

LU-VE

Sector: Industrials

OUTPERFORM

Price: Eu20.80 - Target: Eu28.00

Margins and Cash Generation To Hold Up Well

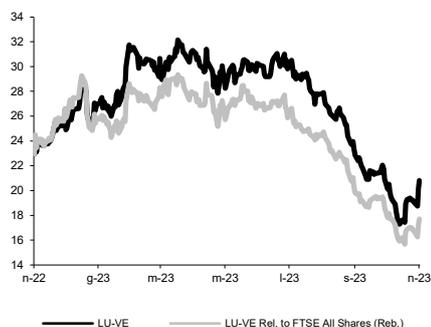
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Stock Rating

Rating:	Unchanged		
Target Price (Eu):	Unchanged		
	2023E	2024E	2025E
Chg in Adj EPS	4.3%	0.7%	0.2%

Next Event FY23 Revenues
 Results Out January 2024

LU-VE - 12M Performance



Stock Data

Reuters code:	LUVE.MI		
Bloomberg code:	LUVE IM		
Performance	1M	3M	12M
Absolute	-0.5%	-25.2%	-9.4%
Relative	-5.1%	-28.4%	-26.9%
12M (H/L)	32.15/17.28		
3M Average Volume (th):	14.20		

Shareholder Data

No. of Ord shares (mn):	22
Total no. of shares (mn):	22
Mkt Cap Ord (Eu mn):	462
Total Mkt Cap (Eu mn):	462
Mkt Float - Ord (Eu mn):	177
Mkt Float (in %):	38.2%
Main Shareholder:	
Liberali Family	45.8%

Balance Sheet Data

Book Value (Eu mn):	228
BVPS (Eu):	10.26
P/BV:	2.0
Net Financial Position (Eu mn):	-137
Enterprise Value (Eu mn):	600

■ **3Q23 adj. EBITDA up 4.5% YoY, almost 5% better than expected.** On 10 October 2023, LU-VE announced that 9M23 product turnover was Eu460.0mn (+0.7% YoY or -0.6% YoY on a like-for-like basis). 3Q23 turnover therefore fell 3.4% YoY to Eu140.5mn. Despite the slightly declining quarterly top line performance, the 3Q23 EBITDA margin (13.9% on sales) was above the 1H23 level (13.3%) and 110bp above 3Q22. In more detail, the Eu0.9mn YoY improvement is the combination of lower costs (Eu5.3mn) partially offset by Eu3.1mn and Eu1.3mn negative price and volume effects. At bottom line, quarterly net profit reached Eu9.8mn, excluding non-recurring items, almost in line with the corresponding figure in 3Q22 (Eu10.3mn). Finally, net debt stood at Eu167.6mn as at the end of September 2023, down Eu3.7mn compared to the corresponding figure at the end of 3Q22. Notably NWC to sales, which peaked at 24.5% at the end of September 2022, came to 22.7% as at the end of September 2023, showing a normalising trend. CapEx in the last 12 months amounted to Eu31.4mn.

■ **Management outlook.** Management forecasts 4Q23 to be broadly in line with 4Q22. For heat pumps, while the long-term outlook remains extremely positive, in 3Q23 revenues suffered a slowdown related to the postponement of some incentive schemes to 2024 (in Germany in particular) and by a general cooling of the housing renovation market. This contraction might continue for a few months, but after a tough comparison in 1H, this revenue line is seen flat YoY in 2024, and is expected to keep growing thereafter. On the other hand, the outlook remains very promising in activity with datacentres, mobile transport and industrial cooling (power gen. and other applications). Looking ahead to 2024, management therefore appeared confident revenues might continue to post moderate growth with good margin stability. In terms of CapEx, all the projects have been confirmed but rescheduled according to more gradual expected sales trends.

■ **Change in estimates.** We are confirming our revenues and EBITDA estimates, already consistent with management indications. Below this line, we are trimming D&A, as a consequence of a slightly lower CapEx, while we are raising financial charges slightly (90% of financing is at a fixed rate, on average about 3%). Looking purely at 2023, we are factoring in a lower tax rate, thanks to some fiscal benefits in Poland and a more favourable geographical mix. All in all, we are raising our 2023 and 2024 EPS forecasts by 4.3% and 0.7% respectively.

■ **OUTPERFORM confirmed; target Eu28.0 unchanged.** Margin resilience in 3Q23 confirmed excellent management control and the clear benefits coming from business differentiation. Volatility in the heat pump business doesn't affect the industry's long-term outlook, which remains safe and promising. In detail, the group remains well exposed to supportive trends: 1) the enforcement of increasingly strict environmental regulations; 2) the migration of heating systems from gas to electric through the use of heat pumps; 3) developing needs for refrigeration tools linked to rising urban populations; 4) the creation of effective cold chains in developing countries; 5) cooling needs of datacentres and renewable electricity generation plants.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	492	619	606	624	681
EBITDA Adj (Eu mn)	61	79	79	81	89
Net Profit Adj (Eu mn)	27	37	34	35	39
EPS New Adj (Eu)	1.203	1.675	1.527	1.552	1.765
EPS Old Adj (Eu)	1.203	1.678	1.465	1.541	1.760
DPS (Eu)	0.350	0.380	0.400	0.420	0.440
EV/EBITDA Adj	8.8	7.8	7.6	7.1	6.3
EV/EBIT Adj	15.4	12.2	11.8	11.1	9.6
P/E Adj	17.3	12.4	13.6	13.4	11.8
Div. Yield	1.7%	1.8%	1.9%	2.0%	2.1%
Net Debt/EBITDA Adj	2.0	1.8	1.7	1.5	1.1