

Waystream Holding AB (WAYS)

Sweden | Networking hardware | MCAP SEK 161.4mn

09 May 2021

Buy

Target price: SEK 26.4
 Current price: SEK 20.0
 Upside: 32.1%

Waystream has found its way

Waystream Holding AB (“Waystream”) is a Swedish company with products aimed towards companies building and maintaining fibre networks, especially city networks. In the second half of 2019, the Company updated its product portfolio with new switches and routers which have been well received on the market, and now Waystream looks to expand further in Europe. A good reputation, reliable products, and the fibre network expansion in Germany are estimated to lead to a revenue CAGR of 13.5% between 2020A and 2023E. Applying a target multiple of EV/EBIT 10.9x to the estimated EBIT of SEK 19.3mn in 2023E implies a target price of SEK 26.4 and a potential upside of 32.1%.

Key takeaways

- Reliable, easy-to-use and energy-efficient products:** Waystream’s products are reliable and durable, enabling clients to position the switches in cities and harsher environments. The switches are easy to maintain and energy-efficient, which lowers the costs for users. In a network with 10tn connected households, Waystream’s SFP (Small Form-Factor Pluggable) saves around 61 MWh per year compared to standard SFP, equivalent to yearly savings of SEK 91.8tn. Furthermore, Waystream has developed a different product series to meet the characteristics of other markets. While the ASR8000-series is aimed towards the Nordic countries, the MS7000-series is designed for the German market. Recently, Waystream also added telemetry data collection to its access products, which enables users to gain better insight into their network performance.
- Well-positioned to capitalize on opportunities outside the Nordics:** The pandemic has highlighted the need for reliable and fast internet connections and accelerated the underlying market growth. The expansion of FTTH (fibre-to-the-home) in Germany is expected to increase the number of homes passed from 4.1mn to 34.0mn, implying a 730.0% growth between 2019 and 2026. Waystream is well positioned to capitalize on the expansion by adding two partners in Germany since 2018 and offering the MS7000 switch. Currently, the number of partners outside the Nordics represent 61.0% of all partners, a number that is estimated to increase to 67.0% in 2023E due to new expected partners in Germany.
- Valued at a 45.0% discount towards peers despite higher margins:** The Company is currently trading at an EV/EBIT multiple of 11.0x, which is 45.0% lower than the median of peers. On the other hand, Waystream’s EBIT margin is significantly higher than the median of peers. During 2020A the EBIT margin was 13.2% and is estimated to increase to 15.2% in 2023E due to the new product portfolio, placing Waystream second highest amongst peers. Applying the peer median EV/EBIT multiple of 10.9x to the estimated EBIT of SEK 19.3mn in 2023E implies a potential upside of 32.1%.

Analysts

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 Franz Bamberg Equity Analyst

Market Data, SEK

Exchange Nasdaq First North
 Shares (mn) 8.1
 MCAP (mn) 161.4
 EV (mn) 158.0

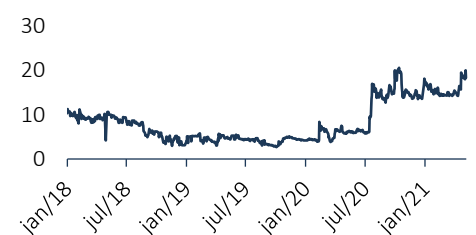
Metrics & Drivers	20A	21E	22E
EV/EBIT	13.9x	13.6x	11.0x
EV/S	1.8x	1.7x	1.5x
P/E	20.5x	16.1x	13.2x

Forecast, SEKmn	20A	21E	22E
Net revenue	86.4	94.7	107.3
Net rev. growth y/y	31.5%	9.7%	13.2%
Gross Profit	51.4	55.9	63.3
Gross Margin	59.5%	59.0%	59.0%
EBITDA	17.2	17.9	21.5
EBITDA Margin	19.9%	18.9%	20.0%
EBIT	11.4	11.6	14.4
EBIT Margin	13.2%	12.3%	13.4%

Major Shareholders

Robert Idegren Holding AB 17.4%
 Severin Invest AB 11.3%
 Nordnet Pensionsförsäkring AB 9.4%
 Total institutional 21.9%
 Total private 78.1%

Price Development, SEK



Investment thesis

Accelerated digitalization and demand due to Covid-19

Due to the pandemic, digitalization in large parts of the world has caught speed and Waystream enjoyed a 31.5% increase in net sales between 2019A and 2020A. However, this is not a one-time effect. The European Commission's vision is to turn Europe into a Gigabit Society by 2025, a society where homes, vehicles and devices are connected to high-speed internet with low latency. It is estimated that the number of FTTH homes passed in Europe will grow by a CAGR of 9.1% between 2019 and 2026.

