

Caleffi (CLF.IM)

Sector: Textiles/Household

FY2018: Decreasing turnover due to negative market conditions

April 1st, 2019

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.
- 2018 group results were affected by Italian market negative conditions in Caleffi's core sector, worsened by Group's dependence on domestic market volumes.
- In May 2019, the Group will publish the industrial plan guidelines for the period 2019-21 which will explain the strategic business lines and the external growth opportunities with the purpose to record a positive net result since 2019.

Latest results

- FY2018 consolidated revenues amounted to 50.6M€, down 10% yoy, due to reduction in volumes regarding baby and teen licenses, notwithstanding Caleffi's increasing market share in household textiles domain (7.8% in Italy in 2018). Italian market was still the first source of revenues (92% of turnover).
- Group's Ebitda amounted to 0.6M€ (1.2% margin on sales), the reduction compared to 2017 value was mainly attributable to lower turnover; Ebit recorded a negative value of 1M€ (+0.4M€ in 2017) after D&A costs for 1.6M€ nearly unchanged in comparison with the year before.
- In 2018 the Group recorded a net loss worth 1M€ (-0.1M€ in FY2017).
- Group's Net Financial Position recorded on 31/12/2018 was negative (debt) for 11.4M€; lower financial debts and higher cash availability marked an improvement compared to the negative balance of 14.8M€ of FY2017.

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 suffered in 2018; whereas e-Commerce volumes are fast growing (they doubled compared to last year). The early 2019 numbers recorded by the parent company and Mirabello envisage a positive recovery for this year.
- In light of Caleffi's 2018 results and waiting for the new strategic plan 2019-2021 to be published in May, our SGAP model highlights a fair value of 1.42€.

Risks

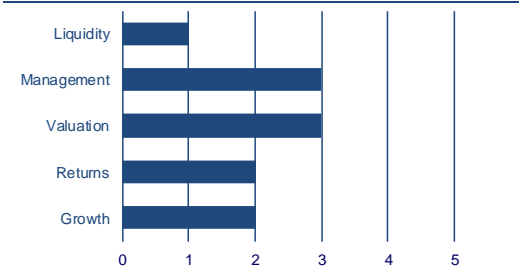
- Caleffi's sales are highly dependent on the general level of consumption and to a lower extent on the real estate market, the Company results depend partly on the volatility of the macroeconomic environment.

Forecast	18A	19E	20E	21E
Sales (€M)	51.1	52.6	54.8	58.1
EBITDA (€M)	0.6	2.3	2.9	3.6
NET RESULT	-0.8	0.1	0.6	1.0
NFP (€)	11.4	10.7	10.4	10.1
Valuation	18A	19E	20E	21E
SHARE PRICE	1.45	1.45	1.58	1.76
EV/EBITDA	59.0	15.8	13.0	11.2
P/E	n.m.	n.m.	44.7	26.8
Dividend yield	0.0%	0.2%	0.8%	1.3%

Key Data

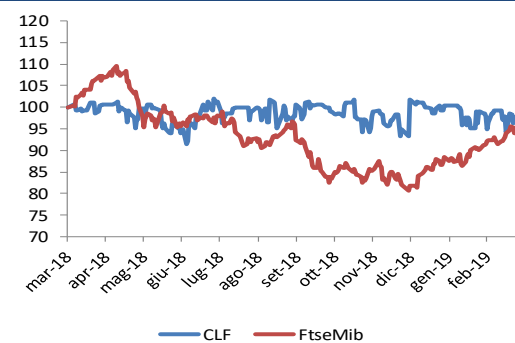
Price (€)	1.45
Market cap (€M)	22.7
Equity Value (€M)	22.2
Fair Value (€)	1.42
P/E LTM	neg.
P/E TTM	neg.

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	5,146 shares



Share Price perf (%)	3M	6M	1Y
Absolute	-4.4%	-3.4%	-2.7%
Rel. to FtseMib	-19.4%	-5.2%	+3.2%

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Latest results (FY2018)

FY2018 results was negatively influenced by a reduction in demand suffered from the domestic household textiles market. Mirabello performance was affected by Italian and foreign market conditions but it is showing positive signals in early 2019.

The parent company Caleffi SpA suffered a reduction in revenues and margins, due to a remarkable decline of baby and teen licenses volumes. During 2018 the parent company invested about 0.35M€ (mainly devoted to the refitting of Noventa point of sale); in addition, it replaced the subsidiary in the management of two shops in Southern Italy (Puglia Outlet Village and La Reggia Designer Outlet).

International markets recorded lower volumes with respect to 2017, amounting to 4.1M€ (vs 6.2M€ last year) which represented 8.2% of total turnover (10% in 2017).

