Equity Research - 28 January 2020 06:41 CET

HANZA

All you need is HANZA

- A new take on contract manufacturing
- Margin expansion following a high investment period
- Fair value range of SEK 13-30 per share

Near-sourcing trends opens for a global player

HANZA is a contract manufacturer founded in 2008 by current CEO Erik Stenfors. In contrast to its peers, the company has developed a unique business model summed up by the tagline “all you need is one”. This essentially means that it manufactures and assembles customers’ products from A to Z. This provides an additional value-add to customers beyond the simple provision of contract manufacturing as a service. Clients are favoured in terms of their location relative to HANZA’s five manufacturing clusters. The focus on close geographical proximity reduces costs and environmental impact, while allowing for improved manufacturing response time and customer communication.

Company expects to outperform market growth

Historically, the group has been able to grow by 11% on average since 2012, but profitability has been lagging (following three years of negative profits, group EBIT turned positive in 2015). Since then, the EBIT margin has averaged 2.9%, although it is frequently impacted by one-off costs. We see steady improvements y-o-y, however, and we expect a margin expansion from 3% in 2018 to 4.3% by ’21e. Hanza expects the market to grow at a 3.0% CAGR over the next three years. Given HANZA’s business model and indications of stronger demand, we expect that the company will outperform its market, with organic growth of 5% per year between 2020e and 2022e. The recent acquisition of RITTER is expected to contribute positively to sales growth and be margin accretive. We estimate both growth and margin expansion in ’19e-’21e, but that the full potential of the business model will not be realised until after 2022.

Below peer valuation with DCF range of SEK 13-30

HANZA is currently valued on EV/EBITA at 20% below our peer group. We believe that this gap is too wide and thus not justified, especially given recent performance. Our DCF range implies a share price value of between SEK 13 and SEK 30.

Lead analyst: Oskar Vikström

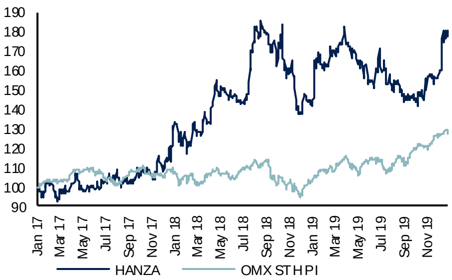
Reason: Initiating coverage

Company sponsored research

Not rated

Share price (SEK)	23/01/2020	17.8
Capital Goods, Sweden		
HANZA.ST/HANZA SS		
MCap (SEKm)		586
MCap (EURm)		55.5
Net debt (EURm)		46
No. of shares (m)		33.0
Free float (%)		*73.0*
Av. daily volume (k)		9.7
Next event		Q4 report: 18 Feb

Performance



	1m	3m	12m
Absolute (%)	*13.8*	*20.7*	*22.8*
OMX STH PI (%)	*1.0*	*7.8*	*25.2*

Source: FactSet

SEKm	**2017**	**2018**	**2019e**	**2020e**	**2021e**
Sales	1,400	1,811	2,055	2,341	2,446
EBITDA	79	113	156	196	211
EBITDA margin (%)	*5.7*	*6.3*	*7.6*	*8.4*	*8.6*
EBIT adj	40	71	83	96	106
EBIT adj margin (%)	*2.9*	*3.9*	*4.0*	*4.1*	*4.3*
Pretax profit	19	29	40	58	66
EPS rep	0.68	0.74	0.78	1.20	1.37
EPS adj	0.87	1.61	1.54	1.62	1.81
Sales growth (%)	*7.2*	*29.4*	*13.5*	*13.9*	*4.5*
EPS growth (%)	*693.0*	*8.9*	*5.2*	*54.0*	*14.1*

Source: ABG Sundal Collier, Company data

	2019e	**2020e**	**2021e**
P/E (x)	22.8	14.8	13.0
P/E adj (x)	11.5	10.9	9.8
P/BVPS (x)	1.16	1.09	1.03
EV/EBITDA (x)	6.9	5.3	4.7
EV/EBIT adj (x)	13.0	10.8	9.4
EV/sales (x)	0.52	0.44	0.41
ROE adj (%)	*11.1*	*10.3*	*10.8*
Dividend yield (%)	*1.4*	*1.5*	*2.3*
FCF yield (%)	*-2.6*	*16.0*	*14.3*
Lease adj. FCF yld (%)	*-2.6*	*16.0*	*14.3*
Net IB debt/EBITDA	3.1	2.3	1.9
Lease adj. ND/EBITDA	4.1	2.8	2.1

Please refer to important disclosures at the end of this report

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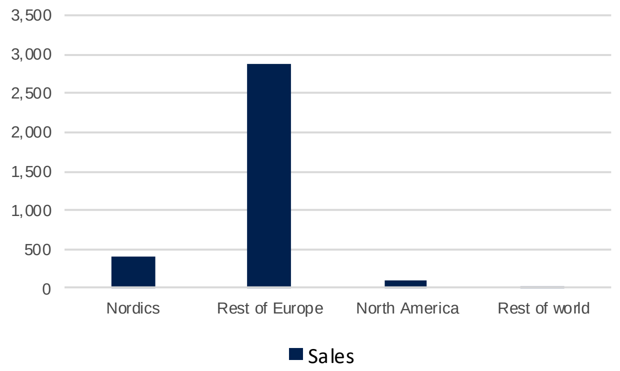
Opportunities

The biggest opportunity for the industry in general is the near-sourcing trend that has hit the market. Partly for environmental reasons, but also for cost and efficiency purposes, companies are moving back their outsourcing activities to more proximate sites. For HANZA in particular, the main opportunity lies in its expansion to new markets, with Germany as the most recent through the acquisition of RITTER Technologies. The German economy is the largest in Europe, and the fourth-largest in the world.

Risks

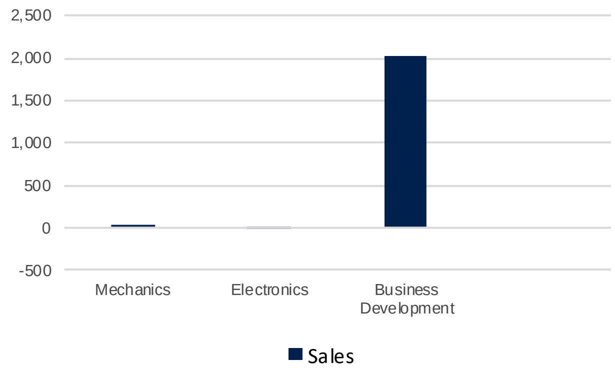
HANZA's biggest risk is its exposure towards the overall economic cycle. In a recession, we expect that it will be difficult for HANZA to maintain its 10% sales growth target. Increased competition and consequent price pressure might affect the group negatively. Furthermore, it could be difficult for the company to find and hire the right competence during high-growth periods.

Geographical breakdown, sales, SEKm



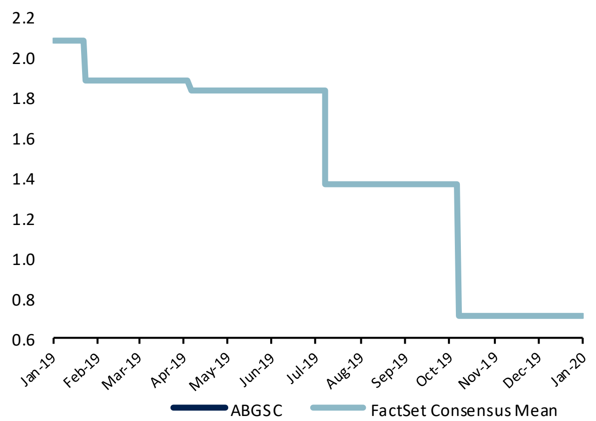
Source: ABG Sundal Collier, Company data

Business area breakdown, sales, SEKm



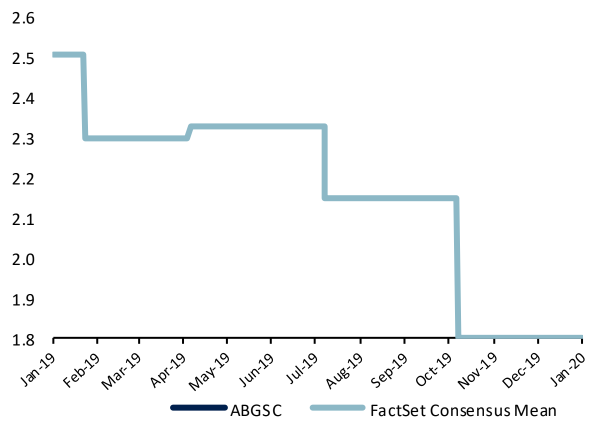
Source: ABG Sundal Collier, Company data

EPS estimate changes, 2019e, SEK



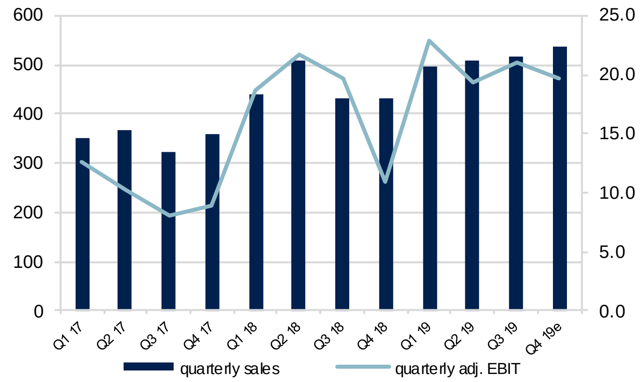
Source: ABG Sundal Collier, FactSet

EPS estimate changes, 2020e, SEK



Source: ABG Sundal Collier, FactSet

Quarterly sales and adj. EBIT, SEKm



Source: ABG Sundal Collier, Company data

Company description

HANZA is a manufacturing company founded in 2008 with the vision "all you need is one". This means that it aims to provide a complete manufacturing solution for its clients. The company's manufacturing expertise spans over solutions within mechanics, electronics, cabling and assembly. HANZA's production sites are formed as clusters serving customers at a local level, with operations in the Nordic, Baltics, Asia and Central Europe.

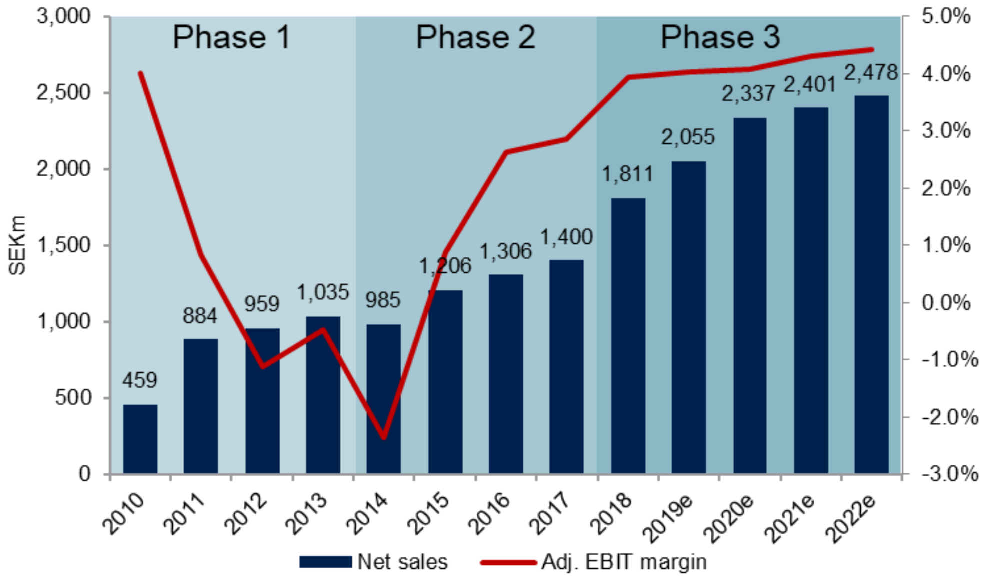
Contents

Investment case

HANZA has underperformed its peers since its IPO in June 2014; low profitability, capex growth and a limited history of the "all you need is one" concept have historically been the reasons for the discount. Now with the right structure in place, however, the company can focus on profitability and growth. We estimate that the company will obtain sales of SEK 2.5bn and an EBIT margin of 4.4% by 2022. We see potential in the business model and believe that the next three years will prove that an in-line valuation to peers is granted. We initiate our coverage with a fair value range of SEK 13-30.

Phase 3 improving profitability and sales growth
So far, the company's focus has been on acquiring the desired manufacturing technologies and building its manufacturing cluster structure (Phases 1 and 2). Currently the group is in Phase 3, which means trimming these clusters, improving profitability and expanding its non-Nordic businesses. As a result we believe that we will see a favourable margin expansion over the next the years and that the viability of the "all you need is one" framework will be validated.

An overview of HANZA's three phases



Source: ABG Sundal Collier, company data

Attractive potential in Germany
The EUR 12m acquisition of RITTER in Germany during mid-2019 has opened HANZA up to the largest manufacturing market in Europe. The acquisition not only adds sales of >20% (~SEK 430m) and supports margins (EBITDA +100bp), but it also provides key manufacturing technologies and product development capabilities for the Central European cluster. Together with the Nordic cluster, we expect that Central Europe will be one of the key clusters and a main driver of margin expansion going forward. Following our conversation with Central Europe management, we do not see a current need for add-on acquisitions, but rather that there will be strategic changes in the existing manufacturing sites. The general trend in Central Europe is to "near-source" rather than outsource in order to 1) decrease the environmental impact, 2) improve quality assurances and 3) ultimately reduce costs. Apparently, cost gains from near-sourcing are primarily applicable to either complex products or to smaller batches than with outsourcing. This is thus a sweet-spot in HANZA's business model.

Valuation currently ~20% below peers

HANZA is trading 20% below its broader peer group and 30% below more core peers (such as NCAB). We expect that the gap will narrow over the coming 12 months on our estimating that margins will expand until 2022. We argue that HANZA deserves a valuation in line with its core peer group, which would imply a '20e EV/EBITA of ~13x, currently trading at 10.9x. The reason why HANZA should be trading in line with its peer group is: 1) its overall group margin increase due to cluster efficiency and boosted by the RITTER acquisition, 2) strong quality focus within management and a proven business model where the company develops long-term client relationships and 3) large potential for further growth both with new and existing clients as well as through acquisitions.

