

EQUITY RESEARCH

COFLE RESULTS REVIEW

BUY

TP 15.3€ (vs 16.8€)
Up/Downside: 20%

Margins Expected to Rebound Strongly in 2023

The group remains shielded from the problems affecting the automotive market.

-The diversification of activities allows the group to smooth out its cyclical and reduce the risk linked to its exposures. The OEM division, buoyed by strong sales momentum that should last for the rest of the year, managed to offset the impact of the Ukrainian conflict on the AM division. The impact of the conflict on the division has been stable since February and is in line with the fall in activity at Bosch (-30%), one of its main customers.

-The group is not experiencing any supply chain problems: Cofle and its OEM customers have little exposure to semiconductors and associated stop&go issues (its mechatronics offering which consumes semiconductors is still largely in a prototyping state); the group's supply channels are diversified and the group is vertically integrated (the group does not source wiring from Ukraine and has little exposure to China); the group nurtures close relationships with the suppliers of its main raw materials (rubber, steel, aluminium) as evidenced by the group's JV in India.

-The group's assets are located in competitive areas (Italy and Turkey): the group's workforce is not bound by national collective agreements; The group has low exposure to energy costs (mainly electricity): it negotiates fixed price commitments in Italy where the group's activity is labour intensive (consumption is mainly focused on lighting distribution centres and offices) and in Turkey (where production is mechanised and consumes electricity).

The group has announced the launch of a €5m bond issue as part of a basket bond plan. This is a sponsored financing operation specific to Italian SMEs which issue bonds purchased by an SPV which in turn issues ABS partially purchased by the Italian authorities. We view this issue positively as it diversifies the financing of Cofle's rapid development and allows the group to benefit from favourable borrowing conditions.

Management is optimistic for 2023: 1/OEM activity should still be sustained (SOPs, strategic expansions in India and France, new mechatronics product launches) and AM distributor customers seem to be currently restarting stocking in order to resume their activity in Russia ; 2/ Most of the price increases obtained in 2022 will be collected in 2023 (the group reports a delay between the price increases invoiced and their collection of 3 months in AM and 6-12 months in OEM); 3/ The evolution of input prices seems to be well controlled as mentioned above (the falls in the spot price of steel, the main inflation generating cost item in 2022, even seem to suggest a windfall effect for the group in 2023). While the focus has been on limiting the contraction in profitability in 2022, the group should restore its full margins in 2023.

We have adjusted our estimates for 2022 and 2023 to take into account the lag effect of price increases and the impact of the Ukrainian conflict on the AM division. We reiterating our Buy rating with a revised TP of €15.3.

Key data

Price (€)	12.8
Industry	Automotive
Ticker	CFL-IT
Shares Out (m)	5.404
Market Cap (m €)	69.2
Next event	9/29/2022

Ownership (%)

Valfin Srl	78.4
Smart Agri Srl	3.7
Palladio Holding SpA	1.3
Free float	16.6

EPS (€)

	12/22e	12/23e	12/24e
Estimates	1.30	1.66	2.01
Change vs previous estimates (%)	0.00	0.00	0.00

Performance (%)

	1D	1M	YTD
Price Perf	0.0	-1.5	-21.2
Rel FTSE Italy	-0.3	-16.8	-11.8



TP ICAP Midcap Estimates	12/21	12/22e	12/23e	12/24e	Valuation Ratio	12/22e	12/23e	12/24e
Sales (m €)	55.4	52.2	58.1	63.0	EV/Sales	1.1	0.9	0.7
Current Op Inc (m €)	11.0	9.0	11.4	13.9	EV/EBITDA	4.8	3.5	2.6
Current op. Margin (%)	19.8	17.2	19.7	22.0	EV/EBIT	6.2	4.3	3.1
EPS (€)	1.72	1.30	1.66	2.01	PE	9.8	7.7	6.4
DPS (€)	0.00	0.33	0.33	0.33				
Yield (%)	0.0	2.6	2.6	2.6				
FCF (m €)	2.8	10.6	8.0	8.4				

Consensus FactSet - Analysts:2	12/22e	12/23e	12/24e
Sales	60.0	65.8	0.0
EBIT	12.0	14.8	0.0
Net income	8.7	10.7	12.3

