TESMEC

BUY

Sector: Industrials

Price: Eu0.14 - **Target: Eu0.22**

Solid 1Q22 Results. Supportive FY22 Guidance

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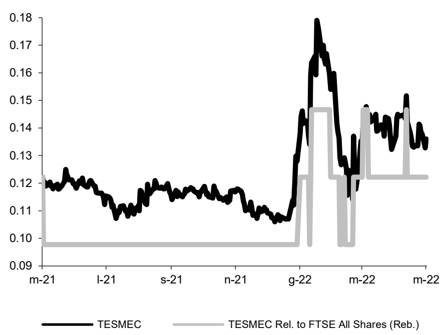
Stock Rating		
Rating:		Unchanged
Target Price (Eu):		Unchanged
	2022E	**2023E**
Chg in Adj EPS	0.0%	0.0%

TESMEC - 12M Performance



Stock Data			
Reuters code:			TES.MI
Bloomberg code:			TES IM
Performance	**1M**	**3M**	**12M**
Absolute	2.1%	-11.7%	11.3%
Relative	9.1%	3.2%	18.6%
12M (H/L)			0.18/0.11
3M Average Volume (th):			7,453.48

Shareholder Data	
No. of Ord shares (mn):	606
Total no. of shares (mn):	606
Mkt Cap Ord (Eu mn):	82
Total Mkt Cap (Eu mn):	82
Mkt Float - Ord (Eu mn):	42
Mkt Float (in %):	51.4%
Main Shareholder:	
TTC	47.8%

Balance Sheet Data	
Book Value (Eu mn):	80
BVPS (Eu):	0.13
P/BV:	1.0
Net Financial Position (Eu mn):	-106
Enterprise Value (Eu mn):	189

- **Strong improvement in operating performance in 1Q22.** Tesmec reported a strong improvement in operating performance in 1Q22, with growth in all businesses and an improving EBITDA margin despite a scenario characterized by higher energy costs and raw material prices. Revenues were up +14% YoY to Eu56mn thanks to confirmed growth at Energy (+17% YoY) and Railway (+45%), and the recovery of the US market at Trenchers (+6%). EBITDA was Eu8.3mn with the margin at 14.8% vs 14.5% in 1Q21. Net profit was Eu2.0mn vs. Eu1.1mn in 1Q21. Net debt was Eu119mn as at end-March, down Eu2mn vs. FY21 despite Eu5.7mn higher working capital (build-up of inventories) thanks to Eu9.1mn operating cash flow generated in the quarter. The backlog stood at Eu290mn (Energy Eu99mn, Trencher Eu78mn, Railway Eu113mn) vs. Eu284mn in FY21.
- **Outlook**. We believe the outlook remains supportive as demand is improving at Trenchers (fibre optic and 5G deployment in the US, higher construction investments in Middle East, mining in Australia and Africa), and remains solid at Energy Automation and Railway where contracts are adjusted for raw material prices. We estimate this should enable Tesmec to grow >20% YoY in the current year.
- **Supportive FY22 targets, guidelines of the 2020-23 plan confirmed.** Management provided the following guidance for FY22: consolidated turnover exceeding Eu240mn (implying sales up 24% YoY), EBITDA margin >16%, and a reduction of net debt compared to the end of 2021. This guidance is consistent with our current estimate of 2022 sales of Eu235mn, an EBITDA margin of 16.0%, and net debt of Eu106mn. We note that Tesmec also confirmed its guidelines for the 2020-2023 plan, which includes sales at Eu275mn-290mn (+15% vs. 2022 at the low-end) vs. our Eu265mn, and EBITDA of Eu53-58mn vs. our Eu48mn.
- **BUY; target Eu0.22.** On unchanged estimates, we reiterate our Buy rating on the stock with TP of Eu0.22 based on DCF and implying a fair 2022 EV/EBITDA of 6.5x (vs. 5.0x at current price) and P/E of 15.0x (vs. 9.4x at current price). The company is exposed to markets characterised by significant growth opportunities associated with rising infrastructure investments supported by stimulus plans in Europe and the US, underpinned by sustainability and digitalisation. Key end-markets for Tesmec are: Energy & Renewables, where the company will benefit from investments associated with the upgrade of power grids for the transition to renewable sources; Telecoms, where Tesmec will benefit from investments in digital networks; and Rail, where Tesmec will benefit from growing investments in maintenance and diagnostics.

