

April 24, 2024

Convergenze

Euronext Growth Milan | Energy & TLC | Italy

1Q24 results and main KPIs

Rating
BUY

Target Price
€ 4,25

Risk

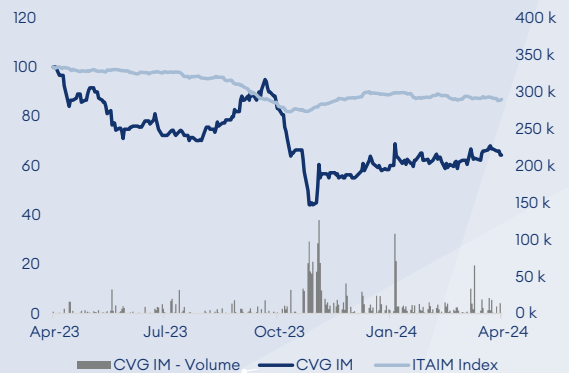
Medium

CVG IM Price
€ 1,50

Stock Data

Price	€ 1,50
Target price	€ 4,25
Upside/(Downside) potential	183,5%
Ticker	CVG IM
Market Cap (€/mln)	€ 11,25
EV (€/mln)	€ 16,82
Free Float	23,2%
Share Outstanding	7.497.509
52-week high	€ 2,38
52-week low	€ 0,98
Average daily volumes (3 months)	10.453

Stocks performance relative to FTSE Italia Growth



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1Q24A results and main KPIs

In the press release dated April 19, 2024, Convergenze SpA - Società Benefit, active in the Telecommunications and 100% green Energy sectors, present throughout the national territory through the patented EVO (Electric Vehicle Only) network and its own fiber optic network with the innovative XGS-PON technology, and listed on the Euronext Growth Milan market - reviewed the preliminary revenues as of March 31, 2024, and some of the main performance indicators, which were not subject to audit. Additionally, the Board of Directors resolved to establish a limited liability company under Albanian law, to support Convergenze's entry into the telecommunications sector.

The first quarter of 2024 was certainly positive for the Company. Specifically, Convergenze reported revenues of €6.00 million, showing an increase of 19.3% compared to €5.00 million generated in the first three months of 2023.

The performance of the Energy Business Unit was particularly outstanding, recording an increase of 23.1%, achieving revenues of €3.20 million, compared to €2.60 million in 1Q23. The TLC Business Unit also recorded a significant improvement (+12.5%), achieving €2.70 million compared to €2.40 million in the first quarter of the previous year.

Additionally, in the first three months of 2024, more than 62,200 services were contracted, of which:

- over 51,100 in the Telecom Business Unit, marking a growth of +12.6% compared to the 45,400 in the first three months of 2023;
- over 11,000 in the Energy Business Unit, indicating an +11.9% increase compared to the 9,900 in 1Q23.

After the acquisition of the customer portfolio from Positivo Srl and the subsequent increase in overall registrations, the percentage of users on proprietary FTTH and Wi-Fi networks settled at 50.0%, slightly lower than the 51.7% as of March 31, 2023.

Regarding the development of its proprietary fiber optic network, the Company continued its development activities, ensuring that the network reached a total extension of 9,800 km, with an increase of 21.2% compared to the over 8,100 km recorded in the first quarter of 2023. Additionally, by the end of 2023, the number of PODs grew by +13.9%, reaching 9,800 from 8,600 in March 2023, while in March 2024 alone, more than 2.90 million kWh were sold, marking an increase compared to nearly 2.70 million kWh in March 2023.

In the press release, the management provided some projections regarding the EBITDA margin for each Business Unit for 1Q24A, estimating:

- a margin between 29.0% and 30.0% for the Telecom Business Unit, substantially in line with the trends recorded in 2023;

- a margin between 5.0% and 6.0% for the Energy Business Unit, which marks a substantial increase compared to previous periods.

