

Industrials
Data

Shares Outstanding (m):	47.3	
Market Cap. (EURm):	143.8	
Enterprise Value (EURm):	222.8	
Free Float (%):	20.3%	
Av. Daily Trad. Vol. ('000):	184.5	
Main Shareholder:	Civitillo V. 65.56%	
Reuters/Bloomberg:	SERI.MI	SERI IM
52-Week Range (EUR)	1.35	3.89

Source: FactSet, UBI Banca estimates

Performance

	1m	3m	12m
Absolute	-12.1%	-0.3%	+72.2%
Rel. to FTSE IT	-7.9%	+3.3%	+86.7%

Source: FactSet

Graph area Absolute/Relative 12 M


Source: FactSet

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Tough IH20, but Teverola 1 & 2 to start in IQ21

SERI Industrial reported in IH20, the toughest period of this strange year, revenues down 36% YoY (with 2Q down 48%) and a positive FCF generation. The latter allowed, after significant capex (EUR9.5 million), to maintain Net Debt stable. The company highlighted July and August revenues were up YoY and sees 2H20 to be at least like 2H19. Teverola 1 (the Lithium batteries plant) should be commercially operational in IQ21. Despite being later than we originally anticipated (4Q20), considering the COVID-19-related difficulties, it is still a good achievement. The investments on the IPCEI program (for which it will receive EUR505 million grants) too should begin in the first months of 2021. With the last two news providing long-term visibility on the equity story, we are revising down 2021-22 estimates but leaving our EUR6.0 TP unchanged thanks to the reduction in our free risk assumptions. We reiterate our Buy with a significant upside.

- > **IH20 results: batteries better than plastic components.** The Battery division posted a solid -5.2% YoY in IH20 thanks to its aftermarket exposure which limited the lockdown impact (being also an “essential” good). Plastic components instead were hit as all industrial activities (-35.7% YoY). Cost-containment allowed the company to minimize the impact on EBITDA which remained positive. The FCF of EUR11.3 million benefited from a tight NWC control and allowed to finance the EUR9.5 million capex needed to finish Teverola 1.
- > **Teverola 1: commissioning has begun, talks with customers too.** During the call management indicated that the final testing/commissioning of the plant is on-going and should be completed by year end. The company is already holding talks with potential customers in view of IQ21.
- > **IPCEI (Teverola 2): close to the EUR505 million award.** After that the Italian government funded the IPCEI programs, the company is waiting for the inter-ministerial decree that should ease the project financing. The investments could begin in the first months of 2021.
- > **Floating increase and CONSOB black list.** Since our last report the floating has increased to 20.3% thanks to some sales 2-3% from NB. We see it as a positive and the eventual exclusion from the CONSOB black list may provide additional support to the share price.
- > **Reiterating our Buy.** We are cutting our estimates on 2020 (already supposed to be in the red) and on 2021-22 by 12.5% on the back of a delayed start of Teverola 1. Whilst the equity story has never been focused on 2020, we admit results were worse than expected. Still public board statements on Teverola 1 and 2 increased the visibility. The reduction in the free-risks allows us to keep intact the upside we see on this stock.

Financials EURm

	2019	2020E	2021E	2022E
Total Revenues (EURm)	156.5	136.1	222.3	279.4
EBITDA Adj (EURm)	22.1	16.9	35.1	51.3
EBITDA Adj margin (%)	14.1%	12.4%	15.8%	18.4%
EBIT Adj (EURm)	10.4	3.6	21.7	38.1
EPS (EUR)	0.03	-0.04	0.27	0.56
CFPS (EUR)	0.29	0.09	0.25	0.60
DPS (EUR)	0.00	0.00	0.00	0.00

Source: Company data, UBI Banca estimates

Ratios (priced on 21 September 2020)

	2019*	2020E	2021E	2022E
P/E (x)	54.1	nm	11.4	5.4
P/CF (x)	6.0	34.4	12.0	5.1
P/BV (x)	0.7	1.2	1.1	0.9
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%
EV/EBITDA Adj. (x)	6.9	13.2	6.3	4.0
Debt/Equity (x)	0.6	0.7	0.6	0.4
Debt/EBITDA Adj. (x)	3.1	4.7	2.2	1.2

