

Incap

Company report

02/23/2023



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✓ Inderes corporate customer

This report is a summary translation of the report “Hyvä näkymä ja riskit on tasapainoisesti hinnassa” published on 02/23/2023 at 08:40 am.

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Good outlook with risks priced in a balanced manner

We reiterate our EUR 17.00 target price and Reduce recommendation for Incap. We made only minor changes to our earnings estimates following the company's Q4 report. In our view, the Incap share is still not unreasonably expensive given the overall positive outlook for the company. We believe that the risk-adjusted expected return on the stock doesn't exceed the required return in the short term, especially given the recent increase in share price.

Excellent figures although our estimates set at the top of the guidance range were missed in Q4

Incap's revenue increased by 53% to EUR 78 million in Q4. However, revenue remained at the lower end of the company's own implicit guidance range and below our estimate. We estimate that the company's large customers drove the growth and in H2, the top 4 customers' share of revenue increased slightly relative to both H2'21 and H1. Incap's adjusted EBIT grew almost in line with net sales, increasing by 50% to EUR 12.7 million in Q4. Adjusted EBIT fell in the middle of the company's implicit guidance range and missed our estimate set at the top of the range, mainly due to slightly lower than expected revenue (no surprises in H2's cost structure). On the lower rows, financial expenses and the tax rate were slightly up in Q4, in line with our expectations.

We raised our estimates moderately after the report

Incap's guidance for the current year is that the company's revenue and adjusted operating profit (EBIT) in 2023 will be higher than in 2022. Last year, Incap achieved an adjusted EBIT of EUR 40 million on a revenue of EUR 264 million. The guidance assumes that there will be no unforeseen changes in the operating environment, for example in the availability of components. Comments and details were mixed. The demand outlook still looks good, and the easing of the component shortage should facilitate the company's operations (including cash flow). However, in a normalizing component situation, customers will shorten their order delivery cycles (i.e. Incap's visibility will be reduced) and competition along the value chains may become more intense. We recently raised our Incap revenue estimates on volumes slightly, reflecting better-than-expected developments in the European macro environment and the dissipation of the most negative scenarios of last fall. Revenue estimates were also boosted by a more inflationary operating environment than we had previously expected. At the operating profit level, we raised estimates in line with revenue projections by around 4-5% for the next few years, but for the EPS line the changes were limited due to slight negative revisions to financing costs and the tax rate. We expect Incap's earnings to remain at a slower annual growth rate of 8-17% in the coming years after the skyrocketing of 2021 and 2022, as revenue continues its gradual upward climb and profitability remains at the company's base level of around 15%, while the company's factory network maintains its high efficiency. In our view, the main risks to our earnings estimates are individual large customers and increased competition.

Expected return roughly in line with required return

Incap's P/E ratios for 2023 and 2024 based on our estimates are 15x and 14x, while the corresponding EV/EBIT ratios are 11x and 9x. At current year multiples, we believe the valuation is slightly elevated, given that a concentrated customer base is limiting the company's acceptable valuation, even though Incap's track-record is among the absolute elite in the industry. Thus, part of the earnings growth we expect this year will remain below the declining valuation multiples, and we believe that the company's risk-adjusted expected return for the year will be around the level of the required return. Moreover, relative to our DCF, Incap's upside is thin. We thus continue to wait for a clearer buying position in Incap, which has an attractive long-term investment story.

Recommendation

Reduce

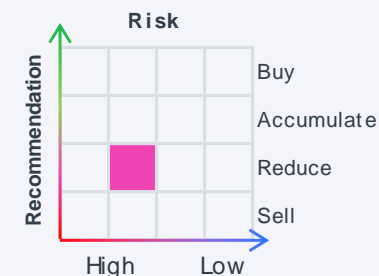
(previous Reduce)

EUR 17.00

(previous EUR 17.00)

Share price:

18.04



Key figures

	2022	2023e	2024e	2025e
Revenue	263.8	311.0	341.7	369.1
growth-%	55%	18%	10%	8%
EBIT adj.	40.0	46.7	51.1	55.1
EBIT-% adj.	15.2 %	15.0 %	14.9 %	14.9 %
Net Income	27.6	34.1	38.5	41.9
EPS (adj.)	0.98	1.17	1.32	1.44

