

Hove A/S (HOVE)

Denmark | Industrial Components | MCAP 148.8 DKKm

30 January 2024

Buy

Target price: DKK 11.1

Current price: DKK 6.1

Upside **82.4 %**

Ready to pump up to new levels

Hove A/S (Hove or “the Company”) is a Danish company offering leading lubrication solutions and pumps to industrial machines – with a main focus on wind turbines. Hove is the market leader (40% market share) in a growing, niche industry - and with sights set on taking on new markets and industries, a promising chance presents itself for investors through an undervalued stock. The Company offers lubricating solutions which are recognized as the best on the market – by saving customers time, decreasing risk for costly breakdowns, and minimizing the human factor. This proven edge, paired with their geographical and industrial market expansion, is estimated to result in a revenue CAGR of 19% from 152 MDKK LTM to 253 MDKK in 2025E. An equally weighted DCF and peer valuation implies a target multiple of 7.1x EBIT in 2025E, which motivates a target price of DKK 11.1 and an upside of 82.4%.

Key takeaways

- Market expansion drives revenue growth in coming years:** Hove, with a 40% market share in a niche industry, stands out with patented solutions. Their efficient offerings save customers over 50% time compared to competitors solutions, and ensures safety in an industry where downtime equals significant revenue loss. Currently expanding into Turkey and India, where wind turbine lubricants' market CAGR is 2-3x the global estimate of 6.4%, Hove anticipates doubling revenue from 152 MDKK (LTM) to 390 MDKK (2028E) in 5 years. Despite entering new markets, they are set to improve EBIT margins from 6.6% in 2022A to 10.6% in 2028E due to the scalability of the business model.
- Hove’s business model ensures a trustworthy revenue stream:** As a comprehensive supplier, Hove provides a steady customer journey – which has led to long lasting relationships with industry-leading clients. Following a "Nespresso-model," they sell equipment upfront and provide grease containers every 8-12 months, ensuring recurring revenue for the entire lifespan of 20 years for wind turbines. Moreover, white-label solutions, such as their partnership with Vestas, contribute to diverse revenue streams, showcasing Hove's dynamic business model. Furthermore, this proves the Company’s scalability and potential to improve margins in the coming years.
- Hove’s first-mover advantage in port crane lubrication:** Hove addresses today’s market with a product boasting 12x the lubricant capacity, reducing contamination risk and averting potential breakdown costs. Their first-mover advantage propels them into the expanding port crane industry, expected to contribute around 10% of their revenue in 2025 and therefore grow by 20 MDKK. In a typical port, there are 10,000-20,000 lubrication points, compared to 50-200 in a wind turbine, and the global port infrastructure market is 50% larger than the wind turbine market, showcasing significant growth potential. This expansion is set to lead the top-line growth of 117% in the coming 5 years.

Analysts

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Market Data, DKK

Exchange	Nasdaq First North Denmark
MCAP (m)	148.8
EV (m)	147.6

Forecast, DKK

	22A	23E	24E
Revenue (m)	151.5	181.8	218.2
Rev. growth y/y	27.2%	20.0%	20.0%
Gross Margin	24.7%	29.0%	29.0%
EBITDA Margin	7.4%	10.8%	10.5%
EBIT Margin	6.6%	10.0%	9.8%
NOPAT Margin	5.3%	8.1%	7.9%
Profit Margin	4.7%	7.0%	6.8%
EPS	0.3	0.5	0.6

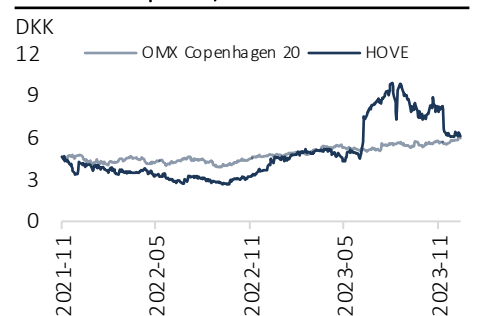
Metrics & Drivers

	22A	23E	24E
EV/Sales	0.95x	0.82x	0.68x
EV/EBIT	14.9x	8.3x	7.1x
P/E	22.3x	13.0x	11.1x
ND/EBITDA	N/A	N/A	N/A

Major Shareholders

Hans Christian Hansen	36.9%
47 Aktionærer	18.4%
Total Institutional	9.2%
Total Insider	44.6%
Total	53.8%