- In the FY2018 consolidated net revenues decreased 10% yoy to 50.6M€, affected by the low group's performance in the domestic market, mainly regarding baby and teen licenses domain. The parent company's turnover was up to 38.4M€ (41.2M€ in FY2017); Mirabello's numbers showed a slight decrease in turnover, but a lower dependence on domestic market.
- Consolidated EBITDA was worth 0.6M€ in virtue of turnover decrease; the main cost items were nearly unchanged, i.e. personnel cost was up to 8.5M€ and services costs amounted to 12.5M€. The incidence on sales was 1.2%.
- The FY2018 value of the EBIT was negative for 0.98M€; D&A costs were worth 1.6M€ (almost unchanged vs 2017). Caleffi's net result was negative for 0.9M€, worsening vs the 0.1M€ net loss recorded in 2017.
- The net financial position is negative (debt) for 11.4M€, improving in comparison with December 31st 2017 (14.8M€) as a result of a positive cash flow generation and lower financial debts.

M€	FY2018	FY2017	% var
Tot Revenues	50.6	56.3	-10%
Ebitda	0.6	2.0	-70%
<i>Ebitda margin</i>	<i>1.2%</i>	<i>3.5%</i>	
Ebit	-0.98	0.4	n.m.
<i>Ebit margin</i>	<i>n.m.</i>	<i>0.7%</i>	
Net Financial Position	11.4	14.8	

At March 30th, 2019, the Parent Company owns 409,948 treasury shares, equal to 2.6% of the share capital, following the Shareholders' Meeting of April 26th, 2018 which 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.

On May 10th 2019, the Bod will submit the request for renewing this authorization to the Shareholder's Meeting.

FINANCIALS

Income statement (€M)					Balance sheet (€M)				
	18A	19E	20E	21E		18A	19E	20E	21E
Sales	51.1	52.6	54.8	58.1	FIXED ASSETS	7.9	6.8	6.0	5.2
COGS	-23.9	-25.8	-26.6	-28.2	WC	20.0	20.5	21.3	22.5
Gross Profit	27.2	26.8	28.2	29.9	CAPITAL EMPLOYED	28.0	27.3	27.3	27.8
EBITDA	0.6	2.3	2.9	3.6	EQUITY	13.0	13.1	13.4	14.1
Depreciation, Amortization	-1.6	-1.6	-1.6	-1.6	MINORITY INTEREST	0.5	0.5	0.5	0.5
EBIT	-1.0	0.7	1.3	2.0	PROVISIONS	0.4	0.4	0.4	0.4
Net Financial Results	-0.1	-0.3	-0.3	-0.3	PENSIONS (e.g. TFR)	2.6	2.6	2.6	2.6
Income tax	0.2	-0.2	-0.4	-0.7	NET DEBT	11.4	10.7	10.4	10.1
Net result	-0.8	0.1	0.6	1.0	CAPITAL INVESTED	28.0	27.3	27.3	27.8
EPS (€)	n.m.	0.01	0.04	0.07					
DPS (€)	0.00	0.00	0.01	0.02					
Margin (%)					Ratios				
	18A	19E	20E	21E		18A	19E	20E	21E
Gross Margin	53.2%	51.0%	51.5%	51.5%	ROCE after tax	n.m.	1.6%	3.2%	4.8%
EBITDA Margin	1.2%	4.3%	5.3%	6.2%	ROE	n.m.	0.9%	4.1%	7.3%
EBIT Margin	-1.9%	1.3%	2.4%	3.4%	Capital Turnover	2.0	2.1	2.2	2.3
Net Margin	-1.6%	0.2%	1.0%	1.8%	Net Debt / EBITDA	22.5	5.8	4.5	3.5
					Gearing	107.6%	101.8%	96.3%	90.0%
Growth (%)					WC / Sales				
	17A	18E	19E	20E		18A	19E	20E	21E
Sales growth	-11.6%	3.1%	4.1%	6.0%	Amortization / Sales	3.1%	3.0%	2.9%	2.8%
EBITDA growth	-68.7%	n.m.	27.6%	24.0%	Capex / Sales	0.7%	0.9%	1.5%	1.4%
EBIT growth	n.m.	-169.0%	92.9%	53.3%	EPS growth	n.m.	-114%	397%	86%
Net growth	n.m.	113.6%	n.m.	86.4%	PEG	n.m.	-1.8	0.1	0.3
Cash Flow statement (€M)					Valuation				
	18A	19E	20E	21E		18A	19E	20E	21E
Cash Flow	0.8	1.7	2.2	2.6	EV/Sales	0.72	0.68	0.69	0.69
+/- Var. Working Capital	4.1	-0.5	-0.8	-1.2	EV/EBITDA	58.9	15.7	13.0	11.2
Operating Cash Flow	4.9	1.2	1.4	1.4	EV/EBIT	neg.	52.7	28.9	20.1
Op. Cash Flow / Sales	9.5%	2.3%	2.5%	2.4%	P/E	n.m.	n.m.	44.7	26.8
Capex	-0.4	-0.5	-0.8	-0.8	P/B	1.74	1.71	1.84	1.96
FCF	4.5	0.7	0.6	0.6	EV/CE	1.44	1.44	1.52	1.60
FCF / Sales	8.8%	1.4%	1.0%	1.1%	P/FCF	5.0	31.1	44.1	45.2
					FCF Yield	20.0%	3.2%	2.3%	2.2%
Stock data					Dividend yield				
	18A	19E	20E	21E		18A	19E	20E	21E
Number of Shares (M)	15.6	15.6	15.6	15.6		0.0%	0.2%	0.8%	1.3%
Avg share price over LTM (€)	1.45	1.45	1.58	1.76					
Market cap (€M)	22.6	22.7	24.7	27.6					
Enterprise Value (€M)	35.9	36.0	37.7	40.3					

