

Beijer Electronics Group

Sector: Industrial Goods & Services

Back on the rails

Returned to higher profitability

Beijer Group reported solid order intake and sales, which grew by 8.8% and 15.6%, respectively, in Q3. Sales on group-level came in at SEK 391.4m, which was 4.2% above our forecast. The positive development was primarily explained by Westermo with an organic sales growth of 18%. The most uplifting elements were the 2 pp EBIT-margin improvement q/q (7.6% in Q3) and management's easing comments regarding customer activity. Uncertainties of a slowdown remains but no material impact on the demand indicates that the short-term outlook remains good.

Westermo on the right track – and now getting bigger

Westermo continued to show strong progress in all aspects. Including recently acquired Neratec, Westermo reported an order intake growth of 27%, sales growth of 32%, and EBIT-margin of 14.2% (67% EBIT growth y/y). We also have a positive view on the acquisition of Virtual Access that should strengthen Westermo's offering and enhance the group's profitability.

Raising forecasts and valuation

We expect the phase out effects in Beijer Electronics to remain over the coming two quarters, lowering our sales forecasts for the entity in Q4'19 and FY20 by 10% and 3%, respectively. Recently acquired Virtual Access is at the same time expected to add sales of SEK 140m and EBIT of 20m in FY20. The effect on group-level is positive, and we raise our FY20 sales and EBIT forecasts by 6% and 7%, respectively.

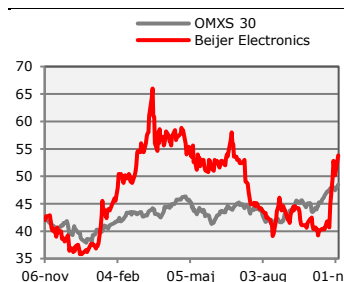
The prospects for additional profitability improvements remain favorable given higher margins from sales of new products, the recent acquisition and opportunities to leverage on higher sales volumes. **We have a positive view on the latest events, and raise our fair value in base case to SEK 57 (54) per share**, meaning that we currently see a limited (~6%) base case upside potential after the 32% share price increase over the last two weeks. We also increase our fair value in bull case to SEK 78 (74) per share while leaving the bear case unchanged at SEK 33 per share.

KEY FINANCIALS (SEKm)	2017	2018	2019E	2020E	2021E	2022E
Net sales	1206	1417	1554	1832	1961	2086
EBITDA	90	151	237	315	353	386
EBIT	18	74	114	180	210	245
EPS (adj.)	-0.2	1.5	2.5	4.5	5.3	6.3
EV/Sales	1.1	1.0	1.4	1.1	1.0	0.8
EV/EBITDA	14.2	9.7	8.9	6.4	5.3	4.5
EV/EBIT	71.4	19.7	18.5	11.2	9.0	7.1
P/E	-157.3	23.8	21.3	12.1	10.3	8.7

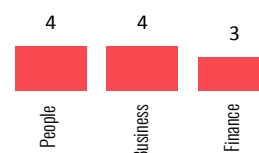
FAIR VALUE RANGE

BEAR	BASE	BULL
33.0	57.0	78.0

VERSUS OMXS30



REDEYE RATING



KEY STATS

Ticker	BELE
Market	Small Cap
Share Price (SEK)	53.8
Market Cap (MSEK)	1566
Net Debt 19E (MSEK)	528
Free Float	48 %
Avg. daily volume ('000)	35

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Q3'19: Profitability rebounds

Beijer Group delivered a solid Q3 report in most aspects. The order intake amounted to SEK 405m (8.8% y/y growth), of which 4% coming from recently acquired Neratec. The growth was primarily driven by Westermo, which reported an order intake of SEK 214m (27% y/y growth). In contrast to the two earlier quarters, it was now boosted by some larger project bookings from Bombardier and a subway project in Singapore. Management clarified that the intake was steady even when excluding the larger projects.

Beijer Electronics, which still is negatively affected by the phase-out of older products, reported an order intake of SEK 165m, corresponding to a 9% decline y/y. Management once again stated that the effects of the end-of-life process are expected to fade out during the upcoming quarters. Korenix order intake amounted to SEK 31m (9.5% y/y), which was in line with the levels shown during the previous quarters.

Sales on group-level amounted to SEK 391.4m, corresponding to a 15.6% y/y growth, of which 9% was organic (excl. Neratec and FX effects). The positive development was once again explained by Westermo, which contributed with 18% organic growth during the quarter while both Beijer Electronics and Korenix reported sales in line with our forecast. Hence, it was the first quarter where Westermo surpassed Beijer Electronics to become the group's largest entity.

