

Talenom

Company report

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✓ Inderes corporate customer

This report is a summary translation of the report "Kasvua on ennusteiden lisäksi myös arvostuksessa" published on 04/27/2021 at 7:38 am

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Growth both in estimates and valuation

We raise our target price for Talenom to EUR 14.00 (previously EUR 12.00) but lower our recommendation to Reduce (previously Accumulate) after a strong share price rise. We feel Talenom's story has all the pieces in the right place and the company has a lot of embedded earnings growth: profitability of acquisitions grow, competitiveness in Sweden improves through software, TiliJaska with its banking service enables growth in the small customer segment, and Talenom's expansion in Europe seems more realistic than before. The only clear challenge is again the valuation level (2022e P/E 41x and EV/EBIT 33x) that is extremely challenging despite higher estimates.

Result in line with expectations

Talenom's net sales grew nicely by 17.0% in Q1 of which roughly 2/3 from acquisitions and 1/3 was organic. The division is roughly in line with our estimate (70% from acquisitions), but we expected 20% growth. We had predicted Swedish seasonality wrong and transaction-based net sale had not yet picked up. The effects of COVID were visible in new customer acquisition in 2020 but in Q1 the effects were minor. Q1 operating profit was EUR 4.4 million (estimate EUR 4.5 million) and the EBIT margin was 21.7% (Q1'20: 21.4%). As expected, profitability was supported by the development of automation degree in Finnish core operations, while acquisitions with weaker profitability at the outset and integration costs had a negative effect on profitability. We also assume that Talenom's growth projects (TiliJaska, Kevytyrittäjä and banking services) depressed profitability a bit. In Sweden, technology localization has progressed as planned.

Record levels of earnings growth "embedded"

We have raised Talenom's estimates for the next couple of years by some 5-8% after our last update mainly due to the acquisitions. Since the beginning of March, the company has carried out four acquisitions: in Ivalo, in Sweden, in Southern Finland and Balance-Team. Simultaneously the company raised its net sales guidance twice, so the guidance did not change now. These new acquisitions are not yet visible much in the 2021 result (lower profitability, integration costs and depreciations). If Talenom is successful in improving their profitability as it has previously been able to do in Finland, the company has "embedded" earnings growth for the next few years. When we also consider other growth projects (TiliJaska, Kevytyrittäjä and banking services) the embedded earnings growth is record high if the strategy is successful. At the same time, the core business rolls forward so the earnings growth outlook is excellent for the near future. The outlook for coming years has improved and we now expect EPS to grow by some 26% over the next few years (2020-2023e CAGR %, previously 23%).

Valuation also close to record levels

We believe Talenom's long-term investor story is increasingly attractive as Sweden develops in the right direction, the scale strengthens, TiliJaska progresses, and the expansion in Europe looks more promising. Business is primarily constant and defensive, profitability is somewhat scalable, and competitive advantages are strong. The only clear challenge in the story has been the high valuation level that again is stretched to the limit after a strong share price rise. The share has risen by 27% since our last update and valuation multiples are close to the tolerance level. With the 2022 estimates, the P/E is above 40x, EV/EBIT is 33x, and or DCF calculation is showing warning signs (80% in terminal). So, expectations are not only loaded into the estimates but also the valuation. Valuation is supported by higher estimates and stronger long-term outlook, but we do not consider the share's return/risk ratio to be satisfactory at the moment.

Recommendation

Reduce
(previous Accumulate)

EUR 14.00
(previous EUR 12.00)

Share price:
14.12



Key indicators

	2020	2021e	2022e	2023e
Net sales	65	81	95	110
growth %	12%	25%	17%	15%
EBIT adjusted	12.9	15.7	20.0	25.8
EBIT % adjusted	19.8%	19.3%	21.0%	23.6%
Net profit	9.6	11.9	15.3	19.9
EPS (adjusted)	0.22	0.27	0.34	0.44

P/E (adjusted)	67.9	52.8	41.0	31.8
P/B	20.2	16.6	13.7	11.2
Dividend yield %	1.0%	1.1%	1.5%	1.9%
EV/EBIT (adjusted)	52.7	42.2	33.2	25.6
EV/EBITDA	29.2	23.6	19.7	15.8
EV/Net sales	10.4	8.2	7.0	6.0

