

NETGEAR, Inc. (NTGR US) is a global provider of networking products designed for small businesses and homes. The company offers a suite of products that enables small businesses and homes to share Internet access, peripherals, digital content, and applications among multiple personal computers and other Internet-enabled devices. Purchase was made at \$35.92 to the Optimum portfolio. Share in the portfolio is 3%.

Company	NETGEAR
Ticker	NTGR US
Sector	Networking equipment
Capitalization, \$ million	1,127
EV, \$ million	780
Dividend yield	-
Entry level, \$	35.92
Current price, \$	36.35
Result	1.2%

Source: Bloomberg

Key investment attractiveness factors.

1) **Excellent results in Q1 2021.** NETGEAR reported yesterday its operating results for the first quarter of 2021. Revenue increased by 38.25% to \$317.9 million year-on-year. Gross profit grew by 67.5% to \$110.9 million. Net profit amounted to \$25 million as compared to loss of \$0.5 million for the prior year, and net profit margin was 7.9%.

2) **High demand for NTGR products.** The main growth driver was high demand for Wi-Fi 6 certified devices, components and peripherals, as well as for home-use products. Such products remain in demand in light of coronavirus-related restrictions. There is also a need for new up-to-date routers as quality of consumed content increases and broadband access throughput grows, and also in line with introduction of new generation 5G wireless networks. The company sold around 4.1 million devices in the first quarter, including 2.7 million wireless communication hubs.

3) **Substantial undervaluation with reference to multipliers.** According to our estimates, NTGR shares seem to be significantly oversold at the moment while overall picture remains fundamentally strong and positive. Discount with reference to benchmarks is over 400% for P/S, about 133% for EV/EBITDA, and around 137% for P/E.

Risks. First, tight competition in the sector. Second, the company's small scale. Third, possible decline in demand for NTGR products as the pandemic recedes.

Financial highlights, \$ million	2019	2020	2021P*	Change, %
Revenue	999	1,255	1,343	7%
Gross profit	294	372	418	-
EBITDA	60	104	144	38%
Net profit	28	62	104	69%
EPS	0.91	2.07	3.27	58%
<i>Gross margin</i>	29%	30%	31%	1%
<i>EBITDA margin</i>	6%	8%	11%	2%
<i>Net margin</i>	3%	5%	8%	3%
Debt burden, \$ million	2019	2020	2021P*	Change, %
Gross debt	36	35	24	-31%
Cash	196	353	371	5%
Net debt	-160	-318	-347	9%
Net debt/EBITDA	-	-	-	-
Benchmarking against similar companies, 2021P*	Country	P/S	P/BV	P/E
ARISTA	USA	8.9	20.1	29.7
F5 NETWORKS	USA	5.0	13.6	20.4
JUNIPER	USA	1.8	9.5	15.1
INTERDIGITAL	USA	6.6	12.4	61.9
EXTREME	USA	1.2	11.3	18.4
CIENA	USA	2.3	12.2	20.1
LUMENTUM	USA	3.9	9.3	13.8
Weighted average		4.3	12.6	25.6
NETGEAR	USA	0.8	5.4	10.8
<i>Discount/(premium)</i>		407%	133%	137%

*P – Projection

Source: Bloomberg

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