

Irce

Positive Surprise on NWC in FY23 and Upside from New Plant

FY23A results showed a solid cash generation thanks to a better-than-expected NWC management. YTD, demand in winding wires is weak, but a recovery is expected towards the end of 1H24. We revise our estimates to factor in revenues growing by +3.5% in FY24E and by 8% in FY25E (including the initial contribution of the new plant, currently under construction).

FY23: decreasing revenues, but slight improvement in 4Q23; NWC lower than expected

Results showed a solid cash generation thanks to better-than-expected NWC management. Revenues were EUR 402.8M (-11.4% yoy, +0.9% vs. our expectations). The decrease was mainly attributable to lower volumes and a moderate decrease in the copper price (average LME copper price in FY23 was -6% yoy). EBITDA was in line with our expectation thanks to efficiencies. Net debt was EUR 25.7M at YE23, strongly improving vs. EUR 59.9M at YE22A and EUR 56.7M in our expectations, mainly thanks to a lower weighting of net working capital (approx. 32% of sales vs. 40% in our estimates) and despite EUR 14.2M capex.

Weak demand YTD, but recovery expected from end-1H24...

On the outlook, the company stated that YTD the demand in winding wires is weak, but a recovery is expected towards the end of 1H24. The cable sector instead benefits from long-term public orders, which should allow a good level of sales.

...and additional revenues from the new plant in Czech Republic from FY25

The set-up of a new plant in Czech Republic was approved last December and should require EUR 45M capex. This additional production capacity is to support the company's strategy to focus on sectors with higher growth potential (e.g. automotive, power generation and transportation).

BUY, EUR 3.0 TP

Our DCF-based model now incorporates our updated WACC parameters (4% risk-free rate vs. 4.5% previously) and our new estimates (including the contribution of the new plant from FY25) and returns a target price of EUR 3.0 (vs. EUR 2.1 previously). We move our rating to BUY, given the c.58% upside.

Irce – Key data

Y/E Dec (EUR M)	2022A	2023A	2024E	2025E
Revenues	454.7	402.8	417.0	450.0
EBITDA	19.37	21.37	22.82	27.22
EBIT	11.55	14.42	15.53	19.49
Net income	9.18	8.23	8.42	12.04
Adj. EPS (EUR)	0.33	0.29	0.30	0.43
Net debt/-cash	60.05	25.65	65.39	72.66
Adj P/E (x)	7.4	7.6	6.3	4.4
EV/EBITDA (x)	6.6	4.1	5.2	4.6
EV/EBIT (x)	11.1	6.1	7.7	6.5
Div ord yield (%)	2.3	2.9	3.3	3.3
FCF Yield (%)	8.5	55.0	-71.0	-10.3

Source: Company data and Intesa Sanpaolo Research estimates. Priced at 19/03/2024

20 March 2024: 12:58 CET
Date and time of production

BUY

(from HOLD)

Target Price: EUR 3.0
(from EUR 2.1)

Italy/Capital Goods
Company Results

EXM-STAR

Irce - Key Data

Price date (market close)	19/03/2024
Target price (€)	3.0
Target upside (%)	58.78
Market price (€)	1.90
Market cap (EUR M)	53.44
52Wk range (€)	2.51/1.78

EPS – DPS changes

(€)	2024E	2025E	2024	2025
	EPS ▼	EPS	chg%	chg%
Curr.	0.299	0.428	-17.60	-
Prev.	0.363	-	-	-
	DPS =	DPS	chg%	chg%
Curr.	0.063	0.063	0	-
Prev.	0.063	-	-	-

Price Perf. (RIC: IRC.MI BB: IRC IM)



Source: FactSet and Intesa Sanpaolo Research estimates

Intesa Sanpaolo Research Dept.

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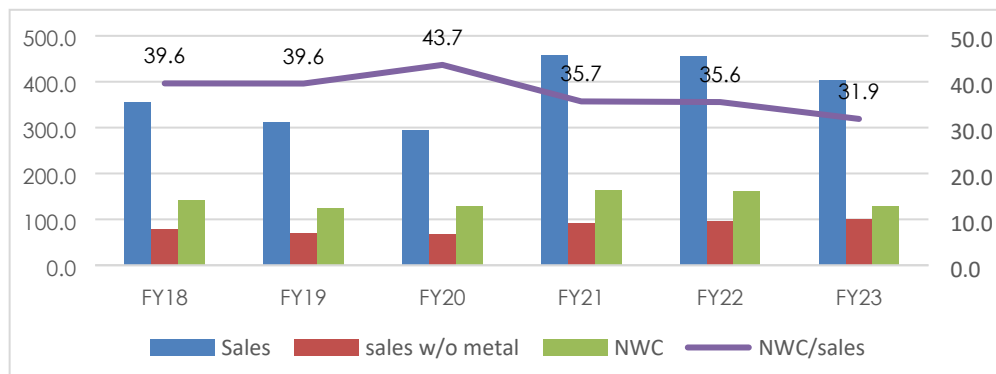
Corporate Broking Research

