

Irce

1H15 Results

Irce - Key estimates and data					
Y/E December		2014A	2015E	2016E	2017E
Revenues	EUR M	350.6	356.0	375.0	410.0
EBITDA	EUR M	10.74	17.50	20.70	28.00
EBIT	EUR M	2.42	10.10	12.50	18.80
Net Income	EUR M	3.79	7.28	7.74	11.77
Dividend ord.	EUR	0.03	0.05	0.05	0.05
Adj. EPS	EUR	0.13	0.26	0.27	0.42
EV/EBITDA	x	9.7	5.9	4.9	3.6
Adj. P/E	x	14.4	8.3	7.8	5.1

A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

- Revenues up, mainly due to copper.** 1H15A revenues increased by 3% to EUR 188.4M, mainly driven by the higher average sales price of copper. Winding wire sales declined in Europe, partly offset by higher sales in Brazil. Cable sales posted a significant increase in volumes after years of declining demand. Revenue without metal grew by 2.4% to EUR 42.4M, in particular: 1) wire revenue decreased by 1.7% to EUR 34.2M; and 2) cable revenue grew by 24.2% to EUR 8.2M.
- EBITDA improved due to volumes.** Raw material costs, net of changes in inventories, increased by 3.1% to EUR 147.2M, and the weighting on revenue remained broadly stable at 78.2%. Service costs rose by 1.4% to EUR 17.2M, the weighting on revenues was down by 20bps to 9.1%. Labour costs increased by 5.1% to EUR 16.5M. The weighting on revenues was down 20bps to 8.8%. Consequently, EBITDA was EUR 7.1M, -2.2% yoy, with a margin reducing by 20bps to 3.8%. Adjusted for the result of hedging operations on copper, EBITDA was EUR 9.0M, +7.3% yoy. EBIT came in at EUR 3.4M, +10.6% yoy. Adjusted for the result of hedging operations on copper, EBIT was EUR 5.3M, +26.2% yoy. Net income came in at EUR 4.4M (vs. EUR 2.2M in 1H14A), benefiting from net gains on copper hedging for EUR 1.9M, and gains on forex, principally USD, for EUR 1.6M. Capex amounted to EUR 1.4M, principally for wire producing machinery. 1H15 net debt was EUR 48.4M, -2.6% vs. FY14A.
- Outlook.** Despite the uncertainty related to the macro-economic and geo-political instability in some countries where Irce operates (e.g. Brazil), management expects a profitability and income improvement in 2015.
- Estimates and valuation.** Following 1H15A results and on management's indications, we cut our revenue assumptions by around 10% in FY15E and FY16E, and by 6.8% in FY17E, mainly because of a tougher market environment, in particular in Brazil, and of a reduction in the copper price. We also trimmed the EBITDA margin by around 40-70bps in FY15E-17E. On the other hand, the reduction in copper price is positive for our assumptions in net working capital absorption, and, consequently, we reduced net debt by around 11% in FY15E-17E, and by 7.3% in FY17E. We value Irce with a DCF model at a 2.0% risk-free rate and a 5.50% equity risk premium, which points to a 6.1% WACC. **We lower our target price to EUR 2.95/share (from EUR 3.05/share) and confirm our BUY rating.**
- Key risks.** The copper price may influence profitability and working capital, although the risk is partially mitigated by hedging policies. An exchange rate risk is related to the fact that sales are mainly denominated in EUR and copper costs in USD and partially covered with forward purchases. A translation risk derives from operations in Brazil, the UK and India. Irce drew more credit to finance working capital in the last year, but thanks to the lines still available, we are not concerned about liquidity at present. The outlook in Europe, the key market for Irce (around 85% of sales), is still relatively weak; this risk should be reduced in the future due to higher sales outside Europe.

See page 9 for full disclosures and analyst certification

Banca IMI is Specialist to Irce

16 September 2015

BUY

Target Price: EUR 2.95
(from EUR 3.05)

Italy/Capital Goods
Company Update

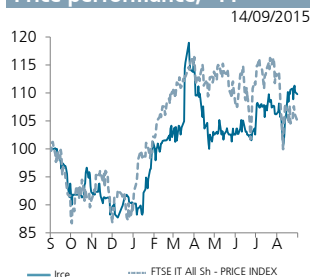
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Price performance, -1Y



Source: FactSet

Data priced on 14.09.2015

Target price (€)	2.95
Target upside (%)	37.63
Market price (€)	2.14
52Wk range (€)	2.32/1.71
Market cap (€ M)	60.19
No. of shares	28.13
Free float (%)	28.9
Major shr (%)	Aequafin 50.0
Reuters	IRC.MI
Bloomberg	IRC IM
FTSE IT All Sh	23169

Performance %			
	Absolute	Rel. to FTSE IT All	
-1M	3.4	-1M	11.3
-3M	7.0	-3M	12.7
-12M	9.7	-12M	5.7

Source: FactSet and Intesa Sanpaolo Research estimates

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Contents

1H15 Results	3
Outlook	4
Valuation	5

1H15 Results

1H15A revenues increased by 3% to EUR 188.4M, mainly driven by the higher average selling copper price.

