

# Industry Compounders Update

Sector: Industry Compounders

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Redeye raised the sales forecasts for Christian Berner, Lagercrantz, and Sdiptech following stronger forward-looking data in the Q1 reports relative to our forecasts. So far, it seems like the Industry Compounders will handle the Corona crisis rather well, and for 2 out of 3 companies, we raised our EBITA forecast and Base case. Sdiptech remains our top pick in the sector.

## Solid forward-looking data

Notably, both Sdiptech and Lagercrantz was very transparent regarding the development in Q2 so far. Sdiptech stated that demand was solid and that it was able to deliver 85% of orders at the end of April, an improvement relative to early-mid April. As the restrictions have eased in some markets, we believe the figure has improved further, indicating a 10-15% decline in sales in Q2. Lagercrantz mentioned that its order intake from April to mid-May was in line with last year, although with large variations between different companies. Combined with Christian Berner's solid order intake, our impression is that the Industry Compounders in our coverage, at least so far, handles the Corona crisis rather well and better than we previously expected.

## No mercy for weak performance

All the compounders included in our update, have recovered most of its share price decline, expect for Christian Berner. While order intake was strong during Q1, EBITA came in weak, and the Christian Berner share was punished by the market – trading at 7.1x EBIT 2021E. We have seen this widening of valuation spreads between strong and weak performing companies in other sectors as well. Backed by a solid order intake and the large Belarus order, we argue that the risk/reward in Christian Berner is attractive despite its sluggish margins.

## Sdiptech remains our top pick

Sdiptech continued its streak of solid reports, and we argue that it should result in a continuing reduction of the discount relative to peers. For 2021E, Sdiptech is trading at 13.1x EBIT relative to a median of 19.6x. We remain neutral to Lagercrantz. While its track record is impressive, the stock market has already noticed.

*Christian Berner: Base case SEK 23 (25) – updated 2020-04-23*

*Lagercrantz: Base case SEK 126 (119) – updated 2020-05-14*

*Sdiptech: Base case SEK 99 (90) – updated 2020-04-30*

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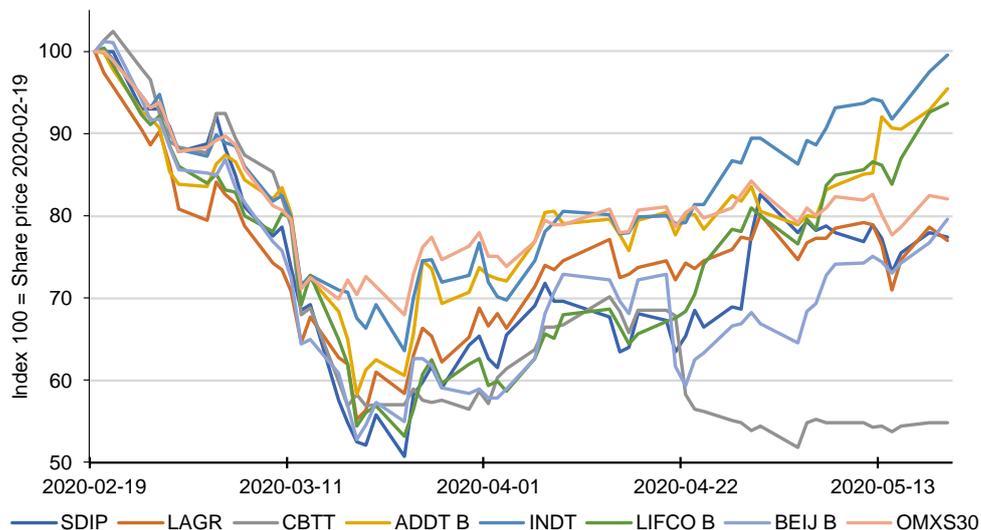
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## Share price performance

On average, the compounders have performed in line with OMXS30 since the market peak in February. In general, the larger firms have performed better relative to the smaller ones. Notably, Christian Berner's share has underperformed OMXS30 and the others considerably since its Q1-report published on 22 April.

