

Gomero Group (GOMERO)

Sweden | Predictive Maintenance | MCAP SEK 54.8m

20 January 2023

Buy

Target price: SEK 19.5
 Current price: SEK 13.9
 Upside: 40.3%

Revolutionizing the maintenance of energy infrastructure

Gomero Group (Gomero or “the Company”) is a leading Swedish safety company that works with predictive maintenance of electric network stations. The Company sells hardware that can detect oil leakage at the stations and keeps the customer updated through an AI-driven software solution. A large share of today’s energy infrastructure is outdated, thus extensive investments are planned for it to be optimized and modernized. This investment wave will benefit Gomero as an established player offering complete solutions to automate the procedure and ensuring that the maintenance of each network station is environmentally safe. Combined with a strong expansion strategy to high-potential markets, a sales CAGR of 16.5% is estimated between 2021 and 2024E. A DCF, complemented by a relative valuation, justifies a target multiple of 9.0x EV/EBITDA in 2024E, implying a target price of SEK 19.5 and an upside of 40.3%.

Key takeaways

- Market tailwind from large investments in electricity distribution networks:** 2022 has shown that the electric network is not sufficient enough. Given the increased demand for optimization and automatization, global investments within the energy sector are estimated to reach EUR 34-49bn each year between 2020A-2030E. Factors such as sustainability goals, the need for digitization and new laws regarding safety standards are driving the electricity market forward. This is where Gomero comes in, offering automated solutions to ensure safer maintenance of the stations. Historically, the Company’s revenues have grown with a CAGR of 2.7% 2015A-2021A. Given Gomero’s newly secured contracts in a sector with strong underlying market growth, a sales CAGR of 16.5% is estimated between 2021 and 2024E.
- Positioned to capitalize on the growth potential of international markets:** Aiming for geographical diversification, Gomero has strong expansion plans towards the high-potential markets of Australia and the UK. The UK’s increased demand for digitalization combined with Australia’s 7,600,000 km² area provides excellent conditions for the Company’s solutions to bring value, justifying an estimated top line growth of 40.0% by 2024E.
- Introduction of software solution expected to boost margins:** Gomero is aiming to increase the penetration of their software solution as part of their product portfolio. Lately, the Company has experienced substantial growth in their subscription service, where the proportion of sales attributed to the software solution is increasing. The EBITDA margin is estimated to be 14.7% by 2024E as a result of high operating leverage, stemming from a low marginal cost and fixed OPEX.

Analysts

Cassandra Åstenius Equity Analyst
 Gunnar Hallberg Equity Analyst

Market Data, SEK

Exchange	Spotlight Stock Market
Shares (m)	3.9
MCAP (m)	54.8
EV (m)	44.9

Metrics & Drivers 2021A 2022E 2023E 2024E

EV/EBIT	64.4x	17.5x	14.3x	7.6x
EV/EBITDA	20.6x	9.8x	8.6x	5.6x
EV/S	1.6x	1.1x	0.9x	0.8x
P/E	80.0x	27.3x	22.3x	11.9x
ND/EBITDA	Neg.	Neg.	Neg.	Neg.

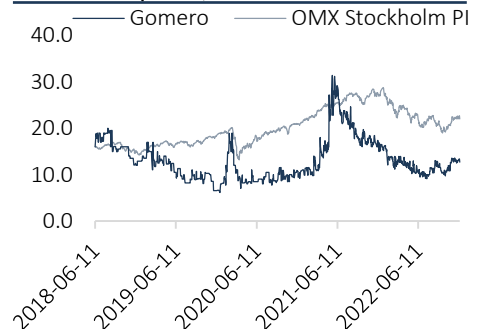
Forecast, SEKm 2021A 2022E 2023E 2024E

Total revenue	36.7	39.2	44.9	51.4
Rev. Growth y/y (2.1%)	6.8%	14.5%	14.5%	14.5%
Gross Profit	22.3	27.3	31.6	36.5
Gross Margin	60.8%	69.6%	70.4%	71.0%
EBITDA	2.8	4.3	4.9	7.6
EBITDA Margin	7.6%	11.0%	10.9%	14.8%
EBIT	0.8	2.4	2.9	5.5
EBIT Margin	2.2%	6.1%	6.5%	10.7%

