SECO

BUY

Sector: Industrials

Price: Eu4.81 - **Target: Eu7.70**

Impressive Growth, but Weaker Margins and Cash Generation

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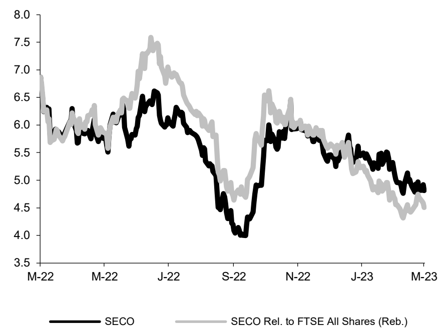
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 8.80 to 7.70
	2023E	**2024E**	**2025E**
Chg in Adj EPS	-10.8%	-10.0%	-4.7%

Next Event
1Q23 Results Out on May 11th

SECO - 12M Performance



Stock Data			
Reuters code:			IOT.MI
Bloomberg code:			IOT IM
Performance	**1M**	**3M**	**12M**
Absolute	-5.6%	-11.4%	-29.9%
Relative	-3.4%	-22.5%	-36.9%
12M (H/L)			6.69/4.00
3M Average Volume (th):			156.40

Shareholder Data	
No. of Ord shares (mn):	119
Total no. of shares (mn):	119
Mkt Cap Ord (Eu mn):	572
Total Mkt Cap (Eu mn):	572
Mkt Float - Ord (Eu mn):	190
Mkt Float (in %):	33.3%
Main Shareholder:	
DSA Srl	18.8%

Balance Sheet Data	
Book Value (Eu mn):	260
BVPS (Eu):	1.99
P/BV:	2.4
Net Financial Position (Eu mn):	-115
Enterprise Value (Eu mn):	729

- **Net sales still growing at a high double-digit rate.** 4Q net sales came to €56mn (+24% YoY), +1.6%/-2.1% vs. our est./cons., in line with the preliminary figure, with growth across all geographical markets. The edge computing business was up +21% YoY to €52mn, largely thanks to considerable growth in the industrial, fitness, medical and vending/retail industries, while CLEA rose +77% YoY; c.7% of organic growth was achieved through price hikes, with the remainder due to volumes.
- **Slight slowdown in gross profit margin due to temporary impact of PPV.** The gross margin was 46.7%, slightly below the 47.1% posted in 9M22 due to the ongoing rise in the price of components, while adj. EBITDA came in at €11.9mn in 4Q (21.3% margin), i.e. -13%/-12% vs. our est./cons. amid higher OpEx inflation (transportation / electricity costs / outsourcing). Below the line, higher D&A (among which the PPA related to the acquisition of the Camozzi digital division) and larger financial charges, largely due to financing of the G&F acquisition, brought adj. net profit to €5.5mn (+27% YoY) even further below our est./cons. Net debt was still inflated by the high inventory levels (mainly critical components) needed to ensure customer deliveries.
- **Outlook for 2023.** For the time being, management does not envisage any slowdown in market demand, with the main performance indicators reinforcing a positive outlook: February order intake was around €26m, and CLEA continues to gain traction, currently counting 20 customers with c.50 prospects testing the product for free. Overall, the key messages from the call were: i) 1Q revenue guidance confirmed at +30% YoY (€55-56mn), with CLEA expected to contribute c.€6mn (o/w roughly 35%-40% due to recurring fees), ii) gross profit margin to be driven by improving mix, iii) strategic focus on better management of trade WC, expected to stabilise at more normal levels, as the components market and lead-in times are gradually returning to normal (currently 27 weeks, normal level 12 weeks), iv) M&A to resume by 2024, potentially targeting a US hardware manufacturer with revenues in the €40-60mn range.
- **Change in estimates:** in light of 4Q results, we are fine-tuning 2023-25 gross profit and adj. EBITDA (cut by 2% and 5% respectively on average), despite unchanged revenue estimates. Below the line, higher financial charges and D&A lead to a more pronounced cut in EPS. Net debt revised upwards to factor the higher level recorded at YE22 into our model.
- **BUY confirmed; target from Eu8.80 to Eu7.70.** We remain positive on the stock as we believe Seco is exposed to lasting growth trends, with the digitalisation era still only just beginning. We believe Seco is well equipped to continue growing at a high double-digit rate, by constantly investing in innovation and capabilities to keep pace with new technologies and functionalities. The continuous rollout of CLEA, and the launch of the App store (expected in April) may become a game changer for Seco, and therefore strengthen the equity story. We confirmed our BUY recommendation, trimming our TP to Eu7.70 (from Eu8.80), to reflect the change in our estimates. The main downside risk to our recommendation is a worsening macroeconomic environment, causing a potential slowdown in market demand.

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	24	38	57
EPS New Adj (Eu)	0.088	0.151	0.206	0.319	0.484
EPS Old 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	19.9	12.7	9.4	6.7
EV/EBIT Adj	nm	31.3	17.7	12.1	8.1
P/E Adj	54.7	31.9	23.3	15.1	9.9
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Net Debt/EBITDA Adj	4.3	2.9	2.0	1.3	0.6