

Convergenze	Italy	FTSE AIM Italia	TLC & Energy
Rating: <b>BUY</b>	Target Price: € 5,85 (prev € 5,60)	Update	Risk: Medium

Stock performance	1M	3M	6M	1Y
absolute	6,47%	-24,10%	N/A	N/A
to FTSE AIM Italia	-0,51%	-41,47%	N/A	N/A
to FTSE STAR Italia	0,75%	-34,39%	N/A	N/A
to FTSE All-Share	-0,61%	-34,78%	N/A	N/A
to EUROSTOXX	0,05%	-34,81%	N/A	N/A
to MSCI World Index	3,88%	-30,47%	N/A	N/A

#### Stock Data

Price	€ 2,96
Target price	€ 5,85
Upside/(Downside) potential	97,6%
Bloomberg Code	CVG IM EQUITY
Market Cap (€m)	€ 20,74
EV (€m)	€ 20,68
Free Float	21,49%
Share Outstanding	7.007.200
52-week high	€ 4,80
52-week low	€ 2,63
IPO Price (30/12/20)	€ 1,75

Key Financials (€m)	FY20A	FY21E	FY22E	FY23E
Revenues TLC	7,5	8,8	9,6	10,8
Revenues Energy	8,8	11,5	13,7	16,5
EBITDA Adj.	2,3	3,4	3,4	4,1
EBIT	1,2	2,3	2,2	2,8
Net Profit	0,7	1,4	1,3	1,7
EBITDA Adj. margin	14,0%	16,2%	14,6%	14,8%
EBIT margin	7,6%	10,9%	9,4%	10,1%
Net Profit margin	4,2%	6,5%	5,6%	6,0%

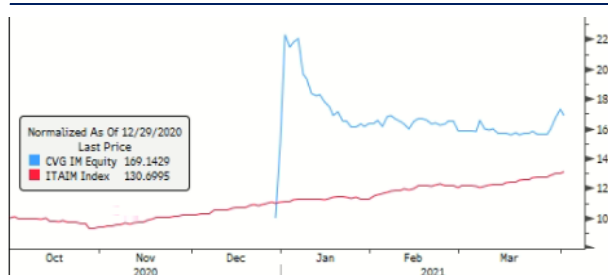
Main Ratios	FY20A	FY21E	FY22E	FY23E
EV/EBITDA Adj. (x)	9,0	6,2	6,1	5,1
EV/EBIT (x)	16,7	9,2	9,4	7,5
P/E (x)	29,9	15,4	16,0	12,6

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#### Stocks performance relative to FTSE AIM Italia



#### FY20A Results

The value of production amounts to € 16.36 million, compared to € 16.73 million at the end of 2019 and € 16.65 million estimated in our previous report. The revenues generated during 2020A are attributable to the following breakdown: 46% deriving from TLC BU and 54% deriving from Energy BU.

EBITDA Adj., equal to € 2.29 million, registered a significant increase of 40% compared to € 1.63 million in the previous fiscal year and was slightly lower compared to our previous estimates of € 2.55 million.

The NFP shows an important improvement from € 0.54 million to - € 0.06 million, also thanks to the IPO collection.

#### Estimates Update

In the light of the results published in the annual report for 2020A, we entirely confirm estimates both for the current year and for the coming years. In fact, previous estimates were rather conservative, so despite the impact of the pandemic on the first months of the year, we believe that the Company will be able to reach our estimated values.

The value of production 2021E equal to € 20.70 million and EBITDA Adj. of € 3.35 million, corresponding to a marginality of 16.2%. We expect the value of production to increase up to € 27.30 million (CAGR 20A-23E: 18.62%) in 2023E, with an EBITDA Adj. of € 4.05 million (corresponding to an EBITDA Adj. margin of 14.8%).

#### Valuation Update

We have conducted the valuation of Convergenze equity value based on the DCF methodology and market multiples of a comparable companies sample. The DCF method (which in the calculation of the WACC includes for prudential purposes also a specific risk of 2.5%) provides an equity value of € 49.4 million. The equity value of Convergenze using market multiples is € 32.5 million (including a discount of 25%). The result is an average equity value of approx. € 41.0 million. The target price is € 5.85 (prev. € 5.60), BUY rating, and MEDIUM risk.

