

Steadily through the pandemic

Talenom's Q2 results fell slightly shy of expectations, with the coronavirus pandemic having had some impact on transaction-based invoicing volumes, but relative profitability remained solid. Talenom's potential remains unchanged, which has been reflected in its share price and valuation is becoming rather stretched. We retain our HOLD-rating with a target price of EUR 8.5 (7.0).

Minor impact from COVID-19 but profitability still strong

Talenom's Q2 results fell slightly shy of expectations, with revenue of EUR 16.5m (EUR 17.2m Evli/cons.), affected by a decrease in transaction-based invoicing in for instance payroll services due to customer layoffs. EBIT amounted to EUR 3.6m (EUR 3.7m Evli/cons.) and relative profitability remained on par with expectations, with an EBIT-margin of 21.8%. The new small customer concept is expected to be released later on in the year and long-term potential expectations appear to be high. The impacts of the coronavirus overall have been quite in line with company expectations.

Continued growth and profitability improvement in 2020

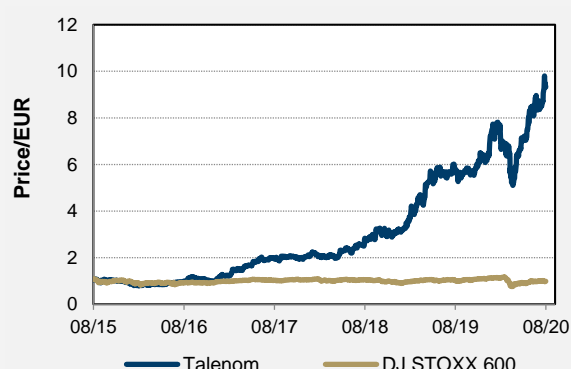
Talenom's guidance for 2020 (net sales EUR 64–68m, EBIT 12–EUR 14m) remains intact and should in our view not be in jeopardy unless a clearly unfavourable development in transaction-based invoicing volumes is seen during H2. We expect net sales of EUR 66.3m and EBIT of EUR 12.4m. Growth potential remains intact, with emphasis seen to be shifting towards M&A and Sweden as well as smaller customers as regional coverage in Finland limits growth. We assume a relative lower profitability of potential acquisitions to limit some margin upside in the coming years.

HOLD with a target price of EUR 8.5 (7.0)

Talenom's share price has risen to record-high levels, with the stability of the business providing benefits under current market uncertainty and valuation levels are becoming harder to justify. We raise our target price to EUR 8.5 (7.0), valuing Talenom at ~40x 2020E P/E, which we still consider reasonable given growth potential and the defensive nature. Our rating remains HOLD.

Rating

■ HOLD



Share price, EUR (Last trading day's closing price) 9.32

Target price, EUR 8.5

Latest change in recommendation 04-Feb-20

Latest report on company 28-Apr-20

Research paid by issuer: YES

No. of shares outstanding, '000's 42,758

No. of shares fully diluted, '000's 42,758

Market cap, EURm 399

Free float, % 58.5

Exchange rate 0.000

Reuters code TNOM.HE

Bloomberg code TNOM FH

Average daily volume, EURm 0.28

Next interim report 26-Oct-20

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■ 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
2018	48.9	8.5	17.5%	3.3	0.15	20.6	3.2	18.4	2.5	0.09
2019	58.0	10.4	18.0%	3.2	0.18	41.2	5.9	32.9	1.0	0.13
2020E	66.3	12.4	18.8%	2.6	0.21	43.5	6.5	34.5	0.7	0.15
2021E	76.9	14.8	19.2%	3.7	0.26	36.3	5.6	29.2	0.9	0.18
2022E	87.6	17.1	19.5%	7.4	0.30	31.1	4.9	25.3	1.9	0.19
Market cap, EURm	399			Gearing 2020E, %		105.6	CAGR EPS 2019-22, %			18.0
Net debt 2020E, EURm	30			Price/book 2020E		13.9	CAGR sales 2019-22, %			14.8
Enterprise value, EURm	429			Dividend yield 2020E, %		1.6	ROE 2020E, %			35.1
Total assets 2020E, EURm	82			Tax rate 2020E, %		20.4	ROCE 2020E, %			19.3
Goodwill 2020E, EURm	21			Equity ratio 2020E, %		35.1	PEG, P/E 20/CAGR			2.6

