

FILA

Sector: Consumers

OUTPERFORM

Price: Eu7.09 - Target: Eu9.00

Can Resumption of Cash Generation Revive Interest on the Stock?

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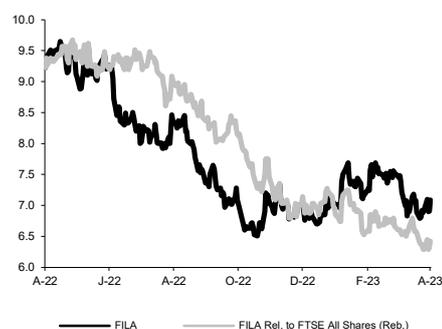
Stock Rating

Rating:	Unchanged		
Target Price (Eu):	Unchanged		
	2023E	2024E	2025E
Chg in Adj EPS	-8.3%	-7.7%	

Next Event

 1Q23 Results Out May 15th

FILA - 12M Performance



Stock Data

Reuters code:	FILA.MI		
Bloomberg code:	FILA IM		
Performance	1M	3M	12M
Absolute	-1.7%	1.9%	-24.7%
Relative	-1.4%	-5.2%	-33.3%
12M (H/L)	9.65/6.51		
3M Average Volume (th):	45.37		

Shareholder Data

No. of Ord shares (mn):	51
Total no. of shares (mn):	51
Mkt Cap Ord (Eu mn):	361
Total Mkt Cap (Eu mn):	361
Mkt Float - Ord (Eu mn):	178
Mkt Float (in %):	49.3%
Main Shareholder:	
Pencil	37.8%

Balance Sheet Data

Book Value (Eu mn):	434
BVPS (Eu):	9.17
P/BV:	0.8
Net Financial Position (Eu mn):	-401
Enterprise Value (Eu mn):	806

- 4Q22 revenues in line, margins below, FCFE better than estimates.** Sales came to €169.4mn (+7.9% YoY, of which +3.2% org., +4.7% positive ForEx effect), broadly in line with our estimate (+0.3%). As expected, Asia (mainly India) and C&SA (mainly Mexico) were the regions that showed the fastest growth (+36.6% and +39.5% YoY respectively), while US (-2.3% YoY, -12.2% org.) and Europe (-1.2% YoY, -0.8% org.) slowed again. Adj. EBITDA was €14.8mn, down -12% YoY, with an 8.7% margin (vs. our est. of 9.4%, and 11.5% in 4Q21), suffering higher-than-expected inflation on both raw materials and transportation costs, especially in the US market, as the margin collapsed to 4.0% from 11.3% in 4Q21, partly due to some logistical inefficiencies (lack of drivers and manpower). The adj. net loss pre-IFRS16 was €-1.8mn (positive for €4.4mn in 4Q21) due to higher D&A and financial charges. There was good news on cash flow, with FY22 adj. FCFE at €29mn (excluding a €6m non-recurring impact from refinancing costs), leading to improved adj. net debt of €347mn (€414mn at the end of 3Q22), in line with YE21.
- FY23 outlook points to €40-50mn FCFE range.** For the first time in its history FILA released official guidance; although market conditions are expected to remain tough in 1H, for FY23 management is confident of i) mid-single-digit organic growth, ii) improved margins, with adj. EBITDA expected to increase even faster than net sales, benefiting from the latest price increase of c.5% implemented in January, and the first signs of falling raw materials (paper and plastic), energy and transportation costs; iii) achieve FCFE in the €40-50mn range, despite an additional €15mn of CapEx aimed at increasing production capacity in India. Indeed, management expects to improve NWC intensity on sales, as more expensive work-in-progress and finished products are gradually replaced with lower cost equivalents. Management expects India to keep growing at a high double-digit rate, while margins should steadily recover in North America. Volumes are expected to decline somewhat in Europe, but remain almost flat in the US and C&SA.
- Change in estimates.** Considering 4Q22 results and the FY23 outlook, we are leaving our 2023E/24E revenue and adj. EBITDA estimates broadly unchanged, while including soaring financial charges, and to a lesser extent higher D&A, as we factor the €15mn Indian development CapEx into our model. We are setting our FY23 FCFE estimate at the bottom end of the guidance range (€40mn), up from €35mn previously; lastly, we expect adj. net debt to close at €313mn in 2023, i.e. 2.5x adj. EBITDA (down from the 3.0x recorded in 22YE).
- OUTPERFORM confirmed; target still €9.0.** We confirm our recommendation and €9.0 DCF-based TP (WACC 9%) as lower cash earnings are offset by an improved NWC management. At our TP, FILA would trade at 6.8x adj. EV / EBITDA and 10.9x adj. P/E, well below pre-Covid levels and its 5-year historical average, implying an 8.2% FCF yield. We appreciate the school market's limited exposure to macroeconomic trends, as well as the clear opportunities up for grabs on the Indian market, where management is working on a potential extraordinary project (M&A, entrance of an industrial partner, or an IPO) to crystallise the value of the asset, which is not currently recognised by the market. Management's growing commitment to kick-starting the cash-generating machine is likely to generate renewed investor interest, leading to a potential stock re-rating.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	653	765	800	836	869
EBITDA Adj (Eu mn)	109	110	119	125	132
Net Profit Adj (Eu mn)	43	38	42	45	49
EPS New Adj (Eu)	0.833	0.738	0.823	0.885	0.959
EPS Old Adj (Eu)	0.833	0.809	0.898	0.959	
DPS (Eu)	0.230	0.120	0.148	0.159	0.173
EV/EBITDA Adj	9.0	8.1	6.7	6.2	5.6
EV/EBIT Adj	12.5	11.4	9.3	8.3	7.4
P/E Adj	8.5	9.6	8.6	8.0	7.4
Div. Yield	3.2%	1.7%	2.1%	2.2%	2.4%
Net Debt/EBITDA Adj	4.0	3.9	3.4	2.9	2.4