

Hanza Q1'21 Review: Favorable Outlook

Redeye reinforces its positive view on Hanza following a strong Q1, where margins beat our forecasts. The solid margin development combined with management's positive outlook makes us increase our forecasts and Base case.

- Increasing EBITA for 2021 and 2022 by 17% and 8%
- New Base case SEK 23 (20)
- Trading at 8.5x EBIT 2022E

While sales remains dampened by a major German customer suffering from the Corona crisis, margins continued to improve. Both Main Markets and Other Markets reached solid levels during Q1, especially considering the pandemic. The rising margins, combined with management's positive outlook, make us positive to the Hanza share.

Q1 2021

Actuals vs Forecast - 1Q21

(SEKm)	1Q20	1Q21	1Q21E	Diff
Net sales	599	567	589	-3.7%
<i>Growth YoY</i>	20.4%	-5.3%	-1.6%	
Main Markets	338	301	333	-9.8%
<i>Growth YoY</i>		-10.9%	-1.3%	
Other Markets	261	267	256	4.1%
<i>Growth YoY</i>		2.0%	-2.0%	
Adj. EBITA	20.4	28.5	23.2	22.6%
<i>Adj. EBITA margin</i>	3.4%	5.0%	3.9%	
Main Markets	19.0	19.0	14.0	35.7%
<i>Adj. EBITA margin</i>	5.6%	6.3%	4.2%	
Other Markets	2.2	10.4	10.2	1.5%
<i>Adj. EBITA margin</i>	0.8%	3.9%	4.0%	
EBITA	20.4	22.5	19.2	16.9%
<i>EBITA margin</i>	3.4%	4.0%	3.3%	

Source: Redeye Research, Hanza

Sales came in slightly below our forecast. Main Markets continued to lose sales volumes YoY. Hanza's biggest customer, heavily affected by the Corona crisis, lowered its volumes by SEK 40m. Other Markets grew its sales by 2%. Also, FX had a negative impact on sales growth by SEK 25m.

EBITA, adjusted for SEK 6m in acquisition-related costs, was SEK 28.5m (20.4), significantly better than last year and relative to our forecast. Main Markets' margins came in more than two percentage points above our forecast. We find that impressive considering the relatively soft performance previously during the pandemic. According to management, the Nordic market has improved during 2021, which likely helped the margins in Q1. However, Germany, which is also included in Main Markets, still suffers from lockdowns. Thus, considering the mixed market conditions, we find the significant margin improvement promising.

Other Markets, which had a solid Q4 2020, improved its margins substantially YoY and came in line with our forecasts. Notably, considering the two most recent quarters, Other

Markets have managed to increase its margins, in line with management's statements, despite the pandemic. However, the level is still not high enough to reach Hanza's financial target, which might be somewhat tough to require considering the pandemic.

As mentioned earlier, according to management, the Nordic market improved during the beginning of 2021, and management expects it to remain strong. Regarding Germany, management foresees a rebound by the end of 2021, or possibly even somewhat earlier, considering the positive tone on the earnings call.

The cash flow in the quarter was solid, just like in 2020, and the current net debt (excluding leasing) is equal to 1.6x EBITDA 2021E. A level we argue leaves room for further acquisitions, and according to management, the number of acquisition dialogs is high.

Financial Forecasts

Estimate revisions Q1 2021

(SEKm)	2021			2022		
	New	Prev.	Change	New	Prev.	Change
Net sales	2324	2368	-1.9%	2505	2485	0.8%
<i>Growth</i>	8%	10%		8%	5%	
<i>Organic</i>	8%	10%		8%	5%	
<i>M&A</i>	0%	0%		0%	0%	
Adj. EBITA	119	102	16.7%	138	128	8.1%
<i>Adj. EBITA margin</i>	5.1%	4.3%		5.5%	5.2%	
EBIT	97	82	18.3%	124	114	9.1%
<i>EBIT margin</i>	4.2%	3.5%		5.0%	4.6%	

Source: Redeye Research

While management expects underperforming markets to rebound by the end of 2021, we leave our sales forecasts largely unchanged. This, as our previous forecasts already assumed a sequential rebound during 2021. However, management's positive statements make us more comfortable with our forecasts.

Regarding EBITA, we are impressed with the significant QoQ margin improvement in Main Markets. Combined with the positive trend in Other Markets, we believe it is time to raise our margin assumptions. The demand outlook is, as mentioned earlier, favorable, which should pave the way for further improvements in margins.

Financial forecasts Base-case

(SEKm)	2020	1Q21	2Q21E	3Q21E	4Q21E	2021E	2022E
Net sales	2155	567	604	571	581	2324	2505
<i>Growth YoY</i>	4.2%	-5.3%	8.1%	13.6%	17.8%	7.9%	7.7%
Adj. EBITA	70.0	28.5	30.1	29.0	31.8	119.4	138.4
<i>Adj. EBITA margin</i>	3.2%	5.0%	5.0%	5.1%	5.5%	5.1%	5.5%
EBIT	31.3	19.0	24.6	25.5	28.3	97.4	124.4
<i>EBIT margin</i>	1.5%	3.3%	4.1%	4.5%	4.9%	4.2%	5.0%

Source: Redeye Research, Hanza

We assume sales to grow by about 8% for this and next year. Regarding 2021, we believe the acquisition of SLP will be the main growth driver. For 2022, we expect a rebound in Germany to generate the bulk of the estimated sales growth. We expect gradual improvements in margin levels as demand rebounds and as efficiency measures in immature clusters pay off.

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Analyst Fredrik Nilsson owns shares in Hanza Holding Group: NO

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