

# FINE FOODS

Sector: Industrials

# OUTPERFORM

Price: Eu7.69 - Target: Eu12.00

## Continued Operational Recovery in 3Q in Still-Challenging Market

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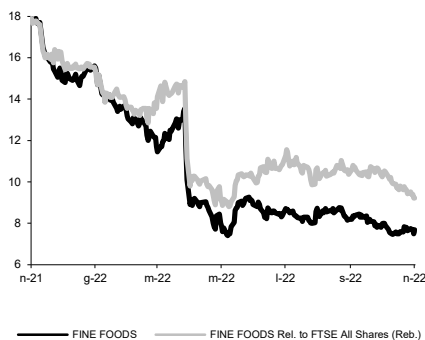
### Stock Rating

Rating:	Unchanged		
Target Price (Eu):	Unchanged		
	2022E	2023E	2024E
Chg in Adj EPS	nm	0.0%	0.0%

### Next Event

3Q22 Results out 14 November 2022

### FINE FOODS - 12M Performance



### Stock Data

Reuters code: FF.MI  
 Bloomberg code: FF IM

Performance	1M	3M	12M
Absolute	-3.8%	-9.6%	-57.0%
Relative	-10.6%	-11.2%	-40.4%
12M (H/L)	17.90/7.40		
3M Average Volume (th):	6.07		

### Shareholder Data

No. of Ord shares (mn):	26
Total no. of shares (mn):	26
Mkt Cap Ord (Eu mn):	197
Total Mkt Cap (Eu mn):	197
Mkt Float - Ord (Eu mn):	94
Mkt Float (in %):	47.9%
Main Shareholder:	
Eigenfin Srl + M. Eigenmann	52.1%

### Balance Sheet Data

Book Value (Eu mn):	133
BVPS (Eu):	5.22
P/BV:	1.5
Net Financial Position (Eu mn):	-43
Enterprise Value (Eu mn):	239

**3Q/9M preview:** we expect the top line to have come to €151.2mn in 9M, an improving YoY trend (9M: +5.5% YoY of which 1Q: -1.1%, 2Q: +3.1%, 3Q: +15.9%), supported by very strong trends in Pharma (9M: +38% YoY of which 1Q: +19%, 2Q: +49%, 3Q: +51%) leading to €39.2mn revenues in 9M (39% of total sales), an impressive result, if confirmed, as it would mean that in just 9 months the company would have even exceeded its entire FY21 Pharma turnover (€38.3mn). In addition, we would also note the boost from the Euro Cosmetic consolidation (since 4Q21) to the Cosmetic top line (9M22: €26.5mn vs. 9M21: €8.8mn). On the other hand, we expect trends to have remained negative in Food (9M: €85.6mn -19.6% YoY, 57% of sales) which in 1H (-22.5% YoY) was hit by shrinking output for markets affected by the Russia-Ukraine war and the slowdown of client activities in Multilevel Marketing, resulting in an anticyclical downturn in sales in the post-Covid recovery. Adj. EBITDA should have reached €12.3mn in 9M (8.2% margin), assuming similar profitability as in 1H (8.3%) hit for c.2pp by rising energy costs, and production inefficiencies (procurement difficulties and rising raw material prices). To cope with the economic situation, we remind that the Group has adopted a policy of passing on higher raw material, packaging and energy costs to customers. At bottom line, we would expect to see incremental losses (9M: -€8.8mn, 1H: -€5.6mn) mainly due to the performance of financial assets held by the parent company, which in 1H had a negative mark-to-market of €5.8mn (asset portfolio worth c.€65mn in 1H22, with a 74% bond/26% equity mix) with no impact on cash. Net debt should have closed higher at €49mn (1H: €42mn) assuming further working capital absorption in 3Q related to the rise in trade receivables and inventories due to raw material and packaging procurement issues.

**Updated estimates.** We are confirming our FY22-24 top line and EBITDA estimates, while fine-tuning below EBITDA to reflect higher D&A and accrued non-monetary losses related to the mark-to-market performance of financial assets held by the parent company (we assume a further €3mn of losses in 4Q on top to the c.€9mn expected for 9M). These changes have no impact on FCF, despite the revision in 2022 EPS. No change in 2023-24 adj. EPS at this stage.

**OUTPERFORM confirmed; target still €12.0.** With no impact on cash from revised estimates and applying the same WACC (8.6%), our DCF model leads us to confirm our €12.0 TP. Despite the complete unpredictability of energy cost trends, we appreciate the effectiveness of the turnaround strategy undertaken so far and management's confidence in the short/medium-term outlook thanks in part to the continuing improvement of supply chain problems: this prompts us to confirm our positive rating. Fine Foods is well placed to outperform peers, having largely outgrown its core end-markets in the last decade, and enjoys solid operating trends by leveraging its critical mass as the largest Italian CDMO, highly visible customer demand (resulting in enduring relations and increasing share of wallet), and the additional capacity secured through investments, as well as the ability to seize further M&A opportunities for quality assets in adjacent markets or to act as a natural aggregator.

Key Figures & Ratios	2020A	2021A	2022E	2023E	2024E
Sales (Eu mn)	172	193	208	235	258
EBITDA Adj (Eu mn)	22	21	16	26	33
Net Profit Adj (Eu mn)	9	10	-9	8	13
EPS New Adj (Eu)	0.398	0.398	-0.353	0.323	0.517
EPS Old Adj (Eu)	0.398	0.398	-0.353	0.323	0.517
DPS (Eu)	0.141	0.160	0.160	0.160	0.207
EV/EBITDA Adj	9.6	17.8	14.5	8.7	6.7
EV/EBIT Adj	20.0	nm	nm	20.8	12.6
P/E Adj	19.3	19.3	nm	23.8	14.9
Div. Yield	1.8%	2.1%	2.1%	2.1%	2.7%
Net Debt/EBITDA Adj	-1.9	0.7	2.6	1.1	0.7

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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&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.

A draft copy of each report may be sent to the subject company for their 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.

Explanation of our ratings system:

- 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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Emittente	%	Long/Short
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