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4Q/FY23 Results

The key points of results were:

- **Revenues were EUR 402.8M (-11.4% yoy, +0.9% vs. our expectations).** The decrease was mainly attributable to lower volumes and a moderate decrease in the copper price throughout the year (average LME copper price in FY23 was -6% yoy). Both business areas, winding wires and electrical cables, confirmed the slowdown already seen in the past quarters. Starting from 2H23, cables volumes recovered thanks to the acquisition of some major public contracts in the infrastructure sector;
- **EBITDA was EUR 21.4M** vs. EUR 19.4M in FY22A (bang in line with our expectation) thanks to better efficiencies;
- **Net income was EUR 8.2M** vs. EUR 9.2M in FY22A;
- **Net debt was EUR 25.7M at YE23A** sharply improving vs. EUR 60.1M at YE22A and EUR 56.7M in our expectations, mainly thanks to a lower weighting of net working capital (approx. 32% of sales vs. 40% in our estimates) and despite EUR 14.2M capex regarding mainly: i) the parent company (including the photovoltaic plant in Imola); ii) the new production plant in Czech Republic;



- **The BoD proposed to distribute a EUR 0.06/sh. dividend, in line yoy** (dividend date on 20 May, record date 21 May and payment date 22 May).

Irce – 4Q/FY23 results

EUR M	4Q22A	4Q23A	yoy %	FY22A	FY23A	FY23E	FY yoy %	FY A/E %
Revenues	88.3	91.5	3.6	454.7	402.8	399.0	-11.4	0.9
Revenues w/o metal	21.6	23.57	9.3	96.7	99.2	-	2.6	NA
EBITDA	7.0	5.73	-18.6	19.4	21.4	21.4	10.3	-0.3
EBITDA margin %	8.0	6.3		4.3	5.3	5.4		
EBIT	5.4	3.9	-28.5	11.5	14.4	13.6	24.9	6.0
EBIT margin %	6.2	4.3		2.5	3.6	3.4		
Net income	4.21	1.68	-60.1	9.2	8.2	9.1	NM	-9.5
Net debt	59.9	25.7	-57.2	59.9	25.7	56.7	-57.2	-54.8

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

Outlook and Estimates Revision

On the outlook, the company stated that YTD the demand in winding wires is weak, but a recovery is expected towards the end of 1H24. The cable sector instead benefits from long-term public orders, which should support a solid level of sales.

In December 2023, the BoD approved a EUR 45M investment project in the Czech Republic aimed at strengthening the group's position in the European winding conductor market and especially in electric vehicles. This investment involves the construction of a production plant by the end of 2024 (around EUR 25M to be paid by 2024). Production is scheduled to begin in 1Q25 and the progressive purchase of machinery and equipment should be completed by end-2028, according to the company. Irce will finance this project via own cash and existing credit lines. This production expansion capacity is in line with Irce's medium-term strategy to reinforce its positioning thanks to a focus on sectors and products with a higher degree of specialisation and stronger growth prospects, e.g. automotive, power generation and transportation.

We start to factor in the contribution of the new plant. We estimate the first revenues to be generated in FY25E (our assumption: EUR 20M), when the plant should be able to partially operate, after the set-up of the first machines.

Recovery expected in winding wires in 1H24, good sales in cables

New plant in Czech Republic

Irce - FY24E-25E estimates

EUR M	FY23A	FY24E Old	FY24E New	chg %	FY25E	yoy %
Revenues	402.8	436.8	417.0	-4.5	450.0	7.9
EBITDA	21.4	22.4	22.8	1.9	27.2	19.3
EBITDA margin %	5.3	5.1	5.5		6.0	10.5
EBIT	14.4	14.6	15.5	6.3	19.5	25.5
EBIT margin %	3.6	3.3	3.7		4.3	16.3
Net income	8.2	10.2	8.4	-17.4	12.0	43.0
Net debt/-cash	25.7	61.6	65.4	6.2	72.7	11.1

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

Valuation

We value Irce with a DCF model using a 4% risk-free rate (4.5% previously) and a 6.5% equity risk premium, which leads to a 6.9% WACC. In our model, we use:

- Our explicit 2024E-25E estimates;
- For the long term, we assume a 3.6% EBITDA margin (broadly in line with FY23), with a normalised capex/depreciation.

