

Instalco AB

Sweden | Installation & Service | MCAP SEK 7.0bn

Buy

Target Price SEK 196.8 - 212.1

Current Price SEK 141.0

Up/downside 39.6% - 50.4%

Instalco - At Your Service

Instalco AB ("Instalco") is a supplier of technical end-to-end solutions on the Nordic Installation and Service market. The company utilizes a growth-by-acquisition model, driving sales and profitability improvements on a fragmented SEK 202.0bn market. The RONIC of 33.2% in 2019A is expected to keep up due to prospective synergies from acquisitions, indicating further value creation. Consequently, margin expansion, as well as continued sales growth, will drive EBIT with a CAGR of 20.9% between 2019A and 2025E, resulting in an EBIT of SEK 1.5bn by 2025E. Applying a target EV/EBIT multiple in a range of 14.0x and 15.0x implies a share price between SEK 196.8 and SEK 212.1, indicating a potential upside of 39.6% to 50.4%.

A serial-acquisitor takes on a fragmented Nordic market. Instalco obtains local companies within the fragmented SEK 262.0bn Installation and Service market. Instalco offers the companies to be a part of its "one-stop-shop" as well as keeping their brands and core-customers. Due to high liquidity, acquired sales are expected to grow with a CAGR of 1.7% between 2019A and 2025E. Consequently, synergies gained from the acquisitions are expected to drive the EBIT margin from 8.6% in 2019A to 10.2% in 2025E. As a result, the RONIC of 33.2% in 2019A will maintain a high level between 2020E and 2025E, indicating further value creation.

Profitable growth. Organic sales, mainly driven by cross-sales, are expected to grow with a CAGR of 4.0% between 2020E and 2021E and thereafter with 3.0% CAGR. Along with the acquired growth, total sales will grow with an accumulated CAGR of 17.7% between 2019A and 2025E and result in total sales of SEK 15.3bn by 2025E. Due to the EBIT margin expansion to 10.2% by 2025E, EBIT is anticipated to grow with a CAGR of 20.9% from 2019A to 2025E and result in an EBIT of SEK 1.5bn by 2025E.

Instalco trades at an unreasonable discount. Instalco is trading at a forward-looking EV/EBIT of 10.4x based on 2021E estimates. The company has an expected EBIT CAGR of 23.9% between 2019A and 2021E, comparable to the peer average of 21.8%. In addition, Instalco's Return on Invested Capital (ROIC) of 15.3% in TTM is more than double that of its peer average. Benchmarking towards the key peer Bravida with a forward-looking EV/EBIT of 13.6x indicates a slightly higher valuation for Instalco. Besides, Instalco has historically been trading to an average EV to estimated EBIT of 13.3x. Altogether, a target EV/EBIT multiple in a range of 14.0x and 15.0x is justified. These multiples imply a share price of between SEK 196.8 and SEK 212.1 and a potential upside of 39.6% to 50.4%.

Marcus Abbestam & Filip Blazevic

Equity Research Analysts

Market Data

Listing Venue	OMXS Mid Cap
Price (SEK)	141.0
No. of outstanding shares (m)	49.5
Market Cap (m)	6 993.1
Cash & Cash Equivalents (m)	272.0
Debt (m)	1 125.0
Net Debt (m)	853.0
Enterprise Value (m)	7 846.1

Key Financials (SEK)

	19A	20E	21E	22E
Sales (bn)	5.7	7.1	8.5	9.9
Sales Growth y/y (%)	29.0	24.5	19.6	16.7
Gross Profit (bn)	2.8	3.5	4.2	5.0
Gross Margin (%)	49.0	49.0	49.3	49.5
EBITDA (bn)	0.6	0.7	0.9	1.1
EBITDA - Margin (%)	10.3	10.0	10.5	10.9
EBIT (bn)	0.5	0.6	0.8	0.9
EBIT - Margin (%)	8.6	8.4	8.9	9.4
Net Income (bn)	0.4	0.5	0.6	0.7
Profit Margin (%)	6.5	6.4	6.8	7.2

Key Ratios (SEK)

	19A	20E	21E	22E
EV/EBITDA	10.2	11.1	8.9	7.3
EV/EBIT	12.1	13.1	10.4	8.5
Net Debt/EBITDA	1.5	1.2	0.7	0.4
EV/Sales	1.1	1.1	0.9	0.8
P/E	13.7	15.5	12.1	9.8
P/S	0.9	1.0	0.8	0.7
EPS	7.6	9.2	11.8	14.6



