



# LINC

LUND UNIVERSITY FINANCE SOCIETY EST 1991

EQUITY RESEARCH REPORT

# SVEDBERGS AB (SVED)

”Depressed valuation and market outlook  
leaves Svedbergs undervalued”

# RATING

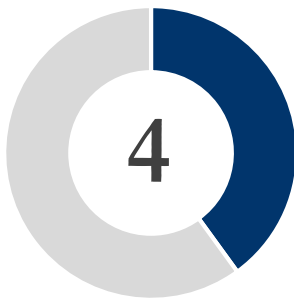
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## COMPANY DESCRIPTION

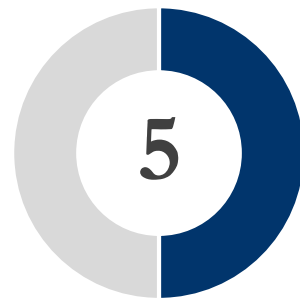
Svedbergs is a leading manufacturer of bathroom furniture and interiors in the Nordic region, with a product portfolio consisting of showers, bathtubs, mixers and other furniture. Svedbergs hold an approximate 9% market share of the total 7 BSEK Nordic market. Sales are derived through contracts with construction companies, which make up 42% of total revenue, while remaining 58% consist of consumer retail sales. 76% of Svedbergs' revenue is obtained from Sweden, with remaining 24% from Finland, Norway and Denmark. Svedbergs has strong brand name reflecting quality and tradition going back to 1962, still with 75% of their production in Sweden. The company consists of two brands, Svedbergs and newly acquired Macro Design, the latter offering slightly more premium products.

### VALUE DRIVERS



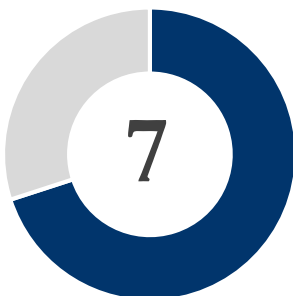
Svedbergs has a strong brand name and a sizeable market share in the fragmented Nordic market. Sales in Sweden are expected to slow down as the market is estimated to decrease by 8% 2018-2021. However, sales in Finland are expected to grow at 10% CAGR 2019-2021, due to growth in Finnish construction.

### FINANCIAL HISTORY



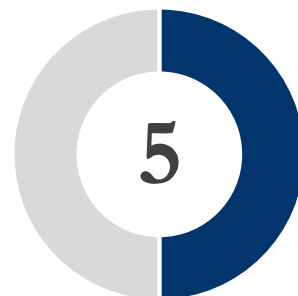
Svedbergs has until recently been a family owned company with a proven track record of solid growth and financial history. Average FCF-margins of 5.7% 2009-2018 and an average dividend yield of 6.2% in the same period.

### MANAGEMENT



Svedbergs has a strong management group with years of solid experience within similar sectors. Svedbergs recently appointed a new CEO, Per Arne Andersson, who has 21 years of relevant experience from furniture group Kinnarps AB.

### RISK PROFILE



Svedbergs' revenue is largely driven by economic cycles and the housing market. Further risks concern currency fluctuations, most importantly regarding imports of raw materials.

# CASE SUMMARY



Svedbergs is estimated to have a 9% market share in the 7 BSEK Nordic market. As macro factors in Sweden trend against Svedberg, growth in the bathroom furniture market is expected to be limited. However, sales are estimated to grow for Svedbergs as a shift towards international expansion and consumer retail sales hope to contribute to sales. Revenue is expected to grow at a CAGR of 0.5% until 2021. EBIT-margins are expected to average 11% 2019-2021, up from 9% in 2018.

