

UPDATE

EQUITY RESEARCH

ISIM
INTEGRÆ

Intred

Euronext Growth Milan | TLC | Italy

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Rating

BUY

unchanged

Target Price

€ 22,50

prev. €25,30



Risk

Medium

Upside potential

80,0%

Stocks performance relative to FTSE Italia Growth



Stock Data

Price	€ 13,70
Target price	€ 22,50
Upside/(Downside) potential	64,2%
Ticker	ITD IM
Market Cap (€/mln)	217,35
EV (€/mln)	228,88
Free Float	30,18%
Share Outstanding	15.865.300
52-week high	€ 16,35
52-week low	€ 12,00
Average daily volumes (3 months)	3.100

Key Financials (€/mln)	FY22A	FY23E	FY24E	FY25E
VoP	46,1	50,5	55,5	61,5
EBITDA	19,9	21,6	23,8	26,5
EBIT	12,2	11,6	13,2	15,5
Net Income	8,7	8,6	9,6	11,1
EPS (€)	0,55	0,54	0,60	0,70
EBITDA margin	43,1%	42,8%	42,9%	43,1%
EBIT margin	26,4%	23,0%	23,8%	25,2%
Net Income margin	18,8%	17,0%	17,2%	18,0%

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Stock performance	1M	3M	6M	1Y
Absolute	3,01%	-4,20%	13,22%	-13,56%
to FTSE Italia Growth	2,83%	-4,88%	6,81%	-3,82%
to Euronext STAR Milan	3,83%	-10,20%	-5,50%	-3,37%
to FTSE All-Share	4,43%	-16,14%	-17,28%	-20,95%
to EUROSTOXX	1,20%	-16,10%	-16,82%	-24,14%
to MSCI World Index	1,34%	-10,04%	-2,80%	-3,96%

Main Ratios	FY22A	FY23E	FY24E	FY25E
EV/EBITDA	11,5 x	10,6 x	9,6 x	8,6 x
EV/EBIT	18,8 x	19,7 x	17,3 x	14,8 x
P/E	25,1 x	25,3 x	22,8 x	19,6 x

FY22A Results

The value of production stands at € 46.08 million, compared to a value of € 41.24 million recorded at the end of 2021, and to € 47.80 million estimated in our previous report. EBITDA, equal to € 19.85 million, recorded an increase of 12.6%, compared to € 17.64 million in the previous year, and it is in line with our previous estimate of € 20.05 million. EBIT, after amortization and depreciation of € 7.69 million, stands at € 12.16 million (€ 11.79 million in 2021), compared to our estimate of € 13.25 million. Net Income stands at € 8.67 million (€ 8.62 million in 2021), slightly down from the € 9.70 million of our previous estimate.

Estimates Update

In light of the results published in the FY22A annual report, we have adjusted our estimates for both the current and the coming years. In particular, we now estimate a FY23E value of production equal to € 50.50 million, and an EBITDA equal to € 21.60 million, corresponding to a margin of 42.8%. For the following years, we expect the value of production to rise in FY25E to € 61.50 million (CAGR 22Y-25E: 10.1%), with EBITDA equal to € 26.50 million (corresponding to a margin of 43.1%), up from € 19.85 million in FY22A, corresponding to an EBITDA margin of 43.1%. Regarding the balance sheet, for FY25E, we estimate a positive cash NFP of € 3.84 million.

Valuation Update

We conducted the valuation of the equity value of Intred on the basis of the DCF method and multiples of a sample of comparable companies. The DCF method (including, for prudential purposes, a specific risk of 1.0% in the calculation of the WACC) returns an equity value of € 434.4 million. Using market multiples, the equity value of Intred is € 279.6 million. The result is an average equity value of approximately € 357.0 million. The target price is € 22.50, BUY rating and MEDIUM risk.