Key Figures & Ratios	2019A	2020A	2021A	2022E	2023E
Sales (Eu mn)	201	171	194	235	265
EBITDA Adj (Eu mn)	27	21	28	38	48
Net Profit Adj (Eu mn)	3	-7	1	9	16
EPS New Adj (Eu)	0.028	-0.011	0.002	0.014	0.027
EPS Old Adj (Eu)	0.028	-0.011	0.002	0.014	0.027
DPS (Eu)	0.000	0.000	0.000	0.000	0.000
EV/EBITDA Adj	5.9	11.9	6.8	5.0	3.5
EV/EBIT Adj	19.5	nm	33.4	11.7	6.4
P/E Adj	4.9	nm	67.7	9.4	5.0
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Net Debt/EBITDA Adj	4.3	5.0	4.3	2.8	1.8

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TESMEC – Key Figures						
Profit & Loss (Eu mn)	**2018A**	**2019A**	**2020A**	**2021A**	**2022E**	**2023E**
Sales	195	201	171	194	235	265
EBITDA	19	27	21	28	38	48
EBIT	4	8	-1	6	16	26
Financial Income (charges)	-3	-4	-8	-3	-5	-4
Associates & Others	0	0	0	0	0	0
Pre-tax Profit	0	4	-9	3	12	22
Taxes	-0	-1	2	-1	-3	-5
Tax rate	85.6%	29.3%	24.3%	55.3%	25.0%	25.0%
Minorities & Discontinued Operations	-0	0	0	0	0	0
Net Profit	0	3	-7	1	9	16
EBITDA Adj	19	27	21	28	38	48
EBIT Adj	4	8	-1	6	16	26
Net Profit Adj	0	3	-7	1	9	16
Per Share Data (Eu)	**2018A**	**2019A**	**2020A**	**2021A**	**2022E**	**2023E**
Total Shares Outstanding (mn) - Average	107	107	606	606	606	606
Total Shares Outstanding (mn) - Year End	107	107	607	607	607	607
EPS f.d	0.000	0.028	-0.011	0.002	0.014	0.027
EPS Adj f.d	0.000	0.028	-0.011	0.002	0.014	0.027
BVPS f.d	0.388	0.415	0.112	0.117	0.131	0.158
Dividend per Share ORD	0.000	0.000	0.000	0.000	0.000	0.000
Dividend per Share SAV	0.000	0.000	0.000	0.000	0.000	0.000
Dividend Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cash Flow (Eu mn)	**2018A**	**2019A**	**2020A**	**2021A**	**2022E**	**2023E**
Gross Cash Flow	22	-6	21	9	32	43
Change in NWC	-0	-1	2	-1	-2	-3
Capital Expenditure	-14	-14	-13	-25	-15	-17
Other Cash Items	0	0	0	0	0	0
Free Cash Flow (FCF)	8	-22	10	-17	15	22
Acquisitions, Divestments & Other Items	0	-18	-21	0	0	0
Dividends	0	0	0	0	0	0
Equity Financing/Buy-back	0	0	25	0	0	0
Change in Net Financial Position	8	-40	13	-17	15	22
Balance Sheet (Eu mn)	**2018A**	**2019A**	**2020A**	**2021A**	**2022E**	**2023E**
Total Fixed Assets	67	87	100	103	97	93
Net Working Capital	49	73	64	78	79	80
Long term Liabilities	5	4	10	13	12	9
Net Capital Employed	121	164	174	194	188	182
Net Cash (Debt)	-78	-118	-104	-121	-106	-84
Group Equity	43	46	69	73	81	98
Minorities	2	2	2	2	2	2
Net Equity	42	44	68	71	80	96
Enterprise Value (Eu mn)	**2018A**	**2019A**	**2020A**	**2021A**	**2022E**	**2023E**
Average Mkt Cap	53	45	145	69	82	82
Adjustments (Associate & Minorities)	0	0	0	0	0	0
Net Cash (Debt)	-78	-118	-104	-121	-106	-84
Enterprise Value	130	163	249	190	189	166
Ratios (%)	**2018A**	**2019A**	**2020A**	**2021A**	**2022E**	**2023E**
EBITDA Adj Margin	9.7%	13.7%	12.3%	13.2%	15.5%	17.3%
EBIT Adj Margin	1.9%	4.2%	nm	2.7%	6.6%	9.5%
Gearing - Debt/Equity	179.6%	nm	150.3%	166.6%	130.7%	85.8%
Interest Cover on EBIT	1.1	2.0	nm	1.9	3.6	6.3
Net Debt/EBITDA Adj	4.1	4.3	5.0	4.3	2.8	1.8
ROACE*	2.9%	5.9%	-0.5%	3.1%	8.4%	14.1%
ROE*	0.1%	6.9%	-12.2%	1.7%	11.5%	18.7%
EV/CE	1.0	1.1	1.5	1.0	1.0	0.9
EV/Sales	0.7	0.8	1.5	0.9	0.8	0.6
EV/EBITDA Adj	6.9	5.9	11.9	6.8	5.0	3.5
EV/EBIT Adj	35.4	19.5	nm	33.4	11.7	6.4
Free Cash Flow Yield	9.2%	-26.6%	12.0%	-20.2%	17.9%	27.2%
Growth Rates (%)	**2018A**	**2019A**	**2020A**	**2021A**	**2022E**	**2023E**
Sales	10.9%	3.1%	-15.0%	13.8%	21.0%	12.7%
EBITDA Adj	-8.6%	45.1%	-23.6%	34.1%	33.6%	26.5%
EBIT Adj	-39.7%	127.7%	nm	nm	182.6%	61.9%
Net Profit Adj	nm	10496.4%	nm	nm	617.9%	89.4%
EPS Adj	nm	10515.7%	nm	nm	618.0%	89.4%
DPS						

