

Incap

Company report

7/29/2021 07:50



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✓ Inderes corporate customer

This report is a summary translation of the report "Kovaa ja korkealta" published on 07/29/2021 at 7:50 am

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Tough and fierce

Incap published its Q2 report yesterday. A strong Q1 was followed by a better than expected Q2 and there was really nothing to fault in the report. Incap's operational performance is convincing, and the balance sheet offers plenty of leeway also for M&A transactions in line with the company strategy. Relative to the good earnings growth outlook, the share is not too expensive. Thus, we reiterate our Accumulate recommendation and revise our target price to EUR 46 (previously EUR 38).

An active company

In Q2, Incap's revenue grew by 49% to EUR 33.6 million. In our opinion, the strong revenue growth reflects favorably developed demand throughout the customer portfolio but especially the hefty growth in the order volume from larger customers. This is also indicated by the fact that in H1, the four largest customers generated 63% of revenue (H1'20: 51%). Whopping volume growth was naturally also supported by the Indian capacity that was strengthened at the end of 2020 even though some of the benefits from the increased production capacity was inevitably trampled by a two-week factory closure in India in Q2 and limited capacity utilization that lasted for a month. In Q2, Incap's adjusted operating profit amounted to EUR 4.5 million and an excellent margin of 13.4% considering the industry context. We believe the strong earnings growth was, just like in Q1, based on excellently growing volumes that focused on the Indian production plants and that scale nicely to the cost dynamics of the industry. We feel Incap's performance was again convincing proof of both its own competitiveness and earning power.

We raised our estimates clearly

As expected, Incap reiterated its 2021 guidance in the Q2 report. The company expects that its revenue, operating profit and adjusted operating profit for 2021 will be clearly higher than in 2020 if there are no major negative changes in the COVID pandemic situation, currency exchange rates or in component availability. In line with the strong H1 and management comments, the demand situation continues to look very good. Based on management indications, the challenges related to material availability seem to be alleviating. Considering this and the company's competitiveness we raised our H2 estimates. We now expect revenue to grow by 34% in 2021 to EUR 143 million driven by the supply flows that point steadily northeast. We expect adjusted EBIT to climb to EUR 20.2 million pushed by the strong volume growth of the Indian production plants and normal efficiency improvements. We expect Incap to continue its good profitable growth also from 2021 onwards. We consider the tripartite of a high-quality customer portfolio, production ability strengthened by investments, and high basic efficiency to act as the key result drivers.

Functional return/risk ratio

Adjusted P/E multiples for 2021 and 2022 based on our estimates for Incap are 16x and 13x, while the corresponding EV/EBITDA multiples are 11x and 9x. Absolute multiples are not alarmingly high and are close to the upper limit of the neutral multiple range we estimate for the company. Current multiples exceed historic medians more clearly, but we consider this justified considering the lower risk level thanks to the AWS acquisition and consistent track record of earnings growth. We consider the annual return expectation consisting of the expected earnings growth and small dividend good enough. In the longer term, the return expectation is in turn supported by a stronger balance sheet position than in the previous quarter and the M&A transaction opportunities it offers.

Recommendation

Accumulate

(previous Accumulate)

EUR 46.00

(previous EUR 38.00)

Share price:

42.90



Key indicators

	2020	2021e	2022e	2023e
Revenue	106.5	142.7	162.6	177.3
growth %	50%	34%	14%	9%
EBIT adj.	14.6	20.2	23.8	26.1
EBIT % adj.	13.8%	14.2%	14.6%	14.7%
Net profit	9.2	15.2	18.3	20.1
EPS (adj.)	1.87	2.72	3.19	3.47

P/E (adj.)	9.8	15.8	13.4	12.4
P/B	2.8	4.2	3.4	2.8
Dividend yield %	0.0%	1.4%	1.5%	1.6%
EV/EBIT (adj.)	7.7	12.1	10.0	8.7
EV/EBITDA	7.1	10.9	9.2	8.2
EV/Sales	1.1	1.7	1.5	1.3

