

Incap

Company report

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Joonas Korkiakoski
+358 40 1828 660
joonas.korkiakoski@inderes.fi

✓ Inderes corporate customer

This report is a summary translation of the report “Linjat lämpiminä ” published on 4/28/2022 at 6:30 am

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Lines are warm

Incap published its Q1 report yesterday. The first quarter of the year was not bad in any way, even though relative profitability was somewhat below our expectations. The company's basic performance is high and we justifiably consider the long-term value creation conditions to be excellent. The price of the high-quality company has dropped, but the annual return/risk ratio is not yet sufficient. We reiterate our EUR 74 target price and Reduce recommendation.

Good start

In Q1, Incap's revenue grew by 41% to EUR 53.3 million, which quite clearly exceeded our EUR 46 million estimate. We believe the strong revenue growth reflects the broadly developed demand in the customer portfolio, and especially the heftily increased order volumes of the largest customers. Of course, good growth was supported both by the strengthened production capacity in India over the last year and the delivery capacity that remained moderate to say the least despite prevailing conditions, as well as the value of total production which we expect increased with higher component prices. In Q1, Incap's adjusted EBIT was EUR 7.0 million and the EBIT margin was 13.1%, which is excellent relative to the industry. Good performance was supported by increased production volumes and good overall efficiency, while the effects of increased operating costs were somewhat larger than we expected. But as a whole the new year started off nicely.

No significant movement

For 2022, Incap's guidance is higher revenue and adjusted EBIT than in 2021, assuming that no significant negative changes occur in the COVID pandemic situation, geopolitics, exchange rates or availability of components. In line with the good start to the year and management's more detailed comments, the demand outlook seems to have remained healthy. Key short-term concerns are therefore still, and even more so, related to the global allocation of components (incl. timing factors related to pricing), although Incap has thus far managed the difficult conditions well. Against this background, we raised our growth estimates for the whole year, but kept the earnings side unchanged. This year, we expect the company's revenue to increase by 32% to EUR 223 million due to growing delivery flows to largest customers, benefits of stronger production capacity from India and successful new customer acquisition. In turn, we expect EBIT to be EUR 33 million due to the combined effect of strong volume growth, healthy cost levels and operating costs rising from 2021.

Something good at a slightly too high of a price

Incap's P/E ratios for 2022 and 2023 based on our estimates are 16x and 14x, while the corresponding EV/EBIT ratios are 13x and 11x. Absolute multiples are not obscene and at the upper end of the neutral range we have determined for the company. The multiples are however above historical levels, but we consider this justified considering the convincing earnings and value creation record of recent years. While we are convinced of the company's qualitative characteristics and the value creation potential they provide, we do not currently see these factors as sufficient to compensate for the slightly elevated short-term price multiples and the risks associated with tolerating them.

Recommendation

Reduce

(previous Reduce)

EUR 74.00

(previous EUR 74.00)

Share price:

70.00



Key figures

	2021	2022e	2023e	2024e
Revenue	169.8	223.5	245.8	265.5
growth-%	59%	32%	10%	8%
EBIT adj.	26.8	32.8	37.6	41.0
EBIT-% adj.	15.8 %	14.7 %	15.3 %	15.5 %
Net Income	21.1	25.9	29.5	32.4
EPS (adj.)	3.71	4.48	5.09	5.57

P/E (adj.)	21.2	15.6	13.7	12.6
P/B	7.3	4.9	3.8	3.0
Dividend yield-%	1.0 %	1.3 %	1.4 %	1.6 %
EV/EBIT (adj.)	17.2	12.6	10.5	9.1
EV/EBITDA	15.8	11.5	9.7	8.4
EV/S	2.7	1.8	1.6	1.4

