

Somec Group

Sector: Industrial

So far so good, on land and sea

Somec is a global player specialized in turnkey projects for the shipping market and a fast-growing actor in the US building façades business. Listed since 2018 on AIM, it recently moved to MTA market with a strong track record of growth.

Strong set of interim results

1H 2021 results confirm the steady flow of good news reported YTD, in more details: revenues +13% to €128mn, EBITDA +33% to €14mn (11% margin, up 160bp vs H1 20) and net debt slightly down to €51.7mn (€58.3mn as of Dec 2020). Yet, revenues and margins of Fabbrica benefitted from the US Government contribution (for Covid-19), which inflated Group revenues by 2% and EBITDA margin by 170bp.

Order backlog has reached its all time high at €826m (vs €767mn of Dec 2020), supported by the solid order intake of €158mn over first half).

So far so good, but FY2021E forecasts are unchanged

While on the one hand the interim results are supportive, on the other hand they do not leave room for FY21E earnings upgrade, neither the news flow over Q3 offer additional support. Hence, we leave our 2021-23E forecasts unchanged on P&L, cash flow and backlog. We point out that two assumptions may turn out as challenging: a) our €811mn FY2021E order backlog estimate implies a collection of new orders in the region of €130mn during Q4; b) the persisting lack of refitting activities may affect Q4 revenues.

Somec remains a great medium term growth stock

Notwithstanding the lack of short-term triggers and unchanged forecast, we stick to our positive view on the stock, on the back of its medium term growth potential. Our estimates factor a 22% revenues CAGR and 32% EBITDA CAGR over the next three years, with €39mn cumulated FCF between 2021-23E. In addition, we confirm further potential upside may come from Fabbrica's expansion to West Coast and South of US.

Fair-value unchanged

Our updated peers' analysis shows that comparable stocks' market rating has averaged up slightly, supported by M&A (Ali Group-Welbilt). Given broadly stable sector ratings and unchanged forecasts, we stick to our fair value of €33.0 – coming from a mix of DCF, EV/Backlog and relative peers' multiples weighted by business. At fair value, Somec would trade at 11.0-8.4x EV/EBITDA and 12.1-9.3x EV/OpFcf for 2021-22E respectively.



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Fair Value (€)	33.0
Market Price (€)	30.4
Market Cap. (€m)	209.8

KEY FINANCIALS (€m)	2020A	2021E	2022E
TOTAL REVENUES	223.4	277.9	352.3
EBITDA	18.7	27.8	36.1
EBIT	-2.2	12.9	21.5
NET PROFIT	2.7	6.8	12.2
NET PROFIT ADJ.	4.2	6.8	12.2
EQUITY	45.3	52.4	61.8
NET FINANCIAL POS.	-58.3	-51.4	-43.3
EPS ADJ. (€)	0.61	0.99	1.77

Source: Somec (historical figures), Value Track (2021E-22E estimates)

RATIOS & MULTIPLES	2020A	2021E	2022E
EBITDA MARGIN (%) (*)	8.9	10.0	10.2
EBIT MARGIN (%) (*)	2.1	4.7	6.1
NET DEBT / EBITDA (x)	3.1	1.9	1.2
NET DEBT / EQUITY (x)	1.3	1.0	0.7
EV/SALES (x)	0.9	1.0	0.8
EV/EBITDA (x)	10.7	10.3	7.9
EV/EBIT (x)	nm	22.2	13.3
P/E ADJ. (x)	28.9	30.9	17.1

Source: Somec (historical figures), Value Track (2021E-22E estimates)
(*) Adjusted for non-recurring costs

STOCK DATA

FAIR VALUE (€)	33.0
MARKET PRICE (€)	30.4
SHS. OUT. (m)	6.9
MARKET CAP. (€m)	209.8
FREE FLOAT (%)	24.8
AVG. -20D VOL. (#)	3,063
RIC / BBG	SOM.MI / SOM IM
52 WK RANGE	10.50 – 31.60

Source: Stock Market Data



Business Description

Somec is one of the major global players specializing in engineering, design and manufacturing for turnkey projects for the shipping market, and is a fast growing, emerging player in the US building façades business.

The company operates through two main business units: Seascope, which includes from engineering to installation of glass envelops, galleys and public areas for cruise ships; Landscape, which includes engineering and installation of special building façades in US, production of professional cooking equipment and contract solution for luxury outfitting of boutiques, stores, hospitality, and public areas.