Peer valuations

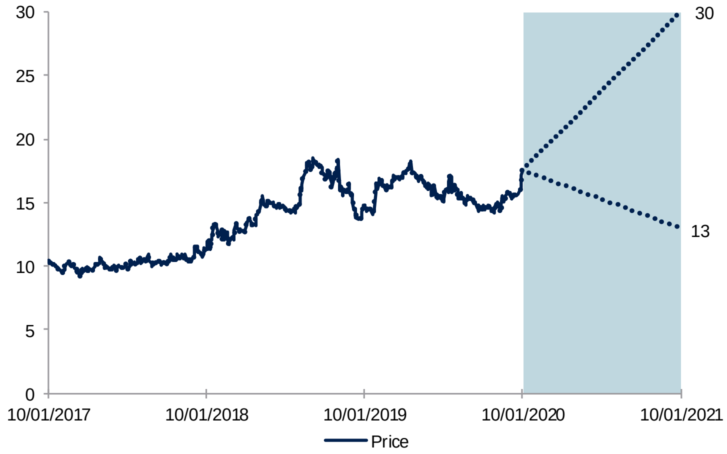
Valuation overview	Mcap	P/E			EV/EBIT			EV/Sales			EBIT margin (%)		
Company	SEKm	2019e	2020e	2021e	2019e	2020e	2021e	2019e	2020e	2021e	2019e	2020e	2021e
Nolato	13,928	22.2	19.1	17.7	17.4	14.8	13.2	2.0	1.7	1.6	11.5	11.8	11.7
Elos Medtech	753	21.4	17.6	14.2	18.2	15.3	12.2	1.7	1.6	1.4	9.6	10.3	11.3
Kitron	2,062	14.3	11.8	10.7	12.8	10.8	9.7	0.8	0.7	0.6	6.1	6.6	6.7
NCAB	2,729	21.6	20.4	18.2	17.2	15.6	13.8	1.5	1.4	1.3	8.9	9.1	9.5
SP Group	4,116	19.7	17.6	14.0	18.4	16.6	13.9	1.8	1.6	1.5	9.6	9.8	10.9
Scanfil	3,495	11.2	10.3	10.0	9.2	8.4	7.6	0.6	0.6	0.5	6.9	6.9	6.9
Peer average	**4,718**	**18.4**	**16.1**	**14.1**	**15.5**	**13.6**	**11.7**	**1.4**	**1.3**	**1.2**	**8.8**	**9.1**	**9.5**
Peer median	**2,729**	**20.5**	**17.6**	**14.1**	**17.3**	**15.0**	**12.7**	**1.6**	**1.5**	**1.3**	**9.2**	**9.5**	**10.2**
Hanza	**610**	**11.5**	**10.9**	**9.8**	**13.0**	**10.8**	**9.4**	**0.5**	**0.4**	**0.4**	**4.6**	**4.7**	**4.9**
vs. peer average		*-37%*	*-32%*	*-31%*	*-17%*	*-20%*	*-20%*	*-63%*	*-65%*	*-65%*	*-48%*	*-48%*	*-48%*
vs. NCAB		*-46%*	*-46%*	*-46%*	*-25%*	*-31%*	*-32%*	*-66%*	*-69%*	*-69%*	*-49%*	*-49%*	*-48%*

Source: ABG Sundal Collier, company data

Fair value range: SEK 13-30

We set our fair value range at SEK 13-30, derived through a combination of DCF and peer valuation. Our DCF 2 Scenario reflects our estimates of the future and yields an implied midpoint share price of SEK 21.

ABGSC fair value range



Source: ABG Sundal Collier, company data

HANZA in brief

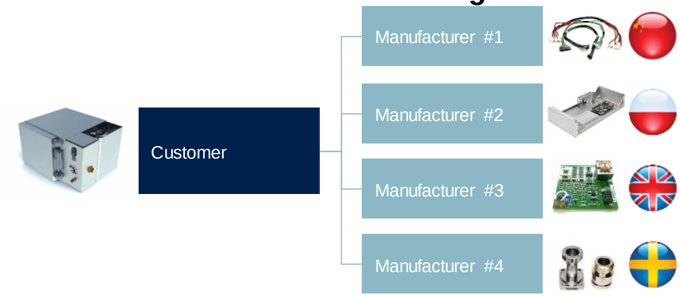
Background

HANZA was founded in 2008 by current CEO Erik Stenfors. The ambition was to create a new solution for contract manufacturing by collecting different existing manufacturing technologies locally to allow for shorter lead-times and more efficient transports, which would in turn lead to improved profitability for customers. Since then, the group has grown to over SEK 2bn in sales. Today HANZA owns 16 manufacturing sites (+1 to be closed down) divided into five "clusters" that primarily serve customers at a local level. The group provides production of individual components as well as product development and assembly services. In addition to production capabilities HANZA has a consultancy-type business that works with customers to optimise production and demonstrate how HANZA's platform can significantly reduce costs and improve flexibility.

A new take on manufacturing: "all you need is one"

The general product company has several contract manufacturing suppliers. Contract manufacturers are often spread globally, specialising in the production of niche components and relying on high volumes to maintain desired profitability. The global spread causes challenges for companies in terms of logistical timing and high transport-related costs. Additionally, traditional contract manufacturers provide a limited value add due to the standardisation of components produced. What HANZA does is bundle together different manufacturing capabilities in so-called "clusters" where clients – i.e. the product companies – can purchase products and deal with one manufacturer at a local level. These factors reduce the hassle of dealing with several manufacturers, which in turn reduces lead-times, transport time/cost as well as potential communication challenges.

Traditional contract manufacturing



Source: ABG Sundal Collier, company data

HANZA's "all you need is one" approach

Source: ABG Sundal Collier, company data

Group development: 2008-20

During its 12-year history, the group has developed its business model through a structured framework based on three chronological phases. These phases will be further evaluated below, but we must first examine a general timeline of the company's acquisitions. Over the past two years, HANZA has made two large acquisitions: Wemech in 2018and Germany's RITTER in 2019. Before that, HANZA's biggest acquisition was the 2015 purchase of Metalliset, which had business in Finland, Estonia, the Czech Republic and China.

Overview over HANZA's acquisitions and divestments over the past 5 years

Type	Target/Buyer	Press date	Prevalence	Employees	Price (mn euro)	Sales (T-1)	EBITDA (T-1)	EV/Sales	EV/EBITDA
Acquisition	Ritter	25/07/2019	Germany, Czech Republic	290	12.0	42.7	4.9	0.3	2.4
Acquisition	Toolfac	31/01/2019	Finland	60	3.3	7.7	0.9	0.4	3.8
Acquisition	Wermech	18/01/2018	Sweden	200	17.1	30.5	1.7	0.6	10.0
Divestment	Riihimäki	27/05/2016	Finland	Na	Na	Na	Na	Na	Na
Divestment	Andrej Benuska	11/12/2015	Slovakia	50	Na	Na	Na	Na	Na
Divestment	Laser Steel Oy	16/10/2015	Finland	15	Na	Na	Na	Na	Na
Acquisition	Metalliset	01/07/2015	Finland, Estonia, Czech Republic, China	500	7.5	40.0	4.8	0.2	1.6
Acquisition	KA Elektronik AB	05/11/2014	Sweden	50	2.5	8.1	0.5	0.3	4.8

Source: ABG Sundal Collier, company data

Phase 1: 2009-13

The first stage was launched in 2009. During this phase, the strategy was built on obtaining the desired manufacturing technologies: machining, sheet metal, circuit boards, cables and assembly. This was done with the goal of securing all the necessary knowledge to be able to provide a complete manufacturing solution. The technologies themselves were obtained both through HAMZA's constructing its own tailor-made facilities as well as acquiring mechanical and electronic manufacturers in Sweden and Estonia. In the aftermath of the financial crisis, many of these manufacturers were facing financial difficulties and could be acquired at low valuations. HANZA focused on these type of companies in particular and restructured the organisations to put them under new management. Phase 1 was completed in 2013.

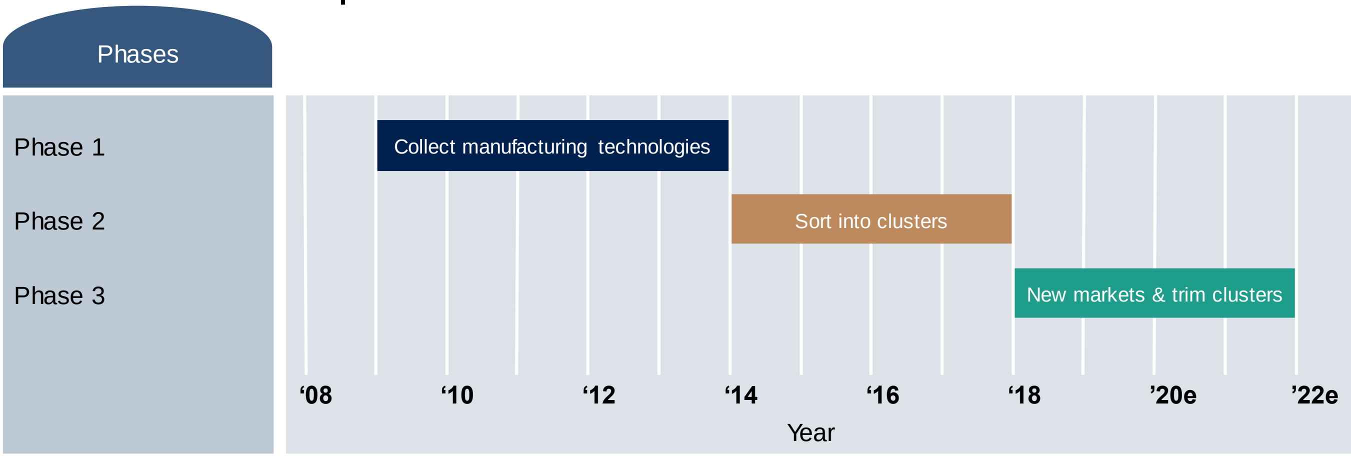
Phase 2: 2014-17

Once the desired technologies were obtained, the focus was given to strategically position the manufacturing facilities in close proximity to certain geographic areas (clusters). This was done with the goal of creating a rational manufacturing flow from start to finish. In 2016, an acceleration of cluster-building called "frontrunner" was initiated. During this process, six manufacturing sites were removed/relocated. These initiatives were completed by the end of 2017 and resulted in improved profitability from reduced personnel expenses and other expenses related to inventories and sales. Phase 2 also included the development of HAMZA's consulting business development initiatives, MIG and MCS.

Phase 3: 2018-current

With Phase 1 and 2 completed by 2017, the desired structure was in place, creating the right conditions for Phase 3. The current, third phase is focused on efficiency to stimulate improved profitability and increased growth. Additionally, HANZA is exploring opportunities in new customer segments. As a part of these initiatives, the company has implemented the CORE-programme: Cluster Operational Excellence. One example of a significant outcome from the CORE-programme is the facility in Narva, Estonia, where efficiency has improved by 10%. Currently, Phase 3 is largely focused on trimming the Nordic clusters and expanding in Germany. To succeed in this, HANZA acquired German company RITTER in Q3'19, resulting in a strong position in the core European manufacturing market.

Overview HANZA development 2008 – 2022e



Source: ABG Sundal Collier, company data

MIG (Manufacturing Solutions for Increased Growth & Earnings)

Manufacturing Solutions for Increased Growth and Earnings (MIG), is a consulting service aimed to help customers optimise the manufacturing of high-tech products. The identified improvements are then able to be implemented in one of HANZA's clusters. The MIG consultant service acts as a perfect gateway to sell HANZA's unique manufacturing offer, and so should not be seen as a stand-alone service but rather as a part of the selling process. Developed as part of Phase 2, MIG is today only a small part of the business, but the potential lies in its ability to win new customer contracts over time.

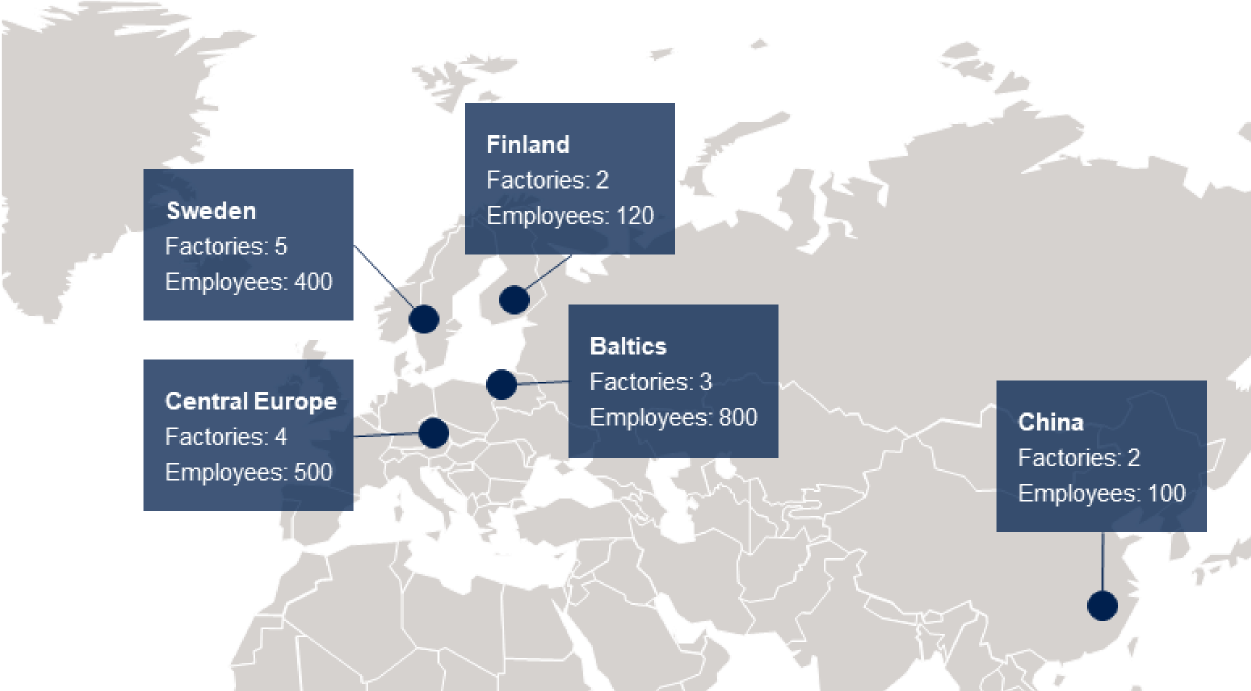
An example of MIG leading to new partnerships is the work done with Silva. Silva is a company that sells compasses and headlamps to consumers. Through MIG analysis, HANZA helped Silva to effectively reduce tied-up capital and costs, as well as increase production flexibility. Silva decided to use HANZA's manufacturing cluster in Suzhou, China and could thus close its own factory in Shenzhen. The new partnership further allowed Silva to focus on its core strategies: product development and expansion to new markets. A similar case can be found with RVM Systems, a company that produces and develops reverse vending machines. Here, MIG analysis resulted in RVM moving its manufacturing of recycling machines from its own factory in Finland to HANZA's Estonian cluster.

MCS (Material Compliance Solution)

Sustainability is an increasing concern for manufacturers and product companies alike. MCS provides customers with help choosing components that are cost-effective, environmentally sustainable and that meet the necessary regulatory requirements. MCS is a digital database of current regulations and available components. The database is updated on a daily basis. This means that clients have access to the latest regulations and thus know what kind of components that are available.

Overview of manufacturing clusters

Five clusters: Sweden, Finland, Baltics, Central Europe and China

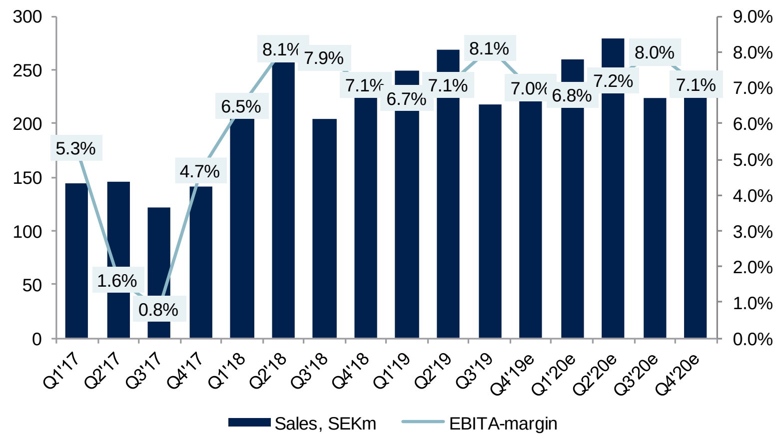


Source: ABG Sundal Collier, company data

Two Nordic clusters

Sweden is the main country within the Nordic segment and accounts for roughly 82% of sales. The cluster is located in western Sweden near the Norwegian border, providing access to an area with about 1.5m people within a 100km range. This means that HANZA is able to provide its services to a large amount of customers in both Sweden and Norway. The manufacturing expertise in Sweden is broad and includes sheet metal, steel manufacturing, electronics manufacturing processes, product development and assembly. The cluster is highly automated, with manual labour mainly being involved in assembly and simpler manufacturing. The Swedish cluster is the oldest and most developed of the clusters. The cluster is notably professional and exudes sophistication upon visiting; with a major part of the cluster (Wermech) owned by private equity company Karnell until recently, the focus on profitability and growth is clear.

