

ESI	Italy	FTSE AIM Italia	Renewables
Rating: BUY (prev. U/R)	Target Price: € 6,00 (prev. U/R)	Update	Risk: Medium

Stock performance	1M	3M	6M	1Y
absolute	-4,02%	5,29%	-12,47%	1,70%
to FTSE AIM Italia	-2,09%	-8,03%	-6,92%	24,41%
to FTSE STAR Italia	-1,07%	-11,38%	-10,51%	12,79%
to FTSE All-Share	-8,28%	-7,58%	-3,94%	0,07%
to EUROSTOXX	-4,22%	-4,98%	-3,49%	0,90%
to MSCI World Index	-0,08%	-3,84%	-2,13%	6,39%

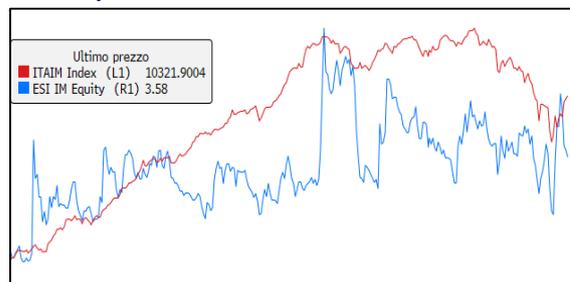
Stock Data	
Price	€ 3,58
Target price	€ 6,00
Upside/(Downside) potential	67,5%
Bloomberg Code	ESI IM Equity
Market Cap (€m)	€ 20,84
EV (€m)	€ 19,83
Free Float	27,18%
Share Outstanding	5.821.661
52-week high	€ 4,75
52-week low	€ 3,07
Average daily volumes (3m)	14.000

Key Financials (€m)	FY21A	FY22E	FY23E	FY24E
Revenues	5,0	22,0	25,0	30,0
VoP	5,5	22,5	25,5	30,5
EBITDA	0,1	2,3	2,9	3,7
EBIT	0,1	2,0	2,5	3,2
Net Profit	0,1	1,3	1,7	2,2
EBITDA margin	1,4%	10,2%	11,2%	12,0%
EBIT margin	1,4%	8,7%	9,6%	10,5%
Net Profit margin	2,1%	5,8%	6,5%	7,2%

Main Ratios	FY21A	FY22E	FY23E	FY24E
EV/EBITDA (x)	253,8	8,6	7,0	5,4
EV/EBIT (x)	253,8	10,2	8,1	6,2
P/E (x)	182,5	16,0	12,6	9,5

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Stocks performance relative to FTSE AIM Italia



FY21A Results

The value of production for FY21A amounted to € 5.46 million, up from € 2.55 million in FY20A (+113.8%). The result derives from activities mainly carried out in Italy, with the BU EPC, and abroad, with the BU System Integrator, which operated in Congo, Mozambique and Burundi for the construction of mini-grid and photovoltaic systems. EBITDA amounted to € 0.08 million, significantly down from € 0.61 million in the previous fiscal year, with an EBITDA margin ranging from 23.9% of FY20A to 1.4% of FY21A. The value of EBIT also stands at € 0.08 million, equal to the value of EBITDA due to the suspension of the payment of depreciation, for an EBIT margin of 1.4%.

Estimates Update

In light of the results published in the annual report and the new agreements signed by the Company during FY21A, we estimate significant growth in terms of value of production and marginality for both the current year and the coming years. In particular, we estimate FY22E value of production equal to € 22.5 million, with EBITDA of € 2.30 million, corresponding to a marginality of 10.2%. For subsequent years, we expect the value of production to increase up to € 30.5 million (CAGR 21A-24E: 77.44%) in FY24E, with EBITDA of € 3.65 million (EBITDA margin of 12.0%), up from € 0.08 million in FY21A (EBITDA margin of 1.4%).

