

FLASH NOTE

Seco Warwick - Buy

Target Price: PLN 33.33 | Close as of 19/10/2023: PLN 29.00

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Q3'23 results preview

In Q3'23, we assume a 9% y/y decline in **sales revenues** from a record Q3'22 base. We assume 13% lower y/y revenues in the Vacuum Furnace segment (Q3'22 historically record quarter) and a 27% y/y decline in the Aluminum Process (CAB) segment (effect of weaker sales in China - slight market saturation). The Vacuum Metallurgy and Aftersales segments will deliver similar y/y turnover in Q3'23 in our opinion.

We estimate Q3'23 **EBITDA** at PLN 11mn, down 47% y/y, mainly due to an unusually high comparative base (Q3'22 saw high sales in the vacuum furnace and CAB segments and unusually high profitability in the vacuum segment; typically, Q3 is seasonally similar to Q2). In Q3'23, we assume a slight decline in **gross profit from sales** relative to the previous quarter, mainly due to weaker margins in CAB (lower revenues, especially at the company in China).

PLN mn	Q3'23e	Q3'22	y/y	2023e	YTD
Revenues	161	176	-9%	701	73%
EBITDA	11	21	-47%	60	67%
EBITDA margin	7%	12%		9%	
EBIT	7	17	-58%	45	63%
Net income	5	10	-56%	30	65%

PLN mn	Q1'22	Q2'22	Q3'22	Q4'22	Q1'23	Q2'23	Q3'23e
Vacuum furnaces	48	50	54	39	45	49	47
Atmosphere furnaces	0	0	0	0	0	0	0
CAB AP	26	38	43	48	33	41	31
Vacuum metallurgy	21	33	42	56	60	50	44
Aftersales	27	29	38	30	33	39	39
Other	0	0	0	1	0	0	0
EBITDA	10	16	21	10	16	13	11
EBITDA margin	8%	11%	12%	6%	10%	7%	7%
OCF	12	-21	17	18	2	-9	3
Backlog	369	520	479	566	560	524	500
Order intake	148	296	136	262	174	136	137

In our view, Seco Warwick will report a similar value of **new orders** won q/q and y/y, despite the observed strengthening of the PLN against the EUR and USD. We assume that the **order backlog** will remain above PLN 500mn at the end of Q3'23.

We assume that Seco Warwick will liquidate some **working capital** in Q3'23, which will translate into positive **cash flow from operations** and lower q/q **net debt**.

OPINION: SLIGHTLY NEGATIVE

We expect a high rate of earnings decline in Q3'23 from a record quarterly base last year. On the positive side, it is worth noting the comparable y/y and q/q value of new orders won in Q3'23 despite the strengthening of the PLN to foreign currencies. On the negative side, it is worth noting the local revenues decline in CAB, which is the Group's second most profitable segment. Following the Q3'23 results, the market can expect full-year revenues to reach PLN 670-690mn, EBITDA to reach PLN 55-57mn, and net profit to reach PLN 25-27mn (slightly below our full-year estimates). In our view, Q4'23 may bring an acceleration in new order acquisition and a higher value of new orders won.

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

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