Nordics quarterly development: Q1'17-Q4'20e



Source: ABG Sundal Collier, company data

We consider Sweden as a good proxy for how other clusters may develop over time, not least the Central European cluster, which will have similar technologies and capabilities after the RITTER acquisition (see below). Today Sweden is the most profitable region for HANZA and we expect that it operates at an EBITA margin around 8-9%. According to local management, the ambition is to raise that level by around 200bp. However, we expect that this will occur gradually over time.

Central European cluster

German manufacturing expert Willibald Berger was recently appointed as Head of the Central European HANZA cluster. Berger has 30 years of experience in the electronics industry (manufacturing and business development) and has worked with HANZA over the last three to four years. The cluster is made up of four factories (two previous factories complemented by two more following the RITTER acquisition). The region has around 450 employees and a combined revenue of approximately SEK 650m (~32% of group). The main market in focus is Germany due to the proximity principle and the significant size of the market. In terms of the "all you need is one" vision, HANZA has a unique position in the German market and the region's production of high-quality, sophisticated products makes local sourcing highly attractive. This is because strong communication and quick response times are a necessity to meet desired product specifications. Other factories are also located in Poland and the Czech Republic, which are highly complementary to the German business while also generating business with customers in their own respective areas.

RITTER acquisition: a game-changer for Central Europe

In 2019 HANZA acquired German manufacturing company RITTER Elektronik GmbH. The acquisition opened up the highly attractive Garman market. RITTER Elektronik GmbH has a manufacturing facility in Remsh that employs around 180 persons and a Czech facility in Zabreh with roughly 110 employees. RITTER specialise in the production of cables, electronics, mechanics and assembly services. In addition, the acquisition includes a product development division in Germany that has around 20 employees and has expertise within machining, IoT and med-tech. The Czech facility is geographically well-located relative to HANZA's mechanics factory in the Czech Republic as well as to the electronics factory in Poland. Following the acquisition, we argue that HANZA has all the necessary manufacturing technologies and expertise to establish itself in Central Europe.

RITTER deal details, SEKm

Deal details	
Cash and cash equivalents paid	77
Equity instruments 1,000,000 ordinary shares	50
Total estimated purchase price	127
Est. EV	192
Est. EV/Sales	0.4x
Est. EV/EBITDA	3.9x

Income statement 2018 (pro-forma)	Ritter	HANZA	Total	Increase
Sales	430	1,811	2,241	24%
EBITDA	49	113	163	44%
EBITDA-margin	11.5%	6.3%	7.3%	100bp

Source: ABG Sundal Collier, company data

RITTER had sales of approximately EUR 43m in 2018 with EBITDA of EUR 5m, implying a margin of roughly 11.5%. The price tag came in at around EUR 12m (EUR 7.2m in cash and 3m HANZA shares) while total EV was roughly EUR 20.3m, implying a paid multiple of around 4.1x EV/EBIT.

Baltic & China clusters

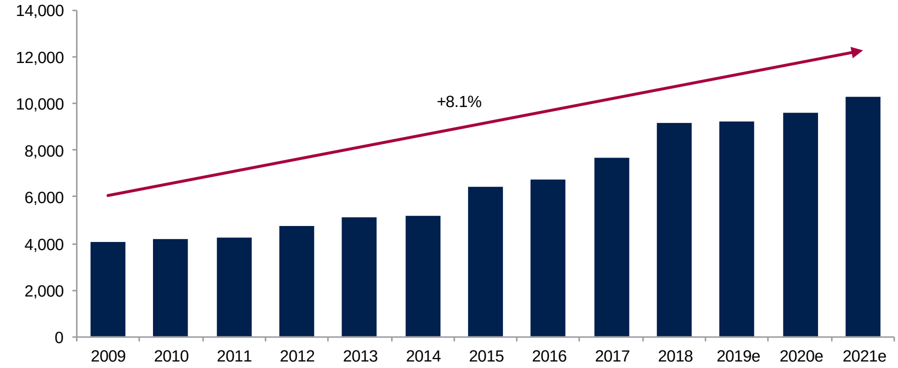
HANZA has three factories in eastern Estonia near the Russian border. This cluster focuses on more traditional manufacturing as opposed to product development, and can complement capabilities from both the Nordic and Central European clusters. Customers are more spread out here than in the other clusters, but the business benefits from a lower-wage environment and lower overall costs. We see this cluster as a strong complement to its Swedish and Central European counterparts.

HANZA previously operated two factories in China whose expertise was mainly focused on electronics manufacturing. In January 2020, HANZA announced the shutdown of its Ma'anshan factory along with the expansion of Suzhou location. The rationale behind the decision was to focus the company's Chinese operation in Suzhou, as it is the most geographically strategic area. One of HANZA's largest German clients has entered into an agreement to move production for China to China. It is true that the one-factory Chinese cluster is smaller than its European counterparts and does not possess the same breadth of manufacturing technologies. However, we believe that it is crucial for HANZA to maintain operations in this region, as many of its end-market customers have an interest in moving product manufacturing for China within Chinese borders. Not only do such arrangements allow for low costs and reduced transports, but they also help avoid import tariffs. By being active here, HANZA has been able to win over clients such as Silva and the German client mentioned above. Further, the market overall is large in China and thus provides general opportunities for growth on its own.

Tomra – a cluster story in action

One of the largest customers in the Swedish cluster is Tomra, the world-leading provider of recycling machines. Through its broad offering, HANZA Wermech has been able to grow this part of the business from a more traditional manufacturing deal (supplying metal sheeting for the machines) to a high value-add production partnership. Today, HANZA is the sole provider of Tomra's recycling machines and provides both manufacturing and assembly services. By offering a complete solution package, combined with efficiency and reliability, HANZA has been able to advance higher in Tomra's value chain and has reached a level where HANZA representatives are a key component in designing and developing new products to ensure the utmost efficiency during the production process. For example, Tomra's latest recycling machine, R1, was developed with input from HANZA technicians and the first installed unit is located in Töcksfors, a mere five-minute drive from the HANZA Wermech factory and assembly facility.

Tomra sales CAGR 2009 – 2021e



Source: ABG Sundal Collier, company data

Tomra is just one example of this type of upward-movement in clients' value chains; other examples include products for Picadeli, Väderstad, General Electric and StrongPoint. The broad technological expertise and close proximity between factories allow for high flexibility, quick response times and reduced costs that provide strong selling points for customers.

Tomra R1 assembled and manufactured by HANZA

Source: ABG Sundal Collier, company data

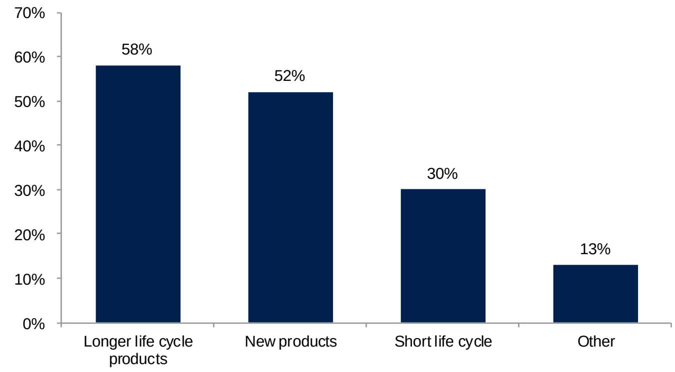
Tomra T-70, mainly used in continental Europe

Source: ABG Sundal Collier, company data

Cluster business positioned for growth

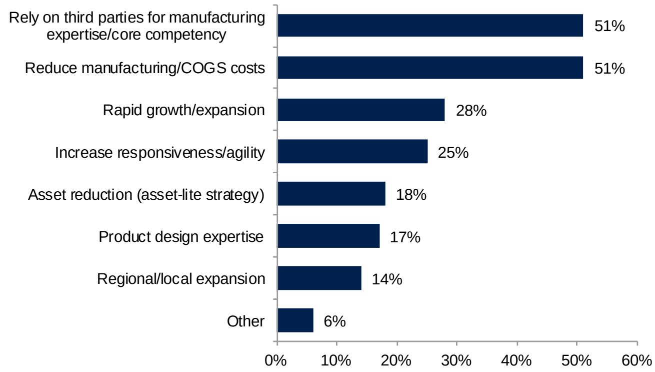
While there are several products that the group handles from production to assembly, the majority of the business remains more traditional component manufacturing, although several of the manufactured components are for the same customer. We see potential for HANZA to expand its product offering to existing clients and move upward in the value chain in a similar way as it did with Tomra. We expect that its wide array of manufacturing technologies and increasing product development capabilities will be instrumental in attracting complete production partnerships. According to "*Outsource Manufacturing: A 20/20 view*", one of the main challenges highlighted by outsourcing companies is the lead-time and poor visibility on orders and inventory levels[1]. This makes a favourable case for HANZA as its cluster structure helps reduce such challenges.

Circumstances when outsourcing is preferred



Source: ABG Sundal Collier, company data

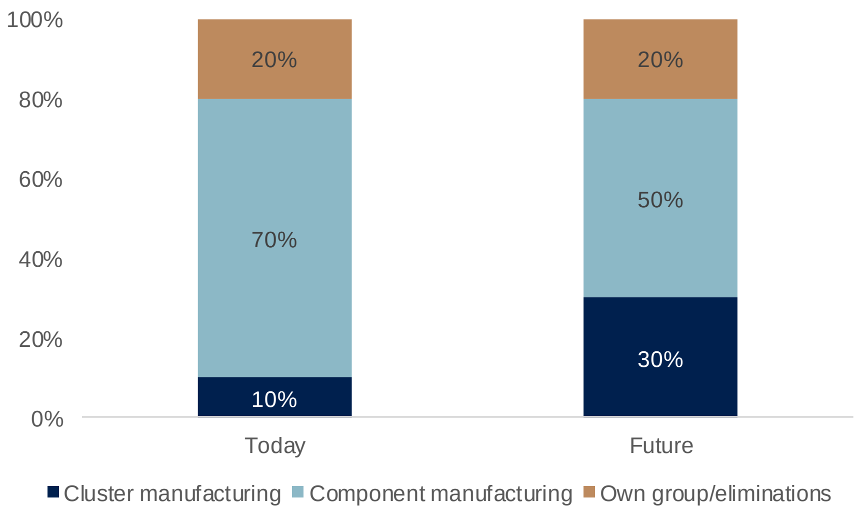
Reasons for outsourcing



Source: ABG Sundal Collier, company data

During HANZA's Phase 3, we expect that the trimming of clusters will streamline production costs and place increasing focus on complete cluster products (from components to assembly). While working upward in the value chain won't occur overnight, and will rather be an incremental process, we expect that the mix of completely assembled ("cluster") products should be somewhere around 30% long-term, with 50% more traditional component production and 20% of sales within the group.

Potential future product mix



Source: ABG Sundal Collier, company data

[1] https://www.scmr.com/wp_content/e2open_wp_outsourcing_mfg_011316.pdf

Market and customers

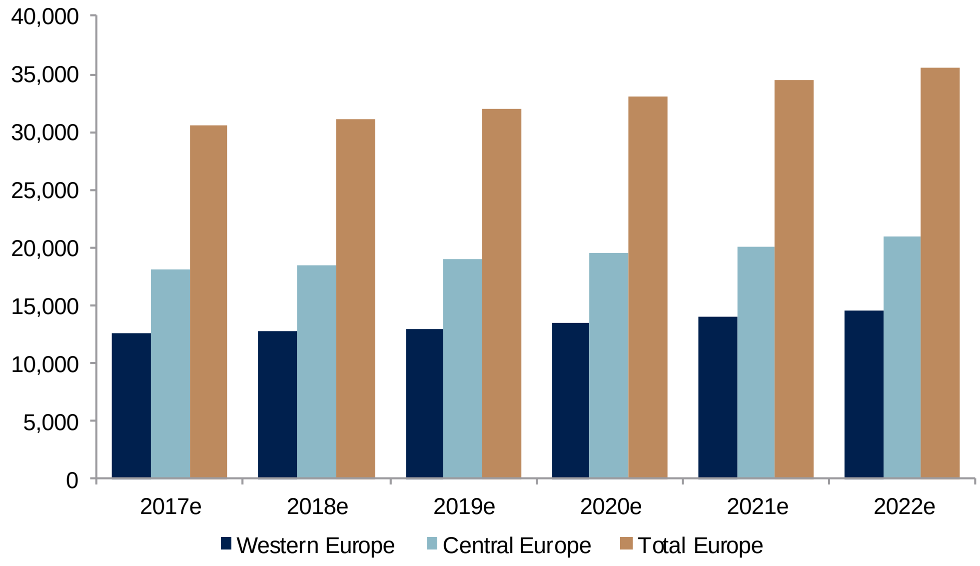
HANZA is competing in the contact manufacturing market for electronic and mechanical products. In general, contract manufacturing is focused on specific components at high volumes; customers (product companies) source components from several manufacturers and assemble products in-house. Traditional contract manufacturing is considered to be highly competitive and is thus generally under significant price pressure.

Recent manufacturing trends are growing increasingly concerned with quality assurance, due diligence and transport (both in terms of cost and environmental impact). In response to these trends, contract manufacturing is moving towards local outsourcing (or near-sourcing). HANZA's cluster manufacturing is an excellent way of addressing these issues as it presents clients with a number of factories in the same geographical area that can provide all necessary manufacturing and assembly services. Working locally enables business resources to be concentrated in a specific area and decreases transportation costs, environmental impact and allows for more streamlined product lines. The trend is pointing upwards for cluster manufacturing and it is argued to accelerate over the next couple of years.[2]

The total addressable market for HANZA is challenging to estimate as the potential customer base spans over several end-markets; this is true geographically, on an industry level and from a product-type perspective. However, HANZA identifies the contract manufacturing of electronics as a suitable proxy for growth prospects.

The electronics market is a main end-market that reoccurs for most products. According to HANZA, the global contract manufacturing market is valued at around EUR 395m (Europe is around 8%, or EUR 31m), and is expected to grow by around 3% per year 2017-2022e. The market is driven by increasing globalisation as well as a supportive outsourcing trend among product companies.

European contract manufacturing of electronics



Source: ABG Sundal Collier estimates, Reed Electronics Research

One prominent trend sees companies near-sourcing their outsourcing. This means that outsourcing activities are conducted in nearby areas. European countries are changing their outsourcing activities to other European countries, rather than e.g. southeast Asia and China. Swedish business intelligence Company Euvic has been

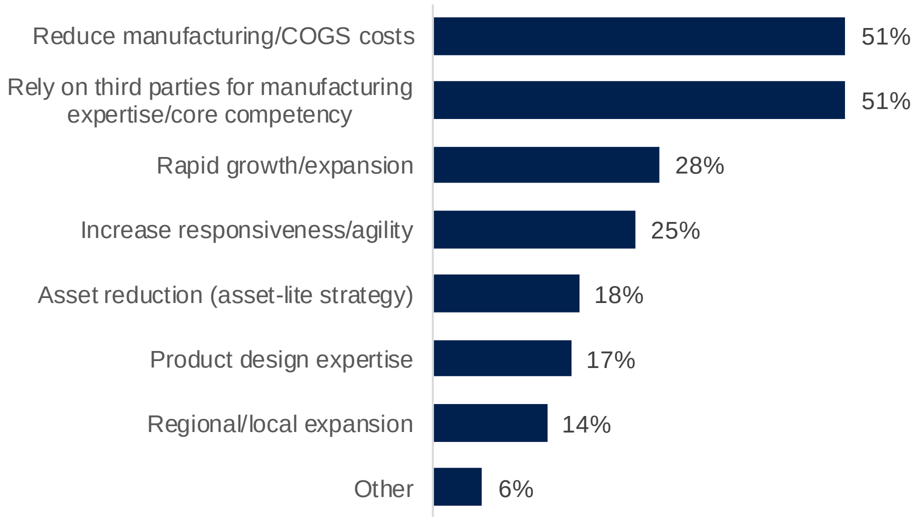
[2] http://www.emia.org/news/story/3368

investigating trends correlated to this and some of its arguments will be further evaluated below.[3]

The first reason for near-sourcing is the cost of service. In general, the lowest possible price comes from outsourcing to Asia or Africa. However, it is important to consider other factors that impact the total price paid like proximity to spare parts and the possibility of better identifying the market and service providers before entering into an outsourcing deal. The second reason for near-sourcing is the quality of work. Although some of HANZA's products are not very complicated, the vast majority require substantial technical knowledge and production skills to master.

