

Orthex

Company report

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Thomas Westerholm
+358 50 541 2211
thomas.westerholm@inderes.fi

✓ Inderes corporate customer

This report is a summary translation of the report "Kannattavuus paineen alla" published on 3/10/2022 at 8:21 am

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Profitability under pressure

Orthex's Q4 figures were quite clearly below market expectations due to cost inflation. After Russia's attack on Ukraine, we expect high manufacturing costs to plague the industry for some time. Our estimate changes were negative and the short-term outlook is challenging, so we lower our target price to EUR 8.0 (prev. EUR 11.5). However, we believe the significantly higher cost level is a temporary phenomenon, so the big picture of the equity story remains unchanged and we reiterate our Accumulate recommendation.

Significant pressure from the cost side

The growth in Q4 net sales (+7%) was in line with consensus estimates, but profitability was clearly below expectations. The main factor behind the development was increased raw material costs, but high freight and electricity prices also resulted in headwind. Orthex's raw material price index has risen by over 70% from the comparison period to an unprecedented level. In connection with the listing, Orthex reported that a 10% increase in virgin plastic prices theoretically depressed 2020 tax-adjusted earnings by EUR 1.6 million. If we assume that this ratio is linear, a 70% price increase on an annual level would result in a huge EUR 11.2 million dent in earnings. This is very much for a company that generated a EUR 11 million adjusted EBIT in 2021. This example shows how unforgiving the industry currently is toward the profitability of companies.

Short-term profitability cut clearly, but predictability is weak

Our growth estimates for the next few years are unchanged in the big picture, but in the short term, we made significant negative changes to relative profitability due to external factors causing cost pressure. Orthex's raw material price index showed signs of normalization in the early part of the year, but Russia's attack on Ukraine has resulted in new price pressure. We expect a weak 2022 in terms of earnings but if price hikes are implemented and inflation subsides, we expect that Orthex will be able to generate clearly better profitability in 2023. In coming years, we expect net sales to grow by 5-8%, driven by new key customers and growth in current customers. In 2022-2024, we expect price increases, normalized raw material costs, and new more profitable products to boost the company to 11% annual earnings growth, although we expect a clearly declining result for the current year.

Valuation should be examined beyond 2022

With the estimates for 2022 Orthex's share is expensive, but due to the exceptional business environment we believe that the valuation should be examined further into the future. Visibility into cost pressure easing up is poor, but our expectation of Orthex's normalized performance is clearly higher than the current share price indicates. Based on earnings, we believe that with our 2023 estimates (P/E: 14x and EV/EBIT: 12X) the share is moderately priced, but still not cheap considering the high short-term uncertainty. Due to the exceptionally weak short-term predictability, we have raised the required return for the share to 8.1% (prev. 7.3%). Orthex can turn the current challenging market environment into an advantage with successful acquisitions. A strong balance sheet and fragmented target market create good preconditions for consolidating the industry.

Recommendation

Accumulate

(previous Accumulate)

EUR 8.00

(previous EUR 11.50)

Share price:

7.23



Key figures

	2021	2022e	2023e	2024e
Revenue	88.7	94.2	101.8	106.8
growth-%	17%	6%	8%	5%
EBIT adj.	10.9	7.9	12.7	14.4
EBIT-% adj.	12.3 %	8.3 %	12.5 %	13.5 %
Net Income	6.0	4.8	8.9	10.4
EPS (adj.)	0.43	0.27	0.50	0.58

P/E (adj.)	26.7	26.4	14.4	12.2
P/B	6.4	3.8	3.3	2.9
Dividend yield-%	1.6 %	2.6 %	4.4 %	5.0 %
EV/EBIT (adj.)	21.2	19.6	11.9	10.3
EV/EBITDA	17.4	12.9	8.6	7.6
EV/S	2.6	1.6	1.5	1.4

Source: Inderes

Guidance

(Unchanged)

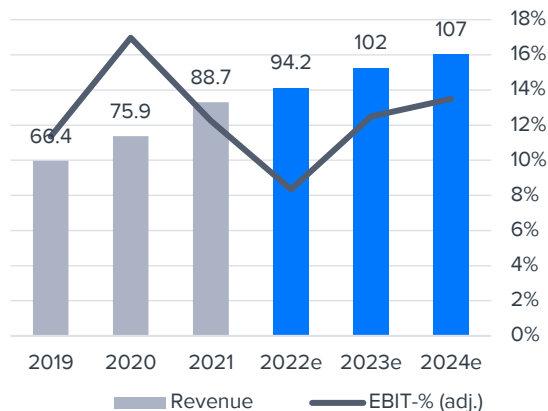
Orthex does not publish a short-term outlook. In the long term, the company targets average organic growth of over 5% and an adjusted EBITA margin of over 18%.

