

Interpump Group

Italy | Capital goods | MCAP EUR 1.3bn

13 May 2016

Buy (Hold)

Target Price EUR 14.00
Current Price EUR 12.05
Up/downside 16.2%
Change in TP 3.70%
Change in EPS 5.8% 2016E

Margins increase and Tubiflex: EPS, TP and rating upgrade

We are upgrading our FY16/18 Eps by 7% on average, after solid margins in Q1. We incorporate faster synergies ramp up (structural) and the Tubiflex acquisition. Upgrade from Hold to Buy, TP EUR14 (vs EUR13.5)

Q1: good margins. EBITDA 8% above our estimates...

We were positively surprised by the strong margins in Q1, despite uninspiring top line. At EUR47.6m, EBITDA was up by 10% YOY and the EBITDA margin expanded by 150bps from 19.5% to 21%, with a 180bps increase in Hydraulics and 60 bps in Water Jetting. The large margin improvement in the former look mostly structural and derives from the successful integration of companies acquired in 2015, mostly Walvoil, plus savings on raw materials.

...despite sluggish top line. Greater efficiencies

Revenues were up 1.8% YOY, slightly (0.8%) below our estimates. Nevertheless, organic growth held into positive territory (+0.2% and +0.7% ex forex), with a slight decline (we calculate -0.4%) in Hydraulics and a good +1.4% in Water Jetting, where Hammelmann (very high pressure pumps) posted a very solid 9% revenues growth despite challenging comparison, with >32% EBITDA margin.

Tubiflex and better costs: FY16-18 EPS up by 7% on average

We are incorporating: 1) the [Tubiflex acquisition](#) announced on 5 May. The company reinforces Interpump's footprint (IMM) in hoses (Hydraulics division) with a good 23% EBITDA margin, paid a value accretive 6x EV/EBITDA. It will contribute EUR22.8m sales and 5.3m EBITDA per year (+2.8%, 2015 starting point) and we expect synergies to be mostly commercial; 2) faster synergies extraction in Hydraulics, which we expect to continue and lower raw material costs, as shown by Q1 results. All in all, we are revising up our EPS 2016/18 by 7% on average, of which +3% from Tubiflex acquisition and +4% from better margins organically. At EUR191m, we are now positioned slightly above the EUR190m midpoint of the FY2016 EBITDA guidance range (EUR190m +/- EUR5m).

Stock weakish since initiated. Upgrade to Buy. New TP EUR14

We continue to believe that some end markets, notably US trucks (12% of total turnover) mostly accounted for by the Muncie US subsidiary, will prevent organic growth to accelerate short term (April/May were in line with Q1), but the combination of weakish stock performance since our [14 April initiation](#), plus faster the expected margin expansion, creates some upside. At 15.2x PE 16E (but 13x ex PPA amortisation), 7% FCF yield, the stock has become moderately attractive on our upgraded estimates. Up to Buy, TP EUR14 (vs EUR13.5).

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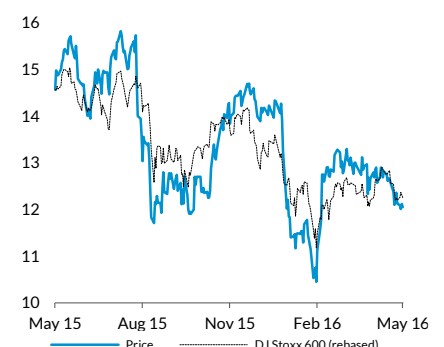
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Market data

Bloomberg: IP IM	Reuters: ITPG.MI
Market cap (EURm)	1,312
Free float	69%
No. of shares outstanding (m)	109
Avg. daily volume('000)	701
YTD abs performance	-15.9%
52-week high/low (EUR)	15.82/10.45