Estimated 730.0% increase in homes passed by fibre in Germany between 2019-2026

In 2020A, the Nordics represented Waystream's primary market, accounting for 84.0% of revenue. This is expected to shift as broadband is becoming more attractive in other countries and market growth in the Nordics is low. The number of homes in Sweden passed by fibre is estimated to reach 5.0mn in 2026 compared to 4.2mn in 2019, corresponding to a CAGR of 2.6%. The expansion of FTTH in Germany is expected to be the key driver in Waystream's increasing revenue. The number of homes passed by fibre is expected to grow at a CAGR of 35.0% 2019-2026, and the Company is well-positioned to meet the demand. The presence in the country is high as 36.0% of all partners outside the Nordics are found in Germany. In 2020A, out of all presented orders from outside the Nordics, 50.0% were attributable to Germany. As Germany is a target market for Waystream, Germany will likely account for most revenue coming from outside the Nordics during 2021E-2023E.

Number of homes connected to fibre by Waystream's products expected to grow at a CAGR of 55.0%

It is estimated that Waystream's products were used to connect nearly 26.0tn homes to fibre outside the Nordics in 2020E. The number is estimated to reach 96.4tn in 2023E, implying a CAGR of 55.0%, and the high growth is attributable to multiple reasons. Waystream's MS7000 switch is designed for the German market, and with a higher port density and suitability for a wider temperature span, it meets essential requirements. Furthermore, the combination of a strengthened sales team, recently added partners, and new expected partners, product awareness and sales in Germany are expected to increase. Finally, Waystream recently added telemetry data collection to its products, enabling customers to get better insight into their networks performance and ability to deliver services. However, the potential growth is limited by the size of Waystream's niche customers, smaller city networks.

Limited partner and customer base is a risk

The products are sold through a partner network where the largest number of partners are found in the Nordics, with a steadily increasing number of partners in Germany. As a few customers represent a considerable share of revenue, there is a risk that losing a partner or customer will affect revenue harshly. For example, in spring 2021, Waystream received an order from Norway consisting of 300 switches, which is estimated to amount to an order value of SEK 10.0mn. To put this into perspective, net revenue in 2020A was SEK 86.4mn which entails an order of this size would equal 11.6% of total revenue in 2020A. It is estimated that this risk is reduced gradually through the expansion in Europe as the number of customers and partners increase.

Financial forecast breakdown

Expansion in Germany key driver in the estimated revenue CAGR of 13.5% 2020A-2023E

Revenue is expected to increase by a CAGR of 13.5% 2020A-2023E due to Waystream's expansion outside the Nordics. In the Nordics, sales are estimated to grow at a CAGR of 2.5% due to lower growth in a mature market. It is estimated that revenue outside the Nordics will increase significantly to SEK 51.4mn in 2023E compared to SEK 13.8mn in 2020A. This leads to total net revenue of SEK 126.3mn in 2023E compared to SEK 86.4mn in 2020A.

Maintaining the improved gross profit margin of 59.0% due to the updated product portfolio

Waystream's gross profit margin had increased from 53.9% in 2017A to 59.5% in 2020A. The improved gross profit margin is explained by the new ASR8000-series and MS7000-series, which started to sell during the second half of 2019. The products have been well received on both the Swedish and foreign markets, and as the product portfolio will not undergo major changes, the gross profit margin is expected to remain steady at 59.0% between 2021E and 2023E.

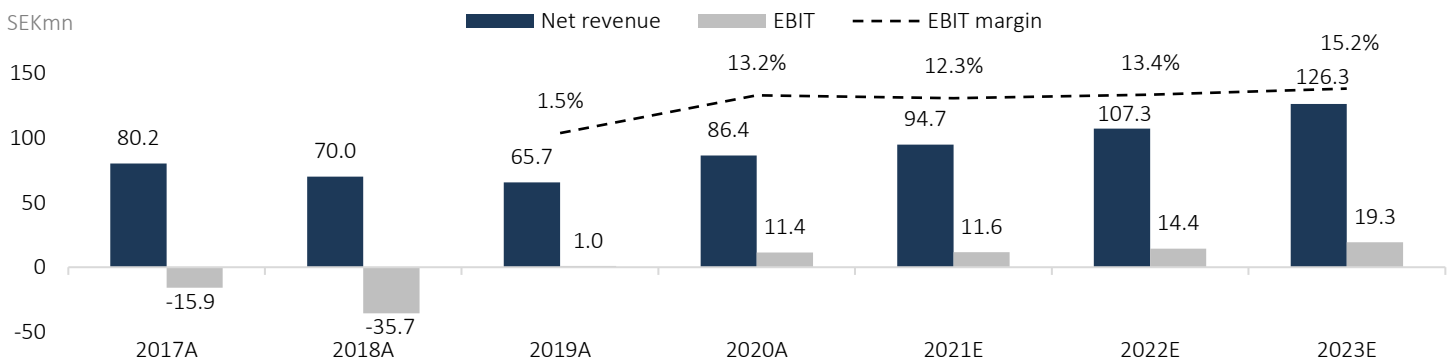
Expansion in Europe is estimated to drive OPEX to SEK 46.9mn in 2023E

