

Q4 softness unlikely to persist

Scanfil's Q4 EBIT didn't meet our expectations. However, the weakened operating margin was attributable to Scanfil's account idiosyncrasies. Certain contracts with above average profitability lacked volumes in Q4. Overall, the company sees business continuing as before, and we expect organic revenue growth to add around EUR 20m in 2019. 2020 sales target stands at EUR 600m. We update our target price to EUR 4.75 (4.60); our rating stays BUY.

Individual contracts determine quarterly segment results

Although Other Industries segment grew 18% in 2018, the segment's Q4 results were weak due to a significant decrease in demand from a certain notable customer. Urban Applications Q4 top line declined by 12% y/y due to one or two accounts' seasonal variation. In other words, the Q4 EBIT margin weakness was entirely attributable to a couple of accounts that are above average in terms of profitability. Broadly speaking, demand continued to develop positively and the company's guidance for 2019 is in line with our earlier expectations. While individual accounts may have large impact on specific segment results, we expect MedTech, Life Science and Environmental Measurement to be the most stable performer. Conversely, within a segment such as Networks and Communication, it is hard to say when larger order volumes may materialize (i.e. when a standard such as 5G starts to have an impact).

Scanfil expects Q1 to be slower, demand to pick up in Q2

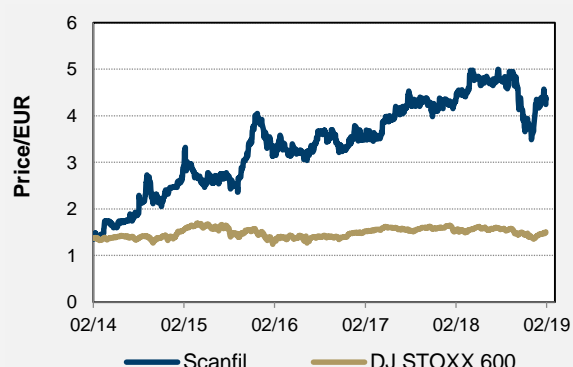
Scanfil says the year will have a sluggish start; the company expects clear demand pick up during the second quarter. The company is adding new customers particularly in Sweden. In addition to organic growth, initiatives such as a EUR 50m acquisition in e.g. Germany are not off the table.

Our rating is BUY, update target to EUR 4.75 (4.60)

Our long-term expectations for Scanfil are intact. Increased peer multiples provide lift for valuation, and thus we update our target price to EUR 4.75 (4.60) per share.

Rating

BUY



Share price, EUR (Last trading day's closing price) 4.24

Target price, EUR 4.75

Latest change in recommendation 30-Oct-18

Latest report on company 30-Oct-18

Research paid by issuer: YES

No. of shares outstanding, '000's 63,895

No. of shares fully diluted, '000's 63,895

Market cap, EURm 271

Free float, % -

Exchange rate -

Reuters code SCANFLHE

Bloomberg code SCANFL FH

Average daily volume, EURm -

Next interim report 25-Apr-19

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BUY HOLD SELL

KEY FIGURES

	Sales EURm	EBIT EURm	EBIT %	Ptx profit EURm	EPS EUR	P/E (x)	EV/Sales (x)	P/CF (x)	EV/EBIT (x)	DPS EUR
2017	530	31	5.9%	33	0.40	10.5	0.6	12.8	10.0	0.11
2018	563	38	6.7%	35	0.42	10.5	0.5	8.4	8.1	0.13
2019E	584	38	6.5%	37	0.44	9.7	0.5	7.7	7.4	0.14
2020E	602	39	6.5%	38	0.46	9.3	0.4	7.4	6.7	0.15
2021E	617	40	6.5%	40	0.47	9.0	0.4	7.1	6.2	0.16
Market cap, EURm			271	BV per share 2019E, EUR		2.6	CAGR EPS 2018-21, %			4.0
Net debt 2019E, EURm			9	Price/book 2019E		1.6	CAGR sales 2018-21, %			3.1
Enterprise value, EURm			280	Dividend yield 2019E, %		3.4	ROE 2019E, %			17.7
Total assets 2019E, EURm			316	Tax rate 2019E, %		24.3	ROCE 2019E, %			18.7
Goodwill 2019E, EURm			10	Equity ratio 2019E, %		53.3	PEG, P/E 19/CAGR			2.7

