

Lleida.net

BUY

Headwinds in 4Q22, Indenova is set to bounce in 2023

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lleida.net has reported 4Q22 profits before tax of negative €300k compared with +€245k last year.

The normally seasonally strong 4Q (during the 2016-2021 period 4Q sales were on average 20% stronger than the average of the first 3 quarters) has not been so this time (the only exception being in 2018 when sales declined by 3% relative to the first 3 quarters average).

The 4Q22 reported sales of €5.0 million were 8% lower, Gross Profits of €2.9 million were 5% lower and the Ebitda of €432k was 38% lower. Higher Depreciation and FX losses did the rest to push the quarter into negative territory.

3 main culprits: decline of SaaS Contracting and ICX revenues due to a decline in client activity, the devaluation of the Colombian Peso and Indenova.

For 2023, we expect Indenova to rebound (we expected 4Q22 to be the beginning of the comeback but it has not yet happened). lleida.net has invested heavily to adapt Indenova to its business model (and culture) at the cost of a revenue decline during 2022.

The combination of an Indenova rebound together with an expected good performance in Latin America should see Ebitda (cash) rebounding to €2.4 million in 2023 (vs our earlier expectation of €3.0 million).

We have now revised down our target price to €5.00 per share (still a 120% upside) to reflect a sales and earnings revision of 2023 forecasts (introducing 2024 forecasts for the 1st time). We maintain our BUY recommendation on the stock.

Equities

BME Growth Technology

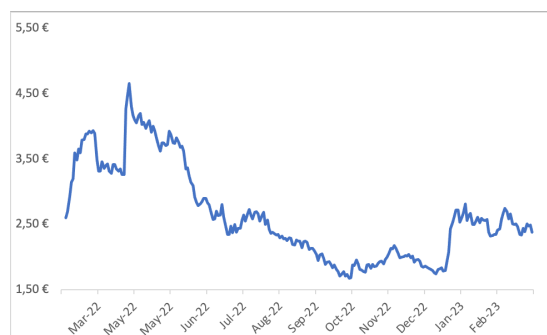
Price (4pm 8/3/23): €2.27

RIC: LLN.MC

Target Price (12-18 m): €5.00

52-Wk range (€):	4.67 - 1.68
Cap. Bur. (€ millones):	36,4
No. Shares (millions):	16,05
Avg. daily Vol. (€12m):	140k
Daily volatility (avg. LTM):	4.1%

Price Chart (12 months)



(€ millions)	2021	2022e	2023e	2024e
Turnover	18,0	20,7	23,0	25,7
Ebitda	1,6	0,8	2,4	3,0
Net Profit	0,9	-0,3	1,1	1,5
EPS	0,05	-0,02	0,07	0,09
Net Debt	7,3	8,6	7,1	6,2
EV/Ebitda	27,8	54,7	18,3	14,9
P/E	41,6	-116,0	33,2	23,9
CFY	4%	2%	6%	7%

4Q22 was hit by a myriad of factors but the outlook remains positive

Our view of lleida.net is evenly divided by what is happening at Indenova and what is driving all other areas:

Indenova:

Looking back to 2022, we estimate Indenova to have reduced lleida.net Ebitda by around €1 million. The estimated €1 million decline in Indenova revenues (relative to the pro-forma 2021) combined with a largely intact cost base (some restructuring has been done to streamline some their areas) is the reason behind the impact on the Ebitda.

The management considered it necessary to adapt Indenova business model to the “pay-per-use” SaaS model of lleida.net. Changes needed to be implemented and not all Indenova’s clients followed, resulting in a decline in activity in the short term.

For 2023 and beyond, we are already seeing an integration of the software automation solutions and capabilities of Indenova with Lleida.net’s contracting and notification software in their commercialization efforts. In our Ebitda forecasts, we expect the “missing” €1 million to re-appear in 2023 and provide a stronger platform for growth into 2024 and beyond.

All other areas:

The SaaS Contracting side (€611k in 4Q22) has seen 3 consecutive quarters of declines (-1%, -4% and -33%) with is a sure sign that financial companies are not promoting credit cards as aggressively as before (the contracting business is very exposed to this segment). We have incorporated a more conservative view in our forecasts.

The SaaS Notification side finish the year with a 15% decline (to €701k) but managed a 5% increase for the whole of 2022. Although at lower levels, we continue to see SaaS notification as an area of future growth.

Under “other SaaS” Lleida net reports the non certification and notification SaaS revenues together with Indenova’s. The comparison numbers with 2021 are distorted

by the entry on Indenova into Lleida.net accounts in November 2021. Overall, we expect this division to be a locomotive of growth and profits in 2023.

