

Nordisk Bergteknik (NORB)

Sweden | Infrastructure Services | MCAP SEK 1 697m

16 July 2023

Buy

Target price: 43.6 SEK
 Current price: 30.2 SEK
 Upside: 44.4%

A rock solid buy

Nordisk Bergteknik (“the Group”) is Northern Europe’s largest provider of rock handling and foundation services, operating 24 subsidiaries in geographical clusters across Sweden, Norway, and Finland. Having more than tripled their revenue over the past 2 years investors still seem to value the company as a mature one. The market fails to recognize the Group’s ability to consolidate their market as its hard to grasp the low cash flow impact of acquisitions, following their incentive program of non-cash issues of shares to sellers and obtained synergies further motivating to sell. Market consolidation coupled with the market tailwind is estimated to compound growth and drive economies of scale. A DCF model supported by a Peer-valuation implies a target price of 43.6 SEK and an upside of 44.4%.

Key takeaways

- Economies of scale and synergies will drive margin expansions:**
 Due to acquiring subsidiaries in geographical clusters, the Group can coordinate the local market, achieving revenue synergies, as well as higher utilization rates due to resource pooling, allowing for a lower capex as a percentage of sales. Combined with the cost synergies of centralized buying and best practice utilization, a decrease in maintenance CAPEX and COGS is estimated, which will result in an EBIT-margin expansion to 9.1%.
- Positioned to capitalize on new infrastructure investments:**
 The Swedish foundation market is set to grow as infrastructure spending increase at a 4.5% CAGR until 2027E. Nordisk Bergteknik’s substantial geographical coverage enables them to capture a large portion of these investments. A revenue CAGR of 12.6% until 2027E in the foundation segment is estimated.
- Low cash flow effect of acquisitions drive inorganic growth and market share:**
 Nordisk Bergteknik’s incentive programs for target companies drive down the cash flow effect of their acquisitions, on average only expending 46% of the purchase price in cash. This is estimated to allow them to maintain their high M&A activity despite rising interest rates. A 7.0% inorganic AAGR is estimated, allowing the Group to capture market shares, and by 2027E a penetration rate of 35% of their TAM is expected.
- Slower growth in foundation segment would decrease profitability:**
 A more competitive environment inhibits capturing market shares organically in the foundation segment, forcing them to rely on acquisitions. As the foundation market is already consolidated this could hamper the Group’s ability to grow top-line in the segment. Since this is their most profitable segment this could decrease their overall profitability and in a worst-case scenario mean a lower intrinsic share-value, implying a downside of 5.7%.

Analysts

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Market Data, SEK

Exchange	OMXS Mid Cap
Shares (mn)	57.2
MCAP (bn)	17.0
EV (bn)	31.6

Metrics & Drivers	22A	23E	24E
EV/EBIT	13.3x	10.2x	7.8x
EV/EBITDA	6.5x	5.3x	4.3x
EV/S	0.9x	0.7x	0.6x
P/E	12.7x	14.2x	9.5x
ND/EBITDA	2.6x	2.1x	1.9x

Forecast, SEKm	22A	23E	24E
Total revenue	3 402	4 313	5 111
Rev. growth y/y	77.4%	26.8%	18.5%
Gross Profit	1 958	2 480	2 970
Gross Margin	57.0%	57.5%	58.1%
EBITDA	487	603	741
EBITDA Margin	14.2%	14.0%	14.5%
EBIT	239	312	407
EBIT Margin	6.9%	7.2%	8.0%