Valuation Update

We have conducted the valuation of ESI's equity value based on the DCF methodology and market multiples of a comparable companies sample. The DCF method (which in the calculation of the WACC includes for prudential purposes also a specific risk of 2.5%) provides an equity value of € 39.1 million. The equity value of ESI, using multiple markets, is € 30.7 million (with a discount of 25%). **The result is an average equity value of € 34.9 million. The target price is € 6.00 (prev. U/R), BUY rating and MEDIUM risk.**

1. Economics & Financials

Table 1 – Economics & Financials

INCOME STATEMENT (€/mln)	FY20A*	FY21A	FY22E	FY23E	FY24E
Revenues	2,10	4,95	22,00	25,00	30,00
Other Revenues	0,46	0,51	0,50	0,50	0,50
Value of Production	2,55	5,46	22,50	25,50	30,50
COGS	0,33	2,11	12,60	14,20	16,90
Services	0,93	2,39	5,00	5,60	6,65
Use of assets owned by others	0,14	0,18	0,55	0,55	0,60
Employees	0,54	0,61	2,00	2,25	2,65
Other Operating Expenses	0,01	0,09	0,05	0,05	0,05
EBITDA	0,61	0,08	2,30	2,85	3,65
<i>EBITDA Margin</i>	23,9%	1,4%	10,2%	11,2%	12,0%
D&A	0,21	0,00	0,35	0,40	0,45
EBIT	0,40	0,08	1,95	2,45	3,20
<i>EBIT Margin</i>	15,5%	1,4%	8,7%	9,6%	10,5%
Financial Management	(0,00)	(0,04)	(0,10)	(0,10)	(0,10)
EBT	0,39	0,04	1,85	2,35	3,10
Taxes	0,00	-0,07	0,55	0,70	0,90
Net Income	0,39	0,11	1,30	1,65	2,20

BALANCE SHEET (€/mln)	FY20A*	FY21A	FY22E	FY23E	FY24E
Fixed Assets	1,40	2,66	2,90	3,10	3,20
Account receivable	1,14	0,92	3,00	3,45	4,20
Inventories	0,02	4,81	0,10	0,10	0,10
Account payable	0,33	5,56	2,90	3,30	4,00
Operating Working Capital	0,83	0,17	0,20	0,25	0,30
Other receivable	0,71	0,72	1,60	1,80	2,15
Other payable	0,39	0,28	1,00	1,10	1,30
Net Working Capital	1,14	0,61	0,80	0,95	1,15
Severance Indemnities & Other Provisions	0,01	0,03	0,05	0,05	0,05
NET INVESTED CAPITAL	2,54	3,24	3,65	4,00	4,30
Share Capital	0,20	0,20	0,20	0,20	0,20
Reserves	2,99	3,95	4,06	5,37	7,02
Group Net Income	0,39	0,11	1,30	1,65	2,20
Equity	3,58	4,26	5,56	7,22	9,42
Cash & Cash Equivalent	1,11	2,37	3,21	4,37	6,12
Short Term Debt to Bank	0,07	0,22	0,20	0,15	0,10
M/L Term Debt to Bank	0,00	1,13	1,10	1,00	0,90
Net Financial Position	(1,04)	(1,02)	(1,91)	(3,22)	(5,12)
SOURCES	2,54	3,24	3,65	4,00	4,30

CASH FLOW (€/mln)	FY20A*	FY21A	FY22E	FY23E	FY24E
EBIT	0,40	0,08	1,95	2,45	3,20
Taxes	0,00	-0,07	0,55	0,70	0,90
NOPAT	0,39	0,15	1,40	1,75	2,30
D&A	0,21	0,00	0,35	0,40	0,45
Change in receivable	2,79	0,22	(2,08)	(0,45)	(0,75)
Change in inventories	0,07	(4,79)	4,71	0,00	0,00
Change in payable	-3,24	5,23	-2,66	0,40	0,70
Change in others	-0,10	-0,12	-0,16	-0,10	-0,15
<i>Change in NWC</i>	<i>-0,49</i>	<i>0,53</i>	<i>-0,19</i>	<i>-0,15</i>	<i>-0,20</i>
Change in provisions	0,00	0,02	0,02	0,00	0,00
OPERATING CASH FLOW	0,12	0,71	1,58	2,00	2,55
Capex	(0,2)	(1,3)	(0,6)	(0,6)	(0,6)
FREE CASH FLOW	(0,06)	(0,55)	0,99	1,40	2,00
Financial Management	(0,00)	(0,04)	(0,10)	(0,10)	(0,10)
Change in Debt to Bank	(0,00)	1,28	(0,05)	(0,15)	(0,15)
Change in Equity	(1,31)	0,57	0,00	0,00	0,00
FREE CASH FLOW TO EQUITY	(1,37)	1,26	0,84	1,15	1,75

