

Company Note

Irce

4Q/FY22 Results

We appreciate that 4Q22 results were better than we expected, albeit in contraction yoy (-5% yoy if looking at revenues without metal), and that margin benefitted from Irce's ability to pass the increase in costs to customers but also from a reversal of the inflationary trend. Our understanding is that 2023 has started with weak demand. Indeed, management stated that volumes are feeble, but a gradual recovery could be expected in the following months.

4Q/FY22 results

The top line decrease shown in FY22 (-0.5% yoy, -23.9% yoy in 4Q22) was mainly attributable to lower volumes in both winding wires and electrical cables (-5% if excluding the component of transformation), only partially counterbalanced by a moderate increase in copper price and higher transformation price applied to customers, which had benefits on margins: 1) EBITDA contracted by 16.5% vs. FY21, outperforming our estimates by 53.3% vs. our expectation of EUR 12.6M; 2) net income was EUR 9.2M vs. EUR 9.4M in FY21A; and 3) net debt was EUR 59.9M at YE22A vs. EUR 64.3M at YE21A and EUR 73.9M in our expectations. The BoD resolved to propose to distribute a EUR 0.06/share dividend (dividend date on 22 May, record date 23 May and payment date 24 May).

Outlook

Management stated that 2023 has started weakly. However, a recovery could be expected in the coming months, coupled with an easing of the inflationary scenario (namely raw materials and energy prices). We revise our FY23E revenues estimate, assuming a decrease in volumes sold yoy. We however now see a 4.9% EBITDA margin (+90bps vs. previously), with a positive double-digit effect on 2023 P/L. We now see EUR 52.3 net debt (-20.1% vs. previously). We introduce our FY24E estimates that reflect a scenario with a slightly improving top line (EUR 436.8M), and assuming a broadly stable weighting of its costs in revenues vs. FY23E, we obtain a EUR 21.2M EBITDA (a 4.9% margin), EUR 13.4M EBIT, and EUR 10.2M net income. Regarding the medium-long term, the group continues its strategy to focus on sectors and products with higher degree of specialisation and with higher growth perspectives.

Valuation

Following the update of our WACC parameters, our DCF-based model returns a **target price of EUR 2.5/share** (vs. EUR 2.1/sh. previously). We **confirm our HOLD rating** on the stock.

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Date and time of production

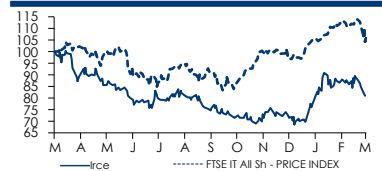
HOLD

Target Price: EUR 2.5
(from EUR 2.1)

Italy/Capital Goods
Results

MTA-STAR

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



Irce - Key Data

Price date (market close)	16/03/2023		
Target price (EUR)	2.5		
Target upside (%)	9.48		
Market price (EUR)	2.28		
Market cap (EUR M)	64.13		
52Wk range (EUR)	2.85/1.95		
Price performance %	1M	3M	12M
Absolute	-8.8	12.3	-19.7
Rel. to FTSE IT All Sh	-2.2	2.9	-24.1

Y/E Dec (EUR M)	FY22A	FY23E	FY24E
Revenues	454.7	414.0	436.8
EBITDA	19.37	20.21	21.23
EBIT	11.55	12.16	13.39
Net income	9.18	8.61	10.21
EPS (EUR)	0.33	0.31	0.36
Net debt/-cash	59.88	52.28	51.50
Adj P/E (x)	7.4	7.4	6.3
EV/EBITDA (x)	6.6	5.8	5.4
EV/EBIT (x)	11.1	9.6	8.6
Div ord yield (%)	2.6	2.8	2.8

Source: Company data, FactSet and Intesa Sanpaolo Research estimates

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4Q/FY22 Results

The key points of results were:

- **Revenues were EUR 454.7M** (-0.5% yoy, +1.7% vs. our expectation). The decrease was mainly attributable to lower volumes and only partially counterbalanced by higher transformation price applied to customers and a moderate increase in copper price throughout the year (average LME copper price in FY22 was +5.8% yoy). Both business areas, winding wires and electrical cables, confirmed the slowdown already seen respectively from 1Q22 and from 3Q22;
- **EBITDA was EUR 19.4M** vs. EUR 23.2M in FY21A (but +53.3% vs. our expectation of EUR 12.6M, thanks to the ability to pass costs to customers), due to strong and continuous growth in the cost of raw materials until 4Q22, when the trend was reverted;

