

Enedo

Company update

05/27/2020

✓ Inderes Corporate customer

This report is a summary translation of the report "Käännetiellä koronatöyssy" published on 05/27/2021

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COVID bumps on the turnaround road

The effects of COVID on the global economy and, thus, on industrial-driven value chains have cast a dark shadow over the operating landscape of Enedo. The operating conditions that have weakened as a result have also increased the risk profile of the profitability turnaround, which took cautious steps last year. Despite a stronger-than-expected decrease in the share price, in our view, the current valuation picture is still too tight in relation to the challenging operating framework and the uncertainties related to the profitability turnaround. Thus, we reiterate our Sell recommendation and revise our target price to EUR 1.00 (prev. EUR 1.80).

We cut our forecasts for this year

With the rise of COVID, global economic growth has been severely slowed down, and this has also led to the emergence of threats over Enedo's operating framework. The company's own delivery capacity has been undermined by the pressure on the Tunis plant and slight supply challenges, but, in our assessment, it has remained reasonable. The current situation has also opened up certain demand-related opportunities for Enedo. However, the actual scale and duration of the COVID burdens are accompanied by significant and partly unknown elements, resulting in very low visibility to the performance of the rest of the year. In line with this overall picture, we have decreased our estimates for the current year. We are now expecting Enedo's net sales to decrease 2% to EUR 42 million, driven by the growing uncertainty in the customer field and the resulting falling investment activity. We expect EBITDA to increase to EUR 1.8 million thanks to already implemented savings and efficiency improvements (incl. progressing Powernet synergies) that compensate for a slight decrease in volume and the cost pressure stemming from COVID. In addition to the COVID burden, the main risks this year are related to the durability of the company's challenging balance sheet position (equity ratio 2019: 12%).

Reaching guidance can prove too challenging in weakened operating landscape

In Enedo's guidance for the current year, net sales and adjusted operating profit and EBITDA grow, but the company makes an operating loss. Enedo is one of the few companies that hasn't canceled or updated its guidance since the financial statement. However, since publishing the guidance, COVID has undermined the operating environment and conditions from several angles. Reflecting this, particularly, reaching the growth objective can prove too challenging in our opinion and require exceptional success from the reformed sales organization throughout the customer field. However, an earnings revision couldn't be regarded as a particularly surprising or powerful driver for the share price under the prevailing circumstances.

Valuation still loaded with too much "good stuff"

In our estimate, Enedo's EV/EBITDA multiple for 2020 is 14x and the corresponding EV/Sales multiple is 0.5x. For a company that's in the middle of a profitability turnaround, the multiples are very high in absolute terms. Furthermore, when we look at next year, the 9x EV/EBITDA multiple is not particularly low, even though we expect a quick turnaround progress in our forecasts. Therefore, we see that the profitability turnaround is already almost fully priced in, which we don't think is justified given the risks related to the turnaround and, in particular, its sustainability. Thus, value increase from present levels requires both concrete evidence of the turnaround progressing and a gradual reduction in the risk level.

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Rating and target price

Sell



(previous Sell)

1.00 EUR

(previous EUR 1,80)

Share price: 1.23 EUR

Potential: -18.7%

Guidance

(Unchanged)

The company estimates that the net sales of continuing operations and the adjusted operating profit and EBITDA will improve from 2019. However, the company estimates to make an operating loss in 2020.

Key indicators

	2019	2020e	2021e	2022e
Net sales	43	42	45	47
growth %	-17%	-2%	6%	4%
EBITDA	1.1	1.8	3.4	3.7
EBITDA %	2.0%	4.3%	7.5%	8.0%
Net profit	-2.6	-1.4	0.2	0.4
EPS (adj.)	-0.28	-0.17	0.02	0.04
P/E (adj.)	neg.	neg.	54.0	29.5
P/B	5.9	4.6	4.2	3.7
Dividend yield %	0.0%	0.0%	0.0%	0.0%
EV/EBIT (adj.)	neg.	neg.	39.8	21.5
EV/EBITDA	31.3	14.3	8.8	6.0
EV/Sales	0.8	0.6	0.5	0.5

