

UPDATE

EQUITY RESEARCH

ISIM
INTEGRÆ

ESPE

Euronext Growth Milan | Energy & Renewables | Italy

Production 11/10/2024, h. 18:30

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Rating

BUY

unchanged

Target Price

€ 4,40

prev. € 4,15

Risk



Medium

Upside potential

51,8%

Stocks performance relative to FTSE Italia Growth



Stock Data

Price	€ 2,90
Target price	€ 4,40
Upside/(Downside) potential	51,8%
Ticker	ESPE IM
Market Cap (€/mln)	€ 34,36
Enterprise Value (€/mln)	€ 36,13
Free Float	12,6%
Share Outstanding	11.849.500
52-week high	€ 4,28
52-week low	€ 1,00
Average daily volumes (3 months)	11.239

Key Financials (€/mln)	FY23A	FY24E	FY25E	FY26E
Value of Production	59,38	70,00	93,50	111,50
EBITDA	4,16	7,00	10,55	13,95
EBIT	2,85	5,00	8,35	11,55
Net Profit	1,63	3,25	5,55	7,75
EBITDA margin	7,0%	10,0%	11,3%	12,5%
EBIT margin	4,8%	7,1%	8,9%	10,4%
Net Profit margin	2,7%	4,6%	5,9%	7,0%

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Stock performance	1M	3M	6M	1Y
Absolute	-1,0%	-10,5%	-12,1%	n/a
to FTSE Italia Growth	2,4%	0,0%	-0,5%	0,5%
to Euronext STAR Milan	3,3%	-3,8%	-1,4%	10,9%
to FTSE All-Share	3,4%	-0,3%	1,6%	20,5%
to EUROSTOXX	5,0%	0,6%	0,7%	19,1%
to MSCI World Index	4,7%	3,0%	9,2%	27,7%

Main Ratios	FY23A	FY24E	FY25E	FY26E
EV/EBITDA	8,7x	5,2x	3,4x	2,6x
EV/EBIT	12,7x	7,2x	4,3x	3,1x
P/E	21,1x	10,6x	6,2x	4,4x

1H24A Results

ESPE reported a value of production for 1H24A of € 26.73 million, showing a stable result compared to the 1H23A figure of € 26.83 million. EBITDA stands at € 3.28 million, marking a significant increase (+137.9%) compared to 1H23A, which amounted to €1.38 million, resulting in an EBITDA Margin of 12.3%, up from 5.1% in the first half of last year. EBIT, calculated net of amortization and depreciation of € 1.04 million, also improved compared to the 1H23A value (€ 0.59 million), reaching € 2.25 million in the first half of 2024. Net Income is € 1.30 million, showing a sharp increase compared to € 0.43 million recorded in 1H23A.

Estimates Update

In light of the results published in the interim financial statements for 1H24A, we prudently adjust our estimates for both the current year and the coming years. Specifically, we estimate a value of production for FY24E of € 70.00 million and an EBITDA of € 7.00 million, corresponding to a margin of 10.0%. For the following years, we expect the value of production to increase to € 111.50 million in FY26E, with an EBITDA of € 13.95 million (corresponding to a margin of 12.5%), up from € 4.16 million in FY23A (corresponding to an EBITDA Margin of 7.0%).

Valuation Update

We conducted the equity value assessment of ESPE based on the DCF methodology and the multiples of a sample of comparable companies. The DCF method (which includes a specific risk of 2.5% in the WACC calculation) yields an equity value of € 68.5 million. The equity value of ESPE using market multiples amounts to € 35.8 million (including a 25.0% discount). This results in an average equity value of approximately € 52.2 million. **The target price is € 4.40 (previously € 4.15), with a BUY rating and MEDIUM risk.**

