

# Interpump Group



MEDIOBANCA  
SECURITIES

15 February 2016

Diversified Industrials

Change in Recommendation

Price: € 11.13

Target price: € 13.30

Outperform (from Neutral)

## Cash generation is blind

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### Strong beat in terms of cash flow generation in 4Q

Interpump's FY 15 sales and EBITDA were in line with our estimates with a beat at bottom-line level owing to lower net financial charges. Top-line organic growth was +1.3% (vs. our estimate of +2.3%) but EBITDA margin stood at 20.1% due to a strong contribution of the VHPP business. At balance sheet level, we registered the main positive news with a net debt of €255m versus our estimate of €275m. The gap was due to lower cash flow absorption from WC (€5m), lower maintenance capex (€3m) and higher operating cash flow.

### Company guidance hints no significant slowdown and margin resiliency

Management released its FY 16 guidance which is generally based on a positive contribution from Europe, while the US is expected to show some signs of slowdown. In quantitative terms the company foresees: 1) sales in the €905m-925m range; 2) EBITDA: in the €185-195m range; and 3) net debt (excluding put options) between €180-€200m. Guidance therefore implies a top-line organic growth in the 2% region coupled with a margin marginally above the level of 2015. Consensus is close to the low-end of EBITDA guidance.

### We cut our 2016-17 EPS by 9% factoring in more risks from the US...

Interpump is much more diversified (by geography and product) than it was ten years ago, but it remains an early-cyclical story. In addition, the VHPP business remains the stronghold of the group's EBITDA, mainly owing to Hammelmann. Although our old estimates were consistent with the company guidance, given the low earnings' visibility (something in common with the majority of the stocks in this volatile macro environment), we factor in our FY 2016-17 EPS estimates two main risks: 1) Muncie sales down 10% organically in 2016 (consistent with the negative organic growth posted in 4Q 15); and 2) taking into account the existing sales mix of Hammelmann (equally split between Germany, other Europe and rest of the world), we now assume a 10% top-line decline in 2016 (vs our previous assumption of flattish sales).

### ...but company still shows a resilient cash conversion

Based on these assumptions, we come out with a 2016 top-line organic growth of -0.8% with an EBITDA margin of 20.0%. At balance sheet level, assuming maintenance capex of about €30m, we reach a free cash flow of €87m, leading to a FY net debt of €215m (including put options); i.e. net debt/EBITDA of 1.2x.

### Sitting on a more reasonable valuation. Raised to Outperform with €13.3 TP

Our valuation implies a target price of €13.3 (from €14.4) taking the average of: 1) DCF analysis based on WACC of 5.9% and 1.5% perpetual growth, which returns a fair value of €14.4/share; and 2) EVA valuation based on the same assumptions as the DCF analysis and net capital employed of €899m, which returns a fair value of €12.2/share. Our estimates reflect some cracks versus the company guidance, but a normalised free cash flow of c.€90m, implying a c.8% yield may offset the low earnings visibility, in our view. Positioning in profitable market niches, increasing cross-selling and limited exposure to emerging markets (15% of sales) deserve an upgrade to Outperform (from Neutral).

	2014	2015	2016E	2017E
EPS Adj (€)	0.55	0.79	0.73	0.77
DPS (€)	0.18	0.22	0.24	0.28
BVPS (€)	4.23	5.66	6.15	6.68
EV/Ebitda(x)	9.8	9.9	8.0	7.3
P/E adj (x)	19.4	17.9	15.6	14.4
Div.Yield(%)	1.8	1.6	2.2	2.5
OpFCF Yield (%)	-3.6%	0.2%	6.2%	6.9%

Market Data	
Market Cap (€m)	1,212
Shares Out (m)	109
IPG Holding (%)	26%
Free Float (%)	74%
52 week range (€)	15.82-10.45
Rel Perf vs DJGL Italy DJ Total Market Italy (%)	
-1m	6.4%
-3m	2.1%
-12m	7.2%
21dd Avg. Vol.	305,577
Reuters/Bloomberg	ITPG.MI / IP IM

