INTRED

BUY

Sector: Telecoms

Price: Eu10.60 - **Target: Eu17.20**

Powering Up Profitability: 50% the New Gold Standard

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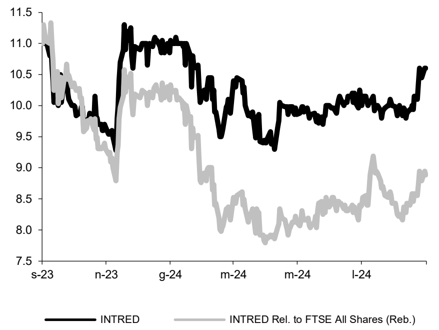
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 16.50 to 17.20
	2024E	**2025E**	**2026E**
Chg in Adj EPS	9.5%	8.6%	10.7%

Next Event: 3Q24 Results out 5 November

INTRED - 12M Performance



Stock Data			
Reuters code:			INTD.MI
Bloomberg code:			ITD IM
Performance	**1M**	**3M**	**12M**
Absolute	6.0%	6.0%	-2.3%
Relative	5.5%	6.2%	-20.5%
12M (H/L)			11.30/9.28
3M Average Volume (th):			2.65

Shareholder Data	
No. of Ord shares (mn):	16
Total no. of shares (mn):	16
Mkt Cap Ord (Eu mn):	168
Total Mkt Cap (Eu mn):	168
Mkt Float - Ord (Eu mn):	51
Mkt Float (in %):	30.2%
Main Shareholder:	
DM Holding S.r.l.	60.3%

Balance Sheet Data	
Book Value (Eu mn):	61
BVPS (Eu):	3.81
P/BV:	2.8
Net Financial Position (Eu mn):	-28
Enterprise Value (Eu mn):	197

- **A Perfect Mix: Profitability Surge and Strong FCF.** INTRED's new strategic plan centres on long-term shareholder value creation through three key pillars: expanding the cash-generating FTTH network, enhancing market positioning via the acquisition of Connecting Italia, and diversifying revenue streams by investing in datacentres. The new plan envisages €80mn of CapEx in 2024-27, of which €13mn related to the construction of a DC facility in Brescia, which will start contributing to revenues from 2028. Top line growth is expected to remain at high single-digit levels, driven by the existing business, despite a declining contribution from School Tenders. On the other hand, the EBITDA margin should structurally reach c.50% (up from the current 42-44%). EBITDA improvement, combined with lower School Tender investments, should drive strong FCF generation in 2026 with a significant improvement in the NFP, which will tend to zero in 2028.
- **Life after School Tender: conservative targets with massive upside from potential renewals.** The School Tender has driven an expected IRR of over 30% for INTRED over the 2021-2049 period, expanding its regional coverage, enhancing its reputation, and allowing it to establish long-term relationships with schools, thereby reinforcing its market presence and improving future opportunities. The key question, effectively addressed by INTRED's management, is the company's strategy post-School Tender completion. The new 4-year EBITDA targets, with a double-digit CAGR, are conservatively based on the assumption that no schools will remain as INTRED customers once the tender concludes. However, in a more optimistic scenario where 100% of the schools continue as clients, the EBITDA upside would become significant from 2027, providing a substantial buffer to the company's targets.
- **Datacentre opportunity, a perfect fit with INTRED's strategy.** With the Italian DC market expected to grow at a CAGR of >14%, reaching €3.7bn by 2029, and Lombardy holding the largest market share, INTRED is well placed to capitalise on the opportunity, diversifying revenue sources and strengthening its market presence. The company plans to invest a relatively small €13mn between 2025 and 2026 (an initial module of c.1.5MW capacity) to meet increasing demand for data storage and processing. The investment is expected to deliver positive EBITDA by 2027 and exceed CapEx by 2029, with an expected IRR >20% through 2036, assuming two-thirds of the investment is covered by bank financing.
- **Change in estimates.** We are rephasing our estimates to feature the new 2024-27 outlook, assuming i) a 7.5% top line CAGR (tgt: high single-digit) to €68mn in FY27 (tgt. €67-73mn); ii) an 11% EBITDA CAGR (tgt: double digit) to c.€34mn in FY27 (tgt €34-36mn) driving c.50% profitability in FY27 (our exp. 50.1%). Net debt expected to peak in FY25 (our exp. €34mn, 1.3x leverage) to reflect the €13mn DC CapEx, then come down to c.€8mn in FY27 (0.3x EBITDA).
- **BUY confirmed, new TP €17.2 (from €16.50).** Based on our new estimates we are raising our DCF-based TP from €16.5 to €17.2, offering upside of over 60%. The new BP outlines a clear development trajectory rooted in the existing business, effectively addressing market concerns about the completion of School Tenders while introducing new avenues of differentiation in adjacent sectors. Notably, the DC opportunity stands out, requiring no significant CapEx outlays, being perfectly synergistic with INTRED's operations, and offering high long-term revenue visibility, strong profitability once capacity saturation is reached, and an IRR in the low 20s. Additional upside could come from potential M&A activity, as the company holds valuable assets, such as a proprietary network and a well-established, loyal customer base, positioning it advantageously in a market consolidation scenario.

Key Figures & Ratios	**2023A**	**2024E**	**2025E**	**2026E**	**2027E**
Sales (Eu mn)	51	58	60	64	68
EBITDA Adj (Eu mn)	23	24	27	31	34
Net Profit Adj (Eu mn)	8	7	8	10	12
EPS New Adj (Eu)	0.516	0.447	0.496	0.616	0.732
EPS Old Adj (Eu)	0.516	0.408	0.457	0.556	
DPS (Eu)	0.100	0.112	0.124	0.135	0.146
EV/EBITDA Adj	9.4	8.1	7.6	6.3	5.2
EV/EBIT Adj	16.6	16.9	15.6	12.0	9.6
P/E Adj	20.6	23.7	21.4	17.2	14.5
Div. Yield	0.9%	1.1%	1.2%	1.3%	1.4%
Net Debt/EBITDA Adj	0.9	1.2	1.3	0.8	0.2

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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:

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- 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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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:	49.59 %
NEUTRAL:	25.61 %
UNDERPERFORM	00.83 %
SELL:	00.00 %

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (49 in total) is as follows:

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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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