B&C Speakers

MEDIOBANCA SECURITIES

13 September 2022 | Industrials | DCF | Change in Recommendation

Price: € 11.80 | Target price: € 15.70 (from € 14.50) | Outperform (from Neutral)

Business recovery to fuel sound EPS momentum

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Record demand propels unprecedented results…

On September 9, B&C Speakers reported its 1H22 results, which highlighted a strong acceleration in the recovery pace, with sales and EBITDA largely exceeding their pre-covid levels, as strong volumes and pricing offset cost inflation. Looking at 2Q22, the company reported sales €20m, up +77% YoY (+40% vs 2Q19). Growth was driven by all the geographies, with Europe outperforming (+137% YoY), followed by North America (+69% YoY), Latam (+58% YoY) and Italy (+42% YoY). In 1H22, revenues grew by +91% YoY, with volumes (+56% YoY and +16% vs 1H19) and pricing/mix accounting for the remaining part. EBITDA was €4.3m, increasing by +69% YoY and with the margin reaching 21.5%, highlighting 1 p.p. of margin dilution vs 2Q21 due to cost inflation and unfavourable FX. Net profit reached €2.2m, increasing +51% YoY. Net debt was €13.7m, increasing from €3.9m reported in FY21, penalised by NWC absorption.

…supporting margin expansion and above-average growth visibility

The management expects FY22 revenues to close at a level never reached before by the group, anticipating a 2H22 trend that should outperform the performance achieved in 1H22, with operating leverage supporting margin expansion despite cost inflation. Underlying demand trends remain extremely solid and is expected to provide above-average visibility over future growth prospects. After pandemic disruption, the live entertainment industry is experiencing a flourishing recovery, with pent-up demand for live events pushing the business to record levels even amid the rising inflationary pressure. After the catch-up with pre-covid activities in 2022, major industry operators such as Live Nation see the addressable market posed to keep growing in the medium term, supported by the strong pipeline of events ahead.

FY22-24E EPS raised by 38% to factor in the stronger underlying trends

Following the release, we increased our FY22-24E EPS by 38% to reflect the strong 1H22 trend and the new outlook. For FY22E, we project revenues to increase by 68% YoY to reach €76m, >30% above '19 level, with EBITDA margin reaching 22.7% (from previous 20.5%), supported by volumes and pricing more than offsetting cost inflation. Going forward, we anticipate revenues to grow by high-single digit in FY23E, reflecting the rich pipeline ahead, before moderating the pace to low-single digit in FY24E, with operating leverage driving EBITDA margin at 23.2% in FY24E. On cash generation, we factor in higher NWC absorption in FY22E, projecting the company to reach a €8.2m net debt in FY22E, while business normalisation should support cash generation over FY23-24E, as we anticipate the company to turn cash positive by FY23E.

New TP of €15.7/share. The stock trades at 7x EV/EBITDA: upgrade to O/P

Our TP increases to €15.7/sh. from €14.5/sh. reflecting EPS upgrade partially offset by a revision in our DCF assumptions (WACC increased to 7.5% from 7.0%, g unchanged at 1.5%).Over the past three months, the share price declined by 15%, underperforming Italian Mid Caps. After the double-digit estimates upgrade, the stock trades at 7x EV/EBITDA ('23E), an undemanding level that in our view offers a compelling entry point for a story boasting an above-average visibility on future EPS growth granted by its solid competitive positioning across the resilient and prospering live entertainment industry. Therefore, we upgrade the stock to O/P.

	2021	2022E	2023E	2024E
EPS Adj (€)	0.47	0.89	1.11	1.15
DPS (€)	0.32	0.45	0.47	0.50
BVPS (€)	2.58	3.16	3.82	4.50
EV/Ebitda(x)	15.4	8.0	6.9	6.3
P/E adj (x)	25.2	13.2	10.6	10.3
Div.Yield(%)	2.7%	3.8%	4.0%	4.2%
OpFCF Yield(%)	-0.1%	-0.6%	10.3%	10.7%

Market Data	
Market Cap (€m)	130
Shares Out (m)	11
Research & Development Int. (%)	54%
Free Float (%)	46%
52 week range (€)	14.35-10.50
Rel Perf vs STOXX EUROPE 600 BANKS E (%)	
-1m	4.0%
-3m	-8.5%
-12m	10.3%
21dd Avg. Vol.	1,888
Reuters/Bloomberg	I:BCS / BEC IM

