

Incap

Company report

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✓ Inderes corporate customer

This report is a summary translation of the report "Terhakkaa tuloksentekoa" published on 04/28/2021 at 7:35 am

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Perky performance

Incap released its Q1 report yesterday. Thanks to the raised estimates announced by the company last week, we could expect better than predicted performance from the company and this also materialized. Incap has raised its efficiency to an astonishing level and there is a lot of leeway in the balance sheet to implement the inorganic strategy. Thus, we consider Incap's longer term value creation potential to be good and relative to this the share is not especially expensive. Therefore, we reiterate our Accumulate recommendation and revise our target price to EUR 38.00 (previously EUR 27.00) as a result of the clear estimate increases.

Great start to the year

In Q1, Incap's revenue grew by 55% to EUR 37.7 million. Revenue growth was primarily driven by strongly developed organic delivery flows, but at the beginning of the year volume support was still provided by one inorganic month from the AWS acquisition. We believe the strong organic growth is a sign of well-developed delivery flows especially towards main customers and new capacity in India that was taken into use faster than planned. In Q1, Incap reached EUR 5.7 million in adjusted operating profit. We believe the strong result growth was based on splendidly risen volumes that focused on India's efficient production plants and that were easily scalable in terms of the cost dynamics of operations. Incap's start to the year was very strong and, in our opinion, again convincing evidence of how efficient the company has become.

We raised our estimates clearly

Incap's guidance for the ongoing year is that its revenue and adjusted operating profit for 2021 will be clearly higher than in 2020 assuming that there are no major negative changes in the COVID pandemic situation, currency exchange rates or component availability. In light of the strong start to the year and more detailed comments from the management, the demand outlook for 2021 seems very healthy. Considering this and the company's competitiveness we raised our 2021 estimates clearly. We now expect Incap's revenue to grow by 24% to EUR 132 million driven by strong delivery flows throughout the year. We estimate that adjusted operating profit will amount to EUR 19.2 million thanks to volume growth focused on the Indian plants, efficient core business and lifting COVID burdens. The biggest worries for 2021 increasingly concern material availability and the development of the difficult COVID situation in India. So far, Incap has with its own measures managed the component situation well considering and we believe this will continue. The risks related to the situation in India are, in turn, completely out of the company's own hands.

Return expectation still acceptable

Incap's adjusted P/E ratios based on our estimates for 2021 and 2022 are 14x and 12x, while the corresponding EV/EBITDA multiples are 10x and 8x. Absolute multiples are not senselessly high and are within our updated neutral range for the company. The multiples are above historic medians, but we consider this justified considering the risk level that has decreased thanks to the AWS acquisition and consistent evidence in terms of earnings. The return expectation that consists mainly of the expected earnings growth and small upside in various valuation multiples is still higher than the equity return requirement. In the longer term, the return expectation is, in turn, supported by an A&M transaction option expected to have a positive outcome.

Recommendation

Accumulate

(previous Accumulate)

EUR 38.00

(previous EUR 27.00)

Share price:

35.25



Key indicators

	2020	2021e	2022e	2023e
Revenue	106,5	131,7	148,2	157,1
growth-%	50 %	24 %	13 %	6 %
EBIT adj.	14,6	19,2	21,7	23,1
EBIT-% adj.	13,8 %	14,6 %	14,6 %	14,7 %
Net Income	9,2	14,6	16,5	17,6
EPS (adj.)	1,87	2,60	2,88	3,05

P/E (adj.)	9,8	13,5	12,2	11,6
P/B	2,8	3,5	2,8	2,4
Dividend yield-%	0,0 %	1,1 %	1,3 %	1,4 %
EV/EBIT (adj.)	7,7	10,3	8,7	7,6
EV/EBITDA	7,1	9,6	8,0	7,0
EV/S	1,1	1,5	1,3	1,1

Source: Inderes

Guidance

(Unchanged)

