

Company Note

MID CORPORATE

Irce

4Q/FY21 Results

Despite the hike in revenues, margins were impacted by the increase in raw materials and electricity costs that affected particularly 4Q21 and is continuing in the current months. Management also stated that early 2022 sales volumes are showing a slowdown in demand, but they remain at good levels.

4Q/FY21 results

Irce FY21 revenues rose by 54.8% yoy to EUR 457.1M. The performance was mainly attributable to volumes up to the pre-Covid levels and the increase in copper price (average LME copper price in FY21 was +46.24% yoy). EBITDA came in at EUR 23.2M vs. EUR 10.8M in FY20A and EUR 24.9M in our expectations, due to strong and continuous growth in the cost of raw materials and in 3Q21 a marked increase in the cost of electricity that affected EBITDA in 4Q21 (EUR 1.5M vs. EUR 4.6M in 4Q20A). Irce has continued to pass cost increases to the market. Net income amounted to EUR 9.4M vs. EUR 2.7M in FY20A. Net debt increased from EUR 39.7M at YE20A to EUR 64.3M at YE21A, due to the impact of net working capital.

Outlook and estimates revision

With reference to outlook, management stated that early 2022 sales volumes are showing a slowdown in demand, but they remain at good levels. However, our understanding is that uncertainty on forecasts is high, given the ongoing rise in the cost of raw materials and electricity, combined with the possible effects of the Russian-Ukrainian conflict. As a result, we revise our FY22E estimates to incorporate a performance in line with FY21E and the ongoing high level of copper but also input costs (raw materials: 80% of revenues). We introduce estimates for FY23E, assuming the positive trend in demand to continue and expect revenues at EUR 496.9M (+3% yoy). Regarding margins, we expect: 1) EUR 27.4M EBITDA (a 5.5% margin); 2) EBIT at EUR 18.8M; 3) net income at EUR 11.9M; and 4) net debt at EUR 57.9M (-12.9% yoy).

Valuation

Following our estimates revision and the update of our parameters, our DCF model returns a **target price of EUR 2.9/share**. We therefore confirm our **HOLD rating on the stock**.

21 March 2022: 7:09 CET
Date and time of production

HOLD

Target Price: EUR 2.9
(from EUR 3.2)

Italy/Capital Goods
Update

MTA-STAR

Price Performance
(RIC: IRC.MI, BB: IRC IM)



Irce - Key Data

Price date (market close)	17/03/2022		
Target price (EUR)	2.9		
Target upside (%)	0.08		
Market price (EUR)	2.85		
Market cap (EUR M)	80.17		
52Wk range (EUR)	3.44/1.93		
Price performance %	1M	3M	12M
Absolute	-4.4	-5.3	46.9
Rel. to FTSE IT All Sh	5.3	4.5	47.1

Y/E Dec (EUR M)	FY21A	FY22E	FY23E
Revenues	457.1	482.4	496.9
EBITDA	23.20	20.28	27.39
EBIT	14.36	11.68	18.80
Net income	9.38	6.71	11.89
EPS (EUR)	0.33	0.24	0.42
Net debt/-cash	64.29	66.47	57.90
Adj P/E (x)	7.9	11.9	6.7
EV/EBITDA (x)	6.0	7.2	5.0
EV/EBIT (x)	9.7	12.6	7.3
Div ord yield (%)	1.1	2.3	1.7

Source: Company data, FactSet and Intesa Sanpaolo Research estimates

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4Q/FY21 Results

Despite the hike in revenues, margins were impacted by the increase in raw materials and electricity costs that affected particularly 4Q21. In order to limit the negative impact, the company has continued to pass cost increases to the market. The key points of FY21A results were:

- **Revenues increased to EUR 457.1M, +54.8% yoy.** The increase was mainly attributable to higher volumes and the increase in copper price throughout the year (average LME copper price in FY21 was +46.24% yoy). Both business areas, winding conductors and electrical cables, confirmed the recovery of market demand that has brought sales volumes back to the pre-Covid levels;
- **EBITDA was EUR 23.2M** vs. EUR 10.8M in FY20A (and vs. EUR 24.9M in our expectations) due to strong and continuous growth in the cost of raw materials and in 3Q21 a marked increase in the cost of electricity that impacted on EBITDA in 4Q21 (EUR 1.5M vs. 4.6M in 4Q20A);

