

Incap

Company report

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✓ Inderes corporate customer

This report is a summary translation of the report "Aika vetää hieman happea" published on 10/28/2022 at 8:54 am

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Time for a breather

We reiterate our EUR 17.00 target price for Incap after the company's strong Q3 report. However, we lower our recommendation for Incap to Reduce (previously Accumulate), as the recent share price rise has already narrowed the upside of the share. We did not make any substantial estimate changes after the report. Incap's share is still not unreasonably highly valued, considering the company's positive outlook but we do not feel that the share's risk adjusted expected return reaches the required return in the short term.

Incap's Q2 figures were excellent

Incap's revenue grew by a massive 50% to EUR 71 million in Q3. The growth that was probably driven by key customer volumes exceeded our expectations. EBIT increased with the growth by 41% compared to the comparison period and reached EUR 11.2 million. The Q3 earnings were, however, slightly below our estimates that rose clearly after the earnings revision in October due to lower profitability although the adjusted EBIT margin of 15.9% was very good relative to the industry. Based on growth and profitability, the company again performed excellently in an environment ridden with inflation and component shortages. On the lower lines, the numbers were higher than we estimated, which was probably due to higher taxes than we expected.

Minor changes to earnings estimates after the report

In its positive earnings revision in October, Incap specified its guidance according to which the company's revenue will be EUR 262-270 million this year and EBIT EUR 38-42 million. The earnings estimates we prepared before Q3 were around the middle of the range, so to counterbalance the slight earnings undershoot in Q3 the Q4 outlook seems better than our expectations. Inventories that have grown again in Q3, also indicates a strong outlook for the rest of the year. The company's comments on the market, demand and visibility were also still very positive despite the current economic uncertainty. Incap's growth is supported by completion of new capacity (especially in India) and we believe that the company also has some degree of secured demand for the new capacity among its current customers. After a strong report, we raised our revenue estimates slightly, but the changes in earnings estimates were minor due to slightly increased cost and tax estimates. We expect the company's result to be growing significantly slower than in 2020-2022 at an annual rate of close to 10% as revenue grows gradually thanks to new capacity and strong competitiveness. We estimate that profitability will remain at Incap's base level of about 15%, while the company's factory network maintains its high efficiency. The main risks to our earnings estimates are, in our view, individual large customers and the component shortage getting worse.

Upside has narrowed

Incap's P/E ratios for 2022 and 2023 based on our estimates are 16x and 14x, while the corresponding EV/EBIT ratios are 12x and 10x. With 2022 multiples, we believe the valuation is slightly elevated, given that the concentrated customer base is holding back the company's acceptable valuation, even though Incap's track-record is already among the industry elite. Thus, part of the earnings growth we expect next year is overshadowed by the slightly decreasing valuation multiples and we believe the company's risk-adjusted expected return will be set to around the required return within a year. Also relative to our DCF value, Incap's upside is small. Thus we take a slightly more cautious view on Incap's share and business after last year's triumphant progress, even if in the long term we still see Incap's equity story as attractive.

Recommendation

Reduce

(previous Accumulate)

EUR 17.00

(previous EUR 17.00)

Share price:

EUR 16.06



Key figures

	2021	2022e	2023e	2024e
Revenue	169.8	268.1	294.3	320.8
growth-%	59%	58%	10%	9%
EBIT adj.	26.8	40.7	44.7	48.2
EBIT-% adj.	15.8 %	15.2 %	15.2 %	15.0 %
Net Income	21.1	29.6	34.1	37.2
EPS (adj.)	0.74	1.02	1.17	1.27
P/E (adj.)	21.2	15.7	13.7	12.6
P/B	7.3	5.4	4.0	3.2
Dividend yield-%	1.0 %	1.1 %	1.2 %	1.4 %
EV/EBIT (adj.)	17.2	11.9	10.3	9.0
EV/EBITDA	15.8	11.0	9.5	8.3
EV/S	2.7	1.8	1.6	1.3

Source: Inderes

Guidance

(Improved)

