08
Net Debt	2,4	2,1	1,1	0,1
EV/sales	1,6	1,2	1,0	0,8
EV/Ebitda	103	9,8	6,7	5,4
P/E	n.m.	12,7	7,6	7,9

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Quarterly results (parent company)

(€ millions)	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17
Sales by division						
Certified Comm	0,17	0,16	0,19	0,23	0,43	0,39
Data Validation	0,12	0,17	0,19	0,21	0,24	0,20
Software	0,29	0,33	0,38	0,44	0,67	0,59
SMS Solutions	0,77	0,66	0,78	0,72	0,85	0,71
ICX	0,67	0,64	0,73	0,81	0,77	0,81
Telecomm	1,44	1,30	1,51	1,53	1,62	1,53
Other	0,0	0,0	0,0	0,0	0,0	0,02
Sales by division (%)						
Certified Comm	10	10	10	12	19	18
Data Validation	7	10	10	11	10	9
Software	17	20	20	22	29	27
SMS Solutions	44	41	41	36	37	33
ICX	38	39	39	41	34	38
Telecomm	82	80	80	78	71	71
Other	0	0	0	0	0	1
Turnover	1,75	1,63	1,88	1,98	2,29	2,14
Capitalized costs (R&D)*	0,27	0,28	0,26	0,19	0,19	0,18
Cost of sales	-0,98	-0,90	-1,07	-0,89	-1,02	-0,98
Gross Profit*	0,78	0,73	0,81	1,09	1,27	1,16
% y-o-y growth	<i>n.a.</i>	11	-13	66	64	59
<i>Gross Margin</i>	44%	45%	43%	55%	56%	54%
Personnel Expenses	-0,57	-0,46	-0,49	-0,55	-0,49	-0,63
Other SG&A	-0,71	-0,45	-0,46	-0,37	-0,57	-0,48
Depreciation	-0,26	-0,30	-0,30	-0,27	-0,27	-0,25
Other	0,00	-0,10	0,00	0,00	0,00	-0,07
Total Operating Costs	-1,54	-1,32	-1,26	-1,19	-1,32	-1,43
% y-o-y growth	<i>n.a.</i>	8	13	8	-14	8
Operating Income	-0,50	-0,31	-0,19	0,09	0,14	-0,08
<i>Operating Margin</i>	-29%	-19%	-10%	5%	6%	-4%
Ebitda	-0,504	-0,282	-0,14	0,17	0,218	-0,014
<i>Ebitda Margin</i>	-29%	-17%	-8%	8%	10%	-1%
Financial Results	0,26	-0,04	-0,88	-0,03	-0,02	-0,04
Profit Before Tax	-0,24	-0,347	-1,07	0,06	0,12	-0,12

* capitalized costs are excluded from the Gross Profit calculation

Review of parent company 1Q17 results

Headline parent company revenues rose some 31% to €2.1 million in 1Q17 versus 1Q16 and gross profits number by 59%, to €1.2 million compared to 1Q16. The trend is very similar to the last two quarters in terms of 12 month comparisons because Lleida.net had particularly weak quarters from 3Q15 to 2Q16 in terms of the reported sales. We expect positive another strong 2Q17 with a slowdown in the second half of 2017 as the corresponding comparisons of 2016 get stronger.

The software side of the business (certificated messaging and ID identification) continued to drive sales growth. 1Q17 was 80% higher compared to 1Q16, with revenues of €558k. The results just released are a confirmation of the continued success of both software products in the Spanish market, which are invoiced by the parent company.

The telecomm side (SMS and Interconnection) also contributed to growth this 1Q17 with an increase of 17% to €1.5 million versus 1Q16. The SMS side grew by 7% and the Interconnection side rose by 27% versus the same quarter last year. These numbers continue to show the successful transition of Lleida.net from a difficult domestic environment (behind the drop in sales in 2015/16) into a more diversified international revenue sources.

Operating costs were also well contained during 1Q17, despite a 35% increase in personnel expenses, and rose by 8% relative to last year. We did not anticipate the strong increase in personnel expenses in our forecasts, but it is probably justified in order to underpin Lleida's growth in the international markets. The 2016 and 1Q17 consolidated numbers do reveal a growing profit contribution from the company's international subsidiaries.

As a result the Ebitda number (excl. R+D capitalized costs) was a loss of €14k vs. a loss of €282k last year. Within the operating costs there is a non-recurring item related to job dismissals of €67k, without them the Ebitda would have been a positive €53k.

