

FINE FOODS

Sector: Industrials

OUTPERFORM

Price: Eu8.30 - Target: Eu12.00

4Q Profitability Peak, CapEx Cycle to Boost Mid-Term Growth

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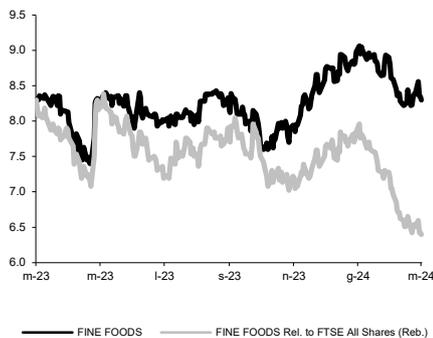
Stock Rating

Rating:	Unchanged		
Target Price (Eu):	from 11.50 to 12.00		
	2024E	2025E	2026E
Chg in Adj EPS	-13.7%	-18.1%	

Next Events

1Q24 Results 15 May 2024, AGM 29 May 2024,

FINE FOODS - 12M Performance



Stock Data

Reuters code:	FF.MI		
Bloomberg code:	FF IM		
Performance	1M	3M	12M
Absolute	-3.4%	-5.4%	-0.7%
Relative	-8.8%	-19.2%	-26.8%
12M (H/L)	9.06/7.40		
3M Average Volume (th):	4.97		

Shareholder Data

No. of Ord shares (mn):	26
Total no. of shares (mn):	26
Mkt Cap Ord (Eu mn):	212
Total Mkt Cap (Eu mn):	212
Mkt Float - Ord (Eu mn):	100
Mkt Float (in %):	47.3%
Main Shareholder:	
Eigenfin Srl + M. Eigenmann	52.7%

Balance Sheet Data

Book Value (Eu mn):	134
BVPS (Eu):	5.23
P/BV:	1.6
Net Financial Position (Eu mn):	-79
Enterprise Value (Eu mn):	291

■ **Cosmetics back to growth, spike in Group profitability in 4Q.** FY23 results were broadly in line with our expectations on the top line (although with an unexpected return to growth of the Cosmetics BU) but exceeded our estimate for adj. EBITDA by 2%, primarily due to an impressive spike in profitability during 4Q (11.4%), despite the incidence of energy costs remaining relatively high (increase worth c. 1.7pp in FY23 compared to a 1pp historical average). The company issued optimistic outlook for the 2024-2028 period, also thanks to the expansion of the Food BU production plant and the Pharma BU's new site (to generate revenues from 2026), as well as a full-speed recovery in Cosmetics following completion of the restructuring process.

■ **Highlights and lowlights: (+) Top line confirms double-digit pace with sequential acceleration** (FY: +22%, o/w 1Q: +29%, 2Q: +24%, 3Q: +12%, 4Q: +22%) for both the Food (1Q: +38%, 2Q: +27%, 3Q: +22% 4Q: +30%) and Pharma BUs (1Q: +42%, 2Q: +29%, 3Q: +12%, 4Q: +17%) **(++) Cosmetics BU back to growth** (4Q: +2.5%) after several quarters of restructuring (9M: -12%). **(++) Spike in profitability in 4Q (11.4%),** leading to a 10.3% adj. EBITDA margin in FY23 boosted by the Pharma BU (11.6%) and Food BU (10.6%). The margin improvement came from better absorption of fixed costs, although incidence of variable costs remained relatively high (energy cost increase worth c. 1.7pp vs 1pp historical average; raw mat c. 62.8% of net sales, +0.9pp YoY). **(-) Non-recurring items:** results affected by restructuring costs at Euro Cosmetics (€3.6mn), goodwill impairment of ex Pharmatek (€4.4mn booked in 1H) and a €675k cost for demolition of a building. **(+) NFP (€43.6mn) virtually unchanged YoY** and much better than our expectation (€58mn), primarily thanks to impressive WKC inflow in 4Q and slightly lower CapEx.

■ **Updated estimates.** In our preliminary estimates, assuming an extraordinary CapEx cycle of c.€60mn (of which €30mn in FY24), we expect leverage rising from 1.7x as at YE23 to peak at c.2.4x-2.2x in FY24-2025 (€79/86mn net debt), and then normalize over the following 3 years (0.7x in FY28, €43mn) thanks to a boost to EBITDA of €10-15mn (full run-rate from 2028 onwards). We now expect the Group margin to improve to 12% in FY24 and to reach 14/14.5% by FY27-28. On the other hand, in the short term, at bottom line we would expect higher D&A and financial expenses. This leads to a 14/18% cut in adj. EPS for FY24/25, offset by +12/+22/+36% improvements in FY26/27/28.

■ **OUTPERFORM confirmed; target increased to €12 (from €11.5).** On our new estimates and lower WACC (-0.5pp off risk-free rate), we raise our DCF-based TP to €12 from €11.5. The significant improvement in 4Q in both top-line growth and profitability bodes well for the evolution of the next quarters along with a CapEx cycle to boost medium-term growth. We therefore confirm our positive view on the stock: a re-acceleration of growth in the coming months and a material upgrade of consensus expectations might rekindle interest in the equity story and allow the stock to benefit from a significant re-rating in the short term. FF is well placed to gain market share and outperform peers, having grown notably faster than its core end markets in the last decade. It enjoys solid operating trends through leveraging its critical mass as the largest Italian CDMO, as well as highly visible and long-lasting customer demand (increasing share of wallet), additional capacity secured through investments, and the ability to seize further M&A opportunities for quality assets in adjacent markets or to act as a natural aggregator.

Key Figures & Ratios	2024E	2025E	2026E	2027E	2028E
Sales (Eu mn)	271	297	350	386	428
EBITDA Adj (Eu mn)	33	39	48	54	62
Net Profit Adj (Eu mn)	10	13	18	22	28
EPS New Adj (Eu)	0.383	0.507	0.710	0.869	1.092
EPS Old Adj (Eu)	0.444	0.619			
DPS (Eu)	0.117	0.117	0.117	0.117	0.117
EV/EBITDA Adj	8.9	7.6	6.0	5.1	4.1
EV/EBIT Adj	17.9	14.0	10.3	8.4	6.5
P/E Adj	21.7	16.4	11.7	9.5	7.6
Div. Yield	1.4%	1.4%	1.4%	1.4%	1.4%
Net Debt/EBITDA Adj	2.4	2.2	1.6	1.2	0.7

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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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A draft copy of each report may be sent to the subject company for its information (without target price and/or recommendations), but unless expressly stated in the text of the report, no changes are made before it is published.

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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 (51 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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