

Exel Composites

Company report

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✓ Inderes corporate customer

This report is a summary translation of the report “Kysytänäkymät Q4-raportin mielenkiintoisin osa” published on 02/15/2023 at 8:25 am

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Demand outlook most interesting part of the Q4 report

Exel publishes its Q4 report on Friday at 9.00 am EET. We expect Exel's revenue to have fallen from the comparison period reflecting the moderate new orders and thinner order book of Q3. We estimate that EBIT has grown from the challenging comparison period. We have added the negative non-recurring items reported around the turn of the year to our estimates and revised our financial expense estimates for Q4. However, our operational estimates remain unchanged for the next few years. We feel the share's valuation is still moderate over the next few years, despite the uncertainties in the operating environment, and reiterate our Accumulate recommendation and EUR 6.0 target price.

We expect revenue has fallen, but EBIT increased in Q4

Exel entered Q4 in a reasonable positions considering the order book at the end of Q3 (35 MEUR) but we expect revenue to fall by 7% to EUR 33.9 million from the strong comparison period. Considering the moderate revenue level, we estimate that Exel's Q4 EBIT is EUR 1.9 million. Thus, we expect the result to have risen from a weak comparison period, when profitability was depressed by the challenges of the US unit. We expect the reported EBIT to be boosted by the [selling](#) of the closed factory in China. We have, however, revised our reported EBIT estimate downward with the [non-recurring cost](#) reported by the company in December and expect that reported EBIT is EUR 4.5 million (previous 7.1 MEUR). Exel has recorded significant positive net financial income from exchange rate changes in intra-group loans with no cash flow effect in Q2-Q3'22. Considering the euro that strengthened in late 2022 (relative to USD) we have clearly raised our net financial cost estimates for Q4. In light of the estimate revisions we expect reported EPS to be EUR 0.18 (previous EUR 0.43). We expect Exel to pay EUR 0.22 per share in dividend.

2023 guidance and comments on demand situation are of interest

In 2023, we expect Exel's revenue to decrease by 3% to EUR 136 million and adjusted EBIT to remain at around the 2022 level of EUR 9.1 million. Translated to the company's guidance practices, we believe our estimate means that revenue and adjusted EBIT will remain at last year's level. Our current expectations are not very demanding, especially in terms of revenue if demand is strong and the company is successful in improving efficiency. In the short term, uncertainty is raised by the short structure of the order book and the investment-driven nature of end demand, which may lead to a relatively rapid decline in the company's business opportunities in a period of uncertainty. Considering this our interest in the report is, next to the figures, directed especially at comments on the demand situation (incl. Q4 order book). We also expect the company to provide more details on the downsizing of operations in the UK [announced](#) in December and the schedule of the process. Related to this we have added the non-recurring items announced by the company to our Q1'23 estimates, but will update the targeted cost savings in connection with the Q4 result.

Share valuation is moderate

With our estimates, Exel's earnings-based valuation multiples for the coming years are moderate (adj. P/E 2023 and 2024: 11x and 10x and EV/EBITDA: 7x and 6x). Due to the uncertainties in the operating environment (especially the development of the demand situation), it is still difficult to rely on a significant increase in multiples in the short term, but we see a slight upside in the multiples relative to the neutral ranges we estimate for the company (P/E: 12x-16x, EV/EBITDA: 6x-9x). Thus, with the slight upside in the multiples and the around 4-5% dividend yield we expect in the next few years, we feel the share's risk-adjusted expected return is still attractive.

Recommendation

Accumulate

(previous Accumulate)

EUR 6.00

(previous EUR 6.00)

Share price:

5.32



Key figures

	2021	2022e	2023e	2024e
Revenue	134	140	136	147
growth-%	24%	4%	-3%	8%
EBIT adj.	6.0	9.0	9.1	10.3
EBIT-% adj.	4.5 %	6.4 %	6.7 %	7.0 %
Net Income	1.7	8.3	1.7	6.2
EPS (adj.)	0.29	0.68	0.49	0.53

P/E (adj.)	24.1	7.8	10.9	10.1
P/B	2.8	1.8	1.9	1.7
Dividend yield-%	2.8 %	4.1 %	4.5 %	5.1 %
EV/EBIT (adj.)	20.5	11.0	11.1	9.5
EV/EBITDA	10.3	6.6	6.9	5.8
EV/S	0.9	0.7	0.7	0.7

