Milan, 07 February 2023

Italian Equity Research – New Coverage

SECO

BUY

Sector: Industrials

Price: Eu5.21 - **Target: Eu8.80**

Leading the IoT Revolution

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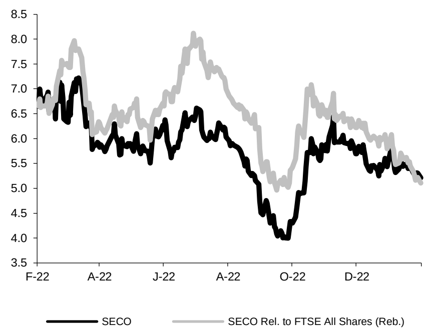
Stock Rating	
Rating:	BUY (New Coverage)
Target Price (Eu):	8.80 (New Coverage)

Next Event
Results Out on March 22nd

SECO - 12M Performance



Stock Data			
Reuters code:			IOT.MI
Bloomberg code:			IOT IM
Performance	**1M**	**3M**	**12M**
Absolute	-6.1%	-11.3%	-23.2%
Relative	-13.6%	-27.5%	-24.2%
12M (H/L)			7.22/4.00
3M Average Volume (th):			142.17

Shareholder Data	
No. of Ord shares (mn):	119
Total no. of shares (mn):	119
Mkt Cap Ord (Eu mn):	619
Total Mkt Cap (Eu mn):	619
Mkt Float - Ord (Eu mn):	206
Mkt Float (in %):	33.3%
Main Shareholder:	
DSA Srl	18.8%

Balance Sheet Data	
Book Value (Eu mn):	208
BVPS (Eu):	1.52
P/BV:	3.4
Net Financial Position (Eu mn):	-104
Enterprise Value (Eu mn):	763

- **Leading the IoT revolution with an end-to-end offering**. Seco is a fast-growing Italian player with full geographical coverage that designs, develops, and manufactures cutting-edge proprietary technological solutions for industrial clients across several end-markets (industrial automation, vending & retail, medical, fitness, professional kitchen equipment, transportation, aerospace, and defence). Its products range from miniaturised computers to standard and customised hardware, from integrated systems (hardware + software) to its all-in-one industrial IoT/AI proprietary platform (CLEA), which enables customers to manage their IoT endpoints in an efficient, effective, and simple manner. The next step will involve the roll-out of the CLEA App store, scheduled for March 2023, with the final aim of developing new functionality (IPs) for any specific market vertical, and opening Seco systems up to all customers and partners.
- **Clear-cut strategy targeting Eu400mn in revenues by 2025**. Seco's main purpose is to continue to monitor new market trends and keep evolving its strategy to meet growing customer needs, thereby enhancing business scale and becoming a leading global IoT-AI player. The main growth driver that management expects to harness in the future relates to the ongoing corporate digital transformation process. Seco's growth strategy relies on: i) acceleration of CLEA, continuing to add value to the product; ii) acquisition of new customers in edge computing, organically and through upselling to existing customers; iii) ongoing investments in external growth, pursuing highly-accretive M&A with a strong strategic rationale, iv) exploiting strategic industrial partnerships, with the aim of reducing time-to-market. Seco's medium-term targets are to reach €400mn in revenues by 2025E, increase software-related revenue to 20% of total turnover (€80mn by 2025E), and improve margins.
- **Initiating coverage with a BUY recommendation; target Eu8.80.** We believe the stock offers very attractive expected returns over two to three years. Seco is currently trading well short of the peaks reached in December 2021, embedding a 25% discount vs. peers that we deem to be completely undeserved, as it does not reflect the company's fast-growing profile (Seco's expected growth is among the highest of STAR segment stocks) in a highly attractive market. Our investment case and positive recommendation are based on the following elements: i) potential multiple expansion, given the successful commitment to achieve FY22 guidance and strong visibility on business trends (i.e. >€100mn of new design wins, and a weighted pipeline above €530mn in edge computing); ii) 3-year 2022E-25E CAGR expected at 27% for revenues (i.e. doubling in just three years) and 37% for EBITDA, suggesting that shareholders may enjoy strong returns even assuming the relative valuation remains unchanged; iii) increasing impact of software on sales (€80mn in 2025E, in line with company guidance), granting a higher gross profit margin (software GPM close to 80%); iv) ongoing pursuit of value-accretive M&A both in Italy and abroad, as successfully achieved in recent years, v) strengthening presence in the US market, where Seco can already count on important customers in the medical and defence sectors, which feature high entry barriers.

Key Figures & Ratios	2021A	2022E	2023E	2024E	2025E
Sales (Eu mn)	112	200	250	330	406
EBITDA Adj (Eu mn)	25	46	60	82	109
Net Profit Adj (Eu mn)	9	19	27	42	60
EPS New Adj (Eu)	0.088	0.166	0.231	0.354	0.507
DPS (Eu)	0.000	0.000	0.000	0.000	0.000
EV/EBITDA Adj	28.8	18.9	12.6	9.1	6.5
EV/EBIT Adj	nm	26.7	16.6	11.3	7.8
P/E Adj	59.3	31.4	22.6	14.7	10.3
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Net Debt/EBITDA Adj	4.3	2.6	1.7	1.0	0.4