

Incap

Company report

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✓ Inderes corporate customer

This report is a summary translation of the report "Sylinterit lämpiminä" published on 09/16/2021 at 7:00 am

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Cylinders are hot

Incap's H1 was strong and a similar beat seems to have continued in H2. The company's operational performance is astonishing and a strong balance sheet provides plenty of leeway for acquisitions that fit into the strategy. Share valuation has risen but we feel the excellent earnings growth outlook speaks for owning the company that has proven its quality. We reiterate our Accumulate recommendation and raise our target price to EUR 55 (previously EUR 46).

Second guidance hike this year

Incap issued a positive profit warning yesterday. The company now expects that its revenue, operating profit and adjusted operating profit for 2021 will be significantly (previously slightly) higher than in 2020. The guidance is based on the assumption that there are no major negative changes in the pandemic situation, currency exchange rates or component availability. According to the company's short comment, the increase in the guidance reflects the improved visibility related to the customers' forecasts and the company's own assessments of the business development. Demand for Incap's customer portfolio was strong throughout H1, but we estimate that the order volumes of the largest customers in particular grew sharply. A similar pace seems to have continued in H2. We find this to be reassuring additional operative information and more tangible evidence of both the quality of the customer portfolio and the sustainability of the company's own relative competitive position. The raised guidance also helps to partly disperse concerns about the company's deliverability, although in the big picture global allocation of components is still more challenging than normal.

Estimate changes point northeast

With the updated guidance, we have raised our forecasts for the next few years. We now expect the company's revenue to increase by 41% to EUR 150 million this year, driven by extensively and strongly developing delivery flows. We expect adjusted EBIT to rise driven by volume growth focusing on Indian production plants, AWS project synergies and normal efficiency improvements to EUR 21.5 million. During the past two years, Incap has implemented two expansion investments at the Indian production plants. We also believe, the company is starting construction works of a new factory in India that will be the third in the country. With these investments, Incap's production capacity will strengthen significantly. Combined with a high-quality customer portfolio, the end-demands of the largest customers looking good, as well as the company's own competitiveness based on high cost efficiency and quick decision-making, we consider longer-term opportunities to be highly attractive. Against this background, we expect Incap to remain in good profitable growth in coming years.

Multiples have risen but earnings growth encourages ownership

Incap's adjusted P/E ratios for 2021 and 2022 based on our estimates are 17x and 15x, while the corresponding EV/EBITDA ratios are 12x and 10x. Absolute multiples have risen quite clearly above historical levels and the neutral multiple range we have previously estimated for the company. However, we believe that this is justified considering the lowered risk level after the AWS acquisition and the convincing earnings growth of the past few years. We therefore consider that the annual return expectation supported by earnings growth and a small dividend, as well as the acquisition funds included in the balance sheet to still encourage ownership.

Recommendation

Accumulate

(previous Accumulate)

EUR 55.00

(previous EUR 46.00)

Share price:

50.60



Key figures

	2020	2021e	2022e	2023e
Revenue	106.5	150.2	175.7	193.3
growth-%	50%	41%	17%	10%
EBIT adj.	14.6	21.5	25.8	28.8
EBIT-% adj.	13.8 %	14.3 %	14.7 %	14.9 %
Net Income	9.2	16.5	19.9	22.1
EPS (adj.)	1.87	2.94	3.46	3.83

P/E (adj.)	9.8	17.2	14.6	13.2
P/B	2.8	4.9	3.9	3.1
Dividend yield-%	0.0 %	1.2 %	1.3 %	1.4 %
EV/EBIT (adj.)	7.7	13.5	10.9	9.4
EV/EBITDA	7.1	12.2	10.2	9.0
EV/S	1.1	1.9	1.6	1.4

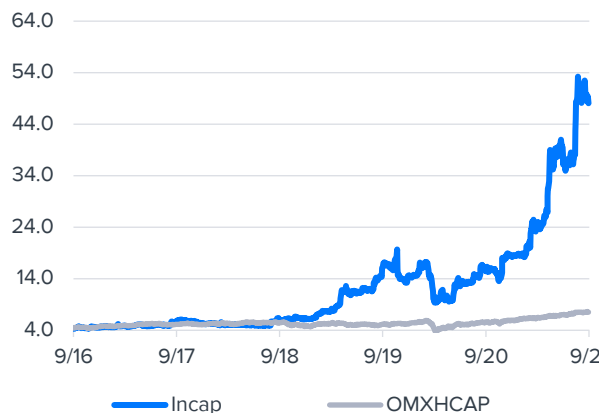
Source: Inderes

Guidance

(Improved)

