LUND UNIVERSITY FINANCE SOCIETY EST 1991

Equity Research

Elopak (ELO)

Norway I Packaging I MCAP NOK 9,342m

9 June 2024

Buy

Target price:	NOK 46.7
Current price:	NOK 34.2
Upside:	**36.7%**

Pak up the returns

Elopak AS ("Elopak" or "the Company") is a leading provider of packaging and filling solutions for liquids, and is primarily known for the rights to the packaging patent Pure-Pak. The Company has been able to gain a competitive advantage by focusing on volume-light deals in an otherwise commoditized market. As Elopak cartons consist of 0% aluminum and one less layer of paper board compared to competitors, the Company is the leader within sustainable cartons, exposing Elopak to customers wanting to shift towards a more sustainable profile. Furthermore, Elopak is building the Company's largest manufacturing facility in the US which is expected to boost unit production and revenue by 42.4% and 54.3% respectively until 2025E in America. Therefore, the market is underestimating Elopak's ability to continue gaining market share in the US. An equally weighted DCF analysis and peer valuation, using a target EV/EBIT multiple of 10.3x estimated 2025E EBIT, justifies a target price of NOK 46.7, indicating an upside of 36.7%.

Key takeaways

- **American expansion drives revenue growth:** Elopak is currently building the Company's largest production plant in America, 5 times the size of the largest one to date, aimed to be finished in Q1 2025. The new production center is set to increase unit production by 42.4% and is estimated to allow Elopak to continue gaining market share in America, reaching 8.3% by 2025. Moreover, the plant is poised to generate 1.3 billion units and EUR 100m in revenue during 2025. This, in addition to a school milk carton shortage of 50% in America where competitors are 100% stretched in production, implies an annual revenue growth of 9% until 2026.
- **First mover advantage on growing market demands:** ESG-related products are growing at a 27% higher CAGR than non-ESG-related products in America, until 2025. Moreover, legislation and increased focus on sustainability have led to 11.4% of companies in the UK shifting from plastic to carton solutions. Elopak cartons consists of 0% aluminum and one less layer of paperboard compared to competitors, making the Company able to meet the increased demands of sustainability. Additionally, Elopak has a first mover advantage on a growing market due to the Company's unique products. This has led to Elopak being able to lock up customers on contracts lasting up to eight years, leading to predictable revenues.
- **Focus on deals that competitors overlook:** With a target of increasing tailor-made products for customers with 35%, Elopak can win volume-light deals that competitors overlook as they have already established assortments of cartons, not focusing on tailored solutions. The Company has been able to use the niched strategy to create a lock-in effect for customers in need of bespoke solutions. The shifted focus has resulted in a CAGR of 35% in sold units since 2014, which today is showcased by +15b units.

Analysts	
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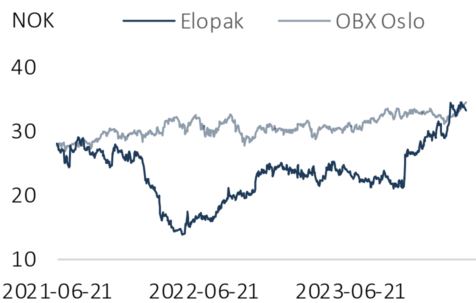
Market Data, NOK	
Exchange	Oslo Stock Exchange
Shares (m)	269.2
MCAP (m)	9,342
EV (m)	13,045

Metrics & Drivers	23A	24E	25E
EV/EBIT	11.3x	9.6x	8.5x
EV/EBITDA	6.8x	6.2x	5.5x
EV/S	1.0x	0.9x	0.8x
P/E	11.2x	11.1x	9.8X
ND/EBITDA	2.0x	1.9x	1.7x

Forecast, EURm	23A	24E	25E
Total revenue	1,132	1,220	1,350
Rev. growth y/y	10.5%	7.8%	10.7%
Gross Profit	412	445	493
Gross Margin	36.4%	36.5%	36.5%
EBITDA	163	179	201
EBITDA Margin	14.4%	14.7%	14.9%
EBIT	103	111	126
EBIT Margin	9.1%	9.1%	9.1%

