BOŚ DOM MAKLERSKI

WSE Analytical Coverage Program

**32/2023/GPW (76)** September 4, 2023

This report is prepared for the Warsaw Stock Exchange SA within the framework of the Analytical Coverage Support Program 4.0.

# SEKO



**Analyst:**
Mikołaj Stępień

BOŚ | DOM MAKLERSKI

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This is an excerpt from the Polish version of DM BOŚ SA's research report.

# SEKO

**Sector:** Consumer staples
**Bloomberg code:** SEK PW
**Price:** PLN 11.20
**12M EFV:** PLN 16.3 (–)

**Market Cap:** US$ 18 m
**Av. daily turnover:** US$ 0.01 m
**12M range:** PLN 5.50-12.50
**Free float:** 38%

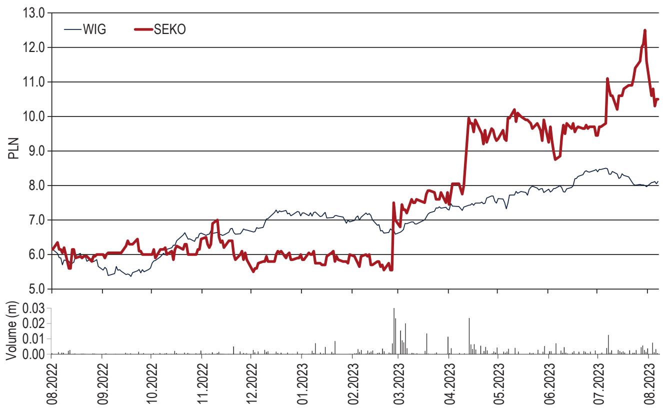
**Guide to adjusted profits**
No factors necessitating adjustments.

**Key data**

| IFRS consolidated | | 2022 | 2023E | 2024E | 2025E |
|---|---|---|---|---|---|
| Sales | *PLN m* | 230.2 | 256.1 | 261.3 | 266.5 |
| EBITDA | *PLN m* | 12.8 | 22.3 | 21.2 | 21.6 |
| EBIT | *PLN m* | 6.1 | 15.3 | 14.1 | 14.5 |
| Net profit | *PLN m* | 4.5 | 12.4 | 11.2 | 11.7 |
| EPS | *PLN* | 0.67 | 1.87 | 1.68 | 1.76 |
| EPS yoy chg | *%* | - | 178.2 | -9.8 | 4.6 |
| Net debt | *%* | 7.6 | 2.7 | -1.3 | -6.4 |
| P/E | *x* | 16.7 | 6.0 | 6.7 | 6.4 |
| P/CE | *x* | 6.7 | 3.8 | 4.1 | 3.9 |
| EV/EBITDA | *x* | 6.4 | 3.5 | 3.5 | 3.1 |
| EV/EBIT | *x* | 13.4 | 5.0 | 5.2 | 4.7 |
| DPS | *PLN* | 0.00 | 0.33 | 0.93 | 0.84 |
| Gross dividend yield | *%* | 0.0 | 2.9 | 8.3 | 7.5 |
| No. of shares (eop) | *m* | 6.7 | 6.7 | 6.7 | 6.7 |

*Source: Company, DM BOŚ SA estimates*

**Stock performance**




*Source: Bloomberg*

**Recent events**

1. Dividend payout day (DPS = PLN 0.33): July 7
2. 1H23 financial results release: August 25

**Upcoming events**

1. Release of 3Q23 financial results: November 3

SEKO belongs to the biggest firms in the fishmeal industry in Poland. SEKO's production plant in Chojnice is technologically advanced and one of the biggest facilities (16,000 sq. m) of this type both, in Poland and in Europe. The Company's product offer encompasses, among others, pickled fish, salted fish, fish-based salads, and fish spreads.

SEKO sells its products to retail chains, wholesalers, and retail shops. Moreover, the Company develops its exports that account for an over 10% share in SEKO's sales.

According to GfK Polonia's estimations, in 2022 Poles bought fish and fishmeal for PLN 4.1 billion in total. Falling household real income translated into a lower sales volume (down 8% yoy), albeit the value of purchased products did grow (up 4.8% yoy) due to price rises introduced by the producers to counteract significant cost growths. 1H23 witnessed a rebound in the demand for SEKO's products with the sales volume up 5% yoy.

In 2021 and 2022 SEKO's margins materially deteriorated on the back of strong increases of energy and raw material prices. After the Company adjusted its price lists accordingly, the situation materially improved towards the 2022-end. Since 4Q22 SEKO's quarterly margins have reached the historical level or exceeded it. We expect some margin normalization at the pre-pandemic level starting from 2024 assuming further cost increases.

