

Caleffi (CLF.IM)

Sector: Textiles/Household

1H2018: Trend strongly impacted by the general decline in consumption September 7th, 2018

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.
- During 2017 four new direct shops with brands Caleffi and Mirabello were opened and the Mirabello store in Milan was closed with the related extraordinary charges. To date the group has 2000 points of sale in Italy, of which 20 direct stores, and 600 points of sale abroad.
- On August 29th 2018, the parent company Caleffi S.p.A. bought 844 treasury shares, in the context of the buyback program started in May 2018; so now it owns 279,440 ordinary shares corresponding to 1.788% of the share capital.

Latest results

- 1H2018 revenues amounted to 22.4M€, down 16.6% yoy. The decrease was mainly due to the sales reduction in the promotional channel; the domestic market was still the main source of revenues (90% of total sales), but its turnover went down by 13.4% compared to June 2017.
- The half-year EBITDA was negative for 741K€, worsening compared to 1H2017; Ebit value was -1.5M€ whilst D&A costs were nearly unchanged around 600K€. The Group recorded a net loss of 1.1M€.
- The net financial position was negative (debt) for 13.2M€, improving in comparison with the position recorded in December 2017.

Valuation

- The Group business strategy focused on Caleffi branded shops and luxury license agreements was not enough to counteract the effects of reducing consumption, especially on the Italian market, which still accounts for 90% of the Group's turnover. For the future we expect the effects of the costs reorganization of Caleffi Spa and any news deriving from M&A transactions.
- In spite of the increase in risk, we confirm a positive outlook and 3-year estimates in line with Company guidance. The renewed SGAP model returns a fair value of 1.54€ per share.

Risks

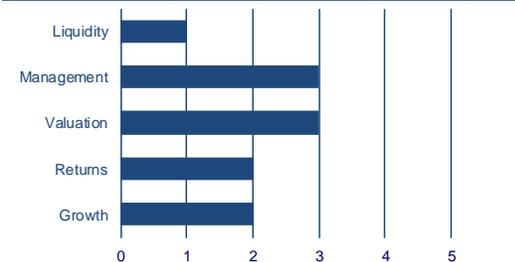
- Caleffi's sales are highly dependent on the general level of consumption and to a lower extent on the real estate market, the Company results depend partly on the volatility of the macroeconomic environment.

Forecast	17A	18E	19E	20E
Sales (€M)	57.8	58.0	61.0	64.7
EBITDA (€M)	2.0	2.0	3.1	4.0
NET RESULT	0.0	-0.1	0.7	1.3
NFP (€)	14.8	12.1	12.3	12.1
Valuation	17A	18E	19E	20E
SHARE PRICE	1.37	1.50	1.74	1.96
EV/EBITDA	19.7	19.1	13.6	11.4
P/E	n.m.	n.m.	40.2	24.0
Dividend yield	0.0%	0.0%	0.9%	1.5%

Key Data

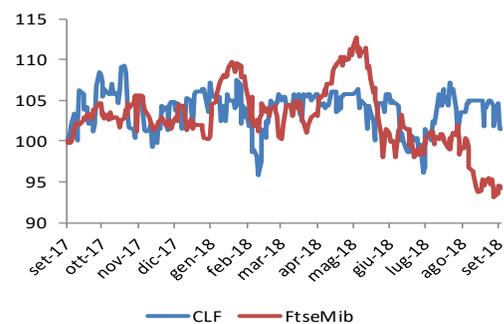
Price (€)	1.50
Market cap (€M)	23.4
Equity Value (€M)	24.0
Fair Value (€)	1.54
P/E LTM	neg.
P/E TTM	neg.

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	13,126 shares



Share Price perf (%)	3M	6M	1Y
Absolute	-4.1%	-3.4%	1.4%
Rel. to FtseMib	2.4%	2.2%	6.9%

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Latest results (1H2018)

1H2018 results were negative for the house linens fashion segment because of a general demand reduction concerning this market whilst the luxury division reduced its turnover as a consequence of the strong competition coming in particular from low-quality products. The subsidiary Mirabello Carrara S.p.A. suffered a remarkable decrease in turnover but the profitability results were stable, forecasting a recovery in the second half of the year. Caleffi S.p.A. recorded a turnover's decrease determined by disappointing market conditions and marked a net loss of 1.1M€.

