

Irce

Balanced between Uncertain Demand and Solid Margins

Irce's 2Q/1H revenues confirmed the market demand slowdown in both business areas (-21.6% yoy at the top line in 2Q23), but the EBITDA margin expansion continued thanks to lower production costs and production efficiencies. For now, we broadly confirm our FY23E-24E estimates, embedding a broadly stable 2H yoy, which we see as achievable as a combined result of weak winding wires but a likely recovery in the cable segment.

2Q/1H23: weak volumes, but good margins

Irce posted 1H23 revenues at EUR 219M (-16.1% yoy), reflecting low volumes and a decrease in the copper price. However, we appreciate the EBITDA margin improvement by 210bps to 5.2%, near FY21 levels, thanks to lower production costs and the use of more efficient machinery in which the company has recently invested.

Lights and shadows in 2H23 outlook

On the outlook, management stated that sales volumes are low, and the recovery which was expected in 2H23 is currently uncertain for winding wires (except for the power generation and transmission products market) which represented 81.1% of Irce's business in 1H23, while in the cable sector (18.9% of Irce's turnover) the order backlog suggests a recovery in the coming months. In the medium term, the group continues its strategy of focusing on sectors and products with a higher degree of specialisation and stronger growth perspectives including automotive. In this scenario and assuming no penalisation from copper prices, the company expects a FY result in line with 2022. We fine-tune our FY23E estimates, looking for a EUR 9.1M net income (vs. EUR 9.4M in FY22), reflecting the expected 50bps EBITDA margin improvement (despite a reduction at top line due to lower raw material prices) and higher financing costs. For the same reason, we broadly confirm our bottom-line forecasts for FY24E.

Valuation

Following our estimates update, our DCF-based model returns a target price of EUR 2.2 (vs. EUR 2.5 previously) and confirm our HOLD rating on the stock.

27 September 2023: 11:39 CET  
Date and time of production

HOLD

Target Price: EUR 2.2  
(from EUR 2.5)

Italy/Capital Goods  
Company Results

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



**Irce - Key Data**

Price date (market close)	25/09/2023
Target price (€)	2.2
Target upside (%)	8.25
Market price (€)	2.02
Market cap (EUR M)	56.82
52Wk range (€)	2.60/1.95

Y/E Dec (EUR M)	FY22A	FY23E	FY24E
Revenues	454.7	399.0	436.8
EBITDA	19.37	21.43	22.40
EBIT	11.55	13.61	14.57
Net income	9.18	9.09	10.22
EPS (EUR)	0.33	0.32	0.36
Net debt/-cash	60.38	56.72	61.59
Adj P/E (x)	7.4	6.3	5.6
EV/EBITDA (x)	6.6	5.3	5.3
EV/EBIT (x)	11.1	8.3	8.1
Div ord yield (%)	2.6	3.1	3.1

Source: Company data, FactSet and Intesa Sanpaolo Research estimates

Intesa Sanpaolo Research Dept.

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## 2Q/1H23 Results

The key points of results were:

- **Revenues were EUR 219M** (-16.1% yoy). The decrease was mainly attributable to lower volumes and a decrease in the copper price over the quarter (average LME copper price in 1H23 was -9.7% yoy). Both business areas, winding wires and electrical cables, contracted in the quarter, but volumes in cables improved in 2Q thanks to some orders linked to public investments in infrastructure;
- **EBITDA was EUR 11.4M** vs. EUR 8.5M in 1H22A, with a 190bps margin expansion thanks to lower production costs and the implementation of efficiencies thanks to new investments in more efficient machinery;

### Irce - 2Q/1H23 costs breakdown

EUR M	2Q22A	2Q23A	yoy %	1H22A	1H23A	yoy %
Raw materials	112.7	82.3	-27.0	212.5	172.2	-18.9
Services	11.9	9.9	-17.1	24.9	20.0	-19.7
Labour	8.1	7.9	-2.9	15.9	15.5	-3.0
<b>Weighting on revenue (%)</b>						
Raw materials	83.5	77.8		81.4	78.7	
Services	8.8	9.3		9.5	9.1	
Labour	6.0	7.5		6.1	7.1	

Source: Company data

- **Net income was EUR 4.9M** vs. EUR 4.2M in 1H22A;
- **Net debt was EUR 66.2M at end-June 2023** vs. EUR 60M at YE22A due to an improvement in NWC (mainly higher receivables). Capex was EUR 5.1M, mainly channeled into IRCE S.p.A. and its English subsidiary.

### Irce - 2Q/1H23 results

EUR M	2Q22A	2Q23A	yoy %	1H22A	1H23A	yoy %
Revenues	134.9	105.8	-21.6	261.0	219.0	-16.1
Revenues w/o metal	27.0	25.9	-3.9	51.9	52.3	0.8
EBITDA	3.1	5.9	89.7	8.5	11.4	34.0
EBITDA margin %	2.3	5.6		3.3	5.2	
EBIT	1.6	4.0	155.1	4.8	7.6	59.0
EBIT margin %	1.2	3.8		1.8	3.5	
Net income	2.6	2.4	-8.5	4.2	4.9	17.9
Net debt/-cash	85.3	66.2	-22.4	85.3	66.2	-22.4

A: actual; Source: Company data

## FY23E-24E Estimates

We update our estimates mainly to incorporate an EBITDA margin improvement thanks to lower production costs and efficiencies, as seen in 1H23. By contrast, we see higher financial costs vs. previously, thus we now assume a single-digit improvement in net income for FY23E, while broadly confirming our bottom-line forecasts for FY24E.