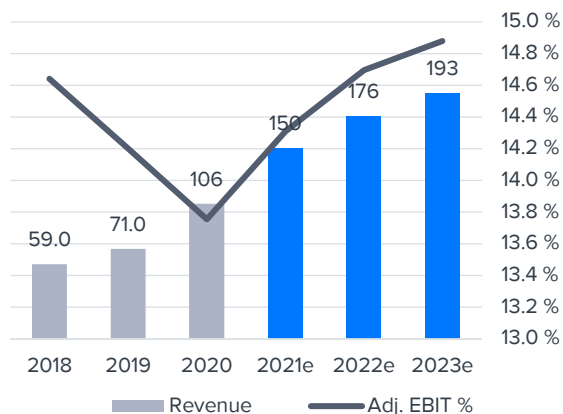
Incap estimates that its revenue, operating profit (EBIT) and adjusted operating profit (EBIT) for 2021 will be significantly higher than in 2020. The estimates are given provided that there are no major negative changes in the coronavirus pandemic situation, currency exchange rates or in component availability.

Share price



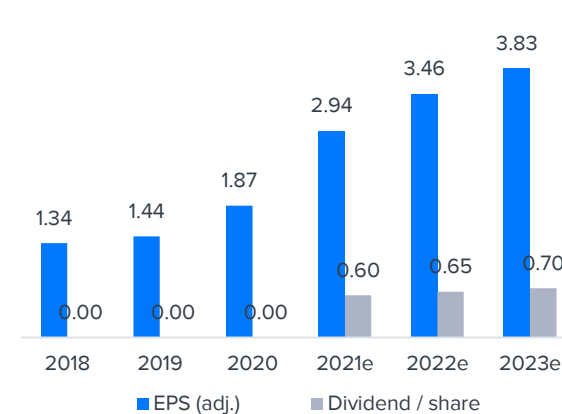
Source: Thomson Reuters

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
- Disturbances in the delivery chains

Valuation	2021e	2022e	2023e
Share price	50.60	50.60	50.60
Number of shares, millions	5.85	5.85	5.85
Market cap	296	296	296
EV	290	282	270
P/E (adj.)	17.2	14.6	13.2
P/E	17.9	14.8	13.4
P/FCF	44.8	24.4	18.6
P/B	4.9	3.9	3.1
P/S	2.0	1.7	1.5
EV/Sales	1.9	1.6	1.4
EV/EBITDA	12.2	10.2	9.0
EV/EBIT (adj.)	13.5	10.9	9.4
Payout ratio (%)	21.2 %	19.1 %	18.5 %
Dividend yield-%	1.2 %	1.3 %	1.4 %

Source: Inderes

Estimate revisions

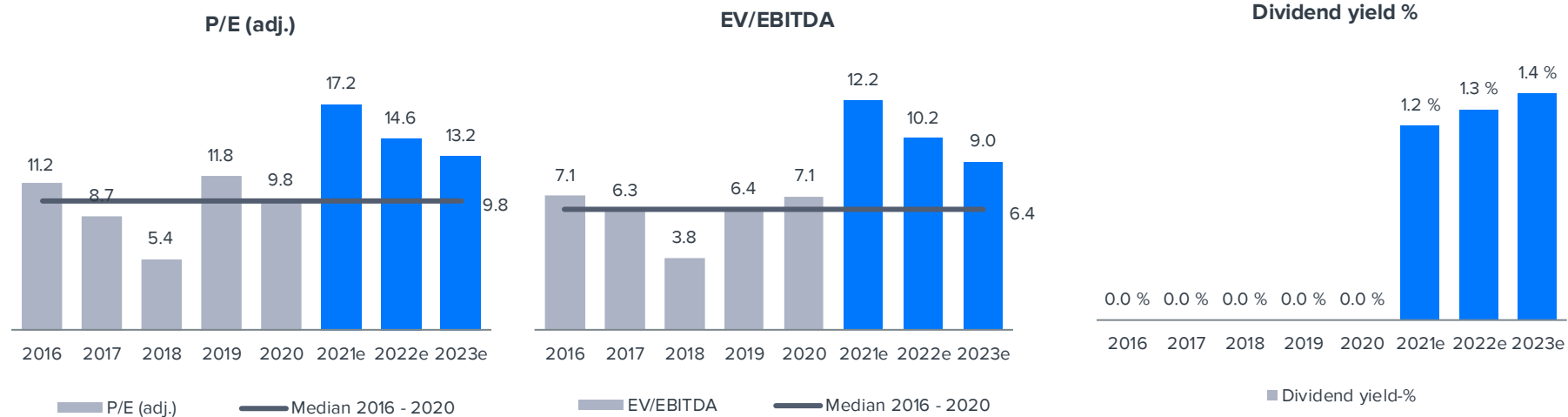
Estimate revisions	2021e	2021e	Change	2022e	2022e	Change	2023e	2023e	Change
MEUR / EUR	Old	New	%	Old	New	%	Old	New	%
Revenue	143	150	5 %	163	176	8 %	177	193	9 %
EBITDA	22.5	23.8	6 %	26.6	28.6	8 %	29.0	31.7	9 %
EBIT (excl. NRIs)	20.2	21.5	6 %	23.8	25.8	8 %	26.1	28.8	10 %
EBIT	19.4	20.7	7 %	23.4	25.4	9 %	25.8	28.5	10 %
EPS (reported)	2.61	2.83	8 %	3.13	3.41	9 %	3.43	3.78	10 %
DPS	0.60	0.60	0 %	0.65	0.65	0 %	0.70	0.70	0 %

