

50/2024/GPW (113) December 1, 2024

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

SEKO

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Analyst: Mikolaj Stepień

Sector: Consumer staples
Bloomberg code: SEK PW
Price: PLN 9.80
12M EFV: PLN 15.5 (↓)

Market Cap: US\$ 16 m
Av. daily turnover: US\$ 0.01 m
12M range: PLN 9.60-14.40
Free float: 38%

SEKO

Key points

■ **Strategy.** SEKO has a tough year behind that brought about (i) price pressure from clients (price war of retailers), (ii) weaker demand than a year before and (iii) strong wages cost growth. It looks like the impact of the first two has been softening – in 3Q24 a sales yoy drop was materially lower than in 1H24: -5% vs -15%. We expect sales to rebound in 2025 mainly due the low base effect. We assume that at the beginning of 2025 the Company will adjust its price lists to rising raw material prices and wages (a minimum wage shall grow by 9% at the start of next year). According to our forecasts, the EBIT margin will improve to 5% and the Company's net profit will grow by 30%. We believe next year the Company's safe cash position will allow SEKO to pay out half of NP in the form of a dividend as usual and DPS will be at PLN 0.60 which at the current share price implies a c. 6% dividend yield. Following the forecasts update our 12EFV falls, but remains materially above the Company's current share price.

■ **Consolidation.** Recently, the fish processing market saw an acquisition of Graal by Lisner and of Copernus by Suempol. We believe the impact of these acquisitions on the Company's operations has been negligible as (i) taken-over targets specialize in different areas (different types of products, different fish species), (ii) the retail networks prefer the more diversified suppliers' base and avoid dependence from a single supplier.

■ **4Q24E.** Due to intensified demand before Christmas the last quarter of the year is seasonally good for the fish processing industry. Though we expect a sales yoy decline, it should be materially smaller than observed in 1H24 (-15% yoy). Similarly as it was in the previous quarter,

Guide to adjusted profits

No factors necessitating adjustments.

Key data

IFRS consolidated		2023	2024E	2025E	2026E
Sales	PLN m	261.1	236.9	249.1	261.5
EBITDA	PLN m	24.4	16.6	20.4	21.4
EBIT	PLN m	17.6	9.1	12.8	13.8
Net profit	PLN m	14.9	7.7	10.0	10.9
EPS	PLN	2.25	1.15	1.51	1.64
EPS yoy chg	%	234.9	-48.6	30.5	8.7
Net debt	%	1.6	-2.3	-6.6	-10.7
P/E	x	4.4	8.5	6.5	6.0
P/CE	x	3.0	4.3	3.7	3.5
EV/EBITDA	x	2.7	3.8	2.9	2.6
EV/EBIT	x	3.8	7.0	4.6	4.0
DPS	PLN	0.33	1.00	0.60	0.75
Gross dividend yield	%	3.3	10.1	6.1	7.6
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. Ex-dividend day (DPS at PLN 1): May 20
2. Release of consolidated 2Q24 financial results: August 23
3. Release of consolidated 3Q24 financial results: November 5

Upcoming events

1. Release of consolidated 4Q24 financial results: March, 2025

we expect a single-digit sales drop in 4Q24. We expect lower profitability than a year before given (i) higher yoy fixed costs and (ii) expected lack of funding from ARiMR (which in 4Q23 stood at PLN 0.5 million).

- **FY financial forecasts.** We forecast FY24 revenues/ EBITDA/ EBIT/ net profit at PLN 236.9/ 16.6/ 9.1/ 7.7 million.
- **2025 outlook.** Next year we envisage a sales improvement mainly due to the low base effect. We assume that at the beginning of 2025 the Company will adjust its price lists to rising raw material prices and wages (a minimum wage shall grow by 9%). We forecast the EBIT margin to improve to 5% and NP to grow by 30%. We believe the Company's safe cash position will allow SEKO to pay out half of NP in the form of a dividend as usual.
- **Risk to financial forecasts.** Moderate.
- **Dividend.** SEKO traditionally pays out about half of its profits in the form of dividend. In 2025 we expect DPS to reach PLN 0.60.
- **Financial forecast changes.** We lower our FY forecasts for 2024 given a prolonging effect of the price war and weaker consumer purchasing power than we assumed previously. We also lower

our forecasts for the upcoming years, however by a smaller margin vs those for FY24. At the beginning of 2025 we expect SEKO to adjust its price lists according to continuously rising costs which coupled with the low base should prompt some rebound of results next year.

