

Tecnotree

Company report

10/24/2022



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✓ Inderes corporate customer

This report is a summary translation of the report “Kannattavuuspaineita ja kassan kilinää” published on 10/24/2022 at 07:39 am.

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Profitability pressures and better cash flow

Tecnotree's Q3 figures exceeded our forecasts in terms of revenue and underperformed in terms of profit. The strong cash flow was the highlight of the report, and the company did well in repatriating receivables during the quarter. Pressures on profitability are currently intense and the report led us to make modest cuts to our earnings forecasts for the coming years. Reflecting the lower forecasts and the slightly lower risk profile due to the repatriation of receivables, we reiterate the target price of EUR 0.65 and Accumulate recommendation.

Solid growth and profitability pressures

Tecnotree's Q3 revenue grew by 9% to EUR 19.9 million, slightly exceeding our EUR 19.2 million estimate. Unlike in previous quarters, growth came from maintenance income (+28%), which has started to flow in following successful deliveries. However, the Q3 operating profit was slightly below our estimate and amounted to EUR 5.0 million (estimate: 5.4 MEUR). This corresponded to an EBIT margin of around 25% (Q3'21: 39%). Profitability was again put under pressure by the company's additional investments in its own supply capacity, unfavorable exchange rate developments and cost inflation in general. The order backlog continued to grow strongly and was EUR 76.1 million at the end of Q3 (Q3'21: 58.6 MEUR). The steadily growing order backlog reflects a good demand situation, but also the fact that the company doesn't necessarily have the capacity to supply it at the moment.

Strong cash flow took the spotlight in the report

In Q3, Tecnotree was very successful in repatriating cash flow and even saw a slight decrease in receivables that had been up for several quarters. Cash flow from operating activities in Q3 was EUR 7.6 million and cash flow after investments was EUR 5.5 million. The strong cash flow was encouraging after negative developments in recent quarters. The company also made provisions in relation to its receivables, indicating that there is a real risk regarding the repatriation of part of them. Overall, however, we consider the development of receivables this quarter to be positive and a mitigating factor for the main concerns. However, we note that cash flow can fluctuate significantly between quarters, and one shouldn't conclude from one good quarter that the cash flow profile has permanently improved. Therefore, the development of receivables and cash flow should continue to be monitored closely.

Guidance doesn't expect miracles for the rest of the year

Tecnotree reiterated its guidance, which expects revenue to grow by 5-10% and EBIT to be lower than in the previous year. Based on the report, we revised our estimates, with our revenue estimates for the coming years increasing by around 2% and our earnings estimates decreasing by around 3-8%. Our revenue estimate for the current year (+10%) is at the upper end of the guidance range, which requires only about 5% revenue growth in Q4. Thus, we think it's possible that the company will further raise its revenue guidance. We expect EBIT to decrease to EUR 15.5 million (2021: 23.7 MEUR), which would mean an EBIT margin of 22%.

The valuation is moderate despite short-term profitability pressures

Based on our estimates, Tecnotree's adjusted P/E ratios for 2022-2023 are 15x and 13x and EV/EBIT ratios 10x and 8x. In our opinion, the levels are rather moderate in relation to Tecnotree's longer-term growth and profitability profile. Our DCF model also indicates that the valuation is low. However, there are still uncertainties surrounding the repatriation of cash flows and sustainable profitability levels, which raise the company's risk profile. Despite of this, we see the stock's risk/return ratio at current valuation as sufficiently attractive.

Recommendation

Accumulate

(previous Accumulate)

EUR 0.65

(previous EUR 0.65)

Share price:

0.54



Key figures

	2021	2022e	2023e	2024e
Revenue	64.2	70.5	76.0	84.4
growth-%	22%	10%	8%	11%
EBIT adj.	23.7	15.5	17.0	22.8
EBIT-% adj.	36.9 %	22.0 %	22.4 %	27.1 %
Net Income	18.4	10.9	13.0	17.6
EPS (adj.)	0.06	0.04	0.04	0.06

P/E (adj.)	25.0	15.3	12.9	9.5
P/B	6.8	2.1	1.8	1.5
P/FCF	neg.	neg.	13.2	10.6
EV/EBIT (adj.)	18.7	9.8	8.3	5.5
EV/EBITDA	17.5	8.7	6.4	4.5
EV/S	6.9	2.2	1.8	1.5

Source: Inderes

Guidance

(Unchanged)