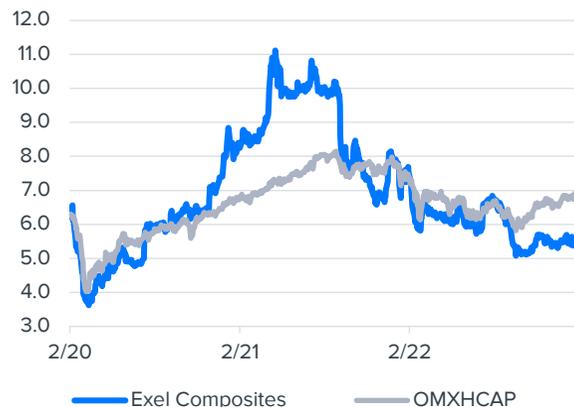
Source: Inderes

Guidance

(Unchanged)

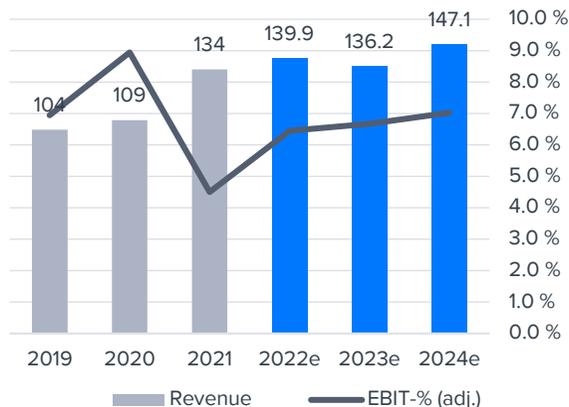
Exel Composites expects that revenue in 2021 will be at last year's level and adjusted operating profit will increase compared to 2021.

Share price



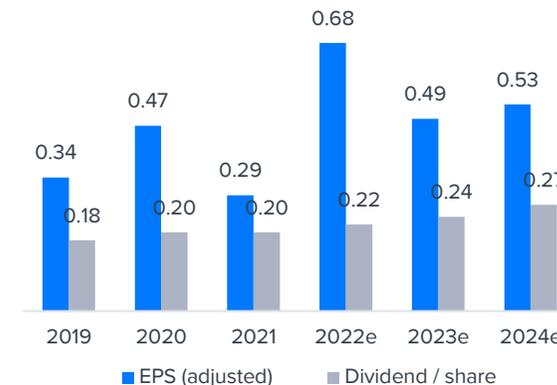
Source: Millstream Market Data AB

Revenue and EBIT %



Source: Inderes

EPS and dividend



Source: Inderes



Value drivers

- Growing composite market creates a good basis for organic growth
- Still room for improvement in profitability relative to the full potential
- Global structure of production and relative economies of scale
- Boosting growth with acquisitions in the medium term



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
- Debt in the balance sheet partially limits room for maneuver
- Marginal pressures caused by delivery chain problems and higher material costs in the short term
- Energy price fluctuations in Europe and their impact on the demand in the company's key market

Valuation	2022e	2023e	2024e
Share price	5.32	5.32	5.32
Number of shares, millions	11.9	11.9	11.9
Market cap	63	63	63
EV	99	101	98
P/E (adj.)	7.8	10.9	10.1
P/E	7.6	36.8	10.1
P/FCF	13.4	24.1	10.1
P/B	1.8	1.9	1.7
P/S	0.5	0.5	0.4
EV/Sales	0.7	0.7	0.7
EV/EBITDA	6.6	6.9	5.8
EV/EBIT (adj.)	11.0	11.1	9.5
Payout ratio (%)	31.4 %	166.2 %	51.4 %
Dividend yield-%	4.1 %	4.5 %	5.1 %

Source: Inderes

Q4 expectations and estimate revisions

Estimates MEUR / EUR	Q4'21	Q4'22	Q4'22e	Q4'22e	Consensus		2022e
	Comparison	Actualized	Inderes	Consensus	Low	High	Inderes
Revenue	36.5		33.9				140
EBIT (adj.)	1.0		1.9				9.0
EBIT	0.6		4.5				9.2
EPS (reported)	0.04		0.19				0.70
DPS	0.20		0.22				0.22
Revenue growth-%	32.7 %		-7.0 %				4.1 %
EBIT-% (adj.)	2.8 %		5.6 %				6.4 %