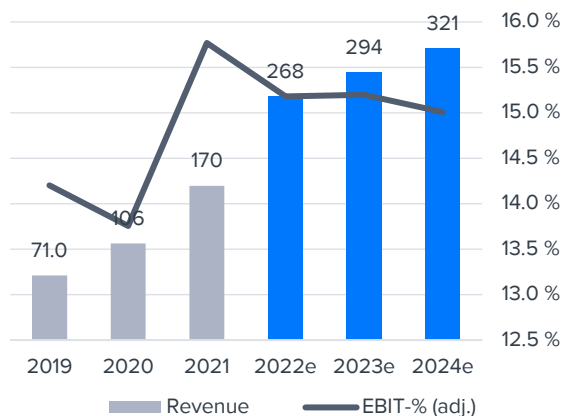
Incap estimates that its revenue, operating profit (EBIT) and adjusted operating profit (EBIT) for 2022 will be significantly higher than in 2021. Revenue is estimated to be EUR 262–270 million, and operating profit (EBIT) is estimated to be EUR 38–42 million.

Share price



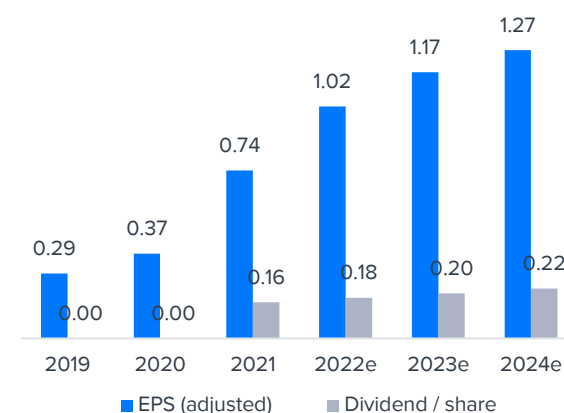
Source: Millstream Market

Revenue and EBIT %



Source: Inderes

EPS and dividend



Source: Inderes



Value drivers

- Organic growth in the electronics market, supported by global megatrends and increased outsourcing rate
- Light organization and cost structure enable a high profitability level
- Quick decision-making supports new customer procurement
- Accelerating growth with acquisitions



Risk factors

- Mutually challenging value chain position upholds a brutal competitive situation
- Cyclical nature of customer industries
- Tightening competitive situation
- Company's cost efficiency deteriorating
- Disruptions in the supply chain
- A very large single customer and an otherwise concentrated customer structure

Valuation	2022e	2023e	2024e
Share price	16.06	16.06	16.06
Number of shares, millions	29.3	29.3	29.3
Market cap	470	470	470
EV	484	460	432
P/E (adj.)	15.7	13.7	12.6
P/E	15.9	13.8	12.6
P/FCF	neg.	15.4	14.0
P/B	5.4	4.0	3.2
P/S	1.8	1.6	1.5
EV/Sales	1.8	1.6	1.3
EV/EBITDA	11.0	9.5	8.3
EV/EBIT (adj.)	11.9	10.3	9.0
Payout ratio (%)	17.8 %	17.1 %	17.3 %
Dividend yield-%	1.1 %	1.2 %	1.4 %

Source: Inderes

Estimates

Estimates MEUR / EUR	Q3'21	Q3'22	Q3'22e	Q3'22e	Consensus		Difference (%)	2022e
	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. inderes	Inderes
Revenue	47.0	70.6	67.0				5%	268
EBIT (adj.)	7.9	11.2	11.8				-5%	40.7
EBIT	7.8	10.9	11.7				-7%	40.3
EPS (reported)	0.22	0.26	0.32				-18%	1.01
Revenue growth-%	67.3 %	50.2 %	42.6 %				7.7 pp	57.9 %
EBIT-% (adj.)	16.9 %	15.9 %	17.6 %				-1.7 pp	15.2 %

