

Tecnotree

Company report

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Joonas Korkiakoski
+358 40 182 8660
joonas.korkiakoski@inderes.fi

✓ Inderes corporate customer

This report is a summary translation of the report "Topakasti eteenpäin" published on 2./28/2022 at 7:10 am

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Briskly forward

Over the past few years Tecnotree has proven both the efficiency of its operating model and its technological competitiveness. The company's longer-term value creation outlook is good and the share is not particularly expensive. We reiterate our Buy recommendation but lower our target price to EUR 1.50 (previously EUR 1.70) due to estimate revisions.

Profitable growth

Tecnotree's Q4 turnover grew by 28% to EUR 18.1 million, which is slightly lower than our turnover estimate. Growth was strong in the strategically important MEA & APAC area, while delivery flows in the European and American markets with different dynamics remained at the same level as in Q4'20. In Q4, the company generated EUR 5.9 million in EBIT, which was some EUR 1 million lower than our estimate. However, the higher-than-expected costs involve nothing more dramatic than implemented investments, a somewhat recovered cost base, and to our understanding some small non-recurring items. In contrast, the lower lines of the income statement were clearly below our expectations. Thus, EPS was in line with our estimates, despite the operative earnings undercut. New orders remained acceptable and the order backlog at the end of the year was EUR 54 million, which is strong for Tecnotree in its current form. The high order backlog is an important starting point for growth in future quarters, and we believe that it is also a nice indication of the company's technical capabilities and solution expertise.

Plenty of possibilities

Due to the COVID pandemic and possible drawbacks from it Tecnotree did not give a full-year 2022 guidance. Based on the Q4 report and more detailed management comments, we maintained our growth estimates virtually unchanged, but correspondingly refined our cost estimates. We now expect Tecnotree's turnover to grow by 19% to EUR 76 million this year, supported by the revenue model of previously gained deals and well developing sales thanks to the company's own technical strengths. We estimate that EBIT increases to EUR 30 million driven by increased turnover, high gross margins and operations remaining cost-efficient despite development investments. In 2023-2024, we estimate that Tecnotree continues growing profitably, reflecting the progressing operating model revolution among operators, the cloud transformation of BSS solutions, own investments, and the efficiency of the business model. In the long term, we find Tecnotree Moments with highly scalable revenue flows that offers a route to verticals outside telecommunication and is thus both strategically important and lowers the overall risk levels over time, to be the most interesting template.

The price is not high

Based on our estimates, Tecnotree's adjusted P/E ratios for 2022 and 2023 are 16x and 14x while the corresponding EV/EBIT ratios are 12x and 10x. The levels are quite moderate in absolute terms and are not, in our opinion, fully in line with the company's current performance or longer-term potential. The value indicated by our DCF model and the 1.1x PEG ratio relative to our earnings growth expectations in coming years also indicate a low valuation. We believe that the annual expected return consisting of the expected earnings growth and the upside in price multipliers is more than twice the COE requirement.

Recommendation

Buy
(previous Buy)

EUR 1.50
(previous EUR 1.70)

Share price:
1.21



Key figures

	2021	2022e	2023e	2024e
Revenue	64.2	76.5	87.4	95.8
growth-%	22%	19%	14%	10%
EBIT adj.	23.7	29.8	35.9	40.2
EBIT-% adj.	36.9 %	39.0 %	41.1 %	42.0 %
Net Income	18.4	23.8	28.5	32.0
EPS (adj.)	0.06	0.07	0.09	0.10

P/E (adj.)	25.0	16.2	13.6	12.1
P/B	6.8	4.6	3.4	2.7
P/FCF	neg.	26.2	17.7	15.1
EV/EBIT (adj.)	18.7	12.1	9.5	7.8
EV/EBITDA	17.5	11.3	8.9	7.4
EV/S	6.9	4.7	3.9	3.3

