



LINC

LUND UNIVERSITY FINANCE SOCIETY EST 1991

EQUITY RESEARCH REPORT

NOBINA AB (NOBINA)

Urbanization and environmental protection will drive
Nobina's growth forward

RATING

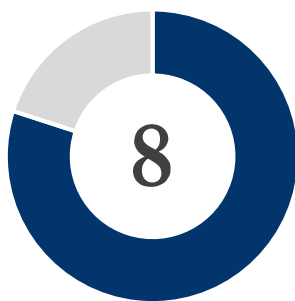
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COMPANY DESCRIPTION

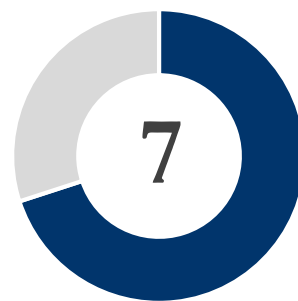
Nobina AB is a Swedish public transportation company offering contractual bus solutions across the Nordic region. It is the largest bus transportation group in the Nordics with 16% market share, having 3600 busses allocated on 110 contracts transporting roughly 319 million passengers every year. The company has a modern bus fleet and a clear focus on sustainable bus solutions. Nobina's leading market position gives the company a competitive advantage in the Nordics.

VALUE DRIVERS



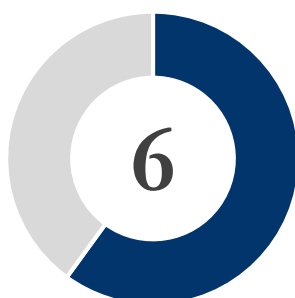
On top of the macro trends of increased environmental expenditure and higher rate of urbanization, Nobina has shown great result in winning profitable contracts. Given these trends, Nobina will in, a base case, increase topline growth by 5,4 % CAGR until 23/24. Nobina is looking to increase its presence outside of Sweden to broaden the contract portfolio and increase the revenue.

FINANCIAL HISTORY



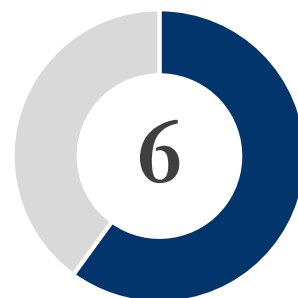
Topline growth has been positive every year since 2012 with 4,3 % CAGR. During the same time period, the EBIT margin has increased from 0,9 % to 5,4 % with CAGR 34,8%. During the last five years the earnings margin have fluctuated between 1 % and 6 % and the cash have almost doubled to 720 MSEK.

MANAGEMENT



The management has overall long experience within Nobina's field of operations and they have succeeded to fulfil past set goals. The current CEO, Magnus Rosén, is newly recruited from Ramirent PLC. However, Ramirent PLC did not perform well under Magnus leadership. Insider ownership in Nobina amounts to 2 %.

RISK PROFILE



The main risk for Nobina is the possibility of inefficient contract- and traffic planning which as a consequence leads to unprofitable contracts. Additionally, more competition and regulatory risk could potentially reduce growth and margins for Nobina.

NOBINA AB (NOBINA)



With a market share of 16 %, Nobina is the leading operator of bus solutions in the Nordic region. Macro trends that are increasing the number of commuters, a stable growth of profitable contracts, greater efficiency than peers, and economic of scale will lead to Nobina increasing the company's market share and profits. Using a DCF with a revenue CAGR of 5,4 % and a EBIT margin reaching 5,9 % the implied price per share is 75,2 SEK.

► **Increased urbanization and environmental protection act in Nobinas favor.** The expenditures for environmental protection in Sweden, which is Nobina's primary market, has increased by 4,9 % CAGR between 2007-2017. The average degree of urbanization in the Nordic countries increased from 83,1 % to 85,5 % between 2007-2017, consequently increasing the demand for Nobina's services as the company has a focus to provide environmentally friendly bus solutions in densely populated areas.

