Vimi Fasteners Spa

Sector: Industrial fasteners

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Waiting for brighter days

Vimi Fasteners Group designs and manufactures highly engineered fastening solutions for a broad variety of industrial applications ranging from automotive to oil & gas, infrastructures and aerospace.

FY19 almost in line with expectations

2019FY has recorded a negative growth trend, with Revenues and EBITDA decreasing by 10% and 28% YoY respectively if compared to FY18 pro-forma, reflecting lower market demand and increased margin pressure in the car industry. A more resilient demand for fasteners was faced in the oil&gas and aerospace markets.

Net Debt stood at €19.6mn as of end of December 2019, basically flat YoY if adjusted for €4.8mn IFRS16 effect, highlighting a good WC management.

Manufacturing shaken by Covid-19 outbreak

Worldwide manufacturing industry is now hostage of Coronavirus outbreak, with factories halting their activities and several industries, among which the car production one, experiencing double digit turnover decline.

Vimi Fasteners, as well, has stopped its manufacturing activities as of the end of March and is now rebooting only selected essential productions. Overall, we estimate ca. six-seven weeks of missed output.

FY20-21 estimates revised downwards

While we do not expect supply chain issues, (but for coating the whole manufacturing process is performed in-house), at the same time we fear that Vimi could collect low orders in 2Q-3Q from both OEMs and Tier I suppliers as long as global car production gets back on track. Exposure on oil and aerospace "verticals" should generate some short-term relief.

Overall, we revised downwards our forecasts, with turnover on average cut by 15% in 2020E-21E, and operating profit 2020E expected to be negative by €-0.9mn while getting back positive in 2021E. Net Debt is expected to remain stable in 2020E. We do not rule out carefully picked M&A deals in case new sources of funding are retrieved.

Fair value at €2.15 (from €2.40)

Fair EV/IC of 1.0x suggests a €2.0/share value, while our DCF model leads to €2.3/share. We set fair value per share at €2.15 (from €2.40), as average of the two criteria, implying 1.1x EV/Sales and 7.9x EV/EBITDA 2021E.

Fair Value (€)	**2.15**
Market Price (€)	**1.92**
Market Cap. (€m)	**25.6**

KEY FINANCIALS (€m)	2019A	2020E	2021E
REVENUES FROM SALES	46.6	39.4	43.8
EBITDA	4.8*	3.8	5.9
EBIT	0.4*	-0.9	0.8
NET PROFIT	1.1	-0.9	0.5
EQUITY	26.4	25.5	25.9
NET FIN. DEBT	19.6	19.6	17.7
EPS ADJ. (€)	0.08	<0	0.03
DPS (€)	0.00	0.00	0.00

Source: Vimi Fasteners (historical figures), Value Track (2020E-21E estimates) (*) Adj for extr.costs

RATIOS & MULTIPLES	2019A	2020E	2021E
EBITDA MARGIN (%)	10.3%	9.7%	13.4%
EBIT MARGIN (%)	0.9%	< 0%	1.9%
NET DEBT / EBITDA (x)	4.7	5.1	3.0
NET DEBT / EQUITY (x)	0.74	0.77	0.68
EV/SALES (x)	1.0	1.2	1.0
EV/EBITDA (x)	10.9	11.9	7.4
P/E (x)	nm	nm	nm
DIV YIELD (%)	0.0	0.0	0.0

Source: Vimi Fasteners (historical figures), Value Track (2020E-21E estimates)

STOCK DATA	
FAIR VALUE (€)	2.15
MARKET PRICE (€)	1.92
SHS. OUT. (m)	13.3
MARKET CAP. (€m)	25.6
FREE FLOAT (%)	23.0
AVG. -20D VOL. (#)	2,225
RIC / BBG	VIM.MI / VIM IM
52 WK RANGE	1.49 – 2.74

Source: Stock Market Data

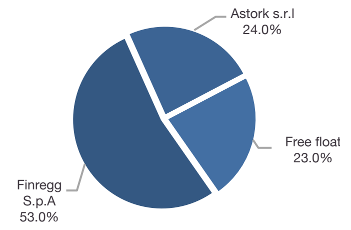
EQUITY RESEARCH PRODUCED ON BEHALF OF BANCA PROFILOS.P.A. ACTING AS SPECIALIST ON VIMI FASTENERS SHARES

Business Description

Vimi Fasteners is a leading player in the design and manufacturing of highly engineered fastening solutions, such as screws, studs and nuts, for a broad range of industrial applications, ranging from automotive to oil & gas and aerospace.

The Group is specialised in the production of high-performance fastening solutions for high temperature and high resistance applications and following the acquisition of MF Inox (June 2018), it has also developed a specific product know-how and commercial presence in the Oil &Gas sector.

Shareholders Structure



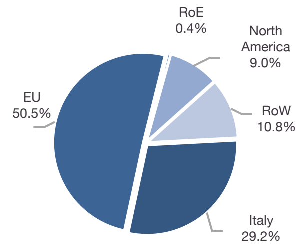
Source: Vimi Fasteners

Key Financials

€mn	2018PF	2019	2020E	2021E
Revenues from Sales	**51.1**	**46.3**	**39.4**	**43.8**
Chg. % YoY	5.0%	-9.4%	-14.9%	11.3%
EBITDA	**5.8**	**4.2**	**3.8**	**5.9**
EBITDA Margin (%)	11.4%	9.0%	9.7%	13.4%
EBIT	**2.4**	**-0.2**	**-0.9**	**0.8**
EBIT Margin (%)	4.6%	<0	<0	1.9%
Net Profit	**1.6**	**1.1**	**-0.9**	**0.5**
Net Fin. Debt	**14.7**	**19.6**	**19.6**	**17.7**
Net Fin. Debt / EBITDA (x)	2.5x	4.7x	5.1x	3.0x
Capex	5.7	3.3	2.7	3.0
OpFCF b.t.	**-2.5**	**2.8**	**0.0**	**2.4**
OpFCF b.t. as % of EBITDA	nm	68%	nm	41%
EBITDA Adjusted	**7.5**	**4.8**	**3.8**	**5.9**
EBITDA Adj. Margin	14.8%	10.3%	9.7%	13.4%
EBIT Adjusted	**4.1**	**0.4**	**-0.9**	**0.8**
EBIT Adj. Margin	8.0%	1.0%	<0	1.9%
Adjusted Net Profit	**2.9**	**0.4**	**-0.9**	**0.5**

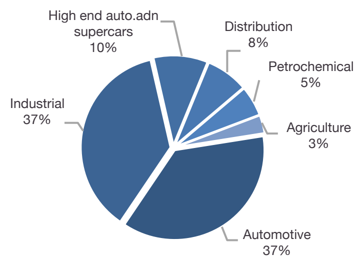
Source: Vimi Fasteners (historical figures), Value Track (estimates). Pro-Forma figures consolidate MF Inox as of 1.1.2018

