# B&C SPEAKERS OUTPERFORM

SECTOR: Industrials

**Price (Eu): 7.50**

**Target Price (Eu): 8.20**

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## Strong Revenue Growth In 1Q, High Backlog Supports FY Expectations

- **1Q15 results: strong revenue growth, profitability hit by FOREX.** B&C's revenues for the period came to Eu8.6mn (+9.4% YoY), vs. Eu8.4mn expected, driven by a strong performance in all geographical areas except for the Middle East. EBITDA decreased by 4.6% YoY to Eu1.9mn (in line with expectations), coming to 22.1% of sales, a 340bps drop YoY. As the company did not operate a hedging policy, profitability was dented by the purchase of raw materials in USD: the incidence of raw material costs on sales rose from 36.8% in 1Q14 to 39.5% in 1Q15. Net income reached Eu1.1mn,+2.4% YoY (bang in line with our estimate), reflecting slightly lower D&A and higher financial charges. The net financial position was positive to the tune of Eu3.2mn, higher than the Eu2.0mn reported as at the end of 2014 and in line with our forecast.
- **A price hike to offset negative EUR/USD impact.** According to the press release, the company's outlook appears to be promising for FY15. As of 14th May, the order backlog of the parent company (around 95% of consolidated revenues in 2015E) amounted to Eu10.9mn, +49.1% from the Eu7.3mn at the end of 2014 and +39.7% from the Eu7.8mn at the end of March 2014. As a consequence, the management believes that "*the dynamic demand and production capacity suggest a foreseeable close to the year with significantly increased revenues*". Moreover, the company is going to introduce a price hike to balance the mismatch between costs and revenues in USD. This increase will be effective from the month of June.
- **EPS estimates revised slightly downwards**. We have lifted our revenue estimates by 1.6% on average for 2015-2017 on the back of the encouraging outlook provided by the company. Moreover, we are confident the price hike will prove effective, as the company benefits from a very strong positioning and customer relationships. However, we estimate that this price increase will only partially offset the negative dynamic in the EUR/USD exchange rate. As a consequence, we have lowered our EBITDA estimates by 5.2% on average for 2015-2017. All else being equal, our net profit estimates have been reduced by 5.7% on average for 2015-2017. With regard to cash generation, the company is expected to increase its cash level from Eu2.5mn in 2015 to Eu4.1mn in 2017 (based on a 75% dividend payout assumption).
- **OUTPERFORM recommendation reaffirmed, target price adjusted to Eu8.2.** We maintain a positive recommendation on the stock. Sales growth is forecast to speed up, as order intake is remaining at very strong levels. Our updated valuation, the simple average of a DCF and an EV/ROACE method, yields a target price of Eu8.20 per share (from Eu8.50 previously). At our target price, B&C Speakers would be trading at 16.5x P/E and 10.0x EV/EBITDA on 2016 figures. Finally, it should be kept in mind that B&C Speakers boasts a strong balance sheet and is therefore in a position to exploit external growth opportunities and to develop new applications for speakers. These opportunities are not included in our estimates.

| Key Figures | 2013A | 2014A | 2015E | 2016E | 2017E |
|---|---|---|---|---|---|
| Sales (Eu mn) | 32 | 33 | 36 | 39 | 41 |
| Ebitda (Eu mn) | 8 | 7 | 8 | 9 | 10 |
| Net profit (Eu mn) | 5 | 4 | 5 | 6 | 6 |
| EPS - New (Eu) | 0.429 | 0.396 | 0.472 | 0.515 | 0.556 |
| EPS - Old (Eu) | 0.429 | 0.396 | 0.498 | 0.548 | 0.591 |
| DPS (Eu) | 0.320 | 0.320 | 0.354 | 0.386 | 0.417 |

| Ratios & Multiples | 2013A | 2014A | 2015E | 2016E | 2017E |
|---|---|---|---|---|---|
| P/E | 17.5 | 19.0 | 15.9 | 14.6 | 13.5 |
| Div. Yield | 4.3% | 4.3% | 4.7% | 5.1% | 5.6% |
| EV/Ebitda | 10.1 | 10.7 | 9.6 | 8.8 | 8.1 |
| ROCE | 43.5% | 39.1% | 42.6% | 43.5% | 44.5% |

