Milan, 15 January 2024

Italian Equity Research – Change in View

RECORDATI

NEUTRAL

Sector: Healthcare

Price: Eu50.96 - **Target: Eu57.00**

Upside to FY25 Target Priced in, Downgrade After Recent Rally

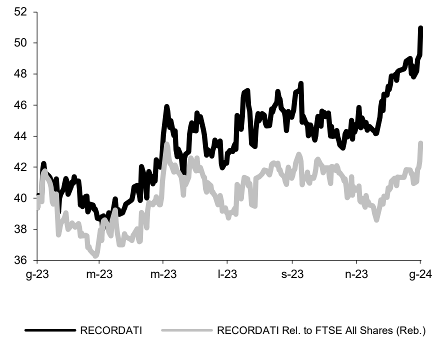
Giorgio Tavolini +39-02-77115.279
giorgio.tavolini@intermonte.it

Stock Rating			
Rating:			from BUY to NEUTRAL
Target Price (Eu):			from 54.00 to 57.00
	2023E	**2024E**	**2025E**
Chg in Adj EPS	0.0%	0.0%	0.0%

Next Event

FY23 Results Out Late February 2024

RECORDATI - 12M Performance



Stock Data			
Reuters code:			RECI.MI
Bloomberg code:			REC IM
Performance	**1M**	**3M**	**12M**
Absolute	7.9%	11.9%	29.4%
Relative	7.1%	4.5%	12.4%
12M (H/L)			50.96/38.00
3M Average Volume (th):			234.51

Shareholder Data	
No. of Ord shares (mn):	209
Total no. of shares (mn):	205
Mkt Cap Ord (Eu mn):	10,657
Total Mkt Cap (Eu mn):	10,657
Mkt Float - Ord (Eu mn):	5,135
Mkt Float (in %):	48.2%
Main Shareholder:	
FIMEI	51.8%

Balance Sheet Data	
Book Value (Eu mn):	1,712
BVPS (Eu):	8.18
P/BV:	6.2
Net Financial Position (Eu mn):	-1,323
Enterprise Value (Eu mn):	11,981

- **Likely upgrade to FY25 outlook largely expected.** 4Q results confirmed the company's excellent momentum thanks to strong performances in all businesses, with robust growth across both S&PC and RRD and continued delivery of sector-leading margins. The business is on track to hit the high end of upgraded FY23 guidance (our estimates are already there) while in late February the company should provide new 2024 targets and may take the opportunity to revise its current 2025 outlook upwards. Recordati is well placed to exceed 2025 targets (>€2.4bn sales, ±37% margin) based entirely on the existing asset portfolio (including the sales boost from Avodart and Combodart, which we estimate will reach c.€100mn in FY25 from €10-20mn in FY23), with further upside potentially coming from unannounced M&A deals in both S&PC and RRD. This could justify the likely upgrade of current targets. We currently foresee an FY25 top line of €2.41bn (consensus €2.40bn) with a 36.9% margin (consensus 37.1%). Management remains committed to: i) driving organic growth of the current portfolio, b) pursuing accretive and growth M&A and targeted business development (prioritising opportunities in RRD, especially the Onco and Endo areas); c) capturing opportunities within the existing proprietary pipeline; d) sustaining sector-leading margins (c.±37%); e) maintaining a clear and disciplined capital allocation policy.
- **Taking a breather after the recent rally.** Over the past 12 months the stock has grown 29%, outperforming the FTSEMIB (+18%) and the European healthcare SXDP index (+9%), with a strong outperformance in the final three months following the release of quarterly results. At current prices, the stock is trading at 19x 2024 P/E, at a slight premium to the European specialty care sector (18x). Over the last year, the stock has experienced a 24% re-rating on 2024 P/E, despite a modest 5% improvement in estimates.
- **M&A appeal partially priced in.** We still see speculative appeal on potential moves/exit by the CVC fund 6 years after it entered Recordati (52% stake), but we believe this is partially incorporated in current prices. Indeed, an exit as things stand would yield a low-teens unlevered annual IRR for CVC, based on the €28 entry price and the reinvestment of accrued dividends. A 15% IRR would correspond to a €55 exit price. During 2024, Rossini (100% owned by CVC fund) expects to refinance the two notes (€650mn each) ahead of their October 2025 repayment date, but it's hard to predict if the fund will actively seek an exit, given the long-term commitment expressed so far.
- **Downgrade to NEUTRAL (from Buy), target €57 (from €54).** With estimates unchanged, we are raising our DCF-based TP to €57 (from €54) to capture lower WACC (-0.5pp risk-free rate). The limited upside to current prices (+12%) and recent stock rally prompt us to take a more prudent stance, moving to NEUTRAL. Upside risks may arise from M&A deals for high-quality assets and/or from potential moves/exit by the CVC fund 6 years after it entered Recordati. At our target, the stock would trade at 22x P/E'24 (currently c.19x vs. EU specialty peers at 17-18x, 5-Y historical average 21x). Despite the unattractive valuation, we still 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 though a very well-managed and diversified product pipeline in the S&PC and OTC businesses.

Key Figures & Ratios	2022A	2023E	2024E	2025E	2026E
Sales (Eu mn)	1,853	2,081	2,281	2,407	2,520
EBITDA Adj (Eu mn)	673	764	838	888	925
Net Profit Adj (Eu mn)	473	497	544	591	636
EPS New Adj (Eu)	2.263	2.376	2.601	2.825	3.042
EPS Old Adj (Eu)	2.263	2.376	2.601	2.825	
DPS (Eu)	1.150	1.250	1.350	1.580	1.734
EV/EBITDA Adj	15.4	13.8	14.3	13.2	12.5
EV/EBIT Adj	19.3	17.5	18.0	16.5	15.2
P/E Adj	22.5	21.4	19.6	18.0	16.7
Div. Yield	2.3%	2.5%	2.6%	3.1%	3.4%
Net Debt/EBITDA Adj	2.1	2.0	1.6	1.2	0.9