Sitowise

Company report

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This report is a summary translation of the report "Kauas tulokset karkaavat" published on 8/13/2024 at 7:22 pm EEST

Results on a runaway train

We lower Sitowise's target price to EUR 2.50 (was EUR 2.70) and reiterate our Reduce recommendation after the company's Q2 result. Sitowise's challenges are partly market-driven, but attention is also increasingly turning to the company's own performance, particularly in view of the ongoing challenges in Sweden. The weak result and the prolonged market turnaround have also put a strain on the company's financial situation. Given the risks to the business and the uncertain turnaround, we now see the stock's risk/reward ratio as weak.

Q2 result weak in line with preliminary data

Sitowise's revenue decreased by 10% to 50.9 MEUR in Q2 (Q2'23: 56.5 MEUR), continuing the downward trend that started last year. Organic revenue was down by as much as 13% in the quarter. Due to weak revenue, low utilization rates and the challenges in Sweden, the result was also significantly down year-on-year. Adjusted EBITA declined to 2.6 MEUR in Q2 (Q2'23: 4.5 MEUR) and the margin decreased to 5.0% (Q2'23: 8.0%). The profitability is poor, considering that the performance was supported by one working day more than in the comparison period (positive impact of around +0.8 MEUR). The order book was down 7.5% year-on-year during the quarter at 162 MEUR, reflecting the still weaker outlook, especially for the building construction market in Finland and Sweden.

Forecasts for the next few years down by around 10%

Due to the company's challenges in Sweden and the prolonged market softness, we lowered our operating profit forecasts for the coming years by around 5-10%. In 2024, Sitowise expects a decrease in revenue (2023: 211 MEUR) and that its adjusted EBITA margin will be below the level of 2023 (2023: 8.1%). In 2024, we now expect revenue to decrease by 7% to 195 MEUR and adjusted EBITA to decrease to 13.4 MEUR (2023: 17.0 MEUR), corresponding to a margin of 6.9%. In H2, the increase in the number of working days should support the company's growth and earnings, but earnings will be low due to market weakness, low utilization rates, and cost pressures and challenges. As the market eventually turns and utilization rates improve, we expect earnings levels to rise towards their normalized level in 2025-26. We estimate that current profitability is below Sitowise's potential (EBITA-%: +10%), but reaching this level is increasingly out of reach and will require tackling challenges in Sweden and stronger market traction. In our view, the risks to the business from growth challenges and the integration of acquisitions have partially materialized, adding to the uncertainty surrounding the company's potential.

High valuation relative to risks

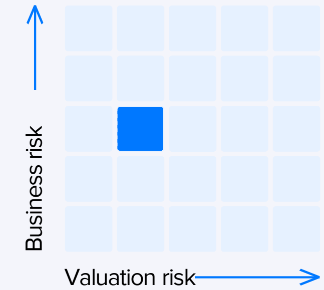
Sitowise's valuation in 2024 rises to a high level due to its weak earnings performance, and we are already focusing on the valuation for the next few years. If the profitability turnaround and market recovery materialize as expected, the multiples for the next few years will fall significantly (2025-26e avg.: EV/EBITDA: 6x, P/E: 11x), reflecting the company's potential. However, uncertainty about the pace of market recovery keeps forecast risks still elevated, which is why we are now leaning towards the lower end of our acceptable valuation range (previously mid-range). Based on the 2025-26 estimates and the valuation range we accept (EV/EBITDA: 7x, P/E: 12x), the stock would not have any significant upside. Even the dividend yield does not support the expected return in the short term, as we have also reduced the dividend for 2024 to zero. Sitowise is now trading at a discount (15%) to the 2025 valuation of its peers, but even this would not signal significant upside. The DCF is higher than the share price (EUR 3.2), but the current lack of earnings growth and weak market performance do not encourage relying on far-off potential.

Recommendation

Reduce
(was Reduce)

EUR 2.50
(was EUR 2.70)

Share price:
2.42



Key figures

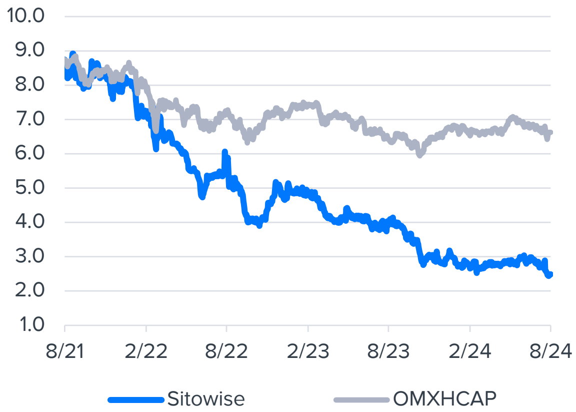
	2023	2024e	2025e	2026e
Revenue	210.9	195.4	203.6	218.8
growth-%	3%	-7%	4%	7%
EBITA adj.	17.0	13.4	16.2	19.6
EBITA-% adj.	8.1 %	6.9 %	8.0 %	9.0 %
Net Income	5.6	2.6	6.5	9.7
EPS (adj.)	0.21	0.09	0.18	0.27
P/E (adj.)	15.2	26.4	13.4	8.9
P/B	0.9	0.7	0.7	0.6
Dividend yield-%	0.0 %	0.0 %	4.1 %	5.8 %
EV/EBIT (adj.)	14.5	18.8	12.7	9.2
EV/EBITDA	8.2	8.3	6.8	5.6
EV/S	0.9	0.9	0.8	0.7

Source: Inderes

Guidance (Unchanged)

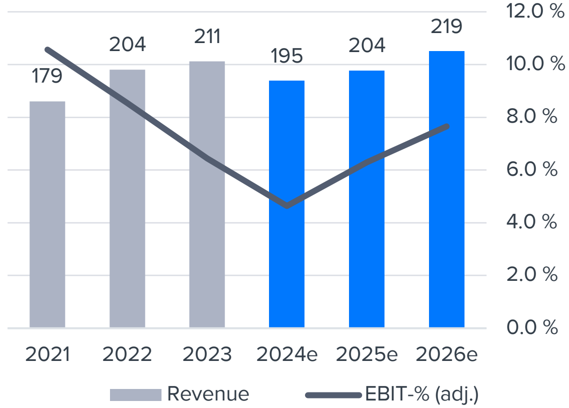
Revenue is expected to fall in 2024 (2023: 211 MEUR). The adjusted EBITA margin (%) is expected to be lower in 2024 than in 2023 (2023: 8.1%).

