

Incap

Company report

2/23/2024



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✓ Inderes corporate customer

This report is a summary translation of the report "Raportti poisti reilusti riskiä osakkeen ympäriltä" published on 2/23/2024 at 9:02 am EET.

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res.**

Report significantly reduces risk around the stock

We reiterate our Accumulate recommendation for Incap and raise our target price to EUR 9.00 (was EUR 8.00). The negative surprise element that we had flagged in our pre-comment on Incap's outlook materialized and we lowered our forecasts for the company quite significantly, especially for this year. On the other hand, the strong profitability in Q4, the solid cash flow in H2 and the comments on the quarterly turnaround, as well as the decline in the revenue share of the largest customer have, in our view, also removed a fair amount of risk from the stock. With the current structure, we believe that a slightly higher valuation for Incap is acceptable and that the trend in growth and earnings growth should also turn upward on a yearly basis in H2. As a result, we still believe that the share's expected return remains attractive both on a one-year horizon and especially in the medium term.

Year-end better than expected

Incap's revenue decreased by 56% to 42 MEUR in Q4. In organic terms, the decline was even steeper, as the July Pennatronics acquisition probably increased the Q4 revenue by almost 20%. Incap continued to reduce production at its Indian plant in Q4 in order to reduce inventories at its largest customer, and the revenue from the largest customer in Q4 was at a very low level of less than 10 MEUR. In Q4, Incap's adjusted EBIT decreased by nearly 43% year-on-year to 4.4 MEUR due to the decline in revenue. The decline was smaller than expected due to cost reduction measures, and Incap's adjusted EBIT margin of 10.4% achieved in Q4 is a level that most industry peers can only dream of even in a peak cycle. This makes Q4 another compelling demonstration of Incap's strengths. On the lower lines, taxes, financial expenses and one-offs slightly exceeded our estimates, which is why EPS was within our forecast. Cash flow, on the other hand, accelerated significantly in H2, as working capital was released as expected after the decline in revenue.

Short-term forecasts down

Incap's guidance for the current year is that revenue and EBIT in 2024 will decrease from 2023. Last year, Incap made an EBIT of 28 MEUR with revenue of 222 MEUR. We had expected growth and a stable result this year, so the risk of a disappointing guidance that we had flagged in advance materialized. However, this was partly offset by the fact that, based on the comments, Q4 was the bottom quarter and, apart from the Indian factory serving the largest customer, revenue from all factories is expected to grow this year. As a result, the business base seems to have firmed up, even if earnings are gaining momentum from below our forecasts and hopes for a rapid recovery in volumes from the largest customer are also fading. We cut our revenue forecasts for 2024-2025 by 11% and 7% and our revenue-driven adjusted EBIT forecasts by 20% and 7%. We expect Incap to achieve an adjusted EBIT of 23 MEUR on a revenue of 212 MEUR this year. In the coming years, Incap should have a good capacity for organic growth due to its competitive position, and we expect an average revenue-driven adjusted EPS growth of around 20% for the period 2025-2027.

In our view, higher multiples could be justified for to the stock given the lower risk level

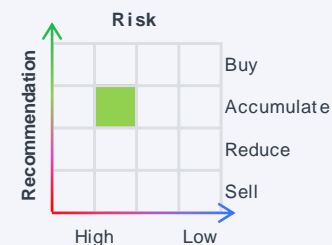
Incap's adjusted P/E ratios for 2024 and 2025 based on our estimates are 14x and 10x, and the corresponding EV/EBIT ratios are 9x and 6x. The multiples are close to the company's low historical levels. We now accept a slightly higher valuation for the company than historical levels, as our forecast for the coming years shows Incap's customer base to be significantly more stable than in recent history. For this reason, and given the excellent profitability in the industry context, we believe that a relative premium can also be applied to Incap, while the current earnings-based valuation is in line with peers. The DCF is also well above the current share price and our target price.

Recommendation

Accumulate
(previous Accumulate)

EUR 9.00
(previous EUR 8.00)

Share price:
EUR 7.84



Key figures

	2023	2024e	2025e	2026e
Revenue	221.6	210.0	241.5	277.7
growth-%	-16%	-5%	15%	15%
EBIT adj.	30.6	23.3	30.0	34.8
EBIT-% adj.	13.8 %	11.1 %	12.4 %	12.5 %
Net Income	19.8	16.2	21.6	25.4
EPS (adj.)	0.75	0.56	0.76	0.89

P/E (adj.)	10.4	14.1	10.3	8.8
P/B	2.1	1.9	1.6	1.4
Dividend yield-%	0.0 %	0.0 %	0.0 %	0.0 %
EV/EBIT (adj.)	7.2	8.7	6.3	5.0
EV/EBITDA	6.7	7.2	5.5	4.3
EV/S	1.0	1.0	0.8	0.6

Source: Inderes

Guidance

(Unchanged)

