

Beijer Electronics Groups

Sector: Industrial Goods & Services

Profitable Through the Storm

Redeye lowers estimates and valuation following a weaker than expected Q2'20, but stands firmly behind the long-term investment case. Most importantly, and what should bring pleasure to long-term investors, is to see Beijer Group do relatively well in the eye of the storm – demonstrated by its positive cash flow of SEK 15.7m. We still expect a solid post-pandemic rebound, especially given management's encouraging communication around customer activity and pipeline. New base case amounts to **SEK 44 (46) per share**.

Covid-19 showing its impact – order intake down 17% from Q1

Sales decreased by 6.3% y/y and amounted to SEK 357m (we forecast 376). The deviation was mainly attributable to Westermo (growth of 15% y/y versus forecast of 24%) while Korenix and Beijer Electronics reported mostly in-line sales numbers. The company estimates a drop of 20% on the top line due to Covid-19 – a higher number than our expectations. As the existing business climate (order intake down 11% y/y and 17% q/q) is expected to continue in the near future, we cut our forecasts – sales are now expected to drop 6% (2% earlier) during 2020.

Positive EBIT despite negative currency impact

EBIT at SEK 7.9m was meaningfully below forecast of SEK 20.4m due to the lower sales but also a notable negative currency impact of SEK -7.5m. We argue that the fast actions taken by the company, including the restructuring program (13% lower overhead cost level than Q1) should support a mid-single-digit EBIT-margin in 2020. We have cut EBIT to SEK 47m (earlier SEK 76m) for 2020.

Strategic approach highlights management's long-term focus

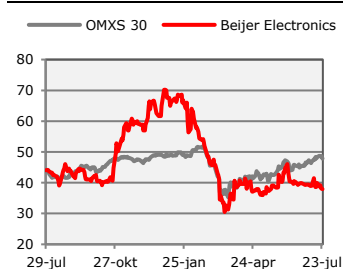
Looking beyond the numbers, the Groups current approach, aiming at balancing cost reductions with post-covid growth ambitions while maintaining a stable financial position for the group highlights management's long-term focus. We are confident that Beijer Group will be able to sustain a potential period of lower activity and view the current price levels as a good opportunity for long-term investors. Based on our 2021e, Beijer Group currently trades at an EV/EBIT multiple of ~15x, which we find as an attractive valuation.

KEY FINANCIALS (SEKm)	2018	2019	2020E	2021E	2022E	2023E
Net sales	1417	1559	1472	1584	1771	1871
EBITDA	151	227	196	261	319	367
EBIT	74	104	47	117	172	226
EPS (adj.)	1.5	2.3	0.8	2.7	4.3	5.8
EV/Sales	1.0	1.4	1.2	1.1	0.9	0.8
EV/EBITDA	9.7	9.7	8.9	6.6	5.2	4.1
EV/EBIT	19.7	21.4	37.4	14.9	9.6	6.7
P/E	23.8	23.8	45.5	13.9	9.0	6.6

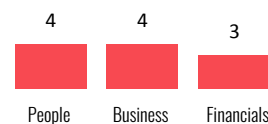
FAIR VALUE RANGE

BEAR	BASE	BULL
29.0	44.0	65.0

VERSUS OMXS30



REDEYE RATING



KEY STATS

Ticker	BELE
Market	Small Cap
Share Price (SEK)	38.7
Market Cap (MSEK)	1115
Net Debt 20E (MSEK)	645
Free Float	45 %

ANALYSTS

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Beijer Electronics Group: Q2'20

As expected, the negative effect from Covid-19 increased in the quarter, with a sequential drop of 10% q/q. The company estimate a loss of sales of 20% during Q2 due to Covid-19 with the main impact on Korenix and Beijer Electronics. The trend from the previous quarters, with Westermo as the best performing entity continued.

SEKm	Beijer Electronics			Westermo			Korenix			Beijer Group		
	Q2'19	Q2'20	change	Q2'19	Q2'20	change	Q2'19	Q2'20	change	Q2'19	Q2'20	change
Order Intake	186.2	120.7	-35%	166.1	198.6	20%	32.1	19.7	-39%	377.0	335.5	-11%
Sales	192.9	153.0	-21%	164.4	189.4	15%	31.3	18.6	-41%	381.2	357.5	-6%
EBIT-margin	7.1%	-1.3%		12.2%	11.4%		-0.9%	-18.1%		5.6%	2.2%	

