

Bouvet (BOUV)

Norway | IT-Consultancy | MCAP NOKm 6,726

15 June 2024

Buy

Target price: NOK 78.1
 Current price: NOK 64.8
 Upside: 20.5%

Bouvet – Riding the Digital Wave

Bouvet (or “the Company”) is an IT consultancy firm operating in Norway and Sweden, focusing on information technology, communication, and enterprise management. Bouvet's diverse customer base across both private and public sectors contributes to Bouvet’s resilience through macroeconomic fluctuations. Talent acquisition is crucial for consultancies since their growth is closely tied to their employee growth. In 2023, Bouvet had a record of 270 new hires, bringing the total to over 2,300 employees. With the employee count forecasted to reach 3,000 by 2026E, at a CAGR of 11%, Bouvet is poised to continue on its growth trajectory. Despite the challenges of 2023, Bouvet’s margins held up better than most of its peers due to its varied client base and 97% client retention rate. Looking forward this will allow Bouvet to continue outpacing competitors and protecting its margins. An equally weighted DCF and peer valuation implies a target price of 78.1 NOK, indicating an upside of 20.5%.

Key takeaways

- Optimized onboarding allows for an EBITDA margin expansion:** The capacity of an IT consultancy firm to undertake projects is constrained by the size of its workforce. Therefore, it is crucial for such firms to recruit and retain skilled consultants to facilitate growth. Bouvet has recently optimized its onboarding period. This has been accomplished through pre-employment training and summer internship programs, where summer interns who convert to full-time positions are ready to start billing instantly. Previously, this onboarding process could take months, but now it only takes days or a few weeks at most. While the personnel expenses for newly hired consultants remain stable, the increased speed at which they can start generating revenue will contribute to a 2.5 percentage point expansion in EBITDA margin until 2026E.
- Decreased dependency on sub-consultants drives gross margin expansion:** Forecasts indicate that Bouvet will continue to grow faster than market CAGR and therefore continue capturing market shares. This will be achieved through quality of services, access to unique partnerships in Norway, and its ability to retain key clients. Bouvet has also managed to increase its gross margin, mainly due to the increased efficiency of its consultants. This, in turn, has reduced the need to hire sub-consultants. We believe this trend will continue with Bouvet’s continued internalizing of expertise and the continuous improvement of their consultants. Estimates indicate the cost of sub-consultants to go from 9.9% of sales in 2023A to 7.9% of sales in 2026E, a trend that has not been observed in peers.
- Growing sustainability trend allows Bouvet to upsell clients:** The trend toward sustainability is evident, exemplified by key client Equinor's plan to double renewable power production in 2024. As companies transition to greener practices, there will be a growing need to update IT systems to align with these changes. With 41% of Bouvet's clients coming from the oil, gas, and renewable energy sectors, Bouvet is positioned to capitalize on this trend.

Analysts

Axel Rennmark	Equity Analyst
Alexandra Zemtsovski	Equity Analyst

Market Data, NOK

Exchange	OB Match
Shares (m)	103.8
MCAP (m)	6,726
EV (m)	6,565

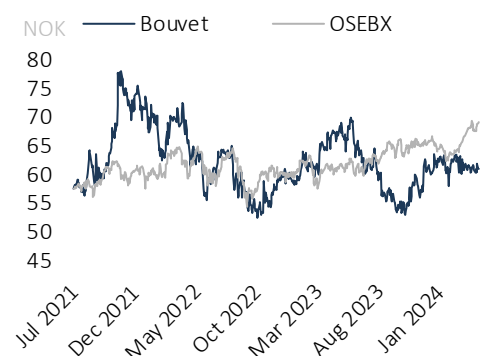
Metrics & Drivers	23A	24E	25E
EV/EBIT	15.5	12.7	10.5
EV/EBITDA	13.0	10.5	8.7
EV/S	1.9	1.6	1.4
P/E	20.7	16.7	13.9
ND/EBITDA	-0.3	-0.3	-0.2

Forecast, NOKm	23A	24E	25E
Total revenue	3,526	4,043	4,595
Rev. growth y/y	14.3%	14.7%	13.7%
Gross Profit	3,179	3,675	4,207
Gross Margin	90.2%	90.9%	91.6%
EBITDA	504	628	751
EBITDA Margin	14.3%	15.5%	16.3%
EBIT	407	518	623
EBIT Margin	11.5%	12.8%	13.6%