Given this, it is important that the work is done in an appropriate and professional way, which makes it reasonable to adjust outsourcing to closer local manufacturers. The third reason mentioned for near-sourcing is communication with the service provider. It is self-explanatory that stronger communication within the supply chain allows more efficient production. This means that by outsourcing to production sites close to the company's HQ, it becomes easier to streamline and structure the relationship with the manufacturer. It also facilitates the ability to handle urgent and unexpected events as it is easier to access the supplier if it is located nearby.

Main reasons for outsourcing manufacturing



Source: ABG Sundal Collier, Peerless Research Group (PRG)

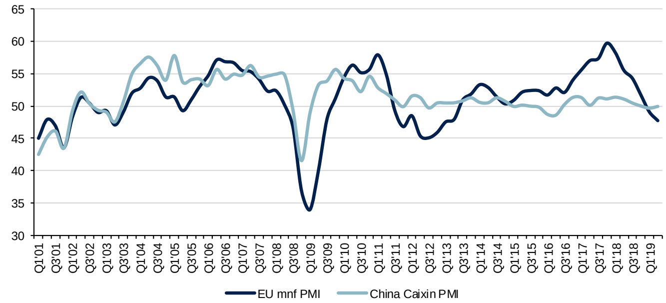
Research conducted by Peerless Research Group indicates that the two main goals spurring outsourcing are to reduce costs and to rely on third-party expertise. This indicates that long and healthy relationships are essential for outsourcing activities. Furthermore, increased agility is also seen as an important factor; this speaks for near-sourcing due to the arguments outlined above. This is also supported by other reasons like design expertise and increased agility; these all indicate that near-sourcing activities are seen as important in order to satisfy client needs and provide the expected product or service in a sufficient way.

[3] https://www.euvic.se/why-nearshoring-is-gaining-popularity/

Customers

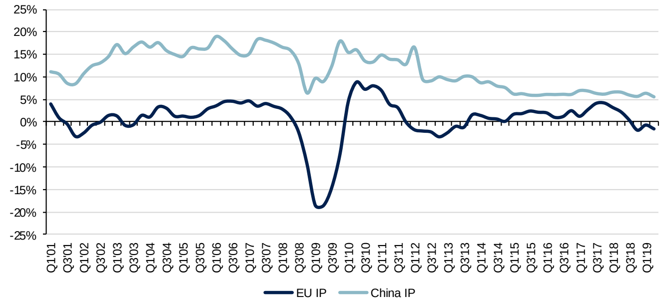
As indicated in the market segment, it is important to develop long and trusting relationships with customers in order to create longstanding, durable agreements. The market for contract manufacturing is subject to strong competition, and is exposed to economic downturns as clients are able to adjust their orders according to shifts in demand. Considering current macro data, we see a clear slowdown trend, and expect that this could potentially trickle down to HANZA's overall exposure.

European and Chinese PMIs



Source: ABG Sundal Collier, company data

European and Chinese industrial production



Source: ABG Sundal Collier, company data

This highlights the importance of not only keeping existing clients but also obtaining a large amount of different clients in different segments and industries. In essence, a large client base with low dependency on larger clients is highly desirable.

SafePoint vending machine: manufactured and assembled by HANZA

Source: ABG Sundal Collier, company data

PicaDeli: manufactured and assembled by HANZA

Source: ABG Sundal Collier, company data

HANZA has a well-diversified customer base comprised of companies such as ABB, Sandvik, Metso, SAAB and Siemens. Overall, we are positive about HANZA's customer mix, and consider it to represent an attractive mix of end-market exposures from industrials to med-tech, environmental, farming and more. No single customer holds more than a 10% share and the firm's top 10 customers hold no more than 50%. Furthermore, the industry base is relatively well diversified, meaning that even if a few of the end-markets face a tougher outlook or negative growth, the company is likely to show growth in other areas.

HANZA recently received AS9100 certification, which is needed to be able to deliver to the aerospace sector. This means that the company is able to further diversify its client group and attract clients with low cyclicality, such as the security defence sector. HANZA will thus be able to further develop its relationship with companies such as Saab while also being able to recruit new clients. The certificate is also said to be relatively hard to achieve, indicating that HANZA might possess an advantage over peers.

As a final note, it is important to mention that HANZA avoids exposure to the automotive and telecom sectors as a rule.

SWOT analysis

Strengths

The main strength of the group is its cluster structure. Today HANZA has a solid portfolio of manufacturing technologies that are strategically positioned both in relation to each other and to customers. We also identify the customer mix as a strength. No single customer makes up more than 10% of revenues and the top 10 customers amount to less than 50% of revenues. Customers are diversified geographically and by end-markets. We see structural growth trends in e.g. recycling, and in more stable sticky markets such as med tech and defence industries. Obviously, more cyclical industries, like industrials, are also in the mix.

Weaknesses

The business model is capital-intensive and we expect that further capital may have to be raised to continue acquiring companies and investing in machinery. The company's gearing is not necessarily stretched at 2.3x ND/EBITDA, but neither does it have ample acquisition headroom.

SWOT analysis

Source: ABG Sundal Collier, company data

Opportunities

We identify Central European manufacturing market as the single biggest opportunity for HANZA. Germany is one of the largest markets in Europe and the RITTER acquisition has allowed HANZA an advantageous position in the region and added important product development capabilities. According to market data and management, outsourcing is particularly interesting for new products or products with long production cycles. HANZA is very well positioned within this segment. The fact that many product companies see lead-times and poor visibility as major outsourcing challenges also work in HANZA's favour. We expect that collaboration will be a large trend for the contract manufacturing market as a whole.

Threats

While the customer mix is well diversified, we still identify the biggest threat to be the overall economic cycle. In a recession we expect that it would be difficult for HANZA to maintain its 10% sales growth target and margin expansion. We also see external threats in increasing price pressure and competition. While HANZA's cluster structure is favourable for customers, the fact remain that still many product customers utilise traditional ways of contract manufacturing.

Historical financials

Group

HANZA has a history of growth, with the mainstream of this coming through its active acquisition approach. However, the company does not disclose organic growth, which makes it difficult to know the underlying performance in the group. We expect that, on average, organic growth should be in-line with the overall market around 3%. Historically, the main lagger has been profitability. With a clear synergy framework in mind, it usually takes some time for new companies to integrate into the HANZA model. This has burdened profitability with growth-related costs, but the company still maintains that underlying profitability has been above traditional contract manufacturers. However, we now see a steady improvement in the EBITA margin over the last couple of years, driven mainly by the Nordics and the Swedish cluster. The margin expansion is driven partly by directly margin-accretive acquisitions and partly by the synergies realised through the “all you need is one” framework. Still, profitability has continuously been burdened by one-off costs. In our view, it is not prudent to consider adjusted figures alone when looking at HANZA. We see improvements starting to bear fruit and the group is executing on its goals, but we do not rule out the possibility of continued “one-off” costs.

Detailed annual financials: FY’11 - FY’22e

Annual overview, SEKm	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019e	2020e	2021e	2022e
Sales	**459**	**884**	**959**	**1,035**	**985**	**1,206**	**1,306**	**1,400**	**1,811**	**2,055**	**2,341**	**2,446**	**2,556**
COGS	-309	-537	-544	-634	-596	-711	-718	-807	-1,006	-1,122	-1,264	-1,321	-1,378
Gross Profit	**150**	**348**	**415**	**402**	**389**	**495**	**588**	**593**	**805**	**933**	**1,077**	**1,125**	**1,178**
SG&A	-132	-340	-426	-407	-412	-444	-562	-557	-751	-864	-981	-1,019	-1,065
EBIT	**18**	**7**	**-11**	**-5**	**-23**	**51**	**25**	**36**	**54**	**68**	**96**	**106**	**113**
Non-recurring items	0	0	0	0	0	40	-9	-4	-17	-14	0	0	0
Adj. EBIT	**18**	**7**	**-11**	**-5**	**-23**	**11**	**34**	**40**	**71**	**83**	**96**	**106**	**113**
Amortisation	*0*	*0*	*0*	*0*	*-1*	*-1*	*0*	*0*	*-7*	*-11*	*-14*	*-15*	*-15*
Adj. EBITA	**0**		**0**	**0**	**-22**	**11**	**34**	**40**	**79**	**94**	**110**	**120**	**128**
Net financial expenses	-1	-14	-16	-17	-14	-17	-22	-16	-25	-28	-37	-39	-41
PTP	17	-7	-27	-22	-37	34	4	19	29	40	58	66	72
Taxes	-2	10	2	-2	3	4	-2	-3	-8	-15	-19	-21	-23
NCI	-3	0	0	0	0	0	0	0	0	0	0	0	0
Net Profit	**13**	**3**	**-25**	**-23**	**-34**	**37**	**2**	**16**	**21**	**26**	**40**	**45**	**49**
Margin and growth metrics	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019e**	**2020e**	**2021e**	**2022e**
Sales growth	**0%**	**92%**	**8%**	**8%**	**-5%**	**23%**	**8%**	**7%**	**29%**	**13%**	**14%**	**4%**	**4%**
Gross margin	32.7%	39.3%	43.3%	38.8%	39.5%	41.0%	45.0%	42.3%	44.5%	45.4%	46.0%	46.0%	46.1%
EBIT margin	**4.0%**	**0.8%**	**-1.1%**	**-0.5%**	**-2.4%**	**4.2%**	**1.9%**	**2.6%**	**3.0%**	**3.3%**	**4.1%**	**4.3%**	**4.4%**
Adj. EBIT margin	4.0%	0.8%	-1.1%	-0.5%	-2.4%	0.9%	2.6%	2.9%	3.9%	4.0%	4.1%	4.3%	4.4%
Adj. EBITA margin	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**-2.3%**	**0.9%**	**2.6%**	**2.9%**	**4.3%**	**4.6%**	**4.7%**	**4.9%**	**5.0%**
Tax rate	10.6%	149.8%	6.4%	-7.8%	8.9%	-10.3%	45.7%	15.5%	28.8%	36.5%	32.0%	32.0%	32.0%
EBIT y-o-y	0%	-60%	-243%	-53%	366%	-319%	-51%	42%	52%	26%	40%	10%	7%

Source: ABG Sundal Collier, company data

Divisional

HANZA divides its reporting into two segments, Nordics and Rest of World. In terms of sales, the split is around 50/50. In terms of EBITA, however, Rest of World accounts for roughly 28% and the Nordic segment 72%. Nordics reached a major shifting point in 2018 when HANZA acquired Swedish manufacturer Wermech. The acquisition supported sales growth of 65% and the EBITA margin increased from 3.2% to 7.4%. Rest of World has had margins between 1.5-2.8%, but is well positioned for improvement given the outlook in Central Europe (see following page).

Sales and EBITA per segment

Sales per segment, SEKm	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019e	2020e	2021e	2022e
Nordics								553	910	968	1,006	1,051	1,099
Rest of the world								846	901	1,086	1,335	1,395	1,458
Group								**1,400**	**1,811**	**2,055**	**2,341**	**2,446**	**2,556**
ABGSCe growth	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019e**	**2020e**	**2021e**	**2022e**
Nordics									65%	6%	4%	5%	5%
Rest of the world									6%	21%	23%	5%	5%
Group		**92%**	**8%**	**8%**	**-5%**	**23%**	**8%**	**7%**	**29%**	**13%**	**14%**	**4%**	**4%**
EBITA per segment, SEKm	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019e**	**2020e**	**2021e**	**2022e**
Nordics								18	67	70	73	77	81
Rest of the world								24	15	27	41	47	51
Business Development								-2	-4	-4	-4	-4	-4
Group								**40**	**79**	**93**	**110**	**120**	**128**
EBITA-margin per segment	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019e**	**2020e**	**2021e**	**2022e**
Nordics								3.2%	7.4%	7.2%	7.3%	7.3%	7.4%
Rest of the world								2.8%	1.6%	2.5%	3.0%	3.4%	3.5%
Group								**2.9%**	**4.3%**	**4.5%**	**4.7%**	**4.9%**	**5.0%**

Source: ABG Sundal Collier, company data

Other metrics

On the other hand, growth and margin improvement did not come cheap. The group currently yields a ROIC of around 5-6% and ROE around 5%, which is low compared to many of its manufacturing peers. The reason has been the highly capital-intensive growth that has been part of building the group to where it is today. The company has taken on a large amount of debt historically, with ND/EBITDA of 2.3x in ’18 and 2.4x ‘19e. From a net working capital perspective, we consider the company relatively efficient at around 9-11% of sales.

Cash flow, debt and return metrics

Other metrics	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019e	2020e	2021e	2022e
FCF conversion	1886%	4214%	-549%	-94%	50%	-110%	2205%	492%	-363%	-59%	237%	186%	191%
ND/EBITDA	-0.5x	6.2x	8.7x	5.8x	18.2x	2.7x	3.1x	1.8x	2.3x	2.4x	1.7x	1.4x	1.1x
NWC / Sales	54%	21%	12%	10%	10%	12%	11%	11%	9%	15%	14%	14%	14%
ROE	n.a.	3%	-15%	-17%	-22%	15%	1%	5%	5%	5%	7%	8%	8%
ROIC	n.a.	2%	-2%	-1%	-6%	14%	4%	7%	6%	4%	6%	6%	6%

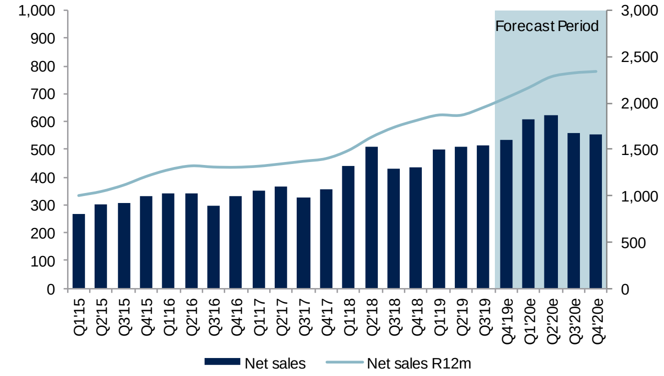
Source: ABG Sundal Collier, company data

Estimates

Sales positioned for double-digit growth

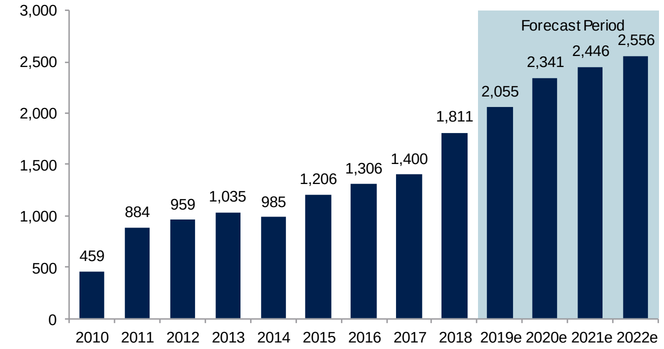
We expect that HANZA will grow organically in line with the market (3-4% per year) and prove able to reach its 10% growth target with the support of acquisitions (we do not include future M&A in our estimates). As a result, we expect that the group will reach sales of SEK 2.5bn by 2022e, implying a CAGR of 8% ’18-22e. We expect that a majority of the growth will come from the Central European cluster, supported by the RITTER acquisitions but also taking an increasing part of existing customers’ business. We also note that the Nordic cluster is in a mature state and expect stable, profitable growth in the segment supported by environmental and defence trends.

