

# RECORDATI

**BUY**

Sector: Consumers

Price: Eu42.03 - Target: Eu52.00

## 1Q Strong Sales May Push FY Outlook to the Upper End

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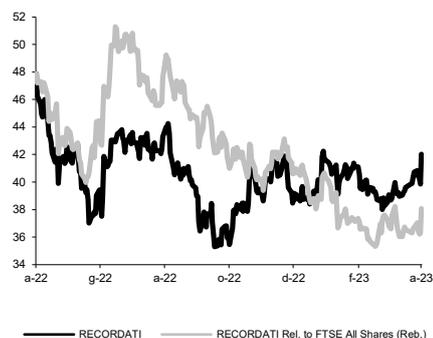
### Stock Rating

<b>Rating:</b>	Unchanged		
<b>Target Price (Eu):</b>	from 50.00 to 52.00		
	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>Chg in Adj EPS</b>	2.4%	2.4%	2.4%

### Next Event

Results Out 11 May

### RECORDATI - 12M Performance



### Stock Data

Reuters code:	RECI.MI
Bloomberg code:	REC IM

Performance	1M	3M	12M
Absolute	7.6%	1.0%	-12.2%
Relative	3.5%	-6.0%	-22.6%
12M (H/L)	46.26/35.30		
3M Average Volume (th):	222.81		

### Shareholder Data

No. of Ord shares (mn):	209
Total no. of shares (mn):	205
Mkt Cap Ord (Eu mn):	8,790
Total Mkt Cap (Eu mn):	8,790
Mkt Float - Ord (Eu mn):	4,235
Mkt Float (in %):	48.2%
Main Shareholder:	
FIMEI	51.8%

### Balance Sheet Data

Book Value (Eu mn):	1,539
BVPS (Eu):	7.36
P/BV:	5.7
Net Financial Position (Eu mn):	-1,333
Enterprise Value (Eu mn):	10,123

■ **1Q sales.** Last Friday, the company released very strong sales for 1Q at €551.4mn (+12% vs our initial estimate at €494mn), +31.5% YoY, or +21.0% YoY on a like-for-like basis at constant exchange rate and perimeter (namely EUSA consolidated since 2Q22 and worth €38mn in 1Q22). The outstanding performance was driven by strong momentum across all businesses and the successful integration of EUSA, but also by a number of one-off benefits: channel stock movements in Russia and Turkey, timing of shipments to international distributors (re-stocking), and an exceptionally strong cough and cold (C&C) season, above pre-pandemic levels. Although the magnitude of these one-time benefits should be investigated, some of them will last for a while (cough&cold), while others look more seasonal (extra stocking in the channel could be reabsorbed in later quarters as in the past) or related to an easier comparison base with last year. We note that the substantial recovery in C&C volumes above pre-pandemic had already been observed in 3Q and 4Q, and we believe it will continue for another couple of quarters: during the pandemic, the C&C and ENT market dropped to around 80% of the total due to the lack of pathology driven by Covid measures (before the pandemic, it earned €100mn in yearly revenues for Recordati, or 7% of total). In addition, we flag the easy comparison with 1Q22 when lercanidipine sales (Zanidip) were down 20% YoY (c. -€8mn YoY) mainly due to a distributor in China losing a tender.

■ **1Q preview.** In addition to this quarter's sales surge, we note that 1Q typically has substantially higher profitability than later quarters: we estimate a c. 37.9% margin (+5pp QoQ, but -1pp YoY due to EUSA consolidation), resulting in €209mn adj. EBITDA and adj. net profit around €143mn. Assuming some NWC absorption and additional investment/milestone payments, net debt should be €1.32bn, -€100mn less than as at YE22.

■ **Estimates update.** Although partly helped by one-time benefits (the extent of which should be explored), 1Q sales could drive some improvement in FY guidance (to the upper end of the ranges or even above), which presently calls for an 8% YoY increase at the midpoint (€1,970-2,030mn, consensus €1,984mn). At this early stage we increase annual sales in 2023 by c. €50m with no change in margins: this would lead to a c.2.5% uplift to our 2023-25 projections.

■ **BUY confirmed, target increased to €52 (from €50).** On our new estimates, we increase our TP to €52 (from €50), which already captures high visibility on the company's positioning, without including further upside from potential M&A in the event of acquisitions of high-quality assets. At our new TP, the stock would trade at 22x P/E'23 (currently at 18x vs EU specialty peers at 23x, 5-Y historical average 22x), offering c.24% upside to current prices, prompting us to confirm the positive view on the equity story: the company is well placed to benefit from ongoing external growth and the expansion of its Rare Disease franchise into the attractive endocrinology/oncology space, and to enjoy visible organic performance though a very well-managed and diversified product pipeline in the Specialty & Primary Care and OTC businesses.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	1,580	1,853	2,033	2,149	2,239
EBITDA Adj (Eu mn)	602	673	732	782	816
Net Profit Adj (Eu mn)	425	473	492	526	561
EPS New Adj (Eu)	2.031	2.263	2.352	2.513	2.683
EPS Old Adj (Eu)	2.031	2.263	2.298	2.455	2.619
DPS (Eu)	1.103	1.150	1.250	1.350	1.556
EV/EBITDA Adj	18.4	15.4	13.8	12.7	11.9
EV/EBIT Adj	21.9	19.3	18.0	16.2	15.0
P/E Adj	20.7	18.6	17.9	16.7	15.7
Div. Yield	2.6%	2.7%	3.0%	3.2%	3.7%
Net Debt/EBITDA Adj	1.2	2.1	1.8	1.4	1.1