

## Caleffi (CLF.IM)

Sector: Textiles/Household

1H2017: Good performance of luxury, Caleffi slows down

September 11<sup>th</sup>, 2017

### Investment Overview

- Caleffi is one of the leading Italian players in the textile household market. The company focuses on the value-added phases of the value chain, guarantees the best quality of its products and a high positioning of its brands.
- In the 1H2017 the subsidiary Mirabello Carrara Spa opened a new sales outlet at the *Puglia Outlet Village* in Molfetta (BA) and the new concept store *LA CASA DEI SOGNI* by Caleffi was opened in Torino Outlet Village in Settimo Torinese (TO).
- With reference to growth drivers as well as luxury segment, direct stores and e-commerce; the focus is on the issues of health, well-being and respect for the environment, increasingly crucial in consumer choices.
- On July 2017, the Second Exercise Period of the Warrants Caleffi S.p.A. 2015-2020 ended; 2,643 warrants were exercised, equivalent to 3,568€. As a result of the subscriptions, the new Caleffi share capital amounts to 8,126,602€, represented by 15,628,081 ordinary shares.

### Latest results

- In the 1H2017 Caleffi Group registered very positive results with regards to luxury division, whereas Caleffi brands has remained stable with respect to the previous year: consolidated revenues increased 3.5% to 27.2M€, EBITDA was positive for 0.75M€. The net result was lined up to 1H2016.
- The net financial position was negative (debt) for 12.6M€, improving both in comparison with FY2016 and 1H2016.

### Valuation

- The Group business strategy focused on the opening of new shops with Caleffi brand and luxury license agreements distributed mainly on the foreign markets confirms its success. In the light of the results of the first half of the year and of the performance of order picking for the autumn / winter season, the Company expects economic and financial results in line with FY2016.
- In light of 1H2017 and Company guidance, we confirm the positive outlook and a fair value equal to 1.76€ per share.

### Risks

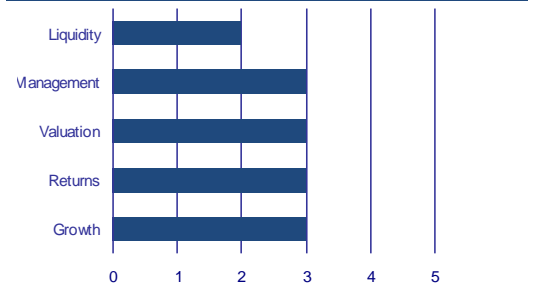
- Caleffi's sales are highly dependent on the general level of consumption and to a lower extent on the real estate market, the Company results depend partly on the volatility of the macroeconomic environment.

Forecast	16A	17E	18E	19E
Sales (€M)	59.7	60.3	63.7	67.5
EBITDA (€M)	2.9	3.0	3.6	4.5
NET RESULT	0.5	0.4	0.8	1.4
EPS (€)	0.03	0.02	0.05	0.09
Valuation	16A	17E	18E	19E
SHARE PRICE	1.11	1.43	1.92	2.10
EV/EBITDA	11.3	12.8	12.7	10.8
P/E	36.9	62.3	37.5	24.0
Dividend yield	1.8%	0.6%	0.9%	1.5%

### Key Data

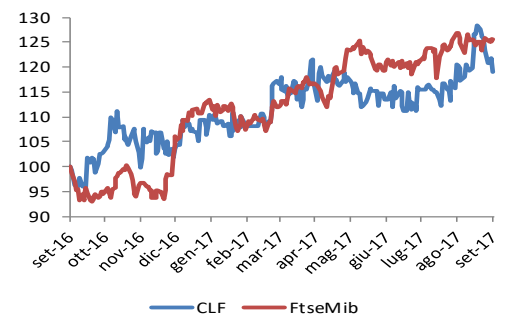
Price (€)	1.4
Market cap (€M)	22.3
Equity Value (€M)	27.5
<b>Fair Value (€)</b>	<b>1.76</b>
P/E LTM	36.9
P/E TTM	42.9

