

Allterco

Buy

Maintained

Price: BGN 14.20
Price target: BGN 17.00
(from BGN 10.83)

+60% sound good? Not yet, not for us

We keep our BUY rating on Allterco, and increase our 12M price target (PT) to BGN 17.00/share (from BGN 10.83), offering 20% upside potential. Since our initiation report, in January 2021, the stock has seen a 61% rally, on its very strong 4Q20 results (EBITDA at BGN 8.6m, vs. our forecast of BGN 3.5m), and solid preliminary sales of high-margin devices in 1Q21 (+90% yoy). Consequently, we have increased our 2021-22E EBITDA forecasts by 33-37%. We still like Allterco: i) for its growth profile (2019-22E CAGRs of 33% for revenues and 28% for EBITDA, on our forecasts); ii) for its 2021-23E net cash/EBITDA position (1.5-0.7x, on our numbers); and iii) as we see room for profit distribution (2021-23E dividend yields of 1.6-5.0%).

Solid 4Q20 results, and stellar sales of goods in 1Q21. Allterco's 4Q20 EBITDA reached BGN 8.6m, vs. our BGN 3.5m estimate. There were two drivers of this strong result: i) the recognition of profits from the disposal of c.0.6m shares of Link Holding in October 2020; and ii) an improved sales mix (high-margin goods, mainly IoT products, increased 117% yoy, while the revenues from low-margin telecoms services dropped 61% yoy). Moreover, in April, it announced that its 1Q21 preliminary goods sales were up 90% yoy, which bodes well for Allterco's profitability outlook, in our view.

This has encouraged us to increase our forecasts materially. Based on the solid figures reported so far, and management's belief that the pandemic should not have a material impact on the company's business in 2021E, we have raised our 2021-22E EBITDA forecasts by 33-37%, to BGN 15.1m and BGN 21.8m, respectively.

EBITDA CAGR of 28% for 2020-23E. On our updated numbers, we expect Allterco's EBITDA to expand by c.28% yoy over the next three years. We see slightly higher dynamics for the top line (a 2020-23E CAGR of 33%), which implies EBITDA margin erosion (down from 27% in 2020 to 24% in 2023E), and reflects the greater competition that the company may be exposed to while maintaining such dynamic growth.

Net cash position allows for profit distribution. Taking into consideration our profit forecasts, we expect Allterco to remain net cash positive (2021-23E net cash/EBITDAs of 1.5-0.7x). This should allow for some moderate dividend payments (2021-23E yields at 1.6-5.0%, on our figures). We stress, however, that the dividend is just a sweetener for the core growth story, for us.

We keep our BUY rating on Allterco, with a new 12M price target (PT) of BGN 17.00/share, implying 20% upside potential. Our PT is based only on our DCF analysis. Our peers-based valuation indicates a PT of BGN 20.99 (48% upside potential), but we do not include this in our final PT. On our numbers, Allterco trades at 2021-23E EV/EBITDAs of only 15.5-8.9x.

Risks: competition; production; the pandemic; selling its Asian subsidiaries; FX; a shortage of key employees; the certification of goods; technology changes; and data security.

Expected events

1Q21 results	31 May (TBC)
2Q21 results	30 August (TBC)
3Q21 results	29 November (TBC)

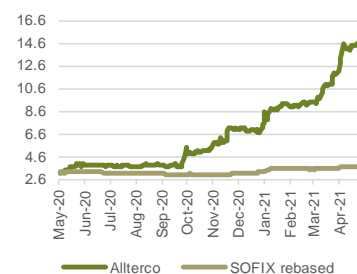
Key data

Market cap	USD 155m
3M ADTV	USD 0.05m
Free float	33%
Shares outstanding	18m
Major shareholders	
	Dimitar Dimitrov (32.48%)
	Svetlin Todorov (32.48%)
Bloomberg code	A4L BU
SOFIX index	522