Source: Inderes

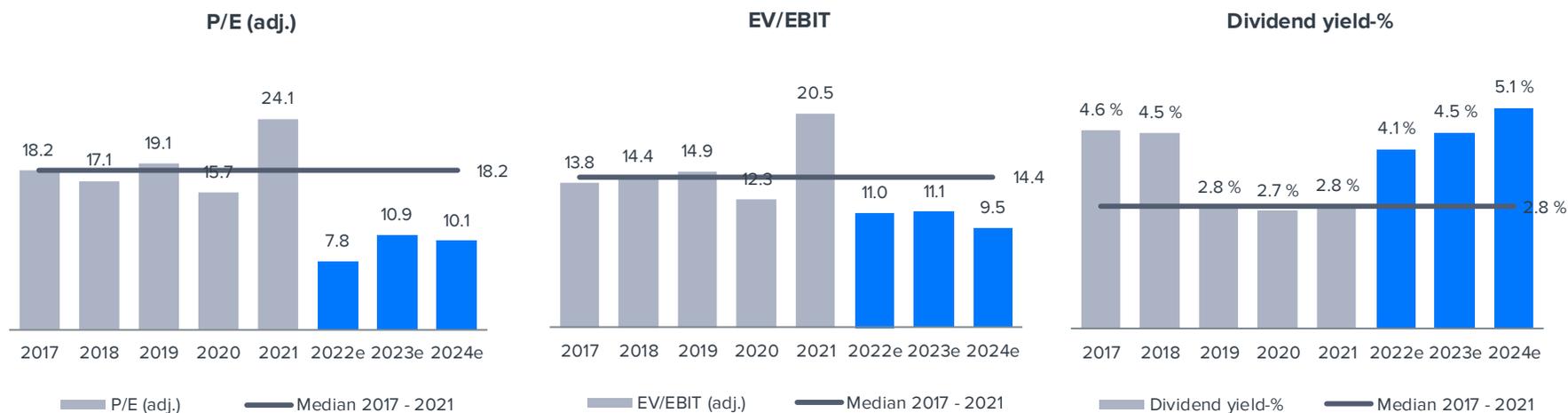
Estimate revisions MEUR / EUR	2022e	2022e	Change	2023e	2023e	Change	2024e	2024e	Change
	Old	New	%	Old	New	%	Old	New	%
Revenue	140	140	0%	136	136	0%	147	147	0%
EBITDA	18.8	16.2	-14%	15.6	11.5	-26%	17.0	17.0	0%
EBIT (exc. NRIs)	9.0	9.0	0%	9.1	9.1	0%	10.3	10.3	0%
EBIT	11.8	9.2	-22%	9.1	5.0	-45%	10.3	10.3	0%
PTP	15.4	11.7	-24%	7.5	3.4	-55%	8.8	8.8	0%
EPS (excl. NRIs)	0.74	0.68	-8%	0.45	0.49	8%	0.52	0.53	0%
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	5.32	5.32	5.32	5.32
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	63	63	63	63
EV	87	72	107	119	124	99	101	98	95
P/E (adj.)	18.2	17.1	19.1	15.7	24.1	7.8	10.9	10.1	9.2
P/E	18.4	>100	32.0	16.4	50.9	7.6	36.8	10.1	9.2
P/FCF	neg.	neg.	20.1	24.2	neg.	13.4	24.1	10.1	8.6
P/B	2.7	1.8	2.9	3.0	2.8	1.8	1.9	1.7	1.5
P/S	0.9	0.5	0.7	0.8	0.6	0.5	0.5	0.4	0.4
EV/Sales	1.0	0.7	1.0	1.1	0.9	0.7	0.7	0.7	0.6
EV/EBITDA	9.3	7.8	10.0	7.8	10.3	6.6	6.9	5.8	5.3
EV/EBIT (adj.)	13.8	14.4	14.9	12.3	20.5	11.0	11.1	9.5	8.5
Payout ratio (%)	84.1%	554.7%	88.8%	44.3%	143.3%	31.4%	166.2%	51.4%	50.0%
Dividend yield-%	4.6%	4.5%	2.8%	2.7%	2.8%	4.1%	4.5%	5.1%	5.5%