Source: ESI and Integrae SIM estimates

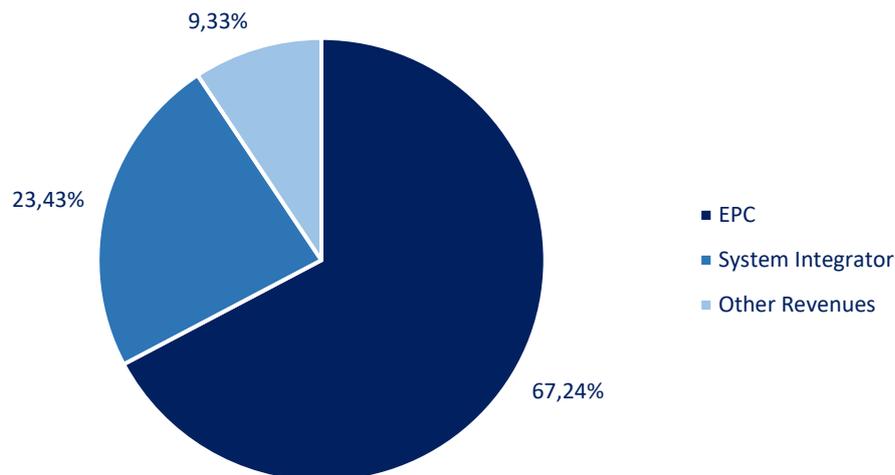
* Non-consolidated FY20A data

1.1 FY21A Results

Through a press release, Riccardo di Pietrogiacomo, founder and CEO of ESI, commenting on the annual results, declares that: *“The fiscal year 2021 was, after all, a satisfactory and positive year. Despite the still difficult general situation caused by the pandemic, we managed to comply with all our commitments to deliver and commission the plants in relation to those located in Africa (Burundi and Republic of Congo), up to the installation of the second largest plant on the island of Majorca. Important and challenging was also the award of a contract for the technological modernization of 18 plants located in Italy on behalf of a leading national operator for a total power of 23 MWp. Today we look to the future with confidence thanks to an order book for the period 2022-2023 of a value equal to about 48 million euro”*

The value of production for the FY21A year amounted to € 5.46 million, up compared to € 2.55 million in the FY20A (+113.8%), although it should be noted that for the year just ended the Company has not prepared the consolidated financial statements, following the sale of 100% of the share capital of the subsidiary WSI Spain, which took place in October 2021. This result derives from activities mainly carried out in Italy, with the BU EPC, but also abroad, with the BU System Integrator, which has operated in several African states such as Congo, Mozambique, and Burundi for the construction of smart-grid plants.