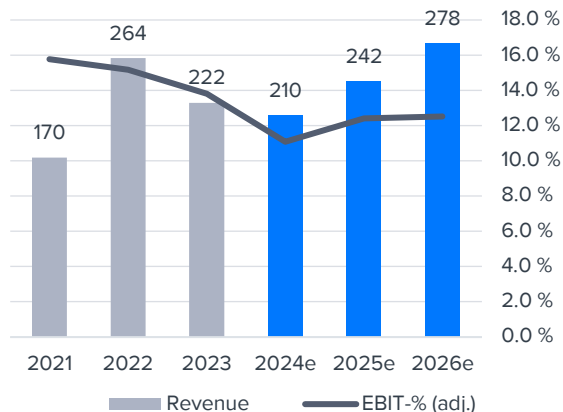
Incap estimates that its revenue and EBIT for 2024 will be lower than in 2023

Share price



Source: Millstream Market Data AB

Revenue and EBIT-%



Source: Inderes

EPS and dividend



Source: Inderes



Value drivers

- Organic growth in the electronics market, supported by global megatrends and increased outsourcing rate
- Light organization and cost structure enable a high profitability level
- Quick decision-making supports new customer procurement
- Accelerating growth with acquisitions
- Cross-selling potential created by the Pennatronics acquisition



Risk factors

- Mutually challenging value chain position upholds a brutal competitive situation
- Cyclical or volatile nature of customer industries
- Tightening competitive situation
- Company's cost efficiency deteriorating
- Supply chain disruptions
- Risk related to individual customers still elevated

Valuation	2024e	2025e	2026e
Share price	7.84	7.84	7.84
Number of shares, million	29.4	29.4	29.4
Market cap	231	231	231
EV	203	189	172
P/E (adj.)	14.1	10.3	8.8
P/E	14.3	10.7	9.1
P/B	1.9	1.6	1.4
P/S	1.1	1.0	0.8
EV/Sales	1.0	0.8	0.6
EV/EBITDA	7.2	5.5	4.3
EV/EBIT (adj.)	8.7	6.3	5.0
Payout ratio (%)	0.0 %	0.0 %	0.0 %
Dividend yield-%	0.0 %	0.0 %	0.0 %

Source: Inderes

Estimates and estimate revisions

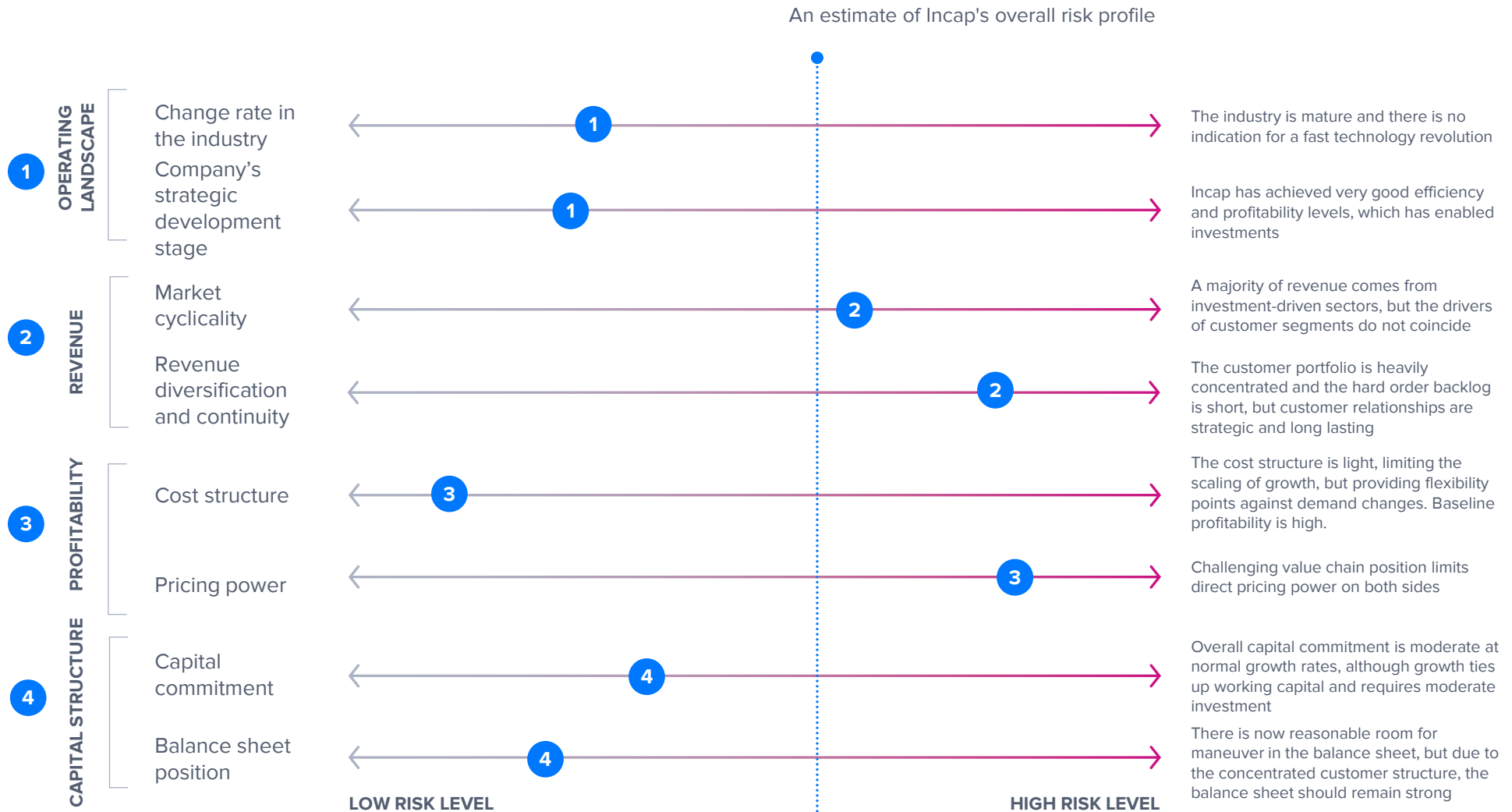
Estimates MEUR / EUR	Q4'22	Q4'23	Q4'23e	Q4'23e	Consensus		Difference (%)	2023
	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. inderes	Toteutunut
Revenue	78.7	42.4	37.5				13%	222
EBIT (adj.)	13.4	4.4	2.1				107%	30.6
EBIT	12.7	3.7	2.0				90%	28.2
PTP	12.2	2.4	1.6				55%	26.4
EPS (reported)	0.30	0.04	0.04				10%	0.68
DPS	0.00	0.00	0.00					0.00
Revenue growth-%	52.8 %	-46.1 %	-52.3 %				6.2 pp	-16.0 %
EBIT-% (adj.)	17.0 %	10.4 %	5.7 %				4.7 pp	13.8 %

