

# Hanza: Strong Business Momentum

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Redeye raises its sales and EBITA forecast and Base Case following a solid Q4 report with strong organic growth. Management's outlook is positive, and the order book is at record-high levels.



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## Strong Growth, Margins as Expected

Sales beat our forecasts by 27% thanks to an impressive organic growth of 29%, slightly above the full-year 28% and Q3's 26%. The EBITA margin matched our forecasts as passed-on costs for materials and electricity offset the positive scale effect from strong sales. All in all, EBITA came in 25% better than we expected, and the group-level EBITA margin was 6.3% (6.0).

## Positive Outlook

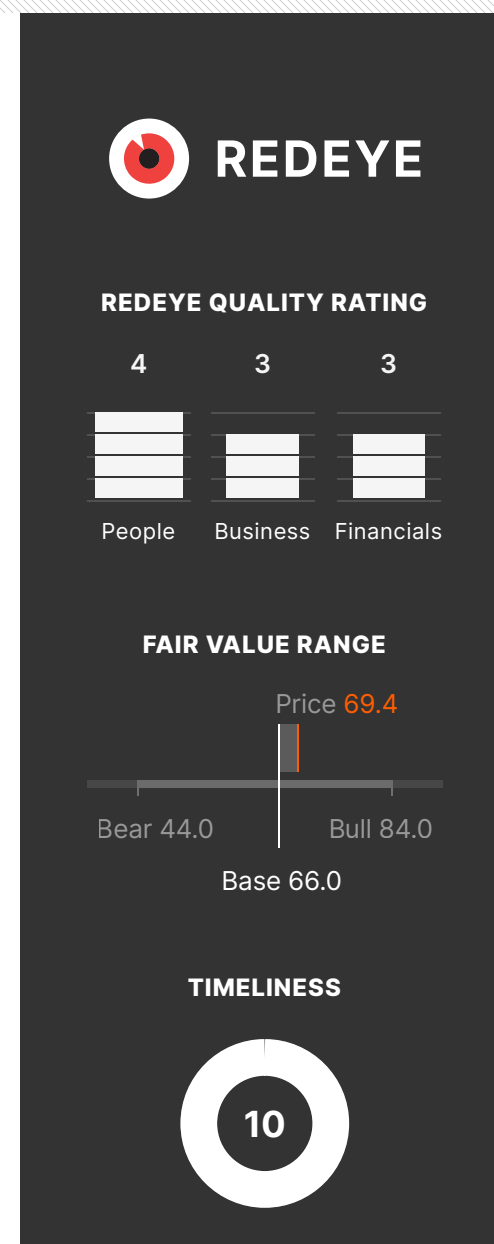
Hanza has a positive outlook and sees no signs of a slowdown. The strength in demand is broad, and the order book is at record-high levels. Management highlights Hanza's exposure to structurally growing sectors such as energy, recycling and defence and its minor exposure to consumer sectors.

## New Base Case SEK66 (55)

On the back of raised sales forecasts (c13-16% 2023-2024) following the strong momentum and management's positive outlook, we raise our Base Case to SEK66 (55). While we do not extrapolate the 28% organic growth seen in 2022, we assume 10% and 8% through 2023 and 2024, which we believe Hanza can handle following recent investments.

## Key financials

SEKm	2021	2022	2023E	2024E	2025E
Revenues	2,515	3,549	3,910	4,223	4,561
Revenue Growth	16.7%	41.1%	10.2%	8.0%	8.0%
EBITDA	232	316	386	436	482
EBIT	128	193	256	296	338
EBIT Margin	5.1%	5.4%	6.5%	7.0%	7.4%
Net Income	85	121	198	230	263
EV/Revenue	1.0	0.6	0.8	0.7	0.6
EV/EBIT	19.5	11.0	11.7	9.8	8.4



KEY STATS	
Market Cap	2.7 BSEK
Entprs. Value (EV)	2.8 BSEK
Net Debt (2023e)	159.5 MSEK
30 Day Avg Vol	90 K
Shares Outstanding	39.3 M
Price / Earnings	21.8
PEG	N/A
Dividend Yield	1.0%

Data from 2023-02-17 08:37

**IMPORTANT INFORMATION**

All information regarding limitation of liability and potential conflicts of interest can be found at the end of the report.

