

## ErreDue

### 1H Confirms Growth Path with Margin Expansion Under Control

Solid interim results show core revenues up 44% yoy, with an EBITDA margin progressing to 35.9% (vs. 32.1% in FY22). Orders' backlog at EUR 10.5M should give visibility to FY23E revenue estimates. NFP remains solid in the wake of the first tangible evidence of an acceleration of larger alkaline electrolyzers cell modules market, which may require more time than originally planned.

#### Growth acceleration with profits margin expansion

1H23 results showed strong increase in sales volumes of hydrogen and nitrogen generators, as well as laboratory and PEM generators, particularly significant on foreign markets, with core revenues growing to EUR 7.9M (vs. EUR 5.4M in 1H22A). In terms of products, Hydrogen almost doubled in sales to EUR 3.4M (vs. EUR 1.8M in 1H22A), representing now 43% of core revenue (vs. 32% in 1H22A). EBITDA grew by 69% yoy to EUR 2.8M (vs EUR 1.67M), also thanks to strong after sales services (+53% yoy), which boast higher margin vs. pure generators' sale.

#### Outlook and estimates

Despite challenging macroeconomic conditions, management is confident to be on track to achieve this year's budget objectives, thanks to an orders backlog that covers 2H23 revenues expectations, and first collected orders for 2024. On the back of market indications of a likely shift onwards of first uptake of bigger alkaline electrolyzers projects (according to latest IEA Global Hydrogen Report 2023 less than 4% of the capacity of all announced alkaline electrolyzers projects has reached FID or is under construction), we take the opportunity to revise our 2023E and 2024E core revenues estimates more conservatively. On one side, acknowledging the solid interim performance reported so far, while on the other, envisaging some risks that rising inflation and financial costs could put on global hydrogen plants demand globally. We leave our 2025E core revenues unchanged.

#### Valuation

We value ErreDue by using DCF and multiples methodologies (2023E EV/sales and EV/EBITDA), obtaining **a new target price of EUR 11.7/share**, calculated as the average from each valuation approach, applying a 20% discount to reflect the stock's relatively low capitalisation. We **confirm our BUY rating**.

6 October 2023: 13:13 CET  
Date and time of production

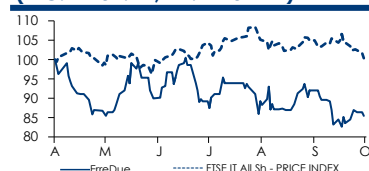
## BUY

**Target Price: EUR 11.7**  
**(from EUR 13.0)**

Italy/Capital Goods  
Company Results

#### EGM

**Price Performance**  
(RIC: RDUE.MI, BB: RDUE IM)



#### ErreDue - Key Data

Price date (market close)	04/10/2023
Target price (€)	11.7
Target upside (%)	28.57
Market price (€)	9.10
Market cap (EUR M)	56.88
52Wk range (€)	NA/NA

Y/E Dec (EUR M)	FY22A	FY23E	FY24E
Revenues	13.77	17.00	27.90
EBITDA	3.95	5.36	8.96
EBIT	2.20	3.72	6.04
Net income	1.65	2.85	4.63
EPS (EUR)	0.26	0.46	0.74
Net debt/-cash	-17.40	-12.16	-8.70
Adj P/E (x)	45.0	20.0	12.3
EV/EBITDA (x)	14.4	8.3	5.4
EV/EBIT (x)	25.9	12.0	8.0
Div ord yield (%)	2.3	0.6	1.0

Source: Company data, FactSet and Intesa Sanpaolo Research estimates

#### Intesa Sanpaolo Research Dept.

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## 1H23 Results

ErreDue announced good 1H23 results, after having released some preliminary data at end of July, confirming to be reaping the benefit of strong on-site gas generators' demand, keeping raw material costs' inflation under control. Value of production grew by 50.7% yoy to EUR 9.1M (vs. EUR 6M in 1H22), a touch stronger than what already seen in July on 'Core Revenue' (+44% yoy to EUR 7.8M in 1H23).

**Growth pattern confirmed, EBITDA margin expanded above 35%**

### ErreDue – 1H23 results

EUR M	1H22A	2H22A	FY22A	1H23A	yoy %	2H23E	FY23E
Value of Production	6.0	7.8	13.8	9.1	51	9.8	18.9
<b>Core Revenues</b>	<b>5.4</b>	<b>6.9</b>	<b>12.3</b>	<b>7.9</b>	<b>44</b>	<b>9.2</b>	<b>17.0</b>
<b>EBITDA</b>	<b>1.7</b>	<b>2.3</b>	<b>4</b>	<b>2.8</b>	<b>69</b>	<b>3.1</b>	<b>5.9</b>
EBITDA margin (%) *	30.7	34.0	32.1	35.9		33.9	34.8
EBIT	0.9	1.3	2.2	1.9	105	2.4	4.3
EBIT Margin (%) *	17.2	18.4	17.9	24.4		26.0	25.3
Net income	0.7	1.0	1.7	1.5	128	1.7	3.3
Net Debt			-17.4	-14.9			-11.5

\* Based on Core Revenue; A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

Taking a closer look at core revenue, we highlight:

- Generators' sales grew by 53% yoy, representing 66% of 1H23 core revenue (vs. 63% in 1H22);
- After-sales also grew by 53% yoy, representing 20% of 1H23 core revenue (18% in 1H22);
- Sales from generators' rental were up more modestly by 7% yoy, now representing 14% of core revenues (19% in 1H22).