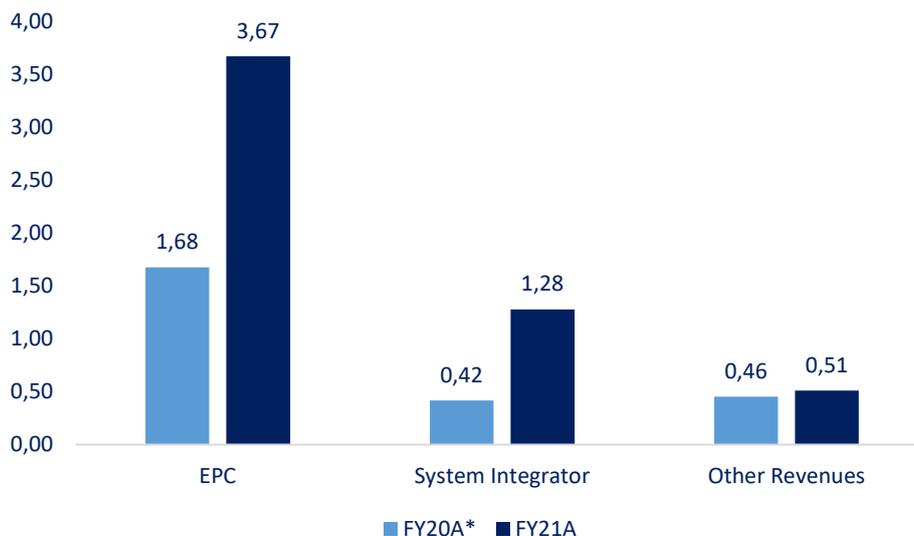
Chart 1 – VoP Breakdown by Segment



Source: ESI

Regarding the composition of the value of production, the EPC business unit is the one that generated the highest revenues, contributing to achieve 67.24% of the value of production for a total of € 3.67 million (in FY20A, the weight of this BU was 65.7%); followed by the System Integrator business unit, which generates € 1.28 million equal to 23.4% of the total (16.4% of the VoP in FY20A). The remaining part of the value of production is related to other revenues. Therefore, compared to last year both BUs have seen an increase in activities and results. The EPC BU has grown by 119.2%, mainly thanks to the increase in contract work in progress, while the BU System Integrator almost tripled its results thanks to the growing commissions in Africa by leading NGO.

Chart 2 – VoP Breakdown FY20A* vs FY21A



Source: ESI

* Non-consolidated FY20A data

EBITDA amounted to € 0.08 million, significantly down from € 0.61 million in the previous fiscal year, with an EBITDA margin going from 23.9% of FY20A to 1.4% of FY21A. This significant decrease in marginality is mainly linked to the slowdown and delays in obtaining authorizations for the construction of the plants, the consequent slippage in the start-up of worksites and of the invoicing of some contracts with expected implementation in the first half of the year and the consequent failure to absorb structural costs.

The value of EBIT is equal to € 0.08 million, exactly equal to the value of EBITDA, for an EBIT margin of 1.4%. The two indicators coincide in that, making use of the option provided for by the decree “*Milleproroghe*” (“Thousand extensions” – Legislative Decree 15/2022), the Company suspended the payment of amortization, for an amount of approximately € 0.25 million, with the intention of supporting the related costs in subsequent years through reserves of profits and available assets, specifically allocated. In fact, the Board of Directors has decided to propose to the shareholders' meeting to allocate almost all the operating profit (€ 0.11 million) to “unavailable reserve for suspension of amortization”, to which will be added approximately € 0.14 million of available reserves already recorded in the financial statements.

Net income is therefore equal to € 0.11 million, down compared to the previous year.

Finally, as regards the NFP, it is confirmed on the values obtained in the FY20A, reaching a positive cash value of € 1.02 million (vs € 1.04 million in the FY20A).