Source: Inderes

Valuation table

Valuation	2016	2017	2018	2019	2020	2021e	2022e	2023e	2024e
Share price	5.46	6.19	7.26	16.9	18.5	50.60	50.60	50.60	50.60
Number of shares, millions	4.37	4.37	4.37	4.37	5.82	5.85	5.85	5.85	5.85
Market cap	24	27	32	74	107	296	296	296	296
EV	29	31	35	73	113	290	282	270	256
P/E (adj.)	11.2	8.7	5.4	11.8	9.8	17.2	14.6	13.2	12.3
P/E	11.2	8.7	5.4	11.8	11.6	17.9	14.8	13.4	12.4
P/FCF	neg.	11.7	13.7	11.4	neg.	44.8	24.4	18.6	15.8
P/B	3.0	2.6	2.0	3.4	2.8	4.9	3.9	3.1	2.6
P/S	0.6	0.6	0.5	1.0	1.0	2.0	1.7	1.5	1.4
EV/Sales	0.8	0.6	0.6	1.0	1.1	1.9	1.6	1.4	1.2
EV/EBITDA	7.1	6.3	3.8	6.4	7.1	12.2	10.2	9.0	7.6
EV/EBIT (adj.)	7.8	6.9	4.0	7.3	7.7	13.5	10.9	9.4	8.2
Payout ratio (%)	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	21.2 %	19.1 %	18.5 %	18.4 %
Dividend yield-%	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	1.2 %	1.3 %	1.4 %	1.5 %

Source: Inderes



Peer group valuation

Peer group valuation Company	Share price	Market cap MEUR	EV MEUR	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%		P/B
				2021e	2022e	2021e	2022e	2021e	2022e	2021e	2022e	2021e	2022e	2021e
Data Modul AG	59.00	205	194	6.5	5.3	5.8	4.9	0.6	0.6	10.8	9.7			1.8
Hanza Holding AB	30.50	101	143	12.6	9.0	5.0	4.3	0.4	0.4	13.9	12.8	1.0	2.3	1.1
Kitron ASA	18.80	331	398	14.2	11.9	10.7	9.2	1.0	0.9	15.6	13.6	4.2	5.0	3.7
Lacroix Group SA	43.30	208	258	11.0	9.5	6.6	5.9	0.4	0.4	14.7	13.4	2.2	2.6	1.4
Scanfil Oyj	8.04	546	571	12.6	11.1	9.2	8.5	0.8	0.8	15.9	14.7	2.2	2.4	2.6
Valuetronics Holdings Ltd	0.59	161	38		2.4		1.8		0.2		15.2		4.2	
Hana Microelectronics PCL	75.25	1559	1325	21.0	16.9	13.2	11.7	2.1	1.8	24.9	21.4	2.5	2.8	2.6
SVI PCL	4.82	269	306							17.9	15.5	2.3	2.8	2.4
TT electronics PLC	277.00	578	705	15.9	13.0	11.0	9.3	1.2	1.1	19.0	15.8	2.0	2.3	1.7
Incap (Inderes)	50.60	296	290	13.5	10.9	12.2	10.2	1.9	1.6	17.2	14.6	1.2	1.3	4.9
Average				16.9	10.3	8.9	7.0	0.9	0.7	23.1	14.8	2.3	2.7	2.0
Median				14.2	11.3	9.2	7.5	0.8	0.7	16.9	14.7	2.2	2.5	2.0
Diff-% to median				-5%	-4%	33%	35%	136%	140%	2%	-1%	-46%	-49%	148%

