

Upgrade to buy

Talenom continued to post solid growth and profitability figures in Q3, with revenue slightly below our optimistic estimates. Talenom gave a guidance for 2020, expecting net sales growth and relative profitability to be in line with 2019, rather similar to our expectations. With the added visibility given by the guidance we set our sights towards 2020, raising our target price to EUR 37.5 (36.0) and upgrade to BUY (HOLD).

Gave guidance for 2020

Talenom's net sales in Q3 amounted to EUR 13.5m (Evli 14.2m) and operating profit to EUR 2.4m (Evli 2.5m). A decision to focus staffing services on supporting the core accounting business saw staffing services volumes decline but its profitability improving, although the impact on group figures is minor. Discontinuation of annual payroll reports due to the change in income register will smooth some seasonal variation, with H1 figures expected to gain at the expense of H2 figures. Talenom further gave a guidance for 2020, expecting net sales growth and relative profitability to be in line with 2019.

2019 estimates slightly lower, 2020 largely unchanged

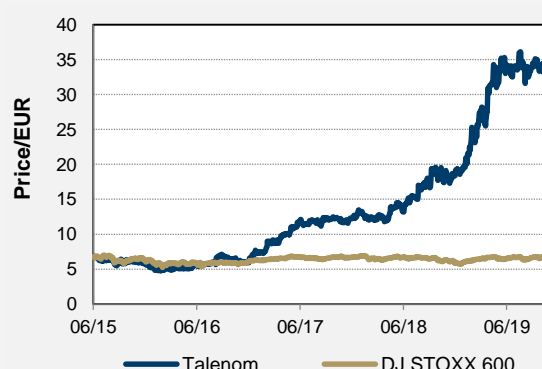
We have lowered our 2019 estimate for net sales to 58.1m (prev. 59.9m) to account for the changes in billing of payroll reports and also seeing some overoptimism in our year end estimates. We expect Talenom to still be able to slightly improve relative profitability in 2020 driven by development of the new bookkeeping production line and scalability. Our 2020-2021 estimates overall remain largely unchanged, as some of the expected net sales growth was shifted to 2020. We expect a sales growth of 19% and EBIT-% of 20.7% in 2020.

Upgrade to BUY (HOLD) with a TP of EUR 37.5 (36.0)

With the added visibility given by the guidance for 2020, we are prepared to set our sights towards 2020. With the narrative of Talenom's profitable growth story largely unchanged we raise our target price to EUR 37.5, valuing Talenom at a target 2020 P/E of ~24x. With our target price increase and share price declines since our last update we upgrade our rating to BUY.

Rating

BUY



Share price, EUR (Last trading day's closing price) 34.00

Target price, EUR 37.5

Latest change in recommendation 22-Oct-19

Latest report on company 30-Jul-19

Research paid by issuer: YES

No. of shares outstanding, '000's 6,973

No. of shares fully diluted, '000's 6,973

Market cap, EURm 237

Free float, % 58.5

Exchange rate 0.000

Reuters code TNOM.HE

Bloomberg code TNOM FH

Average daily volume, EURm 0.07

Next interim report

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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
2017	41.4	4.8	11.7%	2.0	0.50	23.4	2.5	21.6	2.3	0.32
2018	48.9	8.5	17.5%	2.2	0.93	20.6	3.2	18.4	1.7	0.55
2019E	58.1	11.6	19.9%	0.9	1.23	27.7	4.6	23.0	0.4	0.74
2020E	69.2	14.3	20.7%	7.3	1.55	22.0	3.8	18.4	3.1	0.93
2021E	79.6	16.7	21.0%	8.5	1.82	18.7	3.3	15.6	3.6	1.09
Market cap, EURm			237	Gearing 2019E, %		119.6	CAGR EPS 2018-21, %			25.2
Net debt 2019E, EURm			28	Price/book 2019E		10.0	CAGR sales 2018-21, %			17.6
Enterprise value, EURm			265	Dividend yield 2019E, %		2.2	ROE 2019E, %			40.4
Total assets 2019E, EURm			71	Tax rate 2019E, %		20.3	ROCE 2019E, %			20.8
Goodwill 2019E, EURm			21	Equity ratio 2019E, %		33.4	PEG, P/E 19/CAGR			1.5