Source: Inderes



Peer group valuation

Peer group valuation	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
Gurit	564	593	18.1	14.5	13.2	11.0	1.4	1.3	24.8	19.5	1.5	1.9	3.5
Hexagon	591	666			91.6	25.4	1.4	1.1					1.3
Exel Composites (Inderes)	63	99	11.0	11.1	6.6	6.9	0.7	0.7	7.8	10.9	4.1	4.5	1.8
Average			18.1	14.5	52.4	18.2	1.4	1.2	24.8	19.5	1.5	1.9	2.4
Median			18.1	14.5	52.4	18.2	1.4	1.2	24.8	19.5	1.5	1.9	2.4
Diff-% to median			-39%	-24%	-87%	-62%	-49%	-39%	-69%	-44%	168%	133%	-25%

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

Income statement

Income statement	2020	Q1'21	Q2'21	Q3'21	Q4'21	2021	Q1'22	Q2'22	Q3'22	Q4'22e	2022e	2023e	2024e	2025e
Revenue	109	31.0	33.5	33.4	36.5	134	34.2	38.1	33.8	33.9	140	136	147	154
Group	109	31.0	33.5	33.4	36.5	134	34.2	38.1	33.8	33.9	140	136	147	154
Adjustment items	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
EBITDA	15.3	4.0	3.9	1.7	2.3	11.9	1.8	4.8	3.4	6.2	16.2	11.5	17.0	17.9
Depreciation	-5.9	-1.6	-1.6	-3.3	-1.7	-8.2	-1.7	-1.8	-1.7	-1.7	-6.9	-6.5	-6.6	-6.7
EBIT (excl. NRI)	9.7	2.5	2.5	0.1	1.0	6.0	2.2	3.1	1.8	1.9	9.0	9.1	10.3	11.2
EBIT	9.4	2.4	2.4	-1.7	0.6	3.7	0.0	3.0	1.7	4.5	9.2	5.0	10.3	11.2
Adjustment items	-0.3	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 financial items	-2.3	0.5	-0.5	0.3	0.1	0.4	0.5	1.9	1.5	-1.5	2.5	-1.6	-1.5	-1.3
PTP	7.1	2.9	1.9	-1.4	0.7	4.2	0.5	4.9	3.2	3.0	11.7	3.4	8.8	9.9
Taxes	-1.8	-1.0	-0.4	-0.8	-0.3	-2.5	-0.6	-0.9	-1.2	-0.8	-3.5	-1.6	-2.4	-2.7
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	-0.1	-0.2	-0.3
Net earnings	5.4	2.0	1.5	-2.2	0.4	1.7	0.0	4.0	2.1	2.3	8.3	1.7	6.2	6.9
EPS (adj.)	0.47	0.17	0.13	-0.06	0.06	0.29	0.13	0.35	0.19	0.02	0.68	0.49	0.53	0.58
EPS (rep.)	0.45	0.17	0.12	-0.19	0.04	0.14	0.00	0.34	0.18	0.19	0.70	0.14	0.53	0.58
Key figures	2020	Q1'21	Q2'21	Q3'21	Q4'21	2021	Q1'22	Q2'22	Q3'22	Q4'22e	2022e	2023e	2024e	2025e
Revenue growth-%	4.6 %	11.3 %	23.1 %	28.2 %	32.7 %	23.7 %	10.3 %	13.5 %	1.2 %	-7.0 %	4.1 %	-2.7 %	8.0 %	4.5 %
Adjusted EBIT growth-%	34.9 %	17.0 %	-15.0 %	-94.6 %	-62.9 %	-37.8 %	-11.7 %	27.1 %	1580.6 %	88.9 %	49.5 %	0.6 %	13.7 %	8.2 %
EBITDA-%	14.1 %	12.9 %	11.7 %	5.0 %	6.4 %	8.9 %	5.2 %	12.5 %	10.1 %	18.3 %	11.6 %	8.4 %	11.5 %	11.6 %
Adjusted EBIT-%	8.9 %	7.9 %	7.3 %	0.3 %	2.8 %	4.5 %	6.4 %	8.2 %	5.4 %	5.6 %	6.4 %	6.7 %	7.0 %	7.3 %
Net earnings-%	4.9 %	6.4 %	4.4 %	-6.6 %	1.2 %	1.2 %	-0.1 %	10.6 %	6.2 %	6.7 %	6.0 %	1.3 %	4.2 %	4.5 %