Economics & Financials

TABLE 1 – ECONOMICS & FINANCIALS

CONSOLIDATED INCOME STATEMENT (€/mln)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenues	36,52	42,74	60,00	83,00	100,00
Work in progress	8,26	16,12	9,50	10,00	11,00
Other revenues	0,31	0,52	0,50	0,50	0,50
Value of Production	45,09	59,38	70,00	93,50	111,50
COGS	28,05	30,45	35,20	47,20	55,65
Services	12,66	20,01	22,40	29,70	35,00
Use of asset owned by others	0,31	0,48	0,60	0,65	0,75
Employees	2,72	3,78	4,50	5,10	5,85
Other operating expenses	0,18	0,51	0,30	0,30	0,30
EBITDA	1,18	4,16	7,00	10,55	13,95
<i>EBITDA Margin</i>	<i>2,6%</i>	<i>7,0%</i>	<i>10,0%</i>	<i>11,3%</i>	<i>12,5%</i>
D&A	0,68	1,31	2,00	2,20	2,40
EBIT	0,50	2,85	5,00	8,35	11,55
<i>EBIT Margin</i>	<i>1,1%</i>	<i>4,8%</i>	<i>7,1%</i>	<i>8,9%</i>	<i>10,4%</i>
Financial management	(0,13)	(0,32)	(0,40)	(0,40)	(0,40)
EBT	0,37	2,53	4,60	7,95	11,15
Taxes	0,14	0,90	1,35	2,40	3,40
Net Income	0,22	1,63	3,25	5,55	7,75

CONSOLIDATED BALANCE SHEET (€/mln)	FY22A	FY23A	FY24E	FY25E	FY26E
Fixed Assets	2,63	3,98	5,65	5,80	5,90
Account receivable	13,18	6,96	25,60	32,00	38,00
Work in progress	20,07	41,17	40,00	42,00	46,00
Account payable	12,28	14,86	22,00	25,80	31,00
Operating Working Capital	20,97	33,26	43,60	48,20	53,00
Other receivable	4,11	4,35	3,75	3,40	2,85
Other payable	16,69	30,53	31,00	32,50	34,00
Net Working Capital	8,40	7,09	16,35	19,10	21,85
Serverance & other provisions	0,82	0,80	1,35	1,45	1,55
Net Invested Capital	10,21	10,27	20,65	23,45	26,20
Share Capital	0,50	2,00	2,37	2,37	2,37
Reserves	4,66	4,88	7,98	11,23	16,78
Net Income	0,22	1,63	3,25	5,55	7,75
Equity	5,38	8,50	13,60	19,15	26,90
Cash & cash equivalents	1,60	3,20	4,95	7,20	11,40
Short term financial debt	5,36	3,28	6,50	6,50	6,20
M/L term financial debt	1,07	1,69	5,50	5,00	4,50
Net Financial Position	4,83	1,77	7,05	4,30	(0,70)
Sources	10,21	10,27	20,65	23,45	26,20

CONSOLIDATED CASH FLOW (€/mln)	FY23A	FY24E	FY25E	FY26E
EBIT	2,85	5,00	8,35	11,55
Taxes	0,90	1,35	2,40	3,40
NOPAT	1,95	3,65	5,95	8,15
D&A	1,31	2,00	2,20	2,40
Change in NWC	1,31	(9,26)	(2,75)	(2,75)
Change in receivable	6,23	(18,64)	(6,40)	(6,00)
Change in work in progress	(21,10)	1,17	(2,00)	(4,00)
Change in payable	2,59	7,14	3,80	5,20
Change in others	13,60	1,07	1,85	2,05
Change in provisions	(0,02)	0,55	0,10	0,10
Operating Cash Flow	4,55	(3,06)	5,50	7,90
Capex	(2,7)	(3,7)	(2,4)	(2,5)
Free Cash Flow	1,89	(6,73)	3,15	5,40
Financial Management	(0,32)	(0,40)	(0,40)	(0,40)
Change in financial debt	(1,46)	7,03	(0,50)	(0,80)
Change in equity	1,50	1,85	(0,00)	(0,00)
Free Cash Flow to Equity	1,61	1,75	2,25	4,20

Source: ESPE and Integrae SIM estimates

Company Overview

ESPE SpA, headquartered in Grantorto (PD), has been active in the energy sector since 1974, specializing in the development of industrial electrical systems and automation solutions.

