SERVIZI ITALIA

OUTPERFORM

Sector: Industrials

Price: Eu1.89 - **Target: Eu2.45**

1Q24 Results Confirm Profitability Improvements

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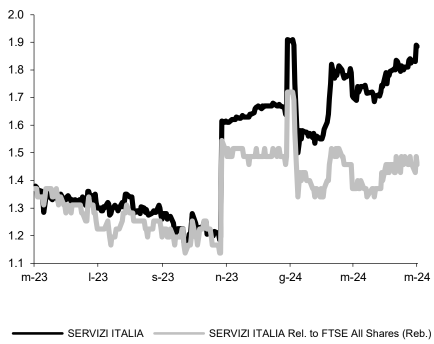
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			Unchanged
	2024E	**2025E**	**2026E**
Chg in Adj EPS	0.0%	0.0%	0.0%

Next Event: 1H24 results
Results Out 8 August 2024

SERVIZI ITALIA - 12M Performance



Stock Data			
Reuters code:			SERIT.MI
Bloomberg code:			SRI IM
Performance	**1M**	**3M**	**12M**
Absolute	5.3%	20.4%	37.6%
Relative	1.2%	9.2%	9.6%
12M (H/L)			1.91/1.17
3M Average Volume (th):			25.04

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):	140
BVPS (Eu):	4.50
P/BV:	0.4
Net Financial Position (Eu mn):	-116
Enterprise Value (Eu mn):	176

- **Positive set of 1Q24 results released on 14 May**. Servizi Italia reported 1Q24 revenues of Eu73.4mn, +1.2% YoY but 2.6% below our estimates. Revenues deriving from wash-hire services (74.9% of total sales) amounted to Eu55.0mn, +1.2% YoY: activities in Brazil and Turkey grew by 6.6% and 2.2% YoY respectively, while Italian activities (81% of segment revenues) recorded a 0.3% YoY increase, slightly below our expectations, due to the termination of contracts with some customers in the Marche region. Revenues deriving from surgical instrument sterilisation activities (18.7% of the total) grew 3.7% YoY to Eu13.7mn, and finally revenues linked to linen sterilisation (6.3% of the total) recorded a decline of 5.9% YoY to Eu4.7mn, mainly due to the conclusion of some contracts in Veneto in 2H23. EBITDA amounted to Eu19.0mn, +5.3% YoY and 0.7% better than expected: the margin, at 25.8%, marked a 100bp YoY improvement, with the drop in the cost of services (linked to lower gas and electricity bills) more than offsetting the increase in personnel costs (wage adjustments decided at national level in March and December 2023). Net debt was €128.2mn, €5mn better than our estimate and €8mn lower than 1Q23.
- **2024 company outlook**. Management expects the elements underpinning solid FY23 results to remain in place for the months to come. Furthermore, in a credit market still featuring high yields, the group retains solid relationships with banks and good access to financing. In foreign markets, the diversification strategy into the sterilisation business in Brazil is starting to contribute to revenues, while margins in Turkey should continue to improve. 2024 is expected to be a significant year. The major 9-year contract with the Tuscany Region should come into execution towards the summer, while renewal of other contracts may well be important: the group remains very well positioned and market conditions are becoming more disciplined in terms of pricing than was the case a few years ago. We note that Servizi Italia is operating contracts awarded years ago that should be renewed at better terms, leaving scope for upside to our current estimates.
- **Change in estimates.** In light of the positive results, we confirm our 2024/2025 estimates, on which we see increasing visibility. In detail, in 2024 we expect 3.4% revenue growth and a 60bp EBITDA margin expansion, assumptions that we could deem conservative. In terms of net debt trends, we expect the net financial position as at YE24 to be slightly below the corresponding figure as at YE23, after payment of a Eu1mn dividend and assuming significantly higher CapEx (Eu9mn higher than in 2023) related to new contracts getting underway.
- **OUTPERFORM confirmed; Eu2.45 target reiterated.** The results showed improving margins, benefiting from continuous efficiencies and a normalisation in the cost of energy. These factors should continue to support results in the coming quarters, while newsflow on new tenders should represent a positive catalyst.

Key Figures & Ratios	2022A	2023A	2024E	2025E	2026E
Sales (Eu mn)	270	288	298	308	319
EBITDA Adj (Eu mn)	60	71	76	79	82
Net Profit Adj (Eu mn)	4	5	8	10	11
EPS New Adj (Eu)	0.120	0.172	0.245	0.301	0.335
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	10.5	9.1	8.3
P/E Adj	15.6	11.0	7.7	6.3	5.6
Div. Yield	0.0%	1.6%	2.1%	2.7%	3.2%
Net Debt/EBITDA Adj	2.0	1.6	1.5	1.4	1.4

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- 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)

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Frequency of research: quarterly.

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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;

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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:	25.21 %
OUTPERFORM:	46.22 %
NEUTRAL:	27.73 %
UNDERPERFORM	00.84 %
SELL:	00.00 %

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

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Emittente	%	Long/Short

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