



Gross profits galore

We argue Alcadon's Q2 results largely corroborated our investment case. In particular, a marked improvement in gross profits, from renegotiated bought-in margin terms in its distributed brand business, bolstered EPS in the period. Good cost management also added to bottom-line growth and we have raised our EPS forecasts by an average of 11% over our forecast period of 2020-22. Our new mid-point DCF-based equity value now equals SEK 35 per share.

Key Data (2020E)

Price (SEK)	25.90
Reuters	ALCA.ST
Bloomberg	ALCA:SS
Market cap (SEKm)	437
Market cap (USDm)	50
Market cap (EURm)	43
Net debt (SEKm)	96
Net gearing	40%
Net debt/EBITDA (x)	1.7
Shares fully dil. (m)	16.9
Avg daily turnover (m)	0.0
Free float	73%

The return to normal: growth is next, FY EPS upgrades of 8-16%

Our investment case in Alcadon builds on an increasing need of new and replacement capex in fibre network infrastructure, which should start to generate market growth and organic sales for Alcadon in the year ahead. In the medium to long-term, the pending roll-out of 5G network infrastructure, needed to support low latency and connection speeds critical to applications in edge computing (cloud) and industrial automation (IoT), should significantly add to growth prospects, we argue. Q2 earnings were well ahead of our estimates, supported by better margins, rather than sales growth, and we have upgraded our full-year EPS forecasts by an average of 11% in 2020-22.

Renegotiated bought-in terms should be a sustainable margin driver ahead

While cost management shined in the period (cash SG&As were down 15% y/y), reflecting its ongoing savings program, we believe a 330bps y/y improvement in gross margins is a key take from the results. We believe renegotiated bought-in margin terms with its distributed brand companies is sustainable and should add to gross margins over the coming three quarters as well.

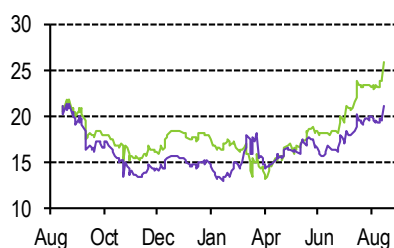
Estimate Revisions (%)

	2020E	2021E	2022E
Revenues	(2)	(2)	(3)
Adj. EBIT	14	9	7
Adj. EPS	16	10	8

We raise our mid-point DCF-based equity value from SEK 30 to SEK 35

Based on revised estimates and an implied prospective EV/EBIT of 12x our 2021 estimates, we set our new mid-point DCF-based equity value at SEK 35 (raised from SEK 30). At this level the shares would still trade at a discount in excess of 20% to its peer group median valuation – currently at 15.5x EV/EBIT.

Share Price (12M)



Absolute (green) / Relative to Sweden (purple).

Marketing communication

commissioned by:
Alcadon Group

Financials (SEK)

Year end: Dec	2018	2019	2020E	2021E	2022E
Revenues (m)	544	485	486	506	531
Adj. EBIT	58	33	47	53	59
Pre-tax profit (m)	47	25	41	49	55
EPS	2.15	1.13	1.89	2.24	2.51
Adj. EPS	2.20	1.21	1.90	2.25	2.52
DPS	0.50	0.00	0.50	0.60	0.70
Revenue growth (%)	(6.2)	(10.8)	0.1	4.2	4.9
Adj. EBIT growth (%)	(19.1)	(43.7)	43.4	14.4	9.8
Adj. EPS growth (%)	(25.9)	(44.9)	57.1	18.2	12.2
Adj. EBIT margin (%)	10.6	6.7	9.6	10.6	11.1
ROE (%)	21.4	9.5	14.3	14.9	14.9
ROCE (%)	18.3	9.5	13.1	14.3	15.1
PER (x)	13.7	15.1	13.6	11.5	10.3
Free cash flow yield (%)	10.2	11.5	7.1	8.3	9.3
Dividend yield (%)	1.7	0.0	1.9	2.3	2.7
P/BV (x)	2.60	1.49	1.83	1.63	1.45
EV/Sales (x)	1.15	0.90	1.10	1.00	0.89
EV/Adj. EBITDA (x)	10.4	9.9	9.4	8.0	6.9
EV/Adj. EBIT (x)	10.8	13.3	11.4	9.4	8.1
Operating cash flow/EV (%)	8.4	8.2	7.6	9.2	10.7
Net debt/Adj. EBITDA (x)	2.00	2.98	1.70	1.08	0.55

Source for all data on this page: SEB (estimates) and Millstream/Thomson Reuters (prices)

EPS, DCF equity value raised

Q2 margin surprise looks sustainable

Valuation summary

Mid-point DCF value (SEK)	35.00		
Share price (SEK)	25.90		
2021E EV/EBIT, adj. (x)	9.4		
2021E EV/EBIT, adj. & excl. IFRS16 debt (x)	9.1		
2021E adj. PER at current share price (x)	11.5		
2020E DPS (2021 payout)	0.50		
	Low	High	Mid-point
DCF valuation range (SEK)	30.00	40.00	35.00
Equity potential (%)	16	54	35
2021E adj. EV/EBIT at mid-point DCF value (x)	10.4	13.6	12.0
2020E DPS yield (%)	1.9	1.9	1.9
Total return potential	18	56	37

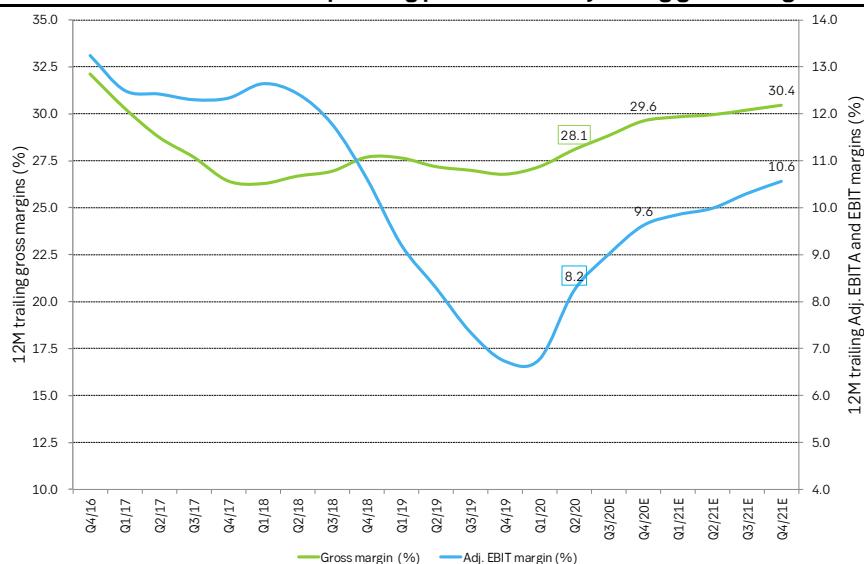
Source: SEB

Peer group valuation summary

EV/EBIT (x)	2021E
Building & Installation Services, med	12.3
Network & Electrical Distribution, med	15.4
Distribution & Installation, med	15.6
Discount at mid-point DCF	23%

