REDEYE

Equity Research

Update

3 November 2020

Hanza Holding

Sector: Industrial Goods & Services

Promising Rebound in Other Markets

Redeye remains positive to Hanza following a better than expected Q3 report, where margin expansion in Other Markets was the highlight, as the long-term efficiency programs are paying off despite the Corona crisis. We increase our Base case and forecast slightly.

New Base case SEK 19 (18) – 2021E EBITA raised by 5%

We raise our EBITA forecast for 2021 by 5% as we increase our margin assumption in Other Markets. The long-term efficiency measures in Other Markets are paying off despite the Corona crisis, which strengthens our view on management's ability to reach its financial targets – which remain intact despite the pandemic.

Promising rebound in Other Markets

The highlight in the Q3 report was the significant margin increase in Other Markets. While the margin increases are not as extensive as we expected before the Corona crisis, we believe that the positive outcome in Q3 is indicating that the long-term efficiency measures continue to drive profit growth as the negative impact from Corona likely fades gradually from now on.

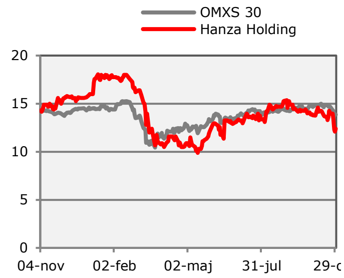
Lower volumes hurting margins in Main Markets

Main Markets had a challenging situation in all its clusters. The demand in Sweden (almost 1/3 of group sales) was more than 10% below expected volumes. Finland and Germany also suffered from the Corona crisis. According to management, lower volumes reduced the EBITA margin to 4.3% (9.0). Thus, if volumes were to increase going forward, as we expect gradually, margins should increase as well.

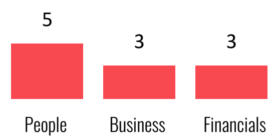
FAIR VALUE RANGE

BEAR	BASE	BULL
11.0	19.0	31.0

VERSUS OMXS30



REDEYE RATING



KEY STATS

Ticker	HANZA
Market	Small Cap
Share Price (SEK)	13.6
Market Cap (MSEK)	462
Net Debt 20E (MSEK)	447
Free Float	70 %
Avg. daily volume ('000)	470

KEY FINANCIALS (SEKm)	2018	2019	2020E	2021E	2022E	2023E
Net sales	1811	2068	2201	2365	2443	2545
EBITDA	118	149	83	182	201	219
EBIT	54	57	35	89	105	120
EPS (adj.)	0.7	0.8	-0.5	1.6	1.9	2.3
EV/Sales	0.4	0.5	0.4	0.4	0.3	0.3
EV/EBITDA	5.8	6.9	11.0	4.7	4.0	3.4
EV/EBIT	12.7	18.0	25.8	9.5	7.7	6.3
P/E	20.6	20.3	-29.6	8.6	7.0	5.9

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Significant rebound in Other Markets

Net sales amounted to SEK 503m (516), corresponding to YoY growth of -2%. According to management, organic sales volumes declined by about 8% YoY, and our estimation indicates a similar number. Our forecast was SEK 518m. According to management, Hanza has not lost any customer or product. Instead, the reduced volumes are a result of lower demand from Hanza's customer base.

Adj. EBITA was SEK 18.6m, corresponding to an EBITA margin of 3.7% (1.7), and our forecast was SEK 9.0m and 1.7%. EBITA was slightly higher at SEK 21.4m, including SEK 2.8m related to Covid-19 action program. As we discuss further down below, the solid group figures resulted from a significant rebound in Other Markets, where long-term improvements seem paying off. According to management, a fast and successful implementation of the cost savings announced earlier during 2020 has positively impacted the profit during the quarter as well.

Actuals vs Forecast - Group 3Q20

(SEKm)	3Q19	3Q20	3Q20E	Diff
Net sales	**516**	**503**	**518**	*-2.9%*
Growth YoY	*19.6%*	*-2.4%*	*0.5%*	
Organic			*-6.0%*	
M&A			*6.5%*	
Adj. EBITA	**24.1**	**18.6**	**9.0**	*107.8%*
Adj. EBITA margin	*4.7%*	*3.7%*	*1.7%*	
EBITA	17.4	21.4	9.0	*139.1%*
EBITA margin	*3.4%*	*4.3%*	*1.7%*	

Source: Redeye Research, Hanza

Like in Q3, the difference between different industries was vast, and the "Comments from the CEO" includes a detailed picture of the demand in different segments, which we appreciate.