Source: Inderes

Balance sheet

Assets	2020	2021	2022e	2023e	2024e
Non-current assets	47.8	51.9	50.8	51.8	52.2
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	33.2	34.1	34.4
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	0.1	0.1	0.1
Deferred tax assets	1.7	1.9	1.9	1.9	1.9
Current assets	49.0	65.8	64.7	61.5	64.3
Inventories	16.2	23.9	22.4	21.8	22.8
Other current assets	0.0	0.0	0.0	0.0	0.0
Receivables	20.9	26.3	26.9	26.1	28.2
Cash and equivalents	12.0	15.6	15.4	13.6	13.2
Balance sheet total	96.8	118	115	113	116

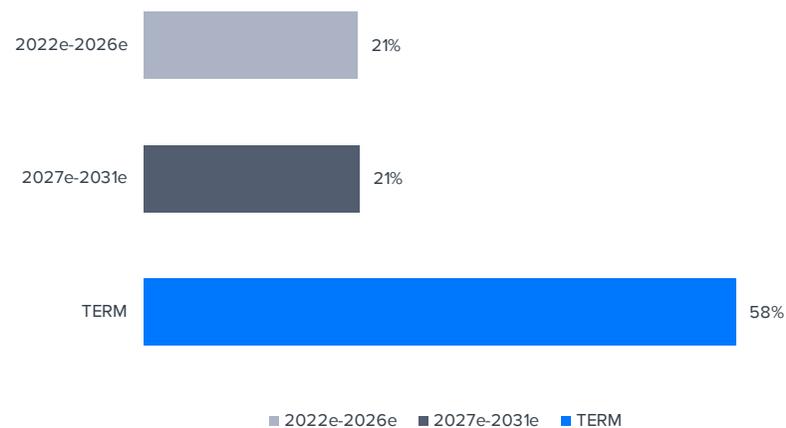
Source: Inderes

Liabilities & equity	2020	2021	2022e	2023e	2024e
Equity	28.9	31.2	35.6	34.7	38.0
Share capital	2.1	2.1	2.1	2.1	2.1
Retained earnings	22.2	21.9	27.8	26.9	30.3
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	18.6	16.3	17.7
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	17.6	15.3	16.7
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	61.3	62.3	60.7
Short term debt	30.3	37.4	32.6	34.4	30.6
Payables	23.6	32.0	28.7	27.9	30.1
Other current liabilities	0.0	0.0	0.0	0.0	0.0
Balance sheet total	96.8	118	115	113	116

DCF calculation

DCF model	2021	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	TERM
Revenue growth-%	23.7 %	4.1 %	-2.7 %	8.0 %	4.5 %	3.5 %	3.0 %	2.5 %	2.5 %	2.0 %	2.0 %	2.0 %
EBIT-%	2.8 %	6.6 %	3.7 %	7.0 %	7.3 %	7.3 %	7.2 %	7.1 %	7.0 %	7.0 %	7.0 %	7.0 %
EBIT (operating profit)	3.7	9.2	5.0	10.3	11.2	11.6	11.8	11.9	12.0	12.3	12.5	
+ Depreciation	8.2	6.9	6.5	6.6	6.7	6.9	7.0	7.0	7.0	7.0	7.0	
- Paid taxes	-2.3	-3.5	-1.6	-2.4	-2.7	-2.8	-2.8	-2.8	-2.9	-2.9	-2.9	
- Tax, financial expenses	0.1	0.7	-0.4	-0.4	-0.4	-0.3	-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	-4.8	-2.3	0.6	-0.9	-0.5	-0.4	-0.3	-0.4	-0.2	-0.5	-0.5	
Operating cash flow	4.8	11.1	10.1	13.3	14.4	15.0	15.4	15.4	15.7	15.6	15.8	
+ 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	-12.2	-5.9	-7.5	-7.1	-7.1	-7.1	-7.1	-7.1	-7.1	-7.2	-7.1	
Free operating cash flow	-7.2	4.7	2.6	6.3	7.3	7.9	8.3	8.4	8.6	8.5	8.8	
+/- 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	4.7	2.6	6.3	7.3	7.9	8.3	8.4	8.6	8.5	8.8	138
Discounted FCFF		4.8	2.4	5.4	5.8	5.8	5.6	5.2	4.9	4.5	4.3	67.0
Sum of FCFF present value		116	111	108	103	97.2	91.4	85.8	80.6	75.7	71.2	67.0
Enterprise value DCF		116										
- Interesting bearing debt		-53.0										
+ Cash and cash equivalents		15.6										
-Minorities		-1.1										
-Dividend/capital return		-2.4										
Equity value DCF		74.7										
Equity value DCF per share		6.3										