Major Shareholders

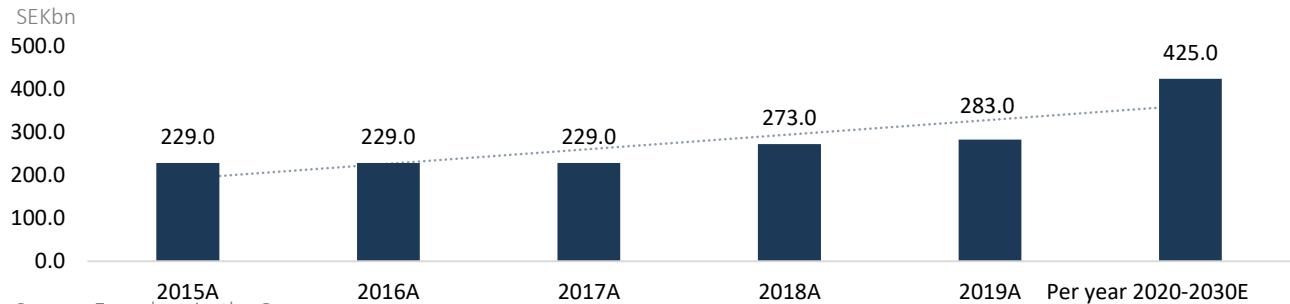
Jan-Erik Nilsson	12.0%
Black & White Ventures AB	11.9%
Chalmers Ventures	11.4%

