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FOPE	update	Italy	FTSE AIM Italia	Luxury Jewelry
Rating: BUY		Target Price: Euro 6,10 (Prev. TP Euro 4,10)		Risk: Medium

Stock Performance	1M	3M	6M	1Y
Absolute	41,73%	37,38%	77,32%	n.a.
vs FTSE AIM Italia	38,31%	35,74%	58,01%	n.a.
vs FTSE All-Share	39,03%	29,96%	62,56%	n.a.

Stock Data (del 13/03/2017)

Price	€ 5,55
Bloomberg Code	FPE IM
Market Cap (€m)	25,40
EV (€m)	27,60
Free Float	10,64%
Share Outstanding	4.585.500
52-week high	€ 5,55
52-week low	€ 2,90
Company Agenda	n.a.

Key Financials (€m)	2016A	2017E	2018E	2019E
Sales	23,3	26,2	29,9	32,5
EBITDA	2,30	2,70	3,30	4,40
EBIT	1,60	1,70	2,10	2,80
Net Profit	1,10	1,10	1,40	1,80
EPS	0,24	0,24	0,31	0,39
EBITDA margin	9,9%	10,3%	11,2%	13,5%
EBIT margin	6,8%	6,6%	6,9%	8,5%
CAGR Sales	5,8%	12,4%	14,1%	8,7%
CAGR EBITDA	15,6%	17,4%	22,2%	33,3%

Main Ratios	2016A	2017E	2018E	2019E
EV/EBITDA	12,0 x	10,2 x	8,4 x	6,3 x
EV/EBIT	17,3 x	16,2 x	13,1 x	9,9 x
P/E	23,1 x	23,1 x	18,1 x	14,1 x
NFP/EBITDA	0,9 x	1,1 x	1,2 x	0,6 x

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FY16 Results

1H17 results are higher than our estimates. Revenues rose +22,2% YoY (6,2% vs our estimates) to €13,5 mln, while Ebitda and Ebit rose +148,3% and +251,7% YoY respectively (+111,3% and 209,7% vs our estimates) reaching €1,76 mln and €1,4 mln respectively. Sales grew mainly thanks to the foreign countries (accounting for 83% of total revenue breakdown, from 80% of 1H16), while the Italian market grew +9% YoY also thanks to the flagship store opened in Piazza San Marco in late 2015.

Costs are in line with their guidance. Inscription fees and costs for the January and March fair events (Vicenza, Basel, Hong Kong) were all paid in the first half.

Net debt has substantially levelled off to €2.2 mln (€2,1 mln FY16).

FY17 Guidance

We upgrade our 2017-22F Ebitda and Ebit margin forecast, leaving unchanged the sales level.

In FY17F, we expect the Production Value to grow +12% YoY on the back of the investments (Flagship store, Shop in Shop, fairs).

We expect FY17 Ebitda to grow +12.5% YoY, +11.9% YoY in FY18F and +8,4% for FY19-21F. As a consequence, FY17F Ebitda margin would stand to 10.9% (from 9.7% previously), while reaching 13.3% in FY22F (12,3% previous forecast).

Ebitda margin enjoys a lower incidence from the service costs (c.a -150 bps than previously expected) as happened in the last 3 years (we were very conservative with this regards).

Valuation Update

We decided to consider only the EV / EBITDA multiple because it is not affected by corporate investment policies. Taking into account that Fope is at a stage where significant investments are expected, we have found it appropriate to base our analysis only on this multiple. In addition, the other multiples have not significant equity values and therefore have not been included in this analysis. At the equity value resulting from multiple valuation, we applied a 25% liquidity discount. The liquidity discount is calculated taking into account Fope lower liquidity compared to peers. This results in a gross pre-discount equity of € 42,2 million and a post-discount Equity value of € 31,9 million. Regarding the DCF method, results in an equity value of € 24.2 mln. Fope's equity value is therefore the average of the two valuations, € 28,0 mln, and the target price is €6,10 (€4.1 in our note of April 4, 2017) per share.