P/E (adj.)	17.5	15.4	13.7	12.5
P/B	5.7	4.3	3.4	2.8
Dividend yield-%	0.0 %	0.8 %	1.1 %	1.4 %
EV/EBIT (adj.)	12.8	11.0	9.4	8.2
EV/EBITDA	12.0	10.1	8.7	7.6
EV/S	1.9	1.6	1.4	1.2

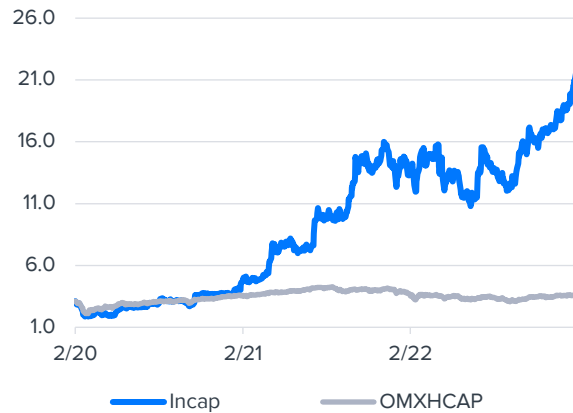
Source: Inderes

Guidance

(Unchanged)

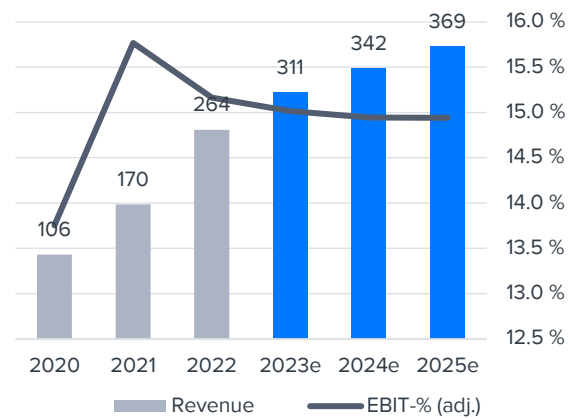
Incap estimates that its revenue, operating profit (EBIT) and adjusted operating profit (EBIT) for 2023 will be higher than in 2022.

Share price



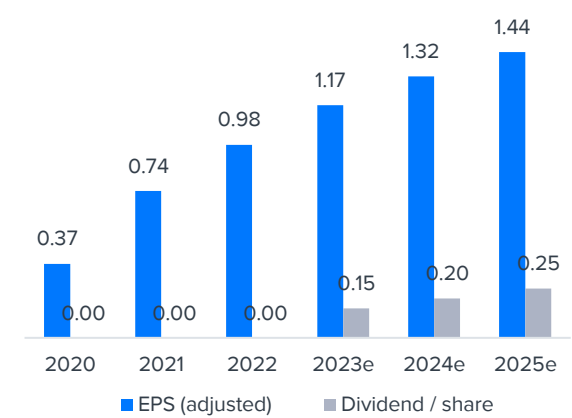
Source: Millistream Market Data AB

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



Risk factors

- Mutually challenging value chain position upholds a brutal competitive situation
- Cyclical nature of customer industries
- Tightening competitive situation
- Company's cost efficiency deteriorating
- Disruptions in the supply chain
- A very large single customer and an otherwise concentrated customer structure

Valuation	2023e	2024e	2025e
Share price	18.04	18.04	18.04
Number of shares, millions	29.3	29.3	29.3
Market cap	528	528	528
EV	513	482	452
P/E (adj.)	15.4	13.7	12.5
P/E	15.5	13.7	12.6
P/FCF	17.9	15.0	14.8
P/B	4.3	3.4	2.8
P/S	1.7	1.5	1.4
EV/Sales	1.6	1.4	1.2
EV/EBITDA	10.1	8.7	7.6
EV/EBIT (adj.)	11.0	9.4	8.2
Payout ratio (%)	12.9 %	15.2 %	17.4 %
Dividend yield-%	0.8 %	1.1 %	1.4 %

