B&C SPEAKERS OUTPERFORM

Price (Eu): **6.20**

Target Price (Eu): **8.00**

SECTOR: Industrials

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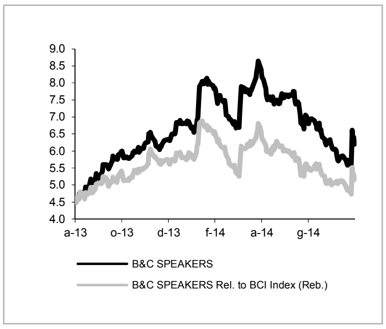
Solid Quarterly Results, Upgrade to OUTPERFORM

- **1H14 results stabilise at a high level.** Revenues totalled Eu16.7mn in 1H14, down 1.9% YoY. By region, revenues grew strongly in South America (+42%), increased mid-single digit in Europe (+6%), and dropped double digit in Italy (-12%), North America (-15%), the Middle East (-14%) and Asia (-12%). EBITDA came to Eu4.2mn, down 2.3% YoY. The company has been able to reduce the incidence of raw material costs on sales (thanks to declining purchasing prices and efficiencies in the supply chain) and to cut personnel costs slightly. Net profit fell 7.6% YoY in the period to Eu2.4mn. These results compare with a very tough comparison base and show the resilience of the company's business (in 1H13 revenues grew by 14.9% and EBITDA by 32.5%).
- **2Q14 results lower than expected, but FCF generation is healthy.** B&C's revenues declined 5.5% in 2Q14 to Eu8.8mn, 6.4% below our estimate. EBITDA went down by 12.4% YoY to Eu2.2mn (vs. Eu2.5mn expected). The margin on sales came to 25.1%, down 200bp YoY due to a tough comparison base. Net income stood at Eu1.4mn, down 1.8% YoY and 9.5% below our forecast, reflecting higher financial income and lower taxes. The net financial position was positive to the tune of Eu0.4mn at June 2014, lower than the Eu2.1mn reported as at the end of 2013 due to the dividend payment (Eu3.5mn). CAPEX amounted to Eu1.5mn in the period.
- **Strong order intake to underpin growth in 2H14.** Management stated that the parent company has witnessed a significant increase in the customer order inflow since the end of 1H. Indeed, the Eu3.9mn order intake in July represented a record month for B&C, while the August inflow has also considerably exceeded last year's figure. Year-end revenues are expected to be slightly up on 2013.
- **Estimates fine-tuned downwards.** Based on 1H14 results we have cut our FY14 revenue estimate by 5.8% to Eu33.5mn (we forecast 5.4% growth YoY); we have revised our margin assumptions upwards by 20bps. At bottom line, we have trimmed our net income forecast by 1.8% to Eu5.1mn, benefiting from slightly higher financial income and a marginally lower tax rate. Our estimates imply a revenue and EBITDA growth of 13.8% and 18.5% respectively in 2H14, with EBITDA boosted by an easy comparison base. We have also made minor changes to our medium term estimates, cutting 2015 EPS by 0.1% and 2016 EPS by 3.0%.
- **Upgrade to OUTPERFORM, target unchanged at Eu8.0.** We are raising our recommendation to OUTPERFORM: earnings momentum is expected to improve as the comparison base becomes easier in 2H14. Given the company's strong balance sheet, potential external growth opportunities or the development of new applications for speakers, additional prospects are not included in our estimates, could be positive triggers. Finally, the recent negative share price performance has made the valuation appealing again (the dividend yield stands at 5.6% on 2014).

Key Figures	2012A	2013A	2014E	2015E	2016E
Sales (Eu mn)	30	32	34	36	39
Ebitda (Eu mn)	7	8	8	9	10
Net profit (Eu mn)	4	5	5	5	6
EPS - New (Eu)	0.386	0.433	0.461	0.498	0.545
EPS - Old (Eu)	0.376	0.429	0.470	0.499	0.563
DPS (Eu)	0.280	0.320	0.346	0.373	0.409

Ratios & Multiples	2012A	2013A	2014E	2015E	2016E
P/E	16.1	14.3	13.4	12.5	11.4
Div. Yield	4.5%	5.2%	5.6%	6.0%	6.6%
EV/Ebitda	9.9	8.5	7.9	7.2	6.5
ROCE	39.5%	42.8%	42.3%	43.0%	44.4%

B&C SPEAKERS - 12m Performance



Eu/USD: 1.35 2014; 1.30 2015

RATING: from NEUTRAL to OUTPERFORM
TARGET PRICE (Eu): Unchanged

Change in EPS est:	2014E	2015E
	-1.8%	-0.1%

STOCK DATA

Reuters code:	37B.MI
Bloomberg code:	BEC IM

Performance	1m	3m	12m
Absolute	-0.6%	-18.1%	38.3%
Relative	2.0%	-13.6%	18.0%
12 months H/L:			8.64/4.59