Source: Inderes

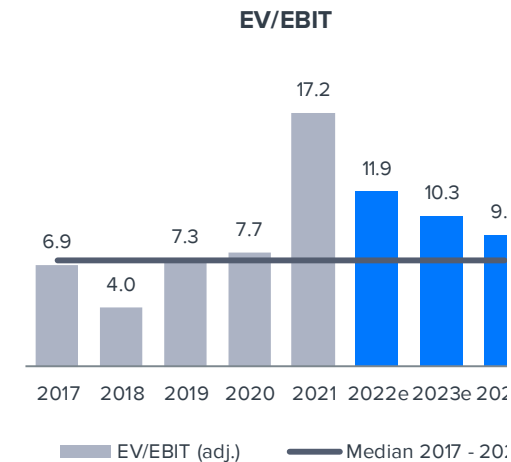
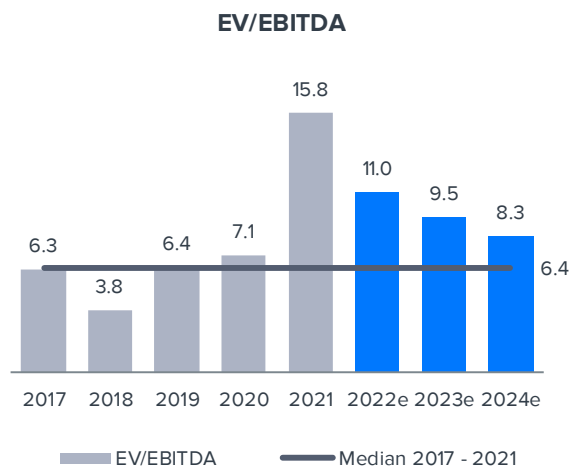
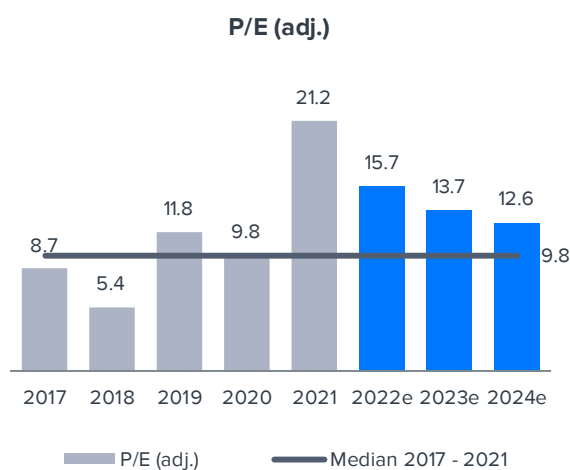
Estimate revisions MEUR / EUR	2022e	2022e	Change	2023e	2023e	Change	2024e	2024e	Change
	Old	New	%	Old	New	%	Old	New	%
Revenue	253	268	6%	276	294	6%	301	321	6%
EBIT	39.6	40.3	2%	43.6	44.4	2%	46.9	48.0	2%
PTP	38.0	37.9	0%	43.0	43.7	2%	46.6	47.7	2%
EPS (raportoitu)	1.03	1.02	-1%	1.17	1.17	-1%	1.28	1.27	0%
DPS	0.18	0.18	0%	0.20	0.20	0%	0.22	0.22	0%

Source: Inderes

Valuation table

Valuation	2017	2018	2019	2020	2021	2022e	2023e	2024e	2025e
Share price	1.24	1.45	3.38	3.69	15.70	16.06	16.06	16.06	16.06
Number of shares, millions	21.9	21.9	21.9	29.1	29.2	29.3	29.3	29.3	29.3
Market cap	27	32	74	107	459	470	470	470	470
EV	31	35	73	113	461	484	460	432	402
P/E (adj.)	8.7	5.4	11.8	9.8	21.2	15.7	13.7	12.6	12.0
P/E	8.7	5.4	11.8	11.6	21.8	15.9	13.8	12.6	12.0
P/FCF	11.7	13.7	11.4	neg.	>100	neg.	15.4	14.0	12.8
P/B	2.6	2.0	3.4	2.8	7.3	5.4	4.0	3.2	2.6
P/S	0.6	0.5	1.0	1.0	2.7	1.8	1.6	1.5	1.4
EV/Sales	0.6	0.6	1.0	1.1	2.7	1.8	1.6	1.3	1.2
EV/EBITDA	6.3	3.8	6.4	7.1	15.8	11.0	9.5	8.3	7.3
EV/EBIT (adj.)	6.9	4.0	7.3	7.7	17.2	11.9	10.3	9.0	7.9
Payout ratio (%)	0.0 %	0.0 %	0.0 %	0.0 %	22.2 %	17.8 %	17.1 %	17.3 %	17.9 %
Dividend yield-%	0.0 %	0.0 %	0.0 %	0.0 %	1.0 %	1.1 %	1.2 %	1.4 %	1.5 %

