

Valuation starting to appeal

Loihde reports its Q3 business report on October 30th. We expect healthy profitability levels and slight growth in the near-term and Loihde in our view remains well positioned to tackle near-term market uncertainties. Following a share price decline since our previous update we upgrade our rating to BUY (HOLD), TP of EUR 12.2 and estimates intact.

Expecting healthy profitability, slight growth

Loihde reports its Q3 business report on October 30th. Loihde achieved significant profitability improvements during H1 on weaker comparison figures and we expect absolute profitability figures to level out y/y during Q3/H2. Y/y growth is expected to slow down from the mid-single digit growth during H1 based on the more cautious remarks from management. The overall market sentiment has also remained on the weaker side and earlier expectations of an upswing in economic activity appear to have been postponed further, supporting said narrative.

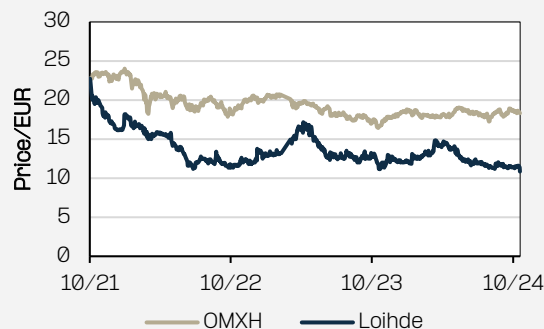
Remains well positioned given near-term uncertainty

Loihde currently remains in a rather good position given the market uncertainties, with profitability at healthy levels and a good operating cash flow outlook with a solid, cash positive balance sheet. OPEX development y/y was flat in H1, while inevitable slight cost pressure coupled with the current weaker demand situation remains a limiting factor to near-term margin upside. Recent profit warnings and outlook comments in the Finnish IT-services sector suggest continued demand weakness. In terms of growth the clear challenges for Loihde have been within its Data & AI and Digital Services business areas. Given weakness in the sector the growth outlook appears to remain on the weaker side, although the magnitude of sales decline should start to be reduced from comparison figures.

BUY (HOLD) with a target price of EUR 12.2

Given aforementioned factors and the company's long-term potential under better growth conditions we see the current valuation levels starting to look appealing. Although the demand situation looks to remain weaker and as such poses near-term risks, H2 expectations were already on the lower side. With no changes to our estimates and the share price down slightly since our previous update, we upgrade our rating to BUY (HOLD) with our TP of EUR 12.2 intact.

Rating 🇫🇮 Buy



Share price, EUR (Last trading day's closing price)	10.90
Target price, EUR	12.2
Latest change in recommendation	25-Oct-24
Latest report on company	28-Aug-24
Research paid by issuer:	YES
No. of shares outstanding, '000's	5 732
No. of shares fully diluted, '000's	5 732
Market cap, EURm	62
Free float, %	0.0 %
Exchange rate	0.0
Reuters code	LOIHDE.HE
Bloomberg code	LOIHDE FH
Average daily volume, EUR	0.0
Next interim report	30-Oct-24
Web site	www.loihde.com
Analyst	Jerker Salokivi
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Telephone	+358 9 4766 9149

🇫🇮 BUY 🟡 HOLD 🇩🇪 SELL

KEY FIGURES

	Sales EURm	EBIT EURm	EBIT %	FCF EURm	EPS EUR	P/E (x)	EV/Sales (x)	EV/EBIT (x)	FCF yield %	DPS EUR
2022	123.0	6.4	5.2%	-6.3	0.54	3700.4	0.5	9.7	-8.5%	0.80
2023	132.7	-0.9	-0.7%	5.2	-0.11	247.5	0.5	-74.5	7.6%	2.00
2024E	137.3	1.9	1.4%	1.2	0.19	58.5	0.5	37.9	1.9%	0.20
2025E	143.4	3.8	2.6%	2.5	0.51	21.4	0.5	18.3	4.1%	0.25
2026E	149.1	5.2	3.5%	3.4	0.71	15.3	0.5	12.9	5.5%	0.36
Market cap, EURm	62		Gearing 2024E, %		9.0 %		CAGR EPS 2023-26, %		144.3 %	
Net debt 2024E, EURm	8		Price/book 2024		0.7		CAGR Sales 2023-26, %		4.0 %	
Enterprise value, EURm	71		Dividend yield 2024E, %		1.8 %		ROE 2024E, %		1.1 %	
Total assets 2024E, EURm	141		Tax rate 2024E, %		48.2 %		ROCE 2024E, %		1.7 %	
Goodwill 2024E, EURm	64		Equity ratio 2024E, %		64.3 %		PEG, P/E 24/CAGR		0.8	

All the important disclosures can be found on the last pages of this report.

