AQUAFIL

OUTPERFORM

Sector: Industrials

Price: Eu3.25 - **Target: Eu4.40**

Sequential Improvement Welcomed, but More Needed from 2Q

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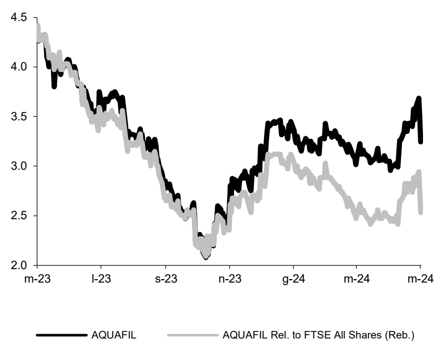
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			Unchanged
	2024E	**2025E**	**2026E**
Chg in Adj EPS	0.0%	0.0%	0.0%

AQUAFIL - 12M Performance



Stock Data			
Reuters code:			ECNL.MI
Bloomberg code:			ECNL IM
Performance	**1M**	**3M**	**12M**
Absolute	6.4%	-3.6%	-26.5%
Relative	2.3%	-14.8%	-54.4%
12M (H/L)			4.33/2.08
3M Average Volume (th):			72.24

Shareholder Data	
No. of Ord shares (mn):	51
Total no. of shares (mn):	51
Mkt Cap Ord (Eu mn):	166
Total Mkt Cap (Eu mn):	166
Mkt Float - Ord (Eu mn):	70
Mkt Float (in %):	42.0%
Main Shareholder:	
Aquafin Holding	58.0%

Balance Sheet Data	
Book Value (Eu mn):	127
BVPS (Eu):	2.48
P/BV:	1.3
Net Financial Position (Eu mn):	-230
Enterprise Value (Eu mn):	400

- **1Q results in line with estimates.** The company reported 1Q24 results aligned to our estimates, producing results that, although still below last year, are starting to show signs of improvement QoQ. Turnover came to Eu154.3mn, down 12% YoY; the result is fruit of a clear improvement of volumes (+13.8% YoY) and a price/mix effect that remains negative due to: 1) lower selling prices due to indexation to falling raw material prices (a trend that has inverted in the last months); and 2) the higher incidence of polymer sales vs 1Q23. This also penalized profitability, with adj. EBITDA at Eu15.2mn (vs the estimate of Eu14.7mn) with a 10.2% margin, down 2.7pp YoY, but improving 6pp on the low in 3Q23 and improving 2.2pp on the preceding quarter. The lower YoY operating results coupled to increasing financial charges took the bottom line into the red by Eu3.1mn (in line with our estimate) vs a Eu3.3mn income last year. Finally, net debt as at the end of March was Eu250mn, substantially stable compared to the end of 2023 and in line with our estimates.
- **Positive signs from EMEA and Asia, while USA raises some concerns.** Among the positives in the release we underline EMEA volume trends, increasing by 25.3% YoY in 1Q on the back of a market recovery in the BCF segment and growth at Polymers and Engineering plastics, while NTF continues to suffer weak momentum. Positive signals also came from Asia, where volumes increased by 11.2%, while the negative news from the release is volumes down -5.6% in the North American area, where both BCF and NTF suffered from weak market demand, a trend that management expects to improve in the second part of the year. Finally, in 1Q Econyl accounted for 52.1% of revenues from fibre sales, improving on 46.9% last year; we note that the target is 60% by '25.
- **Estimates remain aligned to low end of guidance range.** We confirm our estimates for 2024 and 2025, which are towards the low end of the guidance range provided by the company in November (2024 Adj EBITDA at Eu76mn vs Eu76mn-Eu82mn guidance). The rise in EBITDA expected in 2024 is attributable to recovery of volumes, but most of all to the stock effect and efficiencies, while in 2025 we see a greater effect from a recovery of volumes, which would nevertheless still be below the levels achieved in 2021. Ultimately, we see net debt/EBITDA declining to 3.0x in 2024 and 2.3x in 2025. At this stage, our numbers seem feasible, but visibility remains rather low. A material YoY improvement in adj. EBITDA starting from 2Q is necessary to achieve the company's targets.
- **OUTPERFORM confirmed; target kept at Eu4.4.** We confirm our view on the stock, as we think that the company is adopting the necessary measures to recover the ground lost during 2023. We believe that the market's focus in the coming months will be above all on improving net debt; to achieve this, in addition to improving operating results, careful management of working capital and CapEx will be necessary. If the company is able to deliver on this point, we believe there will be room for the stock to recover after its weak twelve-month performance. Our valuation, the result of a DCF model and a peer comparison, yields a target price of Eu4.40, unchanged vs the previous report.

Key Figures & Ratios	2022A	2023A	2024E	2025E	2026E
Sales (Eu mn)	697	581	598	633	652
EBITDA Adj (Eu mn)	92	48	76	86	92
Net Profit Adj (Eu mn)	34	-18	6	14	18
EPS New Adj (Eu)	0.670	-0.354	0.121	0.270	0.347
EPS Old Adj (Eu)	0.670	-0.354	0.121	0.270	0.347
DPS (Eu)	0.240	0.000	0.000	0.091	0.130
EV/EBITDA Adj	6.2	9.7	5.3	4.2	3.7
EV/EBIT Adj	12.9	nm	15.1	10.0	8.1
P/E Adj	4.8	nm	26.8	12.0	9.4
Div. Yield	7.4%	0.0%	0.0%	2.8%	4.0%
Net Debt/EBITDA Adj	2.7	5.2	3.0	2.3	1.8

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The main methods used to evaluate financial instruments and set a target price for 12 months after the investment recommendation are as follows:

- Discounted cash flow (DCF) model or similar methods such as a dividend discount model (DDM)
- Comparison with market peers, using the most appropriate methods for the individual company analysed: among the main ratios used for industrial sectors are price/ earnings (P/E), EV/EBITDA, EV/EBIT, price /sales.
- Return on capital and multiples of adjusted net book value are the main methods used for banking sector stocks, while for insurance sector stocks return on allocated capital and multiples on net book value and embedded portfolio value are used
- For the utilities sector comparisons are made between expected returns and the return on the regulatory asset base (RAB)

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Frequency of research: quarterly.
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A draft copy of each report may be sent to the subject company for its information (without target price and/or recommendations), but unless expressly stated in the text of the report, no changes are made before it is published.
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BUY: stock expected to outperform the market by over 25% over a 12 month period;
OUTPERFORM: stock expected to outperform the market by between 10% and 25% over a 12 month period;
NEUTRAL: stock performance expected at between +10% and – 10% compared to the market over a 12 month period;
UNDERPERFORM: stock expected to underperform the market by between –10% and -25% over a 12 month period;
SELL: stock expected to underperform the market by over 25% over a 12 month period.
Prices: The prices reported in the research refer to the price at the close of the previous day of trading

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OUTPERFORM:	46.22 %
NEUTRAL:	27.73 %
UNDERPERFORM	00.84 %
SELL:	00.00 %

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OUTPERFORM:	51.02 %
NEUTRAL:	10.20 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short

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