

ACQUISITION OF ENIGMA

A NEW PLAYGROUND IN THE MIDDLE EAST

After France, Spain and Monaco, EDAC sets out to conquer the Middle East with the acquisition of 51% of Enigma. With strong financial position after 2 years of very strong growth in its results (Net Cash at the end of 2022e of €9.6m, including €34.0m in gross cash), the group targeted a new promising growth driver (in addition to the energy renovation activity and its development in France and Spain) while it is having to deal with the end of the Bonus Facade, which boosted its growth in Italy in 2021-22. In addition to Enigma's expected strong growth thanks to a major contract signed, the financial structuring of the deal tempers the price paid (15x Net Income vs. 7.6x PE 2022e for EDAC). Opinion to BUY reiterated, TP unchanged at €26.

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Acquisition of 51% of Enigma to gain a foothold in the Middle East

The Italian group announced on March 2nd an agreement to acquire a 51% stake in Enigma, a company active in construction, rope access and cleaning services in the Middle East (United Arab Emirates, Dubai). The company employ more than 400 people and reported in 2021 revenues of around €6.4m, EBITDA of €1m (16% margin) and net profit of €0.8m. The company is expected to grow strongly over the next few years after winning a contract for the Burj Khalifa skyscraper in Dubai, which required the hiring of around 200 new employees.

Excluding the impact of the Burj Khalifa contract, the acquisition represents a scope effect of +5pts on revenues and +3pts on EBITDA, with an accretive impact of +2% on EPS thanks to the absence of taxes. In addition, the transaction allows EDAC to (i) address a new geography after France, Spain and Monaco, reducing its exposure to the Italian market (96% of 2022e sales) and (ii) find a new growth driver (in addition to the development in France and Spain and the new energy renovation activity) while the Bonus Facade in Italy has ended in 2022.

A relevant financing and a valuation to be put into perspective

The acquisition of 51% of Enigma will cost €7.2m, 70% of which will be paid at the time of signature and 30% based on 2023 financial achievements. The Italian group and Enigma's minority shareholders have signed respectively call and put options. Finally, Enigma's shareholders have committed to reinvest up to 30% of the proceeds of the sale in EDAC shares based on the average price of the last 6 months without discount, demonstrating their confidence in the project of the new entity. The latter will subscribe to a reserved capital increase that will allow them to hold circa 1.5% of EDAC.

While the price paid may seem high (15x Net Income 2021) compared to EDAC's current valuation (PE 2022 of 7.6x), the absence of taxes and Enigma's expected strong growth over the next few years temper this negative point. Finally, EDAC has a solid financial position, with a net cash position at the end of June 2022 of €6.8m (including a gross cash position of €33.4m) which should reach €9.6m by the end of 2022.

Invest Securities and the issuer have signed an analyst coverage agreement.

in € / share	2022e	2023e	2024e
Adjusted EPS	2,25	2,04	2,44
chg.	+43%	-9%	+19%
estimates chg.	-4%	-7%	n.s.

au 31/12	2022e	2023e	2024e
PE	7,4x	8,2x	6,8x
EV/Sales	1,0x	0,9x	0,7x
EV/Adjusted EBITD	3,8x	4,4x	3,3x
EV/Adjusted EBITA	4,0x	4,8x	3,5x
FCF yield*	16,9%	14,5%	19,6%
Div. yield (%)	1,8%	4,8%	2,4%

* After tax op. FCF before WCR

key points			
Closing share price	20/03/2023		16,7
Number of Shares (m)			8,2
Market cap. (€m)			138
Free float (€m)			35
ISIN			IT0005351504
Ticker			EDAC-IT
DJ Sector			Consumer Durables