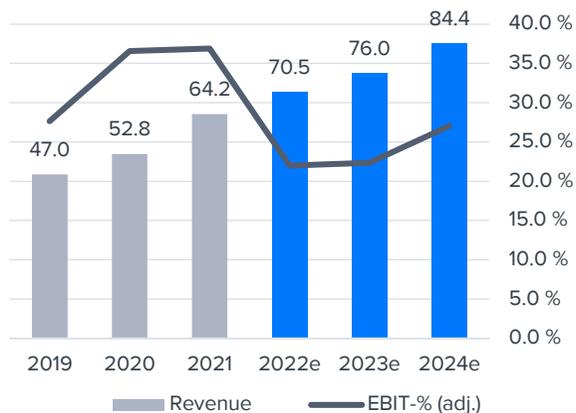
The full year revenue in 2022 is expected to be 5-10% higher and the full year EBIT in 2022 is expected to be lower compared to 2021.

Share price



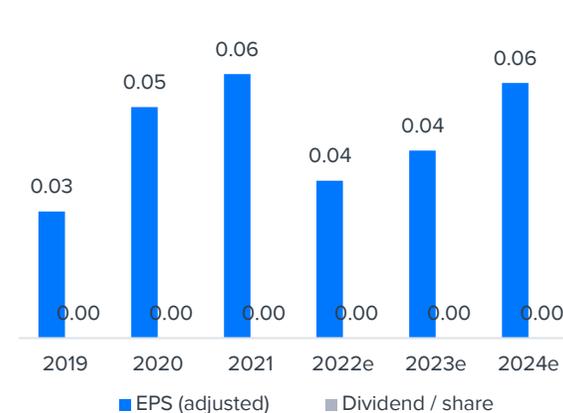
Source: Millistream Market Data AB

Revenue and EBIT %



Source: Inderes

EPS and dividend



Source: Inderes



Value drivers

- Industry's organic drivers are strong and longer-term growth outlook is good
- The company's business model is scalable and cost efficient
- Increasing recurring income flow
- Technologically competent product portfolio



Risk factors

- Risks related to receivables and cash flow repatriation
- Customer portfolio's structure concentrated at top level
- Failure in product development work and reading the industry
- Weakening of a cost-efficient operating model
- Some cyclicity in operators' investments
- Political and legislative threats in emerging countries

Valuation	2022e	2023e	2024e
Share price	0.54	0.54	0.54
Number of shares, millions	310.5	310.5	310.5
Market cap	167	167	167
EV	152	140	125
P/E (adj.)	15.3	12.9	9.5
P/E	15.3	12.9	9.5
P/FCF	neg.	13.2	10.6
P/B	2.1	1.8	1.5
P/S	2.4	2.2	2.0
EV/Sales	2.2	1.8	1.5
EV/EBITDA	8.7	6.4	4.5
EV/EBIT (adj.)	9.8	8.3	5.5
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	Q3'21	Q3'22	Q3'22e	Q3'22e	Consensus		Difference (%)	2022e
	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. inderes	Inderes
Revenue	18.2	19.9	19.2				4%	70.5
EBIT (adj.)	7.1	5.0	5.4				-8%	15.5
EPS (reported)	0.02	0.01	0.01				-26%	0.04
Revenue growth-%	24.7 %	9.3 %	5.5 %				3.8 pp	9.8 %
EBIT-% (adj.)	39.0 %	25.1 %	28.2 %				-3.1 pp	22.0 %

Source: Inderes

Q3 interview with Tecnotree's CEO and CFO:



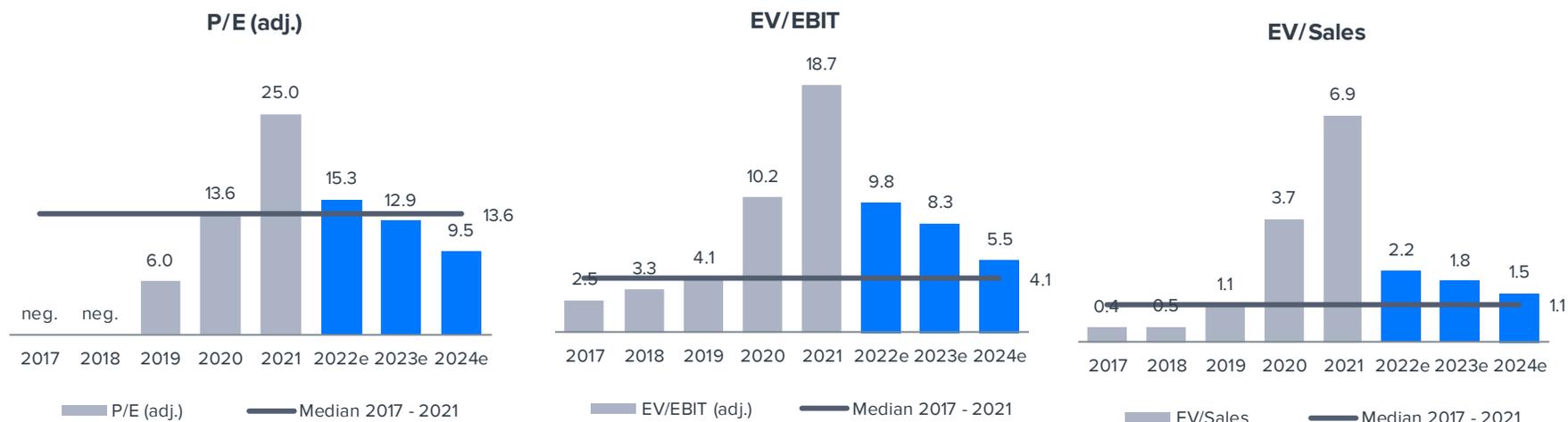
Estimate revisions MEUR / EUR	2022e			2023e			2024e		
	Old	New	Change %	Old	New	Change %	Old	New	Change %
Revenue	69.3	70.5	2%	74.6	76.0	2%	83.0	84.4	2%
EBITDA	20.6	17.4	-16%	22.5	21.9	-3%	28.5	28.2	-1%
EBIT (exc. NRIs)	16.9	15.5	-8%	18.3	17.0	-7%	23.6	22.8	-3%
EBIT	16.9	15.5	-8%	18.3	17.0	-7%	23.6	22.8	-3%
PTP	16.8	15.6	-7%	17.5	16.2	-8%	22.8	22.0	-3%
EPS (excl. NRIs)	0.04	0.04	-13%	0.05	0.04	-8%	0.06	0.06	-3%
DPS	0.00	0.00		0.00	0.00		0.00	0.00	

Source: Inderes

Valuation table

Valuation	2017	2018	2019	2020	2021	2022e	2023e	2024e	2025e
Share price	0.07	0.05	0.17	0.70	1.47	0.54	0.54	0.54	0.54
Number of shares, millions	122.6	136.6	235.3	274.6	313.2	310.5	310.5	310.5	310.5
Market cap	8.6	6.8	40	192	460	167	167	167	167
EV	24	19	53	198	443	152	140	125	108
P/E (adj.)	neg.	neg.	6.0	13.6	25.0	15.3	12.9	9.5	8.1
P/E	neg.	neg.	5.2	14.2	25.0	15.3	12.9	9.5	8.1
P/FCF	1.7	3.8	14.3	33.3	neg.	neg.	13.2	10.6	9.3
P/B	neg.	neg.	11.7	9.7	6.8	2.1	1.8	1.5	1.3
P/S	0.2	0.2	0.9	3.6	7.2	2.4	2.2	2.0	1.8
EV/Sales	0.4	0.5	1.1	3.7	6.9	2.2	1.8	1.5	1.2
EV/EBITDA	2.6	3.3	3.4	9.7	17.5	8.7	6.4	4.5	3.4
EV/EBIT (adj.)	2.5	3.3	4.1	10.2	18.7	9.8	8.3	5.5	4.1
Payout ratio (%)	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Dividend yield-%	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %

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	2022e	2023e	2022e	2023e	2022e	2023e	2022e	2023e	2022e	2023e	2022e
Amdocs Ltd	10221	10011	12.2	11.4	9.6	9.1	2.1	2.0	15.5	13.8	1.9	2.0	2.8
CSG Systems International Inc	2002	2262	13.4	12.3	9.9	9.2	2.1	2.0	17.0	15.7			
Comarch SA	290	232	6.1	6.3	4.0	4.0	0.6	0.6	9.3	8.9	2.7	2.9	0.9
Sterlite Technologies Ltd	810	1180	22.3	17.6	12.9	10.6	1.6	1.3	37.0	23.9	1.5	1.3	3.0
Tecnotree (Inderes)	167	152	9.8	8.3	8.7	6.4	2.2	1.8	15.3	12.9	0.0	0.0	2.1
Average			13.5	11.9	9.1	8.3	1.6	1.5	19.7	15.6	2.0	2.1	2.2
Median			12.8	11.8	9.8	9.2	1.9	1.6	16.3	14.8	1.9	2.0	2.8
Diff-% to median			-23%	-30%	-10%	-30%	14%	12%	-6%	-13%	-100%	-100%	-25%

