

<b>GEL</b>	<i>Italy</i>	<i>FTSE AIM Italia</i>	<i>Water Treatment</i>
<b>Rating: BUY</b>	<b>Target Price: €1,90</b> (prev. 2,31)	<b>Update</b>	<b>Risk: Medium</b>

Stock performance	1M	3M	6M	1Y
absolute	-6,50%	-14,22%	-28,63%	-48,34%
to FTSE AIM Italia	-2,74%	-0,69%	-16,73%	-32,83%
to FTSE STAR Italia	-6,57%	-13,55%	-25,96%	-51,74%
to FTSE All-Share	-8,56%	-15,26%	-30,58%	-60,78%
to EUROSTOXX	-8,83%	-16,46%	-32,58%	-58,87%
to MSCI World Index	-6,53%	-13,70%	-30,18%	-53,38%

#### Stock Data

Price	€ 0,94
Target price	€ 1,90
Upside/(Downside) potential	103%
Bloomberg Code	GEL IM EQUITY
Market Cap (€m)	6,72
EV (€m)	13,02
Free Float	30,49%
Share Outstanding	7.192.500
52-week high	€ 1,83
52-week low	€ 0,85
Average daily volumes (3m)	4.460

Key Financials (€m)	FY18A	FY19E	FY20E	FY21E
Sales	17,0	16,5	16,9	17,2
EBITDA	2,8	2,4	2,5	2,7
EBIT	1,5	1,2	1,3	1,6
Net Profit	0,3	0,4	0,6	0,7
EPS (€)	0,04	0,06	0,08	0,10
EBITDA margin	16,5%	14,5%	14,8%	15,4%
EBIT margin	8,9%	7,1%	7,9%	9,0%

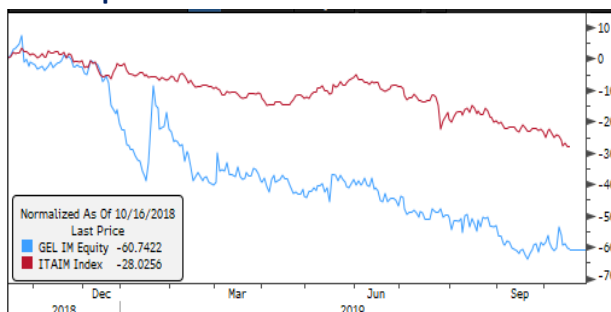
Main Ratios	FY18A	FY19E	FY20E	FY21E
EV/EBITDA (x)	4,7	5,4	5,2	4,9
EV/EBIT (x)	8,6	11,1	9,8	8,4
P/E (x)	24,0	15,1	11,7	9,3

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#### Stocks performance relative to FTSE AIM Italia



#### 1H19A Results

Nel 1H19A, Gel ha riportato risultati inferiori alle nostre aspettative nonché ai valori registrati al 1H18A. In particolare, il management attribuisce la flessione dei ricavi del 4,3% YoY (da €8,6 mln nel 1H18A a €8,2 mln nel 1H19A) a un rallentamento dovuto allo slittamento di una rilevante commessa nel secondo semestre. L'EBITDA risulta invece in flessione ben più grande, pari a oltre il 45% YoY, passando da €1,4 mln nel 1H18A ai €0,8 mln attuali. L'utile netto risulta negativo per €0,2 mln. Per quanto riguarda la NFP, questa migliora di oltre il 23% rispetto al FY18A (€8,3 mln).

#### Estimates Update

Alla luce dei risultati del 1H19A, abbiamo ritenuto opportuno applicare tassi di crescita più conservativi: stimiamo CAGR 19-22E pari al 2,1% (rispetto al 3,32% nel nostro precedente report), con Sales che crescono da €16,50 nel FY19E a €17,5 nel FY22E. Conseguentemente, la flessione interessa tutti gli altri principali indicatori economici, compresa la marginalità, dato il forte calo intervenuto nell'esercizio in corso.

