

Exel Composites

Company report

2/19/2024



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✓ Inderes corporate customer

This report is a summary translation of the report "Hiljalleen eteenpäin vaisussa markkinassa" published on 2/18/2024 at 3:35 pm EET.

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Slow progress in a sluggish market

Exel's Q4 figures were consistently below our forecasts, while the guidance for this year, indicating revenue growth and a significant increase in operating profit, was in line with our expectations. Therefore, we made only minor operational forecast changes for the next few years. However, given the still weak market outlook and the company's challenging balance sheet situation, we believe that the stock's risk/reward ratio will remain weak over the next 12 months. In view of this, we reiterate our Reduce recommendation and lower our target price to EUR 2.20 (was EUR 2.50), reflecting our increase in the required return related to the balance sheet risk level.

Q4 figures consistently missed expectations

The company's revenue in Q4 declined by as much as 29% year-on-year to 22.1 MEUR, well below our forecast due to lower deliveries in the quarter than we had expected. According to the company, the generally challenging market environment continued in almost all geographic regions and customer industries. Among the customer industries, Wind Power's revenue fell by a whopping 70%, mirroring the trend throughout last year, while the only bright spot was the 40% growth in Transportation. Exel's adjusted EBIT fell to -1.3 MEUR, below our forecast of a positive result, reflecting the revenue development and a slightly heavier than expected cost structure. Meanwhile, reported EBIT slightly exceeded our expectations, because of lower net one-off costs. On the lower lines, the result was weighed down by higher-than-expected financing costs, and against this backdrop, reported EPS fell into the red (EUR -0.47) more than expected. As expected, the company's balance sheet position at the end of Q4 was challenging (net gearing 186%, equity ratio 21% and net debt/adjusted EBITDA 8.1x).

No surprise in guidance, balance sheet needs strengthening

With the release of the financial statements, Exel provided guidance for the current year and expects its revenue to increase from last year (2023: 97 MEUR) and a significant increase in adjusted EBIT (2023: -2.4 MEUR), which was in line with our expectations. Based on the unsurprising guidance, we have made only minor absolute revisions to our forecasts for the coming years. Given the current outlook, we expect H1 to remain weak in terms of new orders, but full-year revenue to increase to 108 MEUR (was 109 MEUR). In turn, reflecting our slightly increased cost estimates, we now expect adjusted EBIT to land at 2.3 MEUR. (was 3.3 MEUR). In light of the Q4 report and the balance sheet situation, we have also raised our financing cost forecasts for the coming years. In line with our projections, we expect the balance sheet situation to remain challenging (2024e: equity ratio 19%, net gearing 199%), while the net debt/EBITDA ratio is expected to gradually decline but still remain elevated (2024e: 3.7x).

Balance sheet situation not attractive, although rock bottom should be behind

We expect last year's earnings level to be the rock bottom for Exel, but we also forecast this year's earnings-based multiples to turn negative or very high, with the exception of the EV/EBITDA multiple. (2024e: P/E neg., EV/EBIT 27x, EV/EBITDA 7x). Only next year will the multiples provide more comprehensive support (2025e P/E: 14x, EV/EBIT 11x). The balance sheet-based valuation does not provide any concrete support levels either (P/B 2024e: 1.6x). However, the balance sheet situation and the resulting limited financial flexibility (including any investments or new write-downs required by the strategy) are of greater concern than the short-term valuation picture. In the current situation, we also believe that the number of financing options is very limited, with a focus on various equity options. Therefore, we think it is best to wait for the balance sheet situation to clarify.

