



Commissioned Research

30 September 2024

Scanfil

Demand remains murky, focus on outlook – Q3 preview

Results Preview

Fair value range:

EUR8.6–10.4

Share price:

EUR7.3

No signs yet of market sentiment improving

Similar to Q2(24), when Scanfil's sales dropped ~19% Y/Y organically, we expect Q3 to have been another quarter of murky market sentiment adversely impacted by general uncertainty and lingering destocking. We model Scanfil to report net sales of EUR173m in Q3(24), corresponding to an organic decline of 19%, with weak European industrial markets as the large sinker. Still, we expect some continued improvement among Scanfil's Medtech & Life Science customers, as highlighted both by the company in Q2 and in our recently conducted demand survey. We expect the adj. EBIT margin to contract by ~20 bps Y/Y to 6.9%, balancing lower volumes with positive seasonality effects and contributions from operational improvements undertaken since Q4(23).

Sentiment survey once again indicating a cautious market

In September we surveyed sentiment among Swedish and Finnish contract manufacturers specialising in electronics and mechanics. Similar to the survey we conducted ahead of the Q2 reporting season, the results again illustrate a tough market, where seven out of ten respondents said they had seen activity decline on an annual basis during the third quarter: more than half in the range of -5 to -20%. In addition, sentiment around the market development on a 6–12-month horizon also worsened during the quarter.

Adj. EBIT(24e) impacted by lower margin assumptions

Ahead of the Q3 report we have lowered our margin expectations for 2024e, primarily stemming from our belief that volatile volume demand will have a negative impact on operational flexibility during H2(24).

Weak momentum, but Scanfil is in a good position

Looking beyond a weak 2024, we apply a medium-term valuation approach on our 2026 estimates and a 9.0–11.0x EV/EBIT(NTM) exit multiple, discounted to the present. Following the minor revisions, we merely fine-tune our fair value range to EUR8.6–10.4 per share (8.7–10.5), corresponding to an EV/EBIT(25e) of 9.2–11.2x. In an industry with a strong correlation between profitability and valuation levels, we believe investors should pay attention to Scanfil's top-tier capital efficiency, strong cash generation, and low indebtedness.

Research analysts:

Jakob Söderblom

Johan Wettergren

Changes in this report (EUR)

	From	To	Chg
EPS adj. 2024e	0.66	0.63	-5%
EPS adj. 2025e	0.71	0.69	-2%
EPS adj. 2026e	0.76	0.74	-2%

Upcoming events

Q3 Report	25 Oct 2024
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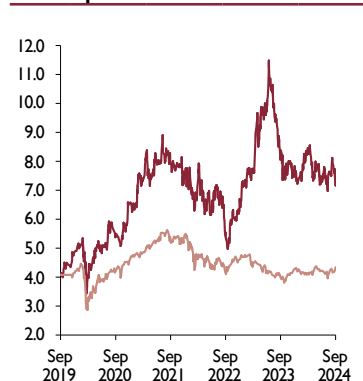
Key facts

No. shares (m)	65.2
Market cap. (USDm)	529
Market cap. (EURm)	473
Net IB Debt. (EURm)	-7
Adjustments (EURm)	0
EV (2024e) (EURm)	466
Free float	36.0%
Avg. daily vol. ('000)	13
Risk	Medium Risk
Fiscal year end	December
Share price as of (CET)	27 Sep 2024 17:29

Key figures (EUR)

	2023	2024e	2025e	2026e
Sales (m)	902	768	813	861
EBITDA (m)	80	69	77	82
EBIT (m)	61	52	59	63
EPS	0.74	0.63	0.69	0.74
EPS adj.	0.74	0.63	0.69	0.74
DPS	0.23	0.22	0.23	0.25
Sales growth Y/Y	7%	-15%	6%	6%
EPS adj. growth Y/Y	39%	-16%	10%	7%
EBIT margin	6.8%	6.8%	7.2%	7.4%
P/E adj.	9.8	11.6	10.5	9.8
EV/EBIT	9.1	8.9	7.8	7.2
EV/EBITA	9.1	8.9	7.8	7.2
EV/EBITDA	7.0	6.7	6.0	5.6
P/BV	1.8	1.6	1.5	1.3
Dividend yield	3.2%	3.1%	3.2%	3.4%
FCF yield	9.9%	16.0%	6.6%	5.1%
Equity/Total Assets	51.4%	56.6%	57.7%	58.8%
ROCE	18.2%	15.0%	15.3%	15.0%
ROE adj.	19.6%	14.7%	14.7%	14.3%
Net IB debt/EBITDA	0.6	-0.1	-0.2	-0.2

Share price -5Y



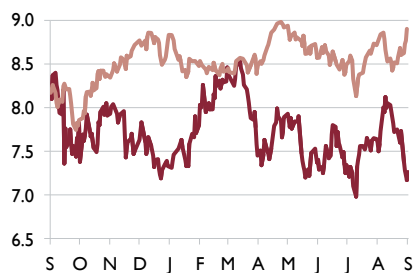
High/Low (12M) EUR8.6/7
 Perf. 3M 6M 12M YTD
 Abs. -1.9 -13.4 -11.1 -7.3
 Rel. -5.6 -19.0 -20.4 -9.7

Source: Carnegie Research, FactSet, Millstream & company data

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Performance & Valuation

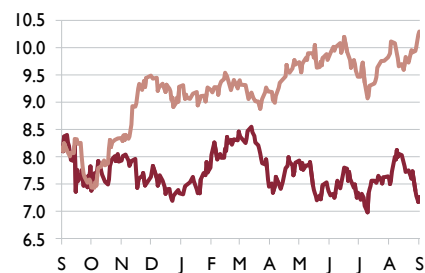
Price relative to market – 1Y



— Scanfil
— OMX Helsinki_PI

Source: FactSet

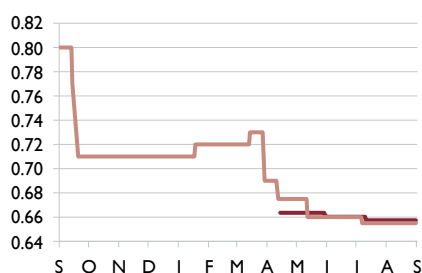
Price relative to sector – 1Y



— Scanfil
— Technology Hardware & Equipment

Source: FactSet

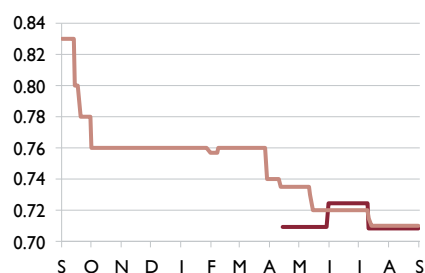
Adj. EPS expectations –2024e (EUR)



— Carnegie
— Consensus

Source: Carnegie Research & FactSet

Adj. EPS expectations –2025e (EUR)



— Carnegie
— Consensus

Source: Carnegie Research & FactSet

Major shareholders

Shareholders (%)	Capital	Votes
Harri Takanen	15.2%	15.2%
Jarkko Takanen	12.6%	12.6%
Varikot Oy	11.7%	11.7%
Jorma Takanen	9.9%	9.9%
Jonna Maria Tolonen	5.1%	5.1%
Reijo Pöllä	5.1%	5.1%

Source: FactSet

Company miscellaneous

CEO	Christophe Sut
CFO	Kai Valo
IR	Pasi Hiedanpää
Phone	+358 848 82111
Web	www.Scanfil.com
Address	Yritystie 6
City	Sievi