VALUATION RESULTS	BASE CASE DETAILS	VALUATION ASSUMPTIONS	ASSUMPTIONS FOR WACC
Current share price	10.90 PV of Free Cash Flow	76 Long-term growth, %	1.5 % Risk-free interest rate, % 2.50 %
DCF share value	26.64 PV of Horizon value	86 WACC, %	9.1 % Market risk premium, % 6.3 %
Share price potential, %	144.4 % Unconsolidated equity	0 Spread, %	0.5 % Debt risk premium % 4.5 %
Maximum value	28.7 Marketable securities	12 Minimum WACC, %	8.6 % Equity beta coefficient 1.15
Minimum value	24.9 Debt – dividend	-22 Maximum WACC, %	9.6 % Target debt ratio, % 15 %
Horizon value, %	53.2 % Value of stock	153 No. of shares, Mn	5.7 Effective tax rate, % 20 %

DCF valuation, EURm	2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	TERMINAL
Net sales	133	137	143	149	155	160	165	169	173	176	179	182
Sales growth (%)	7.9%	3.5%	4.4%	4.0%	4.0%	3.0%	3.0%	3.0%	2.0%	2.0%	1.5%	1.5%
Operating income (EBIT)	-1	2	4	5	7	7	7	8	9	9	9	9
Operating income margin %	-0.7%	1.4%	2.6%	3.5%	4.5%	4.5%	4.5%	4.5%	5.0%	5.0%	5.0%	5.0%
+ Depreciation+amort.	8	8	8	8	8	8	9	9	9	9	9	9
EBITDA	7	10	12	13	15	16	16	16	18	18	18	18
- Paid taxes	-1	0	-1	-1	-1	-1	-1	-2	-2	-2	-2	-2
- Change in NWC	-4	-1	0	0	0	0	0	0	0	0	0	0
NWC / Sales, %	10.5%	10.6%	10.5%	10.4%	10.3%	10.3%	10.2%	10.1%	10.1%	10.0%	10.0%	10.0%
+ Change in other liabs	-6											
- Operative CAPEX	4	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2
opCAPEX / Sales, %	2.0%	5.6%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.4%	5.4%	5.4%	5.4%
- Acquisitions	-2											
+ Divestments	8											
- Other items	0											
= FCFF	6	7	9	10	11	12	12	13	14	14	14	191
= Discounted FCF		7	8	8	9	8	8	7	7	7	6	86
= DFCF min WACC		7	8	8	9	8	8	8	8	7	7	96
= DFCF max WACC		7	8	8	9	8	8	7	7	7	6	77

Sensitivity analysis, EUR

		Terminal WACC				
		7.07 %	8.07 %	9.07 %	10.07 %	11.07 %
Terminal EBIT-%	3.00 %	30.91	26.29	22.87	20.22	18.12
	4.00 %	33.95	28.65	24.75	21.75	19.38
	5.00 %	36.99	31.02	26.64	23.29	20.64
	6.00 %	40.02	33.38	28.52	24.82	21.90
	7.00 %	43.06	35.75	30.41	26.35	23.17