Recommendation

Reduce

(previous Reduce)

EUR 2.20

(previous EUR 2.50)

Share price:

2.29



Key figures

	2023	2024e	2025e	2026e
Revenue	97	108	123	135
growth-%	-29%	11%	14%	10%
EBIT adj.	-2.4	2.3	5.6	7.6
EBIT-% adj.	-2.5 %	2.2 %	4.6 %	5.7 %
Net Income	-9.1	-0.5	2.0	3.4
EPS (adj.)	-0.56	-0.04	0.17	0.29
P/E (adj.)	neg.	neg.	13.7	7.9
P/B	1.7	1.6	1.4	1.2
Dividend yield-%	0.0 %	0.0 %	0.0 %	0.0 %
EV/EBIT (adj.)	neg.	26.5	11.0	7.9
EV/EBITDA	15.6	6.8	5.0	4.3
EV/S	0.7	0.6	0.5	0.4

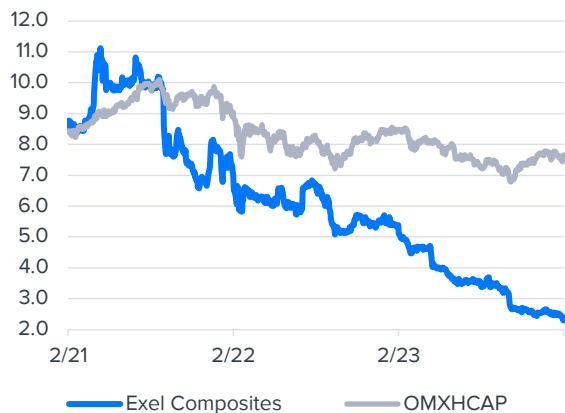
Source: Inderes

Guidance

(New guidance)

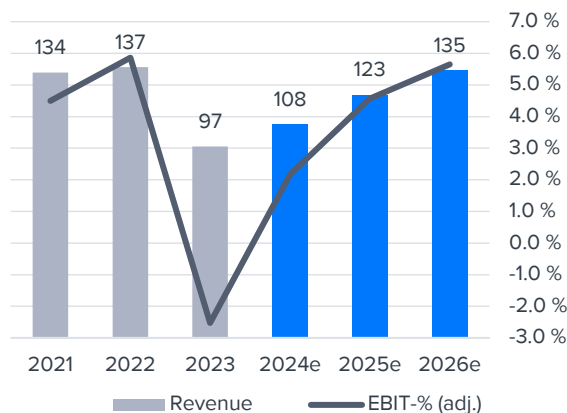
Exel Composites expects that revenue will increase in 2024 (2023: 97 MEUR) and adjusted operating profit will increase significantly compared to 2023 (2023: -2.4 MEUR).

Share price



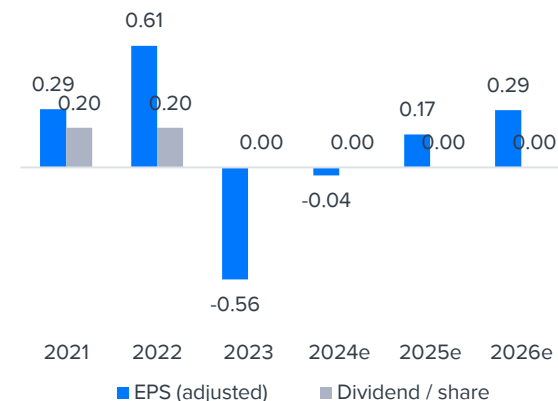
Source: Millistream Market Data AB

Revenue and EBIT-%



Source: Inderes

EPS and dividend



Source: Inderes



Value drivers

- Growing composite market creates a good base for organic growth
- Upside in profitability relative to full potential (incl. reduction in fixed costs)
- Materializing the global structure of production and relative economies of scale in a new, more focused strategy



Risk factors

- Balance sheet risks are elevated, also because of possible investments required by the new strategy (incl. unfavorable financing arrangements)
- Failure in the implementation of the new strategy
- Somewhat cyclical and volatile demand
- With a chronically short absolute order book, business opportunities can weaken relatively quickly
- The somewhat fixed nature of the cost structure creates sensitivity to changes in demand
- Concentrated customer portfolio

