

H&M

Company report

27.09.2024 07.48 CEST



Rauli Juva
+358 50 588 0092
rauli.juva@inderes.fi

inde
res.

Margin recovery more sluggish than expected

H&M delivered weaker-than-expected earnings for Q3. While September sales growth was a positive data point, we see margin headwinds continuing in Q4 and do not expect the company to reach its 10% EBIT margin target in 2025 either. We maintain our Reduce recommendation and target price of SEK 170.

Q3 earnings were below expectations

H&M reported flat sales in local currencies y/y, just below our and consensus forecast of 1%, while reported sales growth was -3%. Q3 gross margin of 51.1% was well in line with expectations and just above the previous year (50.9%). "External factors" had a negative impact as well as pricing, which were mitigated by efficiency measures in the supply chain. EBIT, however, fell clearly below last year (4.7 BNSEK) and expectations to only 3.5 BNSEK. This was impacted by "long-term" marketing costs, as well as the winding down costs of Afound, a small digital-only chain. Furthermore, some FX impacts burdened the result. We would however view only the Afound-related costs, which were no more than 250 MSEK, as a pure one-off, while other items are more part of the business, even if perhaps impacting Q3 more than an average quarter. Hence, overall the Q3 result was disappointing.

Strong sales start to Q4, but margin pressure prevails

H&M announced that it expects September sales to be up as much as 11%. While this was noted to be partly due to weather/seasonal variation, the company also highlighted a good reception of its fall collections. The demand was supported by increased marketing spend as well as lower prices. H&M also expects the "external factors" to continue to be negative y/y in Q4. On the back of this, we slightly increased our Q4 sales estimate and now see 5% local currency growth. We expect the Q4 gross margin to decline y/y to 53.0% (from 53.7%), but sales growth to drive the EBIT margin to be in line with the previous year at around 7%. In total, we cut the 2024 earnings estimates by 8%, while for 2025-26 cuts were only 1-2%.

10% EBIT margin ambition pushed to be long-term, looks challenging for 2025 in our view

H&M had an "ambition" to reach its 10% EBIT margin target already in 2024. In the Q3 report it said that the target will not be reached this year due to more negative external factors hitting the margin and consumer demand remaining soft. This was well expected, as our and consensus estimates were already around 8% ahead of Q3. With the EBIT margin being lower in Q3 y/y, we now forecast only a 7.3% EBIT margin. The company did not want to commit to the 10% target for 2025, but rather just make it a long-term target. We believe this supports our thinking that 10% is a challenging target also for 2025 and is not likely to be reached (we expect 8.9%).

Share continues to look fairly valued

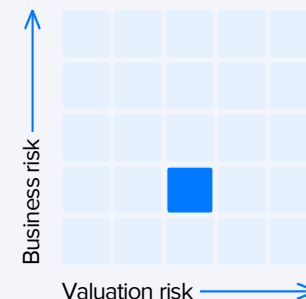
H&M's P/E for 2024 is 24x, while for 2025, the expected margin improvement drives the P/E down to 18x. The 2025 multiples are well in line with our accepted multiples. The multiples are well below the closest peer Inditex, which trades at 30x for 2024. We believe some discount is fair, given Inditex's better sales development. We estimate that H&M's free cash flow and dividend yields are around 4% in the coming years. After a larger earnings improvement in 2024-26, driven by the increasing margin, we expect a steady sales/earnings growth of 5% in the medium term. Our DCF value is in line with our target and close to the current share price. Therefore, overall, we see the share as quite fairly valued.

Recommendation

Reduce
(prev. Reduce)

170 SEK
(prev. 170,00 SEK)

Share price:
173



Key indicators

	2023	2024e	2025e	2026e
Revenue	236 035	236 585	247 445	260 926
growth-%	6 %	0 %	5 %	5 %
EBIT adj.	13 538	17 360	22 007	24 606
EBIT-% adj.	5,7 %	7,3 %	8,9 %	9,4 %
Net Income	8 723	11 525	15 483	17 671
EPS (adj.)	4,7	7,3	9,6	11,0

P/E (adj.)	37,6	23,8	17,9	15,7
P/B	6,1	5,7	5,2	4,7
Dividend yield-%	3,7 %	3,9 %	4,3 %	4,9 %
EV/EBIT (adj.)	25,1	19,2	15,1	13,5
EV/EBITDA	9,1	8,6	7,4	7,0
EV/S	1,4	1,4	1,3	1,3

Source: Inderes

Guidance

(Unchanged)

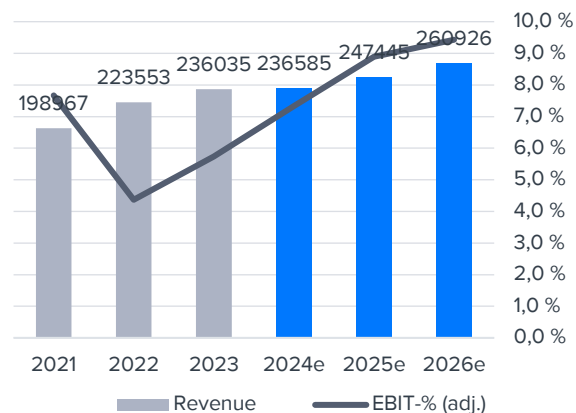
No guidance

Share price



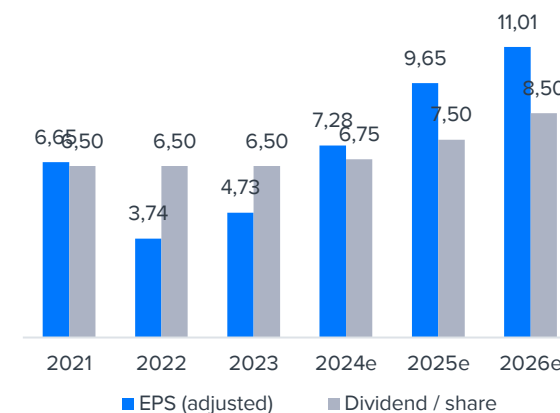
Source: Millistream Market Data AB

Sales and EBIT-%



Source: Inderes

EPS and DPS



Source: Inderes



Value drivers

- Very strong brand and market presence in fashion retail
- Potential to grow in emerging markets and increase market share
- Margin improvement towards 10% EBIT-margin target
- Portfolio chains / ventures could create value in the mid-/long-term



Risk factors

- The fashion industry is fiercely competed and somewhat cyclical in nature
- H&M's track record from the past decade is poor and a "normal" margin level is uncertain
- Increased regulation could have a negative impact
- Reputational risk for H&M
- Change in consumer preferences away from fast fashion

Valuation	2024e	2025e	2026e
Share price	173	173	173
Number of shares, m	1610	1605	1605
Market cap	277 579	277 579	277 579
EV	333 231	332 275	331 386
P/E (adj.)	23,8	17,9	15,7
P/E	24,2	17,9	15,7
P/B	5,7	5,2	4,7
P/S	1,2	1,1	1,1
EV/Sales	1,4	1,3	1,3
EV/EBITDA	8,6	7,4	7,0
EV/EBIT (adj.)	19,2	15,1	13,5
Payout ratio (%)	94 %	78 %	77 %
Dividend yield-%	3,9 %	4,3 %	4,9 %

Source: Inderes

Q3 earnings were below all expectations

Sales were slightly below expectations, flat y/y

H&M reported flat sales development in local currencies y/y, just below our and consensus forecast of 1%. Reported sales growth was 3% negative due to FX impact, also 1% below forecasts. In local currencies sales developed negatively particularly in the Nordics (- 7%), while Southern Europe showed the best growth (8%). H&M disclosed already in Q2 that its June sales declined by 6% due to different weather and seasonal patterns vs. last year, but July-August development was positive.

