

# Exel Composites

## Company report

10/20/2023



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✓ Inderes corporate customer

This report is a summary translation of the report "Tase natisee liitoksissaan" published on 10/20/2023 at 8:25 am EEST.

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# Balance sheet creaks at the seams

Yesterday, Exel lowered its revenue guidance for the current year, which did not come as a surprise given the sluggish start to the year. The company also announced the restructuring of its US operations, in connection with which it will take a significant write-down for Q4. Combined with the current market situation, performance and already high leverage, we believe this increases the risks to the balance sheet. Reflecting this and the negative forecast changes we have made, we believe that the risk/return ratio for the stock has turned very poor for the next 12 months. Hence, we lower Exel's recommendation to Sell (was Reduce) and the target price to EUR 2.5 (was EUR 3.5).

## The decrease in revenue guidance did not come as a surprise, profit guidance unchanged

In the updated guidance, the company expects both its revenue and adjusted EBIT to decline significantly compared to 2022 (previously: revenue to decrease). The decline in guidance was driven by the continuation of challenging market conditions and weak demand in H2'23 against the company's earlier expectations. According to Exel, customer activity has improved in H2, but the general economic situation has affected the timing of orders and order schedules for major projects. At the same time, the company gave preliminary information on the development of Q3'23 and expects a revenue of EUR 20.5 million and an adjusted EBIT of EUR 1.0-1.5 million. The figures were well below our expectations (revenue 26.4 MEUR, adj. EBIT: 0.5 MEUR). Exel also announced that it has completed the strategic review of its first plant. First up was the US factory and operations, where Exel said it would focus on customized solutions in the future. It expects the restructuring of its US operations to result in annual cost savings of EUR ~3.0 million, but as a result of the change it takes a write-down of as much as EUR 4.3 million for Q4'23.

## Operational forecasts down, balance sheet risks elevated reflecting performance and write-downs

We now expect Exel's revenue for the current year to land at EUR 101 million (was 109 MEUR) and adjusted EBIT to be EUR -1.0 million (was 2.0 MEUR). Looking ahead, we also expect the first half of next year to be weak. As such, we expect that the company will have to pick up speed below our earlier expectations, and because of that we have lowered our growth and especially earnings forecasts for the coming years, reflecting Exel's somewhat fixed cost structure. Reflecting the projected earnings development and the write-down, short-term balance sheet risks have also increased significantly (equity ratio of 22%, net gearing of 178% and net debt/ EBITDA ratio of 6.4x in 2023e). However, we do not see an acute liquidity risk if the liquidity of the short-term commercial paper market Exel uses remains favorable. However, considering the significant investment needs that may be required to implement the new strategy, we do not believe that a large equity financing facility can be completely ruled out. We expect the company to provide more details on the investment and capital needs required by the new strategy at the Capital Markets Day in November at the latest.

## No short-term support points for the valuation, balance sheet position has increased the risk level

On our estimates, earnings-based multiples for the current year are negative and the multiples for next year are also very high (P/E 62x, EV/EBIT 25x). The balance sheet-based valuation does not provide concrete support levels either (P/B 2023e: 1.9x). However, more important than the short-term valuation picture is how Exel intends to increase its financial headroom, as otherwise we estimate that the implementation of the strategy will be delayed by several years. We estimate that the number of financing options is limited and concentrated in different equity-based options. As such, we find it best to follow the clarification of the situation from the sidelines.

