

Ponsse

Company report

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Inderes Corporate customer

This report is a summary translation of the report "Hektistä harvesterikauppaa" published on 04/21/2021 at 7:54

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Harvesters selling like hotcakes

In terms of order intake, Ponsse's Q1 report was exceptionally strong, and in terms of both net sales and operational profitability in line with our expectations. The 2021 guidance was still cautious. Thanks to the strong order intake we have, however, raised our 2021-2023 net sales and result estimates clearly. The valuation is still attractive with various indicators. As our estimates are higher, we raise the target price to EUR 46.50 (42.00) and reiterate our Accumulate recommendation.

Rampant sales in Q1

Ponsse's Q1 order intake was excellent, EUR 299 million (+180% y-o-y) versus our expectation of EUR 159 million (+49% y-o-y). Global sales was good, but sales was particularly strong in Finland and Russia. Ponsse believes it has increased its market share. In addition, the order intake accelerated towards the ends of the quarter, which provides a strong basis for Q2. Q1 net sales grew in line with our expectations by around 13% y-o-y. In addition to net sales from new machines, service operations was also active, and the trade-in machine stock reduced. Sales in Russia and Asia (of which over 90% is Russia) grew by 115% y-o-y. The Q1 EBIT margin was in line with expectations and the cost structure was excellent, so the increase in component costs or COVID savings in other costs were not emphasized in this report. However, the non-recurring tax expense of Ponsse Latin America depressed the EPS as it raised the group's effective tax rate in Q1 to 42% from the typical level of around 21%.

Estimates up supported by order intake

Ponsse's guidance for 2021 is still slightly higher net sales than in 2020 measured in euros even though Q1 net sales grew by 25% y-o-y. The basis for the cautious guidance is still COVID and the possibility that it would spread either at the Vieremä plant or a plant of a component supplier. The other reason is a possible considerable price increases in components or an actual shortage of components. The main profitability drivers at the moment are the price and availability development of components, and the permanence of COVID savings. In components, Ponsse sees a clear price rise which the company can at least for the most parts roll to its own product prices. The marketing and travel expense savings due to COVID will recover to some extent but according to Ponsse some of the savings are permanent. We have raised our 2021-2023 estimate for the size of the cut-to-length forest machine market and Ponsse's market share, and also cut our estimates for the marketing and travel expenses of these years. With our new estimates, the average growth rate for Ponsse's net sales in 2021-2023 is 13% (previously 11%), the EBIT margin is 11.5-12.0% (11.2-11.6%) and EPS growth rate 25% (21%).

Valuation tightens but still room to rise

According to our calculations the total expected return for Ponsse's share over the next few years is 9% p.a., which marginally exceeds the 8% ROE requirement. Thus, the risk-adjusted expected total shareholder return is still attractive. The share's valuation discount compared to the peer group for 2021-2022 is 12-20% measured with the P/E ratio and 4-17% with the EV/EBITDA ratio. The DCF model indicates a 12% upside for the share. Possible positive share price drivers are that the good order growth Ponsse reported continues, the biggest risks related to the Russian market and components decrease, and the positive profitability development we expect is supported by lower shares of marketing and travel expenses in the net sales.

Recommendation

Accumulate

(previous Accumulate)

EUR 46.50

(previous EUR 42.00)

Share price:

42.85

	Risk		
Recommendation ↑			Buy
			Accumulate
			Reduce
			Sell
	High	Low	

Key indicators

	2020	2021e	2022e	2023e
Net sales	637	796	872	923
Growth %	-5 %	25 %	10 %	6 %
EBIT adjusted	57.1	91.3	101.6	110.7
EBIT % adjusted	9.0 %	11.5 %	11.6 %	12.0 %
Net profit	32.3	69.5	78.9	86.2
EPS (adjusted)	1.58	2.52	2.82	3.08

P/E (adjusted)	18.5	17.0	15.2	13.9
P/B	3.2	3.9	3.4	3.0
Dividend yield %	2.1 %	2.5 %	3.0 %	3.4 %
EV/EBIT (adjusted)	14.2	12.8	11.1	9.8
EV/EBITDA	9.9	10.1	9.0	8.1
EV/Net sales	1.3	1.5	1.3	1.2