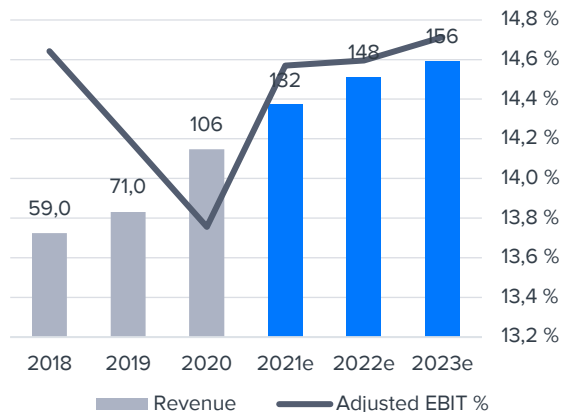
Incap expects that its revenue and adjusted operating profit for 2021 will be clearly higher than in 2020 assuming that there are no major negative changes in the COVID pandemic situation, currency exchange rates or component availability.

Share price



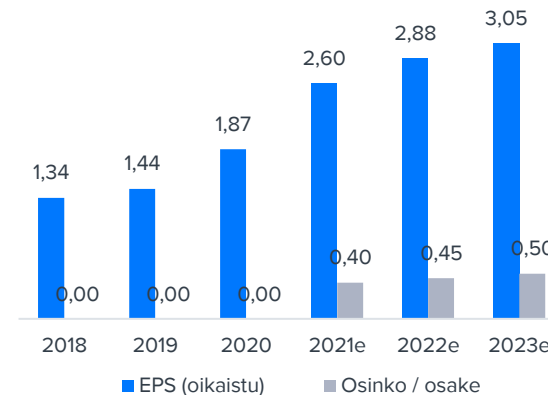
Source: Thomson Reuters

Net sales and EBIT %



Source: Inderes

EPS and dividend



Source: Inderes



Value drivers

- Organic growth on electronics market supported by global megatrends and increased outsourcing
- Light organization and cost structure enable high profitability
- Fast decision-making supports new customer acquisition
- Growth acceleration through acquisitions



Risk factors

- Challenging value chain position maintains a brutal competitive situation
- Cyclical nature of customer industries
- Tightening competitive situation
- Short-term disruptions in delivery chains and worsening COVID situation in India



Valuation

- Absolute multiples are not especially high and are within our updated multiple range
- Share priced within the fair value range
- Return expectation consisting of earnings growth, small dividend, and slight upside in multiples is still good in our opinion
- M&A transaction option supports longer term return expectation

MCAP
206
EUR million

EV
197
EUR million

P/E
14x
2021e

EV/EBITDA
10x
2021e

Estimates

Estimates MEUR / EUR	Q1'20	Q1'21	Q1'21e	Q1'21e	Consensus		Difference (%)	2021e
	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. inderes	Inderes
Revenue	24,3	37,7	30,5				23 %	132
EBIT (adj.)	2,7	5,7	4,0				42 %	19,2
EBIT	2,2	5,5	3,8				43 %	18,4
EPS (reported)	0,26	0,79	0,49				61 %	2,49
Revenue growth-%	31,4 %	55,1 %	25,7 %				29,5 pp	23,7 %
EBIT-% (adj.)	11,1 %	15,2 %	13,2 %				2 pp	14,6 %

