

# SOMEK

Sector: Industrials

**BUY**

Price: Eu23.50 - Target: Eu26.00

## Extraordinary Impacts Dented FY23 Expectations

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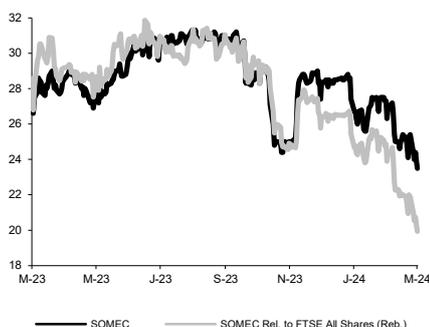
### Stock Rating

Rating:	Unchanged		
Target Price (Eu):	from 33.30 to 26.00		
	2023E	2024E	2025E
Chg in Adj EPS	n.m.	-38.2%	-28.2%

### Next Event

FY23 Results Out 26 March

### SOMEK - 12M Performance



### Stock Data

Reuters code:	SOME.MI
Bloomberg code:	SOM IM

Performance	1M	3M	12M
Absolute	-10.6%	-17.0%	-17.8%
Relative	-17.7%	-26.7%	-35.7%
12M (H/L)	31.30/23.50		
3M Average Volume (th):	1.79		

### Shareholder Data

No. of Ord shares (mn):	7
Total no. of shares (mn):	7
Mkt Cap Ord (Eu mn):	162
Total Mkt Cap (Eu mn):	162
Mkt Float - Ord (Eu mn):	40
Mkt Float (in %):	24.8%
Main Shareholder:	
Venezia SpA	74.9%

### Balance Sheet Data

Book Value (Eu mn):	31
BVPS (Eu):	4.56
P/BV:	5.2
Net Financial Position (Eu mn):	-67
Enterprise Value (Eu mn):	234

■ **What happened.** On Friday evening, the company issued a press release revising its expectations for FY23 in light of the pre-closing figures examined. In particular:

- **Revenues will be above the estimate provided on 25th of September 2023 by approximately 5%;** [previous “revenues strongly in excess of Eu360m”]
- **EBITDA will be below the range disclosed on 25th of September 2023 by approximately 25%;** [previous “EBITDA ranging between Eu26m and Eu29m”]
- **The net financial position before IFRS16 will be about 20% above the maximum value envisaged by the range communicated on 25th of September 2023** [previous “Pre-IFRS16 NFP between Eu40m and Eu50m”]

SOMEK highlighted that, after a first analysis, the changes to previous guidelines are attributable to extraordinary items related to two subsidiaries, which affected margins with a consequent effect on NFP.

■ **What we understood from the company.** Management was available to provide additional colour and detail on what determined the downward revision of guidance by c.Eu6-7m for EBITDA (we assume 25% below the previous guidance range of Eu26m to Eu29m). We understand that the impacts are all related to old contracts in the company’s portfolio which resulted in disputes related to the final payment of contract extensions or related to remarks or exceptions raised by clients on controversial contractual aspects ([more details inside](#)). We think that these impacts were unfortunately the result of the previous operational methods not in line with the conduct standards at SOMEK group and which the company has finally fixed with new management in place in key controlled companies and standardized contractual frameworks engineered in order to avoid such controversies.

■ **What to expect now.** In this report we outline in detail our view on what comes next. Ability to expand margins despite these extraordinary impacts in 2023 remains and we believe that many of the actions aimed at gearing the group for the evident dimensional change in progress have been made in 2023. The Group should now focus on high value contracts and delivery of profitability in line with its valuable objectives.

■ **BUY reiterated; target to Eu26 (from Eu33.3).** We believe the group is well placed to exploit growth opportunities across several markets and benefit from the synergistic integration of the different businesses it has brought under its umbrella over the years. Contingent headwinds due mainly to the company’s transformational phase and the lower value and reliability of old contracts have dented 2023 performance but the proven management team, the mix of leadership in core businesses and diversification in growth segments, full control of the value chain, and high cash generation are the key investment points in this story. Having said that, as of today and in light of two consecutive and disappointing downward guidance revisions, it is becoming increasingly imperative to recover credibility on execution and delivery and to prove business model reliability, avoiding unforeseeable last-minute impacts. New estimates in light of the revised guidance, with the DCF model now including a 4% risk-free rate (from 4.5% previously, as per Intermonte assumptions), a more cautious 0.5% terminal growth rate (from 1% previously) blended with SOP valuation, take our TP to Eu26 from Eu33.3 previously, with continuing double-digit upside potential that should become more visible as the company develops from 2H this year. We applied a discretionary liquidity discount now at 15% from 10% before.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	258	329	377	404	439
EBITDA Adj (Eu mn)	23	23	19	30	37
Net Profit Adj (Eu mn)	8	2	-3	5	11
EPS New Adj (Eu)	1.224	0.232	-0.388	0.762	1.570
EPS Old Adj (Eu)	1.224	0.232	0.388	1.232	2.187
DPS (Eu)	0.044	5.291	0.116	-0.194	0.381
EV/EBITDA Adj	10.6	12.7	15.1	7.8	5.8
EV/EBIT Adj	34.4	nm	nm	18.2	10.9
P/E Adj	19.2	nm	nm	30.9	15.0
Div. Yield	0.2%	22.5%	0.5%	-0.8%	1.6%
Net Debt/EBITDA Adj	2.1	3.5	4.3	2.2	1.2

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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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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 %

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BUY:	38.78 %
OUTPERFORM:	51.02 %
NEUTRAL:	10.20 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short

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