

Exel Composites

Company report

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Aapeli Pursimo
+358 40 719 6067
aapeli.pursimo@inderes.fi

✓ Inderes corporate customer

This report is a summary translation of the report "Alkuvuosi jäämässä pehmeäksi" published on 02/20/2023 at 8:30 am

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res.**

H1 expected to be soft

Exel published a Q4 report that was softer than our expectations in terms of revenue and EBIT. In connection with the report, Exel issued its guidance for the current year, which is quite well in line with our pre-report expectations. However, in light of comments, H1'23 will be soft, which means the company will have some catching up to do in H2. Based on the guidance and company comments our operational estimate changes were minor. Despite short-term uncertainty, we feel the valuation of Exel's share is moderate and thus we reiterate our Accumulate recommendation and EUR 6.0 target price.

Q4 report fell short of our expectations due to weaker demand

Exel's revenue decreased by 15% from y-o-y and was below our estimate of a 7% drop. According to the company, the drop was driven by weaker demand in several customer industries and in particular the development of Wind Power (-34%). Revenue also decreased clearly y-o-y in Equipment and Other industries (-39%) and Defense (-22%). Buildings and Infrastructure (-4%) and Machinery and Electrical (+5%) were roughly at the level of the comparison period. Adjusted EBIT for Q4 was EUR 0.9 million, which was below our EUR 1.9 million estimate. The clear estimate under-shoot was caused by the lower-than-expected revenue level and slightly higher cost structure. The reported result, in turn, was mainly depressed by the non-recurring costs from [an agreement](#) with a wind energy client from unrealized deliveries in 2021. In addition, the completion of [selling](#) the Chinese factory moved to Q1. In the bottom rows, income was significantly reduced by non-cash-flow-related net financial expenses (cf. supported result in Q2-Q3), which resulted in EPS being heavily in the red. The dividend proposal was at the level of the comparison period at EUR 0.20 per share. The company also [announced](#) that the new CEO Paul Sohlberg will start in the position on 03/20.

Only minor adjustments to estimates based on guidance and comments

Exel expects its 2023 revenue to be at the previous year's level (2022: 137 MEUR) and adjusted EBIT to grow from 2022 (8.0 MEUR). Considering Q4 that was operationally below our estimates, the guidance is pretty well in line with our pre-report expectations. According to Exel, there is uncertainty concerning short-term demand development due to the general macro-economic situation especially in terms of wind power which was also reflected in the order book at the end of Q4 (29 MEUR). The company expects demand to be more subdued in H1, but is quite confident that the speed will accelerate during H2. In light of this, we expect the company to have some catching up to do in H2 to reach its guidance. Considering the guidance and company comments, we only made minor adjustments to our operational estimates and expect Exel's revenue to be EUR 135 million in 2023 (previous 136 MEUR) and adjusted EBIT to be EUR 8.7 million (previous 9.1 MEUR). Estimate changes for the next few years are also minor.

Valuation is quite reasonable despite short-term uncertainty

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

Recommendation

Accumulate

(previous Accumulate)

EUR 6.00

(previous EUR 6.00)

Share price:

5.10



Key figures

	2022	2023e	2024e	2025e
Revenue	137	135	145	152
growth-%	2%	-2%	8%	5%
EBIT adj.	8.0	8.7	10.4	11.3
EBIT-% adj.	5.9 %	6.5 %	7.2 %	7.4 %
Net Income	2.3	6.4	6.3	7.0
EPS (adj.)	0.61	0.45	0.53	0.59

P/E (adj.)	8.8	11.5	9.6	8.6
P/B	2.2	1.8	1.6	1.4
Dividend yield-%	3.7 %	4.3 %	4.5 %	4.7 %
EV/EBIT (adj.)	12.0	10.4	8.5	7.5
EV/EBITDA	6.7	6.1	5.3	4.8
EV/S	0.7	0.7	0.6	0.6

