

# LU-VE

Sector: Industrials

# OUTPERFORM

Price: Eu25.05 - Target: Eu31.00

## Cost Management to Protect Margins and Cash Generation

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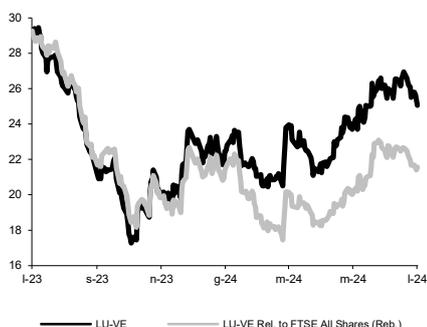
### Stock Rating

<b>Rating:</b>	Unchanged		
<b>Target Price (Eu):</b>	from 28.90 to 31.00		
	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>Chg in Adj EPS</b>	2.8%	2.0%	3.2%

### Next Event: 1H24 Results

Results Out 5 September 2024

### LU-VE - 12M Performance



### Stock Data

 Reuters code: LUVE.MI  
 Bloomberg code: LUVE IM

Performance	1M	3M	12M
Absolute	-2.7%	17.9%	-14.4%
Relative	-2.9%	18.1%	-30.5%
12M (H/L)	29.45/17.28		
3M Average Volume (th):	12.99		

### Shareholder Data

No. of Ord shares (mn):	22
Total no. of shares (mn):	22
Mkt Cap Ord (Eu mn):	557
Total Mkt Cap (Eu mn):	557
Mkt Float - Ord (Eu mn):	213
Mkt Float (in %):	38.2%
Main Shareholder:	
Liberali Family	45.8%

### Balance Sheet Data

Book Value (Eu mn):	247
BVPS (Eu):	11.13
P/BV:	2.3
Net Financial Position (Eu mn):	-111
Enterprise Value (Eu mn):	668

- 2Q24 revenues penalized by heat pumps, orders improving.** On 11 July, LU-VE published key results to 30 June 2024: turnover from products in 2Q was Eu151.5mn (-10.4% YoY), -2.5% vs our estimates, while the order book as at end-June amounted to Eu170.9mn, up +9.4% compared to 31 December 2023. Once more we note that in 1Q23 and 2Q23, heat pump revenues were very strong (ca. Eu20mn and Eu22mn respectively), while the contribution in 2H23 was significantly weaker (ca. Eu20mn).
- Cost savings to protect EBITDA, excellent cash generation.** As already seen in 1Q24, we expect LU-VE to be able to maintain adjusted EBITDA, in absolute terms, stable YoY thanks to effective cost control. In detail: 2Q24 EBITDA should come in at Eu23.1mn, -1% YoY, with a 15.2% margin on sales, up almost 200bp YoY. Below this line, after slightly decreasing D&A but higher financial charges and taxes, we expect quarterly net profit at Eu10mn. Notably, we expect net debt as at the end of June 2024 to amount to Eu120mn, down Eu40mn YoY after a Eu9mn dividend payment.
- Business outlook.** In a recent interview group CEO Matteo Liberali said that the company sees 2024 closing with revenues down slightly, but EBITDA “equal to or above 2023 due to action on structural costs”. Among the most promising businesses, the CEO mentions: cooling plant for data centres, which LU-VE is pushing, above all in the USA and China with the aim of taking revenues from 6-7% to 15% in two years; heat exchangers for supermarket counters; and those for high-efficiency tumble dryers. A new important stream of revenues will come from cooling systems for emergency generators at nuclear power stations: thanks to subsidiary Refrion (acquired in 2022) LU-VE has won an order in the United Kingdom for the new generation plant at Hinkley Point C, in Somerset, built by French firm Edf; the project, whose first lots will be delivered in 2025, is worth Eu27mn for LU-VE and could pave the way to other important contracts (negotiations on two other projects by Edf and one with Ansaldo Energia are in progress).
- Change in estimates.** We factor more cautious forecasts on the heat pump business into our 2024 estimates (FY24 revenues expected at Eu25mn from Eu45mn). In 2025, visibility remains low but we still expect the business to reach Eu35mn in revenues (+Eu10mn). In 2025, we also expect the nuclear business to contribute Eu15mn in revenues. Finally, the core traditional business should grow 3.7% YoY in 2024 to Eu565mn and by 4% YoY in 2025. Conversely, in terms of margins, we are improving our 2024 and 2025 estimates by 40bp and 20bp respectively. All in all, having also trimmed financial charges, we are making minor changes (+2.8%/+2.0%/+3.2%) to 2024/25/26 EPS. In terms of cash flow, we expect 2024 and 2025 CapEx at Eu35mn (from Eu40mn). Thanks to effective NWC management, we are improving net cash generation.
- OUTPERFORM confirmed; target Eu31.0 from Eu28.9.** Our new target has been set to reflect improved net cash generation estimates. We appreciate the excellent positioning of the group and its major diversification into promising areas. The group has been able to respond promptly to the deterioration of outlook for the heat pump business, making cost savings that safeguard profitability this year and will improve operational leverage in the next years.

Key Figures & Ratios	2022A	2023A	2024E	2025E	2026E
Sales (Eu mn)	619	617	597	647	685
EBITDA Adj (Eu mn)	79	80	81	88	94
Net Profit Adj (Eu mn)	37	39	37	41	45
EPS New Adj (Eu)	1.675	1.753	1.658	1.841	2.008
EPS Old Adj (Eu)	1.675	1.753	1.612	1.806	1.946
DPS (Eu)	0.380	0.400	0.420	0.440	0.460
EV/EBITDA Adj	7.8	8.9	8.2	7.4	6.6
EV/EBIT Adj	12.2	13.7	12.3	10.9	9.8
P/E Adj	15.0	14.3	15.1	13.6	12.5
Div. Yield	1.5%	1.6%	1.7%	1.8%	1.8%
Net Debt/EBITDA Adj	1.8	1.6	1.4	1.0	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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BUY:	23.97 %
OUTPERFORM:	49.59 %
NEUTRAL:	25.61 %
UNDERPERFORM	00.83 %
SELL:	00.00 %

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BUY:	38.78 %
OUTPERFORM:	51.02 %
NEUTRAL:	10.20 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short
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