Nordea

Commissioned Equity Research

Flash comment

25 January 2023

Commissioned research: Netcompany – Q4: Continued strong performance, while 2023 margin guidance disappointed

Marketing material commissioned by Netcompany

Q4 investor call: 11:00 CET. Dial-in details: +45 7876 8490, +44 203 769 6819, or Click here for web cast

At first glance, Netcompany 2022 annual report looks as a positive read when it comes to Q4 performance, while the 2023 guidance is a large disappointment. Q4 revenue and EBITDA ended 4% and 5%, respectively vs the company-compiled consensus. Q4 organic revenue growth was 18.9%. 2022 EBITDA exceeded its implicit guidance by 2% (based on the >20% EBITDA margin guidance). For 2023, Netcompany guides for 8-12% (organic) revenue growth (consensus: 10%) and a 15-18% EBITDA margin (consensus: 20.6% / Nordea: 20.0%). The implicit EBITDA guidance is DKK ~0.9-1.1bn vs. consensus at DK 1.24 bn and Nordea at DKK 1.2bn, hence a meaningful EBITDA miss and margin decline y/y. The declining margin is explained by (organic) investments in new markets (people and software), new HQ, fewer work days y/y etc., and also the impacts from a recession. Still, we struggle to believe these extra costs and effects will dilute the margin in this magnitude, and as a consequence we expect Netcompany to have included a sizable effect from Under-promise-and-over-deliver philosophy given its history. High-end 2023 EBITDA guidance imply ~8% 2023 EBITDA consensus downgrade. We expect an initial negative share price performance, however the investor call at 11 CET may change the mood. Our last published combined DCF- and SOTP-based fair value range was DKK 445-520 per share

Key details from the 2022 annual report:

- **Revenue visibility:** DKK 4.2bn (9% y/y)
- **Employees end year:** 16% y/y (FTE growth is a strong indication how Netcompany sees the quality of the combination of its backlog and pipeline
- **Employee churn:** The employee churn continues to improve
- **FCF:** DKK 603m (2021: DKK 408m)
- **Denmark:** 13% revenue growth y/y
- **Norway:** 33% revenue growth y/y
- **UK:** 33% revenue growth y/y

NETCOMPANY: Q4 2022 (DKKm)

	2021				2022						Act vs		Q4,
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4A	Q4E	Cons	NDA	Cons	y/y
Revenue	**855**	**827**	**798**	**1.152**	**1.372**	**1.306**	**1.348**	**1.519**	**1.475**	**1.461**	3%	4%	32%
Production cost	529	533	470	766	954	942	877	999	957	-	4%	-	30%
Gross profit	**326**	**293**	**328**	**386**	**417**	**364**	**471**	**520**	**518**	**-**	0%	-	35%
Sales & marketing	6	6	6	19	9	10	11	12	13	-	-10%	-	-36%
Administration	103	121	123	157	181	199	185	199	197	-	1%	-	27%
Special items	0	0	-30	-8	0	0	-1	1	0	-	-	-	-
EBITA	**216**	**167**	**170**	**203**	**227**	**156**	**275**	**316**	**308**	**-**	3%	-	56%
Amortisations (PPA)	9	9	9	24	33	33	35	34	33	-	3%	-	40%
EBIT	**207**	**158**	**161**	**178**	**194**	**123**	**240**	**282**	**275**	**-**	2%	-	58%
Net financial items	37	-12	-12	11	-16	-23	-19	-25	-8	-	-	-	-
Pre-tax profit	**244**	**146**	**149**	**189**	**178**	**101**	**221**	**256**	**266**	**-**	-4%	-	36%
Taxes	45	33	41	35	45	16	52	41	66	-	-38%	-	17%
Net profit	**200**	**112**	**109**	**154**	**132**	**85**	**170**	**216**	**201**	**-**	7%	-	40%
EPS	4,1	2,3	2,2	3,1	2,7	1,7	3,5	4,4	4,0	-	9%	-	42%
EPS growth, y/y	114,8%	16,8%	-15,3%	######	-33,3%	-24,9%	56,1%	42,2%	30,5%	-	-	-	-
Revenue growth, organic	22,9%	21,1%	14,9%	14,1%	13,8%	6,9%	18,2%	18.9%	16,6%	-	-	-	-
Revenue growth, y/y	23,0%	22,4%	14,9%	49,1%	60,4%	58,0%	68,9%	31,9%	28,0%	26,8%	-	-	-
Gross margin (incl. depr.)	38,1%	35,5%	41,2%	33,5%	30,4%	27,9%	34,9%	34,2%	35,1%	-	-	-	-
Costs (Revenue - EBITA adj)	639	660	598	942	1.145	1.150	1.073	1.204	1.168	-	3%	-	28%
Costs growth, q/q	16%	3%	-9%	57%	22%	0%	-7%	12%	9%	-	-	-	-
Costs growth, y/y	20%	28%	20%	71%	79%	74%	79%	28%	24%	-	-	-	-
EBITDA	**235**	**187**	**191**	**231**	**259**	**189**	**308**	**356**	**341**	**338**	**4%**	**5%**	**54%**
EBITDA margin	**27,4%**	**22,6%**	**23,9%**	**20,0%**	**18,9%**	**14,5%**	**22,9%**	**23,4%**	**23,1%**	**23,1%**	**-**	**-**	**-**
EBITA, adj	216	167	200	210	227	156	275	315	308	-	2%	-	50%
EBITA margin, adj	25,3%	20,2%	25,1%	18,3%	16,5%	12,0%	20,4%	20,7%	20,9%	-	-	-	-
Incremental EBITA margin, adj	32,7%	3,5%	4,4%	-3,5%	16,5%	-13,4%	20,8%	28,5%	15,9%	-	-	-	-
EBIT margin	24,2%	19,1%	20,2%	15,5%	14,2%	9,5%	17,8%	18,5%	18,6%	-	-	-	-
Tax rate	18,2%	22,9%	27,2%	18,5%	25,6%	15,5%	23,4%	15,9%	24,7%	-	-	-	-
12-month:													
Revenue (12m)	2.998	3.149	3.253	3.632	3.851	4.302	5.178	5.545	5.501	5.486	1%	1%	53%
EBITA adj (12M)	797	802	806	793	804	793	868	973	966	658	1%	48%	23%
EBITA margin, adj (12M)	26,6%	25,5%	24,8%	21,8%	20,9%	18,4%	16,8%	17,5%	17,6%	12,0%	-	-	-

