

Hanza: Well on Track for 2025 Targets

Hanza Research Update 2023-05-04 06:45 Updated 2023-05-04 06:46

Redeye increases its Base Case and forecasts following a strong Q1 and a record high order book. While group numbers aligned with the preliminary figures, the sales growth and margin improvement were broad. Our revised forecasts expect Hanza to reach its 2025 targets.



Fredrik Nilsson



Fredrik Reuterhäll

Solid Momentum in Both Segments

Sales growth and margins in both Main- and Other Markets beat our forecasts, and group numbers aligned with the preliminary figures. Management sees strong demand in various sectors and customers, such as defence and energy. It recognizes that many of its customers are doing well, which drives demand for Hanza. The previously lagging German cluster contributed to the improvement in Main Markets while expanded capacity and increased efficiency boosted Other Markets.

On Track for 2025 Targets

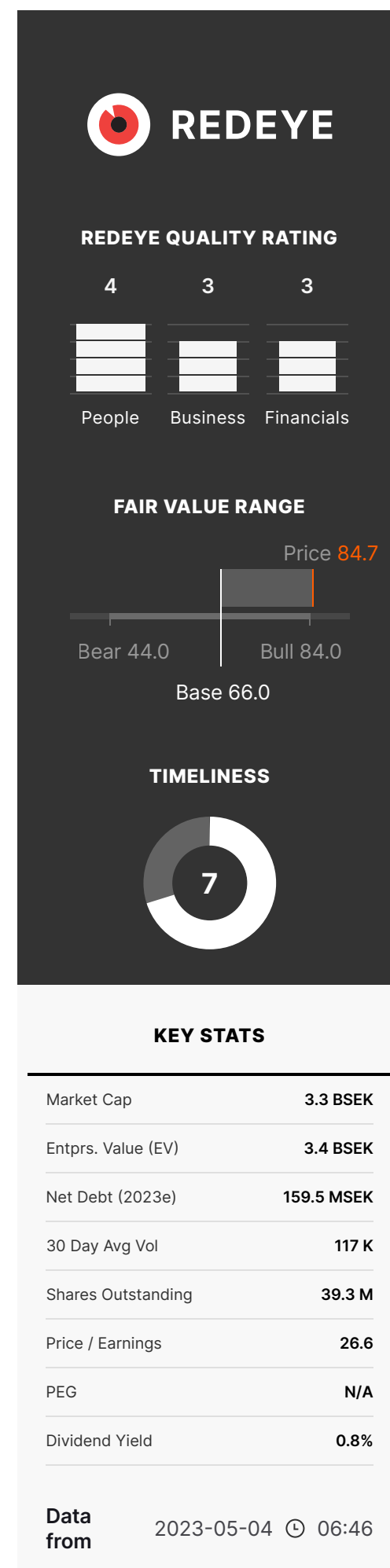
Following Q1 and the recent streak of strong organic growth and margin improvements, we raise our forecasts for 2023 and beyond. We expect Hanza to reach its 2025 targets of SEK5bn and 8% in EBITA margin. Hanza is performing above the target so far (assuming a linear development from the announcement to 2025). While we expect slower growth rates and more moderate margin expansions ahead, it is enough to reach the targets. The record-high order book implies that the substantial organic growth will continue in the short term, at least.

New Base Case SEK80 (66)

Based on raised EBITA forecasts (c17-21% 2023-2024) following the strong momentum, management's positive outlook, and the record high order book, we raise our Base Case to SEK66 (55). We expect solid quarterly reports showing robust organic growth and continuing margin increases to be the main catalyst going forward.

Key financials

SEKm	2022	2023E	2024E	2025E	2026E
Revenues	3,549	4,291	4,634	5,005	5,305
Revenue Growth	41.1%	20.9%	8.0%	8.0%	6.0%
EBITDA	316	446	495	537	584
EBIT	193	311	349	384	418
EBIT Margin	5.4%	7.3%	7.5%	7.7%	7.9%
Net Income	121	242	282	311	338
EV/Revenue	0.6	0.8	0.7	0.6	0.6
EV/EBIT	11.0	11.0	9.6	8.4	7.5