The reason for the low profit numbers is that the first quarter is a seasonally low in activity in terms of revenues, but is it relatively even in general and administrative costs relative to other quarters. Over the remaining 2017 quarters, we expect to see an increase in the accumulated Ebitda to €0.9 million (and €1,3 million at the consolidated level).

The balance sheet remained largely unchanged during the quarter, relative to 2016 year-end, if only contracted somewhat by the repayment of short-term financial credits. The cash and short-term investments balance fell by €870k whilst short terms debts fell by €618k, which would have fallen further if it was not for the €144k investment in eKuantia.

Overall, the numbers were largely in line with our expectations at the parent company level and if it weren't for the change into the consolidated accounts our year-end forecasts for 2017 and beyond would have remained unchanged. If anything, costs were marginally stronger than expected by largely compensated by a slightly stronger than expected gross profit.

Profit and Loss (consolidated)

(€ millions)	2016	2017f	2018f	2019f
Turnover	8,1	10,2	12,0	13,4
Capitalized costs (R&D)*	0,9	0,9	1,0	1,0
Cost of sales	-3,9	-4,4	-5,1	-5,7
Gross Profit*	4,1	5,8	6,9	7,7
<i>% y-o-y growth</i>		40	18	12
<i>Gross Margin</i>	51%	57%	57%	57%
Personnel Expenses	-2,0	-2,4	-2,7	-3,0
Other SG&A	-2,0	-2,1	-2,4	-2,7
Depreciation	-1,1	-1,2	-1,2	-1,2
Other	0,0	0,0	0,0	0,0
Total Operating Costs	-5,2	-5,7	-6,3	-6,9
<i>% y-o-y growth</i>		10	11	9
Operating Income	-0,1	1,1	1,5	1,8
<i>Operating Margin</i>	-1%	11%	13%	13%
Ebitda	0,1	1,3	1,7	2,0
<i>Ebitda Margin</i>	2%	13%	15%	15%
Financial Income	0,0	0,0	0,0	0,0
Financial Costs	-0,2	-0,2	-0,1	-0,1
Extraordinaries	-1,1	-0,1	0,0	0,0
Financial Results	-1,3	-0,2	-0,1	-0,1
Profit Before Tax	-1,4	0,8	1,4	1,7
Tax	0,0	0,0	0,0	-0,3
Net Income	-1,4	0,8	1,4	1,3

* capitalized costs are excluded from the Gross Profit calculation

Balance Sheet (consolidated)

(€ millions)	2016	2017f	2018f	2019f
Fixed Assets	4,3	4,4	4,5	4,6
Intangible Assets	3,6	3,7	3,8	3,9
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	5,8	6,3	6,8
Inventory	0,0	0,0	0,0	0,0
Debtors	2,3	2,7	3,1	3,6
Investments in Group Companies	0,0	0,0	0,0	0,0
Short Term Investments	1,3	1,3	1,3	1,4
Short Term Accruals	0,2	0,2	0,2	0,2
Cash	1,5	1,5	1,6	1,6
Assets	9,6	10,1	10,8	11,4
Shareholders Funds	2,8	3,7	5,0	6,4
<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	-1,0	0,3
<i>Repurchase of share capital</i>	-0,9	-0,9	-0,9	-0,9
<i>Profit and Loss account</i>	-1,4	0,8	1,4	1,3
Long Term Debt	1,9	2,0	2,0	1,0
Current Liabilities	4,7	4,5	3,7	4,0
Short Term Debt	3,2	2,9	1,9	2,1
Creditors	1,5	1,6	1,7	2,0
Liabilities	9,6	10,1	10,8	11,4
(€ millions)	2016e	2017f	2018f	2019f
Working Capital	0,8	1,1	1,4	1,6
Debtor Turnover (days)	103	89	89	91
Creditor Turnover (days)	68	63	60	59
Financial Debt	-5,1	-4,9	-4,0	-3,1
Cash	2,7	2,8	2,9	3,0
Net Debt	2,4	2,1	1,1	0,1

Sum of the parts valuation

Sector	Division	DCF (€)	Year	P/Sales	
Software	Certified	8.080.956	2017	4,3	
			2018	3,0	
	ID Validation	4.271.011	2017	3,9	
			2018	2,9	
	Telecommunications	SMS	6.029.277	2017	1,5
				2018	1,4
ICX		4.074.722	2017	1,3	
			2.018	1,2	
Sum of Parts		22.455.965			
Net Debt		2.361.452			
Eq.Valuation		20.094.514			
	Per shr.	1,25			
	Share Price	0,66			
	Upside	89%			