Beijer Group Q3'19: Actuals vs estimates			
SEKm	Q3'18*	Q3'19E	Q3'19A
Net sales	338.4	375.5	391.4
Beijer Electronics	174.5	183.0	180.0
Westermo	138.3	165.0	182.8
Korenix	30.6	32.0	33.3
EBITDA	37.8	57.6	63.1
D&A	-20.0	-29.1	-33.1
EBIT	17.7	28.5	29.9
Beijer Electronics	8.9	14.5	12.3
Westermo	15.5	20.7	26.0
Korenix	-0.2	0.3	-0.7
PTP	15.0	25.2	26.1
Net earnings	11.0	19.6	18.8

* Excludes IFRS16 effects

Source: Redeye Research

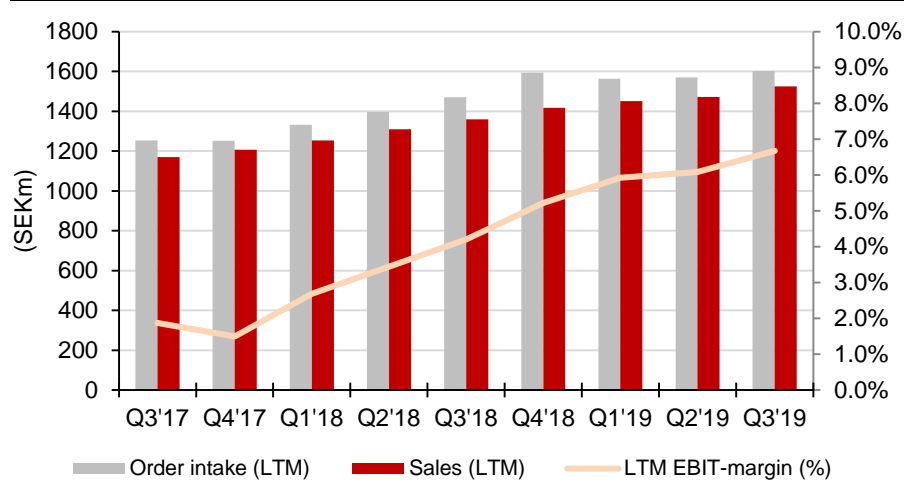
Costs excl. D&A was slightly higher than expected, resulting in EBIT in line with our forecasts. It highlights one of the most uplifting parts of the report, namely that Beijer Group returned to improved profitability levels after the temporary setback in Q2'19. The group's EBIT margin amounted to 7.6% in Q3'19, which corresponds to a 2 pp improvement q/q. It is still important to note that it currently benefits from favorable FX effects, which added about SEK 2.6m to EBIT in Q3.

Higher sales volumes in Westermo has had positive effects on EBIT, which came in at SEK 26m (14.2% margin), and thus improved 67% y/y. We had expected somewhat higher EBIT in both Beijer Electronics and Korenix. Beijer Electronics, however, showed profitability improvements by growing EBIT by 38% y/y through increased gross margins and lower costs. Korenix is currently in the process of updating its product portfolio, which harmed the result in Q3'19. Management said that Korenix still is expected to reach break-even/profitability on a full-year basis, meaning that it would have to reach EBIT of SEK 1.6m in Q4'19.

Q3'19 was also a stronger quarter in a cash flow perspective as Beijer Group reported a free cash flow of SEK 28m (excl. Neratec), which marks a significant improvement compared to previous quarters. The company held a cash position of SEK 102m by the end of Q3, while borrowings amounted to SEK 455.8m, which gives a net debt position (excl. pension provisions and IFRS effects) of SEK 353.8m.

The company will, however, increase its debt following the acquisition of Virtual Access. Assuming that it wants to maintain a cash position around SEK 100m at a group level, it would need an additional SEK 190m of debt, which would result in borrowings of SEK 645m and a net debt position of SEK 545m. Hence, we currently believe that the room for additional debt-financed acquisitions is tight. There are cyclical elements in Beijer Electronics' business, and increasing the debt additionally could come to compose a risk in an industrial slowdown. It should, however, be noted that Beijer Electronics' share of sales is decreasing as an effect of the recent acquisitions and Westermo's high organic growth.

LTM order intake, sales and operating margin



Source: Company data; Redeye Research

Altogether, we have a positive view of the Q3'19 report showing high organic growth (9%), profitability improvements, and a strengthened FCF. Management's comments regarding the market climate was further easing. We believe the group's most important near-term challenges are to get Beijer Electronics' order intake back to growth as the phase-out effects fade out and to turn Korenix profitable.

