

ONTEX: Nothing to cry about

Event: 4Q22/2022 results

Outcome: Positive

Conclusion: Ontex 4Q22 revenue grew by 26.4% YoY to €674.6m, beating INGF (€591.7m) and company compiled consensus (€640.6m). Organic revenue growth of 20% also beat INGF (17.9%) and consensus (18.1%). Given the revenue beat, it's also an impressive feat that Core markets Adj.EBITDA margin of 8.8% also beat (INGF 7% and consensus 8.6%). This led to a Core markets adj.EBITDA of €40.3m beating INGF but curiously in-line with consensus despite beating consensus revenue and margin forecasts. The outlook is positive for 2023 with core markets guidance of High Single Digit revenue growth (consensus 8.6%) and adj.EBITDA margin in the 8-10% range (consensus 9.3%) with leverage to fall below 4x net debt/EBITDA (from 6.4x). Unfortunately, the disposal process for non-core assets is taking longer than expected and talks with AIP (the owner of Domtar) have been halted as the board believes that focusing on recovery will deliver more value than a business combination in the current environment. We believe that the beat in 4Q22 and positive momentum in 2023 guidance shows that Ontex has finally turned the corner and that recovery is under way.

Highlights:

Fig 1 4Q22 results overview

€m	4Q22	4Q21	% YoY change	INGF	% DiffConsensus	% Diff	
Group revenue	674.6	533.5	26.4	591.7	14.0	640.6	5.3
Core Markets (continuing)	459.8	370.9	24.0	408.0	12.7	437.7	5.0
Emerging Markets (discontinued)	214.8	162.6	32.1	183.7	16.9	203.2	5.7
Organic growth (%)	20.0	0.7	n/a	17.9	209bps	18.1	190bps
Core Markets (continuing)	20.0	n/a	n/a	17.0	300bps	16.8	320bps
Emerging Markets (discontinued)	22.0	n/a	n/a	20.0	200bps	20.3	170bps
Adjusted EBITDA (continuing)	40.3	30.7	31.3	28.6	41.1	40.3	0.0
Adjusted EBITDA margin (continuing) (%)	8.8	8.3	49bps	7.0	176bps	8.6	16bps

Source: Company data, ING estimates, Company compiled consensus

- Ontex reported a top-line of €674.6m for 4Q22, up 26.4% vs 4Q21 (above consensus of €640.6m and INGF of €591.7m). The increase was driven by 20.0% organic growth (0.7% in 4Q21).
- Adjusted EBITDA (continuing) grew to €40.3m in-line with consensus (INGF: €28.6m) for 4Q22 and adjusted EBITDA margin came in at 8.8%. (+16bps vs consensus and +176bps vs INGF). Group adjusted EBITDA increased to €51.2m vs €31.2m in 4Q21 and group adjusted EBITDA margin was 7.6% vs 5.9% in 4Q21.

Fig 2 2022 results overview

€m	2022	2021	YoY change (%)	INGF	% DiffConsensus	% Diff	
Group revenue	2,464.5	2,026.4	21.6	2,381.6	3.5	2,430.4	1.4
Core Markets (continuing)	1,672.2	1,408.7	18.7	1,620.4	3.2	1,650.1	1.3
Emerging Markets (discontinued)	792.3	617.7	28.3	761.2	4.1	780.7	1.5
Organic growth (%)	17.0	-1.5	n/a	16.3	67bps	16.3	70bps
Core Markets (continuing)	15.0	n/a	n/a	14.3	75bps	14.5	50bps

Emerging Markets (discontinued)	21.0	n/a	n/a	21.0	0bps	21.0	0bps
Gross margin (continuing)	377.5	401.7	-6.0	384.1	-1.7	381.9	-1.2
Gross margin (continuing) % of sales	22.6	19.8	275bps	23.7	-113bps	23.1	-57bps
Adjusted EBITDA (continuing)	104.0	156.3	-33.5	92.3	12.7	104.0	0.0
Adjusted EBITDA margin (%) (continuing)	6.2	11.1	-488bps	5.7	53bps	6.3	-8bps
Adjusted net profit (continuing)	(50.1)	24.7	n/a	-12.7	n/a	-4.8	n/a
Adjusted basic earnings per share (continuing)	(0.62)	0.30	n/a	-0.16	n/a	-0.07	n/a

Source: Company data, ING estimates, Company compiled consensus

- For 2022, the company reported a top-line of €2,464.5m, vs INGF of €2,381.6m and consensus of €2,430.4m. Group revenue increased by 21.6 YoY, and LFL revenue grew 17.0% (Cons and INGF: 16.3%). Gross profit (continuing) was €377.5m (-6.0% YoY), resulting in margins of 22.6% vs 19.8% in 2021. Group adjusted EBITDA came in at €135.7m vs €172.2m in 2021 the margin decreased to 5.5% vs 8.5% in 2021. Group net profit was -€270.3m resulting in a basic EPS of -€3.34 (2021: -€0.76). Adjusted net profit (continuing) came in at -€50.1m resulting in a basic EPS of -€0.62 (INGF: -€0.16, Consensus: -€0.07).
- For continuing operations, Baby Care revenue grew organically by 17% in 2022, Feminine Care increased 21% organically, and Adult Care recorded 12% organic growth driven by price growth.
- **Core Markets (continuing):** 2022 Revenue for the division grew 18.7% YoY and organically increased 15.0%, to €1,672.2m driven by 7% volume growth and pricing up 8% on average. FX had a positive impact of 4%. Adjusted EBITDA came in at €104m (-33.5% YoY) for 2022, missing INGF of €92.3m and adjusted EBITDA margin decreased 488bps YoY to 6.2% due to negative impact of raw materials and operating cost inflation partly offset by gross savings of €55m. On a YoY basis, cost inflation had a negative impact of €209m from raw materials and €71 from operating costs.
- **Emerging Markets (discontinued):** Revenue was up 28.3% YoY, to €792.3m, with organic growth coming in at 21%, driven primarily by positive price impact. Adjusted EBITDA was €31.7m up 99% YoY and Adjusted EBITDA margin grew 140bps to 4.0%.
- **Net debt** as at the end of the quarter stood at €867m (2021: €725.5m). Net debt/LTM adjusted EBITDA stood at 6.4x (2021: 4.2x).
- **Capital expenditure** came in at €62m (2.5% of revenue) in 2022 vs €56.5m in 2021.
- **Guidance 2023:** For Core markets (continuing operations), Ontex expects revenue growth in high-single digits and adjusted EBITDA margin to be in the range of 8-10%. Discontinued operations is expected to contribute positively to adjusted EBITDA and free cash flow, and leverage is expected to reduce to less than 4x.

Price: €7.50. Last published target price €18.71 and recommendation BUY

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