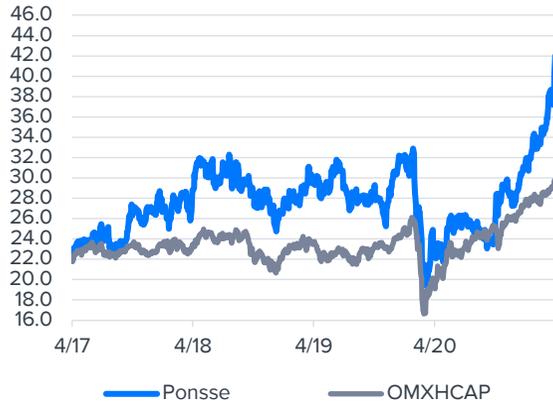
Source: Inderes

Guidance

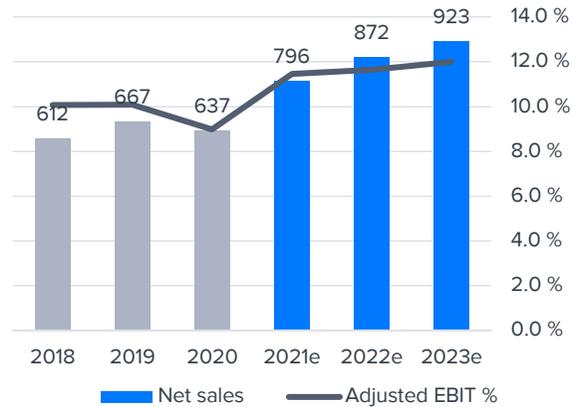
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Group's euro-denominated operating result in 2021 is expected to be slightly higher than in 2020.

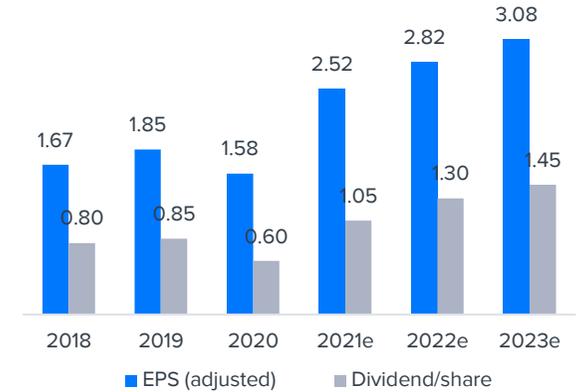
Share price



Net sales and EBIT %



EPS and dividend



Source: Thomson Reuters

Source: Inderes

Source: Inderes



Value drivers

- Solid position in the growth segment of the forest machine market
- Strong hold on customers
- Large after market potential
- Progressing digitalization in harvesting
- Good profitability and strong cash flow



Risk factors

- General cyclicity of forest machine market
- Competitors' increasing aggressiveness in marketing
- One plant and low degree of outsourcing in manufacturing can be a risk in case of various disruptions



Valuation

- Risk-adjusted expected total shareholder return is attractive
- With all indicators the share's valuation multiples are below its peers
- Reasonable upside to DCF value



Estimates

Estimates	Q1'20	Q1'21	Q1'21e	Q1'21e	Difference (%)	2021e
MEUR / EUR	Comparison	Actualized	Inderes	Consensus	Act. vs. inderes	Inderes
Revenue	145	163	164	154	-1%	796
EBIT	13.4	16.8	16.5	14.1	2%	83.9
PTP	-1.6	15.3	16.0	13.5	-5%	82.0
EPS (reported)	-0.11	0.31	0.45	0.37	-31%	2.31
Revenue growth-%	1.0 %	13.1 %	13.7 %	6.6 %	-0.6 pp	25.1 %
EBIT-% (adj.)	9.3 %	10.3 %	10.0 %	11.7 %	0.2 pp	11.5 %

Source: Inderes & Infront Data (consensus)

