



ERIK PENSER BANK

Penser Access | Food: Specialty/Candy | Sweden | 8 February 2022

Midsona

Cost inflation squeezing the margin in the short term

Challenges in the value chain are costing

Sales in Q4 2021 decreased by 6% year on year in a market that was weak overall, but with Midsona taking market share. The already-known perfect storm of external factors squeezed the gross margin, with the EBITDA margin at 6.0% (10.5%). This meant that sales for 2021 were SEK 3,773 million – in line with our estimate. EBITDA for the full year was SEK 329 million, which was 20% lower than our estimate.

Working to improve costs and cash flow

Action is being taken to strengthen the supply chain and the inventory situation, and improve other costs. No dividend for 2021 is proposed. Implemented price increases will take full effect in Q2, while Q1 will remain tough. We are pleased that Midsona is tackling the problems, and we expect a recovery from Q2. A large contract in Spain is making a good contribution to organic growth.

Estimates down but the valuation is too low

The squeezed gross margin leads us to trim back our estimates. However, we believe that organic growth and margins will recover in 2022. The rapid downward valuation of the sector and the stock market as a whole means that we are more cautious in our valuation, and we are cutting our fair value to SEK 48–50/share, which means a certain justified premium to peers. This gives an upside of about 30%.

Estimate Changes (kr)				Estimates (kr)				Risk and Potential		
	Now	Before		21	22e	23e	24e	Motivated value	48.0 - 50.0	
EPS, adjusted 22e	2.24	2.46	-8.9%	Sales, mkr	3,773	3,991	4,111	4,235	Current price	SEK37.8
EPS, adjusted 23e	2.38	2.83	-15.8%	Growth	2%	6%	3%	3%	Risk level	Medium
EPS, adjusted 24e	2.66	2.66	0.0%	EBITDA, mkr	329	427	470	501	<div style="background-color: #004a33; color: white; padding: 5px; text-align: center;">One Year Performance Chart</div>	
<div style="background-color: #004a33; color: white; padding: 5px;">Calendar Events</div>				EBIT, mkr	161	263	276	302		
				EPS, adjusted	1.2	2.2	2.4	2.7		
Q1 report		28 April 2022	EPS growth	(55)%	83%	6%	12%			
AGM		5 May 2022	Equity/share	39.5	41.7	43.3	44.9			
Q2 report		20 July 2022	Dividend/share	0.0	0.8	1.0	1.0			
<div style="background-color: #004a33; color: white; padding: 5px;">Key Figures (mkr)</div>				EBIT margin	4.3%	6.6%	6.7%	7.1%		
				ROE	3.4%	5.4%	5.5%	5.9%		
Number of shares		73m	ROCE	3.5%	5.6%	5.7%	6.1%			
Market cap		2,754	EV/Sales	1.1x	1.0x	1.0x	0.9x			
Net debt		1,237	EV/EBITDA	12.1x	9.3x	8.5x	8.0x			
EV		3,991	EV/EBIT	24.8x	15.2x	14.4x	13.2x			
Free float		61%	P/E, adjusted	30.9x	16.9x	15.9x	14.2x			
Average number of daily traded shares		67(k)	P/Equity	1.0x	0.9x	0.9x	0.8x			
Reuters/Bloomberg		MSONb.ST/MSONB SS	Dividend yield	0.0%	2.1%	2.6%	2.6%			
			FCF yield	(8.7)%	10.2%	8.5%	9.0%			
			Net debt/EBITDA	4.4g	2.7g	2.1g	1.6g			

Analysts

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Overview

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Investment Case

Midsona's exposure to organic and plant-based foods means it should be able to experience more rapid organic growth than the food industry as a whole. Its acquisition strategy has meant strong growth in both sales and profitability. The company has consolidated the Nordic market and is now contributing to consolidation in the rest of Europe. Acquisitions are bringing cost synergies and economies of scale throughout the value chain, from purchasing to sales. Increased consumer awareness and a focus on sustainability and health mean that Midsona's products are able to make the shift from the specialist health trade into grocery stores in Europe, just as has happened in the Nordic countries. This contributes to good organic growth.

