

Fine Foods

Sponsored Research

Italy | Healthcare



Investment Research

Company Flash Note

Reason: Company results (post view)

15 November 2021

Buy

Recommendation unchanged

Share price: EUR 17.70

closing price as of 12/11/2021

Target price: EUR 20.50

from Target Price: EUR 23.00

Upside/Downside Potential 15.8%

Reuters/Bloomberg

FF.MI/FF.IM

Market capitalisation (EURm) 434

Current N° of shares (m) 25

Free float 52%

Daily avg. no. trad. sh. 12 mth (k) 19

Daily avg. trad. vol. 12 mth (k) 103.12

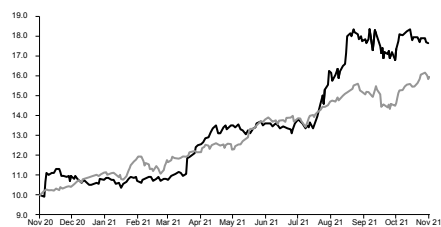
Price high/low 12 months 18.35 / 9.90

Abs Perfs 1/3/12 mths (%) 2.02/9.60/77.35

Key financials (EUR)	12/20	12/21e	12/22e
Sales (m)	172	195	236
EBITDA (m)	21	25	33
EBITDA margin	12.3%	13.0%	14.0%
EBIT (m)	9	13	18
EBIT margin	5.5%	6.6%	7.6%
Net Profit (adj.)(m)	13	11	14
ROCE	6.9%	5.2%	7.1%
Net debt/(cash) (m)	(43)	15	5
Net Debt Equity	-0.3	0.1	0.0
Net Debt/EBITDA	-2.0	0.6	0.2
Int. cover(EBITDA/Fin.int)	(2.9)	36.3	47.1
EV/Sales	1.2	2.3	1.9
EV/EBITDA	9.8	17.7	13.3
EV/EBITDA (adj.)	9.3	17.7	13.3
EV/EBIT	21.9	34.9	24.4
P/E (adj.)	18.4	38.0	32.0
P/BV	1.8	2.9	2.7
OpFCF yield	8.8%	-11.8%	3.2%
Dividend yield	0.8%	0.9%	0.9%
EPS (adj.)	0.57	0.47	0.55
BVPS	5.98	6.07	6.47
DPS	0.14	0.15	0.17

Shareholders

Marco Eigenmann 48%;



Source: FactSet

— FINE FOODS — FTSE Italy STAR (Rebased)

Analyst(s)

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Positive 9M results but more prudent view on the coming quarters

Fine Foods published its Q3/9M 21 results Friday evening. 9M 21 sales and profitability recorded positive growth compared to 9M 20. Nevertheless, due to the current market slowdown in both sectors and the slowdown in technology transfers in the pharma division, the management have provided a more prudent view on the coming quarters.

- ✓ **9M 21 results** - 9M 21 sales increased by 16.9% Y/Y. This performance was due to: 1) organic growth of 10% Y/Y (9M 21 Food BU sales were EUR 106.4m and 9M 21 Pharma BU sales were EUR 28.2m); 2) the positive contribution of EUR 8.8m from the acquired company Pharmatek.

9M 21 EBITDA adj margin was 13.1%, substantially in line with 9M 20.

9M 21 NFP was positive at EUR 10.6m, vs EUR 42.8m at the end of September 2020. This difference was due to the acquisition of Pharmatek, which had an impact of EUR17.2m on the group's NFP.

	Q3 20a	Q3 21a	% Chg
Sales	47.215	44.78	-5.2%
EBITDA	7.4	5.7	-22.8%
% margin	15.7%	12.8%	
	9M 20a	9M 21a	% Chg
Sales	122.6	143.4	16.9%
EBITDA	16.3	18.8	15.4%
% margin	13.3%	13.1%	

- ✓ **Outlook on coming quarters** – In the 9M results press release, the management explained that, in light of “the difficulties caused by the pandemic and the consequent social and health situation, the worldwide problems linked to the procurement of raw materials and the sharp increases in energy costs, of which the effect will impact the last months of 2021 and the 2022 financial year”, they believe that, for the 2021 financial year and future financial years, revenue growth, at the group level, will likely remain in line with the historical trend, accompanied by a progressive improvement in expected margins.
- ✓ **2021-23 estimates** – As explained in the press release, owing to the market slowdown and the difficulties caused by the pandemic, Fine Foods’ management expect future growth rates to be in line with the historical growth rates (Fine Foods 10-year revenues CAGR ~ 11%), which are more conservative compared to our estimates of growth acceleration driven by both organic growth and a contribution from newly acquired companies.