1.2 Significant Events of the Period

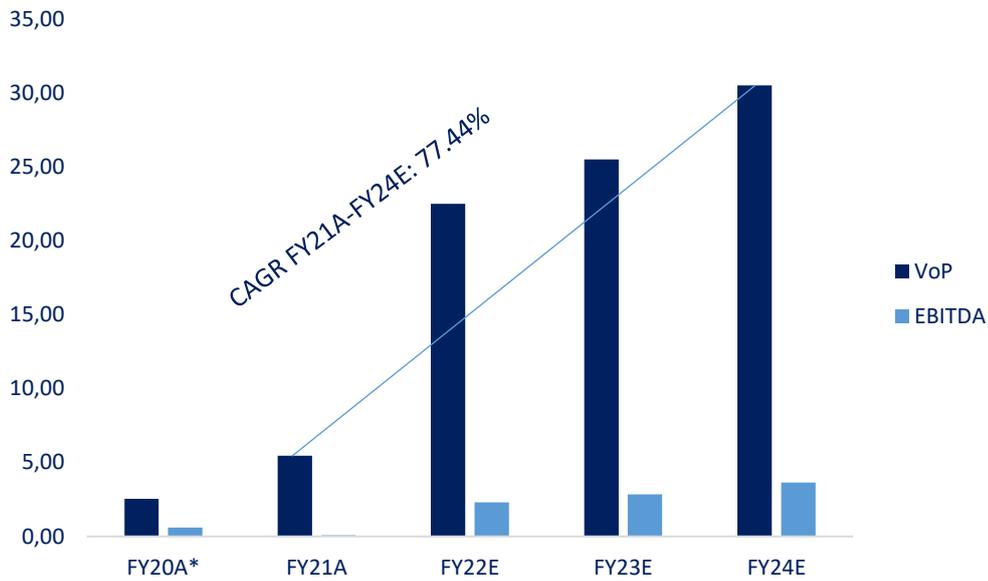
Following our latest publication, the Company announced:

- On 29/04/21, to have signed a contract for the technological modernization of 18 photovoltaic plants located in Italy, for a total power of 23 MWp, confirming its position as a primary operator in the revamping of traditional plants. The value of the order is equal to € 3.2 million;
- On 04/05/21, the sale, by the majority shareholder Integra Srl, of 10.68% of the share capital (666,667 shares) to Exacto SpA, holding company that already holds the majority of the share capital of Renergetica, to promote synergies in the development of the business and exploit new commercial opportunities. The value of the transaction is equal to € 2.0 million;
- On 21/10/21, the sale of the entire shareholding in WSI Spain, which in turn held 67% of the Union Temporal de Empresas (UTE) PV4Baleari, for a consideration of € 0.4 million;
- On 26/10/21, to have signed, with a leading Italian and international energy operator, an agreement for the realization in EPC mode of 6 photovoltaic plants on the Italian territory, for a total power of 25 MWp. The value of the contract is equal to € 25.3 million;
- On 16/11/21, to have been awarded an international tender by ENABEL for the design and construction of three photovoltaic off-grid systems with storage in Mozambique (Africa), for a total power of 400 kWp and a total value of € 4.3 million;
- On 29/12/21, to have signed a framework agreement with Enel Green Power for the construction of photovoltaic plants in Southern Italy, for a total power of 27 MWp and a total value of € 14.4 million. The contract also provides for the provision of Operation & Maintenance services, for the period of 2022-2023.

Considering the signing of these agreements, ESI can boast, at the end of the FY21A fiscal year, an order book of € 48.0 million relating to orders to be carried out in FY22E-FY23E fiscal years.

1.3 FY21A – FY24E Estimates

Chart 3 – VoP and EBITDA FY20A* - FY24E



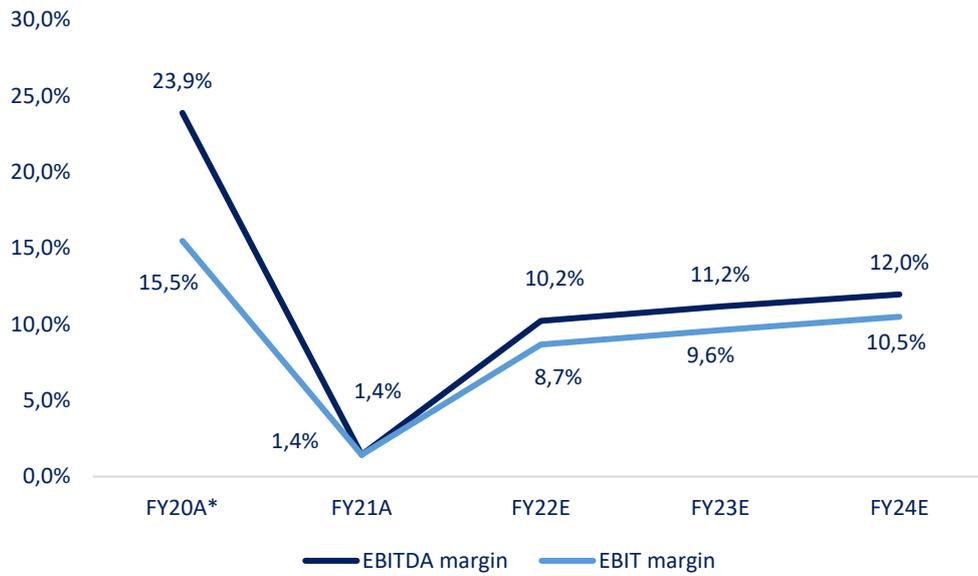
Source: Integrae SIM
 * Non-consolidated FY20A data

