

A fast growing high-value solution provider

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An integrated offering bringing innovation across the IT value chain

SeSa group is an Italian IT services and solution provider supporting corporate clients along their digital transformation journey through a two-fold business model. SeSa is the leading (#1) player in the €2.5bn Italian value added distribution (VAD) market (representing 80% of revenues). In the fragmented Italian system integrator (SSI) market (20% of revenues), SeSa is one of the fastest-growing players', rapidly gaining share thanks to its focus on the Enterprises and SMEs segments worth >€6bn.

A differentiated high-value strategy...

SeSa has developed two complementary strategies across its core divisions to deliver c.6% top line growth in the next three years. In VAD, the focus is on maintaining its leading market share position (c.40% in 2018), increasing the wallet of vendors while leveraging scale to protect profitability. This should translate into mid-single-digit growth and a stable operating margin. On the SSI front, SeSa focuses on high-value added solutions, combining ERP, cyber security and system integration specifically designed for SMEs. Organic revenue CAGR in this division is projected at 8%. As this is the fastest-growing area in digital investments, greater penetration with large accounts and service portfolio expansion thanks to bolt-on M&A deals is also a valuable option.

...to unlock double-digit EPS growth in 2019-22, with >20% ROCE

We expect EBITDA to increase at c.8% CAGR in 2019-22E to reach c.€92m (5.0% on sales) in 2022, from 63m (4.8%) in FY18. This margin expansion is mainly the result of increasing weight of the SSI business, while we only assume a modest improvement in VAD's profitability. This should translate into c.10% EPS CAGR in 2019-22. Over the same period we forecast SeSa to generate around €130m cumulated FCF, as capex and WC needs should be limited. Thanks to this asset light business model and the high-value strategy, we believe the group will be able to deliver suitable double-digit return on capital (>20% ROCE). Balance sheet flexibility - Sesa is net cash positive as of Dec-18 - should also allow to catch external growth opportunities.

Valuation suggesting compelling upside: Outperform, with TP €40.0/sh

We initiate our coverage on SeSa with an Outperform rating and a Target Price of €40.0/sh, calculated as the simple average of a Peers multiples approach (based on European VAD and SSI EV/EBIT sector multiples) and a DCF-based valuation. SeSa trades at c.5x 2020 EBITDA and c.12x 2020 PE, delivering an attractive c.7% FCF yield, at a discount vs sector players. Our valuation releases compelling double-digit upside on yesterday's closing price, and we believe SeSa is a value case in the digital sector. SeSa sits on the digital transformation which we believe to be a structural trend supporting sector growth. The company is well positioned to ride this opportunity having serious top line potential, in both the SSI and the VAD business.

This research report was previously notified to company SeSa with the exclusive purpose of verifying factual accuracy.

	2018	2019E	2020E	2021E
EPS Adj (€)	1.73	2.12	2.33	2.56
DPS (€)	0.60	0.65	0.70	0.80
BVPS (€)	13.23	14.62	16.18	17.93
EV/Ebitda(x)	6.5	5.5	4.8	4.0
P/E adj (x)	15.5	12.4	11.3	10.3
Div.Yield(%)	2.2%	2.5%	2.7%	3.0%
OpFCF Yield (%)	8.7%	1.7%	7.6%	12.0%

Market Data	
Market Cap (€m)	408
Shares Out (m)	15
ITH SpA (%)	53%
Free Float (%)	47%
52 week range (€)	31.25-22.15
Rel Perf vs DJGL Italy DJ Total Market Italy (%)	
-1m	-1.1%
-3m	-3.7%
-12m	-0.4%
21dd Avg. Vol.	13,058
Reuters/Bloomberg	SES.MI / SES IM

Source: Mediobanca Securities

Valuation Matrix

Profit & Loss account (€ m)	2018	2019E	2020E	2021E
Turnover	1,363	1,542	1,646	1,738
Turnover growth %		13.1%	6.7%	5.6%
EBITDA	63	73	80	87
EBITDA margin (%)	4.6%	4.8%	4.9%	5.0%
EBITDA growth (%)		16.4%	9.0%	8.3%
Depreciation & Amortization	-17	-21	-22	-22
EBIT	46	53	59	64
EBIT margin (%)	3.4%	3.4%	3.6%	3.7%
EBIT growth (%)		14.2%	10.9%	9.8%
Net Fin.Income (charges)	-3	-3	-3	-3
Non-Operating Items	0	0	0	0
Extraordinary Items	0	0	0	0
Pre-tax Profit	43	50	55	61
Tax	-13	-15	-17	-18
Tax rate (%)	29.8%	29.9%	30.2%	30.2%
Minorities	-3	-4	-4	-5
Net Profit	27	31	34	38
Net Profit growth (%)		14.8%	11.1%	10.7%
Adjusted Net Profit	27	33	36	40
Adj. Net Profit growth (%)		22.1%	10.0%	9.8%

