



LINC

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EQUITY RESEARCH REPORT

KABE GROUP (KABEB)

”Positioned to capitalize on the camping trend”

RATING

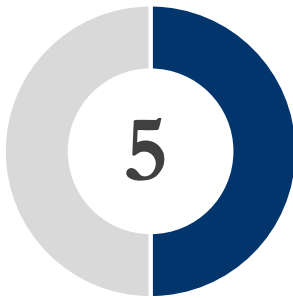
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COMPANY DESCRIPTION

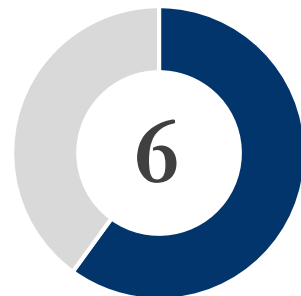
KABE group manufactures and sells motorhomes, caravans, transport vehicles and other mobile devices as well as camping accessories. Kabe was founded in Tenhult, Sweden and started producing motorhomes in the early '60s. KABE Group maintains three leading brands, Kabe, Adria (Sun Living), and KAMA Fritid. KAMA Fritid accounts for 10% of their sales revenue. The company is most active in Scandinavia where Sweden has its most significant share of sales. The majority of the companies customers, at nearly 80%, are villa-owners.

VALUE DRIVERS



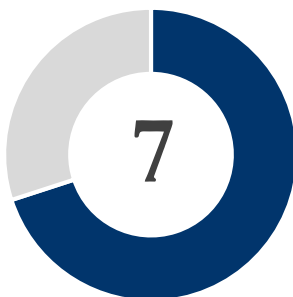
KABE Group is market leaders in Sweden, with 50% caravan market share, and 16% motorhome share. Their vehicle sales are primarily driven by macro trends such as the increasing camping trend. Accessory sales are less prone to fluctuate and have stable YoY growth.

FINANCIAL HISTORY



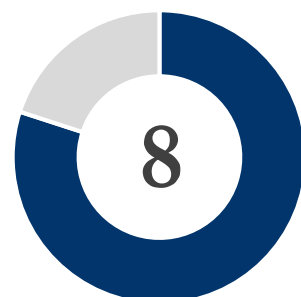
KABE group has shown a stable revenue growth 2013-2018 with a CAGR of ~20% and EBITDA margins hovering around 8%. With no significant acquisitions, their growth is considered organic.

MANAGEMENT



The management and board consist of people with extensive experience within the industry. KABE is a majority family owned (60%) business - most of whom are actively involved. CEO, Alf Ekström, has been engaged in KABE Group since the early 80s.

RISK PROFILE



The RV market is characterized as cyclical being dependent on multiple macro factors. Furthermore, they are dependent on two key markets, Sweden & Norway, both of which are bound to saturation eventually. FX fluctuations should also be considered since they import 40% of vehicles.

KABE GROUP (KABEB)



KABE Group is a market leader in the Nordic market for motorhomes, caravans and camping accessories. KABE is well positioned to capitalize on the current camping trend. Market growth in conjuncture with low-interest rates will aid future sales because of that 80% of their customers are homeowners who pawn their home when purchasing their vehicles. We estimate a continued growth 2019-2023 in all markets at around 8-10% YoY with the growth rate increasing 0.5% each year, furthermore we believe KABE group will maintain an EBIT margin of 7% between 2019-2023. This has to lead to an indicated share value of 159 SEK, with an upside of 7.2%.

➤ **The future is motorhomes.** KABE operates in a seemingly stagnant market. However, the market is relatively sensitive to market fluctuations. Nonetheless, it has shown that the demand for motorhomes has increased as well as a decrease in caravans throughout the industry. Therefore the future of the market is motorhomes as well as sales of accessories. On the other hand, they have a reliable source of income from their sales of fixtures which has an EBIT margin of 10% as well as the group's motorhome and vehicle segment is expected to maintain an EBIT margin of ~7% between 2019-2023.

➤ **New tax system introduced to Swedish market.** KABE's primary market, Sweden, is prone to reduced motorhome sales as a result of the 'bonus-malus' tax system that penalizes heavy and high-emission vehicles for 3 years after its registration.

➤ **Other risks,** The primary concern is that it has been difficult for KABE group to penetrate the European market. Their competitors have comparatively higher production. Furthermore, the local players have greater brand recognition and market share acting as an entry barrier. This is considered a critical risk since it makes KABE further dependent on Norway and Sweden as driving markets. Furthermore, Kabe Group imports a large number of their vehicles. (imported vehicles stand for approx 40% of total revenue) opening up for currency exposure.

➤ **Potential upside of 7.2% based on a DCF analysis.** Forecasting a future revenue CAGR of ~6% and stable EBITDA margin at ~8% give us an implied share-value of 159 SEK based on a base case.

