Comer Industries

MEDIOBANCA SECURITIES

22 March 2023	Industrials	DCF	Earnings Release

Price: € 31.80 **Target price: € 45.00 (from € 42.00)** **Outperform**

Solid FCF leaves room for further deals

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FY23 estimates up 5% driven by better results and larger perimeter

Yesterday Comer Ind. reported a set of FY22 results above our forecasts on P&L (10% better on net profit). Net debt was lower than our estimates thanks to a stronger FCF generation in 4Q22. FY22 results were above Consensus across the board. Company didn't provide any FY23 guidance, reiterating that focus will be put on 1) efficiencies from the integration with WPG, 2) electrification of the business thanks to the recent acquisitions, and 3) R&D investment in order to develop new solutions. We updated our forecasts at P/L level factoring in both a more cautious view on volumes and the larger perimeter. Our new forecasts point to 5% top-line growth, €192m EBITDA (margin c.15%) and €108m adj net profit. We expect Comer to generate c.€100m FCF in 2023. We have increased the EBITDA and net profit respectively by 3% and 5%. We believe Comer may benefit from the still positive trend in the AG large tractors/Combines. This should enable the Group to mainly improve prices/mix, translating in higher margins. We reiterate our Outperform rating on the stock, increasing our DCF-based TP €45/sh vs previous of €42. Stock is trading at 8.5x 23E PE based on MB estimates. Strong FCF generation leaves room to further M&A, in our view.

FY22 results above on net profit, better than expected net debt

Comer reported a set of FY22 results above our forecasts on both P/L and NFP.

- Sales came out at €1.24bn, up 18% vs proforma 2021, in line with MBe €1.25m (Cons €1.21bn). By division, AG business was up 23% YoY, Industrial +10%. In 4Q22 Comer sales landed in the region of €300m, in line with 3Q22 €307m
- EBITDA €180m, 14.5% margin, touch better than MB forecasts €176m, above €130m proforma 2021 (12.4% margin). In 4Q22 EBITDA was €45m, margin 15%.
- Net profit €91m, above Cons/MBe €83m. Net profit before PPA was €102m.
- Net debt landed in the region of €149m, from €174m in 9M22, better than Cons/MB forecasts pointing to c.€160m. In FY22, Comer Ind. generated €75m FCF (MB calculation, 10% FCF to equity), from c.€50m generated in 2021.

MB est. updated to factor in more cautious volumes and larger perimeter

Comer Ind. didn't provide any FY22 guidance while reiterating its focus on both increasing the efficiencies from the merger with WPG and the integration of the recent acquisitions. Electrification of the business should become a relevant driver in the future, in our view. We updated our forecasts in order to consider 1) better than expected results, 2) larger perimeter related to the acquisition of electric divisions, and 3) more cautious view on volumes. In terms of organic growth, we expect Comer Ind. to still benefit from a positive volumes trend mainly in the AG large tractors and Combines. Moreover, as also guided by other AG market players, also pricing should be supportive. We increased our 2023E-2024E forecasts at both P/L level and FCF level. Our EBITDA of €192m is 14% above Consensus. We increased the adj net profit by 5% now pointing to €108m, 35% above Cons. We expect 23E FCF to exceed €100m, or >10% yield to equity. 23E debt/EBITDA of 0.65 leaves room for further M&A, in our view.

	2022	2023E	2024E	2025E
EPS Adj (€)	3.55	3.75	3.94	4.07
DPS (€)	0.75	0.94	0.98	1.02
BVPS (€)	15.47	18.09	20.70	23.41
EV/Ebitda(x)	5.8	5.7	5.1	4.6
P/E adj (x)	7.5	8.5	8.1	7.8
Div.Yield(%)	2.8%	2.9%	3.1%	3.2%
OpFCF Yield(%)	7.4%	9.3%	11.5%	13.1%

Market Data	
Market Cap (€m)	922
Shares Out (m)	29
Eagles OAK (Storchi family) (%)	72%
Free Float (%)	20%
52 week range (€)	34.00-21.20
Rel Perf vs STOXX EUROPE 600 (%)	
-1m	21.7%
-3m	4.8%
-12m	7.3%
21dd Avg. Vol.	2,663
Reuters/Bloomberg	COME.MI / COM IM

