

RECORDATI

Sector: Healthcare

OUTPERFORM

Price: Eu50.35 - Target: Eu62.00

Well Placed to Hit Upper Half of FY Guidance Range

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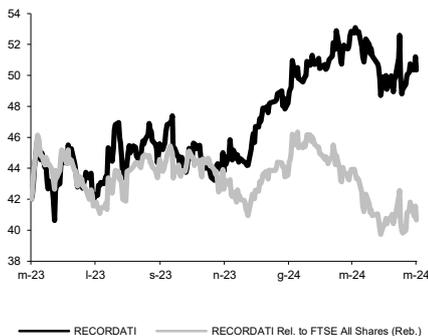
Stock Rating

Rating:	Unchanged		
Target Price (Eu):	Unchanged		
	2024E	2025E	2026E
Chg in Adj EPS	1.2%	1.4%	3.0%

Next Event

2Q24 Results Out 30 July 2024

RECORDATI - 12M Performance



Stock Data

Reuters code:	RECI.MI		
Bloomberg code:	REC IM		
Performance	1M	3M	12M
Absolute	1.6%	-0.4%	19.9%
Relative	0.4%	-10.3%	-3.9%
12M (H/L)	53.08/40.62		
3M Average Volume (th):	225.20		

Shareholder Data

No. of Ord shares (mn):	209
Total no. of shares (mn):	206
Mkt Cap Ord (Eu mn):	10,529
Total Mkt Cap (Eu mn):	10,529
Mkt Float - Ord (Eu mn):	5,073
Mkt Float (in %):	48.2%
Main Shareholder:	
FIMEI	51.8%

Balance Sheet Data

Book Value (Eu mn):	1,869
BVPS (Eu):	8.94
P/BV:	5.6
Net Financial Position (Eu mn):	-1,373
Enterprise Value (Eu mn):	11,903

- 1Q24 results.** Solid results slightly above consensus on key metrics, but broadly in line with our expectations. Strong momentum drove double-digit growth at CER across both S&PC (+10.1% like-for-like, mostly driven by Urology, with Eligard growing double digit) and Rare Diseases (+13.9% at CER, driven by key growth franchises, Onco & Endo) and across all key geographical markets. The adj. EBITDA margin was 40.2%, +0.2pp YoY, reflecting strong revenue and operating leverage. This is in line with FY24 guidance (c.37%), considering higher R&D costs, which are seasonally more concentrated in 2H. Adjusted net income (€163.7mn, +5.6% YoY, +1% vs. our estimate/consensus) was the result of higher operating profit absorbing increased financial charges (including €2.7mn of unrealised ForEx losses) and a higher tax rate. FCF of €147.1mn (+€43.7mn YoY, +€22mn vs. our exp.) and strong EBITDA generation brought leverage to 1.75x EBITDA pro-forma (our exp. 1.9x).
- Positive feedback from the call.** The company is well placed to hit the upper half of the FY guidance range. It struck a confident tone on constant lifecycle management and positive feedback from the FDA, especially on the label extension of Isturis to Cushing Syndrome in US. The longer-term ambition to double sales within 5 years is not an official target but remains an aspiration. The company is on track to exceed €2.4bn in sales by FY25, grasping M&A opportunities and capitalising on growth in RRD and SP&C. The CEO didn't comment on specific merger targets on the back of recent rumours of a CVC exit, but emphasised the supportive role played by the PE fund as a happy shareholder, and its commitment to growth. Focus on M&A was reiterated: the company is currently exploring targets with global opportunities beyond the US. 1Q financial charges were hit by higher interest rates and unrealised ForEx losses, but management expects them to decrease throughout the year.
- Change in estimates.** We are raising our FY24 revenue/EBITDA by 0.5/1%, and are now closer to the upper end of the target range. EPS'24/25/26: +1%/+1%/+3%.
- OUTPERFORM confirmed; target still €62.** Robust revenue growth momentum continued in 1Q, with more visibility on key R&D pipeline projects (especially Isturis). On the back of the latest press rumours, we believe the time is now ripe for potential moves/exit by CVC 6 years after it entered Recordati; in the near-term, speculative appeal is set to remain high, leaving the stock well placed to outperform the market. We believe that a merger deal with an industrial buyer is highly probable considering the market's hyper-fragmentation and Recordati's exposure to the very attractive rare diseases sector. On our current estimates, we confirm the 9% premium on top of our DCF-based FV at €57 (unchanged), leading to a €62 TP. The reasonable upside to current prices (+20%) prompts us to confirm our positive view (OUTPERFORM). On top of the speculative angle, we continue to like the equity story: the Group is well placed to benefit from ongoing external growth and the expansion of its RRD franchise into the attractive endocrinology/oncology space, while also enjoying visible organic performance through a very well-managed and diversified product pipeline in the S&PC and OTC businesses.

Key Figures & Ratios

	2022A	2023A	2024E	2025E	2026E
Sales (Eu mn)	1,853	2,082	2,296	2,421	2,538
EBITDA Adj (Eu mn)	673	770	852	903	952
Net Profit Adj (Eu mn)	473	525	569	609	652
EPS New Adj (Eu)	2.263	2.509	2.723	2.911	3.118
EPS Old Adj (Eu)	2.263	2.509	2.691	2.871	3.028
DPS (Eu)	1.150	1.200	1.350	1.548	1.689
EV/EBITDA Adj	15.4	13.8	14.0	13.0	12.1
EV/EBIT Adj	19.3	16.9	17.2	15.9	14.7
P/E Adj	22.3	20.1	18.5	17.3	16.1
Div. Yield	2.3%	2.4%	2.7%	3.1%	3.4%
Net Debt/EBITDA Adj	2.1	2.1	1.6	1.3	1.1

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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:	25.21 %
OUTPERFORM:	46.22 %
NEUTRAL:	27.73 %
UNDERPERFORM	00.84 %
SELL:	00.00 %

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (50 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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Emitente	%	Long/Short
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