

TARGET PRICE: 20.87
RECOMMENDATION: BUY

Allterco AD

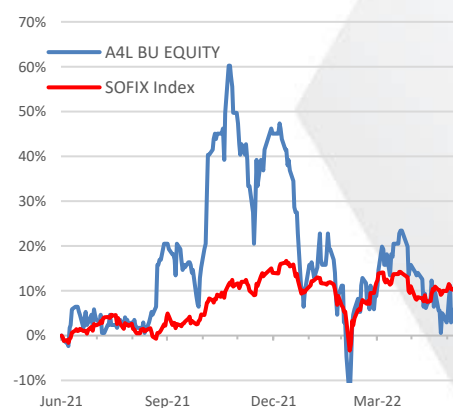
Industry: IoT
 Sector: Information Technology

Share Information

Price (BGN)	18.40
Price (EUR)	9.40
52-week price change	+6.97%
52-week price range	14.70 – 27.40
Market Cap (BGN)	331,199,982
Market Cap (EUR)	169,313,953
Shares outstanding	17,999,999
Free Float	35.82%
P/E (LTM)	21.02
P/S (LTM)	5.24
P/B	4.80

Source: SIS Calculations and Market Data

The BGN is pegged at one euro equals 1.95583 leva.



* in BGN

Rosen Dimitrov

Equity Analyst

Tel.: +359 889 222 104

e-mail: dimitrov@sis.bg

Svetozar Abrashev

Senior Managing Partner

Tel.: +359 2 937 9879

e-mail: abrashev@sis.bg

Sofia International Securities

Sofia 1000,

140 G. S. Rakovski Str.

Tel.: + 359 2 937 98 65

e-mail: info@sis.bg

Investment Thesis

- **Growth likely to retain** amidst ongoing plans for expansion and product development. Currently, the company is entering into new international markets and is strongly developing its distribution channels. As of Q1 2022 the DACH region accounted for 38% and such geographic differentiation would be positive for the stability of the revenue.
- **Products are well positioned** but the aggressive competition remains a huge risk for the company. Yet, from its track history, Allterco has proven its adaptability skills. Allterco has a crucial advantage over its peers – it is as flexible as a startup company and can occupy new opportunities promptly.
- **Leader in profitability.** Unlike its competitors, Allterco succeeds in delivering very high margins. However, some of that would have to be sacrificed in the name of the growth in the next years. The higher S&M and R&D expenses are likely to refrain the margins from expanding.
- **Stock slightly underpriced.** According to our DCF and CCA models, the fair value of the stock is approximately BGN 20.87, 13% higher than the last closing price.

Consolidated Q1 Results

- Allterco AD (TCKR: A4L) reported **14.6% revenue growth YoY** in Q1 2022, up to BGN 17.6mln. However, excluding the sale of the subsidiaries in Q1 2021, the growth equals 23% YoY. Sales of Shelly products have increased by 25.6% YoY. The management states that the higher electricity prices have boosted the revenue, as the sales of energy meters have increased tenfold. On the other hand, MyKi segment didn't perform that well due to the still lasting COVID effects and declined by 1% YoY.
 - Due to the expansion of the staff, a step towards the international growth, the operating expenses increased. This resulted in slightly lower EBITDA – BGN 4.9mln, down by 3.2%.
 - The management was excited to announce the launch of its “Pro” devices which will take place at the end of Q2. These products will target professional clients which for now account for 1/3 of the revenue.

FINANCIAL SNAPSHOT
QUARTERLY RESULTS

Financial Metrics	Q1 2021	Q1 2022	% Change	TTM
Total Revenue	15,373	17,591	14.4%	63,475
Operating expenses	10,666	13,012	22.0%	44,647
EBIT	4,707	4,579	-2.7%	18,828
Operating Margin	30.62%	26.03%	-4.59%	29.66%
EBITDA	4,980	4,866	-2.3%	19,910
Net profit	4,047	3,909	-3.4%	15,824
Net Margin	26.33%	22.22%	-4.10%	24.93%
Total Assets	72,405	75,646	4.5%	-
Equity	65,572	69,322	6.6%	-
Cash & equiv.	30,541	30,193	1.1%	-
Net Debt	-28,392	-28,021	-1.3%	-
Debt-to-Equity	3%	3%	-	-

