

# FINE FOODS

Sector: Industrials

# OUTPERFORM

Price: Eu8.40 - Target: Eu12.70

## Volatile Quarter Should Not Be Taken As Proxy For Future

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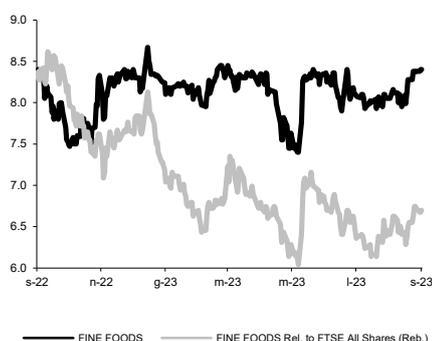
### Stock Rating

|                    |           |       |       |
|--------------------|-----------|-------|-------|
| Rating:            | Unchanged |       |       |
| Target Price (Eu): | Unchanged |       |       |
|                    | 2023E     | 2024E | 2025E |
| Chg in Adj EPS     | 0.0%      | -0.2% | -0.5% |

### Next Event

3Q23 Results 14 November

### FINE FOODS - 12M Performance



### Stock Data

|                 |       |
|-----------------|-------|
| Reuters code:   | FF.MI |
| Bloomberg code: | FF IM |

| Performance             | 1M        | 3M    | 12M    |
|-------------------------|-----------|-------|--------|
| Absolute                | 4.3%      | 0.7%  | 1.2%   |
| Relative                | 3.9%      | -1.6% | -24.1% |
| 12M (H/L)               | 8.67/7.40 |       |        |
| 3M Average Volume (th): | 4.24      |       |        |

### Shareholder Data

|                             |       |
|-----------------------------|-------|
| No. of Ord shares (mn):     | 26    |
| Total no. of shares (mn):   | 26    |
| Mkt Cap Ord (Eu mn):        | 215   |
| Total Mkt Cap (Eu mn):      | 215   |
| Mkt Float - Ord (Eu mn):    | 102   |
| Mkt Float (in %):           | 47.3% |
| Main Shareholder:           |       |
| Eigenfin Srl + M. Eigenmann | 52.7% |

### Balance Sheet Data

|                                 |      |
|---------------------------------|------|
| Book Value (Eu mn):             | 135  |
| BVPS (Eu):                      | 5.30 |
| P/BV:                           | 1.6  |
| Net Financial Position (Eu mn): | -46  |
| Enterprise Value (Eu mn):       | 260  |

**■ 1H a mixed bag, reassuring FY outlook.** 1H results beat our expectations (top line +4%/ adj. EBITDA +1%/ adj. EBIT -0.2%) despite quite mixed and volatile trends in 2Q. This was due to a reorganisation of the Cosmetics BU which affected all P&L lines (lower sales for the termination of a non-core line, EBITDA margin dilution to 7.5% due to restructuring costs, lower EBIT due in part to goodwill impairment), but we believe this should not jeopardise the overall improving trajectory in 2H. The FY23 outlook was confirmed, with positive hints on current trading (*"management relatively confident on margin improvement in light of the results achieved in the period after the end of 1H"*). We also note that the Pharma BU is likely to grow significantly as a result of a key multi-year agreement inked with a large international client, which will require an expansion of the production plant (c.€30mn of CapEx spread over about 2 years).

**■ Highlights and lowlights:** **(+) Strong top line growth** (+26.7%) driven by Food (32.8%) and Pharma (+35%), almost completely overcoming the difficulties arising from the external environment; **(-) Cosmetics:** lower sales for the disposal of a non-core business line. Group EBIT affected by €4.4mn goodwill impairment on Pharmatek. **(-) Softer adj. EBITDA margin at 9.9% in 1H** (1Q: 12.1%, 2Q: 7.5%): QoQ margin dilution is mainly attributable to the reorganisation of Cosmetics activities, exacerbated by higher personnel and energy costs (c.0.6pp impact on margin); **(+) Strong financials for FF parent company (ex-Cosmetics):** sales €110.2mn (+33.5%), EBITDA €12.2mn (+71.5% YoY), with a 11.1% margin (Pharma 12.1%, Food 10.6%), up 2.5pp YoY. **(+) Termination of portfolio management** with a primary credit institution (FV: +€1.7mn in 1H23) which showed extreme volatility in previous quarters (FV: -€5.8mn in FY22). **(+/-) Net debt broadly in line** at €57.8mn (our exp. €60.7mn) showing significant NWC absorption (-€16mn in 1H).

**■ Updated estimates.** We are lifting our FY23-25 top line by c.5%, broadly offset by a c.0.5pp margin reduction vs. prior estimates. We now expect a c.11% margin in FY23 (in line with 1H for FF parent company) implying a more sustainable catch-up in 2H (now c.11.9%, vs. 13.3% previously). P&L estimate revisions broadly neutral on adj. EPS.

**■ OUTPERFORM confirmed; target still €12.7.** As a result of the reorganisation of the Cosmetics business, 2Q turned out to be a very volatile quarter that should not be taken as a proxy for future trends, while we welcome management indications on current trading, enhancing visibility on the remainder of the year. We therefore confirm our positive view on the stock: a re-acceleration of growth in the coming months fuelled by ongoing business recovery and lower energy costs might rekindle interest in the equity story and allow the stock to benefit from a significant re-rating in the short term, even without any material upgrade to current expectations. On our new estimates, we confirm our TP at €12.7. FF is well placed to 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 customer demand (resulting in enduring relations and an 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   | 2021A | 2022A  | 2023E | 2024E | 2025E |
|------------------------|-------|--------|-------|-------|-------|
| Sales (Eu mn)          | 195   | 207    | 252   | 278   | 306   |
| EBITDA Adj (Eu mn)     | 21    | 16     | 28    | 34    | 41    |
| Net Profit Adj (Eu mn) | 10    | -9     | 9     | 13    | 17    |
| EPS New Adj (Eu)       | 0.398 | -0.338 | 0.354 | 0.518 | 0.669 |
| EPS Old Adj (Eu)       | 0.398 | -0.338 | 0.354 | 0.519 | 0.672 |
| DPS (Eu)               | 0.160 | 0.100  | 0.142 | 0.207 | 0.267 |
| EV/EBITDA Adj          | 17.8  | 18.3   | 9.5   | 7.7   | 6.6   |
| EV/EBIT Adj            | nm    | nm     | 21.3  | 14.6  | 11.6  |
| P/E Adj                | 21.1  | nm     | 23.7  | 16.2  | 12.6  |
| Div. Yield             | 1.9%  | 1.2%   | 1.7%  | 2.5%  | 3.2%  |
| Net Debt/EBITDA Adj    | 0.7   | 2.8    | 1.7   | 1.3   | 1.3   |