

Company report

Buy (maintained)

25 February 2020 – 5:30 PM

MARKET PRICE: EUR30.4 TARGET PRICE: EUR65.6 (from EUR78.2)

Airport services

Data

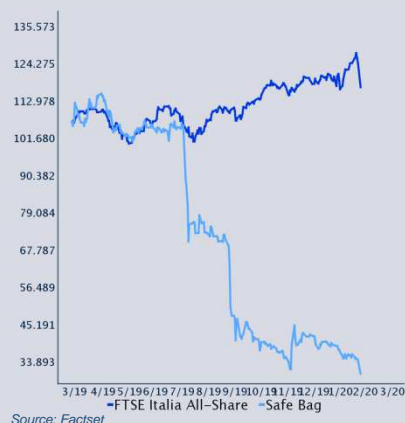
Shares Outstanding (m):	0.6
Market Cap. (EURm):	18.8
Enterprise Value (EURm):	25.7
Free Float (%):	23.0%
Av. Daily Trad. Vol. (m):	0.001
Main Shareholder:	RG Holding 56.6%
Reuters/Bloomberg:	TRWL.MI TWL IM
52-Week Range (EUR)	30.4 115.2

Source: Factset, UBI Banca estimates

Performance

	1m	3m	12m
Absolute	-22.1%	-17.3%	-64.7%
Rel. to FTSE IT	-20.0%	-17.7%	-69.1%

Graph area Absolute/Relative 12 M



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COVID-19 impact

Last week IATA published its estimates on the initial impact of COVID-19 on the airline industry based on the SARS experience which caused a drop of 5.1% of RPKs (revenues passenger kilometres) in Asia/Pacific. Applying a SARS-shaped scenario and no other changes, IATA concluded that passenger traffic in 2020 could decline by 0.6% compared with its previous estimates of +4.1% issued in December 2019. In particular, passenger traffic could decline by 13% in Asia/Pacific (vs. +4.8% expected before) and North America and Europe could grow by 3.4% vs. the previous estimate of +3.8%. Considering this new scenario, which could even worsen if COVID-19 will spread further, we believe TraWell target for 2020 (EUR48.3 million sales and EUR6.5 million EBITDA) would be difficult to reach. TraWell has a limited presence in Asia but Chinese tourists are 12 million in Europe and this could seriously impact the wrapping activity. In particular, the routes towards Latam, North Africa, Middle East and Russia could suffer more. On the opposite, this crisis could allow a reduction in the guaranteed minimum to the airports mitigating the impact on TraWell's P&L. As a result, we revised down our expectations for 2020 lowering our revenues estimates by 13% (to EUR42 million) and EBITDA by 20%. This said, we believe TraWell remains strongly undervalued: the share is now trading at huge discount to peers, making the current market price attractive. We remain buyers of the share with a new target price of EUR65.6 which offers >100% upside.

- > We are worried by the sharp deterioration of airline industry scenario for 2020, deeply revised down by IATA after the upcoming of COVID-19, which could worsen, depending on the length of the outbreak (with SARS the low point of demand occurred after three months, and the traffic recovered to pre-crisis level after six to seven months). As a result, we see the risk that TraWell could be seriously impacted with lower wrapping revenues, therefore missing its business plan targets.
- > Following our new estimates our target price declines to EUR65.6 per share (from EUR78.2). Still, the upside remains significant. Positive stance confirmed.

Financials

	2018	2019E	2020E	2021E
Revenues (EURm)	43.1	46.0	42.4	55.5
EBITDA (EURm)	6.5	3.5	4.7	8.9
EBITDA margin (%)	15.0%	7.6%	11.0%	16.0%
EBIT (EURm)	5.0	1.9	3.4	7.5
EPS (EUR)	3.11	1.71	2.32	6.54
CFPS (EUR)	5.69	4.43	5.67	10.12
DPS (EUR)	0.00	0.00	0.00	0.00

Source: Company Data, UBI Banca estimates

Ratios

	priced on 24 February 2020			
	2018 *	2019E *	2020E	2021E
P/E(x)	30.6	42.6	13.1	4.6
P/CF(x)	11.3	12.0	5.7	3.0
P/BV(x)	2.5	1.9	0.7	0.6
Dividend Yield	0.0%	0.0%	0.0%	0.0%
EV/EBITDA(x)	10.6	16.0	5.3	2.7
Debt/Equity (x)	0.1	0.1	0.1	0.1
Debt/EBITDA (x)	0.3	1.0	0.5	0.2

