

<b>INTRED</b>	<i>Italy</i>	<i>FTSE AIM Italia</i>	<i>Tlc</i>
<b>Rating: BUY</b> (unch.)	<b>Target Price: € 11,50</b> (prev. €8,00)	<b>Update</b>	<b>Risk: Medium</b>

Stock performance	1M	3M	6M	1Y
absolute	-1,76%	14,03%	40,13%	82,45%
to FTSE AIM Italia	-1,05%	18,43%	39,78%	97,13%
to FTSE STAR Italia	-4,63%	1,10%	4,48%	69,12%
to FTSE All-Share	0,60%	14,92%	24,41%	87,12%
to EUROSTOXX	1,00%	17,11%	21,21%	91,86%
to MSCI World Index	2,29%	6,98%	7,23%	72,78%

#### Stock Data

Price	€ 8,94
Target price	€ 11,50
Upside/(Downside) potential	28,6%
Bloomberg Code	ITD IM EQUITY
Market Cap (€m)	141,70
EV (€m)	133,09
Free Float	25,16%
Share Outstanding	15.850.500
52-week high	€ 9,98
52-week low	€ 4,71
Average daily volumes (3m)	7.000

Key Financials (€m)	FY19A	FY20E	FY21E	FY22E
VoP	32,7	35,9	41,1	47,0
EBITDA	9,6	13,0	15,7	18,8
EBIT	6,3	8,1	9,9	12,3
Net Profit	4,7	6,1	7,3	9,2
EPS (€)	0,29	0,39	0,46	0,58
EBITDA margin	29,4%	36,2%	38,2%	40,0%
EBIT margin	19,1%	22,6%	24,1%	26,2%
Net Profit margin	14,2%	17,1%	17,9%	19,7%

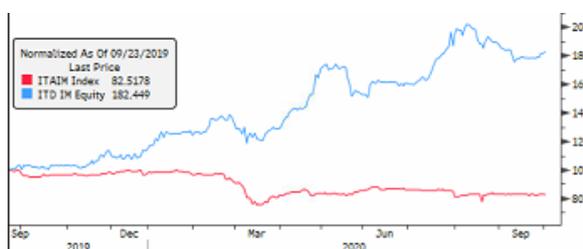
Main Ratios	FY19A	FY20E	FY21E	FY22E
EV/EBITDA (x)	13,8	10,2	8,5	7,1
EV/EBIT (x)	21,3	16,4	13,4	10,8
P/E (x)	30,5	23,1	19,3	15,3

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#### Stocks performance relative to FTSE AIM Italia



#### 1H20A Results

The first half of 2020, as known, was characterized by highly negative global macroeconomic conditions. Despite this, the Company's half-year results are positive and growing strongly compared to last year.

The value of production, equal to € 12.1 million, shows a growth of 19.1% compared to the half-year figures of last year (€ 10.1 million as of June 30, 2019), also increasing revenues from € 10.01 million to € 11,69 million. EBITDA shows an increase of 30.1% compared to last year, standing at € 5.4 million (€ 4.1 million at 30 June 2019) with EBITDA margin of 44.7%.

#### Estimates update

Given the results published in the half-yearly report, we slightly modify our previous estimates. In particular, we expect value of production 2020E of € 35.9 million and EBITDA of € 13.0 million, corresponding to a marginality of 36.2%. For the following year, we expect the value of production to increase to € 41.1 million in 2021E (20E-21E growth: 14.5%), with EBITDA of € 15.70 million (corresponding to a marginality of 38.2%), up from € 9.62 million in 2019A pro-forma (corresponding to an EBITDA margin of 29.4%).

#### Valuation Update

We have conducted the valuation of Intred's equity value based on the DCF methodology and market multiples of a comparable companies sample. The DCF method (which in the calculation of the WACC includes for prudential purposes also a specific risk of 2.0%) provides an equity value of €196.5 million. The equity value of Intred using market multiples is € 168.1 million (including a discount of 25%). The result is an average equity value of approx. €182.3 Mln. The target price is €11.50 (prev. €8,00), rating BUY and MEDIUM risk.