IMPORTANT INFORMATION

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

Redeye, Mäster Samuelsgatan 42, 10tr, Box 7141, 103 87 Stockholm. Tel. +46 8-545 013 30
E-post: info@redeye.se

Table of contents

Strong Momentum in all Segments	3
Financial Forecasts	4
Valuation	5
Investment thesis	7
Quality Rating	7
Financials	9
Rating definitions	11
The team	12

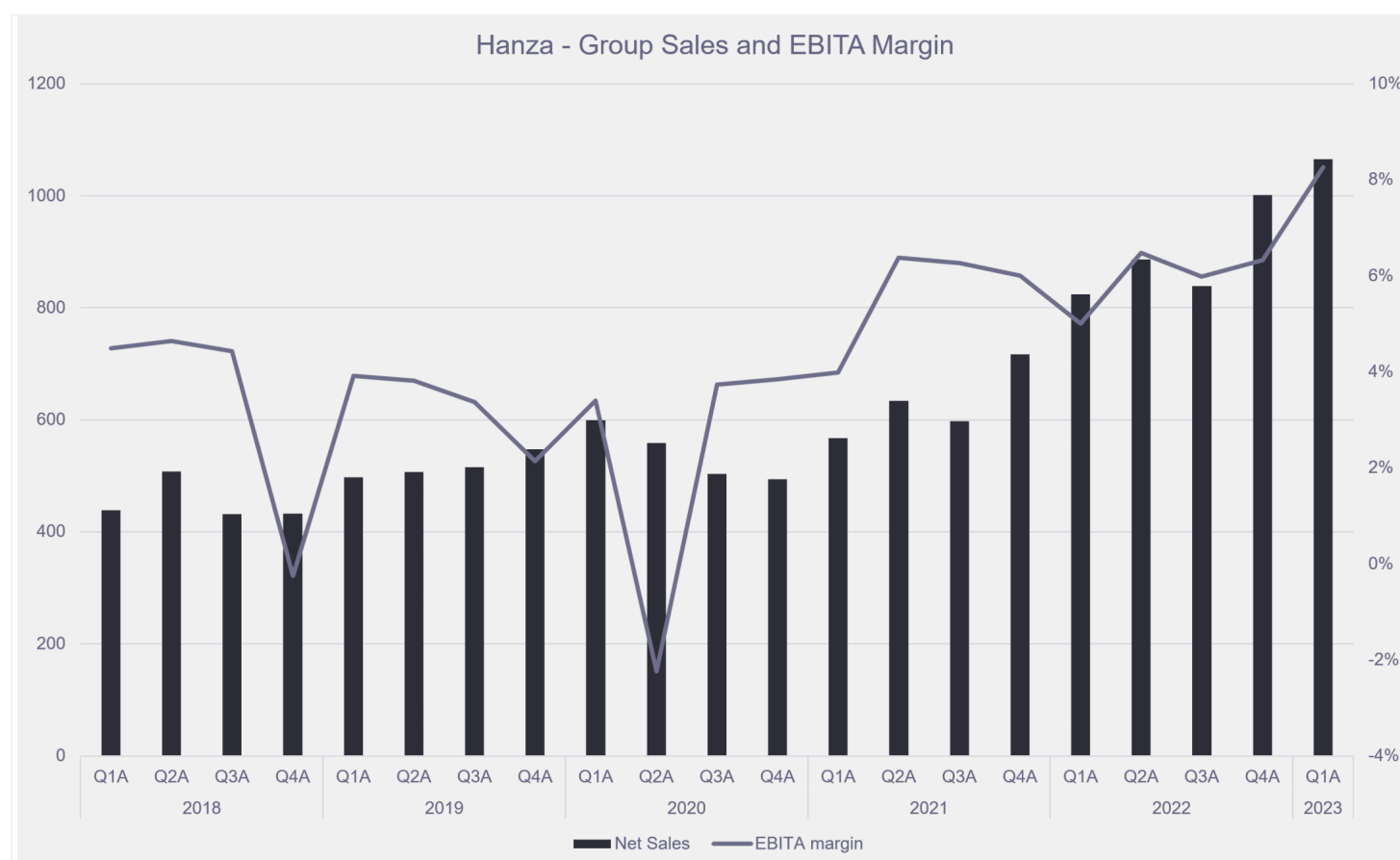
Strong Momentum in all Segments

	Q1E 2023	Q1A 2023	Diff	Q1A 2022	Q4A 2022
Net sales	906.3	1 065.0	17.5%	823.9	1 001.0
Y/Y Growth (%)	10.0%	29.3%		45.2%	39.7%
Main Markets	530.0	594.0	12.1%	481.8	569.8
Y/Y Growth (%)	10.0%	23.3%		60.1%	39.9%
EBITA (MM)	41.3	52.0	25.8%	37.5	41.7
EBITA margin	7.8%	8.8%		7.8%	7.3%
Other Markets	376.3	468.0	24.4%	342.1	437.1
Y/Y Growth (%)	10.0%	36.8%		28.4%	41.4%
EBITA (OM)	21.8	30.0	37.5%	4.6	23.7
EBITA margin	5.8%	6.4%		1.3%	5.4%
EBITA	61.7	82.0	33.0%	41.2	63.3
EBITA Margin (%)	6.8%	7.7%		5.0%	6.3%

Source: Hanza & Redeye Research