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## Investment thesis

### Case

#### **Riding the Back-Shoring Trend with its Unique Cluster Strategy**

With its 'All you need is one' cluster-based strategy, Hanza, and its experienced management take a unique approach that differentiates it from manufacturing service companies. By gathering several manufacturing technologies in a single location, Hanza can reduce costs, lead times, and environmental footprint. Having almost every cluster in the end market or in close-by low-cost countries, Hanza is set to benefit from the ongoing back-shoring trend. Quarterly reports with strong operational performance, particularly improvements in immature clusters, are the main catalysts.

### Evidence

#### **Proven Track-Record in Mature Clusters**

The Main Markets segment, including the mature Swedish and Finnish clusters as well as the newly established German cluster, has an EBITA margin of about 8% - implying sector-leading margins in the mature Swedish and Finnish clusters. As the other clusters mature, we expect their margins to approach Swedish levels gradually. Since late 2021, Hanza has seen a surge in organic sales growth following the pandemic. While a rebound from the pandemic has a positive effect, we believe the strong numbers also result from increasing interest in back-shoring.

### Challenge

#### **Cyclical Exposure Through Customers' Volume Fluctuations**

While Hanza seldom loses customers, its revenues depend on the customers' volumes. During the pandemic in 2020, organic sales fell by about 10%, putting pressure on margins. Thus, Hanza is, to some extent, exposed to market cycles. However, following recent acquisitions and organic customer intake, we believe the diversification between sectors has improved. In addition, the back-shoring trend should help Hanza attract new customers in economic downturns.

### Challenge

#### **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 a successful presence outside the Nordics, such as in Tartu, Estonia.

### Valuation

#### **Fair Value SEK 66**

Our DCF model shows a fair value of SEK 66, which is also supported by a peer valuation. While Hanza has been trading at a discount to peers historically, considering its improvements regarding organic sales growth and margins, we believe Hanza should trade at least on par with peers.

### **Quality Rating**

#### **People: 4**

Hanza receives a high rating for people, as both management and owners have favorable

characteristics. CEO Erik Stefors has vast experience of the manufacturing service industry

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.

### Strong Growth, Margins as Expected

	Q4E 2022	Q4A 2022	Diff	Q4A 2021	Q3A 2022
<b>Net sales</b>	<b>788.3</b>	<b>1 001.0</b>	<b>27.0%</b>	<b>716.6</b>	<b>838.4</b>
Y/Y Growth (%)	10.0%	39.7%		45.1%	40.3%
<b>Main Markets</b>	<b>448.1</b>	<b>562.4</b>	<b>25.5%</b>	<b>407.4</b>	<b>447.5</b>
Y/Y Growth (%)	10.0%	38.0%		59.5%	42.0%
EBITA (MM)	33.6	41.7	24.1%	41.6	31.7
EBITA margin	7.5%	7.4%		10.2%	7.1%
<b>Other Markets</b>	<b>340.1</b>	<b>433.9</b>	<b>27.6%</b>	<b>309.2</b>	<b>390.5</b>
Y/Y Growth (%)	10.0%	40.3%		29.8%	38.3%
EBITA (OM)	18.7	23.7	26.7%	7.0	20.2
EBITA margin	5.5%	5.5%		2.3%	5.2%
<b>EBITA</b>	<b>50.8</b>	<b>63.3</b>	<b>24.6%</b>	<b>43.0</b>	<b>50.2</b>
EBITA Margin (%)	6.4%	6.3%		6.0%	6.0%
<b>EBIT</b>	<b>46.8</b>	<b>57.4</b>	<b>22.8%</b>	<b>38.9</b>	<b>45.9</b>
EBIT Margin (%)	5.9%	5.7%		5.4%	5.5%

Source: Hanza & Redeye Research

Sales beat our forecast by 27%, following stronger growth than expected in both Main- and Other Markets. Organic growth was impressive at 29%, beating our forecast of 10%. The sales were positively affected by Hanza passing on costs for materials and electricity without any margin to its customers. However, the effect was only a few percent, and at the same time, component shortages in some segments held back sales somewhat in the quarter. According to management, the overall component shortage has improved but remains within some segments. Thus, we believe the reported sales figure represents the underlying level rather well. While price increases positively affected sales, most of the growth was derived from volume increases driven by both new and current customers.