## 1. Economics & Financials

**Table 1 – Economics & Financials\***

<b>INCOME STATEMENT (€/mln)</b>	<b>FY19A*</b>	<b>FY20E</b>	<b>FY21E</b>	<b>FY22E</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
Revenues	32,06	35,50	40,80	46,70	53,25	60,20	67,40
Other Revenues	0,68	0,40	0,30	0,25	0,25	0,25	0,25
<b>Value of Production</b>	<b>32,73</b>	<b>35,90</b>	<b>41,10</b>	<b>46,95</b>	<b>53,50</b>	<b>60,45</b>	<b>67,65</b>
COGS	0,57	0,35	0,35	0,35	0,40	0,45	0,50
Use of assets owned by others	5,85	6,70	7,70	8,80	9,90	11,10	12,45
Services	8,59	7,90	8,60	9,60	10,80	12,10	13,50
Employees	7,22	7,35	8,10	8,70	9,70	10,80	11,80
Other Operating Expenses	0,89	0,60	0,65	0,70	0,75	0,90	1,00
<b>EBITDA</b>	<b>9,62</b>	<b>13,00</b>	<b>15,70</b>	<b>18,80</b>	<b>21,95</b>	<b>25,10</b>	<b>28,40</b>
<i>EBITDA Margin</i>	<i>29,4%</i>	<i>36,2%</i>	<i>38,2%</i>	<i>40,0%</i>	<i>41,0%</i>	<i>41,5%</i>	<i>42,0%</i>
D&A	3,37	4,90	5,80	6,50	7,20	7,90	8,50
<b>EBIT</b>	<b>6,25</b>	<b>8,10</b>	<b>9,90</b>	<b>12,30</b>	<b>14,75</b>	<b>17,20</b>	<b>19,90</b>
<i>EBIT Margin</i>	<i>19,1%</i>	<i>22,6%</i>	<i>24,1%</i>	<i>26,2%</i>	<i>27,6%</i>	<i>28,5%</i>	<i>29,4%</i>
Financial Management	0,07	0,03	0,04	0,04	0,04	0,04	0,04
<b>EBT</b>	<b>6,32</b>	<b>8,13</b>	<b>9,94</b>	<b>12,33</b>	<b>14,79</b>	<b>17,24</b>	<b>19,94</b>
Taxes	1,67	2,00	2,60	3,10	3,50	4,00	4,50
<b>Net Income</b>	<b>4,65</b>	<b>6,13</b>	<b>7,34</b>	<b>9,23</b>	<b>11,29</b>	<b>13,24</b>	<b>15,44</b>
<b>BALANCE SHEET (€/mln)</b>	<b>FY19A*</b>	<b>FY20E</b>	<b>FY21E</b>	<b>FY22E</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
<b>Fixed Assets</b>	<b>28,00</b>	<b>41,10</b>	<b>47,00</b>	<b>53,00</b>	<b>58,80</b>	<b>64,00</b>	<b>69,00</b>
Account receivable	5,62	6,20	7,00	8,00	9,10	10,30	11,50
Inventories	0,35	0,00	0,00	0,00	0,00	0,00	0,00
Account payable	7,16	7,80	8,70	9,80	11,00	12,40	13,90
<b>Operating Working Capital</b>	<b>(1,2)</b>	<b>(1,6)</b>	<b>(1,7)</b>	<b>(1,8)</b>	<b>(1,9)</b>	<b>(2,1)</b>	<b>(2,4)</b>
Other receivable	2,79	2,00	2,30	2,60	3,00	3,40	3,80
Other payable	8,49	7,50	8,40	9,50	10,70	12,00	13,50
<b>Net Working Capital</b>	<b>(6,9)</b>	<b>(7,1)</b>	<b>(7,8)</b>	<b>(8,7)</b>	<b>(9,6)</b>	<b>(10,7)</b>	<b>(12,1)</b>