## 1. Economics & Financials

**Table 1 – Economics & Financials**

INCOME STATEMENT (€/mIn)	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
Revenues TLC	6,87	7,01	7,51	8,75	9,60	10,80
Revenues Energy	6,98	9,73	8,79	11,50	13,70	16,50
Other Revenues	0,00	0,00	0,06	0,45	0,00	0,00
<b>Value of Production</b>	<b>13,85</b>	<b>16,73</b>	<b>16,36</b>	<b>20,70</b>	<b>23,30</b>	<b>27,30</b>
COGS	9,27	11,64	10,12	12,60	14,40	16,90
Services	1,10	1,20	1,25	1,80	2,00	2,35
Use of assets owned by others	0,08	0,09	0,11	0,15	0,20	0,25
Employees	1,86	2,03	2,34	2,60	3,10	3,50
Other Operating Expenses	0,18	0,15	0,25	0,20	0,20	0,25
<b>EBITDA Adj.</b>	<b>1,34</b>	<b>1,63</b>	<b>2,29</b>	<b>3,35</b>	<b>3,40</b>	<b>4,05</b>
<i>EBITDA Adj. Margin</i>	<i>9,7%</i>	<i>9,7%</i>	<i>14,0%</i>	<i>16,2%</i>	<i>14,6%</i>	<i>14,8%</i>
Extraordinary Items	0,10	0,05	0,14	0,00	0,00	0,00
<b>EBITDA</b>	<b>1,25</b>	<b>1,58</b>	<b>2,15</b>	<b>3,35</b>	<b>3,40</b>	<b>4,05</b>
<i>EBITDA Margin</i>	<i>9,0%</i>	<i>9,4%</i>	<i>13,1%</i>	<i>16,2%</i>	<i>14,6%</i>	<i>14,8%</i>
D&A	0,62	0,59	0,91	1,10	1,20	1,30
<b>EBIT</b>	<b>0,63</b>	<b>0,99</b>	<b>1,24</b>	<b>2,25</b>	<b>2,20</b>	<b>2,75</b>
<i>EBIT Margin</i>	<i>4,5%</i>	<i>5,9%</i>	<i>7,6%</i>	<i>10,9%</i>	<i>9,4%</i>	<i>10,1%</i>
Financial Management	(0,19)	(0,21)	(0,22)	(0,30)	(0,35)	(0,35)
<b>EBT</b>	<b>0,44</b>	<b>0,77</b>	<b>1,02</b>	<b>1,95</b>	<b>1,85</b>	<b>2,40</b>
Taxes	0,25	0,26	0,33	0,60	0,55	0,75
<b>Net Income</b>	<b>0,19</b>	<b>0,52</b>	<b>0,69</b>	<b>1,35</b>	<b>1,30</b>	<b>1,65</b>

BALANCE SHEET (€/mIn)	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Fixed Assets</b>	<b>4,17</b>	<b>4,99</b>	<b>7,50</b>	<b>8,10</b>	<b>8,80</b>	<b>9,40</b>
Account receivable	1,73	2,03	2,02	2,50	3,00	3,60
Inventories	0,10	0,10	0,14	0,15	0,20	0,25
Account payable	2,55	3,18	3,25	2,80	3,35	4,00
<b>Operating Working Capital</b>	<b>(0,72)</b>	<b>(1,05)</b>	<b>(1,09)</b>	<b>(0,15)</b>	<b>(0,15)</b>	<b>(0,15)</b>
Other receivable	0,81	0,31	0,58	0,75	0,90	1,10
Other payable	1,31	1,39	1,54	2,25	2,65	3,10
<b>Net Working Capital</b>	<b>(1,22)</b>	<b>(2,13)</b>	<b>(2,05)</b>	<b>(1,65)</b>	<b>(1,90)</b>	<b>(2,15)</b>
Severance Indemnities & Other Provisions	0,40	0,48	0,47	0,70	0,80	0,90
<b>NET INVESTED CAPITAL</b>	<b>2,55</b>	<b>2,39</b>	<b>4,98</b>	<b>5,75</b>	<b>6,10</b>	<b>6,35</b>
Share Capital	1,15	1,15	1,44	1,47	1,47	1,47
Reserves	-0,01	0,18	2,91	3,87	5,22	6,52
Net Income	0,19	0,52	0,69	1,35	1,30	1,65
<b>Equity</b>	<b>1,33</b>	<b>1,85</b>	<b>5,04</b>	<b>6,69</b>	<b>7,99</b>	<b>9,64</b>
Cash & Cash Equivalent	0,29	0,72	3,08	3,44	3,84	4,69
Short Term Debt to Bank	0,29	0,35	1,39	0,40	0,35	0,30
M/L Term Debt to Bank	1,22	0,92	1,63	2,10	1,60	1,10
<b>Net Financial Position</b>	<b>1,22</b>	<b>0,54</b>	<b>(0,06)</b>	<b>(0,94)</b>	<b>(1,89)</b>	<b>(3,29)</b>
<b>SOURCES</b>	<b>2,55</b>	<b>2,39</b>	<b>4,98</b>	<b>5,75</b>	<b>6,10</b>	<b>6,35</b>

