

Exel Composites

Company report

8/21/2023



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✓ Inderes corporate customer

This report is a summary translation of the report “Vauhtia haetaan aikaisempia odotuksiamme alempaa” published on 8/21/2023 at 8:25 am EEST

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Picking up speed below our earlier expectations

Exel's Q2 results were well in line with our expectations, but the overall picture of the report turned disappointing with a soft order intake. We expect momentum to come from lower levels than previously expected and have lowered our growth and earnings estimates for the coming years due to the uncertainty surrounding the rate and timing of the recovery in demand. Expectations for the stock are not high in light of the historical earnings level, but with increased uncertainty about earnings growth prospects, the valuation is not attractive for further purchases in the short term. Hence, we lower Exel's recommendation to Reduce (was Accumulate) and the target price to EUR 3.5 (was EUR 4.5).

Q2 relatively well in line with our expectations

In Q2, Exel's revenue declined by as much as 33% from the strong comparison period to EUR 25.4 million, which was below our expectations. According to the company, the decline was due to a general slowdown in several customer markets, a reduction in customer inventory levels and continued weak demand for wind power equipment. The decline in revenue was quite broad-based across customer industries, but Wind Power in particular continued its sluggish performance (-65%) during the quarter, although its revenue recovered slightly from Q1. The only growth among client industries was in the smaller Defense sector. Exel's adjusted EBIT was marginally positive, slightly above our negative forecast. Given the revenue miss, this means that the company was able to manage costs better than expected. On the lower lines, financial expenses and taxes were around the level we expected, resulting in reported EPS in line with our estimates.

We clearly lowered our estimates for the current year, cuts to estimates for the coming years too

The company reiterated its guidance for the current year expecting revenue to decrease year-on-year (2022: 137 MEUR) and adjusted EBIT to decrease significantly in 2023 compared to 2022 (8.0 MEUR). However, the company reiterated its expectations for improved demand in H2'23 and beyond, but said near-term visibility remains weak (including customer destocking and global economic uncertainty). In light of the sluggish order intake (26 MEUR), we clearly lowered our estimates for the current year and now expect revenue to reach EUR 109 million (was 123 MEUR) and adjusted EBIT to be EUR 2.0 million (was 4.6 MEUR). Given this, we expect that the company will have to lower its revenue guidance for the rest of the year. Overall, we expect momentum to come from lower levels than previously expected, leading to a clear downward revision of our revenue and earnings estimates for the coming years. In principle, we expect Wind Power to gradually recover from current sluggish levels, but we believe that a corresponding pick-up in overall demand to the levels of recent years seems unlikely in the short term, given the cooler outlook for construction and industry. However, our expectations are relatively low as demand picks up.

Expectations low compared to history, but uncertainty about the outlook does not call for further purchases

With our updated estimates, earnings-based multiples for the current year are very high and the overall 2024 multiples are also challenging (P/E 23x, EV/EBIT 16x, EV/EBITDA 7x). However, the average actualized earnings over the last five years give a P/E ratio of around 9x at current prices, which reflects low expectations for the stock in relation to history. We believe that a return to normal earnings levels is quite likely as the demand environment recovers. However, with a foggy outlook for a more comprehensive recovery in demand, the stock is not attractive for further purchases in the short term, given the high level of debt on the balance sheet and the lack of concrete support for the balance sheet valuation (P/B 2023e: 1.6x).

Recommendation

Reduce

(previous Accumulate)

EUR 3.50

(previous EUR 4.50)

Share price:

EUR 3.38



Key figures

	2022	2023e	2024e	2025e
Revenue	137	109	123	136
growth-%	2%	-21%	13%	11%
EBIT adj.	8.0	2.0	4.6	8.0
EBIT-% adj.	5.9 %	1.8 %	3.7 %	5.8 %
Net Income	2.3	-2.2	1.7	4.2
EPS (adj.)	0.61	-0.13	0.14	0.35

P/E (adj.)	8.8	neg.	23.7	9.5
P/B	2.2	1.6	1.5	1.3
Dividend yield-%	3.7 %	1.5 %	1.5 %	3.0 %
EV/EBIT (adj.)	12.0	37.3	16.4	9.2
EV/EBITDA	6.7	9.9	6.6	5.0
EV/S	0.7	0.7	0.6	0.5