Sales breakdown by geography



Source: Vimi Fasteners

Sales breakdown by client type



Source: Vimi Fasteners

Investment case

Strengths / Opportunities

- Highly engineered products with strong attention to quality;
- Presence in fast-growing end-markets (i.e. oil&gas, aerospace);
- Approach to clients based on co-engineering and strong partnerships;

Weaknesses / Risks

- Auto: weak momentum & LT concerns (electrification/car sharing);
- Lack of a global manufacturing footprint and limited market coverage;
- Lower size if compared to main competitors

Stock multiples @ €2.15 Fair Value

	2020E	2021E
EV / SALES (x)	1.2	1.1
EV / EBITDA (x)	12.6	7.9
EV / CAP.EMP. (x)	1.1	1.1
OpFCF Yield (%)	0.5	5.0
P / E (x)	nm	nm
P / BV (x)	1.1	1.1
Div. Yield. (%)	0.0	0.0

Source: Value Track

FY19 Results

Vimi Fasteners just released FY19 figures highlighting as expected negative growth rates in main financial items. Revenues and EBITDA decreased by 10% and 28% if compared to FY18 pro-forma, still affected by car industry negative momentum, the main end-market of the Group, and temporary inefficiencies related to the reorganization of plant facilities occurred in 1H.

To mitigate the severe and sustained market slowdown, the company put in place several actions pushing on diversification and exploiting some costs optimization.

Although small sign of recovery was recorded in the last part of the years, 2H19 took place on the same page of 1H19 and 4Q18, with main automotive clients still deferring or freezing their orders, causing a negative impact on margins.

Hence the ramp up was still slower (as expected) and key financial results came in almost in line with our previous estimates.

Vimi Fasteners: 2019A vs VT 2019E

(€mn)	2019		
	Expected	Actual	A vs. E - Δ(%)
Total Revenues	**45.5**	**47.1**	***+3%***
EBITDA Adj.	**4.5**	**4.8**	***+6%***
EBITDA Adj. margin (%)	*10.1%*	*10.3%*	*+20bps*
EBIT Adj.	**0.1**	**0.4**	***nm***
EBIT Adj. margin (%)	*0.1%*	*1.0%*	*+81bps*
Net Profit Adj.	**0.3**	**0.4**	***+26%***
Capex	3.8	3.3	*-15%*
Net Debt	**21.0**	**19.6**	***nm***

Source: Value Track Analysis

Double-digit decrease at top-line, hit by weaker car demand

Revenues from Sales reached €46.3mn, i.e. -10% vs FY18 PF, with Vimi standalone decreasing by ca. 14% YoY, whereas MF Inox is still keeping a healthy and double-digit growth (+18% YoY).

Vimi Fasteners: Top-line evolution (FY18-19)

(€ mn)	FY18 PF (*)	FY19	Δ (%)
Vimi	44.5	38.5	-14%
MF Inox	6.6	7.8	+18%
Revenues from Sales	**51.1**	**46.3**	**-10%**
Other Revenues	1.2	0.8	nm
Total Revenues	**52.3**	**47.1**	**-10%**

Source: Vimi Fasteners, (*) Considering MF Inox consolidated as of 01/01/2018

As a matter of facts, in spite of the negative market trend faced by the car industry, fastening solutions delivered to oil & gas, aerospace and generally used in a broad variety of industrial applications have shown a more resilient market demand (we estimate revenues ex. automotive to be almost flat YoY).

In particular, an increasing number of new contracts was signed with leading players in the aerospace segment, albeit numbers in absolute value are still small.

Summing up, Vimi has been extremely impacted by weaker market demand, underperforming global light vehicle production which declined by ~600 bps in 2019 (according to HIS data), mainly due to i) low orders from best clients like Maserati which registered shipments down (-45% yoy), 2) planned dealer and stock reduction particularly in the European market and iii) lower diversified business model compared to leading European car suppliers.

Thus, global auto production strictly depends on the global vehicle sales, **which in turn decreased at mid-single rate** in 2019 (-4.4% YoY).

Worldwide Light Vehicle FY19 Sales evolution by quarter (YoY % chg.)

Region	1Q19	2Q19	3Q19	4Q19	FY19
North America	-2.7%	-2.1%	0.5%	-2.3%	-1.6%
Europe	-3.6%	-4.0%	1.2%	8.5%	0.1%
Japan & Korea	-1.1%	0.8%	5.4%	-11.6%	-1.7%
China	-12.4%	-13.1%	-6.3%	-3.1%	-8.6%
Brazil / Argentina	-9.8%	-5.3%	-2.7%	-0.7%	-4.6%
RoW	-6.7%	-9.4%	-8.7%	-5.6%	-7.6%
World	**-6.6%**	**-6.8%**	**-2.7%**	**-1.6%**	**-4.4%**

Source: Value Track processing of LMC Automotive and Marketline data

Profitability deterioration for the second year in a row

By looking at the profitability, **reported EBITDA came in at € 4.2mn, decreasing by 28% YoY vs FY18 PF,** and corresponding to an EBITDA margin of 9.0% (-240bps YoY), deeply deteriorated for the second year in a row (EBITDA margin was 11.4% and at 16.4% respectively in FY18 and FY17 pro-forma).

The main drivers of the overall profitability are the following:

- **Low market demand and increased margin pressure** on the automotive field, with both OEM and Tier1 who deferred or feezed their orders;
- **Increase in labour costs incidence on sales,** (+40bps YoY), decreasing roughly €1.0mn YoY in absolute terms;
- **Zero impact from materials changes**, since major contract include a price adjustment clause;
- **Extraordinary costs related** to the reorganization of production facilities occurred in 1H, but with negative impact on production at least until August'19;
- **Positive impact due to IFRS16 first adoption** of ca. €0.4mn.

However, if adjusted for above mentioned extraordinary items (i.e. €0.6mn in FY19), **Adj. EBITDA came in at €4.8mn** (-37% YoY), since some €1.7mn of non-recurring (logistic costs for new plant, and integration costs related to MF Inox) and non-monetary costs (LTI/MBO and stock grant) also occurred in FY18.

Higher D&A charges (also due to IFRS16) for +€0.8mn YoY pushed EBIT below the zero threshold (-€0.2mn), or to ca. €0.4mn on adjusted basis (-89% YoY).

At bottom line Net Profit of €1.1m, burdened by higher net financial charges due to the increased net debt position and higher factoring fees, while positively benefitting from the "Tax substitute" rule (so called "imposta sostitutiva" DL 185/2008).

If adjusted for extraordinary income and the fiscal effect, Net Profit was €0.4mn (-87% YoY).

