

Company Note

Irce

1H22 Results

Results were still affected by the increase in raw material prices and cost of energy, which should also impact on 2H22, with a new sharp rise in these costs observed by the company starting from July, together with a slowdown in demand. However, the company expects a still positive result for 2022, also thanks to the pass-through of the main cost increases to customers.

1H22 results

Irce's 1H22 revenues were up by 14.5% yoy to EUR 261M, due to the higher copper price (LME quoted in EUR +18.3% vs. 1H21). Winding wires' demand started to slow down, while cable volumes were stable yoy. EBITDA came in at EUR 8.5M vs. EUR 17M in 1H21, with a margin declining from 7.6% to 3.3%. Net profit amounted to EUR 4.2M vs. EUR 6.7M in 1H21. Net debt was EUR 85.3M vs. EUR 64.3M in FY21A, reflecting the growth in net working capital.

Outlook and estimates

Management expects for 2H22 a reduction in demand and margins vs. 1H22, but a still positive result (lower vs. FY21), also thanks to the pass-through of the main costs increases to customers. We cut our forecast for FY22E top line, which now implies EUR 186M revenues in 2H22E; we raise our assumptions on costs, which we now assume should represent over 9% of revenues for FY22E, broadly in line vs. 1H22. We therefore obtain EUR 12.6M EBITDA (-37.7% vs. previously), EUR 4.6M EBIT, EUR 2.9M net income and EUR 73.9M net debt. We also downwards revise our estimates for FY23E to EUR 460.4M revenues, EUR 18.2M EBITDA, EUR 5.9M net profit and EUR 65.4M net debt.

Valuation

Following our estimates' fine-tuning and periodic revision of the equity valuation model parameters, our DCF-based model returns a **target price of EUR 2.2/share**. We therefore confirm our **HOLD rating** on the stock.

4 October 2022: 12:30 CET
Date and time of production

HOLD

Target Price: EUR 2.2
(from EUR 2.9)

Italy/Capital Goods
Results

MTA-STAR

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



Irce - Key Data

Price date (market close)	03/10/2022		
Target price (EUR)	2.2		
Target upside (%)	8.02		
Market price (EUR)	2.07		
Market cap (EUR M)	58.22		
52Wk range (EUR)	3.35/2.07		
Price performance %	1M	3M	12M
Absolute	-8.0	-7.6	-26.6
Rel. to FTSE IT All Sh	-3.5	-5.3	-9.4

Y/E Dec (EUR M)	FY21A	FY22E	FY23E
Revenues	457.1	447.0	460.4
EBITDA	23.20	12.64	18.18
EBIT	14.36	4.63	9.77
Net income	9.38	2.93	5.90
EPS (EUR)	0.33	0.10	0.21
Net debt/-cash	64.29	73.86	65.43
Adj P/E (x)	7.9	19.8	9.9
EV/EBITDA (x)	6.0	10.5	6.8
EV/EBIT (x)	9.7	28.5	12.7
Div ord yield (%)	1.1	3.2	1.0

Source: Company data, FactSet and Intesa Sanpaolo Research estimates

Intesa Sanpaolo Research Dept.

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1H22 Results

The key points of Irce's results were:

- **Revenues were up by 14.5% yoy to EUR 261M**, due to the higher copper price (LME quoted in EUR +18.3% vs. 1H21). Winding wires' demand started to slow down, while cable volumes were stable yoy;
- **EBITDA of EUR 8.5M** vs. EUR 17M in 1H21, with a margin declining from 7.4% to 3.3%, due to the increase in raw materials' and electricity prices, despite the passthrough;

Irce – 2Q/1H22 Costs breakdown

EUR M	2Q21A	2Q22A	yoy %	1H21A	1H22A	yoy %
Raw materials	98.3	112.7	14.7	179.1	212.5	18.6
Services	8.3	11.9	43.0	15.8	24.9	58.0
Labour	8.1	8.1	0.9	15.8	15.9	0.8
Weighting on revenue (%)						
Raw materials	78.9	83.5		78.5	81.4	
Services	6.7	8.8		6.9	9.5	
Labour	6.5	6.0		6.9	6.1	

A: actual; Source: Company data

- **Net profit of EUR 4.2M** vs. EUR 6.7M in 1H21;
- **Net debt was EUR 85.3M** vs. EUR 64.3M in FY21A, reflecting the growth in net working capital.