Source: Inderes

Guidance

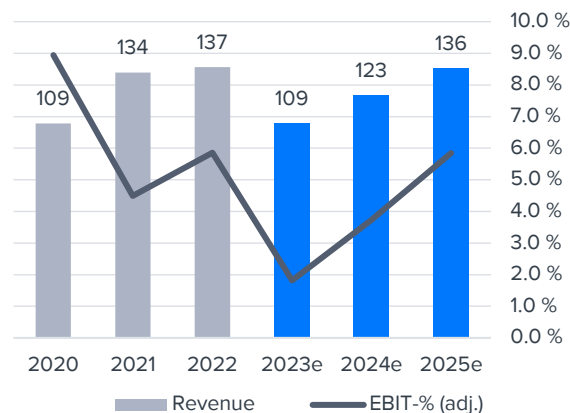
(Unchanged)

Exel Composites expects that revenue will decrease year-on-year (2022: 137 MEUR) and adjusted operating profit will decrease significantly in 2023 compared to 2022 (2022: 8.0 MEUR).

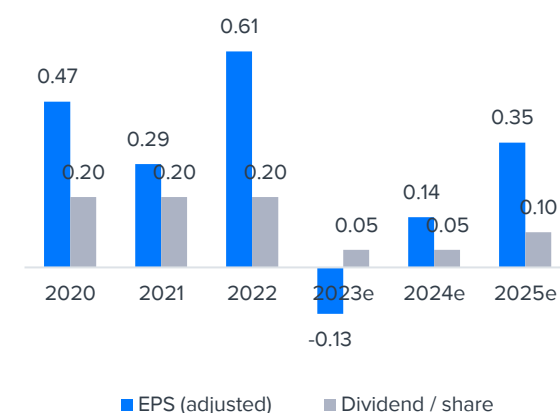
Share price



Revenue and EBIT-%



EPS and dividend



Value drivers

- Growing composite market creates a good base for organic growth
- Room for improvement in profitability relative to the full potential
- Realizing the potential of the global structure of production and relative economies of scale
- Acquisitions that create value



Risk factors

- Somewhat cyclical and volatile demand
- With a chronically short absolute order book, business opportunities can weaken relatively quickly
- Relatively fixed cost structure
- Concentrated customer portfolio
- The amount of the debt in the balance sheet limits leeway
- Margin pressures still caused by material costs in the short term

Valuation	2023e	2024e	2025e
Share price	3.38	3.38	3.38
Number of shares, millions	11.9	11.9	11.9
Market cap	40	40	40
EV	74	75	74
P/E (adj.)	neg.	23.7	9.5
P/E	neg.	23.7	9.5
P/FCF	17.4	49.6	10.6
P/B	1.6	1.5	1.3
P/S	0.4	0.3	0.3
EV/Sales	0.7	0.6	0.5
EV/EBITDA	9.9	6.6	5.0
EV/EBIT (adj.)	37.3	16.4	9.2
Payout ratio (%)	neg.	35.0 %	28.2 %
Dividend yield-%	1.5 %	1.5 %	3.0 %

Source: Inderes

Estimates and estimate revision

Estimates MEUR / EUR	Q2'22 Comparison	Q2'23 Actualized	Q2'23e Inderes	Q2'23e Consensus	Consensus Low High		Difference (%) Act. vs. inderes	2023e Inderes
Revenue	38.1	25.4	27.8				-9%	109
EBIT (adj.)	3.1	0.1	-0.2					2.0
EBIT	3.0	-0.2	-0.2					1.4
EPS (reported)	0.34	-0.08	-0.08					-0.13
Revenue growth-%	13.5 %	-33.3 %	-27.0 %				-6.3 pp	-20.6 %
EBIT-% (adj.)	8.2 %	0.3 %	-0.8 %				1 pp	1.8 %