Source: UBI Banca estimates * Based on average yearly price

Key Financials

(EURm)	2018	2019E	2020E	2021E
Revenues	43.1	46.0	42.4	55.5
EBITDA	6.5	3.5	4.7	8.9
EBIT	5.0	1.9	3.4	7.5
NOPAT	3.4	1.2	2.3	5.1
Free Cash Flow	-6.8	-0.5	2.0	1.8
Net Capital Employed	28.3	30.9	31.5	37.0
Shareholders' Equity	23.7	24.2	25.4	31.0
Net Financial Position	1.8	3.4	2.5	2.0

Source: Company data, UBI Banca estimates

Key Profitability Drivers

	2018	2019E	2020E	2021E
Net Debt/Ebitda (x)	0.3	1.0	0.5	0.2
Net Debt/Equity (x)	0.1	0.1	0.1	0.1
Interest Coverage (%)	13.8	3.4	7.0	17.2
Free Cash Flow Yield (%)	-11.6%	-1.1%	10.8%	9.7%
ROE (%)	9.7%	4.4%	5.8%	14.4%
ROI pre tax (%)	22.6%	6.1%	10.5%	21.3%
ROCE (%)	15.7%	4.2%	7.3%	14.8%

Source: Company data, UBI Banca estimates

Key Valuation Ratios

	2018 *	2019E *	2020E	2021E
P/E (x)	30.6	42.6	13.1	4.6
P/BV (x)	2.5	1.9	0.7	0.6
P/CF (x)	11.3	12.0	5.7	3.0
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%
EV/Sales (x)	1.6	1.2	0.6	0.4
EV/EBITDA (x)	10.6	16.0	5.3	2.7
EV/EBIT (x)	13.6	29.8	7.3	3.2
EV/CE (x)	2.4	1.8	0.8	0.7

Source: Company data, UBI Banca estimates

* Based on average yearly price

Key Value Drivers

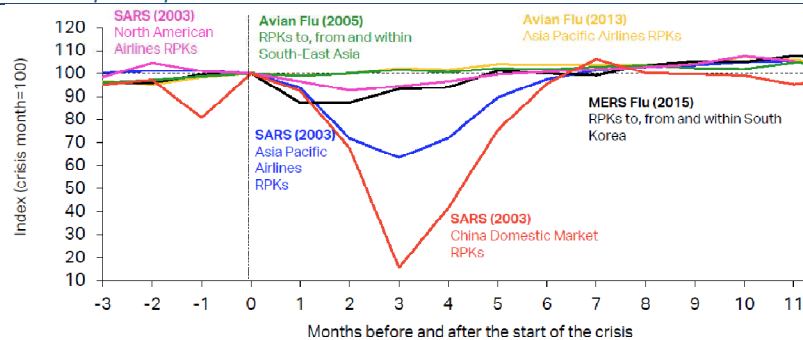
(%)	2018	2019E	2020E	2021E
Payout	0.0%	0.0%	0.0%	0.0%
Cost of Equity	7.4%	7.4%	7.4%	7.4%
NWC/Sales	-2.8%	-0.4%	-1.0%	-0.7%
Capex/Sales	0.3%	4.0%	3.5%	3.5%

Source: Company data, UBI Banca estimates

Recent Developments

- > Historical evidence shows that previous disease outbreaks have peaked after 1-3 months and recovered pre-outbreak levels in 6-7 months. IATA estimates that if COVID-19 has a SARS-shaped profile Asia-Pacific airlines will lose 13% passengers in 2020 (vs. 9% lost with SARS in 2003) and 4.7% loss to industry worldwide with USD29 billion loss of passenger revenues.
- > However, SARS experience may underestimate today's impact because China's economic size is now much greater (for example its share worldwide in travel & tourism has grown from 5% to 18% and in trade from 5% to 13%). Moreover, January data from China indicates a sharper decline than SARS outbreak in the first month after the outbreak with around 40% decline of daily passenger numbers and the first February data shows a further drop of around 60%. In addition, COVID-19 is now spreading in Italy and possibly within Europe.
- > As a result, COVID-19 will impact TraWell. However, we see few factors which could mitigate this impact: 1) the volume of wrapping does not depend by the country where the airport is based but by some specific airway routes. The higher wrapping volume comes from Europe-Latam, Europe-North Africa, Europe-Middle East, Europe-Russia and Europe-China and Japan while volume between Europe and North America and within Europe are more limited. In other words, only a part of the wrapping activity is currently exposed to COVID-19; 2) the lack of Chinese tourists in Europe would have a limited impact on TraWell (but much more on Duty Frees); 3) Airport service companies are already asking a reduction of the fees paid to the airports to face the crisis. Therefore, we do not rule out a reduction of the guaranteed minimum paid by TraWell to airports; 4) the final impact would depend on the length of the crisis. February and March are low-traffic months and the traffic starts to rump-up in April topping in Summer. If COVID-19 would last up to the Summer season, the impact for airport service companies would be severe.