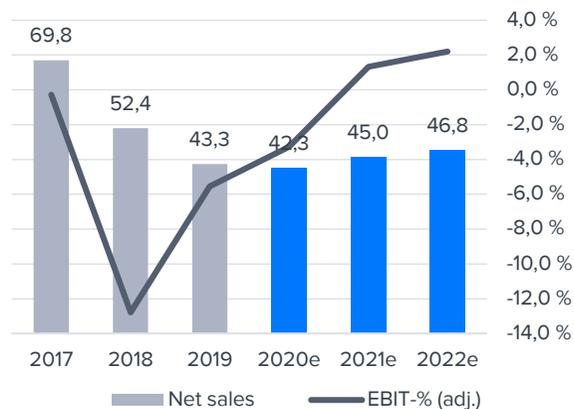
Source: Inderes

Share price



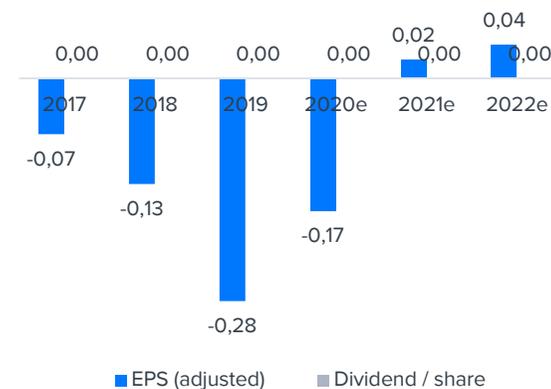
Source: Thomson Reuters

Net sales and EBIT %



Source: Inderes

Earnings per share



Source: Inderes



Value drivers

- Restructuring creates preconditions for a sustainable profitability turnaround
- Integration of Powernet business and new product launches in growing customer sectors
- Economies of scale that are realizable through organic growth
- A gradual reduction in the overall risk profile as a result of the exit from telecommunications



Risk factors

- Profitability is still very low
- Little consistent evidence of the progress of the turnaround and the effectiveness of the new strategy
- Component availability problems can hinder the turnaround
- The loss buffer on the balance sheet is limited
- Failure in product development would undermine competitiveness already in the short term



Valuation

- The valuation already reflects a successful turnaround
- The rise in value requires concrete progress of the turnaround and a sustainable correction of the profitability level

We also lowered our estimates for the next few years

Estimate changes EUR million / EUR	2020e Old	2020e New	Change %	2021e Old	2021e New	Change %	2022e Old	2022e New	Change %
Net sales	45.0	42.3	-6%	46.6	45.0	-3%	47.9	46.8	-2%
EBITDA	2.2	1.8	-17%	3.5	3.4	-3%	3.9	3.7	-3%
Operating profit excluding non-recurring items	-1.0	-1.4	-37%	0.7	0.6	-17%	1.2	1.0	-11%
Operating profit	-1.0	-1.4	-37%	0.7	0.6	-17%	1.2	1.0	-11%
Profit before taxes	-1.4	-1.7	-28%	0.4	0.2	-33%	0.6	0.4	-23%
Operating profit (excl. non-recurring items)	-0.13	-0.17	-27%	0.03	0.02	-33%	0.05	0.04	-23%
Dividend per share	0.00	0.00		0.00	0.00		0.00	0.00	

Source: Inderes

Estimate changes 2020-2022e

- Reflecting the effects of COVID on the world economy and, through it, on the demand situation of Enedo, we have decreased our volume forecasts for this year.
- The company has been able to partly compensate for the weakened demand in certain product groups, for example, through the strong demand for medical power supplies
- We decreased our earnings forecasts for the current year in line with a slight decrease in volume, the government regulations that have burdened the Tunis production plant and the profitability pressure caused by certain frictional factors on the supply side
- The company's purely industrial-driven structure and the savings and efficiency measures implemented last year and earlier this year provide a good basis for the profitability turnaround to progress on the right track, despite the rough conditions in the operating environment
- Reflecting the question marks about the duration and scale of the actual burden of COVID and the rate at which the situation can change, we also adjusted forecasts for the next few years
- In 2021, we expect the operating result to turn profitable, supported by the volume growth driven by the recovering operating landscape and scaling of the cost structure

Result drivers 2020-2022e

- The implemented savings and efficiency measures are sufficient to keep the profitability turnaround on the right track despite the major operating challenges this year
- The growth of investment activity in the customer field through the gradual recovery of the operating environment and the lowering of the overall uncertainty level
- Dissipation of the cost pressure caused by COVID in 2021
- The current cost structure enables efficient scaling even with slight volume growth
- Gradual increase in cost-efficiency driven by continuous measures to improve self-productivity (e.g. production planning and control) and volume growth
- Strengthening own foothold in attractive areas with growth and profitability potential (e.g. LED drivers and power supply systems).