KABE GROUP (KABEB)

Current Price (SEK)	153
52 v Low/High	135 / 188
Market Cap (MSEK)	1377
Net Debt (MSEK)	35
Enterprise Value (MSEK)	168
Sector	Rare goods and services
Exchange	Mid Cap
Next Report	2019-05-14

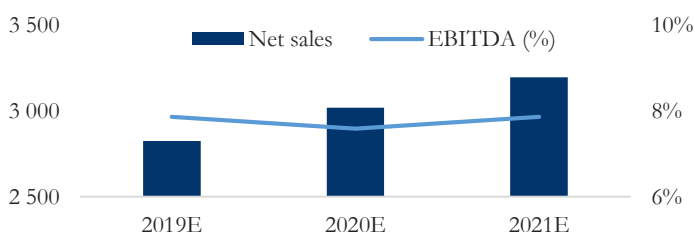
1 Year Chart



MSEK	2019E	2020E	2021E
Sales	2825	3019	3196
Growth (%)	4	7	6
Gross Marg (%)	15	15	15
EBITDA	222	229	251
EBITDA Marg (%)	8	8	8
Earnings	162	175	189
Earnings Marg (%)	6	6	6
EV/S	0.4	0.4	0.4
EV/EBITDA	4.6	4.6	4.7
P/E	6.4	6.2	6.5
ND/EBITDA	2.2	2.0	1.7
Equity Ratio (%)	62	62	62

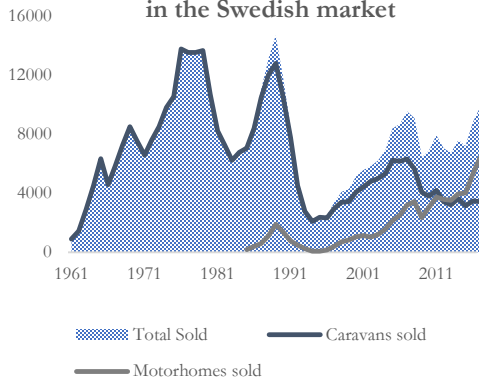
Ownership

Maud Blomqvist	47 %
Anita Svensson	14 %
Nordea Fonder	5 %
Alf Ekström	4 %

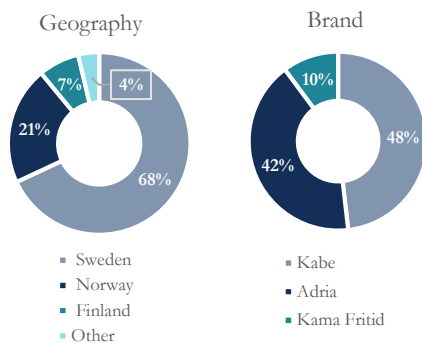


INVESTMENT THESIS

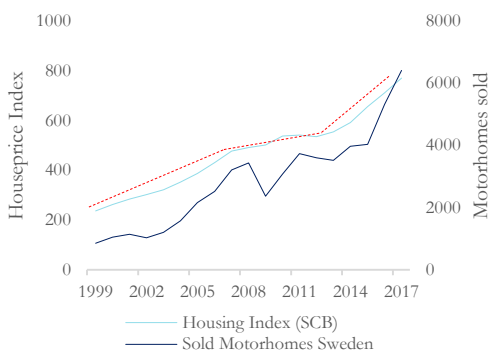
Sold Caravans and Motorhomes in the Swedish market



Revenue 2017



Houseprice Index vs Motorhomes sold in Sweden



Brand perception in the Nordics



There is an underlying growth in the camping market that boost both vehicle and accessories sales. 2019 is looking to become the best camping season to date in KABE's key markets, Norway & Sweden, with pre-bookings up by 35% compared to last year, and a future growth rate projected at 4-5% YoY. The increased comfort of modern motorhomes and caravans together with the good weather the last couple of years has translated into the higher camping trend – with 70% of all nights spent in caravans, and 11% in motorhomes. KABE is well positioned to capitalize on this trend from both their segments. KAMA Fritid has been growing with a CAGR of ~7% for the past years, slightly higher than the camping market as a whole and is expected to continue doing so. KABE group's growth is to partially independent on the number of vehicle sales as the need for accessories such as sunroofs and windows mainly follow the vehicle-age and the time spent camping. Furthermore, recent investments in a new production facility have doubled KABE capacity for motorhomes – however, they are still dependent on a Slovenian manufacturer for their ADRIA branded vehicles which they import. It is essential to realize that KABE's caravan sales have primarily been driven by a consolidation of the declining caravan-market, through which they have taken market share. While growth in their motorhome sales is due to the overall market growth.

Persistent low interest-rate and the stable housing market in conjunction with short term FX effects set to assist sales further. KABE's sales, especially the more expensive motorhomes, are arguably volatile in regards to the interest-rate and strength of the housing market. The majority of customers, 80%, are villa owners who pawn their real-estate to co-finance their caravan or motorhome purchase. Historically we can for instance look at 2012/2013 when sales rose in correlation with a lowered interest rate, and a high paced rise of the housing market. KABE's brands are on different sides of the spectra, with Kabe viewed as a premium and high-quality Nordic brand and Adria & Sun Living as cheaper 'first vehicle' brands. While both brands are driven by the macroeconomic situation, the former is more vantage due to the heavier price tag. Furthermore, due to the low valued SEK & NOK international tourism is deterred in favor of domestic travel. KABE will benefit from this together with climate-anxiety, which is becoming increasingly prevalent in the Nordics, discouraging – albeit to a limited degree - flying as a mean to travel. Although the FX effect is partially put off as Adria vehicles are imported.

