

FINCANTIERI

UNDERPERFORM

Sector: Industrials

Price: Eu0.57 - Target: Eu0.45

Weak End to the Year, Uninspiring Outlook for 2023

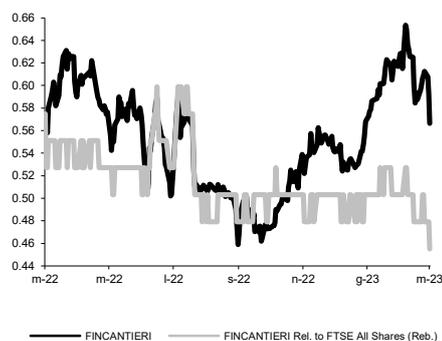
Mario Coppola +39-02-77115.322
 mario.coppola@intermonte.it

Stock Rating			
Rating:	Unchanged		
Target Price (Eu):	Unchanged		
	2023E	2024E	2025E
Chg in Adj EPS	n.m.	-62.0%	

Next Event

 Results Out 1Q23 May 9th

FINCANTIERI - 12M Performance



Stock Data			
Reuters code:	FCT.MI		
Bloomberg code:	FCT IM		
Performance	1M	3M	12M
Absolute	-9.9%	4.7%	-1.5%
Relative	-12.4%	-10.3%	-25.2%
12M (H/L)	0.65/0.46		
3M Average Volume (th):	2,151.13		

Shareholder Data	
No. of Ord shares (mn):	1,700
Total no. of shares (mn):	1,700
Mkt Cap Ord (Eu mn):	963
Total Mkt Cap (Eu mn):	963
Mkt Float - Ord (Eu mn):	273
Mkt Float (in %):	28.4%
Main Shareholder:	
CDP	71.6%

Balance Sheet Data	
Book Value (Eu mn):	369
BVPS (Eu):	0.22
P/BV:	2.6
Net Financial Position (Eu mn):	-2,519
Enterprise Value (Eu mn):	3,482

- Continued weakness in 4Q:** quarterly revenues came in at €2.17bn (up 1.3% YoY), with Shipbuilding stable YoY, Offshore increasing by 38% and ESS down 17%. Profitability was weaker than expected in the quarter, with an EBITDA margin of 2.3% vs. our 3% expectation. The Shipbuilding margin was only 1.7% (3Q: 5.2%, 9M: 5.7%), dented by energy prices and labour cost inflation in the US. The Offshore margin reached 3.6% (3Q: 3.1%, 9M: 2.7%), actually increasing compared to previous quarters of 2022, thanks to the progressive repositioning towards the offshore wind segment. In ESS, the 4Q margin was 5.0% (3Q: 3.0%, 9M: -4.8%), improving sequentially, but with the negative performance in Infrastructure segment still affecting results.
- Bottom line affected by major one-offs:** reported net income was €-309mn due to €238mn of extraordinary costs (goodwill and impairment of other assets for €164mn, asbestos €52mn, provisions for risks of probable non-fulfilment of obligations for €20mn). Adjusted net income was €-108mn, due to weak operating performances during the year. Net debt was better than expected, however, coming down from €3.03bn as at the end of 3Q to €2.53bn, vs. our estimate of €2.7bn.
- 2023 guidance below expectations:** the company expects revenues to be in line with 2022 (€7.5bn, consensus €7.8bn). Profitability is expected to improve to 5% (implying EBITDA of €375mn), but in absolute terms this is also below consensus expectations (€442mn). The net financial position for 2023 is foreseen broadly in line with 2022, with cash absorption due to completion of the delivery schedule in Offshore and in the Infrastructure business in early 2024. As for the 2023-27 business plan, management will present it alongside 1Q23 results in May.
- Positive stance on order intake outlook, but execution remains key:** management provided positive messages on the order intake outlook across all divisions, with Shipbuilding benefiting from a progressive willingness to invest in new capacity or replace existing vessels and a soon-to-be-apparent gap between demand and supply in Cruise, with opportunities in Naval in regions such as Middle-East, South-East Asia and the ongoing partnership with the Italian Navy. In Offshore, the offshore wind segment looks better than management expectations, and FCT is well positioned with VARD to consolidate its leadership in the market. Execution remains key, however, and we believe there is still low visibility on the route to more ordinary margins and 2025-27 targets.
- Earnings momentum remains weak, low visibility ahead:** we remain cautious on the stock as we believe earnings momentum will remain weak in the coming months. As mentioned, visibility on execution remains low and we await the May investor day for more clarity on the drivers behind the indicated return to higher margins over the next 3-5 years. The company's leverage will remain very high for some time to come (2023: 6.5x implied in the outlook, 2025 target is 4.5-5.5x), significantly burdening the valuation and helping make the stock unattractive, in our view.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	6,911	7,482	7,557	7,814	8,189
EBITDA Adj (Eu mn)	495	221	386	503	562
Net Profit Adj (Eu mn)	92	-108	-26	60	125
EPS New Adj (Eu)	0.054	-0.064	-0.015	0.036	0.074
EPS Old Adj (Eu)	0.054	-0.004	0.074	0.094	
DPS (Eu)	0.000	0.000	0.000	0.000	0.000
EV/EBITDA Adj	6.3	15.7	9.0	7.6	6.7
EV/EBIT Adj	10.8	nm	22.5	14.1	11.3
P/E Adj	10.5	nm	nm	15.9	7.7
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Net Debt/EBITDA Adj	3.9	11.5	6.5	5.7	5.0

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