

LINDEX GROUP

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INDERES CORPORATE CUSTOMER

COMPANY REPORT

A blurred image of the LINDEX logo in red, appearing on a glass surface. The background is out of focus, showing some lights and architectural elements.

End of year seems to have gone relatively well

Lindex seems to have avoided the profit warning we had expected, which brings our forecast to the lower end of the guidance range. We expect this year's guidance to point to modest earnings growth. However, the most important issue for the investment thesis is the sale of the department store business and the completion of the restructuring, which is still pending. We reiterate our Buy recommendation and EUR 3.5 target price.

Q4 earnings seem to be slightly up year-on-year

Lindex has guided for an adjusted EBIT of 70-80 MEUR for the full year (vs. 2023: 80 MEUR). For the first nine months, the result was 11 MEUR behind the comparison period level, and after the Q3 result we expected the full-year result to be below the guidance at 68 MEUR. However, there was no profit warning from Lindex, suggesting that the company will meet its guidance. We have raised our earnings estimates in this report and our full-year forecast is now at the lower end of the guidance range. For Q4, we forecast an adjusted EBIT of 31 MEUR, slightly above the comparison period (Q4'23: 30 MEUR). We expect revenue to be flat year-on-year. In Finland, the market remains weak and we expect a slight top-line decline for the Stockmann division. The Swedish apparel market, on the other hand, showed slight growth, which we believe was also achieved by Lindex. Lindex will report its Q4 results on Friday, February 7.

Restructuring dispute and strategic review drag on

As we have already stated in our previous comments (e.g. [here](#)), the solutions we expected at the turn of the year regarding the restructuring of Lindex have been delayed. The last restructuring case is still pending before the Court of Appeals and will take at least until the end of the year to be resolved. However, we expect the company to resolve the dispute sooner rather than later so that the restructuring can be completed. Regarding the strategic review of the department store business, the Stockmann division, the company has extended the process to H1'25 and has not

provided any update on the progress of the review. We continue to believe that Lindex is looking to divest the department store business in one way or another, which we think would be very supportive for the stock. The timing may be partly related to the above dispute, i.e., Lindex may want to wait until the end of the restructuring process is in sight before announcing the results of the strategic assessment, although the company has not said so directly. In addition to the restructuring timeline, the main question is likely to be whether Lindex can find a buyer/taker for the department stores on terms suitable for Lindex.

We expect a small improvement in earnings this year

After the pandemic years, the Lindex group has achieved an adjusted EBIT of 80 MEUR in 2022 and 2023, and our estimate for last year is 70 MEUR. We expect the 2025 revenue level to be in the same range at 75 MEUR. Lindex is in the process of commissioning a new logistics center in Sweden during H1'25, which is expected to generate savings of 10 MEUR (at EBITDA level) from 2026 onwards and provide the Lindex division with better growth opportunities. This will also significantly improve the company's cash flow once the investment has been made and begins to support earnings. While the restructuring is still ongoing, Lindex cannot pay a dividend.

The potential of a structural change still offers a good expected return

Based on the company's strategic assessment of the department store business, we believe that the sum-of-the-parts model is the best valuation method, which values the company at around EUR 4 per share. However, this should consider the uncertainties related to the manner and schedule of the possible structural changes in department stores. Overall, however, we think the expected return is good. With the current structure, the company's 2024 EV/EBIT (adjusted for lease liabilities) is around 11x, which we think is quite high, so the upside is mainly in potential restructuring.

Recommendation

Buy

(was Buy)

Target price:

EUR 3.50

(was EUR 3.50)

Share price:

2.79

Business risk



Valuation risk



	2023	2024e	2025e	2026e
Revenue	952	939	960	970
growth-%	-3%	-1%	2%	1%
EBIT adj.	80	70	75	80
EBIT-% adj.	8.4 %	7.4 %	7.8 %	8.2 %
Net income	52	11	25	30
EPS (adj.)	0.16	0.14	0.15	0.18
P/E (adj.)	17.0	20.4	18.1	15.1
P/B	1.1	1.1	1.1	1.0
Dividend yield-%	0.0 %	0.0 %	2.9 %	3.2 %
EV/EBIT (adj.)	11.9	14.7	13.3	12.3
EV/EBITDA	5.4	6.5	5.3	5.1
EV/S	1.0	1.1	1.0	1.0