► **Nobina has a competitive advantage in the Nordics.** Nobina has higher revenue and better EBIT margins than peers, which is driven by the size of the company and efficient contract management. Due to the recent acquisition of Samtrans and De Blaa Omnibusser, and the selling of unprofitable Swebus, Nobina has a strong market position where they have good possibilities of capitalization and to strengthen their role as market leaders.

► **Nobina is in a good spot to expand the contract portfolio.** Nobina has a history of efficient contract management and Nobina is, in a base case, expected to expand the contract portfolio by 28,7 % until year 23/24 and henceforth take a larger market share in the Nordics. This will be possible due to Nobina's commitment to efficient contract management with an ambition to only acquiring profitable contracts.

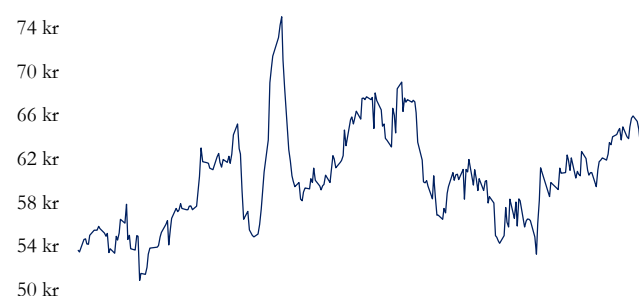
► **Compared to peers, Nobina has the most efficient operation with an EBIT-margin of 5,2 %.** Nobina's economies of scale, track record of successfully acquiring new contracts and a modern bus fleet is what drives Nobina's margins to be better than peers. Compared to peers, Nobina has an average of 1,5x the revenue and 2x the EBIT-margin.

► **In a base case, Nobina is valued to an implied price/ share of 75,2 SEK.** The biggest impact on Nobina's result, and its valuation, is the number of contracts in the portfolio. Total number of contracts are estimated to increase with a CAGR of 4 % from year 17/18 to 23/24. Nobina has a history of EBIT-margins around 5 %. It is estimated to, over time, get close to 6 %. The result is an estimated revenue CAGR of 5,4 % for the same period. Using a DCF with a WACC of 6,5 % and a perpetuity growth rate of 1,5 % the stock is implied to be traded at a discount of 17 %.

NOBINA AB (NOBINA)

Current Price (SEK)	62,2
52 v Low/High	49,7/76,2
Market Cap (MSEK)	5 496
Net Debt (MSEK)	4 010
Enterprise Value (MSEK)	9 506
Sector	Industrial Goods & Services
Exchange	Nasdaq Stockholm
Next Report	2019-04-05

1 Year Chart

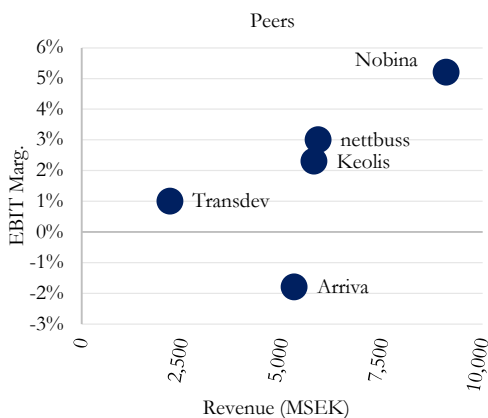
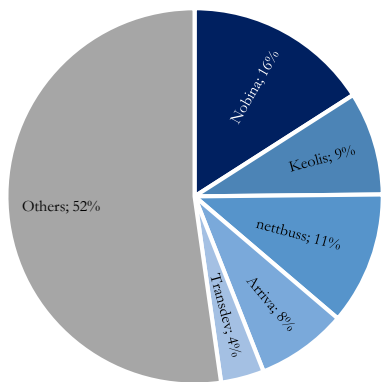
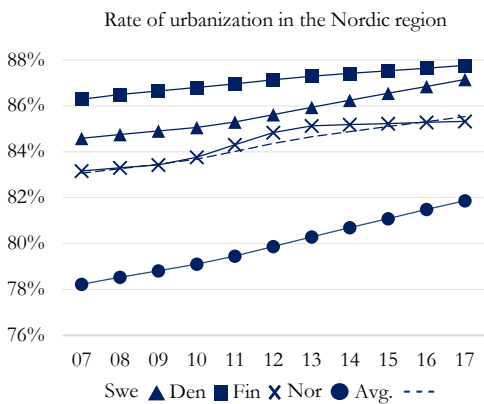
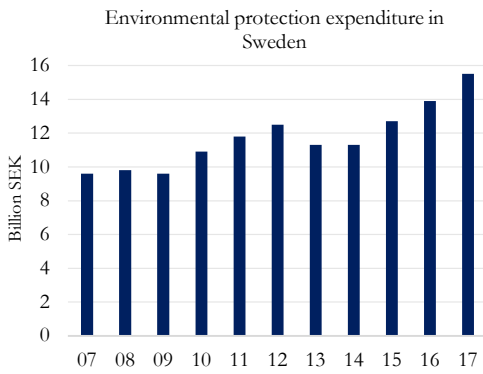