Irce - 2Q/1H22 results

EUR M	FY21A	2Q21A	2Q22A	yoy %	1H21A	1H22A	yoy %
Revenues	457.1	124.5	134.9	8.3	228.0	261.0	14.5
Revenues w/o metal	92.4	24.5	27.0	10.1	46.8	51.9	10.8
EBITDA	23.2	9.8	3.1	-68.2	17.0	8.5	-49.9
EBITDA margin %	5.1	6.9	4.3		7.4	3.3	
EBIT	14.4	6.8	1.6	-77.1	11.4	4.8	-58.1
EBIT margin %	3.1	4.5	2.6		5.0	1.8	
Net income	9.4	3.3	2.5	-23.3	6.7	4.2	-37.0
Net debt/-cash	64.3	72.8	85.3	17.2	72.8	85.3	17.2

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

Earnings Outlook

Results were still affected by the increase in raw material prices and in the cost of energy, which should impact also on 2H22, with a new sharp rise in these costs observed by the company starting from July.

Overall, for 2H22 management expects a reduction in demand and margins vs. 1H22, but a still positive result in FY22 (albeit lower vs. FY21).

We cut our forecast for the FY22E top line, which implies EUR 186M revenues in 2H22E; we raise our assumptions on service costs, which we now assume should represent over 9% of revenues for FY22E, broadly in line vs. 1H22E. We therefore obtain for FY22E: EUR 12.6M EBITDA (-37.7% vs. previously), EUR 4.6M EBIT, and EUR 2.9M net income. We see net debt at EUR 73.9M at YE22E, incorporating an assumption on net working capital/sales ratio at 38% (vs. 35% previously) and EUR 12M capex.

The scenario presents many uncertainties; thus we lower our FY22E-FY23E estimates

We also consider that the scenario for 2023 is uncertain on both the demand and costs side, thus we reduce our FY23E forecasts as follows:

- -7.3% at top line, also to factor in a possible downwards revision of selling prices, linked to energy prices;
- Given Irce's costs structure, EUR 18.2M EBITDA;
- EUR 5.9M net income;
- We see net debt at EUR 65.4M, assuming a reduction of the weighting of net working capital, and EUR 14M capex.

IRCE – FY22E-23E estimates revision

EUR M	FY22E Old	FY22E New	Chg. %	FY23E Old	FY23E New	vs. FY22E %
Revenues	482.4	447.0	-7.3	496.9	460.4	-7.3
EBITDA	20.3	12.6	-37.7	27.4	18.2	-33.6
EBITDA margin %	4.2	2.8		5.5	3.9	
EBIT	11.7	4.6	-60.3	18.8	9.8	-48.0
EBIT margin %	2.4	1.0		3.8	2.1	
Net income	6.7	2.9	-56.3	11.9	5.9	-50.4
Net debt/-cash	66.5	73.9	11.1	57.9	65.4	13.0

E: estimates; Source: Intesa Sanpaolo Research

Valuation

We value Ircce with a DCF model using a 3% risk-free rate (vs. 1.75% previously) and a 6.5% equity risk premium (vs. 6.25% previously), which points to a 6.3% WACC (vs. 5.6% previously). In our model, we use:

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

Ircce - WACC calculation

%	
Gross Debt Rate	4.0
Tax rate	24
Net Debt Rate	3.0
Beta Levered (x)	0.8
Gearing	32
Beta Re-Levered (x)	0.8
Risk-free rate	3
Equity risk premium	6.5
Cost of equity	7.9
WACC	6.3