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

SCANFIL PEER GROUP	EBIT margin			EV/EBIT			Sales growth %	
	18	19E	20E	18	19E	20E	19E	20E
Kitron ASA	6.0%	6.4%	7.0%	12.5x	9.7x	8.0x	14.2	9.2
Celestica Inc.	3.2%	3.1%	3.8%	7.3x	6.9x	7.3x	-3.6	1.8
Sanmina-SCI Corporation	2.9%	3.7%	3.7%	13.8x	8.3x	7.3x	12.6	
Plexus Corp.	4.6%	4.7%	4.8%	11.3x	12.1x	10.9x	10.3	7.6
Lacroix SA	3.2%	3.6%	4.0%	7.1x	6.9x	5.8x	6.1	4.8
Peer Group Average	4.0%	4.3%	4.6%	10.4x	8.8x	7.8x	7.9	5.8
Peer Group Median	3.2%	3.7%	4.0%	11.3x	8.3x	7.3x	10.3	6.2
Scanfil Oyj (Evli est.)	6.7 %	6.5 %	6.5 %	8.1x	7.3x	6.7x	3.7	3.0

Source: Factset, Evli Research

VALUATION RESULTS	BASE CASE DETAILS	VALUATION ASSUMPTIONS	ASSUMPTIONS FOR WACC
Current share price	4.24 PV of Free Cash Flow	184 Long-term growth, %	1.5 Risk-free interest rate, %
DCF share value	5.69 PV of Horizon value	204 WACC, %	8.5 Market risk premium, %
Share price potential, %	34.2 Unconsolidated equity	0 Spread, %	0.5 Debt risk premium, %
Maximum value	6.2 Marketable securities	28 Minimum WACC, %	8.0 Equity beta coefficient
Minimum value	5.3 Debt - dividend	-52 Maximum WACC, %	9.0 Target debt ratio, %
Horizon value, %	52.6 Value of stock	364 Nr of shares, Mn	63.9 Effective tax rate, %

DCF valuation, EURm	2018	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	Horizon
Net sales	563	584	602	617	632	648	661	674	684	694	705	715
<i>Sales growth, %</i>	6.2	3.7	3.0	2.5	2.5	2.5	2.0	2.0	1.5	1.5	1.5	1.5
Operating income (EBIT)	38	38	39	40	41	42	43	44	44	45	46	46
<i>EBIT margin, %</i>	6.7	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5
+ Depreciation+amort.	9	10	10	10	10	11	11	11	11	12	12	
- Income taxes	-9	-9	-9	-10	-10	-10	-10	-11	-11	-11	-11	
- Change in NWC	-5	-4	-3	-3	-3	-3	-2	-2	-2	-2	-2	
<i>NWC / Sales, %</i>	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	
+ Change in other liabs	0	0	0	0	0	0	0	0	0	0	0	
- Capital Expenditure	-11	-11	-11	-11	-12	-12	-12	-13	-13	-13	-14	-14
<i>Investments / Sales, %</i>	2.0	1.9	1.8	1.8	1.8	1.9	1.9	1.9	1.9	1.9	1.9	1.9
- Other items	0	0	0	0	0	0	0	0	0	0	0	
= Unlevered Free CF (FCF)	22	24	26	27	27	28	29	29	30	31	31	454
= Discounted FCF (DFCF)		23	22	21	20	19	18	17	16	15	14	204
= DFCF min WACC		23	22	21	20	19	18	17	17	16	15	230
= DFCF max WACC		22	22	21	19	18	17	16	15	14	13	182

