# Sicit Group

MEDIOBANCA SECURITIES

**16 March 2021** **Industrials** **DCF** **Earnings Release**

**Price: € 13.50** **Target price: € 14.50 (from € 14.00)** **Outperform**

## Solid growth to continue

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### Solid 4Q/FY20 results were in line with expectations

On Friday, Sicit unveiled its 4Q/FY20 results, which were overall aligned with our expectations. In details, in 4Q20 the company reported sales of €15m, up 11.5% YoY, which were already disclosed in January. Adj. EBITDA came out at €5.4m, up 28% YoY, with the margin increasing to 35.9% vs 31.3% reported in 4Q19. Adj. net profit was €3.2m, up 17% YoY and in line with our estimates. Net cash stood at €20.5m vs €19.9m MBe. BoD proposed a DPS of €0.55, vs our forecast of €0.50.

### Outlook is encouraging. 1Q21E revenues seen up double-digit

As regards the outlook on FY21E, in a context of macro scenario still challenged by the pandemic, the management expects the sustained demand for biostimulants to continue, while demand for plaster retardants should remain volatile, especially in 1H21, due to the further potential impact from Covid-19. During yesterday's conference call, the management mentioned a solid start to the year, as 1Q21E revenues are seen growing in line with 4Q20 trend, with all the three business lines reporting positive growth. FY21E capex are seen in line with the sustained level of FY20 (€16m), as the management remains keen on expanding Sicit's production capacity to power m/l term organic growth. As regards the development of the new plant in China, negotiations with authorities are ongoing, though timing of the final agreement will mainly depend on Covid-19 evolution. The management also outlined some details of the project, which should foresee: i) the set-up of an 80-20 JV with a local player, ii) an initial cash-out of c.€12m, and iii) incremental sales in excess of €10m within 4-5 years.

### FY21-22E EPS lifted by 6.5%

Following the release, we lifted our FY21-22E sales forecasts by 2%, assuming a slightly higher growth pace for the biostimulants segment, while keeping unchanged our forecasts for the plaster retardants and animal fat businesses. At the bottom line, we raised our FY21-22E EPS by 6.5%, reflecting higher sales volumes and lower tax rate due to patent box benefit. On cash generation, we factored in the higher capex and dividend payments for FY21E. With this report, we also introduce our estimates for FY23E, which assume sales growth of 8%, an EBITDA margin of 43.7%, 1.6pp above FY22E level, and a net cash position of €23m boosted by capex normalization.

### Higher l/t growth potential and full shares' dilution: Outperform, €14.5 TP

We update our DCF-based valuation, confirming the 8.3% WACC while including a perpetual growth rate of 1.5% vs previous 1% to factor in the higher long term growth potential that may be unlocked by the start-up of the new Chinese plant, whose potential impact is still not included in our estimates. Our TP moves from previous €14.0/share to €14.5/share, which reflects i) €2.5/share increase in equity value, and ii) (€2.0/share) dilution from the increase in total outstanding shares (22.6m vs previous 19.8m) coming from both special shares conversion (0.975m of net new shares) and full warrants' exercise (1.8m new shares). The stock trades at 9x EV/EBITDA, 15x P/E (based on FY22E) and we believe it may keep outperforming the Italian Mid Caps space thanks to its i) circular business model granting outstanding margins, ii) resilient profile thanks to the exposure to the AG business, which grants double digit growth despite the pandemic and iii) unlevered b/s providing flexibility to finance growth opportunities and M&A.

| | 2020 | 2021E | 2022E | 2023E |
|---|---|---|---|---|
| EPS Adj (€) | 0.74 | 0.78 | 0.91 | 1.03 |
| DPS (€) | 0.55 | 0.61 | 0.67 | 0.70 |
| BVPS (€) | 4.43 | 4.99 | 5.29 | 5.66 |
| EV/Ebitda(x) | 11.3 | 10.2 | 8.8 | 7.7 |
| P/E adj (x) | 18.3 | 17.4 | 14.9 | 13.1 |
| Div.Yield(%) | 4.1% | 4.5% | 4.9% | 5.2% |
| OpFCF Yield(%) | 0.5% | 2.4% | 5.1% | 7.5% |

| Market Data | |
|---|---|
| Market Cap (€m) | 306 |
| Shares Out (m) | 23 |
| Intesa Holding (%) | 46% |
| Free Float (%) | 49% |
| 52 week range (€) | 13.75-6.78 |
| Rel Perf vs DJGL Italy DJ Total Market Italy (%) | |
| -1m | -2.7% |
| -3m | 3.9% |
| -12m | 24.8% |
| 21dd Avg. Vol. | 28,433 |
| Reuters/Bloomberg | I:SPRI / SICT IM |