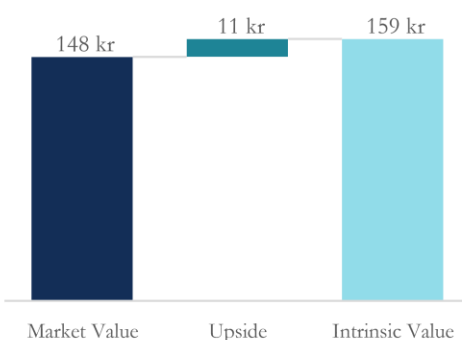
New 'bonus-malus' tax system will affect motorhome sales in Sweden. In 2018 a new tax system penalizing vehicles with high emissions was introduced in Sweden. The new system made the yearly emission-based tax, on vehicles such as motor homes, increase by more than 400 percent in some cases, for three years after their registration. This means that KABE's motorhomes – ranging in price from ~ 0.6 MSEK to 2.0 MSEK – on average will cost more than 20 TSEK in tax per year. This is expected to result in a diminishing growth rate for motorhome sales. Beyond impacting sales, it is also likely to translate into a greater development in the second-hand and rental market for motorhomes. Furthermore, it is expected to render a short term reseller inventory pile-up, as they are purchased and registered to avoid the new tax, negatively impacting 2019E sales.

Limited hope on the export-side for KABE group – Sweden & Norway will continue as key markets. It has been difficult for KABE group to penetrate the much larger European market, primarily Germany and UK. Their competitors – predominantly local players such as Hymer and Knaus - have a comparatively higher production-scalability as vehicles sold there are suited for southern weather and do not require isolation matching Nordic cold. Furthermore, the local players have higher brand recognition and market share acting as an entry barrier. This is considered a critical risk since it makes KABE further dependent on Norway and Sweden as driving markets, markets that already have a high ratio of camping vehicles per capita (only second to Finland) and hence in the risk of saturation. However, KABE has recently initiated a partnership with a UK player, aiming to facilitate its production.

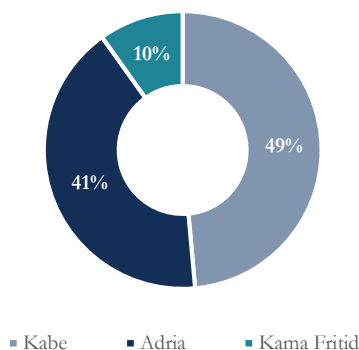
Weighted Average Cost of Capital

Risk-free Rate (%)	2.9
Market risk premium (%)	6.4
Size Premium (%)	1.2
Beta	1.3
WACC (%)	12.4

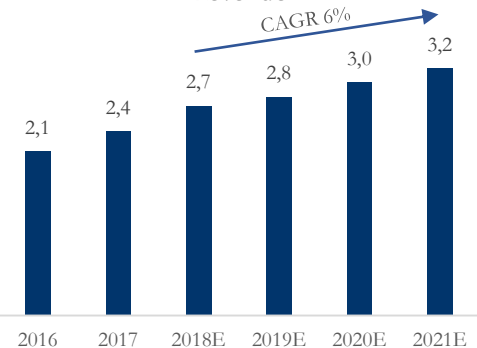
Market Value vs Intrinsic Value



Revenue per brand 2019E



Revenue



A fundamental valuation approach has been employed using a DCF to derive an equity value for KABE Group. The valuation is based on a Discounted Cash Flow (DCF) model. WACC is calculated to 12.4% based on a debt to equity ratio of 99.8%. Cost of debt after tax has been estimated to 0.8%. Cost of equity has been calculated to 12.4% - in accordance to PWC's 2018 study on risk premiums, a market risk premium of 6.4%, size risk premium of 1.2% and the risk-free rate of 2.9% has been used. A beta value of 1.29 has been considered, and the terminal growth rate has been assumed to be 2%.¹

Newly introduced 'bonus-malus' tax will affect motorhome sales in Sweden – KABE's primary revenue source. The past five years KABE Group has grown with a CAGR of 20% organically. In the base case, this number is estimated to be 6% between the periods 2019 and 2023. KABE is expected to suffer from dampened motorhome sales in Sweden, their key market, as a result of the 'bonus-malus' tax system penalizing vehicles with high emissions. The 2019E Kabe Husvagnar and Adria sales in Sweden are estimated to increase by a mere 3% compared to the past couple of years with YoY growth averaging above 15%. This decrease in sales growth is temporarily facilitated by the big reseller inventory resulting from the high number of sales before the ratification of the 'bonus-malus' tax system. 2020-2023E we estimate the Swedish motorhome and caravan sales growth to bounce back marginally. Denmark and Finland, both previously large markets, have seen decreased sales for KABE the past decade and is projected to continue as there is an influx of foreign competitors entering these markets.

Accessories segment expected to grow at CAGR 10% until 2023E. Looking at KAMA Fritid, KABE's accessories segment, it is expected to continue to grow steadily 2019E-2023E in all markets at around 8-10% YoY, with the growth rate increasing 0.5% each year. The accessories sales have historically been highly independent on the number of sales and are currently bolstered by the strong camping interest in the Nordics. Kama is also expected to benefit from increased interest in second-hand vehicles as a result of the 'bonus-malus' tax system – the number of accessories purchased scale with factors such as the total number of vehicles in the market, age of vehicles and the number of days spent camping. In total, Group sales are expected to grow at CAGR 6% between years 2018-2023E.