Major Shareholders

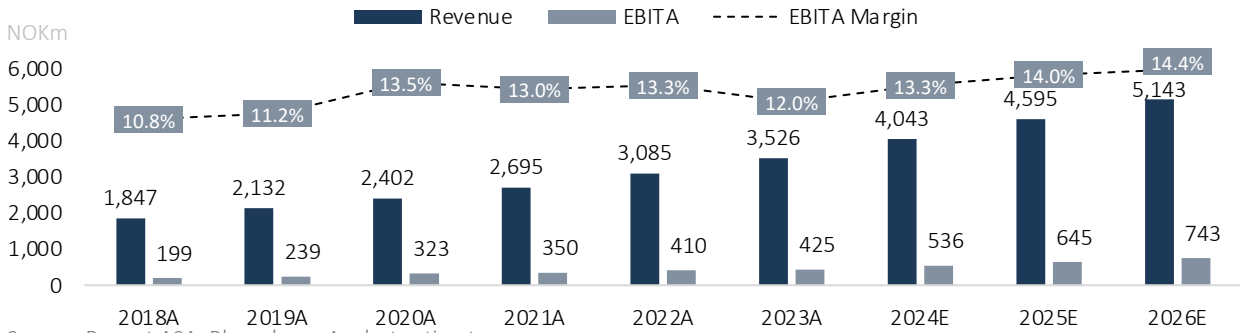
Folketrygdfondet	7.9%
VARNER KAPITAL	5.8%
Verdipapirfond Odin Norden	5.6%

Price Development, NOK



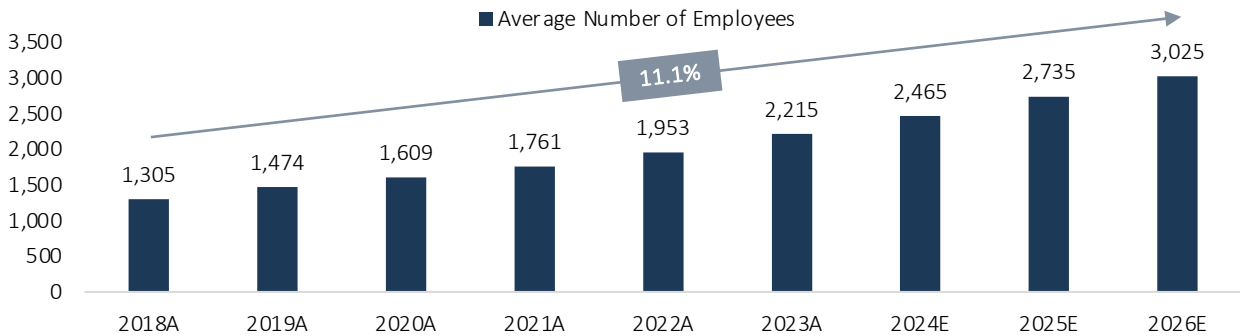
Investment thesis in charts

Revenue growth, EBITA growth, and EBITA margin. 2018A-2026E



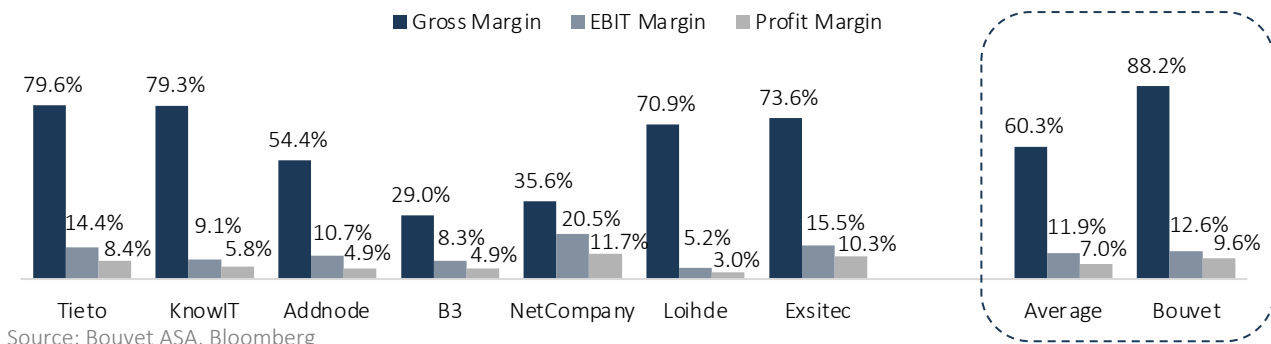
Source: Bouvet ASA, Bloomberg, Analyst estimates

