Milan, 16 March 2023

Italian Equity Research – Change in View/4Q22 Results

SARAS

NEUTRAL

Sector: Energy

Price: Eu1.36 - **Target: Eu1.50**

Down To Neutral on Growing Recession Risks

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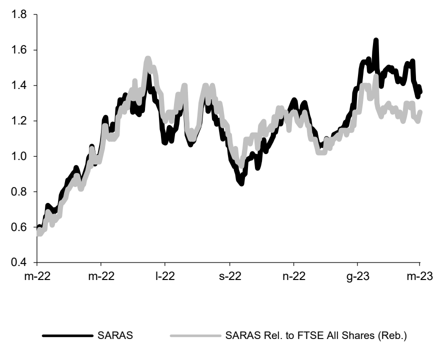
Stock Rating			
Rating:	from OUTPERFORM to NEUTRAL		
Target Price (Eu):	from 1.80 to 1.50		
	2023E	**2024E**	**2025E**
Chg in Adj EPS	-13.5%	-13.5%	-18.2%

SARAS - 12M Performance



Stock Data			
Reuters code:			SRS.MI
Bloomberg code:			SRS IM
Performance	**1M**	**3M**	**12M**
Absolute	-8.2%	27.9%	143.4%
Relative	-1.1%	20.4%	135.6%
12M (H/L)			1.66/0.57
3M Average Volume (th):			8,081.34

Shareholder Data	
No. of Ord shares (mn):	951
Total no. of shares (mn):	951
Mkt Cap Ord (Eu mn):	1,297
Total Mkt Cap (Eu mn):	1,297
Mkt Float - Ord (Eu mn):	758
Mkt Float (in %):	58.4%
Main Shareholder:	
Moratti family	40.0%

Balance Sheet Data	
Book Value (Eu mn):	1,317
BVPS (Eu):	1.38
P/BV:	1.0
Net Financial Position (Eu mn):	158
Enterprise Value (Eu mn):	1,139

- **4Q22 results.** On the macro front, 4Q22 was characterised by softening oil prices, while refining margins strengthened further, with the EMC Med benchmark closing at a record +US$13.3/bl. In this context, Saras reported slightly weaker-than-expected results at operating level, with adj. EBITDA closing at Eu320mn (vs. Eu43mn in 4Q21 and Eu296mn in 3Q22, exp. Eu353mn). By contrast, the bottom line was stronger, with adj. net income closing at Eu260mn (vs. Eu-26mn in 4Q21 and Eu149mn in 2Q22, exp. Eu173mn). On the balance sheet, the net financial position (post-IFRS16) closed cash positive for Eu-227mn (vs. exp. Eu-249mn), flat QoQ. The BoD proposed a DPS of Eu0.19 (vs. exp. Eu0.15), based on a 40% payout ratio on adj. net income, ex-extra taxes.
- **Outlook.** The market scenario is expected to remain positive, albeit subject to volatility, with diesel refining margins still high compared to historical averages, gasoline margins in the process of normalising, and energy costs still subject to gas price instability. On these assumptions Saras forecasts a higher EMC Reference Margin for 2023 than the historical average, albeit lower than the figure recorded in 2022.
- **2023 guidance.** In terms of guidance, Saras expects to able to achieve an average US$5-6/bl premium above the new EMC reference margin in 2023 (vs. US$6.8/bl in 2022). Sarroch's FY23 crude runs are expected between 88-95mn bl, with maintenance mainly concentrated in 1H. OpEx in the Industrial & Marketing segment is expected to remain in line with or slightly above 2022 at around Eu390-415mn, while CapEx is seen at Eu180-190mn to guarantee the efficiency and competitiveness of the refinery. CapEx in Renewables is seen at around Eu60-70mn, largely related to the construction of the 80MW Helianto photovoltaic farm. Regarding the expected trend in the group's net financial position, Saras highlighted that in the first part of the year this will be influenced by the payment of taxes (including the windfall tax) and dividends relating to 2022. On FY23, Saras expects positive cash generation from operations, which will be partly used to finance the planned CapEx.
- **CEO Matteo Codazzi resigns.** Saras revealed that at the conclusion of yesterday's BoD meeting, CEO Matteo Codazzi resigned for strictly personal reasons. The BoD resolved to assign Chairman Massimo Moratti the CEO role and to appoint current CFO Franco Balsamo as General Manager.
- **Updated estimates and valuation.** Following 4Q22 results we are trimming our projections for 2023-24 to reflect lower runs and a slightly lower premium to the EMC reference margin. In terms of valuation, we are moving our target price to Eu1.50ps from Eu1.80ps previously, on the back of our updated projections and more conservative target market multiples.
- **Investment case. Downgrade to NEUTRAL.** We have been positive on the stock since April last year, after the outbreak of war in Ukraine. While we still see a tight market on the supply side, there is the potential for downward pressure on demand in the coming months due to increasing recession risks. After the very strong share price recovery recorded over the last twelve months, we move our rating to NEUTRAL.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	8,636	15,836	16,271	16,719	17,184
EBITDA Adj (Eu mn)	54	1,137	643	466	377
Net Profit Adj (Eu mn)	-136	710	286	173	118
EPS New Adj (Eu)	-0.143	0.747	0.300	0.182	0.124
EPS Old Adj (Eu)	-0.143	0.655	0.347	0.210	0.152
DPS (Eu)	0.000	0.190	0.120	0.080	0.070
EV/EBITDA Adj	20.7	0.6	1.8	2.1	2.1
EV/EBIT Adj	nm	0.8	2.6	3.9	4.8
P/E Adj	nm	1.8	4.5	7.5	11.0
Div. Yield	0.0%	13.9%	8.8%	5.9%	5.1%
Net Debt/EBITDA Adj	9.1	-0.2	-0.2	-0.7	-1.3