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Commissioned research: Netcompany – Q3: Solid performance - seems back on track

Marketing material commissioned by Netcompany

Q3 investor call: 11:00 CET. Dial-in details: +45 78150109, +44 3333009267, +1 6467224904 or Click here for web cast

Netcompany reported solid Q3 results this morning and, importantly, reiterated/narrowed its 2022 guidance. Notably, the latter was a positive surprise compared to the profit warning reflected in the company-compiled consensus (and likely the share price). Compared to consensus, Q3 revenue and adjusted EBITDA ended up 2% and 10% higher (Nordea: 6%), respectively. Q3 organic revenue growth was 18% y/y and Q3 EBITDA margin ended up at 22.9% (consensus: 21.3%). Importantly, the performance was more broad-based, including the Danish operations delivering solid 14% revenue growth y/y and a strong 30% EBIT margin. The UK also delivered a solid quarter, growing 34%. Based on the reiterated/narrowed 2022 guidance and supported by the DKK 5.3bn revenue visibility at the end of Q3 (2022 revenue guidance: DKK 5.4-5.5bn), we expect that the Q3 report will trigger positive consensus estimate revisions, and a positive (relative) share price performance in addition to the 4% increase yesterday. The starting point of the updated EBITDA guidance is 4% above consensus. Our combined DCF- and SOTP-based fair value range is DKK 440-510 per share.

Key details from the Q3 2022 report:

- **Updated guidance:** See below table
- **Revenue visibility:** 62% y/y partly due to Intrasoft
- **In/out orders:** DKK 320m including Intrasoft (Q3 2021: DKK 209m)
- **Project execution:** There seems to have been smooth project execution in Q3
- **Employee churn:** The employee churn continues to improve and is close to normalised.
- **Employees:** The number of employees increased by 108% y/y including the effect from the Intrasoft acquisition. In Denmark, FTE grew by 13% y/y
- **Sickness:** Appears to be normalising
- **FCF:** DKK 203m (Q3 2021: DKK 180m)
- **Denmark:** 14% revenue growth y/y
- **Norway:** 20% revenue growth y/y
- **UK:** 34% revenue growth y/y
- **Netherlands:** 50% revenue growth y/y

Netcompany: Q3 2022 (DKKm)