Vimi Fasteners: Profit & Loss (FY18-19)

(€ mn)	FY18 PF (*)	FY19	Δ (%)
Total Revenues	**52.3**	**47.1**	**-10%**
COGS	-32.4	-29.9	
Labour cost	-14.1	-13.0	
EBITDA Reported	**5.8**	**4.2**	**-28%**
EBITDA Adjusted	**7.5**	**4.8**	**-37%**
D&A	-3.5	-4.3	
EBIT Reported	**2.4**	**-0.2**	**nm**
EBIT Adjusted	**4.1**	**0.4**	**-89%**
Net financial income/expenditure	-0.2	-0.4	
Pre-Tax Profit	**2.2**	**-0.6**	**nm**
Income Taxes	-0.6	1.7	
Net Profit	**1.6**	**1.1**	**-31%**
Adj. Net Profit	**2.9**	**0.4**	**-87%**

Source: Vimi Fasteners, (*) Considering MF Inox consolidated as of 01/01/2018

Net Debt at €19.6mn, lighter NWC

At Balance Sheet / Cash Flow statement level, we note the following items:

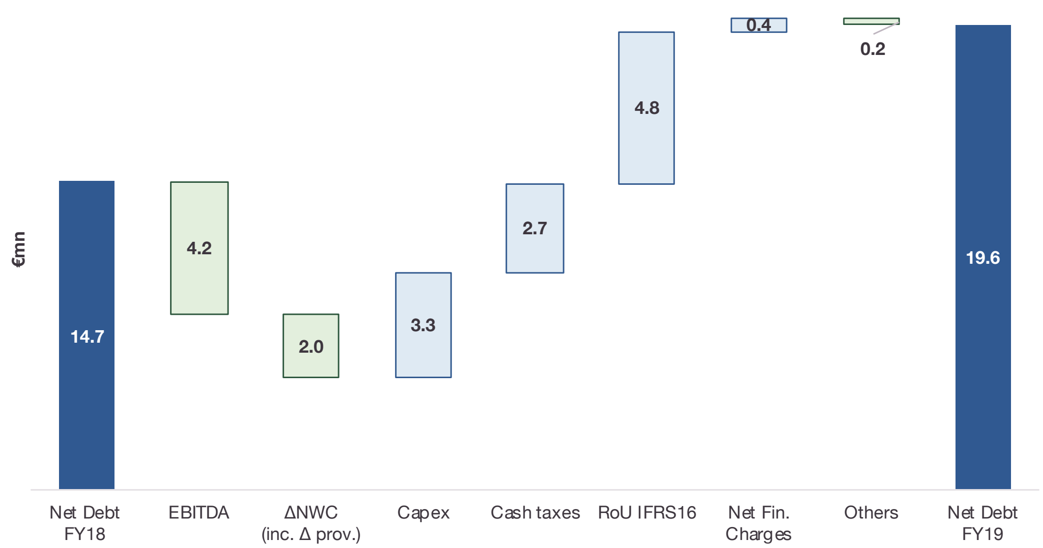
- **Net Fixed Assets** at ca.€40mn from €34mn of June 2019;
- **Net Working Capital at €8.4mn from €12.0mn at the end of Jun'19**, while in terms of sales it moved from 25.4% of Jun '19 (21.0% of Dec '18) to 18.0% at the end of Dec '19, as result of:
    - A slight decrease in inventories (-€1.0mn), due to some supply required in advances by a few customers;
    - A more significative decrease in trade payables (-€3.0mn) partially attributable to some credit transfer to financial institutions;
    - A small increase in trade payables (+€0.4mn).
- **In terms of Cash Flow,** the Group faced ((*ii*) €3.3mn capex, and *(iii)* €4.8mn debt increase due to the leasing contracts accounting (IFRS16), partially offset by the outlined €3.6mn cash flow due to lighter NWC;
- **Worsening Net Financial Debt,** at €19.6mn (+€1.5mn vs Jun'19), which includes the above mentioned RoU for €4.8mn and the net present value of the earn-out of €4.8mn, to be paid in steps by 2022 as from the acquisition agreement of MF Inox. While **plain vanilla Net debt/EBITDA ratio (annualized) stands at 4.7x**, **the Net Debt adjusted** for lease and earn out (ca. €10.0mn), corresponds to an annualized Net Debt/EBITDA **ratio of 2.1x**.

Vimi Fasteners: 1H19 Balance Sheet

(€ mn)	FY18 (*)	1H19	FY19
Net Fixed assets	32.0	33.8	39.7
Net Working Capital	10.7	12.0	8.4
as % of Sales	*21.0%*	*25.4%*	*18.0%*
Severance pay and funds	2.5	2.4	2.1
Total Capital Employed	**40.3**	**43.4**	**46.0**
Group Net Equity	**25.6**	**25.3**	**26.4**
Net Fin. Position [Net debt (-) / Cash (+)]	**-14.7**	**-18.1**	**-19.6**
Net Fin. Position ex. IFRS16 and earn-out			**-10.0**

Source: Vimi Fasteners, Value Track Analysis (*) 2018 end-year figures have been adjusted by the Company in 1H19 for the finalization of PPA of the newly acquired company MF Inox

Vimi Fasteners: Net Debt walk in FY19



Source: Value Track Analysis (*) 2018 end-year Net Debt has been adjusted in 1H19 by the Company for the finalization of PPA of the newly acquired company MF Inox

Vimi reference markets: an overview

Vimi Fasteners is a leading player in the design and manufacturing of high engineered fastening solutions, like screws, studs and nuts, for a broad range application, ranging from automotive, to aerospace, agriculture, or generally applied in other industrial applications.

More, by acquiring MF Inox, Vimi has definitively entered the market of fasteners for Oil & Gas applications, that means dealing with customers active mainly in the fields of oil & gas, energy, piping, engineering requiring high performance screws and nuts to be used in corrosive and extreme operating temperatures situations, (in North Sea off-shore platforms for example).

Although the Group is trying to diversify its business activities – as already shown through the acquisition the above mentioned acquisition, and the signing of first relevant contracts with leading players in the aerospace field – business development and operating performance are still highly correlated to the automotive sector as well as to somehow cyclical too (i.e. industrial application), which are facing a negative momentum.

In addition, the evolving of COVID-19 coronavirus spread combined with the incoming oil price war, are featuring a new macroeconomic scenario, completely unknown a few months ago. These new circumstances, in turn, directly or indirectly, positively or negatively, may affect Vimi business dynamics at least in the short term. That's why, a few considerations about the following topics, are worth to be mentioned:

- 2020 onwards car industry outlook is still negative;
- Electrification is coming, but slowly;
- Oil price faced the biggest drop since 1991, what does it mean?

2020E onwards car industry outlook is still negative

Extremely weak start in 2020 due to COVID-19 worldwide spread

The global economy and **the automotive industry as well, are now facing a new "big issue" caused by the spread of COVID-19 coronavirus around the world**.

The car industry is currently experiencing a decreasing demand and dealing with many coronavirus implications, particularly in China, the world's biggest car market. Wuhan – the area at the centre of the outbreak – is known as "motor city" for being home to auto plants including GM, Honda, Nissan, PSA and Renault, and the province of Hubei – of which Wuhan is the capital – is the fourth-largest car producer district in China, with around 10% of the country's car-making capacity. On the back of this, the global light vehicle fell by 10% and 20% in Jan and Feb respectively (20% and 80% in China), with the annualized selling rate coming in at 64.9mn units/year, as also released by LMC Automotive, quite below 2019 annual result.