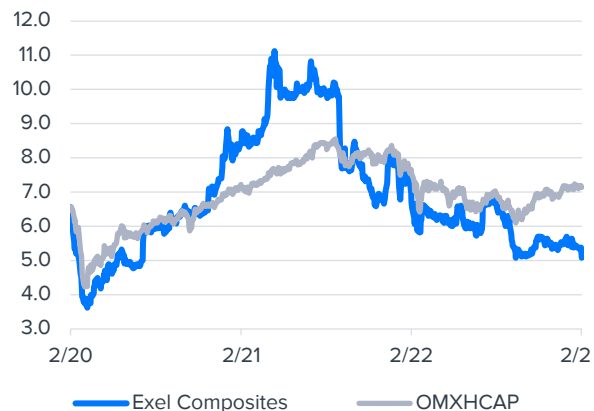
Source: Inderes

Guidance

(New guidance)

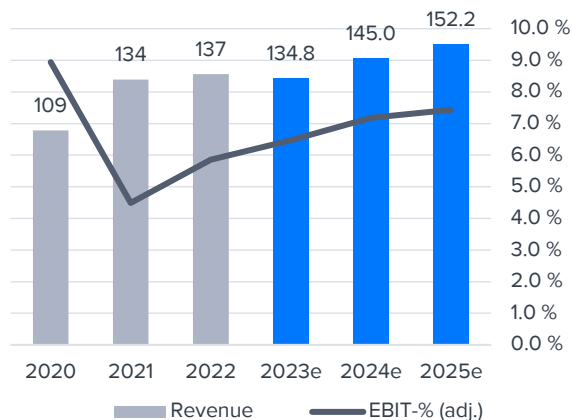
Exel Composites expects that revenue in 2023 will be at last year's level (2022: 137 MEUR) and adjusted operating profit will improve from 2022 (2022: 8.0 MEUR).

Share price



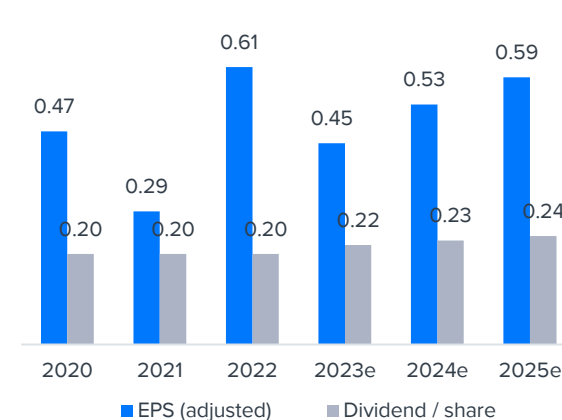
Source: Millstream Market Data AB

Revenue and EBIT %



Source: Inderes

EPS and dividend



Source: Inderes



Value drivers

- Growing composite market creates a good base for organic growth
- 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	2023e	2024e	2025e
Share price	5.10	5.10	5.10
Number of shares, millions	11.9	11.9	11.9
Market cap	61	61	61
EV	91	89	85
P/E (adj.)	11.5	9.6	8.6
P/E	9.5	9.6	8.6
P/FCF	10.4	10.8	8.2
P/B	1.8	1.6	1.4
P/S	0.4	0.4	0.4
EV/Sales	0.7	0.6	0.6
EV/EBITDA	6.1	5.3	4.8
EV/EBIT (adj.)	10.4	8.5	7.5
Payout ratio (%)	40.9 %	43.3 %	40.6 %
Dividend yield-%	4.3 %	4.5 %	4.7 %

Source: Inderes

Estimates and estimate changes

Estimates MEUR / EUR	Q4'21	Q4'22	Q4'22e	Q4'22e	Consensus		Difference (%)	2022
	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. inderes	Actualized
Revenue	36.5	31.0	33.9				-9%	137
EBIT (adj.)	1.0	0.9	1.9				-52%	8.0
EBIT	0.6	-1.7	4.5				-138%	3.0
EPS (reported)	0.04	-0.32	0.19				-268%	0.19
DPS	0.20	0.20	0.22				-9%	0.20
Revenue growth-%	32.7 %	-15.1 %	-7.0 %				-8.1 pp	1.9 %
EBIT-% (adj.)	2.8 %	3.0 %	5.6 %				-2.7 pp	5.9 %