Severance Indemnities & Other Provisions	1,72	1,90	2,00	2,10	2,35	2,55	2,75
<b>NET INVESTED CAPITAL</b>	<b>19,38</b>	<b>32,10</b>	<b>37,20</b>	<b>42,20</b>	<b>46,85</b>	<b>50,75</b>	<b>54,15</b>
Share Capital	10,66	10,00	10,00	10,00	10,00	10,00	10,00
Reserves	12,69	16,36	21,87	28,47	36,79	46,94	58,86
Net Income	4,65	6,13	7,34	9,23	11,29	13,24	15,44
<b>Equity</b>	<b>28,00</b>	<b>32,48</b>	<b>39,21</b>	<b>47,71</b>	<b>58,07</b>	<b>70,18</b>	<b>84,29</b>
Cash & Cash Equivalent	11,34	9,18	9,81	11,81	16,27	23,23	32,94
Short Term Debt to Bank	1,16	1,00	1,00	0,50	0,25	0,00	0,00
M/L Term Debt to Bank	1,56	7,80	6,80	5,80	4,80	3,80	2,80
<b>Net Financial Position</b>	<b>(8,6)</b>	<b>(0,4)</b>	<b>(2,0)</b>	<b>(5,5)</b>	<b>(11,2)</b>	<b>(19,4)</b>	<b>(30,1)</b>
<b>SOURCES</b>	<b>19,38</b>	<b>32,10</b>	<b>37,20</b>	<b>42,20</b>	<b>46,85</b>	<b>50,75</b>	<b>54,15</b>
<b>CASH FLOW (€/mln)</b>	<b>FY19A*</b>	<b>FY20E</b>	<b>FY21E</b>	<b>FY22E</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
EBIT	6,25	8,10	9,90	12,30	14,75	17,20	19,90
Taxes	1,67	2,00	2,60	3,10	3,50	4,00	4,50
<b>NOPAT</b>	<b>4,58</b>	<b>6,10</b>	<b>7,30</b>	<b>9,20</b>	<b>11,25</b>	<b>13,20</b>	<b>15,40</b>
D&A	3,37	4,90	5,80	6,50	7,20	7,90	8,50
Change in receivable	(0,39)	(0,59)	(0,80)	(1,00)	(1,10)	(1,20)	(1,20)
Change in inventories	(0,07)	0,35	0,00	0,00	0,00	0,00	0,00
Change in payable	0,22	0,64	0,90	1,10	1,20	1,40	1,50
Change in others	2,45	-0,20	0,60	0,80	0,80	0,90	1,10
<i>Change in NWC</i>	<i>2,21</i>	<i>0,20</i>	<i>0,70</i>	<i>0,90</i>	<i>0,90</i>	<i>1,10</i>	<i>1,40</i>
Change in provisions	0,15	0,18	0,10	0,10	0,25	0,20	0,20
<b>OPERATING CASH FLOW</b>	<b>10,31</b>	<b>11,38</b>	<b>13,90</b>	<b>16,70</b>	<b>19,60</b>	<b>22,40</b>	<b>25,50</b>
Capex	(7,8)	(18,0)	(11,7)	(12,5)	(13,0)	(13,1)	(13,5)
<b>FREE CASH FLOW</b>	<b>2,49</b>	<b>-6,62</b>	<b>2,20</b>	<b>4,20</b>	<b>6,60</b>	<b>9,30</b>	<b>12,00</b>
Financial Management	0,07	0,03	0,04	0,04	0,04	0,04	0,04
Change in Debt to Bank	(1,85)	6,08	(1,00)	(1,50)	(1,25)	(1,25)	(1,00)
Change in Equity	(0,15)	(1,65)	(0,61)	(0,73)	(0,92)	(1,13)	(1,32)
<b>FREE CASH FLOW TO EQUITY</b>	<b>0,57</b>	<b>(2,16)</b>	<b>0,62</b>	<b>2,00</b>	<b>4,46</b>	<b>6,96</b>	<b>9,71</b>

