Intermonte

Milan, 11 October 2023

Italian Equity Research – 3Q23 Preview

SARAS

NEUTRAL

Sector: Energy

Price: Eu1.30 - **Target: Eu1.40**

OPEC+ Cuts on Sour Grades Pressure Saras Premium

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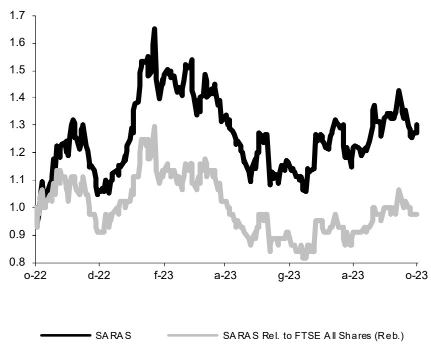
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 1.30 to 1.40
	2023E	**2024E**	**2025E**
Chg in Adj EPS	15.1%	2.0%	0.6%

Next Event

3Q23 Results Out 8 November

SARAS - 12M Performance



Stock Data			
Reuters code:			SRS.MI
Bloomberg code:			SRS IM
Performance	**1M**	**3M**	**12M**
Absolute	-1.7%	2.8%	30.3%
Relative	-1.6%	2.0%	-2.4%
12M (H/L)			1.66/0.93
3M Average Volume (th):			8,490.59

Shareholder Data	
No. of Ord shares (mn):	951
Total no. of shares (mn):	951
Mkt Cap Ord (Eu mn):	1,238
Total Mkt Cap (Eu mn):	1,238
Mkt Float - Ord (Eu mn):	723
Mkt Float (in %):	58.4%
Main Shareholder:	
Moratti family	40.0%

Balance Sheet Data	
Book Value (Eu mn):	1,348
BVPS (Eu):	1.42
P/BV:	0.9
Net Financial Position (Eu mn):	126
Enterprise Value (Eu mn):	1,112

- **3Q23 results preview.** On the macro front, the quarter was characterised by a recovery in oil prices, supported by OPEC+ cuts (Brent US$85.9/bl vs. US$78.0/bl in 2Q23). Refining margins spiked again, underpinned by very robust gasoline and diesel cracks, after having been on a rollercoaster ride in the previous quarter. 3Q23 featured strong gasoline and jet fuel demand, in a context of supply constraints, due to maintenance stoppages at several refineries across the globe. The EMC Med benchmark averaged +US$12.4/bl in the quarter, up from +US$4.2/bl in 2Q23 and +US$10.1/bl in 1Q23). On the utilities side, both electricity and gas prices were broadly flat sequentially. Looking at Saras's operational performance, activity at the Sarroch refinery is expected to have recovered, after the heavy planned maintenance activity carried out in the previous quarter (24.2mn bl expected, vs. 19.5mn bl in 2Q23). In this context, we project group adj. EBITDA at Eu241mn (vs. Eu27mn in 2Q23 and Eu296mn in 3Q22), assuming a US$2.5/bl premium to the EMC benchmark for the Industrial & Marketing segment (vs. US$3.7/bl in 2Q23 and US$6.7/bl in 3Q22), primarily penalised by a reduced light-heavy crude differential, after Opec+ cuts on sour grades. At bottom line, we project adj. net income of Eu131mn (vs. Eu-22mn in 2Q23 and Eu149mn in 3Q22). On the balance sheet, we expect an improvement in the net cash position pre-IFRS16 to Eu-191mn from Eu-74mn as at the end of June.
- **2023 outlook and guidance.** With 2Q23 results Saras guided for an average premium of US$5-6/bl above the EMC reference margin in 2023 (vs. US$6.8/bl in 2022). We expect more conservative guidance after 3Q23 results, primarily reflecting the reduced light-heavy crude differential. At operational level, Sarroch's FY23 crude runs were expected at 93-98mn bl, with 50-52mn bl in 2H23. CapEx was seen at Eu170-180mn in the Industrial & Marketing segment, and at Eu60-70mn in Renewables. As for cash flow generation, Saras guided for the YE23 Net Financial Position to still show a surplus, although down from 2Q23 levels.
- **Updated estimates and valuation.** Ahead of 3Q23 results, we are updating our projections to reflect higher EMC benchmark assumptions, partly offset by a lower premium. Regarding the benchmark, we are marking our 3Q23 estimate to market and assuming US$6.5/bl in 4Q23, leading to a FY23E of US$8.3/bl. On the premium, we are assuming US$2.5/bl in 3Q23 and US$3.5/bl in 4Q23. On the back of these new assumptions, we are now projecting EBITDA of Eu702mn, up from Eu633mn previously. For 2024 we are now assuming a benchmark of US$4.5/bl and a premium of US$4.5/bl, leading to adj. EBITDA of Eu434mn, slightly up from Eu424mn previously. In terms of the valuation, we are moving our target price to Eu1.40ps from Eu1.30ps, still based on a mix of DCF, market multiples and SOP.
- **Investment case.** We downgraded the stock to NEUTRAL in mid-March along with 4Q22 results, having previously been positive from April 2022, following the outbreak of war in Ukraine. We continue to see a potential easing of the supply/demand balance in the coming months due to recession risks. For this reason, we confirm our NEUTRAL recommendation on the stock.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	8,636	15,836	11,070	10,859	10,716
EBITDA Adj (Eu mn)	54	1,137	702	434	380
Net Profit Adj (Eu mn)	-136	710	317	141	111
EPS New Adj (Eu)	-0.143	0.747	0.334	0.148	0.117
EPS Old Adj (Eu)	-0.143	0.747	0.290	0.145	0.117
DPS (Eu)	0.000	0.190	0.100	0.080	0.070
EV/EBITDA Adj	20.7	0.6	1.6	2.4	2.4
EV/EBIT Adj	nm	0.8	2.3	4.7	5.4
P/E Adj	nm	1.7	3.9	8.8	11.1
Div. Yield	0.0%	14.6%	7.7%	6.1%	5.4%
Net Debt/EBITDA Adj	9.1	-0.2	-0.2	-0.5	-0.9