- **Complete package solutions give Svedbergs a competitive advantage.** Svedbergs' package solution covering the complete bathroom, as well as a diverse product portfolio, contribute to a competitive advantage. Through the Macro design acquisition the product portfolio consists of both medium- and premium priced products contributing to a wider assortment. Longstanding presence on the Swedish market further increases competitiveness.
- **Downtrend in Swedish construction and retail sales.** The Nordic market for bathroom interiors is forecasted to slow down, construction taking the heaviest toll of a -21% decrease and consumer retail sales decreasing -5% 2018-2021. An in total decreasing sales for Svedbergs in 2020 by -5.2%. Increased retail and online focus could, however, suppress the impact and leave sales in Sweden with a -5% decrease 2018-2021.
- **Weak SEK affecting margins.** A depressed SEK in relation to USD and EUR have affected margins and import costs are at a decade high, COGS have risen by 6% 2014-2018 to 58% of sales. However, a 4% price raise increase margins for 2019 with 4%.
- **Strong growth in Finland.** The Finnish market is expected to continue growing at 10% CAGR 2018-2021 due to expected increase in renovations. Combined with strong focus on the Finnish market as well as previous stable growth of 14% CAGR 2015-2018, a further upside is estimated.
- **Target P/E-ratio of 14x for 2012E indicates potential upside.** Positive outlook for 2023-2024 and slightly increasing margins for 2019-2021 expect P/E-ratio for 2021 to improve to 14x in base case. Peer valuation indicates a target share price of 31.5 SEK. In a base case scenario Svedbergs is expected to grow at 0.5% CAGR and EBIT-margins are expected to hover around 10% for 2019-2021, despite expectations for the market to decline due to a -14% decrease in construction sales.

## SVEDBERGS (SVEDB)

Current Price (SEK)	24.1
52 v Low/High	19.9/37.0
Market Cap (MSEK)	511
Net Debt (MSEK)	195
EV (MSEK)	706
Sector	Construction & Materials
Exchange	OMXS Small Cap
Next Report	2019-04-25

### 1 Year Chart

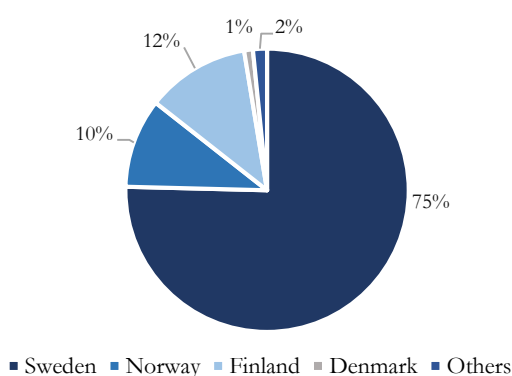


MSEK	2018A	2019E	2020E	2021E
Sales	622	658	623	631
Growth (%)	-2.7	5.7	-5.2	1.1
Gross Marg (%)	41.7	43.2	43.2	43.2
EBITDA	75.7	101	84.8	88.1
EBITDA Marg (%)	12.2	15.4	13.6	13.9
Earnings	40.7	60.2	46.2	47.4
Earnings Marg (%)	6.5	9.2	7.4	7.5
EV/EBITDA	9.3	6.7	8.1	7.7
P/E	12.5	12.5	13	14

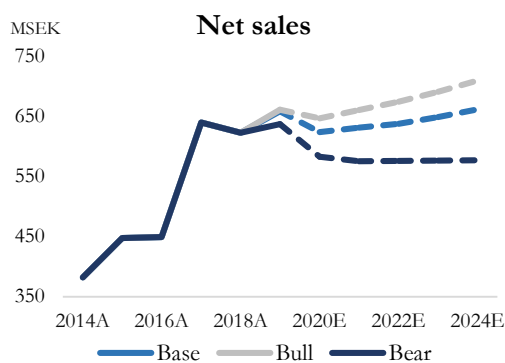
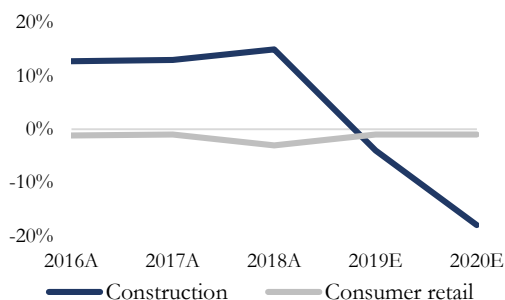
### Ownership

