

STAR7

Sector: Industrials

BUY

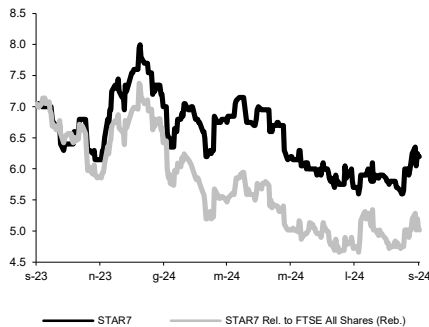
Price: Eu6.20 - Target: Eu10.50

Back on Track – Ready to Launch New Solutions

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Stock Rating			
Rating:	Unchanged		
Target Price (Eu):	from 10.1 to 10.5		
	2024E	2025E	2026E
Chg in Adj EPS	24.1%	25.0%	26.8%

STAR7 - 12M Performance



Stock Data			
Reuters code:	STAR7.MI		
Bloomberg code:	STAR7 IM		
Performance	1M	3M	12M
Absolute	6.9%	1.6%	-12.1%
Relative	4.3%	-2.7%	-35.7%
12M (H/L)	8.00/5.60		
3M Average Volume (th):	2.58		

Shareholder Data	
No. of Ord shares (mn):	9
Total no. of shares (mn):	9
Mkt Cap Ord (Eu mn):	56
Total Mkt Cap (Eu mn):	56
Mkt Float - Ord (Eu mn):	14
Mkt Float (in %):	24.9%
Main Shareholder:	
Dante Srl	41.7%

Balance Sheet Data	
Book Value (Eu mn):	35
BVPS (Eu):	3.87
P/BV:	1.6
Net Financial Position (Eu mn):	-36
Enterprise Value (Eu mn):	92

1H24 results confirmed the soundness of the STAR7 business growth path with a marked increase in revenues, an expanding EBITDA margin, and a significant reduction in net debt. The internationalisation and diversification of the business model were the key drivers, with growth driven by the US and Brazil, and by the engineering and product knowledge business lines, as well as long-term contracts with customers. The conclusion of the CAAR integration process, and the management effort to optimise working capital, led to a significant reduction in debt. Looking forward, we expect the launch of new AI solutions to further boost growth.

- 1H24 results: back on track for growth.** 1H24 final results from STAR7 confirm the preliminary indications announced in July on revenues, which were up 18.7% YoY. This growth was fully driven by organic expansion and by the US and Brazil in terms of geographies, while Product Knowledge and Engineering lead the growth by business lines. Adj. EBITDA, excluding extraordinary costs related to CAAR for ~€0.6mn, was up 22% YoY, while margin expansion was equal to ~40bps from 14.8% to 15.2%. As at the end of June 2024, net debt was €29.8mn, markedly improving vs €37.8mn as at YE23, confirming the effectiveness of the strategies implemented by management to improve working capital.
- CAAR rationalization and integration process fully completed.** In 1H24, STAR7 incurred the latest impacts of the extraordinary integration costs related to CAAR. This process is now complete, and no more impacts are expected in the next months. The auction for the final acquisition is scheduled for 22 October, and the expected cash-out is estimated at ~€5mn. For the coming months, we expect CAAR's contribution to continue to grow, mainly in Brazil (by geography), and in automotive and defence (by sector).
- Change in estimates.** 1H24 results confirm our expectations for a successful return to the profitability growth path. This has led us to revise our estimates for 2024 and coming years, also including indications from management during conference call on CapEx and NFP. We confirm the estimated EBITDA margin expansionary path, with an Adj. EBITDA margin at 15.3% in FY24 and accelerating in 2025/2026 to 15.5%/16.7% respectively. At the bottom line, we are revising up our adj. net profit by 24%/25%/27% for FY24/FY25/FY26 respectively, including higher goodwill amortization (€4mn per year). We also align our CapEx estimates to the €4/5mn per annum cash-out indicated by management. We estimate a €36mn NFP as at end-2024, vs €29.8mn as at end-June due to a one-off, already announced, cash-out (€5mn) to complete the CAAR acquisition.
- BUY confirmed, TP at €10.5 from €10.1.** With full integration of CAAR achieved, we believe growth is definitely back on track and STAR7 fully equipped to benefit from new opportunities. The expansion into India could be one of these, while we also expect a further boost from the generative AI market with STAR7 presenting, in October, two new AI solutions, SMART7 and GLOBAL7. We confirm our positive view on the stock, while raising the TP to €10.5 from €10.1 resulting from the simple average of a DCF and a peer valuation. In light of further margin expansion and continuing cash generation, we consider the current valuation particularly depressed and the current share price an attractive opportunity.

