

UPDATE

EQUITY RESEARCH

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# G.M. Leather

Euronext Growth Milan | Tannery | Italy

Created 03/10/2023, h. 18:30

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Rating

**BUY**

unchanged

Target Price

**€ 5,30**

prev. € 6,55

Risk



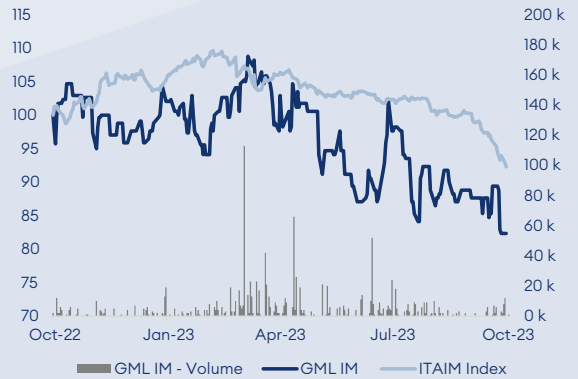
Medium

Upside potential

**278,5%**

Key Financials (€/mln)	FY22A	FY23E	FY24E	FY25E
Revenues	40,8	45,5	56,5	64,5
EBITDA	5,0	6,0	7,5	8,6
EBIT	3,3	3,8	5,0	5,8
Net Income	2,0	2,1	2,8	3,3
NFP	15,4	22,0	19,2	16,8
EBITDA margin	12,2%	13,2%	13,3%	13,3%
EBIT margin	8,1%	8,4%	8,8%	9,0%
Net Income margin	4,9%	4,6%	5,0%	5,1%

## Stocks performance relative to FTSE Italia Growth



### Stock Data

Price	€ 1,40
Target price	€ 5,30
Upside/(Downside) potential	278,5%
Ticker	GML IM
Market Cap (€/mln)	€ 15,73
EV (€/mln)	€ 31,12
Free Float	13,62%
Share Outstanding	11.235.750
52-week high	€ 1,85
52-week low	€ 1,34
Average daily volumes (3 months)	2.700

Mattia Petracca | [mattia.petracca@integraesim.it](mailto:mattia.petracca@integraesim.it)

Edoardo Luigi Pezzella | [edoardo.pezzella@integraesim.it](mailto:edoardo.pezzella@integraesim.it)

Stock performance	1M	3M	6M	1Y
Absolute	-7,28%	-15,66%	-15,66%	-17,65%
to FTSE Italia Growth	0,69%	-5,86%	-2,67%	-9,92%
to Euronext STAR Milan	1,22%	-3,80%	-0,20%	-17,05%
to FTSE All-Share	-2,90%	-11,81%	-15,46%	-46,24%
to EUROSTOXX	-2,98%	-8,78%	-10,66%	-40,19%
to MSCI World Index	-2,71%	-11,67%	-17,43%	-35,07%

Main Ratios	FY22A	FY23E	FY24E	FY25E
EV/EBITDA	6,3 x	5,2 x	4,1 x	3,6 x
EV/EBIT	9,4 x	8,2 x	6,2 x	5,4 x
P/E	7,8 x	7,5 x	5,6 x	4,8 x

## 1H23A Results

Revenues came in at € 21.70 million in 1H23A, compared to € 21.53 million reported at the end of the first half-year of 2022, marking a slight growth of 0.8%. EBITDA for the first half of 2023, equal to € 3.02 million, saw an increase of 16.2%, compared to € 2.60 million in 1H22A. The EBITDA margin, equal to 13.9%, came in higher than the figure for the first half of 2022 (12.1%). EBIT stands at € 2.02 million, thus marking a growth of 2.9% compared to the € 1.97 million reported for 1H22A. Finally, the NFP rose from approximately € 15.39 million of debt in FY22A to € 21.49 million, also of debt, in 1H23A.