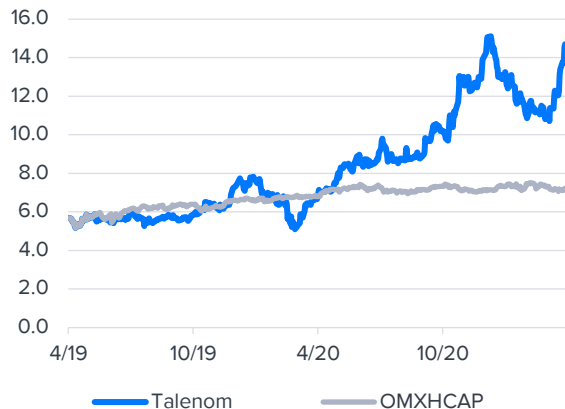
Source: Inderes

Guidance

(Unchanged)

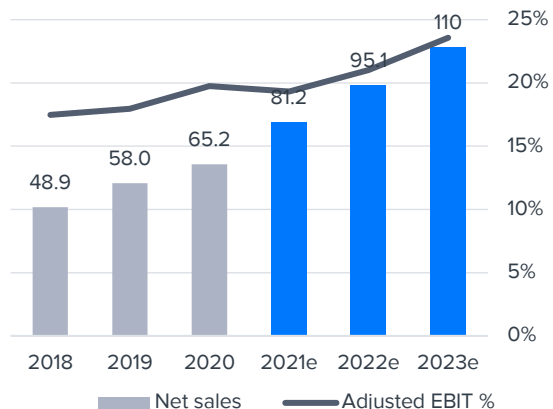
Net sales for 2021 are expected to amount to 80-84 million euros and operating profit is expected to be 14-16 million euros.

Share price



Source: Thomson Reuters

Net sales and EBIT %



Source: Inderes

EPS and dividend



Source: Inderes



Value drivers

- We expect Talenom's earnings growth to be over 20% p.a. over the next few years
- Clear competitive advantages support growing market shares also in future
- Strengthening market position in Sweden and international expansion
- Fragmented market in transition that opens new possibilities
- Business model that utilizes benefits of scale only strengthens with growth
- TiliJaska small entrepreneur concept

Risk factors

- Earnings disappointments and decrease in acceptable valuation multiples
- Failure in internationalization
- Competitive advantage based on technology, where development typically is fast
- Possible drop in customer retention
- Possible tightening competition in digital financial administration
- Transition can bring new challengers to the industry

Valuation

- Extremely strong earnings growth, over 90% recurring net sales and good visibility support acceptable valuation
- Premium pricing justified because the company is a pioneer in the industry, wins market shares and constantly creates shareholder value
- Valuation level of the share has risen to historically high levels, which is worrying

Estimates

Estimates	Q1'20	Q1'21	Q1'21e	Q1'21e	Consensus		Difference (%)	2021e
MEUR / EUR	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. inderes	Inderes
Revenue	17.4	20.3	20.8	20.3	19.9	20.8	-2%	81.2
EBITDA	6.2	7.2	7.3	7.2	7.1	7.3	-2%	28.0
EBIT	3.7	4.4	4.5	4.3	4.1	4.5	-2%	15.7
EPS (adj.)	0.06	0.08	0.08	0.08	0.07	0.08	-3%	0.27
Revenue growth-%	17.4 %	17.0 %	20.0 %	17.0 %	14.7 %	19.9 %	-3 pp	24.6 %
EBIT-% (adj.)	21.4 %	21.7 %	21.7 %	21.3 %	20.6 %	21.6 %	0 pp	19.3 %

Source: Inderes & InFront (consensus)

