

RELATECH

BUY

Sector: Industrials

Price: Eu2.30 - Target: Eu4.10

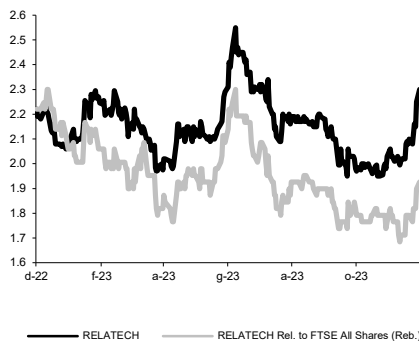
Relatech Powers Forward with 73% Revenue Growth in 9M23

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Stock Rating

Rating:	Unchanged		
Target Price (Eu):	from 4.40 to 4.10		
	2023E	2024E	2025E
Chg in Adj EPS	-20.9%	-11.2%	-5.0%

RELATECH - 12M Performance



Stock Data

Reuters code:	RLT.MI		
Bloomberg code:	RLT IM		
Performance	1M	3M	12M
Absolute	13.3%	5.5%	0.0%
Relative	9.1%	1.6%	-19.4%
12M (H/L)	2.55/1.95		
3M Average Volume (th):	42.96		

Shareholder Data

No. of Ord shares (mn):	43
Total no. of shares (mn):	43
Mkt Cap Ord (Eu mn):	100
Total Mkt Cap (Eu mn):	100
Mkt Float - Ord (Eu mn):	44
Mkt Float (in %):	44.4%
Main Shareholder:	
Pasquale Lambardi	52.4%

Balance Sheet Data

Book Value (Eu mn):	39
BVPS (Eu):	0.93
P/BV:	2.5
Net Financial Position (Eu mn):	-14
Enterprise Value (Eu mn):	114

■ **Recurring revenues keep on growing.** 1H results showed a continuation of the company's strong growth trajectory thanks to a combination of organic and external growth. Specifically, net revenues came to Eu47.9mn, in line with the preliminary figure announced in August, up 89% YoY. It should be noted that recurrent revenues grew even faster (+112%), taking them to 38% of the total, even higher than in previous periods (35% in FY22). Revenues from foreign clients were up 58%, and therefore accounted for 27% of overall revenues. As for profitability, adj. EBITDA was Eu8.0mn, below our Eu9.0mn estimate, as higher personnel costs (due to the strongly competitive environment that caused a general increase in salaries) and the embedded lower profitability of the companies acquired in 2022 led to a decrease in the margin from 18.9% to 15.7%. However, thanks to slightly lower D&A, financial charges and the tax rate, net profit came to Eu2.9mn, in line with our Eu3mn estimate and well above the previous year's Eu0.8mn. Finally, net debt was Eu14.8mn, slightly down on the figure as at the end of March of Eu15.5mn.

■ **9M sales confirm solid growth trajectory.** 9-month results substantially confirm the 1H trends, with 9M net sales coming to Eu66.5mn (+73% YoY), implying 3Q revenues of Eu18.6mn, up ~47% YoY. Recurring revenues continued to outperform total growth, with the incidence confirmed at 38% of the total for the 9 months (+88% YoY), a clear improvement on previous periods. Foreign revenues came to ~28% of the total, up 53% YoY in 9M. Finally, net debt stood at ~Eu17.5mn as at the end of September, slightly up on the Eu14.8mn recorded as at the end of June.

■ **Estimates update.** We are revising our 2023 estimates down to take account of lower-than-previously-expected top-line growth, albeit still seen sharply up YoY (+47% YoY), and higher personnel costs, leading to an EBITDA margin of 16.4%, down from 18.8%. As for '23/'24, we slightly increase our top-line growth thanks to a, ever more integrated product offering, but given the lower starting point, this translates into a ~6% cut in revenues. We still see a significant improvement in profitability in the next two years, as the company should start to benefit from the results of integrating the acquisitions completed in 2022 and previous years, thus we expect RLT to be able to go back above the 20% margin threshold by 2025. Finally, we have cut extraordinary costs in our estimates to zero (from ~2mn per year) as no acquisitions were completed during the year (and therefore no transaction related costs are expected) and because no stock grant plan has yet been approved.

■ **BUY confirmed; target Eu4.10.** 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) exposure to a market embarking on a structural upward trajectory; ii) the possibility of extracting material synergies with recently-acquired firms; 3) RLT still having financial leeway to pursue further accretive M&A deals that could 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 Eu4.1, down from Eu4.4 as a result of the lower estimates and higher risk-free rate adopted in our valuation models (4.5% from 4.0%).

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	34	70	103	114	128
EBITDA Adj (Eu mn)	7	13	17	21	26
Net Profit Adj (Eu mn)	5	5	8	10	13
EPS New Adj (Eu)	0.141	0.124	0.175	0.230	0.292
EPS Old Adj (Eu)	0.141	0.124	0.221	0.259	0.308
DPS (Eu)	0.000	0.000	0.000	0.000	0.000
EV/EBITDA Adj	14.5	8.3	6.7	5.1	3.8
EV/EBIT Adj	25.4	12.6	9.9	7.1	5.2
P/E Adj	16.3	18.5	13.1	10.0	7.9
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Net Debt/EBITDA Adj	-0.2	0.7	0.8	0.3	-0.1

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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.

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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.

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BUY:	24.79 %
OUTPERFORM:	52.14 %
NEUTRAL:	21.36 %
UNDERPERFORM	01.71 %
SELL:	00.00 %

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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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