	2021				2022					Act vs		Q3,	"Q4"	Grw.
	Q1	Q2	Q3	Q4	Q1	Q2	Q3A	Q3E	Cons	NDA	Cons	y/y	FY-9M	y/y
Revenue	**855.1**	**826.7**	**798.0**	**1,152.2**	**1,371.5**	**1,305.8**	**1,348.1**	**1,345.0**	**1,318.9**	**0%**	**2%**	**69%**	**1,512.1**	**31%**
Production cost	529.5	533.3	469.6	766.3	954.2	941.7	877.0	875.8	-	0%	-	87%	952.1	24%
Gross profit	**325.7**	**293.4**	**328.4**	**385.9**	**417.3**	**364.1**	**471.1**	**469.2**	**-**	**0%**	**-**	**43%**	**560.0**	**45%**
Sales & marketing	6.1	6.1	5.7	18.8	8.8	9.5	10.6	10.7	-	-1%	-	86%	13.9	-26%
Administration	103.2	120.6	122.8	156.8	181.5	198.5	185.1	198.5	-	-7%	-	51%	231.2	47%
EBITA, adj	**216.3**	**166.7**	**199.9**	**210.3**	**226.9**	**156.1**	**275.5**	**260.0**	**-**	**6%**	**-**	**38%**	**314.9**	**50%**
Special items	0.0	0.0	-30.0	-7.7	-0.2	0.1	0.0	0.0	-	-	-	-	0.1	-
EBITA	**216.3**	**166.7**	**169.9**	**202.6**	**226.9**	**156.1**	**275.0**	**260.0**	**-**	**6%**	**-**	**62%**	**315.4**	**56%**
Amortisation	9.2	9.0	9.0	24.2	32.6	32.7	34.9	32.7	-	7%	-	288%	29.8	23%
EBIT	**207.1**	**157.7**	**160.9**	**178.3**	**194.3**	**123.5**	**240.1**	**227.3**	**-**	**6%**	**-**	**49%**	**285.6**	**60%**
Net financial items	36.9	-12.0	-11.8	10.8	-16.4	-22.6	18.7	-16.0	-	-	-	-	-43.8	-
Pre-tax profit	**244.0**	**145.7**	**149.1**	**189.1**	**177.8**	**100.9**	**221.4**	**211.3**	**-**	**5%**	**-**	**48%**	**279.2**	**48%**
Taxes	44.5	33.3	40.6	34.9	45.5	15.6	51.7	46.5	-	11%	-	27%	68.0	95%
Net profit	**199.5**	**112.4**	**108.5**	**154.2**	**132.3**	**85.3**	**169.7**	**164.8**	**-**	**3%**	**-**	**56%**	**211.2**	**37%**
EPS	4.1	2.3	2.2	3.1	2.7	1.7	3.5	3.3	-	5%	-	56%	4.1	33%
EPS growth, y/y	114.8%	16.8%	-15.3%	-	-33.3%	-24.9%	56.1%	49.1%	-	-	-	-	32.6%	-
Revenue growth, organic	**22.9%**	**21.1%**	**14.9%**	**14.1%**	**13.8%**	**6.9%**	**18.2%**	**18.7%**	**-**	**-**	**-**	**-**	**-**	**-**
Revenue growth, y/y	23.0%	22.4%	14.9%	49.1%	60.4%	58.0%	68.9%	68.5%	65.3%	-	-	-	31.2%	-
Gross margin	38.1%	35.5%	41.2%	33.5%	30.4%	27.9%	34.9%	34.9%	-	-	-	-	37.0%	11%
EBITDA adj.	**234.7**	**186.6**	**221.1**	**238.5**	**259.5**	**188.7**	**308.9**	**292.8**	**281.0**	**6%**	**10%**	**40%**	**-757.1**	**-**
EBITDA margin adj.	27.4%	22.6%	27.7%	20.7%	18.9%	14.5%	22.9%	21.8%	21.3%	-	-	-	-26.2%	-
Costs (Reveneue - EBITA adj)	638.8	660.0	598.1	941.9	1,144.6	1,149.7	1,072.6	1,085.0	-	-	-	-	1,197.2	-
Costs growth, q/q	-	3.3%	-9.4%	57.5%	21.5%	0.4%	-6.7%	-5.6%	-	-	-	-	11.6%	-
EBITA core, adj	216.5	166.7	169.9	181.3	202.2	114.0	244.4	226.4	212.5	8%	15%	44%	-560.6	-
EBITA margin core, adj	25.3%	20.2%	21.3%	20.9%	20.8%	12.9%	25.8%	23.9%	-	-	-	-	55.7%	-
EBITA expand, adj	-	-	-	21.1	24.9	42.2	31.1	33.6	-	-7%	-	-	-98.2	-
EBITA margin expand, adj	-	-	-	7.4%	6.2%	10.1%	7.7%	8.4%	0.0%	-	-	-	60.2%	-
EBITA margin, adj	**25.3%**	**20.2%**	**25.1%**	**18.3%**	**16.5%**	**12.0%**	**20.4%**	**19.3%**	**-**	**-**	**-**	**-**	**20.8%**	**-**
Incremental EBITA margin, adj	32.7%	3.5%	4.4%	-3.5%	16.5%	-13.4%	11.3%	18.0%	-	-	-	-	46.4%	-
EBIT margin	24.2%	19.1%	20.2%	15.5%	14.2%	9.5%	17.8%	16.9%	-	-	-	-	18.9%	-
Tax rate	18%	23%	27%	18%	26%	15%	23%	22%	-	-	-	-	24%	-
Revenue visibility	2,765.4	3,064.5	3,273.8	-	4,543.6	4,976.7	5,296.2	5,326.7	-	-1%	-	62%	-	-
% of FY revenue	76%	84%	90%	-	82%	90%	96%	96%	-	-	-	-	-	-
In/out orders	633.7	299.1	209.3	72.6	718.8	433.1	319.5	350.0	-	-9%	-	53%	241.3	232%
12-month performance:														
Revenue (12m)	2,998.2	3,149.3	3,252.6	3,632.0	3,851.3	4,302.0	5,177.6	5,174.4	-	0%	-	-	5,537.5	52%
EBITA adj (12M)	796.6	802.0	806.5	793.2	803.7	793.2	868.8	872.9	-	-0%	-	8%	973.4	23%
EBITA margin, adj (12M)	26.6%	25.5%	24.8%	21.8%	20.9%	18.4%	16.8%	16.9%	-	-	-	-	17.6%	-