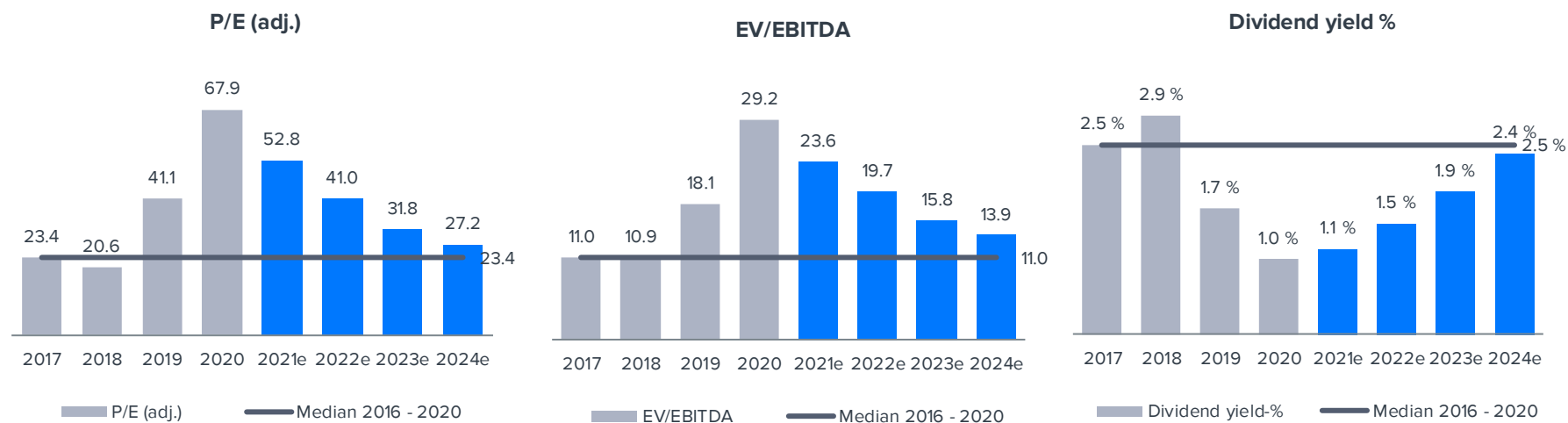
Estimate revisions	2021e	2021e	Change	2022e	2022e	Change	2023e	2023e	Change
MEUR / EUR	Old	New	%	Old	New	%	Old	New	%
Revenue	76.3	81.2	6%	88.1	95.1	8%	102	110	8%
EBITDA	27.0	28.0	4%	32.7	33.7	3%	39.3	41.7	6%
EBIT (exc. NRIs)	15.0	15.7	5%	18.9	20.0	6%	24.1	25.8	7%
EBIT	15.0	15.7	5%	18.9	20.0	6%	24.1	25.8	7%
PTP	14.2	14.9	5%	18.1	19.2	6%	23.1	24.8	8%
EPS (excl. NRIs)	0.26	0.27	3%	0.33	0.34	5%	0.42	0.44	6%
DPS	0.16	0.16	0%	0.20	0.21	5%	0.25	0.27	6%

Source: Inderes

Valuation table

Valuation	2016	2017	2018	2019	2020	2021e	2022e	2023e	2024e
Share price	1.20	2.13	3.18	7.50	15.1	14.1	14.1	14.1	14.1
Number of shares, millions	40.9	40.9	41.2	41.7	43.2	44.4	44.6	44.8	44.8
Market cap	49	87	131	313	650	627	630	633	633
EV	67	105	149	342	679	662	663	661	654
P/E (adj.)	16.9	23.4	20.6	41.1	67.9	52.8	41.0	31.8	27.2
P/E	16.9	25.5	20.6	41.1	67.9	52.8	41.0	31.8	27.2
P/FCF	20.4	40.3	90.2	neg.	>100	>100	68.1	41.7	32.8
P/B	4.2	6.2	7.0	13.3	20.2	16.6	13.7	11.2	9.3
P/S	1.3	2.1	2.7	5.4	10.0	7.7	6.6	5.8	5.1
EV/Sales	1.8	2.5	3.1	5.9	10.4	8.2	7.0	6.0	5.2
EV/EBITDA	9.9	11.0	10.9	18.1	29.2	23.6	19.7	15.8	13.9
EV/EBIT (adj.)	16.1	20.3	17.5	32.8	52.7	42.2	33.2	25.6	21.8
Payout ratio (%)	46.9 %	63.9 %	59.4 %	68.4 %	67.7 %	59.8 %	60.0 %	60.0 %	65.0 %
Dividend yield-%	2.8 %	2.5 %	2.9 %	1.7 %	1.0 %	1.1 %	1.5 %	1.9 %	2.4 %

