

# SECO

Sector: Industrials

**BUY**

Price: Eu4.50 - Target: Eu7.30

## 1Q figures expected on track with our FY estimates

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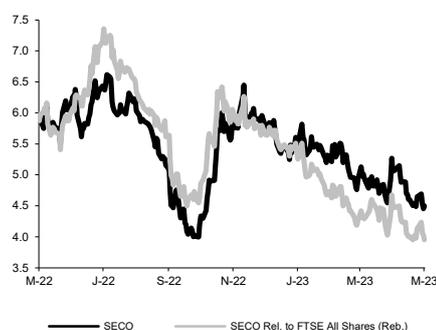
### Stock Rating

<b>Rating:</b>	Unchanged		
<b>Target Price (Eu):</b>	from 7.70 to 7.30		
	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>Chg in Adj EPS</b>	-5.8%	-5.8%	-7.1%

### Next Event

Results Out 11 May

### SECO - 12M Performance



### Stock Data

Reuters code:	IOT.MI		
Bloomberg code:	IOT IM		
<b>Performance</b>	<b>1M</b>	<b>3M</b>	<b>12M</b>
Absolute	-11.1%	-15.2%	-23.4%
Relative	-12.6%	-16.2%	-37.1%
12M (H/L)	6.62/4.00		
3M Average Volume (th):	205.60		

### Shareholder Data

No. of Ord shares (mn):	133
Total no. of shares (mn):	133
Mkt Cap Ord (Eu mn):	597
Total Mkt Cap (Eu mn):	597
Mkt Float - Ord (Eu mn):	136
Mkt Float (in %):	22.7%
Main Shareholder:	
DSA Srl	16.6%

### Balance Sheet Data

Book Value (Eu mn):	326
BVPS (Eu):	2.29
P/BV:	2.0
Net Financial Position (Eu mn):	-48
Enterprise Value (Eu mn):	688

- 7-Industries as a significant new shareholder for Seco.** The Seco BoD has recently approved a reserved rights issue for 7-Industries up to a maximum of €65mn through the issue of a maximum of c.13.9mn new shares at €4.69 per share. In addition, 7-Industries has purchased c.0.8% of the post-dilution capital (i.e. 1.1mn shares) from the founders at the same price as the capital increase, equivalent to a share purchase of €5mn. Following these deals, 7-Industries will hold c.11.3% of the post-dilution capital, and 7.9% of voting rights. The newly issued shares are subject to a 24-month lock-up. In addition, Dr. Tosja Zywiets will be appointed as a new board member, bringing valuable industrial insights and multi-year experience to Seco.
- Deal rationale and highlights.** Seco believes that the entry of 7-Industries into share capital could generate significant value thanks to the company's experience and network in industrial markets. Moreover, the transaction enables Seco to increase its financial flexibility, and reduce financial leverage from 2.7x to 1.2x (based on FY22A data). The new resources can be used for potential M&A. The total investment for 7-Industries amounts to €70mn, of which €65mn via the rights issue and €5mn through the purchase of 1.1mn shares from Seco's founders. Subscription of the first tranche for approx. €61.3mn was finalized on April 6th, and the second tranche (equivalent to €8.7mn) is subject to fulfilment of the golden power procedure.
- 1Q23 preliminary revenue up +28% YoY.** On April 11th Seco released 1Q23 preliminary turnover at Eu55mn, up +28% YoY on c. Eu43mn for 1Q22, in line with previous guidance to the market for c. +30%, with a solid growth trend on all the main markets (EMEA, APAC and US). CLEA (proprietary SW in the IoT space) recorded turnover of c. Eu6.4mn, up +75% YoY, markedly increasing its incidence on the total to 12% (9% as at end-FY22).
- 1Q23 preview.** We expect revenue to have grown high double-digit across all geographies, with EMEA at 43mn (+24%), USA at €7mn (+30%) and APAC at €4mn, more than doubling YoY. In line with management indications provided in the 4Q conference call, we expect the gross margin to have gradually improved QoQ, projected at 47% (almost flat YoY), and EBITDA at €12mn, implying a margin on sales of 21.8%. On cash flow, we expect adj. net debt at €123mn, substantially in line with the 2022 YE figure.
- EPS estimates fine-tuned due to capital increase.** We have made minor changes to our EPS estimates, as we include in our model the lower net financial charges and the higher number of shares resulting from the rights issue. Overall, we calculate EPS dilution of c. 6% on average. However, we have improved our FY23 adj. net debt forecast to €38mn (from €105mn), or 0.7x adj. EBITDA.
- BUY confirmed, TP at €7.3 (from €7.7).** We continue to look with confidence at the coming quarters, and expect Seco to continue its organic growth path, with revenues expected to increase +25% YoY and progressive enhancement of margins. Seco has recently launched CLEA Store with the aim of reducing time to market for its software solutions to an ever-increasing number of customers. We confirm our BUY recommendation and slightly reduce our TP to €7.30 (based on the post-money NOSH), given by the simple average of a DCF (€8.40) and market multiple analysis (€6.20).

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	112	201	250	330	406
EBITDA Adj (Eu mn)	25	44	57	76	103
Net Profit Adj (Eu mn)	9	17	26	40	60
EPS New Adj (Eu)	0.088	0.151	0.194	0.300	0.449
EPS Old Adj (Eu)	0.088	0.151	0.206	0.319	0.484
DPS (Eu)	0.000	0.000	0.000	0.000	0.000
EV/EBITDA Adj	28.8	19.9	12.0	8.9	6.2
EV/EBIT Adj	nm	31.3	16.7	11.4	7.5
P/E Adj	51.2	29.8	23.2	15.0	10.0
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Net Debt/EBITDA Adj	4.3	2.9	0.8	0.4	-0.1