## Recommendation

### Sell

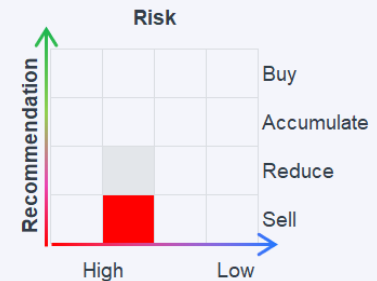
(previous Reduce)

**2.50 EUR**

(previous EUR 3.50)

**Share price:**

3.04 EUR



## Key figures

	2022	2023e	2024e	2025e
Revenue	137	101	109	124
growth-%	2%	-26%	8%	14%
EBIT adj.	8.0	-1.0	2.9	5.9
EBIT-% adj.	5.9 %	-1.0 %	2.6 %	4.8 %
Net Income	2.3	-8.9	0.6	2.7
EPS (adj.)	0.61	-0.34	0.05	0.23

P/E (adj.)	8.8	neg.	61.7	13.3
P/B	2.2	1.9	1.9	1.6
Dividend yield-%	3.7 %	0.0 %	0.0 %	0.0 %
EV/EBIT (adj.)	12.0	neg.	25.4	12.1
EV/EBITDA	6.7	8.1	7.5	5.7
EV/S	0.7	0.7	0.7	0.6

Source: Inderes

## Guidance

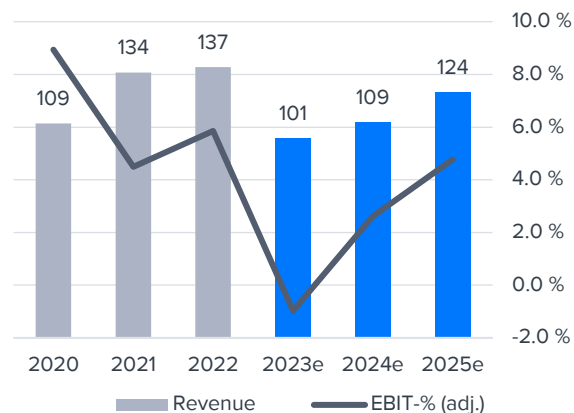
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Exel Composites now expects that revenue (2022: 137 MEUR) and adjusted operating profit will decrease significantly in 2023 compared to 2022 (2022: 8.0 MEUR).

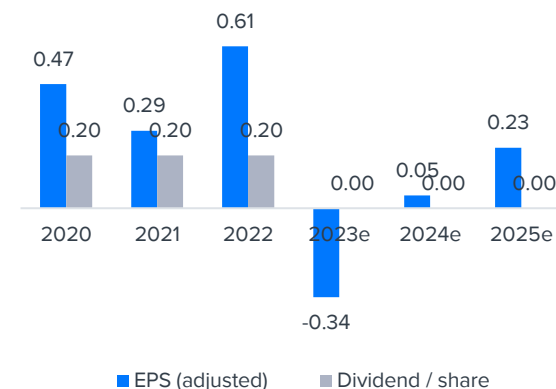
## Share price



## Revenue and EBIT-%



## EPS and dividend



## Value drivers

- Growing composite market creates a good base for organic growth
- Upside in profitability relative to full potential (incl. reduction in fixed costs)
- Materializing the global structure of production and relative economies of scale in a new, more focused strategy
- Value-creating acquisitions in the future



## Risk factors

- Balance sheet risks are elevated, also because of possible investments required by the new strategy (incl. unfavorable financing arrangements)
- Failure in the implementation of the new strategy
- Somewhat cyclical and volatile demand
- With a chronically short absolute order book, business opportunities can weaken relatively quickly
- The cost structure is still quite fixed for the time being
- Concentrated customer portfolio
- Margin pressures still caused by material costs in the short term

Valuation	2023e	2024e	2025e
Share price	3.04	3.04	3.04
Number of shares, millions	11.9	11.9	11.9
Market cap	36	36	36
EV	71	73	72
P/E (adj.)	neg.	61.7	13.3
P/E	neg.	61.7	13.3
P/B	1.9	1.9	1.6
P/S	0.4	0.3	0.3
EV/Sales	0.7	0.7	0.6
EV/EBITDA	8.1	7.5	5.7
EV/EBIT (adj.)	neg.	25.4	12.1
Payout ratio (%)	0.0 %	0.0 %	0.0 %
Dividend yield-%	0.0 %	0.0 %	0.0 %