Stena Adactum AB	25.9%
IF Skadeförsäkring AB	11.5%
Placeringsfond Småbolagsfond Norden	11.3%
Ernstström Finans AB	7.2%

Sales by country



Swedish market growth per segment



Net sales (MSEK)	2019E	2020E	2021E
Base	657.7	623.4	630.5
Bull	660.2	646.1	660.0
Bear	636.6	582.4	575.1
Growth, Base	5.7%	-5.2%	1.1%
Growth, Bull	6.2%	-2.2%	2.2%
Growth, Bear	2.3%	-8.5%	-1.3%

Svedbergs aims to acquire market shares abroad and expand in the consumer sales segment. A theme presented by Svedbergs' management is to gain greater market shares abroad in the Nordic region and grow the consumer sales as the construction segment is on a downward trend. Currently 42% of Svedbergs' revenue is derived from construction projects, while remaining 58% comes from private consumer sales through retailers which consist mainly of building suppliers and hardware stores. Strong balance sheet with equity ratio of 32% and average FCF-margins of 5.7% 2009-2018, show a stable company able to pay dividends in economic downturns and remain a leading player in the Nordic market.

Market prognosis suggests structural market downtrend within construction, expecting a -21% decrease 2018-2020. Svedbergs' sales based on the market prognosis are within construction expected to decrease -14% 2018-2020<sup>1</sup>. As growth regarding new construction projects 2019 are expected to remain stable, a two year shift would indicate that total revenues from bathroom interior sales for 2021E will be unchanged. The same method estimates sales within the segment to decrease -12% 2018-2021. The expected changes in the market constitute a risk factor for Svedbergs, as 42% of their revenue stem from construction projects. With a long-term perspective, considering the years 2022-2024, construction projects are expected to recover and turn positive during 2023-2024, hopefully contributing to increased sales for Svedbergs in this particular segment.

Retail sales overall in the Swedish market are expected to decrease -5% 2018-2021. The retail market is highly driven by the tax deductible ROT, which is not planned to change in the near future. However, Prognoscentret's market analysis estimates bathroom interior sales in the retail segment to decrease by a total of -5% 2018-2021. An indicative factor when estimating sales in the retail segment is changes in the housing market, as bathroom refurbishments often occur in connection to selling. Housing prices are expected to stay unchanged for the coming years<sup>2</sup>, therefore not affecting sales. Following reasons motivate Svedbergs' resistance to decrease at the same speed as the market. Estimates from the Swedish financial department shows a 2.6% growth 2018-2021 in disposable income, which will potentially have a positive impact on sales in the household segment. Sales in retail are shifting to online. New management are increasing their focus on the online sales channel and on end consumer-marketing. New recruitments in said area plan to aid execution of these goals. As online sales are still expected to go through retailers margins will not be affected.

Complete package solutions give Svedbergs a competitive advantage. Svedbergs, as opposed to many of its competitors, offers interior for a complete bathroom and has through their acquisition of more premium brand Macro Design further widened their product portfolio, while Svedbergs is considered a more medium priced brand, leaning toward more premium when compared to alternatives offered at building suppliers. The complete package solution creates an advantage against competitor as this simplifies the buying process.

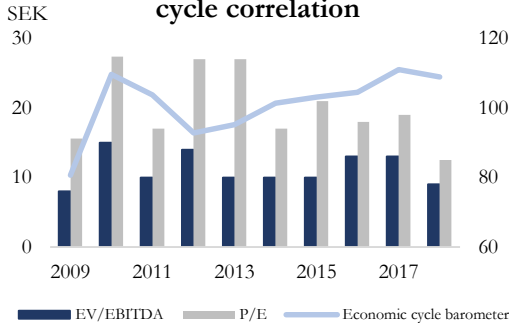
Continued growth expected in Finland. Market prognosis estimates construction in Finland until 2020 to be unchanged while renovations of residential buildings are expected to increase 4.5% until 2020. Svedbergs has communicated a continued focus on expanding in Finland, to increase sales growth which in 2015-2018 grew 14.3% CAGR.