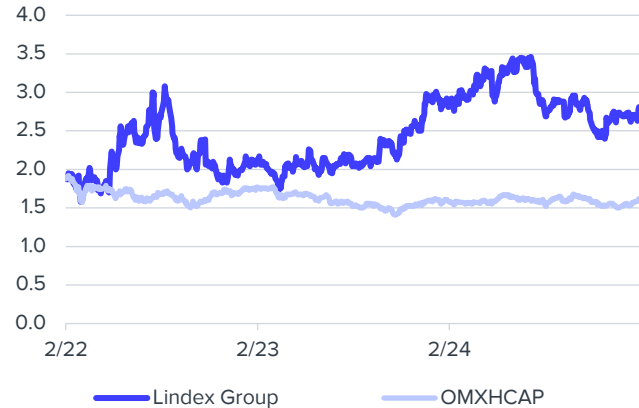
Source: Inderes

Guidance

(Unchanged)

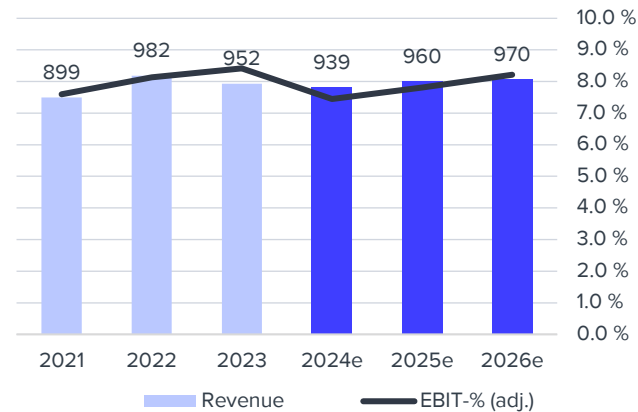
Lindex Group expects revenue in local currencies to change by -2% to 0% in 2024 compared to 2023. The Group's adjusted EBIT is estimated to be 70-80 MEUR.

Share price



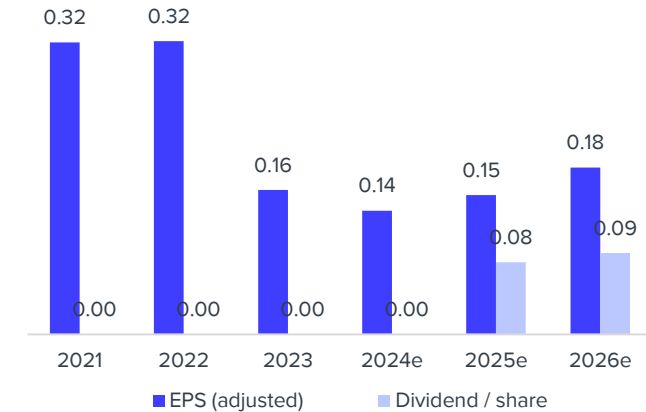
Source: Millistream Market Data AB

Revenue and EBIT-%



Source: Inderes

EPS and dividend



Source: Inderes

Value drivers

- Lindex division's cash flow and value creation
- Divestment of the Stockmann division or gradual improvement in its profitability
- Corporate restructuring ending, which enables, e.g., dividend distribution and alleviates structural arrangements

Risk factors

- Department stores destroy value and we see no operational change to this in the next few years
- During and after the restructuring, the company's access to funding may be limited
- Lindex's result, like the fashion industry in general, has been unpredictable

Valuation	2024e	2025e	2026e
Share price	2.79	2.79	2.79
Number of shares, millions	161.9	165.1	165.1
Market cap	461	461	461
EV	1028	995	980
P/E (adj.)	20.4	18.1	15.1
P/E	40.5	18.1	15.1
P/B	1.1	1.1	1.0
P/S	0.5	0.5	0.5
EV/Sales	1.1	1.0	1.0
EV/EBITDA	6.5	5.3	5.1
EV/EBIT (adj.)	14.7	13.3	12.3
Payout ratio (%)	0.0 %	51.8 %	48.7 %
Dividend yield-%	0.0 %	2.9 %	3.2 %

Source: Inderes

We slightly raised our estimates

Lindex appears to have met its earnings guidance, leading us to raise our forecast to the lower end of the company's guidance range. The forecast changes and Q4 expectations can be seen in the tables below.