MSEK	17/18A	18/19E	19/20E	20/21E
Sales	9 094	10 357	10 946	11 321
Growth (%)	3%	14%	4%	5%
EBITDA	887	864	1 147	1 155
EBITDA Marg (%)	9,8%	8,3%	10,5%	10,2%
EBIT	494	490	534	536
EBIT Marg (%)	5,4%	4,7%	4,9%	4,7%
Earnings	289	316	290	389
Earnings Marg (%)	3,1%	3,1%	2,7%	3,4%
EV/S	0,9x	1,0x	1,0x	0,9x
EV/EBITDA	7,4x	12,2x	9,2x	9,1x
EV/EBIT	17,3x	21,5x	19,7x	19,6x
P/E	17,5x	18,0x	19,6x	14,6x
ND/EBITDA	3,1x	4,6x	3,5x	3,5x
Equity Ratio (%)	18%	18%	18%	18%
FCF-yield	4,5%	5,1%	4,3%	6,5%
Divedend-yield	5,6%	5,4%	4,9%	6,6%

Ownership

JPMorgan Chase & Co	10,0%
Invesco Ltd	5,6%
Dimensional Fund Advisors LP	3,5%
Danske Capital AB	3,2%

INVESTMENT THESIS



Revenue (MSEK)	19/20E	20/21E	21/22E
Base	10 946	11 321	11 736
Bear	10 691	10 931	10 962
Bull	11 050	11 705	12 359

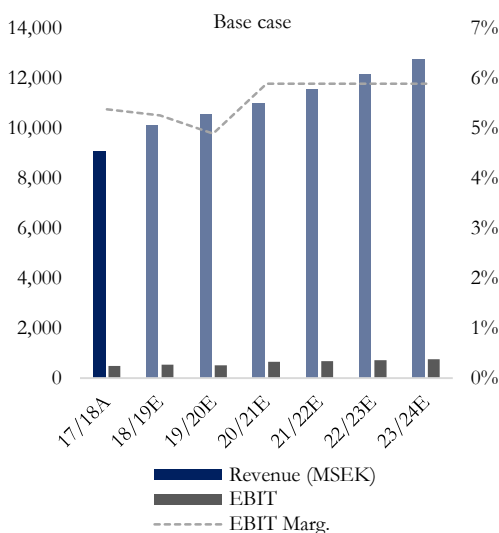
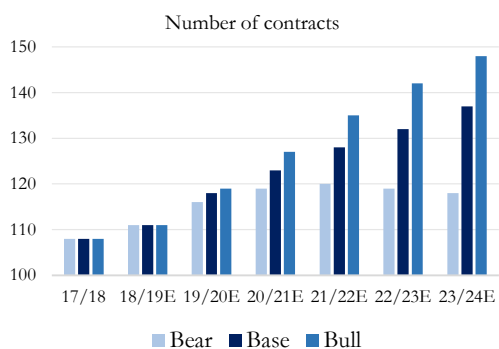
There are two major macro trends, urbanization and environmental protection, which can be considered the backbone of Nobina's growth. The first being the increased awareness of environmental issues caused by mankind. One likely effect is that people choose to commute by public transportation rather than by car. Another effect is that governments, such as those in the Nordic region, spend more on environmental issues. The top-left graph displays total environmental protection expenditure from 2007 to 2017 in Sweden, which during this period increased from 9,6 to 15,5 billion SEK. Nobina can take advantage of this by having a higher price on their tenders than the competitors and still win as a result of an environmentally friendly bus fleet. The second trend is the increased rate of urbanization, which increases the number of public transportation commuters. The second top-left graph displays the historical trend of rate of urbanization as a share of total population in the Nordics. The rate of urbanization amounted to 85,5 % on average during 2017. Simultaneously as the increased rate of urbanization, the total population has increased meaning that the potential absolute number of increased commuters are even greater.