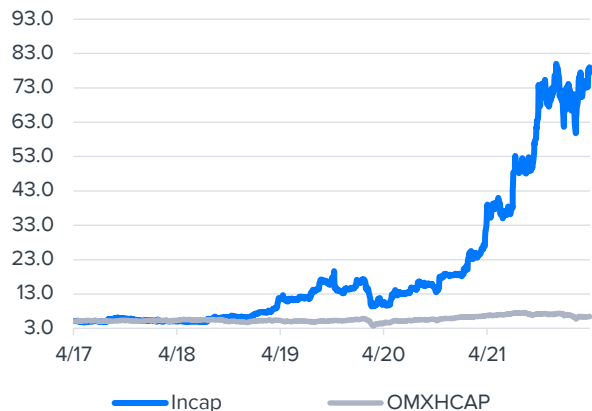
Source: Inderes

Guidance

(Unchanged)

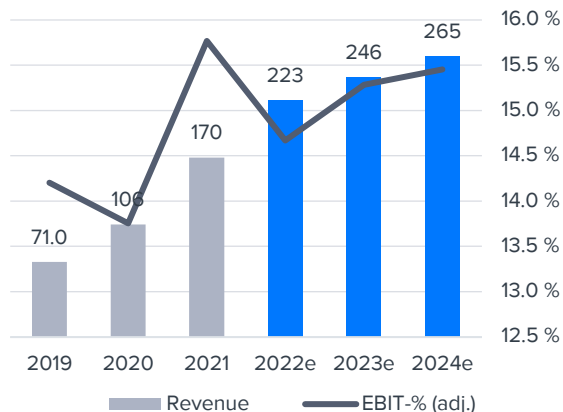
Incap estimates that its revenue, operating profit (EBIT) and adjusted operating profit (EBIT) for 2022 will be higher than in 2021.

Share price



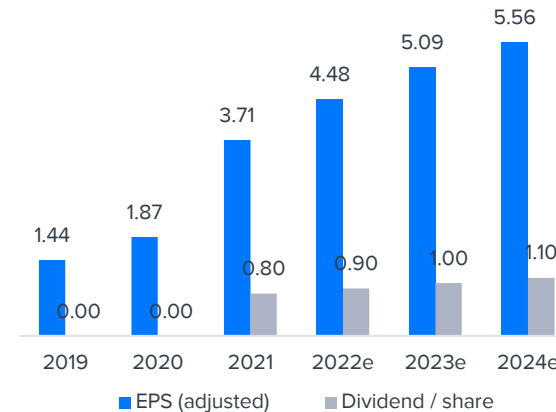
Source: Thomson Reuters

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 and ROE
- Quick decision-making supports new customer procurement
- Accelerating growth with acquisitions
- Moving supply chains closer to customers' end markets/product development and increasing overall cost approach



Risk factors

- Mutually challenging value chain position upholds a brutal competitive situation
- Concentration of the customer portfolio
- Cyclical nature of customer industries
- Tightening competitive situation
- Company's cost efficiency deteriorating
- Disruptions in the supply chain

Valuation	2022e	2023e	2024e
Share price	70.00	70.00	70.00
Number of shares, millions	5.85	5.85	5.85
Market cap	409	409	409
EV	413	395	372
P/E (adj.)	15.6	13.7	12.6
P/E	15.8	13.9	12.6
P/FCF	>100	17.5	13.6
P/B	4.9	3.8	3.0
P/S	1.8	1.7	1.5
EV/Sales	1.8	1.6	1.4
EV/EBITDA	11.5	9.7	8.4
EV/EBIT (adj.)	12.6	10.5	9.1
Payout ratio (%)	20.3 %	19.8 %	19.9 %
Dividend yield-%	1.3 %	1.4 %	1.6 %

Source: Inderes

Estimates

Estimates	Q1'21	Q1'22	Q1'22e	Q1'22e	Consensus		Difference (%)	2022e
	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. inderes	Inderes
MEUR / EUR								
Revenue	37.7	53.3	46.0				16%	223
EBIT (adj.)	5.7	7.0	6.9				1%	32.8
EBIT	5.5	6.8	6.8				0%	32.4
EPS (reported)	0.79	0.93	0.93				0%	4.42
Revenue growth-%	55.1%	41.4 %	22.0 %				19.4 pp	31.6 %
EBIT-% (adj.)	15.2 %	13.1%	15.0 %				-1.9 pp	14.7 %