FINANCIAL RATIOS

Per share	2018	2019	2020	2021
Number of shares	15,000,000	15,000,000	18,000,000	18,000,000
EPS	0.18	0.48	0.77	0.89
DPS	0.00	0.00	0.14	0.01

Growth & Activity	2018	2019	2020	2021
Revenue growth	-	-7.3%	19.6%	22.0%
Earnings growth	-	-20.2%	5.0%	20.8%
CAPEX growth	-	-12.0%	60.3%	-44.8%
CAPEX/EBITDA	48.4%	18.9%	17.6%	7.9%
Asset Turnover	1.07	1.05	0.76	0.85
WC Turnover	0.00	3.59	1.79	1.28

Return & Profitability	2018	2019	2020	2021
ROE	9.2%	23.7%	24.3%	24.3%
ROA	6.3%	18.0%	21.1%	22.0%
ROIC	8.3%	21.8%	23.2%	23.6%
EBITDA margin	9.3%	22.5%	32.4%	32.7%
Operating margin	7.7%	20.6%	30.3%	30.9%
Net margin	5.8%	17.1%	27.6%	26.1%

Gearing & Liquidity	2018	2019	2020	2021
Debt-to-Equity	0.1	0.1	0.0	0.0
Net Debt to EBITDA	1.7	-1.1	-0.7	-0.7
Interest coverage	26.0	95.0	190.1	259.7
Cash ratio	0.1	1.6	4.1	6.4
Current ratio	1.8	0.0	0.0	0.0

COMPANY DESCRIPTION

Allterco AD designs, manufactures, and distributes IoT products. The company offers MyKi, a GPS-GSM watch that allows parents to communicate and monitor the location of their child via the MyKi watch mobile application; MyKi Auto, a smart tracker for automobiles; MyKi Spot, which includes pet tracker, asset tracker, or SOS button; SHELLY, a device which allows remote control of electric appliances through mobile phone, PC or home automation systems; and MyKi Care thermometer, a smart device that measures and tracks body temperature. Allterco AD is headquartered in Sofia, Bulgaria.

ANNUAL FINANCIAL RESULTS

Income Statement (BGN th)	2018	2019	2020	2021
Operating Revenue	45,166	33,460	46,526	59,747
Financial Income	105	8,515	3,686	1,510
Total Revenue	45,271	41,975	50,212	61,257
Operating expenses	41,765	33,329	35,004	42,301
EBIT	3,506	8,646	15,208	18,956
EBITDA	4,206	9,465	16,270	20,024
Net profit	2,648	7,169	13,857	15,962

Balance Sheet (BGN th)	2018	2019	2020	2021
Current assets	18,464	22,212	47,090	59,414
Cash & equiv.	543	10,931	26,050	30,541
Non-current assets	23,833	17,679	18,603	12,991
PP&E and Inv. Properties	8,231	7,871	8,751	8,041
Total Assets	42,297	39,891	65,693	72,405
Current Liabilities	10,330	6,929	6,308	4,746
ST Loans	-	-	-	62
Non-current liabilities	3,043	2,626	2,549	2,087
LT Loans	3,043	2,626	2,549	2,087
Total Liabilities	13,373	9,555	8,857	6,833
Equity	28,875	30,213	57,132	65,572
Net Working Capital	8,134	15,283	40,782	54,668
Total Debt	3,043	2,626	2,549	2,149
Net Debt	2,500	(8,305)	(23,501)	(28,392)

Cash Flow Statement (BGN th)	2018	2019	2020	2021
CF from operations	(1,513)	5,844	3,987	8,125
CF from investments	(2,329)	8,273	1,927	497
CAPEX	(2,035)	(1,790)	(2,869)	(1,583)
Purchase of investments	(162)	(29)	-	(18)
CF from financing	1,325	(3,729)	9,205	(4,131)
Change in debt	565	(967)	105	(502)
Paid interest	(135)	(91)	(80)	(73)
Paid dividends	-	(2,571)	(248)	(3,436)

BUSINESS OVERVIEW

The Bulgarian company Allterco AD was established in 2003 as a mobile service provider operating in Asia, Europe and the Americas. Since 2015 Allterco has undertaken major steps in its development by turning to a new, innovative and highly promising segment: Internet of Things. The Group has narrowed its focus to the two most interesting and high-potential niches in this segment: Home Automation and Wearable Technology. Since the focus of the company fundamentally altered, it has been selling its telecom subsidiaries, closing the rest of the mobile services business in 2021. It has sold more than 5mln devices and products across more than 100 markets worldwide.



