

# EQUITY RESEARCH

## STAR7 RESULTS REVIEW

**BUY, TP 12.1€**  
Up/Downside: 47%

### Star7 Shows Resilience

Despite the macroeconomic situation, Star7 continues to post double-digit growth.

Star7 has released its H1 results, showing a higher than expected revenue of €39.6m (+41% vs. €28.1m), EBITDA growth amounting to €7.2m (+65.5% vs. €4.3m) and an EBITDA margin of 18.2% (vs. 15.3%).

We have upgraded our 2022 revenue forecast (€81.7m vs. €78.2m), with EBITDA margins slightly decreased (18.4% vs. 19.2%, the €15m target remains unchanged) and profits downwards (€4.1m vs. €4.8m) due to higher amortisation (the company is also amortising goodwill under the Italian GAAP) and higher than expected financing costs.

At the presentation, the company was particularly confident in managing the current situation, even in view of potential M&A operations (the upcoming acquisition will add engineering value). The acquisition of Vertere Srl is strategic not only for bringing in a major customer (Coesia group), but also for its workflow model, which will benefit the whole Global Content division. The Brazilian subsidiary also grew strongly and signed two major customers over H1.

Regarding cash flow generation, the company suffered a deterioration caused mainly by a slight increase in credits, an increase in inventories due to higher raw material costs, and finally the payment of listing costs that were still accounted for as debt; these three trends led to a lower than expected cash flow generation, which should improve in H2.

Given the confirmed EBITDA target of €15m, an NFP of around €37m and cash generation in H2 in line with expectations, we expect the NFP/EBITDA ratio on value to fall to 2x for 2022, leaving plenty of room for potential M&A transactions (the covenant limit is above 4x).

We began our coverage in early July with a TP of €12.8. Since then, interest rates have risen sharply and so has inflation, but we continue to be strongly positive, though slightly revising our TP to €12.1, noting that the adjustment is due to the changing macroeconomic environment and not the company's core business.

#### Key data

|                  |                    |
|------------------|--------------------|
| Price (€)        | 8.2                |
| Industry         | Corporate Services |
| Ticker           | STAR7-IT           |
| Shares Out (m)   | 9.000              |
| Market Cap (m €) | 73.8               |

#### Ownership (%)

|                         |      |
|-------------------------|------|
| Dante Srl               | 39.2 |
| Star Ag                 | 31.4 |
| Kairos Partners SGR SpA | 6.1  |
| Free float              | 23.3 |

#### EPS (€)

|                                  | 12/22e | 12/23e | 12/24e |
|----------------------------------|--------|--------|--------|
| Estimates                        | 0.53   | 0.62   | 0.72   |
| Change vs previous estimates (%) | 0.00   | 0.00   | 0.00   |

#### Performance (%)

|                | 1D   | 1M   | YTD   |
|----------------|------|------|-------|
| Price Perf     | -0.5 | -3.5 | -19.6 |
| Rel FTSE Italy | -0.1 | 1.6  | 6.1   |



| TP ICAP Midcap Estimates | 12/21 | 12/22e | 12/23e | 12/24e | Valuation Ratio | 12/22e | 12/23e | 12/24e | Consensus FactSet - Analysts:2 | 12/22e | 12/23e | 12/24e |
|--------------------------|-------|--------|--------|--------|-----------------|--------|--------|--------|--------------------------------|--------|--------|--------|
| Sales (m €)              | 60.0  | 81.7   | 88.8   | 96.3   | EV/Sales        | 1.2    | 1.1    | 0.9    | Sales                          | 78.2   | 85.1   | 92.3   |
| Current Op Inc (m €)     | 4.1   | 7.6    | 8.6    | 9.6    | EV/EBITDA       | 6.7    | 5.7    | 4.7    | EBIT                           | 8.1    | 9.1    | 10.1   |
| Current op. Margin (%)   | 6.8   | 9.3    | 9.7    | 10.0   | EV/EBIT         | 13.2   | 10.9   | 8.9    | Net income                     | 4.8    | 5.5    | 6.2    |
| EPS (€)                  | 0.29  | 0.53   | 0.62   | 0.72   | PE              | 15.5   | 13.2   | 11.4   |                                |        |        |        |
| DPS (€)                  | 0.00  | 0.00   | 0.00   | 0.00   |                 |        |        |        |                                |        |        |        |
| Yield (%)                | 0.0   | 0.0    | 0.0    | 0.0    |                 |        |        |        |                                |        |        |        |
| FCF (m €)                | 3.0   | 0.2    | 7.3    | 7.9    |                 |        |        |        |                                |        |        |        |

