Milan, 11 April 2023

Italian Equity Research – 4Q22 Results

SOMEC

BUY

Sector: Industrials

Price: Eu28.40 - **Target: Eu33.90**

Strong Recovery in 2H, High Visibility on 2023 Targets

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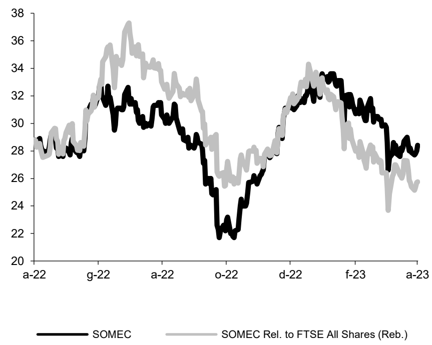
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 31.00 to 33.90
	2023E	**2024E**	**2025E**
Chg in Adj EPS	-17.8%	-16.0%	

SOMEC - 12M Performance



Stock Data			
Reuters code:			SOME.MI
Bloomberg code:			SOM IM
Performance	**1M**	**3M**	**12M**
Absolute	3.3%	-15.0%	-1.0%
Relative	3.6%	-22.0%	-9.6%
12M (H/L)			33.60/21.70
3M Average Volume (th):			1.03

Shareholder Data	
No. of Ord shares (mn):	7
Total no. of shares (mn):	7
Mkt Cap Ord (Eu mn):	196
Total Mkt Cap (Eu mn):	196
Mkt Float - Ord (Eu mn):	49
Mkt Float (in %):	24.8%
Main Shareholder:	
Venezia SpA	74.9%

Balance Sheet Data	
Book Value (Eu mn):	18
BVPS (Eu):	2.63
P/BV:	10.8
Net Financial Position (Eu mn):	-64
Enterprise Value (Eu mn):	269

- **2H showed margin recovery as expected:** the company reported revenues of €177mn in 2H22, up 35% and 12% higher than our expectations, with EBITDA of €14.1mn, in line with our estimates. The margin went up from 6.8% in 2H21 and 6.0% in 1H22 to 8.0%, a return to normal profitability as the unusual cost inflation was already accounted in 1H, with no further deterioration in 2H. Margins rose from 4.9% in 1H22 to 7.6% in 2H in Engineering, and from 6.1% to 9.6% in Professional Cooking. Profitability in Mestieri went from 8.9% to 7.3% due to completion of a big order boosting 1H, but the segment showed clear YoY progression, given that it posted a margin of -12.3% in 2H21. FY22 adj. net income was worse than expected at €1.6mn due to higher D&A and financial charges.
- **Strong cash generation confirmed in 2022:** the company confirmed its distinctive trait of high cash generation, with operating cash flow of €14mn, a 60.3% EBITDA conversion rate. Net debt, however, rose from €48mn in 2021 to €82mn, due to significant M&A activity (€36mn), but also CapEx (€3mn) and dividends (€5.5mn and €3mn to minorities). We note the important M&A contribution in 2022, with €26.5mn in additional revenues (+10.3%), but organic growth remained the biggest driver of the revenue increase (+16.9%).
- **Well-identified strategy for 2023:** the company guided for revenues of more than €360mn, with EBITDA of at least €30mn and the NFP below €68mn. Management sounded quite confident on the targets provided, as they are backed by the solid and highly visible backlog (€267mn of revenues covered by the backlog as at 31/12/2022). The overall focus in 2023 will be on further reviving profitability, with ongoing renegotiation efforts on the soft backlog and revisions to the pricing of Cooking products, but also synergies generation from the consolidation of acquired companies. M&A activity will probably slow down, but management continues to monitor potential new opportunities, including larger prospects.
- **Change in estimates:** while we assume a more gradual margin expansion in 2023 compared to our previous estimates, our new EBITDA forecast of €33mn remains 10% above company guidance and implies 42**%** YoY growth. We believe management has given out prudent indications, with upside potential coming from higher refitting activity and strong US business. We are lowering our 2023 and 2024 EPS estimates by 17.9% and 16% due to the fine-tuning of margins and higher financial charges and D&A; forecasts now imply 5.5x YoY growth. We expect operating cash flow generation to remain strong, allowing net debt to fall to €64mn.
- **BUY confirmed; target to €33.9:** while 2022 profitability was hit by cost inflation, we believe going forward the company has the right operational and commercial tools to target a sustainable double-digit margin, thanks to better pricing on newly-acquired orders, the soft backlog and catalogue, and also the gradual integration of acquired companies, which should generate both commercial and cost synergies. TP raised to €33.9, with lower EPS estimates more than offset by 1) a re-rating of peers; 2) progressive valuation rollover; 3) confirmation of strong cash generation (affecting the DCF).

Key Figures & Ratios	**2021A**	**2022A**	**2023E**	**2024E**	**2025E**
Sales (Eu mn)	258	329	370	396	423
EBITDA Adj (Eu mn)	23	23	33	42	48
Net Profit Adj (Eu mn)	8	2	10	16	21
EPS New Adj (Eu)	1.224	0.232	1.506	2.355	2.993
EPS Old Adj (Eu)	1.224	0.767	1.831	2.802	
DPS (Eu)	0.800	0.000	0.753	1.178	1.496
EV/EBITDA Adj	11.0	12.9	8.2	5.9	4.7
EV/EBIT Adj	35.6	nm	16.1	10.1	7.4
P/E Adj	23.2	nm	18.9	12.1	9.5
Div. Yield	2.8%	0.0%	2.7%	4.1%	5.3%
Net Debt/EBITDA Adj	2.1	3.5	1.9	1.0	0.4