Allterco’s Shelly products:



Currently Allterco has two flagship product lines which are sold worldwide:

Shelly is an IoT brand of innovative devices, which allow remote control of electric appliances through mobile phone, PC or home automation systems. Shelly’s portfolio lays the foundation on its relays, allowing for remote control of lights, electrical appliances, sensors, bi-directional motors, as well as monitoring of energy consumption. In recent years, sensors detecting specific events such as motion, flooding, moisture, smoke, gases, or the opening of doors or windows have been included for no-wire applications. Additionally, Shelly’s portfolio includes intelligent wall plugs, air purifiers, temperature & humidity sensors, and smart dimmable and RGBW bulbs. Shelly products are available in over 100 international markets through an extensive network of more than 70 partners.

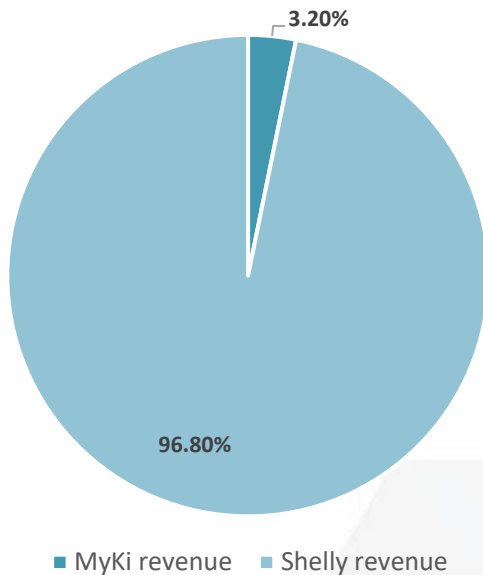
Allterco’s Myki products:



The child GPS-GSM watch **MyKi** is a device from a new generation that allows parents to communicate and monitor the location of their child. It dominates the Bulgarian market with more than 50% of small kids wearing the Myki watch. After the success of the MyKi watch, the company expanded the product line to include the MyKi Touch, with added touchscreen, as well as Myki Pet, which helps pet owners monitor their pets' location. The most recent product launched in this category is the smart thermometer MyKi Care, which received CE and FDA certifications.

Source: allterco.com

Figure 1:



Source: McKinsey

Shelly products take the majority of the revenue share and also, on historical basis, they've been faster growing (Figure 1). Still, one should take into consideration the negative effect of COVID19 on the market of smart watches for kids.

Business model & strategy: The company develops its own hardware prototypes and software solutions. On the other hand, the manufacturing of the devices is outsourced in China. It's important to note that during COVID in 2020 the company managed to organize its assembling operations in Bulgaria in order to mitigate the supply hurdles. Currently, this option stays only as an alternative for the company.

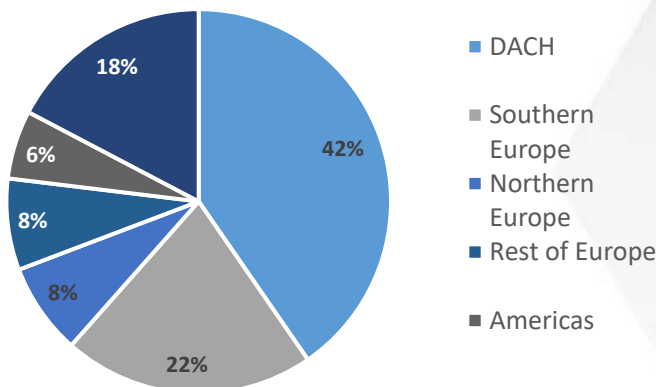
Allterco relies on distribution channels as well as direct online sales. For Q1 2022, nearly 27% of the sales were generated through online sales and the rest from B2B. The company also provides service for the sold devices. Currently, this activity is carried out mainly in Bulgaria or by local partners in places. The company is very focused on its product development and

market expansion. Still, it is very dependent on the DACH (Germany, Austria and Switzerland) region - 42% of sales come from that region but this is likely to change as sales in other regions also make good progress (Figure 2). To support its expansion strategy, the company currently is focused on localizing marketing, hiring regional sales teams, channel development and establishing regional logistics centers to optimize deliveries and redirect the sales channels.