Share price



Source: Thomson Reuters

Revenue and EBIT %



Source: Inderes

EPS and dividend



Source: Inderes



Value drivers

- Large and defensive target market
- Favorable megatrends drive product demand growth
- Leading position in the Nordic countries and the possibility of expanding to Europe through key customers
- Fragmented industry offers opportunities for acquisitions
- Known consumer brands
- Strong relations with retail chains
- Efficient and automated production with short delivery times
- Strong pricing power
- Scalable cost structure



Risk factors

- Fluctuations in raw material prices and disruptions in availability
- Dependence on the operation of own production facilities
- Production capacity limits growth
- Success on export markets
- Risks involved in achieving financial targets
- Acquisition risks
- Plastics have a bad reputation as a raw material

Valuation	2022e	2023e	2024e
Share price	7.23	7.23	7.23
Number of shares, millions	17.8	17.8	17.8
Market cap	128	128	128
EV	154	151	149
P/E (adj.)	26.8	14.4	12.4
P/E	26.8	14.4	12.4
P/FCF	27.6	17.1	13.4
P/B	3.8	3.3	2.9
P/S	1.4	1.3	1.2
EV/Sales	1.6	1.5	1.4
EV/EBITDA	12.9	8.6	7.6
EV/EBIT (adj.)	19.6	11.9	10.3
Payout ratio (%)	70.3 %	63.6 %	61.7 %
Dividend yield-%	2.6 %	4.4 %	5.0 %

Source: Inderes

Estimates

Estimates	Q4'20	Q4'21	Q4'21e	Q4'21e	Consensus		2021
MEUR / EUR	Comparison	Actualized	Inderes	Consensus	Low	High	Actualized
Revenue	21.6	23.1	22.6	22.9	22.6	- 23.3	88.7
EBIT (adj.)	3.8	1.7	3.4	3.0	2.6	- 3.4	10.9
EBIT	3.4	1.7	3.4	3.0	2.6	- 3.4	9.3
EPS (reported)	0.14	0.06	0.14	0.12	0.10	- 0.14	0.35
DPS	0.00	0.18	0.26	0.25	0.20	- 0.30	0.18
Revenue growth-%	21.4 %	6.8 %	4.7 %	6.1 %	4.6 %	- 7.8 %	16.9 %
EBIT-% (adj.)	17.4 %	7.5 %	15.1 %	13.0 %	11.5 %	- 14.6 %	12.3 %

Source: Inderes & Bloomberg (consensus)