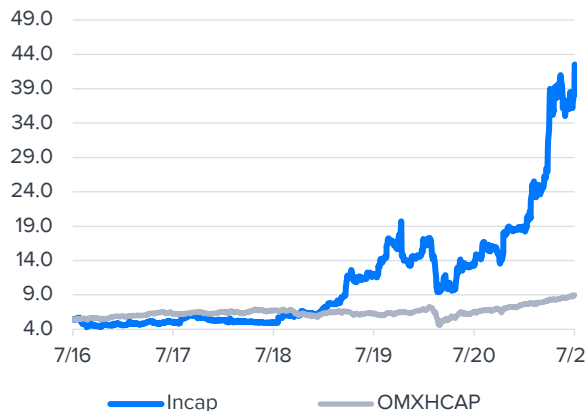
Source: Inderes

Guidance

(Unchanged)

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

Share price



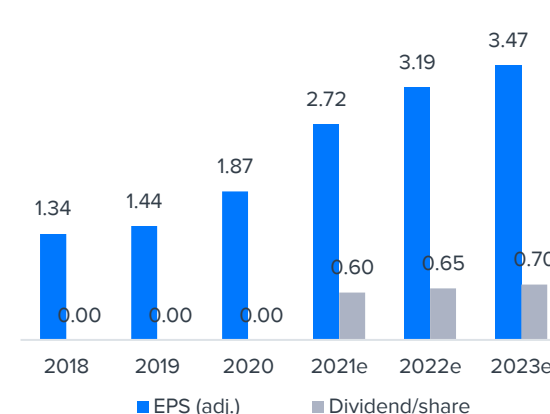
Source: Thomson Reuters

Revenue and EBIT %



Source: Inderes

EPS and dividend



Source: Inderes



Value drivers

- Organic growth of the electronics market supported by global megatrends and increasing degree of outsourcing
- Light organization and cost structure enable high profitability levels
- Quick decision making supports new customer acquisition
- Accelerating growth with acquisitions



Risk factors

- Mutually challenging value chain position maintains a savage competitive situation
- Cyclical nature of customer industries and concentrated customer portfolio
- Tightening competitive situation
- Disruptions in the delivery chain

Valuation level	2021e	2022e	2023e
Share price	42.90	42.90	42.90
Number of shares, million	5.85	5.85	5.85
Market value	251	251	251
EV	245	237	227
P/E (adj.)	15.8	13.4	12.4
P/E	16.5	13.7	12.5
P/Cash flow	35.6	21.5	17.2
P/B	4.2	3.4	2.8
P/S	1.8	1.5	1.4
EV/Sales	1.7	1.5	1.3
EV/EBITDA (adj.)	10.9	9.2	8.2
EV/EBIT (adj.)	12.1	10.0	8.7
Dividend/earnings (%)	23.0%	20.7%	20.4%
Dividend yield %	1.4%	1.5%	1.6%

Source: Inderes

Estimates

Estimates MEUR / EUR	Q2'20	Q2'21	Q2'21e	Q2'21e	Consensus		Difference (%)	2021e
	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. inderes	Inderes
Revenue	22.6	33.6	25.5				32%	143
EBIT (adj.)	2.9	4.5	3.4				33%	20.2
EBIT	2.1	4.3	3.2				35%	19.4
EPS (reported)	0.20	0.55	0.41				34%	2.61
Revenue growth-%	20.7 %	48.9 %	13.2 %				35.7 pp	34.0 %
EBIT-% (adj.)	12.6 %	13.4 %	13.2 %				0.2 pp	14.2 %