CASH FLOW (€/mIn)	FY19A	FY20A	FY21E	FY22E	FY23E
EBIT	0,99	1,24	2,25	2,20	2,75
Taxes	0,26	0,33	0,60	0,55	0,75
<b>NOPAT</b>	<b>0,73</b>	<b>0,91</b>	<b>1,65</b>	<b>1,65</b>	<b>2,00</b>
D&A	0,59	0,91	1,10	1,20	1,30
Change in receivable	(0,30)	0,01	(0,48)	(0,50)	(0,60)
Change in inventories	(0,00)	(0,04)	(0,01)	(0,05)	(0,05)
Change in payable	0,63	0,07	(0,45)	0,55	0,65
Change in others	0,58	-0,12	0,54	0,25	0,25
<i>Change in NWC</i>	<i>0,91</i>	<i>(0,08)</i>	<i>(0,40)</i>	<i>0,25</i>	<i>0,25</i>
Change in provisions	0,07	-0,01	0,23	0,10	0,10
<b>OPERATING CASH FLOW</b>	<b>2,30</b>	<b>1,74</b>	<b>2,58</b>	<b>3,20</b>	<b>3,65</b>
Capex	(1,4)	(3,4)	(1,7)	(1,9)	(1,9)
<b>FREE CASH FLOW</b>	<b>0,89</b>	<b>(1,68)</b>	<b>0,88</b>	<b>1,30</b>	<b>1,75</b>
Financial Management	(0,21)	(0,22)	(0,30)	(0,35)	(0,35)
Change in Debt to Bank	(0,25)	1,76	(0,52)	(0,55)	(0,55)
Change in Equity	0,00	2,50	0,30	0,00	0,00
<b>FREE CASH FLOW TO EQUITY</b>	<b>0,43</b>	<b>2,36</b>	<b>0,36</b>	<b>0,40</b>	<b>0,85</b>

Source: Convergenze and Integrae SIM estimates

## 1.1 FY20A Results

**Table 2 – Actual VS Estimates FY20A**

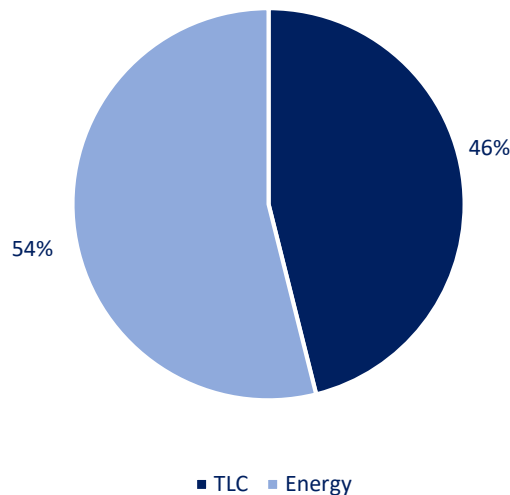
€/mln	VoP	EBITDA Adj.	EBITDA Adj. %	EBIT	Net Income	NFP
<b>FY20A</b>	<b>16,36</b>	<b>2,29</b>	<b>14,0%</b>	<b>1,24</b>	<b>0,69</b>	<b>(0,06)</b>
FY20E	16,65	2,55	15,3%	1,53	0,88	(0,08)
Change	-1,8%	-10,4%	-1,3%	-19,4%	-21,4%	N.A

Source: Integrae SIM

Through a press release, the Company, commenting on the annual results, declares: “*We are particularly satisfied with the economic results achieved in an extremely complex period from the macroeconomic point of view and intense from the company point of view. The results obtained in 2020 were positively influenced by the reorganization of the business, the opportunity to cross-sell between the two active BUs, and the high investments made for the increase of the WiFi and FTTH proprietary network infrastructure.*”.