#### Valuation Update

Abbiamo condotto la valutazione dell'equity range di Gel sulla base della metodologia DCF e dei multipli di un campione di società comparabili. Il DCF method (che nel calcolo del WACC include a fini prudenziali anche un rischio specifico pari al 2,5%) restituisce un equity value pari a €16,6 mln. L'equity value di Gel utilizzando i market multiples risulta essere pari €10,7 mln (incluso un discount pari al 25%). Ne risulta un equity value medio pari a circa €13,6 mln. Il target price è quindi di €1,90 (prev. €2,31). Confermiamo rating BUY e rischio MEDIUM.

## 1. Economics & Financials

**Table 1 – Economics & Financials**

<b>INCOME STATEMENT (€/mln)</b>	<b>FY17A</b>	<b>FY18A</b>	<b>FY19E</b>	<b>FY20E</b>	<b>FY21E</b>	<b>FY22E</b>
Revenues	15,84	16,97	16,50	16,85	17,20	17,55
Other Revenues	0,79	0,46	0,45	0,45	0,45	0,45
<b>Value of Production</b>	<b>16,64</b>	<b>17,42</b>	<b>16,95</b>	<b>17,30</b>	<b>17,65</b>	<b>18,00</b>
COGS	6,41	7,24	7,10	7,30	7,50	7,75
Services	1,68	2,15	2,20	2,20	2,20	2,20
Employees	2,73	3,09	3,15	3,20	3,20	3,25
Other Variable Costs	2,02	2,16	2,10	2,10	2,10	2,10
<b>EBITDA</b>	<b>3,79</b>	<b>2,79</b>	<b>2,40</b>	<b>2,50</b>	<b>2,65</b>	<b>2,70</b>
<i>EBITDA Margin</i>	<i>23,9%</i>	<i>16,5%</i>	<i>14,5%</i>	<i>14,8%</i>	<i>15,4%</i>	<i>15,4%</i>
D&A	1,81	1,28	1,23	1,18	1,10	1,05
<b>EBIT</b>	<b>1,98</b>	<b>1,52</b>	<b>1,18</b>	<b>1,33</b>	<b>1,55</b>	<b>1,65</b>
<i>EBIT Margin</i>	<i>12,5%</i>	<i>8,9%</i>	<i>7,1%</i>	<i>7,9%</i>	<i>9,0%</i>	<i>9,4%</i>
Financial Management	(0,66)	(0,73)	(0,35)	(0,28)	(0,23)	(0,20)
<b>EBT</b>	<b>1,32</b>	<b>0,79</b>	<b>0,82</b>	<b>1,05</b>	<b>1,33</b>	<b>1,45</b>
Taxes	0,32	0,51	0,38	0,48	0,60	0,70
<b>Net Income</b>	<b>1,00</b>	<b>0,28</b>	<b>0,44</b>	<b>0,58</b>	<b>0,73</b>	<b>0,75</b>
<b>BALANCE SHEET (€/mln)</b>	<b>FY17A</b>	<b>FY18A</b>	<b>FY19E</b>	<b>FY20E</b>	<b>FY21E</b>	<b>FY22E</b>
<b>Fixed Asset</b>	<b>14,34</b>	<b>13,19</b>	<b>13,01</b>	<b>12,16</b>	<b>11,41</b>	<b>10,66</b>
Account receivable	7,01	7,10	5,50	5,80	6,00	6,10
Account payable	2,94	3,23	3,35	3,75	3,80	3,80
Inventories	2,34	2,43	3,00	2,60	2,65	2,70
