

Alcadon Group (ALCA)

Sweden | Electronic Components | MCAP SEK 1 258.2mn

07 March 2022

Buy

Target price: SEK 160.3
Current price: SEK 68.6
Upside: 133.3%

Alcadon - providing the infrastructure behind today's digitalization

Alcadon Group ("Alcadon" or the "Company") is a Swedish company providing systems and services within network infrastructure and data communications. Alcadon has recently acquired well positioned actors in the fast-growing markets of Germany and the Benelux region. The rate of Fibre To The Home (FTTH) is expected to grow by 300.0% in Germany over the next five years, whilst in Belgium there are 4.7mn households with no fibre. Assuming a full-scale roll-out until 2030E, would indicate an annual market growth of 30.0% within the Fibre To The Building (FTTB) segment. Alcadon also offers exposure to the pending rollout of 5G, a market which is estimated to register a CAGR of 85.1% during the period 2020A to 2027E. With a competent management that has been involved in previous technological paradigm shifts such as 3G and 4G, Alcadon is well positioned to capitalize on this growth opportunity. Alcadon is estimated to have a sales CAGR of 37.8% through 2020A-2023E compared to the peer median of 14.9%. Applying an EV/EBIT multiple of 17.4x on the estimates for 2023E implies a target price of SEK 160.3 and a potential upside of 133.3%.

Key takeaways

- Closed deals and new acquisitions give Alcadon entry to the German FTTH market, which is expected to grow 300.0% in the coming 5 years:** As a result of the high demand in network infrastructure, the German government has issued over EUR 12bn to expand their fibre network. The expansion of FTTH in Germany is expected to grow from 9.0mn households to 33.0mn households between 2021E-2026E, indicating an increase of 300% over the next 5 years. Alcadon is well positioned to capitalize on the expansion, having already closed over 10 agreements with German manufacturers, among those is Deutsche Glasfaser who is a pioneer within FTTH rollout in rural areas in Germany.
- Alcadon's future growth is being undervalued by the market, motivating a 51.7% discount to its peers:** Based on a peer valuation, Alcadon is justified to trade at a 17.4x EV/EBIT in 2023E, and not 8.4x as of now. Due to society's high demand on network infrastructure and Alcadon's newly expanded geographical footprint, the company is estimated to have a sales CAGR of 34.4% through 2020A-2023E. Considering that Alcadon's revenue declined from 2017A-2020A, the market is underestimating the potential Alcadon has, albeit the stock price has soared over 200% LTM, investors seems to be aware of the consequences that could arise when the growth in the Fibre To The x (FTTx) market starts to stagnate. This is what happened in Sweden, after the mass fibre rollout in 2016 which quickly became over-saturated. However, after their newly implemented organizational changes, the risk of a negative revenue growth rate happening again is low.
- History of acquisitions leading to increased geographical presence:** In early 2021A, Alcadon completed their acquisition of Danish/German company 6X International, a leading provider of solutions and systems within fibre networks and network infrastructure. During the first three quarters of 2021A, The 6X Group contributed with SEK 195.3mn in net sales and SEK 20.8mn in operating profit (EBIT) manifesting that Alcadon can achieve lower risk and greater opportunities as a result of their clear acquisition agenda and well-planned integration. Alcadon intends to further build upon acquisitions with a clear plan to strengthen competitiveness and offering while also strengthening their presence in new markets.

Analysts

Johan Darell Equity Analyst
Johan Larsson Equity Analyst
Nelly Åkesson Equity Analyst

Market Data, SEK

Exchange	First North Stockholm
Shares (mn)	18.3
MCAP (mn)	1 258.2
EV (mn)	1 596.2

Metrics & Drivers	20A	21E	22E
EV/S	3.1x	2.1x	1.4x
EV/EBIT	28.2x	16.6x	8.8x
P/E	44.7x	17.7x	9.0x

Forecast, SEKmn	20A	21E	22E
Total revenue	467.0	776.0	1 118.0
Rev. growth y/y	-3.6%	66.0%	44.0%
Gross Profit	134	220	317
EBIT	43	96	181
EBIT-margin	9.2%	12.4%	16.2%

