

Itway (ITW.IM)

HOLD

Sector: IT / Distribution

9M'08/09 results: weak recovery signals.

September 18, 2009

Last results

M€	3Q0809	3Q0708	% var	9M0809	9M0708	% var
Revenues	25.0	29.0	-13.7%	82.7	91.7	-9.8%
Ebitda	0.4	0.7	-50.7%	1.5	3.5	-56.0%
<i>Ebitda margin</i>	1.5%	2.6%		1.8%	3.8%	
Ebit	0.1	0.5	-75.3%	0.8	2.7	-69.6%
<i>Ebit margin</i>	0.5%	1.6%		1.0%	2.9%	
Ebt	-0.2	0.2	n.m.	-0.2	1.6	n.m.

- Over the 9 months Itway revenues decreased 9.8% yoy to 82.7M€. With regards to the third quarter, revenues decreased 13.7% in comparison with the same quarter of the previous year. If we compare the third quarter with the second the drop in revenues seems to have decelerated (-1.8%) thanks to a mild recovery of demand for IT services in the months of April and May.
- That said, ItWay business is characterized by a high operating leverage which affects deeply the profitability in case of lower turnover. Over the 9 months both Ebitda and Ebit registered a drop, respectively -56% and -69.6%, despite the rightsizing plan which has already involved the dismissal of 50 employees.
- The net financial position was negative (debt) for 18.8M€, rising in comparison with the previous period (16.8M€ at March 31, 2009) due to the longer receivables and higher investments carried out over the period (new headquarter in Milan).

Valuation

- Our model, an 8-years DCF, returns a 4.47€ target value, in line with the current stock price.
- For the fiscal year 08/09 we estimate revenues decreasing by 5.7% and a net operating margin of 1.6%, down 130bps yoy. The estimates for the European IT market foresee the Italian market down 5% whereas the French, Spanish, Greek and Turkish markets will decrease between 1.5% and 4%. (*Sources: SIRMI and EITO*).
- Today there isn't enough visibility to foresee a greater recovery in the next years, however ItWay could easily bring back the profitability to the pre-crisis level, when the economic environment will get better, thanks to the restructuring plan carried out in the last months and the good outlook for the new business unit (Virtualization).

Risks

- The financial crisis is reducing IT investments of large companies, impacting both volumes and prices. Unfortunately, despite some weak recovery signals, the market distress will continue at least until the end of the year. In addition, the dollar volatility could penalize Itway's profitability.

Forecast	0708A	0809E	0910E	1011E
Sales (€M)	111.9	105.5	107.8	111.5
EBITDA (€M)	4.1	2.6	3.2	3.5
EPS (€)	0.15	0.02	0.12	0.17
Valuation	0708A	0809E	0910E	1011E
EV/EBITDA	7.3	13.8	11.0	9.6
P/E	30.8	212.2	38.9	26.1
Dividend yield	2.8%	2.9%	0.4%	2.3%
ROCE after tax	7.8%	3.2%	4.4%	5.1%
EV/CE	1.2	1.2	1.2	1.2

Key Data

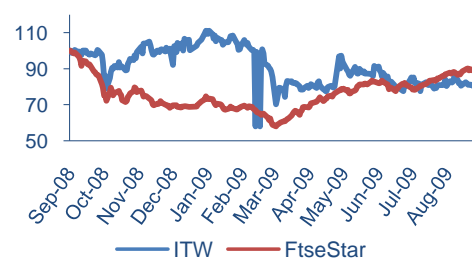
Price (€)	4.48
Target Price (€)	4.45
Upside/(downside)%	+0.4%
Market cap (€M)	19.7
EV (FY'08/09e, €M)	36.5

Investment Profile from 1 worst to 5 best



Stock data

Ticker Bloomberg	ITW.IM
N° of shares (M)	4.4
Free float	52%
Main shareholder	Mr Farina (17.4%)
Daily trading volume	4,200 shares



Share Price perf (%)	3M	6M	1Y
Absolute	-11.0%	-4.9%	-18.8%
Rel. to FtseStars	-18.9%	-55.3%	-7.3%

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Last results (9M'08/09)

M€	3Q0809	2Q0809	% var	9M0809	9M0708	% var
Revenues	25.0	25.5	-1.8%	82.7	91.7	-9.8%
Ebitda	0.4	0.2	95.2%	1.5	3.5	-56.0%
<i>Ebitda margin</i>	<i>1.5%</i>	<i>0.7%</i>		<i>1.8%</i>	<i>3.8%</i>	
Ebit	0.1	0.0	n.m.	0.8	2.7	-69.6%
<i>Ebit margin</i>	<i>0.5%</i>	<i>-0.1%</i>		<i>1.0%</i>	<i>2.9%</i>	
EBT	-0.2	-0.4	57.1%	-0.2	1.6	n.m.