Average number of employees, estimated growth and CAGR. 2018A-2026E



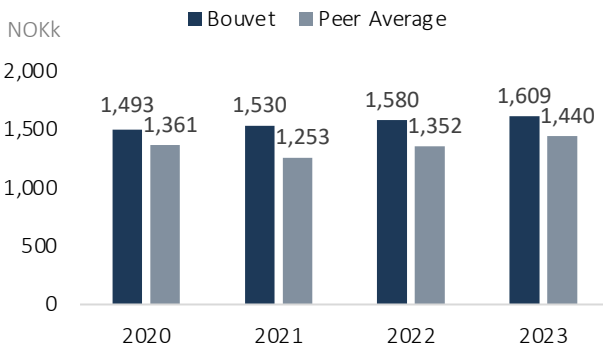
Source: Bouvet ASA, Analyst estimates

Bouvet and peer average gross, EBIT, and profit margins. 2019A-2023A



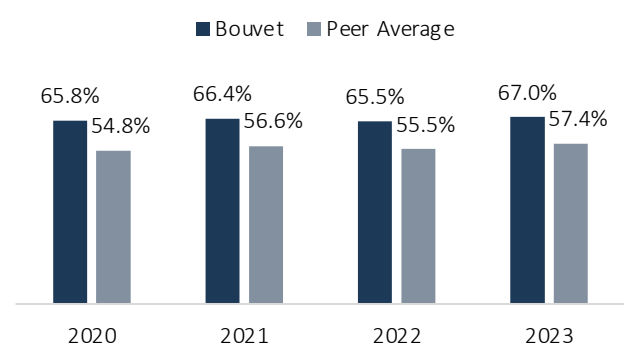
Source: Bouvet ASA, Bloomberg

Revenue per employee. 2020A-2023A



Source: Bouvet ASA, Bloomberg

Personnel expenses as % of sales. 2020A-2023A



Investment thesis

Optimized onboarding process of new employees drives EBITDA

An efficient onboarding process is crucial for IT consulting firms as it ensures new consultants can start working and billing clients more quickly, thereby fueling the company's growth. Bouvet has strategically refined its onboarding procedures, emphasizing comprehensive training for new hires before their official start date. The Company also has a large summer internship program which, upon conversion to full-time positions, produces employees who can bill instantly. With personnel costs remaining the same as before the changes, the increased revenue generated by new hires is projected to contribute to a 2.5 percentage point EBITDA margin increase through 2026E. This underscores the Company's commitment to enhancing efficiency and positions it for sustained success in the competitive IT consultancy sector.

Bouvet's increased consultant efficiency leads to decreased reliance on sub-consultants

Bouvet's growth within the Swedish and Norwegian IT consulting markets over the past decade highlights its strategic commitment to long-term growth and client relationships, as evidenced by its increase in market share from 0.9% to 1.7%. This trajectory is set for further growth, supported by Bouvet's partnerships, quality, and ability to retain key clients such as Equinor, Norway's largest company. The correlation between Bouvet's revenue expansion and gross margin improvement is closely tied to the increased efficiency demonstrated by its consultants. The efficiency increase is achieved through Bouvet's knowledge sharing culture where consultants are continuously learning and improving. This positions Bouvet well for a continued reduction in utilization of sub-consultants, forecasted to contribute to a 2 percentage point expansion of the gross margin by 2026E. In 2023A, the cost of hired external consultants totaled 285 NOKm, down from 11% of sales in 2020A to 8% in 2023A. This trend underscores Bouvet's focus on internalizing expertise and optimizing operational efficiency. With its service quality, unique partnerships, and firm client loyalty, Bouvet is estimated to continue capturing market share reaching 2% by 2026E.

The sustainability trend disproportionately favors Bouvet due to its existing clientele

The sustainability movement provides Bouvet with an opportunity to offer solutions that align with the green transition, allowing for upselling to existing clients and engaging new ones. As organizations undertake environmental and climate projects to meet regulatory requirements and refine their ESG goals, there is a growing demand for updated IT systems to support these initiatives. Bouvet is well-positioned to take advantage of this trend, as 41% of its clients come from the oil, gas, and renewable energy sectors, where investments in renewable energy solutions are increasing. For example, one of Bouvet's key clients, Equinor, plans to spend over 50% of its investments on renewables by 2030.

A future opportunity for Bouvet is the Corporate Sustainability Reporting Directive (CSRD). This EU law requires all large companies and listed companies to disclose the impact of their activities on people and the environment. CSRD took effect in January 2023, and the first companies will have to apply the new rules in the 2024 financial year for reports published in 2025. With its expertise in designing and implementing IT solutions for the green transition, Bouvet is well-equipped to meet the evolving needs of its clients.