Estimates MEUR / EUR	Q4'23	Q4'24	Q4'24e	Q4'24e	Consensus		2024e
	Comparison	Actualized	Inderes	Consensus	Low	High	Inderes
Revenue	274		274	278			939
EBIT (adj.)	30.3		31.2	-			69.9
EBIT	28.9		31.2	32.2			58.9
EPS (reported)	0.06		0.11	0.11			0.07
DPS	0.00		0.00	0.00			0.00
Revenue growth-%	0.6 %		-0.1 %	1.5 %			-1.4 %
EBIT-% (adj.)	11.0 %		11.4 %				7.4 %

Source: Inderes & Bloomberg, 3 estimates (consensus)

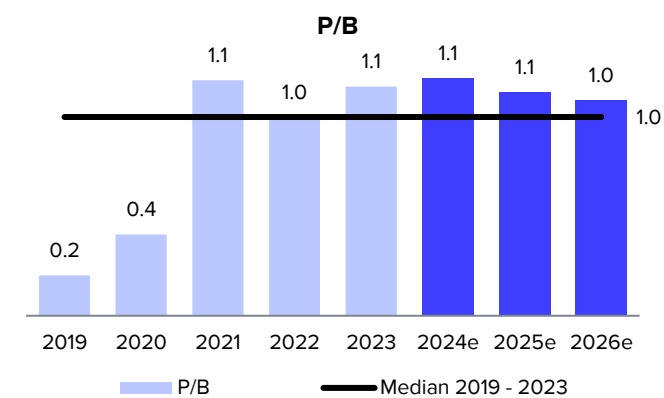
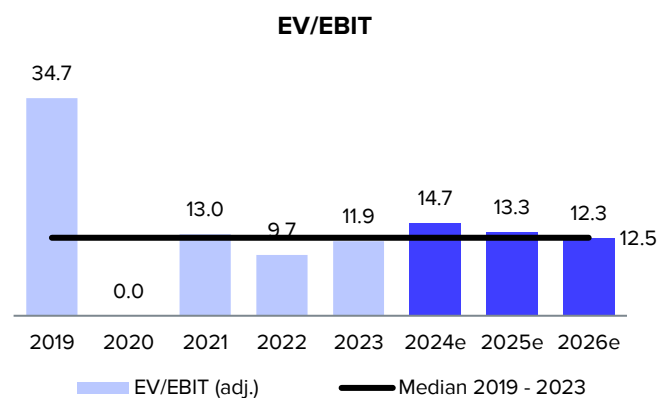
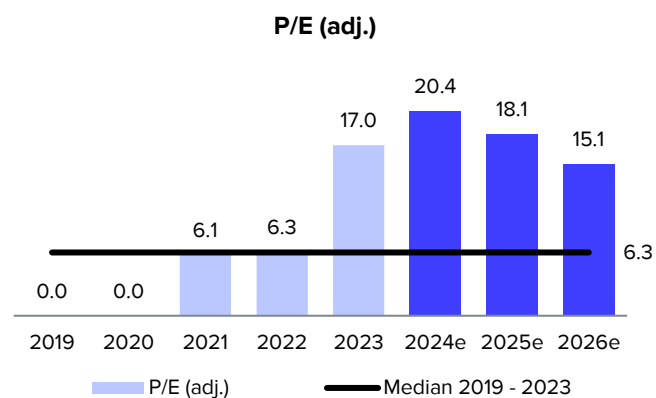
Estimate revisions MEUR / EUR	2024e	2024e	Change	2025e	2025e	Change	2026e	2026e	Change
	Old	New	%	Old	New	%	Old	New	%
Revenue	941	939	0%	960	960	0%	970	970	0%
EBITDA	157	159	1%	194	187	-3%	198	192	-3%
EBIT (exc. NRIs)	68	70	3%	75	75	0%	80	80	0%
EBIT	57	59	4%	75	75	0%	80	80	0%
PTP	25	27	8%	41	41	0%	47	47	0%
EPS (excl. NRIs)	0.13	0.14	8%	0.15	0.15	0%	0.18	0.18	0%
DPS	0.00	0.00		0.08	0.08	0%	0.09	0.09	0%

