

Exel Composites

Company report

05/03/2023



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✓ Inderes corporate customer

This report is a summary translation of the report “Näkymien perusteella tiedossa välivuosi” published on 05/03/2023 at 8:10 am.

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The outlook indicates a gap year

The overall picture in Exel's Q1 report turned disappointing with a sharp cut in guidance for the current year. Considering this and the uncertainty surrounding the demand situation, we lowered our short-term estimates significantly. However, with the fall in the share price, expectations are low, which in our view offers a good risk/return ratio for the long-term investor. Given this overall picture, we reiterate Accumulate recommendation but lower our target price to EUR 4.5 (was EUR 6.0), reflecting negative estimate revisions.

Q1 report missed our expectations in operational terms

Exel's Q1 revenue decreased by 16% to EUR 28.8 million, which was also slightly below our expectations. According to the company, the decline was mainly due to weaker demand from small and medium-sized customers in general and weaker than-expected-demand for wind power equipment. Among the customer industries, the revenue of Wind Power fell by as much as 78%. Adjusted for this, revenue would have been practically at the level of the comparison period. Of the larger customer industries, revenue in Equipment and other manufacturing also fell clearly year-on-year (-24%) In contrast, Machinery and electrical showed a slight increase (+7%), while Buildings and infrastructure was around the level of the comparison period. Exel's adjusted operating profit for Q1 was around zero, which was also below our expectations (estimate: 0.7 MEUR). We estimate that the earnings miss was driven by a volume underperformance and a slightly higher-than-expected general cost level. In turn, the net effect of one-off items was negative, contrary to our expectations. Moreover, the bottom line was weighed down by higher-than-expected financial expenses and taxes, which pushed reported EPS clearly into the red.

A drastic drop in the current year's guidance, resulting in a revision of short-term estimates

The company lowered its guidance for the current year significantly and now expects its revenue to decline (was: to be at the same level) and its adjusted operating profit to decline significantly (was: to increase) compared to 2022. Behind this was the earnings miss in Q1 and a weaker-than-expected short-term demand outlook. In addition, the company has started a development project to realize the potential of the wind power market, which is estimated to cost more than EUR 1 million. The sharp decline in guidance came as a surprise to us, as the company had previously expected H1 to be soft. However, the company reiterated its expectations for improved demand in H2'23 and beyond, but said near-term visibility remains weak (including customer destocking and global economic uncertainty). In light of the lower guidance and the sluggish order book (26 MEUR), we lowered our estimates for the current year significantly and now expect revenue to reach EUR 123 million (was 135 MEUR) and adjusted EBIT to be EUR 4.6 million (was 8.7 MEUR). We also lowered our estimates for next year, as there is considerable uncertainty about the timing and rate of recovery in demand. We made more moderate revisions to our longer-term estimates, as we do not see our expectations as particularly challenging as demand recovers.

Expectations are low for the stock

With our updated estimates, earnings-based multiples for the current year rise to very high levels. Similarly, looking ahead to next year, the valuation returns to a moderate level (P/E 12x, EV/EBITDA 6x), although our expectations for the company's earnings development are not particularly demanding. On the other hand, with average realized earnings over the last five years, the P/E ratio at current share price is around 10x (note: Exel's revenue level has increased significantly over the period), which means that the stock is practically not loaded with earnings growth expectations. Overall, we believe that the sharp fall in the share price offers a good risk/return position for the long-term investor.

Recommendation

Accumulate

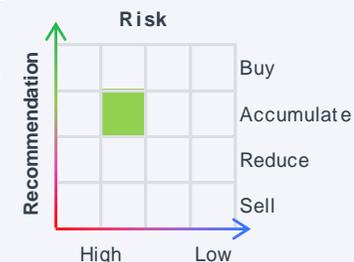
(previous Accumulate)

4.50 EUR

(previous EUR 6.00)

Share price:

4.05 EUR



Key figures

	2022	2023e	2024e	2025e
Revenue	137	123	137	148
growth-%	2%	-10%	11%	8%
EBIT adj.	8.0	4.6	7.8	10.1
EBIT-% adj.	5.9 %	3.8 %	5.7 %	6.8 %
Net Income	2.3	0.0	4.1	5.7
EPS (adj.)	0.61	0.02	0.34	0.48