Company Overview

Excellence in technology and employee wellbeing in Norwegian IT consultancy

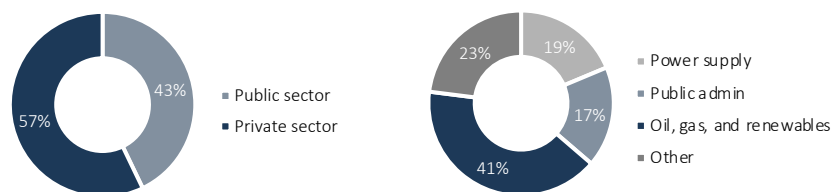
Bouvet is a prominent Norwegian IT consultancy primarily operating in Norway representing 97% of revenue and a small subdivision in Sweden representing 3% of revenue. The Company employs over 2,300 professionals across 17 offices in both countries. Founded in 2002 by Sverre Hurrum, who served as CEO until 2021, Bouvet benefits from Hurrum's continued involvement as a board member and a 3.4% shareholder, reflecting his ongoing commitment to the Company. Bouvet offers a comprehensive range of IT services, including web design, IT system redesign, and integration of partner software into client IT systems. Bouvet strongly emphasizes employee well-being and health, recognizing their consultants as their most valuable asset. This commitment is evident in the Company's higher-than-average personnel expenses as a share of revenue compared to peers. Bouvet's dedication to its workforce is further underscored by them ranking 6th in the Young Professionals Attractiveness Index and 10th in Universum Norway survey, far ahead of its peers.

Business Model

Public and private split ensures stability in hours billed

Bouvet's revenue model relies on two income streams: 99.9% of its revenue stems from variable contracts, which are based on hourly billed services. The remaining revenue is derived from fixed rates charged for hosting seminars and teaching courses to companies. While the latter source contributes minimally to revenue, its primary function is to attract new clients and maintain Bouvet's reputation as a cutting-edge company. Their services span a wide range of IT consultancy services, including UI, UX, redesigning old IT systems, and helping customers integrate their partner's software into their company. Bouvet's nearly equal revenue split between clients from the public and private sectors provides stability against macroeconomic downturns on the one hand and against political risks on the other hand. Bouvet's business model prioritizes customer satisfaction and fosters long-term relationships, evident in their 97% client retention rate.

Revenue Split



Market Overview

Strong market growth to be expected amidst green transition trend and digitalization

The IT Services market in Norway and Sweden was valued at USD 21.06 billion in 2023 and is projected to grow at a CAGR of 5.6% until 2029. This market offers a broad spectrum of services, ranging from web design to advanced machine learning and AI solutions. It is characterized by fragmentation, with numerous small private players and larger firms such as TietoEvry with a 9.5% market share and NetCompany with a 4.1% market share. Key drivers for growth include the green transition, AI, and IT infrastructure modernization. The green transition, necessitates new or upgraded IT systems for mandatory sustainability reporting starting in 2024. However, the market faces challenges, notably the continuous need to find skilled IT personnel. As the sector expands, the demand for qualified professionals intensifies, which could constrain market growth. Overall, the IT Services market in Norway and Sweden is poised for sustained growth, driven by technological advancements and the imperative for businesses to adapt to evolving digital and sustainability standards.

Valuation

Undervalued to peers despite higher growth

The companies selected for the relative valuation are IT consultancy firms operating in the Nordic market. Bouvet stands out with an estimated revenue CAGR of 13.4% between 2023A and 2026E, surpassing the peer average of 7.0%. The market undervalues Bouvet's growth potential, particularly through its future recruitment and optimized onboarding strategies, yielding an upside by 2026E. The peer valuation indicates that Bouvet is currently undervalued, trading at a 17.2% discount to the peer EV/EBITA average of 10.4x in 2026E.

Company name	EV (NOKm)	MCAP (NOKm)	EBITA margin 2023A	EV/EBITA 2023A	ND/EBIDTA 2023A	Revenue CAGR 2023A-2026E	EV/EBITA 2026E
TietoEvry	37,173	26,616	13.0%	10.4x	2.3x	3.8%	8.0x
KnowIT	5,267	4,315	7.7%	10.4x	1.5x	3.3%	7.7x
Addnode	15,509	15,844	8.6%	24.5x	0.5x	8.4%	11.9x
B3	1,074	927	11.6%	12.3x	1.1x	6.1%	7.2x
NetCompany	23,458	20,204	11.8%	21.4x	2.4x	10.1%	13.1x
Loihde	917	983	0.4%	136.9x	-0.9x	3.3%	14.7x
Exsitec	2,706	2,607	17.8%	20.3x	0.7x	14.0%	10.3x
Median	5,267	4,315	11.6%	20.3x	1.1x	6.1%	10.3x
Average	12,301	10,214	10.1%	33.8x	1.1x	7.0%	10.4x
Bouvet	6,565	6,726	12.1%	15.5x	-0.3x	13.4%	8.8x