Major Shareholders

Investment AB Spiltan	12.2%
Ribbskottet Aktiebolag	10.9%
Athanase Industrial Partner	7.9%
Consensus Asset Management	6.4%
Susanne Stengade	5.4%

Price Development, SEK



Investment thesis

Expansion into the rapidly growing Northern European FTTx market through acquisitions

In 2021A Alcadon completed the acquisition of Danish/German Fibre To The x (FTTx, meaning arbitrary) company 6X, operating in Denmark and Germany to further strengthen their position in the fibre market and broadening their geographical locations. Alcadon now operates in four countries: Sweden, Norway, Denmark and Germany. All countries are gradually phasing out the usage of copper mesh and replacing it with fibre optic cables. In Germany specifically, FTTx is seeing a strong development, with Fibre To The Home (FTTH) set to expand from today's 8.0mn connected homes to approximately 26.0mn homes in 2025. After operating in Germany for three quarters, Alcadon has thus far secured 11 FTTH projects and among those is a deal struck with German glass fibre group Deutsche Glasfaser equating to around EUR 20mn per year, being 30.0% of Alcadon's estimated total revenue in 2021E. The German government issued EUR 12.0bn in 2021 to further expand their fibre network, showcasing that the market is supported by the government and that there is a willingness to invest in said market.

Alcadon improving their margins due to the company's proven business model and successful acquisitions

In 2017A/2018A, during the mass fibre rollout in Sweden, Alcadon managed to double their revenue, further proving their business model, and in the light of the already set deals in Germany, this time will be no different. Post-consolidation of 6X, more than 25.0% of sales are being derived from private label systems (ECS and DC-Line), carrying higher margins compared to branded goods. Here, Alcadon has trained and certified a base of 4 000 installers working with ECS and DC-Line and there are over 2.0mn systems in operation in the Nordic region. Alcadon also issued new shares Q3-21A, indicating that the money raised will be used for further acquisitions, which the Company did in Dec 2021 when the acquisition of the Belgian branch of 6X operating in the Benelux area, became public.

Completed deals give Alcadon the chance to capitalize on the USD 42bn European 5G-market

Alcadon partook in Sweden's 3G and 4G network roll-out, and will contribute to the rollout of 5G network as well, although this time, adding their presence to markets outside Sweden and the Nordics. A key element for Europe's competitiveness and growth is the speedy development of next generation telecommunication networks like 5G. European policy makers have settled on a framework which will facilitate this rollout, though with the regulatory objective of enabling access to VHC (Very High Capacity) networks. VHC networks means an electronic communications network consisting wholly of optical fibre elements. Alcadon's recent agreement with German based Emtelle concerning delivery of fibre optic equipment and the partnership with Deutsche Glasfaser give Alcadon the best possible prerequisites to capitalize on the European 5G market. In 2019A, the market was valued at USD 359.0mn and is projected to reach USD 42.0bn in 2027E, indicating a CAGR of 85.1% between 2020A-2027E.

Rapid changes in the IT industry could affect Alcadon's market position

The IT industry's rapid product changes and future technology development, may be associated with a greater measure of uncertainty than for companies in more stable industries and markets. There is a risk that new technologies will be developed and introduced which, depending on their success and Alcadon's ability to further develop products and systems, could lead to a change in Alcadon's market position. However, as a significant proportion of sales are produced for other segments than new construction and to many different industries as end customers, the company's exposure to cyclical factors is reduced. Through the role as a distributor of proven technology, Alcadon become less exposed to the fast developments in the industry. Because of this Alcadon can choose to distribute technology that is proven to be a leader in different time phases. Furthermore, the network infrastructure market is large and there is a great amount of competitors to Alcadon. This could pose a risk leading to Alcadon losing market share and becoming less significant, especially compared to well-established international competitors. However, Alcadon does have a stable position on the Scandinavian market and has a first mover advantage in the North European regions which lowers that risk.

