



ERIK PENSER BANK

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Eagle Filters Group

Solid start to 2023

Strong Q1 bolsters expectations for 2023

Eagle Filters reported Q1 revenues of EUR 1.5m, implying solid y/y growth of some 160%. This was thanks to an improvement in the availability of inputs and in distribution channels. Eagle Filters was thus able to capitalise on its solid order book from Q4. The order book at the end of Q1 was EUR 3.9m, and the company mentioned that several large potential orders are under negotiation. Following the end of the quarter, the company announced it has been selected as a supplier of respiratory masks to Finland's National Emergency Response Centre. Overall, we believe the development in Q1 bolsters our forecasts for revenues of EUR 6.7m in 2023 for subsidiary company Eagle Filters.

Solid profitability driven by high-capacity utilization

Eagle Filters reported positive EBITDA for Q1 2023, driven primarily by growing production volumes. Following the restructuring, Eagle Filters is in a massively better position to continue growing, while the input materials situation and availability of components is important for margins for the rest of the year. Eagle Filters Group stated in its Q1 communication that the company requires additional financing this year, and following the publication of the Q1 report, it announced a directed share issue of EUR 1.7m.

Robust start to the year

Overall, Q1 was a strong quarter in terms of revenues and EBITDA. We consider the company well-positioned for decent growth in 2023, with a solid order book and improved external factors like availability of components and logistics. In our view, the company will now achieve positive EBITDA somewhat earlier than we had expected. We lift our fair value to EUR 0.13–0.15 per share (0.11–0.13), adjusted for dilution.

Change in estimates			Forecast (€ m)				Value and risk															
	23e	24e	25e	2022	2023e	2024e	2025e	Fair value	EUR 0.13 - 0.15													
Total revenue	0,0%	0,0%	0,0%	Revenue growth	-39%	-45%	0%	0%	Share price	EUR 0,1												
EBITDA, adj.	0,0%	0,0%	0,0%	EBITDA, adj.	-1	-1	-1	-1	Risk level	Low												
EPS, adj.	-15,4%	-15,4%	-15,4%	EBIT, adj.	-1	-1	-1	-1	Price Performance 12 months 													
Upcoming events				EPS, adj.	0,0	0,0	0,0	0,0														
Q2 - report	24 August 2023			EPS growth, adj.	N.m.	N.m.	N.m.	N.m.														
Q3 - report	25 October 2023			BV/share	0,1	0,1	0,1	0,1														
Company facts (€ m)				Dividend per share	0,0	0,0	0,0	0,0	Conflicts of interest <table border="1"> <thead> <tr> <th></th> <th>Yes</th> <th>No</th> </tr> </thead> <tbody> <tr> <td>Liquidity provider</td> <td></td> <td>✓</td> </tr> <tr> <td>Certified adviser</td> <td>✓</td> <td></td> </tr> <tr> <td>Transactions 12m</td> <td></td> <td>✓</td> </tr> </tbody> </table>			Yes	No	Liquidity provider		✓	Certified adviser	✓		Transactions 12m		✓
	Yes	No																				
Liquidity provider		✓																				
Certified adviser	✓																					
Transactions 12m		✓																				
Number of shares	142m			EBIT margin	Neg.	Neg.	Neg.	Neg.														
Market capitalization	11			ROE, adj.	Neg.	Neg.	Neg.	Neg.														
Net debt	1			ROCE, adj.	Neg.	Neg.	Neg.	Neg.														
EV	12			P/BV	0,6x	0,1x	0,1x	0,1x														
Free float	46%			Net debt / EBITDA	-4,3x	-3,9x	-5,2x	-5,9x														
Daily trading volume, average	107k																					
Bloomberg Ticker	EAGLES SS EQUITY																					
Analyst																						
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Investment case

Eagle Filters Group (formerly Loudspring) undertook a strategic transition during 2021 that developed it from an investment company focused on environmentally friendly growth companies to a company centred around the core of Eagle Filters. Eagle Filters Group owns 100% of Eagle Filters along with minority stakes in a number of other smaller companies.

Company description

Eagle Filters manufactures high-efficiency gas turbine filters for gas power plants, offering customers considerable savings over a very short payback period. After the coronavirus started to spread in 2020, the company adapted its operations to produce respiratory masks using its expertise in filters. Eagle Filters reports its turnover in three segments: Clean Energy, Advanced Materials, and Health & Safety. The company reported revenues of EUR 3.5m for 2022, with EBITDA of EUR -2.6m. Eagle Filters Group's shareholding totals 100%.

