Intermonte

Milan, 13 May 2024

**Italian Equity Research – 1Q24 Results**

# DIASORIN

# OUTPERFORM

*Sector: Healthcare*

Price: Eu98.54 - **Target: Eu121.00**

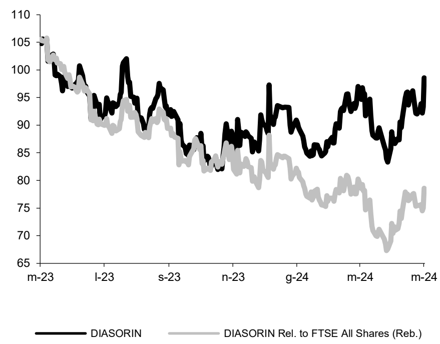
## After Profitability Peak in 1Q, Upside Risks on Margin Guidance

**Giorgio Tavolini +39-02-77115.279**
giorgio.tavolini@intermonte.it

| **Stock Rating** | | | |
|---|---|---|---|
| **Rating:** | | | Unchanged |
| **Target Price (Eu):** | | | from 110.00 to 121.00 |
| | **2024E** | **2025E** | **2026E** |
| **Chg in Adj EPS** | 6.2% | 5.8% | 4.4% |

**Next Event** 2Q24 Results & Diagnostic Molecular Day in Chicago, 29 July

**DIASORIN - 12M Performance**




| **Stock Data** | | | |
|---|---|---|---|
| Reuters code: | | | DIAS.MI |
| Bloomberg code: | | | DIA IM |
| **Performance** | **1M** | **3M** | **12M** |
| Absolute | 13.5% | 13.3% | -6.6% |
| Relative | 11.8% | 2.6% | -32.1% |
| 12M (H/L) | | | 105.60/82.00 |
| 3M Average Volume (th): | | | 191.30 |

| **Shareholder Data** | |
|---|---|
| No. of Ord shares (mn): | 56 |
| Total no. of shares (mn): | 56 |
| Mkt Cap Ord (Eu mn): | 5,508 |
| Total Mkt Cap (Eu mn): | 5,508 |
| Mkt Float - Ord (Eu mn): | 2,329 |
| Mkt Float (in %): | 42.3% |
| Main Shareholder: | |
| FINDE SS (G. Denegri) | 45.0% |

| **Balance Sheet Data** | |
|---|---|
| Book Value (Eu mn): | 1,658 |
| BVPS (Eu): | 19.39 |
| P/BV: | 5.1 |
| Net Financial Position (Eu mn): | -620 |
| Enterprise Value (Eu mn): | 6,133 |