Key Figures & Ratios	2022A	2023A	2024E	2025E	2026E
Sales (Eu mn)	85	106	124	133	143
EBITDA Adj (Eu mn)	15	16	19	21	24
Net Profit Adj (Eu mn)	7	7	7	8	10
EPS New Adj (Eu)	0.699	0.644	0.819	0.926	1.140
EPS Old Adj (Eu)	0.699	0.644	0.660	0.741	0.899
DPS (Eu)	0.000	0.000	0.000	0.000	0.000
EV/EBITDA Adj	7.4	6.8	4.9	4.2	3.4
EV/EBIT Adj	9.8	9.5	7.0	6.3	5.0
P/E Adj	8.9	9.6	7.6	6.7	5.4
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Net Debt/EBITDA Adj	2.3	2.4	1.9	1.5	1.1

STAR7 – Key Figures						
Profit & Loss (Eu mn)	2021A	2022A	2023A	2024E	2025E	2026E
Sales	74	85	106	124	133	143
EBITDA	13	15	15	18	21	24
EBIT	6	8	6	8	10	12
Financial Income (charges)	-2	-2	-3	-4	-3	-3
Associates & Others	-0	0	0	0	0	0
Pre-tax Profit	4	5	3	5	7	10
Taxes	-1	-2	-1	-2	-2	-4
Tax rate	-29.7%	-36.2%	-34.6%	-40.2%	-36.0%	-36.0%
Minorities & Discontinued Operations	0	0	0	0	0	0
Net Profit	3	3	2	3	4	6
EBITDA Adj	13	15	16	19	21	24
EBIT Adj	7	12	11	13	14	16
Net Profit Adj	4	7	7	7	8	10
Per Share Data (Eu)	2021A	2022A	2023A	2024E	2025E	2026E
Total Shares Outstanding (mn) - Average	9	9	9	9	9	9
Total Shares Outstanding (mn) - Year End	9	9	9	9	9	9
EPS f.d	0.306	0.381	0.248	0.328	0.481	0.696
EPS Adj f.d	0.430	0.699	0.644	0.819	0.926	1.140
BVPS f.d	2.834	3.277	3.542	3.870	4.351	5.047
Dividend per Share ORD	0.000	0.000	0.000	0.000	0.000	0.000
Dividend per Share SAV	0.000	0.000	0.000	0.000	0.000	0.000
Dividend Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cash Flow (Eu mn)	2021A	2022A	2023A	2024E	2025E	2026E
Gross Cash Flow	10	11	10	13	15	18
Change in NWC	2	-9	-6	-2	-5	-7
Capital Expenditure	-6	-4	-9	-5	-5	-6
Other Cash Items	0	0	0	0	0	0
Free Cash Flow (FCF)	7	-2	-5	6	5	5
Acquisitions, Divestments & Other Items	-34	-1	2	-4	0	0
Dividends	0	0	0	0	0	0
Equity Financing/Buy-back	12	0	0	0	0	0
Change in Net Financial Position	-16	-3	-3	2	5	5
Balance Sheet (Eu mn)	2021A	2022A	2023A	2024E	2025E	2026E
Total Fixed Assets	48	47	48	48	42	37
Net Working Capital	14	24	29	31	36	43
Long term Liabilities	-4	-6	-7	-8	-8	-8
Net Capital Employed	57	65	70	71	70	71
Net Cash (Debt)	-32	-35	-38	-36	-31	-26
Group Equity	26	29	32	35	39	45
Minorities	0	0	0	0	0	0
Net Equity	26	29	32	35	39	45
Enterprise Value (Eu mn)	2021A	2022A	2023A	2024E	2025E	2026E
Average Mkt Cap	80	80	71	56	56	56
Adjustments (Associate & Minorities)	0	0	0	0	0	0
Net Cash (Debt)	-32	-35	-38	-36	-31	-26
Enterprise Value	112	115	109	92	87	82
Ratios (%)	2021A	2022A	2023A	2024E	2025E	2026E
EBITDA Adj Margin	17.2%	18.2%	15.2%	15.2%	15.4%	16.6%
EBIT Adj Margin	8.9%	13.7%	10.8%	10.6%	10.4%	11.5%
Gearing - Debt/Equity	125.1%	119.0%	118.5%	103.6%	79.2%	56.7%
Interest Cover on EBIT	3.4	3.3	2.2	2.4	3.2	4.7
Net Debt/EBITDA Adj	2.5	2.3	2.4	1.9	1.5	1.1
ROACE*	13.0%	12.6%	9.5%	12.0%	14.0%	17.6%
ROE*	21.2%	26.9%	22.2%	22.1%	22.5%	24.3%
EV/CE	2.6	1.9	1.6	1.3	1.2	1.2
EV/Sales	1.5	1.3	1.0	0.7	0.7	0.6
EV/EBITDA Adj	8.8	7.4	6.8	4.9	4.2	3.4
EV/EBIT Adj	16.9	9.8	9.5	7.0	6.3	5.0
Free Cash Flow Yield	11.8%	-3.6%	-8.1%	10.2%	9.1%	9.4%
Growth Rates (%)	2021A	2022A	2023A	2024E	2025E	2026E
Sales	66.4%	14.5%	24.3%	17.5%	7.5%	7.3%
EBITDA Adj	192.0%	20.8%	3.6%	18.2%	8.5%	15.8%
EBIT Adj	69.3%	75.6%	-1.7%	14.8%	5.5%	18.5%
Net Profit Adj	25.7%	91.4%	-7.8%	8.0%	13.0%	23.1%
EPS Adj	25.7%	62.7%	-7.9%	27.2%	13.0%	23.1%
DPS						