The quarter under review saw Convergence continue to implement its development plan, both through organic growth and internationalization strategies. In this regard, the Board of Directors approved the establishment of a limited liability company under Albanian law, an operation that will involve a formation cost between €2,000 and €3,000, as well as a provision of approximately €2,000 in share capital. The establishment of the company locally aims at the geographical expansion of the business into an emerging market rich in potential, characterized by the presence of few operators in the internet transit sector. Convergence plans to open a new point of presence (POP) and to begin offering its service solely in the wholesale domain, interconnecting with ANIX (Albanian Neutral Internet eXchange), which is the internet exchange point of RASH (the Academic Network of Albania), a service for which it is necessary to be an Albanian legal entity registered with the communications authority in Tirana.

The financial results for the first quarter of 2024 testify to the effective continuation of Convergence's growth plan, marking a significant increase in revenues and substantial improvements in all reference indicators for the Telecom and Energy Business Units. The strategic advancement in the Albanian telecommunications market, through the establishment of a company in the territory, further strengthens this growth trajectory. These initiatives confirm Convergence's ability to expand its international presence and continue to successfully develop its business, strategically positioning itself to capitalize on emerging opportunities in the sector.

Rosario Pingaro, CEO and Chairman of Convergence, commented: *"We are absolutely satisfied with the results achieved in the first three months of 2024. The data show that both business units are performing well in terms of volumes, particularly the Energy BU, which has performed excellently with increasing numbers of customers and sold energy, thanks to the measures adopted. I would like to emphasize that we were ahead of a trend: that of combining synergies between TLC and Energy, a path that other international operators are now following, a clear sign of the soundness of the decision made in the past which is now bearing fruit. We are confident in maintaining this positive trend in the coming months, offering competitive services and efficient support compared to national players, hoping to thus increase our geographic area of competence. In this context, the establishment of a limited liability company under Albanian law is taking place, an operation that arises from the necessity dictated by the upcoming realization of Convergence's POP in Albania, a small market with few players, but which is experiencing rapid growth. We are extremely confident about the margins of 2024 and confirm Convergence's intention to pursue strategic development objectives, having full confidence in the market, and in an economic and social context that has certainly improved, capable of offering new business opportunities."*

Taking into account what is reported in the press release, we confirm our estimates: **target price €4.25, rating BUY, and risk Medium.**

Economics & Financials

TABLE 1 – ECONOMICS & FINANCIALS

Consolidated Income Statement (€/mIn)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenues Media & Content	0,00	0,00	0,20	0,50	1,15
Revenues TLC	9,35	10,48	12,00	13,30	14,70
Revenues Energy	18,79	12,17	13,10	14,00	15,00
Other revenues	0,22	0,17	0,20	0,20	0,20
Value of Production	28,36	22,82	25,50	28,00	31,05
COGS	22,02	14,41	15,85	17,10	18,75
Services	1,33	1,45	1,60	1,75	1,90
Use of asset owned by others	0,22	0,22	0,25	0,30	0,35
Employees	3,13	3,31	3,60	3,80	4,00
Other operating expenses	0,22	0,24	0,25	0,30	0,30
EBITDA Adj.	1,45	3,19	3,95	4,75	5,75
<i>EBITDA Adj. Margin</i>	<i>5,1%</i>	<i>14,0%</i>	<i>15,5%</i>	<i>17,0%</i>	<i>18,5%</i>
Extraordinary items	0,08	(0,03)	0,00	0,00	0,00
EBITDA	1,37	3,22	3,95	4,75	5,75
EBITDA Margin	4,8%	14,1%	15,5%	17,0%	18,5%
D&A	1,81	2,03	2,15	2,25	2,35
EBIT	(0,44)	1,19	1,80	2,50	3,40
<i>EBIT Margin</i>	<i>(1,6%)</i>	<i>5,2%</i>	<i>7,1%</i>	<i>8,9%</i>	<i>11,0%</i>
Financial Management	(0,36)	(0,53)	(0,50)	(0,40)	(0,30)
EBT	(0,80)	0,65	1,30	2,10	3,10
Taxes	0,00	0,14	0,40	0,65	0,95
Net Income	(0,80)	0,51	0,90	1,45	2,15