	1m	3m	Ytd
Absolute perf.	+3,3%	+6,5%	+6,0%
Relative perf.	+8,9%	+0,5%	+1,5%

Source : Factset, Invest Securities estimates

FINANCIAL DATA

Share information	2017	2018	2019	2020	2021	2022e	2023e	2024e
Published EPS (€)	0,19	0,32	0,14	0,22	1,37	2,53	1,85	2,27
Adjusted EPS (€)	0,27	0,38	0,09	0,23	1,57	2,25	2,04	2,44
<i>Diff. I.S. vs Consensus</i>	<i>nd</i>	<i>+26,6%</i>	<i>-36,8%</i>	<i>+4,6%</i>	<i>+8,6%</i>	<i>nd</i>	<i>nd</i>	<i>nd</i>
Dividend	0,00	0,00	0,00	0,16	0,30	0,80	0,40	0,50

Valuation ratios	2017	2018	2019	2020	2021	2022e	2023e	2024e
P/E	nd	8,9x	66,7x	23,7x	7,9x	7,4x	8,2x	6,8x
EV/Sales	nd	0,78x	1,28x	1,20x	1,12x	0,99x	0,91x	0,69x
EV/Adjusted EBITDA	nd	4,5x	23,5x	12,8x	4,6x	3,8x	4,4x	3,3x
EV/Adjusted EBITA	nd	5,0x	39,1x	17,9x	5,0x	4,0x	4,8x	3,5x
Op. FCF bef. WCR yield	nd	6,9%	1,5%	4,5%	14,1%	16,9%	14,5%	19,6%
Op. FCF yield	nd	n.s.	n.s.	n.s.	15,1%	11,4%	16,4%	18,6%
Div. yield (%)	nd	n.s.	n.s.	n.s.	1,3%	1,8%	4,8%	2,4%

NB : valuation based on annual average price for past exercise

Entreprise Value (€m)	2017	2018	2019	2020	2021	2022e	2023e	2024e
<i>Share price in €</i>	<i>nd</i>	<i>3,4</i>	<i>5,9</i>	<i>5,5</i>	<i>12,3</i>	<i>16,7</i>	<i>16,7</i>	<i>16,7</i>
Market cap.	nd	20,7	46,2	44,1	99,0	136,0	136,7	136,7
Net Debt	nd	-2,1	2,7	7,7	-3,6	-9,6	-21,4	-36,3
Minorities	nd	0,1	0,0	0,0	0,0	0,0	0,0	0,0
Provisions/ near-debt	nd	0,7	1,2	1,8	2,6	3,1	3,6	4,1
+/- Adjustments	nd	0,0	0,0	0,0	-0,4	-0,4	-0,4	-0,4
Entreprise Value (EV)	nd	19,4	50,0	53,6	97,6	129,1	118,4	104,1

Income statement (€m)	2017	2018	2019	2020	2021	2022e	2023e	2024e
Sales	16,3	25,0	39,2	44,7	86,9	130,9	130,0	152,0
<i>chg.</i>	<i>+30,5%</i>	<i>+53,5%</i>	<i>+57,0%</i>	<i>+13,9%</i>	<i>+94,7%</i>	<i>+50,5%</i>	<i>-0,7%</i>	<i>+17,0%</i>
Adjusted EBITDA	2,8	4,3	2,1	4,2	21,2	33,8	27,0	31,8
adjusted EBITA	2,3	3,9	1,3	3,0	19,6	32,4	24,9	29,5
<i>chg.</i>	<i>-15,5%</i>	<i>+69,9%</i>	<i>-67,2%</i>	<i>+133,8%</i>	<i>+553,9%</i>	<i>+65,3%</i>	<i>-23,1%</i>	<i>+18,5%</i>
EBIT	2,3	3,9	1,3	3,0	19,6	32,4	24,9	29,5
Financial result	-0,1	-0,3	-0,3	-0,3	-1,2	-1,0	-1,0	-0,9
Corp. tax	-0,8	-1,1	-0,9	-1,1	-6,0	-10,2	-7,5	-9,2
Minorities+affiliates	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Net attributable profit	1,4	2,5	0,1	1,6	12,3	21,1	16,4	19,4
Adjusted net att. profit	1,5	2,5	0,7	1,9	12,6	18,3	16,7	20,0
<i>chg.</i>	<i>-20,9%</i>	<i>+67,1%</i>	<i>-72,1%</i>	<i>+170,8%</i>	<i>+568,9%</i>	<i>+45,1%</i>	<i>-8,5%</i>	<i>+19,4%</i>