Source: Mediobanca Securities

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## Valuation Matrix

Profit & Loss account (€ m)	2014	2015	2016E	2017E
Turnover	672	895	892	910
Turnover growth %	20.8%	33.2%	-0.3%	2.0%
EBITDA	136	180	178	186
EBITDA margin (%)	20.3%	20.1%	20.0%	20.5%
EBITDA growth (%)	29.4%	32.4%	-1.2%	4.6%
Depreciation & Amortization	-32	-43	-44	-44
EBIT	104	137	134	142
EBIT margin (%)	15.5%	15.3%	15.0%	15.6%
EBIT growth (%)	31.6%	31.2%	-2.0%	5.8%
Net Fin. Income (charges)	-11	27	-10	-7
Non-Operating Items	0	-0	0	0
Extraordinary Items	0	0	0	0
Pre-tax Profit	93	164	125	135
Tax	-35	-47	-46	-50
Tax rate (%)	38.0%	28.6%	37.0%	37.0%
Minorities	-1	-1	-1	-1
Net Profit	57	116	78	84
Net Profit growth (%)	31.8%	nm	-33.1%	8.3%
Adjusted Net Profit	57	84	78	84
Adj. Net Profit growth (%)	28.0%	48.1%	-7.7%	8.3%

Multiples	2014	2015	2016E	2017E
P/E Adj.	19.4	17.9	15.6	14.4
P/CEPS	12.3	9.4	9.9	9.4
P/BV	2.4	2.4	1.8	1.7
EV/ Sales	2.0	2.0	1.6	1.5
EV/EBITDA	9.8	9.9	8.0	7.3
EV/EBIT	12.7	13.0	10.6	9.6
EV/Cap. Employed	1.6	1.8	1.4	1.4
Yield (%)	1.8%	1.6%	2.2%	2.5%
OpFCF Yield (%)	-3.6%	0.2%	6.2%	6.9%
FCF Yield (%)	-9.5%	-3.5%	5.2%	5.7%

Per Share Data (€)	2014	2015	2016E	2017E
EPS	0.52	1.07	0.71	0.77
EPS growth (%)	31.8%	nm	-33.1%	8.3%
EPS Adj.	0.55	0.79	0.73	0.77
EPS Adj. growth (%)	30.6%	44.0%	-7.9%	6.3%
CEPS	0.82	1.47	1.12	1.19
BVPS	4.23	5.66	6.15	6.68
DPS Ord	0.18	0.22	0.24	0.28

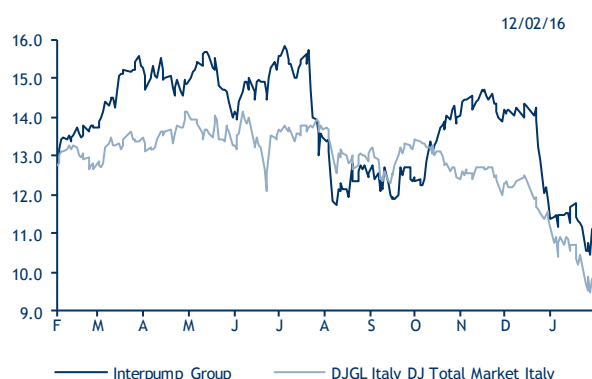
Balance Sheet (€ m)	2014	2015	2016E	2017E
Working Capital	205	276	281	286
Net Fixed Assets	615	720	707	692
Total Capital Employed	820	997	987	979
Shareholders' Funds	461	616	670	728
Minorities	6	5	6	6
Provisions	127	97	97	99
Net Debt (-) Cash (+)	-226	-278	-215	-146

Key Figures & Ratios	2014	2015	2016E	2017E
Avg. N° of Shares (m)	109	109	109	109
EoP N° of Shares (m)	109	109	109	109
Avg. Market Cap. (m)	1,103	1,507	1,212	1,212
Enterprise Value (m)	1,329	1,785	1,426	1,358
Adjustments (m)	0	0	0	0
Labour Costs/Turnover	23%	24%	25%	24%
Depr.&Amort./Turnover	5%	5%	5%	5%
Turnover / Op.Costs	1.3	1.3	1.2	1.3

