

SALCEF GROUP

Sector: Industrials

OUTPERFORM

Price: Eu19.20 - Target: Eu23.30

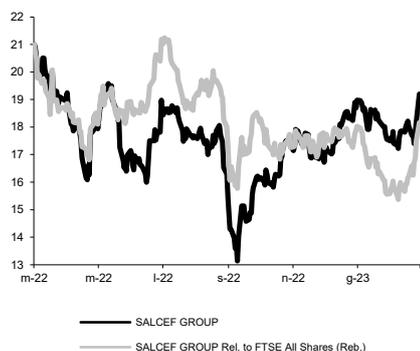
Strong 4Q As Large Infrastructure Plans Start to Materialise

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Stock Rating

Rating:	Unchanged		
Target Price (Eu):	from 22.90 to 23.30		
	2023E	2024E	2025E
Chg in Adj EPS	2.4%	0.7%	

SALCEF GROUP - 12M Performance



Stock Data

Reuters code: SCFG.MI
 Bloomberg code: SCF IM

Performance	1M	3M	12M
Absolute	9.7%	14.8%	-4.0%
Relative	15.7%	5.7%	-9.9%
12M (H/L)	21.00/13.14		
3M Average Volume (th):	37.84		

Shareholder Data

No. of Ord shares (mn):	62
Total no. of shares (mn):	62
Mkt Cap Ord (Eu mn):	1,198
Total Mkt Cap (Eu mn):	1,198
Mkt Float - Ord (Eu mn):	428
Mkt Float (in %):	35.8%
Main Shareholder:	
FINHOLD SPA	64.3%

Balance Sheet Data

Book Value (Eu mn):	469
BVPS (Eu):	7.56
P/BV:	2.5
Net Financial Position (Eu mn):	20
Enterprise Value (Eu mn):	1,178

■ 4Q results beat expectations and guidance: Salcef posted 4Q results that were well above our expectations and company guidance, driven by the heavy civil works business, mainly thanks to the Verona-Padua high speed project. Despite cost inflation again taking its toll on margins, dilution was lower than in previous quarters, with the margin coming to 20.4%, only 110bp lower than in 4Q21 (the gap was 230bp in the first 9 months). As for cash generation, net cash at the end of the period stood at Eu26mn, as the satisfactory Eu26mn cash generation in 4Q (our estimate Eu8mn) was offset, as expected, by the outlay for the acquisition of FVCF (Eu70mn of EV). Finally, the backlog was solid at Eu1.7bn from Eu1.35bn at end 3Q, now covering 2023E sales (including FVCF) by more than 2.5x.

■ 2023 guidance shows long-awaited materialisation of big infrastructure projects: FY23 SCF guided for i) sales to rise +20% YoY (+10% org. and +10% from M&A) i.e. to c.€677mn (8% above BBG pre-results consensus) and ii) a flat EBITDA margin YoY (c.20%), implying EBITDA of c.€136mn (7% above consensus). Large infrastructure projects continue to show up in SCF's figures, definitively dispelling any doubts raised by the 1H22 weakness. CapEx is expected to be at least €65mn, as SCF will make the investments required to accompany this fast growth - although spending could be even higher if opportunities present themselves. Guidance is based on a higher starting point, with the 4Q outperformance not affecting the previous indications for 10% organic growth in the coming years. In our view, this demonstrates that management has more visibility on upcoming projects, although delivery on commercial developments will be key in 2023.

■ More growth ahead, focus now on commercial development and FVCF integration: RFI plans (NRRP-funded) hint at a further increase in activity in 2024-2025, boding well for continued growth beyond 2023. The still-awaited materialisation of US rail infrastructure investments add to potential upside looking forward. Little M&A activity is expected, despite the remaining c.€200mn of firepower, as SCF will focus on the smooth integration of FVCF in 2023 – it is expected to take around a year to bring profitability into line with group levels.

■ Change in estimates: we are raising our above-consensus forecasts for 2023-2024 as growth is set to remain strong. We are aligned with 2023 guidance, with sales seen +21% and the EBITDA margin at c.20% for FY23. As for cash generation, we forecast NWC absorption in 2023, which coupled with a 35% YoY increase in CapEx (in line with company indications) should lead to negative FCF this year, with NFP broadly flat.

■ OUTPERFORM confirmed; target €23.3 (from €22.9): we remain positive on the stock, as the massive public infrastructure investment plans finally start materialising in SCF's numbers, with even more to come. SCF remains well placed in Italy (exposure to Centre-South where the bulk of rail infrastructure projects are concentrated) and may benefit from further support in the US in the coming years. Our new DCF-based TP reflects our upgraded estimates. SCF is trading at 16.9x/14.3x P/E for 2023/24, leaving room for more in our view (20.5x/17.4x at our TP).

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	440	565	685	766	845
EBITDA Adj (Eu mn)	97	114	137	160	182
Net Profit Adj (Eu mn)	52	57	71	84	93
EPS New Adj (Eu)	0.909	0.905	1.134	1.339	1.494
EPS Old Adj (Eu)	0.909	0.857	1.108	1.330	
DPS (Eu)	0.460	0.500	0.510	0.603	0.672
EV/EBITDA Adj	9.1	10.0	8.6	7.3	6.2
EV/EBIT Adj	12.9	14.6	12.1	10.2	8.8
P/E Adj	21.1	21.2	16.9	14.3	12.9
Div. Yield	2.4%	2.6%	2.7%	3.1%	3.5%
Net Debt/EBITDA Adj	-1.2	-0.2	-0.1	-0.2	-0.4