Intermonte

Milan, 22 November 2023

Italian Equity Research – Company Update

AQUAFIL

OUTPERFORM

Sector: Industrials

Price: Eu2.77 - **Target: Eu4.10**

3Q Results Fall Short, but Ambitious BP Targets Recovery

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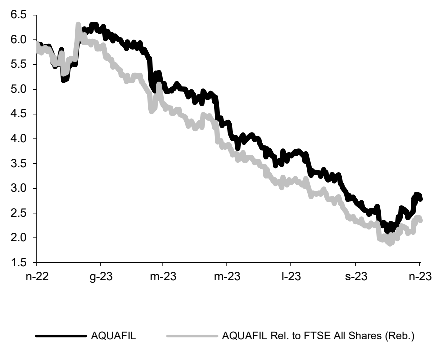
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 5.80 to 4.10
	2023E	**2024E**	**2025E**
Chg in Adj EPS	n.m.	-18.2%	-21.1%

AQUAFIL - 12M Performance



Stock Data			
Reuters code:			ECNL.MI
Bloomberg code:			ECNL IM
Performance	**1M**	**3M**	**12M**
Absolute	30.0%	-17.8%	-53.0%
Relative	23.2%	-21.6%	-71.1%
12M (H/L)			6.30/2.08
3M Average Volume (th):			108.74

Shareholder Data	
No. of Ord shares (mn):	51
Total no. of shares (mn):	51
Mkt Cap Ord (Eu mn):	142
Total Mkt Cap (Eu mn):	142
Mkt Float - Ord (Eu mn):	60
Mkt Float (in %):	42.0%
Main Shareholder:	
Aquafin Holding	58.0%

Balance Sheet Data	
Book Value (Eu mn):	137
BVPS (Eu):	2.68
P/BV:	1.0
Net Financial Position (Eu mn):	-261
Enterprise Value (Eu mn):	407

- **3Q well below our estimates:** 3Q results fell well short of our already conservative estimates. As a matter of fact, net sales were Eu131.1mn (12.7% below our est.), down 26.7% YoY due to a 4.6% YoY drop in volumes and a marked decline in selling prices due to their being indexed to falling production costs. As for profitability, adj. EBITDA was Eu5.7mn (vs. our estimate of Eu13.3mn), a 4.2% margin, well below the Eu21.7mn posted in 3Q22 (11.7% margin). As well as lower operating leverage due to falling volumes, profitability was heavily affected by the high unit cost of raw materials in inventory, the impact of which was quantified at €20mn in 9M, implying a negative impact of c.€7mn in 3Q alone. Finally, net debt was Eu263mn, up from Eu251mn as at the end of June due to business seasonality, and higher than our Eu255mn estimate due to the disappointing operating results.
- **Ambitious, 3-year business plan.** The company presented a three-year business plan with ambitious targets in terms of EBITDA recovery after a complicated 2023 penalized not only by the weakness of final demand but also by temporary elements linked to inventories. The plan envisages an improvement in EBITDA from Eu68-70mn in ’23 (once the Eu23-25mn stock impact is stripped out) to Eu76-82mn in ‘24 and Eu84-92mn in ‘25. The improvement is to be attributed to Eu9-12mn of cumulative savings (the largest chunk being represented by the layoff of ~150 employees), while Eu7-10mn should come from an increase in volumes (all three divisions seen increasing in ‘24/’25). As for cash generation, the goal will be to reduce net debt by Eu50-60mn by 2025, with net debt/EBITDA amply below the 3.75x covenant as early as 2024 (~3x), benefitting from the recovery in EBITDA, shrewd NWC management and lower investments.
- **Estimates slightly more conservative.** We have significantly cut our estimates for 2023, a year that saw the company hit by the perfect storm; by contrast, we are only marginally revising our ‘24 and ‘25 EBITDA estimates. As regards 2024, our estimate is slightly below the lower part of company guidance as we incorporate a more conservative scenario in terms of volumes given the exposure to sectors that could be affected by the economic slowdown, such as residential and commercial real estate. The increase in EBITDA expected next year is therefore mainly attributable to the recovery of the stock effect and efficiencies, while in 2025 we also see a more significant recovery in terms of volumes, which would still be below the levels achieved in 2021. Ultimately, we see net debt/EBITDA declining to 3.1x in 2024 and 2.4x in 2025.
- **Outperform confirmed, TP Eu4.1 from Eu5.8.** We confirm our view on the stock, as we think that the company is adopting the necessary measures to recover the ground lost during 2023. Our estimates include a certain degree of caution compared to the business plan targets and thus there would be some upside if the scenario depicted by the company in terms of volumes were to occur. At the same time, the downside risk is represented by a scenario of further contraction of volumes should the macro slowdown be harsher than expected. Finally, we note that our estimates and our investment case are based on the successful conclusion of negotiations with financial institutions to obtain a covenant holiday for ‘23 and 1H24.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	574	697	592	605	641
EBITDA Adj (Eu mn)	72	92	46	75	85
Net Profit Adj (Eu mn)	15	34	-19	6	14
EPS New Adj (Eu)	0.287	0.670	-0.379	0.121	0.271
EPS Old Adj (Eu)	0.287	0.670	-0.002	0.148	0.343
DPS (Eu)	0.120	0.240	0.000	0.000	0.092
EV/EBITDA Adj	7.2	6.2	8.8	5.0	4.0
EV/EBIT Adj	19.1	12.9	nm	14.7	9.6
P/E Adj	9.7	4.1	nm	23.0	10.2
Div. Yield	4.3%	8.6%	0.0%	0.0%	3.3%
Net Debt/EBITDA Adj	2.5	2.7	5.6	3.1	2.4

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- 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.
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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:	24.79 %
OUTPERFORM:	52.14 %
NEUTRAL:	21.36 %
UNDERPERFORM	01.71 %
SELL:	00.00 %

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (48 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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