

Alimak Group AB (ALIG)



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About Alimak Group

Alimak Group AB (Alimak or “the Company”) is a market-leading provider of industrial elevators and hoists. The Company operates across four divisions with solutions spanning from elevators on construction sites, wind turbines, oil rigs and high-rise buildings to maintain the facade. The Company has a global reach of over 100 countries and is especially strong in the western markets. Their total installed base consists of over 70,000 units worldwide.

Overweight

Target Price	SEK 112.1
Current Price	SEK 84.2
Up/downside	33.2%

Market Data, SEK

Exchange	OMX Mid Cap
Shares (m)	54.1
MCAP (m)	4560.1
EV (m)	5435.1

Forecast, SEKm	21A	22E	23E
Total revenue	3,728	4,552	6,619
Rev. growth	(0.3%)	18.1%	31.2%
Gross Profit	1,271	1,621	2,385
Gross Margin	34.1%	35.6%	36.0%
EBITDA	614	897	1,265
EBITDA Margin	16.5%	19.7%	19.1%
EBIT	448	687	1,040
EBIT Margin	12.0%	15.1%	15.7%

Key Metrics	21A	22E	23E
EV/EBITDA	8.9x	6.0x	4.3x
EV/EBIT	12.1x	7.9x	5.2x
ND/EBITDA	0.6x	2.8x	1.8x
P/E	14.8x	9.36x	8.2x
P/S	1.2x	1.0x	0.7x
EPS	6.9	8.4	12.2

Alimak Group – Aiming for New Heights

Alimak is a world-leading provider of vertical access solutions for professional use and has been a pioneer and industry leader for over 70 years. Through decades of providing great safety, productivity and resource efficiency, Alimak has installed a large range of elevators, hoists, platforms, service lifts and building maintenance units worldwide. In order to maintain their strong market position, Alimak acquired the height safety specialist Tractel Group (“Tractel”) on August 2nd, 2022, at an EV/EBITDA multiple of 10.8x. The acquisition will add a new division to the Company – “Height Safety and Productivity Solution Tools” - which aims to provide a strong foundation for the Company to remain their market leading position for multi-story buildings. The strategic action is estimated to translate into a top-line growth of 22.1% in 2022E and with a 10.0% CAGR from 2021A-2025E. A target multiple of EV/EBIT 9.9x for 2023E, supported by a peer valuation, justifies a target share price of SEK 112.1 and a potential upside of 33.2%.

Key takeaways

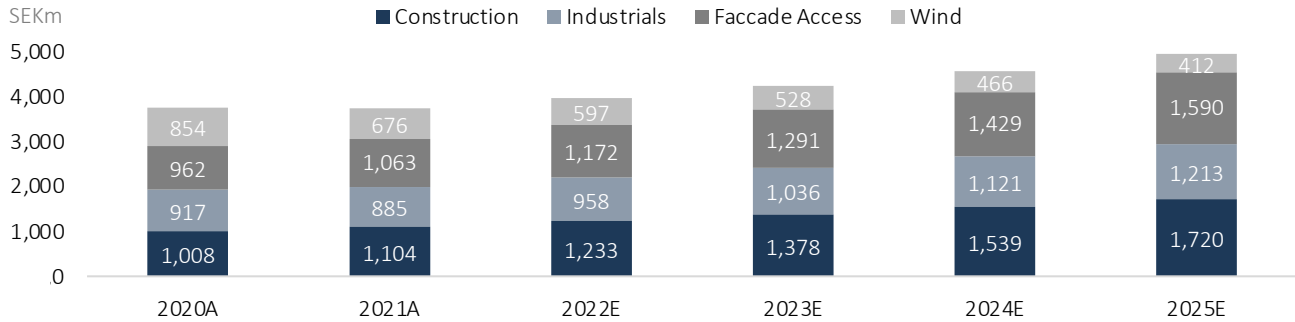
- Well-established to capitalise on solid aftermarket sales:** Alimak has a strong track record of being a reliable supplier, repairer and renovator of vertical access solutions in a niche market. The complexity and longevity of Alimak's product mix enables them to provide various aftermarket services during the 25 year long product cycle. Out of the total revenue from a product, 65% stem from aftermarket services. In 2021A, aftermarket sales accounted for approximately 40.0% of Alimak’s total revenue. By being of one of the few suppliers of industrial elevators, which is a niche market, customers depend on the spare parts they offer to meet safety requirements. The Company's comprehensive experience in the field creates an information asymmetry over individual suppliers, further strengthening their position in the aftermarket and providing opportunities to extend sales through aftermarket services. Over time, the customer's reliance on the Company will be one of their most decisive competitive advantages.
- Margin expansion:** Alimak’s most recent acquisition of Tractel add SEK 528m in EBIT and SEK 2.2bn in revenue. The acquisition will enhance the Company’s offerings with an diversified portfolio. It enables Alimak the opportunity to become a one-stop shop for their customers, enhancing end customer value and market synergies, resulting in an EBIT margin expansion of 3.7 bps by 2023E to 15.7%.
- Negative market response to the Tractel acquisition:** Alimak has historically executed investments to reach new markets. After changing the CEO and Chairman in 2020A, the M&A strategy has become more focused on expanding margins. Since the announcement of the Tractel acquisition, the stock has declined 13.5%. The market's adverse reaction is primarily linked to concerns regarding the transaction's financing (a bridge loan of SEK 2.5bn), the execution risk which stems from bad previous transactions, and Alimak’s low ROIC of 9.6% compared to the peer average of 16.1%.