Westermo gets even bigger

On the 30th of October, Beijer Group announced an additional complementary acquisition to Westermo. The target is Virtual Access (Dublin, Ireland), a supplier of industrial wireless routers, gateways, and connectivity management services. It has customers within utility, traffic management, and telecommunications with several leading telecom players such as BT, NTT, Teliasonera, and Deutsche Telekom among its customers.

Virtual Access brings cellular technology, which means that Westermo now has established a strong industrial network equipment product portfolio with fixed Ethernet, WLAN, and cellular technologies. To our understanding, a large share of Virtual Access' revenues is from power distribution and utilities, which is one of Westermo's new focus segments within the "WeGrow" growth strategy. Management further highlighted that there is potential to leverage Westermo's global sales network, and we, therefore, believe that the acquisition seems to follow strategic logic.

Virtual Access has sales of approximately EUR 12m, which corresponds to 9% of Beijer Group's TTM sales. Management states that its profitability is "very good", and declared that it is expected to contribute with profitability in level with Westermo's in 2020. Hence, we find it reasonable to assume that it has operating margins in the level of 13-15%, which would suggest current EBIT-levels around EUR 1.55 – 1.8m, i.e., 17-20% of the group's TTM EBIT.

Acquisitions of industrial networking equipment companies

Company	Year	Price (excl. EO)	At acquisition		EV/S	EV/EBIT	Sales CAGR until FY18	Consolidated
			Sales	EBIT				
Westermo	2007	213	223	26.6 ^a	1.0	8	9.2%	2008
Korenix	2010	130	57	~7 ^b	2.3	19	9.5%	2011
Neratec	2019	48	62	N/A ^c	0.8	-	-	Q3'19
Virtual Access	2019	190	130	~18 ^d	1.5	10	-	Q4'19

^a From 2008 as 2007's levels are unknown

^b Said to be in level with "IDC" in 2010, i.e. ~12% EBIT-margin

^c Profitability not disclosed, but said to be "good"

^d Said to contribute with profitability in level with Westermo, i.e. 13-15% EBIT-margin

Please note that the above EBIT figures are approximations and estimates based on the available information.

The purchase price is EUR 18m, which corresponds to multiples of around 1.5x sales and 10-11x EBIT based on the above assumptions. There is further an earn-out to be paid beyond 2021 if specific criteria (undisclosed) are met. Based on the information we have received, the company seems to be growing at least in level with the industrial networking equipment market (>9%). Hence, given growth, profitability, a good fit with WeGrow initiatives, and the potential to accelerate sales growth by leveraging on Westermo's global sales force, **we believe that the acquisition brings both financial and strategic value.**

Through the two recent acquisitions, Westermo has established itself as a more extensive provider of industrial network solutions with presence in an increased number of segments. The entity should now account for over 50% of the group's sales and around 65% of the group's EBIT before overhead costs and group adjustments.

Launch of acirro+

Beijer Electronics has now launched its cloud-based IIoT platform acirro+, giving customers the ability to connect its devices to the cloud. Hence, customers with installed HMI-panels and/or BoX2 gateways are now also prospective acirro+ users. Acirro is offered on a subscription-based model, and we argue that it is a promising tool to initiate software sales and drive additional hardware sales.



We regard the launch to mark the repositioning of Beijer Electronics as an Industrial IoT player. It will likely take a couple of years before seeing material effects in the income statement, but we expect the solution to bring a positive impact on sales, gross margins, and ultimately operating profit over time.

Financial forecasts

Westermo (also including Neratec and Virtual Access)

We expect Virtual Access to add about SEK 20m to sales in Q4'19, but do not estimate any material profitability impacts during the quarter. The company is said to have "very good profitability", and is expected to contribute with a profitability in line with Westermo (13-15% EBIT-margin) in 2020. We assume the company to grow by 10% in 2020, and forecast Virtual Access to contribute with sales of SEK 140m and EBIT of SEK 20m in FY20.

Westermo continues to show very steady progress. The order intake increased by 27% (incl. Neratec) and Neratec was further said to have started to contribute nicely to volumes, meaning good chances to leverage on Westermo's global sales network. We, therefore, believe that the prospects for continued growth remain very good. Increased sales volumes also had a positive effect on earnings, which are expected to improve additionally as the volumes keep growing. After including Virtual Access into our forecasts, we expect the entity to report sales of about SEK 929m in 2020 and EBIT of SEK 140m in 2020.

Beijer Electronics

The entity's order intake YTD was down 5% compared to last year, which primarily should be explained by the phase-out of older products. We expect the effects to remain over the coming two quarters, and have, therefore, lowered our sales forecasts for Q4'19 and FY20 by 10% and 3%, respectively.

