

SERVIZI ITALIA

Sector: Industrials

OUTPERFORM

Price: Eu1.28 - Target: Eu2.50

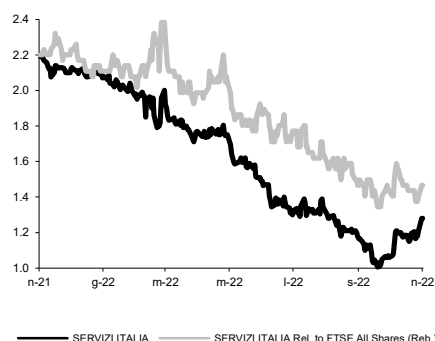
Good EBITDA Resilience to Energy Cost Hikes

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Stock Rating

Rating:	Unchanged		
Target Price (Eu):	Unchanged		
	2022E	2023E	2024E
Chg in Adj EPS	4.1%	-10.0%	-8.1%

SERVIZI ITALIA - 12M Performance



Stock Data

Reuters code:	SERIT.MI		
Bloomberg code:	SRI IM		
	1M	3M	12M
Performance			
Absolute	20.8%	-4.8%	-41.8%
Relative	3.3%	-11.2%	-29.4%
12M (H/L)	2.21/1.00		
3M Average Volume (th):	14.09		

Shareholder Data

No. of Ord shares (mn):	32
Total no. of shares (mn):	32
Mkt Cap Ord (Eu mn):	41
Total Mkt Cap (Eu mn):	41
Mkt Float - Ord (Eu mn):	10
Mkt Float (in %):	24.1%
Main Shareholder:	
Coopservice SpA	55.3%

Balance Sheet Data

Book Value (Eu mn):	122
BVPS (Eu):	3.88
P/BV:	0.3
Net Financial Position (Eu mn):	-127
Enterprise Value (Eu mn):	167

■ **3Q22 EBITDA more resilient than expected.** On 14 November the group published 3Q22 results that showed revenues of Eu68.5mn, up 3.7% YoY and 1.4% better than expected. Revenues from wash-hire services came to Eu52.3mn, broadly in line with our estimates and up 1.9% YoY; revenues from linen sterilisation services (Steril B) came to Eu4.3mn, 3.2% lower than expected but up 4.2% YoY; finally, revenues from the sterilisation of surgical instruments (Steril C) rose 12% YoY to Eu11.9mn, a positive surprise. Regarding margins, despite falling 7.3% YoY, EBITDA closed at Eu16.2mn, 7% better than expected. Thanks to the recognition of positive fiscal items on the P&L for Eu0.5mn, net profit closed at Eu2.1mn for the period, down 21.6% YoY but much better than our estimate of Eu0.4mn. As for cash flow, net debt came to Eu126.1mn as at the end of September, more or less in line with our estimate of Eu123mn.

■ **2022 company outlook points to positive results, albeit with particular attention on energy cost volatility.** Despite the continuing uncertainty in the market, the Group expects positive results in 2022 in Italy and Brazil, while the situation is still difficult in Turkey (just 2.5% of Group turnover). In addition to government subsidies, management envisages action in the coming months to recover margins as well as temporary accords with clients on price adjustments in order to cope with the exceptional energy prices. Moreover, the Group anticipates an organic consolidation of its position of leadership 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.

■ **Changes to estimates.** We have raised our revenue estimates by 0.2% for 2022/2023, while we have trimmed our EBITDA margin estimates. All in all, we apply a 10.0%/8.1% downward revision to 2023 and 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 area reaching full capacity and fostering growth of the top line and margins; and 2) updating of benchmark prices in the healthcare sector for linen wash-hire, cleaning, and catering, which should safeguard profitability starting from 2023.

■ **OUTPERFORM confirmed, TP Eu2.50 unchanged.** Results showed a good revenue trend and a better-than-expected ability to reabsorb rising energy costs at EBITDA level. Indeed, it is worth nothing that in 3Q22, utilities costs rose 83% YoY, amounting to 10.1% of revenues vs 5.8% in 3Q21 (+430bp), while the EBITDA margin came down by 280bp. In the coming quarters, the contraction of margins should be mitigated by adjustments to existing contracts with major clients. Looking ahead, we expect the company to further strengthen its leadership in Italy and to show the validity of its strategy abroad, regaining an attractive FCF yield in 2024.

Key Figures & Ratios	2020A	2021A	2022E	2023E	2024E
Sales (Eu mn)	240	257	269	282	293
EBITDA Adj (Eu mn)	58	65	60	66	70
Net Profit Adj (Eu mn)	3	8	4	7	9
EPS New Adj (Eu)	0.087	0.236	0.131	0.205	0.294
EPS Old Adj (Eu)	0.087	0.236	0.126	0.228	0.319
DPS (Eu)	0.002	0.000	0.000	0.000	0.147
EV/EBITDA Adj	3.5	3.0	2.8	2.6	2.4
EV/EBIT Adj	nm	20.1	nm	18.6	13.1
P/E Adj	14.7	5.4	9.8	6.2	4.4
Div. Yield	0.2%	0.0%	0.0%	0.0%	11.5%
Net Debt/EBITDA Adj	2.2	1.9	2.1	1.9	1.8

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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) 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)

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Frequency of research: quarterly.

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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:	22.13 %
OUTPERFORM:	48.36 %
NEUTRAL:	27.87 %
UNDERPERFORM	01.64 %
SELL:	00.00 %

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BUY:	38.46 %
OUTPERFORM:	50.00 %
NEUTRAL:	11.54 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short
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