Source: Inderes

# Estimate revisions

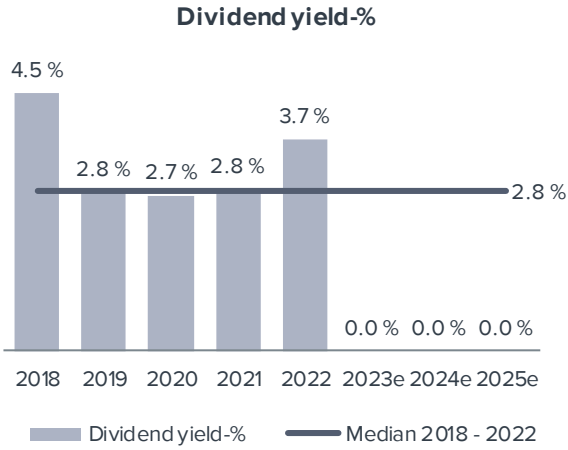
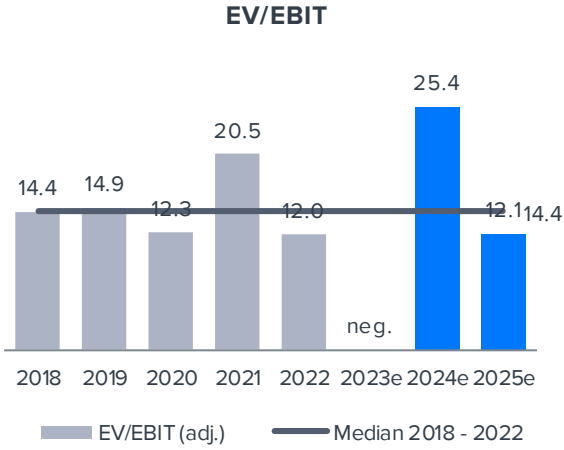
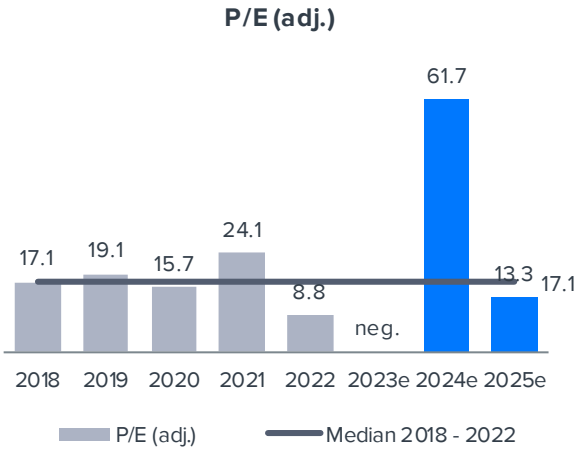
Estimate revisions	2023e	2023e	Change	2024e	2024e	Change	2025e	2025e	Change
MEUR / EUR	Old	New	%	Old	New	%	Old	New	%
Revenue	109	101	-7%	123	109	-11%	136	124	-9%
EBITDA	8.3	5.3	-36%	11.5	9.7	-16%	14.7	12.7	-14%
EBIT (exc. NRIs)	2.0	-1.0	-150%	4.6	2.9	-38%	8.0	5.9	-26%
EBIT	1.4	-5.9	-527%	4.6	2.9	-38%	8.0	5.9	-26%
PTP	-1.3	-8.5		2.6	0.9	-67%	6.2	4.1	-33%
EPS (excl. NRIs)	-0.13	-0.34		0.14	0.05	-65%	0.35	0.23	-35%
DPS	0.05	0.00	-100%	0.05	0.00	-100%	0.10	0.00	-100%