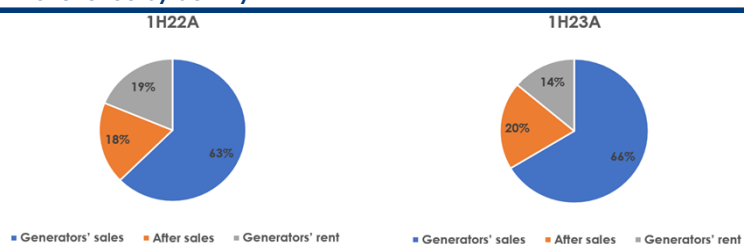
**Closer look at core revenues**

### ErreDue – 1H23 revenue by activity

EUR M	1H22A	1H23A	chg (%)
Generators' sales	3.4	5.2	53
After sales	1.0	1.5	53
Generators' rent	1.0	1.1	7
<b>Core Revenues</b>	<b>5.4</b>	<b>7.9</b>	<b>44</b>

A: actual; Source: Company data

### ErreDue – 1H23 revenue by activity



A: actual; Source: Company data

In terms of products' breakdown, we highlight a substantial increase in sales volumes of hydrogen and nitrogen generators, as well as laboratory and PEM generators, particularly significant on foreign markets. Nitrogen and Oxygen sales were up by 21%, similarly other products and generic maintenance, whereas hydrogen-related sales almost doubled in size, representing 43% of core revenue (vs. 32% in 1H22).

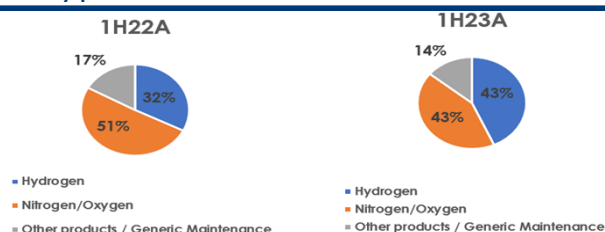
**Hydrogen represents 43% of Core Revenue**

### ErreDue – 1H23 revenue by products

EUR M	1H22A	1H23A	chg (%)
Hydrogen	1.8	3.4	93
Nitrogen/Oxygen	2.8	3.3	21
Other products / Generic Maintenance	0.9	1.1	21
<b>Core Revenues</b>	<b>5.4</b>	<b>7.9</b>	<b>44.4</b>

A: actual; Source: Company data

## ErreDue – 1H23 revenue by products



A: actual; Source: Company data

Looking at costs, raw materials (net of change in raw materials) increased by 51.8% yoy in 1H23, with an incidence on core revenue, which due to inflationary trends, deteriorated from 33.5% in 1H22 to 35.2% in 1H23 (but still sequentially better than 37.2% reported in FY22). Services costs grew by 42% yoy in 1H23, with an almost flat yoy incidence on core revenues, whereas personnel costs up by 34% yoy in 1H23, decreasing the incidence on core revenue to 25.1% (from 26.9% in 1H22). During the period, the company hired 20 new employees, mostly to cope with higher production activity.

## ErreDue – 1H23 costs breakdown

EUR M	1H22A	1H23A	chg. (%)
Raw materials	1.8	2.8	51.8
Services	1.0	1.4	42.2
Rent	0.0	0.0	
Personnel	1.5	2.0	34.4
<b>Total costs</b>	<b>4.3</b>	<b>6.2</b>	<b>44.0</b>
<b>Weighting in core revenue (%)</b>			
Raw materials	33.5	35.2	
Services	18.7	18.4	
Rent	0.3	0.5	
Personnel	26.9	25.1	

A: actual; Source: Company data

The EBITDA margin was up to 35.9% from 30.7% in 1H22 and 32.1% in FY22, driven by stronger revenue growth notwithstanding still elevated raw materials cost inflation, also thanks a better percentage contribution to sales coming from after sales services, which boast the highest margin vs. pure generators' sale.

EBIT grew by 104.8% yoy to EUR 1.9M (vs. EUR 0.9M in 1H22), which corresponds to a margin on core revenue of 24.4%, higher than FY22's 17.9%, reflecting the dynamics of EBITDA described above, amortisation increased to EUR 0.84M vs. EUR 0.67M in 1H22, mainly related to the capitalisation of IPO costs (to which company confirms to have obtained the benefit of tax credit for EUR 0.5M for this year).

Net income came in at EUR 1.5M in 1H23 vs. EUR 0.7M recorded in 1H22A (>100% yoy), due to the operating performance dynamic and a slightly lower tax rate of 24.8% (vs. 25.8% in 1H22).

Net working capital (NWC) increased from EUR 2.6M at the end of December to EUR 3.8M, growing by 45% yoy. The increase is mainly attributable to inventories, which were affected by inflationary trends and by a "safety-stock" approach to grant production on the relevant orders collected. Capex amounted to EUR 3.8M, including EUR 3M investments related to the purchase of the land and the industrial building, where ErreDue is planning to establish a new Gigafactory by the start of next year.

Net cash amounted to EUR 14.9M (vs. EUR 17.4M net cash at FY22A), mainly due to EUR 3M investments related to the purchase of the land and the industrial building where ErreDue is planning to establish a new Gigafactory by the start of next year.

The company disclosed that 80% of the backlog will be delivered within the current year and is made up mostly by orders (EUR 8.3M) aside from generators' rental (EUR 1.1M) and maintenance and spare-parts replacement (EUR 1M).