Source: Inderes

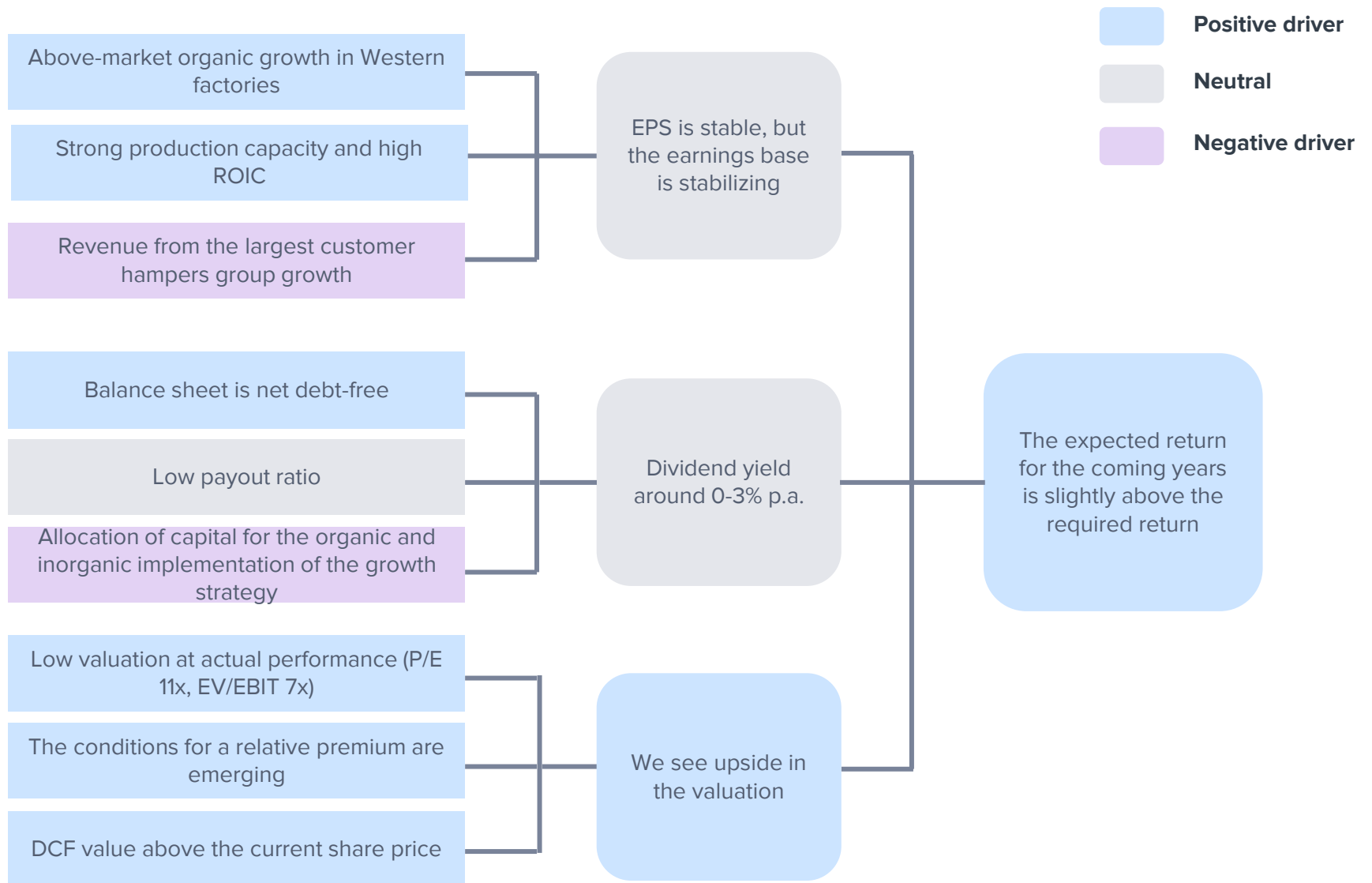
Estimate revisions MEUR / EUR	2023	2023	Change	2024e	2024e	Change	2025e	2025e	Change
	Old	Toteutunut	%	Vanha	Uusi	%	Vanha	Uusi	%
Revenue	217	222	2%	236	210	-11%	260	242	-7%
EBITDA	31.4	32.8	5%	33.8	28.2	-17%	36.8	34.5	-6%
EBIT	26.5	28.2	7%	28.3	22.8	-20%	31.3	29.0	-7%
PTP	25.6	26.4	3%	27.1	21.6	-20%	30.4	28.4	-7%
EPS (excl. NRIs)	0.72	0.75	3%	0.71	0.56	-21%	0.80	0.76	-5%
DPS	0.00	0.00		0.00	0.00		0.00	0.00	