Multiples	2018	2019E	2020E	2021E
P/E Adj.	15.5	12.4	11.3	10.3
P/CEPS	7.5	7.3	6.6	6.1
P/BV	2.0	1.8	1.6	1.5
EV/ Sales	0.3	0.3	0.2	0.2
EV/EBITDA	6.5	5.5	4.8	4.0
EV/EBIT	8.8	7.6	6.5	5.4
EV/Cap. Employed	2.1	1.8	1.6	1.5
Yield (%)	2.2%	2.5%	2.7%	3.0%
OpFCF Yield (%)	8.7%	1.7%	7.6%	12.0%
FCF Yield (%)	6.4%	1.5%	6.9%	10.0%

Per Share Data (€)	2018	2019E	2020E	2021E
EPS	1.73	1.99	2.21	2.45
EPS growth (%)		14.8%	11.1%	10.7%
EPS Adj.	1.73	2.12	2.33	2.56
EPS Adj. growth (%)		22.1%	10.0%	9.8%
CEPS	3.60	3.63	3.96	4.28
BVPS	13.23	14.62	16.18	17.93
DPS Ord	0.60	0.65	0.70	0.80

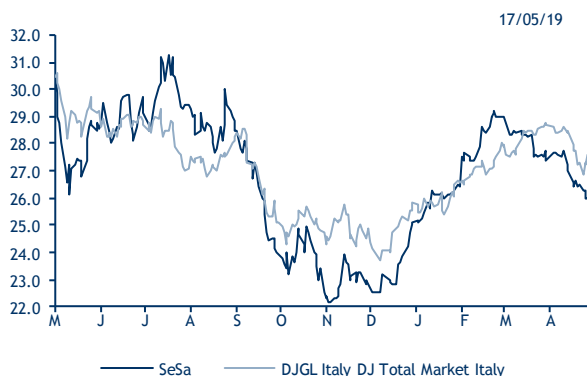
Balance Sheet (€ m)	2018	2019E	2020E	2021E
Working Capital	75	84	97	104
Net Fixed Assets	121	140	139	133
Total Capital Employed	196	225	235	237
Shareholders' Funds	205	227	251	278
Minorities	11	15	19	24
Provisions	35	35	37	38
Net Debt (-) Cash (+)	55	52	71	103

Key Figures & Ratios	2018	2019E	2020E	2021E
Avg. N° of Shares (m)	15	15	15	15
EoP N° of Shares (m)	15	15	15	15
Avg. Market Cap. (m)	417	408	408	408
Enterprise Value (m)	408	401	382	351
Adjustments (m)	46	46	46	46
Labour Costs/Turnover				
Depr.&Amort./Turnover	1%	1%	1%	1%
Turnover / Op.Costs	1.0	1.1	1.1	1.1

Cash Flow (€ m)	2018	2019E	2020E	2021E
Cash Earnings	56	56	61	66
Working Capital Needs	3	-9	-12	-7
Capex (-)	-24	-40	-20	-17
Financial Investments (-)	-3	0	0	0
Dividends (-)	-9	-9	-10	-11
Other Sources / Uses	-21	0	0	0
Ch. in Net Debt (-) Cash (+)	3	-2	19	31

Gearing (Debt / Equity)	-25%	-22%	-26%	-34%
EBITDA / Fin. Charges	-19.4	-21.9	-24.6	-26.7
Net Debt / EBITDA	-0.9	-0.7	-0.9	-1.2
Cap. Employed/Turnover	14%	15%	14%	14%
Capex / Turnover	2%	3%	1%	1%
Pay out	35%	33%	32%	33%
ROE	13%	14%	14%	14%
ROCE (pre tax)	24%	24%	25%	27%
ROCE (after tax)	17%	16%	17%	19%

