WSE Analytical Coverage Program

BOŚ DOM MAKLERSKI

5/2024/GPW (12) March 24, 2024

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.

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SEKO

Sector: Consumer staples	**Market Cap:** US$ 21.6 m
Bloomberg code: SEK PW	**Av. daily turnover:** US$ 0.01 m
Price: PLN 13.00	**12M range:** PLN 5.55-13.30
12M EFV: PLN 16.3 (→)	**Free float:** 38%

Guide to adjusted profits
No factors necessitating adjustments.

Recommended action

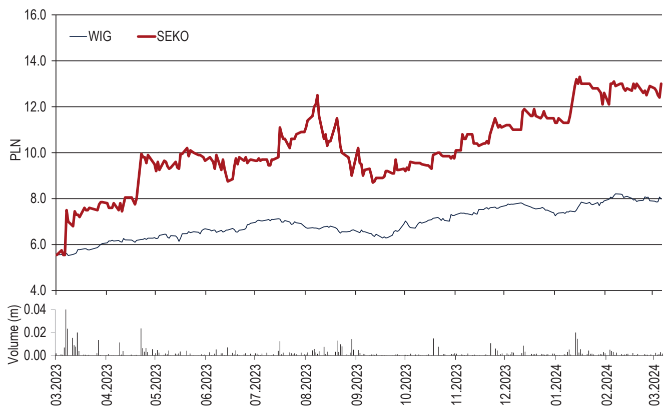
We have not changed our positive stance on the Company's equities and our 12M EFV at PLN 16.3 per share stays intact. 4Q23 financial results slightly beat our expectations. In spite of a 2H23 sales volumes drop, finally FY23 featured growth which we expect to continue this year due to improving consumer purchasing power. Should the Company maintain its habit to distribute c. half of profits in a form of a dividend, the dividend yield would reach an attractive level of 8.7%.

Key data

IFRS consolidated		2023	2024E	2025E	2026E
Sales	*PLN m*	261.1	263.3	268.6	275.6
EBITDA	*PLN m*	24.6	21.0	21.5	22.0
EBIT	*PLN m*	17.6	13.9	14.3	14.8
Net profit	*PLN m*	14.9	11.1	11.6	12.2
EPS	*PLN*	2.25	1.66	1.74	1.84
EPS yoy chg	*%*	234.9	-25.9	4.7	5.5
Net debt	*%*	11.6	-1.0	-6.1	-12.4
P/E	*x*	5.8	7.8	7.5	7.1
P/CE	*x*	3.9	4.8	4.6	4.4
EV/EBITDA	*x*	4.0	4.1	3.7	3.4
EV/EBIT	*x*	5.6	6.1	5.6	5.0
DPS	*PLN*	0.33	0.92	0.83	0.88
Gross dividend yield	*%*	2.5	7.1	6.4	6.8
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. 1H23 financial results release: August 25, 2023
2. Release of 3Q23 financial results: November 3, 2023
3. Release of consolidated 4Q23 financial results: March 22, 2024

Upcoming events

1. Release of consolidated 1Q24 financial results: May 7, 2024

4Q23 financial results review

Revenues. 4Q23 financial results slightly beat our expectations. 4Q23 sales reached PLN 83 million (up 1% yoy) which was in line with our forecast. Though the Company informed about a 2% sales volume yoy drop in 2H23 (SEKO does not publish quarterly sales volume figures), finally total 4Q23 revenues turned to be almost flat yoy as SEKO's product prices might have risen by 4%, according to our estimates based on sales data.

Profitability. 4Q23 EBITDA at PLN 11 million, down 3% yoy, was slightly above our forecast at c. PLN 10 million, mainly due to the gross margin on sales that was higher than we assumed. 4Q23 EBIT at PLN 9 million, down 5% yoy, also beat our expectations at c. PLN 8 million. Both, EBITDA and EBIT are somewhat lower yoy which stems from the high base effect, as in 4Q22 Company's newly introduced significant product price rises managed to compensate for a strong cost growth observed in 2022. Nonetheless, we deem 4Q23 profitability highly satisfying. 4Q23 net profit reached PLN 8 million (up 2% yoy) which turned to be a tad above our expectations at PLN 7 million.