Share price



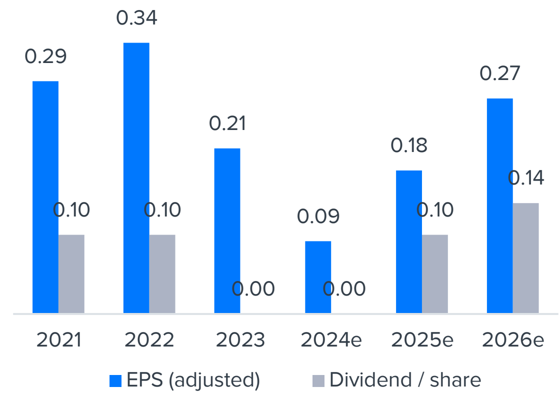
Source: Millistream Market Data AB

Revenue and EBIT-%



Source: Inderes

EPS and dividend



Source: Inderes

Value drivers

- Stronger organic growth than market growth and acquisitions
- Maintaining best-in-class profitability
- Expansion into Nordic countries
- Extending the offering
- Strong cash flow and low investment need
- Efficient and fragmented business model, as well as digitalization expertise create competitive advantage
- Increasing share of consulting and planning in construction value chain supported by megatrends
- Opportunities created by sustainable development regulation

Risk factors

- Cyclicality of the underlying construction market
- Sustainably maintaining high profitability levels
- A clear and prolonged market downturn after good years
- Challenges created by Nordic expansion and a new market
- Failure in acquisitions
- Dependency on personnel and adequacy of incentives for key personnel
- Leverage and growth financing

Valuation	2024e	2025e	2026e
Share price	2.42	2.42	2.42
Number of shares, millions	35.8	35.8	35.8
Market cap	87	87	87
EV	171	162	154
P/E (adj.)	26.4	13.4	8.9
P/B	0.7	0.7	0.6
EV/Sales	0.9	0.8	0.7
EV/EBITDA	8.3	6.8	5.6
EV/EBIT (adj.)	18.8	12.7	9.2
Payout ratio (%)	0.0 %	55.2 %	51.5 %
Dividend yield-%	0.0 %	4.1 %	5.8 %

Source: Inderes

Weak report in line with preliminary data

Revenue down as previously communicated

Sitowise's revenue decreased by 10% to 50.9 MEUR in Q2 (Q2'23: 56.5 MEUR), continuing the downward trend that started last year. Acquisitions and one more working day in the quarter had a positive impact on revenue, and organic revenue was down by as much as 13% in the quarter. The decline in revenue was due to insufficient order books in Sweden, which led to weaker-than-expected performance. In addition, the Buildings market in Finland continued to be weak.

In Sweden, revenue decreased by 12% to 10.4 MEUR and in the Buildings business by 19% to 15.5 MEUR. Revenue was also down in Digital Solutions (-9%; 7.0 MEUR) due to weak demand from the private sector. In Infra, revenue continued to grow narrowly (+1%; 18.0 MEUR) but was already distinctly negative in organic terms. Even in the best-performing business of Sitowise, growth is now clearly slowing down.

Profitability fell to very low levels

Sitowise's adjusted EBITA decreased by 40% to 2.6 MEUR in Q2 and the margin deteriorated to 5.0% (Q2'23: 8.0%). The poor profitability is due to Sweden and the project overruns, a weak market and the absence of the possibility of temporary layoffs in the unit. The weakness of the Finnish Buildings market and insufficient workload also weakened the company's utilization rate, which ultimately fell to 73.6% in Q2 (Q2'23: 76.0%). About 2/3 of the margin decline was due to weakness in Sweden and about 1/3 to weakness in Buildings, based on Sitowise's result presentation.

On the expense side, wage pressures continued and personnel costs declined less than revenue during the quarter. Amortization of intangible assets also exceeded our forecast and in the reported figures, in addition to this, one-off items related to restructuring, among others, significantly reduced the operating profit and higher-than-expected financial expenses ultimately reduced the net result to a narrow loss and earnings per share to EUR 0.00 (forecast: EUR 0.01).

Estimates	Q2'23	Q2'24	Q2'24e	Q2'24e	Consensus		Difference (%)	2024e
MEUR / EUR	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. inderes	Inderes
Revenue	56.5	50.9	50.9				0%	199.5
EBITA (adj.)	4.5	2.6	2.6				0%	13.5
EBIT	3.6	1.1	1.5				-28%	9.3
PTP	2.7	-0.2	0.4				-142%	4.3
EPS (reported)	0.06	0.00	0.01				-100%	0.10
Revenue growth-%	9.2 %	-10.0 %	-10.0 %				0 pp	-5.4 %
EBITA-% (adj.)	8.0 %	5.0 %	5.0 %				0 pp	6.8 %

Source: Inderes

Outlook nothing to write home about

Second half outlook challenging

In its recently updated guidance, Sitowise expects revenue to decline in 2024 (2023: 211 MEUR) and the adjusted EBITA margin (%) to be lower than in 2023 (2023: 8.1%). Regarding the market outlook, H2 is still expected to be challenging for almost all businesses, but especially for Sweden and Buildings. According to the company, the Buildings market has now bottomed out and there are small signs of a pick-up in business, especially in renovation construction, but no significant pick-up is yet expected for H2. The challenging market and weaker adjustment options in Sweden will also weigh on the company's utilization rate in H2, we estimate. However, Q3 has one working day more than the comparison period, which should boost the result and revenue.

Market weakness is a challenge in itself, but of greater concern are the current dwindling profitability and operational challenges. The company is seeking to remedy this situation through the "Building for future" program, the main objective of which is to adapt the Swedish and Buildings businesses to today's market opportunities. The company will also continue to optimize and streamline its organization and focus on sales and growing business areas. The actions have now been accentuated, but they seem to be similar to Sitowise's previous actions. We expect to see a clearer impact in 2025, but a bigger improvement in result will also require help from the market.