Analyst
Julien Thomas
julien.thomas@tpicap.com



FINANCIAL DATA

Income Statement	12/19	12/20	12/21	12/22e	12/23e	12/24e
Sales	38.1	38.1	55.4	52.2	58.1	63.0
Changes (%)	31.2	0.0	45.5	-5.7	11.3	8.4
Gross profit	25.9	24.5	32.4	34.2	38.8	42.9
% of Sales	67.9	64.3	58.5	65.5	66.8	68.0
EBITDA	5.1	6.0	13.4	11.5	14.1	16.7
% of Sales	13.3	15.7	24.3	22.1	24.3	26.5
Current operating profit	4.0	4.7	11.0	9.0	11.4	13.9
% of Sales	10.4	12.3	19.8	17.2	19.7	22.0
Non-recurring items	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	4.0	4.7	11.0	9.0	11.4	13.9
Net financial result	-0.2	0.3	1.2	0.1	0.1	0.1
Income Tax	-0.9	-1.1	-2.3	-2.0	-2.5	-3.1
Tax rate (%)	23.7	22.4	19.7	22.0	22.0	22.0
Net profit, group share	2.6	3.3	8.2	6.3	8.0	9.7
EPS	0.54	0.71	1.72	1.30	1.66	2.01
Financial Statement	12/19	12/20	12/21	12/22e	12/23e	12/24e
Goodwill	0.3	0.2	0.2	0.2	0.2	0.2
Tangible and intangible assets	4.0	5.7	8.2	9.0	10.0	11.1
Right of Use	0.0	0.0	0.0	0.0	0.0	0.0
Financial assets	1.1	1.0	0.7	0.7	0.7	0.7
Working capital	12.2	15.1	15.1	14.3	16.1	17.5
Other Assets	0.0	0.0	0.0	0.0	0.0	0.0
Assets	17.6	22.0	24.2	24.2	27.0	29.5
Shareholders equity group	3.1	3.9	18.9	16.9	18.6	20.3
Minorities	3.9	6.2	7.2	8.0	9.0	10.2
LT & ST provisions and others	1.8	1.6	0.7	5.8	7.0	8.2
Net debt	8.3	8.4	-4.6	-13.5	-19.7	-26.3
Other liabilities	0.3	1.5	1.7	6.7	11.7	16.7
Liabilities	17.7	22.0	24.2	24.3	27.0	29.5
Net debt excl. IFRS 16	8.3	8.4	-4.6	-13.5	-19.7	-26.3
Gearing net	1.2	0.8	-0.2	-0.5	-0.7	-0.9
Leverage	1.6	1.4	-0.3	-1.2	-1.4	-1.6
Cash flow statement	12/19	12/20	12/21	12/22e	12/23e	12/24e
CF after elimination of net borrowing costs and taxes	4.4	4.6	11.3	12.3	12.4	12.7
Δ WCR	-5.6	-3.1	-4.7	0.4	-2.1	-1.8
Operating cash flow	-1.2	1.5	6.6	12.7	10.3	10.9
Net capex	0.0	-0.9	-3.9	-2.1	-2.3	-2.5
FCF	-1.2	0.6	2.8	10.6	8.0	8.4
Acquisitions/Disposals of subsidiaries	0.0	0.0	0.0	0.0	0.0	0.0
Other investments	0.0	0.0	0.0	0.0	0.0	0.0
Change in borrowings	0.0	1.9	-1.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	-1.8	-1.8	-1.8
Repayment of leasing debt	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	10.3	0.0	0.0	0.0
Changes in exchange rates	0.0	0.0	-0.3	0.0	0.0	0.0
Change in net cash over the year	-1.2	2.5	12.1	8.9	6.2	6.6
ROA (%)	12.3%	11.4%	18.4%	11.2%	12.3%	13.0%
ROE (%)	24.8%	22.6%	24.7%	21.4%	24.1%	26.3%
ROCE (%)	27.1%	21.3%	27.4%	19.2%	20.6%	21.4%

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1. DCF method: discounting of future cash flows generated by the company's operations. Cash flows are determined by the analyst's financial forecasts and models. The discount rate used corresponds to the weighted average cost of capital, which is defined as the weighted average cost of the company's debt and the theoretical cost of its equity as estimated by the analyst.
2. Comparable method: application of market valuation multiples or those observed in recent transactions. These multiples can be used as references and applied to the company's financial aggregates to deduce its valuation. The sample is selected by the analyst based on the characteristics of the company (size, growth, profitability, etc.). The analyst may also apply a premium/discount depending on his perception of the company's characteristics.
3. Assets and liabilities method: estimate of the value of equity capital based on revalued assets adjusted for the value of the debt.
4. Discounted dividend method: discounting of estimated future dividend flows. The discount rate used is generally the cost of capital.
5. Sum of the parts: this method consists of estimating the various activities of a company using the most appropriate valuation method for each of them, then realizing the sum of the parts.

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G. Midcap and the Issuer have agreed to the provision by the former to the latter of a service for the production and distribution of the investment recommendation on the said Issuer: Cofle

History of investment rating and target price – Cofle



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Rating	Recommendation Universe*	Portion of these provided with investment banking services**
Buy	86%	65%
Hold	13%	39%
Sell	1%	0%
Under review	1%	100%

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Buy: Expected to outperform the markets by 10% or more over a 6 to 12 months horizon.

Hold: expected performance between -10% and +10% compared to the market over a 6 to 12 months horizon.

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