Source: Inderes



Peer group valuation

Peer group valuation	Share price	Market cap	EV	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%		P/B
Company		MEUR	MEUR	2022e	2023e	2022e	2023e	2022e	2023e	2022e	2023e	2022e	2023e	2022e
Cicor Technologies		149	249	21.3	14.9	8.2	7.3	0.8	0.8	27.8	14.3			1.4
Integrated Micro-Electronics		189	455	114.6	26.1	9.8	7.3	0.3	0.3		42.8			0.4
Data Modul		190	218	6.5	5.3	5.8	4.9	0.6	0.6	10.8	9.7	0.2	0.2	1.6
Hanza		152	214	12.6	9.0	5.0	4.3	0.4	0.4	15.1	11.5	1.0	1.6	1.1
Kitron		415	586	15.7	12.8	11.0	9.4	1.0	0.9	18.5	12.2	2.1	3.1	2.9
Lacroix Group SA		115	299	13.9	10.8	7.0	6.1	0.4	0.4	9.6	7.0	2.5	3.8	0.7
Jabil		8594	10302	6.8	6.5	4.3	4.1	0.3	0.3	8.6	7.8	0.5	0.5	3.4
Scanfil		379	475	10.7	9.5	7.9	7.2	0.6	0.6	11.2	9.9	3.5	3.7	1.7
Fabrinet		4075	3621	15.8	13.5	13.5	11.7	1.6	1.4	18.7	15.9			3.2
Hana Microelectronics		722	602	13.1	10.7	6.7	5.9	0.9	0.8	14.6	11.7	5.0	5.5	1.2
SVI		438	540	15.0	13.4	11.8	10.7	0.8	0.8	13.3	12.1	2.8	3.1	2.6
TT Electronics		290	454	9.6	7.8	6.8	6.0	0.7	0.7	8.6	7.2	4.3	4.9	0.8
Katek Se		225	258	11.7	16.3	6.0	6.8	0.4	0.4	16.0	29.7			1.2
Nolato AB		1226	1311	14.8	12.8	9.9	8.8	1.3	1.3	19.5	16.8	3.2	3.3	2.9
Celestica		1337	1917	5.5	5.2	4.2	3.9	0.3	0.3	5.9	5.5			0.9
Incap (Inderes)	16.06	470	484	11.9	10.3	11.0	9.5	1.8	1.6	15.7	13.7	1.1	1.2	5.4
Average				19.2	11.6	7.9	7.0	0.7	0.7	14.2	14.3	2.5	3.0	1.7
Median				13.1	10.8	7.0	7.1	0.6	0.6	13.9	11.7	2.6	3.2	1.4
Diff-% to median				-9%	-5%	56%	33%	201%	160%	13%	16%	-57%	-61%	294%

Source: Thomson Reuters / Inderes. NB: The market cap Inderes uses does not consider own shares held by the company.