Source: Mediobanca Securities

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Valuation Matrix

Profit & Loss account (€ m)	2022	2023E	2024E	2025E
Turnover	1,238	1,295	1,329	1,359
Turnover growth %	18.0%	4.6%	2.6%	2.2%
EBITDA	180	192	199	204
EBITDA margin (%)	14.5%	14.9%	15.0%	15.0%
EBITDA growth (%)	38.3%	6.8%	3.5%	2.5%
Depreciation & Amortization	-52	-54	-53	-53
EBIT	128	138	146	151
EBIT margin (%)	10.3%	10.7%	11.0%	11.1%
EBIT growth (%)	46.6%	8.6%	5.2%	3.8%
Net Fin.Income (charges)	-3	-4	-4	-4
Non-Operating Items				
Extraordinary Items	0	0	0	0
Pre-tax Profit	125	134	142	147
Tax	-34	-38	-40	-41
Tax rate (%)	27.4%	28.0%	28.0%	28.0%
Minorities	0	0	0	0
Net Profit	91	97	102	106
Net Profit growth (%)	67.1%	6.7%	5.3%	3.9%
Adjusted Net Profit	102	108	113	117
Adj. Net Profit growth (%)	87.6%	5.6%	5.0%	3.5%

Multiples	2022	2023E	2024E	2025E
P/E Adj.	7.5	8.5	8.1	7.8
P/CEPS	5.3	6.1	5.9	5.8
P/BV	1.7	1.8	1.5	1.4
EV/ Sales	0.8	0.9	0.8	0.7
EV/EBITDA	5.8	5.7	5.1	4.6
EV/EBIT	8.1	8.0	7.0	6.1
EV/Cap. Employed	1.4	1.4	1.3	1.2
Yield (%)	2.8%	2.9%	3.1%	3.2%
OpFCF Yield(%)	7.4%	9.3%	11.5%	13.1%
FCF Yield (%)	9.8%	10.9%	12.5%	13.0%

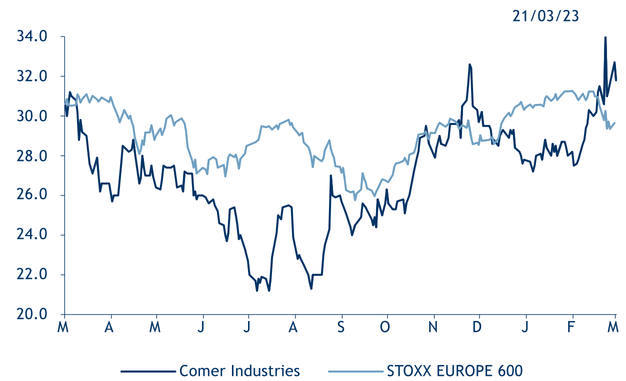
Per Share Data (€)	2022	2023E	2024E	2025E
EPS	3.55	3.75	3.94	4.07
EPS growth (%)	87.6%	5.6%	5.0%	3.5%
EPS Adj.	3.55	3.75	3.94	4.07
EPS Adj. growth (%)	87.6%	5.6%	5.0%	3.5%
CEPS	4.46	4.73	4.88	5.00
BVPS	15.47	18.09	20.70	23.41
DPS Ord	0.75	0.94	0.98	1.02

Balance Sheet (€ m)	2022	2023E	2024E	2025E
Working Capital	254	273	281	287
Net Fixed Assets	570	604	586	568
Total Capital Employed	717	768	756	743
Shareholders' Funds	444	519	594	672
Minorities	0	0	0	0
Provisions	124	124	124	124
Net Debt (-) Cash (+)	-149	-124	-37	53

