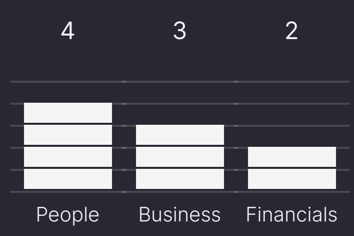
REDEYE

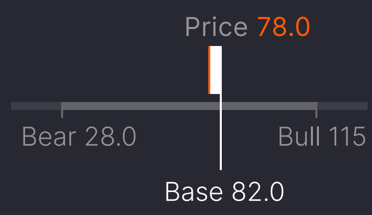
Hanza

Research Update

QUALITY RATING



FAIR VALUE RANGE



MOMENTUM

Performance VS OMXS30

Share Information	
Share Price SEK	78
Number of shares (M)	43.7
Marketplace	NASDAQ Stockholm
CEO	Erik Stenfors
Chairman	Francesco Franzé

Key Stats	
Market Cap	3.3 BSEK
Entprs. Value (EV)	3.8 BSEK
Net Debt (2024Q4)	492.0 MSEK
30 Day Avg Vol	101 K
Dividend Yield	N/A

Top Holders

Name	Ownership
Gerald Engström	22.86%
Francesco Franzé	8.3%
Ritter Beteiligungs Gmbh	6.95%
Håkan Halén	5.4%
Första AP-fonden	4.67%
ODIN Fonder	4.23%
Nordnet Pensionsförsäkring	3.66%
Tredje AP-fonden	2.76%
Inbox Capital	2.49%
Berenberg Funds	1.66%

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More research on Hanza

Scan the QR code to access all Redeye publications and research tools regarding Hanza.

redeye.se/company/hanza-holding

Hanza: Optimistic Outlook for New Customers

Redeye retains its view of Hanza following a Q4 report showing a relatively solid performance in a soft market. While management is cautious about volumes from current customers, the outlook for new customers is encouraging.

Improvement in Other Markets

Sales was 3% short of our expectations and amounted to SEK1,270m (1,056). The organic growth was -3% y/y. Despite a small miss, Hanza does well in a challenging market overall. Forestry, farming, textile, and mining had a relatively soft 2024, while defence, security, and energy did well. EBITA (adjusted for SEK16m in acquisition costs) was SEK90m (76), 7% below our forecast of SEK97m. The adjusted EBITA margin was 7.1%, and our forecast was 7.4%. Other Markets beat our EBITA forecast by 11% thanks to a stronger margin than expected that improved q/q. The q/q margin improvement was driven by the "old Hanza", likely due to the Hanza 2025 program – mostly targeting Other Markets –starting to pay off.

New Deals to Drive Growth in Cautious Market

Management is hesitant to provide any guidance for the market in 2025. However, the CEO's letter includes some interesting comments. Management concludes that further sales growth requires additional volume, and Hanza cannot rely on increasing volumes from current customers in a potential macroeconomic rebound. Sales to new customers are prioritized, and Hanza believes it can present a continuous flow of new customers going forward. For Hanza to reach its SEK6.5bn target in 2025, we believe new customers are needed, considering an assumed relatively soft market.

Base Case Unchanged at SEK82 (82)

Following minor forecast revisions, we leave our Base Case at SEK 82 (82). However, we see substantial upside potential if the 2025 targets are reached. After trading at a 25-30% discount on EV/EBIT in H1 2024, Hanza is now trading on par with the peer median. Following the recent strong relative performance in Hanza's operations, we believe the faded discount is reasonable. Given that Hanza continues to outperform and reach its financial targets, we believe there is a case for the company to trade at a premium to the peer median.

Key Financials

SEKm	2022	2023	2024	2025e	2026e
Total Revenue	3,567.4	4,154.0	5,005.0	6,229.1	6,726.5
Revenue Growth	41.0%	16.4%	20.5%	24.5%	8.0%
EBITDA	315.6	464.7	441.6	695.3	779.0
EBIT	193.3	328.0	239.0	468.0	538.8
EBIT Margin	5.4%	7.9%	4.9%	7.5%	8.0%
Net Income	121.3	215.0	111.0	254.1	306.3
EV/Sales	0.7	0.9	0.8	0.8	0.7
EV/EBIT	12.1	11.2	16.5	10.1	8.7