Price Development, SEK



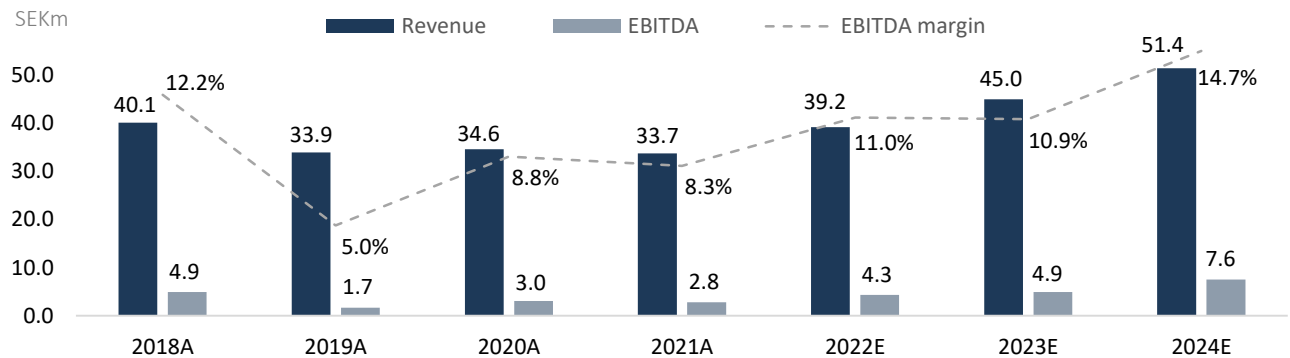
Investment thesis in charts

Annual investments in the electric distribution network



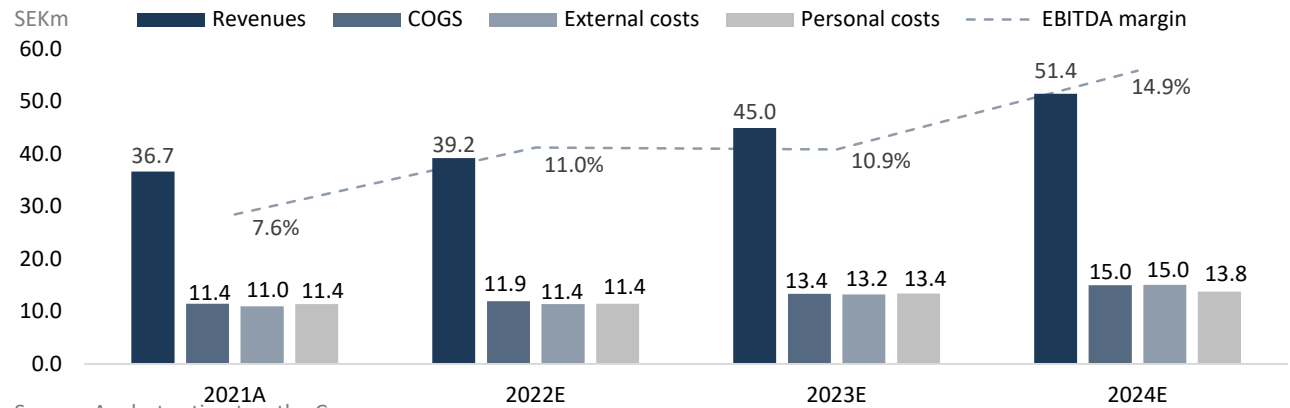
Source: Euroelectric, the Company

Estimated Revenue, EBITDA and EBITDA margin



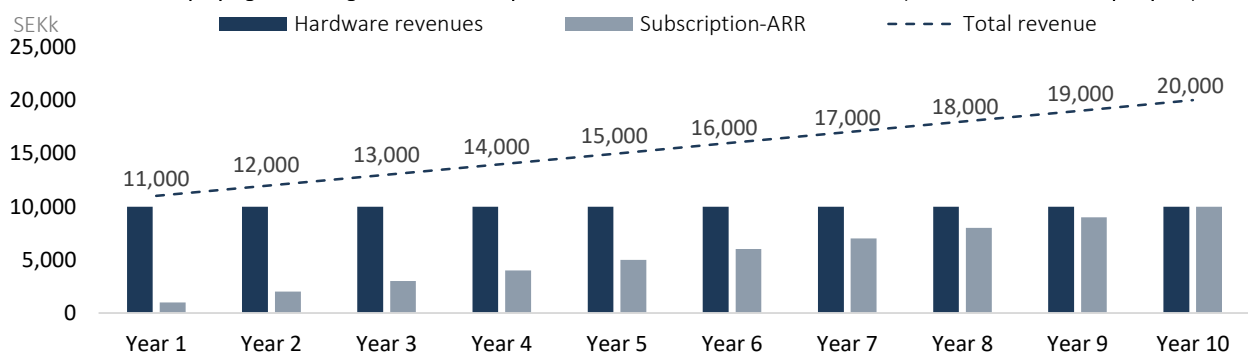
Source: Analyst estimates, the Company

Margin expansion as a result of operational leverage



Source: Analyst estimates, the Company

Unit economics displaying increasing share of subscription-ARR relative to hardware revenues (scenario of 100 units per year)



Source: Analyst estimates

Investment thesis

Growth through entrance in new markets

Gomero is estimated to penetrate the markets of Australia and the UK. In the UK, there is an estimated amount of 6,000 transformation stations. These stations are in need of extensive investments where digitalization will play a crucial role. Furthermore, the entrance in Australia has been delayed as the market was first shut down by fires, followed by the pandemic. More recently, healthier market conditions have allowed Gomero to install more units and sign more deals in both countries. The penetration of these two markets is estimated to drive revenues with a CAGR of 16.5% by the year 2024.

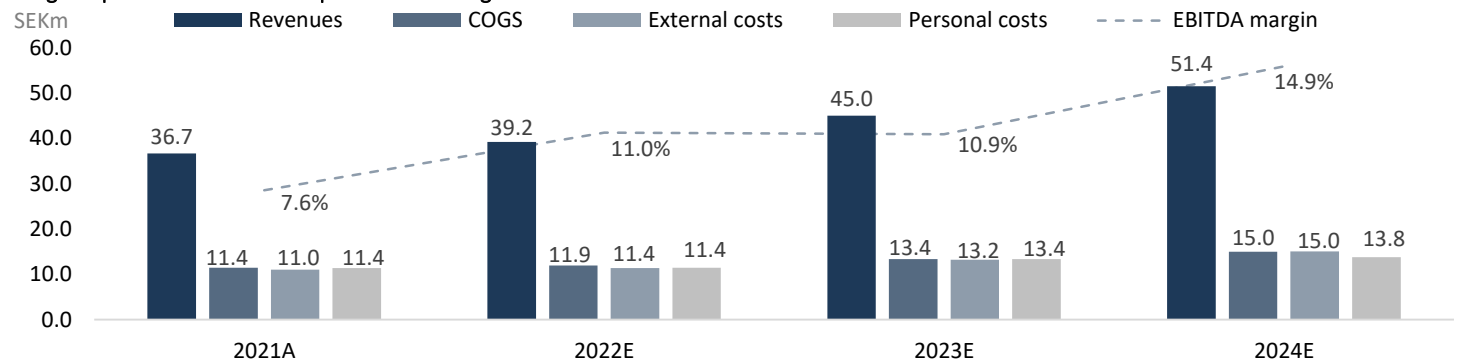
Development of new product enables increasing average revenue per customer (ARPC)

