

SESA

Sector: *Industrials*

OUTPERFORM

Price: Eu111.70 - Target: Eu180.00

Strong Results, FY Guidance Highly Visible Even at Top End

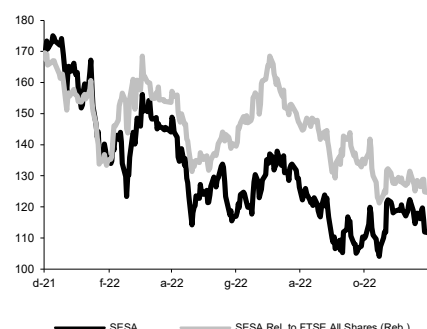
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Stock Rating

Rating:	Unchanged		
Target Price (Eu):	from 188.00 to 180.00		
	2023E	2024E	2025E
Chg in Adj EPS	0.9%	1.8%	2.0%

Next Event 3Q22/23 Results
Results Out: 11 March 2023

SESA - 12M Performance



Stock Data

Reuters code:	SES.MI		
Bloomberg code:	SES IM		
Performance	1M	3M	12M
Absolute	-5.9%	1.5%	-34.9%
Relative	-2.2%	-5.3%	-23.1%
12M (H/L)	175.00/104.10		
3M Average Volume (th):	17.57		

Shareholder Data

No. of Ord shares (mn):	15
Total no. of shares (mn):	15
Mkt Cap Ord (Eu mn):	1,731
Total Mkt Cap (Eu mn):	1,731
Mkt Float - Ord (Eu mn):	807
Mkt Float (in %):	46.6%
Main Shareholder:	
ITH S.p.a.	52.8%

Balance Sheet Data

Book Value (Eu mn):	311
BVPS (Eu):	21.63
P/BV:	5.2
Net Financial Position (Eu mn):	92
Enterprise Value (Eu mn):	2,326

■ **Surprising organic growth in the quarter.** In 2Q22/23 (1 August – 31 October 2022) revenues came to Eu156.6mn, up 32.6% YoY, 13% better than expected. The VAD business unit (73.8% of quarterly sales) grew 32.4% YoY – almost entirely organic - representing the most significant positive surprise to our forecasts, the SSI business unit (22.4% of quarterly sales) posted a 23.5% rise in revenues, while the contribution from Business Services (3.2% of quarterly sales) was up 60.1% YoY. In terms of margins, we can point to a 5bp EBITDA margin decrease YoY to 7.14%, a touch below our estimates, but better than in previous quarters (+31bp and +4bp compared to 4Q21/22 and 1Q22/23). All in all, quarterly EBITDA came in at Eu45.8mn, up 31.6% YoY and 12.2% better than expected. Below this line, D&A and financial charges were slightly higher than our forecast, taking quarterly adjusted net profit to Eu20.9mn, 9.0% above our estimate and up 23.8% YoY. Notably, at the end of October 2022 the net financial position was positive to the tune of Eu10.5mn (or Eu189.5mn before IFRS16 liabilities of Eu45.1mn and before accounting for the future M&A earn-out and call options of Eu133.9mn), Eu17.5mn below our forecast, as a result of slightly higher M&A and buyback cash-outs. Over the last twelve months Sesa has invested about Eu100mn in M&A, paid Eu14mn in dividends and sustained a Eu12mn buyback.

■ **Management confident of reaching the higher end of FY22/23 guidance:** in light of the positive results, management appeared confident of meeting the higher end of the FY guidance (EBITDA Eu195-205mn). Organic growth is expected to continue at a double-digit rate thanks to strong demand and increased market share. As a key partner for US giants in Italy, Sesa is ideally positioned in segments enjoying the fastest growth rates, such as cloud, security, digital platform and digital green (the latter representing almost 10% of group revenues after very strong growth).

■ **Change in estimates.** We are raising our revenue forecasts by 1.9%, factoring in the positive quarterly surprise, especially in the VAD business, as well as new M&A deals. As for the EBITDA margin, we are leaving our forecast unchanged, taking new EBITDA estimates for the current year to Eu207.9mn, i.e. above the top end of management's guidance range (Eu205mn). In 2023 we expect recently-announced M&A to drive some margin improvements. All in all, having assumed slightly higher D&A and financial charges, we are raising our EPS projections by 0.9% for the current year and 1.8% for the following one.

■ **OUTPERFORM confirmed; target Eu180.0 from Eu188.0.** Sesa is enjoying very strong organic growth and remains well placed to seize further M&A opportunities, including outside Italy. It has an ever-burgeoning reputation, and clear and forward-looking governance. In December 2022, CDP improved its sustainability rating on the company from "D" to "B". Despite a tough macro environment, business trends are expected to remain healthy (corporate digital spending should remain strong) and the group enjoys a strong market positioning, with revenues that are well diversified across a large customer base. In conclusion, we strongly confirm our positive view. Our target goes to Eu180.0 to reflect a higher risk-free rate, a move partially offset by the increase in estimates and by rolling our valuation forward.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	2,037	2,390	2,864	3,209	3,578
EBITDA Adj (Eu mn)	126	168	208	241	277
Net Profit Adj (Eu mn)	58	82	101	117	132
EPS New Adj (Eu)	3.733	5.282	6.488	7.522	8.538
EPS Old Adj (Eu)	3.733	5.282	6.429	7.388	8.370
DPS (Eu)	0.850	0.900	1.149	1.342	1.531
EV/EBITDA Adj	9.6	13.9	8.0	6.7	5.5
EV/EBIT Adj	13.2	18.5	10.9	9.1	7.6
P/E Adj	29.9	21.1	17.2	14.8	13.1
Div. Yield	0.8%	0.8%	1.0%	1.2%	1.4%
Net Debt/EBITDA Adj	-0.8	-0.5	-0.4	-0.7	-1.0

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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&P/IB40 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.

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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

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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 (52 in total) is as follows:

BUY:	38.46 %
OUTPERFORM:	50.00 %
NEUTRAL:	11.54 %
UNDERPERFORM:	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short
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