**EBITDA up by 69% yoy to EUR 2.8M**  
(vs. EUR 1.67M in 1H22)

**EBIT grew by 104.8% yoy**

**Total orders' backlog at EUR 10.5M**  
vs. 'above EUR 9M' at FY22

## Hydrogen Market Update

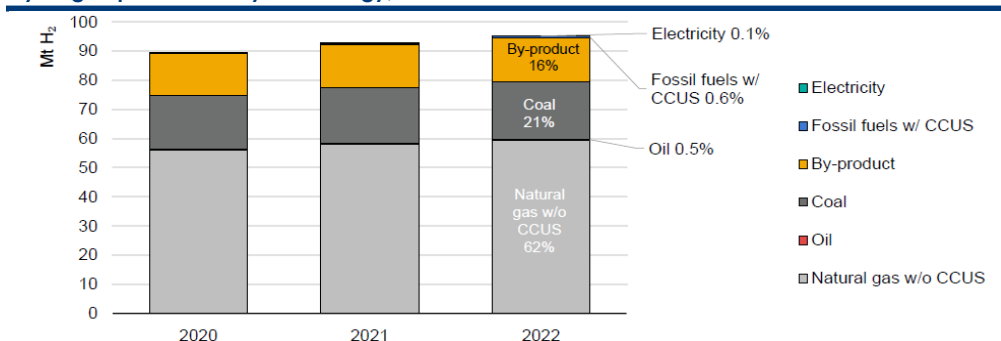
Last week, the International Energy Agency (IEA) published its annual 'Global Hydrogen Review' 2023, which tracks hydrogen production and demand worldwide. Despite report includes data until end of 2022, it is worth noting that the report signals a slow roll-out of hydrogen projects despite growing government support at the US and EU levels. Rising equipment and financial costs are putting projects at risk, also due to the lengthy time lags between the announcement of the scheme and the moment at which funds are made available to project developers.

Hydrogen demand reached a historical high in 2022, reaching 95Mt, growing 3% yoy (vs. 2021 +5%), still very much concentrated in traditional chemicals and refining sectors, whereas new applications (such as transportation or power generation) has accounted for less than 0.1% of total hydrogen demand (very much unchanged with the previous year). In these applications, hydrogen has not been used at a large scale due to its lack of competitiveness with incumbent fossil fuels.

IEA Global Hydrogen Report 2023

**H2 use keeps growing, remains focused in traditional chemical and refining industries**

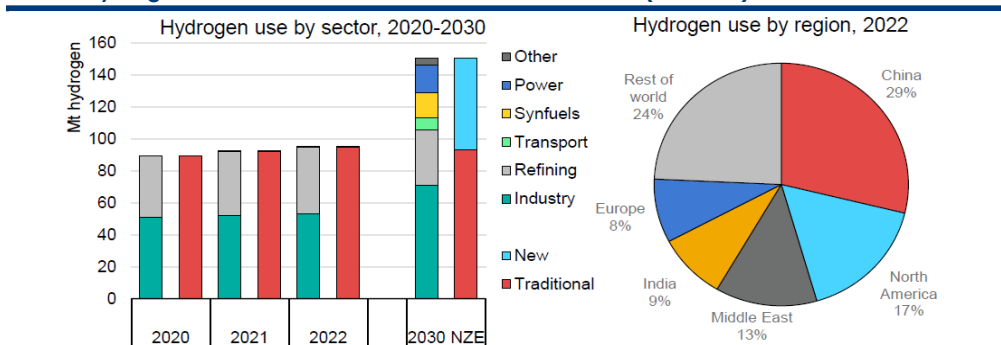
### Hydrogen production by technology, 2020-2022



Source: IEA Global Hydrogen Review 2023

Production from water electrolysis continued to be relatively small in 2022, still below 100kt Hydrogen, despite strongly growing (+35%) compared to the previous year. Growth has been recorded in all major consuming regions except Europe, where industrial activity suffered from a sharp increase in natural gas prices. Hydrogen is still widely used today in refining, the chemical industry (as a feedstock), and the steel industry (as a reducing agent).

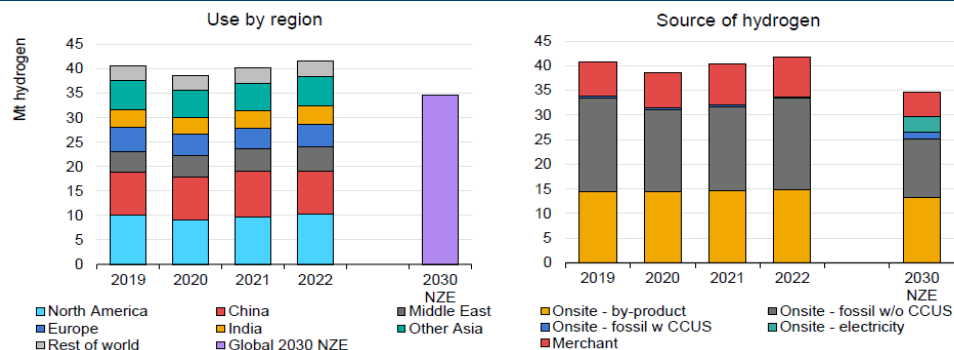
### Global Hydrogen demand 2020A-22A data to 2030 estimates (Mtonnes)



Source: IEA Global Hydrogen Review 2023

Hydrogen use in refining (>41Mt in 2022) has come from the strong demand in North America and the Middle East (together accounting for more than 1Mt), whereas China was the only major refining region that reduced its demand for hydrogen (around 0.5Mt) due to a decrease in refinery throughput as a consequence of extensive pandemic-related mobility restrictions. About 80% of the hydrogen used in refineries was produced onsite at the refineries.

