Intermonte

Milan, 12 February 2025

Italian Equity Research – New Coverage

CAREL INDUSTRIES

NEUTRAL

Sector: Industrials

Price: Eu22.40 - **Target: Eu20.00**

A Leader in HVAC/R with Solid LT Growth despite Low ST Visibility

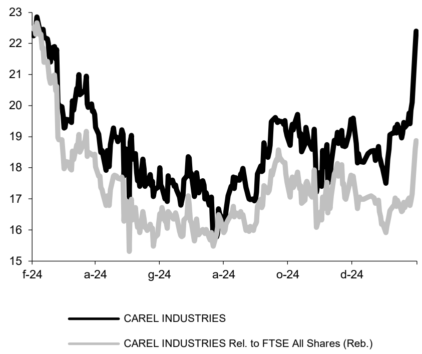
Pietro Nargi +39-02-77115.401
pietro.nargi@intermonte.it
Carlo Maritano: +39-02-77115.358
carlo.maritano@intermonte.it

Stock Rating	
Rating:	NEUTRAL (New Coverage)
Target Price (Eu):	20.00 (New Coverega)

Next Event

4Q/FY24 Results Out on March 13th

CAREL INDUSTRIES - 12M Performance



Stock Data			
Reuters code:			CRL.MI
Bloomberg code:			CRL IM
Performance	**1M**	**3M**	**12M**
Absolute	24.4%	25.6%	-1.5%
Relative	17.4%	16.4%	-21.3%
12M (H/L)			22.85/15.74
3M Average Volume (th):			63.34

Shareholder Data	
No. of Ord shares (mn):	112
Total no. of shares (mn):	112
Mkt Cap Ord (Eu mn):	2,520
Total Mkt Cap (Eu mn):	2,520
Mkt Float - Ord (Eu mn):	818
Mkt Float (in %):	32.5%
Main Shareholder:	
Luigi Rossi Luciani S.a.p.a.	34.0%

Balance Sheet Data	
Book Value (Eu mn):	464
BVPS (Eu):	3.95
P/BV:	5.7
Net Financial Position (Eu mn):	-7
Enterprise Value (Eu mn):	2,628

We initiate coverage on CRL with a NEUTRAL rating and TP at €20 p/s, the simple average of a DCF model and a multiple-based valuation according to the 3-year historical average. While we acknowledge the company's strong track record of organic growth, solid management, and resilient long-term prospects despite recent setbacks, the recent stock rerating (24E EPS down 30% YoY vs. market price down ~10% since Jan'24) appears to already factor in a potential S/M-term rebound. Our model takes a more conservative stance compared to consensus estimates, anticipating a more gradual recovery. Although demand for data centers is expected to remain robust, visibility on a potential rebound in the residential and commercial sectors, particularly in Europe, remains limited.

- **A leader in HVAC/Refrigeration.** With €650mn revenues, €137mn EBITDA (21% margin), and €71mn net income (FY23), CRL is a leading player in advanced, energy-efficient control solutions for the HVAC and refrigeration markets. Operating 15 production sites globally and employing over 2,600 people, CRL invests ~5% of revenues in R&D annually, driving innovation through six major R&D centres. CRL focuses on premium niches, enjoying in Europe a 40% market share in chillers, 60% in roof-top units and 42% in CRAC for data centre applications. Unlike competitors, CRL's unique business model combines customisation, scale, and innovation, offering integrated solutions superior to those from OEMs, high-volume producers, and low-cost rivals.
- **An impressive growth story.** Over the last 10 years, CRL has recorded double-digit annual growth, the fruit of organic expansion and M&A; we calculate that during the 2017-23 period, organic growth contributed c.62% of business expansion (€250mn, ~11% on average per year), while the remaining 38% (€150mn) came from the integration of nine acquisitions in Italy and abroad. CRL has maintained steady profitability (a ca. 20% EBITDA margin) and delivered sound cash generation, with OpCF at c.65% of EBITDA on average.
- **2024, a transition year.** The Heat Pumps sector (13% of rev. in FY23) recorded a 70% YoY decline in 9M24, driven by weaker market demand and significant customer destocking also due to the reduction of purchase incentives. Commercial HVAC, the largest revenue driver (30% of rev.), also recorded a YoY decline (down mid-single digit), still penalized by high interest rates. By contrast, industrial HVAC (~20-25% of rev) showed greater resilience, supported by a strong performance and solid backlog at the data centre division (low teen contribution). Refrigeration (27% of rev) also faced double-digit declines through August but showed signs of recovery starting in September, albeit in a highly volatile environment. Geographically, while the EMEA investment cycle is on hold, the US market has kept growing, fuelled by energy efficiency initiatives and the adoption of natural refrigerants.
- **Demand seen rebounding, but visibility is still low.** Moving to our 25E-27E projections, we expect revenues to grow high single-digit per year, featuring a faster pace in the US driven by resilient demand for data centres and energy-efficient solutions, while we expect a slower increase across Europe. Industrial HVAC is set to deliver a positive performance, while regulatory shifts in favour of CO_2 and propane refrigerants should boost the refrigeration business. As for profitability, we assume the EBITDA margin will recover to ~21% by 2027E; on cash flow, a slight improvement in NWC/sales, along with stable CapEx at ~5% of sales, should lead to a €60mn FCF per year on average, according to our estimates. Our assumptions (below market consensus), embeds a more moderate market rebound.

Key Figures & Ratios	2023A	2024E	2025E	2026E	2027E
Sales (Eu mn)	650	579	621	665	709
EBITDA Adj (Eu mn)	140	103	118	131	148
Net Profit Adj (Eu mn)	80	58	65	76	89
EPS New Adj (Eu)	0.755	0.519	0.576	0.672	0.795
EPS Old Adj (Eu)					
DPS (Eu)	0.201	0.131	0.148	0.177	0.214
EV/EBITDA Adj	20.3	22.3	22.3	19.7	17.1
EV/EBIT Adj	24.7	30.3	29.3	25.1	21.3
P/E Adj	29.7	43.2	38.9	33.3	28.2
Div. Yield	0.9%	0.6%	0.7%	0.8%	1.0%
Net Debt/EBITDA Adj	0.3	0.5	0.1	-0.1	0.1

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GUIDE TO FUNDAMENTAL RESEARCH

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)

Some of the parameters used in evaluations, such as the risk-free rate and risk premium, are the same for all companies covered, and are updated to reflect market conditions. Currently a risk-free rate of 4.0% and a risk premium of 5.5% are being used.

Frequency of research: quarterly.

Reports on all companies listed on the S&PMIB40 Index, most of those on the MIDEX Index and the main small caps (regular coverage) are published at least once per quarter to comment on results and important newsflow.

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.

Explanation of our ratings system:

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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Intermonte SIM is authorised by CONSOB to provide investment services and is listed at n° 246 in the register of brokerage firms.

As at 31 December 2024 Intermonte's Research Department covered 132 companies. Intermonte's distribution of stock ratings is as follows:

BUY:	31.34 %
OUTPERFORM:	43.28 %
NEUTRAL:	25.38 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (71 in total) is as follows:

BUY:	50.70 %
OUTPERFORM:	29.58 %
NEUTRAL:	19.72 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Intermonte acts as financial advisor to Banco BPM in the context of the offer promoted by UniCredit

Intermonte acts as ECM advisor to Banca Ifis in the offer promoted on illimity Bank

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Emittente	%	Long/Short

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Further information is available