

Exel Composites

Company report

2/16/2022 07.00



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This report is a summary translation of the report "Ruuvia kireämmälle" published on 2/16/2022 at 7:00 am

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Tightening the screw

Yesterday, Exel published its Q4 report. Growth was strong, but known drawbacks made performance difficult. This year, Exel starts out in an acceptable position and if the performance is straightened out the share is not impossibly priced. However, the uncertainty surrounding the performance leap is still high, and therefore we do not feel the annual risk-adjusted expected return is high enough. We lower our recommendation to Reduce (previously Accumulate) and revise our target price to EUR 7.50 (previously EUR 8.40) following estimate revisions.

Good and bad

Exel's Q4 revenue grew by 33% to EUR 36.5 million, which is clearly higher than the sales accumulation we expected. In major customer industries, growth was again strong in Buildings and infrastructure (+19%) driven by conductor cores with interesting long-term potential and in Equipment and other industries (+40%). Wind power that fell to second place in the battle for the largest customer industry (+26%), also continued its excellent volume development as expected. In the smaller customer sectors, the solutions demand in Defense (+76%) and Telecommunications (+28%) remained favorable. In Q4, Exel generated EUR 1.0 million in adjusted EBIT, which was clearly below expectations. Performance in the last quarter was supported by the high revenue load but its benefits were buried under the already known challenges in the US unit (e.g. the efficiency drop caused by the ramp-up of certain high-volume products). Work to solve these problems started in Q3 and based on the operating profit in Q4 and measures we believe other units have taken seems to have yielded reasonable results already in the short term.

Hoping for a more harmonious year

For the year that began, Exel estimates that revenue will be at the 2021 level and the adjusted EBIT will increase from 2021. At the end of 2021, Exel's order book was robust and more detailed comments on general sales development by the management did not show much gloom either. Considering these facts, the company's own structural abilities and the opportunities offered by the joint venture established in India, we find Exel's situation to be acceptable as it enters the new year. However, in line with the uncertainty surrounding the timing of the performance adjustment, we have revised our earnings estimates and are now more cautious. For the whole year, we estimate that Exel's revenue will now remain stable at EUR 135 million. We consider that stable end demand in the largest customer industries is the key revenue driver. In turn, we expect operating profit to rise to EUR 8.2 million, driven by the challenges in the US unit being gradually tackled, support from an absolute high-volume level and improving overall efficiency toward the end of the year. Key risks are unsurprisingly linked to the turnaround in the US and sustainability of demand.

Expected return is too low

Exel's adjusted P/E ratios for 2022 and 2023 based on our estimates are 16x and 12x while the corresponding EV/EBITDA ratios are 8x and 7x. Relative to the accepted multiple range and historical valuation level the current overall valuation picture is quite neutral. However, at this stage of the year, the performance leap we expect is still subject to significant uncertainty, and a dividend yield of around 3% is not sufficient to raise the annual risk-adjusted expected return above the equity return requirement. We therefore find it justified to stay on the sidelines for the time being.

Recommendation

Reduce

(previous Accumulate)

EUR 7.50

(previous EUR 8.40)

Share price:

7.15



Key figures

	2021	2022e	2023e	2024e
Revenue	134	135	140	146
growth-%	24%	0%	4%	4%
EBIT adj.	6.0	8.2	10.5	11.6
EBIT-% adj.	4.5 %	6.1 %	7.4 %	7.9 %
Net Income	1.7	5.4	7.1	7.9
EPS (adj.)	0.29	0.45	0.59	0.66
P/E (adj.)	24.1	15.8	12.1	10.8
P/B	2.8	2.7	2.3	2.1
Dividend yield-%	2.8 %	3.1 %	3.4 %	3.6 %
EV/EBIT (adj.)	20.5	14.8	11.2	9.7
EV/EBITDA	13.6	8.4	7.0	6.3
EV/S	0.9	0.9	0.8	0.8

Source: Inderes

Guidance

(New guidance)