Income statement

Income statement	H1'20	H2'20	2020	H1'21	H2'21	2021	H1'22	H2'22e	2022e	2023e	2024e	2025e
Revenue	46.9	59.6	106	71.3	98.5	170	115	154	268	294	321	343
Incap	46.9	59.6	106	71.3	98.5	170	115	154	268	294	321	343
EBITDA	5.8	10.1	15.9	11.3	17.9	29.3	17.3	26.8	44.1	48.6	52.1	54.6
Depreciation	-1.6	-1.7	-3.3	-1.6	-1.7	-3.3	-1.9	-1.9	-3.8	-4.2	-4.2	-4.2
EBIT (excl. NRI)	5.6	9.1	14.6	10.2	16.6	26.8	15.6	25.1	40.7	44.7	48.2	50.6
EBIT	4.3	8.3	12.6	9.8	16.2	26.0	15.4	24.9	40.3	44.4	48.0	50.4
Net financial items	-0.6	-0.5	-1.1	-0.3	0.1	-0.3	-0.8	-1.6	-2.4	-0.7	-0.3	-0.3
PTP	3.6	7.9	11.5	9.4	16.3	25.7	14.6	23.3	37.9	43.7	47.7	50.1
Taxes	-0.9	-1.3	-2.3	-1.6	-3.0	-4.7	-3.4	-4.9	-8.3	-9.6	-10.5	-11.0
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net earnings	2.7	6.5	9.2	7.8	13.3	21.1	11.2	18.4	29.6	34.1	37.2	39.1
EPS (adj.)	0.13	0.25	0.37	0.28	0.46	0.74	0.39	0.64	1.02	1.17	1.28	1.34
EPS (rep.)	0.09	0.22	0.32	0.27	0.46	0.72	0.38	0.63	1.01	1.17	1.27	1.34

Key figures	H1'20	H2'20	2020	H1'21	H2'21	2021	H1'22	H2'22e	2022e	2023e	2024e	2025e
Revenue growth-%	26.0 %	76.3 %	49.9 %	52.2 %	65.1 %	59.4 %	60.6 %	55.9 %	57.9 %	9.8 %	9.0 %	7.0 %
Adjusted EBIT growth-%	-3.4 %	109.7 %	45.2 %	83.5 %	82.3 %	82.8 %	52.7 %	51.6 %	52.0 %	9.9 %	7.6 %	5.0 %
EBITDA-%	12.5 %	16.9 %	15.0 %	15.9 %	18.2 %	17.2 %	15.1 %	17.5 %	16.5 %	16.5 %	16.3 %	15.9 %
Adjusted EBIT-%	11.9 %	15.3 %	13.8 %	14.3 %	16.8 %	15.8 %	13.6 %	16.4 %	15.2 %	15.2 %	15.0 %	14.7 %
Net earnings-%	5.8 %	11.0 %	8.7 %	10.9 %	13.5 %	12.4 %	9.8 %	12.0 %	11.0 %	11.6 %	11.6 %	11.4 %

Lähde: Inderes

Balance sheet

Assets	2020	2021	2022e	2023e	2024e
Non-current assets	19.4	27.1	28.0	27.8	27.6
Goodwill	7.1	7.5	7.5	7.5	7.5
Intangible assets	0.0	4.5	4.3	4.1	3.9
Tangible assets	11.4	13.9	14.9	14.9	15.0
Associated companies	0.0	0.0	0.0	0.0	0.0
Other investments	0.0	0.0	0.0	0.0	0.0
Other non-current assets	0.2	0.4	0.4	0.4	0.4
Deferred tax assets	0.7	0.9	0.9	0.9	0.9
Current assets	52.3	102.4	155.5	174.8	210.5
Inventories	24.2	59.5	96.5	100	103
Other current assets	0.0	0.0	0.0	0.0	0.0
Receivables	24.2	33.7	53.6	58.9	64.2
Cash and equivalents	3.9	9.2	5.4	15.9	43.5
Balance sheet total	76.4	129.5	183.5	202.7	238