INTERIM FIGURES

EVLI ESTIMATES, EURm	2023Q1	2023Q2	2023Q3	2023Q4	2023	2024Q1	2024Q2	2024Q3E	2024Q4E	2024E	2025E	2026E
Net sales	313	342	299	373	1327	330	354	306	383	137.3	143.4	149.1
EBITDA	-0.4	0.8	2.8	3.5	6.7	1.4	2.2	2.1	4.0	9.7	11.8	13.3
<i>EBITDA margin (%)</i>	-1.3%	2.4%	9.2%	9.4%	5.0%	4.3%	6.3%	6.7%	10.4%	7.0%	8.2%	8.9%
EBIT	-2.2	-1.1	0.9	1.5	-0.9	-0.5	0.3	0.1	2.0	1.9	3.8	5.2
<i>EBIT margin (%)</i>	-7.0%	-3.2%	2.9%	4.1%	-0.7%	-1.7%	0.8%	0.4%	5.3%	1.4%	2.6%	3.5%
Net financial items	-0.2	0.6	-0.2	0.3	0.4	0.1	0.1	0.1	0.2	0.2	-0.1	-0.1
Pre-tax profit	-2.4	-0.5	0.6	1.8	-0.5	-0.4	0.4	0.1	2.0	2.1	3.6	5.1
Tax	0.4	-0.5	-0.2	0.3	-0.1	-0.2	-0.4	0.0	-0.4	-1.0	-0.7	-1.0
<i>Tax rate (%)</i>	15.4%	-99.3%	37.0%	-16.0%	-22.1%	-44.8%	99.5%	20.0%	20.0%	48.2%	20.0%	20.0%
Net profit	-2.0	-1.1	0.4	2.1	-0.6	-0.6	0.0	0.1	1.6	1.1	2.9	4.1
EPS	-0.35	-0.19	0.07	0.36	-0.11	-0.11	0.00	0.02	0.28	0.19	0.51	0.71
EPS adj. (diluted)	-0.30	-0.15	0.10	0.41	0.05	-0.11	0.00	0.02	0.28	0.19	0.51	0.71
Dividend per share					2.00					0.20	0.25	0.36
SALES, EURm	2023Q1	2023Q2	2023Q3	2023Q4	2023	2024Q1	2024Q2	2024Q3E	2024Q4E	2024E	2025E	2026E
Group	313	342	299	373	1327	330	354	306	383	137.3	143.4	149.1
Total	313	342	299	373	1327	330	354	306	383	137.3	143.4	149.1
SALES GROWTH, Y/Y%	2023Q1	2023Q2	2023Q3	2023Q4	2023	2024Q1	2024Q2	2024Q3E	2024Q4E	2024E	2025E	2026E
Group	13.0%	14.9%	1.3%	3.6%	7.9%	5.6%	3.5%	2.2%	2.6%	3.5%	4.4%	4.0%
Total	13.0%	14.9%	1.3%	3.6%	7.9%	5.6%	3.5%	2.2%	2.6%	3.5%	4.4%	4.0%
EBIT, EURm	2023Q1	2023Q2	2023Q3	2023Q4	2023	2024Q1	2024Q2	2024Q3E	2024Q4E	2024E	2025E	2026E
Group	-2.2	-1.1	0.9	1.5	-0.9	-0.5	0.3	0.1	2.0	1.9	3.8	5.2
Total	-2.2	-1.1	0.9	1.5	-0.9	-0.5	0.3	0.1	2.0	1.9	3.8	5.2
EBIT margin %	2023Q1	2023Q2	2023Q3	2023Q4	2023	2024Q1	2024Q2	2024Q3E	2024Q4E	2024E	2025E	2026E
Group	-7.0%	-3.2%	2.9%	4.1%	-0.7%	-1.7%	0.8%	0.4%	5.3%	1.4%	2.6%	3.5%
Total	-7.0%	-3.2%	2.9%	4.1%	-0.7%	-1.7%	0.8%	0.4%	5.3%	1.4%	2.6%	3.5%