P/E (adj.)	8.8	>100	11.9	8.4
P/B	2.2	1.8	1.6	1.4
Dividend yield-%	3.7 %	1.2 %	3.7 %	4.9 %
EV/EBIT (adj.)	12.0	17.8	10.4	7.8
EV/EBITDA	6.7	7.5	5.6	4.7
EV/S	0.7	0.7	0.6	0.5

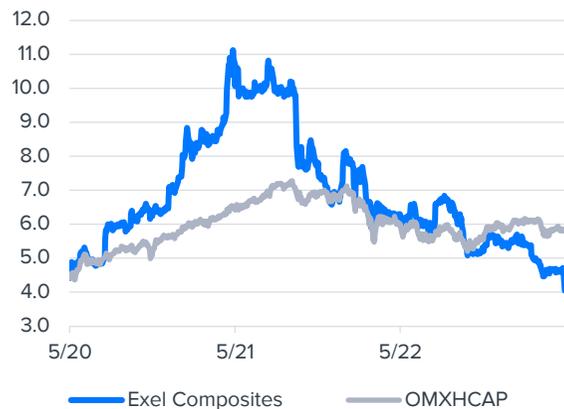
Source: Inderes

Guidance

(Lowered)

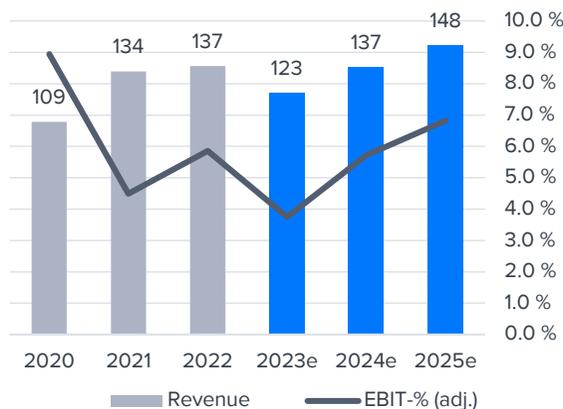
Exel Composites expects that revenue will decrease year-on-year (2022: 137 MEUR) and adjusted operating profit will decrease significantly in 2023 compared to 2022 (2022: 8.0 MEUR).

Share price



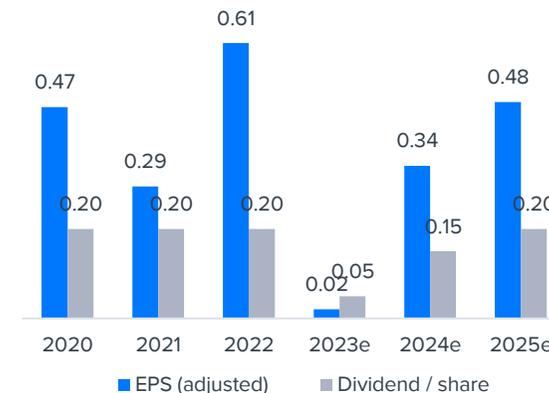
Source: Millstream Market Data AB

Revenue and EBIT %



Source: Inderes

EPS and dividend



Source: Inderes



Value drivers

- Growing composite market creates a good base for organic growth
- Room for improvement in profitability relative to the full potential
- Realizing the potential of the global structure of production and relative economies of scale
- Acquisitions that create value



Risk factors

- Somewhat cyclical and volatile demand
- With a chronically short absolute order book, business opportunities can weaken relatively quickly
- Relatively fixed cost structure
- Concentrated customer portfolio
- The amount of the debt in the balance sheet limits leeway
- Margin pressures still caused by material costs in the short term

Valuation	2023e	2024e	2025e
Share price	4.05	4.05	4.05
Number of shares, millions	11.9	11.9	11.9
Market cap	48	48	48
EV	82	81	78
P/E (adj.)	>100	11.9	8.4
P/E	neg.	11.9	8.4
P/FCF	21.9	13.8	7.9
P/B	1.8	1.6	1.4
P/S	0.4	0.4	0.3
EV/Sales	0.7	0.6	0.5
EV/EBITDA	7.5	5.6	4.7
EV/EBIT (adj.)	17.8	10.4	7.8
Payout ratio (%)	neg.	44.0 %	41.5 %
Dividend yield-%	1.2 %	3.7 %	4.9 %