Source: Inderes



Peer group valuation

Peer group valuation Company	Share price	Market cap MEUR	EV MEUR	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%	
				2021e	2022e	2021e	2022e	2021e	2022e	2021e	2022e	2021e	2022e
Aallon	11.75	45	39	19.7	13.1	13.1	9.8	1.6	1.5	19.3	16.2	2.1	2.5
Fortnox	476.0	2804	2797	84.4	62.2	66.9	50.7	29.8	23.1	109.2	80.6	0.2	0.2
Admicom	106.0	485	476	47.6	39.7	43.3	34.0	19.0	16.4	62.0	49.6	1.1	1.4
Enento	34.00	802	951	25.3	21.3	15.8	13.8	5.9	5.5	28.8	24.0	3.0	3.2
Fondia	7.76	30	25	12.6	12.6	12.6	8.4	1.2	1.1	20.9	16.1	3.9	4.1
Vincit	10.40	127	119	17.0	14.9	13.2	11.9	2.0	1.8	19.4	16.9	1.9	2.1
Gofore	19.40	281	275	22.0	17.8	15.7	14.1	2.7	2.4	25.3	22.5	1.5	1.8
Etteplan	15.90	387	430	17.2	15.5	9.9	9.1	1.5	1.4	20.6	18.5	2.4	2.7
Talenom (Inderes)	14.12	627	662	42.2	33.2	23.6	19.7	8.2	7.0	52.8	41.0	1.1	1.5
Average				30.7	24.6	23.8	19.0	8.0	6.7	38.2	30.5	2.0	2.3
Median				20.9	16.7	14.5	12.8	2.4	2.1	23.1	20.5	2.0	2.3
Diff-% to median				102%	99%	63%	53%	246%	232%	128%	100%	-44%	-37%

Source: Thomson Reuters / Inderes

NB: The market cap Inderes uses does not consider own shares held by the company

Income statement

Income statement	2019	Q1'20	Q2'20	Q3'20	Q4'20	2020	Q1'21	Q2'21e	Q3'21e	Q4'21e	2021e	2022e	2023e	2024e
Revenue	58.0	17.4	16.5	14.8	16.5	65.2	20.3	21.3	18.9	20.7	81.2	95.1	110	125
EBITDA	18.9	6.2	6.2	5.8	5.0	23.3	7.2	7.5	6.5	6.8	28.0	33.7	41.7	47.0
Depreciation	-8.5	-2.5	-2.6	-2.7	-2.6	-10.4	-2.8	-3.0	-3.2	-3.3	-12.3	-13.7	-15.9	-17.0
EBIT (excl. NRI)	10.4	3.7	3.6	3.1	2.4	12.9	4.4	4.4	3.3	3.5	15.7	20.0	25.8	30.0
EBIT	10.4	3.7	3.6	3.1	2.4	12.9	4.4	4.4	3.3	3.5	15.7	20.0	25.8	30.0
Net financial items	-0.8	-0.2	-0.2	-0.2	-0.2	-0.9	-0.2	-0.2	-0.2	-0.2	-0.8	-0.8	-1.0	-0.9
PTP	9.6	3.5	3.4	2.9	2.2	12.0	4.2	4.2	3.1	3.3	14.9	19.2	24.8	29.1
Taxes	-2.0	-0.7	-0.7	-0.6	-0.4	-2.4	-0.9	-0.8	-0.6	-0.7	-3.0	-3.8	-5.0	-5.8
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	0.0	0.0
Net earnings	7.6	2.8	2.7	2.3	1.8	9.6	3.3	3.4	2.5	2.6	11.9	15.3	19.9	23.3
EPS (adj.)	0.18	0.06	0.06	0.05	0.04	0.22	0.08	0.08	0.06	0.06	0.27	0.34	0.44	0.52
EPS (rep.)	0.18	0.06	0.06	0.05	0.04	0.22	0.08	0.08	0.06	0.06	0.27	0.34	0.44	0.52
Key figures	2019	Q1'20	Q2'20	Q3'20	Q4'20	2020	Q1'21	Q2'21e	Q3'21e	Q4'21e	2021e	2022e	2023e	2024e
Revenue growth-%	18.6 %	17.4 %	11.8 %	10.0 %	10.4 %	12.4 %	17.0 %	29.0 %	27.0 %	26.0 %	24.6 %	17.1 %	15.2 %	14.0 %
Adjusted EBIT growth-%	21.8 %	8.0 %	13.8 %	33.7 %	66.3 %	23.7 %	18.7 %	23.4 %	6.0 %	44.5 %	21.8 %	27.4 %	29.3 %	16.0 %
EBITDA-%	32.6 %	36.0 %	37.5 %	39.1 %	30.7 %	35.7 %	35.4 %	35.1 %	34.6 %	33.0 %	34.5 %	35.5 %	38.1 %	37.6 %
Adjusted EBIT-%	18.0 %	21.4 %	21.8 %	21.2 %	14.7 %	19.8 %	21.7 %	20.8 %	17.7 %	16.9 %	19.3 %	21.0 %	23.6 %	24.0 %
Net earnings-%	13.1 %	16.2 %	16.1 %	15.6 %	11.0 %	14.7 %	16.5 %	15.9 %	13.3 %	12.7 %	14.6 %	16.1 %	18.1 %	18.6 %

