

Officina Stellare

Sector: Technology



€8.5mn order for high resolution telescopes

Officina Stellare designs, engineers and manufactures a wide range of opto-mechanic equipment (from “simple” telescopes to highly complex optical systems) to be utilized for various applications in aerospace, defense and scientific research end markets.

€8.5mn order for high resolution LEO telescopes

Today Officina Stellare (OS) has announced the signature of a new supply contract worth approximately €8.5mn for the construction of a series of space telescopes with a leading international player active in the geo-spatial analysis sector. The €8.5mn order, to be delivered in 2022-23, is part of a multi-year program aimed at creating an innovative low orbit (LEO) satellite constellation for the provisioning of Earth Observation services based on high quality geo-spatial data. In particular, OS will have to:

- ◆ Provide a series of low orbit space telescopes intended for high-resolution Earth Observation;
- ◆ Develop a new low orbit telescope model equipped with even higher resolution multispectral optical payloads (Ground Sample Distance, GSD, lower than one meter per pixel) operating in the visible and near infrared wavelengths.

Leadership position confirmed

The €8.5mn order accounts for ca. 25% of total cumulated orders' intake that we were forecasting for 2022E-23E years and confirms OS's leadership position as a supplier of space instrumentation for commercial and institutional high and very high resolution Earth Observation services, a market where OS has consolidated knowledge and industrial capabilities on a global level thanks to the completeness and uniqueness of the fully in-house technical proposal, from design to functional testing of the system, passing through the delicate manufacturing and integration phases of the optical and mechanical components.

Fair value per share at €17.2 (up from €15.7)

We're not changing our 2022E-23E estimates for the time being, but for sure the €8.5mn order announced today strongly improves the visibility on them and further increases the number of growth opportunities that could unlock a major medium term business scalability.

As far as valuation is concerned, based on the positive newsflow on orders' intake, we review **OS fair value per share at €17.2** (up from €15.7), ca. 12% higher than current market price, implying ca. 15x EV/EBITDA and 30x P/E 2023E.

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Fair Value (€) 17.2
Market Price (€) 15.3
Market Cap (€m) 86.8

KEY FINANCIALS (€m)	2020A	2021E	2022E
VALUE OF PRODUCTION	7.3	10.4	14.3
EBITDA	1.6	3.6	5.0
EBIT	0.2	1.8	3.0
NET PROFIT	0.3	1.5	2.3
EQUITY	8.0	10.0	15.3
NET FIN. POS.	-4.1	-4.7	-0.4
EPS ADJ. (€)	0.05	0.26	0.40
DPS (€)	0.00	0.00	0.00

Source: Officina Stellare (historical figures), Value Track (2021E-22E estimates)

RATIOS & MULTIPLES	2020A	2021E	2022E
EBITDA MARGIN (%)	21.6	34.3	34.9
EBIT MARGIN (%)	3.3	17.5	20.9
NET DEBT / EBITDA (x)	2.6	1.3	0.1
NET DEBT / EQUITY (x)	0.5	0.5	0.0
EV/SALES (x) (*)	12.2	8.8	6.5
EV/EBITDA (x) (*)	56.7	25.6	18.6
EV/EBIT (x) (*)	nm	50.3	31.0
P/E ADJ. (x) (*)	nm	58.4	38.3

Source: Officina Stellare (historical figures), Value Track (2021E-22E estimates) (*) Fully diluted

STOCK DATA

FAIR VALUE (€)	17.2
MARKET PRICE (€)	15.3
SHS. OUT. (m)	5.7
MARKET CAP. (€m)	86.8
FREE FLOAT (%)	17.6
AVG. -20D VOL. (#)	2,450
RIC / BBG	OS.MI / OS IM
52 WK RANGE	8.02-18.50

Source: Stock Market Data

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Business Description

Officina Stellare designs, engineers and manufactures a wide range of standard and complete turn-key “custom” opto-mechanic equipment to be utilized in various applications of aerospace, defense and scientific research end-markets.