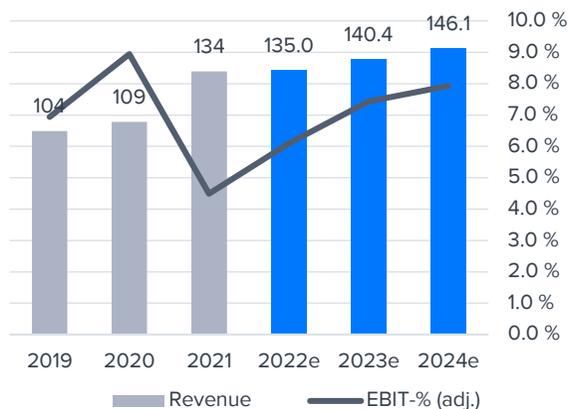
Exel Composites expects that revenue in 2022 will be at last year's level and adjusted operating profit will increase compared to 2021.

Share price



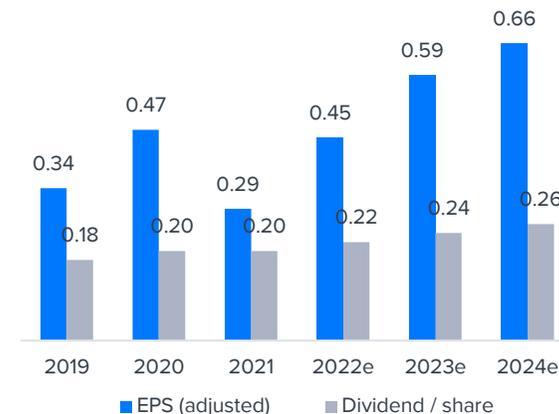
Source: Thomson Reuters

Revenue and EBIT %



Source: Inderes

EPS and dividend



Source: Inderes



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
- The amount of the debt in the balance sheet limits leeway
- Marginal pressures caused by delivery chain problems and higher material costs in the short term
- Success in a sustainable turnaround of the US unit

Valuation	2022e	2023e	2024e
Share price	7.15	7.15	7.15
Number of shares, millions	11.9	11.9	11.9
Market cap	85	85	85
EV	122	117	112
P/E (adj.)	15.8	12.1	10.8
P/E	15.8	12.1	10.8
P/FCF	12.2	10.8	10.7
P/B	2.7	2.3	2.1
P/S	0.6	0.6	0.6
EV/Sales	0.9	0.8	0.8
EV/EBITDA	8.4	7.0	6.3
EV/EBIT (adj.)	14.8	11.2	9.7
Payout ratio (%)	48.5 %	40.5 %	39.2 %
Dividend yield-%	3.1 %	3.4 %	3.6 %

Source: Inderes

Estimate

Estimates MEUR / EUR	Q4'20	Q4'21	Q4'21e	Q4'21e	Consensus		Difference (%)	2021
	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. inderes	Toteutunut
Revenue	27.5	36.5	30.8	31.8	30.8	32.5	19%	134.4
EBIT (adj.)	2.7	1.0	1.4	1.4	1.3	1.5	-26%	6.0
EBIT	2.7	0.6	1.4	1.4	1.3	1.5	-53%	3.7
EPS (adj.)	0.09	0.06	0.06	0.07	0.06	0.08	1%	0.29
DPS	0.18	0.20	0.18	0.21	0.18	0.25	11%	0.20
Revenue growth-%	3.4 %	32.7 %	12.0 %	15.6 %	12.0 %	18.2 %	20.7 pp	23.7 %
EBIT-% (adj.)	9.9 %	2.8 %	4.4 %	4.5 %	4.2 %	4.6 %	-1.7 pp	4.5 %

Source: Inderes & Infront (consensus)