Company Profile

Midsona is a leading supplier in organic and plant-based foods, health foods and consumer health in the Nordic region, and its ambition is to be at the vanguard in Europe. The company develops, manufactures and markets several well-known brands aimed at helping people live a healthy life. These products are available through multiple sales channels – grocery stores, pharmacies, health food stores, gyms and online. Midsona has targeted average annual expansion of 15 percent through both organic and acquired growth. It has delivered this historically, and we believe the company should be able to continue to achieve this with its existing strategy.

Valuation approach

The share is traded on our forecasts at P/E 15.9x for 2023e, which is lower than the Nasdaq Stockholm All Share Index, which is trading at P/E 16.9x. The sector is traded at an average P/E 16.8x for 2023e. We believe that Midsona should be traded at a premium based on: 1) its strong brand portfolio; 2) the company's successful acquisition strategy; and 3) its niche towards health, well-being and organic that we regard as growing structurally. We regard the company's new investment in plant-based proteins as an asset that may be upwardly valued given how shares in this area are priced.

Target Price

The squeezed gross margin leads us to trim back out estimates. However, we believe that organic growth and margins will recover in 2022. The rapid downward valuation of the sector and the stock market as a whole means that we are more cautious in our valuation, and we are cutting our fair value to SEK 48–50/share, which means a certain justified premium to peers. This gives an upside of about 30%.

The situation is already known

When Midsona reported its results for Q4 2021, we already knew the sales and earnings after the company announced a profit warning on January 13. Sales for Q4 2021 were SEK 1,062 million (1,083), while EBITDA came in at SEK 61 million (114). This means that sales for the full year 2021 were SEK 3,773 million, which was in line with our estimate. EBITDA for the full year was SEK 329 million, which was 20% lower than our estimate.

In connection with its previous quarterly report, Midsona warned that it was seeing a perfect storm of poor harvests, delivery problems, shortages of raw materials and inputs, and consequently sharply increased costs. We knew this, and sales were in line with our expectations. On the other hand, this had a greater and more rapid impact on profitability than we anticipated. In order to be able to deliver and maintain its good relationship with customers, Midsona has bought in raw materials at high prices in the spot market. This weighs heavily on the gross margin in the short term and is the explanation for the lower earnings.

As Midsona has said previously, it is offsetting the higher cost situation with price increases, although with some lag. These price increases take effect from Q1, with full impact from the beginning of Q2. The company is also working to reduce other costs in order to improve the operating margin. Midsona also communicated that sales improved in December and early January. In January, Midsona announced that it had signed an agreement with Spain's largest grocery retail chain, Mercadona, to sell plant-based meat alternatives. This agreement is estimated to generate annual sales of SEK 30–40 million, which means that we can add about 1% organic sales for 2022.

Cash flow

Cash flow from operating activities was SEK -64 million (283). In addition to weak development for operating activities, working capital deteriorated due to reduced operating liabilities, increased capital tied up in inventories and operating receivables. The reduced operating liabilities were due to changed payment terms as a result of new legislation that came into force on November 1. This legislation meant that certain payments were made earlier than would otherwise have been the case, and has a negative non-recurring effect on cash flow. In the first quarter, a factoring agreement was ended, which also had a negative effect on capital tied up.

