GBC AG
Investment Research

Landi Renzo S.p.A.*6a, 11

Rating: BUY
Target price: € 0.60
(previously: € 0.70)

Current share price: 0.39
19/12/2023 / Frankfurt
(8:01 am)

Currency: EUR

Master data:

ISIN: IT0004210289
WKN: A0MUQC
Ticker symbol: LDRZF
Number of shares³: 225.00
Market cap³: 87.75
Enterprise value³: 164.99
in million / in million EUR
Free float: 25.5%

Market segment:
Euronext STAR Milan

Accounting:
IFRS

Financial year: 31/12/

Analysts:

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* Catalogue of possible conflicts of interest on page 10

Date (time) completion:
21/12/2023 (7:21 am)

Date (time) first transfer:
21/12/2023 (10:00 am)

Validity of the price target: until max. 31/12/2024

Company profile

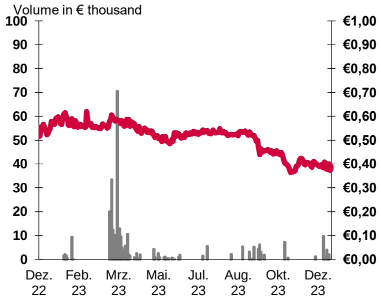
Industry: green mobility and clean tech

Focus: products and systems for gas and hydrogen mobility, alternative compressor technologies for gas and hydrogen infrastructures

Employees: 976 (as at 30/06/2022)

Headquarters / Foundation: Reggio Emilia (Italy) / 1954

Board of directors: Annalisa Stupenengo (CEO)



With a presence in over 50 countries and an export share of around 80.0%, Landi Renzo S.p.A. (Landi Renzo) is a major player in the international market for technologies that enable greener mobility. The parent company - Landi Renzo S.p.A. was founded in 1954 and is based in Reggio Emilia (Italy). Landi Renzo develops, produces and distributes components and alternative propulsion systems for gas and hydrogen mobility (natural gas, LPG/autogas, biogas/RNG, hydrogen fuel systems), addressing two customer segments: car/truck manufacturers (OEMs) and installers and dealers (aftermarket). Through the company SAFE & CEC S.r.l. (shareholding: 51.0%), the Landi Renzo Group is also active in the field of compression solutions for gas and hydrogen infrastructure (CNG, biogas/RNG, hydrogen filling stations). In this segment of alternative compression solutions, the company also offers high-margin maintenance and service for its installed compressors (worldwide installed base: > 6,000 compressors). Through this positioning, this Group is very much involved in energy turnaround (decarbonisation of the economy - and the transport sector) and can make a decisive contribution to countries and companies achieving their environmental and climate policy goals through the product portfolio it offers.

P&L in EUR million	31/12/2021	31/12/2022	31/12/2023e	31/12/2024e	31/12/2025e
Revenues	241.99	306.30	307.14	316.86	345.89
EBITDA	12.62	11.04	0.64	13.31	21.10
EBIT	-3.00	-6.03	-18.31	-5.90	1.65
Net result (after minorities)	-1.02*	-14.28	-36.10	-11.48	-4.87
includes consolidation gain from the fair value measurement of SAFE & CEC (€ 8.80 million)					
Key figures in EUR					
Earnings per share (EPS)	-0.01	-0.06	-0.16	-0.05	-0.02
Dividend per share	0.00	0.00	0.00	0.00	0.00

Key figures					
EV/revenue	0.68	0.54	0.54	0.52	0.48
EV/EBITDA	13.07	14.94	257.80	12.40	7.82
EV/EBIT	neg.	neg.	neg.	neg.	100.00
P/E-ratio	neg.	neg.	neg.	neg.	neg.
P/B-ratio		0.83			

Financial calendar

**latest research from GBC:
Date: Publication / target price in EUR / rating
20/09/2023: RS / 0.70 / BUY
08/12/2022: RS / 0.98 / BUY
08/11/2022: RS / 0.98 / BUY
** The research studies listed above can be viewed at www.gbc-ag.de or requested from GBC AG, Halderstr. 27, D86150 Augsburg, Germany

Note in accordance with MiFID II regulation for "minor non-monetary benefit" research: This research fulfils the requirements for classification as a "minor non-monetary benefit". Further information on this can be found in the disclosure under "I. Research under MiFID II"

Nine-months 2023: Landi Renzo continues to grow thanks to strong OEM business; unfavourable sales mix weighs on profitability; operating margin recovery continues in Q3; GBC estimates and price target adjusted; Buy rating confirmed