Source: Inderes

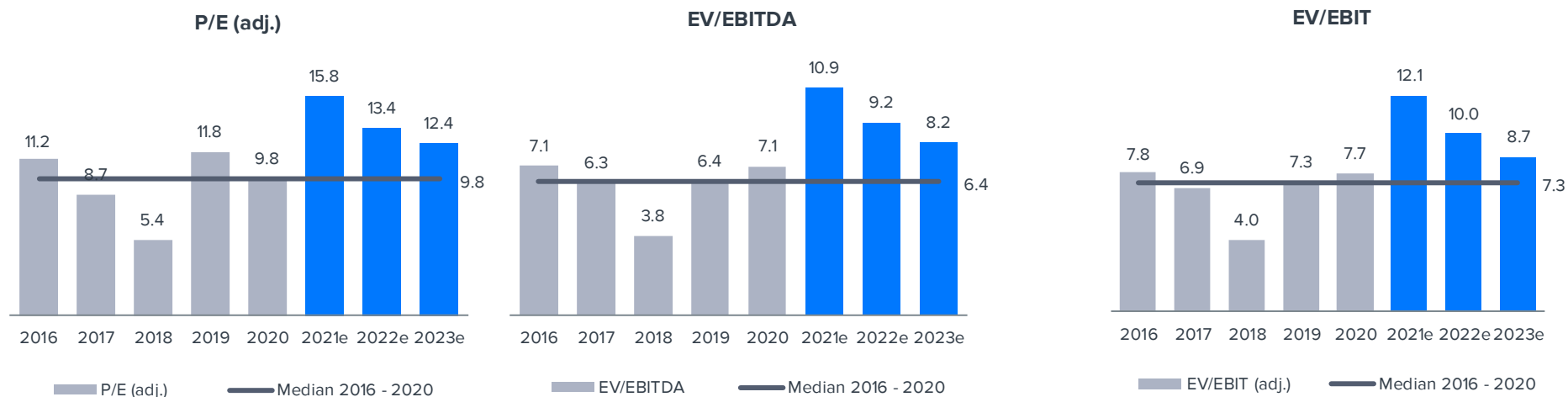
Estimate revisions MEUR / EUR	2021e			2022e			2023e		
	Old	New	Change %	Old	New	Change %	Old	New	Change %
Revenue	132	143	8%	148	163	10%	156	177	13%
EBITDA	20.5	22.5	10%	23.4	26.6	14%	25.0	29.0	16%
EBIT (exc. NRIs)	19.2	20.2	5%	21.5	23.8	11%	23.0	26.1	14%
EBIT	18.4	19.4	6%	21.1	23.4	11%	22.7	25.8	14%
EPS (raportoitu)	2.46	2.61	6%	2.81	3.13	12%	2.99	3.43	15%
DPS	0.40	0.60	50%	0.45	0.65	44%	0.50	0.70	40%

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	42.90	42.90	42.90	42.90
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	251	251	251	251
EV	29	31	35	73	113	245	237	227	214
P/E (adj.)	11.2	8.7	5.4	11.8	9.8	15.8	13.4	12.4	11.5
P/E	11.2	8.7	5.4	11.8	11.6	16.5	13.7	12.5	11.6
P/FCF	neg.	11.7	13.7	11.4	neg.	35.6	21.5	17.2	14.5
P/B	3.0	2.6	2.0	3.4	2.8	4.2	3.4	2.8	2.3
P/S	0.6	0.6	0.5	1.0	1.0	1.8	1.5	1.4	1.3
EV/Sales	0.8	0.6	0.6	1.0	1.1	1.7	1.5	1.3	1.1
EV/EBITDA	7.1	6.3	3.8	6.4	7.1	10.9	9.2	8.2	7.0
EV/EBIT (adj.)	7.8	6.9	4.0	7.3	7.7	12.1	10.0	8.7	7.6
Payout ratio (%)	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	23.0 %	20.7 %	20.4 %	20.3 %
Dividend yield-%	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	1.4 %	1.5 %	1.6 %	1.7 %