Quarterly and R12m sales estimates (SEKm)



Source: ABG Sundal Collier, company data

Annual sales estimates (SEKm)

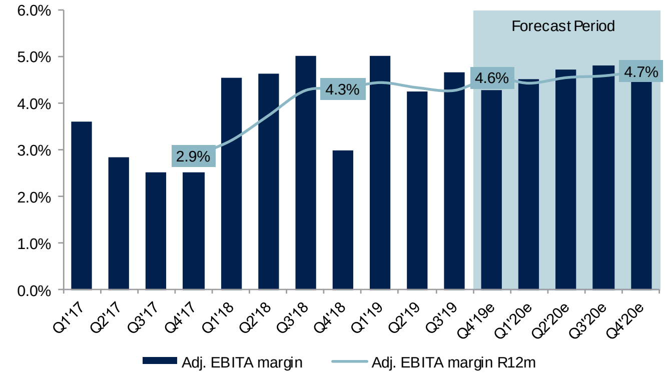


Source: ABG Sundal Collier, company data

Margins expanding driven by Central Europe

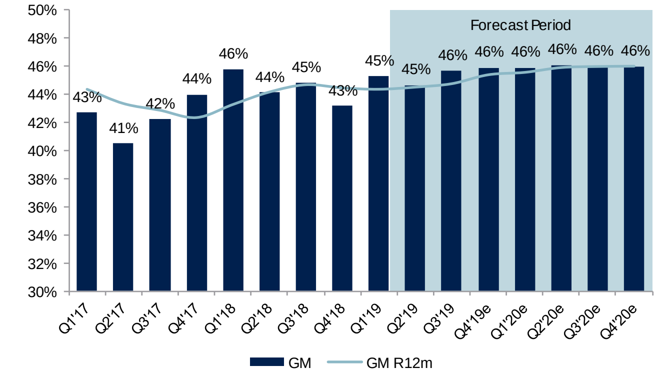
We expect that the group will improve margins significantly over the coming three years. While the GM margin is expected to improve, we believe the majority of cost savings will come from the trimming of clusters, which we expect will reduce overhead and other production related cost. We estimate that the group should be able to reach an EBITA margin of 5% by 2022e, driven by improvements in clusters outside of Sweden. We note that the acquisition of RITTER should be margin-accretive. However, it is likely to take some time and money to get the Central European cluster up to the level needed for significant margin expansion. We estimate ‘20e EBITA of SEK 109m on a margin of 4.7%, and expand to 5.0% in ‘22e indicating an EBITA of SEK 124m. We believe the gross margin is at a relatively high level as-is and expect only slight improvements over time.

Quarterly and R12m EBITA-margin



Source: ABG Sundal Collier, company data

Quarterly gross margin

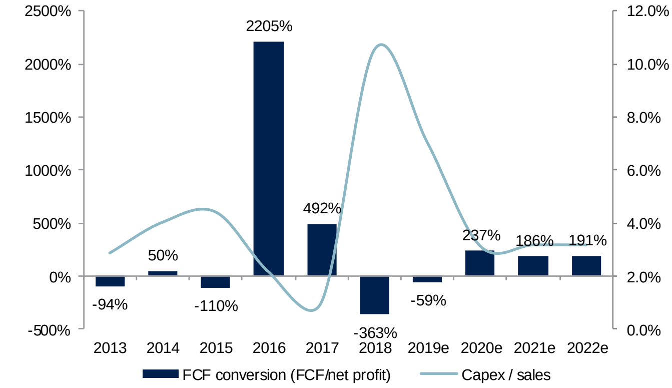


Source: ABG Sundal Collier, company data

Cash flow and the balance sheet

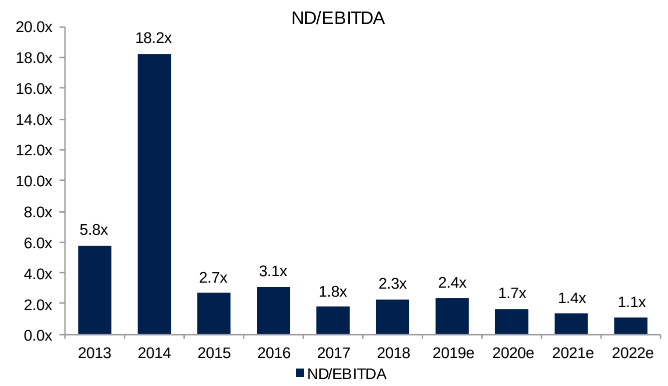
We note that HANZA has a history of poor cash flow and a high amount of capex, a result of the build-up phases whose focus was on acquiring the necessary manufacturing technologies and building the desired clusters. As we do not include potential future M&A in our estimates, we expect a stabilising of free cash flow and declining ND/EBITDA levels. While the company may do further M&A, we expect that with the recent acquisitions of (primarily) Wermech and RITTER have put HANZA in a position where significant future acquisitions are not as important as the ability and focus to integrate and grow existing clusters more organically.

Cash flow & Capex



Source: ABG Sundal Collier, company data

Net Debt/EBITDA

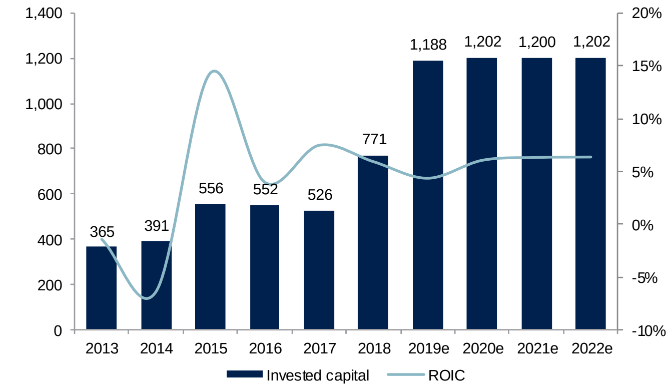


Source: ABG Sundal Collier, company data

Tied up capital and ROIC

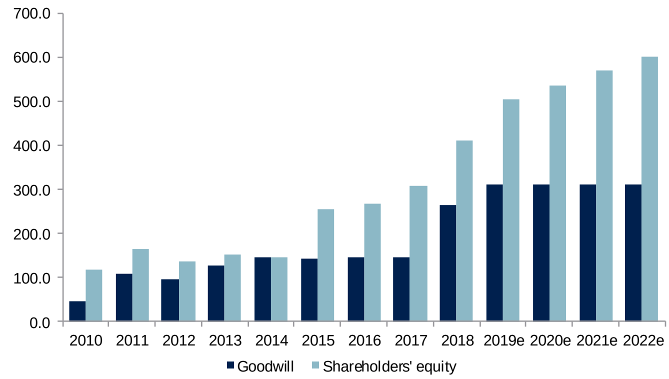
As highlighted before, this is largely a result of the build-up phases of the group whose focus was on acquiring the necessary manufacturing technologies and building the desired clusters. As the group is reaching the mid-point of its Phase 3 (trim cluster and expand into new markets), we expect tied-up capital to reduce somewhat and that we will see ROIC trending upwards toward a level of around 10% by ‘22e.

Invested capital and ROIC



Source: ABG Sundal Collier, company data

Goodwill and equity



Source: ABG Sundal Collier, company data

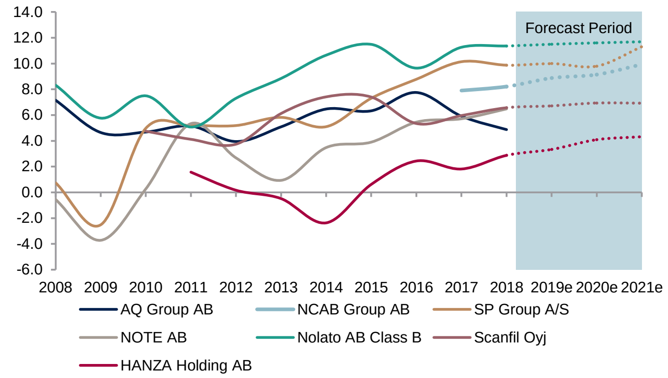
Peers

While there are many competitors in the contract manufacturing space, it is difficult to pinpoint exact peers to HANZA as the company has a unique approach to addressing the market. Still, there are companies that have similar customers, growth drivers and manufacturing technologies. Our peer group is based on a range of similar contract manufacturers operating globally.

Summary of HANZA's closest peers

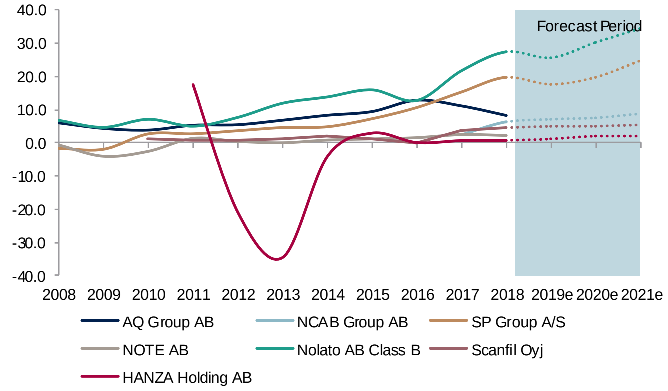
HANZA's management claims that it has a unique business model and thus does not have any close peers. Although we do agree that its "all you need is one" vision is not found in any other company, this is not yet a substantial part of the business. Therefore, we find it reasonable to compare HANZA to other contract manufacturers within the sector.

Peers EBIT margin (%)



Source: ABG Sundal Collier, company data

Peers EPS

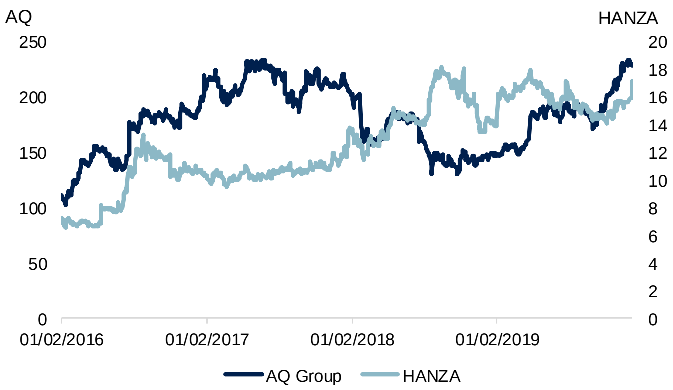


Source: ABG Sundal Collier, company data

AQ Group

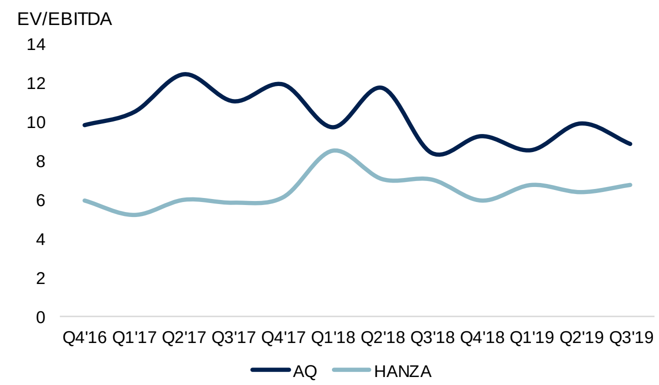
AQ Group bears many similarities to HANZA, but also some differences. The main similarity is that both companies focuses on acquiring manufacturing companies and providing fully assembled products to their respective customers. Their client groups are similar and consists of companies such as ABB and Sandvik. However, the primary difference is that AQ Group has a more decentralised acquisition driven approach to acquisitions while HANZA is more focused on realising synergies and adding new technologies to its factories. AQ Group had a sales CAGR of 11% in the last 10 years and currently has sales of SEK 4.7bn in 2018 on an EBIT margin of 4.9%. In terms of valuation, AQ Group has been trading at a premium over HANZA for the last couple of quarters.

Share price diff has seen some volatility…



Source: ABG Sundal Collier, Yahoo Finance

…while valuation gap has remained the same



Source: ABG Sundal Collier, FactSet

NCAB

NCAB is a contract manufacturer of Printed Circuit Boards (PCBs), which is a component used by HANZA in its production of PCBA (PCB assembly). The company is locally present in 17 countries and has sales in a total of 45 countries. The main difference with HANZA is that it is are more niched within the PCBs and thus lacks the diversification in its product mix. NCAB is slightly smaller than HANZA at SEK 1.6bn in ’18 sales. Margins are relatively high for the sector at 8.2% EBIT margin.

NOTE

NOTE is a manufacturer in the high-tech electronic manufacturing industry. It provides customers with advanced engineering services and is active primarily within the Nordics, the Baltics, Asia and Europe. NOTE has similar organic growth drivers to HANZA, but does not have the same acquisition agenda. Erik Stenfors was also the founder of NOTE before starting HANZA. NOTE had 2018 sales of SEK 1.4bn and an EBIT margin of 6.5%.

SP Group

Founded in 1972, the Danish manufacturing company focuses on moulded plastic components and electromagnetic coating (EMC) coating and metals. The company is similar in size to HANZA with around 2,000 employees in 11 countries and has an EBIT margin around 10%.

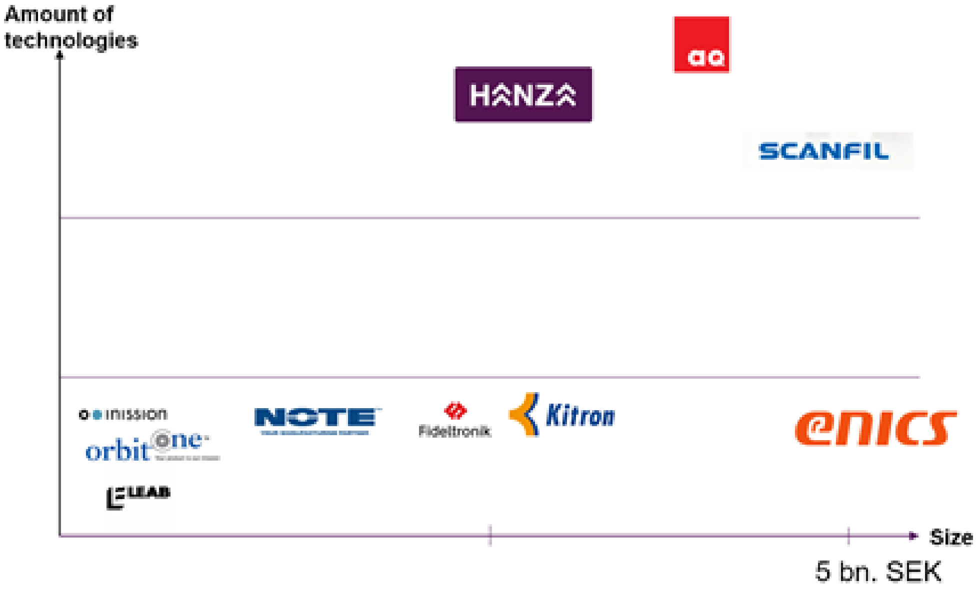
Nolato

A contract manufacturer with slightly different technologies but a similar customer mix to HANZA, Nolato is a specialist in the manufacturing of polymer products (plastics) and manufactures products for a wide range of end-customers in the med-tech, industrial and consumer electronic markets. The group has operations in Asia, Europe and North America. Nolato is around 4x larger than HANZA and operates at an EBIT margin of 10-11%.

Scanfil

Scanfil is a Finnish company founded in Sievi in 1976. From the beginning, the company specialised in manufacturing sheet metal mechanics for the electronics industry and has since then developed to become an international contract manufacturer and system supplier. Within this segment, the company is today the market leader in the Nordic region, among the largest companies in Europe and a household name in the global market. The company has many similarities in its technology know-how to HANZA, but lacks the ‘all you need is one” framework as well as the MIG consultancy service. It is similar to in the way that it manufactures products for the electronics industry. Further, the geographical presence is also similar, meaning that the two companies share the same client base. However, Scanfil differs from HANZA in that it explicitly works with contract manufacturing. This means that it lacks the assembly aspect of HANZA’s business. The company is located in Finland and has sales of around SEK 6bn and an EBIT margin around 6.6%.

