

EMAK

Sector: Industrials

OUTPERFORM

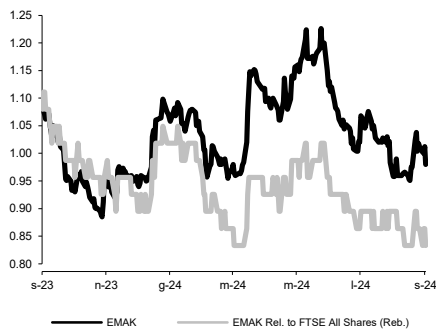
Price: Eu0.98 - Target: Eu1.60

Mixed 2Q, but Improving Top Line Momentum Confirmed

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Stock Rating			
Rating:	Unchanged		
Target Price (Eu):	from 1.85 to 1.60		
	2024E	2025E	2026E
Chg in Adj EPS	-36.5%	-25.7%	-23.0%

EMAK - 12M Performance



Stock Data			
Reuters code:	EM.MI		
Bloomberg code:	EM IM		
Performance	1M	3M	12M
Absolute	2.3%	-13.3%	-9.3%
Relative	-5.0%	-10.8%	-26.0%
12M (H/L)	1.23/0.89		
3M Average Volume (th):	75.21		

Shareholder Data	
No. of Ord shares (mn):	164
Total no. of shares (mn):	164
Mkt Cap Ord (Eu mn):	160
Total Mkt Cap (Eu mn):	160
Mkt Float - Ord (Eu mn):	56
Mkt Float (in %):	34.8%
Main Shareholder:	
YAMA	65.2%

Balance Sheet Data	
Book Value (Eu mn):	284
BVPS (Eu):	1.76
P/BV:	0.6
Net Financial Position (Eu mn):	-194
Enterprise Value (Eu mn):	359

- **The company reported mixed results. While on the one hand, EM recorded solid top line growth (+10% YoY), thanks above all to the rebound of the OPE business (+16.9% YoY) and sound cash generation, on the other, margins have come under heavy pressure due to some cost increases, most notably labour, transport and commercial costs.**
- **Mixed 2Q results:** EM closed 2Q with turnover of Eu175.3mn, broadly in line with our estimates and up 10% YoY thanks to growth in all 3 businesses: OPE was up 16.9% YoY, Pumps was up 3.3% and Components and Accessories up 13.7% (4.6% organic). However, this considerable top line growth did not translate into a similar increase in profitability, as rising labour, transport and commercial costs took their toll, driving margins down by 1.9pp YoY (from 15.1% to 13.2%), with adj. EBITDA closing at Eu23.1mn, lower than our estimate of Eu24.6mn. Down the line, higher-than-expected financial charges and ForEx losses brought net income to Eu6.4mn, lower than our Eu8.9mn estimate and down compared to last year's Eu10.4mn figure. Finally, despite lower operating results, cash generation remained rather healthy, with net debt improving by c.Eu20mn QoQ and closing at Eu213mn.
- **Sales trend expected to continue in 3Q:** 1H unfolded within a challenging macroeconomic environment, prompting customers and consumers to adopt a cautious stance. This, combined with disruptions in international logistics due to tensions in the Red Sea area, dented sales during the period. Nevertheless, the Group still achieved YoY sales growth. Looking ahead to 3Q, despite the persistence of these external challenges, management anticipates that the sales growth trend will continue, leading to a further increase in cumulative revenue compared to 2023.
- **Estimates:** in light of 1H results, our estimates on the second part of the year appear somewhat challenging, above all in terms of profitability, while debt appears to be on track to reach our estimate of Eu190mn. We are therefore revising our 2024 estimates to incorporate slightly lower turnover growth (+8.5% YoY from +10% previously) and a lower margin YoY (11.5% from 12.0% in 2023). Our estimates nevertheless still incorporate a YoY margin improvement in 2H24, which we believe is feasible keeping in mind the weak profitability posted in the second half of last year, when margins were already affected by rising costs and low volumes hindering operating leverage.
- **OUTPERFORM confirmed; target €1.60.** We confirm our positive view on the stock as we believe that 2024 will mark an inflection point with a return to growth after a transitional 2023, albeit at a slower rate compared to previous expectations. On top of this, the expected improvement in FCF generation (c.€20mn expected in 2024), should enable Emak to continue to invest in its product offering, seek bolt-on acquisitions, and remunerate shareholders, while also de-leveraging its balance sheet. Our valuation, based on the average of a DCF and a SOP, yields a TP of €1.60, down from Eu1.85 following the cut in estimates operated in this report.

Key Figures & Ratios	2022A	2023A	2024E	2025E	2026E
Sales (Eu mn)	606	566	615	639	665
EBITDA Adj (Eu mn)	77	68	70	77	83
Net Profit Adj (Eu mn)	32	19	17	23	28
EPS New Adj (Eu)	0.195	0.118	0.102	0.141	0.168
EPS Old Adj (Eu)	0.195	0.118	0.161	0.190	0.219
DPS (Eu)	0.065	0.045	0.041	0.056	0.000
EV/EBITDA Adj	5.3	5.5	5.1	4.5	4.0
EV/EBIT Adj	8.0	9.6	9.3	7.7	6.6
P/E Adj	5.0	8.3	9.6	6.9	5.8
Div. Yield	6.6%	4.6%	4.2%	5.8%	0.0%
Net Debt/EBITDA Adj	2.3	2.8	2.8	2.3	2.0

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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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BUY:	23.97 %
OUTPERFORM:	49.59 %
NEUTRAL:	25.61 %
UNDERPERFORM	00.83 %
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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