Intermonte

Milan, 15 March 2024

Italian Equity Research – 3Q23/24 Results

SESA

BUY

Sector: Industrials

Price: Eu105.00 - **Target: Eu175.00**

3Q Growth Softer but Guidance to 2025 Is Reassuring

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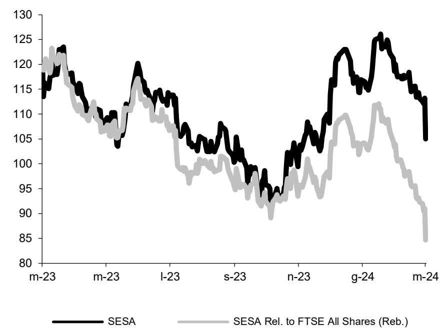
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			Unchanged
	2024E	**2025E**	**2026E**
Chg in Adj EPS	-2.4%	-0.8%	-0.2%

Next Event FY23/24 Results
Results Out September 2024

SESA - 12M Performance



Stock Data			
Reuters code:			SES.MI
Bloomberg code:			SES IM
Performance	**1M**	**3M**	**12M**
Absolute	-12.5%	-7.9%	-11.8%
Relative	-19.9%	-18.8%	-35.8%
12M (H/L)			126.10/92.00
3M Average Volume (th):			18.43

Shareholder Data	
No. of Ord shares (mn):	15
Total no. of shares (mn):	15
Mkt Cap Ord (Eu mn):	1,627
Total Mkt Cap (Eu mn):	1,627
Mkt Float - Ord (Eu mn):	758
Mkt Float (in %):	46.6%
Main Shareholder:	
ITH S.p.a.	52.8%

Balance Sheet Data	
Book Value (Eu mn):	484
BVPS (Eu):	33.46
P/BV:	3.1
Net Financial Position (Eu mn):	-33
Enterprise Value (Eu mn):	1,695

- **3Q revenues/EBITDA up 3.5%/7.1% YoY, due to VAD normalisation.** Sesa announced revenues of Eu894.5mn for 3Q, which ended on 31 January 2024, up 3.5% YoY and 0.6% lower than expected. The VAD business unit (70.8% of quarterly sales) was down 2.8% YoY, softer than expected mainly because of market volatility in the Green Digital segment (about 10% of business unit revenues). Positively, the SSI business unit (25.5% of quarterly sales) posted a 21.1% rise in revenues, while the contribution from Business Services (3.0% of quarterly sales) was up 43.1% YoY, both performing better than expected. EBITDA came in at Eu67.0mn, 0.9% below our expectations, witnessing a 26bp EBITDA margin improvement to 7.5% thanks to the more favourable mix. Below this line, net financial expenses were Eu3mn higher, taking quarterly adjusted net profit to Eu34.1mn, 10% above our estimate and 11.3% higher YoY. At the end of January 2024, the net financial position was negative to the tune of Eu62.5mn (or positive for Eu148.3mn before considering the Eu41.8mn impact from IFRS16, and Eu169.0mn from the future M&A earn-out and put options). Net debt was a touch higher than expected because of higher NWC absorption. In the last twelve months, Sesa generated operating cash flow of Eu120mn, more than offset by a Eu175mn cash-out for investments, as well as Eu25mn paid out in dividends and buyback.
- **Management guidance for FY23/24 and FY24/25 remains supportive.** In light of 9M23/24 results, Sesa updated FY guidance, indicating revenues up 10% YoY (the low-end of the previous +10-15% corridor), EBITDA up +15.5%-17.5% (narrowing previous indication +15-20%), i.e. in the Eu242-246mn range, and adj. EBIT in the Eu186-190mn range. In particular, the VAD business is expected to grow, but at a more normalised pace going forward. Demand remains strong at the SSI business, where the group is shifting to serving medium-large rather than medium-small companies. The outlook for the Business Services segment remains very good and management is also considering possible acquisitions.
- **Change in estimates.** While we are lowering revenues accounting for more moderate VAD business growth, we are broadly confirming our EBITDA forecasts, which are about the mid-range of 2024 and 2025. Below, we are increasing PPA/stock-option charges (restated at EPS level) as well as financial charges, but trimming taxes. Management is working to simplify the group's corporate structure and implement cash pooling, thus reducing financial costs in the coming quarters. All in all, we are trimming 2024 EPS by 2%, while leaving our 2025/26 EPS assumptions broadly unchanged.
- **BUY; target Eu175 confirmed.** In our view, the stock market overreacted to softer VAD revenues because 2024 and 2025 guidance is reassuring. In recent years, the business has been evolving from the traditional VAD segment into more added-value activities (SSI and Business Services) that are expected to support profitability growth in the years to come. The group enjoys a strong market positioning thanks to a clear focus on technology, with revenues that are well diversified across a large customer base. An investor day, to be hosted by the company in June, should be a positive catalyst.

Key Figures & Ratios	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
Sales (Eu mn)	2,390	2,908	3,199	3,446	3,687
EBITDA Adj (Eu mn)	168	209	245	276	307
Net Profit Adj (Eu mn)	83	100	108	128	146
EPS New Adj (Eu)	5.335	6.458	6.938	8.265	9.453
EPS Old Adj (Eu)	5.335	6.458	7.111	8.334	9.475
DPS (Eu)	0.900	1.000	1.066	1.320	1.531
EV/EBITDA Adj	13.9	8.9	6.9	5.9	5.0
EV/EBIT Adj	18.5	11.6	8.9	7.6	6.4
P/E Adj	19.7	16.3	15.1	12.7	11.1
Div. Yield	0.9%	1.0%	1.0%	1.3%	1.5%
Net Debt/EBITDA Adj	-0.5	-0.2	0.1	-0.1	-0.4

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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&PMIB40 Index, most of those on the MIDEX 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:	26.02 %
OUTPERFORM:	47.15 %
NEUTRAL:	26.02 %
UNDERPERFORM	00.81 %
SELL:	00.00 %

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (51 in total) is as follows:

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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