Irce – 4Q/FY21 costs breakdown

EUR M	4Q20A	4Q21A	chg %	FY20A	FY21A	chg %
Raw materials	70.2	94.4	34.5	231.8	366.3	58.0
Services	6.7	12.2	81.3	23.7	36.4	54.0
Labour	7.6	7.9	2.8	28.5	30.5	6.8
Weighting in revenues (%)						
Raw materials	78.6	81.4		78.5	80.1	
Services	7.5	10.5		8.0	8.0	
Labour	8.6	6.8		9.7	6.7	

A: actual; Source: Company data

- **Net income was EUR 9.4M** vs. EUR 2.7M in FY20A;
- **Net debt increased from EUR 39.7M at YE20A to EUR 64.3M at YE21A**, due to the impact of net working capital;
- **The BoD resolved to propose to distribute a EUR 0.05/sh. dividend** (dividend date on 23 May, record date 24 May and payment date 25 May).

Irce – 4Q/FY21 results

EUR M	4Q20A	4Q21A	yoy %	FY20A	FY21A	FY21E	FY yoy %	FY A/E %
Revenues	89.3	116.0	29.8	295.3	457.1	405.0	54.8	12.9
Revenues w/o metal	20.1	22.7	12.8	68.3	92.4	NA	35.2	NA
EBITDA	4.6	1.5	-68.3	10.8	23.2	24.9	114.8	-6.9
EBITDA margin %	5.2	1.3		3.6	5.1	6.2		
Net income	2.05	0.5	-75.6	2.7	9.4	10.2	NM	-8.3
Net debt	39.7	64.3	61.9	39.7	64.3	64.9	61.9	-0.9

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

Earnings Outlook

With reference to outlook, management stated that early 2022 sales volumes are showing a slowdown in demand, but they remain at good levels. However, our understanding is that uncertainty on forecasts is high, given the ongoing rise in the cost of raw materials and electricity, combined with the possible effects of the Russian-Ukrainian conflict.

Therefore, we revise our FY22E estimates to include a demand in line with 4Q21 and the ongoing high level of copper and input costs (raw materials: 80% of revenues), which the company should be able to pass to its customers.

For FY23E, we assume the positive trend in demand to continue and expect revenues at EUR 496.9M (+3% yoy). Regarding margins, we assume raw materials' and electricity prices still at high level, leading to an expected EUR 27.4M EBITDA (a 5.5% margin). We see EBIT at EUR 18.8M and net income at EUR 11.9M. With an expected net working capital/sales ratio at approx. 35%, we see net debt at EUR 57.9M (-12.9% yoy).

FY22E: demand growth slightly slowing down but high level of copper and input costs

FY23E: continuation of trend in demand

Irc - FY22E-23E estimates

EUR M	FY22E Old	FY22E New	Chg. %	FY23E New	vs. FY22E %
Revenues	421.2	482.4	14.5	496.9	3.0
EBITDA	26.6	20.3	-23.8	27.4	35.1
EBITDA margin %	6.3	4.2		5.5	
EBIT	16.8	11.7	-30.5	18.8	60.9
EBIT margin %	4.0	2.4		3.8	
Net income	11.1	6.7	-39.4	11.9	77.2
Net debt/-cash	61.0	66.5	0.0	57.9	-12.9

E: estimates; Source: Intesa Sanpaolo Research

Valuation

We value Irc with a DCF model using a 1.75% risk-free rate (vs. 1% previously) and a 6.25% equity risk premium (vs. 6.5% previously), which points to a 5.9% WACC (vs. 5.6% previously). In our model, we used:

- Our explicit 2022E-23E estimates;
- For the long term, we assume FY17A-23E average data, with a normalised capex/depreciation.

Irc - WACC calculation

%	
Gross Debt Rate	4.0
Tax rate	24
Net Debt Rate	3.0
Beta Levered (x)	0.8
Gearing	24
Beta Re-Levered (x)	0.8
Risk-free rate	1.75
Equity risk premium	6.25
Cost of equity	6.8
WACC	5.9

Source: Intesa Sanpaolo Research estimates

Irc - DCF model

EUR M	2022E	2023E	LT
EBIT	11.7	18.8	12.1
Tax	-4.5	-6.4	-3.5
Depreciation	8.6	8.6	
NOPAT	15.8	21.0	8.6
WC	-5.6	-2.6	
Capex	-10.0	-8.0	
FCF	0.2	10.4	8.6
Discounted FCF	0.2	9.8	7.7
WACC (%)	5.9		
TV growth (%)	0.0		
Sum	10.0		
TV	130.6		
EV	140.7		
Debt 2021A	64.3		
Equity	76.4		
Shares (M)*	27		
Target price (EUR/share)	2.9		

* net of treasury; E: estimates; Source: Intesa Sanpaolo Research

We obtain a **target price of EUR 2.9/share** (vs. EUR 3.2/sh. previously) and confirm **our HOLD rating on the stock**.