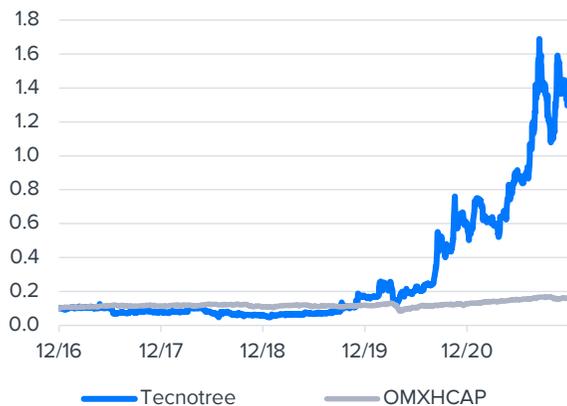
Source: Inderes

Guidance

(New guidance)

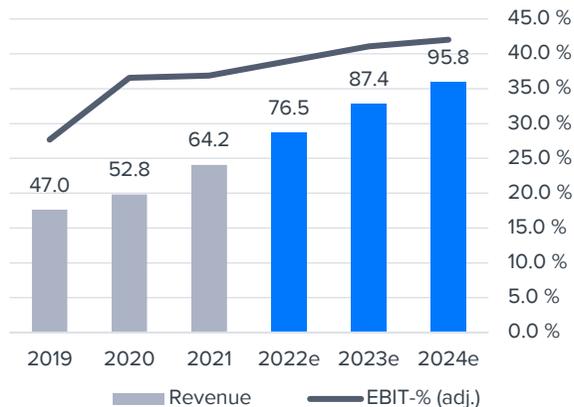
Tecnotree refrains from giving any guidance for the time being.

Share price



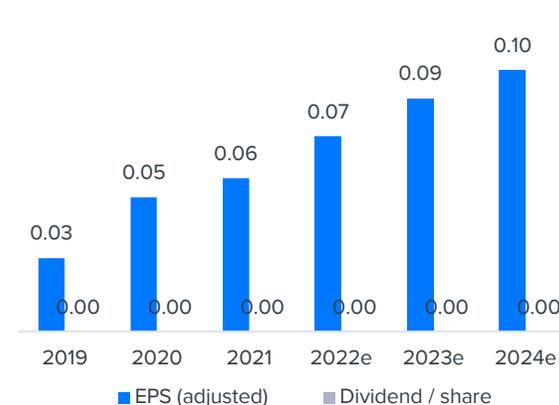
Source: Thomson Reuters

Revenue and EBIT %



Source: Inderes

Earnings per share



Source: Inderes



Value drivers

- Industry's organic drivers are strong and longer-term growth outlook is good
- The company's business model is scalable and cost efficient
- Increasing recurring income flow
- Product portfolio technologically competent



Risk factors

- Customer portfolio's structure concentrated at top level
- Failure in product development work and reading the industry
- Weakening of a cost-efficient operating model
- Some cyclicality in operators' investments
- Political and legislative threats in emerging countries
- Repatriating cash flow

Valuation	2022e	2023e	2024e
Share price	1.21	1.21	1.21
Number of shares, millions	319.0	319.0	319.0
Market cap	386	386	386
EV	361	339	314
P/E (adj.)	16.2	13.6	12.1
P/E	16.2	13.6	12.1
P/FCF	26.2	17.7	15.1
P/B	4.6	3.4	2.7
P/S	5.0	4.4	4.0
EV/Sales	4.7	3.9	3.3
EV/EBITDA	11.3	8.9	7.4
EV/EBIT (adj.)	12.1	9.5	7.8
Payout ratio (%)	0.0 %	0.0 %	0.0 %
Dividend yield-%	0.0 %	0.0 %	0.0 %