Sales aligned with the preliminary figures and beat our forecasts by 18%, following strong growth in Main- and Other Markets. Organic growth was solid at 23% y/y, following strong demand in various sectors and customers, such as defence and energy. According to management, the solid growth was thanks to Hanza's strong customer portfolio, which includes many well-performing businesses. Also, the structural trend of product companies moving their manufacturing close to the end customers helped, as well as Hanza's service offering. Unlike some of the recent quarters, there is no effect from increased prices on materials and energy boosting sales in this quarter.

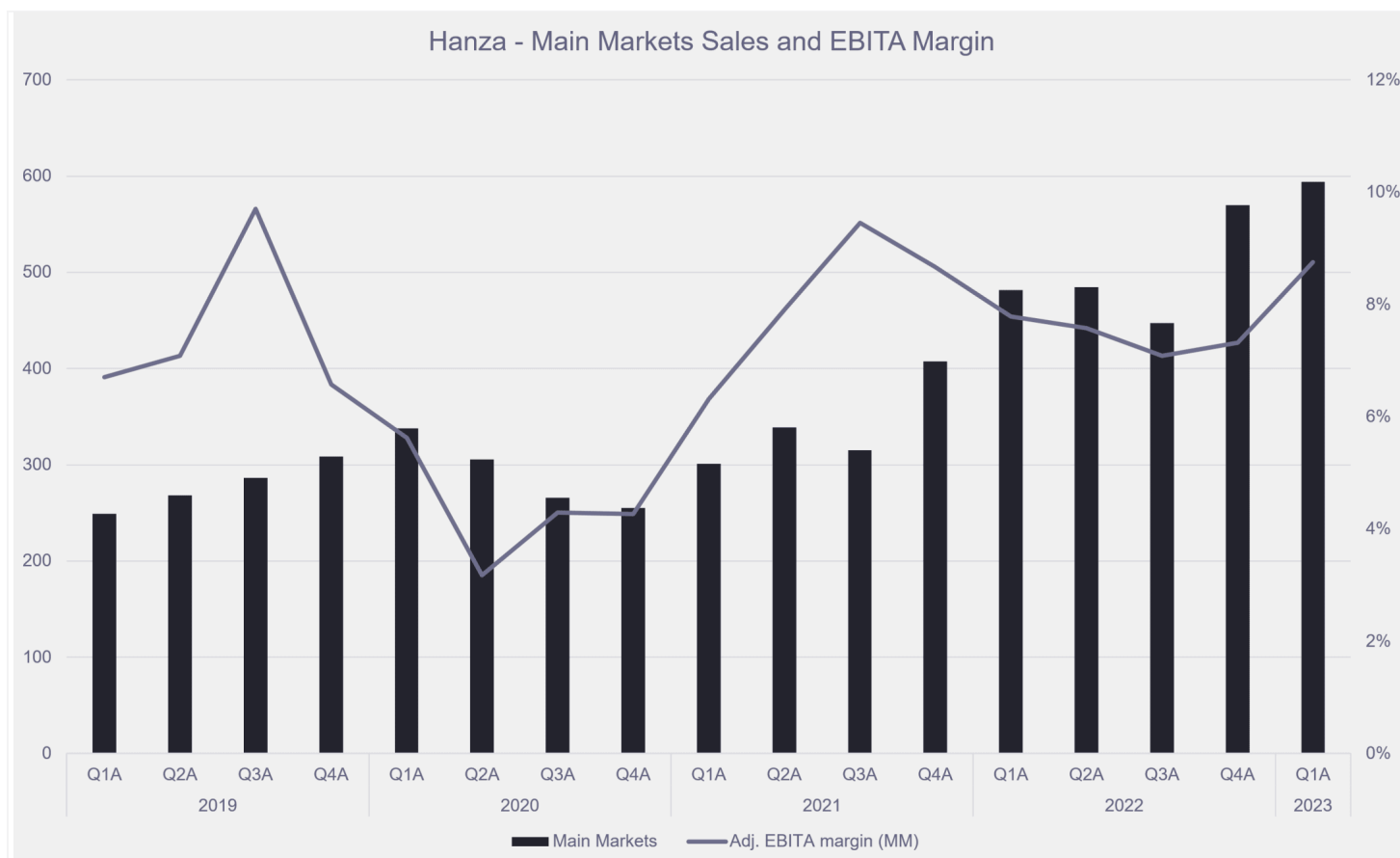
EBITA aligned with the preliminary figures and beat our forecasts by 33%, as both Main- and Other Markets had strong sales and margins relative to our forecasts. Note that the numbers for group total and Main Markets presented in the table exclude the SEK6m in energy subsidy Hanza received in its Swedish operations. Both segments were helped by a high utilization rate and increased use of automation, resulting in higher revenue and contribution margin per employee.