While management remains cautious, they take on a slightly more optimistic view. The focus has shifted from minimizing the negative impact of the Corona crisis towards forward-looking investments. As mentioned before, Hanza sees an increased interest in its near-customer cluster-based manufacturing offering, as the pandemic has highlighted the importance of durable manufacturing chains.

The Main Markets had a tough situation in all its clusters. The demand in Sweden (almost 1/3 of group sales) was more than 10% below expected volumes, resulting in the EBIT margin falling to below 6% relative to above 9% Q3 2019. Finland and Germany have also suffered from the Corona crisis. For example, due to less demand from the textile industry, the German cluster has lost SEK 100m in sales on an annual basis. However, sales from new customers have been able to offset the decline to some extent.

Main markets 3Q20

(SEKm)	3Q19	3Q20
Net sales	**287**	**266**
Growth YoY		*-7.3%*
Adj. EBITA	**27.8**	**11.4**
Adj. EBITA margin	*9.7%*	*4.3%*
EBITA	25.8	11.4
EBITA margin	*0.0%*	*4.3%*

Source: Redeye Research, Hanza

As we did not have access to last year's figures in the segment level prior to the report, we did not have any segment level forecasts. However, the decline in demand had a significant impact on margins in Main Markets, which amounted to less than half of last year's level – which, however, was strong.

According to management, lower volumes generated the margin drop. Thus, if volumes were to increase going forward, as we expect gradually, margins should increase as well.

Overall, Other Markets saw a stronger demand than the Main Markets. While the Narva plant in the Estonian cluster lost about 40% of its sales, mainly related to mining customers, the Tartu plant grew its sales. The remaining units in Other Markets had a normal demand considering the current circumstances. Also, sales from new customers have been able to offset the decline to some extent.

The highlight in the Q3 report was the significant margin increase in Other Markets. The adjusted margin increased to 3.1%, following a negative number during Q3 2019. We believe that the substantial margin lift, considering the mixed demand situation, supports management's positive outlook on Other Markets' margins before the Corona crisis. While the margin increases are not as extensive as we expected prior to the Corona crisis, we believe that the positive outcome in Q3 is indicating that the long-term efficiency measures are paying off. Also, according to management, the net effect of Corona on Other Markets was negative during Q3.

Other markets 3Q20

(SEKm)	3Q19	3Q20
Net sales	**229**	**237**
Growth YoY		*3.7%*
Adj. EBITA	**-1.1**	**7.4**
Adj. EBITA margin	*-0.5%*	*3.1%*
EBITA	-1.1	10.2
EBITA margin	*-0.5%*	*4.3%*

Source: Redeye Research, Hanza

Financial Forecasts

As there is only one quarter left of 2020, the revisions are mainly a result of the stronger outcome relative to our forecasts in Q3. For 2021, we raise our margin assumptions as we expect the positive effects of the long-term efficiency measure to improve margins in Other Markets from now on gradually. We leave our sales forecasts largely unchanged, as we continue to expect a gradual rebound in volumes.

Group - Estimate revisions 3Q2020

	2020			2021		
(SEKm)	**New**	**Prev.**	**Change**	**New**	**Prev.**	**Change**
Net sales	**2201**	**2217**	*-0.7%*	**2365**	**2370**	*-0.2%*
Growth	*6%*	*7%*		*7%*	*7%*	
Organic	*-5%*	*-5%*		*7%*	*7%*	
M&A	*12%*	*12%*		*0%*	*0%*	
Adj. EBITA	**77**	**62**	*23.9%*	**103**	**98**	*5.1%*
Adj. EBITA margin	*3.5%*	*2.8%*		*4.4%*	*4.1%*	
EBIT	35	21	*68.1%*	89	84	*6.0%*
EBIT margin	*1.6%*	0.9%		*3.8%*	*3.6%*	

Source: Redeye Research

We expect gradual improvements in both sales growth and margins for Q4 as well as 2021. While the ongoing second Corona wave increases uncertainty, we believe that a step by step improvement, like what we have seen between Q2 and Q3, is the best guess from now on. We have also increased our long-term margin assumptions slightly as the raised margins in Other Markets strengthen our view on management's ability to reach its financial targets – which remain intact despite the Corona crisis.