\*2019 Pro-Forma

Source: Intred and Integrae SIM

## 1.1 1H20A Results

**Table 2 – 1H20A vs 1H19A**

(€/mln)	VoP	EBITDA	EBITDA %	EBIT	Net Income	NFP*
1H20A	12,1	5,4	44,7%	3,8	2,9	1,5
1H20E	10,1	4,1	40,9%	2,8	2,1	(8,1)
Change	19,1%	30,1%	3,8%	38,5%	39,5%	-118,5%

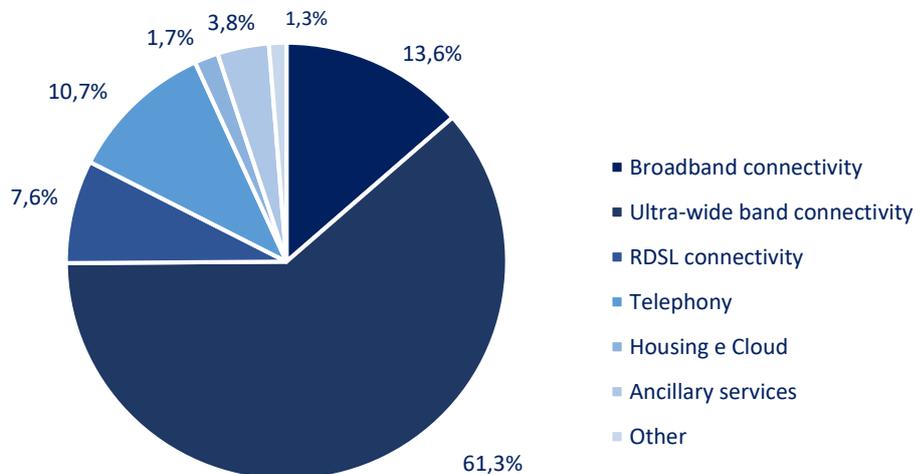
\*Data full year 2019A

Source: Intred

The first half of 2020, as known, was characterized by highly negative global macroeconomic conditions. Despite this, the Company's half-year results are positive and growing strongly compared to last year. In fact, according to press release *“during the considered period, we continued to invest significant portions of our revenues in the growth of our infrastructure and we have acquired and completed the integration of the company Qcom, a company at the forefront and complementary to Intred both in terms of geographical presence and services offered and it will allow us further growth in the coming years.”*

The value of production, equal to € 12.1 million, shows a growth of 19.1% compared to the half-year figures of last year (€ 10.1 million as of June 30, 2019), also increasing revenues from € 10.01 million to € 11,69 million.

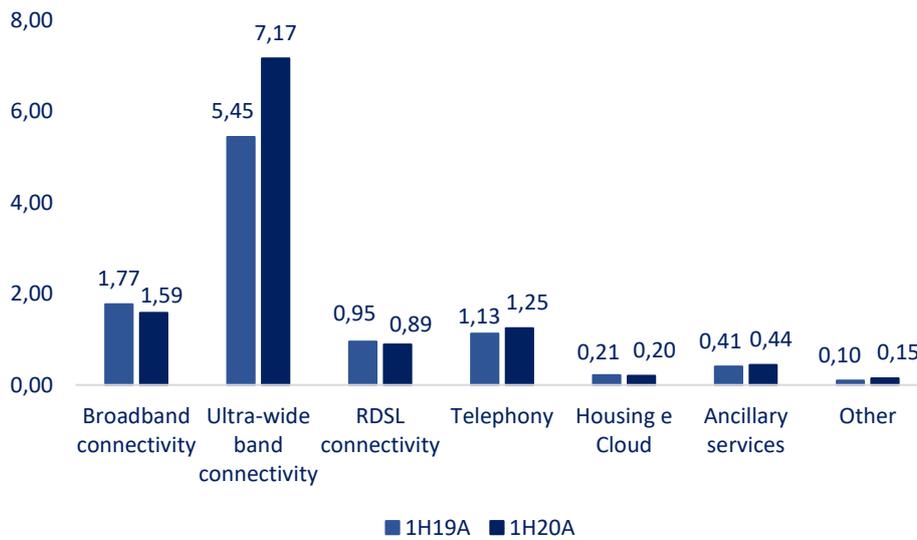
**Chart 1 – Revenues by Business Line 1H20A**