Gomero has recently developed a new product called Sipp Hub. While the current product (Sipp Node) solely focuses on detecting oil leakage, Sipp Hub enables the possibility to connect more sensors and collect even more data from crucial components. As the new product can provide more value per station, it justifies a higher price and increases the ARPC. The launch of Sipp Hub is in line with Gomero's strategy to strengthen their position with already existing customers and building conditions for long-term relationships.

Introduction of software solutions sets conditions for margin expansion

In addition to the hardware, Gomero also provides a SaaS-solution that updates customers with data from the station through an app, which is recognized by a yearly subscription-fee. The ARR from the subscription is estimated to increase relative to total sales. Since Gomero outsources its production, the Company's OPEX are close to fixed. This, combined with a minimal marginal cost for the software-service, creates operational leverage. The scalable business model is estimated to increase the 2021 EBITDA margin of 7.6% to 14.9% in 2024E.

Margin expansion as a result of operational leverage



Source: Analyst estimates, the Company

Fast growing market expected to attract new competition

At the moment, there are no direct competitors to Gomero. Instead, the substitute for Gomero's automated solutions involves traditional physical maintenance. The growth potential of the energy market is likely to attract new competition and thereby challenge Gomero's market position. Nevertheless, over the last 20 years, the company has focused on building strong relationships with some of Europe's leading utility companies. These relationships are further strengthened by lock-in effects enabled through the installation of more solutions per customer, as well as the subscription solution. Together, this creates high switching costs and gives the company a competitive advantage towards potential competition.

Company Overview

Automating the maintenance and surveillance of electric network stations

Gomero specializes in digitalizing the maintenance of electric network stations. Historically, the maintenance has been done manually through scheduled physical visits. Given the labor, time-, and capital intensive nature of this procedure, Gomero's control equipment series "SIPP" provides better conditions for proactively detecting default risks by keeping the company continuously updated on data. In other words, SIPP is an AI driven hardware solution, which in combination with IoT infrastructure and a SaaS-based solution assures safer maintenance.

Growth strategy through international expansion

Gomero is market-leading in Sweden for predictive maintenance of electric transformation stations, holding a market share of 20.0%. This makes Sweden the Company's largest market alongside Norway. Gomero has 100 customers in 11 countries and mainly operates in northern Europe. A growth strategy is currently being pursued where the Company plans to expand internationally by penetrating one to two more markets per year. As of today, a majority of Gomero's revenue comes from international markets. This share is expected to grow substantially in the coming years, given Gomero's geographical diversification.