Group - Financial forecasts Base-case

(SEKm)	**2019**	**1Q20**	**2Q20**	**3Q20**	**4Q20E**	**2020E**	**2021E**	**2022E**
Net sales	**2068**	**599**	**559**	**503**	**540**	**2201**	**2365**	**2460**
Growth YoY	*14.2%*	*20.4%*	*10.3%*	*-2.4%*	*-1.4%*	*6.5%*	*7.4%*	*4.0%*
Organic			*-8.4%*	*-8.9%*	*-1.4%*	*-5.5%*	*7.4%*	*4.0%*
M&A			*18.8%*	*6.5%*	*0.0%*	*12.0%*	*0.0%*	*0.0%*
Adj. EBITA	**86.1**	**20.4**	**14.9**	**18.6**	**22.9**	**76.8**	**103.0**	**118.6**
Adj. EBITA margin	*4.2%*	*3.4%*	*2.7%*	*3.7%*	*4.2%*	*3.5%*	*4.4%*	*4.8%*
EBIT	**56.8**	**16.8**	**-16.1**	**15.2**	**19.4**	**35.3**	**89.0**	**104.6**
EBIT margin	*2.7%*	*2.8%*	*-2.9%*	*3.0%*	*3.6%*	*1.6%*	*3.8%*	*4.3%*

Source: Redeye Research, Hanza

Investment case

Unique take on manufacturing

With its 'All you need is one' cluster-based strategy, Hanza and its experienced management take a unique approach that differentiates it among manufacturing service companies. By gathering several manufacturing technologies in a single location (often near the end-customer), Hanza can reduce costs, lead times and environmental footprint.

Hanza offers consultant services, such as MIG, that help product companies streamline their use of manufacturing services. MIG plays an important role in acquiring new customers but has not yet reached its full potential.

While our meetings with cluster management suggest that 'All you need is one' has yet to be fully implemented, we are positive to Hanza's unique, long-term strategy. While its stock market journey had a bumpy start, industry-leading margins in its Nordic segment and an impressive customer list prove the strength of its concept.

Expanding into Germany

By the acquisition of Ritter in 2019, Hanza established presence in Germany. Europe's industrial powerhouse, Germany offers Hanza significant growth opportunities with its so-called Mittelstand (Hanza's focus segment). Also, as many German businesses are cautious about entering China directly, Hanza's Chinese factories offer a smooth outsourcing alternative. Some have already moved production to its cluster in China.

Backsourcing benefit

Hanza benefits from several trends that are moving manufacturing back to Europe, such as Environmental, Social and Governance (ESG) issues, trade wars and increasing labor costs in distant regions. With the bulk of its manufacturing facilities within the EU, we believe Hanza can meet high ESG standards better than most production in distant, often undemocratic regions. Moreover, its cluster strategy has an inherently lower environmental footprint.

Counter-thesis

Lack of transferability

Hanza's success in the Nordics may not result from its 'All you need Is one' cluster strategy, but rather follow from smart acquisitions and a management team with close connections to several Nordic product companies. If so, it may struggle to achieve solid profitability outside of the Nordics. However, it has already established successful presences outside the Nordics, such as in Tartu, Estonia.

Unsuccessful expansion

In the summer of 2019 Hanza acquired Ritter in Germany and expanded its central European cluster significantly. As Hanza is aiming for a full integration, the risk and potential reward is higher than on a typical decentralized acquisition. Employees, management and/or customers could oppose Hanza's plans. However, as Hanza has experience of taking over businesses successfully, we view the risk as limited.

Valuation

Bear Case 11.0 SEK

Average organic growth of 2% in the

Terminal growth of 2%

Average EBITA margin of 3.5% in the (2020-27)

Terminal group EBITA margin of 4.1%

Base Case 19.0 SEK

Average organic growth of 4% in the

Terminal growth of 2%

Average EBITA margin of 4.5% in the (2020-27)

Terminal group EBITA margin of 5.3%

Bull Case 31.0 SEK

Average organic growth of 5% in the

Terminal growth of 2%

Average EBITA margin of 5.5% in the (2020-27)

Terminal group EBITA margin of 6.5%

Summary Redeye Rating

The rating consists of three valuation keys, each constituting an overall assessment of several factors that are rated on a scale of 0 to 1 points. The maximum score for a valuation key is 5 points.

Rating changes in the report: None

People: 5

Hanza receives a high rating for people, as both management and owners have favorable characteristics. CEO Erik Stenfors has vast experience of the manufacturing service industry, including being the founder and CEO of both Note and Hanza. Hanza's largest sharholder is Gerald Engström, the founder and majority owner of Systemair. As a result, Hanza also has the support of a product company veteran.

Business: 3

Lacking clear differentiators, competition in the manufacturing service industry is typically tough. While Hanza has a unique take on the industry, we believe it is still difficult for it to increase prices for example. All the same, Hanza is a close and important partner for several of its customers. Moreover, it has decent diversification across both sectors and customers. Overall, Hanza receives an average rating for Business.