Irce - 4Q/FY22 Costs breakdown

EUR M	4Q21A	4Q22A	chg %	FY21A	FY22A	chg %
Raw materials	94.4	67.0	-29.1	366.3	361.8	-1.2
Services	12.2	9.5	-22.2	36.4	46.6	27.9
Labour	7.9	7.3	-6.7	30.5	30.0	-1.5
Weighting in revenue (%)						
Raw materials	81.4	75.8		80.1	79.6	
Services	10.5	10.8		8.0	10.3	
Labour	6.8	8.3		6.7	6.6	

A: actual; Source: Company data

- **Net income was EUR 9.2M** vs. EUR 9.4M in FY21A;
- **Net debt was EUR 59.9M at YE22A vs. EUR 64.3M at YE21A** and EUR 73.9M in our expectations, mainly thanks to a better management of net working capital (approx. 33% of sales vs. 38% in our estimates);
- **The BoD resolved to propose to distribute a EUR 0.06/sh. dividend** (dividend date on 22 May, record date 23 May and payment date 24 May).

Irce – 4Q/FY22 results

EUR M	4Q21A	4Q22A	yoy %	FY21A	FY22A	FY22E	yoy %	A/E %
Revenues	116.0	88.3	-23.9	457.1	454.7	447.0	-0.5	1.7
Revenues w/o metal	22.7	21.57	-5.0	92.37	96.7	NA	4.7	NA
EBITDA	1.47	7.04	378.9	23.2	19.4	12.6	-16.5	53.3
EBITDA margin %	1.3	8.0		5.1	4.3	2.8		
Net income	0.5	4.21	742.0	9.38	9.2	2.9	NM	NM
Net debt	64.3	59.9	-6.8	64.29	59.9	73.9	-6.8	-18.9

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

Earnings Outlook

Management stated that 2023 has started with a weak demand. A gradual recovery could be expected in the coming months, albeit with low visibility in our view. However, Ircce's result could benefit from an easing of the inflationary scenario (raw materials and energy prices).

We therefore update our FY23E revenues estimate, assuming volumes decreasing yoy. From a margin standpoint, we assume the easing of the inflation (together with stable transformation prices) should lead to a 4.9% EBITDA margin (+90bps vs. previously), with a positive double-digit effect on 2023 P/L. We now see EUR 52.3M net debt (-20.1% vs. previously).

We introduce our FY24E estimates that reflect a scenario with a slightly improving top line (EUR 436.8M), and assuming a broadly stable weighting of its costs on revenues vs. FY23E, we obtain: 1) EUR 21.2M EBITDA (a 4.9% margin); 2) EUR 13.4M EBIT incorporating EUR 7.8M D&A; and 3) EUR 10.2M net income. We see net debt at EUR 51.5M at YE24E.

FY23E: demand is currently weak, but could progressively improve in the coming months

FY24E: slightly improving trend in demand to continue

IRCE – FY23E-24E Estimates

EUR M	FY23E Old	FY23E New	Chg. %	FY24E New	vs. FY23E %
Revenues	460.4	414.0	-10.1	436.8	5.5
EBITDA	18.2	20.2	11.0	21.2	5.1
EBITDA margin %	4.0	4.9		4.9	
EBIT	9.8	12.2	24.1	13.4	10.1
EBIT margin %	2.1	2.9		3.1	
Net income	5.9	8.6	45.9	10.2	18.6
Net debt/-cash	65.4	52.3	-20.1	51.5	-1.5

E: estimates; Source: Intesa Sanpaolo Research

Regarding the medium-long term, the group continues its strategy to focus on sectors and products with higher degree of specialisation and higher growth perspectives.

