

Talenom

Company report

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✓ Inderes corporate customer

This report is a summary translation of the report "Laskenut arvostus houkuttelee takaisin kyytiin" published on 3/27/2023 at 7:39 am

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Lower valuation entices back on board

We reiterate our EUR 9.0 target price for Talenom, but raise our recommendation to Accumulate (previous Reduce) as the share price drop has pushed the company's valuation back to reasonable. We make no estimate changes, so the over 20% drop in the share price has been directly reflected in the company's valuation. We feel that the current valuation (2024e P/E 26x and EV/EBIT 22x) already offers a rather attractive expected return, considering the significant international growth investments that currently depress profitability, and whose yield will mature in coming years.

Valuation has again fallen to reasonable levels

After a significant share price drop, Talenom's valuation level has again fallen to a reasonable level considering the company's strong outlook. The 2023e P/E ratio is still over 30x and EV/EBIT is 26x, but despite continued profitability pressure, the 2024e ratios (P/E 26x and EV/EBIT 22x) actually in our opinion have some upside. While there is still considerable uncertainty about the success of the company's international growth strategy, the valuation is starting to offer some safety margin. Thanks to the excellent cash-flow profile of the Finnish core business we estimate that the cash flow of Talenom's business operations is well above EUR 30 million, compared to which the current EV of around EUR 420 million does not sound completely unreasonable, even if international growth would not generate scalable growth. Recent acquisitions have mainly been carried out with reasonable valuations (EV/EBITDA 4-6x), making it unlikely that value is destroyed. However, a major performance improvement will in principle, wait until 2025-2026 and one must tolerate considerable uncertainty on the way.

The next few years are a time of growth investments

The challenge for the valuation is that the net result is not currently growing and thus does not offer an upward driver for the share. We still estimate that Talenom's net sales will increase by around 24% to EUR 126 million in 2023, most of which comes from acquisitions (including unimplemented acquisitions). We expect EBITDA to grow by another 16%, but at EBIT level, we predict that the improvement will remain marginal and estimate that EPS will decrease in 2023 as financing costs increase. We expect investments to remain high at around EUR 40 million as the company continues to conquer Europe. In the next few years, we expect the overall picture to be similar, even though, we estimate that the profitability pressure is gradually decreasing. If you trust that the profitability of the international business will be even close to Finland's core business in the future, the investments being made now will ultimately be highly profitable. However, we have to wait years for evidence of the strategy's effectiveness, and it is more difficult to value growing earnings potential than actual earnings growth.

Among the most interesting equity stories in Finland

The equity story of Talenom has many attractive elements and opportunities that few listed companies in Helsinki have. The business is mainly recurring and defensive, profitability is partially scalable and competitive advantages are strong in the SME sector selected by the company, as evidenced by the excellent profitability in Finland. The company already has a strong position in the transforming accounting services industry, and we estimate Talenom to be one of the future winners, at least in Finland. The abundant cash flow from Finland is now being invested in international growth, which opens realistic prospects for success in the European market in the long term. Now we also believe that the valuation level no longer hinders a good expected return so it is a good time to turn to the Accumulate side.

Recommendation

Accumulate

(previous Reduce)

EUR 9.00

(previous EUR 9.00)

Share price:

EUR 7.69



Key figures

	2022	2023e	2024e	2025e
Revenue	102	126	156	191
growth-%	23%	24%	24%	22%
EBIT adj.	15.3	16.2	19.7	26.8
EBIT-% adj.	15.0 %	12.8 %	12.6 %	14.0 %
Net Income	11.8	11.3	13.8	18.2
EPS (adj.)	0.27	0.25	0.30	0.39

P/E (adj.)	35.4	30.8	25.5	19.5
P/B	7.5	5.9	5.5	4.8
Dividend yield-%	1.9 %	2.5 %	2.6 %	2.7 %
EV/EBIT (adj.)	31.1	26.0	22.2	16.8
EV/EBITDA	14.8	11.3	10.6	9.1
EV/S	4.6	3.3	2.8	2.4