Source: Inderes

Estimates and estimate revisions

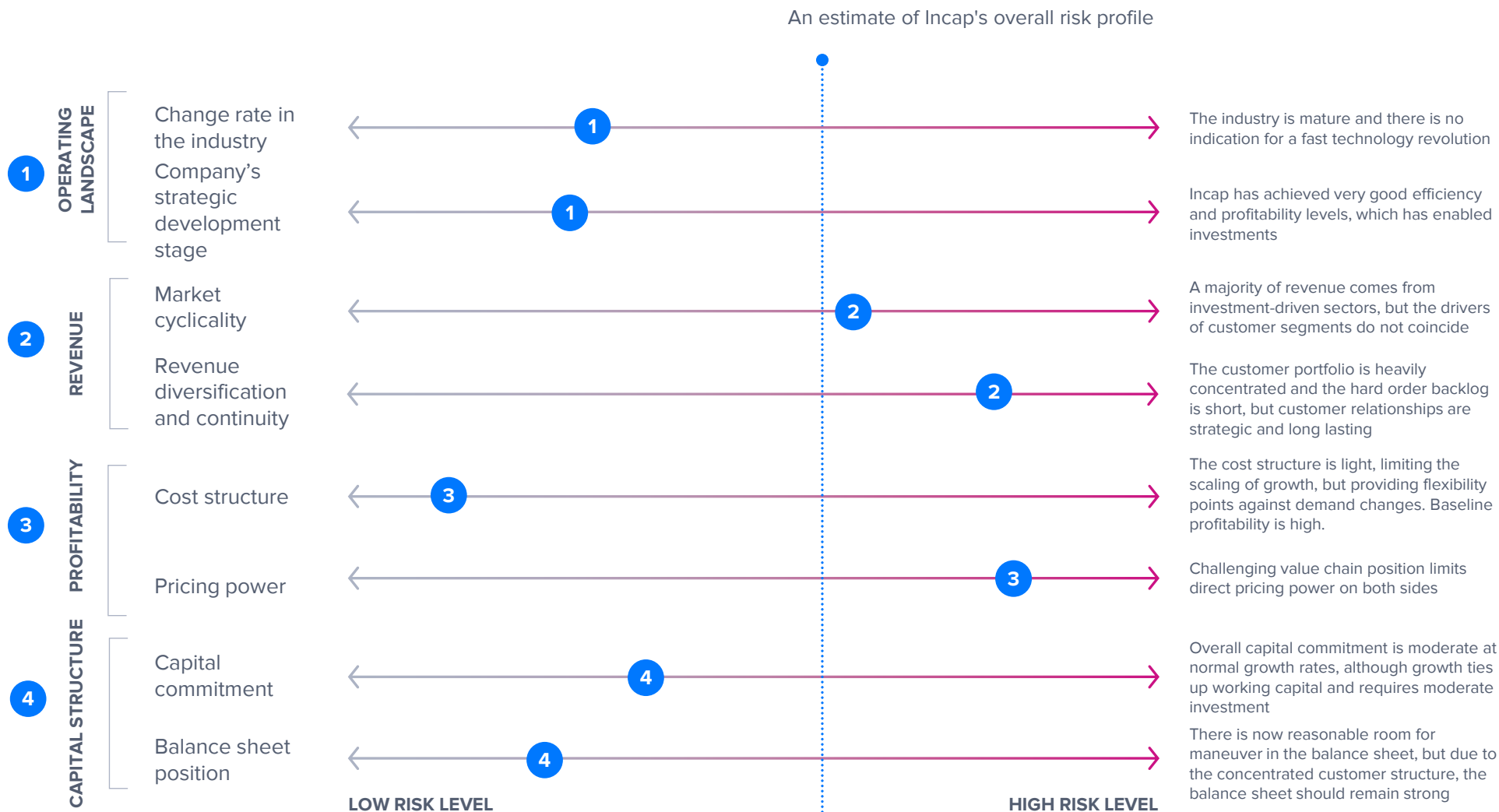
Estimates MEUR / EUR	Q4'21 Comparison	Q4'22 Actualized	Q4'22e Inderes	Q4'22e Consensus	Consensus Low High	Difference (%) Act. vs. inderes	2022 Actualized
Revenue	51.5	78.7	83.0			-5%	264
EBIT (adj.)	8.6	12.9	14.1			-9%	40.0
EBIT	8.4	12.7	14.0			-9%	39.0
EPS (reported)	0.24	0.30	0.63			-53%	0.94
DPS	0.00	0.00	0.18			-100%	0.00
Revenue growth-%	63.2 %	52.9 %	61.2 %			-8.4 pp	55.4 %
EBIT-% (adj.)	16.8 %	16.4 %	17.0 %			-0.6 pp	15.2 %