Financials: 3

While Hanza's near-term financial performance is strong, the long-term track-record has been weak, which lowers the Financials rating. Its solid financial position is positive, while the low-margin nature of its business is negative for the rating. In summary, Hanza receives an average rating for Financials. Several consecutive years of solid performance would lift the rating, though.

INCOME STATEMENT	2018	2019	2020E	2021E	2022E
Net sales	1,811	2,068	2,201	2,365	2,443
Total operating costs	-1,692	-1,919	-2,119	-2,184	-2,241
EBITDA	118	149	83	182	201
Depreciation	-52	-85	-40	-75	-79
Amortization	-12	-8	-7	-17	-17
Impairment charges	0	0	0	0	0
EBIT	54	57	35	89	105
Share in profits	0	0	0	0	0
Net financial items	-25	-25	-23	-20	-20
Exchange rate dif.	0	0	0	0	0
Pre-tax profit	29	32	13	69	84
Tax	-8	-9	-28	-15	-19
Net earnings	21	24	-16	54	66

BALANCE SHEET	2018	2019	2020E	2021E	2022E
Assets					
Current assets					
Cash in banks	78	67	54	118	149
Receivables	102	122	115	123	127
Inventories	290	423	418	426	440
Other current assets	10	45	45	45	45
Current assets	479	657	632	712	761
Fixed assets					
Tangible assets	270	422	431	452	466
Associated comp.	0	0	0	0	0
Investments	0	0	0	0	0
Goodwill	265	299	299	299	299
Cap. exp. for dev.	66	113	106	89	71
O intangible rights	0	0	0	0	0
O non-current assets	0	0	0	0	0
Total fixed assets	600	835	836	840	837
Deferred tax assets	16	31	31	31	31
Total (assets)	1,096	1,523	1,499	1,583	1,629
Liabilities					
Current liabilities					
Short-term debt	131	198	501	506	490
Accounts payable	285	232	341	366	378
O current liabilities	29	84	84	84	84
Current liabilities	445	514	926	956	952
Long-term debt	207	412	0	0	0
O long-term liabilities	33	53	53	53	53
Convertibles	0	0	0	0	0
Total Liabilities	686	979	979	1,009	1,005
Deferred tax liab	0	46	46	46	46
Provisions	0	0	0	0	0
Shareholders' equity	411	498	475	528	578
Minority interest (BS)	0	0	0	0	0
Minority & equity	411	498	475	528	578
Total liab & SE	1,096	1,522	1,499	1,583	1,629

FREE CASH FLOW	2018	2019	2020E	2021E	2022E
Net sales	1,811	2,068	2,201	2,365	2,443
Total operating costs	-1,692	-1,919	-2,119	-2,184	-2,241
Depreciations total	-64	-92	-47	-93	-97
EBIT	54	57	35	89	105
Taxes on EBIT	-16	-15	-8	-20	-23
NOPLAT	39	42	28	69	82
Depreciation	64	92	47	93	97
Gross cash flow	103	134	75	162	178
Change in WC	-3	-187	121	9	-6
Gross CAPEX	-307	-327	-49	-96	-94
Free cash flow	-207	-380	147	75	79

CAPITAL STRUCTURE	2018	2019	2020E	2021E	2022E
Equity ratio	37%	33%	32%	33%	36%
Debt/equity ratio	82%	123%	106%	96%	85%
Net debt	260	543	447	388	341
Capital employed	671	1,041	922	916	919
Capital turnover rate	1.7	1.4	1.5	1.5	1.5

GROWTH	2018	2019	2020E	2021E	2022E
Sales growth	29%	14%	6%	7%	3%
EPS growth (adj)	0%	13%	-158%	-445%	22%

DCF VALUATION		CASH FLOW, MSEK	
WACC (%)	10.0 %	NPV FCF (2020-2021)	251
		NPV FCF (2022-2028)	360
		NPV FCF (2029-)	587
		Non-operating assets	67
		Interest-bearing debt	-610
		Fair value estimate MSEK	655
Assumptions 2020-2026 (%)			
Average sales growth	4.5 %	Fair value e. per share, SEK	19.3
EBIT margin	4.1 %	Share price, SEK	13.6

PROFITABILITY	2018	2019	2020E	2021E	2022E
ROE	6%	5%	-3%	11%	12%
ROCE	9%	6%	3%	9%	10%
ROIC	9%	6%	3%	8%	9%
EBITDA margin	7%	7%	4%	8%	8%
EBIT margin	3%	3%	2%	4%	4%
Net margin	1%	1%	-1%	2%	3%