Source: SEB, ThomsonReuters

Investment case in a nutshell: operating profits driven by strong gross margins



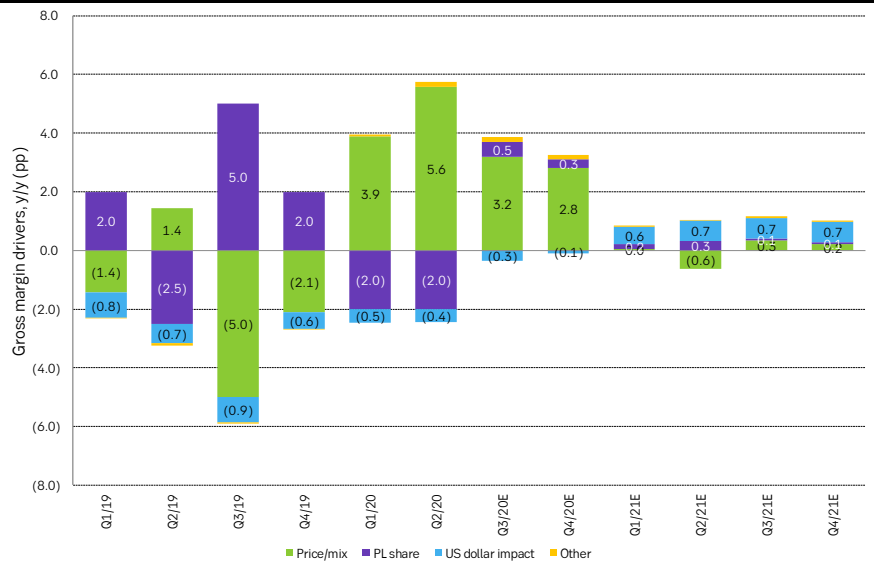
Source: SEB

Next leg: a return to organic sales growth ahead, change, y/y (%)



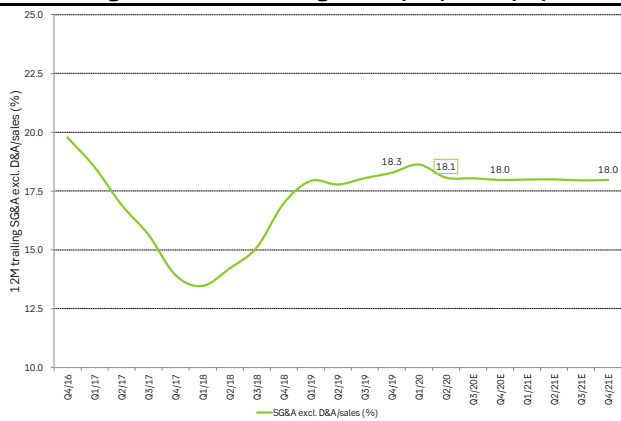
Source: SEB

Gross margin bridge forecasts, change, y/y (pp)



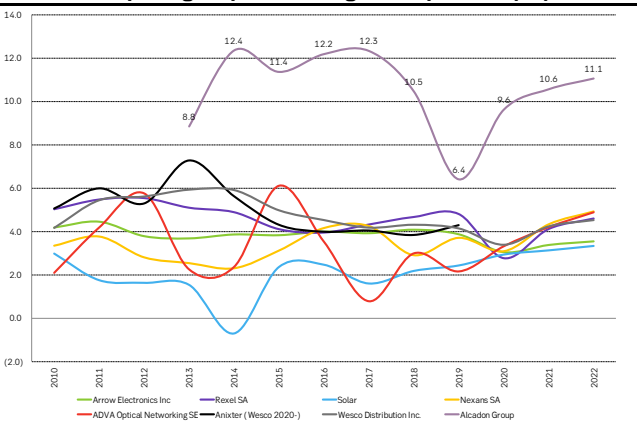
Source: SEB

Cost management: 12M trailing cash opex/sales (%)



Source: SEB

Alcadon vs. peer group EBIT margin comparison (%)



Source: SEB, Company data, ThomsonReuters

Earnings revisions

Alcadon Group (SEKm)	New estimates			Old estimates			Revisions (%)		
	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E
Revenue	486	506	531	494	519	547	(1.7)	(2.5)	(3.0)
Gross profits	144	154	164	138	150	161	4.2	2.6	1.7
SG&A	(97)	(101)	(105)	(97)	(101)	(107)	0.2	(0.6)	(1.2)
EBIT, reported	47	53	59	41	49	55	13.7	9.1	7.3
EBIT, adj.	47	53	59	41	49	55	13.7	9.1	7.3
Pre-tax profit	41	49	55	35	44	51	15.9	10.2	8.0
Net profit	32	38	42	28	34	39	15.9	10.2	8.0
Net profit, adj	32	38	43	28	34	39	15.8	10.3	8.3
EPS, adj.	1.90	2.25	2.52	1.64	2.04	2.33	15.8	10.3	8.3
Segment sales (SEKm)									
Commercial Properties	216	226	237	217	229	243	(0.4)	(1.3)	(2.3)
Fiber Networks/FTTx	164	170	176	167	172	179	(1.6)	(1.6)	(1.6)
Residential	89	93	99	93	99	105	(3.8)	(5.6)	(6.0)
Services & Training	16	17	18	18	19	19	(7.7)	(7.7)	(8.2)
Group net sales	486	506	531	494	519	547	(1.7)	(2.5)	(3.0)

Source: SEB

Main forecast assumptions

(%)	Q1/19	Q2/19	Q3/19	Q4/19	Q1/20	Q2/20	Q3/20E	Q4/20E	2019	2020E	2021E	2022E
Net sales growth, y/y (%)												
FX	0.8	0.3	(0.1)	(0.4)	(1.1)	(3.2)	(3.5)	(2.3)	0.2	(2.5)	(0.5)	0.0
Structure	8.7	8.4	0.0	0.0	0.0	0.0	0.0	0.0	4.5	0.0	0.0	0.0
Organic	(22.4)	(7.9)	(17.5)	(13.5)	1.3	0.3	4.4	5.0	(15.5)	2.6	4.7	4.9
Total net sales	(12.9)	0.8	(17.6)	(13.9)	0.2	(2.9)	0.9	2.6	(10.8)	0.1	4.2	4.9
Private Labels	(7.1)	(7.2)	(2.3)	(8.0)	(6.0)	(9.6)	2.5	3.6	(4.7)	(3.0)	4.7	5.0
Brands	(15.4)	4.5	(23.2)	(16.3)	3.2	(0.2)	0.1	2.2	(13.3)	1.5	3.9	4.8
Total net sales	(12.9)	0.8	(17.6)	(13.9)	0.2	(2.9)	0.9	2.6	(10.8)	0.1	4.2	4.9
Gross margin bridge (pp)												
Price/mix	(1.4)	1.4	(5.0)	(2.1)	3.9	5.6	3.2	2.8	(2.4)	3.8	0.3	0.2
PL share	2.0	(2.5)	5.0	2.0	(2.0)	(2.0)	0.5	0.3	2.0	(1.0)	0.2	0.0
US dollar impact	(0.8)	(0.7)	(0.9)	(0.6)	(0.5)	(0.4)	(0.3)	(0.1)	(0.4)	(0.2)	0.3	0.2
Other	(0.0)	(0.1)	(0.0)	(0.0)	0.1	0.2	0.2	0.2	(0.0)	0.1	0.0	0.0
Gross margin, change, y/y (pp)	(0.3)	(1.8)	(0.9)	(0.7)	1.5	3.3	3.5	3.2	(0.9)	2.8	0.8	0.5
Gross margin (%)	26.5	26.7	26.6	27.3	28.0	30.0	30.1	30.5	26.8	29.6	30.4	30.9