Source: Inderes

Risk profile of the business model



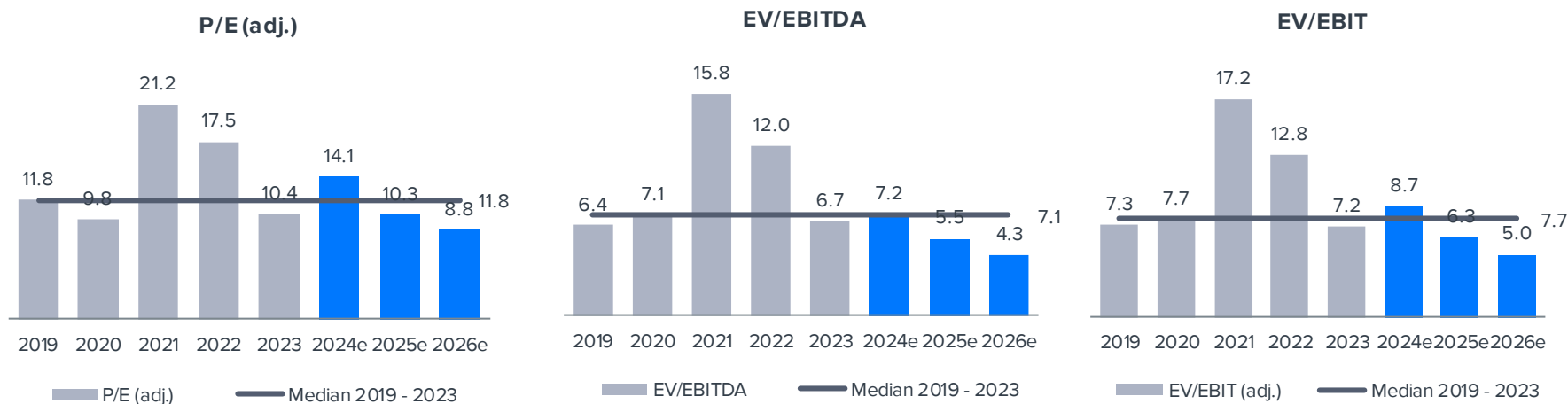
TSR drivers 2024-2027e



Valuation table

Valuation	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Share price	3.38	3.69	15.70	17.10	7.75	7.84	7.84	7.84	7.84
Number of shares, millions	21.9	29.1	29.2	29.3	29.3	29.4	29.4	29.4	29.4
Market cap	74	107	459	500	228	231	231	231	231
EV	73	113	461	514	220	203	189	172	151
P/E (adj.)	11.8	9.8	21.2	17.5	10.4	14.1	10.3	8.8	7.8
P/E	11.8	11.6	21.8	18.1	11.5	14.3	10.7	9.1	8.0
P/B	3.4	2.8	7.3	5.7	2.1	1.9	1.6	1.4	1.2
P/S	1.0	1.0	2.7	1.9	1.0	1.1	1.0	0.8	0.8
EV/Sales	1.0	1.1	2.7	1.9	1.0	1.0	0.8	0.6	0.5
EV/EBITDA	6.4	7.1	15.8	12.0	6.7	7.2	5.5	4.3	3.5
EV/EBIT (adj.)	7.3	7.7	17.2	12.8	7.2	8.7	6.3	5.0	3.9
Payout ratio (%)	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	20.0 %
Dividend yield-%	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	2.5 %

