

Matvareexpressen (MVE)

Norway | Grocery Retail | MCAP NOK 91m

26 February 2023

Buy

Target price: NOK 96.1

Current price: NOK 74.5

Upside 29.0%

MatvareExpressen – A hungry company in an unsaturated market

Founded in 2008 (Matvareexpressen or the “Company”) operates as a B2B online grocery company in Norway. The Company’s expansion into Oslo, along with strong possibilities for increased profitability, leads to a projected earnings per share CAGR of 81.9% during 2023E-2025E. The stock currently trades at an EV/EBIT multiple of 11.7x 2024E. A relative peer valuation, supported by a DCF, justifies a target EV/EBIT multiple of 14.5x in 2024E, indicating an upside of 29.0% and a target price of NOK 96.1.

Key takeaways

- Oslo expansion drives a revenue CAGR of 34.8% 2022A-2024E:** In 2023, Matvareexpressen expanded into Oslo, leveraging the Company’s successful history in other Norwegian cities. This expansion taps into a more extensive customer base and builds upon existing market insights, especially after acquiring key customers like FUS Barnehave. This expansion, including the acquisition of Oslo-based ToolBox, is estimated to drive a revenue CAGR of 34.8% 2022A-2024E.
- Strong demand for Matvareexpressens' offering promotes growth:** Tailored product offerings and a wide assortment position Matvareexpressen as a one-stop shop, outpacing competitors in the Norwegian grocery market. With a solid customer base of over 1,600 customers and a low annual churn rate of 3.0%, the Company is set for continued growth.
- Increased customer spending boosts profitability:** The average annual customer spending has grown with a CAGR of 19.2% during 2021A-Q2 2023A and is estimated to keep growing at a CAGR of 7.5% during the period 2023E-2026E, mainly driven by the acquisition of larger customers and development of the assortment. This leads to higher profitability due to operational leverage. Increased average customer spending contributes to a projected increase in EBIT margin from 2.0% in 2023E to 2.6% in 2024E.
- Large competitors slow online grocery development opens a key investment window:** Despite potential competitive threats from larger corporations entering the B2B market, Matvareexpressen's optimized online supply chain, custom warehouses, and efficient logistics set it apart. It takes larger entities an estimated 14 months to enter this sector, offering the highest share price growth potential before the entry of larger competitors. EPS is estimated to grow with a CAGR of 81.9% during 2023E-2025E. The analysts are confident that the market will trade the stock upwards as quarterly and annual reports are published, realizing the upside of 29.0% in 2024.

Analyst(s)

Johannes Olsson	Financial Analyst
Filip Berg	Financial Analyst

Market Data

Exchange	Oslo Growth
MCAP (NOKm)	91
EV (NOKm)	116

Financial Forecast

	22A	23E	24E
Revenue (NOKm)	212	305	385
Rev. growth y/y	100.5%	39.0%	26.2%
Gross Margin	27.2%	28.3%	28.3%
EBITDA Margin	3.8%	4.3%	4.9%
EBIT Margin	2.2%	2.0%	2.6%
NOPAT Margin	1.8%	1.5%	2.0%
Profit Margin	1.0%	0.7%	1.2%
EPS (NOK)	1.76	1.82	3.83

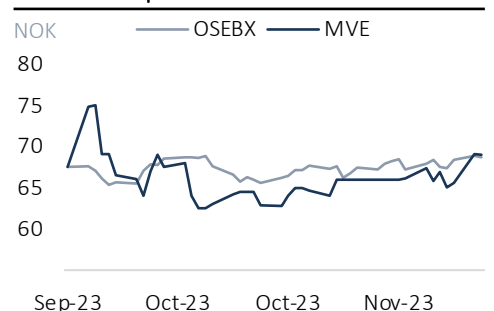
Metrics & Drivers

	22A	23E	24E
EV/Sales	0.5x	0.4x	0.3x
EV/EBIT	25.3x	19.5x	11.7x
P/E	42.2x	40.7x	19.3x
ND/EBITDA	3.1x	1.9x	1.3x
ROIC	6.9%	6.0%	9.9%