Source: Inderes

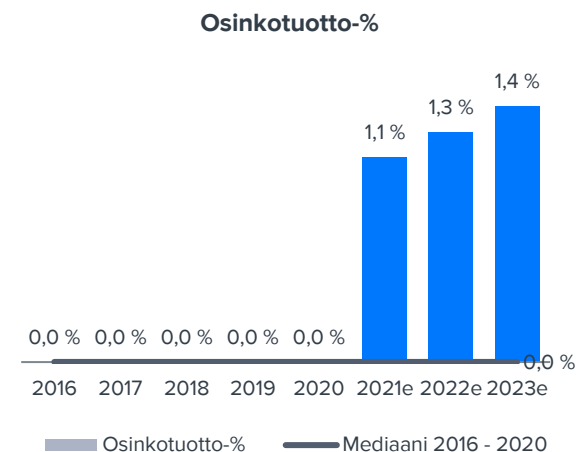
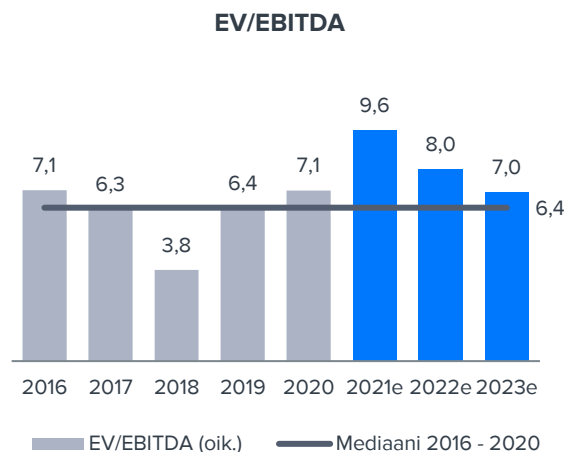
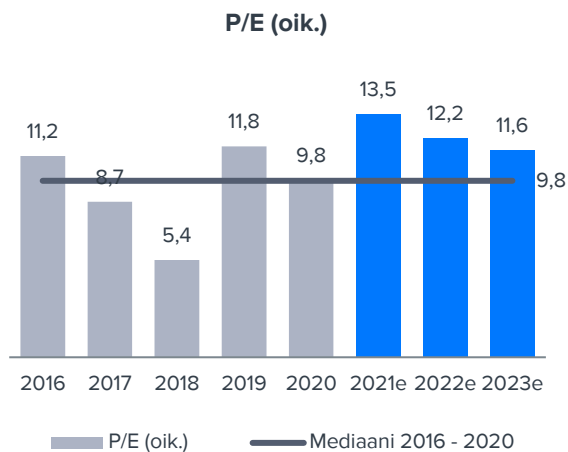
Estimate revisions MEUR / EUR	2021e	2021e	Change	2022e	2022e	Change	2023e	2023e	Change
	Old	New	%	Old	New	%	Old	New	%
Revenue	118	132	12 %	125	148	18 %	130	157	20 %
EBITDA	17,4	20,5	18 %	19,2	23,6	23 %	20,2	25,1	25 %
EBIT (exc. NRIs)	16,0	19,2	20 %	17,3	21,7	25 %	18,2	23,1	27 %
EBIT	15,2	18,4	21 %	16,9	21,3	26 %	17,9	22,8	28 %
EPS (raportoitu)	2,00	2,49	24 %	2,22	2,83	27 %	2,32	3,00	29 %
DPS	0,30	0,40	33 %	0,35	0,45	29 %	0,40	0,50	25 %

Source: Inderes

Valuation table

Valuation	2016	2017	2018	2019	2020	2021e	2022e	2023e	2024e
Share price	5,46	6,19	7,26	16,9	18,5	35,25	35,25	35,25	35,25
Number of shares, millions	4,37	4,37	4,37	4,37	5,82	5,85	5,85	5,85	5,85
Market cap	24	27	32	74	107	206	206	206	206
EV	29	31	35	73	113	197	188	176	165
P/E (adj.)	11,2	8,7	5,4	11,8	9,8	13,5	12,2	11,6	11,0
P/E	11,2	8,7	5,4	11,8	11,6	14,2	12,5	11,7	11,1
P/FCF	neg.	11,7	13,7	11,4	neg.	20,9	16,7	14,3	13,6
P/B	3,0	2,6	2,0	3,4	2,8	3,5	2,8	2,4	2,0
P/S	0,6	0,6	0,5	1,0	1,0	1,6	1,4	1,3	1,3
EV/Sales	0,8	0,6	0,6	1,0	1,1	1,5	1,3	1,1	1,0
EV/EBITDA	7,1	6,3	3,8	6,4	7,1	9,6	8,0	7,0	6,3
EV/EBIT (adj.)	7,8	6,9	4,0	7,3	7,7	10,3	8,7	7,6	6,7
Payout ratio (%)	0,0 %	0,0 %	0,0 %	0,0 %	0,0 %	16,1 %	15,9 %	16,6 %	17,4 %
Dividend yield-%	0,0 %	0,0 %	0,0 %	0,0 %	0,0 %	1,1 %	1,3 %	1,4 %	1,6 %

