

Exel Composites

Company report

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✓ Inderes corporate customer

This report is a summary translation of the report "Onnistuneita toimia operatiivisessa suorittamisessa" published on 07/20/2022 at 7:15 pm.

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Successful actions in operational execution

Exel's Q2 report was stronger than we had forecast. The company exceeded our expectations, both in terms revenue and especially in terms of operating profit. The company's efforts to turn around the US unit and tackle cost inflation through its own pricing actions seem to be working quite well so far. Despite the threats to the global economy and the sustainability of the US unit turnaround, we believe the risk-adjusted expected return on the stock is attractive at current price levels. Therefore, we reiterate our Accumulate recommendation and EUR 7.00 target price for Exel.

Q2 result well above our expectations

In Q2, Exel's revenue grew by 14% to EUR 38.1 million, which clearly exceeded our expectations. The strongest growth among customer industries was seen in Transportation (+163%) that was hit hard by the pandemic. The growth came through, among other things, a new aerospace application in the North American market. In contrast, Buildings & Infrastructure, which has recently been performing strongly, saw a moderate decline (-6%). The development of Wind Power (-17%) was particularly affected by lower order intake, particularly from China. Overall, the demand for Exel's diverse portfolio of applications was good on a broad front. The adjusted operating profit was EUR 3.1 million for Q2, which clearly exceeded our forecast of EUR 1.8 million. The better-than-expected result was due to both volume overperformance and better-than-expected profitability. In our view, profitability was supported particularly by the continued turnaround of the US unit and the company's successful pricing actions to tackle broad-based cost inflation. On the bottom lines, the result was boosted by net financial income with no cash flow effect, which helped the reported earnings per share to exceed our expectations by an even wider margin than the operating result.

We raised our forecasts for the current year clearly, only moderate revisions for the coming years

As expected, Exel reconfirmed its current year's guidance and thus expects that its revenue will be at last year's level and adjusted operating profit will increase. The company indicated in its Q2 update that it is on track and ahead of last year in terms of revenue and profit. However, in light of the short order backlog, the uncertain market environment and, for example, last year's weak H2, the company didn't raise its guidance at this point. However, the operationally good Q2 ended with a solid order backlog of EUR 44 million. More detailed comments on the overall demand situation don't raise major concerns either. Based on this and the Q2 report, which clearly exceeded our expectations, we forecast the company's revenue for the current year to be EUR 143 million and adjusted operating profit to be EUR 10.3 million. Thus, we expect the company to be able to raise its guidance before the end of the year, barring any major setbacks in the demand situation or the US unit turnaround. For the coming years, we made only modest estimate revisions in the light of threats to the global economic situation and the still relatively short-term turnaround of the US unit.

Current valuation is not demanding if forecasts are realized

Exel's adjusted P/E ratios for 2022 and 2023 based on our estimates are 9x and 11x while the corresponding EV/EBITDA ratios are ca. 7x. In relation to the valuation range that we consider neutral, historical valuation levels and the structure that has improved over the last few years, we feel that the levels are moderate. Uncertainty is caused by threats that overshadow the global economy and Exel's performance (e.g. the sustainability of the US unit turnaround, inflation, rising interest rates and their impact on demand and profitability). We still expect the risk-adjusted expected return on the stock to rise to an attractive level, supported by our estimated dividend yield of around 3%.

Recommendation

Accumulate

(previous Accumulate)

EUR 7.00

(previous EUR 7.00)

Share price:

EUR 6.58



Key figures

	2021	2022e	2023e	2024e
Revenue	134	143	146	154
growth-%	24%	7%	2%	5%
EBIT adj.	6.0	10.3	10.7	12.3
EBIT-% adj.	4.5 %	7.2 %	7.3 %	8.0 %
Net Income	1.7	9.0	6.9	8.1
EPS (adj.)	0.29	0.74	0.58	0.68
P/E (adj.)	24.1	8.9	11.4	9.6
P/B	2.8	2.2	2.0	1.7
Dividend yield-%	2.8 %	3.3 %	3.6 %	4.1 %
EV/EBIT (adj.)	20.5	11.2	10.4	8.7
EV/EBITDA	13.6	7.1	6.6	5.7
EV/S	0.9	0.8	0.8	0.7

Source: Inderes

Guidance

(Unchanged)