## Estimates Update

In light of the publication of the 1H23A half-year results, we have adjusted our estimates for both the current year and the coming years. In particular, we now estimate a FY23E value of production of € 46.00 million, and an EBITDA of € 6.00 million, corresponding to a margin of 13.2%. In the following years, we expect the value of production to rise to € 70.00 million (CAGR 22A-26E: 13.4%) in FY26E, with EBITDA equal to € 9.35 million (corresponding to a margin of 13.5%), up from € 4.98 million in FY22A (corresponding to an EBITDA margin of 12.2%). On the balance sheet, however, we estimate an NFP for FY23E equal to € 21.98 million of debt.

## Valuation Update

We conducted our valuation of the equity value of G.M. Leather based on the DCF method. The DCF method (including, for prudential purposes, a specific risk of 2.50% in the calculation of the WACC) returned an equity value of € 59.5 million. The target price is € 5.30, with a BUY rating, and MEDIUM risk.

# Economics & Financials

TABLE 1 – ECONOMICS & FINANCIALS

CONSOLIDATED INCOME STATEMENT (€/mln)	FY21A*	FY22A	FY23E	FY24E	FY25E	FY26E
Revenues	49,69	40,83	45,50	56,50	64,50	69,50
Other Revenues	0,27	1,54	0,50	0,50	0,50	0,50
<b>Value of Production</b>	<b>49,97</b>	<b>42,37</b>	<b>46,00</b>	<b>57,00</b>	<b>65,00</b>	<b>70,00</b>
COGS	25,57	20,62	22,00	27,30	31,00	33,10
Services	15,54	11,61	11,00	13,50	15,30	16,40
Use of assets owned by others	0,62	0,76	1,25	1,50	1,80	2,00
Employees	3,71	4,10	5,50	6,90	7,90	8,70
Other Operating Expenses	0,16	0,30	0,25	0,30	0,40	0,45
<b>EBITDA</b>	<b>4,37</b>	<b>4,98</b>	<b>6,00</b>	<b>7,50</b>	<b>8,60</b>	<b>9,35</b>
<i>EBITDA Margin</i>	<i>8,8%</i>	<i>12,2%</i>	<i>13,2%</i>	<i>13,3%</i>	<i>13,3%</i>	<i>13,5%</i>
D&A	0,76	1,68	2,20	2,50	2,80	2,95
<b>EBIT</b>	<b>3,60</b>	<b>3,30</b>	<b>3,80</b>	<b>5,00</b>	<b>5,80</b>	<b>6,40</b>
<i>EBIT Margin</i>	<i>7,2%</i>	<i>7,8%</i>	<i>8,3%</i>	<i>8,8%</i>	<i>8,9%</i>	<i>9,1%</i>
Financial Management	(0,30)	(0,98)	(1,00)	(0,95)	(0,85)	(0,75)
<b>EBT</b>	<b>3,30</b>	<b>2,32</b>	<b>2,80</b>	<b>4,05</b>	<b>4,95</b>	<b>5,65</b>
Taxes	0,83	0,31	0,70	1,25	1,65	2,05
<b>Net Income</b>	<b>2,47</b>	<b>2,01</b>	<b>2,10</b>	<b>2,80</b>	<b>3,30</b>	<b>3,60</b>

