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Sciuker Frames Buy

Italy | Capital goods

MCap: EUR172.4m

Target Price: EUR 10.00
Current Price: EUR 7.94
Up/downside: 25.9%
Market data: 25 October 2022

Bloomberg: SCK IM Reuters: SCK.MI
Free float 42%
Avg. daily volume (EURm) 0.2
YTD abs performance -24.4%
52-week high/low (EUR) 11.00/5.58

New 2022-24 business plan targets heightened growth

Key points:

- Yesterday Sciuker Frames disclosed its 2022-24 industrial plan. Top line is set to grow from EUR175m in 2022 to EUR279m in 2024; EBITDA from EUR43m (24.3% margin) in 2022 to EUR70m (25.1% margin) in 2024. These targets are more cautious than our forecasts on 2022-23 (13% on both top line and EBITDA on average), while more aggressive on 2024 (+24% on value of production and +30% on EBITDA).
- The reasons behind our more cautious approach on 2024 are the lower tax incentives, higher interest rates, and the possible normalisation of the market both on volumes and prices.
- First signals are however encouraging for Sciuker, as the company announced EUR38m of contracts signed by Ecospace since 15 September, set to be completed in 2024, entailing the exit from a 110% tax deduction scheme and a direct expenditure from clients.
- After the plan presentation, we confirm our EUR10.0 target price on the stock and Buy rating. More evidence of revenue resiliency on contracts for 2024+ will be key for possible further upgrades in estimates.

2022-23 targets slightly below our forecasts; 2024 above

- Yesterday Sciuker Frames disclosed its new industrial plan for the 2022-24 period, upgrading its figures for each year.
- Value of production is targeted to amount to EUR175m in 2022 and to further grow in 2023 and 2024, reaching EUR224m and EUR279m, respectively. Most of this growth should come from the industrial division, where value of production should almost double from EUR87m to EUR170m.
- In terms of profitability, Sciuker expects to reach EBITDA of EUR43m (24.3% margin) in 2022, which should improve both in absolute and relative terms in 2023 (EUR55m with 24.7% margin) and in 2024 (EUR70m with 25.1% margin).

Table 1: 2022-24 industrial plan key figures (EURm)

	2022E			2023E			2024E		
	OLD BP	NEW BP	KECH	OLD BP	NEW BP	KECH	OLD BP	NEW BP	KECH
Value of production	153	175	192	205	224	258	232	279	213
o/w Ecospace	68	88	102	88	104	143	62	109	93
o/w industrial	85	87	90	117	120	115	170	170	120
EBITDA	38	43	48	53	55	63	58	70	49
Margin (%)	24.9%	24.3%	24.8%	25.8%	24.7%	24.5%	25.1%	25.1%	23.0%
Net debt (cash)	-12	-14	2	-38	-48	-16	-67	-82	-47

Source: Kepler Cheuvreux

- Our 2022 and 2023 estimates on the top line (EUR192m and to EUR258m, respectively) are 10% and 15% higher than Sciuker's objectives. Among the underlying reasons for our more positive stance is the EUR223m backlog of contracts signed by Ecospace, which we expect to be completed by the end of 2023 (the gap between our estimates and company targets mainly comes from the Ecospace division). Regarding 2024, we are more cautious than Sciuker (EUR213m revenues versus a targeted value EUR279m) given an expected tougher business environment, including lower fiscal incentives (from 110% to an estimated value of 65%) and higher interest rates (increasing the upfront cash-outs of clients) leading to a possible market normalisation both on volumes and prices.
- Regarding EBITDA, we expect a value of EUR48m versus a target of EUR43m in 2022 and we forecast EUR63m versus the goal of EUR55m in 2023 because of the higher forecast top line. In 2024, given what was said above, we are more conservative both on an absolute (EUR49m versus EUR70m) and on a relative (23% margin versus 25%) point of view.

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- Looking at the financial structure, the company expects to be cash positive by EUR14m at the end of 2022. This, given the budgeted EUR19m capex for 2022 and other negative cash items, entails a negligible cash absorption from working capital despite the top-line growth. Looking further out, the company expects to generate additional cash, reaching EUR48m in 2023 and EUR82m in 2024 (it however did not disclose the main moving parts leading to these results).

Energy efficiency set to remain a key driver, as demonstrated by new contract demand despite lower tax benefit

- As reported by the company, sustainability and energy efficiency should remain strong drivers for Sciuker's success. Customers are sensitive on this theme both because of climate change issues and for the remarkable savings on energy efficiency. On the latter, Sciuker, supported by ANSA data, disclosed that a 110sqm house in the worst energy class spends EUR4,050 from November to March on energy bills, while most sustainable houses have an average expenditure of EUR1,350.
- The focus on energy efficiency and on environmental protection is confirmed by the positive intake the company has been reporting on new contracts no longer benefitting from a 110% reduction (EUR38m). In fact, from 15 September, the Ecospace subsidiary started signing only contracts expected to end in 2024, which state that final customers will benefit from a 110% tax deduction for the part of the works completed by 2023, while the remainder is covered by a lower tax benefit established by law (70% at the moment, 65% according to our estimates).

