

Incap

Company report

10/28/2024



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✓ Inderes corporate customer

This report is a summary translation of the report "Tuloskasvun toteutuessa tuotto-odotus olisi vahva" published on 10/28/2024 at 8:53 am EET

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res.

If earnings growth materializes, expected return would be strong

We raise our recommendation for Incap to Buy (was Accumulate) and revise our target price to EUR 13.00 (was EUR 13.50), reflecting slightly negative forecast changes. Incap's Q3 was exactly what we expected. There is some uncertainty surrounding the company's outlook, but we have not made any forecast changes beyond negative fine-tuning so far and expect the company to remain on track for earnings growth in the near future as well. In our view, the expected return on the stock is already very good, driven by earnings growth (2025e: EV/EBIT 8x).

Quarterly turnaround progressed practically as expected

Incap's revenue grew by 2% to 62 MEUR in Q3, in line with our forecasts. The main growth driver was the normalization of deliveries to the largest customer after the acute destocking phase, which continued the ramp-up of production at the Indian factories (vs. the rundown in the comparison period). In addition to the continued turnaround in India, a positive development was that sales to customers other than the largest grew by 6% in Q3. Given the prevailing market conditions, we believe this was a strong outcome as several peers, for example, saw their revenue decline by up to 20% in Q3. We estimate that the US factory in particular has maintained very strong momentum. In Q3, Incap's adjusted EBIT increased by 26% to 8.1 MEUR (adj. EBIT-% excellent 13.1%), which was also very much in line with our forecast (although EBIT included a higher-than-normal other income of 0.8 MEUR and an inventory write-off of 0.3 MEUR). Financial expenses were higher than expected for non-cash FX reasons, while there were no surprises in taxes. As a result, Incap's Q3 EPS increased to EUR 0.17, slightly below forecasts.

We trimmed our projections slightly

As we expected, Incap specified its guidance for the current year in numerical terms and now expects to achieve revenue of 227-237 MEUR this year (previously higher than last year) and EBIT of 27.5-30.0 MEUR (previously at last year's level). Our forecasts were at the upper end of the range but given the recent weak macroeconomic and industry news flow (incl. profit warnings from competitors), the mid-point of the range being below expectations was not a huge surprise. There is also considerable uncertainty about the outlook for Incap, particularly in the wake of the European economic malaise, although no clear obstacles to continued positive developments emerged from the cautious comments. We trimmed our near-term projections slightly. We expect Incap's revenue to grow by 5% to 234 MEUR this year and EBIT to decline by 4% to 28.6 MEUR. Being highly competitive, Incap should have a good capacity for organic growth, especially in India, and we expect the company to post Q3'24 LTM-2027 average adjusted EPS growth of around 20% on a revenue-driven basis (incl. recovery of the largest customer, cross-selling, new customer acquisition and gradual improvement of the economic situation). The main risks to our forecasts relate to the continued significant revenue share of the largest customer, global investment demand and competition.

Expected return still exceeds the reduced required return although this year's multiples are slightly elevated

Incap's adjusted P/E ratios for 2024 and 2025 based on our estimates are 15x and 13x, and the corresponding EV/EBIT ratios are 10x and 8x. This year's multiples are a bit above historical levels and at the upper end of our approved range, so the stock is not remarkably cheap in the near term. However, next year's multiples are moderate. Consequently, we consider the 12-month expected return on the stock, driven especially by earnings growth, to be already very attractive, despite the uncertainties surrounding the rate of earnings growth. The DCF value, which is around our target price level, also supports a stronger positive view on the stock.

Recommendation

Buy

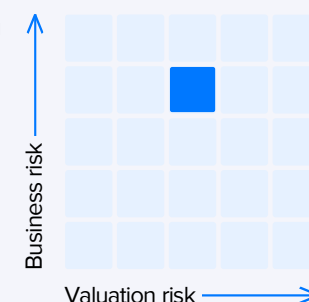
(was Accumulate)

EUR 13.00

(was EUR 13.50)

Share price:

EUR 10.71



Key figures

	2023	2024e	2025e	2026e
Revenue	221.6	233.8	257.1	290.6
growth-%	-16%	5%	10%	13%
EBIT adj.	30.6	29.3	33.4	38.0
EBIT-% adj.	13.8 %	12.5 %	13.0 %	13.1 %
Net Income	19.8	20.8	24.5	28.2
EPS (adj.)	0.75	0.72	0.85	0.98

