

Allterco

Hold

Downgraded from Buy

Price: BGN 19.00

Price target: BGN 21.17
(from BGN 17.00)

Taking 120%+ profit

We have downgraded our rating on Allterco to HOLD (from Buy), but hiked our 12M price target (PT) to BGN 21.17/share (from BGN 17.00), offering 11% upside potential. Since our initiation report, in January 2021, the stock is up by +122% (total return), outperforming both local the SOFIX index (+28%) and the MSCI FM (-2%) massively. After this spectacular rally, the multiples are not cheap enough to command a Buy rating, in our view, as the stock is trading at 16.1-9.3x, on our 2022-24E EV/EBITDAs, indicating a 37% discount/3% premium vs. its peers. Moreover, according to management, 2022E will be a high opex year, necessary for securing solid growth in the coming years, which may result in flat yoy EBITDA. Taking this into consideration, we prefer to take profits and monitor the situation, although we still like the growth element in the equity story (we expect a 2022-24E EBITDA CAGR of 19%).

2021 results much stronger than we expected, but the 2022E profits may be flat yoy. In 2021, Allterco reported EBITDA of BGN 18.9m, which proved to be 25% above our forecast. During the 1Q22 conference call, management flagged that 2022E is expected to be a year of "investment in growth". The company intends to expand its sales force, needed for geographical expansion (the company has opened an office in Munich and has hired its first sales representative in Germany already; Allterco hopes to complete the hiring of sales staff in all of its regions of operations within 12 months). This may, however, result in inflated 2022E opex and, consequently, flat yoy profits in 2022E (in our model, we pencil in just 3% yoy growth in the 2022E EBITDA).

Profitability may erode, but solid growth should continue. As we see the company primarily as a growth story, with geographical expansion plans, we do not exclude the risk of margin erosion. Therefore, we pencil in an EBITDA margin drop from 32% in 2021 to 26% in 2024E, while the 2022-24E EBITDA CAGR should still be decent, at 19%, on our numbers.

M&A may also fuel growth. On 8 June, Allterco announced its intention to acquire a 100% stake in Slovenian IoT provider GOAP Nova Gorica for EUR 3.3m. However, as no final decision has been made (and GOAP Nova Gorica's financials have not been disclosed), at this stage, we do not pencil it into our model. If it happens, it could offer upside potential to our forecasts.

Microchips shortage should not pose a material threat to the company's operations. As flagged by management during the call, Allterco has been accumulating inventories over a longer period of time. It has one of the highest chips stocks in its sector (stocks for five-to-six months vs. three months before the worldwide chip shortage problems started). Moreover, it has managed to reduce its chips intensity, protecting its business further from potential disruptions. We also note that high inventories may boost the company's profitability in the short term, in the wake of the inflationary environment.

Valuation fair, in our view. On our 2022-24E EV/EBITDAs, the stock is trading at 16.1-9.3x, indicating a 37% discount/3% premium vs. its peers, respectively. Our DCF (100% weight) implies a PT of BGN 21.17/share, offering 11% upside potential.

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

Expected events

AGM	27 June 2022
2Q22 results	29 August 2022 (TBC)
3Q22 results	29 November 2022 (TBC)
4Q22 results	1 March 2023 (TBC)

Key data

Market cap	USD 187m
3M ADTV	USD 25k
Free float	33%
Shares outstanding	18m
Major shareholders	Dimitar Dimitrov (32.48%) Svetlin Todorov (32.48%)
Bloomberg code	A4L BU
SOFIX index	620

Price performance

52-w range	BGN 14.7-27.4
52-w performance	+7%
Relative performance	-8%

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
2020	46.5	12.7	12.4	13.9	0.77	0.19	24.7	25.1	0.1%	-1.8
2021	59.5	18.9	18.7	16.0	0.89	0.10	21.4	16.6	1.0%	-1.5
2022E	83.3	19.4	19.0	16.1	0.90	0.18	21.2	16.1	0.5%	-1.5
2023E	104.1	27.1	26.6	22.9	1.27	0.25	14.9	11.3	0.9%	-1.4
2024E	125.0	31.9	31.3	26.9	1.50	0.30	12.7	9.3	1.3%	-1.4

