

Nordrest (NREST)

Sweden | Food service | Market Cap 1,347 SEKm

23 December 2024

Buy

Target price: SEK 262
Current price: SEK 107.6
143.5%

Feeding soldiers and your portfolio

Nordrest AB (Nordrest or 'the Company') is a Swedish food service company serving both public and private clients, including supplying NATO with Meals-Ready-to-Eat (MREs) through the Company's subsidiary OutMeals. Nordrest achieves a competitive edge in the foodservice sector through an entrepreneurial approach, with each unit taking high ownership of the final product. The OutMeals segment currently delivers timely and precise service to 31% of NATO's members. The perceived risks of Nordrest's NATO contract non-renewal are significantly overstated, creating a mispricing that contributes to the company's low current valuation. Through an equally weighted DCF and peer table, applying a 10x EV/EBIT we foresee a SEK 262 target price, implying a 143.5% upside.

Key takeaways

- **Top line growth of 25% until 2027 driven by ongoing rearmament:** NATO's military budget is expected to double, while Sweden's armed forces personnel are projected to grow by 40% by 2030, driving increased demand for MRE packages. In this area, Nordrest is the market leader and preferred choice due to the Company's price-worthy product and close collaboration with customers. As of 2024A, 31% of NATO member countries contribute 67% of Nordrest's total EBIT, positioning the Company to capitalize on growing demand and Nordrest proven track record of meeting client needs. This positions Nordrest for sustained growth, resulting in a 25% total top-line increase from 2023A to 2026E.
- **Gross margin expansion in the Foodservice segment:** Nordrest's Foodservice segment experienced a significant gross margin decline from 69.8% to 60.4% during 2022 and 2023, driven by unhedged contracts amid inflation surging from 2.2% to over 8.4%. However, with a majority of contracts being renegotiated in 2025 and 2026, gross margins in the segment are forecasted to recover by five percentage points. The recovery is anticipated to increase EBIT by 103 SEKm, contributing 50% of Nordrest's total EBIT growth through 2026E.
- **Expansion in Foodservice through unique offering driving revenue:** Nordrest's close collaboration with customers has set them apart from competitors that rely on centralized business models. This approach has enabled Nordrest to achieve a high customer retention rate of over 95% in the past two years. The strategy has served Nordrest well, with revenue increasing 176% from 2021A to 2023A. This trend is projected to continue and is forecasted to drive total topline growth of 11% through 2026E.

Analysts

Gustav Wisenius	Equity Analyst
Jonathan Höglander	Equity Analyst

Market Data, SEK

Exchange	First North Growth Market
Shares (m)	12.42
MCAP (m)	1,347
EV (m)	1,283

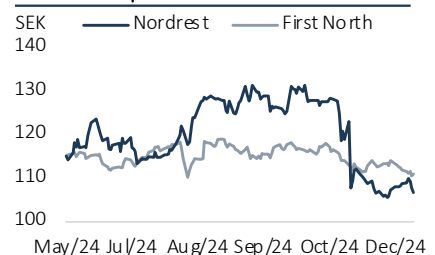
Metrics & Drivers	24E	25E	26E
EV/EBIT	7.7x	5.0x	3.8x
EV/EBITDA	6.8x	4.6x	3.6x
EV/S	0.7x	0.5x	0.5x
P/E	11.1x	7.1x	5.3x
ND/EBITDA	(0.4x)	(0.2x)	(0.2x)

Forecast, SEKm	24E	25E	26E
Total revenue	2,029	2,368	2,699
Rev. growth y/y	10.9%	16.7%	14.0%
Gross Profit	1,178	1,384	1,596
Gross Margin	58.0%	58.5%	59.1%
EBITDA	189	280	361
EBITDA Margin	9.3%	11.8%	13.4%
EBIT	167	255	333
EBIT Margin	8.2%	10.8%	12.3%

Major Shareholders

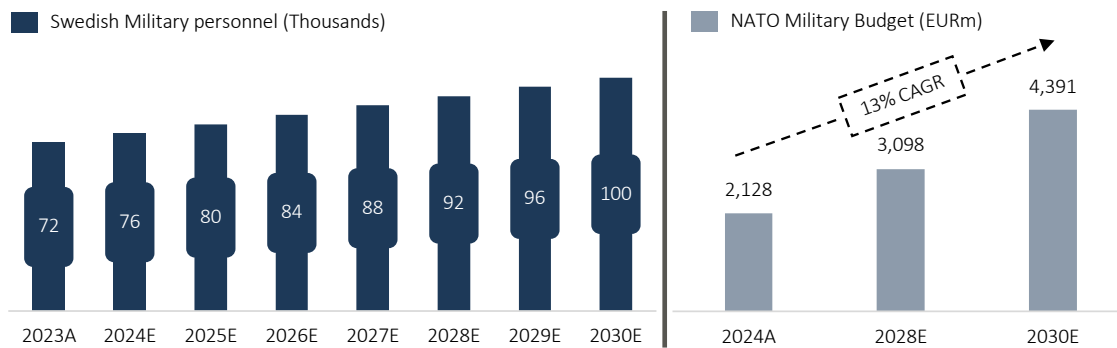
Thinc Holding (CEO)	44.0%
Axel Lindgren AB	23.0%
Nordnet Pensionsförsäkring	6.7%