Source: Inderes

Valuation table

Valuation	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Share price	2.26	1.14	1.96	2.05	2.72	2.79	2.79	2.79	2.79
Number of shares, millions	72.0	72.0	114.0	155.2	160.5	161.9	165.1	165.1	165.1
Market cap	155	80	303	320	432	461	461	461	461
EV	542		889	774	953	1028	995	980	962
P/E (adj.)	neg.	neg.	6.1	6.3	17.0	20.4	18.1	15.1	13.0
P/E	neg.	neg.	4.7	3.1	8.4	40.5	18.1	15.1	13.0
P/B	0.2	0.4	1.1	1.0	1.1	1.1	1.1	1.0	1.0
P/S	>100	0.1	0.3	0.3	0.5	0.5	0.5	0.5	0.5
EV/Sales	>100		1.0	0.8	1.0	1.1	1.0	1.0	1.0
EV/EBITDA			4.8	3.0	5.4	6.5	5.3	5.1	4.9
EV/EBIT (adj.)	34.7		13.0	9.7	11.9	14.7	13.3	12.3	11.4
Payout ratio (%)	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	51.8 %	48.7 %	46.5 %
Dividend yield-%	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	2.9 %	3.2 %	3.6 %

Source: Inderes



Peer group valuation

Peer group valuation Company	Market cap MEUR	EV MEUR	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%		P/B 2024e
			2024e	2025e	2024e	2025e	2024e	2025e	2024e	2025e	2024e	2025e	
Lindex	451	1070	14.1	13.3	5.8	5.7	1.1	1.1	13.6	12.1	3.2	3.8	1.0
H & M	20459	25666	15	14	7	7	1	1	17.0	15.4	5.0	5.5	4.7
Fast Retailing	98067	90296	23.7	22.6	19.1	17.6	4.3	3.9	38.4	35.3	0.9	1.0	6.9
Inditex	161255	154940	20.7	18.8	14.6	9.6	4.0	3.7	27.4	24.8	3.3	3.7	8.2
Tokmanni	809	1352	11.2	10.1	5.3	5.0	0.8	0.7	11.6	9.9	5.8	6.7	2.7
Puulo	861	955	15.0	13.2	11.6	10.2	2.5	2.2	18.1	16.1	4.6	5.3	8.6
Kesko	7338	10205	14.5	13.6	7.8	7.4	0.8	0.8	15.5	14.1	5.4	5.7	2.5
Clas Ohlson	1343	1468	15.3	14.4	9.1	8.6	1.5	1.4	18.1	17.2	2.7	2.9	6.5
Lindex Group (Inderes)	461	1028	14.7	13.3	6.5	5.3	1.1	1.0	20.4	18.1	0.0	2.9	1.1
Average			16	15	10	9	2	2	19.3	17.5	3.9	4.4	4.9
Median			14.7	13.6	7.8	7.4	1.2	1.2	17.0	15.4	4.4	4.8	4.7
Diff-% to median			0%	-2%	-17%	-29%	-11%	-11%	20%	17%	-100%	-40%	-76%

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	982	199	252	227	274	952	193	252	222	272	939	960	970	971
Lindex	661	127	176	162	168	633	131	170	159	170	630	650	670	686
Stockmann	321	72	76	65	106	319	62	82	63	102	309	310	300	285
EBITDA	258	22.7	55.3	45.2	53.5	177	17.8	45.0	39.9	56.2	159	187	192	197
Depreciation	-103	-25.6	-25.1	-24.9	-24.6	-100	-25.4	-24.7	-24.9	-25.0	-100	-112	-113	-113
EBIT (excl. NRI)	79.8	-2.4	31.6	20.6	30.3	80	-6.5	29.5	15.7	31.2	70	75	80	84
EBIT	155	-2.9	30.2	20.3	28.9	76.5	-7.6	20.3	15.0	31.2	59	75	80	84
Lindex	90	5.6	36.2	26.2	22.3	90	4.2	30.8	21.1	23.0	79	80	82	83
Stockmann	-5	-7.0	-3.5	-4.8	9.0	-6	-9.4	-0.6	-4.5	9.0	-5.5	-2.0	1.0	4.0
Non-allocated	-4.8	-1.0	-1.1	-0.8	-1.0	-3.9	-1.2	-0.8	-0.9	-0.8	-3.7	-3.0	-3.0	-3.0
Net financial items	-26	-7.3	-7.0	-6.7	-8.9	-30	-6.5	-8.1	-8.7	-8.5	-32	-34	-33	-32
PTP	129	-10.2	23.2	13.6	20.0	46.6	-14.1	12.2	6.3	22.7	27	41	47	52
Taxes	-27.5	29.7	-9.4	-5.0	-10.3	5.0	-1.3	-5.2	-4.5	-5.0	-16.0	-15.8	-16.1	-16.4
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net earnings	102	19.5	13.8	8.6	9.7	51.7	-15.4	7.0	1.8	17.7	11	25	30	36
EPS (adj.)	0.32	-0.06	-0.09	-0.13	-0.12	-0.39	-0.09	0.10	0.02	0.11	0.14	0.15	0.18	0.22
EPS (rep.)	0.66	0.13	0.09	0.05	0.06	0.32	-0.10	0.04	0.01	0.11	0.07	0.15	0.18	0.22

