

Hanza

Sector: Capital Goods

Other Markets Accelerating

Redeye raises its Base Case and forecasts for Hanza following its Q2 report showing strong momentum, especially in Other Markets. Organic growth remained at high levels, and Other Markets' initiatives paid off. Also, the order book is at record high levels.

EBITA 24% Above Our Expectations

While Hanza announced positive preliminary figures in late June, the outcome was much stronger and beat our forecasts by 24% on the EBITA level. The main reason for the beat was a strong development of sales and margins in Other Markets. Group level organic growth was 29%, the order book was record high by the end of the quarter and demand remains solid in basically every sector.

Investments in Other Markets Paying Off

After a few weak quarters with soft EBITA margins, bottoming out at 1.3% in Q1 2022, Other Markets had its highest margins since the segment was founded at 5.6%. Also, sales came in significantly higher than we expected, indicating that the new capacity was filled basically instantly, in line with management's guidance. Organic growth was 36% y/y.

New Base Case SEK 55 (48)

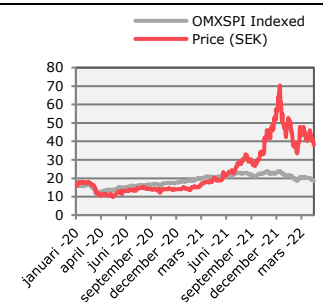
We raise our Base Case to SEK 55 (48), following raised short- and long-term forecasts, mainly due to better prospects in Other Markets.

Key Financials (SEKm)	2020	2021	2022E	2023E	2024E
Sales	2155	2515	3274	3372	3507
Sales Growth	4.2%	16.7%	30.2%	3.0%	4.0%
EBITA	46	135	205	248	261
EBITA margin	2.1%	5.4%	6.2%	7.3%	7.4%
EBIT	31	128	189	232	245
EPS	-0.64	2.38	3.14	4.04	4.38
EV/EBITA		18.3	11.8	9.6	8.8
EV/EBIT		19.4	12.8	10.2	9.3
EV/Sales		0.98	0.74	0.70	0.65

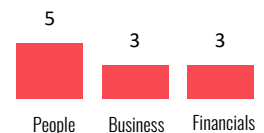
FAIR VALUE RANGE

BEAR	BASE	BULL
35	55	70

HANZA VERSUS OMXS30



REDEYE RATING



KEY STATS

Ticker	HANZA
Market	Small Cap
Share Price (SEK)	55.60
Market Cap (SEKm)	2 016
Net Debt (SEKm)	394
Free Float (%)	58
Avg. daily volume ('000)	4 170

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Liftoff in Other Markets

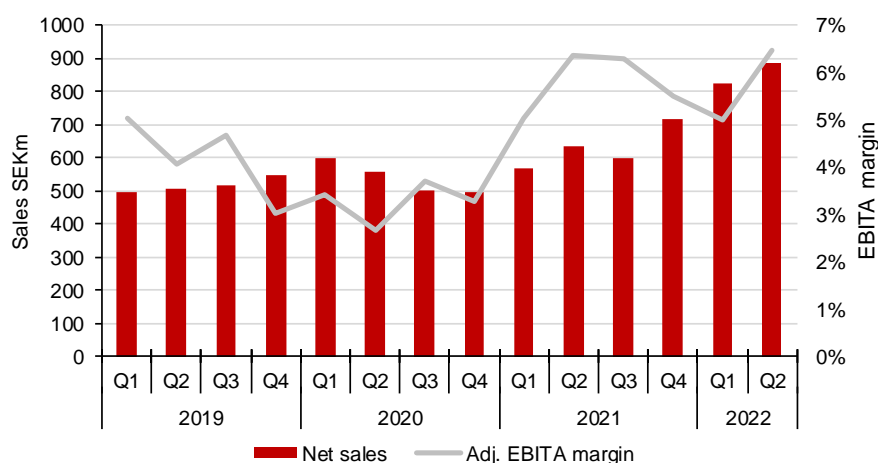
Actuals vs Forecast - 2Q22				
(SEKm)	2Q21	1Q22A	2Q22E	Diff
Net sales	634	886	770	15.0%
<i>Growth YoY</i>	13.4%	39.8%	21.5%	
Main Markets	339	485	452	7.3%
<i>Growth YoY</i>		43.0%	33.3%	
Other Markets	295	401	318	26.0%
<i>Growth YoY</i>		36.1%	8.0%	
Adj. EBITA	40.4	57.3	46.3	23.8%
<i>Adj. EBITA margin</i>	6.4%	6.5%	6.0%	
Main Markets	26.8	36.7	36.1	1.8%
<i>Adj. EBITA margin</i>	7.9%	7.6%	8.0%	
Other Markets	14.7	22.6	11.1	102.7%
<i>Adj. EBITA margin</i>	5.0%	5.6%	3.5%	
EBITA	40.4	57.3	46.3	23.8%
<i>EBITA margin</i>	6.4%	6.5%	6.0%	