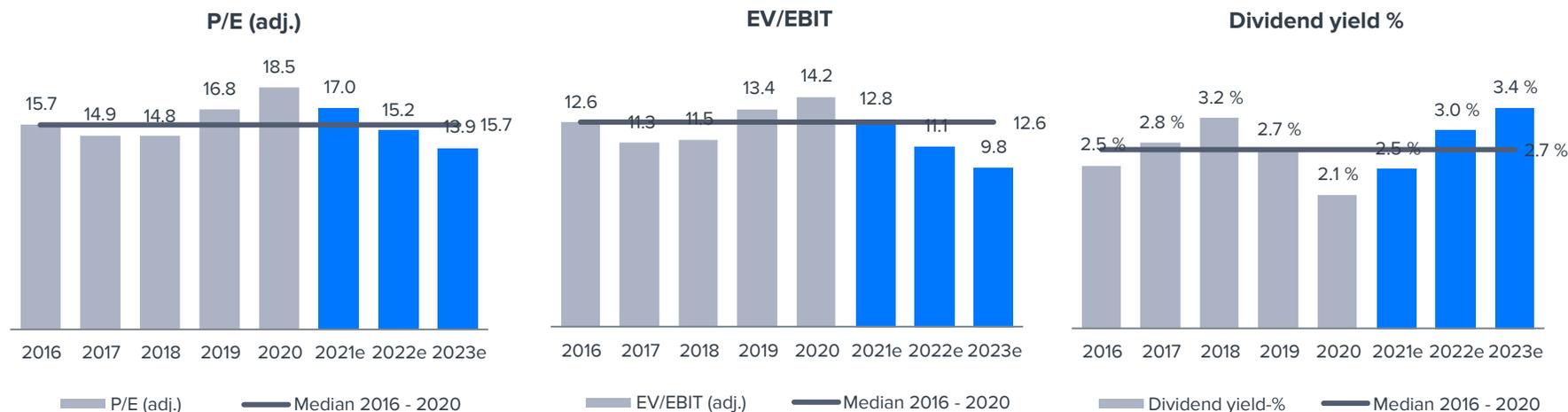
Estimate revisions	2021e	2021	Change	2022e	2022e	Change	2023e	2023e	Change
MEUR / EUR	Old	New	%	Old	New	%	Old	New	%
Revenue	744	796	7%	824	872	6%	862	923	7%
EBITDA	108	115	7%	116	126	8%	124	135	9%
EBIT (exc. NRIs)	83.9	91.3	9%	92.2	102	10%	100	111	11%
EBIT	83.9	91.3	9%	92.2	102	10%	100	111	11%
PTP	82.0	88.0	7%	90.4	99.9	10%	98.5	109	11%
EPS (excl. NRIs)	2.31	2.52	9%	2.55	2.82	10%	2.78	3.08	11%
DPS	0.95	1.05	11%	1.15	1.30	13%	1.30	1.45	12%

Source: Inderes

Valuation table

Valuation	2016	2017	2018	2019	2020	2021e	2022e	2023e	2024e
Share price	24.0	26.4	24.8	31.0	29.2	42.9	42.9	42.9	42.9
Number of shares, millions	28.0	28.0	28.0	28.0	28.0	28.0	28.0	28.0	28.0
Market cap	671	738	692	868	818	1200	1200	1200	1200
EV	693	763	711	901	809	1166	1128	1087	1046
P/E (adj.)	15.7	14.9	14.8	16.8	18.5	17.0	15.2	13.9	13.2
P/E	14.7	16.5	15.8	16.7	25.3	17.3	15.2	13.9	13.2
P/FCF	27.4	33.2	21.9	>100	12.4	28.0	17.6	15.3	14.4
P/B	4.5	4.2	3.5	3.7	3.2	3.9	3.4	3.0	2.6
P/S	1.3	1.3	1.1	1.3	1.3	1.5	1.4	1.3	1.2
EV/Sales	1.3	1.3	1.2	1.3	1.3	1.5	1.3	1.2	1.1
EV/EBITDA	10.3	9.5	9.2	10.2	9.9	10.1	9.0	8.1	7.4
EV/EBIT (adj.)	12.6	11.3	11.5	13.4	14.2	12.8	11.1	9.8	9.0
Payout ratio (%)	36.7 %	46.9 %	51.2 %	45.8 %	52.1 %	42.3 %	46.2 %	47.1 %	47.7 %
Dividend yield-%	2.5 %	2.8 %	3.2 %	2.7 %	2.1 %	2.5 %	3.0 %	3.4 %	3.6 %

