

SABAF

Company Update

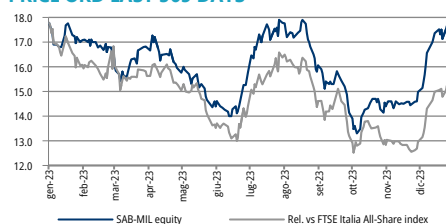
BUY ord. (Unchanged)

Target: € 22.0 (Prev. € 20.0)

Risk: High

STOCKDATA	ORD		
Price (as of 11 Jan 2024)	17.7		
Bloomberg Code	SAB IM		
Market Cap (€ mn)	220		
Free Float	46%		
Shares Out (mn)	12.4		
52 week Range	€ 13.3 - 17.9		
Daily Volume	11,403		
Performance (%)	1M	3M	1Y
Absolute	21.4	19.0	1.5
Rel to FTSE Italia All-Share	20.7	13.6	-13.6
MAIN METRICS	2022	2023E	2024E
SALES Adj	253	242	274
EBITDA Adj	36.3	34.3	44.1
EBIT Adj	19.9	15.4	22.9
NET INCOME Adj	22.1	8.7	14.5
EPS Adj - €	196	73.1	116
DPS Ord - €	0.0	20.0	30.0
MULTIPLES	2022	2023E	2024E
P/E ord Adj	8.5x	24.2x	15.2x
EV/EBITDA Adj	7.6x	8.7x	6.4x
EV/EBIT Adj	14.0x	19.4x	12.4x
REMUNERATION	2022	2023E	2024E
Div. Yield ord (A)	0.0%	1.1%	1.7%
FCF Yield Adj	1.4%	7.7%	7.9%
INDEBTEDNESS	2022	2023E	2024E
NFP Adj	-84.4	-74.4	-59.4
D/Ebitda Adj	2.3x	2.2x	1.3x

PRICE ORD LAST 365 DAYS

Analyst: Domenico Ghilotti
d.ghilotti@equita.eu | +39 02 6204.249

SUPPORTIVE MESSAGES, CONFIRMING 2023 AS THE BOTTOM

We got supportive elements from a recent meeting with Sabaf's top management on our thesis that 2023 was the bottom of the market and that Sabaf enjoys company specific drivers for 2024-25. We have raised 2024-25 FCF by € 3/2mn on lower CAPEX needs post the 2021-23 investment cycle and raised the target to € 22PS.

Supportive elements from a recent meeting with the company

Key takeaways from recent meetings with Sabaf's top management:

- Acquisition of MEC:** the objective of bringing MEC's profitability to the group's levels is confirmed, compared to a historical level of around 13% and a 2022 under pressure (<10%) due to the rise in raw materials, already recovering to historical levels in 2H23. Very satisfied with the integration process. Discussions have already started to share patents and identify opportunities for efficiency (an investment has already been decided to bring greater automation to MEC's production processes).
- Pricing:** Some negotiations have been closed, others are still ongoing. Overall, some price stability is expected in 2024.
- Strategic Projects:**
 - very satisfied with the ramp-up in **India** where significant orders are entering for the start of 2024. The market is dynamic and SAB's position as the only quality player on site is an attractive opportunity;
 - the prospect of a rapid start-up in **Mexico** was confirmed, thanks to the outsourcing of burner production by a major local customer (€ 4-5mn sales expected in 2024, starting in February);
 - Induction:** a weaker start than initially expected, because the European market is under pressure, a project (more in terms of volume than value) with an important customer has not materialized and the issue of the shortage of components that limited the incumbent's ability to serve the market has ended;
- Investments:** management sees a phase of monetization of the investments made, with a level of CAPEX that should not exceed € 15mn per year in 2024-25;
- Projections for 4Q23 were confirmed** (organic recovery in both YoY and QoQ and an improvement in margins);
- Outlook 2024.** There are signs of improvement in demand at the beginning of 2024, and even in Europe the bottom of market demand seems to have been 2H23. For 2024, the trend of recovery in profitability is expected to continue, confirming the objective of returning to 18% in the medium term.
- M&A:** they remain attentive to opportunities, particularly in electronics, but the focus in the next 12 to 18 months is on integrating MEC and monetizing past investments.
- Dividend policy.** There is no reason not to assume a return to the dividend in 2024, after the interruption in 2023 linked to the ongoing negotiations for the acquisition of MEC

Overall, the messages were supportive in our opinion. The only note of caution concerns the start-up of induction, but the confirmation of the start-up in Mexico, the ramp-up in India and the improvement in the demand trend are elements that confirm that the bottom of the market is behind us and, if confirmed in the coming months, this gives good support to our estimates for 2024-25.

