

SESA

Sector: Industrials

BUY

Price: Eu100.80 - Target: Eu175.00

Encouraging Management Indications Support Our View

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Stock Rating

Rating: from OUTPERFORM to BUY

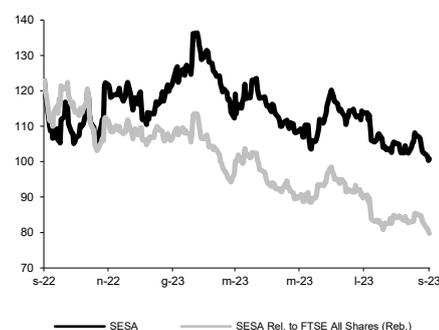
Target Price (Eu): from 180.00 to 175.00

	2024E	2025E	2026E
Chg in Adj EPS	-3.6%	-1.9%	0.6%

Next Event 1H23/24 Results

Results Out: 19 December 2023

SESA - 12M Performance



Stock Data

Reuters code: SES.MI

Bloomberg code: SES IM

Performance	1M	3M	12M
Absolute	-4.1%	-15.6%	-18.0%
Relative	-5.3%	-18.4%	-44.4%
12M (H/L)	136.40/100.30		
3M Average Volume (th):	16.19		

Shareholder Data

No. of Ord shares (mn):	15
Total no. of shares (mn):	15
Mkt Cap Ord (Eu mn):	1,562
Total Mkt Cap (Eu mn):	1,562
Mkt Float - Ord (Eu mn):	728
Mkt Float (in %):	46.6%
Main Shareholder:	
ITH S.p.a.	52.8%

Balance Sheet Data

Book Value (Eu mn):	394
BVPS (Eu):	27.37
P/BV:	3.7
Net Financial Position (Eu mn):	34
Enterprise Value (Eu mn):	1,868

- **Another strong quarter with revenues/ EBITDA up 16% / 17% YoY respectively.** Sesa announced revenues of Eu776.4mn for the first quarter, which ended on 31 July 2023, up 15.9% YoY (+11% organic) and 3.7% better than expected. All business lines reported positive growth: the VAD business unit (73% of quarterly sales) grew 13.6% YoY, the SSI business unit (23% of quarterly sales) posted a 20.0% rise in revenues, while the contribution from Business Services (3.5% of quarterly sales) was up 53.0% YoY. EBITDA came in at Eu55.8mn, 0.9% above our expectations, witnessing an 8bp EBITDA margin improvement to 7.2%. Below this line, D&A were a touch above our forecast, while financial expenses were Eu3.3mn higher, taking quarterly adjusted net profit to Eu26.5mn, 3.5% below our estimate but 11.1% higher YoY. At the end of July 2023, the net financial position was negative to the tune of Eu11.4mn (or Eu208.5mn before considering the Eu-34.9mn impact from IFRS16 and Eu-184.9mn from the future M&A earn-out and put options).
- **Management guidance for FY23/24 (ending April 2024) confirmed:** in light of 1Q23/24 results, Sesa confirmed FY guidance, indicating revenues up +10-15% YoY and EBITDA up +15-20%. At the end of July 2023, group human resources reached 5,188 units, +19.6% YoY, with an average attrition rate below 7%. With 1Q results and the positive comments on August-September performance, Sesa has once again demonstrated the validity of its business model, which has allowed it to gain market share and achieve growth in line with the plan despite a slowing reference market. In particular, the VAD business performed better than our expectations thanks to the focus on value distribution, partnerships with successful sellers (such as Cisco, Oracle and Fortinet), and great exposure to software. Demand remains strong in the SSI business, where the group is shifting to serving medium-large rather than medium-small companies and where the bottleneck remains the availability of qualified human resources (460 people added in the quarter). The outlook for the Business Services segment remains very good and management has confirmed the revenue target of Eu125mn for the current year. The M&A pipeline remains excellent and the group can be an attractive consolidator thanks its recent track record of successfully integrating a large number of targets.
- **Change in estimates.** We are raising our revenue and EBITDA estimates slightly (+1%/+2%) to the middle of management's guidance range, but we are also raising financial charges. 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 leaving our EPS assumptions broadly unchanged.
- **Upgrade to BUY; target trimmed to Eu175.** Sesa has enjoyed very strong organic growth (c.+11% in 1Q) and remains well placed to seize further M&A opportunities, including outside Italy. Despite a complex macro environment, business trends are expected to remain healthy (corporate digital spending should remain strong) and 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. The small target revision (-2.8%) is to reflect slightly higher M&A absorption. In light of the strong upside we move our recommendation to BUY from Outperform.

Key Figures & Ratios	2022A	2023A	2024E	2025E	2026E
Sales (Eu mn)	2,390	2,908	3,278	3,623	3,992
EBITDA Adj (Eu mn)	168	209	244	275	310
Net Profit Adj (Eu mn)	83	100	112	129	147
EPS New Adj (Eu)	5.335	6.458	7.238	8.340	9.487
EPS Old Adj (Eu)	5.335	6.458	7.509	8.497	9.431
DPS (Eu)	0.900	1.000	1.216	1.413	1.624
EV/EBITDA Adj	13.9	8.9	6.4	5.4	4.6
EV/EBIT Adj	18.5	11.6	8.2	7.0	5.9
P/E Adj	18.9	15.6	13.9	12.1	10.6
Div. Yield	0.9%	1.0%	1.2%	1.4%	1.6%
Net Debt/EBITDA Adj	-0.5	-0.2	-0.1	-0.4	-0.6

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