P/E (adj.)	10.4	14.8	12.5	10.9
P/B	2.1	2.5	2.1	1.7
Dividend yield-%	0.0 %	0.0 %	0.0 %	0.0 %
EV/EBIT (adj.)	7.2	10.2	8.4	6.7
EV/EBITDA	6.7	8.6	7.2	5.8
EV/S	1.0	1.3	1.1	0.9

Source: Inderes

Guidance

(Adjusted)

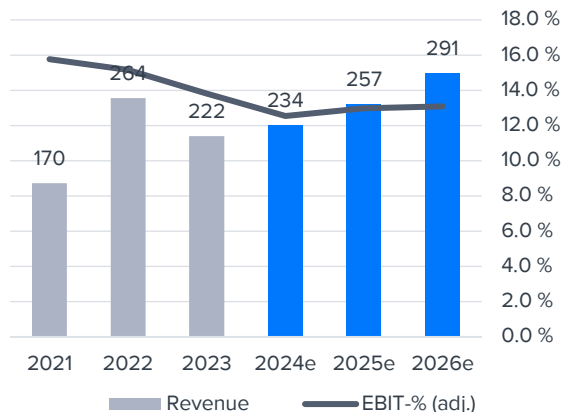
On July 18, 2024, Incap estimated that its revenue in 2024 would be higher than in 2023 and that EBIT in 2024 would be at the same level as in 2023. On October 25, 2024, Incap further specified its guidance and estimated its revenue to be 227-237 MEUR and EBIT to be 27.5-30.0 MEUR.

Share price



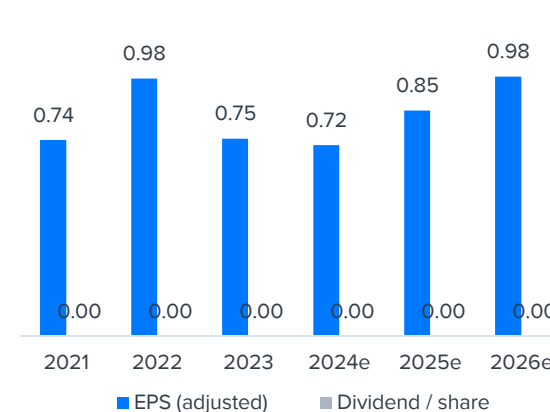
Source: Millstream Market Data AB

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	10.7	10.7	10.7
Number of shares, millions	29.4	29.4	29.4
Market cap	315	315	315
EV	299	279	254
P/E (adj.)	14.8	12.5	10.9
P/E	15.2	12.9	11.2
P/B	2.5	2.1	1.7
P/S	1.3	1.2	1.1
EV/Sales	1.3	1.1	0.9
EV/EBITDA	8.6	7.2	5.8
EV/EBIT (adj.)	10.2	8.4	6.7
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	Q3'23	Q3'24	Q3'24e	Q3'24e	Consensus		Difference (%)	2024e
	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. inderes	Inderes
Revenue	50.0	61.8	61.0				1%	234
EBIT (adj.)	6.4	8.1	8.1				0%	29.3
EBIT	5.7	7.9	7.9				0%	28.6
PTP	5.7	6.7	7.6				-12%	27.3
EPS (reported)	0.15	0.17	0.19				-13%	0.71
Revenue growth-%	-29.1 %	23.5 %	21.9 %				1.6 pp	5.5 %
EBIT-% (adj.)	12.8 %	13.1 %	13.3 %				-0.2 pp	12.5 %