The incidence of International markets on turnover reduced to 10.2%, compared to a 13.6% incidence recorded on 1H2017.

- In the first half of 2018 consolidated revenues were up to 22.4M€, lower than 1H2017 result; the reduction was reasoned by lower sales in the promotional channel and bad performance of baby and teen licenses. The Group performance was influenced by the seasonality of the home fashion sector and a general negative trend regarding that market.
- The 1H2018 EBITDA was negative for 741K€ (worsening compared to the positive value of 718K€ of the previous year). During the year, the personnel cost amounted to 4.3M€ with an impact on sales of 19.3%. Net operating profit (Ebit) was negative for 1.5M€, after D&A costs worth 600K€ mainly regarding physical assets. Ebit worsened with respect to 1H2017, when it was approx. at break-even.
- The net loss recorded on June 30th 2018 was worth 1.1M€, compared to the loss of 247K€ of the 2017 first semester.
- The net financial position is negative (debt) for an amount of 13.2M€, improving in comparison with December 31st 2017 (14.8M€). The period was concerned by a reduction of NWC related to the turnover's decrease.

M€	1H2018	1H2017	% var
Tot Revenues	22.4	26.8	-16.6%
Ebitda	-0.7	0.7	n.m.
<i>Ebitda margin</i>	-3.3%	2.7%	
Ebit	-1.5	-0.02	n.m.
<i>Ebit margin</i>	-6.7%	-0.07%	
Net Financial Position	13.2	12.6	

At September 7th, 2017, the Parent Company owns 279,440 treasury shares, equal to 1.78% of the share capital. The Shareholders' Meeting of April 26th, 2018 conferred on the BoD, the authorization to purchase treasury shares up to the limit of the law.

FINANCIALS

Income statement (€M)	17A	18E	19E	20E
Sales	57.8	58.0	61.0	64.7
COGS	-28.6	-28.7	-29.9	-31.4
Gross Profit	29.2	29.3	31.1	33.3
EBITDA	2.0	2.0	3.1	4.0
Depreciation, Amortization	-1.6	-1.6	-1.6	-1.6
EBIT	0.4	0.5	1.5	2.5
Net Financial Results	-0.3	-0.4	-0.4	-0.4
Income tax	-0.1	-0.2	-0.5	-0.8
Net result	0.0	-0.1	0.7	1.3
EPS (€)	n.m.	n.m.	0.04	0.08
DPS (€)	0.00	0.00	0.02	0.03
Margin (%)	17A	18E	19E	20E
Gross Margin	50.5%	50.5%	51.0%	51.5%
EBITDA Margin	3.4%	3.5%	5.1%	6.2%
EBIT Margin	0.7%	0.8%	2.5%	3.8%
Net Margin	0.0%	-0.2%	1.1%	2.0%
Growth (%)	17A	18E	19E	20E
Sales growth	-3.3%	0.4%	5.3%	5.9%
EBITDA growth	-32.4%	1.2%	54.5%	29.4%
EBIT growth	-72.2%	20.2%	240.1%	58.8%
Net growth	-102.6%	n.m.	583.6%	89.4%
Cash Flow statement (€M)	17A	18E	19E	20E
Cash Flow	1.6	1.4	2.2	2.8
+/- Var. Working Capital	-1.4	2.0	-1.4	-1.4
Operating Cash Flow	0.2	3.4	0.8	1.4
Op. Cash Flow / Sales	0.3%	5.9%	1.3%	2.2%
Capex	-0.8	-0.7	-0.8	-0.8
FCF	-0.7	2.7	0.0	0.6
FCF / Sales	-1.1%	4.7%	0.0%	1.0%
Stock data	17A	18E	19E	20E
Number of Shares (M)	15.6	15.6	15.6	15.6
Avg share price over LTM (€)	1.37	1.50	1.74	1.96
Market cap (€M)	21.4	23.4	27.1	30.7
Balance sheet (€M)	17A	18E	19E	20E
FIXED ASSETS	8.7	7.9	7.1	6.4
WC	24.1	22.1	23.5	24.9
CAPITAL EMPLOYED	32.9	30.0	30.6	31.3
EQUITY	14.4	14.3	14.7	15.5
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	14.8	12.1	12.3	12.1
CAPITAL INVESTED	32.9	30.0	30.6	31.3
Ratios	17A	18E	19E	20E
ROCE after tax	0.8%	1.0%	3.3%	5.2%
ROE	n.m.	n.m.	4.6%	8.2%
Capital Turnover	1.9	2.1	2.2	2.3
Net Debt / EBITDA	8.9	7.4	4.9	3.7
Gearing	122.0%	104.0%	102.4%	95.7%
WC / Sales	41.8%	38.1%	38.5%	38.5%
Amortization / Sales	2.8%	2.7%	2.5%	2.4%
Capex / Sales	1.4%	1.2%	1.3%	1.2%
EPS growth	neg.	n.m.	neg.	89%
PEG	n.m.	n.m.	-0.1	0.3
Valuation	17A	18E	19E	20E
EV/Sales	0.67	0.66	0.69	0.70
EV/EBITDA	19.7	19.1	13.6	11.4
EV/EBIT	102.9	83.8	27.2	18.5
P/E	n.m.	n.m.	40.2	24.0
P/B	1.48	1.64	1.84	1.97
EV/CE	1.29	1.40	1.51	1.60
P/FCF	n.m.	8.5	n.m.	48.6
FCF Yield	-3.1%	11.8%	0.0%	2.1%
Dividend yield	0.0%	0.0%	0.9%	1.5%

