EQUITY RESEARCH
Italy | Consumer Durables & Apparel

SABAF

Earnings Review

BUY ord. *(Unchanged)*
Target: **€ 21.00** *(Unchanged)*
Risk: High

STOCKDATA	ORD
Price (as of 08 Sep 2023)	16.8
Bloomberg Code	SAB IM
Market Cap (€ mn)	209
Free Float	46%
Shares Out (mn)	12.4
52 week Range	€ 14.0 - 19.6
Daily Volume	770

Performance (%)	1M	3M	1Y
Absolute	-3.6	14.7	-12.3
Rel to FTSE Italia All-Share	-4.4	11.6	-31.4

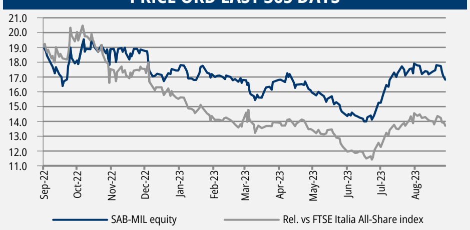
MAIN METRICS	2022	2023E	2024E
SALES Adj	263	251	286
EBITDA Adj	40.1	38.4	48.4
EBIT Adj	21.9	20.6	27.2
NET INCOME Adj	15.0	12.3	18.0
EPS Adj - €c	133	104	145
DPS Ord - €c	0.0	0.0	20.0

MULTIPLES	2022	2023E	2024E
P/E ord Adj	12.5x	16.2x	11.6x
EV/EBITDA Adj	6.9x	7.6x	5.7x
EV/EBIT Adj	12.7x	14.1x	10.2x

REMUNERATION	2022	2023E	2024E
Div. Yield ord (A)	0.0%	0.0%	1.2%
FCF Yield Adj	1.4%	5.7%	6.8%

INDEBTEDNESS	2022	2023E	2024E
NFP Adj	-84.4	-76.9	-62.7
D/Ebitda Adj	2.1x	2.0x	1.3x

PRICE ORD LAST 365 DAYS



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SALES STILL MARGINALLY DOWN WHILE FCF/PROFIT IMPROVING

Sabaf 2Q results showed lower-than-expected revenues, still marginally down QoQ, but stronger recovery in margins and cash generation. Management sees stability in sales on a like-for-like basis in 3Q/4Q but with improving margins. We trim 2023-24 revenues by -3% and Adj. EPS -4%/-2% while confirming our valuation of € 21PS and our BUY recommendation, mainly based on self-help drivers for 2024-25.

Sales still marginally down QoQ, but good improvement in margin and FCF

- **Adj. Revenues**: € 56.8mn (-23% YoY) vs € 60.3mn exp.;
- **Adj. EBITDA**: € 8.5mn (-29% YoY) vs € 8.7mn exp. ;
- **Adj. EBITDA Margin**: 14.9% vs 14.4% Exp.
- **Adj. net income**: € 1.8mn (-67.2% YoY) vs € 2.5mn exp. ;

Adjusted for the impacts of hyperinflation in Turkey and some start-up costs, Sabaf`s 2Q results showed: **1) revenues still slightly down QoQ** to € 56.8mn (vs. € 60mn expected); **2) Adj. EBITDA up +19% QoQ** to € 8.5mn (vs. € 8.7mn exp.) **with margin up sequentially** to 14.9% (vs. 14.4% exp.) from 12.3% in 1Q23 mainly due to lower Raw Material and energy costs; **3) better-than-expected FCF** (€ 13.5mn) **thanks to the reduction in NWC** (€ 11.1mn in 2Q23 and € 10.8 in 1H23).

FY23 market demand to remain sluggish but SAB to further improve margins

Sabaf is expecting market demand in 2H to remain as sluggish as in 1H, with **SAB organic sales expected to remain flattish on a sequential basis at around € 57/59mn in 3Q and 4Q, contribution from newly acquired MEC** of around € 8mn/quarter and **initial contributions from the Mexican and Indian plants and from the induction launch** marginal in 4Q23 and more tangible in 2024-25.

In the call, **management expressed a high level of confidence on further margin recovery in 3Q**, with good visibility provided by the improved competitiveness in Turkey and stable prices, and **indicated the possibility to return closer to historical 18-19% EBITDA margin** already in 4Q23.

Estimates: sales trimmed by 3% and EPS by 2% on 2023-24

Based on 2Q results and 2H outlook, **we trimmed:**

- **revenues by -3% on 2023-2024 to € 250mn and € 286mn** (organic growth -10% YoY in 2023 and +8% in 2024, largely driven by company-specific strategic projects);
- **ADJ. EBITDA by -1%** to € 38mn and € 48mn (margin slightly raised to 16.9% from 16.6% in 2024 given 2023 exit speed seen above 16% in 2H23);
- **Adj. EPS by -2%** to € 1.45 in 2024.

BUY confirmed. Company specific drivers to support growth in 2024-25

We confirm our BUY rating and our valuation of € 21PS, based on average 13x ADJ PE 2024 and 11x EV/EBIT including synergies from MEC acquisitions.