*Excluding extraordinary items Source: Intermonte SIM estimates

1H24 Results

Revenue

1H24 final results from STAR7 confirm the preliminary indications announced on July 31st in terms of total revenues and geographical/divisional breakdown.

1H24 revenues were up 18.7% YoY to €60.4mn vs €50.9mn in 1H23. This growth was fully driven by organic expansion and by the United States and Brazil in terms of geographies, while Product Knowledge and Engineering lead the growth in terms of business lines.

In more detail: the ~€10mn YoY increase in revenues comes 80% (~€8mn) from existing customers and 20% (~€2mn) from new customers acquired during the year. This confirms STAR7's ability to continue its growth path by combining new customer acquisition with the cross-selling and upselling opportunities inherent in the Integrale7 business model.

In terms of customers, Stellantis and Apple were the main contributors to YoY revenue growth, contributing, in aggregate, €5mn of the total €10mn increase. In particular, as of early 2024, the contract renewed in 2023 with Stellantis is in place, for which we estimate additional revenues of ~€6mn during 2024 compared to 2023. In relation to Apple, during 1H24, STAR7 opened a new subsidiary in India aimed at providing further development of Global Content services to be provided to the US group. We estimate, in relation to this customer, additional revenues of €3mn in FY24 vs FY23

Looking at the geographical breakdown, we see the growth in the United States and in Brazil as positive, confirming the success of the internationalization strategy pursued by STAR7. By business area, we think the growth of Experience/Product Knowledge, Engineering and Global Content can foster further expansion of STAR7's EBITDA margin in 2H24:

- **By Service Line** – Engineering increased YoY by €3mn to €12.4mn, driven by the CAAR contribution in Italy and Brazil, while Product Knowledge YoY growth (~€6mn) was driven by the global business contracts signed with Stellantis. Positive trend confirmed for Global Content activities, boosted by upselling to strategic clients.
- **By Region** – Revenue growth continues in all geographic areas in which the group operates. Brazil and US are the leading regions (+52% and +35% YoY respectively), driven mainly by up-selling and cross-selling services.

We appreciate the quality of STAR7's 1H24 revenue growth, which was 100% organic, confirming the company's capacity to gain new customers and successfully applying cross-selling and upselling initiatives. More generally, we think 1H24 provides visibility for further growth in 2H. Management also announced the completion of the rationalization process related to the integration of CAAR, related to which we expect a further increase in revenues from Engineering in Brazil and Italy as early as the next few months.