ANALYSTS CONTACT INFORMATION

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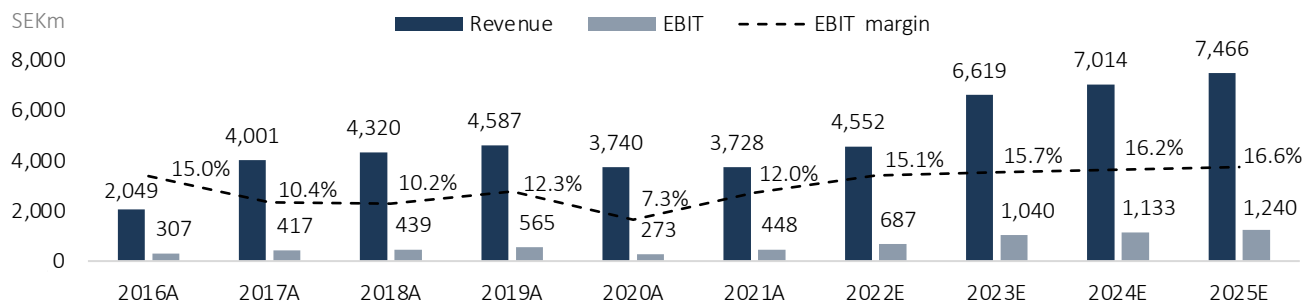
Investment thesis in charts

Revenue per segment 2020A-2025E



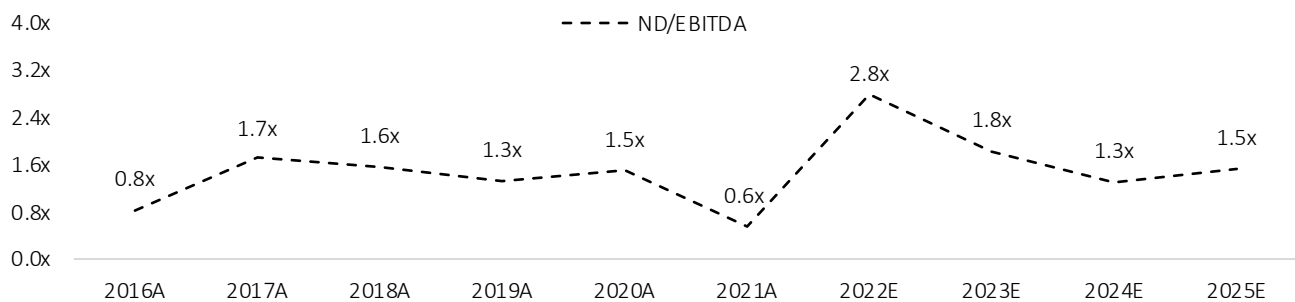
Sources: Analysts estimates, The Company

