

BEWi (BEWI)

Norway | Industrial | NOK 9,759m

23 January 2023

Buy

Target price: NOK 72.3
Current price: NOK 51.0
Upside: 41.8%

Protecting people and goods for life long quality

BEWi ("the Company") is a family-owned, leading European producer and provider of packaging, components and insulation solutions. The Company has an integrated business model that enables capitalization throughout the value chain, generating pricing power in a market with high barriers to entry. Stable cash flows and a history of successful acquisitions indicates a promising outlook for future M&A. BEWi benefits from the sustainable development as the Company offers energy efficient solutions and aims towards circularity. With a profitable business model and a proven successful M&A strategy, a 50/50 weighted DCF and peer valuation gives a target price of NOK 72.3, implying a potential upside of 41.8%.

Key takeaways

- Well-positioned to grow as EU's climate targets catalyze increased demand**
Reduced energy consumption is one of EU's 2030 climate targets and is set to act as a catalyst for increased demand of energy efficient solutions. The global market for Expanded Polystyrene (EPS) is expected to grow 4.8% CAGR between 2021-2027E as the material has outstanding qualities for insulation. Long-standing customer relationships and significant up-front investments implies high market entry barriers. As a leading actor, BEWi is well-positioned to capitalize on the market tailwinds. The Company is estimated to grow top line at 18.9% CAGR 2021-2025E.
- Pricing power deriving from strong local market positions**
Shipping Styrofoam includes high transportation costs, hence BEWi's proximity to customers creates strong local market positions. BEWi is exposed to various end-markets and geographical markets through three core segments. On the Scandinavian market, BEWi holds a market share of 56% in the largest downstream segment, followed by a market share of 22% in the second downstream segment. Limited options for customers and strong local market positions gives the Company pricing power, which drives an EBIT margin expansion from 9.1% in 2021 to 13.2% by 2025E.
- Financially equipped to continue an active M&A strategy for future growth**
BEWi has a proven M&A strategy with more than 25 successful acquisitions since 2014. In 2021, the Company acquired 8 companies, which boosted revenue growth by 33%. Management has announced plans to continue the "buy and build" strategy. With stable cash flows, a cash balance of EUR 67m and ND/EBITDA of 2.0x the Company is financially equipped for continued M&A initiatives. If BEWi increases ND/EBITDA to 2.5x and with EUR 133m in cash, the Company can acquire additional EBIT of EUR 23.7m which expands EBIT with 16.4% by 2024E.

Analysts

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David Holm Equity Analyst

Market Data, NOK

Exchange Oslo Bors
Shares (m) 191
MCAP (m) 9,759
EV (m) 13,024

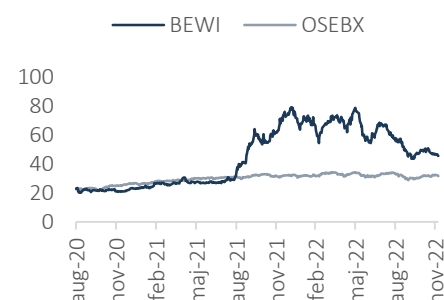
Metrics & Drivers	21A	22E	23E
EV/S	1.6x	1.1x	1.0x
EV/EBITDA	11.4x	8.2x	9.3x
EV/EBIT	21.4x	11.5x	14.7x
P/E	17.4x	14.5x	19.8x
ND/EBITDA	1.7x	1.9x	2.1x

Forecast, EURm	21A	22E	23E
Total revenue	748	1,114	1,209
Rev. growth y/y	61.5%	48.9%	8.5%
Gross Profit	443	675	730
Gross Margin	59.3%	60.6%	60.4%
EBITDA	106	148	130
EBITDA Margin	14.1%	13.3%	10.8%
EBIT	68	106	83
EBIT Margin	9.1%	9.5%	6.8%

