Intermonte

Milan, 11 May 2023

Italian Equity Research – 1Q23 Results

THE ITALIAN SEA GROUP

BUY

Sector: Consumers

Price: Eu8.53 - **Target: Eu11.50**

Very Positive Start: Results Better, Targets Confirmed

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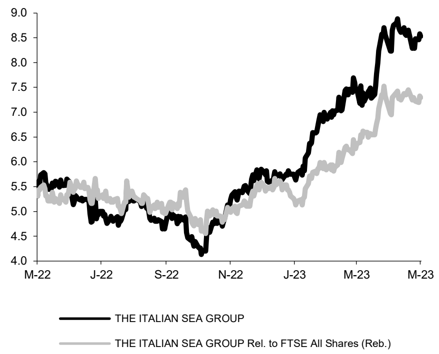
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 11.00 to 11.50
	2023E	**2024E**	**2025E**
Chg in Adj EPS	0.0%	0.0%	0.0%

THE ITALIAN SEA GROUP - 12M Performance



Stock Data			
Reuters code:			TISGR.MI
Bloomberg code:			TISG IM
Performance	**1M**	**3M**	**12M**
Absolute	-0.4%	24.3%	60.6%
Relative	-0.3%	24.6%	43.9%
12M (H/L)			8.88/4.13
3M Average Volume (th):			100.02

Shareholder Data	
No. of Ord shares (mn):	53
Total no. of shares (mn):	53
Mkt Cap Ord (Eu mn):	452
Total Mkt Cap (Eu mn):	452
Mkt Float - Ord (Eu mn):	95
Mkt Float (in %):	21.0%
Main Shareholder:	
GC Holding S.p.A.	62.6%

Balance Sheet Data	
Book Value (Eu mn):	129
BVPS (Eu):	2.43
P/BV:	3.5
Net Financial Position (Eu mn):	1
Enterprise Value (Eu mn):	451

- **Positive momentum continued in 1Q23.** Yesterday The Italian Sea Group reported the key metrics for the first quarter of 2023, which beat expectations both on the top line and profitability. 1Q23 revenues came in at Eu85mn, up +23% YoY (+2.4% vs. our Eu83mn estimate) with a balanced performance across business lines: shipbuilding was up +17.8% YoY and Refit +15.2% YoY. EBITDA stood at Eu13.8mn, with robust +35% YoY growth, outpacing revenues to deliver a 16.2% margin, +150bp YoY. Margin growth was mainly driven by higher operating leverage and production efficiencies arising from setup of a facility that is now up and running. Synergies between the different shipyards in use and a better organisation between refit and shipbuilding spaces also helped cost control. Last but not least, management mentioned a positive pricing trend (unquantified) with significant YoY improvements. Margin expansion could have been higher without being undermined by input cost inflation. The company also reported a negative NFP at Eu8.3mn, improving from Eu11.3mn as at the end of December 2022.
- **Order book above Eu1bn. Net backlog stable. Order intake in line with targets.** The total value of contracts in progress (Order Book) stood at Eu1.1bn at the end of March 2023 vs. Eu1.0bn at FY22, with the net backlog at Eu597mn, broadly flat vs. FY22 (Eu620mn) due to deliveries in the quarter. Management commented that as things stand the Order Book has reached Eu1.2bn following the signing of contracts for two 70mt yachts. Three yachts have been sold so far in 2023, with negotiations on another at an advanced stage, for a total order intake of c.Eu150mn, already half of the Eu300mn FY23 target, which should be achieved well before year-end according to management.
- **Positive tone from conference call. Guidance confirmed.** 1Q results and current visibility make management very confident on achieving targets, which are already supported by the current backlog and the order intake. There were no signs of a slowdown in demand for larger size vessels (>50mt "very positive market energy"), and projections for the next 3 to 5 years are positive. There is some drop-off in interest in the lower segment of 30mt-50mt, but of negligible impact. Pricing is progressing very well vs. northern shipyards but the positive impact is currently mitigated by inflation on raw material costs.
- **Estimates unchanged.** Our estimates are almost aligned to the company's guidance and targets, on which visibility is further enhanced following this release. We cannot rule out upside potential based on current order intake levels vs. targets, but further visibility is needed.
- **BUY confirmed; target Eu11.5 (from Eu11).** Thanks to its positioning among the leading players at the very top end of the yachting industry, its unique, all-round business and facilities, as well as the high visibility on prospects and cash generation confirmed in company targets, TISG looks very well placed to exploit the full potential of a steadily-growing industry. The clear opportunity of further broadening its capacity and exploiting the sailing yachts opportunity through the Perini Navi brand as well as the new semi-custom projects add further upside to the story. Based on results and visibility, we are lowering the execution discount we have applied to the fair value of Eu13 (based on DCF) to c.10% (vs. 15% previously) resulting in an increase of Eu0.5 to the target price. The stock is still trading at a depressed 7.5x/5.7x EV/EBITDA for 2023/24, a notable discount to Sanlorenzo (-8%/-20%) which in our view definitely does not fully recognise TISG's value in light of the increasing visibility on results and prospects.

Key Figures & Ratios	**2021A**	**2022A**	**2023E**	**2024E**	**2025E**
Sales (Eu mn)	186	295	355	423	441
EBITDA Adj (Eu mn)	28	47	58	74	88
Net Profit Adj (Eu mn)	16	27	35	47	57
EPS New Adj (Eu)	0.308	0.515	0.662	0.880	1.066
EPS Old Adj (Eu)	0.308	0.515	0.662	0.880	1.066
DPS (Eu)	0.000	0.154	0.258	0.331	0.440
EV/EBITDA Adj	10.4	6.4	7.8	5.6	4.3
EV/EBIT Adj	13.4	7.5	8.9	6.2	4.6
P/E Adj	27.7	16.6	12.9	9.7	8.0
Div. Yield	0.0%	1.8%	3.0%	3.9%	5.2%
Net Debt/EBITDA Adj	-1.5	0.2	0.0	-0.5	-0.9