INTERIM FIGURES

EVLI ESTIMATES, EURm	2018Q1	2018Q2	2018Q3	2018Q4	2018	2019Q1E	2019Q2E	2019Q3E	2019Q4E	2019E	2020E	2021E
Net sales	140	152	132	140	563	125	150	175	134	584	602	617
EBITDA	12	14	11	10	47	11	13	14	12	48	49	50
<i>EBITDA margin (%)</i>	<i>8.9</i>	<i>9.0</i>	<i>8.6</i>	<i>7.0</i>	<i>8.4</i>	<i>8.4</i>	<i>8.3</i>	<i>7.7</i>	<i>8.6</i>	<i>8.2</i>	<i>8.2</i>	<i>8.2</i>
EBIT	10	11	9	8	38	8	10	11	9	38	39	40
<i>EBIT margin (%)</i>	<i>7.4</i>	<i>7.4</i>	<i>6.7</i>	<i>5.3</i>	<i>6.7</i>	<i>6.4</i>	<i>6.7</i>	<i>6.3</i>	<i>6.7</i>	<i>6.5</i>	<i>6.5</i>	<i>6.5</i>
Net financial items	-1	-1	1	-1	-3	0	0	0	0	-1	-1	0
Pre-tax profit	9	10	9	7	35	8	10	11	9	37	38	40
Tax	-2	-2	-2	-2	-8	-2	-2	-2	-2	-9	-9	-10
<i>Tax rate (%)</i>	<i>18.3</i>	<i>20.0</i>	<i>26.6</i>	<i>32.3</i>	<i>23.6</i>	<i>29.0</i>	<i>23.1</i>	<i>20.9</i>	<i>25.7</i>	<i>24.3</i>	<i>24.0</i>	<i>24.0</i>
Net profit	8	8	7	4	27	6	8	9	7	28	29	30
EPS	0.12	0.13	0.11	0.07	0.42	0.09	0.12	0.13	0.10	0.44	0.46	0.47
EPS adjusted (diluted no. of shares)	0.12	0.13	0.11	0.07	0.42	0.09	0.12	0.13	0.10	0.44	0.46	0.47
Dividend per share	0.00	0.00	0.00	0.00	0.13	0.00	0.00	0.00	0.00	0.14	0.15	0.16
SALES, EURm												
Group	140	152	132	140	563	125	150	175	134	584	602	617
Total	140	152	132	140	563	125	150	175	134	584	602	617
SALES GROWTH, Y/Y %												
Group	14.2	14.5	0.5	-2.9	6.2	-10.5	-1.1	33.1	-4.4	3.7	3.0	2.5
Total	14.2	14.5	0.5	-2.9	6.2	-10.5	-1.1	33.1	-4.4	3.7	3.0	2.5
EBIT, EURm												
Group	10	11	9	8	38	8	10	11	9	38	39	40
Total	10	11	9	8	38	8	10	11	9	38	39	40
EBIT margin, %												
Group	7.4	7.4	6.7	5.3	6.7	6.4	6.7	6.3	6.7	6.5	6.5	6.5
Total	7.4	7.4	6.7	5.3	6.7	6.4	6.7	6.3	6.7	6.5	6.5	6.5

