

Sitowise

Company report

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This report is a summary translation of the report “Tulosvaroitus kielii haasteista Ruotsissa” published on 8/1/2024 at 6:20 am EEST.

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Profit warning points to challenges in Sweden

On Wednesday, Sitowise lowered its revenue and earnings guidance for 2024, mainly due to weaker-than-expected developments in Sweden. We expected a profit warning from Sitowise after the last update due to continued market weakness, but weaker-than-expected Q2 numbers have lowered our forecasts for the current year. In our view, the warning raises the risk of deeper problems in the Swedish business, and we expect a negative price reaction. We reiterate our Reduce recommendation and lower our target price to EUR 2.70 (was EUR 2.90).

Revenue and profitability down this year

Sitowise now expects revenue to decline in 2024 (2023: 210.9 MEUR) due to a decline in the Buildings business and a weaker growth outlook for the Swedish business in the second half of the year (previously: revenue to decline slightly in 2024). For 2024, Sitowise expects the adjusted EBITA margin (%) to be lower than in 2023, whereas previously it was estimated to be at the same level or better than in 2023 (2023: 8.1%). Before the warning, we had forecast a 4.8% decline in revenue to 200.7 MEUR and an adjusted EBITA margin of 7.5%, so the profit warning was expected from our side.

Sweden particularly weak

As background and justification for the guidance, Sitowise points out that the development was particularly burdened by the significantly weaker-than-expected performance of the Swedish business. According to the stock exchange release, there have been project overruns in Sweden, which obviously does not bode well for operational performance. In addition, the workload in Sweden was insufficient in relation to the staff, which we estimate will have a negative impact on Sitowise's billing rate. No orders have been received and projects have moved on. Necessary compensatory measures take more time, because temporary layoffs are not possible in Sweden as they are in Finland. The Swedish business is expected to remain challenging in H2 due to an insufficient order book. The turnaround in the Buildings business in Finland is still a work in progress. However, the Infra and Digital Solutions businesses developed strongly in Q2 and the outlook for these businesses is good.

Q2 preliminary data weaker than expected

The company also provided preliminary data for Q2. According to preliminary data, the decline in revenue accelerated compared to Q1 and amounted to 10%. Revenue was 50.9 MEUR (Q2'23: 56.5 MEUR) and adjusted EBITA decreased to 2.6 MEUR (Q2'23: 4.5 MEUR). The margin fell to a very low level of 5% (Q2'23: 8.0%). In particular, the margin was well below our previous forecast (Q2'23e: 7.7%) and raises questions about broader profitability issues. After all, in Q2, profitability was supported by an increase in the number of working days. We have slashed our estimates for Q2 but have not materially changed our forecasts for the next few years until we have clarity on the magnitude of the challenges from the company's Q2 results on August 13, 2024.

More clarity is needed on the severity of the challenges

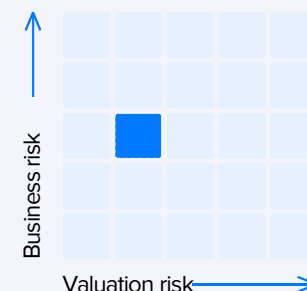
Sitowise is highly valued in the short term and there is no reason to rely on the uncertain potential of the profitability turnaround (DCF: EUR 3.9) until the Q2 report gives us more clarity on the severity of the challenges. Although the earnings warning was in line with our expectations, we expect the market to react negatively to the change in guidance. We have lowered our target price in light of the revised forecasts and increased risks.

Recommendation

Reduce
(previous Reduce)

EUR 2.70
(previous EUR 2.90)

Share price:
2.89



Key figures

	2023	2024e	2025e	2026e
Revenue	210.9	199.5	208.9	222.3
growth-%	3%	-5%	5%	6%
EBITA adj.	17.0	13.5	17.8	21.1
EBITA-% adj.	8.1 %	6.8 %	8.5 %	9.5 %
Net income	5.6	3.4	8.6	11.9
EPS (adj.)	0.21	0.10	0.24	0.33
P/E (adj.)	15.2	27.6	12.0	8.7
P/B	0.9	0.8	0.8	0.8
Dividend yield-%	0.0 %	2.1 %	3.5 %	4.8 %
EV/EBIT (adj.)	14.5	19.1	11.4	8.6
EV/EBITDA	8.2	8.7	6.9	5.7
EV/S	0.9	0.9	0.8	0.7