Considering the results published in the annual report, the new agreements signed and press releases by the Company during FY21A, we estimate significant growth in terms of value of production and marginality for both the current year and the coming years.

In particular, we estimate FY22E value of production equal to € 22.5 million, with EBITDA of € 2.30 million, corresponding to a marginality of 10.2%. For subsequent years, we expect the value of production to increase up to € 30.5 million (CAGR 21A-24E: 77.44%) in FY24E, with EBITDA of € 3.65 million (corresponding to an EBITDA margin of 12.0%), up from € 0.08 million in FY21A (corresponding to an EBITDA margin of 1.4%).

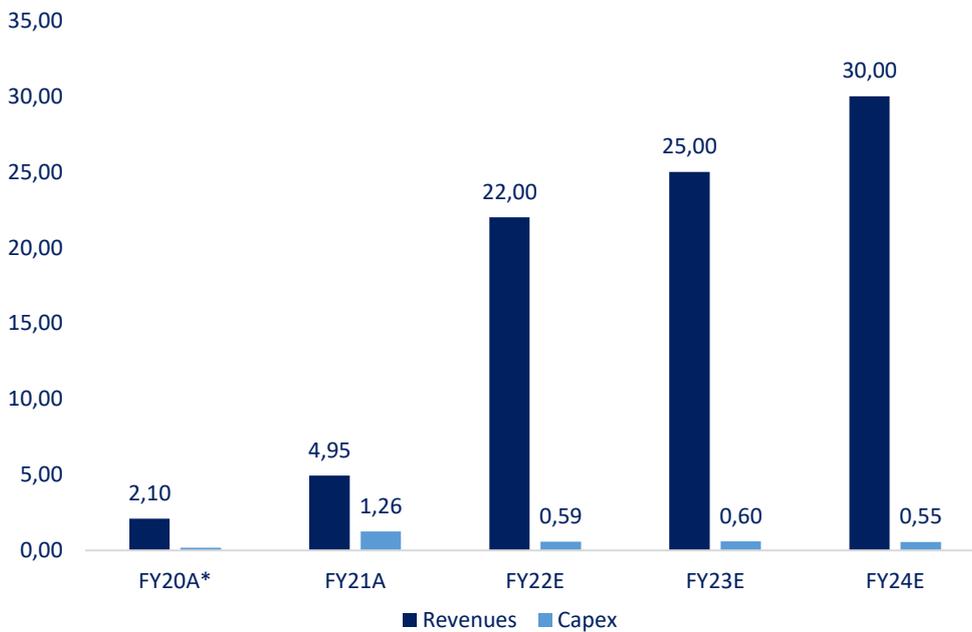
The increase in the value of production is largely justified by the amount of the ESI order backlog, which amounts to € 48.0 million as anticipated with expected implementation in the FY22E and FY23E years. The prospects for future growth of the photovoltaic sector must also be carefully monitored, in the light of the evolution of the ongoing war in Ukraine and the consequent critical issues in terms of gas imports and Italian thermoelectric production with gas. Finally, the increase in marginality compared to the year just ended is also attributable to the realization of revenues deriving from orders whose works began in FY21A and of which only costs have been incurred so far.