Worldwide Light Vehicle Sales in 2020 YTD (YoY % chg.)

Region	Jan '20	Feb'20	YTD
North America	-0.3%	6.8%	3.5%
Europe	-5.2%	-3.9%	-4.6%
Japan & Korea	-12.6%	-12.0%	-12.3%
China	-20.7%	-80.7%	-43.6%
Brazil / Argentina	-9.0%	-4.2%	-6.7%
RoW	-6.5%	-7.7%	-7.1%
World	**-10.4%**	**-20.6%**	**-15.2%**

Source: Value Track processing of LMC Automotive and Marketline data

More in Italy, sales decreased by 6% and 9% on January and February respectively, while recorded the biggest drop of ever in March, falling by 89% (i.e. -35.5% year-to-date).

Market demand to fall down in 2020, turning positive in 2021-22

In this framework, **the global outlook for the automotive industry remains still negative, at least for 2020**, as also highlighted by negative growth rates recorded in January and February.
Even though the potential COVID-19 adverse impact is difficult to assess (probably we are still in an early-stage), according to more updated researches and analysis, it is reasonable that a reducing market demand and disrupting automotive supply chain should lead to a further drop in 2020E.
Global picture for the automotive industry has thus turned increasingly uncertain with sector experts continuously updating their forecasts on the downside and now forecasting the global car sales market to decline for the third year in a row. S&P Global for example, is now forecasting **2020E global light vehicle sales to decline by some 15% YoY to less than 80mn units** vs. 90.3mn in 2019. While China appears to start recovering from the coronavirus outbreak, Europe and US are now in the most critical phase, with market demand to sharply decline mostly in 2Q.
That's why, also according to other industry experts (HIS and global banks), in this regard we believe:

- Chinese market to be down by -10% YoY, with some gradual recovery in 2H;
- European and US markets to face a more severe decline, in the 15%-20% YoY region;
- Rest of the world as well should be down YoY with possible selected sweet spots such as Brazil, Russia and Turkey outperforming.

2020E Automotive Outlook

Region	Trend	Overview
Europe (ex. Russia and Turkey)		Volume demand **expected to decrease in 2020E** at double-digit pace YoY, driven by Germany and UK slowdowns
Russia & Turkey		Market **featured by a flat to falling demand**
North America		Fall in market demand similar to the European one (-15-20%)
China		Market demand **seen decreasing at high single digit rate**

Source: Value Track Analysis

As it concerns the global vehicles production, a similar negative development is expected by leading car parts suppliers, since several OEM and car component suppliers temporarily shut down productions, both on a voluntary basis or obliged by government decisions.

Electrification is coming, but slowly

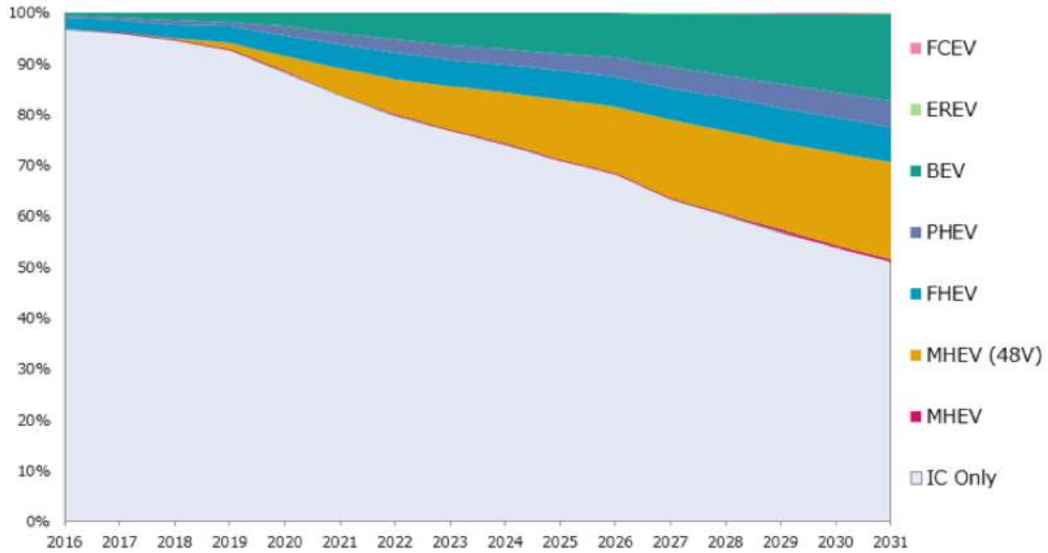
As already discussed in our previous equity notes, electric cars represent the industry's hot topic at the moment, especially as many carmakers have announced ambitious electrification plans for the coming years. OEMs across the world are investing heavily in lithium battery, with the aim of increasing output energy capacity and reducing the overall system cost.

However, this interest in the "electric system" contrasts with reality check: even if global electric cars were up ca. 10% YoY, they cover a residual market share – i.e. ca. 2.5% as also highlighted by the chart below – while ICE still accounts for more than 90% of passenger car global sales.

Indeed, electric vehicles (EV) are still facing the same issues: they're quite expensive, the infrastructure's not ready yet and there are still concerns about battery ranges.

That's why, the shift towards the electrification is happening, but it should be gradual, **leaving hybrid system as the main form electrification vehicle adopted by automakers at least for the next 10 years**, while a strong and rapid growth is expected through 2040.

2016A-2031E: Global light vehicle sales by powertrain typology



FCEV – Fuel Cell Electric Vehicle, EREV – Extended Range Electric Vehicle, BEV – Battery Electric Vehicle, PHEV – Plug-in Hybrid Vehicle, FHEV – Full Hybrid Electric Vehicle, MHEV(48V) – Mild Hybrid Electric Vehicle based on 48V system, MHEV – Mild Hybrid Electric Vehicle, IC – Internal Combustion Vehicle

Source: LMC Automotive (February 2020)

More, EV seem to be particularly vulnerable in the current crisis. The plummeting oil prices, coupled with whatever the pandemic may bring, could keep potential EV buyers on the side of ICE vehicles for a while. A recession could force lots of consumers to eat up savings and shift any automotive spending to used cars or even hybrids rather than to more expensive EVs.

