

ESI	Italy	Euronext Growth Milan	Renewables
Rating: BUY (Unch.)	Target Price: € 5,00 (prev. € 6,00)	Update	Risk: Medium

Stock performance	1M	3M	6M	1Y
absolute	0,00%	-2,58%	-12,00%	-6,82%
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%

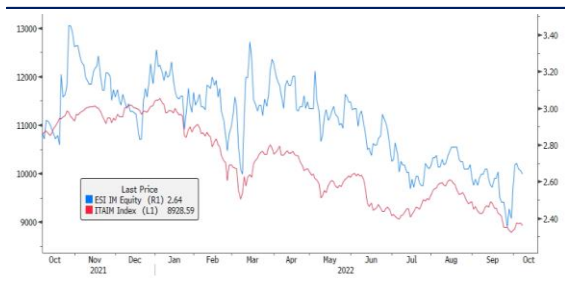
Price	€ 2,64
Target price	€ 5,00
Upside/(Downside) potential	89,4%
Bloomberg Code	ESI IM Equity
Market Cap (€m)	€ 18,45
EV (€m)	€ 17,43
Free Float	34,25%
Share Outstanding	6.986.892
52-week high	€ 3,58
52-week low	€ 2,27
Average daily volumes (3m)	13.000

Key Financials (€m)	FY21A	FY22E	FY23E	FY24E
Revenues	5,0	25,0	30,0	35,0
VoP	5,5	25,5	30,5	35,5
EBITDA	0,1	2,3	3,1	4,1
EBIT	0,1	2,0	2,7	3,7
Net Profit	0,1	1,3	1,8	2,5
EBITDA margin	1,4%	9,0%	10,2%	11,5%
EBIT margin	1,4%	7,6%	8,9%	10,3%
Net Profit margin	2,1%	4,9%	5,9%	6,9%

Main Ratios	FY21A	FY22E	FY23E	FY24E
EV/EBITDA (x)	223,1	7,6	5,6	4,3
EV/EBIT (x)	223,1	8,9	6,5	4,8
P/E (x)	161,5	14,8	10,2	7,5

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Stocks performance relative to FTSE AIM Italia



1H22A

The Company generated a value of production equal to € 14.86 million, a considerable increase (+ 662.2%) compared to the previous period, which closed with a value of € 1.95 million. This growth is the result of the acquisition of new orders made between the end of 2021 and the beginning of 2022 in Italy (EPC business unit) and abroad (System Integrator business unit) for the construction of mini-grid and photovoltaic plants commissioned by International Development Funds. EBITDA stood at € 0.78 million, showing significant growth compared to € 0.16 million in the previous fiscal year. The EBITDA margin, on the other hand, was equal to 5.3%. Net Income is also growing and equal to € 0,34 mln.

Estimates Update

In light of the results published in the half-yearly report for 1H22A, we modify our previous estimates both for the current year and for the coming years. In particular, we estimate FY22A value of production equal to € 25.50 million and EBITDA of € 2.30 million, corresponding to a marginality of 9.0%. For subsequent years, we expect the value of production to increase up to € 35.50 million (CAGR 21A-24E: 86.65%) in FY24E, with EBITDA of € 4.10 million (corresponding to an EBITDA margin of 11.5%), up from € 0.08 million in FY21A (corresponding to an EBITDA margin of 1.4%).

Valuation Update

We have conducted the valuation of ESI 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 a specific risk of 2.5%) provides an equity value of € 45.6 million. The equity value of ESI using market multiples is equal to € 24.3 million (with a 25% discount). The result is an average equity value of € 34.9 million. The target price is € 5.00 (prev. € 6,00 mln), 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	25,00	30,00	35,00
Other Revenues	0,46	0,51	0,50	0,50	0,50
Value of Production	2,55	5,46	25,50	30,50	35,50
COGS	0,33	2,11	16,20	18,00	20,00
Services	0,93	2,39	4,35	6,50	8,00
Use of assets owned by others	0,14	0,18	0,55	0,60	0,65
Employees	0,54	0,61	2,00	2,20	2,65
Other Operating Expenses	0,01	0,09	0,10	0,10	0,10
EBITDA	0,61	0,08	2,30	3,10	4,10
<i>EBITDA Margin</i>	<i>23,9%</i>	<i>1,4%</i>	<i>9,0%</i>	<i>10,2%</i>	<i>11,5%</i>
D&A	0,21	0,00	0,35	0,40	0,45
EBIT	0,40	0,08	1,95	2,70	3,65
<i>EBIT Margin</i>	<i>15,5%</i>	<i>1,4%</i>	<i>7,6%</i>	<i>8,9%</i>	<i>10,3%</i>
Financial Management	(0,00)	(0,04)	(0,15)	(0,10)	(0,10)
EBT	0,39	0,04	1,80	2,60	3,55
Taxes	0,00	(0,07)	0,55	0,80	1,10
Net Income	0,39	0,11	1,25	1,80	2,45