Enedo's strategic steps are clear

Objectives of the strategy period

	2019	2020	2021-
Net sales	43.3 MEUR	↗	↗
Operational costs	42.2 MEUR	Stable level supported by improving operational efficiency	Clearly more moderate growth than in net sales
EBITDA	Clearly positive	Clearly positive	8-10%
Comment	Building a new beginning and sale of telecommunications. The first steps of the turnaround.	Progress of the profitability turnaround and implementation of the new strategy.	Approaching financial objectives and implementing a sustainable profitability turnaround.



Period of structural changes

- Carrying out the Powernet acquisition in December 2018 and significantly strengthening industrial operations.
- The sale of telecommunications operation and focusing purely on industrial operations.
- Reduction of fixed cost levels and restructuring of production.
- Continuous investment in cost-efficiency and in carrying out the profitability turnaround.

Focus on the profitability turnaround

- The focus is purely on three product categories of industrial operations (Power Systems, Power Supplies and LED Drivers) and in the demanding and highly customized end product market of these.
- The market of highly customized products is attractive to a relatively small operator without large economies of scale in manufacturing, such as Enedo
- Improving the efficiency of the organizational structure and improving sales and its support functions.
- Continuous improvement of operational efficiency and ensuring supply capacity.
- Turning operational profitability positive through volume growth and implemented efficiency measures.
- Improvement of the balance sheet with the profitability turnaround

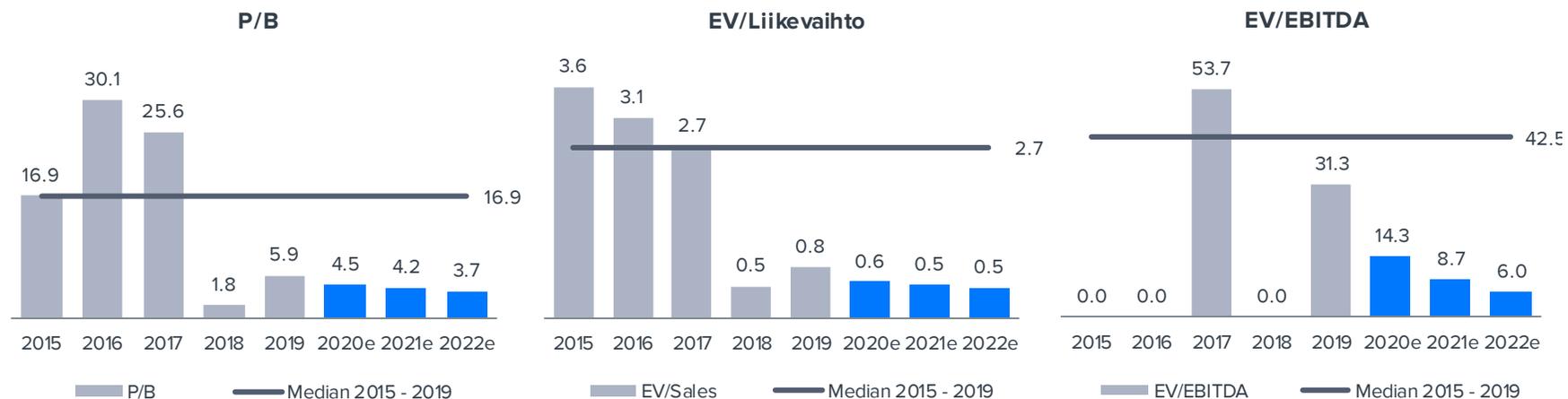
Ensuring the sustainability of the turnaround

- No numerical objective for net sales.
- 8-10% EBITDA margin and 2-5% operating profit margin as objectives.
- The objectives are realistic, but require healthy volumes, maintaining supply capacity and good operational efficiency.
- As the objectives are nearing, the company has clear potential for value creation
- Scaling up strong technological expertise.
- However, the value chain position is challenging on both sides, which brings chronic marginal pressure and keeps operational effectiveness under constant surveillance.

