ELICA

BUY

Sector: Consumers

Price: Eu2.54 - **Target: Eu4.00**

Growth journey to continue despite tougher B2B environment

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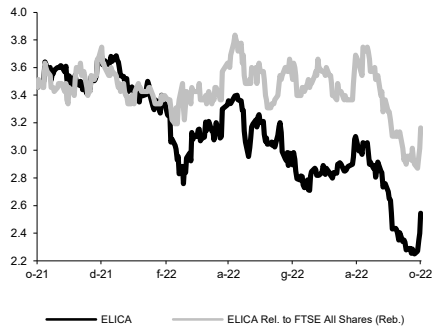
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 4.70 to 4.00
	2022E	**2023E**	**2024E**
Chg in Adj EPS	-8.6%	-12.8%	-8.6%

Next Event
3Q22 Results out October 27th 2022

ELICA - 12M Performance



Stock Data			
Reuters code:			ELC.MI
Bloomberg code:			ELC IM
Performance	**1M**	**3M**	**12M**
Absolute	-4.0%	-10.9%	-26.3%
Relative	-3.7%	-11.6%	-7.1%
12M (H/L)			3.69/2.25
3M Average Volume (th):			19.74

Shareholder Data	
No. of Ord shares (mn):	63
Total no. of shares (mn):	64
Mkt Cap Ord (Eu mn):	161
Total Mkt Cap (Eu mn):	161
Mkt Float - Ord (Eu mn):	44
Mkt Float (in %):	27.2%
Main Shareholder:	
F.A.N. (Casoli family)	52.8%

Balance Sheet Data	
Book Value (Eu mn):	134
BVPS (Eu):	2.11
P/BV:	1.2
Net Financial Position (Eu mn):	-35
Enterprise Value (Eu mn):	197

- **Positive growth expected in 3Q, Motors and B2C to offset B2B slowdown.** We expect another quarter of organic growth, driven again by the resilient motors and own-brand (B2C cooking) activities, although worsening B2B demand is likely to be visible. We forecast sales of €129mn, down -7% YoY but up +1% organically (3Q21 still included India) with a +2% estimated FX tailwind. Motors sales are forecast at €26mn, +10% YoY. We expect B2B Cooking sales of €35mn, down -32% YoY due to a demand slowdown and the (planned) phase-out of some OEM contracts, as warned at the 2Q results release. B2C Cooking should remain a positive driver, with B2C sales forecast at €68mn, up +8%. By Geography, we expect EMEA sales up +6% to €101mn and Americas sales down -6% to €19mn.
- **Margins and FCF expected to reflect B2B volume reduction.** We expect the operating leverage effect from lower B2B volumes in 3Q to impact margins, as we forecast adj. EBITDA /adj. EBIT of €13mn/€7mn, down -9%/-16% YoY, also reflecting India deconsolidation. We expect an adj. EBITDA /adj. EBIT margin of 10.4%/5.4%, down -0.3pp/-0.6pp YoY. We expect adj. EPS to also decline by -5% YoY to €0.07, partly due to the positive effect of the change in contribution from the India participation. FCF is forecast positive at €7mn (vs €12mn in 3Q21), only partly offsetting the cash-outs for the Airforce closing (€1.5mn), EMC deal payment (€7mn), and re-organization plan (estimated €3mn). Net debt is forecast to rise to €35mn (from €31mn as at end-2Q).
- **Tougher B2B demand context may drive FY22 guidance revision.** The worsening scenario expected for 2H, visible from the cautious indications on European home electronics demand from Electrolux and Whirlpool, will likely be mainly visible from B2B volumes first. This trend looks likely to continue at least until mid-2023, while the more resilient B2C and Motors activities, with new product launches planned in 2023, might merely offset this pressure. We believe this scenario is likely to lead to a FY22 guidance revision: we now see org. sales growth closer to +2/3% and the adj. EBIT margin closer to 6.0% (from previous guidance of +5/6% and c.6.5%), in-line with FY21 profitability, achieved notwithstanding a €50mn impact from cost inflation. However, we believe the YoY net debt reduction target is likely to be confirmed. For FY23, the expected c.1pp of additional margin from the re-organization plan remains. The mid-run 8% EBIT margin target may still be supported by the ca. 0.5pp margin gain from continued de-complexification actions.
- **Change in estimates.** We have adjusted our forecasts to reflect the expected changes in FY22 guidance, and also adjust our FY23 estimates accordingly.
- **BUY rating confirmed, TP lowered to €4.0 (from €4.7).** The tougher market environment is set to hit harder than initially expected. Nevertheless, we re-affirm our confidence in management's ability to execute the strategy, as the key pillars of our equity story still hold in our view (re-organization plan to unlock margin growth, innovative product line-up, expansion potential in the US, proven cost control capabilities). We lower our DCF-based TP as we reflect a higher risk-free rate (now 4%, -€0.5 p.s.), a higher terminal growth (now 2%, +€0.2 p.s.) and the more cautious estimates (-€0.4 p.s.). Valuations remain at a discount to international appliance OEMs (33% discount to EV/adj. EBIT'23) and our Italian peer group (average discount 60%).

Key Figures & Ratios	2020A	2021A	2022E	2023E	2024E
Sales (Eu mn)	453	541	547	551	574
EBITDA Adj (Eu mn)	42	57	58	63	67
Net Profit Adj (Eu mn)	3	16	20	24	27
EPS New Adj (Eu)	0.041	0.252	0.313	0.378	0.430
EPS Old Adj (Eu)	0.041	0.252	0.342	0.434	0.471
DPS (Eu)	0.000	0.000	0.000	0.000	0.000
EV/EBITDA Adj	5.8	4.4	3.4	2.9	2.5
EV/EBIT Adj	15.4	7.7	6.0	4.8	3.8
P/E Adj	62.4	10.1	8.1	6.7	5.9
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Net Debt/EBITDA Adj	1.4	0.6	0.6	0.3	0.0

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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 2.5% and a risk premium of 5.0% 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.

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:	22.13 %
OUTPERFORM:	48.36 %
NEUTRAL:	27.87 %
UNDERPERFORM	01.64 %
SELL:	00.00 %

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (52 in total) is as follows:

BUY:	38.46 %
OUTPERFORM:	50.00 %
NEUTRAL:	11.54 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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