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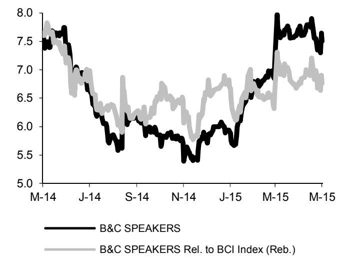
**B&C SPEAKERS - 12m Performance**




**RATING: Unchanged**
**TARGET PRICE (Eu): From 8.50 to 8.20**

| Change in EPS est: | 2015E | 2016E |
|---|---|---|
| | -5.3% | -6.0% |

**STOCK DATA**

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

| Performance | 1m | 3m | 12m |
|---|---|---|---|
| Absolute | -2.7% | 10.4% | -1.3% |
| Relative | -0.3% | 0.1% | -12.2% |
| 12 months H/L: | | | 7.97/5.39 |

**SHAREHOLDER DATA**

| | |
|---|---|
| No. of Ord. shares (mn): | 11 |
| Total No. of shares (mn): | 11 |
| Mkt Cap Ord (Eu mn): | 83 |
| Total Mkt Cap (Eu mn): | 83 |
| Mkt Float - ord (Eu mn): | 32 |
| *Mkt Float (in %):* | *38.5%* |
| Main shareholder: | |
| Coppini Lorenzo | 61.5% |

| BALANCE SHEET DATA | 2015 |
|---|---|
| Book value (Eu mn): | 19 |
| BVPS (Eu): | 1.74 |
| P/BV: | 4.3 |
| Net Financial Position (Eu mn): | 2 |
| Enterprise value (Eu mn): | 80 |

