

# SERI INDUSTRIAL

**BUY**

Sector: Industrials

Price: Eu5.86 – Target: Eu9.80

## Cost Inflation Weighs on As-Is Business; T1 Production Increasing

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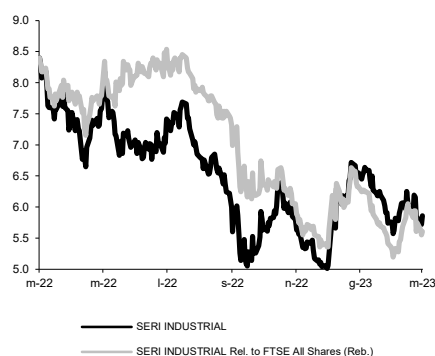
### Stock Rating

**Rating:** Unchanged

**Target Price (Eu):** Unchanged

	2023E	2024E	2025E
<b>Chg in Adj EPS</b>	n.m.	-25.0%	-5.2%

### SERI INDUSTRIAL - 12M Performance



### Stock Data

**Reuters code:** SERK.MI

**Bloomberg code:** SERI IM

Performance	1M	3M	12M
Absolute	2.4%	15.8%	-30.2%
Relative	5.3%	5.0%	-34.8%
12M (H/L)	8.32/5.01		
3M Average Volume (th):	141.07		

### Shareholder Data

**No. of Ord shares (mn):** 54

**Total no. of shares (mn):** 54

**Mkt Cap Ord (Eu mn):** 316

**Total Mkt Cap (Eu mn):** 316

**Mkt Float - Ord (Eu mn):** 115

**Mkt Float (in %):** 36.2%

**Main Shareholder:**

Civitillo Family 56.4%

### Balance Sheet Data

**Book Value (Eu mn):** 143

**BVPS (Eu):** 2.65

**P/BV:** 2.2

**Net Financial Position (Eu mn):** -115

**Enterprise Value (Eu mn):** 431

■ **2H22 below exp. due to cost inflation.** While revenues were in line with forecast (€103mn, +10% YoY), EBITDA was below expectations amid higher cost inflation on the “as-is” business (€8.2mn vs €11.8mn exp., 8.0% margin, -5.2pp YoY). Higher electricity and raw material prices at the pipes business (~24% of total) that were not passed on to clients weighed for €4.9mn (4.8pp impact). The company has now agreed with its main customers the automatic pass through of energy costs (raw mat already included). Adj. EBIT was €-2.8mn, also affected by D&A related to the Teverola 1&2 projects, which have yet to commence production; net of this, adj. EBIT was €3.0mn, a 3.0% margin. Net debt was €104mn vs €98mn as at YE21 due to the rise in NWC and CapEx, mainly to support T1, partly offset by the warrant conversion cash-in (~€26mn, ~5.1mn shares).

■ **T1 update: production gradually increasing.** In the last two months of 2022, SERI completed start-up of the Teverola 1 lithium cell and battery plant, which is currently operating at ~30% of monthly capacity of ~28MWh (~330MWh/year); this is expected to gradually reach max capacity through 3Q23. Around 90% of the pipeline is for storage (50/40% industrial/domestic) and 10% for other applications mainly industrial traction. Thanks to strong demand, average selling prices are said to be 37.5% above the business plan assumptions (~€400/KWh). While we welcome these indications, we are cutting our 2023 forecast because of lower volumes as management delayed the ramp-up due to the upgrading and improvement of production processes required for product innovation. All in all, we assume ~115MWh produced (35% of theoretical annual max capacity, vs 75% prev.), partly offset by the higher ASP (€525 vs €460/KWh prev.) but leaving subsequent years essentially unchanged.

■ **T2 update: supply agreement being drawn up.** The investment phase for the Teverola 2 lithium battery plant began in 2022 (€3.8mn spent). The disbursement of grants (CapEx/OpEx ~€360/140mn) will come within 4 months of the application filed at the end of 1H each year. The choice of suppliers and technologies is said to be at an advanced stage with the target of spending ~€150mn this year (skewed to 2H). Overall, we note some progress, though at a slower pace than in the initial plan. For this reason, we have shifted plant ramp-up from mid-2025 to the last part of 2026. We note that T2 is included in our valuation through a dedicated DCF worth €5.0 per share (€5.2 prev. due to slower CapEx deployment). We remind that our DCF assumes a 16.6% WACC given its transformational magnitude, but as soon as visibility improves there are ample margins to improve our valuation. Key milestones we identified are: successful execution at T1, timely progress on CapEx, agreements with customers (off-take agreements) and suppliers, strength of demand, NWC financing and technology.

■ **Change in estimate.** As explained above, we are cutting our estimates for 2023, essentially due to the delayed ramp-up of the T1 plant. For 2024, we broadly confirm our operating estimates, but reduce our EPS by 25% on higher interest rates due to the financing of T2 before the effective disbursement of grants and a higher share count post warrant conversion. From this report we include the CapEx for T2 in our explicit estimates but highlight that the effect on the NFP is neutral before financing costs.

■ **BUY and TP confirmed.** SERI’s 2H22 results felt the impact of stronger-than-expected cost inflation on the as-is business. However, we highlight the equity story hinges on success of the T1 & 2 lithium battery projects. With the T1 plant finally starting deliveries and T2-related CapEx deployment commenced, we confirm our positive view on the stock, which we believe is positioned to benefit from the green transition. TP confirmed at €9.8 as the effect of lower short-term estimates is offset by rolling over the valuation by one year and the expiration of warrants without being exercised.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	177	204	274	360	374
EBITDA Adj (Eu mn)	21	17	29	53	60
Net Profit Adj (Eu mn)	0	-3	-1	17	23
EPS New Adj (Eu)	0.010	-0.069	-0.012	0.316	0.419
EPS Old Adj (Eu)	0.010	-0.093	0.236	0.421	0.442
DPS (Eu)	0.000	0.000	0.000	0.000	0.000
EV/EBITDA Adj	21.8	25.9	14.9	8.2	7.0
EV/EBIT Adj	nm	nm	nm	13.3	10.6
P/E Adj	nm	nm	nm	18.6	14.0
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Net Debt/EBITDA Adj	4.8	6.0	4.0	2.2	1.7

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- 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 industrial 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)

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Frequency of research: quarterly.

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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;

SELL: stock expected to underperform the market by over 25% over a 12 month period.

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

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BUY:	20.66 %
OUTPERFORM:	48.76 %
NEUTRAL:	28.10 %
UNDERPERFORM	02.48 %
SELL:	00.00 %

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OUTPERFORM:	49.02 %
NEUTRAL:	11.76 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short

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