Key Financials

€mn	2020A	2021E	2022E	2023E
Total Revenues	223.4	277.9	352.3	408.5
Chg. % YoY	-11.1%	24.4%	26.8%	16.0%
EBITDA	18.7	27.8	36.1	42.5
EBITDA Margin (%)	8.4%	10.0%	10.2%	10.4%
EBIT	-2.2	12.9	21.5	28.3
EBIT Margin (%)	-1.0%	4.7%	6.1%	6.9%
Net Profit	2.7	6.8	12.2	16.0
Chg. % YoY	-66.1%	nm	80.0%	31.0%
Adjusted Net Profit	4.2	6.8	12.2	16.0
Chg. % YoY	-47.0%	62.4%	80.0%	31.0%
Net Fin. Position	-58.3	-51.4	-43.3	-28.3
Net Fin. Pos. / EBITDA (x)	3.1	1.9	1.2	0.7
Capex	-1.5	-2.5	-3.5	-3.5
OpFCF b.t.	18.1	12.6	20.2	31.5
OpFCF b.t. as % of EBITDA	96.8%	45.3%	55.9%	74.1%

Source: Somec (historical figures), Value Track (estimates)

Investment case

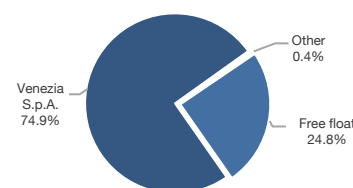
Strengths / Opportunities

- ◆ Leading positioning as Marine Glazing supplier for Cruise ships
- ◆ Deep knowledge of US construction market
- ◆ Good visibility of both Landscape and Seascope businesses;
- ◆ Outstanding track record in business execution and M&A activities.

Weaknesses / Risks

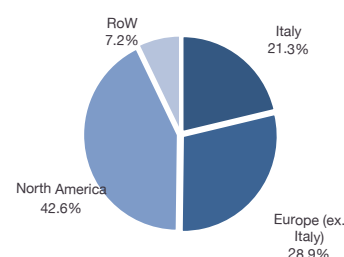
- ◆ Exposure to highly concentrated cruise market;
- ◆ Lower size if compared to competitors on Building Façade and Professional Cooking Equipment.

Shareholders Structure



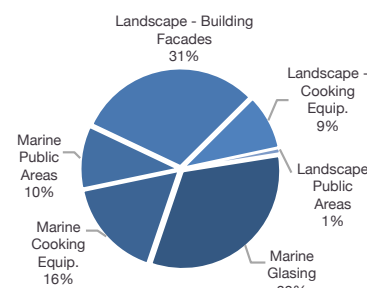
Source: Somec

Revenues by geography (2020A)



Source: Somec

Revenues by Segment (2020A)



Source: Somec

Stock multiples @ €33.0 Fair Value

	2021E	2022E
EV / SALES (x)	1.1	0.9
EV / EBITDA (x)	11.0	8.4
EV / EBIT (x)	23.6	14.1
EV / CAP.EMP. (x)	2.9	2.8
EV/ OpFcf	12.1	9.3
P / E (x)	33.5	18.6
P / BV (x)	5.0	4.2
Div. Yield. (%)	1.5	2.5

Source: Value Track

Solid first half results, but not above expectations

Despite Covid-19 pandemic, the first semester of FY2021 has been characterized by a) steady order intake (see our last report issued in July 2021); b) growing first half turnover (€128.4mn), supported by Fabbrica in the US and broadly in line with expectation; c) margins (10.4% of revenues) supported by extraordinary items; d) bottom line affected by minorities (as interim profit were much stronger in Fabbrica, 51% owned). Finally a good FCF generation pushed net debt down to €52.7mn (€32.2mn excluding the effect of IFRS16)

1H 2021 driven by Landscape

Somec's H1 results were overall in line with our expectations:

- ◆ Total **Revenues** reached €128.4mn (up 13.1% YoY), equally split between Seascope and Landscape, which reported revenues respectively of €64.9mn and €63.5mn, but growth was fully driven by Landscape. The latter includes €2.5mn of revenues linked to the *Paycheck Protection Program (PPP)* – the support offered to corporates by US Government during the pandemic, initially as a loan, due to become a State contribution if certain conditions are met. Hence, revenues adjusted for this item would amount to €61mn (still +44.7% YoY) for the division and €125.9mn (+10.9% YoY) for the Group.
- ◆ As for trends in the two divisions, **Seascope** registered a 9% YoY reduction in revenues, mainly due to the weakness in the Marine Public Areas segment (i.e. refitting business); while **Landscape** saw a +50.6% YoY, with strong performances by all segments, but in particular thanks to the Professional Cooking Equipment, which reported a 73.4% increase.