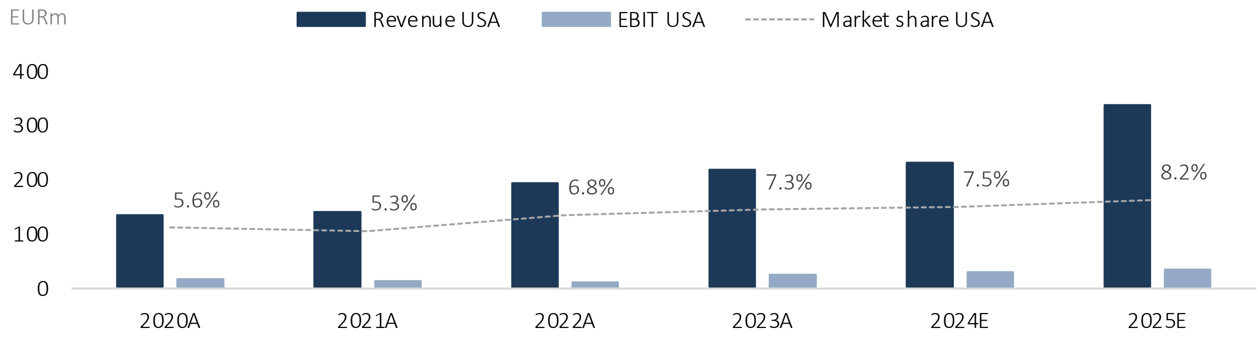
Major Shareholders	
Ferd AS	59.9%
Mizuho Trust & banking	5.0%
Folketrygdfondet	3.3%

Price Development



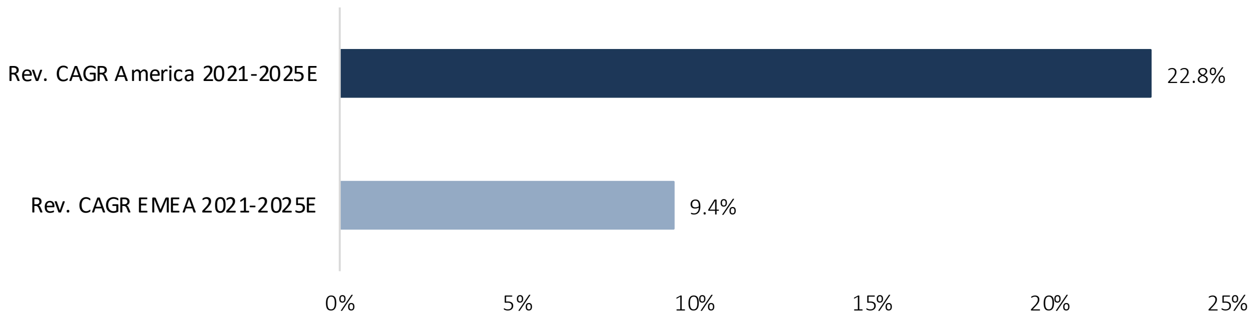
Investment thesis in charts

The market is underestimating Elopak's growth potential in America, set to surge with the new plant in 2025



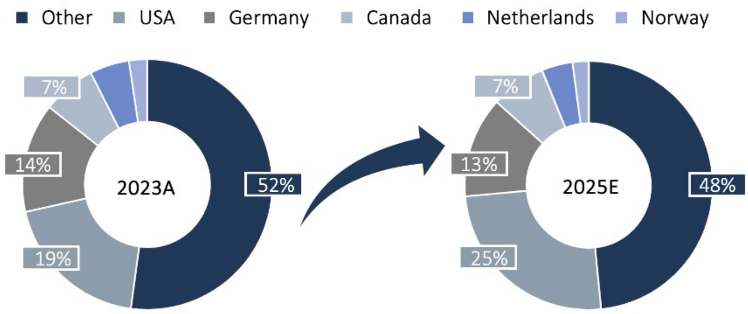
Source: Analyst Estimates, the Company

Potential customers switching to sustainable liquid packaging will drive a revenue CAGR of 12% until 2025E