### Share price performance since 2020-02-19



Source: Redeye Research, Nasdaq Stockholm

## Valuations and revisions

The relative valuations remain in line with historical figures, with Sdiptech and especially Christian Berner trading at a significant discount to peers. We increased our sales forecast in all compounders under coverage for both 2020 and 2021, due to indications suggesting that the companies will handle the Corona crisis much better than we previously thought.

The revisions for the other compounders are mostly negative. However, this is relative to our last compounders update on 26 March. At that point, we had lowered the forecasts for our coverage, while the other group was almost unchanged relative to pre-Corona. Thus, our assumption of a rather small impact from the Corona crisis on the compounders seems to be in line with the consensus view.

Company	Enterprise Value	Share price	EV/EBIT (x)		EBIT margin		Sales Growth		Net debt/EBITDA
	(SEKm)	(SEK)	20E	21E	20E	21E	20E	21E	Q1'20/2020E
<i>Redeye cov.</i>									
Christian Berner	325	16.0	7.9	7.1	6.0%	6.5%	-3.4%	2.6%	0.4
Lagercrantz	10 246	130	22.8	19.8	10.9%	11.6%	-1.7%	8.9%	2.1
Sdiptech	4 191	89.0	18.3	13.1	12.1%	14.5%	3.4%	17.4%	3.8
<i>Other</i>									
Addtech	23 831	316	20.8	19.3	9.1%	9.5%	4.5%	3.9%	1.5
Indutrade	48 891	350	21.0	n/a	11.0%	n/a	3.2%	2.7%	2.0
Lifco	55 729	546	24.1	22.9	14.9%	15.2%	6.6%	2.9%	2.2
Beijer Ref	34 184	241	25.4	22.8	8.2%	8.7%	8.5%	6.0%	2.0
<b>Average</b>	<b>25 342</b>		20.1	17.5	10.3%	11.0%	3.0%	6.3%	2.0
<b>Median</b>	<b>23 831</b>		21.0	19.6	10.9%	10.5%	3.4%	3.9%	2.0

Source: Redeye Research, Bloomberg | Constant EV

Revisions Company	EBIT		Sales		vs Date
	20E	21E	20E	21E	
<i>Redeye cov.</i>					
Christian Berner	-10%	-3%	3%	5%	2020-03-26
Lagercrantz*	5%	0%	3%	1%	2020-03-26
Sdiptech	2%	2%	2%	2%	2020-03-26
<i>Other</i>					
Addtech*	0%	3%	2%	4%	2020-03-26
Indutrade	-2%	n/a	1%	-1%	2020-03-26
Lifco	-6%	-5%	-2%	-1%	2020-03-26
Beijer Ref	-11%	-9%	-6%	-6%	2020-03-26
<b>Average</b>	<b>-3.0%</b>	<b>-2.0%</b>	<b>0.3%</b>	<b>0.4%</b>	
<b>Median</b>	<b>-1.6%</b>	<b>-1.5%</b>	<b>1.7%</b>	<b>0.5%</b>	

Source: Redeye Research, Bloomberg | \* 20E=20/21E

## Christian Berner (2020-04-23)

Redeye increases sales forecast for 2020 by 3%, thanks to the strong order intake for the quarter. We adjust the EBITA estimate for the same year by 7%, and we lower our expectations of Z&I and the margin development in the "old Berner." There are indications that Christian Berner can handle the Corona crisis, while there is more to do internally. We are lower our Base case marginally and still see upside in the share.

[Full update \(In Swedish\)](#)

## Lagercrantz (2020-05-14)

Redeye maintains a neutral view of Lagercrantz following a Q4 report in line with expectations. The report's forward-looking data indicate that Lagercrantz can handle the Corona crisis better than we expected. We raise the forecasts for 2020/21 and adjust our Base case slightly.

[Full update \(In Swedish\)](#)

## Sdiptech (2020-04-30)

Redeye remains positive to Sdiptech following a Q1 in line with our forecast. While demand remains solid, movement restrictions have and will cause delays, primarily in the UK and DACH. We leave our 2020 and 2021 forecasts largely unchanged and raise our Base case slightly.

[Full update](#)

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Fredrik Nilsson owns shares in CBTT, LAGR or SDIP: Yes, SDIP

Henrik Alveskog owns shares in CBTT, LAGR or SDIP: No

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