Financial situation getting interesting

Operating cash flow decreased to 5.9 MEUR in Q2 (Q2'23: 9.6 MEUR) with the poor result. The weak result and cash flow were also reflected in the company's financial indicators.

On the positive side, Sitowise's solvency ratios are at a reasonably good level (Q2 equity ratio: 44%, gearing ratio %: 47%). In addition, although cash and cash equivalents are now down to 14 MEUR (Q2'23: 16 MEUR), there are currently no cash and liquidity problems, provided that there are no major surprises and the company does not need to repay its loans prematurely, for example.

In this context, the company's debt leverage (net debt/adjusted EBITDA) was already at 4.3x in Q2 (target below 2.5x). The figure is high and already raises concerns about the company's covenants. In the company's 100 MEUR financing agreement, net debt/EBITDA is one of the covenants and the company reported that it had negotiated a temporary adjustment of the loan covenants with the financiers during the reporting period, indicating that the previous covenant limit was exceeded or at least likely to be exceeded. We believe that the covenants cannot be stretched indefinitely and that the company's result will also need to turn around in order for the financial figures to improve.

Estimate revisions

Estimate revisions 2024e-2026e

- We lowered our operating profit forecasts for the coming years by 5-10% following the company's Q2 report
- Market weakness as well as project challenges and other issues in Sweden have lowered our forecasts for the future
- We estimate that the challenges in Sweden are not just temporary and will take time to be resolved
- In the meantime, the Buildings market remains weak, while Infra growth is also slowing
- The Digital Solutions market is also more challenging than in recent years
- Utilization rates are also suffering from a weak market, which is heavily reflected in the profitability
- In addition to operational changes, the forecast decline is due to an increase in our forecasts for amortization and adjustments to intangible assets. These changes in the lower figures clearly reduced the reported figures in the bottom line
- We have also cut the 2024 dividend to zero due to the financial situation

Operational earnings drivers 2024-2026e:

- Market recovery from years of slump supports stronger growth in 2025-2026
- Stronger revenue and market support the rise in utilization rates
- Earnings leverage from growth and business model improves earnings growth opportunities
- Return to normal earnings levels expected in coming years (2026-2027)
- Market acquisition opportunities in a fragmented sector once financial and operational position is improved

Estimate revisions	2024e	2024e	Change	2025e	2025e	Change	2026e	2026e	Change
MEUR / EUR	Old	New	%	Old	New	%	Old	New	%
Revenue	199	195	-2%	209	204	-3%	222	219	-2%
EBITDA	21.2	20.5	-4%	25.5	23.8	-6%	28.8	27.3	-5%
EBITA (adj.)	13.5	13.4	0%	17.8	16.2	-9%	21.1	19.6	-7%
EBITA	13.2	12.3	-6%	17.8	16.2	-9%	21.1	19.6	-7%
PTP	4.3	3.2	-25%	10.9	8.3	-24%	15.1	12.5	-17%
EPS (excl. NRIs)	0.10	0.09	-12%	0.24	0.18	-25%	0.33	0.27	-18%
DPS	0.06	0.00	-100%	0.10	0.10	0%	0.14	0.14	0%

Risk/reward ratio not attractive at current valuation

Moderately neutral valuation for the coming years

Sitowise's valuation in 2024 rises to a high level due to its weak earnings performance, and we are already focusing on the valuation for the next few years. If the profitability turnaround and market recovery materialize as expected, the multiples for the next few years will fall significantly (2025-26e avg.: EV/EBITDA: 6x, P/E: 11x). However, uncertainty about the pace of the market recovery keeps forecast risks still elevated, which is why we are leaning towards the lower end of our acceptable valuation range.

Considering the 2025-26 estimates and the lower end of the valuation range we accept (EV/EBITDA: 7x, P/E: 12x), the stock would not have any significant upside at weighted multiples of 2025. Even the dividend yield does not support the expected return in the short term, as we have also reduced the dividend for 2024 to zero.

We estimate that the acceptable range of multiples for Sitowise's P/E is around 12-16x and EV/EBITDA 7-9x, based on historical valuation levels of peers. In the longer term, as earnings level normalizes, we would apply a range roughly between the mid- and low-end, but for now a higher valuation requires the company to show some evidence of better performance.

Peer group valuation

Compared to the peer group, Sitowise is priced at a discount. We feel the 2025 median valuations of the peers (P/E: 15x, EV/EBITDA: 9x) are already reasonably challenging. However, Sitowise is currently valued around 15% below the peers.

We believe that it would be warranted for Sitowise to be priced at least at peer level based on its combination of historical profitability and future growth potential, but recent performance has lowered our acceptable level to a 5% discount. However, due to the challenging valuation of the peer group and the uncertainty of peer forecasts, we rely on peers with little weight in our valuation.

DCF valuation

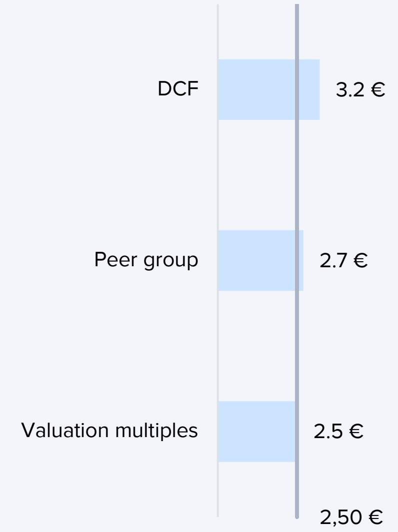
We also use DCF in the valuation. The value of the DCF model (EUR 3.2) is higher than the current share price and our target price, but the current lack of earnings growth and weak market performance do not encourage relying on far-off potential.

In our model, the company's revenue growth stabilizes at 1% in the terminal period after stronger medium-term growth, and the EBIT margin is 9.0% of revenue based on the company's historical performance (18-23 avg.: 10%). This level is well below the company's targets (adjusted EBITA% >12%), but the track record currently supports a much more cautious approach to long-term profitability. We also do not rule out a further reduction in terminal profitability if the trend remains similar. The cost of capital we use in the DCF model (WACC) is 9.0% (was 8.6 %) and cost of equity is 10.1%. We raised the level of required return as the company's risks increased.