Source: Carnegie Research

Company description

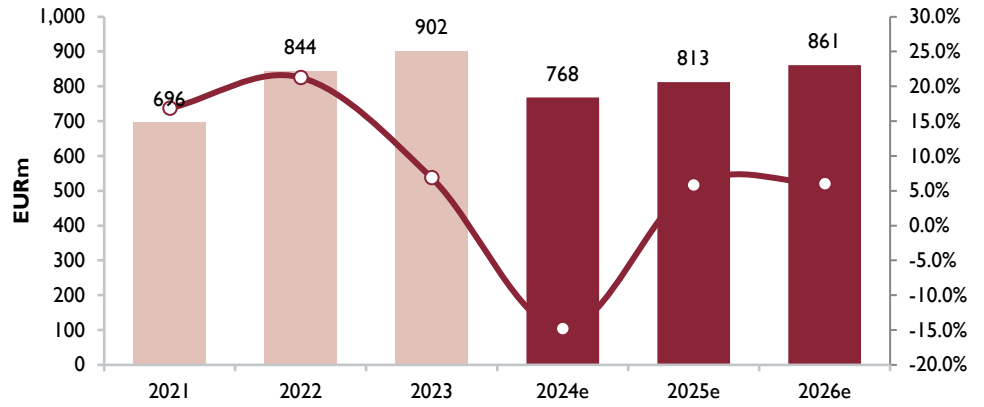
With origins dating back to 1976, Scanfil is one of the largest listed contract manufacturers in Northern Europe. Combining both mechanics assembly and industrial electronics, Scanfil aims to be the preferred manufacturing partners for demanding industrial customers in the low/mid-volume, high-mix niche of manufacturing. The company has a global factory footprint, operating facilities in nine countries in Europe, the US, and China. Its customer portfolio primarily includes clients in the Industrial, Energy & Cleantech, and Medtech & Life Sciences niches.

Source: Carnegie Research & FactSet

Scanfil in key charts

We expect an organic sales decline of 14% in 2024, before recovering in 2025–26e

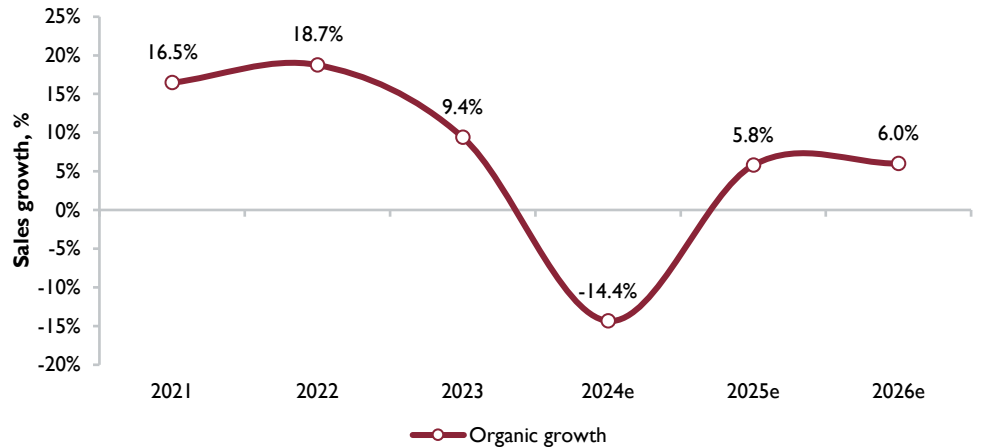
Scanfil: Net sales development 2021-26e



Source: Carnegie Research, Company data

We expect sales growth to return to more normalised levels in 2025–26e, while an uptick in M&A could present upside potential to our explicit estimates

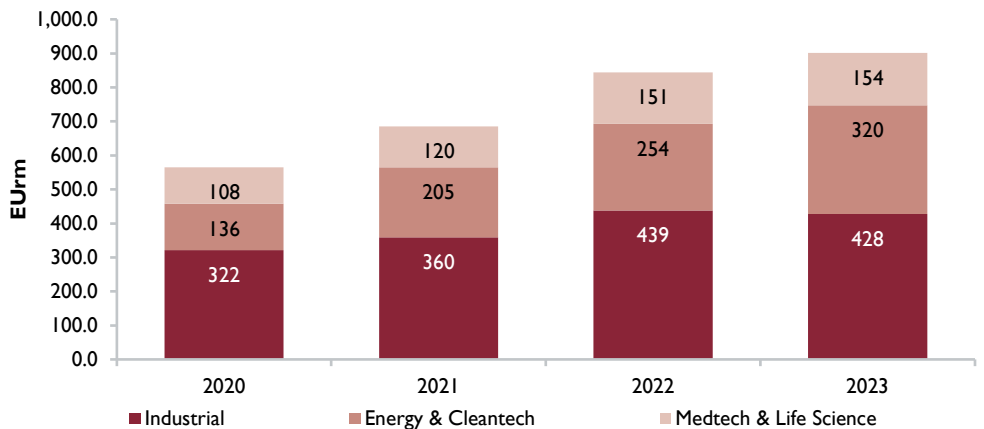
Scanfil: Sales growth development 2021-26e



Source: Carnegie Research, Company data

Energy & Cleantech sales grew at a CAGR of 33% in 2020–23

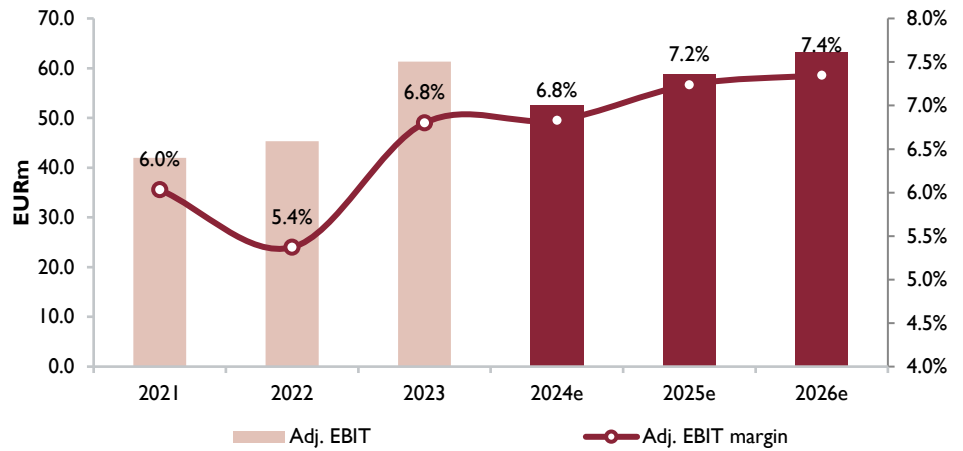
Scanfil: Net sales development by customer segment



Source: Carnegie Research, Company data

We expect Scanfil to reach its long-term adj. EBIT margin of 7–8% in 2025–26e

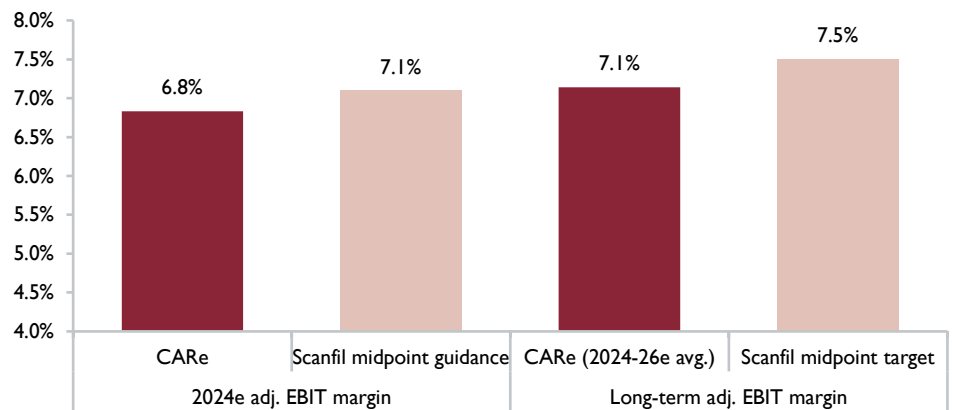
Scanfil: Adj. EBIT margin development 2021-26e



