

3 October 2024

Commissioned research: Ferronordic - Key takeaways from the CMD*Marketing material commissioned by Ferronordic*

Yesterday (2 October), Ferronordic hosted its 2024 CMD. At the event, the company detailed its growth ambitions, particularly in the US, as well as its plan to reach healthy profitability in Germany. Furthermore, the company provided more details on its updated financial targets, which include doubling revenue from 2024 (measured as the current H1 2024 run-rate pace) by 2029, i.e. sales of SEK ~9bn for 2029, alongside maintaining an operating margin (EBIT) in excess of 6%. Measured by our 2024 and 2025 adjusted EBIT estimates, this would imply 35.2% and 25.8% adjusted EBIT CAGRs, respectively, given a successful doubling of sales and a 6% adjusted EBIT margin. The company also aims to maintain an across-the-cycle net debt/EBITDA ratio below 3x. Lastly, the target is to pay out more than 50% of net profit when the net debt/EBITDA ratio is below 1x and more than 25% when the ratio is above 1x. While the market continues to be challenging, particularly in Germany, we view the company as positioned for: 1) further growth in the United States, mainly organic, but also via M&A, over time; 2) being able to capitalise on the market recovery in Germany, which should continue to be muted throughout 2024, but which we expect to improve in 2025, as the effects of the rate-cutting cycle become more evident; and 3) showing healthy operational leverage, once the organic volume component in the market improves (we expect a 170bp adjusted EBIT margin expansion y/y for 2025). We provide more details below.

Growth opportunities in the US

- Since entering the United States in 2024, via the acquisition of Rudd Equipment, the company has seemingly continued to experience quite healthy demand (we lack comparison figures from the corresponding quarters last year) from customers, partly underpinned by the large federal infrastructure investment programmes, in sum amounting to USD 81bn in the territory covered by Rudd.
- The US-based business seems likely to also pursue certain network improvements, alongside growing organically with the existing customer base and business. Given that excavators represent ~50% of sales in Rudd's areas of relevance, we view growing the excavator side, but also compacts and rigid haulers, as well as the service network, as important for the company to reach its growth objectives.

Weakness in the German market persists, but focus is on improving the mix

- In the German market, Ferronordic continues to face a muted and possibly deteriorating market. This was partly reflected in the Q2 2024 organic growth print of -42% y/y, a clear sequential drop-off from the Q1 2024 organic pace of -25% y/y. In Germany in particular, new equipment sales declined by 65% in Q2 2024, partly due to order postponements and cancellations. As such, the company mainly focused on and emphasised the strategic objectives that it can impact in the current market.

- In a presentation by Koen Van Imschoot, the aftermarket director for Germany, emphasis was placed on organic aftermarket growth, with a 15% CAGR between 2020 and 2023, and the total aftermarket 31% CAGR. With a gross margin of 12.4% for 2024E in Germany, which we expect to expand to 14.0% for 2025 (yielding a 410bp y/y adjusted EBIT margin expansion), compared to 22.6% in the US for 2024E, we believe that continuing to grow the aftermarket share of sales, coupled with a focus on selling more rigid trucks, will be one of the key components to improving profitability in Germany.

SUMMARY TABLE - KEY FIGURES

SEKm	2021	2022	2023	2024E	2025E	2026E
Total revenue	6,211	5,621	2,863	4,822	5,212	5,260
EBITDA (adj)	576	455	25	447	378	402
EBIT (adj)	510	372	-80	120	217	238
EBIT (adj) margin	8.2%	6.6%	-2.8%	2.5%	4.2%	4.5%
EPS (adj, SEK)	25.23	17.40	-5.04	2.16	7.77	8.97
EPS (adj) growth	64.3%	-31.1%	-129.0%	142.8%	259.6%	15.5%
DPS (ord, SEK)	0.00	7.50	0.10	0.43	1.94	2.24
EV/Sales	0.8	0.0	0.8	0.5	0.4	0.4
EV/EBIT (adj)	10.0	0.4	n.m.	18.7	10.3	9.0
P/E (adj)	13.4	4.4	n.m.	30.1	8.4	7.3
P/BV	4.4	0.6	0.6	0.6	0.5	0.5
Dividend yield (ord)	0.0%	9.8%	0.1%	0.7%	3.0%	3.4%
FCF Yield bef A&D, lease adj	4.9%	-10.7%	-14.5%	5.2%	2.1%	11.9%
Net debt	199	-957	1,349	1,302	1,288	1,203
Net debt/EBITDA	0.4	-1.2	n.m.	2.9	3.4	3.0
ROIC after tax	36.4%	25.1%	-3.0%	2.9%	5.1%	5.5%

Source: Company data and Nordea estimates

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Best regards,

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