*Excluding extraordinary items   Source: Intermonte SIM estimates

2021-23 Strategic Plan

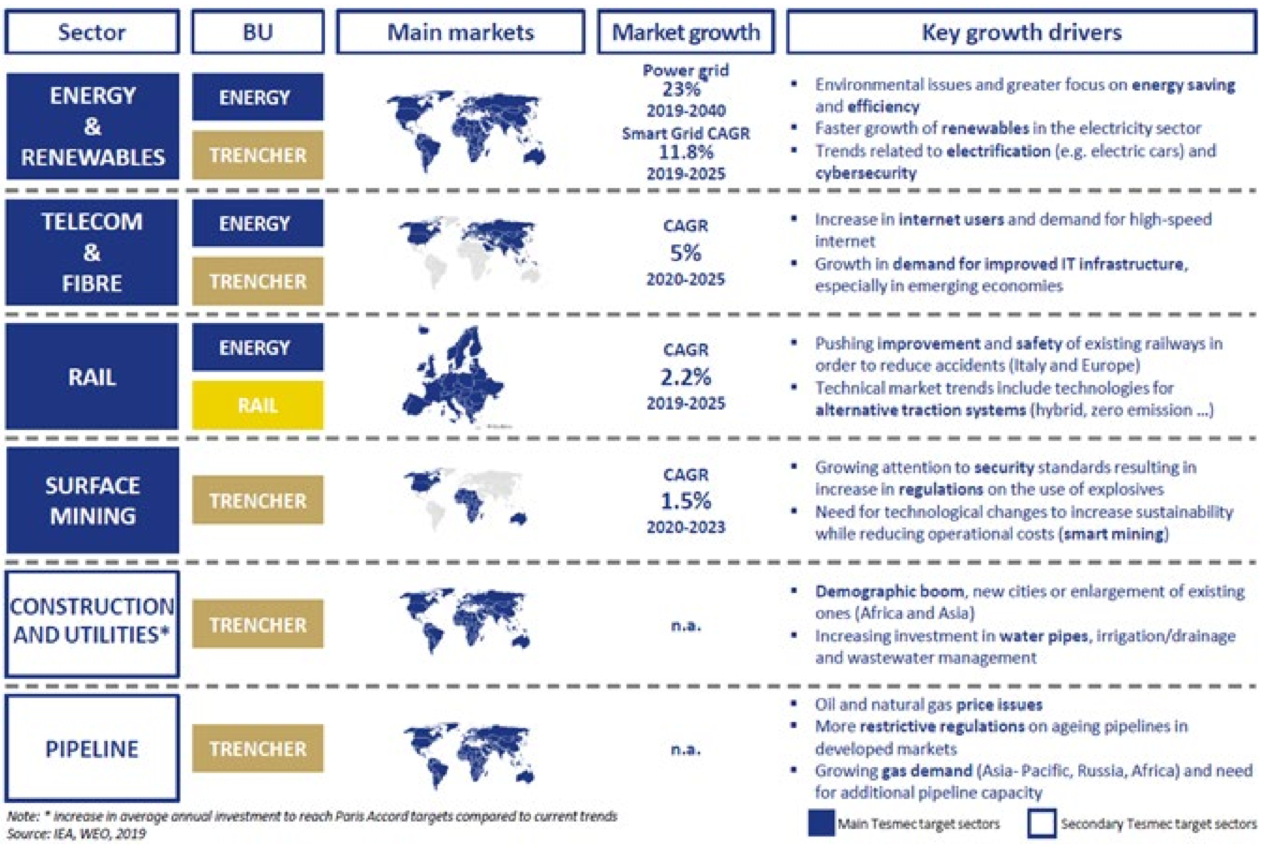
In September 2020, Tesmec approved its 2021-23 strategic guidelines. An update to the plan and 2022 financial targets should be provided in May along with the approval of 1Q22 results. The plan envisages the consolidation of the company's position as a solution provider in its three business areas (Trencher, Energy, Rail), leveraging the growth trends associated with the energy transition, digitalisation, and sustainability:

- focus on the existing business portfolio (Trencher, Railway, and Energy, with the latter divided into Stringing and Energy Automation) and geographical areas;
- evolution to a solution provider and systems integrator, with increasing flexibility to satisfy customers' needs;
- increase in the recurring revenue stream through the development of the businesses launched in recent years (Rail and Energy Automation), and growth of the Trencher rental business;
- the implementation of an organisational structure capable of improving performance in terms of execution, cost efficiency, and cash flow generation in all business segments.

By business segment:

- at the **Energy** business, the plan aims to accelerate international growth in the Energy Automation segment by completing the product range, enhancing the systems integrator role and leveraging on the sales network for the Stringing segment. The plan also aims to innovate the Stringing business through the development of green technologies and strengthen the position in interconnection projects in Europe and North America. The Energy segment is a key driver of the expected growth assumed in the plan both for top line and profitability, with an estimated contribution of 30% to the group's sales in 2023, thanks to significant growth in Energy Automation driven by the digitalisation of energy networks;
- at the **Trencher** business, the strategy is focused on growth in the rental and service field, enhancing Tesmec's role as a solution provider for fibre installation and automatic laying of energy cables, leveraging the strong demand for Clean & Fast technology developed by Tesmec, which reduces the environmental impact in urban centres;
- at the **Rail** business, the plan aims to strengthen the position in the diagnostic systems segment (a solutions provider for unmanned diagnostic and data management platforms), and pursue an international growth strategy in Europe, leveraging on the know-how and certification achieved in the Italian market.

2020-23 Industrial Plan – Strategy



Sector	BU	Main markets	Market growth	Key growth drivers
ENERGY & RENEWABLES	ENERGY; TRENCHER		Power grid 23% 2019-2040; Smart Grid CAGR 11.8% 2019-2025	• Environmental issues and greater focus on **energy saving** and **efficiency** • Faster growth of **renewables** in the electricity sector • Trends related to **electrification** (e.g. electric cars) and **cybersecurity**
TELECOM & FIBRE	ENERGY; TRENCHER		CAGR 5% 2020-2025	• Increase in **internet users** and demand for high-speed internet • Growth in **demand for improved IT infrastructure**, especially in emerging economies
RAIL	ENERGY; RAIL		CAGR 2.2% 2019-2025	• Pushing **improvement** and **safety** of existing railways in order to reduce accidents (Italy and Europe) • Technical market trends include technologies for **alternative traction systems** (hybrid, zero emission ...)
SURFACE MINING	TRENCHER		CAGR 1.5% 2020-2023	• Growing attention to **security** standards resulting in increase in **regulations** on the use of explosives • Need for technological changes to increase sustainability while reducing operational costs (**smart mining**)
CONSTRUCTION AND UTILITIES*	TRENCHER		n.a.	• **Demographic boom**, new cities or enlargement of existing ones (Africa and Asia) • Increasing investment in **water pipes**, irrigation/drainage and wastewater management
PIPELINE	TRENCHER		n.a.	• Oil and natural gas **price issues** • More **restrictive regulations** on ageing pipelines in developed markets • Growing **gas demand** (Asia- Pacific, Russia, Africa) and need for additional pipeline capacity

*Note: * increase in average annual investment to reach Paris Accord targets compared to current trends*
Source: IEA, WEO, 2019

Main Tesmec target sectors / Secondary Tesmec target sectors

Source: company presentation

Valuation

Our DCF model yields a fair equity value of Eu134mn, or Eu0.22 per share. At target, we value Tesmec at 6.5x EV/EBITDA and 15x P/E FY22e.