Peer overview: technology know-how vs. group size



Source: HANZA

Peer valuation

HANZA has significantly lower margins compared to its peers, as well as historically weak profitability. The company is trading at a significant discount to its peer group – 42% on '20e EV/EBIT and -38% on '20e P/E. HANZA's margins are lower than peers, around -45% to the peer average. This is dependent on several factors, one of the most prominent being the personnel-heavy assembly part of its business.

Peer valuations and KPIs

Company	SEKm	2019e	2020e	2021e	2019e	2020e	2021e	2019e	2020e	2021e	2019e	2020e	2021e
Nolato	13,928	22.2	19.1	17.7	17.4	14.8	13.2	2.0	1.7	1.6	11.5	11.8	11.7
Elos Medtech	753	21.4	17.6	14.2	18.2	15.3	12.2	1.7	1.6	1.4	9.6	10.3	11.3
Kitron	2,062	14.3	11.8	10.7	12.8	10.8	9.7	0.8	0.7	0.6	6.1	6.6	6.7
NCAB	2,729	21.6	20.4	18.2	17.2	15.6	13.8	1.5	1.4	1.3	8.9	9.1	9.5
SP Group	4,116	19.7	17.6	14.0	18.4	16.6	13.9	1.8	1.6	1.5	9.6	9.8	10.9
Scanfil	3,495	11.2	10.3	10.0	9.2	8.4	7.6	0.6	0.6	0.5	6.9	6.9	6.9
Peer average	**4,718**	**18.4**	**16.1**	**14.1**	**15.5**	**13.6**	**11.7**	**1.4**	**1.3**	**1.2**	**8.8**	**9.1**	**9.5**
Peer median	**2,729**	**20.5**	**17.6**	**14.1**	**17.3**	**15.0**	**12.7**	**1.6**	**1.5**	**1.3**	**9.2**	**9.5**	**10.2**
Hanza	**610**	**11.5**	**10.9**	**9.8**	**13.0**	**10.8**	**9.4**	**0.5**	**0.4**	**0.4**	**4.0**	**4.1**	**4.3**
vs. peer average		*-37%*	*-32%*	*-31%*	*-17%*	*-20%*	*-20%*	*-63%*	*-65%*	*-65%*	*-54%*	*-55%*	*-55%*
vs. NCAB		*-46%*	*-46%*	*-46%*	*-25%*	*-31%*	*-32%*	*-66%*	*-69%*	*-69%*	*-55%*	*-55%*	*-54%*

Valuation overview	Mcap	DY (%)			ROCE (%)			CAGR 19-21e (%)		
Company	SEKm	2019e	2020e	2021e	2019e	2020e	2021e	Sales	EBIT	EPS
Nolato	13,928	2.6	2.7	2.8	21.3	22.5	22.2	5.1	5.9	11.8
Elos Medtech	753	1.0	1.1	1.2				9.6	26.9	22.8
Kitron	2,062	4.7	5.2	6.1	20.0	21.2	20.9	13.4	17.8	15.6
NCAB	2,729	2.9	3.1	3.5	37.8	37.1	36.7	7.2	13.9	8.8
SP Group	4,116	2.8	2.9	3.0	17.0	18.8	22.2	7.2	10.4	18.6
Scanfil	3,495	3.0	3.3	3.5	19.5	19.5	19.6	3.8	4.8	5.6
Peer average	**4,718**	**2.8**	**3.0**	**3.4**	**23.1**	**23.8**	**24.3**	**7.7**	**13.3**	**13.9**
Peer median	**2,729**	**2.9**	**3.0**	**3.2**	**20.0**	**21.2**	**22.2**	**7.2**	**12.2**	**13.7**
Hanza	**610**	**1.4**	**3.0**	**3.9**	**9.0**	**11.5**	**14.6**	**12.0**	**31.4**	**37.7**
vs. peer average		*-51%*	*0%*	*17%*	*-61%*	*-52%*	*-40%*	*55%*	*136%*	*172%*
vs. peer median		*-51%*	*2%*	*21%*	*-55%*	*-46%*	*-34%*	*66%*	*158%*	*175%*

Source: ABG Sundal Collier, company data

By applying peer multiples to HANZA, we arrive at a fair value range of SEK 25-32, which implies a significant upward share price movement. While HANZA's margins are well below its peer group, we expect a significant margin expansion until 2022e and a superior EPS growth '19-21e. Applying a 10% discount on peer multiples derives a price around SEK 30.

Implied prices at peers multiples

	2019e	2020e	2021e	average
Peer group multiples				
P/E	18.4x	16.1x	14.1x	16.2x
EV/EBITA	15.5x	13.6x	11.7x	13.6x
EV/Sales	1.4x	1.3x	1.2x	1.3x
Hanza price at peer multiples (10% disc)				
EV/EBITA	22.3	30.6	29.7	27.6
Average	**22.3**	**30.6**	**29.7**	**27.6**
change				*55%*

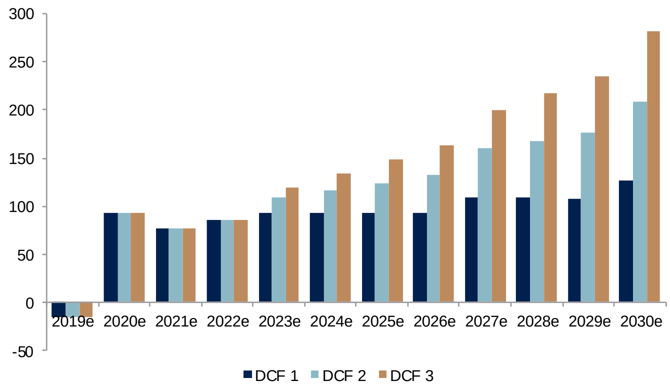
Source: ABG Sundal Collier, company data

Valuation

DCF across three scenarios

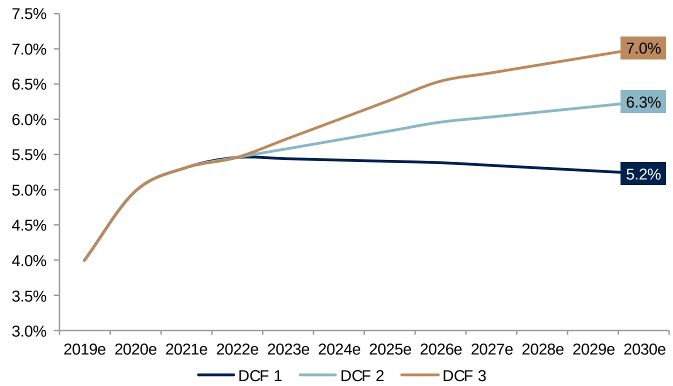
We apply a DCF approach across three different scenarios spanning 2019 to 2030. In DCF 1, we remain cautious and assume sales CAGR for the discount period of 4% per year (excluding acquisitions), with EBITA growing by 7% and driven by increasing margin established at 5.2% by ’30e. In DCF 2, we assume sales CAGR for the group of 5% per year, with EBITA growing by 9% and margins reaching a level of 6.3%. In DCF 3, we assume sales growth for the group of 7% per year, with EBITA growing by 13% and margins trending up towards a level of 7.0%. We do not include future M&A in our estimates and expect CAPEX to stay similar to D&A of around 4-5% of sales. We apply a WACC of 9.2%, based on a 2.6% risk-free rate and a risk premium of 6.8%; we also apply a 3% company premium based on the PWC size premiums. Terminal growth rate of 2% has been used.

FCF by DCF scenario (SEKm)



Source: ABG Sundal Collier, company data

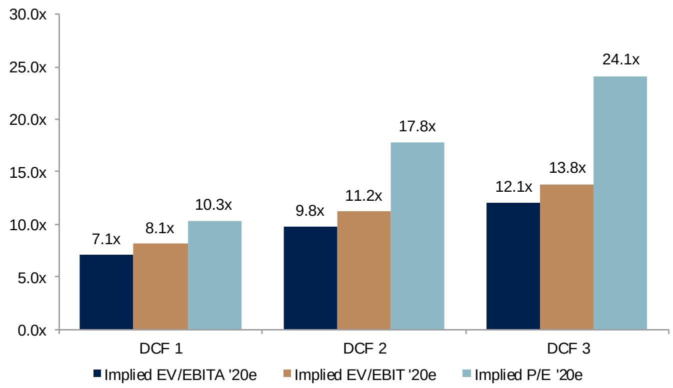
EBITA margin by DCF scenario



Source: ABG Sundal Collier, company data

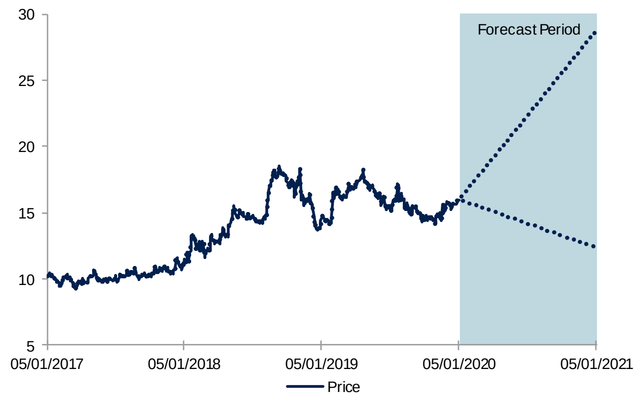
For DCFs 1, 2 and 3, we arrive at per share values of SEK 14, 23 and 39, respectively. Note that all three scenarios assume margin improvements from current levels, which we think is granted. We leave the margin assumptions for the Nordics largely unchanged in all scenarios and note that the margin expansion is driven by Central Europe on potential in Germany and the recent acquisition of RITTER. DCF 2 is the more likely outcome in our opinion, with group sales around 5% CAGR (ex. acquisitions) and a group EBITA margin over 6%; this implies an EPS CAGR of 14% ’19-‘30e.

Implied multiples by DCF scenario



Source: ABG Sundal Collier, company data

Implied valuation range based on DFCs



Source: ABG Sundal Collier, company data

Details: DCF scenarios and WACC calculation

WACC calculation		DCF 1		DCF 2		DCF 3	
Risk free	2.6%	**CAGR / avg. '19-22e**		**CAGR / avg. '19-22e**		**CAGR / avg. '19-22e**	
Risk premium	6.8%	Sales	6%	Sales	6%	Sales	6%
Equity Beta	0.99	adj. EBITA	6.4%	adj. EBITA	6.4%	adj. EBITA	6.4%
Company premium	3%	adj. EBITA margin	4.6%	adj. EBITA margin	4.6%	adj. EBITA margin	4.6%
CAPM	**12.3%**	**CAGR / avg. '23e-26e**		**CAGR / avg. '23e-26e**		**CAGR / avg. '23e-26e**	
Net Debt	369	**Sales**	**2%**	**Sales**	**5%**	**Sales**	**7%**
Cost of debt	4.8%	*Nordics*	*1%*	*Nordics*	*4%*	*Nordics*	*6%*
Debt-to-equity	73%	*Rest of the world*	*3%*	*Rest of the world*	*5%*	*Rest of the world*	*7%*
Tax rate	37%	*Business Development*	*n.a.*	*Business Development*	*n.a.*	*Business Development*	*n.a.*
WACC	**9.2%**	**adj. EBITA**	**1%**	**adj. EBITA**	**7%**	**adj. EBITA**	**11%**
		adj. EBITA margin	**4.8%**	**adj. EBITA margin**	**5.3%**	**adj. EBITA margin**	**5.6%**
		Nordics	*7.2%*	*Nordics*	*7.5%*	*Nordics*	*7.5%*
		Rest of the world	*3.4%*	*Rest of the world*	*3.9%*	*Rest of the world*	*4.4%*
		Business Development	*n.a.*	*Business Development*	*n.a.*	*Business Development*	*n.a.*
		CAGR / avg. '27e-30e		**CAGR / avg. '27e-30e**		**CAGR / avg. '27e-30e**	
		Sales	**2%**	**Sales**	**4%**	**Sales**	**6%**
		Nordics	*0%*	*Nordics*	*4%*	*Nordics*	*6%*
		Rest of the world	*3%*	*Rest of the world*	*4%*	*Rest of the world*	*6%*
		Business Development	*n.a.*	*Business Development*	*n.a.*	*Business Development*	*n.a.*
		adj. EBITA	**0%**	**adj. EBITA**	**5%**	**adj. EBITA**	**9%**
		adj. EBITA margin	**5.1%**	**adj. EBITA margin**	**6.3%**	**adj. EBITA margin**	**6.9%**
		Nordics	*-1.9%*	*Nordics*	*4.3%*	*Nordics*	*7.0%*
		Rest of the world	*1.4%*	*Rest of the world*	*6.4%*	*Rest of the world*	*10.5%*
		Business Development	*n.a.*	*Business Development*	*n.a.*	*Business Development*	*n.a.*

Valuation scenarios

DCF 1		DCF 2		DCF 3	
PV '19e-21e	183	PV '19e-21e	183	PV '19e-21e	183
PV '22e-25e	212	PV '22e-25e	272	PV '22e-25e	318
PV '26e-29e	180	PV '26e-29e	282	PV '26e-29e	369
PV (CV)	201	PV (CV)	333	PV (CV)	450
EV	**776**	**EV**	**1,071**	**EV**	**1,320**
ND/(Net cash)	369	ND/(Net cash)	369	ND/(Net cash)	369
Equity value	407	Equity value	702	Equity value	951
NOSH	33	NOSH	33	NOSH	33
Per share	**12**	**Per share**	**21**	**Per share**	**29**
implied price Δ	*-29%*	*implied price Δ*	*22%*	*implied price Δ*	*65%*
implied '20e EV/EBITA	7.1x	*implied '20e EV/EBITA*	9.8x	*implied '20e EV/EBITA*	12.1x
implied '20e EV/EBIT	8.1x	*implied '20e EV/EBIT*	11.2x	*implied '20e EV/EBIT*	13.8x
implied '20e P/E	10.3x	*implied '20e P/E*	17.8x	*implied '20e P/E*	24.1x

Source: ABG Sundal Collier, company data

Fair value range: SEK 13-30

We set a fair value range for HANZA of SEK 13-30 over the next 12 months. The range is based on a target multiple range between 7x-12x EV/EBITA derived through a combination of our DCF assumptions and peer valuations.

Risks

There are several factors outside of HANZA's control that might affect the company's future operations and financial results negatively. This might in turn impact the share price. Some of the most prominent risks are listed below, although there might be other risks correlated to an investment in the company that are not listed here. The risks stated are in no specific order.

Macroeconomic factors

As with all capital goods companies, macroeconomic risks are impending. Since the company has been growing substantially over the last few years, it has not been exposed to a major downturn in the economy so far. However, it is safe to say that its clients will be affected if the economy turns, which in turn will have a negative impact on HANZA.

Competition

The market for contract manufacturing is exposed to extensive competition from market participants. This competition might in turn lead to increased prices on spare parts and product components. Although HANZA refines its products and has a long background with several customers, there are no guarantees that their customers will keep working with the company in the future.

Interruptions in production

HANZA is highly dependent on its production lines working properly. If it becomes exposed to production interruptions, it could be affected in both the short term (on clients not receiving orders) and the long term (on decreased legitimacy due to the interruptions). Since the major part of HANZA's production is comprised of advanced technology and multiple steps, small product line error could have severe consequences.

Price changes

Given the high competition within the sector, the company is dependent on maintaining its price point. Margins are already compressed, and a price decrease from HANZA's customers would affect the company in a negative way. Moreover, price changes in raw materials could also have a negative impact on the company. Although HANZA hedges some of its raw material exposure by, for example, writing long contracts, it remains exposed to price increases from suppliers.

Acquisition-related risks

The company has made several acquisitions over the last couple of years. Although the general perception is that the acquisitions will have a positive impact, there are numerous risks related to them. First of all, the current acquisitions might lead to write-downs on goodwill if they underperform in comparison to expectations. This will have a negative impact on the income statement. Secondly, given the history of the company, it is reasonable to believe that it is interested in acquiring more companies in the future. However, there are no guarantees that these acquisitions will be successful, so there is a potential negative impact in this area.

