

RELATECH

Sector: Industrials

BUY

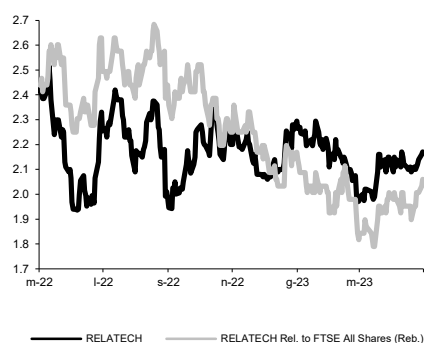
Price: Eu2.17 - Target: Eu4.40

Poised to Seize Opportunities from Leap in Size

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Stock Rating			
Rating:	Unchanged		
Target Price (Eu):	Unchanged		
	2023E	2024E	2025E
Chg in Adj EPS	3.6%		

RELATECH - 12M Performance



Stock Data			
Reuters code:	RLT.MI		
Bloomberg code:	RLT IM		
Performance	1M	3M	12M
Absolute	0.9%	-1.6%	-11.1%
Relative	3.0%	2.1%	-16.8%
12M (H/L)	2.52/1.94		
3M Average Volume (th):	49.71		

Shareholder Data	
No. of Ord shares (mn):	43
Total no. of shares (mn):	43
Mkt Cap Ord (Eu mn):	94
Total Mkt Cap (Eu mn):	94
Mkt Float - Ord (Eu mn):	41
Mkt Float (in %):	43.7%
Main Shareholder:	
Pasquale Lambardi	51.8%

Balance Sheet Data (2023E)	
Book Value (Eu mn):	41
BVPS (Eu):	0.98
P/BV:	2.2
Net Financial Position (Eu mn):	-8
Enterprise Value (Eu mn):	102

- 2022 marked by an intense M&A campaign...** 2022 was undoubtedly characterised by the large acquisition campaign through which RLT consolidated its presence in the IoT, Cloud and Cybersecurity businesses, entered the management advisory market, increased its international presence, and added highly skilled personnel. Overall, the company brought home ~Eu50mn in turnover, consolidating and diversifying its offering, and increasingly becoming a Group capable of offering end-to-end technological solutions. Remarkably, all these operations took place while maintaining financial discipline (5x to 6x EBITDA paid for larger deals) and are expected to generate significant value once synergies are extracted.
-aimed at exploiting the multiple tailwinds ahead.** Ongoing robust growth is expected for the digital sector in the coming years: in addition to multiple underlying structural factors, important contributions from public investment are expected via the funds allocated by the NRRP (see the dedicated paragraph in the note). Indeed, tech sector growth forecasts point to dynamic development in the coming years: ANITEC-ASSINFORM's latest estimates (dated November 2022) are for the Italian Digital sector growing at a +6.1% CAGR in the next three years, which rises to +8.6% if we focus on the company's core business (ICT Services expected to grow by 11% and Software and ICT Solution by 4.1% in the period).
- Figures expected to grow sizeably in the next three years...** Based on the strong growth expected in the core sector and the expectation that the company will be able to unleash the full potential of the companies acquired during 2022, we forecast an excellent 27.2% net revenue CAGR in the next three years (a sound 10% on an organic basis). Our growth estimates are supported by the robust indications provided alongside the trading update on May 10th, which show net revenues of ~Eu24mn, up ~130% YoY thanks both to organic growth and consolidation of acquired companies. On top of that, profitability is expected to enjoy more-than-proportional growth, again surpassing the 20% threshold by 2025 thanks to investments during the period, especially in personnel.
- ...boasting superior quality than in the past.** Not only are figures growing, they are also of higher quality than in the past thanks to the higher incidence of recurring revenues (37% in 1Q23 vs 22% in 2019), offering higher visibility, and lower dependence on the main clients (the top 10 have gone from 60% of turnover in 2019 to 30% in 2022), with the intention being to reduce reliance further, in particular through the new clients brought aboard by BTO.
- BUY confirmed; target Eu4.40:** We reaffirm our positive view on the stock, as we believe Relatech is in the right place at the right time to seize the opportunities arising in the digital sector. Our investment case is underpinned by: i) the exposure to a market embarking upon a structural upward trajectory, especially thanks to NRRP funds, ii) the possibility to extract material synergies with recently-acquired companies; 3) the company still having financial leeway to pursue further accretive M&A deals that can broaden the customer base and complete the product offering. Our valuation, the average of a DCF and a peer comparison, yields a target price of Eu4.40, offering huge potential upside to the latest closing price and justifying our positive recommendation.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	34	70	111	123	135
EBITDA Adj (Eu mn)	7	13	21	24	28
Net Profit Adj (Eu mn)	5	5	10	11	13
EPS New Adj (Eu)	0.141	0.124	0.221	0.259	0.308
EPS Old Adj (Eu)	0.118	0.166	0.213		
DPS (Eu)	0.000	0.000	0.000	0.000	0.000
EV/EBITDA Adj	14.5	8.3	4.9	4.0	3.1
EV/EBIT Adj	25.4	12.6	6.7	5.4	4.2
P/E Adj	15.4	17.5	9.8	8.4	7.0
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Net Debt/EBITDA Adj	-0.2	0.7	0.4	0.0	-0.3

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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&PMB40 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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