

Allterco

Buy

Initiation of coverage

Price: BGN 8.65/share

Price target: BGN 10.83/share

Shifting gear, and hitting the accelerator

We initiate coverage of Allterco, a Bulgarian Internet of Things (IoT) company, with a BUY rating and a 12M price target (PT) of BGN 10.83/share (25% upside potential). The company was founded nearly 20 years ago, as a telecommunications firm. In 2010, it started developing its IoT segment, which is fast growing and high margin (most of the segments of the European smart home devices market should grow by 16-47% yoy over 2020-24E, according to IDC). In 2019, Allterco decided to exit the stagnant and low-margin telco sector, by selling its European telco subsidiaries, and it is considering disposing of its Asian assets currently. We like the company for its: i) growth profile (a 2019-22E revenues CAGR of 33% and an EBITDA CAGR of 19%, on our forecasts); ii) strong balance sheet position (2020-22E net cash/EBITDAs of 2.1-1.4x); and iii) attractive valuation (2021-22E EV/EBITDAs of only 11.8-8.4x, i.e., 32-36% below its peers).

The European smart home devices market should record solid growth by 2024E, according to IDC. The largest segment of the European market is video entertainment (41% of 2020E shipments), although it is the one that should enjoy the slowest expansion pace (a 2020-24E CAGR of 8%). On the other hand, the segments in which Allterco operates, i.e., lighting and home monitoring/security are expected to see 47% and 21% growth rates, respectively, according to IDC.

2019-22E revenues CAGR at 33%, according to our forecasts. In our model, we pencil in solid double-digit yoy growth in the company's top line, on the back of strong growth in IoT goods sales, as noted in the paragraph above, as well as the company's small size (i.e., a low base effect). Moreover, the 2018 and 2019 goods sales reported by the company (i.e., +48% yoy and +92% yoy, respectively) proved that Allterco is well-positioned to meet our forecasts. We also stress that our top-line forecasts are below the company's targets, as presented in its 2020 prospectus.

EBITDA CAGR of 19%, on our numbers. We believe that profit growth may lag top-line growth, as the scaling up of the operations may come at the price of greater opex growth, as well as stronger competitive pressure. Again, our forecasts are much more conservative than Allterco's, which sees its 2019-22E EBITDA CAGR at 28%.

Strong balance sheet creates room for dividends. On our numbers, the company should remain net cash positive over our forecast period (2020-22E net cash/EBITDAs at 2.1-1.4x). Therefore, even though Allterco has no formal dividend policy consideration, we believe that the company is likely to continue distributing profits (we expect the 2020-22E yields at 1.1-3.2%).

We rate Allterco a BUY, with a 12M price target (PT) of BGN 10.83/share, implying 25% upside potential. We derive our PT based solely on our DCF analysis (a 100% weight), with our peer group valuation assigned a 0% weight. Our DCF indicates a PT of BGN 10.83/share (25% upside), whereas our peers-based valuation implies a PT of BGN 11.89/share (37% upside potential). On our numbers, Allterco trades at 2021-22E EV/EBITDAs of only 11.8-8.4x, i.e., 32-36% below its peers.

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

Expected events

4Q20 results	1 March (TBC)
1Q21 results	31 May (TBC)
2Q21 results	30 August (TBC)
3Q21 results	29 November (TBC)

Key data

Market Cap	USD 95m
3M ADTV	USD 0.1m
Free float	33%
Shares outstanding	18m
Major Shareholder	Dimitar Dimitrov (32.48%) Svetlin Todorov (32.48%)
Bloomberg Code	A4L BU
SOFIX Index	506

Price performance

52-w range	BGN 2.8-8.9
52-w performance	+128%
Relative performance	+141%

Allterco 12M share price performance



	Revenues	EBITDA	EBIT	NI	EPS	DPS	P/E	EV/EBITDA	Div	ND/EBITDA
	BGNm	BGNm	BGNm	BGNm	BGN	BGN	x	x	yield	x
2018	44.9	4.1	3.4	2.6	0.18	0.17	49.0x	32.9x	2.0%	0.9x
2019	33.3	9.4	0.1	7.2	0.48	0.03	18.1x	13.0x	0.3%	-0.8x
2020E	39.0	10.3	9.4	8.6	0.48	0.10	18.0x	13.0x	1.1%	-2.1x
2021E	55.7	11.4	10.3	6.2	0.34	0.17	25.2x	11.8x	2.0%	-2.0x
2022E	79.1	15.9	14.6	9.9	0.55	0.28	15.7x	8.4x	3.2%	-1.4x

Analysts: Pawel Wieprzowski, PhD; Piotr Raciborski, CFA
E-mail: pawel.wieprzowski@wood.com; piotr.raciborski@wood.com

Warsaw: +48 22 222 1549
Website: www.wood.com

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Closing Prices as of 25 January 2021

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Requests for permission to make copies of any part of this report should be mailed to:

WOOD & Company Financial Services a.s.
Palladium, Namesti Republiky 1079/1a,
110 00 Prague 1 – Czech Republic
tel.: +420 222 096 111
fax: +420 222 096 222
<http://www.wood.cz>

Company snapshot – BUY, PT BGN 10.83/share

Allterco		SHARE PRICE PERFORMANCE		COMPANY DESCRIPTION							
BUY											
Bloomberg ticker	A4L BU Equity			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 Internet of Things business, which is now perceived as a key part of its business by the company. In 2019, Allterco has disposed of its European telecommunications business, and is now considering selling its Asian telecom subsidiaries. The two most important markets in terms of 2019 goods sale through distributors were Germany (a 28% top line) and Italy (24%). For the online sales channel, the share of the two countries amounted to 43% and 14%, respectively. The company's founders – Dimitar Dimitrov and Svetlin Todorov – are still the major shareholders and key managers.							
Closing price (BGN/share)	8.65										
PT (BGN/share)	10.83										
Upside to PT	25%										
Shares outstanding (m)	18										
Market cap (USDm)	95										
Free float	33%										
Average daily turnover (USDk)	84.0										
52 Week performance	128%										
52 Week relative performance	141%										
52 Week Range (BGN)	2.76-8.85										
RATIOS				VALUATION RATIOS							
BGN/share	2018	2019	2020E	2021E	2022E	2018	2019	2020E	2021E	2022E	
EPS	0.2	0.5	0.5	0.3	0.6	EV/EBITDA	32.9x	13.0x	13.0x	11.8x	8.4x
DPS (from the given year's net profit)	0.2	0.0	0.1	0.2	0.3	P/E	49.0x	18.1x	18.0x	25.2x	15.7x
Dividend pay-out ratio	97%	6%	20%	50%	50%	FCF yield	-0.1%	1.2%	3.8%	3.4%	3.5%
						Dividend yield	2.0%	0.3%	1.1%	2.0%	3.2%
FINANCIAL RATIOS				FCF BREAKDOWN (BGNm)							
EBITDA margin	2018	2019	2020E	2021E	2022E	2018	2019	2020E	2021E	2022E	
Net margin	9.1%	28.2%	26.5%	20.4%	20.1%	EBIT*	3.4	5.0	9.4	10.3	14.6
Effective tax rate	5.9%	21.5%	22.1%	11.1%	12.6%	NOPAT	2.8	4.4	8.5	8.7	12.4
ROE	15.4%	12.2%	10.0%	15.0%	15.0%	D&A	0.7	0.8	0.9	1.1	1.3
ROA	9.6%	24.3%	22.4%	12.6%	18.1%	CAPEX	-2.2	-1.8	-2.7	-3.1	-3.5
ROC	6.5%	17.4%	17.9%	10.5%	15.2%	Change in WC	-1.5	-1.9	-0.7	-1.5	-4.8
	8.9%	13.1%	20.4%	16.8%	21.6%	FCF	-0.1	1.5	6.0	5.2	5.4
COMPANY FINANCIALS											
INCOME STATEMENT, BGNm				BALANCE SHEET, BGNm							
2018	2019	2020E	2021E	2022E	2018	2019	2020E	2021E	2022E		
Revenues	44.9	33.3	39.0	55.7	79.1	PPE	4.6	4.5	5.3	5.9	6.9
o/w goods	10.9	21.0	33.0	49.5	72.8	Intangibles	3.6	3.2	4.2	5.6	6.8
o/w services	33.9	12.3	6.0	6.1	6.2	Goodwill	15.6	3.3	3.3	3.3	3.3
EBITDA	4.1	9.4	10.3	11.4	15.9	Others	0.0	6.6	3.6	3.6	3.6
D&A	0.7	0.8	0.9	1.1	1.3	Total non-current assets	23.8	17.7	16.4	18.4	20.6
Operating profit	3.4	9.1	9.4	10.3	14.6	Inventories	1.0	1.3	1.5	2.3	3.2
PBT	3.1	8.3	12.4	10.2	14.6	Trade accounts receivable	7.7	5.4	10.0	11.4	16.2
Income tax	0.5	1.0	1.2	1.5	2.2	Cash and cash equivalents	0.5	10.9	23.9	24.6	24.6
Minorities	0.0	0.1	0.1	0.1	0.1	Others	0.4	0.3	0.3	0.3	0.3
Net profit	2.6	7.2	8.6	6.2	9.9	Total current assets	9.6	17.9	35.7	38.6	44.3
						Total assets	42.3	39.9	56.4	61.3	69.3
CASH FLOW STATEMENT, BGNm											
2018	2019	2020E	2021E	2022E							
CF from operations	0.6	6.4	5.2	5.9	6.5	Total shareholders equity	28.9	30.3	47.1	51.6	58.6
D&A	0.7	0.8	0.9	1.1	1.3	Long-term borrowings	2.9	2.5	2.0	1.7	1.7
Changes in WC	-1.5	-1.9	-0.7	-1.5	-4.8	Other LT liabilities	0.1	0.1	0.1	0.1	0.1
CF from investments	-2.3	8.3	0.2	-3.2	-3.5	Total non-current liabilities	3.0	2.6	2.1	1.8	1.8
o/w capex (PPE & int. ass.)	-2.0	-1.8	-2.7	-3.1	-3.5	ST Debt	1.2	0.4	0.4	0.4	0.4
CF from fin. activities	1.3	-3.7	7.6	-2.0	-3.1	ST trade payables	2.1	1.4	1.7	2.4	3.3
o/w borrowings	0.6	-1.0	-0.5	-0.3	0.0	Other ST liabilities	1.4	2.2	2.2	2.2	2.2
o/w dividends	0.0	-2.6	-0.5	-1.7	-3.1	Total current liabilities	4.7	4.0	4.2	4.9	5.9
						Total equity and liabilities	42.3	39.9	56.4	61.3	69.3
						Gross debt	4.3	3.2	2.7	2.4	2.4
						Net debt	3.8	-7.8	-21.2	-22.2	-22.2
						ND/EBITDA	0.9x	-0.8x	-2.1x	-2.0x	-1.4x
Revenues by segment				Gross profit by segment							
BGNm	2018	2019	2020E	2021E	2022E	BGNm	2018	2019	2020E	2021E	2022E
Revenues	44.9	33.3	39.0	55.7	79.1	Services	6.5	1.7	0.6	0.6	0.6
yoy	15%	-26%	17%	43%	42%	Gross margin	19.1%	13.8%	10.0%	10.0%	10.0%
Services	33.9	12.3	6.0	6.1	6.2	Goods	6.3	12.0	16.5	22.8	30.6
yoy	7%	-64%	-51%	2%	2%	Gross margin	57.4%	57.0%	50.0%	46.0%	42.0%
Goods	10.9	21.0	33.0	49.5	72.8						
yoy	48%	92%	57%	50%	47%						
ND/EBITDA and CAPEX				FCF and FCF yield							

