

SERVIZI ITALIA

Sector: Industrials

OUTPERFORM

Price: Eu1.69 - Target: Eu2.45

Margin Recovery Should Continue in 2024

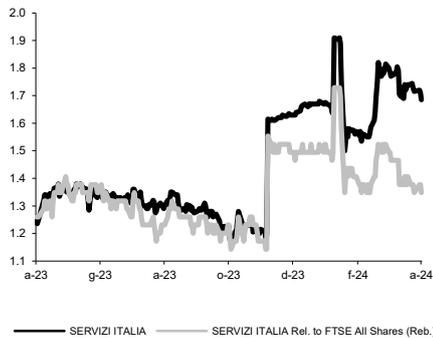
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Stock Rating

Rating:	Unchanged		
Target Price (Eu):	Unchanged		
	2024E	2025E	2026E
Chg in Adj EPS	-1.0%	-0.7%	

Next Event: 1Q24 results
 Results Out 14 May 2024

SERVIZI ITALIA - 12M Performance



Stock Data

Reuters code:	SERIT.MI		
Bloomberg code:	SRI IM		
Performance	1M	3M	12M
Absolute	-6.4%	0.6%	33.7%
Relative	-11.0%	-12.3%	8.3%
12M (H/L)	1.91/1.17		
3M Average Volume (th):	87.53		

Shareholder Data

No. of Ord shares (mn):	32
Total no. of shares (mn):	32
Mkt Cap Ord (Eu mn):	54
Total Mkt Cap (Eu mn):	54
Mkt Float - Ord (Eu mn):	13
Mkt Float (in %):	24.4%
Main Shareholder:	
Coopservice SpA	62.4%

Balance Sheet Data

Book Value (Eu mn):	140
BVPS (Eu):	4.50
P/BV:	0.4
Net Financial Position (Eu mn):	-116
Enterprise Value (Eu mn):	170

■ **Servizi Italia approved FY23 results on 14 March.** 4Q23 revenues came to Eu72.9mn, up 7.5% YoY and 2.7% better than expected. We note that 4Q22 was hit by a Eu2.3mn cancellation of revenues (therefore also denting margins). Net of this item, group revenues were up 3.9% YoY. Revenues deriving from sterilisation of surgical implements (Steril C) came to Eu13.8mn, 9.6% better than our estimate and up 6.5%, while revenues from linen sterilisation (Steril B) came to Eu4.6mn, 37.7% higher than our forecast and down 6.2% YoY (on a like-for-like basis); finally, Wash-hire revenues of Eu54.3mn were slightly below our estimates (-1%) but up 4.1% YoY. In terms of margins, again on a like-for-like basis, EBITDA, up 0.4% YoY, closed at Eu16.4mn, slightly below our forecast (-2%). Nevertheless, EBIT of Eu2.5mn was a touch above our Eu1.4mn estimate. In terms of cash flow, YE23 net debt was Eu116.7mn, Eu6mn better than our Eu122.6mn estimate.

■ **2024 company outlook.** Management expects the elements underpinning solid FY23 results to remain in place for the months to come. Furthermore, in a credit market still featuring high yields, the group retains solid relationships with banks and good access to financing. In foreign markets, the diversification strategy into the sterilisation business in Brazil should start to contribute to revenues, while the business in Turkey should confirm an improvement in margins. 2024 is expected to be a significant year. The major 9-year contract with the Tuscany Region should come into execution towards the summer, while renewal of other contracts may well be important: the group remains very well positioned and market conditions are becoming more disciplined in terms of pricing than was the case a few years ago. We note that Servizi Italia is operating contracts awarded years ago that should be renewed at better terms, with scope for upside to our current estimates.

■ **Change in estimates.** In light of the positive results, we confirm our 2024/2025 estimates, on which we see increasing visibility. In detail, in 2024 we expect 3.4% revenue growth and a 60bp EBITDA margin expansion, assumptions that we could deem conservative. In terms of net debt trends, we expect the net financial position as at YE24 to be slightly below the corresponding figure as at YE23, after payment of a Eu1mn dividend and assuming significantly higher CapEx (Eu9mn higher than in 2023) related to new contracts getting underway.

■ **OUTPERFORM confirmed; Eu2.45 target reiterated.** FY23 results showed good margin trends and positive cash flow. These factors should continue to support results in the coming quarters, while newsflow on new tenders should represent a positive catalyst. In its outlook the company noted the increase in the cost of money and geopolitical uncertainty as key risks for the business. Nevertheless, Servizi Italia envisages positive results overall in 2024, thanks to its client base and ongoing consolidation of its leadership position. We note that on 23 January 2023 the full takeover bid on Cometa failed (despite the offer price being raised to Eu1.92), as the bid did not fulfil the condition of reaching an overall stake in excess of 90% of the capital.

Key Figures & Ratios	2022A	2023A	2024E	2025E	2026E
Sales (Eu mn)	270	288	298	308	319
EBITDA Adj (Eu mn)	60	71	76	79	82
Net Profit Adj (Eu mn)	4	5	8	10	11
EPS New Adj (Eu)	0.120	0.172	0.245	0.301	0.335
EPS Old Adj (Eu)	0.120	0.156	0.248	0.303	
DPS (Eu)	0.000	0.030	0.040	0.050	0.060
EV/EBITDA Adj	2.8	2.2	2.2	2.1	2.0
EV/EBIT Adj	nm	10.6	10.1	8.8	8.0
P/E Adj	14.0	9.8	6.9	5.6	5.0
Div. Yield	0.0%	1.8%	2.4%	3.0%	3.6%
Net Debt/EBITDA Adj	2.0	1.6	1.5	1.4	1.4

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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.

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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:	25.21 %
OUTPERFORM:	46.22 %
NEUTRAL:	27.73 %
UNDERPERFORM	00.84 %
SELL:	00.00 %

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (50 in total) is as follows:

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OUTPERFORM:	51.02 %
NEUTRAL:	10.20 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emitente	%	Long/Short
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