Business performance 9M 2023

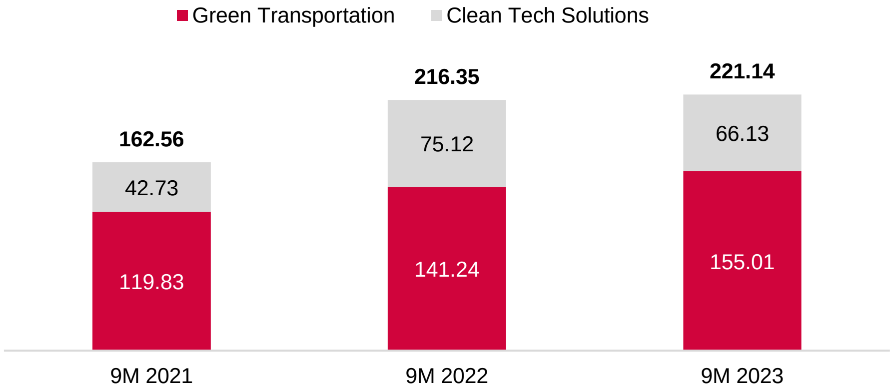
Group key figures (in € million)	9M 2021	9M 2022	9M 2023
Revenues	162.56	216.35	221.14
Adjusted EBITDA (Adj. EBITDA)	7.56	8.70	4.57
EBITDA	5.95	7.07	-1.12
Net result (after minority interests)	-1.90*	-10.12	-27.73

*Sources: Landi Renzo S.p.A.; GBC AG *Includes a non-operating consolidation gain from the fair value measurement of SAFE & CEC (€ 8.80 million)*

The Landi Renzo Group announced its nine-month figures for the current 2023 financial year in mid-November. Based on these figures, the technology group continued its growth streak in the first three quarters of the financial year despite difficult conditions (war in Ukraine, inflationary pressure, higher interest rates, etc.). Group sales increased moderately by 2.2% to € 221.14 million compared to the same period of the previous year (9M 2022: € 216.35 million).

The strong expansion of business in the main business area of "Green Transportation" proved to be a key growth driver. This enabled the company to benefit significantly from the increased demand from leading car manufacturers for technological solutions for more climate-friendly mobility and more environmentally-friendly drive systems in the volume sector (mass car market).

Development of Group and segment revenue on a nine-month basis (in € million)



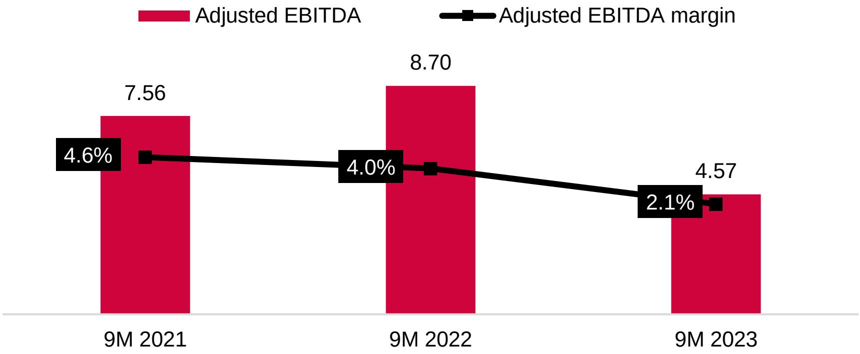
Sources: Landi Renzo S.p.A.; GBC AG

The consolidated sales revenue generated was primarily driven by the core business segment "Green Transportation" (share of sales: 70.1%). In this business segment, sales revenue increased significantly by 9.8% to € 155.01 million (9M 2022: € 141.24 million), mainly thanks to stronger OEM business.

The increased growth in the OEM sales channel (9M 2023: +33.2% to € 98.70 million) was driven by a sharp rise in orders for bi-fuel engines and increased sales of components in the OEM Mid & Heavy Duty segment. Due to weaker sales in some Latin American and Eastern European markets, the After-Market sales channel recorded a significant decline in revenue to € 56.30 million (9M 2022: € 67.10 million).

In contrast to the core business ("Green Transportation"), the "Clean Tech Solutions" business division recorded a significant decline in segment sales to € 66.13 million (9M 2022: € 75.12 million). The main reason for this decline in sales was not only the reduced production, which particularly affected the third quarter, but also the postponement of some major orders planned for 2023 to the following financial year 2024.