Price Development, DKK



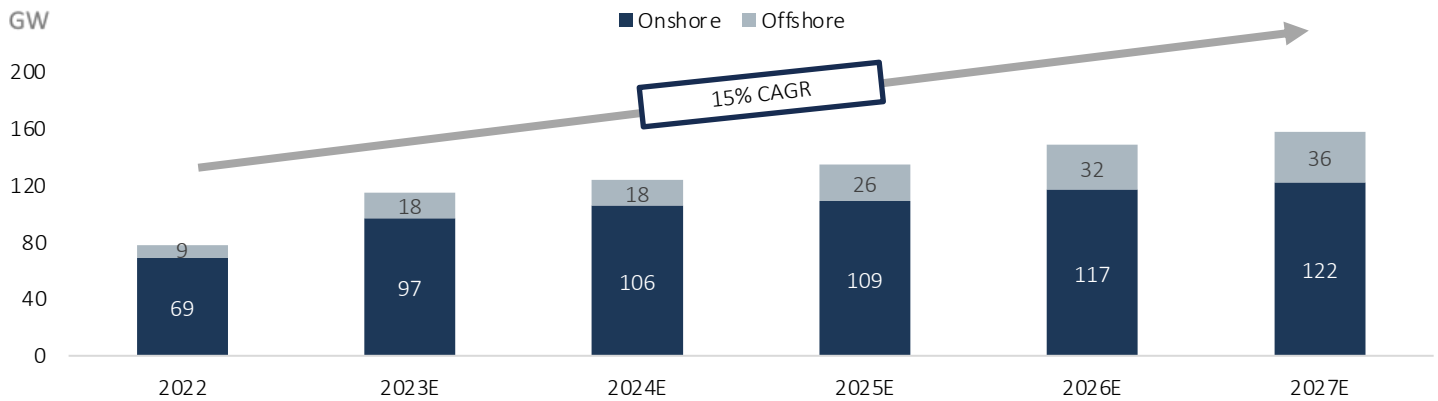
Investment thesis in charts

Hove offers most advanced lubrication solutions



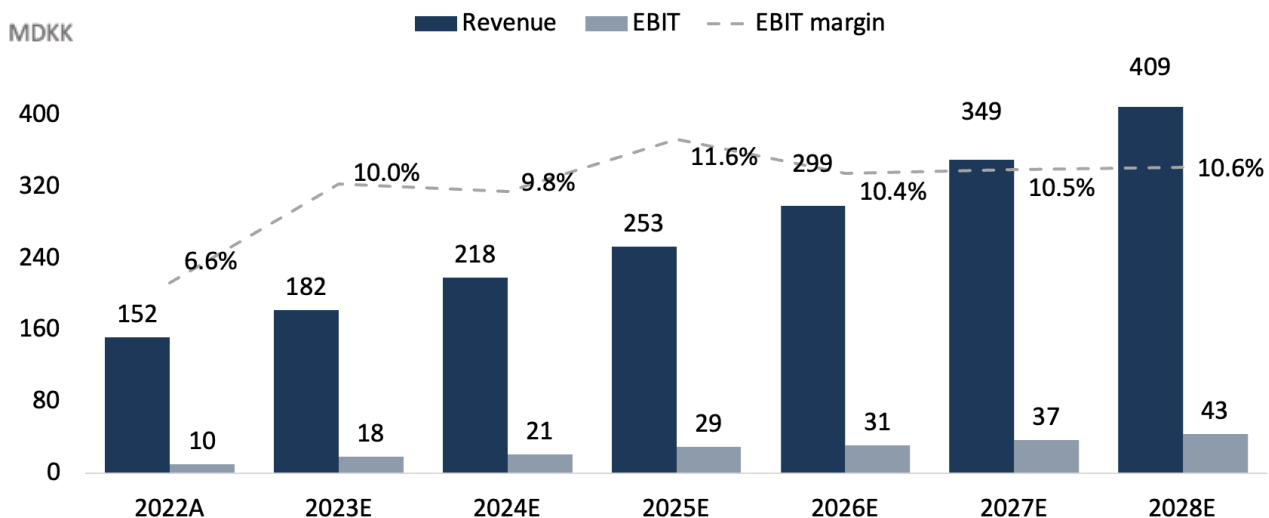
Source: Hove

New installations outlook showing strong market growth for future



Source: Global Wind Report 2023

Recurring revenues and economies of scale will lead to increase in EBIT margins & revenue



