

Exel Composites

Company report

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✓ Inderes corporate customer

This report is a summary translation of the report “Oikeita asioita oikealla tavalla” published on 05/02/2022 at 08:00 am.

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Doing the right things the right way

Exel published its Q1 report on Friday. The company started the year with good growth and clearly better-than-expected performance. The measures taken to turn around the US unit seem to have been the right ones and carried out the right way. We think that the return/risk ratio justifies owning the share again. We revise our recommendation to Accumulate (previously Reduce) and our target price to EUR 7.00 (previously EUR 7.50).

A good start

In Q1, Exel's Q1 revenue grew by 10% to EUR 34.2 million, which is somewhat higher than we anticipated. The growth in important customer industries was brisk in Equipment and Other customer industry (+30%), as well as in Buildings and Infrastructure (+10%) which contains the interesting conductor cores that have long-term potential. In the smaller business areas, the development was fastest in Transportation (+26%), which has been hit hard by the pandemic. In Q1, Exel achieved EUR 2.2 million in adjusted operating profit, clearly beating the estimates. The significant earnings beat was driven better-than-expected efficiency of the measures taken to turn around the US unit (e.g. production volume management) and the resulting small operating profit. The successfully progressing turnaround of the unit was naturally a reassuring piece of information and supports the notion that the problems of the business that has experienced difficulties in the past could finally be resolved in a genuinely sustainable way. In turn, the reported operating profit was at zero level and burdened by the one-off items of EUR 2.1 million resulting from the closure of one of the two production facilities in China.

Constancy

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 operationally better-than-expected first quarter ended with a high order backlog of EUR 45 million and the management's general market comments didn't give rise to any major concerns. Given these factors, the company's own structural characteristics and the operating environment which has become more worrying after the company published its financial statement (e.g. indirect effects of the war in Ukraine and the worsening pandemic situation in China), we have kept our forecasts almost unchanged. For the whole year, we expect Exel's revenue to total EUR 137 million. We consider that stable end demand in the largest customer industries is the key revenue driver. We expect operating profit to rise to EUR 8.4 million, driven by the US unit gradually increasing earnings contribution, pricing measures that at least partly compensate for increased material costs, and overall efficiency which improves toward the end of the year. Key risks are still linked to the sustainability of the turnaround in the US and demand staying high.

Reasonable price

Exel's adjusted P/E ratios for 2022 and 2023 based on our estimates are 13x and 11x while the corresponding EV/EBITDA ratios are 8x and 7x. In relation to the valuation range that we consider neutral, historical price levels and the structure that has improved over the last few years, we feel that the earnings multiples are moderate. Although the expected earnings development and thus the realization of the expected annual return that we estimate is currently associated with unusually high number of matters that are outside of Exel's hands, we think that the return/risk ratio is already sufficient. Therefore, we believe it's justified to own the share.

Recommendation

Accumulate
(previous Reduce)

EUR 7.00
(previous EUR 7.50)

Share price:
6.30



Key figures

	2021	2022e	2023e	2024e
Revenue	134	137	142	148
growth-%	24%	2%	4%	4%
EBIT adj.	6.0	8.4	10.5	11.8
EBIT-% adj.	4.5 %	6.1 %	7.4 %	8.0 %
Net Income	1.7	6.0	7.1	8.1
EPS (adj.)	0.29	0.48	0.60	0.68
P/E (adj.)	24.1	13.2	10.5	9.3
P/B	2.8	2.3	2.0	1.8
Dividend yield-%	2.8 %	3.5 %	3.8 %	4.3 %
EV/EBIT (adj.)	20.5	13.6	10.5	8.9
EV/EBITDA	13.6	7.6	6.6	5.8
EV/S	0.9	0.8	0.8	0.7

Source: Inderes

Guidance

(Unchanged)

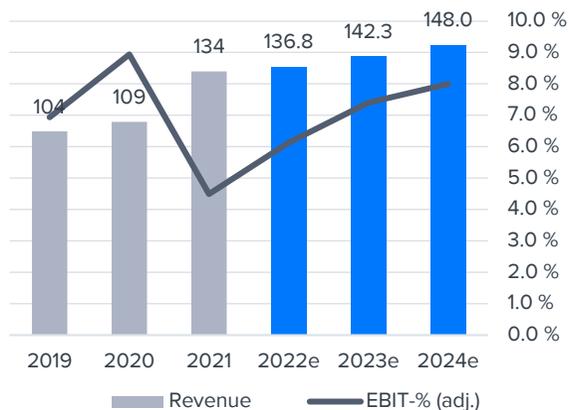
Exel Composites expects that revenue in 2022 will be at last year's level and adjusted operating profit will increase compared to 2021.

