



ERIK PENSER BANK

Penser Access | Food: Specialty/Candy | Sweden | 29 April 2022

Midsona

Light at the end of the tunnel

The tough situation is already known

Sales were SEK 972m in Q1, marginally better y/y even though organic growth was down -5.6%. The gross margin improved by 2.2 percentage points from the tough Q4, which gave EBITDA of SEK 62m and an EBITDA margin of 6.4%, compared to 9.7% last year. Cost inflation and logistics problems worsened with the war in Ukraine, but price increases have begun to have an effect. March and April were strong.

Preparing to emerge from the crisis with strength

Action is being taken to strengthen the supply chain and inventory, and restructuring has launched for annual savings of SEK 40m. There will be ongoing gains from price increases, and these have been accepted by customers. We believe Midsona is acting with vigour and will emerge from the crisis well equipped for continued consolidation, more synergies and margin improvement, not least in Europe.

Valuation is too low

We are making only marginal adjustments to our estimates since cost increases and savings more or less offset each other. The geopolitical situation and the devaluation of the sector and the stock market as a whole make us cautious in our valuation, and we retain our fair value of SEK 48-50 per share, meaning some justified premium to peers. This gives an upside of about 90%.

Estimate Changes (kr)				Estimates (kr)					Risk and Potential	
	Now	Before		21	22e	23e	24e	Motivated value	48.0 - 50.0	
EPS, adjusted 22e	2.2	2.2	0.0%	Sales, mkr	3,773	3,991	4,111	4,235	Current price	SEK24.8
EPS, adjusted 23e	2.4	2.4	0.0%	Growth	2%	6%	3%	3%	Risk level	Medium
EPS, adjusted 24e	2.7	2.7	0.0%	EBITDA, mkr	329	408	475	506	<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	245	282	307		
				EPS, adjusted	1.2	2.2	2.4	2.7		
Q2 report		20 July 2022	EPS growth	(55)%	83%	9%	11%			
Q3 report		25 Oct 2022	Equity/share	39.5	41.7	43.3	45.1			
Q4 report		3 Feb 2023	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%	6.1%	6.9%	7.3%		
				ROE	3.4%	5.4%	5.6%	6.0%		
Number of shares		73m	ROCE	3.5%	5.2%	5.8%	6.2%			
Market cap		1,807	EV/Sales	0.9x	0.8x	0.8x	0.8x			
Net debt		1,464	EV/EBITDA	9.9x	8.0x	6.9x	6.5x			
EV		3,271	EV/EBIT	20.3x	13.3x	11.6x	10.6x			
Free float		61%	P/E, adjusted	20.3x	11.1x	10.2x	9.1x			
Average number of daily traded shares		67(k)	P/Equity	0.6x	0.6x	0.6x	0.6x			
Reuters/Bloomberg		MSONb.ST/MSONB SS	Dividend yield	0.0%	3.2%	4.0%	4.0%			
			FCF yield	(13.2)%	12.2%	14.8%	15.7%			
			Net debt/EBITDA	4.4g	3.0g	2.1g	1.6g			

Analysts

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Overview

Light at the end of the tunnel

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 10.2x for 2023e, which is lower than the Nasdaq Stockholm All Share Index, which is trading at P/E 14.9x. The sector is traded at an average P/E 16.6x 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

We are making only marginal adjustments to our estimates since cost increases and savings more or less offset each other. The geopolitical situation and the devaluation of the sector and the stock market as a whole make us cautious in our valuation, and we retain our fair value of SEK 48-50 per share, meaning some justified premium to peers. This gives an upside of about 90%.

Light at the end of the tunnel

Net sales were SEK 972 million (965), or +0.7% y/y. Organic growth was -5.6%, acquisitions +3.5% and FX +2.8% y/y. Thanks to price increases, the gross margin rose to 26.1%, which was a clear improvement from Q4 (23.9%) but still lower than in Q1 2021 (28.5%). Price increases take effect with a delay of several months, and will filter through on an ongoing basis and improve the gross margin. Price increases have so far been received with understanding due to the well-known situation of cost inflation at all levels. EBITDA was SEK 62 million (94), which means a margin of 6.4% compared with last year's 9.7%.