Source: Inderes

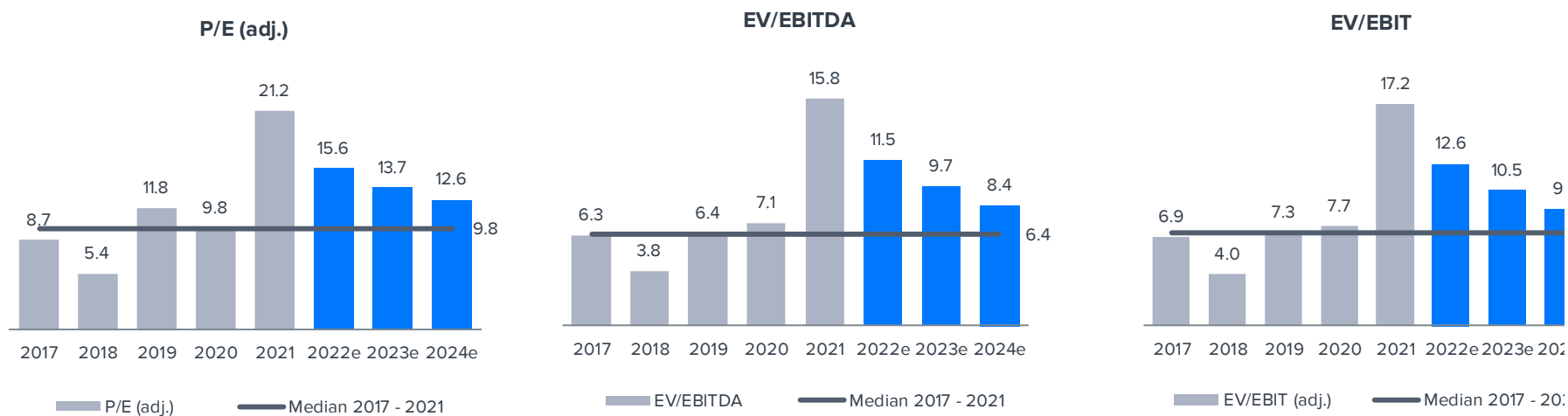
Estimate revisions	2022e	2022e	Change	2023e	2023e	Change	2024e	2024e	Change
	Old	New	%	Old	New	%	Old	New	%
MEUR / EUR									
Revenue	207	223	8%	232	246	6%	250	265	6%
EBITDA	35.8	35.9	0%	40.1	40.9	2%	43.3	44.4	3%
EBIT	32.3	32.4	0%	36.5	37.3	2%	39.7	40.8	3%
PTP	31.9	32.0	0%	36.1	36.9	2%	39.3	40.5	3%
EPS (reported)	3.60	3.60	0%	4.94	5.05	2%	5.38	5.54	3%
DPS	0.90	0.90	0%	1.00	1.00	0%	1.10	1.10	0%

Source: Inderes

Valuation table

Valuation	2017	2018	2019	2020	2021	2022e	2023e	2024e	2025e
Share price	6.19	7.26	16.9	18.5	78.5	70.00	70.00	70.00	70.00
Number of shares, millions	4.37	4.37	4.37	5.82	5.85	5.85	5.85	5.85	5.85
Market cap	27	32	74	107	459	409	409	409	409
EV	31	35	73	113	461	413	395	372	345
P/E (adj.)	8.7	5.4	11.8	9.8	21.2	15.6	13.7	12.6	11.7
P/E	8.7	5.4	11.8	11.6	21.8	15.8	13.9	12.6	11.7
P/FCF	11.7	13.7	11.4	neg.	>100	>100	17.5	13.6	12.4
P/B	2.6	2.0	3.4	2.8	7.3	4.9	3.8	3.0	2.5
P/S	0.6	0.5	1.0	1.0	2.7	1.8	1.7	1.5	1.4
EV/Sales	0.6	0.6	1.0	1.1	2.7	1.8	1.6	1.4	1.2
EV/EBITDA	6.3	3.8	6.4	7.1	15.8	11.5	9.7	8.4	7.3
EV/EBIT (adj.)	6.9	4.0	7.3	7.7	17.2	12.6	10.5	9.1	7.8
Payout ratio (%)	0.0 %	0.0 %	0.0 %	0.0 %	22.2 %	20.3 %	19.8 %	19.9 %	20.1 %
Dividend yield-%	0.0 %	0.0 %	0.0 %	0.0 %	1.0 %	1.3 %	1.4 %	1.6 %	1.7 %