Gross margin in line with expectations and last year

H&M's Q3 gross margin came in well in line with expectations and just above the previous year's level. Negative "external factors" i.e. input costs, FX, etc. had a negative impact as well as pricing, which were, however, mitigated by efficiency measures in the supply chain.

EBIT below all expectations, partly due to temporary items

H&M Q3 EBIT fell clearly below last year and expectations to only 3.5 BNSEK. This was impacted by some 550 MSEK of "long-term" marketing costs, as well as winding down costs of Afound, a small digital-only chain. Furthermore, some FX impacts burdened the result. We would however view only the winding down costs of Afound, which were less than half of the 550 MSEK as a pure one-off, while other items are more a part of the business, even if perhaps impacting Q3 more than an average quarter. Hence, overall the Q3 result was disappointing and below expectations. As financials and taxes were largely in line with expectations, the EPS missed expectations by a similar 15% as EBIT.

Cash flow slightly behind last year

Looking at cumulative cash flow for nine months, H&M is slightly behind last year despite higher earnings due to negative working capital impact and slightly higher investments. We expect full-year cash flow to come in fairly close to last year's level.

H&M's balance remains at net cash position excluding lease liabilities while the reported net debt/EBITDA was 1.3x, well in line with the company's target range of 1-2x.

Estimates MSEK / SEK	Q3'23	Q3'24	Q3'24e	Q3'24e	Consensus		Difference (%)	2024e
	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. inderes	Inderes
Revenue	60897	59011	59900	60390	59315	- 61792	-1 %	236585
Gross profit	31015	30133	30669	30831	30345	- 31633	-2 %	125436
Gross margin %	50,9 %	51,1%	51,2 %	51,1%	50,2 %	- 51,7 %	0 %	53,0 %
EBIT	4739	3507	4069	4582	4069	- 5285	-14 %	17161
EPS (reported)	2,03	1,44	1,69	1,97	1,69	- 2,28	-15 %	7,16
Revenue growth-%	6,0 %	-3,1%	-1,6 %	-0,8 %	-2,6 %	- 1,5 %	-1,5 pp	0,2 %
EBIT-%	7,8 %	5,9 %	6,8 %	7,6 %	6,9 %	- 8,6 %	-0,8 pp	7,3 %

Source: Inderes & Infront (consensus)

Estimates cut, 10% EBIT margin target pushed to "long-term"

Strong sales start to Q4, but margin pressure prevails

H&M announced that it expects September (i.e. the first month of its Q4) sales to be up as much as 11%. While this was noted to be partly due to weather/seasonal variation, the company also highlighted a good reception of its fall collections. The demand was also supported by increased marketing spend (seen already in Q3 figures, but continuing in Q4), as well as lower prices. H&M also expects the "external factors" to continue to be negative y/y in Q4.

On the back of this, we slightly increased our Q4 sales estimate and now see 5% local currency growth. We expect the gross margin to decline y/y to 53.0% (from 53.7%), but sales growth to drive the EBIT margin to be in line with the previous year at around 7 %.

10 % ambition pushed to be "long-term"

H&M had an "ambition" to reach its 10% EBIT margin target already in 2024. In the Q3 report it said that the target will not be reached this year due to more negative external factors hitting the margin and consumer demand remaining soft. This was well expected, as our and consensus estimates were already around 8% ahead of Q3. With our EBIT estimate down 7%, we now forecast only a 7.3% EBIT margin.

Perhaps more importantly, the company did not want to commit to the 10% target for 2025, but rather just make it a long-term target. We believe this supports our thinking that the 10% is a challenging target also for 2025 and is not likely to be reached (we expect 8.9%).

Minor estimate cuts beyond 2024

As mentioned, we cut the 2024 earnings estimate, as well as the dividend slightly, still pointing to a small increase though. We made only modest changes to 2025-26 earnings estimates, which are down 1-2%.

Store count continues to decrease

H&M indicated in the Q3 report that its store count will continue to decrease also in Q4, while previously it had expected the net of openings and closures to stabilize. We believe also this highlights the sluggish demand situation. The headwind to sales from this should not be material, however. We believe the net decrease in stores might continue also into 2025 as H&M is aiming to improve its profitability.

Estimate revisions	2024e			2025e			2026e		
	Old	New	Change %	Old	New	Change %	Old	New	Change %
MSEK / SEK									
Revenue	236974	236585	0 %	247391	247445	0 %	260889	260926	0 %
EBIT	18496	17161	-7 %	22388	22007	-2 %	24816	24606	-1 %
PTP	16695	15388	-8 %	20888	20507	-2 %	23616	23406	-1 %
EPS (excl. NRIs)	7,89	7,28	-8 %	9,79	9,65	-1%	11,07	11,01	-1 %
DPS	7,00	6,75	-4 %	7,50	7,50	0 %	8,50	8,50	0 %

Source: Inderes

Valuation and recommendation

Valuation summary - Reduce

We forecast earnings growth in 2024 as margins continue to improve. We expect H&M to distribute most of its earnings and free cash flow as dividends, resulting in a dividend yield of around 4%. The multiples are currently at the high end of our acceptable range and the share is around the levels of our DCF value. We therefore see little upside on a 12-month horizon.

Acceptable absolute multiples in 2024-25

H&M's valuation multiples for 2024 are fairly high with P/E 24x. H&M is, however, showing an ongoing margin recovery (even if it has been slower than expected), which we expect to stretch out to 2025-26. The headline multiples for 2025 are P/E 18x and EV/EBIT 15x, which look fair or even modest. Adjusted for lease liabilities, EV/EBIT is some 14x and P/E adjusted for net cash excl. IFRS 16 is 18x. Given the continued growth potential and high returns on capital, which we see in the company, these are in line with our range of acceptable multiples. As we expect further margin improvement in 2026, the multiples start to look more attractive. Obviously, they require the expected margin improvement to materialize, which has disappointed in recent quarters.

Looking from 2026 onwards, when we expect stable growth and profitability going forward, we believe H&M's acceptable P/E is 15-20x and EV/EBIT with reported figures 13-15x. Our estimate of H&M's sustainable free cash flow in 2025-26 is 11-12 BNSEK, which implies a free cash flow yield of around 4%.