INCOME STATEMENT, EURm	2019	2020	2021	2022	2023	2024E	2025E	2026E
Sales	103.1	106.8	104.4	123.0	132.7	137.3	143.4	149.1
<i>Sales growth (%)</i>	-1.7%	3.6%	-2.3%	17.8%	7.9%	3.5%	4.4%	4.0%
EBITDA	5.6	5.6	5.6	13.3	6.7	9.7	11.8	13.3
<i>EBITDA margin (%)</i>	5.4%	5.3%	5.4%	10.8%	5.0%	7.0%	8.2%	8.9%
Depreciation	-10.8	-9.4	-6.5	-6.9	-7.6	-7.8	-8.0	-8.0
EBITA	-5.2	-3.8	-0.9	6.4	-0.9	1.9	3.8	5.2
Goodwill amortization / writedown								
EBIT	-5.2	-3.8	-0.9	6.4	-0.9	1.9	3.8	5.2
<i>EBIT margin (%)</i>	-5.0%	-3.6%	-0.8%	5.2%	-0.7%	1.4%	2.6%	3.5%
Reported EBIT	-5.2	-3.8	5.6	6.7	-0.9	1.9	3.8	5.2
<i>EBIT margin (reported) (%)</i>	-5.0%	-3.6%	5.3%	5.4%	-0.7%	1.4%	2.6%	3.5%
Net financials	20.8	0.8	1.1	-2.3	0.4	0.2	-0.1	-0.1
Pre-tax profit	15.6	-3.1	0.2	4.1	-0.5	2.1	3.6	5.1
Taxes	-4.5	-0.9	0.2	-1.0	-0.1	-1.0	-0.7	-1.0
Minority shares	-0.2	-0.2						
Net profit	10.9	-4.2	6.9	3.4	-0.6	1.1	2.9	4.1
Cash NRIs			6.4	0.3				
Non-cash NRIs								
BALANCE SHEET, EURm								
Assets								
Fixed assets	11	11	11	10	10	10	9	9
Goodwill	48	45	53	63	64	64	64	64
Right of use assets		7	8	8	10	10	11	11
Inventory	6	7	7	10	12	12	13	14
Receivables	37	28	41	36	35	36	38	39
Liquid funds	52	48	24	21	12	7	7	7
Total assets	153	146	146	151	145	141	143	145
Liabilities								
Shareholders' equity	118	111	110	111	101	90	92	95
Minority interest	1							
Convertibles								
Lease liabilities		7	8	9	10	11	11	12
Deferred taxes		0	1	0	0	0	0	0
Interest bearing debt	6	0	0	0	0	4	3	1
Non-interest bearing current liabilities	27	26	26	29	34	34	36	37
Other interest-free debt		2	1	1	0	0	0	0
Total liabilities	153	146	146	151	145	141	143	145
CASH FLOW, EURm								
+ EBITDA	6	6	6	13	7	10	12	13
- Net financial items	-9	-16	-7	-3	-9	0	0	0
- Taxes	-4	-4	0	-1	-1	0	-1	-1
- Increase in Net Working Capital	3	0	1	-4	-4	-1	0	0
+/- Other	29	16	7	0	9			
= Cash flow from operations	25	2	7	5	2	9	10	12
- Capex	-2	-2	-6	-2	-3	-8	-8	-8
- Acquisitions			-10	-11	-2			
+ Divestments			6	1	8			
= Free cash flow	23	0	-4	-6	5	1	3	3
+/- New issues/buybacks	2	6	7	2	-5			
- Paid dividend	10	15	3	5	12	1	1	2
+/- Other	-14	0	-11	5	-4	5	-1	-2
Change in cash	2	-4	-23	-3	-9	-6	0	0

