

EDIL SAN FELICE

Sector: Infrastructure

Market prospects signal additional growth ahead

ASPI, the primary client of Edil San Felice (ESF), is poised to increase maintenance expenditure in the coming years, buoyed by strong investment trends in 2023. ESF is strategically gearing up with a new production plant, leveraging a recently awarded grant for Eu5.3mn, and bolstering its management team to support business growth. The new plant, expected to be completed by 2025, enables internalization of carpentry activities, thus facilitating long-term profitability expansion. These developments prompt us to increase our top-line and EBITDA margin projections from 2026 onwards. FY26E sales and EBITDA are now up by +5.1% and 9.5%, respectively, driven by the expanded reference market pool and enhanced profitability resulting from production internalization. We recall that ESF's growth potential is still untapped with upcoming geographical expansion. Despite the stock increased by c. 60% YTD, we expect further re-rating due the group's solid fundamentals and growth expectations. We confirm our BUY rating and increase our TP to Eu5.6/share (from 4.5) after DCF and relative valuations update.

- Higher investments are in sight for Italian motorway revamping.** ASPI, Edil San Felice's main client, is increasing the investments in infrastructure modernization and maintenance, with an estimated total value of Eu2.3bn in 2024 (+15% yoy) amidst a full recovery of traffic to pre-pandemic levels (+1.5% vs 2019). The increasing investments in infrastructure maintenance are expected to confirm the positive trend of 2023. Indeed, ASPI's FY23 results showed a double-digit increase in safety barrier inspections (core ESF's maintenance activity), which climbed by 11% yoy in terms of km, while tunnels and viaducts remained stable compared to 2022. Additionally, in 2023 ASPI invested Eu442mn in ordinary maintenance, an increase of 23% yoy, which compares with a CAGR of 13% from 2019 to 2023. 1Q24 shows a similar picture, with total investments in network maintenance (ordinary and extraordinary) reaching approximately Eu500mn, +25% yoy. On the longer-term horizon, ASPI calls for higher investments in Italian motorway infrastructure, targeting around Eu30bn, higher than the previously announced Eu21.5bn. This increase is mainly due to the growing need to modernize Italy's 100-year-old motorway infrastructure.
- ESF's new production plant and key figures to support business growth.** With a backlog exceeding Eu80mn at YE23, ESF should continue to grow in the coming years, leveraging the recently acquired plant in Nola and new figures among the top management team to meet the mounting demand in motorway maintenance. The new production plant, which allows ESF to internalize carpentry activities and produce components required for ordinary and extraordinary maintenance services, pivots on the awarded grant of Eu5.3mn from the Campania region. The funds will be used to accelerate the completion of the site (expected by the first months of 2025) for a total investment of Eu10.6mn. Additionally, ESF has recently strengthened its top management team with the hiring of Mr. Carmine Orsini as the new director for the Engineering and Implementation BU, which carries out new and old infrastructure projects.
- New grant and higher sales growth in the long run.** The anticipated increase in investments from ASPI (ESF's primary client), which nearly monopolizes the sector, indicates a larger potential market size for the group in the long term. We have revised our top-line projections up from 2026 (+5.1%) onwards, incorporating an improved market outlook. We have increased our capex projections to account for the anticipated investments for the new site in Nola, with c. Eu7mn capex expected between 2H24 and 1H25, partially offset by Eu5.3mn grant to be collected in the same period. The internalization of certain carpentry processes should benefit profitability from 2026. Therefore, we have increased FY26E EBITDA by 9.5% to Eu16.6mn/24.7%, an increase of +100bps compared to our previous estimate.
- BUY confirmed with TP to Eu5.6/share (from 4.5).** We confirm our BUY rating and increase TP to Eu5.6/share (from 4.5), 25% upside, after updating our relative and DCF valuations. We reiterate our positive stance on the name, corroborated by its solid fundamentals, growth prospect and leading positioning in the Italian motorway maintenance.