Major shareholders

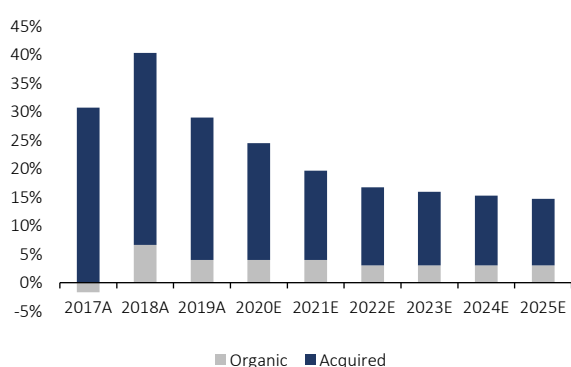
Capital Group	9.5%
Per Sjöstrand	8.5%
Swedbank	7.4%
Svenska Handelsbanken	4.3%
Wipunen Varainhallinta	4.3%
Total	34.0%

Investment thesis

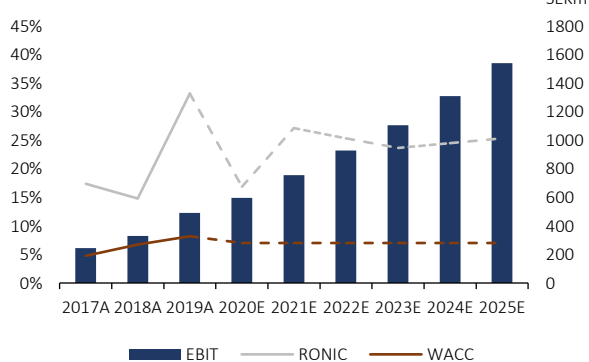
An acquisition-based business model on a fragmented market. Instalco's business model is based on acquiring local companies that complement each other in function in order to be able to offer full-service offerings on a local level. Incentives for local companies to join Instalco's "one-stop-shop" approach are the gained cost benefits, particularly within procurement, as a larger organization has a higher bargaining power towards suppliers. The cost advantages enable subsidiaries to compete in price more effectively or to increase margins. Furthermore, a "one-stop-shop" is more attractive to hire as they can provide a smooth end-to-end solution, and since subsidiaries keep their brand and local anchoring, Instalco can utilize the long-lived customer relationships.

Expansion through scale and profitable acquisitions, gained from synergies. Instalco is operating on the consolidating Installation and Service market valued at SEK 202.0bn, which is expected to decline with 2.0% in 2020E to then stabilize at SEK 198.0bn from 2021E onwards. Therefore, the company's acquisition-based strategy is well-positioned as scale will be vital for further growth as the market stagnates. Considering Instalco's strong cash conversion ratio, in average 153.7% between 2016A and 2019A, and a declining Net Debt/EBITDA that is expected to go from 1.5x to 0.4x by 2022E, the company is in a strong position to keep acquiring companies and consolidating the market¹. Consequently, annually acquired sales are estimated to grow with a CAGR of 1.7% between 2019A and 2025E, resulting in SEK 1.6bn of acquired sales in 2025E. Above-mentioned synergies generated through acquisitions are expected to cause an EBIT margin expansion from 8.6% in 2019A to 10.2% in 2025E. Hence, the RONIC of 33.2% in 2019A is expected to be sustained at a high level between 2020E and 2025E, resulting in further value creation.

YoY Sales growth (2017A-2025E)



RONIC, WACC & EBIT (2017A-2025E)



Still growing organically. Due to increasing cross-sales, the organic growth in sales is estimated to 4.0% annually between 2020E and 2021E and thenceforth 3.0% on an annual basis. In combination with the acquisitions, total sales are expected to grow with a CAGR of 17.7% between 2019A and 2025E, resulting in total sales of SEK 15.3bn by 2025E. Given these assumptions, Instalco's market share is anticipated to expand from 2.8% in 2019A to 7.7% in 2025E. During the same period, the sales growth and the EBIT margin expansion are expected to jointly drive EBIT with a CAGR of 20.9%, implying an EBIT of SEK 1.5bn by 2025E. As a result of COVID-19, market outlooks are unsettled. However, with service share of sales expected to grow from 16.2% in 2019A to 25.0% by 2025E and a diversified order book consisting of contracts spanning from SEK 1.0 to 75.0m, prearranged between 12 and 18 months in advance, the company's future is relatively unaffected.