The value of production amounted to € 16.36 million, compared to € 16.73 million recorded at the end of 2019 and € 16.65 million estimated in our previous report. This reduction is closely related to the decrease in revenues from the Energy BU (€ 8.8 million in 2020 compared to € 9.7 million in 2019), caused by the reduction of consumption by business customers following the production closures and slowdowns of commercial and industrial businesses linked to the impact of the pandemic. Revenues from the TLC BU increased (from € 7.0 million to € 7.5 million), thanks also to a renewed commercial activity and to the increase of the WiFi and FTTH proprietary infrastructure.

**Chart 1 – Revenues Breakdown by BU**



Source: Convergence

The revenues generated during 2020A are attributable to the following breakdown: 46% deriving from TLC BU and 54% deriving from Energy BU.

EBITDA Adj., equal to € 2.29 million, registered a significant increase of 40% compared to € 1.63 million in the previous fiscal year and was slightly lower compared to our previous estimates of € 2.55 million. Also EBITDA Adj. Margin, equal to 14,0%, increases compared to 9.7% in 2019 and shows a slight decrease compared to expectations, equal to 15.3%. The growth of EBITDA Margin is linked to the increase in marginality in both BUs. The difference compared to the estimates is mainly due to: the different mix of customers for the Energy BU

(business customers due to the stop of the activities caused by the pandemic had significantly lower consumption) and acceleration on new hires.

EBIT amounted to € 1.24 million (€ 0.99 million in 2019) after amortization and depreciation of € 0.91 million, compared to € 1.53 million expected. As a result, EBIT Margin, equal to 7.6%, also shows an increase compared to the previous year (5.9%). Net Profit amounts to € 0.69 million compared to € 0.52 million registered in 2019 and € 0.88 million estimated.

At Capex level, the Company invested mainly in the implementation of the FTTH proprietary infrastructure in the municipality of Trentinara (SA), the expansion of the infrastructure in the municipality of Capaccio Paestum (SA), Albanella (SA), and Castel San Lorenzo (SA), the design for the installation of fiber in the industrial zone of the municipality of Ogliastro Cilento, the modernization and upgrading of the WiFi Ultrabroadband infrastructure and the implementation of the proprietary data center.

The NFP shows a significant improvement from € 0.54 million to - € 0.06 million, also thanks to the IPO collection. Besides, it is noted the exercise of the greenshoe option occurred after the end of the fiscal year, with a further collection of approximately € 0.299 million.

## 1.2 Significant Events

Following our latest publication, the Company announced:

- On 12/01/21, the opening of the new Wholesale division, part of TLC BU, to consolidate and expand the operations of the TLC BU's sales area in the business sector, increasing technical capacity and starting specialization toward services offered in Wholesale mode;
- On 19/01/21, the implementation of the Amazon Pay solution to allow its customers to complete in a few steps the purchase of all Convergenze services, both in the Telecommunications and Energy fields;
- On 25/01/21, the opening of two new e-commerce sites, for the sale of services, dedicated respectively to the sale of ultrafast Internet in fiber optics FTT (ConFIBRA) and to the supply of natural gas (ConGAS).