Depressed gross-margins in short-term due to a weakening SEK. A weak SEK in relation to the USD and EUR has affected margins as COGS in relation to sales have risen by 6% 2014-2018. With the SEK nearing a decade low, COGS are expected to remain at current level in base case scenario, with little to no downside in a bear case scenario. Looking forward, gross-margins are expected to increase as Svedbergs communicate a 4% raise in prices for 2019, hoping to give corresponding year a boost in growth. Furthermore, costs have not been estimated to change in relation to sales, except for slightly increased sales costs, mostly driven by further recruiting, which has been confirmed by the company. Leaving EBIT-margins on an average of 10.6% per year during 2019E-2021E, up from 9.3% in 2018.

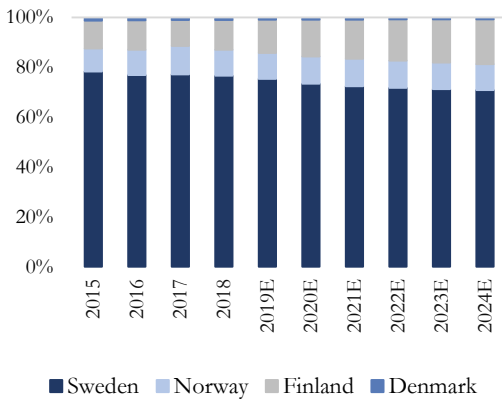
<sup>1</sup> Prognoscentret, <sup>2</sup> Nordea

# VALUATION

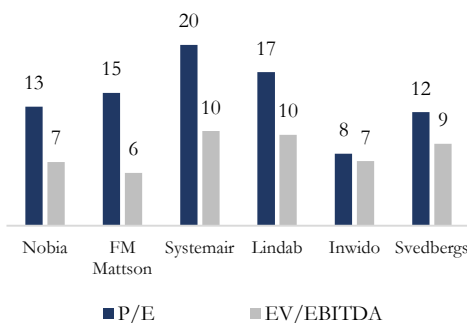
## Svedbergs valuation & economic cycle correlation



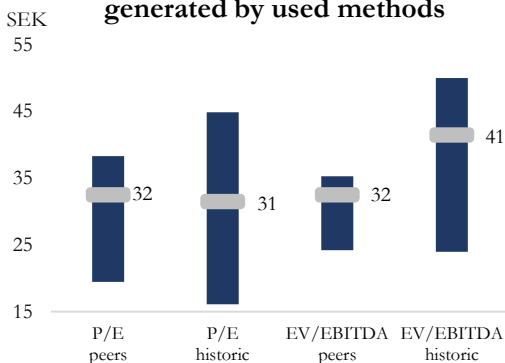
## Sales per country as % of total revenue



## Peer P/E & EV/EBITDA



## Base, bull & bear share prices generated by used methods



Most competitors to Svedbergs within bathroom interiors are private companies. A peer valuation has therefore been conducted using companies driven by similar value drivers, also connected to the housing market, with FM Mattson being the prominent competitor, producing bathroom and kitchen faucets. The conducted peer valuation is based on P/E and EV/EBITDA multiples. A target P/E and EV/EBITDA multiple has been estimated with regard to historic averages and Svedbergs' market outlook.

**Historic multiples show signs of a depressed valuation.** Svedbergs' P/E-ratio has the last decade held an average of 21x and an historic EV/EBITDA multiple of 11x. Svedbergs being a cyclical company, high multiples have been motivated at times. However, a downturn in new construction, stagnant housing prices and a negative market growth depresses today's multiples leaving P/E-ratio at 12x and EV/EBITDA at 9x.