Key Figures & Ratios	2022	2023E	2024E	2025E
Avg. N° of Shares (m)	29	29	29	29
EoP N° of Shares (m)	29	29	29	29
Avg. Market Cap. (m)	766	913	913	913
Enterprise Value (m)	1,038	1,106	1,019	928
Adjustments (m)	123	69	69	69
Labour Costs/Turnover	-20%	-19%	-20%	-19%
Depr.&Amort./Turnover	4%	4%	4%	4%
Turnover / Op.Costs	1.2	1.2	1.2	1.2
Gearing (Debt / Equity)	34%	24%	6%	-8%
EBITDA / Fin. Charges	-69.6	-48.1	-49.7	-51.0
Net Debt / EBITDA	0.8	0.6	0.2	-0.3
Cap.Employed/Turnover	58%	59%	57%	55%
Capex / Turnover	3%	3%	3%	3%
Pay out	21%	25%	25%	25%
ROE	20%	19%	17%	16%
ROCE (pre tax)	18%	18%	19%	20%
ROCE (after tax)	13%	13%	14%	15%

Cash Flow (€ m)	2022	2023E	2024E	2025E
Cash Earnings	143	151	155	159
Working Capital Needs	-34	-17	-7	-5
Capex (-)	-34	-34	-35	-35
Financial Investments (-)	0	0	0	0
Dividends (-)	-14	-22	-27	-28
Other Sources / Uses	-33	-54	0	0
Ch. in Net Debt (-) Cash (+)	-28	-25	-87	-91

Source: Mediobanca Securities



Source: Mediobanca Securities

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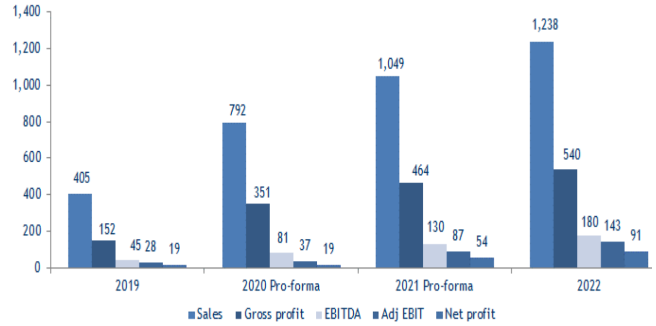
Positive FY22 results, 23E MBe updated

Yesterday market close Comer Ind. reported a set of FY22 results above our forecasts on sales, EBITDA, and net profit. Net debt of €149m was better than our estimates resulting from a larger than expected FCF generation. Company didn't provide any FY23 guidance, while reiterating focus will be put on 1) efficiencies from the integration with WPG, 2) electrification of the business thanks to the recent acquisitions, and 3) R&D investment in order to develop new solutions. We have updated our forecasts at P/L level, pointing to 5% top-line growth and €192m EBITDA (margin c.15%), while increasing the net debt in order to consider the recent acquisitions, only partially offset by the better FCF estimates. Our revision is mainly due to 1) more cautious assumptions on volumes, although remaining positive in 2023E, and 2) larger perimeter related to the acquisition of the Benevelli/Sitem business units. We believe in 2023 Comer may benefit from the still positive trend of the AG business driven by an increasing trend expected for the largest tractors/Combines. This should allow the Group to improve both volumes and prices/mix, being a driver also for margins.

Better FY22 results across the board

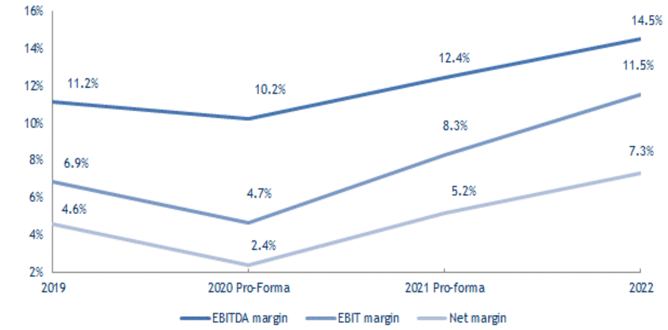
Comer Ind. reported a set of FY22 results above our expectations at P/L, with an EBITDA of €180m that was 2% above MBe €176m (Consensus €168m) and a FCF leading to a lower than expected NFP.

