

Fine Foods

Sponsored Research

Italy | Healthcare



Investment Research

Company Flash Note

Reason: Company results (post view)

16 May 2022

Accumulate

Recommendation unchanged

Share price: EUR 7.84

closing price as of 13/05/2022

Target price: EUR 11.00

Target Price unchanged

Upside/Downside Potential 40.3%

Reuters/Bloomberg

FF.MI/FF IM

Market capitalisation (EURm) 200

Current N° of shares (m) 26

Free float 55%

Daily avg. no. trad. sh. 12 mth (k) 24

Daily avg. trad. vol. 12 mth (k) 36.42

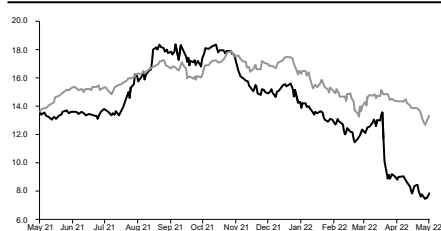
Price high/low 12 months 18.35 / 7.40

Abs Perfs 1/3/12 mths (%) -11.01/-39.92/-42.35

Key financials (EUR)	12/21	12/22e	12/23e
Sales (m)	193	207	232
EBITDA (m)	20	21	30
EBITDA margin	10.2%	10.0%	13.0%
EBIT (m)	8	7	16
EBIT margin	4.0%	3.6%	6.8%
Net Profit (adj.)(m)	10	6	12
ROCE	4.0%	3.3%	6.9%
Net debt/(cash) (m)	16	10	2
Net Debt Equity	0.1	0.1	0.0
Net Debt/EBITDA	0.8	0.5	0.1
Int. cover(EBITDA/Fin.int)	2.1	104.2	143.9
EV/Sales	2.1	1.0	0.9
EV/EBITDA	21.1	10.3	6.8
EV/EBITDA (adj.)	19.5	10.3	6.8
EV/EBIT	53.6	28.6	13.1
P/E (adj.)	nm	35.3	16.5
P/BV	2.7	1.3	1.3
OpFCF yield	-21.7%	5.0%	5.6%
Dividend yield	2.0%	2.2%	2.4%
EPS (adj.)	(0.06)	0.22	0.48
BVPS	5.76	5.82	6.13
DPS	0.16	0.17	0.19

Shareholders

Marco Eigenmann 45%;



Source: FactSet

— FINE FOODS — FTSE Italy STAR (Rebased)

Analyst(s)

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Q1 22 results still impacted by current market difficulties

As expected, the current difficult market conditions negatively affected Q1 22 results. Nevertheless, although the comparison with Q1 21 is negative, the group was able to improve sales and profitability compared to Q4 21 thanks to the management's efficiency measures.

Although the situation remains tough, we believe that the expected positive trend of the BU Pharma and BU Cosmetic and the steady business normalisation in the BU Food will enable the group to record higher revenues in the coming months. Furthermore, the progressive transfer of materials and energy price hikes on to customers and the further cost containment measures currently being implemented will enable Fine Foods to steadily recover profitability.

	Q4 21	Q1 22	% Chg	Q1 21	Q1 22	% Chg
Revenues	49.2	50.8	3.1%	51.3	50.8	-1.1%
EBITDA	2.4	4.0	67.5%	6.8	4.0	-41.4%
% margin	4.8%	7.8%		13.2%	7.8%	
Net Income (Loss)	(0.3)	(2.5)	n.m.	3.1	(2.5)	n.m.
NFP	15.7	33.0				

✓ **Q1 22 revenue growth was slightly higher than expected (Akros est. EUR 49.3m)** – Q1 22 revenues of EUR 50.8m slightly decreased Y/Y, but showed an improvement compared to Q4 21 (+3.1%). This performance was due to: 1) BU Food sales decrease (-23% Y/Y) owing to the current lower client demand and to the challenging comparison base with Q1 21, which benefitted from the post-pandemic recovery; 2) strong BU Pharma sales growth (+19% Y/Y) owing to the transfer technology from clients recovery; 3) the positive contribution from the new BU Cosmetic of EUR 9.4m (of which EUR 3.2m from Pharmatek and EUR 6.2m from Euro Cosmetic).