Valuation compared to the peer group

All retail chains have significant lease liabilities, which muddle the EV-based valuation. Thus, we look mainly at the P/E ratios of the peer group. The peer group's median P/E is 23x for 2024, slightly lower than H&M's 23x, and 16x for 2025, also lower than H&M's 18x. The values for the peer group vary broadly from around 10x to 40x. Hence, the peer group median is somewhat dependent on which companies one chooses to include in the group, given that there are also other potential peers in the fashion industry. We note that H&M's EV/EBIT valuation is above our peer group. H&M's closest peer Inditex is valued at P/E ~30x for 2024 and 27x for 2025, i.e., clearly higher than H&M. Inditex has, however, also been growing faster than H&M for some years already. Compared to peers we see H&M's valuation as fair.

DCF suggests current price is fair

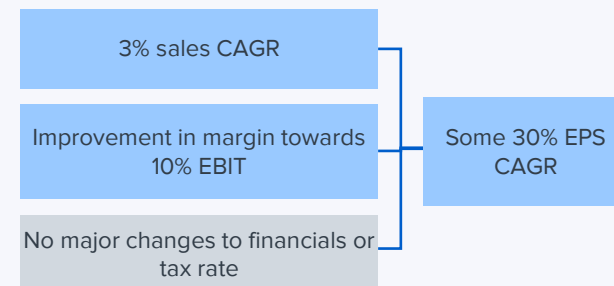
We expect steady growth and margins during 2026-2032. In the terminal period, we expect the EBIT margin to remain largely flat at around 9.5% while our terminal growth rate assumption is 3%. We estimate the cost of equity and WACC (due to no financial debt) for H&M to be 8.0%, which is fairly low given the company's strong and wide market presence and strong global brand.

With these assumptions, our DCF model arrives at an EV and equity value of around 280 BNSEK, which translates to around SEK 170 per share. This is in line with our target price and close to the current share price, suggesting the share is fairly valued.

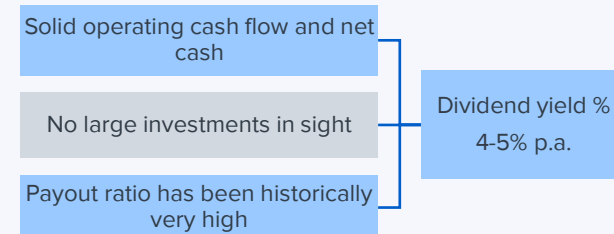
TSR drivers 2023-2026

■ Positive ■ Neutral ■ Negative

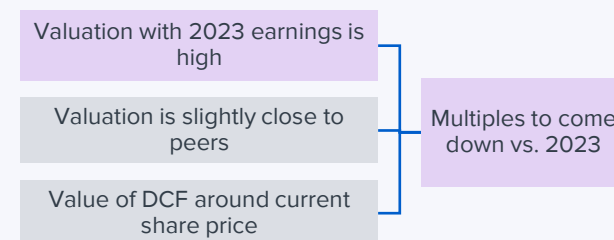
Profit drivers



Dividend yield drivers



Valuation multiple drivers



Share's expected total return ~5% p.a.

Investment profile 1/2

1. Global footprint with solid growth potential
2. One of the strongest brands in fashion retail
3. EBIT margin recovering
4. High return on capital and value creative growth
5. Intense competition in the industry

Potential



- Market share is still small in the global fashion industry, so there is room to grow especially outside Europe
- A clear focus on sustainability could support demand/image
- Some of the portfolio chains / ventures could create more value than currently expected

Risks



- The fashion industry is fiercely competed, and some collections might not appeal to customers
- H&M has a poor track record of declining margins in the past decade, which could recur
- Potential regulation regarding the durability and recycling of textiles (mostly in the EU) could have a negative impact
- A reputational risk especially for the H&M brand, including the risk of the whole industry being viewed as negative for the climate

Investment profile 2/2

Investment profile

There is no doubt in our minds that H&M Group's investment profile is that of a growth company. It has shown strong long-term growth throughout its history, and we expect it will continue to deliver going forward as well. However, the challenge has been margins, which have deteriorated over the previous decade from an EBIT margin of over 20% at best to only mid-single digits more recently. Hence, in some respect, the Group is currently also a turnaround company in earnings terms.

Positive drivers and opportunities

Clearly, the biggest positive driver for H&M Group is continued sales growth. We believe this can be achieved in all markets, but growth outside Europe should be the main driver, given that the markets in Europe are quite mature and H&M Group's share is also already strong. In addition to sales growth, we expect improving margin levels in the next two years to support earnings growth as well. Over time, we believe the margin is, however, unlikely to improve further, as the competition is fierce, the company wants to maintain attractive pricing and it also needs to constantly invest (meaning both capex and opex increase) in omnichannel capabilities.

In the longer term, there are clearly possibilities in H&M Group's various portfolio chains and smaller business ventures to grow into major businesses and thus drive earnings and value for the Group. Perhaps the most promising ones in this respect is currently the second-hand fashion platform Sellpy aiming to gain support and benefit from the

increasing circular economy needs/trends.

In our view, H&M Group is quite strongly committed to reducing its climate impact and contributing to more sustainable fashion. This could be a competitive edge if consumers increasingly consider sustainability matters when making fashion purchases.

Risks and threats

The fashion industry is inherently dependent on consumer preferences, and it's also vulnerable to changes in those preferences. This means that some collections might not sell that well and even the style of the whole brand might go out of fashion at times. This is clearly a risk for H&M Group, like any player in the industry. The industry is also fiercely competitive and fragmented. Especially online sales have enabled new entrants to enter a global market more easily than before, thereby intensifying competition. This means that consumers always have a wide range of choices and price pressure is also likely to remain high in the Group's affordable fashion category.

