

**50/2023/GPW (116)** December 7, 2023

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 10.40  
**12M EFV:** PLN 16.3 (→)

**Market Cap:** US\$ 17.4 m  
**Av. daily turnover:** US\$ 0.01 m  
**12M range:** PLN 5.50-12.50  
**Free float:** 38%

# SEKO

## Key points

■ **The strategy.** On the back of price upgrades introduced a year ago and materials prices normalization SEKO significantly improved margins and results this year despite the weak consumer sentiment. We expect the Company's sales volumes to return to growths next year following gradual improvement of the consumers' purchasing power. Next year the Company's margins should experience the positive impact of (i) yoy PLN strengthening (lower costs of materials purchase) and (ii) the launch of a co-generation system that should lower energy costs, while (i) another minimum wage rise (from January 2024) and (ii) lack (or smaller scale) of a subsidy within the framework of the program 'Fishing & Sea' that boosted 1H23 financial results are likely to exert the negative impact. Ultimately, we expect the margins to normalize in 2024, albeit they should be still deemed very good in comparison to historical figures. We also assume SEKO will continue to pay out dividend next year (we forecast PLN 0.92 per share which implies the dividend yield close to 9%). The risk factor for the Company lies in the consolidation of the fish processing industry (Lisner took over Graal), however, there two sides to this coin – on the one hand, due to growing competition SEKO may lose its key partners, on the other, commercial networks avoid excessive dependence on one supplier which may help the Company secure its market share.

■ **4Q23 financial results preview.** The 4th quarter is seasonally strong in the fish processing industry due to increased shopping in the pre-Christmas time and generally bigger demand for fish products in the autumn and winter. We expect sales to be flat yoy on the back of expected flat yoy sales volumes and lack of price upgrades declared by SEKO. 4Q23 profitability should be supported by PLN strengthening vs EUR (fish

### Guide to adjusted profits

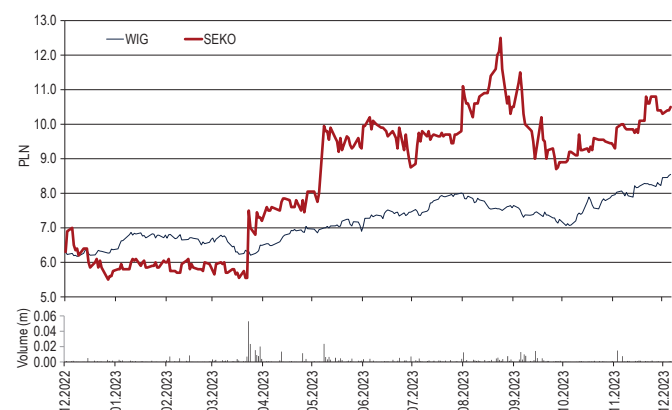
No factors necessitating adjustments.

### Key data

IFRS consolidated		2022	2023E	2024E	2025E
Sales	PLN m	230.2	258.2	263.3	268.6
EBITDA	PLN m	12.8	22.2	21.0	21.5
EBIT	PLN m	6.1	15.2	13.9	14.3
Net profit	PLN m	4.5	12.3	11.1	11.6
EPS	PLN	0.67	1.85	1.66	1.74
EPS yoy chg	%	-	175.5	-10.0	4.7
Net debt	%	7.6	3.0	-1.0	-6.1
P/E	x	15.7	5.7	6.3	6.0
P/CE	x	6.3	3.6	3.8	3.7
EV/EBITDA	x	6.0	3.3	3.3	3.0
EV/EBIT	x	12.6	4.8	4.9	4.5
DPS	PLN	0.00	0.33	0.92	0.83
Gross dividend yield	%	0.0	3.1	8.8	7.9
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 consolidated 4Q23 financial results: March/ April 2024

purchases made in EUR) and we expect decent margins, though not above the 4Q22 level that was unusually high (4Q22 EBITDA margin stood at 13% while historically it was c. 10% in 4Q). 4Q23 net profit may be lower yoy due to the high base effect.

- **FY financial forecasts.** We expect FY23 revenues/ EBITDA/ EBIT/ NI to reach PLN 258/ 22/ 15/ 12 million.
- **2024 outlook.** We expect the Company's sales volumes to return to growths along with gradual improvement of consumers' purchasing power which should impact positively next year's reported sales. The launch of a co-generation system will lower energy costs which should exert the positive impact on the Company's margins. The relative EUR/PLN rate stabilization (without strong growths) will be also favorable for SEKO's margins (especially in 1Q24, as the EUR/PLN rate in 1Q23 was materially higher than currently). On the flip of the coin, another minimum wage rise (from January 2024) will burden the profitability. It should be remembered that in the beginning of 2023 the Company obtained a subsidy from the program 'Fishing & Sea' that boosted 1H23 financial results (PLN 1.3 million) which may not be the case next year (SEKO may obtain a lower amount or no subsidy at all). Given all the considerations above, we expect a slight normalization of margins and profits in 2024, albeit they should be still deemed very good in comparison to historical figures.
- **The risk to the financial forecasts.** Moderate. The visibility of the Company's results has grown along with the normalization of raw materials prices.
- **Dividends.** SEKO traditionally pays out about a half of its profits in the form of dividend. This year's expected record high results should enable a high dividend payout next year which we estimate at PLN 0.92 per share.
- **Financial forecast changes.** We incorporated actual 3Q23 financial results into our forecasts. Changes are negligible.
- **Valuation.** We maintain our 12M EFV for SEKO at 16.3 zł per share.

### 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
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	37	32	10	9	0	2
Percentage	41%	36%	11%	10%	0%	2%

### 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%

## 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** =  $\text{provisions created} - \text{provisions released}$

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### 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 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**

<b>Analyst</b>	<b>Fundamental Recommendation</b>	<b>Relative Recommendation</b>	<b>Report date</b>	<b>Reiteration date</b>	<b>Distribution date</b>	<b>Price at issue/ reiteration*</b>	<b>EFV (12 months)</b>
<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 →

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

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