Since 2003, ESPE has been continuously and systematically engaged in the field of renewable energy, initially focusing on photovoltaics, and later expanding its expertise to small wind turbines in 2011 and biomass cogeneration in 2013 through its proprietary technology under the “ESPE” brand.

The Company operates through its installation division, establishing itself as a specialized EPC contractor for industrial photovoltaic systems and ground-mounted solar parks, as well as a System Integrator for the installation of electrical and industrial systems. Additionally, ESPE manages a division dedicated to the production of small wind turbines and biomass cogenerators. The Company’s customer portfolio includes industrial groups, small and medium-sized enterprises, as well as both Italian and international investors.

1H24A Results

TABLE 2 – 1H24A VS 1H23A

€/mln	Revenues	EBITDA	EBITDA %	EBIT	Net Income	NFP
1H24A	29,85	3,28	12,3%	2,25	1,30	10,24
1H23A	29,24	1,38	5,1%	0,59	0,43	1,77*
Change	2,1%	137,9%	7,1%	283,6%	200,1%	n/a

Source: Integrae SIM

*NFP as of 31/12/2023

Through a press release, Enrico Meneghetti, Chairman and CEO of ESPE, stated: “We are pleased with the results achieved in the first half of 2024, which highlights the Company’s ability to maintain a solid market position, as shown by the growth of our order backlog, which currently exceeds € 95,00 million. Our diversification strategy, particularly in the photovoltaic sector with a focus on ground-mounted and rooftop systems, allows us to further enhance our offering and improve profitability. We look forward to the second half of the year with confidence, aiming to continue our growth path and achieve the set targets, also through external growth and expansion into new markets.”

In the management report for the 2024 interim financial statements, ESPE announced revenues of € 29.85 million, marking a slight increase compared to € 29.24 million in 1H23A. After accounting for a reduction in changes in inventories of finished and semi-finished goods, totaling € 0.45 million, a decrease in work in progress of € 3.79 million, and other revenues of € 0.22 million, the value of production stood at € 26.73 million, essentially unchanged from the € 26.83 million reported in 1H23A. However, the order backlog grew significantly, driven by the Company’s strategy aimed at securing larger contracts in the photovoltaic sector. As of June 30th, 2024, the order backlog reached € 95.60 million, marking a significant increase compared to € 49.70 million at the end of 2023 and € 53.60 million as of June 30th, 2023.

The turnover recorded in the first half of 2024 is primarily attributable to the installation division, particularly the development of photovoltaic systems. ESPE’s photovoltaic business continues to follow a positive trend, driven not by tax incentives (e.g., the 110% Superbonus), but by a long-standing commercial strategy focused on the construction of rooftop photovoltaic systems for large industrial groups and ground-mounted systems for independent producers (IPP).

The photovoltaic business, with over 195 ground-mounted systems and more than 580 rooftop systems installed over its 20+ years of activity (totaling 650 MWp of installed capacity), generated revenues of € 28.80 million (96.5% of the total revenues for the semester), showing a 2.8% increase compared to € 28.01 million recorded in 1H23A.

The Company's approach in the photovoltaic sector focuses on acquiring and developing increasingly complex projects, with a preference for medium to large-scale plants. Specialization in large-scale projects also impacts the average completion time, which often exceeds twelve months. To provide a more accurate representation of performance, the projects for 2024 have been evaluated using the percentage of completion method. This strategy has led to cost optimization and an improvement in the operational structure.