Finally, the company is currently more focused on its retail clients (2/3 of revenue comes from DIY customers, whereas only 1/3 from professional customers). As Allterco is about to launch its pro products in the coming months it is going to target a fully new market that is a potential growth catalyst.

Public offering: The company debuted on the Bulgarian Stock Exchange in 2016, raising BGN 2.2mIn (EUR 1mIn) and sequently increased its capital by BGN 3mIn (EUR 1.6mIn) in 2020. In 2021 it became the first Bulgarian company to be listed on Frankfurt Stock Exchange (Symbol: A4L).

Figure 2:



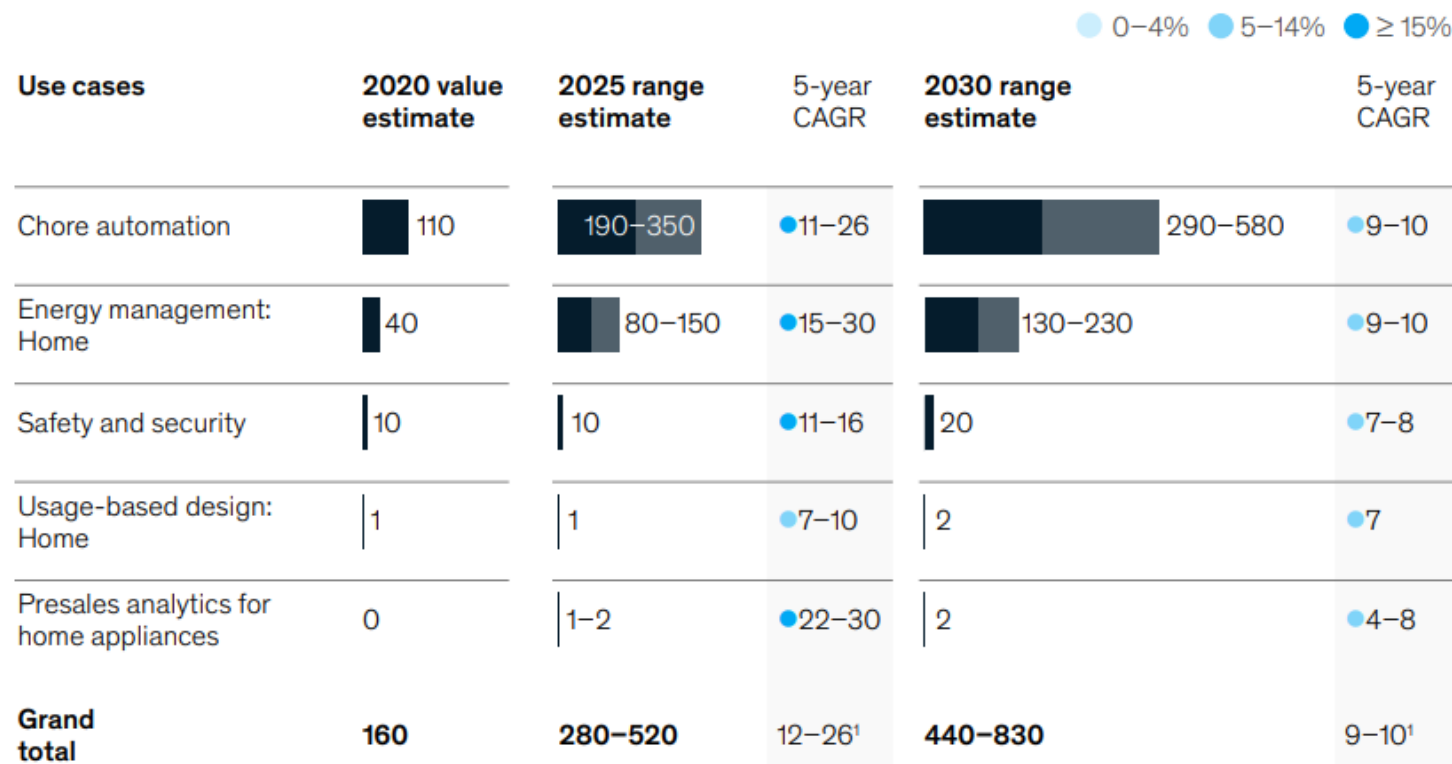
Source: Allterco

INDUSTRY OVERVIEW

The IoT market is a huge but very fragmented as well. Therefore, we chose to show only the IoT Home market.

