

5 May 2023

Commissioned research: Boreo – Solid execution in Q1 – SANY exit should support cash flows in Q2

Marketing material commissioned by Boreo

Boreo reported Q1 adjusted EBIT ex-PPA of EUR 2.1m, 13% above our estimate and 5% above Refinitiv consensus. Net sales of EUR 41m grew 29% y/y in comparable terms (+12% on organic basis) and came 3% above our estimate and 5% above consensus. Reported EBIT was EUR 1.4m, in line with our estimate. Net sales and adjusted EBIT ex-PPA increased in all business areas. Operational cash flow was EUR 0.8m in Q1 (EUR 1.5m a year ago, including discontinued operations), burdened by EUR 1.1m higher working capital, while SANY exit should support cash flow in Q2. EPS of EUR 0.07 came below our expectation of EUR 0.17 owing to higher financial expenses. In line with its guidance policy, the company does not provide short-term financial guidance. Based on management comments on business areas, outlook appears to be stable to slightly positive going forward. We expect consensus to make only limited estimate revisions based on the Q1 report.

BOREO: DEVIATION TABLE

EURm	Actual	NDA est.	Deviation		Consensus	Deviation		Actual		Actual	
	Q1 2023	Q1 2023E	vs. actual		Q1 2023E	vs. actual		Q4 2022	q/q	Q1 2022	y/y
Sales	41.0	39.9	1.1	3%	39.0	2.0	5%	45.0	-9%	31.7	29%
Adj. EBITDA	2.7	2.9	-0.2	-5%	3.0	-0.3	-10%	3.5	-23%	2.1	30%
Adj. EBITDA margin	6.6%	7.2%	-0.6pp		7.7%	-1.1pp		7.8%	-1.2pp	6.6%	0.0pp
Adj. EBIT ex-PPA	2.1	1.9	0.2	13%	2.0	0.1	5%	2.5	-16%	1.2	78%
Adj. EBIT ex-PPA margin	5.1%	4.7%	0.5pp		5.1%	0.0pp		5.6%	-0.4pp	3.7%	1.4pp
EBIT	1.4	1.4	0.0	3%	2.0	-0.6	-30%	1.7	-18%	0.6	133%
EBIT margin	3.4%	3.4%	0.0pp		5.1%	-1.7pp		3.8%	-0.4pp	1.9%	1.5pp
PTP	0.7	1.0	-0.3	-27%	1.0	-0.3	-30%	1.2	-42%	0.5	40%
EPS, EUR	0.07	0.17	-0.10	-59%	0.24	-0.17	-71%	0.37	-81%	0.29	-76%
Business areas, EURm											
Net sales											
Electronics	15.9	16.1	-0.2	-1%				18.6	-15%	11.7	36%
Technical Trade	13.2	13.9	-0.7	-5%				15.8	-16%	10.8	22%
Heavy Machines	10.6	8.8	1.8	20%				9.4	13%	8.2	29%
Other Operations	1.2	1.1	0.1	9%				1.2	0%	1.0	20%
Adj. EBIT ex-PPA											
Electronics	0.9	1.1	-0.2	-21%				1.5	-40%	0.7	32%
Technical Trade	1.2	1.1	0.1	12%				1.4	-14%	0.8	50%
Heavy Machines	0.4	0.2	0.2	112%				0.2	100%	0.1	300%
Other Operations	(0.4)	(0.5)	0.1	-27%				(0.6)	-33%	(0.4)	0%
Adj. EBIT ex-PPA %											
Electronics	5.7%	7.1%	-1.5pp					8.1%	-2.4pp	5.8%	-0.2pp
Technical Trade	9.1%	7.7%	1.4pp					8.9%	0.2pp	7.4%	1.7pp
Heavy Machines	3.8%	2.1%	1.6pp					2.1%	1.6pp	1.2%	2.6pp
Other Operations	-33.3%	-49.5%	16.2pp					-50.0%	16.7pp	-40.0%	6.7pp

Source: Company data, Refinitiv and Nordea estimates

Q1 adjusted EBIT ex-PPA slightly above expectations

Boreo reported Q1 adjusted EBIT ex-PPA of EUR 2.1m, 13% above our estimate and 5% above Refinitiv consensus. We note low quality of the consensus. Reported EBIT was EUR 1.4m, in line with our estimate. Net sales grew 29% y/y on comparable basis and were EUR 1.1m, 3% above our estimate and 5% above consensus expectation. Organic sales growth was +12% y/y in Q1 while SEK had EUR 0.4m negative top line impact in Q1.

