

Itway (ITW.IM)

HOLD

Sector: IT / Distribution

FY'08/09 results: decreasing revenues and profitability.

December 21, 2009

Last results

- The results of ItWay fiscal year 08/09 (October 08 – September 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. In 2009 the Italian IT market decreased 7.4% (Itway group revenues decreased 6.9%) and the decrease in French, Iberian, Greek and Turkish IT markets is estimated to be even bigger.
- ItWay business is characterized by a high operating leverage which affects deeply the profitability in case of lower turnover. Over the year both Ebitda and Ebit registered a drop, respectively of -64.6% and of -85.3%, also penalized by the extraordinary costs incurred in order to adjust the cost structure to the new volumes.
- The net financial position was negative (debt) for 19.5M€, rising in comparison with the previous fiscal year (9.4M€ at September 30, 2008) due to the longer receivables and higher investments carried out over the period (i.e. new headquarter in Milan).

Valuation

- Our model, an 8-years DCF, returns a 3.79€ target price, in line with the current stock price: thus we reiterate our HOLD rating.
- For the fiscal year 09/10 we estimate a revenues recovery of 1.4% and a net operating margin of 1.5%, up 100 bps yoy. The estimates for the European and the Italian GDP foresee a slight growth (+0.7%) in 2010; the same trend is expected in the IT market.
- 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, once the economic environment gets better, thanks to the restructuring plan and to the focus on new high growth products and services (Virtualization).

Risks

- The financial crisis has reduced the IT investments of large companies, impacting both volumes and prices. Despite some recovery signals, the market distress may continue during the next fiscal year, the group forecasts for the next months unaltered market conditions. In addition, the dollar volatility could penalize Itway's profitability (vendors' price lists are in dollars).

Forecast	08/09A	09/10E	10/11E	11/12E
Sales (€M)	104.2	105.6	108.3	111.9
EBITDA (€M)	1.5	2.5	3.2	3.5
EPS (€)	neg.	0.01	0.13	0.18

Valuation	08/09A	09/10E	10/11E	11/12E
EV/EBITDA	26.1	13.9	10.6	9.6
P/E	neg.	n.m.	28.1	19.8
Dividend yield	3.1%	0.0%	0.4%	3.2%
ROCE after tax	0.9%	2.8%	4.2%	4.9%
EV/CE	1.2	1.1	1.1	1.1

Key Data

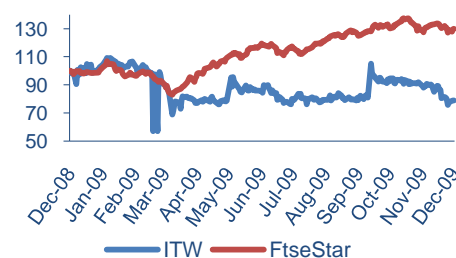
Price (€)	3.52
Target Price (€)	3.79
Upside/(downside)%	+8%
Market cap (€M)	15.5
EV (FY'09/10e, €M)	35.3

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	-0.5%	-8.0%	-21.2%
Rel. to FtseStars	-4.6%	-16.9%	-51.2%

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Last results (FY'08/09)

M€	4Q0809	4Q0708	% var	FY0809	FY0708	% var
Revenues	21.5	20.2	6.3%	104.2	111.9	-6.9%
Ebitda	-0.1	0.7	n.m.	1.5	4.1	-64.6%
<i>Ebitda margin</i>	-0.2%	3.4%		1.4%	3.7%	
Ebit	-0.3	0.5	n.m.	0.5	3.2	-85.3%
<i>Ebit margin</i>	-1.6%	2.7%		0.5%	2.9%	
Net result				-1.3	0.7	n.m.

M€	4Q0809	3Q0809	% var
Revenues	21.5	25.0	-14.0%
Ebitda	-0.1	0.4	n.m.
<i>Ebitda margin</i>	-0.2%	1.5%	
Ebit	-0.3	0.1	n.m.
<i>Ebit margin</i>	-1.6%	0.5%	

Over the year Itway revenues decreased 6.9% yoy to 104.2M€. With regards to the fourth quarter, revenues increased 6.3% in comparison with the same quarter of the previous year. If we compare the fourth quarter 08/09 with the third, the revenues drop is equal to 14%, the slight recovery recorded during the spring months hasn't been confirmed in the last three months of the fiscal year (July, August, September).

The group profitability decreased 64.6% to 1.5M€ (Ebitda margin equal to 1.4% of sales) due to the volumes and the gross margin reduction, not compensated by the cost structure cut. Moreover the Ebitda is affected by the extraordinary costs (0.8M€) incurred in order to balance the costs structure and to restructure the industrial offerings.