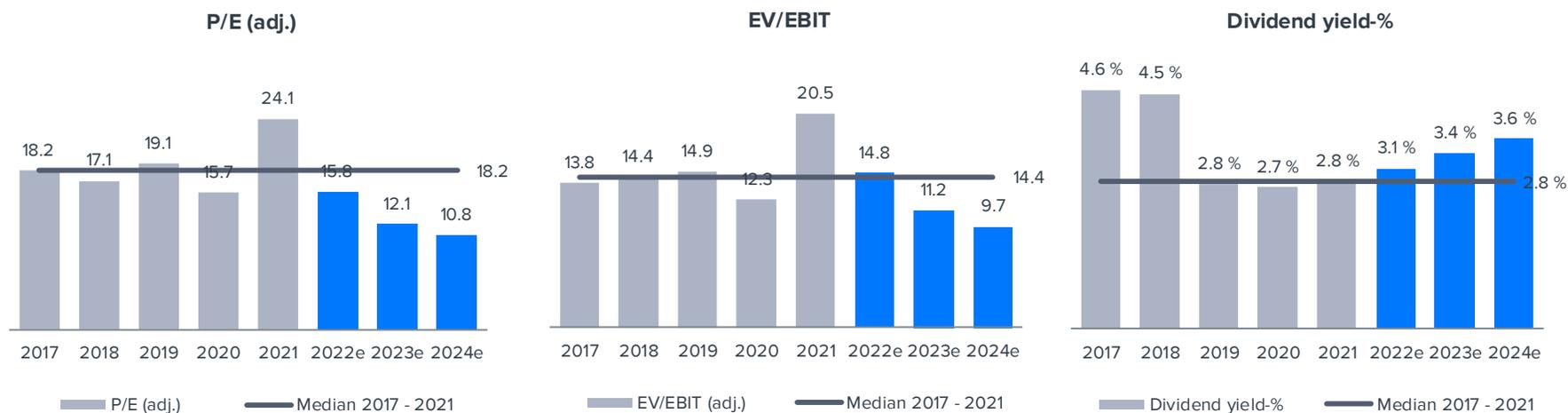
Estimate revisions	2021	2021e	Change	2022e	2022e	Change	2023e	2023e	Change
MEUR / EUR	Old	New	%	Old	New	%	Old	New	%
Revenue	129	134	4%	135	135	0%	140	140	0%
EBITDA	9.8	9.1	-7%	16.0	14.5	-10%	17.9	16.8	-6%
EBIT (exc. NRIs)	6.4	6.0	-6%	9.8	8.2	-16%	11.6	10.5	-10%
EBIT	4.5	3.7	-16%	9.8	8.2	-16%	11.6	10.5	-10%
PTP	4.6	4.2	-9%	8.9	7.4	-16%	10.7	9.7	-10%
EPS (excl. NRIs)	0.30	0.29	-4%	0.54	0.45	-17%	0.66	0.59	-10%
DPS	0.18	0.20	11%	0.24	0.22	-8%	0.26	0.24	-8%

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	7.15	7.15	7.15	7.15
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	85	85	85	85
EV	87	72	107	119	124	122	117	112	106
P/E (adj.)	18.2	17.1	19.1	15.7	24.1	15.8	12.1	10.8	10.4
P/E	18.4	>100	32.0	16.4	50.9	15.8	12.1	10.8	10.4
P/FCF	neg.	neg.	20.1	24.2	neg.	12.2	10.8	10.7	9.3
P/B	2.7	1.8	2.9	3.0	2.8	2.7	2.3	2.1	1.8
P/S	0.9	0.5	0.7	0.8	0.6	0.6	0.6	0.6	0.6
EV/Sales	1.0	0.7	1.0	1.1	0.9	0.9	0.8	0.8	0.7
EV/EBITDA	9.3	7.8	10.0	7.8	13.6	8.4	7.0	6.3	5.8
EV/EBIT (adj.)	13.8	14.4	14.9	12.3	20.5	14.8	11.2	9.7	8.8
Payout ratio (%)	84.1%	554.7%	88.8%	44.3%	143.3%	48.5%	40.5%	39.2%	50.0%
Dividend yield-%	4.6%	4.5%	2.8%	2.7%	2.8%	3.1%	3.4%	3.6%	4.8%