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
				2021e	2022e	2021e	2022e	2021e	2022e	2021e	2022e	2021e	2022e	
Data Modul AG	58.00	204	190	6.5	5.3	5.8	4.9	0.6	0.6	10.8	9.7			
Hanza Holding AB	24.80	82	120	12.6	9.0	5.0	4.3	0.4	0.4	12.6	11.6	1.0	1.9	1.1
Kitron ASA	19.32	332	395	14.2	11.9	10.7	9.2	1.0	0.9	16.0	13.7	4.1	4.9	3.6
Lacroix Group SA	41.20	203	253	10.9	9.3	6.7	5.6	0.4	0.4	12.6	11.1	2.3	2.7	1.4
Scanfil Oyj	8.10	519	531	11.9	10.7	8.9	8.2	0.8	0.7	15.3	14.3	2.3	2.4	2.5
Valuetronics Holdings Ltd	0.58	157	35		2.2		1.6		0.2		14.5		4.2	
Hana Microelectronics PCL	75.50	1563	1311	19.3	17.9	12.2	11.4	1.9	1.8	27.2	24.6	2.2	2.4	2.7
SVI PCL	4.88	273	298									1.6	2.3	
TT electronics PLC	257.00	526	629	17.6	13.4	10.8	9.4	1.2	1.1	17.9	14.6	2.2	2.6	1.5
Incap (Inderes)	42.90	251	245	12.1	10.0	10.9	9.2	1.7	1.5	15.8	13.4	1.4	1.5	4.2
Average				14.9	10.0	8.6	6.9	0.9	0.7	17.5	14.0	2.2	2.6	2.0
Median				14.2	10.0	8.9	7.4	0.8	0.7	16.0	14.0	2.2	2.4	1.8
Diff-% to median				-15%	0%	23%	25%	114%	119%	-1%	-4%	-37%	-38%	132%

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

Income statement

Income statement	2019	Q1'20	Q2'20	Q3'20	Q4'20	2020	Q1'21	Q2'21	Q3'21e	Q4'21e	2021e	2022e	2023e	2024e
Revenue	71.0	24.3	22.6	28.1	31.5	106	37.7	33.6	35.1	36.2	143	163	177	190
Incap	71.0	24.3	22.6	28.1	31.5	106	37.7	33.6	35.1	36.2	143	163	177	190
EBITDA	11.5	2.9	3.0	3.8	6.3	15.9	6.3	5.1	5.4	5.8	22.5	26.6	29.0	31.3
Depreciation	-1.4	-0.7	-0.9	-0.5	-1.2	-3.3	-0.8	-0.8	-0.8	-0.8	-3.2	-3.2	-3.2	-3.2
EBIT (excl. NRI)	10.1	2.7	2.9	3.6	5.5	14.6	5.7	4.5	4.8	5.2	20.2	23.8	26.1	28.3
EBIT	10.1	2.2	2.1	3.3	5.1	12.6	5.5	4.3	4.6	5.0	19.4	23.4	25.8	28.1
Net financial items	-0.4	-0.2	-0.4	-0.3	-0.2	-1.1	-0.1	-0.2	-0.2	-0.2	-0.7	-0.5	-0.5	-0.5
PTP	9.7	2.0	1.7	3.0	4.9	11.5	5.4	4.1	4.4	4.8	18.7	22.9	25.4	27.7
Taxes	-3.4	-0.5	-0.5	-0.6	-0.7	-2.3	-0.8	-0.9	-0.9	-1.0	-3.5	-4.6	-5.3	-6.1
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	6.3	1.5	1.2	2.4	4.2	9.2	4.6	3.2	3.5	3.9	15.2	18.3	20.0	21.6
EPS (adj.)	1.44	0.33	0.31	0.45	0.78	1.87	0.82	0.58	0.63	0.69	2.72	3.19	3.47	3.72
EPS (rep.)	1.44	0.26	0.20	0.41	0.72	1.59	0.79	0.55	0.60	0.66	2.61	3.13	3.43	3.69
Key figures	2019	Q1'20	Q2'20	Q3'20	Q4'20	2020	Q1'21	Q2'21	Q3'21e	Q4'21e	2021e	2022e	2023e	2024e
Revenue growth-%	20.5 %	31.4 %	20.7 %	59.6 %	94.5 %	49.9 %	55.1 %	48.9 %	25.0 %	14.8 %	34.0 %	14.0 %	9.0 %	7.0 %
Adjusted EBIT growth-%	16.8 %	-4.6 %	-2.3 %	60.1 %	161.8 %	45.2 %	112.2 %	57.4 %	34.7 %	-6.0 %	38.0 %	17.8 %	9.7 %	8.4 %
EBITDA-%	16.1 %	11.7 %	13.2 %	13.4 %	20.0 %	15.0 %	16.6 %	15.2 %	15.3 %	16.0 %	15.8 %	16.4 %	16.4 %	16.5 %
Adjusted EBIT-%	14.2 %	11.1 %	12.6 %	12.7 %	17.6 %	13.8 %	15.2 %	13.4 %	13.6 %	14.4 %	14.2 %	14.6 %	14.7 %	14.9 %
Net earnings-%	8.8 %	6.3 %	5.2 %	8.5 %	13.2 %	8.7 %	12.2 %	9.6 %	10.1 %	10.7 %	10.7 %	11.3 %	11.3 %	11.4 %

