

Lleida.net

BUY

Strong set of 4Q21 numbers, LLN stands now very undervalued !!!

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7am, 22nd February 2022

An expected, lleida.net has delivered a strong set of 4Q21 numbers lifted by the accretive nature of the InDenova acquisition and the continued positive momentum in the SaaS division. Overall Sales were up 15% to €5.4 million, led by a 36% increase in SaaS.

The SMS Solutions and ICX combined came in at €2.64 million during 4Q21 vs €2.68 million a year ago. This is a slight improvement relative to the first 9 months of 2021, where combined SMS sales actually fell by 3%.

Gross Profit was up by 41%. The strongest rate of growth since 2Q17 (up by 67% then). A greater contribution from SaaS expanded the Gross Margin from 47% to 58%.

Ebitda (cash) was up by 15% to €516k. We estimate that without the InDenova transaction costs the Ebitda (cash) would have risen by 55%.

This strong set of results provides us with a greater degree of confidence in our 2022 and 2023 financial projections. As the world economy tries to find its way following the receding effects of the Covid pandemic, lleida.net now stands in the strongest position ever to roll out its SaaS product portfolio across markets.

Sentiment towards the stock and hence its share price has been hit by a set of two lower than expected quarters (2Q21 and 3Q21). With this set of numbers we expect market confidence to be gradually restored. We maintained our target price of €9.

Equities

BME Growth Technology

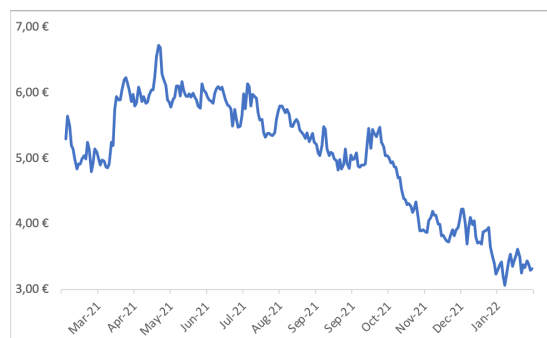
Price (4pm 21/02/22): €3.24

RIC: LLN

Target Price (12-18 m): €9.00

Rango 52 semanas (€): 6.63 - 3.07
 Cap. Bur. (€ millones): 55,21
 No. Acciones (millones): 16,05
 Vol medio diario (€, 12m): 249 mil
 Daily volatility (avg. LTM): 2.9%

Price Chart (12 months)



(€ millions)	2020	2021e	2022e	2023e
Turnover	16,6	18,1	24,3	28,2
Ebitda	2,0	1,6	3,3	4,5
Net Profit	1,1	1,0	2,1	3,3
EPS	0,07	0,06	0,13	0,21
Net Debt	-2,3	4,2	2,4	-0,6
EV/Ebitda	27,6	34,5	17,0	12,5
P/E	46,5	53,4	25,0	15,8
CFY	3%	3%	6%	8%

A valuation discussion is in order, following a 37% share price decline during the last 12 months

We maintain our target price of €9 per share of lleida.net because it remains growth story with a proven track record of +20% average annual equity returns, since it was founded over 26 years ago. We believe the 4Q21 results have provided the necessary earnings growth evidence for the market to begin to recover its confidence on Lleida.net's ability to grow faster in 2022.

Lleida.net 26-year track record

Year	1995	2004	2006	2007	2015
Equity capital increase(€)	6.010	53.910	105.355	401.188	5.000.000
Years passed	26,3	17,3	15,3	14,3	6,3
CAGR on Equity Invested	22 %	35 %	40 %	27 %	18 %

Source: LLN, Checkpoint partners

Based on our estimate of 2022 Cash-Flow yield of 6%, we estimate the market is discounting a long term cash-flow rate of growth of just 5%, substantially below the company's historical track record. The earnings instability observed in 2Q21 and 3Q21 has unnerved investors and the share price suffered as a result.

Our target price of €9 is based on long term growth projections of 14%, in line with the average sales growth observed during the past 10 years and below the 17% sales growth of the last 5 years.