Major Shareholders

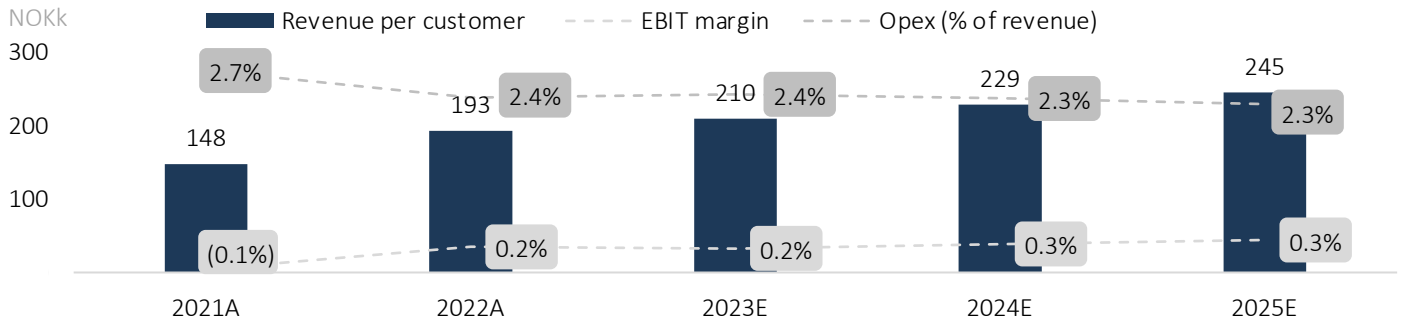
Jakob Hatteland Holding AS	12.5%
Jaro Invest AS	10.0%
Total Insider	57.5%