Management has stated that the new product series, X2, now accounts for more than 50% of sales, which explains the increased profitability through improved gross margins. The improvements are reflected by the YTD EBIT-margin of 7.8%, compared to last year's 5.6%. We expect continued improvements following increased sales of new products with better margins and by leveraging on higher sales volumes.

There are, however, uncertainties regarding a slowdown, which primarily could come to affect the industrial automation segment negatively. Management said that the risk regarding a slowdown remains and that it has adversely affected the demand from some industrial automation customers in Germany. It has, however, not identified signs pointing to a material change in demand, meaning that the outlook, at least in the short-term, remains good. Beijer Electronics' order book was 21% above last year's level by the end of Q3, and the entity was said to have several projects that could result in large orders by the end of the quarter, which are other factors suggesting that the outlook remains positive.

Korenix

Korenix order intake YTD was up 1.5% compared to Jan-Sep 2018, and the order book was 50% above last year's level, meaning that the growth prospects remain. It is currently in the process of developing new products, which has hurt profitability in Q3. Management, however, echoed that its goal is to turn Korenix profitable in Q4'19 and that there is a chance that Korenix could reach break-even on a full-year basis.

Group estimates								
(SEKm)	2018	Q1'19	Q2'19	Q3'19	Q4'19E	2019E	2020E	2021E
Sales	1417	370.9	381.2	391.4	411	1554	1832	1961
Beijer Electronics	731	189.5	192.9	180.0	185	747	790	829
Westermo	586	158.7	164.4	182.8	195	701	929	1012
Korenix	118	28.8	31.3	33.3	35	128	135	143
Total costs (excl. D&A)	-1267	-315.4	-330.6	-328	-344	-1319	-1517	-1608
EBITDA	151	58.0	50.2	63.1	66	237	315	353
D&A	-77	-27.9	-28.7	-33.1	-34	-124	-135	-143
EBIT	74	30.1	21.5	29.9	32	114	180	210
Margin (%)	5.2%	8.1%	5.6%	7.6%	7.8%	7.3%	9.8%	10.7%
Beijer Electronics	47	18.3	13.7	12.3	13	57	71	83
Margin (%)	6.5%	9.6%	7.1%	6.8%	6.8%	7.6%	9.0%	10.0%
Westermo	70	21.2	20.1	26.0	28	95	140	155
Margin (%)	11.9%	13.4%	12.2%	14.2%	14.4%	13.6%	15.1%	15.3%
Korenix	-6	-0.6	-0.3	-0.7	1	-1	6	9
Margin (%)	neg.	-2.1%	-0.9%	-2.1%	2.9%	-0.4%	4.3%	6.0%
PTP	63	27.0	19.8	26.1	28	101	166	196
EPS, SEK	1.52	0.70	0.48	0.65	0.73	2.55	4.26	5.10
Sales growth (%)	18%	10%	6%	16%	8%	10%	18%	7%
Net margin (%)	3%	5%	4%	5%	5%	5%	7%	7%

Source: Redeye Research

Beijer Group

We find it likely to expect some extra costs related to the acquisition in Q4. Beijer Electronics is also facing tough comps explained by the phase-out, which had a significant effect on both order intake and sales in Q4'18. Some phase-out effects will likely persist during Q4'19, and we, therefore, expect negative y/y growth of approximately 3% for Beijer Electronics. We estimate slight improvements on group-level (q/q), forecasting sales of SEK 411m and EBIT of SEK 32, primarily expected to be driven by another strong quarter for Westermo.

All in all, we expect 2020 to be much stronger concerning profitability. It is important to recall that Westermo's profitability in H1'19 was hampered by production and supply chain investments, and costs related to its new growth initiatives. Although showing improvements, Beijer Electronics' has also been negatively affected by the phase-out while Korenix currently is undertaking efforts to update its product portfolio. Hence, there should be room for additional improvements in each entity, we believe.

The most profitable business entity Westermo will further make up for a more significant share of total sales, which should enhance the group's overall profitability. On this basis, we expect to see continued improvements over the coming year and estimate Beijer Group to reach an EBIT-margin of 9.8% in FY19. Thus, we currently see good chances for it to reach its financial goal of a 10% operating margin during H2'20.

Valuation

The valuation is based on a DCF analysis for three scenarios – a base case plus an optimistic bull case and a pessimistic bear base. Our valuation is based on the net debt (borrowings) position by the end of Q3 and the assumption of an additional SEK 190m in debt following the Virtual Access acquisition, i.e. a net debt position of SEK 544m. No further acquisitions are considered.

