Q3'19 first take: Visible progress

Telecommunications technology provider Gigaset published promising Q3'19 figures. Not only have revenues increased moderately in the typically less pronounced pre-Christmas quarter via the help of market share gains in declining markets, but also profitability was improved sequentially over the second quarter. The recently slightly adjusted guidance has been confirmed and seems achievable, in our view. At a first glance, today's release should support the share price development.

		Actual					
Gigaset AG		**9M 2018**	**9M 2019**	**yoy**	**Q3 2018**	**Q3 2019**	**yoy**
Revenues	**EURm**	**169**	**158**	**(7)%**	**48**	**50**	**6%**
EBITDA	**"**	**4.5**	**11.6**	**156%**	**-3.1**	**4.9**	**nm**
EBITDA margin	%	2.7%	7.4%	467 bps	nm	9.8%	nm

Source: Pareto, Company data

Green shots in terms of growth, profitability further improved

Despite market estimates indicating that the markets for phones (Gigaset: slight decline in European countries) and smartphones (Gartner: (0.4)% yoy globally) should have declined in the third quarter, Gigaset grew its quarterly group revenues for the first time in 2019. While Q3'19 smartphone revenues declined by c. 13%, the gain in market share in the Phones segment (9M'19 Gigaset: +1.8pp in units) enabled 4% yoy growth in Q3'19. But also "Professional Services" (+14% yoy Q3'19 revenues growth) and "Smart Home" (+75% to 0.7m) contributed to the typically seasonally less pronounced third quarter. We would expect that particularly the smartphone (GGS just released its flagship smartphone GS290) and the smart home segment could be drivers of the important Christmas business. Group profitability was gradually improved qoq by stricter personnel and material cost discipline (Q2'19 adj. EBITDA 8.6%). Bear in mind, that 9M'19 EBITDA are positively impacted by a EUR 3.3m one-off resulting from the settlement of a legal case in Q2'19. Adjusted for this one-off, 9M'19 EBITDA margin stands at 5.3%.

FY'19 revenues targets depend on Christmas sales, stable EBITDA and FCF to clearly improve

Management guidance has already been adjusted in regard of "slightly rising revenues" might not be achievable anymore (19/11), which seemed a bit of a stretch after the release of H1'19 numbers. However, according to the release, this would depend on the outcome of a volatile, but typically stronger final quarter (Christmas sales). The targets of "stable EBITDA" and clearly improved FCF (9M'19: EUR (15.1)m vs 9M'18: EUR (34.4)m, however, have been confirmed and seem near-certain to us with regard to the operating improvements during the first nine months and with Christmas just ahead. Overall, a promising set of results that should help the share price development in today's trading session, at a first glance.

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