Source: Inderes

# Valuation table

Valuation	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e
Share price	4.00	6.48	7.38	7.10	5.42	3.04	3.04	3.04	3.04
Number of shares, millions	11.9	11.9	11.9	11.9	11.9	11.9	11.9	11.9	11.9
Market cap	48	77	88	84	64	36	36	36	36
EV	72	107	119	124	97	71	73	72	69
P/E (adj.)	17.1	19.1	15.7	24.1	8.8	neg.	61.7	13.3	8.1
P/E	>100	32.0	16.4	50.9	28.1	neg.	61.7	13.3	8.1
P/B	1.8	2.9	3.0	2.8	2.2	1.9	1.9	1.6	1.4
P/S	0.5	0.7	0.8	0.6	0.5	0.4	0.3	0.3	0.3
EV/Sales	0.7	1.0	1.1	0.9	0.7	0.7	0.7	0.6	0.5
EV/EBITDA	7.8	10.0	7.8	10.3	6.7	8.1	7.5	5.7	4.6
EV/EBIT (adj.)	14.4	14.9	12.3	20.5	12.0	neg.	25.4	12.1	8.4
Payout ratio (%)	554.7 %	88.8 %	44.3 %	143.3 %	103.8 %	0.0 %	0.0 %	0.0 %	13.2 %
Dividend yield-%	4.5 %	2.8 %	2.7 %	2.8 %	3.7 %	0.0 %	0.0 %	0.0 %	1.6 %

Source: Inderes



# Income statement

Income statement	2021	Q1'22	Q2'22	Q3'22	Q4'22	2022	Q1'23	Q2'23	Q3'23e	Q4'23e	2023e	2024e	2025e	2026e
Revenue	134	34.2	38.1	33.8	31.0	137	28.8	25.4	20.5	26.2	101	109	124	137
Group	134	34.2	38.1	33.8	31.0	137	28.8	25.4	20.5	26.2	101	109	124	137
EBITDA	11.9	1.8	4.8	3.4	0.2	10.1	1.5	1.5	0.5	1.9	5.3	9.7	12.7	15.0
Depreciation	-8.2	-1.7	-1.8	-1.7	-1.9	-7.1	-1.8	-1.7	-1.7	-6.0	-11.2	-6.8	-6.8	-6.7
EBIT (excl. NRI)	6.0	2.2	3.1	1.8	0.9	8.0	0.0	0.1	-1.2	0.2	-1.0	2.9	5.9	8.3
EBIT	3.7	0.0	3.0	1.7	-1.7	3.0	-0.3	-0.2	-1.2	-4.1	-5.9	2.9	5.9	8.3
Net financial items	0.4	0.5	1.9	1.5	-3.4	0.6	-1.2	-0.4	-0.5	-0.5	-2.6	-2.0	-1.8	-1.6
PTP	4.2	0.5	4.9	3.2	-5.1	3.6	-1.5	-0.7	-1.7	-4.6	-8.5	0.9	4.1	6.7
Taxes	-2.5	-0.6	-0.9	-1.2	1.3	-1.5	-0.7	-0.2	0.3	0.0	-0.6	-0.2	-1.1	-1.8
Minority interest	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.2	-0.1	-0.3	-0.4
Net earnings	1.7	0.0	4.0	2.1	-3.8	2.3	-2.1	-0.9	-1.4	-4.6	-8.9	0.6	2.7	4.5
EPS (adj.)	0.29	0.13	0.35	0.19	-0.05	0.61	-0.15	-0.05	-0.11	-0.02	-0.34	0.05	0.23	0.38
EPS (rep.)	0.14	0.00	0.34	0.18	-0.32	0.19	-0.18	-0.07	-0.11	-0.38	-0.75	0.05	0.23	0.38