Source: Inderes

Guidance

(Unchanged)

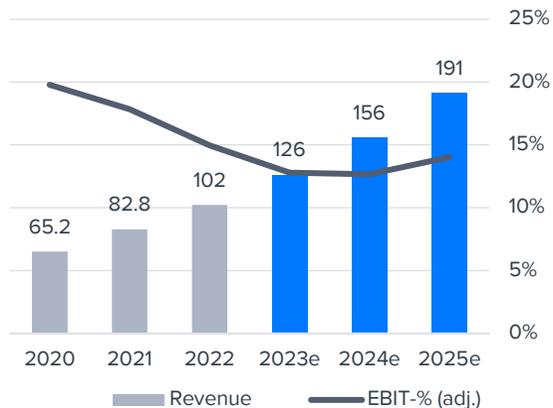
Talenom estimates that 2023 net sales will be about EUR 120-130 million and that its euro-denominated EBITDA and operating profit will grow from 2022.

Share price



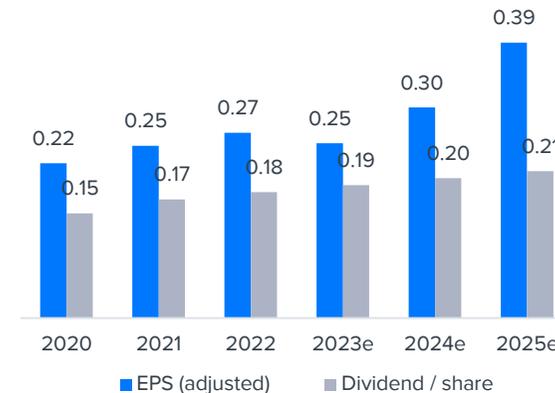
Source: Millstream Market Data AB

Revenue and EBIT %



Source: Inderes

EPS and dividend



Source: Inderes



Value drivers

- Strong earnings growth after the acquisition-driven growth phase
- Clear competitive advantages will continue to contribute to increasing market share
- Strengthening market position in Sweden and profitability improvement
- Fragmented market is transforming, which opens new opportunities
- Business model that utilizes economies of scale strengthens with growth
- Expansion in Spain and elsewhere in Europe



Risk factors

- Failure in improving Sweden's profitability
- Failure in internationalization
- Development of the interest environment and drop of acceptable valuation multiples
- Competitive advantage relies on technology, whose development tends to be fast
- Potential drop in customer retention
- Potential tightening competition in digital financial management
- Transformation can bring new challengers to the industry

Valuation	2023e	2024e	2025e
Share price	7.69	7.69	7.69
Number of shares, millions	45.3	45.8	46.3
Market cap	348	352	356
EV	420	438	449
P/E (adj.)	30.8	25.5	19.5
P/E	30.8	25.5	19.5
P/FCF	neg.	neg.	77.1
P/B	5.9	5.5	4.8
P/S	2.8	2.3	1.9
EV/Sales	3.3	2.8	2.4
EV/EBITDA	11.3	10.6	9.1
EV/EBIT (adj.)	26.0	22.2	16.8
Payout ratio (%)	76.0 %	66.4 %	53.3 %
Dividend yield-%	2.5 %	2.6 %	2.7 %