Major Shareholders

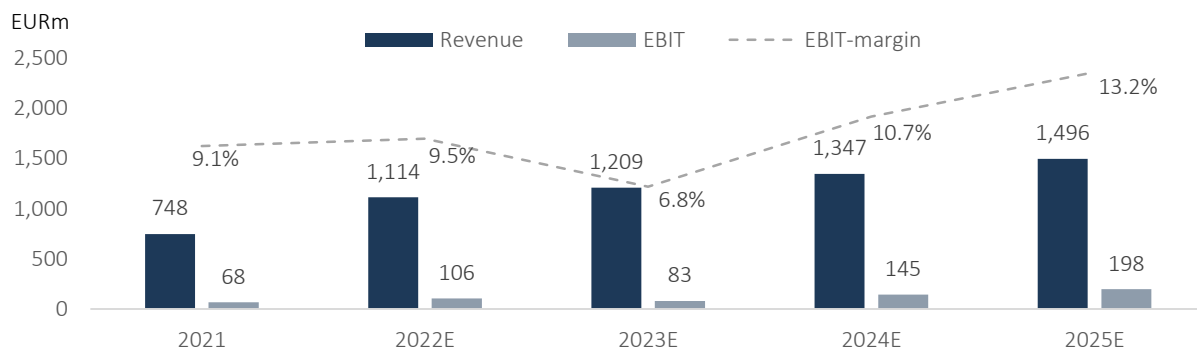
BEWi Invest AS 51.2%
HAAS AS 16.8%
Kverva Industrier AS 8.0%

Price Development, NOK



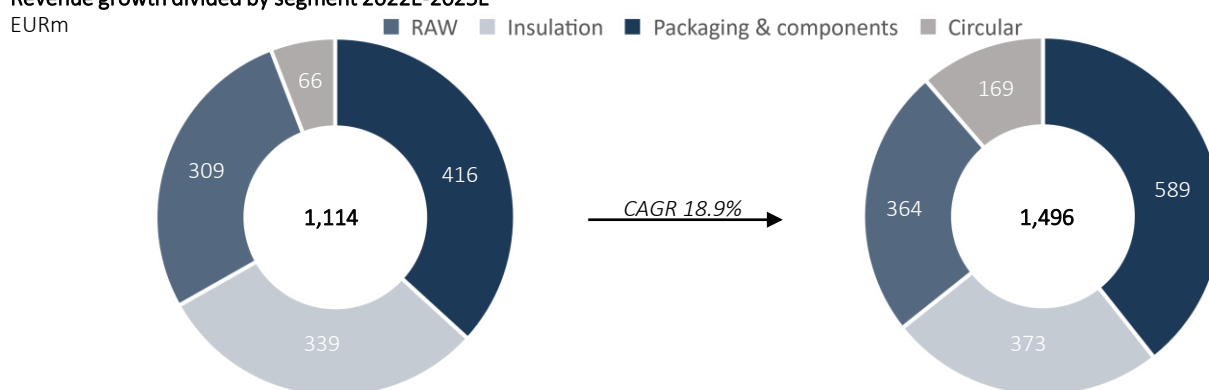
Investment thesis in charts

Estimated EBIT margin expansion to 13.2% in 2025E and revenue growth with a CAGR of 18.9% 2021-2025E