Source: Inderes

Estimates

Estimates	Q4'20	Q4'21	Q4'21e	Q4'21e	Consensus		Difference (%)	2021
MEUR / EUR	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. Inderes	Actualized
Revenue	14.2	18.1	18.4				-2%	64.2
EBIT (adj.)	4.3	5.9	6.9				-15%	23.7
EBIT	4.3	5.9	6.9				-15%	23.7
EPS (adj.)	0.02	0.02	0.02				3%	0.06
DPS	0.00	0.00	0.00					0.00
Revenue growth-%	0.7 %	27.5 %	29.6 %				-2.1 pp	21.6 %
EBIT-% (adj.)	30.3 %	32.6 %	37.6 %				-5 pp	36.9 %

Source: Inderes

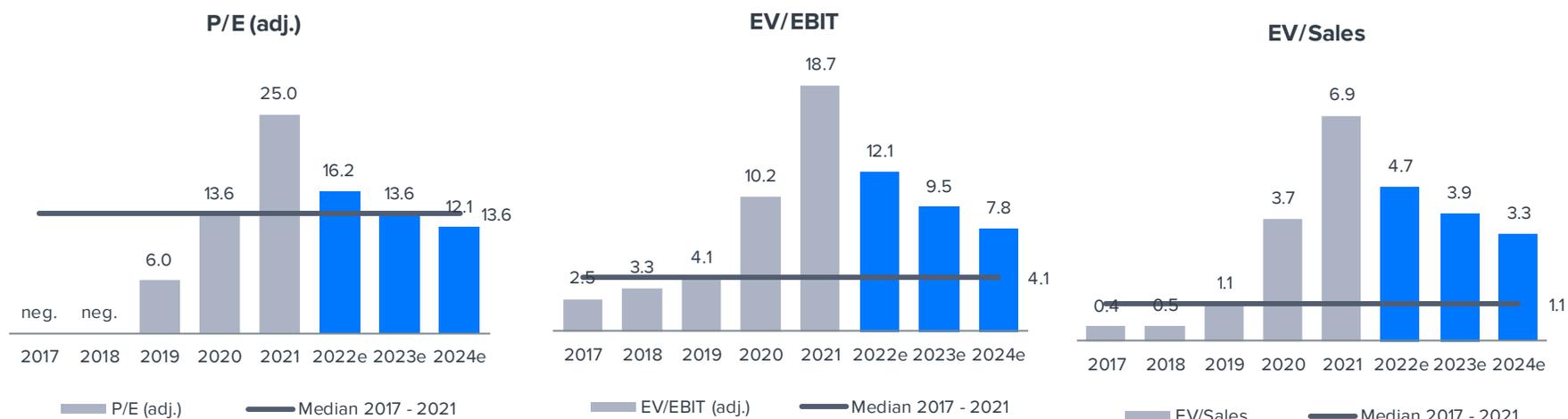
Estimate revisions	2021	2021e	Change	2022e	2022e	Change	2023e	2023e	Change
MEUR / EUR	Inderes	Actualized	%	Old	New	%	Old	New	%
Revenue	64.5	64.2	-0%	76.0	76.5	1%	86.6	87.4	1%
EBITDA	26.3	25.3	-4%	34.3	31.9	-7%	40.5	38.2	-6%
EBIT (exc. NRIs)	24.7	23.7	-4%	32.2	29.8	-7%	38.4	35.9	-6%
EBIT	24.6	23.7	-4%	32.2	29.8	-7%	38.4	35.9	-6%
PTP	22.5	21.5	-4%	31.9	29.8	-6%	38.1	35.6	-6%
EPS (excl. NRIs)	0.06	0.06	0%	0.08	0.07	-8%	0.10	0.09	-8%
DPS	0.00	0.00		0.00	0.00		0.00	0.00	