**Please see important disclaimer on the last page of this report**

| B&C SPEAKERS - *KEY FIGURES* | | 2013A | 2014A | 2015E | 2016E | 2017E |
|---|---|---|---|---|---|---|
| | Fiscal year end | 31/12/2013 | 31/12/2014 | 31/12/2015 | 31/12/2016 | 31/12/2017 |
| **PROFIT & LOSS (Eu mn)** | Sales | 32 | 33 | 36 | 39 | 41 |
| | EBITDA | 8 | 7 | 8 | 9 | 10 |
| | EBIT | 7 | 7 | 7 | 8 | 9 |
| | Financial income (charges) | (0) | 0 | 0 | 0 | 0 |
| | Associates & Others | 0 | 0 | 0 | 0 | 0 |
| | Pre-tax profit (Loss) | 7 | 7 | 7 | 8 | 9 |
| | Taxes | (2) | (2) | (2) | (2) | (3) |
| | Tax rate (%) | 35.0% | 31.7% | 30.5% | 30.5% | 30.5% |
| | Minorities & discontinue activities | 0 | (0) | 0 | 0 | 0 |
| | Net profit | 5 | 4 | 5 | 6 | 6 |
| | Total extraordinary items | 0 | 0 | 0 | 0 | 0 |
| | Ebitda excl. extraordinary items | 8 | 7 | 8 | 9 | 10 |
| | Ebit excl. extraordinary items | 7 | 7 | 7 | 8 | 9 |
| | Net profit restated | 5 | 4 | 5 | 6 | 6 |
| **PER SHARE DATA (Eu)** | Total shares out (mn) - average fd | 11 | 11 | 11 | 11 | 11 |
| | EPS stated fd | 0.429 | 0.396 | 0.472 | 0.515 | 0.556 |
| | EPS restated fd | 0.429 | 0.396 | 0.472 | 0.515 | 0.556 |
| | BVPS fd | 1.533 | 1.585 | 1.737 | 1.898 | 2.068 |
| | Dividend per share (ord) | 0.320 | 0.320 | 0.354 | 0.386 | 0.417 |
| | Dividend per share (sav) | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| | Dividend pay out ratio (%) | 74.6% | 80.8% | 75.0% | 75.0% | 75.0% |
| **CASH FLOW (Eu mn)** | Gross cash flow | 5 | 5 | 5 | 6 | 7 |
| | Change in NWC | (1) | (5) | (0) | (1) | (1) |
| | Capital expenditure | (1) | (1) | (1) | (1) | (1) |
| | Other cash items | 0 | 0 | 0 | 0 | 0 |
| | Free cash flow (FCF) | 4 | (1) | 4 | 5 | 5 |
| | Acquisitions, divestments & others | 0 | 0 | 0 | 0 | 0 |
| | Dividend | (3) | (4) | (4) | (4) | (4) |
| | Equity financing/Buy-back | (0) | (0) | (0) | (0) | (0) |
| | Change in Net Financial Position | 1 | (5) | 0 | 1 | 1 |
| **BALANCE SHEET (Eu mn)** | Total fixed assets | 7 | 6 | 7 | 7 | 7 |
| | Net working capital | 10 | 15 | 16 | 16 | 17 |
| | Long term liabilities | 0 | (5) | (4) | (4) | (4) |
| | Net capital employed | 17 | 17 | 18 | 19 | 20 |
| | Net financial position | 1 | 2 | 2 | 3 | 4 |
| | Group equity | 17 | 17 | 19 | 21 | 23 |
| | Minorities | 0 | 0 | 0 | 0 | 0 |
| | Net equity | 17 | 17 | 19 | 21 | 23 |
| **ENTERPRISE VALUE (Eu mn)** | Average mkt cap - current | 83 | 83 | 83 | 83 | 83 |
| | Adjustments (associate & minorities) | 0 | 0 | 0 | 0 | 0 |
| | Net financial position | 1 | 2 | 2 | 3 | 4 |
| | Enterprise value | 81 | 80 | 80 | 79 | 78 |
| **RATIOS(%)** | EBITDA margin* | 24.8% | 22.9% | 23.0% | 23.4% | 23.7% |
| | EBIT margin* | 22.1% | 20.1% | 20.5% | 21.0% | 21.5% |
| | Gearing - Debt/equity | -7.9% | -11.5% | -12.9% | -14.7% | -18.2% |
| | Interest cover on EBIT | 37.3 | nm | nm | nm | nm |
| | Debt/Ebitda | nm | nm | nm | nm | nm |
| | ROCE* | 43.5% | 39.1% | 42.6% | 43.5% | 44.5% |
| | ROE* | 29.3% | 25.4% | 28.4% | 28.4% | 28.0% |
| | EV/CE | 4.9 | 4.8 | 4.6 | 4.3 | 4.0 |
| | EV/Sales | 2.5 | 2.5 | 2.2 | 2.1 | 1.9 |
| | EV/Ebit | 11.4 | 12.2 | 10.8 | 9.8 | 9.0 |
| | Free Cash Flow Yield | 4.5% | -1.4% | 4.9% | 5.5% | 6.5% |
| **GROWTH RATES (%)** | Sales | 9.1% | 1.5% | 10.4% | 6.5% | 5.3% |
| | EBITDA* | 17.3% | -6.4% | 11.1% | 8.1% | 7.0% |
| | EBIT* | 17.3% | -7.7% | 12.8% | 9.1% | 7.8% |
| | Net profit | 11.3% | -7.7% | 19.2% | 9.2% | 7.9% |
| | EPS restated | 11.3% | -7.7% | 19.2% | 9.2% | 7.9% |

** Excluding extraordinary items*

Source: Intermonte SIM estimates

## Results

B&C's revenues for the period came to Eu8.6mn (+9.4% YoY), vs. Eu8.4mn expected, driven by a strong performance in all geographical areas except for the Middle East. EBITDA decreased by 4.5% YoY to Eu1.9mn (in line with expectations), coming to 22.1% of sales, a 340bps drop YoY. As the company did not operate a hedging policy, profitability was dented by the purchase of raw materials in USD: the incidence of raw material costs on sales rose from 36.8% in 1Q14 to 39.5% in 1Q15. Net income reached Eu1.1mn,+2.4% YoY (bang in line with our estimate), reflecting slightly lower D&A and higher financial charges. The net financial position was positive to the tune of Eu3.2mn, higher than the Eu2.0mn reported as at the end of 2014 and in line with our expectations.