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-%		P/B 2021e
				2021e	2022e	2021e	2022e	2021e	2022e	2021e	2022e	2021e	2022e	
Cargotec Corp	46.90	2663	3375	11.7	10.9	8.0	8.1	1.1	1.0	18.1	14.6	2.4	2.3	2.1
Neles Oyj	11.59	1737	1826	19.9	16.9	16.2	14.2	2.9	2.6	27.7	24.1	1.8	2.0	5.8
Valmet Oyj	33.64	5155	5260	12.8	11.4	10.1	9.1	1.2	1.2	19.1	17.1	3.0	3.2	4.1
Metso Outotec Corp	9.27	7862	8706	17.5	12.9	13.7	10.7	2.0	1.8	21.2	16.5	2.3	3.1	3.7
Palfinger AG	36.40	1413	1875	11.6	9.7	7.8	6.7	1.0	0.9	15.5	13.1	2.0	2.5	2.2
Deere & Co	368.80	99171	131587	19.5	16.5	14.1	12.1	3.1	2.7	24.0	20.2	0.9	1.0	8.7
AGCO Corp	144.65	9493	9949	13.5	11.4	9.9	8.7	1.0	0.9	20.2	17.9	0.4	0.5	3.3
Terex Corp	44.36	2686	3109	13.4	9.7	11.4	8.5	1.0	0.9	21.1	13.5	0.9	0.9	3.0
Caterpillar Inc	225.82	105313	128465	22.0	17.7	15.5	13.8	2.9	2.7	27.8	21.3	1.9	2.0	8.9
Komatsu Ltd	3245.00	24259	30334			13.0	9.5	1.7	1.5	30.3	17.7	1.5	2.5	1.7
Ponsse (Inderes)	42.85	1200	1166	12.8	11.1	10	9	1.5	1.3	17.0	15.2	2.5	3.0	3.9
Average				15.8	13.0	12.0	10.1	1.8	1.6	22.5	17.6	1.7	2.0	4.3
Median				13.5	11.4	12.2	9.3	1.5	1.3	21.1	17.4	1.8	2.1	3.5
Diff-% to median				-5%	-2%	-17%	-4%	-2%	-3%	-20%	-12%	34%	41%	12%