FY to 31/12 (EUR)	12/16E	12/17E	12/18E
Sales (m)	918.2	939.1	967.3
EBITDA adj (m)	191.0	197.2	205.2
EBIT adj (m)	146.0	151.8	159.2
Net profit adj (m)	86.6	90.5	97.3
Net fin. debt (m)	228.7	160.4	89.3
FCF (m)	94.0	94.3	98.2
EPS adj. and fully dil.	0.80	0.83	0.89
Consensus EPS	0.81	0.87	0.93
Net dividend	0.24	0.25	0.27

FY to 31/12 (EUR)	12/16E	12/17E	12/18E
P/E adj and ful. dil.	15.1	14.5	13.5
EV/EBITDA	8.1	7.5	6.8
EV/EBIT	10.6	9.7	8.8
FCF yield	7.1%	7.1%	7.4%
Dividend yield	2.0%	2.1%	2.2%
Net fin. debt/EBITDA	1.2	0.8	0.4
Gearing	33.2%	21.3%	10.8%
ROIC	10.5%	11.0%	11.5%
EV/IC	1.7	1.6	1.5



Interpump. Solid margins in Q1 despite uninspiring top line

Table 1: INTERPUMP GROUP – solid Q1 2016 results on margins

	Q1 2016A	Q1 2016E	A vs E	Q1 2015A	YOY
Revenues	226.7	228.6	-0.8%	222.6	1.8%
Hydraulics	145.6	149	-2.3%	145.6	
Water Jetting	81.1	79.5	2.0%	77	
EBITDA	47.6	44.1	7.9%	43.5	9.6%
Margin	21.0%	19.3%		19.5%	
Hydraulics	27.7	25	10.5%	25	
Water Jetting	20	19.2	4.2%	18.5	
EBIT	37.3	33.7	10.7%	33.6	11.0%
Margin	16.5%	14.7%		15.1%	
Pre tax profit	34.7	31.3	10.9%	42.4	-18.2%
Net profit	21.9	20.4	7.5%	29.3	-25.1%

Source: Interpump group, Kepler Cheuvreux

Interpump – FY16/18 estimates up. Tubiflex, better margins

Table 2: Interpump – FY2016-18 estimates revision

	2016 new	2016 old	chg	2017 new	2017 old	chg	2018 new	2018 old	chg
Sales	918.2	904.6	2%	939.1	916.8	2%	967.3	944.3	2%
EBITDA	191.0	182.6	5%	197.2	184.4	7%	205.2	191.6	7%
margin	20.8%	20.2%		21.0%	20.1%		21.2%	20.3%	
EBIT	146.0	137.6	6%	151.8	139	9%	159.2	145.6	9%
margin	15.9%	15.2%		16.2%	15.2%		16.5%	15.4%	
Net Profit	86.6	81.9	6%	90.5	83.9	8%	97.3	90.1	8%