*Source: Mediobanca Securities*

# Valuation Matrix

| Profit & Loss account (€ m) | 2020 | 2021E | 2022E | 2023E |
|---|---|---|---|---|
| Turnover | 63 | 71 | 78 | 85 |
| Turnover growth % | 11.5% | 12.2% | 10.5% | 8.2% |
| EBITDA | 22 | 28 | 33 | 37 |
| EBITDA margin (%) | 34.8% | 40.1% | 42.1% | 43.7% |
| EBITDA growth (%) | nm | 29.4% | 16.0% | 12.2% |
| Depreciation & Amortization | -5 | -6 | -7 | -7 |
| EBIT | 17 | 23 | 26 | 30 |
| EBIT margin (%) | 27.1% | 31.8% | 33.6% | 35.2% |
| EBIT growth (%) | nm | 31.6% | 16.7% | 13.3% |
| Net Fin.Income (charges) | -0 | 0 | 0 | 0 |
| Non-Operating Items | | | | |
| Extraordinary Items | -14 | 0 | 0 | 0 |
| Pre-tax Profit | 3 | 23 | 26 | 30 |
| Tax | 6 | -5 | -6 | -7 |
| Tax rate (%) | -186.1% | 22.0% | 22.0% | 22.0% |
| Minorities | 0 | 0 | 0 | 0 |
| Net Profit | 9 | 18 | 21 | 23 |
| Net Profit growth (%) | nm | 89.1% | 16.7% | 13.3% |
| Adjusted Net Profit | 15 | 18 | 21 | 23 |
| Adj. Net Profit growth (%) | 21.3% | 20.3% | 16.7% | 13.3% |

| Multiples | 2020 | 2021E | 2022E | 2023E |
|---|---|---|---|---|
| P/E Adj. | 18.3 | 17.4 | 14.9 | 13.1 |
| P/CEPS | 9.6 | 13.0 | 11.2 | 10.0 |
| P/BV | 3.0 | 2.7 | 2.6 | 2.4 |
| EV/ Sales | 3.9 | 4.1 | 3.7 | 3.3 |
| EV/EBITDA | 11.3 | 10.2 | 8.8 | 7.7 |
| EV/EBIT | 14.4 | 12.9 | 11.0 | 9.5 |
| EV/Cap. Employed | 2.8 | 3.0 | 2.8 | 2.7 |
| Yield (%) | 4.1% | 4.5% | 4.9% | 5.2% |
| OpFCF Yield(%) | 0.5% | 2.4% | 5.1% | 7.5% |
| FCF Yield (%) | 0.5% | 2.2% | 4.8% | 7.0% |

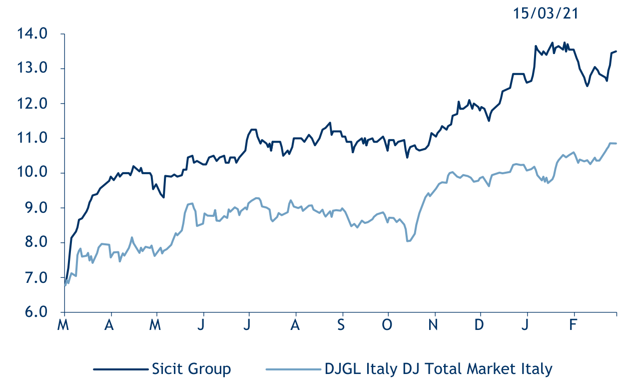
| Per Share Data (€) | 2020 | 2021E | 2022E | 2023E |
|---|---|---|---|---|
| EPS | 0.47 | 0.78 | 0.91 | 1.03 |
| EPS growth (%) | nm | 65.7% | 16.7% | 13.3% |
| EPS Adj. | 0.74 | 0.78 | 0.91 | 1.03 |
| EPS Adj. growth (%) | 21.3% | 5.4% | 16.7% | 13.3% |
| CEPS | -1.13 | 0.63 | 0.05 | 0.28 |
| BVPS | 4.43 | 4.99 | 5.29 | 5.66 |
| DPS Ord | 0.55 | 0.61 | 0.67 | 0.70 |