### Investment Profile from 1 worst to 5 best



### Stock data

Ticker Bloomberg	CLF.IM
N° of shares (M)	15.6
Free float	44.9%
Main shareholder	Giuliana Caleffi (40.4%)
Daily trading volume	19,559 shares



Share Price perf (%)	3M	6M	1Y
Absolute	4.9%	2.2%	19.0%
Rel. to FtseMib	1.3%	-9.8%	-6.6%

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## Latest results (1H2017)

1H2017 results are very positive for the luxury segment, the subsidiary Mirabello Carrara S.p.a. has achieved excellent results in terms of turnover and marginality. Caleffi S.p.a. recorded results slight declining compared to the first half of 2016 due to the contraction in the promotional channel which is structurally characterized by a non-recurring trend and a decrease in sales in the Italian market that in the first six months of the year was less successful than 2016.

In particular, international markets have returned to grow thanks to the stabilization of the geo-political situation, resulting in the positive performance of the luxury sector.

- In the 1H2017 consolidated net revenues grew 3.5% yoy to 27.2M€, driven by the recovery in foreign markets (+5.7%, 3.4M€), the domestic sales increased 3.1% to 23.6M€; thus, the incidence of foreign turnover on the overall figure was 13.4%. Mirabello Carrara S.p.a. recorded revenues for 9.2M€, +26% yoy.
- The 1H2017 EBITDA was positive for approx. 0.8M€ (2.8% EBITDA margin, approx. 100 bps lower than the previous year). During the semester, the personnel cost amounted to 4.4M€ with an impact on sales of 16.3%, with an increase of 0.2M€ compared with June 30<sup>th</sup>, 2016 because of the recruitment of new temporary employees.
- The 1H2017 value of the EBIT was essentially at break-even and equal to 0.01M€, after D&A for 0.7M€, slightly decreasing in comparison with 1H2016. The Net Result was negative (loss) for to 0.2M€.
- The net financial position is negative (debt) for an amount of 12.6M€, improving in comparison with December 31<sup>st</sup> 2016 (13M€) also thanks to lower absorption of resources for working capital. The NFP includes also bond for 3.5M€.

M€	1H2017	1H2016	% var
<b>Revenues</b>	<b>27.2</b>	<b>26.3</b>	<b>+3.5%</b>
<b>Ebitda</b>	<b>0.75</b>	<b>0.96</b>	<b>-21.9%</b>
<i>Ebitda margin</i>	2.8%	3.7%	
<b>Ebit</b>	<b>0.01</b>	<b>0.21</b>	<b>n.m.</b>
<i>Ebit margin</i>	<i>n.m.</i>	0.8%	
	<b>1H2017</b>	<b>FY2016</b>	
<b>Net Financial Position</b>	<b>12.6</b>	<b>13.0</b>	

At June 30<sup>th</sup>, 2017, the Parent Company owns 290,906 treasury shares, equal to 1.86% of the share capital. The Shareholders' Meeting of May 5<sup>th</sup>, 2017 conferred on the BoD, in continuity with the previous Shareholders' Meeting resolution, the authorization to purchase treasury shares up to the limit of the law.

## FINANCIALS

Income statement (€M)	16A	17E	18E	19E
<b>Sales</b>	<b>59.7</b>	<b>60.3</b>	<b>63.7</b>	<b>67.5</b>
COGS	-30.2	-30.4	-31.8	-33.1
Gross Profit	29.6	29.8	31.8	34.4
<b>EBITDA</b>	<b>2.9</b>	<b>3.0</b>	<b>3.6</b>	<b>4.5</b>
Depreciation, Amortization	-1.6	-1.7	-1.7	-1.7
<b>EBIT</b>	<b>1.4</b>	<b>1.3</b>	<b>2.0</b>	<b>2.8</b>
Net Financial Results	-0.5	-0.5	-0.5	-0.5
Income tax	-0.4	-0.4	-0.6	-0.9
<b>Net result</b>	<b>0.5</b>	<b>0.4</b>	<b>0.8</b>	<b>1.4</b>
<b>EPS (€)</b>	<b>0.03</b>	<b>0.02</b>	<b>0.05</b>	<b>0.09</b>
<b>DPS (€)</b>	<b>0.02</b>	<b>0.01</b>	<b>0.02</b>	<b>0.03</b>