Source: Inderes

Estimates and estimate revisions

Estimates MEUR / EUR	Q1'22	Q1'23	Q1'23e	Q1'23e	Consensus		Difference (%)	2023e
	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. inderes	Inderes
Revenue	34.2	28.8	29.9				-4%	123
EBIT (adj.)	2.2	0.0	0.7					4.6
EBIT	0.0	-0.3	1.8					4.3
EPS (reported)	0.00	-0.18	0.09					0.02
Revenue growth-%	10.3 %	-15.7 %	-12.5 %				-3.2 pp	-10.2 %
EBIT-% (adj.)	6.4 %	0.0 %	2.3 %				-2.3 pp	3.8 %

Source: Inderes

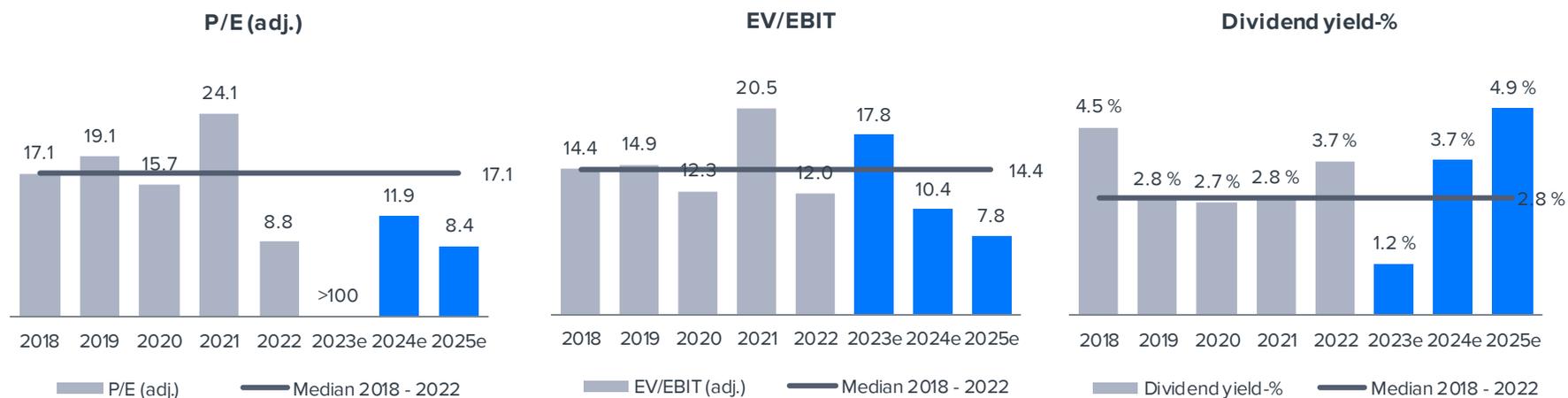
Estimate revisions MEUR / EUR	2023e			2024e			2025e		
	Old	New	Change %	Old	New	Change %	Old	New	Change %
Revenue	135	123	-9%	145	137	-6%	152	148	-3%
EBITDA	17.5	11.8	-33%	16.9	14.5	-14%	17.8	16.6	-6%
EBIT (exc. NRIs)	8.7	4.6	-47%	10.4	7.8	-25%	11.3	10.1	-11%
EBIT	9.8	4.3	-56%	10.4	7.8	-25%	11.3	10.1	-11%
PTP	8.2	1.6	-80%	8.9	5.8	-35%	10.0	8.3	-18%
EPS (excl. NRIs)	0.45	0.02	-95%	0.53	0.34	-36%	0.59	0.48	-18%
DPS	0.22	0.05	-77%	0.23	0.15	-35%	0.24	0.20	-17%