The SMS business tends to be more unpredictable because it depends on global trends in a relatively opaque sector. In 4Q, the higher margin SMS Solutions (domestic corporate business) grew by 22% (and by 34% for the whole of 2022) which demonstrated the still strong franchise of Lleida.net despite the competition from other operators. We continue to be positive for 2023.

The ICX division, a largely international business, is continually evolving with operators entering and exiting the business constantly. Lleida.net continues to fight for its share of the market with a low and efficient cost base. Despite a weak (-12%) end of the year, the performance for the whole of the year was more than acceptable with an 8% revenue increase. We expect SMS ICX to grow in 2023 as well.

In sum, we perceive 2022 as the year where much of the management focus and energy went into the integration of Indenova, probably affecting other areas of the business. In addition, outside influences such as the depreciation of the Colombian Peso and inflationary pressures in the economy made the year that bit more difficult for operating performance.

For 2023, we see the management focused on employee productivity and a tight cost controls (no new hirers in 1H23 expected and a stringent review of other opex). We are reflecting the cost control in our 2023 forecasts.

From a valuation perspective, none of the current multiples are demanding relative to its historical averages. The brunt of the share price declines were seen in 2022 already, which paves the way for a recovery once the company begins to deliver cash flow positive results. The risks rest mainly with the Spanish economy that is slowing down in line with the rest of Europe, wrapped around an interest rate uncertainty as seen by recent inflation numbers.

Profit and Loss account by Quarter: 2021 and 2022

(€ 000')	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	%			
<i>Contracting</i>	638	853	813	915	762	842	784	611	19	-1	-4	-33
<i>Notification</i>	613	404	518	824	627	498	642	701	2	23	24	-15
<i>Other SaaS</i>	329	290	246	1004	754	696	576	1089	129	140	134	8
Software Services	1.580	1.547	1.577	2.743	2.143	2.036	2.002	2.401	36	32	27	-12
SMS Solutions	688	665	672	685	1.061	902	834	838	54	36	24	22
ICX	1.719	2.096	2.046	1.958	2.013	2.381	2.341	1.721	17	14	14	-12
Turnover	3.987	4.308	4.294	5.386	5.217	5.319	5.178	4.960	31	23	21	-8
Cost of sales	-1.984	-2.094	-2.231	-2.307	-2.602	-2.629	-2.632	-2.031	31	26	18	-12
Gross Profit	2.003	2.214	2.063	3.079	2.615	2.690	2.546	2.929	31	21	23	-5
<i>Gross Margin</i>	<i>50%</i>	<i>51%</i>	<i>48%</i>	<i>57%</i>	<i>50%</i>	<i>51%</i>	<i>49%</i>	<i>59%</i>				
Capitalized R&D	193	207	166	210	269	336	292	259	39	62	76	23
Personnel Expenses	-1.013	-909	-1.133	-1.216	-1.533	-1.643	-1.564	-1.612	51	81	38	33
Other SG&A	-566	-966	-684	-1.371	-975	-868	-682	-1.144	72	-10	0	-17
Depreciation	-265	-271	-277	-444	-518	-508	-516	-531	95	87	86	20
Other	3	28	27	57	8	11	16	26	167	-61	-41	-54
Operating Costs	-1.841	-2.118	-2.067	-2.974	-3.018	-3.008	-2.746	-3.261	64	42	33	10
Operating Income	355	294	162	315	-134	18	92	-73	-138	-94	-43	-123
<i>Operating Margin</i>	<i>9%</i>	<i>7%</i>	<i>4%</i>	<i>6%</i>	<i>-3%</i>	<i>0%</i>	<i>2%</i>	<i>-1%</i>				
Ebitda*	617	546	412	759	376	515	592	432	-39	-6	44	-43
<i>Ebitda Margin</i>	<i>15%</i>	<i>13%</i>	<i>10%</i>	<i>13%</i>	<i>7%</i>	<i>10%</i>	<i>11%</i>	<i>9%</i>				
Ebitda (Cash)*	424	339	246	492	107	179	300	173	-75	-47	22	-65
<i>Ebitda Margin</i>	<i>11%</i>	<i>8%</i>	<i>6%</i>	<i>9%</i>	<i>2%</i>	<i>3%</i>	<i>6%</i>	<i>3%</i>				
Extraordinaries	0	-1	0	0	0	13	0	0				
Financial Costs (net)	36	-26	-32	-70	19	-24	17	-227				
Profit Before Tax	391	268	129	245	-115	-6	109	-300				
Cash Flow	411	313	236	456	61	155	241	144	-85	-50	2	-68