Key figures	2021	Q1'22	Q2'22	Q3'22	Q4'22	2022	Q1'23	Q2'23	Q3'23e	Q4'23e	2023e	2024e	2025e	2026e
Revenue growth-%	23.7 %	10.3 %	13.5 %	1.2 %	-15.1 %	1.9 %	-15.7 %	-33.3 %	-39.4 %	-15.5 %	-26.4 %	8.3 %	14.0 %	10.0 %
Adjusted EBIT growth-%	-37.8 %	-11.7 %	27.1 %	1580.6 %	-9.4 %	33.0 %	-99.7 %	-97.9 %	-168.3 %	-80.1 %	-112.3 %	-389.6 %	107.8 %	39.6 %
EBITDA-%	8.9 %	5.2 %	12.5 %	10.1 %	0.5 %	7.4 %	5.1 %	5.8 %	2.2 %	7.2 %	5.3 %	8.8 %	10.2 %	10.9 %
Adjusted EBIT-%	4.5 %	6.4 %	8.2 %	5.4 %	3.0 %	5.9 %	0.0 %	0.3 %	-6.1 %	0.7 %	-1.0 %	2.6 %	4.8 %	6.1 %
Net earnings-%	1.2 %	-0.1 %	10.6 %	6.2 %	-12.2 %	1.7 %	-7.3 %	-3.5 %	-6.6 %	-17.5 %	-8.8 %	0.5 %	2.2 %	3.3 %

Source: Inderes

# Balance sheet

Assets	2021	2022	2023e	2024e	2025e
<b>Non-current assets</b>	<b>51.9</b>	<b>47.9</b>	<b>42.7</b>	<b>43.0</b>	<b>43.3</b>
Goodwill	12.8	13.0	8.7	8.7	8.7
Intangible assets	2.8	2.2	2.2	2.3	2.3
Tangible assets	34.3	30.9	30.0	30.2	30.4
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	0.0	0.0	0.0
Deferred tax assets	1.9	1.8	1.8	1.8	1.8
<b>Current assets</b>	<b>65.8</b>	<b>65.2</b>	<b>42.9</b>	<b>46.4</b>	<b>52.9</b>
Inventories	23.9	23.4	15.6	16.9	18.7
Other current assets	0.0	1.1	0.0	0.0	0.0
Receivables	26.3	23.3	17.1	19.7	23.0
Cash and equivalents	15.6	17.4	10.1	9.8	11.2
<b>Balance sheet total</b>	<b>118</b>	<b>113</b>	<b>85.6</b>	<b>89.4</b>	<b>96.2</b>

Source: Inderes

Liabilities & equity	2021	2022	2023e	2024e	2025e
<b>Equity</b>	<b>31.2</b>	<b>30.4</b>	<b>19.1</b>	<b>19.7</b>	<b>22.4</b>
Share capital	2.1	2.1	2.1	2.1	2.1
Retained earnings	21.9	21.0	9.7	10.3	13.0
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	6.6	6.8	6.8	6.8	6.8
Minorities	0.6	0.4	0.4	0.4	0.4
<b>Non-current liabilities</b>	<b>17.1</b>	<b>15.4</b>	<b>15.4</b>	<b>18.0</b>	<b>20.3</b>
Deferred tax liabilities	0.5	0.6	0.6	0.6	0.6
Provisions	0.0	0.0	0.0	0.0	0.0
Interest bearing debt	15.6	13.5	13.6	16.2	18.5
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	1.0	1.2	1.2	1.2	1.2
<b>Current liabilities</b>	<b>69.4</b>	<b>67.3</b>	<b>51.1</b>	<b>51.7</b>	<b>53.4</b>
Interest bearing debt	37.4	35.0	30.4	29.4	27.9
Payables	32.0	26.2	20.7	22.4	25.5
Other current liabilities	0.0	6.1	0.0	0.0	0.0
<b>Balance sheet total</b>	<b>118</b>	<b>113</b>	<b>85.6</b>	<b>89.4</b>	<b>96.2</b>