<b>Operating Working Capital</b>	<b>6,41</b>	<b>6,31</b>	<b>5,15</b>	<b>4,65</b>	<b>4,85</b>	<b>5,00</b>
Other Receivable	0,47	0,17	0,10	0,20	0,23	0,23
Other Payable	0,53	0,07	0,30	0,10	0,10	0,10
<b>Net Working Capital</b>	<b>6,35</b>	<b>6,40</b>	<b>4,95</b>	<b>4,75</b>	<b>4,98</b>	<b>5,13</b>
Severance Indemnities & Other Provision	2,20	2,30	2,20	2,30	2,30	2,30
<b>NET INVESTED CAPITAL</b>	<b>18,49</b>	<b>17,29</b>	<b>15,76</b>	<b>14,61</b>	<b>14,09</b>	<b>13,49</b>
Share Capital	0,72	0,72	0,72	0,72	0,72	0,72
Reserves	6,98	8,01	8,29	8,74	9,31	10,04
Net Profit	1,00	0,28	0,44	0,58	0,73	0,75
<b>Equity</b>	<b>8,69</b>	<b>9,01</b>	<b>9,46</b>	<b>10,03</b>	<b>10,76</b>	<b>11,51</b>
Cash and Cash Equivalent	5,00	1,90	1,90	2,47	2,77	3,12
Short-Term Debt	3,44	2,54	1,10	0,80	0,75	0,70
Leasing	6,25	4,99	4,60	4,25	3,85	3,40
Medium-Long-Term Financial Debt	5,11	2,66	2,50	2,00	1,50	1,00
<b>Net Financial Position</b>	<b>9,80</b>	<b>8,28</b>	<b>6,30</b>	<b>4,58</b>	<b>3,33</b>	<b>1,98</b>
<b>TOTAL SOURCES</b>	<b>18,49</b>	<b>17,29</b>	<b>15,76</b>	<b>14,61</b>	<b>14,09</b>	<b>13,49</b>
<b>CASH FLOW (€/mln)</b>	<b>FY18A</b>	<b>FY19E</b>	<b>FY20E</b>	<b>FY21E</b>	<b>FY22E</b>	
<b>EBIT</b>	<b>1,52</b>	<b>1,18</b>	<b>1,33</b>	<b>1,55</b>	<b>1,65</b>	
Taxes	0,51	0,38	0,48	0,60	0,70	
<b>NOPAT</b>	<b>1,01</b>	<b>0,79</b>	<b>0,85</b>	<b>0,95</b>	<b>0,95</b>	
D&A	1,28	1,23	1,18	1,10	1,05	
Change in receivable	(0,10)	1,60	(0,30)	(0,20)	(0,10)	
Change in payable	0,28	0,13	0,40	0,05	0,00	
Change in inventories	(0,09)	(0,57)	0,40	(0,05)	(0,05)	
Other Changes	(0,14)	0,29	(0,30)	(0,03)	0,00	
<b>CHANGE IN NWC</b>	<b>(0,05)</b>	<b>1,45</b>	<b>0,20</b>	<b>(0,23)</b>	<b>(0,15)</b>	
Change in Provisions	0,10	(0,10)	0,10	0,00	0,00	
<b>OPERATING CASH FLOW</b>	<b>2,33</b>	<b>3,37</b>	<b>2,32</b>	<b>1,83</b>	<b>1,85</b>	
Investments	(0,12)	(1,05)	(0,33)	(0,35)	(0,30)	
<b>FREE CASH FLOW FROM OPERATIONS (FCFO)</b>	<b>2,21</b>	<b>2,32</b>	<b>2,00</b>	<b>1,48</b>	<b>1,55</b>	
Financial Management	(0,73)	(0,35)	(0,28)	(0,23)	(0,20)	
Change in Financial Debt	(4,62)	(1,98)	(1,15)	(0,95)	(1,00)	
Change in Equity	0,04	0,00	0,00	0,00	0,00	
<b>FREE CASH FLOW TO EQUITY (FCFE)</b>	<b>(3,10)</b>	<b>(0,01)</b>	<b>0,57</b>	<b>0,30</b>	<b>0,35</b>	

