ELICA

BUY

Sector: Consumers

Price: Eu1.95 - **Target: Eu2.80**

Tough 3Q in Sight, Recovery Expected from 2H24

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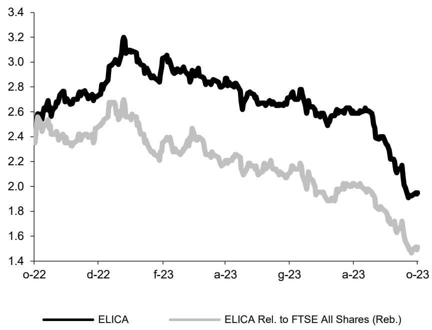
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 3.40 to 2.80
	2023E	**2024E**	**2025E**
Chg in Adj EPS	-25.6%	-38.2%	-30.9%

Next Event
Results Out October 26th

ELICA - 12M Performance



Stock Data			
Reuters code:			ELC.MI
Bloomberg code:			ELC IM
Performance	**1M**	**3M**	**12M**
Absolute	-16.7%	-24.7%	-17.0%
Relative	-14.7%	-22.1%	-45.0%
12M (H/L)			3.20/1.91
3M Average Volume (th):			20.44

Shareholder Data	
No. of Ord shares (mn):	63
Total no. of shares (mn):	63
Mkt Cap Ord (Eu mn):	123
Total Mkt Cap (Eu mn):	123
Mkt Float - Ord (Eu mn):	34
Mkt Float (in %):	27.2%
Main Shareholder:	
F.A.N. (Casoli family)	52.8%

Balance Sheet Data	
Book Value (Eu mn):	147
BVPS (Eu):	2.32
P/BV:	0.8
Net Financial Position (Eu mn):	-51
Enterprise Value (Eu mn):	193

- **Tough quarterly results ahead:** despite the comparison becoming easier than in 1H (1H22 was up 5.5% in organic terms, 3Q22 just +0.6%), we expect 3Q to have remained tough for ELC. As recently stated by Arcelik's CEO in an interview with the *Financial Times*, market demand for large appliances remains weak due to the economic slowdown, penalising the Cooking business, where we expect a -14.2% decline YoY in 3Q, thus basically confirming the 1H trend (-15%). At the same time**,** continuously evolving regulations and incentives schemes are affecting demand in the Heating market, as alluded to by several sector players, thus affecting the company's Motors business, where the slowdown is expected to accelerate after the first signs of decline already started to emerge at the end of 2Q (we expect -30% YoY in 3Q, a deterioration from the -8.4% posted in 2Q). We therefore expect the group's top line to have come to Eu105.4mn in 3Q, down 18.1% YoY.
- **Margins expected to hold up well:** the positive aspect of the release could again be represented by margin resilience, which should benefit from the efficiencies implemented in recent years, including the greater flexibility allowed by the new production footprint. Indeed, we estimate adj. EBIT to have come to Eu5.3mn, implying a 5.0% margin, down just ~0.5pp YoY, despite the material drop in volumes. As for cash generation, we expect net debt (pre-IFRS16) to have increased QoQ to Eu45.1mn from Eu36.8mn at the end of June, mainly reflecting the investments carried out in the period (~Eu6mn est.) and dividends payment (~Eu5mn).
- **Trimming estimates due to challenging demand scenario:** in light of our expectations for persisting slow demand in the Cooking business and the deterioration of the trends in the Motors business, we are trimming our 2023 estimates, now factoring in a continuation of the soft 1H trends into 2H. As for 2024, we now expect 1H to be marked by a stabilisation of demand in the Cooking business, while Motors are expected to remain weak; as of 2H24, in Cooking we expect the company to reap the benefits of new product launches, the new commercial organisation and new B2B contracts in North America, showing signs of improvement even in a flattish demand scenario. As for Motors, we expect trends to stabilise in 2H24. As a result, 2024 is forecast basically in line with 2023, with a return to growth from 2025. As a consequence of these expectations, we are cutting our 2023/24/25 adj. EBIT by -19%/-32%/-26%. After a sharp market decline in 2023 our estimates assume a stabilization on this depressed level in 2024 for the cooking business, with 2025 revenues growth (+3.5%) coming entirely from increased market share thanks to new products/clients. Conversely, if market would recover from the current low level, this would provide upside to our current estimates.
- **BUY confirmed; target Eu2.8 from Eu3.4:** we reaffirm our view on the stock as we believe that as soon as the market rebounds from its current low level, the company will immediately be able to reap the benefits of the measures implemented by management in recent years (introduction of an innovative product line-up in B2C, roll-out of the new production footprint, proven cost-control ability), which have allowed Elica to improve its profitability profile and gain market share in Europe. Our DCF yields a target price of Eu2.8, down from Eu3.4 due to the lower estimates and an higher WACC (risk-free rate from 4.0% to 4.5%).

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	541	549	468	471	487
EBITDA Adj (Eu mn)	57	57	49	49	54
Net Profit Adj (Eu mn)	16	21	14	13	17
EPS New Adj (Eu)	0.252	0.328	0.215	0.212	0.270
EPS Old Adj (Eu)	0.252	0.328	0.289	0.344	0.390
DPS (Eu)	0.060	0.070	0.070	0.070	0.080
EV/EBITDA Adj	4.7	4.4	4.0	3.6	3.1
EV/EBIT Adj	8.3	7.5	7.6	6.9	5.4
P/E Adj	7.7	6.0	9.1	9.2	7.2
Div. Yield	3.1%	3.6%	3.6%	3.6%	4.1%
Net Debt/EBITDA Adj	0.6	0.8	1.0	0.7	0.4