Source: Kepler Cheuvreux

Key financials

FY to 31/12 (EUR)	2011	2012	2013	2014	2015	2016E	2017E	2018E
Per share data								
EPS adjusted	0.42	0.47	0.40	0.52	0.77	0.80	0.83	0.89
EPS adj and fully diluted	0.42	0.47	0.40	0.52	0.77	0.80	0.83	0.89
% Change	55.5%	11.9%	-16.0%	31.8%	48.1%	2.8%	4.4%	7.5%
EPS reported	0.42	0.47	0.40	0.52	1.07	0.80	0.83	0.89
Cash flow per share	0.41	0.50	0.58	0.66	1.04	1.14	1.18	1.22
Book value per share	3.17	3.59	3.92	4.23	5.66	6.26	6.85	7.50
Dividend per share	0.12	0.17	0.17	0.18	0.19	0.24	0.25	0.27
Number of shares, YE (m)	97.66	108.88	108.88	108.88	108.88	108.88	108.88	108.88
Valuation								
P/E adjusted	12.6	12.5	18.0	19.4	17.9	15.1	14.5	13.5
P/E adjusted and fully diluted	12.6	12.5	18.0	19.4	17.9	15.1	14.5	13.5
P/BV	1.7	1.6	1.8	2.4	2.4	1.9	1.8	1.6
P/CF	12.9	11.8	12.3	15.4	13.3	10.6	10.2	9.9
Dividend yield (%)	2.3%	2.9%	2.4%	1.8%	1.4%	2.0%	2.1%	2.2%
Dividend yield preference shares (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FCF yield (%)	5.2%	5.9%	4.2%	3.4%	5.6%	7.1%	7.1%	7.4%
EV/Sales	1.3	1.3	1.5	1.8	2.0	1.7	1.6	1.5
EV/EBITDA	6.6	6.5	8.2	9.0	9.8	8.1	7.5	6.8
EV/EBIT	8.2	8.3	10.8	11.7	12.9	10.6	9.7	8.8
Income Statement (EURm)								
Sales	472.3	527.2	556.5	672.0	894.9	918.2	939.1	967.3
% Change	11.1%	11.6%	5.6%	20.8%	33.2%	2.6%	2.3%	3.0%
EBITDA adjusted	94.7	104.6	105.2	136.1	180.3	191.0	197.2	205.2
EBITDA margin (%)	20.0%	19.8%	18.9%	20.3%	20.1%	20.8%	21.0%	21.2%
EBIT adjusted	75.7	82.8	79.3	104.4	136.9	146.0	151.8	159.2
EBIT margin (%)	16.0%	15.7%	14.3%	15.5%	15.3%	15.9%	16.2%	16.5%
Net financial items & associates	-9.0	-8.0	-8.3	-11.3	27.0	-11.1	-10.9	-7.8
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tax	-23.0	-22.5	-27.0	-35.4	-47.0	-47.2	-49.3	-53.0
Net profit from continuing operations	43.6	52.3	44.1	57.7	117.0	87.7	91.6	98.4
Net profit from discontinuing activities	-1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit before minorities	42.6	52.3	44.1	57.7	117.0	87.7	91.6	98.4
Net profit reported	41.2	51.4	43.2	56.9	116.3	86.6	90.5	97.3
Net profit adjusted	41.2	51.4	43.2	56.9	84.3	86.6	90.5	97.3
Cash Flow Statement (EURm)								
Cash flow from operating activities	40.3	54.7	63.4	71.6	113.5	124.0	128.3	133.2
Capex	-12.2	-15.8	-29.8	-34.1	-29.0	-30.0	-34.0	-35.0
Free cash flow	28.1	38.9	33.7	37.5	84.5	94.0	94.3	98.2
Acquisitions & Divestments	-19.3	-31.6	-29.3	-82.6	-167.1	-47.0	0.0	0.0
Dividend paid	-10.7	-11.7	-18.5	-18.2	-20.4	-20.7	-26.0	-27.1
Others	0.0	56.9	0.0	0.0	0.0	0.0	0.0	0.0
Change in net financial debt	-1.9	52.4	-14.1	-63.3	-103.0	26.3	68.3	71.0
Balance Sheet (EURm)								
Intangible assets	237.0	248.1	258.5	304.0	380.6	380.6	380.6	380.6
Tangible assets	102.8	112.5	150.7	209.1	286.1	272.6	262.8	253.6
Financial & other non-current assets	3.4	1.8	2.1	1.0	1.0	48.0	48.0	48.0
Total shareholders' equity	315.2	396.9	432.9	466.6	621.3	688.0	753.1	824.0
Pension provisions	9.7	11.0	11.9	14.9	17.3	17.6	18.0	18.3
Liabilities and provisions	340.3	297.7	331.4	437.9	581.1	584.0	586.7	590.4
Net debt	136.7	85.6	100.6	166.9	272.3	246.3	178.3	107.7
Working capital requirement	151.5	171.3	169.1	227.4	301.5	308.7	315.7	325.2
Invested Capital	467.7	509.8	554.5	715.8	934.9	928.7	925.9	926.2
Ratios								
ROE (%)	13.9%	14.7%	10.6%	12.8%	15.7%	13.4%	12.7%	12.4%
ROIC (%)	11.1%	11.4%	10.0%	11.0%	11.1%	10.5%	11.0%	11.5%
Net fin. debt / EBITDA (x)	1.3	0.7	0.8	1.1	1.4	1.2	0.8	0.4
Gearing (%)	40.3%	18.8%	20.5%	32.6%	41.0%	33.2%	21.3%	10.8%