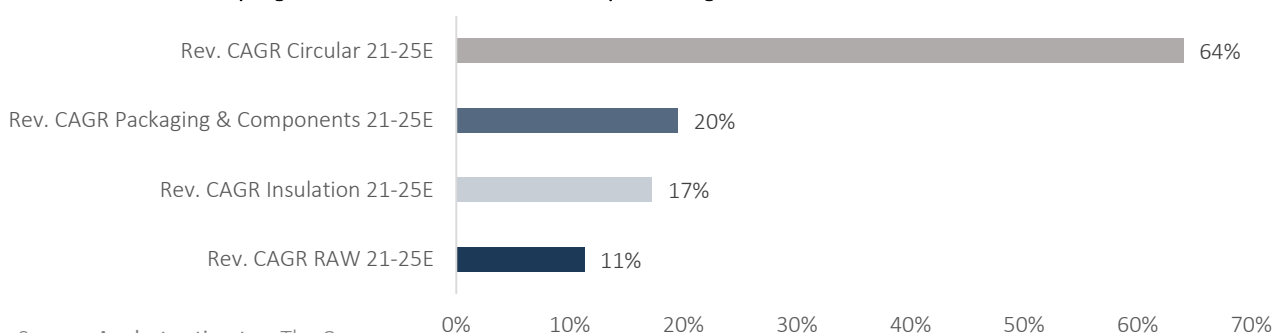
Source: Analyst estimates, The Company

Revenue growth divided by segment 2022E-2025E



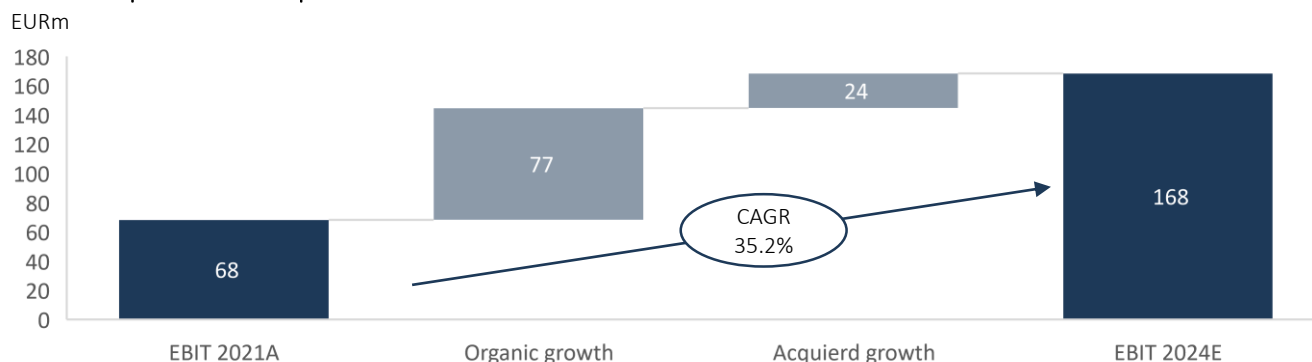
Source: Analyst estimates, The Company

Revenue CAGR divided by segment 2021-2025E with Circular expected to grow the most at a CAGR of 64%



Source: Analyst estimates, The Company

Potential acquisitions could expand EBIT with EUR 24m further than estimated



Source: Analyst estimates, The Company

Investment thesis

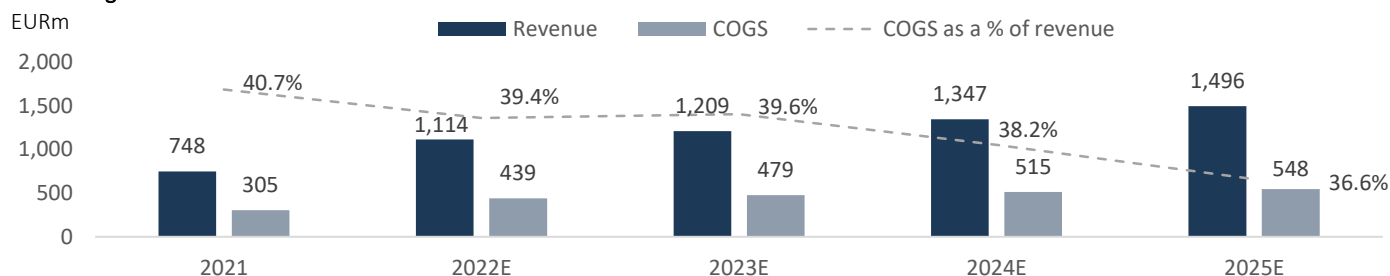
Well-positioned to grow top line at 18.9% CAGR 2021-2025E in a market with high entry barriers