Home

Estimated economic value by use case, 2020–30, \$ billions



Source: McKinsey

The IoT market in the context of Homes is forecasted to grow by 12-26% a year till 2025, with the largest economic value contributed by the Chore Automation. The McKinsey report states that cost is the single biggest barrier towards the adoption of IoT devices, and the second one being the difficult installation. Considering that Allterco’s low prices and easy-to-use products are its main competitive advantages, we reckon that the company is very well positioned in the market. Needless to say but the development of 5G is another tailwind for the market.

The competitive landscape is very intense. The rivals vary – some are big players such as Bosch and Phillips, others are not so well known. The market is still high-growth, high-margined, and barriers are comparably low, which is a prerequisite for new entrants. There’s also the risk of substitution – the new home devices are built with integrated connectivity. However, for now, the high prices hinder their mass adoption. Apart from the competition, there is another major risk that needs to be taken into consideration - Security and privacy. We believe that number of breaches will continue to rise in the following years and thus Allterco will have to increase its R&D costs to strengthen the security of its application

The **market for smart wearables** is even more competitive. Here some of the players in the market are Apple, Xiaomi, Fitbit, Huawei, Samsung and others. They tend to capture bigger and bigger market shares through the years as shown below.

Top 5 Watch* Companies by Shipment Volume, Market Share, and Year-Over-Year Growth, Q1 2020
(shipments in millions)

Company	1Q20 Shipments	1Q20 Market Share	1Q19 Shipments	1Q19 Market Share	Year-Over-Year Growth
Apple	4.5	26.8%	4.6	25.4%	-2.2%
Huawei	2.6	15.2%	1.2	6.4%	118.5%
Samsung	1.8	10.8%	2.0	10.8%	-7.2%
Garmin	1.3	7.5%	1.0	5.3%	31.7%
Huami	1.0	5.8%	0.5	3.0%	80.2%
Others	5.7	33.9%	8.9	49.0%	-35.7%
TOTAL	16.9	100.0%	18.2	100.0%	-7.1%

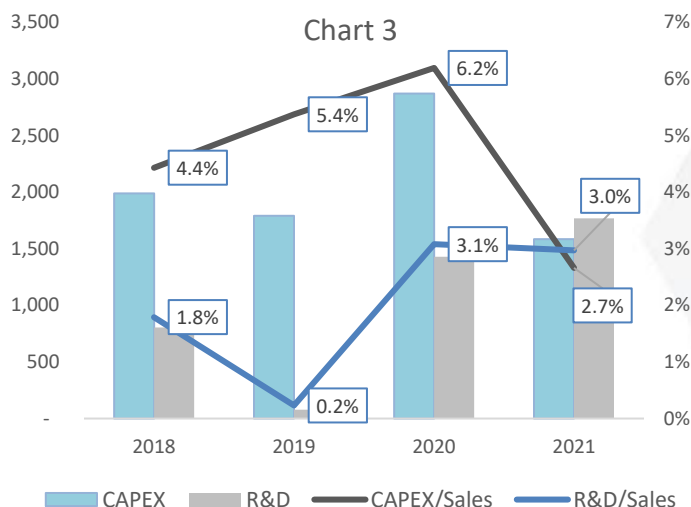
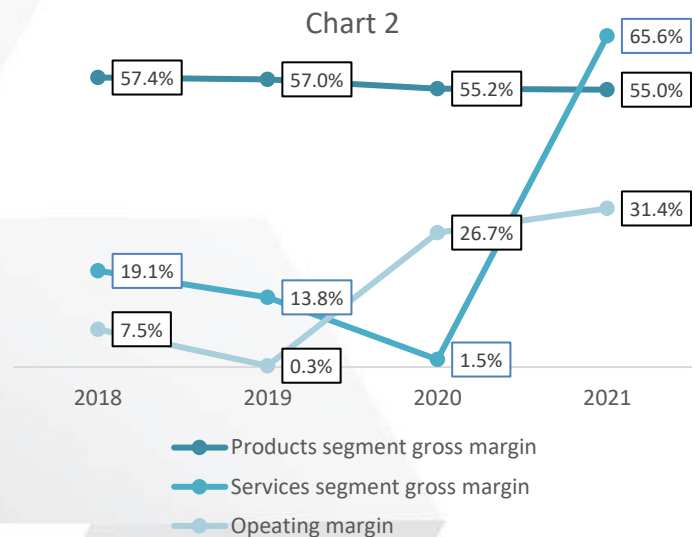
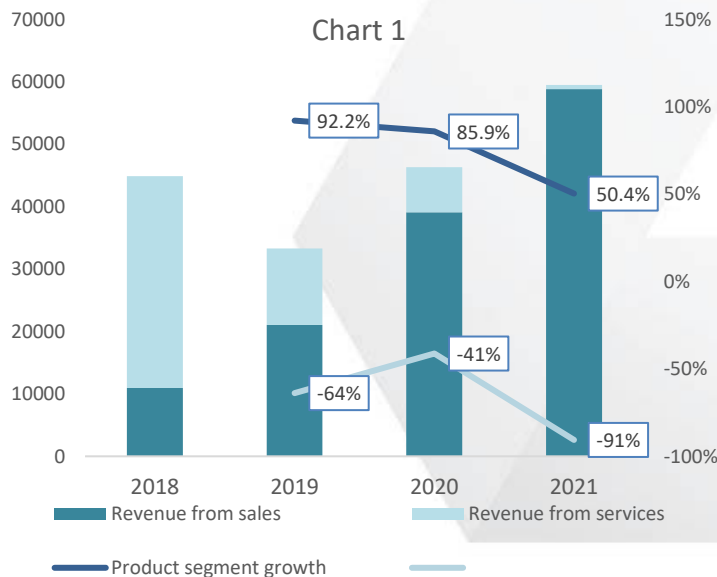
Source: IDC Worldwide Quarterly Wearable Device Tracker, May 2020