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	4.05	4.05	4.05	4.05
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	48	48	48	48
EV	72	107	119	124	97	82	81	78	75
P/E (adj.)	17.1	19.1	15.7	24.1	8.8	>100	11.9	8.4	7.7
P/E	>100	32.0	16.4	50.9	28.1	neg.	11.9	8.4	7.7
P/FCF	neg.	20.1	24.2	neg.	7.3	21.9	13.8	7.9	7.4
P/B	1.8	2.9	3.0	2.8	2.2	1.8	1.6	1.4	1.2
P/S	0.5	0.7	0.8	0.6	0.5	0.4	0.4	0.3	0.3
EV/Sales	0.7	1.0	1.1	0.9	0.7	0.7	0.6	0.5	0.5
EV/EBITDA	7.8	10.0	7.8	10.3	6.7	7.5	5.6	4.7	4.4
EV/EBIT (adj.)	14.4	14.9	12.3	20.5	12.0	17.8	10.4	7.8	7.0
Payout ratio (%)	554.7 %	88.8 %	44.3 %	143.3 %	103.8 %	neg.	44.0 %	41.5 %	47.5 %
Dividend yield-%	4.5 %	2.8 %	2.7 %	2.8 %	3.7 %	1.2 %	3.7 %	4.9 %	6.2 %

Source: Inderes



Income statement

Income statement	2021	Q1'22	Q2'22	Q3'22	Q4'22	2022	Q1'23	Q2'23e	Q3'23e	Q4'23e	2023e	2024e	2025e	2026e
Revenue	134	34.2	38.1	33.8	31.0	137	28.8	27.8	31.8	34.7	123	137	148	153
Group	134	34.2	38.1	33.8	31.0	137	28.8	27.8	31.8	34.7	123	137	148	153
EBITDA	11.9	1.8	4.8	3.4	0.2	10.1	2.3	1.4	3.9	4.2	11.8	14.5	16.6	17.2
Depreciation	-8.2	-1.7	-1.8	-1.7	-1.9	-7.1	-2.6	-1.7	-1.7	-1.6	-7.5	-6.7	-6.6	-6.5
EBIT (excl. NRI)	6.0	2.2	3.1	1.8	0.9	8.0	0.0	-0.2	2.2	2.6	4.6	7.8	10.1	10.7
EBIT	3.7	0.0	3.0	1.7	-1.7	3.0	-0.3	-0.2	2.2	2.6	4.3	7.8	10.1	10.7
Net financial items	0.4	0.5	1.9	1.5	-3.4	0.6	-1.2	-0.5	-0.5	-0.5	-2.7	-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	2.1	1.6	5.8	8.3	9.1
Taxes	-2.5	-0.6	-0.9	-1.2	1.3	-1.5	-0.7	-0.3	-0.3	-0.4	-1.7	-1.6	-2.2	-2.5
Minority interest	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	-0.2	-0.3	-0.4
Net earnings	1.7	0.0	4.0	2.1	-3.8	2.3	-2.1	-1.0	1.4	1.7	0.0	4.1	5.7	6.3
EPS (adj.)	0.29	0.13	0.35	0.19	-0.05	0.61	-0.15	-0.08	0.12	0.14	0.02	0.34	0.48	0.53
EPS (rep.)	0.14	0.00	0.34	0.18	-0.32	0.19	-0.18	-0.08	0.12	0.14	0.00	0.34	0.48	0.53
Key figures	2021	Q1'22	Q2'22	Q3'22	Q4'22	2022	Q1'23	Q2'23e	Q3'23e	Q4'23e	2023e	2024e	2025e	2026e
Revenue growth-%	23.7 %	10.3 %	13.5 %	1.2 %	-15.1 %	1.9 %	-15.7 %	-27.0 %	-6.0 %	12.0 %	-10.2 %	11.0 %	8.0 %	4.0 %
Adjusted EBIT growth-%	-37.8 %	-11.7 %	27.1 %	1580.6 %	-9.4 %	33.0 %	-99.7 %	-106.7 %	21.8 %	184.8 %	-42.4 %	69.1 %	28.7 %	6.6 %
EBITDA-%	8.9 %	5.2 %	12.5 %	10.1 %	0.5 %	7.4 %	8.0 %	5.2 %	12.2 %	12.1 %	9.6 %	10.6 %	11.3 %	11.2 %
Adjusted EBIT-%	4.5 %	6.4 %	8.2 %	5.4 %	3.0 %	5.9 %	0.0 %	-0.8 %	7.0 %	7.5 %	3.8 %	5.7 %	6.8 %	7.0 %
Net earnings-%	1.2 %	-0.1 %	10.6 %	6.2 %	-12.2 %	1.7 %	-7.3 %	-3.6 %	4.3 %	4.9 %	0.0 %	3.0 %	3.9 %	4.1 %