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

NETCOMPANY: 2022 PERFORMANCE AND 2023 GUIDANCE VS PRE-Q4 UPDATED COMPANY-COMPILED CONSENSUS (DKKm)

	2021	2022 guidance			2022E			2023E	2023E		2024E	
		Low	High	Mid	Act.	Nordea	Cons	Guid.	Nordea	Cons	Nordea	Cons
Revenue, Core	3.346	3.815	3.880	3.845	1.733	3.865	-	-	4.252	-	4.974	-
Revenue, Expand	286	1.652	1.659	1.654	3.812	1.636	-	-	1.799	-	1.979	-
Revenue	**3.632**	**5.465**	**5.540**	**5.502**	**5.545**	**5.501**	**5.491**	**~6.0-6.2bn**	**6.051**	**6.030**	**6.953**	**-**
Revenue growth, y/y	28,0%	50%	52%	51%	52,7%	51,5%	51,2%	8-12%	10,0%	9,8%	14,9%	-
Revenue growth, organic	**17,0%**	**14%**	**16%**	**15%**		**15,5%**	**-**	**8-12%**	**10,0%**	**-**	**14,9%**	**-**
Costs (Revenue - EBITA adj.)	2.877	-	-	-	4.571	4.534	-	-	4.979	-	5.698	-
Growth	37,4%	-	-	-	58,9%	57,6%	-	-	9,8%	-	14,5%	-
Special items	-38	-	-	-	0	0	-	-	0	-	0	-
EBITDA adj.	**881**	**>~1.09bn**	**-**	**-**	**1.112**	**1.098**	**1.098**	**~0.9-1.1bn**	**1.208**	**1.243**	**1.412**	**-**
EBITDA, Core	856	-	-	-	973	933	-		1.026	-	1.202	-
EBITDA, Expand	25	-	-	-	0	165	-		182	-	210	-
EBITDA margin, adj.	**24,3%**	**>20%**	**-**	**-**	**20,1%**	**20,0%**	**20,0%**	**15-18%**	**20,0%**	**20,6%**	**20,3%**	**-**
EBITA, adj.:	755	-	-	-	973	966	-	-	1.072	-	1.255	-
Netcompany Core	736	800	895	845		834	-	-	926	-	1.085	-
Netcompany Intrasoft	19	-	-	-	973	132	-	-	146	-	170	-
EBITA margin, adj.:	20,8%	-	-	-	17,6%	17,6%	-	-	17,7%	-	18,1%	-

Source: Company data, company-compiled consensus, and Nordea estimates

SUMMARY TABLE - KEY FIGURES						
DKKm	**2019**	**2020**	**2021**	**2022E**	**2023E**	**2024E**
Total revenue	2,454	2,839	3,632	5,501	6,051	6,953
EBITDA (adj)	674	809	881	1,098	1,208	1,412
EBIT (adj)	516	645	742	833	962	1,145
EBIT (adj) margin	21.0%	22.7%	20.4%	15.1%	15.9%	16.5%
EPS (adj, DKK)	7.84	9.36	10.94	12.01	14.42	17.28
EPS (adj) growth	89.5%	19.4%	16.8%	9.8%	20.0%	19.8%
DPS (ord, DKK)	0.00	1.00	0.00	0.00	0.00	0.00
EV/Sales	6.8	11.1	10.2	3.2	2.8	2.3
EV/EBIT (adj)	32.3	48.9	49.9	21.1	17.5	14.0
P/E (adj)	40.4	66.5	64.4	26.8	22.3	18.6
P/BV	7.7	12.8	11.6	4.5	3.8	3.1
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%	2.7%	4.8%	4.8%
Net debt	826	402	1,817	1,511	794	8
Net debt/EBITDA	1.2	0.5	2.2	1.4	0.7	0.0
ROIC after tax	13.3%	16.3%	17.6%	15.3%	0.0%	-20.5%

Source: Company data and Nordea estimates

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