In terms of both sales and margins, Q1 started weak as expected but ended strong, and March was the best sales month since October 2020. Given that most markets were in lockdown in 2020, with large household consumption, March sales show underlying strength. The price increases that were implemented in Q4 began to have an effect somewhat earlier than expected, and April has also started well, so things are moving in the right direction. However, the war in Ukraine and its impact have led to continued price increases that should take full effect in Q3. The large contract for plant-based meat alternatives to Spanish grocery chain Mercadona, which was announced in January, will have a greater effect from Q2, and Happy Bio continues to develop well.

As part of managing the situation of cost inflation and poorer earnings, a restructuring programme has initiated that will reduce operating costs by approximately SEK 40 million per year. We understand that these are mainly staff reductions, and some restructuring costs will be charged to earnings for 2022. Full effect should be achieved from mid-2023, but most of it should be implemented in early 2023.

Although this is not the main focus right now, there might be a better opportunity to make small add-on acquisitions in Europe as multiples should have come down in the prevailing turbulent situation. Midsona, which has a good market position, should be able to strengthen its relative status.

In the current tough situation for Midsona, there are still positive factors to highlight. The huge increase in the price of artificial fertilisers could lead to a reduction in the price gap between organic foods, which do not use chemical fertilisers, and conventional foods. Because prices for meat and dairy products are rising steeply, there is reason to believe that the trend towards more plant-based foods will intensify. Both sales and the gross margin were weak at the beginning of the quarter, but have gradually improved and continued well into April, so things are moving in the right direction.

Valuation peers																
	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	11.1	EUR	313		12.3	10.7	9.8	12.2	11.0	9.6	5.9%	2.5%	2.8%	3.0%	-15%	
Cloetta AB Class B	24.2	SEK	6 985		12.4	11.3	11.0	13.7	12.5	12.2	4.8%	10.8%	11.6%	11.7%	-10%	
Olvi Oyj Class A	31.2	EUR	645		13.6	12.2	11.2	17.6	15.9	14.6	3.7%	10.9%	11.6%	12.1%	-40%	
Orkla ASA	76.0	NOK	76 149		14.1	13.7	13.6	14.8	14.0	13.6	4.2%	12.1%	12.2%	12.1%	-9%	
Tyson Foods, Inc. Class A	93.6	SEK	33 279		9.0	9.9	9.7	11.0	11.9	11.3	2.1%	8.5%	7.6%	7.7%	22%	
Unilever PLC	35.8	USD	91 522		15.2	14.1	13.3	17.3	15.9	15.0	4.2%	16.2%	16.9%	17.4%	-12%	
Nestle S.A.	125.2	EUR	352 438		24.6	23.0	21.6	26.6	24.5	22.7	2.5%	16.7%	17.0%	17.3%	16%	
Procter & Gamble Company	159.4	CHF	382 352		24.0	22.6	21.1	27.3	25.5	23.4	2.3%	22.5%	23.0%	23.6%	21%	
Hain Celestial Group, Inc.	33.8	USD	3 083		20.6	17.4	15.8	22.1	18.4	16.4	0.0%	10.2%	11.4%	11.8%	-17%	
Midsona	23.8	SEK	1 729		12.6	11.0	10.1	11.4	10.4	9.4	0.0%	6.1%	6.9%	7.3%	-71%	
Average					16.2	15.0	14.1	18.1	16.6	15.4	3.3%	12.3%	12.7%	13.0%		
Median					14.1	13.7	13.3	17.3	15.9	14.6	3.7%	10.9%	11.6%	12.1%		

Source: Factset, Boltzdata

DCF valuation

To support our peer valuation, we have applied a DCF model as below, which provides a value of approximately SEK 51 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.

DCF

Valuation output	
Sum of PV of FCF (explicit period)	2 245
PV of terminal value (perpetuity formula)	2 907
Enterprise value	5 152
Latest net debt	1 464
Minority interests & other	0
Equity value	3 688
No. of shares outstanding (millions)	73
Equity value per share (SEK)	51

Implicit multipl.	2022	2023	2024
EV/Sales	1,3	1,3	1,2
EV/EBITDA	12,6	10,8	10,2
EV/EBIT	21,0	18,3	16,8
EV/NOPLAT	26,9	23,4	21,5
P/E			
ROIC/WACC			
Current Share price	24,80		