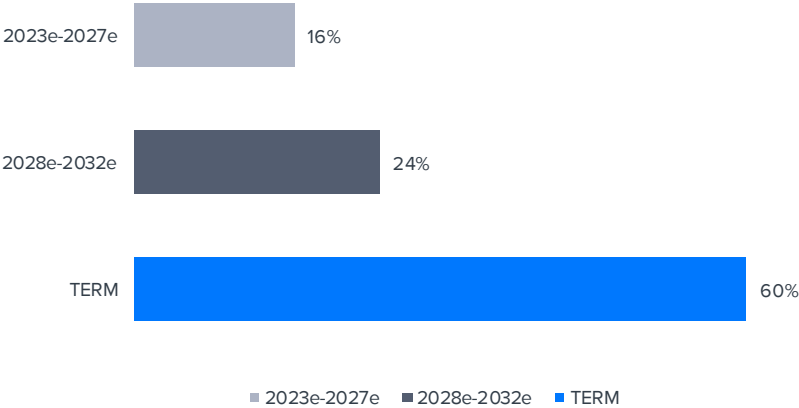
# DCF calculation

DCF model	2022	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	TERM
Revenue growth-%	1.9 %	-26.4 %	8.3 %	14.0 %	10.0 %	5.0 %	4.0 %	3.0 %	2.5 %	2.0 %	2.0 %	2.0 %
EBIT-%	2.2 %	-5.8 %	2.6 %	4.8 %	6.1 %	6.0 %	6.0 %	6.0 %	6.0 %	6.0 %	6.0 %	6.0 %
<b>EBIT (operating profit)</b>	<b>3.0</b>	<b>-5.9</b>	<b>2.9</b>	<b>5.9</b>	<b>8.3</b>	<b>8.6</b>	<b>9.0</b>	<b>9.2</b>	<b>9.5</b>	<b>9.7</b>	<b>9.9</b>	
+ Depreciation	7.1	11.2	6.8	6.8	6.7	6.6	6.5	6.6	6.7	6.8	6.8	
- Paid taxes	-1.3	-0.6	-0.2	-1.1	-1.8	-1.9	-2.0	-2.1	-2.2	-2.2	-2.2	
- Tax, financial expenses	0.1	0.3	-0.4	-0.5	-0.4	-0.4	-0.3	-0.3	-0.3	-0.3	-0.4	
+ 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	2.8	3.3	-2.1	-2.0	-1.6	-0.6	-0.6	-0.3	-0.5	-0.4	-0.4	
<b>Operating cash flow</b>	<b>11.8</b>	<b>8.4</b>	<b>7.0</b>	<b>9.1</b>	<b>11.1</b>	<b>12.4</b>	<b>12.6</b>	<b>13.2</b>	<b>13.2</b>	<b>13.5</b>	<b>13.7</b>	
+ Change in other long-term liabilities	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-3.2	-6.1	-7.0	-7.1	-7.1	-7.1	-7.1	-7.1	-7.2	-6.9	-6.8	
<b>Free operating cash flow</b>	<b>8.8</b>	<b>2.4</b>	<b>-0.1</b>	<b>2.1</b>	<b>4.1</b>	<b>5.3</b>	<b>5.5</b>	<b>6.2</b>	<b>6.1</b>	<b>6.7</b>	<b>6.9</b>	
+/- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	8.8	2.4	-0.1	2.1	4.1	5.3	5.5	6.2	6.1	6.7	6.9	93.5
<b>Discounted FCFF</b>		<b>2.3</b>	<b>0.0</b>	<b>1.7</b>	<b>3.0</b>	<b>3.6</b>	<b>3.5</b>	<b>3.5</b>	<b>3.2</b>	<b>3.2</b>	<b>3.0</b>	<b>40.6</b>
Sum of FCFF present value		67.6	65.3	65.3	63.6	60.6	56.9	53.5	49.9	46.8	43.6	40.6
<b>Enterprise value DCF</b>		<b>67.6</b>										
- Interest bearing debt		-48.5										
+ Cash and cash equivalents		17.4										
-Minorities		-0.9										
-Dividend/capital return		-2.4										
<b>Equity value DCF</b>		<b>33.2</b>										
<b>Equity value DCF per share</b>		<b>2.8</b>										

WACC	
Tax-% (WACC)	25.0 %
Target debt ratio (D/(D+E))	25.0 %
Cost of debt	8.0 %
Equity Beta	1.40
Market risk premium	4.75%
Liquidity premium	1.50%
Risk free interest rate	2.5 %
<b>Cost of equity</b>	<b>10.7 %</b>
<b>Weighted average cost of capital (WACC)</b>	<b>9.5 %</b>