Source: Analysts estimates, Bloomberg

Investment thesis

Well-positioned in an emerging market with substantial potential

Hove operates as the market leader in a growing yet niche industry where they have a 40% market share. Their patented solutions differentiates them from competitors - which has been shown on the US market, where their revenue grew from 0 to now amounting to 45% of their total revenue - in just 4 years. Hove makes customers save time, analyze results and ensure safety in an industry where efficiency is everything and a day of downtime will result in millions of SEK lost in revenue, depending on the operator. They have their sights set on a geographic and industrial expansion with certain focus on Turkey and India where the expected market CAGR for wind turbine lubricants is 2-3x the global estimates of 6.4% due to government incentives. Expansion has just started and has already resulted in a 30% YoY-change in top-line and they are expected to more than double their revenue in the coming 5 years, according to analysts estimates. Despite this increased activity on new markets, they are set to see a steadily rising EBIT margin as a result of the scalability of the business model.

A resilient business model poised to generate future top-line growth

Functioning as a comprehensive supplier, the Company's business model creates recurring revenue streams and fosters customer loyalty within an industry characterized by high switching costs. The lubricant drain interval spans between 8 to 12 months, meaning that Hove secures future revenue on each and every wind turbine. Additionally, the company provides white-label solutions to big corporations such as Vestas, a prominent global player in sustainable energy. Notably, each wind turbine sold by Vestas is equipped with HOVEs lubrication system, which gives steady income streams and enables the company to grow with Vestas. Furthermore, it is estimated that a wind farm featuring 200 turbines can realize annual savings ranging from 400,000 to 800,000 SEK simply by adopting Hove's solutions. To offer a broader perspective, considering the presence of over 6,000 wind turbines in Denmark, this translates to a minimum annual saving of 12 MSEK. Similarly, with more than 60,000 wind turbines in the United States, the collective savings amount to a minimum of 120 MSEK annually – just by switching to Hove's products.

Offering an advanced lubrication system will lead to breakthrough in additional industries

As it stands today, nearly all wind turbines require physical intervention with lubrication pistols. Historically, this approach has been proven effective. However, with wind turbines growing not only in size but also in lubrication demand, the existing pistols, capable of holding only 400 grams of lubrication, are no longer sufficient. Hove revolutionizes the industry by offering a product amounting to 12x the lubricant capacity and decreases the risk of contamination - a breakdown which can cost more than 1 MDKK. On top of this, their IoT-solution contributes to an effective ecosystem, beneficial for customers in terms of a smooth user experience and for Hove in terms of higher margin per sale. This is one of the factors that will drive their EBIT margins to rise from 6.6% (LTM) to 11.6% in 2025E. This first-mover advantage results in a vast tailwind ahead of their industrial expansion into port cranes - an industry that connects close to shipping, which subsequently stands for 80-90% of the global world trade. This part of their business shows huge potential and is expected to grow with 20 MDKK until 2025, and will consequently amount to 8% of their total revenue. It is estimated that in a normal sized port, there are 10,000 to 20,000 lubrication points. This compared to the 50-200 in a wind turbine and, on top of this, the global port infrastructure market size is expected to be 50% larger than the global wind turbine market, which shows the huge upside of this market penetration.

Market Overview

Bold expansion into promising geographical markets

When looking at Hove today, their strongest presence is on the Danish and US wind turbine market – accounting for nearly all their revenue. However, a shift is taking place towards new geographical markets such as Brazil, Turkey and India where the expected market CAGR is 2-3x the global estimate of 6.4%. This tailwind stems from two reasons; firstly, government incentives such as feed-in-tariffs and tax exemptions that will lead to increased investment in green energy for the coming decades, which Hove is expected to capitalize on. Secondly, these markets present a geographically pleasing outlook with long coastlines and several hilly regions, leading to wind turbines being the optimal choice as a future energy source.

Hove focuses on port cranes as a key driver of future growth

Apart from wind turbines, Hove has a strong focus on an industrial market expansion to take place in the coming years, where port cranes are the main segment and is expected to grow into 10% of their total revenue until 2025E. This market shows great potential with a TAM 50% larger than the global wind turbine market, while it still offers a less penetrated competitive environment for Hove.