We adjust the net financial position assuming a higher net working capital absorption vs. previously, and we now assume a EUR 56.7M net debt at YE23E, increasing to EUR 61.6M at YE24E due to the increase in turnover.

### IRCE – FY23E-25E estimates revision

EUR M	FY22A	FY23E Old	FY23E New	chg %	FY24E Old	FY24E New	chg %
Revenues	457.1	414.0	399.0	-3.6	436.8	436.8	0.0
EBITDA	23.2	20.2	21.4	6.1	21.2	22.4	5.6
EBITDA margin %	5.1	4.9	5.4		4.9	5.1	
EBIT	14.4	12.2	13.6	11.5	13.4	14.6	8.8
EBIT margin %	3.1	2.9	3.4		3.1	3.3	
Net income	9.4	8.6	9.1	5.7	10.2	10.2	0.2
Net debt/-cash	64.3	52.3	56.7	8.5	51.5	61.6	19.6

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

Our current estimates do not incorporate any impact for the construction of a new building in Czech Republic, which should be completed over the next 18 months, given the early valuation stage of the project.

## Valuation

We value Irc with a DCF model using a 4% risk-free rate and a 6.5% equity risk premium, which points to a 7.1% WACC. 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.

### Irc - 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
<b>WACC</b>	<b>7.1</b>

Source: Intesa Sanpaolo Research estimates

### Irc - DCF model

EUR M	2023E	2024E	LT
EBIT	13.6	14.6	12.9
Tax	-2.7	-2.6	-3.7
Depreciation	7.8	7.8	
NOPAT	18.7	19.8	9.2
WC	-1.9	-11.1	
Capex	-9.6	-10.0	
FCF	7.2	-1.3	9.2
Discounted FCF	7.2	-1.2	8.0
WACC (%)	7.1		
TV growth (%)	0.0		
Sum	6.0		
TV	112.4		
EV	118.4		
Debt 2022A	60.4		
Equity	58.0		
Shares (M)*	26.5		
<b>Target price (EUR/share)</b>	<b>2.2</b>		

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

We obtain a **target price of EUR 2.2** (vs. EUR 2.5 previously) and **we confirm our HOLD rating on the stock.**

**New TP at EUR 2.2; HOLD rating confirmed**

## Valuation and Key Risks

### Valuation basis

Our EUR 2.2/sh. target price is derived with a DCF model, using a 7.1%WACC (RFR at 4%; Risk premium at 6.5%), a 0% terminal growth rate, a gearing of 30%. LT EBIT is calculated by assuming that capex equals depreciation.

### 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

## Company Snapshot

### Company Description

Irce s.p.a. 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.

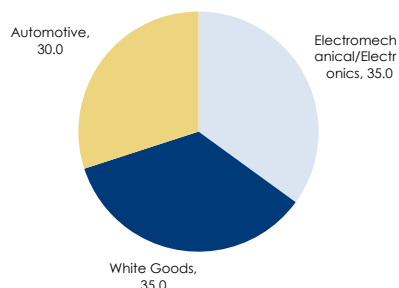
### Key data

Mkt price (€)	2.02	Free float (%)	30.7
No. of shares	28.13	Major shr	Aequafin
52Wk range (€)	2.60/1.95	(%)	50.0
Reuters	IRC.MI	Bloomberg	IRC IM
<b>Performance (%)</b>	<b>Absolute</b>		<b>Rel. FTSE IT All Sh</b>
-1M	-11.8	-1M	-12.0
-3M	-1.5	-3M	-4.6
-12M	-3.8	-12M	-27.2

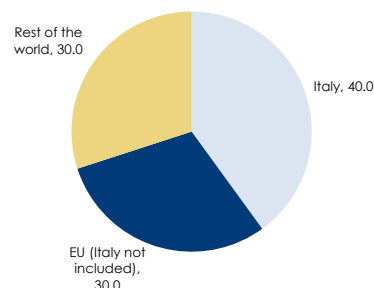
### Estimates vs. consensus

EUR M (Y/E Dec)	2022A	2023E	2023C	2024E	2024C	2025E	2025C
Sales	454.7	399.0	NA	436.8	NA	NA	NA
EBITDA	19.37	21.43	NA	22.40	NA	NA	NA
EBIT	11.55	13.61	NA	14.57	NA	NA	NA
Pre-tax income	10.30	11.81	NA	12.77	NA	NA	NA
Net income	9.18	9.09	NA	10.22	NA	NA	NA
Adj. EPS	0.33	0.32	NA	0.36	NA	NA	NA

### Sales Breakdown by Industry (% , latest available)



### Sales breakdown by geography (% , 1H23)



Source: Company data, Intesa Sanpaolo Research estimates and FactSet consensus data (priced at market close of 25/09/2023)