Source: Gel and Integrae SIM estimates

## 1.1 1H19A Results

**Table 2 – 1H19A vs 1H18A**

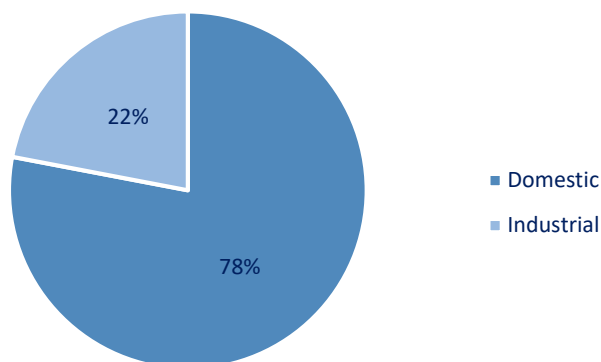
€/mln	Sales	EBITDA	EBITDA %	EBIT	Net Income	NFP
1H19A	8,2	0,8	9,2%	0,1	-0,2	6,3
1H18A	8,6	1,4	16,2%	0,7	0,0	8,3*
Change	-4,3%	-45,8%	-43,3%	-81,6%	n.m.	23,8%

\*Dato riferito al 31.12.18

Source: Gel

Nel 1H19A, Gel ha riportato risultati inferiori alle nostre aspettative nonché ai valori registrati al 1H18A. In particolare, il *management* attribuisce la flessione dei ricavi del 4,3% YoY (da €8,6 mln nel 1H18A a €8,2 mln nel 1H19A) a un rallentamento dovuto allo slittamento di una rilevante commessa nel secondo semestre.

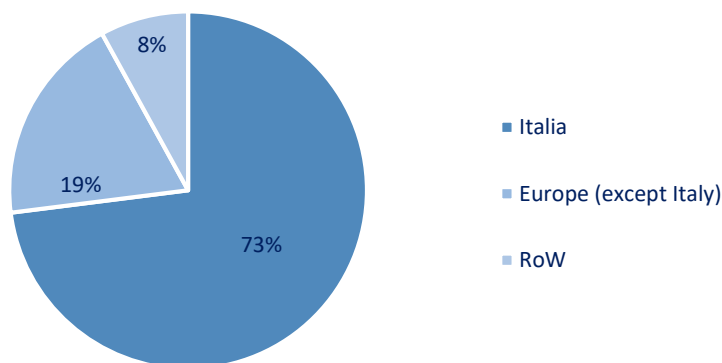
**Chart 1 – Sales Breakdown per SBU (1H19A)**



Source: Gel

I ricavi della divisione “Domestica” sono pari a €6,4 mln, dato pressoché in linea con il dato di 1H18A, mentre quelli relative alla divisione “Industriale” risultano €1,8 mln.

**Chart 2 – Sales Breakdown per geographical area**



Source: Gel

L’EBITDA risulta invece in flessione ben più grande, pari a oltre il 45% YoY, passando da €1,4 mln nel 1H18A ai €0,8 mln attuali. La netta riduzione è riconducibile all’effetto consequenziale di riduzione del fatturato, agli ingenti investimenti in R&D -finalizzati al miglioramento della tecnologia e della capacità produttiva-, a spese straordinarie legali e quelle legate all’avviamento della neocostituita controllata

*Bejiin GEL Water Treatment Technology Co. Ltd.* L'operazione è avvenuta nel mese di Maggio, in linea con la strategia di internazionalizzazione annunciata in fase di IPO.

L'utile netto risulta negativo per €0,2 mln.

Per quanto riguarda la NFP, questa migliora di oltre il 23% rispetto al FY18A (€8,3 mln), attestandosi su €6,3 mln. Il miglioramento è principalmente riconducibile ad una migliore gestione del *net working capital*.

## 1.2 New estimates FY19E – FY22E

**Table 3 – Estimates Updates**

€/mln	FY19E	FY20E	FY21E	FY22E
<b>Sales</b>				
New	16,5	16,9	17,2	17,6
Old	17,5	18,1	18,7	19,3
Change	-5,7%	-6,9%	-8,0%	-9,1%
<b>EBITDA</b>				
New	2,4	2,5	2,7	2,7
Old	3,0	3,2	3,5	3,7
Change	-18,6%	-20,6%	-23,7%	-27,5%
<b>EBITDA %</b>				
New	14,5%	14,8%	15,4%	15,4%
Old	16,9%	17,4%	18,6%	19,3%
Change	-13,7%	-14,7%	-17,1%	-20,3%
<b>EBIT</b>				
New	1,2	1,3	1,6	1,7
Old	1,7	2,0	2,4	2,7
Change	-31,9%	-32,9%	-34,7%	-38,3%
<b>Net Income</b>				
New	0,4	0,6	0,7	0,8
Old	1,0	1,2	1,6	1,8
Change	-55,3%	-53,1%	-53,2%	-57,7%
<b>NFP</b>				
New	6,3	4,6	3,3	2,0
Old	7,2	5,3	3,2	0,8
Change	12,3%	13,2%	-4,7%	-138,6%