Consolidated Balance Sheet (€/mIn)	FY22A	FY23A	FY24E	FY25E	FY26E
Fixed Assets	12,85	13,73	14,75	15,85	17,05
Account receivable	3,17	3,99	4,20	4,50	5,00
Inventories	0,30	0,31	0,35	0,40	0,45
Account payable	2,11	3,53	4,00	4,50	5,00
Operating Working Capital	1,36	0,77	0,55	0,40	0,45
Other receivable	1,18	1,33	1,40	1,60	2,00
Other payable	3,33	3,71	4,30	4,80	5,20
Net Working Capital	(0,78)	(1,62)	(2,35)	(2,80)	(2,75)
Servecance & other provisions	0,76	0,88	0,95	1,00	1,05
Net Invested Capital	11,30	11,23	11,45	12,05	13,25
Share Capital	1,50	1,50	1,50	1,50	1,50
Reserves	4,46	3,65	4,16	5,06	6,51
Net Income	(0,80)	0,51	0,90	1,45	2,15
Equity	5,16	5,66	6,56	8,01	10,16
Cash & cash equivalents	1,17	0,63	0,61	0,76	1,01
Short term financial debt	1,48	1,28	1,00	0,80	0,60
M/L term financial debt	5,83	4,93	4,50	4,00	3,50
Net Financial Position	6,14	5,57	4,89	4,04	3,09
Sources	11,30	11,23	11,45	12,05	13,25

Consolidated Cash Flow (€/mln)	FY23A	FY24E	FY25E	FY26E
EBIT	1,19	1,80	2,50	3,40
Taxes	0,14	0,40	0,65	0,95
NOPAT	1,04	1,40	1,85	2,45
D&A	2,03	2,15	2,25	2,35
Change in NWC	0,84	0,73	0,45	(0,05)
<i>Change in receivable</i>	(0,82)	(0,21)	(0,30)	(0,50)
<i>Change in inventories</i>	(0,01)	(0,04)	(0,05)	(0,05)
<i>Change in payable</i>	1,43	0,47	0,50	0,50
<i>Change in others</i>	0,24	0,52	0,30	0,00
Change in provisions	0,12	0,07	0,05	0,05
Operating Cash Flow	4,03	4,35	4,60	4,80
Capex	(2,92)	(3,17)	(3,35)	(3,55)
Free Cash Flow	1,12	1,18	1,25	1,25
Financial Management	(0,53)	(0,50)	(0,40)	(0,30)
Change in financial debt	(1,11)	(0,70)	(0,70)	(0,70)
Change in equity	(0,02)	(0,00)	0,00	0,00
Free Cash Flow to Equity	(0,54)	(0,02)	0,15	0,25

Source: Dati come da ultime stime del 04/04/2024

Disclosure Pursuant to Delegated Regulation UE n. 2016/958

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Date	Price	Recommendation	Target Price	Risk	Comment
02/08/2023	1,77	Buy	3,50	Medium	Breaking News
19/09/2023	1,97	Buy	3,50	Medium	Breaking News
09/10/2023	2,16	Buy	3,65	Medium	Update
30/10/2023	1,69	Buy	3,65	Medium	Breaking News
07/02/2024	1,45	Buy	3,65	Medium	Breaking News
04/04/2024	1,55	Buy	4,25	Medium	Breaking News

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Equity Total Return (ETR) for different risk categories			
Rating	Low Risk	Medium Risk	High Risk
BUY	ETR \geq 7.5%	ETR \geq 10%	ETR \geq 15%
HOLD	-5% < ETR < 7.5%	-5% < ETR < 10%	0% < ETR < 15%
SELL	ETR \leq -5%	ETR \leq -5%	ETR \leq 0%
U.R.	Rating e/o target price Under Review		
N.R.	Stock Not Rated		

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