ESPRINET

BUY

Sector: Consumers

Price: Eu4.91 - **Target: Eu6.50**

Guidance confirmed thanks to better revenue mix

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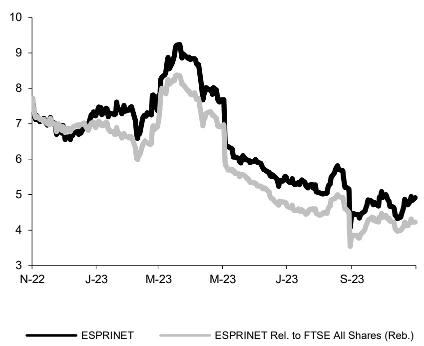
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 7.00 to 6.50
	2023E	**2024E**	**2025E**
Chg in Adj EPS	-3.6%	-7.3%	-11.0%

ESPRINET - 12M Performance



Stock Data			
Reuters code:			PRT.MI
Bloomberg code:			PRT IM
Performance	**1M**	**3M**	**12M**
Absolute	-0.2%	-3.3%	-37.1%
Relative	-2.8%	-5.2%	-53.5%
12M (H/L)			9.24/4.07
3M Average Volume (th):			359.38

Shareholder Data	
No. of Ord shares (mn):	50
Total no. of shares (mn):	50
Mkt Cap Ord (Eu mn):	248
Total Mkt Cap (Eu mn):	248
Mkt Float - Ord (Eu mn):	130
Mkt Float (in %):	52.7%
Main Shareholder:	
Shareholder Agreement	25.2%

Balance Sheet Data	
Book Value (Eu mn):	376
BVPS (Eu):	7.55
P/BV:	0.7
Net Financial Position (Eu mn):	-116
Enterprise Value (Eu mn):	366

- **Slowing trend continued in 3Q…** Revenues came in at €839mn, down -19.3% YoY vs. our estimate of €881mn/-5%, highlighting further declining performances at high-volume, low-margin divisions, namely Screens (-24% YoY) and Devices (-14% YoY) due to a continuous slowdown in market demand. There was also a slight decline at the Solutions division (-6% YoY) amid less willingness to invest and refresh by corporates and governments at the pace seen in previous years. Geographically, Spain and Italy were down -22% and -17% respectively, while the Portuguese market showed greater resilience (-8% YoY).
- **…but good gross margin and WC.** Gross profit was €48.7mn (-8.4% YoY) a 5.80% margin, continuing to improve (+70bp YoY) vs. our estimate of €51mn/5.80% margin, despite factoring costs doubling YoY. Adj. EBITDA of €11.7mn/1.39% margin, down c.-20bp YoY vs. our estimate of €11.4mn/1.30% margin. At the bottom line, adj. net income was €2mn (vs. our €1.7mn est.). NFP negative at €261mn, c.€50mn higher than in 1H vs. our €250mn estimate, despite less recourse to factoring at €244mn (i.e. -€140mn QoQ, -€160mn YoY), underlining good WC management: cash conversion cycle 30 days in 3Q, in line QoQ (31 days), still higher than the 21 days in 3Q22. ROCE at 7.3%, vs. 8.0% in 1H23 (11% in 9M22), amid higher capital employed (average).
- **FY23 EBITDA guidance confirmed, but indications suggest the low-end.** PRT confirmed FY23 EBITDA guidance of €70-80mn, assuming the FY20 figure as indicative (€69.1mn), but with a much higher gross profit margin. A revised strategic plan is expected after BoD approval to factor in the changed macro conditions and the new ICT market environment.
- **Call highlights.** Key messages: i) higher freight cost inflation successfully passed on to customers, and further renegotiations ongoing with vendors; ii) encouraging signs seen on the Italian market so far in 4Q, while conditions still tough in Spain, at least in October (pretty good in November); iii) working on cost optimization, with a reduction in headcount at the Esprinet division, while minor changes are happening in the V-Valley segment, with SG&A seen improving in FY24 YoY; iv) screens and devices likely to rebound mid-single digit in FY24 (slower in 1H, stronger in 2H), while growth is also seen softening in the Solutions segment as companies take a more conservative approach.
- **Change in estimates.** We update our estimates to account for a more pronounced slowdown in market demand, partly offset on margins by a steady improvement in mix and cost optimization of SG&A. On cashflow, we assume less recourse to factoring will continue over the next years, leading to higher net debt.
- **BUY confirmed, new Eu6.50 TP.** We reduce our TP to Eu6.50 on lower estimates and a higher risk-free rate in our DCF valuation (from 4% to 4.5%). We appreciate the management strategy of focusing on the value-added segment and avoiding sales with low margins and a poor return on capital. However, the incoming replacement of products sold in 2020-21, the new release of Microsoft Windows (not supported by older devices), and the need for more computing capacity for generative AI, lay the foundations for a better growth scenario, including for screens and devices.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	4,691	4,684	4,041	4,285	4,584
EBITDA Adj (Eu mn)	86	91	69	80	92
Net Profit Adj (Eu mn)	44	47	27	32	39
EPS New Adj (Eu)	0.880	0.960	0.551	0.651	0.788
EPS Old Adj (Eu)	0.880	0.960	0.572	0.702	0.885
DPS (Eu)	0.540	0.540	0.276	0.325	0.394
EV/EBITDA Adj	4.8	5.5	5.3	4.1	3.1
EV/EBIT Adj	5.9	6.8	7.3	5.6	4.1
P/E Adj	5.6	5.1	8.9	7.5	6.2
Div. Yield	11.0%	11.0%	5.6%	6.6%	8.0%
Net Debt/EBITDA Adj	-2.6	0.9	1.7	1.0	0.4