Price Development



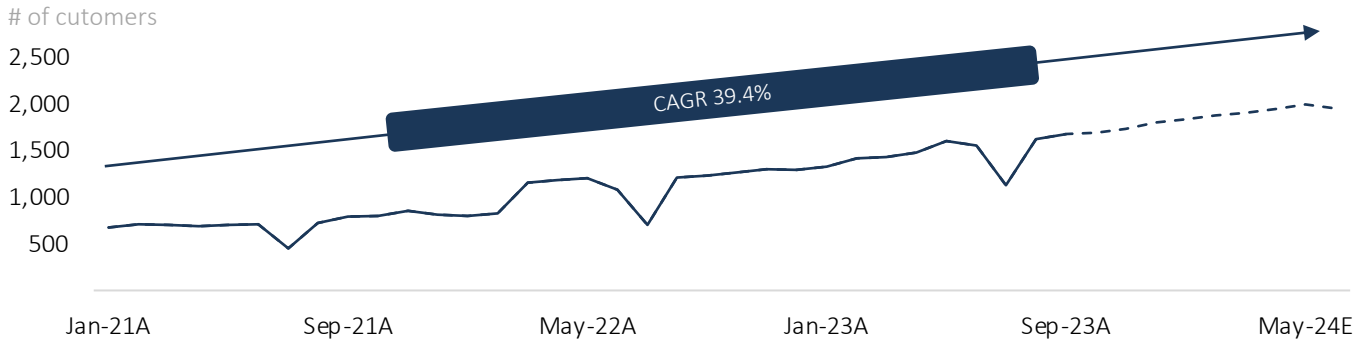
Investment thesis in charts

EBIT margin growth driven by increased customer spendings 21A-25E



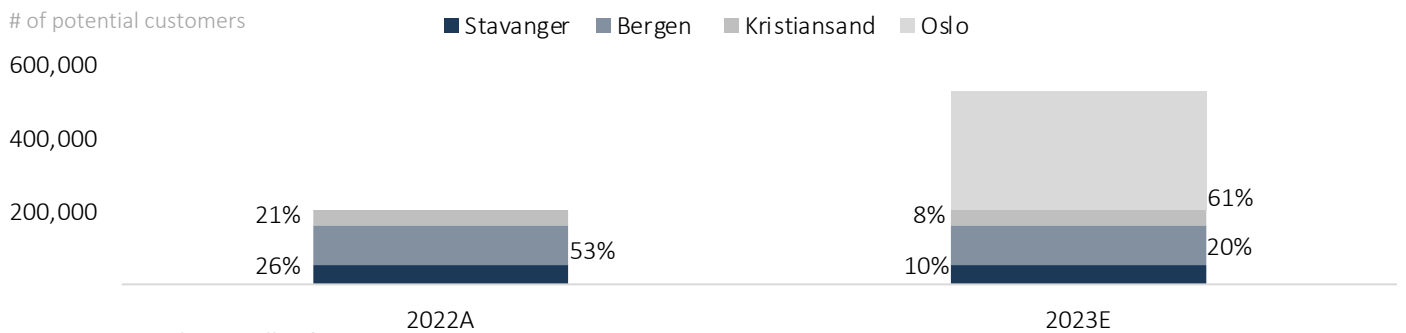
Source: Analyst estimates, the Company

Rapid customer acquisition due to strong product offering 21A-24E



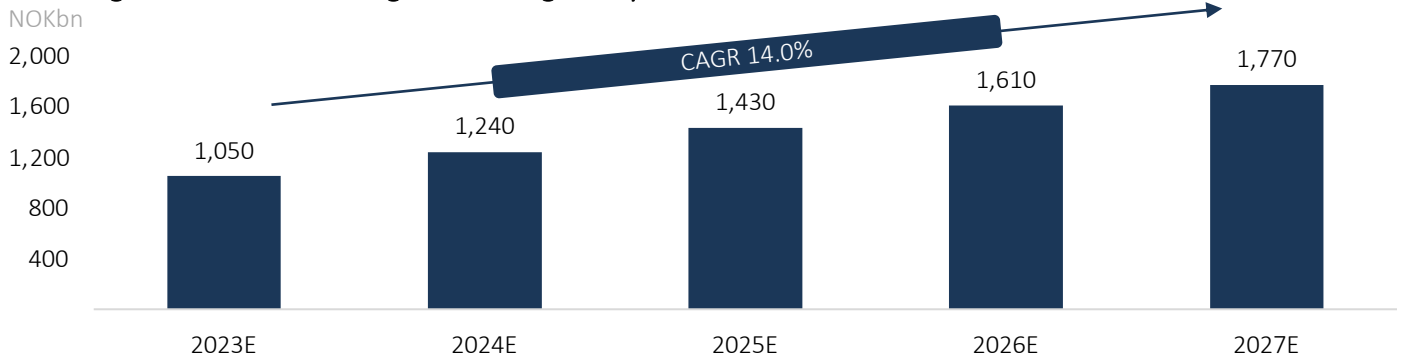
Source: Analyst estimates, the Company

Increased TAM by 2.6x through geographical expansion



Source: Statistisk sentralbyrå

Market growth in the Norwegian online grocery market 2023E-2027E



Source: Statista

Investment thesis

Geographical expansion to Oslo drives a revenue CAGR of 34.8% 2022A-2024E

The market underestimates Matvareexpressen's ability for further strong growth due to the Company's small size and short track record of operating as a national player. In 2023, Matvareexpressen initiated an expansion to Oslo, which boasts a customer base that is 2.6x larger than the Company's current operating segment. Leveraging a successful expansion history in Bergen, Stavanger, and Kristiansand, Matvareexpressen is well-positioned to replicate this success in Oslo, expected to drive a revenue CAGR of 34.8% 2022A-2024E. A central part of this expansion is the acquisition of Oslo-based ToolBox, a company specializing in grocery delivery to cantinas in Oslo. The acquisition provided valuable market insight and enabled the customer acquisition of FUS Barnehage, which operates close to 100 kindergartens in the Oslo region, with a delivery contract worth over NOK 40m.

