Intermonte

Milan, 17 May 2023

Italian Equity Research – 1Q23 Results

ESPRINET

BUY

Sector: Consumers

Price: Eu6.51 - **Target: Eu10.50**

Weaker start to the year leads to a cautious guidance

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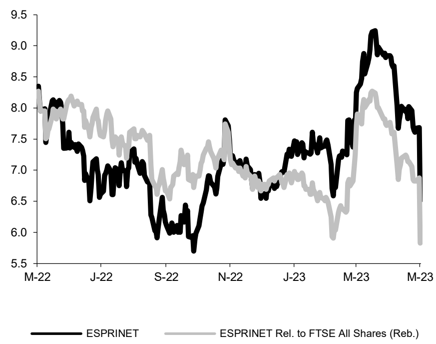
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 12.00 to 10.50
	2023E	**2024E**	**2025E**
Chg in Adj EPS	-9.5%	-9.4%	-8.2%

Next Event

2Q Results Out on 12 September

ESPRINET - 12M Performance



Stock Data			
Reuters code:			PRT.MI
Bloomberg code:			PRT IM
Performance	**1M**	**3M**	**12M**
Absolute	-26.3%	-13.0%	-20.5%
Relative	-23.8%	-10.4%	-32.3%
12M (H/L)			9.24/5.70
3M Average Volume (th):			268.57

Shareholder Data	
No. of Ord shares (mn):	50
Total no. of shares (mn):	50
Mkt Cap Ord (Eu mn):	328
Total Mkt Cap (Eu mn):	328
Mkt Float - Ord (Eu mn):	173
Mkt Float (in %):	52.7%
Main Shareholder:	
Shareholder Agreement	25.2%

Balance Sheet Data	
Book Value (Eu mn):	402
BVPS (Eu):	7.97
P/BV:	0.8
Net Financial Position (Eu mn):	-37
Enterprise Value (Eu mn):	371

- **Sales slightly better than estimate, but down -11% YoY.** Turnover was Eu1.02bn, down -10.6% YoY, slightly better than our Eu0.97bn, highlighting an improvement of the mix: as expected, high volume/lower margin divisions, namely Screens (-21% YoY) and Devices (-6% YoY) saw negative performances, mainly due to a pronounced slowdown in market demand, while higher margin divisions (Solutions +23%, Services +25%) recorded double digit growth. By geography, revenues in Italy (€623mn) and Spain (€358mn) were down -10% and -14% YoY respectively, both underperforming individual markets, while revenue in Portugal kept growing at a sustained pace (+20% YoY).
- **Improving mix led to a gross margin up 5.34%.** Gross profit at Eu54mn (-5.5% YoY), with the margin at 5.34%, up 30bps YoY, benefited from the rebalancing of the revenue mix, with solutions and services at c. 23% of total sales (up from 17% in 1Q22). Adj. EBITDA was Eu15.5mn (-22% YoY) with the margin at 1.52%, down c. -20bps YoY, with a negative impact from operating leverage.
- **Net debt at €341mn almost in line with estimate**, an increase of €260mn above the figure as at year-end, resulting from the greater seasonal incidence of WC (lower payables despite the level of inventories improving QoQ) amid the pronounced slowdown in market demand for PCs and smartphones. Cash conversion cycle at 32 days vs 25 in 4Q22, the 5th consecutive QoQ increase. ROCE at 9.6%, down vs 13.3% in 4Q22 due to higher WC and lower earnings.
- **Guidance on FY EBITDA in the €85mn-95mn range.** During the call, management indicated that the low-end of guidance embeds a worst-case scenario featuring a low single-digit decrease in revenue; however, visibility remains good, even though market conditions for consumer electronic are still very challenging. As of now, revenues are seen stabilizing or increasing slightly, while on cash flow, management still expects WC to normalize during the year.
- **Unexpected litigation with the Italian Tax Office.** The tax office alleges that the company did not carry out adequate checks on the eligibility of counterparties for VAT exemption. While the tax office is not accusing Esprinet of acting fraudulently, it is demanding Eu77mn in VAT (€220mn considering fines and interest). Esprinet has initiated negotiations to reach a settlement that proposes payment of just under 14% of the total claim (spread over 5 years with quarterly payments). The company envisages that a settlement may be reached by end-May. As for the "unfair clients", during the call management announced the PRT has not collected any revenue since 2017. The company will provide more details once the settlement is finalized.
- **Change to estimates.** We have left our revenue estimates unchanged, while lowering our estimates on the gross margin and adj. EBITDA to take into account a slightly worse revenue mix and higher OpEx (as stated by management). At the bottom line, we include a €31mn one-off for the settlement (to be recognized entirely on the P&L, but the cash-out will occur on a quarterly basis) and higher financial charges.
- **BUY confirmed, new TP a €10.5 (from €12).** 1Q results were consistent with the company strategy of maintaining the focus on growing the higher margin segments and avoiding unprofitable revenue in the high volume but low margin business. The unexpected tax litigation has triggered market uncertainty that should die down as soon as the settlement is finalized, likely over the next weeks. We adjust our DCF-based valuation which factors in lower FCF and the additional liability due to the claim.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	4,691	4,684	4,572	4,862	5,142
EBITDA Adj (Eu mn)	86	91	92	109	122
Net Profit Adj (Eu mn)	44	47	45	56	64
EPS New Adj (Eu)	0.880	0.960	0.900	1.113	1.277
EPS Old Adj (Eu)	0.880	0.960	0.994	1.228	1.391
DPS (Eu)	0.540	0.540	0.222	0.556	0.638
EV/EBITDA Adj	4.8	5.5	4.0	2.8	2.1
EV/EBIT Adj	5.9	6.8	5.2	3.6	2.6
P/E Adj	7.4	6.8	7.2	5.9	5.1
Div. Yield	8.3%	8.3%	3.4%	8.5%	9.8%
Net Debt/EBITDA Adj	-2.6	0.9	0.4	-0.2	-0.7

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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 4.0% and a risk premium of 5.5% 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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As at 31 March 2023 Intermonte's Research Department covered 119 companies. Intermonte's distribution of stock ratings is as follows:

BUY:	20.83 %
OUTPERFORM:	51.67 %
NEUTRAL:	25.83 %
UNDERPERFORM	01.67 %
SELL:	00.00 %

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (49 in total) is as follows:

BUY:	38.78 %
OUTPERFORM:	51.02 %
NEUTRAL:	10.20 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short

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