Source: Inderes

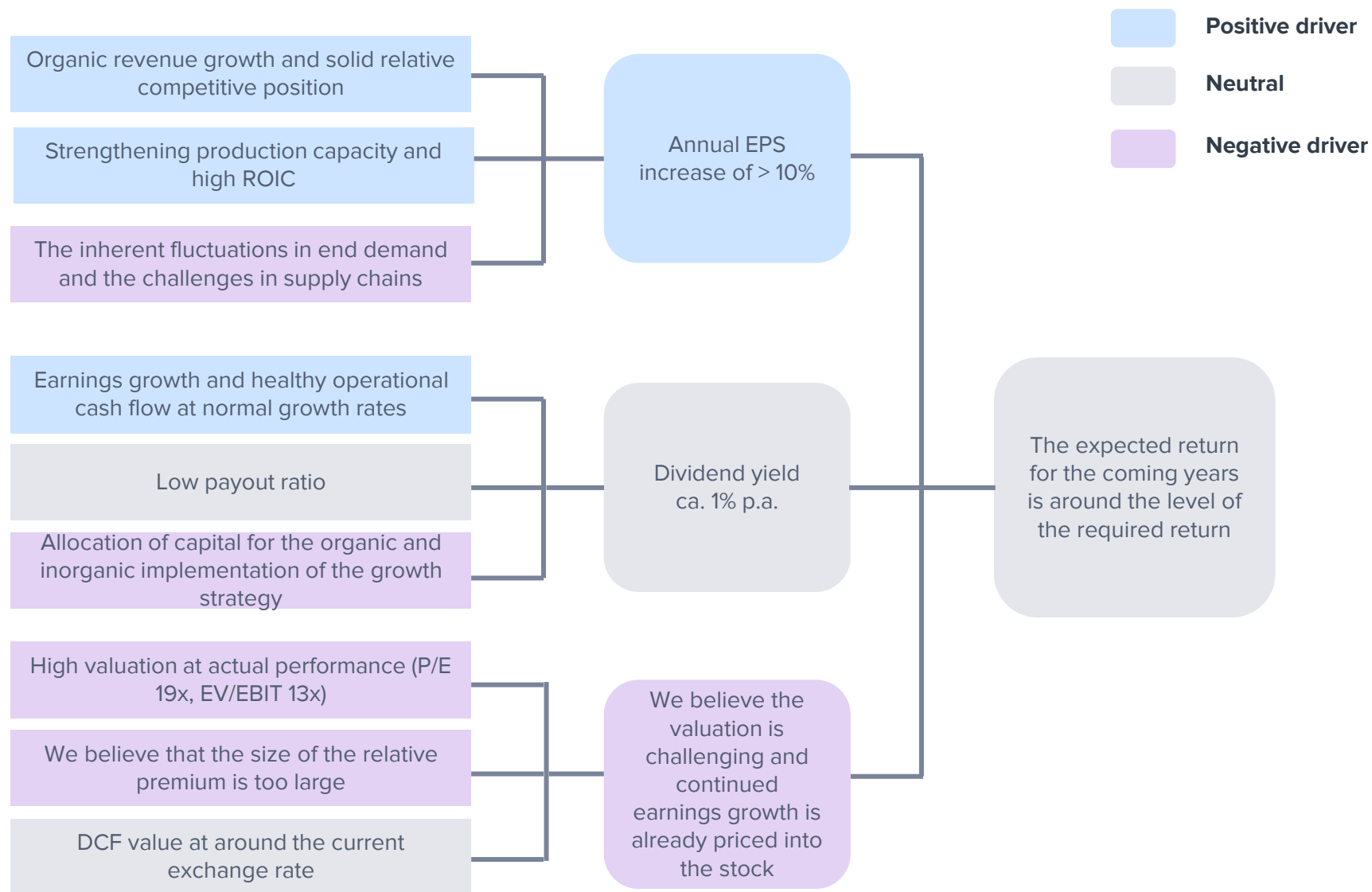
Estimate revisions MEUR / EUR	2022 Old	2022e New	Change %	2023e Old	2023e New	Change %	2024e Old	2024e New	Change %
Revenue	268	264	-2%	294	311	6%	321	342	7%
EBIT	40.3	39.0	-3%	44.4	46.4	4%	48.0	50.7	6%
PTP	37.9	36.7	-3%	43.7	44.9	3%	47.7	50.0	5%
EPS (reported)	1.01	0.98	-4%	1.17	1.17	1%	1.27	1.30	3%
DPS	0.18	0.00	-100%	0.20	0.15	-25%	0.22	0.20	-9%