Source: Mediobanca Securities



Source: Mediobanca Securities

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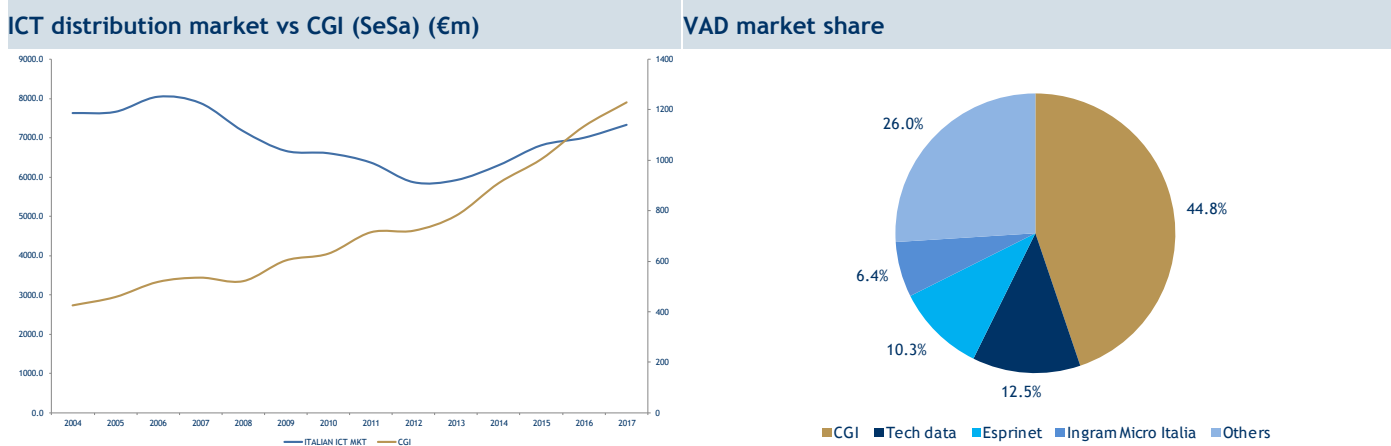
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EXECUTIVE SUMMARY

An integrated offering bringing innovation across the IT value chain

SeSa group is an Italian IT services and solution provider. The company supports its clients along their digital transformation journey.

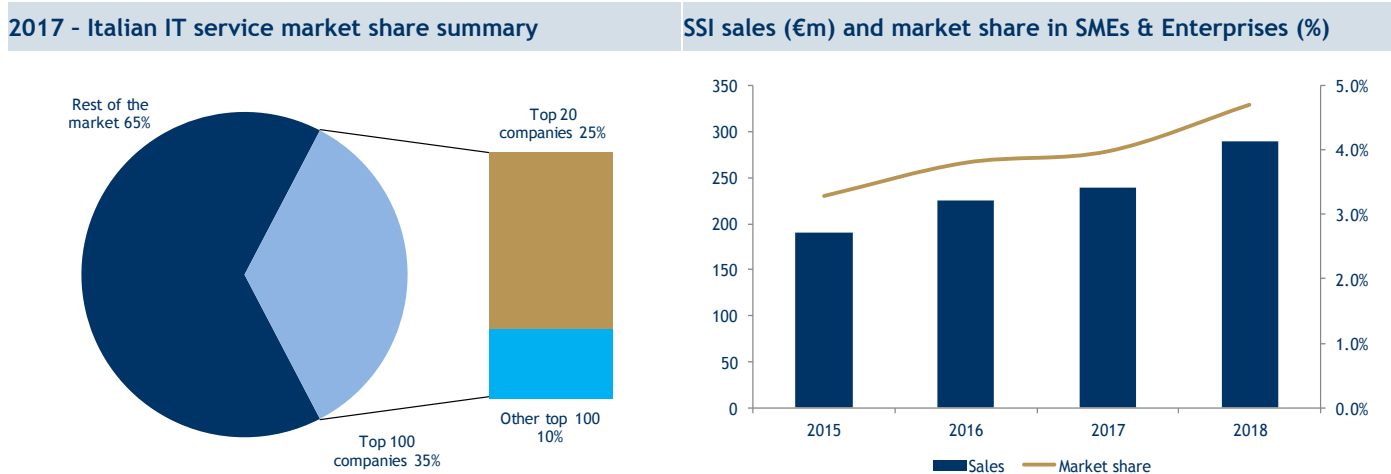
The company has a two-fold business model, competing in two different end-markets. It acts as value added distribution (VAD) in the Italian IT distribution market through its subsidiary Computer Gross Italia. The company is a clear outperformer in its reference market, totalling >€1bn sales, with a market share exceeding 40%.



Source: Mediobanca Securities, Sirmi

Source: Mediobanca Securities, company presentation based on Sirmi

In the Italian system integration (SSI), the market is more fragmented, and it offers relevant consolidation opportunities. In this business, SeSa focuses on the Enterprises and SMEs segments, which is a >€6bn opportunity (or c.36% of the total). Over the past years, SeSa has been a fast-growing player, rapidly gaining share in the segment.