Source: Inderes

Balance sheet

Assets	2021	2022	2023e	2024e	2025e
Non-current assets	51.9	47.9	46.4	46.8	47.3
Goodwill	12.8	13.0	12.1	12.1	12.1
Intangible assets	2.8	2.2	2.2	2.3	2.3
Tangible assets	34.3	30.9	30.3	30.6	31.0
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
Current assets	65.8	65.2	54.1	58.7	62.7
Inventories	23.9	23.4	19.1	21.2	22.1
Other current assets	0.0	1.1	0.0	0.0	0.0
Receivables	26.3	23.3	22.8	25.3	27.3
Cash and equivalents	15.6	17.4	12.3	12.3	13.3
Balance sheet total	118	113	101	106	110

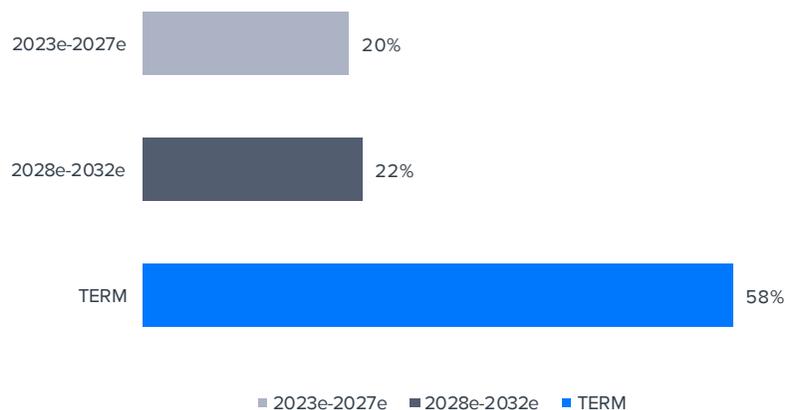
Source: Inderes

Liabilities & equity	2021	2022	2023e	2024e	2025e
Equity	31.2	30.4	28.0	31.4	35.4
Share capital	2.1	2.1	2.1	2.1	2.1
Retained earnings	21.9	21.0	18.5	22.0	26.0
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
Non-current liabilities	17.1	15.4	15.9	17.6	19.0
Deferred tax liabilities	0.5	0.6	0.6	0.6	0.6
Provisions	0.0	0.0	0.0	0.0	0.0
Long term debt	15.6	13.5	14.1	15.8	17.1
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
Current liabilities	69.4	67.3	56.7	56.5	55.6
Short term debt	37.4	35.0	31.5	28.5	25.4
Payables	32.0	26.2	25.2	28.0	30.2
Other current liabilities	0.0	6.1	0.0	0.0	0.0
Balance sheet total	118	113	101	106	110

DCF calculation

DCF model	2022	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	TERM
Revenue growth-%	1.9 %	-10.2 %	11.0 %	8.0 %	4.0 %	3.0 %	2.5 %	2.5 %	2.0 %	2.0 %	2.0 %	2.0 %
EBIT-%	2.2 %	3.5 %	5.7 %	6.8 %	7.0 %	7.0 %	7.0 %	7.0 %	7.0 %	7.0 %	7.0 %	7.0 %
EBIT (operating profit)	3.0	4.3	7.8	10.1	10.7	11.1	11.3	11.6	11.9	12.1	12.3	
+ Depreciation	7.1	7.5	6.7	6.6	6.5	6.5	6.4	6.5	6.6	6.7	6.7	
- Paid taxes	-1.3	-1.7	-1.6	-2.2	-2.5	-2.5	-2.6	-2.7	-2.8	-2.8	-2.9	
- Tax, financial expenses	0.1	-0.7	-0.5	-0.5	-0.4	-0.4	-0.3	-0.3	-0.3	-0.3	-0.3	
+ 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	-1.2	-1.8	-0.7	-0.8	-0.3	-0.3	-0.2	-0.4	-0.4	-0.4	
Operating cash flow	11.8	8.3	10.5	13.2	13.6	14.4	14.5	14.9	15.0	15.2	15.4	
+ 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	-7.1	-7.1	-7.1	-7.0	-7.1	-7.1	-7.2	-6.9	-6.8	
Free operating cash flow	8.8	2.2	3.5	6.1	6.5	7.3	7.4	7.9	7.8	8.4	8.6	
+/- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	8.8	2.2	3.5	6.1	6.5	7.3	7.4	7.9	7.8	8.4	8.6	128
Discounted FCFF		2.1	3.0	4.9	4.8	4.9	4.6	4.5	4.1	4.0	3.8	56.4
Sum of FCFF present value		97.1	95.0	92.0	87.1	82.3	77.4	72.8	68.3	64.2	60.2	56.4
Enterprise value DCF		97.1										
- Interesting bearing debt		-48.5										
+ Cash and cash equivalents		17.4										
-Minorities		-0.8										
-Dividend/capital return		0.0										
Equity value DCF		65.2										
Equity value DCF per share		5.5										