Revenue and EBIT to further increase in 2022E after the acquisition of Tractel



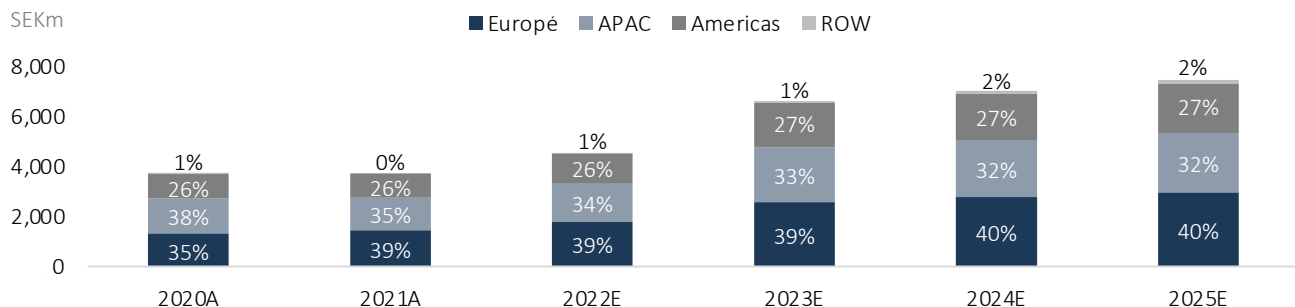
Sources: Analysts estimates, The Company

ND/EBITDA estimated to increase in the short run (2022E) related to financing of the acquisition



Sources: Analysts estimates, The Company

Geographical revenue split 2020A-2025E



Sources: Analysts estimates, The Company

Investment thesis

Well established to capitalize on solid aftermarket sales

Approximately 40.0% of the Company's total sales stemmed from aftermarket services in 2021A. An elevator from Alimak lasts for 25 years on average and because of the recurring revenue it brings every year, after market services from the elevator accounts for approximately 65.0% of the product revenue during its lifespan. Alimak operates in a niche market of elevators, and consumers rely heavily on the services, renovation and spare parts. Since security regulations change constantly and require yearly maintenance, their knowledge gives them a competitive advantage over individual suppliers, providing opportunities to extend sales through aftermarket services. Through this market situation, the analysts estimate an increase of aftermarket revenue by 21.1% to SEK 2.4bn in 2023E. Additionally, the Company's strong market position will help them fend off subcontractors and create further growth opportunities.

Broader product offering through Tractel resulting in margin expansion

The integration of Tractel will add the new vertical: "Height Safety and Productivity Solutions Tools", and, it will also strengthen the solution portfolio within the construction and wind segments. Tractel operates in the same end-markets as Alimak, but with a different product offering; thus enabling customers to purchase all their equipment from one supplier. Hence, customers operating in high-rise buildings can now purchase all their equipment for construction and facade access solutions from Alimak. By reducing their costs and optimizing their supply chain through consolidating the operations, Alimak will be able to increase their topline. In addition, by offering a more comprehensive and convenient service through becoming a one-stop-shop for their customers, Alimak will also be able to increase their margins. The acquisition is expected to be EPS accretive from 2024E and the analysts estimates the EBIT margin to grow with 30.8% and revenue with CAGR of 21.5% between 2021A-2023E.

Execution risk related to integration of the acquisition

Despite Alimak's history of active acquisitions to expand and diversify its portfolio, the market has a negative perception of the Company's investment strategy as reflected by a 13.5% decline in their stock since the announcement of the Tractel acquisition. This is likely due to the Company's ROIC of 9.6% in 2021A, which is lower than the peer average of 16.1%, and a WACC of 8.9%, leading to concerns among investors about Alimak's ability to execute profitable acquisitions in the future. Despite the challenges, these concerns may be overstated and the recent changes to management, including the appointment of Ole Kristian Jørdahl as CEO and Johan Hjertonsson as Chairman, will strengthen the Company's ability to successfully complete acquisitions. This is particularly due to Alimak's strong relationship with Latour, which has a strong track record of successful investments and historically strong growth for its portfolio companies. Furthermore, Ole Kristian Jørdahl's first action as the CEO was to implement a new program to increase the margins and achieve profitable growth. This will strengthen the Company's ability to complete successful acquisitions. While there is always a risk of execution mishaps, Latour's strong position in the purchase will mitigate this risk.