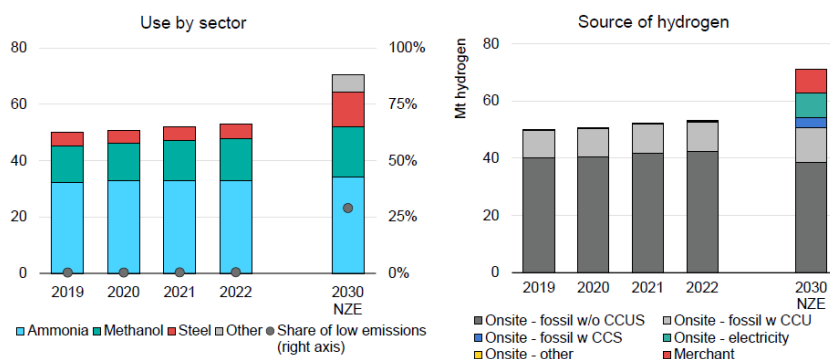
### Global Hydrogen by region & source of hydrogen for Refining 2019-22A to 2030 estimates (Mtonnes)



Source: IEA Global Hydrogen Review 2023

Hydrogen used in industry in 2022 grew to 53Mt by 2% yoy, in every region except Europe, which decreased by 18%, largely due to a 20% decrease in activity in the ammonia sector.

### Global Hydrogen by region and source of hydrogen for Industry 2019-2022A to 2030 estimates (Mtonne)

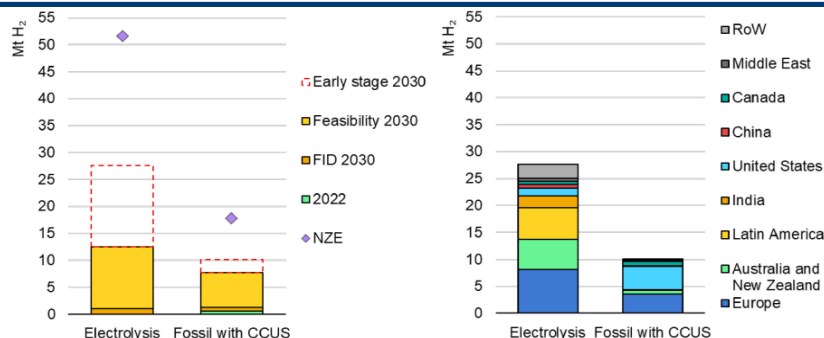


Source: IEA Global Hydrogen Review 2023

Electrolyser projects dominate among the announced hydrogen production projects in the years to come: more than 70% of low-emission hydrogen production in 2030 could come from electrolysis. However, 55% of the announced electrolyser projects are at early stages of development. Given that further developing these projects takes time, efforts over the coming years will be critical to ensuring that these projects can become operational by 2030. Based on the announced projects so far, in terms of production, Europe and Australia account for almost 30% and 20%, respectively, of all announced electrolytic hydrogen projects in 2030.

**More than 70% of low-emission hydrogen production in 2030 could come from electrolysis**

### Low emission hydrogen production by technology, maturity and region

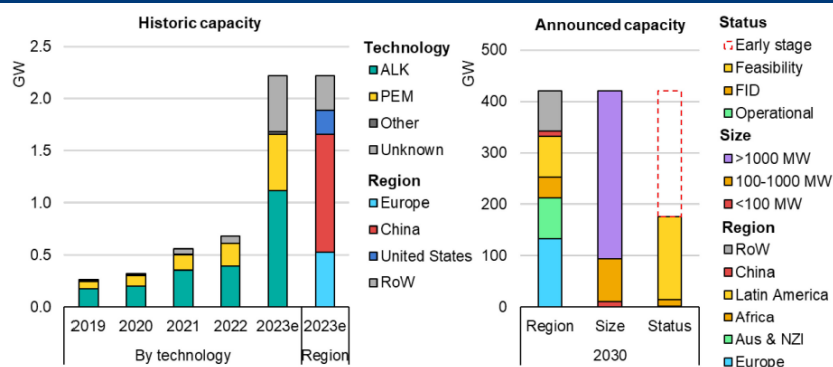


Source: IEA Global Hydrogen Review 2023

Water electrolysis accounts for just 0.1% of today's global hydrogen production, but installed capacity and the number of announced projects has been growing rapidly in recent years. By the end of 2022, the global installed water electrolyser capacity for hydrogen production reached almost 700MW, a 20% increase yoy. Based on projects that have at least reached FID or are under construction, installed global capacity could more than triple to 2GW by the end of 2023 (equivalent to about 0.2 Mt hydrogen production), assuming all projects are realised as planned.

