

Irce

FY16 Results

Irce - Key estimates and data					
Y/E December		2016A	2017E	2018E	2019E
Revenues	EURM	295.9	340.0	362.3	380.4
EBITDA	EUR M	7.17	13.00	15.20	17.20
EBIT	EUR M	-0.74	5.40	7.20	8.70
Net Income	EUR M	0.05	3.19	4.36	5.33
Dividend ord.	EUR	0.03	0.04	0.04	0.04
Adj. EPS	EUR	0.00	0.11	0.15	0.19
EV/EBITDA	x	12.1	7.6	6.6	5.9
Adj. P/E	x	NM	18.3	13.4	10.9

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

- Copper price and weak reference markets affected revenue...** In FY16A, consolidated revenue decreased by 15.4% to EUR 295.9M, mainly due to a contraction in the copper price (-11% yoy) and to a weak reference scenario. Wire revenue declined in line with the market trend, with a significant contraction in Brazil, while an ongoing slowdown in demand also affected cable revenue.
- ...but EBITDA margin remained broadly stable.** Raw material costs, net of changes in inventories, declined by 17.9% to EUR 225.9M. Service costs dropped by 5.1% to EUR 31.3M, principally caused by a contraction of energy costs sustained in Brazil. Labour costs fell by 5% to EUR 30.8M, mainly due to a decrease in wages (more use of social security nets). FY16A EBITDA came in at EUR 7.2M, -12.9% yoy, with a margin broadly stable at 2.4%. Adjusted for the result of hedging operations on copper, EBITDA was EUR 8.9M (-21.4% yoy). EBIT was a negative EUR 0.7M (vs. a positive EUR 0.7M in FY15A). Net of the copper price effect, EBIT was EUR 0.9M (EUR 3.7M in FY15A). Net income was at breakeven (vs. EUR 2.9M in FY15A). A EUR 0.03/share dividend was proposed to the General Assembly. Capex amounted to EUR 6M. Net debt was EUR 36.3M (EUR 46.2M in FY15A), mainly reflecting the cash flow generated by the operating activities and the reduction of working capital absorption.
- Outlook.** The first few months of 2017 have shown an improvement in the reference markets, vs. the weak trend at the end of 2016. Management is focused on cost reductions, aiming for a recovery in efficiency and profitability in 2017.
- Estimates and valuation.** In light of the FY16A results and management's outlook, we cut FY17E revenue by 1.4% and EBITDA margin by 40bps vs. our previous estimates. Consequently, net income is around 18.3% lower than our previous estimate, while, on the other hand, net debt declined by around 8.8%. We also introduced our FY18E-19E projections, with revenue growth of 5-6% per year, mainly driven by volumes, and EBITDA margin improving by 30-40bps per year. **We valued Irce with a DCF model, which points to a EUR 2.3/share target price (EUR 1.95/share previously), and we maintain our ADD 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 particularly concerned about liquidity at present.

17 March 2017: 12:22 CET
Date and time of production

ADD

Target Price: EUR 2.3
(from EUR 1.95)

Italy/Capital Goods
Company Update

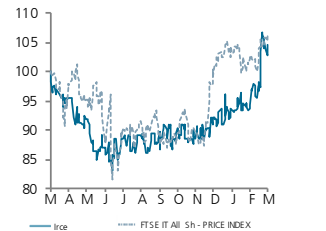
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Price performance, -1Y



Source: FactSet

Date and time of first circulation:
17 March 2017: 13:00 CET

Data priced on 15.03.2017	
Target price (€)	2.3
Target upside (%)	11.11
Market price (€)	2.07
52Wk range (€)	2.11/1.64
Market cap (€ M)	58.22
No. of shares	28.13
Free float (%)	28.9
Major shr (%)	Aequafin 50.0
Reuters	IRC.MI
Bloomberg	IRC IM
FTSE IT All Sh	21699
Performance %	
Absolute	Rel. to FTSE IT All
-1M	7.9 -1M 3.9
-3M	13.5 -3M 7.9
-12M	4.7 -12M -1.6

*unless otherwise indicated within report. Source: FactSet and Intesa Sanpaolo Research estimates

See page 9 for full disclosures and analyst certification
Banca IMI is Specialist to Irce

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FY16A Results and Earnings Outlook

FY16 results

In FY16A, consolidated revenue decreased by 15.4% to EUR 295.9M, mainly due to a contraction in the copper price (-11% yoy) and to a weak reference scenario.