Figure 1 – Impact of past disease outbreaks on aviation



Source: IATA February 2020

Financial Projections

> Following the COVID-19 outbreak, we trimmed our 2020 forecasts: our sales estimates have been reduced by 13% in 2020, assuming a significant drop of wrapping revenues up to the end of June and a gradual recovery thereafter. In particular, we lowered sales forecasts for Italy, other European countries and Russia while we left unchanged our estimates on the US. Our EBITDA 20% reduction reflects lower volumes, lower profitability for Pack&Fly and some extra cost to face the crisis. Net profit is now expected to reach EUR1.4 million this year and EUR4.1 million in 2021. Overall, our new estimates are now below the business plan targets for 2020.

Figure 2 – Old vs. new estimates

(EURm)	2018A	2019E		2020E		2021E	
		Old	New	Old	New	Old	New
Total sales	43.07	46,38	45,95	48,74	42,44	61,69	55,53
% change			-0,9%		-12,9%		-10,0%
EBITDA	6.45	3,50	3,47	5,81	4,66	9,27	8,87
% change			-0,7%		-19,8%		-4,3%
EBIT	5.01	1,89	1,86	4,55	3,40	7,95	7,55
% change			-1,3%		-25,2%		-5,1%
Net Profit	3.80	2,16	2,14	2,84	2,04	5,26	4,97
% change			-0,8%		-28,3%		-5,4%
Net Profit attributable	1.93	1,08	1,06	1,74	1,44	4,14	4,06
% change			-1,6%		-17,4%		-2,0%
Net debt (cash)	1.8	3,4	3,4	1,2	2,5	1,3	2,0
EBIT margin	11.6%	4,1%	4,1%	9,3%	8,0%	12,9%	13,6%
EBITDA margin	15.0%	7,5%	7,6%	11,9%	11,0%	15,0%	16,0%

Source: Company data, UBI Banca estimates

Valuation

- > TraWell shares have dropped 27% since the beginning of the year, strongly underperforming the market, on the back of lower air traffic prospects and COVID-19 fears. We believe the current share price does not reflect the growth prospects of TraWell and therefore the fair value of the company.
- > Following our estimate reduction to factor in the initial impact of COVID-19 and the poor performance of our peers sample (-7% last month and -8% YTD), we set a new target price at EUR65.6 per share compared with EUR78.2 before (deducting the DPS distribution). Our target price is based on the average of a DCF and a relative valuation plus the market value of SOSTravel.com stake (EUR0.9 million, or EUR1.33 per share). This indicates potential upside of >100%, supporting our positive stance.
- > Our DCF valuation gives a fair value of EUR59.5 per share (vs. a previous fair value of EUR75.4) and reflects our estimates reduction. The relative valuation reflects our new forecasts and the decrease in the multiples of the company's peers. We also stress that, at the current market price, TraWell is trading at a discount to peers on 2020-21 multiples (50% on EV/EBITDA and around 55% on P/E).
- > At our target price, Safe Bag trades at 10.6x 2020 EV/EBITDA, above the average multiple of our peer sample (9.0x).

Figure 3 – Valuation summary

(EUR)	Current valuation	Weight	31/10/2019	% Chg.
DCF Valuation	59.5	50%	75.4	-21,0%
Relative Valuation	69.9	50%	78.0	-10,3%
Average	64.7		76.7	-15,6%
SOSTravel.com	0.9		1.5	-41,9%
Target price	65.6		78.2	-16,1%
Current price	30.4		37.5	-18,9%
Potential upside (downside)	115.9%		108.5%	

Source: UBI Banca estimates

Figure 4 – DCF valuation

Our DCF valuation is based on a WACC of 7.2%, a long-term growth rate of 1% and implies an EV/EBITDA of 5.6x at terminal value