Compared to peers in the Nordic region, Nobina has a greater market share, higher revenue, and better EBIT margins. Nobina had a total market share, which is based on number of busses, of 16 % in the Nordic region. A large market share in combination with high margins imply that Nobina, as opposed to its competitors, are able to run a more profitable and efficient business. Additionally, their economics of scale and size enables them to capitalize in the Nordics by successfully being able to expand their contract portfolio. As of November 2018, Nobina's revenue was between 3 200 – 6 900 MSEK higher than the competitors and Nobina's EBIT margin was between 2,2 – 7 percentage points higher. We expect this trend to continue, where Nobina will further increase their market share and margins compared to peers.

Through Nobina's four different focus areas, the company has a clear plan of future development and capitalization in the Nordics.

Nobina has four different focus areas which, if handled efficiently, will increase the chance of further expansion in the Nordic region. The first focus area is innovation, where Nobina is currently through its unit Nobina Technology, developing services such as digital personal travel assistant applications that eases the travel planning for their customers. Secondly, through efficient contract management, which means that Nobina only obtain contracts that will generate positive cash flows, the company increases the chances of only acquiring profitable contracts. Thirdly, with a strong focus on resource efficiency, Nobina is focusing on elements to achieve their profitability targets and staying competitive. An example of Nobina's efficiency is the reduction of buses running empty amounting only for 12,7 % of total trips during 2017. Carbon dioxide emissions per driven kilometer has also decreased by 11 % during 2017. Also, 10-15 percent of all buses are reallocated every year between contracts which leads to a more efficient utilization of the bus fleet.. Lastly. Nobina has its own academy called "Nobina Academy" where they educate their own bus drivers and mechanics which is more cost efficient. In order to drive profitability in their contracts, Nobina has 72 improvement groups that are developing and managing operations. Consequently, Nobina is well prepared for the future.

The risks of loosing current contract and not acquiring new contracts can have a negative effect on Nobina's future operations. Future risks for Nobina are the potential loss of current contracts as well as difficulties in acquisition of new contracts. If Nobina insufficiently handles their focus areas, their leading market position as well as future revenues and growth are in danger. The pessimistic Bear scenario indicates only 10 new acquired contracts and topline growth of 0,8 % CAGR until 23/24.



DCF	17/18A	18/19E	19/20E	20/21E
Revenue	9 094	10 357	10 946	11 321
Opex	-8 604	-9 618	-10 410	-10 653
EBIT	490	740	536	668
D&A	516	606	653	665
Tax	-77	-90	-82	-110
Capex	-767	-883	-933	-965
Net Change in WC	191	45	235	279
FCFF	353	417	409	537

DCF input	
Terminal growth rate	1,5%
WACC	6,5%
DCF output (MSEK)	
Sum FCFF 18/19 - 23/24	2 451
Sum FCFF terminal	8 200
NPV	10 651
Net debt	-4 010
Equity Value	6 641
Outstanding shares	88 355 682
Price/ share (SEK)	75,2

Estimated number of contracts drives the estimated revenue. We have estimated the revenue based on the estimated number of contracts in Nobina's future contract portfolio, where the revenue is calculated by the total numbers of buses times revenue per bus. Number of buses per contract and revenue per bus is kept at a constant level, which therefore imply that the variable factor is the number of contracts.