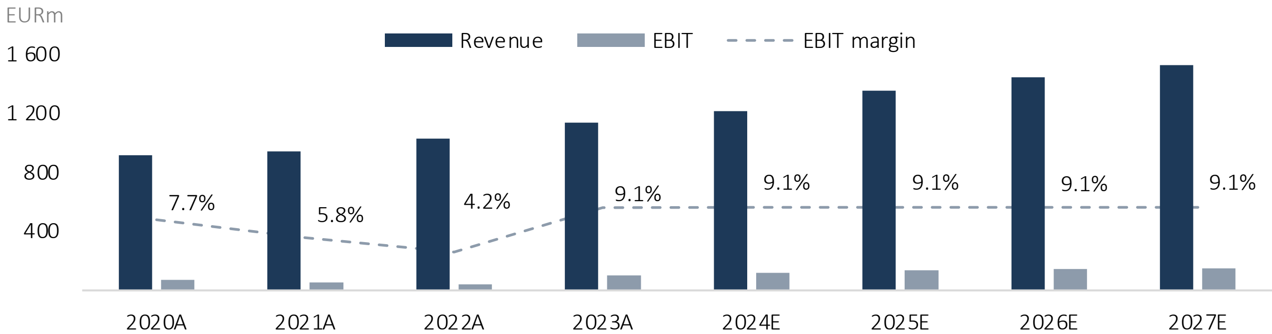
Source: Analyst Estimates, the Company

Adjusting the revenue split will boost sales, given the faster growth rate of the American market compared to others



Source: Analyst Estimates, the Company

ESG demands and tailor-made deals is set to strengthen revenue globally



Source: Analyst Estimates, the Company

Investment thesis

American expansion is set to increase volumes

In 2023, Elopak experienced high demands for cartons, showcased by already signed contracts with customers, extending over eight years, and a 9.3% revenue growth during 2023. The Company will be able to meet demands through the new US plant expected to begin production in Q1 2025, increasing unit sales with 1.3 billion representing 9.4% of total units sold. Customers in the US are estimated to shift towards more sustainable packaging, resulting in the new plant estimated to increase the American revenue share from 19% to 25% between 2023-2025E. Moreover, the US experienced a school milk carton shortage of 50% in 2023, poised to continue in 2024 and 2025. Elopak was the only company with resources to increase production, showing the Company's ability to adapt production. Furthermore, Elopak operates under higher margins in the US due to more sales of high-margin products, highlighted by an 8% higher EBITDA margin in the region compared to EMEA, which will secure stable margins.

New legislations and increased demand for ESG products is poised to boost unit sales

Changing customer demands and newly enacted laws, such as a 100% ban on single-use plastic bottles in America and India from 2026, are aimed at minimizing the usage of plastic. This will drive the liquid packaging industry, valued at USD 21.7b in sales globally in 2023, towards a larger focus on sustainability. Elopak is well set to meet the demand for more sustainable products with part of the Company's products containing 0% aluminum and one less layer of paperboard reducing carbon emissions with 27% compared to competitors. By prioritizing product development, Elopak has established a green profile that attracts customers seeking more sustainable liquid carton solutions, represented by 11.4% of the UK companies shifting from plastic to carton solutions. The fact that Elopak can tailor sustainable solutions for customers wanting to shift materials, gives Elopak a first mover advantage in a growing market segment. To maintain the Company's leading position and to continue being in the forefront of technology, Elopak invests 2.1% of sales in R&D, surpassing the industry average of 1.2%.