Source: Inderes

Valuation table

Valuation	2017	2018	2019	2020	2021	2022e	2023e	2024e	2025e
Share price	0.07	0.05	0.17	0.70	1.47	1.21	1.21	1.21	1.21
Number of shares, millions	122.6	136.6	235.3	274.6	313.2	319.0	319.0	319.0	319.0
Market cap	8.6	6.8	40	192	460	386	386	386	386
EV	24	19	53	198	443	361	339	314	283
P/E (adj.)	neg.	neg.	6.0	13.6	25.0	16.2	13.6	12.1	10.9
P/E	neg.	neg.	5.2	14.2	25.0	16.2	13.6	12.1	10.9
P/FCF	1.8	3.9	16.5	33.3	neg.	26.2	17.7	15.1	12.5
P/B	neg.	neg.	11.7	9.7	6.8	4.6	3.4	2.7	2.1
P/S	0.2	0.2	0.9	3.6	7.2	5.0	4.4	4.0	3.7
EV/Sales	0.4	0.5	1.1	3.7	6.9	4.7	3.9	3.3	2.7
EV/EBITDA	2.6	3.3	3.4	9.7	17.5	11.3	8.9	7.4	6.0
EV/EBIT (adj.)	2.5	3.3	4.1	10.2	18.7	12.1	9.5	7.8	6.4
Payout ratio (%)	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Dividend yield-%	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %

Source: Inderes



Peer group valuation

Peer group valuation Company	Share price	Market cap MEUR	EV MEUR	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%		P/B 2022e
				2022e	2023e	2022e	2023e	2022e	2023e	2022e	2023e	2022e	2023e	
Amdocs Ltd	68.34	7916	7670	12.5	12.5	9.9	9.7	2.2	2.2	14.2	13.1	2.0	2.2	2.4
CSG Systems International Inc	53.03	1529	1666							15.9	14.8			
Comarch SA	210.00	371	318	10.7	8.0	7.3	5.4	1.2	0.8	14.3	13.9	1.4	2.1	1.4
Sterlite Technologies Ltd	271.70	1272	1626	18.9	16.1	11.9	11.7	2.0	2.1	40.0	23.2	0.8	1.3	5.4
Tecnotree (Inderes)	1.21	386	361	12.1	9.5	11.3	8.9	4.7	3.9	16.2	13.6	0.0	0.0	4.6
Average				14.0	12.2	9.7	8.9	1.8	1.7	17.9	15.2	1.4	1.9	3.1
Median				12.5	12.5	9.9	9.7	2.0	2.1	14.3	13.9	1.4	2.1	2.4
Diff-% to median				-3%	-25%	14%	-9%	131%	81%	13%	-3%	-100%	-100%	93%

Source: Thomson Reuters / 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	Q1'22e	Q2'22e	Q3'22e	Q4'22e	2022e	2023e	2024e	2025e
Revenue	52.8	11.2	16.7	18.2	18.1	64.2	13.5	19.8	22.0	21.1	76.5	87.4	95.8	104
Group	52.8	11.2	16.7	18.2	18.1	64.2	13.5	19.8	22.0	21.1	76.5	87.4	95.8	104
EBITDA	20.3	3.4	7.9	7.6	6.4	25.3	4.5	9.1	10.0	8.3	31.9	38.2	42.7	47.1
Depreciation	-1.7	-0.3	-0.3	-0.5	-0.4	-1.6	-0.5	-0.5	-0.5	-0.5	-2.1	-2.3	-2.5	-2.7
EBIT (excl. NRI)	19.3	3.1	7.6	7.1	5.9	23.7	4.0	8.6	9.5	7.8	29.8	35.9	40.2	44.4
EBIT	18.6	3.1	7.6	7.1	5.9	23.7	4.0	8.6	9.5	7.8	29.8	35.9	40.2	44.4
Group	18.6	3.1	7.6	7.1	5.9	23.7	4.0	8.6	9.5	7.8	29.8	35.9	40.2	44.4
Net financial items	-2.7	-0.2	-1.3	-0.7	0.0	-2.2	0.0	0.0	0.0	0.0	0.0	-0.3	-0.3	-0.3
PTP	15.9	2.9	6.2	6.4	5.9	21.5	4.0	8.6	9.5	7.8	29.8	35.6	39.9	44.1
Taxes	-2.3	-0.5	-0.9	-1.1	-0.7	-3.1	-0.8	-1.7	-1.9	-1.6	-6.0	-7.1	-8.0	-8.8
Minority interest	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
Net earnings	13.6	2.4	5.3	5.4	5.3	18.4	3.2	6.9	7.6	6.2	23.8	28.5	32.0	35.3
EPS (adj.)	0.05	0.01	0.02	0.02	0.02	0.06	0.01	0.02	0.02	0.02	0.07	0.09	0.10	0.11
EPS (rep.)	0.05	0.01	0.02	0.02	0.02	0.06	0.01	0.02	0.02	0.02	0.07	0.09	0.10	0.11