SEKO traditionally pays out about a half of its profits in the form of dividend with 2022 as the only exception; in 2023 the Company paid out a PLN 0.33 dividend per share. We believe the results improvement expected this year should translate into a higher dividend payout next year which we assume at PLN 0.93 per share (implying a 8% dividend yield at the current market share price).

Our 12M EFV for SEKO constituting a 50%–50% mix of the DCF FCFF method and peer-relative valuation, stands at PLN 16.3 per share indicating a material upside.

**Catalysts**

1. Continued normalization of energy and raw material prices
2. Rebound of the sales volume
3. Profitability yoy improvement
4. Sales expansion abroad
5. Energy cost cutting thanks to pro-environment investments

**Risk factors**

1. **Energy and raw material prices increase.** Sudden strong energy and raw material prices hikes materially lowered SEKO's profitability in 2021-22. Despite the recent stabilization of energy and raw material prices the price shocks cannot be precluded.
2. **Revenues lost in favor of competitors.** Competitors increasing their scope of operations via acquisitions may adversely affect SEKO's revenues and profitability.
3. **Unfavorable changes in FX rates.** SEKO purchases its fish base abroad paying in EUR. Strengthening of EUR vs PLN has an unfavorable impact on the cost level, thus on the Company's margins as well.
4. **Further growth of the employments costs.** Salaries are the second biggest cost category at SEKO. Rises of the statutory minimum wage may increase the employment costs considerably with the adverse impact on SEKO's margins.
5. **Loss of key clients.** Termination of the contract with a big retailer may have some visible negative impact on the Company's sales level, albeit this is not the key risk factor as no single customer's share exceeds 10% of sales.

**Competitive advantages**

1. Own production plant constantly modernized
2. Recognized brand
3. Long-standing cooperation with big and trusted customers

**BASIC DEFINITIONS**
**A/R turnover** (in days) = 365/(sales/average A/R))
**Inventory turnover** (in days) = 365/(COGS/average inventory))
**A/P turnover** (in days) = 365/(COGS/average A/P))
**Current ratio** = ((current assets – ST deferred assets)/current liabilities)
**Quick ratio** = ((current assets – ST deferred assets – inventory)/current liabilities)
**Interest coverage** = (pre-tax profit before extraordinary items + interest payable/interest payable)
**Gross margin** = gross profit on sales/sales
**EBITDA margin** = EBITDA/sales
**EBIT margin** = EBIT/sales
**Pre-tax margin** = pre-tax profit/sales
**Net margin** = net profit/sales
**ROE** = net profit/average equity
**ROA** = (net income + interest payable)/average assets
**EV** = market capitalization + interest bearing debt – cash and equivalents
**EPS** = net profit/ no. of shares outstanding
**CE** = net profit + depreciation
**Dividend yield** (gross) = pre-tax DPS/stock market price
**Cash sales** = accrual sales corrected for the change in A/R
**Cash operating expenses** = accrual operating expenses corrected for the changes in inventories and A/P, depreciation, cash taxes and changes in the deferred taxes

DM BOŚ S.A. generally values the covered non bank companies via two methods: comparative method and DCF method (discounted cash flows). The advantage of the former is the fact that it incorporates the current market assessment of the value of the company's peers. The weakness of the comparative method is the risk that the valuation benchmark may be mispriced. The advantage of the DCF method is its independence from the current market valuation of the comparable companies. The weakness of this method is its high sensitivity to undertaken assumptions, especially those related to the residual value calculation. Please note that we also resort to other valuation techniques (e.g. NAV-, DDM- or SOTP-based), should it prove appropriate in a given case.

**Banks**
**Net Interest Margin (NIM)** = net interest income/average assets
**Non interest income** = fees&commissions + result on financial operations (trading gains) + FX gains
**Interest Spread** = (interest income/average interest earning assets)/ (interest cost/average interest bearing liabilities)
**Cost/Income** = (general costs + depreciation)/ (profit on banking activity + other net operating income)
**ROE** = net profit/average equity
**ROA** = net income/average assets
**Non performing loans** (NPL) = loans in 'basket 3' category
**NPL coverrage ratio** = loan loss provisions/NPL
**Net provision charge** = provisions created – provisions released

DM BOŚ S.A. generally values the covered banks via two methods: comparative method and fundamental target fair P/E and target fair P/BV multiples method. The advantage of the former is the fact that it incorporates the current market assessment of the value of the company's peers. The weakness of the comparative method is the risk that the valuation benchmark may be mispriced. The advantage of the fundamental target fair P/E and target fair P/BV multiples method is its independence of the current market valuation of the comparable companies. The weakness of this method is its high sensitivity to undertaken assumptions, especially those
related to the residual value calculation. Assumptions used in valuation can change, influencing thereby the level of the valuation. Among the most important assumptions are: GDP growth, forecasted level of inflation, changes in interest rates and currency prices, employment level and change in wages, demand on the analysed company products, raw material prices, competition, standing of the main customers and suppliers, legislation changes, etc. Changes in the environment of the analysed company are monitored by analysts involved in the preparation of the recommendation, estimated, incorporated in valuation and published in the recommendation whenever needed.

