

26 June 2024

Commissioned research: Ferronordic - Brightening market outlook

Marketing material commissioned by Ferronordic

Yesterday (25 June) we hosted a group presentation with Ferronordic. Following a rather challenging period in Germany, our impression is that the truck market is again heading in the right direction. While the acquisition of Rudd Equipment (Volvo CE) has exceeded expectations and the United States continues to show impressive resilience – supported by several substantial infrastructure investment programs and large construction projects.

Germany “less bad” compared to H2 2023...

- Rather unsurprisingly, the German market continues to suffer from an overall weak economy, but some green shoots are appearing. With an increase in highway tolls and fleet utilisation rates, the underlying trend in the market has seemingly improved, albeit from a rather low level. For Ferronordic specifically, largely owing to the now-normalised delivery time of around one quarter, we expect sales in Germany to trough at around -15% y/y in Q2 and Q3 2024, then improve to -12% y/y by Q4 2024, i.e. showing a sequential uplift of ~3pp. While part of this should be volume-based, we expect some of the current pricing scrutiny in the market to abate as the general market continues to develop and improve.
- Looking at competition, Ferronordic currently covers ~18% of the German market. And while Asian competitors (predominantly Chinese BYD) have a strong presence within new equipment sales – the presence in the aftermarket is clearly still lacking. Moreover, they see no signs of this dynamic changing, with Asian players seemingly either disinterested or unknowing in establishing a strong aftermarket presence. As such, this serves as an important part, beyond the persistent quality gap, in “walling off” and motivating the price premium of Western OEM’s such as Volvo and Renault to Asian competition.
- And while Germany continues to be loss-making for Ferronordic, the company has and continues to take several steps to improve profitability - such as increasing the share of service, taking out fixed costs and increasing digitalisation with more preventative maintenance. Given this, we are increasingly confident in the company’s ability to reach break-even in Germany during 2024 and pencil in EBIT of SEK 1.5m in 2024.

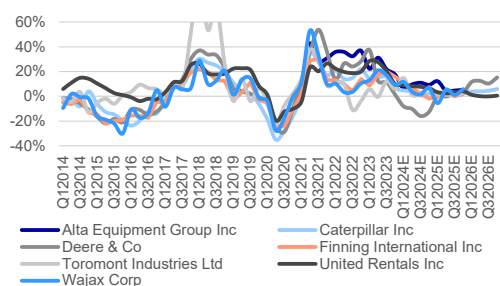
... and continued impressive US resilience

- In the US, our impression is that Ferronordic continues to be exposed to a generally healthy and unusually resilient underlying market with a high utilisation rate in the current fleet. Although the company entered the market with positive expectations, we note that the stellar performance has still seemingly exceeded expectations.

- We believe that sales should decline by mid-single digits in H1 2024, which is in line with the broader market - however we expect this to be largely volume-driven as we have seen few signs of price erosion in the market.
- In turn, this robustness (given the usually highly cyclical nature of construction equipment) is likely largely driven by the substantial infrastructure investment programmes taking effect, further fuelled by several larger projects in the regions where Ferronordic operates – including data centres and battery factories – serving to support the overall demand picture. Given this, we find support for our expectation that US sales will trough at around -5% y/y* in 2024, prior to growing by ~9% y/y in 2025.

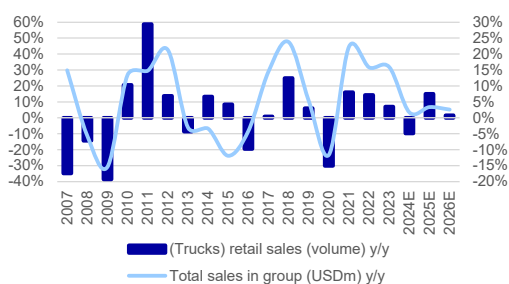
*Partially based on Nordea estimates because not all 2023 quarterly Rudd Equipment numbers are available).

SALES PROFILE US OEM/DISTRIBUTOR, QUARTERLY (Y/Y, USDm)



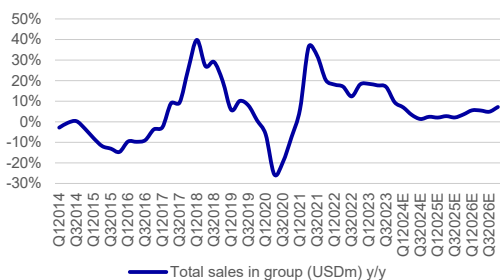
Source: Company data, Nordea estimates and Visible Alpha

SALES PROFILE TRUCKS VS CONSTRUCTION EQUIPMENT YEARLY (Y/Y, USDm)



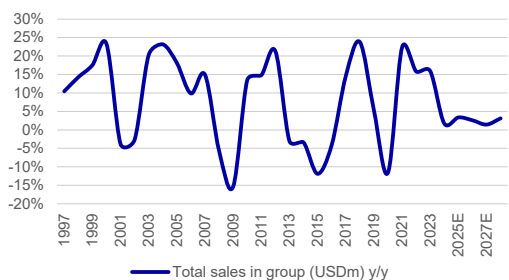
Source: Company data, Nordea estimates and Visible Alpha

SALES PROFILE IN GROUP, QUARTERLY (Y/Y, USDm)



Source: Company data, Nordea estimates and Visible Alpha

SALES PROFILE TRUCKS VS CONSTRUCTION EQUIPMENT YEARLY (Y/Y, USDm)



Source: Company data, Nordea estimates and Visible Alpha

SUMMARY TABLE - KEY FIGURES

SEKm	2021	2022	2023	2024E	2025E	2026E
Total revenue	6,211	5,621	2,863	4,902	5,318	5,443
EBITDA (adj)	576	455	25	411	395	424
EBIT (adj)	510	372	-80	168	228	253
EBIT (adj) margin	8.2%	6.6%	-2.8%	3.4%	4.3%	4.6%
EPS (adj, SEK)	25.23	17.40	-5.04	9.12	8.90	10.96
EPS (adj) growth	64.3%	-31.1%	-129.0%	280.9%	-2.4%	23.1%
DPS (ord, SEK)	0.00	7.50	0.10	1.82	2.23	2.74
EV/Sales	0.8	0.0	0.8	0.4	0.4	0.4
EV/EBIT (adj)	10.0	0.4	n.m.	12.6	9.2	7.9
P/E (adj)	13.4	4.4	n.m.	8.7	9.0	7.3
P/BV	4.4	0.6	0.6	0.7	0.6	0.6
Dividend yield (ord)	0.0%	9.8%	0.1%	2.3%	2.8%	3.4%
FCF Yield bef A&D, lease adj	4.9%	-10.7%	-14.5%	34.6%	3.4%	11.0%
Net debt	199	-957	1,349	950	937	842
Net debt/EBITDA	0.4	-1.2	n.m.	2.3	2.4	2.0
ROIC after tax	36.4%	25.1%	-3.0%	4.2%	5.8%	6.3%

Source: Company data and Nordea estimates

Completion date: 25/06/2024 23:25:06 CET

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Best regards,

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