Source: Mediobanca Securities

Valuation Matrix

Profit & Loss account (€ m)	2021	2022E	2023E	2024E
Turnover	45	76	82	83
Turnover growth %	41.5%	67.8%	7.5%	1.6%
EBITDA	9	17	19	19
EBITDA margin (%)	19.0%	22.7%	22.9%	23.2%
EBITDA growth (%)	68.1%	99.6%	8.6%	2.9%
Depreciation & Amortization	-2	-2	-2	-2
EBIT	7	15	17	17
EBIT margin (%)	14.6%	19.9%	20.3%	20.7%
EBIT growth (%)	nm	nm	9.7%	3.2%
Net Fin.Income (charges)	0	-2	-0	-0
Non-Operating Items	0	0	0	0
Extraordinary Items	0	0	0	0
Pre-tax Profit	7	13	16	17
Tax	-2	-3	-4	-4
Tax rate (%)	25.4%	25.0%	25.0%	25.0%
Minorities	0	0	0	0
Net Profit	5	10	12	13
Net Profit growth (%)	nm	95.9%	24.1%	3.2%
Adjusted Net Profit	5	10	12	13
Adj. Net Profit growth (%)	nm	92.4%	24.1%	3.2%

Multiples	2021	2022E	2023E	2024E
P/E Adj.	25.2	13.2	10.6	10.3
P/CEPS	23.2	12.8	10.0	9.6
P/BV	4.5	3.7	3.1	2.6
EV/ Sales	2.9	1.8	1.6	1.5
EV/EBITDA	15.4	8.0	6.9	6.3
EV/EBIT	20.1	9.1	7.8	7.1
EV/Cap. Employed	4.1	3.2	3.1	3.0
Yield (%)	2.7%	3.8%	4.0%	4.2%
OpFCF Yield(%)	-0.1%	-0.6%	10.3%	10.7%
FCF Yield (%)	1.1%	0.8%	11.2%	10.9%

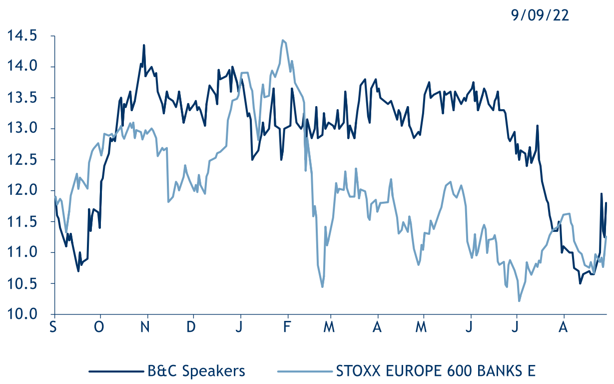
Per Share Data (€)	2021	2022E	2023E	2024E
EPS	0.46	0.89	1.11	1.15
EPS growth (%)	nm	95.9%	24.1%	3.2%
EPS Adj.	0.47	0.89	1.11	1.15
EPS Adj. growth (%)	nm	92.4%	24.1%	3.2%
CEPS	0.51	0.92	1.18	1.23
BVPS	2.58	3.16	3.82	4.50
DPS Ord	0.32	0.45	0.47	0.50

Balance Sheet (€ m)	2021	2022E	2023E	2024E
Working Capital	22	32	31	31
Net Fixed Assets	11	10	10	10
Total Capital Employed	32	42	41	41
Shareholders' Funds	28	35	42	50
Minorities	0	0	0	0
Provisions	-0	-1	-1	-1
Net Debt (-) Cash (+)	-4	-8	0	8

Key Figures & Ratios	2021	2022E	2023E	2024E
Avg. N° of Shares (m)	11	11	11	11
EoP N° of Shares (m)	11	11	11	11
Avg. Market Cap. (m)	129	130	130	130
Enterprise Value (m)	133	137	129	121
Adjustments (m)	-0	-1	-1	-1
Labour Costs/Turnover	8%	5%	5%	6%
Depr.&Amort./Turnover	4%	3%	3%	3%
Turnover / Op.Costs	1.2	1.3	1.3	1.3
Gearing (Debt / Equity)	14%	24%	-1%	-16%
EBITDA / Fin. Charges	>10	-8.6	-62.2	-64.0
Net Debt / EBITDA	0.5	0.5	0.0	-0.4
Cap.Employed/Turnover	71%	56%	50%	49%
Capex / Turnover	1%	1%	1%	1%
Pay out	70%	50%	43%	43%
ROE	18%	28%	29%	25%
ROCE (pre tax)	20%	36%	40%	42%
ROCE (after tax)	15%	27%	30%	31%