Financial forecast breakdown

Revenue growth of 66.0% 2020A-2021E after entering markets in Germany and the Benelux region

Following the acquisition of 6X in Q1-21A, Alcadon has since grown substantially, having already secured 11 FTTH projects in Germany alone. The revenue growth is mainly driven by the recent acquisition, where 6X is estimated to make up around 50.0% of Alcadon's total revenue in 2021E. During the year of 2021E, they have secured projects in all of their operating countries amounting to SEK 900.0mn spread out over three years. In Germany their projects are estimated to be worth SEK 225.0mn 2022E, showing how important the acquisition of 6X and subsequently the entry into Germany was. In December 2021, Alcadon acquired the Belgian branch of 6X, operating in the Benelux area.

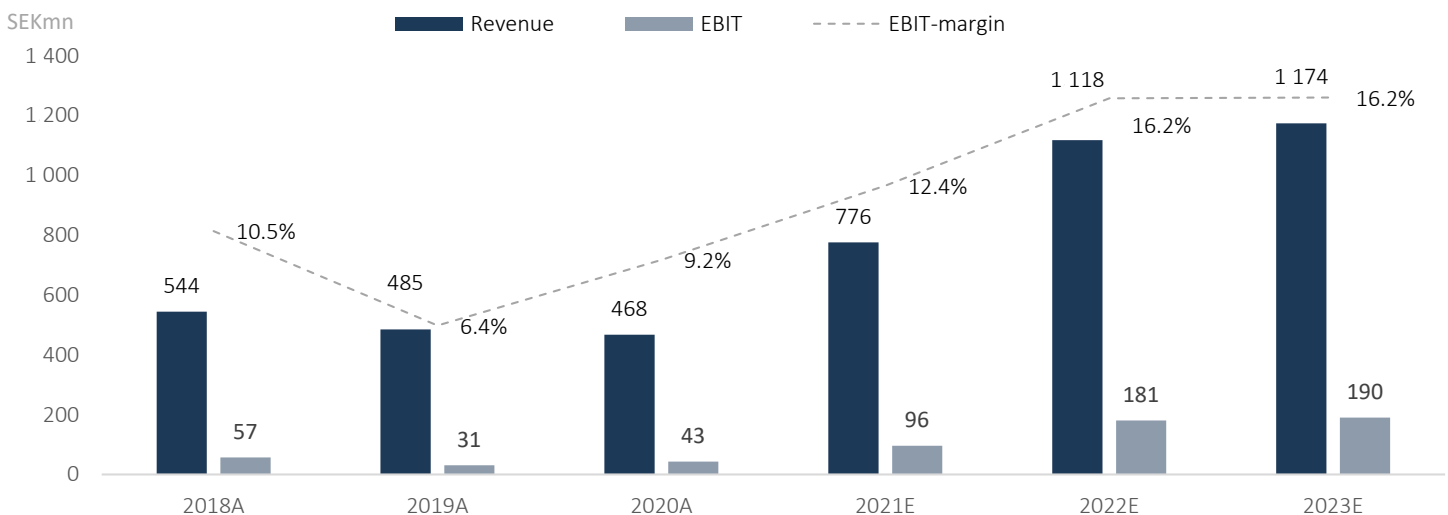
Alcadon's second largest cost item does not necessarily rise with revenue

Due to the outsourcing of all production and installments, Alcadon can grow their revenue without necessarily increasing their number of employees. The majority of their employees who do not work in administration are sales associates. The number of employees in Sweden and Norway is estimated to remain nearly the same during the coming three years. Fibre connections in these markets is approaching 95% country-wide coverage. The markets in these countries are therefore set to grow by only a small margin, as the demand for new fibre connections is decreasing and the growth of data centers is low. In Germany and Denmark however, a higher growth of employees is expected partly due to the German FTTH ratio, set to grow by 300.0% in the coming three years. Operations in Germany are currently relatively small consisting of 6 employees compared to Sweden's 50. Estimated increase in personnel costs are SEK 39.0mn between 2020A-2023E. Seeing as their personnel costs are the company's second largest expense after COGS, this fuels the increase in EBITDA-margin increasing from 11.3% 2020A to 17.2% 2023E.