Major Shareholders

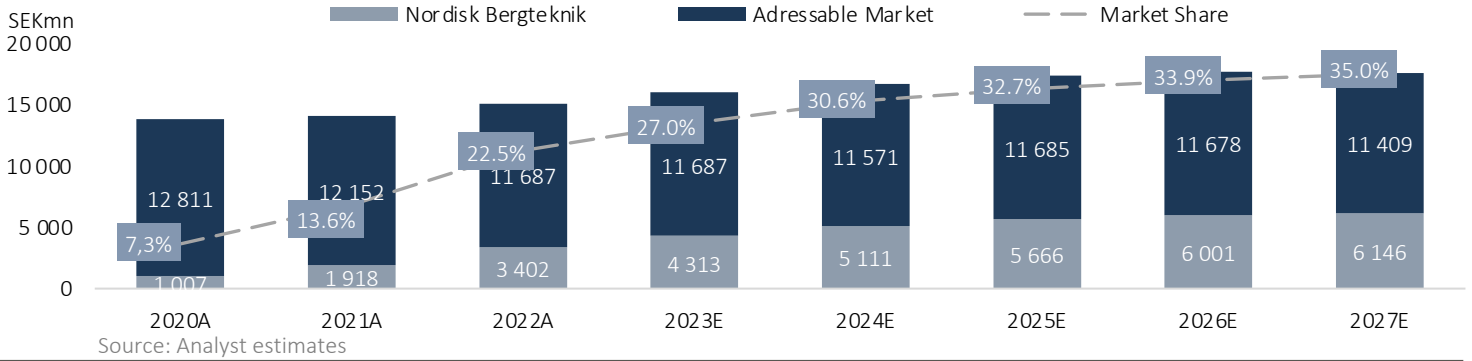
Pecroco Invest AB	22.9%
Swedbank Försäkring	5.7%
Bergteknik Norr Holding AB	5.1%

Price Development, SEK

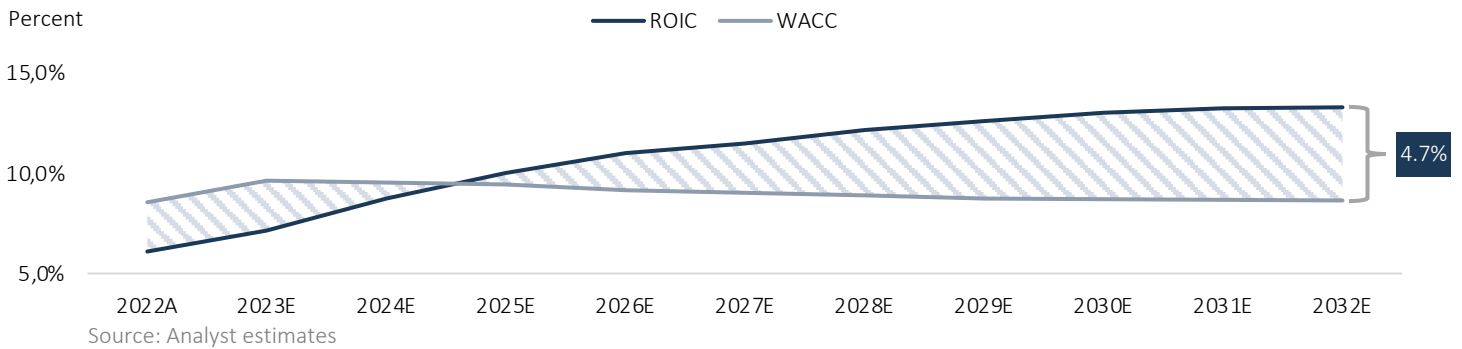


Investment thesis in charts

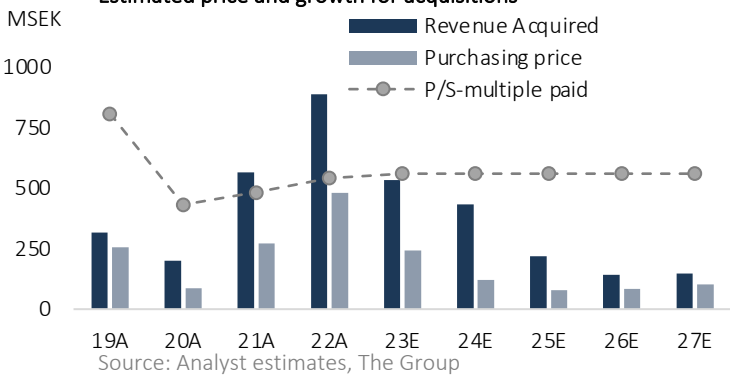
Inorganic growth drives consolidation and market penetration rate



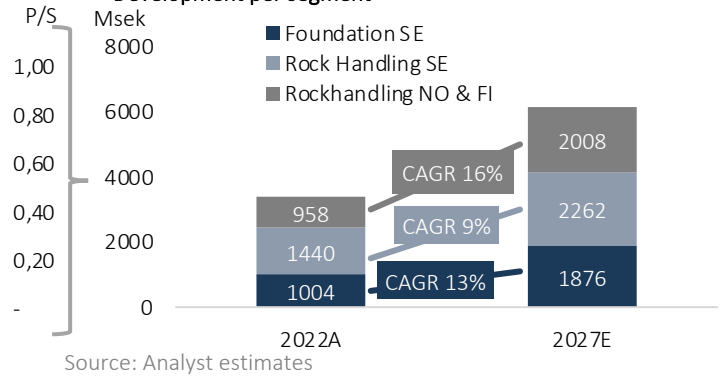
Long-term value creation as their ability to coordinate the market and pool resources grow