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-%	9.2 %	1.2 %	-6.3 %	-7.0 %	0.6 %	-3.1 %	-2.9 %	-0.2 %	-2.1 %	-0.8 %	-1.4 %	2.3 %	1.0 %	0.2 %
Adjusted EBIT growth-%	16.8 %	-35.7 %	-10.8 %	-6.4 %	16.1 %	0.4 %	170.8 %	-6.6 %	-23.8 %	3.0 %	-12.7 %	7.3 %	6.1 %	5.8 %
EBITDA-%	26.3 %	11.4 %	21.9 %	19.9 %	19.5 %	18.6 %	9.2 %	17.9 %	18.0 %	20.7 %	16.9 %	19.5 %	19.8 %	20.3 %
Adjusted EBIT-%	8.1 %	-1.2 %	12.5 %	9.1 %	11.0 %	8.4 %	-3.4 %	11.7 %	7.1 %	11.5 %	7.4 %	7.8 %	8.2 %	8.7 %
Net earnings-%	10.4 %	9.8 %	5.5 %	3.8 %	3.5 %	5.4 %	-8.0 %	2.8 %	0.8 %	6.5 %	1.2 %	2.7 %	3.1 %	3.7 %

Source: Inderes

Balance sheet

Assets	2022	2023	2024e	2025e	2026e
Non-current assets	890	963	992	997	1000
Goodwill	251	251	251	251	251
Intangible assets	114	115	115	115	115
Tangible assets	498	562	591	597	599
Associated companies	0.0	0.0	0.0	0.0	0.0
Other investments	0.7	0.9	0.9	0.9	0.9
Other non-current assets	3.1	3.2	3.2	3.2	3.2
Deferred tax assets	23.8	30.3	30.3	30.3	30.3
Current assets	385	348	310	308	319
Inventories	174	163	169	163	165
Other current assets	0.0	5.3	5.3	5.3	5.3
Receivables	43.2	42.0	42.2	43.2	43.6
Cash and equivalents	168	138	93.9	96.0	105
Balance sheet total	1276	1311	1302	1305	1319

Source: Inderes

Liabilities & equity	2022	2023	2024e	2025e	2026e
Equity	336	393	404	430	447
Share capital	77.6	77.6	77.6	77.6	77.6
Retained earnings	205	257	268	294	311
Hybrid bonds	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	-18.9	-17.3	-17.3	-17.3	-17.3
Other equity	72.3	75.9	75.9	75.9	75.9
Minorities	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	586	629	601	601	601
Deferred tax liabilities	40.3	51.0	51.0	51.0	51.0
Provisions	0.0	0.0	0.0	0.0	0.0
Interest bearing debt	545	578	550	550	550
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	0.7	0.3	0.0	0.0	0.0
Current liabilities	361	290	297	274	271
Interest bearing debt	77.3	81.6	112	80.3	75.0
Payables	179	178	174	182	184
Other current liabilities	105	29.7	11.7	11.7	11.7
Balance sheet total	1283	1312	1302	1305	1319