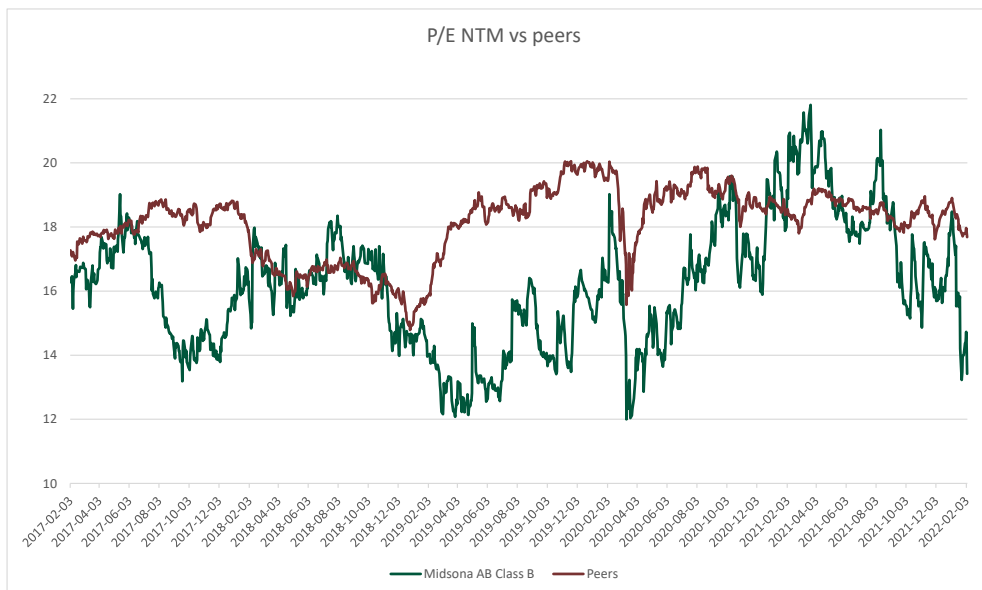
Capital tied up in inventories remained high due to the challenges in the supply chain and increased purchase volumes of input goods as a result of longer lead times in global transport. To strengthen its cash flow, the company is initiating programmes to reduce its capital tied up, with multiple activities aimed at getting the inventory situation under control for various raw materials. In addition, the board has decided to propose that no dividend be paid for 2021.

Better from Q2

2021 was a tough year for Midsona, with challenging comparative numbers from record-breaking 2020 and the perfect storm of external factors that hit the company at the end of the year. With compensatory price increases and an initial positive sales trend, 2022 should be better. The situation of almost all harvests being poor at once is also unique and has never happened before in the company's history. Although not all delivery problems have been resolved, and further price increases may be needed, we should see a 2022 that looks brighter from Q2, with Midsona able to continue its expansion and consolidation of the European market for organic food. The agreement with Mercadona is proof that Midsona can now start reaping the benefits of investments made in the Spanish facility for plant-based proteins. We view positively that the company is taking action to address the cash flow situation and that it continues to streamline on the cost side. We had looked forward to seeing further acquisitions announced during the year, but appreciate that the focus right now is on cash flow rather than any major acquisition.

	Price		MCAP		EV/EBIT (adj)			P/E (adj)			Div yield	EBIT-marg.			Share performance
	(local)		(local ccy)		22e	23e	24e	22e	23e	24e	23e	22e	23e	24e	YTD
Atria Oyj Class A	11,2	EUR	318		11,1	10,4		10,5	9,8		4,7%	2,9%	3,1%		6%
Cloetta AB Class B	24,2	SEK	6 985		11,8	11,0	11,0	13,3	12,4	12,3	5,0%	11,6%	12,2%	12,2%	1%
Olvi Oyj Class A	47,6	EUR	986		14,0	12,7		18,6	16,8		2,9%	13,4%	14,0%		5%
Orkla ASA	84,1	NOK	84 220		16,0	15,7	14,6	16,0	15,5	14,0	3,7%	12,0%	12,0%	12,6%	0%
Tyson Foods, Inc. Class A	88,3	SEK	31 438		10,1	10,0	9,8	11,9	11,7	10,9	2,3%	7,6%	7,6%	7,6%	33%
Unilever PLC	38,2	USD	97 701		14,7	14,2	13,5	17,0	16,3	15,1	4,1%	17,9%	18,1%	18,1%	-6%
Nestle S.A.	119,1	EUR	335 266		23,9	22,5	21,2	25,1	23,4	21,5	2,6%	17,3%	17,5%	17,9%	17%
Procter & Gamble Company	161,5	CHF	387 198		24,1	22,3	21,1	27,3	25,1	23,2	2,3%	23,0%	23,8%	24,2%	25%
Hain Celestial Group, Inc.	37,0	USD	3 383		22,1	18,8	17,2	24,0	20,1	18,1	0,0%	10,3%	11,4%	11,7%	-11%
Midsona	37,8	SEK	2 751		15,2	14,4	13,2	16,9	15,9	14,2	3,6%	6,6%	6,7%	7,1%	-53%
Average					16,4	15,3	15,5	18,2	16,8	16,5	3,1%	12,9%	13,3%	14,9%	
Median					14,7	14,2	14,6	17,0	16,3	15,1	2,9%	12,0%	12,2%	12,6%	

