

OMXC Large cap

Ticker: NETC

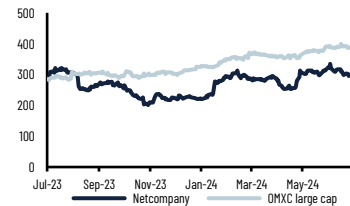
Share price (DKK): 297.4

Market cap (DKK): 14.9bn

Net debt (DKK): 2.3bn

Enterprise value (DKK): 17.2bn

Share information



Ytd: 31.8% 1 year: 4.6%
 1 month: -6.0% 3 year: -60.8%

Note: We apply the closing price from 9 July 2024
 Index rebased to July 2023. Source: Refinitiv

Financials

DKKm	2022	2023	2024E*
Revenue	5,544.7	6,078.4	~6,500 - 6,700
Revenue growth	52.7%	9.6%	7-10%
Adj. EBITDA	1,106.8	901.2	~975 - 1,200
Adj. EBITDA margin	20.0%	14.8%	15%-18%
Net income	602.8	304.1	N/A
Net income margin	10.9%	5.0%	N/A
Cash	336.1	448.1	N/A
Interest-bearing debt	2,185	2,610	N/A

Note: *Netcompany's own guidance for 2024

Valuation multiples

	2022	2023	2024E*
P/S (x)	2.6	1.8	2.2
EV/Sales (x)	3.0	2.2	2.6
EV/EBITDA (x)	15.0	14.9	15.2
EV/EBIT (x)	19.9	23.3	20.2
P/E (x)	24.2	37.0	25.4
P/B (x)	4.1	2.9	3.6
P/CF (x)	19.0	14.9	18.0

Note: Multiples for 2022 and 2023 are based on historical numbers
 *Multiples in 2024 are based on consensus estimates from Refinitiv

Company description

Netcompany is a Danish IT services company specialising in next-generation IT projects that focus on digital transformation through digital platforms, core systems, and infrastructure services in public and private sectors. The company has built a strong position in Denmark, particularly within the public sector, and is expanding its reach in Europe with core markets in the UK, Norway, and the Netherlands, and through its 2021 acquisition of Intrasoft International.

Investment case

Netcompany operates in one of the fastest growing areas of IT, with IDC forecasting the digital transformation market to grow at a 14.6%¹ CAGR from 2023-2027. Demand is supported by pan-European ambitions by governments to improve their digitalisation and by large corporates digitalising as a competitive advantage.

The company has become a trusted partner for Danish public sector projects with a strong private sector reputation (DK: 47% of revenue FY 2023). Netcompany is growing its European footprint, led by Intrasoft and the UK, and secured milestone projects in the UK (DALAS framework) and Norway (Avinor airport project), advancing the ability to secure large-scale public projects. The projects validate Netcompany's go-to-market strategy, leveraging composable platforms to strengthen project proposals. Markets outside of Denmark can continue driving growth with topline development also supporting margin expansion.

Growth has been somewhat more subdued since 2023, particularly in the private sector. Netcompany's 2024 guidance suggests moderate growth of 7-10%, however, with improving momentum in Q1 2024, and also improving margins. Some analysts now expect the current guidance to be conservative.

Netcompany has outperformed its peers YTD, and multiples have expanded as a result. Multiples trade more in-line with peers on a 2025E basis as analysts forecast growing revenues and margins.

¹<https://www.idc.com/getdoc.jsp?containerId=US50051223>

Key investment reasons

Netcompany's 2026 mid-term financial targets outline ambitions for organic revenue of at least DKK 8.5bn in 2026, with an EBITDA margin of at least 20% reflecting an Adj. EBITDA CAGR 23.6%. The targets also mention share buybacks of at least DKK 2.0bn to be used for share cancellations, which should see substantial EPS increases if the targets are met.

Netcompany's margins have historically been strong relative to peers, having retreated in recent years. However, Q1 2024 showed margin re-expansion, as right-sizing of the company during 2023, and new projects supported greater staff utilisation, a trend which can continue as Netcompany executes new and existing projects.

Netcompany has grown internationally via acquisitions, to support growth in international markets, which has outpaced growth in Denmark in recent years. Key project wins in the UK, and Norway suggests the strategy is working, and that growth can continue.

Key investment risks

Group margins fell during 2023, particularly affected by Denmark, its largest market, driven by private sector weakness, delayed project initiations, and staff underutilisation. Netcompany also saw margin compression despite realising strong topline growth. Sustained weakness or deterioration of Danish activities can materially affect the earnings outlook.

Netcompany forecasts continued growth across its geographical regions requiring talent acquisition. The fight for talent in IT services has somewhat eased; however, attracting and retaining talent may be a bottleneck to growth over the medium-term.