Source: Redeye Research, Hanza

Sales was SEK 886m following an organic growth of an impressive 29% y/y. The outcome exceeded the SEK >850m stated in the preliminary figures and beat our forecast by 15%. Although price increases had a slight positive effect on sales growth, rising volumes were the main factor. While sales beat our forecasts in both segments, strong development in Other Markets was the main reason behind the beat.

EBITA was SEK 57.3m corresponding to a EBITA margin of 6.5%. The outcome was significantly better than the preliminary SEK >50m. While the preliminary figure beat our forecast with at least 8%, solid but nothing special, the actual outcome beat our forecast by 24%, which we consider substantial. While Main Markets came in as expected in terms of EBITA, Other Markets EBITA beat our expectations by over 100%. After some quarters with soft margins (Q1 was 1.3%, for example), Q2 strongly indicates that the investments in Other Markets have started to pay off.

Net sales and EBITA margin - Group



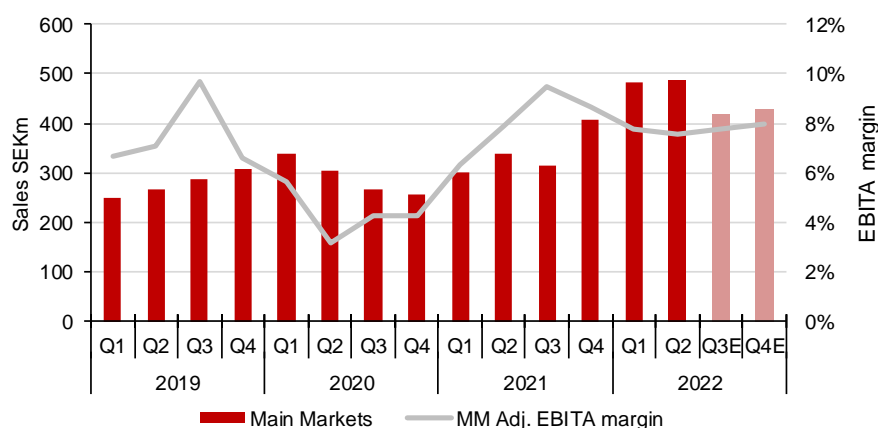
Source: Redeye Research, Hanza Group

The order book remains at record high levels, but shortages of components hurt both sales and profitability. Management believe shortages will remain an issue throughout 2022. While Hanza has noticed discussions about a potential upcoming slowdown of the economy in the news, management sees no such signs. Instead, Hanza sees a broad, solid demand from basically every customer group. Considering Hanza high diversification between sectors, we find that statement interesting.

Main Markets

Main Markets grew by 26% organically and beat our forecast by 7%. EBITA was SEK 36.7m, corresponding to a EBITA margin of 7.6% (7.9), roughly in line with our forecast of SEK 36.1m. While the margin fell somewhat y/y, the like-for-like figure, excluding recently acquired Beyers with ~zero margins, was 8.5%, thus increasing y/y. We believe Beyers will reach at least decent profitability in 2023, which should take Main Markets' EBITA margin to above 8%, assuming demand remains solid.

