Milan, 19 March 2024

Italian Equity Research – FY23 Results

INTRED

BUY

Sector: Telecoms

Price: Eu9.98 - **Target: Eu16.50**

A Fine Mix: EBITDA Growth, Strong Brand, Network Expansion

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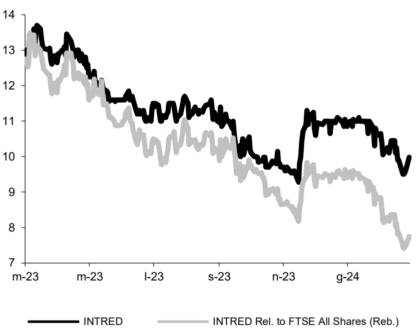
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 16.10 to 16.50
	2024E	**2025E**	**2026E**
Chg in Adj EPS	13.3%	5.6%	3.7%

Next Event

1Q23 Sales Out 7 May 2024

INTRED - 12M Performance



Stock Data			
Reuters code:			INTD.MI
Bloomberg code:			ITD IM
Performance	**1M**	**3M**	**12M**
Absolute	-6.3%	-11.3%	-23.5%
Relative	-12.9%	-23.1%	-54.3%
12M (H/L)			13.70/9.28
3M Average Volume (th):			3.28

Shareholder Data	
No. of Ord shares (mn):	16
Total no. of shares (mn):	16
Mkt Cap Ord (Eu mn):	158
Total Mkt Cap (Eu mn):	158
Mkt Float - Ord (Eu mn):	48
Mkt Float (in %):	30.2%
Main Shareholder:	
DM Holding S.r.l.	60.3%

Balance Sheet Data	
Book Value (Eu mn):	60
BVPS (Eu):	3.77
P/BV:	2.6
Net Financial Position (Eu mn):	-33
Enterprise Value (Eu mn):	191

- **FY23 results.** Intred reported a strong beat on EBITDA (+5% vs our exp.) which, coupled to lower D&A, led to a >30% surprise on the bottom line. On the other hand, net debt (€20.9mn, 0.9x EBITDA) was higher (€19.9mn), primarily due to increased CapEx (€31.1mn vs our exp. €28.4mn), mostly related to the school tenders. Net sales came to €50.1mn, +10.0% YoY with an impressive acceleration in the last quarter (4Q: +18%, 9M: +8.0%) driven by sales of fibre (+16% YoY) and supported by recurring fees (c. 85% of sales) and best-in-class churn (4.4%). Adj. EBITDA rose 13.5% to €22.5mn (+€1mn vs our exp), with a best-ever margin of 44.6% (+1.5pp YoY), despite the exceptional push on marketing activities to improve brand awareness (cost of services up 20.2%). EBIT came to €12.7mn, + 4.2% YoY). Adj. net profit decreased by 5.6% to €8.2mn (our exp. €6.1mn), only due to higher interest. DPS proposal at €0.10 (our exp. €0.07).
- **Feedback from the conference call.** The Connecting Italia deal is nearing completion (in April), with promising cost synergies and a strengthened market presence in the Northern area of Milan. FY24 outlook: despite a slight reduction in margin due to higher marketing costs, the Group remains optimistic about FY24, with positive trends in the first 2 months. The investment cycle in proprietary infrastructure will continue this year with €25-28mn CapEx (consensus €20mn). Following the Vodafone/Fastweb merger, the UBB market should improve, with reduced competition on prices. The multi-year framework agreement for the supply of fibre to Vodafone Italy to connect its mobile towers (€3mn first batch of supply) remains unaffected and should be extended soon; moreover, INTRED currently maintains strong ties with Fastweb, a key wholesale client. On governance, Mr. Zanagnolo's appointment as GM ensures continuity following Mr. Protto's unexpected departure, while Mr. Peli will keep his current role as CEO.
- **Change in estimates.** Our estimates incorporate the upside from the acquisition of Connecting Italia (+5-6% on top line/EBITDA), assuming a much faster extraction of cost synergies (moving customers to proprietary network) and despite the higher marketing costs, leaving the FY24 margin unchanged at 40.5% (-4.1pp YoY). On the other hand, the FCFO is entirely absorbed by higher CapEx (€27mn), the M&A cashout for Connecting Italia (€4mn), and dividends (€1.6mn), leading to €33mn net debt (1.4x EBITD).
- **BUY rating confirmed; TP to €16.5 (from €16.1) due to lower WACC (-0.5bps in risk free).** Positive hints on current trading and accelerated value creation through Connecting Italia may lead to a mid-single-digit enhancement of consensus P&L estimates, partially counterbalanced at the FCF level by much higher CapEx in the proprietary network. 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 need) 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 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 optionality offered by attractive assets (proprietary network, well-established and loyal customer base) in a potential market consolidation scenario.

Key Figures & Ratios	2022A	2023A	2024E	2025E	2026E
Sales (Eu mn)	46	51	58	65	73
EBITDA Adj (Eu mn)	20	23	23	27	30
Net Profit Adj (Eu mn)	9	8	6	7	9
EPS New Adj (Eu)	0.546	0.516	0.408	0.457	0.556
EPS Old Adj (Eu)	0.546	0.386	0.360	0.433	0.536
DPS (Eu)	0.070	0.100	0.102	0.114	0.122
EV/EBITDA Adj	12.4	9.4	8.1	7.1	5.9
EV/EBIT Adj	20.2	16.6	17.8	15.3	12.4
P/E Adj	18.3	19.3	24.4	21.8	18.0
Div. Yield	0.7%	1.0%	1.0%	1.1%	1.2%
Net Debt/EBITDA Adj	0.6	0.9	1.4	1.1	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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OUTPERFORM:	47.15 %
NEUTRAL:	26.02 %
UNDERPERFORM	00.81 %
SELL:	00.00 %

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OUTPERFORM:	51.02 %
NEUTRAL:	10.20 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short

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