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	2024e	2025e	2024e	2025e	2024e	2025e	2024e	2025e	2024e	2025e	2024e
Cicor Technologies	183	311	11.1	9.7	6.2	5.6	0.7	0.6	15.9	12.6			1.2
Integrated Micro-Electronics	92	347	13.6	10.4	5.3	4.5	0.2	0.2	4.5				0.2
Data Modul	139	158	6.5	5.3	5.8	4.9	0.6	0.6	10.8	9.7	0.3	0.3	0.8
Hanza	255	286	12.6	9.0	5.0	4.3	0.4	0.4	10.1	8.1	2.5	3.0	1.1
Kitron	610	738	10.8	9.7	8.5	7.7	1.0	0.9	13.4	10.9	2.9	3.4	3.0
Lacroix Group SA	134	286	11.5	8.2	5.9	4.8	0.4	0.4	10.3	6.4	2.9	4.7	0.7
Jabil	16180	17408	11.4	10.5	7.6	7.2	0.6	0.6	15.2	12.9	0.2	0.2	8.9
Scanfil	500	581	9.6	9.1	7.2	6.8	0.7	0.6	10.8	10.1	3.3	3.5	1.7
Fabrinet	6330	5642	20.6	18.2	17.5	15.8	2.1	1.9	22.6	20.0			4.0
Hana Microelectronics	983	897	13.7	11.5	7.6	6.8	1.2	1.1	14.2	12.5	3.4	3.8	1.2
SVI	375	444	13.5	11.4	10.2	9.1	0.7	0.6	12.1	10.8	2.6	2.7	1.0
TT Electronics	308	463	7.0	6.6	5.3	5.1	0.6	0.6	7.3	6.5	4.8	5.4	0.8
Katek Se	213	261	9.9	5.8	4.9	3.6	0.3	0.3	15.9	8.0			1.2
Nolato AB	1053	1158	15.5	13.1	9.2	8.4	1.4	1.3	18.6	15.6	3.8	4.4	2.2
Celestica	4094	4468	9.9	9.1	7.6	7.1	0.6	0.5	12.8	11.7			
Incap (Inderes)	231	203	8.7	6.3	7.2	5.5	1.0	0.8	14.1	10.3	0.0	0.0	1.9
Average			11.8	9.8	7.6	6.8	0.8	0.7	13.0	11.1	2.7	3.2	2.0
Median			11.4	9.7	7.2	7.2	0.6	0.6	12.8	10.8	2.9	3.5	1.2
<i>Diff.% to median</i>			-24%	-35%	0%	-24%	54%	28%	10%	-5%	-100%	-100%	55%

Source: Refinitiv / Inderes

Income statement

Income statement	H1'22	H2'22	2022	H1'23	H2'23	2023	H1'24e	H2'24e	2024e	2025e	2026e	2027e
Revenue	115	149	264	129	92.5	222	95.0	115	210	242	278	305
Incap	115	149	264	129	92.5	222	95.0	115	210	242	278	305
EBITDA	17.2	25.6	42.8	21.0	11.8	32.8	11.6	16.5	28.2	34.5	39.7	43.8
Depreciation	-1.8	-2.0	-3.8	-2.2	-2.4	-4.6	-2.7	-2.7	-5.4	-5.5	-5.9	-6.1
EBIT (excl. NRI)	15.6	24.4	40.0	19.8	10.8	30.6	9.2	14.1	23.3	30.0	34.8	38.7
EBIT	15.4	23.6	39.0	18.8	9.4	28.2	8.9	13.8	22.8	29.0	33.8	37.7
Net financial items	-0.8	-1.5	-2.3	-0.5	-1.3	-1.8	-0.7	-0.5	-1.2	-0.6	-0.4	0.3
PTP	14.6	22.1	36.7	18.3	8.1	26.4	8.2	13.3	21.6	28.4	33.4	38.0
Taxes	-3.4	-5.7	-9.0	-4.2	-2.4	-6.6	-2.1	-3.3	-5.4	-6.8	-8.0	-9.1
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
Net earnings	11.2	16.4	27.6	14.1	5.8	19.8	6.2	10.0	16.2	21.6	25.4	28.9
EPS (adj.)	0.39	0.59	0.98	0.51	0.24	0.75	0.22	0.35	0.56	0.76	0.89	1.01
EPS (rep.)	0.38	0.56	0.94	0.48	0.21	0.68	0.21	0.34	0.55	0.73	0.86	0.98

Key figures	H1'22	H2'22	2022	H1'23	H2'23	2023	H1'24e	H2'24e	2024e	2025e	2026e	2027e
Revenue growth-%	60.6 %	51.6 %	55.4 %	12.7 %	-38.0 %	-16.0 %	-26.4 %	24.3 %	-5.2 %	15.0 %	15.0 %	10.0 %
Adjusted EBIT growth-%	53.1 %	47.1 %	49.4 %	26.9 %	-55.7 %	-23.5 %	-53.5 %	30.1 %	-24.0 %	28.8 %	16.1 %	11.2 %
EBITDA-%	15.0 %	17.2 %	16.2 %	16.3 %	12.8 %	14.8 %	12.3 %	14.4 %	13.4 %	14.3 %	14.3 %	14.3 %
Adjusted EBIT-%	13.6 %	16.4 %	15.2 %	15.3 %	11.7 %	13.8 %	9.7 %	12.2 %	11.1 %	12.4 %	12.5 %	12.7 %
Net earnings-%	9.8 %	11.0 %	10.5 %	10.9 %	6.3 %	9.0 %	6.5 %	8.7 %	7.7 %	8.9 %	9.1 %	9.5 %

Lähde: Inderes

Balance sheet

Assets	2022	2023	2024e	2025e	2026e
Non-current assets	29	45	44	45	47
Goodwill	7	8	8	8	8
Intangible assets	0	6	5	4	2
Tangible assets	20	30	30	33	35
Associated companies	0	0	0	0	0
Other investments	0	0	0	0	0
Other non-current assets	1	0	1	1	1
Deferred tax assets	0	1	0	0	0
Current assets	136	137	152	180	213
Inventories	92	71	61	69	78
Other current assets	0	0	0	0	0
Receivables	36	24	44	50	57
Cash and equivalents	8	43	47	62	78
Balance sheet total	168	182	196	225	260

