

**28/2024/GPW (73)** September 4, 2024

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

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# SEKO

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**Analyst:** Mikolaj Stepień

**Sector:** Consumer staples  
**Bloomberg code:** SEK PW  
**Price:** PLN 12.20  
**12M EFV:** PLN 17.8 (→)

**Market Cap:** US\$ 21 m  
**Av. daily turnover:** US\$ 0.01 m  
**12M range:** PLN 8.09-13.39  
**Free float:** 38%

# SEKO

## Recommended action

2Q24 financial results turned out to be weaker yoy, albeit this was what we expected. The Company suffers from a prolonged price war among retailers and falling sale volumes. We believe the current problems are temporary and have been already discounted in the Company's share market price. The end of a price war and halting of sale volumes yoy declines expected by us in 2H24 may act as drivers for SEKO's share market price growth. Our 12M EFV at PLN 17.8 per share stays intact.

## 2Q24 financial results review

As we expected, SEKO's 2Q24 financial results deteriorated yoy. Sales reached PLN 44 million (down 17% yoy) affected by (i) lack of demand (Easter-driven demand fell completely on 1Q24), (ii) the mentioned price war and resulting clients' pressure on prices and (iii) sale volume declines partially caused by the consumers' slightly weaker condition and high temperatures (low temperatures are positively correlated with a demand for fish products). Along with lower sales the Company's operating leverage dropped. 2Q24 EBITDA at PLN 1.4 million (down 32% yoy) was in line with our expectations and EBIT/NP reached PLN -0.4/-0.2 million which was also in line with our expectations. Due to material lowering of trade receivables the Company's operating cash flows were high and reached PLN 7.5 million. The Company's net cash remained stable qoq (PLN 10 million).

## Forecast changes

As the Company's 2Q24 figures were in line with our forecasts, we don't change our financial projections. We expect to see a flat/ slightly positive sales dynamic in 2H24.

### Guide to adjusted profits

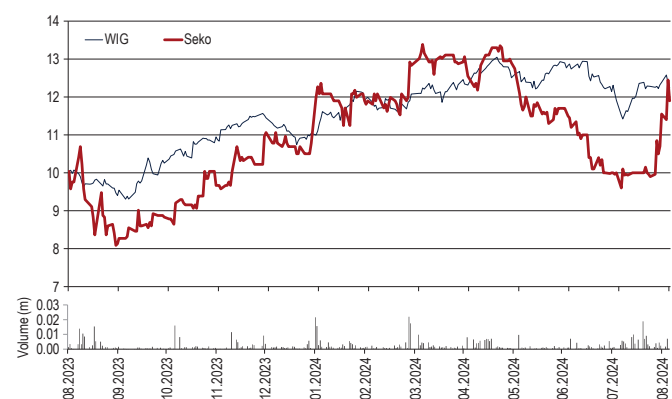
No factors necessitating adjustments.

### Key data

IFRS consolidated		2023	2024E	2025E	2026E
Sales	PLN m	261.1	246.8	266.5	271.9
EBITDA	PLN m	24.4	21.0	23.0	23.5
EBIT	PLN m	17.6	13.8	15.7	16.1
Net profit	PLN m	14.9	11.4	12.6	13.2
EPS	PLN	2.25	1.72	1.90	1.98
EPS yoy chg	%	234.9	-23.5	10.6	4.1
Net debt	%	1.6	-4.7	-8.8	-14.3
P/E	x	5.4	7.1	6.4	6.2
P/CE	x	3.7	4.3	4.1	3.9
EV/EBITDA	x	3.4	3.6	3.1	2.8
EV/EBIT	x	4.7	5.5	4.6	4.2
DPS	PLN	0.33	1.00	0.86	0.95
Gross dividend yield	%	2.7	8.2	7.0	7.8
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. First quotation less dividend (DPS at PLN 1): May 17
2. Ex-dividend day (DPS at PLN 1): May 20
3. Release of consolidated 2Q24 financial results: August 23

### Upcoming events

1. Release of consolidated 3Q24 financial results: November 5

## Valuation

As our assumptions haven't changed, we maintain 12M EFV at PLN 17.8 for SEKO's equities.

**Catalysts**

1. The end of a price war among retailers
2. Rebound of the sales volume
3. Sales expansion abroad
4. Energy cost cutting thanks to pro-environment investments
5. Investments limiting man-hours

**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 customers

## BASIC DEFINITIONS

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

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.

## 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

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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	43	26	9	5	0	4
Percentage	49%	30%	10%	6%	0%	5%

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

	Overweight	Neutral	Underweight	Suspended	Under revision	Not rated
Numbers	28	37	13	5	0	4
Percentage	32%	43%	15%	6%	0%	5%

## Banks

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

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.

### 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	9	4	0	1	0	3
Percentage	53%	24%	0%	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	4	8	1	1	0	3
Percentage	24%	47%	6%	6%	0%	18%

**Recommendation tracker**

Analyst	Fundamental Recommendation	Relative Recommendation	Report date	Reiteration date	Distribution date	Price at issue/reiteration*	EFV (12 months)
<b>SEKO</b>							
Mikolaj Stepień	Not rated	Not rated	04.09.2023	-	04.09.2023	11.20	16.30 -
Mikolaj Stepień	-	-	-	12.10.2023	12.10.2023	9.25	16.30 →
Mikolaj Stepień	-	-	-	25.10.2023	25.10.2023	9.55	16.30 →
Mikolaj Stepień	-	-	-	06.11.2023	06.11.2023	10.00	16.30 →
Mikolaj Stepień	-	-	-	07.12.2023	07.12.2023	10.40	16.30 →
Mikolaj Stepień	-	-	-	10.12.2023	11.12.2023	10.80	16.30 →
Mikolaj Stepień	-	-	-	09.01.2024	09.01.2024	11.60	16.30 →
Mikolaj Stepień	-	-	-	01.02.2024	01.02.2024	13.30	16.30 →
Mikolaj Stepień	-	-	-	19.02.2024	20.02.2024	12.10	16.30 →
Mikolaj Stepień	-	-	-	29.02.2024	29.02.2024	12.70	16.30 →
Mikolaj Stepień	-	-	-	24.03.2024	25.03.2024	13.00	16.30 →
Mikolaj Stepień	-	-	-	26.03.2024	27.03.2024	12.90	18.90 ↑
Mikolaj Stepień	-	-	-	04.04.2024	04.04.2024	14.40	18.90 →
Mikolaj Stepień	-	-	-	06.05.2024	06.05.2024	13.20	18.90 →
Mikolaj Stepień	-	-	-	29.05.2024	29.05.2024	12.90	18.90 →
Mikolaj Stepień	-	-	-	12.07.2024	12.07.2024	11.00	18.90 →
Mikolaj Stepień	-	-	-	05.08.2024	05.08.2024	9.60	17,80 ↓
Mikolaj Stepień	-	-	-	05.08.2024	05.08.2024	10,00	17,80 →
Mikolaj Stepień	-	-	-	04.09.2024	04.09.2024	12,20	17,80 →

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

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