

Irce

Solid Margins in 2Q24 while Awaiting Winding Wires' Recovery

Irce confirmed its ability to protect profitability despite 2Q24 revenues were broadly stable (+2.3% yoy in terms of revenues without metal). The demand recovery in winding wires is expected towards end-2024, while cables offer better visibility thanks to long-term contracts. Our current estimates include the initial contribution from the new plant in the Czech Republic (production starting in FY25), but do not yet embed the impact of the Chinese one. Both investments should support Irce's increasing focus on specialised and higher growth sectors and products.

Revenues only slightly increased in 2Q24, but profitability is better

Revenues declined by 4.8% yoy in 1H24 (+2.4% in 2Q), with better copper prices in the semester (average LME copper price in 1H24 was +4.5% yoy), not being able to offset lower volumes (revenues without metal were -0.6% yoy). Both business areas, winding wires (with 2Q volumes stable vs. 4Q23 and 1Q24) and electrical cables, confirmed the market demand weakness. The EBITDA margin nonetheless showed an improvement of 80bps, also thanks to the positive effect of the value of copper on inventories. Net debt increased to EUR 54.4M at end-June vs. EUR 25.6M at YE23A on higher operating net working capital and EUR 15.2M in capex.

Recovery in winding wires expected towards end-FY24; more cautious FY24E estimates

The company shared that they expect a recovery in demand in winding wires towards end-2024, while the current order backlog for cables (referring also to long-term contracts) is at a good level. We revise our FY24E estimates to reflect a more cautious 2H24. In the medium term, the group continues to focus on sectors and products with a higher degree of specialisation and higher growth prospects (i.e. energy transition). The new plant in the Czech Republic would be operating in 1H25, while the construction of the Chinese plant began in July with the target to start production by 2025.

BUY, New EUR 3.1 TP

Our DCF-based model, incorporating our updated WACC parameters (3.75% risk-free rate) and estimates, returns a target price of EUR 3.1 (vs. EUR 3.0 previously). We confirm our BUY rating, given the c.51% upside on the current share price.

Irce – Key data

Y/E Dec (EUR M)	2022A	2023A	2024E	2025E
Revenues	454.7	402.8	391.0	450.0
EBITDA	19.37	21.37	21.45	27.22
EBIT	11.55	14.42	14.43	19.49
Net income	9.18	8.23	7.55	12.04
Adj. EPS (EUR)	0.33	0.29	0.27	0.43
Net debt/-cash	60.05	25.65	57.00	73.63
Adj P/E (x)	7.4	7.6	7.6	4.8
EV/EBITDA (x)	6.6	4.1	5.3	4.8
EV/EBIT (x)	11.1	6.1	7.9	6.7
Div ord yield (%)	2.3	2.6	2.8	2.8
FCF Yield (%)	8.5	55.0	-51.6	-25.7

Source: Company data and Intesa Sanpaolo Research estimates. Priced at 24/09/2024

26 September 2024: 10:21 CET
Date and time of production

BUY

Target Price: EUR 3.1
(from EUR 3.0)

Italy/Capital Goods
Company Results

EXM-STAR

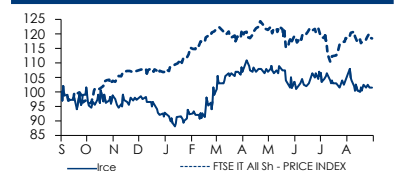
Irce - Key Data

Price date (market close)	24/09/2024
Target price (€)	3.1
Target upside (%)	51.22
Market price (€)	2.05
Market cap (EUR M)	57.66
52Wk range (€)	2.24/1.78

EPS – DPS changes

(€)	2024E	2025E	2024	2025
	EPS ▼	EPS ▲	chg%	chg%
Curr.	0.268	0.428	-10.38	0.03
Prev.	0.299	0.428	-	-
	DPS ▼	DPS ▼	chg%	chg%
Curr.	0.057	0.057	-10.37	-10.37
Prev.	0.063	0.063	-	-

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



Source: FactSet and Intesa Sanpaolo Research estimates

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2Q/1H24 Results

The key points of 1H24 results were:

- **Revenues were EUR 208.4M** (-4.8% yoy). The decrease was mainly attributable to lower volumes only partly offset by an increase in the copper price over the period (average LME copper price in 1H24 was +4.5% yoy). Both business areas, winding wires and electrical cables, contracted, but volumes in cables benefitted from some orders awarded linked to public investments in infrastructure, which offset the weakness of construction and cabling;
- **EBITDA was EUR 12.4M** vs. EUR 11.4M in 1H23, with an 80bps margin expansion, also thanks to the positive effect of the value of copper on inventories;

Irce – 2Q/1H24 Costs breakdown

EUR M	2Q23	2Q24	yoy %	1H23	1H24	yoy %
Raw materials	82.3	82.5	0.2	172.2	159.3	-7.5
Services	9.9	9.7	-1.8	20.0	19.5	-2.4
Labour	7.9	8.5	7.8	15.5	16.9	9.1
Weighting on revenue (%)						
Raw materials	77.8	76.2		78.7	76.4	
Services	9.4	9.0		9.1	9.4	
Labour	7.4	7.8		7.1	8.1	

A: actual; Source: Company data

- **Net income was EUR 4.8M** vs. EUR 4.9M in 1H23A;
- **Net debt came in at EUR 54.4M at end-June 2024** vs. EUR 25.6M at YE23A due to an increase in NWC and capex (EUR 15.2M), mainly related to the new plant in the Czech Republic.

Irce - 2Q/1H24 results

EUR M	FY23A	2Q23A	2Q24A	yoy %	1H23A	1H24A	yoy %
Revenues	402.8	105.8	108.3	2.4	219.0	208.4	-4.8
Revenues w/o metal	99.2	25.9	26.5	2.3	52.3	52.0	-0.6
EBITDA	21.4	5.9	7.3	23.9	11.4	12.4	9.0
EBITDA margin %	5.3	5.6	6.7		5.2	6.0	
EBIT	14.4	4.0	4.8	19.0	7.6	8.4	10.1
EBIT margin %	3.6	3.8	65.2		3.5	67.4	
Net income	8.2	2.3	2.6	10.9	4.9	4.8	-2.0
Net debt/-cash	25.6	66.2	54.4	-17.8	66.2	54.4	-17.8

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

Earnings Outlook

Recent Chinese investment project approval

In June, the BoD approved an investment project in China aimed at expanding production capacity in the winding conductor market and especially in the local production of engines for electric vehicles and energy generation and transport.

This investment involves the construction of a production plant in Hai'an in 2024-28, on a land plot under concession for use for 50 years, automatically renewable upon expiry. The investment should be between EUR 15M and EUR 20M. Production is scheduled to begin in 4Q25 and the progressive purchase of machinery and equipment should be completed by end-2028, according to the company.

Irce will finance the investment via own cash and existing credit lines, while working on dedicated financial backing for the project. No comments were provided on the contribution in terms of revenues; we still appreciate the news, which is in line with Irce's medium-term strategy to reinforce its positioning thanks to the focus on sectors and products with a higher degree of specialisation and stronger growth prospects, including automotive. Our estimates do not incorporate the effect of this project yet.

FY24E-25E estimates

We revise our FY24E estimates to reflect a more cautious 2H24, while for now we confirm our projections for next year that include the first revenues to be generated from the plant in the Czech Republic (our assumption of EUR 20M), after the set-up of the first machines.

Irce - FY24E-25E estimates

EUR M	2H23A	2H24E New	yoy %	FY24E Old	FY24E New	yoy %	FY25E Old	FY25E New	yoy %
Revenues	198.0	182.6	-7.8	417	391.0	-6.2	450	450.0	0.0
EBITDA	11.4	9.0	-20.8	22.8	21.5	-5.9	27.2	27.2	0.0
EBITDA margin %	5.8	5.0		5.5	5.5		6	6.0	
EBIT	7.9	6.1	-23.3	15.5	14.4	-6.9	19.5	19.5	0.0
EBIT margin %	4.0	3.3		3.7	3.7		4.3	4.3	
Net income	3.5	2.7	-21.8	8.4	7.5	-10.2	12	12.0	0.0
Net debt/-cash	65.4	57.0		65.4	57.0	-12.9	72.7	73.8	1.5