Economics & Financials

TABLE 1 – ECONOMICS & FINANCIALS

INCOME STATEMENT (€/mln)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenues	40,46	45,52	50,00	55,00	61,00
Other Revenues	0,78	0,57	0,50	0,50	0,50
Value of Production	41,24	46,08	50,50	55,50	61,50
COGS	0,89	1,64	1,00	1,00	1,00
Use of assets owned by others	9,14	9,24	9,50	10,50	11,20
Services	5,53	6,69	8,50	9,30	10,90
Employees	7,01	7,93	8,90	9,90	10,90
Other Operating Expenses	1,04	0,73	1,00	1,00	1,00
EBITDA	17,64	19,85	21,60	23,80	26,50
<i>EBITDA Margin</i>	<i>42,8%</i>	<i>43,1%</i>	<i>42,8%</i>	<i>42,9%</i>	<i>43,1%</i>
D&A	5,85	7,69	10,00	10,60	11,00
EBIT	11,79	12,16	11,60	13,20	15,50
<i>EBIT Margin</i>	<i>28,6%</i>	<i>26,4%</i>	<i>23,0%</i>	<i>23,8%</i>	<i>25,2%</i>
Financial Management	0,15	0,02	(0,20)	(0,20)	(0,20)
EBT	11,95	12,18	11,40	13,00	15,30
Taxes	3,32	3,50	2,80	3,45	4,20
Net Income	8,62	8,67	8,60	9,55	11,10
BALANCE SHEET (€/mln)	FY21A	FY22A	FY23E	FY24E	FY25E
Fixed Assets	57,42	88,58	92,60	96,00	98,00
Account receivable	7,75	13,97	14,50	16,10	18,10
Inventories	1,19	0,43	0,50	0,50	0,50
Account payable	17,12	19,66	21,50	24,20	26,70
Operating Working Capital	(8,18)	(5,26)	(6,50)	(7,60)	(8,10)
Other receivable	2,66	5,29	2,80	2,95	3,10
Other payable	15,45	27,28	23,00	22,00	20,00
Net Working Capital	(20,97)	(27,25)	(26,70)	(26,65)	(25,00)
Severance Indemnities & Other Provisions	1,56	1,80	2,20	2,50	2,80
NET INVESTED CAPITAL	34,89	59,54	63,70	66,85	70,20
Share Capital	10,00	10,01	10,01	10,01	10,01
Reserves	21,67	29,33	36,96	44,53	52,93
Net Income	8,62	8,67	8,60	9,55	11,10
Equity	40,29	48,01	55,57	64,09	74,04
Cash & Cash Equivalent	15,33	17,60	12,17	13,24	15,84
Short Term Debt to Bank	6,30	13,91	12,30	10,00	8,00
M/L Term Debt to Bank	3,63	15,21	8,00	6,00	4,00
Net Financial Position	(5,41)	11,53	8,13	2,76	(3,84)
SOURCES	34,89	59,54	63,70	66,85	70,20

CASH FLOW (€/mln)	FY22A	FY23E	FY24E	FY25E
EBIT	12,16	11,60	13,20	15,50
Taxes	3,50	2,80	3,45	4,20
NOPAT	8,66	8,80	9,75	11,30
D&A	7,69	10,00	10,60	11,00
Change in receivable	(6,22)	(0,53)	(1,60)	(2,00)
Change in inventories	0,76	(0,07)	0,00	0,00
Change in payable	2,54	1,84	2,70	2,50
Change in others	9,20	(1,79)	(1,15)	(2,15)
Change in NWC	6,28	(0,55)	(0,05)	(1,65)
Change in provisions	0,24	0,40	0,30	0,30
OPERATING CASH FLOW	22,87	18,65	20,60	20,95
Capex	(38,9)	(14,0)	(14,0)	(13,0)
FREE CASH FLOW	(15,99)	4,64	6,60	7,95
Financial Management	0,02	(0,20)	(0,20)	(0,20)
Change in Debt to Bank	19,20	(8,83)	(4,30)	(4,00)
Change in Equity	(0,96)	(1,04)	(1,03)	(1,15)
FREE CASH FLOW TO EQUITY	2,27	(5,43)	1,07	2,60

Source: Intred and Integrae SIM estimates

Company Overview

Intred is an Italian company operating in the telecommunications sector, supplying data and voice services through its own proprietary network. It was founded in 1996 by three partners who decided to translate an innovative intuition into a new business proposition, guided by their acquired expertise and professionalism.