Source: Inderes



Peer group valuation

Peer group valuation	Share price	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
Integrated Micro-Electronics Inc	7.34	293	524	51.8	24.2	8.7	7.2	0.4	0.4			35.1		
Hanza Holding AB	42.00	137	192	6.5	5.3	5.8	4.9	0.6	0.6	10.8	9.7	1.6	1.9	2.2
Kitron ASA	18.90	402	460	12.6	9.0	5.0	4.3	0.4	0.4	13.9	11.2	3.5	4.7	1.1
Lacroix Group SA	38.70	188	330	12.1	9.4	7.0	5.8	0.5	0.4	11.4	9.2	2.6	3.2	1.1
Jabil Inc	56.91	7520	9202	6.2	6.0	3.8	3.7	0.3	0.3	7.8	7.3	0.6	0.6	3.4
Scanfil Oyj	6.62	434	513	10.7	8.7	7.9	6.5	0.6	0.6	12.4	11.1	3.1	3.3	1.8
Fabrinet	96.45	3364	2907	14.9	13.3	12.7	11.6	1.5	1.3	16.0	14.6			2.7
Hana Microelectronics PCL	44.50	982	818	14.5	12.9	8.8	7.9	1.3	1.2	14.4	12.6	4.4	4.8	1.5
TT electronics PLC	189.80	412	530	10.4	8.9	7.6	6.7	0.8	0.8	10.9	9.1	3.4	3.9	1.0
Katek Se	18.65	251	297	15.5	43.6	8.6	11.2	0.5	0.5	20.4	69.2			1.4
Nolato AB	68.25	1594	1589	16.8	13.3	12.2	10.0	1.7	1.5	18.8	15.1	2.9	3.4	3.5
Celestica Inc	13.63	1247	1624	5.5	4.6	4.0	3.3	0.2	0.2	6.7	6.1			
Incap (Inderes)	70.00	409	413	12.6	10.5	11.5	9.7	1.8	1.6	15.6	13.7	1.3	1.4	4.9
Average				14.7	13.2	7.8	7.1	0.8	0.7	13.8	17.7	2.5	2.9	1.9
Median				12.6	9.4	7.9	7.1	0.6	0.6	13.1	11.2	2.9	3.3	1.7
Diff-% to median				0%	11%	46%	37%	208%	187%	19%	23%	-56%	-56%	193%

