

# INTERCOS

Sector: Consumers

# OUTPERFORM

Price: Eu12.47 - Target: Eu16.00

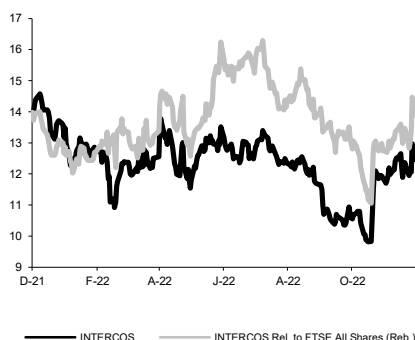
## At the heart of Beauty Industry/Constantly Innovating the Beauty Industry

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### Stock Rating

**Rating:** New Coverage (OUTPERFORM)  
**Target Price (Eu):** New Coverage (Eu16.00)

### INTERCOS - 12M Performance



### Stock Data

Reuters code:	ICOS.MI		
Bloomberg code:	ICOS IM		
Performance	1M	3M	12M
Absolute	5.1%	7.0%	-12.6%
Relative	8.8%	0.2%	-0.8%
12M (H/L)	14.58/9.82		
3M Average Volume (th):	27.51		

### Shareholder Data

No. of Ord shares (mn):	96
Total no. of shares (mn):	96
Mkt Cap Ord (Eu mn):	1,200
Total Mkt Cap (Eu mn):	1,200
Mkt Float - Ord (Eu mn):	466
Mkt Float (in %):	38.8%
Main Shareholder:	
Dario G. Ferrari	32.2%

### Balance Sheet Data

Book Value (Eu mn):	408
BVPS (Eu):	4.24
P/BV:	2.9
Net Financial Position (Eu mn):	-113
Enterprise Value (Eu mn):	1,314

- The real global engine behind the Beauty sector.** Intercos is a leading global business-to-business (B2B) group that develops, manufactures, and markets cosmetic and skin care products for almost all national and international major and emerging brands, in addition to cosmetics, skincare, and hair and body care retailers. The Group is the worldwide leader in the outsourced colour cosmetics market, with a c.10% market share in the segment, and also has a strong position in the outsourced skincare market, as the leading western company in terms of revenues. It operates through its three business units focused on the different product segments (Make-up, Skincare and Hair & Body) which rely on two different business models: the core full outsourcing model (full service with formulations owned by Intercos) and to a lesser extent, and only in the Hair & Body BU, contract manufacturing (formulations provided by clients and only produced by Intercos).
- Constantly growing and resilient even in downturns.** The company was established by Dario Ferrari in 1972 and has a remarkable track record of growth, with a +13% sales CAGR in the ten years prior to the pandemic (2009-2019) and a +17% adj. EBITDA CAGR in the same period. The group ended FY21 with sales of Eu674mn and adj. EBITDA of Eu101mn, a 15% margin on sales, figures that are already expected to rebound to well above pre-pandemic levels this year, growing c.+21% YoY. The reference market, and Intercos in particular, have proved highly resilient during the crisis, before showing positive trends and a strong, rapid recovery in the immediate aftermath.
- Innovation is at the heart of what makes Intercos unique.** Innovation is at the core of the Intercos business model, and is the main differentiating factor to the competition, which is mainly exposed to pure contract manufacturing. The number of employees devoted to innovation and annual R&D investments, constantly at a remarkable c.5% of sales, are testament to this. At the time of writing, c.17% of total employees are dedicated to innovation across 11 research centres, spread globally to intercept specific local market characteristics and study proper solutions for each individual client. As a result, in the past five years Intercos has created c.1,260 formulations on average, which are and remain proprietary to the company.
- We initiate coverage with a OUTPERFORM recommendation and TP of Eu16.** Our DCF valuation yields a target price of Eu16 per share, which implies c.30% of potential upside. The stock is currently trading at c.10x EV/Adj.EBITDA, which we believe represents an attractive entry point even in light of the recent stock re-rating that brought it back to IPO levels. Upside potential remains intact after the pandemic drove a reset in the stock's value. We particularly appreciate Intercos's profile that is unparalleled within the industry, as well as its unique characteristics that should allow the company to outperform reference market volumes and profitability growth thanks to the increasingly greater expansion of outsourcing. Also, as has been the case in similar business sectors (e.g. ingredients) we think Intercos can play a leading role in the sector consolidation process, thus reinforcing its global leadership. Continuing R&D investments and an ability to innovate, along with greater geographical penetration with particular reference to APAC, and an increasing presence in the fast-growing and profitable Hair & Body segment, represent the key elements that will continue to make Intercos a particularly attractive story.

Key Figures & Ratios	2020A	2021A	2022E	2023E	2024E
Sales (Eu mn)	607	674	813	891	950
EBITDA Adj (Eu mn)	87	101	118	132	146
Net Profit Adj (Eu mn)	26	41	54	57	64
EPS New Adj (Eu)		0.427	0.557	0.587	0.667
EPS Old Adj (Eu)		0.427	0.557	0.587	0.667
DPS (Eu)	0.000	0.000	0.000	0.166	0.175
EV/EBITDA Adj		15.7	11.1	9.8	8.6
EV/EBIT Adj		26.0	17.5	15.2	13.1
P/E Adj		29.2	22.4	21.2	18.7
Div. Yield	0.0%	0.0%	0.0%	1.3%	1.4%
Net Debt/EBITDA Adj	2.2	1.3	1.0	0.7	0.4

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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.

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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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Emittente	%	Long/Short

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