Source: Factset, Bloomberg



DCF valuation

To support our peer valuation, we have applied a DCF model as below, which provides a value of approximately SEK 50 per Midsona share. This is based on conservative long-term organic growth of 3%. No acquisitions are included in the estimates, although we do expect these on top of the organic growth. There is potential for an upward valuation here if Midsona continues its acquisition journey in Europe. We also expect Midsona to achieve its margin target of 12% EBITDA in 2024.

Valuation output			
Sum of PV of FCF (explicit period)			2 206
PV of terminal value (perpetuity formula)			2 858
Enterprise value			5 065
Latest net debt			1 436
Minority interests & other			0
Equity value			3 629
No. of shares outstanding (millions)			73
Equity value per share (SEK)			50
Implicit multipl.			
EV/Sales	2022	2023	2024
	1,3	1,2	1,2
EV/EBITDA	11,8	10,8	10,1
EV/EBIT	19,2	18,3	16,8
EV/NOPLAT	24,6	23,5	21,5
P/E			
ROIC/WACC			
Current Share price			37,80

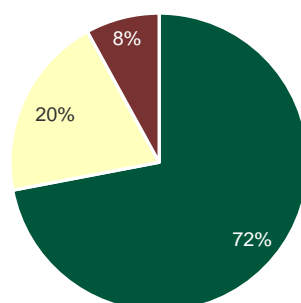
WACC assumptions	
Risk free nominal rate	0,4%
Risk premium	7,0%
Extra risk premium	2,0%
Beta	1,0
Cost of equity	9,4%
Cost of debt (pre-tax)	3,0%
Tax rate	22%
Target debt/(debt + equity)	20%
WACC	8,0%
Terminal value assumptions	
Long term growth rate	3,0%
Long term EBIT margin	9,0%
Depreciation (% of sales)	4,0%
Capex (% of sales)	4,0%
Working cap. (% of sales)	17,3%
Tax rate	22%

Sensitivity analysis						
Long-term growth rate						
		2,0%	2,5%	3,0%	3,5%	4,0%
WACC	7,0%	55	60	67	76	88
	7,5%	48	52	58	64	73
	8,0%	42	45	50	55	61
	8,5%	37	40	43	47	52
9,0%	33	35	38	41	45	
Long-term EBIT margin						
		4,0%	6,5%	9,0%	11,5%	14,0%
WACC	7,0%	27	47	67	88	108
	7,5%	23	40	58	75	92
	8,0%	20	35	50	65	80
	8,5%	17	30	43	56	69
	9,0%	14	26	38	49	61