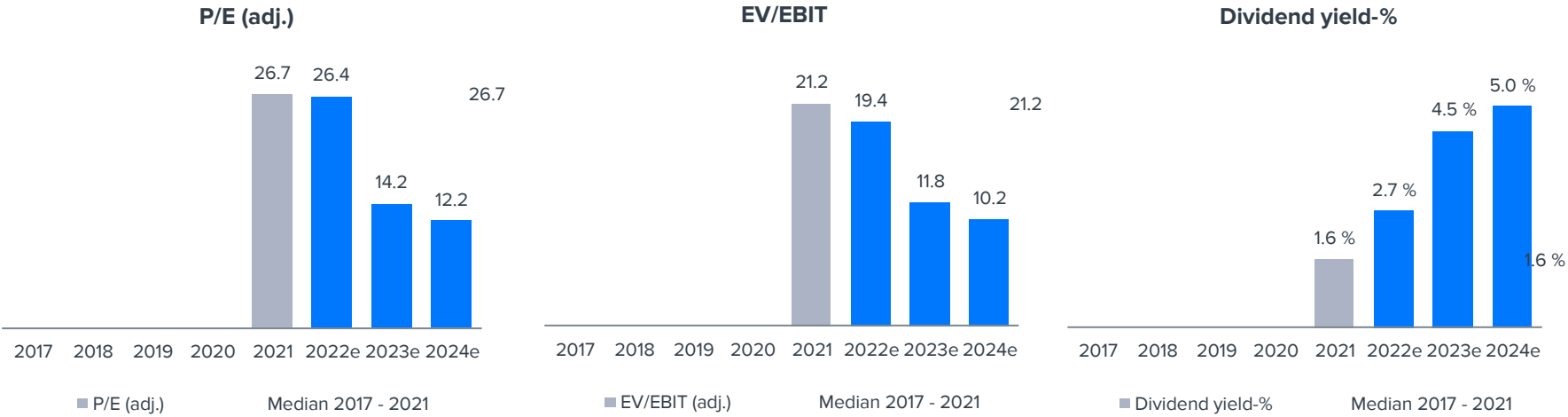
Estimate revisions	2021e	2021	Change	2022e	2022e	Change	2023e	2023e	Change
MEUR / EUR	Inderes	Actualized	%	Old	New	%	Old	New	%
Revenue	88.2	88.7	1%	93.9	94.2	0%	101	102	1%
EBIT (exc. NRIs)	12.6	10.9	-13%	14.5	7.9	-46%	16.4	12.7	-23%
EBIT	11.0	9.3	-16%	14.5	7.9	-46%	16.4	12.7	-23%
PTP	9.5	7.7	-19%	13.1	6.1	-54%	15.3	11.2	-27%
EPS (excl. NRIs)	0.51	0.43	-15%	0.59	0.27	-54%	0.69	0.50	-27%
DPS	0.26	0.18	-31%	0.35	0.19	-46%	0.42	0.32	-24%

Source: Inderes

Valuation table

Valuation	2017	2018	2019	2020	2021	2022e	2023e	2024e	2025e
Share price					11.5	7.23	7.23	7.23	7.23
Number of shares, millions					17.8	17.8	17.8	17.8	17.8
Market cap					204	128	128	128	128
EV					230	154	151	149	145
P/E (adj.)					26.7	26.8	14.4	12.4	11.2
P/E					33.8	26.8	14.4	12.4	11.2
P/FCF					15.1	27.6	17.1	13.4	11.6
P/B					6.4	3.8	3.3	2.9	2.6
P/S					2.3	1.4	1.3	1.2	1.1
EV/Sales					2.6	1.6	1.5	1.4	1.3
EV/EBITDA					17.4	12.9	8.6	7.6	6.9
EV/EBIT (adj.)					21.2	19.6	11.9	10.3	9.2
Payout ratio (%)					53.0 %	70.3 %	63.6 %	61.7 %	63.5 %
Dividend yield-%					1.6 %	2.6 %	4.4 %	5.0 %	5.7 %

Source: Inderes



Peer group valuation

Peer group valuation	Share price	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
Duni AB	95.00	403	526	11.6	9.9	7.2	6.7	0.9	0.9	12.6	10.6	5.4	5.4	1.4
Fiskars Oyj Abp	21.50	1684	1841	12.2	11.7	8.9	8.5	1.5	1.4	13.7	13.0	4.0	4.4	2.0
Harvia Oyj	34.25	604	654	12.4	11.3	11.0	10.0	3.2	2.9	15.5	14.1	2.3	2.7	5.3
Leifheit AG	27.60	259	225	10.7	6.5	7.3	5.0	0.7	0.7	17.8	10.5	4.1	6.7	2.2
Marimekko Oyj	64.30	495	485	15.3	14.1	11.1	10.2	2.9	2.7	19.8	18.5	3.2	3.6	7.9
Rapala VMC Corp	6.62	241	320	9.8	9.8	7.4	7.3	1.1	1.1	12.5	12.0	3.2	4.3	1.6
Thule Group AB	364.20	3237	3391	14.2	13.2	13.4	12.4	3.2	3.0	18.1	16.8	4.2	4.5	5.5
Nokian Tyres plc	15.62	1987	1888	6.0	5.3	4.0	3.7	1.0	1.0	8.1	7.1	9.9	10.6	1.2
Assa Abloy AB	237.70	22689	25069	15.5	13.9	12.7	11.5	2.5	2.3	20.9	18.6	2.0	2.1	3.4
Orthex (Inderes)	7.23	128	154	19.6	11.9	12.9	8.6	1.6	1.5	26.8	14.4	2.6	4.4	3.8
Average				12.0	10.6	9.2	8.3	1.9	1.8	15.5	13.5	4.2	4.9	3.4
Median				12.2	11.3	8.9	8.5	1.5	1.4	15.5	13.0	4.0	4.4	2.2
Diff-% to median				61%	5%	44%	2%	9%	4%	72%	10%	-34%	2%	78%