Irce – Key Data

Rating HOLD	Target price (EUR/sh) Ord 2.9	Mkt price (EUR/sh) Ord 2.85			Sector Capital Goods
Values per share (EUR)	2019A	2020A	2021A	2022E	2023E
No. ordinary shares (M)	28.13	28.13	28.13	28.13	28.13
Total no. of shares (M)	28.13	28.13	28.13	28.13	28.13
Market cap (EUR M)	54.02	43.79	74.31	80.17	80.17
Adj. EPS	0.07	0.10	0.33	0.24	0.42
CFPS	0.33	0.37	0.65	0.54	0.73
BVPS	4.7	4.4	4.7	4.9	5.2
Dividend ord	0.05	0	0.03	0.07	0.05
Income statement (EUR M)	2019A	2020A	2021A	2022E	2023E
Revenues	311.9	295.3	457.1	482.4	496.9
EBITDA	7.82	10.75	23.20	20.28	27.39
EBIT	0.42	3.20	14.36	11.68	18.80
Pre-tax income	2.72	4.29	14.16	11.18	18.30
Net income	1.94	2.73	9.38	6.71	11.89
Adj. net income	1.94	2.73	9.38	6.71	11.89
Cash flow (EUR M)	2019A	2020A	2021A	2022E	2023E
Net income before minorities	2.0	2.7	9.4	6.7	11.9
Depreciation and provisions	7.4	7.6	8.8	8.6	8.6
Others/Uses of funds	0	0	0	0	0
Change in working capital	17.3	-5.4	-34.3	-5.6	-2.6
Operating cash flow	26.7	4.8	-16.1	9.7	17.9
Capital expenditure	-6.1	-2.1	-7.7	-10.0	-8.0
Financial investments	0	0	0	0	0
Acquisitions and disposals	0	0	0	0	0
Free cash flow	20.6	2.7	-23.8	-0.3	9.9
Dividends	-1.3	0	-0.8	-1.9	-1.3
Equity changes & Non-op items	-1.6	3.8	0	0	0
Net cash flow	17.7	6.5	-24.6	-2.2	8.6
Balance sheet (EUR M)	2019A	2020A	2021A	2022E	2023E
Net capital employed	173.5	162.4	196.3	203.3	205.2
of which associates	0	0	0	0	0
Net debt/-cash	42.0	39.7	64.3	66.5	57.9
Minorities	0	0	0	0	0
Net equity	131.5	122.6	132.0	136.8	147.3
Minorities value	0	0	0	0	0
Enterprise value	96.0	83.5	138.6	146.6	138.1
Stock market ratios (x)	2019A	2020A	2021A	2022E	2023E
Adj. P/E	27.8	16.1	7.9	11.9	6.7
P/CFPS	5.8	4.3	4.1	5.2	3.9
P/BVPS	0.41	0.36	0.56	0.59	0.54
Payout (%)	69	0	9	28	11
Dividend yield (% ord)	2.5	0	1.1	2.3	1.7
FCF yield (%)	38.2	6.2	-32.0	-0.4	12.4
EV/sales	0.31	0.28	0.30	0.30	0.28
EV/EBITDA	12.3	7.8	6.0	7.2	5.0
EV/EBIT	NM	26.1	9.7	12.6	7.3
EV/CE	0.55	0.51	0.71	0.72	0.67
D/EBITDA	5.4	3.7	2.8	3.3	2.1
D/EBIT	99.4	12.4	4.5	5.7	3.1
Profitability & financial ratios (%)	2019A	2020A	2021A	2022E	2023E
EBITDA margin	2.5	3.6	5.1	4.2	5.5
EBIT margin	0.1	1.1	3.1	2.4	3.8
Tax rate	27.5	35.7	33.8	40.0	35.0
Net income margin	0.6	0.9	2.1	1.4	2.4
ROCE	0.2	2.0	7.3	5.7	9.2
ROE	1.5	2.1	7.4	5.0	8.4
Interest cover	-0.2	-2.9	72.1	23.4	NM
Debt/equity ratio	32.0	32.4	48.7	48.6	39.3
Growth (%)		2020A	2021A	2022E	2023E
Sales		-5.3	54.8	5.5	3.0
EBITDA		37.5	NM	-12.6	35.1
EBIT		NM	NM	-18.6	60.9
Pre-tax income		57.6	NM	-21.0	63.6
Net income		40.4	NM	-28.4	77.2
Adj. net income		40.4	NM	-28.4	77.2