Appendix

Management and board of directors

Erik Stenfors founded HANZA in 2008 and is still CEO. Prior to this, he founded Note AB, a market-leading Nordic electronics manufacturer. NOTE AB is listed on the NASDAQ OMX (Stockholm's main index) with a market cap of around SEK 1.1bn. Stenfors owns 440,000 shares in HANZA. Stenfors also has a history of working in product development and hence purchasing contract manufacturing. Between NOTE and HANZA, he also founded a product company named Wonderful Times Group listed on the Spotlight exchange.

On the board of directors, the most prominent member is Gerald Engström, founder of the NASDAQ OMX-listed (since 2007) ventilation systems specialist Systemair. Engström is a well-known businessman in Sweden and is also one of the main shareholders in Swedish airline company SAS. He is the largest shareholder in HANZA with around 6.5mn shares.

Board of Directors and Executive Management

Board of Directors							
Position	Name	Nationality	Elected	Previous experiences	Shares	Value (SEKm)	% of shares
President of the board	Francesco Franzé	Swedish	2015	Senior VP Husqvarna, Board member in several other capital goods companies	3,425,000	52.2	10.1%
Member of the board	Gerald Engström	Swedish	2017	Founder and major shareholder of Systemair	6,482,687	98.9	19.1%
Member of the board	Håkan Halén	Swedish	2015	CFO Hexagon	1,997,470	30.5	5.9%
Member of the board	Helene Richmond	Swedish	2017	Strategic program manager SKF	39,000	0.6	0.1%
Member of the board	Sofia Axelsson	Swedish	2018	VP Brand & Marketing Husqvarna	4,000	0.1	0.0%

Executive Management							
Position	Name	Nationality	Position since	Previous experiences	Shares	Value (SEKm)	% of shares
CEO	Erik Stenfors	Swedish	2008	Founder Note AB, Founder Hanza AB	440,000	6.7	1.3%
CFO	Lars Åkerblom	Swedish	2010	CFO Sweco, CFO Pricer	110,210	1.7	0.3%
COO	Andreas Nordin	Swedish	2017	CEO Ericsson in Estonia, Brazil and Mexico	0	0.0	0.0%

Source: ABG Sundal Collier, company data

Top 10 shareholders and management holdings

Shareholders	Number of shares	Value, SEKm	Capital, %	Votes, %
Top 10				
Gerald Engström	6,482,687	100.2	19.1%	19.1%
Francesco Franzé	3,425,000	52.9	10.1%	10.1%
Ritter Beteiligungs Gmbh	3,000,000	46.4	8.8%	8.8%
Nordnet Pensionförsäkring	2,642,298	40.8	7.8%	7.8%
Avanza Pension	2,620,796	40.5	7.7%	7.7%
Massimiliano Franzé	1,977,214	30.5	6.8%	6.8%
Håkan Halén	1,997,470	30.9	5.9%	5.9%
Svenska Handelsbanken AB	1,751,654	27.1	5.2%	5.2%
Lannebo Fonder	1,482,664	22.9	4.4%	4.4%
Eugen Steiner	1,175,000	18.2	3.5%	3.5%
Management				
Erik Stenfors (CEO)	440,000	6.8	1.3%	1.3%
Lars Åkerblom (CFO)	110,210	1.7	0.4%	0.4%
Bengt Emesten (Division head)	8,570	0.1	0.0%	0.0%
Thomas Lindström (Division head)	8,500	0.1	0.0%	0.0%

Source: Holdings, Dec 2019

Share history

The company has required continuous capital raises during its build-up phase, and has raised roughly SEK 3.4bn in capital over a 10-year period. It is worth noting that all the capital raised has been intended for acquisitions and development initiatives and not due to poor cash levels.

Overview of transactions since the company was founded

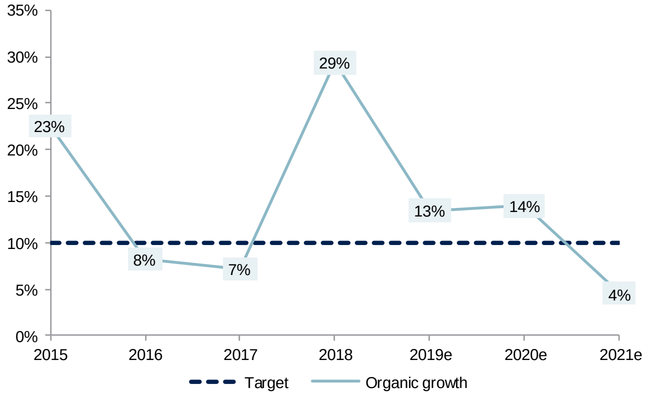
Year	Transaction	Value per share, SEK	Change in equity, SEK	Change in shares	Total shares
2008	Company founded	1.0	100,000	100,000	100,000
2010	Capital raise	1.0	233,334	233,334	333,334
2010	Capital raise	1.0	53,192	53,192	386 526
2010	Capital raise	1.0	24,672	24,672	411,198
2012	Capital raise	1.0	115,979	115,979	527,177
2013	Capital raise	1.0	24,050	24,050	551,227
2013	Capital raise	1.0	1,839	1,839	553,066
2013	Capital raise	1.0	18,566	18,566	571,632
2013	Convertibles executed	1.0	60,000	60,000	631,632
2014	Split 1:10	-	-	5,684,688	6,316,320
2014	Capital raise	0.1	17,000	170,000	6,486,320
2014	New share issuance	0.1	75,760	757,600	7,243,920
2014	Non-cash issue	0.1	40,000	400,000	7,643,920
2015	Capital raise	0.1	136,842	1,368,420	9,012,341
2015	Capital raise	0.1	857,471	8,574,710	17,587,052
2015	Offset issue	0.1	302,637	3,026,370	20,613,421
2015	Offset issue	0.1	2,876	28,760	20,642,179
2016	Capital raise	0.1	6,719	67,190	20,709,369
2017	Convertibles executed	0.1	161,464	1,614,640	22,324,008
2018	Rights issue	0.1	669,720	6,697,200	29,021,208
2018	Redemption of issued options	0.1	84,851	848,510	29,869,718
2019	Redemption of issued options	0.1	11,021	110,210	29,979,928
2019	Non-cash issue	0.1	100,000	1,000,000	30,979,928
2019	Non-cash issue	0.1	300,000	3,000,000	33,979,928

Source: ABG Sundal Collier, company data

Financial goals

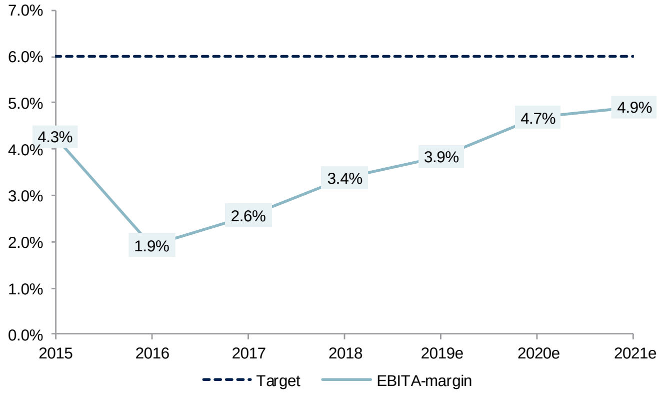
HANZA aims to grow >10% per year and looks for an EBITA-margin >6% over a business cycle. Looking at the history, we conclude that growth has been and should continue roughly in-line with the target of 10%. We believe the more challenging goal will be the EBITA margin >6%. While not impossible, we expect that it will take some time for the group to reach that level. Using the Nordics as a proxy, we have confidence in the other clusters to follow suit.

Actual sales growth vs. target



Source: ABG Sundal Collier, company data

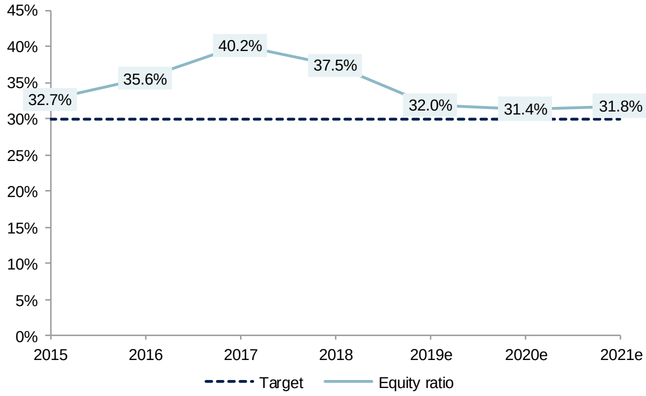
Actual EBITA-margin vs. target



Source: ABG Sundal Collier, company data

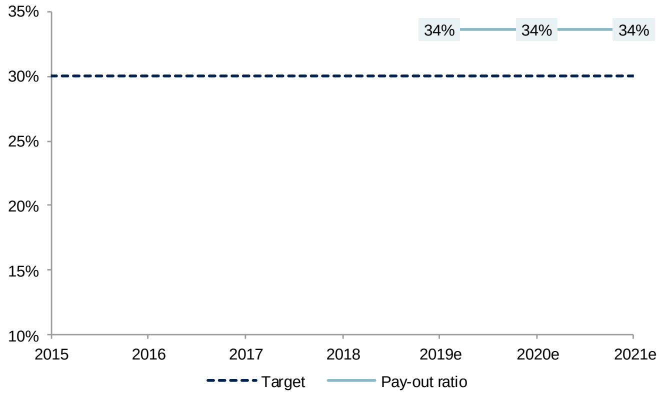
HANZA has an equity ratio goals of 30%, which is a level that has been obtained over the last four years, and we do not foresee any reason why this should not continue.

Actual equity ratio vs. target



Source: ABG Sundal Collier, company data

Actual pay-out ratio vs. target



Source: ABG Sundal Collier, company data

Income Statement (SEKm)	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019e
Sales	439	508	431	433	498	507	516	535
COGS	201	224	193	187	225	226	236	245
Gross profit	639	732	624	620	723	733	751	780
Other operating items	-607	-695	-592	-608	-684	-695	-715	-738
EBITDA	**32**	**37**	**32**	**12**	**39**	**38**	**36**	**43**
Depreciation and amortisation	-12	-14	-13	-13	-19	-19	-19	-20
EBITA	**20**	**24**	**19**	**-1**	**20**	**19**	**17**	**23**
EO items	-0	0	-3	-14	-6	-2	-7	0
Impairment and PPA amortisation	-1	-2	-2	-2	-2	-2	-3	-3
EBIT	**18**	**22**	**17**	**-3**	**17**	**17**	**14**	**20**
Net financial items	-8	-8	-5	-5	-6	-5	-8	-9
Pretax profit	**11**	**14**	**12**	**-8**	**11**	**12**	**6**	**11**
Tax	-2	-3	-2	-2	-2	-4	-5	-4
Net profit	**9**	**11**	**11**	**-10**	**9**	**8**	**1**	**8**
Minority interest	0	0	0	0	0	0	0	0
Net profit discontinued	0	0	0	0	0	0	0	0
Net profit to shareholders	**9**	**11**	**11**	**-10**	**9**	**8**	**1**	**8**
EPS	0.36	0.38	0.36	-0.33	0.30	0.26	0.03	0.23
EPS Adj	0.41	0.44	0.43	-0.26	0.37	0.33	0.12	0.33
Total extraordinary items after tax	-0	0	-3	-14	-6	-2	-7	0
Tax rate (%)	*17.8*	*22.0*	*13.0*	*22.8*	*20.2*	*31.4*	*85.2*	*32.0*
Gross margin (%)	*145.8*	*144.1*	*144.8*	*143.2*	*145.3*	*144.7*	*145.7*	*145.9*
EBITDA margin (%)	*7.3*	*7.3*	*7.5*	*2.7*	*7.8*	*7.5*	*7.0*	*8.0*
EBITA margin (%)	*4.5*	*4.6*	*4.4*	*-0.3*	*3.9*	*3.8*	*3.4*	*4.3*
EBIT margin (%)	*4.2*	*4.3*	*4.0*	*-0.7*	*3.5*	*3.4*	*2.8*	*3.7*
Pretax margin (%)	*2.4*	*2.8*	*2.9*	*-1.8*	*2.3*	*2.3*	*1.2*	*2.1*
Net margin (%)	*2.0*	*2.2*	*2.5*	*-2.2*	*1.8*	*1.6*	*0.2*	*1.4*
Growth rates Y/Y	**Q1 2018**	**Q2 2018**	**Q3 2018**	**Q4 2018**	**Q1 2019**	**Q2 2019**	**Q3 2019**	**Q4 2019e**
Sales growth (%)	*25.3*	*38.2*	*33.0*	*21.0*	*13.5*	*-0.3*	*19.6*	*23.6*
EBITDA growth (%)	*60.0*	*49.6*	*85.1*	*-30.4*	*21.6*	*2.4*	*11.4*	*264.9*
EBIT growth (%)	*119.0*	*55.0*	*147.8*	*-chg*	*-6.0*	*-21.2*	*-16.4*	*+chg*
Net profit growth (%)	*166.7*	*37.5*	*181.6*	*-chg*	*3.4*	*-26.4*	*-91.6*	*+chg*
EPS growth (%)	*166.7*	*37.5*	*181.6*	*-chg*	*3.4*	*-26.4*	*-91.6*	*+chg*
Adj earnings numbers	**Q1 2018**	**Q2 2018**	**Q3 2018**	**Q4 2018**	**Q1 2019**	**Q2 2019**	**Q3 2019**	**Q4 2019e**
EBITDA Adj	32	37	35	26	44	40	43	43
EBITDA Adj margin (%)	*7.4*	*7.3*	*8.1*	*5.9*	*8.9*	*7.9*	*8.3*	*8.0*
EBITA Adj	20	24	22	13	25	22	24	23
EBITA Adj margin (%)	*4.6*	*4.6*	*5.0*	*3.0*	*5.0*	*4.2*	*4.7*	*4.3*
EBIT Adj	19	22	20	11	23	19	21	20
EBIT Adj margin (%)	*4.3*	*4.3*	*4.5*	*2.5*	*4.6*	*3.8*	*4.1*	*3.7*
Pretax profit Adj	12	16	17	8	19	16	16	14
Net profit Adj	10	13	15	6	17	13	11	11
Net profit to shareholders Adj	10	13	15	6	17	13	11	11
Net Adj margin (%)	*2.4*	*2.5*	*3.5*	*1.5*	*3.4*	*2.5*	*2.1*	*2.0*