BUY

Unchanged

TP 5.6

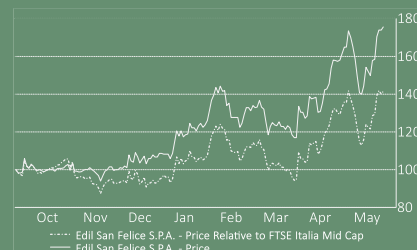
From 4.5

Target price upside 25%

Change in EPS est.	FY24E	FY25E
	1%	1%

Ticker (BBG, Reut)	ESF IM	ESF MI
Share price Ord. (Eu)		4.4
N. of Ord. shares (mn)		19.2
Total N. of shares (mn)		19.2
Market cap (Eu mn)		85
Total Market Cap (EU mn)		85
Free Float Ord. (%)		12%
Free Float Ord. (Eu mn)		10
Daily AVG liquidity Ord. (Eu k)		28

	1M	3M	12M
Absolute Perf.	10.6%	31.0%	na
Rel. to FTSEMidCap	8.0%	26.1%	na
52 weeks range		2.4	4.4



	FY23A	FY24E	FY25E
Sales	46	53	59
EBITDA	11.6	12.2	14.1
Net profit	8.5	8.8	10.1
EPS adj.	0.442	0.456	0.525
DPS - Ord.	0.000	0.000	0.000
EV/EBITDA	3.9x	6.3x	5.1x
P/E adj.	5.8x	9.7x	8.5x
Dividend yield	0.0%	0.0%	0.0%
FCF yield	0.0%	6.3%	5.5%
Net debt/(Net cash)	(5.1)	(10.5)	(15.2)
Net debt/EBITDA	nm	nm	nm

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Summary Financials (ITA GAAP)

P&L account (Eu mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total Revenues	34.3	45.8	52.6	59.3	67.2
Gross margin	na	na	na	na	na
EBITDA reported	6.9	11.6	12.2	14.1	16.6
D&A	(0.5)	(1.0)	(1.4)	(1.7)	(1.8)
EBIT reported	6.4	10.6	10.8	12.4	14.8
Net financial charges	(0.2)	(0.3)	(0.2)	(0.2)	(0.2)
Associates	0.0	0.0	0.0	0.0	0.0
Extraordinary items	0.0	0.0	0.0	0.0	0.0
Pre-tax profit	6.2	10.3	10.7	12.3	14.6
Taxes	(1.5)	(1.8)	(1.9)	(2.2)	(2.6)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued activities	0.0	0.0	0.0	0.0	0.0
Net profit reported	4.8	8.5	8.8	10.1	12.1
EBITDA adjusted	6.9	11.6	12.2	14.1	16.6
EBIT adjusted	6.4	10.6	10.8	12.4	14.8
Net profit adjusted	4.8	8.5	8.8	10.1	12.1

Margins (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Gross margin	nm	nm	nm	nm	nm
EBITDA margin (adj)	20.1%	25.4%	23.2%	23.8%	24.7%
EBIT margin (adj)	18.6%	23.1%	20.6%	21.0%	22.1%
Pre-tax margin	18.1%	22.5%	20.3%	20.7%	21.8%
Net profit margin (adj)	13.9%	18.6%	16.7%	17.0%	17.9%

Growth rates (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Sales	89.9%	33.6%	14.7%	12.7%	13.5%
EBITDA	197.6%	68.8%	4.8%	15.7%	17.8%
EBITDA adjusted	197.6%	68.8%	4.8%	15.7%	17.8%
EBIT	212.7%	66.0%	2.2%	14.7%	19.6%
EBIT adjusted	212.7%	66.0%	2.2%	14.7%	19.6%
Pre-tax	206.3%	66.2%	3.2%	14.9%	19.5%
Net profit	236.0%	79.0%	3.2%	14.9%	19.5%
Net profit adjusted	236.0%	79.0%	3.2%	14.9%	19.5%

Per share data	FY22A	FY23A	FY24E	FY25E	FY26E
Shares	19,249	19,249	19,249	19,249	19,249
N. of shares AVG	19,249	19,249	19,249	19,249	19,249
N. of shares diluted AVG	19,249	19,249	19,249	19,249	19,249
EPS	0.442	0.456	0.525	0.627	0.627
EPS adjusted	0.442	0.456	0.525	0.627	0.627
DPS - Ord.	0.000	0.000	0.000	0.000	0.000
DPS - Sav.	0.000	0.000	0.000	0.000	0.000
BVPS	1.569	2.026	2.550	3.177	

