

FLASH NOTE

# Seco Warwick - Buy

Target Price: PLN 36.20 | Close as of 22/07/2024: PLN 32.60

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## Q2'24 results preview

In Q2'24, we believe **sales revenue** will surprise negatively, even despite the record order backlog collected with the end of 2023. We assume Q2'24 sales will be 4% lower y/y and 5% weaker q/q.

We expect a weak quarter at CAP AP in Q2'24 due to the ongoing trade war over the world's electric cars with China. It is worth recalling that after the European Union, Turkey, the US, Canada are also considering increasing tariff barriers on electric cars from China. As a result, the acquisition of new orders in the Automotive industry clearly declined in IH'24, especially in China. Also, the vacuum furnaces segment may clearly deteriorate in sales due to weak sentiment in European industry and the problem of winning new orders. Aftersales and vacuum metallurgy sales will look relatively good in Q2'24. It is worth noting that with weak European sentiment, customers may start to extend delivery times for pre-ordered capital goods.

PLN mn	Q2'24e	Q2'23	y/y	2024e	YTD
Revenues	173	179	-4%	741	48%
EBITDA	9	13	-34%	60	37%
EBITDA margin	5%	7%		8%	
EBIT	4	9	-51%	43	32%
Net income	2	6	-68%	31	26%

Relatively weak Q2'24 sales translate into weaker profitability, in our view. We assume that the previously highly profitable CAP AP segment will deteriorate results. Results are negatively impacted by higher selling and administrative expenses (also as a result of the growth of the Indian operations). As a result, we expect Q2'24 **EBITDA** to decline 34% y/y to PLN 9mn, and **net income** to just PLN 2mn.

Sales (PLN mn)	Q1'22	Q2'22	Q3'22	Q4'22	Q1'23	Q2'23	Q3'23	Q4'23	Q1'24	Q2'24e	y/y
Vacuum furnaces	48	50	54	39	45	49	48	42	45	33	-33%
Atmosphere furnaces	0	0	0	0	0	0	0	0	0	0	
CAB AP	26	38	43	48	33	41	32	32	35	33	-20%
Vacuum metallurgy	21	33	42	56	60	50	39	58	64	57	13%
Aftersales	27	29	38	30	33	39	33	49	38	50	29%
Other	0	0	0	1	0	0	-2	2	0	0	-
EBITDA	10	16	21	10	16	13	12	15	14	9	-34%
EBITDA margin	8%	11%	12%	6%	10%	7%	8%	9%	7%	5%	
OCF	12	-21	17	18	2	-9	10	56	7	6	-168%
Backlog	369	520	479	566	560	525	530	776	686	634	21%
Order intake	148	296	136	262	174	136	157	-	98	120	-12%

In our view, weak sentiment in global Automotive (see profit warning Porsche, VW; ongoing trade war) will translate into a second consecutive quarter of low **new order intake**. In addition, the situation is exacerbated by the strengthening of the PLN against the USD (weaker order conversion rate from the US and China and worsening competitiveness in Poland). As a result, we assume that the **order backlog** at the end of Q2'24 will fall to around PLN 630mn and will be the lowest since Q3'23.

**OPINION: NEGATIVE**

*Q2'24 results, in our opinion, may be a cold shower for investors and management. Despite the record order backlog won at the end of Q4'23, the company will, in our view, post a sharp decline in earnings in IH'24. In addition, the weak sentiment in the global Automotive and European industries does not inspire optimism about the pace of new orders. In our view, IH'24 results will imply the need to lower our full-year expectations and revise management's expectations for 2024. Meeting the 2024 incentive program targets is beginning to look impossible.*

In this document we are not changing our recommendation, forecasts, or price target for SecoWarwick.

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Published by:

Erste Securities Polska S.A.  
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Head Office: Warsaw  
Commercial Register (KRS) No: 0000065121  
District Court for the Capital City of Warsaw, XII Commercial Division  
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