No margin upturn projected. KABE's overall margins have scaled with the number of vehicle sales, and they are believed to continue to do so although not as much as previous years. EBITDA margins 2019E-2023E are estimated to 7.6% and are believed to increase slightly YoY. The margin expansion is primarily driven by Kama Fritid, which currently has an EBIT margin of ~10% and is projected to increase by 2.5% by 2023E. KABE Group's motorhome and vehicle segment are expected to maintain an EBIT margin of ~ 7% between 2019E-2023E. KABE recently moved to a new and more effective manufacturing facility which together with a reduced workforce could translate into improved margins. However, this is believed to be counter-weighted by a margin contraction as a result of a projected decrease in premium motorhomes sales, which have overall higher margins, due to the 'bonus-malus' tax system.

In total, above estimates and assumptions indicates on a DCF value per share of 159 SEK, corresponding to an upside of 7%. Although low CapEx, high working capital requirements in inventories and receivables yields a FCF margin of 4.6%. Their inventory and receivables have both increased as a % of sales by 5% – though this only short term due to bonus-malus pile-up.

KABE is valued² slightly lower than global peers. However, this is following lower margins overall. KABE is trading at an EV/EBIT of 6, compared to a peer-average of 10. Looking at peers such as Trigano and Dometic which have grown in range with KABE, we see that their margins overall are slightly higher. As mentioned above, this is primarily due to the more scalable market in, e.g. Southern Europe. Also important to note that KABE has limited organical long term growth prospects through international expansion.

1. Damodaran sector beta 2. Look in appendix III detailed graph



Nils-Erik Danielsson (22,264 shares)
Chairman

Danielsson (born 1944) is the former CEO of Ballingslöv International AB. Other significant board assignments include Chairman of Kabe AB and Götenehus Group AB, Vice Chairman of S-Invest Trading AB (Blomsterlandet) and Sydsvenska Industri- og Handelskamm Chamber. Danielsson has been on the board since 1998.

Alf Ekström (171,000 shares)
CEO

Ekström (born 1956) is the CEO of KABE AB. Ekström has been working with KABE since 1982.



Benny Holmgren (0 shares)
Member of the board

Holmgren (born 1961)
Other significant board assignments include being chairman for Flodin Holding AB, Winmed, Health AB and the director of Nivika Fastigheter AB. Holmgren has been on the board since 2010.



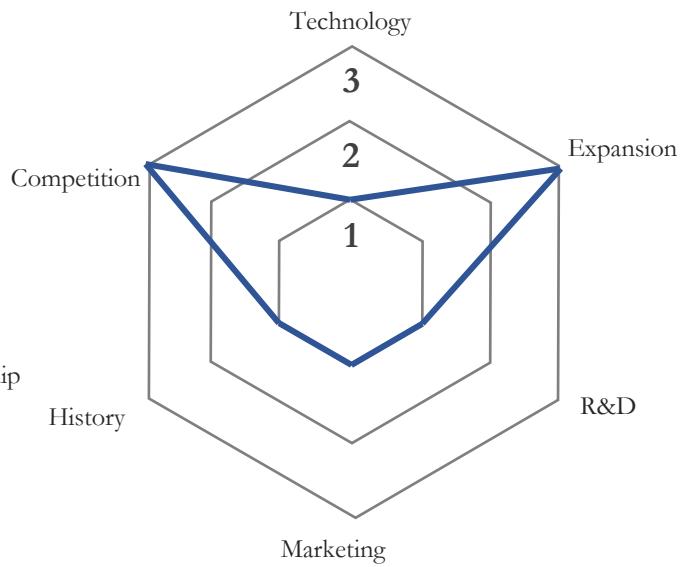
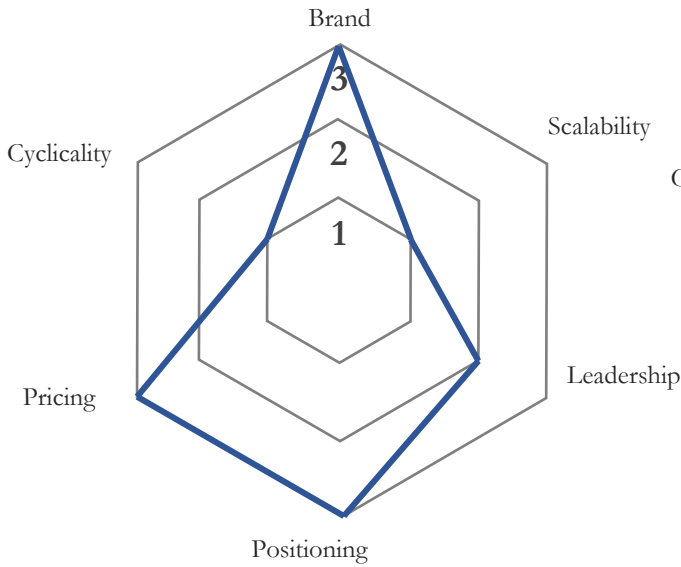
Maud Blomqvist (2,409,150 shares)
Member of the board

Blomqvist (born 1955) is the head of design for KABE group and has been on the board since 1998.