The results of the first 9 months of the fiscal year 08/09 (September 08 – June 09) continue to be affected by the effects of the international economic crisis. Both revenues and profitability decreased due to the deep drop in demand.

Looking at the third quarter in comparison with the second quarter of the year, it's possible to notice the positive effects, in terms of profitability, of the cost cutting plan implemented by the management. The labor cost decreased 3% thanks to the dismissal of 50 employees and the other operating costs decreased 9%. As a consequence the Ebitda improved around 95%. Even the sales drop slowed down during the quarter (only -1.8%).

M€	3Q0809	3Q0708	% var	3Q0809	2Q0809	% var	9M0809	9M0708	% var
VAD									
Revenues	20.6	24.1	-14.6%	20.6	19.9	3.4%	67.8	75.8	-10.5%
Ebitda	0.2	0.6	-68.3%	0.2	- 0.0	n.m.	1.2	2.9	-57.9%
<i>Ebitda margin</i>	<i>0.9%</i>	<i>2.4%</i>		<i>0.9%</i>	<i>neg.</i>		<i>1.8%</i>	<i>3.9%</i>	
Ebit	0.0	0.4	-98.1%	0.0	- 0.2	n.m.	0.7	2.3	-68.2%
<i>Ebit margin</i>	<i>0.0%</i>	<i>1.5%</i>		<i>0.0%</i>	<i>neg.</i>		<i>1.1%</i>	<i>3.1%</i>	
Ebt	- 0.2	0.2	-190.1%	- 0.2	- 0.4	56.3%	0.0	1.7	-99.1%
ENTERPRISE									
Revenues	4.4	4.9	-9.5%	4.4	5.6	-20.6%	14.9	15.8	-6.1%
Ebitda	0.2	0.2	17.9%	0.2	0.2	-17.2%	0.3	0.5	-45.7%
<i>Ebitda margin</i>	<i>4.0%</i>	<i>3.1%</i>		<i>4.0%</i>	<i>3.9%</i>		<i>1.9%</i>	<i>3.3%</i>	
Ebit	0.1	0.1	5.9%	0.1	0.1	-26.5%	0.1	0.4	-78.8%
<i>Ebit margin</i>	<i>2.4%</i>	<i>2.1%</i>		<i>2.4%</i>	<i>2.6%</i>		<i>0.5%</i>	<i>2.2%</i>	
Ebt	0.04	- 0.02	300.0%	0.0	0.1	-52.6%	- 0.2	- 0.0	n.m.

Over the 9 months, the business unit VAD (Value Added Distribution), core activity of the group, reflected the general decrease in volumes recorded on the international IT markets. Instead, the results of the last quarter showed an initial trend reversal: revenues and profitability increased in comparison with the previous three months.

The business unit Enterprise, through the subsidiary Business-e, suffered from the volumes reduction due to the cost cutting plan implemented by its main Italian client. The revenues decrease has been contrasted by a better positioning on the segment of higher value added services.

FINANCIALS

Income statement (€M)	07/08A	08/09E	09/10E	10/11E
Sales	111.9	105.5	107.8	111.5
COGS	-87.4	-84.4	-86.3	-89.2
Gross Profit	24.5	21.1	21.6	22.3
EBITDA	4.1	2.6	3.2	3.5
Depreciation, Amortization	-0.9	-1.0	-1.0	-1.1
EBIT	3.2	1.6	2.2	2.4
Net Financial Results	-1.5	-1.5	-1.4	-1.3
Income tax	-1.1	0.0	-0.2	-0.4
Net result	0.7	0.1	0.5	0.8
EPS (€)	0.15	0.02	0.12	0.17
DPS (€)	0.13	0.02	0.10	0.15

Margin (%)	07/08A	08/09E	09/10E	10/11E
Gross Margin	21.9%	20.0%	20.0%	20.0%
EBITDA Margin	3.7%	2.5%	2.9%	3.2%
EBIT Margin	2.9%	1.6%	2.0%	2.2%
Net Margin	0.6%	0.1%	0.5%	0.7%

Growth (%)	07/08A	08/09E	09/10E	10/11E
Sales growth	1.2%	-5.7%	2.2%	3.4%
EBITDA growth	1.6%	-36.4%	19.6%	11.7%
EBIT growth	4.7%	-49.4%	31.6%	12.5%
Net growth	8.3%	-85.8%	445.5%	48.8%