Personnel costs have decreased significantly between 2015A and 2020A due to going from 27 to 15 employees. The significant decrease is explained by Waystream's efforts to become a leaner organization. In the coming years, this trend is expected to reverse as Waystream looks to intensify its sales activities in Germany while continuing to develop its products. The number of employees is estimated to grow at one additional employee per year, leading to 17 employees and estimated personnel costs of SEK 22.0mn in 2023E. Since the launch of the new product portfolio, on average, other external costs have amounted to 19.0% of net revenue. This number is expected to remain unchanged until 2023E resulting in other external expenses of SEK 24.0mn. Other operating expenses have not exceeded SEK 0.5mn since 2018A, but during the second part of 2020A the costs increased to SEK 0.2mn per quarter. It is estimated that other external costs continue to be SEK 0.2mn per quarter leading to SEK 0.9mn in 2023E. This results in total OPEX of SEK 46.9mn and an EBITDA margin of 21.9% in 2023E.

Stable D&A in the coming years

In 2019A and 2020A, D&A amounted to 6.5% and 6.7% of net revenue. In the next few years, it is expected that D&A will stabilize at 6.6% of net revenue. The Company has already taken the majority of the development costs related to the ASR8000- and MS7000-series. Therefore, depreciation and amortization are estimated to amount to SEK 8.3mn in 2023E, an EBIT of SEK 19.3mn and an EBIT margin of 15.2%.

Growth in net revenue combined with an improved EBIT margin expected to result in an EBIT of SEK 19.3mn in 2023E.



Source: Waystream Holding AB and Analyst Estimates

Valuation

A relative valuation method has been conducted to value the Company, using peers with similar products and clients or peers active within the same markets as Waystream.

Juniper, Hexatronic and Alcadon Group are all active within the network products segment

The median EV/EBIT LTM of Waystream's peers is 20.0x and is expected to be 10.9x in 2023E. Juniper sells switches, routers and provides network management software for larger companies and institutions. Hexatronic specializes in fibre communications, and their clients are based in the Nordics, Europe and the US and are mostly; product owners, networks, retailers and system integrators. Alcadon Group delivers products and services within data telecommunication such as cable systems, measuring instruments and ducts. Juniper is the peer with the most similarities to Waystream, Hexatronic's business is earlier in the investment cycle, and Alcadon Group is similar with regards to business model and size.

Peer table	Market Data (SEKm)		Financials			Valuation	
Company Name	Market Cap	EV	ROIC 20A	EBIT margin LTM	EBIT margin 23E	EV/EBIT LTM	EV/EBIT 2023E
Juniper	74 311	79 244	5.1%	9.9%	17.5%	20.0x	10.9x
Hexatronic	5 596	6 128	10.1%	8.5%	9.1%	34.6x	19.5x
Alcadon Group	690	855	9.0%	9.5%	10.6%	17.7x	9.8x
Average	26 866	28 742	8.1%	9.3%	12.4%	24.1x	13.4x
Median	5 596	6 128	9.0%	9.5%	10.6%	20.0x	10.9x
Waystream	161	158	23.3%	16.3%	15.2%	11.0x	8.2x

Source: Bloomberg and Analyst Estimates

Improved EBIT margin justifies a higher valuation

Waystream is trading at an EV/EBIT of 11.0x LTM, which is lower than the peer median of 20.0x. Because of solid performance since the new product launch in 2019, Waystream has received a higher valuation. The higher valuation is justified because of the improved EBIT margin, which is currently the highest among the peer group. Waystream's EBIT margin is estimated to be 15.2% in 2023E, while the peer median is expected to be 10.6% the same year.

Outstanding ROIC compared to peers

Waystream has shown a superior efficiency in their use of capital compared to peers. The Company showed a ROIC of 23.3% in 2020A, significantly higher than the median ROIC of 9.0% among peers.

EV/EBIT of 10.9x applied to 2023E estimated EBIT motivates a share price of SEK 26.4

The main drivers of a higher valuation for Waystream are the expansion to growing markets, stable margins higher than peers, and efficient use of capital that expressed in ROIC is the best among the chosen peer group. Even though Waystream has a superior ROIC and a top-level EBIT margin, the niche market poses some limitations for further expansion, and furthermore, established peers have already proven their business models with a lower perceived risk. Therefore, an EV/EBIT multiple of 10.9x, equaling the peer group median, in 2023E is justified. The applied multiple indicates an upside of 32.1% from today's share price of SEK 20.0.