Source: Carnegie Research, Company data

But we remain somewhat cautious about the company's midpoint adj. EBIT(24e) margin guidance

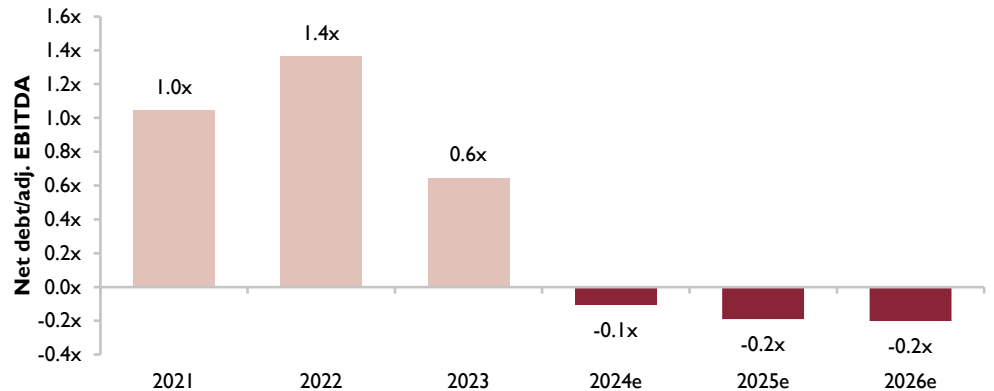
Carnegie estimates vs. company guidance and targets



Source: Carnegie Research, Company data

Top-tier cash conversion has built one of the strongest balance sheets in the sector, which we believe should enable a return to M&A in 2025e

Scanfil: Financial leverage development 2021-26e

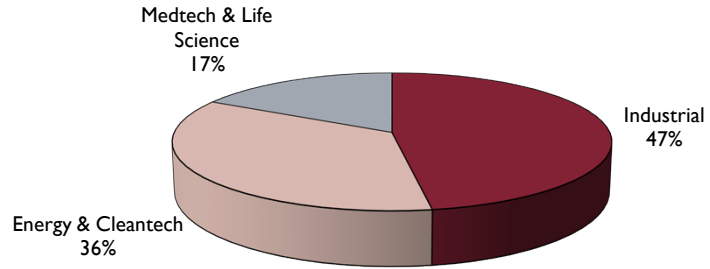


Source: Carnegie Research, Company data

Scanfil operations in key charts

Large exposure to structural trends such as the green transition, changing demographics, and a more automated society

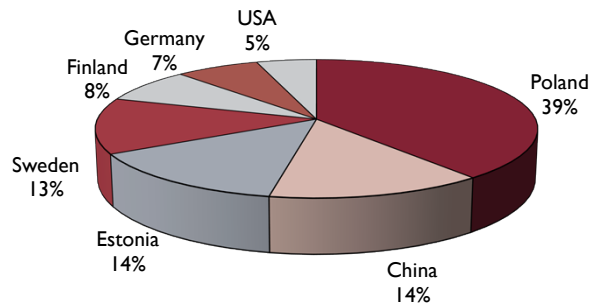
Scanfil: Net sales split (2023)



Source: Carnegie Research, Company data

Favourable footprint Central Europe region, which we find attractive

Scanfil: Geographical split of 2023 employee base



Source: Carnegie Research, Company data

Scanfil has said it plans to broaden APAC and Americas focus through M&A

Scanfil: Factory footprint



Source: Carnegie Research, Company data

Deviation table ahead of the Q3 report

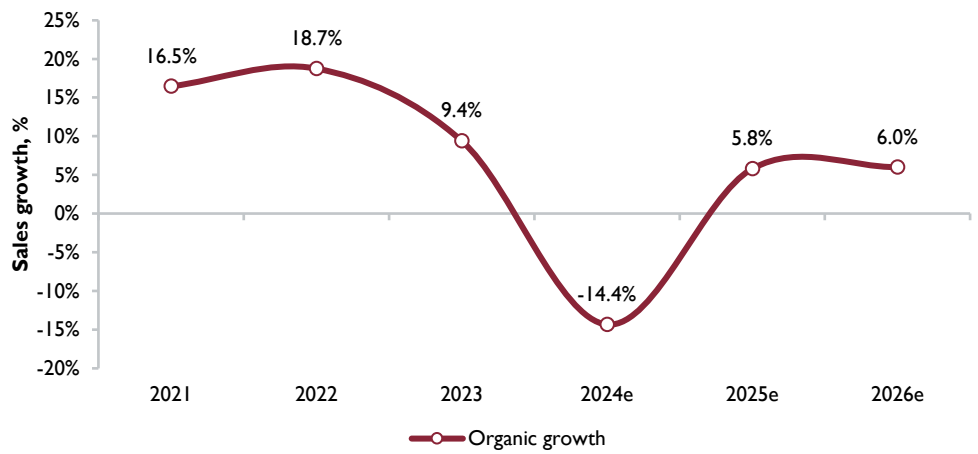
Scanfil EURm	2023				2024			CARE			2021	2022	2023	2024e	2025e	2026e
	Q1	Q2	Q3	Q4	Q1	Q2	Q3a	Q3e	Dev.	Q4e						
Net sales	224.6	243.3	212.8	220.8	198.9	195.5		172.8		200.8	696	844	902	768	813	861
Other operating income	0.1	0.2	0.4	0.2	0.1	0.3		0.2		0.2	1.2	0.9	0.9	0.8	0.8	0.9
Change of inventories in production, finished goods, and work in progress	1.5	-0.1	2.1	-3.9	0.2	-1.2		-0.6		0.0	3.0	0.3	-0.3	-1.6	0.4	0.4
Manufacturing for own use	0.0	0.0	0.0	0.0	0.0	0.0		0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenses	-206.5	-221.2	-195.3	-198.7	-181.5	-175.6		-156.6		-184.2	-644.9	-782.0	-821.7	-697.8	-737.1	-780.3
Depreciation and amortisation	-4.7	-4.7	-4.8	-4.9	-5.0	-5.1		-3.8		-3.0	-15.4	-17.5	-19.1	-16.9	-17.9	-18.9
Adj. EBIT	15.0	17.5	15.2	13.4	12.7	13.9		12.0		13.9	40.3	45.4	61.3	52.5	58.8	63.3
Adj. EBIT margin	6.7%	7.2%	7.1%	6.1%	6.4%	7.1%		6.9%		6.9%	5.8%	5.4%	6.8%	6.8%	7.2%	7.4%
EO	0.0	0.0	0.0	0.0	0.0	0.0		0.0		0.0	-2.4	0.0	0.0	0.0	0.0	0.0
EBIT	15.0	17.5	15.2	13.4	12.7	13.9		12.0		13.9	39.6	45.4	61.3	52.5	58.8	63.3
Net financials	-0.6	0.9	-0.7	0.6	0.2	0.1		0.0		0.0	-1.9	-3.7	0.3	0.3	-1.0	-1.3
PTP	14.5	18.4	14.6	14.1	12.9	14.0		12.0		13.9	37.7	41.7	61.6	52.8	57.8	62.0
Tax	-2.8	-3.9	-3.5	-3.2	-3.1	-3.1		-2.6		-3.1	-7.9	-6.7	-13.4	-11.9	-12.7	-13.6
Tax rate	-19%	-21%	-24%	-23%	-24%	-22%		-22%		-22%	-21%	-16%	-22%	-23%	-22%	-22%
Net profit	11.8	14.5	11.0	10.9	9.8	10.8		9.4		10.8	29.8	35.0	48.2	40.9	45.1	48.4
Reported EPS	0.18	0.22	0.17	0.17	0.15	0.17		0.14		0.17	0.46	0.53	0.74	0.63	0.69	0.74
Adj. EPS	0.18	0.22	0.17	0.17	0.15	0.17		0.14		0.17	0.49	0.53	0.74	0.63	0.69	0.74
Earnings																
EBITDA	19.7	22.2	20.0	18.3	17.7	19.0		15.8		16.9	55.0	62.8	80.4	69.4	76.7	82.3
EBIT	15.0	17.5	15.2	13.4	12.7	13.9		12.0		13.9	39.6	45.4	61.3	52.5	58.8	63.3
PTP	14.5	18.4	14.6	14.1	12.9	14.0		12.0		13.9	37.7	41.7	61.6	52.8	57.8	62.0
Net profit	11.8	14.5	11.0	10.9	9.8	10.8		9.4		10.8	29.8	35.0	48.2	40.9	45.1	48.4
Growth																
Sales growth Y/Y	14.2%	14.3%	0.4%	-0.7%	-11.4%	-19.6%		-18.8%		-9.0%	16.9%	21.3%	6.9%	-14.8%	5.8%	6.0%
- o/w organic	14.9%	16.9%	4.7%	1.7%	-10.2%	-19.4%		-19.0%		-8.6%	16.5%	18.7%	9.4%	-14.4%	5.8%	6.0%
- o/w structural	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%		0.0%		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
- o/w currency	-0.6%	-2.7%	-4.3%	-2.4%	-1.2%	-0.3%		0.2%		-0.5%	0.4%	2.5%	-2.5%	-0.5%	0.0%	0.0%
EBIT growth	45.6%	73.3%	32.2%	0.0%	-15.3%	-20.6%		-21.1%		3.5%	-10.8%	14.6%	35.1%	-14.4%	12.1%	7.6%
Margins																
EBITDA margin	8.8%	9.1%	9.4%	8.3%	8.9%	9.7%		9.1%		8.4%	7.9%	7.4%	8.9%	9.0%	9.4%	9.6%
EBIT margin	6.7%	7.2%	7.1%	6.1%	6.4%	7.1%		6.9%		6.9%	5.7%	5.4%	6.8%	6.8%	7.2%	7.4%
PTP margin	6.5%	7.6%	6.9%	6.4%	6.5%	7.2%		6.9%		6.9%	5.4%	4.9%	6.8%	6.9%	7.1%	7.2%