Development of EBITDA and adjusted EBITDA on a nine-month basis (in € million)



Sources: Landi Renzo S.p.A.; GBC AG

In contrast to the positive Group sales trend, Landi Renzo suffered a significant decline in operating earnings (EBITDA) to € -1.12 million (9M 2022: € 7.07 million). This was mainly due to an unfavourable sales mix in the "Green Transportation" business segment (lower-margin OEM car sales share), a lower business volume in the "Clean Tech Solutions" segment and higher fixed costs incurred to strengthen the company's operating structure. As a result, the EBITDA margin also fell compared to the same period of the previous year and even slipped into negative territory at - 0.5% (9M 2022: 3.3%).

This decline in consolidated operating profit was only partially offset by an agreed list price change with a major customer of the Landi Renzo Group in the OEM distribution channel in the second half of the half-year and a price increase in the OEM Mid & Heavy Duty business area in the final months of the financial year.

Adjusted for special costs and one-off costs (e.g. M&A costs or restructuring costs), adjusted EBITDA (Adj. EBITDA) of € 4.57 million was achieved in the past three quarters, which was significantly below the earnings level of the same period in the previous year (9M 2022: € 8.70 million). The adjusted EBITDA margin (Adj. EBITDA margin) also fell accordingly to 2.1% (9M 2022: 4.0%). The (adjusted) Group EBITDA of € 3.25 million (9M 2022: € 4.28 million) was primarily attributable to the Clean Tech Solutions segment. Meanwhile, the core business segment "Green Transportation" contributed € 1.33 million (9M 2022: € 4.42 million) to the Group result.

At the after-tax level, the technology group recorded a negative consolidated net result (after minority interests) of € -27.73 million compared to the same period of the previous year and thus had to accept a significant decline in net earnings compared to the same period of the previous year (9M 2022: € -10.12 million). In addition to the weaker operating performance and high one-off extraordinary costs, significant write-downs on a portion of the deferred tax assets recognised in the previous year for tax losses also had a significant negative impact on the earnings trend. In addition, significantly higher (incurred) tax expenses of € 5.62 million (9M 2022: € 1.02 million) also had a negative impact on earnings.

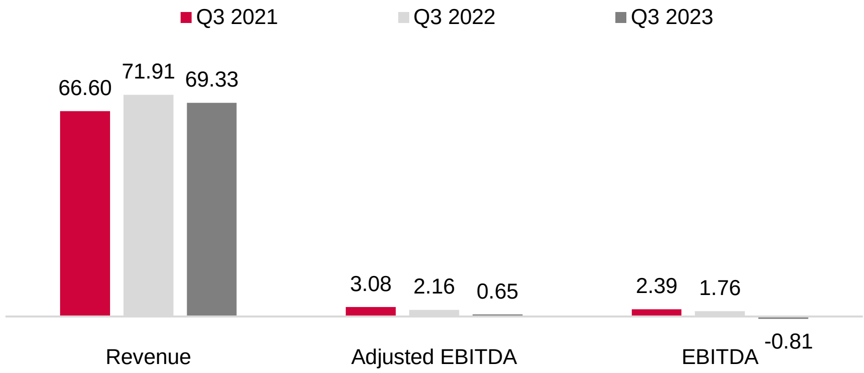
Business performance in Q3 2023

Group key figures (in € million)	Q3 2021	Q3 2022	Q3 2023
Revenues	66.60	71.91	69.33
Adjusted EBITDA (Adj. EBITDA)	3.08	2.16	0.65
EBITDA	2.39	1.76	-0.81
Net result (before minority interests)	-3.13	-3.27	-7.68

Sources: Landi Renzo S.p.A.; GBC AG

At a quarterly level, the Landi Renzo Group recorded a 3.6% decline in consolidated sales to € 69.33 million (Q3 2022: € 71.91 million) compared to the same quarter of the previous year due to weaker business development in its infrastructure business segment. Segment sales in the Clean Tech Solutions division fell by 24.2% to € 18.58 million at the end of the third quarter (Q3 2022: € 24.52 million), mainly due to a lower production volume. The decline in production volume was primarily the result of orders being postponed to the following financial year 2024.

Q3 performance of the Landi Renzo Group (in € million)



Sources: Landi Renzo S.p.A.; GBC AG

By contrast, the core business area "Green Transportation" developed in the opposite direction. Thanks to increased OEM customer demand for technological solutions for bi-fuel engines in particular, segment revenue in this division increased significantly by 7.1% to € 50.75 million (Q3 2022: € 47.39 million).