Source: SEB

Private Label versus Branded product sales assumptions

Brand sales (SEKm)	Q1/19	Q2/19	Q3/19	Q4/19	Q1/20	Q2/20	Q3/20E	Q4/20E	2019	2020E	2021E	2022E
Private Labels	42	39	33	37	39	35	33	38	150	146	153	160
Brands	89	96	69	82	91	96	69	83	335	340	353	370
Group net sales	130	135	102	118	131	131	103	121	485	486	506	531
PL sales growth, y/y (%)	(7.1)	(7.2)	(2.3)	(8.0)	(6.0)	(9.6)	2.5	3.6	(4.7)	(3.0)	4.7	5.0
Brands sales growth, y/y (%)	(15.4)	4.5	(23.2)	(16.3)	3.2	(0.2)	0.1	2.2	(13.3)	1.5	3.9	4.8
Total net sales growth, y/y (%)	(12.9)	0.8	(17.6)	(13.9)	0.2	(2.9)	0.9	2.6	(10.8)	0.1	4.2	4.9
PL share (%)	32	29	32	31	30	27	33	31	31	30	30	30
Brands share (%)	68	71	68	69	70	73	67	69	69	70	70	70
Total net sales (%)	100	100	100	100	100	100	100	100	100	100	100	100

Source: SEB

Geographical sales forecasts

(SEKm)	Q1/19	Q2/19	Q3/19	Q4/19	Q1/20	Q2/20	Q3/20E	Q4/20E	2019	2020E	2021E	2022E
Sales by market												
Sweden	98.6	97.8	70.0	88.3	97.5	94.7	70.2	90.9	354.7	353.3	370.1	391.0
Norway	31.7	37.1	31.8	29.8	33.1	36.4	32.5	30.4	130.4	132.4	135.8	139.5
Group net sales	130.3	135.0	101.8	118.1	130.6	131.1	102.7	121.3	485.2	485.7	505.9	530.5
Sales growth by market (%)												
Sweden	(28.7)	(13.2)	(16.1)	(20.7)	(1.1)	(3.2)	0.3	2.9	(20.4)	(0.4)	4.8	5.6
Norway	178.1	75.6	(20.7)	15.5	4.4	(2.0)	2.2	1.9	32.5	1.5	2.5	2.8
Sales growth (%)	(12.9)	0.8	(17.6)	(13.9)	0.2	(2.9)	0.9	2.6	(10.8)	0.1	4.2	4.9
Sales contributions by market (%)												
Sweden	76	72	69	75	75	72	68	75	73	73	73	74
Norway	24	28	31	25	25	28	32	25	27	27	27	26
Total contributions by market (%)	100	100	100	100	100	100	100	100	100	100	100	100

Source: SEB

Segment sales forecasts

(SEKm)	Q1/19	Q2/19	Q3/19	Q4/19	Q1/20	Q2/20	Q3/20E	Q4/20E	2019	2020E	2021E	2022E
Net sales												
Commercial Properties	57.8	58.7	45.3	51.7	58.0	59.2	46.0	53.1	213.5	216.3	226.0	237.3
Fiber Networks/FTTx	42.4	48.6	32.6	41.4	41.3	47.8	32.8	42.1	165.0	164.0	169.6	176.3
Residential	24.2	22.3	19.9	21.0	27.5	19.6	20.2	21.7	87.3	89.1	93.0	99.1
Services & Training	5.9	5.4	4.1	4.0	3.9	4.5	3.7	4.3	19.4	16.3	17.3	17.8
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Group net sales	130.3	135.0	101.8	118.1	130.6	131.1	102.7	121.3	485.2	485.7	505.9	530.5
Sales growth (%)												
Commercial Properties	24.6	4.4	(10.5)	(26.0)	0.3	0.8	1.5	2.7	(4.3)	1.3	4.5	5.0
Fiber Networks/FTTx	(48.5)	(9.3)	(28.7)	34.9	(2.7)	(1.6)	0.7	1.8	(22.3)	(0.6)	3.4	4.0
Residential	61.8	28.0	(10.7)	(22.3)	13.6	(12.0)	2.0	3.4	7.0	2.0	4.4	6.5
Services & Training	(1.4)	(19.3)	(17.6)	(57.9)	(34.7)	(16.7)	(10.0)	6.2	(28.7)	(16.0)	6.0	3.0
Sales growth (%)	(12.9)	0.8	(17.6)	(13.9)	0.2	(2.9)	0.9	2.6	(10.8)	0.1	4.2	4.9
Sales contributions (%)												
Commercial Properties	44	44	45	44	44	45	45	44	44	45	45	45
Fiber Networks/FTTx	33	36	32	35	32	36	32	35	34	34	34	33
Residential	19	17	20	18	21	15	20	18	18	18	18	19
Services & Training	5	4	4	3	3	3	4	4	4	3	3	3
Other	0	0	0	0	0	0	0	0	0	0	0	0
Total sales contributions	100	100	100	100	100	100	100	100	100	100	100	100