Cash flow statement (€m)	2017	2018	2019	2020	2021	2022e	2023e	2024e
Adjusted EBITDA	2,8	4,3	2,1	4,2	21,2	33,8	27,0	31,8
Theoretical Tax / Adj. EBITA	-0,7	-1,2	-0,4	-0,9	-5,9	-9,7	-7,5	-8,8
Capex	-0,9	-1,8	-1,0	-0,9	-1,5	-2,2	-2,3	-2,5
Operating FCF bef. WCR	1,3	1,3	0,8	2,4	13,7	21,8	17,2	20,4
Change in WCR	-2,2	-3,6	-4,1	-7,4	1,0	-7,1	2,2	-1,0
Operating FCF	-0,9	-2,2	-3,4	-5,0	14,8	14,8	19,4	19,4
Acquisitions/disposals	0,0	0,1	-1,3	0,0	-0,5	0,0	0,0	0,0
Capital increase/decrease	0,0	5,7	0,7	0,4	-0,1	0,4	0,0	0,0
Dividends paid	-0,7	0,0	0,0	-0,8	-1,7	-2,4	-6,6	-3,3
Other adjustments	0,2	0,9	-0,9	0,3	-1,1	-6,7	-1,0	-1,3
Published Cash-Flow	-1,4	4,4	-4,8	-5,0	11,3	6,0	11,9	14,8

Balance Sheet (€m)	2017	2018	2019	2020	2021	2022e	2023e	2024e
Assets	1,2	2,5	5,1	5,8	5,5	5,9	6,0	6,0
Intangible assets/GW	0,8	1,7	3,9	4,4	3,9	3,4	2,6	1,7
WCR	3,6	6,2	10,2	16,6	15,6	22,6	20,4	21,4
Group equity capital	2,0	9,9	11,5	12,9	22,1	35,5	44,1	59,5
Minority shareholders	0,1	0,1	0,0	0,0	0,0	0,0	0,0	0,0
Provisions	0,4	0,7	1,2	1,8	2,6	3,1	3,6	4,1
Net financial debt	2,3	-2,1	2,7	7,7	-3,6	-9,6	-21,4	-36,3

Financial ratios	2017	2018	2019	2020	2021	2022e	2023e	2024e
Adj. EBITDA margin	17,2%	17,2%	5,4%	9,3%	24,3%	25,8%	20,7%	20,9%
Adj. EBITA margin	14,1%	15,6%	3,3%	6,7%	22,5%	24,7%	19,1%	19,4%
Adjusted Net Profit/Sales	9,2%	10,0%	1,8%	4,2%	14,5%	14,0%	12,9%	13,1%
ROCE	47,7%	45,0%	8,3%	13,4%	92,8%	113,2%	94,3%	107,2%
ROE adjusted	74,7%	25,1%	6,1%	14,7%	57,0%	51,5%	37,9%	33,6%
Gearing	116,9%	n.s.	23,2%	59,8%	n.s.	n.s.	n.s.	n.s.
ND/EBITDA (in x)	0,8x	-0,5x	1,3x	1,8x	-0,2x	-0,3x	-0,8x	-1,1x

Source : company, Invest Securities Estimates

INVESTMENT CASE

Atypical actor in the construction market, EDAC is an Italian group only exercising the trade of rope access for renovations and maintenance of buildings of more than 3 floors. Relatively recent, this technique has many advantages over scaffolding work. In a competitive landscape limited to SMEs and artisans, EDAC has chosen to industrialize its approach, particularly in the field of training. Already leader of the Italian market still partially penetrated, this strategy, completed by acquisitions of local actors, must enable it to conquer new European markets.