That’s why, we believe, MyKi products are locally oriented and sold through Mobile network operators. Similar to the Shelly products, MyKi’s competitive advantage is the low price, compared to competitors. As the COVID19 effect eases, we expect to see the MyKi products showing a reasonable growth, but still taking an insignificant portion of the total revenue (5-7%).

FINANCIAL ANALYSIS AND FORECASTS

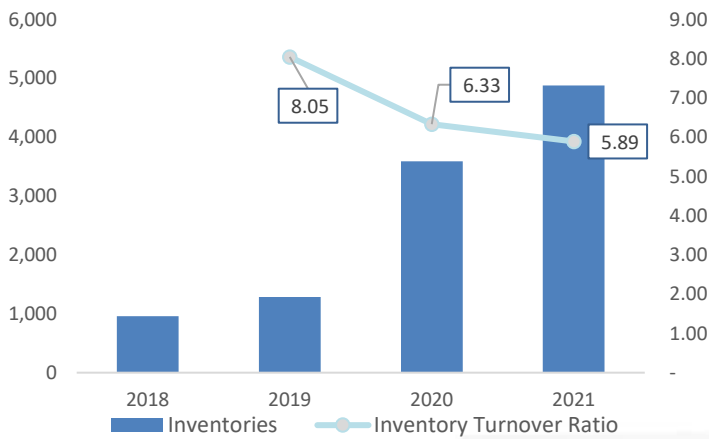
- The total revenue declined in 2019, however this was a one-off effect due to the sale of a European subsidiaries. As seen on Chart 1 the sales of products doubled during the period. As the expansion still takes place, we expect elevated growth numbers – between 20-30% in the next 3 years. After that due to the increased competition and high base, the growth will converge to the industry trend – 10-15%.

- As the sale of the telecom business is now behind, we will see more stable and higher gross margins than before. The product sales gross margin has been historically between 55-58%. As the channel development continues along with the e-commerce sales, the gross margin will slightly decline in the zone of 50-55%. Moreover, we expect the sales and R&D costs to remain elevated in the coming years, which will additionally push the operating margin down. We forecast an operating margin of around 28-30% for the next 5 years.