Valuation

We calculate a fair value of EUR 0.13–0.15 per share (0.11–0.13), based on a multiples valuation of Eagle Filters and the book value of Nuuka Solutions. We value the core holding, Eagle Filters, at an EV/Sales of 2.5x for 2024e. Our valuation is underpinned by a DCF model.

The quarter in detail

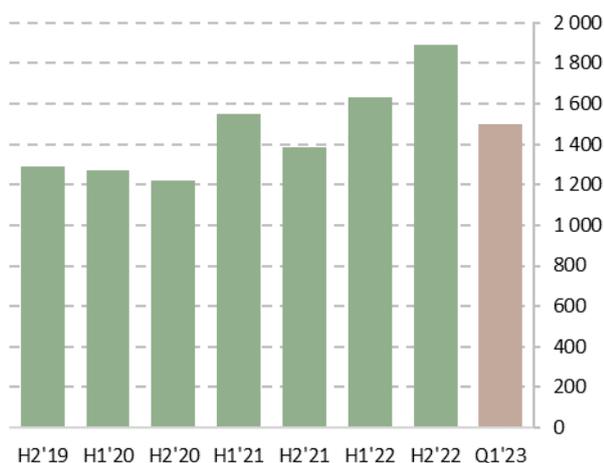
Eagle Filters reported Q1 revenues of EUR 1.5m, implying solid y/y growth of some 160%. Growth comes after a period of logistics challenges and related to the availability of components. Following the end of Q1, Eagle Filters has been selected as a supplier of respiratory masks to Finland's National Emergency Response Centre. In addition to a fixed sum, this also suggests the possibility of other large orders for respiratory masks in the future. Eagle Filters has produced FFP2- and FFP3-class respiratory masks. Given materials supply, the company aims to report its first order during Q2. The order book at the end of Q1 totalled EUR 3.9m.

Eagle Filters had an EBITDA-positive Q1, an improvement on the EUR -1.6m for H2 2022 and EUR -2.6m for full-year 2022. This stems from increased capacity utilisation and higher production volumes. Moreover, Eagle Filters continues to work towards reducing its operating costs.

Following the publication of the report, the company announced a directed share issue of EUR 1.7m. The issue was at a discount of around 4% versus the share price at the time and comes in the wake of Eagle Filters Group commenting in the report about a need for capital to secure working capital, among other factors.

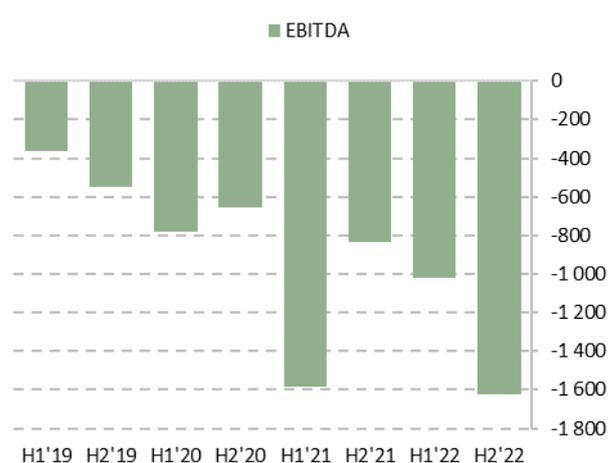
We believe the company is in an appealing position, having left behind the transition year of 2022. Given a solid order book, better profitability, and success in the respiratory mask segment, we see great opportunities for the company to grow during 2023 and reach our revenue target.

Chart 1: Revenues for 2019-2023 (EUR thousands)



Source: Company reports

Chart 2: EBITDA for 2019-2022 (EUR thousands)



Source: Company reports

Estimate changes

Below, we summarise our estimate changes. We make no changes to our forecasts for Eagle Filters in 2023–2025, and we note that the decent growth seen in Q1 bolsters our forecasts for full-year 2023. Previously, we expected the raising of EUR 1.5m in capital during 2023 in which we assumed bank financing. We replace this raising of capital with the directed share issue of EUR 1.7m and believe the company now has the working capital to continue growing for the time being.

Estimate changes			
Current estimates	2023e	2024e	2025e
Eagle Filters: Turnover	6,7	8,0	9,6
Eagle Filters: EBITDA	1,0	1,6	1,9
Previous estimates	2023e	2024e	2025e
Eagle Filters: Turnover	6,7	8,0	9,6
Eagle Filters: EBITDA	1,0	1,6	1,9
% change	2023e	2024e	2025e
Eagle Filters: Turnover	0%	0%	0%
Eagle Filters: EBITDA	0%	0%	0%

Source:

Valuation

Below, we summarise our valuation methodology. We choose to lift our multiples somewhat after Eagle Filters turned EBITDA-positive. Eagle Filters has also improved its growth opportunities through a better financial position and supply chain, for example. We value the company at an EV/Sales of 2.5x (2.3x) for 2024e. We also stick to our valuation of Nuuka Solutions at book value.