Proliferation differs across countries

Summing up, the shift towards the electrification is happening but still not at the speed governments and car makers want, and the current picture does not fully reflect what market expectations of a few years ago. More, by looking at the main results achieved during 2019, **the proliferation seems to be different around the world.**

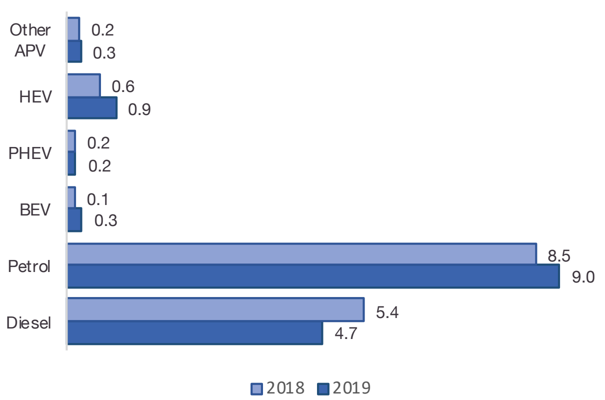
As concern the **European Union**, market demand for alternatively powered vehicles (APV) grew significantly (+43% YoY, to ca. 12% in terms of total units sold). BEV and PHEV are the main driver of this growth, posting sizeable growth rates particularly in 4Q (+76% and +86% respectively), while HEV still account for the majority of vehicles sold, with 55% market share.

On the contrary, market demand for diesel cars is still decreasing, with market share dropping below 31% of new car registration over in 2019 (vs. 36% as of 2018), while petrol cars accounted for 57% of the EU market.

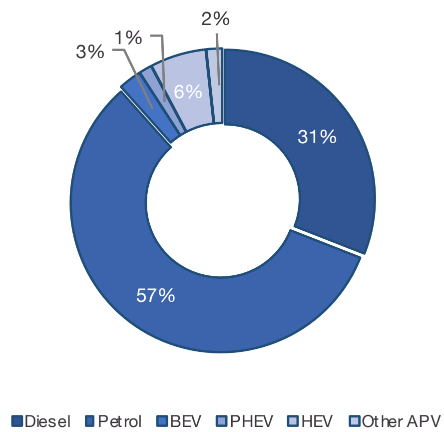
However, despite the overall decline for diesel cars in 2019 (-14% YoY), some European markets are starting to show signs of recovery, with increasing market demand for diesel cars in two of the biggest EU car markets – France and Germany – but also in Belgium, Slovenia, Hungary, Sweden and Romania.

New Passenger cars registration in the EU by fuel type

2018 vs. 2019 – New Passenger Cars by fuel type



2019 – New Car registration by fuel type



APV – Alternatively-Powered Vehicle. HEV – Hybrid Electric Vehicles. BEV – Battery -Electric Vehicle. PHEV – Plug-in Hybrid Vehicle
Source: Value Track processing of ACEA data

In the **Chinese market**, sales of electric and plug-in hybrid cars fell 4% YoY (22% in the sole December), mainly due to a weakening market demand limited by i) the slowing overall economy and ii) the government decision of slashing subsidies for new electric vehicles. Indeed, China is gradually shifting towards a new electric vehicle (NEW) regulation and vehicle emission standards in order to reduce CO_2 emissions.

Last consideration about the **US market** for electric car, which reached a 2.5% market share, up from 2.2% registered in 2018, and corresponding to a double-digit YoY growth (10%-15%), mainly thanks to the outstanding performance of Tesla Model 3 and model X, which accounted for ca. 80% of EV sales in the region.

Oil price faced the biggest drop since 1991, what does it mean?

Oil prices have suffered the biggest fall since 1991 Gulf War. On Monday 9th of March, brent crude future, the global oil benchmark, plummet by 22% at $35.5 per barrel, frightening global market that were already shaked by coronavirus pandemic.

Saudi Arabia, the world's top exporter, launched a price war, and this move followed the implosion of an alliance between the OPEC cartel, led by Saudi Arabia, and Russia.

Major milestone for big moves in crude oil

Source: Reuters

Demand for fasteners applied in the Oil&Gas sector is fostered by oil development / production capex that, in turn, is stimulated by oil price according to the scheme depicted in the following picture.

Drivers of Oil & Gas fasteners

Source: Value Track analysis

New 2020-21E forecasts

Assessing potential impacts from Coronavirus on Vimi

Around four months have passed since China reported the existence of a new virus to the World Health Organization, known as SARS-VoV-2, causing COVID-19 disease, and negatively impacting the global economy.

The impressive and rapid spread of the novel virus is knocking down many populations and economies. Global markets are facing a new crisis, something different from those generated so far by politic developments, economic dynamics, or due to war and terrorism attacks. There are still many things we do not know about this virus, and the next phases of the COVID-19 outbreak are deeply uncertain, leaving a range of possible outcomes still to happen.

What we know is that, the virus had its origin in China, it rapidly spread to the neighbouring Asian countries, then it has jumped borders, particularly in Europe, now in an emergency lockdown, and lastly in the US.

That's why, its spread is having a massive impact on the rating of many sectors, from travelling and transport to the hotel and lastly to the manufacturing industry. Governments, or companies on a voluntary basis, temporarily shut down many factories worldwide.

Within this new "environment", completely unknown three months ago, we believe a few considerations about potential implications on Vimi short-term business development are deserved.

OEM and car suppliers shut down productions

Although, it is impossible to assess specific implications of COVID-19 – probably we are still at early stage and scientists suggest the virus may persist for months if not years – the manufacturing industry appears to be held hostage by virus widespread.

As the coronavirus spread, many factories closed their doors, car dealerships remained closed while buyers stayed at home to prevent infections. Several companies suspended their activities firstly in China, then in South Korea, Italy and with a few weeks delay across main European and US countries.

Vimi Fasteners temporary suspended production according to the Italian government decision to tight measures on non-essential industrial activities (DPCM March 22th), then extended until May 3rd (DPCM April 10t^{h}). However, as of April 14th the Group has restarted its production operations in Novellara plant to maintain active the overall supply chain about selected essential products and services.

In this new perfect storm, a slowdown in car industry market demand will negative impact fasteners production, of any kind (screw, stud, bolt, nut), and quality (used for critical applications or more commoditise products). **It is reasonable assume, that Vimi is likely to collect low orders from both OEMs and TIER1, and a sharp decline in market demand is likely to happen particularly in 2Q and 3Q**.

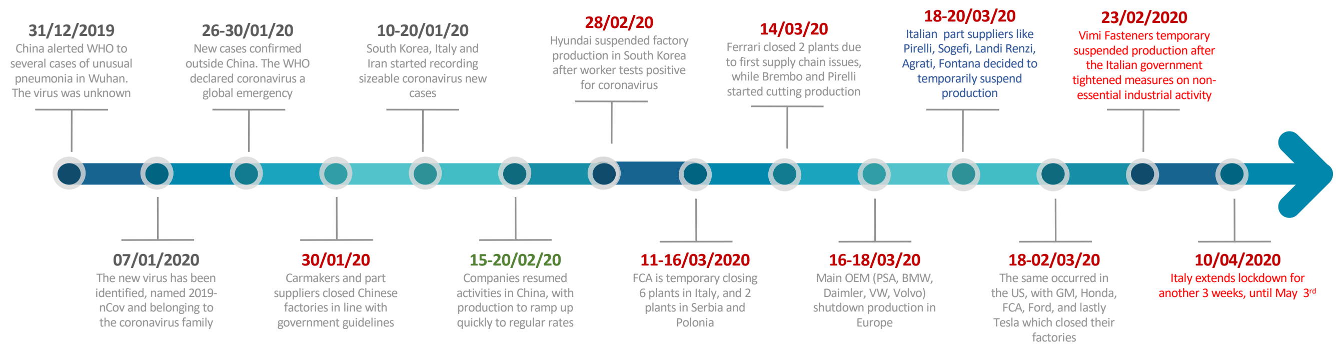
Severe disruption to manufacturing supply chains

In addition, manufacturers around the world heavily depend on parts/components imported from China to keep their own supply chain working: China is a major supplier of parts plant with around $35bn of parts (from computer chips to screws and bolts) shipped worldwide and mainly used in the assembly lines. **Thus, a knock-on effect to the entire car industry supply chain is going to happen ahead**. Carmakers are reliant on a global network of suppliers, with parts originating in China often passing through companies in several countries before being placed into vehicles at factories in Europe or the US.