Source: Inderes

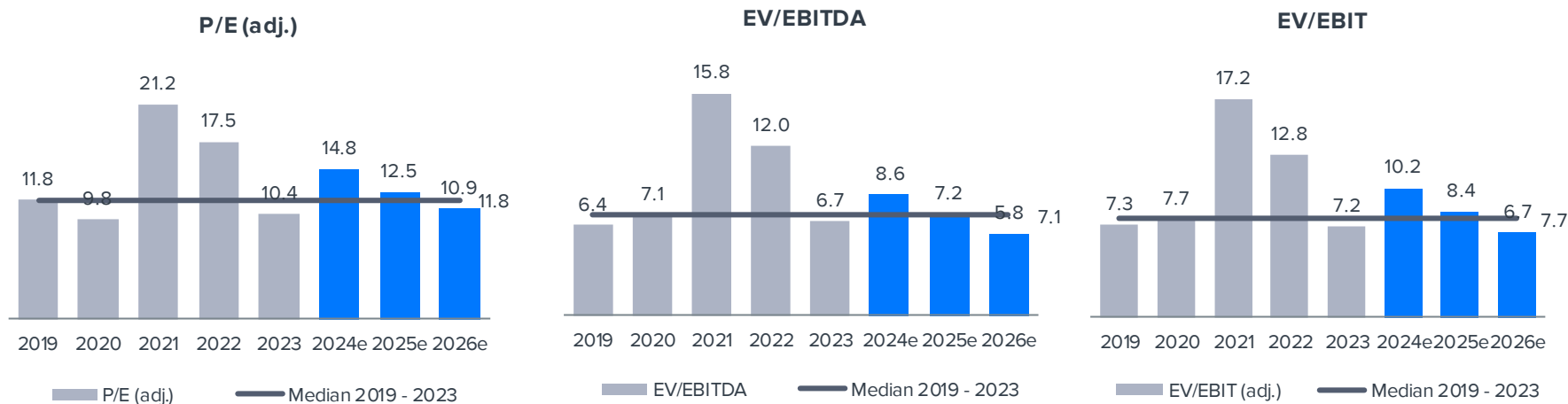
Estimate revisions MEUR / EUR	2024e	2024e	Change	2025e	2025e	Change	2026e	2026e	Change
	Old	Actualized	%	Old	New	%	Old	New	%
Revenue	236	234	-1%	271	257	-5%	299	291	-3%
EBIT	29.5	28.6	-3%	34.4	32.6	-5%	38.4	37.2	-3%
PTP	29.0	27.3	-6%	34.1	32.2	-6%	38.4	37.1	-3%
EPS (excl. NRIs)	0.78	0.73	-6%	0.90	0.85	-5%	1.01	0.98	-3%
DPS	0.00	0.00		0.00	0.00		0.00	0.00	

Source: Inderes

Valuation table

Valuation	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Share price	3.38	3.69	15.70	17.10	7.75	10.71	10.71	10.71	10.71
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	315	315	315	315
EV	73	113	461	514	220	299	279	254	228
P/E (adj.)	11.8	9.8	21.2	17.5	10.4	14.8	12.5	10.9	9.8
P/E	11.8	11.6	21.8	18.1	11.5	15.2	12.9	11.2	10.0
P/B	3.4	2.8	7.3	5.7	2.1	2.5	2.1	1.7	1.5
P/S	1.0	1.0	2.7	1.9	1.0	1.3	1.2	1.1	1.0
EV/Sales	1.0	1.1	2.7	1.9	1.0	1.3	1.1	0.9	0.7
EV/EBITDA	6.4	7.1	15.8	12.0	6.7	8.6	7.2	5.8	4.8
EV/EBIT (adj.)	7.3	7.7	17.2	12.8	7.2	10.2	8.4	6.7	5.4
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 %	2.0 %

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	198	343	9.6	7.9	5.9	5.2	0.7	0.6	11.6	9.7			1.6
Integrated Micro-Electronics	63	334	13.1	10.0	5.1	4.4	0.2	0.2	3.1				0.2
Data Modul	100	100	6.5	5.3	5.8	4.9	0.6	0.6	10.8	9.7	0.4	0.4	0.7
Hanza	214	300	12.6	9.0	5.0	4.3	0.4	0.4	21.4	9.7	2.1	2.9	1.1
Kitron	512	630	13.3	11.2	9.7	8.5	1.0	0.9	15.1	13.5	3.1	3.5	2.6
Lacroix Group SA	65	188	9.9	6.9	5.0	4.0	0.3	0.3	5.4	4.3	3.9	6.0	0.3
Jabil	13136	13765	9.5	10.3	6.5	7.1	0.5	0.6	14.9	14.4	0.3	0.3	7.4
Scanfil	496	525	9.6	8.8	7.0	6.4	0.7	0.6	12.3	10.9	3.3	3.6	1.7
Fabrinet	8247	7442	26.9	23.7	22.8	20.0	2.8	2.5	28.2	24.7			5.2
Hana Microelectronics	932	685	13.5	11.3	6.7	5.8	0.9	0.9	17.4	14.8	2.9	3.4	1.2
SVI	453	510	12.3	11.6	9.8	9.3	0.8	0.7	12.2	11.3	2.5	2.5	1.3
TT Electronics	183	333	7.4	5.5	5.3	4.2	0.5	0.5	7.3	4.8	6.9	8.0	0.6
Katek Se													
Nolato AB	1236	1352	16.8	14.7	10.3	9.6	1.6	1.5	21.1	17.9	3.2	3.7	2.6
Celestica	7314	7774	13.6	12.0	10.9	9.8	0.9	0.8	17.9	15.6			4.4
Incap (Inderes)	315	299	10.2	8.4	8.6	7.2	1.3	1.1	14.8	12.5	0.0	0.0	2.5
Average			12.4	10.5	8.3	7.4	0.9	0.8	14.3	12.3	2.8	3.4	2.2
Median			12.3	10.0	6.7	6.7	0.7	0.6	14.9	11.4	3.0	3.5	1.6
Diff-% to median			-17%	-17%	29%	8%	94%	78%	0%	10%	-100%	-100%	57%