Today, Intred is an established company pushing a competitive advantage and new growth for its customers by offering cutting-edge solutions tailored to actual needs. Based in Brescia, the company offers businesses, retail and the public administration a wide range of services with high technological value. Intred provides connectivity, landline telephony and *cloud* and related ancillary services through the availability of a fiber optic network of over 8,400 kilometers, spread right across the Lombardy Region.

Its acquisition of the Bergamo-based company Qcom SpA and awarding of Lombardy Infratel Schools Tenders has allowed for an expansion and development of the network in an even more capillary manner throughout the territory.

FY22A Results

TABLE 2 – ACTUAL VS ESTIMATES FY22A

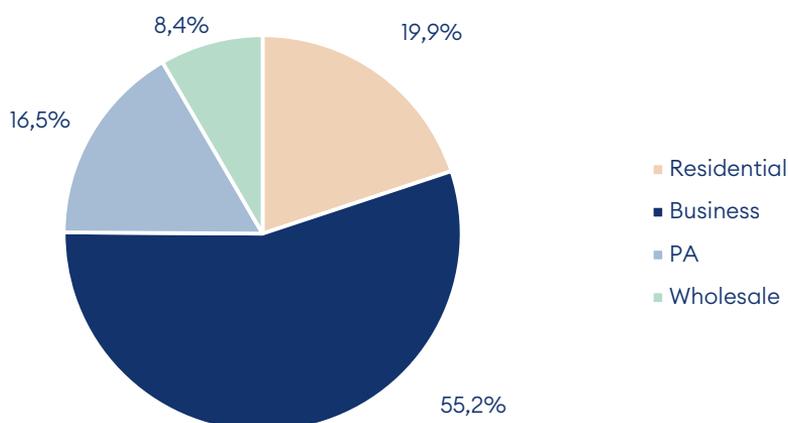
(€/mln)	VoP	EBITDA	EBITDA %	EBIT	Net Income	NFP
FY22A	46,08	19,85	43,1%	12,16	8,67	11,53
FY22E	47,80	20,05	41,9%	13,25	9,70	12,47
Change	-3,6%	-1,0%	1,1%	-8,2%	-10,6%	N/A

Source: Integrae SIM

Commenting on the annual results in the press release, the Company stated: *“Performance in 2022 once again confirmed the positive trend of recent years, in terms of volumes and margins, with significant growth. Thanks to the investments made during the year, we significantly increased the kilometers of optical fiber in the Lombardy Region, especially in areas where we have historically been less present, thus allowing us to bring our business to schools and new customers in those areas. We are confident of maintaining this positive trend in 2023, of attaining our goals related to the two Schools Tenders as soon as possible, and of exploiting the extension of the network to connect other types of customers.”*

The value of production stands at € 46.08 million, compared to a value of € 41.24 million recorded at the end of 2021, and to € 47.80 million estimated in our previous report. The growth compared to 2021 was mainly underpinned by sales of fiber optic connections, amounting to € 26.20 million, up by 27.2% compared to the same period of the previous year. In particular, the most consistent growth was recorded in recurring fee services, the *core business* of the Company (approximately 86.0% of turnover), with an increase of 9.3%, standing in FY22A at € 39.2 million. Revenues from so-called *“one-off”* products and services, on the other hand, increased by 52.5% to € 5.70 million, mainly due to the effect of the Schools Tenders.