- Electronics net sales of EUR 15.9m, up 36% y/y in comparable terms and 1% below our estimate of EUR 16.1m. Adjusted EBIT ex-PPA was EUR 0.9m, up 27% y/y and 21% below our estimate of EUR 1.1m. Q1 operational EBIT margin was 5.9% versus our estimate of 7.1%. Operational EBIT improved due to the Baltic operations and Noretron as well as Infradex. Yleiselektroniikka's EBIT was on par with last year while Milcon and SSN result was below company expectations. Order intake is still strong due to stable demand and while there has been signs of delivery times shortening, there have not been significant impact on order book.
- Technical Trade net sales of EUR 13.2m, up 22% y/y and 5% below our estimate of EUR 13.9m. Adjusted EBIT ex-PPA was EUR 1.2m, 12% above our estimate. Q1 operational EBIT margin was 8.8% versus our estimate of 7.7%. In Machinery, power business fell short of the strong comparison period, while metal machining continue to develop steadily despite the prevailing investment uncertainty, as construction equipment exceeded the comparison period. From acquired businesses, J-Matic performed better than anticipated while Filterit was below expectations despite good profitability. Operational EBIT was supported by significant improvement of metal machining and result impact of Pronius, J-Matic and Filterit. The outlook for the business area is still cautiously positive.
- Heavy Machines net sales of EUR 10.6m, up 30% y/y and 20% above our estimate of EUR 8.8m. Adjusted EBIT ex-PPA was EUR 0.4m, above our estimate of EUR 0.2m. Operational EBIT was supported by a cost reimbursement of EUR 0.2m related to SANY exit. Profitability was negatively affected by deliveries in the Putzmeister business being postponed and the weak profitability of FNB. Q1 operational EBIT margin was 3.6% versus our estimate of 2.1%. Deliveries of Putzmeister continue to be postponed, while FNB suffers from supply chain and material availability challenges. Order books of Putzmeister and FNB at a good level.
- Other operations net sales of EUR 1.2m, up 21% y/y and 9% above our estimate of EUR 1.1m. Adjusted EBIT ex-PPA was EUR -0.4m, above our estimate of EUR -0.5m.

Operational cash flow was 0.8m (EUR 1.5m a year ago, including discontinued operations). Working capital increased by EUR 1.1m as businesses prepared for the summer season.

Reported EPS was EUR 0.07, versus consensus at EUR 0.24 and us at EUR 0.17 (including hybrid impact). Financial costs came slightly above our expectations. Operational EPS was EUR 0.28, while we had expected EUR 0.35.

Estimate revisions

In line with its guidance policy, Boreo does not provide short-term guidance. Pre-Q1 Refinitiv consensus has been expecting 10% y/y sales growth and EUR 10.5m EBIT in 2023E (EUR 8.7m operational EBIT in 2022). We have modelled 9% sales growth and EUR 9.8m adjusted EBIT ex-PPA. We believe consensus to make only minor estimate revision based on the Q1 report. We note expectation of improving cash flow in Q2 due to SANY exit, which should release couple of million euros and should allow improving return on capital (LTM ROCE was 11.3% in Q1, flat y/y).

Boreo will arrange a webcast with CEO and CFO at 11:00 EET, available through the link:

<https://boreo.videosync.fi/2023-q1-results>

SUMMARY TABLE - KEY FIGURES

EURm	2020	2021	2022	2023E	2024E	2025E
Total revenue	98	147	160	174	180	187
EBITDA (adj)	8	12	11	12	14	15
EBIT (adj)	6	9	7	8	10	13
EBIT (adj) margin	5.9%	6.0%	4.6%	4.7%	5.4%	6.8%
EPS (adj, EUR)	1.53	2.25	-0.13	1.48	1.93	3.30
EPS (adj) growth	69.3%	47.0%	-105.7%	1,256.1%	30.3%	70.8%
DPS (ord, EUR)	0.40	0.42	0.44	0.46	0.50	0.60
EV/Sales	1.0	1.3	0.8	0.8	0.7	0.8
EV/EBIT (adj)	16.5	21.7	17.7	16.9	13.8	11.8
P/E (adj)	19.2	26.3	n.m.	26.5	20.3	11.9
P/BV	4.8	7.1	2.4	2.5	2.3	3.1
Dividend yield (ord)	1.4%	0.7%	1.2%	1.2%	1.3%	1.5%
FCF Yield bef A&D, lease adj	9.6%	-0.3%	0.3%	4.1%	7.4%	6.1%
Net debt	20	38	31	31	27	43
Net debt/EBITDA	3.2	3.5	2.9	2.5	1.9	2.8
ROIC after tax	19.2%	14.4%	8.5%	8.5%	10.1%	12.9%

Source: Company data and Nordea estimates

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