KEY FIGURES	2020	2021	2022	2023	2024E	2025E	2026E
M-cap		96	74	69	62	62	62
Net debt (excl. convertibles)	-41	-16	-12	-2	8	7	5
Enterprise value	-41	80	62	67	71	69	67
Sales	107	104	123	133	137	143	149
EBITDA	6	6	13	7	10	12	13
EBIT	-4	-1	6	-1	2	4	5
Pre-tax	-3	0	4	-1	2	4	5
Earnings	-4	0	3	-1	1	3	4
Equity book value (excl. minorities)	111	110	111	101	90	92	95
Valuation multiple	2020	2021	2022	2023	2024E	2025E	2026E
EV/Sales	-0.4	0.8	0.5	0.5	0.5	0.5	0.5
EV/EBITDA	-7.3	14.3	4.6	10.1	7.3	5.9	5.1
EV/EBITA	10.7	-90.8	9.7	-74.5	37.9	18.3	12.9
EV/EBIT	10.7	-90.8	9.7	-74.5	37.9	18.3	12.9
EV/OCF	-25.1	12.0	12.2	35.3	7.9	6.6	5.8
EV/FCF	25.1	11.2	10.7	11.8	10.0	7.8	6.7
P/FCFR		-23.1	-11.7	13.2	52.2	24.5	18.2
P/E		45.1	3700.4	247.5	58.5	21.4	15.3
P/BV		0.9	0.7	0.7	0.7	0.7	0.7
Target EV/EBITDA					8.1	6.5	5.6
Target EV/EBIT					41.8	20.2	14.3
Target EV/FCFF					65.3	30.1	21.8
Target P/BV					0.8	0.8	0.7
Target P/E, diluted					65.5	24.0	17.2
Per share measures	2020	2021	2022	2023	2024E	2025E	2026E
Number of shares (million)	5.68	5.93	5.63	5.75	5.73	5.73	5.73
Number of shares (diluted, million)	5.68	5.93	5.63	5.75	5.73	5.73	5.73
EPS	-0.73	0.08	0.54	-0.11	0.19	0.51	0.71
Operating cash flow per share	0.29	1.12	0.90	0.33	1.55	1.82	2.03
Free cash flow per share	-0.05	-0.70	-1.12	0.91	0.21	0.44	0.60
Book value per share	19.46	18.48	19.78	17.52	15.76	16.07	16.53
Dividend per share	2.70	0.55	0.80	2.00	0.20	0.25	0.36
Dividend payout ratio, %	-369.0%	675.2%	147.7%	-1 855.5%	107.4%	50.0%	50.0%
Dividend yield, %		3.4%	6.1%	16.6%	1.8%	2.3%	3.3%
FCF yield, %		-4.3%	-8.5%	7.6%	1.9%	4.1%	5.5%
Efficiency measures	2020	2021	2022	2023	2024E	2025E	2026E
ROE	-3.6%	0.4%	2.8%	-0.6%	1.1%	3.2%	4.4%
ROCE	-3.2%	-0.8%	5.4%	-0.8%	1.7%	3.6%	4.9%
Financial ratios	2020	2021	2022	2023	2024E	2025E	2026E
Inventories as % of sales	6.2%	7.0%	8.4%	9.1%	9.1%	9.1%	9.1%
Receivables as % of sales	25.9%	39.5%	29.3%	26.7%	26.6%	26.4%	26.3%
Non-int. bearing liabilities as % of sales	24.4%	25.2%	23.9%	25.3%	25.0%	25.0%	25.0%
NWC/sales, %	6.8%	21.2%	13.8%	10.5%	10.6%	10.5%	10.4%
Operative CAPEX/Sales, %	1.8%	6.1%	1.3%	2.0%	5.6%	5.5%	5.5%
CAPEX/sales (incl. acquisitions), %	1.8%	-3.6%	-7.5%	0.4%	5.6%	5.5%	5.5%
FCFF/EBITDA	-0.3	1.3	0.4	0.9	0.7	0.8	0.8
Net Debt/EBITDA, book-weighted	-7.3	-2.9	-0.9	-0.3	0.8	0.6	0.4
Debt/equity, market-weighted		0.0	0.0	0.0	0.1	0.0	0.0
Equity ratio, book-weighted	0.8	0.7	0.7	0.7	0.6	0.6	0.7
Gearing, %	-37.1%	-14.6%	-11.1%	-2.1%	9.0%	7.3%	5.1%

COMPANY DESCRIPTION: Loihde is a service provider, specializing in comprehensive security and IT services. The company engages in agile digital IT-services, such as digi-strategy consultancy, data solutions and analytics, AI, software development and service design. Loihde focuses on high-tier security technologies both in its physical and digital security services. The company employs over 800 persons.

INVESTMENT CASE: Loihde has gone through notable organizational changes and has now placed its focus on growing its topline and improving its profitability. With further integrating its back-office and administrative function, additional cost savings are likely to materialize. Margins should also see further expansion with the increased share of digital security and IT-services. Loihde's healthy balance sheet enables the company to further speed up its growth with M&A activities. The company operates in prolific markets with the underlying markets grow at high-single-digit figures by several megatrends supporting the underlying market development.

OWNERSHIP STRUCTURE	SHARES	EURm	%
Suomen Teollisuussijoitus Oy	275 000	2.997	4.8 %
Bellurum Oy	210 576	2.295	3.7 %
Lakiasiaintoimisto Asiakasturva Oy	124 589	1.358	2.2 %
VISIO Allocator Fund	100 000	1.090	1.7 %
Tenendum Oy	79 000	0.861	1.4 %
LähiTapiola Mutual Life Insurance Company	75 000	0.818	1.3 %
LähiTapiola Mutual Insurance Company	75 000	0.818	1.3 %
City of Vaasa	70 400	0.767	1.2 %
Pelkonen Antti	68 480	0.746	1.2 %
Hotcom Oy	67 780	0.739	1.2 %
Ten largest	1 145 825	12.489	20.0 %
Residual	4 585 978	49.987	80.0 %
Total	5 731 803	62.477	100%