Source: Refinitiv / 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	52.8	11.2	16.7	18.2	18.1	64.2	13.3	18.3	19.9	19.0	70.5	76.0	84.4	92.5
Group	52.8	11.2	16.7	18.2	18.1	64.2	13.3	18.3	19.9	19.0	70.5	76.0	84.4	92.5
EBITDA	20.3	3.4	7.9	7.6	6.4	25.3	3.0	6.0	4.2	4.3	17.4	21.9	28.2	32.1
Depreciation	-1.7	-0.3	-0.3	-0.5	-0.5	-1.6	-1.0	-0.9	0.9	-0.9	-1.9	-4.9	-5.3	-5.6
EBIT (excl. NRI)	19.3	3.1	7.6	7.1	5.9	23.7	2.0	5.1	5.0	3.3	15.5	17.0	22.8	26.5
EBIT	18.6	3.1	7.6	7.1	5.9	23.7	2.0	5.1	5.0	3.3	15.5	17.0	22.8	26.5
Group	18.6	3.1	7.6	7.1	5.9	23.7	2.0	5.1	5.0	3.3	15.5	17.0	22.8	26.5
Net financial items	-2.7	-0.2	-1.3	-0.7	0.0	-2.2	-0.4	0.7	0.0	-0.2	0.1	-0.8	-0.8	-0.8
PTP	15.9	2.9	6.2	6.4	5.9	21.5	1.6	5.9	5.1	3.1	15.6	16.2	22.0	25.7
Taxes	-2.3	-0.5	-0.9	-1.1	-0.7	-3.1	-0.6	-1.9	-1.7	-0.6	-4.8	-3.2	-4.4	-5.1
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	13.6	2.4	5.3	5.4	5.3	18.4	1.0	4.0	3.4	2.5	10.9	13.0	17.6	20.5
EPS (adj.)	0.05	0.01	0.02	0.02	0.02	0.06	0.00	0.01	0.01	0.01	0.04	0.04	0.06	0.07
EPS (rep.)	0.05	0.01	0.02	0.02	0.02	0.06	0.00	0.01	0.01	0.01	0.04	0.04	0.06	0.07
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-%	12.3 %	14.3 %	17.6 %	24.7 %	27.5 %	21.6 %	18.8 %	9.6 %	9.3 %	4.9 %	9.8 %	7.8 %	11.0 %	9.6 %
Adjusted EBIT growth-%	48.5 %	34.8 %	30.2 %	2.9 %	37.8 %	22.7 %	-34.2 %	-32.4 %	-28.9 %	-44.2 %	-34.5 %	9.6 %	34.4 %	15.9 %
EBITDA-%	38.5 %	30.4 %	47.1 %	41.8 %	35.5 %	39.4 %	22.5 %	32.9 %	20.9 %	22.4 %	24.7 %	28.9 %	33.4 %	34.7 %
Adjusted EBIT-%	36.6 %	27.7 %	45.2 %	39.0 %	32.7 %	36.9 %	15.3 %	27.9 %	25.4 %	17.4 %	22.0 %	22.4 %	27.1 %	28.6 %
Net earnings-%	25.7 %	21.4 %	31.9 %	29.6 %	29.1 %	28.7 %	7.8 %	21.9 %	16.8 %	13.1 %	15.4 %	17.0 %	20.9 %	22.2 %

Source: Inderes

Balance sheet

Assets	2020	2021	2022e	2023e	2024e
Non-current assets	7.3	13.1	18.4	20.1	21.6
Goodwill	0.0	0.0	0.0	0.0	0.0
Intangible assets	5.3	9.9	15.1	16.8	18.2
Tangible assets	0.5	0.4	0.5	0.6	0.6
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	1.0	2.2	2.2	2.2	2.2
Deferred tax assets	0.5	0.6	0.6	0.6	0.6
Current assets	43.3	66.2	77.0	87.8	104
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	35.3	48.6	62.7	61.6	62.5
Cash and equivalents	8.0	17.6	14.3	26.3	41.4
Balance sheet total	50.6	79.3	95.4	108	125

