

Exel Composites

Company report

11/04/2022



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✓ Inderes corporate customer

This report is a summary translation of the report “Kysyntätilanteen kehitys keskiössä loppuvuodelle” published on 11/03/2022 at 08:30 pm.

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Demand development key for the rest of the year

Exel reported a weaker-than-expected Q3 report with revenue and operating profit below our estimates. In the report, the company reiterated its guidance for the current year and sees no reason to change it at this time, which was disappointing given our expectations prior to the report. In light of this and the prevailing uncertainty, we made negative changes to our estimates for the coming years. Despite the estimate cuts, we believe the share is priced moderately and thus we reiterate Exel's Accumulate recommendation and target price of EUR 6.00.

The Q3 report missed our expectations operationally

Exel's revenue grew only slightly year-on-year and amounted to EUR 33.8 million, which was below our estimate (36.2 MEUR). By customer industry, the strongest growth was seen in Transportation (+76%), which was hit hard by the pandemic. Among the largest customer industries, moderate growth was seen in Equipment & Other Industries (+4%) and Machinery & Electrical (+4%). However, Buildings & Infrastructure (-3%) and Wind Power (-7%) saw moderate declines. The adjusted operating profit for Q3 was EUR 1.8 million, which was clearly below our estimate of EUR 2.8 million. The estimate was missed due to lower-than-expected revenue and profitability. We estimate that profitability was weighed down by volume underperformance in particular, given the somewhat fixed underlying nature of Exel's cost structure. On the lower rows, earnings were boosted by non-cash net financial income, like in Q2. This pushed reported EPS slightly above our expectations against the operating result.

Estimates down due to softer-than-expected report and uncertainty about the demand outlook

In the report, Exel reiterated its guidance for the current year, expecting revenue at last year's level and increasing adjusted EBIT, which was disappointing compared to our expectations prior to the report. In the Q3 event, the company said that it sees no reason to change the guidance at this point, although it is a good 8% ahead of last year in terms of revenue and 42% ahead in terms of adjusted EBIT. According to our estimates, the reiteration of the guidance was also driven by moderate order intake in Q3 (24 MEUR) and a thinned order book (35 MEUR). However, Exel didn't see any major concerns in this regard, but highlighted the uncertainty surrounding the demand outlook in the short term due to the challenges in the operating environment. In our view, the key to the company's near-term performance will be how its order intake ultimately develops under uncertainty during the remainder of the year and early part next year. Reflecting our lower-than-expected Q3 report and a softer outlook, we lowered our estimates for both revenue and EBIT. We now forecast the company's revenue for the current year to grow by about 4% to EUR 140 million and adjusted EBIT by 49% to EUR 9.0 million, which we estimate are still in line with the current guidance. We also made cuts to our estimates for the coming years on the back of weaker-than-expected Q3 performance and heightened uncertainty.

Valuation remains moderate despite lowered estimates

Exel's earnings-based valuation multiples for the coming years remain moderate despite the lowered forecasts (adj. P/E 2022 and 2023: 7x and 11x and EV/EBITDA: 5x and 6x), reflecting our accepted multiple range. Over the next 12 months, however, we believe it's difficult to rely on a substantial rise in valuation multiples due to the many uncertainties in the operating environment and equity markets. In addition, due to the short visibility of the business, the multiples also contain forecasting risk. Despite the uncertainty, we believe the risk-adjusted expected return on the stock is clearly positive.

Recommendation

Accumulate

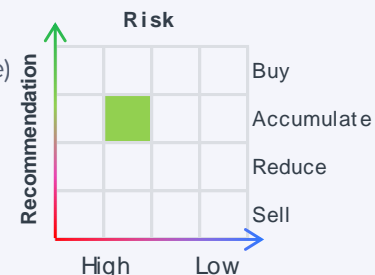
(previous Accumulate)

EUR 6.00

(previous EUR 6.00)

Share price:

EUR 5.20



Key figures

	2021	2022e	2023e	2024e
Revenue	134	140	136	147
growth-%	24%	4%	-3%	8%
EBIT adj.	6.0	9.0	9.1	10.3
EBIT-% adj.	4.5 %	6.4 %	6.7 %	7.0 %
Net Income	1.7	11.1	5.4	6.2
EPS (adj.)	0.29	0.74	0.45	0.52

