



ERIK PENSER BANK

Penser Access | Internet Software/Services | Sweden | 20 May 2021

BTS Group

Strong profitability

Surprisingly good margin

BTS reported sales of SEK 388 million, which was in line with published preliminary figures. This represents currency-adjusted growth of 12% compared with 2019, the most recent relevant comparison year. EBITA was SEK 42 million, which corresponds to a margin of 10.7% and growth of 40% compared to 2019. The margin is higher than in Q1 2017–2019. The company maintains its guidance that profits should be in line with 2019.

High profitability leads us to up our estimates...

The high profitability in Q1 and our belief that the recovery may continue to accelerate in Europe lead to raise our revenue estimates by 5% for this year and about 2% for coming years. We believe that continued high margins should be expected as virtual and digital delivery has the potential for higher profitability. This means that we are raising our EPS estimate by about 6% for 2022–2023.

... and the fair value

The strong operational momentum in the company and the reduced pandemic uncertainty mean that we are upping our fair value to SEK 395–405 from the previous 290–300. We see further upside in the share price and estimates if the company uses its cash of SEK 602 million. We believe that a trigger in the near future would be if BTS chooses to increase its guidance.

Estimate Changes (SEK)			Estimates (SEK)					Risk and Potential		
	Now	Before		20	21e	22e	23e	Motivated value	395.00 - 405.00	
EPS, adj 21e	7.72	7.62	1.3%	Sales,m	1,464	1,856	2,097	2,370	Current price	349.00
EPS, adj 22e	9.84	9.31	5.7%	Sales Growth	(21.5)%	26.8%	13.0%	13.0%	Risk level	Low
EPS, adj 23e	11.54	10.83	6.6%	EBITDA, m	155	317	377	427		
				EBIT, m	64.6	224.3	283.2	330.4		
				EPS, adj	1.96	7.72	9.84	11.54		
				EPS Growth	(74.8)%	293.6%	27.5%	17.3%		
				Equity/Share	36.7	43.5	49.4	56.0		
				Dividend	1.20	3.87	4.93	5.78		
				EBIT Marginal	4.4%	12.1%	13.5%	13.9%		
				ROE (%)	5.3%	17.8%	19.9%	20.6%		
				ROCE	5.7%	17.7%	20.4%	21.8%		
				EV/Sales	4.47x	3.52x	3.12x	2.76x		
				EV/EBITDA	42.1x	20.6x	17.3x	15.3x		
				EV/EBIT	101.2x	29.2x	23.1x	19.8x		
				P/E, adj	178.0x	45.2x	35.5x	30.2x		
				P/Equity	9.5x	8.0x	7.1x	6.2x		
				Dividend yield	0.6%	1.8%	2.3%	2.7%		
				FCF yield	6.1%	3.6%	4.9%	5.6%		
				Net Debt/EBITDA	(1.2)g	(1.0)g	(1.2)g	(1.3)g		

Calendar Events	
Q2'21	2021-08-18

Key Figures (mkr)	
Number of Shares	19.3m
Market cap	6,742
Net Debt	(203)
EV	6,539
Free Float	31.00%
Avg. No. of Daily Traded Sh.	15.9(k)
Reuters/Bloomberg	BTSb.ST/BTSB SS

One Year Performance Chart	

Analysts	
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Overview

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Investment Case

BTS develops and packages client strategies and assists with their implementation through simulation and training. BTS differentiates itself from the major management consultancy firms by being more niched in implementing and executing strategies for its clients.

Company Profile

BTS is a flight simulator for businesses

BTS's strategy includes interactive learning, and is used to train managers and entire organisations as tangibly and personally as possible. BTS offers a broad range of simulations, and over the years the company has built up vast know-how in a number of industries and markets. BTS can simulate anything from a recession to what would happen if a company were to lose one of its most important customers. Using the BTS methodology its clients can, for example, learn how their company should act in, and defend itself against, different scenarios.

Growth with stable margins

The company's target is to achieve 20% annual growth with a 15% EBITA margin. This is to be achieved both organically and through acquisitions. Over the past 10 years, BTS has generated average annual growth of 10% in currency-adjusted sales and EBITA, with organic growth accounting for the majority. Despite this strong growth, BTS has managed to maintain a stable margin over the years. Its EBIT margin is anchored above 10%, which is also what we anticipate going forward. We estimate that this growth, and the company's cutbacks and efficiencies, will offset the ongoing pressure on prices. In the short term, BTS should deliver higher profitability as it has historically invested just over 3-4% of its turnover in digitalisation. However, it is investing for long-term growth, which we consider to be the right strategy. In addition to stable growth and profitability, the company has also delivered good dividend growth over time.