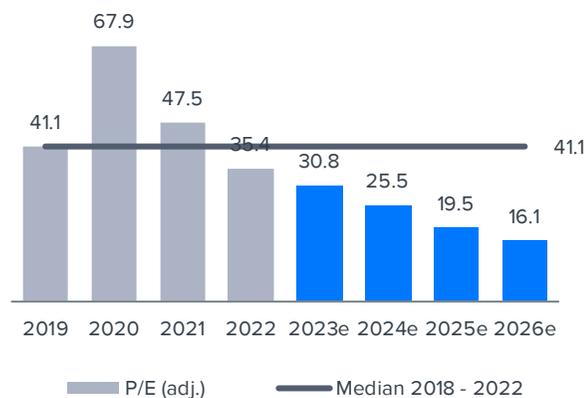
Source: Inderes

Valuation table

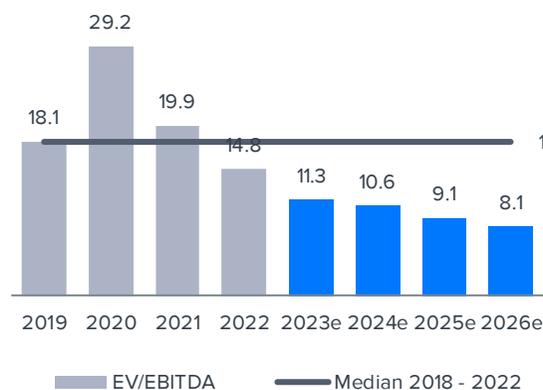
Valuation	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e
Share price	3.18	7.50	15.1	11.7	9.39	7.69	7.69	7.69	7.69
Number of shares, millions	41.2	41.7	43.2	43.8	44.5	45.3	45.8	46.3	46.3
Market cap	131	313	650	512	420	348	352	356	356
EV	149	342	679	552	475	420	438	449	444
P/E (adj.)	20.6	41.1	67.9	47.5	35.4	30.8	25.5	19.5	16.1
P/E	20.6	41.1	67.9	47.5	35.4	30.8	25.5	19.5	16.1
P/FCF	90.2	neg.	>100	neg.	neg.	neg.	neg.	77.1	19.1
P/B	7.0	13.3	20.2	11.5	7.5	5.9	5.5	4.8	4.1
P/S	2.7	5.4	10.0	6.2	4.1	2.8	2.3	1.9	1.6
EV/Sales	3.1	5.9	10.4	6.7	4.6	3.3	2.8	2.4	2.0
EV/EBITDA	10.9	18.1	29.2	19.9	14.8	11.3	10.6	9.1	8.1
EV/EBIT (adj.)	17.5	32.8	52.7	37.4	31.1	26.0	22.2	16.8	13.9
Payout ratio (%)	59.4 %	68.4 %	67.7 %	69.0 %	68.3 %	76.0 %	66.4 %	53.3 %	46.1 %
Dividend yield-%	2.9 %	1.7 %	1.0 %	1.5 %	1.9 %	2.5 %	2.6 %	2.7 %	2.9 %

Source: Inderes

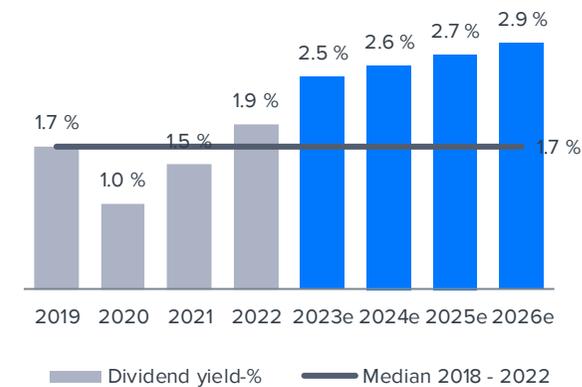
P/E (adj.)