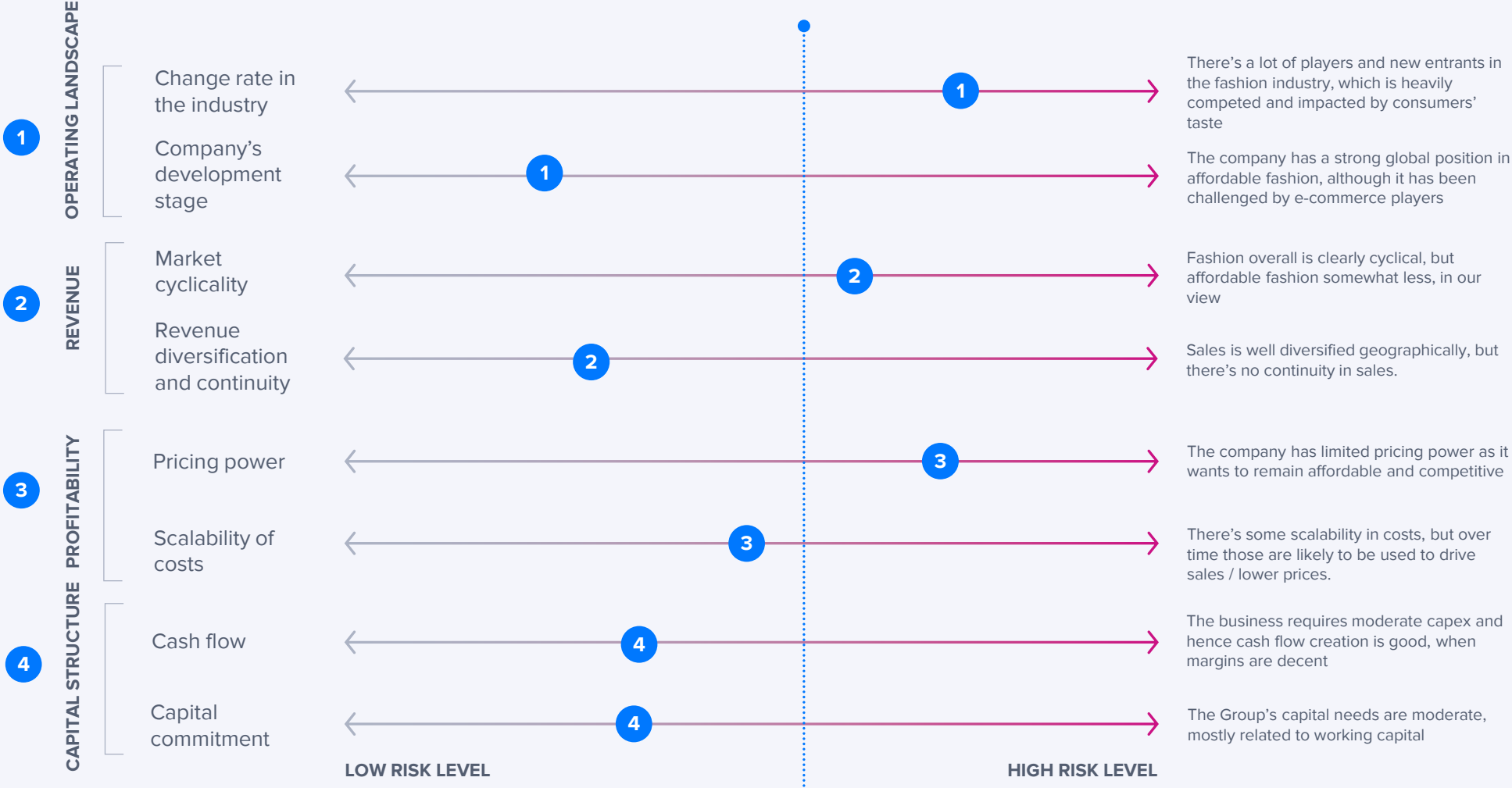
While we see some possibilities in the circular economy/sustainability for H&M Group, it certainly poses a risk for the company as well. Affordable/fast fashion is seen as somewhat resource-consuming and hence negative for the climate. If such a view is strengthened among consumers, it could hurt the Group's business in the longer term. The brand could also face other reputational risks regarding, e.g., labor conditions of subcontractors or the impacts of sourcing cotton, etc. On the sustainability side, we also see

a regulatory risk (currently mostly regarding the EU), which could somehow limit H&M Group's business or burden it with more costs related to the durability or circularity of the products.

In terms of earnings, we note that H&M Group had a weak period in margin development from 2010 to 2020. Despite a somewhat better outlook now, there's a risk that margins will remain clearly below historic levels and also below our expectations.

Risk profile of the business model

Assessment of H&M Group's overall business risk

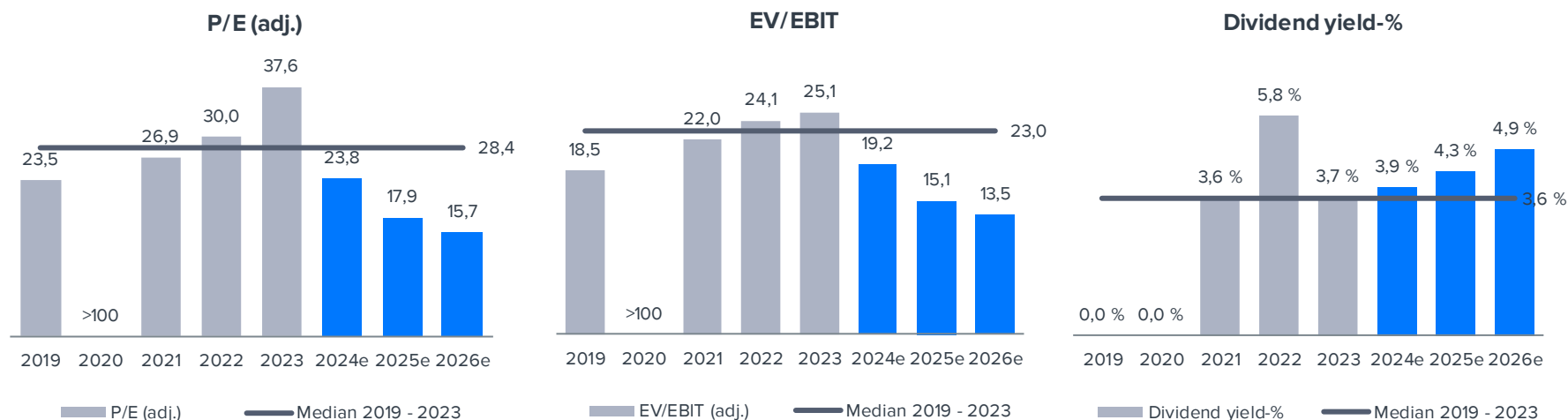


Source: Inderes

Valuation table

Valuation	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Share price	190	172	179	112	178	173	173	173	173
Number of shares, millions	1655,1	1655,1	1655,1	1645,5	1633,5	1610,0	1604,5	1604,5	1604,5
Market cap	315 258	284 672	295 927	184 569	288 002	277 579	277 579	277 579	277 579
EV	320 644	348 197	335 147	235 497	339 574	333 231	332 275	331 386	331 156
P/E (adj.)	23,5	>100	26,9	30,0	37,6	23,8	17,9	15,7	14,6
P/E	23,5	>100	26,9	51,8	33,3	24,2	17,9	15,7	14,6
P/B	5,5	5,2	4,9	3,6	6,1	5,7	5,2	4,7	4,3
P/S	1,4	1,5	1,5	0,8	1,2	1,2	1,1	1,1	1,0
EV/Sales	1,4	1,9	1,7	1,1	1,4	1,4	1,3	1,3	1,2
EV/EBITDA	11,3	12,0	8,9	7,9	9,1	8,6	7,4	7,0	6,8
EV/EBIT (adj.)	18,5	>100	22,0	24,1	25,1	19,2	15,1	13,5	12,9
Payout ratio (%)	0,0 %	0,0 %	97,7 %	299,8 %	120,9 %	94,0 %	77,7 %	77,2 %	100,0 %
Dividend yield-%	0,0 %	0,0 %	3,6 %	5,8 %	3,7 %	3,9 %	4,3 %	4,9 %	6,9 %

