

Incap

Company report

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✓ Inderes corporate customer

This report is a summary translation of the report "Voitosta voittoon" published on 10/19/2022 at 9:06 am

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From victory to victory

Incap, who issued a positive earnings revision yesterday, will publish its Q3 report on Thursday 10/27. We were not really surprised by the revision but did raise our estimates for 2022 and the next few years by about 10% after the outlook for the rest of the year was confirmed. On the other hand, the estimate hikes are partially neutralized by Incap's higher required return due to increased interest rates. We believe that Incap's share price is currently just barely attractively priced (2023e P/E 13x, 3-year PEG 1.6x) and the expected return is marginally higher than the required return. Thus, we reiterate our Accumulate recommendation and revise our target price to EUR 17.00 (previously EUR 16.00).

We were expecting an earnings revision...

In its positive earnings revision issued yesterday Incap estimated that its revenue, EBIT and adjusted EBIT in 2022 will be significantly higher (previously clearly higher) than in 2021. Last year, Incap made an adjusted EBIT of EUR 27 million with revenue of EUR 170 million. According to Incap, the changes are driven by improved visibility related to the customers' forecasts and the company's own assessment of business development. The guidance is based on the assumption that there will be no unforeseen changes in the operating environment, for example in the availability of components. After H1, considering the favorable prospects (incl. new capacity in India and increased inventories), we anticipated a second increase in the company guidance for 2022.

...Q3 estimates still rose clearly and we expect fierce earnings growth to have continued

Even though the earnings revision was expected the outlook for 2022 was confirmed and we raised Incap's revenue estimate by 3% and EBIT estimate by 11%. We expect that the company's growth and earnings growth have still been driven by the rise in volume of larger customers in Q3 like in H1. We now expect Incap's revenue to have grown by 43% to EUR 67 million in Q3 from a good comparison level and adjusted EBIT to have increased by 30% to EUR 11.9 million driven by the increase in the share of lower cost level production in India. We still do not expect Incap to have been visibly affected by component shortage or inflation, and our Q3 estimates correspond to an excellent 17.6% EBIT margin. After the earnings revision, we also made positive estimate changes for Q4 and coming years, because Incap's speed does not show signs of slowing despite accumulating financial risks. Next year we expect Incap's growth to be supported especially by the new production capacity being built in India, which we believe the company already has earmarked for use for bigger customer within the next few years. However, due to the uncertain financial situation and customer risks, we are still cautious in our growth estimates for the coming years, at least considering Incap's recent history. We now expect the company's revenue to increase by close on 10% p.a. in 2023-2024 with an excellent 15% adjusted EBIT margin.

We feel the share price is getting close to the correct level relative to the risks

Incap's P/E ratios for 2022 and 2023 based on our estimates are 14x and 13x, while the corresponding EV/EBIT ratios are 11x and 10x. We find that with 2022 multiples the valuation is neutral because we believe that the concentrated customer base holds back the company's acceptable valuation despite its strong track-record. We have also raised Incap's required return slightly due to increased interest rates. In the light of the over 10% earnings growth we expect for 2023 and a small dividend, the expected return still marginally exceeds our required return. The DCF value that is in line with our target price also gives a small positive indication of the valuation.

Recommendation

Accumulate

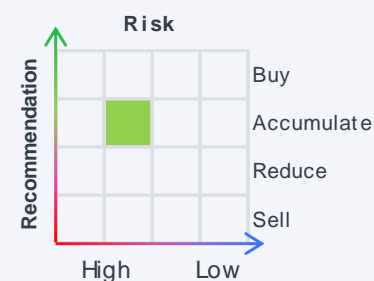
(previous Accumulate)

EUR 17.00

(previous EUR 16.00)

Share price:

EUR 15.08



Key figures

	2021	2022e	2023e	2024e
Revenue	169.8	252.5	276.4	301.3
growth-%	59%	49%	9%	9%
EBIT adj.	26.8	40.0	43.9	47.1
EBIT-% adj.	15.8 %	15.8 %	15.9 %	15.6 %
Net Income	21.1	30.2	34.4	37.3
EPS (adj.)	0.74	1.04	1.18	1.28