Table 1: Valuation				
	EV/Sales	Share value	EF's	Value to
Core holding	2024e	100%	share	EF
Eagle Filters	2,5x	19,2	100%	19,2
Nuuka Solutions				1,3
Subtotal				20,5
Other holdings				0,0
Gross asset value				20,5
Net cash / (debt) + Additional capital requirement				0,9
Parent company costs*				(3,7)
Net asset value				17,7
Shares outstanding (millions)				142,1
NAV per share (EUR)				0,12

Source: EPB

Our DCF model indicates a fair value of EUR 0.13 per share (0.12 per share), while our SOTP valuation suggests a value of EUR 0.12 per share. Together, we see a fair value of EUR 0.13–0.15 per share (0.11–0.13).

We summarise our DCF model below. Key assumptions include a divestment of the portfolio after 2025 and a discount rate of 13.1%. The discount rate is based on a risk-free rate of 2.5%, a risk premium of 5.1%, and an extra risk premium of 5.1%. We note the company's profitability has previously been squeezed, but that Eagle Filters has exposure to an appealing underlying market offering solid long-term drivers. We thus set a discount rate of 13.1%.

Valuation output	
Sum of PV of FCF (explicit period)	19 216,0
PV of terminal value (perpetuity formula)	0
Enterprise value	19 216
Latest net debt	934
Minority interests & other	0
Equity value	18 282
No. of shares outstanding (millions)	142
Equity value per share (EUR)	0,13

WACC assumptions	
Risk-free nominal rate	2,5%
Risk premium	5,5%
Extra risk premium	6,0%
Beta	1,0
Cost of equity	14,0%
Cost of debt (pre-tax)	3,0%
Tax rate	22%
Target debt/(debt + equity)	8%
WACC	13,1%

Terminal value assumptions	
Long-term growth rate	3,0%
Long-term EBIT margin	9,0%
Depreciation (% of sales)	2,0%
Capex (% of sales)	2,0%
Working capital (% of sales)	-2,6%
Tax rate	22%

Below, we show the sensitivity analysis for our DCF model.

Sensitivity analysis						
		Long-term growth rate				
		2,0%	2,5%	3,0%	3,5%	4,0%
WACC	12,1%	0,131	0,131	0,131	0,131	0,131
	12,6%	0,130	0,130	0,130	0,130	0,130
	13,1%	0,129	0,129	0,129	0,129	0,129
	13,6%	0,128	0,128	0,128	0,128	0,128
	14,1%	0,127	0,127	0,127	0,127	0,127
		Long-term EBIT margin				
		4,0%	6,5%	9,0%	11,5%	14,0%
WACC	12,1%	0,131	0,131	0,131	0,131	0,131
	12,6%	0,130	0,130	0,130	0,130	0,130
	13,1%	0,129	0,129	0,129	0,129	0,129
	13,6%	0,128	0,128	0,128	0,128	0,128
	14,1%	0,127	0,127	0,127	0,127	0,127

Income statement

	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
Other Operating Expenses	-1	-2	-1	-1	-1	-1	-1	-1	-1
EBITDA	-1	-2	-1						
EBITDA, adjusted	-1	-2	-1						
EBITA, adjusted	-1	-2	-1						
EBIT	-1	-2	-1						
EBIT, adjusted	-1	-2	-1						
Net Financial Items	0	-2	-3	-1	-1	0	0	0	0
Profit before tax	-2	-4	-4	-1	-2	-1	-1	-1	-1
Profit before tax, adjusted	-2	-4	-4	-1	-2	-1	-1	-1	-1
Net income	-2	-4	-4	-1	-2	-1	-1	-1	-1
Net income, adjusted	-2	-4	-4	-1	-2	-1	-1	-1	-1
Sales Growth	-	>100%	>100%	-9%	-3%	-39%	-45%	0%	0%
Gross Margin	Neg.	Neg.	61,1%	93,5%	58,3%	>100%	>100%	>100%	>100%
EBIT Margin, Adjusted	Neg.								
EPS, Adjusted	-0,06	-0,14	-0,16	-0,04	-0,04	-0,02	-0,01	-0,01	-0,01
EPS Growth, Adjusted	-	N.m.							