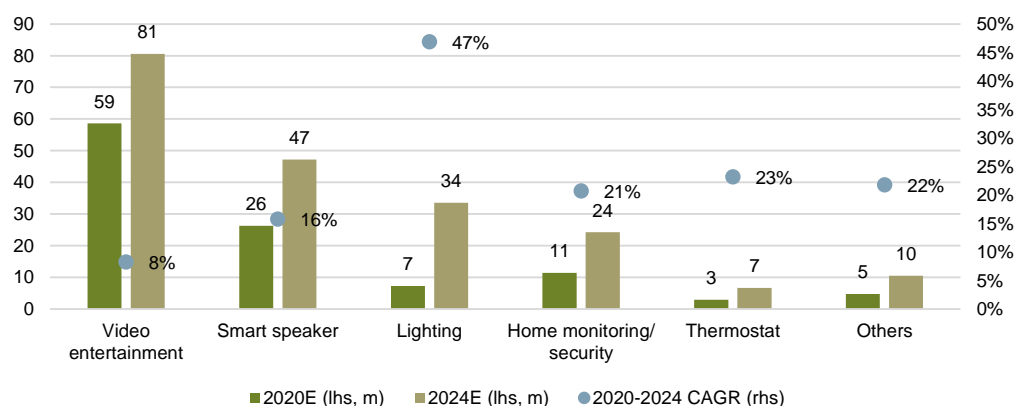
Source: WOOD Research, company data, Bloomberg; *2019 EBIT adjusted for a BGN 4.9m impairment of goodwill for the purpose of FCF calculations

Investment case

We initiate coverage of Allterco, a Bulgarian Internet of Things (IoT) company, with a BUY rating and a 12M price target (PT) of BGN 10.83/share (25% upside potential). The company was founded nearly 20 years ago, as a telecommunications firm. In 2010, it started developing its IoT segment, which is fast growing and high margin (most of the segments of the European smart home devices market should grow by 16-47% yoy between 2020-24E, according to IDC). In 2019, Allterco decided to exit the stagnant and low-margin telco sector, by selling its European telco subsidiaries, and it is considering disposing of its Asian assets currently. We like the company for its: i) growth profile (a 2019-22E revenues CAGR of 33% and an EBITDA CAGR of 19%, on our forecasts); ii) strong balance sheet position (a 2020-22E net cash/EBITDA of 2.1-1.4x); and iii) attractive valuation (2021-22E EV/EBITDAs of only 11.8-8.4x, i.e., 32-36% below its peers).

Virtually all segments of the European smart home devices market should record double-digit yoy growth by 2024E, according to IDC. The largest segment of the European market is video entertainment (41% of 2020E shipments), although it is the one that should enjoy the slowest expansion pace (a 2020-24E CAGR of 8%). On the other hand, the fastest-growing segments should be: lighting (47%), thermostat (23%), and home monitoring/security (21%).

Europe smart home devices: volume (m) forecast, by category (2020-24E), as of September 2020



Source: WOOD Research, IDC

2019-22E revenues CAGR at 33%, according to our forecasts. In our model, we pencil in solid double-digit yoy growth in the company's top line, on the back of strong growth in IoT goods sales. As illustrated in the market section of this report, according to IDC's forecasts, the European smart home devices market should enjoy very solid growth. To be more specific, in the two segments in which Allterco operates, the market should see a 2020-24E volumes CAGR of 47% for lighting, and 21% for home monitoring/security. Hence, we see our forecast 2019-22E CAGR for Allterco's top line as rather conservative, as the company is still a small one; thus, it has significant room for further growth. We also note that Allterco has already recorded very solid growth in goods sales in the past couple of years (2018: +48% yoy; 2019: +92% yoy); therefore, we believe Allterco is in a rather good position to continue its expansion in this field. Moreover, in our model, we do not assume the sale of the Asian telecoms business, which the company is considering at the moment, as there has been no term sheet signed, and we do not know if/when the possible disposal may take place.

Revenues (BGN m)

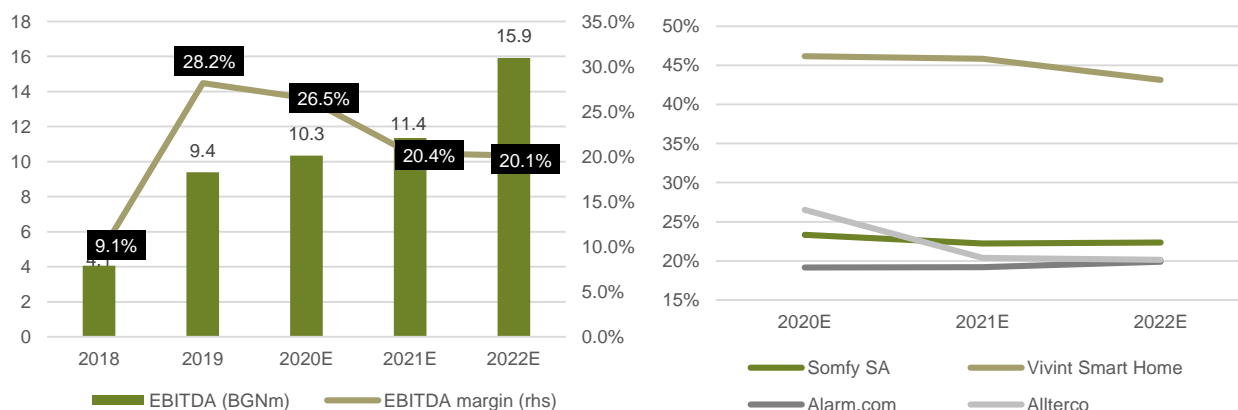


Source: WOOD Research, company data

EBITDA margin may erode, but profit should still enjoy a solid 2019-22E CAGR of 19%, according to our forecasts. As we noted earlier, along with its ambitious development plans, we see a risk of profitability erosion at Allterco. We, very conservatively, assume that its EBITDA margin could converge over the next two years to the levels of its two major peers – Alarm.com and Somfy (on the Bloomberg consensus for the two companies' figures). However, we note that, in our forecasts, we still assume no disposal of the lower-margin Asian telecoms business. Should the transaction happen, we would see upside potential for our margins assumptions (but also downside risk for the EBITDA figures). We note that this was the case when the European telecoms business was sold by the company in 2019, which resulted in its EBITDA margin tripling yoy, to 28%, from 9% in 2018 (although we admit that the growth in IoT goods sales was another driver of the profitability improvement).

EBITDA (BGN m)

EBITDA margins



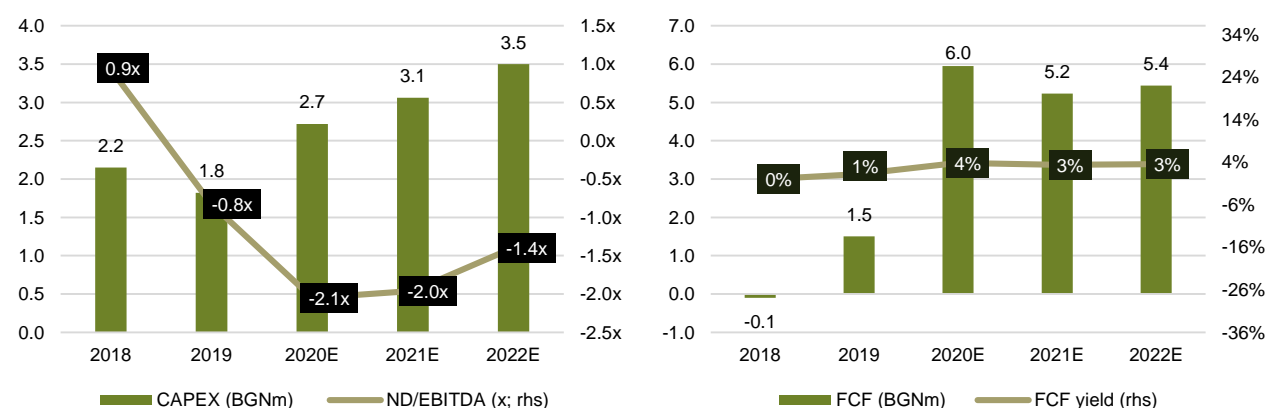
Source: WOOD Research, company data, company data, Bloomberg

Capex to increase, but FCF generation capacity should support the strength of the balance sheet.

