

6m Results 2023
Opinion ⁽¹⁾: Below expectations

Impact ⁽¹⁾: We will have to lower our estimates

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Business description

Seresco (SCO), is a highly diversified Spanish tech company: payroll and personnel administration, consulting and software development, IT infrastructures and systems, digital transformation, and land registry management and cartography. It also operates internationally (7% of revenue in 2022). Government agencies had a 37% weight in the 2022 revenue mix. SCO has been listed on BME Growth since December 2022.

Market Data

Market Cap (Mn EUR and USD)	30.0	31.6
EV (Mn EUR and USD) ⁽²⁾	35.1	37.0
Shares Outstanding (Mn)	9.6	
-12m (Max/Med/Mín EUR)	4.26 / 3.54 / 3.01	
Daily Avg volume (-12m Mn EUR)	n.m.	
Rotation ⁽³⁾	3.2	
Factset / Bloomberg	SCO-ES / SCO SM	
Close fiscal year	31-Dec	

Shareholders Structure (%)⁽⁵⁾

Suarez García Family	61.4
Treasury stock	7.0
Tomás Reinales Fernández	5.9
Manuel Angel Busto Riego	5.7
Free Float	12.7

Relative performance (Base 100)

Stock performance (%)

	-1m	-3m	-12m	-5Y
Absolute	-8.2	-6.6	n.a.	n.a.
vs Ibex 35	-4.1	0.1	n.a.	n.a.
vs Ibex Small Cap Index	-4.5	3.6	n.a.	n.a.
vs Eurostoxx 50	-6.4	0.3	n.a.	n.a.
vs Sector benchmark ⁽⁴⁾	-8.5	2.2	n.a.	n.a.

(1) The opinion regarding the results is on reported EBITDA with respect to our estimate for the year (12m). The impact reflects whether, due to the results, we envisage a significant revision (>5% - 10%, depending on the sector) of our EBITDA estimate (for any of the estimated years).

(2) Please refer to Appendix 2.

(3) Rotation is the % of the capitalisation traded - 12m.

(4) vs Stoxx Europe 600 Technology.

(5) Others: Management 7.3%

(*) Unless otherwise indicated, all the information contained in this report is based on: The Company, Factset and Lighthouse.

1H23 earnings: contraction in gross margin and pressure on recurring EBITDA from overhead

STRONG TOPLINE GROWTH (+19.5% VS 1H22). SCO reported revenue in 1H23 of EUR 19.4Mn (+19.5% vs 1H22; EUR 16.2Mn). Part of the increase was driven by the ELO-SI acquisition (February 2023); we estimate that it contributed c. EUR 0.7Mn. Four of the five business lines delivered sharp growth: (i) land registry management and cartography, EUR 1.8Mn (+90% vs 1H22), (ii) payroll and personnel administration, EUR 7.3Mn (+29%), (iii) IT infrastructures, EUR 5.8Mn (+18%) and (iv) digital transformation services, EUR 0.9Mn (32%). Even so, we must revise down our FY 2023e revenue forecasts.

GROSS MARGIN IN LINE WITH OUR ESTIMATES... Higher cost of sales (+44.4% vs 1H22) caused gross margin to contract to 85.0% (vs 87.5% in 1H22 and our 2023e estimate of 84.5%). This sharp increase is due to the change in the business mix following the acquisition of SE Programa en Windows S.L.

...BUT WITH RECURRING EBITDA UNDER PRESSURE. Recurring EBITDA in 1H23 totalled EUR 1.6Mn (-12% vs 1H22; 8.0% of revenue). Recurring EBITDA margin contraction (-3p.p. vs 1H22) is due to gross margin contraction and (i) the sharp jump in staff costs (+17%; changes to the collective bargaining agreement) and, more importantly, (ii) the increase in other operating expenses (+44%), to EUR 1.7Mn. M&A, with lower "starting" profitability than SCO, explain the "jump" in overhead. This left margins at the end of 1H23 c.3.5p.p. below the level expected at the end of the year, prompting us to revise our estimates.

NET DEBT OF EUR 5.3MN (VS EUR 4.5 MN AT 31 DEC. 2022). This is still reflected in SCO's low financial leverage: ND/equity of 0.9x and ND/EBITDA 2022 multiple of c.1.5x.

OVERALL, EARNINGS CAME UP SHORT OF EXPECTATIONS (PRIMARILY REC. EBITDA). The 1H23 earnings performance confirms SCO's ability to deliver heady growth. However, much higher overhead is undermining recurring EBITDA, prompting us to cut our 2023e estimates. Our new estimates point to revenue of c. EUR 41.0Mn (-10% vs our previous estimates) and recurring EBITDA 2023e of c. EUR 3.8Mn (-25% vs our previous estimates), with margins of c.9%.

AND NOW WHAT? THE KEY IS STILL ORGANIC/STRUCTURAL REVENUE GROWTH AND THE IMPACT ON MARGINS.

The sharp increase in revenue (which showcases an ability that seemed impossible until now) caused gross margin to narrow and overhead to rise further than estimated (basically because of M&A). That means that despite the topline growth, we will be lowering our 2023e estimates. Going forward (2024-2025), attention should remain on the trend in revenue and how it feeds through to margins. Earnings for 1H23 and the impact on margins of "digesting" M&A have brought SCO's margin back to historical levels (c.7% 2028-2021) and below 2022 (10%), delaying the effect of margin improvement. Margin growth is now the crux of the company's equity story to the extent that it is key to really unlocking revenue growth and taking EBITDA to over EUR 5 Mn. Despite the disappointing EBITDA performance, 2023e multiples are still "resisting" (EV/EBITDA, c.9.2x). All the upside is down to a single card: achieving a margin > 10%.

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Appendix 1. Results table

EUR Mn	6m23 Real	6m22	6m23 Real vs 6m22	2023e 2023e	2023e vs 2022
Total Revenues	19,4	16,2	19,5%	45,0	32,4%
Recurrent EBITDA	1,6	1,8	-12,0%	5,1	50,5%
<i>Rec. EBITDA/Revenues</i>	8,0%	10,9%	-2,9 p.p.	11,4%	1,4 p.p.
EBIT	1,4	1,3	4,8%	4,3	60,7%
NP	1,0	0,9	7,4%	3,0	62,2%

Note: Recurrent EBITDA adjusted to strip out the impact of capitalised expenses (EUR 0.05Mn and EUR 0.5Mn in 1H22 and 1H23, respectively; with no impact on cash flow).

Appendix 2. EV breakdown at the date of this report

	EUR Mn	Source
Market Cap	30.0	
+ Minority Interests	0.1	6m Results 2023
+ Provisions & Other L/T Liabilities	0.0	6m Results 2023
+ Net financial debt	5.3	6m Results 2023
- Financial Investments	0.2	6m Results 2023
+/- Others		
Enterprise Value (EV)	35.1	

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Notes and Reports History

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27-Oct-2023	n.a.	3.12	n.a.	n.a.	6m Results 2023	Enrique Andres Abad
12-Jun-2023	n.a.	3.49	n.a.	n.a.	Small & Micro Caps (Spain)	David López Sánchez
04-May-2023	n.a.	3.76	n.a.	n.a.	Initiation of Coverage	Enrique Andres Abad