Source: Mediobanca Securities, IDC elaboration for datamanager

Source: Mediobanca Securities, based on Sirmi data

A value-skewed strategy...

SeSa is moving in two directions while adopting a differentiated strategy. The VAD market remains highly competitive, and CGI aims to protect its leading positioning. The company targets stabilising profitability in the short term at c.3.5% EBITDA margin while improving in the medium term thanks to increasing focus on new vendors and high-value services.

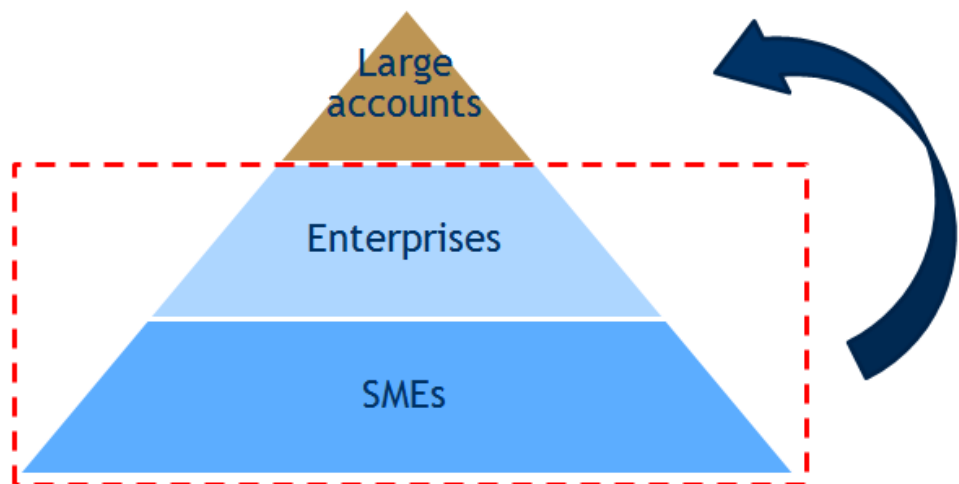
VAD strategy



Source: Mediobanca Securities

On the SSI side, the company is increasing its focus on high-value-added solutions with managed, security and digital services, which has helped increase their share in total SSI revenues and led to an improvement in the profitability of the division. Going forward, greater focus on the large account segment (>50% of the Italian IT service market) might be an interesting option, and we do not rule out any corporate action for entering this appealing segment.

SSI strategy

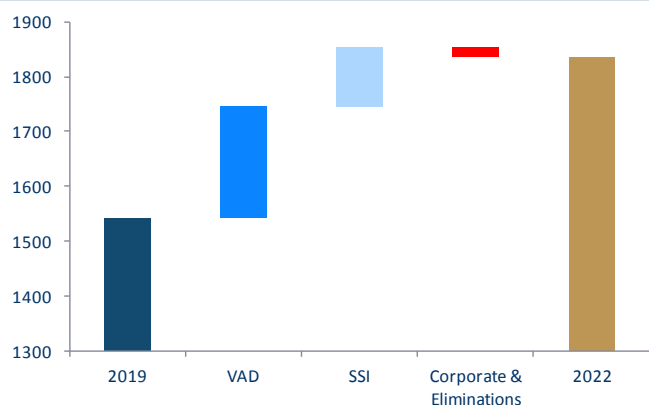


Source: Mediobanca Securities

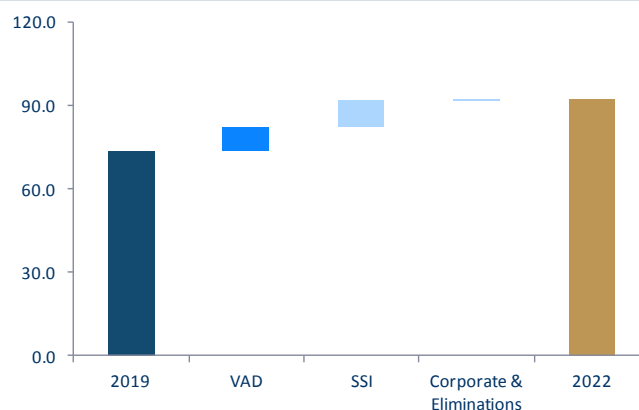
...unlocking double-digit EPS growth with >20% ROCE

We expect SeSa's top line to increase at c.6% CAGR in 2019-22E. By business, VAD is seen growing at a 5.0% CAGR also thanks to the addition of new vendors, while SSI is expected to keep increasing in the high single digit area. EBITDA is expected to increase at around 8% CAGR in 2019-22E reaching c.€92m, with a 5.0% margin in 2022 from 4.8% in 2018.