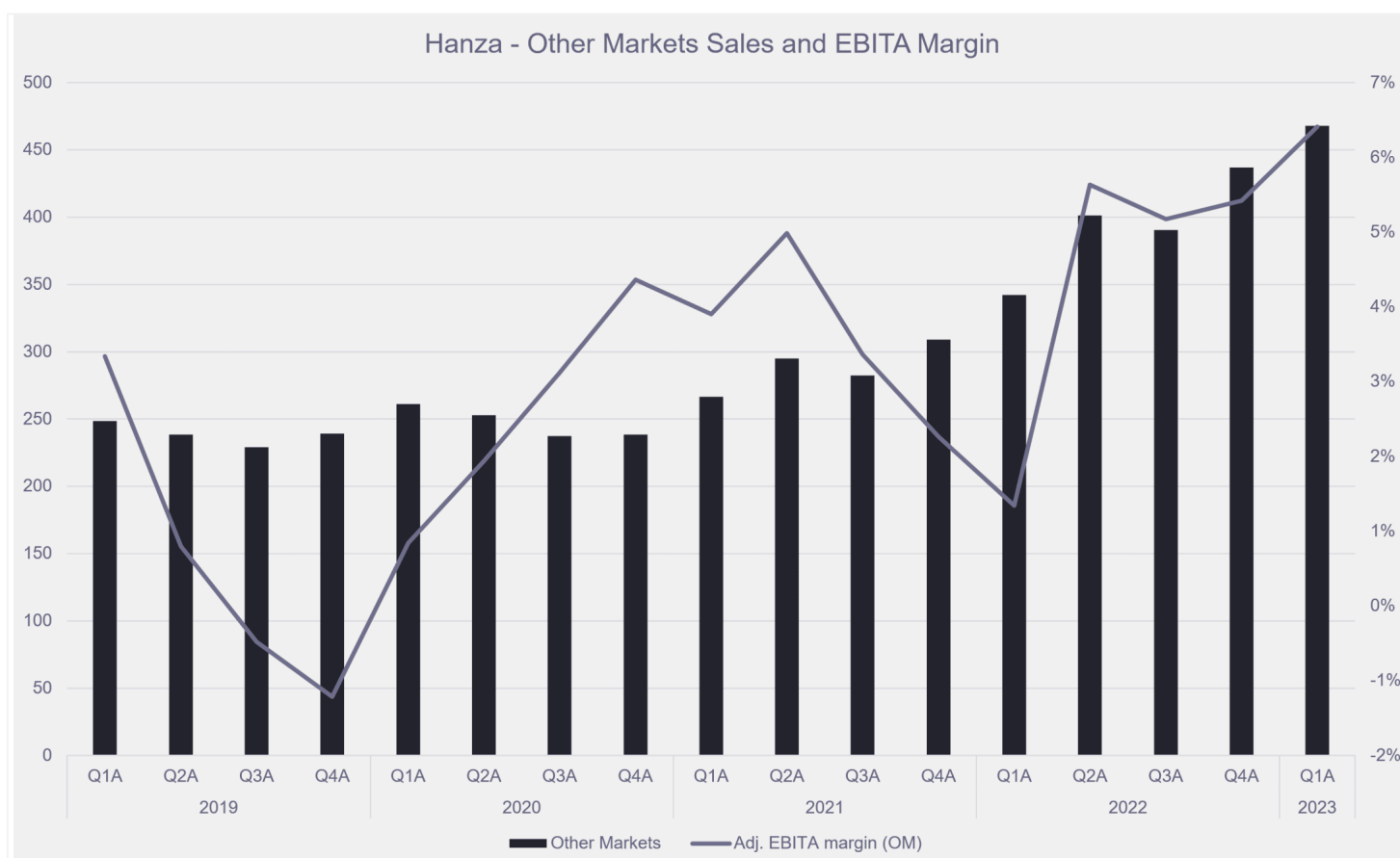
EPS and cash flow were also strong, following a slight positive contribution from net working capital despite the strong sales growth and a low tax rate due to higher profits in Other Markets. The net debt (inc. leasing and pensions) is now down to 1.5x EBITDA 2023e, leaving financial room for further acquisitions.

