Milan, 01 March 2024

Italian Equity Research – Change in View/4Q23 Results

SAIPEM

BUY

Sector: Energy

Price: Eu1.68 - **Target: Eu2.50**

4Q23 Results Beat Forecasts, Very Strong 2024 Guidance

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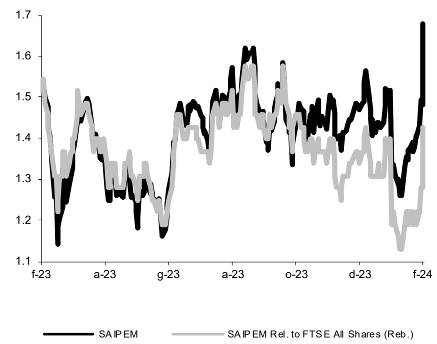
Stock Rating			
Rating:			from OUTPERFORM to BUY
Target Price (Eu):			from 1.90 to 2.50
	2024E	**2025E**	**2026E**
Chg in Adj EPS	29.0%	28.7%	33.9%

SAIPEM - 12M Performance



Stock Data			
Reuters code:			SPMI.MI
Bloomberg code:			SPM IM
Performance	**1M**	**3M**	**12M**
Absolute	26.0%	14.3%	10.8%
Relative	20.6%	4.8%	-5.9%
12M (H/L)			1.68/1.14
3M Average Volume (th):			47,946.34

Shareholder Data	
No. of Ord shares (mn):	1,996
Total no. of shares (mn):	1,996
Mkt Cap Ord (Eu mn):	3,355
Total Mkt Cap (Eu mn):	3,356
Mkt Float - Ord (Eu mn):	1,915
Mkt Float (in %):	57.1%
Main Shareholder:	
Eni - Cdp	43.0%

Balance Sheet Data	
Book Value (Eu mn):	2,692
BVPS (Eu):	1.35
P/BV:	1.2
Net Financial Position (Eu mn):	3
Enterprise Value (Eu mn):	3,363

- **4Q23 results.** Saipem’s 4Q23 results were well above our expectations, primarily thanks to stronger figures at the Asset Based Services division (ex. Offshore E&C). In detail: 4Q23 revenues closed at Eu3,511mn (+20% YoY, +16% QoQ, vs. exp. Eu3,059mn), EBITDA at Eu286mn (+91% YoY, +24% QoQ, vs. exp. Eu237mn) and net income at Eu101mn (vs. Eu-38mn in 4Q22, Eu39mn in 3Q23, exp. Eu26mn). Moving to the balance sheet, net debt (post-IFRS16) closed at Eu261mn (vs. exp. Eu336mn, guidance Eu500mn) from Eu171mn as at the end of September.
- **Backlog at Eu29.8bn.** On the commercial front, the quarter closed with an order intake of Eu5.7bn, bringing the total backlog to Eu29.8bn (vs. exp. Eu30.3bn), up from Eu27.6bn as at the end of September. On a yearly basis, total order intake in 2023 reached Eu17.7bn, a continuation of the renewed acceleration that began in 2022 (Eu13.6bn) after the pandemic-induced slowdown in 2020-21.
- **2024 guidance.** Saipem sees revenues of Eu12.7-13.3bn (vs. exp. Eu11.5-12.0bn), an EBITDA margin of approximately 10%, for implicit EBITDA of around Eu1.3bn (vs. exp. Eu1.1bn). Looking at the different divisions, growth at Offshore E&C and Drilling is expected to be solid, while at Onshore E&C it is expected to be more limited due to legacy projects still in the backlog. Operating Cash Flow (net of lease payments) is seen at Eu740-780mn with CapEx at approx. Eu440-480mn, for Free Cash Flow of Eu300mn, bringing the YE24 net financial position to breakeven or slightly positive.
- **Strategic update: 2024-27 Plan.** Saipem projects an order intake of around Eu50bn over the four-year plan, with new contracts in “low/zero carbon” segments amounting to approximately one third of the total. Revenues are projected to reach a 4-5% CAGR over the 2023-2027 period (around Eu14.0bn in 2027), the EBITDA margin is projected to reach round 12% in 2027, for implicit EBITDA of around Eu1.7bn. Cumulative Operating Cash Flow (net of lease payments) is projected to reach Eu3.0bn over the period, while CapEx is projected at approximately Eu1.4bn, for cumulative Free Cash Flow of around Eu1.6bn. Saipem indicated an intention to resume dividend payments in 2025, based on expected 2024 results. The dividend policy is based on the distribution of between 30-40% of Free Cash Flow (net of lease payments). We calculate that on the projected Eu300mn Free Cash Flow for 2024, the dividend could amount to around Eu100mn, or roughly Eu0.05ps.
- **Updated estimates and valuation.** We are updating our projections for 2024 and subsequent years, primarily to reflect higher volumes and margins at Offshore E&C. We are also including higher leases in depreciation, while trimming taxes. The upshot was an increase of roughly 15% in EBITDA, with an upward revision in excess of 30% at bottom line. In terms of the valuation, we are raising our target price from Eu1.90ps to Eu2.50ps (4.0x 2024 EV/EBITDA target multiple).
- **Investment case. From Outperform to BUY.** The very robust order intake recorded in 2023 and the strong market outlook in the Offshore E&C segment offer, in our opinion, high visibility on Saipem’s projected revenues growth and margin improvement. We confirm our positive view on the stock, moving our recommendation to BUY.

Key Figures & Ratios	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
Sales (Eu mn)	9,980	11,874	12,944	13,302	13,370
EBITDA Adj (Eu mn)	595	926	1,255	1,368	1,485
Net Profit Adj (Eu mn)	-139	179	298	419	543
EPS New Adj (Eu)	-0.070	0.090	0.149	0.210	0.272
EPS Old Adj (Eu)	-0.070	0.053	0.116	0.163	0.203
DPS (Eu)	0.000	0.000	0.046	0.055	0.073
EV/EBITDA Adj	9.4	3.3	2.7	2.3	1.9
EV/EBIT Adj	37.4	7.0	5.8	4.4	3.3
P/E Adj	nm	18.7	11.3	8.0	6.2
Div. Yield	0.0%	0.0%	2.8%	3.3%	4.4%
Net Debt/EBITDA Adj	0.4	0.3	0.0	-0.2	-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 4.0% and a risk premium of 5.5% are being used.

Frequency of research: quarterly.

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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;

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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;

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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:	26.02 %
OUTPERFORM:	47.15 %
NEUTRAL:	26.02 %
UNDERPERFORM	00.81 %
SELL:	00.00 %

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OUTPERFORM:	51.02 %
NEUTRAL:	10.20 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short

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