Valuation	2024e	2025e	2026e
Share price	2.29	2.29	2.29
Number of shares, million:	11.9	11.9	11.9
Market cap	27	27	27
EV	62	62	61
P/E (adj.)	neg.	13.7	7.9
P/E	neg.	13.7	7.9
P/B	1.6	1.4	1.2
P/S	0.3	0.2	0.2
EV/Sales	0.6	0.5	0.4
EV/EBITDA	6.8	5.0	4.3
EV/EBIT (adj.)	26.5	11.0	7.9
Payout ratio (%)	0.0 %	0.0 %	0.0 %
Dividend yield-%	0.0 %	0.0 %	0.0 %

Source: Inderes

Estimates and estimate revisions

Estimates MEUR / EUR	Q4'22	Q4'23	Q4'23e	Q4'23e	Consensus		Difference (%)	2023
	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. inderes	Actualized
Revenue	31.0	22.1	26.2				-16%	96.8
EBIT (adj.)	0.9	-1.3	0.3					-2.4
EBIT	-1.7	-3.7	-4.0					-4.9
EPS (reported)	-0.32	-0.47	-0.37					-0.77
DPS	0.20	0.00	0.00					0.00
Revenue growth-%	-15.1 %	-28.8 %	-15.5 %				-13.3 pp	-29.3 %
EBIT-% (adj.)	3.0 %	-5.9 %	1.2 %				-7.1 pp	-2.5 %

Source: Inderes

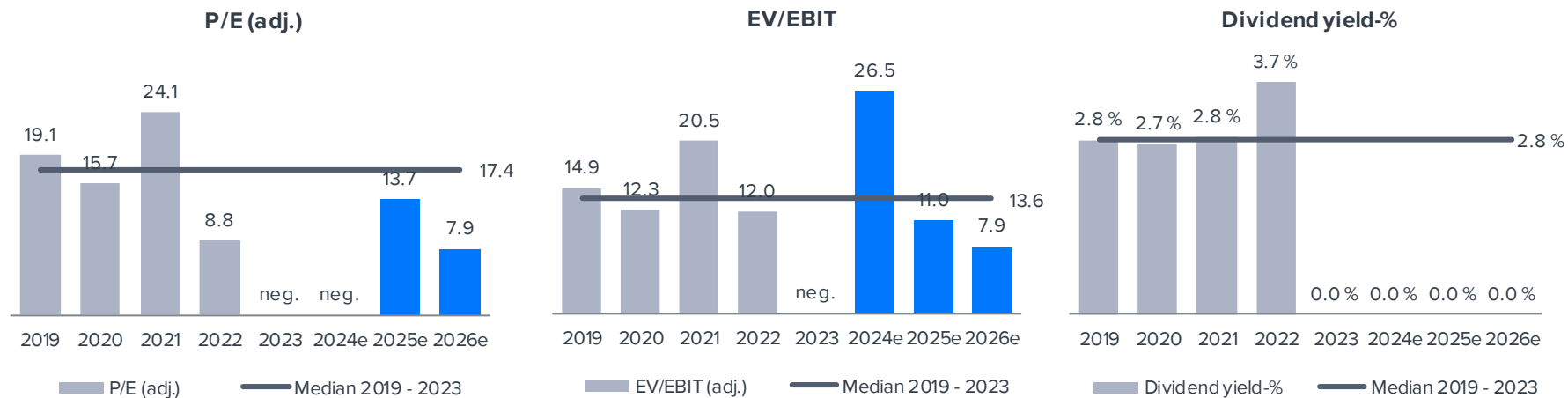
Estimate revisions MEUR / EUR	2023	2023e	Change	2024e	2024e	Change	2025e	2025e	Change
	Old	New	%	Old	New	%	Old	New	%
Revenue	101	97	-4%	109	108	-1%	124	123	-1%
EBITDA	6.0	3.8	-36%	10.1	9.1	-10%	12.6	12.3	-3%
EBIT (exc. NRIs)	-0.8	-2.4		3.3	2.3	-30%	6.1	5.6	-8%
EBIT	-5.2	-4.9		3.3	2.3	-30%	6.1	5.6	-8%
PTP	-7.1	-8.3		1.3	-0.5	-135%	4.3	3.1	-27%
EPS (excl. NRIs)	-0.31	-0.56		0.08	-0.04	-149%	0.24	0.17	-30%
DPS	0.00	0.00		0.00	0.00		0.00	0.00	

