SESA

BUY

Sector: Industrials

Price: Eu115.80 - **Target: Eu175.00**

FY Guidance More Visible after Positive 1H Results

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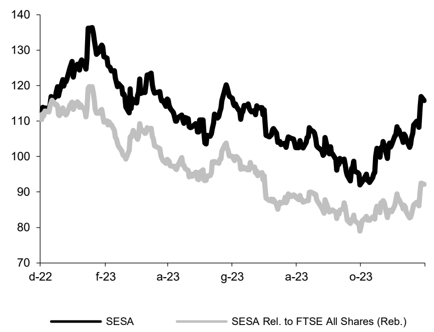
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			Unchanged
	2024E	**2025E**	**2026E**
Chg in Adj EPS	-1.8%	-0.1%	-0.1%

Next Event 9M23/24 Results
Results Out 14 March 2024

SESA - 12M Performance



Stock Data			
Reuters code:			SES.MI
Bloomberg code:			SES IM
Performance	**1M**	**3M**	**12M**
Absolute	12.0%	14.4%	3.5%
Relative	9.3%	8.6%	-22.1%
12M (H/L)			136.40/92.00
3M Average Volume (th):			18.21

Shareholder Data	
No. of Ord shares (mn):	15
Total no. of shares (mn):	15
Mkt Cap Ord (Eu mn):	1,794
Total Mkt Cap (Eu mn):	1,794
Mkt Float - Ord (Eu mn):	836
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:	4.2
Net Financial Position (Eu mn):	34
Enterprise Value (Eu mn):	1,868

- **Another strong quarter with revenues/EBITDA up 13.0%/25.5% YoY respectively.** Sesa announced revenues of Eu725.2mn for the second quarter, which ended on 31 October 2023, up 13.0% YoY (+8% organic) and 1% better than expected. All business lines reported double-digit growth: the VAD business unit (71.5% of quarterly sales) grew 10.1% YoY and was the main positive surprise; the SSI business unit (24.3% of quarterly sales) posted a 23.2% rise in revenues; while the contribution from Business Services (3.5% of quarterly sales) was up 26.1% YoY. EBITDA came in at Eu57.5mn, 8.8% above our expectations, witnessing an 80bp EBITDA margin improvement to 7.9%. Below this line, net financial expenses were Eu2.3mn higher, taking quarterly adjusted net profit to Eu23.6mn, 5.1% above our estimate and 7.0% higher YoY. At the end of October 2023, the net financial position was negative to the tune of Eu57.4mn (or Eu153.4mn positive before considering the Eu-39.4mn impact from IFRS16, and Eu-171.4mn from the future M&A earn-out and put options). Net debt was higher than expected because of higher NWC absorption. In the last twelve months, Sesa generated operating cash flow of Eu130mn, more than offset by a Eu175mn cash-out for investments and M&A, as well as Eu21mn paid out in dividends and buyback.
- **Management guidance for FY23/24 (ending April 2024) confirmed.** In light of 1H23/24 results, Sesa confirmed FY guidance, indicating revenues up +10-15% YoY and EBITDA up +15-20%. In particular, the VAD business performed better than our expectations thanks to the focus on value distribution, partnerships with successful vendors (such as Cisco, Oracle and Fortinet), and great exposure to software (>80%). 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 indicated a revenue target of Eu150/160mn for the next year (April 2025). Management expects an improvement of core market trends starting from January 2024, with the market seen up 5% (vs. +3% YoY in FY23). The steady flow of M&A continues and the group is working on several possible targets ranging from data science and digital services platforms to digital engineering.
- **Change in estimates.** We are raising our 2023 EBITDA estimates slightly (+1%), a touch above the middle of management's guidance range, but we are also increasing financial charges and taxes. Management is working to simplify the group 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.
- **BUY; target Eu175 confirmed.** Sesa confirmed solid organic growth and remains well placed to seize further M&A opportunities, including outside Italy. Business trends are expected to remain healthy (corporate digital spending should remain robust) 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.

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	247	278	312
Net Profit Adj (Eu mn)	83	100	110	129	147
EPS New Adj (Eu)	5.335	6.458	7.111	8.334	9.475
EPS Old Adj (Eu)	5.335	6.458	7.238	8.340	9.487
DPS (Eu)	0.900	1.000	1.176	1.398	1.608
EV/EBITDA Adj	13.9	8.9	7.5	6.4	5.4
EV/EBIT Adj	18.5	11.6	9.6	8.2	7.0
P/E Adj	21.7	17.9	16.3	13.9	12.2
Div. Yield	0.8%	0.9%	1.0%	1.2%	1.4%
Net Debt/EBITDA Adj	-0.5	-0.2	0.0	-0.2	-0.5