At Group operating result level, adjusted EBITDA (Adj. EBITDA) fell by 30.1% to € 0.65 million (Q3 2022: € 2.16 million), primarily due to the decline in sales and earnings in the Clean Tech Solutions division. At the same time, the adjusted EBITDA margin fell to 1.00% (Q3 2022: 3.0%).

Forecast and evaluation

With the publication of its nine-month and Q3 figures, the Landi Renzo Group has confirmed its most recently adjusted corporate guidance for the 2023 financial year in the form of the outlook for the two business segments "Green Transportation" (sales growth and lower profitability compared to the previous year, but margin improvement in H2 2023) and "Clean Tech Solutions“ (sales at the previous year's level, but with an improvement in profitability on an Adj. EBITDA basis).

In this context, the technology group specifically expects a slight increase in sales in the core segment "Green Transportation" for the fourth quarter of the current financial year, which has already begun, compared to the previous third quarter, which should result in particular from increased sales in the OEM sales channel. Due to the increase in profitability achieved in this segment in the previous third quarter, Landi Renzo expects a (further) improvement in adjusted EBITDA for the fourth quarter compared to the previous nine months. After the "Clean Tech Solutions" segment suffered from postponed orders in the third quarter, the technology company is nevertheless anticipating an increase in sales and profitability for the current fourth quarter compared to the previous quarter.

In view of the company's performance falling short of our expectations, the significant slowdown in growth momentum and the persistently difficult general conditions, we have adjusted our previous sales and earnings estimates downwards. For the current 2023 financial year, we are now forecasting sales of € 307.14 million (previously: € 323.88 million) and EBITDA of € 0.64 million (previously: € 9.58 million). Our significantly reduced operating earnings forecast is the result of a lower expected business volume as well as significantly higher expected one-off costs and special costs (e.g. restructuring costs).

For the following financial year 2024, we expect sales of € 316.86 million (previously: € 357.17 million) and EBITDA of € 13.31 million (previously: € 24.76 million). In the following year 2025, sales and EBITDA should increase again to € 345.89 million (previously: € 379.73 million) and € 21.10 million (previously: € 37.94 million) respectively.

P&L in € million	FY 2022	FY 2023e (new)	FY 2023e (old)	FY 2024e (new)	FY 2024e (old)	FY 2025e (new)	FY 2025e (old)
Revenues	306.30	307.14	323.88	316.86	357.17	345.89	379.73
EBITDA	11.04	0.64	9.58	13.31	24.76	21.10	37.94
EBIT	-6.03	-18.31	-14.37	-5.90	3.55	1.65	18.17
Net result (after minority interests)	-14.28	-36.10	-27.08	-11.48	-5.78	-4.87	5.45

Sources: Landi Renzo S.p.A.; GBC AG forecasts

Our forecast for the Landi Renzo Group's future margin recovery is based on rather conservative assumptions, i.e. the expected improvement in Group profitability may be significantly stronger if, for example, the after-market business and infrastructure business recover more quickly.

Overall, despite their temporary weakness, we believe that the Landi Renzo Group is in a good starting position to return to a significant growth trajectory from the coming 2024 financial year. The expected recovery of the high-margin after-market business and the increased expansion of the infrastructure and MHD business (mid- and heavy-duty business) should prove to be key growth drivers. Landi Renzo has recently gained significant momentum, particularly in the expansion of their high-margin MHD business (LNG & CNG trucks), and should also be able to continue their growth streak in this niche. Thanks to an expected improved sales mix in the "Green Transportation segment" (higher share of the lucrative after-market business and MHD business) and the forecast recovery of their profitable infrastructure business, this technology company should be able to significantly improve its earnings situation from the coming financial year.

The measures initiated by the management to optimise and strengthen their business model and corporate structure should also help the technology group to continue its growth trajectory in the area of sustainable mobility, particularly in mid and heavy-duty vehicles, as well as in the area of natural gas, biomethane and hydrogen infrastructures. At the same time, the acceleration of growth and the optimisation of their business model should also lead to a significant improvement in future profitability.

We assume that Landi Renzo's management will publish new corporate guidance in the first quarter of the coming 2024 financial year.

In light of our lowered sales and earnings forecasts for the current financial year and subsequent years, we have lowered our previous price target to € 0.60 (previously: € 0.70) per share. In view of the current share price level, we therefore assign a "BUY" rating and see significant upside potential in the Landi Renzo share.