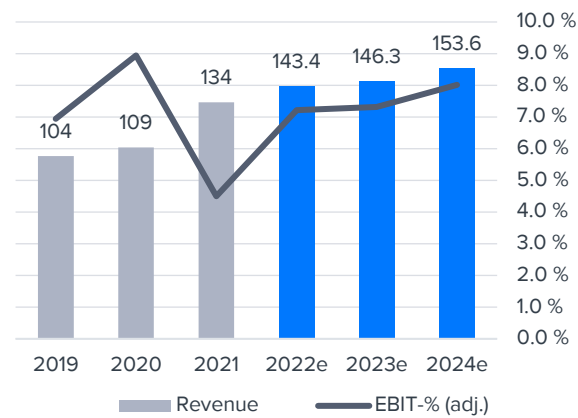
Exel Composites expects that revenue in 2022 will be at last year's level and adjusted operating profit will increase compared to 2021.

Share price



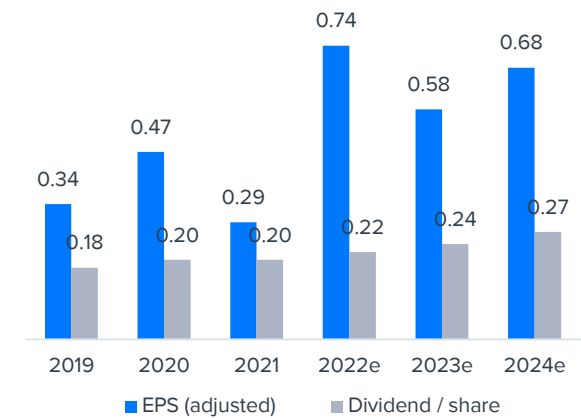
Source: Millstream Market Data AB

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

Valuation	2022e	2023e	2024e
Share price	6.58	6.58	6.58
Number of shares, millions	11.9	11.9	11.9
Market cap	78	78	78
EV	115	112	107
P/E (adj.)	8.9	11.4	9.6
P/E	8.7	11.4	9.6
P/FCF	18.3	11.1	9.5
P/B	2.2	2.0	1.7
P/S	0.5	0.5	0.5
EV/Sales	0.8	0.8	0.7
EV/EBITDA	7.1	6.6	5.7
EV/EBIT (adj.)	11.2	10.4	8.7
Payout ratio (%)	29.1%	41.5%	39.6%
Dividend yield-%	3.3%	3.6%	4.1%

Source: Inderes

Estimates and estimate revisions

Estimates	Q2'21	Q2'22	Q2'22e	Q2'22e	Consensus		Difference (%)	2022e
MEUR / EUR	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. inderes	Inderes
Revenue	33.5	38.1	34.9				9%	143
EBIT (adj.)	2.5	3.1	1.8				75%	10.3
EBIT	2.4	3.0	1.8				68%	10.5
EPS (reported)	0.12	0.34	0.10				239%	0.75
Revenue growth-%	23.1 %	13.5 %	4.0 %				9.5 pp	6.7 %
EBIT-% (adj.)	7.3 %	8.2 %	5.1 %				3.1 pp	7.2 %

