

SERI INDUSTRIAL

NEUTRAL

Sector: Industrials

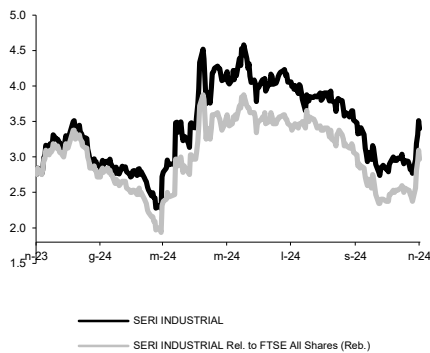
Price: Eu3.40 – Target: Eu3.50

A Step Back to Reflect Increasing Complexity

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Stock Rating			
Rating:	from BUY to NEUTRAL		
Target Price (Eu):	from 7.20 to 3.50		
	2024E	2025E	2026E
Chg in Adj EPS	n.m.	n.m.	n.m.

SERI INDUSTRIAL - 12M Performance



Stock Data			
Reuters code:	SERK.MI		
Bloomberg code:	SERI IM		
Performance	1M	3M	12M
Absolute	20.6%	-11.5%	23.6%
Relative	23.9%	-12.0%	9.0%
12M (H/L)	4.58/2.27		
3M Average Volume (th):	183.64		

Shareholder Data	
No. of Ord shares (mn):	54
Total no. of shares (mn):	54
Mkt Cap Ord (Eu mn):	184
Total Mkt Cap (Eu mn):	184
Mkt Float - Ord (Eu mn):	66
Mkt Float (in %):	36.2%
Main Shareholder:	
Civitillo Family	56.4%

Balance Sheet Data	
Book Value (Eu mn):	102
BVPS (Eu):	1.88
P/BV:	1.8
Net Financial Position (Eu mn):	-119
Enterprise Value (Eu mn):	303

We viewed SERI as a player set to benefit from the green transition, with significant value to be unlocked from the successful execution of its T1 and, above all, T2 projects. Although the long-term opportunity remains, we downgrade the stock to NEUTRAL on a deterioration of the battery market and the complications brought by the acquisition of IIA. In particular, we see several drawbacks to the deal, which will put further strain on execution of SERI's industrial plan in terms of both focus and finances. We move the TP to €3.5 from €7.2 to reflect the inclusion of IIA in our forecast (even if it significantly improves in the next few years, we expect it to remain in the red) and lower forecasts at T1. We make no adjustment to T2 projections, although progress appears to be falling behind schedule, in our view, and still does not include P2P.

- **1H24 results OK...** SERI reported 1H24 results in line with expectations, with slightly lower revenue (+1% YoY vs +6% exp.) on lower T1 sales, but higher EBITDA (€9.2mn vs 7.1 exp.). Net debt increased more than expected (€83mn vs 79 exp.) on worse NWC.
- **...but 2H not achievable.** Despite the business as-is substantially on track, 2H estimates look hard to achieve, as the market for lithium batteries has deteriorated markedly. The removal of the 110% Superbonus and aggressive commercial policies by Chinese players are to blame for lower-than-previously-assumed sales for T1 (€7mn vs 60 prev.).
- **Acquisition of IIA...** Last July, SERI announced the closing of the acquisition from Invitalia and Leonardo of 98% of Industria Italiana Autobus (IIA), which makes multi-energy buses under the Menarini brand at two plants in Italy. However, IIA is encountering operational and financial difficulties (FY23: revenues, operating loss and net loss of €57mn, 56 and 63 respectively). The rationale is to vertically integrate the business by putting lithium cells into vehicles manufactured by Menarini. IIA was purchased for free by SERI, which will invest €50mn in an investment plan, and neutral NFP at YE24.
- **...has several drawbacks.** We understand the turnaround foresees a restructuring program and a commercial relaunch including through help from a Chinese partner (identity still unknown). Although we get management's view, we believe the deal has several drawbacks: i) IIA has a long-standing negative track-record; ii) SERI has no experience in bus manufacturing, narrowing the scope for synergies, while specific batteries are still in development; iii) although the asset should come with a neutral NFP as at YE24, the turnaround will put further strain on execution of SERI's industrial plan; iv) players operating in the field have much larger scale, portfolio, and reach but their operating profitability is MSD and they trade at MSD multiples.
- **Update on FCT, T2 and P2P.** Last week, SERI signed a framework agreement with FCT for the supply of battery modules to be installed on next-gen submarines. Contract is worth €101mn over 4 years (i.e. €25mn/year) providing some visibility to T1 revenues for which we assume €39mn and €87mn in 2025 and 2026 respectively. On T2, we note the total spend on the project is €35mn (mostly OpEx) out of the ~€500mn covered by grants. The revolving line to support the CapEx plan in anticipation of grants has yet to be finalized. Overall, the project appears behind schedule: SERI targets production in 2026; our forecast is 2027. SERI also recently signed an accord with Eni to make lithium batteries at Eni's Brindisi plant, but no more details are available at this stage. On P2P, the company recently confirmed its willingness to start the investment plan, although we still do not include any benefit from that pending developments which also rely on government grants.

Key Figures & Ratios	2022A	2023A	2024E	2025E	2026E
Sales (Eu mn)	204	200	222	295	357
EBITDA Adj (Eu mn)	17	23	2	5	29
Net Profit Adj (Eu mn)	-3	-5	-29	-32	-14
EPS New Adj (Eu)	-0.069	-0.094	-0.535	-0.597	-0.263
EPS Old Adj (Eu)	-0.069	-0.094	-0.535	-0.597	-0.258
DPS (Eu)	0.000	0.000	0.000	0.000	0.000
EV/EBITDA Adj	25.9	13.5	nm	nm	14.8
EV/EBIT Adj	nm	nm	nm	nm	nm
P/E Adj	nm	nm	nm	nm	nm
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Net Debt/EBITDA Adj	6.0	2.9	55.7	34.7	8.4

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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)

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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.

A draft copy of each report may be sent to the subject company for its information (without target price and/or recommendations), but unless expressly stated in the text of the report, no changes are made before it is published.

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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;
- 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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OUTPERFORM:	48.09 %
NEUTRAL:	23.67 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (61 in total) is as follows:

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OUTPERFORM:	34.43 %
NEUTRAL:	09.83 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short

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