Comer 2022 vs last 3 years



Source: Mediobanca Securities

2022 margins improving across the board



Source: Mediobanca Securities

- Sales came out at €1.24bn, up 18% vs proforma 2021, in line with MBe €1.25m (Cons €1.21bn). By division, AG business was up 23% YoY, Industrial +10%. In 4Q22 Comer sales landed in the region of €300m, in line with 3Q22 €307m. From a geographical standpoint, EMEA and NAFTA regions were the best performers while Asia declined by 7% YoY mainly due to the Chinese market.
- EBITDA €180m, 14.5% margin, touch better than MB forecasts €176m, above €130m proforma 2021 (12.4% margin). In 4Q22 EBITDA was €45m, margin 15%.
- EBIT of €138m, from €128m reported in 2021, factors in D&A in the region of €37m and PPA amortization of €15m.
- Net profit €91m was 10% above Cons/MBe €83m. Net profit before PPA was €102m. Bottom line trend is also the result of lower financial costs and a taxes rate (27.4%) below our forecasts.
- Net debt landed in the region of €149m, from €174m in 9M22, better than Cons/MB forecasts pointing to c.€160m. In FY22, Comer Ind. generated €75m FCF (MB calculation, 10% FCF to equity), from c.€50m generated in 2021. We highlight that Company announced two acquisitions in December with €54m impact on net debt that is expected to be reported in 1Q23.
- In 2022, commercial NWC was c.21% of Group sales with receivables at 17%, Inventories at 20% and Payables 16%. Capex were in the region of €34m.

- Company announced the intention to distribute €0.75 DPS, above last year, slightly below our forecasts €0.83.
- In 2022, based on MB calculation, Comer Ind. ROCE after taxes was c.23% from pro-forma 2021 13%.

MB estimates fine-tuned mainly to consider a larger perimeter

Comer Ind. didn't provide any FY23 guidance although reiterating its commitment on:

- Extrapolating further synergies from the merger with WPG.
- Increasing its penetration in the electric powertrain, also thanks to the recently announced acquisitions
- Investing in R&D in order to launch new technological solutions.

We revised our FY23-24 estimates to include the recent acquisition of the two business units (Benevelli/Sitem), on top of a minor fine-tuning of both the organic growth and EBITDA margin.

Organic growth: we have adopted a more cautious view on volumes, now predicted only slightly positive in 2023, while keeping a price increase in the region of 1.5% resulting from the rollover of the price action put in place in 2H22. Our more cautious view on volumes follows the limited visibility on the Industrial business mainly in Asia, while we expect AG volumes to be mixed with a stronger trend in the large tractors compared to the small equipment.

EBITDA margin: also following the better margins trend reported in FY22, we are now assuming a higher profitability also in FY23. We expect Comer Ind. to report further efficiencies/synergies from the merger with WPG.

Electric powertrain/components: Starting from 2023 Comer Ind. will consolidate Benevelli and Sitem business units bought at the end 2022. We expect these two division to generate €21m sales and €7m EBITDA in 2023. Moreover, we have increased 2023 net debt by €54m in order to consider the cash-out for the transaction that took place in January.

FCF generation: after the strong NWC absorption reported in 2022 (€75m based on our calculation) we expect Comer to report a minor absorption in 2023 that coupled with an increasing operating margin should translate in a stronger FCF generation compared to last year. Our increase in the net debt factors in also the €54m cash-out related to the already announced M&A.

22E-23E MBe almost unchanged at P/L level, reduced on FCF

€m	2022	2023E			2024E		
	Act	Old	New	Change	Old	New	Change
Sales	1,238	1,302	1,295	-1%	1,330	1,329	0%
YoY growth		5%	5%		2%	3%	
EBITDA	180	187	192	3%	191	199	4%
margin	*14.5%*	*14.3%*	*14.9%*		*14.4%*	*15.0%*	
Adj EBIT	143	148	153	4%	154	161	5%
margin	*11.5%*	*11.3%*	*11.9%*		*11.5%*	*12.1%*	
Net profit	102	102	108	5%	106	113	6%
Y/Y chge%		14%	6%		4%	5%	
Net Debt/(Cash)	149	79	124	57%	0	37	n.m.