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	9.32 PV of Free Cash Flow	101 Long-term growth, %	2.5 Risk-free interest rate, %
DCF share value	7.29 PV of Horizon value	245 WACC, %	7.4 Market risk premium, %
Share price potential, %	-21.8 Unconsolidated equity	0 Spread, %	0.5 Debt risk premium, %
Maximum value	8.3 Marketable securities	8 Minimum WACC, %	6.9 Equity beta coefficient
Minimum value	6.5 Debt - dividend	-42 Maximum WACC, %	7.9 Target debt ratio, %
Horizon value, %	70.8 Value of stock	312 Nr of shares, Mn	42.8 Effective tax rate, %

DCF valuation, EURm	2019	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	Horizon
Net sales	58	66	77	88	96	103	108	114	119	125	128	132
<i>Sales growth, %</i>	<i>18.6</i>	<i>14.3</i>	<i>16.0</i>	<i>14.0</i>	<i>10.0</i>	<i>7.0</i>	<i>5.0</i>	<i>5.0</i>	<i>5.0</i>	<i>5.0</i>	<i>2.5</i>	<i>2.5</i>
Operating income (EBIT)	10	12	15	17	19	22	23	24	25	26	27	28
<i>Operating income margin, %</i>	<i>18.0</i>	<i>18.8</i>	<i>19.2</i>	<i>19.5</i>	<i>20.0</i>	<i>21.0</i>	<i>21.0</i>	<i>21.0</i>	<i>21.0</i>	<i>21.0</i>	<i>21.0</i>	<i>21.0</i>
+ Depreciation+amort.	8	10	11	12	12	13	14	14	15	16	17	
EBITDA	19	23	26	30	31	35	36	38	40	42	44	
- Paid taxes	-3	-3	-3	-3	-4	-4	-5	-5	-5	-5	-5	
- Change in NWC	1	1	1	1	1	0	0	0	0	0	0	
<i>NWC / Sales, %</i>	<i>-6.4</i>	<i>-6.4</i>	<i>-6.4</i>	<i>-6.4</i>	<i>-6.4</i>	<i>-6.4</i>	<i>-6.4</i>	<i>-6.4</i>	<i>-6.4</i>	<i>-6.4</i>	<i>-6.4</i>	
+ Change in other liabs	0	0	0	0	0	0	0	0	0	0	0	
- Operative CAPEX	-11	-11	-17	-16	-15	-14	-14	-15	-16	-17	-16	
<i>opCAPEX / Sales, %</i>	<i>22.9</i>	<i>18.9</i>	<i>25.2</i>	<i>21.2</i>	<i>17.5</i>	<i>16.4</i>	<i>15.6</i>	<i>15.6</i>	<i>15.6</i>	<i>15.6</i>	<i>14.7</i>	
- Acquisitions	-2	-5	0	0	0	0	0	0	0	0	0	
+ Divestments	0	0	0	0	0	0	0	0	0	0	0	
- Other items	1	0	0	0	0	0	0	0	0	0	0	
= FCFF	6	5	7	10	13	16	18	19	20	21	23	477
= Discounted FCFF		5	6	9	10	12	12	12	12	11	12	245
= DFCF min WACC		5	6	9	11	12	12	12	12	12	12	285
= DFCF max WACC		5	6	9	10	12	12	12	11	11	11	212