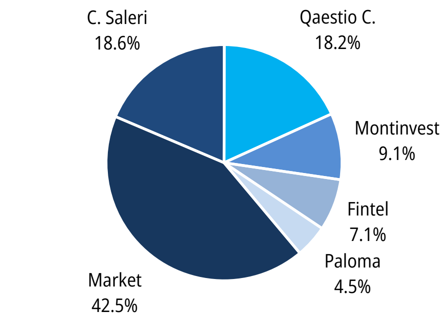
Our recommendation is supported by the following key reasons:

1. **We appreciate the acquisition of MEC** (see note n° 227 published on July 17th, 2023), which increases SAB exposure to the more profitable US market, further diversifies SAB product mix and offers room for synergies and value creation;
2. **We think the severe estimate revision of the last 2 years has reached a bottom;**
3. **Some investments executed in 2022-23** (start-up of Indian and Mexican plants and entry into the induction market) **are finally expected to bear fruits in 2024-25 and drive top-line organic growth** even in an uncertain macro scenario**;**
4. **Valuation is undemanding, at 5.7x EV/EBITDA, 10x EV/EBIT and 12x Adj. PE 2024** (5.4x EV/EBITDA, 9x EV/EBIT and 10x Adj PE pro-forma for run-rate of MEC synergies).

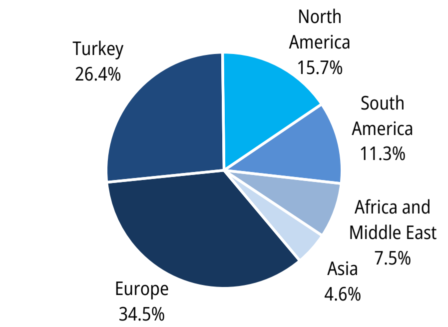
MAIN FIGURES - EURmn	2020	2021	2022	2023E	2024E	2025E
SALES Adj	185	263	263	251	286	299
Growth	18.6%	42.4%	0.0%	-4.8%	14.2%	4.6%
EBITDA Adj	37.1	54.1	40.1	38.4	48.4	54.2
Growth	37.2%	45.9%	-25.9%	-4.2%	26.2%	11.9%
EBIT Adj	20.1	37.5	21.9	20.6	27.2	32.3
Growth	68.9%	86.7%	-41.6%	-6.1%	32.4%	18.8%
Net Income Adj	14.1	26.5	15.0	12.3	18.0	21.9
Growth	73.9%	87.9%	-43.2%	-17.9%	46.1%	21.3%
MARGIN - %	**2020**	**2021**	**2022**	**2023E**	**2024E**	**2025E**
EBITDA Adj Margin	20.1%	20.6%	15.8%	15.3%	16.9%	18.1%
Ebit Adj margin	10.9%	14.2%	8.6%	8.2%	9.5%	10.8%
Net Income Adj margin	7.6%	10.1%	5.9%	4.9%	6.3%	7.3%
SHARE DATA	**2020**	**2021**	**2022**	**2023E**	**2024E**	**2025E**
EPS Adj - €c	125	236	133	104	145	176
Growth	72.7%	89.1%	-43.5%	-22.2%	39.5%	21.3%
DPS ord(A) - €c	55.0	60.0	0.0	0.0	20.0	21.0
BVPS	10.1	10.8	13.8	14.4	15.8	17.4
VARIOUS	**2020**	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Capital Employed	179	195	245	260	264	267
FCF	7.8	-0.5	3.4	11.4	14.3	18.9
CAPEX	17.3	23.8	20.9	18.6	19.2	20.1
Working capital	52.3	68.5	78.2	86.2	92.0	96.9
Trading Working capital	60.8	77.4	84.0	92.4	97.6	102
INDEBTNESS	**2020**	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Nfp Adj	-56.3	-67.6	-84.4	-76.9	-62.7	-46.3
D/E Adj	0.48	0.55	0.54	0.43	0.32	0.21
Debt / EBITDA Adj	1.5x	1.2x	2.1x	2.0x	1.3x	0.9x
Interest Coverage	47.6x	45.9x	21.8x	12.3x	17.6x	21.4x
MARKET RATIOS	**2020**	**2021**	**2022**	**2023E**	**2024E**	**2025E**
P/E Ord Adj	12.0x	10.2x	12.5x	16.2x	11.6x	9.6x
PBV	1.2x	2.2x	1.6x	1.2x	1.1x	1.0x
EV FIGURES	**2020**	**2021**	**2022**	**2023E**	**2024E**	**2025E**
EV/Sales	1.2x	1.3x	1.1x	1.2x	1.0x	0.9x
EV/EBITDA Adj	6.2x	6.3x	6.9x	7.6x	5.7x	4.8x
EV/EBIT Adj	11.4x	9.1x	12.7x	14.1x	10.2x	8.1x
EV/CE	1.3x	1.8x	1.1x	1.1x	1.0x	1.0x
REMUNERATION	**2020**	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Div. Yield ord	4.5%	2.6%	0.0%	0.0%	1.2%	1.2%
FCF Yield Adj	5.7%	-0.2%	1.4%	5.7%	6.8%	9.0%
Roce Adj	8.4%	15.1%	7.5%	6.3%	7.7%	8.9%