In a Base scenario, the implied share price is 75,2 SEK – an upside of 21 %.

In a Base scenario, Nobina's revenue is expected to grow 5,4 % CAGR until 23/24 to 12 439 MSEK. It is estimated that Nobina will acquire one new contract each year in Sweden until 23/24 (76 contracts). The Swedish market will become more saturated due to already high competitions, but Nobina will still be able to expand their business due to their market position. In Denmark, Nobina will acquire three contracts 19/20, two contracts 20/21 and one contract each year until 23/24 (14 contracts). Nobina will be able to increase their market share in Denmark because more cities will offer contracts due to increased urbanization. In Norway, the acquisition of contracts will be more variable with one new contract every second year until 23/24 (10 contracts). The Norwegian market is very competitive and will continue to be so, which explains the varying amount of acquisition. In Finland, Nobina will acquire two new contracts every year until 23/24 (37 contracts). The Finnish market is going through a deregulation process where Nobina will be able to keep their leading market position and expand outside the Helsinki region. Aggregated, the number of contracts will increase from 108 contracts 17/18 to 137 contracts 23/24 – an increase of 26,9 %. The EBIT will amount to 734 MSEK 23/24, leading to an EBIT-margin of 5,9 %. This will amount to a discounted share value today of 75,2 SEK.

In a Bear scenario, the implied share price is 56 SEK - a downside of 10 %.

In a Bear scenario, Nobina's revenue is expected to grow 2,8 % CAGR until 23/24 to 10 753 MSEK.. This can be explained by a less successful acquisition of new contracts. It is estimated that the Swedish market will become saturated after 20/21. Hence, Nobina will be able to acquire one new contract per year until 20/21, and then loose one contract per year until 23/24 (70 contracts). Nobina's goal of expanding their contract portfolio in Denmark will also be less successful due to fewer contract procurements, with one new contract per year up until 21/22 and then keeping a total of 11 contracts until 23/24. In Norway, we expect Nobina to loose one contract 19/20, and then keep their portfolio of six contracts until 23/24. The Norwegian market previously has been tough for Nobina, and due to increasing competition they will not succeed to acquire a better market position. In Finland, Nobina will acquire one new contract each year until 20/21, and then keep the same amount of contracts (31) until 23/24. The deregulation of the Finnish market will be slower and therefore Nobina will have difficulties of expanding their business. Aggregated, Nobina will have 118 contracts as of 23/24 as opposed to 108 contract during 17/18 – an upside of 9,3 %. However, the revenue will stagnate and decrease from 21/22 and onwards. The EBIT is expected to be 634 MSEK 23/24, leading to an EBIT-margin of 5,9 %. This will amount to a discounted share value of 56 SEK.

In a Bull scenario, the implied share price is 84,4 SEK – an upside of 36 %.

In a Bull scenario, Nobina's revenue is expected to grow by 6,8 % CAGR until 23/24 to 13485 MSEK. This can be explained by a very successful acquisition of new contracts. In Sweden, Nobina will acquire two new contracts every year until 23/24 (81 contracts). The Swedish market will still have growth opportunity and Nobina will strengthen their market position. Nobina's expansion in Denmark will also be successful, getting three contract 19/20, two contracts every year until 22/23, and one new contract 23/24 (16 contracts). The Norwegian market will continue to be competitive, but Nobina will be able to acquire one new contract each year until 23/24 (12 contracts). Lastly, the deregulation of the Finnish market will be faster and Nobina will be able to expand further into more cities than Helsinki. Thus, Nobina will acquire three contracts every year to 20/21 and then two new contracts each year until 23/24 (39 contracts). Aggregated, Nobina will expand their contract portfolio from 108 contracts 17/18 to 148 contracts 23/24 – an increase of 37 %. The EBIT will amount to 796 MSEK 23/24, leading to an EBIT-margin of 5,9 %. This will amount to a discounted share value of 84,4 SEK.