P/E (adj.)	24.1	7.0	11.5	9.9
P/B	2.8	1.6	1.5	1.4
Dividend yield-%	2.8 %	4.2 %	4.6 %	5.2 %
EV/EBIT (adj.)	20.5	10.5	10.1	8.8
EV/EBITDA	10.3	5.1	5.9	5.3
EV/S	0.9	0.7	0.7	0.6

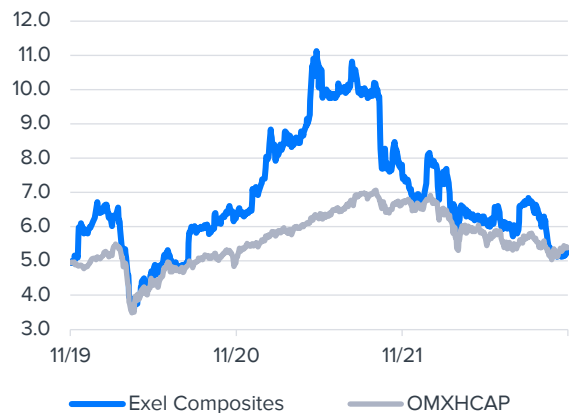
Source: Inderes

Guidance

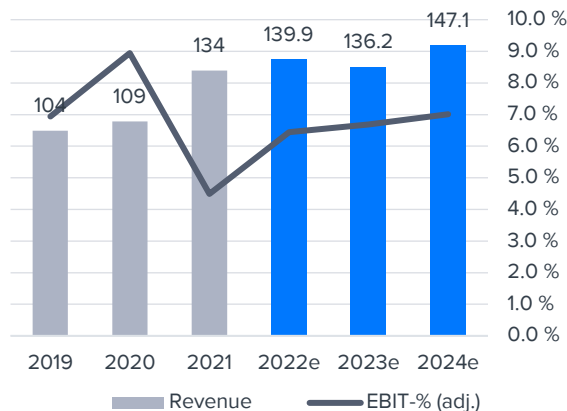
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Exel Composites expects that revenue in 2021 will be at last year's level and adjusted operating profit will increase compared to 2021.

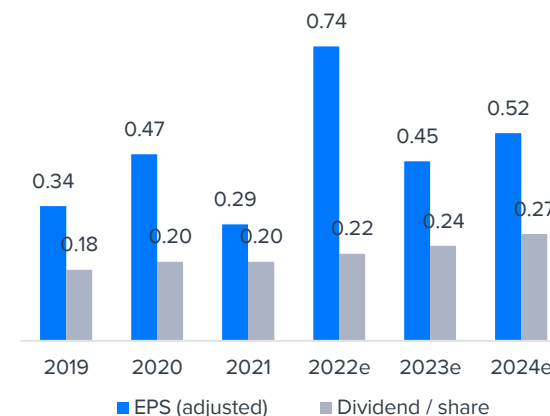
Share price



Revenue and EBIT %



EPS and dividend



Value drivers

- Growing composite market creates a good basis for organic growth
- Still room for improvement in profitability relative to the full potential
- Global structure of production and relative economies of scale
- Boosting growth with acquisitions in the medium term



Risk factors

- Somewhat cyclical and volatile demand
- Relatively fixed cost structure
- Concentrated customer portfolio
- Debt in the balance sheet partially limits room for maneuver
- Marginal pressures caused by delivery chain problems and higher material costs in the short term
- The European energy crisis and its impact on the company's most significant market

Valuation	2022e	2023e	2024e
Share price	5.20	5.20	5.20
Number of shares, million:	11.9	11.9	11.9
Market cap	62	62	62
EV	95	92	90
P/E (adj.)	7.0	11.5	9.9
P/E	5.5	11.5	9.9
P/FCF	9.3	9.9	9.9
P/B	1.6	1.5	1.4
P/S	0.4	0.5	0.4
EV/Sales	0.7	0.7	0.6
EV/EBITDA	5.1	5.9	5.3
EV/EBIT (adj.)	10.5	10.1	8.8
Payout ratio (%)	23.5 %	52.9 %	51.4 %
Dividend yield-%	4.2 %	4.6 %	5.2 %

Source: Inderes

Estimates and estimate revisions

Estimates MEUR / EUR	Q3'21	Q3'22	Q3'22e	Q3'22e	Consensus		Difference (%)	2022e
	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. inderes	Inderes
Revenue	33.4	33.8	36.8				-8%	140
EBIT (adj.)	0.1	1.8	2.8				-35%	9.0
EBIT	-1.7	1.7	2.8				-40%	11.8
EPS (reported)	-0.19	0.18	0.15				16%	0.94
Revenue growth-%	28.2 %	1.2 %	10.1 %				-8.9 pp	4.1 %
EBIT-% (adj.)	0.3 %	5.4 %	7.6 %				-2.3 pp	6.4 %