Source: Company data and Equita SIM estimates

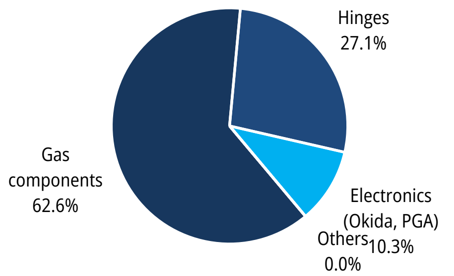
SHAREHOLDERS



SALES BY GEOGRAPHY



SALES BY DIVISION



BUSINESS DESCRIPTION

Sabaf (SAB) is one of the world's leading manufacturers of components for household gas cooking appliances (63% of 2022 group sales and a market share of around 50% in Europe and a global share of about 10%), and **in the manufacturing of hinges for consumer appliances** (27% of 2022 group sales and a worldwide share of around 35%). The company is also expanding its presence in **electronic components** (10% of group sales in 2022) made of electronic control boards, timers, display and power supply units for ovens, kitchen hoods, vacuum cleaners, refrigerators and freezers. The company has also developed internally competencies to **enter the induction hob segment**, with initial sales expected in 2023 and a target to reach a 5% market share by 2025. The majority of Sabaf's sales consist of original equipment supply.

The group **generated 34% of its 2022 revenues in Europe**, **26% in Turkey**, **11% in LatAm**, **16% in North America,** 8% in MENA and 5% in APAC. The Group is characterised by a **high revenue concentration**, with some 50% arising from sales to its ten largest customers.

The Group in the last 5 years made acquisitions to enter the market of **electric components** (10% of 2022 sales) and strengthened its presence in the market of hinges for consumer appliances (27% of 2022 sales). In 2023, it completed a new acquisition, becoming undisputed leader in production of hinges in the western countries.

SAB main production facilities are in Italy, **Brazil and Turkey**. The company is also present in Poland and China and is building additional plants in **India** and **Mexico**.

7-YEAR BUSINESS TRENDS (€ mn)

	2016	2017	2018	2019	2020	2021	2022
SALES	**131**	**150**	**151**	**156**	**185**	**263**	**253**
- gas components	*123*	*141*	*136*	*122*	*130*	*182*	*158*
- hinges	*8*	*9*	*10*	*24*	*41*	*58*	*69*
- electronics	*0*	*0*	*4*	*10*	*14*	*22*	*26*
EBIT	**12.5**	**18.1**	**16.4**	**11.9**	**20.1**	**37.5**	**40**
EBIT margin	9.6%	12.1%	10.9%	7.6%	10.9%	14.2%	15.8%
Net profit	**9.0**	**14.8**	**15.6**	**10.3**	**14.0**	**23.9**	**22**

Source: Company data

In 2016-2019 SAB set the base for a stronger business diversification, expanding the relation with strategic clients (Whirlpool NA, Electrolux, Mabe), entering in new markets (electronics) and strengthening the presence in hinges. The strategy was led by the **CEO Pietro Iotti**, former head of Interpump Hydraulics. **2020-2021 saw strong growth in sales and margins**, thanks to a **sharp increase in market demand** boosted by higher spending on household appliances during the pandemic and the **first contribution of new projects with strategic clients**. **The spending in household appliances started to normalize in 2022**, driving declining organic sales and margins in the industry.

Post 2023 reserved capital increase to finance MEC acquisition, Sabaf's largest shareholders are: the Saleri family (18.6% of capital and 25.3% of voting rights) and Quaestio Capital (18.2% of capital and 24.7% of voting rights) due to a loyalty share mechanism for investors keeping the shares for at least 2 years**.**

STRENGTHS / OPPORTUNITIES	WEAKNESSES /THREATS
- Strong leadership in Europe - High quality and efficiency, innovation skills - Direct manufacturing presence in key countries - Development of new markets and clients - Track record of inorganic expansion	- Concentration of revenues with large appliances manufacturers - Exposure to mature markets (WE), where induction is taking share from gas cooking - Volatility of commodity and energy prices - Client consolidation

WEAKER-THAN-EXPECTED SALES, BUT GOOD MARGIN AND DELEVERAGE

- **Adj. Revenues**: € 56.8mn (-23% YoY) vs € 60.3mn exp.;
- **Adj. EBITDA**: € 8.5mn (-29% YoY) vs € 8.7mn exp.;
- **Margin**: 14.9% vs 14.4% exp.;
- **Adj. net income**: € 1.8mn (-67% YoY) vs € 2.5mn exp.;
- **NFP**: € -74mn vs € -80mn expected.

2Q RESULTS (€ mn)

		EXPECTED		ACTUAL		
	2Q22	2Q23	YoY Δ%	2Q23	YoY Δ%	Abs Δ
Revenues	74.8	60.3	-19%	56.8	-24%	-3.5
Adj. EBITDA	13.9	8.7	-38%	8.5	-39%	-0.2
Margin	18.5	14.4	-420bps	14.9	-360bps	+60bps
Adj. EBIT	9.0	4.2	-54%	4.2	-53%	0.1
Adj. Net income	5.6	2.5	-55%	1.8	-67%	-0.7
NFP	-94.8	-79.6	-16%	-73.8	-22%	5.8

Source: Equita SIM estimates and company data

1H RESULTS (€ mn)