Price performance

52-w range	BGN 3.12-14.60
52-w performance	+344%
Relative performance	+329%

Allterco 12M share price performance



	Revenues	EBITDA	EBIT	NI	EPS	DPS	P/E	EV/EBITDA	Div. yield	ND/EBITDA
	BGNm	BGNm	BGNm	BGNm	BGN	BGN	x	x	%	x
2019	33.5	1.0	0.1	7.3	0.49	0.01	29.2	216.8	1.2%	-7.4
2020	46.5	12.5	12.1	13.9	0.77	0.23	18.4	18.7	0.1%	-1.8
2021E	63.9	15.1	14.4	12.5	0.69	0.42	20.5	15.5	1.6%	-1.5
2022E	86.4	21.8	20.8	18.2	1.01	0.71	14.1	10.7	2.9%	-1.0
2023E	108.4	26.4	25.2	22.1	1.23	0.86	11.6	8.9	5.0%	-0.7

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Closing Prices as of 13 May 2021

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Company snapshot – BUY, PT BGN 17.00/share

Allterco		SHARE PRICE PERFORMANCE		COMPANY DESCRIPTION							
BUY											
Bloomberg ticker	A4L BU Equity			<p>Allterco is a Bulgarian Internet of Things (IoT) company, established in 2003, which operates in the telecommunications business. In 2010, the firm started developing its IoT segment, which it now perceives as a key part of its business. In 2019, Allterco disposed of its European telecommunications business, and is now considering selling its Asian telecoms subsidiaries. The two most important markets in terms of 2019 goods sales through distributors were Germany (28% top line) and Italy (24%). For the online sales channel, the share of the two countries was 43% and 14%, respectively. The company's founders – Dimitar Dimitrov and Svetlin Todorov – are still the major shareholders and key managers.</p>							
Closing price (BGN/share)	14.20										
PT (BGN/share)	17.00										
Upside to PT	20%										
Shares outstanding (m)	18										
Market cap (USDm)	155										
Free float	33%										
Average daily turnover (USDk)	47.00										
52 Week performance	344%										
52 Week relative performance	329%										
52 Week Range (BGN)	3.2-14.6										
RATIOS											
BGN/share	2019	2020	2021E	2022E	2023E	VALUATION RATIOS	2019	2020	2021E	2022E	2023E
EPS	0.5	0.8	0.7	1.0	1.2	EV/EBITDA	216.8x	18.7x	15.5x	10.7x	8.9x
DPS (from the given year's net profit)	0.0	0.2	0.4	0.7	0.9	P/E	29.2x	18.4x	20.5x	14.1x	11.6x
Dividend pay-out ratio	6%	30%	60%	70%	70%	FCF yield	-1.4%	0.1%	1.6%	3.1%	3.9%
						Dividend yield	1.2%	0.1%	1.6%	2.9%	5.0%
FINANCIAL RATIOS						FCF BREAKDOWN (BGNm)					
	2019	2020	2021E	2022E	2023E	EBIT*	2019	2020	2021E	2022E	2023E
EBITDA margin	2.8%	26.8%	23.6%	25.2%	24.3%	D&A	0.1	12.1	14.4	20.8	25.2
Net margin	21.8%	29.8%	19.5%	21.0%	20.4%	NO PAT	0.1	10.9	12.2	17.7	21.4
Effective tax rate	12.2%	10.0%	15.0%	15.0%	15.0%	D&A	0.8	0.4	0.7	1.0	1.2
ROE	24.7%	31.7%	20.3%	25.7%	27.3%	CAPEX	-1.8	-2.9	-4.0	-3.2	-5.2
ROA	17.8%	26.2%	17.9%	22.9%	24.7%	Change in WC	-2.1	-8.2	-4.7	-7.6	-7.4
ROIC	0.3%	22.9%	18.9%	24.0%	25.9%	FCF	-3.0	0.2	4.2	7.9	10.0
COMPANY FINANCIALS											
INCOME STATEMENT, BGNm						BALANCE SHEET, BGNm					
	2019	2020	2021E	2022E	2023E		2019	2020	2021E	2022E	2023E
Revenues	33.5	46.5	63.9	86.4	108.4	PPE	4.6	5.1	6.6	7.6	9.6
o/w goods	21.0	38.5	55.8	78.1	100.0	Intangibles	3.2	3.6	5.4	6.6	8.6
o/w services	12.3	7.2	7.4	7.5	7.7	Goodwill	3.3	2.8	2.8	2.8	2.8
EBITDA	1.0	12.5	15.1	21.8	26.4	Others	6.5	7.1	7.1	7.1	7.1
D&A	0.8	0.4	0.7	1.0	1.2	Total non-current assets	17.7	18.6	21.9	24.1	28.1
EBIT*	0.1	12.1	14.4	20.8	25.2	Inventories	1.3	3.7	3.5	4.7	5.9
FBT	8.3	14.9	14.2	20.7	25.2	Trade accounts receivable	5.7	14.7	20.1	27.2	34.2
Income tax	1.0	1.5	2.1	3.1	3.8	Cash and cash equivalents	10.9	26.1	25.6	26.0	23.3
Minorities	0.0	0.4	0.4	0.5	0.7	Others	4.3	2.7	2.7	2.7	2.7
Net profit	7.3	13.9	12.5	18.2	22.1	Total current assets	22.2	47.1	52.0	60.7	66.1
						Total assets	39.9	65.7	73.9	84.8	94.2
CASH FLOW STATEMENT, BGNm						BALANCE SHEET, BGNm					
	2019	2020	2021E	2022E	2023E		2019	2020	2021E	2022E	2023E
CF from operations	6.4	4.0	8.2	11.1	15.2	Total shareholders equity	30.3	56.8	64.8	74.9	83.6
D&A	0.8	0.4	0.7	1.0	1.2	Long-term borrowings	2.6	2.5	2.2	2.2	2.2
Changes in WC	-2.1	-8.2	-4.7	-7.6	-7.4	Other LT liabilities	0.0	0.0	0.0	0.0	0.0
CF from investments	8.3	1.9	-4.0	-3.2	-5.2	Total non-current liabilities	2.6	2.5	2.2	2.2	2.2
o/w capex (PPE & int. ass.)	-1.8	-2.9	-4.0	-3.2	-5.2	ST Debt	1.2	1.3	1.3	1.3	1.3
CF from fin. activities	-3.7	9.2	-4.6	-7.5	-12.8	ST trade payables	1.4	1.5	2.1	2.9	3.6
o/w borrowings	-1.0	0.1	-0.3	0.0	0.0	Other ST liabilities	1.4	0.8	0.8	0.8	0.8
o/w dividends	-2.6	-0.2	-4.2	-7.5	-12.7	Total current liabilities	4.0	3.6	4.2	4.9	5.6
						Total equity and liabilities	39.9	65.7	73.9	84.8	94.2
						Gross debt	3.9	3.9	3.6	3.6	3.6
						Net debt	-7.0	-22.2	-22.0	-22.4	-19.7
						ND/EBITDA	-7.4x	-1.8x	-1.5x	-1.0x	-0.7x
Revenues by segment											
BGNm	2019	2020	2021E	2022E	2023E						
Revenues	33.5	46.5	63.9	86.4	108.4						
yoy	-25%	39%	37%	35%	25%						
Services	12.3	7.2	7.4	7.5	7.7						
yoy	-64%	-41%	2%	2%	2%						
Goods	21.0	38.5	55.8	78.1	100.0						
yoy	92%	83%	45%	40%	28%						
ND/EBITDA and capex						FCF and FCF yield					