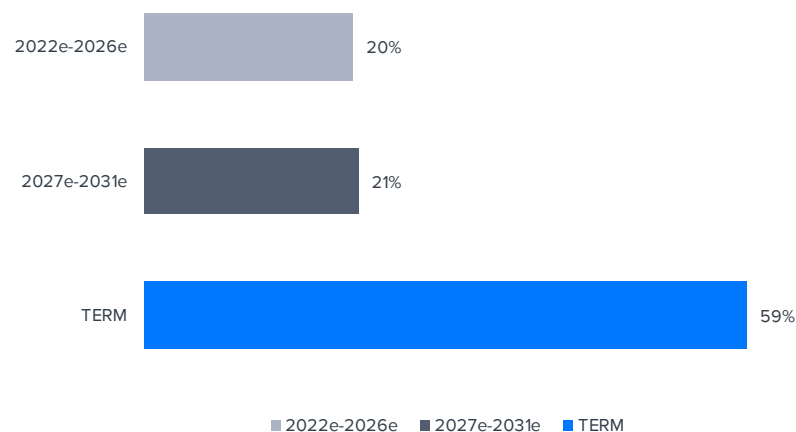
Source: Inderes

Liabilities & equity	2020	2021	2022e	2023e	2024e
Equity	38.5	62.9	87.8	117	148
Share capital	1.0	1.0	1.0	1.0	1.0
Retained earnings	20.7	41.9	66.8	95.7	127
Hybrid bonds	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	-4.6	-2.2	-2.2	-2.2	-2.2
Other equity	21.4	22.2	22.1	22.1	22.1
Minorities	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	8.6	6.5	14.2	4.7	4.7
Deferred tax liabilities	0.9	0.9	0.9	0.9	0.9
Provisions	0.0	0.0	0.0	0.0	0.0
Long term debt	6.1	4.0	13.4	3.8	3.8
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	1.6	1.6	0.0	0.0	0.0
Current liabilities	29.2	60.1	81.5	81.5	85.4
Short term debt	3.7	7.3	6.5	2.0	2.0
Payables	25.6	52.9	75.1	79.5	83.4
Other current liabilities	0.0	0.0	0.0	0.0	0.0
Balance sheet total	76.4	129.5	183.5	202.7	238.0

DCF calculation

DCF model	2021	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	TERM
EBIT (operating profit)	26.0	40.3	44.4	48.0	50.4	52.8	55.4	57.6	59.6	59.3	60.5	
+ Depreciation	3.3	3.8	4.2	4.2	4.4	4.0	4.0	4.1	4.3	4.5	4.6	
- Paid taxes	-4.8	-8.3	-9.6	-10.5	-11.0	-11.6	-12.1	-12.6	-13.1	-13.0	-13.3	
- Tax, financial expenses	0.0	-0.5	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	
+ Tax, financial income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Change in working capital	-17.4	-34.8	-4.4	-3.9	-2.4	-1.5	-8.2	-7.8	-3.6	-3.2	-2.2	
Operating cash flow	7.0	0.5	34.5	37.7	41.3	43.7	39.0	41.2	47.2	47.5	49.6	
+ Change in other long-term liabilities	0.0	-1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-6.2	-4.7	-4.0	-4.0	-4.5	-4.5	-5.0	-5.0	-5.0	-5.0	-4.9	
Free operating cash flow	0.8	-5.8	30.4	33.6	36.8	39.1	34.0	36.2	42.2	42.5	44.7	
+/- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	0.8	-5.8	30.4	33.6	36.8	39.1	34.0	36.2	42.2	42.5	44.7	662
Discounted FCFF		-5.7	27.5	28.0	28.1	27.4	21.9	21.4	22.9	21.2	20.5	303
Sum of FCFF present value		517	522	495	467	439	411	389	368	345	324	303
Enterprise value DCF		517										
- Interesting bearing debt		-11.3										
+ Cash and cash equivalents		9.2										
- Minorities		0.0										
- Dividend/capital return		-4.7										
Equity value DCF		510										
Equity value DCF per share		17.4										

Cash flow distribution



Wacc	
Tax-% (WACC)	25.0 %
Target debt ratio (D/(D+E))	10.0 %
Cost of debt	5.0 %
Equity Beta	1.20
Market risk premium	4.75%
Liquidity premium	1.25%
Risk free interest rate	2.5 %
Cost of equity	9.5 %
Weighted average cost of capital (WACC)	8.9 %