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

Income statement

Income statement	2020	2021	Q1'22e	Q2'22e	Q3'22e	Q4'22e	2022e	2023e	2024e	2025e
Revenue	75.9	88.7	22.8	23.2	23.6	24.7	94.2	102	107	112
Group	75.9	88.7	22.8	23.2	23.6	24.7	94.2	102	107	112
EBITDA	16.5	13.2	2.3	2.9	3.3	3.5	12.0	17.5	19.6	21.0
Depreciation	-4.2	-4.0	-1.0	-1.0	-1.0	-1.0	-4.1	-4.8	-5.1	-5.3
EBIT (excl. NRI)	12.9	10.9	1.3	1.8	2.3	2.5	7.9	12.7	14.4	15.7
EBIT	12.3	9.3	1.3	1.8	2.3	2.5	7.9	12.7	14.4	15.7
Group	12.3	9.3	1.3	1.8	2.3	2.5	7.9	12.7	14.4	15.7
Share of profits in assoc. compan.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net financial items	-2.4	-1.6	-0.4	-0.4	-0.4	-0.5	-1.8	-1.5	-1.5	-1.4
PTP	9.9	7.7	0.8	1.4	1.8	2.0	6.1	11.2	13.0	14.3
Taxes	-2.2	-1.6	-0.2	-0.3	-0.4	-0.4	-1.3	-2.2	-2.6	-2.9
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net earnings	7.7	6.0	0.7	1.1	1.4	1.6	4.8	8.9	10.4	11.5
EPS (adj.)	0.51	0.43	0.04	0.06	0.08	0.09	0.27	0.50	0.58	0.65
EPS (rep.)	0.47	0.34	0.04	0.06	0.08	0.09	0.27	0.50	0.58	0.65

Key figures	2020	2021	Q1'22e	Q2'22e	Q3'22e	Q4'22e	2022e	2023e	2024e	2025e
Revenue growth-%	14.2 %	16.9 %	5.4 %	4.5 %	8.0 %	7.0 %	6.2 %	8.0 %	5.0 %	5.0 %
Adjusted EBIT growth-%	70.8 %	-15.6 %	-61.1 %	-29.4 %	-30.6 %	44.0 %	-27.6 %	61.8 %	13.4 %	8.9 %
EBITDA-%	21.8 %	14.9 %	10.1 %	12.3 %	14.0 %	14.3 %	12.7 %	17.2 %	18.3 %	18.7 %
Adjusted EBIT-%	17.0 %	12.3 %	5.6 %	7.9 %	9.6 %	10.1 %	8.3 %	12.5 %	13.5 %	14.0 %
Net earnings-%	10.1 %	6.8 %	2.9 %	4.7 %	6.1 %	6.5 %	5.1 %	8.8 %	9.7 %	10.2 %

Source: Inderes

Balance sheet

Assets	2020	2021	2022e	2023e	2024e
Non-current assets	45.9	46.3	46.8	47.7	48.3
Goodwill	24.1	23.7	23.7	23.7	23.7
Intangible assets	0.1	0.2	0.1	0.1	0.1
Tangible assets	11.4	13.1	13.8	14.7	15.2
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	9.3	8.1	8.1	8.1	8.1
Deferred tax assets	1.1	1.2	1.2	1.2	1.2
Current assets	29.4	42.5	44.3	48.3	51.3
Inventories	9.9	12.6	13.2	14.2	15.0
Other current assets	0.0	0.0	0.0	0.0	0.0
Receivables	14.3	15.5	17.0	18.8	20.3
Cash and equivalents	5.3	14.3	14.1	15.3	16.0
Balance sheet total	75.4	88.8	91.1	96.1	99.6