Cash Flow (€ m)	2014	2015	2016E	2017E
Cash Earnings	89	160	122	129
Working Capital Needs	-55	-71	-4	-6
Capex (-)	-80	-145	-30	-30
Financial Investments (-)	-34	-33	0	0
Dividends (-)	-19	-20	-24	-26
Other Sources / Uses	-6	56	-0	1
Ch. in Net Debt (-) Cash (+)	-105	-52	64	69

Gearing (Debt / Equity)	2014	2015	2016E	2017E
EBITDA / Fin. Charges	-12.0	6.6	-18.7	-26.6
Net Debt / EBITDA	1.7	1.5	1.2	0.8
Cap. Employed/Turnover	122%	111%	111%	108%
Capex / Turnover	12%	16%	3%	3%
Pay out	33%	20%	33%	36%
ROE	12%	19%	12%	12%
ROCE (pre tax)	13%	14%	14%	15%
ROCE (after tax)	8%	10%	9%	9%

Source: Mediobanca Securities



Source: Mediobanca Securities

## Change in 2016-17 estimates

Although our old estimates were consistent with the company guidance, given the low earnings' visibility, we factor in our FY 2016-17 EPS estimates two main downside risks: 1) Muncie (US company) sales down 10% organically in 2016 (consistent with the negative organic growth posted in 4Q 15); and 2) taking into account the existing sales mix of Hammelmann (equally split between Germany, other Europe and rest of the world), we now assume a 10% top-line decline in 2016 (vs our previous assumption of flattish sales). This assumption, being Hammelmann the most profitable division of the group, led to a less favourable sales mix.

### Change in estimates

(€m)	2016E Old	2016E New	% Chg.	2017E Old	2017E New	% Chg.
Sales	929.1	892.4	-3.9%	956.0	910.2	-4.8%
EBITDA	190.2	178.1	-6.4%	201.3	186.3	-7.4%
EBITDA margin	20.5%	20.0%		21.1%	20.5%	
EBIT	148.6	134.1	-9.7%	159.2	141.9	-10.9%
EBIT margin	16.0%	15.0%		16.7%	15.6%	
Net profit	85.1	77.8	-8.5%	93.7	84.3	-10.0%
Adj. net profit	85.1	77.8	-8.5%	93.7	84.3	-10.0%
Net debt	238.8	214.7	-10.1%	166.1	145.8	-12.2%

Source: Mediobanca Securities

Compared to the 2016 company guidance hinting to a top-line organic growth of about +2%, we forecast a decline of 0.8% due to these two main assumptions. As regards the European subsidiaries, we forecast a low single digit improvement in organic terms.

At balance sheet level, assuming maintenance capex of about €30m, we reach a free cash flow of €87m, leading to a FY net debt of €215m (including put options); i.e. net debt/EBITDA of 1.2x.

## Upgrade to Outperform (from Neutral)

Based on our new estimates, we have updated our valuation based on EVA and DCF analysis. This led to a fair value of €13.3 per share, which we have set as our new TP (down from €14.4).

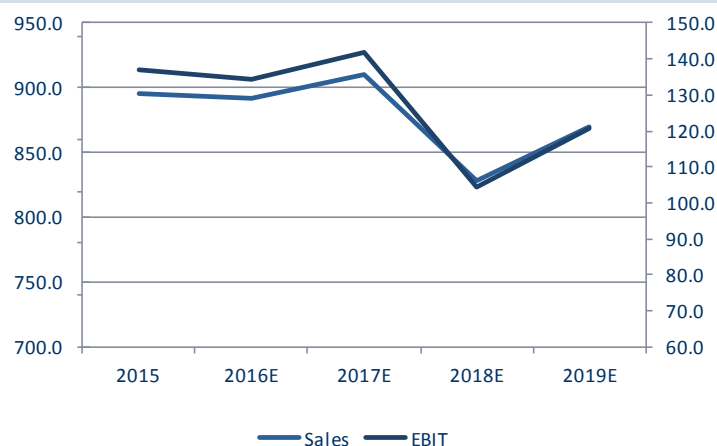
Our fair value takes the average of the following methods:

- ◆ DCF analysis based on WACC of 5.9% and 1.5% perpetual growth, which returns a fair value of €14.4 per share. We foresee maintenance investments of close to €30m for the coming years;
- ◆ EVA valuation based on the same assumptions as the DCF and net capital employed of €899m, which returns a fair value of €12.2 per share.

## DCF analysis

DCF valuation is a reliable tool for Interpump given that the company has proved in recent years that it recovers quickly from the bottom of the cycle, thus flagging a normalised level of free operating cash flow generation. To set up a DCF analysis we have used the following assumptions: 1) long-term growth rate of 1.5%; 2) WACC of 5.9% (based on a risk-free rate of 3.0%), cost of capital of 6.6% and normalised debt capital ratio of 20%; and 3) a one-year recession in t + 3 (assuming 2015 as year zero) with sales down 9% Y/Y and EBIT down 27% Y/Y) to factor in a fair cyclicity of cash flows. The tables below summarise our free cash flow projections and DCF valuation, pointing to a fair value of €14.4.

## DCF - 2015-2019E assumptions - Sales and EBIT (€m)



Source: Mediobanca Securities

## Operating free cash flows

(€m)	2016E	2017E	2018E	2019E
EBIT	134.1	141.9	104.2	120.7
Taxes	-49.6	-52.5	-38.5	-44.6
Tax rate	37.0%	37.0%	37.0%	37.0%
<b>NOPLAT</b>	<b>84.5</b>	<b>89.4</b>	<b>65.6</b>	<b>76.0</b>
D&A	43.9	44.4	44.8	45.3
<b>Operating cash flows</b>	<b>128.4</b>	<b>133.8</b>	<b>110.5</b>	<b>121.3</b>
Capex	-30.3	-30.0	-29.8	-32.2
Net working capital change	-4.2	-5.6	25.8	-13.0
<b>Operating free cash flows</b>	<b>93.9</b>	<b>98.1</b>	<b>106.4</b>	<b>76.1</b>

Source: Mediobanca Securities

## DCF valuation

Perpetual growth rate	1.5%
WACC	5.86%
Terminal value as of 31/12/2019	1,771.1
Discounting rate of terminal value	0.84
Discounted terminal value	1,492.9
Cumulated DFOCF	345.7
<b>Enterprise value (€m)</b>	<b>1,838.6</b>
Net financial debt as of 31/12/15 (€m)*	(278.2)
Minorities	(13.4)
Treasury shares' market value	22.4
<b>Equity value (€m)</b>	<b>1,569.5</b>
<b>Value per share (€)</b>	<b>14.4</b>

Source: Mediobanca Securities, \*Including put options

## EVA valuation

EVA analysis returns a fair value of €12.2 per share. The main assumptions we have used are: 1) same cash flow assumptions as our DCF model; 2) 2015 net capital employed of €899m; 3) average ROCE in the region of 8.5% (after taxes) over the period 2016E-19E. The tables below summarise our valuation.

### EVA valuation

	2016E	2017E	2018E	2019E
ROCE	9.49%	10.17%	7.76%	9.03%
WACC	5.86%	5.86%	5.86%	5.86%
EVA spread	3.63%	4.31%	1.90%	3.17%
EVA	35.9	42.1	17.8	29.7
Discount rate	1.00	0.94	0.89	0.84
Discounted EVA	35.9	39.8	15.9	25.1
Cumulated discounted EVA (€m)	35.9	75.7	91.6	116.6