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	Q1'22	Q2'22e	Q3'22e	Q4'22e	2022e	2023e	2024e	2025e
Revenue	106	37.7	33.6	47.0	51.5	170	53.3	48.7	58.8	62.7	223	246	265	284
Incap	106	37.7	33.6	47.0	51.5	170	53.3	48.7	58.8	62.7	223	246	265	284
EBITDA	15.9	6.3	5.1	8.6	9.3	29.3	7.7	7.6	9.7	10.9	35.9	40.9	44.4	47.5
Depreciation	-3.3	-0.8	-0.8	-0.8	-0.9	-3.3	-0.9	-0.9	-0.9	-0.9	-3.5	-3.6	-3.6	-3.6
EBIT (excl. NRI)	14.6	5.7	4.5	7.9	8.6	26.8	7.0	6.8	8.9	10.1	32.8	37.6	41.0	44.1
EBIT	12.6	5.5	4.3	7.8	8.4	26.0	6.9	6.7	8.8	10.0	32.4	37.3	40.8	43.9
Net financial items	-1.1	-0.1	-0.2	-0.2	0.2	-0.3	-0.1	-0.1	-0.1	-0.1	-0.4	-0.4	-0.4	-0.3
PTP	11.5	5.4	4.1	7.7	8.6	25.7	6.8	6.6	8.7	9.9	32.0	36.9	40.5	43.6
Taxes	-2.3	-0.8	-0.9	-1.3	-1.7	-4.7	-1.4	-1.3	-1.7	-1.9	-6.2	-7.4	-8.1	-8.7
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	9.2	4.6	3.2	6.4	6.9	21.1	5.4	5.3	7.1	8.0	25.9	29.5	32.4	34.9
EPS (adj.)	1.87	0.82	0.57	1.10	1.22	3.71	0.94	0.93	1.22	1.39	4.48	5.09	5.56	5.99
EPS (rep.)	1.59	0.79	0.55	1.09	1.19	3.60	0.93	0.91	1.21	1.38	4.42	5.05	5.54	5.97

Key figures	2020	Q1'21	Q2'21	Q3'21	Q4'21	2021	Q1'22	Q2'22e	Q3'22e	Q4'22e	2022e	2023e	2024e	2025e
Revenue growth-%	49.9 %	55.1 %	49.0 %	67.3 %	63.2 %	59.4 %	41.4 %	45.0 %	25.0 %	21.8 %	31.6 %	10.0 %	8.0 %	7.0 %
Adjusted EBIT growth-%	45.2 %	112.2 %	56.3 %	123.3 %	56.0 %	82.8 %	21.4 %	52.3 %	12.2 %	17.1 %	22.4 %	14.6 %	9.2 %	7.4 %
EBITDA-%	15.0 %	16.6 %	15.1 %	18.4 %	18.1 %	17.2 %	14.5 %	15.5 %	16.5 %	17.4 %	16.1 %	16.6 %	16.7 %	16.7 %
Adjusted EBIT-%	13.8 %	15.2 %	13.3 %	16.9 %	16.8 %	15.8 %	13.1 %	13.9 %	15.2 %	16.1 %	14.7 %	15.3 %	15.5 %	15.5 %
Net earnings-%	8.7 %	12.2 %	9.5 %	13.5 %	13.4 %	12.4 %	10.2 %	11.0 %	12.0 %	12.8 %	11.6 %	12.0 %	12.2 %	12.3 %

Lähde: Inderes

Balance sheet

Assets	2020	2021	2022e	2023e	2024e
Non-current assets	19.4	27.1	28.3	28.7	28.7
Goodwill	7.1	7.5	7.5	7.5	7.5
Intangible assets	0.0	4.5	4.3	4.1	3.9
Tangible assets	11.4	13.9	15.3	15.9	16.1
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	0.2	0.4	0.4	0.4	0.4
Deferred tax assets	0.7	0.9	0.9	0.9	0.9
Current assets	52.3	102.4	138.6	152.4	176.6
Inventories	24.2	59.5	78.2	83.6	85.0
Other current assets	0.0	0.0	0.0	0.0	0.0
Receivables	24.2	33.7	44.7	49.2	53.1
Cash and equivalents	3.9	9.2	15.6	19.8	38.4
Balance sheet total	76.4	129.5	166.9	181.3	205