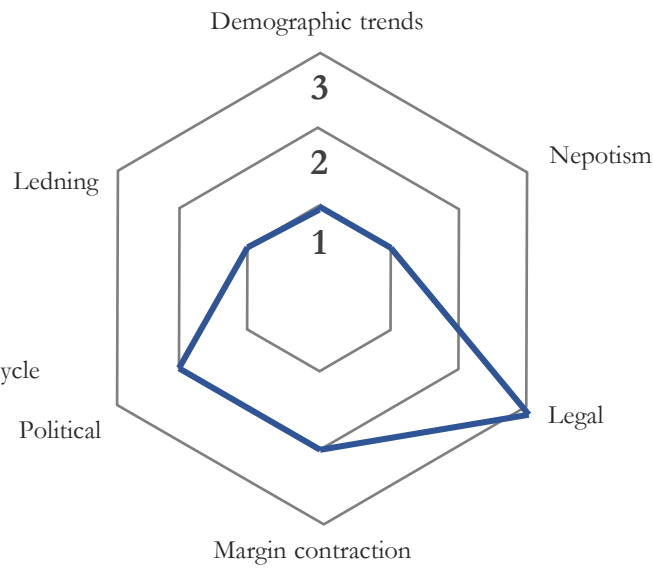
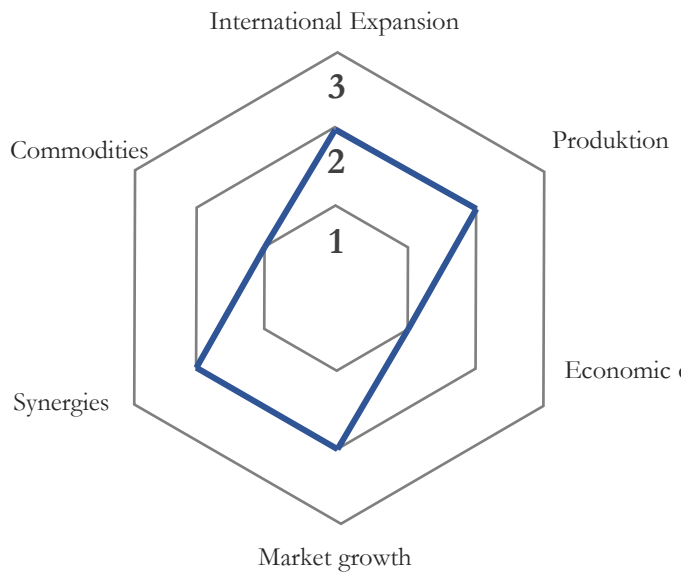
STRENGTHS

WEAKNESSES



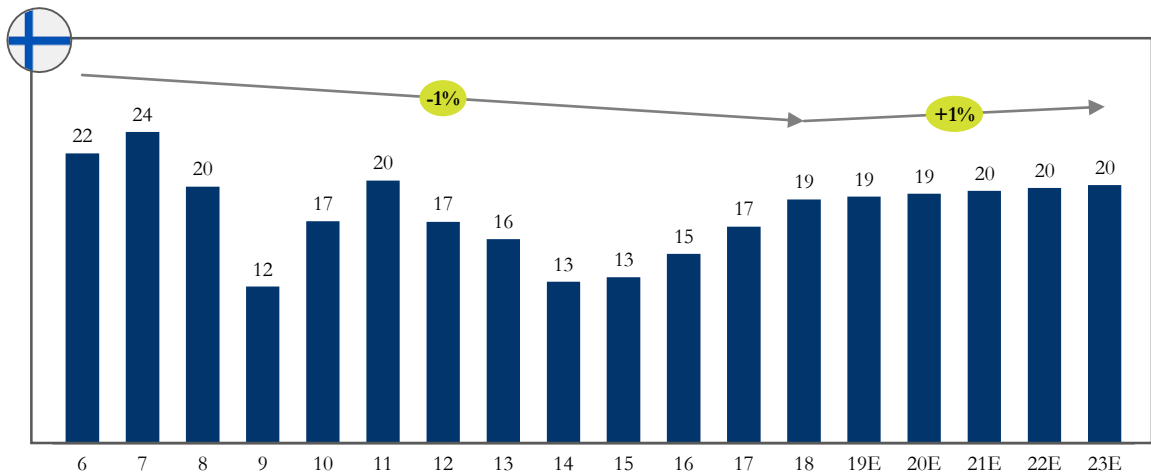
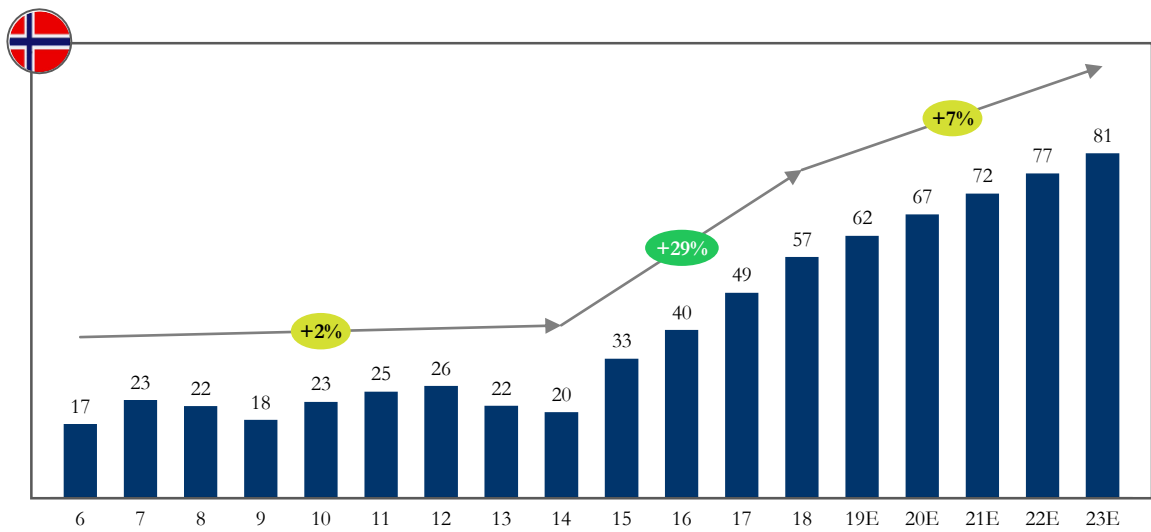
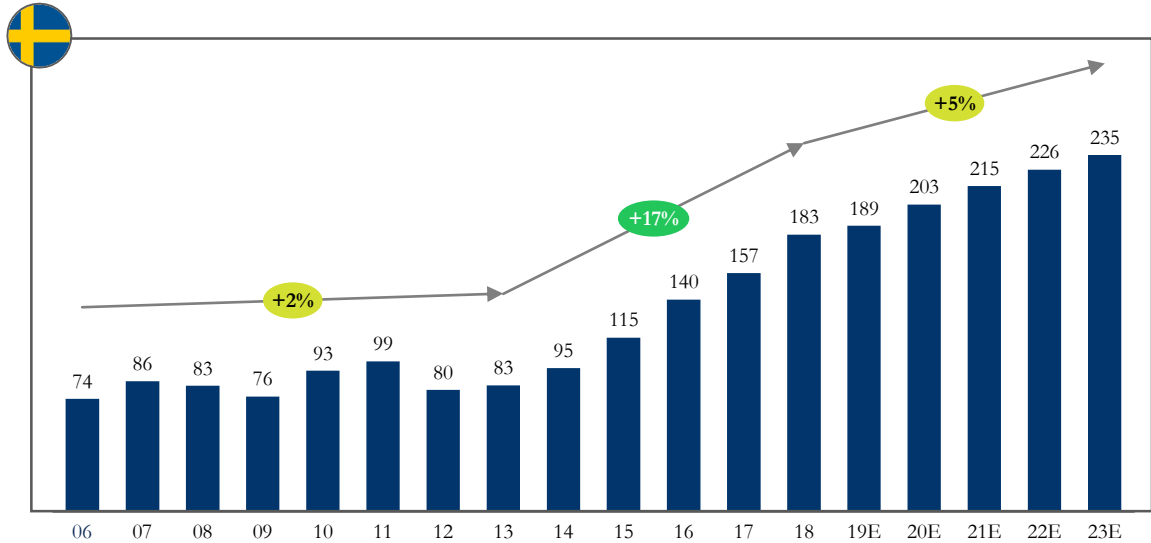
OPPORTUNITIES