Source: Company data, Bloomberg, WOOD Research; *EBIT calculated as revenues minus opex (Allterco includes net financial result in its calculations of operating profit)

Valuation

We rate Allterco a BUY, with a 12M price target (PT) of BGN 17.00, implying 20% upside potential. Our PT is based solely on our DCF analysis (a 100% weight), as was the case in our initiation report. The reason for assigning a 0% weight to its peers is that it is hard to find peers for a small-cap company (market cap of USD 155m), with such limited liquidity (3M ADTV below USD 0.05m), with similar business profiles.

Valuation summary

	Weight	PT	Current price	Upside
DCF	100%	17.00	14.20	20%
Peer-based valuation	0%	20.99	14.20	48%
Weighted PT	100%	17.00	14.20	20%

Source: WOOD Research

DCF: 12M PT at BGN 17.00/share

We base our DCF valuation on the following assumptions:

- ✓ A WACC of c.11%.
- ✓ EBIT is calculated as revenues minus opex (Allterco includes the net financial result in its operating profit calculations).
- ✓ A present value of the discounted free cash flows of BGN 77m for 2021-29E.
- ✓ End-2020 net cash of BGN 22m.
- ✓ A present value of the terminal value of BGN 165m.
- ✓ A terminal growth rate of 4.0%.