INTERIM FIGURES

EVLI ESTIMATES, EURm	2019Q1	2019Q2	2019Q3	2019Q4	2019	2020Q1	2020Q2	2020Q3E	2020Q4E	2020E	2021E	2022E
Net sales	14.8	14.8	13.5	14.9	58.0	17.4	16.5	15.3	17.1	66.3	76.9	87.6
EBITDA	5.2	5.2	4.2	4.3	18.9	6.2	6.2	5.1	5.3	22.9	26.2	29.6
<i>EBITDA margin (%)</i>	<i>35.5</i>	<i>35.3</i>	<i>30.8</i>	<i>28.8</i>	<i>32.6</i>	<i>36.0</i>	<i>37.5</i>	<i>33.2</i>	<i>31.3</i>	<i>34.5</i>	<i>34.1</i>	<i>33.8</i>
EBIT	3.4	3.2	2.4	1.5	10.4	3.7	3.6	2.6	2.5	12.4	14.8	17.1
<i>EBIT margin (%)</i>	<i>23.3</i>	<i>21.4</i>	<i>17.4</i>	<i>9.8</i>	<i>18.0</i>	<i>21.4</i>	<i>21.8</i>	<i>17.2</i>	<i>14.6</i>	<i>18.8</i>	<i>19.2</i>	<i>19.5</i>
Net financial items	-0.1	-0.3	-0.2	-0.2	-0.8	-0.2	-0.2	-0.2	-0.2	-0.9	-1.0	-1.1
Pre-tax profit	3.3	2.9	2.1	1.3	9.6	3.5	3.4	2.4	2.2	11.5	13.7	16.0
Tax	-0.7	-0.6	-0.4	-0.3	-2.0	-0.7	-0.7	-0.5	-0.4	-2.3	-2.7	-3.2
<i>Tax rate (%)</i>	<i>20.0</i>	<i>21.2</i>	<i>20.0</i>	<i>20.3</i>	<i>20.4</i>	<i>20.1</i>	<i>21.2</i>	<i>20.0</i>	<i>20.0</i>	<i>20.4</i>	<i>20.0</i>	<i>20.0</i>
Net profit	2.6	2.3	1.7	1.0	7.6	2.8	2.7	1.9	1.8	9.2	11.0	12.8
EPS	0.06	0.05	0.04	0.02	0.18	0.07	0.06	0.04	0.04	0.21	0.26	0.30
EPS adjusted (diluted no. of shares)	0.06	0.05	0.04	0.02	0.18	0.07	0.06	0.04	0.04	0.21	0.26	0.30
Dividend per share	0.00	0.00	0.00	0.00	0.13	0.00	0.00	0.00	0.00	0.15	0.18	0.19
SALES, EURm												
Talenom	14.8	14.8	13.5	14.9	58.0	17.4	16.5	15.3	17.1	66.3	76.9	87.6
Total	14.8	14.8	13.5	14.9	58.0	17.4	16.5	15.3	17.1	66.3	76.9	87.6
SALES GROWTH, Y/Y %												
Talenom	16.1	17.7	21.1	19.8	18.6	17.4	11.8	13.4	14.7	14.3	16.0	14.0
Total	16.1	17.7	21.1	19.8	18.6	17.4	11.8	13.4	14.7	14.3	16.0	14.0
EBIT, EURm												
Talenom	3.4	3.2	2.4	1.5	10.4	3.7	3.6	2.6	2.5	12.4	14.8	17.1
Total	3.4	3.2	2.4	1.5	10.4	3.7	3.6	2.6	2.5	12.4	14.8	17.1
EBIT margin, %												
Talenom	23.3	21.4	17.4	9.8	18.0	21.4	21.8	17.2	14.6	18.8	19.2	19.5
Total	23.3	21.4	17.4	9.8	18.0	21.4	21.8	17.2	14.6	18.8	19.2	19.5