Key figures	2020	Q1'21	Q2'21	Q3'21	Q4'21	2021	Q1'22e	Q2'22e	Q3'22e	Q4'22e	2022e	2023e	2024e	2025e
Revenue growth-%	12.3 %	14.3 %	17.6 %	24.7 %	27.5 %	21.6 %	20.5 %	18.8 %	20.9 %	16.8 %	19.1 %	14.3 %	9.6 %	8.5 %
Adjusted EBIT growth-%	48.5 %	34.8 %	30.2 %	2.9 %	37.8 %	22.7 %	27.9 %	13.4 %	34.0 %	31.1 %	25.9 %	20.4 %	12.1 %	10.4 %
EBITDA-%	38.4 %	30.5 %	47.2 %	41.9 %	35.2 %	39.4 %	33.3 %	45.8 %	45.6 %	39.3 %	41.8 %	43.7 %	44.6 %	45.3 %
Adjusted EBIT-%	36.6 %	27.7 %	45.2 %	39.0 %	32.7 %	36.9 %	29.4 %	43.2 %	43.2 %	36.8 %	39.0 %	41.1 %	42.0 %	42.7 %
Net earnings-%	25.7 %	21.4 %	31.9 %	29.6 %	29.1 %	28.7 %	23.5 %	34.5 %	34.6 %	29.4 %	31.2 %	32.6 %	33.4 %	33.9 %

Source: Inderes

Balance sheet

Assets	2020	2021	2022e	2023e	2024e
Non-current assets	7.3	13.1	15.4	18.2	21.0
Goodwill	0.0	0.0	0.0	0.0	0.0
Intangible assets	5.3	9.9	13.8	16.4	19.0
Tangible assets	0.5	0.4	0.6	0.8	1.0
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	1.0	2.2	1.0	1.0	1.0
Deferred tax assets	0.5	0.6	0.0	0.0	0.0
Current assets	43.3	66.2	82.3	109	141
Inventories	0.0	0.0	0.0	0.0	0.0
Other current assets	0.0	0.0	0.0	0.0	0.0
Receivables	35.3	48.6	57.4	62.9	69.0
Cash and equivalents	8.0	17.6	25.0	46.5	71.9
Balance sheet total	50.6	79.3	97.7	128	162