We think Tesmec has no direct peers, as competitors are either private companies or divisions of industrial conglomerates. In the table below, we show the multiples of some Italian industrial small cap companies that may offer suitable comparisons to Tesmec.

Peer group valuation vs. Tesmec

	Last Price	Market Cap	EV/SALES			EV/EBITDA			P/E		
	Eu	Eu mn	2021	2022E	2023E	2021	2022E	2023E	2021	2022E	2023E
Biesse S.p.A.	13.78	378	0.7 x	0.4 x	0.4 x	6.8 x	4.0 x	3.6 x	20.8 x	19.7 x	10.8 x
Gefran S.p.A.	8.50	122		0.7 x	0.6 x		4.5 x	4.1 x		9.8 x	9.2 x
Prima Industrie S.p.A.	14.80	155	0.6 x	0.5 x	0.4 x	7.8 x	4.6 x	3.1 x	17.9 x	10.2 x	6.3 x
Sabaf S.p.A.	24.60	284	1.3 x	1.2 x	1.1 x	6.4 x	6.4 x	5.6 x	11.5 x	10.3 x	9.4 x
Salcef Group S.p.A	16.08	1006	3.0 x	1.8 x	1.6 x	13.6 x	9.1 x	7.5 x	19.1 x	18.9 x	15.5 x
Peers Median			**1.4 x**	**0.9 x**	**0.8 x**	**8.7 x**	**5.7 x**	**4.8 x**	**17.4 x**	**13.8 x**	**10.2 x**
Tesmec current price	**0.14**	**82**	**1.1 x**	**0.8 x**	**0.6 x**	**7.4 x**	**5.1 x**	**3.6 x**	**n.m.**	**9.5 x**	**5.0 x**
Tesmec target price	**0,22**	**133**	**1.3 x**	**1.0 x**	**0.8 x**	**8.7 x**	**6.5 x**	**4.7 x**	**n.m.**	**15.4 x**	**8.1 x**

Source: Factset, Intermonte estimates

Share performance

	Last Price	Mkt. Cap.	Performance						
Company	Eu	(Eur mn)	1M	3M	YTD	1Y	2Y	1Y Low	1Y High
Biesse S.p.A.	13.78	378	-9%	-38%	-44%	-47%	79%	13.78	33.56
Gefran S.p.A.	8.50	122	-11%	-24%	-24%	12%	57%	7.40	11.85
Prima Industrie S.p.A.	14.80	155	-9%	-18%	-20%	-29%	14%	12.48	24.25
Sabaf S.p.A.	24.60	284	3%	-3%	3%	16%	141%	17.80	28.90
Salcef Group S.p.A	16.08	1,006	-17%	-33%	-35%	15%	51%	13.20	25.30
Tesmec S.p.A.	**0.14**	**82**	**2%**	**-12%**	**27%**	**11%**	**23%**	**0.11**	**0.18**
FTSE Italia All-Share			**-7%**	**-15%**	**-16%**	**-7%**	**32%**		
FTSE Italia Star			**-12%**	**-16%**	**-27%**	**-8%**	**44%**		