Containing 98% air, Styrofoam is economically unsustainable to carry worldwide, close proximity to customers is therefore critical. BEWi holds a strong market position in Europe, especially in Scandinavia which accounts for approximately 40% of total sales. BEWi maintains an average customer relationship of 10 years in two segments along with 20 years in the largest segment. After acquiring the Norwegian group Jackson in 2022, BEWi is expected to become the third largest EPS producer on the European market. The top five players on the European EPS market accounts for over 70% of the production capacity. Establishing new production capacity for EPS requires large investments of approximately EUR 50m, creating high market entry barriers. With a strong market position BEWi can capitalize on increased demand for sustainable solutions and grow top line at 18.9% CAGR 2021-2025E.

Local monopolies resulting in a gross margin expansion from 59.3% 2021 to 63.4% in 2025E

As a subcontractor to several industries where their Styrofoam products account for a small marginal cost, BEWi has the ability to raise prices without affecting the demand negatively. Due to high transportation costs, the option to obtain Styrofoam products from any other supplier than the local one is unsustainable, which further creates pricing power conditions. As customers are dependent on BEWi, local monopolies arise and the Company then has the capability to raise prices in order to increase revenue in relation to costs. As a result of increased demand and pricing power the gross margin is expected to expand from 59.3% in 2021 to 63.4% in 2025E.

Decreasing COGS as a % of revenue from 40.7% in 2021 to 36.6% in 2025E



Source: Analyst estimates, The Company

Proven M&A track record and strong financial position for continued M&A

Since the first acquisition in 2006 BEWi has had an active strategy to create profitable growth, strengthen existing market positions and contribute to geographic expansion through M&A opportunities. BEWi has a history of more than 25 successful integrations that have realized the goals of diversifying the product offering and expand to new geographical markets. The previous integrations have contributed to cost synergies and improved margins. Operating in a market with several smaller players, management has announced that there are many opportunities in the market that could contribute to BEWi's growth journey. With a cash balance of EUR 67m, a cash conversion rate of 66% and ND/EBITDA of 2.0x, which is below the target limit of 2.5x, the Company has a strong financial position for continued acquisitions.

Risk for too optimistic M&A strategy

The short-term risk is that the integration of the recent acquisition Jackson is unsuccessful or delayed creating a worsened financial position. BEWi's M&A strategy entails a risk of integration processes becoming time consuming and costly shifting the focus from existing operations which could negatively affect customer relationships. An additional risk contributing to conservative growth estimates is that further market penetration in Scandinavia is limited by competition authorities as the Company already holds large market shares.

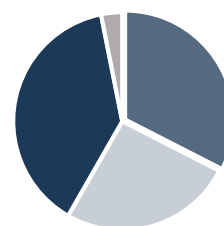
Company Overview

The largest vertically integrated EPS producer in Europe

BEWi is a Norwegian family-owned company producing packaging, components and isolation solutions made of Styrofoam. BEWi was founded in 1980 and had their IPO in 2020. BEWi holds a market share of approx. 12% and is the market leader within the biggest segment "Packaging & components" in Scandinavia, the Netherlands and Portugal. What differs BEWi from their competitors is that they are integrated throughout the value chain as they produce raw material, manufactures and distributes end-products and eventually recycles the raw materials. The Company's strategy is to grow both organically and through acquisitions, they have had a historical revenue CAGR of 18.4% 2018-2021 of which 9.6% has been organic. Acquisitions have, since 2014, contributed to cost synergies, improved margins and expanded market penetration.