BALANCE SHEET (€/mln)	FY20A*	FY21A	FY22E	FY23E	FY24E
Fixed Assets	1,40	2,66	2,70	2,75	2,85
Account receivable	1,14	0,92	4,00	4,45	5,20
Inventories	0,02	4,81	18,00	19,00	20,00
Account payable	0,33	5,56	20,00	21,00	22,00
Operating Working Capital	0,83	0,17	2,00	2,45	3,20
Other receivable	0,71	0,72	1,40	1,60	2,00
Other payable	0,39	0,28	1,50	1,70	2,40
Net Working Capital	1,14	0,61	1,90	2,35	2,80
Severance Indemnities & Other Provisions	0,01	0,03	0,05	0,05	0,05
NET INVESTED CAPITAL	2,54	3,24	4,55	5,05	5,60
Share Capital	0,20	0,20	0,20	0,20	0,20
Reserves	2,99	3,95	4,06	5,31	7,12
Group Net Income	0,39	0,11	1,25	1,80	2,45
Third Parties Net Income	0,00	0,00	0,00	0,00	0,00
Equity	3,58	4,26	5,51	7,31	9,77
Cash & Cash Equivalent	1,11	2,37	3,46	4,41	5,97
Short Term Debt to Bank	0,07	0,22	0,70	0,50	0,30
M/L Term Debt to Bank	0,00	1,13	1,80	1,65	1,50
Net Financial Position	(1,04)	(1,02)	(0,96)	(2,26)	(4,17)
SOURCES	2,54	3,24	4,55	5,05	5,60

CASH FLOW (€/mln)	FY20A*	FY21A	FY22E	FY23E	FY24E
EBIT	0,40	0,08	1,95	2,70	3,65
Taxes	0,00	(0,07)	0,55	0,80	1,10
NOPAT	0,39	0,15	1,40	1,90	2,55
D&A	0,21	0,00	0,35	0,40	0,45
Change in receivable	2,79	0,22	(3,08)	(0,45)	(0,75)
Change in inventories	0,07	(4,79)	(13,19)	(1,00)	(1,00)
Change in payable	(3,24)	5,23	14,44	1,00	1,00
Change in others	(0,10)	(0,12)	0,54	(0,00)	0,30
<i>Change in NWC</i>	<i>(0,49)</i>	<i>0,53</i>	<i>(1,29)</i>	<i>(0,45)</i>	<i>(0,45)</i>
Change in provisions	0,00	0,02	0,02	0,00	0,00
OPERATING CASH FLOW	0,12	0,71	0,48	1,85	2,55
Capex	(0,2)	(1,3)	(0,4)	(0,5)	(0,6)
FREE CASH FLOW	(0,06)	(0,55)	0,09	1,40	2,00
Financial Management	(0,00)	(0,04)	(0,15)	(0,10)	(0,10)
Change in Debt to Bank	(0,00)	1,28	1,15	(0,35)	(0,35)
<i>Change in Equity</i>	<i>(1,31)</i>	<i>0,57</i>	<i>0,00</i>	<i>0,00</i>	<i>0,00</i>
FREE CASH FLOW TO EQUITY	(1,37)	1,26	1,09	0,95	1,55

Source: ESI and Integrae SIM estimates

1.1 1H22A Results

Table 2 – 1H22A vs 1H21A

€/mln	VoP	EBITDA	EBITDA %	EBIT	Net Income	NFP
1H22A	14,86	0,78	5,3%	0,64	0,34	(0,13)
1H21A	1,95	0,16	8,2%	0,04	0,00	(1,02)*
Change	662,2%	387,4%	-3,0%	N.A.	N.A.	N.A.