DCF valuation

	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	Terminal
Revenues	63.9	86.4	108.4	128.6	150.3	171.7	191.4	208.0	219.1	227.9
Yoy	37%	35%	25%	19%	17%	14%	11%	9%	5%	4%
EBIT	14.4	20.8	25.2	29.1	33.3	35.5	38.9	40.7	42.7	44.6
EBIT margin	22%	24%	23%	23%	22%	21%	20%	20%	20%	20%
Cash tax (15%)	2.2	3.1	3.8	4.4	5.0	5.3	5.8	6.1	6.4	6.7
NOPAT	12.2	17.7	21.4	24.8	28.3	30.2	33.0	34.6	36.3	37.9
(+) D&A	0.7	1.0	1.2	1.5	1.9	2.4	3.0	3.4	3.7	4.0
(-) Capex	-4.0	-3.2	-5.2	-7.0	-7.4	-7.9	-8.0	-7.4	-7.2	-8.5
(-) Working capital growth	-4.7	-7.6	-7.4	-6.8	-7.3	-7.2	-6.6	-5.6	-3.7	-3.7
Net investment	-8.0	-9.8	-11.4	-12.3	-12.8	-12.7	-11.6	-9.6	-7.2	-8.2
FCF	4.2	7.9	10.0	12.5	15.4	17.5	21.4	25.1	29.0	29.7
Terminal growth [g(t)]	4.0%									
PV TV	165									
PV FCF 2021-29E	77									
Enterprise value (EURm)	242									
Net debt (end-2020)	-22									
Minorities (end-2020)	0									
Equity value (BGNm)	265									
Number of shares (m)	18									
Value per share (BGN, 1 Jan 2021)	14.70									
12M PT (BGN)	17.00									

Source: WOOD Research

DCF sensitivity

		WACC						
		6.7%	7.7%	8.7%	11%	10.7%	11.7%	12.7%
Terminal growth rate	1.0%	14.16	14.04	13.93	13.81	13.70	13.60	13.49
	2.0%	15.01	14.88	14.76	14.64	14.52	14.41	14.29
	3.0%	16.07	15.94	15.80	15.67	15.55	15.42	15.30
	4.0%	17.43	17.29	17.14	17.00	16.86	16.73	16.59
	5.0%	19.25	19.09	18.93	18.77	18.62	18.47	18.32
	6.0%	21.80	21.61	21.43	21.25	21.07	20.90	20.73
	7.0%	25.62	25.40	25.18	24.96	24.75	24.55	24.35

Source: WOOD Research

Peers valuation: 12M PT at BGN 20.99/share

Allterco should grow broadly in line with its peers, but it still trades at a discount to them. On our figures, the company is valued at 2021-23E P/Es of 20.5-11.6x, indicating 16-41% discounts vs. its peers, while its profit growth (a 2020-23E EBITDA CAGR of 28%, on our forecasts) is above its peers figure of 20% (according to the Bloomberg consensus).

Allterco: peers

	Country	Mcap		ND/ EBITDA	P/E			EBITDA CAGR 20-23E	EV/EBITDA			Dividend yield		
		USDm	EBITDA		2021E	2022E	2023E		2021E	2022E	2023E	2021E	2022E	2023E
Allterco	Bulgaria	155	-1.5x	20.5	14.1	11.6	28%	15.5	10.7	8.9	1.6%	2.9%	5.0%	
Somfy SA	France	6,298	-1.6x	24.5	22.1	19.5	5%	15.1	13.4	11.8	1.3%	1.3%	1.5%	
Alarm.Com	US	3,994	-1.8x	47.7	41.8	37.2	20%	29.2	24.4	21.9	n.a.	n.a.	n.a.	
Vivint Smart Home	US	2,447	n.a.	n.a.	n.a.	n.a.	n.a.	7.5	6.8	5.2	n.a.	n.a.	n.a.	
Viomi Technology	China	478	-4.9x	9.6	7.0	6.7	30%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
Median				24.5	22.1	19.5	20%	15.1	13.4	11.8	1.3%	1.3%	1.5%	
Allterco vs. peers' median				-16%	-36%	-41%	8.6pp	3%	-20%	-24%	0pp	2pp	3pp	