Source: Inderes

Guidance

(Downgraded)

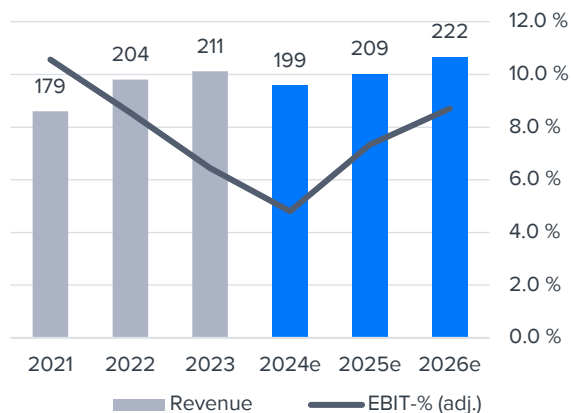
Sitowise Group's revenue is expected to decline in 2024, driven by the Buildings business decline and weakened growth outlook in Sweden for the second half of the year. In year 2024, the adjusted EBITA margin (%) is expected to be lower than in 2023.

Share price



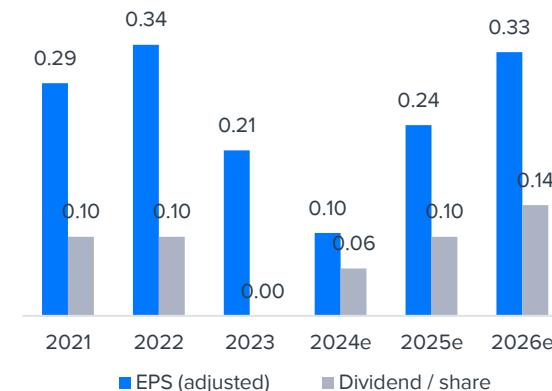
Source: Millstream Market Data AB

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

- Cyclicity 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	2.89	2.89	2.89
Number of shares, millions	35.8	35.8	35.8
Market cap	104	104	104
EV	184	175	166
P/E (adj.)	27.6	12.0	8.7
P/B	0.8	0.8	0.8
EV/Sales	0.9	0.8	0.7
EV/EBITDA	8.7	6.9	5.7
EV/EBIT (adj.)	19.1	11.4	8.6
Payout ratio (%)	62.8 %	41.5 %	42.1 %
Dividend yield-%	2.1 %	3.5 %	4.8 %

Source: Inderes

We lowered our estimates based on preliminary Q2 data

Income statement	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24	Q2'24e	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	44.3	52.8	199.5	208.9	222.3	229.8
Infra	60.0	15.8	17.8	14.5	17.5	65.6	17.0	18.2	14.6	17.5	67.3	69.3	70.7	72.8
Buildings	79.4	19.9	19.1	15.8	16.1	70.9	16.1	15.3	15.0	15.8	62.2	64.7	71.1	73.3
Digital Solutions	22.1	8.0	7.7	6.7	7.6	30.0	7.0	6.9	6.4	7.7	28.0	30.8	33.3	34.6
Sweden	42.9	12.4	11.9	8.6	11.6	44.5	11.4	10.5	8.3	11.8	42.0	44.1	47.2	49.1
EBITDA	23.8	8.5	6.4	5.2	3.2	23.2	5.1	4.5	5.7	5.9	21.2	25.5	28.8	29.6
Depreciation	-10.6	-3.0	-2.8	-2.9	-2.8	-11.5	-3.1	-3.0	-2.9	-2.9	-11.9	-10.1	-9.5	-9.0
EBITA (adj.)	20.4	6.6	4.5	3.5	2.4	17.0	3.4	2.6	3.7	3.9	13.5	17.8	21.1	21.8
EBITA	16.1	6.2	4.4	3.3	1.3	15.1	3.1	2.5	3.7	3.9	13.2	17.8	21.1	21.8
EBIT	13.2	5.5	3.6	2.3	0.3	11.7	2.0	1.5	2.8	3.0	9.3	15.3	19.3	20.5
Net financial items	-2.9	-1.1	-0.9	-1.2	-1.3	-4.6	-1.2	-1.1	-1.3	-1.4	-5.0	-4.4	-4.3	-4.1
PTP	10.3	4.4	2.7	1.0	-1.0	7.1	0.7	0.4	1.5	1.6	4.3	10.9	15.1	16.4
Taxes	-2.4	-0.9	-0.6	-0.3	0.1	-1.6	-0.2	-0.1	-0.3	-0.3	-0.9	-2.3	-3.1	-3.4
Minority interest	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1
Net earnings	7.8	3.5	2.2	0.8	-0.9	5.6	0.6	0.3	1.2	1.3	3.4	8.6	11.9	13.0
EPS (adj.)	0.34	0.11	0.06	0.03	0.01	0.21	0.03	0.01	0.03	0.04	0.10	0.24	0.33	0.36
EPS (rep.)	0.22	0.10	0.06	0.02	-0.02	0.16	0.02	0.01	0.03	0.04	0.10	0.24	0.33	0.36