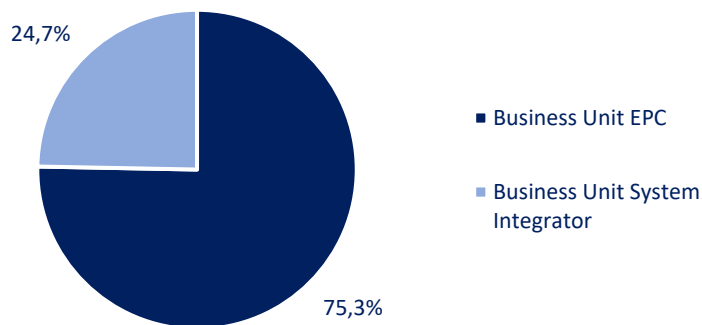
*NFP as of 31/12/2022

Source: Integrae SIM

Through a press release, Stefano Plocco, Founder and CEO of ESI, commenting on the half-yearly results, stated: *"We are very proud of the performance of the first half of 2022, which recorded strong economic results, and which, although still matured in a geo-political climate characterized by various uncertainties, indicated a strong change of course very positive, which is continuing also in the second half of the half and which makes us look with confidence at the end of the year 2022 and the following year."*

During the first half of 2022, the Company generated a value of production equal to € 14.86 million, a considerable increase (+ 662.2%) compared to the previous period, which closed with a value of € 1.95 million. This growth is the result of the acquisition of new orders made between the end of 2021 and the beginning of 2022 in Italy (EPC business unit) and abroad (System Integrator business unit) for the construction of mini-grid and photovoltaic plants commissioned by International Development Funds.

Chart 1 – Revenues Breakdown by BU



Source: ESI

The total value of production was generated 75.3% by the EPC business unit, for total revenue of € 11.19 million, and 24.7% by the System Integrator business unit, equal to € 3.67 million.

EBITDA stood at € 0.78 million, showing significant growth compared to € 0.16 million in the previous fiscal year. The EBITDA margin, on the other hand, was equal to 5.3%, compared to 8.2% in 1H21A. This decrease is attributable to work-in-progress orders acquired at the end of 2021 and in the first six months of 2022, which led to an increase in contract work-in-progress and the related costs for raw materials, services, and employees.

EBIT, after amortization and depreciation of € 0.14 million, amounts to € 0.64 million, registering a considerable increase compared to € 0.04 million on 30 June 2021. The EBIT margin was equal to 4.3%, with two additional percentage points compared to the figure for the first half of the previous year. Net profit amounted to € 0.34 million, a net improvement compared to the value of 1H21A.

In terms of the Balance Sheet, we note first of all the two free increases in the share capital, approved by the Shareholders' Meeting in May 2022 and executed in June 2022: the first intervention refers to the issuance of 1,164,481 ordinary shares, for a value of € 39,771.74, while the second, subject to the execution of the first, does not provide for the issuance of new ordinary shares, but only a capital increase, for a maximum of € 0.76 million. As a result of the two transactions, the share capital of ESI as of 30 June 2022 amounted to approximately € 1.00 million. Regarding the NFP, however, we note a slight worsening, going from the cash positive value of € 1.02 million recorded in the first half of 2021 to the value, always cash positive, for 1H22A, equal to € 0.13 million. This variation is essentially due to the increase in financial debts, due to the opening of new credit lines aimed at financing the start-up of two new EPC plants commissioned by a major international energy operator.