Enterprise value (Eu mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Share price Ord. (Eu)	na	2.6	4.4	4.4	4.4
Market cap		49.4	85.5	85.5	85.5
Net debt/(Net cash)	(2.1)	(5.1)	(10.5)	(15.2)	(23.1)
Adjustments	1.2	1.3	1.5	1.8	2.0
Enterprise value		45.6	76.5	72.0	64.4

Source: Company data, Alantra estimates

Share price performance

Sound share price performance from IPO price...



Cash flow (Eu mn)	FY22A	FY23A	FY24E	FY25E	FY26E
EBITDA adjusted	6.9	11.6	12.2	14.1	16.6
Net financial charges	(0.2)	(0.3)	(0.2)	(0.2)	(0.2)
Cash taxes	(1.5)	(1.8)	(1.9)	(2.2)	(2.6)
Ch. in Working Capital	(1.7)	(6.1)	(2.7)	(2.4)	(4.1)
Other operating items	0.5	0.6	0.2	0.2	0.3
Operating cash flow	4.0	4.0	7.7	9.6	10.0
Capex	(1.8)	(5.9)	(2.3)	(4.9)	(2.1)
FCF	2.2	(1.9)	5.4	4.7	7.9
Disposals/Acquisitions	0.0	(0.4)	0.0	0.0	0.0
Changes in Equity	0.0	9.8	0.0	0.0	0.0
Others	(1.5)	(3.6)	0.0	0.0	0.0
Dividends	(0.9)	(0.9)	0.0	0.0	0.0
Ch. in NFP	(0.2)	3.0	5.4	4.7	7.9

Ratios (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Capex/Sales	5.1%	13.0%	4.3%	8.3%	3.1%
Capex/D&A	3.4x	5.7x	1.7x	2.9x	1.2x
FCF/EBITDA	32.4%	-16.5%	44.2%	33.5%	47.8%
FCF/Net profit	47.0%	nm	61.3%	46.8%	65.8%
Dividend pay-out	18.9%	0.0%	0.0%	0.0%	0.0%

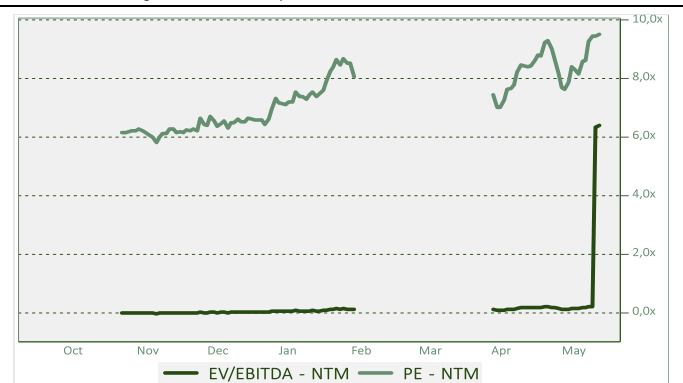
Balance sheet (Eu mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Working capital	4.6	14.6	17.4	19.8	23.8
Fixed assets	6.6	12.2	13.1	16.3	16.7
Provisions & others	(1.4)	(1.7)	(2.0)	(2.2)	(2.5)
Net capital employed	9.8	25.1	28.5	33.9	38.0
Net debt/(Net cash)	(2.1)	(5.1)	(10.5)	(15.2)	(23.1)
Equity	11.9	30.2	39.0	49.1	61.2
Minority interests	0.0	0.0	0.0	0.0	0.0

Ratios (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Working capital/Sales	13.3%	32.0%	33.0%	33.3%	35.4%
Net debt/Equity	nm	nm	nm	nm	nm
Net debt/EBITDA	nm	nm	nm	nm	nm