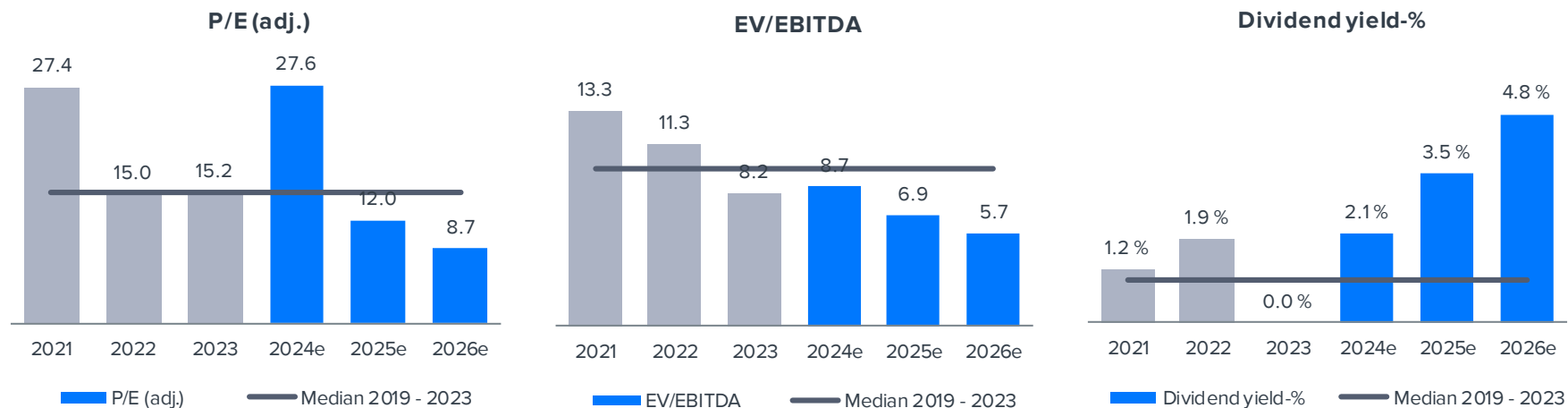
Key figures	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24	Q2'24e	Q3'24e	Q4'24e	2024e	2025e	2026e	2027e
Revenue growth-%	14.0 %	13.9 %	9.2 %	-0.7 %	-8.3 %	3.2 %	-8.0 %	-10.0 %	-2.8 %	0.0 %	-5.4 %	4.7 %	6.4 %	3.4 %
Adjusted EBITA growth-%		40.7 %	-24.0 %	-29.6 %	-57.0 %	-16.6 %	-49.0 %	-43.4 %	6.9 %	62.2 %	-20.4 %	32.0 %	18.3 %	3.1 %
EBITDA-%	11.6 %	15.1 %	11.3 %	11.4 %	6.0 %	11.0 %	9.9 %	8.9 %	12.8 %	11.2 %	10.6 %	12.2 %	13.0 %	12.9 %
Adjusted EBITA-%	10.0 %	11.8 %	8.0 %	7.6 %	4.6 %	8.1 %	6.6 %	5.0 %	8.3 %	7.4 %	6.8 %	8.5 %	9.5 %	9.5 %