### 1.3 FY21E – FY23E Estimates

**Table 3 – Estimates Updates FY21E-23E**

€/mln	FY21E	FY23E	FY24E
<b>VoP</b>			
New	<b>20,7</b>	<b>23,3</b>	<b>27,3</b>
Old	20,7	23,3	27,3
Change	0,0%	0,0%	0,0%
<b>EBITDA Adj.</b>			
New	<b>3,4</b>	<b>3,4</b>	<b>4,1</b>
Old	3,4	3,4	4,1
Change	0,0%	0,0%	0,0%
<b>EBITDA Adj. %</b>			
New	<b>16,2%</b>	<b>14,6%</b>	<b>14,8%</b>
Old	16,2%	14,6%	14,8%
Change	0,0%	0,0%	0,0%
<b>EBIT</b>			
New	<b>2,3</b>	<b>2,2</b>	<b>2,8</b>
Old	2,3	2,2	2,8
Change	0,0%	0,0%	0,0%
<b>Net Income</b>			
New	<b>1,4</b>	<b>1,3</b>	<b>1,7</b>
Old	1,4	1,3	1,7
Change	0,0%	0,0%	0,0%
<b>NFP</b>			
New	<b>(0,9)</b>	<b>(1,9)</b>	<b>(3,3)</b>
Old	(1,1)	(2,1)	(3,5)
Change	N.A	N.A	N.A

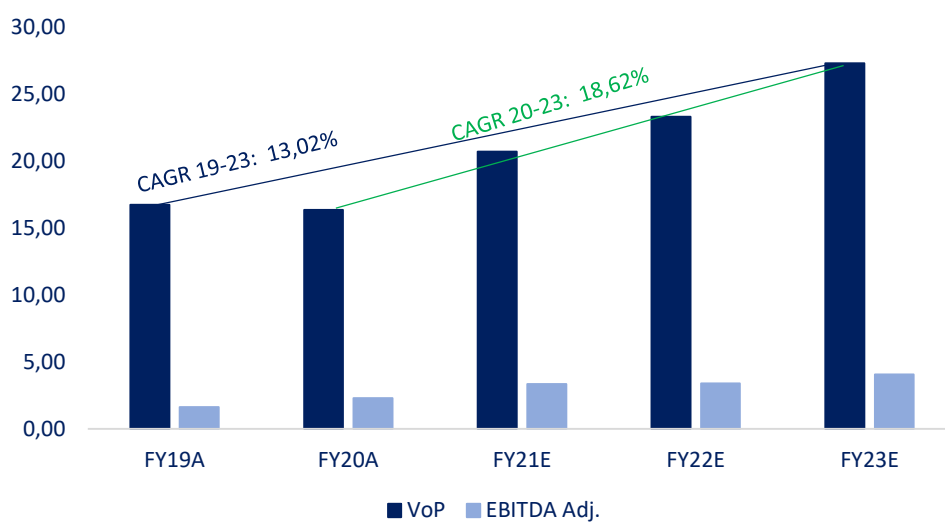
Source: Integrae SIM

In the light of the results published in the annual report for 2020A, we entirely confirm estimates both for the current year and for the coming years. In fact, previous estimates were rather conservative, so despite the impact of the pandemic on the first months of the year, we believe that the Company will be able to reach our estimated values.

In particular, we confirm 2021E value of production of € 20.70 million and EBITDA Adj. of € 3.35 million, corresponding to a marginality of 16.2%. For subsequent years, we expect the value of production to increase up to € 27.30 million (CAGR 20A-23E: 18.62%) in 2023E, with EBITDA Adj. of € 4.05 million (corresponding to an EBITDA Adj. margin of 14.8%), up from € 2.29 million in 2020A (corresponding to an EBITDA Adj. margin of 14.0%).

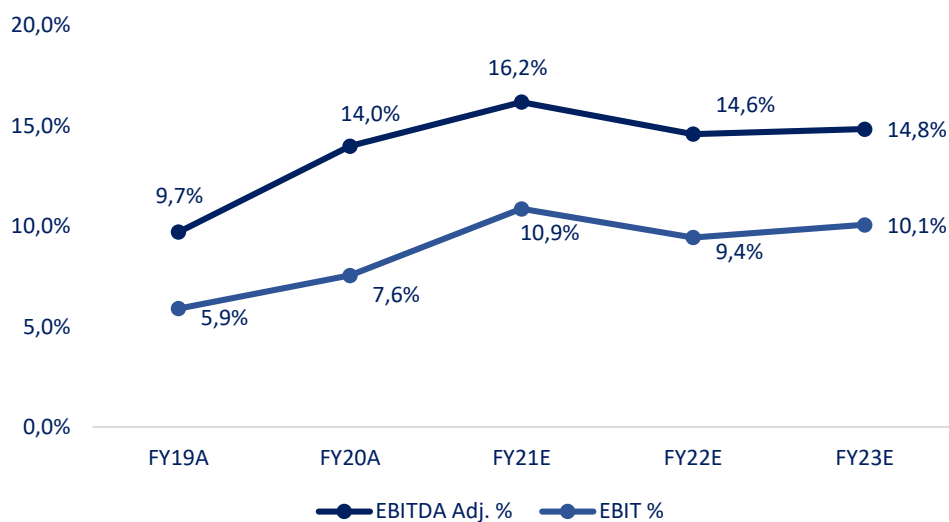
Regarding the Balance Sheet, we believe that the Company will be able to improve its NFP thanks to the cash flows generated by ordinary operations.