Price Development



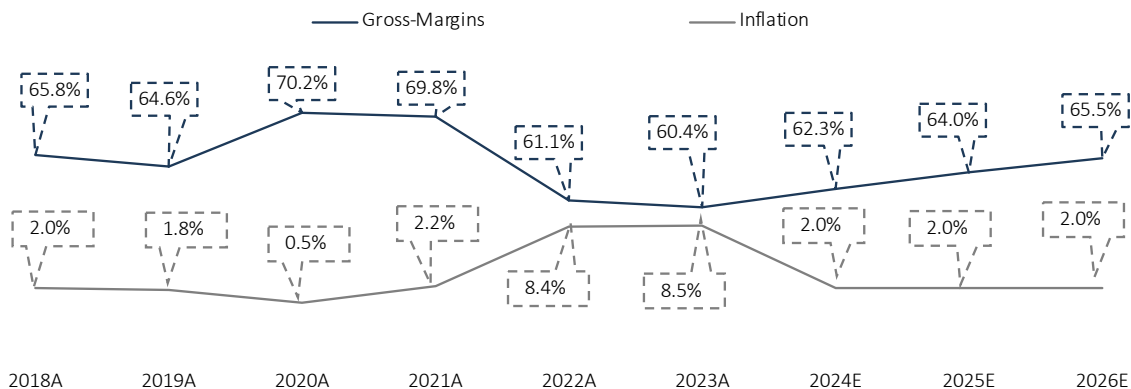
Investment thesis in charts

Ongoing rearmament driving revenue for OutMeals and foodservice to the Swedish Armed Forces



