

SERVIZI ITALIA

Sector: *Industrials*

OUTPERFORM

Price: Eu1.89 - Target: Eu2.45

Improving Profitability, New Contract Operational Soon

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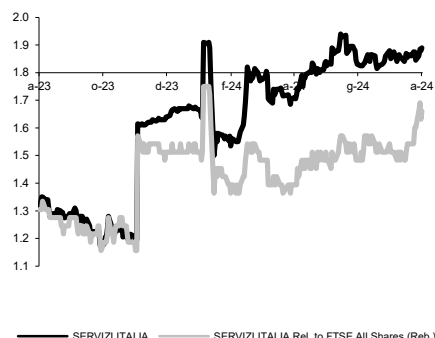
Stock Rating

Rating:	Unchanged		
Target Price (Eu):	Unchanged		
	2024E	2025E	2026E
Chg in Adj EPS	-13.5%	-10.0%	-7.1%

Next Event: 9M24 results

Results Out 14 November 2024

SERVIZI ITALIA - 12M Performance



Stock Data

Reuters code:	SERIT.MI		
Bloomberg code:	SRI IM		
Performance	1M	3M	12M
Absolute	0.5%	2.7%	44.8%
Relative	7.3%	9.7%	31.8%
12M (H/L)	1.94/1.17		
3M Average Volume (th):	12.28		

Shareholder Data

No. of Ord shares (mn):	32
Total no. of shares (mn):	32
Mkt Cap Ord (Eu mn):	60
Total Mkt Cap (Eu mn):	60
Mkt Float - Ord (Eu mn):	15
Mkt Float (in %):	24.4%
Main Shareholder:	
Coopservice SpA	62.4%

Balance Sheet Data

Book Value (Eu mn):	139
BVPS (Eu):	4.46
P/BV:	0.4
Net Financial Position (Eu mn):	-118
Enterprise Value (Eu mn):	178

■ **2Q24 results confirmed improving profitability.** Servizi Italia reported 2Q24 revenues of Eu73.7mn, +3.4% YoY and +1.4% above our estimates. Revenues from wash-hire services (73.8% of total sales) amounted to Eu54.4mn, +2.0% YoY, supported by a good performance from the Italian business as well as price adjustments in Turkey. Revenues from surgical instrument sterilisation (18.8% of the total) grew +4.8% YoY to Eu13.9mn. Lastly, revenues linked to textile sterilisation (7.4% of the total) were up +15.4% to Eu5.5mn. On 22 July the Italian High Court ruled on the so-called “payback” case; as a consequence, Servizi Italia released the excess portion of the payback provision, amounting to Eu0.8mn. Excluding this effect, revenues in sterilisation would have been flat YoY at Eu4.7mn while, at Group level, sales would have been up +2.3% to Eu72.9mn, still a touch better than our estimates (at Eu72.7mn). Quarterly EBITDA amounted to Eu19.9mn, +10.2% YoY and +6.3% better than expected (excluding the release of the payback provision, EBITDA would have been up +6% YoY and +2% above our estimates, with a 26.2% margin on sales). At bottom line, quarterly net profit stood at Eu1.8mn, 3x the 2Q23 figure but Eu0.9mn lower than expected, mainly because of a higher tax rate and, to a lesser extent, higher financial charges. Net debt was €127.9mn, €2.9mn higher than our estimate and €2.8mn better than in 2Q23, after higher CapEx and a lower use of factoring.

■ **2024 company outlook.** Management expects the elements underpinning solid 1H24 results to remain in place for the remainder of the year. In a credit market still featuring high yields, the group retains solid relationships with banks and good access to financing. As for foreign markets, the Group is closing new contracts in the Brazilian sterilisation business, while investment in new, higher-quality materials are ongoing (strengthening the productivity). The business in Turkey should show an improvement in margins. 2024 is expected to be a significant year in terms of contract renewal. A new contract in the Tuscany region started in June, while important contracts have been awarded in Lombardy and the most of them should become operative by year-end. The contract renewal cycle should be an important catalyst going forward: we note that Servizi Italia is operating contracts awarded years ago that should be renewed at better terms, with scope for upside to our current estimates.

■ **Change in estimates.** We are raising our profitability forecasts in light of 1H24 results and continuous cost efficiencies. In detail, we are raising 2024/2025 EBIT by 12.6%/4.9% respectively. At bottom line, however, we are factoring in a higher tax rate (25% as in 1H24) and slightly higher financial charges.

■ **OUTPERFORM confirmed; Eu2.45 target reiterated.** The results showed improving profitability, which benefits from continuous efficiencies and a normalisation in the cost of energy. These factors should continue to support the results of coming quarters as well, while newsflow on new tenders should represent a positive catalyst. The stock should benefit from its highly visible top line trend and from any reduction in the cost of capital.

Key Figures & Ratios	2022A	2023A	2024E	2025E	2026E
Sales (Eu mn)	270	288	296	307	317
EBITDA Adj (Eu mn)	60	71	77	80	83
Net Profit Adj (Eu mn)	4	5	7	9	10
EPS New Adj (Eu)	0.120	0.172	0.212	0.271	0.311
EPS Old Adj (Eu)	0.120	0.172	0.245	0.301	0.335
DPS (Eu)	0.000	0.030	0.040	0.050	0.060
EV/EBITDA Adj	2.8	2.2	2.3	2.2	2.1
EV/EBIT Adj	nm	10.6	9.4	8.9	8.3
P/E Adj	15.7	11.0	8.9	7.0	6.1
Div. Yield	0.0%	1.6%	2.1%	2.6%	3.2%
Net Debt/EBITDA Adj	2.0	1.6	1.5	1.5	1.4

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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.

Reports on all companies listed on the S&PMB40 Index, most of those on the MIBEX Index and the main small caps (regular coverage) are published at least once per quarter to comment on results and important newsflow.

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;

OUTPERFORM: stock expected to outperform the market by between 10% and 25% over a 12 month period;

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;

SELL: stock expected to underperform the market by over 25% over a 12 month period.

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:	23.97 %
OUTPERFORM:	49.59 %
NEUTRAL:	25.61 %
UNDERPERFORM	00.83 %
SELL:	00.00 %

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BUY:	38.78 %
OUTPERFORM:	51.02 %
NEUTRAL:	10.20 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short
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