P/E (adj.)	21.2	14.5	12.7	11.8
P/B	7.3	5.0	3.8	3.0
Dividend yield-%	1.0 %	1.2 %	1.3 %	1.5 %
EV/EBIT (adj.)	17.2	11.2	9.7	8.4
EV/EBITDA	15.8	10.3	8.9	7.8
EV/S	2.7	1.8	1.5	1.3

Source: Inderes

Guidance

(Improved)

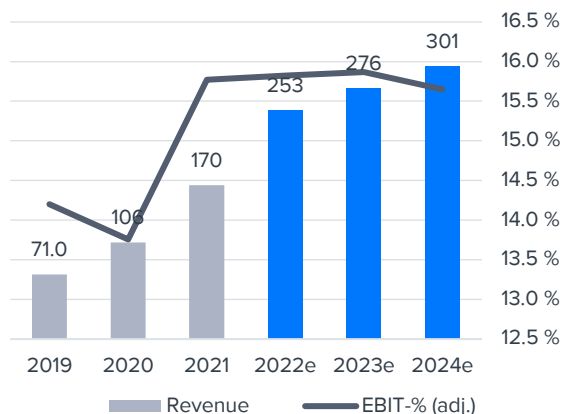
Incap estimates that its revenue, operating profit (EBIT) and adjusted operating profit (EBIT) for 2022 will be significantly higher than in 2021. The increase in the revenue and operating profit estimate is driven by improved visibility related to the customers' forecasts and the company's own assessment of the business development.

Share price



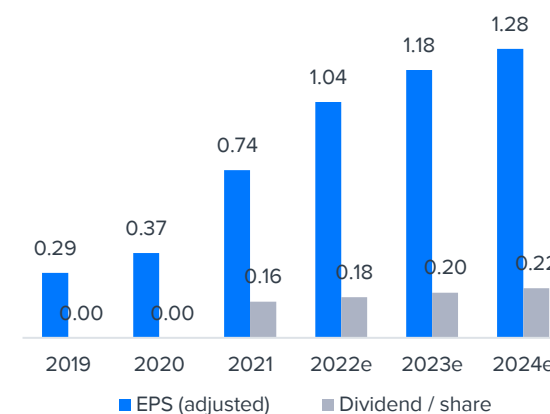
Source: Millstream Market

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	15.08	15.08	15.08
Number of shares, millions	29.3	29.3	29.3
Market cap	441	441	441
EV	448	425	398
P/E (adj.)	14.5	12.7	11.8
P/E	14.6	12.8	11.8
P/FCF	>100	15.5	13.0
P/B	5.0	3.8	3.0
P/S	1.7	1.6	1.5
EV/Sales	1.8	1.5	1.3
EV/EBITDA	10.3	8.9	7.8
EV/EBIT (adj.)	11.2	9.7	8.4
Payout ratio (%)	17.5 %	17.0 %	17.2 %
Dividend yield-%	1.2 %	1.3 %	1.5 %

Source: Inderes

Estimates

Estimates MEUR / EUR	Q3'21	Q3'22	Q3'22e	Q3'22e	Consensus		2022e
	Comparator	Actualized	Inderes	Consensus	Low	High	Inderes
Revenue	47.0		67.0				253
EBIT (adj.)	7.9		11.8				40.0
EBIT	7.8		11.7				39.6
EPS (reported)	0.22		0.32				1.03
Revenue growth-%	67.3 %		42.6 %				48.7 %
EBIT-% (adj.)	16.9 %		17.6 %				15.8 %