Source: Intred

The Company's main source of revenues is represented by the Ultra-wide band line, with a 61.3% share of total revenues. Broadband, RDSL and Telephony lines account for: 13.6%, 7.6% and 10.7% of total revenues respectively. Then, the Housing and Cloud line generates 1.7% of total revenues. The remaining part of revenues is generated through ancillary services and other sources of revenues.

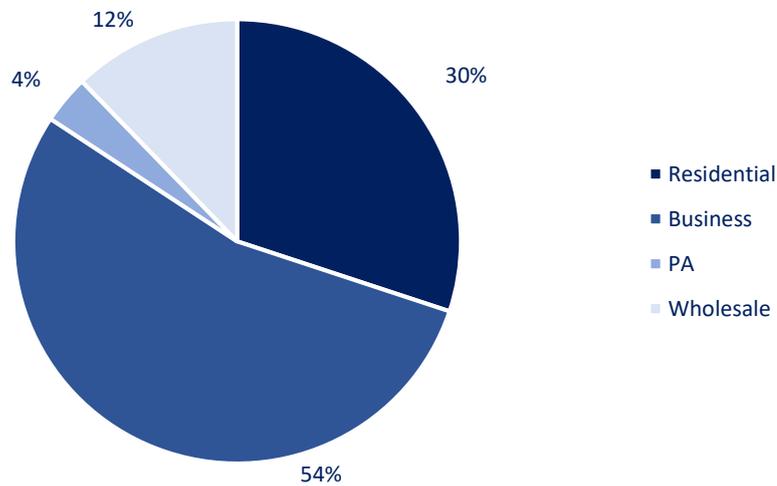
**Chart 2 – Revenues by Business Line 1H19A vs 1H20A**



Source: Intred

The observable growth in revenues was mainly driven by the growth of the Ultra-wide band line (31.7%), growth also in the Telephony (10.4%), in ancillary services and in other revenues. The other business lines showed not particularly significant decreases.

**Chart 3 – Revenues 1H20A by Type of Customer**



Source: Intred

The breakdown of revenues by type of customer remains substantially stable compared to the previous period and in particular: the residential market 30%, the business market 54%, PA 4% and Wholesale 12%.

EBITDA shows an increase of 30.1% compared to last year, standing at € 5.4 million (€ 4.1 million at 30 June 2019) with EBITDA margin of 44.7% (40.9% million at 30 June 2019).

EBIT is € 3.8 million (€ 2.8 million at 30 June 2019), while Net Income is € 2.9 million compared to € 2.1 million at 30 June 2019.

The Net Financial Position, equal to € 1.5 million, increased compared to the end of 2019A (- € 8.1 million as at 31 December 2019), this change is related to the continuous investment activities and the acquisition of Qcom S.p.A..

The newly acquired QCOM S.p.A. closed the first half of 2020 with a value of production of € 5.7 million, revenues for € 5.6 million. EBITDA stood at € 1.4 million with an EBITDA margin of 25.3%. The Net Financial Position is equal to - €1.9 million.