Among the significant contracts, the agreement signed on March 12th, 2024, stands out. This agreement is for the construction of ground-mounted photovoltaic plants in Italy with three major independent producers, for a total capacity of 59 MWp and a value of approximately € 31.00 million. This includes five plants in Northern Italy (36 MWp, € 17.80 million), two plants in the province of Macerata (11 MWp, € 7.20 million), and one plant in the province of Bari (12 MWp, € 6.10 million). Additionally, an agreement was reached on April 5th, 2024, with an Italian client for a ground-mounted photovoltaic plant in the province of Rome with a capacity of 20.6 MWp, valued at approximately € 11.30 million, scheduled for completion in the first half of 2025.

The performance of the System Integrator business line has also been positive, with 1,500 industrial electrical systems completed as of June 30th, 2024, generating revenues of € 0.54 million (approximately 2.0% of first-half 2024 revenue), marking an 8.2% increase compared to € 0.50 million in 1H23A.

The production division, however, recorded a slight decrease in revenues, dropping from € 0.26 million in 1H23A to € 0.19 million as of June 30th, 2024. This decline is primarily attributed to an unfavorable market situation caused by the end of incentive tariffs related to small-scale wind energy. Nevertheless, given the untapped potential in the small-scale wind and biomass cogeneration markets, ESPE considers this division to be strategic. Supporting this vision, the Company has formed collaborations with the universities of Padua, Trento, Naples, and the Politecnico di Milano, while simultaneously developing proprietary technology for wind turbines designed for small-scale wind energy, characterized by high efficiency and resistance to adverse weather conditions. As of June 30th, 2024, the division has produced and installed over 200 wind turbines (13 MW of installed capacity) and approximately 60 biomass cogeneration units (3 MW of installed capacity).

EBITDA stands at € 3.28 million, showing a significant increase (+137.9%) compared to €1.38 million in 1H23A, resulting in an EBITDA margin of 12.3%, up from 5.1% in the first half of the previous year. This increase is attributed to the recognition of revenue from the progress of multi-year projects and optimization in the internal management of contracts, alongside the acquisition of larger, longer-term projects. EBIT, calculated net of amortization and depreciation amounting to € 1.04 million, also improved compared to the 1H23A value of € 0.59 million, reaching € 2.25 million in the first half of 2024. Net income is € 1.30 million, marking a sharp increase compared to € 0.43 million recorded in 1H23A.

Regarding the balance sheet, there is a noticeable change in the NFP, which increased from € 1.77 million at the end of the previous fiscal year to € 10.24 million in 1H24A. This variation is primarily attributable to a worsening trend in working capital dynamics.

In conclusion, the first half of the year has proven to be positive for ESPE, which, in addition to presenting a substantial backlog of orders expected to be completed by the first nine months of 2025, continues its development path through several strategic initiatives that have materialized in recent months.

At the end of June, ESPE signed a letter of intent for the acquisition of Permotech Srl, a company specializing in obtaining permits for large-scale photovoltaic plants, with the closing expected by October 2024. This acquisition will enable ESPE to optimize project development times and improve operational efficiency, as well as expand the company's expertise by integrating the entire bureaucratic and permitting process required for the construction of large-scale photovoltaic plants from the very beginning.

In July, the Company secured new significant contracts for the construction of ground-mounted photovoltaic systems in various locations. Among these, a 7.1 MWp plant in the province of Pavia, valued at approximately € 4.20 million, and two plants in Rovigo, totaling 6.1 MWp with a combined value of around € 4.30 million. These contracts not only strengthen ESPE's portfolio but also highlight the growing demand in the photovoltaic market. During the same month, the Company finalized the transfer of its Operation & Maintenance (O&M) division to Reflow Srl, a company specializing in O&M services, particularly for wind farms, based in Carmignano di Brenta (PD). This operation aims to improve the O&M services offered to ESPE's clients by enhancing quality levels and maximizing organizational efficiency.

Additionally, in August, ESPE acquired a 40.0% stake in Rigoni Lab Srl, a Padua-based company specializing in the design of electrical systems and renewable energy production. This investment will allow ESPE to strengthen its engineering capabilities and improve its strategic positioning, accelerating design and project management activities. Also, in August, ESPE created Gemini Solar Srl, a new company dedicated to the design and construction of renewable energy production plants, further expanding its commitment to sustainability.