Source: Inderes

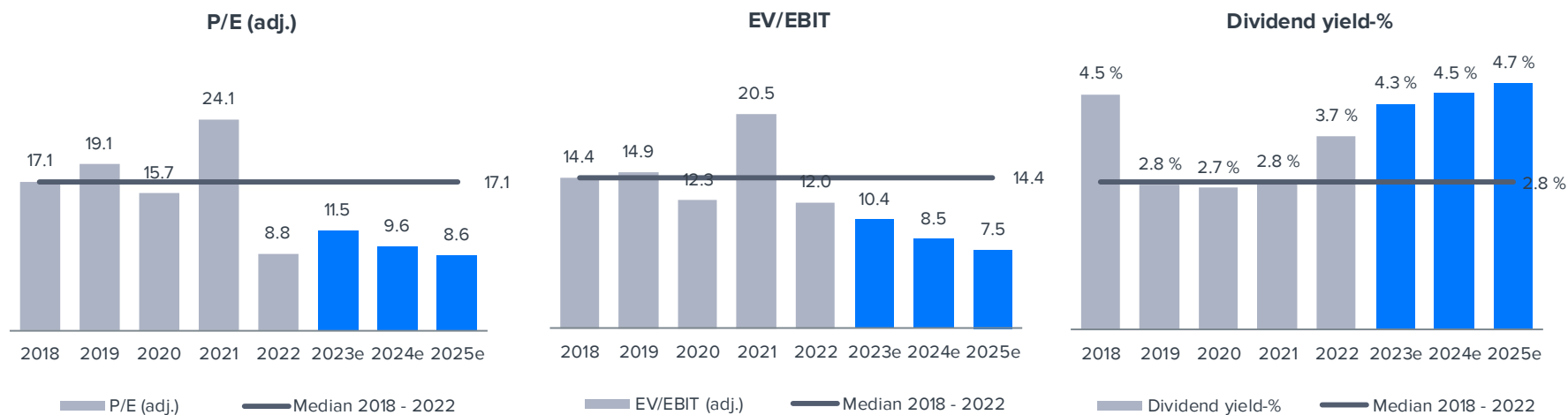
Estimate revisions MEUR / EUR	2022	2022e	Change	2023e	2023e	Change	2024e	2024e	Change
	Actualized	New	%	Old	New	%	Old	New	%
Revenue	140	137	-2%	136	135	-1%	147	145	-1%
EBITDA	16.2	10.1	-37%	11.5	17.5	53%	17.0	16.9	0%
EBIT (exc. NRIs)	9.0	8.0	-11%	9.1	8.7	-4%	10.3	10.4	1%
EBIT	9.2	3.0	-67%	5.0	9.8	98%	10.3	10.4	1%
PTP	11.7	3.6	-69%	3.4	8.2	144%	8.8	8.9	1%
EPS (excl. NRIs)	0.68	0.61	-10%	0.49	0.45	-9%	0.53	0.53	1%
DPS	0.22	0.20	-9%	0.24	0.22	-8%	0.27	0.23	-15%

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	5.10	5.10	5.10	5.10
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	61	61	61	61
EV	72	107	119	124	97	91	89	85	82
P/E (adj.)	17.1	19.1	15.7	24.1	8.8	11.5	9.6	8.6	8.1
P/E	>100	32.0	16.4	50.9	28.1	9.5	9.6	8.6	8.1
P/FCF	neg.	20.1	24.2	neg.	7.3	10.4	10.8	8.2	8.5
P/B	1.8	2.9	3.0	2.8	2.2	1.8	1.6	1.4	1.3
P/S	0.5	0.7	0.8	0.6	0.5	0.4	0.4	0.4	0.4
EV/Sales	0.7	1.0	1.1	0.9	0.7	0.7	0.6	0.6	0.5
EV/EBITDA	7.8	10.0	7.8	10.3	6.7	6.1	5.3	4.8	4.5
EV/EBIT (adj.)	14.4	14.9	12.3	20.5	12.0	10.4	8.5	7.5	6.9
Payout ratio (%)	554.7 %	88.8 %	44.3 %	143.3 %	103.8 %	40.9 %	43.3 %	40.6 %	41.4 %
Dividend yield-%	4.5 %	2.8 %	2.7 %	2.8 %	3.7 %	4.3 %	4.5 %	4.7 %	5.1 %