Source: Inderes

Liabilities & equity	2020	2021	2022e	2023e	2024e
Equity	17.0	31.8	33.4	39.0	43.6
Share capital	0.0	0.1	0.1	0.1	0.1
Retained earnings	13.2	19.1	20.7	26.3	31.0
Hybrid bonds	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	2.2	1.5	1.5	1.5	1.5
Other equity	1.7	11.0	11.0	11.0	11.0
Minorities	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	40.6	36.7	36.7	35.1	33.3
Deferred tax liabilities	0.6	0.7	0.7	0.7	0.7
Provisions	0.0	0.0	0.0	0.0	0.0
Long term debt	40.0	36.0	36.0	34.4	32.6
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	0.0	0.0	0.0	0.0	0.0
Current liabilities	17.8	20.3	21.0	22.0	22.6
Short term debt	4.2	4.2	4.0	3.8	3.6
Payables	11.8	13.7	14.6	15.8	16.6
Other current liabilities	1.8	2.4	2.4	2.4	2.4
Balance sheet total	75.4	88.8	91.1	96.1	99.6

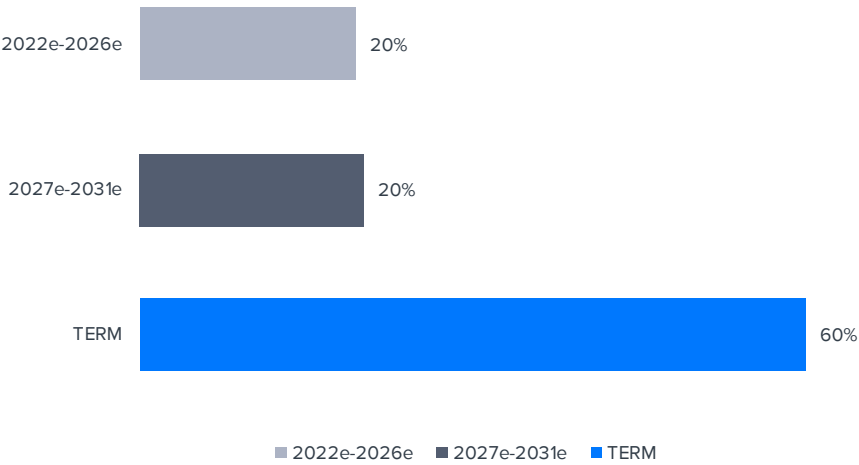
DCF calculation

DCF model	2021	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	TERM
EBIT (operating profit)	9.3	7.9	12.7	14.4	15.7	16.9	17.0	17.5	17.8	18.2	18.6	
+ Depreciation	4.0	4.1	4.8	5.1	5.3	5.5	5.6	5.8	5.9	5.9	5.9	
- Paid taxes	-1.6	-1.3	-2.2	-2.6	-2.9	-3.1	-3.2	-3.3	-3.4	-3.5	-3.6	
- Tax, financial expenses	-0.3	-0.4	-0.3	-0.3	-0.3	-0.3	-0.2	-0.2	-0.2	-0.2	-0.1	
+ 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	-1.6	-1.1	-1.8	-1.4	-0.9	-0.8	-0.8	-0.6	-0.4	-0.4	-0.5	
Operating cash flow	9.8	9.3	13.2	15.3	16.9	18.2	18.4	19.1	19.7	20.0	20.3	
+ Change in other long-term liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-4.3	-4.6	-5.7	-5.7	-5.9	-5.9	-6.0	-6.0	-5.9	-6.0	-6.3	
Free operating cash flow	5.5	4.6	7.5	9.6	11.1	12.3	12.4	13.1	13.8	14.0	14.1	
+/- Other	8.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	13.5	4.6	7.5	9.6	11.1	12.3	12.4	13.1	13.8	14.0	14.1	235
Discounted FCFF		4.4	6.5	7.7	8.2	8.5	7.9	7.7	7.5	7.1	6.5	109
Sum of FCFF present value		181	177	170	163	154	146	138	130	123	116	109
Enterprise value DCF		181										
- Interesting bearing debt		-40.2										
+ Cash and cash equivalents		14.3										
-Minorities		0.0										
-Dividend/capital return		0.0										
Equity value DCF		155										
Equity value DCF per share		8.7										