Source: Factset, Intermonte estimates

Intermonte

Financials

Profit & Loss

(Eu mn)	2017	2018	2019	2020	2021	2022E	2023E
Energy	52	42	44	44	51	67	73
Trencher	106	125	125	94	110	125	143
Railway	17	27	31	26	33	43	48
Revenues	**175.6**	**194.6**	**200.7**	**168,6**	**194.3**	**235.1**	**265.0**
YoY change %	37%	11%	3%	-15%	14%	21%	13%
YoY change Eu mn	47	19	6	-30	24	41	30
Raw material	-78.3	-87.5	-88.0	-77.4	-81.6	-98.7	-111.3
Cost of services	-30.9	-32.6	-35.4	-30.2	-29.1	-35.3	-39.8
Personnel	-46.3	-50.1	-52.6	-48.5	-50.3	-60.9	-68.6
Other income/costs	0.6	-5.6	2.8	6.4	-5.1	-2.6	2.2
Operating costs	-155	-176	-173	-150	-166	-198	-217
YoY change %	29%	13%	-1%	-14%	11%	19%	10%
Energy	8.0	4.8	5.6	5.3	7.8	13.1	14.7
Trencher	10.3	10.0	16.6	11.2*	13.4	15.2	22.2
Railway	2.4	4.1	5.2	4.1	6.9	9.3	10.6
EBITDA	**20.7**	**18.9**	**27.4**	**20,9**	**28.1**	**37.6**	**47.5**
margin %	11.8%	9.7%	13.7%	12.3%	14.5%	16.0%	17.9%
YoY change %	143.5%	-8.6%	45.1%	-23.6%	34.1%	33.6%	26.5%
D&A	-14.6	-15.245	-19.075	-21.8	-22.4	-21.5	-21.5
EBIT	6.1	3.7	8.4	-0.9	5.7	16.1	26.0
margin %	3.5%	1.9%	4.2%	-0.5%	2.9%	9.2%	9.8%
YoY change %	-241.9%	-39.7%	127.7%	-110.3%	-759.0%	182.6%	61.9%
Financial expenses	-7.6	-3.371	-4.18	-8.175	-2.985	-4.5	-4.1
Pretax profit	-1.5	0.3	4.2	-9.0	2.7	11.6	21.9
YoY change %	-78.6%	-120.4%	1270.6%	-315.5%	-129.9%	328.3%	89.4%
Taxes	0.1	-0.3	-1.2	2.2	-1.5	-2.9	-5.5
Tax rate %	6.7%	85.6%	29.3%	24.3%	55.3%	25.0%	25.0%
Net Profit before minorities	-1.4	0.0	3.0	-6.8	1.2	8.7	16.4
YoY change %	-64.9%	-103.1%	6643.2%	-330.5%	-117.7%	617.9%	89.4%
Minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Profit	**-1.4**	**0.0**	**3.0**	**-6.8**	**1.2**	**8.7**	**16.4**
YoY change %	-63.5%	-102.0%	10496.4%	-330.5%	-117.7%	617.9%	89.4%

Per share data	2017	2018	2019	2020	2021	2022E	2023E
Number of shares m	107.1	107.1	107.1	606.5	606.5	606.5	606.5
of which treasury shares	4.7	4.7	4.7	4.7	4.7	4.7	4.7
Shares net of treasury shares	102.4	102.4	102.4	601.7	601.7	601.7	601.7
EPS Adj.	-0.013	0.000	0.028	-0.011	0.002	0.014	0.027
growth %	-63.5%	-102.0%	10496.4%	-140.7%	-117.8%	617.9%	89.4%
EPS reported	-0.013	0.000	0.028	-0.011	0.002	0.014	0.027
growth %	-63.5%	-102.0%	10496.4%	-140.7%	-117.8%	617.9%	89.4%
DPS	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Payout on reported EPS	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FCF per share	0.107	0.071	-0.375	0.022	-0.027	0.024	0.037
BVPS	0.403	0.388	0.415	0.112	0.117	0.131	0.158

Source: Intermonte SIM

Balance Sheet

(Eu mn)	2017	2018	2019	2020	2021	2022E	2023E
Intangible assets	18.3	18.0	40.6	45.3	45.3	45.3	45.3
Tangible assets	46.1	45.3	42.5	49.8	53.3	47.1	42.8
Financial assets	3.9	4.0	3.9	4.4	4.4	4.4	4.4
Net fixed assets	68.4	67.3	87.0	99.5	103.0	96.8	92.5
Inventories	63.1	73.6	69.9	74.4	81.3	90.3	89.6
Receivables	39.9	52.6	67.9	60.4	54.4	75.2	92.8
Payables	-39.5	-54.4	-57.5	-61.4	-56.0	-84.6	-100.7
Other assets/liabilities	-2.7	-22.9	-7.3	-9.1	-1.9	-1.9	-1.9
Net working capital	60.8	48.9	73.0	64.3	77.8	79.0	79.7
Other long term assets/liabilities	0.9	4.7	4.2	10.0	12.9	11.9	9.4
Net Invested Capital	**130.1**	**120.9**	**164.2**	**173.8**	**193.7**	**187.6**	**181.6**
Net Debt /(Cash)	85.3	77.7	118.0	104.4	121.0	106.3	83.8
Minorities	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Shareholders funds	43.1	41.5	44.5	67.7	70.9	79.6	96.0
Total Shareholders Funds	44.8	43.2	46.2	69.4	72.6	81.3	97.8
Total Sources	**130.1**	**120.9**	**164.2**	**173.8**	**193.7**	**187.6**	**181.6**