Source: Inderes

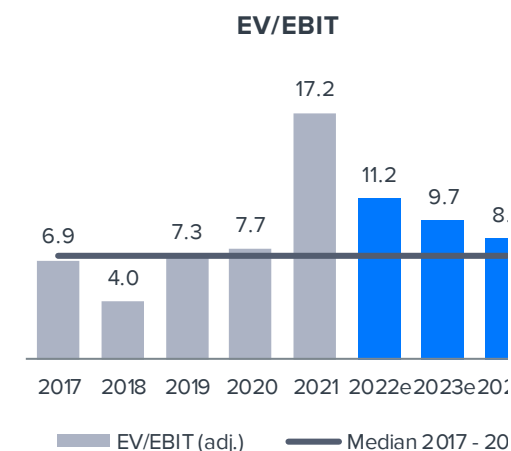
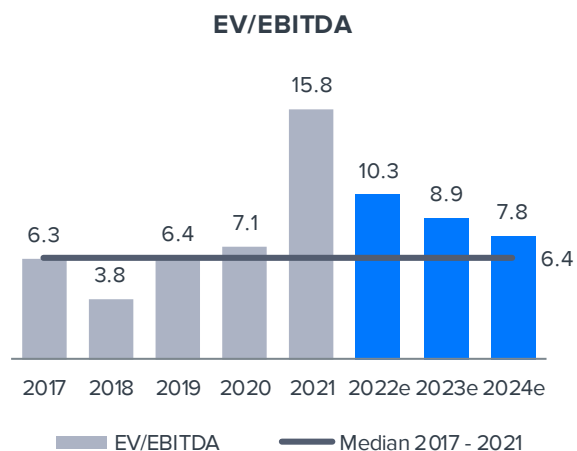
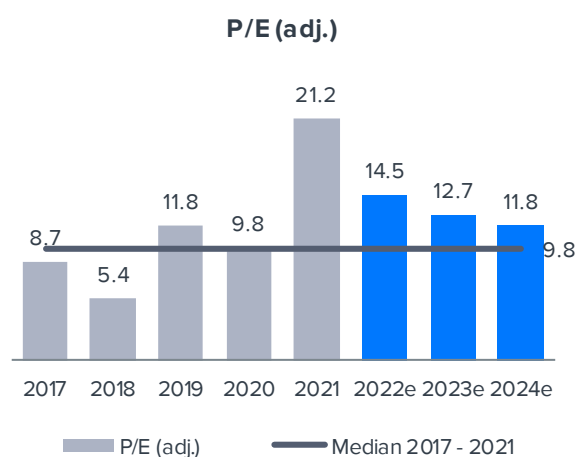
Estimate revisions MEUR / EUR	2022e	2022e	Change	2023e	2023e	Change	2024e	2024e	Change
	Old	New	%	Old	New	%	Old	New	%
Revenue	245	253	3 %	267	276	4 %	286	301	6 %
EBIT	35.7	39.6	11 %	40.1	43.6	9 %	42.8	46.9	10 %
PTP	34.1	38.0	11 %	39.6	43.0	8 %	42.6	46.6	9 %
EPS (reported)	0.94	1.04	11 %	1.09	1.17	8 %	1.16	1.28	10 %
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	15.08	15.08	15.08	15.08
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	441	441	441	441
EV	31	35	73	113	461	448	425	398	367
P/E (adj.)	8.7	5.4	11.8	9.8	21.2	14.5	12.7	11.8	11.2
P/E	8.7	5.4	11.8	11.6	21.8	14.6	12.8	11.8	11.2
P/FCF	11.7	13.7	11.4	neg.	>100	>100	15.5	13.0	11.9
P/B	2.6	2.0	3.4	2.8	7.3	5.0	3.8	3.0	2.4
P/S	0.6	0.5	1.0	1.0	2.7	1.7	1.6	1.5	1.4
EV/Sales	0.6	0.6	1.0	1.1	2.7	1.8	1.5	1.3	1.1
EV/EBITDA	6.3	3.8	6.4	7.1	15.8	10.3	8.9	7.8	6.8
EV/EBIT (adj.)	6.9	4.0	7.3	7.7	17.2	11.2	9.7	8.4	7.4
Payout ratio (%)	0.0 %	0.0 %	0.0 %	0.0 %	22.2 %	17.5 %	17.0 %	17.2 %	17.9 %
Dividend yield-%	0.0 %	0.0 %	0.0 %	0.0 %	1.0 %	1.2 %	1.3 %	1.5 %	1.6 %