Source: Inderes

Valuation table

Valuation	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Share price	6.48	7.38	7.10	5.42	2.54	2.29	2.29	2.29	2.29
Number of shares, millions	11.9	11.9	11.9	11.9	11.9	11.9	11.9	11.9	11.9
Market cap	77	88	84	64	30	27	27	27	27
EV	107	119	124	97	63	62	62	61	56
P/E (adj.)	19.1	15.7	24.1	8.8	neg.	neg.	13.7	7.9	5.6
P/E	32.0	16.4	50.9	28.1	neg.	neg.	13.7	7.9	5.6
P/B	2.9	3.0	2.8	2.2	1.7	1.6	1.4	1.2	1.0
P/S	0.7	0.8	0.6	0.5	0.3	0.3	0.2	0.2	0.2
EV/Sales	1.0	1.1	0.9	0.7	0.7	0.6	0.5	0.4	0.4
EV/EBITDA	10.0	7.8	10.3	6.7	15.6	6.8	5.0	4.3	3.6
EV/EBIT (adj.)	14.9	12.3	20.5	12.0	neg.	26.5	11.0	7.9	6.1
Payout ratio (%)	88.8 %	44.3 %	143.3 %	103.8 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Dividend yield-%	2.8 %	2.7 %	2.8 %	3.7 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %

Source: Inderes



Income statement

Income statement	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24e	Q2'24e	Q3'24e	Q4'24e	2024e	2025e	2026e	2027e
Revenue	137	28.8	25.4	20.5	22.1	96.8	28.5	25.7	25.1	28.7	108	123	135	142
Konserni	137	28.8	25.4	20.5	22.1	96.8	28.5	25.7	25.1	28.7	108	123	135	142
EBITDA	10.1	1.5	1.5	1.1	-0.2	3.8	2.6	2.1	1.9	2.5	9.1	12.3	14.1	15.8
Depreciation	-7.1	-1.8	-1.7	-1.7	-3.5	-8.7	-1.7	-1.7	-1.7	-1.7	-6.8	-6.6	-6.5	-6.6
EBIT (excl. NRI)	8.0	0.0	0.1	-1.2	-1.3	-2.4	0.9	0.4	0.2	0.8	2.3	5.6	7.6	9.2
EBIT	3.0	-0.3	-0.2	-0.7	-3.7	-4.9	0.9	0.4	0.2	0.8	2.3	5.6	7.6	9.2
Net financial items	0.6	-1.2	-0.4	0.2	-2.0	-3.4	-0.7	-0.7	-0.7	-0.7	-2.8	-2.5	-2.4	-2.0
PTP	3.6	-1.5	-0.7	-0.4	-5.7	-8.3	0.2	-0.3	-0.5	0.1	-0.5	3.1	5.3	7.2
Taxes	-1.5	-0.7	-0.2	-0.2	0.1	-1.1	0.0	0.1	0.1	0.0	0.1	-0.8	-1.4	-1.9
Minority interest	0.1	0.0	0.0	0.1	0.0	0.2	0.0	0.0	0.0	0.0	-0.1	-0.3	-0.4	-0.5
Net earnings	2.3	-2.1	-0.9	-0.6	-5.6	-9.1	0.1	-0.3	-0.4	0.0	-0.5	2.0	3.4	4.8
EPS (adj.)	0.61	-0.15	-0.05	-0.10	-0.27	-0.56	0.01	-0.02	-0.03	0.00	-0.04	0.17	0.29	0.41
EPS (rep.)	0.19	-0.18	-0.07	-0.05	-0.47	-0.77	0.01	-0.02	-0.03	0.00	-0.04	0.17	0.29	0.41
Key figures	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24e	Q2'24e	Q3'24e	Q4'24e	2024e	2025e	2026e	2027e
Revenue growth-%	1.9 %	-15.7 %	-33.3 %	-39.2 %	-28.8 %	-29.3 %	-1.0 %	1.0 %	22.0 %	30.0 %	11.5 %	14.0 %	10.0 %	5.0 %
Adjusted EBIT growth-%	33.0 %	-99.7 %	-97.9 %	-166.5 %	-242.7 %	-130.5 %	#####	518.8 %	-119.0 %	-160.2 %	-195.5 %	140.3 %	36.1 %	20.4 %
EBITDA-%	7.4 %	5.1 %	5.8 %	5.2 %	-0.8 %	4.0 %	9.2 %	8.2 %	7.7 %	8.7 %	8.5 %	10.0 %	10.4 %	11.1 %
Adjusted EBIT-%	5.9 %	0.0 %	0.3 %	-5.9 %	-5.9 %	-2.5 %	3.2 %	1.6 %	0.9 %	2.8 %	2.2 %	4.6 %	5.7 %	6.5 %
Net earnings-%	1.7 %	-7.3 %	-3.5 %	-2.8 %	-25.2 %	-9.4 %	0.5 %	-1.0 %	-1.6 %	0.2 %	-0.4 %	1.6 %	2.5 %	3.4 %