Source: Inderes



Peer group valuation

Peer group valuation Company	Share price	Market cap MEUR	EV MEUR	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%		P/B
				2021e	2022e	2021e	2022e	2021e	2022e	2021e	2022e	2021e	2022e	2021e
Data Modul AG	46,40	162	147	6,5	5,3	5,8	4,9	0,6	0,6	10,8	9,7	2,2	2,2	1,4
Hanza Holding AB	18,20	60	93	12,6	9,0	5,0	4,3	0,4	0,4	10,4	8,7	1,3	3,1	1,1
Kitron ASA	20,30	361	428	14,2	12,2	10,7	9,4	1,0	0,9	16,5	14,4	3,9	4,5	3,7
Lacroix Group SA	43,40	166	216	8,7	7,4	5,3	4,5	0,4	0,3	11,9	9,9	2,5	3,0	1,5
Scanfil Oyj	7,52	510	522	12,2	10,9	9,0	8,3	0,8	0,8	15,5	14,4	2,3	2,5	2,5
Valuetronics Holdings Ltd	0,65	175	55									4,4	3,5	
Hana Microelectronics PCL	56,00	1188	933	17,3	15,4	10,3	9,4	1,6	1,5	21,0	19,1	3,0	3,3	2,0
SVI PCL	4,98	297	330	20,2	17,4	12,0	10,7	0,7	0,7	18,6	15,6	1,6	2,2	2,5
TT electronics PLC	242,50	484	583	16,1	12,0	9,7	8,2	1,1	1,0	17,3	14,0	2,3	2,7	1,4
Incap (Inderes)	35,25	206	197	10,3	8,7	9,6	8,0	1,5	1,3	13,5	12,2	1,1	1,3	3,5
Average				13,5	11,2	8,5	7,5	0,8	0,8	15,3	17,7	2,6	3,0	2,0
Median				13,4	11,5	9,4	8,7	0,8	0,7	16,0	14,4	2,3	3,0	1,7
Diff-% to median				-23 %	-24 %	3 %	-8 %	94 %	75 %	-16 %	-15 %	-51 %	-58 %	102 %

Source: Thomson Reuters / Inderes

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

Income statement

Tuloslaskelma	2019	Q1'20	Q2'20	Q3'20	Q4'20	2020	Q1'21	Q2'21e	Q3'21e	Q4'21e	2021e	2022e	2023e	2024e
Liikevaihto	71,0	24,3	22,6	28,1	31,5	106	37,7	29,4	30,6	34,0	132	148	157	165
Incap	71,0	24,3	22,6	28,1	31,5	106	37,7	29,4	30,6	34,0	132	148	157	165
Käyttökate	11,5	2,9	3,0	3,8	6,3	15,9	6,0	4,6	4,6	5,3	20,5	23,6	25,1	26,5
Poistot ja arvonalennukset	-1,4	-0,7	-0,9	-0,5	-1,2	-3,3	-0,5	-0,6	-0,6	-0,6	-2,2	-2,3	-2,3	-2,3
Liikevoitto ilman kertaeriä	10,1	2,7	2,9	3,6	5,5	14,6	5,7	4,3	4,2	5,0	19,2	21,7	23,1	24,4
Liikevoitto	10,1	2,2	2,1	3,3	5,1	12,6	5,5	4,1	4,0	4,8	18,4	21,3	22,8	24,2
Nettorahoituskulut	-0,4	-0,2	-0,4	-0,3	-0,2	-1,1	-0,1	-0,2	-0,1	-0,1	-0,5	-0,6	-0,6	-0,5
Tulos ennen veroja	9,7	2,0	1,7	3,0	4,9	11,5	5,4	3,9	3,9	4,6	17,8	20,7	22,2	23,7
Verot	-3,4	-0,5	-0,5	-0,6	-0,7	-2,3	-0,8	-0,8	-0,8	-0,9	-3,3	-4,1	-4,7	-5,2
Vähemmistöosuudet	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
Nettotulos	6,3	1,5	1,2	2,4	4,2	9,2	4,6	3,1	3,1	3,7	14,6	16,5	17,6	18,5
EPS (oikaistu)	1,44	0,33	0,31	0,45	0,78	1,87	0,82	0,56	0,56	0,66	2,60	2,88	3,05	3,19
EPS (raportoitu)	1,44	0,26	0,20	0,41	0,72	1,59	0,79	0,54	0,54	0,63	2,49	2,83	3,00	3,16