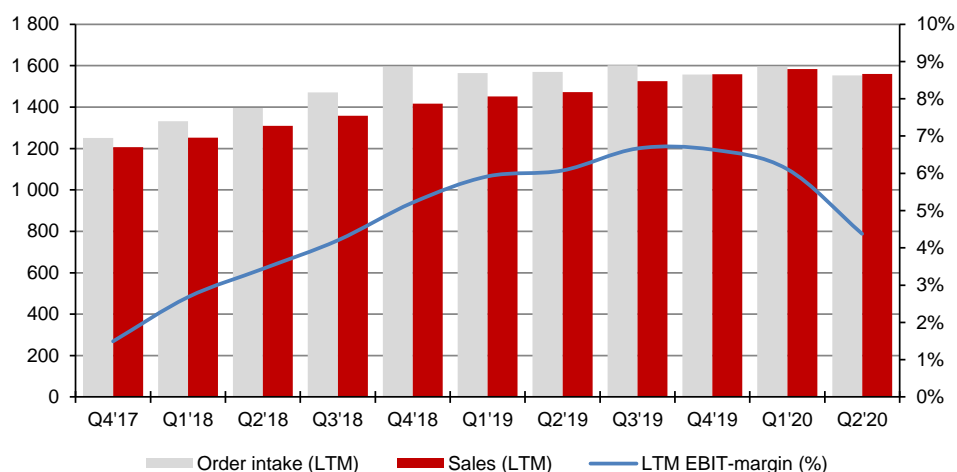
Source: Redeye Research, Beijer Electronics Group

At group-level, organic order intake declined by 22% y/y with an organic sales decline of 16% (corresponding number in the previous quarter were 3% and 5%, respectively). Even as we noted that the real impact from the corona crisis was too early to be felt in the previous quarter we clearly underestimated the accelerated impact this quarter. Lower sales contributed to lower profits, with an EBIT of SEK 7.5m, corresponding to an EBIT margin of 2.2%. EBIT were negatively impacted by SEK 7.5m from currency effects due to a stronger SEK, explaining the big deviation from forecasts.

Beijer Electronics Group Q1'20: Actuals vs Estimates				
SEKm	Q1'19	Q1'20E	Q1'20A	Diff (%)
Net sales	381.2	376.0	357.5	-5%
<i>growth, y/y</i>	5.6%	-1.4%	-6.2%	
EBITDA	50.2	56.4	44.9	-20%
D&A	-28.7	-36.0	-37.0	
EBIT	21.5	20.4	8.0	-61%
<i>margin</i>	5.6%	5.4%	2.2%	
PTP	19.8	19.2	0.4	-98%
Net earnings	13.7	14.2	-0.8	-106%
<i>margin</i>	3.6%	3.8%	-0.2%	

Source: Redeye Research

Beijer Electronics Group: Order Intake, Sales, EBIT (SEKm)



Source: Redeye Research, Beijer Electronics Group

Financial Projections and Estimate Changes

Beijer Electronics Group: Estimates, '18-'21E												
(SEKm)	2018	Q1'19	Q2'19	Q3'19	Q4'19	2019	Q1'20	Q2'20E	Q3'20E	Q4'20E	2020E	2021E
Sales	1 417	371	381	391	415	1 559	395	358	349	371	1 472	1 584
<i>growth y/y</i>	18%	10%	6%	16%	9%	10%	7%	-6%	-11%	-11%	-6%	8%
Beijer Electronics	731	189	193	180	194	756	164	153	150	165	632	670
Westermo	586	159	164	183	199	705	215	189	185	190	779	857
Korenix	118	29	31	33	27	120	21	19	17	19	75	81
Total costs (excl. D&A)	-1 267	-315	-331	-328	-360	-1 335	-354	-309	-298	-313	-1 274	-1 323
EBITDA	151	58	50	63	56	227	44	45	50	57	196	261
D&A	-77	-28	-29	-33	-34	-124	-35	-37	-38	-39	-150	-145
EBIT	74	30	22	30	22	103	8	8	12	18	47	117
<i>margin (%)</i>	5%	8%	6%	8%	5%	7%	2%	2%	3%	5%	3%	7%
Beijer Electronics	47	18	14	12	11	55	-5	-2	0	4	-2	40
<i>margin (%)</i>	6%	10%	7%	7%	6%	7%	neg.	-1%	0%	3%	0%	6%
Westermo	70	21	20	26	22	90	33	22	26	27	108	116
<i>margin (%)</i>	12%	13%	12%	14%	11%	13%	16%	11%	14%	14%	14%	14%
Korenix	-6	-1	0	-1	-3	-4	-9	-3	-5	-4	-22	1
<i>margin (%)</i>	neg.	neg.	neg.	neg.	neg.	neg.	neg.	neg.	neg.	neg.	-29%	1%
PTP	63	27	20	26	19	92	7	0	10	16	34	103
EPS, SEK	1.52	0.70	0.48	0.65	0.43	2.26	0.18	-0.03	0.27	0.42	0.85	2.69