In particular, we highlight:

- Wire revenue declined in line with the market trend, with a significant contraction in Brazil;
- An ongoing slowdown in demand also affected cable revenue.

Irce – FY16A results			
EUR M	FY15A	FY16A	chg %
Revenues	349.9	295.9	-15.4
EBITDA	8.2	7.2	-12.9
EBITDA margin (%)	2.4	2.4	
EBIT	0.7	-0.7	-211.1
Net income	2.9	0.1	-98.2
Net debt	46.2	36.3	-21.6

A: actual; Source: Company data

Raw material costs, net of changes in inventories, declined by 17.9% to EUR 225.9M, with the weighting on revenue down by around 220bps to 76.4%. Service costs dropped by 5.1% to EUR 31.3M, principally caused by the contraction of energy costs in Brazil. The weighting on revenue was up by about 120bps to 10.6%. Labour costs fell by 5% to EUR 30.8M, mainly due to a decrease in wages (more use of the social security nets). The weighting on revenues was up by 110bps to 10.4%.

Irce - FY16A costs breakdown			
EUR M	FY15A	FY16A	chg %
Raw materials*	275.1	225.9	-17.9
Services	33.0	31.3	-5.1
Labour	32.4	30.8	-5.0
Weighting on revenue (%)			
Raw materials	78.6	76.4	
Services	9.4	10.6	
Labour	9.3	10.4	

Note: *net of changes in inventories; A: actual; Source: Company data

Following the abovementioned dynamics, FY16A EBITDA came in at EUR 7.2M, -12.9% yoy, with a margin broadly stable at 2.4%. Adjusted for the result of hedging operations on copper, EBITDA was EUR 8.9M (-21.4% yoy).

EBIT was a negative EUR 0.7M (vs. a positive EUR 0.7M in FY15A). Net of the copper price effect, EBIT was EUR 0.9M (EUR 3.7M in FY15A).

Net income came in at break-even (vs. EUR 2.9M in FY15A). A EUR 0.03/share dividend was proposed to the General Assembly.

Capex amounted to EUR 6M. Net debt was EUR 36.3M (EUR 46.2M in FY15A), mainly reflecting the cash flow generated by operating activities.

Outlook

The first couple of months of 2017 have shown an improvement in the reference markets, vs. the weak trend at the end of 2016. Management is focused on cost reductions, aiming at a recovery in efficiency and profitability in 2017.

Our 2017E-19E estimates

In light of FY16A results, we cut FY17E revenue by 1.4% and EBITDA margin by 40bps vs. previous estimates. Consequently, net income is around 18.3% lower than previous estimates, while net debt reduced by around 8.8%.

We also introduced FY18E-19E projections, with revenue growth of 5-6% per year, mainly driven by volumes, and EBITDA margin improving by 30-40bps per year.

Introducing our 2018E-19E estimates

Irce – Estimates revision (2017E)					
EUR M	2017 old	2017 new	chg. %	2018 new	2019 new
Sales	345.0	340.0	-1.4	362.3	380.4
EBITDA	14.5	13.0	-10.3	15.2	17.2
EBITDA margin %	4.2	3.8		4.2	4.5
Net income	3.9	3.2	-18.3	4.4	5.3
Net debt/-cash	44.4	40.5	-8.8	42.5	42.5

Source: Intesa Sanpaolo Research

Valuation

We value Irce with a DCF model using a 2.0% risk-free rate, and a 6.25% equity risk premium which points to a 6.3% WACC (6.1% previously).