Shareholders

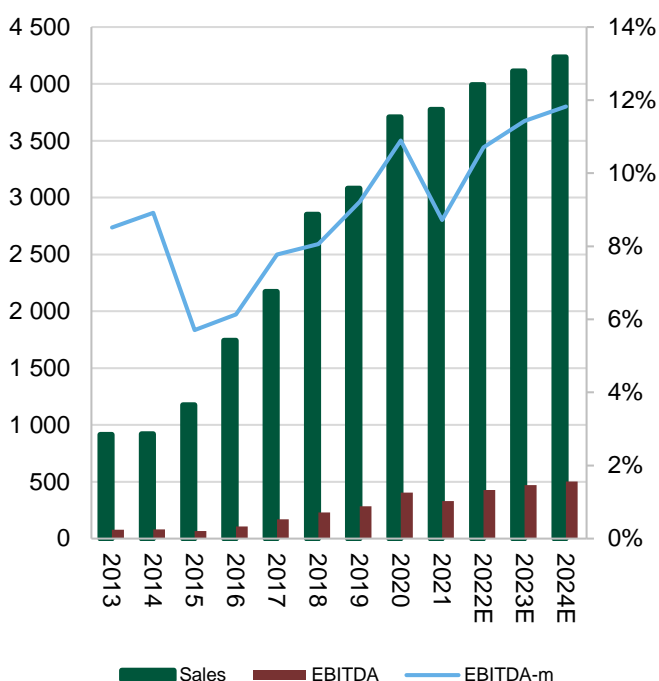
Shareholders	Votes	Shares
Stena Adactum AB	29,0%	29,0%
Swedbank Robur Fonder	8,0%	8,3%
La Financière de l'Echiquier	5,8%	6,1%
Peter Wahlberg	4,5%	5,0%
Övriga	52,7%	51,7%
Chairman		Ola Erici
CEO		Peter Åsberg
CFO		Max Bokander
Contact		-
Website		midsona.com