- **Valuation.** On the one hand, both, (i) increase of the risk free rate and (ii) lower forecasts for the upcoming years exert the negative impact on our DCF valuation; on the other the valuation horizon shift in time has the positive impact. However, the negative factors prevail and our 12M DCF EFV goes down (by 16%) to PLN 12.8.

The peer-relative valuation falls under the impact of our forecasts downgrade (negative) and peers' valuation multiples growth (positive). The negative factor is stronger and our peer-relative valuation falls by 11% to PLN 18.1 per share.

Ultimately, our target 12M EFV constituting a 50%–50% mix of the DCF FCFF method and peer-relative valuation drops (by 13%) from PLN 17.8 to PLN 15.5 per share.

Catalysts

1. The end of a price war among retailers
2. Rebound of the sales volume
3. Price list adjustment
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 to 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 trade partners

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 = EBIT/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

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	44	28	5	5	0	5
Percentage	51%	32%	6%	6%	0%	6%

Distribution of DM BOŚ's current market relative recommended weightings

	Overweight	Neutral	Underweight	Suspended	Under revision	Not rated
Numbers	27	41	9	5	0	5
Percentage	31%	47%	10%	6%	0%	6%

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	4	5	0	1	0	2
Percentage	33%	42%	0%	8%	0%	17%

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	3	5	1	1	0	2
Percentage	25%	42%	8%	8%	0%	17%

Recommendation tracker

Analyst	Fundamental Recommendation	Relative Recommendation	Report date	Reiteration date	Distribution date	Price at issue/reiteration*	EFV (12 months)
SEKO							
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 →
Mikolaj Stepień	-	-	-	24.09.2024	24.09.2024	10.85	17.80 →
Mikolaj Stepień	-	-	-	11.10.2024	11.10.2024	11.10	17.80 →
Mikolaj Stepień	-	-	-	31.10.2024	31.10.2024	9.80	17.80 →
Mikolaj Stepień	-	-	-	05.11.2024	05.11.2024	9.98	17.80 →
Mikolaj Stepień	-	-	-	01.12.2024	02.12.2024	9.80	15.50 ↓

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

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This report constitutes a recommendation within the meaning of Commission Delegated Regulation (EU) 2016/958 of 9 March 2016 supplementing Regulation (EU) No 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the technical arrangements for objective presentation of investment recommendations or other information recommending or suggesting an investment strategy and for disclosure of particular interests or indications of conflicts of interest. This report is for information purposes only.

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Stockbrokers

Piotr Kalbarczyk
tel.: +48 (22) 504 32 43
p.kalbarczyk@bossa.pl

Research

Sobiesław Pająk, CFA
(Equity strategy, TMT)

Sylwia Jaśkiewicz, CFA
(Construction materials,
Consumer discretionary,
Health care & biotechnology)

Tomasz Rodak, CFA
(Consumer discretionary, Video games)

Łukasz Prokopiuk, CFA
(Commodities (Chemicals, Energy, Mining))

Michał Sobolewski, CFA, FRM
(Financials)

Jakub Viscardi
(Telco, Consumer staples & discretionary,
IT – hardware distribution)

Maciej Wewiórski
(Residential construction,
Construction, Real estate)

Mikołaj Stepien
Junior Analyst

Michał Zamel
Junior Analyst

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**Dom Maklerski Banku Ochrony
Środowiska Spółka Akcyjna**
ul. Marszałkowska 78/80
00-517 Warszawa
www.bossa.pl
Information: (+48) 0 801 104 104