**KEY TO INVESTMENT RANKINGS**

This is a guide to expected price performance in absolute terms over the next 12 months:
**Buy** – fundamentally undervalued (upside to 12M EFV in excess of the cost of equity) + catalysts which should close the valuation gap identified;
**Hold** – either (i) fairly priced, or (ii) fundamentally undervalued/overvalued but lacks catalysts which could close the valuation gap;
**Sell** – fundamentally overvalued (12M EFV < current share price + 1-year cost of equity) + catalysts which should close the valuation gap identified.

This is a guide to expected relative price performance:
**Overweight** – expected to perform better than the benchmark (WIG) over the next quarter in relative terms
**Neutral** – expected to perform in line with the benchmark (WIG) over the next quarter in relative terms
**Underweight** – expected to perform worse than the benchmark (WIG) over the next quarter in relative terms

The recommendation tracker presents the performance of DM BOŚ S.A.'s recommendations. A recommendation expires on the day it is altered or on the day 12 months after its issuance, whichever comes first.
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***Distribution of DM BOŚ's current recommendations***

| | Buy | Hold | Sell | Suspended | Under revision | Not rated |
|---|---|---|---|---|---|---|
| Numbers | 37 | 32 | 9 | 9 | 0 | 2 |
| Percentage | 42% | 36% | 10% | 10% | 0% | 2% |

***Distribution of DM BOŚ's current recommendations for the companies which DM BOŚ has supplied with material investment services within the last 12 months***

| | Buy | Hold | Sell | Suspended | Under revision | Not rated |
|---|---|---|---|---|---|---|
| Numbers | 5 | 7 | 1 | 1 | 0 | 2 |
| Percentage | 31% | 44% | 6% | 6% | 0% | 13% |

***Distribution of DM BOŚ's current market relative recommended weightings***

| | Overweight | Neutral | Underweight | Suspended | Under revision | Not rated |
|---|---|---|---|---|---|---|
| Numbers | 32 | 32 | 15 | 9 | 0 | 2 |
| Percentage | 36% | 36% | 17% | 10% | 0% | 2% |

***Distribution of DM BOŚ's current market relative recommended weightings for the companies which DM BOŚ has supplied with material investment services within the last 12 months***

| | Overweight | Neutral | Underweight | Suspended | Under revision | Not rated |
|---|---|---|---|---|---|---|
| Numbers | 7 | 3 | 3 | 1 | 0 | 2 |
| Percentage | 44% | 19% | 19% | 6% | 0% | 13% |

***Recommendation tracker***

| Analyst | Fundamental Recommendation | Relative Recommendation | Report date | Reiteration date | Distribution date | Price at issue/ reiteration* | EFV (12 months) |
|---|---|---|---|---|---|---|---|
| **SEKO** | | | | | | | |
| Mikołaj Stępień | Not rated | Not rated | 04.09.2023 | - | 04.09.2023 | 11.20 | 16.30 |

** prices at issue/reiteration are the closing prices at the report or reiteration date*

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The production of the report was completed on September 4, 2023 at 6.30 p.m.
The report was distributed on September 4, 2023 at 6.40 p.m.

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**Stockbrokers**

***Piotr Kalbarczyk***
*tel.: +48 (22) 504 32 43*
*p.kalbarczyk@bossa.pl*

**Research**

***Sobiesław Pająk, CFA***
(Equity strategy, TMT)

***Sylwia Jaśkiewicz, CFA***
(Construction materials, Consumer discretionary, Health care & biotechnology)

***Tomasz Rodak, CFA***
(Consumer discretionary, Video games)

***Łukasz Prokopiuk, CFA***
(Chemicals, Mining, Oil & gas)

***Michał Sobolewski, CFA, FRM***
(Financials)

***Jakub Viscardi***
(Telco, Consumer staples & discretionary, IT – hardware distribution, Utilities)

***Maciej Wewiórski***
(Residential construction, Construction, Real estate)

***Mikołaj Stępień***
Junior Analyst

***Michał Zamel***
Associate





**Dom Maklerski Banku Ochrony Środowiska Spółka Akcyjna**
ul. Marszałkowska 78/80
00-517 Warszawa
www.bossa.pl
Information: (+48) 0 801 104 104