DCF-calculation

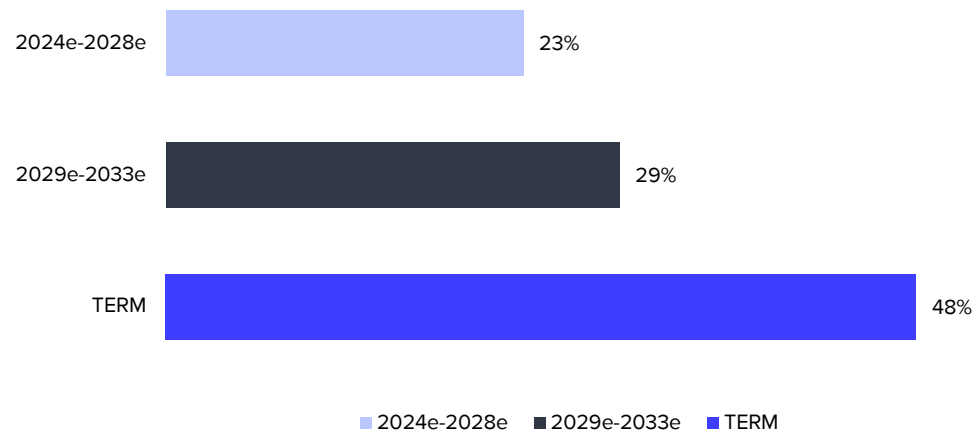
DCF model	2023	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	TERM
Revenue growth-%	-3.1 %	-1.4 %	2.3 %	1.0 %	0.2 %	0.5 %	0.5 %	0.5 %	0.5 %	0.5 %	1.0 %	1.0 %
EBIT-%	8.0 %	6.3 %	7.8 %	8.2 %	8.7 %	9.5 %	9.5 %	9.5 %	9.5 %	9.5 %	9.5 %	9.5 %
EBIT (operating profit)	76.5	58.9	75.0	79.6	84.2	92.7	93.2	93.7	94.1	94.6	95.5	
+ Depreciation	100	100.0	112	113	113	112	112	112	104	104	105	
- Paid taxes	9.2	-16.0	-15.8	-16.1	-16.4	-16.8	-13.1	-13.4	-13.6	-13.9	-14.8	
- Tax, financial expenses	3.2	-6.7	-7.1	-6.9	-6.8	-8.6	-6.5	-6.3	-6.1	-6.0	-5.3	
+ Tax, financial income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Change in working capital	-68.7	-29.0	13.5	-0.2	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	
Operating cash flow	120	107	178	169	174	180	186	186	179	179	180	
+ Change in other long-term liabilities	-0.4	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-166.3	-129.0	-118.0	-115.0	-115.0	-115.0	-115.0	-73.5	-107.3	-107.3	-114.0	
Free operating cash flow	-46.2	-22.1	60.0	54.1	58.6	64.6	70.8	113	71.4	71.8	66.2	
+/- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	-46.2	-22.1	60.0	54.1	58.6	64.6	70.8	113	71.4	71.8	66.2	793
Discounted FCFF		-22.3	55.3	45.6	45.1	45.5	45.5	66.1	38.3	35.2	29.7	355
Sum of FCFF present value		739	761	706	660	615	570	524	458	420	385	355
Enterprise value DCF		739										
- Interest bearing debt		-322										
+ Cash and cash equivalents		138										
-Minorities		0.0										
-Dividend/capital return		0.0										
Equity value DCF		555										
Equity value DCF per share		3.4										

WACC

Tax-% (WACC)	21.0 %
Target debt ratio (D/(D+E))	0.0 %
Cost of debt	5.0 %
Equity Beta	1.25
Market risk premium	4.75%
Liquidity premium	1.00%
Risk free interest rate	2.5 %
Cost of equity	9.4 %
Weighted average cost of capital (WACC)	9.4 %