Taking into consideration the company's development plans, we expect the capex to increase in the coming years. However, we see a chance of keeping the leverage low on the back of its FCF generation capacity. We also note that the gearing may drop by more than we assume, if the Asian telecoms business is sold (which we do not assume). We also stress that, in our model, we pencil in the expansion of the cash conversion cycle from 64 days in 2020E to 75 days in 2021E, as we believe that undertaking such ambitious development plans may require the company to offer more competitive financing terms.

Capex (BGN m)

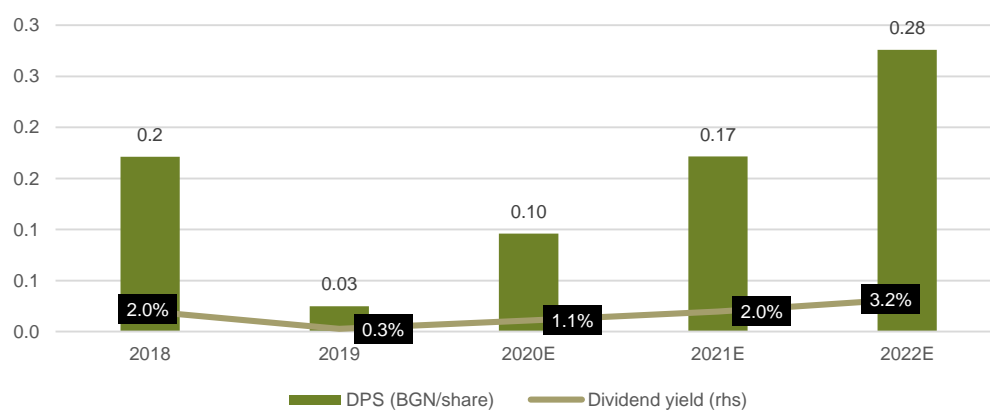
FCF (BGN m)*



Source: WOOD Research, company data; *2019 FCF adjusted for the BGN 4.9m impairment of goodwill

No stated dividend policy, but we expect the company to continue distributing profits on a regular basis. Allterco has not adopted a dividend policy, although it has distributed profits to shareholders occasionally (DPS of BGN 0.2 paid out in 2019 and BGN 0.03 in 2020). Although we do not see dividends as the key element of the equity story (it is a growth story primarily), given the strong balance sheet and the FCF generation capacity, we see room for greater dividend payments in the future. However, we believe that, in 2021E, the company is likely to focus on expanding its scale of operations; hence, it may not be eager to distribute a significant part of its profits.

DPS (BGN/share)*



Source: WOOD Research, company data; *DPS from given year's profit

We rate Allterco a BUY, with a 12M price target (PT) of BGN 10.83/share, implying 25% upside potential. We derive our PT based solely on our DCF analysis (a 100% weight), with the peer group valuation assigned a 0% weight. Our DCF indicates a PT of BGN 10.83/share (25% upside), whereas our peers-based valuation implies a PT of BGN 11.89/share (37% upside potential). On our numbers, Allterco trades at 2021-22E EV/EBITDAs of only 11.8-8.4x, i.e., 32-36% below its peers.

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

Valuation

We rate Allterco a BUY, with a 12M price target (PT) of BGN 10.83/share, implying 25% upside potential. We derive our PT based solely on our DCF analysis (a 100% weight), with our peer group valuation assigned a 0% weight. We have decided to assign no weight to the multiples valuation due to the small size of the company (a market cap of only USD 95m; 2019 EBITDA at c.EUR 5m), as well as the limited stock liquidity (3M ADTV below USD 0.1m).

Valuation summary

	Weight	PT	Current price	Upside
DCF	100%	10.83	8.65	25%
Peer-based valuation	0%	11.89	8.65	37%
Weighted PT	100%	10.83	8.65	25%

Source: WOOD Research

DCF: 12M PT at BGN 10.83/share

We base our DCF valuation on the following assumptions:

- ✓ A WACC of c.11%.
- ✓ A present value of the discounted free cash flows of BGN 46m for 2021-28E.
- ✓ End-2020E net cash of BGN 21m.
- ✓ A present value of the terminal value of BGN 108m.
- ✓ A terminal growth rate of 4.0%.

DCF valuation

BGN m	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	Terminal
Revenues	55.7	79.1	98.1	115.7	135.5	151.1	162.8	173.8	180.6
yoy	43%	42%	24%	18%	17%	12%	8%	7%	4%
EBIT	10.3	14.6	17.3	19.9	23.4	24.3	25.8	25.6	26.3
EBIT margin	18%	18%	18%	17%	17%	16%	16%	15%	15%
Cash tax	1.5	2.2	2.6	3.0	3.5	3.7	3.9	3.8	4.0
NOPAT	8.7	12.4	14.7	17.0	19.9	20.7	21.9	21.8	22.4
(+) D&A	1.1	1.3	1.5	2.0	2.6	3.3	4.1	4.7	5.2
(-) capex	-3.1	-3.5	-5.5	-7.5	-8.1	-8.8	-9.1	-8.7	-8.7
(-) Working capital growth	-1.5	-4.8	-3.9	-3.6	-4.0	-3.2	-2.4	-2.3	-1.4
Net investment	-3.5	-7.0	-7.9	-9.1	-9.5	-8.7	-7.4	-6.3	-4.9

FCF	5.2	5.4	6.8	7.9	10.3	12.0	14.5	15.5	17.5
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Terminal growth [g(t)]	4.0%
PV TV	108
PV FCF 2021-28E	46
Enterprise value (BGN m)	154
Net debt (end-2020E)	-21
Minorities (end-2020E)	0
Equity value (BGN m)	175
Number of shares (m)	18
Value per share (BGN, 1 Jan 2021)	9.71
12M PT (BGN)	10.83

Source: WOOD Research

DCF sensitivity

		WACC						
		6.7%	7.7%	8.7%	11%	10.7%	11.7%	12.7%
Terminal growth rate	1.0%	9.03	8.96	8.89	8.82	8.75	8.68	8.62
	2.0%	9.56	9.49	9.41	9.34	9.27	9.20	9.13
	3.0%	10.23	10.15	10.07	9.99	9.91	9.84	9.76
	4.0%	11.09	11.00	10.92	10.83	10.74	10.66	10.58
	5.0%	12.24	12.14	12.04	11.95	11.85	11.76	11.67
	6.0%	13.85	13.73	13.62	13.51	13.40	13.29	13.19
	7.0%	16.26	16.12	15.99	15.85	15.72	15.60	15.47

Source: WOOD Research

Peers valuation: 12M PT at BGN 11.89/share

Although Allterco should grow significantly faster than its peers, it trades at discounts to them. On our numbers, the company should record a 2019-22E EBITDA CAGR of 19%. This is more than a two-fold higher figure than the median for its peers, at 8%, according to the consensus. Still, the company trades at 2021-22E P/Es of only 25.2-15.7x, i.e., 23% premium/19% discount to its peers' multiples. On its 2021-22E EV/EBITDAs (11.8-8.4x, on our numbers), it is valued 32-36% below its competitors. We value the company based on the 2021-22E multiples, as 9M20 has been reported already.

Allterco: peers

	Country	Market cap USDm	ND/ EBITDA	P/E			EBITDA CAGR 19-22E	EV/EBITDA			Dividend yield		
				2020E	2021E	2022E		2020E	2021E	2022E	2020E	2021E	2022E
Allterco	Bulgaria	95	-0.8x	18.0	25.2	15.7	19%	13.0	11.8	8.4	1.1%	2.0%	3.2%
Somfy Sa	France	6,540	-1.3x	28.1	27.1	25.2	6%	17.5	16.8	15.4	1.0%	1.2%	1.3%
Alarm.Com	US	5,206	-0.9x	67.0	65.5	54.1	20%	44.3	40.9	n.a.	n.a.	n.a.	n.a.
Vivint Smart Home	US	4,886	n.a.	n.a.	n.a.	n.a.	16%	13.1	11.9	11.5	n.a.	n.a.	n.a.
Digital China	Hong Kong	1,264	1.4x	18.8	13.3	13.2	5%	n.a.	n.a.	n.a.	2.0%	2.8%	3.2%
Viomi Technology	China	542	-3.4x	17.2	11.9	8.9	9%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Weighted median				23.8	20.6	19.4	8%	17.9	17.3	13.1	1.5%	2.0%	2.2%
Allterco vs. peers' median				-24%	23%	-19%	11.7pp	-28%	-32%	-36%	0pp	0pp	1pp

Source: WOOD Research, Bloomberg

Peer valuation

	P/E (x)			EV/EBITDA (x)		
	2020E	2021E	2022E	2020E	2021E	2022E
Total weighted median (x)	23.77	20.58	19.39	17.95	17.32	13.11
EPS (BGN/share) for P/E and EBITDA (BGN m) for EV/EBITDA	0.5	0.3	0.6	10	11	16
Implied enterprise value				186	197	209
Implied Equity value	205	127	193	207	219	230
Implied Equity value per share (BGN)	11.41	7.06	10.69	11.48	12.14	12.80
Weight (%)	0.0%	25.0%	25.0%	0.0%	25.0%	25.0%
Implied weighted equity value per share (BGN)					10.67	
12M price target (PT)					11.89	

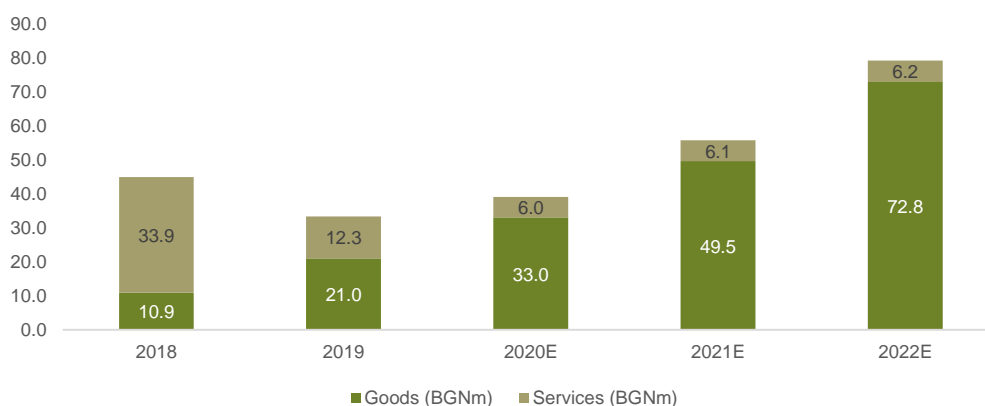
Source: Bloomberg, WOOD Research

Financial forecasts

WOOD's forecasts

2019-22E revenues CAGR at 33%, according to our forecasts. In our model, we pencil in solid double-digit yoy growth in the company's top line, on the back of strong growth in IoT goods sales. As illustrated in the market section of this report, according to IDC's forecasts, the European smart home devices market should enjoy very solid growth. To be more specific, in the two segments in which Allterco operates, the market should see a 2020-24E volumes CAGR of 47% for lighting, and 21% for home monitoring/security. Hence, we see our forecast 2019-22E CAGR for Allterco's top line as rather conservative, as the company is still a small one; thus, it has significant room for further growth. We also note that Allterco has already recorded very solid growth in goods sales in the past couple of years (2018: +48% yoy; 2019: +92% yoy); therefore, we believe Allterco is in a rather good position to continue its expansion in this field. Moreover, in our model, we do not assume the sale of the Asian telecoms business, which the company is considering at the moment, as there has been no term sheet signed, and we do not know if/when the possible disposal may take place.