Lähde: Inderes

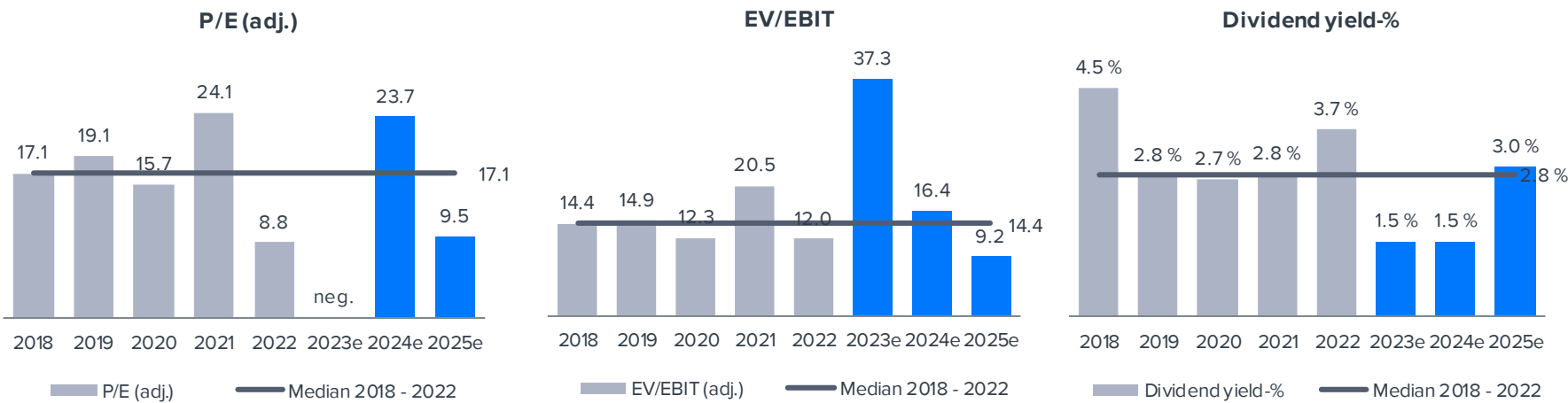
Estimate revisions MEUR / EUR	2023e Old	2023e New	Change %	2024e Old	2024e New	Change %	2025e Old	2025e New	Change %
Revenue	123	109	-12%	137	123	-10%	148	136	-8%
EBITDA	11.8	8.3	-30%	14.5	11.5	-21%	16.6	14.7	-11%
EBIT (exc. NRIs)	4.6	2.0	-57%	7.8	4.6	-41%	10.1	8.0	-21%
EBIT	4.3	1.4	-68%	7.8	4.6	-41%	10.1	8.0	-21%
PTP	1.6	-1.3	-177%	5.8	2.6	-55%	8.3	6.2	-25%
EPS (excl. NRIs)	0.02	-0.13	-729%	0.34	0.14	-58%	0.48	0.35	-26%
DPS	0.05	0.05	0%	0.15	0.05	-67%	0.20	0.10	-50%

Source: Inderes

Valuation table

Valuation	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e
Share price	4.00	6.48	7.38	7.10	5.42	3.38	3.38	3.38	3.38
Number of shares, millions	11.9	11.9	11.9	11.9	11.9	11.9	11.9	11.9	11.9
Market cap	48	77	88	84	64	40	40	40	40
EV	72	107	119	124	97	74	75	74	71
P/E (adj.)	17.1	19.1	15.7	24.1	8.8	neg.	23.7	9.5	7.7
P/E	>100	32.0	16.4	50.9	28.1	neg.	23.7	9.5	7.7
P/FCF	neg.	20.1	24.2	neg.	7.3	17.4	49.6	10.6	7.3
P/B	1.8	2.9	3.0	2.8	2.2	1.6	1.5	1.3	1.2
P/S	0.5	0.7	0.8	0.6	0.5	0.4	0.3	0.3	0.3
EV/Sales	0.7	1.0	1.1	0.9	0.7	0.7	0.6	0.5	0.5
EV/EBITDA	7.8	10.0	7.8	10.3	6.7	9.9	6.6	5.0	4.4
EV/EBIT (adj.)	14.4	14.9	12.3	20.5	12.0	37.3	16.4	9.2	7.6
Payout ratio (%)	554.7 %	88.8 %	44.3 %	143.3 %	103.8 %	neg.	35.0 %	28.2 %	22.8 %
Dividend yield-%	4.5 %	2.8 %	2.7 %	2.8 %	3.7 %	1.5 %	1.5 %	3.0 %	3.0 %