Estimate revisions	2024e	2024e	Change	2025e	2025e	Change	2026e	2026e	Change
MEUR / EUR	Old	New	%	Old	New	%	Old	New	%
Revenue	201	199	-1%	210	209	-1%	224	222	-1%
EBITDA	22.7	21.2	-6%	25.6	25.5	-1%	29.0	28.8	-1%
EBITA (adj.)	15.0	13.5	-10%	18.0	17.8	-1%	21.3	21.1	-1%
EBITA	15.0	13.2	-12%	18.0	17.8	-1%	21.3	21.1	-1%
PTP	5.7	4.3	-25%	11.1	10.9	-1%	15.3	15.1	-1%
EPS (excl. NRIs)	0.14	0.10	-24%	0.24	0.24	-2%	0.34	0.33	-1%
DPS	0.06	0.06	0%	0.10	0.10	0%	0.14	0.14	0%

Valuation table

Valuation	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Share price			8.05	5.14	3.18	2.89	2.89	2.89	2.89
Number of shares, millions			35.4	35.5	35.6	35.8	35.8	35.8	35.8
Market cap			285	182	113	104	104	104	104
EV			345	268	197	184	175	166	157
P/E (adj.)			27.4	15.0	15.2	27.6	12.0	8.7	8.0
P/B			2.5	1.6	0.9	0.8	0.8	0.8	0.7
EV/Sales			1.9	1.3	0.9	0.9	0.8	0.7	0.7
EV/EBITDA			13.3	11.3	8.2	8.7	6.9	5.7	5.3
EV/EBIT (adj.)			18.2	15.4	14.5	19.1	11.4	8.6	7.6
Payout ratio (%)			45.2 %	45.2 %	0.0 %	62.8 %	41.5 %	42.1 %	52.6 %
Dividend yield-%			1.2 %	1.9 %	0.0 %	2.1 %	3.5 %	4.8 %	6.6 %

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	5303	5844	26.7	22.3	19.4	17.3	2.4	2.2	33.2	27.6	1.6	1.9	5.7
Afry AB	1859	2461	16.7	14.2	10.5	9.8	1.1	1.0	18.0	15.7	3.1	3.3	1.7
Rejlers AB	302	357	15.5	13.1	9.3	8.2	1.0	1.0	18.1	15.0	2.7	3.1	2.0
Solwers Oyj	48	65	13.4	11.6	8.2	6.7	1.0	0.7	15.1	12.8	1.3	2.0	0.9
Etteplan Oyj	324	396	15.0	13.2	8.7	7.9	1.1	1.0	16.8	14.4	2.7	3.1	2.8
Norconsult ASA	863	919	14.6	14.6	9.1	9.0	1.2	1.2	16.9	16.5	2.9	3.9	5.2
Sitowise (Inderes)	104	184	19.1	11.4	8.7	6.9	0.9	0.8	27.6	12.0	2.1	3.5	0.8
Average			17.0	14.8	10.9	9.8	1.3	1.2	19.7	17.0	2.4	2.9	3.0
Median			15.3	13.7	9.2	8.6	1.1	1.0	17.5	15.4	2.7	3.1	2.4
Diff-% to median			25%	-17%	-6%	-20%	-15%	-19%	58%	-22%	-22%	11%	-65%

Source: Refinitiv / Inderes

Balance sheet

Assets	2022	2023	2024e	2025e	2026e
Non-current assets	202	202	199	197	195
Goodwill	158	158	159	159	159
Intangible assets	10.2	11.9	8.5	5.9	4.1
Tangible assets	31.8	29.3	29.3	29.7	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	68.7	74.5	87.8
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	56.0	58.6	62.3
Cash and equivalents	15.4	15.6	11.0	14.1	23.6
Balance sheet total	281	278	268	271	283