THREATS

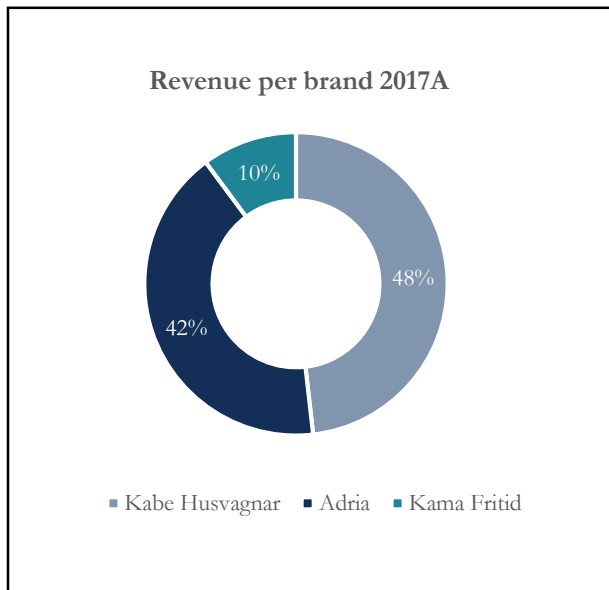
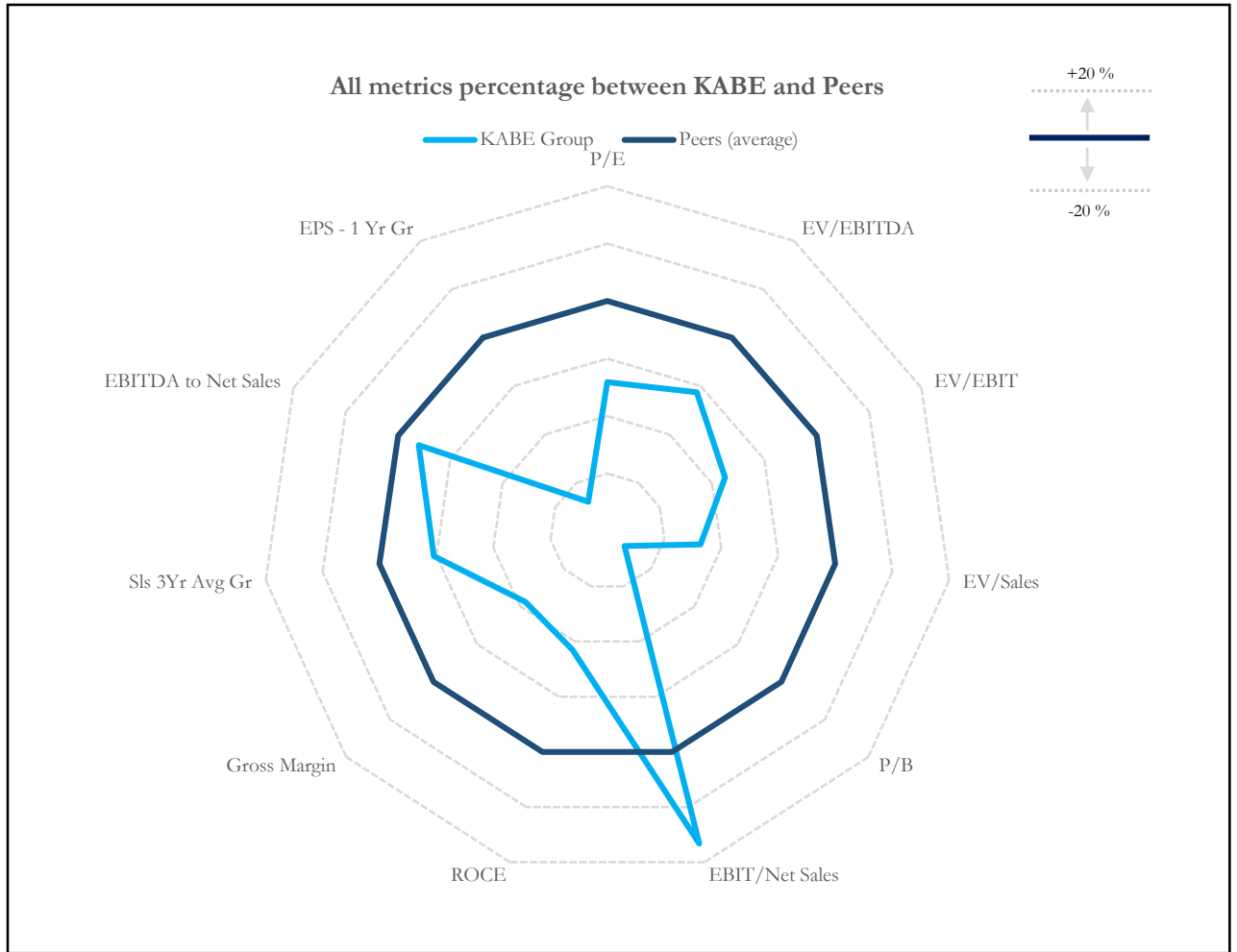