Source: Inderes



Income statement

Income statement	2021	Q1'22	Q2'22	Q3'22	Q4'22	2022	Q1'23	Q2'23	Q3'23e	Q4'23e	2023e	2024e	2025e	2026e
Revenue	134	34.2	38.1	33.8	31.0	137	28.8	25.4	26.4	28.2	109	123	136	143
Group	134	34.2	38.1	33.8	31.0	137	28.8	25.4	26.4	28.2	109	123	136	143
EBITDA	11.9	1.8	4.8	3.4	0.2	10.1	1.5	1.5	2.2	3.2	8.3	11.5	14.7	15.9
Depreciation	-8.2	-1.7	-1.8	-1.7	-1.9	-7.1	-1.8	-1.7	-1.7	-1.7	-6.9	-6.9	-6.8	-6.7
EBIT (excl. NRI)	6.0	2.2	3.1	1.8	0.9	8.0	0.0	0.1	0.5	1.5	2.0	4.6	8.0	9.3
EBIT	3.7	0.0	3.0	1.7	-1.7	3.0	-0.3	-0.2	0.5	1.5	1.4	4.6	8.0	9.3
Net financial items	0.4	0.5	1.9	1.5	-3.4	0.6	-1.2	-0.4	-0.5	-0.5	-2.6	-2.0	-1.8	-1.6
PTP	4.2	0.5	4.9	3.2	-5.1	3.6	-1.5	-0.7	0.0	1.0	-1.3	2.6	6.2	7.7
Taxes	-2.5	-0.6	-0.9	-1.2	1.3	-1.5	-0.7	-0.2	0.0	-0.2	-1.1	-0.7	-1.7	-2.1
Minority interest	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.2	-0.2	-0.3	-0.4
Net earnings	1.7	0.0	4.0	2.1	-3.8	2.3	-2.1	-0.9	0.0	0.8	-2.2	1.7	4.2	5.2
EPS (adj.)	0.29	0.13	0.35	0.19	-0.05	0.61	-0.15	-0.05	0.00	0.07	-0.13	0.14	0.35	0.44
EPS (rep.)	0.14	0.00	0.34	0.18	-0.32	0.19	-0.18	-0.07	0.00	0.07	-0.18	0.14	0.35	0.44
Key figures	2021	Q1'22	Q2'22	Q3'22	Q4'22	2022	Q1'23	Q2'23	Q3'23e	Q4'23e	2023e	2024e	2025e	2026e
Revenue growth-%	23.7 %	10.3 %	13.5 %	1.2 %	-15.1 %	1.9 %	-15.7 %	-33.3 %	-22.0 %	-9.0 %	-20.6 %	13.0 %	11.0 %	5.0 %
Adjusted EBIT growth-%	-37.8 %	-11.7 %	27.1 %	1580.6 %	-9.4 %	33.0 %	-99.7 %	-97.9 %	-74.7 %	58.1 %	-75.3 %	131.6 %	73.9 %	16.3 %
EBITDA-%	8.9 %	5.2 %	12.5 %	10.1 %	0.5 %	7.4 %	5.1 %	5.8 %	8.2 %	11.2 %	7.6 %	9.3 %	10.8 %	11.1 %
Adjusted EBIT-%	4.5 %	6.4 %	8.2 %	5.4 %	3.0 %	5.9 %	0.0 %	0.3 %	1.7 %	5.1 %	1.8 %	3.7 %	5.8 %	6.5 %
Net earnings-%	1.2 %	-0.1 %	10.6 %	6.2 %	-12.2 %	1.7 %	-7.3 %	-3.5 %	0.0 %	2.8 %	-2.0 %	1.4 %	3.1 %	3.6 %

Source: Inderes

Balance sheet

Assets	2021	2022	2023e	2024e	2025e
Non-current assets	51.9	47.9	47.0	47.2	47.5
Goodwill	12.8	13.0	13.0	13.0	13.0
Intangible assets	2.8	2.2	2.2	2.3	2.3
Tangible assets	34.3	30.9	30.0	30.1	30.3
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	0.0	0.0	0.0	0.0	0.0
Deferred tax assets	1.9	1.8	1.8	1.8	1.8
Current assets	65.8	65.2	46.8	52.2	58.0
Inventories	23.9	23.4	16.9	19.0	20.5
Other current assets	0.0	1.1	0.0	0.0	0.0
Receivables	26.3	23.3	19.0	22.1	25.2
Cash and equivalents	15.6	17.4	10.9	11.1	12.3
Balance sheet total	118	113	93.8	99.4	105

