AQUAFIL

OUTPERFORM

Sector: Industrials

Price: Eu6.05 - **Target: Eu8.70**

Solid 3Q Despite Declining Volumes, Encouraging 4Q Outlook

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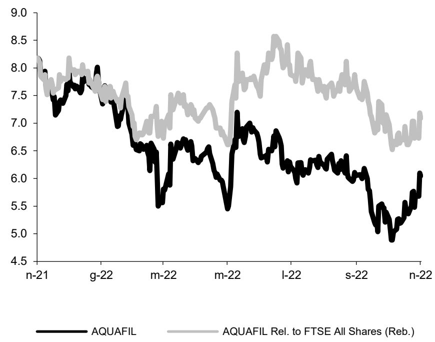
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 9.20 to 8.70
	2022E	**2023E**	**2024E**
Chg in Adj EPS	25.0%	-3.0%	-1.7%

AQUAFIL - 12M Performance



Stock Data			
Reuters code:			ECNL.MI
Bloomberg code:			ECNL IM
Performance	**1M**	**3M**	**12M**
Absolute	12.2%	-3.0%	-26.0%
Relative	-1.0%	-7.6%	-11.4%
12M (H/L)			8.17/4.88
3M Average Volume (th):			22.65

Shareholder Data	
No. of Ord shares (mn):	51
Total no. of shares (mn):	51
Mkt Cap Ord (Eu mn):	310
Total Mkt Cap (Eu mn):	310
Mkt Float - Ord (Eu mn):	130
Mkt Float (in %):	42.0%
Main Shareholder:	
Aquafin Holding	58.0%

Balance Sheet Data	
Book Value (Eu mn):	171
BVPS (Eu):	3.33
P/BV:	1.8
Net Financial Position (Eu mn):	-211
Enterprise Value (Eu mn):	526

- **Solid 3Q in spite of declining volumes.** Aquafil reported results substantially in line with our expectations, again showing good trends for revenues and EBITDA, albeit with volumes in sequential slowdown on the two previous quarters. Total revenues were Eu185mn, up 26.3% YoY, with trends varying considerably by region: Europe was the weakest spot with a 11% decline in volumes, while North America and APAC performed significantly better (+22% and +16% in volumes respectively), with the latter even improving on the first part of the year thanks to a pick-up in the residential sector and the increase in the Japanese market. By division, BCF was the growth driver in 3Q (+45.6% YoY), while NTF was basically flat and Polymers continued its reversion to a more normal level after the incredible result registered in 2021 (-33.2%). Finally, it is worth noting that the share of fibre revenues from Econyl rose from 37.3% in 3Q21 to 45.8% in 3Q22, a growth trajectory that is consistent with the company's mid-term outlook of achieving 60% of fibre revenues from Econyl branded products by 2025.
- **Adj. EBITDA +7% YoY.** Adj. EBITDA was Eu21.7mn, in line with our estimates and up 7% YoY, despite the challenging input costs scenario, thanks to better pricing and product mix. Down the line, net profit was Eu8.5mn, well above our Eu6.3mn, thanks to higher income from derivatives and a lower tax rate (expected to normalize in the next few quarters). Finally, net debt closed at Eu231mn, up from Eu202mn as at the end of June, mainly due to NWC absorption caused by inventories. During the call, management explained that part of this increase in inventories was due to an opportunistic approach adopted to exploit highly advantageous caprolactam spot prices. This increase should be reabsorbed in the next couple of quarters.
- **Outlook & estimates.** For 4Q, management outlook confirms the continuation of positive trends in North America and Oceania, while Europe is expected to remain the lesser performing region due to inflationary pressure. All in all, this should lead to 4Q22 producing better results than 4Q21, also bearing in mind that last year's result was penalized by the sudden increase in energy prices. For 2022, this implies adj. EBITDA of at least Eu85.7mn, a figure to which we are aligning our estimate (now Eu86.3mn), while merely fine-tuning our estimates for 2023 and 2024 at this stage.
- **OUTPERFORM confirmed; target Eu8.7 from Eu9.2.** We appreciate a story that offers exposure to environmental sustainability themes combined with improving financials. We think visibility on 2023 is not particularly high at this stage given the macro-economic and geopolitical volatility, but the company has shown once more in 2022 that it can react quickly to constantly evolving scenarios. Furthermore, in our opinion the growth in the incidence of Econyl offers a more solid and resilient foundation, especially in a climate of uncertainty, as well as the possibility of eroding competitors' market share. We confirm our recommendation, trimming our TP from Eu9.2 to Eu8.7 to reflect the increase in WACC (8.3% from 7.7%) following he increase in the risk-free rate in our valuation model.

Key Figures & Ratios	2020A	2021A	2022E	2023E	2024E
Sales (Eu mn)	447	574	698	716	738
EBITDA Adj (Eu mn)	58	72	86	87	92
Net Profit Adj (Eu mn)	10	15	29	25	30
EPS New Adj (Eu)	0.202	0.287	0.569	0.498	0.591
EPS Old Adj (Eu)	0.202	0.287	0.455	0.513	0.602
DPS (Eu)	0.000	0.120	0.240	0.227	0.274
EV/EBITDA Adj	7.4	7.2	6.1	5.8	5.1
EV/EBIT Adj	31.4	19.2	13.0	12.4	9.9
P/E Adj	30.0	21.1	10.6	12.2	10.2
Div. Yield	0.0%	2.0%	4.0%	3.8%	4.5%
Net Debt/EBITDA Adj	3.7	2.5	2.4	2.2	1.7

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- 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)

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Frequency of research: quarterly.

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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 %

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

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