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Closing Prices as of 09 June 2022

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Company snapshot – HOLD, PT BGN 21.17/share

Alterco		SHARE PRICE PERFORMANCE		COMPANY DESCRIPTION							
HOLD		A4L BU Equity		Alterco is a Bulgarian company, established in 2003, initially as a provider of value-added services in the telecommunications sector. In 2015, the firm started developing its IoT segment, which is now its core business. In 2019, Alterco disposed of its European telecommunications business, and it sold its Asian telecoms subsidiaries in 2021. The two most important markets in terms of its 2021 goods sales through distributors were Germany (42% of the top line) and Southern Europe (22%). The company's founders – Dimitar Dimitrov and Svetlin Todorov – are still the major shareholders and key managers.							
Bloomberg ticker	19.00										
Closing price (BGN/share)	21.17										
PT (BGN/share)	11%										
Upside to PT	18										
Shares outstanding (m)	187										
Market cap (USDm)	33%										
Free float	25										
Average daily turnover (USDk)	7%										
52 Week performance	-8%										
52 Week relative performance	14.7-27.4										
52 Week Range (BGN)											
RATIOS											
BGN/share	2020	2021	2022E	2023E	2024E	VALUATION RATIOS	2020	2021	2022E	2023E	2024E
EPS	0.8	0.9	0.9	1.3	1.5	EV/EBITDA	25.1x	16.6x	16.1x	11.3x	9.3x
DPS (from the given year's net profit)	0.2	0.1	0.2	0.3	0.3	P/E	24.7x	21.4x	21.2x	14.9x	12.7x
Dividend pay-out ratio	25%	11%	20%	20%	20%	FCF yield	0.3%	1.0%	1.1%	2.9%	3.6%
						Dividend yield	0.1%	1.0%	0.5%	0.9%	1.3%
FINANCIAL RATIOS						FCF BREAKDOWN (BGNm)					
	2020	2021	2022E	2023E	2024E		2020	2021	2022E	2023E	2024E
EBITDA margin	27.3%	31.8%	23.3%	26.0%	25.5%	EBIT	12.4	18.7	19.0	26.6	31.3
Net margin	29.8%	26.8%	19.4%	22.0%	21.6%	NOPAT	11.1	15.9	16.2	22.6	26.6
Effective tax rate	10.1%	14.7%	15.0%	15.0%	15.0%	Depreciation	0.4	0.2	0.4	0.5	0.7
ROE	31.7%	26.0%	22.2%	25.5%	24.3%	CAPEX	-2.9	-1.6	-2.6	-4.5	-6.2
ROA	26.2%	23.1%	20.2%	23.5%	22.6%	Change in WC	-7.6	-11.1	-10.1	-8.8	-8.8
ROIC	23.6%	24.9%	21.4%	24.5%	23.4%	FCF	1.0	3.5	3.9	9.8	12.2
COMPANY FINANCIALS											
INCOME STATEMENT, BGNm						BALANCE SHEET, BGNm					
	2020	2021	2022E	2023E	2024E		2020	2021	2022E	2023E	2024E
Revenues	46.5	59.5	83.3	104.1	125.0	PPE	5.1	4.8	5.8	7.8	10.3
EBITDA	12.7	18.9	19.4	27.1	31.9	Intangibles	3.6	3.1	4.3	6.3	9.3
D&A	0.4	0.2	0.4	0.5	0.7	Goodwill	2.8	0.2	0.2	0.2	0.2
EBIT	12.4	18.7	19.0	26.6	31.3	Others	7.1	4.9	4.9	4.9	4.9
PBT	14.9	18.7	19.0	26.9	31.7	Total non-current assets	18.6	13.0	15.2	19.2	24.7
Income tax	1.5	2.8	2.8	4.0	4.8	Inventories	3.7	7.6	10.6	13.2	15.9
Minorities	0.4	0.0	0.0	0.0	0.0	Trade accounts receivable	13.9	19.2	26.8	33.5	40.3
Net profit	13.9	16.0	16.1	22.9	26.9	Cash and cash equivalents	26.1	30.5	32.6	39.4	47.5
						Others	0.8	2.1	2.1	2.1	2.1
						Total current assets	44.4	59.4	72.2	88.3	105.7
						Total assets	65.7	72.4	87.3	107.5	130.4
CASH FLOW STATEMENT, BGNm						Total shareholders equity					
	2020	2021	2022E	2023E	2024E		2020	2021	2022E	2023E	2024E
CF from operations	4.1	8.1	6.5	14.3	18.4	Long-term borrowings	2.5	2.0	2.0	2.0	2.0
D&A	0.4	0.2	0.4	0.5	0.7	Other LT liabilities	0.0	0.1	0.1	0.1	0.1
Changes in WC	-7.6	-11.1	-10.1	-8.8	-8.8	Total non-current liabilities	2.5	2.1	2.1	2.1	2.1
CF from investments	1.9	0.5	-2.6	-4.5	-6.2	ST Debt	0.5	0.6	0.6	0.6	0.6
o/w capex (PPE & int. ass.)	-2.9	-1.6	-2.6	-4.5	-6.2	ST trade payables	1.4	1.5	2.1	2.6	3.1
CF from fin. activities	9.2	-4.1	-1.9	-3.0	-4.2	Other ST liabilities	1.8	2.7	2.7	2.7	2.7
o/w borrowings	0.1	-0.5	0.0	0.0	0.0	Total current liabilities	3.7	4.7	5.3	5.9	6.4
o/w dividends	-0.2	-3.4	-1.8	-3.2	-4.6	Total equity and liabilities	65.7	72.4	87.3	107.5	130.4
						Gross debt	3.1	2.7	2.7	2.7	2.7
						Net debt	-22.9	-27.8	-29.9	-36.7	-44.7
						ND/EBITDA	-1.8x	-1.5x	-1.5x	-1.4x	-1.4x
ND/EBITDA and capex						FCF and FCF yield					

