

AQUAFIL

Sector: Industrials

OUTPERFORM

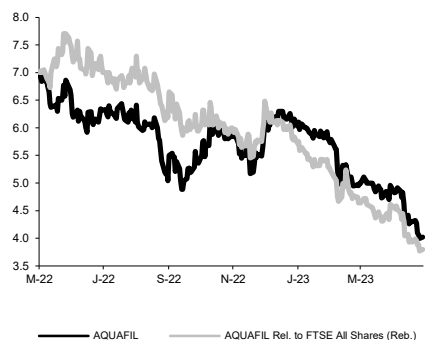
Price: Eu4.02 - Target: Eu8.70

We Confirm Our Estimates Despite Short-Term Uncertainty

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Stock Rating			
Rating:	Unchanged		
Target Price (Eu):	Unchanged		
	2023E	2024E	2025E
Chg in Adj EPS	0.0%	0.0%	0.0%

AQUAFIL - 12M Performance



Stock Data			
Reuters code:	ECNL.MI		
Bloomberg code:	ECNL IM		
Performance	1M	3M	12M
Absolute	-19.0%	-30.7%	-42.0%
Relative	-17.1%	-27.2%	-48.8%
12M (H/L)	7.00/4.00		
3M Average Volume (th):	35.09		

Shareholder Data	
No. of Ord shares (mn):	51
Total no. of shares (mn):	51
Mkt Cap Ord (Eu mn):	206
Total Mkt Cap (Eu mn):	206
Mkt Float - Ord (Eu mn):	86
Mkt Float (in %):	42.0%
Main Shareholder:	
AquaFin Holding	58.0%

Balance Sheet Data	
Book Value (Eu mn):	175
BVPS (Eu):	3.43
P/BV:	1.2
Net Financial Position (Eu mn):	-217
Enterprise Value (Eu mn):	427

■ **Mixed 1Q: EBITDA lower than expected, but cash generation better.** The company reported a mixed set of results, as EBITDA was below our expectations, also due to some non-recurring items, while cash generation was better than expected in a seasonally unfavourable quarter. In detail:

- Total revenues of Eu169.5mn, down 1.7% YoY (vs Eu177.8mn est.) as volumes decreased by 9.5%, offsetting the higher selling price. Geographically, the trends seen in previous quarters continued, with North America strong (volumes +10%) and APAC holding up reasonably well, while Europe remained rather weak (volumes -20%) across almost all end markets (except automotive). On the bright side, we underline that Econyl's proportion of revenues continues to increase, reaching 46.9% of fibre revenues (42.2% in 1Q22).
- Adj. EBITDA of Eu21.6mn vs estimate of Eu24.0mn. Margin down from 14.5% to 12.9% due to lower operational leverage and the high unit cost of goods in warehouses. A significant part of the difference between our EBITDA estimate and actual numbers appears to be due to an incident at one of the ACR in the USA, which stopped production at the facility for almost an entire quarter (impact of ~Eu1mn). Excluding this impact, margin dilution would have been more limited (at ~1pp) and aligned to our expectations for the year.
- Net debt as at end-March was Eu247mn, a slight improvement on end-2022 (Eu248mn) and better than our estimate (Eu257mn) thanks to limited absorption from NWC (Eu3mn), a remarkable result bearing in mind that 1Q is generally unfavourable from a cash generation point of view.

■ **Short-term scenario still clouded in uncertainty.** Trends seen in 1Q are substantially continuing in 2Q, which should therefore see a continuation of the weakness in Europe, while North America and APAC should continue to perform better. The scenario for the remainder of 2023 is thus marked by uncertainty: we therefore think that the caution implicit in our estimates for FY23 is justified. As a reminder, we estimate that adj. EBITDA will decline by -6.3% YoY in 2023 with a 12.2% margin, a 1pp drop on 2022. As for net debt, we would expect a Eu30mn decline thanks to a material release of NWC.

■ **OUTPERFORM reaffirmed; target still Eu8.7.** While we believe the uncertain short-term outlook may weigh on the stock performance, we believe the results achieved by the company in uncertain times such as 2022 are confirmation of management's ability to react quickly to sudden changes in any scenario, as well as its commitment to achieve the sustainability targets presented to the market last year (especially the target for Econyl to reach 60% of fibre turnover). We reaffirm our positive view on the stock, which at our target would trade at 7.8x 2023 EV/EBITDA, with a 9.7% FCF yield.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	574	697	706	720	738
EBITDA Adj (Eu mn)	72	92	86	95	100
Net Profit Adj (Eu mn)	15	34	17	25	28
EPS New Adj (Eu)	0.287	0.670	0.329	0.480	0.550
EPS Old Adj (Eu)	0.287	0.670	0.329	0.480	0.550
DPS (Eu)	0.120	0.240	0.121	0.196	0.231
EV/EBITDA Adj	7.2	6.2	4.9	4.1	3.6
EV/EBIT Adj	19.1	12.9	12.1	8.9	7.6
P/E Adj	14.0	6.0	12.2	8.4	7.3
Div. Yield	3.0%	6.0%	3.0%	4.9%	5.7%
Net Debt/EBITDA Adj	2.5	2.7	2.5	1.9	1.6

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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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