Source: Inderes

Balance sheet

Assets	2019	2020	2021e	2022e	2023e
Non-current assets	55.3	67.8	80.1	87.2	93.8
Goodwill	20.7	24.0	27.5	27.5	27.5
Intangible assets	23.3	33.0	40.0	46.4	53.3
Tangible assets	2.6	2.5	3.4	3.9	3.5
Associated companies	0.0	0.0	0.0	0.0	0.0
Other investments	0.2	0.3	1.2	1.2	1.2
Other non-current assets	8.4	8.0	8.0	8.1	8.2
Deferred tax assets	0.1	0.1	0.1	0.1	0.1
Current assets	14.3	16.2	19.5	22.8	26.3
Inventories	0.0	0.0	0.0	0.0	0.0
Other current assets	0.0	0.0	0.0	0.0	0.0
Receivables	6.5	7.1	8.9	10.5	12.1
Cash and equivalents	7.8	9.1	10.6	12.4	14.2
Balance sheet total	71.3	84.9	101	112	122

Source: Inderes

Liabilities & equity	2019	2020	2021e	2022e	2023e
Equity	23.6	32.2	37.8	46.1	56.7
Share capital	0.1	0.1	0.1	0.1	0.1
Retained earnings	12.3	17.3	22.7	30.9	41.6
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	11.2	14.8	15.1	15.1	15.1
Minorities	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	35.1	37.1	43.7	41.8	39.2
Deferred tax liabilities	0.3	0.7	0.7	0.7	0.7
Provisions	0.0	0.0	0.0	0.0	0.0
Long term debt	34.8	35.9	42.4	40.5	37.9
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	0.1	0.6	0.6	0.6	0.6
Current liabilities	12.6	15.6	19.4	24.1	26.0
Short term debt	2.2	2.3	2.9	5.1	4.5
Payables	9.9	12.1	14.6	17.1	19.7
Other current liabilities	0.5	1.2	1.8	1.8	1.8
Balance sheet total	71.3	84.9	101	112	122