Source: Mediobanca Securities

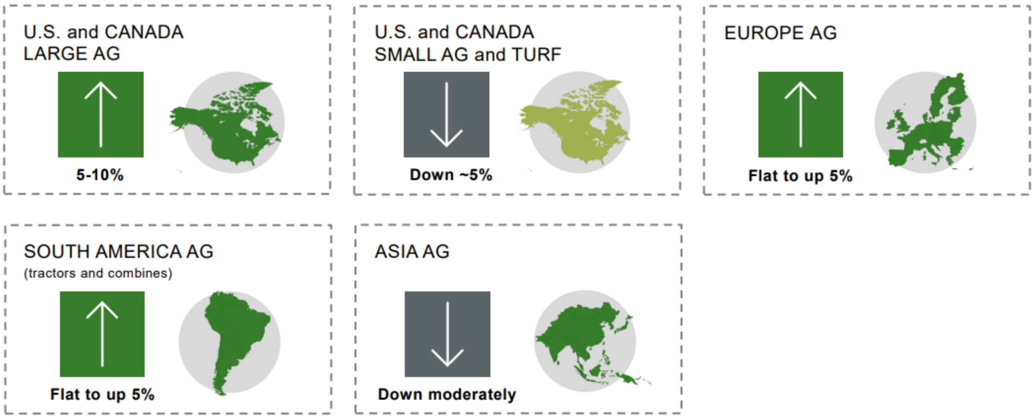
All in all, we increased our 23E forecasts by 3% at EBITDA level, +5% on net profit. We also raised our net debt expectations by 57%. Our new forecasts factor in a 5% increase in the top line, while EBITDA is expected to be up 7% vs 2022, net profit +6%. We are set 14% and 35% above Consensus respectively on EBITDA and net profit.

AG business: mixed read-across from the main market players

Our more cautious stance on 2023E Comer's volumes reflects a trend in the AG market (above 70% of the Group sales) that is slowing down in some regions/segments, as commented by the main reference market players/Comer Ind. customers. Indeed, Cnhi, Deere and Agco recently gave a mixed outlook for the Tractors and Combines global markets. In greater details, these players are assuming:

- Positive performance for the Large tractors and Combines in the NAFTA regions, as reported by Deere and CNHI that are assuming an increase of 5%-10% in volumes
- Negative trend for the small tractors in NAFTA, where volumes should decline by -5%/0%
- Flat to slightly positive volumes in Europe
- Flat to up 5% units sold in Lat.Am.
- Negative trend in Asia.

Deere outlook: Small US tractors/Asia predicted to decline, other regions foreseen to improve



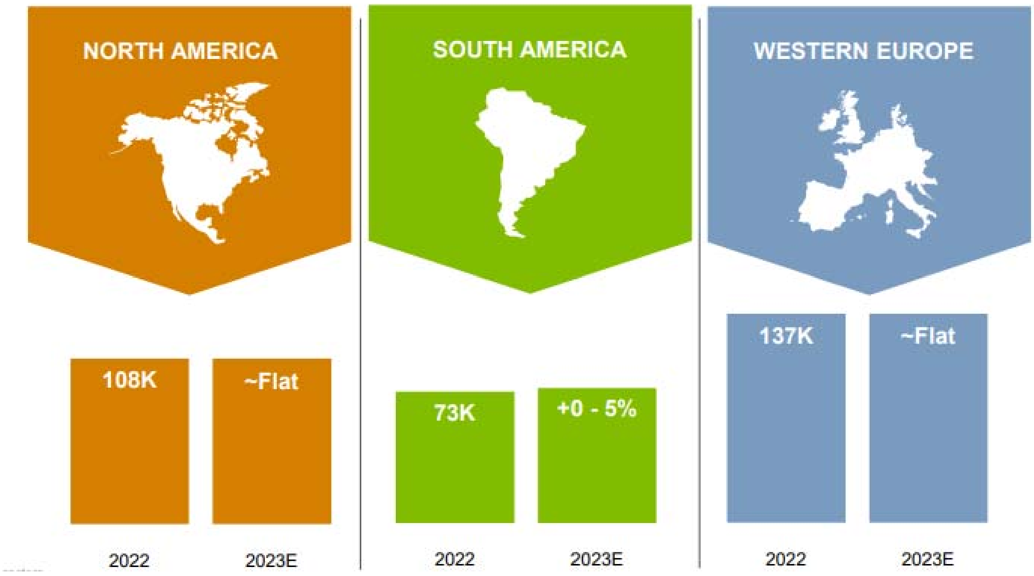
Source: Mediobanca analysis, Company presentation