We confirm our Buy rating with a EUR10.0 target price, increased visibility on 2024 key catalyst for the stock

- Given Sciuker Frames' recent performance, where the company has strongly beaten its targets, and the encouraging backlog it should complete by the end of 2023, we keep our 2022-23 estimates unchanged even though they are above the company's targets. In fact, we think the company could have been overly cautious on its guidance.
- On 2024, while encouraged by first orders signed by the company, we would wait for additional evidence of customer stickiness before increasing our estimates towards company's targets. Notwithstanding, we think the stock price is still undervalued by the market, hence we reiterate our Buy rating (TP of EUR10.0).

Appendix 1: Research framework

Last model update: 03 October 2022

Investment case

- Sciuker Frames has leadership positioning in the premium niche of the Italian windows market thanks to recognised technologies and a widespread presence in the country.
- The windows market is historically dependent on tax incentives (30-40% of the total since 2016) and these are the key growth driver of Sciuker's outstanding performance thanks to its Ecospace business for the Superbonus 110%. The group is pursuing M&A to generate efficiencies and further enlarge its product portfolio and capacity.
- Its activity has a positive correlation with sustainability, as it can have a huge impact on residential CO2 reduction.

Catalysts

- Further M&A activities and collaboration with key partners enlarging product portfolio.
- Supportive fiscal measures will enhance company performance.
- Positive backlog supporting growth's sustainability.

Valuation methodology

- Due to the unsustainable high fiscal incentives, we have forecast two different scenarios assuming a lower tax deduction rate. These flows are evaluated with a DCF model using a high WACC (12.3%) and a 2.0% terminal growth rate. The EUR10.0 TP is calculated as the average of them.
- At our TP the stock would trade at 1.1x EV/sales 2022E and at 3.8x EV/EBITDA 2023E, above its peers.

Risks to our rating

- 2022 and 2023 are still booming years as they are supported by fiscal incentives which are due to decline for 2024.
- Company's planned growth is higher than the overall market, entailing an extensive market share gain.
- Supply chain disruption can lead to delays and to margin compression as well as cash absorption from working capital.

Appendix 2: Company description

Sciuker Frames is an established producer in the Italian window market and the leader in the premium segment given the high quality and design features of its products. It has a capillary distribution network across the country and proprietary patented technologies. Fiscal incentives are a relevant component of the company's business (especially Superbonus 110%) and they are captured by the Sciuker Ecospace subsidiary. Sciuker was listed in 2018 and is controlled by the Cipriano family.

Management	Marco Cipriano, Chairman and CEO Francesco Barreca, CFO
Key shareholders	Free float: 42.08% H.Arm S.r.l. (Cipriano family): 51.42% Marco Cipriano: 4.23% Romina Cipriano: 2.26%

Appendix 3: share price perf.



Appendix 4: SWOT analysis

Strengths

- Italian leadership in the premium segment of window frames.
- Positive correlation to sustainability.
- Patented proprietary technologies.
- High cash generation and marginality.

Opportunities

- Further M&A activity.
- Penetration in new markets.
- R&D success on new patented technologies.

Weaknesses

- Exposure to 110% fiscal incentive set to expire in 2024.
- Negligible geographic diversification.
- Flattish market trend.
- No distinction between chairman and CEO.

Threats

- Raw materials availability and price inflation.
- Business plan execution risk in the industrial division.
- No renewal of fiscal incentives in Italy.
- Expiry of key patent in 2027.