Cash Flow (€ m)	2021	2022E	2023E	2024E
Cash Earnings	6	10	13	14
Working Capital Needs	-5	-10	1	0
Capex (-)	-1	-1	-1	-1
Financial Investments (-)	0	0	0	0
Dividends (-)	-3	-3	-5	-5
Other Sources / Uses	-2	0	0	0
Ch. in Net Debt (-) Cash (+)	-5	-4	8	8

Source: Mediobanca Securities



Source: Mediobanca Securities

1H22: results highlighted a stronger recovery trend

On September 9, B&C Speakers reported its 2Q22 results, which highlighted a pace of recovery well above our expectations, with top-line and EBITDA exceeding their pre-covid level by 40% and 30%, respectively. In the quarter, the company reported:

- Sales €20m, up +77% YoY (+40% vs 2Q19). Growth was driven by all the geographies, with Europe outperforming (+137% YoY), followed by North America (+69% YoY), Latam (+58% YoY) and Italy (+42% YoY). In 1H22, revenues grew by +91% YoY, with volumes (+56% YoY and +16% vs 1H19) and pricing/mix accounting for the remaining part;
- EBITDA was €4.3m, increasing by +69% YoY and with the margin reaching 21.5%, highlighting 1 p.p. of margin dilution vs 2Q21 due to cost inflation and unfavourable FX dynamics;
- Net profit reached €2.2m, increasing +51% YoY;
- Net debt was €13.7m, increasing from €3.9m reported in FY21, penalised by NWC absorption.

On the **outlook**, the management expects FY22 revenues to close at a level never reached before by the group, anticipating a 2H22 trend that should outperform the performance achieved in 1H22.

2Q22 results

€m	2Q22A	2Q21A	YoY chg.	1H22A	1H21A	YoY chg.
Total sales	20.2	11.4	77.1%	37.4	19.6	91.0%
EBITDA	4.3	2.6	69.4%	8.3	3.6	133.6%
EBITDA margin	21.5%	22.5%		22.2%	18.1%	
EBIT	3.8	2.0	86.4%	7.2	2.5	188.1%
EBIT margin	18.7%	17.8%		19.4%	12.8%	
Net profit	2.2	1.5	51.2%	4.4	2.0	119.7%
Net Debt/(Cash)	13.7	(1.5)		13.7	(1.5)	

Source: Mediobanca Securities; B&C Speakers

FY22-24E EPS increased by 38%

Following the release, we increased our FY22-24E EPS by 38%, on average, to reflect the strong 1H22 trend and the new outlook. In details:

- For FY22E, we project revenues to increase by 68% YoY to reach €76m, >30% above '19 level, with EBITDA margin reaching 22.7% (from previous 20.5%), supported by volumes and pricing more than offsetting cost inflation.
- Going forward, we anticipate revenues to grow by high-single digit in FY23E, reflecting the rich pipeline ahead, before moderating the pace to low-single digit in FY24E, with operating leverage driving EBITDA margin at 23.2% in FY24E.
- On cash generation, we factor in higher NWC absorption in FY22E, projecting the company to reach a €8.2m net debt in FY22E, while business normalisation should support cash generation over FY23-24E, as we anticipate the company to turn cash positive by FY23E.