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

Company Snapshot

Company Description

Irce is an industrial group which operates in two sectors: wires for winding of electric machines, known as enamelled wires, in copper and aluminium, and insulating wires for energy conduction. The enamelled wires are used to convert electric into mechanic energy or vice versa, and also into other types of energy, mainly used in engines, electric generators and transformers. The wires are used in the installation of electrical systems in private and industrial buildings.

Key data

Mkt price (EUR)	2.85	Free float (%)	30.7
No. of shares	28.13	Major shr	Aequafin
52Wk range (EUR)	3.44/1.93	(%)	50.0
Reuters	IRC.MI	Bloomberg	IRC IM
Performance (%)	Absolute		Rel. FTSE IT All Sh
-1M	-4.4	-1M	5.3
-3M	-5.3	-3M	4.5
-12M	46.9	-12M	47.1

Key Risks

Company specific risks:

- The copper price may influence profitability and working capital
- Exchange rate risk (sales are mainly in EUR and copper costs in USD)
- Translation risk derives from operations in Brazil, the UK and India

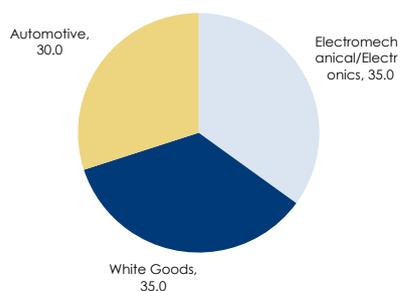
Sector generic risks:

- Slowdown in key reference markets (Automotive, Electronics and White Goods)
- Increase in raw materials and electricity prices
- Shortage of raw materials

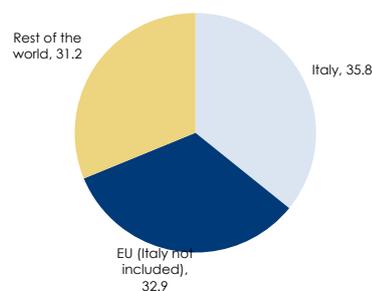
Estimates vs. consensus

EUR M (Y/E Dec)	2021A	2022E	2023E
Sales	457.1	482.4	496.9
EBITDA	23.20	20.28	27.39
EBIT	14.36	11.68	18.80
Pre-tax income	14.16	11.18	18.30
Net income	9.38	6.71	11.89
EPS	0.33	0.24	0.42

Sales Breakdown by Industry (% , latest available)



Sales breakdown by geography (% , FY20)



Source: Company data, Intesa Sanpaolo Research estimates and FactSet consensus data (priced at market close of 17/03/2022)

Our Mid Corporate Definition

Italy is characterised by a large number of non-listed and listed micro, small and medium-sized companies. Looking at the revenues of these Italian companies, around 5,000 companies eligible for listing have revenues below EUR 1,500M based on Intesa Sanpaolo elaborations. We define these companies as 'Mid Corporate'. Looking more specifically at Italian listed companies, we include in our Mid Corporate segment all STAR companies and those with a market capitalisation below EUR 1Bn.

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

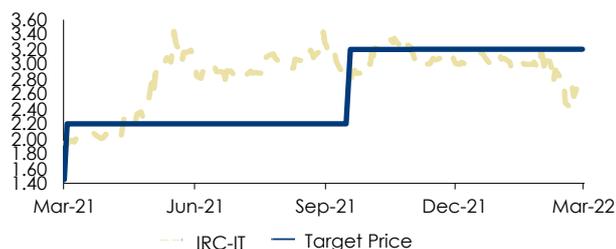
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Equity Rating Key (long-term horizon: 12M)

Long-term rating	Definition
BUY	If the target price is 20% higher than the market price
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
SELL	If the target price is 20% lower than the market price
RATING SUSPENDED	The investment rating and target price for this stock have been suspended as there is not a sufficient fundamental basis for determining an investment rating or target. The previous investment rating and target price, if any, are no longer in effect for this stock.
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TARGET PRICE	The market price that the analyst believes the share may reach within a one-year time horizon
MARKET PRICE	Closing price on the day before the issue date of the report, as indicated on the first page, except where otherwise indicated

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

The 12M rating and target price history chart(s) for the companies currently under our coverage can also be found at Intesa Sanpaolo's website/Research/Regulatory disclosures: <https://group.intesasanpaolo.com/en/research/RegulatoryDisclosures/tp-and-rating-history-12-months->. Note: please also refer to <https://group.intesasanpaolo.com/it/research/equity-credit-research/equity> in applicable cases for the ISP-UBI Equity Ratings Reconciliation Table, the archive of ex-UBI's previously published research reports and 12M historical recommendations.