EBITA came in 25% higher than we expected due to the strong sales in both Main- and Other Markets. The EBITA margin largely matched our estimates on the group and segment levels. However, considering the quarter's strong growth, we would have assumed somewhat higher margins. On the other hand, the passed-on costs for material and electricity without any margin have a negative effect. Thus, we believe comparing the absolute EBITA level to our forecast is relevant. Also, on a q/q basis, the group-level EBITA margin improved from 6.0% to 6.3%

Last year, the EBITA in Main Markets was positively affected by an extraordinary item of SEK6.3m. Thus, the underlying EBITA improved by SEK c6m.

Hanza continues to see strong demand for its offering, and the order book is at record high levels. Management highlights its exposure to stable sectors, such as energy, security, and

helps drive demand for Hanza's offering.

As the full-year 2022 is now reported, we conclude that Hanza's investments in manufacturing capacity have paid off following the 28% organic growth. Considering the recent investments in capacity, we believe Hanza will be able to handle the sales growth we expect for 2023. In its recent investments, Hanza has increased the share of machinery, i.e., a higher level of automation, which has resulted in lower personnel expenses relative to sales and slightly higher depreciation.

## Financial Forecasts

We raise our sales forecasts by c13% and c16% for 2023 and 2024 for several reasons. First, management's outlook is positive and to a higher degree than we expected. Second, considering the strong organic growth during 2022, we believe the structural demand for Hanza's offering is growing faster than previously assumed, driven by trends such as back-sourcing.

We leave our margin assumptions unchanged and expect gradual improvements as immature clusters mature. All in all, we end up with an EBITA and EPS increase of c15% for 2023 and 2024.

Estimate Revisions	FYE 2023	Old	Change	FYE 2024	Old	Change
<b>Net sales</b>	<b>3 910.1</b>	<b>3 461.4</b>	<b>13.0%</b>	<b>4 222.9</b>	<b>3 634.4</b>	<b>16.2%</b>
Y/Y Growth (%)	10.2%	3.8%		8.0%	5.0%	
<b>Main Markets</b>	<b>2 182.0</b>	<b>1 932.3</b>	<b>12.9%</b>	<b>2 356.5</b>	<b>2 028.9</b>	<b>16.1%</b>
Y/Y Growth (%)	10.0%	3.8%		8.0%	5.0%	
<b>EBITA (MM)</b>	<b>172.5</b>	<b>152.6</b>	<b>13.0%</b>	<b>194.8</b>	<b>167.4</b>	<b>16.4%</b>
EBITA margin	4.4%	4.4%		12.9%	9.7%	
<b>Other Markets</b>	<b>1 728.1</b>	<b>1 529.1</b>	<b>13.0%</b>	<b>1 866.3</b>	<b>1 605.6</b>	<b>16.2%</b>
Y/Y Growth (%)	10.0%	3.7%		8.0%	5.0%	
<b>EBITA (OM)</b>	<b>103.9</b>	<b>91.8</b>	<b>13.3%</b>	<b>119.7</b>	<b>102.8</b>	<b>16.5%</b>
EBITA margin	6.0%	6.0%		15.2%	12.0%	
<b>EBITA</b>	<b>270.4</b>	<b>238.4</b>	<b>13.4%</b>	<b>308.5</b>	<b>264.1</b>	<b>16.8%</b>
EBITA Margin (%)	6.9%	6.9%		7.3%	7.3%	
<b>EBIT</b>	<b>255.9</b>	<b>223.8</b>	<b>14.3%</b>	<b>296.3</b>	<b>251.9</b>	<b>17.6%</b>
EBIT Margin (%)	6.5%	6.5%		7.0%	6.9%	
Diluted EPS	5.5	4.7	15.3%	6.4	5.4	18.5%