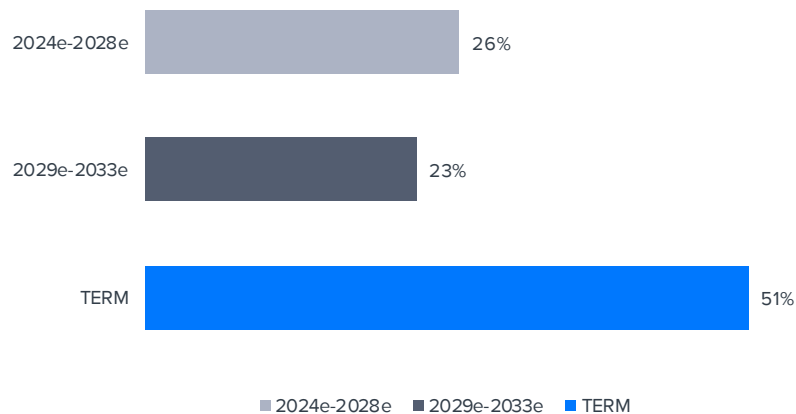
Source: Inderes

Liabilities & equity	2022	2023	2024e	2025e	2026e
Equity	117	120	123	130	138
Share capital	0.1	0.1	0.1	0.1	0.1
Retained earnings	23.4	25.8	29.2	35.7	44.0
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	57.6	59.7	63.2
Interest bearing debt	7.9	8.2	5.4	5.0	5.0
Payables	59.6	58.3	51.9	54.3	57.8
Other current liabilities	1.6	0.4	0.4	0.4	0.4
Balance sheet total	281	278	268	271	283

DCF calculation

DCF model	2023	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	TERM
Revenue growth-%	3.2 %	-5.4 %	4.7 %	6.4 %	3.4 %	3.0 %	2.5 %	2.0 %	1.0 %	1.0 %	1.0 %	1.0 %
EBIT-%	5.5 %	4.6 %	7.3 %	8.7 %	8.9 %	10.0 %	9.7 %	9.5 %	9.2 %	9.0 %	9.0 %	9.0 %
EBIT (operating profit)	11.7	9.3	15.3	19.3	20.5	23.7	23.5	23.5	23.0	22.8	23.1	
+ Depreciation	11.5	11.9	10.1	9.5	9.0	8.7	8.5	8.3	8.2	8.2	8.1	
- Paid taxes	-1.5	-0.9	-2.3	-3.1	-3.4	-4.1	-4.0	-4.0	-3.9	-3.9	-3.9	
- Tax, financial expenses	-1.0	-1.0	-0.9	-0.9	-0.9	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	
+ 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	16.1	22.1	24.6	25.2	27.4	27.1	26.9	26.4	26.2	26.4	
+ 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	-9.0	-8.0	-8.0	-8.0	-8.0	-8.0	-8.0	-8.0	-8.0	-7.9	
Free operating cash flow	9.0	7.1	14.1	16.6	17.2	19.4	19.1	18.9	18.4	18.2	18.4	
+/- 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	6.6	14.1	16.6	17.2	19.4	19.1	18.9	18.4	18.2	18.4	246
Discounted FCFF		6.3	12.6	13.6	12.9	13.4	12.2	11.1	10.0	9.1	8.5	113
Sum of FCFF present value		223	216	204	190	177	164	152	140	130	121	113
Enterprise value DCF		223										
- Interest bearing debt		-98.7										
+ Cash and cash equivalents		15.6										
-Minorities		-0.6										
-Dividend/capital return		0.0										
Equity value DCF		139										
Equity value DCF per share		3.9										