Estimates: improved FCF on lower CAPEX needs post 2021-23 investment cycle

We have fine-tuned the 2023-25 estimates, improving net debt at the end of 2023 by €5mn, **raising 2024/25 FCF by €3/2mn** thanks to lower capex and **reduced Adj. EPS by 2%/3%** for a slight increase in financial costs.

Valuation raised to € 22PS

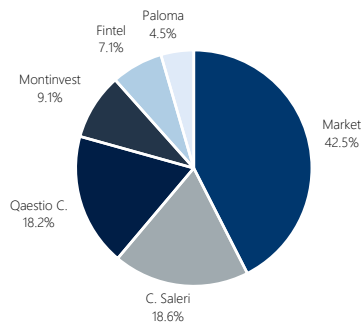
We raised the target to €22PS as an average of market multiples (13x Adj. PE and 11x EBIT 2025 discounted to 12M) **and DCF.**

The stock trades at 15-12x Adj PE and 12-9x EV/EBIT 2024-25, attractive multiples if, as we think and as supported by recent comments, momentum on the top-line is reversing.

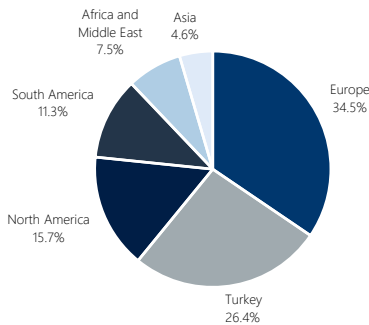
MAIN FIGURES - EURmn	2020	2021	2022	2023E	2024E	2025E
SALES Adj	185	263	253	242	274	291
Growth	18.6%	42.4%	-3.9%	-4.4%	13.2%	6.4%
EBITDA Adj	37.1	54.1	36.3	34.3	44.1	51.7
Growth	37.2%	45.9%	-32.9%	-5.6%	28.6%	17.3%
EBIT Adj	20.1	37.5	19.9	15.4	22.9	29.8
Growth	68.9%	86.7%	-47.0%	-22.3%	48.0%	30.5%
Net Income Adj	14.1	26.5	22.1	8.7	14.5	18.9
Growth	73.9%	87.9%	-16.6%	-60.7%	66.7%	30.4%
MARGIN - %	2020	2021	2022	2023E	2024E	2025E
EBITDA Adj Margin	20.1%	20.6%	14.4%	14.2%	16.1%	17.8%
Ebit Adj margin	10.9%	14.2%	7.9%	6.4%	8.3%	10.2%
Net Income Adj margin	7.6%	10.1%	8.7%	3.6%	5.3%	6.5%
SHARE DATA	2020	2021	2022	2023E	2024E	2025E
EPS Adj - €c	125	236	196	73.1	116	152
Growth	72.7%	89.1%	-17.1%	-62.7%	59.2%	30.4%
DPS ord(A) - €c	55.0	60.0	0.0	20.0	30.0	35.0
BVPS	10.1	10.8	13.8	14.1	15.1	16.3
VARIOUS	2020	2021	2022	2023E	2024E	2025E
Capital Employed	179	195	245	255	252	252
FCF	7.8	-0.5	3.4	16.1	17.5	18.3
CAPEX	17.3	23.8	20.9	18.6	15.1	16.0
Working capital	52.3	68.5	78.2	78.1	82.3	89.9
Trading Working capital	60.8	77.4	84.0	84.1	87.8	94.7
INDEBTNESS	2020	2021	2022	2023E	2024E	2025E
Nfp Adj	-56.3	-67.6	-84.4	-74.4	-59.4	-44.8
D/E Adj	0.48	0.55	0.54	0.42	0.32	0.22
Debt / EBITDA Adj	1.5x	1.2x	2.3x	2.2x	1.3x	0.9x
Interest Coverage	47.6x	45.9x	21.8x	11.7x	13.4x	12.5x
MARKET RATIOS	2020	2021	2022	2023E	2024E	2025E
P/E Ord Adj	12.0x	10.2x	8.5x	24.2x	15.2x	11.7x
PBV	1.2x	2.2x	1.6x	1.3x	1.2x	1.1x
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	7.6x	8.7x	6.4x	5.2x
EV/EBIT Adj	11.4x	9.1x	14.0x	19.4x	12.4x	9.0x
EV/CE	1.3x	1.8x	1.1x	1.2x	1.1x	1.1x
REMUNERATION	2020	2021	2022	2023E	2024E	2025E
Div. Yield ord	4.5%	2.6%	0.0%	1.1%	1.7%	2.0%
FCF Yield Adj	5.7%	-0.2%	1.4%	7.7%	7.9%	8.3%
Roce Adj	8.4%	15.1%	6.8%	4.9%	6.7%	8.7%