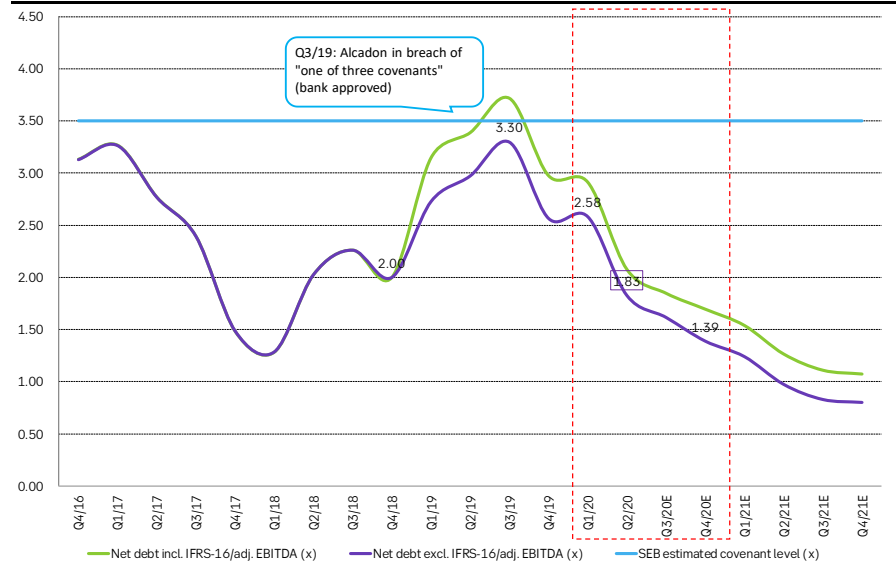
Source: SEB

Key financials – forecasts

Financial strength (x)	Q1/19	Q2/19	Q3/19	Q4/19	Q1/20	Q2/20	Q3/20E	Q4/20E	2018	2019	2020E	2021E	2022E
Net debt, excl. IFRS-16 (SEKm)	141	147	149	109	111	91	86	78	118	109	78	50	20
IFRS-16 lease obligations (SEKm)	22	20	19	17	14	12	12	17	0	17	17	17	17
Net debt, reported (SEKm)	163	167	167	127	125	103	99	96	118	127	96	68	37
Net debt, change, q/q (SEKm)	45	4	(0)	(40)	(2)	(22)	(4)	(3)	11	9	(31)	(28)	(30)
12M trailing EBITDA, reported	51	49	45	41	41	48	52	56	58	41	56	63	68
12M trailing EBITDA, adjusted	52	49	45	43	43	50	53	56	59	43	56	63	68
ND incl. IFRS-16/EBITDA (x)	3.20	3.39	3.71	3.08	3.02	2.14	1.90	1.70	2.03	3.09	1.70	1.08	0.55
ND incl. IFRS-16/adj. EBITDA (x)	3.15	3.39	3.71	2.97	2.91	2.08	1.85	1.70	2.00	2.98	1.70	1.08	0.55
ND excl. IFRS-16/adj. EBITDA (x)	2.73	2.97	3.30	2.57	2.58	1.83	1.62	1.39	2.00	2.57	1.39	0.80	0.29
SEB estimated covenant level (x)	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50
WC management (%)													
12M trailing sales (SEKm)	525	526	504	485	486	482	483	486	544	485	486	506	531
12M trailing COGS (SEKm)	(380)	(383)	(368)	(355)	(354)	(346)	(343)	(342)	(394)	(355)	(342)	(352)	(366)
Inventory, EOP (SEKm)	94	92	85	75	69	77	83	76	77	75	76	79	83
Inventory/sales (%)	17.9	17.5	16.9	15.5	14.1	15.9	17.2	15.7	14.1	15.5	15.7	15.6	15.6
Inventory/sales, change y/y (pp)	7.2	1.7	2.5	1.4	(3.8)	(1.6)	0.3	0.1	3.9	1.4	0.1	(0.1)	(0.1)
Inventory/sales, 3Y rolling avg (%)	12.5	13.3	14.0	14.5	14.5	14.6	14.8	15.0	12.7	13.2	15.1	15.6	15.6
Inventory turnover, avg. (x)	4.81	4.09	4.33	4.67	4.36	4.10	4.08	4.51	5.77	4.67	4.51	4.54	4.54

Source: SEB

Net debt-to-EBITDA forecasts (x)



Source: SEB

Financial forecasts - consolidated

Consolidated P&L (SEKm)	Q1/19	Q2/19	Q3/19	Q4/19	Q1/20	Q2/20	Q3/20E	Q4/20E	2019	2020E	2021E	2022E
Net sales	130.3	135.0	101.8	118.1	130.6	131.1	102.7	121.3	485.2	485.7	505.9	530.5
Cost of goods sold	(95.8)	(99.0)	(74.7)	(85.9)	(94.0)	(91.8)	(71.8)	(84.3)	(355.4)	(341.9)	(351.8)	(366.4)
Gross profit	34.5	36.0	27.1	32.2	36.6	39.3	30.9	36.9	129.8	143.8	154.0	164.1
SG&A total (excl. D&A)	(22.9)	(22.6)	(19.3)	(23.9)	(24.7)	(19.2)	(19.3)	(24.1)	(88.7)	(87.3)	(90.9)	(95.8)
EBITDA	11.6	13.4	7.8	8.4	11.9	20.1	11.6	12.8	41.1	56.5	63.1	68.3
Depr. of fixed assets	(0.3)	(0.4)	(0.3)	(0.1)	(0.2)	(0.2)	(0.4)	(0.1)	(1.1)	(1.0)	(1.2)	(1.2)
Depr. of ROU asset (IFRS16)	(2.1)	(2.2)	(2.2)	(2.3)	(2.2)	(2.2)	(2.2)	(2.0)	(8.8)	(8.6)	(8.2)	(8.2)
EBITA	9.2	10.9	5.3	5.9	9.5	17.7	9.1	10.7	31.2	46.9	53.6	58.9
Amortization	0.0	(0.1)	0.0	(0.1)	(0.1)	(0.1)	0.0	(0.1)	(0.2)	(0.2)	(0.2)	(0.2)
Impairments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total D&A	(2.4)	(2.6)	(2.5)	(2.5)	(2.5)	(2.5)	(2.5)	(2.2)	(10.0)	(9.7)	(9.6)	(9.6)
EBIT	9.2	10.8	5.3	5.8	9.4	17.6	9.1	10.6	31.1	46.7	53.4	58.7
o/w: total NRIs	0.0	0.0	0.0	(1.5)	0.0	0.0	0.0	0.0	(1.5)	0.0	0.0	0.0
Adj. EBIT	9.2	10.8	5.3	7.3	9.4	17.6	9.1	10.6	32.6	46.7	53.4	58.7
Net financials (incl. assoc. income)	(1.4)	(1.5)	(1.3)	(2.2)	(1.1)	(1.5)	(1.4)	(1.5)	(6.4)	(5.6)	(4.8)	(4.1)
Pre-tax profit	7.8	9.4	4.0	3.6	8.3	16.1	7.7	9.1	24.6	41.1	48.6	54.6
Minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tax paid on pretax profit	(1.8)	(2.2)	(0.7)	(0.8)	(1.9)	(3.7)	(1.5)	(2.1)	(5.5)	(9.2)	(10.9)	(12.2)
Paid tax rate, %	23.1	23.5	18.7	21.9	22.9	23.3	19.3	23.0	22.4	22.4	22.4	22.4
Tax deferred	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Full tax rate, %	23.1	23.5	18.7	21.9	22.9	23.3	19.3	23.0	22.4	22.4	22.4	22.4
Reported after tax profit	6.0	7.2	3.2	2.8	6.4	12.3	6.2	7.0	19.1	31.9	37.7	42.4
Total adjustments	0.0	0.1	0.0	1.6	0.1	0.1	0.0	0.1	1.7	0.2	0.2	0.2
Tax effect of adjustments (incl. in taxes)	0.0	(0.0)	0.0	(0.4)	(0.0)	(0.0)	0.0	(0.0)	(0.4)	(0.0)	(0.0)	(0.0)
Adjusted profit after tax	6.0	7.2	3.2	4.1	6.4	12.4	6.2	7.1	20.4	32.1	37.9	42.5
Adjustments												
Cash NRIs	0.0	0.0	0.0	(1.5)	0.0	0.0	0.0	0.0	(1.5)	0.0	0.0	0.0
Non-cash NRIs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total NRIs	0.0	0.0	0.0	(1.5)	0.0	0.0	0.0	0.0	(1.5)	0.0	0.0	0.0
EPS, reported	0.36	0.42	0.19	0.17	0.38	0.73	0.37	0.42	1.13	1.89	2.24	2.51
EPS, adj.	0.36	0.43	0.19	0.24	0.38	0.73	0.37	0.42	1.21	1.90	2.25	2.52
Adj. EBITDA	12	13	8	10	12	20	12	13	43	56	63	68
Adj. EBITA	9	11	5	7	9	18	9	11	33	47	54	59
Adj. EBIT	9	11	5	7	9	18	9	11	33	47	53	59
No of shares, avg., f. dil, adj. (m)	16.859	16.859	16.859	16.859	16.859	16.859	16.859	16.859	16.859	16.859	16.859	16.859

