

Irce

Solid Margins in 1Q24 while Awaiting Winding Wires' Recovery

Irce was able to safeguard profitability in 1Q24 despite a decrease in revenues due to lower copper prices. The demand recovery in winding wires is now expected in 2H24, while cables offer better visibility thanks to long-term contracts. Our current estimates include the initial contribution from the new plant in Czech Republic (impact on P&L from FY25), which should support the company's increasing focus on specialised and higher growth sectors and products.

Revenues declined in 1Q24, but profitability held up

Revenues declined by 11.6% yoy, mainly reflecting lower copper prices in the quarter (average LME copper price in 1Q24 was -6.5% yoy), and partly lower volumes (revenues w/o the metal were -3.4% yoy). Both business areas, winding wires (with volumes stable vs. 4Q23) and electrical cables, confirmed the market demand weakness. The EBITDA margin nonetheless showed an improvement of +20bps mainly thanks to lower raw materials' costs. Net debt increased to EUR 40.2M at end-March vs. EUR 25.6M at YE23A on higher net working capital and EUR 5.2M in capex.

Recovery in winding wires expected in 2H24; we confirm our FY24-25E estimates

The company expects a recovery in winding wires' demand in 2H24 (vs. end-1H24 seen previously), while the current order backlog for cables (referring to long-term contracts) is at a "good level," management said. In the medium term, the group plans to continue to focus on sectors and products with a higher degree of specialisation and stronger growth prospects. The new plant in the Czech Republic will start operations towards YE24/beginning FY25 to support this strategy.

EUR 3 TP, BUY rating confirmed

We confirm our FY24-25E estimates, our DCF-based **EUR 3 target price and positive** stance on the stock.

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	7.3	5.1
EV/EBITDA (x)	6.6	4.1	5.6	4.9
EV/EBIT (x)	11.1	6.1	8.2	6.9
Div ord yield (%)	2.3	2.9	2.9	2.9
FCF Yield (%)	8.5	55.0	-61.9	-8.9

Source: Company data and Intesa Sanpaolo Research estimates. Priced at 15/05/2024

16 May 2024: 13:06 CET  
Date and time of production

BUY

Target Price: EUR 3.0

Italy/Capital Goods  
Company Results

EXM-STAR

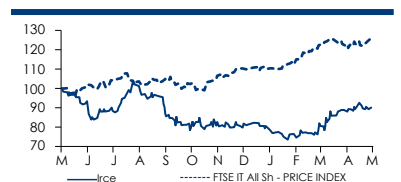
Irce - Key Data

Price date (market close)	15/05/2024
Target price (€)	3.0
Target upside (%)	38.38
Market price (€)	2.18
Market cap (EUR M)	61.32
52Wk range (€)	2.51/1.78

EPS – DPS changes

(€)	2024E	2025E	2024	2025
	EPS =	EPS =	chg%	chg%
Curr.	0.299	0.428	0	0
Prev.	0.299	0.428	-	-
	DPS =	DPS =	chg%	chg%
Curr.	0.063	0.063	0	0
Prev.	0.063	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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## 1Q24 Results and Outlook

The key points of results were:

- **Revenues amounted to EUR 100.1M** (-11.6% yoy). The decline was mainly attributable to a decrease in the copper price over the quarter (average LME copper price in 1Q24 was -6.5% yoy), and partly to lower volumes. Both business areas, winding wires (with volumes stable vs. 4Q23) and electric cables, confirmed the market demand weakness. With reference to electric cables, weak demand in construction and cabling was offset by contracts in infrastructure;
- **EBITDA was EUR 5.1M** vs. EUR 5.5M in 1Q23, with a 20bps margin increase. The weighting of the raw materials' costs on revenues declined to 76% from 79% in 1Q23;

### IRCE – 1Q24 costs' breakdown

EUR M	1Q23	1Q24	yoy %
Raw materials	89.9	76.8	-14.6
Services	10.1	9.8	-3.5
Labour	7.6	8.4	10.8
Weighting on revenue (%)			
Raw materials	79.3	76.4	
Services	8.9	9.7	
Labour	6.7	8.3	

A: actual; Source: Company data

- **Net income was EUR 2.2M** vs. EUR 2.6M in 1Q23, with higher taxes offsetting lower financial charges;
- **Net debt rose to EUR 40.2M at end-March 2024 vs. EUR 25.6M at YE23** on higher net working capital; **EUR 5.2M of capex** was channeled into the new plant in the Czech Republic.