1. Economics & Financials

Fig. 1 – FOPE 2016 results and 2017-22 Integrae SIM estimates

P&L	FY16 A	FY17 E	FY18 E	FY19 E	FY20 E	FY21 E	FY22 E
Revenues	23.079	25.813	29.420	32.009	34.396	35.828	36.784
Other revenues	180	387	441	480	516	537	552
Production value	23.260	26.201	29.861	32.489	34.912	36.366	37.336
COGS	-9.883	-10.244	-11.706	-12.736	-13.685	-14.255	-14.636
Change in raw materials	355	66	75	81	87	91	93
Services	-8.406	-9.914	-11.168	-12.151	-13.057	-13.601	-13.814
Costs of third-party assets	-487	-487	-487	250	200	250	200
Personnel	-2.247	-2.472	-2.719	-2.991	-3.141	-3.298	-3.463
Provisions	-88	-131	-149	-162	-175	-182	-187
Other costs	-206	-314	-358	-390	-419	-436	-448
EBITDA	2.298	2.703	3.348	4.390	4.722	4.934	5.082
<i>EBITDA margin</i>	9,9%	10,3%	11,2%	13,5%	13,5%	13,6%	13,6%
Depreciation and amortisation	-725	-970	-1.290	-1.625	-1.565	-1.428	-1.298
EBIT	1.573	1.733	2.058	2.765	3.157	3.506	3.783
<i>EBIT margin</i>	6,8%	6,6%	6,9%	8,5%	9,0%	9,6%	10,1%
Financial charges	-64	-71	-81	-88	-94	-98	-101
Valuation adjustments to financial assets	0	0	0	0	0	0	0
GROSS PROFIT	1.509	1.662	1.977	2.677	3.063	3.408	3.683
Extraordinary items	-2	0	0	0	0	0	0
PRE-TAX PROFIT	1.506	1.662	1.977	2.677	3.063	3.408	3.683
Taxes	-432	-522	-621	-841	-962	-1.070	-1.156
NET PROFIT	1.074	1.140	1.356	1.837	2.101	2.338	2.526
<i>Profit margin</i>	4,6%	4,4%	4,5%	5,7%	6,0%	6,4%	6,8%

A&L	FY16 A	FY17 E	FY18 E	FY19 E	FY20 E	FY21 E	FY22 E
FIXED ASSETS	4.976	4.976	5.886	5.771	4.736	3.338	2.070
Receivables	7.275	7.882	8.983	9.773	10.502	10.940	11.232
Inventories	4.138	5.828	6.631	6.769	7.640	7.930	8.121
Payables	(3.307)	(3.219)	(3.632)	(3.849)	(4.136)	(4.306)	(4.418)
WORKING CAPITAL	8.106	10.491	11.982	12.693	14.007	14.564	14.934
Other receivables	826	655	747	812	873	909	933
Financial assets	308	0	0	0	0	0	0
Other payables	(481)	(786)	(896)	(975)	(1.047)	(1.091)	(1.120)
NET WORKING CAPITAL	8.759	10.360	11.833	12.530	13.832	14.382	14.748
Other non-current assets	177	393	448	487	524	545	560
Other non-current liabilities	(48)	(26)	(30)	(32)	(35)	(36)	(37)
INVESTED CAPITAL	13.864	15.703	18.137	18.756	19.057	18.229	17.340
Severance	(806)	(865)	(952)	(1.047)	(1.099)	(1.154)	(1.212)
Other funds	(1.296)	(1.048)	(1.194)	(1.300)	(1.396)	(1.455)	(1.493)
NET INVESTED CAPITAL	11.762	13.790	15.991	16.410	16.562	15.620	14.635
SHAREHOLDERS' EQUITY	9.629	10.770	12.126	13.963	16.064	18.402	20.928
Short debt	3.094	4.740	6.572	6.498	6.982	7.273	7.467
Medium long debt	2.296	1.965	2.240	2.437	2.618	2.727	2.800
Gross debt	5.390	6.705	8.812	8.934	9.601	10.001	10.267
Cash	(3.257)	(3.685)	(4.947)	(6.487)	(9.103)	(12.782)	(16.561)
NFP	2.133	3.020	3.865	2.447	498	(2.782)	(6.293)
COVER	11.762	13.790	15.991	16.410	16.562	15.620	14.635