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9M results recorded a positive trend, despite the results slowdown in Q3 21 compared to the first half of the year. Indeed, the current scenario is characterised by a slowdown in demand both for food and pharma products, a shortage of raw materials and a slowdown in the technological transfers in the pharma division due to the difficulties caused by the pandemic. Therefore, all this calls for a more cautious view and greater prudence on the evolution of the business in the next quarters. As such, we align our revenue growth estimates with the management's indications and we amend our 21-23 revenue CAGR from 17.9% to 15.1%.

In particular, in 2021, we expected organic revenue growth of +12.3% Y/Y and a EUR 22m contribution from acquisitions (FY 21e total revenue growth of +25.1% Y/Y). In light of the management's new indications and the scenario described before, we estimate FY 21e total revenue growth of +13.6% Y/Y (of which organic growth +3.1% Y/Y). In 2022, we expect revenue growth of +21.0% Y/Y (pro-forma FY 22e revenues growth 11.5% Y/Y). Lastly, we forecast FY 23e revenue growth of +11.4% Y/Y.

In terms of profitability, we believe that, because of the sharp increases in energy costs and the lower sold volumes, the expected improvement in the operating margins may be partially delayed. As such we modify our 2021-23 EBITDA CAGR from 24.3% to 19.4%.

We summarise our forecasts in the following table.

PROFIT & LOSS (EUR m)	2020	OLD 2021e	NEW 2021e	%Chg	OLD 2022e	NEW 2022e	%Chg	OLD 2023e	NEW 2023e	%Chg
Revenues	172.0	215.2	195.3	13.6%	262.0	236.3	21.0%	283.4	263.1	11.4%
EBITDA adj	22.3	31.1	25.4	20.6%	39.6	33.1	30.2%	43.1	38.2	15.2%
EBITDA adj margin	13.0%	14.5%	13.0%		15.1%	14.0%		15.2%	14.5%	
One-off costs	1.2				0	0		0	0	
EBITDA	21.1	31.1	25.4	20.6%	39.6	33.1	30.2%	43.1	38.2	15.2%
EBITDA margin	12.3%	14.5%	13.0%		15.1%	14.0%		15.2%	14.5%	
D&A and provisions	-11.6	-14.2	-11.6		-16.9	-14.0		-17.8	-15.1	
EBIT	9.5	17.0	12.9	36.5%	22.7	18.1	40.1%	25.3	21.9	21.0%
EBIT margin	5.5%	7.9%	6.6%		8.7%	7.6%		8.9%	8.3%	
Net fin. income/charges	7.2	-0.9	-0.7		-0.9	-0.7		-0.9	-0.7	
Non-Recurring items	0	0	0		0	0		0	0	
Pre-tax profit	16.6	16.1	12.2	-26.7%	21.8	17.4	42.3%	24.4	21.1	21.0%
Taxes	-3.3	-3.5	-1.0		-4.8	-3.8		-5.3	-4.6	
Tax rate	19.9%	21.9%	8.2%		21.9%	21.9%		21.9%	21.9%	
Minorities	0	0	0		0	0		0	0	
Net profit rep	13.4	12.5	-1.6(***)	n.m.	17.0	13.6		19.0	16.5	
Net profit adj	9.3	12.5	11.2	-16.2%	17.0	13.6	21.1%	19.0	16.5	21.6%
Maintenance capex	12	10.2	10.6		11.0	11.0		11.2	11.2	
Acquisition Capex		49.1(*)	49.1(*)					6.0(**)	6.0(**)	
Net Debt (Cash)	-42.8	1.2	14.9		-11.4	5.5		-23.7	-1.2	
Net Debt from warrants	11.0									
Net Debt (Cash) Adj	-53.8	1.2	14.9		-11.4	5.5		-23.7	-1.2	

(*) Pharmatek and Euro Cosmetic acquisitions (**) Pharmatek acquisition (***) EUR 12.8m of negative fair value evolution on warrants

Conclusion & Action: based on our new estimates and our DCF model (WACC 6.50% and perpetual growth 1.8%), we move our target price from EUR 23.00 to EUR 20.50 per share. Despite the current market slowdown and the temporary difficulties caused by the pandemic, we believe that Fine foods remains a good cash generator with interesting opportunities for commercial cross-selling synergies with the two recent acquisitions in the cosmetic sector; as such, we confirm our Buy recommendation.