Source: Inderes

Balance sheet

Assets	2022	2023	2024e	2025e	2026e
Non-current assets	47.9	39.6	37.9	37.3	37.9
Goodwill	13.0	12.6	12.6	12.6	12.6
Intangible assets	2.2	1.7	1.7	1.8	1.8
Tangible assets	30.9	24.7	22.9	22.3	22.8
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	1.8	0.6	0.6	0.6	0.6
Current assets	65.2	45.4	52.9	59.6	62.1
Inventories	23.4	16.9	18.9	20.9	22.3
Other current assets	1.1	0.5	0.5	0.5	0.5
Receivables	23.3	17.0	20.5	23.4	25.7
Cash and equivalents	17.4	11.0	13.0	14.8	13.5
Balance sheet total	113	85.0	90.8	96.9	100

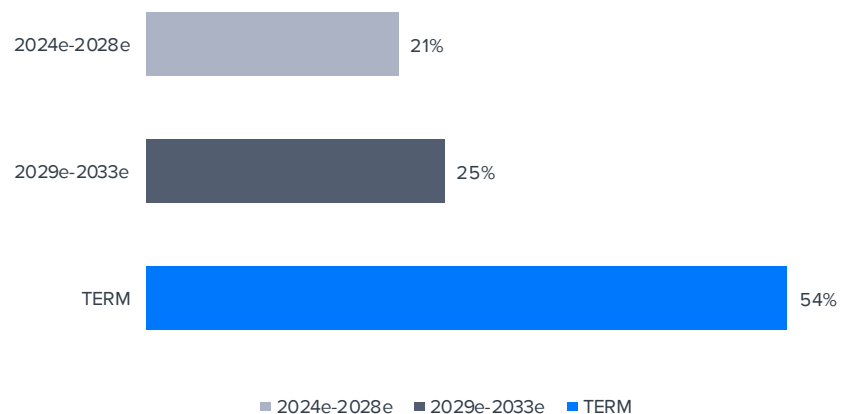
Source: Inderes

Liabilities & equity	2022	2023	2024e	2025e	2026e
Equity	30.4	17.7	17.2	19.2	22.6
Share capital	2.1	2.1	2.1	2.1	2.1
Retained earnings	21.0	9.5	9.1	11.1	14.5
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	6.8	5.8	5.8	5.8	5.8
Minorities	0.4	0.2	0.2	0.2	0.2
Non-current liabilities	15.4	6.0	18.3	21.0	22.3
Deferred tax liabilities	0.6	0.3	0.3	0.3	0.3
Provisions	0.0	0.0	0.0	0.0	0.0
Interest bearing debt	13.5	4.4	16.6	19.4	20.7
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	1.2	1.3	1.3	1.3	1.3
Current liabilities	67.3	61.3	55.3	56.7	55.1
Interest bearing debt	35.0	39.4	30.5	29.6	26.0
Payables	26.2	21.9	24.8	27.1	29.1
Other current liabilities	6.1	0.0	0.0	0.0	0.0
Balance sheet total	113	85.0	90.8	96.9	100