Source: Thomson Reuters / Inderes

NB: The market cap Inderes uses does not consider own shares held by the company

Income statement

Income statement	2019	Q1'20	Q2'20	Q3'20	Q4'20	2020	Q1'21	Q2'21	Q3'21e	Q4'21e	2021e	2022e	2023e	2024e
Revenue	71.0	24.3	22.6	28.1	31.5	106	37.7	33.6	37.9	41.0	150	176	193	209
Incap	71.0	24.3	22.6	28.1	31.5	106	37.7	33.6	37.9	41.0	150	176	193	209
EBITDA	11.5	2.9	3.0	3.8	6.3	15.9	6.3	5.1	5.9	6.6	23.8	28.6	31.7	34.2
Depreciation	-1.4	-0.7	-0.9	-0.5	-1.2	-3.3	-0.8	-0.8	-0.8	-0.8	-3.2	-3.2	-3.2	-3.2
EBIT (excl. NRI)	10.1	2.7	2.9	3.6	5.5	14.6	5.7	4.5	5.3	6.0	21.5	25.8	28.8	31.2
EBIT	10.1	2.2	2.1	3.3	5.1	12.6	5.5	4.3	5.1	5.8	20.7	25.4	28.5	31.0
Net financial items	-0.4	-0.2	-0.4	-0.3	-0.2	-1.1	-0.1	-0.2	-0.2	0.2	-0.3	-0.5	-0.5	-0.5
PTP	9.7	2.0	1.7	3.0	4.9	11.5	5.4	4.1	4.9	5.9	20.3	24.9	28.0	30.6
Taxes	-3.4	-0.5	-0.5	-0.6	-0.7	-2.3	-0.8	-0.9	-1.0	-1.2	-3.8	-5.0	-5.9	-6.7
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	0.0	0.0
Net earnings	6.3	1.5	1.2	2.4	4.2	9.2	4.6	3.2	4.0	4.7	16.5	19.9	22.1	23.8
EPS (adj.)	1.44	0.33	0.31	0.45	0.78	1.87	0.82	0.58	0.70	0.84	2.94	3.46	3.82	4.10
EPS (rep.)	1.44	0.26	0.20	0.41	0.72	1.59	0.79	0.55	0.68	0.81	2.83	3.41	3.78	4.07
Key figures	2019	Q1'20	Q2'20	Q3'20	Q4'20	2020	Q1'21	Q2'21	Q3'21e	Q4'21e	2021e	2022e	2023e	2024e
Revenue growth-%	20.5 %	31.4 %	20.7 %	59.6 %	94.5 %	49.9 %	55.1 %	48.9 %	35.0 %	29.8 %	41.0 %	17.0 %	10.0 %	8.0 %
Adjusted EBIT growth-%	16.8 %	-4.6 %	-2.3 %	60.1 %	161.8 %	45.2 %	112.2 %	57.4 %	49.0 %	7.8 %	46.7 %	20.2 %	11.4 %	8.5 %
EBITDA-%	16.1 %	11.7 %	13.2 %	13.4 %	20.0 %	15.0 %	16.6 %	15.2 %	15.5 %	16.1 %	15.9 %	16.3 %	16.4 %	16.4 %
Adjusted EBIT-%	14.2 %	11.1 %	12.6 %	12.7 %	17.6 %	13.8 %	15.2 %	13.4 %	14.0 %	14.6 %	14.3 %	14.7 %	14.9 %	14.9 %
Net earnings-%	8.8 %	6.3 %	5.2 %	8.5 %	13.2 %	8.7 %	12.2 %	9.6 %	10.4 %	11.6 %	11.0 %	11.3 %	11.4 %	11.4 %

Source: Inderes

Balance sheet

Assets	2019	2020	2021e	2022e	2023e
Non-current assets	8.6	24.1	25.7	28.1	29.7
Goodwill	0.9	7.1	7.1	7.1	7.1
Intangible assets	0.0	4.6	4.1	3.3	3.1
Tangible assets	7.3	11.4	14.3	17.5	19.3
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	0.4	0.2	0.2	0.2	0.2
Deferred tax assets	0.0	0.7	0.0	0.0	0.0
Current assets	27.9	52.3	68.2	83.4	100.4
Inventories	10.8	24.2	24.0	28.6	31.9
Other current assets	0.0	0.0	0.0	0.0	0.0
Receivables	10.4	24.2	27.4	32.5	36.7
Cash and equivalents	6.7	3.9	16.8	22.4	31.6
Balance sheet total	36.5	76.4	93.9	111.6	130