SHAREHOLDER DATA

No. of Ord. shares (mn):	11
Total No. of shares (mn):	11
Mkt Cap Ord (Eu mn):	68
Total Mkt Cap (Eu mn):	68
Mkt Float - ord (Eu mn):	25
Mkt Float (in %):	*37.1%*
Main shareholder:	
Coppini Lorenzo	62.9%

BALANCE SHEET DATA	2014
Book value (Eu mn):	19
BVPS (Eu):	1.69
P/BV:	3.7
Net Financial Position (Eu mn):	2
Enterprise value (Eu mn):	67

Please see important disclaimer on the last page of this report

B&C SPEAKERS - *KEY FIGURES*		**2012A**	**2013A**	**2014E**	**2015E**	**2016E**
	Fiscal year end	31/12/2012	31/12/2013	31/12/2014	31/12/2015	31/12/2016
PROFIT & LOSS (Eu mn)	Sales	30	32	34	36	39
	EBITDA	7	8	8	9	10
	EBIT	6	7	7	8	9
	Financial income (charges)	0	0	0	0	0
	Associates & Others	0	0	0	0	0
	Pre-tax profit (Loss)	6	7	8	8	9
	Taxes	(2)	(2)	(2)	(3)	(3)
	Tax rate (%)	30.2%	32.7%	33.0%	34.0%	34.0%
	Minorities & discontinue activities	(0)	0	0	0	0
	Net profit	4	5	5	5	6
	Total extraordinary items	0	0	0	0	0
	Ebitda excl. extraordinary items	7	8	8	9	10
	Ebit excl. extraordinary items	6	7	7	8	9
	Net profit restated	4	5	5	5	6
PER SHARE DATA (Eu)	Total shares out (mn) - average fd	11	11	11	11	11
	EPS stated fd	0.386	0.433	0.461	0.498	0.545
	EPS restated fd	0.386	0.433	0.461	0.498	0.545
	BVPS fd	1.395	1.548	1.689	1.841	2.013
	Dividend per share (ord)	0.280	0.320	0.346	0.373	0.409
	Dividend per share (sav)	0.000	0.000	0.000	0.000	0.000
	Dividend pay out ratio (%)	72.6%	74.0%	75.0%	75.0%	75.0%
CASH FLOW (Eu mn)	Gross cash flow	5	6	6	6	7
	Change in NWC	(2)	(1)	(1)	(1)	(1)
	Capital expenditure	(1)	(1)	(1)	(1)	(1)
	Other cash items	0	0	0	0	0
	Free cash flow (FCF)	3	4	4	4	5
	Acquisitions, divestments & others	0	0	0	0	0
	Dividend	(3)	(3)	(4)	(4)	(4)
	Equity financing/Buy-back	1	(0)	(0)	(0)	(0)
	Change in Net Financial Position	1	1	0	1	1
BALANCE SHEET (Eu mn)	Total fixed assets	6	7	7	7	7
	Net working capital	9	10	11	12	13
	Long term liabilities	0	0	0	1	1
	Net capital employed	16	17	18	19	21
	Net financial position	1	1	2	2	3
	Group equity	15	17	19	20	22
	Minorities	0	0	0	0	0
	Net equity	15	17	19	20	22
ENTERPRISE VALUE (Eu mn)	Average mkt cap - current	68	68	68	68	68
	Adjustments (associate & minorities)	0	0	0	0	0
	Net financial position	1	1	2	2	3
	Enterprise value	67	67	67	66	65
RATIOS(%)	EBITDA margin*	23.1%	24.8%	25.2%	25.5%	25.8%
	EBIT margin*	20.5%	22.1%	22.3%	22.6%	23.0%
	Gearing - Debt/equity	-5.3%	-7.9%	-8.4%	-10.7%	-13.4%
	Interest cover on EBIT	nm	nm	nm	nm	nm
	Debt/Ebitda	nm	nm	nm	nm	nm
	ROCE*	39.5%	42.8%	42.3%	43.0%	44.4%
	ROE*	30.8%	29.4%	28.5%	28.2%	28.3%
	EV/CE	4.4	4.1	3.8	3.5	3.3
	EV/Sales	2.3	2.1	2.0	1.8	1.7
	EV/Ebit	11.1	9.5	8.9	8.1	7.3
	Free Cash Flow Yield	4.7%	5.6%	5.6%	6.5%	7.3%
GROWTH RATES (%)	Sales	10.0%	7.3%	5.4%	7.5%	7.5%
	EBITDA*	12.2%	15.6%	7.1%	8.6%	8.6%
	EBIT*	13.0%	15.6%	6.3%	9.1%	9.1%
	Net profit	17.2%	12.2%	6.6%	8.0%	9.6%
	EPS restated	17.2%	12.2%	6.6%	8.0%	9.6%