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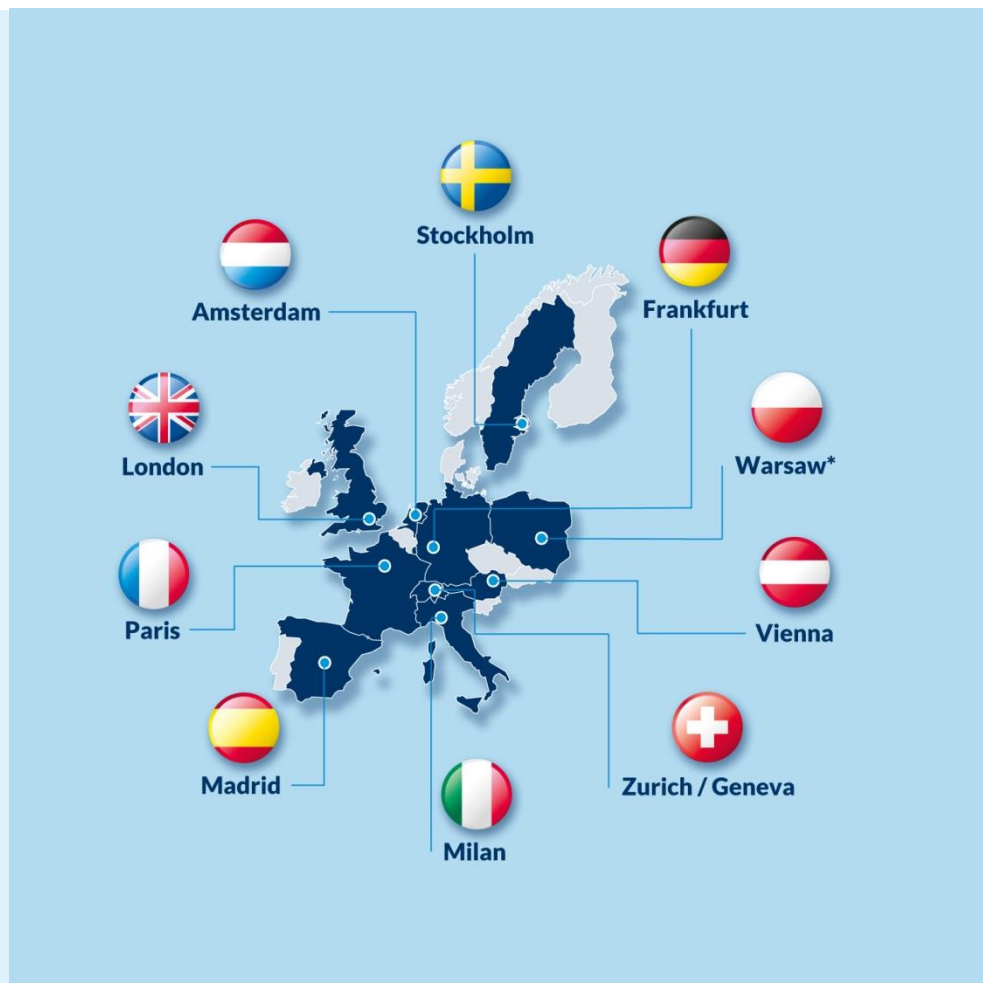
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