New investments in digitalization applications enables operational efficiency

The industry, in which Alimak operates in still has a lot of room to digitalize. The Company aims to become a leader in the space by the development of the software application "MyBMU", which provides 24/7 monitoring and control of all elevators, hoists, transport platforms and other vertical access solutions. Alimak has guided for MyBMU to launch in 2023E. The application drives the operation to more data-driven decisions, making every customer experience more personalized thus improving efficiency. This bodes for decreased costs and shows Alimak's ability to stay ahead of the curve as the industry shifts towards a more digitized profile.

Company Overview

A world leader in a niched market

Alimak Group was founded 1948 in Skellefteå, Sweden, by engineer Alvar Lindmark. The Company is a global leader in vertical access solutions with a product portfolio that includes a range of elevators, hoists and platforms based on Rack-and-Pinion and Traction technologies. From its inception, Alimak focused on the manufacturing and developing of industrial and construction solutions. Today, the Company develops a wide range of applications for example oil and gas rigs as well as elevators for wind turbines and equipment to enable regular access to the facade of buildings in order to repair or clean windows. By supporting their customers from assembling the products to offering the full spectrum of aftermarket services, Alimak maximizes the usage of their products and benefits from recurring customers. Alimak is primarily owned by institutional investors, with Latour AB (29.6%) and Alantra (12.1%) as the largest shareholders.

Business Model

A reliable partner throughout the entire value chain

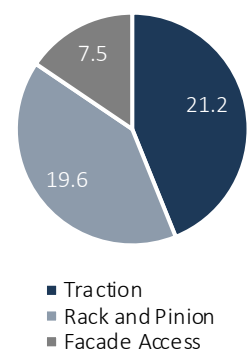
Alimak's business model is designed to offer vertical access solutions on the global market, focusing on various specific needs of their different customers. With their broad portfolio of products and services, the Company covers the needs of both midrange and premium segments for more advanced and simple applications. Alimak is active throughout the entire value chain, from design, product manufacturing, marketing, distribution and sales. The Company revenue stem from new sales of their products, approximately 60.0% of revenue in 2021A, and aftermarket sales, approximately 40.0% of revenue in 2021A. The aftermarket sales tend to be more stable and fluctuate less since selling products and services to existing customers generally carries less risk than selling a new product. New sales of elevators, on the other hand, are associated with a cyclical revenue stream with high upfront costs. However, the power from the aftermarket sales provides Alimak with reliable revenue year over year, supporting the Company through tougher times. The average lifespan of an elevator in Alimaks industrial division is 25-30 years, during which renovations and critical component replacements are made. Thus, the aftermarket sales services for industrial equipment can generate three times the revenues compared to its initial purchase.

Market Overview

Global market characterized by high entry barriers

Alimak operates in four different segments and their offerings are based on three different technical solutions. The segments are: The industrial division (rack and pinion, traction), the construction division (rack and pinion, traction), the facade access division (facade access) and the wind division (traction). The TAM for the segments is SEK 48.3bn, with a CAGR of 6.3% between 2022E-2029E. Furthermore, the market for industrial and construction elevators is highly competitive, with several major manufacturers and suppliers offering a range of products including Hünnebeck, GEDA and Terex Corporation. Alimak is currently the market leader within the industrial division with an average market share of approximately 65.0% (depending on the end-market segment). The demand in the facade access division is driven by the need for maintenance and cleaning of tall buildings, which has been boosted through the increased trend towards high-rise and vertical development in urban areas. It is important to note that many of Alimak's end-markets are cyclical - however, the Company's markets are also associated with high entry barriers since manufacturing of elevators requires high fixed costs.

Estimated TAM (USDbn) of technologies used in Alimak solutions by 2023E



Valuation

Alimak in comparison to companies within similar end-markets

A peer valuation has been constructed in order to support a fair valuation of Alimak. Out of the peers, Otis and Kone are world leading providers of elevators for commercial usage with a similar aftermarket and distribution channels. One of Alimak's main end-markets is the construction industry, which motivates the inclusion of Peab, Fasadgruppen, Balco Group and Nordic Waterproofing. Beijer Alma supplies components in a wide range of industries, including the industrial segment; this is comparable to Alimak, which provides a large amount of products across several sectors. Alimak closest competitors in industrial vertical access solutions operate in the private market; limiting the option for comparables. As the majority of Alimak's peers have similar debt-to-equity ratio, and that leverage is an essential strategic tool for the Company when acquiring, the analysts have decided to value Alimak with an EV/EBIT multiple.