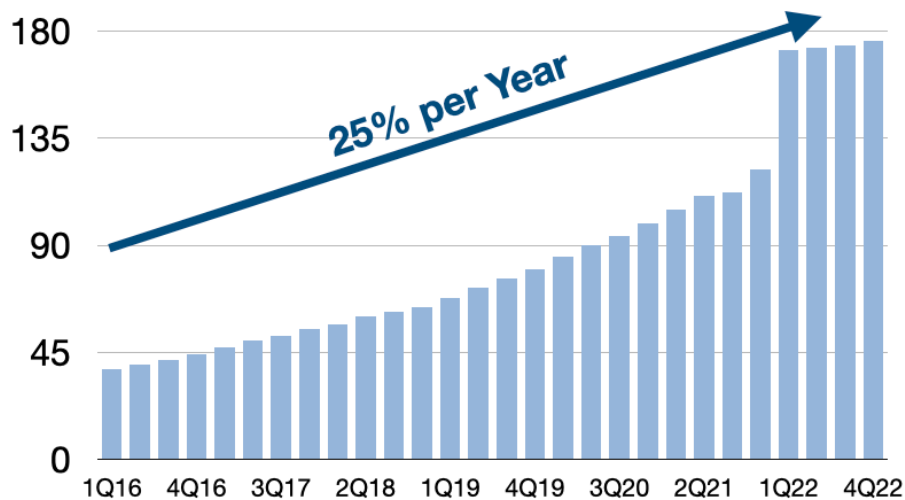
We also base our target price on the expected earnings bounce for 2022, we believe it can become a stellar year in terms of operational results. We expect sales in 2022 to rise by 34% and Ebitda by 33% due in part by the InDenova acquisition, without the drag of the SMS divisions where we expect a slight recovery.

At share price of €9, LLN would be trading on a Cash-Flow yield of 2.1% which we believe its consistent with our long term growth projections of 14%. We base our calculations on a WACC of 8%, which we also believe is correct in the current environment of low (if rising) long term interest rates.

Employee growth is the backbone of our growth expectations

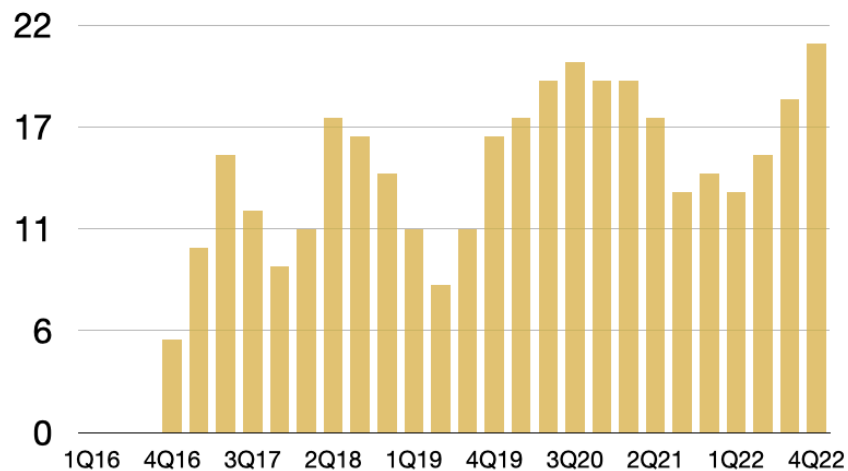
Another element with which to base our confidence in [lleida.net](#) ability to grow is based on its employee growth trajectory. The company is basically a service business with no other hardware than the servers and computers they work with. The assets of the company are their employees and its growth is a measure of the capacity installed of the business.

Lleida.net: Number of Employees 1Q16-4Q22e



Source: LLN, Checkpoint partners

Lleida.net: Ebitda (cash) per employee in € 000´ 1Q16-4Q22e



Source: LLN, Checkpoint partners

Once the hires are done, it becomes a question of how much profits the company can generate from their investment in human resources. Besides the external market influences, there is also an issue of employee productivity specially with the new hires. The chart shows how the trend is gradually improving over time, even if at times there are dips in the profitability per employee (exactly what happened in 2021).

Sum of the parts valuation

We also break-down the valuation in a sum-of-the-parts exercise. First we do an estimate of how we think the market is currently valuing the business. In this regard, we are assuming that 85% of the value of Lleida Net belongs to SaaS despite contributing an expected 51% in 2022 of the overall sales. There are essentially two reasons: in SMS we expect long term growth around the 5% mark and its combined gross profit margins of around 33%. Instead, the SaaS division long term growth expectations are close to 15% and the gross margin is over 80%.

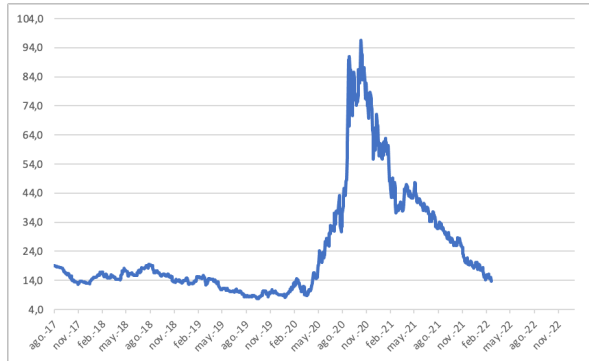
We have done a DCF valuation (WACC of 8%) for each of the business units with our own income and costs estimates. We then come up with the potential upside over a 12-18 month period currently, calculated at €9 per share.

