

# DE' LONGHI

Sector: Consumers

# OUTPERFORM

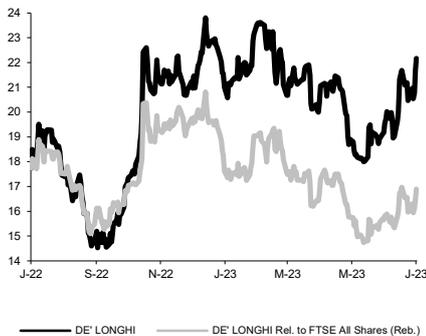
Price: Eu22.16 - Target: Eu26.00

## Time For A Good Espresso Again

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Stock Rating			
Rating:	from NEUTRAL to OUTPERFORM		
Target Price (Eu):	from 21.50 to 26.00		
	2023E	2024E	2025E
Chg in Adj EPS	2.3%	8.0%	10.9%

### DE' LONGHI - 12M Performance



Stock Data			
Reuters code:	DLG.MI		
Bloomberg code:	DLG IM		
Performance	1M	3M	12M
Absolute	13.4%	5.2%	24.9%
Relative	7.2%	-2.6%	-6.3%
12M (H/L)	23.80/14.52		
3M Average Volume (th):	97.89		

Shareholder Data	
No. of Ord shares (mn):	150
Total no. of shares (mn):	151
Mkt Cap Ord (Eu mn):	3,313
Total Mkt Cap (Eu mn):	3,313
Mkt Float - Ord (Eu mn):	1,203
Mkt Float (in %):	36.3%
Main Shareholder:	
The Long E Trust (De'Longhi Fam.)	57.0%

Balance Sheet Data	
Book Value (Eu mn):	1,794
BVPS (Eu):	11.88
P/BV:	1.9
Net Financial Position (Eu mn):	389
Enterprise Value (Eu mn):	2,959

- Results beat expectations, coffee still the driver.** On Friday De'Longhi released 1H23 results that beat consensus and our estimates on top line. Adj. EBITDA performance was particularly positive thanks to the management of the pricing strategy as well as the boost from easing logistics and other operating costs. The Coffee segment and Nutribullet-branded nutrition segments reached 65% of total turnover in 1H, and according to management are "destined to represent the main engine in the medium term for growth and profitability". The Eversys professional coffee machine sector (coffee B2B) registered +58% YoY growth (+60.7% in 2Q23) reaching 5% of total group sales from 3% previously. B2C coffee also turned back to positive growth in 2Q23 after a difficult start to the year that was mainly attributable to the extraordinary comparison base. The B2B and B2C coffee segments now represent 60% of group sales and are expected to exceed this threshold in the next 12-18 months.
- Guidance confirmed, positive indications on market trends. M&A in sight?** Despite better-than-expected performance, guidance for the year was reiterated, envisaging a slight decrease in revenues and adj. EBITDA to Eu370mn-Eu390mn which is already factored into our estimates and consensus. During the conference call management confirmed market trends are encouraging, with a gradual recovery and consolidation at level +50% above 2019. De'Longhi is outperforming and gaining record market shares across geographical markets, especially in full-auto coffee machines thanks in part to the continuation of A&P investments. M&A could be approaching: the company has a proven positive track record with successful acquisitions every couple of years. It is no secret that management has been looking for a valuable and synergistic target for some time, especially in the professional coffee machines space. Based on a net cash position of Eu311mn and the booming of the profitable B2B business, which (in our opinion) would need additional scale on top of Eversys (c.Eu100mn in FY22) to be fully exploited, we tend to believe that an acquisition could come sooner rather than later. DLG's parent company De'Longhi Industrial already owns the majority of LaMarzocco, a globally renowned leader in professional coffee machines, which could represent a further opportunity for the group.
- Change in estimates:** while we acknowledge upside potential to current guidance (on margins), we are sticking to our assumptions on FY23, but factoring in a better growth profile for the following years both on the top line and in terms of adj. EBITDA.
- OUTPERFORM from Neutral, target to Eu26 (from Eu21.5).** We remain convinced that business fundamentals are robust, with particularly resilient coffee trends and still-untapped opportunities, especially in areas such as North America and China where the company continues to grow nicely. While we remained cautious until today, we believe that current results and prospects, especially in the very resilient coffee segment, show that the worst is over and the company is now ready to regain momentum. Management has mastered inventory issues faster than had been expected, with WC back to normalised levels, and from a business standpoint several product launches are ready to hit the market in 2H23. The stock is almost flat YTD and is well below its 5Y historical averages in terms of EV/EBITDA and P/E, which is completely undeserved based on business potential and foreseeable growth in the next 12 months (easy comp base will enhance this factor). M&A remains a powerful catalyst for the stock and is getting increasingly likely. For these reasons, and based on our new estimates, we are upgrading the stock to OUTPERFORM from Neutral, target from Eu21.5 to Eu24.5 based on our DCF valuation, to which we add c.10% in discretionary upside arising from potential M&A.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	3,222	3,158	3,080	3,172	3,286
EBITDA Adj (Eu mn)	515	362	399	446	458
Net Profit Adj (Eu mn)	311	177	206	240	251
EPS New Adj (Eu)	2.081	1.175	1.361	1.587	1.660
EPS Old Adj (Eu)	2.081	1.187	1.344	1.484	1.513
DPS (Eu)	0.743	0.480	0.556	0.648	0.678
EV/EBITDA Adj	9.1	8.2	7.4	6.5	6.0
EV/EBIT Adj	13.4	7.3	7.0		
P/E Adj	10.6	18.9	16.3	14.0	13.4
Div. Yield	3.4%	2.2%	2.5%	2.9%	3.1%
Net Debt/EBITDA Adj	-0.8	-0.8	-1.0	-1.0	-1.3

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