Wacc	
Tax-% (WACC)	20.0 %
Target debt ratio (D/(D+E))	10.0 %
Cost of debt	3.5 %
Equity Beta	1.20
Market risk premium	4.75%
Liquidity premium	1.00%
Risk free interest rate	2.0 %
Cost of equity	8.7 %
Weighted average cost of capital (WACC)	8.1 %

Source: Inderes

Cash flow distribution



Summary

Income statement	2019	2020	2021	2022e	2023e	Per share data	2019	2020	2021	2022e	2023e
Revenue	66.4	75.9	88.7	94.2	101.8	EPS (reported)	0.12	0.47	0.34	0.27	0.50
EBITDA	10.7	16.5	13.2	12.0	17.5	EPS (adj.)	0.19	0.51	0.43	0.27	0.50
EBIT	6.5	12.3	9.3	7.9	12.7	OCF / share	0.58	0.99	0.55	0.52	0.75
PTP	2.4	9.9	7.7	6.1	11.2	FCF / share	-0.40	0.68	0.76	0.26	0.42
Net Income	2.0	7.7	6.0	4.8	8.9	Book value / share	0.88	1.05	1.79	1.88	2.19
Extraordinary items	-1.0	-0.6	-1.6	0.0	0.0	Dividend / share	0.00	0.00	0.18	0.19	0.32
Balance sheet	2019	2020	2021	2022e	2023e	Growth and profitability	2019	2020	2021	2022e	2023e
Balance sheet total	71.5	75.4	88.8	91.1	96.1	Revenue growth-%	6%	14%	17%	6%	8%
Equity capital	14.4	17.0	31.8	33.4	39.0	EBITDA growth-%	32%	54%	-20%	-9%	46%
Goodwill	23.3	24.1	23.7	23.7	23.7	EBIT (adj.) growth-%	45%	71%	-16%	-28%	62%
Net debt	41.1	38.9	25.9	25.9	22.9	EPS (adj.) growth-%	-27%	175%	-15%	-37%	86%
Cash flow	2019	2020	2021	2022e	2023e	EBITDA-%	16.1 %	21.8 %	14.9 %	12.7 %	17.2 %
EBITDA	10.7	16.5	13.2	12.0	17.5	EBIT (adj.)-%	11.4 %	17.0 %	12.3 %	8.3 %	12.5 %
Change in working capital	-0.1	0.1	-1.6	-1.1	-1.8	EBIT-%	9.8 %	16.2 %	10.4 %	8.3 %	12.5 %
Operating cash flow	9.5	16.1	9.8	9.3	13.2	ROE-%	15.3 %	49.0 %	24.7 %	14.7 %	24.7 %
CAPEX	-2.9	-5.1	-4.3	-4.6	-5.7	ROI-%	12.1 %	20.2 %	13.9 %	10.8 %	16.9 %
Free cash flow	-6.6	11.0	13.5	4.6	7.5	Equity ratio	20.1 %	22.6 %	35.8 %	36.7 %	40.6 %
						Gearing	285.9 %	228.4 %	81.4 %	77.4 %	58.9 %
Valuation multiples	2019	2020	2021	2022e	2023e						
EV/S	2.3	2.0	2.6	1.6	1.5						
EV/EBITDA (adj.)	14.2	9.1	17.4	12.7	8.5						
EV/EBIT (adj.)	20.2	11.6	21.2	19.4	11.8						
P/E (adj.)	36.8	13.4	26.7	26.4	14.2						
P/B	7.7	6.5	6.4	3.8	3.3						
Dividend-%	0.0 %	0.0 %	1.6 %	2.7 %	4.5 %						

Source: Inderes

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Buy The 12-month risk-adjusted expected shareholder

return of the share is very attractive

Accumulate The 12-month risk-adjusted expected shareholder
return of the share is attractive
Reduce The 12-month risk-adjusted expected shareholder
return of the share is weak

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 price	Share price
26-03-21	Accumulate	8.50 €	7.42 €
12-05-21	Accumulate	11.00 €	10.15 €
26-08-21	Accumulate	13.00 €	11.48 €
20-09-21	Buy	13.00 €	10.50 €
11-11-21	Accumulate	12.50 €	11.63 €
Change of analyst			
13-01-22	Accumulate	11.50 €	10.44 €
10-03-22	Accumulate	8.00 €	7.14 €



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Inderes Oyj

Itämerentori 2

FI-00180 Helsinki, Finland

+358 10 219 4690

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