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		154	255	21.6	15.0	8.3	7.4	0.8	0.8	28.3	14.5			1.4
Integrated Micro-Electronics		194	463	113.9	25.9	9.8	7.3	0.3	0.3		43.0			0.4
Data Modul		183	210	6.5	5.3	5.8	4.9	0.6	0.6	10.8	9.7	0.2	0.2	1.5
Hanza		141	203	12.6	9.0	5.0	4.3	0.4	0.4	14.1	10.8	1.1	1.8	1.1
Kitron		358	529	14.3	11.6	10.0	8.5	0.9	0.8	16.0	10.5	2.4	3.6	2.5
Lacroix Group SA		128	312	14.5	11.3	7.4	6.4	0.5	0.4	8.0	8.7	2.3	3.4	0.8
Jabil		8513	9937	6.4	6.0	4.0	3.9	0.3	0.3	8.1	7.4	0.5	0.5	3.2
Scanfil		340	436	9.9	8.6	7.3	6.6	0.5	0.5	10.1	8.7	3.9	4.2	1.5
Fabrinet		3736	3271	14.0	11.9	11.9	10.3	1.4	1.3	16.8	14.3			2.9
Hana Microelectronics		734	614	13.2	10.8	6.8	6.0	0.9	0.8	14.7	11.8	4.9	5.5	1.2
SVI		434	537	14.7	13.1	11.6	10.5	0.8	0.8	13.0	11.8	2.8	3.1	2.6
TT Electronics		307	472	9.9	8.0	7.0	6.1	0.7	0.7	9.0	7.4	4.1	4.7	0.8
Katek Se		193	225	10.2	14.3	5.2	5.9	0.4	0.3	13.9	25.8			1.1
Nolato AB		1166	1251	14.0	12.2	9.3	8.3	1.2	1.2	18.4	16.0	3.4	3.5	2.8
Celestica		1140	1703	5.3	5.1	3.9	3.6	0.3	0.2	5.3	4.9			0.8
Incap (Inderes)	15.08	441	448	11.2	9.7	10.3	8.9	1.8	1.5	14.5	12.7	1.2	1.3	5.0
Average				18.7	11.2	7.5	6.7	0.7	0.6	13.3	13.7	2.6	3.1	1.6
Median				13.2	11.3	7.3	6.7	0.6	0.6	13.5	10.8	2.6	3.5	1.4
Diff-% to median				-15%	-14%	42%	33%	196%	157%	7%	18%	-54%	-62%	259%