INCOME STATEMENT, EURm	2014	2015	2016	2017	2018	2019E	2020E	2021E
Sales	215	377	508	530	563	584	602	617
<i>Sales growth (%)</i>	<i>13.8</i>	<i>75.9</i>	<i>34.6</i>	<i>4.3</i>	<i>6.2</i>	<i>3.7</i>	<i>3.0</i>	<i>2.5</i>
Costs	-194	-347	-475	-490	-516	-536	-552	-566
Reported EBITDA	21	30	33	40	47	48	49	50
Extraordinary items in EBITDA	0	0	0	0	0	0	0	0
<i>EBITDA margin (%)</i>	<i>9.7</i>	<i>8.1</i>	<i>6.5</i>	<i>7.5</i>	<i>8.4</i>	<i>8.2</i>	<i>8.2</i>	<i>8.2</i>
Depreciation	-5	-11	-11	-9	-9	-10	-10	-10
EBITA	16	20	22	31	38	38	39	40
Goodwill amortization / writedown	0	0	0	0	0	0	0	0
Reported EBIT	16	20	22	31	38	38	39	40
<i>EBIT margin (%)</i>	<i>7.6</i>	<i>5.2</i>	<i>4.4</i>	<i>5.9</i>	<i>6.7</i>	<i>6.5</i>	<i>6.5</i>	<i>6.5</i>
Net financials	0	0	-1	1	-3	-1	-1	0
Pre-tax profit	16	19	21	33	35	37	38	40
Extraordinary items	0	-6	-15	0	0	0	0	0
Taxes	-4	-5	-6	-7	-8	-9	-9	-10
Minority shares	0	0	0	0	0	0	0	0
Net profit	12	8	0	26	27	28	29	30
BALANCE SHEET, EURm								
Assets								
Fixed assets	32	68	57	62	64	65	66	67
<i>% of sales</i>	<i>15</i>	<i>18</i>	<i>11</i>	<i>12</i>	<i>11</i>	<i>11</i>	<i>11</i>	<i>11</i>
Goodwill	6	11	11	10	10	10	10	10
<i>% of sales</i>	<i>3</i>	<i>3</i>	<i>2</i>	<i>2</i>	<i>2</i>	<i>2</i>	<i>2</i>	<i>2</i>
Inventory	36	91	85	101	96	99	102	105
<i>% of sales</i>	<i>17</i>	<i>24</i>	<i>17</i>	<i>19</i>	<i>17</i>	<i>17</i>	<i>17</i>	<i>17</i>
Receivables	41	107	92	108	104	108	111	113
<i>% of sales</i>	<i>19</i>	<i>28</i>	<i>18</i>	<i>20</i>	<i>18</i>	<i>18</i>	<i>18</i>	<i>18</i>
Liquid funds	19	22	20	21	28	29	30	31
<i>% of sales</i>	<i>9</i>	<i>6</i>	<i>4</i>	<i>4</i>	<i>5</i>	<i>5</i>	<i>5</i>	<i>5</i>
Total assets	134	302	267	307	306	316	324	331
Liabilities								
Equity	95	100	108	125	148	168	188	209
<i>% of sales</i>	<i>44</i>	<i>27</i>	<i>21</i>	<i>24</i>	<i>26</i>	<i>29</i>	<i>31</i>	<i>34</i>
Deferred taxes	0	3	3	5	5	5	5	5
<i>% of sales</i>	<i>0</i>	<i>1</i>	<i>1</i>	<i>1</i>	<i>1</i>	<i>1</i>	<i>1</i>	<i>1</i>
Interest bearing debt	9	88	60	61	52	38	23	7
<i>% of sales</i>	<i>4</i>	<i>23</i>	<i>12</i>	<i>12</i>	<i>9</i>	<i>6</i>	<i>4</i>	<i>1</i>
Non-interest bearing current liabilities	29	105	88	113	99	102	105	108
<i>% of sales</i>	<i>13</i>	<i>28</i>	<i>17</i>	<i>21</i>	<i>18</i>	<i>18</i>	<i>18</i>	<i>18</i>
Other interest free debt	1	4	1	2	2	2	2	2
<i>% of sales</i>	<i>0</i>	<i>1</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
Total liabilities	134	302	267	307	306	316	324	331
CASH FLOW, EURm								
+ EBITDA	21	30	33	40	47	48	49	50
- Net financial items	0	0	-1	1	-3	-1	-1	0
- Taxes	-3	-4	-5	-8	-8	-9	-9	-10
- Increase in Net Working Capital	-5	-8	-6	-6	-5	-4	-3	-3
+/- Other	-1	-6	-4	-7	0	0	0	0
= Cash flow from operations	11	13	16	21	31	34	36	38
- Capex	-8	-52	-5	-21	-11	-11	-11	-11
- Acquisitions	0	0	0	0	0	0	0	0
+ Divestments	0	0	0	0	0	0	0	0
= Net cash flow	3	-39	11	1	20	23	25	26
+/- Change in interest-bearing debt	-9	79	-28	1	-9	-14	-15	-16
+/- New issues/buybacks	5	1	13	-4	4	0	0	0
- Paid dividend	-3	-4	-5	-6	-7	-8	-9	-10
+/- Change in loan receivables	0	1	2	10	0	0	0	0
Change in cash	-4	38	-7	2	8	1	1	1