Cash flow distribution

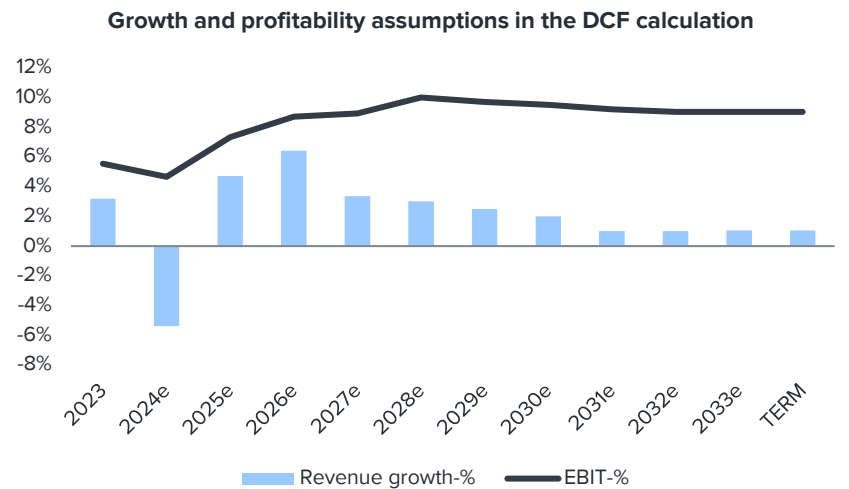
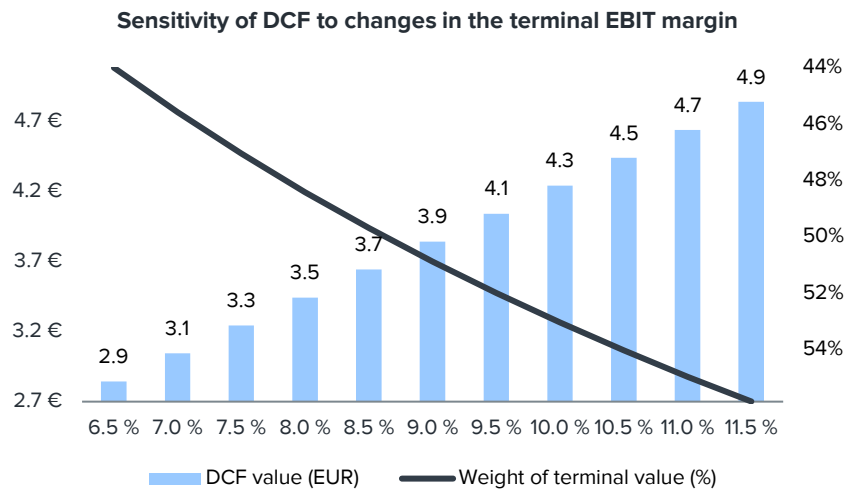
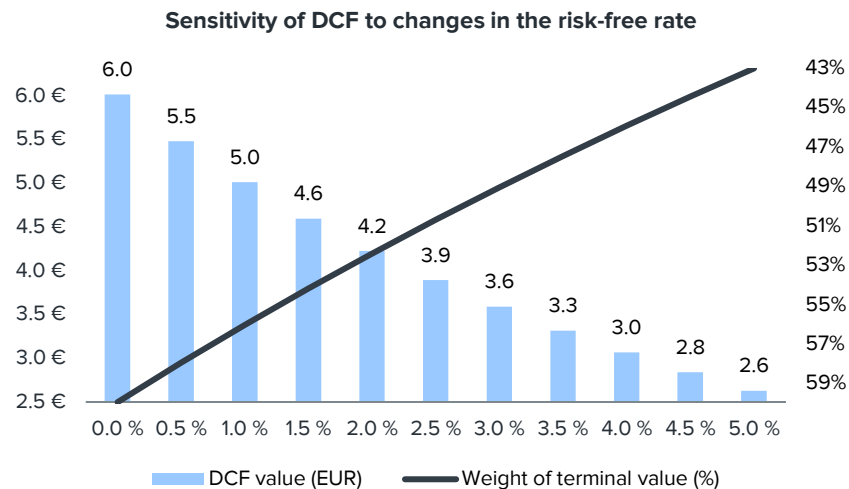
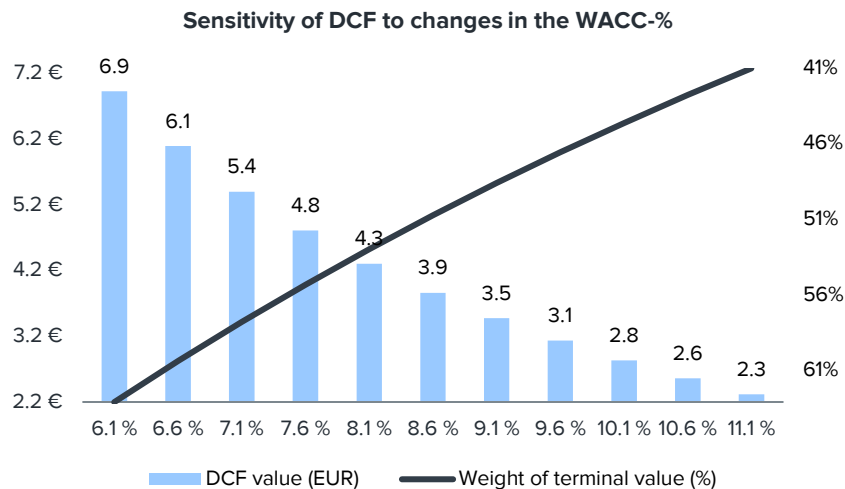