Source: Inderes

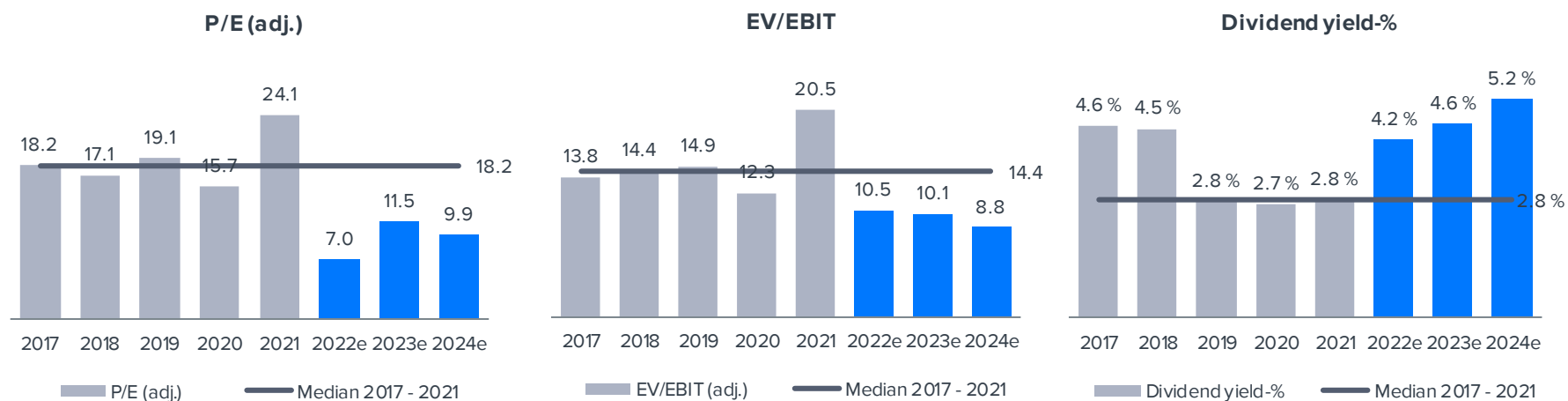
Estimate revisions MEUR / EUR	2022e	2022e	Change	2023e	2023e	Change	2024e	2024e	Change
	Old	New	%	Old	New	%	Old	New	%
Revenue	145	140	-4%	141	136	-3%	151	147	-2%
EBITDA	20.4	18.8	-8%	16.3	15.6	-5%	18.1	17.0	-6%
EBIT (exc. NRIs)	10.5	9.0	-14%	9.9	9.1	-8%	11.5	10.3	-10%
EBIT	13.4	11.8	-12%	9.9	9.1	-8%	11.5	10.3	-10%
PTP	15.1	15.4	2%	8.4	7.5	-10%	10.1	8.8	-13%
EPS (excl. NRIs)	0.74	0.74	0%	0.51	0.45	-10%	0.60	0.52	-13%
DPS	0.22	0.22	0%	0.24	0.24	0%	0.27	0.27	0%

Source: Inderes

Valuation table

Valuation	2017	2018	2019	2020	2021	2022e	2023e	2024e	2025e
Share price	6.57	4.00	6.48	7.38	7.10	5.20	5.20	5.20	5.20
Number of shares, millions	11.9	11.9	11.9	11.9	11.9	11.9	11.9	11.9	11.9
Market cap	78	48	77	88	84	62	62	62	62
EV	87	72	107	119	124	95	92	90	87
P/E (adj.)	18.2	17.1	19.1	15.7	24.1	7.0	11.5	9.9	9.0
P/E	18.4	>100	32.0	16.4	50.9	5.5	11.5	9.9	9.0
P/FCF	neg.	neg.	20.1	24.2	neg.	9.3	9.9	9.9	8.4
P/B	2.7	1.8	2.9	3.0	2.8	1.6	1.5	1.4	1.3
P/S	0.9	0.5	0.7	0.8	0.6	0.4	0.5	0.4	0.4
EV/Sales	1.0	0.7	1.0	1.1	0.9	0.7	0.7	0.6	0.6
EV/EBITDA	9.3	7.8	10.0	7.8	10.3	5.1	5.9	5.3	4.9
EV/EBIT (adj.)	13.8	14.4	14.9	12.3	20.5	10.5	10.1	8.8	7.8
Payout ratio (%)	84.1 %	554.7 %	88.8 %	44.3 %	143.3 %	23.5 %	52.9 %	51.4 %	50.0 %
Dividend yield-%	4.6 %	4.5 %	2.8 %	2.7 %	2.8 %	4.2 %	4.6 %	5.2 %	5.6 %

