

Kitron

INITIAL COMMENT

Key share data

Sector	Electronic Manufacturing Serv.
Reuters	KIT.OL
Bloomberg	KIT NO

Market Cap (NOKm)	1,603
Net debt (NOKm)	396
EV (NOKm)	1,999
Net debt / equity	57%

Issued shares (m)	176
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Share price (NOK)	9.10
Last target price (NOK)	11.00
Last recommendation	Buy

Figures & Ratios (NOKm)

	2018	2019E	2020E
Revenues	2,619	3,100	3,342
EBITDA	219	283	336
EBIT adj.	166	197	234
Pre-tax profit	141	164	202
Net profit	110	129	158
EPS rep. (NOK)	0.63	0.73	0.90
EPS adj. (NOK)	0.67	0.73	0.90
NIBD	396	458	321
EV/Sales	0.7	0.7	0.6
EV/EBITDA	8.8	7.3	5.7
EV/EBIT (adj)	11.6	10.5	8.2
P/E (adj)	13.0	12.4	10.1
P/B (excl. gw)	2.3	2.2	2.0
ROE	18.1 %	18.6 %	20.9 %
ROCE	27.2 %	28.3 %	25.4 %

not updated

Stronger than expected 1Q figures

Kitron delivered solid 1Q report this morning with higher-than-expected figures and reiterated guidance for 2019. In addition, the company reported strong order intake and indicated that component shortage is expected to be less challenging in 2019, supporting our positive stance towards the stock. This may lead to some upward adjustments to our estimates.

Strong revenue growth in 1Q reported

Kitron delivered strong 1Q19 figures this morning. NOK 813m in revenues were 12% better than we expected and EBIT of NOK 51m exceeded our projections by 7%. Although 1Q EBIT margin of 6.3% was lower than our expectation of 6.6%, it was stronger YoY (6.0% in 1Q18). The deviation went down to the bottom line and EPS of NOK 0.21/sh was significantly better than our NOK 0.18/sh estimate.

1Q/19 results NOKm	1Q/18	4Q/18	1Q/19 Reported	1Q/19e Norne	Deviation
Revenues	651.3	738.6	812.8	725.4	12.1%
EBITDA adj.	54.9	63.5	70.8	66.0	7.2%
EBIT	38.8	42.3	51.2	47.9	6.9%
EBIT margin	6.0%	5.7%	6.3%	6.6%	-0.3%p
Pretax profit	31.4	39.6	45.2	39.8	13.7%
Net earnings	26.2	27.7	37.5	31.3	19.9%
EPS rep. (NOK)	0.15	0.16	0.21	0.18	19.9%
EPS adj. (NOK)	0.16	0.19	0.22	0.18	25.8%

Guidance for 2019 reiterated

Kitron continues to guide 2019 revenues to land in the range of NOK 2,900-3,200m (our estimate stands at NOK 3,100m) with an EBIT margin of 6.2-6.6% (6.4% predicted by us). Goals from CMD for 2025 were not mentioned but we believe that the company is well on track to reach them. Growth is primarily driven by the acquisition of the EMS division of API Technologies and by the growth in Industry and Offshore/marine sectors' customers.

Component availability issues expected to be less challenging in 2019

2018 was a challenging year for companies involved in the EMS business as the market has been experiencing a shortage of electronic components. Although interests of Kitron's customers were protected by a temporary build-up of component inventory, this has led to reduced efficiency metrics. In the 1Q report it was commented that the situation is expected to be less challenging throughout 2019 and Kitron expects a gradual reduction of working capital, both in absolute numbers and as a percentage of revenues.

Long term estimates likely to be kept

Following the strong 1Q report, we are likely adjust our short term expectations, but annual figures will most likely be kept. The report supports our positive stance towards the case and BUY recommendation is likely to be reiterated.

Analyst

Rytis Mikelionis

+47 21 96 61 02

rytis.mikelionis@norne.no

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Risk	Total return next 12 months (upside to target price)		
	Buy	Hold	Sell
Low	> 10%	2% - 10%	< 2%
Medium	> 15%	3% - 15%	< 3%
High	> 25%	5% - 25%	< 5%

Our risk assessments range from “high risk” to “medium risk” and “low risk” and are based on a subjective assessment of the following factors: 1) volatility in the share price, 2) liquidity in the share, 3) strength of the balance sheet, 4) absolute earnings level and trend and 5) estimate risk.

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All Norne analysts	0
Other Norne employees	3,000
Norne Securities AS	0

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% of total	59%	32%	9%
Corporate clients*	25	10	2
% of corporate clients*	68%	27%	5%

* Includes publicly disclosed not immaterial investment banking services or issues of financial instruments where Norne Securities AS has been lead manager or co-lead manager, and market making clients during the 12 months prior to the overview date.

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