## 1.2 Estimates FY20E-FY21E

**Table 3 – Estimates Updates FY20E-FY21E**

€/mln	FY2020E	FY2021E
<b>VoP</b>		
New	<b>35,9</b>	<b>41,1</b>
Old	35,5	40,6
Change	1,1%	1,2%
<b>EBITDA</b>		
New	<b>13,0</b>	<b>15,7</b>
Old	12,0	15,2
Change	8,8%	3,2%
<b>EBITDA %</b>		
New	<b>36,2%</b>	<b>38,2%</b>
Old	33,7%	37,5%
Change	2,5%	0,7%
<b>EBIT</b>		
New	<b>8,1</b>	<b>9,9</b>
Old	6,1	8,6
Change	32,8%	15,5%
<b>Net Income</b>		
New	<b>6,1</b>	<b>7,3</b>
Old	4,4	6,3
Change	38,6%	16,3%
<b>NFP</b>		
New	<b>(0,4)</b>	<b>(2,0)</b>
Old	5,2	4,8
Change	N/A	N/A

Source: Integrae SIM

Given the results published in the half-yearly report, we slightly modify our previous estimates. In particular, we expect value of production 2020E of € 35.9 million and EBITDA of € 13.0 million, corresponding to a marginality of 36.2%.

For the following year, we expect the value of production to increase to € 41.1 million in 2021E (20E-21E growth: 14.5%), with EBITDA of € 15.70 million (corresponding to a marginality of 38.2%), up from € 9.62 million in 2019A pro-forma (corresponding to an EBITDA margin of 29.4%).

We expect the Company to continue paying dividends with a Dividend Payout Ratio of 10% in the coming years.

## 2. Valuation

We have conducted the valuation of Intred's equity value based on the DCF methodology and market multiples of a comparable companies sample.

### 2.1 DCF Method

**Table 4 – WACC**

WACC		5,39%
Risk Free Rate	0,28% $\alpha$ (specific risk)	2,00%
Market Premium	8,46% Beta Adjusted	0,51
D/E (average)	25,00% Beta Relevered	0,60
Ke	6,55% Kd	1,00%

Source: Integrae SIM

For prudential purposes, we have considered a specific risk of 2.0%. This results in a WACC of 5.39%.

**Table 5 – DCF Valuation**

DCF Equity Value		196,5
FCFO actualized	18,8	10%
TV actualized DCF	169,1	90%
<b>Enterprise Value</b>	<b>187,9</b>	100%
NFP (FY19A)	(8,6)	

Source: Integrae SIM

With the above data and, taking as a reference our estimates and assumptions, the result is an equity value of € 196.5 million.

**Table 6 – Equity Value – Sensitivity Analysis**

€/mln		WACC						
		3,9%	4,4%	4,9%	5,4%	5,9%	6,4%	6,9%
Growth Rate (g)	2,5%	604,8	441,3	346,3	284,3	240,7	208,2	183,3
	2,0%	452,2	354,8	291,2	246,4	213,2	187,5	167,2
	1,5%	363,5	298,2	252,3	218,2	191,9	171,1	154,1
	1,0%	305,5	258,4	223,4	196,5	175,1	157,6	143,2
	0,5%	264,7	228,8	201,1	179,2	161,3	146,5	134,0
	0,0%	234,3	205,9	183,4	165,1	149,9	137,1	126,2
	-0,5%	210,9	187,8	169,0	153,4	140,3	129,1	119,4

Source: Integrae SIM

## 2.2 Market Multiples

Our panel consists of companies belonging to the same sector of Inted, but many have higher capitalization. These companies are the same used for the calculation of Beta for the DCF method.