VALUATION

Modelling assumptions

Landi Renzo S.p.A. was valued by us using a three-stage DCF model. Starting with the specific estimates for the years 2023, 2024 and 2025 in phase 1, the forecast from 2026 to 2030 in the second phase is based on value drivers. We expect an increase in sales of 6.0% (previously: 6.0%) and an EBITDA margin of 7.65% to 11.50% (previously: 10.3% to 11.5%). We have included the tax rate of 30.0% in phase 2. In the third phase, a residual value is also determined after the end of the forecast horizon using perpetuity. In the terminal value, we assume a growth rate of 2.50% (previously: 2.00%) due to a sustained increase in the anticipated inflation rate.

Determination of the cost of capital

The weighted average cost of capital (WACC) of Landi Renzo S.p.A. is calculated from the cost of equity and the cost of debt. The fair market premium, the company-specific beta and the risk-free interest rate are used to calculate the cost of equity.

The risk-free interest rate is derived from current yield curves for risk-free bonds in accordance with the recommendations of the IDW's Technical Committee for Business Valuations and Business Administration (FAUB). This is based on the zero bond interest rates published by the Deutsche Bundesbank using the Svensson method. The average yields of the previous three months are used to smooth out short-term market fluctuations. The risk-free interest rate currently used is 2.00% (previously: 2.00%).

We use the historical market premium of 5.50 % as a reasonable expectation of a market premium. This is supported by historical analyses of equity market returns. The market premium reflects the percentage by which the equity market is expected to outperform low-risk government bonds.

According to the GBC estimation method, the current beta is 1.39 (previously: 1.39).

Using the assumptions made, the cost of equity is calculated at 9.66% (previously: 9.66%) (beta multiplied by risk premium plus risk-free interest rate). As we assume a sustainable weighting of equity costs of 90.0%, the weighted average cost of capital (WACC) is 9.19% (previously: 9.19%).

Valuation result

Future cash flows are discounted on the basis of the entity approach. We have calculated the corresponding cost of capital (WACC) at 9.19% (previously: 9.19%). The resulting fair value per share at the end of the 2024 financial year corresponds to a target price of € 0.60 (previously: € 0.70). Our price target reduction results from significantly lowered sales and earnings forecasts for the current financial year 2023 and subsequent financial years.

DCF model

Landi Renzo S.p.A. - Discounted cash flow (DCF) analysis

Value driver of the DCF model after the estimate phase:

consistency - phase	
Revenue growth	6.0%
EBITDA margin	7.7%-11.5%
AFA to operating fixed assets	30.0%
Working capital to revenue	15.0%

final - phase	
Perpetual growth in revenue	2.5%
Perpetual EBITA margin	8.6%
Effective tax rate in terminal value	30.0%

three-stage DCF model:

Phase	estimate			consistency					final
in EUR m	FY 23e	FY 24e	FY 25e	FY 26	FY 27	FY 28	FY 29	FY 30	Terminal value
Revenue (US)	307.14	316.86	345.89	366.64	388.64	411.96	436.68	462.88	
US change	-0.1%	3.2%	9.2%	6.0%	6.0%	6.0%	6.0%	6.0%	2.5%
US to operating fixed assets	3.65	4.27	5.38	6.64	7.77	8.64	9.36	9.87	
EBITDA	0.64	13.31	21.10	28.05	35.56	47.38	50.22	53.23	
EBITDA margin	0.2%	4.2%	6.1%	7.7%	9.2%	11.5%	11.5%	11.5%	
EBITA	-18.31	-5.90	1.65	8.78	19.00	32.38	35.91	39.24	
EBITA margin	-6.0%	-1.9%	0.5%	2.4%	4.9%	7.9%	8.2%	8.5%	8.6%
Taxes on EBITA	-5.49	5.04	-0.49	-2.63	-5.70	-9.71	-10.77	-11.77	
to EBITA	-30.0%	85.4%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
EBI (NOPLAT)	-23.80	-0.86	1.15	6.14	13.30	22.66	25.14	27.47	
Return on investment	-16.3%	-0.6%	0.9%	5.3%	12.1%	20.9%	23.0%	24.5%	24.7%
Working capital (WC)	52.21	50.70	51.88	55.00	58.30	61.79	65.50	69.43	
WC to revenue	17.0%	16.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	
Investments in WC	-0.01	1.52	-1.19	-3.11	-3.30	-3.50	-3.71	-3.93	
Operating fixed assets (OAV)	84.10	74.14	64.24	55.22	50.00	47.70	46.64	46.90	
AFA on OAV	-18.95	-19.21	-19.45	-19.27	-16.56	-15.00	-14.31	-13.99	
AFA to OAV	22.5%	25.9%	30.3%	30.0%	30.0%	30.0%	30.0%	30.0%	
Investment in OAV	-8.90	-9.25	-9.55	-10.25	-11.35	-12.70	-13.25	-14.25	
Invested capital	136.31	124.83	116.12	110.21	108.30	109.49	112.14	116.33	
EBITDA	0.64	13.31	21.10	28.05	35.56	47.38	50.22	53.23	
Taxes on EBITA	-5.49	5.04	-0.49	-2.63	-5.70	-9.71	-10.77	-11.77	
Total investments	-8.91	-7.73	-10.74	-13.36	-14.65	-16.20	-16.96	-18.18	
Investments in OAV	-8.90	-9.25	-9.55	-10.25	-11.35	-12.70	-13.25	-14.25	
Investments in WC	-0.01	1.52	-1.19	-3.11	-3.30	-3.50	-3.71	-3.93	
Investments in goodwill	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Free cash flows	-13.76	10.61	9.87	12.05	15.21	21.47	22.49	23.28	385.38