DCF calculation

DCF model	2023	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	TERM
Revenue growth-%	-29.3 %	11.5 %	14.0 %	10.0 %	5.0 %	4.0 %	3.0 %	2.5 %	2.0 %	2.0 %	2.0 %	2.0 %
EBIT-%	-5.0 %	2.2 %	4.6 %	5.7 %	6.5 %	6.2 %	6.0 %	6.0 %	6.0 %	6.0 %	6.0 %	6.0 %
EBIT (operating profit)	-4.9	2.3	5.6	7.6	9.2	9.2	9.1	9.4	9.5	9.7	9.9	
+ Depreciation	8.7	6.8	6.6	6.5	6.6	6.6	6.7	6.8	6.9	6.9	6.9	
- Paid taxes	-0.2	0.1	-0.8	-1.4	-1.9	-1.8	-1.9	-2.0	-2.0	-2.1	-2.2	
- Tax, financial expenses	0.4	-0.6	-0.7	-0.6	-0.5	-0.5	-0.5	-0.5	-0.5	-0.4	-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	2.9	-2.6	-2.7	-1.7	-0.2	0.0	0.2	-0.5	-0.4	-0.4	-0.4	
Operating cash flow	7.0	6.0	8.1	10.3	13.2	13.4	13.7	13.3	13.6	13.7	13.8	
+ Change in other long-term liabilities	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-1.6	-5.1	-6.1	-7.1	-7.1	-7.1	-7.1	-7.2	-6.9	-6.9	-7.0	
Free operating cash flow	5.5	1.0	2.0	3.3	6.1	6.3	6.6	6.1	6.7	6.9	6.8	
+/- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	5.5	1.0	2.0	3.3	6.1	6.3	6.6	6.1	6.7	6.9	6.8	87.0
Discounted FCFF		0.9	1.7	2.5	4.2	4.0	3.8	3.2	3.2	3.0	2.7	33.9
Sum of FCFF present value		63.0	62.0	60.3	57.9	53.6	49.7	45.9	42.7	39.5	36.6	33.9
Enterprise value DCF		63.0										
- Interest bearing debt		-43.8										
+ Cash and cash equivalents		11.0										
-Minorities		-0.4										
-Dividend/capital return		0.0										
Equity value DCF		29.7										
Equity value DCF per share		2.5										

Cash flow distribution

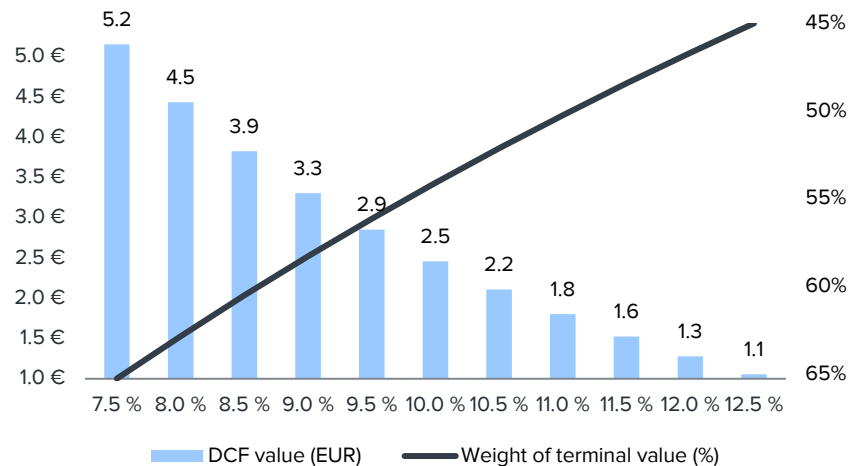


WACC	
Tax-% (WACC)	25.0 %
Target debt ratio (D/(D+E))	25.0 %
Cost of debt	8.0 %
Equity Beta	1.55
Market risk premium	4.75%
Liquidity premium	1.50%
Risk free interest rate	2.5 %
Cost of equity	11.4 %
Weighted average cost of capital (WACC)	10.0 %

