29 August 2022

Commissioned research – Ferronordic: Gains compensation for terminating contract with Volvo CE in Russia, likely adding SEK 22 per share to valuation

Marketing material commissioned by Ferronordic

Today (29 August) Ferronordic announced that it has agreed to terminate its dealer agreements with Volvo CE in Russia. It will receive SEK 321m from Volvo CE in Q3 as compensation for incurred and potential costs related to the termination. This compensation was not previously reflected in our estimates nor valuation, so we will likely add this amount to our SOTP model.

Additional costs and provisions could show up during Q3 and beyond, which would offset part of the positive effect (provisions of SEK 144m related to Russia taken during H1). The termination has no run-rate estimate impact, as we do not include further deliveries from Volvo CE in our estimates. Ferronordic also said that it is exploring cooperation opportunities with Volvo Group in other markets, which we find promising (we wrote about this in our Q2 review).

Conclusion

The compensation announcement is positive, as we did not previously expect any returns or compensation in our estimates.

Valuation

The gross SEK 321m compensation could add SEK 22 per share to our SOTP, bringing our estimated equity value after deducting the net debt to SEK 44 (all else equal from our latest report). We do not include any new product areas or markets for Ferronordic in our valuation.

Ferronordic: SOTP and future possibilities
SEKm and SEK per share

SOTP	EBIT	x EBIT	EV	Per share	Comment
Germany 2023E	35	7.0	243	17	Currently loss-making but targets ~5% LT margin. Peer Mekonomen at 6.8x EV/EBIT 2023E (Nordea estimate)
Kazakhstan	9	5.0	43	3	
Remaining Russian business 2023E	33	3.0	98	7	
Russian inventory sell-off (2022E)	345	1.0	345	24	Full 2022 RUS/CIS EBIT estimates less CIS
Volvo CE compensation	321	1.0	321	22	Before additional impairments after Q2
Total	**742**	**1.1**	**1,051**	**72**	
Less net debt 2022E			405	28	
Equity value			**646**	**44**	
Current enterprise value			848		
Current market cap			**443**	**30.5**	14.5m shares
Future potential					
Germany at 5% margin	57	7.0	401	28	EBIT margin uplfit to 5% 2023E
Equity value			**1,046**	**72**	

Source: Company data, Nordea estimates

SUMMARY TABLE - KEY FIGURES

SEKm	2019	2020	2021	2022E	2023E	2024E
Total revenue	3,747	4,635	6,211	6,183	4,197	3,894
EBITDA (adj)	501	503	728	588	327	316
EBIT (adj)	365	330	510	326	76	86
EBIT (adj) margin	9.7%	7.1%	8.2%	5.3%	1.8%	2.2%
EPS (adj, SEK)	17.74	15.36	25.23	9.46	2.42	3.19
EPS (adj) growth	24.5%	-13.4%	64.3%	-62.5%	-74.4%	31.9%
DPS (ord, SEK)	4.25	7.50	0.00	1.42	0.97	1.27
EV/Sales	0.8	0.5	0.8	0.1	0.1	0.1
EV/EBIT (adj)	8.4	6.9	10.0	2.6	6.7	3.5
P/E (adj)	9.2	10.2	13.4	3.3	12.8	9.7
P/BV	2.7	2.8	4.4	0.4	0.4	0.3
Dividend yield (ord)	2.6%	4.8%	0.0%	4.6%	3.1%	4.1%
FCF Yield bef A&D, lease adj	-21.6%	28.1%	4.9%	-45.9%	82.1%	48.6%
Net debt	689	-20	199	405	57	-147
Net debt/EBITDA	1.4	0.0	0.3	0.7	0.2	-0.5
ROIC after tax	29.7%	21.7%	35.9%	16.3%	3.8%	5.2%

Source: Company data and Nordea estimates

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