ESPE continues to pursue a growth strategy that combines the consolidation and development of its core business with expansion into new markets. Key objectives include entering the U.S. small-scale wind market and strengthening its biomass cogeneration segment, particularly through its participation in the Greek company Bio-based Energy Technologies P.C., for the development of a cogeneration unit powered by low-quality biomass. These initiatives solidify ESPE's position in the market and support its goal of sustainable growth.

FY24E – FY26E Estimates

TABLE 3 – ESTIMATES UPDATES FY24E-26E

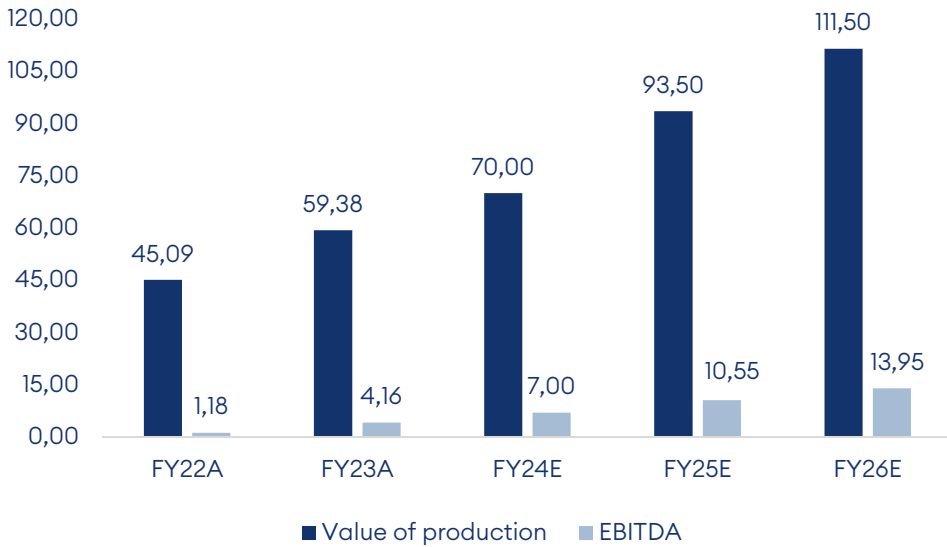
€/mln	FY24E	FY25E	FY26E
Value of production			
New	70,0	93,5	111,5
Old	80,0	106,8	124,6
Change	-12,5%	-12,4%	-10,5%
EBITDA			
New	7,0	10,6	14,0
Old	5,0	8,3	11,8
Change	40,0%	27,9%	18,7%
EBITDA %			
New	10,0%	11,3%	12,5%
Old	6,3%	7,7%	9,4%
Change	3,8%	3,6%	3,1%
EBIT			
New	5,0	8,4	11,6
Old	4,2	7,4	10,9
Change	19,0%	12,8%	6,5%
Net Income			
New	3,3	5,6	7,8
Old	2,9	5,2	7,6
Change	12,1%	7,8%	2,6%
NFP			
New	7,0	4,3	(0,7)
Old	3,0	1,7	(3,0)
Change	n/a	n/a	n/a

Source: Integrae SIM

In light of the results published in the half-year report, we are prudently adjusting our estimates for both the current year and the coming years. Specifically, we estimate a value of production for FY24E of € 70.00 million and an EBITDA of € 7.00 million, corresponding to a margin of 10.0%. For the following years, we expect the value of production to increase to € 111.50 million by FY26E, with an EBITDA of € 13.95 million (corresponding to a margin of 12.5%), up from € 4.16 million in FY23A (corresponding to an EBITDA margin of 7.0%).