One company, four revenue streams

BTS has four revenue streams: Programs, Development, Licenses and Other Revenue. Programs account for the majority of revenues, at about 59%, but we do not assess this as a risk since this field is its signature reputation in the market. This is also the costliest service, making it realistic that it accounts for the majority of revenues. The revenue model is based on fixed prices, with variable components in the form of annual indexation and fees depending on the number of participants. The company's most profitable segment is Licenses, accounting for just over 12% of sales. In this area we envisage that acquisitions could raise the proportion of total sales. The remaining revenue streams are Development and Other Revenue, which account for 28% of net sales.

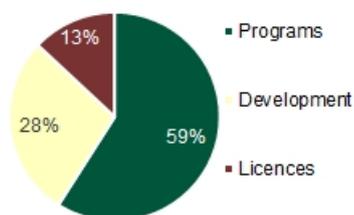
Valuation approach

Given the financial stability of the company, along with the fact that it has over time delivered double-digit growth and margins, we estimate that the share has more to give and is still worth owning for the long term. Our DCF indicates a value in the range of SEK 395-405.

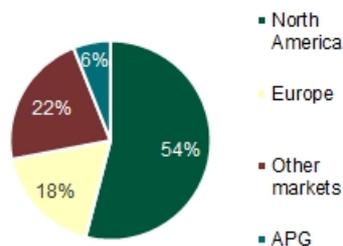
Company facts

Largest Shareholders	Votes	Capital
Henrik Ekelund	40,5%	18,7%
Stefan af Petersens	9,9%	12,1%
Nordea Fonder	8,4%	11,8%
Lannebo Fonder	6,1%	8,5%
Övriga	35,1%	49,0%
Chairman of the board		Reinhold Geijer
CEO		Henrik Ekelund
CFO		Stefan Brown
IR		Michael Wallin
Webpage		https://www.bts.com/

Operational Segments



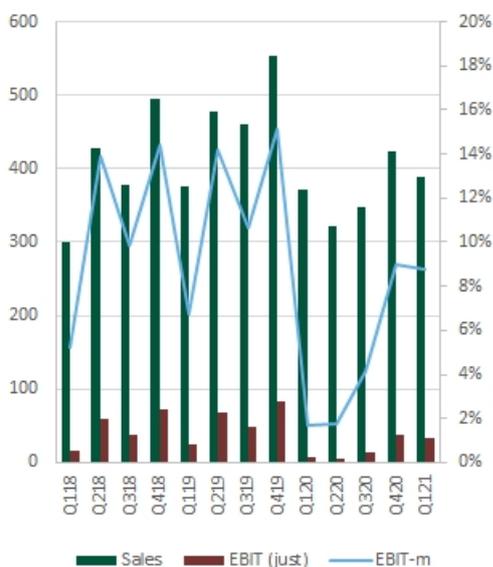
Geographical Segments



Sales and EBIT



Sales and EBIT (Quarterly)



Income statement

	2012A	2013A	2014A	2015A	2016A	2017A	2018A	2019A	2020A	2021E	2022E	2023E
Net sales						1243	1598	1865	1464	1856	2097	2370
Operating Expenses						-1092	-1384	-1554	-1309	-1539	-1720	-1943
EBITDA						151	214	311	155	317	377	427
Depreciation and amortization						-18	-31	-86	-91	-92	-94	-96
EBIT						132	183	226	65	224	283	330
Adjustments						0	0	0	0	0	0	0
Adj. EBIT						132	183	226	65	224	283	330
Net financial items						-1	-3	-10	-14	-10	-10	-10
Profit before tax						131	180	216	51	214	273	321
Estimated tax						-33	-54	-66	-16	-65	-83	-98
Profit for the period						98	127	150	35	149	190	223
Profit for the period (adj)						98	127	151	35	149	190	223

Kassaflödesanalys

	2012A	2013A	2014A	2015A	2016A	2017A	2018A	2019A	2020A	2021E	2022E	2023E
Profit for the period						98	127	151	35	149	190	223
Non-cash items						1	58	85	65	92	94	96
Changes in working capital						-1	-27	-18	142	-74	-63	-71
Cash flow from operating activities						98	158	218	242	168	222	248
Investments						-80	-37	-38	-148	-22	-22	-22
Disposals						0	0	0	0	0	0	0
Free cash flow						18	121	180	94	146	200	226
Dividends						-47	-53	-69	-70	-23	-75	-95
Share issues/buybacks						101	0	0	0	0	0	0
Purchases						0	0	0	0	0	0	0
Debt financing and other adjustments						0	-18	-63	282	0	0	0
Cash flow						73	50	48	307	122	125	131
Net Debt						-74	-97	-186	-187	-309	-434	-565