EV/EBITDA



Dividend yield-%



Peer group valuation

Peer group valuation	Market cap	EV	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%	
Company	MEUR	MEUR	2023e	2024e	2023e	2024e	2023e	2024e	2023e	2024e	2023e	2024e
Aallon Group	41	38	10.1	9.1	9.2	8.1	1.2	1.1	13.5	13.0	2.1	2.2
Fortnox	3523	3516	60.3	43.5	48.7	36.0	23.8	18.3	79.8	57.2	0.2	0.3
Admicom	205	199	16.0	14.3	15.9	14.2	6.0	5.5	20.7	19.1	2.9	3.2
ECIT	216	287	10.2	7.7	6.2	4.8	0.9	0.8	20.3	14.8	1.7	2.3
Administer	43	36	9.1	6.1	4.1	3.3	0.4	0.4	25.2	11.6	3.6	5.0
Xero	8134	8134	206	68	52	32	10.1	8.5	469	100		
Enento	423	560	14.2	12.2	9.3	8.7	3.4	3.2	17.7	14.4	5.7	5.9
Fondia	32	26	10.3	8.1	8.1	6.6	1.0	0.9	16.0	13.2	3.9	4.9
Vincit	77	65	7.6	5.6	7.0	5.2	0.6	0.5	11.9	9.4	3.6	4.3
Gofore	390	361	13.1	11.1	12.0	10.3	1.9	1.6	17.9	16.2	2.0	2.3
Etteplan	397	459	15.0	13.3	8.9	8.0	1.3	1.2	18.2	16.6	2.8	3.0
Talenom (Inderes)	348	420	26.0	22.2	11.3	10.6	3.3	2.8	30.8	25.5	2.5	2.6
Average			33.8	18.1	16.4	12.4	4.6	3.8	64.6	26.0	2.9	3.3
Median			13.1	11.1	9.2	8.1	1.3	1.2	18.2	14.8	2.8	3.1
Diff-% to median			98%	99%	23%	31%	166%	144%	69%	73%	-13%	-16%

Source: Refinitiv / Inderes

Income statement

Income statement	2021	Q1'22	Q2'22	Q3'22	Q4'22	2022	Q1'23e	Q2'23e	Q3'23e	Q4'23e	2023e	2024e	2025e	2026e
Revenue	82.8	25.2	27.0	23.6	26.3	102	31.3	33.6	29.0	32.4	126	156	191	220
EBITDA	27.7	8.9	9.3	7.3	6.6	32.0	9.5	10.3	8.4	8.9	37.2	41.3	49.2	54.4
Depreciation	-12.9	-4.0	-4.2	-4.2	-4.4	-16.8	-5.2	-5.2	-5.3	-5.3	-21.0	-21.6	-22.4	-22.6
EBIT (excl. NRI)	14.8	4.9	5.1	3.1	2.2	15.3	4.3	5.1	3.1	3.6	16.2	19.7	26.8	31.9
EBIT	14.8	4.9	5.1	3.1	2.2	15.3	4.3	5.1	3.1	3.6	16.2	19.7	26.8	31.9
Net financial items	-0.8	-0.1	-0.1	-0.3	-0.2	-0.7	-0.4	-0.5	-0.5	-0.6	-2.0	-2.5	-3.7	-3.9
PTP	14.0	4.7	5.1	2.8	2.0	14.6	3.9	4.6	2.6	3.0	14.2	17.2	23.1	28.0
Taxes	-3.2	-1.0	-1.0	-0.6	-0.1	-2.8	-0.8	-0.9	-0.5	-0.6	-2.8	-3.4	-4.8	-5.9
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	10.8	3.7	4.1	2.2	1.8	11.8	3.2	3.7	2.1	2.4	11.3	13.8	18.2	22.1
EPS (adj.)	0.25	0.09	0.09	0.05	0.04	0.27	0.07	0.08	0.05	0.05	0.25	0.30	0.39	0.48
EPS (rep.)	0.25	0.09	0.09	0.05	0.04	0.27	0.07	0.08	0.05	0.05	0.25	0.30	0.39	0.48