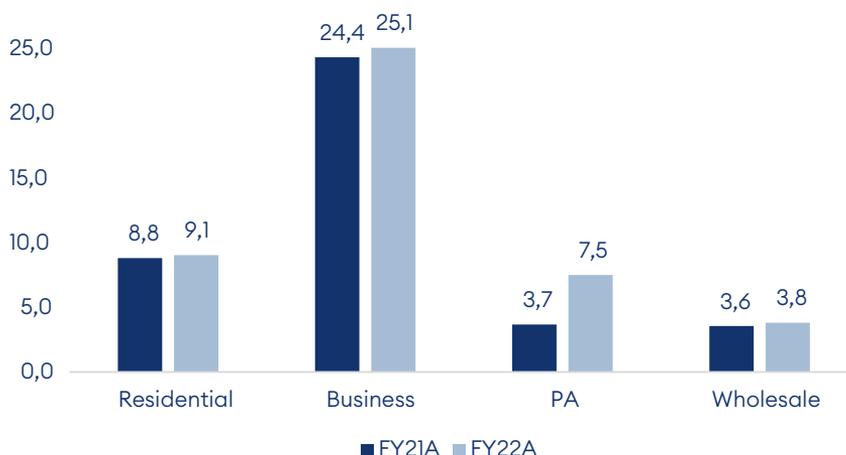
CHART 1 – REVENUES BREAKDOWN BY TYPE OF COSTUMER FY22A



Source: Intred

Revenues in FY22A have the following breakdown by type of customer: 19.9% residential, 55.2% professional, 16.5% public administration, and 8.4% wholesale.

CHART 2 – REVENUES BREAKDOWN BY TYPE OF COSTUMER FY21A VS FY22A



Source: Intred

Regarding the type of customer, the greatest growth came from sales to the public administration, recording an increase of 104.0% compared to FY21A, and settling at € 7.50 million, thanks to the Schools Tenders. The *performance* of sales in the wholesale sector was also excellent, coming in at € 3.80 million (up 8.3% compared to the previous year).

EBITDA, equal to € 19.85 million, recorded an increase of 12.6%, compared to € 17.64 million in the previous year, and in line with our previous estimate of € 20.05 million. The *EBITDA Margin*, equal to 43.1%, also increased compared to the figure for the previous year (42.8%) and our estimate (41.9%).

EBIT, after amortization and depreciation of € 7.69 million, stands at € 12.16 million (€ 11.79 million in 2021), compared to our estimate of € 13.25 million. The *EBIT Margin* was 26.4%, compared to a FY21A figure of 28.6% and our estimate of 27.7%.

Net Income stood at € 8.67 million (€ 8.62 million in 2021), slightly decreasing compared to the € 9.70 million of our previous estimate.

The NFP changed from a *cash positive* value of € 5.41 million to a debt value of € 11.53 million. This change is mainly attributable to the huge investments made in relation to the Schools Tenders, as highlighted by the payables to banks, which rose from € 9.93 million in FY21A to € 29.13 million.

During FY22A, investments amounted to € 39.30 million, mainly attributable to the development of the *backhauling* network and FTTH fiber optic access in Lombardy. As a result, the growth in the number of users with data lines continues, exceeding 46,500 as at December

31, 2022, showing a growth of 3.3% compared to the same period of the previous year. Regarding network investments, a share of 72.0% of the total is attributable to investments in tangible fixed assets (civil works for laying cables, the fiber optic cables themselves, *shelters*, and electronic equipment in general), while 28.0% of the total is attributable to investments in intangible fixed assets, including long-term use rights for dark optical fiber and/or cable ducts, by Indefeasible Rights of Use (IRU) contracts with durations of 15, 18, and 22 years.

FY23E – FY25E Estimates

TABLE 3 – ESTIMATES UPDATES FY23E-25E

€/mln	FY23E	FY24E	FY25E
VoP			
New	50,50	55,50	61,50
Old	54,50	62,50	70,50
Change	-7,3%	-11,2%	-12,8%
EBITDA			
New	21,60	23,80	26,50
Old	22,90	26,30	29,75
Change	-5,7%	-9,5%	-10,9%
EBITDA %			
New	42,8%	42,9%	43,1%
Old	42,0%	42,1%	42,2%
Change	0,8%	0,8%	0,9%
EBIT			
New	11,60	13,20	15,50
Old	15,30	17,80	20,95
Change	-24,2%	-25,8%	-26,0%
Net Income			
New	8,60	9,55	11,10
Old	11,00	12,80	14,95
Change	-21,8%	-25,4%	-25,8%
NFP			
New	8,13	2,76	(3,84)
Old	4,94	(4,91)	(18,03)
Change	N/A	N/A	N/A