Valuation table

Valuation	2015	2016	2017	2018	2019	2020e	2021e	2022e	2023e
Share price	38.2	27.3	21.3	1.98	2.58	1.23	1.23	1.23	1.23
Number of shares, millions	8.43	8.43	8.43	55.0	8.43	8.43	8.43	8.43	8.43
Market cap	322	230	180	17	22	10	10	10	10
EV	327	237	188	26	34	24	23	22	20
P/E (adj.)	neg.	neg.	neg.	neg.	neg.	neg.	53.6	29.2	17.7
P/E	neg.	neg.	neg.	neg.	neg.	neg.	53.6	29.2	17.7
P/FCF	neg.	neg.	>100	neg.	neg.	neg.	18.9	5.4	4.6
P/B	16.9	30.1	25.6	1.8	5.9	4.5	4.2	3.7	3.0
P/S	3.6	3.1	2.6	0.3	0.5	0.2	0.2	0.2	0.2
EV/Sales	3.6	3.1	2.7	0.5	0.8	0.6	0.5	0.5	0.4
EV/EBITDA	>100	neg.	53.7	neg.	31.3	14.3	8.7	6.0	5.5
EV/EBIT (adj.)	neg.	neg.	neg.	neg.	neg.	neg.	39.7	21.4	15.6
Payout ratio (%)	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Dividend yield-%	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %

Source: Inderes



Income statement

Income statement	H1'18	H2'18	2018	H1'19	H2'19	2019	H1'20e	H2'20e	2020e	2021e	2022e	2023e
Revenue	24.6	27.8	52.4	22.9	20.4	43.3	21.3	21.0	42.3	45.0	46.8	48.2
Teollisuus	17.0	16.7	33.7	22.9	20.4	43.3	21.3	21.0	42.3	45.0	46.8	48.2
EBITDA	-1.7	-1.2	-2.9	0.7	0.4	1.1	0.7	1.1	1.8	3.4	3.7	4.0
Depreciation	-2.3	-2.0	-4.3	-2.0	-1.7	-3.7	-1.6	-1.5	-3.1	-2.8	-2.7	-2.7
EBIT (excl. NRI)	-4.0	-2.7	-6.7	-1.2	-1.3	-2.4	-0.9	-0.5	-1.4	0.6	1.0	1.3
EBIT	-4.0	-3.2	-7.2	-1.3	-1.3	-2.6	-0.9	-0.5	-1.4	0.6	1.0	1.3
Net financial items	-0.5	-0.8	-1.3	0.0	-0.1	-0.1	-0.2	-0.2	-0.4	-0.4	-0.6	-0.6
PTP	-4.5	-4.0	-8.5	-1.3	-1.4	-2.7	-1.1	-0.7	-1.7	0.2	0.4	0.7
Taxes	0.2	0.5	0.7	0.0	0.2	0.2	0.2	0.2	0.3	0.0	-0.1	-0.1
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
Net earnings	-4.3	-3.5	-7.8	-1.3	-1.3	-2.6	-0.9	-0.5	-1.4	0.2	0.4	0.6
EPS (adj.)	-0.08	-0.06	-0.13	-0.14	-0.14	-0.28	-0.11	-0.06	-0.17	0.02	0.04	0.07
EPS (rep.)	-0.08	-0.06	-0.14	-0.15	-0.15	-0.30	-0.11	-0.06	-0.17	0.02	0.04	0.07

Key figures	H1'18	H2'18	2018	H1'19	H2'19	2019	H1'20e	H2'20e	2020e	2021e	2022e	2023e
Revenue growth-%	26.8 %	127.9 %	-24.9 %	-6.9 %	-26.6 %	-17.4 %	-6.9 %	3.0 %	-2.3 %	6.3 %	4.0 %	3.0 %
Adjusted EBIT growth-%	-671%	200%	3250%	-71%	-54%	-64%	-22%	-60%	-42%	-143%	74%	26%
EBITDA-%	-6.9 %	-4.3 %	-5.5 %	3.1 %	2.0 %	2.5 %	3.4 %	5.1 %	4.3 %	7.5 %	8.0 %	8.3 %
Adjusted EBIT-%	-16.3 %	-9.7 %	-12.8 %	-5.0 %	-6.1 %	-5.5 %	-4.2 %	-2.4 %	-3.3 %	1.3 %	2.2 %	2.7 %
Net earnings-%	-17.5 %	-12.6 %	-14.9 %	-5.7 %	-6.1 %	-5.9 %	-4.3 %	-2.4 %	-3.4 %	0.4 %	0.8 %	1.2 %