Net sales and EBITA margin - Main Markets



Source: Redeye Research, Hanza Group

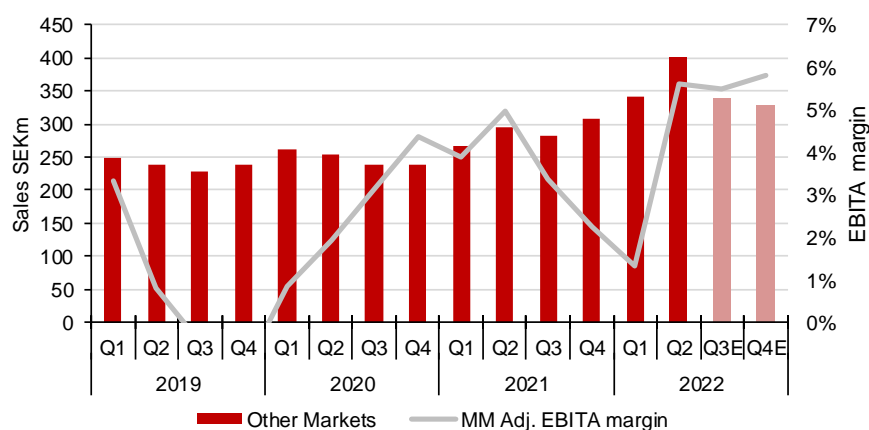
During Q2, Hanza acquired the German Budelmann Elektronik, focusing on product development. While the sales contribution from Budelmann is minor, SEK ~15m, the company strengthens Hanza's existing product development team. The team that are based in Germany will serve customers all around the group and differentiates Hanza from regular manufacturing services companies.

Other Markets

After a few weak quarters with soft EBITA margins, bottoming out at 1.3% in Q1 2022, Other Markets had its highest margins since the segment was founded. EBITA was SEK 22.6m (14.7), corresponding to an EBITA margin of 5.6% (5.0). Our forecast was SEK 11.1m and 3.5%. While the y/y improvement in margin is rather modest, given the negative margin trend since Q2 2021, we are encouraged by the significant upward jump. Although investments in capacity hurt margins from Q3 2021- Q1 2022, the substantial rise in this quarter indicates the investments are already paying off. If Other Markets can establish margin levels of 5-6% or possibly even higher, which we find likely, the segment will make a solid contribution to group-level earnings.

Also, sales came in significantly higher than we expected, indicating that the new capacity was filled basically instantly, in line with management's guidance. Organic growth was 36% y/y.

Net sales and EBITA margin - Other Markets



Source: Redeye Research, Hanza Group

As the outcome in the quarter indicates that the new capacity has been filled out, with high profitability, and as the order book is at a record high level, we believe Other Markets will maintain margins above 5% with positive organic growth short-term. However, management points out that some of the smaller clusters in Other Markets carry costs for expansion initiatives. Thus, as those expansions will be completed over the next few quarters, we see the potential for Other Markets to narrow the gap to Main Markets further.

Financial Forecasts

We raise our sales forecasts by 7% and 6% for 2022E and 2023E, following the solid demand outlook. We increase our earnings forecasts by ~10% and ~12% for 2022E and 2023E, mainly as we raise our margin assumptions for Other Markets following the strong rebound in the quarter.

Estimate revisions Q2 2022						
(SEKm)	2022			2023		
	New	Prev.	Change	New	Prev.	Change
Net sales	3274	3056	7.1%	3372	3178	6.1%
<i>Growth</i>	30%	21%		3%	4%	
Adj. EBITA	204	186	9.6%	248	222	11.5%
<i>Adj. EBITA margin</i>	6.2%	6.1%		7.3%	7.0%	
EBIT	189	172	10.1%	232	207	11.9%
<i>EBIT margin</i>	5.8%	5.6%		6.9%	6.5%	

Source: Redeye Research

We forecast organic growth of about 24% for 2022E and a contribution from M&A of roughly 5%. Regarding 2023, we take a more defensive approach, assuming only 3% organic growth. While Hanza does not see any signs of an economic slowdown, we assume that growth will decline from the recent very high levels.

For margins, we assume the advancements seen in Other Markets will persist, which combined with improvements in Beyers we believe will lift the group level EBITA margin to above 7% in 2023.

Financial forecasts Base-case								
(SEKm)	2021	1Q22	2Q21	3Q22E	4Q22E	2022E	2023E	2024E
Net sales	2515	824	886	776	788	3274	3372	3507
<i>Growth YoY</i>	16.7%	45.2%	39.8%	29.9%	10.0%	30.2%	3.0%	4.0%
Adj. EBITA	145.8	41.2	57.3	51.4	54.6	204.5	247.6	260.7
<i>Adj. EBITA margin</i>	5.8%	5.0%	6.5%	6.6%	6.9%	6.2%	7.3%	7.4%
EBIT	127.5	36.9	53.1	47.9	51.1	189.0	232.0	245.1
<i>EBIT margin</i>	5.1%	4.5%	6.0%	6.2%	6.5%	5.8%	6.9%	7.0%