Sales per division

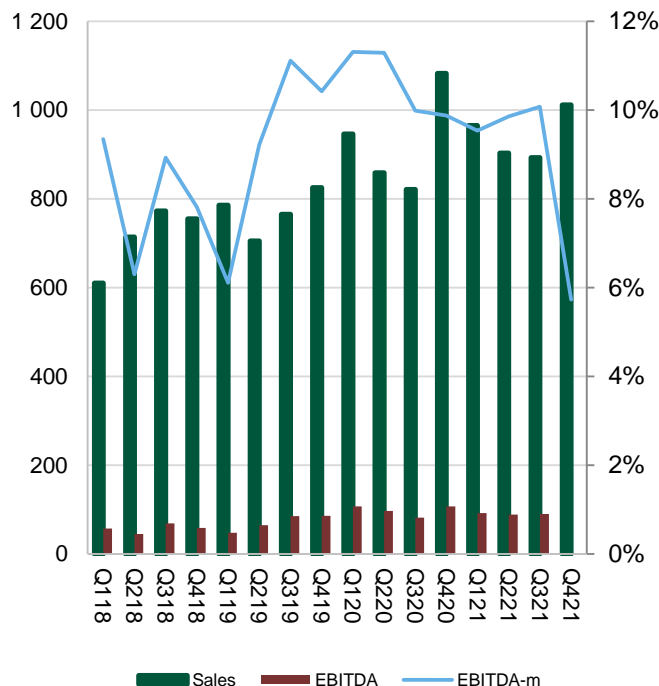


• Nordics North Europe • South Europe

Yearly results



Quarterly results



Income Statement

	2015A	2016A	2017A	2018A	2019A	2020A	2021A	2022E	2023E	2024E
Net sales	1 174	1 744	2 173	2 852	3 081	3 709	3 773	3 991	4 111	4 235
Other operating income	0	0	0	0	0	0	0	0	0	0
Extraordinary income	0	0	0	0	0	0	0	0	0	0
Cost of goods sold	-699	-1 127	-1 430	-1 980	-2 178	-2 672	-2 758	-2 923	-2 972	-3 049
Gross profit	475	617	743	872	903	1 037	1 015	1 068	1 139	1 186
Selling expenses	-323	-377	-425	-473	-505	-542	-592	-553	-584	-601
Administrative expenses	-103	-149	-179	-212	-240	-284	-289	-280	-308	-313
Other working costs	28	30	38	59	151	199	203	197	227	234
Other costs	-10	-14	-8	-16	-25	-6	-8	-4	-4	-4
Extraordinary costs	0	0	0	0	0	0	0	0	0	0
EBITDA	67	107	169	230	284	404	329	427	470	501
Depreciation/amortization	-19	-25	-35	-52	-114	-147	-168	-164	-193	-199
Good will depreciation	0	0	0	0	0	0	0	0	0	0
EBIT	48	82	134	178	170	257	161	263	276	302
Extraordinary items	0	0	0	0	0	0	0	0	0	0
Adjusted EBIT	48	82	134	178	170	257	161	263	276	302
Financial income	0	0	0	0	0	0	0	0	0	0
Financial costs	-9	-24	-22	-15	-54	-53	-46	-60	-60	-60
Profit before taxes	39	58	112	163	116	204	115	204	217	242
Income tax	27	-13	-28	-34	-19	-28	-26	-41	-43	-48
Minority interest	0	0	0	0	0	0	0	0	0	0
Net income	66	45	84	129	97	176	89	163	174	194
Net income (adjusted)	66	45	84	129	97	176	89	163	174	194

Balance Sheet

	2015A	2016A	2017A	2018A	2019A	2020A	2021A	2022E	2023E	2024E
Assets										
Goodwill	1 067	1 940	2 129	2 466	3 058	3 289	3 364	3 364	3 364	3 364
Other intangible assets	0	0	0	0	0	0	0	0	0	0
Tangible fixed assets	47	55	58	254	585	548	522	518	489	459
Interest bearing fixed assets	0	0	0	0	0	0	0	0	0	0
Shares in associated companies	0	0	0	0	0	0	0	0	0	0
Other fixed assets	81	84	102	78	101	89	95	95	95	95
Total fixed assets	1 195	2 079	2 289	2 798	3 744	3 926	3 981	3 977	3 948	3 918
Inventory	151	244	272	482	529	643	783	665	632	605
Accounts receivable	131	209	213	259	290	290	403	426	439	452
Other current assets	17	23	29	59	44	73	67	67	67	67
cash and cash equivalents	61	65	54	101	173	195	53	335	509	686
Total current assets	360	541	568	901	1 036	1 201	1 306	1 493	1 648	1 810
Total Assets	1 555	2 620	2 857	3 699	4 780	5 127	5 287	5 470	5 596	5 728
Equity and liabilities										
Equity	877	1 349	1 550	1 630	2 322	2 313	2 875	3 038	3 153	3 274
Minority interest	0	0	0	0	0	0	0	0	0	0
Total equity	877	1 349	1 550	1 630	2 322	2 313	2 875	3 038	3 153	3 274
Non-current liabilities	250	706	665	1 130	1 382	1 526	1 314	1 314	1 314	1 314
Provisions for pensions	0	0	0	0	0	0	0	0	0	0
Deferred tax liabilities	135	207	221	271	321	342	347	347	347	347
Other non-current liabilities	0	4	5	83	92	38	11	11	11	11
Total non-current liabilities	385	917	891	1 484	1 795	1 906	1 672	1 672	1 672	1 672
Current liabilities	69	21	41	87	144	253	175	175	175	175
Accounts payable	132	212	220	357	288	405	342	362	373	384
Tax liability	0	0	0	0	2	0	15	15	15	15
Other current liabilities	92	121	155	141	229	250	208	208	208	208
Total current liabilities	293	354	416	585	663	908	740	760	771	782
Total equity and liabilities	1 555	2 620	2 857	3 699	4 780	5 127	5 287	5 470	5 596	5 728