STAR7 - 1H24 Revenue Breakdown

(Eu mn)	1H23A	1H24A	YoY	1H24E	1H24 A/E	2H24E	FY24E
<i>by service line</i>							
Engineering	9.4	12.4	32.2%	12.2	1.1%	14.6	27.0
<i>% on total revenues</i>	18%	21%		20%		23%	22%
Experience + Product Knowledge	14.7	20.6	39.6%	20.5	0.3%	21.2	41.8
<i>% on total revenues</i>	29%	34%		34%		34%	34%
Global Content	18.3	20.6	12.7%	20.5	0.6%	21.5	42.1
<i>% on total revenues</i>	36%	34%		34%		34%	34%
Printing	8.5	6.8	(19.7%)	6.8	0.6%	5.7	12.5
<i>% on total revenues</i>	17%	11%		11%		9%	10%
<i>by region</i>							
Italy	29.1	30.9	6.2%	30.7	0.6%	29.3	60.2
<i>% on total revenues</i>	57%	51%		51%		46%	49%
US	11.0	14.8	34.6%	15.1	(2.2%)	17.5	32.3
<i>% on total revenues</i>	22%	25%		25%		28%	26%
Brazil	7.2	10.9	52.4%	10.9	0.6%	13.9	24.8
<i>% on total revenues</i>	14%	18%		18%		22%	20%
RoW	3.6	3.7	3.6%	3.3	13.4%	2.3	6.0
<i>% on total revenues</i>	7%	6%		6%		4%	5%
Net Revenues	50.9	60.4	18.7%	60.0	0.6%	63.0	123.3

Source: Intermonte SIM; Company data

Income Statement

In 1H24, reported EBITDA stood at €8.6mn (+24% YoY), reflecting efficiency initiatives to maximize the profitability of orders. At the adjusted level, excluding extraordinary restructuring costs mainly related to the CAAR Group business unit for ~€0.6mn, 1H24 EBITDA was €9.2mn (+22% YoY). In terms of margins, 1H24 saw an expansion of 60bps, from 13.6% to 14.2%, while at adjusted level, the EBITDA margin expansion was equal to ~40bps, from 14.8% to 15.2%. This evolution reflects the high-quality revenue mix, the cost rationalization following the completion of CAAR integration, and the fully structured offshoring in Albania, enabling higher operating leverage.

In addition to rationalization at the cost level, we believe that revenue growth in high-margin business lines and geographies (Brazil and the United States) played a significant role in margin expansion. This leaves ample room for improvement in the Italian market. We believe that in the coming period the margin can continue to expand thanks to the work carried out by management to bring the profitability of the business in Italy into line with that of operations abroad.

Group reported EBIT amounted to €4.5mn in 1H24 (+45% YoY vs €3.1mn in 1H23), while at the adjusted level, EBIT was €6.5mn (+31% YoY). At the bottom line, STAR7 reported a net profit of €1.5mn in 1H24 (+51% YoY). The M&A transactions carried out in past years have generated net goodwill of €28mn as at 30 June 2024, resulting in €2mn amortization in 1H24. Gross of this effect, and excluding extraordinary costs related to integration of CAAR, adjusted net profit in 1H24 was €3.8mn (+21% YoY)