1.2 FY22E – FY24E Estimates

Table 3 – Estimates Updates FY22E - FY24E

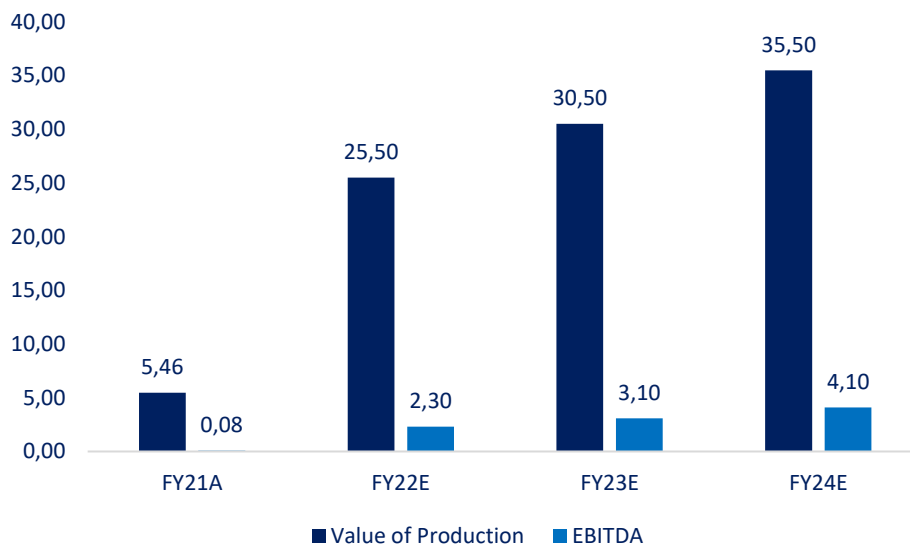
€/mln	FY22E	FY23E	FY24E
VoP			
New	22,5	25,5	30,5
Old	25,5	30,5	35,5
Change	13,3%	19,6%	16,4%
EBITDA			
New	2,3	3,1	4,1
Old	2,3	2,9	3,7
Change	0,0%	8,8%	12,3%
EBITDA %			
New	9,0%	10,2%	11,5%
Old	10,2%	11,2%	12,0%
Change	-1,2%	-1,0%	-0,4%
EBIT			
New	2,0	2,7	3,7
Old	2,0	2,5	3,2
Change	0,0%	10,2%	14,1%
Net Income			
New	1,3	1,8	2,5
Old	1,3	1,7	2,2
Change	-4,1%	9,1%	11,3%
NFP			
New	(1,0)	(2,3)	(4,2)
Old	(1,9)	(3,2)	(5,1)
Change	N.A	N.A	N.A

Source: Integrae SIM

In light of the results published in the half-yearly report for 1H22A, we modify our previous estimates both for the current year and for the coming years.

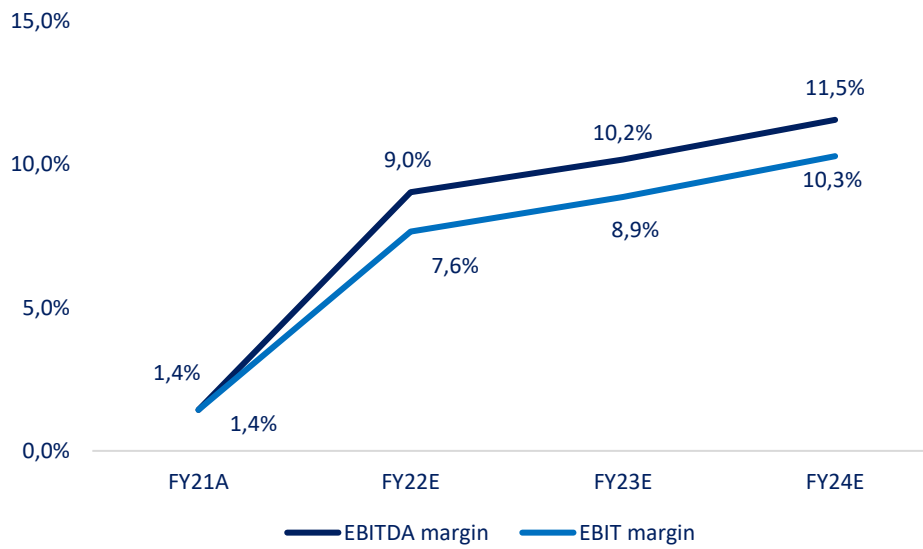
In particular, we estimate FY22A value of production equal to € 25.50 million and EBITDA of € 2.30 million, corresponding to a marginality of 9.0%. For subsequent years, we expect the value of production to increase up to € 35.50 million (CAGR 21A-24E: 86.65%) in FY24E, with EBITDA of € 4.10 million (corresponding to an EBITDA margin of 11.5%), up from € 0.08 million in FY21A (corresponding to an EBITDA margin of 1.4%).