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

INTERIM FIGURES

EVLI ESTIMATES, EURm	2018Q1	2018Q2	2018Q3	2018Q4	2018	2019Q1	2019Q2	2019Q3	2019Q4E	2019E	2020E	2021E
Net sales	12.7	12.5	11.1	12.4	48.9	14.8	14.8	13.5	15.1	58.1	69.2	79.6
EBITDA	3.7	3.9	3.1	3.0	13.7	5.2	5.2	4.2	4.8	19.4	22.5	25.3
<i>EBITDA margin (%)</i>	<i>29.3</i>	<i>30.8</i>	<i>27.4</i>	<i>24.4</i>	<i>28.0</i>	<i>35.5</i>	<i>35.3</i>	<i>30.8</i>	<i>31.8</i>	<i>33.4</i>	<i>32.5</i>	<i>31.9</i>
EBIT	2.6	2.6	1.9	1.5	8.5	3.4	3.2	2.4	2.6	11.6	14.3	16.7
<i>EBIT margin (%)</i>	<i>20.7</i>	<i>20.6</i>	<i>16.6</i>	<i>11.8</i>	<i>17.5</i>	<i>23.3</i>	<i>21.4</i>	<i>17.4</i>	<i>17.2</i>	<i>19.9</i>	<i>20.7</i>	<i>21.0</i>
Net financial items	-0.2	-0.1	-0.1	-0.2	-0.6	-0.1	-0.3	-0.2	-0.1	-0.8	-0.9	-0.9
Pre-tax profit	2.5	2.5	1.8	1.3	8.0	3.3	2.9	2.1	2.5	10.8	13.5	15.8
Tax	-0.5	-0.5	-0.3	-0.3	-1.6	-0.7	-0.6	-0.4	-0.5	-2.2	-2.7	-3.2
<i>Tax rate (%)</i>	<i>19.9</i>	<i>20.6</i>	<i>19.3</i>	<i>20.8</i>	<i>20.1</i>	<i>20.0</i>	<i>21.2</i>	<i>20.0</i>	<i>20.0</i>	<i>20.3</i>	<i>20.0</i>	<i>20.0</i>
Net profit	2.0	2.0	1.4	1.0	6.4	2.6	2.3	1.7	2.0	8.6	10.8	12.7
EPS	0.29	0.29	0.21	0.15	0.93	0.38	0.33	0.24	0.28	1.23	1.55	1.82
EPS adjusted (diluted no. of shares)	0.29	0.29	0.21	0.15	0.93	0.38	0.33	0.24	0.28	1.23	1.55	1.82
Dividend per share	0.00	0.00	0.00	0.00	0.55	0.00	0.00	0.00	0.00	0.74	0.93	1.09
SALES, EURm												
Talenom	12.7	12.5	11.1	12.4	48.9	14.8	14.8	13.5	15.1	58.1	69.2	79.6
Total	12.7	12.5	11.1	12.4	48.9	14.8	14.8	13.5	15.1	58.1	69.2	79.6
SALES GROWTH, Y/Y %												
Talenom	18.1	17.9	19.8	16.3	18.0	16.1	17.7	21.1	21.3	19.0	19.0	15.0
Total	18.1	17.9	19.8	16.3	18.0	16.1	17.7	21.1	21.3	19.0	19.0	15.0
EBIT, EURm												
Talenom	2.6	2.6	1.9	1.5	8.5	3.4	3.2	2.4	2.6	11.6	14.3	16.7
Total	2.6	2.6	1.9	1.5	8.5	3.4	3.2	2.4	2.6	11.6	14.3	16.7
EBIT margin, %												
Talenom	20.7	20.6	16.6	11.8	17.5	23.3	21.4	17.4	17.2	19.9	20.7	21.0
Total	20.7	20.6	16.6	11.8	17.5	23.3	21.4	17.4	17.2	19.9	20.7	21.0

