Intermonte

Milan, 22 December 2023

Italian Equity Research – 1H23 Results

SERI INDUSTRIAL

BUY

Sector: Industrials

Price: Eu3.27 - **Target: Eu7.00**

New CTO Should Improve Execution

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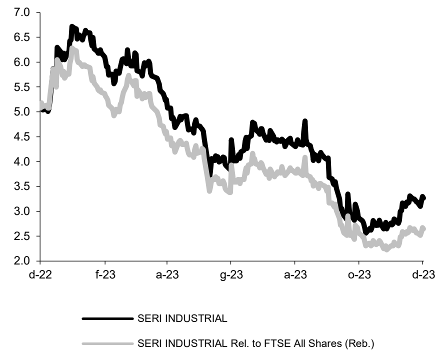
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 9.80 to 7.00
	2023E	**2024E**	**2025E**
Chg in Adj EPS	n.m.	n.m.	-43.5%

SERI INDUSTRIAL - 12M Performance



Stock Data			
Reuters code:			SERK.MI
Bloomberg code:			SERI IM
Performance	**1M**	**3M**	**12M**
Absolute	19.8%	-19.8%	-35.6%
Relative	15.7%	-25.6%	-59.6%
12M (H/L)			6.72/2.56
3M Average Volume (th):			228.09

Shareholder Data	
No. of Ord shares (mn):	54
Total no. of shares (mn):	54
Mkt Cap Ord (Eu mn):	177
Total Mkt Cap (Eu mn):	177
Mkt Float - Ord (Eu mn):	64
Mkt Float (in %):	36.2%
Main Shareholder:	
Civitillo Family	56.4%

Balance Sheet Data	
Book Value (Eu mn):	130
BVPS (Eu):	2.41
P/BV:	1.4
Net Financial Position (Eu mn):	-33
Enterprise Value (Eu mn):	210

- **1H23 results: as-is business burdened by drop in reference prices and higher electricity costs.** SERI reported 1H23 revenues of €95.9mn, -6% YoY (vs. exp. €96.1mn), with Plastic Materials and Lead-Acid Batteries both showing stable volumes, but lower average selling prices due to the decline of reference quotes. Adj. EBITDA was €7.2mn (vs €7.5mn exp.), down -21% YoY, giving a 7.5% margin, down 1.4pp, as the company sold products manufactured in previous periods at higher input prices and as the French subsidiaries registered higher electricity prices. Adj. EBIT was €-6.1mn, also burdened by €6.3mn in D&A related to the Teverola 1 & 2 plants, which, as known, are yet to start production. Net debt was €130.1mn vs. €104.3mn as at YE22, mainly due to a rise in inventories. As of 3Q23, net debt declined to €60.5mn after the advance payment received for Teverola 2 of €83.4mn.
- **T1 update: problems with mass production delay commercial launch.** After the start-up at end-2022, the Teverola 1 lithium battery plant incurred a significant rise in production scrap and machine downtime once production increased. New CTO Mr. Ligeois, who joined SERI last June (former Industrial Engineer of SAFT and Northvolt), is implementing new production standards that should solve manufacturing problems and enable mass production. The situation led to a further delay in the commercial launch of batteries, previously envisaged from 3Q23. We are thus shifting our forecast by one year, assuming revenues of €7/55/133mn in 2023/24/25 (vs prev. €61/140/148mn) and reflecting in 2023 the spot sale of the products obtained during ramp-up, and from 2024 onward the progressive increase in output.
- **T2 update: CTO reconfiguring plant; advance on grant received in August.** On the Teverola 2 gigafactory project, the new CTO and his team are redefining all the process parameters of the plant. Last August, SERI received an advance payment for Teverola 2 from the Ministry for Enterprise amounting to €83.4mn, or 20% of the total grant. The assessment with a pool of banks for activation of a revolving credit line is still ongoing. While these developments are welcomed, we believe overall progress is slower than we expected, prompting us to postpone the start of the investment phase to 2024 (start of CapEx shifted from '23). We therefore delay the commercial ramp-up of T2 to 2027 (vs mid-2026 prev.). We note that T2 is included in our valuation through a dedicated DCF at €2.1 per share (€5.0 prev.) due to slower progress and the application of a 50% execution risk based on the recent track record. Key elements moving our valuation are: successful execution at T1, timely progress on CapEx, agreements with customers (off-take agreements) and suppliers, strength of demand, NWC financing, and technology.
- **Change in estimate.** We are making meaningfully cuts to our forecast as we shift our previous assumptions by one year and add a dose of caution to the as-is business given the weaker macro and recent volatility.
- **BUY; TP to €7.0 from €9.8.** There have been clear missteps in execution of the lithium battery projects that are the key value driver of the SERI equity story. The results of that are the further postponement of the commercial launch of the T1 plant and the slower-than-expected CapEx deployment at T2, leading to the negative share price performance. Nevertheless, the arrival of the new CTO and the receipt of advance payments on T2 boost our confidence on the delivery of SERI's business plan, albeit with delays to the original plan. Consequently, and in light of the tangible upside to our TP despite the revision due to lower estimates, we confirm our rating on the stock.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	177	204	203	257	341
EBITDA Adj (Eu mn)	21	17	16	28	48
Net Profit Adj (Eu mn)	0	-3	-14	-2	13
EPS New Adj (Eu)	0.010	-0.069	-0.253	-0.031	0.237
EPS Old Adj (Eu)	0.010	-0.069	-0.012	0.316	0.419
DPS (Eu)	0.000	0.000	0.000	0.000	0.000
EV/EBITDA Adj	21.8	25.9	12.8	8.9	6.0
EV/EBIT Adj	nm	nm	nm	nm	12.0
P/E Adj	nm	nm	nm	nm	13.8
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Net Debt/EBITDA Adj	4.8	6.0	2.0	2.6	2.3