Source: Intermonte SIM

Cash Flow

(Eu mn)	2017	2018	2019	2020	2021	2022E	2023E
EBITDA	20.7	18.9	27.4	21.0	28.1	37.6	47.5
Capex	-14.8	-14.1	-14.3	-13.3	-25.0	-15.3	-17.2
Taxes	0.1	-0.3	-1.2	2.2	-0.5	-1.9	-3.0
Change in working capital	15.2	11.9	-24.1	8.7	-13.5	-1.2	-0.7
Other operating items	10.6	-3.9	-4.1	-0.5	0.4	0.0	0.0
Free Cash Flow	31.8	12.6	-16.3	18.1	-10.5	19.2	26.6
Financial charges	-4.9	-5.0	-5.7	-8.2	-6.2	-4.5	-4.1
Acquisitions/Disposals	-3.7	0.0	0.0	-21.1	0.0	0.0	0.0
Change in Equity	0.0	0.0	0.0	24.7	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	-11.7	0.0	-18.2	0.0	0.0	0.0	0.0
Decrease/(Increase) in Net Debt	11.4	7.6	-40.2	13.5	-16.7	14.7	22.5
Net Debt end of period	**85.3**	**77.7**	**117.9**	**104.4**	**121.0**	**106.3**	**83.8**
Capex/Sales	8.4%	7.2%	7.1%	7.8%	12.9%	6.5%	6.5%
Working Capital/Sales	34.7%	25.1%	36.4%	37.7%	40.0%	33.6%	30.1%
Net Debt/EBITDA	4.1 x	4.1 x	4.3 x	5.0 x	4.3 x	2.8 x	1.8 x

Source: Intermonte SIM

DETAILS ON STOCKS RECOMMENDATION

Stock NAME	**TESMEC**		
Current Recomm:	BUY	Previous Recomm:	BUY
Current Target (Eu):	0.22	Previous Target (Eu):	0.22
Current Price (Eu):	0.14	Previous Price (Eu):	0.14
Date of report:	11/05/2022	Date of last report:	17/03/2022

Intermonte

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The main methods used to evaluate financial instruments and set a target price for 12 months after the investment recommendation are as follows:

- Discounted cash flow (DCF) model or similar methods such as a dividend discount model (DDM)
- Comparison with market peers, using the most appropriate methods for the individual company analysed: among the main ratios used for industrial sectors are price/ earnings (P/E), EV/EBITDA, EV/EBIT, price /sales.
- Return on capital and multiples of adjusted net book value are the main methods used for banking sector stocks, while for insurance sector stocks return on allocated capital and multiples on net book value and embedded portfolio value are used
- For the utilities sector comparisons are made between expected returns and the return on the regulatory asset base (RAB)

Some of the parameters used in evaluations, such as the risk-free rate and risk premium, are the same for all companies covered, and are updated to reflect market conditions. Currently a risk-free rate of 2.5% and a risk premium of 5.0% are being used.

Frequency of research: quarterly.

Reports on all companies listed on the S&PMIB40 Index, most of those on the MIDEX Index and the main small caps (regular coverage) are published at least once per quarter to comment on results and important newsflow.

A draft copy of each report may be sent to the subject company for its information (without target price and/or recommendations), but unless expressly stated in the text of the report, no changes are made before it is published.

Explanation of our ratings system:

BUY: stock expected to outperform the market by over 25% over a 12 month period;

OUTPERFORM: stock expected to outperform the market by between 10% and 25% over a 12 month period;

NEUTRAL: stock performance expected at between +10% and – 10% compared to the market over a 12 month period;

UNDERPERFORM: stock expected to underperform the market by between –10% and -25% over a 12 month period;

SELL: stock expected to underperform the market by over 25% over a 12 month period.

Prices: The prices reported in the research refer to the price at the close of the previous day of trading

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As at 31 March 2022 Intermonte's Research Department covered 120 companies. Intermonte's distribution of stock ratings is as follows:

BUY:	16.67 %
OUTPERFORM:	55.88 %
NEUTRAL:	23.53 %
UNDERPERFORM	03.92 %
SELL:	00.00 %

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (53 in total) is as follows:

BUY:	33.96 %
OUTPERFORM:	49.06 %
NEUTRAL:	16.98 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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IKF	0.57	SHORT
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