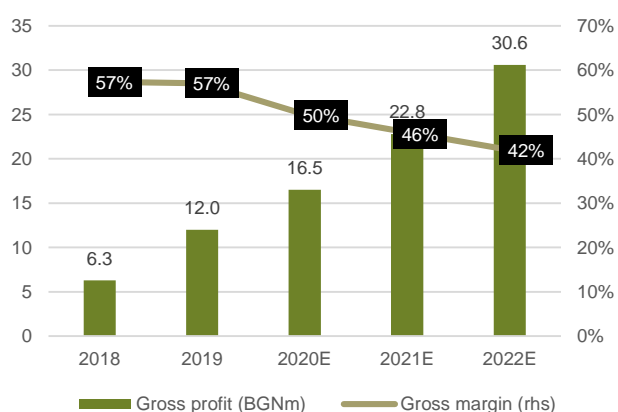
Revenues (BGN m)



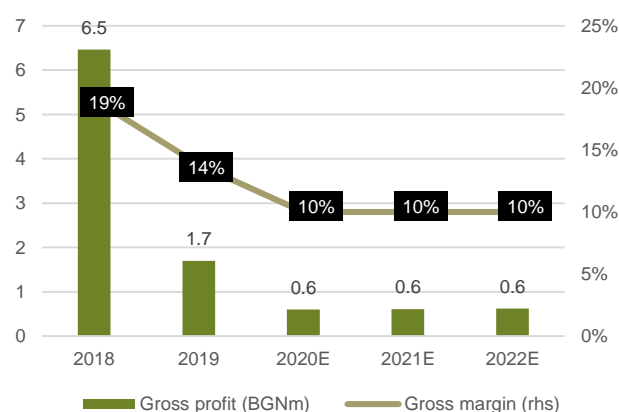
Source: WOOD Research, company data

We expect the erosion of profitability amid the ambitious development plans. Our forecasts indicate the possible erosion of profitability, which is very likely, in our view, given the company's strategic aims, i.e., entering new markets, increasing the scale of its operations significantly as a consequence. Moreover, we see a risk of greater competition in the IoT market, as it matures, which may additionally exert pressure on pricing and, thus, margins.

Goods: gross profit and margin



Services: gross profit and margin

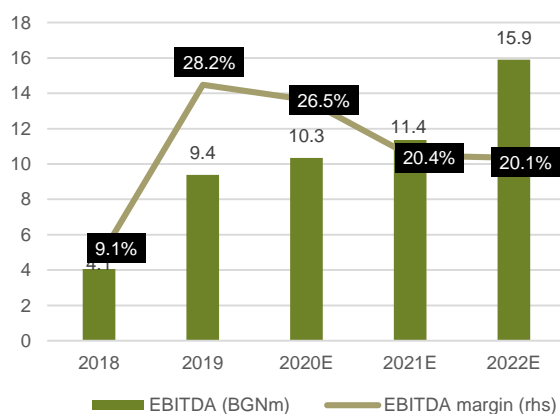


Source: WOOD Research, company data

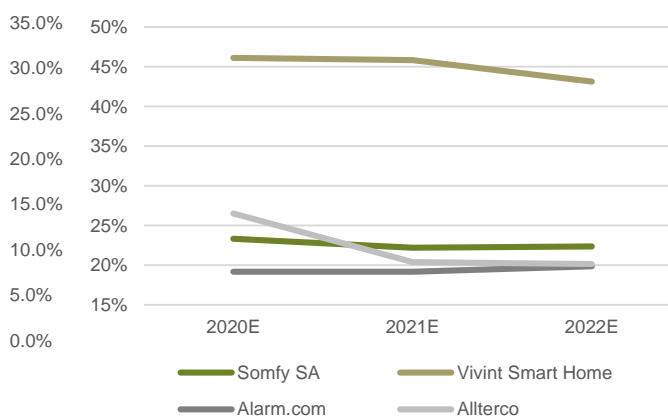
EBITDA margin may erode, but profit should still enjoy a solid 2019-22E CAGR of 19%, according to our forecasts. As we noted earlier, along with its ambitious development plans, we see a risk of profitability erosion at Allterco. We, very conservatively, assume that its EBITDA margin could converge over the next two years to the levels of its two major peers – Alarm.com and Somfy (on the Bloomberg consensus for the two companies' figures). However, we note that, in our forecasts, we still assume no disposal of the lower-margin Asian telecoms business. Should the transaction happen, we would see upside potential for our margins assumptions (but also downside risk for the EBITDA figures). We note

that this was the case when the European telecoms business was sold by the company in 2019, which resulted in its EBITDA margin tripling yoy, to 28%, from 9% in 2018 (although we admit that the growth in IoT goods sales was another driver of the profitability improvement).

EBITDA (BGN m)



EBITDA margins

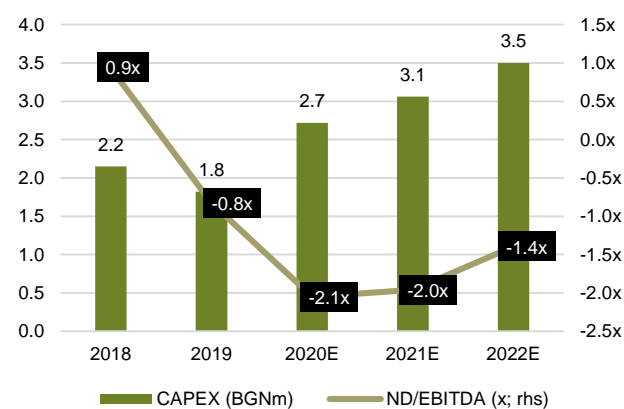


Source: WOOD Research, company data, company data, Bloomberg

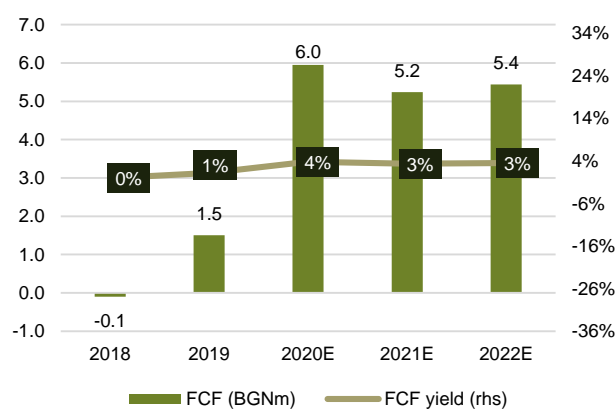
Capex to increase, but FCF generation capacity should support the strength of the balance sheet.

Taking into consideration the company's development plans, we expect the capex to increase in the coming years. However, we see a chance of keeping the leverage low on the back of its FCF generation capacity. We also note that the gearing may drop by more than we assume, if the Asian telecoms business is sold (which we do not assume). We also stress that, in our model, we pencil in the expansion of the cash conversion cycle from 64 days in 2020E to 75 days in 2021E, as we believe that undertaking such ambitious development plans may require the company to offer more competitive financing terms.

Capex (BGN m)



FCF (BGN m)*

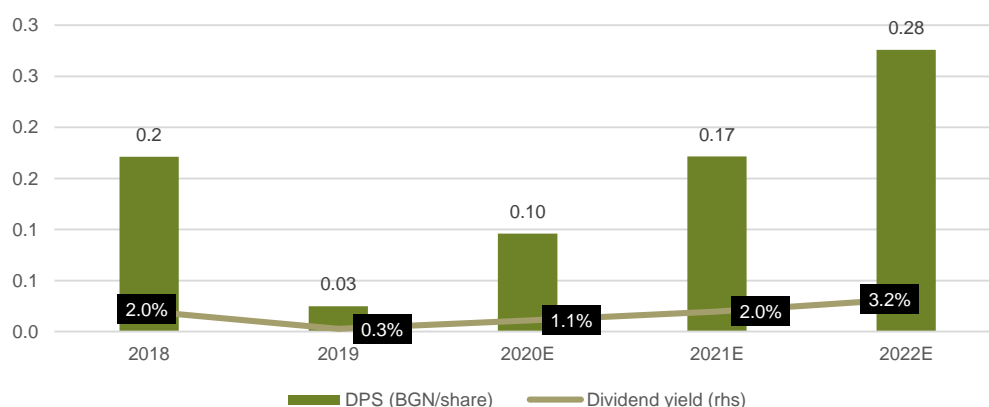


Source: WOOD Research, company data; *2019 FCF adjusted for the BGN 4.9m impairment of goodwill

No stated dividend policy, but we expect the company to continue distributing profits on a regular basis.

Allterco has not adopted a dividend policy, although it has distributed profits to shareholders occasionally (DPS of BGN 0.2 paid out in 2019 and BGN 0.03 in 2020). Although we do not see dividends as the key element of the equity story (it is a growth story primarily), given the strong balance sheet and the FCF generation capacity, we see room for greater dividend payments in the future. However, we believe that, in 2021E, the company is likely to focus on expanding its scale of operations; hence, it may not be eager to distribute a significant part of its profits.