EBIT margin expected to increase from 9.2% 2020A to 16.2% in 2022E due to stable D&A and OPEX along with higher revenue

Depreciation and amortization are expected to be in line with previous years and is estimated to amount to just over 1.0% of the total revenue. In July of 2021E Alcadon finalized the amortizing of a bank loan worth SEK 140.0mn. Later that month Alcadon raised a new bank loan of SEK 130.0mn. The same payment plan applied to both loans meaning amortization doesn't significantly shift. Other external costs are also estimated to have a moderate growth compared to revenue. As a significant portion of Alcadon's OPEX are loosely tied to the amount of employees, for example the cost of offices, OPEX vaguely follows the amount of employees in the company. However, considering that offices generally have space for additional employees, OPEX and the number of employees does not have a straight linear connection.

Expansion implies leverage towards employee costs in turn improving the EBIT-margin



Source: Alcadon Group AB, Analyst estimates

Overview of the company

Alcadon - Providing the infrastructure behind society's digitalization since 1988

Since its founding in 1988, Alcadon has been developing and offering products, solutions and systems in network infrastructure. Today, operations are conducted in Sweden, Norway, Germany, Denmark and since December of 2021E, Belgium. The core of Alcadon's business consists of in-house developed solutions where production is outsourced to partner factories who have collaborated with Alcadon for many years. Alcadon's revenue derives from their four different business segments; fibre network, commercial real estate networks, housing network and services & education. Systems and solutions for commercial properties along with fibre networks constitute the majority of sales at 87.0%.

A focus on organic growth and an active acquisition plan targeting underdeveloped network infrastructure markets

Alcadon has in the recent years focused on acquisitions targeting new geographical markets. From the Company's founding in 1988 until 2015, Alcadon only operated in Sweden. However, since 2017A their acquisitions has been more geographically oriented and has led to Alcadon entering four new markets. The four added markets all have one quality in common – their network infrastructure is hugely underdeveloped. Alcadon will most likely continue on this strategic path for the coming years, not only because management flagged that will be the case but also the fact that in December of 2021E they acquired the Belgian branch of 6X, another market whose network infrastructure, and more specifically their fibre infrastructure, is underdeveloped. For Alcadon, the underdevelopment is pleasing as they will have a competitive edge over less-experienced domestic competitors.

Overview of the market

25.0% expected increase in data per year 2021A-2025E indicating large demand for network infrastructure

Network infrastructure is at the basis of a digital and sustainable society. The growth conditions within network infrastructure are clear with the support of mega trends. Primarily it is the increased amount of data that drives the investments. The amount of data is expected to increase by 25.0% per year between 2021A-2025E. The increase in data requires, for instance, an expansion of 5G and broadband. Ambitious goals have been set by governments around Europe regarding the rollout of broadband and 5G. A 5G expansion requires considerably more fibre, which will have positive effects on Alcadon's fibre network segment. The effects of the pandemic are also expected to significantly affect fibre expansion when more and more people require a robust connection regardless of workplace.

Alcadon taking advantage of northern Europe's rapidly increasing annual FTTH growth rate

The acquisitions of 6X International ApS and 6X International BV have given Alcadon access to the fast growing Fibre To The Home markets in Germany and Belgium. Homes connected to fibre increased with 155.0% in Belgium and 66.0% in Germany from September 2020A to September 2021E. Similar to Germany's EUR 12.0bn investment on fibre network, Belgium is en route on a large-scale FTTH deployment. Belgium plan to invest EUR 3.0bn to accelerate its deployment of fibre, making it the most sizeable Belgian telecom infrastructure project in decades. Along on this journey is Deutsche Glasfaser, who recently signed a deal with Alcadon worth EUR 20.0mn per year. Given the ambitious initiatives towards full-fibre, Belgium is on track to experience a significant upturn of FTTH connections in the coming years.