KEY FIGURES	2015	2016	2017	2018	2019E	2020E	2021E
M-cap	220	223	272	281	271	271	271
Net debt	66	40	41	24	9	-7	-24
Enterprise value	286	263	312	305	280	264	247
Sales	377	508	530	563	584	602	617
EBITDA	30	33	40	47	48	49	50
EBIT	20	22	31	38	38	39	40
Pre-tax	19	21	33	35	37	38	40
Earnings	14	15	26	27	28	29	30
Book value	100	108	125	148	168	188	209
Valuation multiples							
EV/sales	0.8	0.5	0.6	0.5	0.5	0.4	0.4
EV/EBITDA	9.4	7.9	7.8	6.5	5.8	5.4	4.9
EV/EBITA	14.6	11.8	10.0	8.1	7.4	6.7	6.2
EV/EBIT	14.6	11.8	10.0	8.1	7.4	6.7	6.2
EV/operating cash flow	22.4	16.0	14.7	9.1	8.0	7.2	6.5
EV/cash earnings	11.1	9.9	9.2	8.4	7.4	6.7	6.1
P/E	15.8	14.7	10.5	10.5	9.7	9.3	9.0
P/E excl. goodwill	15.8	14.7	10.5	10.5	9.7	9.3	9.0
P/B	2.2	2.1	2.2	1.9	1.6	1.4	1.3
P/sales	0.6	0.4	0.5	0.5	0.5	0.5	0.4
P/CF	17.2	13.5	12.8	8.4	7.7	7.4	7.1
Target EV/EBIT	0.0	0.0	0.0	0.0	8.2	7.6	7.0
Target P/E	0.0	0.0	13.2	10.5	10.8	10.4	10.0
Target P/B	0.0	0.0	0.0	0.0	1.8	1.6	1.5
Per share measures							
Number of shares	57,730	63,670	63,895	63,895	63,895	63,895	63,895
Number of shares (diluted)	57,730	63,670	63,895	63,895	63,895	63,895	63,895
EPS	0.24	0.24	0.40	0.42	0.44	0.46	0.47
EPS excl. goodwill	0.24	0.24	0.40	0.42	0.44	0.46	0.47
Cash EPS	0.45	0.42	0.53	0.57	0.59	0.62	0.63
Operating cash flow per share	0.22	0.26	0.33	0.52	0.55	0.57	0.59
Capital employed per share	2.87	2.33	2.59	2.70	2.77	2.83	2.89
Book value per share	1.74	1.70	1.95	2.32	2.63	2.95	3.27
Book value excl. goodwill	1.55	1.53	1.79	2.16	2.47	2.78	3.10
Dividend per share	0.08	0.09	0.11	0.13	0.14	0.15	0.16
Dividend payout ratio, %	33.1	37.9	27.2	30.9	33.0	33.0	33.0
Dividend yield, %	2.1	2.6	2.6	3.1	3.4	3.6	3.7
Efficiency measures							
ROE	14.3	14.5	22.2	19.7	17.7	16.4	15.2
ROCE	13.4	12.5	17.7	19.6	18.7	18.8	18.8
Financial ratios							
Capex/sales, %	13.7	1.0	3.9	2.0	1.9	1.8	1.8
Capex/depreciation excl. goodwill,%	431.1	49.6	240.1	120.3	108.8	110.2	111.5
Net debt/EBITDA, book-weighted	2.2	1.2	1.0	0.5	0.2	-0.1	-0.5
Debt/equity, market-weighted	0.4	0.3	0.2	0.2	0.1	0.1	0.0
Equity ratio, book-weighted	33.2	40.6	40.6	48.4	53.3	58.1	63.1
Gearing	0.65	0.37	0.33	0.16	0.05	-0.04	-0.12
Number of employees, average	2,641	3,483	3,254	3,254	3,254	3,254	3,254
Sales per employee, EUR	142,862	145,843	162,846	173,018	179,471	184,856	189,477
EBIT per employee, EUR	7,421	6,403	9,619	11,616	11,678	12,016	12,316

COMPANY DESCRIPTION:

INVESTMENT CASE:

OWNERSHIP STRUCTURE	SHARES	EURm	%
Takanen Harri	9,776,664	41.453	15.3%
Takanen Jarkko	8,511,169	36.087	13.3%
Varikot Oy	7,606,442	32.251	11.9%
Takanen Jorma	6,079,305	25.776	9.5%
Tolonen Jonna	3,351,950	14.212	5.2%
Pöllä Reijo	3,328,745	14.114	5.2%
Laakkonen Mikko	2,531,187	10.732	4.0%
Takanen Martti	1,947,018	8.255	3.0%
Foundation of Riitta and Jorma J.Takanen	1,900,000	8.056	3.0%
Sijoitusrahasto Aktia Capital	1,528,000	6.479	2.4%
Ten largest	46,560,480	197.416	73%
Residual	17,334,959	73.500	27%
Total	63,895,439	270.917	100%

EARNINGS CALENDAR

April 25, 2019	Q1 report
August 09, 2019	Q2 report
October 25, 2019	Q3 report

OTHER EVENTS

COMPANY MISCELLANEOUS

CEO: Petteri Jokitalo	Yritystie 6, FI-85410 Sievi
CFO: Kai Valo	Tel: +358 8 48 82 111
IR:	