Source: Inderes

Risk profile of the business model



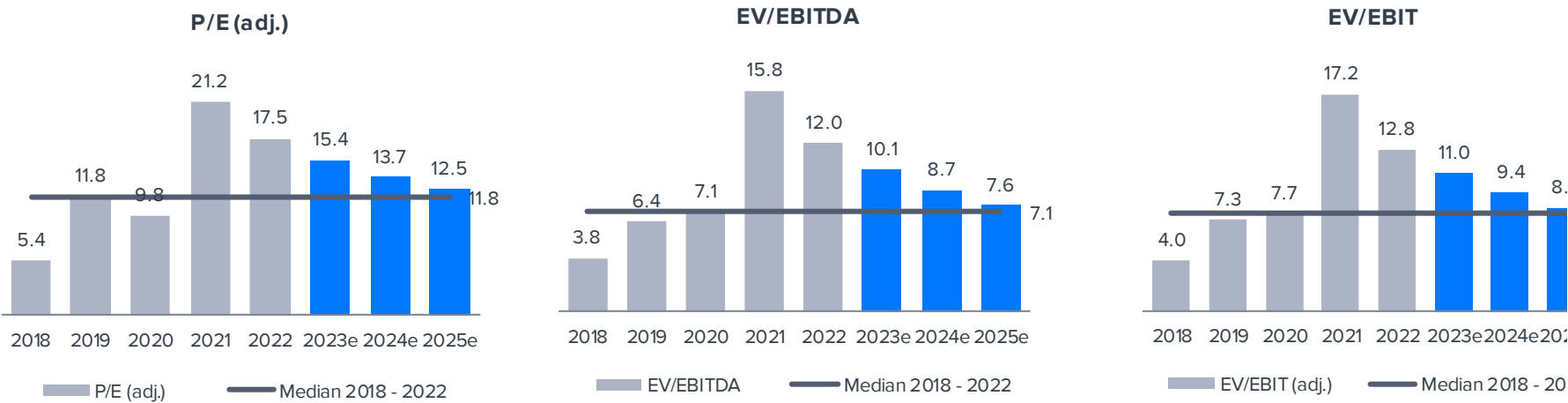
EPS drivers 2022e to 2024e



Valuation table

Valuation	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e
Share price	1.45	3.38	3.69	15.70	17.10	18.04	18.04	18.04	18.04
Number of shares, millions	21.9	21.9	29.1	29.2	29.3	29.3	29.3	29.3	29.3
Market cap	32	74	107	459	500	528	528	528	528
EV	35	73	113	461	514	513	482	452	420
P/E (adj.)	5.4	11.8	9.8	21.2	17.5	15.4	13.7	12.5	12.0
P/E	5.4	11.8	11.6	21.8	18.1	15.5	13.7	12.6	12.1
P/FCF	13.7	11.4	neg.	>100	neg.	17.9	15.0	14.8	13.8
P/B	2.0	3.4	2.8	7.3	5.7	4.3	3.4	2.8	2.3
P/S	0.5	1.0	1.0	2.7	1.9	1.7	1.5	1.4	1.3
EV/Sales	0.6	1.0	1.1	2.7	1.9	1.6	1.4	1.2	1.1
EV/EBITDA	3.8	6.4	7.1	15.8	12.0	10.1	8.7	7.6	6.8
EV/EBIT (adj.)	4.0	7.3	7.7	17.2	12.8	11.0	9.4	8.2	7.4
Payout ratio (%)	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	12.9 %	15.2 %	17.4 %	20.0 %
Dividend yield-%	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.8 %	1.1 %	1.4 %	1.7 %