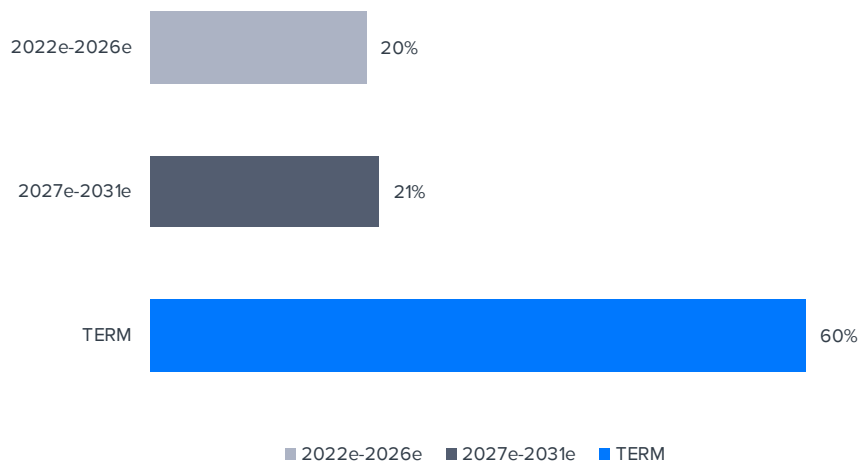
Source: Inderes

Liabilities & equity	2020	2021	2022e	2023e	2024e
Equity	38.5	62.9	84.0	108	135
Share capital	1.0	1.0	1.0	1.0	1.0
Retained earnings	20.7	41.9	63.1	87.3	114
Hybrid bonds	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	-4.6	-2.2	-2.2	-2.2	-2.2
Other equity	21.4	22.2	22.1	22.1	22.1
Minorities	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	8.6	6.5	14.5	4.7	1.1
Deferred tax liabilities	0.9	0.9	0.9	0.9	0.9
Provisions	0.0	0.0	0.0	0.0	0.0
Long term debt	6.1	4.0	13.6	3.8	0.2
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	1.6	1.6	0.0	0.0	0.0
Current liabilities	29.2	60.1	68.4	68.4	69.3
Short term debt	3.7	7.3	5.9	2.0	0.3
Payables	25.6	52.9	62.6	66.4	69.0
Other current liabilities	0.0	0.0	0.0	0.0	0.0
Balance sheet total	76.4	129.5	166.9	181.3	205.2

DCF calculation

DCF model	2021	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	TERM
EBIT (operating profit)	26.0	32.4	37.3	40.8	43.9	43.7	45.4	47.0	48.4	49.9	49.1	
+ Depreciation	3.3	3.5	3.6	3.6	3.6	3.0	3.0	3.1	3.1	3.1	3.2	
- Paid taxes	-4.8	-6.2	-7.4	-8.1	-8.7	-9.2	-9.5	-9.9	-10.2	-10.5	-10.3	
- Tax, financial expenses	0.0	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	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	-17.4	-20.1	-6.0	-2.7	-2.0	-1.2	0.2	0.7	-2.1	-2.2	-1.5	
Operating cash flow	7.0	9.6	27.4	33.6	36.8	36.2	39.1	40.9	39.2	40.3	40.5	
+ Change in other long-term liabilities	0.0	-1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-6.2	-4.7	-4.0	-3.6	-3.6	-3.3	-3.3	-3.3	-3.3	-3.3	-3.3	
Free operating cash flow	0.8	3.2	23.3	30.0	33.1	32.9	35.8	37.6	35.9	37.0	37.2	
+/- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	0.8	3.2	23.3	30.0	33.1	32.9	35.8	37.6	35.9	37.0	37.2	617
Discounted FCFF		3.1	20.5	24.3	24.8	22.8	23.0	22.3	19.7	18.8	17.4	289
Sum of FCFF present value		486	483	463	438	413	391	368	345	326	307	289
Enterprise value DCF		486										
- Interesting bearing debt		-11.3										
+ Cash and cash equivalents		9.2										
-Minorities		0.0										
-Dividend/capital return		-4.7										
Equity value DCF		479										
Equity value DCF per share		82.0										

Cash flow distribution



Wacc	
Tax-% (WACC)	25.0 %
Target debt ratio (D/(D+E))	20.0 %
Cost of debt	5.0 %
Equity Beta	1.25
Market risk premium	4.75%
Liquidity premium	1.30%
Risk free interest rate	2.0 %
Cost of equity	9.2 %
Weighted average cost of capital (WACC)	8.1 %