Chart 4 – EBITDA and EBIT Margin FY20A* - 24E



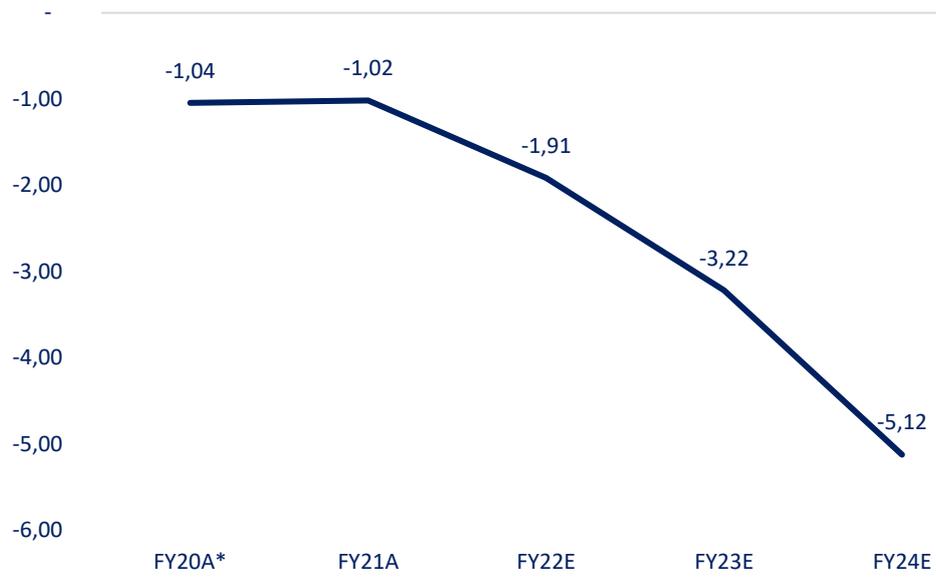
Source: Integrae SIM
* Non-consolidated FY20A data

Chart 5 – Capex FY20A* - FY24E



Source: Integrae SIM
* Non-consolidated FY20A data

Chart 6 – NFP FY20A* - FY24E



Source: Integrae SIM
* Non-consolidated FY20A data

2. Valuation

We have conducted the valuation of ESI's equity value based on the DCF methodology and market multiples of a comparable companies sample.

2.1 DCF Method

Table 2 – WACC

WACC		6,03%
Risk Free Rate	0,80% α (specific risk)	2,50%
Market Premium	6,42% Beta Adjusted	0,6
D/E (average)	25,00% Beta Relevered	0,7
Ke	7,18% Kd	2,00%

Source: Integrae SIM

For prudential purposes, we have included a specific risk of 2.5%. This results in a WACC of 6.03%.

Table 3 – DCF Valuation

DCF Equity Value		39,1
FCFO actualized	4,0	10%
TV actualized DCF	34,1	90%
Enterprise Value	38,1	100%
NFP (FY20A)	(1,0)	

Source: Integrae SIM

With the above data and taking as a reference our estimates and assumptions, the result is an **equity value of € 39.1 million**.

Table 4 – Equity Value – Sensitivity Analysis

€/mln		WACC						
		4,5%	5,0%	5,5%	6,0%	6,5%	7,0%	7,5%
Growth Rate (g)	2,5%	92,9	74,6	62,4	53,6	47,0	41,9	37,8
	2,0%	75,6	63,2	54,3	47,6	42,4	38,2	34,8
	1,5%	63,9	54,9	48,2	42,9	38,7	35,2	32,3
	1,0%	55,6	48,7	43,4	39,1	35,6	32,7	30,2
	0,5%	49,3	43,9	39,6	36,0	33,1	30,6	28,4
	0,0%	44,5	40,1	36,5	33,5	30,9	28,7	26,8
	-0,5%	40,5	36,9	33,8	31,3	29,1	27,1	25,5

Source: Integrae SIM

2.2 Market multiples

Our panel of comparable companies is made up of companies operating in the same sector as ESI.