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Review of Q4 2024

Estmates vs. Actuals						
Sales	**Q4E 2024**	**Q4A 2024**	**Diff**		**Q4A 2023**	**Q3A 2024**
Net sales	1305	1270	-3%		1056	1107
Y/Y Growth (%)	24%	20%			5%	16%
Main Markets	764	745	-2%		605	626
Y/Y Growth (%)	22%	23%			6%	14%
EBITA (MM)	69	60	-13%		63	41
EBITA margin	9.0%	8.1%			10.4%	7%
Other Markets	542	520	-4%		447	478
Y/Y Growth (%)	13%	16%			2%	18%
EBITA (OM)	30	33	11%		29	11
EBITA margin	5.5%	6.3%			6.5%	2.3%
Earning						
EBITA	97	90	-7%		76	82
EBITA Margin (%)	*7.4%*	*7.1%*			*7.2%*	*7.4%*
EBIT	90	83	-8%		71	68
EBIT Margin (%)	*6.9%*	*6.5%*			*6.7%*	*6.1%*
Diluted EPS	0.96	0.71	-26%		1.09	0.91

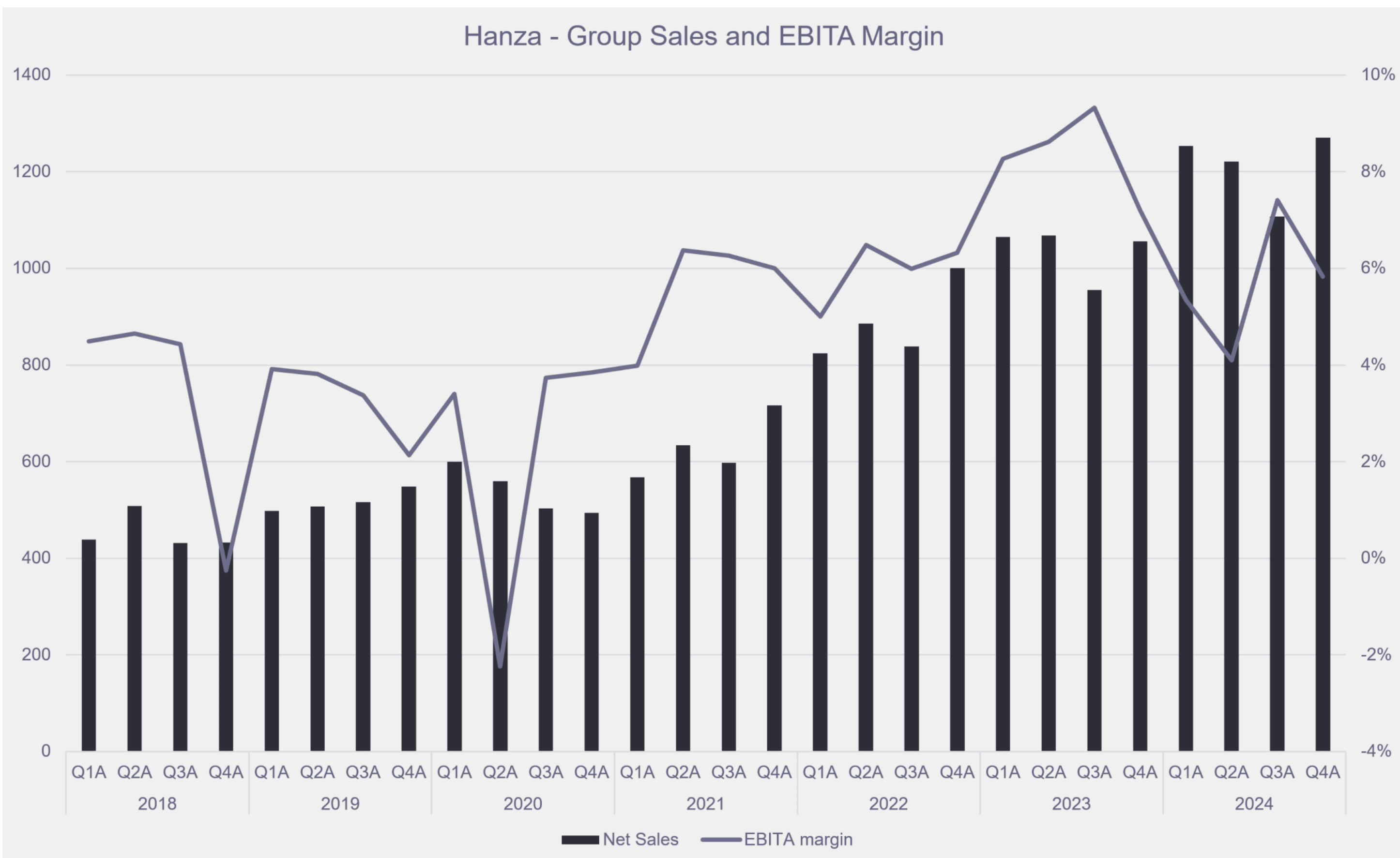
Stable in Soft Market

Sales was 3% short of our expectations and amounted to SEK1,270m (1056). The organic growth was -3% y/y. Despite a small miss, Hanza does well in a challenging market overall. Forestry, farming, textile, and mining had a relatively soft 2024, while defence, security, and energy did well. Once again, Hanza's broad and strong customer base has limited the downturn. In addition, Hanza highlights the importance of avoiding certain cyclical sectors such as automotive and consumer discretionary.