Source: Inderes



Peer group valuation

Peer group valuation	Market cap	EV	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%		P/B
Company	MEUR	MEUR	2024e	2025e	2024e	2025e	2024e	2025e	2024e	2025e	2024e	2025e	2024e
Inditex	165868	160212	23,7	21,1	16,3	15,0	4,5	4,1	30,9	27,7	2,7	3,2	9,1
Fast Retailing	94267	86046	25,1	26,1	20,3	19,1	4,5	4,2	41,4	40,2	0,8	0,8	7,5
Next	15238	17427	14,8	13,7	12,5	11,4	2,7	2,4	17,8	16,2	2,1	2,2	9,3
GAP													
Zalando	7613	6861	19,5	14,1	9,4	8,0	0,7	0,6	35,3	26,4			2,9
Victoria's Secret	1814	2688	9,5	10,2	5,2	5,6	0,5	0,5	12,0	13,1			4,2
Abercrombie & Fitch	6309	5662	13,2	8,8	10,2	7,1	1,5	1,3	22,7	13,3			6,8
Urban Outfitters	3114	2619	7,3	6,8	5,7	5,3	0,6	0,5	11,5	10,3			1,5
H&M (Inderes)	23929	28727	19,2	15,1	8,6	7,4	1,4	1,3	23,8	17,9	3,9	4,3	5,7
Average			16,1	14,4	11,3	10,2	2,1	2,0	24,5	21,0	1,9	2,1	5,9
Median			14,8	13,7	10,2	8,0	1,5	1,3	22,7	16,2	2,1	2,2	6,8
Diff-% to median			30 %	10 %	-16 %	-8 %	-5 %	3 %	5 %	11 %	89 %	94 %	-16 %

Source: Refinitiv / Inderes

Income statement

Income statement	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24	Q2'24	Q3'24	Q4'24e	2024e	2025e	2026e	2027e
Revenue	223 553	54 872	57 616	60 897	62 650	236 035	53 669	59 605	59 011	64 300	236 585	247 445	260 926	273 599
EBITDA	29 748	6 230	10 234	10 466	10 562	37 492	7 480	12 526	8 881	9 979	38 866	44 776	47 412	48 758
Depreciation	-22 579	-5 505	-5 493	-5 727	-6 230	-22 955	-5 403	-5 428	-5 374	-5 500	-21 705	-22 769	-22 806	-23 007
EBIT (excl. NRI)	9 760	-274	4 741	4 739	4 332	13 538	2 077	7 297	3 507	4 479	17 360	22 007	24 606	25 751
EBIT	7 169	725	4 741	4 739	4 332	14 537	2 077	7 098	3 507	4 479	17 161	22 007	24 606	25 751
Net financial items	-953	-329	-416	-366	-416	-1 527	-471	-430	-422	-450	-1 773	-1 500	-1 200	-500
PTP	6 216	396	4 325	4 373	3 916	13 010	1 606	6 668	3 085	4 029	15 388	20 507	23 406	25 251
Taxes	-2 650	144	-1 037	-1 054	-2 340	-4 287	-405	-1 673	-778	-1 007	-3 863	-5 024	-5 734	-6 186
Minority interest	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net earnings	3 566	540	3 288	3 319	1 576	8 723	1 201	4 995	2 307	3 022	11 525	15 483	17 671	19 064
EPS (adj.)	3,7	-0,3	2,0	2,0	1,0	4,7	0,7	3,2	1,4	1,9	7,3	9,6	11,0	11,9
EPS (rep.)	2,2	0,3	2,0	2,0	1,0	5,3	0,7	3,1	1,4	1,9	7,2	9,6	11,0	11,9
Key figures	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24	Q2'24	Q3'24	Q4'24e	2024e	2025e	2026e	2027e
Revenue growth-%	12,4 %	11,6 %	5,7 %	6,0 %	0,3 %	5,6 %	-2,2 %	3,5 %	-3,1%	2,6 %	0,2 %	4,6 %	5,4 %	4,9 %
Adjusted EBIT growth-%	-36,0 %	-159,8 %	-5,0 %	78,6 %	160,8 %	38,7 %	-858,0 %	53,9 %	-26,0 %	3,4 %	28,2 %	26,8 %	11,8 %	4,7 %
EBITDA-%	13,3 %	11,4 %	17,8 %	17,2 %	16,9 %	15,9 %	13,9 %	21,0 %	15,0 %	15,5 %	16,4 %	18,1 %	18,2 %	17,8 %
Adjusted EBIT-%	4,4 %	-0,5 %	8,2 %	7,8 %	6,9 %	5,7 %	3,9 %	12,2 %	5,9 %	7,0 %	7,3 %	8,9 %	9,4 %	9,4 %
Net earnings-%	1,6 %	1,0 %	5,7 %	5,5 %	2,5 %	3,7 %	2,2 %	8,4 %	3,9 %	4,7 %	4,9 %	6,3 %	6,8 %	7,0 %

Source: Inderes

Detailed P&L

Group reporting	Q1'23	Q2'23	Q3'23	Q4'23	Q1'24	Q2'24	Q3'24	Q4'24e	2021	2022	2023	2024e	2025e	2026e
Net sales	54 872	57 616	60 897	62 650	53 669	59 605	59 011	64 300	198 967	223 553	236 035	236 585	247 445	260 926
growth	11,6%	5,7%	6,0%	0,3%	-2,2%	3,5%	-3,1%	2,6%	6,4%	12,4%	5,6%	0,2%	4,6%	5,4%
growth in local currencies	3,0%	0,0%	0,0%	-4,0%	-2,0%	3,0%	0,0%	5,0%	12,3%	6,5%	-0,3%	3 %	4,6%	5,4%
COGS	-28 986	-27 278	-29 882	-28 993	-26 014	-26 036	-28 878	-30 221	-93 961	-110 276	-115 139	-111 149	-115 062	-121 331
Gross profit	25 886	30 338	31 015	33 657	27 655	33 569	30 133	34 079	105 006	113 277	120 896	125 436	132 383	139 596
Gross margin-%	47,2%	52,7%	50,9%	53,7%	51,5%	56,3%	51,1%	53,0%	52,8%	50,7%	51,2%	53,0%	53,5 %	53,5 %
Selling expenses	-23 108	-23 375	-23 648	-26 304	-22 643	-23 894	-24 167	-26 700	-80 535	-94 542	-96 435	-97 404	-99 352	-103 525
Admin expenses	-3 052	-2 210	-2 623	-3 010	-2 921	-2 552	-2 435	-2 900	-9 216	-11 566	-10 895	-10 808	-11 024	-11 465
Associates & JVs	999	-12	-5	-11	-14	-25	-24		0	0	971	-63	-49	-24
Operating profit	725	4 741	4 739	4 332	2 077	7 098	3 507	4 479	15 255	7 169	14 537	17 224	22 007	24 606
Operating margin-%	1,3%	8,2%	7,8%	6,9%	3,9%	11,9%	5,9%	7,0%	7,7%	3,2%	6,2%	7,3%	8,9%	9,4%
Non-recurring items	999					-199				2591	999	-199		
Net financials	-329	-416	-366	-416	-471	-430	-422	-450	-955	-953	-1 527	-1 773	-1 500	-1 200
Pre-tax profit	396	4 325	4 373	3 916	1 606	6 668	3 085	4 029	14 300	6 216	13 010	15 451	20 507	23 406
Tax	144	-1 037	-1 054	-2 340	-405	-1 673	-778	-1 007	-3 290	-2 650	-4 287	-3 863	-5 024	-5 734
Tax rate	36 %	-24 %	-24 %	-60 %	-25 %	-25 %	-25 %	-25 %	-23 %	-43 %	-33 %	-25 %	-25 %	-25 %
Net profit	540	3 288	3 319	1 576	1 201	4 995	2 307	3 022	11 010	3 566	8 723	11 588	15 483	17 671
EPS	0,33	2,02	2,04	0,98	0,75	3,11	1,44	1,88	6,7	2,2	5,3	7,2	9,6	11,0
Opex/sales %	-47,7%	-44,4%	-43,1%	-46,8%	-47,6%	-44,4%	-45,1%	-46,0%	45,1%	47,5%	45,5%	45,7%	44,6%	44,1%