Tunnusluvut	2019	Q1'20	Q2'20	Q3'20	Q4'20	2020	Q1'21	Q2'21e	Q3'21e	Q4'21e	2021e	2022e	2023e	2024e
Liikevaihdon kasvu-%	20,5 %	31,4 %	20,7 %	59,6 %	94,5 %	49,9 %	55,1 %	30,2 %	9,0 %	7,8 %	23,7 %	12,5 %	6,0 %	5,0 %
Oikaistun liikevoiton kasvu-%	16,8 %	-4,6 %	-2,3 %	60,1 %	161,8 %	45,2 %	112,2 %	49,7 %	19,2 %	-10,6 %	31,0 %	12,9 %	6,8 %	5,4 %
Käyttökate-%	16,1 %	11,7 %	13,2 %	13,4 %	20,0 %	15,0 %	15,9 %	15,7 %	15,0 %	15,6 %	15,6 %	15,9 %	16,0 %	16,1 %
Oikaistu liikevoitto-%	14,2 %	11,1 %	12,6 %	12,7 %	17,6 %	13,8 %	15,2 %	14,5 %	13,8 %	14,6 %	14,6 %	14,6 %	14,7 %	14,8 %
Nettotulos-%	8,8 %	6,3 %	5,2 %	8,5 %	13,2 %	8,7 %	12,2 %	10,7 %	10,2 %	10,9 %	11,1 %	11,2 %	11,2 %	11,2 %

Balance sheet

Assets	2019	2020	2021e	2022e	2023e
Non-current assets	8,6	24,1	24,2	24,9	25,6
Goodwill	0,9	7,1	7,1	7,1	7,1
Intangible assets	0,0	4,6	3,9	3,1	2,3
Tangible assets	7,3	11,4	13,0	14,5	16,0
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	0,4	0,2	0,2	0,2	0,2
Deferred tax assets	0,0	0,7	0,0	0,0	0,0
Current assets	27,9	52,3	65,0	78,2	91,5
Inventories	10,8	24,2	21,1	24,1	25,9
Other current assets	0,0	0,0	0,0	0,0	0,0
Receivables	10,4	24,2	24,0	27,4	29,8
Cash and equivalents	6,7	3,9	19,9	26,8	35,5
Balance sheet total	36,5	76,4	89,2	103,2	117

Source: Inderes

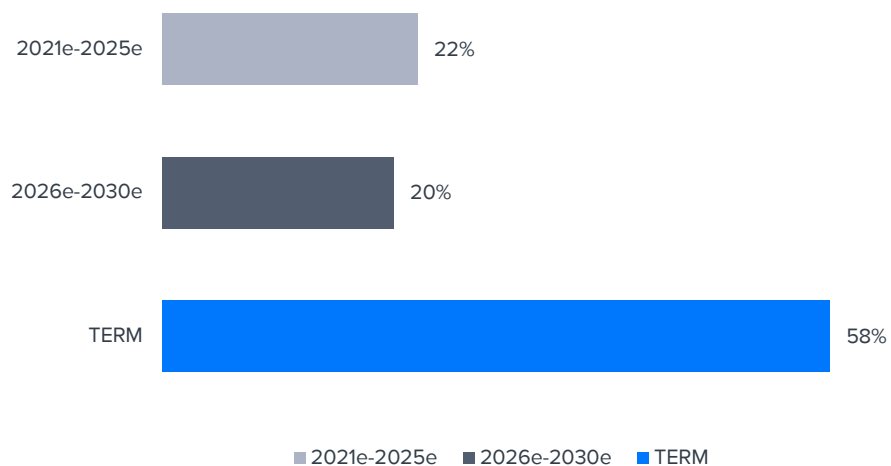
Liabilities & equity	2019	2020	2021e	2022e	2023e
Equity	21,9	38,5	58,4	72,6	87,6
Share capital	1,0	1,0	1,0	1,0	1,0
Retained earnings	11,5	20,7	35,3	49,5	64,5
Hybrid bonds	0,0	0,0	0,0	0,0	0,0
Revaluation reserve	-1,7	-4,6	0,0	0,0	0,0
Other equity	11,0	21,4	22,1	22,1	22,1
Minorities	0,0	0,0	0,0	0,0	0,0
Non-current liabilities	4,0	8,6	6,8	5,3	3,8
Deferred tax liabilities	0,0	0,9	0,0	0,0	0,0
Provisions	0,0	0,0	0,0	0,0	0,0
Long term debt	4,0	6,1	6,8	5,3	3,8
Convertibles	0,0	0,0	0,0	0,0	0,0
Other long term liabilities	0,0	1,6	0,0	0,0	0,0
Current liabilities	10,6	29,2	24,0	25,3	25,6
Short term debt	2,2	3,7	4,2	3,1	2,0
Payables	8,4	25,6	19,8	22,2	23,6
Other current liabilities	0,0	0,0	0,0	0,0	0,0
Balance sheet total	36,5	76,4	89,2	103,2	116,9