Appendix 5: Key financials

Last model update: 03 October 2022

Market data date: 25 October 2022

FY to 31/12 (EUR)	na	na	na	na	12/19	12/20	12/21	12/22E	12/23E	12/24E
Income Statement (EURm)										
Sales	na	na	na	na	11.9	22.6	102.9	192.3	258.4	212.9
% Change	na	na	na	na	na	89.8%	355.4%	86.9%	34.4%	-17.6%
EBITDA adjusted	na	na	na	na	2.7	6.0	28.8	47.7	63.3	49.0
EBITDA adj. margin (%)	na	na	na	na	22.4%	26.5%	28.0%	24.8%	24.5%	23.0%
EBIT adjusted	na	na	na	na	67.7	2.1	23.6	40.8	54.5	40.0
EBIT adj. margin (%)	na	na	na	na	na	9.5%	22.9%	21.2%	21.1%	18.8%
Net financial items & associates	na	na	na	na	-0.4	0.0	-2.6	-2.4	-1.9	-1.4
Others	na	na	na	na	0.0	0.0	0.0	0.0	0.0	0.0
Tax	na	na	na	na	-0.3	-1.1	-6.0	-11.1	-15.3	-11.2
Net profit from continuing operations	na	na	na	na	0.3	2.7	14.9	27.3	37.4	27.4
Net profit from discontinuing activities	na	na	na	na	0.0	0.0	0.0	0.0	0.0	0.0
Net profit before minorities	na	na	na	na	0.3	2.7	14.9	27.3	37.4	27.4
Net profit reported	na	na	na	na	0.3	2.3	13.4	24.5	33.6	24.6
Net profit adjusted	na	na	na	na	0.3	2.3	13.4	24.5	33.6	24.6
Cash Flow Statement (EURm)										
Levered post tax CF before capex	na	na	na	na	0.7	7.1	-6.6	20.5	33.9	50.4
Capex	na	na	na	na	-3.9	-3.5	-6.0	-14.0	-9.0	-9.0
Free cash flow	na	na	na	na	-3.2	3.6	-12.6	6.5	24.9	41.4
Acquisitions & divestments	na	na	na	na	0.0	0.0	-5.0	0.0	0.0	0.0
Dividend paid	na	na	na	na	0.0	0.0	-4.0	-6.1	-7.4	-10.1
Others	na	na	na	na	1.1	1.6	21.8	0.0	0.0	0.0
Change in net financial debt	na	na	na	na	2.1	-5.3	-0.2	-0.4	-17.5	-31.3
Balance Sheet (EURm)										
Intangible assets	na	na	na	na	1.1	1.2	7.3	18.7	21.8	24.2
Tangible assets	na	na	na	na	11.1	13.1	16.7	20.6	20.4	20.2
Financial & other non-current assets	na	na	na	na	0.0	0.1	0.1	0.1	0.1	0.1
Total shareholders' equity	na	na	na	na	8.3	11.7	41.2	62.4	92.5	109.8
Pension provisions	na	na	na	na	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities and provisions	na	na	na	na	35.0	49.0	57.2	107.9	144.2	142.6
Net debt	na	na	na	na	7.6	2.4	2.2	1.8	-15.8	-47.1
Net financial debt	na	na	na	na	7.6	2.4	2.2	1.8	-15.8	-47.1
IFRS 16 debt	na	na	na	na	0.0	0.0	0.0	0.0	0.0	0.0
Net working capital	na	na	na	na	4.8	1.1	22.9	40.6	65.2	70.7
Invested capital	na	na	na	na	17.1	15.6	47.1	80.1	107.4	115.2
Per share data (EUR)										
EPS adjusted	na	na	na	na	0.02	0.11	0.62	1.13	1.55	1.13
EPS adj and fully diluted	na	na	na	na	0.02	0.11	0.62	1.13	1.55	1.13
% Change	na	na	na	na	na	340.8%	480.2%	83.4%	36.9%	-26.7%
EPS reported	na	na	na	na	0.02	0.11	0.62	1.13	1.55	1.13
Cash flow per share	na	na	na	na	0.06	0.33	-0.30	0.94	1.56	2.32
Book value per share	na	na	na	na	0.76	0.52	1.83	2.81	4.06	4.68
Dividend per share	na	na	na	na	0.00	0.19	0.28	0.34	0.46	0.34
Number of shares, YE (m)	na	na	na	na	10.92	21.72	21.72	21.72	21.72	21.72
Ratios										
ROE (%)	na	na	na	na	na	23.6%	52.5%	48.7%	45.0%	25.9%
ROIC (%)	na	na	na	na	na	9.4%	53.6%	45.6%	41.3%	25.5%
ND(F+IFRS16) / EBITDA (x)	na	na	na	na	2.9	0.4	0.1	0.0	-0.2	-1.0
Gearing (%)	na	na	na	na	92.3%	20.5%	5.2%	2.8%	-17.0%	-42.9%
Valuation										
P/E adjusted	na	na	na	na	na	12.0	10.3	7.0	5.1	7.0
P/E adjusted and fully diluted	na	na	na	na	na	12.0	10.3	7.0	5.1	7.0
P/BV	na	na	na	na	na	2.5	3.5	2.8	2.0	1.7
P/CF	na	na	na	na	na	3.9	na	8.4	5.1	3.4
Dividend yield (%)	na	na	na	na	na	14.6%	4.4%	4.3%	5.8%	4.3%
Dividend yield preference shares (%)	na	na	na	na	na	0.0%	0.0%	0.0%	0.0%	0.0%
FCF yield (%)	na	na	na	na	na	11.0%	-8.2%	3.4%	13.0%	21.6%
EV/Sales	na	na	na	na	na	na	1.4	1.0	0.7	0.7
EV/EBITDA adj.	na	na	na	na	na	na	4.8	4.0	2.8	2.9
EV/EBIT adj.	na	na	na	na	na	na	5.9	4.7	3.2	3.6

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Total	100%	100%

Source: Kepler Cheuvreux

A: % of all research recommendations

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Sciuker Frames (EUR)	18/07/2022 04:57	Equity Research	Hold	7.30	5.70
	03/10/2022 08:50	Equity Research	Buy	10.00	5.88

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