Source: Inderes



Income statement

Income statement	2020	Q1'21	Q2'21	Q3'21	Q4'21	2021	Q1'22	Q2'22	Q3'22	Q4'22e	2022e	2023e	2024e	2025e
Revenue	109	31.0	33.5	33.4	36.5	134	34.2	38.1	33.8	33.9	140	136	147	154
Group	109	31.0	33.5	33.4	36.5	134	34.2	38.1	33.8	33.9	140	136	147	154
Adjustment items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBITDA	15.3	4.0	3.9	1.7	2.3	11.9	1.8	4.8	3.4	8.8	18.8	15.6	17.0	17.9
Depreciation	-5.9	-1.6	-1.6	-3.3	-1.7	-8.2	-1.7	-1.8	-1.7	-1.7	-6.9	-6.5	-6.6	-6.7
EBIT (excl. NRI)	9.7	2.5	2.5	0.1	1.0	6.0	2.2	3.1	1.8	1.9	9.0	9.1	10.3	11.2
EBIT	9.4	2.4	2.4	-1.7	0.6	3.7	0.0	3.0	1.7	7.1	11.8	9.1	10.3	11.2
Adjustment items	-0.3	0.0	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 financial items	-2.3	0.5	-0.5	0.3	0.1	0.4	0.5	1.9	1.5	-0.4	3.6	-1.6	-1.5	-1.3
PTP	7.1	2.9	1.9	-1.4	0.7	4.2	0.5	4.9	3.2	6.8	15.4	7.5	8.8	9.9
Taxes	-1.8	-1.0	-0.4	-0.8	-0.3	-2.5	-0.6	-0.9	-1.2	-1.7	-4.4	-2.0	-2.4	-2.7
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	-0.1	-0.2	-0.3
Net earnings	5.4	2.0	1.5	-2.2	0.4	1.7	0.0	4.0	2.1	5.1	11.1	5.4	6.2	6.9
EPS (adj.)	0.47	0.17	0.13	-0.06	0.06	0.29	0.13	0.35	0.19	0.08	0.74	0.45	0.52	0.58
EPS (rep.)	0.45	0.17	0.12	-0.19	0.04	0.14	0.00	0.34	0.18	0.43	0.94	0.45	0.52	0.58

Key figures	2020	Q1'21	Q2'21	Q3'21	Q4'21	2021	Q1'22	Q2'22	Q3'22	Q4'22e	2022e	2023e	2024e	2025e
Revenue growth-%	4.6 %	11.3 %	23.1 %	28.2 %	32.7 %	23.7 %	10.3 %	13.5 %	1.2 %	-7.0 %	4.1 %	-2.7 %	8.0 %	4.5 %
Adjusted EBIT growth-%	34.9 %	17.0 %	-15.0 %	-94.6 %	-62.9 %	-37.8 %	-11.7 %	27.1 %	1580.6 %	88.9 %	49.5 %	1.0 %	13.2 %	8.2 %
EBITDA-%	14.1 %	12.9 %	11.7 %	5.0 %	6.4 %	8.9 %	5.2 %	12.5 %	10.1 %	26.0 %	13.4 %	11.4 %	11.5 %	11.6 %
Adjusted EBIT-%	8.9 %	7.9 %	7.3 %	0.3 %	2.8 %	4.5 %	6.4 %	8.2 %	5.4 %	5.6 %	6.4 %	6.7 %	7.0 %	7.3 %
Net earnings-%	4.9 %	6.4 %	4.4 %	-6.6 %	1.2 %	1.2 %	-0.1 %	10.6 %	6.2 %	14.9 %	8.0 %	4.0 %	4.2 %	4.5 %