Balance sheet

Assets	2022	2023	2024e	2025e	2026e
Non-current assets	102525	100744	104039	106270	109198
Goodwill	64,0	1013	1013	1013	1013
Intangible assets	9092	8712	9212	9712	10212
Tangible assets	82736	81536	84331	86062	88490
Associated companies	503	209	209	209	209
Other investments	2654	2363	2363	2363	2363
Other non-current assets	939	1204	1204	1204	1204
Deferred tax assets	6537	5707	5707	5707	5707
Current assets	79523	80529	74524	75471	71755
Inventories	42495	37358	37854	39591	41748
Other current assets	0,0	0,0	0,0	0,0	0,0
Receivables	15321	16773	15378	16084	16960
Cash and equivalents	21707	26398	21293	19796	13046
Balance sheet total	182048	181273	178563	181740	180953

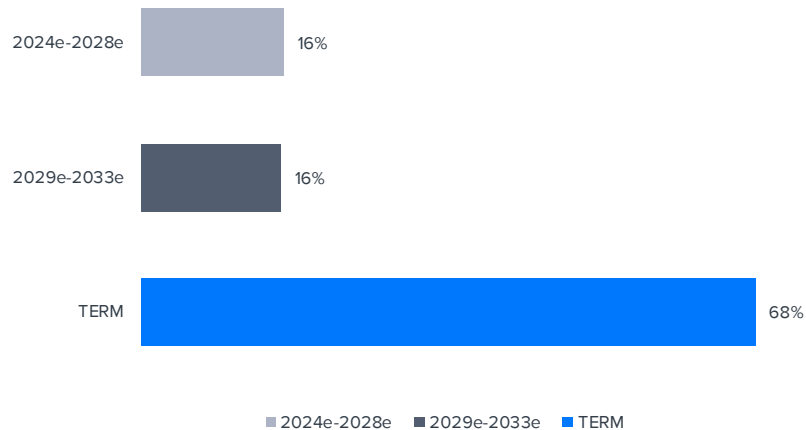
Source: Inderes

Liabilities & equity	2022	2023	2024e	2025e	2026e
Equity	50757	47601	48583	53235	58872
Share capital	207	207	207	207	207
Retained earnings	44694	41198	42180	46832	52469
Hybrid bonds	0,0	0,0	0,0	0,0	0,0
Revaluation reserve	0,0	0,0	0,0	0,0	0,0
Other equity	5856	6196	6196	6196	6196
Minorities	0,0	0,0	0,0	0,0	0,0
Non-current liabilities	62956	65745	50000	50000	50000
Deferred tax liabilities	3273	2416	0,0	0,0	0,0
Provisions	575	384	0,0	0,0	0,0
Interest bearing debt	58925	62813	50000	50000	50000
Convertibles	0,0	0,0	0,0	0,0	0,0
Other long term liabilities	183	132	0,0	0,0	0,0
Current liabilities	68335	67927	79981	78505	72081
Interest bearing debt	13710	15157	26945	24492	16854
Payables	21090	21027	21293	22270	23483
Other current liabilities	33535	31743	31743	31743	31743
Balance sheet total	182048	181273	178563	181740	180953

DCF calculation

DCF model	2023	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	TERM
Revenue growth-%	5,6 %	0,2 %	4,6 %	5,4 %	4,9 %	5,0 %	5,0 %	5,0 %	5,0 %	5,0 %	3,0 %	3,0 %
EBIT-%	6,2 %	7,3 %	8,9 %	9,4 %	9,4 %	9,5 %	9,5 %	9,5 %	9,5 %	9,5 %	9,5 %	9,5 %
EBIT (operating profit)	14537	17161	22007	24606	25751	27291	28656	30089	31593	33173	34168	
+ Depreciation	22955	21705	22769	22806	23007	23326	23730	24691	25619	26605	27935	
- Paid taxes	-4314	-6279	-5024	-5734	-6186	-6564	-6898	-7249	-7618	-8005	-8371	
- Tax, financial expenses	-503	-445	-368	-294	-123	-123	-123	-123	-123	-123	0	
+ Tax, financial income	0	0	0	0	0	0	0	0	0	0	0	
- Change in working capital	1830	1165	-1466	-1820	-1711	-1847	-1939	-2036	-2138	-2245	-1414	
Operating cash flow	34505	33307	37918	39564	40738	42084	43426	45372	47334	49406	52318	
+ Change in other long-term liabilities	-242	-516	0	0	0	0	0	0	0	0	0	
- Gross CAPEX	-22298	-25000	-25000	-25735	-26492	-27272	-28075	-28902	-30320	-32574	-31696	
Free operating cash flow	11965	7791	12918	13829	14246	14813	15351	16470	17014	16831	20622	
+/- Other	-1766	-2000	-2000	-2000	-2000	-2000	-2000	-2000	-2000	-2000	-2000	
FCFF	10199	5791	10918	11829	12246	12813	13351	14470	15014	14831	18622	386512
Discounted FCFF		5677	9914	9948	9540	9245	8923	8958	8609	7877	9161	190138
Sum of FCFF present value		277990	272313	262399	252451	242911	233666	224742	215785	207176	199299	190138
Enterprise value DCF		277990										
- Interest bearing debt		-17082										
+ Cash and cash equivalents		26398										
-Minorities		0,0										
-Dividend/capital return		-10543										
Equity value DCF		276763										
Equity value DCF per share		172										