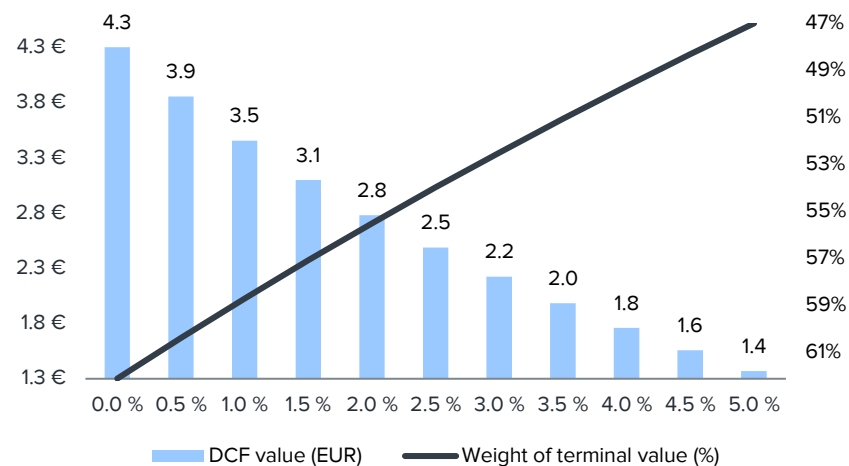
Source: Inderes

DCF sensitivity calculations and key assumptions in graphs

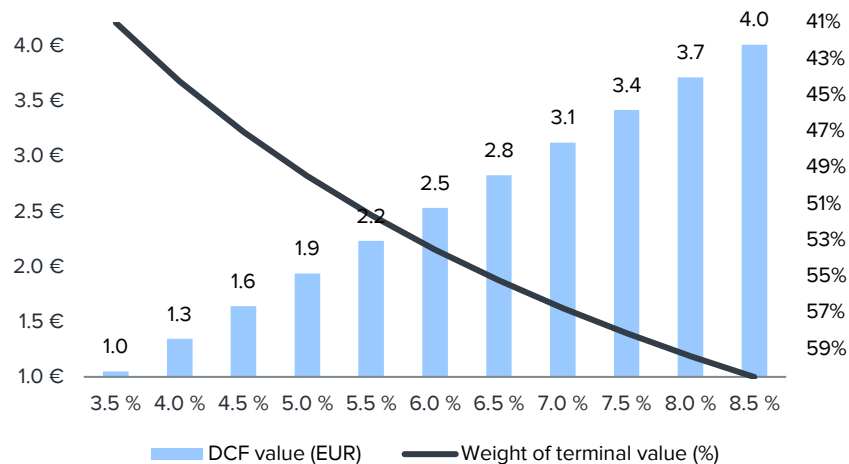
Sensitivity of DCF to changes in the WACC-%



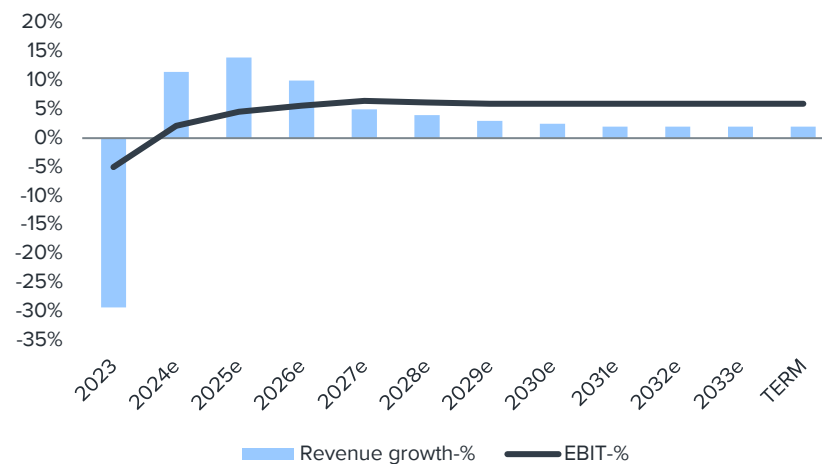
Sensitivity of DCF to changes in the risk-free rate