INCOME STATEMENT, EURm	2014	2015	2016	2017	2018	2019E	2020E	2021E
Sales	29.6	33.0	37.0	41.4	48.9	58.1	69.2	79.6
<i>Sales growth (%)</i>	<i>14.0</i>	<i>11.6</i>	<i>12.0</i>	<i>12.1</i>	<i>18.0</i>	<i>19.0</i>	<i>19.0</i>	<i>15.0</i>
EBITDA	6.3	3.2	6.8	9.5	13.7	19.4	22.5	25.3
<i>EBITDA margin (%)</i>	<i>21.3</i>	<i>9.6</i>	<i>18.5</i>	<i>23.0</i>	<i>28.0</i>	<i>33.4</i>	<i>32.5</i>	<i>31.9</i>
Depreciation	-2.9	-2.0	-2.6	-4.7	-5.1	-6.2	-6.4	-6.8
EBITA	3.3	1.2	4.2	4.8	8.5	11.6	14.3	16.7
Goodwill amortization / writedown	-1.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	1.5	1.2	4.2	4.8	8.5	11.6	14.3	16.7
<i>EBIT margin (%)</i>	<i>5.2</i>	<i>3.7</i>	<i>11.3</i>	<i>11.7</i>	<i>17.5</i>	<i>19.9</i>	<i>20.7</i>	<i>21.0</i>
Reported EBIT	1.5	1.2	4.0	4.7	8.5	11.6	14.3	16.7
<i>EBIT margin (reported) (%)</i>	<i>5.2</i>	<i>3.7</i>	<i>10.7</i>	<i>11.3</i>	<i>17.5</i>	<i>19.9</i>	<i>20.7</i>	<i>21.0</i>
Net financials	-1.3	-1.1	-0.5	-0.5	-0.6	-0.8	-0.9	-0.9
Pre-tax profit	0.2	0.1	3.6	4.3	8.0	10.8	13.5	15.8
Taxes	-0.2	0.0	-0.7	-0.9	-1.6	-2.2	-2.7	-3.2
Minority shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	0.0	0.1	2.7	3.3	6.4	8.6	10.8	12.7
Cash NRIs	0.0	0.0	-0.2	-0.1	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	10	11	14	17	21	26	30	34
Goodwill	19	18	18	18	18	21	21	21
Right of use assets	0	0	0	0	8	9	9	9
Inventory	0	0	0	0	0	0	0	0
Receivables	4	4	5	5	5	7	8	9
Liquid funds	2	5	4	5	6	9	11	13
Total assets	34	40	42	46	59	71	79	87
Liabilities								
Shareholder's equity	1	9	12	14	19	24	29	36
Minority interest	0	0	0	0	0	0	0	0
Convertibles	0	0	0	0	0	0	0	0
Lease liabilities	0	0	0	0	8	9	9	9
Deferred taxes	0	0	0	1	1	1	1	1
Interest bearing debt	26	24	23	23	24	28	28	28
Non-interest bearing current liabilities	1	7	7	8	8	9	11	13
Other interest-free debt	7	1	1	1	0	0	0	0
Total liabilities	34	40	42	46	59	71	79	87
CASH FLOW, EURm								
+ EBITDA	6	3	7	10	14	19	23	25
- Net financial items	-1	-1	-1	-1	-1	-1	-1	-1
- Taxes	0	-1	0	0	-1	-2	-3	-3
- Increase in Net Working Capital	0	0	0	1	-1	0	0	0
+/- Other	0	0	0	0	0	0	0	0
= Cash flow from operations	6	2	6	9	12	17	19	22
- Capex	-7	-3	-6	-7	-9	-14	-12	-13
- Acquisitions	0	0	0	0	-1	-2	0	0
+ Divestments	0	0	0	0	0	0	0	0
= Free cash flow	-1	-1	1	2	2	1	7	8
+/- New issues/buybacks	0	9	0	0	1	0	0	0
- Paid dividend	0	0	0	-1	-2	-4	-5	-6
+/- Other	2	-3	-1	0	0	5	0	0
Change in cash	1	4	-1	1	1	3	2	2

