

INTRED

Sector: Telecoms

BUY

Price: Eu9.78 - Target: Eu16.10

CapEx Optimisation Should Drive FCF Enhancement

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Stock Rating

Rating: Unchanged

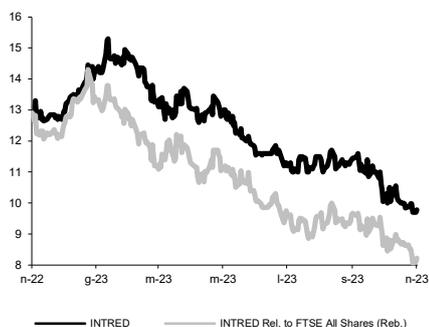
Target Price (Eu): from 15.50 to 16.10

	2023E	2024E	2025E
Chg in Adj EPS	0.0%	-11.1%	-9.8%

Next Event

FY23 Sales Out 7 February 2024

INTRED - 12M Performance



Stock Data

Reuters code: INTD.MI

Bloomberg code: ITD IM

Performance	1M	3M	12M
Absolute	-2.7%	-15.0%	-24.2%
Relative	-4.8%	-14.0%	-43.1%
12M (H/L)	15.30/9.70		
3M Average Volume (th):	4.61		

Shareholder Data

No. of Ord shares (mn):	16
Total no. of shares (mn):	16
Mkt Cap Ord (Eu mn):	155
Total Mkt Cap (Eu mn):	155
Mkt Float - Ord (Eu mn):	47
Mkt Float (in %):	30.2%
Main Shareholder:	
DM Holding S.r.l.	60.3%

Balance Sheet Data

Book Value (Eu mn):	53
BVPS (Eu):	3.34
P/BV:	2.9
Net Financial Position (Eu mn):	-20
Enterprise Value (Eu mn):	175

■ **9M23 solid sales.** INTRED released a solid performance in 9M23 with turnover at €36.8mn (+8% YoY, +0.6% above our exp.), which implies 9% growth in 4Q to achieve our €49mn FY top-line estimate. Thanks to the School Tenders, the Group is expanding turnover even in provinces where its presence was previously limited, leading to significant growth in the local PA segment (9M: +29%, 1H:+18%). In 9M, >3000 schools have been activated (1H: 2,820, tgt: c. 5,300), generating c. €6mn turnover (1H: €4.2mn). The Wholesale and Business segments enjoyed solid trends as a direct result of ongoing investments in marketing activities and strengthening the sales force. Churn rate still at best-in-class levels (9M: 4.5%, 1H: 4.4%).

■ **Positive feedback from recent investor meetings.** Following our initiation of coverage, we got reassuring feedback from recent meetings with INTRED management. The company sees some scope for CapEx optimisation over the next two years, as the network rollout on School Tenders is proceeding faster than expected. We believe this could lead to a material CapEx saving for the next 2 years (we would argue some c €6-7mn/year) compared to our initial assumptions, freeing up significant financial resources that should translate into a more sustainable capital structure in the near term and provide greater firepower for potential M&A. On this matter, management confirmed the interest in small targets in Lombardy and/or neighbouring regions, with a very complementary fit with INTRED, replicating the successful paradigm of the QCOM acquisition in 2020.

■ **Change in estimates.** We leave FY23-26 revenue estimates unchanged, while we incorporate higher commercial costs for the next 2 years to support mid-term growth, temporarily diluting margins to ca. 40-41% (from the usual 42-43%). Nevertheless, we acknowledge the notable opportunity to optimise investments as of next year. As a result, we revise our CapEx projections down by €6-7mn/year over the next three years while enhancing our forecasts for working capital trends. These adjustments lead to stronger FCF, with YE24 net debt decreasing slightly below the YE23 figure, setting the stage for an improving trajectory in the subsequent years.

■ **BUY rating confirmed; TP to €16.1 (from €15.5).** The improvement in our FCF estimates is partially offset in our DCF model by an increase in the risk-free rate (from 4.0% to 4.5%) prompting us to raise our target price from €15.5 to €16.1. We appreciate INTRED's business model, as it offers a very attractive risk-return profile thanks to: a) a proprietary network focused on future-proof UBB technology (no risk of disruptive change and limited long-term CapEx) and first-mover advantage in Lombardy, a highly strategic location (1/5 of Italy's GDP) with a strong presence of SMEs; b) footprint expansion from School Tenders and a new commercial investment cycle to support long-term growth and a faster take-up rate; c) strong visibility on IRR (upfront CapEx with guaranteed returns) with downside protection (visible and recurring revenue streams, low churn); d) a supportive regulatory framework (NRRP); e) long-term possibilities offered by attractive assets (proprietary network, well-established and loyal customer base) in a potential market consolidation scenario.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	41	46	49	55	61
EBITDA Adj (Eu mn)	18	20	21	22	25
Net Profit Adj (Eu mn)	9	9	6	6	7
EPS New Adj (Eu)	0.543	0.546	0.386	0.360	0.433
EPS Old Adj (Eu)	0.543	0.546	0.386	0.406	0.480
DPS (Eu)	0.060	0.070	0.066	0.068	0.082
EV/EBITDA Adj	14.1	12.4	8.2	7.9	6.8
EV/EBIT Adj	21.1	20.2	17.6	18.2	15.7
P/E Adj	18.0	17.9	25.3	27.1	22.6
Div. Yield	0.6%	0.7%	0.7%	0.7%	0.8%
Net Debt/EBITDA Adj	-0.3	0.6	0.9	0.8	0.6