Source: Company data, UBI Banca estimates * av. price

Key Financials

(EURm)	2019A	2020E	2021E	2022E
Total Revenues	156.5	136.1	222.3	279.4
EBITDA Adj	22.1	16.9	35.1	51.3
EBIT Adj	10.4	3.6	21.7	38.1
NOPAT	5.6	2.6	16.6	28.4
Free Cash Flow	2.6	-1.5	2.6	16.5
Net Capital Employed	189.2	197.1	207.1	217.2
Shareholders' Equity	120.1	118.2	130.7	157.3
Net Financial Position	69.0	79.0	76.4	59.8

Source: Company data, UBI Banca estimates

Key Profitability Drivers

	2019A	2020E	2021E	2022E
Net Debt/EBITDA Adj (x)	3.1	4.7	2.2	1.2
Net Debt/Equity (x)	0.6	0.7	0.6	0.4
Interest Coverage (x)	5.6	4.2	9.4	17.0
Free Cash Flow Yield (%)	3.1%	-1.0%	1.8%	11.5%
ROE (%)	1.5%	-1.7%	9.6%	16.9%
ROI pre-tax (%)	3.5%	1.2%	10.5%	17.6%
ROCE post-tax (%)	2.8%	0.9%	7.9%	13.6%

Source: Company data, UBI Banca estimates, 2019 Debt includes IFRS 16 impact

Key Valuation Ratios

	2019A *	2020E	2021E	2022E
P/E (x)	54.1	nm	11.4	5.4
P/BV (x)	0.7	1.2	1.1	0.9
P/CF (x)	6.0	34.4	12.0	5.1
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%
EV/Sales (x)	1.0	1.6	1.0	0.7
EV/EBITDA Adj (x)	6.9	13.2	6.3	4.0
EV/EBIT Adj (x)	14.6	61.1	10.2	5.3
EV/CE (x)	0.8	1.1	1.1	0.9

Source: Company data, UBI Banca estimates

* Based on 2019 average price

Key Value Drivers

(%)	2019A	2020E	2021E	2022E
Payout	0.0%	0.0%	0.0%	0.0%
NWC/Sales	25.8%	37.2%	30.7%	29.7%
Capex/Sales	38.7%	9.7%	2.0%	3.0%

Source: Company data, UBI Banca estimates

Recent developments

> All in all, a tough 2Q20 below our estimates but a solid cash flow generation. In details 1H20 showed: a) Revenues of EUR58.2 million (or -36% YoY) and 11% below our estimates of EUR65.2 million (which were assuming a -28.2% YoY); b) The battery division (marginally down YoY; -5.2%) performed better than the plastic division (-35.2%) on the back of its AM exposure; c) 2Q20 revenues of EUR27.1 million (or -48% YoY) compared to our estimates of EUR34.3 million (or -34.3% YoY); d) Adj. EBITDA of EUR0.6 million (compared to EUR7.8 million in 1H19) compared to our estimates of EUR1.6 million; e) Adj. Net result of EUR-7.6 million compared to our estimates of EUR-5.6 million; f) Operating FCF of EUR1.3 million better than last year despite a EUR9.5 million capex. This number was better than our expectations; g) Net Debt of EUR71.6 million (compared to EUR69 million at YE2019) which was already disclosed and compares with our FY2020 estimate of EUR82.5 million.

Figure 1 – 1H20 results

(EURm, %)	1H19A	1H20A	YoY change	1H20E	A/E change
Total sales	90.7	58.0	-36.1%	65.2	-11.0%
EBITDA Adj.	7.3	0.6	-91.2%	1.6	-59.8%
EBITDA margin %	8.1%	1.1%		2.5%	
EBIT	1.9	(5.9)	NM	(4.4)	nm
EBIT margin %	2.1%	-10.1%		-6.7%	
Net profit	(0.9)	(7.6)	NS	(5.4)	nm
Net Debt/(Cash)	56	72	28.8%	72	0.0%
Adj. Diluted EPS	(0.02)	(0.10)	NS	(0.09)	9.8%
Res. Net profit	(0.9)	(7.6)	NS	(5.6)	36.6%

Source: Company data, UBI Banca estimates

Financial Projections

- > **2H20 at least in line with 2H19, according to management.** In the press release and during the call management stressed that July and August saw a YoY increase supporting the expectation that the second half of the year should be at least in line with last year. In 2H19 the company reported an adjusted value of production of around EUR78 million which is what we are now expecting for 2H20. This would imply a flattish performance on Plastic materials, after the -35.7% YoY in 1H20 and a -1.5% for batteries, after the -5.2% posted in 1H20. While the former seems challenging but achievable the latter seems conservative. In terms of EBITDA Adj. 2H19 reported a EUR14/5 million range which, added to the EUR0.6 million reported in 1H20 is close to our FY estimate of EUR16.2 million. Lower than expected D&A and net financial charges contributed to minimize the cut in the net income estimates (that went from EUR-1.8 million to EUR-2.0 million). We improved our Net Debt estimates to EUR79 million from EUR82.5 million.
- > **Cutting our 2021-22 estimates on Teverola I postponement.** The postponement of Teverola I to 1Q21 has an impact on 2020 (we had EUR20.5 million revenues with a 25% EBITDA margin) and on 2021 (where we reduced the revenues to EUR62.4 million from EUR89 million due to the ramp-up of production in 1Q21). This is the major driver of the reduction in our estimates, reported in the table below.