Cnhi outlook: flat trend in the AG, more cautious view for the Construction division

	NORTH AMERICA(1)	EMEA(1)	SOUTH AMERICA(1)	APAC(1)
0-140 HP Tractors	(5%) – flat	flat	flat	(5%) – flat
140+ Large Tractors	5% – 10%			
Combines	flat – 5%	flat	flat	(5%) – flat
Light	(5%) – flat	(10%) – (5%)	(10%) – (5%)	flat – 5%
Heavy	(5%) – flat	(10%) – (5%)	(5%) – flat	5%

Source: Mediobanca analysis, Company presentation

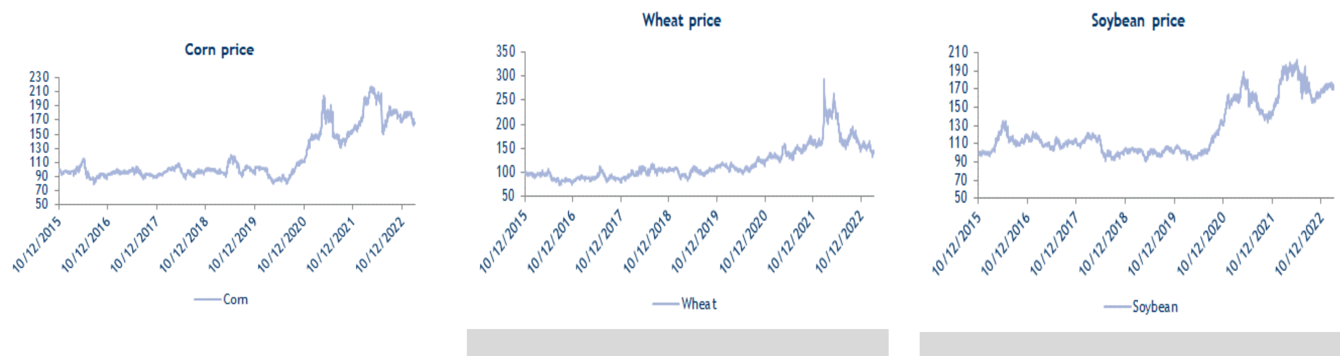
Agco outlook: flat NAFTA and EU, positive trend expected in Lat.Am.



Source: Mediobanca analysis, Company presentation

The main driver for the AG business remains the trend of the **soft commodity prices** that should remain supportive also this year, although it has declined from the peak achieved in 2022. Indeed, as showed in the pictures below, Corn, Wheat and Soybean are far from last year's record-high, although remaining far above the average of the last five years in the case of Corn (+39%) and Soybean (+35%), while being closer in the case of Wheat (+21%).

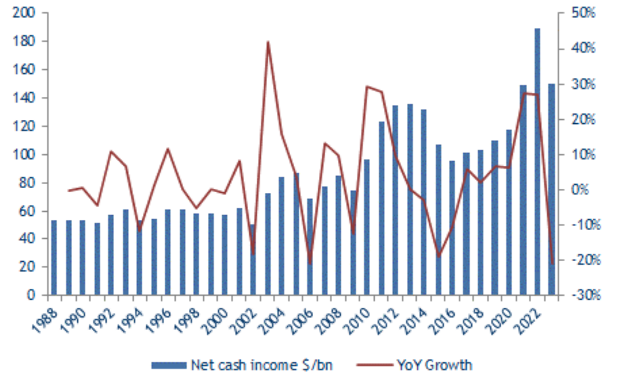
Corn, Wheat and Soybean prices far from last 5Y peak, but remaining above the average