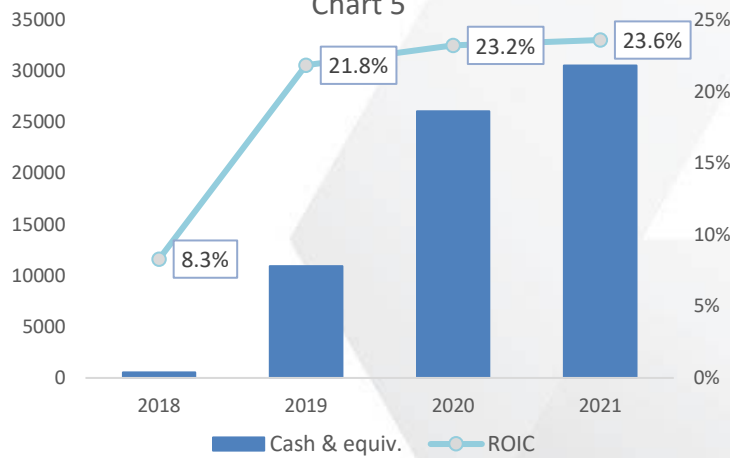
- As the company outsources its production, it is not investing heavily in machinery. Most of its CAPEX consists of establishing offices and warehouses around the world. Therefore, due to the international expansion, we anticipate the CAPEX to remain high around BGN 3-4mln. On the other hand, the company produces its own hardware prototypes and software which are recorded as R&D expenses. Because no R&D is reported on the Income Statement, those numbers were taken from the reference for fixed intangible assets.

Chart 4



- To optimize deliveries and redirect the sales channels the company has established larger logistics centres. The fact that the inventory growth caused the inventory turnover ratio to decline over the last 3 years is a sign that the company have achieved their aim to overstock. We believe that this is likely to continue in the following years.

Chart 5



- At the end of Q1 2022 the company had the healthy cash reserves of approximately BGN 30mln. As it had already triggered its set in the prospectus from 2020 strategy, the amount of the cash will decline as the company expands.

VALUATION

	2022	2023	2024	2025	2026	TV
Revenue	76,172	94,453	113,343	131,478	147,256	2.5%
EBIT	22,632	27,532	32,500	38,117	43,150	
NOPAT	20,369	24,778	29,250	34,305	38,835	
D&A	(355)	(851)	(1,241)	(1,387)	(1,491)	
CAPEX	(2,561)	(2,951)	(3,912)	(3,157)	(3,008)	
ΔNWC	(3,841)	(3,151)	(2,610)	(2,105)	(1,534)	
FCF	22,004	25,829	29,189	34,640	38,852	419,841
Discounted FCF	19,649	20,596	20,784	22,026	22,060	238,385

Cost of Debt =	3.40%
Cost of Equity (CAPM) =	12.27%
Adjusted β =	1.5
Germany 10-y Gov Bond =	1.36%
Germany Exp Market Return =	7.05%
Country Risk Premium (CRP) =	1.58%
WACC =	11.99%

Intrinsic Value	
Enterprise Value =	343,501
Net Debt =	(28,021)
Minority Interest =	-
Equity Value =	371,522
Outst. Shares	18,000
Equity Value Per Share =	20.64

WACC	Perpetual Growth					
	20.64	1.50%	2.00%	2.50%	3.00%	3.50%
10.5%		22.42	23.36	24.43	25.63	27.01
11.0%		21.24	22.07	23.00	24.05	25.23
11.5%		20.19	20.92	21.74	22.65	23.68
12.0%		19.26	19.92	20.64	21.45	22.35
12.5%		18.37	18.95	19.59	20.30	21.09
13.0%		17.58	18.10	18.67	19.30	20.00
13.5%		16.86	17.33	17.84	18.40	19.02

Name	Market Cap	Revenue LTM	Total Assets	EV/S	EV/EBITDA	P/E
SmartRent Inc	3,761,709,730	369.78	1,938.12	10.17	-	-
Viomi Technology Co Ltd	394,675,312	355.75	244.87	1.11	11.99	77.78
Alarm.com Holdings Inc	10,600,373,440	2,614.24	4,119.13	3.89	35.16	63.22
Hayward Holdings Inc	12,138,313,805	4,941.13	9,958.25	3.04	17.30	14.75
Somfy SA	19,834,486,409	5,650.63	6,888.96	3.08	15.09	18.72
Median	10,600,373,440	2,614	4,119	3.08	16.19	40.97
Allterco AD	316,799,982	60	74	4.87	21.94	20.38
Metric per Share				3.52	1.16	0.88
Fair Value				10.83	18.78	36.05
Average					21.80	

*Values are in BGN mln.

- Both DCF and CCA indicate for a fair value above the current market price. Because the number of companies in the CCA method is low, and additionally the fair values estimates vary widely, this method is taken by only 20%. Hence, our Target Price is BGN 20.87.

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BUY	Target price above current market price between 10% and 25%
HOLD	Target price in the +/-10% range of the current market price
SELL	Target price below current market price between 10% and 25%
STRONG SELL	Target price above current market price by 25% or more

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