

Hanza Q3'21 Review: Strong Q3, Stronger Outlook

Redeye's preliminary revisions suggest increased sales and EBIT forecasts and a raised Base Case. The third quarter highlights Hanza's business's potential margins, and we see several near-term profit drivers ahead.

Actuals vs Forecast - 3Q21				
(SEKm)	3Q20	3Q21	3Q21E	Diff
Net sales	503	597	582	2.5%
<i>Growth YoY</i>	-2.4%	18.7%	15.8%	
Main Markets	266	315	316	-0.4%
<i>Growth YoY</i>		18.6%	19.1%	
Other Markets	237	282	266	6.2%
<i>Growth YoY</i>		18.9%	12.0%	
Adj. EBITA	18.6	37.5	36.3	3.2%
<i>Adj. EBITA margin</i>	3.7%	6.3%	6.2%	
Main Markets	11.4	29.8	24.1	23.9%
<i>Adj. EBITA margin</i>	4.3%	9.5%	7.6%	
Other Markets	7.4	9.5	13.3	-28.5%
<i>Adj. EBITA margin</i>	3.1%	3.4%	5.0%	
EBITA	21.4	37.5	36.3	3.2%
<i>EBITA margin</i>	4.3%	6.3%	6.2%	

Source: Redeye Research, Hanza

Group level sales and EBITA came in slightly above our expectations. Main Markets (Sweden, Finland, and Germany) had a very strong quarter with almost record-high margins of 9.5% on the EBITA level, beating our forecasts by 24%. According to management, the division has handled the shortage of components and materials well, and the strong margin supports that statement. The segment's organic growth was 6% y/y, as the German market still is negatively affected by the Corona pandemic. However, the order book improved during the quarter, suggesting a rebound in sales over the next quarters.

Other Markets had an impressive organic growth of 20% y/y, while the EBITA margin increased q/q and came in below our forecasts. According to management, the division has not managed to handle the shortage of material as good as Main Markets, mainly due to its high growth, which has hurt the margin. We find the statement reasonable, as higher-than-expected sales growth will require additional materials, which are hard to get currently. In line with management's statement, we expect margins to increase in Other Markets over the next quarters. Although the shortages of materials are expected to continue into 2022, we are somewhat cautious regarding Q4 and Q1.

Regarding Main Markets, we believe the division can keep its current solid margins organically, especially as we expect a rebound in Germany. However, the recently acquired Beyers will join the numbers, currently running at zero margins. While we expect a significant improvement in profitability as Beyers joins Hanza, we do not expect it to reach Main Markets' ~9%, at least not in the short term.

Our preliminary revisions suggest increased sales and EBITA forecasts by 9% and 14% for 2022E. The sales increase is mainly related to the acquisition of Beyers. The raised margin assumptions stem from the solid margins in Main Markets, which we assume will remain strong organically following a rebound in Germany.

Prel. estimate revisions Q3 2021						
(SEKm)	2021			2022		
	New	Prev.	Change	New	Prev.	Change
Net sales	2436	2359	3.3%	2799	2571	8.9%
<i>Growth</i>	13%	9%		15%	9%	
Adj. EBITA	146	142	3.0%	196	172	14.0%
<i>Adj. EBITA margin</i>	6.0%	6.0%		7.0%	6.7%	
EBIT	125	122	3.0%	182	158	15.3%
<i>EBIT margin</i>	5.1%	5.2%		6.5%	6.1%	

Source: Redeye Research

Financial forecasts Base-case							
(SEKm)	2020	1Q21	2Q21	3Q21	4Q21E	2021E	2022E
Net sales	2155	567	634	597	637	2436	2799
<i>Growth YoY</i>	4.2%	-5.3%	13.4%	18.7%	29.1%	13.0%	14.9%
Adj. EBITA	70.0	28.5	40.4	37.5	40.0	146.4	195.9
<i>Adj. EBITA margin</i>	3.2%	5.0%	6.4%	6.3%	6.3%	6.0%	7.0%
EBIT	31.3	19.0	36.2	33.4	36.5	125.1	181.9
<i>EBIT margin</i>	1.5%	3.3%	5.7%	5.6%	5.7%	5.1%	6.5%

Source: Redeye Research, Hanza

Our preliminary conclusions indicate a new Base Case of around SEK 45 (30). That is a substantial increase, but the business seems to have a strong momentum both demand and margin-wise. We see three main near-term profit drivers: Beyers' acquisition, the rebound in Germany, and improving margins in Other Markets. Despite the rapid share price increase recently, Hanza is trading at about 11x EBITA on our preliminary revised estimates.

We will be back with an Update in a few days.

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Analyst Fredrik Nilsson owns shares in Hanza Holding Group: NO

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