CONSOLIDATED BALANCE SHEET (€/mln)	FY21A*	FY22A	FY23E	FY24E	FY25E	FY26E
<b>Fixed Assets</b>	<b>3,25</b>	<b>5,84</b>	<b>11,00</b>	<b>9,80</b>	<b>8,15</b>	<b>6,20</b>
Account receivable	12,43	16,38	17,50	19,50	21,00	22,50
Inventories	12,07	10,81	18,50	20,00	22,40	23,50
Account payable	8,66	7,48	13,00	15,50	17,40	18,50
<b>Operating Working Capital</b>	<b>15,84</b>	<b>19,71</b>	<b>23,00</b>	<b>24,00</b>	<b>26,00</b>	<b>27,50</b>
Other receivable	2,55	3,49	3,50	3,70	3,90	4,40
Other payable	1,55	1,56	1,40	1,65	1,75	1,80
<b>Net Working Capital</b>	<b>16,84</b>	<b>21,64</b>	<b>25,10</b>	<b>26,05</b>	<b>28,15</b>	<b>30,10</b>
Severance Indemnities & Other Provisions	0,31	0,37	0,70	0,85	1,00	1,10
<b>NET INVESTED CAPITAL</b>	<b>19,78</b>	<b>27,10</b>	<b>35,40</b>	<b>35,00</b>	<b>35,30</b>	<b>35,20</b>
Share Capital	0,09	0,11	0,11	0,11	0,11	0,11
Reserves	3,16	9,59	11,20	12,89	15,13	17,77
Net Income	2,47	2,01	2,10	2,80	3,30	3,60
<b>Equity</b>	<b>5,72</b>	<b>11,72</b>	<b>13,42</b>	<b>15,80</b>	<b>18,54</b>	<b>21,49</b>
Cash & Cash Equivalent	0,72	1,18	1,52	1,80	1,99	2,79
Short Term Debt to Bank	7,78	9,30	13,00	11,50	10,50	9,50
M/L Term Debt to Bank	7,00	7,27	10,50	9,50	8,25	7,00
<b>Net Financial Position</b>	<b>14,06</b>	<b>15,39</b>	<b>21,98</b>	<b>19,20</b>	<b>16,76</b>	<b>13,71</b>
<b>SOURCES</b>	<b>19,78</b>	<b>27,10</b>	<b>35,40</b>	<b>35,00</b>	<b>35,30</b>	<b>35,20</b>

\*Pro-forma

CONSOLIDATED CASH FLOW (€/mln)	FY22A	FY23E	FY24E	FY25E	FY26E
EBIT	3,30	3,80	5,00	5,80	6,40
Taxes	0,31	0,70	1,25	1,65	2,05
<b>NOPAT</b>	<b>2,99</b>	<b>3,10</b>	<b>3,75</b>	<b>4,15</b>	<b>4,35</b>
D&A	1,68	2,20	2,50	2,80	2,95
Change in receivable	(3,95)	(1,12)	(2,00)	(1,50)	(1,50)
Change in inventories	1,26	(7,69)	(1,50)	(2,40)	(1,10)
Change in payable	(1,19)	5,52	2,50	1,90	1,10
Change in others	(0,93)	(0,18)	0,05	(0,10)	(0,45)
<i>Change in NWC</i>	<i>(4,80)</i>	<i>(3,46)</i>	<i>(0,95)</i>	<i>(2,10)</i>	<i>(1,95)</i>
Change in provisions	0,06	0,33	0,15	0,15	0,10
<b>OPERATING CASH FLOW</b>	<b>(0,07)</b>	<b>2,17</b>	<b>5,45</b>	<b>5,00</b>	<b>5,45</b>
Capex	(4,26)	(7,36)	(1,30)	(1,15)	(1,00)
<b>FREE CASH FLOW</b>	<b>(4,33)</b>	<b>(5,20)</b>	<b>4,15</b>	<b>3,85</b>	<b>4,45</b>
Financial Management	(0,98)	(1,00)	(0,95)	(0,85)	(0,75)
Change in Debt to Bank	1,78	6,94	(2,50)	(2,25)	(2,25)
Change in Equity	3,99	(0,40)	(0,42)	(0,56)	(0,66)
<b>FREE CASH FLOW TO EQUITY</b>	<b>0,46</b>	<b>0,34</b>	<b>0,28</b>	<b>0,19</b>	<b>0,79</b>

