LONGINO & CARDENAL GROUP

Solid FY22 results in line with expectations, sales +21% YoY

Sector: Distribution & Logistics Services

Target Price 4.57 (4.31 pr.)

Price **2.86**
Market Cap (€ m) **18**
EV (€ m) **23**

As of April 11th, 2023

Share Data

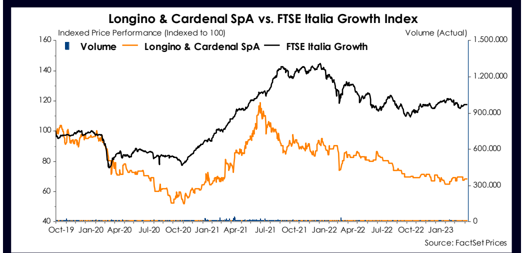
Market	Euronext Growth Milan
Reuters/Bloomberg	LONGI.MI/LON:IM
ISIN	IT0005337073
N. of Shares	6.250.000
Free Float	22%
Main Shareholder	CARM 78%
CEO	Riccardo Uleri

Financials

	21A	22A	23E	24E	25E
Sales	26.3	31.7	37.9	44.0	49.6
YoY	*36%*	*21%*	*20%*	*16%*	*13%*
EBITDA	(0.5)	(0.7)	1.1	2.4	3.6
EBITDA	*n.m.*	*n.m.*	*2.8%*	*5.5%*	*7.2%*
EBIT	(1.2)	(1.5)	0.4	1.6	2.5
EBIT	*n.m.*	*n.m.*	*0.9%*	*3.7%*	*5.1%*
Net Inc.	(0.9)	(1.2)	0.2	1.1	1.7
Net Debt	3.5	5.4	3.3	4.9	5.2
Net Eq.	5.5	4.3	4.4	5.5	7.2

Performance

	1M	3M	6M
Absolute	-2%	-1%	-2%
Relative (FTSE Italia Growth)	-2%	-0%	-8%
52-week High/Low (Eu)	4.50	/	2.66



Source: FactSet Prices

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FY22 top line +21% yoy driven by strong results across all group companies. Longino & Cardenal recently released FY22 results largely in line with our expectations with sales at Euro 31.7 m, +21% YoY (Euro 26.3 m) and +1% vs. our estimates (Euro 32.0 m) despite a year characterized by macroeconomic turmoil and cost inflation negatively affecting consumer spending. The result was driven by a positive trend across all geographies and in particular by the Italian parent company with revenues of Euro 23.6 m, +18% YoY and Dubai (Euro 2.9 m, + 28% YoY). B2C online sales saw a recovery in the second half of the year and closed in line with FY21 (Euro 1.1 m) which we however recall still benefitted from restrictions on outdoor activities. The New York startup also showed very positive results with revenues increasing to Euro 1.3 m vs. Euro 0.7 m in prior year confirming the great potential of the market. Good results also from Satiro Danzante with a contribution of Euro 0.8 m (Euro 0.5 m in FY21). After Chinas "zero-Covid" policy, the Hong Kong market started to see an easing of restrictions in 2H22 and the Company recorded revenues in the Country of Euro 2.0 m, in line with prior year but still lagging behind FY19 results of Euro 3.7 m. The last restrictions, which should allow tourism to return to pre-covid levels in the country, were finally lifted in Q123. Gross profit stood at Euro 6.9 m, up by 21% vs. prior year (Euro 5.7) in line with revenue growth as the Company managed to maintain the Gross Margin in line with prior year's (21.8 vs. 21.7% in FY21%) despite the general spur in raw material and energy prices thanks to real-time management of costs which allowed Management to timely make the necessary price adjustments. EBITDA remained largely stable (Euro -0.7 m in 1H22 vs. Euro -0.5 m in 1H21) after a recovery in the second half of the year with a positive EBITDA of Euro 0.3 m or c 2% on sales (EBITDA in 1H21 Euro -1.0 m). For the full year, the increase in Gross Margin was partially offset by an increase in Opex by +23%, following increased sales volumes, the going back to normal of sales and commercial activities after the pandemic, and an increase in marketing expenses to promote the B2C channel. Net result was negative of Euro 1.2 m vs. a loss of Euro 0.9 m in FY21. Looking at the balance sheet, Net debt stood at Euro 5.4 m (Euro 3.5 m in FY21) after some WC absorption following the increased sales volumes partially offset by an efficient management of working capital (Operating WC/sales down from 17% in FY21 to 16%).

Well positioned to reap the rewards from investments in international markets. Management did not provide guidance for FY22, however expressed confidence for the business environment in FY23 which should driving growth across all Group companies. Overall, we saw a FY22 characterized by a recovery in revenues in all markets confirming the underlying growth trend, but with revenues of the startups (New York and B2C) not yet sufficient to cover operational costs. In this context, we believe that the Groups is well positioned to consolidate growth and profitability from FY23 with the definite overcoming of Covid restrictions, New York subsidiary break-even, and with cost efficiencies from the new logistics site. We continue to appreciate the equity story of a market leader in a niche market with multiple growth opportunities ahead among which we highlight i) growth in the domestic market by leveraging on increased consumer sensibility to quality, health, and origin of products, ii) consolidation of international subsidiaries and iii) B2C e-commerce to boost growth and brand awareness.

Estimate revision and new TP at Euro 4.57 p.s.. On the back of the positive performance recorded in FY22 we slightly upgraded our sales forecast for FY23, now assuming Euro 37.9 m (Euro 37.3 m pr.) whereas we left our other assumptions unchanged. Over the next three years we forecast revenues to grow at a 16% CAGR to reach Euro 50 m in FY25 with an EBITDA of Euro 3.6 m, or 7% on revenues. Based on our new estimates and updating our DCF based valuation with up-to-date market data we obtained a new target price of Euro 4.57 p.s. (Euro 4.31 p.s. pr.) Our target price provides for a potential upside vs. current market price of c. 60%. Wednsday