STAR7 - 1H24 Results - Income Statement

(Eu mn)	1H23A	1H24A	YoY %	1H24E	1H24 A/E	2H24E	FY24E
Total Revenues	51.6	60.8	18%	60.5	1%	63.3	124.1
Operating Costs	(23.2)	(25.9)	12%	(27.1)	(5%)	(29.0)	(54.8)
Personnel Costs	(21.5)	(26.4)	22%	(24.8)	6%	(24.7)	(51.1)
Total Costs	(44.7)	(52.2)	17%	(51.9)	1%	(53.7)	(105.9)
EBITDA Reported	6.9	8.6	24%	8.6	(0%)	9.6	18.2
<i>EBITDA margin reported</i>	<i>13.6%</i>	<i>14.2%</i>		<i>14.3%</i>		<i>15.3%</i>	<i>14.8%</i>
CAAR Integration costs	0.6	0.6	0%	0.6	0%	0.1	0.7
EBITDA Adjusted	7.5	9.2	22%	9.2	(0%)	9.7	18.9
<i>EBITDA margin adj.</i>	<i>14.8%</i>	<i>15.2%</i>		<i>15.3%</i>		<i>15.5%</i>	<i>15.3%</i>
D&A	(3.8)	(4.1)	7%	(4.6)	(11%)	(5.7)	(9.8)
EBIT Reported	3.1	4.5	45%	4.0	13%	3.9	8.4
Goodwill Amortization	1.8	2.0	9%	2.0	0%	2.0	4.0
EBIT Adjusted	4.9	6.5	31%	6.0	9%	6.6	13.1
Net Financial Income	(1.2)	(1.6)	37%	(1.6)	2%	(1.9)	(3.5)
Pre-tax Profit	1.9	2.9	50%	2.4	20%	2.1	4.9
Income taxes	(0.9)	(1.4)	48%	(0.9)	59%	(0.6)	(2.0)
Net Profit	1.0	1.5	51%	1.5	(2%)	1.5	3.0
Total Adjustments (net of taxes)	2.1	2.3	8%	2.4	(3%)	2.1	4.4
<i>CAAR Integration costs</i>	<i>0.3</i>	<i>0.3</i>	<i>1%</i>	<i>0.4</i>	<i>(18%)</i>	<i>0.1</i>	<i>0.4</i>
<i>Goodwill Amortization</i>	<i>1.8</i>	<i>2.0</i>	<i>9%</i>	<i>2.0</i>	<i>0%</i>	<i>2.0</i>	<i>4.0</i>
Adjusted Net Profit	3.1	3.8	21%	3.9	(3%)	3.6	7.4

Source: Intermonte SIM

Balance Sheet / Net Financial Position

As at the end of June 2024, net debt was €29.8mn, markedly improving vs €37.8mn as at YE23. This evolution confirms the effectiveness of the strategies implemented by management to improve working capital (lengthening of supplier payment periods for a better alignment with customers' collection periods). Gross debt stood at €47.1mn (€47.3mn as at 31/12/2023) with bond reimbursement proceeding as scheduled. The debt-to-LTM adj. EBITDA ratio decreased from 2.4x (FY2023) to 1.7x as at the end of June 2024.

STAR7 - 1H24 Results - Balance Sheet

(Eu mn)	1H23A	FY23A	1H24A	1H24E	1H24 A/E
Non-current assets	47.6	47.7	45.4	46.3	(2%)
Net Working Capital	22.1	29.3	23.5	25.8	(9%)
Non-current liabilities	(6.1)	(7.4)	(7.7)	(8.5)	(10%)
Net Capital Employed	63.6	69.6	61.2	63.7	(4%)
Shareholders Equity	30.0	31.9	31.4	33.4	(6%)
Net Financial Position	(33.6)	(37.8)	(29.8)	(30.3)	(2%)
Net Equity & NFP	63.6	69.6	61.2	63.7	(4%)
<i>NFP / LTM EBITDA adj.</i>	<i>2.1x</i>	<i>2.4x</i>	<i>1.7x</i>	<i>1.7x</i>	

Source: Intermonte SIM

Update on CAAR Acquisition

After a 2023 heavily impacted by extraordinary costs related to the CAAR (Consulting Automotive Aerospace Railway) deal that had interrupted STAR7's margin growth trajectory, management has declared the rationalization and integration process now finally complete.

In 1H24, we saw the latest impacts of that extraordinary integration cost, to the tune of ~€0.6mn in terms of EBITDA. This process is now complete, and no other impacts are expected in the next months. The competitive auction for the final acquisition of CAAR is scheduled for 22 October, and the expected cash-out is estimated at ~€5mn. This amount has already been financed through a bank loan for €4mn tied to the acquisition.

The CAAR Group was founded in 2009. Leveraging solid know-how in the Automotive field, it has developed a wide range of engineering solutions over the years, mainly process related, for the Aerospace & Defence, Railway, Agriculture, Energy, Logistics, Infrastructure and Electronics sectors. These engineering services offered have been developed not only in Italy, but in the rest of Europe and especially in Brazil.