Irce - WACC calculation

%	
Gross Debt Rate	4.0
Tax rate	24.0
Net Debt Rate	3.0
Beta Levered (x)	0.7
Gearing	29.9
Beta Re-Levered (x)	0.7
Risk-free rate	4.0
Equity risk premium	6.5
Cost of equity	8.6
WACC	6.9

Source: Intesa Sanpaolo Research estimates

Irce – DCF model

EUR M	2024E	2025E	LT
EBIT	15.5	19.5	16.2
Tax	-2.1	-4.5	-5.2
Depreciation	7.3	7.7	
NOPAT	20.7	22.8	11.0
WC	-21.7	-15.3	
Capex	-32.0	-10.0	
FCF	-33.0	-2.5	11.0
Discounted FCF	-30.8	-2.2	9.6
WACC (%)	6.9		
TV growth (%)	0.0		
Sum	-33.0		
TV	138.6		
EV	105.6		
Debt 2023A	25.6		
Equity	80.0		
Shares (M)*	26.5		
Target price (EUR/share)	3.0		

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

We obtain a **target price of EUR 3** (vs. EUR 2.1 previously) and **we move our rating on the stock to BUY** (from HOLD).

New TP at EUR 3; BUY rating

Valuation and Key Risks

Valuation basis

Our EUR 3/sh. target price is derived with a DCF model, using a 6.9%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.

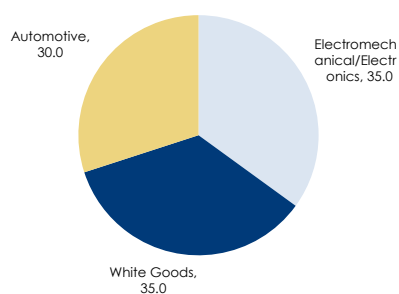
Key data

Mkt price (€)	1.90	Free float (%)	38.1
No. of shares	28.13	Major shr	Aequafin
52Wk range (€)	2.51/1.78	(%)	50.0
Reuters	IRC.MI	Bloomberg	IRC IM
Performance (%)	Absolute		Rel. FTSE IT All Sh
-1M	3.5	-1M	-3.9
-3M	-3.1	-3M	-13.6
-12M	-17.0	-12M	-37.1

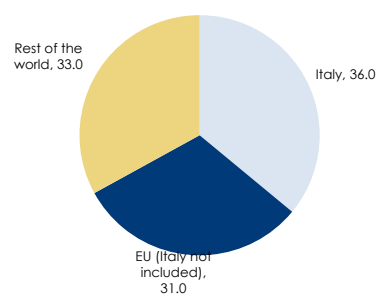
Estimates vs. consensus

EUR M (Y/E Dec)	2023A	2024E	2024C	2025E	2025C	2026E	2026C
Sales	402.8	417.0	NA	450.0	NA	NA	NA
EBITDA	21.37	22.82	NA	27.22	NA	NA	NA
EBIT	14.42	15.53	NA	19.49	NA	NA	NA
Pre-tax income	12.47	10.53	NA	16.49	NA	NA	NA
Net income	8.23	8.42	NA	12.04	NA	NA	NA
Adj. EPS (€)	0.29	0.30	NA	0.43	NA	NA	NA

Sales Breakdown by Industry (% , latest available)



Sales breakdown by geography (% , FY23)



Source: Company data, Intesa Sanpaolo Research estimates and FactSet consensus data (priced at market close of 19/03/2024)