Cash Flow (000/€)	FY16 A	FY17 E	FY18 E	FY19 E	FY20 E	FY21 E	FY22 E
EBIT	1.573	1.733	2.058	2.765	3.157	3.506	3.783
- Taxes	(432)	(522)	(621)	(841)	(962)	(1.070)	(1.156)
NOPAT	1.141	1.211	1.437	1.924	2.195	2.436	2.627
+ depreciations	725	970	1.290	1.625	1.565	1.428	1.298
± Δ NWC	(1.176)	(1.601)	(1.473)	(698)	(1.302)	(549)	(366)
± Δ Severance	36	59	87	95	52	55	58
± Δ Other funds	325	(248)	146	105	97	58	39
± Δ Non current assets/liabilities	155	(238)	(51)	(37)	(34)	(20)	(14)
OPERATIVE CASH FLOW	1.206	153	1.436	3.015	2.574	3.408	3.642
± Δ Fixed assets	(1.193)	(970)	(2.200)	(1.510)	(530)	(30)	(30)
FREE CASH FLOW	12	(817)	(764)	1.505	2.044	3.378	3.612
± Net financial charges	(64)	(71)	(81)	(88)	(94)	(98)	(101)
± Net extraordinary items	(2)	0	0	0	0	0	0
FCFF	(54)	(888)	(844)	1.417	1.949	3.280	3.512
± Δ Short debt	(1.646)	1.647	1.832	(74)	485	291	194
± Δ Medium long debt	1.027	(331)	275	197	182	109	73
FCFE	(674)	428	1.262	1.540	2.616	3.679	3.778
± Δ Shareholders equity	2.317	0	0	0	0	0	0
± Δ CASH	1.644	428	1.262	1.540	2.616	3.679	3.778
Cash at the beginning	1.613	3.257	3.685	4.947	6.487	9.103	12.782
Cash at the end	3.257	3.685	4.947	6.487	9.103	12.782	16.561

Source: FOPE and Integrae SIM estimates

1.1 1H17 Results

1H17 results are higher than our estimates. Revenues rose +22,2% YoY (6,2% vs our estimates) to €13,5 mln, while Ebitda and Ebit rose +148,3% and +251,7% YoY respectively (+111,3% and 209,7% vs our estimates) reaching €1,76 mln and €1,4 mln respectively.

Fig. 2 – 1H17A versus forecast and 1H16

€/000	1H17F	1H17A	% Δ	1H16A	Δ 1H17A	Δ 1H17F
Sales	12,7	13,5	6,2%	11,0	22,2%	15,1%
Ebitda	1,5	1,8	17,5%	0,7	148,3%	111,3%
Ebitda margin	11,8%	13,1%		6,4%		
Ebit	1,2	1,4	13,6%	0,39	251,7%	209,7%
Ebit margin	9,4%	10,1%		3,5%		

Source: FOPE and Integræ SIM estimates

Sales grew mainly thanks to the foreign countries (accounting for 83% of total revenue breakdown, from 80% of 1H16), while the Italian market grew +9% YoY also thanks to the flagship store opened in Piazza San Marco in late 2015.

Costs are in line with their guidance. Inscription fees and costs for the January and March fair events (Vicenza, Basel, Hong Kong) were all paid in the first half.

Net debt has substantially levelled off to €2.2 mln (€2,1 mln FY16). The biggest contribution (c.a €0.6 mln) comes from the investments in raw materials (gold).

1.2 FY17 Guidance

We upgrade our 2017-22F Ebitda and Ebit margin forecast, leaving unchanged the sales level.

In FY17F, we expect the Production Value to grow +12% YoY on the back of the investments (Flagship store, Shop in Shop, fairs).

We expect FY17 Ebitda to grow +12.5% YoY, +11.9% YoY in FY18F and +8,4% for FY19-21F. As a consequence, FY17F Ebitda margin would stand to 10.9% (from 9.7% previously), while reaching 13.3% in FY22F (12,3% previous forecast).

Ebitda margin enjoys a lower incidence from the service costs (c.a -150 bps than previously expected) as happened in the last 3 years (we were very conservative with this regards).

Fig. 3 – 2017-2022 new and old estimates

€/000	2017F		2018F		2019F		2020F		2021F		2022F	
	Old	New	Old	New	Old	New	Old	New	Old	New	Old	New
Sales	25,8	25,8	23,4	29,4	32,0	32,0	34,4	34,4	35,8	35,8	36,8	36,8
Ebitda	2,5	2,7	3,0	3,3	4,0	4,4	4,3	4,7	4,5	4,9	4,5	5,1
Ebitda margin	9,7%	10,5%	12,9%	11,4%	12,6%	13,7%	12,6%	13,7%	12,7%	13,8%	12,3%	13,8%
Ebit	1,5	1,7	1,7	2,1	2,4	2,8	2,8	3,2	3,1	3,5	3,2	3,8
Ebit margin	5,9%	6,7%	7,4%	7,0%	7,5%	8,6%	8,1%	9,2%	8,7%	9,8%	8,8%	10,3%
Net profit	1,0	1,1	1,1	1,4	1,6	1,8	1,8	2,1	2,1	2,3	2,1	2,5

Source: Integrae SIM estimates

2. Valuation

2.1 Quality analysis

Main elements of differentiation:

- **Competitive position:** The Fope brand is less known among the public than other luxury brands. Fope is definitely synonymous with quality, recognized and appreciated all over the world. This is why retailers can place Fope products next to the most famous and prestigious brands, recognizing a high value and allowing them to apply a premium price to direct competitors;
- **Technological innovation:** product design and implementation are carried out through highly automated processes that make it possible to work "just in time" with a 4-week order average (very appreciated by all clients);
- **Internationalization:** presence in more than 50 countries with direct presence, through subsidiaries Fope USA Inc. and Fope Services, respectively in the American and Arabian markets.