E: estimates; Source: Intesa Sanpaolo Research

Valuation

We value Irce with a DCF model using a 3.75% risk-free rate (4% previously) and a 6.5% equity risk premium, which leads to a 6.8% 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	3.75
Equity risk premium	6.5
Cost of equity	8.4
WACC	6.8

Source: Intesa Sanpaolo Research estimates

Irce – DCF model

EUR M	2024E	2025E	LT
EBIT	14.4	19.5	16.2
Tax	-1.9	-4.5	-4.7
Depreciation	7.0	7.7	
NOPAT	19.6	22.8	11.5
WC	-12.3	-24.6	
Capex	-32.0	-10.0	
FCF	-24.8	-11.8	11.5
Discounted FCF	-23.2	-10.4	9.5
WACC (%)	6.8		
TV growth (%)	0.0		
Sum	-33.6		
TV	140.4		
EV	106.8		
Debt 2023A	25.6		
Equity	81.2		
Shares (M)*	26.5		
Target price (EUR/share)	3.1		

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

Valuation and Key Risks

Valuation basis

Our EUR 3.1/sh. target price is derived with a DCF model, using a 6.8% WACC (RFR at 3.75%; 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 SpA is an important multinational company, which engages in the manufacture of wires for electrical machines and insulated cables. It operates through the Winding Wires and Cables business segments. The Winding Wires segment manages the supply of its products for the manufacturers of engines and electric generators, transformers, relay, and electromagnetic valves. The Cables segment provides for the construction, civil and industrial cabling sectors as well as durable consumer goods such as electrical devices. The company was founded in 1947 and is headquartered in Imola, Italy.

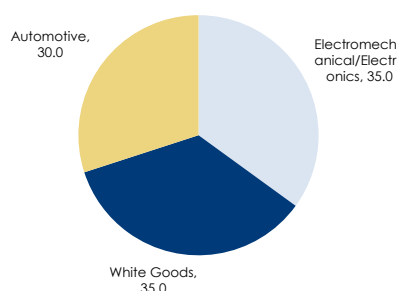
Key data

Mkt price (€)	2.05	Free float (%)	38.1
No. of shares	28.13	Major shr	Aequafin
52Wk range (€)	2.24/1.78	(%)	50.0
Reuters	IRC.MI	Bloomberg	IRC IM
Performance (%)	Absolute		Rel. FTSE IT All Sh
-1M	-1.0	-1M	-1.4
-3M	-1.9	-3M	-1.8
-12M	0.0	-12M	-15.4

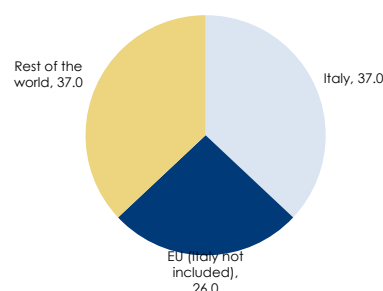
Estimates vs. consensus

EUR M (Y/E Dec)	2023A	2024E	2024C	2025E	2025C	2026E	2026C
Sales	402.8	391.0	NA	450.0	NA	NA	NA
EBITDA	21.37	21.45	NA	27.22	NA	NA	NA
EBIT	14.42	14.43	NA	19.49	NA	NA	NA
Pre-tax income	12.47	9.43	NA	16.49	NA	NA	NA
Net income	8.23	7.55	NA	12.04	NA	NA	NA
Adj. EPS (€)	0.29	0.27	NA	0.43	NA	NA	NA

Sales Breakdown by Industry (% , latest available)



Sales breakdown by geography (% , 1H24)



Source: Company data, Intesa Sanpaolo Research estimates and FactSet consensus data (priced at market close of 24/09/2024)