Figure 2 – Old vs. new estimates

(EURm)	2020E			2021E			2022E		
	Old	New	% diff.	Old	New	% diff.	Old	New	% diff.
Sales	148.8	128.4	-13.7%	234.6	217.3	-7.4%	300.0	274.4	-8.5%
Adj. EBITDA	26.7	16.3	-38.9%	42.2	35.1	-16.7%	62.7	51.3	-18.2%
Adj. EBIT	1.9	2.4	30.8%	27.3	21.7	-20.4%	47.9	38.1	-20.4%
EBIT %	1.3%	1.9%		11.6%	10.0%		16.0%	13.9%	
Net Profit	(1.8)	(2.0)	-46.1%	14.5	12.6	-13.1%	30.2	26.6	-12.0%
Net Debt/(Cash)	83	79	4.5%	74	76	-2.6%	55	60	-7.3%

Source: UBI Banca estimates

Valuation

➤ **Confirming our TP of EUR 6.0.** The reduction in our free-risk assumptions to 2% (from 3%) was the main driver that supported our target price whilst obviously the cut in estimates played in the opposite direction. The DCF grew more than other valuation methods because the weight of the terminal value in this case is particularly high.

Figure 3 – Valuation summary

(EUR)	New	Old	% difference
DCF	8.8	8.7	0.8%
Peers comparison	9.3	8.8	5.7%
EVA	7.8	8.1	-4.3%
Average	8.6	8.6	0.9%
Discount	30%	30%	
Target price	6.0	6.0	0.9%
Current price	3.0	2.98	
Upside	99%	100%	

Source: Company data, UBI Banca estimates

Figure 4 – Peer group – Multiples (priced on 21 September 2020)

Company name	TIER	Price	Currency	Mkt Cap (bn)	EV/EBITDA			EV/EBIT			P/E			FCF Yield		
					2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E
Varta	I	111.6	USD	4.5	22.5 x	13.9 x	11.1 x	24.9 x	15.0 x	11.6 x	39.2	29.5	22.4	-4.3%	-0.3%	1.5%
EnerSys	I	54.5	USD	2.3	8.8 x	9.3 x	7.4 x	12.0 x	13.3 x	10.6 x	14.6	11.6	NA	9.9%	7.8%	5.0%
Voltabox	I	3.3	USD	0.1	NA	NA	NA	NA	17.8 x	14.3 x	NA	30.2	15.1	18.2%	-14.1%	-2.0%
Umicore	I	38.7	EUR	9.5	15.1 x	12.9 x	11.5 x	23.6 x	19.4 x	17.1 x	32.7	26.2	22.5	0.1%	0.8%	1.8%
GEM	I	0.7	USD	3.1	14.8 x	11.8 x	10.4 x	24.5 x	20.5 x	16.2 x	33.9	22.5	16.8	-3.1%	1.7%	0.4%
SolarEdge	I	162.1	USD	8.1	34.1 x	24.6 x	18.8 x	44.6 x	30.2 x	22.3 x	62.3	44.3	33.8	1.7%	2.3%	2.7%
Ganfeng Lithium	II	4.5	USD	8.6	68.4 x	35.7 x	24.7 x	96.7 x	45.2 x	30.1 x	79.7	35.9	23.9	-0.1%	0.0%	1.7%
Cont. Amperex	II	24.9	USD	58.0	41.0 x	31.2 x	23.9 x	70.6 x	51.4 x	38.8 x	87.3	64.4	49.4	0.2%	1.1%	1.7%
Shenzhen Capchem	II	7.6	USD	3.1	33.5 x	26.6 x	20.4 x	42.7 x	33.3 x	25.3 x	50.1	39.5	30.2	0.8%	2.1%	2.0%
NARI Technology	II	2.5	USD	11.7	12.0 x	9.8 x	7.9 x	13.4 x	11.1 x	9.0 x	17.9	15.3	13.1	3.5%	4.1%	6.2%
Average – Tier I					19.1 x	14.5 x	11.9 x	25.9 x	19.4 x	15.4 x	36.5 x	27.4 x	22.1 x	3.7%	-0.3%	1.6%
Median – all peers					28.0 x	19.3 x	15.2 x	33.8 x	20.5 x	17.1 x	44.6 x	30.2 x	23.2 x	0.5%	1.4%	1.8%
Seri Industrial		3.0	EUR	0.14	13.2 x	6.3 x	4.0 x	61.1 x	10.2 x	5.3 x	NM	11.4 x	5.4 x	-1.0%	1.8%	11.5%
Premium/(Disc.) to Tier I average					-31.0%	-56.8%	-66.5%	NM	-47.6%	-65.2%	NM	-58.2%	-75.6%	NM	NM	NM