Margin (%)	16A	17E	18E	19E
Gross Margin	49.5%	49.5%	50.0%	51.0%
EBITDA Margin	4.9%	4.9%	5.7%	6.6%
EBIT Margin	2.3%	2.2%	3.1%	4.2%
Net Margin	0.8%	0.6%	1.3%	2.0%

Growth (%)	16A	17E	18E	19E
Sales growth	6.9%	0.9%	5.7%	6.0%
EBITDA growth	-5.3%	1.0%	22.1%	23.3%
EBIT growth	-1.0%	-3.6%	49.8%	42.9%
Net growth	28.1%	-23.6%	123.3%	70.2%

Cash Flow statement (€M)	16A	17E	18E	19E
Cash Flow	2.0	2.0	2.5	3.0
+/- Var. Working Capital	-0.1	-0.3	-1.2	-1.4
<b>Operating Cash Flow</b>	<b>1.9</b>	<b>1.7</b>	<b>1.2</b>	<b>1.6</b>
Op. Cash Flow / Sales	3.2%	2.9%	1.9%	2.3%
Capex	-0.8	-1.5	-1.0	-0.8
<b>FCF</b>	<b>1.1</b>	<b>0.2</b>	<b>0.2</b>	<b>0.8</b>
FCF / Sales	1.8%	0.4%	0.3%	1.1%

Stock data	16A	17E	18E	19E
Number of Shares (M)	15.6	15.6	15.6	15.6
Avg share price over LTM (€)	1.11	1.43	1.92	2.10
<b>Market cap (€M)</b>	<b>17.3</b>	<b>22.3</b>	<b>30.0</b>	<b>32.8</b>

Balance sheet (€M)	16A	17E	18E	19E
FIXED ASSETS	8.3	8.1	7.5	6.6
WC	22.7	23.0	24.2	25.6
<b>CAPITAL EMPLOYED</b>	<b>31.0</b>	<b>31.1</b>	<b>31.7</b>	<b>32.3</b>
EQUITY	14.4	14.6	15.2	16.0
MINORITY INTEREST	0.4	0.4	0.4	0.4
PROVISIONS	0.4	0.4	0.4	0.4
PENSIONS (e.g. TFR)	2.8	2.8	2.8	2.8
NET DEBT	13.0	12.9	13.0	12.7
<b>CAPITAL INVESTED</b>	<b>31.0</b>	<b>31.1</b>	<b>31.7</b>	<b>32.3</b>

Ratios	16A	17E	18E	19E
<b>ROCE after tax</b>	<b>2.9%</b>	<b>2.8%</b>	<b>4.1%</b>	<b>5.7%</b>
ROE	3.3%	2.5%	5.3%	8.5%
<b>Capital Turnover</b>	<b>2.1</b>	<b>2.1</b>	<b>2.2</b>	<b>2.3</b>
<b>Net Debt / EBITDA</b>	<b>5.4</b>	<b>5.3</b>	<b>4.4</b>	<b>3.5</b>
Gearing	109.9%	107.4%	104.1%	96.5%
<b>WC / Sales</b>	<b>38.0%</b>	<b>38.1%</b>	<b>38.0%</b>	<b>38.0%</b>
Amortization / Sales	2.6%	2.7%	2.6%	2.4%
<b>Capex / Sales</b>	<b>1.4%</b>	<b>2.5%</b>	<b>1.6%</b>	<b>1.2%</b>
EPS growth	28%	-24%	123%	70%
<b>PEG</b>	<b>1.3</b>	<b>-2.6</b>	<b>0.3</b>	<b>0.3</b>