Cash flow performance. 4Q23 OCF were negative (PLN -2.7 million) which stems from the seasonality and is typical for the fish processing industry (fat revenues from Christmas sales are converted to cash in 1Q). Total FY23 OCF stood at PLN 12.3 million vs capex at PLN 8.5 million which implies last year's free cash flows at PLN 3.9 million.

FY23 financials

Last year SEKO's revenues/ EBITDA/ EBIT/ net profit reached PLN 261 million (up 13% yoy)/ 25 million (up 92% yoy)/ 18 million (up 186% yoy)/ 15 million (up 235% yoy) with high dynamics stemming from the very low 1-3Q22 base when the Company struggled with drastically rising costs while the price lists were adjusted to this only in 4Q22 and over 2023 the Company's product prices were adapted to a new cost reality.

Dividend

SEKO traditionally pays out about a half of its profits in a form of a dividend. In 2023 the profit per share reached PLN 2.25 which may imply a PLN 1.13 dividend per share payment which is materially above our assumption at PLN 0.92 per share. Given SEKO's current market share price this would suggest an attractive gross dividend yield at 8.7%.

Catalysts

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

Risk factors

1. Energy and raw material prices increase
2. Revenues lost in favor of competitors
3. Unfavorable changes in FX rates
4. Further growth of labor costs
5. Loss of key clients

Competitive advantages

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

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.
Relative performance compares the rate of return on a given recommended stock in the period of the recommendation's validity (i.e. from the date of issuance to the date of alteration or – in case of maintained recommendations – from the date of issuance to the current date) in a relation to the rate of return on the benchmark in this time period. The WIG index constitutes the benchmark. For recommendations that expire by an alteration or are maintained, the ending values used to calculate their absolute and relative performance are: the stock closing price on the day the recommendation expires/ is maintained and the closing value of the benchmark on that date. For recommendations that expire via a passage of time, the ending values used to calculate their absolute and relative performance are: the average of the stock closing prices for the day the recommendation elapses and four directly preceding sessions and the average of the benchmark's closing values for the day the recommendation expires and four directly preceding sessions.

Distribution of DM BOŚ's current recommendations

	Buy	Hold	Sell	Suspended	Under revision	Not rated
Numbers	45	22	10	9	1	4
Percentage	49%	24%	11%	10%	1%	4%

Distribution of DM BOŚ's current market relative recommended weightings

	Overweight	Neutral	Underweight	Suspended	Under revision	Not rated
Numbers	27	36	14	9	1	4
Percentage	30%	40%	15%	10%	1%	4%

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	8	4	1	1	0	3
Percentage	47%	24%	6%	6%	0%	18%

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	5	6	2	1	0	3
Percentage	29%	35%	12%	6%	0%	18%

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	–
Mikołaj Stępień	-	-	-	12.10.2023	12.10.2023	9.25	16.30	→
Mikołaj Stępień	-	-	-	25.10.2023	25.10.2023	9.55	16.30	→
Mikołaj Stępień	-	-	-	06.11.2023	06.11.2023	10.00	16.30	→
Mikołaj Stępień	-	-	-	07.12.2023	07.12.2023	10.40	16.30	→
Mikołaj Stępień	-	-	-	10.12.2023	11.12.2023	10.80	16.30	→
Mikołaj Stępień	-	-	-	09.01.2024	09.01.2024	11.60	16.30	→
Mikołaj Stępień	-	-	-	01.02.2024	01.02.2024	13.30	16.30	→
Mikołaj Stępień	-	-	-	19.02.2024	20.02.2024	12.10	16.30	→
Mikołaj Stępień	-	-	-	29.02.2024	29.02.2024	12.70	16.30	→
Mikołaj Stępień	-	-	-	24.03.2024	25.03.2024	13.00	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 March 25, 2024 at 7.25 a.m.
The report was distributed on March 25, 2024 at 7.35 a.m.

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