Base case

The outlook for continued growth remains positive with updated product portfolios and an order book 24% above last year's level. Virtual Access should also boost the growth, which explains the high sales CAGR assumption of 11.4% between 2019 and 2021. After 2022, we expect somewhat lower growth, but from substantially higher levels, as reflected by our long-term CAGR sales assumption of 4.2%.

The prospects for additional profitability improvements remain favorable given the recent profitability enhancing acquisition, higher margins from sales of new products, and the opportunities to leverage on higher sales volumes. We believe the company should be able to reach its financial goal (10% EBIT-margin) during H2'20, and further expect it to achieve higher margins in the long-term.

Valuation: Base case				
Assumptions	2019-2021	2022-2028	DCF-value	
CAGR Sales	11.4%	4.2%	WACC	10%
EBIT-margin (avg)	9.3%	12.9%	NPV FCF	1 116
			NPV Terminal value	1 091
			Sum NPV	2 207
Terminal			Net debt	-544
Terminal FCF growth		2%	DCF-value	1 646
Terminal EBIT-margin		11%	Fair value per share	57
			Current share price	54

Source: Redeye Research

We have a positive view of the recent report and the acquisition of Virtual Access, which we assess to bring both strategic and financial value. We, therefore, **raise our fair value in base case to SEK 57 (54) per share**. The Q3'19 report, management's comments regarding the market climate, and the acquisition of Virtual Access have, however, had positive effects on the stock, which has climbed 32% over the last two weeks and brought it to our previous base case of SEK 54 per share. Hence, our updated fair value now offers a limited upside (~6%) from current levels.

Fair value range

We have also updated our bull case following the report, resulting in a fair value of SEK 78 (74) per share, while the effect on our bear case is unchanged.

Bear Case 33.0 SEK

Key assumptions:

Sales growth (CAGR) 19-21E: 9.9%
 Sales growth (CAGR) 22E-28E: 4.0%
 Average EBIT-margin 19-21E: 7.3%
 Average EBIT-margin 22-28E: 9.1%
 Terminal EBIT-margin: 8%

In general, we take a more cautious stance on the company's ability to remain growing in higher figures over the two coming years.

Our conservative bear case incorporates lower returns of the commercial launch of its software offering, less successful penetration of Westermo's new target markets as well as an extended turnaround in Korenix – ultimately resulting in lower sales and earnings in both short and long run.

This case reflects the scenario where the strong momentum BELE currently is showing will scale down, returning to more conservative growth rates in a shorter period. We assume both lower growth rates and gross margins compared to the two previously presented scenarios.

Less profitability improvements following lower sales growth and lower returns from new offerings.

Base Case 57.0 SEK (54)

Key assumptions:

Sales growth (CAGR) 19-21E: 11.4%
 Sales growth (CAGR) 22E-28E: 4.2%
 Average EBIT-margin 19-21E: 9.3%
 Average EBIT-margin 22-28E: 12.9%
 Terminal EBIT-margin: 11%

Following increased sales of new products, we expect its gross margins to increase. Over time, we estimate the company to maintain a gross margin exceeding 50% and EBIT improvements in all units.

We expect continued EBIT improvements over the next years, seeing the EBIT-margin increasing from around 5% in 2018 up towards 10% by 2020, primarily from leveraging on increased sales volumes and sales of new products.

Beyond 2021, we assume an average EBIT-margin of 12.9%. In our terminal period, we assume a margin of 11%.

Bull Case 78.0 SEK (74)

Key assumptions:

Sales growth (CAGR) 19-21E: 13.2%
 Sales growth (CAGR) 22E-28E: 5.3%
 Average EBIT-margin 19-21E: 9.7%
 Average EBIT-margin 22-28E: 13.8%
 Terminal EBIT-margin: 13%

In our upbeat bull case, we are estimating higher growth rate in each respective business entity. We assume a more successful launch of Beijer Electronics software offering, leading to higher gross margins during 2021 and beyond. We further expect higher sales growth from sales of operator panels and IIoT gateways. Regarding profitability, we expect the improved gross margin to result in Beijer Electronics reaching higher EBIT-margins.

This case also incorporates higher sales growth for Westermo following successful penetration of both new focus segments. Furthermore, we estimate improved profitability following increased sales. The recent acquisition of Virtual Access is also expected to contribute to greater profitability.

Besides, we expect quicker and higher returns from Korenix's turnaround. We also assume a slightly higher long-term sales growth following a successfully established positioning as a primer provider of connectivity products within its security and surveillance segments.

Hence, apart from higher growth rates, we also expect somewhat higher gross margins, ultimately resulting in improved profitability compared to our base case.