Source: Carnegie Research, Company data

Insights from Q3 market survey

During Q3, we have conducted a digital survey among unlisted Swedish and Finnish contract manufacturers. Focusing on companies working primarily in the electronics and mechanics niches, the scope of the survey was split to gain a better understanding the current state of business activity and of the prospects ahead. In general, we believe the results confirm the expectation of any rebound in European industrial demand rather belonging to H1(25). For Scanfil, we estimate a return to organic growth in 2025 following an “improvement” in terms of organic declines during H2(24), with significant improvements Q/Q in Q4e (-9% vs. -19% in Q3e). For 2025–26e, we model organic sales growth of ~6% respectively, supported by European industrial demand improving, customer destocking coming to an end and the mechanical effect of easier Y/Y comparisons.

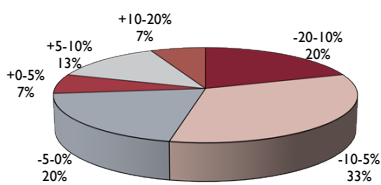
Scanfil: Sales growth development 2021-26e



Source: Carnegie Research, Company data

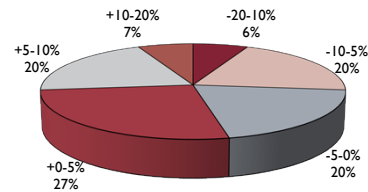
Looking at the results of the survey, we believe the notion that Nordic contract manufacturers have continued to face a difficult market during Q3 is reinforced. Among the participating companies, about seven out of ten claimed to have seen a decrease in activity versus Q3(23). This is very close to the answers collected when we performed the same survey ahead of the Q2 reporting season. In Q2, the median decline among the companies reporting on organic growth was 8%. Concerning any sequential change Q/Q, responses are more mixed, with about of the respondent group estimating activity to have improved since Q2(24), and the other half not.

Survey: Business activity change in Q3(24) vs. Q3(23)



Source: Carnegie Research

Survey: Business activity change in Q3(24) vs. Q2(24)

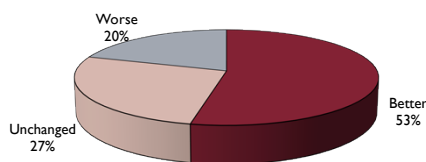


Source: Carnegie Research

In terms of the outlook for the next six and twelve months, we argue that Nordic contract manufacturers have become somewhat more cautious around a potential market recovery. While about half of respondents remain positive about activity improving in the next six months, the share of people now believing it might even become worse before it turns around has increased

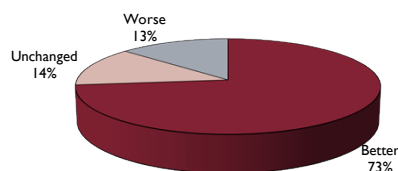
since we last conducted this survey, both for the six-and twelve-month horizon.

Survey: What is the outlook for activity the coming six months?



Source: Carnegie Research

Survey: What is the outlook for activity the coming twelve months?



Source: Carnegie Research

In the figure below, we have compared the outlook comments from our Q2 survey to the new ones collected ahead of the Q3 reporting season.

Manufacturing demand development	6m forward			12m forward		
	Q2(24)	Q3(24)	Change in sentiment	Q2(24)	Q3(24)	Change in sentiment
Better	71%	54%	▼	86%	69%	▼
Unchanged	21%	23%	▬	14%	16%	▬
Worse	7%	23%	▼	0%	15%	▼

Source: Carnegie Research

New reporting structure as of 2025

In a press release sent out 10 September Scanfil announced that it will change the structure of its reporting segments. Starting January 2025, the company will have four reporting segments based on regions: APAC, North Europe, Central Europe, and the Americas. Each region will be managed by an announced VP, who as of 1 January 2025 also will be part of the group’s management team. All with an aim to improve transparency, the company will still report on the split between its three customer segments Industrial, Energy & Cleantech, and Medtech & Life Science.

According to the CEO, the announced changes are being made in order to accelerate the company’s growth journey, with the aim that regionality will bring added value both in M&A processes and new customer acquisition. For a company striving towards reinitiating its inorganic growth vertical, we believe this move makes sense, where the regional vice president, to our understanding, will lead the M&A pipeline with HQ providing resources as cases mature. In the table below, we have attempted some short headline information regarding each new regional segment. The employee split numbers are as of Q2(24).