Source: G.M. Leather and Integrae SIM estimates

## Company Overview

G.M. Leather was established in 2011 and leads G.M. Group, founded in 1976 by the Marcigaglia family through companies currently entirely controlled by the Issuer, Snam di Marcigaglia Antonio & C Srl and subsequently Genesi Srl. The Group, active for over 45 years and based in Arzignano (Vicenza), in the largest Italian tanning district, is a manufacturing company that fully represents *Made in Italy* quality, through high added value leather processing for the creation of luxury small goods (including leather goods and footwear) and lifestyle goods (medium to high range furniture). The company has 3 operating sites, totaling approximately 25,000 covered square meters, with a production capacity of over 3.00 million square meters of full-cycle finished leather products. The procurement of raw materials (raw bovine hides and semi-finished hides) are carried out by G.M. Leather and the subsidiary Snam, while the high added value processing is entrusted to the subsidiary Genesi, which deals with liming, tanning, retanning, dyeing, finishing and quality control. G.M. Leather, furthermore, looks after the marketing of the finished products, as well as the strategic planning of the entire group.

## 1H23A Results

TABLE 2 – 1H23A VS 1H22A

€/mln	Revenues	EBITDA	EBITDA %	EBIT	Net Income	NFP
1H23A	21,70	3,02	13,9%	2,02	1,12	21,49
1H22A	21,53	2,60	12,1%	1,97	1,30	15,39*
Change	0,8%	16,2%	1,8%	2,9%	-14,0%	N/A

Source: Integrae SIM

\*NFP as 31/12/20222

In the half-year results press release, Marco Malagutti, Co-CEO of G.M. Leather, commented: *“The first half of 2023 was characterized by a stable turnover, deriving from the positive commercial results achieved, above all, on articles emerging from the intense R&D activities carried out in 2022 and continued in 2023, which are considered strategic for the competitive positioning of the group over the coming years. The good financial availability has allowed us to continue procurement planning and the leveraging of the most advantageous market conditions, with a view to maintaining an adequate level of inventory to promptly satisfy customer demand and to retaining strategic suppliers.”*

Revenues came in at € 21.70 million in 1H23A, compared to € 21.53 million reported at the end of the first half-year of 2022, marking a slight growth of 0.8%. Against Other Revenues of €0.37 million, for 1H23A, a production value of €22.08 million was recorded, up by 1.6% compared to the equivalent figure for 1H22A, equal to €21.73 million.

EBITDA for the first half of 2023, equal to € 3.02 million, saw an increase of 16.2%, compared to € 2.60 million in 1H22A. The EBITDA margin, equal to 13.9%, came in higher than the figure for the first half of 2022 (12.1%). The increase in EBITDA during FY23A was mainly due to the contribution of the Palladio Division, and the management’s decision to invest in raw materials in order to increase competitiveness in the short to medium term. EBIT stands at € 2.02 million, thus marking a growth of 2.9% compared to the € 1.97 million reported for 1H22A. The EBIT margin is equal to 9.3%, compared to the 1H22A figure of 9.1%. Net Income, calculated net of taxes of € 0.45 million, stands at € 1.12 million, down 14.0% on the 1H22A figure (€ 1.30 million).

Finally, the NFP rose from approximately € 15.39 million of debt in FY22A to € 21.49 million, also of debt, in 1H23A. This increase was influenced by the extraordinary operation finalized in February with Conceria Palladio SpA, and by the strategic vision pursued by the company of investing in raw materials in order to boost its commercial competitiveness in the market over the short to medium term.

## FY23E – FY26E Estimates

TABLE 3 – ESTIMATES UPDATES FY23E-26E

€/mln	FY23E	FY24E	FY25E	FY26E
<b>Value of Production</b>				
New	46,00	57,00	65,00	70,00
Old	63,35	72,15	83,15	94,15
Change	-27,4%	-21,0%	-21,8%	-25,7%
<b>EBITDA</b>				
New	6,00	7,50	8,60	9,35
Old	7,30	8,60	9,90	11,25
Change	-17,8%	-12,8%	-13,1%	-16,9%
<b>EBITDA margin</b>				
New	13,2%	13,3%	13,3%	13,5%
Old	11,6%	11,9%	11,9%	12,0%
Change	1,6%	1,3%	1,4%	1,5%
<b>EBIT</b>				
New	3,80	5,00	5,80	6,40
Old	5,10	6,40	7,80	9,25
Change	-25,5%	-21,9%	-25,6%	-30,8%
<b>Net Income</b>				
New	2,10	2,80	3,30	3,60
Old	3,25	4,20	5,30	6,40
Change	-35,4%	-33,3%	-37,7%	-43,8%
<b>NFP</b>				
New	21,98	19,20	16,76	13,71
Old	13,78	11,98	9,30	5,40
Change	N/A	N/A	N/A	N/A