Fine Foods: Summary tables

	12/2018	12/2019	12/2020	12/2021e	12/2022e	12/2023e
PROFIT & LOSS (EURm)						
Sales	139	160	172	195	236	263
Cost of Sales & Operating Costs	-81.6	-69.5	-85.1	-96.6	-108.8	-122.8
Non Recurrent Expenses/Income	0.0	-2.8	-1.2	0.0	0.0	0.0
EBITDA	18.7	17.5	21.1	25.4	33.1	38.2
EBITDA (adj.)*	18.7	20.3	22.3	25.4	33.1	38.2
Depreciation	-8.5	-9.4	-11.6	-11.6	-14.0	-15.1
EBITA	10.2	8.1	9.5	13.8	19.2	23.1
EBITA (adj)*	10.2	10.9	10.7	13.8	19.2	23.1
Amortisations and Write Downs	0.0	0.0	0.0	-0.9	-1.1	-1.2
EBIT	10.2	8.1	9.5	12.9	18.1	21.9
EBIT (adj.)*	10.2	10.9	10.7	12.9	18.1	21.9
Net Financial Interest	0.2	-8.0	7.2	-0.7	-0.7	-0.7
Other Financials	0.0	0.0	0.0	0.0	0.0	0.0
Associates	0.0	0.0	0.0	0.0	0.0	0.0
Other Non Recurrent Items	0.0	0.0	0.0	0.0	0.0	0.0
Earnings Before Tax (EBT)	10.4	0.1	16.6	12.2	17.4	21.1
Tax	-1.7	-2.9	-3.3	-1.0	-3.8	-4.6
<i>Tax rate</i>	<i>16.7%</i>	<i>n.m.</i>	<i>19.9%</i>	<i>8.2%</i>	<i>21.9%</i>	<i>21.9%</i>
Discontinued Operations	0.0	0.0	0.0	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0	0.0	0.0
Net Profit (reported)	8.7	-2.8	13.4	11.2	13.6	16.5
Net Profit (adj.)	8.7	11.9	13.4	11.2	13.6	16.5
CASH FLOW (EURm)						
Cash Flow from Operations before change in NWC	17.2	6.5	25.0	23.7	28.6	32.8
Change in Net Working Capital	-18.7	5.3	12.7	-15.3	-3.8	-3.5
Cash Flow from Operations	-1.5	11.8	37.7	8.4	24.8	29.2
Capex	-32.0	-20.2	-16.0	-59.7	-11.0	-17.5
Net Financial Investments	0.0	0.0	0.0	0.0	0.0	0.0
Free Cash Flow	-33.5	-8.4	21.7	-51.3	13.8	11.7
Dividends	0.0	-2.3	-2.8	-3.3	-3.8	-4.1
Other (incl. Capital Increase & share buy backs)	202	-25.2	-0.9	-2.9	-0.7	-1.0
Change in Net Debt	169	-36	18	-58	9	7
NOPLAT	7.0	7.5	7.3	8.9	12.4	15.0
BALANCE SHEET & OTHER ITEMS (EURm)						
Net Tangible Assets	78.6	89.3	93.4	144	141	143
Net Intangible Assets (incl. Goodwill)	4.3	1.9	1.9	1.9	1.9	1.9
Net Financial Assets & Other	0.0	2.0	2.0	2.0	2.0	2.0
Total Fixed Assets	82.9	93.3	97.3	148	145	147
Inventories	22.0	22.5	19.6	30.6	37.0	43.4
Trade receivables	21.5	17.1	12.7	20.9	25.3	27.1
Other current assets	5.7	2.5	3.3	3.7	4.5	5.0
Cash (-)	-74.8	-74.8	-75.0	-34.7	-38.6	-41.7
Total Current Assets	124	117	111	89.9	105	117
Total Assets	206.9	210.2	207.8	237.5	249.9	264.1
Shareholders Equity	149	131	141	149	159	171
Minority	0.0	0.0	0.0	0.0	0.0	0.0
Total Equity	149	131	141	149	159	171
Long term interest bearing debt	22.6	21.2	16.1	24.7	22.0	20.2
Provisions	1.0	1.1	1.1	1.2	1.4	1.5
Other long term liabilities	0.0	1.2	0.6	0.6	0.8	0.9
Total Long Term Liabilities	23.6	23.6	17.7	26.5	24.1	22.6
Short term interest bearing debt	5.5	29.2	16.2	24.8	22.1	20.3
Trade payables	23.9	20.6	22.7	25.7	31.1	34.6
Other current liabilities	4.7	6.1	10.2	11.6	14.0	15.6
Total Current Liabilities	34.1	55.9	49.1	62.1	67.1	70.4
Total Liabilities and Shareholders' Equity	206.9	210.2	207.8	237.5	250.0	264.2
Net Capital Employed	103.5	108.6	99.9	165.5	166.3	172.3
Net Working Capital	20.1	19.4	10.0	26.2	31.6	36.3
GROWTH & MARGINS						
<i>Sales growth</i>	<i>16.6%</i>	<i>14.6%</i>	<i>7.7%</i>	<i>13.6%</i>	<i>21.0%</i>	<i>11.4%</i>
EBITDA (adj.)* growth	20.3%	8.6%	9.9%	14.1%	30.2%	15.2%
<i>EBITA (adj.)* growth</i>	<i>13.6%</i>	<i>7.2%</i>	<i>-2.5%</i>	<i>29.6%</i>	<i>38.8%</i>	<i>20.5%</i>
<i>EBIT (adj.)* growth</i>	<i>13.6%</i>	<i>7.2%</i>	<i>-2.5%</i>	<i>21.2%</i>	<i>40.1%</i>	<i>21.0%</i>