Source: Inderes

Summary

Income statement	2019	2020	2021	2022e	2023e	Per share data	2019	2020	2021	2022e	2023e
Revenue	71.0	106.5	169.8	223.5	245.8	EPS (reported)	1.44	1.59	3.60	4.42	5.05
EBITDA	11.5	15.9	29.3	35.9	40.8	EPS (adj.)	1.44	1.87	3.71	4.48	5.09
EBIT	10.1	12.6	26.0	32.4	37.3	OCF / share	1.74	0.61	1.19	1.64	4.68
PTP	9.7	11.5	25.7	32.0	36.9	FCF / share	1.48	-2.21	0.13	0.55	3.99
Net Income	6.3	9.2	21.1	25.9	29.5	Book value / share	5.01	6.62	10.75	14.36	18.52
Extraordinary items	0.0	-2.1	-0.8	-0.4	-0.3	Dividend / share	0.00	0.00	0.80	0.90	1.00
Balance sheet	2019	2020	2021	2022e	2023e	Growth and profitability	2019	2020	2021	2022e	2023e
Balance sheet total	36.5	76.4	129.5	166.9	181.3	Revenue growth-%	20%	50%	59%	32%	10%
Equity capital	21.9	38.5	62.9	84.0	108.3	EBITDA growth-%	25%	39%	84%	23%	14%
Goodwill	0.9	7.1	7.5	7.5	7.5	EBIT (adj.) growth-%	17%	45%	83%	22%	15%
Net debt	-0.5	5.9	2.0	3.8	-14.0	EPS (adj.) growth-%	7%	30%	98%	21%	14%
Cash flow	2019	2020	2021	2022e	2023e	EBITDA-%	16%	15%	17%	16%	17%
EBITDA	11.5	15.9	29.3	35.9	40.8	EBIT (adj.)-%	14%	14%	16%	15%	15%
Change in working capital	-1.3	-10.0	-17.4	-20.1	-6.0	EBIT-%	14%	12%	15%	14%	15%
Operating cash flow	7.6	3.6	7.0	9.6	27.4	ROE-%	33%	31%	42%	35%	31%
CAPEX	-1.1	-18.1	-6.2	-4.7	-4.0	ROI-%	41%	33%	42%	36%	34%
Free cash flow	6.5	-12.9	0.8	3.2	23.3	Equity ratio	60%	50%	52%	50%	60%
Valuation multiples	2019	2020	2021	2022e	2023e	Gearing	-2%	15%	3%	5%	-13%
EV/S	1.0	1.1	2.7	1.8	1.6						
EV/EBITDA (adj.)	6.4	7.1	15.8	11.5	9.7						
EV/EBIT (adj.)	7.3	7.7	17.2	12.6	10.5						
P/E (adj.)	11.8	9.8	21.2	15.6	13.7						
P/B	3.4	2.8	7.3	4.9	3.8						
Dividend-%	0.0 %	0.0 %	1.0 %	1.3 %	1.4 %						

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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Based on a notification received on April, 78 2021 Inderes' analyst Joonas Korkiakoski has a holding of over EUR 50,000 in the target company Incap Oyj.

Recommendation history (>12 mo)

Date	Recommendation	Target price	Share price
12-05-20	Accumulate	13.00 €	12.00 €
25-05-20	Accumulate	14.00 €	12.85 €
27-08-20	Accumulate	20.00 €	18.55 €
17-09-20	Accumulate	20.00 €	18.00 €
27-10-20	Accumulate	17.50 €	15.10 €
12-11-20	Accumulate	19.00 €	17.00 €
26-11-20	Accumulate	20.00 €	18.00 €
25-02-21	Accumulate	27.00 €	24.40 €
28-04-21	Accumulate	38.00 €	35.25 €
29-07-21	Accumulate	46.00 €	42.90 €
16-09-21	Accumulate	55.00 €	50.60 €
28-10-21	Reduce	70.00 €	73.90 €
25-02-22	Accumulate	72.00 €	67.10 €
23-03-22	Reduce	74.00 €	75.40 €
27-04-22	Reduce	74.00 €	70.00 €



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Itämerentori 2

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