INCOME STATEMENT, EURm	2015	2016	2017	2018	2019	2020E	2021E	2022E
Sales	33.0	37.0	41.4	48.9	58.0	66.3	76.9	87.6
<i>Sales growth (%)</i>	<i>11.6</i>	<i>12.0</i>	<i>12.1</i>	<i>18.0</i>	<i>18.6</i>	<i>14.3</i>	<i>16.0</i>	<i>14.0</i>
EBITDA	3.2	6.8	9.5	13.7	18.9	22.9	26.2	29.6
<i>EBITDA margin (%)</i>	<i>9.6</i>	<i>18.5</i>	<i>23.0</i>	<i>28.0</i>	<i>32.6</i>	<i>34.5</i>	<i>34.1</i>	<i>33.8</i>
Depreciation	-2.0	-2.6	-4.7	-5.1	-8.5	-10.4	-11.4	-12.5
EBITA	1.2	4.2	4.8	8.5	10.4	12.4	14.8	17.1
Goodwill amortization / writedown	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	1.2	4.2	4.8	8.5	10.4	12.4	14.8	17.1
<i>EBIT margin (%)</i>	<i>3.7</i>	<i>11.3</i>	<i>11.7</i>	<i>17.5</i>	<i>18.0</i>	<i>18.8</i>	<i>19.2</i>	<i>19.5</i>
Reported EBIT	1.2	4.0	4.7	8.5	10.4	12.4	14.8	17.1
<i>EBIT margin (reported) (%)</i>	<i>3.7</i>	<i>10.7</i>	<i>11.3</i>	<i>17.5</i>	<i>18.0</i>	<i>18.8</i>	<i>19.2</i>	<i>19.5</i>
Net financials	-1.1	-0.5	-0.5	-0.6	-0.8	-0.9	-1.0	-1.1
Pre-tax profit	0.1	3.6	4.3	8.0	9.6	11.5	13.7	16.0
Taxes	0.0	-0.7	-0.9	-1.6	-2.0	-2.3	-2.7	-3.2
Minority shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	0.1	2.7	3.3	6.4	7.6	9.2	11.0	12.8
Cash NRIs	0.0	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0
Non-cash NRIs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
BALANCE SHEET, EURm								
Assets								
Fixed assets	11	14	17	21	28	34	42	48
Goodwill	18	18	18	18	21	21	21	21
Right of use assets	0	0	0	8	8	9	9	9
Inventory	0	0	0	0	0	0	0	0
Receivables	4	5	5	5	7	7	9	10
Liquid funds	5	4	5	6	8	10	12	13
Total assets	40	42	46	59	71	82	92	101
Liabilities								
Shareholder's equity	9	12	14	19	24	29	33	38
Minority interest	0	0	0	0	0	0	0	0
Convertibles	0	0	0	0	0	0	0	0
Lease liabilities	0	0	0	8	8	9	9	9
Deferred taxes	0	0	1	1	1	1	1	1
Interest bearing debt	24	23	23	24	28	32	36	37
Non-interest bearing current liabilities	7	7	8	8	10	12	14	15
Other interest-free debt	1	1	1	0	0	0	0	0
Total liabilities	40	42	46	59	71	82	92	101
CASH FLOW, EURm								
+ EBITDA	3	7	10	14	19	23	26	30
- Net financial items	-1	-1	-1	-1	-1	-1	-1	-1
- Taxes	-1	0	0	-1	-2	-2	-3	-3
- Increase in Net Working Capital	0	0	1	-1	1	1	1	1
+/- Other	0	1	1	1	1	0	0	0
= Cash flow from operations	2	7	10	12	18	20	23	26
- Capex	-3	-4	-5	-9	-13	-13	-19	-19
- Acquisitions	0	0	0	-1	-2	-5	0	0
+ Divestments	0	0	0	0	0	0	0	0
= Free cash flow	-1	2	5	3	3	3	4	7
+/- New issues/buybacks	9	0	0	1	1	1	0	0
- Paid dividend	0	0	-1	-2	-4	-5	-6	-8
+/- Other	-3	-3	-4	-1	1	4	4	2
Change in cash	4	-1	1	1	2	2	2	2

