

FINE FOODS

Sector: Industrials

OUTPERFORM

Price: Eu7.90 - Target: Eu11.50

Solid Top Line, Margins Still Dented by Cosmetics Turnaround

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Stock Rating

Rating:	Unchanged		
Target Price (Eu):	from 12.70 to 11.50		
	2023E	2024E	2025E
Chg in Adj EPS	-53.4%	-14.3%	-7.4%

Next Event

FY23 Results out March 2024

FINE FOODS - 12M Performance



Stock Data

Reuters code:	FF.MI		
Bloomberg code:	FF IM		
Performance	1M	3M	12M
Absolute	-0.8%	-1.9%	-2.5%
Relative	-5.0%	-4.7%	-20.0%
12M (H/L)	8.67/7.40		
3M Average Volume (th):	6.00		

Shareholder Data

No. of Ord shares (mn):	26
Total no. of shares (mn):	26
Mkt Cap Ord (Eu mn):	202
Total Mkt Cap (Eu mn):	202
Mkt Float - Ord (Eu mn):	96
Mkt Float (in %):	47.3%
Main Shareholder:	
Eigenfin Srl + M. Eigenmann	52.7%

Balance Sheet Data

Book Value (Eu mn):	131
BVPS (Eu):	5.11
P/BV:	1.5
Net Financial Position (Eu mn):	-58
Enterprise Value (Eu mn):	260

■ **9M results and reassuring outlook for early 2024.** 9M results were broadly in line with our expectations, with double-digit growth at Pharma (+26.9%) and Food (+29.2%), but weaker Cosmetics. The 2pp YoY margin increase in 9M to 9.9% (in line with our exp.) was the result of strong margins in Food and Pharma (11.4% for both) partially offset by the impact of restructuring at Cosmetics (disposal of E-CIG business and part of medical surgical aids). The Group's order backlog suggests an optimistic outlook to year-end, which can be extended into the first months of 2024. Moreover, Pharma is expected to grow significantly due to the key multi-year agreements signed with large international clients that will require an expansion of the production plant.

■ **Highlights and lowlights:** (+) Top line still growing at a double-digit rate (1Q: +29%, 2Q: +24%, 3Q: 22%) driven by Food (1Q: +38%, 2Q: +27%, 3Q: +22%) and Pharma (1Q: +42%, 2Q: +29%, 3Q: +12%), almost completely overcoming the difficulties arising from the external environment and despite the tough comparison with a year ago (when Pharma trends were particularly strong); (-) Cosmetics: lower sales (9M: -12%, 3Q: -27%) due to the disposal of non-core business lines. Group EBIT affected by the €4.4mn goodwill impairment on Pharmatek booked in 1H. (+) Adj. EBITDA margin showing a QoQ recovery (1Q: 12.1%, 2Q: 7.5%, 3Q: 9.8%). The margin improvement derived from better fixed cost absorption. (-) Energy costs still above historical levels, impact of c.Eu1.5mn in 9M or 1.7% of sales. Excluding the energy cost increase, the underlying EBITDA margin would have stood at 10.7%. (-) Negative bottom-line: the impairment at Pharmatek, as well as increased financial charges and taxes, led to a net loss of €1.8mn in 9M23. On an adjusted basis, the bottom line was positive at €2.6mn. (+/-) Net debt broadly in line at €53.6mn (our exp. €54.7mn) showing lower NWC absorption (9M €-12mn, 1H €-16mn).

■ **Updated estimates.** We are leaving our top line projections unchanged, while trimming FY23-25 margins by 0.6-0.9pp to capture less inspiring progression for the coming quarters. On FY23, we expect a 10% margin, in line with 9M, rising to 11.5% in FY24 and 12.8% in FY25. This leads to cuts of 53%/14%/7% in adj. EPS for 2023/24/25.

■ **OUTPERFORM confirmed; target cut to €11.5 (from €12.7).** On our new estimates and a higher WACC (risk-free rate increased by 0.5pp), we are lowering our DCF-based TP to €11.5 from €12.7. As a result of the reorganisation of the Cosmetics business, 3Q was another volatile quarter that should not be taken as a proxy for future trends, while we welcome management indications on current trading, enhancing visibility on 4Q23 and early 2024. 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. 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	25	32	39
Net Profit Adj (Eu mn)	10	-9	4	11	16
EPS New Adj (Eu)	0.398	-0.338	0.165	0.444	0.619
EPS Old Adj (Eu)	0.398	-0.338	0.354	0.518	0.669
DPS (Eu)	0.160	0.100	0.066	0.178	0.248
EV/EBITDA Adj	17.8	18.3	10.3	7.9	6.6
EV/EBIT Adj	nm	nm	26.1	15.7	12.0
P/E Adj	19.8	nm	47.9	17.8	12.8
Div. Yield	2.0%	1.3%	0.8%	2.2%	3.1%
Net Debt/EBITDA Adj	0.7	2.8	2.3	1.6	1.4