Source: SEB

Q2 deviation of reported from expected results

P&Ls (IFRS-16)	Q2/20E		Deviation vs. SEB		Q2/19		Q1/20	
	Actual	SEB	Abs	Rel (%)	Actual	y/y (%)	Actual	q/q (%)
Consolidated (SEKm)								
Revenue	131.1	136.1	(5.0)	(3.7)	135.0	(2.9)	130.6	0.4
Cost of goods sold	(91.8)	(98.5)	6.8	(6.9)	(99.0)	(7.3)	(94.0)	(2.4)
Gross profits	39.3	37.6	1.7	4.6	36.0	9.1	36.6	7.6
SG&A (excl. D&A)	(19.2)	(21.2)	2.0	(9.4)	(22.6)	(15.1)	(24.7)	(22.0)
EBITDA	20.1	16.4	3.7	22.8	13.4	50.0	11.9	68.9
Depr. (incl IFRS16 leases)	(2.5)	(2.6)	0.2	(6.5)	(2.6)	(3.9)	(2.5)	0.0
EBITA	17.7	13.7	3.9	28.4	10.9	62.7	9.5	86.8
EBITA, adj.	17.7	13.7	3.9	28.4	10.9	62.7	9.5	86.8
Amort.	(0.1)	0.0	(0.1)	n.a.	(0.1)	0.0	(0.1)	0.0
Impairments	0.0	0.0	0.0	n.a.	0.0	n.a.	0.0	n.a.
EBIT	17.6	13.7	3.9	28.0	10.8	63.0	9.4	87.2
o/w NRIs, total	0.0	0.0	0.0	n.a.	0.0	n.a.	0.0	n.a.
EBIT, adj.	17.6	13.7	3.9	28.0	10.8	63.0	9.4	87.2
Net financials (excl. assoc.)	(1.5)	(1.4)	(0.1)	10.0	(1.5)	6.2	(1.1)	40.0
Pre-tax profit	16.1	12.3	3.7	30.1	9.4	71.8	8.3	93.5
Total taxes	(3.7)	(2.9)	(0.9)	29.8	(2.2)	70.0	(1.9)	96.8
After tax profit, reported	12.3	9.5	2.9	30.2	7.2	72.3	6.4	92.5
Adjustments, net of tax effect	0.0	0.0	0.0	n.a.	0.0	0.3	0.0	(0.5)
Adjusted after tax profit	12.4	9.5	2.9	30.6	7.2	71.9	6.4	91.9
EPS, reported	0.73	0.56	0.17	30.2	0.42	(72.3)	0.38	92.5
EPS, adj	0.73	0.56	0.17	30.6	0.43	71.9	0.38	91.9

Source: SEB

Mid-point DCF-based equity valuation

DCF valuation (SEKm)		Weighted average cost of capital (%)	
NPV of FCF in explicit forecast period	312	Risk free interest rate	2.5
NPV of continuing value	373	Risk premium	5.5
Value of operation	685	Cost of equity	8.0
Net debt	96	After tax cost of debt	5.0
Share issue/buy-back in forecast period	-	WACC	7.6
Value of associated companies	-		
Value of minority shareholders' equity	-	Assumptions	
Value of marketable assets	-	Number of forecast years	10
DCF value of equity	590	EBIT margin - steady state (%)	9.3
DCF value per share (SEK)	35.00	EBIT multiple - steady state (x)	10.5
Current share price (SEK)	24.00	Continuing value (% of NPV)	54.5
DCF performance potential (%)	46		

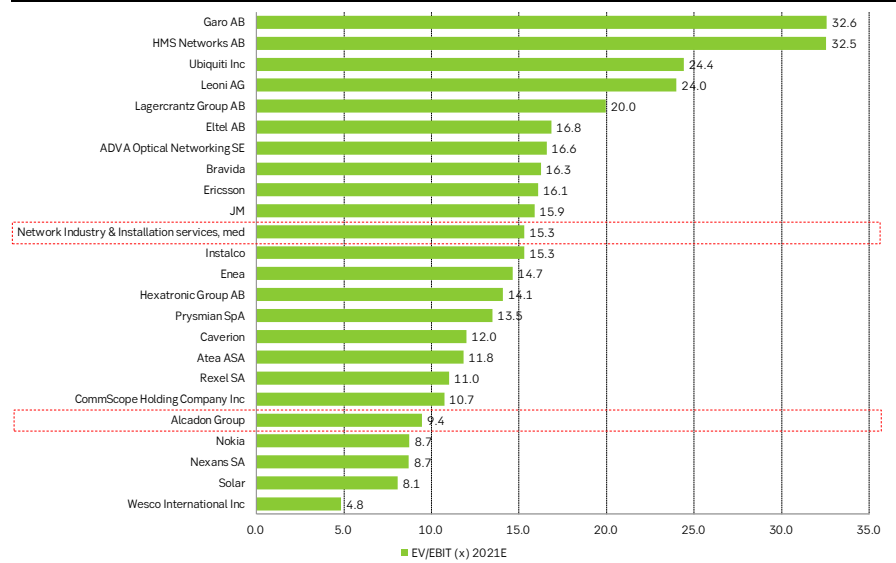
Source: SEB

Mid-point DCF valuation sensitivities

		Absolute change in EBITDA margin - all years				
		-2%	-1%	0	+1%	+2%
Abs. change in sales growth - all years	-2%	24.8	28.1	31.4	34.7	38.0
	-1%	26.1	29.6	33.1	36.6	40.1
	0	27.6	31.3	35.0	38.7	42.4
	+1%	29.1	33.0	36.9	40.8	44.8
	+2%	30.7	34.8	39.0	43.1	47.2

Source: SEB

Peer group estimated EV/EBIT (x)



Source: SEB, ThomsonReuters

Peer group valuation, share price performance and earnings revisions, -12M (%)

	CCY	Share price	Mkt cap (EURm)	EV/Sales (x)			EV/EBIT (x)			Abs. performance (%)			2021E EPS
				2020E	2021E	2022E	2020E	2021E	2022E	-1M	-3M	-12M	rev. -12M (%)
Telecom/Tech & Services													
Network Industry & Installation peers													
ADVA Optical Networking SE	EUR	7.42	376	0.74	0.70	0.64	22.2	16.6	13.2	23.7	27.7	19.1	(19.5)
Applied Optoelectronics Inc	USD	15.80	305	1.69	1.34	1.21	n.a.	57.9	14.6	41.7	29.5	54.8	(80.3)
Atea ASA	NOK	105.20	1,092	0.32	0.31	0.30	15.7	11.8	10.0	9.1	17.3	(6.1)	(24.8)
Bravida	SEK	101.30	1,989	1.01	1.01	0.98	16.6	16.3	15.4	13.6	22.6	26.2	9.6
Caverion	EUR	6.37	864	0.45	0.42	0.38	17.3	12.0	10.1	5.1	21.1	6.2	(0.3)
CommScope Holding Company Inc	USD	11.02	1,839	1.46	1.43	1.39	12.8	10.7	10.9	38.2	(0.0)	(14.6)	(41.4)
Ettel AB	SEK	20.30	311	0.48	0.48	0.47	15.2	16.8	13.5	(3.3)	(3.8)	(9.0)	11.1
Enea	SEK	185.00	390	4.26	3.77	3.50	17.8	14.7	12.9	4.3	39.9	23.3	(2.3)
Ericsson	SEK	102.95	33,154	1.45	1.44	1.39	15.8	16.1	13.1	17.3	25.2	22.8	(5.7)
Furukawa Electric Co Ltd	JPY	2,350.00	1,330	0.45	0.42	0.40	n.a.	n.a.	n.a.	(11.3)	20.5	(3.0)	(34.0)
Garo AB	SEK	414.00	404	4.17	3.62	3.15	42.4	32.6	27.7	11.3	24.3	35.5	(14.2)
Hexatronic Group AB	SEK	59.90	220	1.40	1.19	1.01	21.0	14.1	10.9	15.9	45.7	24.5	(13.4)
HMS Networks AB	SEK	211.00	958	7.24	6.24	n.a.	40.6	32.5	n.a.	21.4	31.2	35.6	(26.5)
Instalco	SEK	168.00	826	1.31	1.21	1.07	16.2	15.3	13.0	5.3	22.3	91.1	52.2
JM	SEK	267.80	1,815	1.50	1.56	1.62	13.9	15.9	16.1	14.4	64.3	14.2	(10.4)
Lagercrantz Group AB	SEK	174.80	1,124	2.74	2.49	2.36	23.7	20.0	18.8	15.8	34.3	46.4	(13.7)
Leoni AG	EUR	7.24	238	0.35	0.32	0.31	n.a.	24.0	13.5	0.0	15.6	(36.3)	(99.1)
Nexans SA	EUR	46.50	2,028	0.39	0.38	0.37	12.7	8.7	7.4	8.4	29.0	64.3	(4.6)
NKT A/S	DKK	187.50	818	0.80	0.68	0.58	n.a.	n.a.	22.2	28.4	23.5	113.8	(120.8)
Nokia	EUR	4.25	23,934	0.96	0.95	0.93	10.2	8.7	7.8	13.0	31.6	(11.0)	(23.4)
Prysmian SpA	EUR	22.20	5,953	0.84	0.79	0.75	17.8	13.5	11.9	2.2	27.5	18.7	(28.0)
Rexel SA	EUR	10.58	3,245	0.48	0.45	0.44	17.4	11.0	9.6	(2.0)	24.7	17.0	(26.4)
Solar	DKK	314.00	308	0.26	0.25	0.23	9.0	8.1	7.0	16.5	24.4	11.0	7.2
Ubiquiti Inc	USD	191.98	10,373	9.01	9.30	n.a.	25.0	24.4	n.a.	9.1	19.9	61.4	(11.1)
Wesco International Inc	USD	42.42	1,800	0.28	0.20	0.20	8.4	4.8	4.3	27.6	61.4	(7.4)	(26.7)
Network Industry & Installation services, avg				1.76	1.64	1.03	18.7	17.7	12.9	13.0	27.2	23.9	(21.9)
Network Industry & Installation services, med				0.96	0.95	0.75	16.6	15.3	13.0	13.0	24.7	19.1	(14.2)
Alcadon Group	SEK	25.90	43	1.10	1.00	0.89	11.4	9.4	8.1	17.7	49.3	18.8	0.0
Discount/(Premium) to peers, avg (%/pp)				37.8	39.1	13.3	38.9	46.6	37.4	(4.7)	(22.1)	5.1	(21.9)
Discount/(Premium) to peers, med (%/pp)				(14.0)	(5.0)	(18.4)	31.3	38.3	37.6	(4.7)	(24.5)	0.3	(14.2)