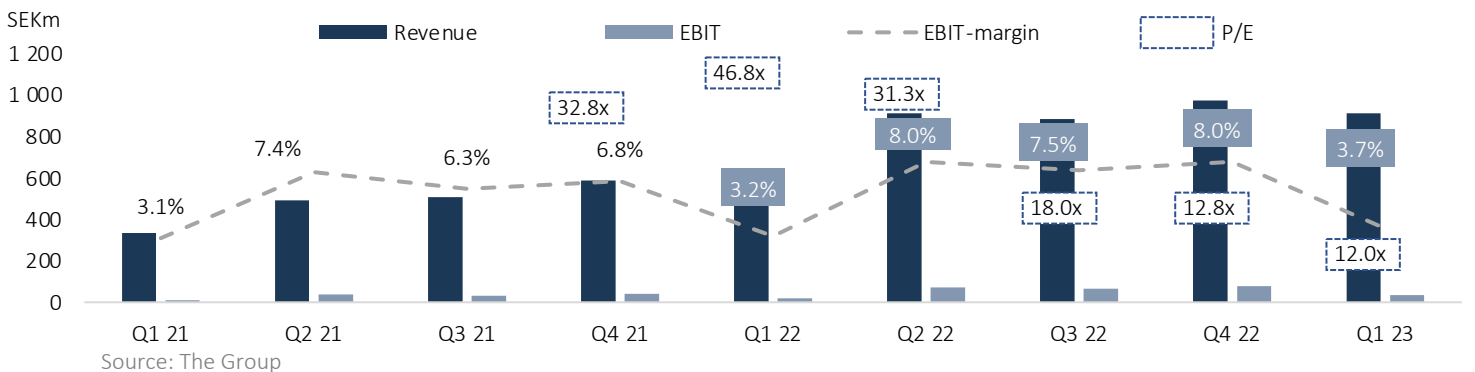
Estimated price and growth for acquisitions



Development per segment



Share valuation and company performance mismatch



Investment thesis

Cost synergies enable EBIT-margin expansion to 9.1% 2027E:

With a project-based revenue model, a growing knowledge base and best practice utilization will lead to improved cost planning per project, thus reducing COGS and OPEX as percentage of sale. Additionally, as the Group grows, so will their volume-discounts, resulting in a gross margin expansion to 59.8% by 2027E compared to 57.0% 2022A. Furthermore, Nordisk Bergteknik has strategically been acquiring companies in geographical clusters. With several companies in proximity, the Group can pool the specialized machinery, lowering capex as percentage of sales and achieving a higher utilization rate. By 2027E, it is estimated that capex as a percentage of sales has dropped from 7.8% 22A to 6.6%. Ultimately, these effects combined is expected to improve EBIT margin from 6.9% 2022A to 9.1% 2027E

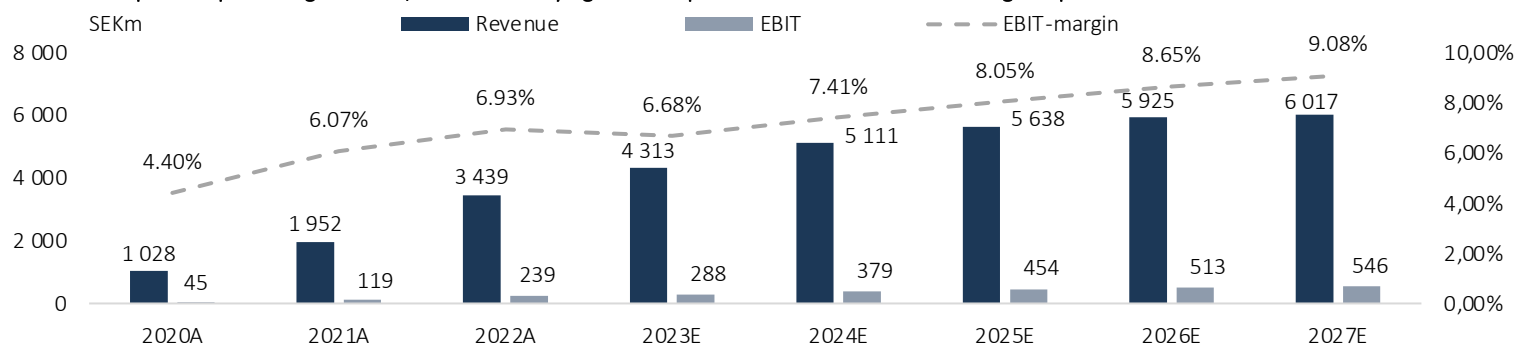
Market tailwind drives a 12.6% top-line CAGR 2022A-2027E in their most lucrative segment:

The Swedish' transportation and energy transition plan constitute a 4.5% increase in infrastructure spending attributable to Nordisk Bergteknik's foundation segment. The Group's advantageous position with a preeminent coverage area is expected to see a top-line CAGR of 12.6% 2022A-2027E in the foundation segment.

Acquiring cheaply enables 7.0% inorganic AAGR 2022A-2027E and 35% penetration rate:

Nordisk Bergteknik has a track record of acquiring companies cheaply, with an average buying multiple of 0.56 P/S, as becoming a part of the Group comes with perks for the acquired company. Through their strategy of incentive programs of non-cash issues of shares to sellers the average acquisition has a low cash flow impact, as it partly pays them in shares and partly motivates them to sell cheap, effectively only paying 46% of the full purchase price in cash. Additionally, as the rock handling market is fragmented, with 250+ potential acquisitions identified, a continued roll-up strategy for Nordisk Bergteknik is expected, entailing an inorganic AAGR of 7.0% 2022A-2027E despite the high cost of debt. They are expected to capture 35% of their TAM in 2027E.

Lower capex as a percentage of sales, centralized buying and best practice utilization will drive margin expansion



Source: Analyst estimates

Higher consolidation in the foundation market could hamper growth and profitability

In the foundation market, 5 players share roughly 70% of the market, with Nordisk Bergteknik holding 17.1%. The consolidation in the foundation segment makes it harder to capture market shares both organically and via acquisitions. As a result, growth in this segment could fall in line with that of the market, lowering the Group's profitability. In a worst-case scenario, this could result in an implied intrinsic value downside of 5.7%, all else equal. In order to mitigate the risk, an investor would do well to observe in which segments acquisitions are made.

Company Overview

Scandinavian market leaders in niche markets within construction and contracting services:

Nordisk Bergteknik is a rock-handling and foundation solution subcontractor with a presence in Sweden, Norway, and since Q1 2023 in Finland. Thus, they are in the infrastructure, mining, real estate, and energy industries. The Group was founded in 2016 and had their IPO in the latter part of 2021, although some subsidiaries' experience dates to the 1960s. Since 2016, the Group has acquired 23 subsidiaries and is, since 2019, Northern Europe's largest subcontractor of rock handling and foundations solutions.

Historically strong top line growth and expanding margins:

Nordisk Bergteknik has had a track record of solid top-line growth since its inception: amounting to a 77% CAGR 2017-2022A. During 2020A-2022A the Group grew top-line with a CAGR of 84%, of which 25% organic, while their EBIT margin expanded from 4.4% to 6.9% as the said economies of scale started to show. In 2022A, the Foundation segment had an EBIT margin of 11.2%, Rock Handling Sweden of 6.4%, and Rock Handling Norway of 4.9%, while the YoY top-line growth for each segment amounted to 158.8%, 62.0%, and 49.5% respectively.

Business Model

Low-risk business with limited cyclical exposure:

After a Geotech projecting has been done Nordisk Bergteknik perform the services needed to ensure that the contracting company can proceed with their operations, such as laying foundation. The group primarily operates with a largely diversified portfolio where projects are invoiced monthly limiting the Group's reliance on a single project's profitability. Thus, Nordisk Bergteknik has an accounts receivable turnover ratio of 8.1 ensuring sufficient frequency of incoming cash flows. Additionally, 75% of the Group's revenue stems from a public buyer, which lowers its cyclicity as public investments tend to be less cyclical.