**Water electrolysis accounts for just 0.1% of today's global hydrogen production**

#### Global electrolyser capacity by technology and region

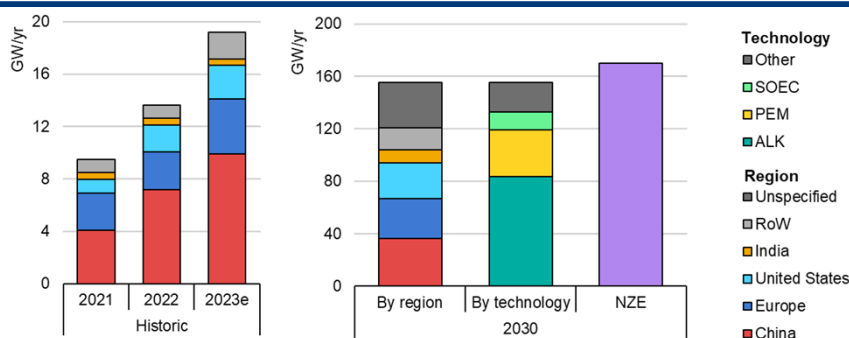


Source: IEA Global Hydrogen Review 2023

Alkaline electrolyzers accounted for 60% of the installed capacity by end-2022, followed by proton exchange membrane (PEM) electrolyzers with around 30%. Based on announcements, this is expected to change in the coming years, with PEM gaining market share over alkaline electrolyzers. Based on announced projects, global installed electrolyser capacity could reach 175GW by 2030, a rise of 30% compared to GHR 2022 announcements. The realisation of all announced projects is still highly uncertain, as less than 4% of the capacity of all announced projects has reached FID or is under construction, according to IEA GHR 2023. The scale-up in installed electrolyser capacity is also accompanied by a trend towards larger projects being announced. While the average size of electrolyser plants is about 12MW today, it could grow to several hundreds of MW in few years and to 1GW by 2030. By end-2022, the available manufacturing capacity publicised by electrolyser manufacturers reached as high as 14 GW/yr (50% in China and a further 20% in Europe).

**Alkaline electrolyzers accounted for 60% of the installed capacity, PEM technology is expected to gain share**

#### Electrolyser manufacturing capacity by region and technology



Source: IEA Global Hydrogen Review 2023

## Earnings Outlook

1H23 results confirmed the company's ability in commercialising its innovative solutions for design and production of onsite blending and purification of technical gases. Total orders' backlog reported at EUR 10.5M strengthens this year's revenue visibility, with management showing confidence to have secured so far additional orders worth EUR 9M for 2024.

Notwithstanding the company's success in accelerating revenue growth in a profitable way, we take the opportunity to revise our 2023E and 2024E estimates more conservatively, both on the top line development and EBITDA, acknowledging some rising risks that higher inflation and financial costs could put on global hydrogen plants demand globally. According to latest IEA Global Hydrogen Report 2023, less than 4% of the capacity of all announced alkaline electrolyzers projects has reached FID or is under construction.

Despite the company looks to be well on track in building capacity for larger alkaline electrolyzers machine, uptick in demand for 1MW cell modules could be slower than expected in materialising. While we cut our FY23E and FY24E Core Revenue estimates by 14% and 12% respectively, and our FY23E and FY24E EBITDA by 10% and 12%, respectively, we leave 2025E Core Revenue unchanged.

**Revising 2023E and 2024E core revenues and EBITDA...**

**...while leaving 2025E estimates largely unchanged**

### ErreDue - 2023E-2025E Estimates revision

EUR M	FY23E old	FY23E new	Chg %	FY24E old	FY24E new	Chg %	FY25E old	FY25E new	Chg %
Value of Production	17.0	17.0	0	27.7	27.9	1	44.1	49.0	11
<b>Core Revenues *</b>	<b>17.0</b>	<b>14.6</b>	<b>-14</b>	<b>27.7</b>	<b>24.5</b>	<b>-12</b>	<b>44.1</b>	<b>43.6</b>	<b>-1</b>
EBITDA	5.9	5.4	-10	10.1	9.0	-12	16.4	16.2	-1
EBITDA margin (%) **	34.8	36.6		36.6	36.6		37.2	37.2	
Net income	3.3	2.8	-14	5.5	4.6	-16	10.2	10.0	-1
Net Debt	-11.5	-12.2	5	-8.1	-8.7	8	-14	-15	7

A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

\*Core Revenue does not include do not include: i) internal constructions relating to generators intended for rental; ii) the change in inventories of products in progress, semi-finished and finished products; and iii) the operating contributions and the contributions relating to the tax credit

\*\*EBITDA margin is calculated on Core Revenue according to ErreDue definition

## Valuation

We value ErreDue by using DCF and multiples-based methodologies (EV/sales and EV/EBITDA). We derive **a new target price on ErreDue of EUR 11.7** (EUR 13.0 previously) from the average of the equity values returned by each valuation approach, applying a 20% discount to reflect the stock's relatively low capitalisation. **We confirm our BUY rating.**

**BUY rating; EUR 11.7/share**

### ErreDue - Target price calculation and implied multiples

	EUR M	EUR/share	(x)	2023E	2024E	2025E
DCF-based	95.0	15.2	EV/SALES	3.8	2.3	1.3
EV/Sales 2023E Multiples	98.1	15.7	EV/EBITDA	10.5	6.3	3.5
EV/EBITDA 2023E Multiples	80.5	12.9	P/E	25.6	15.8	7.3
Average	91.2	14.6				
Size discount (%)	20	20				
<b>Target Price</b>	<b>72.9</b>	<b>11.7</b>				

Source: Intesa Sanpaolo Research estimates

### DCF valuation

In our DCF valuation, we calculate ErreDue's enterprise and equity value range using a three-stage DCF model, according to which: 1) we determine the net present value of the net cash flows over the forecast period (2023E-27E); 2) we run a three-year DCF valuation over the 2028E-30E period, to which we applied declining, though still relatively high, EBITDA growth rates; and 3) we calculate the NPV of the terminal value derived as the average net cash flow beyond the forecast period, assuming a 1% terminal growth rate (vs. previously 2%). By running our model, we derive an equity value per share for ErreDue of EUR 15.2/share.