Segment	Country footprint	Facility footprint	Employee split
APAC	China	Suzhou	16%
North Europe	Sweden, Finland, Estonia	Åtvädaberg (SE), Malmö (SE), Sievi (FI), Pärnu (EE)	35%
Central Europe	Poland, Germany	Mysłowice (PL), Sieradz (PL), Wutha (DE)	44%
Americas	USA	Atlanta	5%

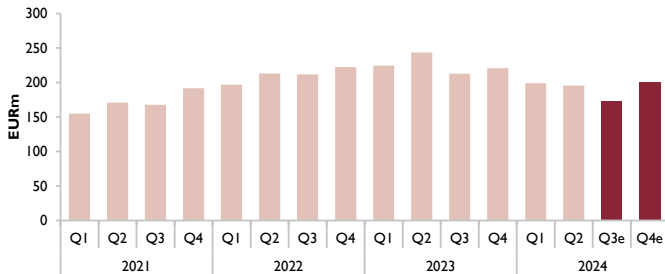
Source: Carnegie Research, Company data

Not out of the woods yet – we model a 19% organic decline in Q3(24)

Ahead of the Q3 report, we have made some changes to our underlying estimates for 2024–26e. We continue to expect Scanfil to report of weak sentiment within its Industrial segment, which in Q2 saw sales drop by 19% following high levels of market uncertainty and lingering effects from destocking. At the same time, we have observed some positive signs within the Medtech & Life science – a theme we also noted in our manufacturing survey for Q3. In the survey, Medtech was recurrently mentioned as a market segment that stood out on the positive side. Still, we believe

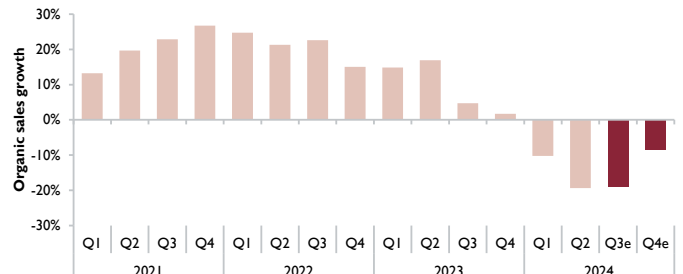
that customers in a broad range of sectors remain uncertain, and with difficulties to predict short-term demand. Thus, we expect sales to continue to decline organically in H2(24) and model a 19% organic sales decline and net sales of EUR173m in Q3(24).

Scanfil: Net sales per quarter 2021-24e



Source: Carnegie Research, Company data

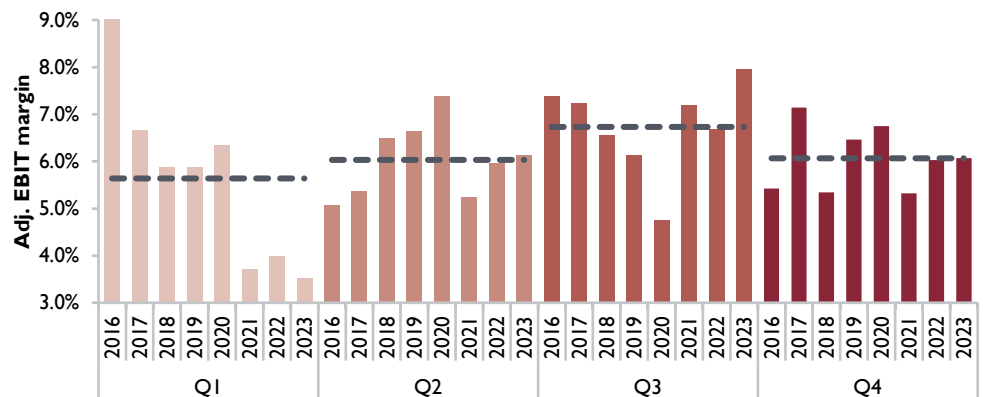
Scanfil: Organic sales growth per quarter 2021-24e



Source: Carnegie Research, Company data

While lower volumes can generally be expected during the third quarter following summer vacations, our net sales estimate for Q3(24) would represent the lowest quarterly sales number since Q3(21). On profitability, we expect margins to contract ~20bps Y/Y and Scanfil reporting an adj. EBIT margin of 6.9% in Q3(24). While we continue to model a quite significant volume drawdown, Scanfil has for two quarters in a row now illustrated that the efficiency improvement project initiated at the end of 2023 is starting to pay off, increasing our confidence in Scanfil’s ongoing margin journey. Still, we believe that Scanfil during H2(24) will face a larger mismatch in customer demand as some customers start improving volumes while other continue to decrease. Thus, we do not expect the positive margin improvement trend of H1(24) to continue. The third quarter has been the most profitable one for the company historically, with Scanfil during 2016–23 on average reporting an adj. EBIT margin in Q3 that was 60–110bps above the rest.

Scanfil: Seasonal profitability variation 2016-23



Source: Carnegie Research, Company data

Based in our expectation that the market situation for the Nordic contract manufacturing industry will remain tricky throughout 2024e, we do not expect Scanfil to return to organic growth until 2025e.

For 2024, we model net sales to reach EUR768m, 2% below the lower end of the company’s sales guidance, as we remain cautious about the recovery of European industrial markets. Note that the Industrial segment has accounted for around half of Scanfil’s sales in recent quarters. For the full year, we thus expect Scanfil to report an organic sales decline of ~14%.

Scanfil										
P&L (EURm)	Q1(24)	Q2(24)	Q3(24e)	Q4(24e)	2021	2022	2023	2024e	2025e	2026e
Net sales	198.9	195.5	172.8	200.8	695.7	843.7	901.6	768.0	812.5	861.3
Other operating income	0.1	0.3	0.2	0.2	1.2	0.9	0.9	0.8	0.8	0.9
Change of inventories in production, finished goods, and work in progress	0.2	-1.2	-0.6	0.0	3.0	0.3	-0.3	-1.6	0.4	0.4
Manufacturing for own use	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenses	-181.5	-175.6	-156.6	-184.2	-644.9	-782.0	-821.7	-697.8	-737.1	-780.3
Depreciation and amortisation	-5.0	-5.1	-3.8	-3.0	-15.4	-17.5	-19.1	-16.9	-17.9	-18.9
Adj. EBIT	12.7	13.9	12.0	13.9	42.0	45.3	61.3	52.5	58.8	63.3
EO	0.0	0.0	0.0	0.0	-2.4	0.0	0.0	0.0	0.0	0.0
EBIT	12.7	13.9	12.0	13.9	39.6	45.3	61.3	52.5	58.8	63.3
Net financials	0.2	0.1	0.0	0.0	-1.9	-3.7	0.3	0.3	-1.0	-1.3
PTP	12.9	14.0	12.0	13.9	37.7	41.7	61.6	52.8	57.8	62.0
Tax	-3.1	-3.1	-2.6	-3.1	-7.9	-6.7	-13.4	-11.9	-12.7	-13.6
Net profit	9.8	10.9	9.4	10.8	29.8	35.0	48.2	40.9	45.1	48.4

Source: Carnegie Research for forecasts, company data for historical numbers

However, we are becoming more and more confident in the company's long-term margin performance and resilience, stemming from an increasing focus on operational efficiency now starting to become visible in reported numbers. In 2024, we expect Scanfil to report an adj. EBIT margin of 6.8%. As volumes and utilisation improve in 2025–26e, we see further opportunities for Scanfil to improve its margin profile even more in its long-term margin target range of 7–8%.