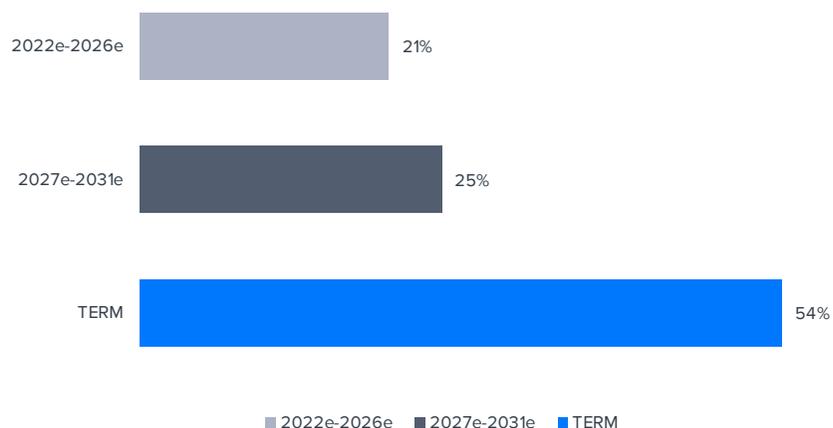
Source: Inderes

Liabilities & equity	2020	2021	2022e	2023e	2024e
Equity	19.9	67.7	78.6	91.6	109
Share capital	1.3	1.3	1.3	1.3	1.3
Retained earnings	18.7	37.1	48.0	60.9	78.6
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	-0.2	29.3	29.3	29.3	29.3
Minorities	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	18.8	2.7	2.7	2.7	2.7
Deferred tax liabilities	0.0	0.0	0.0	0.0	0.0
Provisions	0.0	0.0	0.0	0.0	0.0
Long term debt	12.4	0.0	0.0	0.0	0.0
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	6.4	2.7	2.7	2.7	2.7
Current liabilities	12.0	8.9	14.1	13.7	13.5
Short term debt	1.0	0.1	0.0	0.0	0.0
Payables	11.0	8.9	14.1	13.7	13.5
Other current liabilities	0.0	0.0	0.0	0.0	0.0
Balance sheet total	50.6	79.3	95.4	108	125

DCF calculation

DCF model	2021	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	TERM
Revenue growth-%	21.6 %	9.8 %	7.8 %	11.0 %	9.6 %	5.0 %	4.5 %	4.0 %	3.0 %	3.0 %	2.0 %	2.0 %
EBIT-%	36.9 %	22.0 %	22.4 %	27.1 %	28.6 %	29.5 %	30.0 %	29.5 %	29.0 %	28.0 %	28.0 %	28.0 %
EBIT (operating profit)	23.7	15.5	17.0	22.8	26.5	28.7	30.5	31.1	31.5	31.4	32.0	
+ Depreciation	1.6	1.9	4.9	5.3	5.6	5.9	6.1	6.3	6.4	6.7	6.8	
- Paid taxes	-3.2	-4.8	-3.2	-4.4	-5.1	-5.6	-5.9	-6.1	-6.1	-6.1	-6.4	
- Tax, financial expenses	-0.3	0.0	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	0.0	
+ 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	-15.5	-8.8	0.8	-1.1	-1.9	-1.6	-2.4	-1.1	-0.6	-1.7	-1.2	
Operating cash flow	6.3	3.8	19.3	22.5	24.8	27.3	28.1	30.1	31.1	30.0	31.2	
+ Change in other long-term liabilities	-3.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-7.3	-7.2	-6.7	-6.8	-6.9	-7.0	-7.1	-7.2	-7.2	-7.2	-7.2	
Free operating cash flow	-4.7	-3.4	12.6	15.7	17.9	20.3	21.0	22.9	23.9	22.8	24.0	
+/- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	-4.7	-3.4	12.6	15.7	17.9	20.3	21.0	22.9	23.9	22.8	24.0	298
Discounted FCFF		-3.3	11.2	12.7	13.1	13.5	12.7	12.5	11.9	10.3	9.8	122
Sum of FCFF present value		226	230	218	206	193	179	166	154	142	132	122
Enterprise value DCF		226										
- Interesting bearing debt		-0.1										
+ Cash and cash equivalents		17.6										
-Minorities		0.0										
-Dividend/capital return		0.0										
Equity value DCF		244										
Equity value DCF per share		0.79										