Valuation	2024e	2025e	2026e
Share price	2.42	2.42	2.42
Number of shares, millions	35.8	35.8	35.8
Market cap	87	87	87
EV	171	162	154
P/E (adj.)	26.4	13.4	8.9
P/B	0.7	0.7	0.6
EV/Sales	0.9	0.8	0.7
EV/EBITDA	8.3	6.8	5.6
EV/EBIT (adj.)	18.8	12.7	9.2
Payout ratio (%)	0.0 %	55.2 %	51.5 %
Dividend yield-%	0.0 %	4.1 %	5.8 %

Source: Inderes

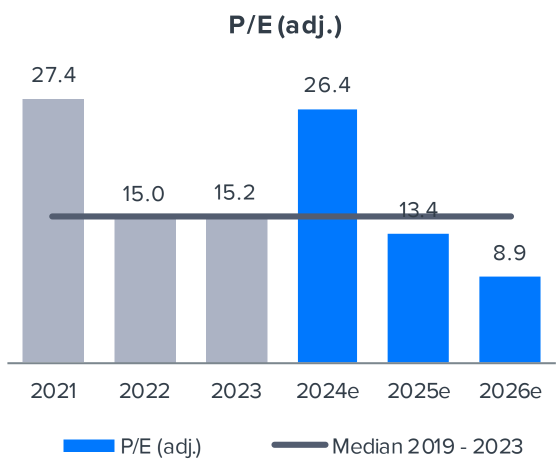
Target price breakdown

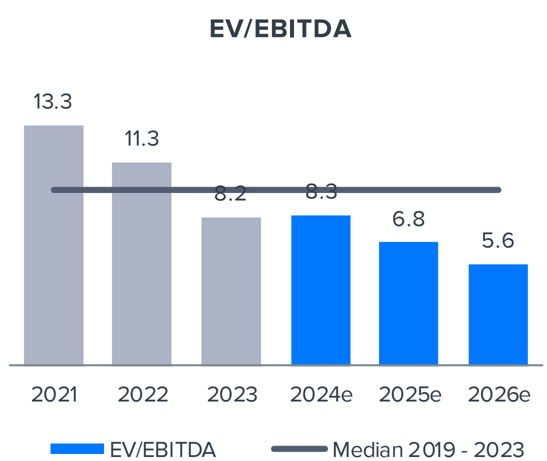


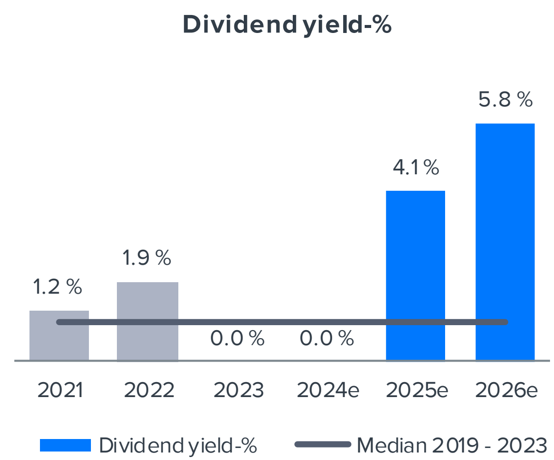
Valuation table

Valuation	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Share price			8.05	5.14	3.18	**2.42**	**2.42**	**2.42**	**2.42**
Number of shares, millions			35.4	35.5	35.6	**35.8**	**35.8**	**35.8**	**35.8**
Market cap			285	182	113	**87**	**87**	**87**	**87**
EV			345	268	197	**171**	**162**	**154**	**146**
P/E (adj.)			27.4	15.0	15.2	**26.4**	**13.4**	**8.9**	**7.5**
P/B			2.5	1.6	0.9	**0.7**	**0.7**	**0.6**	**0.6**
EV/Sales			1.9	1.3	0.9	**0.9**	**0.8**	**0.7**	**0.6**
EV/EBITDA			13.3	11.3	8.2	**8.3**	**6.8**	**5.6**	**5.1**
EV/EBIT (adj.)			18.2	15.4	14.5	**18.8**	**12.7**	**9.2**	**7.7**
Payout ratio (%)			45.2 %	45.2 %	0.0 %	**0.0 %**	**55.2 %**	**51.5 %**	**58.7 %**
Dividend yield-%			1.2 %	1.9 %	0.0 %	**0.0 %**	**4.1 %**	**5.8 %**	**7.9 %**

Source: Inderes







Peer group valuation

Peer group valuation	Market cap	EV	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%		P/B
Company	**MEUR**	**MEUR**	**2024e**	**2025e**	**2024e**	**2025e**	**2024e**	**2025e**	**2024e**	**2025e**	**2024e**	**2025e**	**2024e**
Sweco AB	5175	5723	25.8	21.5	18.8	16.7	2.3	2.1	31.9	26.5	1.7	2.0	5.5
Afry AB	1783	2394	16.0	13.6	10.1	9.4	1.0	1.0	17.0	14.9	3.2	3.5	1.6
Rejlers AB	285	341	14.6	12.3	8.8	7.7	1.0	0.9	16.9	13.9	2.9	3.4	1.8
Solwers Oyj	48	65	13.4	11.2	8.2	6.4	1.0	0.7	15.1	12.0	1.3	2.2	0.8
Etteplan Oyj	318	398	15.1	14.4	8.8	8.5	1.1	1.0	16.5	17.1	2.7	2.8	2.8
Norconsult ASA	833	889	14.0	14.0	8.8	8.6	1.2	1.1	16.2	15.9	3.0	4.0	5.0
Sitowise (Inderes)	**87**	**171**	**18.8**	**12.7**	**8.3**	**6.8**	**0.9**	**0.8**	**26.4**	**13.4**	**0.0**	**4.1**	**0.7**
Average			**16.5**	**14.5**	**10.6**	**9.6**	**1.3**	**1.1**	**18.9**	**16.7**	**2.5**	**3.0**	**2.9**
Median			**14.9**	**13.8**	**8.8**	**8.5**	**1.1**	**1.0**	**16.7**	**15.4**	**2.8**	**3.1**	**2.3**
Diff-% to median			***27%***	***-8%***	***-5%***	***-20%***	***-18%***	***-21%***	***58%***	***-13%***	***-100%***	***33%***	***-69%***