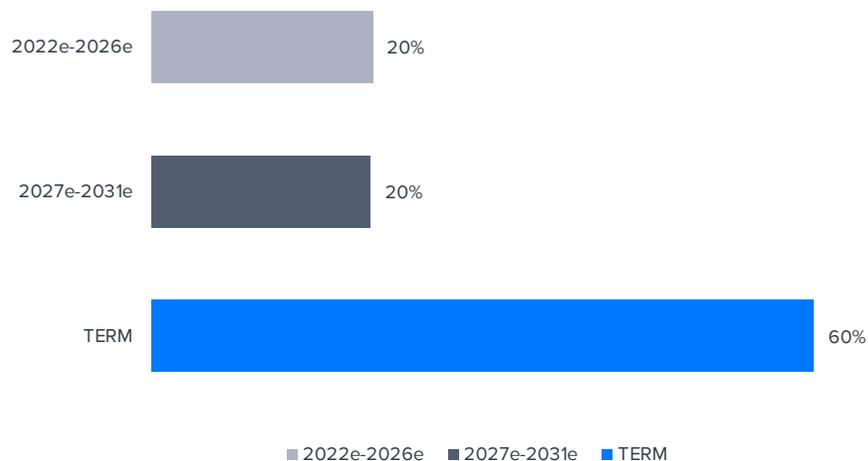
Source: Inderes

Liabilities & equity	2020	2021	2022e	2023e	2024e
Equity	19.9	67.7	84.3	113	145
Share capital	1.3	1.3	1.3	1.3	1.3
Retained earnings	18.7	37.1	60.9	89.4	121
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	-0.2	29.3	22.0	22.0	22.0
Minorities	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	18.8	2.7	2.7	2.7	2.7
Deferred tax liabilities	0.0	0.0	0.0	0.0	0.0
Provisions	0.0	0.0	0.0	0.0	0.0
Long term debt	12.4	0.0	0.0	0.0	0.0
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	6.4	2.7	2.7	2.7	2.7
Current liabilities	12.0	8.9	10.7	12.2	14.4
Short term debt	1.0	0.1	0.0	0.0	0.0
Payables	11.0	8.9	10.7	12.2	14.4
Other current liabilities	0.0	0.0	0.0	0.0	0.0
Balance sheet total	50.6	79.3	97.7	128	162

DCF calculation

DCF model	2021	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	TERM
EBIT (operating profit)	23.7	29.8	35.9	40.2	44.4	44.8	45.4	47.2	48.6	50.1	51.4	
+ Depreciation	1.6	2.1	2.3	2.5	2.7	3.5	4.3	5.0	5.1	5.2	5.2	
- Paid taxes	-3.2	-5.4	-7.1	-8.0	-8.8	-8.9	-9.0	-9.4	-9.7	-10.0	-10.3	
- Tax, financial expenses	-0.3	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	0.0	
+ 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	-15.5	-6.9	-4.0	-3.9	-1.5	-1.7	-2.3	-1.2	-0.6	-1.9	-1.6	
Operating cash flow	6.3	19.7	27.0	30.8	36.6	37.6	38.3	41.6	43.4	43.4	44.7	
+ Change in other long-term liabilities	-3.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-7.3	-5.0	-5.2	-5.2	-5.7	-5.7	-5.7	-5.7	-5.7	-5.4	-5.2	
Free operating cash flow	-4.7	14.7	21.8	25.6	30.9	31.9	32.6	35.9	37.7	38.0	39.5	
+/- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	-4.7	14.7	21.8	25.6	30.9	31.9	32.6	35.9	37.7	38.0	39.5	654
Discounted FCFF		13.7	18.7	20.2	22.5	21.3	20.1	20.3	19.6	18.2	17.4	288
Sum of FCFF present value		480	467	448	428	405	384	364	344	324	306	288
Enterprise value DCF		480										
- Interesting bearing debt		-0.1										
+ Cash and cash equivalents		17.6										
-Minorities		0.0										
-Dividend/capital return		0.0										
Equity value DCF		498										
Equity value DCF per share		1.56										
Wacc												
Tax-% (WACC)		25.0 %										
Target debt ratio (D/(D+E))		10.0 %										
Cost of debt		3.0 %										
Equity Beta		1.00										
Market risk premium		4.75%										
Liquidity premium		2.65%										
Risk free interest rate		2.0 %										
Cost of equity		9.4 %										
Weighted average cost of capital (WACC)		8.7 %										