Revenue per segment 2021

■ RAW	32.5%
■ Insulation	25.8%
■ Packaging & Components	38.6%
■ Circular	3.1%



Source: The Company

Business Model

An integrated business model creates competitive advantages

BEWi's fully integrated business model enables capitalization throughout the value chain. The raw material is manufactured in the upstream segment RAW and used in the downstream segments Insulation and Packaging & Components. Approximately 50% of the EPS, XPS, EPP and BioFoam produced in RAW is sold externally and 50% internally to the downstream segments. In the Packaging & Components segment standard and customised solutions are produced for various industrial sectors. Examples include protective packaging for pharmaceuticals, fish boxes and interior components for cars. The Insulation segment produces light weight and energy efficient solutions, such as walls, roofs and ceilings for the construction industry. The fourth and newest segment Circular aims to recycle one third of the annual production, which equals the amount of products with a lifetime less than one year, by collecting used products from customers and re-use it. Circular is expected to grow during the forecasted period as a consequence of a more sustainable focus internally and externally.

Market Overview

Higher demand for energy efficient solutions

The global EPS market is expected to grow by a CAGR of 4.8% from 2021-2027E according to a study made by Grand View Research. The forecasted growth rate is driven by the rising demand for lightweight, sustainable, and durable solutions in the construction, packaging and automotive industry. The EU's targets to decrease energy consumption will further increase demand for energy efficient solutions, especially in the construction industry which will primarily affect the Insulation segment. After the acquisition of the Norwegian group Jackson, BEWi is expected to increase their market share and become the third largest European EPS producer.

Customer specific products require local suppliers

The market for both Packaging & Components and Insulation is characterized to be fairly consolidated and has a big exposure to businesses. Low value and high-volume nature of the products, meaning high transportation costs in relation to product costs, results in a business which is very local. Furthermore, the products tend to be customer specific, leading to suppliers being integrated in their customers' production chain especially regarding component products. For insulation products the degree of specialization varies depending on geographies, with some markets demanding more customer specific products while other markets are more commoditized. Due to these factors local actors are demanded by the market.

Valuation

Undervalued to peers despite higher growth and EBITDA margin

BEWi is currently trading at a 36% discount to peer-average of 10.8x EV/EBIT 2024E. Since the Company is outperforming its peers both in terms of growth and EBIT margin, a premium of 6.5% is justified which implies an upside of 60%. The reason for that is BEWi's strong market position, good pricing power and an increase in demand for energy efficient solutions. According to the peer analysis, BEWi should be valued at NOK 75.4 per share, implying an upside of 60%. We believe the market underestimates BEWi's integrated business model which generates competitive advantages as well as pricing power conditions.

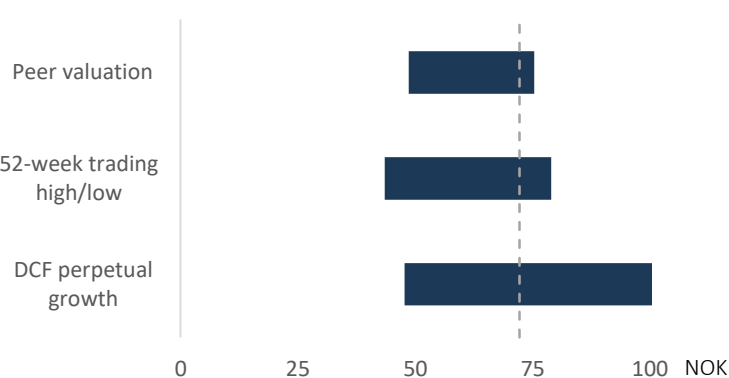
Company name	Market data (NOKm)		Financials		Valuation	
	Market cap.	Enterprise V.	2021-2024E Revenue CAGR	EBIT Margin 2024E	P/E 2024E	EV/EBIT 2024E
Peers						
Duni	4,110	5,860	16.1%	8.5%	14.4x	12.7x
Elopak	6,367	6,986	6.1%	6.9%	11.3x	8.6x
Nolato	14,252	13,396	1.2%	10.5%	15.1x	11.3x
Nordic Waterproofing	3,438	4,289	4.8%	10.0%	10.8x	10.6x
Median	5,238	6,423	5.5%	9.3%	12.8x	11.0x
Mean	7,042	7,633	7.0%	9.0%	12.9x	10.8x
BEWi	8,888	12,153	21.7%	10.7%	9.1	8.1