Peers	Market Data (SEKm)			Financials			Valuation	
	Company name	Market cap	EV	21A-23E Rev. CAGR	Gross margin 21A	EBIT margin 22E	ND/EBITDA 21A	P/E 23E
Otis Worldwide Corp	345,585	412,634	8.8%	29.3%	1.5%	2.5x	23.4x	18.0x
Kone OYJ	302,019	301,618	7.8%	51.6%	9.5%	(1.5x)	27.7x	22.0x
Peab	19,450	36,581	3.1%	10.0%	4.2%	2.5x	9.4x	14.3x
Beijer Alma	11,329	14,031	14.6%	33.1%	14.0%	1.7x	18.0x	16.5x
Fasadgruppen	4,838	6,210	10.8%	33.9%	9.4%	2.7x	13.6x	13.6x
Nordic Waterproofing	3,998	4,868	6.1%	28.4%	10.2%	1.4x	13.0x	12.4x
Balco Group	1001	1,114	8.4%	26.4%	8.0%	0.6x	12.4x	9.8x
Median	11,329	14,031	8.4%	29.5%	9.4%	1.7x	13.6x	14.3x
Average	98,317	111,008	8.5%	30.4%	8.1%	1.5x	16.8x	15.2x
Alimak Group	4,560	5,435	10.0%	34.1%	15.7%	0.6x	8.2x	5.2x

Source: Bloomberg

Undervalued compared to peers despite showing higher profitability

Alimak is trading at an EV/EBIT multiple of 5.2x for 2023E, compared to the peer average of 15.2x and peer median of 14.3x. This corresponds to a 34.2% respectively 36.4% discount. Alimak is estimated to achieve an EBIT margin of 15.7% in 2023E, compared to the peer average of 8.1%. A size discount of 35.0% has been estimated based on the Company's relative market capitalization to their peer-median where Kone and Otis have been excluded due to their significantly larger size. A peer mean of 15.2x motivates a target EV/EBIT multiple of 9.9x in 2023E for Alimak, thus implying a target price per share of SEK 112.1 and a potential upside of 33.2%.

DCF-valuation using 8.9% WACC and 2.5% TGR implies an intrinsic value of SEK 99.0

Due to the limited options of relative peers, a discounted cash flow analysis has been assembled in addition to the peer analysis to support the valuation. The revenue is estimated to grow with a CAGR of 3.5% between 2023E-2030E, continuing with a 2.5% terminal growth rate with a WACC of 8.9%. By taking account of the rights issue in early 2023E, the number of shares is expected to increase from 54.2 to 67.7m. A target multiple of EV/EBIT 6.7x for 2023E motivates a price per share of SEK 99.0 and a potential upside of 17.6%.

Key cash flow items (m)	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Net sales	4,552	6,619	7,014	7,466	7,653	7,844	8,040	8,241	8,447	8,658
EBIT	477	815	882	967	953	954	957	961	967	974
Taxes on EBIT	(162)	(187)	(223)	(259)	(265)	(272)	(278)	(285)	(293)	(300)
NOPAT	315	630	660	710	690	684	680	677	676	676
D&A	210	225	251	273	318	349	379	408	436	464
Capex	(205)	(298)	(316)	(336)	(344)	(353)	(362)	(371)	(380)	(390)
Change in NWC	275	(997)	(287)	(311)	(140)	(153)	(109)	(109)	(104)	(102)
FCFF	596	(440)	308	335	523	527	587	605	628	648