		EXPECTED		ACTUAL		
	1H22	1H23	YoY Δ%	1H23	YoY Δ%	Abs Δ
Revenues	145.7	118.4	-19%	114.9	-21%	-3.5
Adj. EBITDA	26.9	15.8	-41%	15.6	-42%	-0.2
Margin	18.5	13.3	-510bps	13.6	-490bps	+20bps
Adj. EBIT	18.0	7.0	-61%	7.1	-61%	0.1
Adj. Net income	13.0	3.9	-70%	3.2	-75%	-0.7
NFP	-94.8	-79.6	-16%	-73.8	-22%	5.8

Source: Equita SIM estimates and company data

Adjusted for the impacts of hyperinflation in Turkey (highly unfavourable in 2Q23, due to the much stronger TRL devaluation vs. CPI) **and some start-up costs** for the Indian and Mexican plants and induction project (€ 0.8mn in 2Q23 and € 1.2mn in 1H23), Sabaf 2Q23 results showed:

- **Weaker-than-expected revenues** (-23% YoY vs. -19% exp.) at € 56.8mn vs. € 60mn expected. Perimeter (PGA) contributed € 2.1mn while FX impact was marginally negative (€ -0.2mn).
- **On a sequential basis (QoQ) sales declined by -2.3%.**
    - From a **product segment standpoint**, top-line trend showed a **QoQ drop in the hinge segment** (-10.5%) partially offset by **stabilization in gas components** (+0.3%) **and electronics** (+2.2%).
    - **From a geographic standpoint**, sequential top-line trend was -2.9% in EU, -14.6% in Turkey, -8.1% in LatAm and -9.5% in MENA while NA jumped by +26% and APAC by +44%.

SALES BREAKDOWN BY PRODUCT – SEQUENTIAL TREND (€ mn)

	1Q22	2Q23	QoQ change	organic
Gas components	36.2	36.3	0%	0%
Hinges	15.3	13.7	-10%	-10%
Electronic components	6.6	6.8	3%	3%
Total sales	**58.1**	**56.8**	**-2%**	**-2%**

Source: Company data

SALES BREAKDOWN BY PRODUCT – YoY TREND (€ mn)

	2Q22	2Q23	YoY change	organic
Gas components	46.3	36.3	-22%	-22%
Hinges	21.2	13.7	-35%	-35%
Electronic components	7.3	6.8	-7%	-36%
Total sales	**74.8**	**56.8**	**-24%**	**-27%**

Source: Company data

SALES BREAKDOWN BY GEOGRAPHY – SEQUENTIAL TREND (€ mn)	1Q23	2Q23	QoQ change
Europe	19.8	19.2	-3%
Turkey	16.9	14.4	-15%
South America	6.7	6.2	-8%
North America	7.7	9.7	26%
Africa and Middle East	5.3	4.8	-10%
Asia	1.7	2.4	44%
Total sales	**58.1**	**56.8**	**-2%**

Source: Company data

SALES BREAKDOWN BY GEOGRAPHY – YoY TREND (€ mn)	2Q22	2Q23	YoY change
Europe	24.3	19.2	-21%
Turkey	19.0	14.4	-24%
South America	9.3	6.2	-34%
North America	13.7	9.7	-29%
Africa and Middle East	5.1	4.8	-5%
Asia	3.4	2.4	-28%
Total sales	**74.8**	**56.8**	**-24%**

Source: Company data

- **Adj. EBITDA was closer to our expectations**, down by -29% YoY but +19% QoQ to € 8.5mn vs. € 8.7mn expected. and with **EBITDA margin continuing the sequential recovery trend started in 4Q22** (14.9% vs. 14.4% exp. from 12.3% in 1Q). Sequential EBITDA growth (€ +1.3mn) was mainly due to RM (€ +1.6mn), energy (€ +0.6mn), production efficiencies (€ +0.6mn) offset by FX (€ -1mn).

- **Adj. NI** was € 1.8mn vs. € 2.5mn expected, due to higher FX charges (€ 1.5mn).

From a cash generation perspective, **SAB delivered better-than-expected FCF (€ 13.5mn) thanks to the reduction in NWC** (€ 11.1mn in 2Q23 and € 10.8mn in 1H23) which benefitted from **greater use of factoring** (approx. € +10mn), a **drop in inventories** (now consistent with production levels), and a **slight increase in payment terms**, as visible in the following table.

NET WORKING CAPITAL TREND (€ mn)	2Q22	% 4xQ Sales	3Q22	% 4xQ Sales	4Q22	% 4xQ Sales	1Q23	% 4xQ Sales	2Q23	% 4xQ Sales
receivables	90.2	30.1%	64.9	29.0%	59.2	28.8%	62.8	27.0%	52.8	23.2%
inventories	73.0	24.4%	68.1	30.4%	64.4	31.3%	65.8	28.3%	59.5	26.2%
payables	-55.9	-18.7%	-43.8	-19.6%	-39.6	-19.2%	-43.9	-18.9%	-45.8	-20.2%
Operating Working	**107.3**	**35.8%**	**89.2**	**39.9%**	**84.0**	**40.8%**	**84.7**	**36.5%**	**66.5**	**29.3%**