Source: Eagle Filters Group, EPB

Cash flow statement

	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
EBIT	-1	-2	-1	-1	-1	-1	-1	-1	-1
Other Cash flow Items	0	-2	-3	-1	-1	0	0	0	0
Cash flow from operating activities	-1	-4	-4	-1	-2	-1	-1	-1	-1
Investments in intangible fixed assets	-1	-3	0	-4	0	0	0	0	0
Other Cash flow from investments	0	0	-1	0	-2	-1	0	0	0
Cash Flow From Investments	-1	-4	-2	-4	-2	-1	0	0	0
Free cash flow	-2	-7	-6	-6	-3	-2	-1	-1	-1
New share issue / repurchase	5	0	1	5	1	6	2	0	0
Change in liabilities	0	2	2	0	1	-3	0	0	2
Cash flow from financing	5	2	3	5	2	2	2	0	2
Cash flow	3	-5	-3	0	-1	0	1	-1	1
Net debt	-3	1	3	3	5	4	3	4	4

Source: Eagle Filters Group, EPB

Balance sheet

	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
ASSETS									
Financial assets	0	1	2	5	6	6	6	6	6
Shares in associated companies	20	10	5	7	5	1	1	1	1
Other fixed assets	0	0	1	1	0	0	0	0	0
Total fixed assets	20	11	8	13	12	8	8	8	8
Other current assets	1	2	2	0	4	9	9	9	9
Cash and cash equivalents	4	0	0	1	0	1	1	1	2
Total current assets	5	2	2	1	4	9	10	9	11
TOTAL ASSETS	25	13	11	14	15	17	18	17	18
EQUITY AND LIABILITIES									
Equity	23	11	7	10	9	13	13	12	12
Total equity	23	11	7	10	9	13	13	12	12
Long-term interest-bearing liabilities	0	1	3	3	4	4	4	4	6
Other long-term liabilities	2	0	0	0	0	0	0	0	0
Total long-term liabilities	2	1	3	3	4	4	4	4	6
Short-term interest-bearing liabilities	0	1	1	1	2	0	0	0	0
Other current liabilities	0	0	0	0	1	0	0	0	0
Total current liabilities	1	1	1	1	2	0	0	0	0
TOTAL EQUITY AND LIABILITIES	25	13	11	14	15	17	18	17	18

Source: Eagle Filters Group, EPB

Growth and margins

	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
Revenue growth	-	>100%	>100%	-9%	-3%	-39%	-45%	0%	0%
EBITDA growth, adjusted	-	N.m.							
EBIT growth, adjusted	-	N.m.							
EPS growth, adjusted	-	N.m.							
Gross margin	Neg.	Neg.	61,1%	93,5%	58,3%	>100%	>100%	>100%	>100%
EBITDA margin	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
EBITDA margin, adjusted	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
EBIT margin	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
EBIT margin, adjusted	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
Profit margin, adjusted	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.

Source: Eagle Filters Group, EPB

Return

	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
ROE, adjusted	Neg.	Neg.	Neg.						
ROCE, adjusted	Neg.	Neg.	Neg.						
ROIC, adjusted	Neg.	Neg.	Neg.						

Source: Eagle Filters Group, EPB

Capital efficiency

	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
Accounts payable / COGS	>100%	58%	63%	>100%	24%	-500%	-207%	-207%	-207%
Total short-term liabilities / total cost	54%	42%	89%	>100%	>100%	48%	58%	58%	58%
Working capital / total revenue	>100%	>100%	>100%	25%	>100%	>100%	>100%	>100%	>100%

Source: Eagle Filters Group, EPB

Financial position

	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
Net debt	-3	1	3	3	5	4	3	4	4
Equity ratio	91%	86%	63%	71%	61%	74%	75%	74%	65%
Net debt / equity	-0,1x	0,1x	0,5x	0,3x	0,5x	0,3x	0,2x	0,3x	0,4x
Net debt / EBITDA	2,9x	-0,9x	-3,7x	-4,1x	-7,8x	-4,3x	-3,9x	-5,2x	-5,9x

Source: Eagle Filters Group, EPB

Per share data

	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
EPS	-0,06	-0,14	-0,16	-0,04	-0,04	-0,02	-0,01	-0,01	-0,01
EPS, adjusted	-0,06	-0,14	-0,16	-0,04	-0,04	-0,02	-0,01	-0,01	-0,01
FCF per share	-0,10	-0,27	-0,21	-0,17	-0,07	-0,03	-0,01	-0,01	-0,01
Dividend per share	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Book value per share	0,90	0,41	0,25	0,28	0,18	0,13	0,09	0,09	0,08
Number of shares, m	25,3	26,7	26,7	36,9	52,7	100	142	142	142
Number of shares after dilution, average	24,2	26,0	26,7	31,8	44,8	76,5	121	142	142