Valuation

We downgrade Allterco from Buy to HOLD, with a 12M price target (PT) of BGN 21.17, implying 11% upside potential. Our PT is based solely on our DCF analysis (a 100% weight), as in our previous update. The reason for assigning a 0% weight to the company's peers is that it is hard to find peers for a small-cap company (market cap of USD 187m), with such limited liquidity (3M ADTV below USD 25k), with similar business profiles.

Valuation summary

	Weight	PT	Current price	Upside
DCF	100%	21.17	19.00	11%
Peer-based valuation	0%	18.86	19.00	-1%
Weighted PT	100%	21.17	19.00	11%

Source: WOOD Research

DCF: 12M PT at BGN 21.17/share

We base our DCF valuation on the following assumptions:

- ✓ A WACC of c.12%.
- ✓ A present value of the discounted free cash flows of BGN 117m for 2022-31E.
- ✓ End-2021 net cash of BGN 28m.
- ✓ A present value of the terminal value of BGN 179m.
- ✓ A terminal growth rate of 4.0%.

DCF valuation

	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	Terminal
Revenues	83.3	104.1	125.0	143.7	161.0	177.1	191.2	204.6	216.9	227.7	236.8
Yoy	40%	25%	20%	15%	12%	10%	8%	7%	6%	5%	4%
EBIT	19.0	26.6	31.3	38.2	41.1	47.6	48.4	54.4	55.3	61.0	59.9
Cash tax (15%)	2.9	4.0	4.7	5.7	6.2	7.1	7.3	8.2	8.3	9.2	9.0
NOPAT	16.2	22.6	26.6	32.4	34.9	40.5	41.1	46.3	47.0	51.9	50.9
(+) D&A	0.4	0.5	0.7	0.9	1.3	1.6	1.9	2.1	2.3	2.4	2.4
(-) CAPEX	-2.6	-4.5	-6.2	-6.4	-6.8	-6.6	-5.9	-5.6	-4.8	-4.4	-4.4
(-) Working Capital growth	-10.1	-8.8	-8.8	-8.0	-7.3	-6.8	-6.0	-5.7	-5.2	-4.6	-4.6
Net investment	-12.3	-12.8	-14.3	-13.5	-12.8	-11.8	-10.0	-9.2	-7.7	-6.6	-6.6
FCF	3.9	9.8	12.2	19.0	22.1	28.6	31.1	37.1	39.3	45.3	44.3
Terminal growth [g(t)]	4.0%										
PV TV	179										
PV FCF 2022-2031E	117										
Enterprise value (EURm)	296										
Net debt (end 2021)	-28										
Minorities (end-2021)	0										
Equity value (BGNm)	324										
Number of shares (m)	18										
Value per share (BGN, 1 Jan 2022)	17.99										
12M PT (BGN)	21.17										