Company overview

Pioneering wind turbine lubrication since 2000

Hove A/S is a Danish company founded in 2000 by Thomas Hove, when development of the first lubrication pumps for wind turbines started. Later on, the Company was introduced to Nasdaq First North Growth Market Denmark in 2021. Today, they offer lubrication and maintenance services for mainly wind turbines, but a growing focus is being set on industrial machines in ports, as well as mines. Serving as a niche company with a strong know-how, it has led to long customer relationships amongst well-known companies on the wind turbine market such as Vestas, Siemens and Invenergy. The Company has 46 employees and its own R&D department that collaborates closely with customers in order to quickly respond to change and customer needs. Additionally, the Company's management and board of directors show strong belief in the Company with ~45% insider ownership.

Business Model

Hove's lucrative ecosystem: a 'Nespresso-Model' ensuring recurring revenues and customer loyalty

The Company offers lubrication solutions, which creates an ecosystem for customers as the Company serves as a comprehensive supplier. In this way, Hove's business model creates recurring revenues and fosters customer loyalty in industries that are characterized by high switching costs. Their business model can be seen as a "Nespresso-model" where Hove sells equipment up front, and then the customer will purchase grease containers from Hove every 8-12 months. This ensures ongoing revenue from every machine it is installed in. For wind turbines, this equals a stable top-line for the whole lifespan of the wind turbine, which is expected to be 20 years. For cranes in ports on the other hand, it is estimated to result in recurring revenues for even a couple of more years. The company's superior solutions have also led to revenue streams from white-label solutions, where their lubrication pumps are installed into each and every wind turbine Vestas produces and sells. In other words, Hove has a dynamic business model consisting of different elements and revenue streams.



Valuation

Peer valuation

Due to insufficient direct competitors in size and similar products, the comparable companies in the peer table shown below are niche companies offering components in the industry service sector. The peer table shows Hove's future revenue CAGR and EBIT margins for 2025 compared to peers and today's trading multiple of 5.0x EBIT shows an undervaluation in relation to its peers. Implying that Hove should be traded at the 2025 peer average, this suggests a target multiple of 7.1x EBIT and an upside of 52.8%.

Info	Market Data			Financials		Valuation
	Mcap (DKKm)	Enterprise Value (DKKm)	Revenue CAGR (2022-2025E) (%)	EBIT Margin 2025E (%)	ROIC LTM (%)	EV/EBIT 2025E
Company name						
Concentric	3,713	4,269	3.0%	15.7%	15.8%	9.0x
Bulten	868	1,819	13.7%	7.0%	5.2%	6.2x
Dxp Enterprises	3,462	6,535	7.2%	8.6%	7.1%	6.0x
MRC Global	6,269	12,102	4.4%	6.4%	8.7%	7.1x
Average	3,578	6,181	7.0%	9.4%	9.2%	7.1x
Median	3,588	5,402	5.8%	7.8%	7.9%	6.6x
Hove	149	148	14.6%	11.6%	18.7%	5.0x

Source: Analyst estimates, Bloomberg

DCF and peer valuation results in a target price of 11.1 DKK

The DCF valuation results in a target price of 12.9 DKK. It is derived from a TGR of 2.0% and a WACC of 8.7% which is used permanently for the entire forecast. This, along with the free cash flow has resulted in a DCF-target price of 12.9 DKK. Put into a weighted average, the DCF and peer valuation results in a final target price of 11.1 DKK and an upside of 82.4%.

Free Cash Flow Build Up DKKm	2023E	2024E	2025E	2026E	2027E	2028E	WACC	TGR				
Total Revenue	181.8	218.2	253.1	298.6	349.4	408.8		1.0%	1.5%	2.0%	2.5%	3.0%
EBIT	18.3	21.3	29.3	31.1	36.8	43.5	7.7%	13.52	14.43	15.49	16.76	18.29
NOPAT	14.7	17.2	23.5	24.9	29.5	34.9	8.2%	12.46	13.22	14.11	15.15	16.38
D&A	1.4	1.7	2.0	2.3	2.7	3.2	8.7%	11.54	12.19	12.93	13.80	14.81
Change in NWC	(19.9)	5.5	4.9	6.4	7.0	7.7	9.2%	10.74	11.29	11.93	12.65	13.50
Capex	2.4	2.6	2.9	3.2	3.5	3.8	9.7%	10.03	10.51	11.05	11.67	12.38
Unlevered free cash flows	33.6	10.8	17.7	17.7	21.8	26.6						
Present value of free cash flows	97.1											
Present value of terminal value	247.5											
Implied Enterprise value	344.6											