Valuation	FY22A	FY23A	FY24E	FY25E	FY26E
EV/CE		1.7x	2.5x	2.0x	1.6x
P/BV		1.6x	2.2x	1.7x	1.4x
EV/Sales		1.0x	1.5x	1.2x	1.0x
EV/EBITDA		3.9x	6.3x	5.1x	3.9x
EV/EBITDA adjusted		3.9x	6.3x	5.1x	3.9x
EV/EBIT		4.3x	7.1x	5.8x	4.3x
EV/EBIT adjusted		4.3x	7.1x	5.8x	4.3x
P/E		5.8x	9.7x	8.5x	7.1x
P/E adjusted		5.8x	9.7x	8.5x	7.1x
ROCE pre-tax		55.7%	37.8%	37.3%	38.8%
ROE		28.2%	22.5%	20.6%	19.7%
EV/FCF			14.2x	15.2x	8.1x
FCF yield			6.3%	5.5%	9.3%
Dividend yield		0.0%	0.0%	0.0%	0.0%

Valuation

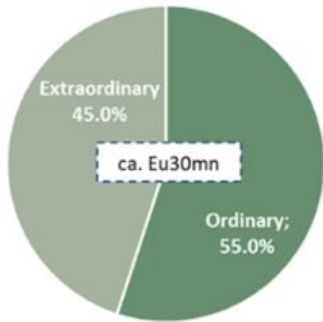
...but still trading at discount vs peers



Key Charts

Sales breakdown by business (FY22A, %)

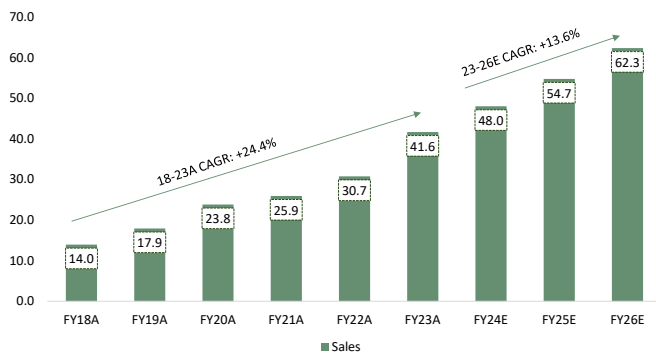
ESF sales are well-balanced between ordinary and extraordinary works



Source: Company data, Alantra

Net sales evolution (FY18A-FY26E, Eumn)

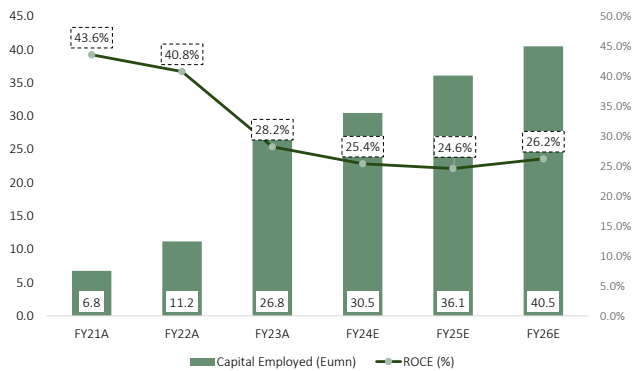
We expect ESF to experience a net sales CAGR 23-26E of 13.6%



Source: Company data, Alantra

ROCE and capital employed (FY21A-FY26E, Eumn, %)

We expect an attractive level of ROCE (25% on average)



Source: Company data, Alantra

Nationwide presence (FY22A, %)

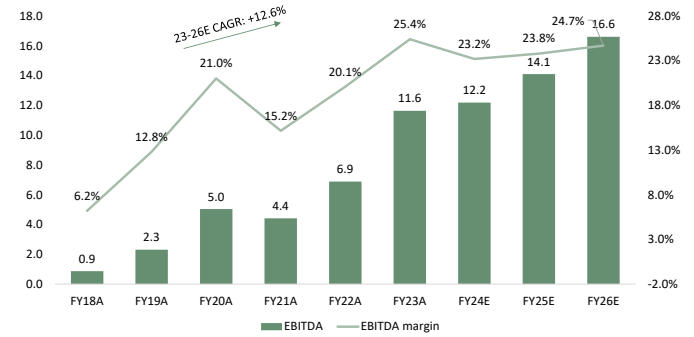
Nationwide presence with revenues concentration in Campania (c. 60% in FY22)