Cash flow distribution

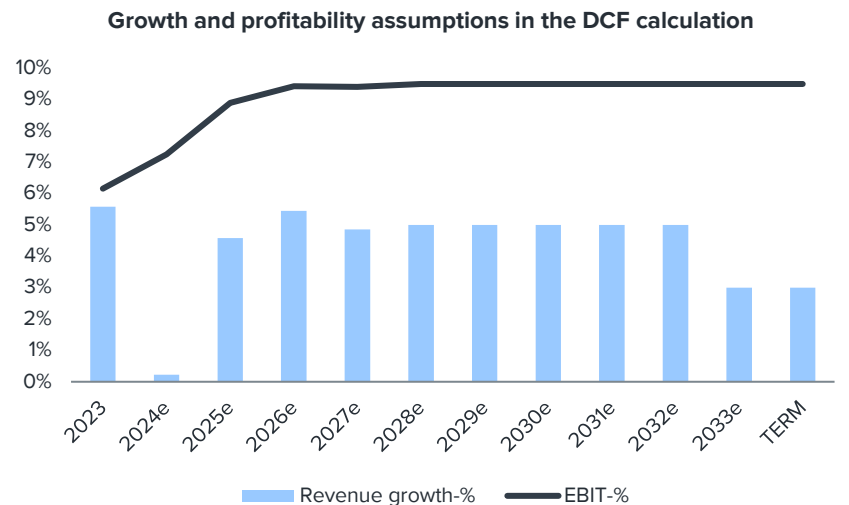
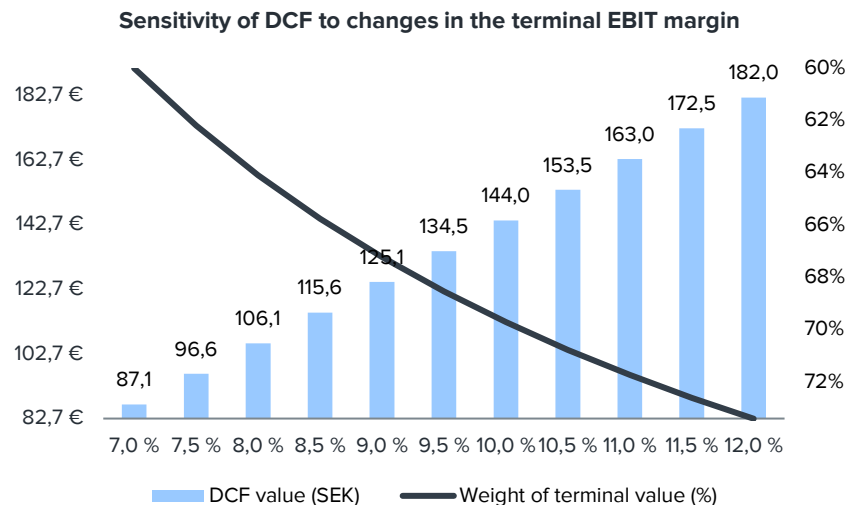
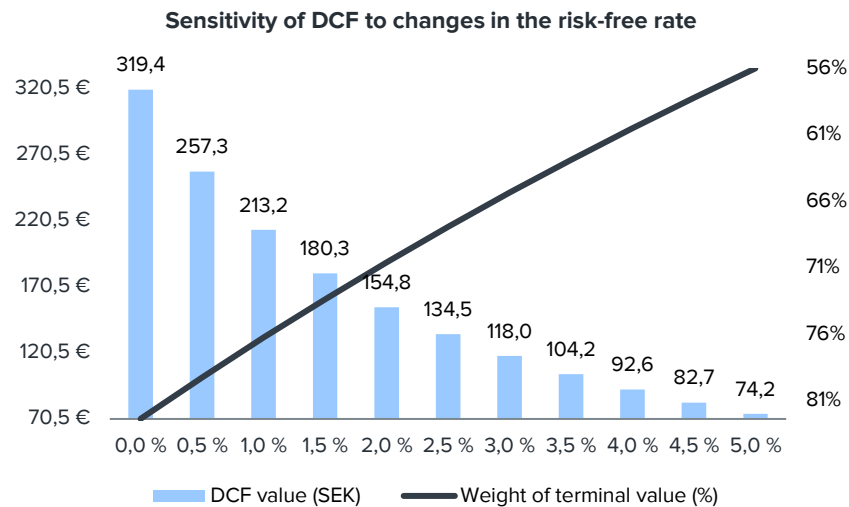
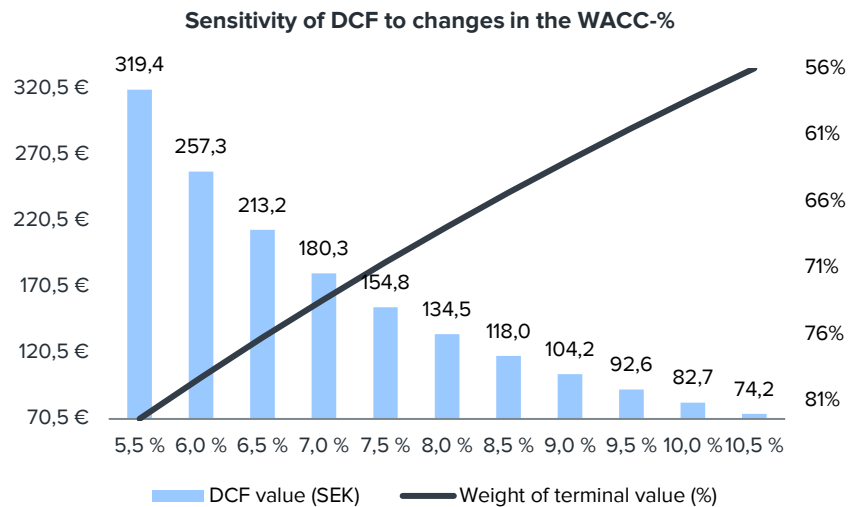


WACC

Tax-% (WACC)	24,0 %
Target debt ratio (D/(D+E))	0,0 %
Cost of debt	5,0 %
Equity Beta	1,15
Market risk premium	4,75 %
Liquidity premium	0,00 %
Risk free interest rate	2,5 %
Cost of equity	8,0 %
Weighted average cost of capital (WACC)	8,0 %

Source: Inderes

DCF sensitivity calculations and key assumptions in graphs



Source: Inderes. Note that the weight of the terminal value (%) is shown on an inverse scale for clarity.

Summary

Income statement	2021	2022	2023	2024e	2025e	Per share data	2021	2022	2023	2024e	2025e
Revenue	198967	223553	236035	236585	247445	EPS (reported)	6,7	2,2	5,3	7,2	9,6
EBITDA	37575	29748	37492	38866	44776	EPS (adj.)	6,7	3,7	4,7	7,3	9,6
EBIT	15255	7169	14537	17161	22007	OCF / share	27,1	15,2	21,1	20,7	23,6
PTP	14300	6216	13010	15388	20507	FCF / share	18,8	1,0	6,2	3,6	6,8
Net Income	11010	3566	8723	11525	15483	Book value / share	36,3	30,8	29,1	30,2	33,2
Extraordinary items	0	-2591	999	-199	0	Dividend / share	6,5	6,5	6,5	6,8	7,5
Balance sheet	2021	2022	2023	2024e	2025e	Growth and profitability	2021	2022	2023	2024e	2025e
Balance sheet total	179781	182048	181273	178563	181740	Revenue growth-%	6 %	12 %	6 %	0 %	5 %
Equity capital	60018	50757	47601	48583	53235	EBITDA growth-%	29 %	-21 %	26 %	4 %	15 %
Goodwill	64	64	1013	1013	1013	EBIT (adj.) growth-%	392 %	-36 %	39 %	28 %	27 %
Net debt	39220	50928	51572	55652	54697	EPS (adj.) growth-%	786 %	-44 %	26 %	54 %	33 %
Cash flow	2021	2022	2023	2024e	2025e	EBITDA-%	18,9 %	13,3 %	15,9 %	16,4 %	18,1 %
EBITDA	37575	29748	37492	38866	44776	EBIT (adj.)-%	7,7 %	4,4 %	5,7 %	7,3 %	8,9 %
Change in working capital	11083	-539	1830	1165	-1466	EBIT-%	7,7 %	3,2 %	6,2 %	7,3 %	8,9 %
Operating cash flow	44849	25091	34505	33307	37918	ROE-%	19,2 %	6,4 %	17,7 %	24,0 %	30,4 %
CAPEX	-13751	-23581	-22298	-25000	-25000	ROI-%	11,7 %	5,7 %	11,7 %	13,7 %	17,4 %
Free cash flow	31094	1660	10199	5791	10918	Equity ratio	33,4 %	27,9 %	26,3 %	27,2 %	29,3 %
						Gearing	65,3 %	100,3 %	108,3 %	114,6 %	102,7 %
Valuation multiples	2021	2022	2023	2024e	2025e						
EV/S	1,7	1,1	1,4	1,4	1,3						
EV/EBITDA	8,9	7,9	9,1	8,6	7,4						
EV/EBIT (adj.)	22,0	24,1	25,1	19,2	15,1						
P/E (adj.)	26,9	30,0	37,6	23,8	17,9						
P/B	4,9	3,6	6,1	5,7	5,2						
Dividend-%	3,6 %	5,8 %	3,7 %	3,9 %	4,3 %						