Source: FactSet, UBI Banca estimates

ESG Picture
Corporate Governance

Does the company have a combined Chair/CEO?	No
Percentage of independent directors	42.9% (3 out of 7, including the Chairman)
Percentage of female directors	28.6% (2 out of 7)
Does the company have loyalty shares?	No
Does major shareholders (if any) have a “shareholders pact” in place?	No
Has the company adopted a “poison pill” or “change of control” clauses?	No
Potential dilution from stock options outstanding + not yet granted?	No
CEO remuneration detail (fixed salary)	EUR215 thousand
Chairman remuneration detail (fixed salary)	EUR140 thousand
Is the share price included in the MBO criteria?	No
Percentage of treasury shares	0.0%

Climate related risk

Has the company defined GHG-emissions targets?	Yes
How does the company assess climate-related risk?	<p>Seri Industrial’s commitment to protect the environment manifests itself not only in the will and ability to market products composed of recycled materials, but also in its responsible management of resources.</p> <p>SERI Industrial has adopted since its foundation a circular economy business model, investing significant resources to accelerate the decarbonization process.</p> <p>All the Company’s plants boast appropriate environment authorizations (ISO 9001, ISO45001 and ISO 14001 among the others).</p>

Social Responsibilities

Does the company publish a separated Sustainability report?	Yes
Does the company have a Chief SRI/CSR officer (or a committee)?	Yes, Mr. Orsini
Does the Chief SRI/CSR officer votes in any of the company’s committee?	Yes
Is the Investor Relation officer a different person from CFO (or other officers)?	Yes
Is the ESG strategy integrated in the Business Plan (or in the group strategy)?	Yes
Does the company have an ethical code?	Yes
How is the cybersecurity issue managed?	Standard practices

Income Statement

(EURm)	2019A	2020E	2021E	2022E
Total Revenues	156.5	136.1	222.3	279.4
EBITDA	19.4	16.3	35.1	51.3
EBITDA margin	12.4%	12.0%	15.8%	18.4%
EBIT	6.7	2.4	21.7	38.1
EBIT margin	4.3%	1.8%	9.8%	13.6%
Net financial income /expense	-3.4	-3.8	-3.7	-3.0
Associates & Others	0.0	0.0	0.0	0.0
Profit before taxes	3.3	-1.4	18.0	35.1
Taxes	-1.5	-0.6	-5.4	-8.5
Minorities & discontinuing ops	-0.3	0.0	0.0	0.0
Net Income	1.5	-2.0	12.6	26.6

Source: Company data, UBI Banca estimates

Balance Sheet

(EURm)	2019A	2020E	2021E	2022E
Net working capital	39.0	47.8	66.6	81.4
Net Fixed assets	157.2	163.4	154.5	149.7
Funds	-7.0	-14.0	-14.0	-14.0
Capital employed	189.2	197.1	207.1	217.2
Shareholders' equity	118.4	116.4	129.0	155.6
Minorities	1.8	1.8	1.8	1.8
Shareholders' funds	120.1	118.2	130.7	157.3
Net financial debt/(cash)	69.0	79.0	76.4	59.8