Key figures	2021	Q1'22	Q2'22	Q3'22	Q4'22	2022	Q1'23e	Q2'23e	Q3'23e	Q4'23e	2023e	2024e	2025e	2026e
Revenue growth-%	27.1 %	24.1 %	26.2 %	21.7 %	21.1 %	23.3 %	24.0 %	24.5 %	23.0 %	23.0 %	23.6 %	23.6 %	22.5 %	15.0 %
Adjusted EBIT growth-%	14.6 %	10.2 %	24.0 %	-10.8 %	-20.5 %	3.4 %	-10.7 %	-1.3 %	1.7 %	64.8 %	5.8 %	22.2 %	35.9 %	18.8 %
EBITDA-%	33.4 %	35.2 %	34.4 %	30.8 %	25.0 %	31.4 %	30.5 %	30.6 %	29.1 %	27.5 %	29.4 %	26.5 %	25.7 %	24.8 %
Adjusted EBIT-%	17.8 %	19.3 %	19.0 %	13.0 %	8.3 %	15.0 %	13.9 %	15.1 %	10.8 %	11.2 %	12.8 %	12.6 %	14.0 %	14.5 %
Net earnings-%	13.0 %	14.9 %	15.0 %	9.2 %	7.0 %	11.6 %	10.1 %	10.9 %	7.2 %	7.5 %	9.0 %	8.8 %	9.5 %	10.1 %

Source: Inderes

Estimate revisions	2023e	2023e	Change	2024e	2024e	Change	2025e	2025e	Change
MEUR / EUR	Old	New	%	Old	New	%	Old	New	%
Revenue	126	126	0%	156	156	0%	191	191	0%
EBITDA	37.2	37.2	0%	41.3	41.3	0%	49.2	49.2	0%
EBIT (exc. NRIs)	16.2	16.2	0%	19.7	19.7	0%	26.8	26.8	0%
EBIT	16.2	16.2	0%	19.7	19.7	0%	26.8	26.8	0%
PTP	14.2	14.2	0%	17.2	17.2	0%	23.1	23.1	0%
EPS (excl. NRIs)	0.25	0.25	0%	0.30	0.30	0%	0.39	0.39	0%
DPS	0.19	0.19	0%	0.20	0.20	0%	0.21	0.21	0%

Source: Inderes

Balance sheet

Assets	2021	2022	2023e	2024e	2025e
Non-current assets	94.3	124	148	172	191
Goodwill	37.3	55.0	69.0	83.0	97.0
Intangible assets	44.7	55.9	65.4	74.6	79.9
Tangible assets	2.8	2.8	3.0	3.8	3.2
Associated companies	0.0	0.0	0.0	0.0	0.0
Other investments	0.9	0.3	0.3	0.3	0.3
Other non-current assets	8.6	9.9	10.1	10.3	10.5
Deferred tax assets	0.1	0.4	0.4	0.4	0.4
Current assets	20.0	30.5	34.1	42.1	51.6
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	9.8	14.5	16.4	20.3	24.8
Cash and equivalents	10.1	16.0	17.7	21.8	26.8
Balance sheet total	118	156	182	213	242