DPS (BGN/share)*

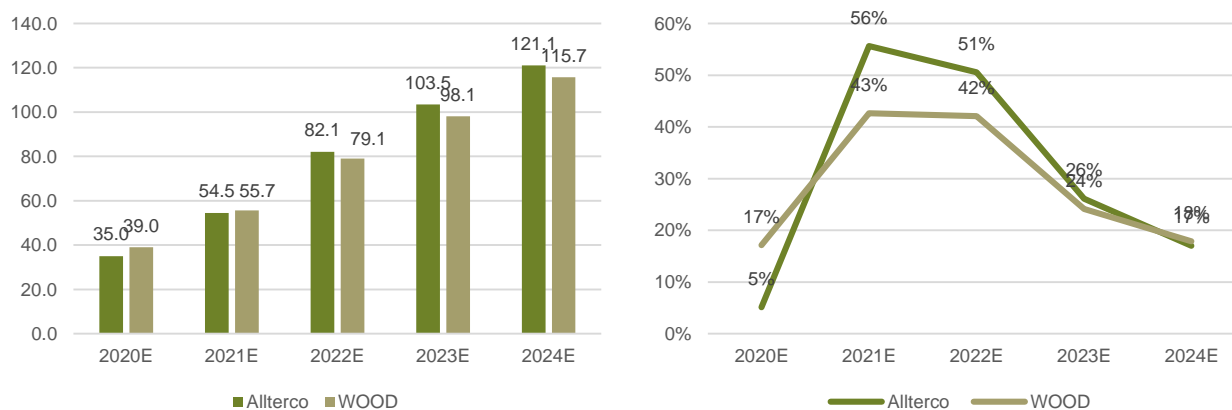


Source: WOOD Research, company data; *DPS from given year's profit

WOOD vs. Allterco's forecasts

We are more conservative on the top line... as noted above, we do not pencil in the sale of Allterco's Asian telecoms business, whereas the company's forecasts, as presented in the IPO prospectus (as of October 2020), do assume the disposal of this part of the business from 2021E. Taking this into consideration, our figures may seem very cautious; however, we prefer to be on the safe side of the story, taking into consideration the large revenues dynamics that we (and Allterco) are expecting.

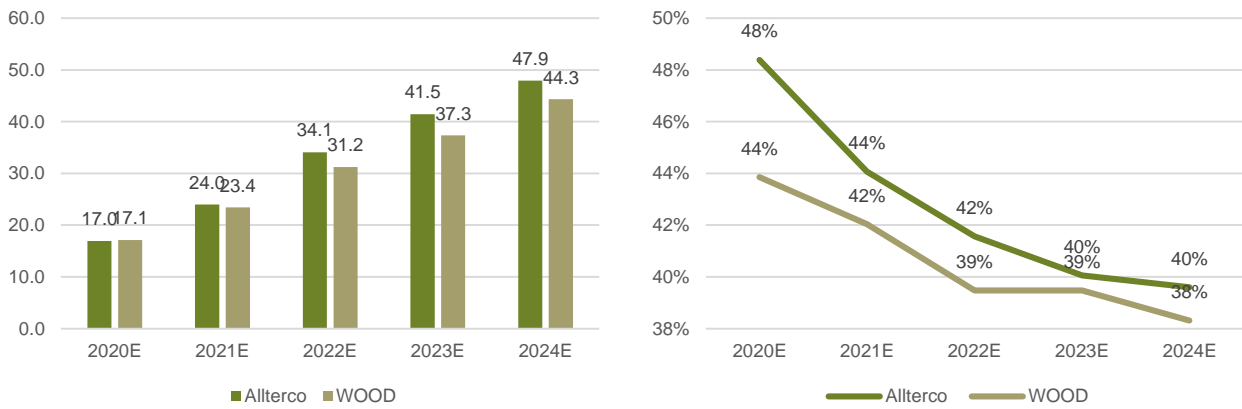
Revenues: WOOD vs. Allterco's forecasts (BGN m – left chart; yoy dynamics – right chart)



Source: WOOD Research, company data

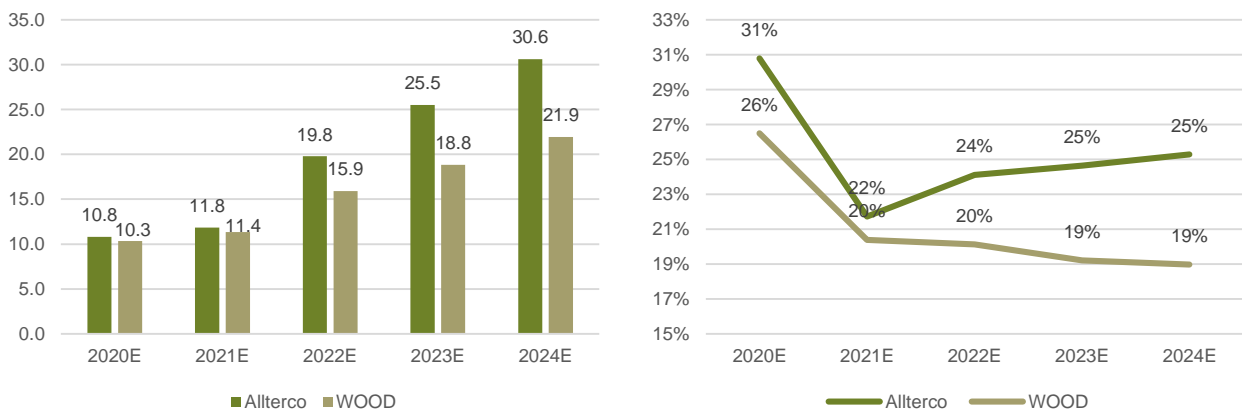
...and the margins. As presented in the charts below, our forecasts for Allterco's profits are below the company's figures. This is because Allterco expects its margins to drop in 2021E and recover in the following years. We do see the risk of lower profitability than the company expects amid: i) our assumption of keeping the low-margin Asian telco business in the group; and ii) the pressure on the margins associated with the ambitious expansion plans and the necessity to become more competitive, consequently.

Gross profit: WOOD vs. Allterco's forecasts (BGN m – left chart; gross margin – right chart)



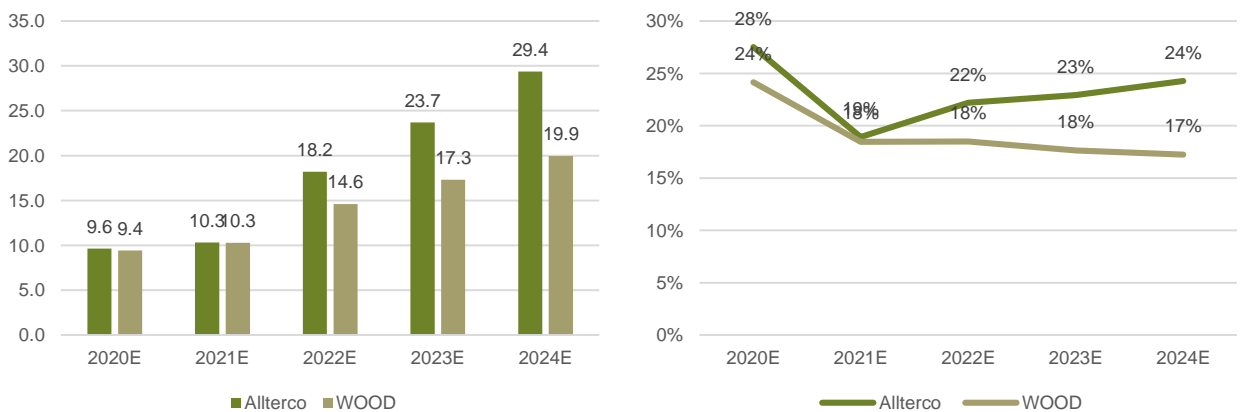
Source: WOOD Research, company data

EBITDA: WOOD vs. Allterco's forecasts (BGN m – left chart; EBITDA margin – right chart)



Source: WOOD Research, company data

Operating profit: WOOD vs. Allterco's forecasts (BGN m – left chart; operating margin – right chart)



Source: WOOD Research, company data

Net profit: WOOD vs. Allterco's forecasts (BGN m – left chart; net margin – right chart)

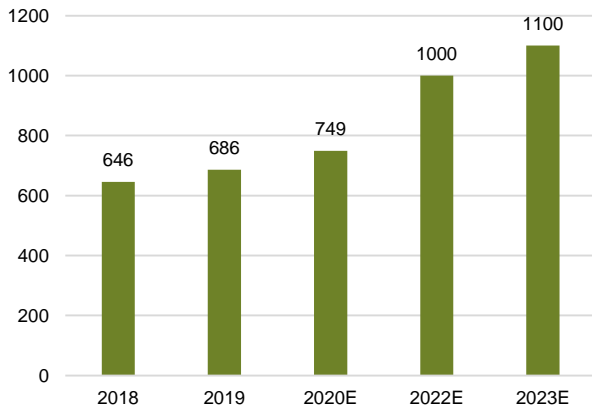


Source: WOOD Research, company data

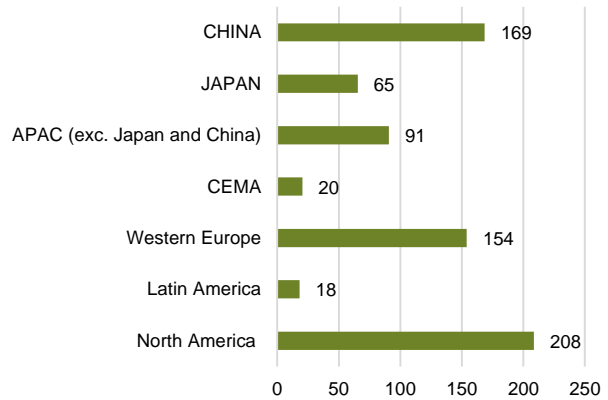
The IoT market

IoT market should enjoy a 2019-23E CAGR of 13%, according to Statista's forecasts. The largest market is the North America region, with USD 0.2trn of IoT spending recorded in 2019, followed by China (USD 0.17trn), and Western Europe (USD 0.15trn). The remaining markets tend to record revenues of <USD 0.1trn.

