Milan, 05 September 2023

Italian Equity Research - 2Q23 Preview

SECO

BUY

Sector: Industrials

Price: Eu4.45 - **Target: Eu7.00**

2Q Preview: Growth to slow but margin foreseen resilient

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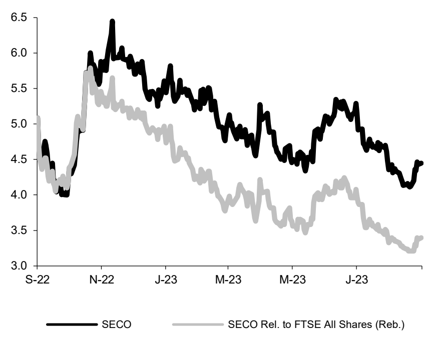
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 7.30 to 7.00
	2023E	**2024E**	**2025E**
Chg in Adj EPS	-6.5%	-10.4%	-10.7%

Next Event

2Q Results Out on September 12th

SECO - 12M Performance



Stock Data			
Reuters code:			IOT.MI
Bloomberg code:			IOT IM
Performance	**1M**	**3M**	**12M**
Absolute	2.2%	-9.2%	-13.8%
Relative	1.9%	-14.3%	-42.0%
12M (H/L)			6.45/4.00
3M Average Volume (th):			116.99

Shareholder Data	
No. of Ord shares (mn):	133
Total no. of shares (mn):	133
Mkt Cap Ord (Eu mn):	590
Total Mkt Cap (Eu mn):	590
Mkt Float - Ord (Eu mn):	178
Mkt Float (in %):	30.3%
Main Shareholder:	
DSA Srl	16.6%

Balance Sheet Data	
Book Value (Eu mn):	324
BVPS (Eu):	2.25
P/BV:	2.0
Net Financial Position (Eu mn):	-50
Enterprise Value (Eu mn):	687

- **Business Outlook.** In the 1Q23 results conference call, Seco said it was on track to achieve record sales, with the margin seen improving throughout the year, benefitting from decreasing component prices and positive operating leverage. More recently management has reiterated its expectation for YoY organic growth at ~20% in FY23, despite some order postponements in Southern Europe, as some customers prefer to hold less inventory due to the high interest rates. Looking ahead to FY23, supportive indications were provided on new and existing projects, and in general on the medium-term growth prospects, with AI expected to play a crucial role for Seco, and for CLEA in particular. In the supply chain, lead times have gradually improved to around 20 weeks from > 50 weeks in FY22.
- **2Q Preview.** Based on these indications, we project 2Q revenues at €57mn (+12% YoY), with the edge computing business at €51mn (+19% YoY), and CLEA at €6mn (substantially flat YoY), as we expect a lower contribution from non-recurring set up fees. Profit-wise, we expect a significant leap in the gross margin to 49.4% (46.6% in 2Q22) and adj. EBITDA at €13.5mn (+17% YoY), featuring a 23.6% margin (22.5% in 2Q22). Below the line, we project adj. net income at €6.4mn (+36% YoY). Looking at cash flow, we foresee adj. net debt at €58mn after the €65mn capital increase successfully subscribed by 7-Industries.
- **Estimates.** For reasons of prudence we reduce our revenue estimate for FY23 to factor in a slowdown in turnover growth also in 3Q, while we expect revenue to speed up again in 4Q. Overall, we have cut our turnover assumptions by 6% for FY23, and by 9% on average for FY24/25. We have raised our estimates for gross profit and the adj. EBITDA margin by 90bps and 75bps respectively for FY23. Although our current estimates for FY23 are 6% below FactSet consensus on revenue and adj. EBITDA, on all P&L metrics the growth rate is still solidly double-digit. Lower cash earnings lead to a slightly lower NFP estimate.
- **Investment conclusion.** We reiterate our BUY rating and update our TP to €7.0 (from €7.3), a simple average of DCF and peer analysis. Despite a possible deceleration of revenue growth over the next two quarters, we continue to look with confidence at business dynamics, with a positive stance on the outlook for profitability. The recent capital raise may open new doors to M&A (more likely in 2024) with management targeting a profitable US-based hardware manufacturer that already boasts a large device base in order to spread CLEA. Seco is trading at c.12.3x EV/adj. EBITDA on 2023E, incorporating a remarkable discount compared to two direct peers (Advantech, Adlink trading ~20x) that we consider undeserved as it does not reflect the company's faster pace of growth. As the components market gradually returns to normal and average lead times steadily improve, the main downside risks are a worsening macro scenario impacting cyclical end-markets, and slower-than-expected traction for CLEA, the proprietary IoT software.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	112	201	234	298	370
EBITDA Adj (Eu mn)	25	44	56	73	95
Net Profit Adj (Eu mn)	9	17	23	35	52
EPS New Adj (Eu)	0.088	0.151	0.176	0.264	0.391
EPS Old Adj (Eu)	0.088	0.151	0.188	0.295	0.438
DPS (Eu)	0.000	0.000	0.000	0.000	0.000
EV/EBITDA Adj	28.8	20.1	12.3	9.2	6.8
EV/EBIT Adj	nm	31.5	18.2	12.7	8.9
P/E Adj	50.6	29.5	25.3	16.8	11.4
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Net Debt/EBITDA Adj	4.3	2.9	0.9	0.4	0.1