Source: Inderes

Balance sheet

Assets	2019	2020	2021e	2022e	2023e
Non-current assets	8.6	24.1	25.7	28.1	29.7
Goodwill	0.9	7.1	7.1	7.1	7.1
Intangible assets	0.0	4.6	4.1	3.3	3.1
Tangible assets	7.3	11.4	14.3	17.5	19.3
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	65.8	78.5	93.1
Inventories	10.8	24.2	22.8	26.4	29.2
Other current assets	0.0	0.0	0.0	0.0	0.0
Receivables	10.4	24.2	26.0	30.1	33.7
Cash and equivalents	6.7	3.9	16.9	22.1	29.9
Balance sheet total	36.5	76.4	91.5	106.7	123

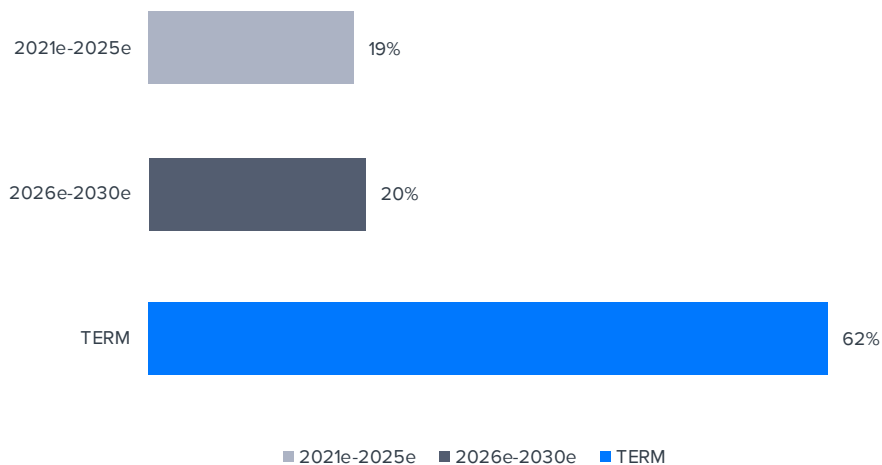
Source: Inderes

Liabilities & equity	2019	2020	2021e	2022e	2023e
Equity	21.9	38.5	59.1	73.9	90.2
Share capital	1.0	1.0	1.0	1.0	1.0
Retained earnings	11.5	20.7	36.0	50.8	67.1
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	25.6	27.5	28.6
Short term debt	2.2	3.7	4.2	3.1	2.0
Payables	8.4	25.6	21.4	24.4	26.6
Other current liabilities	0.0	0.0	0.0	0.0	0.0
Balance sheet total	36.5	76.4	91.5	106.7	122.6

DCF calculation

DCF model	2020	2021e	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	TERM
EBIT (operating profit)	12.6	19.4	23.4	25.8	28.1	27.9	27.2	28.3	29.4	30.3	30.9	
+ Depreciation	3.3	3.2	2.3	1.7	2.6	2.5	3.2	3.2	3.2	3.3	3.3	
- Paid taxes	-2.1	-3.6	-4.6	-5.3	-6.1	-6.1	-6.0	-6.2	-6.5	-6.7	-6.8	
- 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	-4.6	-4.7	-4.2	-4.0	-2.5	-2.1	-1.8	-1.9	-1.5	-1.0	
Operating cash flow	3.6	14.2	16.4	17.9	20.6	21.7	22.3	23.5	24.3	25.4	26.4	
+ 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	-5.5	-4.7	-3.3	-3.3	-3.3	-3.3	-3.3	-3.3	-3.3	-3.3	
Free operating cash flow	-12.9	7.0	11.7	14.6	17.3	18.4	19.0	20.2	21.0	22.1	23.1	
+/- 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	7.0	11.7	14.6	17.3	18.4	19.0	20.2	21.0	22.1	23.1	383
Discounted FCFF		6.8	10.4	12.1	13.2	13.0	12.4	12.2	11.7	11.4	11.0	183
Sum of FCFF present value		297	291	280	268	255	242	230	217	206	194	183
Enterprise value DCF		297										
- Interesting bearing debt		-9.8										
+ Cash and cash equivalents		3.9										
-Minorities		0.0										
-Dividend/capital return		0.0										
Equity value DCF		292										
Equity value DCF per share		49.9										