	(EUR m)	(% weight)
Sum of PV 2019-27 FCF	13,80	30%
Terminal value	31,53	70%
Total Enterprise value	45,34	100%
- minorities	(2,76)	
- Pension Provision	(0,48)	
- Net debt (+ cash)	(5,19)	
Total Equity value	36,91	
Fully diluted number of shares (m)	0,6	
Fair value per share (EUR)	59,53	

Source: UBI Banca estimates

Figure 5 – Peer comparison and valuation based on multiples priced on 24 February 2020

Company	Market Cap (EURm)	EV/EBITDA			Share performance		
		2019E	2020E	2021E	One month	Three months	YTD
Dufry	3.764	4,0 x	3,6 x	3,4 x	-11,0%	-15,0%	-15,7%
Compass Group	35.743	13,9 x	13,2 x	12,3 x	-1,5%	-4,8%	0,9%
Sodexo	14.377	11,0 x	9,6 x	9,0 x	-0,8%	-8,7%	-7,7%
Elior Group	2.166	9,6 x	8,6 x	8,1 x	-6,4%	2,6%	-5,0%
SSP Group	3.281	10,5 x	9,5 x	8,7 x	-6,0%	-4,9%	-4,4%
Autogrill	2.005	5,6 x	4,7 x	4,6 x	-15,5%	-14,9%	-15,5%
Average		9,1 x	8,2 x	7,7 x	-6,9%	-7,6%	-7,9%
Median		10,0 x	9,0 x	8,4 x	-6,2%	-6,8%	-6,4%
TraWell	19	7,4 x	5,3 x	2,7 x	-22,1%	-17,3%	-27,5%
Premium (discount)		-18,7%	-35,4%	-64,6%			
TraWell valuation	(EURm)	45.52	57.56	106.69			

Source: Factset, UBI Banca estimates

Figure 6 – Implicit multiples in our EUR65.6 target price

Fair Value Multiples	2019E	2020E	2021E
P/E	38,4 x	28,3 x	10,0 x
EV/EBITDA	14,5 x	10,6 x	5,5 x
EV/EBIT	27,1 x	14,6 x	6,5 x
EV/Sales	1,10 x	1,17 x	0,88 x
P/BV	1,7 x	1,6 x	1,3 x
EV/ Capital employed	1,6 x	1,6 x	1,3 x

Source: UBI Banca estimates

Income Statement

(EURm)	2018	2019E	2020E	2021E
Net Revenues	43.1	46.0	42.4	55.5
EBITDA	6.5	3.5	4.7	8.9
EBITDA margin	15.0%	7.6%	11.0%	16.0%
EBIT	5.0	1.9	3.4	7.5
EBIT margin	11.6%	4.1%	8.0%	13.6%
Net financial income /expense	0.4	2.2	0.5	0.4
Associates & Others	0.0	0.0	0.0	0.0
Profit before taxes	4.6	3.0	2.9	7.1
Taxes	-0.9	-0.9	-0.9	-2.1
Minorities & discontinuing ops	-1.9	-1.1	-0.6	-0.9
Net Income	1.9	1.1	1.4	4.1

Source: Company data, UBI Banca estimates

Balance Sheet

(EURm)	2018	2019E	2020E	2021E
Net working capital	-1.2	-0.2	-0.4	-0.4
Net Fixed assets	30.4	32.5	33.0	38.8
M/L term funds	-0.9	-1.4	-1.1	-1.3
Capital employed	28.3	30.9	31.5	37.0
Shareholders' equity	23.7	24.2	25.4	31.0
Minorities	2.8	3.3	3.6	4.1
Shareholders' funds	26.5	27.5	29.0	35.0
Net financial debt/(cash)	1.8	3.4	2.5	2.0

Source: Company data, UBI Banca estimates

Cash Flow Statement

(EURm)	2018	2019E	2020E	2021E
NFP Beginning of Period	-1.9	1.8	3.4	2.5
Group Net Profit	1.9	1.1	1.4	4.1
Minorities	1.9	1.1	0.6	0.9
D&A	1.4	1.6	1.3	1.3
Change in Funds & TFR	0.0	0.0	0.0	0.0
Gross Cash Flow	5.2	3.8	3.3	6.3
Change In Working Capital	-1.7	-1.0	0.2	0.0
Other	0.0	0.0	0.0	0.0
Operating Cash Flow	3.5	2.7	3.5	6.3
Net Capex	-0.1	-1.8	-1.5	-1.9
Other Investments	-10.2	-1.4	0.0	-2.5
Free Cash Flow	-6.8	-0.5	2.0	1.8
Dividends Paid	-1.2	0.0	0.0	0.0
Other & Chg in Consolid. Area	0.6	-1.1	-1.2	-1.3
Chg in Net Worth & Capital Incr.	3.7	0.0	0.0	0.0
Change in NFP	-3.7	-1.6	0.8	0.5
NFP End of Period	1.8	3.4	2.5	2.0