Chart 2 – VoP and EBITDA FY21A-24E



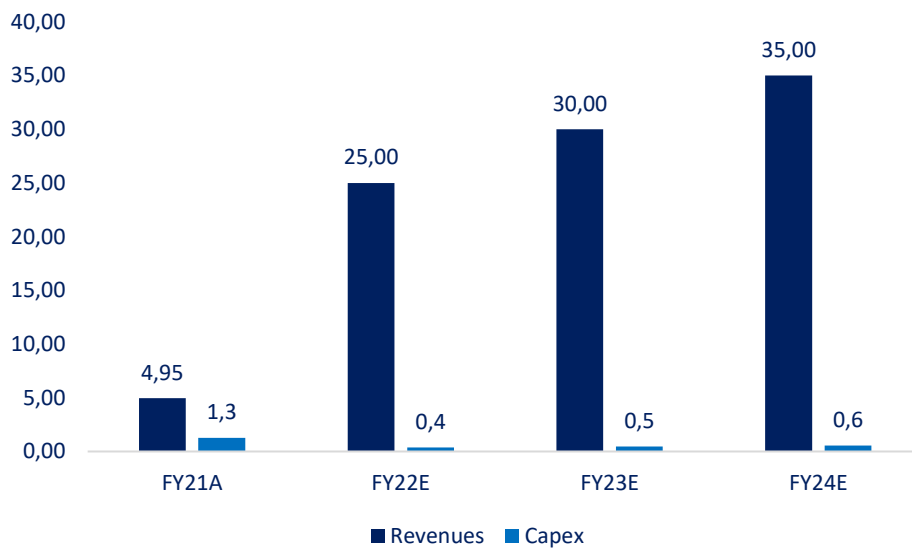
Source: Integrae SIM

Chart 3 – Margin FY21A-24E



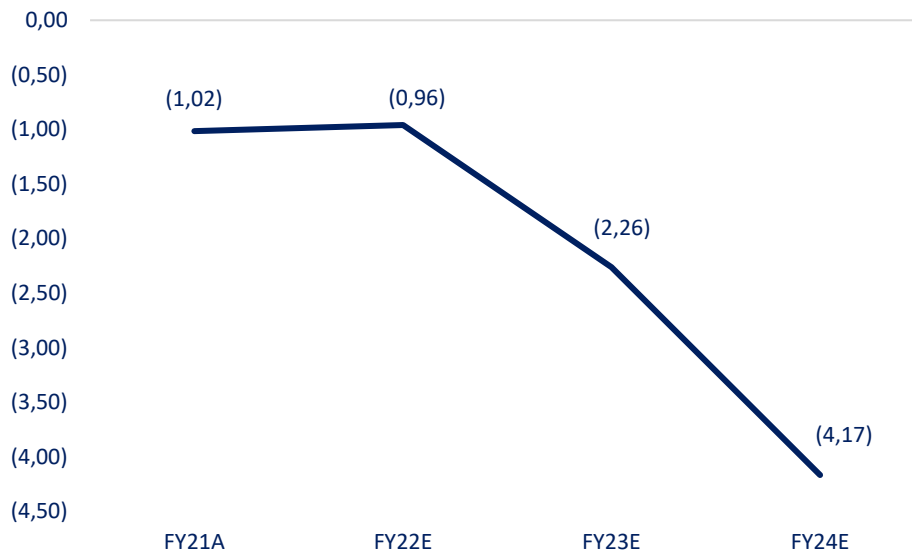
Source: Integrae SIM

Chart 4 – Capex FY21A-24E



Source: Integrae SIM

Chart 5 – NFP FY21A-24E



Source: Integrae SIM

2. Valuation

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

2.1 DCF Method

Table 4 – WACC

WACC		7,28%
Risk Free Rate	2,18% α (specific risk)	2,50%
Market Premium	9,08% Beta Adjusted	0,5
D/E (average)	33,33% Beta Relevered	0,6
Ke	9,23% Kd	2,00%

Source: Integrae SIM

For prudential purposes, we have included a specific risk of 2.5%. This results in a WACC of 7.28%.

Table 5 – DCF Valuation

DCF Equity Value		45,6
FCFO actualized	5,7	13%
TV actualized DCF	38,9	87%
Enterprise Value	44,6	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 € 45.6 million**.

Table 6 – Equity Value – Sensitivity Analysis

€/mln	Growth Rate (g)	WACC						
		5,8%	6,3%	6,8%	7,3%	7,8%	8,3%	8,8%
2,5%		84,8	73,4	64,7	57,8	52,2	47,6	43,8
2,0%		74,5	65,6	58,6	53,0	48,3	44,4	41,0
1,5%		66,6	59,5	53,7	49,0	45,0	41,6	38,6
1,0%		60,3	54,5	49,7	45,6	42,1	39,2	36,6
0,5%		55,3	50,4	46,2	42,7	39,7	37,1	34,8
0,0%		51,1	46,9	43,3	40,3	37,6	35,2	33,1
-0,5%		47,6	43,9	40,8	38,1	35,7	33,6	31,7

Source: Integrae SIM

2.2 Market multiples

Our panel is made up of companies operating in the same sector as ESI. These companies are the same ones used for the calculation of Beta for the DCF method. The Panel is composed of:

Table 7 – 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.	13,6	12,4	11,7	28,9	23,1	22,9	107,1	43,9	61,2
Boralex Inc.	19,6	19,1	18,6	47,8	38,8	53,0	45,1	44,2	96,7
Renergetica SpA	9,5	8,9	8,1	10,9	10,3	9,4	13,0	12,8	11,6
Iniziative Bresciane S.p.A.	8,6	7,4	6,9	17,6	15,3	12,7	15,5	13,3	10,8
Altea Green Power S.p.A.	6,1	4,8	4,1	6,7	5,2	4,5	9,7	7,7	6,5
Peer median	9,5	8,9	8,1	17,6	15,3	12,7	15,5	13,3	11,6

Source: Infinancials

Table 8 – Market Multiples Valuation

€/mln	FY22E	FY23E	FY24E
Enterprise Value (EV)			
EV/EBITDA	21,8	27,6	33,3
EV/EBIT	34,2	41,3	46,4
P/E	19,4	24,0	28,4
Equity Value			
EV/EBITDA	22,7	29,9	37,5
EV/EBIT	35,2	43,6	50,5
P/E	19,4	24,0	28,4
Equity Value post 25% discount			
EV/EBITDA	17,1	22,4	28,1
EV/EBIT	26,4	32,7	37,9
P/E	14,5	18,0	21,3
Average	19,3	24,4	29,1

Source: Integrae SIM

The equity value of ESI using the market multiples EV/ EBITDA, EV/EBIT and P/E is equal to € 32.3 million. To this value, we applied a 25,0% discount: the result is an **equity value equal to € 24.3 mln.**

2.3 Equity Value

Table 9 – Equity Value

Average Equity Value (€/mln)	34,9
Equity Value DCF (€/mln)	45,6
Equity Value multiples (€/mln)	24,3
Target Price (€)	5,00

Source: Integrae SIM

The result is an average equity value of € 34.9 million. **The target price is, therefore, € 5.00 (prev. € 6.00). We confirm BUY rating and MEDIUM risk.**

Table 10 – Target Price Implied Valuation Multiples

Multiples	FY22E	FY23E	FY24E
EV/EBITDA	14,7x	10,9x	8,3x
EV/EBIT	17,4x	12,6x	9,3x
P/E	27,9x	19,4x	14,2x

Source: Integrae SIM

Table 11 – Current Price Implied Valuation Multiples

Multiples	FY22E	FY23E	FY24E
EV/EBITDA	7,6x	5,6x	4,3x
EV/EBIT	8,9x	6,5x	4,8x
P/E	14,8x	10,2x	7,5x

Source: Integrae SIM

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Date	Price	Recommendation	Target Price	Risk	Comment
09/02/2022	2,72	Buy	6,00	Medium	Flash Note
26/07/2022	2,70	Buy	6,00	Medium	Flash Note
12/07/2022	3,00	Buy	6,00	Medium	Flash Note
26/06/2022	3,68	Buy	6,00	Medium	Flash Note
10/05/2022	3,44	Buy	6,00	Medium	Flash Note
06/05/2022	3,64	Buy	6,00	Medium	Flash Note
24/03/2022	3,74	Buy	6,00	Medium	Flash Note
21/03/2022	3,58	Buy	6,00	Medium	Update
30/12/2021	4,00	U/R	U/R	Medium	Flash Note
12/11/2021	4,00	U/R	U/R	Medium	Flash Note

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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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)

The methods that INTEGRAE SIM SpA prefers to use for value the company under analysis are those which are generally used, such as the market multiples method which compares average multiples (P/E, EV/EBITDA, and other) of similar shares and/or sectors, and the traditional financial methods (RIM, DCF, DDM, EVA etc). For financial securities (banks and insurance companies) Integrae SIM SpA tends to use methods based on comparison of the ROE and the cost of capital (embedded value for insurance companies). The estimates and opinions expressed in the publication may be subject to change without notice. Any copying and/or redistribution, in full or in part, directly or indirectly, of this document are prohibited, unless expressly authorized.

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In order to disclose its possible interest conflict Integrae SIM states that:

- It operates or has operated in the past 12 months as the entity responsible for carrying out the activities of Euronext Growth Advisor of ESI S.p.A.;
- It plays, or has played in the last 12 months, role of specialist financial instruments issued by ESI S.p.A.
- In the IPO phase, it played the role of Global Coordinator.