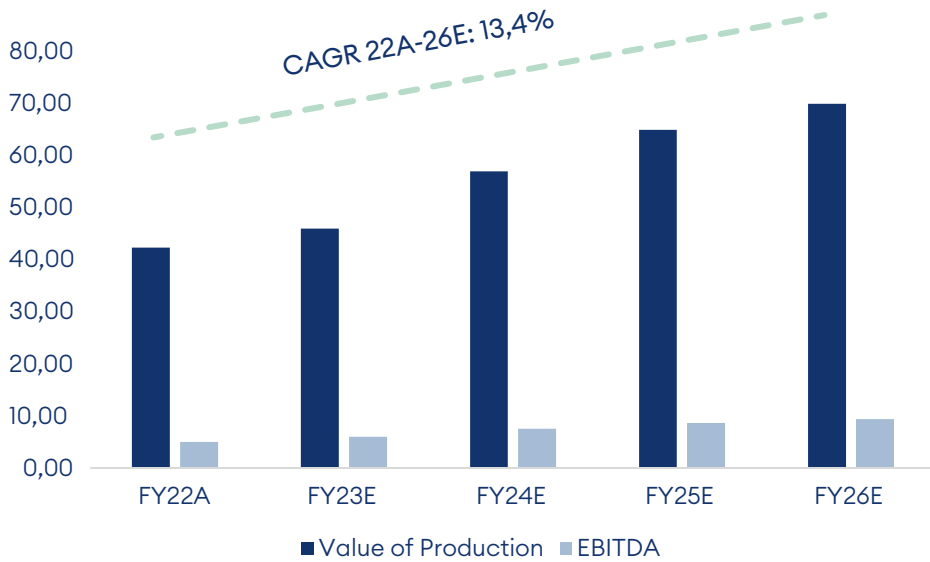
Source: Integrae SIM

In light of the publication of the 1H23A half-year results, we have adjusted our estimates for both the current year and the coming years.

In particular, we now estimate a FY23E value of production of € 46.00 million, and an EBITDA of € 6.00 million, corresponding to a margin of 13.2%. In the following years, we expect the value of production to rise to € 70.00 million (CAGR 22A-26E: 13.4%) in FY26E, with EBITDA equal to € 9.35 million (corresponding to a margin of 13.5%), up from € 4.98 million in FY22A (corresponding to an EBITDA margin of 12.2%).

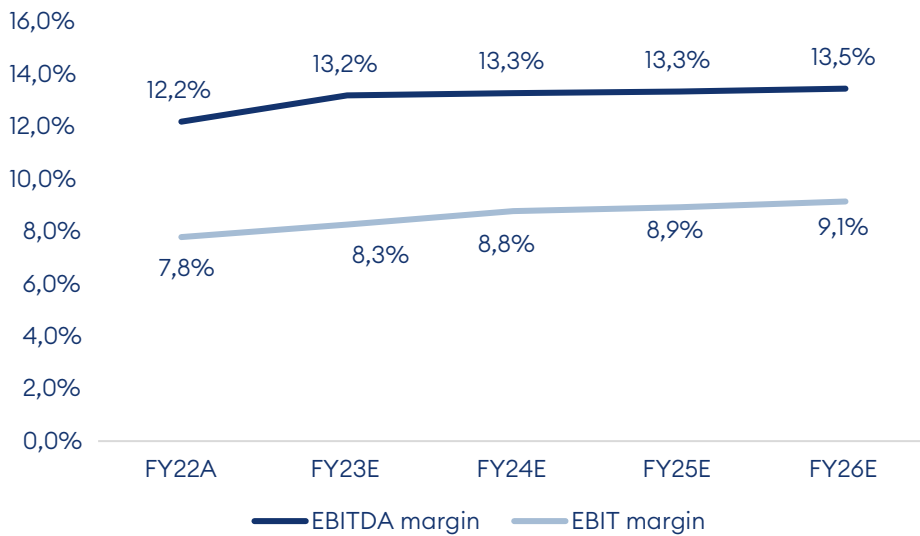
On the balance sheet, however, we estimate an NFP for FY23E equal to € 21.98 million of debt.