Source: company data

CASHFLOW STATEMENT (€ mn)	1H22	1H23
Net Profit before minorities	13.0	3.2
Depreciation	8.2	8.5
Other	-1.8	2.1
Cashflow provided by operations	**19.4**	**13.8**
(Increase) decrease in NWC	-27.1	10.8
(Purchase of fixed assets)	-11.0	-11.1
FCF	**-18.8**	**13.5**
(Other net investments)	0.0	0.0
(Distribution of dividends)	-6.7	0.0
Right issue / (buy-back)	-1.2	-0.4
Others	-0.5	-2.5
(Increase) decrease in net debt	**-27.2**	**10.6**

Source: Company data

Here below we report the reported and adjusted P&L, on a YoY and QoQ view. The main adjustment is due to the accounting of Turkey as hyperinflationary economy (IAS 29). Start-up costs related to the new plants and induction launch contributed € 0.8mn in 2Q23 and € 1.2mn in 1H23 at EBITDA level.

ADJUSTED AND REPORTED 2Q AND 1H P&L

Quarterly results	Sequential			YoY			12M 2022
	Q2 2023	Q1 2023	Δ%	Q2 2023	Q2 2022	Δ%	
Sales revenue	50,899	58,063		50,899	74,832		253,053
Hyperinflation – Turkey	5,899	84		5,899	(1,467)		(1,091)
Normalised sales revenue	**56,798**	**58,147**	***-2.3%***	**56,798**	**73,365**	***-22.6%***	**251,962**
EBITDA	4,885	6,529		4,885	13,862		40,092
EBTIDA %	*9.6*	*11.2*		*9.6*	*18.5*		*15.8*
Start-up costs	800	354		800	210		704
Hyperinflation – Turkey	2,778	251		2,778	(2,121)		(4,469)
Normalised EBITDA	**8,463**	**7,134**	***+18.6%***	**8,463**	**11,951**	***-29.2%***	**36,327**
Normalised EBITDA%	***14.9***	***12.3***		***14.9***	***16.3***		***14.4***
EBIT	358	1,497		358	8,960		21,887
EBIT %	*0.7*	*2.6*		*0.7*	*12.0*		*8.6*
Start-up costs	983	483		983	232		820
Hyperinflation – Turkey	2,897	898		2,897	(1,311)		(2,838)
Normalised EBIT	**4,238**	**2,878**	***+47.3%***	**4,238**	**7,881**	***-46.2%***	**19,869**
Normalised EBIT%	***7.5***	***4.9***		***7.5***	***10.7***		***7.9***
Net result	(631)	(791)		(631)	5,554		15,249
Net result %	*-1.2*	*-1.4*		*-1.2*	*7.4*		*6.0*
Start-up costs	936	438		936	225		756
Hyperinflation – Turkey	1,517	1,769		1,517	1,453		6,077
Normalised net result	**1,822**	**1,416**	***+28.7%***	**1,822**	**7,232**	***-74.8%***	**22,082**
Normalised net result %	***3.2***	***2.4***		***3.2***	***9.9***		***8.8***

Half-year results	Sequential			YoY			12M 2022
	H1 2023	H2 2022	Δ%	H1 2023	H1 2022	Δ%	
Sales revenue	108,962	107,369		108,962	145,684		253,053
Hyperinflation – Turkey	5,983	376		5,983	(1,467)		(1,091)
Normalised sales revenue	**114,945**	**107,745**	***+6.7%***	**114,945**	**144,217**	***-20.3%***	**251,962**
EBITDA	11,414	13,206		11,414	26,886		40,092
EBTIDA %	*10.5*	*12.3*		*10.5*	*18.5*		*15.8*
Start-up costs	1,154	438		1,154	266		704
Hyperinflation – Turkey	3,029	(2,348)		3,029	(2,121)		(4,469)
Normalised EBITDA	**15,597**	**11,296**	***+38.1%***	**15,597**	**25,031**	***-37.7%***	**36,327**
Normalised EBITDA%	***13.6***	***10.5***		***13.6***	***17.4***		***14.4***
EBIT	1,855	3,842		1,855	18,045		21,887
EBIT %	*1.7*	*3.6*		*1.7*	*12.4*		*8.6*
Start-up costs	1,466	509		1,466	311		820
Hyperinflation – Turkey	3,795	(1,527)		3,795	(1,311)		(2,838)
Normalised EBIT	**7,116**	**2,824**	***+152%***	**7,116**	**17,045**	***-58.3%***	**19,869**
Normalised EBIT%	***6.2***	***2.6***		***6.2***	***11.8***		***7.9***
Net result	(1,422)	2,241		(1,422)	13,008		15,249
Net result %	*-1.3*	*2.1*		*-1.3*	*8.9*		*6.0*
Start-up costs	1,373	457		1,373	298		756
Hyperinflation – Turkey	3,286	4,624		3,286	1,453		6,077
Normalised net result	**3,237**	**7,322**	***-55.8%***	**3,237**	**14,759**	***-78.1%***	**22,082**
Normalised net result %	***2.8***	***6.8***		***2.8***	***10.2***		***8.8***

Source: SAB press release

2H MARKET DEMAND STILL SLUGGISH, BUT ROOM TO IMPROVE MARGINS

Sabaf is expecting market demand in 2H to remain as sluggish as in 1H, with EMEA and China the weak spots, NA stable or marginally down, Turkey rebounding thanks to competitiveness brought by TRL devaluation and Brazil recovering strongly after a period of softness.