| Balance Sheet (€ m) | 2020 | 2021E | 2022E | 2023E |
|---|---|---|---|---|
| Working Capital | 27 | 28 | 29 | 30 |
| Net Fixed Assets | 60 | 70 | 75 | 76 |
| Total Capital Employed | 87 | 98 | 104 | 106 |
| Shareholders' Funds | 88 | 113 | 120 | 128 |
| Minorities | 0 | 0 | 0 | 0 |
| Provisions | 0 | 0 | 0 | 0 |
| Net Debt (-) Cash (+) | 1 | 15 | 16 | 23 |

| Key Figures & Ratios | 2020 | 2021E | 2022E | 2023E |
|---|---|---|---|---|
| Avg. N° of Shares (m) | 20 | 23 | 23 | 23 |
| EoP N° of Shares (m) | 20 | 23 | 23 | 23 |
| Avg. Market Cap. (m) | 268 | 306 | 306 | 306 |
| Enterprise Value (m) | 248 | 291 | 290 | 284 |
| Adjustments (m) | -19 | 0 | 0 | 0 |
| Labour Costs/Turnover | 2% | 2% | 2% | 2% |
| Depr.&Amort./Turnover | 8% | 8% | 9% | 8% |
| Turnover / Op.Costs | 1.5 | 1.7 | 1.7 | 1.8 |
| Gearing (Debt / Equity) | -1% | -13% | -14% | -18% |
| EBITDA / Fin. Charges | -130.0 | >10 | >10 | >10 |
| Net Debt / EBITDA | 0.0 | -0.5 | -0.5 | -0.6 |
| Cap.Employed/Turnover | 138% | 138% | 132% | 125% |
| Capex / Turnover | 25% | 22% | 15% | 10% |
| Pay out | 117% | 78% | 73% | 68% |
| ROE | 11% | 16% | 17% | 18% |
| ROCE (pre tax) | 20% | 23% | 25% | 28% |
| ROCE (after tax) | 56% | 18% | 20% | 22% |

| Cash Flow (€ m) | 2020 | 2021E | 2022E | 2023E |
|---|---|---|---|---|
| Cash Earnings | 28 | 23 | 27 | 30 |
| Working Capital Needs | -11 | -1 | -1 | -1 |
| Capex (-) | -16 | -16 | -12 | -8 |
| Financial Investments (-) | 0 | 0 | 0 | 0 |
| Dividends (-) | -9 | -12 | -14 | -15 |
| Other Sources / Uses | -15 | 20 | 0 | 0 |
| Ch. in Net Debt (-) Cash (+) | 22 | -14 | -1 | -6 |

*Source: Mediobanca Securities*




*Source: Mediobanca Securities*

**Price: € 13.50** **Target price: € 14.50 (from € 14.00)** **Outperform**

# 4Q20/FY20 results in line with our estimates

On Friday (March 12), Sicit released its 4Q/FY20 results, which were broadly in line with our estimates. More in details, in 4Q20 the company reported:

- Sales of €15m, up 11.5% YoY (already disclosed)
- Adj. EBITDA at €5.4m, up 28% YoY, marginally below our forecast. Margin increased to 35.9% vs 31.3% reported in 4Q19
- Adj. Net profit at €3.2m, up 17% YoY in line with our estimates
- Net cash (ex-warrant liabilities) at €20.5m vs €19.9m MBe
- Proposed DPS of €0.55/share, better than our forecast of €0.50/share. Furthermore, following the completion of the previous one, BoD also proposed to start a new share buyback program for a maximum amount of further €2m value.

**Sicit: 4Q/FY20 results**

| €m | 4Q20A | 4Q19A | YoY chg. | 4Q20E | A/E | FY20A | FY19A | YoY chg. | FY20E | A/E |
|---|---|---|---|---|---|---|---|---|---|---|
| Sales* | 15.0 | 13.4 | *11.5%* | 15.0 | *0.0%* | 63.2 | 56.7 | *11.5%* | 63.2 | *0.0%* |
| Adj. EBITDA | 5.4 | 4.2 | *27.7%* | 5.6 | *-3.3%* | 24.1 | 20.3 | *18.5%* | 24.3 | *-0.8%* |
| *margin* | *35.9%* | *31.3%* | | *37.1%* | | *38.1%* | *35.8%* | | *38.4%* | |
| Adj. EBIT | 4.2 | 4.1 | *3.9%* | 4.2 | *0.5%* | 19.2 | 15.8 | | 19.2 | *0.1%* |
| *margin* | *28.2%* | *30.2%* | | *28.0%* | | *30.5%* | *27.9%* | | *30.4%* | |
| Adj. net profit | 3.2 | 2.8 | *17.1%* | 3.1 | *3.2%* | 14.6 | 12.1 | *21.3%* | 14.5 | *0.7%* |
| Net Cash ex-warrants | 20.5 | 29.3 | | 19.9 | *nm* | 20.5 | 29.3 | | 19.9 | *nm* |