Source: Eagle Filters Group, EPB

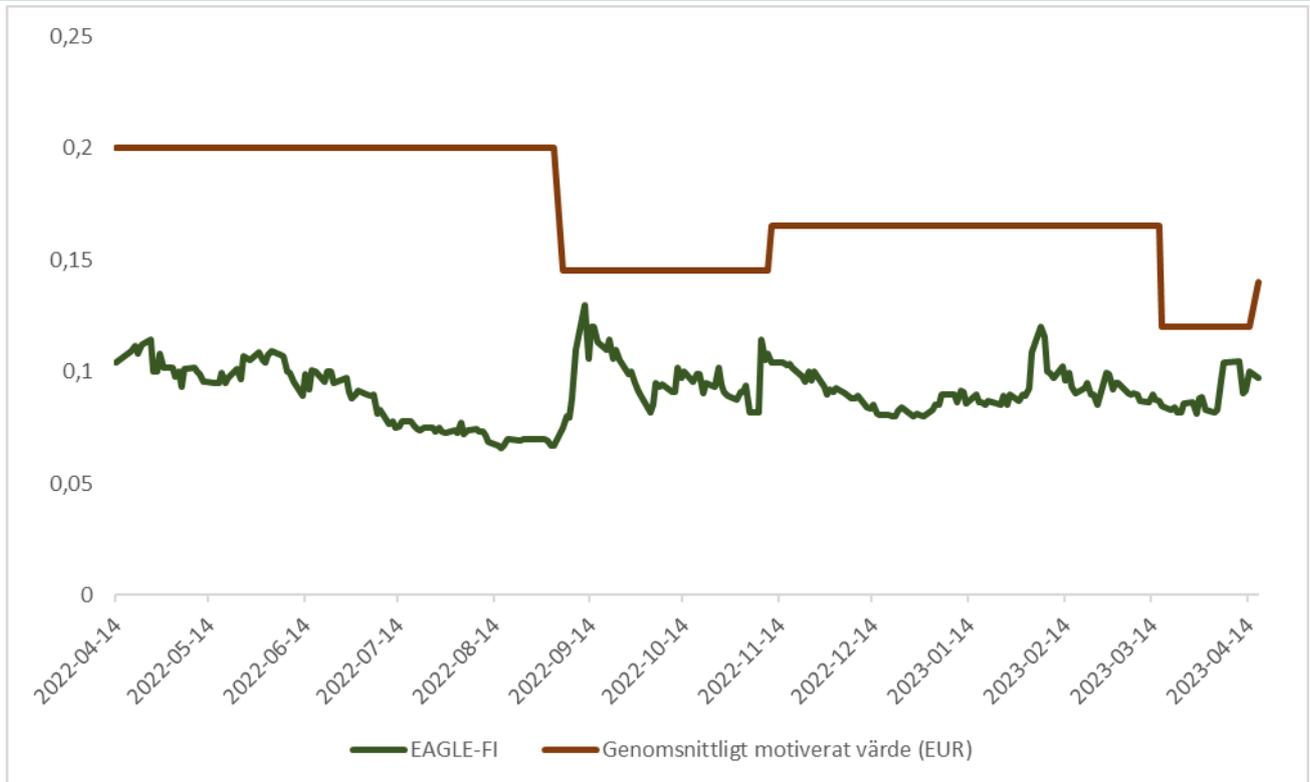
Valuation

	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
P/E, adjusted	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
P/BV	2,6x	0,8x	1,2x	1,5x	0,9x	0,6x	0,1x	0,1x	0,1x
P/FCF	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
FCF-yield	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
Dividend yield	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
Payout ratio, adjusted	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
EV/Sales	1 995,7x	141,0x	54,7x	124,5x	78,9x	106,2x	34,7x	34,7x	34,7x
EV/EBITDA, adjusted	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
EV/EBIT, adjusted	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
EV	58	10	11	23	14	12	2	2	2
Share price, year end	2,3	0,3	0,3	0,4	0,2	0,1	0,0	0,0	0,0

Source: Eagle Filters Group, EPB

Share Price and Fair Value Chart

Eagle Filters Group (EAGLES SS EQUITY)



Source: EPB, IDC

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