Source: Hanza & Redeye Research

Income Statement	FYA 2022	Q1E 2023	Q2E 2023	Q3E 2023	Q4E 2023	FYE 2023	FYE 2024	FYE 2025
<b>Net sales</b>	<b>3 549</b>	<b>906</b>	<b>974</b>	<b>922</b>	<b>1 108</b>	<b>3 910</b>	<b>4 223</b>	<b>4 561</b>
Y/Y Growth (%)	41.1%	10.0%	10.0%	9.9%	10.6%	10.2%	8.0%	8.0%
<b>Main Markets</b>	<b>1 984</b>	<b>530</b>	<b>533</b>	<b>492</b>	<b>627</b>	<b>2 182</b>	<b>2 357</b>	<b>2 545</b>
Y/Y Growth (%)	45.6%	10.0%	10.0%	10.0%	10.0%	10.0%	8.0%	8.0%
<b>EBITA (MM)</b>	<b>148</b>	<b>41</b>	<b>43</b>	<b>38</b>	<b>50</b>	<b>173</b>	<b>195</b>	<b>214</b>
EBITA margin	7.4%	7.8%	8.0%	7.8%	8.0%	7.9%	8.3%	8.4%
<b>Other Markets</b>	<b>1 571</b>	<b>376</b>	<b>441</b>	<b>430</b>	<b>481</b>	<b>1 728</b>	<b>1 866</b>	<b>2 016</b>
Y/Y Growth (%)	36.3%	10.0%	10.0%	10.0%	10.0%	10.0%	8.0%	8.0%
<b>EBITA(OM)</b>	<b>71</b>	<b>22</b>	<b>27</b>	<b>25</b>	<b>30</b>	<b>104</b>	<b>120</b>	<b>141</b>
EBITA margin	4.5%	5.8%	6.2%	5.8%	6.2%	6.0%	6.4%	7.0%
<b>EBITA</b>	<b>212</b>	<b>62</b>	<b>69</b>	<b>62</b>	<b>78</b>	<b>270</b>	<b>308</b>	<b>349</b>
EBITA Margin (%)	6%	7%	7%	7%	7%	7%	7%	8%
<b>EBIT</b>	<b>193</b>	<b>58</b>	<b>65</b>	<b>58</b>	<b>75</b>	<b>256</b>	<b>296</b>	<b>338</b>
EBIT Margin (%)	5%	6%	7%	6%	7%	7%	7%	7%
Diluted EPS	3.1	1.1	1.3	1.1	1.5	5.0	5.9	6.7

Source: Hanza & Redeye Research

## Valuation

While the new version of the Redeye Rating reduces Hanza's rating from 4,3,3 to 5,3,3 (People, Business, Financials), the WACC remains at 9.5%. The new version of the Redeye Rating is more demanding and makes it harder to receive a high rating. Thus, it should not be seen as we believe the underlying quality of Hanza has decreased.

We raise our Base Case to SEK 66 (55) following raised forecasts.

### Peer Valuation

While Hanza has been trading at a discount to peers historically, at 12x 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	614	2.3	2.1	1.9	15	14	13	58%	10%	9%	15.2%	15.2%	15.0%
Kitron	6 316	1.0	0.9	0.8	15	13	11	68%	10%	10%	6.8%	7.0%	7.3%
Nolato	14 991	1.4	1.3	1.2	17	14	12	-6%	3%	7%	8.3%	9.2%	10.4%
Scanfil	491	0.6	0.6	0.6	11	10	9	21%	-4%	4%	5.3%	6.2%	6.4%
Inission	1 032	0.8	0.8	0.7	15	12	10	30%	5%	4%	5.4%	6.3%	7.0%
NCAB	13 621	3.0	2.9	2.8	24	23	21	41%	2%	6%	12.4%	12.9%	13.3%
<b>Median</b>	<b>3 674</b>	<b>1.2</b>	<b>1.1</b>	<b>1.0</b>	<b>15</b>	<b>13</b>	<b>12</b>	<b>35%</b>	<b>4%</b>	<b>6%</b>	<b>8%</b>	<b>8%</b>	<b>9%</b>
<b>Average</b>	<b>6 177</b>	<b>1.5</b>	<b>1.4</b>	<b>1.3</b>	<b>16</b>	<b>14</b>	<b>13</b>	<b>35%</b>	<b>4%</b>	<b>7%</b>	<b>9%</b>	<b>9%</b>	<b>10%</b>
<b>Hanza Holding</b>	<b>2 121</b>	<b>0.6</b>	<b>0.8</b>	<b>0.7</b>	<b>11</b>	<b>12</b>	<b>10</b>	<b>41%</b>	<b>10%</b>	<b>8%</b>	<b>5.4%</b>	<b>6.5%</b>	<b>7.0%</b>