**B&C Speakers – 1Q15 Results**

| Eu mn | | 1Q14A | 1Q15A | YoY growth | 1Q15E | Act vs Est |
|---|---|---|---|---|---|---|
| **Net sales** | | **7.9** | **8.6** | **9.4%** | **8.4** | **2.8%** |
| **Value of Production** | | **7.9** | **8.7** | | **8.4** | |
| Inventory Changes | | (0.3) | 0.9 | | **0.4** | |
| Costs of raw and cons. materials | | (2.6) | (4.3) | 68.5% | (3.9) | |
| | % on net sales | -32.5% | -50.1% | | -46.2% | |
| Labour costs | | (1.3) | (1.5) | 14.8% | (1.3) | |
| | % on net sales | -16.4% | -17.2% | | -15.5% | |
| Cost of services | | (1.6) | (1.8) | 9.9% | (1.6) | |
| | % on net sales | -20.6% | -20.7% | | -19.7% | |
| Other costs | | (0.1) | (0.1) | | (0.1) | |
| **EBITDA** | | **2.0** | **1.9** | **-4.5%** | **1.9** | **-1.1%** |
| | EBITDA margin | 25.4% | 22.1% | | 23.0% | |
| D&A | | (0.2) | (0.2) | | (0.2) | |
| Provisions | | (0.0) | (0.0) | | (0.1) | |
| **EBIT** | | **1.8** | **1.7** | **-4.1%** | **1.6** | **4.7%** |
| | EBIT margin | 22.6% | 19.8% | | 19.4% | |
| Net Financials | | 0.0 | 0.0 | | 1.2% | |
| **Pre tax profit** | | **1.8** | **1.7** | **-3.1%** | **1.6** | **4.7%** |
| Taxes | | (0.6) | (0.6) | | (0.6) | |
| **Net Profit** | | **1.0** | **1.1** | | **1.1** | |
| Minorities | | 0.0 | 0.0 | | 0.0 | |
| **Group Net Profit** | | **1.0** | **1.1** | **2.4%** | **1.1** | **-1.4%** |
| | Net margin | 13.3% | 12.4% | | 13.0% | |
| **Net Cash** | | **1.0** | **3.2** | **229.9%** | **3.0** | **8.4%** |

Source: Company Data and Intermonte SIM estimates

# Change In Estimates

**B&C Speakers – Change in Estimates**

| | 2015E | | | 2016E | | | 2017E | | |
|---|---|---|---|---|---|---|---|---|---|
| **(Eu mn)** | **New** | **Old** | **%** | **New** | **Old** | **%** | **New** | **Old** | **%** |
| **Net Sales** | **36.2** | **35.5** | **1.9%** | **38.5** | **38.0** | **1.5%** | **40.6** | **40.0** | **1.4%** |
| YoY growth | 10.4% | 8.3% | | 6.5% | 7.0% | | 5.3% | 5.4% | |
| **EBITDA** | **8.3** | **8.7** | **-4.7%** | **9.0** | **9.5** | **-5.4%** | **9.6** | **10.2** | **-5.3%** |
| YoY growth | 11.1% | 16.6% | | 8.1% | 8.9% | | 7.0% | 6.9% | |
| EBITDA margin | 23.0% | 24.6% | | 23.4% | 25.1% | | 23.7% | 25.4% | |
| **EBIT** | **7.4** | **7.8** | **-5.3%** | **8.1** | **8.6** | **-6.0%** | **8.7** | **9.3** | **-5.8%** |
| EBIT margin | 20.5% | 22.1% | | 21.0% | 22.7% | | 21.5% | 23.2% | |
| **Pre tax profit** | **7.5** | **7.9** | **-5.3%** | **8.2** | **8.7** | **-6.0%** | **8.8** | **9.4** | **-5.9%** |
| **Group Net Profit** | **5.2** | **5.5** | **-5.3%** | **5.7** | **6.0** | **-6.0%** | **6.1** | **6.5** | **-5.9%** |
| **NFP** | **2.5** | **2.5** | **-1.1%** | **3.1** | **3.2** | **-2.9%** | **4.1** | **4.3** | **-2.7%** |

