SECO

NEUTRAL

Sector: Industrials

Price: Eu3.70 - **Target: Eu4.20**

FY24 Seen at Two Speeds: Stability Precedes Acceleration

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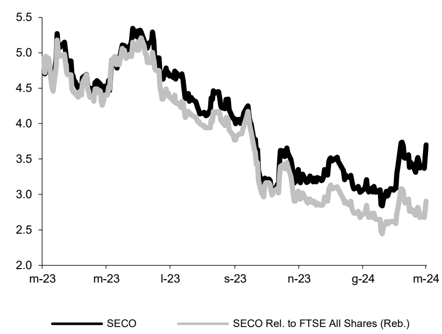
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 4.00 to 4.20
	2024E	**2025E**	**2026E**
Chg in Adj EPS	-6.0%	-11.4%	

Next Event
1Q Results Out on May 13th

SECO - 12M Performance



Stock Data			
Reuters code:			IOT.MI
Bloomberg code:			IOT IM
Performance	**1M**	**3M**	**12M**
Absolute	19.9%	5.2%	-24.8%
Relative	13.0%	-7.6%	-51.8%
12M (H/L)			5.34/2.84
3M Average Volume (th):			434.88

Shareholder Data	
No. of Ord shares (mn):	133
Total no. of shares (mn):	133
Mkt Cap Ord (Eu mn):	492
Total Mkt Cap (Eu mn):	492
Mkt Float - Ord (Eu mn):	149
Mkt Float (in %):	30.3%
Main Shareholder:	
DSA Srl	16.6%

Balance Sheet Data	
Book Value (Eu mn):	334
BVPS (Eu):	2.31
P/BV:	1.6
Net Financial Position (Eu mn):	-46
Enterprise Value (Eu mn):	578

- **4Q23: weaker revenues, but better mix….** 4Q revenues came to Eu47.7mn (-15% YoY), vs. our estimate of Eu60mn/-21%. While revenue from CLEA grew to Eu6.2mn (+55% YoY), Edge Computing at Eu41.5mn (-21% YoY) posted a negative growth rate for the second consecutive quarter, still penalised by customers' destocking. By geographical area, Europe (Eu41mn) was down -6% YoY, while US (Eu7mn) and China (Eu2mn) recorded a more pronounced slowdown (-19% and -58% respectively). Analysing revenue by end market, we note resilience in the vending/distribution sector, while industrial and fitness continued to decline. Overall FY23 revenue came to Eu209.8mn (+4.4% YoY), with volumes growing ~13%, considering the temporary impact of increased selling price due to the chip shortage affecting the FY22 figure, an impact that management estimated at Eu15mn.
- **…led to good delivery on margins.** 4Q gross profit was Eu30.8mn (+18% YoY) vs. our estimate of Eu29.7mn/+4%, 64.6% on sales (46.7% in 4Q22), with margin expansion linked to a better mix and the reduction of components costs. Adj. EBITDA was Eu13.3mn (+11% YoY), vs. our estimate of Eu14.6mn/-9%, resulting from increasing OpEx. Adj net income came in at Eu6.9mn (+35% YoY), vs. our estimate of Eu6.2mn. Adj. net debt at Eu52mn was almost in line with our estimate of Eu53mn, highlighting positive cash generation (Eu7.7mn) due to easing WC.
- **Messages from the call**. The company refrained from providing guidance for 2024, but qualitative indicators suggest encouraging signs of a gradual recovery, with destocking operations anticipated to conclude by 1H across various sectors. Management affirmed a positive new customer acquisition trend, which, coupled with the orders received thus far, instills greater confidence in a faster-paced growth recovery in 2H (1H expected to remain relatively stable or increase slightly). In terms of profitability, the growing contribution from CLEA is expected to support margins to satisfactory levels. Regarding external growth, management anticipates M&A activities will resume by 2025, prioritising cash generation for the current year.
- **Change in estimates.** In light of 4Q results, we are trimming our 2024/25 revenue estimates by 5%, while assuming better margins, thus leading to a lower reduction in gross profit and adj. EBITDA. On adj. EPS we are assuming a slight increase on D&A and tax rate, partially offset by lower minorities.
- **NEUTRAL confirmed; TP to Eu4.20 (from Eu4.0).** While revenues were below our estimate, the unexpected gross margin improvement, largely due to reduced components costs (in contrast to FY22), was evident. Despite the unclear outlook, qualitative pointers suggest promising signs of a recovery in market demand. We appreciate the acquisition of new customers, with further business opportunities likely to materialise in 2025 through design wins and the launch of new AI-powered hardware solutions. For the time being, we remain NEUTRAL on the stock, as the market may remain subdued for at least the next two quarters. We nevertheless acknowledge that a quicker rebound in growth could prompt a more positive view. We are updating our TP to Eu4.20 (from Eu4.0), factoring in a lower risk-free rate in our DCF model (4.0% from 4.5%)

Key Figures & Ratios	2022A	2023A	2024E	2025E	2026E
Sales (Eu mn)	201	210	229	265	293
EBITDA Adj (Eu mn)	44	51	55	68	78
Net Profit Adj (Eu mn)	17	20	22	31	37
EPS New Adj (Eu)	0.151	0.151	0.165	0.232	0.282
EPS Old Adj (Eu)	0.151	0.146	0.175	0.262	
DPS (Eu)	0.000	0.000	0.000	0.000	0.000
EV/EBITDA Adj	20.1	13.8	10.5	8.2	6.8
EV/EBIT Adj	31.5	20.4	15.5	11.4	9.2
P/E Adj	24.5	24.5	22.5	15.9	13.1
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Net Debt/EBITDA Adj	2.9	1.3	0.8	0.4	0.0

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The main methods used to evaluate financial instruments and set a target price for 12 months after the investment recommendation are as follows:

- Discounted cash flow (DCF) model or similar methods such as a dividend discount model (DDM)
- Comparison with market peers, using the most appropriate methods for the individual company analysed: among the main ratios used for industrial sectors are price/ earnings (P/E), EV/EBITDA, EV/EBIT, price /sales.
- Return on capital and multiples of adjusted net book value are the main methods used for banking sector stocks, while for insurance sector stocks return on allocated capital and multiples on net book value and embedded portfolio value are used
- For the utilities sector comparisons are made between expected returns and the return on the regulatory asset base (RAB)

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Frequency of research: quarterly.
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A draft copy of each report may be sent to the subject company for its information (without target price and/or recommendations), but unless expressly stated in the text of the report, no changes are made before it is published.
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BUY: stock expected to outperform the market by over 25% over a 12 month period;
OUTPERFORM: stock expected to outperform the market by between 10% and 25% over a 12 month period;
NEUTRAL: stock performance expected at between +10% and – 10% compared to the market over a 12 month period;
UNDERPERFORM: stock expected to underperform the market by between –10% and -25% over a 12 month period;
SELL: stock expected to underperform the market by over 25% over a 12 month period.
Prices: The prices reported in the research refer to the price at the close of the previous day of trading

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BUY:	26.02 %
OUTPERFORM:	47.15 %
NEUTRAL:	26.02 %
UNDERPERFORM	00.81 %
SELL:	00.00 %

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (51 in total) is as follows:

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OUTPERFORM:	51.02 %
NEUTRAL:	10.20 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short

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