Source: WOOD Research

DCF sensitivity

		WACC						
		9%	10%	11%	12%	13%	14%	15%
Terminal growth rate	1.0%	18.42	18.27	18.12	17.98	17.83	17.69	17.55
	2.0%	19.30	19.14	18.98	18.83	18.68	18.53	18.38
	3.0%	20.37	20.20	20.03	19.87	19.71	19.55	19.40
	4.0%	21.70	21.52	21.35	21.17	21.00	20.83	20.67
	5.0%	23.42	23.23	23.04	22.85	22.66	22.48	22.30
	6.0%	25.72	25.50	25.29	25.08	24.87	24.67	24.47
	7.0%	28.94	28.69	28.45	28.21	27.98	27.75	27.52

Source: WOOD Research

Peers valuation: 12M PT at BGN 18.86/share

Allterco: peers

	Country	Mcap	ND/	P/E			EBITDA	EV/EBITDA			Dividend yield		
		USDm	EBITDA	2022E	2023E	2024E	21-24E	2022E	2023E	2024E	2022E	2023E	2024E
Allterco	Bulgaria	187	-1.5x	21.2	14.9	12.7	19%	16.1	11.3	9.3	0.5%	0.9%	1.3%
Somfy SA	France	5,358	-1.8x	18.5	17.2	16.3	6%	11.7	10.5	9.6	1.6%	1.7%	1.6%
Alarm.Com	US	3,119	-1.5x	33.2	28.8	n.a.	n.a.	19.0	15.7	n.a.	n.a.	n.a.	n.a.
Vivint Smart Home	US	1,144	4.7x	n.a.	n.a.	n.a.	24%	5.5	5.0	n.a.	n.a.	n.a.	n.a.
Viomi Technology	China	119	n.a.	6.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Median				13.0	17.2	10.5	18%	11.7	10.5	9.6	2.8%	3.1%	3.3%
Allterco vs. peers' median				63%	-13%	21%	1.3pp	37%	8%	-3%	-2pp	-2pp	-2pp

Source: WOOD Research, Bloomberg

Peer valuation

	P/E			EV/EBITDA		
	2022E	2023E	2024E	2022E	2023E	2024E
Total weighted median (x)	12.96	17.21	10.49	11.73	10.46	9.58
EPS (BGN/share) for P/E and EBITDA (BGNm) for EV/EBITDA	0.9	1.3	1.5	19	27	32
Allterco: implied equity value per share (BGN)	11.62	21.89	15.70	14.29	17.79	19.48
Weight (%)	16.7%	16.7%	16.7%	16.7%	16.7%	16.7%
Implied weighted equity value per share (BGN)				16.80		
12M price target (PT)				18.86		

Source: WOOD Research

Financial forecasts

WOOD's forecasts revisions

	2021			2022E			2023E		
	Actual	WOOD	Diff.	Old	New	Diff.	Old	New	Diff.
Revenues	59.5	63.9	-7%	86.4	83.3	-4%	108.4	104.1	-4%
EBITDA	18.9	15.1	25%	21.8	19.4	-11%	26.4	27.1	3%
Operating profit	18.7	14.4	30%	20.8	19.0	-9%	25.2	26.6	6%
Net income	16.0	12.5	28%	18.2	16.1	-11%	22.1	22.9	4%
EBITDA margin	32%	24%	8pp	25%	23%	-2pp	24%	26%	2pp
Operating margin	31%	23%	9pp	24%	23%	-1pp	23%	26%	2pp
Net margin	27%	20%	7pp	21%	19%	-2pp	20%	22%	2pp

Source: Company data, WOOD Research

Risks

- ✓ Competition.
- ✓ Production risks and the pandemic.
- ✓ FX risk.
- ✓ A shortage of key employees.
- ✓ Certification of goods.
- ✓ Changes in technology.
- ✓ Data security.
- ✓ M&A.
- ✓ A worldwide shortage of semiconductors and microchips.