Source: Integrae SIM

Alla luce dei risultati del 1H19A, abbiamo ritenuto opportuno applicare tassi di crescita più conservativi: stimiamo CAGR 19-22E pari al 2,1% (rispetto al 3,32% nel nostro precedente *report*), con *Sales* che crescono da €16,50 nel FY19E a €17,5 nel FY22E.

Conseguentemente, la flessione interessa tutti gli altri principali indicatori economici, compresa la marginalità, dato il forte calo intervenuto nell'esercizio in corso. Quest'ultima infatti è prevista essere nel FY22E pari a 15,4% in riduzione di oltre il 20% rispetto alle nostre precedenti stime.

L'unica eccezione è costituita dalla NFP, che risulta essere in miglioramento (in quanto l'indebitamento netto diminuisce), grazie ad una migliore dinamica del capitale circolante.

## 2. Valuation

Abbiamo condotto la valutazione dell'*equity value* di Gel sulla base della metodologia DCF e dei multipli di mercato di un campione di società comparabili.

### 2.1 DCF Method

**Table 4 – WACC**

WACC		9,13%
Risk Free Rate	0,86% $\alpha$ (specific risk)	2,50%
Market Premium	9,02% Beta Adjusted	0,90
D/E (average)	33,33% Beta Relevered	1,11
Ke	11,45% Kd	3,00%

Source: Integrae SIM

A fini prudenziali, abbiamo inserito un rischio specifico pari a 2,5%. Ne risulta quindi un WACC di 9,13%

**Table 5 – DCF Valuation**

DCF Equity Value		16,6
FCFO actualized	7,0	30%
TV actualized DCF	15,9	70%
<b>Enterprise Value</b>	<b>22,9</b>	100%
NFP (FY19E)	6,3	

Source: Integrae SIM

Con i dati di cui sopra e prendendo come riferimento le nostre stime ed *assumptions*, ne risulta un **equity value di €16,6 mln.**

**Table 6 – Equity Value - Sensitivity analysis**

€/mln	WACC						
	7,6%	8,1%	8,6%	9,1%	9,6%	10,1%	10,6%
2,5%	27,1	24,4	22,1	20,2	18,5	17,0	15,8
2,0%	24,8	22,5	20,5	18,8	17,3	16,0	14,9
Growth							
Rate (g)							
1,5%	22,8	20,8	19,1	17,6	16,3	15,1	14,1
1,0%	21,2	19,4	17,9	16,6	15,4	14,3	13,4
0,5%	19,7	18,2	16,8	15,6	14,6	13,6	12,8
0,0%	18,5	17,1	15,9	14,8	13,8	13,0	12,2
-0,5%	17,4	16,2	15,1	14,1	13,2	12,4	11,7

Source: Integrae SIM

## 2.2 Market multiples

Il nostro panel è formato da società operanti nello stesso settore di Gel, ma con una capitalizzazione maggiore. Queste società sono le stesse utilizzate per il calcolo del Beta per il DCF *method*.

**Table 8 – Peer stock performance**

Company Name	1W	1M	3M	6M	YTD
Beijing OriginWater Technology	7,6%	-2,8%	4,1%	-25,8%	-6,6%
Daikin Industries, Ltd.	1,7%	1,7%	5,1%	15,5%	32,4%
Danaher Corporation	0,6%	1,7%	5,5%	4,2%	-8,5%
Graham Corp.	19,0%	19,8%	36,1%	26,5%	0,5%
Hankore Environment Tech Group	3,2%	1,4%	-6,2%	-8,5%	10,9%
Kurita Water Industries Ltd.	2,5%	0,2%	7,7%	3,9%	17,7%
Pentair	6,2%	0,6%	0,8%	-3,1%	4,7%
<b>Median</b>	<b>3,2%</b>	<b>1,4%</b>	<b>5,1%</b>	<b>3,9%</b>	<b>4,7%</b>
<b>Gel</b>	<b>-4,6%</b>	<b>6,5%</b>	<b>-14,2%</b>	<b>-28,6%</b>	<b>-26,4%</b>