Source: Refinitiv / Inderes

Income statement

Income statement	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24	Q2'24	Q3'24e	Q4'24e	2024e	2025e	2026e	2027e
Revenue	**204.4**	**56.0**	**56.5**	**45.6**	**52.8**	**210.9**	**51.5**	**50.9**	**42.4**	**50.6**	**195.4**	**203.6**	**218.8**	**228.8**
Infra	60.0	15.8	17.8	14.5	17.5	65.6	17.0	18.0	14.6	17.5	67.1	69.8	71.9	74.1
Buildings	79.4	19.9	19.1	15.8	16.1	70.9	16.1	15.5	14.1	15.0	60.6	64.9	72.1	76.4
Digital solutions	22.1	8.0	7.7	6.7	7.6	30.0	7.0	7.0	6.4	7.7	28.1	30.1	33.1	34.8
Sweden	42.9	12.4	11.9	8.6	11.6	44.5	11.4	10.4	7.3	10.4	39.6	38.7	41.6	43.5
EBITDA	**23.8**	**8.5**	**6.4**	**5.2**	**3.2**	**23.2**	**5.1**	**4.3**	**5.4**	**5.7**	**20.5**	**23.8**	**27.3**	**28.7**
Depreciation	-10.6	-3.0	-2.8	-2.9	-2.8	-11.5	-3.1	-3.2	-2.9	-2.9	-12.1	-11.0	-10.5	-9.8
EBITA (adj.)	**20.4**	**6.6**	**4.5**	**3.5**	**2.4**	**17.0**	**3.4**	**2.6**	**3.6**	**3.9**	**13.4**	**16.2**	**19.6**	**21.0**
EBITA	**16.1**	**6.2**	**4.4**	**3.3**	**1.3**	**15.1**	**3.1**	**2.2**	**3.4**	**3.7**	**12.3**	**16.2**	**19.6**	**21.0**
EBIT	**13.2**	**5.5**	**3.6**	**2.3**	**0.3**	**11.7**	**2.0**	**1.1**	**2.5**	**2.8**	**8.4**	**12.8**	**16.8**	**19.0**
Net financial items	-2.9	-1.1	-0.9	-1.2	-1.3	-4.6	-1.2	-1.3	-1.3	-1.4	-5.2	-4.5	-4.3	-4.1
PTP	**10.3**	**4.4**	**2.7**	**1.0**	**-1.0**	**7.1**	**0.7**	**-0.2**	**1.3**	**1.4**	**3.2**	**8.3**	**12.5**	**14.9**
Taxes	-2.4	-0.9	-0.6	-0.3	0.1	-1.6	-0.2	0.0	-0.3	-0.3	-0.7	-1.8	-2.7	-3.2
Minority interest	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	-0.1
Net earnings	**7.8**	**3.5**	**2.2**	**0.8**	**-0.9**	**5.6**	**0.6**	**-0.1**	**1.0**	**1.1**	**2.6**	**6.5**	**9.7**	**11.6**
EPS (adj.)	**0.34**	**0.11**	**0.06**	**0.03**	**0.01**	**0.21**	**0.03**	**0.01**	**0.03**	**0.03**	**0.09**	**0.18**	**0.27**	**0.32**
EPS (rep.)	**0.22**	**0.10**	**0.06**	**0.02**	**-0.02**	**0.16**	**0.02**	**0.00**	**0.03**	**0.03**	**0.07**	**0.18**	**0.27**	**0.32**

Key figures	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24	Q2'24	Q3'24e	Q4'24e	2024e	2025e	2026e	2027e
Revenue growth-%	14.0 %	13.9 %	9.2 %	-0.7 %	-8.3 %	3.2 %	-8.0 %	-9.9 %	-6.9 %	-4.2 %	-7.3 %	4.2 %	7.5 %	4.6 %
Adjusted EBITA growth-%		40.7 %	-24.0 %	-29.6 %	-57.0 %	-16.6 %	-49.0 %	-43.4 %	5.8 %	60.5 %	-20.9 %	20.6 %	20.8 %	7.0 %
EBITDA-%	11.6 %	15.1 %	11.3 %	11.4 %	6.0 %	11.0 %	9.9 %	8.4 %	12.8 %	11.2 %	10.5 %	11.7 %	12.5 %	12.6 %
Adjusted EBITA-%	10.0 %	11.8 %	8.0 %	7.6 %	4.6 %	8.1 %	6.6 %	5.0 %	8.6 %	7.6 %	6.9 %	8.0 %	9.0 %	9.2 %
Net earnings-%	3.8 %	6.2 %	3.8 %	1.7 %	-1.6 %	2.6 %	1.1 %	-0.2 %	2.4 %	2.2 %	1.3 %	3.2 %	4.5 %	5.1 %

Source: Inderes

Balance sheet

Assets	2022	2023	2024e	2025e	2026e
Non-current assets	**202**	**202**	**202**	**200**	**198**
Goodwill	158	158	159	159	159
Intangible assets	10.2	11.9	11.9	9.5	6.6
Tangible assets	31.8	29.3	29.2	29.6	29.9
Associated companies	0.0	0.0	0.0	0.0	0.0
Other investments	1.9	1.9	1.9	1.9	1.9
Other non-current assets	0.0	0.0	0.0	0.0	0.0
Deferred tax assets	0.9	0.7	0.7	0.7	0.7
Current assets	**78.3**	**76.6**	**67.4**	**70.1**	**81.4**
Inventories	0.0	0.0	0.0	0.0	0.0
Other current assets	1.3	1.8	1.8	1.8	1.8
Receivables	61.6	59.2	54.8	57.1	61.4
Cash and equivalents	15.4	15.6	10.7	11.2	18.2
Balance sheet total	**281**	**278**	**270**	**270**	**279**