High demand for Matvareexpressen's solution drives revenue CAGR of 15.9% 2023E-2027E

Matvareexpressen is in an excellent position to attract and retain a growing customer base. A tailored product to meet sector-specific needs and a wide assortment enables the Company to act as a one-stop shop for customers, enhancing customers' efficiency and lowering expenses. Furthermore, the Company's sizeable customer base of over 1,600 customers, in combination with a low annual churn rate of 3.0%, minimizes the risk. This strategic positioning poises Matvareexpressen to grow at a revenue CAGR of 15.9% during 2023E-2027E.

Increased customer spending drives EBIT margin to 2.6% 2024E from 2.0% 2023E

The analysts project that the market hasn't realized the positive impact of increased customer spending on Matvareexpressen's profitability. Simultaneously, the analysts believe that the market overestimates the persistence of costs of a non-recurring nature, leading investors to estimate low profitability for 2024E. Matvareexpressen has witnessed a substantial increase in the Company's average annual customer spending, recording a CAGR of 17.7% during 2021A-Q2 2023A, attributed to an increased assortment and larger customers. As average spending increases, profitability improves due to operational leverage, significantly reducing salary expenses as a percentage of revenue. Average customer spending in the online grocery segment is estimated to grow at a CAGR of 5.6% until 2027E. This decreases salary expenses from 16.0% of revenue in 2023E to 15.8% in 2024E. Additionally, other expenses, such as SG&A, have been abnormally high in 2023A due to market expansion and acquisitions. These expenses are expected to decrease as a percentage of revenue from 8.0% in 2023E to 7.6% for 2024E. Both factors drive an EBIT margin growth from 2.0% in 2023E to 2.6% in 2024E, which falls through to the bottom line, increasing earnings per share by 66.7% in 2024E.

High barriers to entry into the online grocery market act as a competitive advantage

Given the Company's limited market share, potential competitive threats exist from larger, more established companies expanding into the B2B market. However, traditional grocery companies don't have online-optimized supply chains, like Matvareexpressen, with tailored warehouses and order systems. Building this infrastructure takes time, with a market entry process for larger B2B online grocery companies estimated at 14 months. The risk of Matvareexpressen losing existing market shares is relatively low, as these are primarily based on supplier contracts and close customer relationships. Still, an entry may slow the growth rate. Therefore, the most significant increase in the Company's share price will arise before the entrance of a larger company, forming a good window for investment. With earnings per share estimated to grow at a CAGR of 81.9% from 2023E to 2025E, the analysts are confident the upside of 29.0% will be realized in 2024, as the market will react positively to the earnings growth shown in annual and quarterly reports.

Market Overview

Strong tailwind as the market is expected to grow at a CAGR of 14.0%

The Norwegian online grocery delivery market is expected to grow rapidly in the upcoming years. In the B2B segment, growth is driven by increased demand for more efficient and cost-effective grocery delivery solutions. Matvareexpressen, equipped with a team of in-house IT developers, a sophisticated online platform, and sector-specific additional services, stands in an advantageous position to leverage this market growth. The professional Norwegian market receives goods of NOK 40bn annually, of which the Company has around a 0.6% market share. The online breakbulk segment, in which Matvareexpressen operates, reached a turnover of NOK 4.3bn in 2022, where Matvareexpressen had a 4.9% market share.

Company overview

Innovative online-based supplier of groceries for professional customers

Matvareexpressen is a Norwegian B2B online grocery company founded in 2008 in Haugesund with branches in Stavanger, Bergen, Kristiansand, and Oslo, covering southern Norway. The Company caters to businesses, kindergartens, and municipalities, offering a comprehensive range of products in a convenient one-stop-shop format. The large assortment includes everyday goods like fresh bread, dairy products, fruits, and vegetables, complemented by office supplies and play equipment. Customers order through the Company's tailored online store, which is then distributed by an in-house delivery team through strategically located warehouses. Matvareexpressen partly utilizes local suppliers, which is appreciated among Norwegian consumers, enhancing the Company's appeal as a grocery supplier.