We set our WACC at 12.6% (unchanged) on the back of: 1) a 100% equity weighting in the company's total capital sources; 2) a risk-free rate of 4% as per our current equity valuation models (unchanged); 3) an equity risk premium equal to 6.5% (as per our equity valuation models), broadly in line with the 20-year average implied in the Euro Stoxx index; and 4) a Beta calculated as the 2-year average for ErreDue's closest peers (NEL Asa, ITM Power PLC, McPhy Energy SA; Source: Bloomberg), amounting to 1.32x.

### ErreDue - WACC Calculation

Debt (%)	0.0
Equity (%)	100.0
Terminal Growth Rate	1.0
Tax Rate (%)	23.0
Interest cost after tax (%)	0.8
Risk free Interest rate	4.00
Beta *	1.32
Market Risk Premium (%)	6.50
<b>WACC (%)</b>	<b>12.6</b>
g	1.00

(\*) 2-year Bloomberg avg. for NEL Asa, ITM Power PLC, McPhy Energy SA; Source: Intesa Sanpaolo Research estimates

### ErreDue – DCF-based EV calculation

EUR M	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	TV
EBITDA	5.4	9.0	16.2	21.9	28.1	30.9	32.5	33.3	
Yearly Growth rate (%)	36	67	81	35	28	10	5	3	
Investments	-8.2	-8.6	-3.5	-4.5	-5.7	-6.3	-6.6	-6.7	
D&A	-1.6	-2.9	-3.1	-3.4	-3.6	-4.0	-4.2	-4.3	
WC change	-0.6	-4.3	-4.0	-4.2	-3.8	-4.2	-4.4	-4.5	
Taxes	-0.9	-1.4	-3.0	-4.3	-5.6	-6.2	-6.5	-6.7	
M&A	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Net cash flow	-4.4	-5.3	5.8	8.9	13.0	14.3	15.0	15.4	12.3
Cash Flow NPV	-4.4	-4.7	4.6	6.3	8.1	7.9	7.4	6.7	106
Total Cash Flow NPV	31.9								
Discounted Terminal Value	46.4								
<b>Enterprise Value</b>	<b>78.3</b>								

E: estimates; Source: Intesa Sanpaolo Research



**ErreDue – DCF-based equity value calculation**

EUR M	EUR M	FY23E	FY24E	FY25E	FY26E	FY27E
<b>Implied EV/Sales</b>						
ErreDue EV	78.3	5.3	3.2	1.8	1.3	1.0
Peripherals	0					
<b>Implied EV/EBITDA</b>						
-Net debt/+Cash (FY22E)	17.4	14.6	8.7	4.8	3.6	2.8
-Minorities/Funds (FY22E)	-0.7					
<b>Implied P/E</b>						
Equity Value	95.0	57.5	33.4	20.5	9.5	6.7
Eq. Value (EUR / sh)	<b>15.2</b>					

E: estimates; Source: Intesa Sanpaolo Research

**Multiples' valuation**

We identify some peers operating in the market as hydrogen electrolyzers' manufactures and/or in the hydrogen value chain and suppliers of gas systems for our multiples-based valuation. Adopting 2023E EV/sales (5.6x) and 2023E EV/EBITDA (11.9x) multiples in our valuation, which we think better reflects the value of both the hydrogen-related prospects and the current footprint, we derive an equity value of EUR 15.7/share and EUR 12.9/share for ErreDue, respectively.

**ErreDue – EV/sales valuation**

(x)	EV/Sales 2023E	EUR M	FY 23E	FY 24E	FY 25E
ErreDue EV	5.6	81.4			
<b>Implied EV/sales</b>					
Peripherals		0.0	5.6	3.6	1.9
<b>Implied EV/EBITDA</b>					
-Net debt/+Cash (FY22A)		17.4	15.2	9.1	5.0
-Minorities/Funds (FY22A)		-0.7			
<b>Implied P/E</b>					
Equity value		98.1	59.4	34.4	21.2
Eq. Value (EUR / sh)		<b>15.7</b>			

E: estimates; Source: Intesa Sanpaolo Research

**ErreDue – EV/EBITDA valuation**

(x)	EV/EBITDA 2023E	EUR M	FY23E	FY24E	FY25E
ErreDue EV	11.9	63.7			
Peripherals		0.0	4.4	2.6	1.5
<b>Implied EV/EBITDA</b>					
-Net debt/+Cash (FY22A)		17.4	11.9	7.1	3.9
-Minorities/Funds (FY22A)		-0.7			
<b>Implied P/E</b>					
Equity value		80.5	48.7	28.3	17.4
Eq. Value (EUR / sh)		<b>12.9</b>			