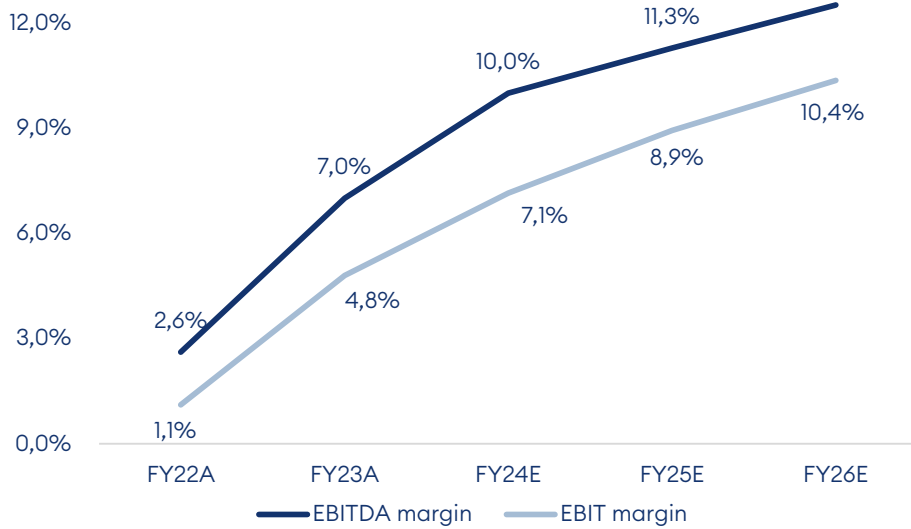
Finally, from a balance sheet perspective, we estimate a NFP of € 0.70 million cash positive for FY26E, showing constant improvement due to the Company's ability to generate cash.

