Intermonte

Milan, 06 September 2023

Italian Equity Research – 2Q23 Results

SERVIZI ITALIA

OUTPERFORM

Sector: Industrials

Price: Eu1.28 - **Target: Eu2.45**

Quarterly Operating Margins Stronger than Expected

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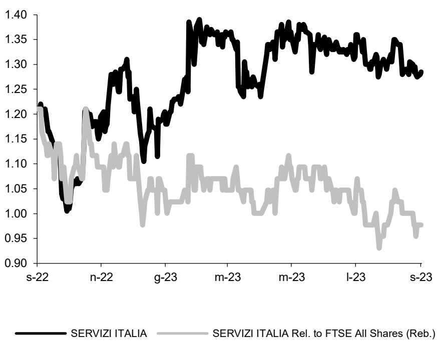
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			Unchanged
	2023E	**2024E**	**2025E**
Chg in Adj EPS	0.5%	1.9%	3.9%

Next Event: 9M23 results
Results Out 14 November 2023

SERVIZI ITALIA - 12M Performance



Stock Data			
Reuters code:			SERIT.MI
Bloomberg code:			SRI IM
Performance	**1M**	**3M**	**12M**
Absolute	-1.2%	-5.2%	6.2%
Relative	-1.3%	-11.1%	-24.6%
12M (H/L)			1.39/1.00
3M Average Volume (th):			11.09

Shareholder Data	
No. of Ord shares (mn):	32
Total no. of shares (mn):	32
Mkt Cap Ord (Eu mn):	41
Total Mkt Cap (Eu mn):	41
Mkt Float - Ord (Eu mn):	10
Mkt Float (in %):	24.1%
Main Shareholder:	
Coopservice SpA	55.3%

Balance Sheet Data	
Book Value (Eu mn):	135
BVPS (Eu):	4.33
P/BV:	0.3
Net Financial Position (Eu mn):	-125
Enterprise Value (Eu mn):	166

- **2Q23 results beat our estimates.** 2Q23 Group revenues came in at Eu71.3mn, up 3.8% YoY and slightly below our estimate (-2.3%). Linen wash-hire revenues were Eu53.3mn, up 4.2% YoY, benefitting from the adjustments to inflation accrued and signed off in FY22 and in 1Q23. Surgical instrument sterilisation recorded revenues of Eu13.2mn, up 4.8% YoY, while textile sterilisation revenues fell slightly (-2.5% YoY) to Eu4.7mn. Quarterly EBITDA reached Eu18.1mn, up 11.8% YoY, with a 25.4% margin (23.6% in 2Q22), beating our expectation of 24.5%. The quarter benefitted from inflation adjustments, and the tax credit that neutralised the rise in electricity costs, but also lower incidence on turnover of raw material and personnel costs. Furthermore, following on from 1Q, profitability continued to increase significantly in Turkey, while Brazilian activities showed a slightly lower margin in 2Q23 because of the start-up costs of the sterilisation business (a temporary effect). Essentially steady D&A YoY led to a large expansion of EBIT to Eu3.8mn, more than doubling YoY, although below that line net profit was Eu0.7mn (Eu2.2mn in 2Q22), hit by higher borrowing costs and higher exchange rate losses. As at end-June, debt was Eu125mn (vs. our estimate of Eu130mn) down c. Eu11mn vs. Eu136mn as at end-March.
- **2023 company outlook**. Management expects the elements underpinning solid 1H23 results (reduction in energy commodity prices, primarily gas and electricity, contractual inflationary adjustments) to remain in place for the remainder of the year; on the other hand, the rise in interest rates has a negative impact on the cost of debt. In a tougher financial environment, Servizi Italia retains solid relationships with banks and good access to financing. In foreign markets, the diversification strategy into the sterilisation business in Brazil should start to contribute to revenues, while the business in Turkey should confirm a significant improvement in margins.
- **Change in estimates.** In light of the positive results, while we confirm our 2023/2024 revenue estimates, we are significantly improving our EBITDA margin estimates by 200bp, mainly thanks to the underlying normalization of energy costs. However, below EBITDA, we are also significantly raising financial charges, largely offsetting the positive EBIT revision. All in all, we apply 0.5%/1.9% upward revisions to 2023/2024 EPS. In terms of net debt evolution, we expect the net financial position as at YE23 to be broadly in line with the corresponding figure as at end-June 2023.
- **OUTPERFORM confirmed, Eu2.45 target reiterated.** Quarterly results showed positive numbers and enabled us to upgrade our EBIT margin estimates, which are capable of more than offsetting the effect on the bottom line of higher financial charges entailed by interest rate hikes. Looking ahead, we expect the company to further strengthen its leadership in Italy and to show the validity of its strategy abroad.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	257	270	286	296	306
EBITDA Adj (Eu mn)	65	60	72	75	79
Net Profit Adj (Eu mn)	8	4	5	8	10
EPS New Adj (Eu)	0.236	0.120	0.158	0.250	0.305
EPS Old Adj (Eu)	0.236	0.120	0.157	0.245	0.293
DPS (Eu)	0.000	0.000	0.000	0.000	0.000
EV/EBITDA Adj	3.0	2.8	2.3	2.1	2.0
EV/EBIT Adj	20.1	nm	11.9	9.7	8.2
P/E Adj	5.5	10.7	8.1	5.1	4.2
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Net Debt/EBITDA Adj	1.9	2.0	1.7	1.6	1.4

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