Source: Redeye Research, Hanza

Investment Case

Unique take on manufacturing

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

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

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

Expanding into Germany

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

Backsourcing benefit

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

Counter-thesis

Lack of transferability

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

Unsuccessful expansion

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

Valuation

Bear Case 35 SEK

- Average sales growth of ~5.5% 2022-2027 in Main Markets
- Average EBITA margin of ~6.5% 2022-2027 in Main Markets
- Average sales growth of ~3% 2022-2027 in Other Markets
- Average EBITA margin of ~4-5% 2022-2027 in Other Markets
- Average sales growth of ~4% 2022-2027 on the group level
- Average EBITA margin of ~5.5% 2022-2027 on the group level
- Terminal sales growth of 2%
- Terminal EBITA margin of ~6%

Base Case 55 SEK

- Average sales growth of ~6% 2022-2027 in Main Markets
- Average EBITA margin of ~8% 2022-2027 in Main Markets
- Average sales growth of ~4% 2022-2027 in Other Markets
- Average EBITA margin of ~6% 2022-2027 in Other Markets
- Average sales growth of ~5% 2022-2027 on the group level
- Average EBITA margin of ~7% 2022-2027 on the group level
- Terminal sales growth of 2%
- Terminal EBITA margin of ~7.5%

Bull Case 70 SEK

- Average sales growth of ~8% 2022-2027 in Main Markets
- Average EBITA margin of ~9% 2022-2027 in Main Markets
- Average sales growth of ~6% 2022-2027 in Other Markets
- Average EBITA margin of ~7.5% 2022-2027 in Other Markets
- Average sales growth of ~7% 2022-2027 on the group level
- Average EBITA margin of ~8% 2022-2027 on the group level
- Terminal sales growth of 2%
- Terminal EBITA margin of ~9%

We raise our Base Case to SEK 55 (47) following raised forecasts.

While Hanza has been trading at a discount to peers historically, at 10x EBIT 2023, Hanza is in line with the median and average peer, which seems reasonable following Hanza's strong operational momentum.

Company	EV	EV/SALES			EV/EBIT (x)			Sales growth			EBIT margin		
	(local)	22E	23E	24E	22E	23E	24E	22E	23E	24E	22E	23E	24E
Incap	394	1.8	1.6	1.5	12	10	10	31%	10%	8%	14.7%	15.3%	15.5%
Kitron	4 068	0.7	0.6	0.6	11	9	8	56%	11%	11%	6.6%	7.3%	7.3%
Nolato	15 085	1.3	1.3	1.2	14	11	10	-3%	7%	6%	9.8%	11.0%	11.3%
Scanfil	461	0.6	0.6	0.6	10	9	8	11%	2%	4%	5.9%	6.4%	6.7%
Inission	561	0.5	0.4	0.4	9	7	6	19%	5%	4%	5.5%	6.4%	6.8%
NCAB	11 143	2.5	2.4	2.2	23	19	18	38%	5%	7%	11.1%	12.4%	12.8%
Median	2 315	1.0	0.9	0.9	11	10	9	25%	6%	7%	8%	9%	9%
Average	5 286	1.2	1.2	1.1	13	11	10	25%	7%	7%	9%	10%	10%
Hanza Holding	2 016	0.7	0.7	0.6	13	10	10	30%	3%	4%	5.8%	6.9%	7.0%

Source: Redeye, FactSet

Summary Redeye Rating

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

Rating changes in the report: None

People: 5

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

Business: 3

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

Financials: 3

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

Redeye Rating and Background Definitions

Company Quality

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

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

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

People

At the end of the day, people drive profits. Not numbers. Understanding the motivations of people behind a business is a significant part of understanding the long-term drive of the company. It all comes down to doing business with people you trust, or at least avoiding dealing with people of questionable character.

The People rating is based on quantitative scores in seven categories:

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

Business

If you don't understand the competitive environment and don't have a clear sense of how the business will engage customers, create value and consistently deliver that value at a profit, you won't succeed as an investor. Knowing the business model inside out will provide you some level of certainty and reduce the risk when you buy a stock.

The Business rating is based on quantitative scores grouped into five sub-categories:

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

Financials

Investing is part art, part science. Financial ratios make up most of the science. Ratios are used to evaluate the financial soundness of a business. Also, these ratios are key factors that will impact a company's financial performance and valuation. However, you only need a few to determine whether a company is financially strong or weak.

The Financial rating is based on quantitative scores that are grouped into five separate categories:

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

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Redeye Rating (2022-07-26)

Rating	People	Business	Financials
5	32	15	4
3-4	157	140	48
0-2	5	39	142
total	194	194	194

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Fredrik Nilsson owns shares in the company : No

Fredrik Reuterhäll owns shares in the company : No

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