Irc – Key Data

Rating	Target price (€/sh)	Mkt price (€/sh)			Sector
BUY	Ord 3.1	Ord 2.05			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	57.66	57.66
Adj. EPS	0.33	0.33	0.29	0.27	0.43
BVPS	4.7	5.1	5.5	5.7	6.0
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	391.0	450.0
EBITDA	23.20	19.37	21.37	21.45	27.22
EBIT	14.36	11.55	14.42	14.43	19.49
Pre-tax income	14.16	10.30	12.47	9.43	16.49
Net income	9.38	9.18	8.23	7.55	12.04
Adj. net income	9.38	9.18	8.23	7.55	12.04
Cash flow (EUR M)	2021A	2022A	2023A	2024E	2025E
Net income before minorities	9.4	9.2	8.2	7.5	12.0
Depreciation and provisions	8.8	7.8	6.9	7.0	7.7
Others/Uses of funds	0	0	0	0	0
Change in working capital	-34.3	1.5	33.3	-12.3	-24.6
Operating cash flow	-16.1	18.5	48.4	2.2	-4.8
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	-29.8	-14.8
Dividends	-0.8	-1.3	-1.6	-1.6	-1.8
Equity changes & Non-op items	0	-0.6	1.6	0	0
Net change in cash	-24.6	3.9	34.4	-31.4	-16.6
Balance sheet (EUR M)	2021A	2022A	2023A	2024E	2025E
Net capital employed	196.3	205.2	179.0	216.3	243.2
of which associates	0	0	0	0	0
Net debt/-cash	63.9	60.1	25.6	57.0	73.6
Minorities	0	0	0	0	0
Net equity	132.0	144.8	153.3	159.3	169.5
Minorities value	0	0	0	0	0
Enterprise value	138.2	127.9	88.2	114.7	131.3
Stock market ratios (x)	2021A	2022A	2023A	2024E	2025E
Adj. P/E	7.9	7.4	7.6	7.6	4.8
P/CFPS	4.1	4.0	4.1	4.0	2.9
P/BVPS	0.56	0.47	0.41	0.36	0.34
Payout (%)	9	17	19	21	13
Dividend yield (% ord)	1.1	2.3	2.6	2.8	2.8
FCF yield (%)	-32.0	8.5	55.0	-51.6	-25.7
EV/sales	0.30	0.28	0.22	0.29	0.29
EV/EBITDA	6.0	6.6	4.1	5.3	4.8
EV/EBIT	9.6	11.1	6.1	7.9	6.7
EV/CE	0.70	0.62	0.49	0.53	0.54
D/EBITDA	2.8	3.1	1.2	2.7	2.7
D/EBIT	4.5	5.2	1.8	3.9	3.8
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	1.9	2.7
ROCE	7.3	5.6	8.1	6.7	8.0
ROE	7.4	6.6	5.5	4.8	7.3
Interest cover	72.1	9.2	NM	NM	NM
Debt/equity ratio	48.4	41.5	16.7	35.8	43.4
Growth (%)		2022A	2023A	2024E	2025E
Sales		-0.5	-11.4	-2.9	15.1
EBITDA		-16.5	10.3	0.4	26.9
EBIT		-19.6	24.9	0.1	35.1
Pre-tax income		-27.3	21.1	-24.3	74.9
Net income		-2.0	-10.4	-8.3	59.6
Adj. net income		-2.0	-10.4	-8.3	59.6

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

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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)

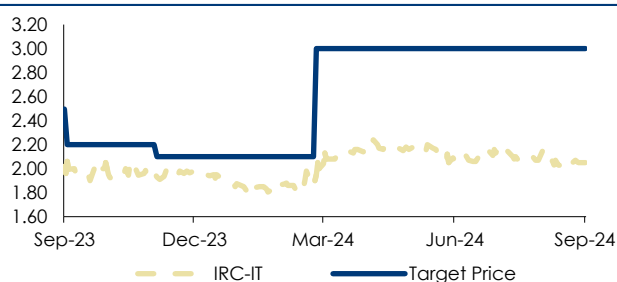
In its recommendations, Intesa Sanpaolo SpA uses an "absolute" rating system, whose key is reported below:

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.
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>.

Irc:**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 July 2024)**

Number of companies considered: 158	BUY	HOLD	SELL
Total Equity Research Coverage relating to last rating (%)*	67	33	0
of which Intesa Sanpaolo's Clients (%)**	67	48	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. The conflicts of interest published on the internet site are updated to at least the day before the publishing date of this report.

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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