Management and board

Matthias Trygg, Chairman of the Board

Matthias Trygg has a long experience from the IT-industry, previously holding the role as CEO for several companies such as; Adcore, NetAdmin and Lärande i Sverige.

Ownership: 35 000 shares



Susanne Torrbacka, Interim CEO

Susanne Torrbacka has been working at Waystream Holding AB since 2015 when she joined as CFO. She has extensive experience in the IT-business both as an entrepreneur and management in larger companies.

Ownership: 0 shares



Johan Sandell, Chief Technology Officer

Johan Sandell took up the role as CTO during 2018 and possesses a broad experience from the IT- and telecommunications business. Johan Sandell is an engineer within technical physics from KTH, management training from HHS and the Swedish National Defense College.

Ownership: 0 shares



Thomas Mittig, Director of Sales

Thomas Mittig joined Waystream in 2017. He has been working with sales within the IT-industry for over 25 years. Thomas Mittig holds a Bachelor of Business degree in marketing and business administration from Central Queensland University.

Ownership: 1 500 shares



Susan Rose, Head of Market and Communications

Susan Rose started at Waystream in 2021. Before Waystream she worked as a consultant and came in contact with Waystream in 2018. Susan Rose has previously worked as a journalist and editor in chief and run her own PR and communications company focused on IT-technology, cybersecurity and telecom.

Ownership: 0 shares



Appendix

Income statement, SEKtn	2017A	2018A	2019A	2020A	2021E	2022E	2023E
Net revenue	80 198.0	70 009.0	65 662.0	86 363.0	94 710.5	107 251.4	126 282.3
Work performed for own account	6 351.0	4 748.0	8 744.0	3 790.0	10 316.2	6 104.8	13 056.4
Other operating income	104.0	0.0	0.0	0.0	0.0	0.0	0.0
Revenue	86 653.0	74 757.0	74 406.0	90 153.0	105 026.7	113 356.3	139 338.7
COGS	(36 991.0)	(35 283.0)	(29 498.0)	(35 005.0)	(38 831.3)	(43 973.1)	(51 775.7)
Gross profit	43 311.0	34 726.0	36 164.0	51 358.0	55 879.2	63 278.3	74 506.5
Gross profit margin	53.9%	49.6%	55.1%	59.5%	59.0%	59.0%	59.0%
Other external expenses	(17 194.0)	(16 221.0)	(13 180.0)	(15 906.0)	(17 995.0)	(20 377.8)	(23 993.6)
Personnel costs	(25 555.0)	(23 939.0)	(17 553.0)	(17 809.0)	(19 129.1)	(20 557.2)	(22 034.9)
Other operating expenses	(2 787.0)	(173.0)	(166.0)	(464.0)	(880.0)	(880.0)	(880.0)
EBITDA	(2 225.0)	(5 607.0)	5 265.0	17 179.0	17 875.1	21 463.3	27 598.0
EBITDA margin	(2.8%)	(8.0%)	8.0%	19.9%	18.9%	20.0%	21.9%
Depreciation & Amortization	(13 702.0)	(30 106.0)	(4 274.0)	(5 796.0)	(6 260.5)	(7 089.5)	(8 347.4)
EBIT	(15 927.0)	(35 713.0)	991.0	11 383.0	11 614.6	14 373.9	19 250.6
EBIT margin	(19.8%)	(51.0%)	1.5%	13.2%	12.3%	13.4%	15.2%
Interest income	4.0	5.0	19.0	0.0	0.0	0.0	0.0
Interest expenses	(287.0)	(275.0)	(533.0)	(105.0)	(40.0)	(40.0)	(40.0)
EBT	(16 210.0)	(35 983.0)	477.0	11 278.0	11 574.6	14 333.9	19 210.6
EBT margin	(20.2%)	(51.4%)	0.7%	13.1%	12.2%	13.4%	15.2%
Tax expense	2 203.0	6 293.0	(2 167.0)	(3 396.0)	(1 521.4) ¹	(2 090.8) ²	(3 094.4) ³
Net income	(14 007.0)	(29 690.0)	(1 690.0)	7 882.0	10 053.3	12 243.1	16 116.2
Net profit margin	(17.4%)	(42.4%)	(2.6%)	9.1%	10.6%	11.4%	12.8%

1. Includes tax relief of SEK 0.9mn.

2. Includes tax relief of SEK 0.9mn.

3. Includes tax relief of SEK 0.9mn.

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