Global spending on IoT (2018-23E) (USD bn)



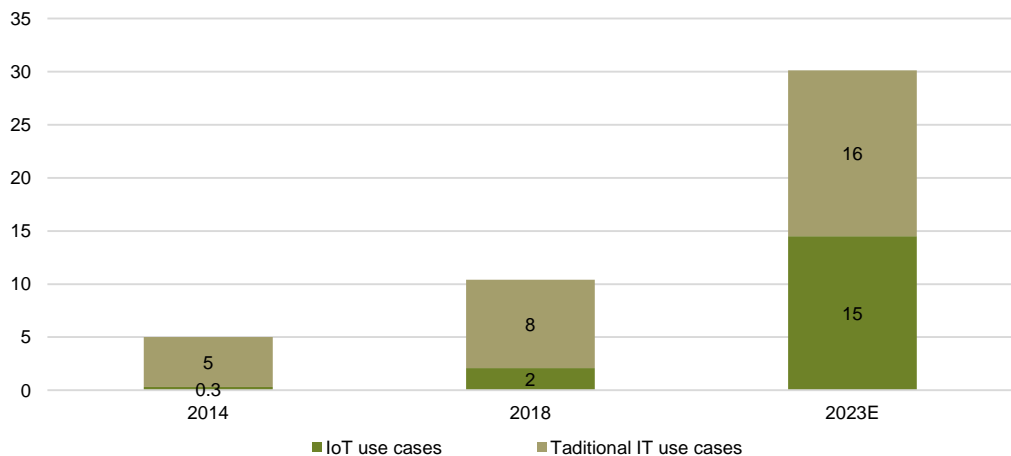
IoT market spend in 2019, by region (USD bn)



Source: WOOD Research, Statista

According to McKinsey, the IoT device-enablement platforms revenues should triple the growth pace of IT platforms by 2023E. In 2014, the IT sector accounted for EUR 5bn of revenue (a 94% share) and IoT USD 0.3bn of revenue (a 6% share). Since then, IoT uses have been gaining market share rapidly and, in 2018, these proportions changed, to 80% and 20%, respectively. Moreover, according to McKinsey's forecasts, this trend should continue and, in 2023E, the split should be roughly 50%/50%, with IoT uses accounting for c.EUR 15bn. This implies, according to McKinsey's forecasts, a 2018-23E CAGR for IoT uses at 48%, vs. 14% for traditional IT uses.

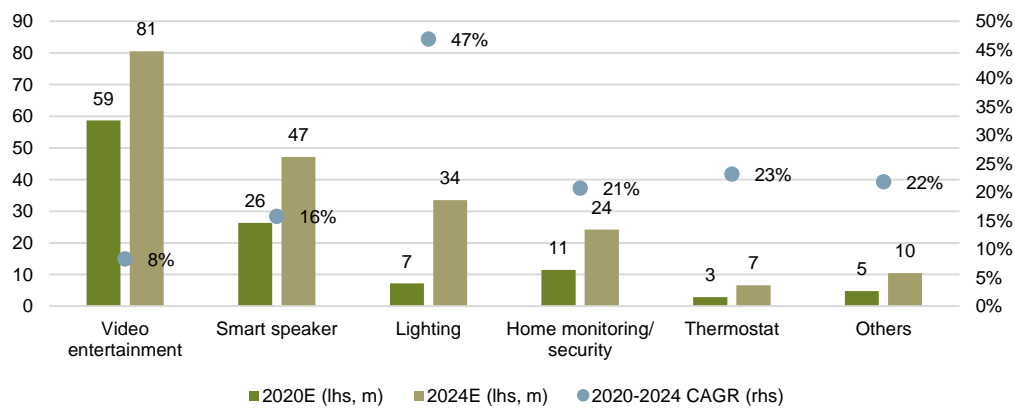
Global revenue for device-enablement platforms for IoT and IT (2014-23E) (EUR bn)



Source: WOOD Research, McKinsey

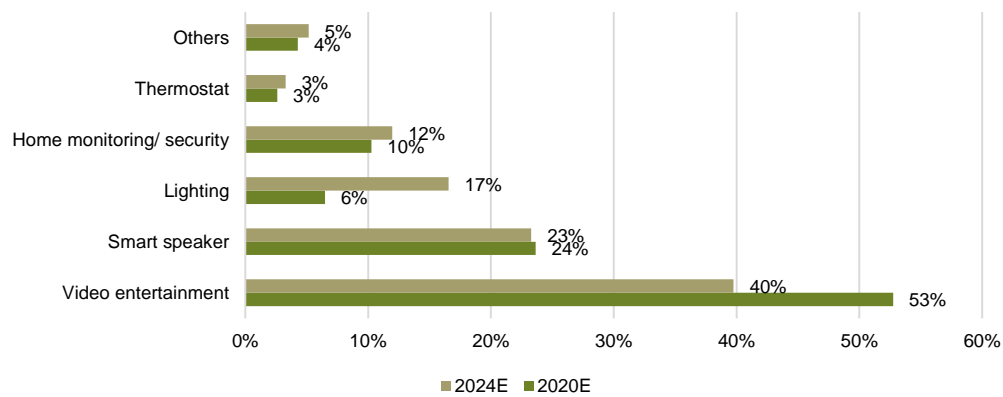
Virtually all segments of the European smart home devices market should record double-digit yoy growth by 2024E, according to IDC. The largest segment of the European market is video entertainment (41% of 2020E shipments), although it is the one that should enjoy the slowest expansion pace (2020-24E CAGR at 8%). On the other hand, the fastest-growing segments should be: lighting (47%), thermostat (23%), and home monitoring/security (21%).

Europe smart home devices: volume (m) forecasts, by category (2020-24E), September 2020



Source: WOOD Research, IDC

Europe smart home devices: volume share forecasts, by category (2020-24E)



Source: WOOD Research, IDC

Risks

Competition risk. Allterco plans to develop in the IoT sector, which is high growth and high margin, at this stage. However, this may encourage other firms to enter the market, which could lead to faster (and deeper) margins erosion than we expect, and/or slower top-line growth.

Production risk and pandemic. Production in the IoT segment is based on subcontractors, mainly in China. There is a risk that the company may face issues with deliveries, if the lockdowns are reinstated. On the other hand, during the epidemic, the company has not experienced material problems with its subcomponent deliveries; hence, it proved to be quite effective in managing its business during the pandemic. We also note that the epidemic fuelled online sales, making the company a relative winner of the spread of the virus (the 9M20 revenues were up by 31% yoy).

Risk of selling the Asian subsidiaries. In December 2019, the group's management board decided to sell the telecommunications group in Asia, consisting of three companies: Allterco PTE Singapore, Allterco SND Malaysia, and Allterco CO Thailand. Until now, there has been no term sheet signed; hence, the disposal involves several risks (e.g., timing, price). Moreover, should the company keep the telco business, it may face a risk of the top-line and margins erosion in this business, which could hinder the group's profitability to a greater extent than we assume. On the other hand, if the Asian assets are sold for a good price, it could be value accretive.

FX risk. The company operates in Europe, but also partly in the US and Asia. Allterco does not incur FX risk in the Eurozone countries, as the BGN is pegged to the EUR at a fixed exchange rate of c.1.96. However, it is exposed to FX risk on the costs side (supplies of the products from China), and revenues side – in the case of the countries outside the Eurozone. For the geographical breakdown of the top line, please refer to the company description section of this report.

Shortage of key employees. Experienced staff is a crucial asset of companies operating in the IoT sector. Allterco may face the risk of issues in retaining its employees, or a failure to recruit new ones, which could hinder its expansion plans.

Certification of goods. Selling IoT goods in various countries is subject to obtaining various approvals and certifications, which may delay the company's expansion plans.

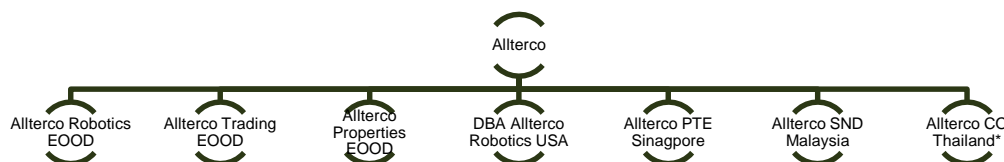
Change in technology risk. The IoT market experiences very rapid technology changes. This creates the risk that a delayed adaptation of technological changes could hinder the company's competitiveness and development prospects.

Data security risk. Allterco operates in the technology industry, which is exposed to hacking attacks, endangering highly confidential and sensitive data. If a successful hacking attack happens, there is a risk that it could result in losing customers, as well as undermining the firm's reputation.