KEY FIGURES	2016	2017	2018	2019	2020E	2021E	2022E
M-cap	49	87	131	314	399	399	399
Net debt (excl. convertibles)	18	18	26	29	30	33	33
Enterprise value	67	105	157	342	429	431	432
Sales	37	41	49	58	66	77	88
EBITDA	7	10	14	19	23	26	30
EBIT	4	5	9	10	12	15	17
Pre-tax	4	4	8	10	12	14	16
Earnings	3	3	6	8	9	11	13
Equity book value (excl. minorities)	12	14	19	24	29	33	38
Valuation multiples							
EV/sales	1.8	2.5	3.2	5.9	6.5	5.6	4.9
EV/EBITDA	9.9	11.0	11.5	18.1	18.8	16.5	14.6
EV/EBITA	16.1	21.6	18.4	32.9	34.5	29.2	25.3
EV/EBIT	16.1	21.6	18.4	32.9	34.5	29.2	25.3
EV/OCF	9.8	10.6	12.9	18.7	21.3	18.7	16.6
EV/FCFF	46.6	38.2	41.8	57.9	80.2	64.7	41.3
P/FCFE	127.4	98.6	238.9	587.2	153.2	106.3	54.0
P/E	16.9	23.4	20.6	41.2	43.5	36.3	31.1
P/B	4.2	6.2	7.0	13.3	13.9	12.0	10.4
Target EV/EBITDA	0.0	0.0	0.0	0.0	17.2	15.1	13.4
Target EV/EBIT	0.0	0.0	0.0	0.0	31.6	26.9	23.2
Target EV/FCF	0.0	0.0	0.0	0.0	151.3	105.8	53.8
Target P/B	0.0	0.0	0.0	0.0	12.7	10.9	9.5
Target P/E	0.0	0.0	0.0	0.0	39.7	33.1	28.4
Per share measures							
Number of shares	40,842	40,872	41,231	41,836	42,758	42,758	42,758
Number of shares (diluted)	40,842	40,872	41,231	41,836	42,758	42,758	42,758
EPS	0.07	0.08	0.15	0.18	0.21	0.26	0.30
Operating cash flow per share	0.17	0.24	0.30	0.44	0.47	0.54	0.61
Free cash flow per share	0.06	0.13	0.08	0.08	0.06	0.09	0.17
Book value per share	0.29	0.34	0.45	0.56	0.67	0.78	0.90
Dividend per share	0.03	0.05	0.09	0.13	0.15	0.18	0.19
Dividend payout ratio, %	46.9	63.9	59.4	68.7	70.0	70.1	65.0
Dividend yield, %	2.8	2.5	2.9	1.7	1.6	1.9	2.1
FCF yield, %	4.7	6.1	2.5	1.0	0.7	0.9	1.9
Efficiency measures							
ROE	27.5	26.6	39.0	36.0	35.1	35.5	35.8
ROCE	12.5	13.7	19.7	18.8	19.3	20.2	21.1
Financial ratios							
Inventories as % of sales	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Receivables as % of sales	13.0	13.2	11.2	11.3	11.3	11.3	11.3
Non-interest bearing liabilities as % of sales	19.2	20.2	15.8	17.6	17.6	17.6	17.6
NWC/sales, %	-6.2	-7.0	-4.6	-6.4	-6.4	-6.4	-6.4
Operative CAPEX/sales, %	11.0	11.0	17.7	22.9	18.9	25.2	21.2
CAPEX/sales (incl. acquisitions), %	9.9	11.0	16.7	19.3	11.3	25.2	21.2
FCFF/EBITDA	0.2	0.3	0.3	0.3	0.2	0.3	0.4
Net debt/EBITDA, book-weighted	2.7	1.9	1.9	1.5	1.3	1.3	1.1
Debt/equity, market-weighted	0.5	0.3	0.2	0.1	0.1	0.1	0.1
Equity ratio, book-weighted	27.7	30.4	31.5	33.0	35.1	36.0	37.9
Gearing, %	155.2	126.4	138.0	121.8	105.6	99.1	86.7

COMPANY DESCRIPTION: Talenom operates as an accounting company, with services targeted towards small and mid-size companies. The company offers accounting, bookkeeping, taxation, and legal services, as well as invoicing, financial performance monitoring and management software, and payroll services. Talenom also provides other services aimed at assisting entrepreneurs, such as staffing services.