✓ **Profitability was higher than expected (Akros est. EBITDA margin 6.0%)** – the EBITDA margin moved from 13.2% in Q1 21 to 7.8% in Q1 22. This decrease was due to inefficiencies (supply-chain problems) in the production process and to a significant increase in energy costs (which eroded the EBITDA margin by more than 2%), transport and logistics.

Q1 22 Income Before Tax was negatively impacted by the parent company's equity securities portfolio (negative change in fair value as of 31 March 2022 of EUR 2.4m vs positive change in fair value as of 31 March 2021 of EUR 1.4 m). Therefore, the group recorded a Q1 22 Net Loss of EUR 2.5m (vs Q1 21 Net Income of EUR 3.1m).

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- ✓ **Q1 22 NFP negatively impacted by NWC trend and Capex** – Net Debt at the end of March 22 was EUR 33m, compared to EUR 15.7m at the end of December 21; this worsening was due to the NWC increase and Capex. Indeed, NWC at the end of March 22 was EUR 47.4m, compared to EUR 31.8m at the end of December 21; this increase was caused by: 1) an increase in inventories, which was in preparation of the supply-chain crisis management, 2) an increase in trade receivables due to a higher percentage of customers with longer payment terms.
- ✓ **Outlook on coming quarters** – Despite the current tough scenario, which had already begun in Q4 21, including increasing energy costs, material shortages, and the problems arising from the geo-political situation, the management believe that the group can face the current year's challenges thanks to the actions it has taken. It expects to return to historical growth trends by the end of this year, or as soon as these critical issues are resolved.

Furthermore, it is important to highlight that: 1) policies for targeted stock increases have been successfully implemented to cope with the uncertainties surrounding the raw and packaging material supply chain. 2) Rising energy costs have been tackled with the installation of two new photovoltaic systems providing 550 kW, which will flank the two one-megawatt co-generators and the 310-kW photovoltaic system already installed. In addition, during fiscal year 2022, Fine Foods will benefit from White Certificates deriving from the installation of the co-generators. 3) Transfers of material and energy price increases on to customers have affected margins positively.

- ✓ **2022-24 estimates confirmed** – based on the management's outlook, we confirm our 2022-24 estimates:

FY 22 estimates - Despite the flat Q1 22 revenue trend, we believe that, thanks to the expected positive trend of the BU Pharma and BU Cosmetic and the progressive passing of the cost increase on sales prices on to customers, the group will be able to achieve an annual turnover in line with our single-digit growth expectations. Furthermore, although the Q1 22 EBITDA margin of 7.8% was lower than our expected FY 22 EBITDA margin of 10.0%, we believe that the group's profitability will be in line with our estimates thanks to the progressive increase in turnover in the next quarters and to the additional benefits expected from the management's efficiency actions. As such, we confirm our FY 22e revenue growth of +7.6% Y/Y and our FY 22e EBITDA margin of 10.0%.

FY 23-24 estimates - Assuming there is a normalisation of the market in the coming months, we believe that Fine Foods will be able to recover its past sustained growth path in the next few years. So, we forecast a total sales CAGR of 11.4% in the biennium 2023-2024; the sales recovery should allow the group to progressively recover his historical profitability, so we forecast 2022-24 EBITDA CAGR of 18.8%.

Conclusion & Action: based on the Q1 22 results and on our FY 22 estimates, we maintain our target price of EUR 11.00 per share (DCF model valuation – WACC 6.50% and perpetual growth 1.8%). Despite the effective managements' actions, the 2022 economic scenario, aggravated by the Ukrainian crisis, remains decidedly challenging, so, we maintain our Accumulate recommendation.



