Intermonte

Milan, 29 September 2023

Italian Equity Research – 2Q23 Results

AQUAFIL

OUTPERFORM

Sector: Industrials

Price: Eu2.58 - **Target: Eu5.80**

Estimates Confirmed in Volatile Environment

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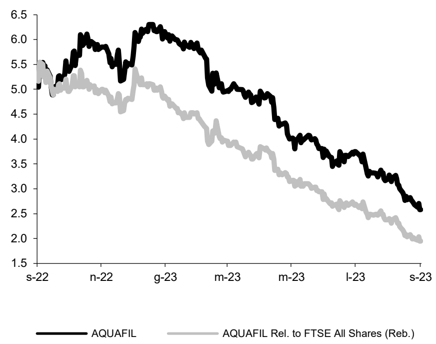
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			Unchanged
	2023E	**2024E**	**2025E**
Chg in Adj EPS	0.0%	0.0%	0.0%

AQUAFIL - 12M Performance



Stock Data			
Reuters code:			ECNL.MI
Bloomberg code:			ECNL IM
Performance	**1M**	**3M**	**12M**
Absolute	-19.4%	-32.0%	-50.9%
Relative	-17.6%	-33.0%	-83.3%
12M (H/L)			6.30/2.58
3M Average Volume (th):			64.36

Shareholder Data	
No. of Ord shares (mn):	51
Total no. of shares (mn):	51
Mkt Cap Ord (Eu mn):	132
Total Mkt Cap (Eu mn):	132
Mkt Float - Ord (Eu mn):	56
Mkt Float (in %):	42.0%
Main Shareholder:	
Aquafin Holding	58.0%

Balance Sheet Data	
Book Value (Eu mn):	159
BVPS (Eu):	3.09
P/BV:	0.8
Net Financial Position (Eu mn):	-230
Enterprise Value (Eu mn):	366

- **Econyl close to 50% of fibres turnover:** as expected, Aquafil reported soft 2Q results, with revenues down -19.8% YoY to Eu144.3mn (in line with the preliminary figure). There was a c.12% negative impact from volumes, and the remaining 8% was due to unfavourable price/mix. Geographically, EMEA saw the largest fall (-28% YoY), while North America (-8.6%) and Asia/Oceania (-8.5%) were less pronounced. By product, BCF (carpet fibre) decreased 15.9% YoY, NTF (fibre for clothing) fell 26%, and polymers dropped by 33.7%. Econyl brand revenues accounted for 48.8% of fibre turnover, proving more resilient and approaching the 50% threshold.
- **Profitability dented by high raw material unit costs.** Adj. EBITDA stood at Eu9.8mn (-63.5% YoY) with the margin at 6.8%, halving YoY (14.6% in 2Q22), and below our estimate of Eu11.7mn (margin at 8.1%). Of the Eu20mn EBITDA reduction witnessed in 1H, Eu7mn related to lower volumes, with the remaining Eu13mn attributable to high raw material unit costs, as supply chain hiccups last year prompted Aquafil to build up an inventory buffer at a time when the price was far higher than is now the case. Down the line, the net loss came in at Eu7.4mn, vs. our estimate of Eu-3.8mn. Finally, net debt stood at Eu251mn, in line with the preliminary figure, bringing net debt/ LTM EBITDA to 3.48x as at end-June.
- **Mixed outlook:** the company outlook highlights that in 2H demand is expected to remain stable in Asia and North America. In EMEA demand remains pretty weak in the NTF sector, while early signs of a recovery in volumes for carpet fibre and polymers are expected. The company confirmed that the targets in the engineering plastics project will be achieved by the end of the year.
- **Estimates confirmed.** As things stand, we are confirming the numbers we last updated in August. We estimate 2023 revenues will decline -13.7% YoY, as while volumes trends should improve in 2H, partly 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 (even if the caprolactam price has recently started to rise, following the increase in oil prices). Looking at profitability, in 2H we expect adj. EBITDA of Eu33mn, down Eu8mn from last year's figure. As for debt, we envisage net debt of Eu230mn at the end of the year, implying a 3.6x net debt/EBITDA ratio, close to the 3.75x covenant on the main financing facilities.
- **OUTPERFORM; target Eu5.8.** While short term pressure seems likely to continue given the stretched financial position and limited visibility, we believe that as soon as the scenario stabilises the company has all the necessary qualities to resume its path towards growth, with the interruption caused by external factors proving to be a mere blip. On a positive note, we highlight that Econyl is proving its superior resilience in a negative scenario and the target for 60% of fibres revenues to come from Econyl by 2025 seems within reach.

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	-0.002	0.148	0.343
DPS (Eu)	0.120	0.240	0.000	0.030	0.128
EV/EBITDA Adj	7.2	6.2	5.7	4.8	3.8
EV/EBIT Adj	19.1	12.9	28.1	15.2	9.2
P/E Adj	9.0	3.8	nm	17.4	7.5
Div. Yield	4.7%	9.3%	0.0%	1.2%	5.0%
Net Debt/EBITDA Adj	2.5	2.7	3.6	2.9	2.3

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