Source: Company data (consusus compiled by Netcompany) and Nordea estimates

NETCOMPANY: 2022E GUIDANCE AND PRE-Q3 UPDATED COMPANY-COMPILED CONSENSUS (DKKm)

	2021	2022 guidance			2022 guid. pre Q3		2022E		2023E		2024E	
		Low	High	Mid	Low	High	Nordea	Cons	Nordea	Cons	Nordea	Cons
Revenue, Core	3,346	3,815	3,882	3,848	3,815	3,982	3,902	3,804	4,292	-	5,022	-
Revenue, Expand	286	1,633	1,639	1,636	1,560	1,684	1,636	1,671	1,799	-	1,979	-
Revenue	**3,632**	**5,448**	**5,521**	**5,484**	**5,375**	**5,666**	**5,537**	**5,453**	**6,091**	**6,247**	**7,001**	**-**
Revenue growth, y/y	28.0%	50%	52%	51%	48.0%	56.00%	52.5%	50.1%	10.0%	14.6%	14.9%	-
Revenue growth, organic	**17.0%**	**14%**	**16%**	**15%**	**13%**	**18%**	**16.6%**	**-**	**10.0%**	**-**	**14.9%**	**-**
Costs (Revenue - EBITA adj.)	2,877	-	-	-	-	-	4,564	-	5,012	-	5,737	-
Growth	1.3%	-	-	-	-	-	58.7%	-	9.8%	-	14.5%	-
Special items	-38	-	-	-	-	-	0	-	0	-	0	-
EBITDA adj.	**881**	**>~1.09bn**	**-**	**-**	**>~1.07bn**	**-**	**1,105**	**1,052**	**1,216**	**1,276**	**1,421**	**-**
EBITDA, Core	856	-	-	-	-	-	940	869	1,034	-	1,211	-
EBITDA, Expand	25	-	-	-	-	-	165	178	182	-	210	-
EBITDA margin, adj.												
Group	24.3%	**>20%**	-	-	>20%	-	20.0%	19.3%	20.0%	20.4%	20.3%	-
Core	25.6%	23.0%	25.0%	24.0%	>25%	-	24.1%	22.9%	24.1%	-	24.1%	-
Expand	8.8%	9.0%	11.0%	10.0%	>9%	-	10.1%	10.6%	10.1%	-	10.6%	-
EBITA, adj.:	755	-	-	-	-	-	973	-	1,079	-	1,263	-
Netcompany Core	736	-	-	-	-	-	841	781	933	-	1,093	-
Netcompany Intrasoft	19	-	-	-	-	-	132	-	146	-	170	-
EBITA margin, adj.:	20.8%	-	-	-	-	-	17.6%	-	17.7%	-	18.0%	-
Netcompany Core	22.0%	21.0%	23.0%	22.0%	-	>23%	21.6%	-	21.7%	-	21.8%	-
Netcompany Intrasoft	6.8%	-	-	-	-	-	8.1%	-	8.1%	-	8.6%	-

Source: Company data and Nordea estimates

SUMMARY TABLE - KEY FIGURES

DKKm	2019	2020	2021	2022E	2023E	2024E
Total revenue	2,454	2,839	3,632	5,537	6,091	7,001
EBITDA (adj)	674	809	881	1,105	1,216	1,421
EBIT (adj)	516	645	742	843	984	1,168
EBIT (adj) margin	21.0%	22.7%	20.4%	15.2%	16.2%	16.7%
EPS (adj, DKK)	7.84	9.36	10.94	12.13	14.76	17.64
EPS (adj) growth	89.5%	19.4%	16.8%	10.9%	21.7%	19.5%
DPS (ord, DKK)	0.00	1.00	0.00	0.00	0.00	0.00
EV/Sales	6.8	11.1	10.2	2.6	2.3	1.8
EV/EBIT (adj)	32.3	48.9	49.9	17.1	13.9	11.1
P/E (adj)	40.4	66.5	64.4	21.3	17.5	14.7
P/BV	7.7	12.8	11.6	3.5	3.0	2.5
Dividend yield (ord)	0.0%	0.2%	0.0%	0.0%	0.0%	0.0%
FCF Yield bef A&D, lease adj	2.5%	1.6%	1.0%	2.9%	5.5%	6.0%
Net debt	826	402	1,817	1,512	793	5
Net debt/EBITDA	1.2	0.5	2.2	1.4	0.7	0.0
ROIC after tax	13.3%	16.3%	17.6%	15.6%	0.0%	-20.7%

Source: Company data and Nordea estimates

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