Share price



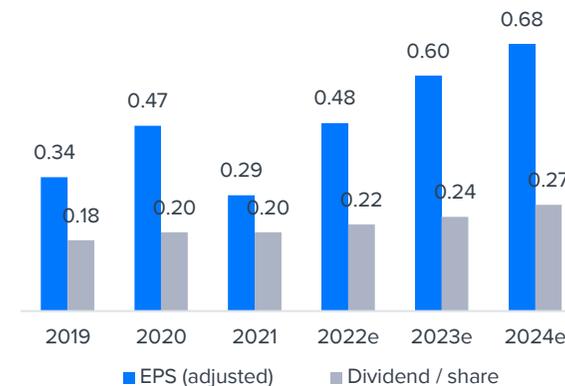
Source: Thomson Reuters

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
- Identifying and implementing value-creating 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	6.30	6.30	6.30
Number of shares, millions	11.9	11.9	11.9
Market cap	75	75	75
EV	114	110	106
P/E (adj.)	13.2	10.5	9.3
P/E	12.5	10.5	9.3
P/FCF	18.5	11.7	9.4
P/B	2.3	2.0	1.8
P/S	0.5	0.5	0.5
EV/Sales	0.8	0.8	0.7
EV/EBITDA	7.6	6.6	5.8
EV/EBIT (adj.)	13.6	10.5	8.9
Payout ratio (%)	43.6 %	40.2 %	39.8 %
Dividend yield-%	3.5 %	3.8 %	4.3 %

Source: Inderes

Estimates and estimate revisions

Estimates MEUR / EUR	Q1'21	Q1'22	Q1'22e	Q1'22e	Consensus		Difference (%)	2022e
	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. inderes	Inderes
Revenue	31.0	34.2	32.2	33.9	32.2	- 37.1	6%	136.8
EBIT (adj.)	2.5	2.2	1.3	1.4	1.3	- 1.7	74%	8.4
EBIT	2.4	0.0	1.3	1.4	1.3	- 1.7	-100%	8.6
EPS (adj.)	0.17	0.13	0.06	0.08	0.06	- 0.10	104%	0.48
Revenue growth-%	11.3 %	10.3 %	4.0 %	9.5 %	4.0 %	- 19.9 %	6.3 pp	1.8 %
EBIT-% (adj.)	7.9 %	6.4 %	3.9 %	4.2 %	4.0 %	- 4.6 %	2.5 pp	6.1 %

Source: Inderes & Infront (consensus)

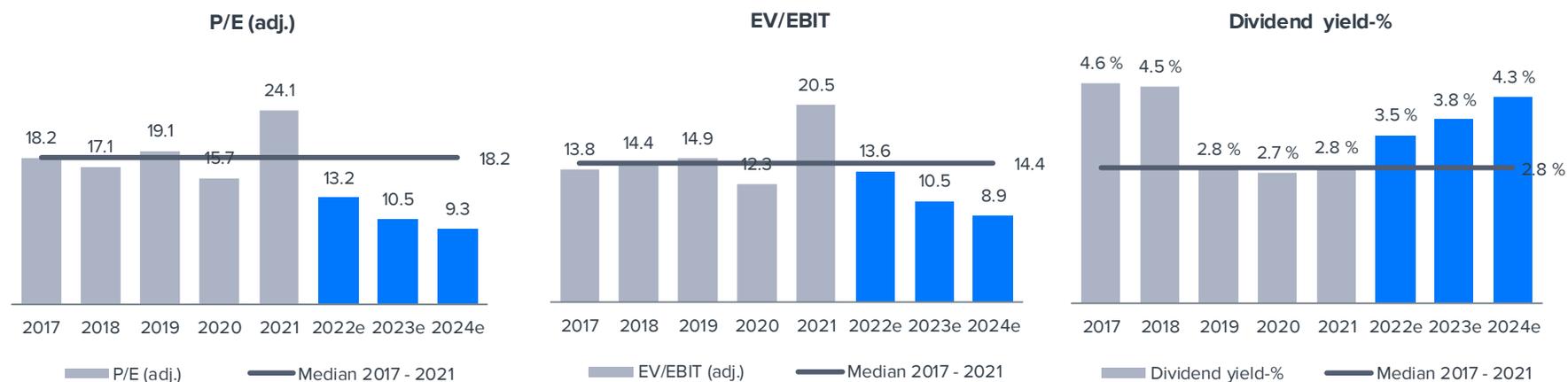
Estimate revisions MEUR / EUR	2022e			2023e			2024e		
	Old	New	Change %	Old	New	Change %	Old	New	Change %
Revenue	135	137	1%	140	142	1%	146	148	1%
EBITDA	14.8	14.9	1%	16.7	16.8	1%	18.1	18.3	1%
EBIT (exc. NRIs)	8.2	8.4	2%	10.5	10.5	1%	11.6	11.8	2%
EBIT	8.5	8.6	1%	10.5	10.5	1%	11.6	11.8	2%
PTP	7.7	8.5	10%	9.7	9.7	1%	10.8	11.0	2%
EPS (excl. NRIs)	0.44	0.48	8%	0.59	0.60	1%	0.66	0.68	2%
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	6.30	6.30	6.30	6.30
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	75	75	75	75
EV	87	72	107	119	124	114	110	106	101
P/E (adj.)	18.2	17.1	19.1	15.7	24.1	13.2	10.5	9.3	8.7
P/E	18.4	>100	32.0	16.4	50.9	12.5	10.5	9.3	8.7
P/FCF	neg.	neg.	20.1	24.2	neg.	18.5	11.7	9.4	8.8
P/B	2.7	1.8	2.9	3.0	2.8	2.3	2.0	1.8	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	0.7
EV/EBITDA	9.3	7.8	10.0	7.8	13.6	7.6	6.6	5.8	5.3
EV/EBIT (adj.)	13.8	14.4	14.9	12.3	20.5	13.6	10.5	8.9	8.0
Payout ratio (%)	84.1%	554.7%	88.8%	44.3%	143.3%	43.6%	40.2%	39.8%	50.0%
Dividend yield-%	4.6%	4.5%	2.8%	2.7%	2.8%	3.5%	3.8%	4.3%	5.7%