Source: Company Data and Intermonte SIM estimates

# Valuation

**B&C Speakers – Valuation**

| | | | Details |
|---|---|---|---|
| DCF | Eu ps | 8.7 | WACC 7.4%, g 1.5% |
| EV/ROACE | Eu ps | 7.7 | |
| **Target Price** | **Eu ps** | **8.2** | |
| Current Price | Eu ps | 7.5 | |
| Potential upside/(downside) | | 9% | |

Source: Company Data and Intermonte SIM estimates

**B&C Speakers – Multiples At Target Price**

| | 2015 | 2016 | 2017 |
|---|---|---|---|
| **P/E** | 18.0 | 16.5 | 15.3 |
| **EV/SALES** | 2.5 | 2.3 | 2.2 |
| **EV/EBITDA** | 10.9 | 10.0 | 9.3 |
| **EV/EBIT** | 12.3 | 11.2 | 10.2 |

Source: Company Data and Intermonte SIM estimates

**B&C SPEAKERS Peer Group - Absolute Performances**

| Stock | Price | Ccy | Mkt cap | 1M | 3M | 6M | YTD | 1Y | 2Y |
|---|---|---|---|---|---|---|---|---|---|
| **B&C SPEAKERS** | **7.5** | **EUR** | **82.6** | **-2.7%** | **10.4%** | **39.2%** | **25.1%** | **-1.3%** | **91.9%** |
| DOLBY | 39.8 | USD | 4,079.8 | 4.0% | 0.7% | -8.4% | -7.7% | 1.1% | 15.4% |
| DTS | 32.6 | USD | 576.8 | -9.6% | 13.7% | -1.3% | 6.0% | 93.0% | 67.3% |
| HARMAN INT | 126.4 | USD | 8,993.6 | -7.4% | -7.3% | 18.5% | 18.5% | 19.7% | 151.0% |
| LOEWE | --- | EUR | --- | --- | --- | --- | --- | --- | --- |
| **Mean performance** | | | | **-3.9%** | **4.4%** | **12.0%** | **10.5%** | **28.1%** | **81.4%** |
| **Italy Fixed** | 23,548.6 | EUR | 318,097 | -0.9% | 11.1% | 24.2% | 23.9% | 11.2% | 36.0% |

Source: FactSet

**B&C SPEAKERS Peer Group - Multiple Comparison**

| Stock | Price | Ccy | Mkt cap | EV/Sales 2015 | EV/Sales 2016 | EV/Ebitda 2015 | EV/Ebitda 2016 | EV/Ebit 2015 | EV/Ebit 2016 | P/E 2015 | P/E 2016 | Div Yield 2015 | Div Yield 2016 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **B&C SPEAKERS** | **7.5** | **EUR** | **82.6** | **2.2** | **2.1** | **9.6** | **8.8** | **10.8** | **9.8** | **15.9** | **14.6** | **4.7%** | **5.1%** |
| DOLBY | 39.8 | USD | 4,079.8 | 3.4 | 3.0 | 9.7 | 8.9 | 15.1 | 12.9 | 25.0 | 23.1 | | 1.0% |
| DTS | 32.6 | USD | 576.8 | 3.2 | 2.6 | 10.0 | 7.8 | 10.8 | 7.8 | 19.2 | 15.3 | 0.0% | 0.0% |
| HARMAN INT | 126.4 | USD | 8,993.6 | 1.6 | 1.4 | 13.8 | 11.2 | 17.4 | 13.6 | 22.4 | 18.6 | 1.1% | 1.2% |
| LOEWE | | EUR | | | | | | | | | | | |
| **Median** | | | | **2.7** | **2.4** | **9.9** | **8.9** | **13.0** | **11.3** | **20.8** | **17.0** | **1.1%** | **1.1%** |

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

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Explanation of our ratings system:
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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Intermonte's distribution of stock ratings is as follows:

BUY: 24.36%
OUTPERFORM: 38.46%
NEUTRAL: 31,69%
UNDERPERFORM: 4.49%
SELL: 0.64%

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (32 in total) is as follows:

BUY: 21.88%
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: | OUTPERFORM |
| Current Target (Eu): | 8.50 | Previous Target (Eu): | 8.50 |
| Current Price (Eu): | 7.50 | Previous Price (Eu): | 7.97 |
| Date of report: | 15/05/2015 | Date of last report: | 16/03/2015 |

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