

REPLY

Sector: Industrials

OUTPERFORM

Price: Eu117.80 - Target: Eu135.00

Growth Expected To Accelerate in 3Q22

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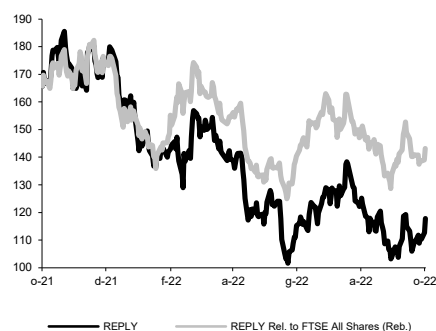
Stock Rating

Rating:	Unchanged		
Target Price (Eu):	from 143.00 to 135.00		
	2022E	2023E	2024E
Chg in Adj EPS	1.8%	2.8%	2.8%

Next Event:

3Q22 Results out November 14

REPLY - 12M Performance



Stock Data

Reuters code:	REY.MI		
Bloomberg code:	REY IM		
Performance	1M	3M	12M
Absolute	13.4%	-8.0%	-28.9%
Relative	7.4%	-11.3%	-11.2%
12M (H/L)	185.50/101.60		
3M Average Volume (th):	32.65		

Shareholder Data

No. of Ord shares (mn):	37
Total no. of shares (mn):	37
Mkt Cap Ord (Eu mn):	4,407
Total Mkt Cap (Eu mn):	4,407
Mkt Float - Ord (Eu mn):	2,424
Mkt Float (in %):	55.0%
Main Shareholder:	
Alika (Rizzante family)	39.8%

Balance Sheet Data

Book Value (Eu mn):	955
BVPS (Eu):	25.60
P/BV:	4.6
Net Financial Position (Eu mn):	99
Enterprise Value (Eu mn):	4,308

■ **Strong double-digit organic top-line growth rate expected on top of new M&A contribution.** We expect Reply to post 3Q22 revenues of Eu466mn, up 29.3% YoY or 17% YoY in organic terms (i.e., net of ForEx and M&A contributions), even exceeding the excellent trend experienced in 2Q22 (16.3%). In more detail: we expect Region 1 (64% of quarterly sales, mainly generated in Italy but also including US activities) to have risen 31.8% YoY (of which 20% organic) and Region 3 (15% of quarterly sales, mainly generated in the UK) to have risen 13.6% YoY, mainly thanks to organic growth. Region 2 (Germany), forecast up 35.6% YoY to Eu98.5mn – 21% of quarterly sales – should also have witnessed sound 11.5% organic growth coupled to the contribution of newly acquired Fincon.

■ **EBITDA margin forecast flat QoQ but down YoY due to greater investments in start-ups and M&A dilution.** Quarterly EBITDA should have come to Eu76.5mn, up 20.1% YoY, with a 16.4% margin on sales that should be in line QoQ but below the unusual 3Q21 levels due to the consolidation of new acquisitions (which have lower margins than the group, mainly Fincon in Germany) and the impact from increasing start-up activity, mainly in Italy, to develop know-how in selected innovative market niches. Italian activities should report margins broadly in line YoY (17.8% vs. 17.9%) as should the UK business (12.5% exp. from 12.3%), while the German business (expected at 14.0%) should have witnessed a normalisation of the extraordinary 20.2% margin recorded in 3Q21.

■ **Estimate upgrade ahead of quarterly results.** In this report we not only factor the acquisition of Wemanity into our estimates (we assume consolidation from 1 October 2022), but also adjust 2022 organic assumptions slightly upward (from 12.4% to 14.0%). At the same time, our new group-wide estimates now assume a 16.7%/16.2% EBITDA margin in 2022/23 (down 13/33bp from our previous forecasts), representing a normalisation towards the 16% that the company indicates as a sustainable long-term target. The recent acquisitions, Fincon and Wemanity, are initially slightly margin dilutive, but we expect steady improvements in coming years. All in all, we are upgrading 2023 and 2024 EPS by 2.8%. It is worth noting that Reply, even after the Wemanity acquisition, has a net cash position well in excess of Eu200mn and management is seeking new targets in the US, France, Germany and UK.

■ **OUTPERFORM confirmed; target Eu135.0 from Eu143.0.** 3Q22 results should show a continuation of Reply's excellent business momentum. The recent announcement of new M&A deals supports 2023 outlook. The new target reflects a 100bp increase in our risk-free rate assumption (from 3.0% to 4.0%), partly offset by the change in estimates. We expect Reply to stand out in the current deteriorated macro scenario because it represents a high-quality name in the digital sector that should remain relatively well-protected from a downturn in GDP (Reply is engaged in business-critical innovative projects with a diversified customer base) and negative implications from inflation. The strong brand reputation among IT students and professionals represents a solid competitive advantage in an industry fighting to attract and retain talent.

Key Figures & Ratios	2020A	2021A	2022E	2023E	2024E
Sales (Eu mn)	1,250	1,484	1,862	2,136	2,348
EBITDA Adj (Eu mn)	208	263	311	347	383
Net Profit Adj (Eu mn)	124	151	173	203	226
EPS New Adj (Eu)	3.304	4.027	4.632	5.414	6.044
EPS Old Adj (Eu)	3.304	4.027	4.551	5.264	5.880
DPS (Eu)	0.560	0.800	0.920	1.075	1.201
EV/EBITDA Adj	13.5	19.0	13.9	12.0	10.3
EV/EBIT Adj	16.5	23.9	16.9	14.5	12.4
P/E Adj	35.7	29.2	25.4	21.8	19.5
Div. Yield	0.5%	0.7%	0.8%	0.9%	1.0%
Net Debt/EBITDA Adj	-0.8	-0.7	-0.3	-0.8	-1.2

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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 2.5% and a risk premium of 5.0% are being used.

Frequency of research: quarterly.

Reports on all companies listed on the S&P500 Index, most of those on the MIBEX 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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 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 %

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

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Emittente	%	Long/Short

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