CHART 3 – VOP AND EBITDA FY22A-26E



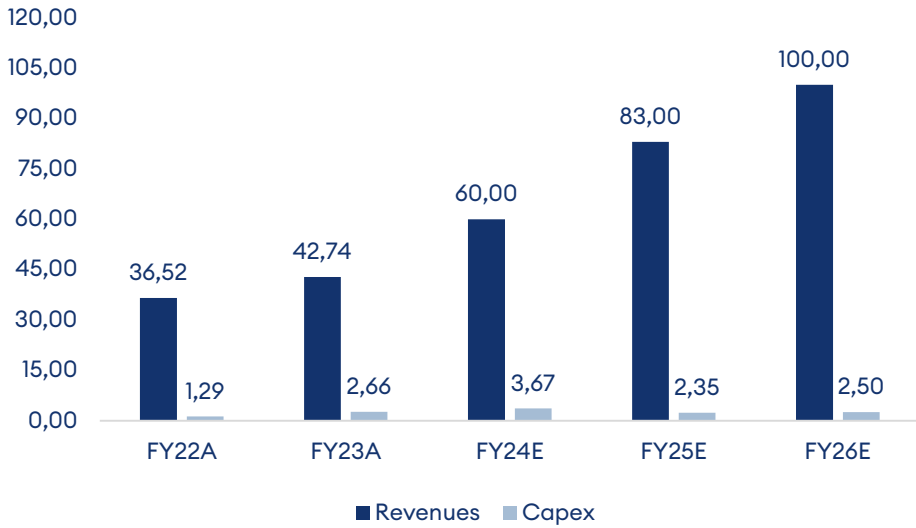
Source: Integrae SIM

CHART 4 – MARGIN FY22A-26E



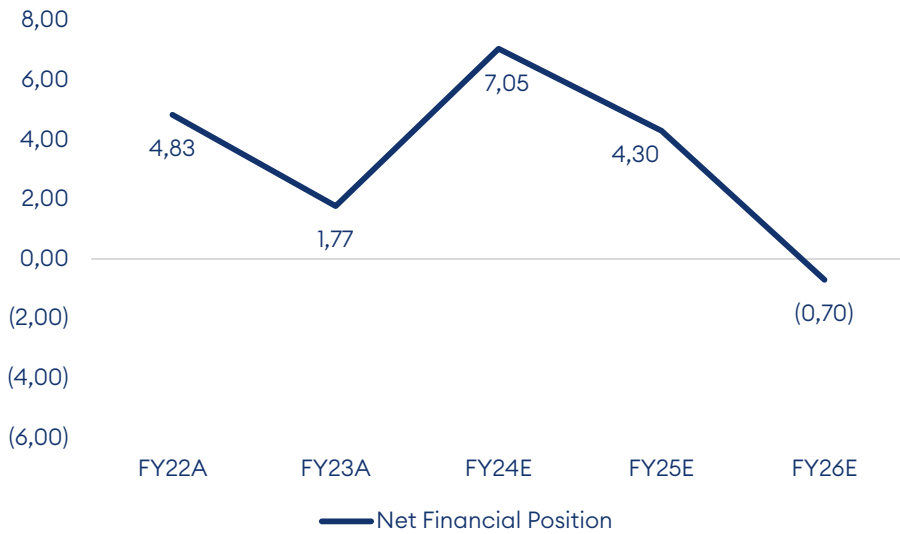
Source: Integrae SIM

CHART 5 – CAPEX FY22A-26E



Source: Integrae SIM

CHART 6 – NFP FY22A-26E



Source: Integrae SIM

Valuation

We conducted the equity value assessment of ESPE based on the DCF methodology and the multiples of a sample of comparable companies.

DCF Method

TABLE 4 – WACC

WACC				8,7%
D/E 17,6%	Risk Free Rate 2,7%	β Adjusted 0,6	α (specific risk) 2,5%	
K_d 5,5%	Market Premium 6,8%	β Relevered 0,4	K_e 9,5%	

Source: Integrae SIM

For prudential purposes, we included a specific risk of 2.5%, resulting in a WACC of 8.7%.

TABLE 5 – DCF VALUATION

DCF		% of EV
FCFO Actualized	5,9	8,3%
TV Actualized DCF	64,4	91,7%
Enterprise Value	70,3	100,0%
NFP (FY23A)	1,8	
Equity Value	68,5	

Source: Integrae SIM

With the above data and using our estimates and assumptions as a reference, the resulting **equity value is € 68.5 million.**

TABLE 6 – EQUITY VALUE – SENSITIVITY ANALYSIS

€/mIn	Growth Rate (g)	WACC						
		7,2%	7,7%	8,2%	8,7%	9,2%	9,7%	10,2%
	3,0%	119,7	105,9	94,7	85,5	77,9	71,4	65,8
	2,5%	107,4	96,1	86,7	79,0	72,4	66,7	61,8
	2,0%	97,4	88,0	80,1	73,4	67,6	62,6	58,3
	1,5%	89,2	81,2	74,4	68,5	63,5	59,0	55,1
	1,0%	82,3	75,4	69,5	64,3	59,8	55,9	52,4
	0,5%	76,5	70,5	65,2	60,7	56,6	53,1	49,9
	0,0%	71,4	66,1	61,5	57,4	53,8	50,5	47,6

Source: Integrae SIM

Market multiples

Our panel consists of companies operating in the same sector as ESPE. These companies are the same ones used for calculating the Beta for the DCF method. The panel is composed of:

TABLE 7 – MARKET MULTIPLES

Company Name	EV/EBITDA			EV/EBIT			P/E		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Comal SpA	7,0x	5,7x	n/a	8,1x	6,4x	n/a	n/a	n/a	n/a
ESI SpA	5,2x	3,4x	2,3x	6,8x	4,2x	2,7x	8,6x	5,1x	3,5x
Innovatec SpA	4,0x	3,1x	2,6x	7,3x	4,9x	3,7x	9,3x	5,5x	3,7x
Iniziativa Bresciane SpA	8,6x	8,1x	8,0x	17,5x	16,2x	16,3x	15,6x	13,1x	11,9x
Peer median	6,1x	4,5x	2,6x	7,7x	5,7x	3,7x	9,3x	5,5x	3,7x