Source: Company data, Alantra

EBITDA and EBITDA margin (FY18A-FY26E, Eumn, %)

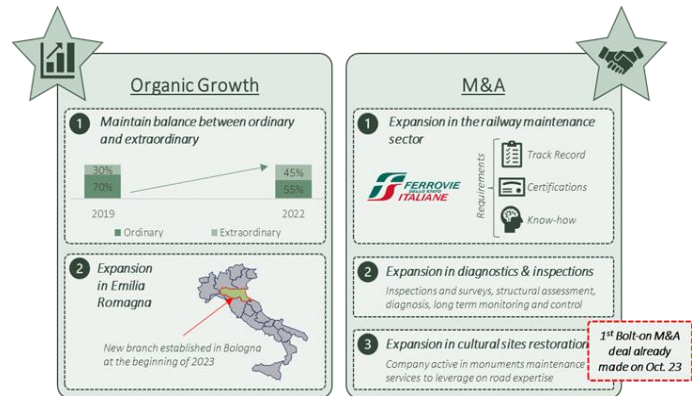
EBITDA is expected to reach Eu16.6mn/24.7% margin by FY26E



Source: Company data, Alantra

A mix of strategy made by organic/inorganic growth

ESF should maintain a similar of organic and inorganic growth



Source: Company data, Alantra

Profile

Background

With 40+ years of activity, Edil San Felice (ESF) provides a complete offer of infrastructure services of ordinary and extraordinary maintenance works primarily to highways and airports. These services include among others, the supply and installation of safety barriers, road signs damage repair, joints substitution, etc. While the ordinary maintenance gives a solid and reoccurring base of revenues (services related to preserve and keep proper highways condition) with high visibility (contracts last up to 40 months), the extraordinary service requires a high degree of specialization and adds scalability, operating efficiencies, and margins' expansion (intervention of repairing, replacing or rehabilitating parts of highways, viaducts and bridges). By leveraging on over 200 specialized workers and 150 vehicles, ESF takes full control over the entire project value chain without making use of any subcontractor. With Eu34.3mn revenues in FY22 (45% extraordinary/55% ordinary works; 24% CAGR 19-22A) the group has built an established track record (zero penalty and delays) in Campania (62% of sales) and is successfully expanding across other 9 regions (38% of FY22 sales). On top of that, the group has entered in the restoration of cultural heritages with a recent bolt-on acquisition. Based in Nola (NA) with a new production unit in Bologna, ESF is 100% owned by Lorenzo di Palma (CEO).

Positioning

Among Italian maintenance specialists, ESF is the second largest player by revenues (after AVR, which is mainly active in environmental and waste services) and with the highest EBIT margin (20.2% in FY22) among the top 5 players by sales. While extraordinary maintenance is scalable across regions, ordinary specialists are often presiding one specific region, thus entry barriers are higher. We believe that ESF is successfully expanding into new regions (e.g. Emilia Romagna) due to its competitive positioning that relies on its: 1) integrated business model, allowing to provide maintenance services without relying on sub-contractors; 2) full-service capabilities with diversification in both ordinary and extraordinary maintenance, covering all the needs of infrastructure preservation; and 3) long and established track-record in the field (first operator in Campania with strong ties with Autostrade per l'Italia). We believe that the competitive positioning of ESF is well summarized by its superior level of ROCE of 40.8% in FY22, well above the average of the top 5 players.

Growth

We believe that ESF should continue to grow in revenue outside the Campania region. We expect sales to increase by +13.6% CAGR 23-26E. EBITDA should increase from Eu11.6mn in FY23 to Eu16.6mn in FY26E with 24.7% margin (above average FY18-23A of 17%) thanks to: 1) internalization of carpentry process 2) higher operating leverage; 3) logistic efficiency; and 4) gradual shift from leasing to proprietary fleet of specialized vehicles.