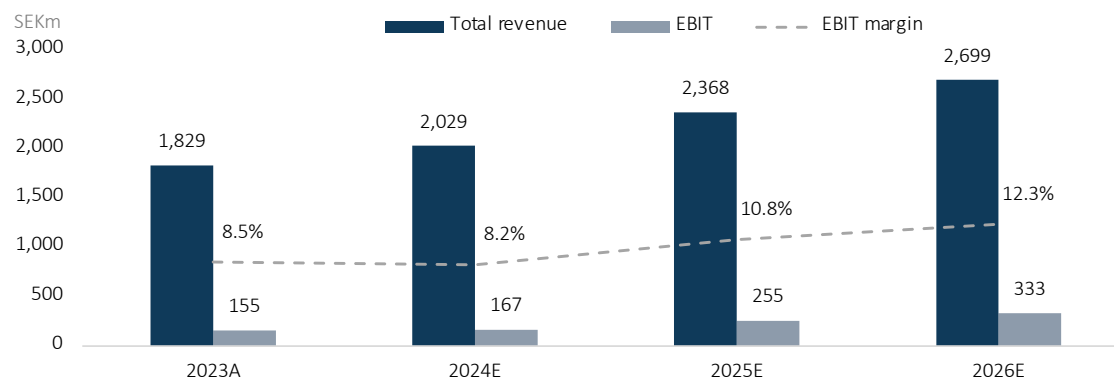
Source: The Swedish Armed Forces, NATO

Gross-Margins (Foodservice) increase with inflation stabilizing



Source: Nordrest, Riksbanken

Topline and EBIT expansion



Source: Nordrest, Analyst Estimates

Investment thesis

Increased NATO spending and supply shortages

NATO is expected to double its defence budget from 2024 to 2030E, driven by recent military conflicts in Europe that have prompted significant increases in defence spending to prepare for an era of rearmament. The regulations within the NSPA portal ("NATO Support and Procurement Portal") are strict, creating high entry barriers for suppliers and limiting competition. NSPA aims to select five suppliers in a framework agreement lasting five years, and Nordrest has completed the approval process in both 2017 and 2022. Since inception, the Company has grown the customer base at a CAGR of 39%, expanding from one customer to ten, now serving 31% of NATO's total members. However, in 2022, NSPA was unable to fill all available slots due to a shortage of qualified suppliers, and the current shortage is estimated to be 20%. Analysts believe that due to this shortage, it would be unlikely for NATO to discard Nordrest's contract, as doing so would exacerbate the shortage of qualified suppliers and disrupt the logistical chain that is critical to NATO's defense objectives. Given the rising defense budgets and the increasing demand for Meals-Ready-to-Eat ("MREs"), it is likely that NATO will continue to prioritize stability in supplier relationships, especially with an experienced provider like Nordrest. Given Nordrest's strong position as a trusted supplier, the Company is well-positioned to benefit from this expanding market, and the NATO segment is estimated to contribute 25% of total revenue increase through 2026E.

Lower inflation combined with strict profitability focus to improve Gross margins by 5PP

Nordrest's business model has proven vulnerable to unexpected inflation due to unhedged foodservice contracts, which has impacted the Company's gross margins in that segment. An Inflation increase of 6.2 percentage points in 2022 and 2023 led to a substantial decline in gross margins, from 69.8% to 60.4%. Without hedging mechanisms in place, the Company faced significant gross margin pressure from customers. However, with inflation now projected to stabilize at lower levels and the majority of Nordrest's customer contracts up for renegotiation in 2025 and 2026, we anticipate a gross margin expansion from 2023A 60.4% to 65.5% in 2026E. Management remains focused on improving profitability by regularly reviewing underperforming contracts and terminating those that don't meet profitability benchmarks. This improvement will have a significant impact on EBIT, contributing 103 SEKm and 50% of the EBIT growth through 2026E.

Growth in Foodservice driven by high customer retention rate through unique offering

Nordrest closely collaborates with its foodservice customers and offers customized services, the Company has achieved an impressive customer retention rate of 95% in the past two years. Unlike many of their competitors, large, centralized corporations prioritize standardized solutions. Nordrest emphasizes flexibility, creativity, and customer-specific adaptations. This approach allows them to address unique client needs, setting them apart in a market characterized by rigidity and one-size-fits-all strategies. The strategy has recently been very successful, with increased revenue of 176% from 2021A to 2023A in the Foodservice segment. With a low net working capital of 3.5% of revenue and the ability to finance operations through accounts payable, the Company can scale quickly without relying heavily on external capital. This financial agility positions Nordrest to capture market share and continuous growth above the market CAGR at 3-5%. Estimated to increase total revenue by 11% through 2026E.

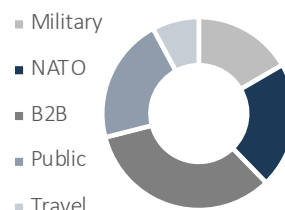
Company Overview

Foodservice and military meal packages

Founded in 2014, Nordrest is a Swedish food service provider delivering tailored dining solutions to corporate, public, and defense sectors, serving clients like Ericsson and Volvo Cars. Nordrest stands out for their entrepreneurial approach where each unit has high ownership of their final product, differentiating themselves from competitors focused on standardized services. Nordrest's subsidiary, OutMeals, has been a certified supplier of Meal Ready-to-Eat (MRE) packages to NATO since 2017. Renowned for customizability and high quality, OutMeals has secured substantial contracts with 10 armed forces since 2017, with their latest contract amounting to approximately 10% of Nordrest's total revenue. As a key player in the segment, Nordrest remains a preferred choice thanks to proven reliability and product quality.

Business Model

Food Service: Nordrest food service segment is characterized by a diverse revenue distribution across key sectors: public sector (33%), private companies (21%), NATO (21%), the Swedish Armed Forces (17%), and travel-oriented restaurants (8%). By localizing operations near natural, predictable customer flows, Nordrest achieves an 8.5% EBIT margin nearly 50% higher than peers, through efficient staffing and minimal marketing costs. Nordrest operates in a fragmented market where no actor holds a market share larger than 5%. Thereby, with a strong net cash position 64 SEKm the Company prioritizes acquisitions that complement Nordrest business model while supporting estimated steady organic growth of 10% annually.



OutMeals (MRE): Nordrest subsidiary OutMeals has been a certified supplier of meal packages to NATO since 2017. OutMeals contracts are facilitated through the NATO Support and Procurement Agency (NSPA) portal, where suppliers must undergo periodic approvals to remain eligible. OutMeals was approved for the portal in 2017 and 2022, with the next renewal anticipated in 2027. Nordrest ability to tailor MRE solutions based on direct feedback from soldiers has helped them continuously refine the product offerings, securing contracts for 2-3 years and expanding partnerships with new NATO member states. This adaptability and price-worthy product has solidified Nordrest's position as the current largest supplier in 2024.