Source: Inderes

Balance sheet

Assets	2020	2021	2022e	2023e	2024e
Non-current assets	47.8	51.9	50.8	51.8	52.2
Goodwill	12.6	12.8	12.8	12.8	12.8
Intangible assets	3.9	2.8	2.9	2.9	3.0
Tangible assets	29.4	34.3	33.2	34.1	34.4
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	0.1	0.1	0.1
Deferred tax assets	1.7	1.9	1.9	1.9	1.9
Current assets	49.0	65.8	64.7	61.5	64.3
Inventories	16.2	23.9	22.4	21.8	22.8
Other current assets	0.0	0.0	0.0	0.0	0.0
Receivables	20.9	26.3	26.9	26.1	28.2
Cash and equivalents	12.0	15.6	15.4	13.6	13.2
Balance sheet total	96.8	118	115	113	116

Source: Inderes

Liabilities & equity	2020	2021	2022e	2023e	2024e
Equity	28.9	31.2	38.4	41.1	44.5
Share capital	2.1	2.1	2.1	2.1	2.1
Retained earnings	22.2	21.9	30.6	33.4	36.8
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	4.5	6.6	5.0	5.0	5.0
Minorities	0.0	0.6	0.6	0.6	0.6
Non-current liabilities	14.1	17.1	17.7	14.4	15.8
Deferred tax liabilities	0.2	0.5	0.5	0.5	0.5
Provisions	0.0	0.0	0.0	0.0	0.0
Long term debt	12.9	15.6	16.7	13.4	14.7
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	0.9	1.0	0.5	0.5	0.5
Current liabilities	53.9	69.4	59.4	57.8	56.2
Short term debt	30.3	37.4	30.7	29.9	26.0
Payables	23.6	32.0	28.7	27.9	30.1
Other current liabilities	0.0	0.0	0.0	0.0	0.0
Balance sheet total	96.8	118	115	113	116

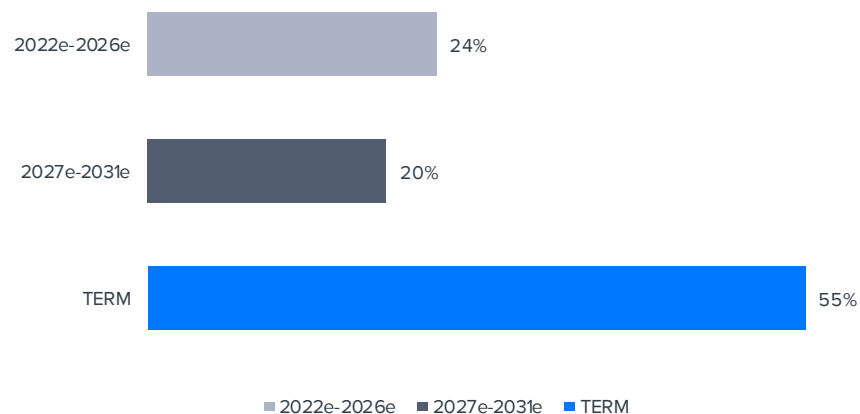
DCF calculation

DCF model	2021	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	TERM
Revenue growth-%	23.7 %	4.1 %	-2.7 %	8.0 %	4.5 %	3.5 %	3.0 %	2.5 %	2.5 %	2.0 %	2.0 %	2.0 %
EBIT-%	2.8 %	8.5 %	6.7 %	7.0 %	7.3 %	7.3 %	7.2 %	7.1 %	7.0 %	7.0 %	7.0 %	7.0 %
EBIT (operating profit)	3.7	11.8	9.1	10.3	11.2	11.6	11.8	11.9	12.0	12.3	12.5	
+ Depreciation	8.2	6.9	6.5	6.6	6.7	6.9	7.0	7.0	7.0	7.0	7.0	
- Paid taxes	-2.3	-4.4	-2.0	-2.4	-2.7	-2.8	-2.8	-2.8	-2.9	-2.9	-3.0	
- Tax, financial expenses	0.1	1.0	-0.4	-0.4	-0.4	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	
+ 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	-4.8	-2.3	0.6	-0.9	-0.5	-0.4	-0.3	-0.4	-0.2	-0.5	-0.5	
Operating cash flow	4.8	13.1	13.7	13.3	14.4	15.0	15.4	15.4	15.7	15.6	15.8	
+ Change in other long-term liabilities	0.1	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-12.2	-5.9	-7.5	-7.1	-7.1	-7.1	-7.1	-7.1	-7.1	-7.2	-7.1	
Free operating cash flow	-7.2	6.7	6.2	6.3	7.3	7.9	8.3	8.4	8.6	8.5	8.8	
+/- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	-7.2	6.7	6.2	6.3	7.3	7.9	8.3	8.4	8.6	8.5	8.8	138
Discounted FCFF		6.6	5.7	5.3	5.7	5.7	5.5	5.1	4.8	4.4	4.2	65.5
Sum of FCFF present value		118	112	106	101	95.0	89.3	83.9	78.8	74.0	69.6	65.5
Enterprise value DCF		118										
- Interesting bearing debt		-53.0										
+ Cash and cash equivalents		15.6										
-Minorities		-1.0										
-Dividend/capital return		-2.4										
Equity value DCF		77.4										
Equity value DCF per share		6.5										