Investment Case

An emerging Industrial IoT player with favorable profitability prospects. Over the recent three years, Beijer Group has updated its product portfolio, increased the share of proprietary products, and re-staffed its organization. When entering 2020, more than half of the company's revenues should originate from products developed after 2016. Its updated offering is also well reflected by Beijer Electronics' recent launch of a licensed-based cloud platform.

We expect this development to be reflected in continued profitability improvements that leverage on higher sales volumes and slightly improved gross margins. We forecast that the company will reach its profitability target (10% EBIT-margin) during H2'20, and expect it to expand margins additionally over the following years.

Digitalization to drive growth. Industrial digitalization is a trend to which all businesses are directly exposed. BELE's target markets are forecast to grow at CAGR of between 7% and 15% over the next five years (financial target of annual growth exceeding 7%). Beijer Electronics' business is characterized by long relationships, with solutions designed into customers' systems, which suggests a potentially durable competitive advantage due to switching costs.

Westermo, the group's golden nugget, has grown revenues and EBIT at CAGR of 9% and 10%, respectively, since the acquisition in 2008. Its current sales growth is substantially higher, increasing by 21% so far in 2019. It operates in non price-sensitive niche segments with long project deals, where it is positioned as the most reliable provider of rugged connectivity equipment. We expect the company to repeat its successful train networking efforts in rail trackside, where several existing customers operate, and power distribution.

Strengthened by recent acquisitions. We have a positive view on the two recent additions, which are expected to support Westermo in its move towards the new market segments. The companies are further expected to add about SEK 200m to the entity's revenues while also enhancing the group's profitability. After including the two acquisitions, we forecast the entity to generate revenues and EBIT of SEK 1012m and SEK 155m, respectively, by 2021.

Limited upside potential after recent share price increases. We have a positive view on the latest events, and raise our base case fair value to SEK 57 (54) per share. The stock has, however, climbed 32% over the last two weeks and is currently trading around SEK 54, meaning that we now see a limited (6%) upside potential to our base case. There is, however, substantial upside to our bull case (SEK 78 per share), which is based on higher sales growth and profitability.

We remain believing that reports showing high growth, and especially, continued profitability improvements will be the most crucial share price drivers going forward.

Counter Thesis

Cyclical business

A large share of the group's revenues stems from industrial clients. Thus, there is an inevitable risk that its sales will be negatively affected in a period of economic downturn. On the other hand, it becomes especially important to focus on investments in improved efficiency in such an environment. The latter pertains to the group's value proposition, and this dynamic could thus dampen negative effects.

Looking back to 2009, sales dropped by 15% while EBIT decreased by 45%. Yet the company remained profitable with an operating margin of 6% and solid positive cash flows, thus demonstrating that it could manoeuvre in this environment before returning to growth and increased profitability in 2010.

Failure to turn Korenix profitable

In recent years, Korenix has been hit by management problems, high staff turnover, and a strategic transformation. In 2018, the company negatively affected the group's EBIT by SEK -6m. Management claims that 2018 was a year of recovery and that Korenix should become profitable in 2019. The company is currently showing improvements, but there is still some work left before reaching break-even on EBIT-level (SEK -0.7m in Q3'19). There is, however, a risk that the turnaround could take longer time and that the company continues to burden the group's profitability.

Summary Redeye Rating

The rating consists of three valuation keys, each constituting an overall assessment of several factors that are rated on a scale of 0 to 1 points. The maximum score for a valuation key is 5 points.

No rating changes.

People: 4

The People rating is based on quantitative scores in seven sub-categories: Passion, Execution, Capital Allocation, Communication, Compensation, Ownership, and Board. In our rating assessment, Beijer Group gains the highest points from its open communication, qualified and experienced board, and compensation. Relevant industry experience characterizes BELE's management and board of directors. Management shows a good understanding for the targeted markets, and has a clear long-term focus. BELE has shown solid progress with current management, which we judge to have completed the company's turnaround.

Business: 4

The Business rating is based on quantitative scores in five sub-categories: Business Scalability, Market Structure, Value Proposition, Economic Moat, and Operational Risks. Beijer Group receives the highest scores in Value Proposition and Operational Risk. The company operates in large fragmented growth markets, primarily related to the digitalization trend. Long customer relationships characterize its business, where products are designed into customers' systems - laying the ground for potentially durable competitive advantages (switching costs).

