PMI CAPITAL research

UPDATE NOTE FY22
Euronext Growth Milan

ILPRA

FY22 above expectations, bright prospects for FY23 and beyond

Sector: Producer Manufacturing

Target Price 8.89 (7.55 pr.)

Market Cap (€ m) **52.3**
EV (€ m) **48.8**
Market Price (€) **4.34**

As of 29 March 2023

Share Data

Market	Euronext Growth Milan
Reuters/Bloomberg	ILP:IM/ILP.MI
ISIN	IT0005359101
N. of Shares	12,038,600
Free Float	29.51%
CEO	Maurizio Bertocco

Financials

	22A	23E	24E	25E
Sales	48,7	56,0	61,6	67,8
YoY %	+15%	+15%	+10%	+10%
EBITDA	11,2	13,1	14,6	16,2
EBITDA %	23%	23%	24%	24%
EBIT	8,8	10,6	12,1	13,8
EBIT %	18%	19%	20%	20%
Net Income	6,5	7,5	8,6	9,8
Net D/(C)	(3,5)	(9,4)	(15,9)	(22,3)
Equity	29,8	35,4	41,7	49,0

Performance

	1M	3M	6M
Absolute	-4%	-6%	17%
Relative (FTSE Italia Growth)	-4%	-7%	10%
52-week High/Low (Eu)	5.30	/	3.35

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This Note is issued by arrangement with MIT SIM SpA, the Specialist engaged by the Company.

FY22: another record year for the Company, double digit sales growth (+15% YoY) increased profitability (EBITDA margin 23%) ILPRA innovative SME specialized in the design and production of packaging machines for food, cosmetics, and medical applications, reported a very strong set of FY22 results. Sales came in at Euro 48.7 m, +15% vs. FY21 driven by a strong 2H (Euro 27.1 m, +19% HoH) and the acquisition of MACS (we estimate c. Euro 2.0 FY22 contribution). The result overperformed both our expectations (+5%, Euro 46.5 m) and the market which remained stable vs. last year (-1% overall, o/w -3% in export markets and, +6% in Italy). In terms of sales mix, export revenues grew by +22% to Euro 30.1 m increasing its weight on total sales to 62% (58% in FY21) as a result of the efficient internationalization strategy persued. Sales in the domestic market came in at Euro 18.6 m, +6% compared to last year which however enjoyed extraordinary demand driven by governmental incentives. EBITDA stood at Euro 11.2 m, +25% YoY and +12% vs our expectations (Euro 10.0 m) and with an EBITDA margin of 23.1% (on sales), outperforming both prior year's 21.3% and our estimates of 22% thanks to the higher weight of export revenues and the measures adopted to tackle input cost inflation (increase in list price and early procurement. We also note that the Group was not affected by energy cost increases, as its photovoltaic panels cover all of its factory's energy needs. On the balance sheet, the Group presented a Net Cash position of Euro 3.5 m, in line with Euro 3.4 m at FY21 following some NWC absorption after the increased inventory reserves (+Euro 7.4 m vs. FY21) as part of a strategy to maintain fast time to market as competitive advantage, M&A (total effect of Euro 1.4 m), and a dividend payment of c. Euro 2.0 m.

Positive market expectations and international expansion in support of short-term growth... Management did not provide guidance for FY23 but expressed confidence about a positive performance in FY2023 on the back of the positive market outlook confirmed by UCIMA (industry association), growing order portfolio (no details were provided) and commercial agreements already in place to guarantee supply of raw material and electronic components for the entire order portfolio. In our opinion, the underlying market trend, Management's efficient international growth strategy underpinned by the full upside form the MACS acquisition (consolidated as of Q222) support our future short term growth expectation.

… investments in R&D and M&A and to boost mid-term expectations. Over the last five years, Ilpra has been able to grow revenues at a CAGR of c. 15%, above market growth thanks to a well-defined strategy based on both organic growth and M&A. In the mid-term we expect organic growth to continue to be driven by geographic expansion and product development. On top and considering the significant amount of cash at hand (Euro 17.3 m at FY22), we also expect Management to continue to pursue its M&A strategy aimed at vertical integration of production lines and strengthening in the cosmetics, and medical application sectors. Finally, we appreciate i) the appealing dividend distribution policy: on the back of the +23% increase in net results the Company increased the rewards for its shareholders and approved a DPS of Euro 0.12, +20% YoY (pay-out ratio of 32% and 2.8% dividend yield) and ii) increase in free float which we expect should improve the sock's liquidity.

Estimate upgrade and TP increase to Euro 8.89 p.s. Given the above we revised our estimates upwards. We now expect sales growth of 15% in FY23 (8% previously) and 10% in the years to follow. We also increased profitability to reflect the structural improvement in margins in FY22. Overall, we increased our sales, EBITDA and EPS forecast by an average of +13%, +19% and +18% respectively. Finally, we added FY25 to our explicit forecast period. Updating our DCF and multiple based valuation model for new estimates and up-to-date market data we obtain a target price of Euro 8.89 p.s. (Euro 7.55 p.s. previously), +18% vs our previous report and providing for a potential upside of 105%. At our TP the stock would be trading at FY23-24 EV/EBITDA multiples of 7.8x and 7.0x respectively vs. peers' 10.7x and 9.9x, The stock is currently trading at 4.0x and 3.6x which we consider very undemanding, supporting our positive view on the stock. Our forecasts do not assume any M&A activity which however continues to represent further upside to our valuation.