Source: Inderes



Income statement

Income statement	2020	Q1'21	Q2'21	Q3'21	Q4'21	2021	Q1'22e	Q2'22e	Q3'22e	Q4'22e	2022e	2023e	2024e	2025e
Revenue	109	31.0	33.5	33.4	36.5	134.4	32.2	32.5	32.7	37.6	135.0	140.4	146.1	150.4
Group	109	31.0	33.5	33.4	36.5	134	32.2	32.5	32.7	37.6	135.0	140.4	146.1	150.4
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	3.8	3.7	-0.4	2.0	9.1	2.8	3.5	3.8	4.4	14.5	16.8	17.8	18.2
Depreciation	-5.9	-1.3	-1.3	-1.3	-1.3	-5.3	-1.6	-1.6	-1.6	-1.6	-6.2	-6.3	-6.2	-6.2
EBIT (excl. NRI)	9.7	2.5	2.5	0.1	1.0	6.0	1.3	1.9	2.2	2.8	8.2	10.5	11.6	12.0
EBIT	9.4	2.4	2.4	-1.7	0.6	3.7	1.3	1.9	2.2	2.8	8.2	10.5	11.6	12.0
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	-0.2	-0.2	-0.2	-0.2	-0.8	-0.8	-0.8	-0.8
PTP	7.1	2.9	1.9	-1.4	0.7	4.2	1.1	1.7	2.0	2.6	7.4	9.7	10.8	11.2
Taxes	-1.8	-1.0	-0.4	-0.8	-0.3	-2.5	-0.3	-0.5	-0.5	-0.7	-2.0	-2.6	-2.9	-3.0
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	5.4	2.0	1.5	-2.2	0.4	1.7	0.8	1.3	1.4	1.9	5.4	7.1	7.9	8.2
EPS (adj.)	0.47	0.17	0.13	-0.06	0.06	0.29	0.06	0.11	0.12	0.16	0.45	0.59	0.66	0.69
EPS (rep.)	0.45	0.17	0.12	-0.19	0.04	0.14	0.06	0.11	0.12	0.16	0.45	0.59	0.66	0.69

Key figures	2020	Q1'21	Q2'21	Q3'21	Q4'21	2021	Q1'22e	Q2'22e	Q3'22e	Q4'22e	2022e	2023e	2024e	2025e
Revenue growth-%	4.6 %	11.3 %	23.1 %	28.2 %	32.7 %	23.7 %	4.0 %	-3.0 %	-2.0 %	3.0 %	0.5 %	4.0 %	4.0 %	3.0 %
Adjusted EBIT growth-%	34.9 %	17.0 %	-15.0 %	-94.6 %	-62.9 %	-37.8 %	-48.6 %	-21.0 %	1930.0 %	180.0 %	36.4 %	26.9 %	10.9 %	3.9 %
EBITDA-%	14.1 %	12.1 %	11.0 %	-1.1 %	5.4 %	6.7 %	8.8 %	10.8 %	11.5 %	11.7 %	10.7 %	11.9 %	12.2 %	12.1 %
Adjusted EBIT-%	8.9 %	7.9 %	7.3 %	0.3 %	2.8 %	4.5 %	3.9 %	6.0 %	6.7 %	7.5 %	6.1 %	7.4 %	7.9 %	8.0 %
Net earnings-%	4.9 %	6.4 %	4.4 %	-6.6 %	1.2 %	1.2 %	2.4 %	3.9 %	4.4 %	5.1 %	4.0 %	5.0 %	5.4 %	5.5 %

Source: Inderes

Balance sheet

Assets	2020	2021	2022e	2023e	2024e
Non-current assets	47.8	51.9	51.7	51.5	51.3
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	34.1	33.8	33.5
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	53.3	57.6	59.9
Inventories	16.2	23.9	18.9	19.0	19.7
Other current assets	0.0	0.0	0.0	0.0	0.0
Receivables	20.9	26.3	25.0	26.0	27.0
Cash and equivalents	12.0	15.6	9.5	12.6	13.1
Balance sheet total	96.8	118	105	109	111