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	2018	2019	2020	2021e	2022e	Per share data	2018	2019	2020	2021e	2022e
Revenue	59.0	71.0	106.5	142.7	162.6	EPS (reported)	1.34	1.44	1.59	2.61	3.14
EBITDA	9.1	11.5	15.9	22.5	25.7	EPS (adj.)	1.34	1.44	1.87	2.72	3.19
EBIT	8.6	10.1	12.6	19.4	23.4	OCF / share	0.81	1.74	0.61	2.42	2.80
PTP	7.9	9.7	11.5	18.7	22.9	FCF / share	0.53	1.48	-2.21	1.20	2.00
Net Income	5.8	6.3	9.2	15.2	18.3	Book value / share	3.61	5.01	6.62	10.10	12.64
Extraordinary items	0.0	0.0	-2.1	-0.8	-0.4	Dividend / share	0.00	0.00	0.00	0.60	0.65
Balance sheet	2018	2019	2020	2021e	2022e	Growth and profitability	2018	2019	2020	2021e	2022e
Balance sheet total	32.1	36.5	76.4	91.5	106.7	Revenue growth-%	21%	20%	50%	34%	14%
Equity capital	15.8	21.9	38.5	59.1	73.9	EBITDA growth-%	84%	25%	39%	42%	14%
Goodwill	0.9	0.9	7.1	7.1	7.1	EBIT (adj.) growth-%	91%	17%	45%	38%	18%
Net debt	3.1	-0.5	5.9	-5.9	-13.7	EPS (adj.) growth-%	88%	7%	30%	45%	17%
Cash flow	2018	2019	2020	2021e	2022e	EBITDA-%	16%	16%	15%	16%	16%
EBITDA	9.1	11.5	15.9	22.5	25.7	EBIT (adj.)-%	15%	14%	14%	14%	15%
Change in working capital	-3.3	-1.3	-10.0	-4.6	-4.7	EBIT-%	15%	14%	12%	14%	14%
Operating cash flow	3.5	7.6	3.6	14.2	16.4	ROE-%	45%	33%	31%	31%	28%
CAPEX	-1.2	-1.1	-18.1	-5.5	-4.7	ROI-%	44%	41%	33%	33%	31%
Free cash flow	2.3	6.5	-12.9	7.0	11.7	Equity ratio	49%	60%	50%	65%	69%
						Gearing	20%	-2%	15%	-10%	-19%
Valuation multiples	2018	2019	2020	2021e	2022e						
EV/S	0.6	1.0	1.1	1.7	1.5						
EV/EBITDA (adj.)	3.8	6.4	7.1	10.9	9.2						
EV/EBIT (adj.)	4.0	7.3	7.7	12.1	10.0						
P/E (adj.)	5.4	11.8	9.8	15.8	13.4						
P/B	2.0	3.4	2.8	4.2	3.4						
Dividend-%	0.0 %	0.0 %	0.0 %	1.4 %	1.5 %						

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 price	Share price
09-05-19	Accumulate	16.50 €	14.65 €
28-05-19	Buy	16.50 €	12.75 €
15-08-19	Buy	18.00 €	15.35 €
16-09-19	Accumulate	20.50 €	18.80 €
07-11-19	Reduce	18.50 €	18.85 €
24-01-20	Accumulate	21.00 €	18.95 €
27-02-20	Accumulate	20.00 €	17.45 €
24-03-20	Accumulate	12.50 €	11.00 €
25-03-20	Accumulate	12.50 €	11.65 €
21-04-20	Reduce	12.00 €	12.45 €
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 €



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