

FLASH NOTE

Seco Warwick - Buy

Target Price: PLN 33.33 | Close as of 07/09/2023: PLN 26.00

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Q2'23 results review

In Q2'23, consolidated **sales revenues** amounted to PLN 179mn, in line with our estimates and 19% y/y higher. Sales of vacuum furnaces and after-sales service (Aftersales) surprised positively in Q2'23. The CAP AP (aluminum processing) segment was slightly weaker than we expected in terms of turnover generated.

PLN mn	Q2'23	Q2'22	Change	Q2'23e	Diff.	2023e	YTD
Revenues	179	150	19%	176	2%	701	50%
EBITDA	13	16	-19%	14	-8%	60	49%
EBITDA margin	7%	11%		8%		9%	
EBIT	9	12	-28%	10	-11%	45	48%
Net income	6	12	-50%	7	-15%	30	50%



EBITDA in Q2'23 was 8% lower than we had anticipated and 19% lower y/y. The main reason for the deviation from our forecasts was a provision for impairment of receivables and the value of contract assets for a total of PLN 1.5mn (we did not take this into account in our forecasts). Gross sales alone in Q2'23 were 7% above expectations, mainly in the vacuum furnace, CAP AP and after-sales service segments. Of note is the rising profitability of the CAB AP segment, which we believe has the greatest growth potential due to its exposure to automotive battery systems. The y/y decline in profitability is mainly due to the impact of the appreciation of the PLN against foreign currencies, an increase in selling and management expenses and an increase in personnel costs.

PLN mn	Q1'22	Q2'22	Q3'22	Q4'22	Q1'23	Q2'23	change y/y	Q2'23e	Diff.
Vacuum furnaces	48	50	54	39	45	49	-1%	44	11%
Atmosphere furnaces	0	0	0	0	0	0		0	
CAB AP	26	38	43	48	33	41	9%	43	-5%
Vacuum metallurgy	21	33	42	56	60	50	51%	51	-2%
Aftersales	27	29	38	30	33	39	34%	37	4%
Other	0	0	0	1	0	0	-94%	1	-96%
EBITDA	10	16	21	10	16	13	-19%	14	-8%
EBITDA margin	8%	11%	12%	6%	10%	7%		8%	
OCF	12	-21	17	18	2	-9	-58%	7	-227%
Backlog	369	520	479	566	560	524	1%	534	-2%
Order intake	148	296	136	262	174	136	-54%	150	-9%

Net income in Q2'23 was 15% lower than we estimated and 50% y/y lower due to the aforementioned impairment of receivables.

Cash flow from operations in Q2'23 was PLN -9mn (mainly due to an increase in contract liabilities). **Net debt** at the end of Q2'23 locally increased to PLN 67mn.

The value of the **order backlog** at the end of IH'23 amounted to PLN 524mn and was close to expectations. It is worth noting that the value of new orders won was negatively affected by the strengthening of the PLN against the USD and EUR.

OPINION: SLIGHTLY NEGATIVE

Q2'23 results are slightly weaker than we had anticipated due to a one-time impairment of receivables and the value of contract assets. Also unexpectedly, cash flow from operations turned negative and net debt increased locally. The level of the order backlog at the end of IH'23 is in line with our assumptions. Among the positives, it is worth noting the increasing profitability of the most promising CAB AP segment. After the middle of the year, our full-year forecasts seem unthreatened.

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

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