

FINE FOODS

Sector: Industrials

OUTPERFORM

Price: Eu7.45 - Target: Eu12.70

Food Back to Growth, Pharma Still Strong, Impressive Margins

Giorgio Tavolini +39-02-77115.279
 giorgio.tavolini@intermonte.it
Andrea Randone: +39-02-77115.364
 andrea.randone@intermonte.it

Stock Rating

Rating:	Unchanged		
Target Price (Eu):	from 12.30 to 12.70		
	2023E	2024E	2025E
Chg in Adj EPS	9.2%	0.2%	0.3%

Next Event

2Q23 Results 13 September

FINE FOODS - 12M Performance



Stock Data

Reuters code:	FF.MI		
Bloomberg code:	FF IM		
Performance	1M	3M	12M
Absolute	-10.7%	-7.1%	-5.0%
Relative	-8.4%	-5.7%	-16.9%
12M (H/L)	9.27/7.45		
3M Average Volume (th):	8.48		

Shareholder Data

No. of Ord shares (mn):	26
Total no. of shares (mn):	26
Mkt Cap Ord (Eu mn):	190
Total Mkt Cap (Eu mn):	190
Mkt Float - Ord (Eu mn):	90
Mkt Float (in %):	47.3%
Main Shareholder:	
Eigenfin Srl + M. Eigenmann	52.7%

Balance Sheet Data

Book Value (Eu mn):	140
BVPS (Eu):	5.47
P/BV:	1.4
Net Financial Position (Eu mn):	-35
Enterprise Value (Eu mn):	226

■ **1Q23 results.** Superior top-line growth (+29% vs >25% hint provided at end-March along with FY results, with Foods BU back to growth, Pharma BU still strong, softer Cosmetics BU) and an unexpected jump in profitability (12% vs. our 9.1% forecast) leading to a 37% EBITDA surprise, which amplifies scrolling down the P&L (adj. EBIT and net profit both > 2x our expectations). Total sales €65.6mn (+3% vs our exp. €63.6mn), up 29.2% (4Q: +9.6%) supported by a balanced mixed: (++) Food at €40.7mn (our exp. €37.8mn), up 38% (4Q: -4%; back to growth thanks to the effectiveness of commercial actions taken); (++) Pharma at €16.8mn (our exp. €16.0mn), up 42% (4Q: +30%; increased volumes of existing products and new production); (-) Cosmetics at €8.1mn (our exp. €11.1mn), -14% YoY (temporary production slowdown due to restructuring of Trezano production site and integration operations of Pharmatek, which just merged into Euro Cosmetic). Adj. EBITDA at €7.9mn (+36% vs our exp. €5.8mn), c. 2x YoY thanks to deployment of timely commercial actions, production efficiency and cost-control initiatives. As a consequence, the EBITDA margin strengthened to 12.1% (+3pp vs our exp. 9.1%), +4.3pp YoY, +6.5pp QoQ. Excluding the rise in energy costs (1pp YoY), 1Q margin would be c. 13% (9.7% in 1Q22). Net profit turned positive at €2.9mn (our exp. €1.3mn) vs €2.5mn loss in 1Q22. In 1Q23, Parent Company's asset securities management showed positive FV of €1.1mn (1Q22: €-2.4mn). Finally, net debt was €51.5mn (in line with our exp. €51mn), up on end-2022 (€43.6mn), mainly due to NWC absorption (€8mn due to the increase in sales and inventories) and CapEx (€5mn).

■ **Extraordinary CapEx cycle for Pharma BU to support an additional (and meaningful) layer of growth.** Management expects the Pharma BU to grow significantly due to the multi-year agreements signed with important customers that will require a production plant expansion (c. €30mn CapEx spread over about 2 years).

■ **Updated estimates.** We confirm FY23 top line, reflecting a different mix (softer Cosmetics offset by stronger Food BU) and a mixed comparison base for the coming Qs (easier for Food, tougher for Pharma); we raise the margin by c. 0.5pp while leaving the same margins for the next 2 years, leading to a 9% rise in adj. EPS for 2023 and neutral changes for 2024-25. Net debt increased to capture the €30mn CapEx (mostly in 2024 and 2025) which should materialise in a higher Pharma top line from early 2026.

■ **OUTPERFORM confirmed; new target at €12.7 (from €12.3).** We confirm our positive view on the stock: a re-acceleration of growth in the coming months fuelled by ongoing business recovery and lower energy costs might rekindle interest in the equity story and allow the stock to benefit from a significant re-rating in the short term, even without any material upgrade to current expectations. On our new estimates, we raise our target price from €12.3 to €12.7. Fine Foods is well placed to outperform peers, having grown notably faster than its core end markets in the last decade. It enjoys solid operating trends through leveraging its critical mass as the largest Italian CDMO, as well as highly visible customer demand (resulting in enduring relations and an increasing share of wallet), additional capacity secured through investments, and the ability to seize further M&A opportunities for quality assets in adjacent markets or to act as a natural aggregator.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	195	207	239	266	293
EBITDA Adj (Eu mn)	21	16	28	34	41
Net Profit Adj (Eu mn)	10	-9	9	13	17
EPS New Adj (Eu)	0.398	-0.338	0.354	0.519	0.672
EPS Old Adj (Eu)	0.398	-0.338	0.324	0.518	0.670
DPS (Eu)	0.160	0.100	0.142	0.208	0.269
EV/EBITDA Adj	17.8	18.3	8.2	6.8	5.8
EV/EBIT Adj	nm	nm	18.5	12.8	10.2
P/E Adj	18.7	nm	21.0	14.4	11.1
Div. Yield	2.1%	1.3%	1.9%	2.8%	3.6%
Net Debt/EBITDA Adj	0.7	2.8	1.3	1.1	1.1

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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&P500 Index, most of those on the MIBEX 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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