SWOT ANALYSIS

STRENGTHS

- ❑ Training center
- ❑ Structuring of the services and the model
- ❑ European leader

THREATS

- ❑ Very long period for repayment
- ❑ Very high exposure to the Italian market

OPPORTUNITIES

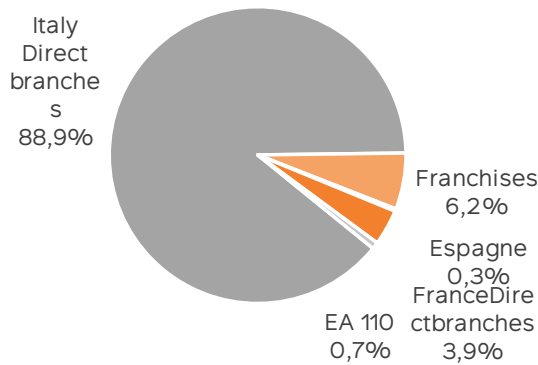
- ❑ Fragmentation of the market
- ❑ Competition limited to SMEs/artisans

MENACES

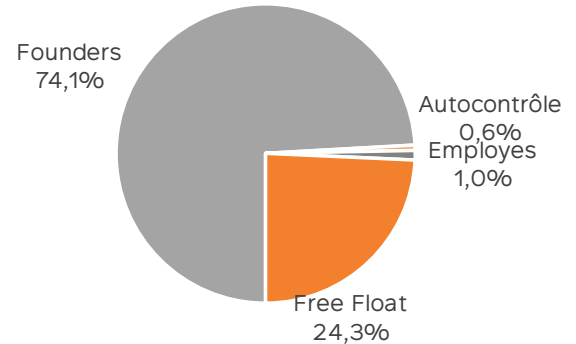
- ❑ Arrival on the market of giant construction companies
- ❑ Difficulties to replicate the model outside Italy