Market Overview

Military: The ongoing rearmament across Sweden and NATO is set to drive significant demand for MRE's and catering solutions. The Swedish Armed Forces is planning a 40% increase in personnel, while NATO's military budget is expected to double by 2030E. Furthermore, the NATO Support and Procurement Agency is experiencing supplier shortages for key products in this segment, with an estimated maximum of five suppliers, reducing competition and opening opportunities for specialized providers.

Foodservice: While the overall market is expected to grow at a slower pace of 3-5% CAGR in the coming years, it remains very fragmented with no actor controlling more than 5% presenting good opportunities for strategic acquisitions. The market is shifting away from one-stop solutions offered by large international facility management companies toward more specialized providers, driven by customers specific needs. The foodservice industry has also proven resilient to economic downturns, as demonstrated during the global financial crisis when Sweden's private foodservice market grew by 5.7% while GDP contracted by 2.1%. This highlights the foodservice industry's attractiveness as a stable and reliable market.

Valuation

DCF Breakdown 2034E (SEKm)		WACC						
Terminal Value	5,136	TGR		9.2%	10.7%	12.2%	13.7%	15.2%
PV of Terminal Value	1,448							
EV	3,369		1.0%	361	297	252	217	190
Net debt	(64)		1.5%	374	305	257	221	193
Equity Value	3,433		2.0%	388	314	264	224	195
NOSH (Millions)	13		2.5%	405	324	269	228	198
Implied Share Price	264		3.0%	424	335	276	233	201
Upside	145.4%							

Discounted cash flow valuation implies an upside of 145.4%

With a projected +270% EBIT growth and low capex combined with increasing NWC until 2034E, Nordrest is estimated to have a potential upside of 145.4%. The cashflows until 2034E are discounted by a WACC of 12.2%, derived from a beta of 1.3, market risk premium of 7.8% and a 13.6% pretax cost of debt. The terminal value is despite uncertainties surrounding NATO contracts and outlook in the future estimated using the Gordon growth method with a TGR of 2.14% in line with Swedens average GDP growth.

SEKm	Market data		Financial Data				Valuation	
Company	MCAP	EV	ROIC	ND/EBITDA	EBIT-Margin LTM	EBIT-Margin 2026E	EV/EBIT LTM	EV/EBIT 2026E
Coor	3,300	5,700	7.8%	2.5x	4.2%	4.7%	10.0x	8.1x
ISS	38,000	59,600	12.6%	1.9x	5.3%	5.3%	9.2x	8.2x
NoHo Partners	1,800	5,900	7.1%	4.0x	9.6%	9.6%	14.1x	10.0x
Fodelia	590	630	8.7%	1.4x	5.1%	7.9%	34.2x	10.9x
Compass Group	756,000	829,000	13.7%	1.0x	7.1%	7.4%	21.4x	17.7x
Median	3,500	5,900	8.7%	1.9x	5.2%	6.3%	14.1x	10.0x
Average	133,898	151,155	10.5%	2.1x	5.4%	6.3%	17.8x	11.0x
Nordrest	1,347	1,283	85.0%	(0.4x)	8.5%	12.6%	8.5x	3.8x

Undervalued compared to peers despite outstanding ROIC and unique approach

Current 2026E valuation at 3.8x EV/EBIT based on the peer valuation, it is evident that Nordrest is severely undervalued when considering the ROIC at 85% compared to the peer median at 8.7%. Additionally, the Company's approach towards more customized services and collaborations with customers has more potential than the all-size-fits-all approach that characterizes this industry. This has been evident in the last two years, with Nordrest gaining market shares, supported by 176% revenue growth in the Foodservice segment. Given Nordrest's smaller size relative to the Company's peers, a discount would normally be applied. However, considering Nordrest significantly higher ROIC compared to the peer median and the Company's net cash position, Nordrest should conservatively be valued at the market median EV/EBIT of 10.0x. This implies an upside of 142.8% and a target share price of 261 SEK.