Source: Inderes

Balance sheet

Assets	2018	2019	2020e	2021e	2022e
Non-current assets	23.6	17.7	17.5	17.2	15.8
Goodwill	4.3	4.3	4.3	4.3	4.3
Intangible assets	11.7	7.0	8.0	7.4	6.6
Tangible assets	3.3	3.7	1.7	2.0	1.8
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	0.6	0.3	0.2	0.2	0.2
Deferred tax assets	3.7	2.4	3.3	3.3	2.9
Current assets	22.1	14.4	14.0	14.9	15.4
Inventories	9.0	7.6	5.1	5.4	5.6
Other current assets	0.1	0.1	0.0	0.0	0.0
Receivables	9.3	5.6	5.9	6.3	6.6
Cash and equivalents	3.7	1.1	3.0	3.2	3.3
Balance sheet total	45.7	32.1	31.4	32.0	31.3

Source: Inderes

Liabilities & equity	2018	2019	2020e	2021e	2022e
Equity	9.4	3.7	2.3	2.5	2.8
Share capital	15.0	15.0	15.0	15.0	15.0
Retained earnings	-45.3	-50.5	-51.9	-51.7	-51.4
Hybrid bonds	-2.4	-2.4	-2.4	-2.4	-2.4
Revaluation reserve	3.3	2.7	2.7	2.7	2.7
Other equity	38.8	38.9	38.9	38.9	38.9
Minorities	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	8.8	8.2	4.8	5.5	4.9
Deferred tax liabilities	0.7	0.3	0.3	0.3	0.3
Provisions	0.8	0.2	0.2	0.2	0.2
Long term debt	5.4	6.5	3.0	3.7	3.1
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	1.9	1.3	1.3	1.3	1.3
Current liabilities	27.5	20.2	24.3	24.0	23.6
Short term debt	7.7	7.3	13.3	12.6	11.9
Payables	19.8	12.5	11.0	11.5	11.7
Other current liabilities	0.0	0.5	0.0	0.0	0.0
Balance sheet total	45.7	32.1	31.4	32.0	31.3

DCF calculation

DCF model	2019	2020e	2021e	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	TERM
EBIT (operating profit)	-2.6	-1.4	0.6	1.0	1.3	1.2	1.3	1.6	1.9	2.2	2.2	
+ Depreciation	3.7	3.1	2.1	2.7	2.4	1.0	1.1	1.2	1.2	1.2	1.2	
- Paid taxes	1.0	-0.5	0.0	0.3	0.2	0.2	0.1	0.0	-0.1	-0.2	-0.2	
- Tax, financial expenses	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	
+ 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	-1.8	0.4	-0.2	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Operating cash flow	0.3	1.5	2.3	3.7	3.8	2.3	2.4	2.7	2.9	3.1	3.1	
+ Change in other long-term liabilities	-1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	0.9	-1.9	-1.8	-1.8	-1.6	-1.5	-1.5	-1.3	-1.3	-1.3	-1.3	
Free operating cash flow	0.0	-0.4	0.5	1.9	2.2	0.8	0.9	1.4	1.6	1.9	1.9	
+/- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	0.0	-0.4	0.5	1.9	2.2	0.8	0.9	1.4	1.6	1.9	1.9	27.3
Discounted FCFF		-0.5	0.5	1.7	1.8	0.6	0.6	0.9	1.0	1.0	0.9	13.3
Sum of FCFF present value		21.9	22.4	21.9	20.2	18.3	17.7	17.1	16.2	15.2	14.2	13.3
Enterprise value DCF		21.9										
- Interesting bearing debt		-13.8										
+ Cash and cash equivalents		1.1										
-Minorities		0.0										
-Dividend/capital return		0.0										
Equity value DCF		9.3										
Equity value DCF per share		1.10										

Wacc

Tax-% (WACC)	20.0 %
Target debt ratio (D/(D+E))	25.0 %
Cost of debt	6.0 %
Equity Beta	1.20
Market risk premium	4.75%
Liquidity premium	1.75%
Risk free interest rate	3.0 %
Cost of equity	10.5 %
Weighted average cost of capital (WACC)	9.0 %