Leden, which should add about SEK1.1bn in sales with an EBITA margin of ~7%, has not been consolidated yet, but Hanza expects it to be within a few weeks – taking pro forma sales to about SEK6bn. However, more is needed for Hanza's target of SEK6.5bn in 2025. Considering management's somewhat cautious expectations on volumes from current customers (more on that later), we assume management expects significant contributions from recent deals and a solid deal flow in early 2025 (due to lead time, strong order inflow in H2 2025 will have little impact on full-year sales).

EBITA (adjusted for SEK16m in acquisition costs) was SEK90m (76), 7% below our forecast of SEK97m. The adjusted EBITA margin was 7.1%, and our forecast was 7.4%. For comparable units, the EBITA margin was 7.7%. While below Hanza's 8% target for the full year 2025, we expect gradually increasing margins as we enter 2025 as Leden is integrated, new deals are becoming active, and due to a slightly stronger underlying market – where the last one is the most uncertain.

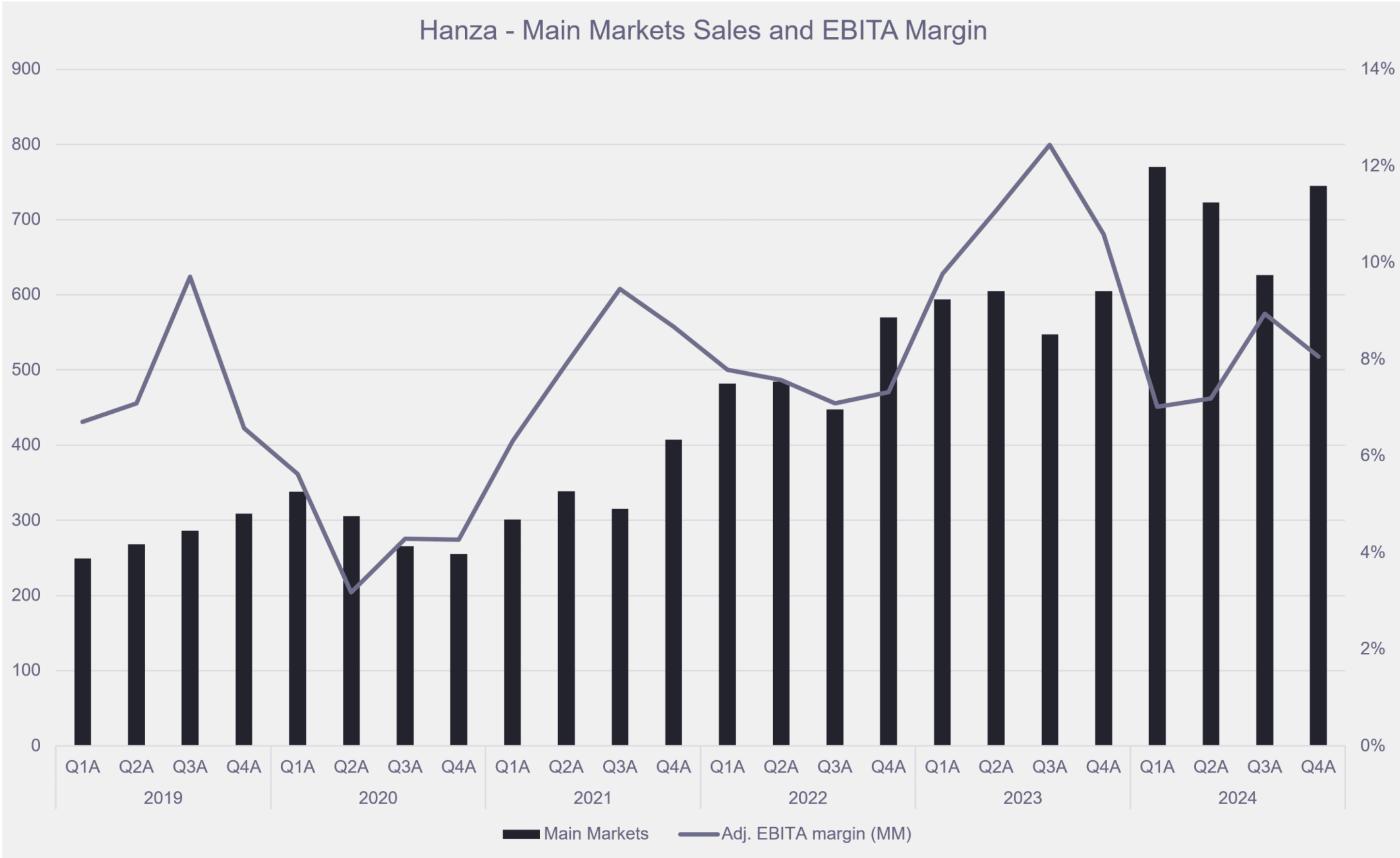
Management remains confident in its 8% EBITA margin for the full year 2025 and mentions several initiatives during 2024 that are yet to impact margins positively. For example, Orbit One has the potential for improved margins, and management expects the consolidation of Leden to result in additional MIG deals, which the acquisition of Orbit One resulted in.