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## FINANCIAL DATA

| <b>Income Statement</b>                               | <b>12/19</b> | <b>12/20</b> | <b>12/21</b> | <b>12/22e</b> | <b>12/23e</b> | <b>12/24e</b> |
|---|--------------|--------------|--------------|---------------|---------------|---------------|
| Sales   | 53.7         | 44.6         | 60.0         | 81.7          | 88.8          | 96.3          |
| Changes (%)   | na           | -17.0        | 34.6         | 36.1          | 8.8           | 8.4           |
| Gross profit  | 50.2         | 41.8         | 56.3         | 77.1          | 84.0          | 91.3          |
| % of Sales  | 93.4         | 93.8         | 93.7         | 94.4          | 94.6          | 94.8          |
| <b>EBITDA</b>   | <b>5.9</b>   | <b>4.4</b>   | <b>8.3</b>   | <b>15.1</b>   | <b>16.5</b>   | <b>18.0</b>   |
| % of Sales  | 11.1         | 9.8          | 13.8         | 18.4          | 18.5          | 18.7          |
| <b>Current operating profit</b>                       | <b>4.2</b>   | <b>2.7</b>   | <b>4.1</b>   | <b>7.6</b>    | <b>8.6</b>    | <b>9.6</b>    |
| % of Sales  | 7.9          | 6.0          | 6.8          | 9.3           | 9.7           | 10.0          |
| Non-recurring items                                   | 0.0          | 0.2          | 0.1          | 0.1           | 0.1           | 0.1           |
| EBIT  | 4.2          | 2.5          | 4.0          | 7.5           | 8.5           | 9.5           |
| Net financial result                                  | 0.2          | 0.3          | 0.6          | 1.9           | 1.9           | 1.9           |
| Income Tax  | 1.5          | 0.4          | 0.9          | 1.1           | 1.4           | 1.6           |
| Tax rate (%)  | 36.8         | 21.0         | 26.4         | 20.2          | 20.7          | 21.2          |
| <b>Net profit, group share</b>                        | <b>2.4</b>   | <b>1.5</b>   | <b>2.2</b>   | <b>4.1</b>    | <b>4.8</b>    | <b>5.5</b>    |
| EPS   | na           | na           | 0.29         | 0.53          | 0.62          | 0.72          |
| <b>Financial Statement</b>                            | <b>12/19</b> | <b>12/20</b> | <b>12/21</b> | <b>12/22e</b> | <b>12/23e</b> | <b>12/24e</b> |
| Goodwill  | 4.1          | 4.8          | 35.5         | 30.1          | 24.9          | 20.1          |
| Tangible and intangible assets                        | 6.3          | 8.9          | 12.0         | 13.8          | 14.8          | 15.5          |
| Right of Use  | 0.0          | 0.0          | 0.0          | 0.0           | 0.0           | 0.0           |
| Financial assets                                      | 0.4          | 0.5          | 0.3          | 0.3           | 0.3           | 0.3           |
| Working capital                                       | 20.3         | 17.8         | 15.3         | 23.1          | 25.1          | 27.3          |
| Other Assets  | 0.0          | 0.0          | 0.0          | 0.0           | 0.0           | 0.0           |
| <b>Assets</b>   | <b>31.0</b>  | <b>32.0</b>  | <b>63.1</b>  | <b>67.3</b>   | <b>65.1</b>   | <b>63.2</b>   |
| Shareholders equity group                             | 9.8          | 10.3         | 24.6         | 28.7          | 33.4          | 38.9          |
| Minorities  | 0.7          | 0.7          | 0.9          | 1.3           | 1.7           | 2.2           |
| LT & ST provisions and others                         | 3.5          | 4.7          | 5.7          | 5.7           | 5.7           | 5.7           |