Source: Inderes

Summary

Income statement	2017	2018	2019	2020e	2021e	Per share data	2017	2018	2019	2020e	2021e
Revenue	69.8	52.4	43.3	42.3	45.0	EPS (reported)	-0.07	-0.14	-0.30	-0.17	0.02
EBITDA	3.5	-2.9	1.1	1.7	2.7	EPS (adj.)	-0.07	-0.13	-0.28	-0.17	0.02
EBIT	-0.2	-7.2	-2.6	-1.4	0.6	OCF / share	1.06	-0.02	0.03	0.17	0.28
PTP	-1.1	-8.5	-2.7	-1.7	0.2	FCF / share	0.01	-0.19	0.00	-0.05	0.07
Net Income	-0.6	-7.8	-2.6	-1.4	0.2	Book value / share	0.83	0.17	0.44	0.27	0.29
Extraordinary items	0.0	-0.5	-0.2	0.0	0.0	Dividend / share	0.00	0.00	0.00	0.00	0.00
Balance sheet	2017	2018	2019	2020e	2021e	Growth and profitability	2017	2018	2019	2020e	2021e
Balance sheet total	39.3	45.7	32.1	31.4	32.0	Revenue growth-%	-7%	-25%	-17%	-2%	6%
Equity capital	7.0	9.4	3.7	2.3	2.5	EBITDA growth-%	-161%	-183%	-138%	51%	62%
Goodwill	1.1	4.3	4.3	4.3	4.3	EBIT (adj.) growth-%	-96%	3250%	-64%	-42%	-143%
Net debt	8.1	9.4	12.7	13.4	13.1	EPS (adj.) growth-%	-91%	89%	111%	-41%	-114%
Cash flow	2017	2018	2019	2020e	2021e	EBITDA-%	5.0 %	-5.5 %	2.5 %	3.9 %	6.0 %
EBITDA	3.5	-2.9	1.1	1.7	2.7	EBIT (adj.)-%	-0.3 %	-12.8 %	-5.5 %	-3.3 %	1.3 %
Change in working capital	5.7	1.3	-1.8	0.4	-0.2	EBIT-%	-0.3 %	-13.7 %	-6.0 %	-3.3 %	1.3 %
Operating cash flow	9.0	-1.2	0.3	1.5	2.3	ROE-%	-8.2 %	-94.9 %	-38.9 %	-47.5 %	8.1 %
CAPEX	-4.8	-9.8	0.9	-1.9	-1.8	ROI-%	-1.0 %	-34.2 %	-13.0 %	-7.7 %	3.2 %
Free cash flow	0.1	-10.3	0.0	-0.4	0.5	Equity ratio	17.9 %	20.6 %	11.5 %	7.3 %	7.7 %
						Gearing	115.5 %	100.0 %	341.9 %	586.3 %	529.6 %
Largest shareholders	% of shares					Valuation multiples	2017	2018	2019	2020e	2021e
Oy Jussi Capital	18.9 %					EV/S	2.7	0.5	0.8	0.6	0.5
Rausanne Oy	10.3 %					EV/EBITDA (adj.)	53.7	neg.	31.3	14.3	8.7
Heikki Soini	6.1 %					EV/EBIT (adj.)	neg.	neg.	neg.	neg.	39.7
Skandinaviska Enskilda Banken AB	4.7 %					P/E (adj.)	neg.	neg.	neg.	neg.	53.6
4Capes Oy	4.5 %					P/E	25.6	1.8	5.9	4.5	4.2
Yleinen työttömyyskassa YTK	3.2 %					Dividend-%	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %

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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Recommendation history (>12 mo)

Date	Recommendation	Target price	Share price
8/16/2018	Sell	3.65 €	4.55 €
11/26/2018	Accumulate	3.20 €	2.85 €
11/29/2018	Expiration of subscription rights	0.05 €	0.05 €
2/11/2019	Reduce	2.85 €	3.36 €
2/14/2019	Sell	2.30 €	2.80 €
6/19/2019	Sell	2.50 €	2.90 €
8/1/2019	Sell		3.15 €
8/16/2019	Sell	2.55 €	3.05 €

The company made a 50/1 split 2/28/2020. Share prices and target prices have been adjusted.



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