Source: Inderes

Liabilities & equity	2022	2023	2024e	2025e	2026e
Equity	**117**	**120**	**123**	**129**	**135**
Share capital	0.1	0.1	0.1	0.1	0.1
Retained earnings	23.4	25.8	28.3	34.8	41.0
Hybrid bonds	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	0.3	0.3	0.3	0.3	0.3
Other equity	92.8	93.2	93.2	93.2	93.2
Minorities	0.3	0.3	0.8	0.8	0.8
Non-current liabilities	**94.6**	**92.0**	**86.5**	**81.5**	**81.5**
Deferred tax liabilities	1.6	1.5	1.5	1.5	1.5
Provisions	0.0	0.0	0.0	0.0	0.0
Interest bearing debt	93.0	90.5	85.0	80.0	80.0
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	0.0	0.0	0.0	0.0	0.0
Current liabilities	**69.2**	**66.9**	**60.4**	**59.7**	**62.3**
Interest bearing debt	7.9	8.2	9.2	6.3	5.0
Payables	59.6	58.3	50.8	52.9	56.9
Other current liabilities	1.6	0.4	0.4	0.4	0.4
Balance sheet total	**281**	**278**	**270**	**270**	**279**

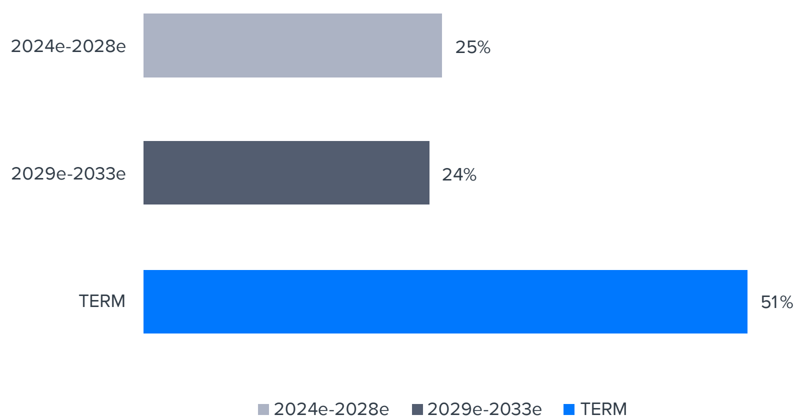
DCF calculation

DCF model	2023	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	TERM
Revenue growth-%	3.2 %	-7.3 %	4.2 %	7.5 %	4.6 %	3.0 %	2.5 %	2.0 %	1.0 %	1.0 %	1.0 %	1.0 %
EBIT-%	5.5 %	4.3 %	6.3 %	7.7 %	8.3 %	9.0 %	9.0 %	9.0 %	9.0 %	9.0 %	9.0 %	9.0 %
EBIT (operating profit)	**11.7**	**8.4**	**12.8**	**16.8**	**19.0**	**21.2**	**21.7**	**22.2**	**22.4**	**22.6**	**22.8**	
+ Depreciation	11.5	12.1	11.0	10.5	9.8	9.2	8.9	8.6	8.4	8.3	8.2	
- Paid taxes	-1.5	-0.7	-1.8	-2.7	-3.2	-3.7	-3.8	-3.9	-3.9	-4.0	-4.0	
- Tax, financial expenses	-1.0	-1.1	-1.0	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	
+ 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	-0.7	-3.2	-0.2	-0.3	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	
Operating cash flow	**20.1**	**15.5**	**20.9**	**23.4**	**24.5**	**25.7**	**25.8**	**25.9**	**25.9**	**26.0**	**26.1**	
+ Change in other long-term liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-11.1	-12.5	-9.0	-8.0	-8.0	-8.0	-8.0	-8.0	-8.0	-8.0	-8.2	
Free operating cash flow	**9.0**	**3.0**	**11.9**	**15.4**	**16.5**	**17.7**	**17.8**	**17.9**	**17.9**	**18.0**	**17.9**	
+/- Other	0.0	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	9.0	2.5	11.9	15.4	16.5	17.7	17.8	17.9	17.9	18.0	17.9	226
Discounted FCFF		**2.4**	**10.6**	**12.5**	**12.3**	**12.2**	**11.2**	**10.3**	**9.5**	**8.8**	**8.0**	**101**
Sum of FCFF present value		199	196	186	173	161	149	138	127	118	109	101
Enterprise value DCF		**199**										
- Interest bearing debt		-98.7										
+ Cash and cash equivalents		15.6										
-Minorities		-0.5										
-Dividend/capital return		0.0										
Equity value DCF		**115**										
Equity value DCF per share		**3.2**										

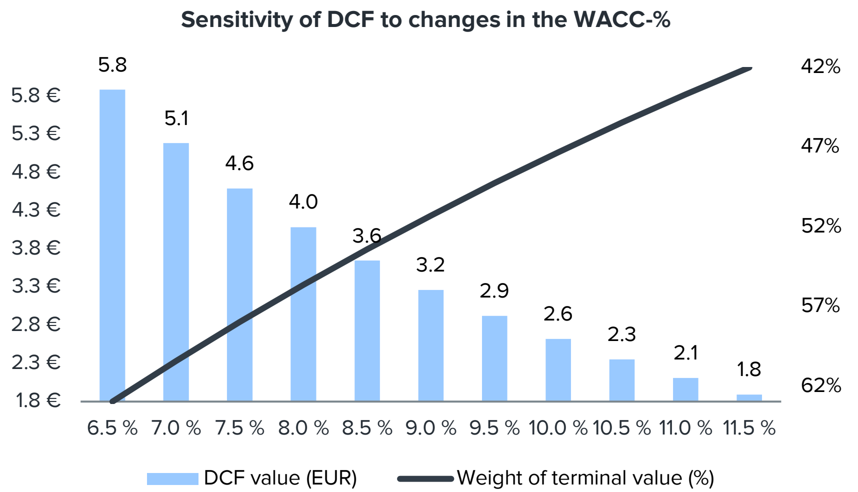
WACC	
Tax-% (WACC)	20.0 %
Target debt ratio (D/(D+E)	20.0 %
Cost of debt	5.5 %
Equity Beta	1.35
Market risk premium	4.75%
Liquidity premium	1.20%
Risk free interest rate	2.5 %
Cost of equity	**10.1 %**
Weighted average cost of capital (WACC)	**9.0 %**