Source: Infincials

TABLE 9 – MARKET MULTIPLES VALUATION

	FY24E	FY25E	FY26E
Enterprise Value (EV)			
EV/EBITDA	42,5	47,6	35,9
EV/EBIT	38,5	47,3	42,7
P/E	30,1	30,2	28,7
Enterprise Value (EV) Post 25,0% Discount			
EV/EBITDA	42,5	47,6	35,9
EV/EBIT	38,5	47,3	42,7
P/E	30,1	30,2	28,7
Equity Value			
EV/EBITDA	35,4	43,3	36,6
EV/EBIT	31,5	43,0	43,4
P/E	30,1	30,2	28,7
Average	32,3	38,8	36,2

Source: Integrae SIM

The equity value of ESPE was calculated using the market multiples EV/EBITDA, EV/EBIT, and P/E. After applying a 25.0% discount, the resulting **equity value is € 35.8 million**.

Equity Value

TABLE 10 – EQUITY VALUE

Average Equity Value (€/mln)	52,2
Equity Value DCF (€/mln)	68,5
Equity Value multiples (€/mln)	35,8
Target Price (€)	4,40

Source: Integrae SIM

This results in an average equity value of approximately € 52.2 million. **The target price is therefore € 4.40 (previously € 4.15). We confirm the BUY rating and MEDIUM risk.**

TABLE 11 – TARGET PRICE IMPLIED VALUATION MULTIPLES

Multiples	FY23A	FY24E	FY25E	FY26E
EV/EBITDA	8,7x	5,2x	3,4x	2,6x
EV/EBIT	12,7x	7,2x	4,3x	3,1x
P/E	21,1x	10,6x	6,2x	4,4x

Source: Integrae SIM

TABLE 12 – CURRENT PRICE IMPLIED VALUATION MULTIPLES

Main Ratios	FY23A	FY24E	FY25E	FY26E
EV/EBITDA	13,0x	7,7x	5,1x	3,9x
EV/EBIT	18,9x	10,8x	6,5x	4,7x
P/E	32,1x	16,1x	9,4x	6,7x

Source: Integrae SIM

Disclosure Pursuant to Delegated Regulation UE n. 2016/958

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The table below, shows INTEGRAE SIM's recommendation, target price and risk issued during the last 12 months:

Date	Price	Recommendation	Target Price	Risk	Comment
22/04/2024	4,15	Buy	3,11	Medium	Initiation of Coverage
03/06/2024	4,15	Buy	3,00	Medium	Breaking News
08/07/2024	4,15	Buy	3,44	Medium	Breaking News
06/08/2024	4,15	Buy	2,98	Medium	Breaking News

The list of all recommendations on any financial instrument or issuer produced by Integrae SIM Research Department and distributed during the preceding 12-month period is available on the Integrae SIM website.

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Rating system (long term horizon: 12 months)

The BUY, HOLD and SELL ratings are based on the Upside Potential (increase in value or return that the investment could achieve based on the current price and a future target price set by the analysts), and the risk associated to the share analyzed. The degree of risk is based on the liquidity and volatility of the share, and on the rating provided by the analyst and contained in the report. Due to daily fluctuations in share prices, the upside potential may temporarily fall outside the proposed range

Upside Potential (for different risk categories)			
Rating	Low Risk	Medium Risk	High Risk
BUY	Upside \geq 7.5%	Upside \geq 10.0%	Upside \geq 15.0%
HOLD	-5.0% < Upside < 7.5%	-5.0% < Upside < 10%	0% < Upside < 15.0%
SELL	Upside \leq -5.0%	Upside \leq -5.0%	Upside \leq 0%
U.R.	Under Review		
N.R.	Not Rated		

Valuation methodologies (long term horizon: 12 months)

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- In the IPO phase, Integræ SIM played the role of global coordinator.