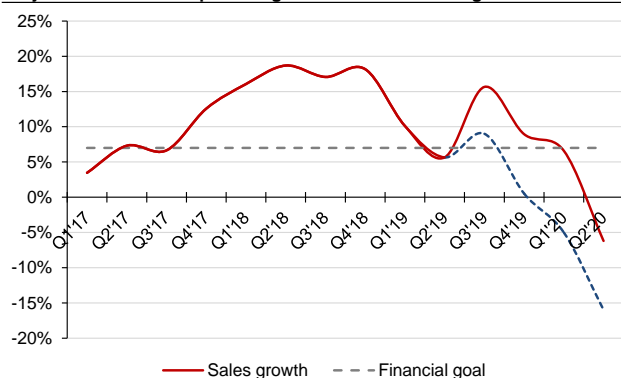
Source: Redeye Research, Beijer Electronics Group

Beijer Electronics Group: Estimate changes, '20e-'22e									
(SEKm)	Old			New			Changes		
	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E
Sales	1525	1645	1839	1472	1584	1771	-4%	-4%	-4%
EBITDA	222	271	331	196	261	319	-12%	-4%	-4%
EBIT	76	126	183	47	117	171	-39%	-7%	-6%
PTP	71	112	173	34	103	161	-52%	-8%	-7%
EPS, SEK	1.84	2.92	4.65	0.85	2.69	4.32	-54%	-8%	-7%

Source: Redeye Research

Other Key Figures

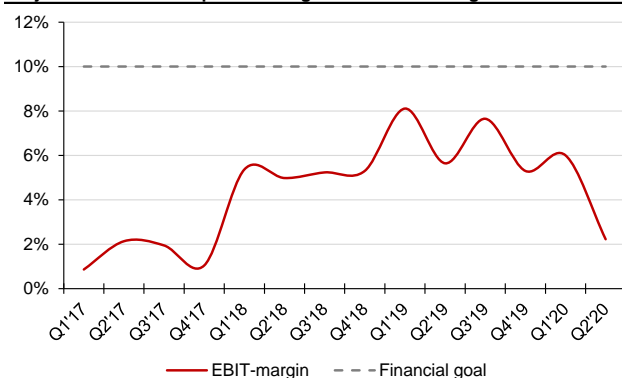
Beijer Electronics Group: Sales growth versus financial goal



Source: Redeye Research

The blue bar is for organic numbers

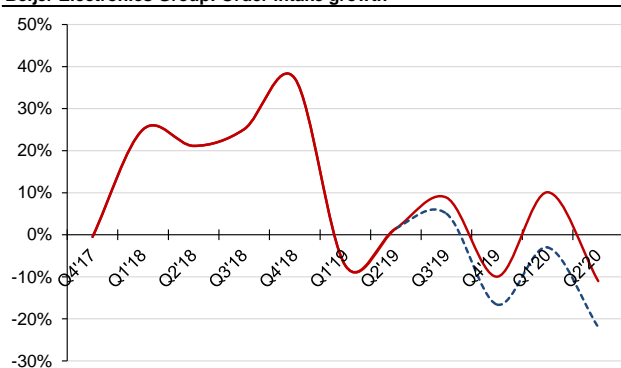
Beijer Electronics Group: EBIT-margin versus financial goal



Source: Redeye Research

The bar for Q1'20 is excluding restructuring expenses of SEK 15m

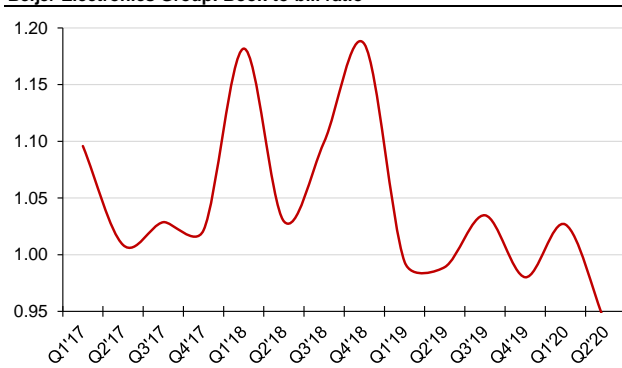
Beijer Electronics Group: Order intake growth



Source: Redeye Research

The blue bar is for organic numbers

Beijer Electronics Group: Book-to-bill ratio



Source: Redeye Research

Valuation

Our valuation is based on a DCF analysis for three scenarios - a base case plus an optimistic bull case and pessimistic bear case. No additional acquisitions are considered and we use a WACC of 10.0% in all our scenarios. Following our new estimates, base case is cut to **SEK 44.0 (46.0) per share** while fair value range is left unchanged at **SEK 29.0 – 65.0**.