Serial acquirer in geographical clusters and semi-decentralized organization:

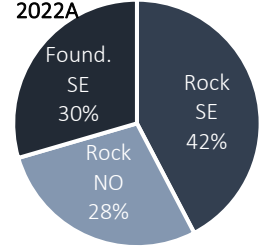
Nordisk Bergteknik acquires companies operating in the same area to pool machinery that is otherwise too heavy to transport between projects effectively. The Group operates through a semi-decentralized organization model, where each subsidiary's CEO and CFO directly manage their company's operations. However, assets and purchasing are joint and centralized, to the highest possible extent, to achieve cost synergies while maintaining and utilizing the local expertise and presence of the subsidiary's management. They acquire cheaply as part of the payment to comes in a targeted non-cash issue of shares to the sellers, which incentivizes a lower acquisition price.

Market Overview

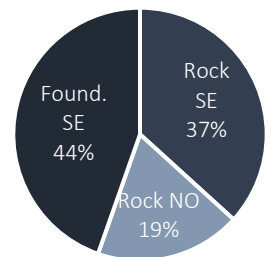
Fragmented rock handling market and the Group's stated intention of consolidating it:

Norway and Sweden's rock handling market is fragmented, with Nordisk Bergteknik holding 17.5% and 38.4% of TAM, respectively. Together with the recently entered Finnish market, the Group assesses the potential candidates for acquisitions to be substantially over 250. As of Q1 2023A, the group has unused credit commitments amounting to 408 MSEK, and a cash balance of 240MSEK. Previously the Group has acquired for around 30% of its cash per year. In the Swedish foundation segment, however, where strategic partners now are competitors, PEAB, NCC and Skanska together are assessed to hold nearly 60% of the foundation market, with Nordisk Bergteknik having a penetration rate of 17.1%. The competitors, however, primarily conduct foundation laying on their own holistic contracts compared to Nordisk Bergteknik offering it primarily as a separate service.

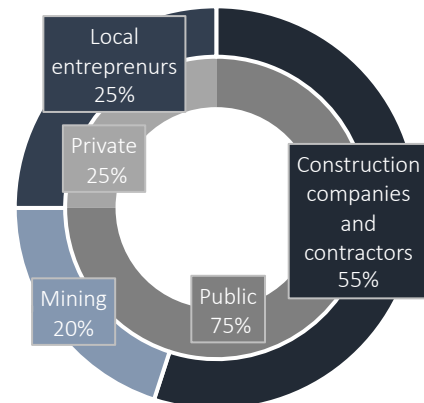
Segments by sale 2022A



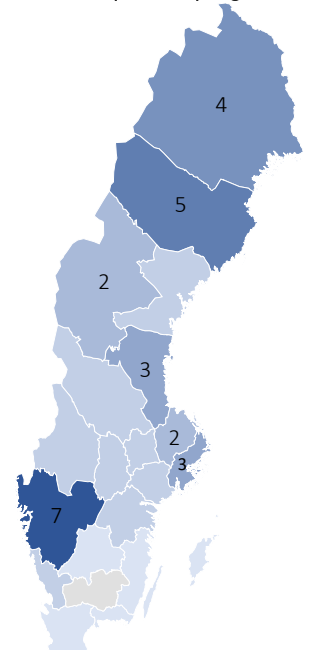
Segments by EBIT 2022A



Revenue split by customer type 22A



Companies by region



Valuation

A 2:1 weighted DCF and Peer-valuation implies an upside of 44.4% upside:

The market misconceives Nordisk Bergteknik's ability to grow as it is hard to grasp how cheap they acquire for, leading investors to value them as a mature company. A DCF supported with a relative valuation implies a target price of 43.6 SEK and an upside of 44.4%.

DCF-model with 11.0% discount rate and 2.0% TGR implies fair value of 44.8kr and 48.3% upside:

An estimation period of 10 years was determined as the majority of the group's cash flows are bound to come in that period. A discounting rate of 11.0% has been applied, risk adjusting their WACC of 8.5% as their high M&A activity makes the arrival time of their cash flows difficult to predict. A forecasted share dilution, issuing an additional 3.7 million shares, due to the Group's M&A-incentive strategy has been incorporated in the share price, resulting in an implied intrinsic value of 44.8kr for the share.