Primed to capture market share through a high-focused strategy

Elopak operates in a consolidated market where the three largest players stands for 70.4% of the market share within the industry. Elopak is set to increase market share by 1.2% through the Company's unique business model of creating lock-in effects for customers through tailor-made products, showcased by an increased NPS of 72% in 2023. The liquid packaging sector is increasingly adopting sustainable practices, as evidenced by 11.4% of UK companies transitioning from plastic to sustainable carton solutions. Elopak is strategically positioned to leverage on shifting production through targeted, volume-light deals that are overlooked by larger competitors, and with a 35% CAGR in sold units since 2014, Elopak has proven the Company's viability of capitalizing on smaller-scale opportunities. In contrast to competitors who maintain a standard strategy with pre-established carton assortments, Elopak's bespoke approach, which represents 27% of the revenue, allows the Company to capture niched product opportunities. Based on differentiation, the Company will be able to maintain EBIT margins of 9.1% as Elopak's expansion does not compete with industry-leading peers.

Volatile paper prices can affect the COGS and investors being concerned due to competitors

As Elopak offers commoditized products, COGS are mainly dependent on paper-board pricing, making volatile prices of paper a potential risk for the Company, something that has affected the margins historically. However, Elopak has secured contracts with suppliers for the next four years, including fixed price agreements on materials that are tied to paper prices, which represents 90.3% of COGS, thereby reducing the risk of cost fluctuations. Additionally, the Company’s tailor-made products provide significant pricing power compared to competitors.

Company Overview

End-to-end solutions for sustainable packaging

Elopak AS is a Norwegian based company founded in 1957 in Oslo, Norway. The Company specializes in providing end-to-end solutions for sustainable liquid carton packaging and are primarily known for the Pure-Pak patent which was acquired in 1960. Elopak's main goal is to deliver sustainable cartons in line with new regulations and ESG-demands for customers and to continue being in the forefront of technology within the industry. The Company is operating in over 40 countries covering more than 70 markets across the globe. Elopak has a pre-set assortment of cartons, targeted at volume heavy customers such as Pepsi, but also offer tailor-made solutions for volume light segments as well as up and coming players in the industry. In addition, no customer accounts for more than 12.4% of revenue. The Company offers two types of packaging: Aseptic and Fresh. Aseptic packaging accounts for 80% of the Company's revenue, while Elopak's fresh packaging is the market leader in Europe and Central America.

Business Model

Focused business model generates growth possibilities

Elopak's business model is heavily centred around its carton and closure segment, which contributes 90% of total revenue. Cartons are produced in two distinct methods: customers can either choose a pre-designed Elopak carton or customize a carton to meet their specific requirements. Moreover, the filling machines and aftermarket service segments, while smaller, account for 10% of revenue and are crucial to the business. Notably, the lock-in effect of the machines, which sales grew 120% in 2023, ensures ongoing demand for the Company's cartons as the machines only are compatible with Elopaks cartons, resulting in longer customer contracts of 4-8 years.

Geographical Presence and Market Strategy

Elopak has strategically positioned itself in geographical markets, with the USA and Germany being the Company's largest, accounting for 19% and 14% respectively of the total revenue. In the USA, Elopak holds a 7% market share and an 8% higher EBITDA margin compared to the EMEA region. The higher profitability lays the foundation for the ongoing American expansion and is foundational for the previous growth within the region which is shown by a revenue CAGR of 17% between 2019-2023 in America.

Market Overview

Growing demands for sustainable liquid cartons will drive volumes

Elopak is well-positioned in a growing market. ESG-related products are estimated to grow at a 27% higher CAGR than non-ESG-related products in America, between 2023 and 2025E. The Company’s revenue is mainly derived from carton sales and long-term market growth stems from stricter regulations and increased focus on sustainable packaging solutions. Consequently, existing and new customers are transitioning toward carton alternatives, driving a shift from plastic to carton products, showcased by a 11.4% change for companies in the UK. These market drivers benefit the Company and will drive demand over many years.

Few key players within the industry

Substantial CapEx for plant construction and an experienced team, maintaining the Company at the forefront of technology, is crucial for operating in the industry, creating high barriers to entry. In consequence, Elopak operates in a consolidated market, where four players stands for 93% of the market share in the US. Despite being the smallest, the Company stands out due to its unique business model, offering both standard and tailor-made solutions.