DCF calculation

DCF model	2020	2021e	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	TERM
EBIT (operating profit)	12,6	18,4	21,3	22,8	24,2	24,2	23,2	24,6	24,2	23,9	24,4	
+ Depreciation	3,3	2,2	2,3	2,3	2,1	2,1	2,7	2,6	2,6	2,6	2,6	
- Paid taxes	-2,1	-3,4	-4,1	-4,7	-5,2	-5,3	-5,1	-5,4	-5,3	-5,3	-5,4	
- Tax, financial expenses	-0,2	-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	-10,0	-2,5	-3,9	-2,9	-2,8	-2,2	-1,1	-0,8	-1,0	-1,0	-0,8	
Operating cash flow	3,6	14,5	15,4	17,4	18,1	18,8	19,6	21,0	20,6	20,2	20,8	
+ Change in other long-term liabilities	1,6	-1,6	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	
- Gross CAPEX	-18,1	-3,0	-3,0	-3,0	-3,0	-2,5	-2,5	-2,5	-2,5	-2,5	-2,5	
Free operating cash flow	-12,9	9,9	12,4	14,4	15,1	16,3	17,1	18,5	18,0	17,7	18,3	
+/- Other	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	
FCFF	-12,9	9,9	12,4	14,4	15,1	16,3	17,1	18,5	18,0	17,7	18,3	304
Discounted FCFF		9,3	10,8	11,7	11,3	11,3	11,0	11,0	9,9	9,0	8,6	142
Sum of FCFF present value		246	237	226	214	203	192	181	170	160	151	142
Enterprise value DCF		246										
- Interesting bearing debt		-9,8										
+ Cash and cash equivalents		3,9										
-Minorities		0,0										
-Dividend/capital return		0,0										
Equity value DCF		240										
Equity value DCF per share		41,1										
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