| Net debt  | 15.9         | 14.5         | 27.1         | 26.8          | 19.5          | 11.6          |
| Other liabilities                                     | 1.1          | 1.8          | 4.9          | 4.9           | 4.9           | 4.9           |
| <b>Liabilities</b>                                    | <b>31.0</b>  | <b>32.0</b>  | <b>63.1</b>  | <b>67.3</b>   | <b>65.1</b>   | <b>63.2</b>   |
| Net debt excl. IFRS 16                                | 15.9         | 14.5         | 27.1         | 26.8          | 19.5          | 11.6          |
| Gearing net   | 1.5          | 1.3          | 1.1          | 0.9           | 0.6           | 0.3           |
| Leverage  | 2.7          | 3.3          | 3.3          | 1.8           | 1.2           | 0.6           |
| <b>Cash flow statement</b>                            | <b>12/19</b> | <b>12/20</b> | <b>12/21</b> | <b>12/22e</b> | <b>12/23e</b> | <b>12/24e</b> |
| CF after elimination of net borrowing costs and taxes | 4.0          | 3.2          | 6.7          | 11.9          | 13.1          | 14.4          |
| $\Delta$ WCR  | -7.7         | 2.2          | 2.2          | -7.8          | -2.0          | -2.1          |
| Operating cash flow                                   | -3.7         | 5.5          | 8.9          | 4.1           | 11.0          | 12.2          |
| Net capex   | -1.8         | -5.2         | -6.0         | -3.8          | -3.7          | -4.3          |
| FCF   | -5.5         | 0.3          | 3.0          | 0.2           | 7.3           | 7.9           |
| Acquisitions/Disposals of subsidiaries                | -3.1         | 0.0          | -31.6        | 0.0           | 0.0           | 0.0           |
| Other investments                                     | 0.0          | 0.0          | 0.0          | 0.0           | 0.0           | 0.0           |
| Change in borrowings                                  | 9.1          | 1.8          | 33.1         | 0.0           | 0.0           | 0.0           |
| Dividends paid  | -0.8         | 0.0          | 0.0          | 0.0           | 0.0           | 0.0           |
| Repayment of leasing debt                             | 0.0          | 0.0          | 0.0          | 0.0           | 0.0           | 0.0           |
| Others  | 0.0          | 0.0          | 11.8         | 0.0           | 0.0           | 0.0           |
| Changes in exchange rates                             | -0.0         | -0.2         | 0.0          | 0.0           | 0.0           | 0.0           |
| Change in net cash over the year                      | -0.6         | 1.8          | 16.5         | 0.2           | 7.3           | 7.9           |
| ROA (%)   | 8.1%         | 5.3%         | 3.9%         | 6.6%          | 8.0%          | 9.4%          |
| ROE (%)   | 25.7%        | 16.3%        | 10.0%        | 15.5%         | 15.5%         | 15.3%         |

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3. Assets and liabilities method: estimate of the value of equity capital based on revalued assets adjusted for the value of the debt.
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### History of investment rating and target price – Star7



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| Rating       | Recommendation Universe* | Portion of these provided with investment banking services** |
|--------------|--------------------------|--|
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| Hold         | 13%                      | 35%  |
| Sell         | 1%                       | 0%   |
| Under review | 0%                       |  |

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