EMAK

OUTPERFORM

Sector: Industrials

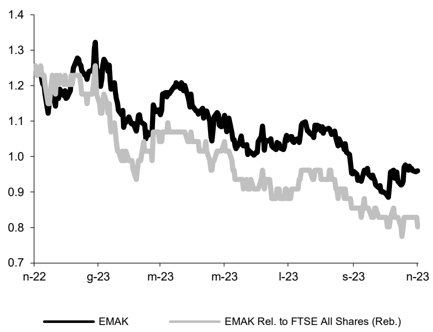
Price: Eu0.96 - **Target: Eu1.55**

FCF Picking Up in 3Q, 4Q Should Confirm Sequential Improvement

Carlo Maritano +39-02-77115.358
carlo.maritano@intermonte.it

Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 1.70 to 1.55
	2023E	**2024E**	**2025E**
Chg in Adj EPS	-12.7%	-10.9%	-8.9%

EMAK - 12M Performance



Stock Data			
Reuters code:			EM.MI
Bloomberg code:			EM IM
Performance	**1M**	**3M**	**12M**
Absolute	6.5%	-10.4%	-23.6%
Relative	-2.5%	-12.9%	-43.1%
12M (H/L)			1.32/0.89
3M Average Volume (th):			66.39

Shareholder Data	
No. of Ord shares (mn):	164
Total no. of shares (mn):	164
Mkt Cap Ord (Eu mn):	157
Total Mkt Cap (Eu mn):	157
Mkt Float - Ord (Eu mn):	55
Mkt Float (in %):	34.8%
Main Shareholder:	
YAMA	65.2%

Balance Sheet Data	
Book Value (Eu mn):	278
BVPS (Eu):	1.72
P/BV:	0.6
Net Financial Position (Eu mn):	-190
Enterprise Value (Eu mn):	351

- **3Q margins slightly below…** Emak reported margins that were slightly lower than expected, but with better cash generation. Specifically, Turnover came to Eu118.8mn, down 4.3% YoY but 0.8% above our estimate. As expected, revenues showed some sign of improvement QoQ, with the result still down YoY but by a lesser amount (-4.3% YoY in 3Q vs. -10.4%/-9.7% in 2Q/1Q), benefiting from a less challenging comparison base. As for profitability, adj. EBITDA came to Eu11.1mn, slightly below our Eu11.6mn estimate, with the margin narrowing by ~2.4pp YoY. As well as falling volumes, this result was influenced by rising labour costs (+11% YoY, partly linked to area changes and partly to salaries). Finally, net profit reached Eu0.5mn, down from Eu5mn a year ago due to lower EBITDA, higher D&A and net financial charges.
- **… but better FCF generation.** Net debt came to Eu186.5mn at the end of 3Q, down c.Eu26mn QoQ (and slightly better than our Eu192mn estimate) thanks to a good result in terms of optimising NWC. We note that the 9M result should allow the company to reach ~Eu20mn of FCF in 2023, a clear improvement compared to the previous two years, when due to the cash absorption deriving from NWC and CapEx expansion FCF was limited (Eu1.4mn in 2021) or even negative (Eu-17.5mn in 2022). The cash we expect the company to generate will therefore almost fully fund the acquisition of Bestway, which was completed at the beginning of the year (~Eu21mn).
- **Focus on OPE:** Looking more in depth at OPE, the division was down 7% YoY in the period, with numbers returning to a level close to 2019, effectively exhausting the post-Covid euphoria of the reference market. In our opinion, this could mean that the normalisation effect seen starting from 2H22 could be nearing its conclusion, leaving more grounds for optimism on a resumption of the growth trajectory in the next few quarters.
- **4Q seen up YoY, thus confirming the sequential improvement:** despite a challenging macro environment, management expects modest YoY sales growth in 4Q. While this represents a clear sequential improvement in the turnover trend (thanks in part to the comparison base becoming less and less challenging), our implicit 4Q numbers now look overly challenging, and we are therefore revising our estimates downwards, cutting FY revenues by 2.2% and adj. EBITDA by 5.4%. For the following years, we are leaving our top line growth and margin progression estimates unchanged but given the lower starting point this still translates into a cut of ~5% in adj. EBITDA.
- **OUTPERFORM confirmed; target from Eu1.70 to Eu1.55:** results confirm a gradual normalisation of the turnover trend, which is set to continue further in 4Q, when it should rise again after falling for five consecutive quarters. There were also positive signs on cash generation, with a Eu26mn decline QoQ, which should therefore allow the company to achieve FCF of c.Eu20mn this year, enough to fully finance the purchase of Bestway that was completed at the beginning of the year. Our valuation, based on the simple average of a DCF and a SOP, yields a target price of Eu1.55, down from Eu1.70 following lower estimates and adoption of a higher risk-free rate (4.5% from 4.0%), only partially offset by the rollover of the valuation to 2024. Positive recommendation confirmed; at current prices the stock offers an attractive FCF yield of ~13%.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	588	606	568	585	602
EBITDA Adj (Eu mn)	77	77	67	72	77
Net Profit Adj (Eu mn)	37	32	19	23	27
EPS New Adj (Eu)	0.224	0.195	0.116	0.140	0.167
EPS Old Adj (Eu)	0.224	0.195	0.133	0.157	0.184
DPS (Eu)	0.075	0.065	0.047	0.056	0.067
EV/EBITDA Adj	5.4	5.3	5.2	4.7	4.2
EV/EBIT Adj	7.9	8.0	9.1	7.9	6.7
P/E Adj	4.3	4.9	8.2	6.9	5.7
Div. Yield	7.8%	6.8%	4.9%	5.8%	7.0%
Net Debt/EBITDA Adj	1.9	2.3	2.8	2.5	2.1