Source: Inderes

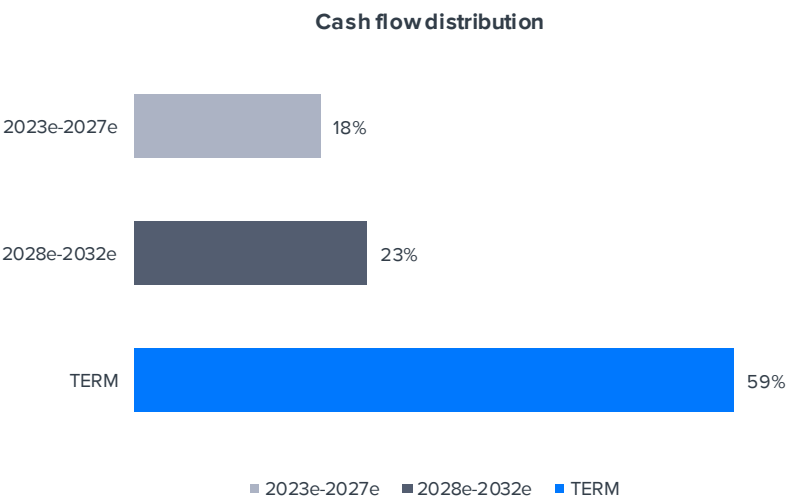
Liabilities & equity	2021	2022	2023e	2024e	2025e
Equity	31.2	30.4	25.8	26.9	30.6
Share capital	2.1	2.1	2.1	2.1	2.1
Retained earnings	21.9	21.0	16.4	17.5	21.1
Hybrid bonds	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	0.0	0.0	0.0	0.0	0.0
Other equity	6.6	6.8	6.8	6.8	6.8
Minorities	0.6	0.4	0.4	0.4	0.4
Non-current liabilities	17.1	15.4	15.4	18.0	19.9
Deferred tax liabilities	0.5	0.6	0.6	0.6	0.6
Provisions	0.0	0.0	0.0	0.0	0.0
Long term debt	15.6	13.5	13.6	16.1	18.0
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	1.0	1.2	1.2	1.2	1.2
Current liabilities	69.4	67.3	52.6	54.5	55.0
Short term debt	37.4	35.0	30.3	29.3	27.1
Payables	32.0	26.2	22.3	25.2	28.0
Other current liabilities	0.0	6.1	0.0	0.0	0.0
Balance sheet total	118	113	93.8	99.4	105

DCF calculation

DCF model	2022	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	TERM
Revenue growth-%	1.9 %	-20.6 %	13.0 %	11.0 %	5.0 %	4.0 %	3.0 %	2.5 %	2.0 %	2.0 %	2.0 %	2.0 %
EBIT-%	2.2 %	1.3 %	3.7 %	5.8 %	6.5 %	6.5 %	6.5 %	6.5 %	6.3 %	6.0 %	6.0 %	6.0 %
EBIT (operating profit)	3.0	1.4	4.6	8.0	9.3	9.7	10.0	10.2	10.1	9.8	10.0	
+ Depreciation	7.1	6.9	6.9	6.8	6.7	6.6	6.5	6.6	6.7	6.8	6.8	
- Paid taxes	-1.3	-1.1	-0.7	-1.7	-2.1	-2.2	-2.3	-2.3	-2.3	-2.2	-2.2	
- Tax, financial expenses	0.1	-0.7	-0.5	-0.5	-0.4	-0.4	-0.3	-0.3	-0.3	-0.3	-0.4	
+ 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	2.8	1.8	-2.4	-1.8	-0.9	-0.4	-0.4	-0.2	-0.4	-0.4	-0.4	
Operating cash flow	11.8	8.4	7.9	10.8	12.6	13.3	13.5	14.0	13.8	13.6	13.8	
+ Change in other long-term liabilities	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-3.2	-6.1	-7.1	-7.1	-7.1	-7.1	-7.1	-7.1	-7.2	-6.9	-6.9	
Free operating cash flow	8.8	2.3	0.8	3.8	5.5	6.3	6.4	7.0	6.6	6.8	6.9	
+/- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	8.8	2.3	0.8	3.8	5.5	6.3	6.4	7.0	6.6	6.8	6.9	103
Discounted FCFF		2.2	0.7	3.1	4.1	4.3	4.1	4.1	3.6	3.3	3.1	46.6
Sum of FCFF present value		79.3	77.1	76.4	73.3	69.1	64.8	60.7	56.7	53.1	49.8	46.6
Enterprise value DCF		79.3										
- Interest bearing debt		-48.5										
+ Cash and cash equivalents		17.4										
-Minorities		-0.7										
-Dividend/capital return		0.0										
Equity value DCF		47.5										
Equity value DCF per share		4.0										

WACC	
Tax-% (WACC)	25.0 %
Target debt ratio (D/(D+E))	25.0 %
Cost of debt	6.5 %
Equity Beta	1.30
Market risk premium	4.75%
Liquidity premium	1.50%
Risk free interest rate	2.5 %
Cost of equity	10.2 %
Weighted average cost of capital (WACC)	8.9 %