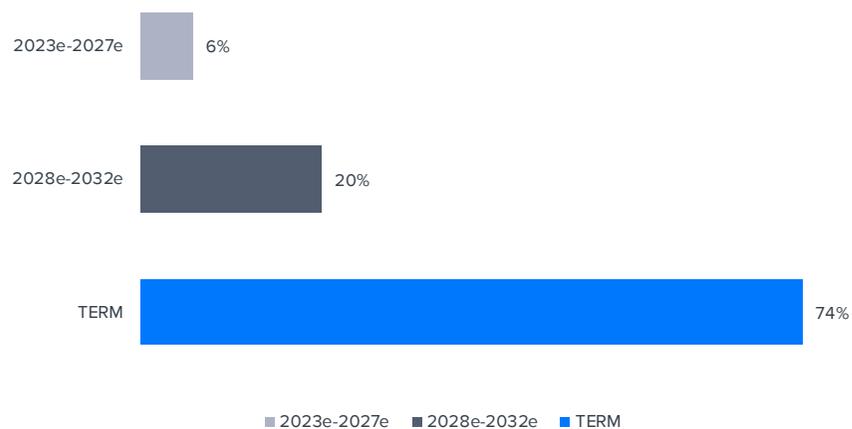
Source: Inderes

Liabilities & equity	2021	2022	2023e	2024e	2025e
Equity	44.7	56.0	59.3	64.5	73.5
Share capital	0.1	0.1	0.1	0.1	0.1
Retained earnings	23.1	29.1	32.3	37.5	46.6
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	21.6	26.9	26.9	26.9	26.9
Minorities	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	50.4	62.3	83.6	94.6	109
Deferred tax liabilities	2.0	3.0	3.0	3.0	3.0
Provisions	0.0	0.0	0.0	0.0	0.0
Long term debt	46.2	56.4	77.7	88.7	103
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	2.2	2.8	2.8	2.8	2.8
Current liabilities	22.6	38.0	39.2	53.5	59.7
Short term debt	3.2	13.7	11.4	19.2	17.7
Payables	16.6	24.3	27.8	34.3	42.0
Other current liabilities	2.9	0.0	0.0	0.0	0.0
Balance sheet total	118	156	182	213	242

DCF calculation

DCF model	2022	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	TERM
Revenue growth-%	23.3 %	23.6 %	23.6 %	22.5 %	15.0 %	12.0 %	8.0 %	6.0 %	5.0 %	5.0 %	3.0 %	3.0 %
EBIT-%	15.0 %	12.8 %	12.6 %	14.0 %	14.5 %	15.0 %	15.0 %	15.0 %	15.0 %	15.0 %	15.0 %	15.0 %
EBIT (operating profit)	15.3	16.2	19.7	26.8	31.9	36.9	39.9	42.3	44.4	46.6	48.0	
+ Depreciation	16.8	21.0	21.6	22.4	22.6	25.6	24.4	24.3	24.0	25.0	25.5	
- Paid taxes	-2.1	-2.8	-3.4	-4.8	-5.9	-7.0	-7.7	-8.3	-8.7	-9.2	-9.5	
- Tax, financial expenses	-0.1	-0.4	-0.5	-0.8	-0.9	-0.8	-0.7	-0.7	-0.7	-0.6	-0.6	
+ Tax, financial income	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	
- Change in working capital	0.2	1.5	2.7	3.2	2.6	2.4	1.8	1.4	1.3	1.3	0.8	
Operating cash flow	30.0	35.5	40.1	46.7	50.3	57.1	57.7	59.1	60.3	63.1	64.2	
+ Change in other long-term liabilities	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-44.5	-43.1	-44.1	-42.1	-31.7	-26.7	-25.7	-20.9	-28.0	-26.1	-28.1	
Free operating cash flow	-13.8	-7.6	-4.0	4.6	18.6	30.4	32.0	38.2	32.3	37.0	36.1	
+/- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	-13.8	-7.6	-4.0	4.6	18.6	30.4	32.0	38.2	32.3	37.0	36.1	750
Discounted FCFF		-7.2	-3.5	3.7	14.0	21.1	20.6	22.8	17.8	18.9	17.1	355
Sum of FCFF present value		480	487	491	487	473	452	432	409	391	372	355
Enterprise value DCF		480										
- Interesting bearing debt		-70.1										
+ Cash and cash equivalents		16.0										
-Minorities		0.0										
-Dividend/capital return		0.0										
Equity value DCF		426										
Equity value DCF per share		9.4										

Cash flow distribution



WACC

Tax-% (WACC)	20.0 %
Target debt ratio (D/(D+E))	15.0 %
Cost of debt	4.0 %
Equity Beta	1.20
Market risk premium	4.75%
Liquidity premium	0.60%
Risk free interest rate	2.5 %
Cost of equity	8.8 %
Weighted average cost of capital (WACC)	8.0 %