Financials: 3

The Financials rating is based on quantitative scores in five sub-categories: Earnings Power, Profit Margin, Growth Rate, Financial Health, and Earnings Quality. Although currently showing solid progress, BELE's financial rating is burdened by a couple of years of negative results and free cash flow. As additional profitability improvements are expected, we see room for an increased rating going forward. The company has a solid capital structure, the business is diversified, and we see no risk of needing to raise external capital going forward. On the negative side, the business is cyclical, implying that there is a risk of negative growth in a period of economic downturn.

INCOME STATEMENT	2017	2018	2019E	2020E	2021E
Net sales	1,206	1,417	1,554	1,832	1,961
Total operating costs	-1,116	-1,267	-1,316	-1,517	-1,608
EBITDA	90	151	237	315	353
Depreciation	-17	-18	-59	-68	-75
Amortization	-55	-58	-65	-67	-68
Impairment charges	0	0	0	0	0
EBIT	18	74	114	180	210
Share in profits	0	0	0	0	0
Net financial items	-22	-11	-13	-14	-15
Exchange rate dif.	0	0	0	0	0
Pre-tax profit	-4	63	101	166	196
Tax	-2	-20	-28	-36	-43
Net earnings	-5	44	73	129	153

BALANCE SHEET	2017	2018	2019E	2020E	2021E
Assets					
<i>Current assets</i>					
Cash in banks	89	94	117	165	229
Receivables	198	251	277	321	333
Inventories	169	178	221	256	275
Other current assets	68	59	65	65	65
Current assets	525	581	681	807	902
<i>Fixed assets</i>					
Tangible assets	85	91	202	197	185
Associated comp.	1	1	1	1	1
Investments	0	0	0	0	0
Goodwill	503	525	765	765	765
Cap. exp. for dev.	0	0	0	0	0
Intangible rights	251	264	275	283	292
Non-current assets	2	2	2	2	2
Total fixed assets	843	883	1,245	1,249	1,246
Deferred tax assets	52	51	51	51	51
Total (assets)	1,419	1,515	1,977	2,107	2,199
Liabilities					
<i>Current liabilities</i>					
Short-term debt	47	75	145	145	140
Accounts payable	270	293	311	366	392
Other current liabilities	0	0	30	30	30
Current liabilities	317	368	486	541	562
Long-term debt	459	436	500	460	400
Other long-term liabilities	3	5	75	75	75
Convertibles	0	0	0	0	0
Total Liabilities	779	808	1,060	1,076	1,037
Deferred tax liab	49	50	50	50	50
Provisions	0	0	150	150	150
Shareholders' equity	585	653	712	827	958
Minority interest (BS)	6	4	4	4	4
Minority & equity	591	657	716	831	962
Total liab & SE	1,419	1,515	1,977	2,107	2,199

FREE CASH FLOW	2017	2018	2019E	2020E	2021E
Net sales	1,206	1,417	1,554	1,832	1,961
Total operating costs	-1,116	-1,267	-1,316	-1,517	-1,608
Depreciations total	-72	-77	-124	-135	-143
EBIT	18	74	114	180	210
Taxes on EBIT	-4	-23	-31	-40	-46
NOPLAT	14	51	83	140	164
Depreciation	72	77	124	135	143
Gross cash flow	86	128	206	276	307
Change in WC	0	-28	-29	-23	-5
Gross CAPEX	-62	-117	-486	-139	-140
Free cash flow	24	-17	-308	113	162

CAPITAL STRUCTURE	2017	2018	2019E	2020E	2021E
Equity ratio	42%	43%	36%	39%	44%
Debt/equity ratio	87%	78%	91%	73%	56%
Net debt	417	416	528	440	311
Capital employed	1,007	1,071	1,242	1,270	1,272
Capital turnover rate	0.9	0.9	0.8	0.9	0.9

GROWTH	2017	2018	2019E	2020E	2021E
Sales growth	8%	18%	10%	18%	7%
EPS growth (adj)	-97%	-898%	68%	76%	18%

DCF VALUATION		CASH FLOW, MSEK	
WACC (%)	10 %	NPV FCF (2018-2028)	1116
		NPV FCF (2028-)	1091
		Non-operating assets	102
		Interest-bearing debt	-645
		Fair value estimate MSEK	1646

Assumptions 2017-2023 (%)

Average sales growth	7.6 %	Fair value e. per share, SEK	57
EBIT margin	11.4 %	Share price, SEK	53.8

PROFITABILITY	2017	2018	2019E	2020E	2021E
ROE	-1%	7%	11%	17%	17%
ROCE	2%	7%	9%	13%	14%
ROIC	1%	5%	8%	11%	13%
EBITDA margin	7%	11%	15%	17%	18%
EBIT margin	1%	5%	7%	10%	11%
Net margin	0%	3%	5%	7%	8%