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

Sensitivity analysis

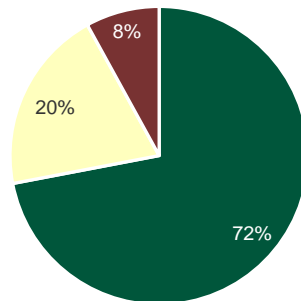
		Long-term growth rate				
		2,0%	2,5%	3,0%	3,5%	4,0%
WACC	7,0%	56	61	68	78	90
	7,5%	49	53	58	65	74
	8,0%	43	46	50	56	62
	8,5%	38	40	44	48	53
	9,0%	33	36	38	42	46
		Long-term EBIT margin				
		4,0%	6,5%	9,0%	11,5%	14,0%
WACC	7,0%	28	48	68	89	109
	7,5%	23	41	58	76	93
	8,0%	20	35	50	66	81
	8,5%	17	30	44	57	71
	9,0%	15	27	38	50	62

Shareholders

Shareholders	Votes	Shares
Stena Adactum AB	29,8%	29,8%
Swedbank Robur Fonder	8,6%	8,9%
La Financière de l'Echiquier	8,8%	6,1%
Peter Wahlberg	4,5%	5,0%
Övriga	48,3%	50,3%

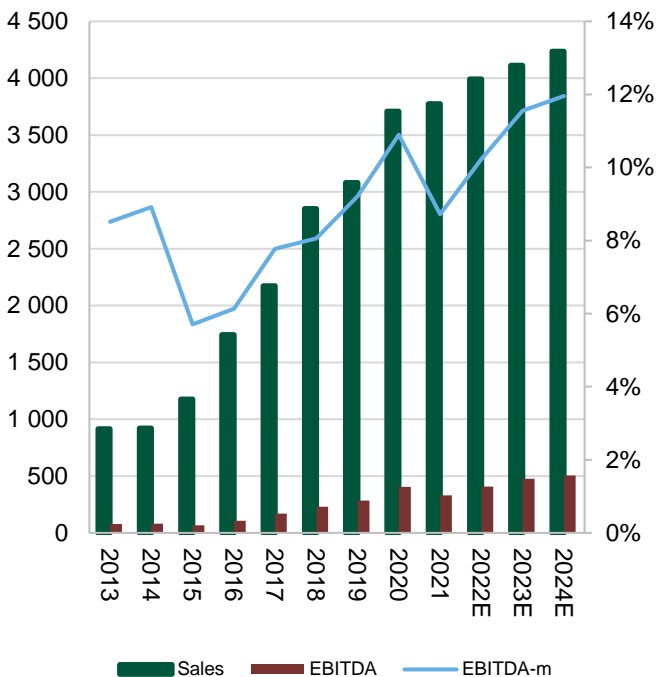
Chairman	Ola Erici
CEO	Peter Åsberg
CFO	Max Bokander
Contact	-
Website	midsona.com

