Intermonte

Milan, 07 November 2022

Italian Equity Research – Resumption of Coverage

ESPRINET

BUY

Sector: Consumers

Price: Eu6.90 - **Target: Eu13.90**

Attractive Value for a Key Enabler of Italy's Digital Transition

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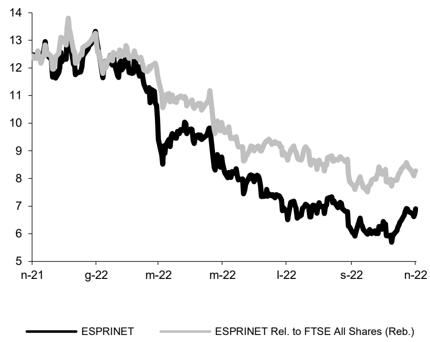
Stock Rating			
Rating:			BUY
Target Price (Eu):			13.90
	2022E	**2023E**	**2024E**
Chg in Adj EPS	nm	nm	nm

Next Event

3Q22 Results Out November 10th 2022

ESPRINET - 12M Performance



Stock Data			
Reuters code:			PRT.MI
Bloomberg code:			PRT IM
Performance	**1M**	**3M**	**12M**
Absolute	7.1%	-3.1%	-44.5%
Relative	0.3%	-4.6%	-27.9%
12M (H/L)			13.39/5.70
3M Average Volume (th):			129.88

Shareholder Data	
No. of Ord shares (mn):	50
Total no. of shares (mn):	50
Mkt Cap Ord (Eu mn):	348
Total Mkt Cap (Eu mn):	348
Mkt Float - Ord (Eu mn):	183
Mkt Float (in %):	52.7%
Main Shareholder:	
Shareholder Agreement	25.2%

Balance Sheet Data	
Book Value (Eu mn):	412
BVPS (Eu):	8.30
P/BV:	0.8
Net Financial Position (Eu mn):	198
Enterprise Value (Eu mn):	724

- **3Q results preview – resumption of sales and margin growth expected:** we expect sales growth of +8% YoY in 3Q to €1.05bn, marking a return to a positive growth trajectory after 4 quarters of decline in the context of an easier comparison base (3Q21 sales fell 13%YoY), supportive B2B demand and enhanced product availability. We note that at the time of its 2Q results release PRT indicated solid sales and profit growth in July and August. We expect the relative importance of Advanced Solutions to continue to increase, contributing to margin expansion, as we forecast a 3Q gross margin of 5.13% (+15bp YoY), and adj. EBITDA to grow +21% YoY to €20mn, a 1.86% margin (+20bp YoY). 3Q net income is forecast at €9mn (+34% YoY). We expect positive 3Q FCF of €47mn, partly enabled by WC (despite WC historically being a cash drag in 3Q) as we expect strong management of payables to take advantage of vendors' indicated de-stocking efforts. 3Q net debt is therefore forecast at €210mn (from €257mn at 1H22).
- **FY22 guidance and medium-term targets likely to be confirmed:** we believe the strong growth forecast for 3Q, the positive mix developments expected (better growth in high-margin activities), along with the accretive addition of Bludis from November to help ensure confirmation of FY22 guidance (low single-digit sales growth, adj. EBITDA ">€93mn", "high double-digit" ROCE), implying buoyant 2H growth of at least +24% YoY in adj. EBITDA. We therefore forecast robust margin growth again in 4Q, with adj. EBITDA expected up +26% with the 4Q margin forecast to widen by +35bp YoY. We also do not expect any changes to PRT's medium-term targets to 2024 or its strategic guidelines, presented back in November 2021.
- **Strategic focus on margin enhancement continues:** with the CELL story now in the rear-view mirror, PRT's focus returns fully to its strategic path to becoming a "full service provider", targeting an enhanced presence in Solutions and Services, areas with superior margin profiles. On 2 November PRT announced the acquisition of the Italian distributor of niche Value-Added ICT solutions Bludis, for a low EV/EBITDA multiple of 4.0x, in our view showing that the company remains capable of executing accretive M&A deals in the key segments targeted by its strategy. Bludis generated €13mn in sales and EBITDA of €2.2mn in FY21, i.e. a 17% EBITDA margin, which compares to the 3.4% recorded by PRT's Solutions division).
- **Updating our estimates:** our new forecasts include FY22 sales growth of +2.5% and adj. EBITDA of €93mn, in line with guidance and consensus. The Bludis acquisition is included in our updated estimates for both 4Q22 and FY23-24.
- **BUY reactivated, new TP €13.9:** we resume coverage of PRT with a renewed positive view. We believe the equity story continues to be driven by the multiple tailwinds powering medium-term ICT demand growth in Southern Europe and the outstanding delivery on its ROCE maximisation strategy. PRT is down -59% since its August 2021 peak, a sharp decline that is not reflective of steady estimates (FactSet consensus EPS for 2022/23 changed by -2%/+9% over the period). The stock is now trading at just 7.1x/5.8x P/E on 2022/23, at a c.47% discount to Swiss ICT distribution peer ALSO Holding despite the expected narrowing of the profitability gap. Our new DCF-based TP is ex-dividend (FY22E DPS expected at €0.54, flat YoY) and reflects our new estimates and a higher WACC, mainly due to a raised risk-free rate (now 4% vs 2.5% in our last report).

Key Figures & Ratios	2020A	2021A	2022E	2023E	2024E
Sales (Eu mn)	4,492	4,691	4,807	5,143	5,608
EBITDA Adj (Eu mn)	69	86	93	109	129
Net Profit Adj (Eu mn)	31	44	49	60	75
EPS New Adj (Eu)	0.620	0.880	0.969	1.196	1.479
EPS Old Adj (Eu)	0.620	0.880	1.108	1.302	1.470
DPS (Eu)	0.540	0.540	0.540	0.598	0.739
EV/EBITDA Adj	7.4	11.2	7.8	6.6	5.6
EV/EBIT Adj	9.3	13.8	9.6	7.9	6.5
P/E Adj	11.1	7.8	7.1	5.8	4.7
Div. Yield	7.8%	7.8%	7.8%	8.7%	10.7%
Net Debt/EBITDA Adj	-4.4	-2.6	-2.1	-2.1	-2.2

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The main methods used to evaluate financial instruments and set a target price for 12 months after the investment recommendation are as follows:

- 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.
Reports on all companies listed on the S&PMIB40 Index, most of those on the MIDEX Index and the main small caps (regular coverage) are published at least once per quarter to comment on results and important newsflow.
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:

BUY:	38.46 %
OUTPERFORM:	50.00 %
NEUTRAL:	11.54 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short

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