KABE Group revenue in key markets

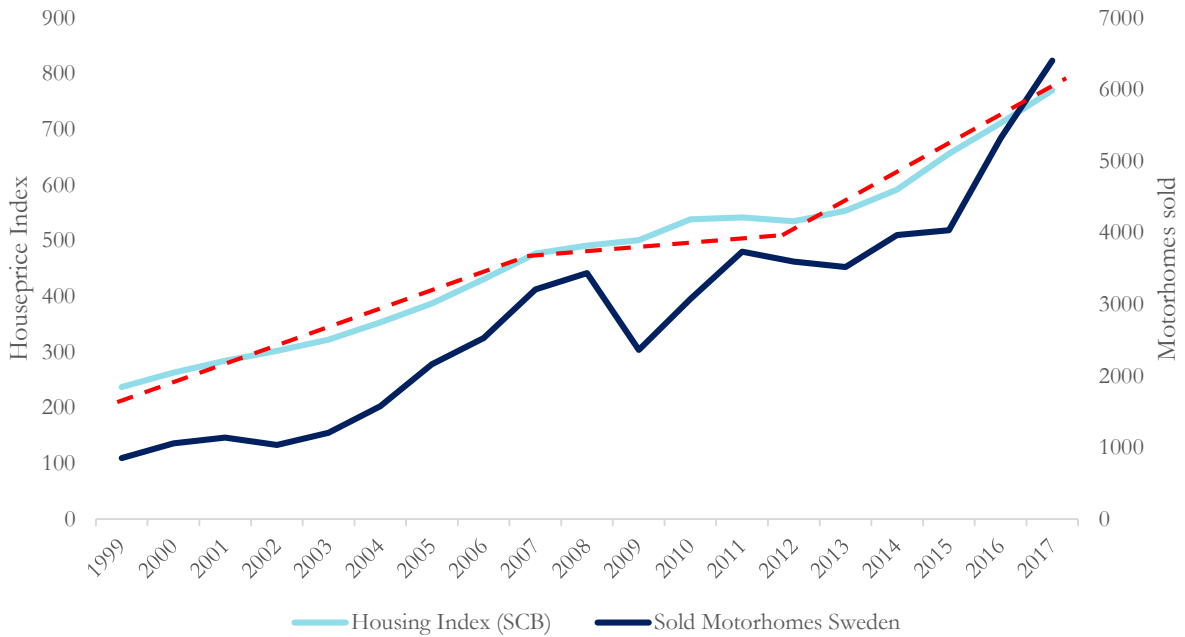
CAGR



APPENDIX (II/VI)