Company description

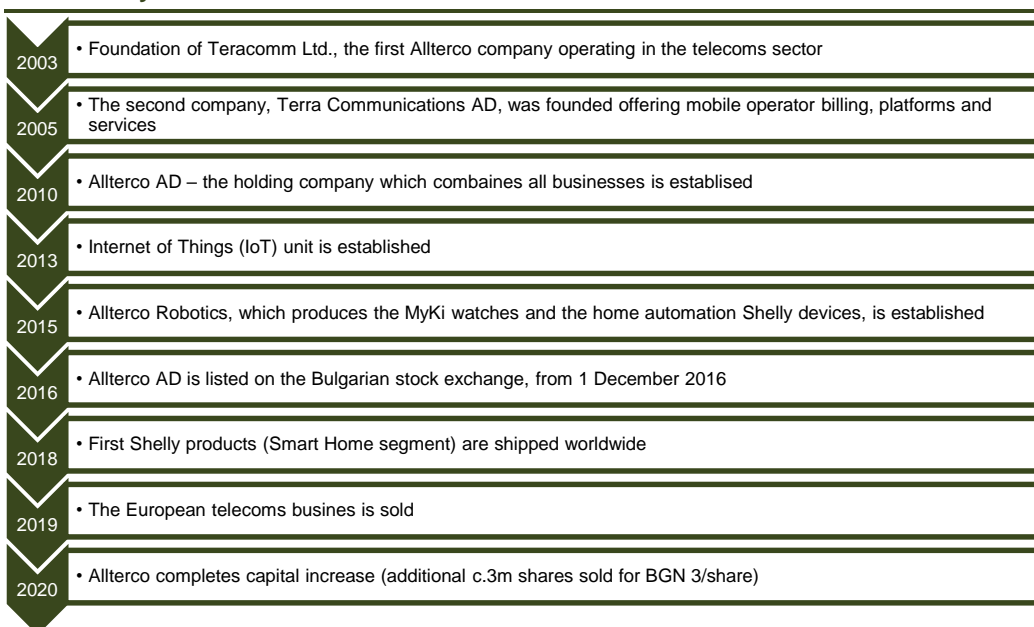
Allterco is a Bulgarian IoT company, operating since 2003. It was established as a telecoms company, which developed gradually into a holding that also manufactures various devices for the Internet of Things (IoT) market. At the moment, the company is focusing on the latter segment of its operations. Allterco made its debut on the Bulgarian Stock Exchange in 2016, after a successful capital increase through its IPO; and, in 2020, the company completed a second capital increase. The proceeds from this are to be invested in the further development of the IoT business.

Allterco: organisational structure



Source: Company data, WOOD Research; *Allterco has only a 49% of share in Allterco CO Thailand

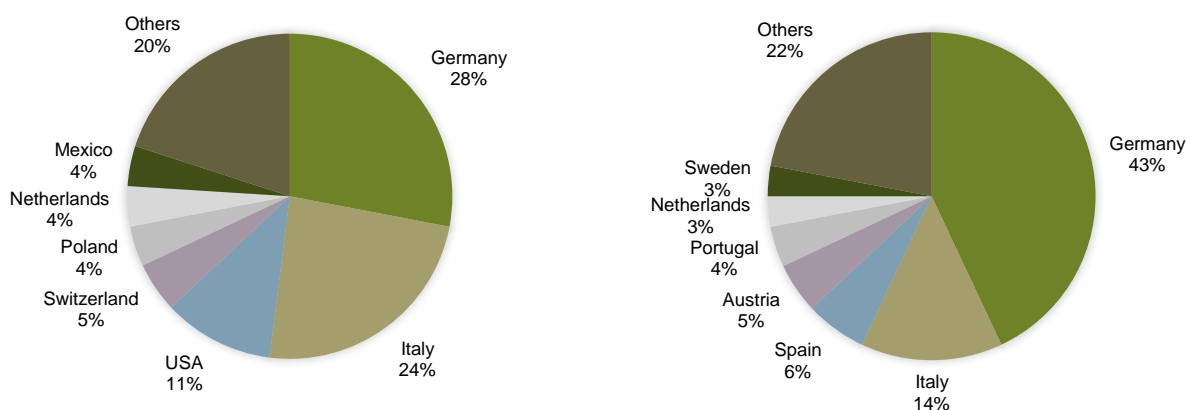
Allterco: key milestones



Source: WOOD Research, company data

Germany and Italy are the most important markets for Allterco. These two countries accounted for more than 50% of the goods sales through distributors, as well as online sales, in 2019. The third most important market for its goods sold through distributors is the US, which contributed 11% to sales in 2019.

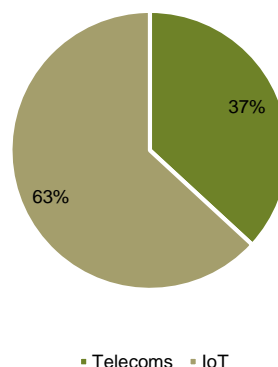
2019 sales structure: goods through distributors (left chart) and online sales (right chart)



Source: WOOD Research, company data

Allterco operates in two sectors: telecoms and the IoT. At this stage, the company renders telco services only in Asian countries: Thailand, Malaysia and Singapore. Until 2019, it also offered these services in Europe, but it has already disposed of its subsidiaries in this market. Allterco's second sector is Internet of Things (IoT) services, operating in Europe and partially in the US. In 2019, 63% of Allterco's revenues were generated by the IoT business, and the remaining 37% by the telecoms segment. Currently, the company is focused primarily on the development of the IoT sector.

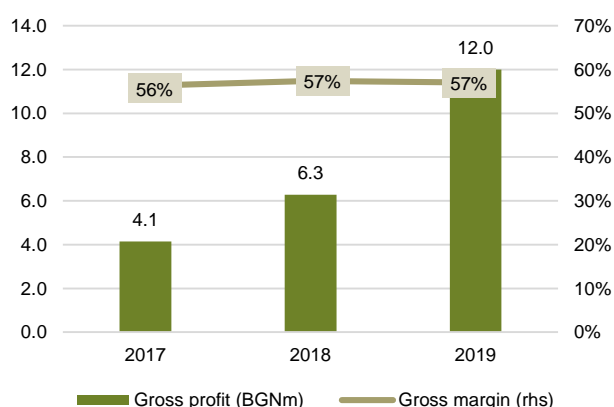
2019 revenues by segment



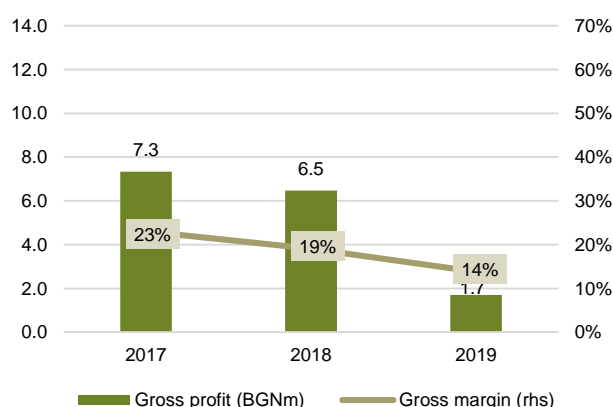
Source: WOOD Research, company data

Goods sales are the most profitable part of Allterco's business, accounting for c.95% of its IoT segment revenues. Allterco has decided to develop the IoT segment primarily. After the sale of the European part of the companies offering telecoms services, the main revenues now come from IoT. The services part (mainly the telecommunication business) exhibits a materially smaller gross margin (the drop of revenues in 2019 was related to disposal of Allterco's European telecoms business).

Gross profit on goods sales



Gross profit on services



Source: WOOD Research, company data

Strategic decision to leave the telecoms business and focus on IoT products. In 2019, Allterco disposed of its subsidiaries operating in the European telecommunications business; also, in December 2019, it made the decision to sell its Asian telco companies (as of today, however, the process has not been completed fully). The shift towards IoT devices, which are already in the company's offer (MyKi watches and the Shelly products), has been supplemented by the development of new products, primarily in the areas of vital parameters monitoring, diagnostics, and environment control devices (air purification, disinfection and sanitisation). Although the latter are still in the development stage, Allterco sees them as a potential diversification opportunity.

Allterco specialises in the development and distribution of IoT devices, under the MyKi and Shelly brands. The group's IoT product portfolio includes devices that use two types of connections: WiFi, which are on the market already; and NarrowBand IoT (NB-IoT). The company believes that, in the future, alongside the 5G network, NB-IoT technology will be the leader for internet connectivity, which should result in the spread of IoT devices virtually everywhere.

MyKi products are tracking devices primarily, namely wearable tracking devices (wearables) – the GPS/GSM watches MyKi Watch, MyKi Junior and MyKi Touch, aimed at children aged 4-10; the pet tracking device MyKi Pet; tracking devices to be fixed to movable items (MyKi Auto); and health and care

devices (self-care devices: MyKi Care – this product is an electronic device, enabling the measurement and remote monitoring of body temperatures via Bluetooth technology).

MyKi products



Source: Company data, WOOD Research

The Shelly products are devices that improve the functionality of households through the application of SmartHome technology. The product portfolio includes: smoke sensors, motion sensors, smart plugs and light bulbs, and relays that allow people to turn classic electrical devices into smarthome devices, and enable the remote control and management of household appliances or office equipment, as well as the distant monitoring of homes and offices.

Shelly products



Source: Company data, WOOD Research

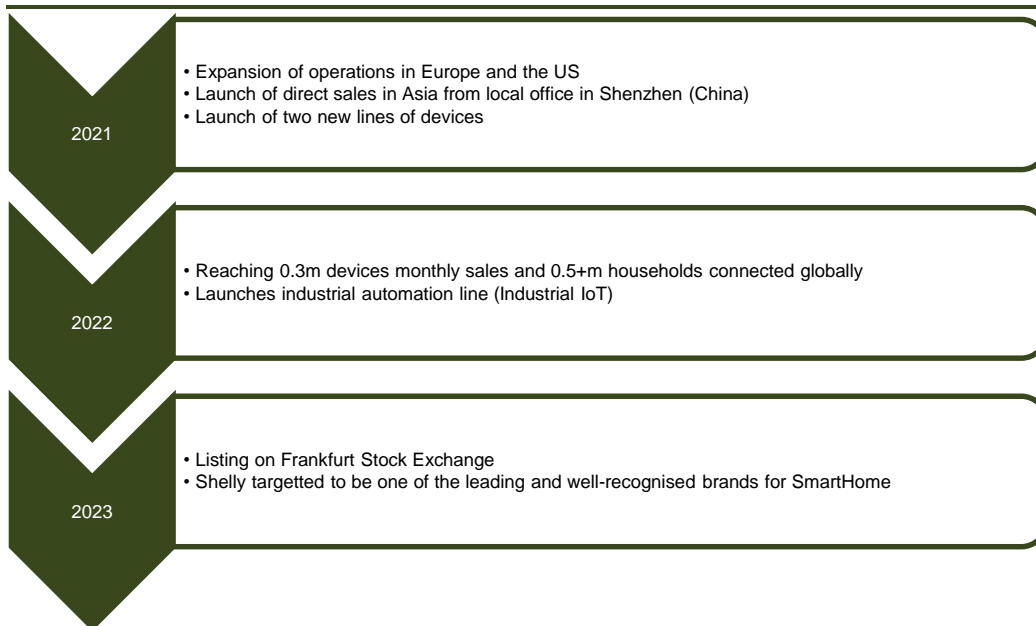
Allterco has raised c.BGN 9m of capital to finance its development plants. In October 2020, the company completed a capital increase, issuing c.3m shares at an issue prices of BGN 3/share. The raised capital will be spent on the development projects that Allterco intends to undertake in the coming years, as depicted in the table and chart below.