DATA PER SHARE	2018	2019	2020E	2021E	2022E
EPS	0.70	0.79	-0.46	1.58	1.94
EPS adj	0.70	0.79	-0.46	1.58	1.94
Dividend	0.25	0.25	0.00	0.48	0.58
Net debt	8.71	18.19	13.16	11.41	10.04
Total shares	29.87	29.87	33.98	33.98	33.98

VALUATION	2018	2019	2020E	2021E	2022E
EV	688.8	1,021.2	909.4	849.9	803.1
P/E	20.6	20.3	-29.6	8.6	7.0
P/E diluted	20.6	20.3	-29.6	8.6	7.0
P/Sales	0.2	0.2	0.2	0.2	0.2
EV/Sales	0.4	0.5	0.4	0.4	0.3
EV/EBITDA	5.8	6.9	11.0	4.7	4.0
EV/EBIT	12.7	18.0	25.8	9.5	7.7
P/BV	1.0	1.0	1.0	0.9	0.8

SHARE PERFORMANCE		GROWTH/YEAR	18/20E
1 month	-8.3 %	Net sales	10.3 %
3 month	-5.6 %	Operating profit adj	-19.2 %
12 month	-11.9 %	EPS, just	�
Since start of the year	-19.2 %	Equity	7.5 %

SHAREHOLDER STRUCTURE %	CAPITAL	VOTES
Gerald Engström	19.9 %	19.9 %
Francesco Franzé	10.1 %	10.1 %
Clearstream Banking S.A. W8imy	9.5 %	9.5 %
Ritter Beteiligungs Gmbh	8.8 %	8.8 %
Nordnet Pensionsförsäkring	7.8 %	7.8 %
Avanza Pension	7.8 %	7.8 %
Massimiliano Franzé	6.8 %	6.8 %
Håkan Halén	6.1 %	6.1 %
Svenska Handelsbanken AB for PB	5.2 %	5.2 %
Lannebo Fonder	3.9 %	3.9 %

SHARE INFORMATION	
Reuters code	
List	
Share price	13.6
Total shares, million	34.0
Market Cap, MSEK	462.1

MANAGEMENT & BOARD	
CEO	Erik Stenfors
CFO	Lars Åkerblom
IR	
Chairman	Francesco Franzé

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Redeye Rating and Background Definitions

Company Quality

Company Quality is based on a set of quality checks across three categories; PEOPLE, BUSINESS, FINANCE. These are the building blocks that enable a company to deliver sustained operational outperformance and attractive long-term earnings growth.

Each category is grouped into multiple sub-categories assessed by five checks. These are based on widely accepted and tested investment criteria and used by demonstrably successful investors and investment firms. Each sub-category may also include a complementary check that provides additional information to assist with investment decision-making.

If a check is successful, it is assigned a score of one point; the total successful checks are added to give a score for each sub-category. The overall score for a category is the average of all sub-category scores, based on a scale that ranges from 0 to 5 rounded up to the nearest whole number. The overall score for each category is then used to generate the size of the bar in the Company Quality graphic.

People

At the end of the day, people drive profits. Not numbers. Understanding the motivations of people behind a business is a significant part of understanding the long-term drive of the company. It all comes down to doing business with people you trust, or at least avoiding dealing with people of questionable character.
The People rating is based on quantitative scores in seven categories:

- Passion, Execution, Capital Allocation, Communication, Compensation, Ownership, and Board.

Business

If you don't understand the competitive environment and don't have a clear sense of how the business will engage customers, create value and consistently deliver that value at a profit, you won't succeed as an investor. Knowing the business model inside out will provide you some level of certainty and reduce the risk when you buy a stock.
The Business rating is based on quantitative scores grouped into five sub-categories:

- Business Scalability, Market Structure, Value Proposition, Economic Moat, and Operational Risks.

Financials

Investing is part art, part science. Financial ratios make up most of the science. Ratios are used to evaluate the financial soundness of a business. Also, these ratios are key factors that will impact a company's financial performance and valuation. However, you only need a few to determine whether a company is financially strong or weak.
The Financial rating is based on quantitative scores that are grouped into five separate categories:

- Earnings Power, Profit Margin, Growth Rate, Financial Health, and Earnings Quality.

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Disclaimer

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Redeye Rating (2020-11-03)

Rating	People	Business	Financials
5p	21	16	3
3p - 4p	107	87	40
0p - 2p	5	30	90
Company N	133	133	133

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CONFLICT OF INTERESTS

Fredrik Nilsson owns shares in the company : No

Oskar Vilhelmsson owns shares in the company : No

Redeye performs/have performed services for the Company and receives/have received compensation from the Company in connection with this.