Source: Redeye, FactSet

**Financials****Income statement**

SEKm	2021	2022	2023E	2024E	2025E
Revenues	2,515	3,549	3,910	4,223	4,561
Cost of Revenue	1,531	2,171	2,424	2,618	2,828
Operating Expenses	753	1,063	1,100	1,169	1,251
Exchange Rate Differences	-	-	-	-	-
EBITDA	232	316	386	436	482
Depreciation	49	57	76	88	94
Amortizations	16	19	15	12	11
EBIT	128	193	256	296	338
Shares in Associates	-	-	-	-	-
Interest Expenses	(30)	(50)	(6)	(6)	(6)
Net Financial Items	32	50	6	6	6
Non Recurring Income Expense	-	-	-	-	-
EBT	100	143	250	290	332
Income Tax Expenses	(20)	(22)	(51)	(60)	(68)
Net Income	85	121	198	230	263

**Balance sheet****Assets****Non-current assets**

SEKm	2021	2022	2023E	2024E	2025E
Property, Plant and Equipment (Net)	242	551	657	733	822
Goodwill	362	388	388	388	388
Intangible Assets	94	90	75	63	52
Right-of-Use Assets	188	180	180	180	180
Other Non-Current Assets	22	17	17	17	17
<b>Total Non-Current Assets</b>	<b>907</b>	<b>1,226</b>	<b>1,317</b>	<b>1,381</b>	<b>1,458</b>

**Current assets**

SEKm	2021	2022	2023E	2024E	2025E
Inventories	663	937	978	1,056	1,140
Accounts Receivable	107	151	196	211	228
Other Current Assets	55	91	117	127	137
Cash Equivalents	46	137	147	228	317
<b>Total Current Assets</b>	<b>870</b>	<b>1,316</b>	<b>1,437</b>	<b>1,621</b>	<b>1,822</b>
<b>Total Assets</b>	<b>1,778</b>	<b>2,541</b>	<b>2,754</b>	<b>3,002</b>	<b>3,281</b>

**Equity and Liabilities****Equity**

SEKm	2021	2022	2023E	2024E	2025E
Non Controlling Interest	-	-	-	-	-
Shareholder's Equity	586	898	1,066	1,247	1,453

**Non-current liabilities**

SEKm	2021	2022	2023E	2024E	2025E
Long Term Debt	-	-	-	-	-
Long Term Lease Liabilities	377	348	348	348	348
Other Non-Current Lease Liabilities	154	151	151	151	151
<b>Total Non-Current Liabilities</b>	<b>531</b>	<b>499</b>	<b>499</b>	<b>499</b>	<b>499</b>

**Current liabilities**

SEKm	2021	2022	2023E	2024E	2025E
Short Term Debt	229	307	307	307	307
Short Term Lease Liabilities	42	41	41	41	41
Accounts Payable	373	488	547	591	638
Other Current Liabilities	190	310	293	317	342
<b>Total Current Liabilities</b>	<b>835</b>	<b>1,145</b>	<b>1,189</b>	<b>1,256</b>	<b>1,328</b>
<b>Total Liabilities and Equity</b>	<b>1,951</b>	<b>2,541</b>	<b>2,754</b>	<b>3,002</b>	<b>3,280</b>

**Cash flow**

SEKm	2021	2022	2023E	2024E	2025E
Operating Cash Flow	126	145	260	334	369
Investing Cash Flow	(186)	(184)	(181)	(164)	(182)
Financing Cash Flow	(22)	120	(69)	(89)	(97)



## Rating 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 longterm 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.

## The team
















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