CHART 1 - VOP AND EBITDA FY22A-26E



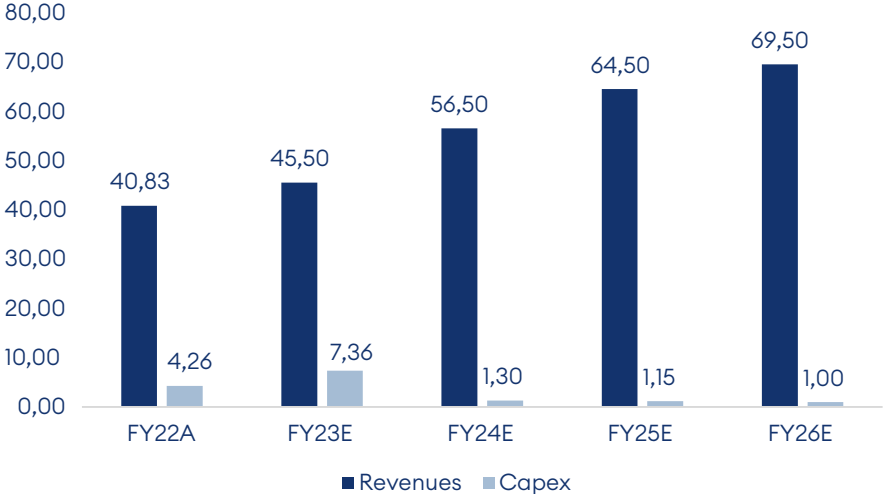
Source: Integrae SIM

CHART 2 - MARGIN FY22A-26E



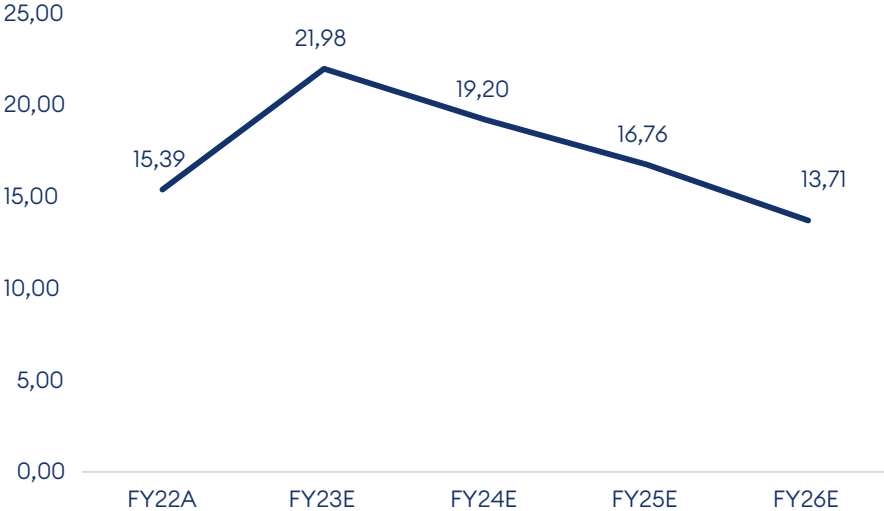
Source: Integrae SIM

CHART 3 – CAPEX FY22A-26E



Source: Integrae SIM

CHART 4 – NFP FY22A-26E



Source: Integrae SIM



# Valuation

We conducted our valuation of the equity value of G.M. Leather based on the DCF method.