Business Model

Introduction of software solutions allows for a scalable business model

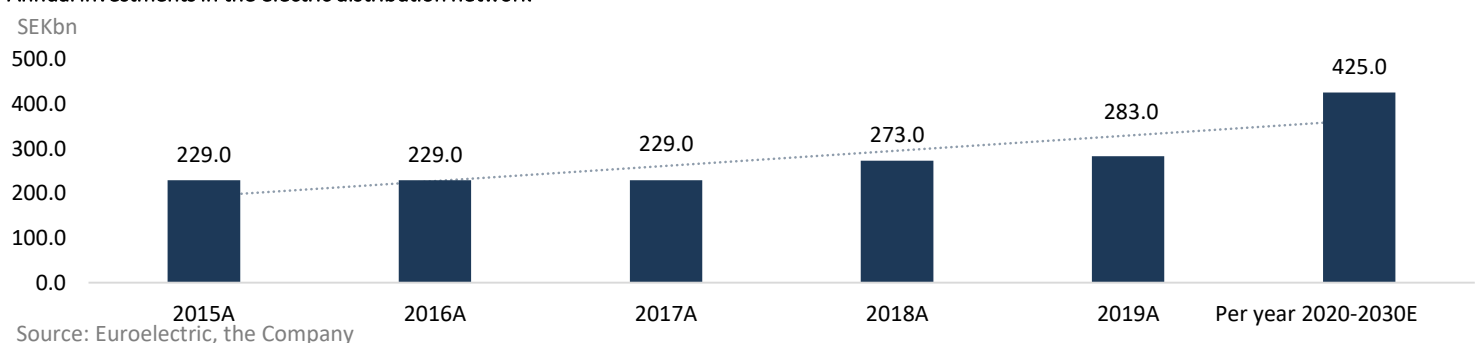
Gomero's customers are electric utility companies such as E.ON, Ellevio and Vattenfall. The customer pays upfront for the hardware Sipp Node, and thereafter a yearly subscription-fee for a software-service which provides the customer with data storage and system-surveillance. This SaaS-solution creates ARR that increase with the number of units. An obligation to pay the subscription-fee in order to use the hardware creates a low churn-rate of the subscription-solution. Additionally, the sales strategy of diversifying the product portfolio means that customers are continuously offered more value per station. This creates switching costs, potentially giving Gomero a moat that encourages customers to stay with the Company and keep paying the subscription-fee.

Market Overview

Benefiting from large international investments within the energy sector

A majority of today's electricity infrastructure was installed over 50 years ago and therefore requires significant investments. Globally, these investments are estimated to amount to EUR 34-49bn each year between 2020 and 2030. In addition, Sweden's energy consumption is expected to rise by 120.0% until 2045. Given this, the market for predictive maintenance is expected to grow with a CAGR of 31.0% 2021-2030. Increased pressure for efficiency creates a catalyst for Gomero as they specialize in automatizing and digitalizing these network stations.

Annual investments in the electric distribution network



Valuation

Discounted cash flow analysis yields an upside of 40.3%

Gomero has been trading in the interval of 13.3-26.0x EV/EBITDA between 2018-2021. Gomero is currently trading at 5.6x EV/EBITDA due to the EBITDA rapid increase in the last year while the enterprise value has remained the same. A DCF has been made to give a fair valuation. Since the Company does not have any long-term debt as of today and a market cap of SEK 54.8m, an initial WACC of 12.8% has been computed for 2022-2025. It is assumed that Gomero's cost of capital will decrease due to the Company maturing. Therefore, a second WACC of 11.5% has been computed between 2026-2030. A terminal growth rate of 2.0% and a terminal WACC of 10.4% implies an enterprise value of 75.9m and a market cap of SEK 76.9m. This implies a share price of SEK 19.5 and an upside of 40.3%.

Free Cash-flow build up SEkk	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Total Revenues	39,201	45,647	53,245	60,560	68,093	75,853	69,779	73,267	76,198
EBITDA	3,788	5,004	8,554	10,432	9,113	9,662	10,019	10,327	9,842
Tax rate	21.4%	21.4%	21.4%	21.4%	21.4%	21.4%	21.4%	21.4%	21.4%
NOPAT	1,895	2,318	4,354	4,917	5,501	5,867	6,095	6,284	5,848
D&A	1,895	1,953	2,011	2,072	2,134	2,198	2,264	2,332	2,402
Change in NWC	(2,621)	(1,546)	(997)	(345)	(1,510)	(1,448)	(1,507)	(1,634)	(1,610)
CapEx	(97)	(100)	(103)	(106)	(109)	(113)	(116)	(119)	(123)
Unlevered Free Cash Flow	1,072	2,625	5,265	6,538	6,016	6,504	6,736	6,863	6,517
Present value of Free Cash Flows	42,307								
Present value of Terminal value	33,603								
Implied enterprise value	75,910								

Relative valuation with 3-year forward looking EV/EBITDA supporting the DCF

A peer table of similar companies has been created to support the discounted cash flow analysis. When conducting the peer valuation, the qualities considered were similar sized Nordic companies with revenues growing along with margins. Gomero is trading at a discount given EBITDA 2024E compared to the peer median of 8.3x. Considering that Gomero's margins and revenue growth are higher than the average, it is justified that the Company should at least be trading among peers at 8.3x EV/EBITDA. This would imply an enterprise value of SEK 64.2m and a market cap of SEK 65.1m in 2024. This implies a share price of SEK 16.5 and an upside of 18.7%.