Source: Inderes

Disclaimer and recommendation history

The information presented in Inderes reports is obtained from several different public sources that Inderes considers to be reliable. Inderes aims to use reliable and comprehensive information, but Inderes does not guarantee the accuracy of the presented information. Any opinions, estimates and forecasts represent the views of the authors. Inderes is not responsible for the content or accuracy of the presented information. Inderes and its employees are also not responsible for the financial outcomes of investment decisions made based on the reports or any direct or indirect damage caused by the use of the information. The information used in producing the reports may change quickly. Inderes makes no commitment to announcing any potential changes to the presented information and opinions.

The reports produced by Inderes are intended for informational use only. The reports should not be construed as offers or advice to buy, sell or subscribe investment products. Customers should also understand that past performance is not a guarantee of future results. When making investment decisions, customers must base their decisions on their own research and their estimates of the factors that influence the value of the investment and take into account their objectives and financial position and use advisors as necessary. Customers are responsible for their investment decisions and their financial outcomes.

Reports produced by Inderes may not be edited, copied or made available to others in their entirety, or in part, without Inderes' written consent. No part of this report, or the report as a whole, shall be transferred or shared in any form to the United States, Canada or Japan or the citizens of the aforementioned countries. The legislation of other countries may also lay down restrictions pertaining to the distribution of the information contained in this report. Any individuals who may be subject to such restrictions must take said restrictions into account.

Inderes issues target prices for the shares it follows. The recommendation methodology used by Inderes is based on the share's 12-month expected total shareholder return (including the share price and dividends) and takes into account Inderes' view of the risk associated with the expected returns. The recommendation policy consists of four tiers: Sell, Reduce, Accumulate and Buy. As a rule, Inderes' investment recommendations and target prices are reviewed at least 2–4 times per year in connection with the companies' interim reports, but the recommendations and target prices may also be changed at other times depending on the market conditions. The issued recommendations and target prices do not guarantee that the share price will develop in line with the estimate. Inderes primarily uses the following valuation methods in determining target prices and recommendations: Cash flow analysis (DCF), valuation multiples, peer group analysis and sum of parts analysis. The valuation methods and target price criteria used are always company-specific and they may vary significantly depending on the company and (or) industry.

Inderes' recommendation policy is based on the following distribution relative to the 12-month risk-adjusted expected total shareholder return.

Buy The 12-month risk-adjusted expected shareholder

return of the share is very attractive

Accumulate The 12-month risk-adjusted expected shareholder return of the share is attractive

Reduce The 12-month risk-adjusted expected shareholder return of the share is weak

Sell The 12-month risk-adjusted expected shareholder return of the share is very weak

The assessment of the 12-month risk-adjusted expected total shareholder return based on the above-mentioned definitions is company-specific and subjective. Consequently, similar 12-month expected total shareholder returns between different shares may result in different recommendations, and the recommendations and 12-month expected total shareholder returns between different shares should not be compared with each other. The counterpart of the expected total shareholder return is Inderes' view of the risk taken by the investor, which varies considerably between companies and scenarios. Thus, a high expected total shareholder return does not necessarily lead to positive performance when the risks are exceptionally high and, correspondingly, a low expected total shareholder return does not necessarily lead to a negative recommendation if Inderes considers the risks to be moderate.

The analysts who produce Inderes' research and Inderes employees cannot have 1) shareholdings that exceed the threshold of significant financial gain or 2) shareholdings exceeding 1% in any company subject to Inderes' research activities. Inderes Oyj can only own shares in the target companies it follows to the extent shown in the company's model portfolio investing real funds. All of Inderes Oyj's shareholdings are presented in itemised form in the model portfolio. Inderes Oyj does not have other shareholdings in the target companies analysed. The remuneration of the analysts who produce the analysis are not directly or indirectly linked to the issued recommendation or views. Inderes Oyj does not have investment bank operations.

Inderes or its partners whose customer relationships may have a financial impact on Inderes may, in their business operations, seek assignments with various issuers with respect to services provided by Inderes or its partners. Thus, Inderes may be in a direct or indirect contractual relationship with an issuer that is the subject of research activities. Inderes and its partners may provide investor relations services to issuers. The aim of such services is to improve communication between the company and the capital markets. These services include the organisation of investor events, advisory services related to investor relations and the production of investor research reports.

More information about research disclaimers can be found at www.inderes.fi/research-disclaimer.

Recommendation history (>12 mo)

Date	Recommendation	Target	Share price
10.10.2023	Accumulate	165	148
17.12.2023	Reduce	170	178
1.2.2024	Accumulate	165	147
28.3.2024	Reduce	170	178
28.6.2024	Reduce	170	169
29.8.2024	Reduce	170	162
27.9.2024	Reduce	170	173



Inderes democratizes investor information by connecting investors and listed companies.

We help over 400 listed companies better serve investors. Our investor community is home to over 70,000 active members.

We build solutions for listed companies that enable frictionless and effective investor relations. For listed companies, we offer Commissioned Research, IR Events, AGMs, and IR Software.

Inderes is listed on the Nasdaq First North growth market and operates in Finland, Sweden, Norway, and Denmark.

Inderes Oyj

Itämerentori 2

FI-00180 Helsinki, Finland

+358 10 219 4690

Award-winning research at [inderes.fi](https://www.inderes.fi)



**STARMINE
ANALYST AWARDS
FROM REFINITIV**



THOMSON REUTERS
ANALYST AWARDS



Juha Kinnunen
2012, 2016, 2017, 2018, 2019, 2020



Mikael Rautanen
2014, 2016, 2017, 2019



Sauli Vilén
2012, 2016, 2018, 2019, 2020



Antti Viljakainen
2014, 2015, 2016, 2018, 2019, 2020



Olli Koponen
2020



Joni Grönqvist
2019, 2020



Erkki Vesola
2018, 2020



Petri Gostowski
2020



Atte Riikola
2020

**Connecting investors
and listed companies.**