Source: Hanza

Main Markets

Main Markets missed our EBITA forecasts by 13%, while sales roughly matched our expectations. Organic growth was -4%. The adjusted EBITA margin was 8.1% (10.4), down from 8.9% in Q3. Excluding Orbit One, the EBITA margin was 9.0%, down from 9.8% in Q3. Thus, the margin fell q/q in Orbit One and the "old" Hanza. The decline was partly due to lower volumes in the German cluster.

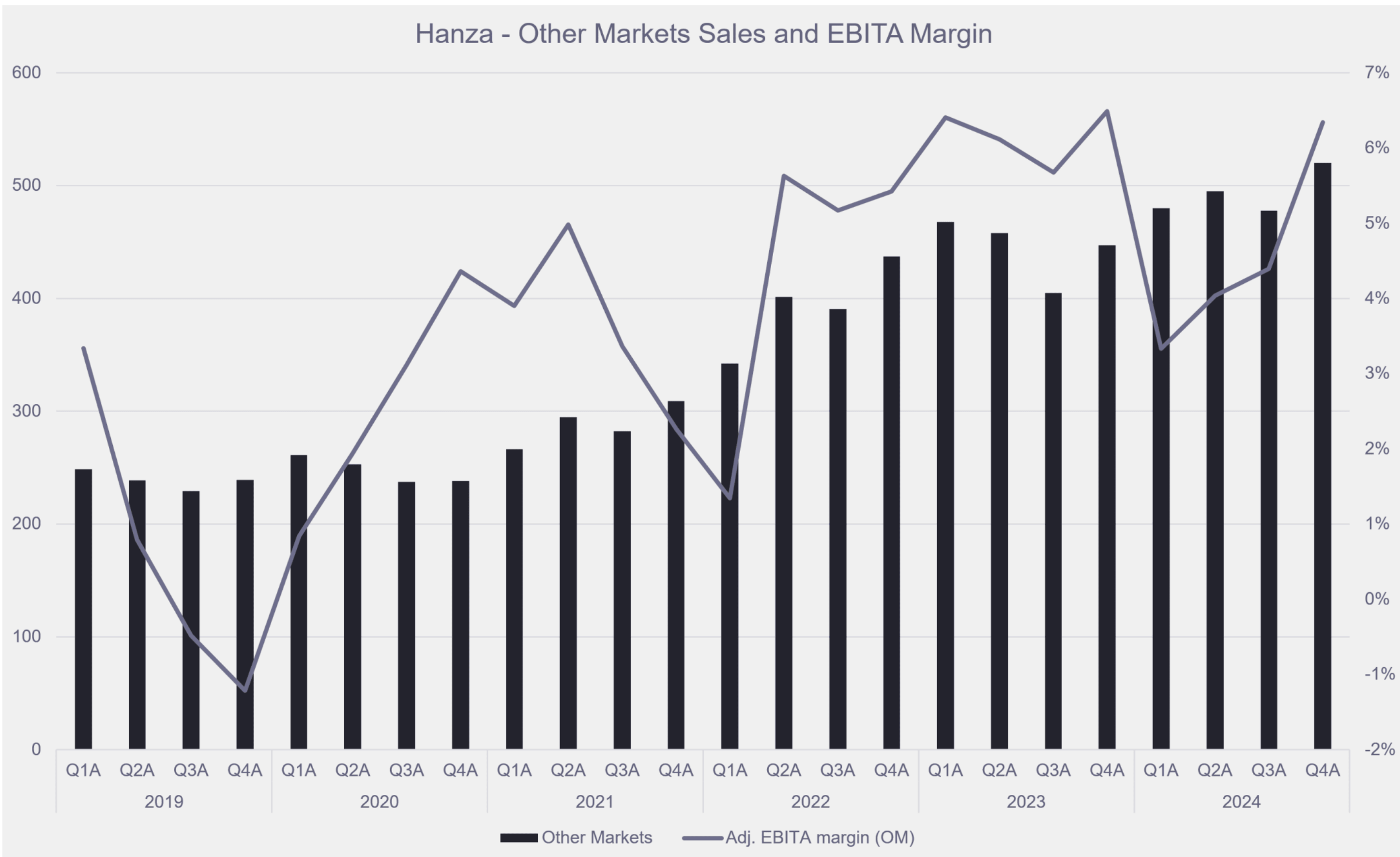


Source: Hanza

Main Markets consist of the Swedish, Finnish, and German clusters. The Swedish cluster is the largest and the most profitable cluster, with manufacturing facilities mainly located in Årjäng and Töcksfors, Värmland, along with the recently acquired facility in Ronneby, Blekinge. The German cluster is less mature but has seen substantial improvements in profitability during the last year. The Finnish cluster is somewhere in between, in terms of maturity and profitability.

Other Markets

Other Markets sales was 4% below our forecasts, while the EBITA was 11% better than expected. Organic growth was -1% y/y. The adjusted EBITA margin was 6.3% (6.5), an increase from 4.4% in Q3. Excluding Orbit One, the EBITA margin was 6.8%, up from 4.6% in Q3. Thus, the q/q margin improvement was driven by the "old Hanza", likely due to the Hanza 2025 program – mostly targeting Other Markets – is starting to pay off.