**Chart 2 – VoP and EBITDA FY19A-23E**



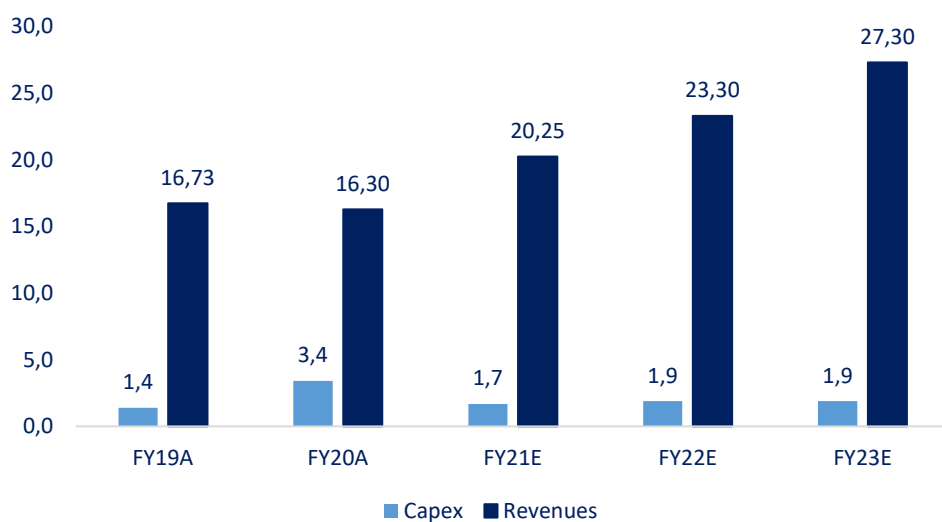
Source: Integrae SIM

**Chart 3 – Margin FY19A-23E**



Source: Integrae SIM

**Chart 4 – Capex FY19A-23E**



Source: Integrae SIM

**Chart 5 – NFP FY19A-23E**



Source: Integrae SIM

## 2. Valuation

We have conducted the valuation of Convergenze equity value based on the DCF methodology and market multiples of a comparable companies sample.

### 2.1 DCF Method

**Table 4 – WACC**

WACC		5,20%
Risk Free Rate	-0,13% $\alpha$ (specific risk)	2,50%
Market Premium	6,85% Beta Adjusted	0,6
D/E (average)	42,86% Beta Relevered	0,8
Ke	6,81% Kd	2,00%

Source: Integrae SIM

For prudential purposes, we have included a specific risk of 2.5%. This results in a WACC of 5.20%.

**Table 5 – DCF Valuation**

DCF Equity Value		49,4
FCFO actualized	5,3	11%
TV actualized DCF	44,1	89%
<b>Enterprise Value</b>	<b>49,4</b>	<b>100%</b>
NFP (FY20A)	(0,1)	

Source: Integrae SIM

With the above data and taking as a reference our estimates and assumption, the result is an **equity value of € 49.4 million.**

**Table 6 – Equity Value – Sensitivity Analysis**

€/mln		WACC						
		3,7%	4,2%	4,7%	5,2%	5,7%	6,2%	6,7%
Growth Rate (g)	2,5%	167,9	118,1	91,0	73,9	62,1	53,6	47,0
	2,0%	120,2	92,6	75,2	63,2	54,5	47,8	42,6
	1,5%	94,2	76,5	64,3	55,4	48,6	43,3	39,0
	1,0%	77,8	65,4	56,3	49,4	44,0	39,6	36,0
	0,5%	66,5	57,3	50,3	44,8	40,3	36,6	33,5
	0,0%	58,3	51,1	45,5	41,0	37,2	34,1	31,4
	-0,5%	52,0	46,3	41,7	37,8	34,7	31,9	29,6