Valuation

Alcadons better-than-competition growth implies an undervaluation

The estimate is based on a relative peer valuation between Alcadon and companies with similar business operations. All companies have solutions and products aimed for the fibre optic market. Hexatronic is the most similar peer when comparing business operations being the only company solely focused in the fibre optic market, which is the market Alcadon is currently expanding towards. An EV/EBIT multiple was chosen as it takes the capital structure into account and all companies compared have positive operating income and the EV/EBIT multiple removes dissimilarities in capital structure.

Peer table	Market Data (SEKm)		2020A-2023E		2023E			
Company name	MCAP	EV	Annual Sales Growth %	Annual EPS Growth %	P/E	EV/Sales	EV/EBIT	ND/EBITDA
Transtema	1 917.0	1 891.6	6.2%	0.0%	27.8	1.2	19.0	1.1
Hexatronic	18 833.8	18 844.0	28.0%	28.0%	41.2	3.6	37.4	2.3
DistIT	1 937.2	2 171.5	7.7%	40.2%	12.0	0.8	13.0	1.2
Waystream	198.5	171.9	22.1%	16.6%	9.8	1.2	15.8	1.2
Median	1 927.1	2 031.6	14.9%	22.3%	19.9	1.2	17.4	1.2
Mean	5 721.6	5 769.8	16.0%	21.2%	22.7	1.7	21.3	1.5
Alcadon Group	1 661.7	1 999.7	37.8%	36.0%	8.5	1.4	8.4	2.5
Premium/discount to median	-13.8%	-1.6%	153.1%	61.5%	-57.1%	12.8%	-51.7%	99.9%

Annual sales growth higher than peers while at the same time increasing their EBIT-margin

Alcadons annual sales growth of 37.8% shows that the Company is growing at a pace well over the average peers. The Company's EBIT-margin is estimated to increase by 30% in the coming three years, which is mainly driven by their expansion to new geographical markets, in turn giving them increased revenue. This is achieved by decreasing their costs in relation to revenue, as their personnel costs does not increase by the same rate as revenue. The mentioned aspects indicates that a valuation closer to Hexatronic could prove fair. However, seeing as Alcadon is still a relatively small company with a ND/EBITDA ratio higher than its peers, a more realistic valuation at the median is chosen.

Peer based valuation indicates a target multiple of 17.4x EV/EBIT 2023E, implying a 133.3% upside

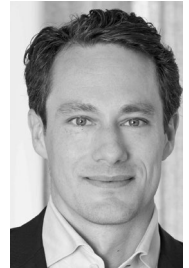
Currently, Alcadon Group is trading at an LTM EV/EBIT multiple of 28.2x. However, the EV/EBIT is estimated to be 8.4x in 2023E. A target multiple of 17.4x EV/EBIT indicates an upside of 133.3% and a target price of SEK 160.3. Alcadon should be traded at the peer median, due to several factors. One of them being the successful expansion into Germany, where they have already secured 11 FTTH deals, one of them netting the Company SEK 200.0mn per year for 3+1 years, starting in 2022E. This single deal makes up about 20.0% of Alcadons total revenue 2022E, and about 40.0% of revenue 2020A, clearly showing that the entry into Germany has been highly rewarding. The number of fibre connected homes (FTTH) in Germany is set to increase by 300.0% in the coming years. Meanwhile, the number of connected homes in the Netherlands and Belgium is set to increase by 100.0% and 90.0% respectively. Furthermore, Alcadon recently issued a reorganization, appointing new members of management and among those the current CEO and CFO. Unlike its competitors, Alcadon is a one-stop-shop for fibre, offering both active and inactive infrastructure in the fibre market, giving them a competitive edge. Considering the factors mentioned above, an EV/EBIT multiple of 17.4x is motivated and subsequently a target price of SEK 160.3 is fair, implying an upside of 133.3%.

Management and board

Sonny Mirborn, Chief Executive Officer

Mirborn was appointed CEO in July 2019. Mirborn has a master's degree in economics and a Master in Industrial and Financial Economics from the Gothenburg School of Economics and has studied at IMD and INSEAD. Prior to Alcadon, Mirborn served as Head of Business Units at the technical solution company, Addtech. He has also acted as CEO of the CTM-Lyng Group, a Nordic manufacturer of electrical installation equipment with a focus on safe / smart home solutions, and Rutab, a leading player in cable accessories and electrical installation equipment in Sweden and Norway. Mirborn also has experience from Nordstjernan and Accenture.