Fine Foods: Summary tables

	12/2019	12/2020	12/2021	12/2022e	12/2023e	12/2024e
PROFIT & LOSS (EURm)						
Sales	160	172	193	207	232	257
Cost of Sales & Operating Costs	-69.5	-85.1	-96.6	-108.8	-118.7	-128.5
Non Recurrent Expenses/Income	-2.8	-1.2	-1.6	0.0	0.0	0.0
EBITDA	17.5	21.1	19.6	20.8	30.2	36.0
EBITDA (adj.)*	20.3	22.3	21.2	20.8	30.2	36.0
Depreciation	-9.4	-11.6	-14.5	-13.4	-14.4	-15.9
EBITA	8.1	9.5	5.0	7.5	15.8	20.1
EBITA (adj)*	10.9	10.7	6.6	7.5	15.8	20.1
Amortisations and Write Downs	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	10.9	10.7	7.7	7.5	15.8	20.1
EBIT (adj.)*	13.7	11.9	9.3	7.5	15.8	20.1
Net Financial Interest	-8.0	7.2	-9.3	-0.2	-0.2	-0.2
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)	2.9	17.9	-1.6	7.3	15.6	19.9
Tax	-2.9	-3.3	3.2	-1.6	-3.4	-4.4
<i>Tax rate</i>		18.6%	68.9%	21.9%	21.9%	21.9%
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)	-2.8	13.4	-1.4	5.7	12.2	15.6
Net Profit (adj.)	11.9	9.3	10.2	5.7	12.2	15.6
CASH FLOW (EURm)						
Cash Flow from Operations before change in NWC	6.6	25.0	13.1	19.0	26.6	31.4
Change in Net Working Capital	5.3	12.7	-32.3	3.4	-5.3	-4.1
Cash Flow from Operations	11.9	37.7	-19.2	22.5	21.3	27.4
Capex	-20.2	-16.0	-66.0	-12.5	-10.2	-10.2
Net Financial Investments	0.0	0.0	0.0	0.0	0.0	0.0
Free Cash Flow	-8.3	21.7	-85.2	10.0	11.1	17.2
Dividends	-2.3	-2.8	-3.3	-4.1	-4.4	-4.8
Other (incl. Capital Increase & share buy backs)	-25.2	-0.9	41.1	0.3	0.3	0.5
Change in Net Financial Debt	-35.8	18.0	-47.4	6.2	7.0	12.9
NOPLAT	9.4	8.1	6.4	5.1	10.8	13.8
BALANCE SHEET & OTHER ITEMS (EURm)						
Net Tangible Assets	89.3	93.4	104	103	98.5	92.9
Net Intangible Assets (incl. Goodwill)	1.9	1.9	24.7	24.7	24.7	24.7
Net Financial Assets & Other	2.0	2.0	3.7	3.7	3.7	3.7
Total Fixed Assets	93.3	97.3	132	131	127	121
Inventories	22.5	19.6	35.1	34.2	39.7	44.1
Trade receivables	17.1	12.7	29.4	29.2	32.6	36.2
Other current assets	2.5	3.3	12.0	12.9	14.4	16.0
Cash (-)	-74.8	-75.0	-95.1	-97.9	-101.3	-107.7
Total Current Assets	117	111	172	174	188	204
Total Assets	210.2	207.8	303.6	305.3	314.9	325.2
Shareholders Equity	131	141	147	149	157	167
Minority	0.0	0.0	0.0	0.0	0.0	0.0
Total Equity	131	141	147	149	157	167
Long term interest bearing debt	21.2	16.1	42.5	41.3	39.8	37.3
Provisions	1.1	1.1	3.0	3.2	3.4	3.7
Other long term liabilities	1.2	0.6	1.1	1.2	1.3	1.4
Total Long Term Liabilities	23.6	17.7	46.6	45.6	44.5	42.5
Short term interest bearing debt	29.2	16.2	68.2	66.2	63.9	59.9
Trade payables	20.6	22.7	32.5	35.0	39.2	43.5
Other current liabilities	6.1	10.2	8.9	9.6	10.8	12.0
Total Current Liabilities	55.9	49.1	110	111	114	115
Total Liabilities and Shareholders' Equity	210.2	207.8	303.5	305.3	314.9	325.2
Net Capital Employed	108.6	99.9	167.0	162.7	163.7	162.1
Net Working Capital	19.4	10.0	32.4	28.7	33.6	37.2
GROWTH & MARGINS						
<i>Sales growth</i>	14.6%	7.7%	12.0%	7.6%	11.8%	11.0%
EBITDA (adj.)* growth	8.6%	9.9%	-5.0%	-1.6%	45.1%	19.2%
<i>EBITA (adj.)* growth</i>	7.2%	-2.5%	-37.7%	12.5%	111.4%	27.5%
<i>EBIT (adj.)* growth</i>	34.7%	-13.6%	-21.4%	-19.8%	111.4%	27.5%