## DCF Method

TABLE 4 – WACC

WACC				7,30%
D/E 150,00%	Risk Free Rate 3,64%	$\beta$ Adjusted 1,00	$\alpha$ (specific risk) 2,50%	
$K_d$ 3,50%	Market Premium 8,33%	$\beta$ Relevered 2,08	$K_e$ 14,47%	

Source: Integrae SIM

For prudential purposes, we included a specific risk of 2.5%. This gives a WACC of 7.30%.

TABLE 5 – DCF VALUATION

DCF		% of EV
FCFO actualized	9,4	13%
TV actualized DCF	65,5	87%
<b>Enterprise Value</b>	<b>74,9</b>	<b>100%</b>
NFP (FY22A)	15,4	
<b>Equity Value</b>	<b>59,5</b>	

Source: Integrae SIM

With the above data and taking our estimates and assumptions as a reference, the result is an **equity value of € 59.5 million.**

TABLE 6 – EQUITY VALUE – SENSITIVITY ANALYSIS

€/mln	Growth Rate (g)	WACC						
		5,8%	6,3%	6,8%	7,3%	7,8%	8,3%	8,8%
	2,5%	127,2	107,3	92,1	80,0	70,2	62,1	55,3
	2,0%	109,7	94,2	81,9	71,9	63,6	56,7	50,8
	1,5%	96,3	83,8	73,6	65,2	58,1	52,1	46,8
	1,0%	85,8	75,4	66,8	59,5	53,4	48,1	43,4
	0,5%	77,2	68,4	61,0	54,7	49,3	44,6	40,4
	0,0%	70,0	62,5	56,1	50,6	45,7	41,5	37,8
	-0,5%	64,1	57,5	51,9	46,9	42,6	38,8	35,4

Source: Integrae SIM

# Equity Value

## TABLE 7 – EQUITY VALUE

Average Equity Value (€/mln)	
Equity Value DCF (€/mln)	59,5
<hr/>	
Target Price (€)	5,30

Source: Integrae SIM

The results give an average equity value of approximately € 59.5 million. **The target price is therefore € 5.30 (prev. € 6.55). We confirm a BUY rating, and MEDIUM risk.**

## TABLE 8 – TARGET PRICE IMPLIED VALUATION MULTIPLES

Multiples	FY22A	FY23E	FY24E	FY25E
EV/EBITDA	15,1 x	12,5 x	10,0 x	8,7 x
EV/EBIT	22,7 x	19,7 x	15,0 x	12,9 x
P/E	29,6 x	28,3 x	21,3 x	18,0 x

Source: Integrae SIM

## TABLE 9 – CURRENT PRICE IMPLIED VALUATION MULTIPLES

Main Ratios	FY22A	FY23E	FY24E	FY25E
EV/EBITDA	6,3 x	5,2 x	4,1 x	3,6 x
EV/EBIT	9,4 x	8,2 x	6,2 x	5,4 x
P/E	7,8 x	7,5 x	5,6 x	4,8 x

Source: Integrae SIM

# Disclosure Pursuant to Delegated Regulation UE n. 2016/958

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03/10/2022	1,56	Buy	6,45	Medium	Update
27/02/2023	1,75	Buy	6,45	Medium	Breaking News
11/04/2023	1,67	Buy	6,55	Medium	Update
14/06/2023	1,55	Buy	6,55	Medium	Breaking News

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### Rating system (long term horizon: 12 months)

The BUY, HOLD and SELL ratings are based on the expected total return (ETR – absolute performance in the 12 months following the publication of the analysis, including the ordinary dividend paid by the company), and the risk associated to the share analyzed. The degree of risk is based on the liquidity and volatility of the share, and on the rating provided by the analyst and contained in the report. Due to daily fluctuations in share prices, the expected total return may temporarily fall outside the proposed range

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

### Valuation methodologies (long term horizon: 12 months)

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