Source: Inderes



Summary

Income statement	2020	2021	2022	2023e	2024e	Per share data	2020	2021	2022	2023e	2024e
Revenue	108.6	134.4	137.0	108.8	122.9	EPS (reported)	0.45	0.14	0.19	-0.18	0.14
EBITDA	15.3	11.9	10.1	8.3	11.5	EPS (adj.)	0.47	0.29	0.61	-0.13	0.14
EBIT	9.4	3.7	3.0	1.4	4.6	OCF / share	1.26	0.41	0.99	0.70	0.66
PTP	7.1	4.2	3.6	-1.3	2.6	FCF / share	0.30	-0.61	0.74	0.19	0.07
Net Income	5.4	1.7	2.3	-2.2	1.7	Book value / share	2.43	2.57	2.52	2.13	2.23
Extraordinary items	-0.3	-2.3	-5.0	-0.6	0.0	Dividend / share	0.20	0.20	0.20	0.05	0.05
Balance sheet	2020	2021	2022	2023e	2024e	Growth and profitability	2020	2021	2022	2023e	2024e
Balance sheet total	96.8	117.7	113.1	93.8	99.4	Revenue growth-%	5%	24%	2%	-21%	13%
Equity capital	28.9	31.2	30.4	25.8	26.9	EBITDA growth-%	43%	-22%	-15%	-18%	39%
Goodwill	12.6	12.8	13.0	13.0	13.0	EBIT (adj.) growth-%	35%	-38%	33%	-75%	132%
Net debt	31.2	37.4	31.1	33.0	34.4	EPS (adj.) growth-%	38%	-38%	109%	-121%	-208%
Cash flow	2020	2021	2022	2023e	2024e	EBITDA-%	14.1 %	8.9 %	7.4 %	7.6 %	9.3 %
EBITDA	15.3	11.9	10.1	8.3	11.5	EBIT (adj.)-%	8.9 %	4.5 %	5.9 %	1.8 %	3.7 %
Change in working capital	2.4	-4.8	2.8	1.8	-2.4	EBIT-%	8.7 %	2.8 %	2.2 %	1.3 %	3.7 %
Operating cash flow	14.9	4.8	11.8	8.4	7.9	ROE-%	19.5 %	5.6 %	7.6 %	-7.8 %	6.5 %
CAPEX	-11.7	-12.2	-3.2	-6.1	-7.1	ROI-%	13.9 %	4.8 %	3.7 %	1.9 %	6.5 %
Free cash flow	3.6	-7.2	8.8	2.3	0.8	Equity ratio	29.8 %	26.5 %	26.9 %	27.5 %	27.1 %
						Gearing	107.9 %	119.9 %	102.4 %	127.6 %	127.7 %
Valuation multiples	2020	2021	2022	2023e	2024e						
EV/S	1.1	0.9	0.7	0.7	0.6						
EV/EBITDA (adj.)	7.8	10.3	6.7	9.9	6.6						
EV/EBIT (adj.)	12.3	20.5	12.0	37.3	16.4						
P/E (adj.)	15.7	24.1	8.8	neg.	23.7						
P/B	3.0	2.8	2.2	1.6	1.5						
Dividend-%	2.7 %	2.8 %	3.7 %	1.5 %	1.5 %						

Source: Inderes

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Recommendation history (>12 mo)

Date	Recommendation	Target	Share price
2/19/2021	Accumulate	9.20 €	8.76 €
5/2/2021	Accumulate	11.50 €	10.88 €
7/21/2021	Accumulate	11.50 €	10.32 €
9/2/2021	Accumulate	11.50 €	9.95 €
9/17/2021	Accumulate	9.50 €	8.59 €
11/5/2021	Accumulate	8.40 €	7.52 €
2/16/2022	Reduce	7.50 €	7.15 €
5/2/2022	Accumulate	7.00 €	6.30 €
<i>Analyytikko vaihtuu</i>			
7/21/2022	Accumulate	7.00 €	6.00 €
9/28/2022	Accumulate	6.00 €	5.30 €
11/4/2022	Accumulate	6.00 €	5.20 €
2/15/2023	Accumulate	6.00 €	5.32 €
2/20/2023	Accumulate	6.00 €	5.10 €
5/3/2023	Accumulate	4.50 €	4.05 €
8/21/2023	Reduce	3.50 €	3.38 €



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