Fine Foods: Summary tables

GROWTH & MARGINS	12/2019	12/2020	12/2021	12/2022e	12/2023e	12/2024e
Net Profit growth	37.0%	-21.8%	9.4%	-44.2%	114.3%	27.9%
EPS adj. growth	n.m.	n.m.	n.m.	n.m.	114.3%	27.9%
DPS adj. growth	20.0%	16.7%	14.3%	8.0%	8.0%	0.0%
EBITDA (adj)* margin	12.7%	13.0%	11.0%	10.0%	13.0%	14.0%
EBITA (adj)* margin	6.8%	6.2%	3.4%	3.6%	6.8%	7.8%
EBIT (adj)* margin	8.6%	6.9%	4.8%	3.6%	6.8%	7.8%
RATIOS	12/2019	12/2020	12/2021	12/2022e	12/2023e	12/2024e
Net Debt/Equity	-0.2	-0.3	0.1	0.1	0.0	-0.1
Net Debt/EBITDA	-1.4	-2.0	0.8	0.5	0.1	-0.3
Interest cover (EBITDA/Fin.interest)	2.2	n.m.	2.1	n.m.	n.m.	n.m.
Capex/D&A	215.8%	137.5%	454.3%	93.5%	70.7%	64.2%
Capex/Sales	12.7%	9.3%	34.3%	6.0%	4.4%	4.0%
NWC/Sales	12.1%	5.8%	16.8%	13.8%	14.5%	14.5%
ROE (average)	8.5%	6.8%	7.1%	3.8%	8.0%	9.6%
ROCE (adj.)	8.5%	7.7%	4.0%	3.3%	6.9%	8.9%
WACC	6.7%	6.7%	6.5%	6.5%	6.5%	6.5%
ROCE (adj.)/WACC	1.3	1.2	0.6	0.5	1.1	1.4
PER SHARE DATA (EUR)***	12/2019	12/2020	12/2021	12/2022e	12/2023e	12/2024e
Average diluted number of shares	23.2	23.6	25.6	25.6	25.6	25.6
EPS (reported)	-0.12	0.57	-0.06	0.22	0.48	0.61
EPS (adj.)	-0.12	0.57	-0.06	0.22	0.48	0.61
BVPS	5.63	5.98	5.76	5.82	6.13	6.55
DPS	0.12	0.14	0.16	0.17	0.19	0.19
VALUATION	12/2019	12/2020	12/2021	12/2022e	12/2023e	12/2024e
EV/Sales	1.6	1.2	2.1	1.0	0.9	0.8
EV/EBITDA	14.7	9.8	21.1	10.3	6.8	5.4
EV/EBITDA (adj.)*	12.6	9.3	19.5	10.3	6.8	5.4
EV/EBITA	31.5	21.9	82.0	28.6	13.1	9.6
EV/EBITA (adj.)*	23.5	19.4	62.2	28.6	13.1	9.6
EV/EBIT	23.5	19.4	53.6	28.6	13.1	9.6
EV/EBIT (adj.)*	18.7	17.5	44.4	28.6	13.1	9.6
P/E (adj.)	n.m.	18.4	n.m.	35.3	16.5	12.9
P/BV	2.1	1.8	2.7	1.3	1.3	1.2
Total Yield Ratio	1.0%	1.3%	2.0%	2.2%	2.4%	
EV/CE	2.3	2.0	2.6	1.4	1.3	1.3
OpFCF yield	-3.0%	8.8%	-21.7%	5.0%	5.6%	8.6%
OpFCF/EV	-3.3%	10.5%	-20.6%	4.7%	5.4%	8.9%
Payout ratio	-98.7%	24.5%	n.m.	77.8%	39.2%	30.7%
Dividend yield (gross)	1.0%	1.3%	2.0%	2.2%	2.4%	2.4%
EV AND MKT CAP (EURm)	12/2019	12/2020	12/2021	12/2022e	12/2023e	12/2024e
Price** (EUR)	12.00	10.50	15.40	7.84	7.84	7.84
Outstanding number of shares for main stock	23.2	23.6	25.6	25.6	25.6	25.6
Total Market Cap	278.3	247.5	393.6	200.4	200.4	200.4
Gross Financial Debt (+)	50.4	32.3	110.8	107.4	103.8	97.2
Cash & Marketable Securities (-)	-74.8	-75.0	-95.1	-97.9	-101.3	-107.7
Net Financial Debt	-24.4	-42.7	15.7	9.5	2.5	-10.4
Lease Liabilities (+)						
Net Debt	-24.4	-42.7	15.7	9.5	2.5	-10.4
Other EV components	2.2	2.1	3.9	3.9	3.9	3.9
Enterprise Value (EV adj.)	256.1	206.9	413.2	213.8	206.7	193.8

