Milan, 23 September 2024

Italian Equity Research – Company Update

NEXI

OUTPERFORM

Sector: Industrials

Price: Eu6.24 - **Target: Eu8.10**

EU Digital Sector Gap: *the Case for a Nexi-Worldline Merger*

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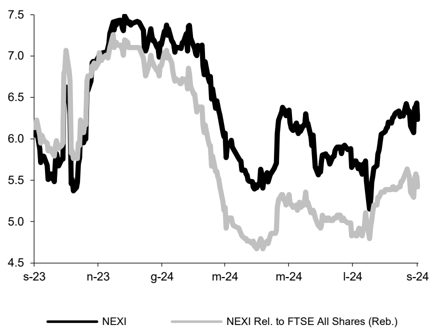
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			Unchanged
	2024E	**2025E**	**2026E**
Chg in Adj EPS	0.0%	0.0%	0.0%

Next Event

3Q/9M24 Results Out 8th November, 2024

NEXI - 12M Performance



Stock Data			
Reuters code:			NEXII.MI
Bloomberg code:			NEXI IM
Performance	**1M**	**3M**	**12M**
Absolute	2.4%	8.9%	1.6%
Relative	0.5%	9.0%	-13.6%
12M (H/L)			7.48/5.15
3M Average Volume (th):			4,715.69

Shareholder Data	
No. of Ord shares (mn):	1,312
Total no. of shares (mn):	1,274
Mkt Cap Ord (Eu mn):	8,184
Total Mkt Cap (Eu mn):	8,184
Mkt Float - Ord (Eu mn):	3,385
Mkt Float (in %):	41.4%
Main Shareholder:	
Hellman & Friedman	19.9%

Balance Sheet Data	
Book Value (Eu mn):	4,036
BVPS (Eu):	3.17
P/BV:	2.0
Net Financial Position (Eu mn):	-4,506
Enterprise Value (Eu mn):	12,450

The consolidation of financial and digital services in Europe seems to be back on the table, also as a response to decreasing interest rates. The report on EU competitiveness presented by Mario Draghi relaunches the need for Europe-wide integration in digital sectors. After the recent debacle in the performance of digital payment players, we think the time has come for sector consolidation. We see a massive industrial and financial opportunity in the deal … at the same time, political obstacles are high. In this report, we explore the potential value creation from a merger between the two main European digital payments players and an update on Nexi operating trends, which look challenging in light of inflation biting into consumption while supported by ongoing positive long-term structural trends.

- **Is the time ripe for pan-European consolidation? The case for a Nexi-Worldline merger.** The consolidation of financial and digital services in Europe seems to be back on the table and the recent move by UniCredit on Commerzbank is shaking the tree. We think that industrially and financially, a combination between Nexi and Worldline would make sense, and the challenge ahead is accelerating sector consolidation. We have run a simulation of the value creation from a combination based on the following assumptions:
  - Nexi bidding in shares for Worldline at a premium of 40% to the current price
  - Synergies at operating level are expected to be highly material, especially on costs: we assume 10% of the cost base or €537mn when fully up and running. We also expect one-off charges of ~€420mn to release synergies. On CapEx, we expect a benefit of ~€150mn per annum at run rate
  - Financial leverage improving to 1.6x post synergies
  - Potential imposition of antitrust remedies, although manageable in our view

  In our view, the main obstacle is undoubtedly the political implications and exercise of the golden power. This materially reduces the chance of a combination which appears extremely valuable in terms of value creation for the shareholders of both companies. *See report for an analysis of the potential deal*.
- **Operating trends: tough outlook but guidance OK.** Not a spectacular summer season but decent overall with slightly positive organic growth, especially for merchant solutions in Italy. We basically confirm our expectations, which are a touch below consensus for 2025/2026 and envisage slight margin expansion.
- **OUTPERFORM, TP 8.10 confirmed.** Nexi performance recovered a little last month following reassuring indications from 2Q & guidance confirmation: good news relative to peers. There is a risk of overhang; we consider a placement does not look very likely. Following the one-year rollover, our valuation based on a DCF and market multiples is confirmed at €8.10ps. Our fair value does not reflect M&A scenarios or a merger with Worldline. Based on our assumptions, the value creation from a merger would be highly relevant: assuming a post-merger EV/adj. EBITDA multiple of 6.5x, the Equity value of the group would jump to almost €20bn and the FVps to ~€12 or almost 100% upside on the current stock price.

Key Figures & Ratios	2022A	2023A	2024E	2025E	2026E
Sales (Eu mn)	3,143	3,344	3,513	3,695	3,897
EBITDA Adj (Eu mn)	1,592	1,739	1,848	1,961	2,109
Net Profit Adj (Eu mn)	678	702	743	777	845
EPS New Adj (Eu)	0.529	0.535	0.583	0.629	0.684
EPS Old Adj (Eu)	0.529	0.535	0.583	0.629	0.684
DPS (Eu)	0.000	0.000	0.000	0.000	0.000
EV/EBITDA Adj	11.2	8.4	6.7	5.8	5.0
EV/EBIT Adj	15.3	11.3	9.1	7.9	6.7
P/E Adj	11.8	11.7	10.7	9.9	9.1
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Net Debt/EBITDA Adj	3.4	3.0	2.4	1.9	1.3

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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.

Reports on all companies listed on the S&PMIB40 Index, most of those on the MIDEX Index and the main small caps (regular coverage) are published at least once per quarter to comment on results and important newsflow.

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.

Explanation of our ratings system:

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

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Emittente	%	Long/Short

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