Ownership: 19 034 shares (0.10%)



Max Lundsten, Chief Product Officer

Lundsten has been employed by Alcadon since 1999. During his time at Alcadon he has been a front figure in the development of Alcadons own product line, European Cabling Systems (ECS). Max is a mechanical engineer and has undergone, among other things, internal technology training programs at Ericsson. He has previous experience from Ericsson and LBW Elektronik.

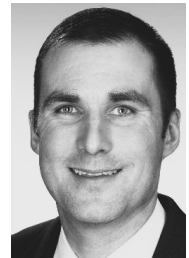
Ownership: 58 899 shares (0.32%)



Peter Hjelmstad, Chief Purchasing Officer

Hjelmstad has many years of experience in the data, telecommunications and security industries. Peter has studied sales, purchasing and leadership at Företagsekonomiska Institutet (FEI) and most recently came from the role as Vice President and Purchasing Manager at Dataconnect. Prior to that he was product and purchasing manager at Ahlsell AB.

Ownership: 0 shares



Niklas Svensson, Chief Financial Officer

Svensson was appointed CFO in October 2019. He has Master of Business Administration from Lund University and came most recently from the position as CFO at the NVBS Group. Svensson has experience as Finance Director at the Sievert Group and has operated in the field of audit at Deloitte.

Ownership: 8 000 shares (0.04%)



Magnus Larsson, Chief Sales Officer

Larsson has studied Business Administration at Lund University and most recently came from the role of Head of KAM and Customer Development at Siemens Smart Infrastructure in Sweden. He has also held multiple leading sales positions in the Siemens group, the real estate industry, the construction industry and the media industry.

Ownership: 0 shares



Management and board

Susanne Stengade, Senior Vice President Central Europe and CEO Alcadon Denmark/Germany

Stengade is the founder and CEO of 6X International, a company which Alcadon acquired in 2020. She has a Bachelor's degree in International Business from Niels Brock's Business Academy in Copenhagen and has held several senior positions within sales with a focus on fibre optic solutions in companies such as NKT and Draka.

Ownership: 981 780 shares (5.35%)



Einar Feragen, Acting CEO of Alcadon AS

Einar Feragen has a masters degree in Economics and Marketing (Master of Science) from BI Norwegian School of Management in Sandvika. He has previously worked with sales and marketing in the IT industry and the defense industry and has since 2020 held the job of sales manager at Alcadon AS with responsibility for sales and sales personnel in Norway. He has also held senior positions within the military in both Norway and abroad.

Ownership: 0 shares



Pierre Fors, Chairman of the board

Fors was appointed Chairman of the board in 2019 and has previously been the CEO of Alcadon Group between the years 2001-2019. Pierre has a degree from EMI (Executive Management Institute) and has experience from multiple leading positions within the industry. Including a number of roles within Telia in both Sweden and Norway.

Ownership: 180 000 shares (0.98%)



Jonas Mårtensson, Director

Mårtensson is currently co-owner in Altied AB and a part of the boards of Ownpower Projects Europe, OPP Owner AB, DistIT AB, Slitevind AB, DO Intressenter AB and JNM Invest AB. Mårtensson also has previous experience working with M&A, capital raising and IPOs.

Ownership: 208 092 shares (1.13%)



Lars Engström, Director

Engström has extensive experience from leading positions within leading Swedish industrial companies and has Master of Science in engineering from Linköping University. Engström is currently part of the boards of Botnia Exploration Holding AB, Samhall AB and Normet group OY.

Ownership: 5 850 shares (0.03%)



Marie Ygge, Director

Ygge has extensive experience from leading positions in the IT industry. Ygges most recent role was as Head of Business Development for the Public Sector within Microsoft EMEA (2014-2017). Marie has a master's degree in engineering from the Royal Institute of Technology and runs her own consulting business. She is also a part of the boards of SOS Alarm AB, TCO utveckling AB and Teknik 2000 AB.