Growth	Q1(24)	Q2(24)	Q3(24e)	Q4(24e)	2021	2022	2023	2024e	2025e	2026e
Sales growth	-11%	-20%	-19%	-9%	17%	21%	7%	-15%	6%	6%
- o/w organic	-10%	-19%	-19%	-9%	16%	19%	9%	-14%	6%	6%
- o/w structural	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
- o/w FX	-1%	0%	0%	-1%	0%	3%	-3%	0%	0%	0%
Adj. EBIT growth	-15%	-21%	-21%	4%	3%	13%	35%	-14%	12%	8%
PTP growth	-11%	-24%	-18%	-2%	-10%	11%	48%	-14%	10%	7%

Source: Carnegie Research for forecasts, company data for historical numbers

Margins	Q1(24)	Q2(24)	Q3(24e)	Q4(24e)	2021	2022	2023	2024e	2025e	2026e
EBITDA margin	8.9%	9.7%	9.1%	8.4%	7.9%	7.4%	8.9%	9.0%	9.4%	9.6%
Adj. EBIT margin	6.4%	7.1%	6.9%	6.9%	6.0%	5.4%	6.8%	6.8%	7.2%	7.4%
EBIT margin	6.4%	7.1%	6.9%	6.9%	5.7%	5.4%	6.8%	6.8%	7.2%	7.4%
PTP margin	6.5%	7.2%	6.9%	6.9%	5.4%	4.9%	6.8%	6.9%	7.1%	7.2%

Source: Carnegie Research for forecasts, company data for historical numbers

In the figure below, we have included the underlying changes our estimates for 2024-26e ahead of the report release on 25 October.

Scanfil EURm	2024e			2025e			2026e		
	Old	New	% change	Old	New	% change	Old	New	% change
Net sales	780.4	768.0	-2%	828.0	812.5	-2%	876.1	861.3	-2%
Other operating income	0.8	0.8	-2%	0.8	0.8	-2%	0.9	0.9	-2%
Change of inventories in production, finished goods, and work in progress	-1.6	-1.6	-2%	0.4	0.4	-2%	0.4	0.4	-2%
Manufacturing for own use	0.0	0.0	0%	0.0	0.0	0%	0.0	0.0	0%
Expenses	-707.4	-697.8	-1%	-750.9	-737.1	-2%	-793.3	-780.3	-2%
Depreciation and amortisation	-17.2	-16.9	-2%	-18.2	-17.9	-2%	-19.3	-18.9	-2%
EBIT adj.	55.0	52.5	-5%	60.2	58.8	-2%	64.8	63.3	-2%
EO	0.0	0.0	0%	0.0	0.0	0%	0.0	0.0	0%
EBIT	55.0	52.5	-5%	60.2	58.8	-2%	64.8	63.3	-2%
Net financials	0.3	0.3	0%	-1.0	-1.0	0%	-1.3	-1.3	0%
PTP	55.3	52.8	-5%	59.2	57.8	-2%	63.5	62.0	-2%
Tax	-12.4	-11.9	-4%	-13.0	-12.7	-2%	-14.0	-13.6	-2%
Net profit	42.9	40.9	-5%	48.2	48.2	0%	49.6	48.4	-2%
Reported EPS	0.66	0.63	-5%	0.71	0.69	-2%	0.76	0.74	-2%
Adj. EPS	0.66	0.63	-5%	0.71	0.69	-2%	0.76	0.74	-2%

Source: Carnegie Research

Fair value range lowered to EUR8.6–10.4 (8.7–10.5) per share

In our valuation of Scanfil, we apply a medium-term approach due to the cyclical nature of some of the company’s end-markets, and to look beyond the demand weakness we expect in 2024. Our financial expectations for 2026e form the basis of our valuation methodology and we apply a 9.0–11.0x EV/EBIT exit multiple range; the company’s historical average is 10.3x. On our updated estimates, we merely fine-tune our fair value range to EUR8.6–10.4 per share (8.7–10.5). Note that any potential contribution from M&A is excluded from our estimates, and that this would present upside to our sales and earnings forecasts. Still, we believe the chances of Scanfil conducting M&A in 2024e are slim following the recently reinstated focus on rebuilding the internal M&A organisation.

Scanfil: EV/EBIT development



Source: Carnegie Research, Factset

Scanfil: EV/EBIT development L2Y

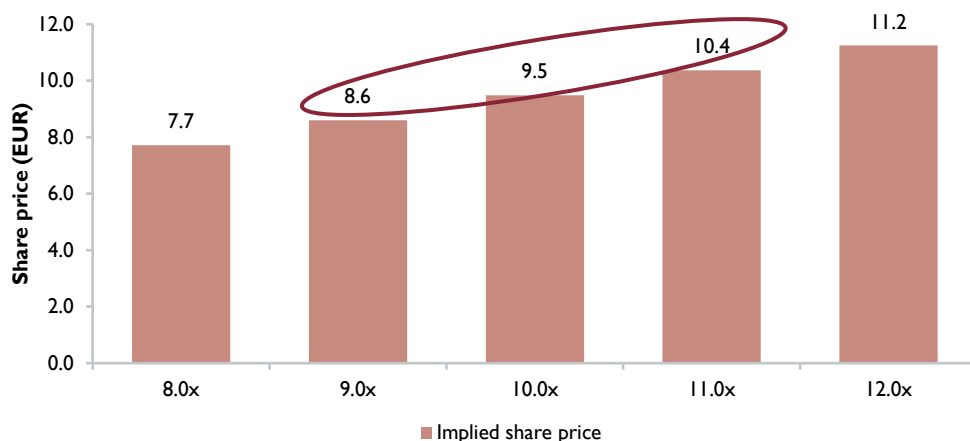


Source: Carnegie Research, Factset

Scanfil has historically traded at a slight discount to its Nordic and European peers, which we think is reasonable considering its lower margin profile and historically above-average customer concentration. While we find that the customer concentration risk in Scanfil has diminished significantly in recent years, we believe the discount is likely to remain until Scanfil is able to show EBIT margins in the upper end of its 7–8% target range. On this note, we view the margin result of 7.1% in Q2(24) as supportive.

For 2026e, we model sales of EUR861m, sales growth of 6.0% and an adj. EBIT margin of 7.4%. Depending on order momentum and earnings trends, we believe there are likely re-rating scenarios for the Scanfil share. Moreover, we believe the capital markets currently underappreciate the M&A potential enabled by the company’s strong balance sheet, solid capital turnover and attractive cash conversion capabilities. Thus, we value Scanfil using a set of different exit multiples of 9.0–11.0x, yielding a fair value range of EUR8.6–10.4 per share (8.7–10.5). Our fair value range corresponds to an EV/EBIT(25e) of 9.2–11.2x, P/E(25e) of 12.4–15.0x, and an FCF(25e) yield of 4.6–5.6%.

Scanfil: Implied valuation at different EV/EBIT exit multiples



Source: Carnegie Research

To illustrate the potential impact on Scanfil’s share price of an improved margin profile for the group, we have in the two tables below illustrated the valuation’s inherent sensitivity to changes in EBIT margin assumptions and the exit multiple chosen by the company. Were Scanfil to reach the upper levels of its long-term target of an adj. EBIT margin of 7–8%, we believe a higher fair value range would be warranted both from the perspective of higher earnings and a higher multiple.