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	667	145	132	155	205	637	163	191	198	245	796	872	923	966
Ponsse	667	145	132	155	205	637	163	191	198	245	796	872	923	966
EBITDA	88.5	19.5	14.4	28.3	19.6	81.8	22.7	27.3	27.6	37.3	115	126	135	141
Depreciation	-21.2	-6.0	-6.0	-6.7	-5.9	-24.6	-5.9	-5.9	-5.9	-5.9	-23.6	-24.1	-24.1	-24.3
EBIT (excl. NRI)	67.3	13.4	8.4	21.6	13.7	57.1	16.8	21.4	21.7	31.4	91.3	102	111	117
EBIT	67.3	13.4	8.4	21.6	13.7	57.1	16.8	21.4	21.7	31.4	91.3	102	111	117
Ponsse	67.3	13.4	8.4	21.6	13.7	57.1	16.8	21.4	21.7	31.4	91.3	102	111	117
Net financial items	-1.0	-15.0	0.2	-5.9	3.0	-17.7	-1.6	-0.6	-0.6	-0.6	-3.4	-1.7	-1.6	-1.3
PTP	66.6	-1.6	8.6	15.7	16.8	39.6	15.3	20.8	21.1	30.8	88.0	99.9	109	115
Taxes	-14.6	-1.6	-2.4	-4.0	0.8	-7.3	-3.2	-4.4	-4.4	-6.5	-18.5	-21.0	-22.9	-24.2
Net earnings	52.0	-3.2	6.1	11.7	17.6	32.3	12.1	16.4	16.7	24.3	69.5	78.9	86.2	91.0
EPS (adj.)	1.85	0.28	0.20	0.56	0.53	1.58	0.47	0.59	0.60	0.87	2.52	2.82	3.08	3.25
EPS (rep.)	1.86	-0.11	0.22	0.42	0.63	1.15	0.43	0.59	0.60	0.87	2.48	2.82	3.08	3.25
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-%	9.0 %	1.0 %	-23.6 %	4.6 %	0.9 %	-4.6 %	13.1 %	44.5 %	27.6 %	19.2 %	25.1 %	9.5 %	5.8 %	4.7 %
Adjusted EBIT growth-%	9.0 %	4.5 %	-52.1 %	33.5 %	-33.9 %	-15.1 %	24.8 %	154.5 %	0.6 %	128.8 %	59.7 %	11.3 %	8.9 %	5.3 %
EBITDA-%	13.3 %	13.5 %	10.9 %	18.3 %	9.6 %	12.8 %	13.9 %	14.3 %	14.0 %	15.2 %	14.4 %	14.4 %	14.6 %	14.6 %
Adjusted EBIT-%	10.1 %	9.3 %	6.4 %	13.9 %	6.7 %	9.0 %	10.3 %	11.2 %	11.0 %	12.8 %	11.5 %	11.6 %	12.0 %	12.1 %
Net earnings-%	7.8 %	-2.2 %	4.7 %	7.5 %	8.6 %	5.1 %	7.4 %	8.6 %	8.4 %	9.9 %	8.7 %	9.0 %	9.3 %	9.4 %

Source: Inderes

Balance sheet

Assets	2019	2020	2021e	2022e	2023e
Non-current assets	161	158	162	163	165
Goodwill	3.8	3.8	3.8	3.8	3.8
Intangible assets	32.2	36.7	39.4	41.7	44.0
Tangible assets	119	112	113	112	112
Associated companies	0.8	0.8	0.9	0.9	0.9
Other investments	0.4	0.4	0.4	0.4	0.4
Other non-current assets	1.2	0.8	0.8	0.8	0.8
Deferred tax assets	3.8	3.1	3.7	3.7	3.7
Current assets	266	316	336	397	453
Inventories	153	142	178	195	206
Other current assets	0.0	0.0	0.0	0.0	0.0
Receivables	64.2	50.4	63.7	69.8	73.8
Cash and equivalents	48.7	124	94.6	132	173
Balance sheet total	427	474	499	560	618

Source: Inderes

Liabilities & equity	2019	2020	2021e	2022e	2023e
Equity	232	255	307	356	406
Share capital	7.0	7.0	7.0	7.0	7.0
Retained earnings	216	240	290	339	389
Hybrid bonds	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	5.4	4.4	6.5	6.5	6.5
Other equity	3.5	3.5	3.5	3.5	3.5
Minorities	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	52.9	56.6	46.2	46.2	46.2
Deferred tax liabilities	1.4	1.1	1.1	1.1	1.1
Provisions	3.5	5.0	5.0	5.0	5.0
Long term debt	48.0	50.5	40.0	40.0	40.0
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	142	162	146	158	166
Short term debt	33.7	64.1	20.0	20.0	20.0
Payables	108	98.2	126	138	146
Other current liabilities	0.0	0.0	0.0	0.0	0.0
Balance sheet total	427	474	499	560	618