Valuation	16A	17E	18E	19E
<b>EV/Sales</b>	<b>0.56</b>	<b>0.63</b>	<b>0.72</b>	<b>0.71</b>
<b>EV/EBITDA</b>	<b>11.3</b>	<b>12.8</b>	<b>12.7</b>	<b>10.8</b>
EV/EBIT	24.4	29.0	23.3	17.2
<b>P/E</b>	<b>36.9</b>	<b>62.3</b>	<b>37.5</b>	<b>24.0</b>
P/B	1.20	1.53	1.98	2.04
<b>EV/CE</b>	<b>1.18</b>	<b>1.35</b>	<b>1.59</b>	<b>1.64</b>
P/FCF	15.9	93.4	138.5	42.5
<b>FCF Yield</b>	<b>6.3%</b>	<b>1.1%</b>	<b>0.7%</b>	<b>2.4%</b>
<b>Dividend yield</b>	<b>1.8%</b>	<b>0.6%</b>	<b>0.9%</b>	<b>1.5%</b>

Sources: Company data, Twice estimates

## Valuation

In light of 1H2017 financial results and company's prospects, we confirm our outlook. We valued the Company based on 3-year cash flow projections and terminal value computed using *Twice's Sustainable Growth Adjusted P/E* (SGAP) methodology. The model points out a 1.76€ fair value.

Concerning the 3 years' business plan we made the following assumptions:

- Revenues will remain stable in comparison with FY2016 to 60.3M€ as a result of the Caleffi slowdown and marked improvement in Mirabello Carrara performances. For the three-year we foresee a CAGR equal to 5.8%.
- Even at profitability level, for the FY2017 we estimate results in line with the previous year, the EBITDA margin will represent 4.9% of sales; in the 2018 and 2019 the operating profitability should consolidate.
- For the FY2017 we estimate capex equal to 1.5M€ in light of investments already made and planned for the coming months; for the following years, we forecast capex equal to approx. 1M€ per year.
- The working capital will converge towards its normalized value supporting the cash generation.

Cash Flow	FY17	FY18	FY19
<b>Sales</b>	<b>60.3</b>	<b>63.7</b>	<b>67.5</b>
<i>Sales growth</i>	0.9%	5.7%	6.0%
<b>EBIT</b>	<b>1.3</b>	<b>2.0</b>	<b>2.8</b>
<i>Margin</i>	2.2%	3.1%	4.2%
<b>Taxes</b>	<b>-0.4</b>	<b>-0.6</b>	<b>-0.9</b>
<i>Tax rate</i>	-33.0%	-33.0%	-33.0%
<b>NET RESULTS</b>	<b>0.4</b>	<b>0.8</b>	<b>1.4</b>
<b>Depreciation</b>	<b>1.7</b>	<b>1.7</b>	<b>1.7</b>
<i>% of sales</i>	2.7%	2.6%	2.4%
<b>Capex</b>	<b>-1.5</b>	<b>-1.0</b>	<b>-0.8</b>
<i>% of sales</i>	-2.5%	-1.6%	-1.2%
Var. Working Capital	-0.3	-1.2	-1.4
<b>Dividends</b>	<b>0.1</b>	<b>0.3</b>	<b>0.5</b>
<b>Free Cash Flow after dividends</b>	<b>0.1</b>	<b>-0.1</b>	<b>0.3</b>

<b>NET RESULT 2019</b>	<b>1.4</b>
<i>SGA PE</i>	25.5
<b>TV actualized</b>	<b>26.8</b>
Dividends actualized	0.7
<b>Equity value (€M)</b>	<b>27.5</b>
Number of Shares (M)	15.6
<b>Equity value per share (€)</b>	<b>1.76</b>
<i>Upside</i>	23%

Sensitivity analysis		Net result CAGR 2016-2019				
		14.2%	28.6%	42.6%	62.0%	85.5%
Risk premium	5.4%	1.61				7.82
	7.3%		1.66		3.50	
	<b>9.2%</b>			<b>1.76</b>		
	11.7%		0.93		1.95	
	14.9%	0.49				2.22