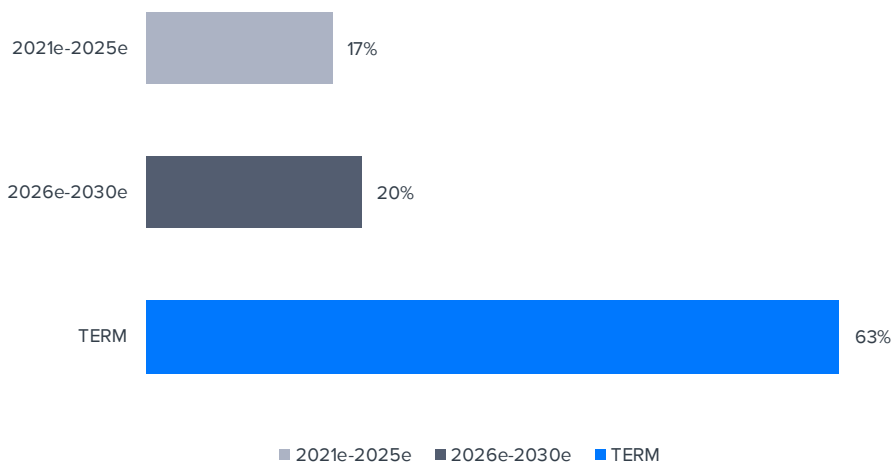
Source: Inderes

Liabilities & equity	2019	2020	2021e	2022e	2023e
Equity	21.9	38.5	60.4	76.8	95.1
Share capital	1.0	1.0	1.0	1.0	1.0
Retained earnings	11.5	20.7	37.3	53.7	72.0
Hybrid bonds	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	-1.7	-4.6	0.0	0.0	0.0
Other equity	11.0	21.4	22.1	22.1	22.1
Minorities	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	4.0	8.6	6.8	5.3	3.8
Deferred tax liabilities	0.0	0.9	0.0	0.0	0.0
Provisions	0.0	0.0	0.0	0.0	0.0
Long term debt	4.0	6.1	6.8	5.3	3.8
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	0.0	1.6	0.0	0.0	0.0
Current liabilities	10.6	29.2	26.7	29.5	31.0
Short term debt	2.2	3.7	4.2	3.1	2.0
Payables	8.4	25.6	22.5	26.4	29.0
Other current liabilities	0.0	0.0	0.0	0.0	0.0
Balance sheet total	36.5	76.4	93.9	111.6	129.9

DCF calculation

DCF model	2020	2021e	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	TERM
EBIT (operating profit)	12.6	20.7	25.4	28.5	31.0	31.0	32.8	33.1	34.4	34.8	35.6	
+ Depreciation	3.3	3.2	2.3	1.7	2.6	2.5	3.2	3.2	3.2	3.3	3.3	
- Paid taxes	-2.1	-3.9	-5.0	-5.9	-6.7	-6.8	-7.2	-7.3	-7.6	-7.7	-7.8	
- Tax, financial expenses	-0.2	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	
+ 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	-10.0	-6.1	-5.8	-4.9	-4.7	-3.2	-2.9	-2.3	-2.1	-1.6	-1.3	
Operating cash flow	3.6	13.7	16.9	19.3	22.1	23.4	26.0	26.8	28.0	28.7	29.7	
+ Change in other long-term liabilities	1.6	-1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-18.1	-5.5	-4.7	-3.3	-3.3	-3.3	-3.3	-3.3	-3.3	-3.3	-3.3	
Free operating cash flow	-12.9	6.6	12.1	15.9	18.7	20.1	22.7	23.5	24.7	25.4	26.4	
+/- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	-12.9	6.6	12.1	15.9	18.7	20.1	22.7	23.5	24.7	25.4	26.4	459
Discounted FCFF		6.5	11.0	13.3	14.5	14.4	15.0	14.3	13.9	13.3	12.8	222
Sum of FCFF present value		351	344	333	320	306	291	276	262	248	235	222
Enterprise value DCF		351										
- Interesting bearing debt		-9.8										
+ Cash and cash equivalents		3.9										
-Minorities		0.0										
-Dividend/capital return		0.0										
Equity value DCF		345										
Equity value DCF per share		59.0										