¹ Cash Conversion ratio = Operating Cash Flow / Net Profit

Valuation

The valuation is based on a target multiple EV/EBIT range of 14.0x to 15.0x, derived from peer benchmarking and historical trading. Instalco is currently trading at a forward-looking EV/EBIT multiple of 10.4x in 2021E. Selected peers include mainly installation and service companies operating on the Swedish, Norwegian and the Finnish market as well as similar acquisition-oriented companies. Applying a target multiple EV/EBIT range between 14.0x and 15.0x implies a price range of SEK 196.8 to SEK 212.1, indicating a potential upside of 39.6% to 50.4%.

Peer Table SEKm	Market data		Financials		Valuation
	Market cap	Enterprise value	EBIT CAGR 2019A-2021E	ROIC (TTM)	EV/EBIT (FY+2)
Beijer Ref	33 235.0	36 295.2	1.6%	10.7%	28.7x
Bravida Holding	17 435.6	17 313.6	2.0%	14.2%	13.6x
Caverion Oyj	8 106.0	9 669.7	48.9%	5.7%	11.7x
Fagerhult	6 432.1	10 486.6	3.5%	4.4%	12.3x
Green Landscaping Group	876.0	1 642.9	95.2%	1.6%	15.1x
Keller Group	5 345.3	8 939.1	17.2%	3.5%	7.3x
Lindab International	8 154.1	9 998.1	2.7%	9.3%	11.0x
Sdiptech	3 317.1	4 464.2	18.1%	7.5%	14.4x
Coor Service Management	5 739.1	7 070.1	6.9%	5.4%	20.7x
Average	9 848.9	11 764.4	21.8%	6.9%	15.0x
Median	6 432.1	9 669.7	6.9%	5.7%	13.6x
Instalco	6 993.1	7 846.1	23.9%	15.3%	10.4x

Instalco's forward-looking multiple of EV/EBIT, based on 2021E estimates, amounts to 10.4x. Put in relation to the average peer EV/EBIT of 15.0x, the company trades to an unreasonable discount. Hence, a forward-looking EV/EBIT of 14.0x to 15.0x in 2021E is justified due to the following reasons:

- **The company generates the highest Return on Invested Capital (ROIC) and has an attractive future EBIT CAGR compared to its peers.** Instalco's ROIC of 15.3% in TTM exceeds all the selected peers and more than doubles the peer average of 6.9%, indicating superior profitability which is expected to keep up due to the high future RONIC. Besides, Instalco has an expected EBIT CAGR of 23.9% between 2019A and 2021E compared to the peer average of 21.8%. Consequently, an EV/EBIT similar to the peer average of 15.0x is motivated, which substantiates the target EV/EBIT range of 14.0x to 15.0x.
- **Benchmarking towards the closest publicly traded competitor Bravida indicates a slightly higher valuation for Instalco.** Instalco has both a higher ROIC and a higher expected EBIT CAGR than Bravida. The company still trades at a lower EV/EBIT multiple of 10.4x, compared to Bravida's 13.6x. On the contrary, Bravida has an enterprise value which is 2.2 times Instalco's. Considering both expected performance and size, Instalco deserves a slightly higher valuation than Bravida, which further justifies the target EV/EBIT range between 14.0x and 15.0x.
- **Instalco has historically been traded to an EV/Est. EBIT of 13.3x, further strengthening the target multiple range.** The market has between 2017A and 2019A on average been trading Instalco at an EV/EBIT of 13.3x given announced EBIT estimates. From this point of view, the company will henceforth most likely be valued at approximately 13.5x EV/EBIT. This lands close to the range of 14.0x to 15.0x and supports the lower end of the target EV/EBIT range.