In the coming years, we expect Officina Stellare to profit from the huge market opportunity represented by the so-called “*New Space Economy*” industry, the ecosystem represented by activities related to the merge between space and digital technologies, with most promising applications being Earth Observation, Laser Communication and Space Situational Awareness & Tracking.

Key Financials

€mn	2020A	2021E	2022E	2023E
Revenues from Sales	5,863	6,240	8,571	11,429
Other Revenues	1,477	4,160	5,714	7,619
Value of Production	7,340	10,400	14,286	19,048
Chg. % YoY	-7.5%	41.7%	37.4%	33.3%
EBITDA	1,583	3,568	4,990	6,665
EBITDA Margin (%)	21.6%	34.3%	34.9%	35.0%
EBIT	245	1,818	2,990	4,565
EBIT Margin (%)	3.3%	17.5%	20.9%	24.0%
Net Profit	303	1,477	2,336	3,424
Chg. % YoY	-78.7%	nm	58.2%	46.6%
Adjusted Net Profit	303	1,477	2,336	3,424
Chg. % YoY	-78.7%	nm	58.2%	46.6%
Net Fin. Position	-4,094	-4,665	-352	2,567
Net Fin. Pos. / EBITDA (x)	2.6	1.3	0.1	nm
Capex	-3,411	-3,000	-2,000	-1,500
OpFCF b.t.	-3,941	-408	2,107	4,109
OpFCF b.t. as % of EBITDA	-248.9%	-11.4%	42.2%	61.7%

Source: Officina Stellare (historical figures), Value Track (estimates)

Investment case

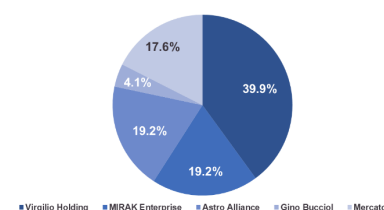
Strengths / Opportunities

- ◆ Exposure to the most promising applications of a highly growing industry;
- ◆ Scalable business model with best-in-class profitability;
- ◆ First Italian *Space Factory* securing end-to-end *in-house* value chain;
- ◆ High barriers to entry, no pure telescopes manufacture competitors.

Weaknesses / Risks

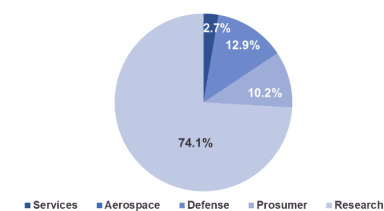
- ◆ Small size compared to more mature players in the Aerospace market;
- ◆ Capital intensive business, high CapEx requirements for the *Space Factory*.

Shareholders Structure



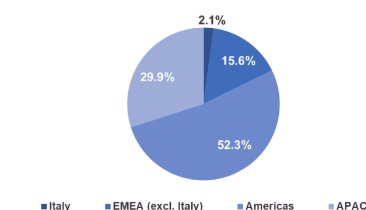
Source: Officina Stellare

Sales breakdown by products



Source: Officina Stellare, 1H21 Results

Sales breakdown by geography



Source: Officina Stellare, 1H21 Results

Stock multiples @ €17.2 Fair Value

(Fully diluted)	2022E	2023E
EV / SALES (x)	7.3	5.3
EV / EBITDA (x)	20.9	15.2
EV / EBIT (x)	34.8	22.2
EV / CAP.EMP. (x)	6.7	6.3
OpFCF Yield (%)	2.0	4.1
P / E (x)	43.1	30.3
P / BV (x)	6.8	5.5
Div. Yield. (%)	0.0	0.0

Source: Value Track (Fully-diluted scenario)

Forecasts 2021E-2023E

The €8.5mn order announced today accounts for ca. 25% of total cumulated orders' intake that we were forecasting for 2022E-23E.

More in details, we remind that in our latest update published back as of end of September 2021, we provided a snapshot of OS commercial traction and commercial outlook that both appeared robust. Indeed:

- ◆ Officina Stellare commercial pipeline was reported to stand at €76.8mn, out of which €12mn orders already signed (backlog), €2.5mn orders under contractual revision terms, and €62.3mn of total value of negotiations;
- ◆ Our assumptions on future orders' intake were pointing at €10mn-€15mn-€20mn values for full years 2021E-2022E-2023E respectively.