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 16 May 2022, ore 10:04 italiane.**

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Banca Akros, nell'ultimo anno, ha pubblicato sulla società oggetto di analisi tre studi in data 31 marzo, 8 aprile e 13 maggio 2022. gg mmmm aaaa.

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<https://www.bancaakros.it/documentazione/avvertenze-legali/>

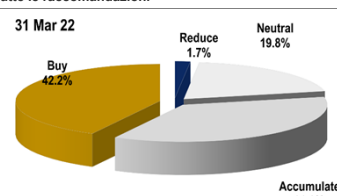
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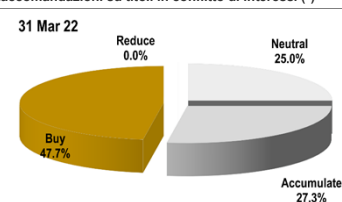
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Percentuale delle raccomandazioni al 31 marzo 2022

Tutte le raccomandazioni



Raccomandazioni su titoli in conflitto di interessi (*)



(*) Si informa che la percentuale degli emittenti in potenziale conflitto di interessi con Banca Akros è pari al 37.93% del totale degli emittenti oggetto di copertura

Recommendation history for FINE FOODS

Date	Recommendation	Target price	Price at change date
08-Apr-22	Accumulate	11.00	9.20
31-Mar-22	Not rated	0.00	11.75
15-Nov-21	Buy	20.50	16.50
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

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)**.

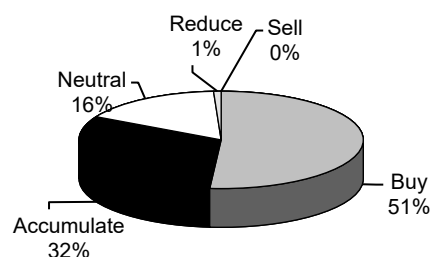
Furthermore, in specific cases and for a limited period of time, the analysts are allowed to rate the stocks as **Rating Suspended (RS)** or **Not Rated (NR)**, as explained below.

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.
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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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