Strategy

We believe that ESF main strategic pillars are: 1) maintaining a balanced mix of revenues between ordinary/extraordinary works to benefit from higher visibility and profitability, respectively; 2) Continue to expand into new regions in Italy (e.g. increasing awarded contracts in Emilia Romagna); 3) additional growth also through M&A. Indeed, organic growth should be accompanied by several M&A optionality like in: 1) railway maintenance; 2) diagnostics and inspections; 3) restoration of cultural heritage sites (first bolt-on acquisition already completed in October 23). Moreover, the group has also acquired a new plant to internalize carpentry and assembly works of safety barriers (one of the core activities).

Strengths

Established activity in full-service maintenance to highways
Subcontract-free approach
Strong track-record with zero claims and delays

Weaknesses

High concentration of clients
Limited presence outside the Campania region
Dependency on few key people

Opportunities

Old infrastructure and highways in Italy with high needs of maintenance
Growth outside Campania region
Vertical & horizontal integration through M&A

Threats

Price pressure from commissioners might dent profitability
Internalization of ordinary maintenance from commissioners
Increase competition when entering into a new region

Key shareholders

The Sight Srl - 76.79%
Invitalia - 7.19%
Indépendance AM - 4.47%
Market - 11.55%

Management

Lorenzo Di Palma - CEO
Carmelo Intrisano - Chairman
Vincenzo Di Pietro - CFO
Marika Sgritto - IR

Next events

1H24 results: 27/09/2024

Change in estimates

Estimates upgrade

FY26E sales and EBITDA are now up by +5.1% and 9.5%, respectively, driven by the expanded market pool and enhanced profitability resulting from production internalization.

(Eu mn)	NEW Estimates			% Change			OLD Estimates		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Total Revenues	52.6	59.3	67.2	0.0%	0.9%	5.1%	52.6	58.8	64.0
EBITDA Adjusted	12.2	14.1	16.6	0.0%	2.1%	9.5%	12.2	13.8	15.2
EBIT Adjusted	10.8	12.4	14.8	0.6%	1.2%	9.6%	10.8	12.3	13.5
Pretax Profit	10.7	12.3	14.6	0.6%	1.2%	10.4%	10.6	12.1	13.3
Net profit	8.8	10.1	12.1	0.6%	1.2%	10.4%	8.7	10.0	10.9
Net profit restated	8.8	10.1	12.1	0.6%	1.2%	10.4%	8.7	10.0	10.9
EPS	0.456	0.525	0.627	0.6%	1.2%	10.4%	0.454	0.518	0.568
Net financial position	10.5	15.2	23.1	0.8	-1.6	-1.1	9.7	16.8	24.2

Source: Company data and Alantra estimates

Peers

Financials- ESF versus selected peers

ESF is expected to deliver higher profitability across the board with more attractive growth rates

Company	Country	Mkt Cap (Eu mn)	FY24E - FY26E average margins					CAGR FY23A - FY26E		
			EBITDA Margin	EBIT Margin	Net Income Margin	Capex / Sales	Dividend Payout	Sales	EBITDA	EBIT
ESF	ITALY	85	23.9%	21.2%	17.2%	5.2%	0.0%	13.6%	12.6%	11.9%
Reway Group SpA	ITALY	156	21.2%	15.9%	9.6%	3.2%	na	17.0%	18.2%	15.4%
Salcef Group S.p.A	ITALY	1,588	19.5%	13.5%	9.4%	6.4%	45.4%	12.3%	11.8%	16.6%
Peab AB Class B	SWEDEN	1,577	6.6%	4.0%	2.7%	2.0%	49.5%	1.4%	0.5%	9.2%
Vestum AB	SWEDEN	294	14.7%	5.7%	1.2%	1.1%	0.0%	-1.5%	4.0%	13.2%
Railcare Group AB	SWEDEN	54	20.2%	12.6%	8.6%	9.8%	na	14.8%	16.0%	17.0%
PEERS Infrastructure services & construction	Average		15.5%	9.8%	5.7%	3.2%	31.6%	7.3%	8.6%	13.6%
	Median		19.5%	12.6%	8.6%	3.2%	45.4%	12.3%	11.8%	15.4%