In December 2022, STAR7 signed a lease agreement with CAAR Group for the Business Unit comprising CAAR (including the beneficial interests in the subsidiaries in Brazil and Serbia) and a lease agreement for the business unit of subsidiary STI. The contracts were effective as of 1 January 2023. Last year, CAAR faced a crisis that put the smooth continuation of business operations at risk.

In this context, the lease agreements signed were also aimed at the sale of the Business Units to STAR7 in the context of CAAR's restructuring operation. The term of the leases was initially scheduled for six months, which was then automatically renewed for an additional six months as the transfer of the Business Unit to STAR7 did not take place during the first six months of 2023.

During 2023 and early 2024, STAR7 implemented a process of rationalization of CAAR's business, which is now complete. In 2H24, the acquisition will be completed with a cash-out of ~€5mn. For the coming months, we expect CAAR's contribution to remain positive, especially in Brazil and the US, and in the automotive and defence sectors. In addition, we also expect a growing contribution in Italy due to the existing contracts with Iveco in both the civil and defence sectors.

Change in Estimates

Overall, 1H24 results confirm our expectations for a successful return to a good growth path. Success in the internationalization process, sustained growth in higher value-added business lines and margin expansion, together with the completion of the CAAR integration process, rationalization of working capital management with a resulting reduction in net debt, lead us to revise up our estimates for 2024 and subsequent years

We are also revising up our FY24/25/26 estimates, including indications provided by management on CapEx and NFP during the conference call.

In more detail: we are raising our revenue forecasts by 4.4%/3.2%/3.2% to €124mn/€133mn/€143mn for 2024/2025/2026. We confirm the EBITDA margin expansionary path, estimating an adjusted EBITDA margin at 15.3% in FY24 and accelerating in 2025/2026 to 15.5%/16.7% respectively thanks to continuing cost rationalization, offshoring, and full realisation of CAAR efficiencies.

At the bottom line, we are revising slightly down (€0.3mn) our FY24 estimate for net profit, mainly due to temporary higher cost of debt. Conversely, for adjusted net profit, we are raising our forecasts by 24%/25%/27% for FY24/FY25/FY26 respectively, including higher goodwill amortization (€4mn per year in line with €2mn in 1H24).

In terms of cash flow, our estimates also include indications by management during the conference call on the CapEx plan for the next years. The related expected cash-out will be in the range of €4/5mn per year, mainly to finance the launch of new AI solutions and for equipment upgrading.

As at the end of 2024, we expected an NFP of €36mn vs previous €38mn, slightly up vs €29.8mn as at end-June. This evolution will be related to some year-end seasonality, but mainly due to the one-off cash-out estimated at €5mn to complete CAAR acquisition.

STAR7 - Income Statement Change in estimates

(Eu mn)	FY24E New	FY25E New	FY26E New	FY24E Old	FY25E Old	FY26E Old	FY24E % chg	FY25E % chg	FY26E % chg
Net Revenues	123.3	132.4	142.1	117.9	128.3	137.7	4.6%	3.2%	3.2%
Other Revenues	0.8	1.0	1.0	1.0	1.0	1.0	(20.0%)	0.0%	0.0%
Total Revenues	124.1	133.4	143.1	118.9	129.3	138.7	4.4%	3.2%	3.2%
Operating Costs	(54.8)	(59.8)	(63.8)	(53.5)	(57.1)	(60.3)	2.5%	4.6%	5.9%
Personnel Costs	(51.1)	(53.1)	(55.5)	(48.0)	(52.3)	(56.1)	6.4%	1.5%	(1.0%)
Total Costs	(105.9)	(112.9)	(119.3)	(101.5)	(109.5)	(116.4)	4.3%	3.1%	2.6%
EBITDA Reported	18.2	20.5	23.8	17.4	19.8	22.3	4.7%	3.7%	6.6%
<i>Ebitda margin reported</i>	<i>14.8%</i>	<i>15.5%</i>	<i>16.7%</i>	<i>14.8%</i>	<i>15.5%</i>	<i>16.2%</i>			
EBITDA Adjusted	18.9	20.5	23.8	18.1	19.8	22.3	4.5%	3.7%	6.6%
<i>Ebitda margin adj.</i>	<i>15.3%</i>	<i>15.5%</i>	<i>16.7%</i>	<i>15.4%</i>	<i>15.5%</i>	<i>16.2%</i>			
D&A	(9.8)	(10.7)	(11.4)	(9.4)	(10.1)	(10.6)	4.2%	6.2%	7.2%
EBIT Reported	8.4	9.9	12.4	8.0	9.8	11.7	5.2%	1.1%	6.1%
<i>Ebit margin reported</i>	<i>6.8%</i>	<i>7.5%</i>	<i>8.7%</i>	<i>6.8%</i>	<i>7.6%</i>	<i>8.5%</i>			
EBIT Adjusted	13.1	13.9	16.4	11.7	12.8	14.7	12.1%	8.7%	11.7%
<i>Ebit margin adj.</i>	<i>10.7%</i>	<i>10.5%</i>	<i>11.6%</i>	<i>9.9%</i>	<i>10.0%</i>	<i>10.7%</i>			
Net Financial Income	(3.5)	(3.1)	(2.6)	(2.8)	(2.7)	(2.4)	24.1%	13.6%	8.2%
Pre-tax profit	4.9	6.8	9.8	5.2	7.0	9.3	(5.1%)	(3.7%)	5.6%
Income taxes	(2.0)	(2.4)	(3.5)	(1.9)	(2.5)	(3.3)	6.0%	(3.7%)	5.6%
Net Profit	3.0	4.3	6.3	3.3	4.5	5.9	(11.3%)	(3.7%)	5.6%
Adjusted Net Profit	7.4	8.3	10.3	5.9	6.7	8.1	24.1%	25.0%	26.8%