Valuation

Valuation discrepancy compared to peers despite higher ROIC and revenue growth

The companies in the peer valuation are industry peers within the sustainable packaging industry. It is evident that Elopak is undervalued when considering the Company's higher projected revenue growth and return on invested capital (ROIC) compared to its industry peers. With growth surpassing the peer average, Elopak should be valued at par with the peer average. Based on this, the analysts motivate a target multiple of 10.3x EV/EBIT for 2025E, implying a 17.1% upside and a share price of NOK 40.0.

Peer Valuation	Market data (EURm)		Market data				Valuation	
Company Name	MCAP	EV	EBIT Margin	ROIC	Revenue CAGR (2023A-2025E)	EBIT Margin 2025E	EV/EBIT	EV/EBIT 2025E
Nilörngruppen	71	72	7.2%	23.7%	3.4%	8.8%	11.3x	7.5x
Cascades	658	1,936	5.9%	7.0%	4.2%	6.3%	10.4x	9.6x
Huhtamäki	3,894	6,364	9.1%	11.6%	3.7%	9.4%	14.4x	13.1x
TFF Group	954	1,110	14.0%	18.9%	9.2%	15.1%	14.1x	12.9x
Duni	464	516	8.4%	14.8%	2.1%	9.3%	9.1x	8.5x
Average	***1,208***	***2,000***	***8.9%***	***15.2%***	***4.5%***	***9.7%***	***11.9x***	***10.3x***
Median	***658***	***1,110***	***8.4%***	***14.8%***	***3.7%***	***9.9%***	***12.4x***	***11.2x***
Elopak	786	1,105	9.1%	16.4%	10.4%	9.1%	11.3x	8.5x

DCF and peer valuation implies a target share price of 46.7 NOK

The DCF valuation is based on estimates until 2032E, as this is when it is expected that the Company has reached the terminal growth rate of 2.0%. The DCF, with a WACC of 9.0%, was supported with an equally weighted peer valuation, based on a 10.3x 2025 estimated EV/EBIT. The peer valuation resulted in a target price of NOK 40.0, which, when combined with the DCF target price of NOK 53.4, sets the target price at NOK 46.7 indicating an upside of 36.7%.

DCF valuation breakdown		WACC	TGR				
Sum of forcasted value (NOKm)	6,986	34.2	1.0%	1.5%	2.0%	2.5%	3.0%
PV Terminal value (NOKm)	10,164	8.0%	57.5	60.9	64.7	69.3	74.8
Enterprise value (NOKm)	17,149	8.5%	52.7	55.4	58.6	62.4	66.8
Market cap (NOKm)	14,371	9.0%	48.4	50.7	53.4	56.5	60.1
No. Shares (m)	269	9.5%	44.6	46.6	48.9	51.5	54.5
Equity value per share (NOK)	**53.4**	10.0%	41.3	43.0	45.0	47.1	49.6