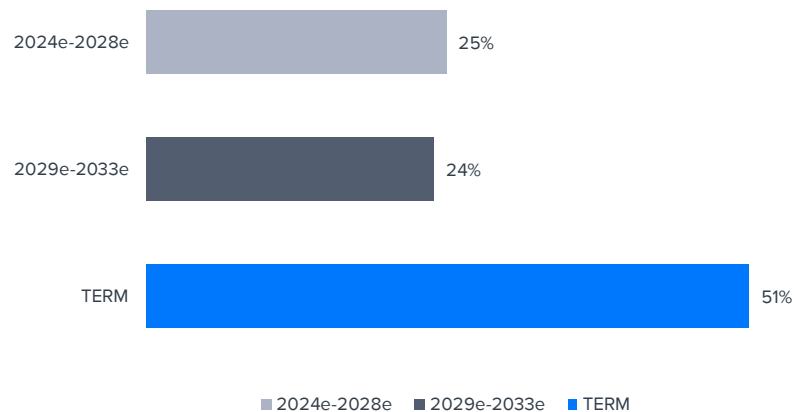
Source: Inderes

Liabilities & equity	2022	2023	2024e	2025e	2026e
Equity	87	107	123	144	170
Share capital	1	1	1	1	1
Retained earnings	70	90	106	128	153
Hybrid bonds	0	0	0	0	0
Revaluation reserve	-5	0	0	0	0
Other equity	22	16	16	16	16
Minorities	0	0	0	0	0
Non-current liabilities	13	33	18	18	18
Deferred tax liabilities	1	1	1	1	1
Provisions	2	0	0	0	0
Interest bearing debt	11	30	15	15	15
Convertibles	0	0	0	0	0
Other long term liabilities	0	2	2	2	2
Current liabilities	68	42	56	64	72
Interest bearing debt	11	4	5	5	5
Payables	57	38	50	58	67
Other current liabilities	1	1	1	1	1
Balance sheet total	168	182	196	225	260

DCF calculation

DCF model	2023	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	TERM
Revenue growth-%	-16.0 %	-5.2 %	15.0 %	15.0 %	10.0 %	5.0 %	4.0 %	3.0 %	3.0 %	3.0 %	2.0 %	2.0 %
EBIT-% (adj.)	12.7 %	10.8 %	12.0 %	12.2 %	12.3 %	12.5 %	13.0 %	13.0 %	12.5 %	12.0 %	12.0 %	12.0 %
EBIT (operating profit)	28.2	22.8	29.0	33.8	37.7	40.1	43.4	44.7	44.2	43.7	44.6	
+ Depreciation	4.6	5.4	5.5	5.9	6.1	5.9	6.0	6.1	6.3	6.4	6.4	
- Paid taxes	-6.6	-5.4	-6.8	-8.0	-9.1	-9.8	-10.6	-11.0	-11.0	-10.9	-11.1	
- Tax, financial expenses	-0.5	-0.5	-0.3	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	
+ Tax, financial income	0.0	0.2	0.2	0.3	0.3	0.4	0.5	0.5	0.6	0.6	0.7	
- Change in working capital	14.4	2.5	-5.8	-7.7	-6.8	-3.7	-3.1	-2.5	-2.5	-2.6	-1.8	
Operating cash flow	40.2	24.9	21.8	23.9	27.9	32.6	35.8	37.6	37.4	37.0	38.6	
+ 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	-16.3	-5.2	-7.0	-7.0	-7.0	-7.0	-7.0	-7.0	-7.0	-7.0	-6.5	
Free operating cash flow	23.9	19.7	14.7	16.9	20.9	25.6	28.8	30.6	30.4	30.0	32.0	
+/- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	23.9	19.7	14.7	16.9	20.9	25.6	28.8	30.6	30.4	30.0	32.0	390
Discounted FCFF		18.1	12.3	12.8	14.3	15.9	16.2	15.6	14.0	12.5	12.1	147
Sum of FCFF present value		291	273	261	248	234	218	202	186	172	160	147
Enterprise value DCF		291										
- Interest bearing debt		-34.1										
+ Cash and cash equivalents		42.6										
-Minorities		0.0										
-Dividend/capital return		0.0										
Equity value DCF		300										
Equity value DCF per share		10.2										