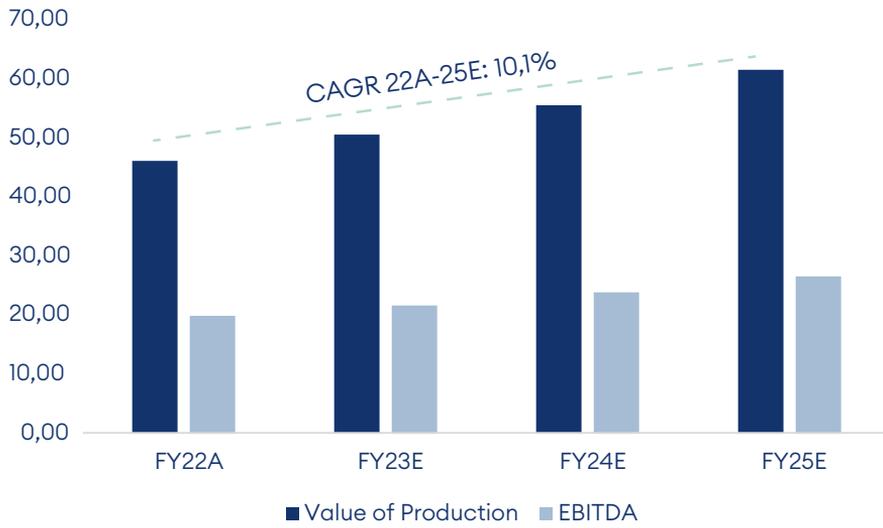
Source: Integrae SIM

In light of the results published in the FY22A annual report, we have adjusted our estimates for both the current and the coming years.

In particular, we now estimate a FY23E value of production equal to € 50.50 million, and an EBITDA equal to € 21.60 million, corresponding to a margin of 42.8%. Over the following years, we expect the value of production to rise to € 61.50 million (CAGR 22Y-25E: 10.1%) in FY25E, with EBITDA equal to € 26.50 million (corresponding to a margin of 43.1%), up from € 19.85 million in FY22A (corresponding to an EBITDA margin of 43.1%).

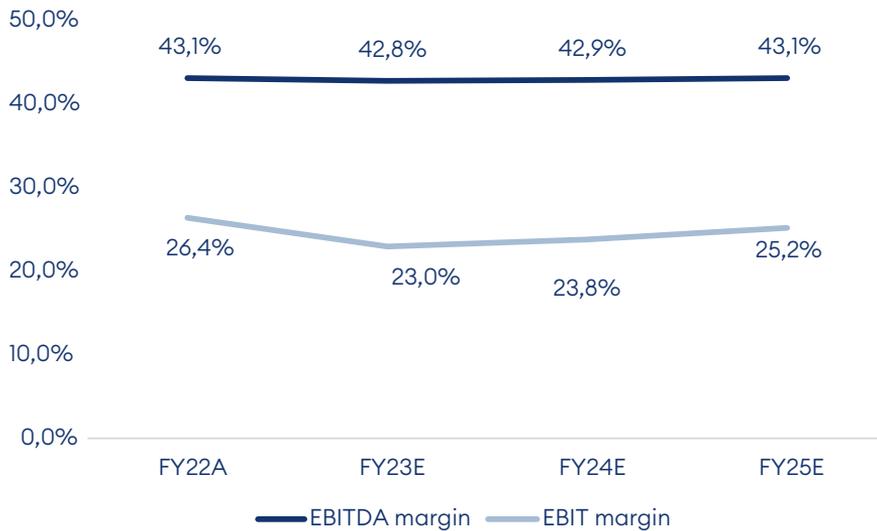
Regarding the balance sheet, for FY25E, we estimate a cash positive NFP of € 3.84 million.