Cash flow distribution



Summary

Income statement	2019	2020	2021	2022e	2023e	Per share data	2019	2020	2021	2022e	2023e
Revenue	47.0	52.8	64.2	76.5	87.4	EPS (reported)	0.03	0.05	0.06	0.07	0.09
EBITDA	15.4	20.3	25.3	31.9	38.2	EPS (adj.)	0.03	0.05	0.06	0.07	0.09
EBIT	14.4	18.6	23.7	29.8	35.9	OCF / share	0.02	0.05	0.02	0.06	0.08
PTP	11.8	15.9	21.5	29.8	35.6	FCF / share	0.01	0.02	-0.01	0.05	0.07
Net Income	7.7	13.6	18.4	23.8	28.5	Book value / share	0.01	0.07	0.22	0.26	0.35
Extraordinary items	1.4	-0.7	0.0	0.0	0.0	Dividend / share	0.00	0.00	0.00	0.00	0.00
Balance sheet	2019	2020	2021	2022e	2023e	Growth and profitability	2019	2020	2021	2022e	2023e
Balance sheet total	36.8	50.6	79.3	97.7	127.7	Revenue growth-%	12%	12%	22%	19%	14%
Equity capital	3.6	19.9	67.7	84.3	112.8	EBITDA growth-%	161%	32%	25%	26%	20%
Goodwill	0.0	0.0	0.0	0.0	0.0	EBIT (adj.) growth-%	120%	48%	23%	26%	20%
Net debt	10.6	5.4	-17.6	-25.0	-46.5	EPS (adj.) growth-%	-3598%	82%	14%	27%	19%
Cash flow	2019	2020	2021	2022e	2023e	EBITDA-%	32.8 %	38.4 %	39.4 %	41.8 %	43.7 %
EBITDA	15.4	20.3	25.3	31.9	38.2	EBIT (adj.)-%	27.7 %	36.6 %	36.9 %	39.0 %	41.1 %
Change in working capital	-6.6	-8.1	-15.5	-6.9	-4.0	EBIT-%	30.6 %	35.2 %	36.9 %	39.0 %	41.1 %
Operating cash flow	3.9	12.9	6.3	19.7	27.0	ROE-%	-472.4 %	116.2 %	42.0 %	31.4 %	28.9 %
CAPEX	-4.8	-3.6	-7.3	-5.0	-5.2	ROI-%	102.3 %	73.1 %	46.8 %	39.2 %	36.4 %
Free cash flow	2.4	5.8	-4.7	14.7	21.8	Equity ratio	9.9 %	39.3 %	85.4 %	86.3 %	88.3 %
						Gearing	292.2 %	27.1 %	-25.9 %	-29.6 %	-41.3 %
Valuation multiples	2019	2020	2021	2022e	2023e						
EV/S	1.1	3.7	6.9	4.7	3.9						
EV/EBITDA (adj.)	3.4	9.7	17.5	11.3	8.9						
EV/EBIT (adj.)	4.1	10.2	18.7	12.1	9.5						
P/E (adj.)	6.0	13.6	25.0	16.2	13.6						
P/B	11.7	9.7	6.8	4.6	3.4						
Dividend-%	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %						

Source: Inderes

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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
30-03-21	Buy	0.68 €	0.56 €
30-04-21	Buy	0.92 €	0.77 €
31-05-21	Buy	1.00 €	0.86 €
13-08-21	Accumulate	1.54 €	1.39 €
12-10-21	Buy	1.54 €	1.14 €
01-11-21	Accumulate	1.70 €	1.52 €
03-12-21	Buy	1.70 €	1.29 €
28-02-22	Buy	1.50 €	1.21 €

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Inderes Oyj

Itämerentori 2

FI-00180 Helsinki, Finland

+358 10 219 4690

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Juha Kinnunen
2012, 2016, 2017, 2018, 2019, 2020



Mikael Rautanen
2014, 2016, 2017, 2019



Sauli Vilén
2012, 2016, 2018, 2019, 2020



Antti Viljakainen
2014, 2015, 2016, 2018, 2019, 2020



Petri Kajaani
2017, 2019, 2020



Joni Grönqvist
2019, 2020



Erkki Vesola
2018, 2020



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