Source: Integrae SIM



## 2.2 Market multiples

Our panels are made up of companies operating in the same sector as Convergenze, but many of them with higher capitalization. These companies are the same ones used for the calculation of Beta for the DCF method. Panels are composed of:

**Table 7.1 – Market Multiples TLC**

Company Name	EV/EBITDA (x)			EV/EBIT (x)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Intred SpA	14,8	12,4	10,6	23,5	18,9	15,8
Unidata SpA	9,0	7,7	N/A	25,3	17,1	N/A
Cincinnati Bell Inc.	6,9	6,9	6,6	19,4	17,8	18,4
Retelit S.p.A.	8,1	7,4	6,8	18,8	15,2	13,2
Elisa Oyj	13,3	12,9	12,6	21,7	20,8	20,0
Chorus Limited	11,1	11,0	N/A	31,5	30,2	N/A
Cogent Communications Holdings	17,6	16,3	15,0	34,7	29,8	25,3
<b>Peer median</b>	<b>11,1</b>	<b>11,0</b>	<b>10,6</b>	<b>23,5</b>	<b>18,9</b>	<b>18,4</b>

Source: Infinitals

**Table 7.2 – Market Multiples Energy**

Company Name	EV/EBITDA (x)			EV/EBIT (x)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
E.ON SE	8,1	7,5	7,6	14,9	12,4	12,0
A2A S.p.A.	7,4	6,6	6,1	15,8	14,1	13,6
AusNet Services Limited	13,5	13,2	N/A	23,0	22,3	N/A
Pinnacle West Capital Corp.	10,2	9,5	8,9	17,6	16,6	14,8
DTE Energy Company	11,5	10,9	10,7	19,1	17,9	17,6
BKW AG	9,2	8,7	8,1	13,7	12,6	11,6
<b>Peer median</b>	<b>9,7</b>	<b>9,1</b>	<b>8,1</b>	<b>16,7</b>	<b>15,4</b>	<b>13,6</b>

Source: Infinitals

**Table 8 – Market Multiples Valuation**

€/mln	2021E	2022E	2023E
<b>Enterprise Value (EV)</b>			
EV/EBITDA	36,0	35,8	40,3
EV/EBIT	49,0	39,7	47,2
<b>Equity Value</b>			
EV/EBITDA	37,0	37,7	43,6
EV/EBIT	50,0	41,5	50,5
<b>Equity Value post 25% discount</b>			
EV/EBITDA	27,7	28,3	32,7
EV/EBIT	37,5	31,2	37,9
<b>Average</b>	<b>32,6</b>	<b>29,7</b>	<b>35,3</b>

Source: Integræ SIM

The equity value of Convergenze using the weighted average of market multiples EV/EBITDA and EV/EBIT of two Panels is equal to € 43.4 million. To this value, we have applied a 25% discount. Therefore, as a result, **the equity value is € 32.5 million.**

## 2.3 Equity Value

**Table 9 – Equity Value**

<b>Average Equity Value (€/mln)</b>	<b>41,0</b>
Equity Value DCF (€/mln)	49,4
Equity Value multiples (€/mln)	32,5
<b>Target Price (€)</b>	<b>5,85</b>

Source: Integrae SIM

The result is an average equity value of € 41.0 million. **The target price is, therefore, € 5.85 (prev. € 5.60). We confirm BUY rating and MEDIUM risk.**

**Table 10 – Target Price Implied Valuation Multiples**

<b>Multiples</b>	<b>FY20A</b>	<b>FY21E</b>	<b>FY22E</b>
EV/EBITDA Adj.	17,9x	12,2x	12,0x
EV/EBIT	33,1x	18,2x	18,6x

Source: Integrae SIM

**Table 11 – Current Price Implied Valuation Multiples**

<b>Multiples</b>	<b>FY20A</b>	<b>FY21E</b>	<b>FY22E</b>
EV/EBITDA Adj.	9,0x	6,2x	6,1x
EV/EBIT	16,7x	9,2x	9,4x

Source: Integrae SIM

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

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