** Excluding extraordinary items*

Source: Intermonte SIM estimates

Results

B&C Speakers - Quarterly Results (Eu mn)	2Q13A	2Q14A	YoY Chg	2Q14E	Act vs Est	1H13A	1H14A	YoY Chg	1H14E	Act vs Est
Net sales	**9.3**	**8.8**	**-5.5%**	**9.4**	**-6.4%**	**17.0**	**16.7**	**-1.9%**	**17.3**	**-3.5%**
Value of Production	**9.4**	**8.9**	**-5.4%**	**9.5**	**-6.6%**	**17.1**	**16.8**	**-1.9%**	**17.4**	**-3.6%**
Costs of raw and cons. materials	(3.9)	(3.7)	-6.3%	(3.9)		(7.1)	(6.2)	-12.0%	(6.5)	
% on net sales	-42.0%	-41.6%		-42.0%		-41.6%	-37.3%		-37.6%	
Labour costs	(1.5)	(1.5)	-2.7%	(1.5)		(2.8)	(2.7)	-2.0%	(2.8)	
% on net sales	-16.1%	-16.5%		-16.4%		-16.5%	-16.5%		-16.4%	
Cost of services	(1.8)	(1.6)	-11.6%	(1.9)		(3.5)	(3.2)	-7.9%	(3.5)	
% on net sales	-19.4%	-18.2%		-19.8%		-20.6%	-19.3%		-20.2%	
Other costs	(0.1)	(0.1)		(0.0)		(0.1)	(0.2)		(0.1)	
EBITDA	**2.5**	**2.2**	**-12.4%**	**2.5**	**-12.1%**	**4.3**	**4.2**	**-2.3%**	**4.5**	**-6.7%**
Ebitda margin	27.1%	25.1%		26.8%		25.4%	25.2%		26.1%	
D&A	(0.2)	(0.2)	13.1%	(0.2)		(0.4)	(0.4)	13.6%	(0.4)	
Provisions	0.0	0.0		0.0		0.0	0.0		0.0	
EBIT	**2.3**	**2.0**	**-14.4%**	**2.3**	**-14.2%**	**3.9**	**3.7**	**-3.9%**	**4.1**	**-8.0%**
Ebit margin	24.7%	22.3%		24.4%		22.9%	22.5%		23.6%	
Pre tax profit	**2.2**	**2.0**	**-7.4%**	**2.3**	**-12.5%**	**3.8**	**3.8**	**-0.6%**	**4.1**	**-7.0%**
Taxes	(0.8)	(0.7)		(0.8)		(1.3)	(1.3)		(1.4)	
Net Profit	**1.4**	**1.4**	**-1.8%**	**1.5**	**-9.5%**	**2.6**	**2.4**	**-7.6%**	**2.5**	**-5.6%**
Minorities	0.0	0.0		0.0		0.0	0.0		0.0	
Group Net Profit	**1.4**	**1.4**	**-1.8%**	**1.5**	**-9.5%**	**2.6**	**2.4**	**-7.6%**	**2.5**	**-5.6%**
Net margin	14.9%	15.5%		16.0%		15.3%	14.4%		14.8%	
Net financial position	**(1.4)**	**0.4**	**nm**	**0.3**	**41.7%**	**(1.4)**	**0.4**	**nm**	**0.3**	**41.7%**

Source. Company Data - Intermonte Estimates

Outlook

Management stated: "after the semester conclusion and till now, we have experienced a significant growth of customer orders inflow for the Parent company; such increase has almost matched the order inflow YTD recorded on the same period of last year. Additionally, the orders value of Eu3.9mn is the best monthly amount ever recorded in the Company history and even the August inflow, is significantly greater than the same period of last year. The first half of 2014 would appear to suggest a year that is basically one of consolidation as compared with the previous one, which instead marked a record result in the company's history. In 2013, we saw a very strong first half that then slowed during the latter part of the year, accentuating this in the last quarter. As concerns the trend for the whole of FY 2014, the parent's company management believe that in view of the dynamic, recent recovery seen in demand, the order book and the market strength, we can expect to conclude the year with revenues slightly up on last year.