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	2023e	2024e	2023e	2024e	2023e	2024e	2023e	2024e	2023e	2024e	2023e
Cicor Technologies	155	255	14.9	10.7	7.1	6.0	0.7	0.7	15.9	10.1			1.2
Integrated Micro-Electronics	203	436	17.3	13.3	6.5	5.7	0.3	0.3	24.5	12.3			0.5
Data Modul	201	228	6.5	5.3	5.8	4.9	0.6	0.6	10.8	9.7	0.2	0.2	1.4
Hanza	249	300	12.6	9.0	5.0	4.3	0.4	0.4	18.4	16.4	1.2	1.4	1.1
Kitron	618	769	15.5	13.9	11.7	10.8	1.2	1.1	17.9	16.3	2.4	2.9	3.8
Lacroix Group SA	149	306	10.7	9.1	6.2	5.5	0.4	0.4	8.8	7.6	3.1	4.0	0.8
Jabil	10314	11934	7.9	7.5	4.8	4.7	0.4	0.4	9.9	9.2	0.4	0.4	3.9
Scanfil	503	599	12.0	11.2	9.0	8.6	0.7	0.7	13.2	12.1	2.8	3.0	2.0
Fabrinet	4183	3700	13.8	12.7	12.0	11.2	1.5	1.3	15.8	14.4			3.0
Hana Microelectronics	1275	1172	17.9	14.7	10.5	9.4	1.5	1.4	18.3	15.8	3.4	4.0	1.9
SVI	560	649	13.9	12.4	10.9	10.0	0.8	0.8	12.6	11.4	2.7	3.0	2.7
TT Electronics	369	528	9.3	8.5	6.9	6.4	0.7	0.7	9.7	8.6	3.7	4.1	0.9
Katek Se	204	257	285.4	10.1	11.4	5.1	0.4	0.3		13.2			1.4
Nolato AB	1257	1350	17.0	13.2	10.4	8.7	1.4	1.3	20.2	15.7	4.0	3.6	2.5
Celestica	1498	2037	5.6	5.4	4.4	4.2	0.3	0.3	6.4	5.9			0.9
Incap (Inderes)	528	513	11.0	9.4	10.1	8.7	1.6	1.4	15.4	13.7	0.8	1.1	4.3
Average			30.7	10.5	8.2	7.0	0.8	0.7	14.5	11.9	2.4	2.7	1.9
Median			13.8	10.7	7.1	6.3	0.7	0.7	14.5	12.1	2.8	3.0	1.4
Diff.% to median			-21%	-12%	42%	38%	126%	111%	6%	13%	-70%	-63%	215%

Source: Refinitiv / Inderes. NB: The market cap Inderes uses does not consider own shares held by the company.

Income statement

Income statement	H1'21	H2'21	2021	H1'22	H2'22	2022	H1'23e	H2'23e	2023e	2024e	2025e	2026e
Revenue	71.3	98.5	170	115	149	264	147	164	311	342	369	391
Incap	71.3	98.5	170	115	149	264	147	164	311	342	369	391
EBITDA	11.3	17.9	29.3	17.2	25.6	42.8	23.5	27.5	50.9	55.5	59.6	61.6
Depreciation	-1.6	-1.7	-3.3	-1.8	-2.0	-3.8	-2.1	-2.4	-4.5	-4.9	-4.9	-4.9
EBIT (excl. NRI)	10.2	16.6	26.8	15.6	24.4	40.0	21.5	25.2	46.7	51.1	55.1	57.1
EBIT	9.8	16.2	26.0	15.4	23.6	39.0	21.4	25.1	46.4	50.7	54.7	56.7
Net financial items	-0.3	0.1	-0.3	-0.8	-1.5	-2.3	-0.9	-0.6	-1.5	-0.7	-0.7	0.0
PTP	9.4	16.3	25.7	14.6	22.1	36.7	20.5	24.5	44.9	50.0	54.0	56.7
Taxes	-1.6	-3.0	-4.7	-3.4	-5.7	-9.0	-4.9	-5.9	-10.8	-12.2	-13.2	-13.8
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	7.8	13.3	21.1	11.2	16.4	27.6	15.5	18.6	34.1	37.8	40.8	42.9
EPS (adj.)	0.28	0.46	0.74	0.39	0.59	0.98	0.54	0.64	1.17	1.30	1.41	1.48
EPS (rep.)	0.27	0.45	0.72	0.38	0.57	0.94	0.53	0.64	1.17	1.29	1.39	1.47

Key figures	H1'21	H2'21	2021	H1'22	H2'22	2022	H1'23e	H2'23e	2023e	2024e	2025e	2026e
Revenue growth-%	52.2 %	65.1 %	59.4 %	60.6 %	51.6 %	55.4 %	28.4 %	9.9 %	17.9 %	9.9 %	8.0 %	6.0 %
Adjusted EBIT growth-%	83.5 %	82.3 %	82.8 %	53.1 %	47.1 %	49.4 %	37.9 %	3.3 %	16.8 %	9.3 %	8.0 %	3.6 %
EBITDA-%	15.9 %	18.2 %	17.2 %	15.0 %	17.2 %	16.2 %	16.0 %	16.7 %	16.4 %	16.2 %	16.2 %	15.7 %
Adjusted EBIT-%	14.3 %	16.8 %	15.8 %	13.6 %	16.4 %	15.2 %	14.6 %	15.4 %	15.0 %	14.9 %	14.9 %	14.6 %
Net earnings-%	10.9 %	13.5 %	12.4 %	9.8 %	11.0 %	10.5 %	10.6 %	11.3 %	11.0 %	11.1 %	11.1 %	11.0 %