KEY FIGURES	2015	2016	2017	2018	2019E	2020E	2021E
M-cap	32	49	87	131	237	237	237
Net debt (excl. convertibles)	18	18	18	26	28	26	24
Enterprise value	50	67	105	157	265	263	261
Sales	33	37	41	49	58	69	80
EBITDA	3	7	10	14	19	23	25
EBIT	1	4	5	9	12	14	17
Pre-tax	0	4	4	8	11	13	16
Earnings	0	3	3	6	9	11	13
Equity book value (excl. minorities)	9	12	14	19	24	29	36
Valuation multiples							
EV/sales	1.5	1.8	2.5	3.2	4.6	3.8	3.3
EV/EBITDA	15.8	9.9	11.0	11.5	13.7	11.7	10.3
EV/EBITA	41.1	16.1	21.6	18.4	23.0	18.4	15.6
EV/EBIT	41.1	16.1	21.6	18.4	23.0	18.4	15.6
EV/OCF	29.7	10.5	11.1	13.4	16.1	13.5	12.0
EV/FCFF	-35.7	71.2	47.1	63.1	67.1	26.3	23.2
P/FCFE	-22.6	75.4	44.2	59.7	257.4	32.3	28.0
P/E	400.0	16.9	23.4	20.6	27.7	22.0	18.7
P/B	3.4	4.2	6.2	7.0	10.0	8.1	6.7
Target EV/EBITDA	0.0	0.0	0.0	0.0	14.9	12.8	11.3
Target EV/EBIT	0.0	0.0	0.0	0.0	25.1	20.1	17.1
Target EV/FCF	0.0	0.0	0.0	0.0	314.8	39.2	33.7
Target P/B	0.0	0.0	0.0	0.0	11.0	8.9	7.3
Target P/E	0.0	0.0	0.0	0.0	30.5	24.3	20.6
Per share measures							
Number of shares	6,084	6,807	6,812	6,872	6,973	6,973	6,973
Number of shares (diluted)	6,084	6,807	6,812	6,872	6,973	6,973	6,973
EPS	0.01	0.43	0.50	0.93	1.23	1.55	1.82
Operating cash flow per share	0.28	0.94	1.38	1.70	2.37	2.79	3.12
Free cash flow per share	-0.23	0.10	0.29	0.32	0.13	1.05	1.21
Book value per share	1.54	1.72	2.05	2.72	3.40	4.21	5.10
Dividend per share	0.07	0.20	0.32	0.55	0.74	0.93	1.09
Dividend payout ratio, %	532.3	46.9	63.9	59.4	60.0	60.0	60.0
Dividend yield, %	1.3	2.8	2.5	2.9	2.2	2.7	3.2
FCF yield, %	-4.4	1.3	2.3	1.7	0.4	3.1	3.6
Efficiency measures							
ROE	1.6	27.5	26.6	39.0	40.4	40.6	39.0
ROCE	4.1	12.5	13.7	19.7	20.8	22.5	24.0
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	13.0	13.2	11.2	11.5	11.5	11.5
Non-interest bearing liabilities as % of sales	19.7	19.2	20.2	15.8	16.0	16.0	16.0
NWC/sales, %	-6.8	-6.2	-7.0	-4.6	-4.5	-4.5	-4.5
Operative CAPEX/sales, %	9.4	15.5	17.9	18.4	23.3	17.5	16.7
CAPEX/sales (incl. acquisitions), %	9.4	15.5	17.9	17.4	19.7	17.5	16.7
FCFF/EBITDA	-0.4	0.1	0.2	0.2	0.2	0.4	0.4
Net debt/EBITDA, book-weighted	5.7	2.7	1.9	1.9	1.5	1.2	1.0
Debt/equity, market-weighted	0.7	0.5	0.3	0.2	0.1	0.1	0.1
Equity ratio, book-weighted	23.5	27.7	30.4	31.5	33.4	37.3	41.0
Gearing, %	193.3	155.2	126.4	138.0	119.6	89.2	68.0