Appendix – Dismissible NATO risk

SEKm	2019A	2020A	2021A	2022A	2023A	2024E	2025E	2026E	2027E	DCF Breakdown (SEKm) 2034E
Nordrest										Terminal Value
Total revenue	545	533	555	1,245	1,829	2,029	2,368	2,699	2,254	2,518
<i>y-o-y chg</i>	24.4%	(2.1%)	4.2%	124.2%	46.9%	10.9%	16.7%	14.0%	(16.5%)	PV of Terminal Value
COGS	(209)	(180)	(184)	(560)	(821)	(851)	(983)	(1,104)	(772)	710
Gross profit	336	354	372	685	1,009	1,178	1,384	1,596	1,482	EV
<i>Gross margin</i>	61.6%	66.3%	66.9%	55.0%	55.1%	58.0%	58.5%	59.1%	65.8%	Net debt
Staff cost	(184)	(205)	(199)	(372)	(513)	(610)	(679)	(759)	(789)	(64)
Other opex	(118)	(130)	(141)	(239)	(322)	(378)	(425)	(476)	(487)	Equity value
Total SG&A	(302)	(335)	(340)	(611)	(834)	(988)	(1,105)	(1,235)	(1,276)	2,008
<i>% sales</i>	55.5%	62.8%	61.3%	49.1%	45.6%	48.7%	46.7%	45.7%	56.6%	NOSH (Millions)
EBITDA	33	19	31	74	174	189	280	361	206	Implied Share Price
<i>EBITDA margin</i>	6.1%	3.5%	5.7%	5.9%	9.5%	9.3%	11.8%	13.4%	9.2%	154
<i>y-o-y chg</i>	41.7%	(44.1%)	68.8%	135.4%	135.6%	8.8%	47.6%	29.0%	(42.8%)	Upside
D&A	(13)	(13)	(15)	(14)	(19)	(22)	(25)	(27)	(29)	43.5%
<i>% sales</i>	2.3%	2.5%	2.6%	1.1%	1.0%	1.1%	1.0%	1.0%	1.3%	
EBIT	21	5	17	60	155	167	255	333	177	
<i>EBIT margin</i>	3.8%	1.0%	3.0%	4.8%	8.5%	8.2%	10.8%	12.3%	7.9%	
										Peer valuation (SEKm)
										Target multiple
										EBIT 2027E
										10x
										177
										EV
										Net debt
										(64)
										NOSH (Millions)
										13
										Implied share price
										141
										Upside
										31.1%

Substantial upside even in the event of a worst-case scenario

The analyst is less certain than the market about the likelihood of NATO not renewing the contract in 2027. While non-renewal remains a possibility, it is an issue that should be considered and mitigated. Assuming a non-renewal scenario, where all NATO-related revenue drops to zero from 2027 onwards, the worst-case outlook still appears positive, particularly in the DCF intrinsic value analysis. This resilience is attributed to strong projected cash flows during the remaining two years of the current NATO contract and the stable performance of the foodservice business. From 2024E to 2026E, the FCF yield is estimated at 11.3% for 2024E, 18.1% for 2025E, and 22.2% for 2026E.

Appendix – Income Statement

SEKm	2019A	2020A	2021A	2022A	2023A	2024E	2025E	2026E	2027E
Nordrest									
Total revenue	545	533	555	1,245	1,829	2,029	2,368	2,699	2,963
<i>y-o-y chg</i>	24.4%	(2.1%)	4.2%	124.2%	46.9%	10.9%	16.7%	14.0%	9.8%
COGS	(209)	(180)	(184)	(560)	(821)	(851)	(983)	(1,104)	(1,209)
Gross profit	336	354	372	685	1,009	1,178	1,384	1,596	1,753
<i>Gross margin</i>	61.6%	66.3%	66.9%	55.0%	55.1%	58.0%	58.5%	59.1%	59.2%
Staff cost	(184)	(205)	(199)	(372)	(513)	(610)	(679)	(759)	(829)
Other opex	(118)	(130)	(141)	(239)	(322)	(378)	(425)	(476)	(520)
Total SG&A	(302)	(335)	(340)	(611)	(834)	(988)	(1,105)	(1,235)	(1,349)
<i>% sales</i>	55.5%	62.8%	61.3%	49.1%	45.6%	48.7%	46.7%	45.7%	45.5%
EBITDA	33	19	31	74	174	189	280	361	405
<i>EBITDA margin</i>	6.1%	3.5%	5.7%	5.9%	9.5%	9.3%	11.8%	13.4%	13.7%
<i>y-o-y chg</i>	41.7%	(44.1%)	68.8%	135.4%	135.6%	8.8%	47.6%	29.0%	12.2%
D&A	(13)	(13)	(15)	(14)	(19)	(22)	(25)	(27)	(30)
<i>% sales</i>	2.3%	2.5%	2.6%	1.1%	1.0%	1.1%	1.0%	1.0%	1.0%
EBIT	21	5	17	60	155	167	255	333	375
<i>EBIT margin</i>	3.8%	1.0%	3.0%	4.8%	8.5%	8.2%	10.8%	12.3%	12.7%

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Other

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