Source: SEB, ThomsonReuters

Overview

Investment considerations

We believe Alcadon offers a good exposure to the roll-out of 5G technology, the increasing use of edge computing (cloud) and industrial automation trends (Industry 4.0 or internet of things). To support the volume of connections, low latency and connection speeds, critical to 5G applications, this requires a much denser network infrastructure. Here, Alcadon has carved out a leading market position in the premium network equipment segment. Increasing private label sales and SG&A leverage add to EPS growth.

Company profile

From organic and M&A growth, since its start in 1988, Alcadon Group has achieved a market leading position in Sweden and in Norway as a developer and distributor of structured cabel systems (SCS) and solutions for commercial properties (44% of sales), fiber- (34%) and residential (18%) networks. Its assortment includes fiber and copper-based products and passive and active components. In 2012 DistIT Group acquired and owned Alcadon until in 2016 when the company was distributed, "Lex Asea", to shareholders and separately listed. Since then the acquisitions of DataConnect (2017) and Norwegian CableCom (2018) are the most important, adding geographical scope, new business lines and cross-selling opportunities. Almost one-third of sales are being derived from private label systems (ECS and DC-Line), carrying higher margins compared to branded goods. Here, Alcadon has trained and certified a base of 4,000 installers working with ECS and DC-Line and there are over 2m systems in operation in the Nordic region.

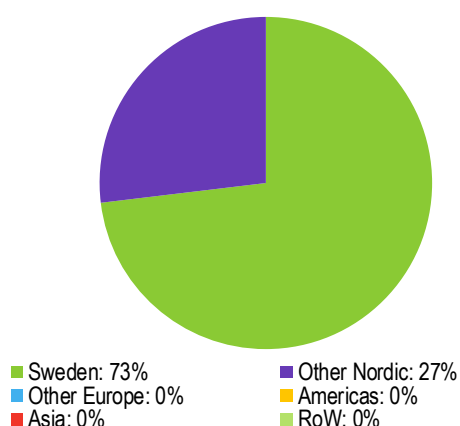
Valuation approach

Based on our earnings estimates, we believe Alcadon is valued at about 9x 2021 EV/EBIT, corresponding to a 40% discount to its peer group median valuation of 15.5x. At our mid-point equity value of SEK 35 per share, this would imply 12x 2021E EV/EBIT and in our opinion a more reasonable 20% discount to peers, as justified by its small capitalization.

Risks

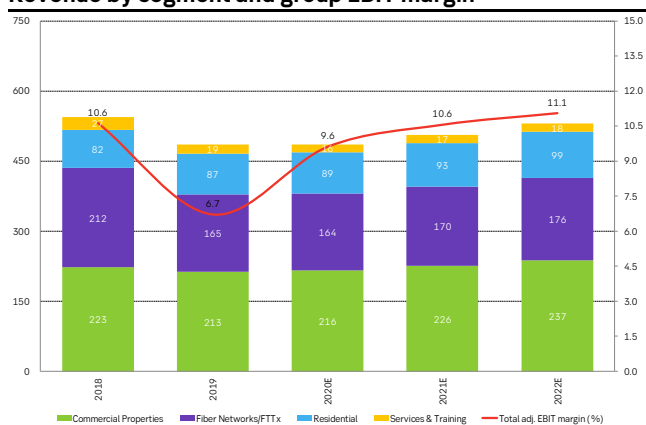
5G will be a much more expensive technology to roll out implying timing decisions could impact Alcadon's earnings and our valuation significantly. Also, Alcadon's financial disclosure and historical track record as a listed company is limited which could mean a higher equity risk premium in the medium term.