**Table 7 – Market Multiples**

Company Name	EV/EBITDA (x)				EV/EBIT (x)				P/E (x)			
	FY20E	FY21E	FY22E	FY23E	FY20E	FY21E	FY22E	FY23E	FY20E	FY21E	FY22E	FY23E
Cincinnati Bell Inc.	6,9	6,9	6,9	N/A	25,7	26,3	27,4	N/A	N/M	N/M	N/M	N/A
Euskaltel SA	8,7	8,4	8,0	7,5	20,2	19,4	18,4	19,3	23,0	20,4	17,5	19,1
Atlantic Tele-Network Inc.	7,9	8,3	7,2	N/A	43,2	64,4	28,8	N/A	190,7	N/M	572,2	N/A
Retelit S.p.A.	4,8	4,0	3,7	N/A	12,7	10,0	8,5	N/A	27,5	22,3	17,8	N/A
Cogent Communications Holdings	16,6	15,3	13,9	12,8	31,3	27,8	21,1	20,5	70,4	54,1	40,0	33,0
Bredband2 i Skandinavien AB	11,3	10,8	10,3	9,8	15,6	14,3	13,3	12,5	24,4	22,1	21,2	17,5
WIIT SpA	28,8	19,1	16,2	14,8	54,4	33,9	28,0	25,9	61,2	43,7	35,2	32,6
<b>Peer median</b>	<b>8,7</b>	<b>8,4</b>	<b>8,0</b>	<b>11,3</b>	<b>25,7</b>	<b>26,3</b>	<b>21,1</b>	<b>19,9</b>	<b>44,3</b>	<b>22,3</b>	<b>28,2</b>	<b>25,8</b>

Source: Infineals

**Table 8 – Market Multiples Valuation**

€/mln	2020E	2021E	2022E	2023E
<b>Enterprise Value (EV)</b>				
EV/EBITDA	113,4	131,9	150,6	247,8
EV/EBIT	208,3	260,2	259,0	293,4
P/E	271,7	163,3	260,4	291,6
<b>Equity Value</b>				
EV/EBITDA	113,7	133,9	156,1	259,0
EV/EBIT	208,6	262,2	264,5	304,6
P/E	271,7	163,3	260,4	291,6
<b>Equity Value post 25% discount</b>				
EV/EBITDA	85,3	100,4	117,1	194,3
EV/EBIT	156,5	196,6	198,4	228,4
P/E	203,8	122,5	195,3	218,7
<b>Average</b>	<b>148,5</b>	<b>139,8</b>	<b>170,3</b>	<b>213,8</b>

Source: Integrae SIM

The equity value of Intred using the market multiple EV/EBITDA, EV/EBIT and P/E, is approx. € 224.1 million. To this value, we have applied a discount of 25% to include in the price also the lower liquidity of Intred compared to comparables, as well as lower capitalization. As a result, **the equity value is € 168.1 million.**

## 2.3 Equity Value

**Table 9 – Equity Value**

<b>Average Equity Value (€/mln)</b>	<b>182,3</b>
Equity Value DCF (€/mln)	196,5
Equity Value multiples (€/mln)	168,1
<b>Target Price (€)</b>	<b>11,50</b>

Source: Integrae SIM

**The average equity value is equal to € 182.3 million. The target price is, therefore, € 11.50 (prev. €8.00). We confirm BUY rating and MEDIUM risk.**

**Table 10 – Target Price Implied Valuation Multiples**

<b>Multiples</b>	<b>FY20E</b>	<b>FY21E</b>	<b>FY22E</b>
EV/EBITDA	13,4x	11,1x	9,2x
EV/EBIT	21,4x	17,5x	14,1x

Source: Integrae SIM

**Table 11 – Current Price Implied Valuation Multiples**

<b>Multiples</b>	<b>FY20E</b>	<b>FY21E</b>	<b>FY22E</b>
EV/EBITDA	10,2x	8,5x	7,1x
EV/EBIT	16,4x	13,4x	10,8x

Source: Integrae SIM

**Disclosure Pursuant to Article 69 Et seq. of Consob (Italian Securities Exchange Commission)  
Regulation No. 11971/1999**

**Analyst/s certification**

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Equity Total Return (ETR) for different risk categories			
Rating	Low Risk	Medium Risk	High Risk
BUY	ETR >= 7.5%	ETR >= 10%	ETR >= 15%
HOLD	-5% < ETR < 7.5%	-5% < ETR < 10%	0% < ETR < 15%
SELL	ETR <= -5%	ETR <= -5%	ETR <= 0%
U.R.	Rating and/or target price Under Review		
N.R.	Stock Not Rated		

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