Target price and market price trend (-1Y)**Historical recommendations and target price trend (-1Y)**

Date	Rating	TP (EUR)	Mkt Price (EUR)
16-Nov-21	HOLD	3.2	3.2
04-Oct-21	ADD	3.2	2.8
19-Mar-21	ADD	2.2	1.93

Equity rating allocations (long-term horizon: 12M)**Intesa Sanpaolo Research Rating Distribution (at January 2022)**

Number of companies considered: 124	BUY	ADD	HOLD	REDUCE	SELL
Total Equity Research Coverage relating to last rating (%)*	48	31	21	0	0
of which Intesa Sanpaolo's Clients (%)**	82	63	54	0	0

* Last rating refers to rating as at end of the previous quarter; ** 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)

Our short-term investment ideas are based on ongoing special market situations, including among others: spreads between share categories; holding companies vs. subsidiaries; stub; control chain reshuffling; stressed capital situations; potential extraordinary deals (including capital increase/delisting/extraordinary dividends); and preys and predators. Investment ideas are presented either in relative terms (e.g. spread ordinary vs. savings; holding vs. subsidiaries) or in absolute terms (e.g. preys).

The companies to which we assign short-term ratings are under regular coverage by our research analysts and, as such, are subject to fundamental analysis and long-term recommendations. The main differences attain to the time horizon considered (monthly vs. yearly) and definitions (short-term 'long/short' vs. long-term 'buy/sell'). Note that the short-term relative recommendations of these investment ideas may differ from our long-term recommendations. We monitor the monthly performance of our short-term investment ideas and follow them until their closure.

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
SHORT	Stock price expected to fall or underperform within three months from the time the rating was assigned due to a specific catalyst or event

Company-specific disclosures

Intesa Sanpaolo S.p.A. and the other companies belonging to the Intesa Sanpaolo Banking Group (hereafter the "Intesa Sanpaolo Banking Group") have adopted written guidelines "Organisational, Management and Control Model" pursuant to Legislative Decree 8 June 2001 no. 231 (available at the Intesa Sanpaolo website, <https://group.intesasanpaolo.com/en/governance/leg-decree-231-2001>) setting forth practices and procedures, in accordance with applicable regulations by the competent Italian authorities and best international practice, including those known as Information Barriers, to restrict the flow of information, namely inside and/or confidential information, to prevent the misuse of such information and to prevent any conflicts of interest arising from the many activities of the Intesa Sanpaolo Banking Group, which may adversely affect the interests of the customer in accordance with current regulations.

In particular, the description of the measures taken to manage interest and conflicts of interest – related to Articles 5 and 6 of the Commission Delegated Regulation (EU) 2016/958 of 9 March 2016 supplementing Regulation (EU) No. 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the technical arrangements for objective presentation of investment recommendations or other information recommending or suggesting an investment strategy and for disclosure of particular interests or indications of conflicts of interest as subsequently amended and supplemented, the FINRA Rule 2241, as well as the Financial Conduct Authority Conduct of Business Sourcebook rules COBS 12.4 - between the Intesa Sanpaolo Banking Group and issuers of financial instruments, and their group companies, and referred to in research products produced by analysts at Intesa Sanpaolo S.p.A. is available in the "Rules for Research" and in the extract of the "Corporate model on the management of inside information and conflicts of interest" published on the website of Intesa Sanpaolo S.p.A.

At the Intesa Sanpaolo website, webpage <https://group.intesasanpaolo.com/en/research/RegulatoryDisclosures/archive-of-intesa-sanpaolo-group-s-conflicts-of-interest> you can find the archive of disclosure of interests or conflicts of interest of the Intesa Sanpaolo Banking Group in compliance with the applicable laws and regulations.

Furthermore, we disclose the following information on the Intesa Sanpaolo Banking Group's conflicts of interest.

- 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
- Intesa Sanpaolo acts as Specialist relative to securities issued by Irce

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