*Source: Mediobanca Securities, * preliminary figures were already disclosed*

# Feedback from the conference call

Main takeaways from Yesterday's conference call are about:

- **FY21E Outlook: solid growth to continue -** In a context of a macro scenario still challenged by the pandemic, the management expects the sustained demand for biostimulants to continue, while demand for plaster retardants should remain volatile, especially in 1H21, due to the impact of COVID-19 on construction activities and production facilities. Meanwhile, the management flagged a solid start to the year, with 1Q21E revenues seen growing in line with 4Q20 trend, with all the three business lines reporting positive growth.
- **Investments in production capacity start bearing fruits** – FY21E capex are expected to be in line with FY20 level (c.€16m). Investments are starting to bear their fruits, as both the plant for animal hair treatment and the new re-esterification facility for animal fat are now fully operating;
- **Negotiations to start the new plant in China are ongoing,** though timing of the final agreement will entirely depend on Covid-19 evolution. The management also provided more colours about the potential structure of the investment. In particular, it plans to establish an 80-20 JV with a local player. Initial cash-out of the investment should be around €12m, with incremental sales to exceed €10m within 4-5 years;
- **M&A scouting activities are ongoing,** though they are not one of the key priorities for the group. In particular, the management would be interested in targeted acquisitions to complement the Sicit's organic growth profile.

# FY21-22E EPS estimates lifted by 6.5%

Following the release, we increased our FY21-22E EPS estimates by 6.5%. With this report, we also introduce our estimates for FY23E, which assume sales growth of 8% and an EBITDA margin of 43.7%, expanding by 1.6pp vs FY22E level due to operating leverage. More in details, with this report:

- We increased our FY21-22E sales forecast by 2%, factoring in a slightly higher growth pace for the biostimulants segment (which is seen growing at 14% CAGR vs previous 12%), while keeping unchanged our forecasts for the plaster retardants and animal fat segments (seen growing at a 5% and 11% CAGR, respectively);
- We increased our FY21-22E EBITDA forecast by 2%, reflecting the slightly higher volumes. For FY21E, we keep our margin assumption nearly unchanged to cautiously discount any potential logistics cost increase offsetting operating leverage.
- We raised our FY21-22E EPS by 6.5%, reflecting higher EBITDA and also the lower tax rate (seen at 22%) thanks to the patent box benefit;
- On cash generation, we factored in the higher capex for FY21E, seen in line with FY20 at around €16m as well as the higher dividend payment (€0.55 DPS proposed by the BoD vs our previous €0.50 DPS assumption). This should translate into a net cash position of €15m vs previous €18 in FY21E. Going forward, capex normalization should boost cash-flow generation, as we project a net cash position of €23m in FY23E.

**Main changes in FY21-23E estimates**

| €m | 2020 | 2021E | | | 2022E | | | 2023E | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Actual | Old | New | Change | Old | New | Change | Old | New | Change |
| **Sales** | **63.2** | **69.5** | **70.9** | **2.0%** | **76.3** | **78.3** | **2.6%** | **na** | **84.7** | **nm** |
| *YoY growth* | *11.5%* | *10.4%* | *12.2%* | | *9.8%* | *10.5%* | | | *8.2%* | |
| **Adj. EBITDA** | **24.1** | **27.9** | **28.4** | **1.8%** | **31.8** | **33.0** | **3.8%** | **na** | **37.0** | **nm** |
| *margin* | *38.1%* | *40.2%* | *40.1%* | | *41.6%* | *42.1%* | | | *43.7%* | |
| Adj. EBIT | 19.2 | 22.2 | 22.6 | 1.7% | 25.3 | 26.3 | 4.1% | na | 29.8 | nm |
| *margin* | *30.5%* | *31.9%* | *31.8%* | | *33.1%* | *33.6%* | | | *35.2%* | |
| **Adj. net profit** | **14.6** | **16.8** | **17.6** | **5.0%** | **19.0** | **20.5** | **8.0%** | **na** | **23.3** | **nm** |
| *YoY growth* | *21.3%* | *15.3%* | *20.3%* | | *13.5%* | *14.9%* | | | *13.3%* | |
| Net Debt/(Cash) ex warrants liabilities | **-20.5** | **-17.7** | **-15.1** | | **-17.0** | **-16.5** | | **na** | **-22.6** | **nm** |