Lähde: Inderes

Balance sheet

Assets	2021	2022	2023e	2024e	2025e
Non-current assets	23	33	32	31	30
Goodwill	8	7	7	7	7
Intangible assets	0	4	4	3	3
Tangible assets	14	20	20	20	19
Associated companies	0	0	0	0	0
Other investments	0	0	0	0	0
Other non-current assets	0	1	1	1	1
Deferred tax assets	1	0	0	0	0
Current assets	102	136	184	227	271
Inventories	59	92	96	103	107
Other current assets	0	0	0	0	0
Receivables	34	36	59	65	74
Cash and equivalents	9	8	29	60	90
Balance sheet total	130	168	216	258	301

Source: Inderes

Liabilities & equity	2021	2022	2023e	2024e	2025e
Equity	63	87	122	156	192
Share capital	1	1	1	1	1
Retained earnings	42	70	104	138	174
Hybrid bonds	0	0	0	0	0
Revaluation reserve	-2	-5	-5	-5	-5
Other equity	22	22	22	22	22
Minorities	0	0	0	0	0
Non-current liabilities	6	13	13	13	13
Deferred tax liabilities	1	1	1	1	1
Provisions	2	2	2	2	2
Long term debt	4	11	10	10	10
Convertibles	0	0	0	0	0
Other long term liabilities	0	0	0	0	0
Current liabilities	60	68	82	90	97
Short term debt	7	11	4	4	4
Payables	53	57	78	85	92
Other current liabilities	0	1	1	1	1
Balance sheet total	130	168	216	258	301

DCF calculation

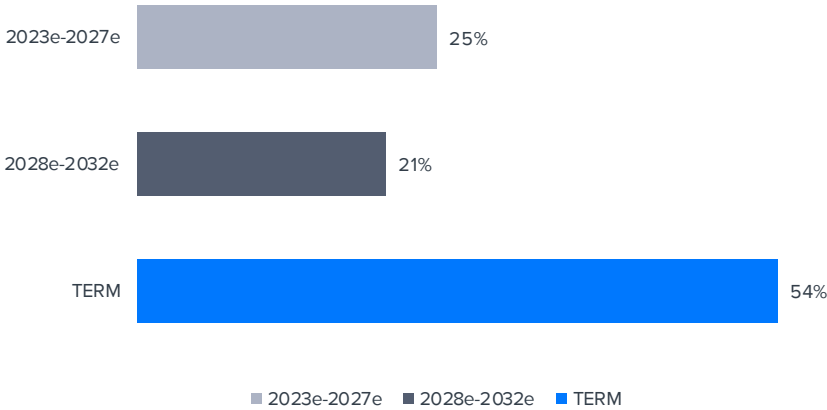
DCF model	2022	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	TERM
Revenue growth-%	55.4 %	17.9 %	9.9 %	8.0 %	6.0 %	5.0 %	4.0 %	3.5 %	3.0 %	3.0 %	2.0 %	2.0 %
EBIT-% (adj.)	14.8 %	14.9 %	14.8 %	14.8 %	14.5 %	14.5 %	14.5 %	14.5 %	14.0 %	13.5 %	13.5 %	13.5 %
EBIT (operating profit)	39.0	46.4	50.7	54.7	56.7	59.6	61.9	64.1	63.8	63.3	64.6	
+ Depreciation	3.8	4.5	5.1	5.1	5.0	5.0	5.2	5.2	5.4	5.4	4.9	
- Paid taxes	-8.8	-10.8	-12.2	-13.2	-13.8	-14.6	-15.3	-15.9	-15.9	-15.9	-16.3	
- Tax, financial expenses	-0.6	-0.4	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	
+ Tax, financial income	0.0	0.0	0.2	0.3	0.4	0.5	0.6	0.7	0.8	0.9	1.0	
- Change in working capital	-30.7	-6.2	-4.3	-6.6	-5.3	-4.7	-3.9	-3.6	-3.2	-3.3	-2.3	
Operating cash flow	2.8	33.5	39.3	40.2	42.8	45.6	48.4	50.4	50.6	50.3	51.7	
+ Change in other long-term liabilities	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-9.7	-4.0	-4.0	-4.5	-4.5	-5.0	-5.0	-5.0	-5.0	-5.0	-5.0	
Free operating cash flow	-6.7	29.5	35.3	35.6	38.3	40.5	43.3	45.4	45.6	45.2	46.7	
+/- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	-6.7	29.5	35.3	35.6	38.3	40.5	43.3	45.4	45.6	45.2	46.7	692
Discounted FCFF		27.4	30.1	28.0	27.6	26.8	26.3	25.3	23.4	21.3	20.2	299
Sum of FCFF present value		556	528	498	470	443	416	390	364	341	320	299
Enterprise value DCF		556										
- Interesting bearing debt		-21.2										
+ Cash and cash equivalents		7.6										
-Minorities		0.0										
-Dividend/capital return		0.0										
Equity value DCF		542										
Equity value DCF per share		18.5										

