

# STAR7

Sector: Industrials

**BUY**

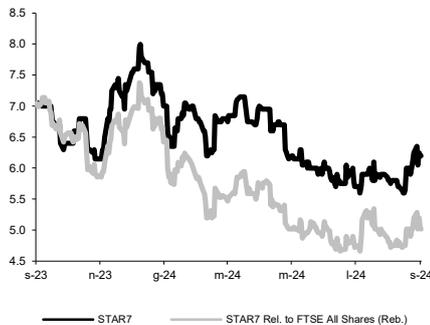
Price: Eu6.20 - Target: Eu10.50

## Back on Track – Ready to Launch New Solutions

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Stock Rating			
Rating:	Unchanged		
Target Price (Eu):	from 10.1 to 10.5		
	2024E	2025E	2026E
Chg in Adj EPS	24.1%	25.0%	26.8%

### STAR7 - 12M Performance



Stock Data			
Reuters code:	STAR7.MI		
Bloomberg code:	STAR7 IM		
Performance	1M	3M	12M
Absolute	6.9%	1.6%	-12.1%
Relative	4.3%	-2.7%	-35.7%
12M (H/L)	8.00/5.60		
3M Average Volume (th):	2.58		

Shareholder Data	
No. of Ord shares (mn):	9
Total no. of shares (mn):	9
Mkt Cap Ord (Eu mn):	56
Total Mkt Cap (Eu mn):	56
Mkt Float - Ord (Eu mn):	14
Mkt Float (in %):	24.9%
Main Shareholder:	
Dante Srl	41.7%

Balance Sheet Data	
Book Value (Eu mn):	35
BVPS (Eu):	3.87
P/BV:	1.6
Net Financial Position (Eu mn):	-36
Enterprise Value (Eu mn):	92

1H24 results confirmed the soundness of the STAR7 business growth path with a marked increase in revenues, an expanding EBITDA margin, and a significant reduction in net debt. The internationalisation and diversification of the business model were the key drivers, with growth driven by the US and Brazil, and by the engineering and product knowledge business lines, as well as long-term contracts with customers. The conclusion of the CAAR integration process, and the management effort to optimise working capital, led to a significant reduction in debt. Looking forward, we expect the launch of new AI solutions to further boost growth.

- 1H24 results: back on track for growth.** 1H24 final results from STAR7 confirm the preliminary indications announced in July on revenues, which were up 18.7% YoY. This growth was fully driven by organic expansion and by the US and Brazil in terms of geographies, while Product Knowledge and Engineering lead the growth by business lines. Adj. EBITDA, excluding extraordinary costs related to CAAR for ~€0.6mn, was up 22% YoY, while margin expansion was equal to ~40bps from 14.8% to 15.2%. As at the end of June 2024, net debt was €29.8mn, markedly improving vs €37.8mn as at YE23, confirming the effectiveness of the strategies implemented by management to improve working capital.
- CAAR rationalization and integration process fully completed.** In 1H24, STAR7 incurred the latest impacts of the extraordinary integration costs related to CAAR. This process is now complete, and no more impacts are expected in the next months. The auction for the final acquisition is scheduled for 22 October, and the expected cash-out is estimated at ~€5mn. For the coming months, we expect CAAR's contribution to continue to grow, mainly in Brazil (by geography), and in automotive and defence (by sector).
- Change in estimates.** 1H24 results confirm our expectations for a successful return to the profitability growth path. This has led us to revise our estimates for 2024 and coming years, also including indications from management during conference call on CapEx and NFP. We confirm the estimated EBITDA margin expansionary path, with an Adj. EBITDA margin at 15.3% in FY24 and accelerating in 2025/2026 to 15.5%/16.7% respectively. At the bottom line, we are revising up our adj. net profit by 24%/25%/27% for FY24/FY25/FY26 respectively, including higher goodwill amortization (€4mn per year). We also align our CapEx estimates to the €4/5mn per annum cash-out indicated by management. We estimate a €36mn NFP as at end-2024, vs €29.8mn as at end-June due to a one-off, already announced, cash-out (€5mn) to complete the CAAR acquisition.
- BUY confirmed, TP at €10.5 from €10.1.** With full integration of CAAR achieved, we believe growth is definitely back on track and STAR7 fully equipped to benefit from new opportunities. The expansion into India could be one of these, while we also expect a further boost from the generative AI market with STAR7 presenting, in October, two new AI solutions, SMART7 and GLOBAL7. We confirm our positive view on the stock, while raising the TP to €10.5 from €10.1 resulting from the simple average of a DCF and a peer valuation. In light of further margin expansion and continuing cash generation, we consider the current valuation particularly depressed and the current share price an attractive opportunity.

Key Figures & Ratios	2022A	2023A	2024E	2025E	2026E
Sales (Eu mn)	85	106	124	133	143
EBITDA Adj (Eu mn)	15	16	19	21	24
Net Profit Adj (Eu mn)	7	7	7	8	10
EPS New Adj (Eu)	0.699	0.644	0.819	0.926	1.140
EPS Old Adj (Eu)	0.699	0.644	0.660	0.741	0.899
DPS (Eu)	0.000	0.000	0.000	0.000	0.000
EV/EBITDA Adj	7.4	6.8	4.9	4.2	3.4
EV/EBIT Adj	9.8	9.5	7.0	6.3	5.0
P/E Adj	8.9	9.6	7.6	6.7	5.4
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Net Debt/EBITDA Adj	2.3	2.4	1.9	1.5	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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As at 30 June 2024 Intermonte's Research Department covered 116 companies. Intermonte's distribution of stock ratings is as follows:

BUY:	23.97 %
OUTPERFORM:	49.59 %
NEUTRAL:	25.61 %
UNDERPERFORM	00.83 %
SELL:	00.00 %

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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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