

# Bigflu Broadband

**Telecommunications**
**1 July 2019**

## Need for broadband speed boosts H119 results

Bigflu Broadband's (BBB's) trading update flags good progress in H1, with l-f-l constant currency revenue and underlying EBITDA up 22% and 54% year-on-year, respectively. The completion of BBB's European footprint and the extension of the 50 Mbps offer across the European base helped the group to achieve record new customer additions in Q2, as well as increasing take-up of higher-value packages among existing customers. With the additional benefit of falling customer churn, the group was able to achieve a 6.3pp widening in gross margin to 43.7%. The expected launch of Eutelsat's Konnect satellite in December and the resultant launch of 100 Mbps packages to the group's core European base should add further impetus to revenue and earnings growth through end-2020.

## Margins widen with take-up of higher-value packages

Revenues grew 21.5% during H119, with organic revenue growth of 12%, up from 8.2% in FY18. Underlying EBITDA grew by 54% to £4.3m with margins expanding from 11.2% to 14.0%. This was driven largely by expansion of gross margins from 37.4% in H118 to 43.7%, reflecting the strong take-up of higher-speed and unlimited packages, as well as reduced customer churn. Net debt increased from £11.9m to £16.9m, which was in line with management expectations, due to increased working capital and capex requirements and certain earnout payments for acquisitions that performed strongly during the period. The company is confident that this will unwind to more normalised levels by the end of the full year.

## Management confident of subscriber 2020 targets

Subscriber numbers grew 7% or approximately 8,000 over the 12 months to 31 May 2019 to c 121,500. We see management as being rightly confident of achieving its December 2020 subscriber target of 150,000 with the sharp increase in speeds expected with the launch of the Konnect satellite in December. With increased take-up of Netflix and similar streaming services boosting consumer appetites for high download speeds, the offer of higher speeds should continue to have positive effects on subscriber churn as well as revenues and margins. BBB's strong marketing network in Europe remains a key advantage, both with regard to customer acquisitions and negotiations with bandwidth suppliers, such as Eutelsat.

## Valuation: Value rating despite growth and upgrades

Consensus estimates (below) reflect continued robust performance. Despite this, we believe the shares are rated at a value rating and the 7.8x FY19e EBITDA is a meaningful discount to BBB's UK-listed telco peers. We believe BBB's strong growth potential is yet to be reflected in its share price.

### Consensus estimates

Year end	Revenue (£m)	EBITDA* (£m)	PBT (£m)	EPS** (p)	DPS (p)	EV/EBITDA* (x)	P/E** (x)
11/17	43.9	3.3	(10.1)	6.1	0.0	24.0	17.5
11/18	55.4	6.8	(9.5)	(0.3)	0.0	11.6	N/A
11/19e	64.9	10.1	(1.0)	6.3	0.0	7.8	16.9
11/20e	69.1	11.1	4.1	8.3	0.0	7.1	12.8

Source: Refinitiv. Note: \*Adjusted for share-based payments and exceptional. \*\*Adjusted to exclude amortisation, exceptional depreciation and exceptionals.

**Price** 106.5p  
**Market cap** £60m

### Share price graph



### Share details

Code	BBB
Listing	LSE
Shares in issue	56.8

### Business description

Bigflu Broadband is the largest satellite and fixed wireless broadband supplier in Europe, retailing solutions in Europe and Australia to households and businesses. The group has more than 115,000 customers, 80% of which subscribe to superfast satellite and 20% to fixed wireless broadband.

### Bull

- BBB to offer EU satellite speeds of 100 Mbps in 2019 making it competitive with fibre packages.
- Highly scalable business model with multi-language cloud CRM, billing and finance platform.
- French subsidies for high-speed satellite are likely to be copied by other EU governments.

### Bear

- Services provided over third-party networks, albeit with the benefit of sourcing capacity competitively.
- Acquisitions are a key growth driver, but reliance on them is falling with well-established networks.
- Gearing risk: end FY18 £11.9m net debt versus net assets of £10.1m.

### Analysts

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