Appendix 1, Income Statement

Instalco AB SEKm	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E	2025E
Net sales	2 411.2	3 147.0	4 453.0	5 762.0	7 171.5	8 578.3	10 011.8	11 606.0	13 377.4	15 344.2
COGS	-1 361.8	-1 589.0	-2 295.0	-2 937.0	-3 657.5	-4 353.1	-5 055.2	-5 848.4	-6 727.5	-7 701.2
Gross profit	1 049.4	1 558.0	2 158.0	2 825.0	3 514.0	4 225.2	4 956.6	5 757.6	6 649.8	7 643.0
Operating expenses (OPEX)	-905.1	-1 308.0	-1 819.0	-2 238.0	-2 806.7	-3 338.9	-3 875.7	-4 475.0	-5 137.4	-5 869.3
EBITDA	144.3	250.0	339.0	587.0	707.3	886.3	1 080.9	1 282.6	1 512.4	1 773.7
Depreciation	-4.1	-6.0	-9.0	-95.0	-109.8	-131.3	-153.3	-177.7	-204.8	-234.9
EBITA	140.2	244.0	330.0	492.0	597.5	754.9	927.6	1 104.9	1 307.6	1 538.7
Amortization	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	140.2	244.0	330.0	492.0	597.5	754.9	927.6	1 104.9	1 307.6	1 538.7
Net financials	-7.9	-14.0	-16.0	-19.0	-24.8	-27.6	-30.3	-33.0	-35.9	-38.9
Earnings before taxes (EBT)	132.3	230.0	314.0	473.0	572.7	727.3	897.4	1 071.9	1 271.7	1 499.8
Income tax	-41.3	-58.0	-67.0	-101.0	-122.5	-149.8	-184.9	-220.8	-262.0	-309.0
Earnings	91.0	172.0	247.0	372.0	450.1	577.5	712.5	851.1	1 009.7	1 190.8

Appendix 2, Acquisitions

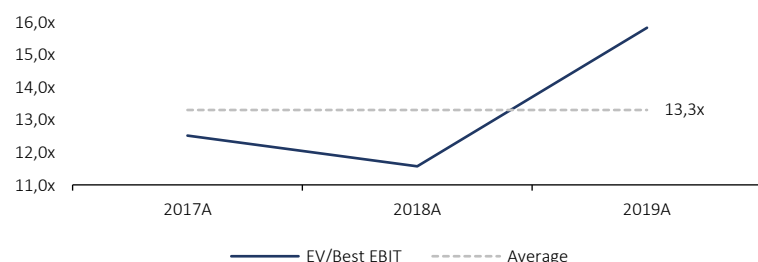
Acquisitions SEKm	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E	2025E
January	0.0	0.0	170.0	167.0	69.0	-	-	-	-	-
February	15.0	128.0	145.0	60.0	71.0	-	-	-	-	-
March	107.0	187.0	0.0	0.0	25.0	-	-	-	-	-
April	0.0	0.0	81.0	203.0	193.0	-	-	-	-	-
May	0.0	0.0	57.0	135.0	0.0	-	-	-	-	-
June	66.0	167.0	100.0	92.0	143.0	-	-	-	-	-
July	181.0	65.0	0.0	359.0	-	-	-	-	-	-
August	0.0	0.0	0.0	0.0	-	-	-	-	-	-
September	154.0	0.0	0.0	0.0	-	-	-	-	-	-
October	0.0	0.0	131.0	259.0	-	-	-	-	-	-
November	49.0	35.0	75.0	70.0	-	-	-	-	-	-
December	104.0	449.0	0.0	115.0	-	-	-	-	-	-
Total annual acquisitions	676.0	1 031.0	759.0	1 460.0	1 002.0	1 102.2	1 212.4	1 333.7	1 467.0	1 613.7
Impact actual year's sales	387.0	449.0	466.0	788.0	492.7	597.0	656.7	722.4	794.6	874.1
Impact following year's sales	289.0	582.0	293.0	672.0	509.3	505.2	555.7	611.3	672.4	739.6
Total acquisition effect on sales FY	737.1	738.0	1 048.0	1 081.0	1 164.7	1 106.3	1 161.9	1 278.1	1 405.9	1 546.5
Paid sum for the current year's acquisitions	325.0	426.0	369.0	560.0	441.8	486.0	534.6	588.0	646.8	711.5
Paid per acquired MSEK	0.5	0.4	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4

Appendix 3, Share Price

Implied Share Price 2021E		Implied Share Price 2021E	
EV/EBIT Multiple	14.0x	EV/EBIT Multiple	15.0x
2021E EBIT	754.9	2021E EBIT	754.9
2021E Enterprise Value	10 568.7	2021E Enterprise Value	11 323.6
Less Net Debt	832.0	Less Net Debt	832.0
Equity Value	9 736.7	Equity Value	10 491.6
Outstanding Shares (m)	49.5	Outstanding Shares (m)	49.5
Implied Shareprice (SEK)	196.8	Implied Shareprice (SEK)	212.1
Up/-downside	39.6%	Up/-downside	50.4%
Peers Multiple Premium	44.1%	Peers Multiple Premium	44.1%

Appendix 4, EV to estimated EBIT

EV to estimated EBIT



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Other

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