Base Case

Sales should grow at a CAGR of ~4% between 2020 and 2022. Beyond 2022, we assume a sales CAGR of ~4% and terminal growth of 2%. We forecast substantially improved profitability on the back of increased sales and new products when the corona crisis is over. The prospects for additional profitability improvements remain favorable given the recent profitability enhancing acquisitions, 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 2022, and further expect it to achieve higher margins in the long-term. We see an upside of ~13% from today's levels of SEK 39 per share.

Valuation: Base case				
Assumptions	2020-2022	2023-2029	DCF-value	
CAGR Sales	4.3%	3.8%	WACC	10%
EBIT-margin (avg)	6.7%	12.6%	NPV FCF	876
ROIC	6.4 %	14.3%	NPV Terminal value	1 053
			Sum NPV	1 929
Terminal			Net debt (20E)	-645
Terminal FCF growth		2%	DCF-value	1 263
Terminal EBIT-margin		11%	Fair value per share	44
			Current share price	39

Source: Redeye Research

Fair Value Range

Below we highlight the assumptions in our different scenarios.

Bear Case 29.0 SEK

Key assumptions

- Sales growth (CAGR) 20-22E: 4.0%
- Sales growth (CAGR) 23-29E: 3.0%
- Average EBIT-margin 20-22E: 5.1%
- Average EBIT-margin 23-29E: 9.0%
- Terminal EBIT-margin: 8.0%

In general, we take a more cautious stance on the company's growth ability over the 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.

This case reflects the scenario where the strong momentum BELE currently is showing will scale down. 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 44.0 SEK

Key assumptions

- Sales growth (CAGR) 20-22E: 4.3%
- Sales growth (CAGR) 23-29E: 3.8%
- Average EBIT-margin 20-22E: 6.7%
- Average EBIT-margin 23-29E: 12.6%
- Terminal EBIT-margin: 11.0%

Following increased sales of new products, we expect 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 EBIT improvements over the next years, seeing the EBIT-margin increasing from around 5% in 2018 up towards 10% by 2022, primarily from leveraging on increased sales volumes and sales of new products.

Bull Case 65.0 SEK

Key assumptions

- Sales growth (CAGR) 20-22E: 8%
- Sales growth (CAGR) 23-29E: 5.2%
- Average EBIT-margin 20-22E: 8.1%
- Average EBIT-margin 23-29E: 14.0%
- Terminal EBIT-margin: 13.0%

In our bull case, we are estimating higher growth rate in each 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.

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.

Rating changes in the report: No 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	2018	2019	2020E	2021E	2022E
Net sales	1,417	1,559	1,472	1,584	1,771
Total operating costs	-1,267	-1,331	-1,276	-1,323	-1,452
EBITDA	151	227	196	261	319
Depreciation	-18	-58	-66	-63	-64
Amortization	-58	-66	-84	-82	-83
Impairment charges	0	0	0	0	0
EBIT	74	104	47	117	172
Share in profits	0	0	0	0	0
Net financial items	-11	-12	-12	-15	-14
Exchange rate dif.	0	0	0	0	0
Pre-tax profit	63	92	34	102	158
Tax	-20	-27	-10	-22	-35
Net earnings	44	65	24	80	123

BALANCE SHEET	2018	2019	2020E	2021E	2022E
Assets					
<i>Current assets</i>					
Cash in banks	94	122	128	139	127
Receivables	251	304	294	301	336
Inventories	178	215	235	238	266
Other current assets	59	164	164	164	164
Current assets	581	804	822	841	893
<i>Fixed assets</i>					
Tangible assets	91	100	97	97	96
Associated comp.	1	0	0	0	0
Investments	0	0	0	0	0
Goodwill	525	807	807	807	807
Cap. exp. for dev.	0	0	0	0	0
0 intangible rights	264	281	274	269	263
0 non-current assets	2	0	0	0	0
Total fixed assets	883	1,188	1,178	1,173	1,167
Deferred tax assets	51	50	50	50	50
Total (assets)	1,515	2,042	2,049	2,064	2,109
Liabilities					
<i>Current liabilities</i>					
Short-term debt	75	187	187	187	187
Accounts payable	293	312	294	317	354
0 current liabilities	0	0	0	0	0
Current liabilities	368	499	482	504	541
Long-term debt	436	586	586	586	485
0 long-term liabilities	5	117	117	30	30
Convertibles	0	0	0	0	0
Total Liabilities	808	1,202	1,185	1,120	1,056
Deferred tax liab	50	56	56	56	56
Provisions	0	150	150	150	150
Shareholders' equity	653	629	654	733	842
Minority interest (BS)	4	4	4	4	4
Minority & equity	657	634	658	738	846
Total liab & SE	1,515	2,042	2,049	2,064	2,109

