

SESA

Sector: Industrials

BUY

Price: Eu104.20 - Target: Eu152.00

Stock Overreaction, Group Positioning Remains Healthy

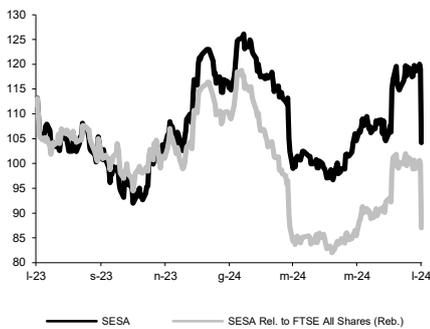
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Stock Rating

Rating:	Unchanged		
Target Price (Eu):	from 175.00 to 152.00		
	2025E	2026E	2027E
Chg in Adj EPS	-10.9%	-11.7%	

Next Event 1Q24/25 Results
Results Out 12 September 2024

SESA - 12M Performance



Stock Data

Reuters code:	SES.MI		
Bloomberg code:	SES IM		
Performance	1M	3M	12M
Absolute	-3.2%	5.9%	-6.8%
Relative	-6.8%	3.8%	-26.6%
12M (H/L)	126.10/92.00		
3M Average Volume (th):	18.63		

Shareholder Data

No. of Ord shares (mn):	15
Total no. of shares (mn):	15
Mkt Cap Ord (Eu mn):	1,615
Total Mkt Cap (Eu mn):	1,615
Mkt Float - Ord (Eu mn):	753
Mkt Float (in %):	46.6%
Main Shareholder:	
ITH S.p.a.	52.8%

Balance Sheet Data

Book Value (Eu mn):	423
BVPS (Eu):	30.81
P/BV:	3.4
Net Financial Position (Eu mn):	3
Enterprise Value (Eu mn):	1,724

■ **4Q24 EBITDA margin in line YoY but a bit lower than expected.** On 20 June, Sesa announced revenues for the full-year to 30 April 2024 of Eu3.21bn, up 10.4% YoY. Looking at 4Q (1 February – 30 April 2024), revenues were Eu814.3mn, up 11.4% YoY. In 4Q, all the business lines reported positive growth: VAD, at Eu582.9mn, was up 9.5% YoY, SSI, at Eu213.5mn, +6.3% YoY, and Business Services, at Eu30.8mn, +23.6% YoY. Quarterly group EBITDA came in at Eu59.2mn, up 10.7% YoY thanks to a stable margin but 8.6% lower than expected, mainly because of a lower profitability of the SSI segment. Below this line, D&A were below our forecast, while financial expenses (almost doubling YoY) and the tax rate were both higher, taking quarterly adjusted net profit to Eu22.2mn, 4.7% below our estimate and 13.6% lower YoY. Notably, at the end of April 2024, the net financial position was positive to the tune of Eu2.7mn (after a Eu-48.1mn impact from IFRS16 and Eu-160.2mn from the future M&A earn-out and put options), better than expected. The group will pay a Eu1.00 dividend per share, corresponding to a 20% payout ratio.

■ **Management guidance for FY24/25:** revenues are seen up +5%/10% YoY and EBITDA up +5%/12.5% (+8.75%, in the mid-range vs. a previous indication of +12.5%). Management preferred to adopt a slightly more prudent stance in light of a comparison that remains tough on the VAD segment, of slightly tougher market conditions, and assuming a purely inertial contribution from M&A. Adjusted net profit is expected to grow between 2.5% and 7.5%, still impacted by significant financial charges. Factoring has become more expensive but management has confirmed the usual prudent approach on securitized receivables, mainly in the VAD business. Cash flow generation should remain healthy.

■ **Change in estimates.** We have adjusted our estimates to management guidance, trimming our revenue forecast by 1.3% (now pointing to 5.9% YoY growth) and our EBITDA forecast by 6.2% (now pointing to 8.1% YoY growth, close to the mid-range of guidance). Below EBIT, we are increasing financial charges (expected at Eu35.1mn, in line with FY23/24), yielding EPS growth of 7.3%, consistent with management guidance. The expected improvements in financial charges, starting from 2H, are driving an acceleration of EPS growth starting from next year. All in all, compared to our previous forecast, we are reducing our EPS assumptions by 10.9%.

■ **BUY; target Eu152 from Eu175.** In our view, the stock market overreacted to softer guidance on profitability. We expect that starting from 2H, the group will recover solid earnings momentum, also supported by the normalisation of financial expenses. 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. Our valuation has been updated to take into account the new estimates and the recurring impact of factoring.

Key Figures & Ratios	2023A	2024A	2025E	2026E	2027E
Sales (Eu mn)	2,908	3,210	3,401	3,620	3,852
EBITDA Adj (Eu mn)	209	240	259	283	311
Net Profit Adj (Eu mn)	102	106	114	129	147
EPS New Adj (Eu)	6.600	6.867	7.368	8.349	9.509
EPS Old Adj (Eu)	6.458	6.938	8.265	9.453	
DPS (Eu)	1.000	1.000	1.059	1.156	1.266
EV/EBITDA Adj	9.0	7.2	6.3	5.6	4.9
EV/EBIT Adj	11.3	8.9	7.9	7.0	6.1
P/E Adj	15.8	15.2	14.1	12.5	11.0
Div. Yield	1.0%	1.0%	1.0%	1.1%	1.2%
Net Debt/EBITDA Adj	-0.2	0.0	-0.1	-0.3	-0.6

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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 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.

Explanation of our ratings system:

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 %

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (49 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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