M€	FY0809	FY0708	% var
VAD			
Revenues	85.7	91.9	-6.8%
Ebitda	1.3	3.0	-56.8%
<i>Ebitda margin</i>	1.5%	3.3%	
Ebit	0.6	2.3	-75.1%
<i>Ebit margin</i>	0.7%	2.6%	
ENTERPRISE			
Revenues	18.5	20.0	-7.4%
Ebitda	0.2	1.1	-84.9%
<i>Ebitda margin</i>	0.9%	5.7%	
Ebit	-0.1	0.9	n.m.
<i>Ebit margin</i>	-0.6%	4.5%	

Over the year, the business unit VAD (Value Added Distribution), core activity of the group, reflected the general decrease in volumes recorded on the international IT markets (-6.8% yoy). The business unit profitability has been more than halved (-56.8% yoy) due to the volumes drop and the extraordinary costs equal to 0.6M€.

The business unit Enterprise, through the subsidiary Business-e, managed to limit the revenues decrease, -7.4% yoy. Instead the profitability dropped 84.9% yoy, penalized by a worse product mix and by extraordinary costs equal to 0.2M€.

The ratio WC/sales worsened from 10.5% of the previous year to 15.6% of the current year, due to the lower turnover and the credit crunch that has reduced the payment means of Itway clients.

The net financial position was negative (debt) for 19.5M€ worsening if compared to the FY'0708 (9.4M€), as a consequence of the WC deterioration and of the expenses for the new headquarter building.

Valuation

We made some fine tuning to our last valuation dated June 16, 2009. The model we use to value Itway, a 8-year DCF with detailed estimates for the period 2010-2017, returns a target price of 3.79€.

We made the following assumptions:

- Sales for the business unit VAD will increase 1% in the fiscal year 09/10. For the following years we foresee a growth of 2% in 10/11 and of 3% in 11/12. The business unit Enterprise will increase 3% in 09/10 and 5% respectively in 10/11 and 11/12.
- The net operating margin will increase to 1.5% of revenues in the FY'09/10 thanks to the volume recovery and the cost base optimization, it will come back above 2% in FY'10/11 and in the long term we set it equal to 2.4% of revenues.
- In FY'09/10 the capex will amount to 1M€ in line with the historical trend. For the following years we don't foresee huge investments, the capex will remain in line with the depreciation (0.9% of sales).
- The stressed market conditions will impact the working capital; it will grow to 15% of sales during the FY'09/10, in the long term we set it equal to 11% of revenues.
- As a consequence of the volumes and profitability recovery, Itway will generate, in 09/10, positive cash flows. As a result we estimate an improving of the financial debt to 19.1M€ in FY'09/10 from 19.5M€ in FY'08/09. The trend will continue in the following years.

Discounted Cash Flow	FY09/10	FY10/11	FY11/12	FY12/13	FY13/14	FY14/15	FY15/16	FY16/17-TV
Sales	105.6	108.3	111.9	115.3	117.6	119.9	122.3	123.5
<i>Sales growth</i>	1.4%	2.5%	3.4%	3.0%	2.0%	2.0%	2.0%	1.0%
EBIT	1.5	2.2	2.5	2.8	2.8	2.9	2.9	3.0
<i>Margin</i>	1.5%	2.1%	2.3%	2.4%	2.4%	2.4%	2.4%	2.4%
Taxes	-0.5	-0.7	-0.8	-0.9	-0.9	-0.9	-1.0	-1.0
<i>Tax rate</i>	-33.0%	-33.0%	-33.0%	-33.0%	-33.0%	-33.0%	-33.0%	-33.0%
NOPAT	1.0	1.5	1.7	1.9	1.9	1.9	2.0	2.0
Depreciation	1.0	1.0	1.0	1.0	1.1	1.1	1.1	1.1
<i>% of sales</i>	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%
Capex	-1.0	-1.0	-1.0	-1.0	-1.1	-1.1	-1.1	-1.1
<i>% of sales</i>	-0.9%	-0.9%	-0.9%	-0.9%	-0.9%	-0.9%	-0.9%	-0.9%
Var. Working Capital	0.4	0.7	0.6	0.7	0.9	-0.3	-0.3	-0.1
Free Cash Flow	1.4	2.2	2.3	2.6	2.8	1.7	1.7	1.9
PV of FCF	1.3	2.0	2.0	2.1	2.1	1.2	1.2	1.2

Enterprise Value (€M)	36.9
of which TV actualized (€M)	25.1
Net Debt (FY'08/09) (€M)	19.5
Minorities (€M)	0
Pensions (i.e. TFR; €M)	0.7
Equity value (€M)	16.7
Number of Shares (M)	4.4
Equity value per share (€)	3.79
Upside	8%

Risk free rate	4.0%
Market premium	4.5%
Unlevered Beta	0.9
Ke : cost of equity	8.1%
Kd : cost of debt	5.0%
Tax rate	27.5%
Cost of debt after tax	3.6%
Market cap	18.2
Net debt with pension	20.2
Debt / EV	52.6%
WACC	5.7%
g	1%

