

Lleida.net

BUY

Orchestrating a 2024 recovery, with improved income and costs

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7am, 12th December 2023*

Lleida.net announced in early November an employee lay-off plan which is expected to be accompanied by further operating costs reductions with an estimated positive impact of €1.3 million in 2024.

Lleida.net has just reported a loss of €0.8 million in 3Q23 on the back of a 22% quarterly y-o-y decline in Gross Profits to €2.0 million. Relative to 2Q23, the fall was of 11%, which suggests the rate of decline is slowing down (ICX sales were up 9%, which is encouraging).

Opex remained contained with just a 4% increase relative to 3Q22 and down 7% relative to 2Q23, also positive. The recent cost cutting announcements ensure the decline in costs will continue into 2024.

Despite the weak results in 2023, the debt position of the company has not deteriorated significantly, leaving the company in a credible position to recover in 2024. During the first 9 months of the year, the net financial debt has increased €630k to €8.1 million.

Forecasts and Price Target

We are maintaining our 2024 EBITDA (cash) forecasts unchanged at €2.1 million. We expect increased revenues to contribute with an additional €1 million and costs cuts with €1.3 million to our EBITDA expectation for 2024.

We are maintaining our price target of €3.00 to reflect our unchanged EBITDA estimates. We fundamentally believe that Lleida.net remains a sound SaaS play and most likely we have already left behind the worse news coming from ICX.

Equities

BME Growth

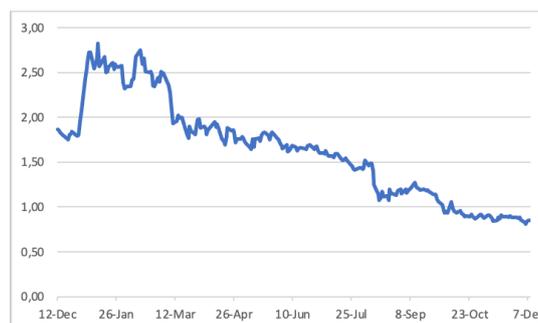
Price (4pm 11/12/23): €0.80

RIC: LLN.MC

Target Price (12-18 m): €3.00

52-Wk range (€):	2.82 - 0.80
Cap. Bur. (€ millones):	12.8
No. Shares (millions):	16,05
Avg. daily Vol. (€,12m):	81k
Daily volatility (avg. LTM):	3.5%

Price Chart (12 months)



(€ millions)	2022	2023e	2024e	2025e
Turnover	20,7	17,0	18,8	20,1
Ebitda	0,8	-0,2	2,1	2,5
Net Profit	-0,5	-1,4	0,6	0,9
EPS	-0,03	-0,09	0,04	0,06
Net Debt	8,6	9,4	6,7	5,1
EV/Sales	1,0	1,2	1,1	1,0
EV/Ebitda	26,6	-110,3	9,8	8,2
P/E	-24,9	-9,2	22,2	14,4
CFY	5%	-2%	14%	16%

Adjusting the cost base with one-stroke

lleida.net has continued to address the current operational adversities with a solid cost-cutting drive, which we expect to generate cost savings of €1.3 million in 2024, equivalent to 7% of projected sales. In other words, we expect cash Opex to drop from €9.9 million in 2023 to €8.6 million in 2024, an essential driver for EBITDA margin expansion.

The cost cuts will predominantly be accomplished through the announced lay-offs, followed by costs in other operating expenses, such as streamlining the costs associated with the attendance of trade fairs, external contracting, and travel.

On the revenue front, the company continues to innovate with new products and remains a sales growth-oriented organization. We expect sales in 2024 to rise by 10% to €18.8 million, with already encouraging signs from the ICX division in 3Q23. As an example of the launch of new products, below are three new ones coming from the Other SaaS division (primarily associated to the InDenova acquisition), which already represents 18% of overall sales. We expect new product launches to underpin sales growth in 2024.

(1) Certvalidator



Understanding user validation using digital certificates

Certvalidator is an advanced solution to streamline user validation through digital certificates. This method ensures that access to platforms, systems, and various online services is only granted to users possessing valid and accepted certificates.

(2) USVC



(3) Digital Certificate



What is a digital certificate?