Balansräkning

	2012A	2013A	2014A	2015A	2016A	2017A	2018A	2019A	2020A	2021E	2022E	2023E
Balance sheet												
Goodwill						425	455	536	549	485	420	353
Other intangible assets						87	72	82	75	75	75	75
Property, plant and equipment						30	39	220	185	179	172	164
Interest-bearing non-current assets						0	0	0	0	0	0	0
Investments in associates and shares						0	0	0	0	0	0	0
Other non-current assets						8	15	13	17	17	17	17
Total non-current assets						550	581	851	826	756	683	609
Inventory						0	0	0	0	0	0	0
Trade receivables						335	512	514	409	483	545	616
Other current assets						141	172	187	134	134	134	134
Cash and cash equivalents						200	262	316	591	714	839	970
Total current assets						676	947	1018	1134	1330	1518	1720
TOTAL ASSETS						1226	1528	1869	1960	2086	2201	2329
EQUITY AND LIABILITIES												
Equity						581	704	840	710	836	951	1079
Minority interests						0	0	0	0	0	0	0
Total equity						581	704	840	710	836	951	1079
Non-current financial liabilities						126	103	76	0	0	0	0
Provisions for pensions						0	0	0	0	0	0	0
Deferred tax liabilities						0	0	0	0	0	0	0
Other non-current liabilities						180	201	288	431	431	431	431
Total non-current liabilities						306	304	364	431	431	431	431
Current financial liabilities						0	0	0	0	0	0	0
Trade payables						0	0	0	0	0	0	0
Tax liabilities						0	0	0	0	0	0	0
Other current liabilities						339	520	665	820	820	820	820
Total current liabilities						339	520	665	820	820	820	820
TOTAL EQUITY AND LIABILITIES						1226	1528	1869	1960	2086	2201	2329

Quarterly data

	Q117	Q217	Q317	Q417	Q118	Q218	Q318	Q418	Q119	Q219	Q319	Q419	Q120	Q220	Q320	Q420	Q121
Net sales	274,0	331,6	268,8	368,2	299,4	427,2	377,4	494,4	375,8	477,4	459,7	552,5	372,2	322,3	347,0	422,6	388,2
Operating Expenses	-255,0	-284,8	-234,9	-317,0	-276,2	-360,3	-333,6	-414,4	-331,4	-390,4	-387,9	-444,6	-343,7	-293,5	-310,5	-361,0	-330,9
Operating profit (EBITDA)	16,4	44,1	31,6	48,8	18,5	62,0	39,4	75,9	40,1	82,5	66,4	102,5	22,8	28,8	36,5	61,1	57,1
Depreciation of property, plant, and equipment	-1,7	-1,7	-1,6	-3,5	-2,8	-2,6	-2,3	-4,6	-14,7	-14,8	-17,4	-19,0	-16,4	-16,8	-15,7	-16,8	-16,8
Amortization of intangible assets	-2,5	-2,6	-2,3	-2,4	-4,7	-4,9	-4,4	-4,1	-4,3	-4,6	-5,4	-5,4	-5,7	-6,3	-6,3	-6,3	-6,3
Operating profit (EBIT)	14,7	42,4	29,9	45,3	15,7	59,3	37,1	71,2	25,5	67,8	49,0	83,5	6,4	5,8	14,4	38,0	34,1
Net financial items																	
Adj. operating profit (EBIT)	14,7	42,4	29,9	45,3	15,7	59,3	37,1	71,2	25,5	67,8	49,0	83,5	6,4	5,8	14,4	38,0	34,1
Estimated tax	-0,2	-0,2	0,0	-0,5	-0,7	-0,8	-0,6	-1,5	-2,5	-0,8	-2,7	-3,2	-2,2	-4,4	-3,3	-3,7	-4,2
Profit before tax	14,5	42,2	30,0	44,8	14,9	58,6	36,5	69,7	23,0	67,0	46,3	80,3	4,2	1,4	11,1	34,3	29,9
Estimated tax	-5,2	-13,9	-9,8	-4,4	-4,4	-17,4	-11,1	-20,8	-6,8	-19,8	-14,0	-25,1	-1,3	-0,4	-3,4	-10,7	-9,4
Profit for the period	9,3	28,3	20,1	40,4	10,5	41,2	25,5	48,9	16,2	47,1	32,3	55,2	3,0	1,0	7,7	23,5	20,5

	Q117	Q217	Q317	Q417	Q118	Q218	Q318	Q418	Q119	Q219	Q319	Q419	Q120	Q220	Q320	Q420	Q121
Sales growth	22%	18%	1%	9%	9%	29%	40%	34%	26%	12%	22%	12%	-1%	-32%	25%	-24%	4%
EBIT growth (adjusted)	60%	31%	11%	5%	7%	40%	24%	57%	62%	14%	32%	17%	-75%	-91%	-71%	-54%	435%
EBITDA-margin	6%	13%	12%	13%	6%	15%	10%	15%	11%	17%	14%	19%	4%	5%	7%	11%	10%
EBIT-margin	3%	8%	5%	8%	3%	11%	7%	13%	5%	12%	9%	15%	1%	1%	3%	7%	6%

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