Sales per division

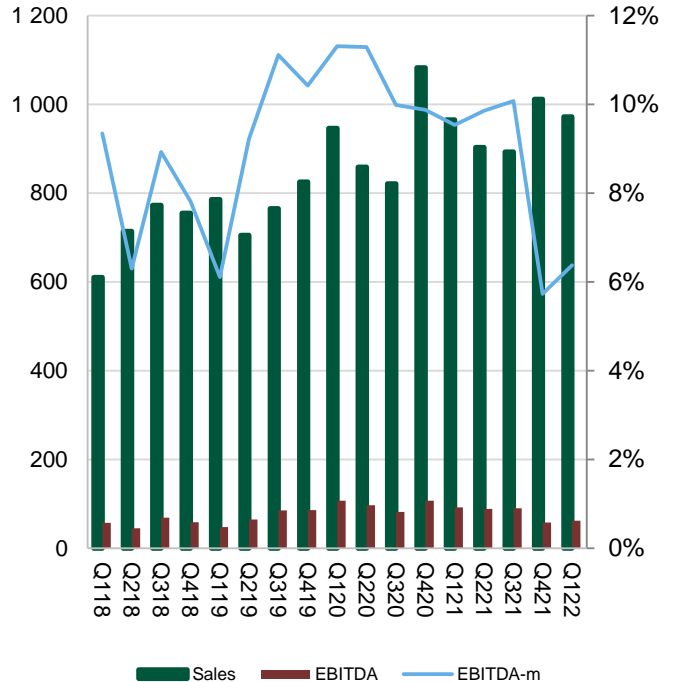


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Yearly results



Quarterly results



EPB

Income Statement

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	-2 917	-2 972	-3 049
Gross profit	475	617	743	872	903	1 037	1 015	1 075	1 139	1 186
Selling expenses	-323	-377	-425	-473	-505	-542	-592	-574	-576	-593
Administrative expenses	-103	-149	-179	-212	-240	-284	-289	-281	-308	-313
Other working costs	28	30	38	59	151	199	203	195	226	233
Other costs	-10	-14	-8	-16	-25	-6	-8	-6	-6	-6
Extraordinary costs	0	0	0	0	0	0	0	0	0	0
EBITDA	67	107	169	230	284	404	329	408	475	506
Depreciation/amortization	-19	-25	-35	-52	-114	-147	-168	-163	-193	-199
Good will depreciation	0	0	0	0	0	0	0	0	0	0
EBIT	48	82	134	178	170	257	161	245	282	307
Extraordinary items	0	0	0	0	0	0	0	0	0	0
Adjusted EBIT	48	82	134	178	170	257	161	245	282	307
Financial income	0	0	0	0	0	0	0	0	0	0
Financial costs	-9	-24	-22	-15	-54	-53	-46	-42	-60	-60
Profit before taxes	39	58	112	163	116	204	115	204	222	248
Income tax	27	-13	-28	-34	-19	-28	-26	-41	-44	-50
Minority interest	0	0	0	0	0	0	0	0	0	0
Net income	66	45	84	129	97	176	89	163	178	198
Net income (adjusted)	66	45	84	129	97	176	89	163	178	198

Balance Sheet

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	519	490	460
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	3 978	3 949	3 919
Inventory	151	244	272	482	529	643	783	726	663	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	273	482	693
Total current assets	360	541	568	901	1 036	1 201	1 306	1 492	1 651	1 817
Total Assets	1 555	2 620	2 857	3 699	4 780	5 127	5 287	5 470	5 600	5 737
Equity and liabilities										
Equity	877	1 349	1 550	1 630	2 322	2 313	2 875	3 038	3 158	3 283
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	3 158	3 283
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	5 600	5 737

Cash Flow Statement

Cash Flow Statement

	2015A	2016A	2017A	2018A	2019A	2020A	2021A	2022E	2023E	2024E
Net income	64	103	146	182	221	319	244	326	371	397
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	54	61	56
Cash flow from operating activities	87	69	152	212	198	283	-64	380	432	453
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	220	267	284
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	220	209	211
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	1 216	1 007	796

Key Ratios

Per Share Data

	2015A	2016A	2017A	2018A	2019A	2020A	2021A	2022E	2023E	2024E
EPS	2,70	1,77	1,83	2,80	1,49	2,71	1,22	2,24	2,44	2,72
EPS adjusted	2,70	1,77	1,83	2,80	1,49	2,71	1,22	2,24	2,44	2,72
FCF per share	3,06	1,62	3,30	4,61	3,05	4,35	-0,88	5,21	5,93	6,22
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	41,69	43,33	45,05
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	20,3	11,1	10,2	9,1
P/EK	0,8	1,2	1,5	1,5	1,4	2,2	0,6	0,6	0,6	0,6
P/FCF	8,3	24,2	15,7	11,9	16,2	17,9	-28,2	4,8	4,2	4,0
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	0,8	0,8	0,7	0,7
EV/EBITDA	14,7	21,8	18,0	15,8	16,1	16,4	9,3	7,5	6,4	6,0
EV/EBITDA	20,5	28,4	22,7	20,4	26,8	25,8	18,9	12,4	10,8	9,9
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	3044,0	3044,0	3044,0	3044,0

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%	52%	15%	9%
ESP growth	-2%	-35%	3%	54%	-47%	81%	-55%	83%	9%	11%
EBITDA margin	6%	6%	8%	8%	9%	11%	9%	10%	12%	12%
EBIT margin	4%	5%	6%	6%	6%	7%	4%	6%	7%	7%
Tax rate	-69%	22%	25%	21%	16%	14%	23%	20%	20%	20%

Profitability

	2015A	2016A	2017A	2018A	2019A	2020A	2021A	2022E	2023E	2024E
ROE	8%	4%	6%	8%	5%	8%	3%	6%	6%	6%
ROCE	4%	5%	6%	7%	5%	6%	4%	6%	6%	7%

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General

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