Main Markets expanded its EBITA margin by one percentage point y/y to 8.8% (excluding subsidy), and we believe the improvement is mainly related to the German cluster. We believe it is encouraging to see the German cluster, which margins were hurt by a zero-margin acquisition, improving and strengthening our view of management's ability to execute M&A. Organic growth in

the segment was 19% y/y.



Other Markets continued its streak of gradual margin improvements, reaching 6.4% in the quarter, a significant y/y increase from 1.3% in Q1 2022. The expanded capacity and efficiency measures contributed to the improvement. While Other Markets show an encouraging improvement, it is still behind Main Markets in terms of margins, and we expect gradual increases going forward as the clusters mature further. Organic growth in the segment was impressive at 30%.



Hanza continues to see strong demand for its offering, and the order book is at record high levels. Thus, the substantial investments in capacity made last year have been a success so far. While additional growth will require some capacity increases, from now on, we expect Hanza to make modular and gradual expansions to its current sites in current clusters – likely a low-risk approach. Considering management’s solid outlook and strong order book, we expect strong momentum in organic growth.

Financial Forecasts

We raise our sales forecasts by c10% for 2023 and 2024 for several reasons. First, the management’s outlook is positive and to a higher degree than we expected, once again, and the

order book remains at a record high level. Second, most of Hanza's customers seem to have a strong momentum in their businesses currently.

We also raise our margin assumptions following the strong development in the German cluster and Other Markets. All in all, we raise our EBITA forecasts by 17-21% for 2023 and 2024.

Estimate Revisions	FYE 2023	Old	Change	FYE 2024	Old	Change
Net sales	4 291.0	3 910.1	9.7%	4 634.3	4 222.9	9.7%
Y/Y Growth (%)	20.9%	10.2%		8.0%	8.0%	
Main Markets	2 349.0	2 182.0	7.7%	2 537.0	2 356.5	7.7%
Y/Y Growth (%)	18.4%	10.0%		8.0%	8.0%	
EBITA (MM)	205.2	172.5	18.9%	220.7	194.8	13.3%
EBITA margin	4.8%	4.4%		7.6%	12.9%	
Other Markets	1 942.0	1 728.1	12.4%	2 097.3	1 866.3	12.4%
Y/Y Growth (%)	23.6%	10.0%		8.0%	8.0%	
EBITA (OM)	125.4	103.9	20.7%	147.0	119.7	22.8%
EBITA margin	6.5%	6.0%		17.2%	15.2%	
EBITA	326.1	270.4	20.6%	361.7	308.5	17.2%
EBITA Margin (%)	7.6%	6.9%		7.8%	7.3%	
EBIT	311.3	255.9	21.7%	349.4	296.3	17.9%
EBIT Margin (%)	7.3%	6.5%		7.5%	7.0%	
Diluted EPS	6.0	5.0	18.9%	7.0	5.9	18.5%