Irce- WACC calculation	
%	
Gross debt rate	4.0
Tax rate	28.5
Net debt rate	2.9
Beta levered * (x)	0.84
Gearing	20.9
Beta re-levered * (x)	0.84
Risk-free rate	2.00
Equity risk premium	6.25
Cost of equity	7.3
WACC	6.3

Source: *Bloomberg and Intesa Sanpaolo Research estimates

In our model we used our 2017E-19E estimates, while for the LT we assume that revenues are in line with 2019E, the EBITDA margin is around 4.1% i.e. the average 2010A-19E profitability, and capex equals depreciation. We value treasury shares (around 5.0% of capital) at market value. We used 2016A debt (EUR 36.3M) to calculate the equity value.

We set our target price at **EUR 2.3/share** (EUR 1.95/share previously) **and keep our ADD rating.**

ADD rating and target price of EUR 2.3/share

Irce – DCF calculation (2017E-19E)				
EUR M	2017E	2018E	2019E	LT
EBIT	5.4	7.2	8.7	11.1
Tax	-1.7	-2.3	-2.9	-3.5
Depreciation	7.6	8.0	8.5	
NOPAT	11.3	12.9	14.3	7.6
WC	-7.2	-10.2	-7.7	
Capex	-7.0	-3.0	-5.0	
FCF	-2.9	-0.3	1.6	7.6
Discounted FCF	-2.9	-0.3	1.4	6.3
WACC (%)	6.3			
TV growth (%)	0.0			
Sum	-1.8			
TV	99.6			
EV	97.8			
Debt 2016A	36.3			
Treasury shares	2.9			
Equity	64.5			
Shares (M)	28.1			
Target price (EUR/share)	2.30			

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	
ADD	Ord 2.3	Ord 2.07	Capital Goods	28.9		IRC.MI	
Values per share (EUR)			2015A	2016A	2017E	2018E	2019E
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			56.78	50.87	58.22	58.22	58.22
Adj. EPS			0.10	0.00	0.11	0.15	0.19
CFPS			0.37	0.28	0.38	0.44	0.49
BVPS			4.7	4.9	5.0	5.1	5.2
Dividend ord			0.03	0.03	0.04	0.04	0.04
Income statement (EUR M)			2015A	2016A	2017E	2018E	2019E
Revenues			349.9	295.9	340.0	362.3	380.4
EBITDA			8.24	7.17	13.00	15.20	17.20
EBIT			0.67	-0.74	5.40	7.20	8.70
Pre-tax income			5.38	0.76	4.90	6.70	8.20
Net income			2.95	0.05	3.19	4.36	5.33
Adj. net income			2.95	0.05	3.19	4.36	5.33
Cash flow (EUR M)			2015A	2016A	2017E	2018E	2019E
Net income before minorities			2.9	0.1	3.2	4.4	5.3
Depreciation and provisions			7.6	7.9	7.6	8.0	8.5
Others/Uses of funds			0	0	0	0	0
Change in working capital			0.7	4.9	-7.2	-10.2	-7.7
Operating cash flow			11.2	12.9	3.6	2.2	6.1
Capital expenditure			-4.1	-6.0	-7.0	-3.0	-5.0
Financial investments			0	0	0	0	0
Acquisitions and disposals			0	0	0	0	0
Free cash flow			7.1	6.8	-3.4	-0.8	1.1
Dividends			-0.8	-0.8	-0.8	-1.1	-1.1
Equity changes & Other non-operating items			-6.9	3.9	0	0	0
Net cash flow			-0.6	10.0	-4.3	-2.0	0.0
Balance sheet (EUR M)			2015A	2016A	2017E	2018E	2019E
Net capital employed			177.1	173.5	180.1	185.3	189.5
of which associates			0	0	0	0	0
Net debt/-cash			46.2	36.3	40.5	42.5	42.5
Minorities			0	0	0	0	0
Net equity			130.8	137.2	139.6	142.8	147.0
Minorities value			0	0	0	0	0
Enterprise value			103.0	87.1	98.7	100.7	100.7
Stock market ratios (x)			2015A	2016A	2017E	2018E	2019E
Adj. P/E			19.3	NM	18.3	13.4	10.9
P/CFPS			5.4	6.4	5.4	4.7	4.2
P/BVPS			0.43	0.37	0.42	0.41	0.40
Payout (%)			10	521	0	0	0
Dividend yield (% ord)			1.5	1.7	1.9	1.9	1.9
FCF yield (%)			12.5	13.5	-5.9	-1.5	1.9
EV/sales			0.29	0.29	0.29	0.28	0.26
EV/EBITDA			12.5	12.1	7.6	6.6	5.9
EV/EBIT			NM	NM	18.3	14.0	11.6
EV/CE			0.58	0.50	0.55	0.54	0.53
D/EBITDA			5.6	5.1	3.1	2.8	2.5
D/EBIT			69.2	Neg.	7.5	5.9	4.9
Profitability & financial ratios (%)			2015A	2016A	2017E	2018E	2019E
EBITDA margin			2.4	2.4	3.8	4.2	4.5
EBIT margin			0.2	-0.3	1.6	2.0	2.3
Tax rate			45.2	92.9	35.0	35.0	35.0
Net income margin			0.8	0.0	0.9	1.2	1.4
ROCE			0.4	-0.4	3.0	3.9	4.6
ROE			2.2	0.0	2.3	3.1	3.7
Interest cover			-0.1	0.5	10.8	14.4	17.4
Debt/equity ratio			35.3	26.4	29.0	29.7	28.9
Growth (%)			2016A	2017E	2018E	2019E	
Sales			-15.4	14.9	6.6	5.0	
EBITDA			-12.9	81.2	16.9	13.2	
EBIT			NM	NM	33.3	20.8	
Pre-tax income			-85.8	NM	36.7	22.4	
Net income			-98.2	NM	36.7	22.4	
Adj. net income			-98.2	NM	36.7	22.4	