Netcompany relies on its reputation for quality and timeliness when tendering for contracts. Given the size and impact of typical Netcompany projects, reputation can be as or more influential than price in winning tenders. Involvement in a high-profile project failure may reduce its ability to win large tenders across regions.

Peer group

Company	Price	Total return	Market cap	Latest net debt	EV/EBITDA		EV/EBIT		Price/EPS		EBIT margin	
	(local)	Ytd	(EURm)	(EURm)	2024E	2025E	2024E	2025E	2024E	2025E	3-year avg	TTM
Globant SA	USD 180.0	-24.4%	7,060	-17	15.7x	13.4x	21.9x	18.2x	27.9x	23.6x	13.1%	13.3%
Endava PLC	USD 29.6	-62.0%	1,131	-155	7.9x	6.2x	10.9x	8.4x	20.3x	18.3x	14.3%	6.4%
Epam Systems Inc	USD 186.1	-37.4%	10,001	-1,871	11.1x	10.1x	12.2x	11x	18.3x	16.8x	12.5%	11.2%
Reply SpA	EUR 140.2	18.2%	5,060	-205	13.8x	12.6x	16.9x	15.3x	24.1x	22.4x	13.3%	13.7%
Kainos Group PLC	Gbp 1,072	-4.2%	1,535	-140	14.7x	12.9x	15.8x	13.6x	21.4x	19x	15.1%	15.5%
Average		-22.0%	4,958	-478	12.6x	11x	15.5x	13.3x	22.4x	20x	13.7%	12.0%
Netcompany Group A/S	DKK 297.4	31.8%	2,031	307	15.2x	13x	20.2x	17.1x	25.4x	19.9x	14.1%	9.5%
Premium (+) / Discount (-) to peers					20%	18%	30%	29%	14%	0%		

Note: Data from 09/07/24

Source: Refinitiv

Estimates and assumptions: Some of the data in the peer group has not been calculated by HC Andersen Capital but is instead consensus analyst estimates from Refinitiv. HC Andersen Capital assumes no responsibility for the correctness of the numbers in the peer group; however, considers Refinitiv a credible source of information.

Selected peers overview:

Globant SA is a global IT services company with a focus on next-generation digital transformation. The company was founded in Argentina and has a strong presence in Latin America and North America, with a smaller but growing presence in Europe. The company was listed on the Nasdaq in 2021 and pursues an active acquisition strategy to support organic growth. Globant primarily services blue-chip clients in the private sector, focusing on digital transformation through developing platforms with activities in a broad range of sectors; however, also undertakes public sector projects.

Endava Plc is a global IT services company with a focus on delivering next-generation IT solutions to deliver digital transformation for businesses. The company is headquartered in the UK and listed on the Nasdaq, generating around 50% of its revenue in the UK, with Europe and North America as its next largest markets. Endava also looks towards acquisitions to aid entry into new geographies and to support organic growth, delivering solutions across a broad range of sectors, but with little over 50% of revenue derived from its payments and financial services. Endava's clients are predominantly based in the private sector.

Epam is a global IT services company focused on next-generation digital transformation. The US-based company was founded in 1993, and is listed on the Nasdaq in 2012, generating over 50% of revenues from the Americas, and also a significant business in EMEA. Epam is primarily focused on blue chip private sector clients with broad sector focuses, including Travel & Consumer, Financial Services, Business Information & Media, Software and Hi-Tech, and Life Sciences & Healthcare, and also actively pursues acquisitions to support organic growth.

Reply SpA is an Italian IT services company focused on next-generation digital transformation. The company is headquartered in Turin, Italy, and was listed on the Milan Stock Exchange in 2000, with global activities in Europe, the Americas, and APAC. The company specialised in the design and implementation of solutions based on new communications channels and digital media, with activities across a broad range of sectors, the largest of which are Manufacturing & Retail, Financial Services, and Telco, Media & Hi-Tech. Reply also targets acquisitions to support organic growth.

Kainos is a UK-based IT services company with a focus on next-generation digital transformation in the public and private sectors. The company is headquartered in Belfast, Northern Ireland, and was listed on the London Stock Exchange in 2015. Kainos generates approx. 2/3 of its revenues from the UK, with the remainder from international operations, of which North America is its largest market. The company operates three business segments, Digital Services, which focuses on digital transformation, Workday Services, and Workday Products. Workday Services concerns the deployment of its partner, the US SaaS company, Workday's Finance, HR, and Planning products to corporate clients, while Workday Products develops products for clients that complement Workday. For the year 2022/23, public sector activities were responsible for 37% of revenues.