Source: Refinitiv / Inderes

Income statement

Income statement	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24	Q2'24	Q3'24	Q4'24e	2024e	2025e	2026e	2027e
Revenue	264	72.7	56.4	50.0	42.4	222	51.4	57.6	61.8	63.0	234	257	291	320
Incap	264	72.7	56.4	50.0	42.4	222	51.4	57.6	61.8	63.0	234	257	291	320
EBITDA	42.8	12.4	8.6	6.9	5.0	32.8	7.3	8.6	9.5	9.5	34.9	38.7	43.5	47.4
Depreciation	-3.8	-1.1	-1.1	-1.2	-1.3	-4.6	-1.4	-1.8	-1.6	-1.6	-6.3	-6.1	-6.3	-6.3
EBIT (excl. NRI)	40.0	11.4	8.4	6.4	4.4	30.6	6.2	7.0	8.1	8.1	29.3	33.4	38.0	41.9
EBIT	39.0	11.3	7.5	5.7	3.7	28.2	6.0	6.8	7.9	7.9	28.6	32.6	37.2	41.1
Kertaerät	-1.0	-0.1	-0.9	-0.7	-0.7	-2.4	-0.2	-0.1	-0.2	-0.2	-0.7	-0.8	-0.8	-0.8
Net financial items	-2.3	-0.4	-0.2	0.1	-1.3	-1.8	0.3	-0.3	-1.1	-0.2	-1.2	-0.4	-0.1	0.4
PTP	36.7	10.9	7.4	5.7	2.4	26.4	6.3	6.6	6.7	7.7	27.3	32.2	37.1	41.6
Taxes	-9.0	-2.6	-1.7	-1.4	-1.0	-6.6	-1.4	-1.4	-1.8	-1.9	-6.6	-7.7	-8.9	-10.0
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	27.6	8.4	5.7	4.4	1.4	19.8	4.9	5.1	4.9	5.8	20.8	24.5	28.2	31.6
EPS (adj.)	0.98	0.29	0.22	0.17	0.07	0.75	0.17	0.18	0.17	0.20	0.73	0.85	0.98	1.10
EPS (rep.)	0.94	0.29	0.19	0.15	0.05	0.68	0.17	0.17	0.17	0.20	0.71	0.83	0.96	1.07

Key figures	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24	Q2'24	Q3'24	Q4'24e	2024e	2025e	2026e	2027e
Revenue growth-%	55.4 %	36.3 %	-7.8 %	-29.1 %	-46.1 %	-16.0 %	-29.3 %	2.1 %	23.4 %	48.4 %	5.5 %	10.0 %	13.0 %	10.0 %
Adjusted EBIT growth-%	49.4 %	66.4 %	-4.0 %	-41.9 %	-67.1 %	-23.5 %	-46.0 %	-16.9 %	25.7 %	85.2 %	-4.2 %	13.9 %	13.8 %	10.3 %
EBITDA-%	16.2 %	17.0 %	15.3 %	13.7 %	11.7 %	14.8 %	14.2 %	14.9 %	15.4 %	15.2 %	14.9 %	15.1 %	15.0 %	14.8 %
Adjusted EBIT-%	15.2 %	15.7 %	14.9 %	12.8 %	10.4 %	13.8 %	12.0 %	12.1 %	13.0 %	12.9 %	12.5 %	13.0 %	13.1 %	13.1 %
Net earnings-%	10.5 %	11.5 %	10.1 %	8.8 %	3.2 %	8.9 %	9.6 %	8.9 %	8.0 %	9.2 %	8.9 %	9.5 %	9.7 %	9.9 %