Business Model

Secure revenue streams with recurring customers

The customer base consists largely of public and private supply contracts secured by the Company. Mainly preschools and municipalities that need every day goods for their various activities. Contracts typically span multiple years, with a standard arrangement being a four-year term, allowing terms to be renegotiated in the third and fourth year. Customer acquisitions through contracts are strengthened by the active establishment of customer contacts by sales teams. The Company emphasizes fostering long-term relationships and recurring customers rather than one-time purchases. Adding 50-60 new customers each month, currently standing at over 1,600 with a low churn rate of 3.0%, signifies high customer satisfaction.

A convenient one-stop-shop with tailored solutions

Matvareexpressen's online platform can be customized depending on the specific needs of the customers' businesses. Products can be stored in the system for regular delivery or ordered manually. Matvareexpressen delivers items individually, reducing waste by enabling customers to order precise amounts and make supplementary orders easily if needed. The straightforward ordering process, seamless delivery, and invoicing reduce customer administrative costs. Using a single supplier saves time and money and contributes to a smaller environmental footprint.

Valuation

Undervalued compared to peers despite growing faster than the market

Currently trading at 11.7x EBIT 2024E, Matvarexpressen is undervalued compared to peers. Axfood and Europris are benchmark peers, as they provide geographical proximity and operate in a similar industry. In contrast, Sligro and The Chefs Warehouse operate outside of the Nordics with very similar business models. The Chefs Warehouse and Sligro, with roughly the same market share and larger competitors in their respective markets, are currently trading at a mean of 14.5x EBIT for 2024E. With a more robust market outlook in Norway, as no sizable company has entered the market yet, the analysts are confident that a multiple expansion is motivated to a target EV/EBIT of 14.5x in 2024E, indicating an upside of 30.1%

Peer Valuation	Market Data LTM (NOKm)		Financials			Valuation 2024E
Company Name	Market Cap	Enterprise Value	EBIT Margin 2022A	EV/EBIT TTM	Revenue CAGR 2022A-2024E	EV/EBIT
Axfood	58,877	69,282	4.1%	21.2x	11.6%	17.6x
Europris	12,631	16,483	14.3%	11.6x	5.0%	11.4x
The Chefs Warehouse	11,372	20,058	3.7%	20.9x	25.8%	14.6x
Sligro	12,778	17,573	1.9%	51.4x	19.0%	14.3x
Median	12,705	18,816	3.9%	21.1x	15.3%	14.5x
Mean	23,914	30,849	6.0%	26.3x	15.4%	14.5x
Matvarexpressen	91	116	2.2%	17.4x	26.8%	11.7x

Discounted cash flow analysis implies a share price of NOK 95.3 and an upside of 27.9%

The DCF is based on a forecasting period of 10 years, from 2023E-2032E. A WACC of 8.2% and a terminal growth rate of 1.3% implies an enterprise value of NOK 181m, indicating a share price of NOK 95.3 and an upside of 27.9%.

NOKm	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBIT	6.0	9.9	14.0	19.9	25.7	27.0	28.4	29.8	31.3	32.8
Tax rate	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%
NOPAT	4.7	7.8	10.9	15.5	20.1	21.1	22.1	23.2	24.4	25.6
D&A	7.0	8.8	10.2	11.5	10.2	10.7	11.2	11.8	12.4	13.0
Capex	15.6	7.7	8.9	10.0	11.0	11.5	12.1	12.7	13.4	14.0
Change in NWC	9.5	12.2	8.0	7.6	6.7	3.7	3.9	4.1	4.3	4.5
Present value of FCFF	(13.4)	(3.0)	3.6	7.5	9.2	11.1	10.8	10.5	10.2	9.9