Sources: Company data, Twice estimates

Valuation

We valued the Company based on 3 years cash flow projections and terminal value computed using *Twice's Sustainable Growth Adjusted P/E* ("SGAP") methodology. We have introduced in the evaluation a *synthetic index* that aims to measure the ability of the company to generate value for stakeholders sustainable over time that integrates factors with value content (ESG) with financial metrics. The Index determines an increase or decrease of up to 10% of the fair value. The model points out a 1.42€ fair value.

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

- Revenues 2019 will growth slightly (+3% yoy) to approx. 52.6M€ thanks to the positive trend of Mirabello and the keeping of the volumes by Caleffi. For the three-year plan we foresee a CAGR equal to 6.6%.
- At profitability level, for the FY2019 we estimate results improving in comparison with FY2018; the EBITDA margin should return around 4% of sales and the group return to profit; in 2020 and 2021 the operating profitability should consolidate.
- For the FY2019 we estimate capex equal to 0.5M€ and slightly growing for the following years.
- The working capital will converge towards its normalized value supporting the cash generation.

Cash Flow	FY19	FY20	FY21
Sales	52.6	54.8	58.1
<i>Sales growth</i>	3.1%	4.1%	6.0%
EBIT	0.7	1.3	2.0
<i>Margin</i>	1.3%	2.4%	3.4%
Taxes	-0.2	-0.4	-0.7
<i>Tax rate</i>	-33.0%	-33.0%	-33.0%
NET RESULTS	0.1	0.6	1.0
Depreciation	1.6	1.6	1.6
<i>% of sales</i>	3.0%	2.9%	2.8%
Capex	-0.5	-0.8	-0.8
<i>% of sales</i>	-0.9%	-1.5%	-1.4%
Var. Working Capital	-0.5	-0.8	-1.2
Dividends	0.0	0.2	0.4
Free Cash Flow after dividends	0.7	0.4	0.2

	Test response	Weighting
Management accountability	NO	0.11
Management Performance	YES	0.11
M&A Strategy & Execution	NO	-0.08
ESG ranking	YES	0.10
Organic Growth TTM 3y exp	6.7%	-0.12
Operating Leverage	14.73	-0.10
Financial Leverage	0.55	-0.13
ROS (in %) - Growth TTM	0.0%	-0.12
ROI (in %)	1.3%	-0.13
SYNTETHIC SCORE		-0.36

Cost of Equity	11.55%
NET RESULT	1.03
SGA PE	30.34
SYNTHETIC SCORE	-3.60%
SGA PE ADJUSTED	29.25
TV ADJUSTED	30.14
TV ADJ actualized	21.71
Divid actualized	0.45
EQUITY Value (€M)	22.16
Number of Shares (M)	15.63
Equity V. per share ADJ (€)	1.42
<i>Upside/downside</i>	<i>-2.20%</i>

Sensitivity analysis		Net result CAGR 2018-2021				
		487.8%	536.8%	541.2%	650.3%	730.0%
Risk premium	10.8%	0.70				5.66
	11.5%		0.97		3.17	
	11.6%			1.42		
	13.2%		1.15		1.86	
	14.4%	0.68				2.72

SYNTHETIC INDEX EXPLANATION

CRITERIA	WEIGHT	YES/NO	THRESHOLD
1 Management accountability	11%	NO	
2 Management Performance	11%	SI	
3 M&A Strategy & Execution	8%	NO	
4 ESG ranking	10%	NO	
5 Organic Growth <i>TTM 3y exp</i>	12%		>10%
6 Operating Leverage	10%		<2
7 Financial Leverage	13%		>1
8 ROS (in %) - <i>Growth TTM</i>	12%		>10%
9 EBIT/CIN (in %) - ROI	13%		>10%
	100%		

LEGEND

- Management accountability: publication or not of the 3-ys BPlan
- Management Performance: over/under-performance vs. expectations / BPlan / consensus
- M&A Strategy & Execution (past track record in levels of activity e post integration performance)
- ESG ranking (relationship with the territory. open innovation. youth employment. corporate welfare energy efficiency. cybersecurity and sensitive data protection - industrial and commercial)
- Organic Growth TTM; 3ys expectations → (> 10%)
- Operating Leverage → (<2)
- Financial Leverage → (>1)
- ROS (in %) - Growth TTM; 3ys expectations → (> 10%)
- ROI (in %) - Growth TTM; 3ys expectations → (> 10%)