CHART 3 – VOP AND EBITDA FY22A-25E



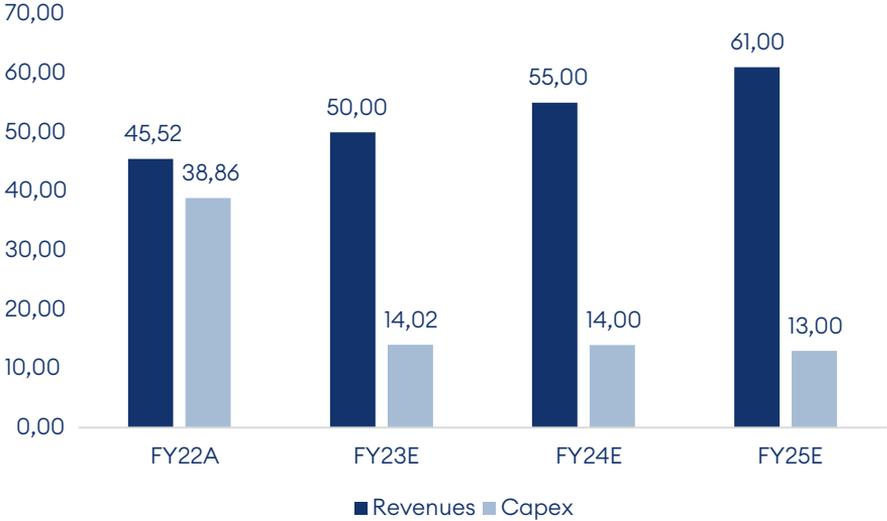
Source: Integrae SIM

CHART 4 – MARGIN FY22A-25E



Source: Integrae SIM

CHART 5 – CAPEX FY22A-25E



Source: Integrae SIM

CHART 6 – NFP FY22A-25E



Source: Integrae SIM

Valuation

We conducted the valuation of the *equity value* of Intred on the basis of the DCF method and multiples of a sample of comparable companies.

DCF Method

TABLE 4 – WACC

WACC				5,87%
D/E 66,67%	Risk Free Rate 3,51%	β Adjusted 0,49	α (specific risk) 1,00%	
K_d 1,50%	Market Premium 9,73%	β Relevered 0,73	K_e 9,30%	

Source: Integrae SIM

For prudential purposes, we included a specific risk of 1.0%. The result is therefore a WACC of 5.87%.

TABLE 5 – DCF VALUATION

DCF		% of EV
FCFO actualized	78,5	18%
TV actualized DCF	367,4	82%
Enterprise Value	445,9	100%
NFP (FY22A)	11,5	
Equity Value	434,4	

Source: Integrae SIM

With the above data and taking our estimates and *assumptions* as a reference, the result is an **equity value of € 434.4 million**.

TABLE 6 – EQUITY VALUE – SENSITIVITY ANALYSIS

€/mln	Growth Rate (g)	WACC						
		4,4%	4,9%	5,4%	5,9%	6,4%	6,9%	7,4%
	2,5%	1124,5	874,7	712,1	597,9	513,4	448,3	396,7
	2,0%	902,5	734,6	616,7	529,3	462,1	408,8	365,5
	1,5%	757,9	636,1	545,9	476,4	421,4	376,7	339,7
	1,0%	656,2	563,0	491,3	434,4	388,2	350,0	317,9
	0,5%	580,8	506,7	447,9	400,2	360,7	327,6	299,3
	0,0%	522,6	461,9	412,6	371,8	337,5	308,4	283,2
	-0,5%	476,4	425,5	383,3	347,9	317,7	291,8	269,2

Source: Integrae SIM

Market multiples

Our *panel* is made up of companies operating in the same sector as Intred. These companies are the same used to calculate Beta for the *DCF method*. The *panel* consists of:

TABLE 7 – MARKET MULTIPLES

Company Name	EV/EBITDA			EV/EBIT		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Retelit S.p.A.	15,4 x	14,1 x	12,9 x	30,4 x	27,8 x	23,8 x
WIIT SpA	13,7 x	12,0 x	11,1 x	23,6 x	20,8 x	18,8 x
Elisa Oyj	13,0 x	12,5 x	12,1 x	20,1 x	19,1 x	18,4 x
Chorus Limited	8,2 x	8,1 x	7,6 x	22,8 x	21,8 x	19,2 x
Peer median	13,0 x	12,0 x	11,1 x	22,8 x	20,8 x	18,8 x