Source: Factset, Alantra

Trading multiples

ESF is trading at discount vs peers (26% discount on P/E FY24E)

Company	Country	Mkt Cap (Eu mn)	EV/Sales			EV/EBITDA			EV/EBIT			PE		
			FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY26E	
ESF	ITALY	85	1.5 x	1.2 x	1.0 x	6.3 x	5.1 x	3.9 x	7.1 x	5.8 x	4.3 x	9.7 x	8.5 x	7.1 x
<i>Premium (discount) to Peers' Median</i>			22%	25%	17%	-8%	-14%	-27%	-46%	-48%	-54%	-26%	-21%	-30%
PEERS	Average		1.1 x	1.0 x	0.9 x	7.0 x	6.2 x	5.5 x	12.5 x	10.7 x	9.3 x	14.8 x	11.7 x	10.4 x
	Median		1.2 x	1.0 x	0.8 x	6.8 x	6.0 x	5.3 x	13.0 x	11.2 x	9.4 x	13.1 x	10.7 x	10.2 x
Reway Group SpA	ITALY	156	1.2 x	1.0 x	0.8 x	5.8 x	4.6 x	3.8 x	7.9 x	6.0 x	4.9 x	13.0 x	10.7 x	9.3 x
Salcef Group S.p.A	ITALY	1,588	1.7 x	1.5 x	1.3 x	8.7 x	7.8 x	6.7 x	13.0 x	11.2 x	9.4 x	18.1 x	16.1 x	14.0 x
Peab AB Class B	SWEDEN	1,577	0.5 x	0.5 x	0.5 x	7.8 x	7.5 x	7.3 x	13.0 x	12.6 x	12.2 x	13.1 x	12.4 x	11.1 x
Vestum AB	SWEDEN	294	1.0 x	0.9 x	0.8 x	6.8 x	6.0 x	5.3 x	18.6 x	15.0 x	13.0 x	17.8 x	8.4 x	7.3 x
Railcare Group AB	SWEDEN	54	1.2 x	1.0 x	0.9 x	6.0 x	5.2 x	4.3 x	9.9 x	8.6 x	6.9 x	12.2 x	10.7 x	na
PEERS Infrastructure services & construction	Average		1.1 x	1.0 x	0.9 x	7.0 x	6.2 x	5.5 x	12.5 x	10.7 x	9.3 x	14.8 x	11.7 x	10.4 x
	Median		1.2 x	1.0 x	0.8 x	6.8 x	6.0 x	5.3 x	13.0 x	11.2 x	9.4 x	13.1 x	10.7 x	10.2 x

Source: Factset, Alantra

Performance

ESF share price has underperformed its peers in the last 6M

Company	Country	Mkt Cap (Eu mn)	Performance					
			1M	3M	6M	1YR	3YR	5YR
ESF	ITALY	85	10.6%	31.0%	71.2%	na	na	na
PEERS	Average		4.3%	10.7%	44.4%	23.7%	8.0%	111.9%
	Median		-1.4%	9.0%	28.9%	33.9%	-6.5%	103.6%
Reway Group SpA	ITALY	156	-5.5%	13.3%	28.9%	33.9%	na	na
Salcef Group S.p.A	ITALY	1,588	-1.4%	9.0%	4.1%	14.1%	89.9%	157.3%
Peab AB Class B	SWEDEN	1,577	8.9%	21.0%	39.6%	49.1%	-39.4%	-2.6%
Vestum AB	SWEDEN	294	26.6%	3.7%	123.8%	-22.5%	-44.9%	242.8%
Railcare Group AB	SWEDEN	54	-7.2%	6.2%	25.9%	43.7%	26.5%	50.0%
PEERS Infrastructure services & construction	Average		4.3%	10.7%	44.4%	23.7%	8.0%	111.9%
	Median		-1.4%	9.0%	28.9%	33.9%	-6.5%	103.6%

Source: Factset, Alantra

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