**Peer valuation in base case estimates for 2021 indicate a 9.3% annual upside with target P/E-ratio of 14x.** In a base case, Svedbergs' sales are expected to grow 0.5% CAGR 2018-2021. EBIT-margins are expected to average 10%, with a spike in 2019 due to a 4% price raise. P/E-ratio of 14x has been motivated by the following reasons: With 42% of sales derived from construction projects through flexible agreements with real estate developers, signs of a decrease in newly started construction will affect sales negatively. A -16% decrease in new construction 2018 will affect sales 1.5-2 years later, decreasing estimated growth by -5.2% in 2020. Housing prices are also expected to remain stable. The 14x P/E-ratio exceeds current ratio as market outlook for 2022-2024 is expected to improve. Overall the bathroom furniture market growth, given changes in both segments, is expected to drop -8% 2018-2021. A 9.6% CAGR growth in Finland as well as price increase compensate for decrease in the Swedish market. Valuation based on historic and peer P/E ratios as well as factors mentioned above, indicates a base case target price of 31.5 SEK for 2021, a 9.3% annual upside.

**Peer valuation based on bull case estimates for 2021 indicates a 23% annual upside with target P/E-ratio of 17x.** Svedbergs is in a bull case scenario expected to further deliver on their promise of geographical expansion and shift of focus onto the consumer sales segment. Net sales growing at 2.7% CAGR from 2019-2021 and a -4.7% decrease in COGS due to a stronger SEK account for the basis of the valuation. Valuation based on historic and peer P/E ratios gives a bull case target price of 44.9 SEK. While market outlook still seems bleak a bull case scenario would suggest an even weaker correlation to the general market growth. Giving Svedbergs room to grow and expand further in the Nordic markets as well as in the consumer sales segment. A raise in newly started construction and housing prices would also prove to be positive for Svedbergs. In a bull case scenario, at a P/E-ratio of 17x, a target price of 44.9 SEK for 2021 is estimated, a 23% annual upside from today's valuation.

**Peer valuation based on bear case estimates for 2021 indicate a -12.6% annual downside with target P/E-ratio of 12x.** In bear case scenario, Svedbergs is predicted to be heavily affected by the declining market growth. Through failed geographical expansion as well as a failed expansion into consumer sales segment. A weakened SEK would affect EBIT-margins further. P/E multiple of 12x, is motivated by negative market growth and unsuccessful execution of expansion plans. Valuation based on historic and peer P/E ratios indicates a bear case target price of SEK 16.1. A target P/E-ratio of 12x indicates a -12.6% annual downside until 2021 from current valuation of 24.1 SEK.

**Valuation based on historic as well as peer group ratios of EV/EBITDA multiple provide valuation surpassing P/E-ratio estimates.** EV/EBITDA estimates, in relation to peers and historic multiples, suggest a similar but more positive valuation than when considering P/E-ratios. Historic and peer average EV/EBITDA have been considered when determining target P/E-ratio. However, P/E-valuation has been the primary basis when estimating a target price, as this ratio has more closely followed the development in bathroom furniture market.



## **Anders Wassberg (50,000 Shares)**

Executive Chairman

Wassberg was elected executive chairman in 2016. He holds a MSc in engineering from Chalmers University of Technology. Today he is the CEO of Ballingslöv International. Wassberg has previous experience as the CEO for AB Gustaf Kährs and Beijer Byggmaterial AB.

## **Per Arne Andersson (0 Shares)**

Chief Executive Officer

Andersson was elected as the CEO for Svedbergs in February 2019, having experience as the CEO for metal powder producer Höganäs AB as well as for furniture group Kinnarps AB.



## **Kristina Laurelii (1,000 shares)**

Chief Financial Officer

Laurelii was elected CFO in 2018, with previous four years of experience as the CFO at Castellum, as well as five years at Litium Affärskommunikation.