ADDITIONAL INFORMATION

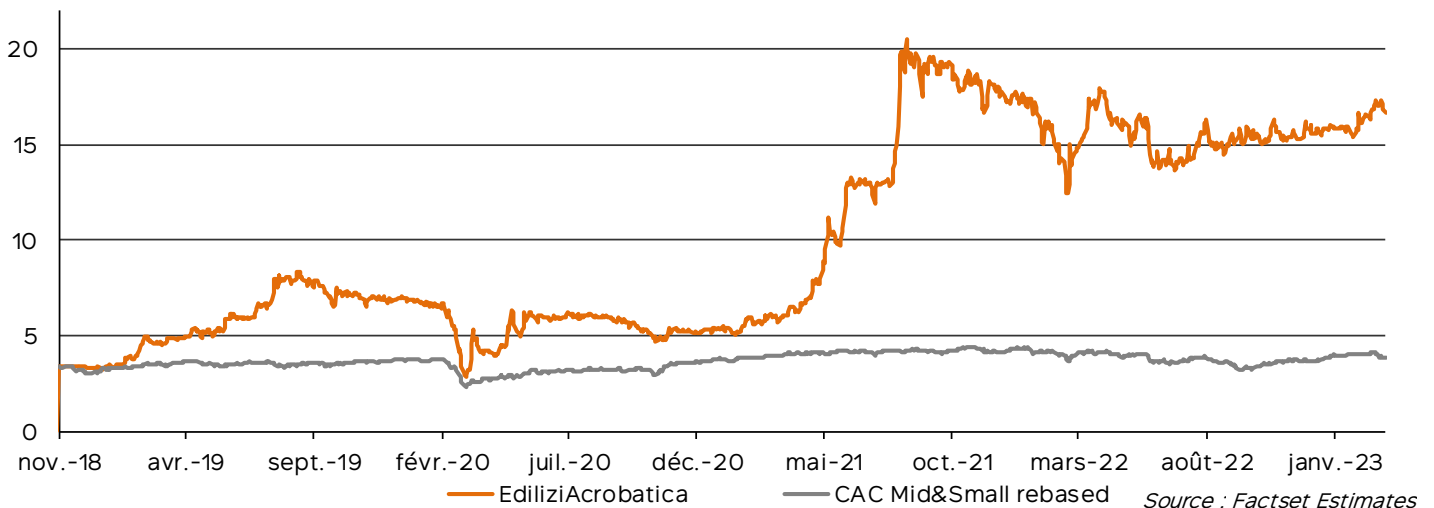
Sales Breakdown 2021



Shareholders



SHARE PRICE CHANGE SINCE IPO



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TARGET PRICE AND RECOMMENDATION

Our analyst ratings are dependent on the expected absolute performance of the stock on a 6- to 12-month horizon. They are based on the company’s risk profile and the target price set by the analyst, which takes into account exogenous factors related to the market environment that may vary considerably. The Invest Securities analysis office sets target prices based on a multi-criteria fundamental analysis, including, but not limited to, discounted cash flows, comparisons based on peer companies or transaction multiples, sum-of-the-parts value, restated net asset value, discounted dividends.

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- BUY: Upside potential of more than 10% (the minimum upside required may be revised upward depending on the company’s risk profile)
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- TENDER or DO NOT TENDER: Recommendations used when a public offer has been made for the issuer (takeover bid, public exchange offer, squeeze-out, etc.)
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- UNDER REVIEW: Temporary recommendation used when an exceptional event that has a substantial impact on the company’s results or our target price makes it impossible to assign a BUY, NEUTRAL or SELL rating to a stock

12-MONTH HISTORY OF OPINION

The table below reflects the history of price recommendation and target changes made by the financial analysis office of Invest Securities over the past 12 months.

Company Name	Main Author	Release Date	Rating	Target Price	Potential
EDAC	Maxime Dubreil	13-déc.-22	ACHAT	26,0	+69%
EDAC	Maxime Dubreil	10-mai.-22	ACHAT	24,0	+53%

DETECTION OF CONFLICTS OF INTEREST

	EDAC
Invest Securities was lead manager or co-lead manager in a public offer concerning the financial instruments of this issuer during the last twelve months.	No
Invest Securities has signed a liquidity contract with the issuer.	Yes
Invest Securities and the issuer have signed a research service agreement.	Yes
Invest Securities and the issuer have signed a Listing Sponsor agreement.	Yes
Invest Securities has been remunerated by this issuer in exchange for the provision of other investment services during the last twelve months (RTO, Execution on behalf of third parties, advice, placement, underwriting).	No
This document was sent to the issuer prior to its publication. This rereading did not lead the analyst to modify the valuation.	Yes
This document was sent to the issuer for review prior to its publication. This rereading led the analyst to modify the valuation.	No
The financial analyst has an interest in the capital of the issuer.	No
The financial analyst acquired equity securities of the issuer prior to the public offering transaction.	No
The financial analyst receives remuneration directly linked to the transaction or to an investment service provided by Invest Securities.	No
An executive officer of Invest Securities is in a conflict of interest with the issuer and was given access to this document prior to its completion.	No
Invest Securities or the All Invest group owns or controls 5% or more of the share capital issued by the issuer.	No
Invest Securities or the All Invest group holds, on a temporary basis, a net long position of more than 0.5% of the issuer's capital.	No
Invest Securities or the All Invest group holds, on a temporary basis, a net short position of more than 0.5% of the issuer's capital.	No
The issuer owns or controls 5% or more of the capital of Invest Securities or the All Invest group.	No

Invest Securities's conflict of interest management policy is available on the Invest Securities website in the Compliance section. A list of all recommendations released over 12 months as well as the quarterly publication of "BUY, SELL, NEUTRAL, OTHERS" over 12 months, are available on the Invest Securities research platform.

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