Source: LLN, Checkpoint partners

Profit and Loss account 2021-2024e

(€ millions)	2021	2022e	2023e	2024e
Sales by division				
Software Services	7,4	8,6	10,1	11,8
SMS Solutions	2,7	3,6	3,8	3,9
ICX	7,8	8,5	9,1	10,0
Turnover and other income	18,0	20,7	23,0	25,7
Cost of sales	-8,6	-9,9	-10,3	-11,6
Gross Profit	9,4	10,8	12,7	14,1
<i>% y-o-y growth</i>	15%	15%	17%	11%
<i>Gross Margin</i>	52%	52%	55%	55%
Capitalized costs (R&D)	0,8	1,2	1,2	1,2
Personnel Expenses	-4,4	-6,3	-6,6	-7,1
Other SG&A	-3,4	-3,7	-3,7	-4,0
Depreciation	-1,3	-2,1	-2,1	-2,1
Total Operating Costs	-9,1	-12,1	-12,4	-13,3
<i>% y-o-y growth</i>	22	34	2	7
Operating Income	1,1	-0,1	1,5	2,1
<i>Operating Margin</i>	6%	0%	7%	8%
Ebitda	2,4	2,0	3,6	4,2
<i>Ebitda Margin</i>	13%	10%	16%	16%
Ebitda (ex-capitalizations)	1,6	0,8	2,4	3,0
<i>Ebitda Margin</i>	9%	4%	11%	12%
Financial Income	0,0	0,0	0,0	0,0
Financial Costs	-0,1	-0,2	-0,3	-0,2
FX and Other	0,0	0,0	0,0	0,0
Financial Results	-0,1	-0,2	-0,3	-0,2
Profit Before Tax	1,0	-0,3	1,2	1,9
Tax	-0,2	0,0	-0,1	-0,4
Net Income	0,9	-0,3	1,1	1,5
Cash Flow	1,4	0,6	2,0	2,5

Source: LLN, Checkpoint partners

Balance Sheet 2021-2024e

(€ millions)	2021	2022e	2023e	2024e
Fixed Assets	12,0	11,7	11,2	11,5
Intangible Assets	11,0	10,7	10,2	10,5
Tangible Assets	0,6	0,6	0,7	0,7
Investments in Group Companies	0,0	0,0	0,0	0,0
Other Investments	0,1	0,1	0,1	0,1
Deferred Assets	0,3	0,3	0,3	0,3
Current Assets	11,5	9,0	10,1	10,7
Debtors	5,2	6,1	6,5	6,9
Short Term Investments	0,8	0,8	0,9	0,9
Short Term Accruals	0,4	0,4	0,4	0,4
Cash	5,1	1,6	2,3	2,5
Assets	23,5	20,7	21,3	22,2
Shareholders' Funds	6,7	5,9	7,0	8,6
<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	2,8	2,1	3,1
<i>Repurchase of share capital</i>	-1,7	-1,7	-1,7	-1,7
<i>Profit and Loss account</i>	0,9	-0,3	1,1	1,5
Long Term Debt	8,6	7,9	7,1	6,4
Current Liabilities	8,1	6,8	7,1	7,2
Short Term Debt	4,6	3,2	3,2	3,2
Provisions	0,0	0,0	0,0	0,0
Creditors	3,5	3,6	3,9	4,0
Liabilities	23,5	20,7	21,3	22,2
(€ millions)				
Dividends	0,5	0,0	0,0	0,0
Working Capital	1,7	2,5	2,6	2,8
Debtor Turnover (days)	88	99	100	95
Creditor Turnover (days)	72	65	66	64
Financial Debt	13,2	11,1	10,3	9,6
Cash	5,9	2,5	3,2	3,4
Net Debt	7,3	8,6	7,1	6,2

Source: LLN, Checkpoint partners

Sum of the parts valuation

Division	Current	Target	Year	Current (estimate)		Target (DCF based)	
	EV (€)	DCF (€)		EV/Sales	EV/Ebitda	EV/Sales	EV/Ebitda
Saas	27,1	52,5	2023e	3,8	237,7	7,4	460,0
			2024e	3,2	40,2	6,1	77,8
inDenova	7,3	14,2	2023e	2,4	11,4	4,7	22,1
			2024e	2,3	10,6	4,4	20,6
SMS	1,9	3,7	2023e	0,5	6,8	1,0	13,2
			2024e	0,5	5,5	1,0	10,6
ICX	8,7	16,8	2023e	1,0	9,5	2,0	18,4
			2024e	1,0	6,8	1,8	13,2
Sum of Parts	45,0	87,2	2023e	2,2	60,3	4,2	116,7
			2024e	2,0	19,0	3,8	36,7
Net Debt (€ m)	8,6	7,1					
Equity Valuation (€ m)	36,4	80,1					
Per shr (€)	2,27	5,00					
Upside		120%					