Source: Bloomberg

**Table 9 – Market Multiples**

Company Name	EV/EBITDA			EV/EBIT			P/E		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Beijing OriginWater Technology...	18,1	15,9	16,6	41,3	36,0	30,3	15,6	13,5	11,3
Daikin Industries, Ltd.	10,8	9,8	9,2	14,0	12,9	11,8	20,5	18,8	17,1
Danaher Corporation	24,5	18,7	17,2	34,1	26,2	25,9	29,6	24,7	22,9
HanKore Environment Tech Group...	8,5	7,3	7,2	9,2	8,3	7,7	6,4	5,6	5,4
Kurita Water Industries Ltd.	6,0	5,9	6,0	8,8	9,2	9,0	14,9	15,7	15,5
Pentair plc	12,0	11,1	10,6	13,2	12,4	11,7	15,7	14,2	13,4
<b>Median</b>	<b>11,4</b>	<b>10,5</b>	<b>9,9</b>	<b>13,6</b>	<b>12,6</b>	<b>11,8</b>	<b>15,6</b>	<b>14,9</b>	<b>14,4</b>

Source: Infionals

**Table 10 – Market Multiples Valuation**

€/mln	2019E	2020E	2021E
<b>Enterprise Value (EV)</b>			
EV/EBITDA	27,4	26,2	26,2
EV/EBIT	16,0	16,7	18,2
P/E	7,0	8,6	10,5
<b>Equity Value</b>			
EV/EBITDA	21,1	21,6	22,9
EV/EBIT	9,7	12,1	14,9
P/E	7,0	8,6	10,5
<b>Equity Value post 25% discount</b>			
EV/EBITDA	15,8	16,2	17,1
EV/EBIT	7,3	9,1	11,2
P/E	5,2	6,4	7,8
<b>Average</b>	<b>9,4</b>	<b>10,6</b>	<b>12,1</b>

Source: Integrae SIM

L'*equity value* di Gel utilizzando i *market multiples* EV/EBITDA, EV/EBIT e P/E risulta essere pari a circa €14,3 mln. A questo valore, abbiamo applicato uno sconto del 25% in modo da includere nel prezzo anche la minore liquidità che il titolo Gel ha rispetto alle società incluse nel panel oltre che a una capitalizzazione più bassa. Pertanto, ne risulta un *equity value* di € 10,7 mln.

## 2.3 Equity Value

**Table 11 – Equity Value**

<b>Average Equity Value (€/mln)</b>	<b>13,6</b>
Equity Value DCF (€/mln)	16,6
Equity Value multiples (€/mln)	10,7
<b>Target Price (€)</b>	<b>1,90</b>

Source: Integrae SIM

**Ne risulta un *equity value* medio pari a circa €13,6 mln. Il *target price* è quindi di €1,90 (prev. €2,31). Confermiamo *rating* BUY e rischio MEDIUM.**

**Table 12 – Target Price Implied Valuation Multiples**

<b>Multiples</b>	<b>2019E</b>	<b>2020E</b>	<b>2021E</b>
EV/EBITDA	8,3x	8,0x	7,5x
EV/EBIT	17,0x	15,0x	12,9x
P/E	30,6x	23,7x	18,8x

Source: Integrae SIM

**Table 13 – Current Price Implied Valuation Multiples**

<b>Multiples</b>	<b>2019E</b>	<b>2020E</b>	<b>2021E</b>
EV/EBITDA	5,4x	5,2x	4,9x
EV/EBIT	11,1x	9,8x	8,4x
P/E	15,1x	11,7x	9,3x

Source: Integrae SIM

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**Analyst/s certification**

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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 and/or target price Under Review		
N.R.	Stock Not Rated		

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