Sector	Division	Current	Target	Year	Current		Target (DCF based)	
		EV (€)	DCF (€)		EV/Sales	EV/Ebitda	EV/Sales	EV/Ebitda
Software	Saas	39,6	104,4	2022e	3,2	41,6	8,4	109,7
				2023e	2,6	22,5	6,9	59,3
	inDenova	8,9	23,5	2022e	2,8	10,7	7,4	28,2
				2023e	2,6	9,3	6,7	24,5
Telecom	SMS	0,8	2,1	2022e	0,3	2,6	0,7	6,8
				2023e	0,3	2,4	0,7	6,3
	ICX	6,9	18,2	2022e	0,8	6,2	2,1	16,3
				2023e	0,7	5,1	1,8	13,4
Sum of Parts		56,2	148,2	2022e	2,3	17,5	6,1	46,3
				2023e	2,0	12,7	5,3	33,6
Net Debt		4,2	4,2					
Equity Valuation		52,0	144,0					
Per shr		3,24	9,00					
Upside			178%					

Source: LLN, Checkpoint partners

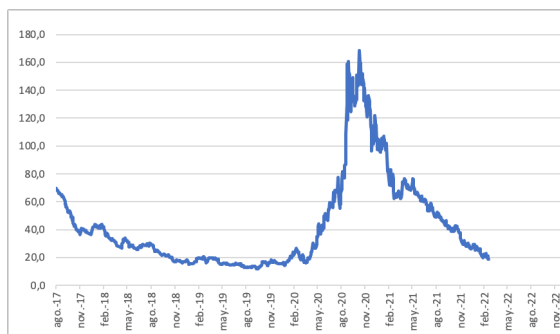
Valuation charts

EV/Cash Ebitda (12 month forward)



Source: Checkpoint Partners

Price/Earnings (12 month forward)



Source: Checkpoint Partners

Cash Flow Yield (12 month forward)



Source: Checkpoint Partners

Profit and Loss account 2019-2023e

(€ millions)	2019	2020	2021e	2022e	2023e
Sales by division					
Software Services	3,7	5,7	7,4	12,4	15,1
SMS Solutions	2,5	2,6	2,7	2,9	3,0
ICX	7,5	8,1	7,8	8,9	10,0
Turnover and other income					
Cost of sales	-6,6	-8,4	-8,6	-10,1	-11,4
Gross Profit	7,1	8,2	9,5	14,2	16,8
<i>% y-o-y growth</i>	18%	15%	16%	49%	19%
<i>Gross Margin</i>	52%	49%	52%	58%	60%
Capitalized costs (R&D)	0,9	0,7	0,8	1,0	1,0
Personnel Expenses	-3,1	-3,6	-4,6	-7,2	-8,1
Other SG&A	-2,7	-2,5	-3,2	-3,7	-4,2
Depreciation	-1,2	-1,2	-1,3	-1,9	-1,8
Total Operating Costs	-7,0	-7,3	-9,1	-12,7	-14,1
<i>% y-o-y growth</i>	10	5	25	39	11
Operating Income	1,1	1,5	1,1	2,4	3,7
<i>Operating Margin</i>	8%	9%	6%	10%	13%
Ebitda	2,3	2,7	2,4	4,3	5,5
<i>Ebitda Margin</i>	16%	16%	13%	18%	20%
Ebitda (ex-capitalizations)	1,3	2,0	1,6	3,3	4,5
<i>Ebitda Margin</i>	10%	12%	9%	14%	16%
Financial Income	0,1	0,0	0,0	0,0	0,0
Financial Costs	-0,1	-0,1	-0,1	-0,1	-0,1
FX and Other	0,0	-0,3	0,0	0,0	0,0
Financial Results	0,0	-0,4	-0,1	-0,1	-0,1
Profit Before Tax	1,1	1,1	1,1	2,3	3,7
Tax	0,0	0,0	-0,1	-0,2	-0,4
Net Income	1,1	1,1	1,0	2,1	3,3