Valuation

We value Ircce with a DCF model using a 4% risk-free rate (3.5% previously) and a 6.5% equity risk premium, which points to a 7.1% WACC (vs. 6.6% previously). In our model, we use:

- Our explicit 2023E-24E 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	30
Beta Re-Levered (x)	0.8
Risk-free rate	4.0
Equity risk premium	6.5
Cost of equity	8.9
WACC	7.1

Source: Intesa Sanpaolo Research estimates

Ircce – DCF model

EUR M	2023E	2024E	LT
EBIT	12.2	13.4	12.9
Tax	-2.2	-2.6	-3.7
Depreciation	8.0	7.8	
NOPAT	18.1	18.7	9.2
WC	2.3	-5.5	
Capex	-9.6	-10.0	
FCF	10.8	3.2	9.2
Discounted FCF	10.8	3.0	8.0
WACC (%)	7.1		
TV growth (%)	0.0		
Sum	13.8		
TV	112.4		
EV	126.1		
Debt 2022A	59.9		
Equity	66.3		
Shares (M)*	26.5		
Target price (EUR/share)	2.5		

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

We obtain a **target price of EUR 2.5/share** (vs. EUR 2.1/share previously) and **we confirm our HOLD rating on the stock.**

New TP at EUR 2.4/sh.; HOLD rating confirmed

Ircé – Key Data

Rating HOLD	Target price (EUR/sh) Ord 2.5	Mkt price (EUR/sh) Ord 2.28			Sector Capital Goods
Values per share (EUR)	2020A	2021A	2022A	2023E	2024E
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)	43.79	74.30	67.85	64.13	64.13
Adj. EPS	0.10	0.33	0.33	0.31	0.36
BVPS	4.4	4.7	5.1	5.4	5.7
Dividend ord	0	0.03	0.06	0.06	0.06
Income statement (EUR M)	2020A	2021A	2022A	2023E	2024E
Revenues	295.3	457.1	454.7	414.0	436.8
EBITDA	10.75	23.20	19.37	20.21	21.23
EBIT	3.20	14.36	11.55	12.16	13.39
Pre-tax income	4.29	14.16	10.30	10.76	12.76
Net income	2.73	9.38	9.18	8.61	10.21
Adj. net income	2.73	9.38	9.18	8.61	10.21
Cash flow (EUR M)	2020A	2021A	2022A	2023E	2024E
Net income before minorities	2.7	9.4	9.2	8.6	10.2
Depreciation and provisions	7.6	8.8	7.8	8.0	7.8
Others/Uses of funds	0	0	0	0	0
Change in working capital	-5.4	-34.3	1.5	2.3	-5.5
Operating cash flow	4.8	-16.1	18.5	19.0	12.6
Capital expenditure	-2.1	-7.7	-12.8	-9.6	-10.0
Financial investments	0	0	0	0	0
Acquisitions and disposals	0	0	0	0	0
Free cash flow	2.7	-23.8	5.8	9.4	2.6
Dividends	0	-0.8	-1.3	-1.8	-1.8
Equity changes & Non-op items	3.8	0	0	0	0
Net cash flow	6.5	-24.6	4.4	7.6	0.8
Balance sheet (EUR M)	2020A	2021A	2022A	2023E	2024E
Net capital employed	162.4	196.3	204.7	203.9	211.5
of which associates	0	0	0	0	0
Net debt/-cash	39.7	64.3	59.9	52.3	51.5
Minorities	0	0	0	0	0
Net equity	122.6	132.0	144.8	151.6	160.0
Minorities value	0	0	0	0	0
Enterprise value	83.5	138.6	127.7	116.4	115.6
Stock market ratios (x)	2020A	2021A	2022A	2023E	2024E
Adj. P/E	16.1	7.9	7.4	7.4	6.3
P/CFPS	4.3	4.1	4.0	3.9	3.6
P/BVPS	0.36	0.56	0.47	0.42	0.40
Payout (%)	0	9	19	21	17
Dividend yield (% ord)	0	1.1	2.6	2.8	2.8
FCF yield (%)	6.2	-32.0	8.5	14.6	4.0
EV/sales	0.28	0.30	0.28	0.28	0.26
EV/EBITDA	7.8	6.0	6.6	5.8	5.4
EV/EBIT	26.1	9.7	11.1	9.6	8.6
EV/CE	0.51	0.71	0.62	0.57	0.55
D/EBITDA	3.7	2.8	3.1	2.6	2.4
D/EBIT	12.4	4.5	5.2	4.3	3.8
Profitability & financial ratios (%)	2020A	2021A	2022A	2023E	2024E
EBITDA margin	3.6	5.1	4.3	4.9	4.9
EBIT margin	1.1	3.1	2.5	2.9	3.1
Tax rate	35.7	33.8	10.6	20.0	20.0
Net income margin	0.9	2.1	2.0	2.1	2.3
ROCE	2.0	7.3	5.6	6.0	6.3
ROE	2.1	7.4	6.6	5.8	6.6
Interest cover	-2.9	72.1	9.2	NM	NM
Debt/equity ratio	32.4	48.7	41.4	34.5	32.2
Growth (%)		2021A	2022A	2023E	2024E
Sales		54.8	-0.5	-8.9	5.5
EBITDA		NM	-16.5	4.3	5.1
EBIT		NM	-19.6	5.3	10.1
Pre-tax income		NM	-27.3	4.5	18.6
Net income		NM	-2.0	-6.2	18.6
Adj. net income		NM	-2.0	-6.2	18.6