Source: Inderes

Cash flow distribution





# Summary

Income statement	2020	2021	2022	2023e	2024e	Per share data	2020	2021	2022	2023e	2024e
Revenue	108.6	134.4	137.0	100.9	109.2	EPS (reported)	0.45	0.14	0.19	-0.75	0.05
EBITDA	15.3	11.9	10.1	5.3	9.7	EPS (adj.)	0.47	0.29	0.61	-0.34	0.05
EBIT	9.4	3.7	3.0	-5.9	2.9	OCF / share	1.26	0.41	0.99	0.71	0.59
PTP	7.1	4.2	3.6	-8.5	0.9	FCF / share	0.30	-0.61	0.74	0.20	0.00
Net Income	5.4	1.7	2.3	-8.9	0.6	Book value / share	2.43	2.57	2.52	1.57	1.62
Extraordinary items	-0.3	-2.3	-5.0	-4.9	0.0	Dividend / share	0.20	0.20	0.20	0.00	0.00
Balance sheet	2020	2021	2022	2023e	2024e	Growth and profitability	2020	2021	2022	2023e	2024e
Balance sheet total	96.8	117.7	113.1	85.6	89.4	Revenue growth-%	5%	24%	2%	-26%	8%
Equity capital	28.9	31.2	30.4	19.1	19.7	EBITDA growth-%	43%	-22%	-15%	-48%	82%
Goodwill	12.6	12.8	13.0	8.7	8.7	EBIT (adj.) growth-%	35%	-38%	33%	-112%	-390%
Net debt	31.2	37.4	31.1	33.9	35.7	EPS (adj.) growth-%	38%	-38%	109%	-155%	-115%
Cash flow	2020	2021	2022	2023e	2024e	EBITDA-%	14.1 %	8.9 %	7.4 %	5.3 %	8.8 %
EBITDA	15.3	11.9	10.1	5.3	9.7	EBIT (adj.)-%	8.9 %	4.5 %	5.9 %	-1.0 %	2.6 %
Change in working capital	2.4	-4.8	2.8	3.3	-2.1	EBIT-%	8.7 %	2.8 %	2.2 %	-5.8 %	2.6 %
Operating cash flow	14.9	4.8	11.8	8.4	7.0	ROE-%	19.5 %	5.6 %	7.6 %	-36.7 %	3.1 %
CAPEX	-11.7	-12.2	-3.2	-6.1	-7.0	ROI-%	13.9 %	4.8 %	3.7 %	-8.3 %	4.5 %
Free cash flow	3.6	-7.2	8.8	2.4	-0.1	Equity ratio	29.8 %	26.5 %	26.9 %	22.3 %	22.0 %
						Gearing	107.9 %	119.9 %	102.4 %	177.6 %	181.2 %
Valuation multiples	2020	2021	2022	2023e	2024e						
EV/S	1.1	0.9	0.7	0.7	0.7						
EV/EBITDA (adj.)	7.8	10.3	6.7	8.1	7.5						
EV/EBIT (adj.)	12.3	20.5	12.0	neg.	25.4						
P/E (adj.)	15.7	24.1	8.8	neg.	61.7						
P/B	3.0	2.8	2.2	1.9	1.9						
Dividend-%	2.7 %	2.8 %	3.7 %	0.0 %	0.0 %						

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	Share price
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 €
<i>Analyst changed</i>			
7/21/2022	Accumulate	7.00 €	6.00 €
9/28/2022	Accumulate	6.00 €	5.30 €
11/4/2022	Accumulate	6.00 €	5.20 €
2/15/2023	Accumulate	6.00 €	5.32 €
2/20/2023	Accumulate	6.00 €	5.10 €
5/3/2023	Accumulate	4.50 €	4.05 €
8/21/2023	Reduce	3.50 €	3.38 €
10/19/2023	Sell	2.50 €	3.04 €



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