Source: *Infinancials*

TABLE 8 – MARKET MULTIPLES VALUATION

€/mln	FY23E	FY24E	FY25E
Enterprise Value (EV)			
EV/EBITDA	279,9	286,6	295,2
EV/EBIT	264,8	274,0	290,9
Equity Value			
EV/EBITDA	271,8	283,8	299,1
EV/EBIT	256,7	271,3	294,8
Average	264,3	277,5	296,9

Source: *Integrae SIM*

Using the EV/EBITDA and EV/EBIT market multiples, Intred's *equity value* is **equal to approximately € 279.6 million.**

Equity Value

TABLE 9 – EQUITY VALUE

Average Equity Value (€/mln)	357,0
Equity Value DCF (€/mln)	434,4
Equity Value multiples (€/mln)	279,6
Target Price (€)	22,50

Source: Integrae SIM

The result is an average *equity value* of approximately € 357.0 million. **The target price is therefore € 22.50 (prev. € 25.30). We confirm a BUY rating and MEDIUM risk.**

TABLE 10 – TARGET PRICE IMPLIED VALUATION MULTIPLES

Multiples	FY22A	FY23E	FY24E	FY25E
EV/EBITDA	18,6 x	17,1 x	15,5 x	13,9 x
EV/EBIT	30,3 x	31,8 x	27,9 x	23,8 x

Source: Integrae SIM

TABLE 11 – CURRENT PRICE IMPLIED VALUATION MULTIPLES

Main Ratios	FY22A	FY23E	FY24E	FY25E
EV/EBITDA	11,5 x	10,6 x	9,6 x	8,6 x
EV/EBIT	18,8 x	19,7 x	17,3 x	14,8 x

Source: Integrae SIM

Disclosure Pursuant to Delegated Regulation UE n. 2016/958

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Date	Price	Recommendation	Target Price	Risk	Comment
04/04/2022	15,70	Buy	25,30	Medium	Update
06/05/2022	13,90	Buy	25,30	Medium	Breaking News
30/05/2022	15,85	Buy	25,30	Medium	Breaking News
15/06/2022	14,75	Buy	25,30	Medium	Breaking News
04/08/2022	14,20	Buy	25,30	Medium	Breaking News
04/10/2022	12,50	Buy	25,30	Medium	Update
07/11/2022	12,60	Buy	25,30	Medium	Breaking News
10/02/2023	14,60	Buy	25,30	Medium	Breaking News

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The BUY, HOLD and SELL ratings are based on the expected total return (ETR – absolute performance in the 12 months following the publication of the analysis, including the ordinary dividend paid by the company), and the risk associated to the share analyzed. The degree of risk is based on the liquidity and volatility of the share, and on the rating provided by the analyst and contained in the report. Due to daily fluctuations in share prices, the expected total return may temporarily fall outside the proposed range

Equity Total Return (ETR) for different risk categories

Rating	Low Risk	Medium Risk	High Risk
BUY	ETR \geq 7.5%	ETR \geq 10%	ETR \geq 15%
HOLD	-5% < ETR < 7.5%	-5% < ETR < 10%	0% < ETR < 15%
SELL	ETR \leq -5%	ETR \leq -5%	ETR \leq 0%
U.R.	Rating e/o target price Under Review		
N.R.	Stock Not Rated		

Valuation methodologies (long term horizon: 12 months)

The methods that INTEGRÆ SIM SpA prefers to use for value the company under analysis are those which are generally used, such as the market multiples method which compares average multiples (P/E, EV/EBITDA, and other) of similar shares and/or sectors, and the traditional financial methods (RIM, DCF, DDM, EVA etc). For financial securities (banks and insurance companies) Integrae SIM SpA tends to use methods based on comparison of the ROE and the cost of capital (embedded value for insurance companies).

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Conflict of interest

In order to disclose its possible interest conflict Integrae SIM states that:

- It operates or has operated in the past 12 months as the entity responsible for carrying out the activities of ole of specialist financial instruments issued by Intred SpA;
- In the IPO phase, Integrae SIM played the role of global coordinator.