Source: LLN, Checkpoint partners

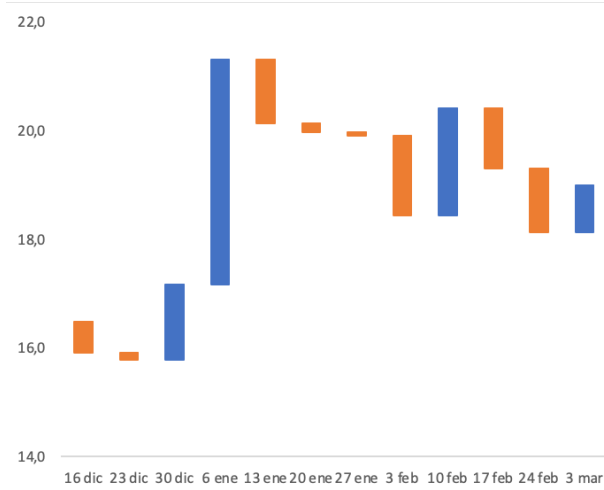
Our sum of the Parts valuation are just estimates of where we think the market is valuing each of lleida.net divisions and where we would value them according to our target price of €5 per share.

We make an estimate of how the Ebitda is distributed between each of the divisions, 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.

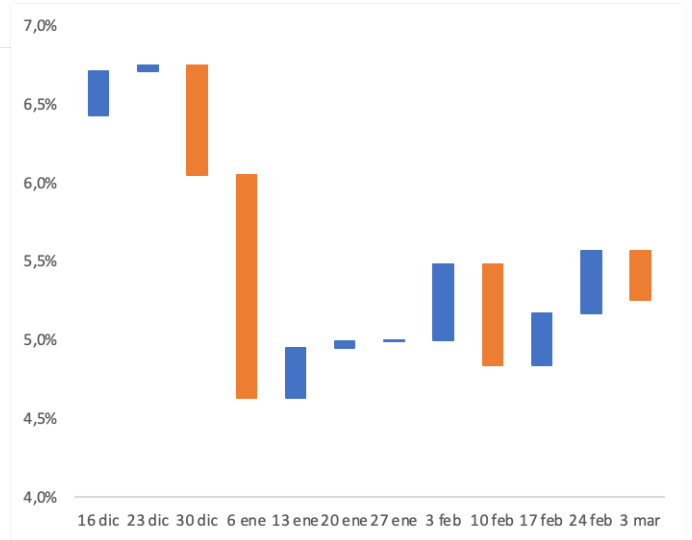
We build our target price based on a DCF analysts for each of the divisions.

Valuation charts (last 12 weeks of trading)

EV/Ebitda-cash (x)
(12 month forward)

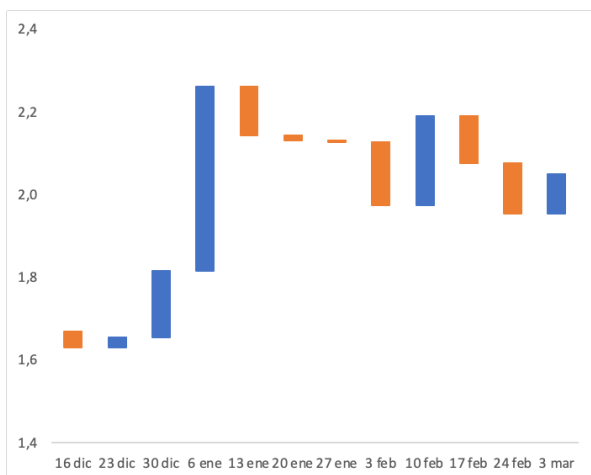


Cash Flow Yield (%)
(12 month forward)

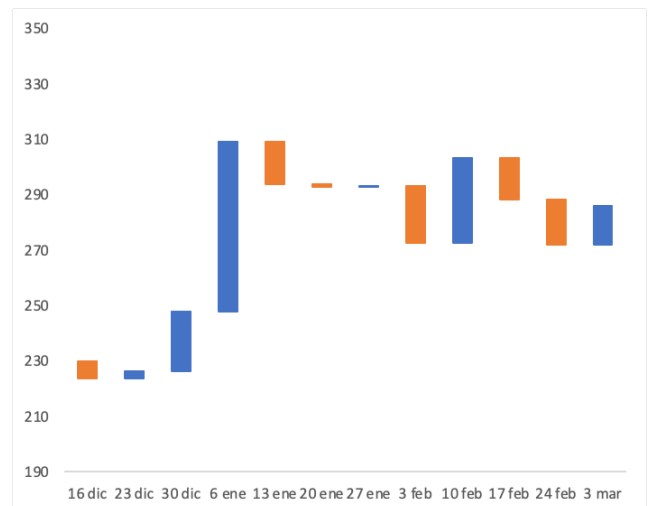


Source: Checkpoint Partners

EV/Sales (x)
(12 month forward)



EV per Employee (000€)
(12 month forward)



Source: 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

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