Sensitivity analysis		Long-term growth rate						
		-0.5%	0.0%	0.5%	1.0%	1.5%	2.0%	2.5%
WACC	4.2%	4.6	5.4	6.4	7.6	9.3	11.8	15.8
	4.7%	3.8	4.3	5.1	6.0	7.2	8.9	11.3
	5.2%	3.0	3.5	4.1	4.8	5.7	6.8	8.4
	5.7%	2.4	2.8	3.2	3.79	4.5	5.3	6.5
	6.2%	1.9	2.2	2.6	3.0	3.5	4.2	5.0
	6.7%	1.5	1.7	2.0	2.4	2.8	3.3	3.9
	7.2%	1.1	1.3	1.5	1.8	2.2	2.6	3.0

FINANCIALS

Income statement (€M)	08/09A	09/10E	10/11E	11/12E	Balance sheet (€M)	08/09A	09/10E	10/11E	11/12E
Sales	104.2	105.6	108.3	111.9					
COGS	-82.9	-84.5	-86.6	-89.5	LONG LIVED ASSETS	17.5	17.5	17.5	17.5
Gross Profit	21.3	21.1	21.7	22.4	WC	16.2	15.8	15.2	14.5
EBITDA	1.5	2.5	3.2	3.5	CAPITAL EMPLOYED	33.7	33.4	32.7	32.1
Depreciation, Amortization	-1.0	-1.0	-1.0	-1.0					
EBIT	0.5	1.5	2.2	2.5	EQUITY	13.5	13.5	13.6	13.6
Net Financial Results	-1.3	-1.0	-1.0	-0.9	MINORITY INTEREST	0.0	0.0	0.0	0.0
Income tax	-0.4	-0.5	-0.7	-0.8	PROVISIONS	0.1	0.1	0.1	0.1
Net result	-1.3	0.1	0.6	0.8	PENSIONS (e.g. TFR)	0.7	0.7	0.7	0.7
					NET DEBT	19.5	19.1	18.4	17.7
EPS (€)	neg.	0.01	0.13	0.18	CAPITAL INVESTED	33.7	33.4	32.7	32.1
DPS (€)	0.00	0.01	0.11	0.16					
Margin (%)	08/09A	09/10E	10/11E	11/12E	Ratios	08/09A	09/10E	10/11E	11/12E
Gross Margin	20.4%	20.0%	20.0%	20.0%	ROCE after tax	0.9%	2.8%	4.2%	4.9%
EBITDA Margin	1.4%	2.4%	3.0%	3.2%	ROE	-9.3%	0.5%	4.1%	5.7%
EBIT Margin	0.5%	1.5%	2.1%	2.3%	Capital Turnover	3.2	3.2	3.4	3.6
Net Margin	-1.2%	0.1%	0.5%	0.7%	Net Debt / EBITDA	13.7	7.8	5.9	5.2
					Gearing	149.6%	146.8%	140.8%	135.0%
Growth (%)	08/09A	09/10E	10/11E	11/12E	WC / Sales	15.5%	15.0%	14.0%	13.0%
Sales growth	neg.	1.4%	2.5%	3.4%	Amortization / Sales	1.0%	0.9%	0.9%	0.9%
EBITDA growth	neg.	73.2%	27.7%	9.0%	Capex / Sales	2.0%	0.9%	0.9%	0.9%
EBIT growth	neg.	225.1%	45.6%	13.0%					
Net growth	neg.	neg.	n.m.	42.1%					
Cash Flow statement (€M)	08/09A	09/10E	10/11E	11/12E	Valuation	08/09A	09/10E	10/11E	11/12E
Cash Flow	-0.3	1.1	1.6	1.8	EV/Sales	0.37	0.33	0.32	0.30
+/- Var. Working Capital	-4.4	0.4	0.7	0.6	EV/EBITDA	26.1	13.9	10.6	9.6
Operating Cash Flow	-4.7	1.4	2.2	2.4	EV/EBIT	80.8	22.9	15.4	13.3
Op. Cash Flow / Sales	-4.5%	1.3%	2.1%	2.1%	P/E	-14.5	251.7	28.1	19.8
Capex	-2.0	-1.0	-1.0	-1.0	P/B	1.35	1.15	1.14	1.14
FCF	-6.7	0.4	1.2	1.4	EV/CE	1.16	1.08	1.08	1.08
FCF / Sales	-6.5%	0.4%	1.1%	1.2%	P/FCF	-2.7	36.7	12.6	11.1
					FCF Yield	-37.1%	2.7%	8.0%	9.0%
Stock data	08/09A	09/10E	10/11E	11/12E	Dividend yield	3.1%	0.0%	0.4%	3.2%
Number of Shares (M)	4.4	4.4	4.4	4.4					
Avg share price over LTM (€)	4.13	3.52	3.52	3.52					
Market cap (€M)	18.2	15.5	15.5	15.5					
Enterprise Value (€M)	38.0	35.3	34.6	33.9					

See Legend for all definitions

Sources: 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

Specific disclosures

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