Officina Stellare: Value Track forecasts on orders' intake 2021E-23E

€'000	2021E	2022E	2023E
Negotiations (a)	65,000	75,000	90,000
Win Rate (b)	16%	20%	22%
Orders Intake (c)=(a)*(b)	10,400	15,000	20,000
Book-to-Bill	1.00	1.05	1.05
Orders Delivered (VoP)	-10,400	-14,286	-19,048
Backlog BoP	8,000	8,000	8,714
Backlog EoP	8,000	8,714	9,667

Source: Value Track Estimates (2020 backlog calculated by Value Track)

We're not changing our 2022E-23E estimates for the time being, but for sure the €8.5mn order announced today strongly improves the visibility on them and further increases the number growth opportunities that could unlock a major medium term business scalability. We remind that for **2021E-23E period**, we currently estimate:

- ◆ **Cumulated Value of Production at €43.7mn**, with a 2020A-23E CAGR over 37%;
- ◆ **Gross Margin at 58% already as of 2021E year end**, thanks to an efficient raw materials and cost of services management;
- ◆ **EBITDA margin at ca. 35% in 2023E**, with Labour Costs increasing hand-in-hand with top line and qualified personnel joining the company;
- ◆ **Net Financial Position turning positive by 2023E**, as a consequence of decreasing CapEx amounts, enhanced profitability and ca. €3mn capital injections from warrant conversion.

Officina Stellare: Main Financials 2020A-2023E

(€ '000)	2020A	2021E	2022E	2023E
Value of Production	7,340	10,400	14,286	19,048
Gross Profit	3,421	6,032	8,286	11,048
Gross Margin (%)	46.6%	58.0%	58.0%	58.0%
EBITDA	1,583	3,568	4,990	6,665
EBITDA Margin (%)	21.6%	34.3%	34.9%	35.0%
Net Financial Position	-4,094	-4,665	-352	2,567

Source: Officina Stellare, Value Track Estimates

Update on the investment case and valuation

Investment case

The newsflow of the recent months on OS is very positive at both macro level (Italy, EU, reference market) and at micro one (OS), and justifies a further optimistic review of Officina Stellare's investment case.

Indeed, in addition to OS newsflow on orders' intake we remind that also the macro stance on Space Economy outlook remains quite bullish. We note:

1. Introduction of Next Generation EU plans worth ca. €750bn, or ca. 5% of Europe GDP, with approximately €2.3bn to be allocated to the development of the Italian Space Economy industry;
2. Acceleration of satellites launches that were halted during Covid-19 outbreak. Over the next 20 years, more than 25k satellites are expected to be launched in orbit, mainly for Earth Observation and Communication purposes, also thanks to decreasing average cost per launch due to technological improvements, reusable rockets parts and shared costs between launch hosts and payloads manufacturers;
3. Capital markets hype, i.e. record amount of Space SPACs and IPOs. Indeed, the past year has seen an acceleration into closed deals, with more than \$5bn raised through SPAC trust funds, PIPE investments and listing proceeds.

Valuation

As far as valuation is concerned, based on the positive newsflow on orders' intake, we review **OS fair value per share at €17.2** (up from €15.7), ca. 12% higher than current market price, implying ca. 15x EV/EBITDA and 30x P/E 2023E.

At current €15.3 stock market price we confirm our view of Officina Stellare as **a zero-cost call option on the success of its "Space Economy opportunity"**.

Officina Stellare: 2022E-'23E stock trading multiples at various prices

(Fully diluted values)	At current €15.3 mkt price		At €17.2 fair value	
	2022E	2023E	2022E	2023E
Market Cap (€mn)	92.3	92.3	103.8	103.8
Enterprise Value (€mn)	92.7	89.8	104.1	101.2
EV / EBITDA	18.6	13.5	20.9	15.2
EV / EBIT	31.0	19.7	34.8	22.2
P/E Adj.	39.5	27.0	44.4	30.3

Source: Value Track Analysis

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