SAB organic sales are expected to remain flattish on a sequential basis at around € 57/59mn in 3Q and 4Q, on top of which management sees contribution from newly acquired MEC for around € 8mn/quarter and **initial contributions from investments in Mexico and India and from the induction launch,** overall expected to be marginal in 4Q23 and more tangible in 2024-25.

In the call, **management expressed a high level of confidence on further margin recovery in 3Q**, with good visibility provided by the improved competitiveness in Turkey, stable prices and some mitigation in raw material (stainless steel, aluminium) and energy costs. The CEO **indicated the possibility to return closer to historical 18-19% EBITDA margin** in 4Q23.

ADDITIONAL MESSAGES FROM THE CALL

- **Induction**: there is a list of around 20 interested customers, of which 8 already in testing phase and 2 ready to place orders. The contribution to 2023 will be negligible, but the opportunity for 2024 and beyond is attractive and management sticks to the medium-term goal to reach a 5% market share by 2025.
- **India**: the ramp-up phase has taken longer than expected due to lower penetration reached by a large client served by the new plant, but commercial relations with local players are developing well and management sees an acceleration in sales in 2024 (€ 4-6mn) compared to 2023 (€ 1.5-2.0mn).
- **Mexico:** the auditing of the new plant is underway and mass production is expected to start in October, with ramp-up expected to be quick given the pre-ordered demand from large clients.
- **PGA:** integration is progressing well. The top-line has been affected by the weak demand in the hood market, but costs are starting to benefit from normalization in the supply chain of electronic components.

ESTIMATE REVISION: WE TRIM SALES BY 3% AND ADJ EPS BY 2%

Based on 2Q results and 2H outlook, **we trimmed:**

- **revenues by -3% on 2023-2024 to € 250mn and € 286mn** (organic growth -10% YoY in 2023 and +8% in 2024, largely driven by new strategic projects);
- **ADJ. EBITDA by -1%** to € 38mn and € 48mn (margin slightly raised to 16.9% from 16.6% in 2024 given 2023 exit speed seen above 16% in 2H23);
- **Adj. EPS by -2%** to € 1.45 in 2024.

CHANGE IN ESTIMATES (€ mn)

	2023E Prev.	2023E Curr.	2024E Prev.	2024E Curr.	2025E Prev.	2025E Curr.
Adj. Revenues	**257.5**	**250.6**	**295.5**	**286.3**	**308.9**	**299.3**
% chg		-2.7%		-3.1%		-3.1%
Abs chg		-6.9		-9.2		-9.6
Adj. EBITDA	**38.7**	**38.4**	**49.0**	**48.4**	**54.6**	**54.2**
% chg		-0.8%		-1.2%		-0.8%
Abs chg		-0.3		-0.6		-0.4
Adj. EBIT	**19.9**	**20.6**	**27.8**	**27.2**	**32.7**	**32.3**
% chg		3.5%		-2.1%		-1.3%
Abs chg		0.7		-0.6		-0.4
Adj. Net income	**12.8**	**12.3**	**18.4**	**18.0**	**22.1**	**21.9**
% chg		-3.7%		-2.0%		-1.0%
Abs chg		-0.5		-0.4		-0.2
Net income	**8.9**	**5.6**	**18.4**	**18.0**	**22.1**	**21.9**
% chg		-36.2%		-2.0%		-1.0%
Abs chg		-3.2		-0.4		-0.2
Adj. EPS (€ cents)	**108**	**104**	**148**	**145**	**177**	**175**
% chg		-3.7%		-2.0%		-1.0%
Abs chg		-4.0		-3.0		-1.8
NFP	**-79.0**	**-76.9**	**-66.1**	**-62.7**	**-50.4**	**-46.3**
% chg		-2.6%		-5.1%		-8.0%
Abs chg		2.1		3.4		4.1
FCF	**9.3**	**11.4**	**13.0**	**14.3**	**18.2**	**18.9**
% chg		22.2%		10.0%		3.7%
Abs chg		2.1		1.3		0.7
CAPEX	**18.6**	**18.6**	**19.8**	**19.2**	**20.7**	**20.1**
% chg		0.0%		-3.1%		-3.1%
Abs chg		0.0		-0.6		-0.6
DPS	**0.0**	**0.0**	**20.0**	**20.0**	**21.0**	**21.0**
% chg		n.m.		0.0%		0.0%
Abs chg		0		0		0.0%

Source: Equita SIM estimates

BUY REITERATED AND VALUATION CONFIRMED AT € 21PS

We confirmed our valuation of € 21PS, calculated as the average between 13x Adj. PE and 11x EV/EBIT 2024 pro-forma for MEC synergies post 2024 (we estimate € 2.7mn at EBIT level by 2026).