Source: Intermonte SIM

STAR7 - Balance Sheet Change in estimates

(Eu mn)	FY24E New	FY25E New	FY26E New	FY24E Old	FY25E Old	FY26E Old	FY24E % chg	FY25E % chg	FY26E % chg
Non-current assets	47.8	42.5	36.9	49.5	48.3	48.2	(3.5%)	(12.2%)	(23.4%)
Net Working Capital	31.5	36.1	42.6	33.0	37.0	41.4	(4.6%)	(2.5%)	3.1%
Non-current liabilities	(8.4)	(8.4)	(8.4)	(9.6)	(9.9)	(10.4)	(12.8%)	(15.0%)	(18.9%)
Net Capital Employed	70.9	70.2	71.2	72.9	75.5	79.2	(2.7%)	(7.0%)	(10.1%)
Shareholders Equity	34.8	39.2	45.4	35.2	39.7	45.6	(1.1%)	(1.4%)	(0.5%)
Net Financial Position	(36.1)	(31.0)	(25.8)	(37.7)	(35.8)	(33.6)	(4.2%)	(13.3%)	(23.3%)
Net Equity & NFP	70.9	70.2	71.2	72.9	75.5	79.2	(2.7%)	(7.0%)	(10.1%)
<i>NFP / LTM EBITDA adj.</i>	<i>1.9x</i>	<i>1.5x</i>	<i>1.1x</i>	<i>2.1x</i>	<i>1.8x</i>	<i>1.5x</i>			

Source: Intermonte SIM

STAR7 - Cash Flow Change in estimates

(Eu mn)	FY24E New	FY25E New	FY26E New	FY24E Old	FY25E Old	FY26E Old	FY24E % chg	FY25E % chg	FY26E % chg
EBITDA	18.2	20.5	23.8	17.4	19.8	22.3	4.7%	3.7%	6.6%
Δ NWC	(2.1)	(4.6)	(6.5)	(3.6)	(4.1)	(4.3)	(41.6%)	14.5%	50.7%
Financial Income / (Exp.)	(3.5)	(3.1)	(2.6)	(2.8)	(2.7)	(2.4)	24.1%	13.6%	8.2%
Taxes	(2.0)	(2.4)	(3.5)	(1.9)	(2.5)	(3.3)	6.0%	(3.7%)	5.6%
Capex	(4.9)	(5.3)	(5.8)	(6.2)	(8.9)	(10.5)	(21.1%)	(40.2%)	(44.3%)
FCF	5.7	5.1	5.3	2.9	1.6	1.7			
M&A	(5.0)	0.0	0.0	(5.0)	0.0	0.0			
Others	1.0	0.0	0.0	2.2	0.3	0.5			
Change in NFP	1.7	5.1	5.3	0.1	1.9	2.2			

Source: Intermonte SIM

Update on Valuation and Investment Conclusion

We have updated our valuation, based on a DCF and peer comparison, mainly to take into account the revisions of our estimates for 2024 and subsequent years detailed above.