Sensitivity table (i) - Valuation per share on EBIT(26e) margin vs. Exit multiple

		EBIT margin 2026e						
		6.4%	6.7%	7.1%	7.4%	7.7%	8.0%	8.3%
EV/EBIT multiple	7.0x	6.1	6.3	6.6	6.8	7.1	7.3	7.6
	8.0x	6.8	7.1	7.4	7.7	8.0	8.3	8.6
	9.0x	7.6	7.9	8.3	8.6	8.9	9.2	9.6
	10.0x	8.4	8.7	9.1	9.5	9.8	10.2	10.5
	11.0x	9.2	9.6	10.0	10.4	10.7	11.1	11.5
	12.0x	9.9	10.4	10.8	11.2	11.7	12.1	12.5
	13.0x	10.7	11.2	11.6	12.1	12.6	13.1	13.5

Source: Carnegie Research

Sensitivity table (ii) - Valuation per share on EBIT(26e) margin vs. discount rate

		EBIT margin 2026e						
		6.5%	6.8%	7.1%	7.4%	7.7%	8.0%	8.3%
Discount rate	6.8%	8.6	9.0	9.3	9.7	10.1	10.4	10.8
	7.3%	8.5	8.9	9.3	9.6	10.0	10.4	10.7
	7.8%	8.5	8.9	9.2	9.6	9.9	10.3	10.7
	8.3%	8.4	8.8	9.2	9.5	9.9	10.2	10.6
	8.8%	8.4	8.8	9.1	9.5	9.8	10.2	10.5
	9.3%	8.4	8.7	9.1	9.4	9.8	10.1	10.5
	9.8%	8.3	8.7	9.0	9.4	9.7	10.1	10.4

Source: Carnegie Research

We have also included a sensitivity table illustrating the impact of different discount rates and exit multiples.

Sensitivity table (iii) - Valuation per share on discount rate vs. Exit multiple

		Discount rate						
		6.8%	7.3%	7.8%	8.3%	8.8%	9.3%	9.8%
EV/EBIT multiple	7.0x	6.9	6.9	6.9	6.8	6.8	6.7	6.7
	8.0x	7.8	7.8	7.7	7.7	7.7	7.6	7.6
	9.0x	8.7	8.7	8.6	8.6	8.5	8.5	8.4
	10.0x	9.6	9.6	9.5	9.5	9.4	9.4	9.3
	11.0x	10.5	10.5	10.4	10.4	10.3	10.2	10.2
	12.0x	11.4	11.4	11.3	11.2	11.2	11.1	11.0
	13.0x	12.3	12.3	12.2	12.1	12.0	12.0	11.9

Source: Carnegie Research

Risks

Below we have highlighted some potential risks we see in Scanfil’s investment case.

Intense competition

Scanfil may boast decade-long relationships with some of its customers, but competition in the contract manufacturing industry is still intense. If Scanfil were to become unable to meet its customers’ demands in factors such as quality, reliability, and pricing, this could impact demand for its services.

Quality issues

As highlighted above, we believe quality is one of the key factors considered by Scanfil’s customers. The company measures quality as defective parts per million, and states that the metric improved significantly in 2023. If concerns were to arise regarding the quality of the services offered by Scanfil, this could not only damage the company’s financial development, but also its brand as a trusted manufacturing partner.

Customer concentration

In all businesses, there is an inherent risk that one or more customers outgrow other accounts to the extent that the customer portfolio becomes imbalanced. Thus, there is a risk that if one or more of Scanfil’s larger customers were to reduce their order levels, it could have an adverse effect on the group’s sales and earnings. In 2023, Scanfil’s largest customer accounted for 13% of group sales, and the top ten cumulatively comprised 55% of sales. While we note that diversification has increased since the beginning of the 2010s, there is still a risk that a downturn in the largest customers’ end-markets could have an adverse effect on Scanfil’s bottom line.

Inherent industrial cyclicality

In our view, while Scanfil enjoys favourable exposure to structurally growing markets such as industrial electrification and medical technology, contract manufacturing remains a cyclical business niche to some extent. As such, weakening industrial demand and demand for investment goods might have a negative impact on Scanfil's operations. This could in turn lead to overcapacity among the company's production sites, weighing on utilisation rates and ultimately on earnings

Financial statements

Profit & loss (EURm)	2017	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e
Sales	530	563	579	595	696	844	902	768	813	861
COGS	-368	-383	-390	-410	-491	-610	-632	-553	-583	-618
Gross profit	162	180	190	185	204	233	270	215	229	244
Other income & costs	-122	-133	-137	-125	-149	-171	-190	-146	-152	-161
Share in ass. operations and JV	0	0	0	0	0	0	0	0	0	0
EBITDA	40	47	53	60	55	63	80	69	77	82
Depreciation PPE	-7	-8	-8	-9	-9	-11	-12	-10	-11	-11
Depreciation lease assets	0	0	-4	-4	-4	-4	-5	-4	-4	-4
Amortisation development costs	0	0	0	0	0	0	0	0	0	0
Amortisation other intangibles	-2	-2	-2	-3	-3	-3	-3	-3	-3	-3
Impairments / writedowns	0	0	0	0	0	0	0	0	0	0
EBITA	31	38	39	44	40	45	61	52	59	63
Amortization acquisition related	0	0	-4	0	0	0	0	0	0	0
Impairment acquisition related	0	0	0	0	0	0	0	0	0	0
EBIT	31	38	35	44	40	45	61	52	59	63
Share in ass. operations and JV	0	0	0	0	0	0	0	0	0	0
Net financial items	1	-2	-1	-3	-2	-4	0	0	-1	-1
of which interest income/expenses	0	0	0	0	0	0	0	0	0	0
of which interest on lease liabilities	0	0	0	0	0	0	0	0	0	0
of which other items	0	0	0	0	0	0	0	0	0	0
Pre-tax profit	33	36	34	42	38	42	62	53	58	62
Taxes	-7	-7	-6	-5	-8	-7	-13	-12	-13	-14
Post-tax minorities interest	0	0	0	0	0	0	0	0	0	0
Discontinued operations	0	0	0	0	0	0	0	0	0	0
Net profit	26	29	28	37	30	35	48	41	45	48
Adjusted EBITDA	40	47	57	55	56	63	80	69	77	82
Adjusted EBITA	31	38	43	39	40	45	61	52	59	63
Adjusted EBIT	31	38	39	39	40	45	61	52	59	63
Adjusted net profit	26	29	36	32	30	35	48	41	45	48
Sales growth Y/Y	4.3%	6.3%	2.9%	2.7%	16.9%	21.3%	6.9%	-14.8%	5.8%	6.0%
EBITDA growth Y/Y	120.3%	18.0%	12.1%	14.0%	-8.9%	14.0%	27.9%	-13.5%	10.6%	7.2%
EBITA growth Y/Y	332.3%	20.8%	3.1%	13.9%	-10.8%	14.6%	35.1%	-14.4%	12.1%	7.6%
EBIT growth Y/Y	332.3%	20.8%	-6.4%	25.5%	-10.8%	14.6%	35.1%	-14.4%	12.1%	7.6%
EBITDA margin	7.6%	8.4%	9.1%	10.1%	7.9%	7.4%	8.9%	9.0%	9.4%	9.6%
EBITA margin	5.9%	6.7%	6.7%	7.5%	5.7%	5.4%	6.8%	6.8%	7.2%	7.4%
EBIT margin	5.9%	6.7%	6.1%	7.5%	5.7%	5.4%	6.8%	6.8%	7.2%	7.4%
Tax rate	-20.8%	-19.8%	-17.5%	-11.7%	-21.0%	-16.0%	-21.7%	-22.5%	-22.0%	-22.0%
Cash flow (EURm)	2017	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e
EBITDA	40	47	53	60	55	63	80	69	77	82
Paid taxes	-8	-7	-8	-7	-11	-4	-9	-12	-13	-14
Change in NWC	-6	-10	-8	-8	-53	-43	-3	45	-1	-10
Non cash adjustments	5	2	1	10	4	5	-1	11	15	16
Discontinued operations	0	0	0	0	0	0	0	0	0	0
Total operating activities	21	29	36	35	-13	10	69	92	48	42
Capex tangible assets	-11	-9	-10	-5	-12	-17	-19	-15	-16	-17
Capitalised development costs	0	0	0	0	0	0	0	0	0	0
Capex - other intangible assets	0	0	-7	0	-1	0	-2	-1	-1	-1
Acquisitions/divestments	0	0	-8	13	0	0	0	0	0	0
Other non-cash adjustments	-1	-1	7	-4	1	-2	-1	0	0	0
Total investing activities	-11	-10	-18	4	-13	-19	-22	-16	-17	-18
Net financial items	1	-2	-1	-3	-2	-4	0	0	-1	-1
Lease payments	0	0	0	-4	-4	-4	-4	-4	-4	-4
Dividend paid and received	-6	-7	-8	-10	-11	-12	-14	-15	-15	-15
Share issues & buybacks	0	0	0	1	0	0	0	0	0	0
Change in bank debt	-4	-14	-8	-20	38	20	-30	-6	0	0
Other cash flow items	0	0	0	0	1	0	1	0	0	0
Total financing activities	-11	-22	-18	-34	23	2	-50	-25	-20	-21
Operating cash flow	21	29	36	35	-13	10	69	92	48	42
Free cash flow	11	19	26	26	-25	-8	47	76	31	24
Net cash flow	2	-1	1	6	-1	-4	1	51	13	5
Change in net IB debt	3	11	17	28	-38	-25	35	59	14	6
Capex / Sales	2.0%	1.6%	1.7%	0.8%	1.8%	2.0%	2.1%	2.0%	2.0%	2.0%
NWC / Sales	17.2%	17.6%	19.2%	19.8%	20.7%	22.8%	23.8%	25.3%	21.1%	20.6%