Source: LLN, Checkpoint partners

Balance Sheet 2019-2023e

(€ millions)	2019	2020	2021e	2022e	2023e
Fixed Assets	4,4	4,1	11,5	11,2	11,0
Intangible Assets	3,8	3,6	10,2	9,9	9,6
Tangible Assets	0,4	0,3	0,5	0,5	0,6
Investments in Group Compa	0,0	0,0	0,0	0,0	0,0
Other Investments	0,2	0,0	0,6	0,6	0,6
Deferred Assets	0,0	0,2	0,2	0,2	0,2
Current Assets	6,3	9,1	11,2	9,8	11,7
Debtors	3,6	3,5	5,0	5,5	5,7
Short Term Investments	1,3	1,3	1,3	1,4	1,4
Short Term Accruals	0,3	0,3	0,3	0,3	0,3
Cash	1,2	4,1	4,5	2,6	4,3
Assets	10,7	13,3	22,7	21,1	22,7
Shareholders' Funds	4,4	7,3	7,9	9,5	12,2
<i>Capital</i>	0,3	0,3	0,3	0,3	0,3
<i>Share Premium</i>	5,2	5,2	5,2	5,2	5,2
<i>Reserves</i>	-1,6	1,3	2,4	3,0	4,6
<i>Repurchase of share capital</i>	-0,8	-0,8	-0,8	-0,8	-0,8
<i>Profit and Loss account</i>	1,1	1,0	1,0	2,1	3,3
Long Term Debt	1,7	2,1	7,1	6,4	5,1
Current Liabilities	4,6	3,9	7,7	5,2	5,4
Short Term Debt	1,9	0,9	3,0	0,0	0,0
Provisions	0,1	0,0	0,0	0,0	0,0
Creditors	2,6	3,0	4,7	5,1	5,4
Liabilities	10,7	13,3	22,7	21,1	22,7
(€ millions)					
Dividends	0,2	0,3	0,5	0,6	0,8
Working Capital	0,9	0,5	0,4	0,4	0,3
Debtor Turnover (days)	80	78	87	80	73
Creditor Turnover (days)	69	70	85	85	81
Financial Debt	3,5	3,0	10,1	6,4	5,1
Cash	2,4	5,3	5,8	4,0	5,7
Net Debt	1,1	-2,3	4,2	2,4	-0,6

Source: LLN, Checkpoint partners

Profit and Loss account by Quarter: 2020 and 2021

(€ 000')	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	% y-o-y			
Software Services	1.081	1.239	1.271	2.014	1.580	1.547	1.577	2.741	46	25	24	36
SMS Solutions	662	565	748	735	688	680	671	685	4	20	-10	-7
ICX	2.303	1.983	1.877	1.943	1.719	2.095	2.046	1.958	-25	6	9	1
Turnover	4.046	3.787	3.896	4.692	3.987	4.322	4.294	5.384	-1	14	10	15
Cost of sales	-2.156	-1.880	-1.861	-2.493	-1.984	-2.091	-2.231	-2.288	-8	11	20	-8
Gross Profit	1.890	1.907	2.035	2.199	2.003	2.231	2.063	3.096	6	17	1	41
<i>Gross Margin</i>	<i>47%</i>	<i>50%</i>	<i>52%</i>	<i>47%</i>	<i>50%</i>	<i>52%</i>	<i>48%</i>	<i>58%</i>				
Capitalized R&D*	168	163	174	157	193	207	166	210	15	27	-5	34
Personnel Expenses	-874	-876	-903	-957	-1.013	-1.068	-1.133	-1.455	16	22	26	52
Other SG&A	-760	-552	-463	-795	-566	-805	-684	-1.125	-26	46	48	42
Depreciation	-288	-297	-298	-304	-265	-271	-277	-476	-8	-9	-7	57
Other	0	-10	194	0	3	17	27	61				
Operating Costs	-1.922	-1.735	-1.470	-2.056	-1.841	-2.127	-2.067	-2.995	-4	23	41	46
Operating Income	136	335	739	300	355	311	162	311	161	-7	-78	4
<i>Operating Margin</i>	<i>3%</i>	<i>9%</i>	<i>19%</i>	<i>6%</i>	<i>9%</i>	<i>7%</i>	<i>4%</i>	<i>6%</i>				
Ebitda	424	642	843	604	617	565	412	787	46	-12	-51	30
<i>Ebitda Margin</i>	<i>3%</i>	<i>9%</i>	<i>19%</i>	<i>6%</i>	<i>9%</i>	<i>0%</i>	<i>0%</i>	<i>0%</i>				
Ebitda**	256	479	669	447	424	358	246	516	66	-25	-63	15
<i>Ebitda Margin</i>	<i>6%</i>	<i>13%</i>	<i>17%</i>	<i>10%</i>	<i>11%</i>	<i>8%</i>	<i>6%</i>	<i>10%</i>				
Extraordinaries	0	0	-144	-39	0	-9	0	0				
Financial Costs	-19	-26	-6	-21	-13	-25	-10	-41	-32	-4	67	95
FX	-49	-31	-65	-50	49	-6	-22	1	-200	-81	-66	-102
Profit Before Tax	68	278	524	190	391	271	129	271	475	-3	-75	43

Source: LLN, Checkpoint partners

Checkpoint recommendation System

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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

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
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
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

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Date of publication: 7am, 22nd February 2022

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