Revenue without metal grew by 2.4% to EUR 42.4M, in particular we highlight:

- A 1.7% decrease in wire revenue to EUR 34.2M, with a weak trend in Europe, partly offset by higher sales in Brazil;
- A 24.2% growth in cable revenue to EUR 8.2M, which posted a significant increase in volumes after years of declining demand.

Irce – 1H15A results			
EUR M	1H14A	1H15A	chg %
Revenues	183.0	188.4	3.0
EBITDA	7.3	7.1	-2.2
EBITDA margin (%)	4.0	3.8	
EBIT	3.1	3.4	10.6
Net income	2.2	4.4	101.4
Net debt	61.3	48.4	-21.1

A: actual; Source: Company data

Raw material costs, net of changes in inventories, increased by 3.1% to EUR 147.2M, and the weighting on revenue remained broadly stable at 78.2%. Service costs were up by 1.4% to EUR 17.2M, mainly due to the increase of energy costs at the Brazilian subsidiary. The weighting on revenues was down by 20bps to 9.1%. Labour costs increased by 5.1% to EUR 16.5M, mainly due to a 3.1% increase in salaries to EUR 11.2M, and to provisions for litigation with employees. The weighting on revenues was down up 20bps to 8.8%.

Irce 1H1A costs break-down			
EUR M	1H14A	1H15A	chg %
Raw materials	142.8	147.2	3.1
Services	17.0	17.2	1.4
Labour	15.7	16.5	5.1
Weighting on revenue (%)			
Raw materials	78.1	78.2	
Services	9.3	9.1	
Labour	8.6	8.8	

A: actual; Source: Company data

Consequently, EBITDA was EUR 7.1M, -2.2% yoy, with a margin reducing by 20bps to 3.8%. Adjusted for the result of hedging operations on copper, EBITDA was EUR 9.0M, +7.3% yoy.

Depreciation decreased by 8.7% to EUR 3.2M, provisions declined by 27.8% to EUR 0.5M.

EBIT came in at EUR 3.4M, +10.6% yoy. Adjusted for the result of hedging operations on copper, EBIT was EUR 5.3M, +26.2% yoy.

In 1H15A, net financial income was EUR 3.4M (EUR 1.2M in 1H14A), including net gains on copper hedging for EUR 1.9M (EUR 1.1M in 1H14A), and gains on forex, principally USD, for EUR 1.6M (EUR 0.1M in 1H14A).

Net income came in at EUR 4.4M (vs. EUR 2.2M in 1H14A). A EUR 0.03/share dividend was paid on 27 May 2015.

Capex amounted to EUR 1.4M, principally for wire producing machinery. Net debt in 1H15A was EUR 48.4M, -2.6% vs. FY14A.

Outlook

Despite the uncertainty related to the macro-economic and geo-political instability in some countries where Irce operates (e.g. Brazil), management expects a profitability and income improvement in 2015.

Estimates revision

Following 1H15A results and on management's indications, we cut our revenue assumptions by around 10% in FY15E and FY16E, and by 6.8% in FY17E, mainly because of a tougher market environment, in particular in Brazil, and of a reduction in copper price (around USD 5,000/tonne at September 2015, vs, around USD 7,000/tonne at January 2015), at a level which we assumed broadly stable in FY16E-17E.

We also trimmed the EBITDA margin by around 40-70bps in FY15E-17E.

On the other hand, the reduction in copper price is positive for our assumptions in net working capital absorption, and, consequently, we reduced net debt by around 11% in FY15E-17E, and by 7.3% in FY17E.

Irce – Estimates revision (2015E-17E)									
EUR M	2015E old	2015E new	chg %	2016E old	2016E new	chg %	2017E old	2017E new	chg %
Revenue	398.0	356.0	-10.6	417.0	375.0	-10.1	440.0	410.0	-6.8
EBITDA	21.3	17.5	-17.8	26.0	20.7	-20.4	31.7	28.0	-11.7
EBITDA margin (%)	5.4	4.9		6.2	5.5		7.2	6.8	
Net income	8.1	7.3	-10.1	10.0	7.7	-22.7	13.3	11.8	-11.5
Net debt	48.8	43.4	-11.1	47.4	41.9	-11.7	43.8	40.6	-7.3

Eestimates; Source: Intesa Sanpaolo Research estimates

Valuation

We value Irce with a DCF model using a 2.0% risk-free rate and a 5.50% equity risk premium, which points to a 6.1% WACC .