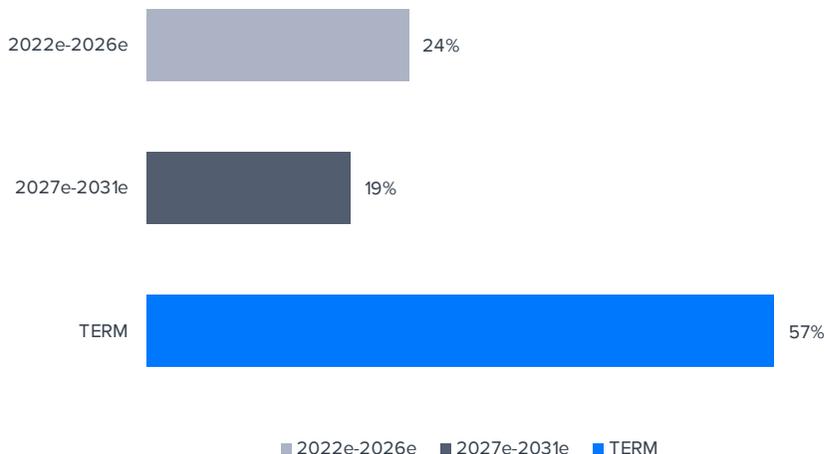
Source: Inderes

Liabilities & equity	2020	2021	2022e	2023e	2024e
Equity	28.9	31.2	32.6	37.0	42.1
Share capital	2.1	2.1	2.1	2.1	2.1
Retained earnings	22.2	21.9	24.9	29.3	34.3
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	24.7	28.2	30.4
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	23.7	27.2	29.4
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	47.7	43.8	38.7
Short term debt	30.3	37.4	20.7	15.7	9.5
Payables	23.6	32.0	27.0	28.1	29.2
Other current liabilities	0.0	0.0	0.0	0.0	0.0
Balance sheet total	96.8	118	105	109	111

DCF calculation

DCF model	2021	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	TERM
EBIT (operating profit)	3.7	8.2	10.5	11.6	12.0	11.6	12.0	12.3	12.1	12.3	12.6	
+ Depreciation	5.3	6.2	6.3	6.2	6.2	6.7	6.5	6.4	6.3	6.3	6.2	
- Paid taxes	-2.3	-2.0	-2.6	-2.9	-3.0	-2.9	-2.7	-2.9	-2.9	-2.9	-3.0	
- Tax, financial expenses	0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1	
+ 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	1.4	0.0	-0.7	0.2	-0.5	-0.5	-0.5	-0.4	-0.4	-0.4	
Operating cash flow	2.0	13.6	14.0	14.0	15.2	14.6	15.1	15.2	15.0	15.1	15.3	
+ 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	-9.3	-6.1	-6.1	-6.1	-6.1	-6.1	-6.1	-6.1	-6.0	-6.0	-6.2	
Free operating cash flow	-7.2	7.0	7.9	8.0	9.2	8.6	9.0	9.1	9.0	9.1	9.1	
+/- 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	7.0	7.9	8.0	9.2	8.6	9.0	9.1	9.0	9.1	9.1	163
Discounted FCFF		6.5	6.9	6.5	6.9	6.0	5.9	5.5	5.0	4.7	4.4	78.3
Sum of FCFF present value		136	130	123	117	110	104	97.9	92.4	87.4	82.6	78.3
Enterprise value DCF		136										
- Interesting bearing debt		-53.0										
+ Cash and cash equivalents		15.6										
-Minorities		-1.6										
-Dividend/capital return		0.0										
Equity value DCF		97.5										
Equity value DCF per share		8.2										
Wacc												
Tax-% (WACC)		25.0 %										
Target debt ratio (D/(D+E))		25.0 %										
Cost of debt		5.0 %										
Equity Beta		1.25										
Market risk premium		5.00%										
Liquidity premium		0.75%										
Risk free interest rate		2.0 %										
Cost of equity		9.0 %										
Weighted average cost of capital (WACC)		7.7 %										