Lähde: Inderes

Balance sheet

Assets	2022	2023	2024e	2025e	2026e
Non-current assets	29	45	45	45	44
Goodwill	7	8	8	8	8
Intangible assets	0	6	5	4	3
Tangible assets	20	30	31	32	32
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	155	184	220
Inventories	92	71	68	75	81
Other current assets	0	0	0	0	0
Receivables	36	24	51	54	58
Cash and equivalents	8	43	36	56	81
Balance sheet total	168	182	200	229	264

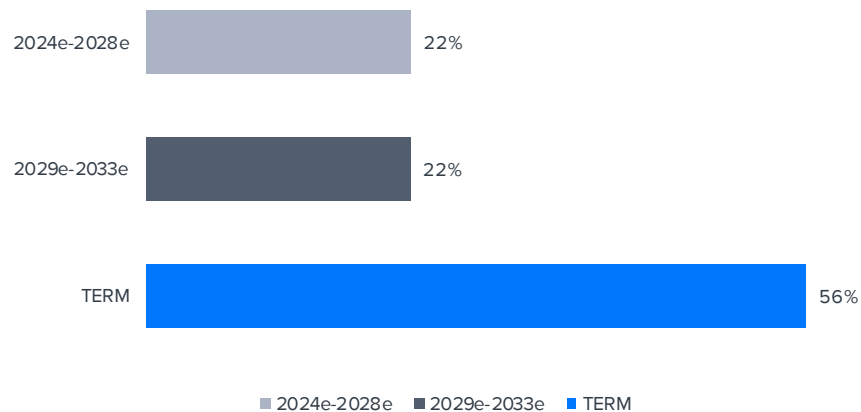
Source: Inderes

Liabilities & equity	2022	2023	2024e	2025e	2026e
Equity	87	107	128	152	180
Share capital	1	1	1	1	1
Retained earnings	70	90	111	135	163
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	55	60	67
Interest bearing debt	11	4	5	5	5
Payables	57	38	49	54	61
Other current liabilities	1	1	1	1	1
Balance sheet total	168	182	200	229	264

DCF calculation

DCF model	2023	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	TERM
Revenue growth-%	-16.0 %	5.5 %	10.0 %	13.0 %	10.0 %	5.0 %	5.0 %	4.0 %	4.0 %	3.0 %	2.0 %	2.0 %
EBIT-% (adj.)	12.7 %	12.2 %	12.7 %	12.8 %	12.9 %	13.0 %	13.0 %	13.0 %	12.7 %	12.5 %	12.5 %	12.5 %
EBIT (operating profit)	28.2	28.6	32.6	37.2	41.1	43.6	45.8	47.6	48.4	49.1	50.1	
+ Depreciation	4.6	6.3	6.1	6.3	6.3	5.9	6.0	6.1	6.3	6.4	6.5	
- Paid taxes	-6.6	-6.6	-7.7	-8.9	-10.0	-10.7	-11.3	-11.8	-12.0	-12.2	-12.5	
- Tax, financial expenses	-0.5	-0.4	-0.3	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	
+ Tax, financial income	0.0	0.1	0.2	0.2	0.3	0.4	0.5	0.6	0.6	0.7	0.7	
- Change in working capital	14.4	-13.0	-4.4	-3.9	-4.6	-4.2	-4.4	-3.7	-3.8	-3.0	-2.0	
Operating cash flow	40.2	15.0	26.4	30.7	32.9	34.9	36.5	38.7	39.3	40.7	42.5	
+ 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	-6.7	-6.0	-6.0	-7.0	-7.0	-7.0	-7.0	-7.0	-7.0	-7.1	
Free operating cash flow	23.9	8.3	20.4	24.7	25.9	27.9	29.4	31.7	32.3	33.7	35.3	
+/- 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	8.3	20.4	24.7	25.9	27.9	29.4	31.7	32.3	33.7	35.3	486
Discounted FCFF		8.2	18.4	20.3	19.4	19.1	18.5	18.2	16.9	16.1	15.5	213
Sum of FCFF present value		383	375	357	336	317	298	279	261	244	228	213
Enterprise value DCF		383										
- Interest bearing debt		-34.1										
+ Cash and cash equivalents		42.6										
-Minorities		0.0										
-Dividend/capital return		0.0										
Equity value DCF		392										
Equity value DCF per share		13.3										