INVESTMENT CASE: The fragmented bookkeeping market offers ample opportunities for Talenom to continue on its track of profitable growth. The opening of its first offices should also start to contribute to growth once its sales force has been established. Margin upside potential exists but is in our view quite limited and affected by the growth pace, and earnings growth should primarily derive from top-line growth. The recurring nature of Talenom's revenue provides exceptionally good predictability and revenue stability.

OWNERSHIP STRUCTURE	SHARES	EURm	%
Tahkola Harri	8,725,890	81.325	20.4%
Tahkola Markus	5,065,824	47.213	11.8%
Skandinaviska Enskilda Banken (nominee reg.)	4,376,862	40.792	10.2%
Nordea Bank Abp (nominee reg.)	4,180,509	38.962	9.8%
Ilmarinen Mutual Pension Insurance Company	2,202,436	20.527	5.2%
Danske Invest Finnish Institutional Equity fund	1,897,512	17.685	4.4%
Conficap	1,850,000	17.242	4.3%
Evli Finnish Small Cap fund	1,588,080	14.801	3.7%
Föreningen Konstsamfundet r.f	780,000	7.270	1.8%
Siuruainen Mikko	694,716	6.475	1.6%
Ten largest	31,361,829	292.292	73%
Residual	11,395,697	106.208	27%
Total	42,757,526	398.500	100%

EARNINGS CALENDAR	
October 26, 2020	Q3 report
OTHER EVENTS	
February 25, 2020	AGM

COMPANY MISCELLANEOUS	
CEO: Otto-Pekka Huhtala	Töölönlahdenkatu 2, 00100 Helsinki
CFO: Antti Aho	Tel:
IR: Miikka Hätälä	

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	$\frac{\text{Price per share}}{\text{Shareholders' equity} + \text{taxed provisions per share}}$	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 per year
ROE, %	$\frac{\text{Profit before extraordinary items and taxes} - \text{income taxes}}{\text{Shareholder's equity} + \text{minority interest} + \text{taxed provisions (average)}}$		

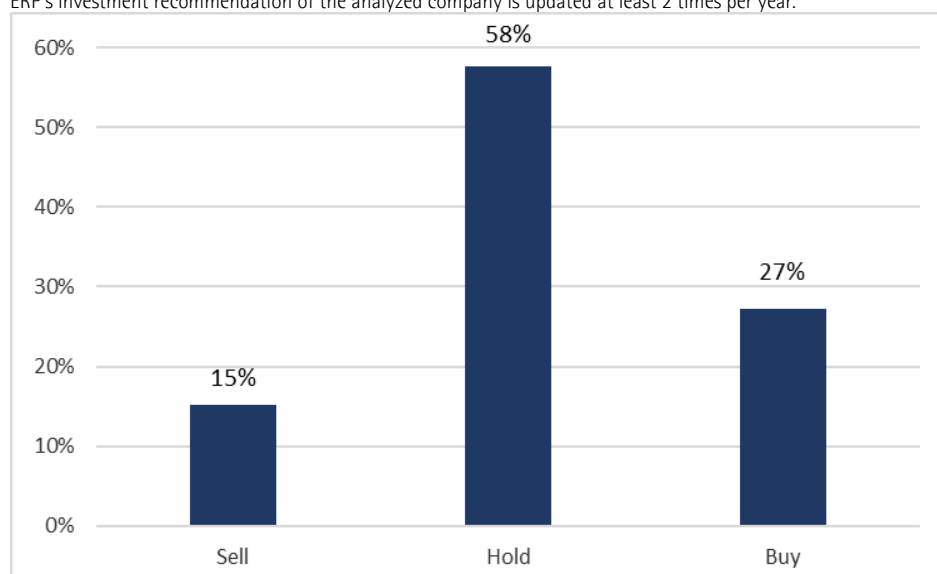
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Investment recommendations are defined as follows:

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

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

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