Osmozis

Buy – TP EUR6.7

Every campsite's best buddy

Smart cities: improving sustainability and comfort

March 2021

THEMATICS

As of September 2020, Bryan Garnier & Co's Equity Research has become more thematic-focused. This note specifically addresses and illustrates the following thematic:

Smart cities: improving sustainability and comfort

The camping best buddy

While the share price performance has been somewhat disappointing since the 2017 IPO, we believe the key issue for Osmozis remains its ability to generate firm top-line growth. Combining strong market share, more subscription-based contracts and specifically designed connected products, Osmozis' efforts should now gradually start to pay off.

- Flat revenue of EUR8m over the 2017-2020 period was a key disappointment, following a strong previous track record with 29% growth in revenue in 2016, and average growth of 24% between 2009 and 2016 in the number of pitches benefiting from the group's products or services.
- The flat performance was mostly explained by disappointing sales momentum, in a steady competitive backdrop. Changes at the commercial level with a new head of sales for the third time since the IPO have not helped either.
- However, the top-line focus should not mask the group's successes with an impressive EBITDA margin recovery over 2017-2019 (+c500bp to 21%), two acquisitions enabling the group to muscle its hardware (fibre) and software (PMS) proposal, and an ongoing leadership position in France with around 33% market share.
- Today, the group's offer is sufficiently large with a wide spectrum of products and services, some of them recently launched, and marketing is now the priority. This will be the key objective for Sébastien Deschamps, the group's new sales director since February 2020.
- Osmozis' international ambitions have changed too. Germany, the Netherlands and the UK are no longer a priority and efforts will be fully refocused on Spain and Italy. That said, expansion beyond France will depend on the group's ability to find the right target for an acquisition, which will not be an easy task.
- We estimate Osmozis' net profit at close to breakeven in 2021 and positive in 2022. Thereafter, we target 2025 revenues of EUR20m and EBITDA margin close to 30%, combined with FCF close to EUR1m. With these estimates and an 8.4% WACC-based DCF, we value Osmozis at EUR6.7 per share. An alternative multiple-based approach suggests this valuation is valid. Obviously, it will mostly depend on the group's ability to generate sufficient revenue growth over the period.
- We initiate coverage of Osmozis with a Buy rating.

Bryan Garnier stock rating system

For the purposes of this Report, the Bryan Garnier stock rating system is defined as follows:

Stock rating

CONVICTION BUY

The highest possible rating, based on a very strong conviction in the mid/long-term outlook and strategic choices made by a company, and should therefore be reflected in the extent of upside in the associated target price. There is no reason to limit the number of CONVICTION BUY ratings, however they must also reflect some kind of preference in relative terms within a sector.

BUY

Positive opinion for a stock where we expect a favourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential upside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

NEUTRAL

Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

SELL

Negative opinion for a stock where we expect an unfavourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential downside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

CONVICTION SELL

This is the lowest possible rating reflecting a strong disagreement with the main strategic choices made by a company, pointing to the risk of de-rating and value destruction and which is obviously also reflected in downside potential between the share price and the target price.

DISTRIBUTION OF STOCK RATINGS

Conviction BUY	11.3%
BUY ratings	56.7%
NEUTRAL ratings	14.2%
SELL ratings	17.7%
Conviction SELL	0%

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