Sensitivity of DCF to changes in the terminal EBIT margin



Growth and profitability assumptions in the DCF calculation



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	Per share data	2021	2022	2023	2024e	2025e
Revenue	134.4	137.0	96.8	107.9	123.0	EPS (reported)	0.14	0.19	-0.77	-0.04	0.17
EBITDA	11.9	10.1	3.8	9.1	12.3	EPS (adj.)	0.29	0.61	-0.56	-0.04	0.17
EBIT	3.7	3.0	-4.9	2.3	5.6	OCF / share	0.41	0.99	0.59	0.51	0.68
PTP	4.2	3.6	-8.3	-0.5	3.1	FCF / share	-0.61	0.74	0.46	0.08	0.17
Net Income	1.7	2.3	-9.1	-0.5	2.0	Book value / share	2.57	2.52	1.47	1.43	1.59
Extraordinary items	-2.3	-5.0	-2.4	0.0	0.0	Dividend / share	0.20	0.20	0.00	0.00	0.00
Balance sheet	2021	2022	2023	2024e	2025e	Growth and profitability	2021	2022	2023	2024e	2025e
Balance sheet total	117.7	113.1	85.0	90.8	96.9	Revenue growth-%	24%	2%	-29%	11%	14%
Equity capital	31.2	30.4	17.7	17.2	19.2	EBITDA growth-%	-22%	-15%	-62%	138%	34%
Goodwill	12.8	13.0	12.6	12.6	12.6	EBIT (adj.) growth-%	-38%	33%	-130%	-196%	140%
Net debt	37.4	31.1	32.8	34.2	34.3	EPS (adj.) growth-%	-38%	109%	-192%	-93%	-522%
Cash flow	2021	2022	2023	2024e	2025e	EBITDA-%	8.9 %	7.4 %	4.0 %	8.5 %	10.0 %
EBITDA	11.9	10.1	3.8	9.1	12.3	EBIT (adj.)-%	4.5 %	5.9 %	-2.5 %	2.2 %	4.6 %
Change in working capital	-4.8	2.8	2.9	-2.6	-2.7	EBIT-%	2.8 %	2.2 %	-5.0 %	2.2 %	4.6 %
Operating cash flow	4.8	11.8	7.0	6.0	8.1	ROE-%	5.6 %	7.6 %	-38.5 %	-2.7 %	11.1 %
CAPEX	-12.2	-3.2	-1.6	-5.1	-6.1	ROI-%	4.8 %	3.7 %	-6.9 %	3.7 %	8.5 %
Free cash flow	-7.2	8.8	5.5	1.0	2.0	Equity ratio	26.5 %	26.9 %	20.9 %	19.0 %	19.8 %
						Gearing	119.9 %	102.4 %	185.7 %	198.5 %	178.4 %
Valuation multiples	2021	2022	2023	2024e	2025e						
EV/S	0.9	0.7	0.7	0.6	0.5						
EV/EBITDA (adj.)	10.3	6.7	15.6	6.8	5.0						
EV/EBIT (adj.)	20.5	12.0	neg.	26.5	11.0						
P/E (adj.)	24.1	8.8	neg.	neg.	13.7						
P/B	2.8	2.2	1.7	1.6	1.4						
Dividend-%	2.8 %	3.7 %	0.0 %	0.0 %	0.0 %						

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>Analyst changed</i>			
7/21/2022	Accumulate	7.00 €	6.58 €
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 €
10/19/2023	Sell	2.50 €	3.04 €
11/6/2023	Reduce	2.50 €	2.67 €
2/19/2024	Reduce	2.20 €	2.29 €



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