	FCF Estimates									
Year	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBIT	312	407	487	551	589	653	697	730	746	748
Taxes	(86)	(105)	(122)	(135)	(143)	(135)	(144)	(150)	(154)	(154)
NOPAT	226	301	365	416	446	519	553	580	593	594
D&A	291	335	364	382	390	481	548	602	644	560
CapEx	(249)	(336)	(364)	(364)	(349)	(477)	(552)	(625)	(653)	(557)
Change in NWC	(148)	(108)	(77)	(53)	(29)	(91)	(58)	(43)	(14)	6
Aquisitions	(81)	(41)	(26)	(28)	(34)	(35)	(19)	0	0	0
Unlevered FCF	39	151	261	353	425	397	472	513	570	603
NPV of FCF	35	121	186	225	241	201	214	207	206	194

Source: Analyst estimates

Undervalued to peers with similar conditions and capital structure despite margin drop in 2024E:

A peer valuation has been made to support the DCF. In lack of clear comparable businesses through a industry perspective, the chosen peers are instead composed of companies of similar size, growth, profitability, and capital structure. The P/E metric has been selected for comparison as the peers have similar capital structures. With a target multiple for 2024E of 12.5x P/E the peer valuation implies a 26.3% upside.

	Market Data		Financial Data							Valuation	
	Mcap	P/E LTM	Debt-to-equity	Revenue LTM	Revenue CAGR 2022A-2024E	Revenue 2024E	Income margin LTM	Income Margin 2024E	Earnings 2024E	P/E 2024E	
Green landscaping	4 332	21.2	2.1	5 184	7.71%	6 014	4.0%	3.5%	210	20.6	
Volex PLC	5 654	16.6	2.8	8 209	12.01%	10 301	5.8%	6.3%	649	8.7	
Italian sea group	4 755	17.8	2.0	3 282	18.28%	4 592	8.4%	10.0%	459	10.4	
Freelance.com SA	3 479	17.6	2.4	9 010	12.12%	11 328	2.3%	2.6%	295	11.8	
Kitron	9 163	22.2	2.8	5 144	15.19%	6 825	4.9%	6.0%	410	22.4	
TXT e-solutions	2 550	19.0	1.8	1 943	18.16%	2 714	8.6%	7.1%	193	13.2	
Average	4 989	19.1	2.3	5 559	12.67%	6 969	5.7%	5.9%	369	14.5	
Median	4 544	18.4	2.3	5 164	13.66%	6 420	5.4%	6.2%	352	12.5	
Nordisk Bergteknik	1 697	11.1	1.8	3 682	17.82%	5 111	4.0%	3.5%	178	9.9	

Source: Bloomberg, Borsdata, Analyst estimates

Appendix

Income Statement

SEKm	2020A	2021A	2022A	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Revenue	1,008	1,918	3,402	4,313	5,111	5,638	5,925	6,017	6,569	6,915	7,169	7,264	7,216
Other Revenue	21	34	37	0	0	0	0	0	0	0	0	0	0
Net Revenue	1,028	1,952	3,439	4,313	5,111	5,638	5,925	6,017	6,569	6,915	7,169	7,264	7,216
COGS	0	(776)	(1,481)	(1,833)	(2,142)	(2,334)	(2,417)	(2,419)	(2,608)	(2,704)	(2,767)	(2,760)	(2,797)
Gross Profit	1,028	1,176	1,958	2,480	2,970	3,304	3,508	3,598	3,961	4,211	4,402	4,504	4,419
% of Revenue	100.00%	60.27%	56.95%	57.50%	58.10%	58.60%	59.20%	59.80%	60.30%	60.90%	61.40%	62.00%	61.24%
OPEX													
External Costs	(659)	(362)	(613)	(785)	(930)	(1,026)	(1,078)	(1,095)	(1,196)	(1,258)	(1,305)	(1,322)	(1,313)
Personell Costs	(227)	(548)	(845)	(1,080)	(1,284)	(1,415)	(1,490)	(1,527)	(1,641)	(1,724)	(1,786)	(1,814)	(1,819)
Other Costs	(6)	(2)	(14)	0	0	0	0	0	0	0	0	0	0
EBITDA	135	265	487	615	755	863	939	976	1,125	1,228	1,311	1,368	1,286
% of Revenue	13.16%	13.57%	14.16%	14.26%	14.77%	15.30%	15.84%	16.22%	17.12%	17.77%	18.29%	18.83%	17.83%
Depreciation	(90)	(146)	(248)	(327)	(376)	(409)	(426)	(430)	(527)	(597)	(655)	(701)	(622)
EBIT	45	119	239	288	379	454	513	546	598	631	656	666	664
% of Revenue	4.40%	6.07%	6.93%	6.68%	7.41%	8.05%	8.65%	9.08%	9.10%	9.13%	9.15%	9.18%	9.20%
Interest Income	0	3	1	0	0	0	0	0	0	0	0	0	0
Interest Expense	(41)	(54)	(55)	(117)	(128)	(131)	(124)	(127)	(131)	(131)	(131)	(131)	(131)
EBT	5	68	185	171	251	323	389	419	466	500	525	536	533
% of Revenue	0.47%	3.46%	5.37%	3.96%	4.91%	5.73%	6.57%	6.96%	7.10%	7.24%	7.33%	7.38%	7.39%
Taxes	(3)	(23)	(36)	(57)	(73)	(88)	(102)	(108)	(96)	(103)	(108)	(110)	(110)
Net Income	2	45	149	114	178	235	287	311	370	397	417	425	423
% of Revenue	0.19%	2.30%	4.34%	2.64%	3.48%	4.17%	4.85%	5.17%	5.64%	5.75%	5.82%	5.86%	5.87%