Source: Company data, UBI Banca estimates

Cash Flow Statement

(EURm)	2019A	2020E	2021E	2022E
NFP Beginning of Period	41.6	69.0	79.0	76.4
EBITDA	19.4	16.3	35.1	51.3
Interest expenses	-3.4	-3.9	-3.7	-3.0
Cash taxes	-1.5	-0.6	-5.4	-8.5
Change in Working Capital	2.3	-8.8	-18.8	-14.8
Other	-3.6	-0.6	-0.2	-0.2
Operating Cash Flow	13.2	2.5	7.0	24.8
Net Capex	-58.5	-12.5	-4.3	-8.2
Other	17.9	0.0	0.0	0.0
Free Cash Flow	-27.4	-10.0	2.6	16.5
Dividends Paid	0.0	0.0	0.0	0.0
Other & Chg in Consolid. Area	0.0	0.0	0.0	0.0
Chg in Net Worth & capital Incr.	0.0	0.0	0.0	0.0
Change in NFP	-27.4	-10.0	2.6	16.5
NFP End of Period	69.0	79.0	76.4	59.8

Source: Company data, UBI Banca estimates

Financial Ratios

(%, x)	2019A	2020E	2021E	2022E
ROE	1.5%	-1.7%	9.6%	16.9%
ROI	3.5%	1.2%	10.5%	17.6%
Net Fin. Debt/Equity (x)	0.6	0.7	0.6	0.4
Net Fin. Debt/EBITDA Adj (x)	3.1	4.7	2.2	1.2
Interest Coverage (x)	5.6	4.2	9.4	17.0
NWC/Sales	25.8%	37.2%	30.7%	29.7%
Capex/Sales	38.7%	9.7%	2.0%	3.0%
Pay Out Ratio	0.0%	0.0%	0.0%	0.0%

Source: Company data, UBI Banca estimates

Per Share Data

(EUR)	2019A	2020E	2021E	2022E
EPS	0.03	-0.04	0.27	0.56
DPS	0.00	0.00	0.00	0.00
Op. CFPS	0.28	0.05	0.15	0.52
Free CFPS	0.06	-0.03	0.06	0.35
BVPS	2.54	2.50	2.76	3.33

Source: Company data, UBI Banca estimates

Stock Market Ratios

(%, x)	2019A*	2020E	2021E	2022E
P/E	54.1	nm	11.4	5.4
P/CF	6.0	34.4	12.0	5.1
P/BV	0.7	1.2	1.1	0.9
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%
Free Cash Flow Yield (%)	3.1%	-1.0%	1.8%	11.5%
EV (EURm)	152.3	222.8	220.1	203.6
EV/Sales	1.0	1.6	1.0	0.7
EV/EBITDA Adj	6.9	13.2	6.3	4.0
EV/EBIT Adj	14.6	61.1	10.2	5.3
EV/Capital Employed	0.8	1.1	1.1	0.9

Source: Company data, UBI Banca estimates

* Based on 2019 average price

Growth rates

(%)	2019A	2020E	2021E	2022E
Growth Group Net Sales	17.3%	-13.1%	63.3%	25.7%
Growth EBITDA Adj	44.4%	-23.2%	NM	46.0%
Growth EBIT Adj	NM	-65.0%	NM	75.8%
Growth Net Profit	-65.8%	NM	NM	NM

Source: Company data, UBI Banca estimates

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Valuation methodology

UBI Banca's analysts value the Company subject to their recommendations using several methods among which the most prevalent are: the Discounted Cash Flow method (DCF), the Economic Value Added method (EVA), the Multiple comparison method, the SOP method and the NAV method.

The analysts use the above valuation methods alternatively and/or jointly at their discretion. The assigned target price may differ from their fair value, as it also takes into account overall market/sector conditions, corporate/market events, and corporate specifics (i.e. holding discounts) reasonably considered to be possible drivers of the company's share price performance. These factors may also be assessed using the methodologies indicated above.

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Ranking system

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Buy: if the target price is 15% higher than the market price, over the next 12 months.

Hold: if the target price is 15% below or 15% above the market price, over the next 12 months.

Sell: if the target price is 15% lower than the market price, over the next 12 months.

No Rating: the investment rating and target price have been suspended as there is not sufficient fundamental basis for determining an investment rating or target. The previous investment rating and target price, if any, are no longer in effect. Alternatively, No Rating is assigned in certain circumstances when UBI Banca is acting in any advisory capacity in a strategic transaction involving the Company.

Target price: the market price that the analyst believes that the share may reach within a one-year time horizon.

Market price: closing price on the day before the issue date of the report, appearing on the first page.

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Buy	Hold	Sell	No Rating
78.0%	17.6%	1.1%	3.3%
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Buy	Hold	Sell	No Rating
60.6%	6.3%	100%	100%

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Historical ratings and target prices

Date	Rating	Target Price (EUR)	Market Price (EUR)
18 May 2020	BUY (initiation)	6.00	2.98
17 June 2020	BUY	6.00	3.09