Source: Inderes



Balance sheet

Assets	2020	2021	2022e	2023e	2024e
Non-current assets	47.8	51.9	51.5	52.7	53.3
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	33.9	35.0	35.5
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	63.2	62.2	63.9
Inventories	16.2	23.9	21.9	22.1	22.2
Other current assets	0.0	0.0	0.0	0.0	0.0
Receivables	20.9	26.3	26.3	27.3	28.4
Cash and equivalents	12.0	15.6	15.0	12.8	13.3
Balance sheet total	96.8	118	115	115	117

Source: Inderes

Liabilities & equity	2020	2021	2022e	2023e	2024e
Equity	28.9	31.2	33.2	37.7	42.9
Share capital	2.1	2.1	2.1	2.1	2.1
Retained earnings	22.2	21.9	25.5	30.0	35.2
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	28.7	31.3	33.5
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	27.7	30.2	32.4
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	52.8	45.9	40.8
Short term debt	30.3	37.4	24.7	16.7	10.5
Payables	23.6	32.0	28.0	29.2	30.3
Other current liabilities	0.0	0.0	0.0	0.0	0.0
Balance sheet total	96.8	118	115	115	117

DCF calculation

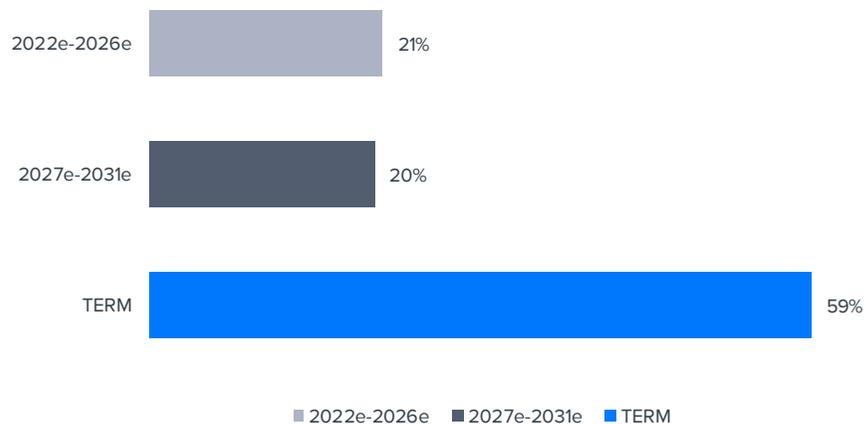
DCF model	2021	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	TERM
EBIT (operating profit)	3.7	8.6	10.5	11.8	12.6	13.0	13.7	14.1	13.9	14.1	14.4	
+ Depreciation	5.3	6.2	6.3	6.5	6.6	7.2	7.2	7.1	7.1	7.1	7.1	
- Paid taxes	-2.3	-2.5	-2.6	-3.0	-3.2	-3.3	-3.4	-3.5	-3.5	-3.5	-3.6	
- Tax, financial expenses	0.1	0.0	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-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	-1.8	-0.1	-0.1	-0.2	-0.2	-0.6	-0.5	-0.4	-0.4	-0.4	
Operating cash flow	2.0	10.5	13.9	15.1	15.5	16.4	16.7	17.0	17.0	17.1	17.3	
+ 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	-5.9	-7.5	-7.1	-7.1	-7.1	-7.1	-7.1	-7.0	-7.0	-7.0	
Free operating cash flow	-7.2	4.0	6.4	8.0	8.5	9.4	9.7	10.0	10.0	10.1	10.3	
+/- 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	4.0	6.4	8.0	8.5	9.4	9.7	10.0	10.0	10.1	10.3	171
Discounted FCFF		3.8	5.7	6.5	6.4	6.6	6.3	6.0	5.6	5.2	5.0	82.3
Sum of FCFF present value		139	136	130	123	117	110	104	98.1	92.5	87.3	82.3
Enterprise value DCF		139										
- Interesting bearing debt		-53.0										
+ Cash and cash equivalents		15.6										
-Minorities		-1.4										
-Dividend/capital return		-2.4										
Equity value DCF		98.2										
Equity value DCF per share		8.3										

