

# Somec Group

Sector: Industrial



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## The best is yet to come

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

### Increasing the controlling stake in Fabbrica LLC

Somec just announced it has entered into a purchase agreement for the acquisition of an additional 20% stake in its US based subsidiary Fabbrica LLC thus increasing its controlling interest up to 70.9%. The deal allows Somec to further strengthen its market presence in North America, where the Engineered System of Civil Building Façade is enjoying a strong momentum, fuelled by sustainable investments aimed at reducing energy consumption for internal heating and cooling.

### Fabbrica 100% Equity Value worth €84.5mn

The deal is planned to be finalised not later than April'22, and it consists of a fixed USD15.5mn component to be paid at closing, (financed through own funds and credit facilities already available to Somec), and a variable component based on a double earn-out mechanism for maximum USD4.7mn amount pegged to undisclosed 2022E-25E financial targets. We estimate at ca. €84.5mn the implied equity value for the 100% of Fabbrica share capital (including the net present value of the earn-out), implying 6.6x EV/EBITDA and 18.6x P/E 2022E acquisition multiples.

### Value accretive deal at both EPS and FCF level

We are fine-tuning our 2021E-23E financial estimates, to factor in our model the *i*) cash out for the acquisition, *ii*) the lower amount of minorities at P&L level, and *iii*) the dividend leakage reduction starting from 2023E, i.e. we assume the closing date not earlier than the 2021E dividend payment. The outcome is that we calculate the deal to be value enhancing, with 8.2% and 3.0% positive impact on EPS and EFCF (avg. 2022E-24E).

### Fabbrica deal brings our fair value up to €41 p/s

The attractive growth prospects of the US building façade business and the lower dividends leakage to Fabbrica's minorities confirm a value enhancing deal for Somec. We update our fair equity value to €41 p/s, (from €40), given by the average between DCF and market multiples and adjusted for €3.00 due to the EPS accretion (compared to €2.0 forecast included in the latest equity research update published back as of December 6<sup>th</sup> 2021). We believe Somec still offers a very attractive medium-term return. Indeed, based on a three-year holding period and 11x EV/EBITDA exit multiple (in line with current 2022E trading multiple) we calculate a close to 23% IRR.

<b>Fair Value (€)</b>	<b>41.0</b>
<b>Market Price (€)</b>	<b>39.0</b>
<b>Market Cap. (€m)</b>	<b>269.1</b>

KEY FINANCIALS (€m)	2020A	2021E	2022E
TOTAL REVENUES	223.4	271.7	319.6
EBITDA	18.7	28.0	32.0
EBIT	-2.2	13.2	18.5
ADJ. NET PROFIT	2.7	6.9	11.3
OPFCF a.t.	18.1	12.5	15.8
NET FINANCIAL POS.	-58.3	-52.2	-57.7
EPS (€)	0.61	0.99	1.63
DPS (€)	0.00	0.49	0.71

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

RATIOS & MULTIPLES	2020A	2021E	2022E
EBITDA MARGIN (%) (*)	8.9	9.3	10.0
EBIT MARGIN (%) (*)	2.1	3.9	5.8
NET DEBT / EBITDA (x)	3.1	1.9	1.8
NET DEBT / EQUITY (x)	1.3	1.0	1.0
EV/SALES (x)	0.9	1.3	1.1
EV/EBITDA (x)	10.7	13.0	11.0
EV/EBIT (x)	nm	27.4	19.0
P/E ADJ. (x)	28.9	39.2	23.9

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

### STOCK DATA

FAIR VALUE (€)	41.0
MARKET PRICE (€)	39.0
SHS. OUT. (m)	6.9
MARKET CAP. (€m)	269.1
FREE FLOAT (%)	24.4
AVG. -20D VOL. (#)	4,166
RIC / BBG	SOME.MI / SOM IM
52 WK RANGE	17.50 – 39.00

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 three main business units: i) Engineering, the design, procurement, production, installation and maintenance of innovative solutions, original building and ship construction systems, ii) Professional kitchen, i.e. turnkey solutions for cruise ships and the catering and hospitality industry, iii) Interiors, i.e. for luxury outfitting of boutiques, stores, hospitality and public areas, both marine and landscape.