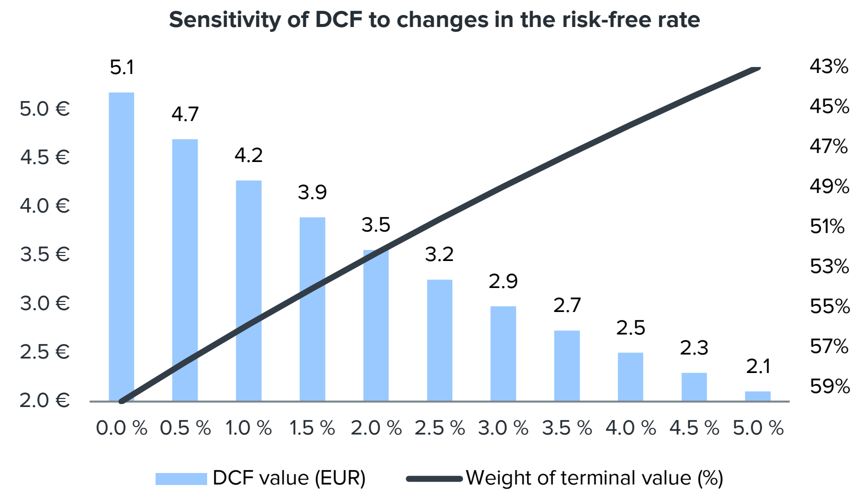
Source: Inderes

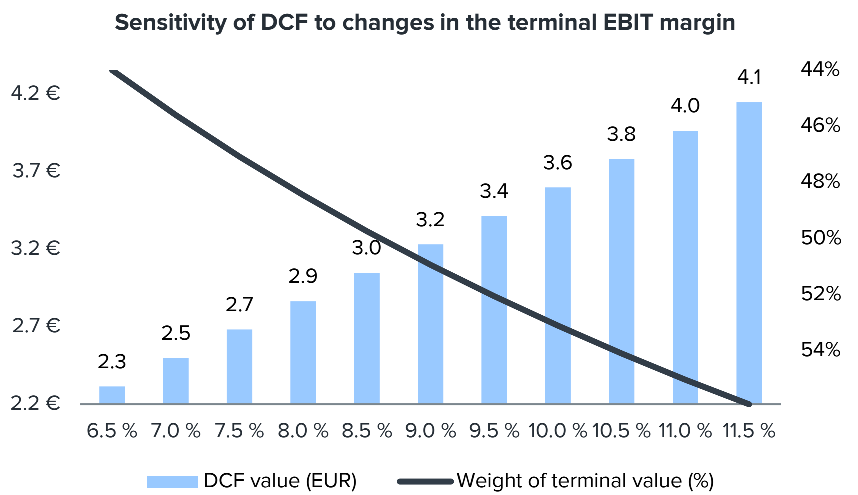
Cash flow distribution

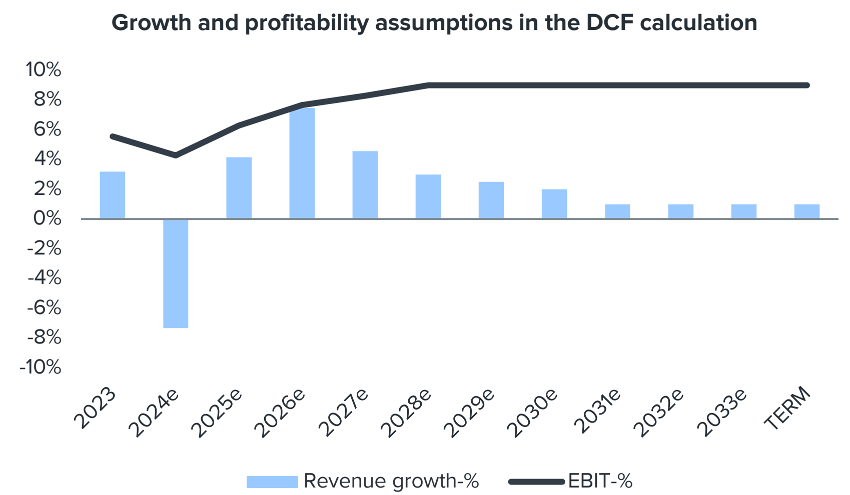


DCF sensitivity calculations and key assumptions in graphs









Source: Inderes. Note that the weight of the terminal value (%) is shown on an inverse scale for clarity.

Summary

Income statement	2021	2022	2023	2024e	2025e
Revenue	179.3	204.4	210.9	**195.4**	**203.6**
EBITDA	25.8	23.8	23.2	**20.5**	**23.8**
EBIT	16.4	13.2	11.7	**8.4**	**12.8**
PTP	10.3	10.3	7.1	**3.2**	**8.3**
Net Income	7.8	7.8	5.6	**2.6**	**6.5**
Extraordinary items	-2.6	-4.3	-1.9	**-0.7**	**0.0**

Balance sheet	2021	2022	2023	2024e	2025e
Balance sheet total	249.8	280.7	278.4	**269.6**	**270.3**
Equity capital	114.9	116.9	119.6	**122.6**	**129.1**
Goodwill	135.2	157.6	158.0	**158.5**	**158.5**
Net debt	59.3	85.6	83.1	**83.5**	**75.2**

Cash flow	2021	2022	2023	2024e	2025e
EBITDA	25.8	23.8	23.2	**20.5**	**23.8**
Change in working capital	-3.2	-3.0	-0.7	**-3.2**	**-0.2**
Operating cash flow	17.7	17.9	20.1	**15.5**	**20.9**
CAPEX	-25.8	-36.1	-11.1	**-12.5**	**-9.0**
Free cash flow	-8.2	-18.2	9.0	**2.5**	**11.9**

Valuation multiples	2021	2022	2023	2024e	2025e
EV/S	1.9	1.3	0.9	**0.9**	**0.8**
EV/EBITDA	13.3	11.3	8.2	**8.3**	**6.8**
EV/EBIT (adj.)	18.2	15.4	14.5	**18.8**	**12.7**
P/E (adj.)	27.4	15.0	15.2	**26.4**	**13.4**
P/B	2.5	1.6	0.9	**0.7**	**0.7**
Dividend-%	1.2 %	1.9 %	0.0 %	**0.0 %**	**4.1 %**