Irce- WACC calculation	
%	
Gross debt rate	6.5
Tax rate	28.5
Net debt rate	4.6
Beta levered * (x)	0.84
Gearing	26.49
Beta re-levered * (x)	0.84
Risk-free rate	2.00
Equity risk premium	5.50
Cost of equity	6.6
WACC	6.1

Source: *Bloomberg and Intesa Sanpaolo Research estimates

We used our 2015E-17E estimates, while for the LT we assume that revenues are in line with 2016E, the EBITDA margin is around 5.2% i.e. the average 2008A-17E profitability, and capex equals depreciation. We value treasury shares (around 4.9% of capital) at market value.

We used 2014A debt (EUR 49.6M) to calculate the equity value.

Our DCF model points to a target price of EUR 2.95/share (EUR 3.05/share previously) and we rate the company a BUY.

**Target price at
EUR 2.95/share; BUY**

Irce – DCF calculation (2015E-17E)				
EUR M	2015E	2016E	2017E	LT
EBIT	10.1	12.5	18.8	13.1
Tax	-3.9	-4.2	-6.3	-4.6
Depreciation	7.4	8.2	9.2	
NOPAT	13.6	16.5	21.7	8.5
WC	-2.6	-4.9	-8.2	
Capex	-5.0	-8.0	-10.0	
FCF	6.0	3.6	3.5	8.5
Discounted FCF	6.0	3.4	3.1	7.1
WACC (%)	6.1			
TV growth (%)	0.0			
Sum	12.5			
TV	117.1			
EV	129.6			
Debt 2014A	49.6			
Treasury shares	2.9			
Equity	82.8			
Shares (M)	28.1			
Target price (EUR/share)	2.95			

A: actual; E: estimates; Source: Intesa Sanpaolo Research estimates

Irce - Key data							
Rating	Target price (EUR/sh)	Mkt price (EUR/sh)	Sector	Free float (%)	Reuters Code		
BUY	Ord 2.95	Ord 2.14	Capital Goods	28.9	IRC.MI		
Values per share (EUR)			2013A	2014A	2015E	2016E	2017E
No. ordinary shares (M)			28.13	28.13	28.13	28.13	28.13
No. NC saving/preferred shares (M)			0.00	0.00	0.00	0.00	0.00
Total no. of shares (M)			28.13	28.13	28.13	28.13	28.13
Market cap			42.35	54.58	60.19	60.19	60.19
Adj. EPS			0.00	0.13	0.26	0.27	0.42
CFPS			0.31	0.43	0.52	0.57	0.75
BVPS			4.7	4.9	5.1	5.3	5.7
Dividend ord			0.01	0.03	0.05	0.05	0.05
Income statement (EUR M)			2013A	2014A	2015E	2016E	2017E
Sales			358.8	350.6	356.0	375.0	410.0
EBITDA			9.53	10.74	17.50	20.70	28.00
EBIT			0.91	2.42	10.10	12.50	18.80
Pre-tax income			0.65	6.91	11.20	11.90	18.10
Net income			0.11	3.79	7.28	7.74	11.77
Adj. net income			0.11	3.79	7.28	7.74	11.77
Cash flow (EUR M)			2013A	2014A	2015E	2016E	2017E
Net income before minorities			0.1	3.8	7.3	7.7	11.8
Depreciation and provisions			8.6	8.3	7.4	8.2	9.2
Others/Uses of funds			0	0	0	0	0
Change in working capital			20.5	3.5	-6.6	-7.2	-8.7
Operating cash flow			29.3	15.7	8.1	8.7	12.3
Capital expenditure			-5.2	-2.7	-5.0	-8.0	-10.0
Financial investments			0	0	0	0	0
Acquisitions and disposals			0	0	0	0	0
Free cash flow			24.1	13.0	3.1	0.7	2.3
Dividends			-0.6	-0.3	-0.8	-1.5	-1.5
Equity changes & Other non-operating items			-5.5	-1.0	0	0	0
Net cash flow			18.1	11.7	2.2	-0.8	0.8
Balance sheet (EUR M)			2013A	2014A	2015E	2016E	2017E
Net capital employed			194.4	187.4	187.6	192.3	201.3
of which associates			0	0	0	0	0
Net debt/-cash			61.3	49.6	43.4	41.9	40.6
Minorities			0	0	0	0	0
Net equity			133.0	137.7	144.2	150.4	160.7
Minorities value			0	0	0	0	0
Enterprise value			103.7	104.2	103.6	102.1	100.8
Stock market ratios (x)			2013A	2014A	2015E	2016E	2017E
Adj. P/E			NM	14.4	8.3	7.8	5.1
P/CFPS			4.8	4.5	4.1	3.8	2.9
P/BVPS			0.32	0.40	0.42	0.40	0.37
Payout (%)			255	7	4	4	0
Dividend yield (% ord)			0.7	1.5	2.5	2.5	2.5
FCF yield (%)			56.9	23.8	5.1	1.2	3.8
EV/sales			0.29	0.30	0.29	0.27	0.25
EV/EBITDA			10.9	9.7	5.9	4.9	3.6
EV/EBIT			NM	43.1	10.3	8.2	5.4
EV/CE			0.53	0.56	0.55	0.53	0.50
D/EBITDA			6.4	4.6	2.5	2.0	1.5
D/EBIT			67.6	20.5	4.3	3.3	2.2
Profitability & financial ratios (%)			2013A	2014A	2015E	2016E	2017E
EBITDA margin			2.7	3.1	4.9	5.5	6.8
EBIT margin			0.3	0.7	2.8	3.3	4.6
Tax rate			85.0	45.1	35.0	35.0	35.0
Net income margin			0.0	1.1	2.0	2.1	2.9
ROCE			0.5	1.3	5.4	6.5	9.3
ROE			0.1	2.8	5.2	5.3	7.6
Interest cover			3.5	-0.5	-9.2	20.8	26.9
Debt/equity ratio			46.1	36.0	30.1	27.8	25.3
Growth (%)				2014A	2015E	2016E	2017E
Sales				-2.3	1.5	5.3	9.3
EBITDA				12.7	62.9	18.3	35.3
EBIT				NM	NM	23.8	50.4
Pre-tax income				NM	62.2	6.3	52.1
Net income				NM	91.9	6.3	52.1
Adj. net income				NM	91.9	6.3	52.1