Source: Intesa Sanpaolo Research estimates

Ircce - DCF model

EUR M	2022E	2023E	LT
EBIT	4.6	9.8	12.1
Tax	-1.2	-3.2	-3.5
Depreciation	8.0	8.4	
NOPAT	11.4	15.0	8.6
WC	-6.6	8.7	
Capex	-12.0	-14.0	
FCF	-7.2	9.7	8.6
Discounted FCF	-7.2	9.1	7.6
WACC (%)	6.3		
TV growth (%)	0.0		
Sum	2.0		
TV	120.6		
EV	122.6		
Debt 2021A	64.3		
Equity	58.3		
Shares (M)*	26.5		
Target price (EUR/share)	2.2		

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

We obtain a **target price of EUR 2.2/share** (vs. EUR 2.9/share previously) and confirm **our HOLD rating on the stock**.

Ircel – Key Data

Rating HOLD	Target price (EUR/sh) Ord 2.2	Mkt price (EUR/sh) Ord 2.07			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)	54.01	43.79	74.30	58.22	58.22
Adj. EPS	0.07	0.10	0.33	0.10	0.21
CFPS	0.33	0.37	0.65	0.39	0.51
BVPS	4.7	4.4	4.7	4.7	4.9
Dividend ord	0.05	0	0.03	0.07	0.02
Income statement (EUR M)	2019A	2020A	2021A	2022E	2023E
Revenues	311.9	295.3	457.1	447.0	460.4
EBITDA	7.82	10.75	23.20	12.64	18.18
EBIT	0.42	3.20	14.36	4.63	9.77
Pre-tax income	2.72	4.29	14.16	4.13	9.07
Net income	1.94	2.73	9.38	2.93	5.90
Adj. net income	1.94	2.73	9.38	2.93	5.90
Cash flow (EUR M)	2019A	2020A	2021A	2022E	2023E
Net income before minorities	2.0	2.7	9.4	2.9	5.9
Depreciation and provisions	7.4	7.6	8.8	8.0	8.4
Others/Uses of funds	0	0	0	0	0
Change in working capital	17.3	-5.4	-34.3	-6.6	8.7
Operating cash flow	26.7	4.8	-16.1	4.3	23.0
Capital expenditure	-6.1	-2.1	-7.7	-12.0	-14.0
Financial investments	0	0	0	0	0
Acquisitions and disposals	0	0	0	0	0
Free cash flow	20.6	2.7	-23.8	-7.7	9.0
Dividends	-1.3	0	-0.8	-1.9	-0.6
Equity changes & Non-op items	-1.6	3.8	0	0	0
Net cash flow	17.7	6.5	-24.6	-9.6	8.4
Balance sheet (EUR M)	2019A	2020A	2021A	2022E	2023E
Net capital employed	173.5	162.4	196.3	206.9	203.8
of which associates	0	0	0	0	0
Net debt/-cash	42.0	39.7	64.3	73.9	65.4
Minorities	0	0	0	0	0
Net equity	131.5	122.6	132.0	133.0	138.3
Minorities value	0	0	0	0	0
Enterprise value	96.0	83.5	138.6	132.1	123.7
Stock market ratios (x)	2019A	2020A	2021A	2022E	2023E
Adj. P/E	27.8	16.1	7.9	19.8	9.9
P/CFPS	5.8	4.3	4.1	5.3	4.1
P/BVPS	0.41	0.36	0.56	0.44	0.42
Payout (%)	69	0	9	64	10
Dividend yield (% ord)	2.5	0	1.1	3.2	1.0
FCF yield (%)	38.2	6.2	-32.0	-13.2	15.5
EV/sales	0.31	0.28	0.30	0.30	0.27
EV/EBITDA	12.3	7.8	6.0	10.5	6.8
EV/EBIT	NM	26.1	9.7	28.5	12.7
EV/CE	0.55	0.51	0.71	0.64	0.61
D/EBITDA	5.4	3.7	2.8	5.8	3.6
D/EBIT	99.4	12.4	4.5	15.9	6.7
Profitability & financial ratios (%)	2019A	2020A	2021A	2022E	2023E
EBITDA margin	2.5	3.6	5.1	2.8	3.9
EBIT margin	0.1	1.1	3.1	1.0	2.1
Tax rate	27.5	35.7	33.8	29.0	35.0
Net income margin	0.6	0.9	2.1	0.7	1.3
ROCE	0.2	2.0	7.3	2.2	4.8
ROE	1.5	2.1	7.4	2.2	4.3
Interest cover	-0.2	-2.9	72.1	9.3	NM
Debt/equity ratio	32.0	32.4	48.7	55.5	47.3
Growth (%)		2020A	2021A	2022E	2023E
Sales		-5.3	54.8	-2.2	3.0
EBITDA		37.5	NM	-45.5	43.8
EBIT		NM	NM	-67.7	NM
Pre-tax income		57.6	NM	-70.8	NM
Net income		40.4	NM	-68.7	NM
Adj. net income		40.4	NM	-68.7	NM