Source: WOOD Research, Bloomberg

Peer valuation

	P/E (x)			EV/EBITDA (x)		
	2021E	2021E	2023E	2021E	2022E	2023E
Total weighted median (x)	24.50	22.07	19.47	15.08	13.36	11.76
EPS (BGN) for P/E and EBITDA (BGNm) for EV/EBITDA	0.7	1.0	1.2	15	22	26
Implied enterprise value				228	291	310
Implied equity value	306	401	430	251	314	332
Implied equity value per share (BGN)	16.97	22.30	23.87	13.92	17.47	18.44
Weight (%)	16.7%	16.7%	16.7%	16.7%	16.7%	16.7%
Implied weighted equity value per share (BGN)					18.83	
12M price target (PT)					20.99	

Source: Bloomberg, WOOD Research

Financial forecasts

On the back of the solid 2020 figures, the 1Q21 preliminary sales data and management's comments that the pandemic should not have a material impact on Allterco's business in 2021E, we have increased our forecasts for its 2021-22E EBITDA by 33% and 37%, respectively.

At this stage, Allterco has received an offer of EUR 2.1m for its Asian telecoms business, although this is still subject to negotiations after thorough due diligence. As we do not know, at this stage, if or when, or for what price the business may be sold, we do not assume the disposal of the Asian telecoms business in our forecasts.

WOOD's forecasts revisions

	2020			2021E			2022E		
	Actual	WOOD	Diff.	Old	New	Diff.	Old	New	Diff.
Revenues	46.5	39.0	19%	55.7	63.9	15%	79.1	86.4	9%
EBITDA	12.5	10.3	21%	11.4	15.1	33%	15.9	21.8	37%
Operating profit	12.1	9.4	29%	10.3	14.4	40%	14.6	20.8	42%
Net income	13.9	8.6	60%	6.2	12.5	102%	9.9	18.2	83%
EBITDA margin	27%	26%	0pp	20%	24%	3pp	20%	25%	5pp
Operating margin	26%	24%	2pp	18%	22%	4pp	18%	24%	6pp
Net margin	30%	22%	8pp	11%	20%	8pp	13%	21%	8pp

Source: Company data, WOOD Research

WOOD vs. Allterco's forecasts

Taking into consideration our 1Q21E preview, we pencil in BGN 15.1m of EBITDA for 2021E. This is 28% more than the company's forecast, but we stress that Allterco released its forecast in its capital raising prospectus back in October 2020, i.e., more than six months ago. The results delivery since then has proved, in our view, that the company was too conservative; hence, we feel comfortable with our forecasts for the coming years.

WOOD vs. Allterco's forecasts

	2021E			2022E			2023E		
	WOOD	Allterco	Diff.	WOOD	Allterco	Diff.	WOOD	Allterco	Diff.
Revenues	63.9	54.5	17%	86.4	82.1	5%	108.4	103.5	5%
EBITDA	15.1	11.8	28%	21.8	19.8	10%	26.4	25.5	3%
Operating profit*	14.4	10.3	39%	20.8	18.2	14%	25.2	23.7	6%
Net income	12.5	8.9	41%	18.2	15.9	14%	22.1	20.6	7%
EBITDA margin	24%	22%	2pp	25%	24%	1pp	24%	25%	0pp
Operating margin	22%	19%	4pp	24%	22%	2pp	23%	23%	0pp
Net margin	20%	16%	3pp	21%	19%	2pp	20%	20%	0pp

Source: Company data, WOOD Research; *we calculate the operating profit as revenues minus opex (Allterco includes the net financial result in the profit)

Risks

- ✓ Competition.
- ✓ Production risks and the pandemic.
- ✓ Risk of selling its Asian subsidiaries.
- ✓ FX risk.
- ✓ A shortage of key employees.
- ✓ Certification of goods.
- ✓ Changes in technology.
- ✓ Data security.
- ✓ A worldwide shortage of semiconductors and microchips. In March 2021, Reuters reported that, amid a combination of factors (sanctions against Chinese tech companies, consumers buying larger quantities of laptops and other electronic devices during the COVID-19 pandemic, and cars, than industry officials expected), there is a shortage of semiconductors and microchips. Allterco monitors the market for signals of problems with the supply of components (including microchips) and, when potential shortages are identified, it starts to place orders for critical components 6-12 months ahead. If this situation persists over a longer period of time, we see a risk that Allterco may be unable to sell as many devices as it would like to, or that its clients would like to buy.