Source: Hanza & Redeye Research

On our revised forecasts, we expected Hanza to reach its SEK5bn in sales and 8% EBITA margin target for 2025. We expect just over SEK5bn in sales and just under 8% in EBITA margin. Sales growth and margin expansion have been strong since Hanza published its targets, and despite us expecting slower growth and margin expansion going forward, we believe Hanza can reach its 2025 targets.

Income Statement	FYA 2022	Q1A 2023	Q2E 2023	Q3E 2023	Q4E 2023	FYE 2023	FYE 2024	FYE 2025	FYE 2026
Net sales	3 549	1 065	1 061	997	1 171	4 291	4 634	5 005	5 305
Y/Y Growth (%)	41.1%	29.3%	19.8%	18.9%	17.0%	20.9%	8.0%	8.0%	6.0%
Main Markets	1 984	594	572	528	655	2 349	2 537	2 740	2 904
Y/Y Growth (%)	45.6%	23.3%	18.0%	18.0%	15.0%	18.4%	8.0%	8.0%	6.0%
EBITA (MM)	148	56	49	45	56	205	221	238	253
EBITA margin	7.4%	9.4%	8.5%	8.5%	8.5%	8.7%	8.7%	8.7%	8.7%
Other Markets	1 571	468	490	469	516	1 942	2 097	2 265	2 401
Y/Y Growth (%)	36.3%	36.8%	22.0%	20.0%	18.0%	23.6%	8.0%	8.0%	6.0%
EBITA (OM)	71	30	32	29	34	125	147	163	180
EBITA margin	4.5%	6.4%	6.6%	6.2%	6.6%	6.5%	7.0%	7.2%	7.5%
EBITA	212	88	79	72	88	326	362	395	427
EBITA Margin (%)	6.0%	8.3%	7.5%	7.3%	7.5%	7.6%	7.8%	7.9%	8.0%
EBIT	193	84	76	69	85	311	349	384	418
EBIT Margin (%)	5.4%	7.9%	7.1%	6.9%	7.2%	7.3%	7.5%	7.7%	7.9%
Diluted EPS	3.1	1.5	1.6	1.4	1.7	6.2	7.2	7.9	8.6

Source: Hanza & Redeye Research

Valuation

We raise our Base Case to SEK 80 (66) following raised forecasts, Our new Bear and Bull Cases are SEK50 and SEK107 respectively.

Peer Valuation

Company	EV (SEKm)	EV/SALES			EV/EBIT (x)			Sales growth			EBIT margin		
		23E	24E	25E	23E	24E	25E	23E	24E	25E	23E	24E	25E
Incap	3 330	1.2	1.0	0.9	9	7	6	-11%	11%	10%	13%	14%	14%
Kitron	10 153	1.1	1.0	0.9	13	12	10	35%	9%	9%	8%	8%	8%
Nolato	15 775	1.5	1.4	1.3	19	14	12	-3%	8%	6%	8%	10%	10%
Scanfil	6 737	0.7	0.6	0.5	10	9	8	8%	3%	3%	7%	7%	7%
Inission	1 409	0.7	0.6	0.6	12	10	9	10%	5%	5%	6%	6%	6%
NCAB	15 567	3.4	3.2	2.9	25	23	20	2%	6%	7%	14%	14%	14%
Hanza	3 838	0.9	0.8	0.7	12	10	9	21%	8%	8%	8%	8%	8%
Average	8 828	1.4	1.2	1.1	14	12	11	9%	7%	7%	9%	10%	10%
Median	8 445	1.4	1.3	1.1	15	13	11	12%	7%	6%	8%	9%	9%

Source: Redeye, Company reports, FactSet

Despite the strong share price performance, Hanza is still trading at a slight discount to the average, although often bigger, manufacturing service companies, thanks to its strong earnings growth. While the share is trading around our revised Base Case of SEK80, the peer comparison suggests an additional 20-30% upside, roughly in line with our Bull Case of SEK107.