Source: Hanza

Other Markets consist of the Baltic, Central European, and Chinese clusters. The Baltic cluster is the largest and likely the most profitable, with manufacturing facilities in Tartu and Narva, Estonia. The Central Europan cluster is less mature but will increase significantly in size with the recently acquired Orbit One factory in Poland. The Chinese cluster is Hanza's smallest and the only cluster outside of Europe.

Further MIG Deals - Again

As seen throughout 2024, Hanza also sees strong new sales in Q4, following a greater need for cost-efficient manufacturing in the softer economic environment. The deal flow includes a deal with a German telecommunications company, WISI Group, and a German measurement systems company worth EUR1.4m annually initially, with manufacturing taking place in the German cluster.

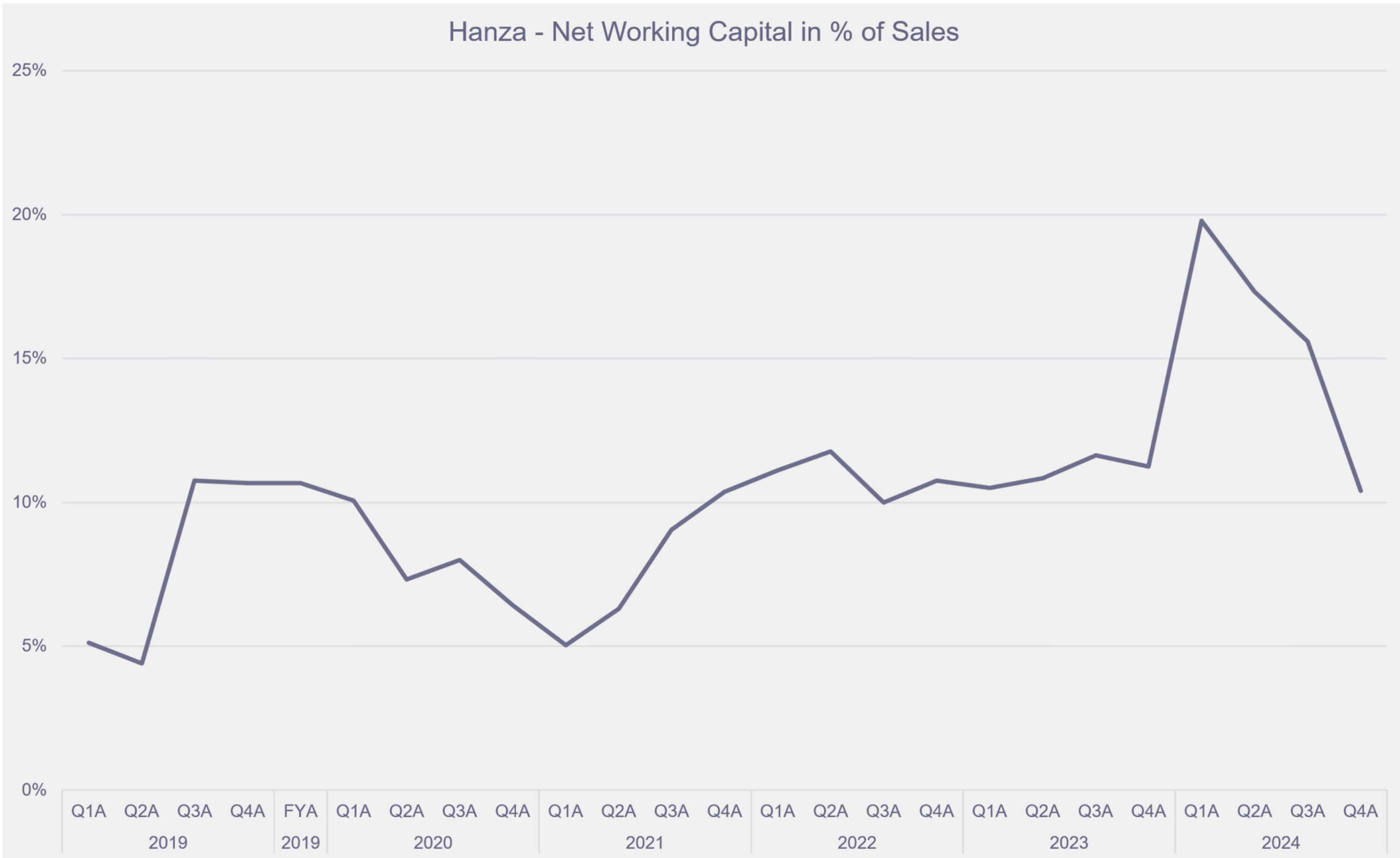
Interestingly, management noted in recent quarters that softer macroeconomic conditions could trigger product companies to evaluate their production chains. Looking at 2024, it is apparent that some of those revaluations have resulted in product companies turning to Hanza. Note that there is typically a six to twelve-month lead time from the deal to production for MIG deals. Also, management seems optimistic about further MIG deals, stating that it expects a continuous flow of new customers.