Digital certificates are electronic files that serve as the gatekeepers of identity for both individuals and organizations. They're instrumental in user authentication and data encryption, guaranteeing the security of your data and preventing unauthorized alterations.

The market has already discounted the SMS business contraction and the adverse effects of losing 472 as a client. The market will be looking for signs of a recovery in the underlying business and this is where we expect better news over the coming quarters. In our current forecasts, we expect sales and gross profits to rise by 10% respectively in 2024, helping to contribute to an additional €1 million in EBITDA.

Putting the expected revenue growth together with the cost cuts, we have reached an expected EBITDA of €2.1 million for 2024. This is the same forecast as our prior quarter results research report, and hence, we maintain our target valuation intact at €3.00 per share.

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	12,4	32,3	2023e	1,5	n.m.	4,0	n.m.
				2024e	1,4	1493,8	3,6	3900,7
Telecom	SMS	4,2	10,9	2023e	1,2	4,3	3,2	11,2
				2024e	1,2	4,2	3,0	11,0
	ICX	4,4	11,5	2023e	0,7	4,3	2,1	11,4
				2024e	0,7	4,0	1,9	10,5
Sum of Parts		20,9	54,7	2023e	1,2	-94,2	3,2	-246,1
				2024e	1,1	10,0	2,9	26,0
Net Debt (€ m)		8,1	6,6					
Equity Value (€ m)		12,8	48,1					
Per shr (€)		0,80	3,00					
Upside			274%					

Source: Checkpoint

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: 2022 and 2023

(€ 000')	1T22	2T22	3T22	4T22	1T23	2T23	3T23			
<i>Contracting</i>	762	842	784	611	766	856	733	1	2	-7
<i>Notification</i>	627	498	642	701	506	374	324	-19	-25	-50
<i>Other SaaS</i>	754	695	576	1089	989	716	522	31	3	-9
Software Services	2.143	2.035	2.002	2.401	2.261	1.946	1.579	6	-4	-21
SMS Solutions	1.061	901	834	838	797	867	841	-25	-4	1
ICX	2.013	2.380	2.341	1.721	1.633	1.230	1.349	-19	-48	-42
Turnover	5.217	5.316	5.178	4.960	4.691	4.043	3.769	-10	-24	-27
Cost of sales	-2.602	-2.629	-2.632	-2.031	-1.907	-1.797	-1.779	-27	-32	-32
Gross Profit	2.615	2.687	2.546	2.929	2.784	2.246	1.990	6	-16	-22
<i>Gross Margin</i>	<i>50%</i>	<i>51%</i>	<i>49%</i>	<i>59%</i>	<i>59%</i>	<i>56%</i>	<i>53%</i>			
Capitalized R&D	269	336	292	259	239	204	186	-11	-39	-36
Personnel Expenses	-1.533	-1.643	-1.564	-1.612	-1.667	-1.699	-1.678	9	3	7
Other SG&A	-975	-868	-681	-1.144	-983	-799	-649	1	-8	-5
Depreciation	-518	-508	-516	-531	-526	-513	-538	2	1	4
Provisions	0	0	0	0	-24	-24	-79	-	-	-
Other	8	11	16	26	16	4	19	100	-64	19
Operating Costs	-3.018	-3.008	-2.746	-3.261	-3.184	-3.031	-2.925	6	1	7
Operating Income	-134	15	92	-73	-161	-581	-749	20	n.m.	n.m.
<i>Operating Margin</i>	<i>-3%</i>	<i>0%</i>	<i>2%</i>	<i>-1%</i>	<i>-3%</i>	<i>-14%</i>	<i>-20%</i>			
Ebitda*	376	512	592	432	389	-44	-230	3	n.m.	n.m.
<i>Ebitda Margin</i>	<i>7%</i>	<i>10%</i>	<i>11%</i>	<i>9%</i>	<i>8%</i>	<i>-1%</i>	<i>-6%</i>			
Ebitda (Cash)*	107	176	301	173	150	-248	-318	40	n.m.	n.m.
<i>Ebitda Margin</i>	<i>2%</i>	<i>3%</i>	<i>6%</i>	<i>3%</i>	<i>3%</i>	<i>-6%</i>	<i>-8%</i>			
Extraordinaries	0	13	0	0	0	0	0			
Financial Costs (net)	19	-24	17	-227	-115	14	-48			
Profit Before Tax	-115	-9	109	-300	-276	-567	-797	n.m.	n.m.	n.m.
Cash Flow	134	163	333	-28	11	-258	-445	-92	-258	-234