Main changes FY22-24E estimates

€m	New FY22	Old FY22	% chg.	New FY23	Old 2023	% chg.	New FY24	Old 2024	% chg.
Total sales	75.9	60.0	26.4%	81.6	62.7	30.0%	82.9	64.4	28.7%
EBITDA	17.2	12.3	40.0%	18.7	13.7	36.2%	19.2	14.5	32.3%
EBITDA margin	*22.7%*	*20.5%*		*22.9%*	*21.8%*		*23.2%*	*22.6%*	
EBIT	15.1	10.3	47.4%	16.6	11.7	42.0%	17.1	12.5	37.0%
EBIT margin	*19.9%*	*17.1%*		*20.3%*	*18.6%*		*20.7%*	*19.4%*	
Net profit	9.8	7.5	31.7%	12.2	8.5	43.1%	12.6	9.1	37.9%
Net Debt/(Cash)	8.2	1.9		(0.2)	(1.6)		(8.1)	(6.4)	

Source: Mediobanca Securities

New TP of €15.7/share from €14.5/share

We update our DCF-based valuation, increases the TP to €16.5/sh. from €14.5/sh. which reflects EPS upgrade partially offset by a revision in our DCF assumptions (WACC increased to 7.5% from 7.0%, g unchanged at 1.5%).

Our DCF analysis is based on the new following assumptions:

- A WACC of 7.5%, increased from previous 7.0% to factor in a higher cost of equity;
- A terminal growth rate of 1.5% (unchanged);
- A 1-year deceleration in 2025E, where we factored in a potential slowdown in the business cycle coupled with a normalisation in pricing environment. In this scenario we simulated a 15% sales contraction with margins going down accordingly.
- We considered 2028E as the reference year for computing the terminal value of our model, assuming a recovery of the deceleration in 2025E with an exit EBIT margin close to 20%.

B&C - DCF-based valuation (€m)

DFC	2022E	2023E	2024E	2025E	2026E	2027E	2028E	TV
NOPLAT	11.3	12.4	12.8	8.9	10.1	10.6	10.6	
D&A ex-IFRS16	0.9	0.9	0.9	0.9	0.9	0.9	0.9	
Operating Cash Flow	12.2	13.3	13.7	9.8	11.0	11.5	11.6	
Capex/Acquisitions	-0.6	-0.7	-0.8	-0.6	-0.9	-0.9	-0.9	
Change in NWC	-10.3	1.0	0.3	-0.2	0.1	-0.3	-0.1	
Cash flow to firm	**1.3**	**13.6**	**13.2**	**9.0**	**10.2**	**10.3**	**10.5**	**179.3**
Time adjustment	1	2	3	4	5	6	7	7
Discount factor	1.00	0.93	0.87	0.81	0.75	0.70	0.65	0.65
Discounted cash flow to firm	**1.3**	**12.7**	**11.5**	**7.3**	**7.6**	**7.2**	**6.8**	**116.5**

Source: Mediobanca Securities

B&C Speakers - summary DCF

(€m)	
Perpetual growth rate	1.5%
WACC	7.5%
Terminal value end of projection period	179.3
Discounting rate of terminal value	0.65
Discounted terminal value	**116.5**
Cumulated DFOCF	**54.3**
Enterprise Value	**170.8**
Net cash as of 31/12/21 excluding IFRS-16	0.6
Minorities	0.0
Treasury shares	1.6
Pensions liabilities	0.1
Equity Value	**173.1**
Value per share (€)	**15.7**

Source: Mediobanca Securities

The sensitivity of our DCF analysis to different long-term growth rates and different WACC levels is provided below.

DCF sensitivity to WACC and g

Terminal growth rate	WACC 6.7%	7.0%	7.2%	7.5%	7.7%	8.0%	8.2%
0.75%	15.7	15.2	14.8	**14.5**	14.1	13.8	13.5
1.00%	16.1	15.7	15.3	**14.9**	14.5	14.2	13.9
1.25%	16.7	16.2	15.7	**15.3**	14.9	14.5	14.2
1.50%	**17.3**	**16.7**	**16.2**	**15.7**	**15.3**	**14.9**	**14.5**
1.75%	17.9	17.3	16.7	**16.2**	15.8	15.3	14.9
2.00%	18.6	17.9	17.3	**16.8**	16.3	15.8	15.4
2.25%	19.4	18.7	18.0	**17.4**	16.8	16.3	15.8

Source: Mediobanca Securities

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Proportion of all recommendations relating to the last quarter					
Outperform	Neutral	Underperform	Not Rated	Restricted	Coverage suspended
45.08%	46.63%	5.70%	0.00%	2.59%	0.00%

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Outperform	Neutral	Underperform	Not Rated	Restricted	Coverage suspended
1.49%	1.37%	0.00%	0.00%	0.00%	0.00%

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INITIAL COVERAGE

B&C Speakers initial coverage as of 10/01/2020.

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