New Sales Needed to Drive Growth

Management is hesitant to provide any guidance for the market in 2025. However, the CEO letter includes some interesting comments. Management concludes that further sales growth requires additional volume, and Hanza cannot rely on increasing volumes from current customers in a potential macroeconomic rebound. Also, during the call, management stated that the feedback from current customers regarding volumes in 2025 was much in line with 2024, implying a mixed picture between sectors but, overall, no expectations of increased volumes in 2025 relative to 2024. Instead, sales to new customers are prioritized, and Hanza believes it can present a continuous flow of new customers going forward. As mentioned, for Hanza to reach its SEK6.5bn target for 2025, we believe new customers are needed, considering an assumed relatively soft market.

Improved NWC - Reducing Inventory in Orbit One Further

The NWC has improved gradually throughout 2024 since the consolidation of Orbit One and was in Q4 back to Hanza's historical levels of about 10-11% of R12m sales. The solid improvement q/q resulted in a record high operating and free cash flow of SEK289m (which of SEK238m from NWC) and SEK229m, respectively. On our forecasts for 2025, including the purchasing considerations for Leden, Hanza is estimated to have a net debt of 1.6x EBITDA by the end of 2025.



Source: Hanza

Estimate Revisions

We lower our sales and EBITA forecasts by 2% for 2025-26 on the back of the development in Q4 and what we interpret as a slightly softer outlook. Overall, we expect Hanza to continue to do well in a soft market. Also, an accelerating deal flow could result in increased estimates going forward. However, we still expect about 6% organic growth in 2025, implying some growth from new customers, partly supported by already signed deals.

Our forecasts are somewhat more defensive regarding Hanza's 2025 targets of SEK6.5bn in sales and an EBITA margin of 8%. We expect SEK6.2bn in sales and an EBITA margin of 7.9%. Thus, we believe SEK6.5bn will be challenging to reach without higher volumes from current customers. While the prospects for new deals are solid, their potential effect on 2025 sales is limited due to lead time. Although SEK6.5m in sales is not unrealistic, our Base Case is somewhat more defensive. Regarding EBITA margin, our forecast is almost in line with the target, and we believe initiatives taken during 2024 will help drive margins in 2025.