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 80

Our DCF model shows a fair value of SEK 80, 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 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 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.

Financials

Income statement

SEKm	2022	2023E	2024E	2025E	2026E
Revenues	3,549	4,291	4,634	5,005	5,305
Cost of Revenue	2,171	2,626	2,873	3,103	3,289
Operating Expenses	1,063	1,219	1,266	1,364	1,432
EBITDA	316	446	495	537	584
Depreciation	57	76	93	101	116
Amortizations	19	15	12	11	9
EBIT	193	311	349	384	418
Shares in Associates	-	-	-	-	-
Interest Expenses	(50)	(18)	(5)	(5)	(5)
Net Financial Items	50	18	5	5	5
EBT	143	293	344	379	412
Income Tax Expenses	(22)	(52)	(62)	(68)	(74)
Net Income	121	242	282	311	338

Balance sheet

Assets

Non-current assets

SEKm	2022	2023E	2024E	2025E	2026E
Property, Plant and Equipment (Net)	551	684	789	908	1,026
Goodwill	388	390	390	390	390
Intangible Assets	90	76	64	53	44
Right-of-Use Assets	180	186	186	186	186
Other Non-Current Assets	17	7	7	7	7
Total Non-Current Assets	1,226	1,343	1,436	1,544	1,652

Current assets

SEKm	2022	2023E	2024E	2025E	2026E
Inventories	937	1,073	1,159	1,251	1,326
Accounts Receivable	151	215	232	250	265
Other Current Assets	91	129	139	150	159
Cash Equivalents	137	168	261	355	477
Total Current Assets	1,316	1,585	1,791	2,007	2,227
Total Assets	2,541	2,928	3,227	3,551	3,880

Equity and Liabilities**Equity**

SEKm	2022	2023E	2024E	2025E	2026E
Non Controlling Interest	-	-	-	-	-
Shareholder's Equity	898	1,121	1,343	1,583	1,843

Non-current liabilities

SEKm	2022	2023E	2024E	2025E	2026E
Long Term Debt	-	-	-	-	-
Long Term Lease Liabilities	348	360	360	360	360
Other Non-Current Lease Liabilities	151	153	153	153	153
Total Non-Current Liabilities	499	513	513	513	513

Current liabilities

SEKm	2022	2023E	2024E	2025E	2026E
Short Term Debt	307	271	271	271	271
Short Term Lease Liabilities	41	48	48	48	48
Accounts Payable	488	601	649	701	743
Other Current Liabilities	310	374	403	435	462
Total Current Liabilities	1,145	1,294	1,371	1,455	1,523
Total Liabilities and Equity	2,541	2,928	3,227	3,551	3,880

Cash flow

SEKm	2022	2023E	2024E	2025E	2026E
Operating Cash Flow	145	331	393	426	473
Investing Cash Flow	(184)	(217)	(198)	(220)	(233)
Financing Cash Flow	120	(84)	(101)	(111)	(119)