Financials

Profit and loss

BGN m	2020	2021	2022E	2023E	2024E
Revenues	46.5	59.5	83.3	104.1	125.0
Yoy	15%	-25%	39%	28%	40%
EBITDA	12.7	18.9	19.4	27.1	31.9
D&A	0.4	0.2	0.4	0.5	0.7
Operating profit	12.4	18.7	19.0	26.6	31.3
PBT	14.9	18.7	19.0	26.9	31.7
Income tax	1.5	2.8	2.8	4.0	4.8
Minorities	0.4	0.0	0.0	0.0	0.0
Net profit	13.9	16.0	16.1	22.9	26.9

Source: Company data, WOOD Research

Cash flow statement

BGN m	2020	2021	2022E	2023E	2024E
CF from operations	4.1	8.1	6.5	14.3	18.4
D&A	0.4	0.2	0.4	0.5	0.7
Changes in WC	-7.6	-11.1	-10.1	-8.8	-8.8
CF from investments	1.9	0.5	-2.6	-4.5	-6.2
o/w capex (PPE & int. ass.)	-2.9	-1.6	-2.6	-4.5	-6.2
CF from fin. Activities	9.2	-4.1	-1.9	-3.0	-4.2
o/w borrowings	0.1	-0.5	0.0	0.0	0.0
o/w dividends	-0.2	-3.4	-1.8	-3.2	-4.6
Cash – beginning of the period	10.9	26.1	30.5	32.6	39.4
Net change in cash	15.1	4.5	2.1	6.8	8.0
Cash end of period	26.1	30.5	32.6	39.4	47.5

Source: Company data, WOOD Research

Balance sheet

BGN m	2020	2021	2022E	2023E	2024E
PPE	5.1	4.8	5.8	7.8	10.3
Intangibles	3.6	3.1	4.3	6.3	9.3
Goodwill	2.8	0.2	0.2	0.2	0.2
Others	7.1	4.9	4.9	4.9	4.9
Total non-current assets	18.6	13.0	15.2	19.2	24.7
Inventories	3.7	7.6	10.6	13.2	15.9
Trade accounts receivables	13.9	19.2	26.8	33.5	40.3
Cash and cash equivalents	26.1	30.5	32.6	39.4	47.5
Others	0.8	2.1	2.1	2.1	2.1
Total current assets	44.4	59.4	72.2	88.3	105.7
Total assets	65.7	72.4	87.3	107.5	130.4
Total shareholders' equity	56.8	65.6	79.9	99.6	122.0
Long-term borrowings	2.5	2.0	2.0	2.0	2.0
Other long-term liabilities	0.0	0.1	0.1	0.1	0.1
Total non-current liabilities	2.5	2.1	2.1	2.1	2.1
Short-term debt	0.5	0.6	0.6	0.6	0.6
Short-term trade payables	1.4	1.5	2.1	2.6	3.1
Other short-term liabilities	1.8	2.7	2.7	2.7	2.7
Total current liabilities	3.7	4.7	5.3	5.9	6.4
Total equity and liabilities	65.7	72.4	87.3	107.5	130.4
Gross debt	3.1	2.7	2.7	2.7	2.7
Net debt	-22.9	-27.8	-29.9	-36.7	-44.7
ND/EBITDA	-1.8x	-1.5x	-1.5x	-1.4x	-1.4x

Source: Company data, WOOD Research

Valuation multiples

	2020	2021	2022E	2023E	2024E
P/E	24.7x	21.4x	21.2x	14.9x	12.7x
EV/EBITDA	25.1x	16.6x	16.1x	11.3x	9.3x
FCF yield	0.3%	1.0%	1.1%	2.9%	3.6%
Dividend yield	0.1%	1.0%	0.5%	0.9%	1.3%

Source: Company data, WOOD Research

Important disclosures

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WOOD&Co's rating and price target history for Allterco in the preceding 12-month period:

Date	Rating	Date	PT
27/01/2021	BUY – initiation of coverage	27/01/2021	BGN 10.83
		17/05/2021	BGN 17.00
13/06/2022	HOLD	13/06/2022	BGN 21.17

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