Source: Refinitiv / 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	138	253	276	301	322
Incap	46.9	59.6	106	71.3	98.5	170	115	138	253	276	301	322
EBITDA	5.8	10.1	15.9	11.3	17.9	29.3	17.3	26.1	43.4	47.7	51.1	53.6
Depreciation	-1.6	-1.7	-3.3	-1.6	-1.7	-3.3	-1.9	-1.9	-3.8	-4.1	-4.2	-4.2
EBIT (excl. NRI)	5.6	9.1	14.6	10.2	16.6	26.8	15.6	24.4	40.0	43.9	47.1	49.5
EBIT	4.3	8.3	12.6	9.8	16.2	26.0	15.4	24.2	39.6	43.6	46.9	49.4
Net financial items	-0.6	-0.5	-1.1	-0.3	0.1	-0.3	-0.8	-0.8	-1.6	-0.6	-0.3	-0.3
PTP	3.6	7.9	11.5	9.4	16.3	25.7	14.6	23.4	38.0	43.0	46.6	49.1
Taxes	-0.9	-1.3	-2.3	-1.6	-3.0	-4.7	-3.4	-4.4	-7.8	-8.6	-9.3	-9.8
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	19.0	30.2	34.4	37.3	39.3
EPS (adj.)	0.13	0.25	0.37	0.28	0.46	0.74	0.39	0.65	1.04	1.18	1.28	1.35
EPS (rep.)	0.09	0.22	0.32	0.27	0.46	0.72	0.38	0.65	1.03	1.17	1.28	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 %	40.1 %	48.7 %	9.5 %	9.0 %	7.0 %
Adjusted EBIT growth-%	-3.4 %	109.7 %	45.2 %	83.5 %	82.3 %	82.8 %	52.7 %	47.1 %	49.2 %	9.8 %	7.5 %	5.1 %
EBITDA-%	12.5 %	16.9 %	15.0 %	15.9 %	18.2 %	17.2 %	15.1 %	18.9 %	17.2 %	17.3 %	17.0 %	16.6 %
Adjusted EBIT-%	11.9 %	15.3 %	13.8 %	14.3 %	16.8 %	15.8 %	13.6 %	17.7 %	15.8 %	15.9 %	15.6 %	15.4 %
Net earnings-%	5.8 %	11.0 %	8.7 %	10.9 %	13.5 %	12.4 %	9.8 %	13.7 %	11.9 %	12.4 %	12.4 %	12.2 %

Lähde: Inderes

Balance sheet

Assets	2020	2021	2022e	2023e	2024e
Non-current assets	19.4	27.1	28.0	27.9	27.7
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	15.0	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	156.6	170.7	206.3
Inventories	24.2	59.5	88.4	94.0	96.4
Other current assets	0.0	0.0	0.0	0.0	0.0
Receivables	24.2	33.7	50.5	55.3	60.3
Cash and equivalents	3.9	9.2	17.7	21.5	49.5
Balance sheet total	76.4	129.5	184.6	198.7	234

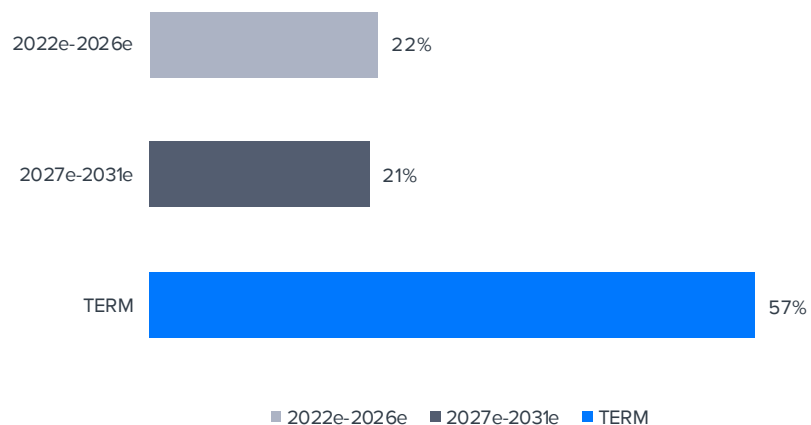
Source: Inderes

Liabilities & equity	2020	2021	2022e	2023e	2024e
Equity	38.5	62.9	88.3	117	149
Share capital	1.0	1.0	1.0	1.0	1.0
Retained earnings	20.7	41.9	67.3	96.5	128
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	17.9	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	17.1	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	78.4	76.6	80.3
Short term debt	3.7	7.3	7.7	2.0	2.0
Payables	25.6	52.9	70.7	74.6	78.3
Other current liabilities	0.0	0.0	0.0	0.0	0.0
Balance sheet total	76.4	129.5	184.6	198.7	233.9