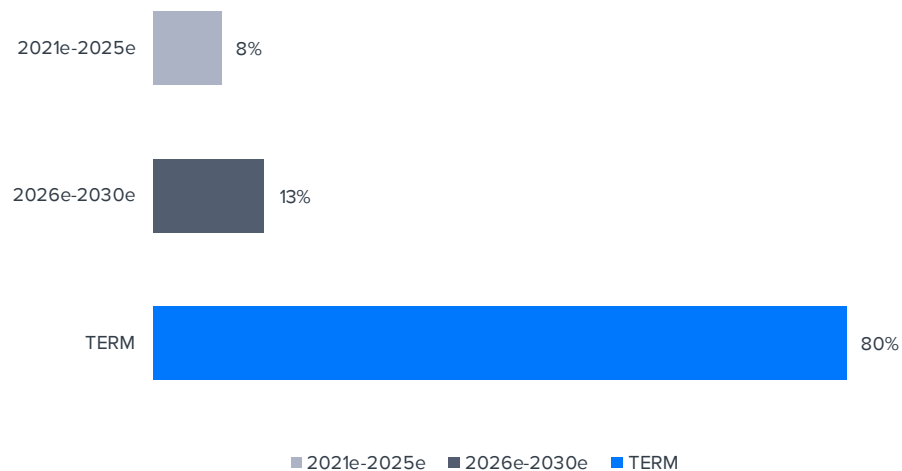
DCF calculation

DCF model	2020	2021e	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	TERM
EBIT (operating profit)	12.9	15.7	20.0	25.8	30.0	32.9	35.4	37.4	40.0	41.1	42.4	
+ Depreciation	10.4	12.3	13.7	15.9	17.0	18.5	21.0	22.9	23.3	24.7	25.9	
- Paid taxes	-2.0	-3.0	-3.8	-5.0	-5.8	-6.4	-6.9	-7.3	-7.8	-8.0	-8.3	
- Tax, financial expenses	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	
+ 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	2.4	1.2	1.0	1.0	1.1	1.0	1.0	0.9	0.8	0.6	0.4	
Operating cash flow	23.5	26.1	30.7	37.5	42.1	45.9	50.3	53.7	56.1	58.2	60.2	
+ Change in other long-term liabilities	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-22.2	-25.0	-21.4	-22.4	-22.8	-25.0	-26.9	-27.1	-27.7	-27.9	-29.6	
Free operating cash flow	1.8	1.1	9.3	15.2	19.3	20.9	23.4	26.6	28.4	30.3	30.6	
+/- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	1.8	1.1	9.3	15.2	19.3	20.9	23.4	26.6	28.4	30.3	30.6	988
Discounted FCFF		1.0	8.3	12.8	15.4	15.7	16.5	17.6	17.6	17.7	16.8	542
Sum of FCFF present value		681	680	672	659	644	628	612	594	576	559	542
Enterprise value DCF		681										
- Interesting bearing debt		-38.1										
+ Cash and cash equivalents		9.1										
-Minorities		0.0										
-Dividend/capital return		-6.5										
Equity value DCF		646										
Equity value DCF per share		14.5										

Wacc	
Tax-% (WACC)	20.0 %
Target debt ratio (D/(D+E))	20.0 %
Cost of debt	2.5 %
Equity Beta	1.00
Market risk premium	4.75%
Liquidity premium	0.75%
Risk free interest rate	2.0 %
Cost of equity	7.5 %
Weighted average cost of capital (WACC)	6.4 %