Source: Analysts estimates

Appendix

SEKm	2016A	2017A	2018A	2019A	2020A	2021A	2022E	2023E	2024E	2025E
Net revenue	2,049	4,001	4,320	4,587	3,740	3,728	4,552	6,619	7,014	7,466
Revenue	2,049	4,001	4,320	4,587	3,740	3,728	4,552	6,619	7,014	7,466
COGS	(1,231)	(2,658)	(2,948)	(3,043)	(2,551)	(2,456)	(2,931)	(4,234)	(4,462)	(4,723)
Gross profit	818	1,343	1,372	1,545	1,190	1,271	1,621	2,385	2,552	2,743
Gross margin	39.9%	33.6%	31.8%	33.7%	31.8%	34.1%	35.6%	36.0%	36.4%	36.7%
OPEX										
Selling costs	(277)	(398)	(419)	(383)	(358)	(357)	(392)	(565)	(598)	(634)
Administration costs	(191)	(489)	(446)	(487)	(457)	(382)	(423)	(609)	(643)	(680)
Development costs	(43)	(40)	(68)	(92)	(101)	(101)	(118)	(170)	(178)	(188)
Other operating gains and losses	0	0	0	(18)	4.1	17	(1)	(1)	(1)	(1)
EBITDA	357	529	558	762	452	614	897	1,265	1,384	1,513
EBITDA margin	17.4%	13.2%	12.9%	16.6%	12.1%	16.5%	19.7%	19.1%	19.7%	20.3%
D&A	50	113	118	197	179	166	210	225	251	273
EBIT	307	417	439	565	273	448	687	1,040	1,133	1,240
EBIT margin	15.0%	10.4%	10.2%	12.3%	7.3%	12.0%	15.1%	15.7%	16.2%	16.6%
Financial Income	27	68	45	57	7	34	40	40	40	40
Financial expenses	(53)	(96)	(88)	(114)	(44)	(73)	(78)	(338)	(282)	(248)
EBT	282	389	397	509	237	410	649	741	891	1,032
EBT margin	13.7%	9.7%	9.2%	11.1%	6.3%	11.0%	14.3%	11.2%	12.7%	13.8%
Income taxes	(87)	(97)	(53)	(115)	(58)	(102)	(162)	(185)	(222)	(257)
Net income	194	292	344	394	179	307	487	557	669	774
Net margin	9.5%	7.3%	8.0%	8.6%	4.8%	8.2%	10.7%	8.4%	9.5%	10.3%

Additional Financial Information	2016A	2017A	2018A	2019A	2020A	2021A
ROE	8.8%	9.4%	10.1%	10.7%	5.1%	8.0%
ROCE	11.1%	8.9%	9.1%	10.7%	5.8%	9.2%
ROIC	11.4%	9.2%	9.3%	11.0%	6.0%	9.6%
ROA	5.9%	5.2%	5.7%	6.1%	3.2%	5.2%
CCC	71	69	63	61	56	48
FCF	167	292	169	473	444	583
Debt to equity	0.5x	0.7x	0.7x	0.7x	0.5x	0.5x
Current ratio	1.6x	1.8x	1.6x	1.8x	1.8x	1.6x
Quick ratio	2.4x	2.8x	2.5x	2.6x	2.7x	2.3x
ND/EBITDA	0.8x	1.7x	1.6x	1.3x	1.5x	0.6x
P/E	28.9x	22.9x	17.3x	19.2x	38.9x	20.1x
EV/EBIT	19.2x	18.8x	15.5x	14.7x	27.7x	14.6x

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	Share Price	Terminal growth rate						
	99.0	1.75%	2.00%	2.25%	2.50%	2.75%	3.00%	3.25%
WACC	7.44%	120.9	124.9	129.3	134.2	139.6	145.5	152.2
	7.94%	109.6	112.8	116.4	120.2	124.5	129.1	134.3
	8.44%	100.0	102.7	105.6	108.7	112.1	115.8	119.9
	8.94%	91.8	94.1	96.4	99.0	101.7	104.7	108.0
	9.44%	84.7	86.6	88.6	90.7	93.0	95.4	98.1
	9.94%	78.5	80.1	81.8	83.5	85.4	87.5	89.7
	10.44%	73.1	74.4	75.8	77.3	78.9	80.6	82.4

DCF Valuation breakdown

Forecasted value (SEKm)	2,556
Terminal value (SEKm)	10,306
Net Debt (SEKm)	192
Market Cap (SEKm)	6,731
No. Shares (m)	68
Value per share	99.0

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