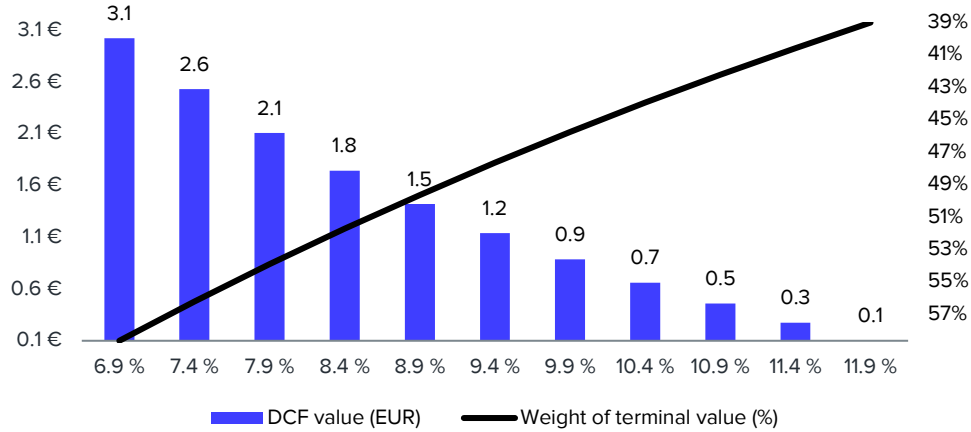
Source: Inderes

Cash flow distribution

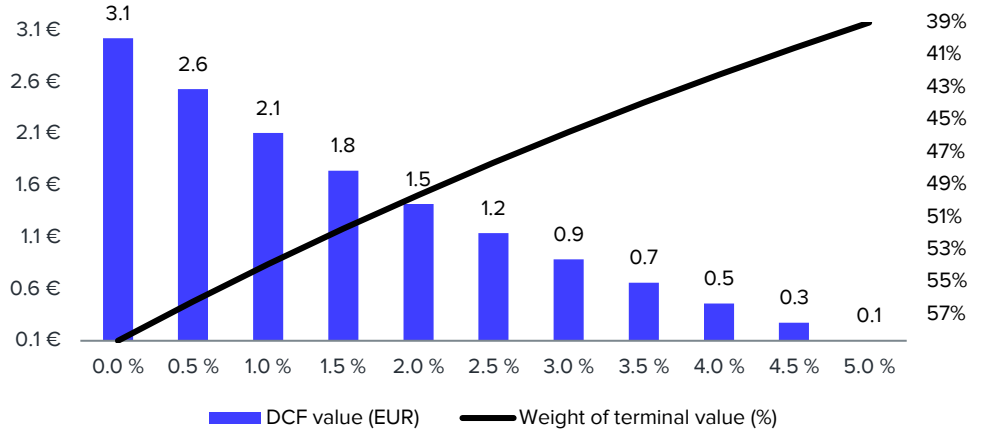


DCF sensitivity calculations and key assumptions in graphs

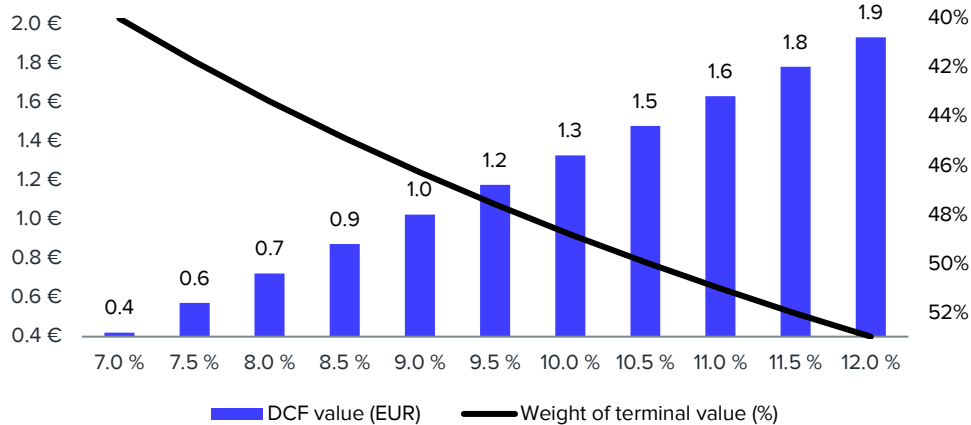
Sensitivity of DCF to changes in the WACC-%



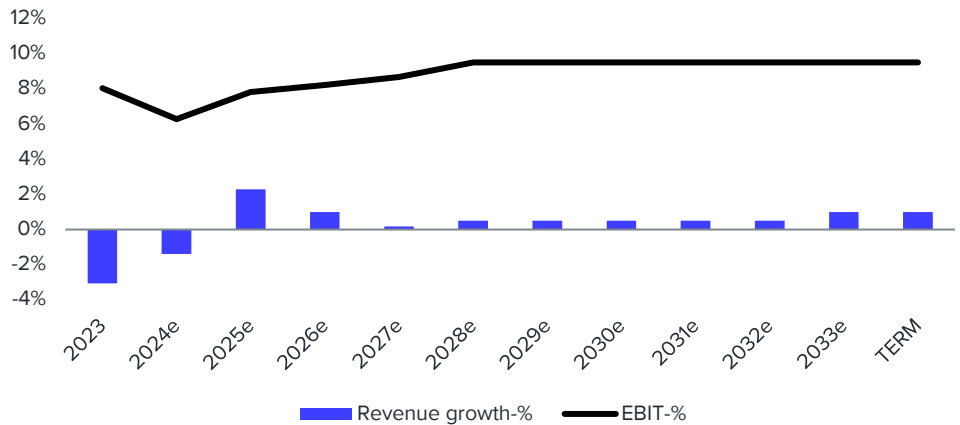
Sensitivity of DCF to changes in the risk-free rate



Sensitivity of DCF to changes in the terminal EBIT margin



Growth and profitability assumptions in the DCF calculation



Lähde: Inderes. Huomaa, että terminaaliarvon paino (%) on esitetty käännteisellä asteikolla selkeyden vuoksi.