Cash flow distribution



Wacc

Tax-% (WACC)	25.0 %
Target debt ratio (D/(D+E))	20.0 %
Cost of debt	5.0 %
Equity Beta	1.25
Market risk premium	4.75%
Liquidity premium	1.30%
Risk free interest rate	2.0 %
Cost of equity	9.2 %
Weighted average cost of capital (WACC)	8.1 %

Source: Inderes

Summary

Income statement	2018	2019	2020	2021e	2022e	Per share data	2018	2019	2020	2021e	2022e
Revenue	59.0	71.0	106.5	150.2	175.7	EPS (reported)	1.34	1.44	1.59	2.83	3.41
EBITDA	9.1	11.5	15.9	23.8	27.7	EPS (adj.)	1.34	1.44	1.87	2.94	3.46
EBIT	8.6	10.1	12.6	20.7	25.4	OCF / share	0.81	1.74	0.61	2.35	2.88
PTP	7.9	9.7	11.5	20.3	24.9	FCF / share	0.53	1.48	-2.21	1.13	2.08
Net Income	5.8	6.3	9.2	16.5	19.9	Book value / share	3.61	5.01	6.62	10.32	13.13
Extraordinary items	0.0	0.0	-2.1	-0.8	-0.4	Dividend / share	0.00	0.00	0.00	0.60	0.65
Balance sheet	2018	2019	2020	2021e	2022e	Growth and profitability	2018	2019	2020	2021e	2022e
Balance sheet total	32.1	36.5	76.4	93.9	111.6	Revenue growth-%	21%	20%	50%	41%	17%
Equity capital	15.8	21.9	38.5	60.4	76.8	EBITDA growth-%	84%	25%	39%	50%	16%
Goodwill	0.9	0.9	7.1	7.1	7.1	EBIT (adj.) growth-%	91%	17%	45%	47%	20%
Net debt	3.1	-0.5	5.9	-5.8	-14.0	EPS (adj.) growth-%	88%	7%	30%	57%	18%
Cash flow	2018	2019	2020	2021e	2022e	EBITDA-%	16%	16%	15%	16%	16%
EBITDA	9.1	11.5	15.9	23.8	27.7	EBIT (adj.)-%	15%	14%	14%	14%	15%
Change in working capital	-3.3	-1.3	-10.0	-6.1	-5.8	EBIT-%	15%	14%	12%	14%	14%
Operating cash flow	3.5	7.6	3.6	13.7	16.9	ROE-%	45%	33%	31%	33%	29%
CAPEX	-1.2	-1.1	-18.1	-5.5	-4.7	ROI-%	44%	41%	33%	35%	32%
Free cash flow	2.3	6.5	-12.9	6.6	12.1	Equity ratio	49%	60%	50%	64%	69%
						Gearing	20%	-2%	15%	-10%	-18%
Valuation multiples	2018	2019	2020	2021e	2022e						
EV/S	0.6	1.0	1.1	1.9	1.6						
EV/EBITDA (adj.)	3.8	6.4	7.1	12.2	10.2						
EV/EBIT (adj.)	4.0	7.3	7.7	13.5	10.9						
P/E (adj.)	5.4	11.8	9.8	17.2	14.6						
P/B	2.0	3.4	2.8	4.9	3.9						
Dividend-%	0.0 %	0.0 %	0.0 %	1.2 %	1.3 %						

Source: Inderes

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Recommendation history (>12 mo)

Date	Recommendation	Target price	Share price
07-11-19	Reduce	18.50 €	18.85 €
24-01-20	Accumulate	21.00 €	18.95 €
27-02-20	Accumulate	20.00 €	17.45 €
24-03-20	Accumulate	12.50 €	11.00 €
25-03-20	Accumulate	12.50 €	11.65 €
21-04-20	Reduce	12.00 €	12.45 €
12-05-20	Accumulate	13.00 €	12.00 €
25-05-20	Accumulate	14.00 €	12.85 €
27-08-20	Accumulate	20.00 €	18.55 €
17-09-20	Accumulate	20.00 €	18.00 €
27-10-20	Accumulate	17.50 €	15.10 €
12-11-20	Accumulate	19.00 €	17.00 €
26-11-20	Accumulate	20.00 €	18.00 €
25-02-21	Accumulate	27.00 €	24.40 €
28-04-21	Accumulate	38.00 €	35.25 €
29-07-21	Accumulate	46.00 €	42.90 €
16-09-21	Accumulate	55.00 €	50.60 €



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