Appendix: Income statement

Income statement, DKKm	2019A	2020A	2021A	2022A	2023E	2024E	2025E	2026E	2027E	2028E
Total revenue	100.6	103.0	103.2	151.5	181.8	218.2	253.1	298.6	349.4	408.8
COGS	(72.1)	(69.1)	(67.8)	(100.2)	(114.5)	(137.4)	(159.4)	(188.1)	(223.6)	(265.7)
Other operating income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other external costs	(8.4)	(7.2)	(9.0)	(13.9)	(14.5)	(17.5)	(20.2)	(23.9)	(28.0)	(32.7)
Gross profit	20	26.7	26.4	37.4	52.7	63.3	73.4	86.6	97.8	110.4
Gross margin	20.0%	25.9%	25.6%	24.7%	29.0%	29.0%	29.0%	29.0%	28.0%	27.0%
Personnel costs	(15.6)	(17.0)	(19.9)	(26.1)	(33.1)	(40.2)	(42.0)	(53.2)	(58.3)	(63.7)
Other operating costs	0.0	(0.0)	0.0	(0.1)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
EBITDA	4.5	9.7	6.5	11.2	19.7	23.0	31.3	33.4	39.5	46.6
EBITDA margin	4.5%	9.4%	6.3%	7.4%	10.8%	10.5%	12.4%	11.2%	11.3%	11.4%
D&A	(0.8)	(0.8)	(0.8)	(1.2)	(1.4)	(1.7)	(2.0)	(2.3)	(2.7)	(3.2)
EBIT	3.7	8.9	5.7	10.0	18.3	21.3	29.3	31.1	36.8	43.5
EBIT margin	3.7%	8.6%	5.5%	6.6%	10.0%	9.8%	11.6%	10.4%	10.5%	10.6%
Net financial	(0.8)	(1.4)	(0.6)	(0.9)	(2.7)	(3.3)	(3.8)	(4.5)	(5.2)	(6.1)
Pretax profit	3.0	7.5	5.1	9.1	15.5	18.0	25.5	26.6	31.6	37.3
Pretax margin	2.9%	7.3%	5.0%	6.0%	8.5%	8.3%	10.1%	8.9%	9.0%	9.1%
Taxes	(0.7)	(1.8)	(1.1)	(2.0)	(3.4)	(4.0)	(5.6)	(5.8)	(6.9)	(8.2)
Net income	2.3	5.7	4.0	7.1	12.1	14.1	19.9	20.7	24.6	29.1
Net margin	2.2%	5.6%	3.8%	4.7%	6.7%	6.5%	7.9%	6.9%	7.0%	7.1%

Appendix: Balance sheet

Balance sheet, DKKm	2019A	2020A	2021A	2022A
Assets				
Non-current assets				
Intangible	0.0	2.2	12.9	13.9
Tangible	16.1	17.4	17.6	18.3
Financial assets	0.0	0.0	0.1	0.1
Total non-current assets	16.1	19.6	30.5	32.2
Current assets				
Inventories	14.9	13.9	18.9	34.0
Short-term receivables	11.3	17.3	16.4	29.5
Other securitites	1.5	1.3	0.0	0.0
Cash and cash equivalents	1.5	2.3	25.5	19.7
Total current assets	29.2	34.8	60.8	83.2
Total assets	45.3	54.4	91.3	115.4
Equity and liabilities				
Equity				
Working capital	0.5	0.5	2.4	2.4
Share premium on issue	0.0	0.0	32.1	32.1
Reserves	2.2	5.6	10.1	10.8
Profit for the year	11.2	12.1	15.4	21.9
Proposed dividend	2.1	2.8	0.0	0.0
Total equity	16.0	21.0	60.0	67.2
Provisions for deferred tax	0.9	1.4	1.2	2.2
Liabilities to credit institutions non-current leasing	5.1	4.8	4.5	4.2
Interest bearing debt	3.3	11.3	10.0	7.8
Other payables	1.9	1.5	1.9	1.6
Non-current liabilities	10.2	17.6	16.4	13.6
Current liabilities				
Liabilities to credit institutions	0.3	0.3	0.3	0.3
Interest-bearing debt current leasing	8.1	3.6	2.1	2.2
Accounts payable	8.1	6.2	7.9	25.2
Current tax debt	0.1	1.3	1.1	1.9
Other payables	1.2	2.6	2.1	2.4
Accruals and deferred income	0.4	0.4	0.4	0.4
Total current liabilities	18.1	143.4	13.8	32.4
Total liabilities and equity	45.3	54.4	91.3	115.4

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