DATA PER SHARE	2017	2018	2019E	2020E	2021E
EPS	-0.19	1.52	2.55	4.49	5.30
EPS adj	-0.19	1.52	2.55	4.49	5.30
Dividend	0.00	0.50	0.50	0.75	1.00
Net debt	14.58	14.52	18.33	15.28	10.80
Total shares	28.60	28.64	28.79	28.79	28.79

VALUATION	2017	2018	2019E	2020E	2021E
EV	1,284.2	1,458.5	2,102.3	2,013.3	1,883.4
P/E	-157.3	23.8	21.3	12.1	10.3
P/E diluted	-157.3	23.8	21.3	12.1	10.3
P/Sales	0.7	0.7	1.0	0.9	0.8
EV/Sales	1.1	1.0	1.4	1.1	1.0
EV/EBITDA	14.2	9.7	8.9	6.4	5.3
EV/EBIT	71.4	19.7	18.5	11.2	9.0
P/BV	1.5	1.6	2.2	1.9	1.6

SHARE PERFORMANCE		GROWTH/YEAR	16/18E
1 month	34.7 %	Net sales	13.5 %
3 month	25.6 %	Operating profit adj	151.4 %
12 month	29.5 %	EPS, just	◆
Since start of the year	50.3 %	Equity	10.0 %

SHAREHOLDER STRUCTURE %	CAPITAL	VOTES
Stena	29.6 %	29.8 %
Swolder	12.1 %	12.2 %
Nordea Fonder	10.4 %	10.5 %
SEB Fonder	8.6 %	8.6 %
Fjärde AP-fonden	6.1 %	6.2 %
Humble Fonder	3.1 %	3.1 %
Torsten Bjurman	2.0 %	2.1 %
Clieus Fonder	1.7 %	1.8 %
Tredje AP-fonden	1.7 %	1.7 %
Nicolas Hassbjer	1.3 %	1.3 %

SHARE INFORMATION	
Reuters code	BELLE
List	Small Cap
Share price	53.8
Total shares, million	28.8
Market Cap, MSEK	1566.0

MANAGEMENT & BOARD	
CEO	Per Samuelsson
CFO	Joakim Laurén
IR	
Chairman	Bo Elisson

FINANCIAL INFORMATION	
Year-end report	January 30, 2020

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Redeye Rating and Background Definitions

Company Quality

Company Quality is based on a set of quality checks across three categories; PEOPLE, BUSINESS, FINANCE. These are the building blocks that enable a company to deliver sustained operational outperformance and attractive long-term earnings growth.

Each category is grouped into multiple sub-categories assessed by five checks. These are based on widely accepted and tested investment criteria and used by demonstrably successful investors and investment firms. Each sub-category may also include a complementary check that provides additional information to assist with investment decision-making.

If a check is successful, it is assigned a score of one point; the total successful checks are added to give a score for each sub-category. The overall score for a category is the average of all sub-category scores, based on a scale that ranges from 0 to 5 rounded up to the nearest whole number.

The overall score for each category is then used to generate the size of the bar in the Company Quality graphic.

People

At the end of the day, people drive profits. Not numbers. Understanding the motivations of people behind a business is a significant part of understanding the long-term drive of the company. It all comes down to doing business with people you trust, or at least avoiding dealing with people of questionable character.

The People rating is based on quantitative scores in seven categories: Passion, Execution, Capital Allocation, Communication, Compensation, Ownership, and Board.

Business

If you don't understand the competitive environment and don't have a clear sense of how the business will engage customers, create value and consistently deliver that value at a profit, you won't succeed as an investor. Knowing the business model inside out will provide you some level of certainty and reduce the risk when you buy a stock.

The Business rating is based on quantitative scores grouped into five sub-categories: Business Scalability, Market Structure, Value Proposition, Economic Moat, and Operational Risks.

Financials

Investing is part art, part science. Financial ratios make up most of the science. Ratios are used to evaluate the financial soundness of a business. Also, these ratios are key factors that will impact a company's financial performance and valuation. However, you only need a few to determine whether a company is financially strong or weak.

The Financial rating is based on quantitative scores that are grouped into five separate categories: Earnings Power, Profit Margin, Growth Rate, Financial Health, and Earnings Quality.

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Disclaimer

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Redeye Rating (2019-11-06)

Rating	People	Business	Financials
5p	11	10	2
3p - 4p	78	60	28
0p - 2p	10	29	69
Company N	99	99	99

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CONFLICT OF INTERESTS

Dennis Berggren owns shares in the company : No

Havan Hanna owns shares in the company : No

Redeye performs/have performed services for the Company and receives/have received compensation from the Company in connection with this.