Somec: First half Revenues by division

(€mn)	1H 2020	1H2021	Change YoY
Seascope Revenues	71.4	64.9	-9%
o/w Marine Glazing	38.6	39.2	1.6%
o/w Marine Cooking Equipment	16.3	16.8	3.1%
o/w Marine Public Areas	16.5	8.9	-45.9%
Landscape Revenues	42.2	63.5	50.6%
o/w Building Façades	33.7	45.9	36.2%
o/w Professional Cooking Equipment	7.9	13.7	73.4%
o/w Public Area Interiors	0.6	3.9	n.m.
Total Revenues	113.6	128.4	13.1%
Seascope as % Tot Revenues	62.9%	50.6%	
Landscape as % Tot Revenues	37.1%	49.4%	

Source: Value Track Analysis

- ◆ **EBITDA** margin increased to 11% or €14.1mn, with margins expansion due to the public contribution of the *Paycheck Protection Program*, as margin adjusted for this item amounts to 9.3% (flattish YoY). Flat adjusted EBITDA margin is the result of a small margin reduction in the Seascope division (Q1 operations still impacted by pandemic and lack of high margin refitting business) and of a positive impact of scale effect on Landscape division;
- ◆ **Net profit** in 1H came in below last year, due to a) higher tax rate and b) higher minorities, linked to strong bottom line for Fabbrica, supported in turn by the positive effect of *PPP*.

Somec: P&L 1H2021 vs 1H2020

(€ mn)	1H20	1H21	Δ YoY
Revenues from Sales	113.0	128.0	13.3%
Other Revenues	0.5	0.4	-20%
Total Revenues	113.6	128.4	13.1%
COGS	-83.6	-92.5	10.6%
Labour cost	-19.3	-21.8	13.2%
EBITDA Reported	10.7	14.1	32.5%
Ebitda Margin	9.4%	11.0%	-14.5%
EBITDA Adjusted	11.4	11.6	2.0%
D&A	-7.3	-7.5	2.3%
EBIT Reported	3.3	6.6	98%
<i>EBIT Adjusted</i>	4.1	4.1	1.5%
Net financial income/expenditure	-0.9	-0.4	-55.1%
Pre-Tax Profit	3.8	6.6	74.3%
Income Taxes	-0.8	-1.6	90.6%
Minorities	0.5	-2.1	n.m.
Net Profit	3.4	2.9	-15%
Adj. Net Profit	3.9	1.6	-58%

Source: Value Track Analysis

- ◆ **Net Financial Debt was down to €52.7mn** (€32.2mn excluding the effect of IFRS16) vs €58.3mn in Dec 2020, thanks to higher margins, low Capex (€0.9mn) and the lack of dividend payment and major M&A.

Somec: Balance Sheet 2020H1A – 2021H1A

(€ mn)	1H20	FY20	1H21
Net Fixed assets	89.2	81.3	88.2
Net Working Capital	29.4	27.2	20.3
Severance pay and funds	4.1	4.9	5.0
Total Capital Employed	114.4	103.6	103.5
Group Net Equity	48.1	45.3	50.8
Net Fin. Position [Net debt (-) / Cash (+)]	-66.4	-58.3	-52.7

Source: Value Track Analysis

Somec: Cash Flow 1H2021 vs 1H2020

(€mn)	1H20	1H21
EBITDA	10.7	14.1
Op. NWC requirements	-3.5	6.9
Capex (excl. Fin. Inv.)	-2.7	-0.9
Change in provisions	1.5	-0.8
Cash Taxes	-0.8	-1.6
OpFCF a.t.	5.1	17.8
As % of EBITDA	48%	126%
Capital Injections	0.0	0.0
Other (incl. Fin. Inv. and IFRS16)	-10.9	-11.8
Net Financial Charges	-0.9	-0.4
Dividend paid	-3.5	0.0
Change in Net Fin Position	-10.2	5.6

Source: Value Track Analysis

As for order intake: strong 1H followed by feable Q3 newsflow

The first half of 2021 has been characterized by a large number of orders both from the seascape and landscape division (see table below). Nevertheless, as no major orders have been communicate after June, our 2021E full-year estimates – unchanged - rely upon a very strong last quarter on both divisions, which may prove a bit challenging.

Somec: Order intake evolution (2019A-2021E)

(€mn)	1H19	2H19	1H20	2H20	1H21	2H21E / Q4	2019	2020	2021E
Order Intake	182	120	120	133	158	132	302	253	290
y/y Change (%)	na	na	-34%	11%	31%	0%	na	-16%	15%
o/w Seascape	125	59	90	61	112	58	184	151	170
y/y Change (%)	na	na	-28%	4%	24%	-5%	na	-18%	12%
As % of Total	69%	49%	75%	46%	71%	44%	61%	60%	59%
Landscape	57	61	30	72	46	74	118	102	120
y/y Change (%)	na	na	-47%	17%	52%	4%	na	-14%	18%
As % of Total	31%	51%	25%	54%	29%	56%	39%	40%	41%

Source: Value Track Analysis

A quick update on cruise sector

According to the 2021 Cruise Industry News Annual Report, cruise lines will have the capacity to carry 31.7 mn passengers in 2022E, compared to 27.8 mn in 2019. Passengers are expected to grow to 38.7 mn by 2027, but pent-up demand has already resulted in a huge increase in bookings in 2022 and 2023 from cruisers whose trips were cancelled or delayed due to the pandemic, as well as new bookings from people who believe cruising will quickly return safe. Industry executives estimate full recovery in 2022, when the global fleet will number nearly 450 ships. The forecasts are based on ship deployments and a 105-ship orderbook with deliveries scheduled through 2027.