Peers	MCAP SEKm	Enterprise value SEKm	EBITDA margin LTM	Revenue growth LTM	EBITDA 2024E SEKm	EV/EBITDA 2024E
Nurminen Logistics	57.1	97.3	7.1%	8.0%	9.4	10.3x
Kentima	70.9	74.6	12.3%	13.8%	9.0	8.3x
Aspocomp	55.9	57.0	17.2%	23.2%	8.3	6.8x
Average	61.3	76.3	12.2%	15.0%	8.9	8.5x
Median	57.1	74.6	12.3%	13.8%	9.0	8.3x
Gomero	54.8	44.9	18.8%	22.8%	7.6	5.6x

Appendix

SEKk	2015	2016	2017	2018	2019	2020	2021	2022E	2023E	2024E
Revenue	28,824	29,666	32,943	41,521	35,466	37,435	36,651	39,201	44,964	51,448
COGS	(13,324)	(10,245)	(12,270)	(16,123)	(11,380)	(14,088)	(11,443)	(11,925)	(13,357)	(14,960)
Gross profit	15,500	19,421	20,673	25,398	24,086	23,347	25,208	27,276	31,607	36,488
<i>Gross margin</i>	53.8%	65.5%	62.8%	61.2%	67.9%	62.4%	68.8%	69.6%	70.3%	70.9%
OPEX										
Other external costs	(5,670)	(5,529)	(6,681)	(9,097)	(9,659)	(9,869)	(10,986)	(11,406)	(13,200)	(15,030)
Personel costs	(8,470)	(8,926)	(8,873)	(11,394)	(12,431)	(10,093)	(11,403)	(11,434)	(13,376)	(13,777)
Other operating expenses	0	0	0	0	(296)	(336)	(16)	(130)	(130)	(130)
EBITDA	1,360	4,966	5,119	4,907	1,700	3,049	2,803	4,306	4,901	7,551
<i>EBITDA margin</i>	4.7%	16.7%	15.5%	11.8%	4.8%	8.1%	7.6%	11.0%	10.9%	14.7%
Depreciation & Amortization	(4,122)	(5,330)	(4,684)	(4,480)	(2,250)	(2,731)	(1,991)	(1,896)	(1,953)	(2,011)
EBIT	(2,762)	(364)	435	427	(550)	318	812	2,410	2,949	5,540
<i>EBIT margin</i>	Neg.	Neg.	1.3%	1.0%	Neg.	0.8%	2.2%	6.1%	6.6%	10.8%
Interest income	10	13	5	39	0	0	0	0	0	0
Interest expenses	(519)	(375)	(387)	(463)	(57)	(31)	(51)	0	0	0
EBT	(3,271)	(726)	53	3	(607)	287	761	2,410	2,949	5,540
<i>EBT margin</i>	Neg.	Neg.	0.2%	0.0%	Neg.	0.8%	2.1%	6.1%	6.6%	10.8%
Tax expense	29	(168)	263	(15)	(9)	(7)	(21)	(516)	(631)	(1,185)
Net income	(3,242)	(894)	316	(12)	(616)	280	740	1,895	2,318	4,354
<i>Net margin</i>	Neg.	Neg.	1.0%	0.0%	Neg.	0.7%	2.0%	4.8%	5.2%	8.5%

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CapEx	(97)	(100)	(103)	(106)	(109)	(113)	(116)	(119)	(123)
Unlevered Free Cash Flow	1,072	2,625	5,265	6,538	6,016	6,504	6,736	6,863	6,517
Present value of Free Cash Flows	41,472								
Present value of Terminal value	25,878								
Enterprise value to Equity value									
Implied enterprise value	75,910								
Less: Net debt	(956)								
Equity value	76,866								
Diluted shares outstanding	3,942								
Equity value per share	19.5								

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Disclaimer

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