Source: Company data and Equita SIM estimates

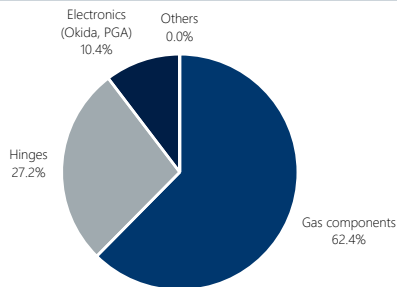
SHAREHOLDERS



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 in the medium term. 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
Adj. SALES	131	150	151	156	185	263	252
- gas components	123	141	136	122	130	182	157
- hinges	8	9	10	24	41	58	69
- electronics	0	0	4	10	14	22	26
Adj. EBITDA	25.4	31.0	30.0	27.0	37.1	54.1	36.3
Adj. EBITDA margin	19.4%	20.6%	19.9%	17.3%	20.1%	20.6%	14.4%
Adj. Net Income	8.3	12.4	11.5	8.1	14.1	26.5	22.1

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 Qaestio 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

- 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

WEAKNESSES /THREATS

- 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

SUPPORTIVE ELEMENTS FROM A RECENT MEETING WITH THE COMPANY

We recently hosted a meeting with Sabaf (SAB) top management. Key messages:

1. **Acquisition of MEC:** The acquisition executed last July (see our note n° 227 dated July 17th, 2023) makes a lot of strategic sense because it strengthens SAB presence on the NA market, strengthens SAB global leadership in hinges, creates a very balanced production footprint (SABAF today produces hinges in 6 plants, of which 3 in Italy, 1 in Poland, 1 in the USA, 1 in Turkey) and generates commercial synergies. The objective of bringing MEC's profitability to the group's levels is confirmed, compared to a historical level of around 13% EBITDA margin and a 2022 margin under pressure (<10%) due to the rise in raw material prices, already back to historical levels in 2H23. **Management is very satisfied with the integration process:** an excellent and very transparent relation has been developed with MEC management team and discussions have already started to share patents and identify opportunities for efficiency (an investment has already been decided to bring greater automation to MEC's production processes).
2. **Prices:** Some negotiations have been closed, others are still ongoing. Overall, price stability is expected in 2024, with some areas even commanding price increases justified by SAB competitive position and labour cost inflation and by volumes not yet to the levels for which certain prices had been negotiated.
3. **Strategic projects:**
 - a. **Management very satisfied with the ramp-up in India** where significant orders have been collected. The market is dynamic and SAB's position as the only quality player on site is attractive: the challenge is to make customers understand the economic benefit of paying 3-4x more for the component but having quality products that lead to savings in product life cycle management;
 - b. **The prospect of a rapid start-up in Mexico was confirmed**, thanks to the outsourcing of burner production by a major local customer (€ 4-5mn sales expected in 2024, starting in February);
 - c. **Induction: the project had a weaker start than initially expected**, because the European market demand is under pressure, a project (more relevant for volumes than value) with an important customer has not materialized and the issue of component shortages that limited the incumbent's ability to serve the market has ended. To date, however, Sabaf has completed the certification of 3 products on the entire range (low, medium, high) and can finally start invoicing from March/April with a medium-term perspective that remains unchanged.
4. **Investments:** having completed an important investment cycle (over € 90mn between CAPEX and M&A in the last 3 years), management sees a phase of monetization of the investments made, with a **level of CAPEX that should not exceed € 15mn per year in 2024-25.**
5. **The projections for 4Q23** (expected organic recovery both YoY and QoQ and improvement in margins) **were confirmed.** A sequential improvement for 4Q23 is confirmed also in terms of net debt.
6. **2024 Outlook.** There are **signs of improvement in demand** at the beginning of 2024, and even in Europe the bottom of market demand seems to have been in 2H23. For 2024, the trend of recovery in profitability is expected to continue, confirming the objective of returning to 18% in the medium term. Among the headwinds of 2024 there is a labour cost that rises on average MSD, but which is more than offset by the drop in the prices of some raw materials and the higher expected volumes.
7. **M&A:** management remains attentive to opportunities, particularly in electronics, but the focus in the next 12/18 months is on the integration of MEC and monetizing past investments.
8. **Dividend policy.** There is no reason not to assume a return to the dividend in 2024, after the interruption in 2023 linked to the ongoing negotiations for the acquisition of MEC.
9. **Cost of debt.** SAB average cost of debt is around 3%, with 70% at a fixed rate at very attractive conditions (1.5-2.0%) with an average duration of 5 years, so the increase in the cost will be very gradual.