Source: ABG Sundal Collier, Company data

Income Statement (SEKm)	2012	2013	2014	2015	2016	2017	2018	2019e	2020e	2021e
Sales	959	1,035	985	1,206	1,306	1,400	1,811	2,055	2,341	2,446
COGS	415	402	389	495	588	593	805	933	1,077	1,125
Gross profit	1,374	1,437	1,374	1,701	1,893	1,992	2,616	2,987	3,418	3,571
Other operating items	-1,384	-1,442	-1,363	-1,611	-1,821	-1,913	-2,502	-2,831	-3,222	-3,360
EBITDA	**-11**	**-5**	**10**	**91**	**73**	**79**	**113**	**156**	**196**	**211**
Depreciation and amortisation	0	0	-32	-39	-48	-43	-52	-77	-87	-91
Of which leasing depreciation	0	0	0	0	0	0	0	0	0	0
EBITA	**-11**	**-5**	**-22**	**52**	**25**	**36**	**61**	**79**	**110**	**120**
EO items	0	0	0	40	-9	-4	-17	-14	0	0
Impairment and PPA amortisation	0	0	-1	-1	0	-0	-7	-11	-14	-15
EBIT	**-11**	**-5**	**-23**	**51**	**25**	**36**	**54**	**68**	**96**	**106**
Net financial items	-16	-17	-14	-17	-22	-16	-25	-28	-37	-39
Pretax profit	**-27**	**-22**	**-37**	**34**	**4**	**19**	**29**	**40**	**58**	**66**
Tax	2	-2	3	4	-2	-3	-8	-15	-19	-21
Net profit	**-25**	**-24**	**-34**	**38**	**2**	**16**	**21**	**26**	**40**	**45**
Minority interest	0	0	0	0	0	0	0	0	0	0
Net profit discontinued	0	0	0	0	0	0	0	0	0	0
Net profit to shareholders	**-25**	**-24**	**-34**	**38**	**2**	**16**	**21**	**26**	**40**	**45**
EPS	0	-4.24	-5.08	3.17	0.09	0.68	0.74	0.78	1.20	1.37
EPS Adj	*0*	*-4.24*	*-4.92*	*-0.20*	*0.49*	*0.87*	*1.61*	*1.54*	*1.62*	*1.81*
Total extraordinary items after tax	0	0	0	40	-9	-4	-17	-14	0	0
Leasing payments	0	0	0	0	0	0	0	-88	-88	-88
Tax rate (%)	*6.4*	*7.8*	*8.9*	*10.3*	*45.7*	*15.5*	*28.8*	*36.5*	*32.0*	*32.0*
Gross margin (%)	*143.3*	*138.8*	*139.5*	*141.0*	*145.0*	*142.3*	*144.5*	*145.4*	*146.0*	*146.0*
EBITDA margin (%)	*-1.1*	*-0.5*	*1.0*	*7.5*	*5.6*	*5.7*	*6.3*	*7.6*	*8.4*	*8.6*
EBITA margin (%)	*-1.1*	*-0.5*	*-2.3*	*4.3*	*1.9*	*2.6*	*3.4*	*3.9*	*4.7*	*4.9*
EBIT margin (%)	*-1.1*	*-0.5*	*-2.4*	*4.2*	*1.9*	*2.6*	*3.0*	*3.3*	*4.1*	*4.3*
Pretax margin (%)	*-2.8*	*-2.1*	*-3.7*	*2.8*	*0.3*	*1.4*	*1.6*	*2.0*	*2.5*	*2.7*
Net margin (%)	*-2.6*	*-2.3*	*-3.4*	*3.1*	*0.1*	*1.2*	*1.1*	*1.2*	*1.7*	*1.8*
Growth rates Y/Y	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019e**	**2020e**	**2021e**
Sales growth (%)	*8.4*	*8.0*	*-4.9*	*22.5*	*8.2*	*7.2*	*29.4*	*13.5*	*13.9*	*4.5*
EBITDA growth (%)	*-243.0*	*52.9*	*304.0*	*788.2*	*-19.8*	*8.8*	*43.1*	*37.5*	*26.1*	*7.4*
EBIT growth (%)	*-243.0*	*52.9*	*-366.0*	*319.3*	*-50.7*	*41.7*	*51.5*	*26.4*	*39.8*	*10.4*
Net profit growth (%)	*-868.0*	*7.3*	*-43.0*	*211.6*	*-94.9*	*763.2*	*26.8*	*23.4*	*54.0*	*14.1*
EPS growth (%)	*na*	*high*	*-19.9*	*162.3*	*-97.3*	*693.0*	*8.9*	*5.2*	*54.0*	*14.1*
Profitability	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019e**	**2020e**	**2021e**
ROE (%)	*-16.8*	*-16.3*	*-22.5*	*18.7*	*0.7*	*5.7*	*5.8*	*5.6*	*7.6*	*8.2*
ROE Adj (%)	*-16.8*	*-16.3*	*-21.8*	*-1.2*	*4.2*	*7.2*	*12.6*	*11.1*	*10.3*	*10.8*
ROCE (%)	*-3.2*	*-1.8*	*-8.1*	*13.1*	*5.4*	*8.0*	*9.4*	*7.6*	*8.4*	*8.8*
ROCE Adj(%)	*-3.2*	*-1.8*	*-7.7*	*2.9*	*7.3*	*9.1*	*13.7*	*10.4*	*9.7*	*10.0*
ROIC (%)	*-2.7*	*-1.7*	*-6.8*	*13.8*	*2.7*	*6.3*	*6.3*	*4.6*	*5.6*	*6.1*
ROIC Adj (%)	*-2.7*	*-1.7*	*-6.8*	*2.9*	*3.7*	*7.0*	*8.4*	*5.5*	*5.6*	*6.1*
Adj earnings numbers	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019e**	**2020e**	**2021e**
EBITDA Adj	-11	-5	10	50	82	83	131	170	196	211
EBITDA Adj margin (%)	*-1.1*	*-0.5*	*1.0*	*4.2*	*6.3*	*6.0*	*7.2*	*8.3*	*8.4*	*8.6*
EBITDA lease Adj	-11	-5	10	50	82	83	131	82	108	123
EBITDA lease Adj margin (%)	*-1.1*	*-0.5*	*1.0*	*4.2*	*6.3*	*6.0*	*7.2*	*4.0*	*4.6*	*5.0*
EBITA Adj	-11	-5	-22	11	34	40	79	94	110	120
EBITA Adj margin (%)	*-1.1*	*-0.5*	*-2.3*	*0.9*	*2.6*	*2.9*	*4.3*	*4.6*	*4.7*	*4.9*
EBIT Adj	-11	-5	-23	11	34	40	71	83	96	106
EBIT Adj margin (%)	*-1.1*	*-0.5*	*-2.4*	*0.9*	*2.6*	*2.9*	*3.9*	*4.0*	*4.1*	*4.3*
Pretax profit Adj	-27	-22	-36	-6	13	24	54	66	72	81
Net profit Adj	-25	-24	-33	-2	11	21	45	51	54	60
Net profit to shareholders Adj	-25	-24	-33	-2	11	21	45	51	54	60
Net Adj margin (%)	-2.6	-2.3	-3.3	-0.2	0.8	1.5	2.5	2.5	2.3	2.4

Source: ABG Sundal Collier, Company data

Cash Flow Statement (SEKm)	2012	2013	2014	2015	2016	2017	2018	2019e	2020e	2021e
EBITDA	-11	-5	10	91	73	79	113	156	196	211
Net financial items	-16	-17	-14	-17	-22	-16	-25	-28	-37	-39
Paid tax	2	-2	3	4	-2	-3	-8	-15	-19	-21
Non-cash items	78	52	3	-19	0	0	0	0	0	0
Cash flow before change in WC	52	29	3	59	49	60	80	113	140	150
Change in WC	87	23	20	-54	7	-11	-30	-149	-24	-10
Operating cash flow	**139**	**52**	**23**	**5**	**42**	**72**	**114**	**128**	**167**	**162**
CAPEX tangible fixed assets	0	-20	-24	-17	0	-14	-47	-55	-73	-78
CAPEX intangible fixed assets	0	0	0	0	0	0	0	0	0	0
Acquisitions and disposals	0	-10	-16	-30	0	23	-143	-89	0	0
Free cash flow	**139**	**22**	**-17**	**-41**	**42**	**81**	**-76**	**-15**	**94**	**84**
Dividend paid	0	0	0	0	0	0	0	-8	-9	-13
Share issues and buybacks	0	0	0	0	0	0	0	0	0	0
Lease liability amortisation	0	0	0	0	0	0	0	0	0	0
Other non cash items	-74	4	6	-42	-15	-16	-100	-305	-65	-36
Decrease in net IB debt	**74**	**31**	**-8**	**-77**	**25**	**83**	**-146**	**-268**	**39**	**42**

Balance Sheet (SEKm)	2012	2013	2014	2015	2016	2017	2018	2019e	2020e	2021e
Goodwill	96	127	146	141	145	148	265	310	310	310
Other intangible assets	2	0	0	0	1	4	66	118	118	118
Tangible fixed assets	125	125	129	253	244	206	270	291	278	265
Right-of-use asset	0	0	0	0	0	0	0	148	148	148
Total other fixed assets	7	7	14	17	18	17	17	21	21	21
Fixed assets	230	260	288	412	407	374	617	889	875	862
Inventories	205	183	202	239	244	270	290	431	468	489
Receivables	70	44	46	67	72	63	102	147	166	166
Other current assets	10	7	10	9	10	6	10	12	12	12
Cash and liquid assets	10	26	32	49	24	56	78	102	188	258
Total assets	**526**	**518**	**578**	**776**	**756**	**770**	**1,096**	**1,582**	**1,709**	**1,788**
Shareholders equity	137	152	146	254	269	309	411	506	537	569
Minority	0	0	0	0	0	0	0	0	0	0
Total equity	**137**	**152**	**146**	**254**	**269**	**309**	**411**	**506**	**537**	**569**
Long-term debt	76	77	54	133	69	87	207	237	283	312
Pension debt	2	3	3	3	4	0	5	118	118	118
Convertible debt	0	0	0	0	0	0	0	0	0	0
Leasing liability	0	0	0	0	0	0	0	148	148	148
Total other long-term liabilities	8	5	4	4	3	7	29	46	46	46
Short-term debt	60	50	92	94	107	42	85	86	86	86
Accounts payable	147	115	139	147	155	167	219	247	271	279
Other current liabilities	102	116	139	141	148	156	140	194	220	230
Total liabilities and equity	**532**	**518**	**578**	**776**	**756**	**770**	**1,096**	**1,582**	**1,709**	**1,788**
Net IB debt	128	96	104	181	156	73	219	487	447	406
Net IB debt excl. pension debt	125	94	101	178	152	73	215	368	329	287
Net IB debt excl. leasing	128	96	104	181	156	73	219	339	299	258
Capital invested	312	311	313	504	492	471	744	1,164	1,175	1,172
Working capital	82	59	39	92	86	97	127	276	300	310
EV breakdown	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019e**	**2020e**	**2021e**
Market cap. diluted (m)	na	na	94	91	228	259	390	586	586	586
Net IB debt Adj	128	96	104	181	156	73	219	487	447	406
Market value of minority	0	0	0	0	0	0	0	0	0	0
Reversal of shares and participations	0	0	0	0	0	0	0	0	0	0
Reversal of conv. debt assumed equity	0	0	0	0	0	0	0	0	0	0
EV	**na**	**na**	**198**	**272**	**383**	**332**	**609**	**1,073**	**1,033**	**991**
Capital efficiency	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019e**	**2020e**	**2021e**
Total assets turnover (%)	*171.5*	*198.3*	*179.7*	*178.2*	*170.5*	*183.5*	*194.1*	*153.4*	*142.3*	*139.9*
Working capital/sales (%)	*13.1*	*6.8*	*5.0*	*5.4*	*6.8*	*6.5*	*6.2*	*9.8*	*12.3*	*12.5*
Financial risk and debt service	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019e**	**2020e**	**2021e**
Net debt/equity	*0.93*	*0.63*	*0.71*	*0.71*	*0.58*	*0.24*	*0.53*	*0.96*	*0.83*	*0.71*
Net debt/market cap	*na*	*na*	*0.89*	*1.81*	*0.78*	*0.30*	*0.53*	*0.94*	*0.76*	*0.69*
Equity ratio (%)	*26.0*	*29.4*	*25.3*	*32.7*	*35.6*	*40.2*	*37.5*	*32.0*	*31.4*	*31.8*
Net IB debt adj./equity	*0.93*	*0.63*	*0.71*	*0.71*	*0.58*	*0.24*	*0.53*	*0.96*	*0.83*	*0.71*
Current ratio	*0.96*	*0.92*	*0.78*	*0.95*	*0.85*	*1.08*	*1.08*	*1.19*	*1.32*	*1.42*
EBITDA/net interest	*-0.65*	*-0.30*	*0.75*	*5.30*	*3.35*	*4.85*	*4.55*	*5.57*	*5.24*	*5.38*
Net IB debt/EBITDA	*-12.03*	*-19.28*	*10.23*	*2.00*	*2.14*	*0.92*	*1.94*	*3.13*	*2.28*	*1.93*
Net IB debt/EBITDA lease Adj	*-12.03*	*-19.28*	*10.23*	*3.60*	*1.90*	*0.88*	*1.68*	*4.13*	*2.77*	*2.10*
Interest cover	*-0.65*	*-0.30*	*-1.63*	*3.02*	*1.16*	*2.21*	*2.46*	*2.83*	*2.93*	*3.07*

Source: ABG Sundal Collier, Company data

Valuation and Ratios (SEKm)	2012	2013	2014	2015	2016	2017	2018	2019e	2020e	2021e
Shares outstanding adj.	0	6	7	12	22	24	28	33	33	33
Fully diluted shares Adj	0	6	7	12	22	24	28	33	33	33
EPS	0	-4.24	-5.08	3.17	0.09	0.68	0.74	0.78	1.20	1.37
Dividend per share Adj	0	0	0	0	0	0	0	0.2	0.3	0.4
EPS Adj	0	-4.24	-4.92	-0.20	0.49	0.87	1.61	1.54	1.62	1.81
BVPS	0	27.47	22.13	21.46	12.11	12.81	14.59	15.33	16.27	17.23
BVPS Adj	0	4.51	0.12	9.49	5.55	6.54	2.85	2.36	3.29	4.26
Net IB debt / share	na	17.4	15.8	15.3	7.0	3.0	7.8	14.8	13.6	12.3
Share price	na	na	14.21	7.71	10.25	10.71	13.85	17.75	17.75	17.75
Market cap. (m)	na	na	94	91	228	259	390	586	586	586
Valuation	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019e**	**2020e**	**2021e**
P/E	na	na	-2.8	2.4	119.7	15.8	18.7	22.8	14.8	13.0
EV/sales	na	na	0.20	0.23	0.29	0.24	0.34	0.52	0.44	0.41
EV/EBITDA	na	na	19.4	3.0	5.3	4.2	5.4	6.9	5.3	4.7
EV/EBITA	na	na	-8.9	5.3	15.2	9.2	9.9	13.6	9.4	8.2
EV/EBIT	na	na	-8.5	5.3	15.2	9.3	11.3	15.7	10.8	9.4
Dividend yield (%)	*na*	*na*	*0*	*0*	*0*	*0*	*0*	*1.4*	*1.5*	*2.3*
FCF yield (%)	*na*	*na*	*-17.8*	*-45.0*	*18.4*	*31.2*	*-19.4*	*-2.6*	*16.0*	*14.3*
Lease adj. FCF yield (%)	*na*	*na*	*-17.8*	*-45.0*	*18.4*	*31.2*	*-19.4*	*-2.6*	*16.0*	*14.3*
P/BVPS	na	na	0.64	0.36	0.85	0.84	0.95	1.16	1.09	1.03
P/BVPS Adj	na	na	117.44	0.81	1.85	1.64	4.86	7.53	5.39	4.17
P/E Adj	na	na	-2.9	-38.0	20.9	12.4	8.6	11.5	10.9	9.8
EV/EBITDA Adj	na	na	19.4	5.4	4.7	4.0	4.7	6.3	5.3	4.7
EV/EBITA Adj	na	na	-8.9	24.3	11.2	8.3	7.7	11.5	9.4	8.2
EV/EBIT Adj	na	na	-8.5	25.4	11.2	8.3	8.5	13.0	10.8	9.4
EV/cap. employed	na	na	0.7	0.6	0.9	0.8	0.9	1.0	0.9	0.8
Investment ratios	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019e**	**2020e**	**2021e**
Capex/sales	0	1.9	2.4	1.4	0	1.0	2.6	2.7	3.1	3.2
Capex/depreciation	nm	nm	74.1	42.3	0	33.2	89.6	71.8	84.5	85.8
Capex tangibles/tangible fixed assets	0	15.6	18.6	6.5	0	6.9	17.2	18.9	26.4	29.3
Capex intangibles/definite intangibles	0	nm	nm	0	0	0	0	0	0	0
Depreciation on intangibles/definite inta	0	nm	nm	0	0	0	0	0	0	0
Depreciation on tangibles/tangibles	0	0	25.1	15.4	19.5	20.9	19.3	26.3	31.2	34.2

Source: ABG Sundal Collier, Company data

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