Intermonte

Milan, 24 April 2024

Italian Equity Research – Change in View/1Q24 Preview

RECORDATI

OUTPERFORM

Sector: Healthcare

Price: Eu52.60 - **Target: Eu62.00**

Greater Speculative Appeal from CVC Moves, Upgrade to OP

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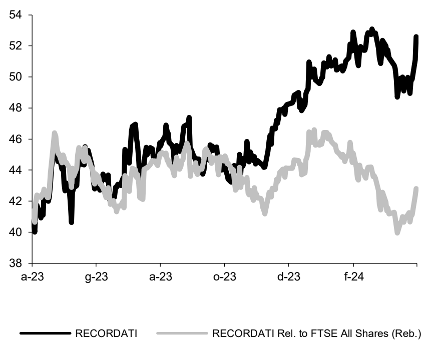
Stock Rating			
Rating:	from NEUTRAL to OUTPERFORM		
Target Price (Eu):	from 57.00 to 62.00		
	2024E	**2025E**	**2026E**
Chg in Adj EPS	0.0%	0.0%	0.0%

Next Event
1Q24 Results Out 9 May 2024

RECORDATI - 12M Performance



Stock Data			
Reuters code:			RECI.MI
Bloomberg code:			REC IM
Performance	**1M**	**3M**	**12M**
Absolute	0.5%	5.8%	25.1%
Relative	0.6%	-7.5%	3.2%
12M (H/L)			53.08/40.02
3M Average Volume (th):			206.05

Shareholder Data	
No. of Ord shares (mn):	209
Total no. of shares (mn):	206
Mkt Cap Ord (Eu mn):	11,000
Total Mkt Cap (Eu mn):	11,000
Mkt Float - Ord (Eu mn):	5,300
Mkt Float (in %):	48.2%
Main Shareholder:	
FIMEI	51.8%

Balance Sheet Data	
Book Value (Eu mn):	1,863
BVPS (Eu):	8.91
P/BV:	5.9
Net Financial Position (Eu mn):	-1,378
Enterprise Value (Eu mn):	12,378

- **CVC said to be exploring options for Recordati.** Bloomberg reports CVC is in the preliminary stages of weighing up options for its majority stake in Recordati, with sources indicating alternatives could include a sale or combination with another business. CVC is said to have informally contacted potential bidders. CVC bought the 52% stake in 2018 from the Recordati family in a ca. €3bn deal. This year, Rossini (61.6% owned by CVC fund, 30.87% by other co-investors and 7.52% by Recordati managers) expects to refinance the two notes (€650mn each) ahead of their October 2025 repayment date and this may have led the fund to actively seek an exit or a merger deal. At this early stage, we believe the speculative appeal is only partly incorporated into current prices. Indeed, an exit at current prices would yield a mid-teen unlevered annual IRR for CVC, based on the €28 entry price and the reinvestment of accrued dividends. We see room for at least a 15% premium on top of current prices (at ~€61-62/share); at this level, the stock would trade at 16x EV/EBITDA'25E and 21x PE'25, broadly in line with the historical average for the last 5 years.
- **1Q24 preview.** RCD already reported turnover of €607.8mn, up +10.2% YoY or +10.9% excluding the contribution of Avodart®/Combodart® (€27.5mn, c.5pp; FY target: €115mn) and at constant FX (€31.3mn impact, -5.7pp). We estimate the adj. EBITDA margin at 40.5%, +0.5pp YoY. This is in line with FY24 guidance (c.37%), considering higher R&D costs, which are seasonally more concentrated in 2H. On the bottom line, we expect higher financial charges (€20mn) than last year (1Q: €12.6mn, 4Q: €17.9mn) to factor in both the rise in interest rates and the unfavourable ForEx effect. Net debt should have improved (€1.47bn, -€107mn vs YE23; 1.9x adj. EBITDA) thanks to FCF of €125mn (1Q23: €103mn), only partly absorbed by some milestone payments (c.€6mn for GSK deal) and the buyback (€12mn).
- **No change in estimates.** We do not expect any revision to FY24-25 guidance although we would not rule out the possibility on financial charges being slightly increased to €80mn (our current estimate is €66mn) if the 1Q trend and the ForEx headwinds were to continue.
- **Upgrade to OUTPERFORM (from NEUTRAL); new target at €62 (from €57)**. On the back of the latest press rumours, we believe that 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 disease sector. On our current estimates (unchanged), we capture a 9% premium on top of our DCF-based FV at €57, leading to a €62 TP. The reasonable upside to current prices (+18%) prompt us to upgrade the stock to OUTPERFORM (from NEUTRAL). 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 though 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	2,287	2,411	2,526
EBITDA Adj (Eu mn)	673	770	843	892	927
Net Profit Adj (Eu mn)	473	525	563	600	633
EPS New Adj (Eu)	2.263	2.509	2.691	2.871	3.028
EPS Old Adj (Eu)	2.263	2.509	2.691	2.870	3.028
DPS (Eu)	1.150	1.200	1.350	1.546	1.657
EV/EBITDA Adj	15.4	13.8	14.7	13.7	13.0
EV/EBIT Adj	19.3	16.9	18.1	16.7	15.8
P/E Adj	23.2	21.0	19.5	18.3	17.4
Div. Yield	2.2%	2.3%	2.6%	2.9%	3.2%
Net Debt/EBITDA Adj	2.1	2.1	1.6	1.4	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.

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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Intermonte SIM is authorised by CONSOB to provide investment services and is listed at n° 246 in the register of brokerage firms.

As at 31 March 2024 Intermonte's Research Department covered 116 companies. Intermonte's distribution of stock ratings is as follows:

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:

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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Further information is available