An equally weighted DCF- and Peer valuation implies an upside of 29.0%

The analysts hold the view that the market is not fully recognizing the Company's potential for continued robust growth and is overlooking the beneficial effects of increased average customer spendings on Matvarexpressen's profitability. At the same time, the analysts believe that the market is overestimating the ongoing nature of non-recurring expenses, causing investors to forecast a lower profitability for 2024E. The estimated earnings CAGR of 81.9% during the period 2023E-2025E drives an increase in the share price of 29.0%, with quarterly and annual reports triggering the market's reaction due to the demonstrated growth in earnings. However, the possibility of holding the share for longer is good unless a clear sell signal arises, as in a larger company announcing plans to enter the same segment.

Appendix

NOKm	2019A	2020A	2021A	2022A	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Total revenue	104	85	106	212	305	385	444	500	550	577	606	636	668	701
Revenue growth	15%	(18%)	24%	100%	44%	26%	15%	13%	10%	5%	5%	5%	5%	5%
COGS	(76)	(61)	(77)	(154)	(219)	(276)	(320)	(360)	(396)	(415)	(436)	(458)	(481)	(505)
Gross profit	28	24	29	58	86	109	124	140	154	162	170	178	187	196
Gross margin	26.6%	27.8%	27.1%	27.2%	28.3%	28.3%	28.0%	28.0%	28.0%	28.0%	28.0%	28.0%	28.0%	28.0%
Salary Cost	(7)	(15)	(19)	(36)	(49)	(61)	(68)	(75)	(81)	(85)	(89)	(94)	(99)	(104)
Other Expenses	(9)	(9)	(10)	(14)	(24)	(29)	(32)	(33)	(37)	(39)	(41)	(43)	(45)	(47)
EBITDA	2	(1)	0	8	13	19	24	31	36	38	40	42	44	46
EBITDA margin	1.8%	(0.7%)	(0.3%)	3.8%	4.3%	4.9%	5.4%	6.3%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%
D&A	(1)	(1)	(1)	(3)	(7)	(9)	(10)	(11)	(10)	(11)	(11)	(12)	(12)	(13)
EBIT	1	(1)	(1)	5	6	10	14	20	26	27	28	30	31	33
EBIT margin	0.9%	(1.7%)	(1.0%)	2.2%	2.0%	2.6%	3.2%	4.0%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%
Financial incomes	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Financial costs	0	0	0	(2)	(3)	(4)	(5)	(5)	(6)	(6)	(6)	(6)	(7)	(7)
Pretax profit	0	(2)	(2)	3	3	6	9	15	20	21	22	23	24	26
Pretax margin	0.4%	(2.0%)	(1.4%)	1.2%	0.9%	1.6%	2.1%	3.0%	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%
Taxes	0	0	0	0	(1)	(1)	(2)	(3)	(4)	(5)	(5)	(5)	(5)	(6)
Net income	0	(1)	(1)	2	2	5	7	12	16	17	17	18	19	20
Net margin	0.3%	(1.5%)	(1.1%)	1.0%	0.7%	1.2%	1.7%	2.3%	2.9%	2.9%	2.9%	2.9%	2.9%	2.9%

NOK		WACC						
		7.7%	7.9%	8.1%	8.3%	8.5%	8.7%	8.9%
Terminal growth	0.7%	101	96	91	87	82	78	75
	0.9%	105	99	94	89	85	81	77
	1.1%	108	102	97	92	88	83	79
	1.3%	112	106	101	95	90	86	82
	1.5%	116	110	104	99	93	89	84
	1.7%	121	114	108	102	97	92	87
	1.9%	125	118	112	106	100	95	90

DCF valuation breakdown, NOKm	
Present value of forecast period	56
Present value of terminal value	125
Enterprise Value	181
Net debt	64
Equity value	117
Value per share (NOK)	95.3
Upside	27.9%

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Disclaimer

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