Rahavirran jakauma jaksoittain



Summary

Income statement	2018	2019	2020	2021e	2022e	Per share data	2018	2019	2020	2021e	2022e
Revenue	59,0	71,0	106,5	131,7	148,2	EPS (reported)	1,34	1,44	1,59	2,49	2,83
EBITDA	9,1	11,5	15,9	20,5	23,5	EPS (adj.)	1,34	1,44	1,87	2,60	2,88
EBIT	8,6	10,1	12,6	18,4	21,3	OCF / share	0,81	1,74	0,61	2,48	2,63
PTP	7,9	9,7	11,5	17,8	20,7	FCF / share	0,53	1,48	-2,21	1,68	2,11
Net Income	5,8	6,3	9,2	14,6	16,5	Book value / share	3,61	5,01	6,62	9,99	12,41
Extraordinary items	0,0	0,0	-2,1	-0,8	-0,4	Dividend / share	0,00	0,00	0,00	0,40	0,45
Balance sheet	2018	2019	2020	2021e	2022e	Growth and profitability	2018	2019	2020	2021e	2022e
Balance sheet total	32,1	36,5	76,4	89,2	103,2	Revenue growth-%	21 %	20 %	50 %	24 %	13 %
Equity capital	15,8	21,9	38,5	58,4	72,6	EBITDA growth-%	84 %	25 %	39 %	29 %	15 %
Goodwill	0,9	0,9	7,1	7,1	7,1	EBIT (adj.) growth-%	91 %	17 %	45 %	31 %	13 %
Net debt	3,1	-0,5	5,9	-8,9	-18,4	EPS (adj.) growth-%	88 %	7 %	30 %	39 %	11 %
Cash flow	2018	2019	2020	2021e	2022e	EBITDA-%	16 %	16 %	15 %	16 %	16 %
EBITDA	9,1	11,5	15,9	20,5	23,5	EBIT (adj.)-%	15 %	14 %	14 %	15 %	15 %
Change in working capital	-3,3	-1,3	-10,0	-2,5	-3,9	EBIT-%	15 %	14 %	12 %	14 %	14 %
Operating cash flow	3,5	7,6	3,6	14,5	15,4	ROE-%	45 %	33 %	31 %	30 %	25 %
CAPEX	-1,2	-1,1	-18,1	-3,0	-3,0	ROI-%	44 %	41 %	33 %	31 %	28 %
Free cash flow	2,3	6,5	-12,9	9,9	12,4	Equity ratio	49 %	60 %	50 %	66 %	70 %
						Gearing	20 %	-2 %	15 %	-15 %	-25 %
Largest shareholders	% of shares					Valuation multiples	2018	2019	2020	2021e	2022e
Oy Etra Invest Oy	19,5 %					EV/S	0,6	1,0	1,1	1,5	1,3
Nordea Henkivakuutus Suomi Oy	13,3 %					EV/EBITDA (adj.)	3,8	6,4	7,1	9,6	8,0
Joensuun Kauppa ja Kone Oy	9,0 %					EV/EBIT (adj.)	4,0	7,3	7,7	10,3	8,7
Laakkonen Mikko Kalervo	5,0 %					P/E (adj.)	5,4	11,8	9,8	13,5	12,2
Keskinäinen Eläkevakuutusyhtiö Ilmarinen	4,5 %					P/B	2,0	3,4	2,8	3,5	2,8
Mandatum Life	3,7 %					Dividend-%	0,0 %	0,0 %	0,0 %	1,1 %	1,3 %

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

The assessment of the 12-month risk-adjusted expected total shareholder return based on the above-mentioned definitions is company-specific and subjective. Consequently, similar 12-month expected total shareholder returns between different shares may result in different recommendations, and the recommendations and 12-month expected total shareholder returns between different shares should not be compared with each other. The counterpart of the expected total shareholder return is Inderes' view of the risk taken by the investor, which varies considerably between companies and scenarios. Thus, a high expected total shareholder return does not necessarily lead to positive performance when the risks are exceptionally high and, correspondingly, a low expected total shareholder return does not necessarily lead to a negative recommendation if Inderes considers the risks to be moderate.

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Inderes has made an agreement with the issuer and target of this report, which entails compiling a research report. Based on a notification given on April 8, 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
9.5.2019	Accumulate	16,50 €	14,65 €
28.5.2019	Buy	16,50 €	12,75 €
15.8.2019	Buy	18,00 €	15,35 €
16.9.2019	Accumulate	20,50 €	18,80 €
7.11.2019	Reduce	18,50 €	18,85 €
24.1.2020	Accumulate	21,00 €	18,95 €
27.2.2020	Accumulate	20,00 €	17,45 €
24.3.2020	Accumulate	12,50 €	11,00 €
25.3.2020	Accumulate	12,50 €	11,65 €
21.4.2020	Reduce	12,00 €	12,45 €
12.5.2020	Accumulate	13,00 €	12,00 €
25.5.2020	Accumulate	14,00 €	12,85 €
27.8.2020	Accumulate	20,00 €	18,55 €
17.9.2020	Accumulate	20,00 €	18,00 €
27.10.2020	Accumulate	17,50 €	15,10 €
12.11.2020	Accumulate	19,00 €	17,00 €
26.11.2020	Accumulate	20,00 €	18,00 €
25.2.2021	Accumulate	27,00 €	24,40 €
28.4.2021	Accumulate	38,00 €	35,25 €



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