Irce – Key Data

Rating BUY	Target price (€/sh) Ord 3.0	Mkt price (€/sh) Ord 1.90			Sector Capital Goods
Values per share (EUR)	2021A	2022A	2023A	2024E	2025E
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)	74.30	67.85	62.57	53.44	53.44
Adj. EPS	0.33	0.33	0.29	0.30	0.43
BVPS	4.7	5.1	5.5	5.7	6.1
Dividend ord	0.03	0.06	0.06	0.06	0.06
Income statement (EUR M)	2021A	2022A	2023A	2024E	2025E
Revenues	457.1	454.7	402.8	417.0	450.0
EBITDA	23.20	19.37	21.37	22.82	27.22
EBIT	14.36	11.55	14.42	15.53	19.49
Pre-tax income	14.16	10.30	12.47	10.53	16.49
Net income	9.38	9.18	8.23	8.42	12.04
Adj. net income	9.38	9.18	8.23	8.42	12.04
Cash flow (EUR M)	2021A	2022A	2023A	2024E	2025E
Net income before minorities	9.4	9.2	8.2	8.4	12.0
Depreciation and provisions	8.8	7.8	6.9	7.3	7.7
Others/Uses of funds	0	0	0	0	0
Change in working capital	-34.3	1.5	33.3	-21.7	-15.3
Operating cash flow	-16.1	18.5	48.4	-6.0	4.5
Capital expenditure	-7.7	-12.8	-14.0	-32.0	-10.0
Financial investments	0	0	0	0	0
Acquisitions and disposals	0	0	0	0	0
Free cash flow	-23.8	5.8	34.4	-38.0	-5.5
Dividends	-0.8	-1.3	-1.6	-1.8	-1.8
Equity changes & Non-op items	0	-0.6	1.6	0	0
Net change in cash	-24.6	3.9	34.4	-39.7	-7.3
Balance sheet (EUR M)	2021A	2022A	2023A	2024E	2025E
Net capital employed	196.3	205.2	179.0	225.4	242.9
of which associates	0	0	0	0	0
Net debt/-cash	63.9	60.1	25.6	65.4	72.7
Minorities	0	0	0	0	0
Net equity	132.0	144.8	153.3	160.0	170.2
Minorities value	0	0	0	0	0
Enterprise value	138.2	127.9	88.2	118.8	126.1
Stock market ratios (x)	2021A	2022A	2023A	2024E	2025E
Adj. P/E	7.9	7.4	7.6	6.3	4.4
P/CFPS	4.1	4.0	4.1	3.4	2.7
P/BVPS	0.56	0.47	0.41	0.33	0.31
Payout (%)	9	17	22	21	15
Dividend yield (% ord)	1.1	2.3	2.9	3.3	3.3
FCF yield (%)	-32.0	8.5	55.0	-71.0	-10.3
EV/sales	0.30	0.28	0.22	0.28	0.28
EV/EBITDA	6.0	6.6	4.1	5.2	4.6
EV/EBIT	9.6	11.1	6.1	7.7	6.5
EV/CE	0.70	0.62	0.49	0.53	0.52
D/EBITDA	2.8	3.1	1.2	2.9	2.7
D/EBIT	4.5	5.2	1.8	4.2	3.7
Profitability & financial ratios (%)	2021A	2022A	2023A	2024E	2025E
EBITDA margin	5.1	4.3	5.3	5.5	6.0
EBIT margin	3.1	2.5	3.6	3.7	4.3
Tax rate	33.8	10.6	34.0	20.0	27.0
Net income margin	2.1	2.0	2.0	2.0	2.7
ROCE	7.3	5.6	8.1	6.9	8.0
ROE	7.4	6.6	5.5	5.4	7.3
Interest cover	72.1	9.2	NM	NM	NM
Debt/equity ratio	48.4	41.5	16.7	40.9	42.7
Growth (%)		2022A	2023A	2024E	2025E
Sales		-0.5	-11.4	3.5	7.9
EBITDA		-16.5	10.3	6.8	19.3
EBIT		-19.6	24.9	7.6	25.5
Pre-tax income		-27.3	21.1	-15.6	56.7
Net income		-2.0	-10.4	2.3	43.0
Adj. net income		-2.0	-10.4	2.3	43.0

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

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

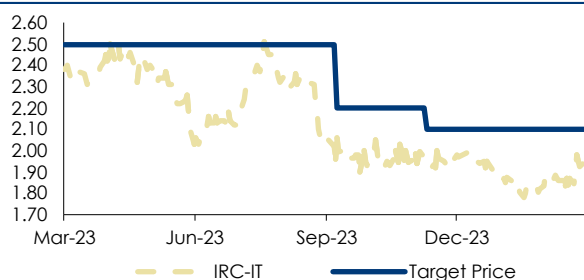
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HOLD	If the target price is in a range 10% below or 10% above the market price.
SELL	If the target price is 10% lower than the market price.
RATING SUSPENDED	The investment rating and target price for this stock have been suspended as there is not a sufficient fundamental basis to determine an investment rating or target price. 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 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>.

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

Date	Rating	TP (EUR)	Mkt Price (EUR)
29-Nov-23	HOLD	2.1	1.93
27-Sep-23	HOLD	2.2	2.1

Equity rating allocations (long-term horizon: 12M)**Intesa Sanpaolo Research Rating Distribution (at January 2024)**

Number of companies considered: 146	BUY	HOLD	SELL
Total Equity Research Coverage relating to last rating (%)*	72	28	0
of which Intesa Sanpaolo's Clients (%)**	69	49	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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