Source: Mediobanca Securities, Bloomberg data

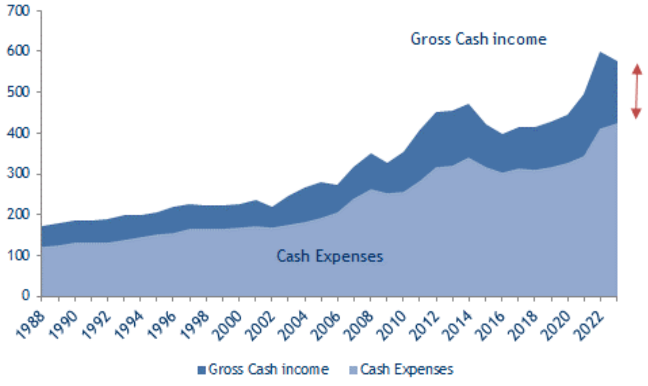
The declining trend in the soft-commodity prices is expected to translate in a reduction in the 2023E **net cash income** for the US farmers (a leading indicator for the industry) vs 2022. Indeed, based on the USDA market data, net cash income for the US farmers is expected to decline by 21% YoY in 2023, from the peak achieved in 2022, coming back to the still supportive level achieved in 2021. As showed in the pictures below, the reduction in the net cash income is the result of both **lower Gross cash**, probably due to the declining soft commodity prices, and **increasing Cost cash**, likely to reflect a still in place cost inflation.

23E Farmer income seen to decline by 21% from '22 peak



Source: Mediobanca Securities

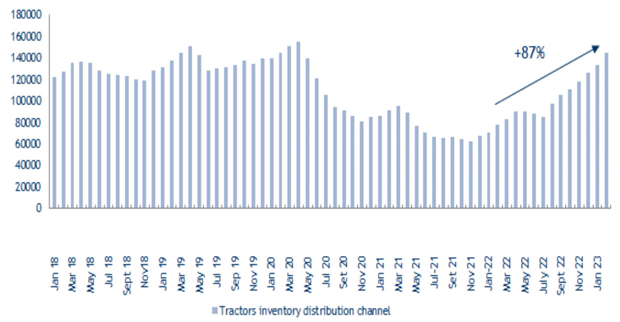
23E Farmer income impacted by lower Gross cash est.



Source: Mediobanca Securities

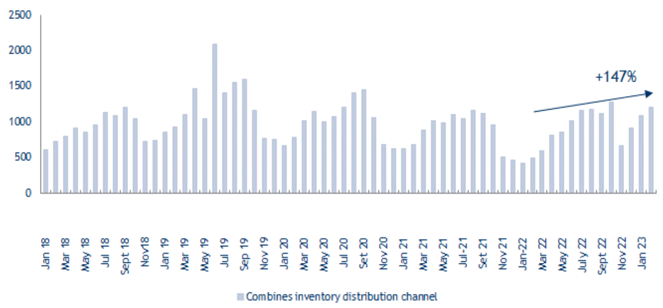
The trend in the Tractors and Combines inventory in the distribution channel is another relevant leading indicator for the sector. It's worth noting that in the case of Tractors, inventory levels that in February 2023 are up 87% YoY are not far from the peak achieved over the last 5Y, while Combines, despite the strong rebound experienced over the last months, have channel inventories still under control. We believe the aforementioned trend to underpin the view in terms of volumes guidance reported by the main market players.

US tractors: 5Y inventory trend, almost back to the peak



Source: Mediobanca Securities

Combines: 5Y inventory trend, strong recovery in last 1Y



Source: Mediobanca Securities

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Proportion of all recommendations relating to the last quarter					
Outperform	Neutral	Underperform	Not Rated	Restricted	Coverage suspended
45.38%	47.79%	4.42%	1.20%	1.20%	0.00%

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	Restricted	Coverage suspended
3.85%	4.88%	0.00%	66.67%	0.00%	0.00%

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RATING
The present rating in regard to Comer Industries has not been changed since 17/04/2020.

INITIAL COVERAGE

Comer Industries initial coverage as of 17/04/2020.

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