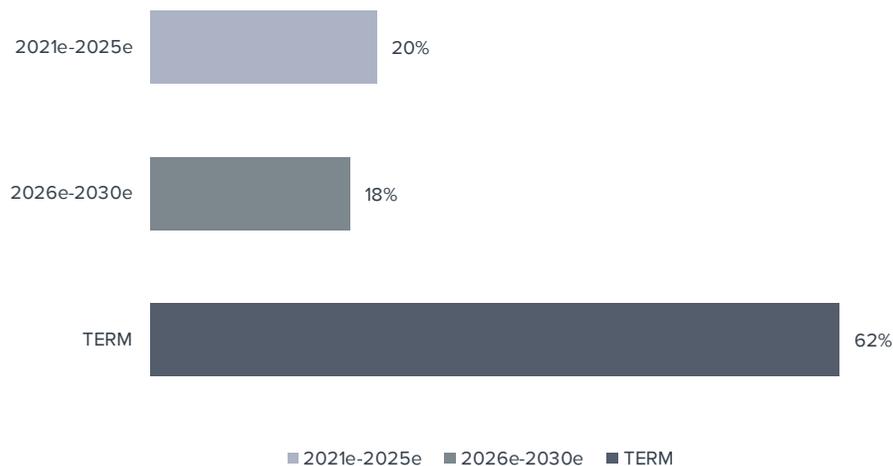
DCF calculation

DCF model	2020	2021e	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	TERM
EBIT (operating profit)	57.1	91.3	102	111	117	118	120	120	120	120	123	
+ Depreciation	24.6	23.6	24.1	24.1	24.3	24.7	28.5	29.4	30.2	30.9	31.5	
- Paid taxes	-6.8	-19.1	-21.0	-22.9	-24.2	-24.6	-24.9	-25.1	-25.2	-25.1	-25.8	
- Tax, financial expenses	-3.3	-0.8	-0.5	-0.5	-0.6	-0.6	-0.7	-0.7	-0.7	-0.8	-0.8	
+ Tax, financial income	0.1	0.1	0.1	0.2	0.3	0.4	0.5	0.5	0.6	0.7	0.8	
- Change in working capital	14.9	-21.4	-11.0	-7.4	-6.3	-6.0	-5.6	-5.1	-4.6	-4.0	-4.1	
Operating cash flow	86.7	73.6	93.3	104	110	112	117	119	120.6	121.4	124.3	
+ Change in other long-term liabilities	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-22.5	-27.5	-25.0	-26.0	-27.0	-47.8	-34.4	-34.8	-35.0	-35.0	-36.5	
Free operating cash flow	65.7	46.1	68.3	78.2	83.2	64.5	83.0	84.4	85.6	86.4	87.7	
+/- Other	0.0	-3.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	65.7	42.9	68.3	78.2	83.2	64.5	83.0	84.4	85.6	86.4	87.7	1716
Discounted FCFF		40.7	60.2	64.0	63.1	45.4	54.3	51.3	48.2	45.2	42.6	833
Sum of FCFF present value		1348	1307	1247	1183	1120	1074	1020	969	921	875	833
Enterprise value DCF		1348										
- Interesting bearing debt		-114.5										
+ Cash and cash equivalents		124										
-Minorities		0.0										
-Dividend/capital return		-16.8										
Equity value DCF		1340										
Equity value DCF per share		47.8										

Wacc	
Tax-% (WACC)	21.0 %
Target debt ratio (D/(D+E))	10.0 %
Cost of debt	3.0 %
Equity Beta	1.25
Market risk premium	4.75%
Liquidity premium	0.40%
Risk free interest rate	2.0 %
Cost of equity	8.3 %
Weighted average cost of capital (WACC)	7.7 %