PE MULTIPLE VALUATION	
(A) 2024E multiple	13 x
(B) 2024 EPS (€)	1.4
(C) synergies EPS contribution post 2024 (€)	0.2
(D)=(A)x((B)+(C)) Stock value (€)	**21**
(E) Dividends to be cashed-in (€)	0.0
(F) = (C)+(D) Total stock value (€ PS)	**21**
(G) Discount (1+Ke)	1.02
(H)=(F)/(G) Target (€ PS)	**20**

TARGET PRICE SENSITIVITY			
(A) 2024E multiple	11 x	13 x	15 x
(B) 2024 eps (€)	1.4	1.4	1.4
(C) synergies eps contribution post 2024 (€)	0.2	0.2	0.2
(D)=(A)x((B)+(C)) Stock value (€)	**18**	**21**	**24**
(E) Dividends to be cashed-in (€)	0.0	0.0	0.0
(F) = (C)+(D) Total stock value (€ PS)	**18**	**21**	**24**
(G) Discount (1+Ke)	1.02	1.02	1.02
(H)=(F)/(G) Target (€ PS)	**17**	**20**	**24**

Source: Equita SIM estimates

EV/EBIT MULTIPLE VALUATION (€ mn)	
(A) 2024E multiple	11.0 x
(B) 2024 EBIT	27
(C) synergies post 2024	2.7
(D)=(A)x((B)+(C)) EV	**329**
(D) NFP 2024E	-63
(E) minorities	0
(F) Dividends to be cashed-in	0
(G) = (C)+(D)+(E)+(F) Total stock value	**267**
(H) Discount (1+Ke)	1.02
(I)=(G)/(H) Target (€ PS)	**261**
(L) shares (mn)	12.5
(M)=(I)/(L) Target (€ PS)	**21**

TARGET PRICE SENSITIVITY (€ mn)			
(A) 2024E multiple	9 x	11 x	13 x
(B) 2024 EBIT	27.2	27.2	27.2
(C) synergies post 2024	2.7	2.7	2.7
(D)=(A)x((B)+(C)) EV	**269**	**329**	**389**
(D) NFP 2024E	-63	-63	-63
(E) minorities	0	0	0
(F) Dividends to be cashed-in	0	0	0
(G) = (C)+(D)+(E)+(F) Total stock value	**207**	**267**	**327**
(H) Discount (1+Ke)	1.02	1.02	1.02
(I)=(G)/(H) Target (€ PS)	**202**	**261**	**319**
(L) shares (mn)	12.5	12.5	12.5
(M)=(I)/(L) Target (€ PS)	**16**	**21**	**26**

Source: Equita SIM estimates

A DCF-based valuation would confirm a target of € 21PS, based on a WACC of 8.5% and perpetual growth of 2.5%.

DCF (€ mn)

Assumptions	
G	**2.5%**
WACC	**8.5%**

Valuation (€ mn)	
NPV of FCF (2024-27)	68
NPV of Terminal Value	284
Estimated Enterprise	**352**
2023E NFP	-77
Adjustment to NFP	-10
SAB IM Equity	**265**
Minorities & Peripheral	0
Total Equity	**265**
Adj. # of shares (mn)	12.5
Target Price (€ PS)	**21**

	2024E	2025E	2026E	2027E	Perpetuity
Sales	**286**	**299**	**308**	**318**	**325**
Change %	*14.2%*	*4.6%*	*3.0%*	*3.0%*	*2.5%*
EBITDA	**48**	**54**	**56**	**59**	**58**
Change %	*26.2%*	*11.9%*	*4.1%*	*4.1%*	*-0.5%*
Margin	16.9	18.1	18.3	18.5	18.0
D&A	-21.2	-21.9	-22.2	-23.5	-24.4
EBIT	**27**	**32**	**34**	**35**	**34**
Change %	*32.4%*	*18.8%*	*5.9%*	*3.0%*	*-3.5%*
Margin	9.5	9.5	10.8	11.1	11.1
Taxes	-7	-9	-9	-10	-9
EBIT after Tax	**20**	**24**	**25**	**26**	**25**
Change %	*32.4%*	*18.8%*	*5.9%*	*3.0%*	*-3.5%*
Capex/acquisitions	-19	-20	-23	-24	-24
(increase) decrease in NWC	-6	-5	-4	-3	-3
Free Cash Flow before minorities	**16**	**21**	**20**	**22**	**22**
Free Cash Flow	**16**	**21**	**20**	**22**	**22**
Discount Factor	1.02	1.11	1.20	1.30	1.30
PV of FCF	**16**	**19**	**17**	**17**	**17**

Source: Equita SIM estimates and company data

DCF SENSITIVITY ANALYSIS				
		Perpetual growth G		
		1.5%	**2.5%**	3.5%
WACC	8.0%	21	24	28
	8.5%	19	**21**	25
	9.0%	17	19	22

Source: Equita SIM estimates

SABAF VALUATION			
	Weight	**Target multiple**	**Valuation (€ PS)**
PE multiple valuation	50%	13x	20
EV/EBIT valuation	50%	11x	21
Target price			**21**

Source: Equita SIM estimates

We reiterate our BUY recommendation, supported by the following key reasons:

1. **We appreciate the acquisition of MEC** (see note n° 227 published on July 17th, 2023), which increases SAB exposure to the more profitable US market, further diversifies SAB product mix and offers room for synergies and value creation;
2. **We think the severe estimate revision of the last 2 years has reached a bottom;**
3. **Some investments executed in 2022-23** (start-up of Indian and Mexican plants and entry into the induction market) **are finally expected to bear fruits in 2024-25 and drive top-line organic growth** even in an uncertain macro scenario**;**
4. **Valuation is undemanding, at 5.7x EV/EBITDA, 10x EV/EBIT and 12x Adj. PE 2024** (5.4x EV/EBITDA, 9x EV/EBIT and 10x Adj PE pro-forma for run-rate of MEC synergies).