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	135.0	140.4	EPS (reported)	0.20	0.45	0.14	0.45	0.59
EBITDA	10.7	15.3	9.1	14.5	16.8	EPS (adj.)	0.34	0.47	0.29	0.45	0.59
EBIT	5.1	9.4	3.7	8.2	10.5	OCF / share	0.83	1.26	0.17	1.14	1.17
PTP	3.9	7.1	4.2	7.4	9.7	FCF / share	0.32	0.30	-0.61	0.59	0.66
Net Income	2.4	5.4	1.7	5.4	7.1	Book value / share	2.21	2.43	2.57	2.69	3.06
Extraordinary items	-2.1	-0.3	-2.3	0.0	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	105.1	109.0	Revenue growth-%	7%	5%	24%	0%	4%
Equity capital	26.3	28.9	31.2	32.6	37.0	EBITDA growth-%	15%	43%	-41%	60%	16%
Goodwill	13.0	12.6	12.8	12.8	12.8	EBIT (adj.) growth-%	44%	35%	-38%	36%	27%
Net debt	30.2	31.2	37.4	35.0	30.2	EPS (adj.) growth-%	45%	38%	-38%	54%	31%
Cash flow	2019	2020	2021	2022e	2023e	EBITDA-%	10.3 %	14.1 %	6.7 %	10.7 %	11.9 %
EBITDA	10.7	15.3	9.1	14.5	16.8	EBIT (adj.)-%	6.9 %	8.9 %	4.5 %	6.1 %	7.4 %
Change in working capital	1.9	2.4	-4.8	1.4	0.0	EBIT-%	4.9 %	8.7 %	2.8 %	6.1 %	7.4 %
Operating cash flow	9.9	14.9	2.0	13.6	14.0	ROE-%	9.3 %	19.5 %	5.6 %	17.2 %	20.6 %
CAPEX	-6.1	-11.7	-9.3	-6.1	-6.1	ROI-%	8.6 %	13.9 %	4.8 %	10.2 %	13.3 %
Free cash flow	3.8	3.6	-7.2	7.0	7.9	Equity ratio	30.8 %	29.8 %	26.5 %	31.0 %	34.0 %
						Gearing	114.9 %	107.9 %	119.9 %	107.2 %	81.6 %
Valuation multiples	2019	2020	2021	2022e	2023e						
EV/S	1.0	1.1	0.9	0.9	0.8						
EV/EBITDA (adj.)	10.0	7.8	13.6	8.4	7.0						
EV/EBIT (adj.)	14.9	12.3	20.5	14.8	11.2						
P/E (adj.)	19.1	15.7	24.1	15.8	12.1						
P/E	2.9	3.0	2.8	2.7	2.3						
Dividend-%	2.8 %	2.7 %	2.8 %	3.1 %	3.4 %						

Source: Inderes

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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
24-07-19	Accumulate	5.00 €	4.52 €
31-10-19	Accumulate	5.30 €	4.80 €
22-11-19	Accumulate	6.30 €	5.76 €
18-02-20	Accumulate	6.50 €	6.14 €
16-03-20	Accumulate	4.10 €	3.96 €
07-05-20	Accumulate	5.10 €	4.80 €
22-07-20	Accumulate	6.00 €	5.52 €
02-11-20	Accumulate	6.80 €	6.40 €
08-12-20	Accumulate	7.00 €	6.50 €
19-02-21	Accumulate	9.20 €	8.76 €
02-05-21	Accumulate	11.50 €	10.88 €
21-07-21	Accumulate	11.50 €	10.32 €
02-09-21	Accumulate	11.50 €	9.95 €
17-09-21	Accumulate	9.50 €	8.59 €
05-11-21	Accumulate	8.40 €	7.52 €
16-02-22	Reduce	7.50 €	7.15 €

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