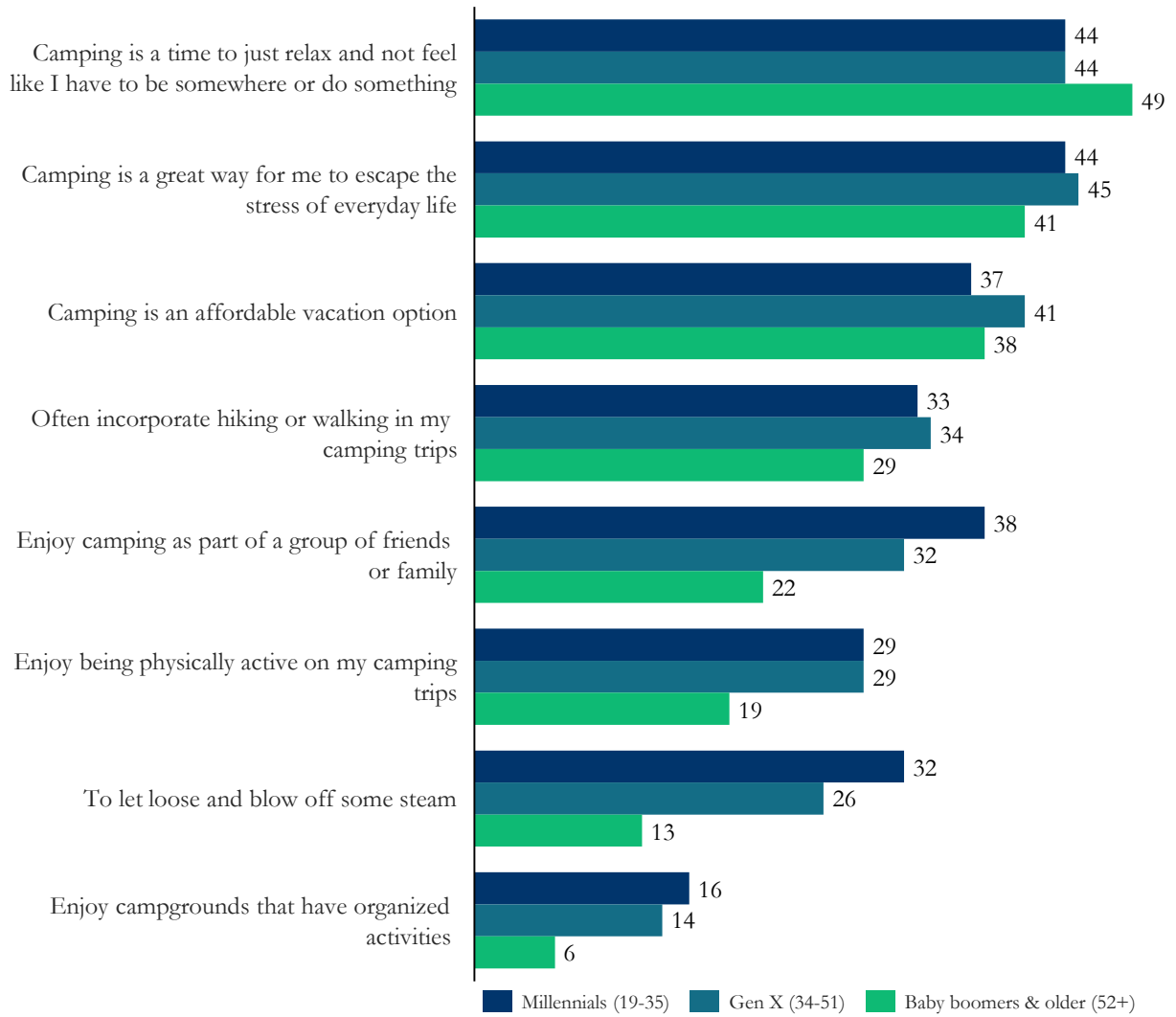
Houseprice Index vs Motorhomes sold in Sweden



Interest-rate (SCB) vs Motorhomes sold in Sweden



Leading reasons for camping 2015 by generation (% of people who agree)



Ratios overview – KABE vs Peers

Peers	P/E	EV/EBITDA	EV/Sales	P/B	EV/EBIT	ROCE	Gross Margin	Sales 3y growth	EBIT/Net sales	EBITDA/Net sales	EPS
KABE	9	6	0	1	6	16	14	18	5	6	18
Average Peers	11	7	1	5	10	25	24	22	4	7	32
Median Peers	12	7	1	2	10	21	22	19	6	9	25
Dometic	13	8	1	1	10	32	31	17	6	10	6
Trigano	7	9	1	2	11	N/A	N/A	29	N/A	N/A	99
LCI Ind.	13	7	1	3	10	N/A	19	21	6	9	51
Winnebago Ind.	9	8	1	2	9	43	15	30	7	8	30
Camping World Hd.	11	8	1	27	10	17	28	13	-4	-3	20
Beneteau	14	6	1	1	11	12	N/A	10	N/A	N/A	7
Johnson Outdoors	14	6	1	2	8	19	42	8	6	9	43
BRP Inc	15	7	1	N/A	10	38	22	11	8	12	16
THOR Ind.	10	6	0	2	7	23	11	29	0	2	51
Apollo Tourism	9	7	1	1	11	14	N/A	50	N/A	N/A	1

APPENDIX (VI/VI)

Price Range Sweden (Retailer to Customer)

CARAVANS (TSEK)	Incl VAT (TSEK)	Excl VAT (TSEK)
Adria		
Low	170	128
Mid-range	335	251
Max	500	375
Kabe		
Low	350	263
Mid-range	585	439
Max	820	615
MOTORHOMES		
Adria		
Low	550	413
Mid-range	990	743
Max	1 430	1 073
Kabe		
Low	850	638
Mid-range	1 425	1 069
Max	2 000	1 500
Sun Living		
Low	550	413
Mid-range	650	488
Max	750	563

Ansvarsbegränsning

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