NM: not meaningful; A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

Notes

Notes

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Valuation methodology (long-term horizon: 12M)

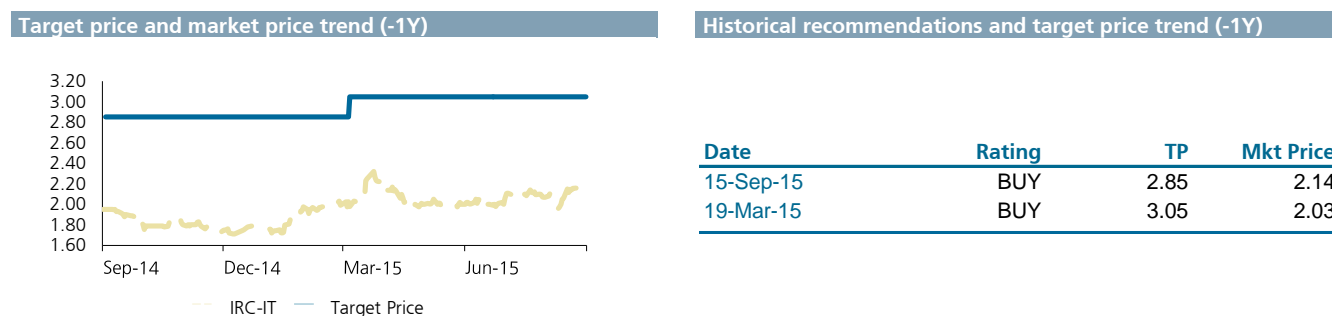
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Equity rating key (long-term horizon: 12M)	
Long-term rating	Definition
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ADD	If the target price is 10%-20% higher than the market price
HOLD	If the target price is 10% below or 10% above the market price
REDUCE	If the target price is 10%-20% lower than the market price
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Intesa Sanpaolo Research Rating Distribution (at August 2015)					
Number of companies considered: 96	BUY	ADD	HOLD	REDUCE	SELL
Total Equity Research Coverage %	34	36	30	1	0
of which Intesa Sanpaolo's Clients % (*)	76	66	62	0	0

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Equity rating key (short-term horizon: 3M)

Equity rating key (short-term horizon: 3M)	
Short-term rating	Definition
LONG	Stock price expected to rise or outperform within three months from the time the rating was assigned due to a specific catalyst or event
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