COMPANY DESCRIPTION: Talenom Oyj operates as an accounting company. The Company offers accounting, bookkeeping, taxation, and legal services, as well as invoicing, financial performance monitoring and management software, and payroll services.

INVESTMENT CASE:

OWNERSHIP STRUCTURE	SHARES	EURm	%
Tahkola Harri	1,564,315	53.187	22.4%
Tahkola Markus	939,304	31.936	13.5%
Ilmarinen Mutual Pension Insurance Company	840,767	28.586	12.1%
Evli Finnish Small Cap fund	400,000	13.600	5.7%
Skandinaviska Enskilda Banken (nominee reg.)	338,482	11.508	4.9%
Nordea Bank (nominee reg.)	318,152	10.817	4.6%
Danske Invest Finnish Institutional Equity fund	231,252	7.863	3.3%
EQ Nordic Small Cap fund	120,735	4.105	1.7%
Siuruainen Mikko	115,786	3.937	1.7%
The Church Pension Fund	101,000	3.434	1.4%
Ten largest	4,969,793	168.973	71%
Residual	2,002,879	68.098	29%
Total	6,972,672	237.071	100%

EARNINGS CALENDAR

OTHER EVENTS

COMPANY MISCELLANEOUS

CEO: Otto-Pekka Huhtala

Töölönlahdenkatu 2, 00100 Helsinki

CFO: Antti Aho

Tel:

IR: Miikka Hätäjä

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

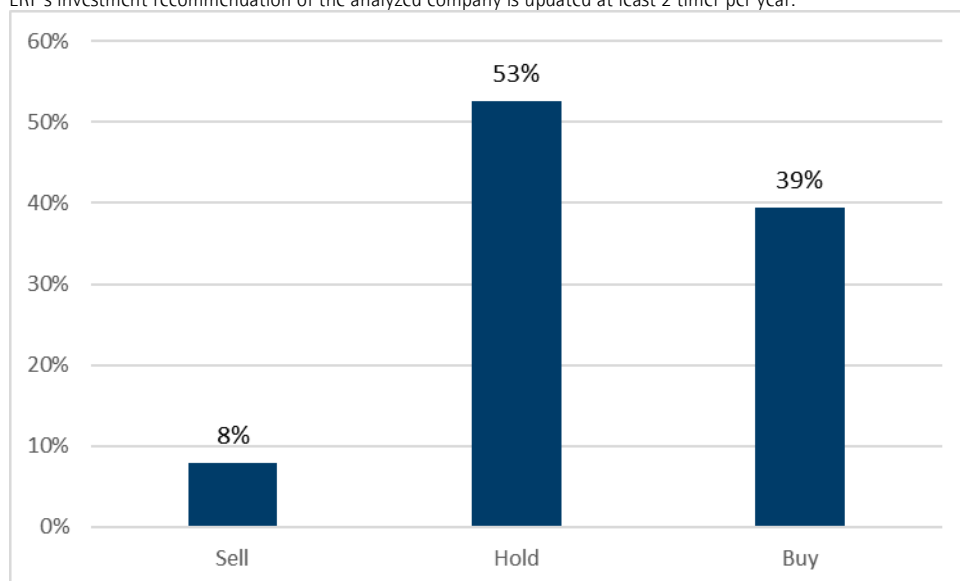
Important Disclosures

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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.



The graph above shows the distribution of ERP's recommendations of companies under coverage in 1st of February 2019. If recommendation is not given, it is not mentioned here.

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

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