WACC

Tax-% (WACC)	20.0 %
Target debt ratio (D/(D+E))	23.0 %
Cost of debt	4.5 %
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)	8.6 %

Source: Inderes

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	Per share data	2021	2022	2023	2024e	2025e
Revenue	179.3	204.4	210.9	199.5	208.9	EPS (reported)	0.22	0.22	0.16	0.10	0.24
EBITDA	25.8	23.8	23.2	21.2	25.5	EPS (adj.)	0.29	0.34	0.21	0.10	0.24
EBIT	16.4	13.2	11.7	9.3	15.3	OCF / share	0.50	0.50	0.56	0.45	0.62
PTP	10.3	10.3	7.1	4.3	10.9	FCF / share	-0.23	-0.51	0.25	0.18	0.39
Net Income	7.8	7.8	5.6	3.4	8.6	Book value / share	3.24	3.29	3.35	3.42	3.60
Extraordinary items	-2.6	-4.3	-1.9	-0.3	0.0	Dividend / share	0.10	0.10	0.00	0.06	0.10
Balance sheet	2021	2022	2023	2024e	2025e	Growth and profitability	2021	2022	2023	2024e	2025e
Balance sheet total	249.8	280.7	278.4	267.6	271.2	Revenue growth-%	12%	14%	3%	-5%	5%
Equity capital	114.9	116.9	119.6	123.5	130.0	EBITDA growth-%	-2%	-8%	-2%	-9%	20%
Goodwill	135.2	157.6	158.0	158.5	158.5	EBIT (adj.) growth-%	10%	-8%	-22%	-29%	60%
Net debt	59.3	85.6	83.1	79.4	70.9	EPS (adj.) growth-%	-10%	16%	-39%	-50%	130%
Cash flow	2021	2022	2023	2024e	2025e	EBITDA-%	14.4 %	11.6 %	11.0 %	10.6 %	12.2 %
EBITDA	25.8	23.8	23.2	21.2	25.5	EBIT (adj.)-%	10.6 %	8.5 %	6.4 %	4.8 %	7.3 %
Change in working capital	-3.2	-3.0	-0.7	-3.2	-0.2	EBIT-%	9.1 %	6.4 %	5.5 %	4.6 %	7.3 %
Operating cash flow	17.7	17.9	20.1	16.1	22.1	ROE-%	8.6 %	6.8 %	4.7 %	2.8 %	6.9 %
CAPEX	-25.8	-36.1	-11.1	-9.0	-8.0	ROI-%	9.0 %	6.4 %	5.4 %	4.3 %	7.1 %
Free cash flow	-8.2	-18.2	9.0	6.6	14.1	Equity ratio	46.0 %	41.6 %	42.9 %	46.1 %	47.9 %
						Gearing	51.6 %	73.2 %	69.5 %	64.3 %	54.6 %
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	8.7	6.9						
EV/EBIT (adj.)	18.2	15.4	14.5	19.1	11.4						
P/E (adj.)	27.4	15.0	15.2	27.6	12.0						
P/B	2.5	1.6	0.9	0.8	0.8						
Dividend-%	1.2 %	1.9 %	0.0 %	2.1 %	3.5 %						

Source: Inderes

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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 €



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