Source: Inderes

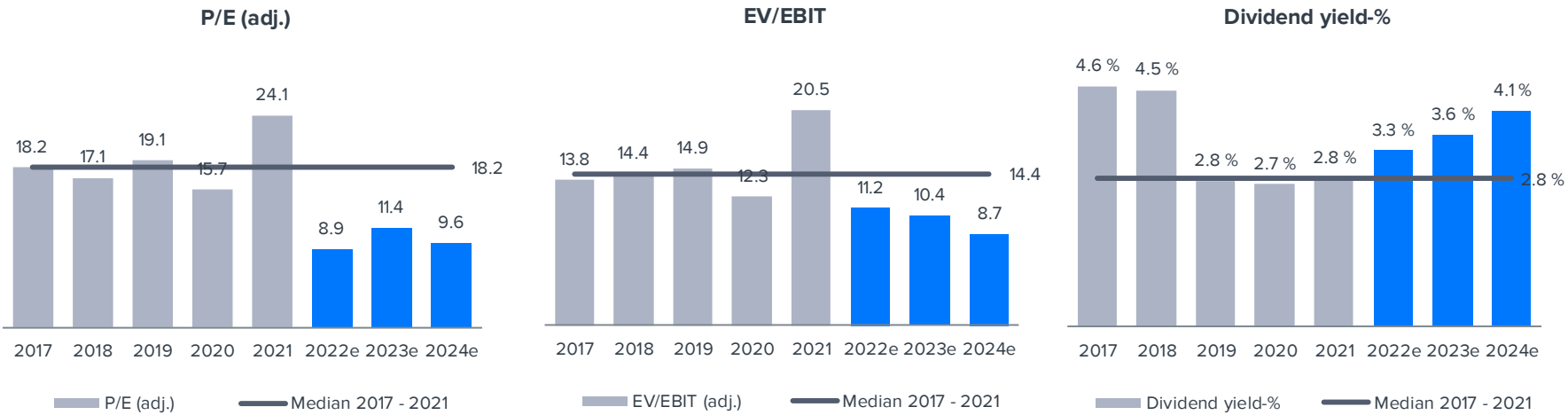
Estimate revisions	2022e	2022e	Change	2023e	2023e	Change	2024e	2024e	Change
MEUR / EUR	Old	New	%	Old	New	%	Old	New	%
Revenue	137	143	5%	142	146	3%	148	154	4%
EBITDA	14.9	16.3	9%	16.7	17.1	2%	18.3	18.9	3%
EBIT (exc. NRIs)	8.4	10.3	23%	10.5	10.7	2%	11.8	12.3	4%
EBIT	8.6	10.5	21%	10.5	10.7	2%	11.8	12.3	4%
PTP	8.5	12.2	43%	9.7	9.4	-3%	11.1	11.1	1%
EPS (excl. NRIs)	0.48	0.74	55%	0.59	0.58	-3%	0.68	0.68	1%
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	6.58	6.58	6.58	6.58
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	78	78	78	78
EV	87	72	107	119	124	115	112	107	102
P/E (adj.)	18.2	17.1	19.1	15.7	24.1	8.9	11.4	9.6	9.2
P/E	18.4	>100	32.0	16.4	50.9	8.7	11.4	9.6	9.2
P/FCF	neg.	neg.	20.1	24.2	neg.	18.3	11.1	9.5	9.0
P/B	2.7	1.8	2.9	3.0	2.8	2.2	2.0	1.7	1.6
P/S	0.9	0.5	0.7	0.8	0.6	0.5	0.5	0.5	0.5
EV/Sales	1.0	0.7	1.0	1.1	0.9	0.8	0.8	0.7	0.6
EV/EBITDA	9.3	7.8	10.0	7.8	13.6	7.1	6.6	5.7	5.3
EV/EBIT (adj.)	13.8	14.4	14.9	12.3	20.5	11.2	10.4	8.7	8.0
Payout ratio (%)	84.1%	554.7%	88.8%	44.3%	143.3%	29.1%	41.5%	39.6%	50.0%
Dividend yield-%	4.6%	4.5%	2.8%	2.7%	2.8%	3.3%	3.6%	4.1%	5.4%

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
Gurit	564	593	18.1	14.5	13.2	11.0	1.4	1.3	24.8	19.5	1.5	1.9	3.5
Hexagon	591	666			91.6	25.4	1.4	1.1					1.3
Exel Composites (Inderes)	78	115	11.2	10.4	7.1	6.6	0.8	0.8	8.9	11.4	3.3	3.6	2.2
Average			18.1	14.5	52.4	18.2	1.4	1.2	24.8	19.5	1.5	1.9	2.4
Median			18.1	14.5	52.4	18.2	1.4	1.2	24.8	19.5	1.5	1.9	2.4
Diff-% to median			-38%	-28%	-86%	-64%	-42%	-37%	-64%	-42%	117%	88%	-9%