So, given the importance of China in the global production network – even though it is too early to evaluate the negative impact – the temporary factory shutdowns seems to have triggered significant supply chain disruptions globally, increased by the local Covid-19 outbreaks outside of China, with many plants temporary closed across the globe.

The emergence of a large number of coronavirus cases in Europe threatens another key sale and production hub for global markets, since European automotive industry is highly integrated, with supply chain that cross multiple countries (Germany, France, Italy, and so on).

COVID-19 is shutting car plant in Europe just as factories in China reopen



Source: ValueTrack Analysis

With respect to this point, **Vimi is likely to be somehow well-equipped** with the entire manufacturing process almost internalized, but for the surface treatment or "coating" step (currently outsourced), since it does not embed any higher value for Vimi. Thus, t**he "only" concern for Vimi at this moment, relates to the sole surface treatment which may cause some delivery delays**.

Our updated forecasts 2020E-'21E

We are updating our 2020E-21E estimates basically driven by the following items:

- **Automotive revised again downwards:** as previously discussed, the industry is going to experience a material decline globally: light vehicle sales expected to drop particularly in 2Q, then a gradual recover in the second half of the year might happen. That's why, we expect sales from this division to fall by almost 25% in 2020E, and to start growing again by 2021E (+15%);
- **Downwards estimates for other end-markets,** in details:
    - Fastening solutions applied for a broad variety of industrial applications expected to also experience a double-digit decrease in 2020E (-12%), then to recover in 2021E (+10%);
    - Volumes related to Infrastructure / Oil&Gas and Energy sectors and mainly related to the subsidiary MF Inox to decrease at low-single digit on average in 2020E, and to come back on FY19 level as of 2021E;
    - A more resilient demand in the aerospace and motorsport segments, also due to the increasing number of contracts signed with leading players in these fields, expected to remain substantially flat YoY, or slightly increase in the forecast period;
- **Worsened margins outlook**, as direct outcome of lower demand, temporary shutdown in production (at least 6-7 weeks), and increased margin pressure from both OEMs and Tier1.

Vimi Fasteners: New vs. Old estimates 2020E-21E Update

	2020E			2021E		
(€mn)	Old	New	Δ(%)	Old	New	Δ(%)
Revenues from Sales	**47.2**	**39.4**	***-17%***	**49.6**	**43.8**	***-12%***
EBITDA	**5.3**	**3.8**	***-28%***	**7.2**	**5.9**	***-18%***
EBITDA Margin (%)	*11.3%*	*9.7%*	-161bps	*14.5%*	*13.4%*	-108bps
EBIT	**0.6**	**-0.9**	***nm***	**2.4**	**0.8**	***-64%***
EBIT Margin (%)	*1.3%*	*<0*	nm	*4.8%*	*1.9%*	-285bps
Net Profit	**0.4**	**-0.9**	***nm***	**1.7**	**0.5**	***-74%***
Capex	3.2	2.7		3.0	3.0	
Net Debt	**17.6**	**19.6**		**12.8**	**17.7**	

Source: Value Track Analysis

That said, the impact on our 2020E-21E estimates can be summarized as follows:

1. **Downward revision of revenues from sales,** by some 17% and 12% in 2020E and 2021E, mostly due to the high degree of uncertainty prevailing in the global economy due to the rate of spread and peak of the Covid-19 outbreak;
2. **Profitability revised sharply downwards**, with EBITDA expected to come at €3.8mn and €5.9mn in 2020E-21E, -28% and -18% below our previous estimates. This comes as a combination of the lower top line, partially offset by some reduction in operating expenses likely to be taken by management;
3. **At operating profit**, basically unchanged D&A charges would lead EBIT below the zero threshold in 2020E (-€0.9mn), expected to come positive in 2021E at €0.8mn;
4. **Net Debt** to remain substantially flat in 2020E (vs FY19), with net debt/EBITDA ratio at 5.1x, or 2.6x excluding IFRS16 and the NPV of MF Inox earnout to be paid as of 2022E, leaving small chances to finalize M&A deals, in the light of existing covenants on outstanding debt.

Vimi Fasteners: Profit & Loss 2018PF-21E

(€mn)	2018PF	2019A	2020E	2021E
Revenues from Sales	**51.1**	**46.3**	**39.4**	**43.8**
Total Revenues	**52.3**	**47.1**	**40.2**	**44.6**
COGS	-32.4	-29.9	-25.2	-27.1
Labour costs	-14.1	-13.0	-11.1	-11.7
EBITDA	**5.8**	**4.2**	**3.8**	**5.9**
EBITDA Adj.	**7.5**	**4.8**	**3.8**	**5.9**
EBITDA margin (%)	*14.8%*	*10.3%*	*9.7%*	*13.4%*
D&A	-3.5	-4.3	-4.8	-5.0
EBIT	**2.4**	**-0.2**	**-0.9**	**0.8**
EBIT Adj.	**4.1**	**0.4**	**-0.9**	**0.8**
EBIT margin (%)	*8.0%*	*1.0%*	*<0*	*1.9%*
Net Financial Charges	-0.2	-0.4	-0.3	-0.2
Pre-tax profit	**2.2**	**-0.6**	**-1.2**	**0.6**
Taxes	-0.6	1.7	0.3	-0.2
Net Profit	**1.6**	**1.1**	**-0.9**	**0.5**
Net Adj. Profit	**2.9**	**0.4**	**-0.9**	**0.5**

Source: Vimi Fasteners (historical figures), Value Track (2019E-21E estimates)

Vimi Fasteners: Balance sheet 2018PF-21E

(€mn)	2018PF	2019A	2020E	2021E
Net Fixed assets	32.0	39.7	37.7	35.7
Net Working Capital	10.7	8.4	9.3	9.8
Severance pay and other funds	2.5	2.1	1.8	1.9
Total Capital Employed	40.3	46.0	45.1	43.6
Group Net Equity	25.6	26.4	25.5	25.9
Net Fin. Position [Net debt (-) / Cash (+)]	**-14.7**	**-19.6**	**-19.6**	**-17.7**