Source: Company data, UBI Banca estimates

Financial Ratios

(%)	2018	2019E	2020E	2021E
ROE	9.7%	4.4%	5.8%	14.4%
ROI (pre-tax)	22.6%	6.1%	10.5%	21.3%
Net Fin. Debt/Equity (x)	0.1	0.1	0.1	0.1
Net Fin. Debt/EBITDA (x)	0.3	1.0	0.5	0.2
Interest Coverage	13.8	3.4	7.0	17.2
NWC/Sales	-2.8%	-0.4%	-1.0%	-0.7%
Capex/Sales	0.3%	4.0%	3.5%	3.5%
Pay Out Ratio	0.0%	0.0%	0.0%	0.0%

Source: Company data, UBI Banca estimates

Per Share Data

(EUR)	2018	2019E	2020E	2021E
EPS	3.11	1.71	2.32	6.54
DPS	0.00	0.00	0.00	0.00
Op. CFPS	5.69	4.43	5.67	10.12
Free CFPS	-11.01	-0.79	3.28	2.95
BVPS	38.26	39.09	40.93	49.95

Source: Company data, UBI Banca estimates

Stock Market Ratios

(x)	2018 *	2019E *	2020E	2021E
P/E	30.6	42.6	13.1	4.6
P/OpCFPS	16.7	16.4	5.4	3.0
P/BV	2.5	1.9	0.7	0.6
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%
Free Cash Flow Yield (%)	-11.6%	-1.1%	10.8%	9.7%
EV (EURm)	68.1	55.6	24.7	24.1
EV/Sales	1.6	1.2	0.6	0.4
EV/EBITDA	10.6	16.0	5.3	2.7
EV/EBIT	13.6	29.8	7.3	3.2
EV/Capital Employed	2.4	1.8	0.8	0.7

Source: Company data, UBI Banca estimates

* Based on average yearly price

Growth Rates

(%)	2018	2019E	2020E	2021E
Growth Group Net Sales	41.2%	6.7%	-7.6%	30.8%
Growth EBITDA	35.4%	-46.2%	34.1%	90.3%
Growth EBIT	28.4%	-62.8%	82.6%	121.9%
Growth Net Profit	6.7%	-45.0%	35.5%	182.2%

Source: Company data, UBI Banca estimates

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UBI Banca's analysts use an "absolute" rating system, not related to market performance. The explanation of the rating system is listed below:

Buy: if the target price is 15% higher than the market price, over the next 12 months.

Hold: if the target price is 15% below or 15% above the market price, over the next 12 months.

Sell: if the target price is 15% lower than the market price, over the next 12 months.

No Rating: the investment rating and target price have been suspended as there is not sufficient fundamental basis for determining an investment rating or target. The previous investment rating and target price, if any, are no longer in effect. Alternatively, No Rating is assigned in certain circumstances when UBI Banca is acting in any advisory capacity in a strategic transaction involving the Company.

Target price: the market price that the analyst believes that the share may reach within a one-year time horizon.

Market price: closing price on the day before the issue date of the report, appearing on the first page.

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Distribution of ratings

Equity rating dispersion in the past 12 months			
Buy	Hold	Sell	No Rating
85.0%	10.0%	3.3%	1.7%
Proportion on issuers to which UBI Banca has supplied investment banking services relating to the last 12 months			
Buy	Hold	Sell	No Rating
78.4%	33.3%	-	100%

For further information regarding yearly and quarterly rating statistics and descriptions, please refer to www.ubibanca.com/equity-research.

Historical ratings and target prices

Date	Rating	Target Price (EUR) *	Market Price (EUR) *
14 June 2017	HOLD	4.73*	4.61*
28 September 2017	BUY	4.94*	4.22*
6 February 2018	BUY	6.44*	5.30*
23 May 2018	BUY	6.68*	4.60*
12 October 2018	BUY	5.93*	4.04*
3 December	BUY	6.44*	4.27*
16 April 2019	BUY	6.30*	4.54*
31 October 2019	BUY	78.2	37.5

* Before the 1:25 reverse stock split