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)	2.07	Free float (%)	30.7
No. of shares	28.13	Major shr	Aequafin
52Wk range (EUR)	3.35/2.07	(%)	50.0
Reuters	IRC.MI	Bloomberg	IRC IM
Performance (%)	Absolute		Rel. FTSE IT All Sh
-1M	-8.0	-1M	-3.5
-3M	-7.6	-3M	-5.3
-12M	-26.6	-12M	-9.4

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.

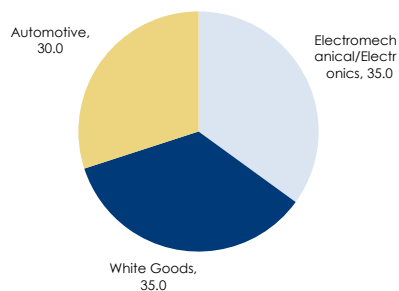
Sector generic risks:

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

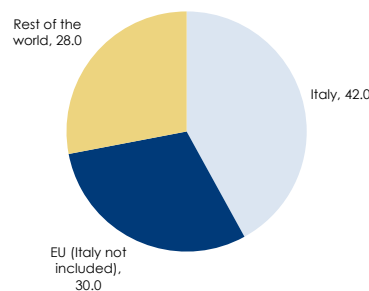
Estimates vs. consensus

EUR M (Y/E Dec)	2021A	2022E	2023E
Sales	457.1	447.0	460.4
EBITDA	23.20	12.64	18.18
EBIT	14.36	4.63	9.77
Pre-tax income	14.16	4.13	9.07
Net income	9.38	2.93	5.90
EPS	0.33	0.10	0.21

Sales Breakdown by Industry (% , latest available)



Sales breakdown by geography (% , 1H22)



Source: Company data, Intesa Sanpaolo Research estimates and FactSet consensus data (priced at market close of 03/10/2022)

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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)

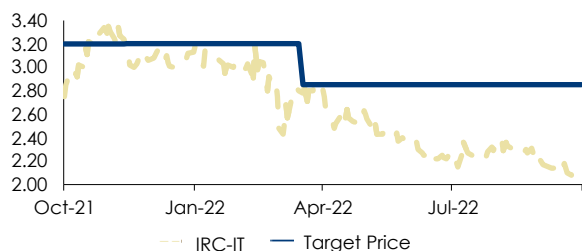
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Equity Rating Key (long-term horizon: 12M)

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)
21-Mar-22	HOLD	2.9	2.8
16-Nov-21	HOLD	3.2	3.2
04-Oct-21	ADD	3.2	2.8

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

Number of companies considered: 127	BUY	ADD	HOLD	REDUCE	SELL
Total Equity Research Coverage relating to last rating (%)*	58	25	17	0	0
of which Intesa Sanpaolo's Clients (%)**	84	44	57	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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