Source: Carnegie Research & company data

Financial statements, cont.

Balance sheet (EURm)	2017	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e
Acquired intangible assets	10	10	8	8	8	8	8	8	8	8
Other fixed intangible assets	15	12	17	14	13	11	10	8	6	3
Capitalised development	0	0	0	0	0	0	0	0	0	0
Tangible assets	48	49	72	65	72	80	85	91	99	108
Lease assets	0	0	21	18	22	24	23	23	25	28
Other IB assets (1)	0	0	0	0	0	0	0	0	0	0
Other non-IB assets	4	4	6	7	9	8	8	8	8	8
Fixed assets	77	76	103	95	102	107	112	115	121	127
Inventories (2)	101	99	102	103	193	229	209	167	167	176
Receivables (2)	106	108	112	113	149	165	174	149	160	172
Prepaid exp. & other NWC items (2)	1	0	1	1	1	2	1	1	1	1
IB current assets (1)	0	0	0	0	0	0	0	0	0	0
Other current assets	1	2	2	2	3	2	2	9	25	40
Cash & cash equivalents (1)	21	19	20	26	25	21	21	75	85	89
Current assets	230	228	237	245	372	419	406	401	438	478
Total assets	307	304	340	339	474	526	518	516	558	605
Shareholders' equity	125	145	167	183	207	227	266	292	323	356
Minorities	0	0	0	0	0	0	0	0	0	0
Other equity	0	0	0	0	0	0	0	0	0	0
Total equity	125	145	167	183	207	227	266	292	323	356
Deferred tax	5	6	7	6	5	5	6	7	7	7
LT IB debt (1)	27	17	25	18	42	36	0	30	30	30
Other IB provisions (1)	0	0	0	0	0	0	0	0	0	0
Lease liabilities	0	0	19	16	20	20	19	18	20	22
Other non-IB liabilities	0	0	0	1	1	1	1	1	1	1
LT liabilities	33	23	51	40	68	62	25	56	58	60
ST IB debt (1)	34	31	23	10	23	50	54	20	20	21
Payables (2)	113	104	96	100	172	184	167	146	155	166
Accrued exp. & other NWC items (2)	0	0	0	0	0	0	0	0	0	0
Other ST non-IB liabilities	2	2	3	6	3	4	5	3	3	3
Liabilities - assets held for sale	0	0	0	0	0	0	0	0	0	0
Current liabilities	149	136	122	116	198	237	227	169	178	190
Total equity and liabilities	307	304	340	339	474	526	518	516	558	605
Net IB debt (=1)	41	28	46	18	60	86	52	-7	-15	-17
Net working capital (NWC) (=2)	95	104	118	117	171	213	217	171	172	183
Capital employed (CE)	191	198	237	229	295	334	342	362	395	430
Capital invested (CI)	166	173	213	201	267	312	318	284	308	339
Equity / Total assets	41%	48%	49%	54%	44%	43%	51%	57%	58%	59%
Net IB debt / EBITDA	1.0	0.6	0.9	0.3	1.1	1.4	0.6	-0.1	-0.2	-0.2
Per share data (EUR)	2017	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e
Adj. no. of shares in issue YE (m)	63.76	63.95	64.30	64.39	64.70	64.83	64.86	65.19	65.19	65.19
Diluted no. of Shares YE (m)	64.47	64.48	65.13	65.19	65.33	65.74	64.86	65.19	65.19	65.19
EPS	0.40	0.45	0.43	0.57	0.46	0.53	0.74	0.63	0.69	0.74
EPS adj.	0.40	0.45	0.49	0.48	0.49	0.53	0.74	0.63	0.69	0.74
CEPS	0.54	0.60	0.71	0.75	0.63	0.74	0.97	0.83	0.90	0.97
DPS	0.11	0.13	0.15	0.17	0.19	0.21	0.23	0.22	0.23	0.25
BVPS	1.96	2.26	2.59	2.84	3.21	3.50	4.10	4.48	4.95	5.46
Performance measures	2017	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e
ROE	22.2%	21.4%	18.0%	21.1%	15.2%	16.1%	19.6%	14.7%	14.7%	14.3%
Adj. ROCE pre-tax	16.4%	19.0%	16.6%	17.0%	13.6%	13.6%	17.9%	14.5%	14.9%	14.7%
Adj. ROIC after-tax	14.8%	17.7%	15.7%	17.0%	12.1%	12.4%	15.1%	14.3%	15.0%	14.6%
Valuation	2017	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e
FCF yield	2.3%	4.1%	5.4%	5.5%	-5.3%	-1.7%	9.9%	16.0%	6.6%	5.1%
Dividend yield YE	na	na	3.1%	2.6%	2.5%	3.1%	2.9%	3.1%	3.2%	3.4%
Dividend payout ratio	27.4%	29.0%	34.6%	30.2%	41.7%	38.8%	31.0%	35.5%	33.3%	33.3%
Dividend + buy backs yield YE	na	na	3.0%	2.6%	2.5%	3.1%	3.0%	3.1%	3.2%	0.0%
EV/Sales YE	na	na	0.63	0.74	0.79	0.61	0.62	0.61	0.56	0.53
EV/EBITDA YE	na	na	6.9	7.3	10.0	8.3	7.0	6.7	6.0	5.6
EV/EBITA YE	na	na	9.4	10.0	13.8	11.4	9.1	8.9	7.8	7.2
EV/EBITA adj. YE	na	na	8.5	11.4	13.6	11.5	9.2	8.9	7.8	7.2
EV/EBIT YE	na	na	10.3	10.0	13.8	11.4	9.1	8.9	7.8	7.2
P/E YE	na	na	11.3	11.5	16.4	12.3	10.5	11.6	10.5	9.8
P/E adj. YE	na	na	10.0	13.5	15.2	12.3	10.5	11.6	10.5	9.8
P/BV YE	na	na	1.89	2.30	2.33	1.88	1.91	1.62	1.47	1.33
Share price YE (EUR)			4.89	6.52	7.46	6.58	7.83	7.26		

Source: Carnegie Research & company data

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