Cash Flow statement (€M)	07/08A	08/09E	09/10E	10/11E
Cash Flow	1.6	1.1	1.5	1.9
+/- Var. Working Capital	0.8	-4.1	1.8	0.6
Operating Cash Flow	2.3	-3.0	3.3	2.5
Op. Cash Flow / Sales	2.1%	-2.8%	3.1%	2.2%
Capex	-2.1	-3.0	-1.0	-1.0
FCF	0.3	-6.0	2.3	1.5
FCF / Sales	0.3%	-5.7%	2.1%	1.3%

Stock data	07/08A	08/09E	09/10E	10/11E
Number of Shares (M)	4.4	4.4	4.4	4.4
Avg share price over LTM (€)	4.58	4.48	4.48	4.48
Market cap (€M)	20.2	19.7	19.7	19.7
Enterprise Value (€M)	30.3	36.5	34.6	33.8

Balance sheet (€M)	07/08A	08/09E	09/10E	10/11E
LONG LIVED ASSETS	14.1	16.1	16.1	16.0
WC	11.8	15.8	14.0	13.4
CAPITAL EMPLOYED	25.8	31.9	30.1	29.3
EQUITY	15.4	14.9	15.0	15.1
MINORITY INTEREST	0.0	0.0	0.0	0.0
PROVISIONS	0.2	0.2	0.2	0.2
PENSIONS (e.g. TFR)	0.8	0.8	0.8	0.8
NET DEBT	9.4	16.0	14.1	13.3
CAPITAL INVESTED	25.8	31.9	30.1	29.3

Ratios	07/08A	08/09E	09/10E	10/11E
ROCE after tax	7.8%	3.2%	4.4%	5.1%
ROE	4.2%	0.6%	3.4%	5.0%
Capital Turnover	4.5	3.4	3.7	3.9
Net Debt / EBITDA	2.5	6.4	4.7	4.0
Gearing	66.2%	112.4%	99.5%	93.6%
WC / Sales	10.5%	15.0%	13.0%	12.0%
Amortization / Sales	0.8%	0.9%	0.9%	1.0%
Capex / Sales	1.8%	2.8%	0.9%	0.9%

Valuation	07/08A	08/09E	09/10E	10/11E
EV/Sales	0.27	0.35	0.32	0.30
EV/EBITDA	7.3	13.8	11.0	9.6
EV/EBIT	9.4	22.3	16.1	13.9
P/E	30.8	n.m.	38.9	26.1
P/B	1.31	1.32	1.32	1.31
EV/CE	1.21	1.17	1.18	1.18
P/FCF	68.8	-3.3	8.5	13.2
FCF Yield	1.5%	neg.	11.8%	7.6%
Dividend yield	2.8%	2.9%	0.4%	2.3%

See Legend for all definitions

Source: Company data, Twice Research estimates

LEGEND

EV or Enterprise Value = Market capitalization + Net Debt + Pension (i.e. TFR)

CE or Capital Employed = Fixed Assets + Working Capital

Fixed Assets = Tangible + Intangible + Financial assets

WC or Working Capital = Stocks + Trade Accounts Receivables + Other current assets + Deferred and prepayment – Trade Accounts Payables - Other current liabilities - Deferred and prepayment

Net Debt = Interest Bearing Liabilities – Cash – Securities

IC or Invested Capital = Shareholders' Equity + Minorities + Net Debt + Pension (i.e. TFR)

DA = depreciation and amortization

CF or cash flow = net result + depreciation and amortization

FCF = free cash flow

NOPAT = net operating profit after tax

COGS = cost of goods sold

Gross Profit Margin = net sales – cost of goods sold

EBITDA = Earning before interests, taxes, depreciation and amortization

EBIT = Earning before interests, taxes

ROCE = return on capital employed after tax

ROE = return on equity

ROA = return on assets

Capital Turnover = Sales / Capital Employed

Gearing = Net Debt / Shareholders' equity

PE = price to earnings

PB = price to book

FCF yield = FCF / market capitalization

EPS = Earnings per share (fully diluted)

DPS = dividend per share (fully diluted)

Risk free rate = 10 years Italian Government Bond (e.g. BTP)

Unlevered Beta = $Beta / [1 + (1 - t) (D / E)]$

WACC = $Ke * E / EV + Kd (1 - t) * D / EV$

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Data: 16 June 2009	Target Price: 4.36€	Rating: HOLD
Data: 01 April 2009	Target Price: 3.87€	Rating: HOLD

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- Issuing of recommendation;
- Business relations;
- Its role as Specialist in the Star segment for the company Itway;
- Its occasional long and short positions in the financial instruments mentioned in the analysis or the execution of related transactions.

The analysis is drawn up with care, clearness and disclosure.

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