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

Income statement

Income statement	2020	Q1'21	Q2'21	Q3'21	Q4'21	2021	Q1'22	Q2'22	Q3'22e	Q4'22e	2022e	2023e	2024e	2025e
Revenue	109	31.0	33.5	33.4	36.5	134	34.2	38.1	35.1	36.1	143	146	154	158
Group	109	31.0	33.5	33.4	36.5	134	34.2	38.1	35.1	36.1	143	146	154	158
Adjusted 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	1.6	4.3	6.3	4.1	16.3	17.1	18.9	19.4
Depreciation	-5.9	-1.3	-1.3	-1.3	-1.3	-5.3	-1.6	-1.3	-1.4	-1.4	-5.8	-6.3	-6.5	-6.6
EBIT (excl. NRI)	9.7	2.5	2.5	0.1	1.0	6.0	2.2	3.1	2.4	2.6	10.3	10.7	12.3	12.8
EBIT	9.4	2.4	2.4	-1.7	0.6	3.7	0.0	3.0	4.8	2.6	10.5	10.7	12.3	12.8
Adjusted 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	-0.4	-0.4	1.7	-1.3	-1.2	-1.2
PTP	7.1	2.9	1.9	-1.4	0.7	4.2	0.5	4.9	4.5	2.3	12.2	9.4	11.1	11.6
Taxes	-1.8	-1.0	-0.4	-0.8	-0.3	-2.5	-0.6	-0.9	-1.1	-0.6	-3.2	-2.5	-3.0	-3.1
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	5.4	2.0	1.5	-2.2	0.4	1.7	-0.1	4.0	3.4	1.7	9.0	6.9	8.1	8.5
EPS (adj.)	0.47	0.17	0.13	-0.06	0.06	0.29	0.13	0.35	0.12	0.14	0.74	0.58	0.68	0.71
EPS (rep.)	0.45	0.17	0.12	-0.19	0.04	0.14	-0.01	0.34	0.28	0.14	0.75	0.58	0.68	0.71
Key figures	2020	Q1'21	Q2'21	Q3'21	Q4'21	2021	Q1'22	Q2'22	Q3'22e	Q4'22e	2022e	2023e	2024e	2025e
Revenue growth-%	4.6 %	11.3 %	23.1 %	28.2 %	32.7 %	23.7 %	10.3 %	13.5 %	5.0 %	-1.0 %	6.7 %	2.0 %	5.0 %	3.0 %
Adjusted EBIT growth-%	34.9 %	17.0 %	-15.0 %	-94.6 %	-62.9 %	-37.8 %	-11.7 %	27.1 %	2159.7 %	157.4 %	71.3 %	3.5 %	15.0 %	4.1 %
EBITDA-%	14.1 %	12.1 %	11.0 %	-1.1 %	5.4 %	6.7 %	4.6 %	11.4 %	17.9 %	11.2 %	11.3 %	11.7 %	12.3 %	12.3 %
Adjusted EBIT-%	8.9 %	7.9 %	7.3 %	0.3 %	2.8 %	4.5 %	6.4 %	8.2 %	7.0 %	7.2 %	7.2 %	7.3 %	8.0 %	8.1 %
Net earnings-%	4.9 %	6.4 %	4.4 %	-6.6 %	1.2 %	1.2 %	-0.2 %	10.5 %	9.6 %	4.7 %	6.3 %	4.7 %	5.3 %	5.4 %

Source: Inderes

Balance sheet

Assets	2020	2021	2022e	2023e	2024e
Non-current assets	47.8	51.9	52.0	53.1	53.6
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	34.3	35.4	35.8
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	66.3	63.9	66.4
Inventories	16.2	23.9	22.9	22.7	23.0
Other current assets	0.0	0.0	0.0	0.0	0.0
Receivables	20.9	26.3	27.5	28.1	29.5
Cash and equivalents	12.0	15.6	15.8	13.2	13.8
Balance sheet total	96.8	118	118	117	120

Source: Inderes

Liabilities & equity	2020	2021	2022e	2023e	2024e
Equity	28.9	31.2	36.2	40.5	45.7
Share capital	2.1	2.1	2.1	2.1	2.1
Retained earnings	22.2	21.9	28.5	32.7	38.0
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	28.3	30.2	32.5
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	27.3	29.1	31.5
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	53.7	46.4	41.7
Short term debt	30.3	37.4	24.3	16.4	10.2
Payables	23.6	32.0	29.4	30.0	31.5
Other current liabilities	0.0	0.0	0.0	0.0	0.0
Balance sheet total	96.8	118	118	117	120