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)	2.28	Free float (%)	30.7
No. of shares	28.13	Major shr	Aequafin
52Wk range (EUR)	2.85/1.95	(%)	50.0
Reuters	IRC.MI	Bloomberg	IRC IM
Performance (%)	Absolute		Rel. FTSE IT All Sh
-1M	-8.8	-1M	-2.2
-3M	12.3	-3M	2.9
-12M	-19.7	-12M	-24.1

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

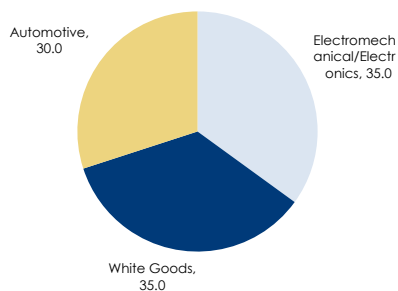
Sector generic risks:

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

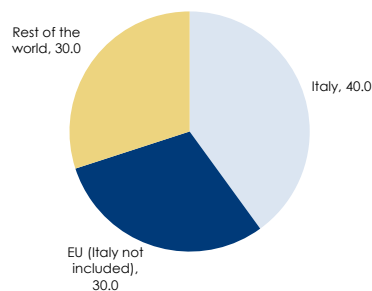
Estimates vs. consensus

EUR M (Y/E Dec)	2022A	2023E	2023C	2024E	2024C	2025E	2025C
Sales	454.7	414.0	NA	436.8	NA	NA	NA
EBITDA	19.37	20.21	NA	21.23	NA	NA	NA
EBIT	11.55	12.16	NA	13.39	NA	NA	NA
Pre-tax income	10.30	10.76	NA	12.76	NA	NA	NA
Net income	9.18	8.61	NA	10.21	NA	NA	NA
EPS	0.33	0.31	NA	0.36	NA	NA	NA

Sales Breakdown by Industry (% 1H22)



Sales breakdown by geography (% 1H22)



Source: Company data, Intesa Sanpaolo Research estimates and FactSet consensus data (priced at market close of 16/03/2023)

Our Mid Corporate Definition

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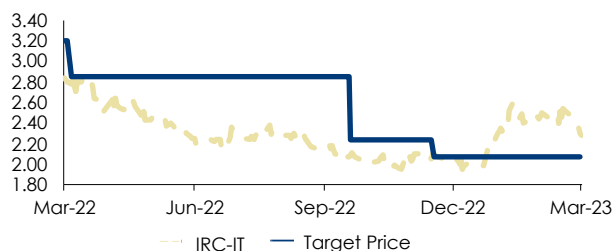
Equity Rating Key (long-term horizon: 12M)

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.
NO RATING	The company is or may be covered by the Research Department but no rating or target price is assigned either voluntarily or to comply with applicable regulations and/or firm policies in certain circumstances.
TENDER SHARES	We advise investors to tender the shares to the offer.
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)
02-Dec-22	HOLD	2.1	2.1
04-Oct-22	HOLD	2.2	2.1
21-Mar-22	HOLD	2.9	2.8

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

Intesa Sanpaolo Research Rating Distribution (at January 2023)

Number of companies considered: 129	BUY	ADD	HOLD	REDUCE	SELL
Total Equity Research Coverage relating to last rating (%)*	66	16	18	0	0
of which Intesa Sanpaolo's Clients (%)**	79	29	52	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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