Summary

Income statement	2021	2022	2023	2024e	2025e	Per share data	2021	2022	2023	2024e	2025e
Revenue	899.0	981.7	951.7	938.5	960.0	EPS (reported)	0.42	0.66	0.32	0.07	0.15
EBITDA	185.0	258.1	176.7	158.9	187.3	EPS (adj.)	0.32	0.32	0.16	0.14	0.15
EBIT	82.1	154.9	76.5	58.9	75.0	OCF / share	1.01	1.43	0.75	0.66	1.08
PTP	65.2	129.2	46.6	27.1	41.2	FCF / share	1.16	1.89	-0.29	-0.14	0.36
Net Income	45.1	101.7	51.7	11.2	25.5	Book value / share	2.35	2.16	2.45	2.50	2.60
Extraordinary items	13.8	75.1	-3.6	-11.0	0.0	Dividend / share	0.00	0.00	0.00	0.00	0.08
Balance sheet	2021	2022	2023	2024e	2025e	Growth and profitability	2021	2022	2023	2024e	2025e
Balance sheet total	1416.1	1275.5	1310.5	1302.1	1305.2	Revenue growth-%	14%	9%	-3%	-1%	2%
Equity capital	268.1	335.5	393.1	404.3	429.7	EBITDA growth-%	-173%	40%	-32%	-10%	18%
Goodwill	271.5	250.9	250.9	250.9	250.9	EBIT (adj.) growth-%	1294%	17%	0%	-13%	7%
Net debt	586.7	454.4	521.6	567.7	534.3	EPS (adj.) growth-%	-168%	0%	-51%	-14%	13%
Cash flow	2021	2022	2023	2024e	2025e	EBITDA-%	20.6 %	26.3 %	18.6 %	16.9 %	19.5 %
EBITDA	185.0	258.1	176.7	158.9	187.3	EBIT (adj.)-%	7.6 %	8.1 %	8.4 %	7.4 %	7.8 %
Change in working capital	-56.9	-2.4	-68.7	-29.0	13.5	EBIT-%	9.1 %	15.8 %	8.0 %	6.3 %	7.8 %
Operating cash flow	115.0	222.4	120.5	107.2	178.0	ROE-%	20.2 %	33.7 %	14.2 %	2.8 %	6.1 %
CAPEX	-17.1	8.5	-166.3	-129.0	-118.0	ROI-%	7.6 %	15.3 %	7.6 %	5.6 %	7.1 %
Free cash flow	132.7	293.8	-46.2	-22.1	60.0	Equity ratio	18.9 %	26.3 %	30.0 %	31.0 %	32.9 %
Valuation multiples	2021	2022	2023	2024e	2025e	Gearing	218.8 %	135.4 %	132.7 %	140.4 %	124.3 %
EV/S	1.0	0.8	1.0	1.1	1.0						
EV/EBITDA	4.8	3.0	5.4	6.5	5.3						
EV/EBIT (adj.)	13.0	9.7	11.9	14.7	13.3						
P/E (adj.)	6.1	6.3	17.0	20.4	18.1						
P/B	1.1	1.0	1.1	1.1	1.1						
Dividend-%	0.0 %	0.0 %	0.0 %	0.0 %	2.9 %						

Source: Inderes

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Recommendation history (>12 mo)

Date	Recommendation	Target	Share price
11/18/2022	Reduce	2.00 €	1.97 €
1/20/2023	Reduce	2.10 €	2.05 €
2/27/2023	Reduce	2.10 €	2.00 €
3/21/2023	Accumulate	2.10 €	1.76 €
5/2/2023	Accumulate	2.35 €	2.11 €
7/24/2023	Accumulate	2.40 €	2.08 €
9/26/2023	Accumulate	2.80 €	2.34 €
10/30/2023	Buy	2.80 €	2.13 €
11/17/2023	Accumulate	2.80 €	2.47 €
12/19/2023	Accumulate	3.10 €	2.73 €
2/12/2024	Accumulate	3.20 €	2.82 €
4/29/2024	Accumulate	3.50 €	2.96 €
7/16/2024	Accumulate	3.50 €	3.28 €
7/22/2024	Accumulate	3.50 €	2.98 €
9/23/2024	Buy	3.50 €	2.74 €
10/28/2024	Buy	3.50 €	2.77 €
2/4/2025	Buy	3.50 €	2.79 €



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