## Key Financials

€mn	2020A	2021E	2022E	2023E
<b>Total Revenues</b>	<b>223.4</b>	<b>271.7</b>	<b>319.6</b>	<b>390.7</b>
Chg. % YoY	-11.1%	21.6%	17.6%	22.3%
<b>EBITDA</b>	<b>18.7</b>	<b>28.0</b>	<b>32.0</b>	<b>40.7</b>
EBITDA Margin (%)	8.4%	10.3%	10.0%	10.4%
<b>EBIT</b>	<b>-2.2</b>	<b>13.2</b>	<b>18.5</b>	<b>27.5</b>
EBIT Margin (%)	-1.0%	4.9%	5.8%	7.0%
<b>Net Profit</b>	<b>2.7</b>	<b>6.9</b>	<b>11.3</b>	<b>17.3</b>
Chg. % YoY	-66.1%	nm	64.2%	53.5%
<b>Adjusted Net Profit</b>	<b>4.2</b>	<b>6.9</b>	<b>11.3</b>	<b>17.3</b>
Chg. % YoY	-47.0%	63.9%	64.2%	53.5%
<b>Net Fin. Position</b>	<b>-58.3</b>	<b>-52.2</b>	<b>-57.7</b>	<b>-41.9</b>
Net Fin. Pos. / EBITDA (x)	3.1	1.9	1.8	1.0
Capex	-1.5	-2.5	-3.5	-3.5
<b>OpFCF b.t.</b>	<b>18.1</b>	<b>14.7</b>	<b>20.0</b>	<b>30.7</b>
OpFCF b.t. as % of EBITDA	96.8%	52.4%	62.4%	75.3%

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

## Investment case

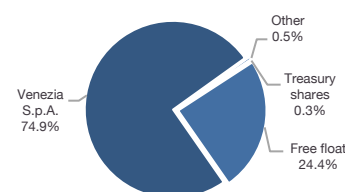
### Strengths / Opportunities

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

### Weaknesses / Risks

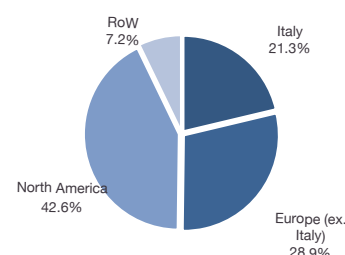
- ◆ Exposure to highly concentrated cruise market;
- ◆ Lower size if compared to competitors on Building Façade, Professional Cooking Equipment and Interiors.

## Shareholders Structure



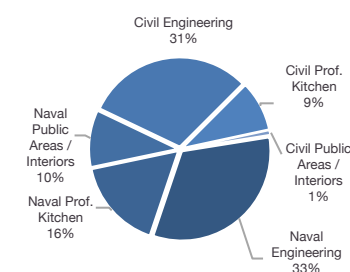
Source: Somec

## Revenues by geography (2020A)



Source: Somec

## Revenues by Segment (2020A)



Source: Somec

## Stock multiples @ €41.0 Fair Value

	2022E	2023E
EV / SALES (x)	1.1	0.9
EV / EBITDA (x)	11.4	8.6
EV / EBIT (x)	19.7	12.7
EV / CAP.EMP. (x)	3.1	3.0
EV/ OpFcf	5.5	8.8
P / E (x)	25.1	16.4
P / BV (x)	5.3	4.3
Div. Yield. (%)	1.7	2.5

Source: Value Track

## Increasing the controlling stake in Fabbrica

### The deal at a glance

Somec just announced it has entered into a purchase agreement for the acquisition of an additional 20% stake in its US subsidiary Fabbrica LLC from the minority shareholder 2.0 Partners LLC, thus increasing its controlling interest up to 70.9%. According to management, the operation allows Somec to further strengthen its market presence in North America, where the Engineered System of Civil Building Façade is facing a strong demand, fuelled by sustainable investments aimed at reducing energy consumption for internal heating and cooling, particularly for what concern large size buildings.

### Terms of the deal

The transaction is planned to be completed not later than April'22, and it consists of:

- ◆ a fixed component equal to USD 15.5mn to be paid at closing, and
- ◆ a variable component based on a double earn-out mechanism:
  1. the first earn-out for a maximum amount of USD 2.6mn linked to the Operating Income (EBIT) achieved by the US subsidiary for each financial year from 2022E to 2025E, and according to undisclosed business plan figures;
  2. the second earn-out for a maximum amount of USD 2.1mn linked to the aggregate EBIT for 2022E-23E and 2024E-25E, subject to the achievement of specific results in terms of growth, higher than the forecasts included in Fabbrica's business plan.