## Irce – Key Data

Rating HOLD	Target price (€/sh) Ord 2.2	Mkt price (€/sh) Ord 2.02			Sector Capital Goods
<b>Values per share (EUR)</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>
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	56.82	56.82
Adj. EPS	0.10	0.33	0.33	0.32	0.36
BVPS	4.4	4.7	5.1	5.4	5.7
Dividend ord	0	0.03	0.06	0.06	0.06
<b>Income statement (EUR M)</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>
Revenues	295.3	457.1	454.7	399.0	436.8
EBITDA	10.75	23.20	19.37	21.43	22.40
EBIT	3.20	14.36	11.55	13.61	14.57
Pre-tax income	4.29	14.16	10.30	11.81	12.77
Net income	2.73	9.38	9.18	9.09	10.22
Adj. net income	2.73	9.38	9.18	9.09	10.22
<b>Cash flow (EUR M)</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>
Net income before minorities	2.7	9.4	9.2	9.1	10.2
Depreciation and provisions	7.6	8.8	7.8	7.8	7.8
Others/Uses of funds	0	0	0	0	0
Change in working capital	-5.4	-34.3	1.5	-1.9	-11.1
Operating cash flow	4.8	-16.1	18.5	15.0	6.9
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	5.4	-3.1
Dividends	0	-0.8	-1.3	-1.8	-1.8
Equity changes & Non-op items	3.8	0	-0.5	0	0
Net change in cash	6.5	-24.6	3.9	3.7	-4.9
<b>Balance sheet (EUR M)</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>
Net capital employed	162.4	196.3	205.2	208.8	222.1
of which associates	0	0	0	0	0
Net debt/-cash	39.7	64.3	60.4	56.7	61.6
Minorities	0	0	0	0	0
Net equity	122.6	132.0	144.8	152.1	160.5
Minorities value	0	0	0	0	0
Enterprise value	83.5	138.6	128.2	113.5	118.4
<b>Stock market ratios (x)</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>
Adj. P/E	16.1	7.9	7.4	6.3	5.6
P/CFPS	4.3	4.1	4.0	3.4	3.1
P/BVPS	0.36	0.56	0.47	0.37	0.35
Payout (%)	0	9	19	20	17
Dividend yield (% ord)	0	1.1	2.6	3.1	3.1
FCF yield (%)	6.2	-32.0	8.5	9.6	-5.4
EV/sales	0.28	0.30	0.28	0.28	0.27
EV/EBITDA	7.8	6.0	6.6	5.3	5.3
EV/EBIT	26.1	9.7	11.1	8.3	8.1
EV/CE	0.51	0.71	0.63	0.54	0.53
D/EBITDA	3.7	2.8	3.1	2.6	2.7
D/EBIT	12.4	4.5	5.2	4.2	4.2
<b>Profitability &amp; financial ratios (%)</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>
EBITDA margin	3.6	5.1	4.3	5.4	5.1
EBIT margin	1.1	3.1	2.5	3.4	3.3
Tax rate	35.7	33.8	10.6	23.0	20.0
Net income margin	0.9	2.1	2.0	2.3	2.3
ROCE	2.0	7.3	5.6	6.5	6.6
ROE	2.1	7.4	6.6	6.1	6.5
Interest cover	-2.9	72.1	9.2	NM	NM
Debt/equity ratio	32.4	48.7	41.7	37.3	38.4
<b>Growth (%)</b>		<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>
Sales		54.8	-0.5	-12.2	9.5
EBITDA		NM	-16.5	10.6	4.5
EBIT		NM	-19.6	17.8	7.1
Pre-tax income		NM	-27.3	14.7	8.2
Net income		NM	-2.0	-1.0	12.4
Adj. net income		NM	-2.0	-1.0	12.4

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

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Long-term rating	Definition
BUY	If the target price is 10% higher than the market price.
HOLD	If the target price is in a range 10% below or 10% above the market price.
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TARGET PRICE	The market price that the analyst believes the share may reach within a 12M 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.
Note	Intesa Sanpaolo assigns ratings to stocks on a 12M horizon based on a number of fundamental drivers including, among others, updates to earnings and/or valuation models; short-term price movements alone do not imply a reassessment of the rating by the analyst.

**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->. Intesa Sanpaolo changed its long-term 12M horizon rating key on 3 April 2023; please refer to the ISP Equity Rating Reconciliation Table for further details at the following link: <https://group.intesasanpaolo.com/it/research/equity-credit-research>.

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

Date	Rating	TP (EUR)	Mkt Price (EUR)
17-Mar-23	HOLD	2.5	2.3
02-Dec-22	HOLD	2.1	2.1
04-Oct-22	HOLD	2.2	2.1

**Equity rating allocations (long-term horizon: 12M)****Intesa Sanpaolo Research Rating Distribution (at July 2023)**

Number of companies considered: 126	BUY	HOLD	SELL
Total Equity Research Coverage relating to last rating (%)*	77	23	0
of which Intesa Sanpaolo's Clients (%)**	71	52	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

**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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