ALKEMY

OUTPERFORM

Sector: Industrials

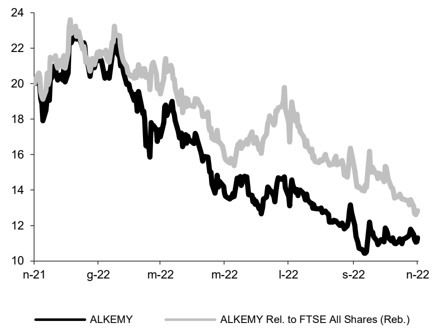
Price: Eu11.30 - **Target: Eu16.20**

3Q22 Results in Line; Guidance Confirmed

Gianluca Bertuzzo +39-02-77115.429
gianluca.bertuzzo@intermonte.it

Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 19.00 to 16.20
	2022E	**2023E**	**2024E**
Chg in Adj EPS	-6.3%	-5.7%	-4.4%

ALKEMY - 12M Performance



Stock Data			
Reuters code:			ALKE.MI
Bloomberg code:			ALK IM
Performance	**1M**	**3M**	**12M**
Absolute	-4.7%	-13.1%	-43.5%
Relative	-18.8%	-19.3%	-31.6%
12M (H/L)			22.90/10.44
3M Average Volume (th):			4.88

Shareholder Data	
No. of Ord shares (mn):	5
Total no. of shares (mn):	6
Mkt Cap Ord (Eu mn):	61
Total Mkt Cap (Eu mn):	61
Mkt Float - Ord (Eu mn):	33
Mkt Float (in %):	54.4%
Main Shareholder:	
Vitali Duccio	10.5%

Balance Sheet Data	
Book Value (Eu mn):	41
BVPS (Eu):	7.25
P/BV:	1.6
Net Financial Position (Eu mn):	-34
Enterprise Value (Eu mn):	98

- **3Q22 P&L in line with expectations.** ALK reported 3Q22 results that were broadly in line with our expectations; growth was a touch stronger, offsetting slightly lower margins. Revenues were €25.6mn (€25.0mn exp.), up +12% YoY almost evenly distributed between external (InnoCV in Spain) and organic growth achieved with existing clients. In 9M22, Italy was up +12% (o/w 6% organic) and International was up +7% (entirely scope). Adj. EBITDA was €2.5mn (€2.5mn exp.), up +7%. The margin was 9.7% (10.0% exp.) mainly due to growth in personnel costs (+13%) driven by the increase in headcount (+170 FTE to 783 in total) only partly offset by lower per capita labour costs (-7%). Net profit at €1.2mn was in line with expectations on the back of slightly higher D&A, mitigated by lower net financial charges and tax rate. Net debt was €36.2mn (€25.2mn exp. and €20.1mn in 1H22) mainly due as the company fully consolidating the €10mn earn-out on the InnoCV acquisition. InnoCV generated 2021 revenues of €7.7mn and EBITDA of €1.6mn (€0.7mn ex-capitalisation) and was purchased in July for €5.1mn (incl. debt) plus a 2022-25 earn-out based on the gross margin, for up to a maximum of €11mn in total.
- **2022 guidance confirmed.** In light of the results achieved during 9M22, progress on orders in the portfolio and contracts activated in the early months of the fourth quarter, management confirmed it expects organic turnover and margin growth to continue. More specifically, during the conference call management confirmed the ~€12mn of adj. EBITDA. While we confirm our estimates, we highlight that some acceleration, mainly in terms of margin expansion, is needed in 4Q.
- **Information from the call.** Management expects a 3-5% increase in unitary salaries, to be partly offset by an increase in junior staff enabling overall compensation per employee to remain stable. For the first time the company disclosed the breakdown by industry, highlighting that it sees opportunities in Financial Services, Energy & Utilities and Consumers goods, where it has a presence that can be consolidated further. As a result, it is hiring key personnel to grow in these areas. On M&A, management is still actively looking for small opportunities, with FCF expected to free up financial resources from the middle of 2023. Multiples are foreseen receding towards ~5.5-7x EV/EBITDA.
- **Change in estimates.** While confirming our EBITDA estimates, we are lowering our EPS forecast by -5% due to slightly higher D&A and financial charges on higher net debt following the full consolidation of the earn-out on InnoCV acquisition.
- **OUTPERFORM, TP €16.2.** Recently-released 3Q22 results were in line with our expectations on the P&L, while the company confirmed its 2022 outlook. In the highly dynamic digital transformation market, we believe ALK has the right portfolio of services and go-to-market approach to exploit growth opportunities, while enhancing profitability thanks to management's actions. Although the deterioration in the macro scenario has prompted new clients to take a more wait-and-see approach, organic growth is set to remain positive and this, along with accretive M&A and operating leverage, should lead to robust earnings growth. OUTPERFORM confirmed; target to €16.2 (from €19.0) due to higher net debt and WACC (9.1% vs. 8.6% previously).

Key Figures & Ratios	2020A	2021A	2022E	2023E	2024E
Sales (Eu mn)	75	95	105	118	128
EBITDA Adj (Eu mn)	6	11	12	14	15
Net Profit Adj (Eu mn)	2	5	6	7	8
EPS New Adj (Eu)	0.361	0.896	1.025	1.214	1.478
EPS Old Adj (Eu)	0.361	0.896	1.094	1.287	1.546
DPS (Eu)	0.000	0.000	0.000	0.000	0.000
EV/EBITDA Adj	7.4	9.6	8.3	6.7	5.6
EV/EBIT Adj	13.6	13.2	11.5	8.6	6.9
P/E Adj	31.3	12.6	11.0	9.3	7.6
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Net Debt/EBITDA Adj	2.0	2.0	2.9	2.0	1.4

Intermonte

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- Discounted cash flow (DCF) model or similar methods such as a dividend discount model (DDM)
- Comparison with market peers, using the most appropriate methods for the individual company analysed: among the main ratios used for industrial sectors are price/ earnings (P/E), EV/EBITDA, EV/EBIT, price /sales.
- Return on capital and multiples of adjusted net book value are the main methods used for banking sector stocks, while for insurance sector stocks return on allocated capital and multiples on net book value and embedded portfolio value are used
- For the utilities sector comparisons are made between expected returns and the return on the regulatory asset base (RAB)

Some of the parameters used in evaluations, such as the risk-free rate and risk premium, are the same for all companies covered, and are updated to reflect market conditions. Currently a risk-free rate of 2.5% and a risk premium of 5.0% are being used.
Frequency of research: quarterly.
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A draft copy of each report may be sent to the subject company for its information (without target price and/or recommendations), but unless expressly stated in the text of the report, no changes are made before it is published.
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BUY: stock expected to outperform the market by over 25% over a 12 month period;
OUTPERFORM: stock expected to outperform the market by between 10% and 25% over a 12 month period;
NEUTRAL: stock performance expected at between +10% and – 10% compared to the market over a 12 month period;
UNDERPERFORM: stock expected to underperform the market by between –10% and -25% over a 12 month period;
SELL: stock expected to underperform the market by over 25% over a 12 month period.
Prices: The prices reported in the research refer to the price at the close of the previous day of trading

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BUY:	22.13 %
OUTPERFORM:	48.36 %
NEUTRAL:	27.87 %
UNDERPERFORM	01.64 %
SELL:	00.00 %

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (52 in total) is as follows:

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OUTPERFORM:	50.00 %
NEUTRAL:	11.54 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short

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