Overall, the messages were encouraging: the only note of caution concerns the start-up of induction, but the confirmation of the start-up in Mexico, the ramp-up in India and the improvement in the demand trend are elements that **support our view that the bottom of the market is behind us and that SAB has company specific drivers to generate an attractive growth profile** (we estimate +10% sales CAGR, +27% EBITDA CAGR and +44% EPS CAGR to 2025 from 2023 lows, corresponding to **+13% Adj. EPS CAGR across-the-cycle 2019-25**).

ESTIMATE REVISION: IMPROVED DEBT AND CASH GENERATION

We have fine-tuned our estimates (see the table below). In more detail we:

- **Slightly improved the net debt level** at the end of 2023, moved below € 75mn;
- Marginally raised 2024-25 sales (less than 1%) and Adj. EBITDA (0%/1%);
- Slightly increased financial costs, leading to a 2%/3% trim in Adj. EPS;
- **Upgraded the cash generation** for 2024-25 (by 20% and 10%) thanks to lower CAPEX;
- Reintroduced a prudent dividend distribution (€ 2.5mn or 30% pay-out on Adj. NI).

	CHANGE IN ESTIMATES (€ mn)					
	2023E Prev.	2023E Curr.	2024E Prev.	2024E Curr.	2025E Prev.	2025E Curr.
Revenues	241.9	241.9	273.2	273.8	290.4	291.2
% chg		0.0%		0.2%		0.3%
Abs chg		0.0		0.6		0.8
Adj. EBITDA	34.3	34.3	44.0	44.1	51.0	51.7
% chg		0.0%		0.3%		1.5%
Abs chg		0.0		0.1		0.7
Adj. EBIT	15.4	15.4	22.7	22.9	29.1	29.8
% chg		0.0%		0.5%		2.6%
Abs chg		0.0		0.1		0.7
Adj. Net income	8.6	8.7	14.7	14.5	19.5	18.9
% chg		0.6%		-1.8%		-2.9%
Abs chg		0.0		-0.3		-0.6
Adj. EPS (€ cents)	73	73	118	116	156	152
% chg		0.6%		-1.8%		-2.9%
Abs chg		0.4		-2.1		-4.6
NFP	-79.9	-74.4	-65.4	-59.4	-51.2	-44.8
% chg		-6.9%		-9.2%		-12.5%
Abs chg		5.5		6.0		6.4
FCF	10.6	16.1	14.5	17.5	16.7	18.3
% chg		51.8%		20.7%		9.8%
Abs chg		5.5		3.0		1.6
CAPEX	18.6	18.6	18.3	15.1	19.5	16.0
% chg		0.0%		-17.7%		-17.7%
Abs chg		0.0		-3.2		-3.4
DPS	0.0	20.0	20.0	30.0	21.0	35.0
% chg		n.m.		50.0%		66.7%
Abs chg		20		10		14

Source: Equita SIM estimates

SABAF VALUATION

	Weight	Target multiple	Valuation (€ PS)
PE multiple valuation	33%	13x	20
EV/EBIT valuation	33%	11x	22
DCF valuation	33%	n.m.	24
Target price			22

Source: Equita SIM estimates

A confirmation of favourable momentum could support higher multiples over the next few quarters, considering that SAB historical 1-year forward Adj. PE has been more in the 14-18x range at the bottom/initial part of recovery cycle.