Investment Projects

Project name	Description	Investment (EUR m)	% of net proceeds
Widening and development of the distribution network	Increasing the sales team and trade representatives regionally; participation in local and international exhibitions	1.32	30%
Regional logistics centres	Logistics centres that will optimise deliveries and redirect the sales channels	1.8	40%
R&D	Increasing IT and engineering personnel; device certification	1.32	30%
Total invested funds		4.4	100%

Source: WOOD Research, company data

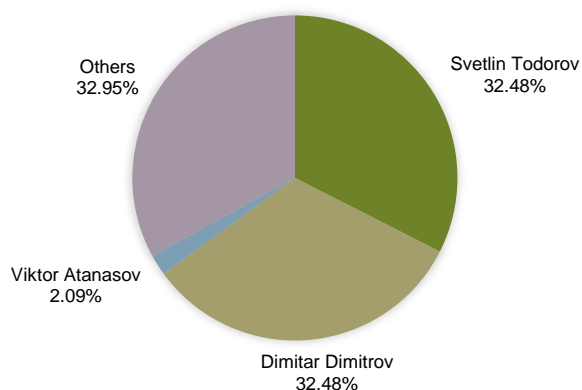
Allterco: future plans



Source: WOOD Research, company data

The founders of Allterco are still the major shareholders. Mr. Svetlin Todorov, co-founder of the company, and chairman of the board of directors, with 20+ years of experience, is responsible for the company's operations in the American market. Mr. Dimitar Dimitrov, deputy chairman of the board of directors, is the other co-founder of the company, with 17 years of experience in the TMT market.

Allterco: shareholders as of 12 January 2021



Source: WOOD Research, company data

Financials

Profit and loss

BGN m	2018	2019	2020E	2021E	2022E
Revenues	44.9	33.3	39.0	55.7	79.1
yoy	15%	-26%	17%	43%	42%
o/w goods	10.9	21.0	33.0	49.5	72.8
yoy	48%	92%	57%	50%	47%
o/w services	33.9	12.3	6.0	6.1	6.2
yoy	7%	-64%	-51%	2%	2%
EBITDA	4.1	9.4	10.3	11.4	15.9
D&A	0.7	0.8	0.9	1.1	1.3
Operating profit	3.4	0.1	9.4	10.3	14.6
PBT	3.1	8.3	12.4	10.2	14.6
Income tax	0.5	1.0	1.2	1.5	2.2
Minorities	0.0	0.1	0.1	0.1	0.1
Net profit	2.6	7.2	8.6	6.2	9.9

Source: WOOD Research, company data

Cash flow statement

BGN m	2018	2019	2020E	2021E	2022E
CF from operations	0.6	6.4	5.2	5.9	6.5
D&A	0.7	0.8	0.9	1.1	1.3
Changes in WC	-1.5	-1.9	-0.7	-1.5	-4.8
CF from investments	-2.3	8.3	0.2	-3.2	-3.5
o/w capex (PPE & int. ass.)	-2.0	-1.8	-2.7	-3.1	-3.5
CF from fin. activities	1.3	-3.7	7.6	-2.0	-3.1
o/w borrowings	0.6	-1.0	-0.5	-0.3	0.0
o/w dividends	0.0	-2.6	-0.5	-1.7	-3.1

Source: WOOD Research, company data

Balance sheet

BGN m	2018	2019	2020E	2021E	2022E
PPE	4.6	4.5	5.3	5.9	6.9
Intangibles	3.6	3.2	4.2	5.6	6.8
Goodwill	15.6	3.3	3.3	3.3	3.3
Others	0.0	6.6	3.6	3.6	3.6
Total non-current assets	23.8	17.7	16.4	18.4	20.6
Inventories	1.0	1.3	1.5	2.3	3.2
Trade accounts receivables	7.7	5.4	10.0	11.4	16.2
Cash and cash equivalents	0.5	10.9	23.9	24.6	24.6
Others	0.4	0.3	0.3	0.3	0.3
Total current assets	9.6	17.9	35.7	38.6	44.3
Total assets	42.3	39.9	56.4	61.3	69.3
Total shareholders' equity	28.9	30.3	47.1	51.6	58.6
Long-term borrowings	2.9	2.5	2.0	1.7	1.7
Other LT liabilities	0.1	0.1	0.1	0.1	0.1
Total non-current liabilities	3.0	2.6	2.1	1.8	1.8
ST Debt	1.2	0.4	0.4	0.4	0.4
ST trade payables	2.1	1.4	1.7	2.4	3.3
Other ST liabilities	1.4	2.2	2.2	2.2	2.2
Total current liabilities	4.7	4.0	4.2	4.9	5.9
Total equity and liabilities	42.3	39.9	56.4	61.3	69.3
Gross debt	4.3	3.2	2.7	2.4	2.4
Net debt	3.8	-7.8	-21.2	-22.2	-22.2
ND/EBITDA	0.9x	-0.8x	-2.1x	-2.0x	-1.4x

Source: WOOD Research, company data

Valuation multiples

	2018	2019	2020E	2021E	2022E
P/E	49.0x	18.1x	18.0x	25.2x	15.7x
EV/EBITDA	32.9x	13.0x	13.0x	11.8x	8.4x
FCF yield	-0.1%	1.2%	3.8%	3.4%	3.5%
Dividend yield	2.0%	0.3%	1.1%	2.0%	3.2%

Source: WOOD Research, company data

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This investment research was completed on 26/01/2021 at 19:45 CET and disseminated on 27/01/2021 at 07:45 CET.

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

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Santander Bank Polska	5
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CONTACTS

Czech Republic

namesti republiky 1079/1a
Palladium
110 00 Praha 1
Czech Republic
Tel +420 222 096 111
Fax +420 222 096 222

Poland

Skylight Zlote Tarasy
Zlota 59
00 120 Warszawa
Poland
Tel +48 22 222 1530
Fax +48 22 222 1531

UK

City Point, 11th Floor
1 Ropemaker Street
London EC2Y 9HT

Tel +44 20 3530 0691

Italy

Via Luigi Settembrini, 35
20124 Milan
Italy

Tel +39 02 36692 500

Kristen Andrasko

Head of Equities
+420 222 096 253
kristen.andrasko@wood.com

Bloomberg page
WUCO

www.wood.com

Romania

Metropolis Center
89-97 Grigore Alexandrescu St.
010624 Bucharest 1
Tel.: +40 316 30 11 81

Research

Co-Head of Research/ Head of Research Poland

Marta Jezewska-Wasilewska
+48 22 222 1548
marta.jezewska-wasilewska@wood.com

Head of Turkey Research

Atinc Ozkan
+90 542 202 3632
atinc.ozkan@wood.com

Head of Financials

Can Demir
+44 20 3530 0623
can.demir@wood.com

Consumer/Real Estate

Jakub Caithaml
+420 222 096 481
jakub.caithaml@wood.com

Financials

David Lojkasek
+420 222 096 256
david.lojkasek@wood.com

Co-Head of Research/Head of Greek Research

Alex Boulougouris
+30 211 106 9447
alex.boulougouris@wood.com

Head of Russia Research

Ildar Davletshin
+44 203 530 0631
ildar.davletshin@wood.com

Head of TMT

Piotr Raciborski
+48 22 222 1551
piotr.raciborski@wood.com

Energy/Utilities

Ondrej Slama
+420 222 096 484
ondrej.slama@wood.com

Greece

Fani Tzioukalia
+30 211 106 9449
fani.tzioukalia@wood.com

Head of Consumer/Industrials

Lukasz Wachelko
+48 22 222 1560
lukasz.wachelko@wood.com

Head of Romania Research

Iuliana Ciopraga
+40 316 30 1185
iuliana.ciopraga@wood.com

Energy

Jonathan Lamb
+44 20 3530 0621
jonathan.lamb@wood.com

Poland

Pawel Wieprzowski
+48 22 222 1549
pawel.wieprzowski@wood.com

Russia

Dmitry Vlasov
+44 750 714 6702
dmitry.vlasov@wood.com

Macroeconomics

Raffaella Tenconi
+44 20 3530 0685
raffaella.tenconi@wood.com

Macroeconomics

Alessio Chiesa
+44 75177 06102
alessio.chiesa@wood.com

Utilities/Mining/Pharma

Bram Buring
+420 222 096 250
bram.buring@wood.com

Consumer

Jakub Mician
+420 222 096 320
jakub.mician@wood.com

Gaming/Mid-caps

Maria Mickiewicz
+48 602 450 718
maria.mickiewicz@wood.com

Sales

Head of Sales

Kristen Andrasko
+420 222 096 253
kristen.andrasko@wood.cz

Grzegorz Skowronski
+48 22 222 1559
grzegorz.skowronski@wood.com

Jan Koch
+48 22 222 1616
jan.koch@wood.com

Jarek Tomczynski
+44 203 530 0688
jarek.tomczynski@wood.com

Piotr Kopec
+48 22 222 1615
piotr.kopec@wood.com

Kostas Tsigkourakos
+30 694 082 5810
kostas.tsigkourakos@wood.com

Ioana Pop
+44 20 3530 0693
ioana.pop@wood.com

Tatiana Sarandinaki
Brasil Plural in association with WOOD&Co.
1 212 388 5613
tsarandinaki@wood-brasilplural.com

Sales Trading and Execution Services

Zuzana Mora
+420 222 096 283
zuzana.mora@wood.com

Ermir Shkurti
+420 222 096 847
ermir.shkurti@wood.com

Vladimir Vavra
+420 222 096 397
vladimir.vavra@wood.com

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