DCF calculation

DCF model	2021	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	TERM
EBIT (operating profit)	3.7	10.5	10.7	12.3	12.8	13.4	13.8	13.8	13.6	13.4	13.7	
+ Depreciation	5.3	5.8	6.3	6.5	6.6	7.2	7.2	7.2	7.1	7.1	7.1	
- Paid taxes	-2.3	-3.2	-2.5	-3.0	-3.1	-3.3	-3.3	-3.3	-3.3	-3.2	-3.4	
- Tax, financial expenses	0.1	0.4	-0.4	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-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	-4.8	-2.8	0.3	-0.3	-0.2	-0.2	-0.6	-0.6	-0.5	-0.5	-0.5	
Operating cash flow	2.0	10.7	14.5	15.3	15.7	16.8	16.8	16.8	16.7	16.6	16.8	
+ 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	-9.3	-5.9	-7.5	-7.1	-7.1	-7.1	-7.1	-7.1	-7.0	-7.2	-7.2	
Free operating cash flow	-7.2	4.3	7.0	8.2	8.7	9.8	9.7	9.7	9.7	9.4	9.6	
+/- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	-7.2	4.3	7.0	8.2	8.7	9.8	9.7	9.7	9.7	9.4	9.6	166
Discounted FCFF		4.1	6.3	6.8	6.7	7.0	6.4	6.0	5.5	4.9	4.7	80.9
Sum of FCFF present value		139	135	129	122	115	108	102	96.0	90.5	85.5	80.9
Enterprise value DCF		139										
- Interesting bearing debt		-53.0										
+ Cash and cash equivalents		15.6										
-Minorities		-1.3										
-Dividend/capital return		-2.4										
Equity value DCF		98.2										
Equity value DCF per share		8.3										
Cash flow distribution												
2022e-2026e												22%
2027e-2031e												20%
TERM												58%
Wacc												
Tax-% (WACC)		25.0 %										
Target debt ratio (D/(D+E))		25.0 %										
Cost of debt		5.0 %										
Equity Beta		1.30										
Market risk premium		4.75%										
Liquidity premium		1.10%										
Risk free interest rate		2.0 %										
Cost of equity		9.3 %										
Weighted average cost of capital (WACC)		7.9 %										

Source: Inderes

Summary

Income statement	2019	2020	2021	2022e	2023e	Per share data	2019	2020	2021	2022e	2023e
Revenue	103.8	108.6	134.4	143.4	146.3	EPS (reported)	0.20	0.45	0.14	0.75	0.58
EBITDA	10.7	15.3	9.1	16.3	17.1	EPS (adj.)	0.34	0.47	0.29	0.74	0.58
EBIT	5.1	9.4	3.7	10.5	10.7	OCF / share	0.83	1.26	0.17	0.90	1.22
PTP	3.9	7.1	4.2	12.2	9.4	FCF / share	0.32	0.30	-0.61	0.36	0.59
Net Income	2.4	5.4	1.7	9.0	6.9	Book value / share	2.21	2.43	2.57	2.99	3.35
Extraordinary items	-2.1	-0.3	-2.3	0.1	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	118.2	117.0	Revenue growth-%	7%	5%	24%	7%	2%
Equity capital	26.3	28.9	31.2	36.2	40.5	EBITDA growth-%	15%	43%	-41%	79%	5%
Goodwill	13.0	12.6	12.8	12.8	12.8	EBIT (adj.) growth-%	44%	35%	-38%	71%	3%
Net debt	30.2	31.2	37.4	35.8	32.4	EPS (adj.) growth-%	45%	38%	-38%	151%	-22%
Cash flow	2019	2020	2021	2022e	2023e	EBITDA-%	10.3 %	14.1 %	6.7 %	11.3 %	11.7 %
EBITDA	10.7	15.3	9.1	16.3	17.1	EBIT (adj.)-%	6.9 %	8.9 %	4.5 %	7.2 %	7.3 %
Change in working capital	1.9	2.4	-4.8	-2.8	0.3	EBIT-%	4.9 %	8.7 %	2.8 %	7.3 %	7.3 %
Operating cash flow	9.9	14.9	2.0	10.7	14.5	ROE-%	9.3 %	19.5 %	5.6 %	27.1 %	18.2 %
CAPEX	-6.1	-11.7	-9.3	-5.9	-7.5	ROI-%	8.6 %	13.9 %	4.8 %	12.2 %	12.3 %
Free cash flow	3.8	3.6	-7.2	4.3	7.0	Equity ratio	30.8 %	29.8 %	26.5 %	30.6 %	34.6 %
						Gearing	114.9 %	107.9 %	119.9 %	99.0 %	80.0 %
Valuation multiples	2019	2020	2021	2022e	2023e						
EV/S	1.0	1.1	0.9	0.8	0.8						
EV/EBITDA (adj.)	10.0	7.8	13.6	7.1	6.6						
EV/EBIT (adj.)	14.9	12.3	20.5	11.2	10.4						
P/E (adj.)	19.1	15.7	24.1	8.9	11.4						
P/E	2.9	3.0	2.8	2.2	2.0						
Dividend-%	2.8 %	2.7 %	2.8 %	3.3 %	3.6 %						

Source: Inderes

Disclaimer and recommendation history

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Recommendation history (>12 mo)

Date	Recommendation	Target price	Share price
7/22/2020	Accumulate	6.00 €	5.52 €
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 €
Change of analyst			
7/21/2022	Accumulate	7.00 €	6.58 €



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