

SOMEK

Sector: Industrials

BUY

Price: Eu15.90 - Target: Eu21.60

Worst Should Be Over: Cautious Confidence On 2024

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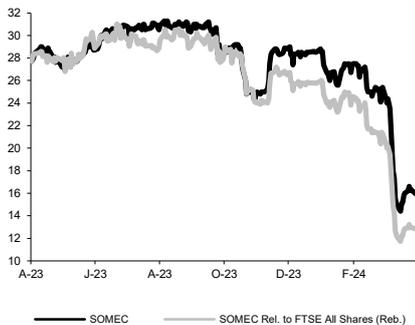
Stock Rating

Rating:	Unchanged		
Target Price (Eu):	from 26.00 to 21.60		
	2024E	2025E	2026E
Chg in Adj EPS	-46.6%	-43.7%	

Next Event

1Q24 Revenues Out 15 May

SOMEK - 12M Performance



Stock Data

 Reuters code: SOME.MI
 Bloomberg code: SOM IM

Performance	1M	3M	12M
Absolute	-37.4%	-44.8%	-43.0%
Relative	-41.6%	-56.7%	-67.6%
12M (H/L)	31.30/14.40		
3M Average Volume (th):	5.51		

Shareholder Data

No. of Ord shares (mn):	7
Total no. of shares (mn):	7
Mkt Cap Ord (Eu mn):	110
Total Mkt Cap (Eu mn):	110
Mkt Float - Ord (Eu mn):	27
Mkt Float (in %):	24.8%
Main Shareholder:	
Venezia SpA	74.9%

Balance Sheet Data

Book Value (Eu mn):	23
BVPS (Eu):	3.35
P/BV:	4.7
Net Financial Position (Eu mn):	-80
Enterprise Value (Eu mn):	193

■ **FY23 almost in line with revised expectations.** After the update provided to the market on the evening of 8 March, the company published full FY23 results that were almost in line with our revised expectations, but well below on the bottom line due to some non-recurring events. Revenues came in at Eu371mn, up 12.8% YoY thanks to organic growth (+9.2% YoY) and acquisitions (+3.6% YoY). EBITDA stood at Eu18.2mn (Eu19.3mn expected) with a margin on sales of 4.9% or a dilution of 220bp compared to last year; this was mainly due to the previously-indicated negative impacts on the two subsidiaries (TSI and Bluesteel) and a declared increase in costs (more details inside). On the bottom line, the net loss amounted to Eu10.4mn following non-recurring events and the exercise of put & call options on acquired companies performing above expectations (Budri and Skillmax). NFP was broadly in line with our expectations at Eu84mn, or Eu60mn ex IFRS-16 effects. More importantly, the company stated that at the date of the release the waiver on the exceeding covenants announced on 8 March has been obtained.

■ **No specific outlook, but constructive indications on 2024.** Management did not provide specific guidance for FY24, indicating an overall stabilisation of raw material costs, returning gradually to pre-Covid levels. The Horizons segment will see growth in refitting activities and an end to the negative unexpected impacts that emerged in 2023; Talenta is expected to return to high performance levels while a further business development is expected at Mestieri, driven in particular by luxury segments and the US market as well as the new organisational structure in place. Overall, during the conference call management hinted at a positive normalisation in 2024 with a specific focus on delivery (particularly on margins) more than the collection of new contracts.

■ **Estimate revision: caution with confidence.** After a couple of half-years featuring severe estimate cuts following guidance revisions dictated by adverse events that were not properly kept under control, we take a relatively cautious approach as we are at the very beginning of the year. Focus will be fully on execution throughout 2024, as we deem this the only way to regain credibility on the quality of the business. Nevertheless, while adding actual 2023 figures to our model and adjusting our assumptions for the following years, we maintain a positive trajectory in both the top line and margins, as we believe management, along with the new organisational setup in place, will be able to build upon structural positive market trends.

■ **BUY reiterated; target to Eu21.6 (from Eu26).** We believe the group is well placed to exploit growth opportunities across several markets and benefit from the synergistic integration of the different businesses it has brought under its umbrella over the years. Contingent headwinds due mainly to the company's transformational phase and the lower value and reliability of old contracts have dented 2023 performance, but the proven management team, the mix of leadership in core businesses and diversification in growth segments, and cash generation are the key investment points of the story. It is now imperative to regain credibility on execution and delivery and to prove the reliability of the business model, avoiding further "unforeseeable" last-minute impacts that would naturally further erode confidence in the equity story.

New estimates in a DCF model blended with an SOP valuation, take our target price to Eu21.6 from Eu26 previously. We apply a discretionary liquidity discount, now 15% from 10% previously. After the drop in the share price, upside potential offers a material opportunity that should become more visible as the company develops from 2H this year.

Key Figures & Ratios	2022A	2023A	2024E	2025E	2026E
Sales (Eu mn)	329	371	386	408	431
EBITDA Adj (Eu mn)	23	18	29	32	36
Net Profit Adj (Eu mn)	2	-12	3	6	9
EPS New Adj (Eu)	0.232	-1.696	0.407	0.885	1.250
EPS Old Adj (Eu)	0.232	-0.388	0.762	1.570	
DPS (Eu)	5.291	0.000	0.000	0.000	0.442
EV/EBITDA Adj	12.7	16.0	6.7	5.3	4.1
EV/EBIT Adj	nm	nm	20.1	12.9	8.9
P/E Adj	68.6	nm	39.1	18.0	12.7
Div. Yield	33.3%	0.0%	0.0%	0.0%	2.8%
Net Debt/EBITDA Adj	3.5	4.6	2.8	1.8	1.0

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The main methods used to evaluate financial instruments and set a target price for 12 months after the investment recommendation are as follows:

- Discounted cash flow (DCF) model or similar methods such as a dividend discount model (DDM)
- Comparison with market peers, using the most appropriate methods for the individual company analysed: among the main ratios used for industrial sectors are price/ earnings (P/E), EV/EBITDA, EV/EBIT, price /sales.
- Return on capital and multiples of adjusted net book value are the main methods used for banking sector stocks, while for insurance sector stocks return on allocated capital and multiples on net book value and embedded portfolio value are used
- For the utilities sector comparisons are made between expected returns and the return on the regulatory asset base (RAB)

Some of the parameters used in evaluations, such as the risk-free rate and risk premium, are the same for all companies covered, and are updated to reflect market conditions. Currently a risk-free rate of 4.0% and a risk premium of 5.5% are being used.

Frequency of research: quarterly.

Reports on all companies listed on the S&P500 Index, most of those on the MIBEX Index and the main small caps (regular coverage) are published at least once per quarter to comment on results and important newsflow.

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BUY: stock expected to outperform the market by over 25% over a 12 month period;

OUTPERFORM: stock expected to outperform the market by between 10% and 25% over a 12 month period;

NEUTRAL: stock performance expected at between +10% and -10% compared to the market over a 12 month period;

UNDERPERFORM: stock expected to underperform the market by between -10% and -25% over a 12 month period;

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Prices: The prices reported in the research refer to the price at the close of the previous day of trading

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OUTPERFORM:	46.22 %
NEUTRAL:	27.73 %
UNDERPERFORM	00.84 %
SELL:	00.00 %

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OUTPERFORM:	51.02 %
NEUTRAL:	10.20 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emitente	%	Long/Short
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