Equally weighted DCF and peer valuation imply a target price of 78.1 NOK

The DCF analysis is based on projections extending to 2033. It assumes a terminal growth rate of 2.0% and a WACC of 9.4%, with a beta of 1 and an equity risk premium of 6%. The DCF suggests an upside of 23.7%. The peer valuation is derived from the peer average EV/EBITA in 2026E of 10.4x and indicates an upside of 17.2%. Equally weighted, the DCF analysis and the peer valuation yield a target price of 78.1 NOK, implying an upside of 20.5%.

DCF Valuation Breakdown 2033E		WACC	TGR				
			3.0%	2.5%	2.0%	1.5%	1.0%
Sum of NPV of FFCF (MNOK)	3,866						
PV of terminal value (MNOK)	4,296	8.4%	103.9	98.3	93.6	89.5	86.0
Enterprise value (MNOK)	8,161	8.9%	95.7	91.0	87.1	83.7	80.7
Net debt (MNOK)	-161	9.4%	87.1	83.4	80.2	77.4	74.9
Market cap (MNOK)	8,323	9.9%	80.8	77.7	75.0	72.6	70.5
No. of shares (M)	103.8						
Equity value per share	80.2	10.4%	75.3	72.7	70.5	68.4	66.6

Appendix

Income Statement											
NOKm	2018A	2019A	2020A	2021A	2022A	2023A	2024E	2025E	2026E	2027E	2028E
Total revenue	1,847	2,132	2,402	2,695	3,085	3,526	4,043	4,595	5,143	5,602	6,027
<i>y-o-y change</i>	14.9%	15.5%	12.7%	12.2%	14.5%	14.3%	14.7%	13.7%	11.9%	8.9%	7.6%
Cost of sales	(259)	(287)	(309)	(327)	(325)	(347)	(368)	(388)	(408)	(445)	(479)
Gross profit	1,588	1,845	2,093	2,368	2,760	3,179	3,675	4,207	4,735	5,153	5,544
<i>Gross margin</i>	86.0%	86.5%	87.1%	87.9%	89.5%	90.2%	90.9%	91.6%	92.1%	92.1%	92.1%
Personnel expenses	(1,179)	(1,378)	(1,580)	(1,790)	(2,021)	(2,361)	(2,709)	(3,083)	(3,456)	(3,764)	(4,050)
Other operating expenses	(193)	(175)	(132)	(169)	(259)	(313)	(338)	(373)	(417)	(454)	(488)
EBITDA	216	293	382	410	481	504	628	751	862	938	1,006
<i>EBITDA margin</i>	11.7%	13.7%	15.9%	15.2%	15.6%	14.3%	15.5%	16.3%	16.8%	16.8%	16.7%
Depreciation expense	(17)	(54)	(58)	(60)	(71)	(79)	(92)	(105)	(119)	(131)	(140)
EBITA	199	239	324	350	410	425	536	645	743	808	866
<i>EBITA margin</i>	10.8%	11.2%	13.5%	13.0%	13.3%	12.0%	13.3%	14.0%	14.4%	14.4%	14.4%
Amortisation expense	(7)	(7)	(9)	(10)	(8)	(18)	(18)	(22)	(26)	(28)	(30)
EBIT	192	232	315	340	402	407	518	623	717	780	836
<i>EBIT margin</i>	10.4%	10.9%	13.1%	12.6%	13.0%	11.5%	12.8%	13.6%	13.9%	14.2%	14.2%
Net financials	0.01	(4)	(3)	(5)	(1)	11	(4)	(5)	(5)	(6)	(6)
EBT	192	228	312	335	401	418	514	619	712	774	830
<i>EBT margin</i>	10.4%	10.7%	12.9%	12.4%	13.0%	11.9%	12.7%	13.5%	13.8%	13.8%	13.8%
Tax expense	(41)	(48)	(71)	(69)	(85)	(93)	(111)	(134)	(154)	(165)	(178)
Net income	151	180	241	266	316	325	402	485	558	606	650
<i>Net margin</i>	8.2%	8.5%	10.0%	9.9%	10.3%	9.2%	10.0%	10.5%	10.8%	10.8%	10.8%

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Other

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