Source: LLN, Checkpoint partners

Profit and Loss Account 2022-2025e

(€ millions)	2022	2023e	2024e	2025e
Sales by division				
<i>Contracting</i>	3,0	3,1	3,5	3,8
<i>Notification</i>	2,5	1,7	2,0	2,1
<i>Other SaaS</i>	3,1	3,2	3,5	4,0
Software Services	8,6	8,0	9,0	9,9
SMS Solutions	3,6	3,4	3,6	3,7
ICX	8,5	5,6	6,2	6,5
Turnover and other income	20,7	17,0	18,8	20,1
Cost of sales	-9,9	-7,3	-8,0	-8,5
Gross Profit	10,8	9,7	10,7	11,6
<i>% y-o-y growth</i>	15%	-10%	10%	8%
<i>Gross Margin</i>	52%	57%	57%	58%
Capitalized costs (R&D)	1,2	0,9	0,9	0,9
Personnel Expenses	-6,3	-6,7	-5,5	-5,8
Other SG&A	-3,7	-3,2	-3,1	-3,2
Depreciation	-2,3	-2,0	-2,1	-2,1
Total Operating Costs	-12,3	-12,0	-10,7	-11,1
<i>% y-o-y growth</i>	36	-3	-11	4
Operating Income	-0,3	-1,4	0,9	1,4
<i>Operating Margin</i>	-2%	-8%	5%	7%
Ebitda	1,9	0,7	3,0	3,4
<i>Ebitda Margin</i>	9%	4%	16%	17%
Ebitda (ex-capitalizations)	0,8	-0,2	2,1	2,5
<i>Ebitda Margin</i>	4%	-1%	11%	13%
Financial Results	-0,2	-0,2	-0,2	-0,3
Profit Before Tax	-0,5	-1,6	0,7	1,1
Tax	0,0	0,2	-0,1	-0,2
Net Income	-0,5	-1,4	0,6	0,9
Net income attr. to shareholders	-0,5	-1,4	0,6	0,9
Minority Interest	-0,1	0,0	0,0	0,0

Source: LLN, Checkpoint partners

Balance Sheet 2022-2025e

(€ millions)	2022	2023e	2024e	2025e
Fixed Assets	11,5	11,3	10,2	9,3
Intangible Assets	10,4	10,1	9,1	8,2
Tangible Assets	0,6	0,6	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	0,5	0,5	0,4	0,5
Current Assets	8,4	6,9	7,8	7,9
Debtors	5,5	4,6	4,8	5,1
Short Term Investments	0,8	0,4	0,4	0,4
Short Term Accruals	0,4	0,4	0,4	0,4
Cash	1,7	1,5	2,1	1,9
Assets	19,9	18,2	17,9	17,2
Shareholders' Funds	5,7	4,3	6,0	7,0
<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>	2,4	1,9	0,6	1,2
<i>Repurchase of share capital</i>	-1,7	-1,7	-0,6	-0,6
<i>Profit and Loss account</i>	-0,5	-1,4	0,6	0,9
Long Term Debt	6,8	6,1	5,5	3,7
Current Liabilities	7,3	7,7	6,3	6,5
Short Term Debt	4,3	4,9	3,5	3,5
Provisions	0,0	0,0	0,0	0,0
Creditors	3,0	2,7	2,9	3,0
Liabilities	19,8	18,1	17,9	17,2
(€ millions)				
Dividends	0,0	0,0	0,0	0,5
Working Capital	2,5	1,9	2,0	2,1
Debtor Turnover (days)	94	109	92	91
Creditor Turnover (days)	60	61	62	61
Financial Debt	11,1	10,0	9,0	7,2
Cash	2,5	1,9	2,5	2,3
Net Debt	8,6	8,1	6,5	4,8

* We have reduced the 2023 Net Financial Debt calculation by €1.1million, which is the amount owed to InDenova Shareholders and it is already held by [lleida.net](https://www.lleida.net) in Treasury Stock.

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
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
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	1.15	3.00	12 months	Guillermo Serrano

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