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

Notes

Notes

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Valuation methodology (long-term horizon: 12M)

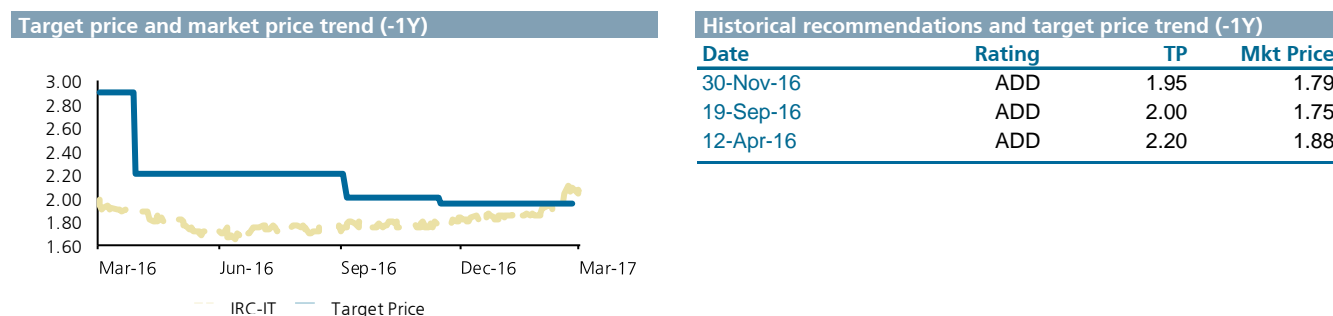
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Equity rating key (long-term horizon: 12M)	
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Historical recommendations and target price trends (long-term horizon: 12M)



Equity rating allocations (long-term horizon: 12M)

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Total Equity Research Coverage relating to last rating (%)	41	29	30	1	0
of which Intesa Sanpaolo's Clients (%) (*)	56	55	37	100	0

(*) Companies on behalf of whom Intesa Sanpaolo and the other companies of the Intesa Sanpaolo Group have provided corporate and Investment banking services in the last 12 months; percentage of clients in each rating category

Valuation methodology (short-term horizon: 3M)

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

Equity rating key (short-term horizon: 3M)	
Short-term rating	Definition
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- 1 One or more of the companies of the Intesa Sanpaolo Banking Group plan to solicit investment banking business or intends to seek compensation from Irce in the next three months
- 2 Banca IMI acts as
- 3 Specialist relative to securities issued by Irce

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