Cash Flow Statement

	2015A	2016A	2017A	2018A	2019A	2020A	2021A	2022E	2023E	2024E
Net income	64	103	146	182	221	319	244	327	367	393
Items not affecting cash flow	0	0	0	0	0	0	0	0	0	0
Changes in working capital	23	-34	6	30	-23	-36	-308	114	31	26
Cash flow from operating activities	87	69	152	212	198	283	-64	441	398	418
Investments	-254	-848	-91	-357	-712	-369	-175	-160	-164	-169
Divestments	0	0	0	0	0	0	0	0	0	0
Free cash flow	-167	-779	61	-145	-514	-86	-239	282	233	249
Dividends	-20	-23	-23	-51	-58	-81	-81	0	-58	-73
Right issue/Share buyback	203	801	-46	240	647	198	175	0	0	0
Acquisitions	0	0	0	0	0	0	0	0	0	0
Debt financing and other adjustments	0	0	0	0	0	0	0	0	0	0
Cash flow	16	-1	-8	44	75	31	-145	282	175	176
Adjustments for non-cash items	0	0	0	0	0	0	0	0	0	0
Net debt (adjusted)	258	662	652	1 116	1 353	1 584	1 436	1 154	980	803

Per Share Data

	2015A	2016A	2017A	2018A	2019A	2020A	2020A	2022E	2023E	2024E
EPS	2,70	1,77	1,83	2,80	1,49	2,71	1,22	2,24	2,38	2,66
EPS adjusted	2,70	1,77	1,83	2,80	1,49	2,71	1,22	2,24	2,38	2,66
FCF per share	3,06	1,62	3,30	4,61	3,05	4,35	-0,88	6,06	5,46	5,74
Dividend per share	1,00	1,10	1,25	1,25	1,25	1,25	0,00	0,80	1,00	1,00
Equity per share	30,85	31,63	33,69	35,43	35,72	35,58	39,46	41,70	43,28	44,94
Number of shares	28,43	42,65	46,01	46,01	65,00	65,00	72,86	72,86	72,86	72,86

Valuation

	2015A	2016A	2017A	2018A	2019A	2020A	2021A	2022E	2023E	2024E
P/E	9,4	22,1	28,5	19,5	33,1	28,7	30,9	16,9	15,9	14,2
P/EK	0,8	1,2	1,5	1,5	1,4	2,2	1,0	0,9	0,9	0,8
P/FCF	8,3	24,2	15,7	11,9	16,2	17,9	-43,0	6,2	6,9	6,6
Div yield	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Payout ratio	0,4	0,6	0,7	0,4	0,8	0,5	0,0	0,4	0,4	0,4
EV/Sales	0,8	1,3	1,4	1,3	1,5	1,8	1,1	1,0	1,0	0,9
EV/EBITDA	14,7	21,8	18,0	15,8	16,1	16,4	12,1	9,3	8,5	8,0
EV/EBITDA	20,5	28,4	22,7	20,4	26,8	25,8	24,8	15,2	14,4	13,2
Share price year end	25,5	39,1	52,0	54,8	49,4	77,8	0,0	0,0	0,0	0,0
EV, year end	982,4	2329,9	3044,4	3635,4	4564,2	6641,4	3991,3	3991,3	3991,3	3991,3

Growth and Margins

	2015A	2016A	2017A	2018A	2019A	2020A	2021A	2022E	2023E	2024E
Sales growth	28%	49%	25%	31%	8%	20%	2%	6%	3%	3%
EBIT growth	-28%	71%	63%	33%	-4%	51%	-37%	64%	5%	9%
ESP growth	-2%	-35%	3%	54%	-47%	81%	-55%	83%	6%	12%
EBITDA margin	6%	6%	8%	8%	9%	11%	9%	11%	11%	12%
EBIT margin	4%	5%	6%	6%	6%	7%	4%	7%	7%	7%
Tax rate	-69%	22%	25%	21%	16%	14%	23%	20%	20%	20%

Profitability

	2015A	2016A	2017A	2018A	2019A	2020A	2020A	2022E	2023E	2024E
ROE	8%	4%	6%	8%	5%	8%	3%	6%	6%	6%
ROCE	4%	5%	6%	7%	5%	6%	4%	6%	6%	6%

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