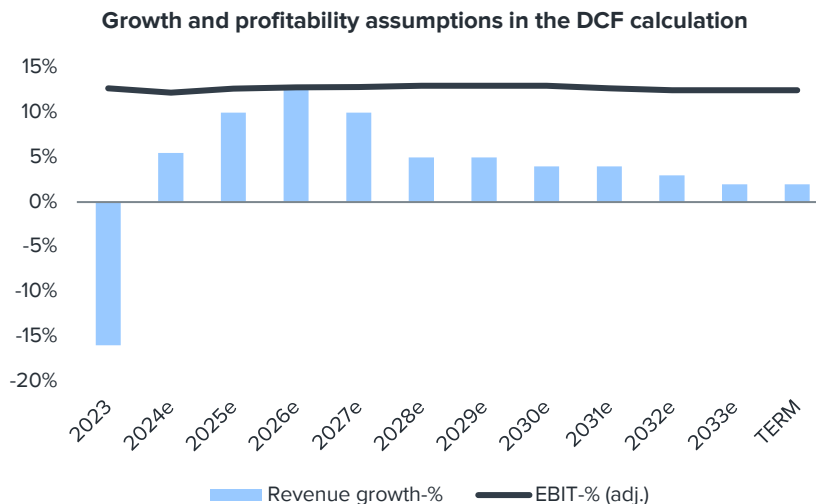
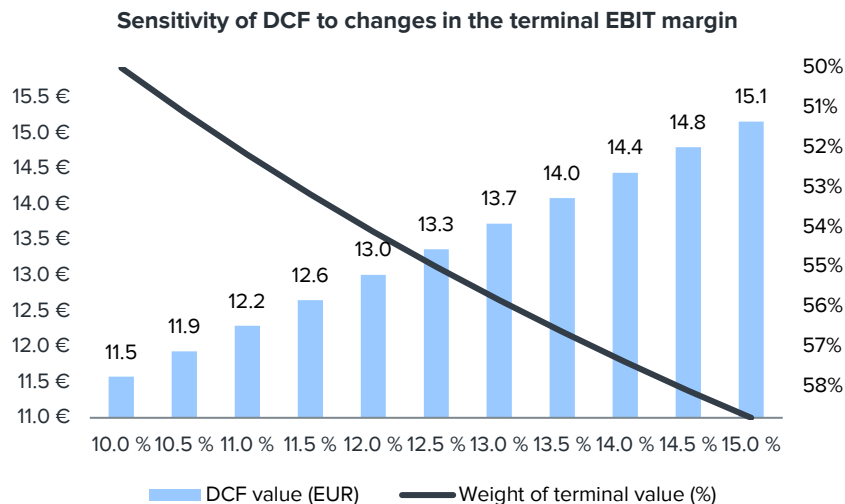
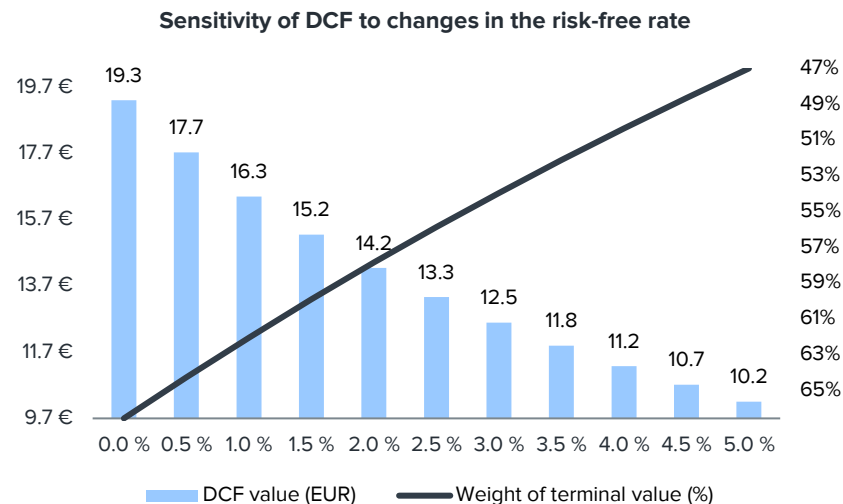
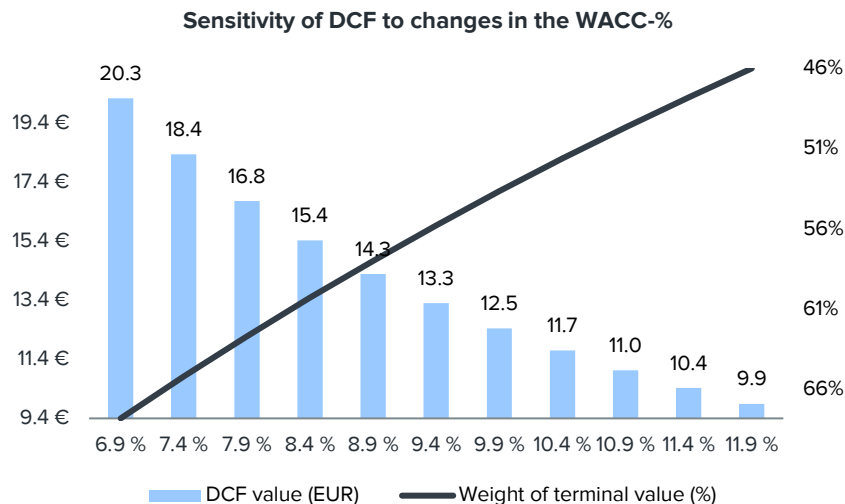
Cash flow distribution