Overall, based on the current 0.88x USD/EUR exchange ratio and the present value of the double earn-out (assumed to be fully paid), we estimate at ca. €84.5mn the implied equity value for the 100% of Fabbrica share capital, that translates in a 6.6x EV/EBITDA and 18.6x P/E 22E, according to our estimates.

The deal should be financed through own funds and credit facilities already available to Somec.

### Fabbrica: Key financial figures

(€mn - IFRS)	2020FY	2021E	2022E
<b>Revenues</b>	<b>68.2</b>	<b>91.2</b>	<b>119.8</b>
EBITDA	6.1	10.7	10.8
<b>EBITDA Adj. (*)</b>	<b>6.1</b>	<b>8.2</b>	<b>10.8</b>
EBITDA Margin (%)	9.0%	9.0%	9.0%
<b>Net Profit</b>	<b>0.8</b>	<b>5.0</b>	<b>4.5</b>

Source: Value Track Analysis (\*) Net of the US public contribution of the Paycheck Protection Program

### Fabbrica: Implied multiples based on Value Track estimates

(€mn - IFRS)	
<b>Price of 20% stake acquired (incl. Earn-out)</b>	<b>16.9</b>
Implied 100% Equity Value	84.5
Net Financial Position 2022E	13.9
<b>Enterprise Value</b>	<b>70.7</b>
EV/EBITDA 22E	6.6x
P/E 22E	18.6x

Source: Value Track Analysis

### Impact of the deal on our estimates

We are fine-tuning our 2021E-23E financial estimates, to consider:

- ◆ €13.6mn cash out for the acquisition of 20% additional stake in 2022E and €4.1mn aggregate earn-out, of which ca. 60% to occur in 2026E;
- ◆ The lower amount of minorities at P&L level, with Fabbrica related minorities at 29.1% from 2022E onwards (from current 49.1%);
- ◆ The dividend leakage reduction starting from 2023E, i.e. we cautiously assume the closing date not earlier than 2021E dividend payment.

The outcome is that we calculate the deal to be value enhancing, with a 8.2% and 3.0% positive impact on EPS and EFCF (average 2022E-24E).

### Somec: New vs. Old estimates

(€mn)	2021E			2022E			2023E		
	Old	New	Change	Old	New	Change	Old	New	Change
Revenues	271.7	271.7	0.0%	319.6	319.6	0.0%	390.7	390.7	0.0%
EBITDA	28.0	28.0	0.0%	32.0	32.0	0.0%	40.7	40.7	0.0%
EBITDA Margin (%)	10.3%	10.3%	0bps	10.0%	10.0%	0bps	10.4%	10.4%	0bps
EBIT	13.2	13.2	0.0%	18.5	18.5	0.0%	27.5	27.5	0.0%
EBIT Margin (%)	4.9%	4.9%	0bps	5.8%	5.8%	0bps	7.0%	7.0%	0bps
<b>Net Financial Position</b>	<b>-52.2</b>	<b>-52.2</b>	<b>0.0</b>	<b>-44.1</b>	<b>-57.7</b>	<b>-13.6</b>	<b>-28.4</b>	<b>-41.9</b>	<b>-13.5</b>
Dividend to Fabbrica Min.	-1.1	-1.1	0.0	-2.1	-2.1	0.0	-2.0	-1.2	0.8
<b>EPS</b>	<b>0.99</b>	<b>0.99</b>	<b>0.0%</b>	<b>1.50</b>	<b>1.63</b>	<b>+8.8%</b>	<b>2.31</b>	<b>2.50</b>	<b>+8.6%</b>
Free Cash Flow to Equity p/s	1.56	1.56	0.0%	1.74	1.74	0.0%	3.07	3.23	+3.9%

Source: Value Track Analysis

### Impact of the deal on our valuation

We update our fair value at €41.0 p/s, (from €40.0), to factor in the value enhancing acquisition of the additional 20% stake in Fabbrica. As seen before, the deal is value accretive at EPS for ca. 8%, which translates into an additional €3.0 equity value p/s (compared to €2.0 forecast included in the latest equity research update published back as of December 6<sup>th</sup> 2021).

We still believe that Somec shares offer an attractive medium-term return, given the company's expected growth and cash generation, especially on the residential & commercial buildings in the US market.

Indeed, based on current €39.0 market price, we calculate an IRR close to 23% assuming a three-year holding period and exit multiple at 11x EV/EBITDA (in line with current 2022E trading multiple).

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