## **Martin Svalstedt (50,000 shares)**

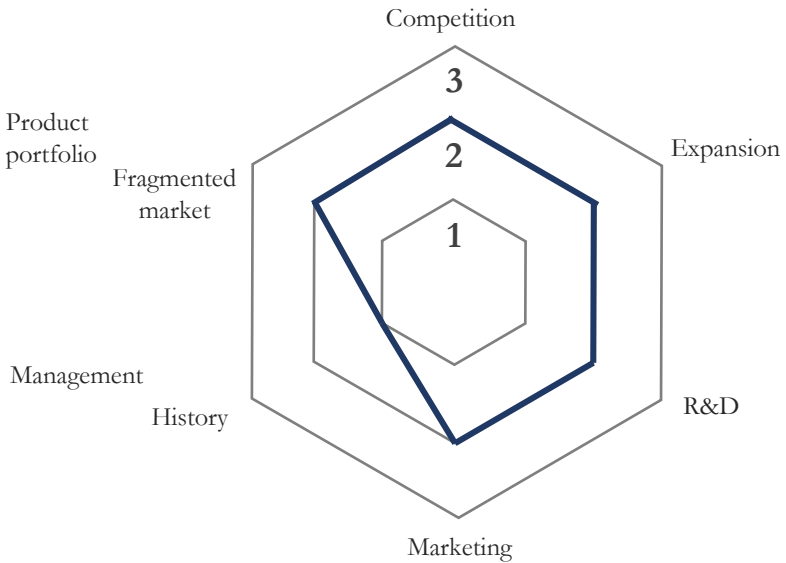
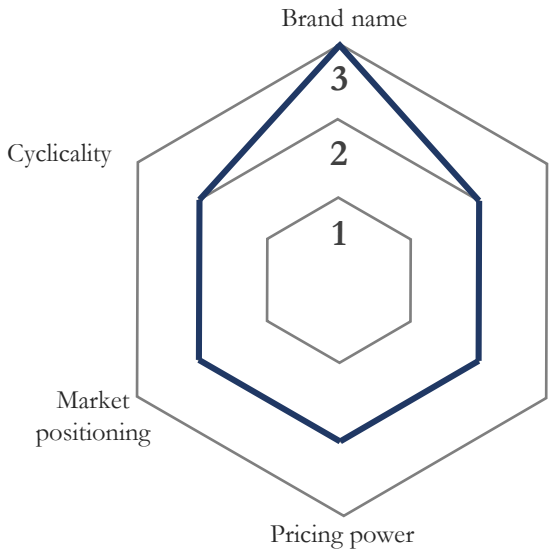
Boardmember

Today he is the CEO of Stena Adactum, majority shareholder in Svedbergs. He is currently chairman of kitchen and bathroom producer Ballingslöv. Svalstedt holds a BSc in Business and Economics from Karlstad University. Having previous experiences as executive chairman for Meda, Envac, Mediatec Group and Blomsterlandet. Anders also holds previous experience as the CEO in Capio, CFO in Stora Merchants and Controller in ABB.



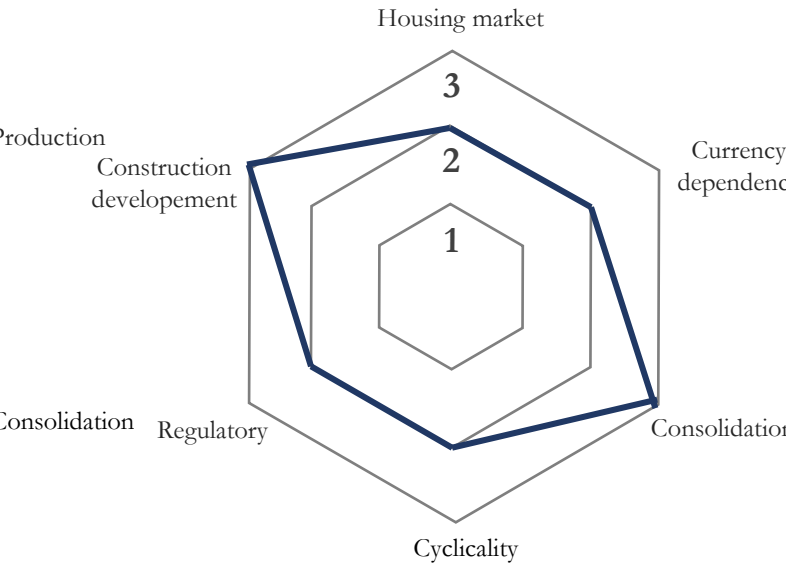
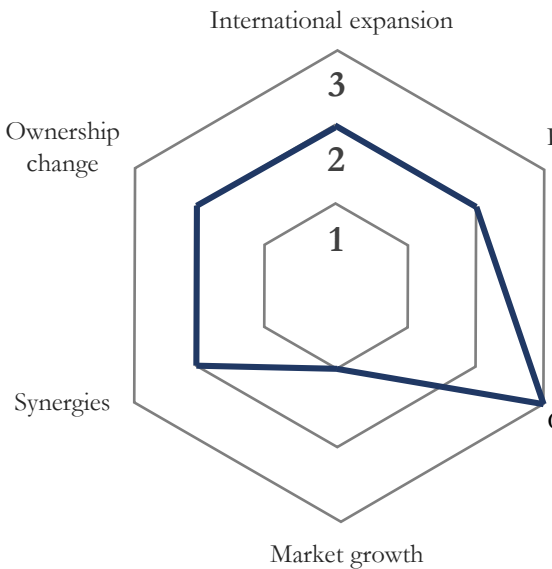
## STRENGTHS