WACC	
Tax-% (WACC)	25.0 %
Target debt ratio (D/(D+E))	10.0 %
Cost of debt	5.0 %
Equity Beta	1.40
Market risk premium	4.75%
Liquidity premium	0.90%
Risk free interest rate	2.5 %
Cost of equity	10.1 %
Weighted average cost of capital (WACC)	9.4 %

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	233.8	257.1	EPS (reported)	0.72	0.94	0.68	0.71	0.83
EBITDA	29.3	42.8	32.8	34.9	38.7	EPS (adj.)	0.74	0.98	0.75	0.72	0.85
EBIT	26.0	39.0	28.2	28.6	32.6	OCF / share	0.24	0.09	1.37	0.51	0.90
PTP	25.7	36.7	26.4	27.3	32.2	FCF / share	0.03	-0.23	0.81	0.28	0.69
Net Income	21.1	27.6	19.8	20.8	24.5	Book value / share	2.15	2.99	3.64	4.34	5.17
Extraordinary items	-0.8	-1.0	-2.4	-0.7	-0.8	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	199.7	229.0	Revenue growth-%	59%	55%	-16%	5%	10%
Equity capital	62.9	87.4	106.8	127.5	152.0	EBITDA growth-%	84%	46%	-23%	6%	11%
Goodwill	7.5	7.2	8.2	8.2	8.2	EBIT (adj.) growth-%	83%	49%	-24%	-4%	14%
Net debt	2.0	13.6	-8.5	-15.8	-35.9	EPS (adj.) growth-%	98%	31%	-23%	-3%	18%
Cash flow	2021	2022	2023	2024e	2025e	EBITDA-%	17%	16%	15%	15%	15%
EBITDA	29.3	42.8	32.8	34.9	38.7	EBIT (adj.)-%	16%	15%	14%	13%	13%
Change in working capital	-17.4	-30.7	14.4	-13.0	-4.4	EBIT-%	15%	15%	13%	12%	13%
Operating cash flow	7.0	2.8	40.2	15.0	26.4	ROE-%	42%	37%	20%	18%	18%
CAPEX	-6.2	-9.7	-16.3	-6.7	-6.0	ROI-%	42%	43%	23%	20%	21%
Free cash flow	0.8	-6.7	23.9	8.3	20.4	Equity ratio	52%	54%	61%	66%	69%
						Gearing	3%	16%	-8%	-12%	-24%
Valuation multiples	2021	2022	2023	2024e	2025e						
EV/S	2.7	1.9	1.0	1.3	1.1						
EV/EBITDA	15.8	12.0	6.7	8.6	7.2						
EV/EBIT (adj.)	17.2	12.8	7.2	10.2	8.4						
P/E (adj.)	21.2	17.5	10.4	14.8	12.5						
P/B	7.3	5.7	2.1	2.5	2.1						
Dividend-%	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %						

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	Share price
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 €	7.94 €
5/10/2024	Accumulate	12.50 €	10.92 €
6/24/2024	Accumulate	13.50 €	12.12 €
7/29/2024	Accumulate	13.50 €	11.29 €
10/25/2024	Buy	13.00 €	10.85 €



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