

# SABABA SECURITY

**BUY**

Sector: Industrials

Price: Eu2.94 - Target: 5.40

## Demonstrating Dynamic Delivery on All Strategic Pillars

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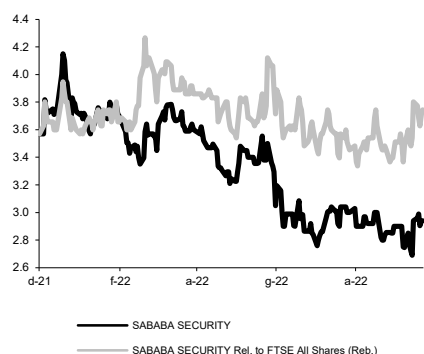
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### Stock Rating

Rating:	Unchanged		
Target Price (Eu):	from 5.70 to 5.40		
	2022E	2023E	2024E
Chg in Adj EPS	11.3%	0.0%	1.3%

### Sababa Security - 12M Performance



### Stock Data

Reuters code:	SBBA.MI
Bloomberg code:	SBB IM

Performance	1M	3M	12M
Absolute	5.0%	-1.5%	==/100
Relative	8.0%	2.2%	#VALUE!
12M (H/L)	4.15/2.69		
3M Average Volume (th):	2.34		

### Shareholder Data

No. of Ord shares (mn):	7
Total no. of shares (mn):	7
Mkt Cap Ord (Eu mn):	22
Total Mkt Cap (Eu mn):	22
Mkt Float - Ord (Eu mn):	7
Mkt Float (in %):	31.4%
Main Shareholder:	
Ikkham S.r.l.	30.3%

### Balance Sheet Data

Book Value (Eu mn):	11
BVPS (Eu):	1.49
P/BV:	2.0
Net Financial Position (Eu mn):	5
Enterprise Value (Eu mn):	17

- Strong sales growth driven by Monitoring activities:** Expectations for rapid growth were fulfilled in 1H22, with sales up +142% YoY to €3.94mn, even coming in 20% above the 2H21 level despite the usual sector seasonality. The main driver of this healthy growth was the Monitoring division (€2.7mn/+512% YoY), demonstrating the successful roll-out of the strategy which relies on driving uptake of such activities, while simultaneously increasing the proportion of the services developed in-house (as opposed to using third-party software and capabilities).
- Positive margins, cost structure reflect ramp-up of company structure:** SBB's margins remained positive in 1H22, with reported EBITDA of €0.59mn (vs. our est. €0.70mn), and EBITDA of €0.11mn net of capitalised R&D costs (vs. our est. €0.28mn). Fixed costs increased as expected, as SBB continued to build up its technical workforce in 1H by adding 17 resources (32 staff at end 1H), leading to personnel costs of €1.02mn (up from €0.43mn in 2H21, vs. our est. €0.93mn), while capitalised R&D costs were €0.47mn (from €0.26mn in 2H22, vs. our est. €0.42mn). EBIT/Net income of €0.39mn/€0.35mn (+124%/+189% YoY) was above our forecast, however (€0.25mn/€0.17mn) amid lower D&A and taxes. Cash flow was negative but better than expected, with Net Cash down slightly (€-0.6mn) to €6.2mn (our est. €5.2mn).
- Optimism on growth trajectory, delivering on key strategic targets:** although no explicit guidance was provided, SBB indicated it is optimistic of matching sell-side estimates for FY22. SBB has a €6mn order backlog (1.2x FY21 sales) ahead of the 4Q high season. It is delivering on the key strategic pillars outlined in the IPO: i) rapid expansion of organisational structure to continue in 2H, as SBB has already reached 54 resources and has just opened its 6<sup>th</sup> Italian office (Bari SOC). Headcount should only increase slightly in 2H, however, as focus shifts to commercial execution in the busy 4Q. ii) The internationalisation process is also well underway, with the Uzbekistan and Spain subsidiaries now operational and already set to contribute to growth in 2H. iii) Development of new technologies: processes used in monitoring activities are increasingly sourced using in-house capabilities, as seen through the declining incidence of (third-party) service costs on sales (25% in 1H, from 33% in FY21). R&D investments are only set to increase slightly in 2H compared to 1H, and will represent the bulk of CapEx. The 2022 tax rate is expected at 18-20%. SBB also announced they are working on a potential acquisition (4<sup>th</sup> strategic pillar).
- Change in estimates:** we are broadly confirming our estimated sales growth trajectory (2021-24 CAGR 65%), re-centring the mix around the main Security Monitoring division. We are also fine-tuning our forecasts in light of 1H developments by i) raising staff cost expectations; ii) reducing CapEx to reflect just a slight increase in capitalised R&D costs in 2H and subsequently; and iii) reducing D&A (and tax rate for 2022).
- BUY confirmed; target €5.4 (from €5.7):** we re-affirm our positive view as we appreciate the strong growth and delivery on all the main strategic targets witnessed in 1H, paving the way for the equity story to materialise. We are slightly lowering our target to reflect i) the recently de-rated sector valuations by applying a prudential 10% discount to the arbitrary multiples used in our valuation (€-0.6 p.s.), and ii) the slightly better cash flow reflected in our new estimates (€+0.3 p.s.).

Key Figures & Ratios	2020A	2021A	2022E	2023E	2024E
Sales (Eu mn)	2	5	12	18	24
EBITDA Adj (Eu mn)	0	1	1	3	6
Net Profit Adj (Eu mn)	0	1	1	2	4
EPS New Adj (Eu)	0.015	0.076	0.166	0.321	0.515
EPS Old Adj (Eu)	0.015	0.076	0.149	0.321	0.508
DPS (Eu)	0.000	0.000	0.000	0.000	0.000
EV/EBITDA Adj		32.5	14.8	5.8	3.3
EV/EBIT Adj		34.8	11.2	5.4	3.4
P/E Adj		38.4	17.7	9.2	5.7
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Net Debt/EBITDA Adj	-0.8	-10.7	-3.9	-0.7	-0.4

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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 2.5% and a risk premium of 5.0% are being used.

Frequency of research: quarterly.

Reports on all companies listed on the S&P500 Index, most of those on the MIBEX 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.

Explanation of our ratings system:

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

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As at 30 June 2022 Intermonte's Research Department covered 120 companies. Intermonte's distribution of stock ratings is as follows:

BUY:	22.13 %
OUTPERFORM:	48.36 %
NEUTRAL:	27.87 %
UNDERPERFORM	01.64 %
SELL:	00.00 %

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (53 in total) is as follows:

BUY:	25.00 %
OUTPERFORM:	57.69 %
NEUTRAL:	17.31 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short

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