Main defensive factors:

- **Patent protection:** In 2007, Fope obtained an international patent, to be able to "elasticize" the gold mesh;
- **Network:** Partnership with Aurum and Damas and over 600 qualified multibrand resellers selected for medium-high positioning and high reputation of managed brands;
- **Loyal client base:** over the last 3 years, the top 30 customers generated €8 mln a year, thus highlighting the high degree of loyalty.
- **Financial coverage:** Fope hedges both raw materials and currencies, thus minimizing business risk.

2.2 Multiples valuation

We decided to consider only the EV / EBITDA multiple because it is not affected by corporate investment policies. Taking into account that Fope is at a stage where significant investments are expected, we have found it appropriate to base our analysis only on this multiple. In addition, the other multiples have not significant equity values and therefore have not been included in this analysis.

Fig. 4 - Panel Luxury

Company	Mkt Cap	EV	EV/Ebitda			
	€ mln	€ mln	2017	2018	2019	2020
Pandora A/S	9.938	10.222	8,7	7,8	6,9	6,3
Tiffany & Co.	9.635	9.761	11,7	10,9	10,3	10,0
Compagnie Financiere Richemont SA	39.230	36.920	14,1	12,8	11,6	10,7
Kering SA	36.649	41.583	13,4	12,0	11,1	10,2
LVMH Moet Hennessy Louis Vuitton SE	110.554	115.525	11,4	10,5	9,8	8,9
Hermes International SCA	46.064	43.738	21,5	20,0	18,5	16,5
Average			13,5	12,3	11,3	10,4

Source: Infinancials

At the equity value resulting from multiple valuation, we applied a 25% liquidity discount.

This results in a gross pre-discount equity of € 42,2 million and a post-discount Equity value of € 31.9 million.

2.3 DCF valuation

Fig. 5 – Input data

Input Data	
Equity Target	63,99%
Debt target	36,01%
D/E at FY16	56,26%
Theoretical tax rate	31,40%
Risk free	0,75%
Beta unlevered	0,90
Beta levered	1,24
Market risk premium	7,95%
Ke	13,13%
Kd	1,50%
Specific risk	2,50%
WACC	8,77%

Source: Integrae SIM

Fig. 6 – DCF model

Output Data	€ mln data
NPV cash flow	5,6
NPV TV	20,7
Enterprise value	26,3
NFP	2,1
Equity value	24,2

Source: Integrae SIM

Following the sensitivity analysis between long term growth and WACC.

Fig. 7 – Sensitivity analysis

		WACC						
		7,27%	7,77%	8,27%	8,77%	9,27%	9,77%	10,27%
G	2,00%	37,4	33,5	30,2	27,5	25,1	23,0	21,2
	1,75%	35,8	32,2	29,2	26,5	24,3	22,3	20,6
	1,25%	33,0	29,9	27,2	24,9	22,9	21,1	19,5
	1,00%	31,8	28,9	26,4	24,2	22,3	20,6	19,0
	0,75%	30,7	27,9	25,6	23,5	21,7	20,0	18,6
	0,50%	29,6	27,0	24,8	22,8	21,1	19,5	18,2
	0,25%	28,6	26,2	24,1	22,2	20,6	19,1	17,7

Source: Integrae SIM

Fope's equity value is therefore the average of the two valuations, € 28.0 mln, and the target price is €6.10 (€4.1 in our note of April 4, 2017) per share.

2.4 Final remarks

Considered the extraordinary transactions carried out in the jewelery sector over the last 24 months, we believe Fope can be the ideal target for big players in the luxury business. This would enable Fope to gain greater public awareness, boosting sales. We underline that Fope, due to the current production capacity and also thanks to the high automation and technology utilization in the production departments, is able to increase the planned production volumes without extraordinary investment projects.

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11971/1999**

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Equity Total Return (ETR) for different risk categories			
Rating	Low Risk	Medium Risk	High Risk
BUY	ETR \geq 7.5%	ETR \geq 10%	ETR \geq 15%
HOLD	-5% < ETR < 7.5%	-5% < ETR < 10%	0% < ETR < 15%
SELL	ETR \leq -5%	ETR \leq -5%	ETR \leq 0%
U.R.	Rating e/o target price Under Review		
N.R.	Stock Not Rated		

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