Source: Inderes



Income statement

Income statement	2021	Q1'22	Q2'22	Q3'22	Q4'22	2022	Q1'23e	Q2'23e	Q3'23e	Q4'23e	2023e	2024e	2025e	2026e
Revenue	134	34.2	38.1	33.8	31.0	137	29.9	33.3	36.5	35.2	135	145	152	158
Group	134	34.2	38.1	33.8	31.0	137	29.9	33.3	36.5	35.2	135	145	152	158
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	11.9	1.8	4.8	3.4	0.2	10.1	4.6	3.9	4.8	4.3	17.5	16.9	17.8	18.3
Depreciation	-8.2	-1.7	-1.8	-1.7	-1.9	-7.1	-2.8	-1.7	-1.7	-1.6	-7.7	-6.5	-6.5	-6.4
EBIT (excl. NRI)	6.0	2.2	3.1	1.8	0.9	8.0	0.7	2.2	3.1	2.7	8.7	10.4	11.3	11.9
EBIT	3.7	0.0	3.0	1.7	-1.7	3.0	1.8	2.2	3.1	2.7	9.8	10.4	11.3	11.9
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
Net financial items	0.4	0.5	1.9	1.5	-3.4	0.6	-0.4	-0.4	-0.4	-0.4	-1.6	-1.5	-1.3	-1.1
PTP	4.2	0.5	4.9	3.2	-5.1	3.6	1.4	1.8	2.7	2.3	8.2	8.9	10.0	10.8
Taxes	-2.5	-0.6	-0.9	-1.2	1.3	-1.5	-0.3	-0.4	-0.5	-0.5	-1.7	-2.4	-2.7	-2.9
Minority interest	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	-0.1	-0.1	-0.2	-0.2	-0.3	-0.4
Net earnings	1.7	0.0	4.0	2.1	-3.8	2.3	1.1	1.4	2.1	1.8	6.4	6.3	7.0	7.5
EPS (adj.)	0.29	0.13	0.35	0.19	-0.05	0.61	0.00	0.12	0.18	0.15	0.45	0.53	0.59	0.63
EPS (rep.)	0.14	0.00	0.34	0.18	-0.32	0.19	0.09	0.12	0.18	0.15	0.54	0.53	0.59	0.63
Key figures	2021	Q1'22	Q2'22	Q3'22	Q4'22	2022	Q1'23e	Q2'23e	Q3'23e	Q4'23e	2023e	2024e	2025e	2026e
Revenue growth-%	23.7 %	10.3 %	13.5 %	1.2 %	-15.1 %	1.9 %	-12.5 %	-12.5 %	8.0 %	13.5 %	-1.6 %	7.5 %	5.0 %	4.0 %
Adjusted EBIT growth-%	-37.8 %	-11.7 %	27.1 %	1580.6 %	-9.4 %	33.0 %	-68.1 %	-28.6 %	73.2 %	190.9 %	8.8 %	19.1 %	8.8 %	4.8 %
EBITDA-%	8.9 %	5.2 %	12.5 %	10.1 %	0.5 %	7.4 %	15.4 %	11.7 %	13.1 %	12.1 %	13.0 %	11.7 %	11.7 %	11.5 %
Adjusted EBIT-%	4.5 %	6.4 %	8.2 %	5.4 %	3.0 %	5.9 %	2.3 %	6.7 %	8.6 %	7.6 %	6.5 %	7.2 %	7.4 %	7.5 %
Net earnings-%	1.2 %	-0.1 %	10.6 %	6.2 %	-12.2 %	1.7 %	3.6 %	4.3 %	5.9 %	5.0 %	4.7 %	4.4 %	4.6 %	4.7 %

