![Intermonte logo]

SECO

Sector: Industrials

NEUTRAL
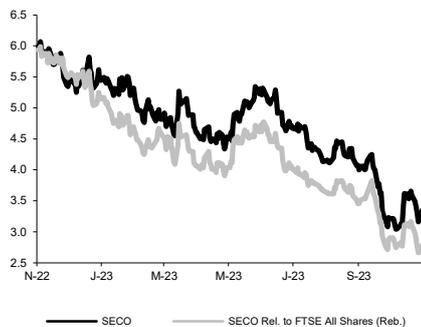
Price: Eu3.35 - **Target: Eu4.00**

Deteriorating ST outlook. Downgrade to NEUTRAL

Pietro Nargi +39-02-77115.401
pietro.nargi@intermonte.it
Andrea Randone: +39-02-77115.364
andrea.randone@intermonte.it

Stock Rating

Rating:		from BUY to NEUTRAL	
Target Price (Eu):		from 7.00 to 4.00	
	2023E	**2024E**	**2025E**
Chg in Adj EPS	-16.9%	-33.7%	-33.0%

SECO - 12M Performance

| SECO | SECO Rel. to FTSE All Shares (Reb.) |

Stock Data

Reuters code:	IOT.MI
Bloomberg code:	IOT IM

Performance	**1M**	**3M**	**12M**
Absolute	4.4%	-19.0%	-43.5%
Relative	-3.7%	-24.8%	-61.5%
12M (H/L)			6.07/3.04
3M Average Volume (th):			303.07

Shareholder Data

No. of Ord shares (mn):	133
Total no. of shares (mn):	133
Mkt Cap Ord (Eu mn):	445
Total Mkt Cap (Eu mn):	445
Mkt Float - Ord (Eu mn):	135
Mkt Float (in %):	30.3%
Main Shareholder:	
DSA Srl	16.6%

Balance Sheet Data

Book Value (Eu mn):	321
BVPS (Eu):	2.23
P/BV:	1.5
Net Financial Position (Eu mn):	-63
Enterprise Value (Eu mn):	553

■ **Revenue slowed more than expected in 3Q.** Revenues at Eu50.2mn (-1% YoY) vs. Inte. estimate of Eu51.7mn/-3%. Edge computing at Eu44.7mn (-2% YoY), CLEA at Eu5.5mn (+12% YoY). Gross profit at Eu24.8mn (+6% YoY) vs. Inte. estimate of Eu25.6mn/-3%, with the margin at 49.3% (47.5% in 3Q23). Adj. EBITDA at Eu10.8mn (-10% YoY) with the margin at 21.5% vs. Inte. estimate of Eu12.1mn/-11%. Adj. EBIT at Eu6.7mn with the margin at 13.3% vs Inte. estimate of Eu6.9mn/-3%. Adj. net income at Eu3.6mn, while adj. net debt at Eu60mn was almost in line with our estimate. Analysing revenues by end-market, we note good resilience in the medical sector (+14%), and a downturn in the industrial (-13%) and fitness (-7%) sectors.

■ **Messages from the call.** Reassuring messages were given on CLEA, with positive news flow on new client acquisitions, and the conversion of some existing clients to mass production, which partially mitigates a less favourable market phase in edge computing**.** 4Q is set to remain the quarter with the largest impact on FY turnover, with CLEA revenues expected at €7mn, a sharp rise both YoY (+75%) and QoQ (+27%) thanks to an increase in the recurring component (c.€3mn expected) and the initial one-off contribution from the acquisition of new clients, with margins seen improving thanks to a favourable mix. By contrast, delays to some orders in the edge computing segment are expected to continue over the next two quarters, with different trends affecting the company's end markets: vending machines segment seen holding up well, industrial and medical sectors expected to experience more difficulties in 1H24.

■ **Change in estimates.** We are lowering our 2023E revenue and adj. EBITDA estimates by 5% and 7% in order to reflect the lower pace of growth experienced in the last quarter, while we cut our FY24/25 assumptions by >20% on average to factor a deteriorating outlook, with a weak market stance likely to persist at least in 1H24.

■ **Downgrade to NEUTRAL, new TP at €4.0 (from €7.0).** Considering 3Q/9M results, revised estimates, and the deteriorating market stance, we move our recommendation to NEUTRAL from BUY**.** When we initiated coverage, our investment case was based on strong delivery of top-line growth (high double-digit range) coupled to a greater incidence for CLEA, resulting in better profit margins and cash generation. While SECO has been able to help margins by unlocking good operating leverage (even in an inflationary environment), the top line has proved less resilient than expected to economic slowdown, with delays to orders likely to persist in 1H24; on cash flow, the normalization of NWC is taking longer than expected, penalizing cash generation. Although recent messages on CLEA have been encouraging in our view, qualitative medium-term target looks challenging and might be adjusted to the new market environment. Despite continuing to appreciate the Seco business model and its exposure to an attractive market, we temporarily downgrade our recommendation to NEUTRAL, and move our TP to €4.0 (simple average of an updated DCF based on a 4.5% risk free rate, and 11x EV/EBITDA 24E). We are ready to resume a positive view on the stock as soon as visibility on growth improves.

Key Figures & Ratios	**2021A**	**2022A**	**2023E**	**2024E**	**2025E**
Sales (Eu mn)	112	201	222	241	280
EBITDA Adj (Eu mn)	25	44	52	57	71
Net Profit Adj (Eu mn)	9	17	19	23	35
EPS New Adj (Eu)	0.088	0.151	0.146	0.175	0.262
EPS Old Adj (Eu)	0.088	0.151	0.176	0.264	0.391
DPS (Eu)	0.000	0.000	0.000	0.000	0.000
EV/EBITDA Adj	28.8	20.1	10.7	9.3	7.2
EV/EBIT Adj	nm	31.5	16.5	13.4	9.7
P/E Adj	38.1	22.2	22.9	19.1	12.8
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Net Debt/EBITDA Adj	4.3	2.9	1.2	0.7	0.3