

AQUAFIL

Sector: Industrials

OUTPERFORM

Price: Eu3.69 - Target: Eu5.80

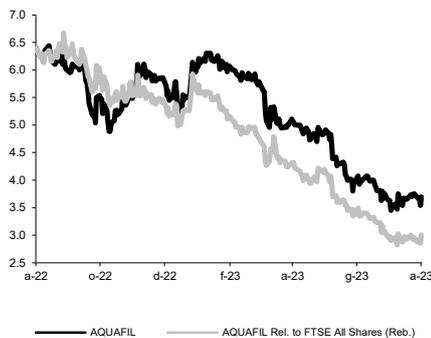
Deterioration of Trends in 2Q, Reality Check on Estimates Needed

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Stock Rating

Rating:	Unchanged		
Target Price (Eu):	from 8.70 to 5.80		
	2023E	2024E	2025E
Chg in Adj EPS	nm.	-69.2%	-37.6%

AQUAFIL - 12M Performance



Stock Data

 Reuters code: ECNL.MI
 Bloomberg code: ECNL IM

Performance	1M	3M	12M
Absolute	1.7%	-23.9%	-42.3%
Relative	1.1%	-30.1%	-65.6%
12M (H/L)		6.44/3.45	
3M Average Volume (th):		41.40	

Shareholder Data

No. of Ord shares (mn):	51
Total no. of shares (mn):	51
Mkt Cap Ord (Eu mn):	189
Total Mkt Cap (Eu mn):	189
Mkt Float - Ord (Eu mn):	79
Mkt Float (in %):	42.0%
Main Shareholder:	
Aquaфин Holding	58.0%

Balance Sheet Data

Book Value (Eu mn):	159
BVPS (Eu):	3.09
P/BV:	1.2
Net Financial Position (Eu mn):	-230
Enterprise Value (Eu mn):	424

■ **Preliminary results: a deterioration of trends in 2Q.** The company unexpectedly reported some preliminary data for 2Q23 that highlighted a marked slowdown in the top line vs 1Q. Indeed, the company closed 2Q with net revenues at Eu144.3mn, down 19.8% YoY, after 1Q dropped 2.5%. The change was attributable to a reduction of volumes sold, down 11.9% YoY (the combined effect of a slowdown in end-market consumption and inventory reduction by customers in the EMEA region), and to a drop in selling prices as a result of their alignment to the lower prices of raw materials, as well as to alignment with other cost factors, mainly energy and transport. By geography, the USA and APAC continued to prove much more resilient, as in previous quarters, while Europe is still the weak spot. Finally, net debt was Eu250.7mn as at the end of June and thus at substantially the same level as at end-March despite the payment of Eu12mn in dividends.

■ **2Q preview: we expect profitability to take a hit.** Based on the preliminary top line indications provided, we believe estimate profitability trends will deteriorate as well: it should be borne in mind that lower volumes mean lower operating leverage, and that the unit price of raw materials in company warehouses is still high, as the supply chain disruption last year nudged the company into precautionary purchasing of materials (especially caprolactam) at a time when the price was much higher than now. We thus expect adj. EBITDA to come in at Eu11.7mn, a 8.1% margin, practically halving from the same period last year (a record 14.8% margin at that time). Down the line, we expect flat D&A YoY and higher financial charges, yielding a Eu4mn loss.

■ **Reality check on estimates** We believe that expectations for 2Q and the lack of visibility on short-term trends call for a reality check on our/consensus estimates. We now estimate 2023 revenues will decline -13.7% YoY (from +2.1% previously), as while volumes trend should improve in 2H (management indicated BCF demand improved in EMEA during the summer, and most inventory reductions likely complete by now), in part thanks to an easier comparison base, pressure on selling prices is likely to continue as raw materials remain at a low level compared to last year (comparison expected to be particularly penalizing on 2H, as selling prices peaked in 2H22). Regarding profitability, we expect margins to fall in 2H too (-1pp YoY), but much less markedly than in 2Q as the unit price of the raw material will gradually drop as the average price in the warehouse decreases. We expect a less significant impact on debt, as the negative effect that the drop in raw materials has on margins instead reflects positively on working capital. Overall, we are cutting our adj. EBITDA estimates by 20% on average for the next 3 years.

■ **Outperform, TP Eu5.8 form Eu8.7.** After the hefty underperformance registered vs the FTSE All-Share index (-65.6% relative in the last 12 months), we believe that the stock already incorporated a much worse scenario than consensus estimates. While short term pressure is likely to continue given the stretched financial position and the limited visibility, we believe that as soon as the scenario stabilizes the company has all the necessary qualities for resuming its path towards growth and sustainability, and the interruption caused by external factors will prove to have been merely temporary.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	574	697	598	617	635
EBITDA Adj (Eu mn)	72	92	64	74	88
Net Profit Adj (Eu mn)	15	34	0	8	18
EPS New Adj (Eu)	0.287	0.670	-0.002	0.148	0.343
EPS Old Adj (Eu)	0.287	0.670	0.329	0.480	0.550
DPS (Eu)	0.120	0.240	0.000	0.030	0.128
EV/EBITDA Adj	7.2	6.2	6.6	5.5	4.4
EV/EBIT Adj	19.1	12.9	32.5	17.7	10.8
P/E Adj	12.9	5.5	nm	25.0	10.8
Div. Yield	3.2%	6.5%	0.0%	0.8%	3.5%
Net Debt/EBITDA Adj	2.5	2.7	3.6	2.9	2.3