Cash flow distribution



Wacc

Tax-% (WACC)	25.0 %
Target debt ratio (D/(D+E))	25.0 %
Cost of debt	6.0 %
Equity Beta	1.20
Market risk premium	4.75%
Liquidity premium	1.60%
Risk free interest rate	2.5 %
Cost of equity	9.8 %
Weighted average cost of capital (WACC)	8.5 %

Source: Inderes

Summary

Income statement	2019	2020	2021	2022e	2023e	Per share data	2019	2020	2021	2022e	2023e
Revenue	103.8	108.6	134.4	139.9	136.2	EPS (reported)	0.20	0.45	0.14	0.70	0.14
EBITDA	10.7	15.3	11.9	16.2	11.5	EPS (adj.)	0.34	0.47	0.29	0.68	0.49
EBIT	5.1	9.4	3.7	9.2	5.0	OCF / share	0.83	1.26	0.41	0.94	0.85
PTP	3.9	7.1	4.2	11.7	3.4	FCF / share	0.32	0.30	-0.61	0.40	0.22
Net Income	2.4	5.4	1.7	8.3	1.7	Book value / share	2.21	2.43	2.57	2.94	2.86
Extraordinary items	-2.1	-0.3	-2.3	0.2	-4.1	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	115.5	113.3	Revenue growth-%	7%	5%	24%	4%	-3%
Equity capital	26.3	28.9	31.2	35.6	34.7	EBITDA growth-%	15%	43%	-22%	35%	-29%
Goodwill	13.0	12.6	12.8	12.8	12.8	EBIT (adj.) growth-%	44%	35%	-38%	49%	1%
Net debt	30.2	31.2	37.4	34.8	36.1	EPS (adj.) growth-%	45%	38%	-38%	132%	-28%
Cash flow	2019	2020	2021	2022e	2023e	EBITDA-%	10.3 %	14.1 %	8.9 %	11.6 %	8.4 %
EBITDA	10.7	15.3	11.9	16.2	11.5	EBIT (adj.)-%	6.9 %	8.9 %	4.5 %	6.4 %	6.7 %
Change in working capital	1.9	2.4	-4.8	-2.3	0.6	EBIT-%	4.9 %	8.7 %	2.8 %	6.6 %	3.7 %
Operating cash flow	9.9	14.9	4.8	11.1	10.1	ROE-%	9.3 %	19.5 %	5.6 %	25.4 %	5.0 %
CAPEX	-6.1	-11.7	-12.2	-5.9	-7.5	ROI-%	8.6 %	13.9 %	4.8 %	10.9 %	5.9 %
Free cash flow	3.8	3.6	-7.2	4.7	2.6	Equity ratio	30.8 %	29.8 %	26.5 %	30.8 %	30.6 %
Valuation multiples	2019	2020	2021	2022e	2023e	Gearing	114.9 %	107.9 %	119.9 %	97.9 %	104.2 %
EV/S	1.0	1.1	0.9	0.7	0.7						
EV/EBITDA (adj.)	10.0	7.8	10.3	6.6	6.9						
EV/EBIT (adj.)	14.9	12.3	20.5	11.0	11.1						
P/E (adj.)	19.1	15.7	24.1	7.8	10.9						
P/E	2.9	3.0	2.8	1.8	1.9						
Dividend-%	2.8 %	2.7 %	2.8 %	4.1 %	4.5 %						

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 price	Share price
02-11-20	Accumulate	6.80 €	6.40 €
08-12-20	Accumulate	7.00 €	6.50 €
19-02-21	Accumulate	9.20 €	8.76 €
02-05-21	Accumulate	11.50 €	10.88 €
21-07-21	Accumulate	11.50 €	10.32 €
02-09-21	Accumulate	11.50 €	9.95 €
17-09-21	Accumulate	9.50 €	8.59 €
05-11-21	Accumulate	8.40 €	7.52 €
16-02-22	Reduce	7.50 €	7.15 €
02-05-22	Accumulate	7.00 €	6.30 €
<i>Change of analyst</i>			
21-07-22	Accumulate	7.00 €	6.00 €
28-09-22	Accumulate	6.00 €	5.30 €
04-11-22	Accumulate	6.00 €	5.30 €
15-02-23	Accumulate	6.00 €	5.32 €



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