DCF calculation

DCF model	2021	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	TERM
EBIT (operating profit)	26.0	39.6	43.6	46.9	49.4	49.5	52.0	54.1	56.0	55.7	56.8	
+ Depreciation	3.3	3.8	4.1	4.2	4.4	4.0	4.0	4.1	4.3	4.5	4.6	
- Paid taxes	-4.8	-7.8	-8.6	-9.3	-9.8	-10.4	-10.9	-11.3	-11.7	-11.7	-11.9	
- Tax, financial expenses	0.0	-0.3	-0.1	-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	-27.9	-6.4	-3.7	-2.3	-1.4	-4.1	-7.2	-3.3	-2.9	-2.0	
Operating cash flow	7.0	7.3	32.5	38.0	41.6	41.8	41.0	39.7	45.3	45.6	47.5	
+ 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	-4.7	
Free operating cash flow	0.8	1.0	28.5	34.0	37.1	37.2	36.0	34.6	40.3	40.6	42.8	
+/- 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	1.0	28.5	34.0	37.1	37.2	36.0	34.6	40.3	40.6	42.8	634
Discounted FCFF		1.0	25.8	28.2	28.3	26.1	23.1	20.4	21.8	20.2	19.6	290
Sum of FCFF present value		504	503	478	449	421	395	372	351	330	309	290
Enterprise value DCF		504										
- Interesting bearing debt		-11.3										
+ Cash and cash equivalents		9.2										
-Minorities		0.0										
-Dividend/capital return		-4.7										
Equity value DCF		498										
Equity value DCF per share		17.0										

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	252.5	276.4	EPS (reported)	0.29	0.32	0.72	1.03	1.18
EBITDA	11.5	15.9	29.3	43.4	47.7	EPS (adj.)	0.29	0.37	0.74	1.04	1.18
EBIT	10.1	12.6	26.0	39.6	43.6	OCF / share	0.35	0.12	0.24	0.25	1.11
PTP	9.7	11.5	25.7	38.0	43.0	FCF / share	0.30	-0.44	0.03	0.03	0.98
Net Income	6.3	9.2	21.1	30.2	34.4	Book value / share	1.00	1.32	2.15	3.02	4.01
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	184.6	198.7	Revenue growth-%	20%	50%	59%	49%	9%
Equity capital	21.9	38.5	62.9	88.3	117.4	EBITDA growth-%	25%	39%	84%	48%	10%
Goodwill	0.9	7.1	7.5	7.5	7.5	EBIT (adj.) growth-%	17%	45%	83%	49%	10%
Net debt	-0.5	5.9	2.0	7.1	-15.7	EPS (adj.) growth-%	7%	30%	98%	40%	14%
Cash flow	2019	2020	2021	2022e	2023e	EBITDA-%	16%	15%	17%	17%	17%
EBITDA	11.5	15.9	29.3	43.4	47.7	EBIT (adj.)-%	14%	14%	16%	16%	16%
Change in working capital	-1.3	-10.0	-17.4	-27.9	-6.4	EBIT-%	14%	12%	15%	16%	16%
Operating cash flow	7.6	3.6	7.0	7.3	32.5	ROE-%	33%	31%	42%	40%	33%
CAPEX	-1.1	-18.1	-6.2	-4.7	-4.0	ROI-%	41%	33%	42%	42%	37%
Free cash flow	6.5	-12.9	0.8	1.0	28.5	Equity ratio	60%	50%	52%	48%	59%
Valuation multiples	2019	2020	2021	2022e	2023e	Gearing	-2%	15%	3%	8%	-13%
EV/S	1.0	1.1	2.7	1.8	1.5						
EV/EBITDA (adj.)	6.4	7.1	15.8	10.3	8.9						
EV/EBIT (adj.)	7.3	7.7	17.2	11.2	9.7						
P/E (adj.)	11.8	9.8	21.2	14.5	12.7						
P/B	3.4	2.8	7.3	5.0	3.8						
Dividend-%	0.0 %	0.0 %	1.0 %	1.2 %	1.3 %						

Source: Inderes

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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 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 €
----- Analyst changed -----			
28-07-22	Accumulate	16.00 €	14.66 €
19-10-22	Accumulate	17.00 €	15.08 €



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