*Source: Mediobanca Securities*

# Higher l/t growth potential and full shares' dilution: Outperform, new TP of €14.5/share

We update our DCF-based valuation, confirming the 8.3% WACC while including a perpetual growth rate of 1.5% vs previous 1% to factor the higher long term growth potential that may be unlocked by the start-up of the new Chinese plant, whose potential impact is still not included in our estimates.

In our TP computation we also included the updated number of total outstanding shares, which increased from 19.8m to 22.6m, with the stock now being fully diluted.

Our TP moves from previous €14.0/share to €14.5/share, which reflects:

i) €2.5/share increase in equity value

ii) (€2.0/share) dilution from the increase in total outstanding shares coming from both special shares conversion (0.975m of net new shares) and full warrant exercise following the occurrence of the acceleration clause (1.8m new shares)

**Change in our DCF-based valuation**

| | Old | New |
|---|---|---|
| Perpetual growth rate (%) | 1.0% | 1.5% |
| WACC (%) | 8.3% | 8.3% |
| Terminal value end of projection period (€m) | 273.6 | 327.2 |
| Discounting rate of terminal value | 0.57 | 0.57 |
| **Discounted terminal value (€m)** | **156.3** | **187.8** |
| **Cumulated DFOCF (€m)** | **101.2** | **118.3** |
| **Enterprise Value (€m)** | **257.5** | **306.1** |
| Treasury shares (€m) | 1.7 | 2.1 |
| Net cash as of 31/12/20 (€m) | 19.9 | 20.5 |
| Minorities (€m) | 0.0 | 0.0 |
| Pensions liabilities & other provisions (€m) | (0.5) | (0.4) |
| **Equity Value (€m)** | **278.7** | **328.3** |
| # total outstanding shares (m) | 19.8 | 22.6 |
| **Value per share (€)** | **14.0** | **14.5** |

*Source: Mediobanca Securities*

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| |
|---|
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| Underperform (U). The stock's total return is expected to be below the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 6-12 months. |
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| Restricted (R). Any kind of recommendation on the stock is restricted pursuant to Mediobanca Research and Trading restriction directive in circumstances where the bank is performing an Investment Banking role in Capital Markets or M&A transactions. |
| Coverage suspended (CS). The coverage is temporarily suspended due to endogenous events related to the Equity Research department (reallocation of coverage within the team, analyst resignation, etc.) |

Our recommendation relies upon the expected relative performance of the stock considered versus its benchmark. Such an expected relative performance relies upon a valuation process that is based on the analysis of the company's business model / competitive positioning / financial forecasts. The company's valuation could change in the future as a consequence of a modification of the mentioned items.

Please consider that the above rating system also drives the portfolio selections of the Mediobanca's analysts as follows: long positions can only apply to stocks rated Outperform and Neutral; short positions can only apply to stocks rated Underperform and Neutral; portfolios selection cannot refer to Not Rated stocks; Mediobanca portfolios might follow different time horizons.

| Proportion of all recommendations relating to the last quarter | | | | | |
|---|---|---|---|---|---|
| Outperform | Neutral | Underperform | Not Rated | Restricted | Coverage suspended |
| 33.75% | 53.31% | 11.04% | 0.00% | 1.89% | 0.00% |

| Proportion of issuers to which Mediobanca S.p.A. has supplied material investment banking services relating to the last quarter: | | | | | |
|---|---|---|---|---|---|
| Outperform | Neutral | Underperform | Not Rated | Restricted | Coverage suspended |
| 45.00% | 52.81% | 40.00% | 0.00% | 66.67% | 0.00% |

The current stock ratings system has been used since 25 September 2017. Before then, Mediobanca S.p.A. used a different system, based on the following ratings: outperform, neutral, underperform, under review, not rated. For additional details about the old ratings system, please access research reports dated before 25 September 2017 from the restricted part of the "MB Securities" section of the Mediobanca S.p.A. website at www.mediobanca.com.

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The present rating in regard to Sicit Group has not been changed since 18/11/2020.

**INITIAL COVERAGE**

Sicit Group initial coverage as of 18/11/2020.



**END NOTES**

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