SABAF ADJ EPS (LHS) AND P/E RATIO (RHS)



Source: Bloomberg

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	242	274	291
Growth	18.6%	42.4%	-3.9%	-4.4%	13.2%	6.4%
EBITDA Rep	37.1	54.1	40.1	32.1	44.1	51.7
Growth	37.2%	45.9%	-25.9%	-20.0%	37.5%	17.3%
Margin	20.1%	20.6%	15.8%	13.3%	16.1%	17.8%
D&A	-17.0	-16.6	-18.2	-19.9	-21.2	-21.9
EBIT Rep	20.1	37.5	21.9	12.2	22.9	29.8
Growth	68.9%	86.7%	-41.6%	-44.2%	87.1%	30.5%
Margin	10.9%	14.2%	8.6%	5.0%	8.3%	10.2%
Net Interest Charges	-0.8	-1.2	-1.8	-2.7	-3.3	-4.1
Financial Expenses	-5.6	-7.8	-9.7	-7.8	-3.3	-4.1
Non Recurrings	0.0	0.0	0.0	0.0	0.0	0.0
PBT Rep	14.5	29.7	12.2	4.4	19.6	25.7
Growth	48.4%	104.6%	-58.9%	-63.9%	344.1%	31.5%
Income Taxes	-0.1	-5.0	3.0	-1.1	-5.1	-6.8
Tax rate	1.0%	16.8%	-24.9%	26.0%	26.0%	26.6%
Minority Interest	-0.4	-0.8	0.0	-0.6	-1.0	-1.2
Discontinued Operations	0.0	0.0	0.0	0.0	1.0	1.2
Net Income Rep	14.0	23.9	15.2	2.7	14.5	18.9
Growth	35.6%	71.2%	-36.2%	-82.6%	444.3%	30.4%
Margin	7.6%	9.1%	6.0%	1.1%	5.3%	6.5%
Net Income Adj	14.1	26.5	22.1	8.7	14.5	18.9
Growth	73.9%	87.9%	-16.6%	-60.7%	66.7%	30.4%
Margin	7.6%	10.1%	8.7%	3.6%	5.3%	6.5%
CF Statement	2020	2021	2022	2023E	2024E	2025E
FFO	31.3	41.6	33.5	23.1	36.7	42.0
Chg. in Working Capital	-6.3	-18.3	-9.3	11.5	-4.2	-7.6
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	34.6	32.5	34.3
CAPEX	-17.3	-23.8	-20.9	-18.6	-15.1	-16.0
Financial Investments	-3.1	0.0	-9.8	-21.2	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	-39.8	-15.1	-16.0
Dividends paid	-4.0	-6.2	-6.7	0.0	-2.5	-3.7
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	10.0	15.0	14.6

Source: Company data and Equita SIM estimates

INFORMATION PURSUANT TO EU REGULATION 2016/958 supplementing Regulation EU 596/2014 (c.d. MAR)

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In the past EQUITA SIM has published studies on Sabaf

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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
January 15, 2024	Buy	22.00	High	change in estimates/valuation
October 25, 2023	Buy	20.00	High	-
July 17, 2023	Buy	21.00	High	change in estimates/valuation
May 12, 2023	Hold	19.00	High	-

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(art. 6, par. 3 Delegated Regulation (EU) 2016/958 of 09 March 2016)

	COMPANIES COVERED	COMPANIES COVERED WITH BANKING RELATIONSHIP
BUY	53.5%	63.0%
HOLD	44.7%	34.2%
REDUCE	0.0%	0.0%
NOT RATED	1.8%	2.7%

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