Cash flow distribution

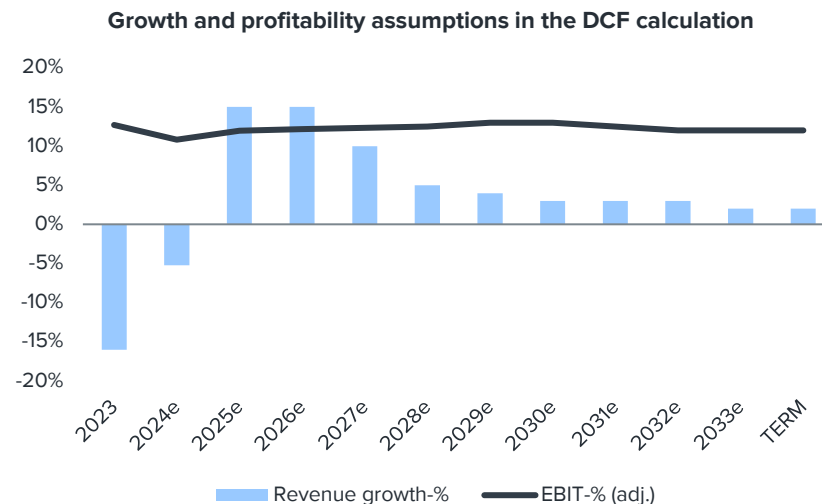
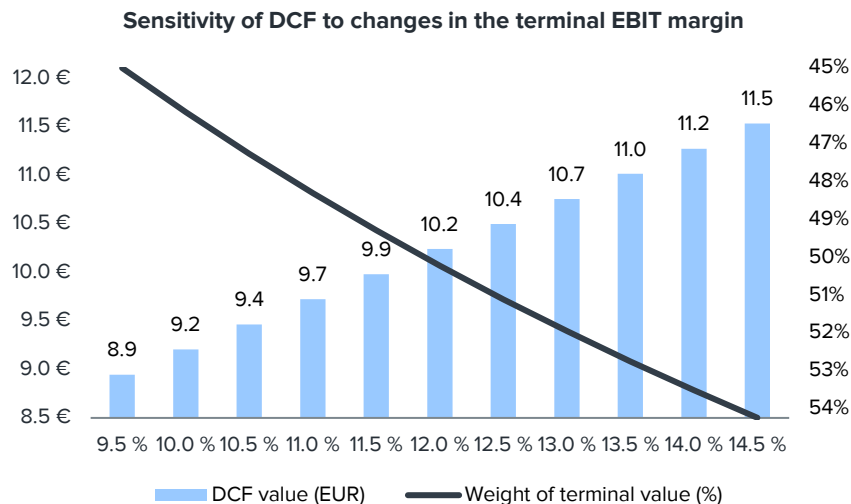
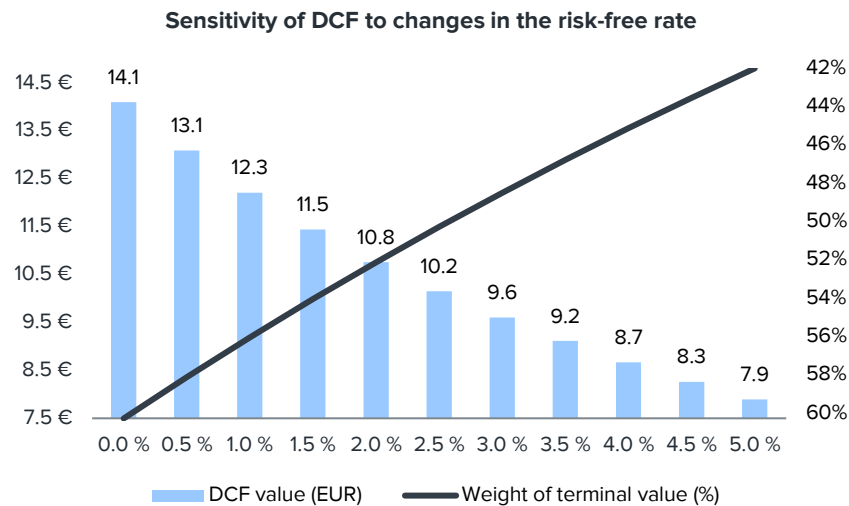
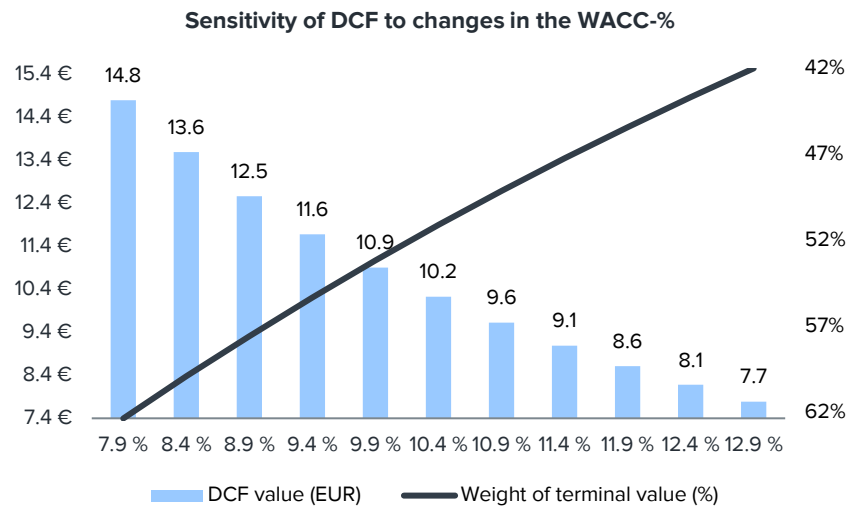


WACC

Tax-% (WACC)	25.0 %
Target debt ratio (D/(D+E))	10.0 %
Cost of debt	5.0 %
Equity Beta	1.55
Market risk premium	4.75%
Liquidity premium	1.25%
Risk free interest rate	2.5 %
Cost of equity	11.1 %
Weighted average cost of capital (WACC)	10.4 %

Source: Inderes

DCF sensitivity calculations and key assumptions in graphs



Source: Inderes. Note that the weight of the terminal value (%) is shown on an inverse scale for clarity.