Table 5 – Market Multiples

Company Name	EV/EBITDA (x)			EV/EBIT (x)			P/E (x)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Innergex Renewable Energy Inc.	16,1	14,8	14,6	28,8	24,9	N/A	80,9	57,1	43,1
Falck Renewables S.p.A.	14,3	13,5	12,4	24,8	22,6	19,3	50,8	44,8	37,5
Boralx Inc.	13,9	13,4	12,6	37,4	28,0	N/A	53,7	44,0	39,6
Renergetica SpA	10,6	8,9	8,1	11,6	9,5	8,5	15,3	12,0	10,5
Iniziative Bresciane S.p.A.	6,6	6,4	6,2	11,1	10,6	10,2	13,1	12,6	12,0
Altea Green Power S.p.A.	5,4	4,1	3,7	6,1	4,5	4,1	8,8	6,5	5,9
Peer median	12,2	11,2	10,3	18,2	16,6	9,4	33,1	28,3	24,7

Source: Infinancials

Table 6 – Market Multiples Valuation

€/mln	FY22E	FY23E	FY24E
Enterprise Value (EV)			
EV/EBITDA	28,2	31,8	37,5
EV/EBIT	35,5	40,6	30,0
P/E	43,1	46,8	54,5
Equity Value			
EV/EBITDA	30,1	35,0	42,6
EV/EBIT	37,4	43,8	35,1
P/E	43,1	46,8	54,5
Equity Value post 25% discount			
EV/EBITDA	22,6	26,3	32,0
EV/EBIT	28,1	32,9	26,3
P/E	32,4	35,1	40,9
Average	27,7	31,4	33,1

Source: Integrae SIM

The equity value of ESI, using the multiple markets EV/EBITDA, EV/EBIT and P/E relative to the panel used, is equal to € 40.9 million. To this value, we applied a 25% discount, to include in the price also the lower liquidity that characterizes the ESI security compared to the comparable; therefore, **an equity value is equal to € 30.7 million.**

2.3 Equity Value

Table 7 – Equity Value

Average Equity Value (€/mln)	34,9
Equity Value DCF (€/mln)	39,1
Equity Value multiples (€/mln)	30,7
Target Price (€)	6,00

Source: Integrae SIM

The result is an average equity value of € 34.9 million. **The target price is, therefore, € 6.00 (prev. U/R). We change our rating from U/R to BUY, confirmed MEDIUM risk.**

Table 8 – Target Price Implied Valuation Multiples

Multiples	FY22E	FY23E	FY24E
EV/EBITDA	14,7x	11,9x	9,3x
EV/EBIT	17,4x	13,8x	10,6x

Source: Integrae SIM

Table 9 – Current Price Implied Valuation Multiples

Multiples	FY22E	FY23E	FY24E
EV/EBITDA	8,6x	7,0x	5,4x
EV/EBIT	10,2x	8,1x	6,2x

Source: Integrae SIM

Disclosure Pursuant to Delegated Regulation UE n. 2016/958 and Consob Regulation n. 20307/2018

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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
10/01/2022	3,80	U/R	U/R	Medium	Flash Note
30/12/2021	4,00	U/R	U/R	Medium	Flash Note
12/11/2021	4,00	U/R	U/R	Medium	Flash Note
04/10/2021	3,80	U/R	U/R	Medium	Flash Note
31/03/2021	3,33	Buy	7,50	Medium	Update

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The BUY, HOLD and SELL ratings are based on the expected total return (ETR – absolute performance in the 12 months following the publication of the analysis, including the ordinary dividend paid by the company), 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 expected total return may temporarily fall outside the proposed range

Equity Total Return (ETR) for different risk categories			
Rating	Low Risk	Medium Risk	High Risk
BUY	ETR >= 7.5%	ETR >= 10%	ETR >= 15%
HOLD	-5% < ETR < 7.5%	-5% < ETR < 10%	0% < ETR < 15%
SELL	ETR <= -5%	ETR <= -5%	ETR <= 0%
U.R.	Rating e/o target price Under Review		
N.R.	Stock Not Rated		

Valuation methodologies (long term horizon: 12 months)

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