Revenues by region



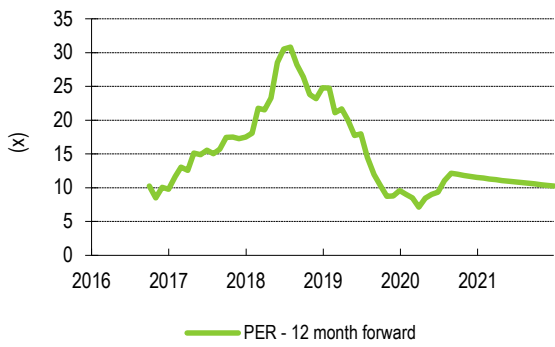
Source: SEB

Revenue by segment and group EBIT margin



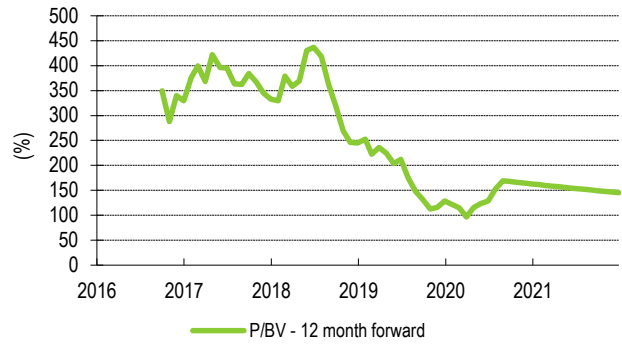
Source: SEB

PER - 12 month forward



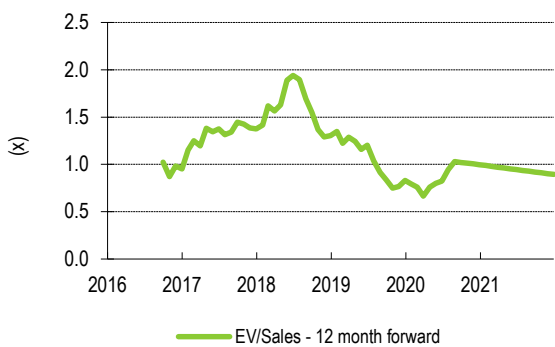
Source: SEB

P/BV - 12 month forward



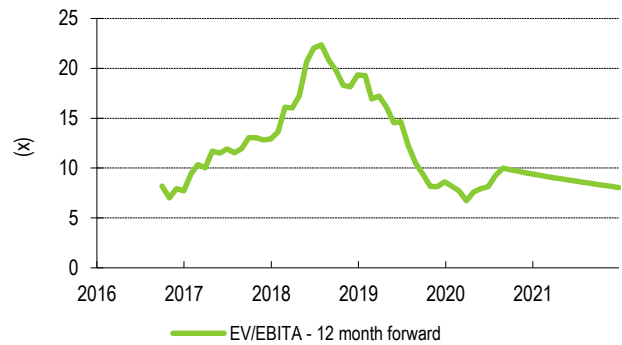
Source: SEB

EV/Sales - 12 month forward



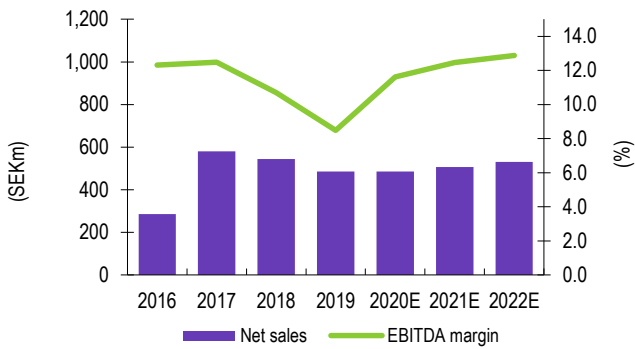
Source: SEB

EV/EBITA - 12 month forward



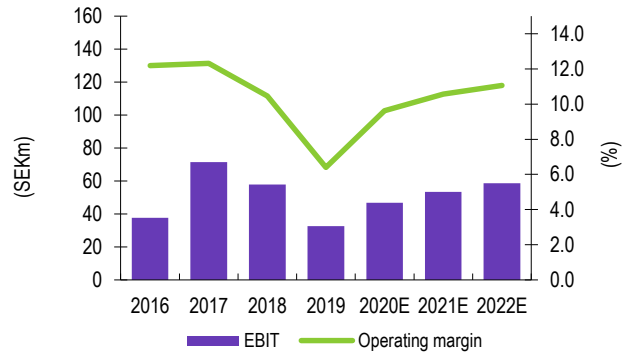
Source: SEB

Net sales & EBITDA margin



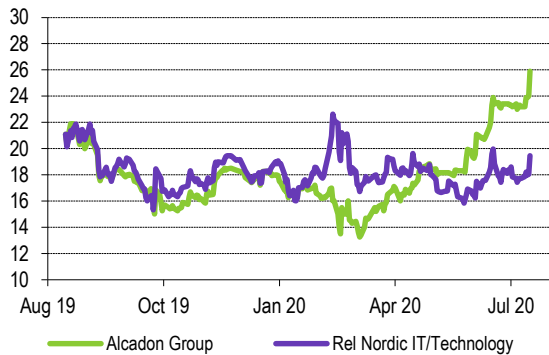
Source: SEB

EBIT & Operating margin



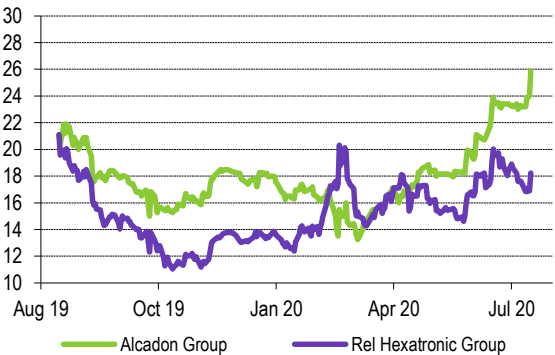
Source: SEB

Comparison with sector index - 1 year



Source: SIX

Comparison with Hexatronic Group - 1 year



Source: SIX

Profit & loss statement - Alcadon Group							
(SEKm)	2016	2017	2018	2019	2020E	2021E	2022E
Net Sales	285	580	544	485	486	506	531
Other revenues	0	0	0	0	0	0	0
Total revenues	285	580	544	485	486	506	531
Total expenses	(250)	(508)	(486)	(444)	(429)	(443)	(462)
Profit before depreciation	35	72	58	41	56	63	68
Depreciation - Fixed assets	(0)	(1)	(1)	(10)	(10)	(9)	(9)
Depreciation - Other assets	0	0	0	0	0	0	0
Amortisation - Goodwill	0	0	0	0	0	0	0
Amortisation - Other intangibles	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Operating profit	35	71	57	31	47	53	59
Net interest expenses	(6)	(9)	(10)	(6)	(5)	(4)	(4)
Foreign exchange items	(0)	0	(0)	0	0	0	0
Other financial items	0	0	0	(0)	(0)	(0)	(0)
Value changes - Fixed assets	0	0	0	0	0	0	0
Value changes - Financial assets	0	0	0	0	0	0	0
Value changes - Other assets	0	0	0	0	0	0	0
Reported pre-tax profit	29	63	47	25	41	49	55
Minority interests	(3)	0	0	0	0	0	0
Total taxes	(7)	(14)	(11)	(6)	(9)	(11)	(12)
Reported profit after tax	20	49	36	19	32	38	42
Discontinued operations	0	0	0	0	0	0	0
Extraordinary items	0	0	0	0	0	0	0
Net Profit	20	49	36	19	32	38	42
Adjustments:							
Discontinued operations	0	0	0	0	0	0	0
Interest on convertible debt	0	0	0	0	0	0	0
Minority interests (IFRS)	0	0	0	0	0	0	0
Value changes	0	0	0	0	0	0	0
Goodwill/intangibles amortisations	0	0	0	0	0	0	0
Restructuring charges	0	0	0	0	0	0	0
Other adjustments	3	0	1	2	0	0	0
Tax effect of adjustments	(1)	(0)	(0)	(0)	(0)	(0)	(0)
Adjusted profit after tax	22	49	37	20	32	38	43
Margins, tax & returns							
Operating margin	12.2	12.3	10.5	6.4	9.6	10.6	11.1
Pre-tax margin	10.1	10.8	8.6	5.1	8.5	9.6	10.3
Tax rate	22.6	22.7	22.8	22.4	22.4	22.4	22.4
ROE	66.0	47.5	21.4	9.5	14.3	14.9	14.9
ROCE	37.9	28.9	18.3	9.5	13.1	14.3	15.1
Growth rates y-o-y (%)							
Total revenues	n.a.	103.3	(6.2)	(10.8)	0.1	4.2	4.9
Operating profit	n.m.	105.6	(20.3)	(45.4)	50.3	14.4	9.8
Pre-tax profit	n.m.	117.0	(25.2)	(47.5)	66.9	18.1	12.3
EPS (adjusted)	0.0	105.2	(25.9)	(44.9)	57.1	18.2	12.2
Cash flow							
(SEKm)	2016	2017	2018	2019	2020E	2021E	2022E
Net profit	20	49	36	19	32	38	42
Non-cash adjustments	(0)	14	9	9	10	10	10
Cash flow before work cap	19	62	45	28	42	47	52
Ch. in working capital / Other	(4)	(9)	7	8	(1)	(1)	(1)
Operating cash flow	15	53	53	36	40	46	51
Capital expenditures	(1)	(1)	(1)	(0)	(9)	(10)	(10)
Asset disposals	0	0	0	0	0	0	0
L/T financial investments	0	0	0	0	0	0	0
Acquisitions / adjustments	0	(32)	(45)	(2)	0	0	0
Free cash flow	15	19	7	34	31	36	41
Net loan proceeds	(20)	3	(15)	(36)	(15)	(15)	(15)
Dividend paid	0	0	(8)	(8)	0	(8)	(10)
Share issue	0	0	0	1	0	0	0
Other	26	0	0	(0)	0	(0)	0
Net change in cash	21	23	(16)	(10)	16	13	15
Adjustments							
C/flow bef chng in work cap	19	62	45	28	42	47	52
Adjustments	0	0	0	0	0	0	0
Int on conv debt net of tax	0	0	0	0	0	0	0
Cash earnings	19	62	45	28	42	47	52
Per share information							
Cash earnings	1.27	3.79	2.69	1.65	2.47	2.81	3.08
Operating cash flow	0.99	3.23	3.13	2.11	2.4	2.75	3.0
Free cash flow	0.95	1.18	0.39	2.01	1.85	2.16	2.41
Investment cover							
Capex/sales (%)	0.1	0.2	0.1	0.0	1.9	2.0	1.9
Capex/depreciation (%)	120	182	57	2	97	106	107