Value of operating business (reporting date)	285.88	301.54
Present value of explicit FCFs	77.63	74.16
Present value of the continuing value	208.25	227.39
Net debt	72.59	72.87
Value of equity	213.29	228.67
Minority interests in profits	-86.73	-92.99
Value of the share capital	126.55	135.68
Shares outstanding in m	225.00	225.00
Fair value of the share in EUR	0.56	**0.60**

Cost of capital calculation:

Risk-free return	2.0%
Market risk premium	5.5%
Beta	1.39
Cost of equity	9.7%
Target weighting	90.0%
Cost of debt	6.0%
Target weighting	10.0%
Tax shield	17.2%
WACC	**9.2%**

Return on investment	WACC				
	8.6%	**8.9%**	**9.2%**	**9.5%**	**9.8%**
24.2%	0.71	0.64	0.58	0.52	0.47
24.4%	0.73	0.66	0.59	0.53	0.48
24.7%	0.74	0.67	**0.60**	0.54	0.49
24.9%	0.75	0.68	0.61	0.55	0.50
25.2%	0.77	0.69	0.63	0.57	0.51

APPENDIX

§ 1 Disclaimer / Exclusion of liability

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§ 2 (I) Update:

A specific update of the present analysis(es) at a fixed point in time has not yet been scheduled. GBC AG reserves the right to update the analysis without prior notice.

§ 2 (II) Recommendation / Classifications / Rating:

GBC AG has been using a three-stage absolute share rating system since 1 July 2006. Since 1 July 2007, the ratings have referred to a time horizon of at least six to a maximum of 18 months. Previously, the ratings referred to a time horizon of up to 12 months. When the analysis is published, the investment recommendations are determined according to the ratings described below with reference to the expected return. Temporary price deviations outside these ranges do not automatically lead to a change in the rating, but do give rise to a revision of the original recommendation.

The respective recommendations/ classifications/ ratings are associated with the following expectations:

BUY	The expected return, based on the determined price target, including dividend payment within the corresponding time horizon is >= + 10 %.
HOLD	The expected return, based on the determined price target, including dividend payment within the corresponding time horizon is > - 10 % and < + 10 %.

SELL	The expected return, based on the determined price target, including dividend payment within the corresponding time horizon is <= - 10 %.

Price targets of GBC AG are determined on the basis of the fair value per share, which is determined on the basis of generally recognised and widely used methods of fundamental analysis, such as the DCF method, the peer group comparison and/or the sum-of-the-parts method. This is done by taking into account fundamental factors such as share splits, capital reductions, capital increases, M&A activities, share repurchases, etc.

§ 2 (III) Historical recommendations:
GBC's historical recommendations on the present analysis(es) are available on the internet at the following address:
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§ 2 (IV) Information basis:
For the preparation of the present analysis(es), publicly available information on the issuer(s) (where available, the three most recently published annual and quarterly reports, ad hoc announcements, press releases, securities prospectus, company presentations, etc.) was used, which GBC considers to be reliable. Furthermore, in order to prepare the present analysis(es), discussions were held with the management of the company(ies) concerned in order to obtain a more detailed explanation of the facts relating to the business development.

§ 2 (V) 1. Conflicts of interest pursuant to § 85 WpHG and Art. 20 MAR:
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