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	5.00%
Liquidity premium	0.75%
Risk free interest rate	2.0 %
Cost of equity	9.3 %
Weighted average cost of capital (WACC)	7.9 %

Source: Inderes

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	136.8	142.3	EPS (reported)	0.20	0.45	0.14	0.50	0.60
EBITDA	10.7	15.3	9.1	14.9	16.8	EPS (adj.)	0.34	0.47	0.29	0.48	0.60
EBIT	5.1	9.4	3.7	8.6	10.5	OCF / share	0.83	1.26	0.17	0.88	1.17
PTP	3.9	7.1	4.2	8.5	9.7	FCF / share	0.32	0.30	-0.61	0.34	0.54
Net Income	2.4	5.4	1.7	6.0	7.1	Book value / share	2.21	2.43	2.57	2.74	3.12
Extraordinary items	-2.1	-0.3	-2.3	0.3	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	114.7	114.9	Revenue growth-%	7%	5%	24%	2%	4%
Equity capital	26.3	28.9	31.2	33.2	37.7	EBITDA growth-%	15%	43%	-41%	64%	13%
Goodwill	13.0	12.6	12.8	12.8	12.8	EBIT (adj.) growth-%	44%	35%	-38%	39%	26%
Net debt	30.2	31.2	37.4	37.4	34.2	EPS (adj.) growth-%	45%	38%	-38%	62%	25%
Cash flow	2019	2020	2021	2022e	2023e	EBITDA-%	10.3 %	14.1 %	6.7 %	10.9 %	11.8 %
EBITDA	10.7	15.3	9.1	14.9	16.8	EBIT (adj.)-%	6.9 %	8.9 %	4.5 %	6.1 %	7.4 %
Change in working capital	1.9	2.4	-4.8	-1.8	-0.1	EBIT-%	4.9 %	8.7 %	2.8 %	6.3 %	7.4 %
Operating cash flow	9.9	14.9	2.0	10.5	13.9	ROE-%	9.3 %	19.5 %	5.6 %	19.0 %	20.4 %
CAPEX	-6.1	-11.7	-9.3	-5.9	-7.5	ROI-%	8.6 %	13.9 %	4.8 %	10.2 %	12.4 %
Free cash flow	3.8	3.6	-7.2	4.0	6.4	Equity ratio	30.8 %	29.8 %	26.5 %	29.0 %	32.8 %
Valuation multiples	2019	2020	2021	2022e	2023e	Gearing	114.9 %	107.9 %	119.9 %	112.6 %	90.6 %
EV/S	1.0	1.1	0.9	0.8	0.8						
EV/EBITDA (adj.)	10.0	7.8	13.6	7.6	6.6						
EV/EBIT (adj.)	14.9	12.3	20.5	13.6	10.5						
P/E (adj.)	19.1	15.7	24.1	13.2	10.5						
P/E	2.9	3.0	2.8	2.3	2.0						
Dividend-%	2.8 %	2.7 %	2.8 %	3.5 %	3.8 %						

Source: Inderes

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Recommendation history (>12 mo)

Date	Recommendation	Target price	Share price
5/7/2020	Accumulate	5.10 €	4.80 €
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 €



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2018, 2020



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2020



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2020



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2020

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