DCF Valuation

Valuation, SEKm	
Sum of FCF	1,685
Terminal Value	5,970
NPV of Terminal Value	2,103
Implied Enterprise Value	3,788
Net Debt	(1084)
Implied Equity Value	2,704
Diluted Shares	60.3
Implied Share Price	44.8 kr
Implied Upside	37.3%

	Discount Rate				
	9%	10%	11%	12%	13%
2.60%	121.3%	77.9%	45.2%	19.6%	-0.9%
2.30%	113.2%	72.4%	41.2%	16.7%	-3.1%
TGR 2.00%	105.8%	67.3%	37.5%	13.9%	-5.2%
1.70%	99.1%	62.5%	34.1%	11.4%	-7.1%
1.40%	92.8%	58.1%	30.8%	9.0%	-8.9%

Appendix

Balance Sheet (SEKm)

Assets				
	2019	2020	2021	2022
Non-current Assets				
Buildings and property	19	0	13	
Tangible assets				909
Rights-of-use-assets	81	134	232	341
Machinery	260	355	447	
Ongoing constructions	15	4	1	
Other intangible assets	1	14	13	13
Goodwill	235	260	489	904
Deffered tax assets	3	7	6	1
Other long-term recievables	0	4	2	5
Total Non-current Assets	614	779	1,203	2,173
Current Assets				
Raw materials and consumables	23	41	95	152
Receivables	132	206	312	543
Current tax receivables	8	3	5	18
Other receivables	8	91	27	28
Acumulated invoiced income	52	103	122	165
Prepayments and accrued income	11	20	19	29
Short-term securities	0	0	5	7
Cash	182	73	451	263
Total Current Assets	416	538	1,035	1,205
Total Assets	1,030	1,316	2,238	3,378

Equity				
	2019	2020	2021	2022
Equity				
Share Capital	1	1	1	1
Other contributed capital	66	294	899	1,007
Reserves	1	(11)	1	0
Holdings without deciding influence	1	20	21	27
Other equity incl. profit for the year	12	2	48	209
Total Equity	80	306	969	1,244

Liabilities				
	2019	2020	2021	2022
Non-current liabilities				
Bonds	392	394	0	0
Leasing liabilities	59	98	163	242
Liabilities to group companies	82	0	0	0
Liabilities to credit institutions, machinery	0	120	145	315
Liabilities to credit institutions, other	128	0	389	637
Other liabilities	62	37	55	95
Total long-term liabilities	724	649	751	1,289
Current Liabilities				
Overdraft	0	20	0	2
Leasing liabilities	16	34	57	85
Invoiced unaccumulated income	14	14	10	16
Liabilities to credit institutions, other	53	4	1	0
Liabilities to credit institutions, Machinery loan	0	29	51	118
Liabilities to group companies	1	1	0	0
Accounts payables	57	95	159	219
Current tax debt	4	2	4	20
Other liabilities	35	58	87	133
Accrued expenses and prepaid income	14	66	92	145
Total short-term liabilities	194	324	461	738
Total Liabilities	918	973	1,212	2,027

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Disclaimer

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