STATEMENT OF RISKS FOR SABAF

The main factors that could negatively affect SAB are the following:

1. Weaker market demand
2. Higher competitive pressures
3. Sharp increase in aluminium and steel prices
4. Inability to acquire and integrate companies
5. Inability to enter new markets
6. Inability to protect its product exclusivity
7. Development of alternative technologies

P&L - €mn	2020	2021	2022	2023E	2024E	2025E
SALES Rep	**185**	**263**	**253**	**251**	**286**	**299**
Growth	18.6%	42.4%	-3.9%	-1.0%	14.2%	4.6%
EBITDA Rep	**37.1**	**54.1**	**40.1**	**34.2**	**48.4**	**54.2**
Growth	37.2%	45.9%	-25.9%	-14.7%	41.6%	11.9%
Margin	20.1%	20.6%	15.8%	13.7%	16.9%	18.1%
D&A	**-17.0**	**-16.6**	**-18.2**	**-20.9**	**-21.2**	**-21.9**
EBIT Rep	**20.1**	**37.5**	**21.9**	**13.3**	**27.2**	**32.3**
Growth	68.9%	86.7%	-41.6%	-39.3%	104.7%	18.8%
Margin	10.9%	14.2%	8.6%	5.3%	9.5%	10.8%
Net Interest Charges	-0.8	-1.2	-1.8	-2.8	-2.7	-2.5
Financial Expenses	**-5.6**	**-7.8**	**-8.7**	**-5.7**	**-2.7**	**-2.5**
Non Recurrings	0.0	0.0	0.0	0.0	0.0	0.0
PBT Rep	**14.5**	**29.7**	**13.2**	**7.6**	**24.5**	**29.8**
Growth	48.4%	104.6%	-55.5%	-42.3%	220.6%	21.8%
Income Taxes	-0.1	-5.0	2.5	-2.0	-6.4	-7.9
Tax rate	1.0%	16.8%	-18.5%	26.0%	26.3%	26.6%
Minority Interest	**-0.4**	**-0.8**	**0.0**	**0.0**	**0.0**	**0.0**
Discontinued Operations	0.0	0.0	0.0	0.0	0.0	0.0
Net Income Rep	**14.0**	**23.9**	**15.7**	**5.6**	**18.0**	**21.9**
Growth	35.6%	71.2%	-34.4%	-64.0%	219.4%	21.3%
Margin	7.6%	9.1%	6.2%	2.3%	6.3%	7.3%
Net Income Adj	**14.1**	**26.5**	**15.0**	**12.3**	**18.0**	**21.9**
Growth	73.9%	87.9%	-43.2%	-17.9%	46.1%	21.3%
Margin	7.6%	10.1%	5.9%	4.9%	6.3%	7.3%

CF Statement	2020	2021	2022	2023E	2024E	2025E
FFO	31.3	41.6	33.9	26.6	39.3	43.7
Chg. in Working Capital	-6.3	-18.3	-9.7	3.4	-5.8	-4.8
Other chg. in OCF	0.0	0.0	0.0	0.0	0.0	0.0
NCF from Operations	**25.1**	**23.2**	**24.2**	**30.0**	**33.4**	**38.9**
CAPEX	-17.3	-23.8	-20.9	-18.6	-19.2	-20.1
Financial Investments	-3.1	0.0	-9.8	-19.1	0.0	0.0
Other chg in investments	0.0	0.0	0.0	0.0	0.0	0.0
NCF from Investments	**-20.4**	**-23.8**	**-30.6**	**-37.7**	**-19.2**	**-20.1**
Dividends paid	-4.0	-6.2	-6.7	0.0	0.0	-2.5
Capital Increases	-2.1	0.0	0.2	16.9	0.0	0.0
Other changes in financing	0.2	-4.6	-3.9	-1.8	0.0	0.0
CHG IN NFP	**-1.2**	**-11.3**	**-16.8**	**7.4**	**14.3**	**16.4**

Source: Company data and Equita SIM estimates

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EXPECTED TOTAL RETURN FOR THE VARIOUS CATEGORIES OF RECOMMENDATION AND RISK PROFILE

RECOMMENDATION/RATING	Low Risk	Medium Risk	High Risk
BUY	ETR >= 10%	ETR >= 15%	ETR >= 20%
HOLD	-5% <ETR< 10%	-5% <ETR< 15%	0% <ETR< 20%
REDUCE	ETR <= -5%	ETR <= -5%	ETR <= 0%

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Ord SAB IM MOST RECENT CHANGES IN RECOMMENDATION AND/OR IN TARGET PRICE:

Date	Rec.	Target Price	Risk.	Comment
July 17, 2023	Buy	21.00	High	change in estimates/valuation
May 12, 2023	Hold	19.00	High	-
November 11, 2022	Hold	21.00	High	-
October 26, 2022	Hold	22.00	High	change in estimates/valuation

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BUY	54.9%	62.2%
HOLD	42.7%	35.1%
REDUCE	0.6%	0.0%
NOT RATED	1.8%	2.7%

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