Source: Inderes

Balance sheet

Assets	2021	2022	2023e	2024e	2025e
Non-current assets	51.9	47.9	46.2	46.8	47.4
Goodwill	12.8	13.0	11.9	11.9	11.9
Intangible assets	2.8	2.2	2.2	2.3	2.3
Tangible assets	34.3	30.9	30.3	30.8	31.3
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	60.3	63.4	65.8
Inventories	23.9	23.4	20.9	22.5	22.8
Other current assets	0.0	1.1	0.0	0.0	0.0
Receivables	26.3	23.3	25.9	27.8	29.2
Cash and equivalents	15.6	17.4	13.5	13.0	13.7
Balance sheet total	118	113	107	110	113

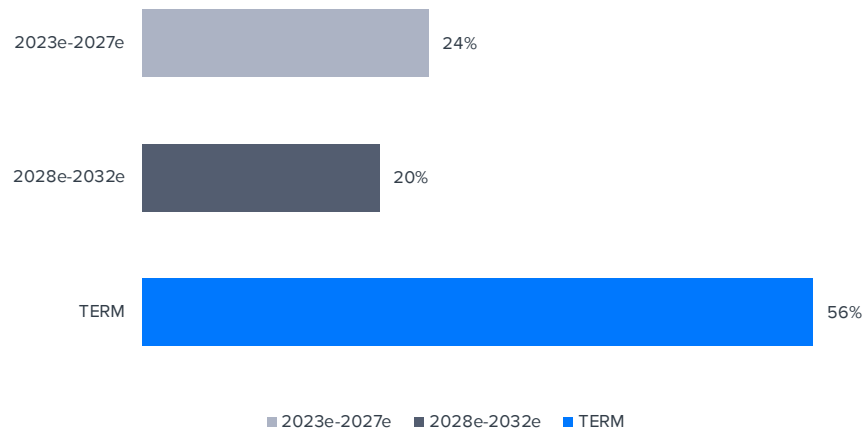
Source: Inderes

Liabilities & equity	2021	2022	2023e	2024e	2025e
Equity	31.2	30.4	34.4	38.1	42.4
Share capital	2.1	2.1	2.1	2.1	2.1
Retained earnings	21.9	21.0	25.0	28.7	33.0
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	15.0	16.5	17.3
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	13.2	14.6	15.4
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	57.1	55.6	53.5
Short term debt	37.4	35.0	29.4	25.8	22.3
Payables	32.0	26.2	27.6	29.7	31.2
Other current liabilities	0.0	6.1	0.0	0.0	0.0
Balance sheet total	118	113	107	110	113

DCF calculation

DCF model	2022	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	TERM
Revenue growth-%	1.9 %	-1.6 %	7.5 %	5.0 %	4.0 %	3.0 %	2.5 %	2.5 %	2.0 %	2.0 %	2.0 %	2.0 %
EBIT-%	2.2 %	7.3 %	7.2 %	7.4 %	7.5 %	7.3 %	7.1 %	7.0 %	7.0 %	7.0 %	7.0 %	7.0 %
EBIT (operating profit)	3.0	9.8	10.4	11.3	11.9	11.9	11.9	12.0	12.2	12.5	12.7	
+ Depreciation	7.1	7.7	6.5	6.5	6.4	6.4	6.5	6.6	6.7	6.8	6.8	
- Paid taxes	-1.3	-1.7	-2.4	-2.7	-2.9	-2.8	-2.8	-2.9	-2.9	-3.0	-3.1	
- Tax, financial expenses	0.1	-0.3	-0.4	-0.4	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-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	2.8	-3.7	-1.4	-0.3	-0.8	-0.3	-0.4	-0.2	-0.5	-0.5	-0.5	
Operating cash flow	11.8	11.9	12.7	14.5	14.2	14.9	14.9	15.3	15.3	15.5	15.7	
+ 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	-7.1	-7.1	-7.1	-7.2	-6.9	-6.9	
Free operating cash flow	8.8	5.8	5.6	7.4	7.2	7.8	7.9	8.2	8.1	8.7	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	8.8	5.8	5.6	7.4	7.2	7.8	7.9	8.2	8.1	8.7	8.8	139
Discounted FCFF		5.4	4.8	5.9	5.2	5.3	4.9	4.7	4.3	4.2	3.9	62.2
Sum of FCFF present value		111	105	101	94.7	89.5	84.2	79.3	74.6	70.3	66.1	62.2
Enterprise value DCF		111										
- Interesting bearing debt		-48.5										
+ Cash and cash equivalents		17.4										
-Minorities		-0.8										
-Dividend/capital return		0.0										
Equity value DCF		78.9										
Equity value DCF per share		6.6										