Cash flow distribution



WACC

Tax-% (WACC)	25.0 %
Target debt ratio (D/(D+E))	25.0 %
Cost of debt	6.5 %
Equity Beta	1.30
Market risk premium	4.75%
Liquidity premium	1.50%
Risk free interest rate	2.5 %
Cost of equity	10.2 %
Weighted average cost of capital (WACC)	8.9 %

Source: Inderes

Summary

Income statement	2020	2021	2022	2023e	2024e	Per share data	2020	2021	2022	2023e	2024e
Revenue	108.6	134.4	137.0	123.1	136.6	EPS (reported)	0.45	0.14	0.19	0.00	0.34
EBITDA	15.3	11.9	10.1	11.8	14.5	EPS (adj.)	0.47	0.29	0.61	0.02	0.34
EBIT	9.4	3.7	3.0	4.3	7.8	OCF / share	1.26	0.41	0.99	0.69	0.89
PTP	7.1	4.2	3.6	1.6	5.8	FCF / share	0.30	-0.61	0.74	0.19	0.29
Net Income	5.4	1.7	2.3	0.0	4.1	Book value / share	2.43	2.57	2.52	2.31	2.60
Extraordinary items	-0.3	-2.3	-5.0	-0.3	0.0	Dividend / share	0.20	0.20	0.20	0.05	0.15
Balance sheet	2020	2021	2022	2023e	2024e	Growth and profitability	2020	2021	2022	2023e	2024e
Balance sheet total	96.8	117.7	113.1	100.6	105.6	Revenue growth-%	5%	24%	2%	-10%	11%
Equity capital	28.9	31.2	30.4	28.0	31.4	EBITDA growth-%	43%	-22%	-15%	17%	22%
Goodwill	12.6	12.8	13.0	12.1	12.1	EBIT (adj.) growth-%	35%	-38%	33%	-42%	69%
Net debt	31.2	37.4	31.1	33.2	32.0	EPS (adj.) growth-%	38%	-38%	109%	-97%	1528%
Cash flow	2020	2021	2022	2023e	2024e	EBITDA-%	14.1 %	8.9 %	7.4 %	9.6 %	10.6 %
EBITDA	15.3	11.9	10.1	11.8	14.5	EBIT (adj.)-%	8.9 %	4.5 %	5.9 %	3.8 %	5.7 %
Change in working capital	2.4	-4.8	2.8	-1.2	-1.8	EBIT-%	8.7 %	2.8 %	2.2 %	3.5 %	5.7 %
Operating cash flow	14.9	4.8	11.8	8.3	10.5	ROE-%	19.5 %	5.6 %	7.6 %	-0.1 %	13.9 %
CAPEX	-11.7	-12.2	-3.2	-6.1	-7.1	ROI-%	13.9 %	4.8 %	3.7 %	5.7 %	10.5 %
Free cash flow	3.6	-7.2	8.8	2.2	3.5	Equity ratio	29.8 %	26.5 %	26.9 %	27.8 %	29.8 %
						Gearing	107.9 %	119.9 %	102.4 %	118.9 %	101.9 %
Valuation multiples	2020	2021	2022	2023e	2024e						
EV/S	1.1	0.9	0.7	0.7	0.6						
EV/EBITDA (adj.)	7.8	10.3	6.7	7.5	5.6						
EV/EBIT (adj.)	12.3	20.5	12.0	17.8	10.4						
P/E (adj.)	15.7	24.1	8.8	>100	11.9						
P/B	3.0	2.8	2.2	1.8	1.6						
Dividend-%	2.7 %	2.8 %	3.7 %	1.2 %	3.7 %						

Source: Inderes

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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 €



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