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

MANAGEMENT



Björn Fahlén
bjorn.fahlen@redeye.se



Tomas Otterbeck
tomas.otterbeck@redeye.se



Gustaf Meyer
gustaf.meyer@redeye.se



Johan Unnerus
johan.unnerus@redeye.se



Kevin Sule
kevin.sule@redeye.se

EDITORIAL



Joel Karlsson
joel.karlsson@redeye.se



Mats Hyttinge
mats.hyttinge@redeye.se



Oscar Bergman
oscar.bergman@redeye.se

TECHNOLOGY TEAM



Alexander Flening
alexander.flening@redeye.se



Richard Ramanius
richard.ramanius@redeye.se



Anton Hoof
anton.hoof@redeye.se



Sebastian Andersson
sebastian.andersson@redeye.se



Danesh Zare
danesh.zare@redeye.se



Fredrik Reuterhäll
fredrik.reuterhall@redeye.se



Fredrik Nilsson
fredrik.nilsson@redeye.se



Henrik Alveskog
henrik.alveskog@redeye.se



Hjalmar Ahlberg
hjalmar.ahlberg@redeye.se



Jacob Svensson
jacob.svensson@redeye.se



Jesper Von Koch
jesper.vonkoch@redeye.se



Jessica Grunewald
jessica.grunewald@redeye.se



Mark Siöstedt
mark.siostedt@redeye.se



Mattias Ehrenborg
mattias.ehrenborg@redeye.se



Niklas Sävås
niklas.savas@redeye.se



Rasmus Jacobsson
rasmus.jacobsson@redeye.se



Viktor Lindström
viktor.lindstrom@redeye.se

LIFE SCIENCE TEAM



Christian Binder
christian.binder@redeye.se



Ethel Luvall
ethel.luvall@redeye.se



Filip Einarsson
filip.einarsson@redeye.se



Fredrik Thor
fredrik.thor@redeye.se

Disclaimer

Important information

Redeye AB ("Redeye" or "the Company") is a specialist financial advisory boutique that focuses on small and mid-cap growth companies in the Nordic region. We focus on the technology and life science sectors. We provide services within Corporate Broking, Corporate Finance, equity research and investor relations. Our strengths are our award-winning research department, experienced advisers, a unique investor network, and the powerful distribution channel redeye.se. Redeye was founded in 1999 and since 2007 has been subject to the supervision of the Swedish Financial Supervisory Authority.

Redeye is licensed to; receive and transmit orders in financial instruments, provide investment advice to clients regarding financial instruments, prepare and disseminate financial analyses/recommendations for trading in financial instruments, execute orders in financial instruments on behalf of clients, place financial instruments without position taking, provide corporate advice and services within mergers and acquisition, provide services in conjunction with the provision of guarantees regarding financial instruments and to operate as a Certified Advisory business (ancillary authorization).

Limitation of liability

This document was prepared for information purposes for general distribution and is not intended to be advisory. The information contained in this analysis is based on sources deemed reliable by Redeye. However, Redeye cannot guarantee the accuracy of the information. The forward-looking information in the analysis is based on subjective assessments about the future, which constitutes a factor of uncertainty. Redeye cannot guarantee that forecasts and forward-looking statements will materialize. Investors shall conduct all investment decisions independently. This analysis is intended to be one of a number of tools that can be used in making an investment decision. All investors are therefore encouraged to supplement this information with additional relevant data and to consult a financial advisor prior to an investment decision. Accordingly, Redeye accepts no liability for any loss or damage resulting from the use of this analysis.

Potential conflict of interest

Redeye's research department is regulated by operational and administrative rules established to avoid conflicts of interest and to ensure the objectivity and independence of its analysts. The following applies:

- For companies that are the subject of Redeye's research analysis, the applicable rules include those established by the Swedish Financial Supervisory Authority pertaining to investment recommendations and the handling of conflicts of interest. Furthermore, Redeye employees are not allowed to trade in financial instruments of the company in question, from the date Redeye publishes its analysis plus one trading day after this date.
- An analyst may not engage in corporate finance transactions without the express approval of management and may not receive any remuneration directly linked to such transactions.
- Redeye may carry out an analysis upon commission or in exchange for payment from the company that is the subject of the analysis, or from an underwriting institution in conjunction with a merger and acquisition (M&A) deal, new share issue or a public listing. Readers of these reports should assume that Redeye may have received or will receive remuneration from the company/companies cited in the report for the performance of financial advisory services. Such remuneration is of a predetermined amount and is not dependent on the content of the analysis.

Redeye's research coverage

Redeye's research analyses consist of case-based analyses, which imply that the frequency of the analytical reports may vary over time. Unless otherwise expressly stated in the report, the analysis is updated when considered necessary by the research department, for example in the event of significant changes in market conditions or events related to the issuer/the financial instrument.

Recommendation structure

Redeye does not issue any investment recommendations for fundamental analysis. However, Redeye has developed a proprietary analysis and rating model, Redeye Rating, in which each company is analyzed and evaluated. This analysis aims to provide an independent assessment of the company in question, its opportunities, risks, etc. The purpose is to provide an objective and professional set of data for owners and investors to use in their decision-making.

Duplication and distribution

This document may not be duplicated, reproduced or copied for purposes other than personal use. The document may not be distributed to physical or legal entities that are citizens of or domiciled in any country in which such distribution is prohibited according to applicable laws or other regulations.

Copyright Redeye AB.