Estimates

B&C Speakers - Change in Estimates

	New	Old		New	Old		New	Old	
B&C Speakers - P&L (Eu mn)	**2014E**	**2014E**	**New vs Old**	**2015E**	**2015E**	**New vs Old**	**2016E**	**2016E**	**New vs Old**
Net Sales	**33.5**	**35.6**	**-5.8%**	**36.0**	**37.3**	**-3.5%**	**38.7**	**39.6**	**-2.2%**
YoY growth	5.4%	11.8%		7.5%	5.0%		7.5%	6.0%	
EBITDA	**8.5**	**8.9**	**-5.0%**	**9.2**	**9.4**	**-2.4%**	**10.0**	**10.5**	**-4.5%**
YoY growth	7.1%	12.8%							
EBITDA margin	25.2%	25.0%		25.5%	25.2%		25.8%	26.4%	
EBIT	**7.5**	**7.9**	**-5.1%**	**8.1**	**8.4**	**-2.6%**	**8.9**	**9.4**	**-5.5%**
Ebit margin	22.3%	22.1%		22.6%	22.5%		23.0%	23.8%	
Pre tax profit	**7.6**	**7.9**	**-4.8%**	**8.3**	**8.4**	**-1.7%**	**9.1**	**9.5**	**-4.4%**
Group Net Profit	**5.1**	**5.2**	**-1.8%**	**5.5**	**5.5**	**-0.1%**	**6.0**	**6.2**	**-3.0%**

Source: Intermonte SIM estimates (E); Company data (A)

B&C SPEAKERS Peer Group - Absolute Performances

Stock	Price	Ccy	Mkt cap	1M	3M	6M	YTD	1Y	2Y
B&C SPEAKERS	**6.2**	**EUR**	**68.2**	**-0.6%**	**-18.1%**	**-20.5%**	**-1.6%**	**38.3%**	**106.7%**
DOLBY	46.6	USD	4,755.9	3.9%	12.6%	13.0%	20.8%	46.2%	38.0%
DTS	23.9	USD	408.6	30.3%	31.7%	17.6%	-0.1%	18.2%	5.8%
HARMAN INT	115.1	USD	7,835.6	2.2%	7.6%	9.9%	40.6%	76.2%	150.9%
LOEWE	0.6	EUR	2.1	-9.4%	-20.7%	-70.0%	-76.0%	-89.5%	-96.7%
Mean performance				**5.3%**	**2.6%**	**-10.0%**	**-3.3%**	**17.9%**	**40.9%**
Italy Fixed	20,450.5	EUR	265,691	-3.0%	-4.9%	0.0%	7.8%	21.0%	36.9%

Source: FactSet

B&C SPEAKERS Peer Group - Multiple Comparison

Stock	Price	Ccy	Mkt cap	EV/Sales 2014	EV/Sales 2015	EV/Ebitda 2014	EV/Ebitda 2015	EV/Ebit 2014	EV/Ebit 2015	P/E 2014	P/E 2015	Div Yield 2014	Div Yield 2015
B&C SPEAKERS	**6.2**	**EUR**	**68.2**	**2.0**	**1.8**	**7.9**	**7.2**	**8.9**	**8.1**	**13.4**	**12.5**	**5.6%**	**6.0%**
DOLBY	46.6	USD	4,755.9							25.1	24.9		
DTS	23.9	USD	408.6							16.3	14.7		
HARMAN INT	115.1	USD	7,835.6	1.5	1.3	14.0	11.2	18.2	14.5	26.1	21.8	1.0%	1.1%
LOEWE	0.6	EUR	2.1										
Median				**1.7**	**1.6**	**10.9**	**9.2**	**13.5**	**11.3**	**20.7**	**18.3**	**3.3%**	**3.6%**

Source: Intermonte SIM estimates for covered companies, FactSet consensus estimates for peer group

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BUY: stock expected to outperform the market by over 25% over a 12 month period;
OUTPERFORM: stock expected to outperform the market by between 10% and 25% over a 12 month period;
NEUTRAL: stock performance expected at between +10% and – 10% compared to the market over a 12 month period ;
UNDERPERFORM: stock expected to underperform the market by between –10% and -25% over a 12 month period;
SELL: stock expected to underperform the market by over 25% over a 12 month period.
The stock price indicated is the reference price on the day prior to the publication of the report.

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OUTPERFORM: 34.42%
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OUTPERFORM: 43.75%

NEUTRAL: 34.37%

UNDERPERFORM: 0.00%

SELL: 0.00%

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DETAILS ON STOCKS RECOMMENDATION

Stock NAME	B&C SPEAKERS		
Current Recomm:	OUTPERFORM	Previous Recomm:	NEUTRAL
Current Target (Eu):	8.00	Previous Target (Eu):	8.00
Current Price (Eu):	6.20	Previous Price (Eu):	7.51
Date of report:	01/09/2014	Date of last report:	15/05/2014

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