Wacc	
Tax-% (WACC)	25.0 %
Target debt ratio (D/(D+E))	25.0 %
Cost of debt	6.0 %
Equity Beta	1.20
Market risk premium	4.75%
Liquidity premium	1.60%
Risk free interest rate	2.5 %
Cost of equity	9.8 %
Weighted average cost of capital (WACC)	8.5 %

Source: Inderes

Cash flow distribution



Summary

Income statement	2019	2020	2021	2022e	2023e	Per share data	2019	2020	2021	2022e	2023e
Revenue	103.8	108.6	134.4	139.9	136.2	EPS (reported)	0.20	0.45	0.14	0.94	0.45
EBITDA	10.7	15.3	11.9	18.8	15.6	EPS (adj.)	0.34	0.47	0.29	0.74	0.45
EBIT	5.1	9.4	3.7	11.8	9.1	OCF / share	0.83	1.26	0.41	1.10	1.15
PTP	3.9	7.1	4.2	15.4	7.5	FCF / share	0.32	0.30	-0.61	0.56	0.52
Net Income	2.4	5.4	1.7	11.1	5.4	Book value / share	2.21	2.43	2.57	3.17	3.41
Extraordinary items	-2.1	-0.3	-2.3	2.8	0.0	Dividend / share	0.18	0.20	0.20	0.22	0.24
Balance sheet	2019	2020	2021	2022e	2023e	Growth and profitability	2019	2020	2021	2022e	2023e
Balance sheet total	85.4	96.8	117.7	115.5	113.3	Revenue growth-%	7%	5%	24%	4%	-3%
Equity capital	26.3	28.9	31.2	38.4	41.1	EBITDA growth-%	15%	43%	-22%	57%	-17%
Goodwill	13.0	12.6	12.8	12.8	12.8	EBIT (adj.) growth-%	44%	35%	-38%	49%	1%
Net debt	30.2	31.2	37.4	32.0	29.6	EPS (adj.) growth-%	45%	38%	-38%	153%	-39%
Cash flow	2019	2020	2021	2022e	2023e	EBITDA-%	10.3 %	14.1 %	8.9 %	13.4 %	11.4 %
EBITDA	10.7	15.3	11.9	18.8	15.6	EBIT (adj.)-%	6.9 %	8.9 %	4.5 %	6.4 %	6.7 %
Change in working capital	1.9	2.4	-4.8	-2.3	0.6	EBIT-%	4.9 %	8.7 %	2.8 %	8.5 %	6.7 %
Operating cash flow	9.9	14.9	4.8	13.1	13.7	ROE-%	9.3 %	19.5 %	5.6 %	32.6 %	13.8 %
CAPEX	-6.1	-11.7	-12.2	-5.9	-7.5	ROI-%	8.6 %	13.9 %	4.8 %	13.9 %	10.7 %
Free cash flow	3.8	3.6	-7.2	6.7	6.2	Equity ratio	30.8 %	29.8 %	26.5 %	33.2 %	36.3 %
						Gearing	114.9 %	107.9 %	119.9 %	83.4 %	72.1 %
Valuation multiples	2019	2020	2021	2022e	2023e						
EV/S	1.0	1.1	0.9	0.7	0.7						
EV/EBITDA (adj.)	10.0	7.8	10.3	5.1	5.9						
EV/EBIT (adj.)	14.9	12.3	20.5	10.5	10.1						
P/E (adj.)	19.1	15.7	24.1	7.0	11.5						
P/E	2.9	3.0	2.8	1.6	1.5						
Dividend-%	2.8 %	2.7 %	2.8 %	4.2 %	4.6 %						

Source: Inderes

Disclaimer and recommendation history

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Recommendation history (>12 mo)

Date	Recommendation	Target price	Share price
11/2/2020	Accumulate	6.80 €	6.40 €
12/8/2020	Accumulate	7.00 €	6.50 €
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>Change of analyst</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 €



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