DEFINITIONS

P/E	$\frac{\text{Price per share}}{\text{Earnings per share}}$	EPS	$\frac{\text{Profit before extraordinary items and taxes} - \text{income taxes} + \text{minority interest}}{\text{Number of shares}}$
P/Sales	$\frac{\text{Market cap}}{\text{Sales}}$	DPS	Dividend for the financial period per share
P/BV	$\frac{\text{Price per share}}{\text{Shareholders' equity} + \text{taxed provisions per share}}$	CEPS	$\frac{\text{Gross cash flow from operations}}{\text{Number of shares}}$
P/CF	$\frac{\text{Price per share}}{\text{Operating cash flow per share}}$	EV/Share	$\frac{\text{Enterprise value}}{\text{Number of shares}}$
EV (Enterprise value)	Market cap + net debt + minority interest at market value – share of associated companies at market value	Sales/Share	$\frac{\text{Sales}}{\text{Number of shares}}$
Net debt	Interest bearing debt – financial assets	EBITDA/Share	$\frac{\text{Earnings before interest, tax, depreciation and amortisation}}{\text{Number of shares}}$
EV/Sales	$\frac{\text{Enterprise value}}{\text{Sales}}$	EBIT/Share	$\frac{\text{Operating profit}}{\text{Number of shares}}$
EV/EBITDA	$\frac{\text{Enterprise value}}{\text{Earnings before interest, tax, depreciation and amortisation}}$	EAFI/Share	$\frac{\text{Pretax profit}}{\text{Number of shares}}$
EV/EBIT	$\frac{\text{Enterprise value}}{\text{Operating profit}}$	Capital employed/Share	$\frac{\text{Total assets} - \text{non interest bearing debt}}{\text{Number of shares}}$
Div yield, %	$\frac{\text{Dividend per share}}{\text{Price per share}}$	Total assets	Balance sheet total
Payout ratio, %	$\frac{\text{Total dividends}}{\text{Earnings before extraordinary items and taxes} - \text{income taxes} + \text{minority interest}}$	Interest coverage (x)	$\frac{\text{Operating profit}}{\text{Financial items}}$
Net cash/Share	$\frac{\text{Financial assets} - \text{interest bearing debt}}{\text{Number of shares}}$	Asset turnover (x)	$\frac{\text{Turnover}}{\text{Balance sheet total (average)}}$
ROA, %	$\frac{\text{Operating profit} + \text{financial income} + \text{extraordinary items}}{\text{Balance sheet total} - \text{interest free short term debt} - \text{long term advances received and accounts payable (average)}}$	Debt/Equity, %	$\frac{\text{Interest bearing debt}}{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions}}$
ROCE, %	$\frac{\text{Profit before extraordinary items} + \text{interest expenses} + \text{other financial costs}}{\text{Balance sheet total} - \text{non interest bearing debt (average)}}$	Equity ratio, %	$\frac{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions}}{\text{Total assets} - \text{interest free loans}}$
ROE, %	$\frac{\text{Profit before extraordinary items and taxes} - \text{income taxes}}{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions (average)}}$	CAGR, %	Cumulative annual growth rate = Average growth per year

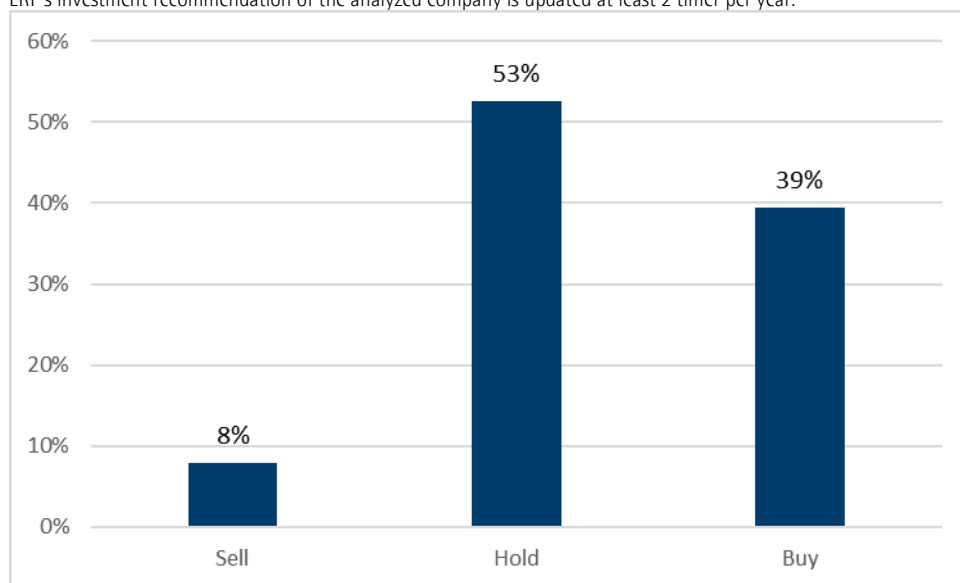
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Investment recommendations are defined as follows:

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

ERP's investment recommendation of the analyzed company is updated at least 2 times per year.



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

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