Fine Foods: Summary tables

GROWTH & MARGINS	12/2018	12/2019	12/2020	12/2021e	12/2022e	12/2023e
Net Profit growth	41.4%	37.0%	12.3%	-16.2%	21.1%	21.6%
EPS adj. growth	-31.8%	n.m.	n.m.	-18.5%	18.7%	21.6%
DPS adj. growth	n.m.	20.0%	16.7%	10.0%	8.0%	8.0%
EBITDA (adj)* margin	13.4%	12.7%	13.0%	13.0%	14.0%	14.5%
EBITA (adj)* margin	7.3%	6.8%	6.2%	7.1%	8.1%	8.8%
EBIT (adj)* margin	7.3%	6.8%	6.2%	6.6%	7.6%	8.3%
RATIOS	12/2018	12/2019	12/2020	12/2021e	12/2022e	12/2023e
Net Debt/Equity	-0.3	-0.2	-0.3	0.1	0.0	0.0
Net Debt/EBITDA	-2.5	-1.4	-2.0	0.6	0.2	0.0
Interest cover (EBITDA/Fin.interest)	n.m.	2.2	n.m.	36.3	47.1	51.7
Capex/D&A	376.7%	215.8%	137.5%	476.2%	73.1%	107.4%
Capex/Sales	23.0%	12.7%	9.3%	30.6%	4.7%	6.7%
NWC/Sales	14.4%	12.1%	5.8%	13.4%	13.4%	13.8%
ROE (average)	9.2%	8.5%	9.8%	7.7%	8.8%	10.0%
ROCE (adj.)	6.8%	6.8%	6.9%	5.2%	7.1%	8.3%
WACC	6.7%	6.7%	6.7%	6.5%	6.5%	6.5%
ROCE (adj.)/WACC	1.0	1.0	1.0	0.8	1.1	1.3
PER SHARE DATA (EUR)***	12/2018	12/2019	12/2020	12/2021e	12/2022e	12/2023e
Average diluted number of shares	22.7	23.2	23.6	24.5	24.5	24.5
EPS (reported)	0.61	-0.12	0.57	0.47	0.55	0.67
EPS (adj.)	0.61	-0.12	0.57	0.47	0.55	0.67
BVPS	6.57	5.63	5.98	6.07	6.47	6.98
DPS	0.10	0.12	0.14	0.15	0.17	0.18
VALUATION	12/2018	12/2019	12/2020	12/2021e	12/2022e	12/2023e
EV/Sales	1.2	1.6	1.2	2.3	1.9	1.7
EV/EBITDA	8.7	14.7	9.8	17.7	13.3	11.4
EV/EBITDA (adj.)*	8.7	12.6	9.3	17.7	13.3	11.4
EV/EBITA	16.0	31.5	21.9	32.7	23.0	18.8
EV/EBITA (adj.)*	16.0	23.5	19.4	32.7	23.0	18.8
EV/EBIT	16.0	31.5	21.9	34.9	24.4	19.9
EV/EBIT (adj.)*	16.0	23.5	19.4	34.9	24.4	19.9
P/E (adj.)	15.2	n.m.	18.4	38.0	32.0	26.3
P/BV	1.4	2.1	1.8	2.9	2.7	2.5
Total Yield Ratio	1.1%	1.0%	0.8%	0.9%	0.9%	
EV/CE	1.6	2.3	2.0	2.6	2.5	2.4
OpFCF yield	-16.0%	-3.0%	8.8%	-11.8%	3.2%	2.7%
OpFCF/EV	-20.5%	-3.3%	10.5%	-11.4%	3.1%	2.7%
Payout ratio	16.4%	-98.7%	24.5%	33.1%	30.1%	26.7%
Dividend yield (gross)	1.1%	1.0%	0.8%	0.9%	0.9%	1.0%
EV AND MKT CAP (EURm)	12/2018	12/2019	12/2020	12/2021e	12/2022e	12/2023e
Price** (EUR)	9.25	12.00	10.50	17.70	17.70	17.70
Outstanding number of shares for main stock	22.7	23.2	23.6	24.5	24.5	24.5
Total Market Cap	209.9	278.3	247.5	434.0	434.0	434.0
Gross Financial Debt (+)	28.1	50.4	32.3	49.6	44.1	40.5
Cash & Marketable Securities (-)	-74.8	-74.8	-75.0	-34.7	-38.6	-41.7
Net Financial Debt	-46.7	-24.4	-42.7	14.8	5.5	-1.2
Lease Liabilities (+)						
Net Debt	-46.7	-24.4	-42.7	14.8	5.5	-1.2
Other EV components	0.1	2.2	2.1	2.1	2.1	2.1
Enterprise Value (EV adj.)	163.4	256.1	206.9	451.0	441.6	434.9