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	2020	2021	2022	2023e	2024e	Per share data	2020	2021	2022	2023e	2024e
Revenue	108.6	134.4	137.0	134.8	145.0	EPS (reported)	0.45	0.14	0.19	0.54	0.53
EBITDA	15.3	11.9	10.1	17.5	16.9	EPS (adj.)	0.47	0.29	0.61	0.45	0.53
EBIT	9.4	3.7	3.0	9.8	10.4	OCF / share	1.26	0.41	0.99	1.00	1.06
PTP	7.1	4.2	3.6	8.2	8.9	FCF / share	0.30	-0.61	0.74	0.49	0.47
Net Income	5.4	1.7	2.3	6.4	6.3	Book value / share	2.43	2.57	2.52	2.85	3.17
Extraordinary items	-0.3	-2.3	-5.0	1.1	0.0	Dividend / share	0.20	0.20	0.20	0.22	0.23
Balance sheet	2020	2021	2022	2023e	2024e	Growth and profitability	2020	2021	2022	2023e	2024e
Balance sheet total	96.8	117.7	113.1	106.5	110.1	Revenue growth-%	5%	24%	2%	-2%	8%
Equity capital	28.9	31.2	30.4	34.4	38.1	EBITDA growth-%	43%	-22%	-15%	73%	-4%
Goodwill	12.6	12.8	13.0	11.9	11.9	EBIT (adj.) growth-%	35%	-38%	33%	9%	19%
Net debt	31.2	37.4	31.1	29.1	27.4	EPS (adj.) growth-%	38%	-38%	109%	-27%	19%
Cash flow	2020	2021	2022	2023e	2024e	EBITDA-%	14.1 %	8.9 %	7.4 %	13.0 %	11.7 %
EBITDA	15.3	11.9	10.1	17.5	16.9	EBIT (adj.)-%	8.9 %	4.5 %	5.9 %	6.5 %	7.2 %
Change in working capital	2.4	-4.8	2.8	-3.7	-1.4	EBIT-%	8.7 %	2.8 %	2.2 %	7.3 %	7.2 %
Operating cash flow	14.9	4.8	11.8	11.9	12.7	ROE-%	19.5 %	5.6 %	7.6 %	20.0 %	17.6 %
CAPEX	-11.7	-12.2	-3.2	-6.1	-7.1	ROI-%	13.9 %	4.8 %	3.7 %	12.6 %	13.4 %
Free cash flow	3.6	-7.2	8.8	5.8	5.6	Equity ratio	29.8 %	26.5 %	26.9 %	32.3 %	34.6 %
						Gearing	107.9 %	119.9 %	102.4 %	84.7 %	72.0 %
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	6.1	5.3						
EV/EBIT (adj.)	12.3	20.5	12.0	10.4	8.5						
P/E (adj.)	15.7	24.1	8.8	11.5	9.6						
P/E	3.0	2.8	2.2	1.8	1.6						
Dividend-%	2.7 %	2.8 %	3.7 %	4.3 %	4.5 %						

Source: Inderes

Disclaimer and recommendation history

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Recommendation history (>12 mo)

Date	Recommendation	Target price	Share price
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>Analyst changed</i>			
21-07-22	Accumulate	7.00 €	6.00 €
28-09-22	Accumulate	6.00 €	5.30 €
04-11-22	Accumulate	6.00 €	5.20 €
15-02-23	Accumulate	6.00 €	5.32 €
20-02-23	Accumulate	6.00 €	5.10 €



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Itämerentori 2

FI-00180 Helsinki, Finland

+358 10 219 4690

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