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 applied to 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 1.54€ fair value.

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

- Revenues 2018 will remain in line with FY2017 to approx. 58M€ as a result of the general economic context slowdown. For the three-year we foresee a CAGR equal to 5.6%.
- At profitability level. for the FY2018 we estimate results in line with FY2017. thanks to cost restraint policies; the EBITDA margin will represent approx. 3.5% of sales; in the 2019 and 2020 the operating profitability should return to grow.
- For the FY2018 we estimate capex equal to 0.7M€ as well as for the following years only maintenance investments are envisaged.
- The working capital will converge towards its normalized value supporting the cash generation.

Cash Flow	FY18	FY19	FY20
Sales	58.0	61.0	64.7
<i>Sales growth</i>	0.4%	5.3%	5.9%
EBIT	0.5	1.5	2.5
<i>Margin</i>	0.8%	2.5%	3.8%
Taxes	-0.2	-0.5	-0.8
<i>Tax rate</i>	-33.0%	-33.0%	-33.0%
NET RESULTS	-0.1	0.7	1.3
Depreciation	1.6	1.6	1.6
<i>% of sales</i>	2.7%	2.5%	2.4%
Capex	-0.7	-0.8	-0.8
<i>% of sales</i>	-1.2%	-1.3%	-1.2%
Var. Working Capital	2.0	-1.4	-1.4
Dividends	0.0	0.2	0.4
Free Cash Flow after dividends	2.7	-0.2	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	4.5%	-0.12
Operating Leverage	10.1	-0.10
Financial Leverage	0.5	-0.13
ROS (in %) - Growth TTM	0.8%	-0.12
ROI (in %)	4.8%	-0.13
SYNTETHIC SCORE		-0.58

Cost of Equity	13.10%
NET RESULT	1.28
SGA PE	28.22
SYNTHETIC SCORE	-5.80%
SGA PE ADJUSTED	26.58
TV ADJUSTED	34.01
TV ADJ actualized	23.51
Divid actualized	0.49
EQUITY Value (€M)	24.00
Number of Shares (M)	15.63
Equity V. per share ADJ (€)	1.54
<i>Upside/downside</i>	<i>2.74%</i>

Sensitivity analysis		Net result CAGR 2017-2020				
		487.8%	536.8%	574.2%	650.3%	730.0%
Risk premium	11.7%	0.57				5.02
	12.5%		0.80		2.80	
	13.1%			1.54		
	14.4%		1.02		1.51	
	15.7%	0.60				2.19

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%)