Financials

Profit and loss

BGN m	2019	2020	2021E	2022E	2023E
Revenues	33.5	46.5	63.9	86.4	108.4
Yoy	15%	-25%	39%	37%	35%
o/w goods	21.0	38.5	55.8	78.1	100.0
Yoy	48%	92%	83%	45%	40%
o/w services	12.3	7.2	7.4	7.5	7.7
Yoy	7%	-64%	-41%	2%	2%
EBITDA	1.0	12.5	15.1	21.8	26.4
D&A	0.8	0.4	0.7	1.0	1.2
Operating profit*	0.1	12.1	14.4	20.8	25.2
PBT	8.3	14.9	14.2	20.7	25.2
Income tax	1.0	1.5	2.1	3.1	3.8
Minorities	0.0	0.4	0.4	0.5	0.7
Net profit	7.3	13.9	12.5	18.2	22.1

Source: Company data, WOOD Research; *we calculate the operating profit as revenues minus opex (Allterco includes the net financial result in the profit)

Cash flow statement

BGN m	2019	2020	2021E	2022E	2023E
CF from operations	6.4	4.0	8.2	11.1	15.2
D&A	0.8	0.4	0.7	1.0	1.2
Changes in WC	-2.1	-8.2	-4.7	-7.6	-7.4
CF from investments	8.3	1.9	-4.0	-3.2	-5.2
o/w capex (PPE & int. ass.)	-1.8	-2.9	-4.0	-3.2	-5.2
CF from fin. activities	-3.7	9.2	-4.6	-7.5	-12.8
o/w borrowings	-1.0	0.1	-0.3	0.0	0.0
o/w dividends	-2.6	-0.2	-4.2	-7.5	-12.7
Cash – beginning of the period	0.5	10.9	26.1	25.6	26.0
Net change in cash	10.4	15.1	-0.4	0.4	-2.7
Cash end of period	10.9	26.1	25.6	26.0	23.3

Source: Company data, WOOD Research

Balance sheet

BGN m	2019	2020	2021E	2022E	2023E
PPE	4.6	5.1	6.6	7.6	9.6
Intangibles	3.2	3.6	5.4	6.6	8.6
Goodwill	3.3	2.8	2.8	2.8	2.8
Others	6.5	7.1	7.1	7.1	7.1
Total non-current assets	17.7	18.6	21.9	24.1	28.1
Inventories	1.3	3.7	3.5	4.7	5.9
Trade accounts receivables	5.7	14.7	20.1	27.2	34.2
Cash and cash equivalents	10.9	26.1	25.6	26.0	23.3
Others	4.3	2.7	2.7	2.7	2.7
Total current assets	22.2	47.1	52.0	60.7	66.1
Total assets	39.9	65.7	73.9	84.8	94.2
Total shareholders' equity	30.3	56.8	64.8	74.9	83.6
Long-term borrowings	2.6	2.5	2.2	2.2	2.2
Other long-term liabilities	0.0	0.0	0.0	0.0	0.0
Total non-current liabilities	2.6	2.5	2.2	2.2	2.2
Short-term debt	1.2	1.3	1.3	1.3	1.3
Short-term trade payables	1.4	1.5	2.1	2.9	3.6
Other short-term liabilities	1.4	0.8	0.8	0.8	0.8
Total current liabilities	4.0	3.6	4.2	4.9	5.6
Total equity and liabilities	39.9	65.7	73.9	84.8	94.2
Gross debt	3.9	3.9	3.6	3.6	3.6
Net debt	-7.0	-22.2	-22.0	-22.4	-19.7
ND/EBITDA	-7.4x	-1.8x	-1.5x	-1.0x	-0.7x

Source: Company data, WOOD Research

Valuation multiples

	2019	2020	2021E	2022E	2023E
P/E	29.2x	18.4x	20.5x	14.1x	11.6x
EV/EBITDA	216.8x	18.7x	15.5x	10.7x	8.9x
FCF yield	-1.4%	0.1%	1.6%	3.1%	3.9%
Dividend yield	1.2%	0.1%	1.6%	2.9%	5.0%

Source: Company data, WOOD Research

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