Estimate Revisions						
Sales	**FYE 2025**	**Old**	**Change**	**FYE 2026**	**Old**	**Change**
Net sales	6217	6329	*-2%*	6714	6835	*-2%*
Y/Y Growth (%)	28%	30%		8%	8%	
Main Markets	3809	3857	*-1%*	4113	4166	*-1%*
Y/Y Growth (%)	33%	34%		8%	8%	
EBITA (MM)	328	341	*-4%*	378	383	*-1%*
EBITA margin	9%	9%		9%	9%	
Other Markets	2408	2472	*-3%*	2601	2669	*-3%*
Y/Y Growth (%)	22%	24%		8%	8%	
EBITA (OM)	169	167	*2%*	187	192	*-3%*
EBITA margin	7%	7%		7%	7%	
Earning						
EBITA	492	502	*-2%*	560	569	*-2%*
EBITA Margin (%)	*7.9%*	*7.9%*		*8.3%*	*8.3%*	
EBIT	468	478	*-2%*	539	549	*-2%*
EBIT Margin (%)	*7.5%*	*7.6%*		*8.0%*	*8.0%*	
Diluted EPS	5.51	5.30	*4%*	6.64	6.43	*3%*

Source: Hanza & Redeye Research

Forecasts								
Sales	**FYA 2024**	**Q1E 2025**	**Q2E 2025**	**Q3E 2025**	**Q4E 2025**	**FYE 2025**	**FYE 2026**	**FYE 2027**
Net sales	4851	1585	1559	1455	1619	6217	6714	7117
Y/Y Growth (%)	17%	26%	28%	31%	27%	28%	8%	6%
Main Markets	2864	1002	960	864	983	3809	4113	4360
Y/Y Growth (%)	22%	30%	33%	38%	32%	33%	8%	6%
EBITA (MM)	176	82	82	76	88	328	378	401
EBITA margin	6%	8%	9%	9%	9%	9%	9%	9%
Other Markets	1973	583	599	590	636	2408	2601	2757
Y/Y Growth (%)	11%	21%	21%	24%	22%	22%	8%	6%
EBITA (OM)	75	38	41	43	48	169	187	204
EBITA margin	4%	7%	7%	7%	8%	7%	7%	7%
Earning								
EBITA	273	119	121	118	135	492	560	599
EBITA Margin (%)	*5.6%*	*7.5%*	*7.8%*	*8.1%*	*8.3%*	*7.9%*	*8.3%*	*8.4%*
EBIT	239	112	115	112	129	468	539	582
EBIT Margin (%)	*4.9%*	*7.1%*	*7.4%*	*7.7%*	*8.0%*	*7.5%*	*8.0%*	*8.2%*
Diluted EPS	2.53	1.40	1.30	1.25	1.56	5.51	6.64	7.42

Source: Hanza & Redeye Research

Valuation

Following minor forecast revisions, we leave our Base Case at SEK 82 (82). However, we see substantial upside potential if the 2025 targets are reached.

Fair Value Range - Assumptions			
	Bear Case	**Base Case**	**Bull Case**
Value per share, SEK	**28**	**82**	**115**
Sales CAGR			
2025 - 2032	3%	5%	6%
2032 - 2042	2%	3%	4%
Avg EBIT margin			
2025 - 2032	6%	8%	9%
2032 - 2042	7%	8%	9%
Terminal EBIT Margin	6%	8%	9%
Terminal growth	2%	2%	2%
WACC	10%	10%	10%

Source: Redeye Research

Peer Valuation

After trading at a 25-30% discount on EV/EBIT in H1 2024, Hanza is now trading on par with the peer median. Following the recent strong relative performance in Hanza's operations, we believe a faded discount is reasonable. Given that Hanza continues to outperform, we believe there is a case for the company to trade at a premium to the peer median.

Manufacturing	EV	Sales	EV/SALES			EV/EBIT			Sales growth			EBIT margin		
Company	(SEKm)	24e	24e	25e	26e	24e	25e	26e	24e	25e	26e	24e	25e	26e
Incap	3 963	2 795	1.3	1.1	0.9	10.8	8.8	7.3	6%	14%	10%	12%	13%	13%
Kitron	8 858	7 736	1.2	1.0	0.9	15.1	12.1	10.4	-15%	5%	13%	8%	9%	9%
Nolato	17 906	10 196	1.8	1.6	1.5	17.3	15.0	13.2	6%	7%	8%	10%	11%	11%
Scanfil	6 532	9 233	0.7	0.6	0.6	10.7	9.2	8.3	-14%	9%	7%	7%	7%	7%
Inission	1 311	2 163	0.6	0.6	0.5	10.2	8.5	7.3	-1%	2%	5%	6%	7%	7%
NCAB	13 021	3 692	3.5	3.0	2.7	30.2	23.5	19.8	-10%	16%	9%	12%	13%	13%
Hanza	4 123	4 851	0.8	0.8	0.7	16.5	10.1	8.7	17%	28%	8%	5%	8%	8%
Average	**7 959**	**5 809**	**1.4**	**1.2**	**1.1**	**15.8**	**12.4**	**10.7**	**-2%**	**12%**	**9%**	**8.5%**	**9.4%**	**9.7%**
Median	**6 532**	**4 851**	**1.2**	**1.0**	**0.9**	**15.1**	**10.1**	**8.7**	**-1%**	**9%**	**8%**	**7.6%**	**8.6%**	**8.7%**

Source: Redeye, Company reports, FactSet

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.