- **1Q24 results.** 1Q top line broadly in line, EBITDA 3-4% better than our estimate /consensus, with a 34% margin, above the FY guidance range (32-33%). FCF (€42mn) and net debt (€749mn) were broadly in line. At constant ForEx and scope, 1Q sales grew at a high single-digit rate excluding Covid (1Q: +7%, 4Q23: +5%, FY23: +4%) towards the upper end of the company's guidance range for this year (5-7%). This increase is mostly attributable to the excellent performance (at CER) of ImmunoDX (1Q: +9%, 4Q: +10%, 3Q: +6%, 2Q: +8%), mostly driven by CLIA sales in U.S., Europe, and other direct markets. MolecularDX returned to growth (CER, 1Q: +2%, 4Q: -17%, 3Q: -7%, 2Q: -8%) above the FY target (flat), as a combination of low double-digit growth in the legacy business and a stable multiplex business partially offset by the loss of the Cystic Fibrosis contract with a big commercial lab in the U.S. At constant ForEx and scope, LTG business grew (1Q: +4%, 4Q: -4%, 3Q: -4%, 2Q: +10%) broadly in line with the FY target (mid-single-digit growth). Despite the expected reduction in Covid sales (€9mn, -59% CER), adj. gross profit was flat YoY (at €191mn) with a stable margin (66% of sales).
- **Conference call feedback.** FY guidance was reiterated for both the top line and margins. 1Q exceeded management expectations, but this is a seasonally stronger quarter than the rest of the year. The CFO feels very comfortable with current guidance, calling for a 32-33% margin, which offers some degree of flexibility. Double-digit 1Q growth In China (<3% of Group sales), (+13%) is not a proxy for coming quarters as the volume-based procurement policy (VBP) has not yet taken effect. When in force, this will lead to price cuts of between 50% and 60% on 17 products in the 23 provinces awarded, but the annualised impact for Diasorin should be marginal (€3mn). Focus confirmed on US hospital strategy, with the ambition to reach 100 new hospitals every year (350 currently reached, FY27 target: ~600).
- **Updated estimates.** We are raising our FY24 top line by 1% and the margin by 0.5pp to 33.3%, slightly above company guidance, while at bottom line we are trimming D&A (by c.€10mn). These changes lead to a 6% increase in 2024-25 adj. EPS.
- **OUTPERFORM confirmed; new target €121 (from €110)**. After a solid 1Q, the confirmation of margin guidance offers some degree of flexibility based on future quarters' visibility, but may also hide some excess caution given management's track record, with a traditionally prudent approach to setting targets. We therefore are not ruling out the possibility that the company may enhance profitability guidance by 1pp with 1H results, to the 33-34% range. Even though the stock is currently trading broadly in line with the sector (26x P/E'24, 22x P/E'25), we believe the market is ready to take a fresh look at a success story driven by structural, long-term growth - especially if the coming quarters can provide more visibility on top line acceleration and the contribution of new initiatives (namely the launch of Liaison PLEX, execution on MeMed with faster-than-expected adoption by physicians). Upside risks could stem from M&A activity, as the group is looking at potential targets in the growing LTG space to acquire adjacent and complementary technologies. Additionally, in the event of a normalisation of interest rates in 2H24, Diasorin is poised for a significant re-rating as a long duration asset.

| **Key Figures & Ratios** | **2022A** | **2023A** | **2024E** | **2025E** | **2026E** |
|---|---|---|---|---|---|
| Sales (Eu mn) | 1,361 | 1,148 | 1,173 | 1,265 | 1,376 |
| EBITDA Adj (Eu mn) | 514 | 375 | 391 | 433 | 489 |
| Net Profit Adj (Eu mn) | 319 | 224 | 216 | 246 | 284 |
| EPS New Adj (Eu) | 5.696 | 4.004 | 3.852 | 4.396 | 5.071 |
| EPS Old Adj (Eu) | 5.696 | 4.004 | 3.628 | 4.155 | 4.859 |
| DPS (Eu) | 1.100 | 1.150 | 1.200 | 1.250 | 1.300 |
| EV/EBITDA Adj | 15.9 | 16.8 | 15.7 | 13.8 | 11.8 |
| EV/EBIT Adj | 19.6 | 22.3 | 20.7 | 17.6 | 14.8 |
| P/E Adj | 17.3 | 24.6 | 25.6 | 22.4 | 19.4 |
| Div. Yield | 1.1% | 1.2% | 1.2% | 1.3% | 1.3% |
| Net Debt/EBITDA Adj | 1.8 | 2.1 | 1.6 | 1.0 | 0.5 |

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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)

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.

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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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| | |
|---|---|
| BUY: | 25.21 % |
| OUTPERFORM: | 46.22 % |
| NEUTRAL: | 27.73 % |
| UNDERPERFORM | 00.84 % |
| SELL: | 00.00 % |

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (50 in total) is as follows:

| | |
|---|---|
| BUY: | 38.78 % |
| OUTPERFORM: | 51.02 % |
| NEUTRAL: | 10.20 % |
| UNDERPERFORM | 00.00 % |
| SELL: | 00.00 % |

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| Emittente | % | Long/Short |
|---|---|---|



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