2019-2022E - Sales bridge



2019-2022E - Adj. EBITDA bridge

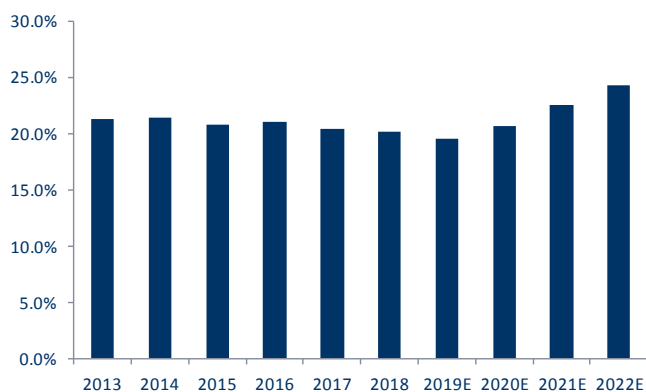


Source: Mediobanca Securities

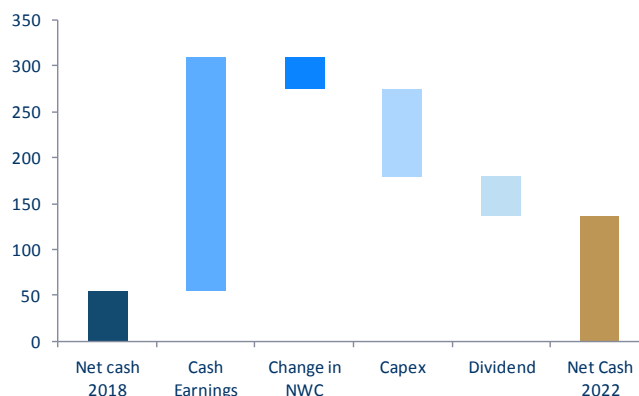
Source: Mediobanca Securities

The margin expansion foreseen in our estimate is attributable to an increasing weight of the SSI business, coupled with a modest improvement in VAD's profitability. This should translate into c.10% EPS CAGR in the 2019-2022 period.

2013-2022E - (pre-IFRS 16) ROCE (%)



2018-2022E - Net cash evolution



Source: Mediobanca Securities

Source: Mediobanca Securities

The asset light business model enables SeSa to deliver a solid double-digit ROCE, which is expected to improve in the next years from c.20% in 2019 to c.25% in 2022. In addition, limited capex and WC needs enables SeSa to generate around €130m cumulated FCF, leading to an increase in net cash from €54m to €137m in 2022.

We initiate with Outperform with TP of €40.0/sh

We initiate the coverage on SeSa with a Target Price of €40.0/sh, which we have calculated as the simple average of a Peers multiples approach (based on European VAD and SSI EV/EBIT sector multiples) and a DCF-based valuation.

Valuation summary

DCF	€37.7
SoTP	€42.2
TP	€40.0

Source: Mediobanca Securities

SeSa sits on the digital transformation, which we believe to be a structural trend supporting sector growth. The company is well positioned to ride this opportunity, having serious top-line potential in both the SSI and the VAD business. Thanks to its asset-light business model and the high-value strategy, we believe the group will be able to deliver suitable double-digit return on capital (>20% ROCE). At the current price, the stock trades at c.5x 2020 EBITDA and c.12x 2020 PE, delivering an attractive c.7% FCF yield, at a discount vs sector players. Our valuation releases compelling double-digit upside on yesterday's closing price, and we believe SeSa is a value case in the digital sector; therefore, we initiate our coverage with an Outperform rating.

Multiples summary (at €26.0/sh)

	2019	2020	2021	2022
EV/Sales	0.3x	0.2x	0.2x	0.2x
EV/Adj.EBITDA	5.4x	4.7x	4.0x	3.4x
EV/EBITDA	5.4x	4.7x	4.0x	3.4x
EV/Adj.EBIT	7.1x	6.2x	5.2x	4.4x
EV/EBIT	7.5x	6.4x	5.4x	4.5x
Adj. PE	12.3x	11.2x	10.2x	9.5x
PE	13.1x	11.8x	10.6x	9.9x
FCF yield	1.7%	7.2%	10.5%	11.6%

Source: Mediobanca Securities