Source: Inderes

Cash flow distribution



Summary

Income statement	2018	2019	2020	2021e	2022e	Per share data	2018	2019	2020	2021e	2022e
Revenue	48.9	58.0	65.2	81.2	95.1	EPS (reported)	0.15	0.18	0.22	0.27	0.34
EBITDA	13.7	18.9	23.3	28.0	33.7	EPS (adj.)	0.15	0.18	0.22	0.27	0.34
EBIT	8.5	10.4	12.9	15.7	20.0	OCF / share	0.27	0.44	0.54	0.59	0.69
PTP	8.0	9.6	12.0	14.9	19.2	FCF / share	0.04	-0.18	0.04	0.02	0.21
Net Income	6.4	7.6	9.6	11.9	15.3	Book value / share	0.45	0.57	0.74	0.85	1.03
Extraordinary items	0.0	0.0	0.0	0.0	0.0	Dividend / share	0.09	0.13	0.15	0.16	0.21
Balance sheet	2018	2019	2020	2021e	2022e	Growth and profitability	2018	2019	2020	2021e	2022e
Balance sheet total	51.2	71.3	84.9	100.9	112.0	Revenue growth-%	18%	19%	12%	25%	17%
Equity capital	18.7	23.6	32.2	37.8	46.1	EBITDA growth-%	44%	38%	23%	20%	20%
Goodwill	18.4	20.7	24.0	27.5	27.5	EBIT (adj.) growth-%	66%	22%	24%	22%	27%
Net debt	18.3	29.2	29.0	34.8	33.3	EPS (adj.) growth-%	69%	18%	21%	21%	29%
Cash flow	2018	2019	2020	2021e	2022e	EBITDA-%	28.0 %	32.6 %	35.7 %	34.5 %	35.5 %
EBITDA	13.7	18.9	23.3	28.0	33.7	EBIT (adj.)-%	17.5 %	18.0 %	19.8 %	19.3 %	21.0 %
Change in working capital	-0.9	1.2	2.4	1.2	1.0	EBIT-%	17.5 %	18.0 %	19.8 %	19.3 %	21.0 %
Operating cash flow	11.2	18.3	23.5	26.1	30.7	ROE-%	39.0 %	36.0 %	34.4 %	34.0 %	36.6 %
CAPEX	-9.5	-25.7	-22.2	-25.0	-21.4	ROI-%	21.6 %	20.2 %	19.8 %	20.4 %	22.9 %
Free cash flow	1.5	-7.6	1.8	1.1	9.3	Equity ratio	36.7 %	33.2 %	38.1 %	37.7 %	41.4 %
						Gearing	97.7 %	123.9 %	90.3 %	91.9 %	72.2 %
Largest shareholders			% of shares			Valuation multiples	2018	2019	2020	2021e	2022e
Harri Tahkola			19.9 %			EV/S	3.1	5.9	10.4	8.2	7.0
Hallintarekisteröity (SEB)			15.4 %			EV/EBITDA (adj.)	10.9	18.1	29.2	23.6	19.7
Markus Tahkola			11.7 %			EV/EBIT (adj.)	17.5	32.8	52.7	42.2	33.2
Hallintarekisteröity (Nordea)			7.4 %			P/E (adj.)	20.6	41.1	67.9	52.8	41.0
SR Danske Invest Suomi Osake			5.3 %			P/E	7.0	13.3	20.2	16.6	13.7
Conficap			4.3 %			Dividend-%	2.9 %	1.7 %	1.0 %	1.1 %	1.5 %

Source: Inderes

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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

The assessment of the 12-month risk-adjusted expected total shareholder return based on the above-mentioned definitions is company-specific and subjective. Consequently, similar 12-month expected total shareholder returns between different shares may result in different recommendations, and the recommendations and 12-month expected total shareholder returns between different shares should not be compared with each other. The counterpart of the expected total shareholder return is Inderes' view of the risk taken by the investor, which varies considerably between companies and scenarios. Thus, a high expected total shareholder return does not necessarily lead to positive performance when the risks are exceptionally high and, correspondingly, a low expected total shareholder return does not necessarily lead to a negative recommendation if Inderes considers the risks to be moderate.

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Inderes has made an agreement with the issuer and target of this report, which entails compiling a research report
Based on a notification given on December 18, 2017, Inderes' analyst Juha Kinnunen has a holding of over EUR 50,000 in the target company Talenom Oyj.

Recommendation history (>12 mo)

Date	Recommendation	Target price	Share price
18-09-18	Accumulate	3.33 €	3.07 €
23-10-18	Accumulate	3.50 €	3.26 €
27-11-18	Buy	3.50 €	2.96 €
13-12-18	Buy	3.67 €	3.18 €
05-02-19	Accumulate	4.17 €	3.83 €
25-02-19	Accumulate	4.42 €	3.97 €
05-04-19	Accumulate	5.33 €	4.82 €
24-04-19	Accumulate	6.00 €	5.33 €
05-06-19	Reduce	6.00 €	5.85 €
24-07-19	Accumulate	6.00 €	5.68 €
30-07-19	Accumulate	6.33 €	6.02 €
22-10-19	Accumulate	6.33 €	5.67 €
08-01-20	Reduce	7.33 €	7.42 €
04-02-20	Reduce	7.00 €	6.97 €
26-02-20	Accumulate	6.80 €	6.40 €
01-04-20	Reduce	6.00 €	5.88 €
28-04-20	Accumulate	7.50 €	7.14 €
15-06-20	Reduce	8.20 €	8.20 €
04-08-20	Reduce	9.00 €	9.32 €
27-10-20	Reduce	10.00 €	10.20 €
19-11-20	Reduce	12.00 €	12.20 €
09-02-21	Reduce	12.00 €	12.50 €
02-03-21	Accumulate	12.00 €	11.15 €
27-04-21	Reduce	14.00 €	14.12 €



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