Source: Vimi Fasteners (historical figures), Value Track (2020E-21E estimates)

Vimi Fasteners: Cash flow Statement 2018PF-21E

(€mn)	2018PF	2019A	2020E	2021E
EBITDA	**5.8**	**4.2**	3.8	5.9
Op. NWC requirements	-2.6	2.4	-0.9	-0.6
Capex (excl. Fin. Inv.)	-5.7	-3.3	-2.7	-3.0
Change in provisions	0.0	-0.4	-0.3	0.1
Cash Taxes	-0.6	-2.7	0.3	-0.2
OpFCF a.t.	**-3.1**	**0.1**	**0.3**	**2.2**
Capital Injections	10.0	0.0	0.0	0.0
Other (incl. Fin. Inv. and IFRS16)	-1.0	-4.6	0.0	0.0
Net Financial Charges	-0.2	-0.4	-0.3	-0.2
Dividend paid	-0.5	0.0	0.0	0.0
Change in Net Fin Position	**5.3**	**-4.9**	**0.0**	**2.0**

Source: Vimi Fasteners (historical figures), Value Track (2020E-21E estimates)

Valuation

In our opinion, Vimi valuation still embeds some issues related to short and medium-term factors. Indeed, **earnings momentum remains extremely weak** due to lower demand across Vimi key end-markets, while **longer term issues** related to automotive market and Group business strategies in terms of global footprint and diversification policy remain extremely crucial.

That's why, we believe that **valuations based on short-term earnings could be too penalising**, while **valuation based on capital employed and DCF model** are likely to better define the fair equity value of Vimi Fasteners, albeit we acknowledge that:

- The news flow in coming months will remain negative;
- The visibility on Vimi's long term profitability in the automotive business is still low;
- The actual timing and terms for diversification remained unknown, also considering small chances to finalize M&A deals in the light of existing covenants and the outstanding debt position.

Having said that, assuming a fair EV/IC multiple of 1.0x, which implies a 20% discount vs selected peers, we get an equity value per share of €2.00, while running DCF model we find out an equity value of €2.30 per share. **Thus, averaging the two types of methodologies we get to a fair equity value of €2.15 per share,** down from €2.40. At fair value the company would trade at 1.1x EV/IC, 1.1x EV/Sales, 7.9x EV/EBITDA based on 2021E forecasts.

Here below, we provide a sensitivity analysis of Vimi Group stock trading multiples assuming a market price ranging between €1.75 and €2.55.

Vimi Fasteners: Sensitivity of implicit stock trading multiples in the €1.8 - €2.6 range

Share price (€)	EV / Sales (x)		EV / EBITDA (x)		P / B (x)		EV / IC (x)	
	2020E	2021E	2020E	2021E	2020E	2021E	2020E	2021E
€1.75	1.1x	0.9x	11.2x	7.0x	0.9x	0.9x	1.0x	0.9x
€ 1.95	1.2x	1.0x	11.9x	7.4x	1.0x	1.0x	1.0x	1.0x
€ 2.15	**1.2x**	**1.1x**	**12.6x**	**7.9x**	**1.1x**	**1.1x**	**1.1x**	**1.1x**
€ 2.35	1.3x	1.1x	13.3x	8.3x	1.2x	1.2x	1.1x	1.1x
€ 2.55	1.4x	1.2x	14.0x	8.8x	1.3x	1.3x	1.2x	1.2x

Source: Value Track Analysis

Peers analysis

In line with our previous updates, we have **six potential comparable companies**, some of which provide wide-range solutions, while others focus on specific end-sectors. In details:

- **Specialty players -** Bulten, Lisi;
- **Broad range players -** Trifast, Bossard, SFS Group, Bufab.

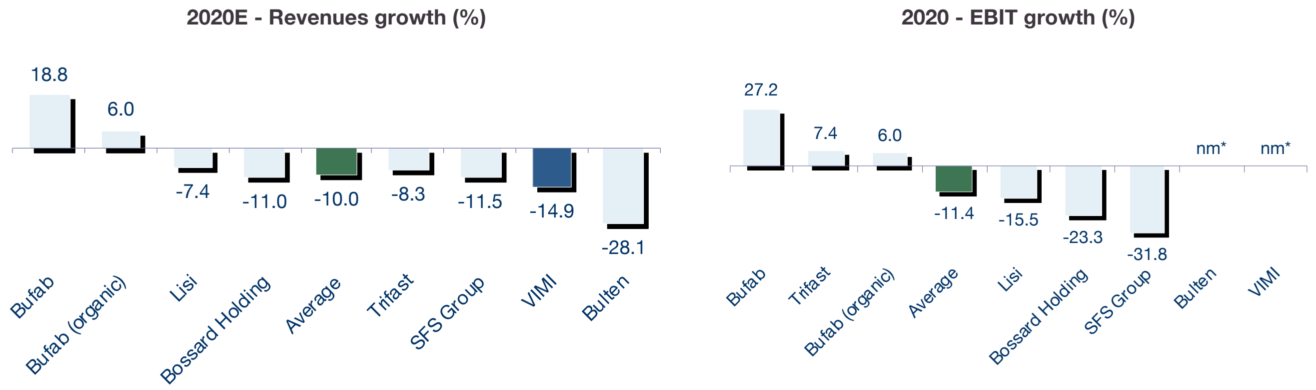
We also underline that some of these companies run a "lighter" business model, where part or most of turnover is related to outsourced products, as distributors or "supply chain partners":

- **Integrated players -** Bulten, Lisi, SFS Group;
- **Supply Chain partners -** Trifast, Bossard, Bufab.

By looking at the main financial indicators of selected peers we highlight:

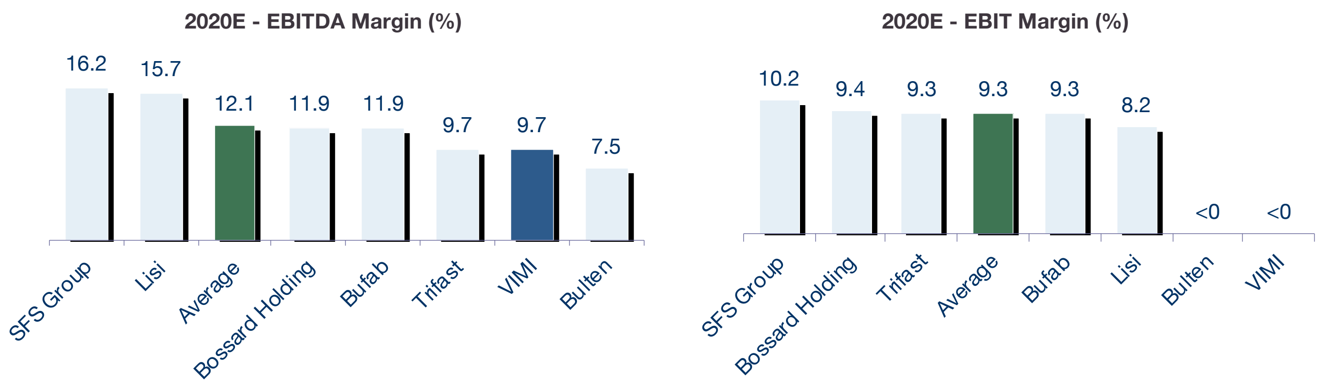
- **Peers' topline is going to fall in 2020E**, on average at double-digit rate (-10% yoy), with Bulten – characterized by the lower diversified business (i.e. almost entirely correlated to the auto industry – to experience the most severe decline in 2020E (-28% yoy);
- **Peers profitability** highly related to the global economy downturn, hence it is expected to decrease, with only Bufab expected to post a double-digit yoy growth thanks to recent acquisitions and latest estimate revision occurred as of February 5th, i.e. likely not embedding yet potential harmful implications of COVID-19;
- **Vimi has faced higher margin volatility,** with EBIT margin ranging from 0.5% of 2015 (diesel gate) to 9.7% and 8.0% as of 2017-18 and again to 1.0% in 2019;