Source for all data on this page: SEB

Balance sheet - Alcadon Group							
(SEKm)	2016	2017	2018	2019	2020E	2021E	2022E
Cash and liquid assets	21	43	28	18	34	47	62
Debtors	29	79	52	40	44	46	48
Inventories	42	60	77	75	76	79	83
Other	5	6	6	9	10	10	11
Current assets	97	189	162	142	164	182	203
Interest bearing fixed assets	0	0	0	0	0	0	0
Other financial assets	0	0	0	0	0	0	0
Capitalized development cost	1	1	1	1	1	1	1
Goodwill	154	225	289	289	289	289	289
Other intangibles	0	0	0	0	(0)	(0)	(1)
Fixed tangible assets	1	1	2	18	18	18	19
Other fixed assets	0	0	0	0	0	0	0
Fixed assets	155	227	292	308	308	308	309
Total assets	252	416	454	451	472	490	512
Creditors	23	72	55	53	53	55	58
Other trade financing	10	18	19	23	18	19	20
S/T interest bearing debt	0	3	21	30	28	28	28
Other	18	28	33	18	27	28	29
Current liabilities	51	121	128	123	125	129	134
L/T interest bearing debt	140	148	125	115	102	87	72
Other long-term liabilities	0	0	0	0	0	0	0
Convertible debt	0	0	0	0	0	0	0
Pension provisions	0	0	0	0	0	0	0
Other provisions	0	2	7	5	5	5	5
Deferred tax	1	1	1	1	1	1	1
Long term liabilities	141	150	132	121	108	93	78
Minority interests	0	0	0	0	0	0	0
Shareholders' equity	60	145	195	207	239	268	300
Total liabilities and equity	252	416	454	451	472	490	512
Net debt (m)	119	108	118	127	96	68	37
Working capital (m)	25	27	28	31	32	33	35
Capital employed (m)	200	295	340	351	368	383	400
Net debt/equity (%)	199	74	61	61	40	25	12
Net debt/EBITDA (x)	3.1	1.5	2.0	3.0	1.7	1.1	0.5
Equity/total assets (%)	24	35	43	46	51	55	59
Interest cover	5.9	8.1	5.7	4.9	8.6	11.0	13.8

Valuation							
(SEK)	2016	2017	2018	2019	2020E	2021E	2022E
No of shares, fully dil. (y/e)	15.4	16.4	16.9	16.9	16.9	16.9	16.9
No of shares, fully dil. avg.	15.4	16.4	16.9	16.9	16.9	16.9	16.9
Share price, y/e	29.0	38.4	30.0	18.3	25.9	25.9	25.9
Share price, high	32.0	43.7	55.0	33.0	25.9		
Share price, low	21.9	28.8	28.0	13.5	12.0		
Share price, avg	26.3	37.9	42.1	24.3	18.1		
EPS (reported)	1.29	2.96	2.15	1.13	1.89	2.24	2.51
EPS (adjusted)	1.44	2.96	2.20	1.21	1.90	2.25	2.52
Cash earnings/share	1.27	3.79	2.69	1.65	2.47	2.81	3.08
Dividend/share	0.00	0.50	0.50	0.00	0.50	0.60	0.70
Enterprise value/share	37	45	37	26	32	30	28
Book value/share	3.9	8.8	11.5	12.3	14.2	15.9	17.8
Adjusted equity/share	3.9	8.8	11.5	12.3	14.2	15.9	17.8
PER (adjusted)	20.1	13.0	13.7	15.1	13.6	11.5	10.3
CEM	22.9	10.1	11.2	11.1	10.5	9.2	8.4
Dividend yield	0.0	1.3	1.7	0.0	1.9	2.3	2.7
EV/EBITDA	14.8	10.2	10.6	10.2	9.4	8.0	6.9
EV/EBITA	14.9	10.3	10.8	13.3	11.4	9.4	8.1
EV/EBIT	15.0	10.3	10.8	13.3	11.4	9.4	8.1
EV/Sales (x)	1.98	1.27	1.15	0.90	1.10	1.00	0.89
Price/Book value	7.42	4.36	2.60	1.49	1.83	1.63	1.45
Price/adjusted equity	7.42	4.36	2.60	1.49	1.83	1.63	1.45
Free cash flow/Market cap (%)	3.3	8.2	10.2	11.5	7.1	8.3	9.3
Operating cash flow/EV (%)	2.7	7.2	8.4	8.2	7.6	9.2	10.7
EV/Capital employed (x)	2.8	2.5	1.8	1.2	1.4	1.3	1.2

Main shareholders			Management		Company information	
Name	(%)	Votes	Capital	Title	Name	Contact
Athanase Industrial Partners	16.5		16.5	COB	Pierre Fors	Internet www.alcadongroup.se
Anders Bladh	11.0		11.0	CEO	Sonny Mirborn	Phone number +46 8 657 36 00
Humle Fonder	6.5		6.5	CFO	Niklas Svensson	
Foreign owners (total)	6.0		6.0	IR		

Source for all data on this page: SEB

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Copenhagen

Bernstorffsgade 50
P.O. Box 100
DK-1577 Copenhagen V

Telephone: (45) 3328 2828

Oslo

Filipstad Brygge 1,
P.O. Box 1363 Vika
NO-0113 Oslo

Telephone: (47) 2100 8500

Frankfurt

Stephanstrasse 14-16
D-60313 Frankfurt am Main

Telephone: (49) 69 9727 7740

Stockholm

Kungsträdgårdsgatan 8
S-106 40 Stockholm

Telephone: (46) 8 522 29500

Helsinki

Eteläesplanadi 18
P.O. Box 630
FIN-00101 Helsinki

Telephone: (358) 9 616 28700

Tallinn

Tornimäe 2
EE-Tallinn 15010

Telephone: (372) 665 7762

London

One Carter Lane
London, EC4V 5AN

Telephone: (44) 20 7246 4000