Royal Caribbean, Carnival and Norwegian Cruise Line have also said demand for 2022 is strong if compared to the one of 2020/2021, even considering higher prices, but only in 2023 worldwide cruise industry turnover is expected to be comparable to the one of 2019 (\$25.2bn 2023E vs \$27.5bn in 2019), although the gap won't be fully filled yet

Unchanged Estimates and Valuation

Based on our current forecasts and updated market multiples of peers' group, we leave the fair price of the stock at €33 obtained from a mix of DCF, EV/Backlog and relative peers' multiples weighted by business.

We don't see any significant change in consensus estimates since our last fair price valuation and only a slight increase in peers' multiple, determined in the first place by the acquisition of Welbild by the Italian Ali Group.

Somec: Peers' stock trading multiples

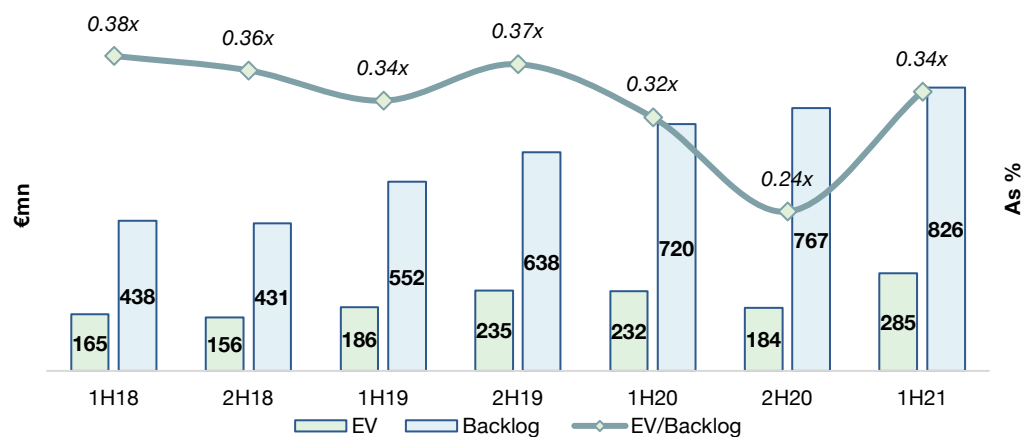
Company	EV / EBITDA (x)			EV / OpFCF (x) (*)		
	2021E	2022E	2023E	2021E	2022E	2023E
Balco Group	17.6	12.8	11.1	19.2	16.5	13.1
Apogee Enterprises	8.5	6.8	nm	11.6	9.2	nm
Tecnoglass	8.7	7.6	6.5	11.2	8.8	7.4
Avg. Glazing	11.6	9.0	8.8	39.8	25.4	16.2
Eletrolux Professional	16.8	11.6	10.2	20.1	13.3	11.6
Rational (**)	>30	>30	nm	>30	>30	>30
Welbilt	17.0	13.9	12.0	19.5	15.4	13.2
Middleby Corp.	15.3	12.9	11.4	16.3	13.7	12.2
Avg. Professional Cooking	16.4	12.8	11.2	46.4	28	24.9
Griffon Corp.	7.7	6.9	6.0	9.7	9.0	7.1
Stantec	13.0	11.5	11.1	14.2	12.8	12.2
Steelcase	11.6	7.0	nm	25.5	10.4	nm
Knoll	13.6	9.5	nm	19.5	13.0	nm
Avg. Interior & Furnishing	11.5	8.8	8.5	32.5	28.3	19.1
Somec	10.3	7.9	6.5	11.4	8.8	7.1

Source: Market Consensus, Value Track Analysis *OpFCF defined as (EBITDA-Capex) (**) Rational not included in the average computation

At fair value, Somec would trade at 11x EV/EBITDA and 12.1x EV/OpFcf 2021E, i.e. at average 5% discount vs pure Glazing operators and 33% and 4% discount vs Professional Cooking and Interior & Furnishing peers.

In terms of EV/Backlog, the ratio is gradually coming back to pre-Covid levels. The current share price implies a 0.34x ratio, slightly below the 0.35x recorded on average in 2018-19, which we assume as “fair”. This ratio, however, is not fully comparable to the past, as it does not include the business related to the landscape professional cooking, hence, as long as this business keeps growing, the valuation becomes more and more conservative.

Somec: EV / Backlog ratio (*) trend



Source: Value Track Analysis (*) Backlog does not include the landscape professional cooking business

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