Summary

Income statement	2021	2022	2023	2024e	2025e	Per share data	2021	2022	2023	2024e	2025e
Revenue	169.8	263.8	221.6	210.0	241.5	EPS (reported)	0.72	0.94	0.68	0.55	0.73
EBITDA	29.3	42.8	32.8	28.2	34.5	EPS (adj.)	0.74	0.98	0.75	0.56	0.76
EBIT	26.0	39.0	28.2	22.8	29.0	OCF / share	0.24	0.09	1.37	0.85	0.74
PTP	25.7	36.7	26.4	21.6	28.4	FCF / share	0.03	-0.23	0.81	0.67	0.50
Net Income	21.1	27.6	19.8	16.2	21.6	Book value / share	2.15	2.99	3.64	4.18	4.91
Extraordinary items	-0.8	-1.0	-2.4	-0.5	-1.0	Dividend / share	0.00	0.00	0.00	0.00	0.00
Balance sheet	2021	2022	2023	2024e	2025e	Growth and profitability	2021	2022	2023	2024e	2025e
Balance sheet total	129.5	168.4	182.3	196.4	225.5	Revenue growth-%	59%	55%	-16%	-5%	15%
Equity capital	62.9	87.4	106.8	122.9	144.5	EBITDA growth-%	84%	46%	-23%	-14%	22%
Goodwill	7.5	7.2	8.2	8.2	8.2	EBIT (adj.) growth-%	83%	49%	-24%	-24%	29%
Net debt	2.0	13.6	-8.5	-27.3	-41.6	EPS (adj.) growth-%	98%	31%	-23%	-25%	36%
Cash flow	2021	2022	2023	2024e	2025e	EBITDA-%	17%	16%	15%	13%	14%
EBITDA	29.3	42.8	32.8	28.2	34.5	EBIT (adj.)-%	16%	15%	14%	11%	12%
Change in working capital	-17.4	-30.7	14.4	2.5	-5.8	EBIT-%	15%	15%	13%	11%	12%
Operating cash flow	7.0	2.8	40.2	24.9	21.8	ROE-%	42%	37%	20%	14%	16%
CAPEX	-6.2	-9.7	-16.3	-5.2	-7.0	ROI-%	42%	43%	23%	17%	19%
Free cash flow	0.8	-6.7	23.9	19.7	14.7	Equity ratio	52%	54%	61%	65%	66%
						Gearing	3%	16%	-8%	-22%	-29%
Valuation multiples	2021	2022	2023	2024e	2025e						
EV/S	2.7	1.9	1.0	1.0	0.8						
EV/EBITDA (adj.)	15.8	12.0	6.7	7.2	5.5						
EV/EBIT (adj.)	17.2	12.8	7.2	8.7	6.3						
P/E (adj.)	21.2	17.5	10.4	14.1	10.3						
P/B	7.3	5.7	2.1	1.9	1.6						
Dividend-%	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %						

Source: Inderes

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Recommendation history (>12 mo)

Date	Recommendation	Target	Share price
5/12/2020	Accumulate	2.60 €	2.40 €
5/25/2020	Accumulate	2.80 €	2.57 €
8/27/2020	Accumulate	4.00 €	3.71 €
9/17/2020	Accumulate	4.00 €	3.60 €
10/27/2020	Accumulate	3.50 €	3.02 €
11/12/2020	Accumulate	3.80 €	3.40 €
11/26/2020	Accumulate	4.00 €	3.60 €
2/25/2021	Accumulate	5.40 €	4.88 €
4/28/2021	Accumulate	7.60 €	7.05 €
7/29/2021	Accumulate	9.20 €	8.58 €
9/16/2021	Accumulate	11.00 €	10.12 €
10/28/2021	Reduce	14.00 €	14.78 €
2/25/2022	Accumulate	14.40 €	13.42 €
3/23/2022	Reduce	14.80 €	15.08 €
4/27/2022	Reduce	14.80 €	14.00 €
----- Analyst changed -----			
7/28/2022	Accumulate	16.00 €	14.66 €
10/19/2022	Accumulate	17.00 €	15.08 €
10/28/2022	Reduce	17.00 €	16.06 €
11/18/2022	Reduce	17.00 €	16.18 €
2/23/2023	Reduce	17.00 €	18.04 €
4/19/2023	Accumulate	12.00 €	10.92 €
4/27/2023	Accumulate	12.00 €	10.36 €
6/15/2023	Accumulate	12.00 €	9.96 €
7/4/2023	Accumulate	12.00 €	10.76 €
7/31/2023	Accumulate	12.00 €	10.72 €
10/9/2023	Accumulate	8.00 €	6.40 €
10/26/2023	Accumulate	8.00 €	6.19 €
2/23/2024	Accumulate	9.00 €	7.84 €



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