Wacc

Tax-% (WACC)	25.0 %
Target debt ratio (D/(D+E))	10.0 %
Cost of debt	5.0 %
Equity Beta	1.20
Market risk premium	4.75%
Liquidity premium	1.25%
Risk free interest rate	2.5 %
Cost of equity	9.5 %
Weighted average cost of capital (WACC)	8.9 %

Source: Inderes

Cash flow distribution



Summary

Income statement	2020	2021	2022	2023e	2024e	Per share data	2020	2021	2022	2023e	2024e
Revenue	106.5	169.8	263.8	311.0	341.7	EPS (reported)	0.32	0.72	0.94	1.17	1.32
EBITDA	15.9	29.3	42.8	50.9	55.7	EPS (adj.)	0.37	0.74	0.98	1.17	1.32
EBIT	12.6	26.0	39.0	46.4	50.7	OCF / share	0.12	0.24	0.09	1.15	1.34
PTP	11.5	25.7	36.7	44.9	50.6	FCF / share	-0.44	0.03	-0.23	1.01	1.21
Net Income	9.2	21.1	27.6	34.1	38.5	Book value / share	1.32	2.15	2.99	4.15	5.32
Extraordinary items	-2.1	-0.8	-1.0	-0.3	-0.4	Dividend / share	0.00	0.00	0.00	0.15	0.20
Balance sheet	2020	2021	2022	2023e	2024e	Growth and profitability	2020	2021	2022	2023e	2024e
Balance sheet total	76.4	129.5	168.4	216.4	258.1	Revenue growth-%	50%	59%	55%	18%	10%
Equity capital	38.5	62.9	87.4	121.6	155.6	EBITDA growth-%	39%	84%	46%	19%	9%
Goodwill	7.1	7.5	7.2	7.2	7.2	EBIT (adj.) growth-%	45%	83%	49%	17%	9%
Net debt	5.9	2.0	13.6	-14.8	-45.6	EPS (adj.) growth-%	30%	98%	31%	20%	12%
Cash flow	2020	2021	2022	2023e	2024e	EBITDA-%	15%	17%	16%	16%	16%
EBITDA	15.9	29.3	42.8	50.9	55.7	EBIT (adj.)-%	14%	16%	15%	15%	15%
Change in working capital	-10.0	-17.4	-30.7	-6.2	-4.3	EBIT-%	12%	15%	15%	15%	15%
Operating cash flow	3.6	7.0	2.8	33.5	39.3	ROE-%	31%	42%	37%	33%	28%
CAPEX	-18.1	-6.2	-9.7	-4.0	-4.0	ROI-%	33%	42%	43%	38%	34%
Free cash flow	-12.9	0.8	-6.7	29.5	35.3	Equity ratio	50%	52%	52%	56%	60%
						Gearing	15%	3%	16%	-12%	-29%
Valuation multiples	2020	2021	2022	2023e	2024e						
EV/S	1.1	2.7	1.9	1.6	1.4						
EV/EBITDA (adj.)	7.1	15.8	12.0	10.1	8.7						
EV/EBIT (adj.)	7.7	17.2	12.8	11.0	9.4						
P/E (adj.)	9.8	21.2	17.5	15.4	13.7						
P/B	2.8	7.3	5.7	4.3	3.4						
Dividend-%	0.0 %	0.0 %	0.0 %	0.8 %	1.1 %						

Source: Inderes

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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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Recommendation history (>12 mo)

Date	Recommendation	Target price	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 €
<i>Analyst changed</i>			
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 €



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