Ownership: 2 000 shares (0.01%)



Appendix

Income Statement, SEKtn	2018A	2019A	2020A	2021E	2022E	2023E
Revenue	544 180.0	485 225.0	467 621.0	776 043.5	1 118 073.1	1 173 886.8
Growth (%)	-6.2%	-10.8%	-3.6%	66.0%	44.1%	5.0%
COGS	(393 569.0)	(355 383.0)	(333 309.0)	(556 168.9)	(801 292.1)	(841 292.2)
Gross profit	150 611.0	129 842.0	134 312.0	219 874.6	316 781.0	332 594.6
Gross margin	27.7%	26.8%	28.7%	28.3%	28.3%	28.3%
OPEX	(92 411.0)	(88 730.0)	(81 402.0)	(115 470.3)	(124 439.2)	(130 223.3)
EBITDA	58 200.0	41 112.0	52 910.0	104 404.3	192 341.9	202 371.3
EBITDA-margin	10.7%	8.5%	11.3%	13.5%	17.2%	17.2%
D&A	(1 265.0)	(10 039.0)	(9 788.0)	(8 036.0)	(11 577.8)	(12 155.7)
EBIT	56 935.0	31 073.0	43 122.0	96 368.2	180 764.1	190 215.6
EBIT-margin	10.5%	6.4%	9.2%	12.4%	16.2%	16.2%
Interest income	399.0	300.0	137.0	234.8	234.8	234.8
Interest expenses	(10 386.0)	(6 375.0)	(5 503.0)	(7 418.2)	(7 418.2)	(7 418.2)
Interest savings					2 500	2 500
EBT	46 948.0	24 998.0	37 756.0	89 184.8	176 080.7	185 532.2
EBT-margin	8.6%	5.2%	8.1%	11.5%	15.7%	15.8%
Tax expense	(10 713.0)	(5 529.0)	(8 717.0)	(18 283.7)	(36 098.1)	(38 035.8)
Net income	36 235.0	19 469.0	29 039.0	70 901.2	139 982.6	147 496.4
Net-margin	6.7%	4.0%	6.2%	9.1%	12.5%	12.6%

Disclaimer

Disclaimer

These analyses, documents and any other information originating from LINC Research & Analysis (Henceforth "LINC R&A") are created for information purposes only, for general dissipation and are not intended to be advisory. The information in the analysis is based on sources, data and persons which LINC R&A believes to be reliable. LINC R&A can never guarantee the accuracy of the information. The forward-looking information found in this analysis are based on assumptions about the future, and are therefore uncertain by nature and using information found in the analysis should therefore be done with care. Furthermore, LINC R&A can never guarantee that the projections and forward-looking statements will be fulfilled to any extent. This means that any investment decisions based on information from LINC R&A, any employee or person related to LINC R&A are to be regarded to be made independently by the investor. These analyses, documents and any other information derived from LINC R&A is intended to be one of several tools involved in investment decisions regarding all forms of investments regardless of the type of investment involved. Investors are urged to supplement with additional relevant data and information, as well as consulting a financial adviser prior to any investment decision. LINC R&A disclaims all liability for any loss or damage of any kind that may be based on the use of analyzes, documents and any other information derived from LINC R&A.

Conflicts of interest and impartiality

To ensure LINC R&A's independence, LINC R&A has established compliance rules for analysts. In addition, all analysts have signed an agreement in which they are required to report any and all conflicts of interest. These terms have been designed to ensure that *COMMISSION DELEGATED REGULATION (EU) 2016/958 of 9 March 2016, supplementing Regulation (EU) No 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the technical arrangements for objective presentation of investment recommendations or other information recommending or suggesting an investment strategy and for disclosure of particular interests or indications of conflicts of interest.*

Other

This analysis is copyright protected by law © BÖRSGRUPPEN VID LUNDS UNIVERSITET (1991-2022). Sharing, dissemination or equivalent action to a third party is permitted provided that the analysis is shared unchanged.