EARNINGS CALENDAR

October 30, 2024

Q3 report

OTHER EVENTS

COMPANY MISCELLANEOUS

CEO: Samu Konttinen

CFO: Pirjo Suhonen

IR: Tiina Nieminen

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DEFINITIONS

P/E $\frac{\text{Price per share}}{\text{Earnings per share}}$	EPS $\frac{\text{Profit before extraord. items and taxes} - \text{income taxes} + \text{minority interest}}{\text{Number of shares}}$
P/BV $\frac{\text{Price per share}}{\text{Shareholder's equity} + \text{taxed provisions per share}}$	DPS Dividend for the financial period per share
Market cap Price per share * Number of shares	OCF (Operating cash flow) EBITDA – Net financial items – Taxes – Increase in working capital – Cash NRIs ± Other adjustments
EV (Enterprise value) Market cap + net debt + minority interest at market value – share of associated companies at market value	FCF (Free cash flow) Operating cash flow – Operative CAPEX – acquisitions + divestments
EV/Sales $\frac{\text{Enterprise value}}{\text{Sales}}$	FCF yield, % $\frac{\text{Free cash flow}}{\text{Market cap}}$
EV/EBITDA $\frac{\text{Enterprise value}}{\text{Earnings before interest, tax, depreciation and amortization}}$	Operative CAPEX / Sales $\frac{\text{Capital expenditure} - \text{divestments} - \text{acquisitions}}{\text{Sales}}$
EV/EBIT $\frac{\text{Enterprise value}}{\text{Operating profit}}$	Net working capital Current assets – current liabilities
Net debt Interest bearing debt – financial assets	Capital employed / Share $\frac{\text{Total assets} - \text{non-interest bearing debt}}{\text{Number of shares}}$
Total assets Balance sheet total	Gearing $\frac{\text{Net debt}}{\text{Equity}}$
Div yield, % $\frac{\text{Dividend per share}}{\text{Price per share}}$	Debt/Equity, % $\frac{\text{Interest bearing debt}}{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions}}$
Payout ratio, % $\frac{\text{Total dividends}}{\text{Earnings before extraordinary items and taxes} - \text{income taxes} + \text{minority interest}}$	Equity ratio, % $\frac{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions}}{\text{Total assets} - \text{interest-free loans}}$
ROCE, % $\frac{\text{Profit before extraordinary items} + \text{interest expenses} + \text{other financial costs}}{\text{Balance sheet total} - \text{non-interest bearing debt (average)}}$	CAGR, % Cumulative annual growth rate = Average growth rate per year
ROE, % $\frac{\text{Profit before extraordinary items and taxes} - \text{income taxes}}{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions (average)}}$	

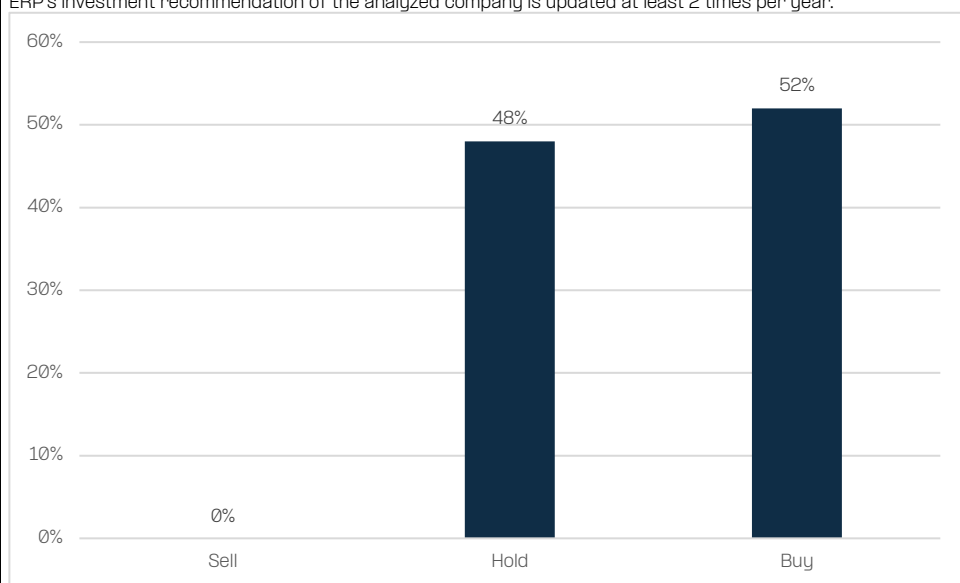
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Investment recommendations are defined as follows:

Target price compared to share price	Recommendation
< -10 %	SELL
-10 - (+10) %	HOLD
> 10 %	BUY

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Name(s) of the analyst(s): Jerker Salokivi

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