E: estimates; Source: Intesa Sanpaolo Research

**Peers' multiples comparison – 2023-2025 EV/sales, EV/EBITDA and P/E**

(x)	Mkt price	Mkt Cap. (EUR M)	EV/SALES			EV/EBITDA			P/E		
Electrolysers' Manufacturers			2023	2024	2025	2023	2024	2025	2023	2024	2025
ITM Power PLC	0.73	538	16.7	7.4	4.2	NM	NM	NM	NM	NM	NM
McPhy Energy SA	4.72	132	3.4	2.1	1.3	NM	NM	NM	NM	NM	NM
NEL ASA	7.68	1097	5.3	4.1	2.9	NM	NM	NM	NM	NM	NM
Average			8.5	4.5	2.8	NM	NM	NM	NM	NM	NM
<b>Other Hydrogen players</b>											
Ceres Power Holdings plc	2.80	633	13.9	8.1	7.8	NM	NM	NM	NM	NM	NM
Plug Power Inc.	6.53	3601	3.0	2.3	1.6	NM	1473.3	12.7	NM	NM	NM
FuelCell Energy, Inc.	1.24	519	2.7	3.0	2.5	NM	NM	NM	NM	NM	NM
Doosan Fuel Cell Co., Ltd.	18740	921	3.5	2.0	1.6	32.0	19.6	13.3	79.6	41.6	27.9
Average			5.8	3.8	1.9	NM	NM	NM	NM	NM	NM
<b>Gas Systems' suppliers</b>											
Air Liquide SA	156.58	82124	3.2	3.0	2.9	12.1	11.2	10.4	24.1	22.1	20.3
Linde plc	378.61	171904	5.8	5.5	5.2	16.3	15.3	14.3	26.7	24.5	22.1
Air Products and Chemicals, Inc.	284.88	58769	5.5	5.3	5.0	14.8	13.8	12.9	24.3	21.8	19.6
Nippon Sanso Holdings Corporation	3357	9631	1.8	1.7	1.6	8.6	8.0	7.5	17.2	16.2	15.4
Sol S.p.A.	26.6	2449	1.9	1.8	1.7	7.8	7.7	7.2	16.9	17.0	16.0
Average			5.6	3.5	3.7	11.9	11.2	11.2	21.8	20.3	19.3

Source: FactSet; NM: not meaningful; Priced at market close on 05/10/2023 in EUR.

## Valuation and Key Risks

### Valuation basis

We value ErreDue using an average of the equity values returned by the DCF and multiples-based (EV/sales and EV/EBITDA) valuation methodologies, applying a 20% discount to reflect the stock's relatively low capitalisation.

### Key Risks

#### Company specific risks:

- Projects' and delivering execution risk;
- Competitive pressure;
- Technological reliability;

#### Sector generic risks:

- Slower adoption of a hydrogen-based economy;
- Inflationary effect affecting projects' profitability;

## Company Snapshot

### Company Description

ErreDue SpA engages in the research and development, manufacture, and sale of gas generation and engineering products. It offers electrolyzers for on-site generation of clean hydrogen and generators of other technical gases (nitrogen and oxygen) for various industrial applications, laboratory, medical applications and new energy transition applications such as power-to-gas, sustainable mobility (small hydrogen re-fuelling stations) and industrial de-carbonization. The company was founded by Enrico D'Angelo on February 14, 2000 and is headquartered in Livorno, Italy.

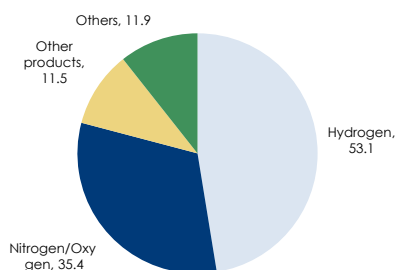
### Key data

Mkt price (€)	9.10	Free float (%)	30.0
No. of shares	6.25	Major shr	Green H2
52Wk range (€)	NA/NA	(%)	56.0
Reuters	RDUE.MI	Bloomberg	RDUE IM
<b>Performance (%)</b>	<b>Absolute</b>	<b>Rel. FTSE IT All Sh</b>	
-1M	-7.1	-1M	-2.7
-3M	-2.4	-3M	1.6
-12M	NA	-12M	NA

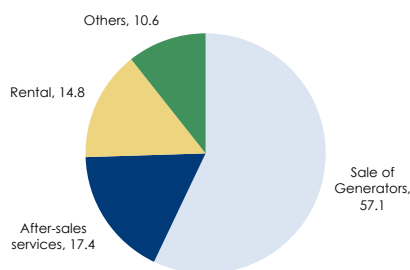
### Estimates vs. consensus

EUR M (Y/E Dec)	2022A	2023E	2023C	2024E	2024C	2025E	2025C
Sales	13.77	17.00	NA	27.90	NA	48.97	NA
EBITDA	3.95	5.36	NA	8.96	NA	16.23	NA
EBIT	2.20	3.72	NA	6.04	NA	13.09	NA
Pre-tax income	2.18	3.70	NA	6.01	NA	13.05	NA
Net income	1.65	2.85	NA	4.63	NA	10.05	NA
Adj. EPS	0.26	0.46	NA	0.74	NA	1.61	NA

### Sales breakdown by gas type (%)



### Sales breakdown by source (%)



Source: Company data, Intesa Sanpaolo Research estimates and FactSet consensus data (priced at market close of 04/10/2023)