Jan Sjöqvist (193 737 shares)

Chairman

Jan was elected Chairman of the board in 2005. He holds a MSc in Business and Economics from the Gothenburg School of Business, Economics and Law. Jan has previously been a board member in companies such as SSAB AB, Stora Enso Oyj, and Lannebo Fonder AB. He is the former president and CEO of NCC. Beside Nobina he is the Chairman of the board of Aditro Logistics AB.

Magnus Rosén (30 000 shares)

President and CEO

Magnus was elected President and CEO in June 2017. He holds a MBA from the Stockholm School of Economics. Magnus has previously been the CEO of Ramirent PLC, BE Group Sverige AB, and Cramo-Sverige AB. Besides Nobina, he is also a board member of Bonava.



Per Skärgård (217 878 shares)

CFO

Per has been the CFO of Nobina since 2004 and was elected Vice President in 2009. He holds a degree in Business Administration from Stockholm University. He has previously been the CFO of companies such as DHL Nordic AB, Dnzas-ASG AB, and NETnet International. Per has no other assignments.

Jan Bosaeus (210 913 shares)

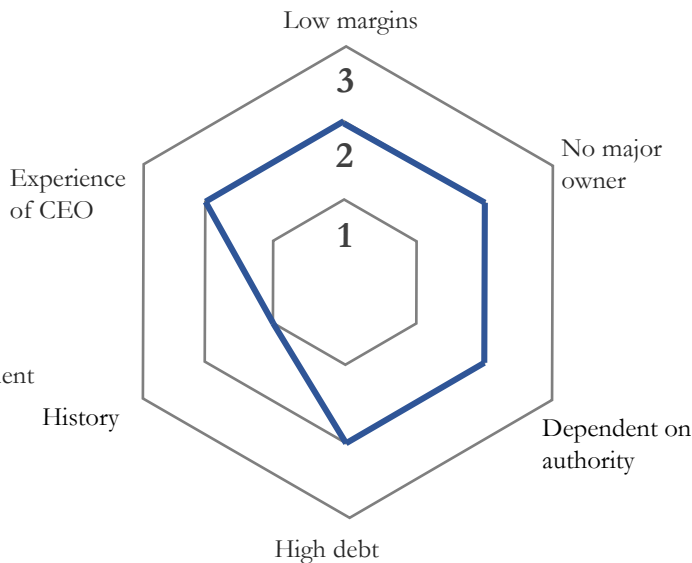
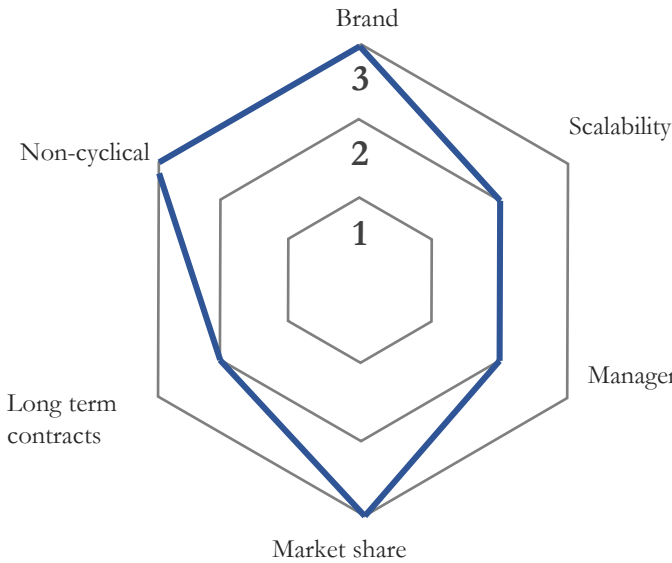
Managing Director

Jan has been the Managing Director since 2002 and was elected Vice President in 2009. He is a Business Administration graduate from Arméns Tekniska Officerhögskola. He is the Chairman of the board of the Swedish Bus and Coach Federation as well as a board member of the Swedish Confederation of Transport Enterprises.