FREE CASH FLOW	2018	2019	2020E	2021E	2022E
Net sales	1,417	1,559	1,472	1,584	1,771
Total operating costs	-1,267	-1,331	-1,276	-1,323	-1,452
Depreciations total	-77	-124	-150	-145	-147
EBIT	74	104	47	117	172
Taxes on EBIT	-23	-30	-14	-26	-38
NOPLAT	51	73	33	91	134
Depreciation	77	124	150	145	147
Gross cash flow	128	197	183	236	281
Change in WC	-28	-177	-28	14	-26
Gross CAPEX	-117	-430	-139	-140	-141
Free cash flow	-17	-410	15	109	114

CAPITAL STRUCTURE	2018	2019	2020E	2021E	2022E
Equity ratio	43%	31%	32%	36%	40%
Debt/equity ratio	78%	123%	118%	105%	80%
Net debt	416	651	645	634	545
Capital employed	1,071	1,285	1,303	1,371	1,391
Capital turnover rate	0.9	0.8	0.7	0.8	0.8

GROWTH	2018	2019	2020E	2021E	2022E
Sales growth	18%	10%	-6%	8%	12%
EPS growth (adj)	-898%	48%	-63%	229%	54%

PROFITABILITY	2018	2019	2020E	2021E	2022E
ROE	7%	10%	4%	11%	16%
ROCE	7%	8%	3%	8%	11%
ROIC	5%	7%	3%	7%	10%
EBITDA margin	11%	15%	13%	17%	18%
EBIT margin	5%	7%	3%	7%	10%
Net margin	3%	4%	2%	5%	7%

DATA PER SHARE	2018	2019	2020E	2021E	2022E
EPS	1.52	2.26	0.84	2.76	4.26
EPS adj	1.52	2.26	0.84	2.76	4.26
Dividend	0.50	0.00	0.00	0.50	0.99
Net debt	14.52	22.62	22.35	21.97	18.90
Total shares	28.64	28.79	28.85	28.85	28.85

VALUATION	2018	2019	2020E	2021E	2022E
EV	1,458.5	2,210.4	1,744.5	1,732.8	1,643.3
P/E	23.8	23.8	45.5	13.8	9.0
P/E diluted	23.8	23.8	45.5	13.8	9.0
P/Sales	0.7	1.0	0.7	0.7	0.6
EV/Sales	1.0	1.4	1.2	1.1	0.9
EV/EBITDA	9.7	9.7	8.9	6.6	5.2
EV/EBIT	19.7	21.4	37.4	14.9	9.6
P/BV	1.6	2.5	1.7	1.5	1.3

SHARE PERFORMANCE	GROWTH/YEAR		18/20E
1 month	-4.3 %	Net sales	1.9 %
3 month	1.7 %	Operating profit adj	-20.6 %
12 month	-15.3 %	EPS, just	-25.7 %
Since start of the year	-45.6 %	Equity	0.1 %

SHAREHOLDER STRUCTURE %	CAPITAL	VOTES
Stena	29.5 %	29.7 %
Svolder	15.0 %	15.1 %
Nordea Fonder	10.1 %	10.2 %
Fjärde AP-fonden	7.5 %	7.6 %
Humle Fonder	4.8 %	4.8 %
Clients Fonder	3.6 %	3.6 %
Tredje AP-fonden	2.5 %	2.5 %
Torsten Bjurman	2.0 %	2.1 %
Nicolas Hassbjer	1.6 %	1.6 %
Nordea Funds (Lux)	1.0 %	1.0 %

SHARE INFORMATION	
Reuters code	BELE
List	Small Cap
Share price	38.7
Total shares, million	28.9
Market Cap, MSEK	1115.1

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

FINANCIAL INFORMATION	
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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 (2020-07-29)

Rating	People	Business	Financials
5p	15	12	3
3p - 4p	108	84	33
0p - 2p	6	33	93
Company N	129	129	129

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CONFLICT OF INTERESTS

Havan Hanna owns shares in the company : No

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