The updated valuation yields a fair value of €10.5ps, allowing for an upward revision of our TP from €10.1 to €10.5. At our new TP, STAR7 would be trading at 7.2x/6.4x 2024/25 EV/EBITDA, offering upside of ~70% vs the current price.

Star7 - Valuation Recap

(Eu)	
DCF	11.0
Multiples	10.0
Fair Value ps (Eu)	10.5
<i>Premium / discount</i>	<i>0%</i>
Target price	10.5

Source: Intermonte SIM

We believe that STAR7's share performance was particularly penalised during 2023 and the first part of 2024 due to the hit to results from the rationalisation and integration process for CAAR.

We believe that the indications emerging from the 1H24 results have confirmed our expectations, with a definite upturn for business growth and margin expansion. With the full integration of CAAR achieved in the first part of this year, we believe that growth is definitely back on track and STAR7 is fully equipped to benefit from new opportunities.

From a business perspective, we believe that the expansion into India, with the opening of the first branch (already operating), may be a unique opportunity in a particularly buoyant market. We also expect a further boost to revenues and margins from the new opportunities offered by generative AI. In this sense, the first event organized by STAR7 and dedicated to its main customers is scheduled in October; two new solutions, SMART7 and GLOBAL7, will be presented. These solutions have been developed to enable customers to enter the world of generative artificial intelligence on a global scale.

We believe that in 2025, the focus can still be on increasing margins and cash generation to fully prepare the Group for acquisition opportunities in 2026, while maintaining high margins and solid leverage.

DETAILS ON STOCKS RECOMMENDATION			
Stock NAME	STAR7		
Current Recomm:	BUY	Previous Recomm:	BUY
Current Target (Eu):	10.50	Previous Target (Eu):	10.10
Current Price (Eu):	6.20	Previous Price (Eu):	6.30
Date of report:	30/09/2024	Date of last report:	22/05/2024

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The main methods used to evaluate financial instruments and set a target price for 12 months after the investment recommendation are as follows:

- Discounted cash flow (DCF) model or similar methods such as a dividend discount model (DDM)
- Comparison with market peers, using the most appropriate methods for the individual company analysed: among the main ratios used for industrial sectors are price/ earnings (P/E), EV/EBITDA, EV/EBIT, price /sales.
- Return on capital and multiples of adjusted net book value are the main methods used for banking sector stocks, while for insurance sector stocks return on allocated capital and multiples on net book value and embedded portfolio value are used
- For the utilities sector comparisons are made between expected returns and the return on the regulatory asset base (RAB)

Some of the parameters used in evaluations, such as the risk-free rate and risk premium, are the same for all companies covered, and are updated to reflect market conditions. Currently a risk-free rate of 4.0% and a risk premium of 5.5% are being used.

Frequency of research: quarterly.

Reports on all companies listed on the S&P500 Index, most of those on the MIDEX Index and the main small caps (regular coverage) are published at least once per quarter to comment on results and important newsflow.

A draft copy of each report may be sent to the subject company for its information (without target price and/or recommendations), but unless expressly stated in the text of the report, no changes are made before it is published.

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BUY: stock expected to outperform the market by over 25% over a 12 month period;

OUTPERFORM: stock expected to outperform the market by between 10% and 25% over a 12 month period;

NEUTRAL: stock performance expected at between +10% and -10% compared to the market over a 12 month period;

UNDERPERFORM: stock expected to underperform the market by between -10% and -25% over a 12 month period;

SELL: stock expected to underperform the market by over 25% over a 12 month period.

Prices: The prices reported in the research refer to the price at the close of the previous day of trading

CURRENT INVESTMENT RESEARCH RATING DISTRIBUTIONS

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As at 30 June 2024 Intermonte's Research Department covered 116 companies. Intermonte's distribution of stock ratings is as follows:

BUY:	23.97 %
OUTPERFORM:	49.59 %
NEUTRAL:	25.61 %
UNDERPERFORM	00.83 %
SELL:	00.00 %

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BUY:	38.78 %
OUTPERFORM:	51.02 %
NEUTRAL:	10.20 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short

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