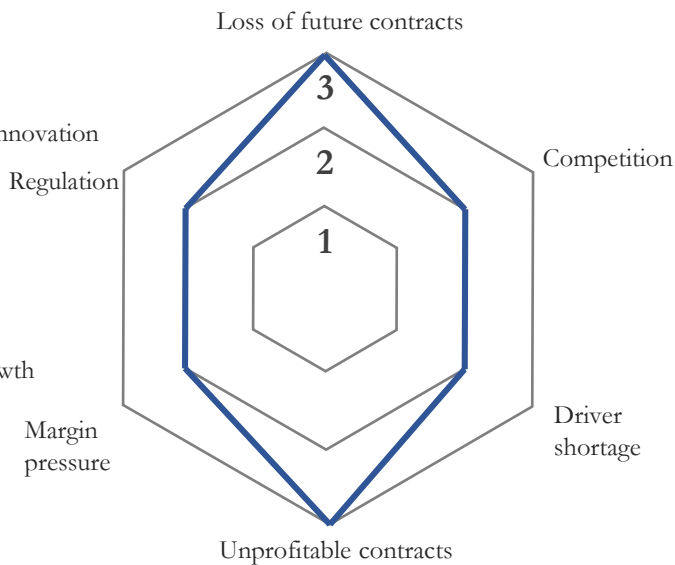
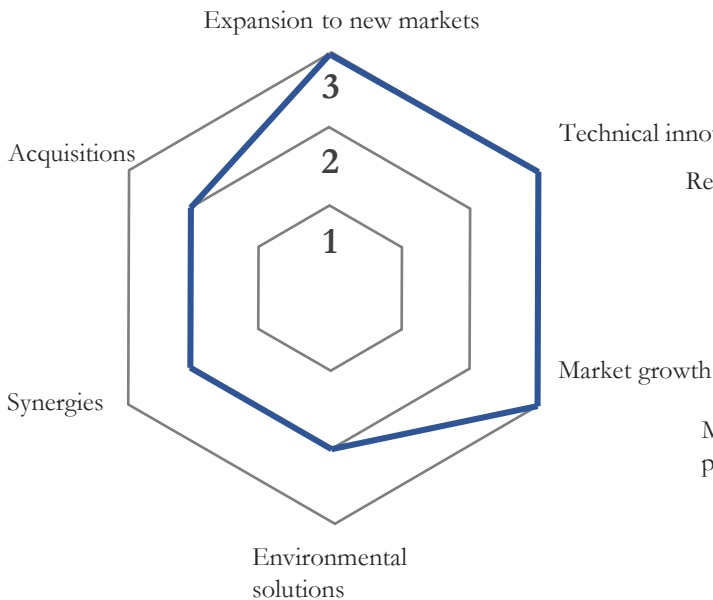
STRENGTHS

WEAKNESSES



OPPORTUNITIES

THREATS



	17/18A
Financial cost	135
Debt	4 308
Cost of Debt	3,1%

	17/18A
Risk free rate	2,8%
Risk premium	6,4%
Lev beta	1
Size premium	0,5%
Cost of equity	9,7%

	17/18A
Market value of equity	5 496
Debt	4 308
Total	9 804
Cost of debt	3,1%
Cost of equity	9,7%
WACC	6,5%

Growth perpetuity

	0,5%	1,0%	1,5%	2,0%	2,5%
5,5%	80,6	91,9	106,0	124,2	148,4
6,0%	68,8	77,8	88,9	102,7	120,4
6,5%	59,0	66,3	75,2	86,0	99,4
7,0%	50,7	56,8	64,0	72,6	83,1
7,5%	43,6	48,7	54,6	61,6	70,1

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