Source: Inderes

Summary

Income statement	2019	2020	2021	2022e	2023e	Per share data	2019	2020	2021	2022e	2023e
Revenue	71.0	106.5	169.8	268.1	294.3	EPS (reported)	0.29	0.32	0.72	1.01	1.17
EBITDA	11.5	15.9	29.3	44.1	48.6	EPS (adj.)	0.29	0.37	0.74	1.02	1.17
EBIT	10.1	12.6	26.0	40.3	44.4	OCF / share	0.35	0.12	0.24	0.02	1.18
PTP	9.7	11.5	25.7	37.9	43.7	FCF / share	0.30	-0.44	0.03	-0.20	1.04
Net Income	6.3	9.2	21.1	29.6	34.1	Book value / share	1.00	1.32	2.15	3.00	3.99
Extraordinary items	0.0	-2.1	-0.8	-0.4	-0.3	Dividend / share	0.00	0.00	0.16	0.18	0.20
Balance sheet	2019	2020	2021	2022e	2023e	Growth and profitability	2019	2020	2021	2022e	2023e
Balance sheet total	36.5	76.4	129.5	183.5	202.7	Revenue growth-%	20%	50%	59%	58%	10%
Equity capital	21.9	38.5	62.9	87.8	116.6	EBITDA growth-%	25%	39%	84%	51%	10%
Goodwill	0.9	7.1	7.5	7.5	7.5	EBIT (adj.) growth-%	17%	45%	83%	52%	10%
Net debt	-0.5	5.9	2.0	14.5	-10.1	EPS (adj.) growth-%	7%	30%	98%	38%	15%
Cash flow	2019	2020	2021	2022e	2023e	EBITDA-%	16%	15%	17%	16%	17%
EBITDA	11.5	15.9	29.3	44.1	48.6	EBIT (adj.)-%	14%	14%	16%	15%	15%
Change in working capital	-1.3	-10.0	-17.4	-34.8	-4.4	EBIT-%	14%	12%	15%	15%	15%
Operating cash flow	7.6	3.6	7.0	0.5	34.5	ROE-%	33%	31%	42%	39%	33%
CAPEX	-1.1	-18.1	-6.2	-4.7	-4.0	ROI-%	41%	33%	42%	44%	39%
Free cash flow	6.5	-12.9	0.8	-5.8	30.4	Equity ratio	60%	50%	52%	48%	58%
						Gearing	-2%	15%	3%	17%	-9%
Valuation multiples	2019	2020	2021	2022e	2023e						
EV/S	1.0	1.1	2.7	1.8	1.6						
EV/EBITDA (adj.)	6.4	7.1	15.8	11.0	9.5						
EV/EBIT (adj.)	7.3	7.7	17.2	11.9	10.3						
P/E (adj.)	11.8	9.8	21.2	15.7	13.7						
P/B	3.4	2.8	7.3	5.4	4.0						
Dividend-%	0.0 %	0.0 %	1.0 %	1.1 %	1.2 %						

Source: Inderes

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Recommendation history (>12 mo)

Date	Recommendation	Target price	Share price
12-05-20	Accumulate	2.60 €	2.40 €
25-05-20	Accumulate	2.80 €	2.57 €
27-08-20	Accumulate	4.00 €	3.71 €
17-09-20	Accumulate	4.00 €	3.60 €
27-10-20	Accumulate	3.50 €	3.02 €
12-11-20	Accumulate	3.80 €	3.40 €
26-11-20	Accumulate	4.00 €	3.60 €
25-02-21	Accumulate	5.40 €	4.88 €
28-04-21	Accumulate	7.60 €	7.05 €
29-07-21	Accumulate	9.20 €	8.58 €
16-09-21	Accumulate	11.00 €	10.12 €
28-10-21	Reduce	14.00 €	14.78 €
25-02-22	Accumulate	14.40 €	13.42 €
23-03-22	Reduce	14.80 €	15.08 €
27-04-22	Reduce	14.80 €	14.00 €
----- Analyttikko vaihtuu -----			
28-07-22	Accumulate	16.00 €	14.66 €
19-10-22	Accumulate	17.00 €	15.08 €
28-10-22	Reduce	17.00 €	16.06 €



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