Cash flow distribution



Wacc

Tax-% (WACC)	20.0 %
Target debt ratio (D/(D+E))	0.0 %
Cost of debt	3.0 %
Equity Beta	1.10
Market risk premium	4.75%
Liquidity premium	2.50%
Risk free interest rate	2.5 %
Cost of equity	10.2 %
Weighted average cost of capital (WACC)	10.2 %

Source: Inderes

Summary

Income statement	2019	2020	2021	2022e	2023e	Per share data	2019	2020	2021	2022e	2023e
Revenue	47.0	52.8	64.2	70.5	76.0	EPS (reported)	0.03	0.05	0.06	0.04	0.04
EBITDA	15.4	20.3	25.3	17.4	21.9	EPS (adj.)	0.03	0.05	0.06	0.04	0.04
EBIT	14.4	18.6	23.7	15.5	17.0	OCF / share	0.02	0.05	0.02	0.01	0.06
PTP	11.8	15.9	21.5	15.6	16.2	FCF / share	0.01	0.02	-0.01	-0.01	0.04
Net Income	7.7	13.6	18.4	10.9	13.0	Book value / share	0.01	0.07	0.22	0.25	0.29
Extraordinary items	1.4	-0.7	0.0	0.0	0.0	Dividend / share	0.00	0.00	0.00	0.00	0.00
Balance sheet	2019	2020	2021	2022e	2023e	Growth and profitability	2019	2020	2021	2022e	2023e
Balance sheet total	36.8	50.6	79.3	95.4	108.0	Revenue growth-%	12%	12%	22%	10%	8%
Equity capital	3.6	19.9	67.7	78.6	91.6	EBITDA growth-%	161%	32%	24%	-31%	26%
Goodwill	0.0	0.0	0.0	0.0	0.0	EBIT (adj.) growth-%	120%	48%	23%	-35%	10%
Net debt	10.6	5.4	-17.6	-14.3	-26.3	EPS (adj.) growth-%	-3598%	82%	14%	-40%	19%
Cash flow	2019	2020	2021	2022e	2023e	EBITDA-%	32.8 %	38.5 %	39.4 %	24.7 %	28.9 %
EBITDA	15.4	20.3	25.3	17.4	21.9	EBIT (adj.)-%	27.7 %	36.6 %	36.9 %	22.0 %	22.4 %
Change in working capital	-6.6	-8.1	-15.5	-8.8	0.8	EBIT-%	30.6 %	35.2 %	36.9 %	22.0 %	22.4 %
Operating cash flow	4.2	12.9	6.3	3.8	19.3	ROE-%	-472.4 %	116.2 %	42.0 %	14.9 %	15.2 %
CAPEX	-4.8	-3.6	-7.3	-7.2	-6.7	ROI-%	102.3 %	73.1 %	46.8 %	21.2 %	20.0 %
Free cash flow	2.8	5.8	-4.7	-3.4	12.6	Equity ratio	9.9 %	39.3 %	85.4 %	82.4 %	84.8 %
						Gearing	292.2 %	27.1 %	-25.9 %	-18.2 %	-28.7 %
Valuation multiples	2019	2020	2021	2022e	2023e						
EV/S	1.1	3.7	6.9	2.2	1.8						
EV/EBITDA (adj.)	3.4	9.7	17.5	8.7	6.4						
EV/EBIT (adj.)	4.1	10.2	18.7	9.8	8.3						
P/E (adj.)	6.0	13.6	25.0	15.3	12.9						
P/B	11.7	9.7	6.8	2.1	1.8						
Dividend-%	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %						

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
3/30/2021	Buy	0.68 €	0.56 €
4/30/2021	Buy	0.92 €	0.77 €
5/31/2021	Buy	1.00 €	0.86 €
8/13/2021	Accumulate	1.54 €	1.39 €
10/12/2021	Buy	1.54 €	1.14 €
11/1/2021	Accumulate	1.70 €	1.52 €
12/3/2021	Buy	1.70 €	1.29 €
2/28/2022	Buy	1.50 €	1.21 €
5/2/2022	Buy	1.10 €	0.92 €
<i>Analyst changed</i>			
8/5/2022	Accumulate	0.80 €	0.69 €
9/15/2022	Accumulate	0.65 €	0.54 €
10/24/2022	Accumulate	0.65 €	0.54 €



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