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 82

Our DCF model shows a fair value of SEK82, 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.

Financials

Income Statement					
SEKm	2024	2025e	2026e	2027e	2028e
Net Sales	4,851.0	6,217.1	6,714.5	7,117.3	7,544.4
Other Income	154.0	12.0	12.0	12.0	12.0
Total Revenue	5,005.0	6,229.1	6,726.5	7,129.3	7,556.4
Cost of Sales	2,722.0	3,854.6	4,163.0	4,412.7	4,677.5
Gross Profit	2,129.0	2,362.5	2,551.5	2,704.6	2,866.9
Operating Expenses	1,687.4	1,667.2	1,772.4	1,869.8	1,976.4
EBITDA	441.6	695.3	779.0	834.8	890.5
Depreciation and Amortization	202.6	227.3	240.3	252.6	265.9
EBIT	239.0	468.0	538.8	582.2	624.6
Net Financial Items	114.0	161.9	169.7	169.7	169.7
EBT	125.0	306.2	369.0	412.4	454.9
Income Tax Expenses	-14.0	-52.0	-62.7	-70.1	-77.3
Net Income	111.0	254.1	306.3	342.3	377.5

Balance Sheet					
SEKm	2024	2025e	2026e	2027e	2028e
Assets					
Non-current assets					
Property, Plant and Equipment (Net)	902.0	1,324.8	1,487.8	1,652.2	1,818.9
Goodwill	529.0	817.9	817.9	817.9	817.9
Intangible Assets	135.0	111.4	90.4	73.4	59.6
Right-of-Use Assets	282.0	282.0	282.0	282.0	282.0
Other Non-Current Assets	39.0	39.0	39.0	39.0	39.0
Total Non-Current Assets	1,887.0	2,575.1	2,717.1	2,864.5	3,017.4
Current assets					
Inventories	1,137.0	1,442.4	1,557.8	1,651.2	1,750.3
Accounts Receivable	213.0	279.8	302.2	320.3	339.5
Other Current Assets	124.0	186.5	201.4	213.5	226.3
Cash Equivalents	276.0	-167.7	-119.4	-43.6	50.3
Total Current Assets	1,750.0	1,741.0	1,942.0	2,141.4	2,366.4
Total Assets	3,637.0	4,316.1	4,659.1	5,005.9	5,383.8
Equity and Liabilities					
Equity					
Long Term Debt	601.0	776.0	776.0	776.0	776.0
Long Term Lease Liabilities	166.0	166.0	166.0	166.0	166.0
Non-current liabilities					
Other Non-Current Lease Liabilities	181.0	181.0	181.0	181.0	181.0
Total Non-Current Liabilities	948.0	1,123.0	1,123.0	1,123.0	1,123.0
Short Term Debt	167.0	167.0	167.0	167.0	167.0
Short Term Lease Liabilities	73.0	73.0	73.0	73.0	73.0
Current liabilities					
Accounts Payable	590.0	758.5	819.2	868.3	920.4
Other Current Liabilities	379.0	497.4	537.2	569.4	603.6
Total Current Liabilities	1,209.0	1,495.9	1,596.3	1,677.7	1,764.0
Shareholder's Equity	1,480.0	1,697.2	1,939.8	2,205.2	2,496.9
Total Liabilities and Equity	3,637.0	4,316.1	4,659.1	5,005.9	5,383.8

Cash Flow					
SEKm	2024	2025e	2026e	2027e	2028e
Operating Cash Flow Before Changes in Working Capital	608.0	481.4	546.6	594.9	643.4
Cash Flow from Changes in Working Capital	-39.0	-147.8	-52.2	-42.3	-44.8
Operating Cash Flow	569.0	333.6	494.3	552.6	598.6
Investing Cash Flow	-632.0	-828.5	-295.4	-313.2	-332.0
Financing Cash Flow	-12.0	51.2	-150.6	-163.7	-172.7
Cash Flow For The Period	-75.0	-443.7	48.3	75.8	93.9

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Disclaimer

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