Source: Inderes

Cash flow distribution



Summary

Income statement	2018	2019	2020	2021e	2022e	Per share data	2018	2019	2020	2021e	2022e
Revenue	612.4	667.4	636.6	796.4	872.2	EPS (reported)	1.56	1.86	1.15	2.48	2.82
EBITDA	77.6	88.5	81.8	114.8	125.7	EPS (adj.)	1.67	1.85	1.58	2.52	2.82
EBIT	61.7	67.3	57.1	91.3	101.6	OCF / share	2.36	1.58	3.09	2.63	3.33
PTP	56.3	66.6	39.6	88.0	99.9	FCF / share	1.13	0.23	2.35	1.53	2.44
Net Income	43.7	52.0	32.3	66.2	78.9	Book value / share	7.16	8.29	9.11	10.94	12.71
Extraordinary items	0.0	0.0	0.0	0.0	0.0	Dividend / share	0.80	0.85	0.60	1.05	1.30
Balance sheet	2018	2019	2020	2021e	2022e	Growth and profitability	2018	2019	2020	2021e	2022e
Balance sheet total	379.1	426.8	474.0	498.5	560.0	Revenue growth-%	6%	9%	-5%	25%	10%
Equity capital	200.2	232.1	255.0	306.5	356.0	EBITDA growth-%	-4%	14%	-8%	40%	9%
Goodwill	3.8	3.8	3.8	3.8	3.8	EBIT (adj.) growth-%	-8%	9%	-15%	60%	11%
Net debt	18.5	33.0	-9.1	-34.6	-72.2	EPS (adj.) growth-%	-6%	10%	-15%	60%	12%
Cash flow	2018	2019	2020	2021e	2022e	EBITDA-%	12.7 %	13.3 %	12.8 %	14.4 %	14.4 %
EBITDA	77.6	88.5	81.8	114.8	125.7	EBIT (adj.)-%	10.1 %	10.1 %	9.0 %	11.5 %	11.6 %
Change in working capital	1.5	-29.1	14.9	-21.4	-11.0	EBIT-%	10.1 %	10.1 %	9.0 %	11.5 %	11.6 %
Operating cash flow	66.0	44.2	86.7	73.6	93.3	ROE-%	23.2 %	24.1 %	13.3 %	24.8 %	23.8 %
CAPEX	-34.0	-35.8	-22.5	-27.5	-25.0	ROI-%	24.7 %	23.5 %	12.4 %	24.6 %	26.1 %
Free cash flow	31.6	6.3	65.7	42.9	68.3	Equity ratio	53.5 %	55.0 %	54.4 %	62.1 %	64.3 %
						Gearing	9.2 %	14.2 %	-3.6 %	-11.3 %	-20.3 %
Largest shareholders						Valuation multiples	2018	2019	2020	2021e	2022e
Vidgren Juha			22.2 %			EV/S	1.2	1.3	1.3	1.5	1.3
Vidgren Jukka			13.4 %			EV/EBITDA (adj.)	9.2	10.2	9.9	10.1	9.0
Vidgren Janne			13.2 %			EV/EBIT (adj.)	11.5	13.4	14.2	12.8	11.1
Vidgren Jarmo			13.2 %			P/E (adj.)	14.8	16.8	18.5	17.0	15.2
Sijotusrahasto Nordea Nordic Small Cap			5.3 %			P/E	3.5	3.7	3.2	3.9	3.4
Skandinaviska Enskilda Banken, Helsingin sivukonttori			1.9 %			Dividend-%	3.2 %	2.7 %	2.1 %	2.5 %	3.0 %

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

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Recommendation history (>12 mo)

Date	Recommendation	Target price	Share price
15-02-17	Accumulate	23.00 €	22.30 €
26-04-17	Accumulate	25.00 €	23.08 €
21-06-17	Accumulate	27.00 €	23.89 €
09-08-17	Accumulate	26.50 €	24.06 €
18-10-17	Reduce	27.50 €	27.40 €
14-02-18	Reduce	26.50 €	26.55 €
18-04-18	Reduce	28.00 €	27.45 €
22-05-18	Reduce	29.00 €	31.50 €
08-08-18	Reduce	30.50 €	32.30 €
24-09-18	Reduce	30.00 €	29.70 €
24-10-18	Reduce	28.50 €	27.20 €
20-02-19	Reduce	28.50 €	28.25 €
17-04-19	Reduce	28.50 €	29.45 €
14-08-19	Reduce	27.00 €	28.30 €
23-10-19	Reduce	27.00 €	29.30 €
04-12-19	Accumulate	29.50 €	28.10 €
17-02-20	Reduce	31.00 €	32.90 €
19-02-20	Reduce	29.50 €	29.85 €
18-03-20	Reduce	20.00 €	21.00 €
22-04-20	Reduce	20.00 €	22.95 €
12-08-20	Reduce	25.00 €	25.50 €
21-10-20	Accumulate	29.00 €	26.05 €
26-11-20	Reduce	31.00 €	29.85 €
17-02-21	Reduce	33.00 €	33.20 €
16-04-21	Accumulate	42.00 €	37.70 €
21-04-21	Accumulate	46.50 €	42.85 €



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