Source: Inderes

Per share data	2021	2022	2023	2024e	2025e
EPS (reported)	0.22	0.22	0.16	**0.07**	**0.18**
EPS (adj.)	0.29	0.34	0.21	**0.09**	**0.18**
OCF / share	0.50	0.50	0.56	**0.43**	**0.58**
FCF / share	-0.23	-0.51	0.25	**0.07**	**0.33**
Book value / share	3.24	3.29	3.35	**3.40**	**3.58**
Dividend / share	0.10	0.10	0.00	**0.00**	**0.10**

Growth and profitability	2021	2022	2023	2024e	2025e
Revenue growth-%	12%	14%	3%	**-7%**	**4%**
EBITDA growth-%	-2%	-8%	-2%	**-12%**	**16%**
EBIT (adj.) growth-%	10%	-8%	-22%	**-33%**	**41%**
EPS (adj.) growth-%	-10%	16%	-39%	**-56%**	**97%**
EBITDA-%	14.4 %	11.6 %	11.0 %	**10.5 %**	**11.7 %**
EBIT (adj.)-%	10.6 %	8.5 %	6.4 %	**4.6 %**	**6.3 %**
EBIT-%	9.1 %	6.4 %	5.5 %	**4.3 %**	**6.3 %**
ROE-%	8.6 %	6.8 %	4.7 %	**2.1 %**	**5.2 %**
ROI-%	9.0 %	6.4 %	5.4 %	**3.8 %**	**5.9 %**
Equity ratio	46.0 %	41.6 %	42.9 %	**45.5 %**	**47.8 %**
Gearing	51.6 %	73.2 %	69.5 %	**68.1 %**	**58.2 %**

ESG

Sitowise’s business remains mainly outside taxonomy

Sitowise's main business is to provide expert and consulting services in construction and the built environment. Based on Sitowise's revenue, most of its activities are currently not covered by taxonomy. In our view, this is because the final interpretation of the taxonomy is still in progress and, on the other hand, the market demand for a taxonomy-aligned service is still developing. We estimate that Sitowise's services as a whole will contribute to the industry's climate and environmental targets, taking into account the company's sustainability perspective and objectives.

In 2023, 35% of Sitowise's revenue (2022: 40%) was considered taxonomy-eligible activities, but only 19% was considered taxonomy-aligned activities. According to Sitowise, eligible activities included engineering services for adaptation to climate change, services related to energy performance of buildings, infrastructure for road and rail transport, data-driven solutions for GHG emission reductions, and the conservation of habitats, ecosystems and species.

The company does not consider operating expenditure to be covered by taxonomy in 2023, as the most significant items in terms of costs are generated as part of customer projects. The amount of capital expenditure (CAPEX) that is taxonomy-eligible or -aligned is slightly higher than that of revenue.

Business impact of taxonomy to emerge only years later

As most of Sitowise's business is currently not covered by taxonomy, we do not believe that current taxonomy will have significant impact on Sitowise’s business, and thus, for example, on the company’s financial situation or financial costs.

However, Sitowise has a rather ambitious target to double the revenue of its sustainability services to 10 MEUR between 2022 and 2025. We estimate that this could mean that the share of taxonomy-eligible or taxonomy-aligned activities in the total would increase moderately (2023 revenue: 211 MEUR).

The application and interpretation of the taxonomy is still subject to considerable development, and one of the open questions we will monitor is how the public sector's purchasing criteria will be adjusted according to the taxonomy and whether this will have an impact on decisions.

Working towards climate targets

Sitowise is committed to the Paris Agreement 1.5°C scenario and the Science Based Targets project (SBTi) which aims at this. But as Sitowise joined the SBTi project at the end of 2023, there is not much concrete evidence yet.

Sitowise says that their climate targets will be evaluated against the SBTi in 2024. Approval for these targets will be sought from the SBTi in 2025 at the latest. We estimate the costs associated with climate targets by emission category once the targets are set.

Taxonomy eligibility	2022	2023
Revenue	40%	35%
OPEX	N/A	0%
CAPEX	69%	42%

Taxonomy alignment	2022	2023
Revenue	0%	19%
OPEX	N/A	0%
CAPEX	0%	23%

Climate		
Climate target	Yes	Yes
Target according to the Paris Agreement (1.5 °C warming scenario)	No	Yes

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Buy	The 12-month risk-adjusted expected shareholder return of the share is very attractive
Accumulate	The 12-month risk-adjusted expected shareholder return of the share is attractive
Reduce	The 12-month risk-adjusted expected shareholder return of the share is weak
Sell	The 12-month risk-adjusted expected shareholder return of the share is very weak

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Recommendation history (>12 mo)

Date	Recommendation	Target	Share price
3/29/2021	Reduce	8.60 €	8.50 €
5/20/2021	Accumulate	9.30 €	8.78 €
8/26/2021	Accumulate	9.30 €	8.27 €
11/11/2021	Accumulate	9.30 €	8.33 €
3/3/2022	Accumulate	7.60 €	6.50 €
5/4/2022	Accumulate	7.20 €	6.05 €
5/19/2022	Buy	7.20 €	5.74 €
8/18/2022	Accumulate	6.50 €	5.50 €
10/27/2022	Buy	5.50 €	3.90 €
11/2/2022	Buy	5.50 €	4.15 €
11/29/2022	Accumulate	5.50 €	4.75 €
3/1/2023	Accumulate	5.40 €	4.89 €
5/10/2023	Accumulate	5.10 €	4.40 €
8/17/2023	Buy	5.00 €	4.00 €
9/5/2023	Buy	5.00 €	3.99 €
10/20/2023	Accumulate	4.00 €	3.38 €
11/3/2023	Accumulate	3.30 €	2.88 €
2/28/2024	Accumulate	3.00 €	2.65 €
5/10/2024	Accumulate	3.20 €	2.88 €
7/15/2024	Reduce	2.90 €	2.80 €
8/1/2024	Reduce	2.70 €	2.89 €
8/14/2024	Reduce	2.50 €	2.42 €

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