Source: Analyst estimates, The Company, Bloomberg

DCF and peer valuation gives a target price of NOK 72.3

We base our TP of NOK 72.3 on a 50/50 weighted average of 1) the peer valuation 11.5x EV/EBIT and 2) a DCF-based approach, with a WACC of 8.5%, a TGR of 2.0% in 2030 with a 14.1% terminal EBIT margin. The target price yields an upside of 41.8% and 12.3% IRR over 2 years. BEWi should be trading at a premium compared to peers due to 1) higher growth and 2) higher EBITDA margin, both reasons stemming from pricing power which should be rewarded by the market. However, we recognize that median EV/EBIT multiple since IPO is 12.6x, but due to current market climate caution is advised.

Fair value ranges



Source: Analyst estimates, The Company

Key cash flow items	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Total revenues	1,114	1,209	1,347	1,496	1,635	1,757	1,856	1,927	1,966
EBIT	106	83	145	198	220	238	253	263	278
Tax rate	22%	22%	22%	22%	22%	22%	22%	22%	22%
NOPAT	83	64	113	154	172	186	197	205	217
D&A	42	48	50	51	53	55	57	59	50
Change in NWC	(23)	(6)	(12)	(14)	(10)	(9)	(7)	(5)	(3)
CapEx	(31)	(48)	(54)	(60)	(41)	(44)	(46)	(48)	(49)
FCFF	71	58	96	132	173	188	201	210	215

Appendix

Income statement, EURm	2021	2022E	2023E	2024E	2025E
Net revenue	748	1,114	1,209	1,347	1,496
Revenue	748	1,114	1,209	1,347	1,496
COGS	(305)	(439)	(479)	(515)	(548)
Gross profit	443	675	730	832	948
<i>Gross margin</i>	<i>59.3%</i>	<i>60.6%</i>	<i>60.4%</i>	<i>61.8%</i>	<i>63.4%</i>
OPEX					
Other external costs	(136)	(232)	(240)	(253)	(278)
Personel costs	(116)	(174)	(225)	(233)	(251)
Goods for resale	(92)	(136)	(150)	(167)	(185)
Other operating expenses	7	15	15	15	15
EBITDA	106	148	130	194	249
<i>EBITDA margin</i>	<i>14.1%</i>	<i>13.3%</i>	<i>10.8%</i>	<i>14.4%</i>	<i>16.6%</i>
Depreciation	(30)	(34)	(40)	(42)	(43)
EBITA	76	114	91	153	206
<i>EBITA margin</i>	<i>10.1%</i>	<i>10.2%</i>	<i>7.5%</i>	<i>11.3%</i>	<i>13.7%</i>
Amortization	(8)	(8)	(8)	(8)	(8)
EBIT	68	106	83	145	198
<i>EBIT margin</i>	<i>9.1%</i>	<i>9.5%</i>	<i>6.8%</i>	<i>10.7%</i>	<i>13.2%</i>
Interest income	0	1	1	1	1
Interest expenses	(19)	(26)	(27)	(28)	(30)
EBT	49	81	56	117	168
<i>EBT margin</i>	<i>6.6%</i>	<i>7.2%</i>	<i>4.6%</i>	<i>8.7%</i>	<i>11.2%</i>
Tax expense	(15)	(18)	(10)	(23)	(33)
Net income	35	63	46	94	135
<i>Net margin</i>	<i>4.6%</i>	<i>5.7%</i>	<i>3.8%</i>	<i>7.0%</i>	<i>9.0%</i>

Terminal growth rate	Target price	WACC				
	69.1	7.0%	8.0%	8.5%	9.0%	10.0%
	1.0%	88.7	70.5	63.2	57.5	47.8
	1.5%	94.3	73.9	66.0	59.7	49.2
	2.0%	100.9	77.9	69.1	62.2	50.9
	2.5%	109.0	82.7	72.8	65.1	52.8
	3.0%	119.2	88.3	77.1	68.6	55.0

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Other

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