Appendix: Income statement

EURm	2020A	2021A	2022A	2023A	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Revenue	914	940	1,024	1,132	1,220	1,350	1,440	1,523	1,600	1,670	1,733	1,790	1,841
COGS	(577)	(608)	(681)	(720)	(787)	(871)	(914)	(967)	(1,016)	(1,060)	(1,101)	(1,137)	(1,169)
Gross profit	**337**	**332**	**343**	**412**	**445**	**493**	**526**	**556**	**584**	**609**	**633**	**653**	**672**
Gross margin	*36.9%*	*35.3%*	*33.4%*	*36.4%*	*36.5%*	*36.5%*	*36.5%*	*36.5%*	*36.5%*	*36.5%*	*36.5%*	*36.5%*	*36.5%*
Payroll expenses	(169)	(172)	(177)	(190)	(200)	(219)	(233)	(247)	(259)	(271)	(281)	(290)	(298)
Other operating expenses	(46)	(50)	(62)	(60)	(66)	(73)	(78)	(82)	(86)	(90)	(94)	(97)	(99)
EBITDA	**123**	**111**	**105**	**163**	**179**	**201**	**215**	**227**	**238**	**249**	**258**	**267**	**274**
EBITDA margin	*13.4%*	*11.8%*	*10.2%*	*14.4%*	*14.7%*	*14.9%*	*14.9%*	*14.9%*	*14.9%*	*14.9%*	*14.9%*	*14.9%*	*14.9%*
Depreciation & Amortization	(52)	(56)	(62)	(60)	(68)	(76)	(81)	(85)	(90)	(94)	(97)	(100)	(103)
EBIT	**71**	**54**	**43**	**103**	**111**	**126**	**134**	**142**	**149**	**155**	**161**	**166**	**171**
EBIT margin	*7.7%*	*5.8%*	*4.2%*	*9.1%*	*9.1%*	*9.1%*	*9.1%*	*9.1%*	*9.1%*	*9.1%*	*9.1%*	*9.1%*	*9.1%*
Net financial	(10)	(4)	5	(18)	(19)	(21)	(23)	(24)	(25)	(26)	(27)	(28)	(29)
EBT	**60**	**50**	**48**	**85**	**92**	**102**	**108**	**115**	**120**	**126**	**130**	**135**	**138**
EBT margin	*6.6%*	*5.3%*	*4.7%*	*7.5%*	*7.5%*	*7.5%*	*7.5%*	*7.5%*	*7.5%*	*7.5%*	*7.5%*	*7.5%*	*7.5%*
Taxes	(12)	(16)	(12)	(16)	(20)	(22)	(24)	(25)	(26)	(28)	(29)	(30)	(30)
Profit from continuing operations	48	34	35	69	72	79	84	89	94	98	102	105	108
Discontinued operations	0	0	(23)	2	0	0	0	0	0	0	0	0	0
Profit	**48**	**34**	**12**	**71**	**72**	**79**	**84**	**89**	**94**	**98**	**102**	**105**	**108**
Profit margin	*5.2%*	*3.6%*	*1.2%*	*6.2%*	*5.9%*	*5.9%*	*5.9%*	*5.9%*	*5.9%*	*5.9%*	*5.9%*	*5.9%*	*5.9%*

Appendix: Balance sheet

EURm	2020A	2021A	2022A	2023A
Assets				
Non-current assets				
Development cost and other intangible assets	61	57	71	62
Deferred tax assets	24	22	22	23
Goodwill	52	52	105	106
Property, plant and equipment	188	186	202	203
Right-of-use assets	69	63	77	86
Investment in joint ventures	27	28	35	38
Other non-current assets	15	14	20	15
Total non - current assets	**436**	**421**	**532**	**533**
Current assets				
Inventory	136	145	187	192
Trade receivables	78	92	102	110
Other current assets	93	102	109	114
Cash and cash equivalents	6	24	26	13
Total current assets	**313**	**363**	**425**	**429**
Total assets	**749**	**783**	**956**	**962**
Equity and liabilities				
Equity				
Share capital	47	50	50	50
Other paid-in capital	15	70	70	71
Currency translation reserve	(42)	(34)	(28)	(27)
Cash flow hedge reserve	0	4	(3)	(4)
Retained earnings	165	178	170	217
Attribuatable to Elopak shareholders	185	269	259	306
Non-controlling interests	0	0	8	9
Total equity	**185**	**269**	**268**	**315**
Non-current liabilities				
Pension liabilities	3	3	3	3
Deferred taxes	12	11	17	14
Non-current liabilities to financial institutions	213	169	304	224
Non-current lease liabilities	69	62	74	78
Other non-current liabilities	6	3	2	5
Total non-current liabilities	**303**	**249**	**399**	**324**
Current liabilities				
Current liabilities to financial institutions	16	14	22	19
Trade payables	114	120	124	128
Taxes payables	9	4	2	7
Public duties payable	10	24	23	25
Current lease liabilities	19	18	17	23
Other current liabilities	83	85	101	121
Total current liabilities	**261**	**265**	**289**	**323**
Total equity and liabilities	**749**	**783**	**956**	**963**

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Other