Source: Mediobanca Securities

### EVA valuation

Perpetual growth rate	1.50%
WACC	5.86%
Terminal value	692.0
Discounted rate of terminal value	0.84
Discounted terminal value	583.3
Cumulated discounted EVA	116.6
<b>Total EVA</b>	<b>699.9</b>
<b>Net capital employed as of 31/12/2015</b>	<b>899.5</b>
<b>Enterprise value (€m)</b>	<b>1,599.4</b>
<b>Net debt as of 31/12/2015 (€m)</b>	<b>(278.2)</b>
<b>2015 minorities</b>	<b>(13.4)</b>
Treasury shares' market value	22.4
<b>Equity value (€m)</b>	<b>1,330.3</b>
<b>Value per share (€)</b>	<b>12.2</b>

Source: Mediobanca Securities

## Appendix: 2015 FY results

Interpump reported a set of FY 15 results in line with our estimates at operating level but a better cash flow generation:

- ♦ Sales of €895m vs. Mediobanca estimate of €896m. Organic growth of +1.3% vs. our estimate of +2.3%;
- ♦ EBITDA of €180m in line with our estimate of €179m;
- ♦ Net profit of €116m vs. our estimate of €111m thanks to higher financial incomes;
- ♦ At balance sheet level, we registered the main positive news with a net debt of €255m versus our estimate of €275m. The gap was due to lower cash flow absorption from WC (€5m), lower maintenance capex (€3m) and higher operating cash flow.

### Interpump: FY 15 results vs Mediobanca estimates

(€m)	FY 2015E	FY 2014A	FY 2015A	YoY chg.	A/E%
Total sales	895.9	672.0	894.9	33.2%	-0.1%
EBITDA	178.9	136.1	180.3	32.4%	0.8%
EBITDA margin	20.0%	20.3%	20.1%		
EBIT	137.8	104.4	136.9	31.2%	-0.6%
EBIT margin	15.4%	15.5%	15.3%		
Pre-tax profit	157.4	93.1	163.9		4.2%
Net profit	110.6	56.9	116.3	104.3%	5.2%
Net debt*	300.2	226.0	278.2	23.1%	-7.3%
Adj.net profit	78.0	56.9	84.3	48.1%	8.1%

Source: Mediobanca Securities, \*including put options

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Proportion of all recommendations relating to the last quarter			
Outperform	Neutral	Underperform	Not Rated
51.44%	34.13%	12.02%	2.40%

Proportion of issuers to which Mediobanca S.p.A. has supplied material investment banking services relating to the last quarter:			
Outperform	Neutral	Underperform	Not Rated
11.11%	12.73%	5.88%	14.29%

The current stock ratings system has been used since 1 July 2013. Before then, Mediobanca S.p.A. used a different system, based on the following ratings: outperform, neutral, underperform, under review, not rated. For additional details about the old ratings system, please access research reports dated before 1 July 2013 from the restricted part of the "MB Securities" section of the Mediobanca S.p.A. website at [www.mediobanca.com](http://www.mediobanca.com).



## **RATING**

The present rating in regard to Interpump Group has not been changed since 15/02/2016. In the past 12 months, the rating on Interpump Group has been changed. The previous rating, issued on 14/01/2015, was Neutral.

## **INITIAL COVERAGE**

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Outperform (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 6-12 months.
Neutral (N). The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 6-12 months.
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Not Rated (NR). Currently the analyst does not have adequate confidence about the stock's total return relative to the average total return of the analyst's industry (or industry team's) coverage, on a risk-adjusted basis, over the next 6-12 months. Alternatively, it is applicable pursuant to Mediobanca policy in circumstances when Mediobanca is acting in any advisory capacity in a strategic transaction involving this company or when the company is the target of a tender offer.

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Proportion of all recommendations relating to the last quarter			
Outperform	Neutral	Underperform	Not Rated
51.44%	34.13%	12.02%	2.40%

Proportion of issuers to which Mediobanca S.p.A. has supplied material investment banking services relating to the last quarter:			
Outperform	Neutral	Underperform	Not Rated
11.11%	12.73%	5.88%	14.29%

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## **RATING**

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## **INITIAL COVERAGE**

Interpump Group initial coverage as of 25/10/2004.

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