### Irce – 1Q24 results

EUR M	1Q23A	FY23A	1Q24A	yoy %
Revenues	113.2	402.8	100.1	-11.6
Revenues w/o metal	26.4	99.2	25.5	-3.4
EBITDA	5.5	21.4	5.1	-7.1
EBITDA margin %	4.9	5.3	5.1	
EBIT	3.6	14.4	3.6	0.3
EBIT margin %	3.2	3.6	3.6	
Net income	2.6	8.2	2.2	-13.7
Net debt/-cash	59	25.6	40.2	-31.8

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

### Estimates

#### Irce – FY24E-25E estimates

EUR M	FY23A	FY24E	yoy %	FY25E	yoy %
Revenues	402.8	417	3.5	450.0	7.9
EBITDA	21.4	22.8	6.5	27.2	19.3
EBITDA margin %	5.3	5.5		6.0	
EBIT	14.4	15.5	7.6	19.5	25.8
EBIT margin %	3.6	3.7		4.3	
Net income	8.2	8.4	2.4	12	42.9
Net debt/-cash	25.7	65.4	154.5	72.7	11.2

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

## 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.

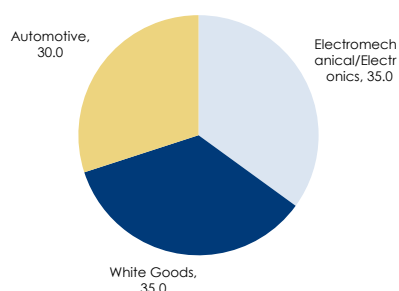
### Key data

Mkt price (€)	2.18	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
<b>Performance (%)</b>	<b>Absolute</b>		<b>Rel. FTSE IT All Sh</b>
-1M	2.3	-1M	-1.7
-3M	20.8	-3M	8.6
-12M	-9.9	-12M	-29.6

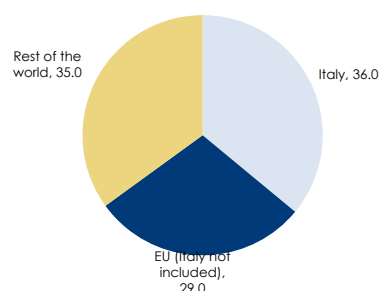
### Estimates vs. consensus

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 (% , 1Q24)



Source: Company data, Intesa Sanpaolo Research estimates and FactSet consensus data (priced at market close of 15/05/2024)

## Irce – Key Data

Rating BUY	Target price (€/sh) Ord 3.0	Mkt price (€/sh) Ord 2.18			Sector Capital Goods
<b>Values per share (EUR)</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</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)	74.30	67.85	62.57	61.32	61.32
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
<b>Income statement (EUR M)</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>
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
<b>Cash flow (EUR M)</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>
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
<b>Balance sheet (EUR M)</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>
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	126.7	134.0
<b>Stock market ratios (x)</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>
Adj. P/E	7.9	7.4	7.6	7.3	5.1
P/CFPS	4.1	4.0	4.1	3.9	3.1
P/BVPS	0.56	0.47	0.41	0.38	0.36
Payout (%)	9	17	22	21	15
Dividend yield (% ord)	1.1	2.3	2.9	2.9	2.9
FCF yield (%)	-32.0	8.5	55.0	-61.9	-8.9
EV/sales	0.30	0.28	0.22	0.30	0.30
EV/EBITDA	6.0	6.6	4.1	5.6	4.9
EV/EBIT	9.6	11.1	6.1	8.2	6.9
EV/CE	0.70	0.62	0.49	0.56	0.55
D/EBITDA	2.8	3.1	1.2	2.9	2.7
D/EBIT	4.5	5.2	1.8	4.2	3.7
<b>Profitability &amp; financial ratios (%)</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>
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
<b>Growth (%)</b>		<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>
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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### 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 of around EUR 1Bn.

### Equity Research Publications in Last 12M

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We obtain a fair value using a number of valuation methodologies including: discounted cash flow method (DCF), dividend discount model (DDM), embedded value methodology, return on allocated capital, break-up value, asset-based valuation method, sum-of-the-parts, and multiples-based models (for example PE, P/BV, PCF, EV/Sales, EV/EBITDA, EV/EBIT, etc.). The financial analysts use the above valuation methods alternatively and/or jointly at their discretion. The assigned target price may differ from the fair value, as it also takes into account overall market/sector conditions, corporate/market events, and corporate specifics (ie, holding discounts) reasonably considered to be possible drivers of the company's share price performance. These factors may also be assessed using the methodologies indicated above.

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

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

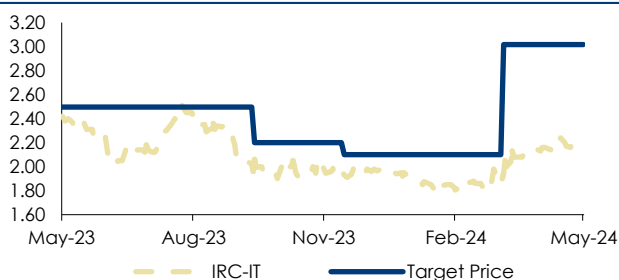
Long-term rating	Definition
BUY	If the target price is 10% higher than the market price.
HOLD	If the target price is in a range 10% below or 10% above the market price.
SELL	If the target price is 10% lower than the market price.
RATING SUSPENDED	The investment rating and target price for this stock 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.
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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)
20-Mar-24	BUY	3.0	1.95
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 April 2024)**

Number of companies considered: 150	BUY	HOLD	SELL
Total Equity Research Coverage relating to last rating (%)*	71	29	1
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\* 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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