## ErreDue – Key Data

Rating BUY	Target price (€/sh) Ord 11.7		Mkt price (€/sh) Ord 9.10		Sector Capital Goods	
Values per share (EUR)	2020A	2021A	2022A	2023E	2024E	2025E
No. ordinary shares (M)	5.00	5.00	6.25	6.25	6.25	6.25
Total no. of shares (M)	5.00	5.00	6.25	6.25	6.25	6.25
Market cap (EUR M)	NA	NA	74.29	56.88	56.88	56.88
Adj. EPS	0.21	0.45	0.26	0.46	0.74	1.61
BVPS	2.1	2.5	4.4	4.8	5.5	6.9
Dividend ord	0.09	0.08	0.27	0.05	0.09	0.15
Income statement (EUR M)	2020A	2021A	2022A	2023E	2024E	2025E
Revenues	8.04	12.32	13.77	17.00	27.90	48.97
EBITDA	2.25	4.35	3.95	5.36	8.96	16.23
EBIT	1.32	3.08	2.20	3.72	6.04	13.09
Pre-tax income	1.31	3.07	2.18	3.70	6.01	13.05
Net income	1.07	2.25	1.65	2.85	4.63	10.05
Adj. net income	1.07	2.25	1.65	2.85	4.63	10.05
Cash flow (EUR M)	2020A	2021A	2022A	2023E	2024E	2025E
Net income before minorities	1.1	2.3	1.7	2.8	4.6	10.0
Depreciation and provisions	-0.9	-1.3	-1.8	-1.6	-2.9	-3.1
Others/Uses of funds	0.1	1.1	-0.3	-0.7	0	0
Change in working capital	-0.4	0.1	-0.3	-0.4	-1.8	-2.5
Operating cash flow	-0.2	2.1	-0.7	0.1	-0.1	4.4
Capital expenditure	-1.1	-1.3	-2.6	-8.2	-8.6	-3.5
Financial investments	0	0	0	0	0	0
Acquisitions and disposals	0	0.3	0	0	0	0
Free cash flow	-1.3	1.1	-3.3	-8.2	-8.7	1.0
Dividends	-0.4	-0.4	-1.7	-0.3	-0.6	-0.9
Equity changes & Non-op items	-0.1	0.1	14.9	0	0	0
Net change in cash	-1.8	0.8	9.9	-8.5	-9.3	0.1
Balance sheet (EUR M)	2020A	2021A	2022A	2023E	2024E	2025E
Net capital employed	10.0	8.6	10.1	17.7	25.3	28.0
of which associates	0.0	0.0	0.0	0.0	0.0	0.0
Net debt/-cash	-0.7	-4.0	-17.4	-12.2	-8.7	-15.0
Minorities	0	0	0	0	0	0
Net equity	10.7	12.6	27.5	30.1	34.1	43.2
Minorities value	0	0	0	0	0	0
Enterprise value	NA	NA	56.9	44.7	48.2	41.8
Stock market ratios (x)	2020A	2021A	2022A	2023E	2024E	2025E
Adj. P/E	NA	NA	45.0	20.0	12.3	5.7
P/CFPS	NA	NA	21.8	12.7	7.5	4.3
P/BVPS	NA	NA	2.7	1.9	1.7	1.3
Payout (%)	42	18	103	12	12	9
Dividend yield (% ord)	NA	NA	2.3	0.6	1.0	1.6
FCF yield (%)	NA	NA	0.3	-8.6	-5.1	12.8
EV/sales	NA	NA	4.1	2.6	1.7	0.85
EV/EBITDA	NA	NA	14.4	8.3	5.4	2.6
EV/EBIT	NA	NA	25.9	12.0	8.0	3.2
EV/CE	NA	NA	5.6	2.5	1.9	1.5
D/EBITDA	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
D/EBIT	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
Profitability & financial ratios (%)	2020A	2021A	2022A	2023E	2024E	2025E
EBITDA margin	28.0	35.3	28.7	31.5	32.1	33.1
EBIT margin	16.4	25.0	16.0	21.9	21.7	26.7
Tax rate	18.3	26.6	24.4	23.0	23.0	23.0
Net income margin	13.3	18.3	12.0	16.8	16.6	20.5
ROCE	13.2	35.9	21.7	21.0	23.9	46.7
ROE	11.9	19.3	8.2	9.9	14.4	26.0
Interest cover	-82.6	-205.3	-146.6	-146.0	-177.8	-308.0
Debt/equity ratio	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
Growth (%)		2021A	2022A	2023E	2024E	2025E
Sales		53.2	11.8	23.5	64.1	75.5
EBITDA		93.3	-9.2	35.6	67.3	81.1
EBIT		NM	-28.6	69.4	62.3	NM
Pre-tax income		NM	-28.7	69.3	62.5	NM
Net income		NM	-26.7	72.5	62.5	NM
Adj. net income		NM	-26.7	72.5	62.5	NM

NM: not meaningful; NA: not available; Neg.: negative; A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

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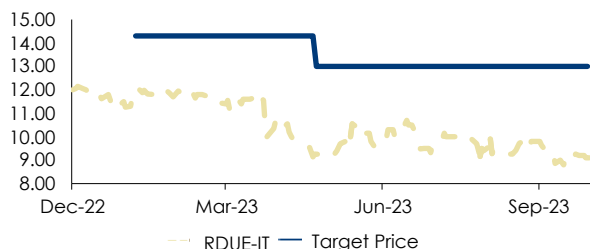
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Long-term rating	Definition
BUY	If the target price is 10% higher than the market price.
HOLD	If the target price is in a range 10% below or 10% above the market price.
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## Target price and market price trend (-1Y) – Ordinary shares



## Historical recommendations and target price trend (-1Y)

Date	Rating	TP (EUR)	Mkt Price (EUR)
28-Apr-23	BUY	13.0	9.3
12-Jan-23	BUY	14.3	12.0

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Number of companies considered: 132	BUY	HOLD	SELL
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of which Intesa Sanpaolo's Clients (%)**	70	53	0

\* Last rating refers to rating as at end of the previous quarter; \*\* Companies on behalf of whom Intesa Sanpaolo and the other companies of the Intesa Sanpaolo Group have provided corporate and investment banking services in the last 12 months; percentage of clients in each rating category

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