Source: Company, Banca Akros estimates.

Notes

* Where EBITDA (adj.) or EBITA (adj.) = EBITDA (or EBITA) +/- Non Recurrent Expenses/Income and where EBIT (adj.) = EBIT +/- Non Recurrent Expenses/Income - PPA amortisation

**Price (in local currency): Fiscal year end price for Historical Years and Current Price for current and forecasted years

***EPS (adj.) diluted = Net Profit (adj.) / Avg DIL. Ord. (+ Ord. equivalent) Shs. EPS (reported) = Net Profit reported / Avg DIL. Ord. (+ Ord. equivalent) Shs.

Sector: Healthcare/Pharmaceuticals

Company Description: Fine Foods is the largest independent Italian Contract Development and Manufacturing (CDMO) of Pharmaceuticals, Nutraceuticals and Medical Devices in solid oral form (tablets, capsules, effervescent tablets, granules, effervescent granules, powders). Fine Foods currently produces and develops products for the most important world players in both the pharmaceutical and food supplements sectors. Products are manufactured in two production plants located around Bergamo.

Il presente documento è stato redatto da Paola Saglietti (socio AIAF) che svolge funzioni di analista presso Banca Akros SpA ("Banca Akros"), soggetto responsabile della produzione del documento stesso. **Esso è prodotto e distribuito dal giorno 15 November 2021, ore 08:38 italiane.**

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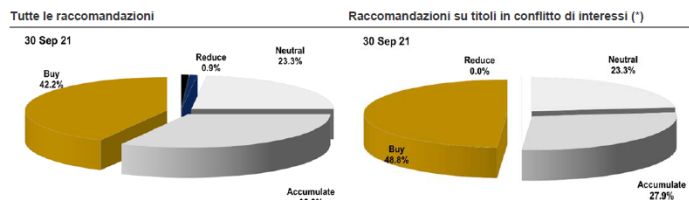
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Percentuale delle raccomandazioni al 30 settembre 2021