Source: Inderes

Summary

Income statement	2020	2021	2022	2023e	2024e	Per share data	2020	2021	2022	2023e	2024e
Revenue	65.2	82.8	102.1	126.2	156.1	EPS (reported)	0.22	0.25	0.27	0.25	0.30
EBITDA	23.3	27.7	32.0	37.2	41.3	EPS (adj.)	0.22	0.25	0.27	0.25	0.30
EBIT	12.9	14.8	15.3	16.2	19.7	OCF / share	0.54	0.66	0.68	0.78	0.88
PTP	12.0	14.0	14.6	14.2	17.2	FCF / share	0.04	-0.26	-0.31	-0.17	-0.09
Net Income	9.6	10.8	11.8	11.3	13.8	Book value / share	0.74	1.02	1.26	1.31	1.41
Extraordinary items	0.0	0.0	0.0	0.0	0.0	Dividend / share	0.15	0.17	0.18	0.19	0.20
Balance sheet	2020	2021	2022	2023e	2024e	Growth and profitability	2020	2021	2022	2023e	2024e
Balance sheet total	84.9	117.7	156.3	182.0	212.6	Revenue growth-%	12%	27%	23%	24%	24%
Equity capital	32.2	44.7	56.0	59.3	64.5	EBITDA growth-%	23%	19%	16%	16%	11%
Goodwill	24.0	37.3	55.0	69.0	83.0	EBIT (adj.) growth-%	24%	15%	3%	6%	22%
Net debt	29.0	39.2	54.1	71.4	86.0	EPS (adj.) growth-%	21%	11%	8%	-6%	20%
Cash flow	2020	2021	2022	2023e	2024e	EBITDA-%	35.7 %	33.4 %	31.4 %	29.4 %	26.5 %
EBITDA	23.3	27.7	32.0	37.2	41.3	EBIT (adj.)-%	19.8 %	17.8 %	15.0 %	12.8 %	12.6 %
Change in working capital	2.4	3.3	0.2	1.5	2.7	EBIT-%	19.8 %	17.8 %	15.0 %	12.8 %	12.6 %
Operating cash flow	23.5	28.9	30.0	35.5	40.1	ROE-%	34.4 %	28.1 %	23.4 %	19.6 %	22.3 %
CAPEX	-22.2	-41.9	-44.5	-43.1	-44.1	ROI-%	19.8 %	18.0 %	13.9 %	11.9 %	12.4 %
Free cash flow	1.8	-11.3	-13.8	-7.6	-4.0	Equity ratio	38.1 %	38.2 %	35.9 %	32.6 %	30.4 %
						Gearing	90.3 %	87.7 %	96.6 %	120.4 %	133.4 %
Valuation multiples	2020	2021	2022	2023e	2024e						
EV/S	10.4	6.7	4.6	3.3	2.8						
EV/EBITDA (adj.)	29.2	19.9	14.8	11.3	10.6						
EV/EBIT (adj.)	52.7	37.4	31.1	26.0	22.2						
P/E (adj.)	67.9	47.5	35.4	30.8	25.5						
P/B	20.2	11.5	7.5	5.9	5.5						
Dividend-%	1.0 %	1.5 %	1.9 %	2.5 %	2.6 %						

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)

The company performed a 1/5-split on 2/25/2020, share and target prices have been adjusted

Date	Recommendation	Target	Share price
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 €
03-08-21	Reduce	16.00 €	16.72 €
01-10-21	Accumulate	15.00 €	13.98 €
02-11-21	Accumulate	15.50 €	14.50 €
17-12-21	Accumulate	13.50 €	11.92 €
09-02-22	Buy	12.00 €	9.84 €
13-04-22	Buy	12.00 €	9.99 €
27-04-22	Buy	12.00 €	10.00 €
03-08-22	Reduce	12.50 €	12.30 €
26-10-22	Reduce	9.50 €	9.39 €
01-02-23	Reduce	9.00 €	9.09 €
27-03-23	Accumulate	9.00 €	7.69 €



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