## WEAKNESSES



## OPPORTUNITIES

## THREATS



# APPENDIX I



Income Statement (TSEK)	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E	2023E	2024E
<b>Net sales</b>	381 845	447 196	448 733	639 208	622 200	657660	623459	630566	637 349	648 025	660 883
<b>Growth (%)</b>	3,50%	17,11%	0,34%	3,86%	-2,66%	5,70%	-5,20%	1,14%	1,08%	1,68%	1,98%
<b>COGS</b>	-209 798	-249 246	-247 628	-372 763	-362 500	-373551	-354125	-358162	-362014	-368078	-375381
<b>Gross profit</b>	172 047	197 950	201 105	266 445	259 700	284109	269334	272405	275335	279947	285501
<b>Gross-margin (%)</b>	45,1%	44,3%	44,8%	41,7%	41,7%	43,2%	43,2%	43,2%	43,2%	43,2%	43,2%
<b>Sales costs</b>	-100 831	-114 300	-116 360	-156 247	-155 400	-162508	-166718	-168337	-172836	-176217	-179763
<b>R&amp;D</b>	-6 675	-8 637	-9 423	-10 297	-11 100	-10523	-10599	-10720	-10835	-11016	-11235
<b>Administration</b>	-18 450	-17 935	-18 767	-33 389	-36 500	-31568	-29926	-30267	-30593	-31105	-31722
<b>Operational income</b>	5 258	4 656	8 978	7 924	7 400	7234	7482	6936	7011	7128	7270
<b>Operational costs</b>	-6 675	-17 705	-8 175	-11 458	-6 000	-7892	-8728	-7567	-7648	-7776	-7931
<b>EBIT</b>	44 674	44 029	57 358	62 978	58 100	78 853	60 844	62 450	60 433	60 961	62 120
<b>EBIT margin (%)</b>	11,7%	9,8%	12,8%	9,9%	9,3%	12,0%	9,8%	9,9%	9,5%	9,4%	9,4%
<b>Other operational income</b>	85	165	128	2 447	2 447	1136	1077	1089	1101	1120	1142
<b>Other operational costs</b>	-426	-672	-537	-5 507	-5 507	-3288	-3117	-3153	-3187	-3240	-3304
<b>Net income before taxes</b>	44 333	43 522	56 949	59 918	55 040	76 701	58 804	60 387	58 348	58 840	59 958
<b>Tax on net income</b>	-10 506	-9 744	-12 712	-13 420	-13 420	-16414	-12584	-12923	-12486	-12592	-12831
<b>Net income</b>	33 827	33 778	44 237	46 498	41 620	60 287	46 220	47 464	45 861	46 248	47 127
<b>Profit-margin (%)</b>	8,9%	7,6%	9,9%	7,3%	6,7%	9,2%	7,4%	7,5%	7,2%	7,1%	7,1%



## Ansvarsbegränsning

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## Övrigt

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Analysen avses inte att uppdateras.

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