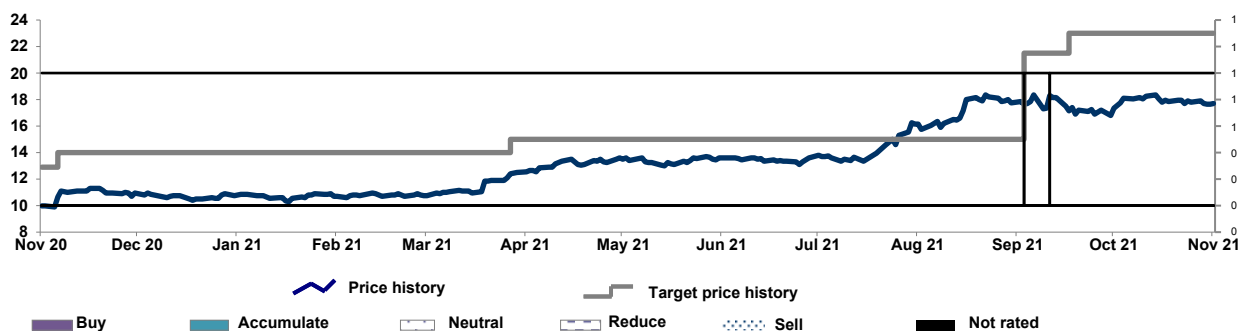
(*) Si informa che la percentuale degli emittenti in potenziale conflitto di interessi con Banca Akros è pari al 37,07% del totale degli emittenti oggetto di copertura

Recommendation history for FINE FOODS

Date	Recommendation	Target price	Price at change date
28-Sep-21	Buy	23.00	17.15
22-Sep-21	Buy	21.50	18.30
14-Sep-21	Accumulate	21.50	17.65
07-Apr-21	Buy	15.00	12.40
17-Nov-20	Buy	14.00	10.65
10-Jan-20	Buy	12.90	12.20
14-Nov-19	Buy	13.00	10.80
18-Sep-19	Buy	13.20	10.20
15-Apr-19	Buy	12.70	10.50

Source: Factset & ESN, price data adjusted for stock splits.

This chart shows Banca Akros continuing coverage of this stock; the current analyst may or may not have covered it over the entire period. Current analyst: Paola Saglietti (since 15/04/2019)





ESN Recommendation System

The ESN Recommendation System is **Absolute**. It means that each stock is rated based on **total return**, measured by the upside/downside potential (including dividends and capital reimbursement) over a **12-month time horizon**. The final responsible of the recommendation of a listed company is the analyst who covers that company. The recommendation and the target price set by an analyst on one stock are correlated but not totally, because an analyst may include in its recommendation also qualitative elements as market volatility, earning momentum, short term news flow, possible M&A scenarios and other subjective elements.



The ESN spectrum of recommendations (or ratings) for each stock comprises 5 categories: **Buy (B)**, **Accumulate (A)**, **Neutral (N)**, **Reduce (R)** and **Sell (S)**.

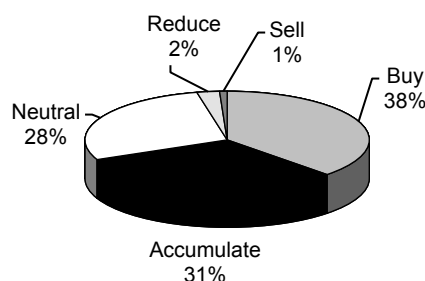
Furthermore, in specific cases and for a limited period of time, the analysts are allowed to rate the stocks as **Rating Suspended (RS)** or **Not Rated (NR)**, as explained below.

Meaning of each recommendation or rating:

- **Buy:** the stock is expected to generate total return of **over 15%** during the next 12-month
- **Accumulate:** the stock is expected to generate total return of **5% to 15%** during the next 12-month
- **Neutral:** the stock is expected to generate total return of **-5% to +5%** during the next 12-month
- **Reduce:** the stock is expected to generate total return of **-5% to -15%** during the next 12-month
- **Sell:** the stock is expected to generate total return **under -15%** during the next 12-month
- **Rating Suspended:** the rating is suspended due to: a) a capital operation (take-over bid, SPO, etc.) where a Member of ESN is or could be involved with the issuer or a related party of the issuer; b) a change of analyst covering the stock; c) the rating of a stock is under review by the Analyst.
- **Not Rated:** there is no rating for a stock when there is a termination of coverage of the stocks or a company being floated (IPO) by a Member of ESN or a related party of the Member.

Note: a certain flexibility on the limits of total return bands is permitted especially during higher phases of volatility on the markets

Banca Akros Ratings Breakdown



For full ESN Recommendation and Target price history (in the last 12 months) please see ESN Website [Link](#)

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