

**22/2024/GPW (63)** August 5, 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

Recommended action .....	2
2Q24 financial results preview .....	2
Forecast changes .....	2
Recent events .....	2
Upcoming events .....	2
Valuation .....	3
Catalysts .....	3
Risk factors .....	3
Competitive advantages .....	3
Disclaimer .....	4

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**Analyst:** Mikolaj Stepień

# SEKO

**Sector:** Consumer staples  
**Bloomberg code:** SEK PW  
**Price:** PLN 9.60  
**12M EFV:** PLN 17.8 (↓)

**Market Cap:** US\$ 15 m  
**Av. daily turnover:** US\$ 0.01 m  
**12M range:** PLN 8.70-14.40  
**Free float:** 38%

**Guide to adjusted profits**

No factors necessitating adjustments.

## Recommended action

Our 12M EFV for SEKO falls from PLN 18.9 to PLN 17.8 per share. The current price war among retailers adversely affected the Company's 1Q24 financial results and we expect this negative impact to be visible in 2Q24 results as well. Thus, we lower our FY forecasts for 2024 and onwards (though by a smaller margin). We believe the Company's current problems are temporary and in 2H24 we expect to see flat/slightly positive sales yoy dynamics.

## 2Q24 financial results preview

We assume that the negative impact of the retailers' price war seen in the Company's 1Q24 results will also spread over 2Q24 figures. We expect the prices to fall (the price war effect) accompanied by lower sales volumes (as this year the Easter demand was fully absorbed in 1Q). We forecast the Company's revenues at PLN 43 million (down 17% yoy). With the lower sales forecast and lower operating leverage we forecast EBITDA to reach PLN 1.5 million, down 27% yoy. We expect 2Q24 to feature a slightly negative EBIT and bottom line at PLN -0.3 million and PLN -0.1 million, respectively.

## Forecast changes

We lower our forecasts for this year given the Company's 1Q24 results weaker than we expected and the price war between retailers continued in 2Q24 as well. We expect to see flat/ slightly positive sales yoy dynamics in 2H24. We also lower our forecasts for the upcoming years, however by a smaller margin vs those for FY24.

**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	4.3	5.6	5.1	4.9
P/CE	x	2.9	3.4	3.2	3.1
EV/EBITDA	x	2.7	2.8	2.4	2.1
EV/EBIT	x	3.7	4.3	3.5	3.1
DPS	PLN	0.33	1.00	0.86	0.95
Gross dividend yield	%	3.4	10.4	9.0	9.9
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. Release of consolidated 1Q24 financial results: April 30
2. First quotation without dividend (DPS at PLN 1): May 17
3. Ex-dividend day (DPS at PLN 1): May 20

**Upcoming events**

1. Release of consolidated 2Q24 financial results: August 23

## Valuation

Forecast lowering negatively affected 12M DCF valuation, albeit it is supported by (i) a decrease of the risk-free rate and (ii) valuation horizon forward shift. The negative impact however prevails and ultimately 12M DCF valuation goes down to PLN 15.2 from PLN 15.8 per share.

Our peer-relative valuation falls under the negative impact of (i) lower peer multiples and (ii) our lower forecasts; in consequence, the peer-relative valuation decreases from PLN 21.9 to PLN 20.3 per share.

Ultimately, our target 12M EFV constituting a 50%–50% mix of the DCF FCFF method and peer-relative valuation drops (by 6%) from PLN 18.9 to PLN 17.8 per share.

### 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.

## 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	41	26	9	5	0	4
Percentage	48%	31%	11%	6%	0%	5%

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

	Overweight	Neutral	Underweight	Suspended	Under revision	Not rated
Numbers	27	36	13	5	0	4
Percentage	32%	42%	15%	6%	0%	5%

## 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 coverage 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.

### 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	5	0	1	0	3
Percentage	47%	29%	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 ↓

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

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