H1'19: Phones continue to suffer, stable margins a silver lining

Gigaset published H1'19 numbers. A declining phones market continues to burden sales growth, which cannot be compensated by gains in market share. The relatively young Smart Home segment could grow by double-digit rates to EUR 1.6m in H1'19. As Gigaset is currently expanding its smartphone product business and with many products targeting the consumer market, we would expect that the strongest quarter including the Christmas season is yet to come with Q4'19. Gigaset's management confirmed its FY'19 guidance, which relies on decent Christmas sales, in our view. EBITDA and FCF developments appear on track to meet FY'19 targets, at first glance.

Gigaset		H1 2019	H1 2018	yoy	Q2 2019	Q2 2018	yoy
Sales	**EURm**	**107.1**	**121.0**	**-11%**	**61.3**	**69.9**	**-12%**
EBITDA	**"**	**6.7**	**7.7**	**-13%**	**8.6**	**6.1**	**41%**
EBITDA margin	*%*	*6.3%*	*6.4%*	*-11 BP*	*14.0%*	*8.7%*	*530 BP*
FCF	**EURm**	**-6.8**	**-23.0**	**nm**	**3.6**	**0.2**	**1700%**

Source: Pareto, Company data

Major business lines in decline, cost savings and one-off improve profitability

In H1'19, the major business lines declined in a yoy comparison (Phones -11% to EUR 76.4m, Professional -12% to EUR 24.9m and Smartphones -22% to EUR 4.2m), continuing the trends we have observed in Q1'19. According to the quarterly report, the relevant (cordless) phone market has declined by 5.6% yoy in H1, while Gigaset could secure further market share (in units). The relatively young Smart Home business line could exhibit positive growth rates (+14% yoy to EUR 1.6m). However, with the current expansion of the smartphone product portfolio and the consumer-oriented business lines Phones, Smartphones and Smart Home facing the important Christmas season, which has seen a strong Q4'18, we would expect growth impetus particularly in the last quarter of the year. Gigaset caught up in the second quarter, improving EBITDA with cost saving measures in marketing, but also helped by favourable foreign exchange rates and from a one-off resulting from a legal case in the amount of EUR 3.3m. Adjusted for the one-off, Q2'19 EBITDA margin would have come in at 8.7% (vs 8.7% in Q2'18).

Full-year guidance confirmed

Gigaset's management confirmed the full-year 2019 guidance of slightly rising revenues, stable EBITDA and clearly improved FCF. While the latter two seem to be in sight, slightly rising revenues would require 8.6% yoy growth in H2'19. Although Q3'19 should face relatively easy revenues comps (EUR 47.7m in Q3'18), sales targets appear optimistic in light of the declining phones market.

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