Vimi Fasteners: Key financial figures vs. peers



Source: Value Track Analysis (*) EBIT 2020E <0

Vimi Fasteners: Key financial figures vs. peers



Source: Value Track Analysis

Comparing market multiples

In terms of market multiples, the fasteners' segment trades at 2020-21E multiples below those recorded in October (when we last published on Vimi). Also, we believe **Vimi deserves a certain multiple discount** due to its much smaller size, weaker financial performance, and low level of diversification.

Thus, **considering a 1.0x EV/IC 2020E fair multiple** (which implies a 20% discount vs. median value of selected peers), we get **indication of €2.0 per share**, substantially in line with current market price.

Vimi Fasteners: Peers' stock trading multiples

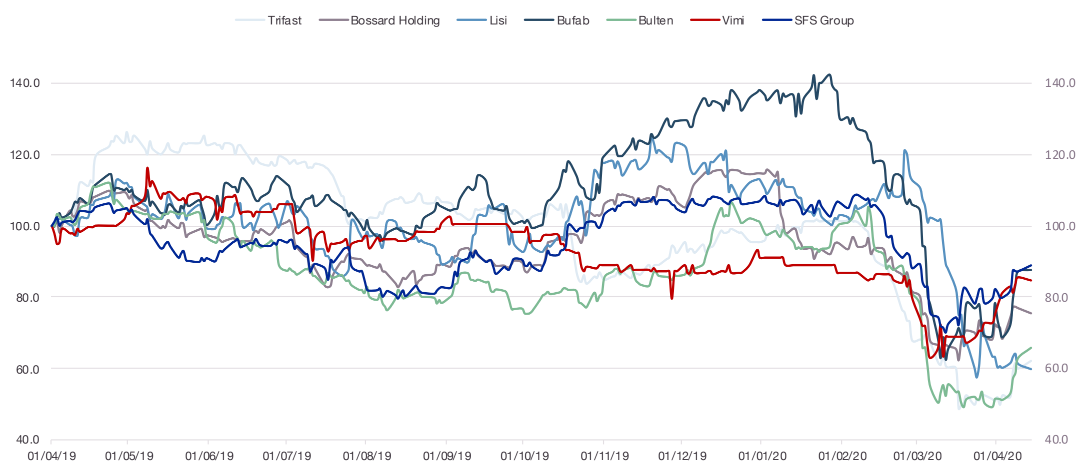
Company	EV/Sales (x)		EV / IC (x)		EV / EBITDA (x)		EV / EBIT (x)		P / E (x)	
	2020E	2021E	2020E	2021E	2020E	2021E	2020E	2021E	2020E	2021E
Bulten	0.6x	0.5x	0.8x	0.7x	8.4x	4.0x	nm	9.1x	nm	8.1x
Trifast	0.8x	0.8x	1.2x	1.2x	8.3x	7.4x	8.7x	8.3x	24.3x	16.5x
Bossard Holding	1.2x	1.1x	1.6x	1.5x	9.7x	8.3x	12.3x	10.3x	14.3x	12.3x
SFS Group	1.8x	1.6x	2.1x	2.0x	10.8x	8.7x	17.1x	12.6x	22.7x	16.9x
Lisi	0.7x	0.6x	0.8x	0.8x	4.3x	3.9x	8.3x	7.3x	10.2x	9.0x
Bufab	1.0x	0.9x	1.3x	1.2x	8.5x	7.7x	10.9x	9.6x	9.6x	8.6x
Average	**1.0x**	**0.9x**	**1.3x**	**1.2x**	**8.4x**	**6.7x**	**11.5x**	**9.5x**	**16.2x**	**11.9x**
Median	**0.9x**	**0.9x**	**1.3x**	**1.2x**	**8.5x**	**7.5x**	**10.9x**	**9.4x**	**14.3x**	**10.6x**

Source: Market Consensus, Value Track Analysis

Our last consideration is about stock price evolution, as it is clear the sector has not gone through a generalized rerating so far. We are witnessing with a downward trend since the beginning of 2020, with uncertainties due to COVID-19 outbreak and the deep fall in crude oil price pummelling global markets and leading to an equity sell-off worldwide

In this framework, car industry is for sure among the ones that have been most heavily impacted by the "perfect storm" we well known. That's why if we look at the market performance of selected peers do not find any stock in the positive territory, with a sharp drop in the latest months.

Vimi Fasteners: selected peers' 1-year share price evolution (Normalized, base =100)



Source: Value Track Analysis

Discounted Cash Flow Model

We update our DCF model assuming a target capital structure, with a 40% D/(D+E) ratio, an overall cost of Equity of 15.9% and a **10.6% WACC**.

Thus, assuming financial statements projection starting from 2020E to 2028E and terminal value at 2029YE obtained applying a 2% Perpetuity Growth Rate (PGR), which corresponds to an exit multiple of 9.5x EV/EBIT and 6.3x EV/EBITDA, we obtain a **fair Equity value per share at €2.30.**

Vimi Fasteners: DCF model

€mn	
PV of future cash flows 2020E-2028E	22.7
PV of Terminal value @ 2029E	27.6
Fair Enterprise value	**50.3**
Net Fin. Position 2019A	-19.6
Fair Equity value	**30.7**
Fair Equity value per share (€)	**2.30**

Source: Value Track Analysis

Vimi Group: Fair Equity Value per share - Sensitivity Analysis to WACC and PGR

		Perpetuity Growth Rate				
		1.00%	**1.50%**	**2.00%**	**2.50%**	**3.00%**
WACC	**10.2%**	2.26	2.38	2.52	2.68	2.86
	10.4%	2.16	2.28	2.41	2.56	2.72
	10.6%	2.07	2.18	**2.30**	2.44	2.60
	10.8%	1.98	2.09	2.20	2.33	2.48
	11.0%	1.90	2.00	2.11	2.23	2.37

Source: Value Track Analysis

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