

# SERVIZI ITALIA

Sector: Industrials

# OUTPERFORM

Price: Eu1.25 - Target: Eu2.40

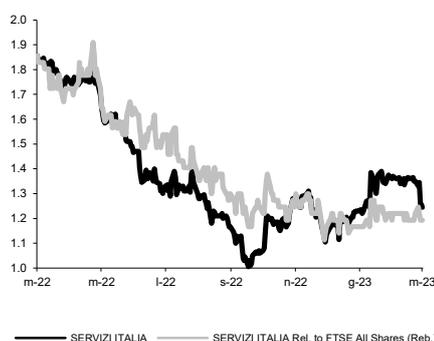
## Quarterly Results Showing Solid Organic Margin Recovery

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### Stock Rating

<b>Rating:</b>	Unchanged		
<b>Target Price (Eu):</b>	from 2.50 to 2.40		
	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>Chg in Adj EPS</b>	-25.3%	-16.9%	

### SERVIZI ITALIA - 12M Performance



### Stock Data

Reuters code:	SERIT.MI		
Bloomberg code:	SRI IM		
<b>Performance</b>	<b>1M</b>	<b>3M</b>	<b>12M</b>
Absolute	-9.1%	9.7%	-32.9%
Relative	-1.2%	2.3%	-37.5%
12M (H/L)	1.85/1.00		
3M Average Volume (th):	15.17		

### Shareholder Data

No. of Ord shares (mn):	32
Total no. of shares (mn):	32
Mkt Cap Ord (Eu mn):	40
Total Mkt Cap (Eu mn):	40
Mkt Float - Ord (Eu mn):	10
Mkt Float (in %):	24.1%
Main Shareholder:	
Coopservice SpA	55.3%

### Balance Sheet Data

Book Value (Eu mn):	134
BVPS (Eu):	4.31
P/BV:	0.3
Net Financial Position (Eu mn):	-119
Enterprise Value (Eu mn):	159

■ **4Q22 results show considerable improvement.** FY22 results show revenues at Eu270.3mn, a record for the group, up 5.3% YoY and 0.7% better than expected. In 4Q22 in particular, linen rental and laundry (76% of the total) and surgical instrument sterilisation (18% of total) grew 7.0% and 10.3% YoY respectively, both better than our expectations, while linen sterilisation notched up an unexpected Eu2.3mn accounting reduction of revenues due to booking government-imposed so-called “paybacks” to health authorities for extra spending on medical devices (net of this item turnover would have been slightly better than our estimate, including for this business unit). 4Q22 EBITDA closed at Eu14.0mn, +0.5% YoY, albeit 4.9% below our expectations, but the figure would have been 10.7% better if adjusted for the negative impact of the aforementioned “payback”. As at YE22, net debt was Eu119mn, better than our forecast of Eu126.3mn.

■ **2023 company outlook points to improving results.** For 2023, the Group foresees positive results overall thanks to its client portfolio and its leadership position, which is expected to be further consolidated. In foreign markets, the contribution of the diversification strategy in the sterilisation business in Brazil should start to show its contribution in terms of revenues, while the business in Turkey should see a steady improvement in margins. The company highlights that it has put actions in place aimed at mitigating the rise in energy costs in order to recover margins. Moreover, the Group anticipates an organic consolidation of its leadership position in Italian and foreign markets and continues to strive for optimisation and efficiency. In a tougher financial environment, Servizi Italia retains solid relationships with banks and good access to financing.

■ **Assuming more gradual margin recovery.** We are leaving our revenue estimates for 2023/2024 almost unchanged, while we are trimming our EBITDA margin estimates by 39/19bp, still assuming a 20bp margin improvement in 2023 compared to the 2022 EBITDA margin adjusted for the “payback” impact. Below the EBITDA line, we have slightly raised financial charges, while we have zeroed the minority losses (from Eu0.4mn in 2022 related to Turkish activities expected to regain breakeven in 2023). All in all, we are applying a 25.3%/16.9% downward revision to 2023/2024 EPS in order to be more prudent on the benefits from margin recovery actions. We note two elements that should provide support for our estimates: 1) contracts in the North-East reaching full capacity and fostering top line and margin growth; and 2) updating benchmark prices in the healthcare sector for linen wash-hire, cleaning, and catering, which should safeguard profitability from 2023 onwards.

■ **OUTPERFORM confirmed; target from Eu2.5 to Eu2.4.** Net of the unexpected impact of the “paybacks” to regional health authorities on medical devices, 4Q22 results would have been even more convincing; the results give a glimpse of the recovery pathway that we expect to continue in 2023, even if we cautiously assume more gradual YoY margin progression. Looking ahead, we expect the company to further strengthen its leadership in Italy and to show the validity of its strategy abroad. The change in our estimates is mitigated by the rollover of our valuation metrics.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	257	270	282	291	302
EBITDA Adj (Eu mn)	65	60	65	69	72
Net Profit Adj (Eu mn)	8	4	5	8	9
EPS New Adj (Eu)	0.236	0.120	0.153	0.244	0.283
EPS Old Adj (Eu)	0.236	0.131	0.205	0.294	
DPS (Eu)	0.000	0.000	0.000	0.000	0.000
EV/EBITDA Adj	3.0	2.8	2.5	2.3	2.1
EV/EBIT Adj	20.1	nm	20.3	13.9	11.6
P/E Adj	5.3	10.3	8.1	5.1	4.4
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Net Debt/EBITDA Adj	1.9	2.0	1.8	1.7	1.6