

Transtema: Strong Growth Momentum and Healthy Margins

Transtema Research Update 2022-11-08 06:45 Updated 2022-11-08 06:46

Redeye retains its positive view on Transtema following a solid Q3 report, showing high organic and acquired growth and healthy margins. While demand is strong, cost inflation puts pressure on Transtema's operations, but management seems confident its margin target can be maintained. We raise our forecasts slightly and leave our Base Case unchanged.



Fredrik Nilsson



Jacob Svensson

Robust Quarter

Sales grew by 60% y/y, and organic growth was 14.6% y/y. Both organic and acquired sales growth were higher than expected, and total sales growth beat our forecast by 17%. EBITA beat our forecast by 16%, implying a margin aligned with our expectations. Management points out that demand is strong in both Sweden and Norway, while inflation puts pressure on margins. However, the >7% EBITA margin target remains unchanged, suggesting management is confident it can sustain its efficient operations.

Entering the Coax Market

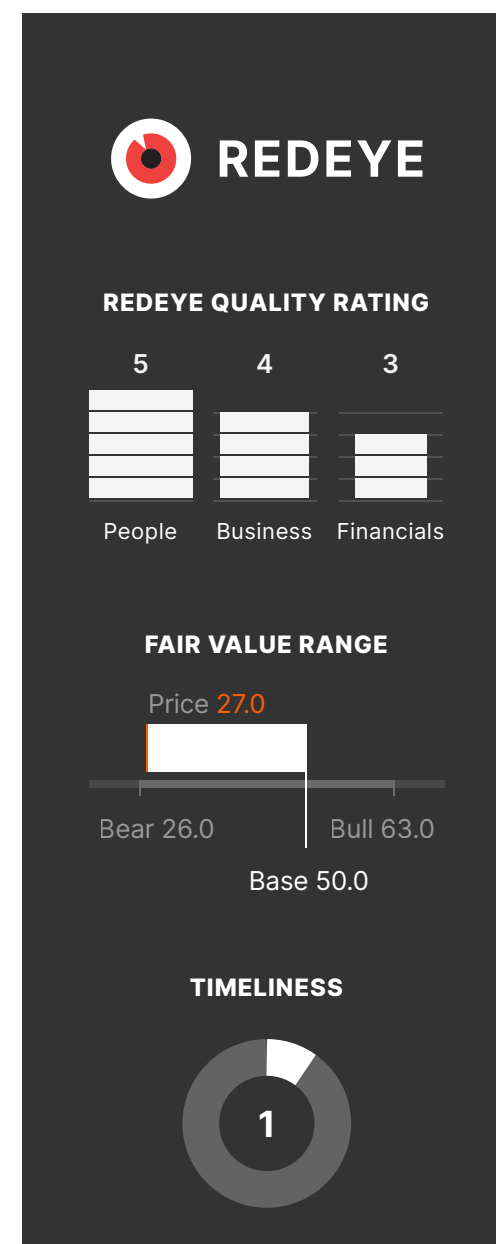
At the beginning of October, Transtema acquired Bäck, adding roughly SEK40m in sales with stable profitability. Although we are doubtful about coax, in the very long run, the market is very stable, and the competition among support and maintenance providers is probably rather limited. We believe it is a solid acquisition, adding stable support and maintenance revenue with the potential for revenue synergies by utilizing Transtema's nationwide organization.

Base Case Unchanged at SEK50

We leave our Base Case at SEK50 despite increasing the WACC to 9.5% (9), following an increased risk-free rate from 2% to 2.5%. The somewhat higher EBITA forecast offsets the negative effect of the WACC raise. The share is still trading significantly below our Base Case, and we argue that solid reports, like this Q3, should trigger a revaluation of the share.

SEKm	2020	2021E	2022E	2023E	2024E
Revenues	1,405	1,690	2,348	2,594	2,671
Revenue Growth	(6.2%)	20.3%	38.9%	10.5%	3.0%
EBITDA	118	202	247	279	288
EBIT	16	124	141	150	159
EBIT Margin	1.2%	7.4%	6.0%	5.8%	6.0%
Net Income	4	91	87	110	117
EV/Revenue	0.3	1.0	0.4	0.4	0.3
EV/EBIT	26.2	13.5	6.6	6.3	4.8

Strong Growth and Solid Margin



KEY STATS

Market Cap	1.0 BSEK
Entprs. Value (EV)	1.0 BSEK
Net Debt	3.1 MSEK
30 Day Avg Vol	107 K
Shares Outstanding	N/A
EV / Sales	0.7
EV / EBIT	65.9
Price / Earnings	228.4
PEG	N/A
Dividend Yield	N/A

IMPORTANT INFORMATION

All information regarding limitation of liability and potential conflicts of interest can be found at the end of the report.

Redeye, Mäster Samuelsgatan 42, 10tr, Box 7141, 103 87 Stockholm. Tel. +46 8-545 013 30
E-post: info@redeye.se

	Q3E 2022	Q3A 2022	Diff	Q3A 2021	Q2A 2022
Revenues	528.5	617.3	16.8%	386.7	623.9
Y/Y Growth (%)	37%	60%		27%	39%
EBITA	40.7	47.1	15.6%	32.5	49.0
EBITA Margin (%)	7.7%	7.6%		8.4%	7.9%
EPS	0.66	0.57	(14.2%)	0.54	0.91

Source: Transtema & Redeye Research

Sales grew by 60% y/y to SEK617m (387), and organic growth was 14.6% y/y. Both organic and acquired sales growth were higher than we expected, and total sales growth beat our forecast by 17%. Tessta, the main driver of acquired growth, continued its strong momentum and has, during 2022, so far, seen a significant rebound relative to the softer 2021, which was negatively impacted by the covid-19 pandemic. In Q3 Tessta grew its sales by 57% y/y. Thus, demand is strong in both the Swedish and Norwegian markets.

EBITA was SEK47.1m (32.5), beating our estimate of SEK40.7m by nearly 16%, corresponding to an EBITA margin of 7.6% (8.4) in the quarter. While the margin declined somewhat relative to the very strong level seen last year, it matched our forecasts and was well above Transtema's >7% EBITA margin target. According to management, Transtema, like other companies, is affected by increased inflationary pressure, mainly from increased energy and fuel costs. However, the company have a good and constructive dialogue with its customers and suppliers to handle the situation, with the ambition to keep its profitability and reach its financial targets.

Also, while demand is strong, as highlighted by the quarter's solid sales growth, supply is somewhat limited. Thus, the margin on new construction projects will likely be lower than normal, fueling most of the growth. However, for several reasons, we believe taking those orders benefits Transtema. First, while having a lower margin, we expected the absolute EBITA from the deals to be positive. Second, the construction orders drive support and maintenance deals, generating recurring revenue with higher margins over time. Third, the orders are largely from Transtema's most significant customers, and strengthening the cooperation is important long-term. Also, management seems confident in reaching its 7% EBITA margin target, implying that the margin on the construction deals are, at least, decent.

While we do not want to extrapolate the full extent of the strength in this quarter for the reasons mentioned above, the quarter shows Transtema has solidly handled the increasing costs, maintaining its industry-leading margins.

Entering the Coax Market

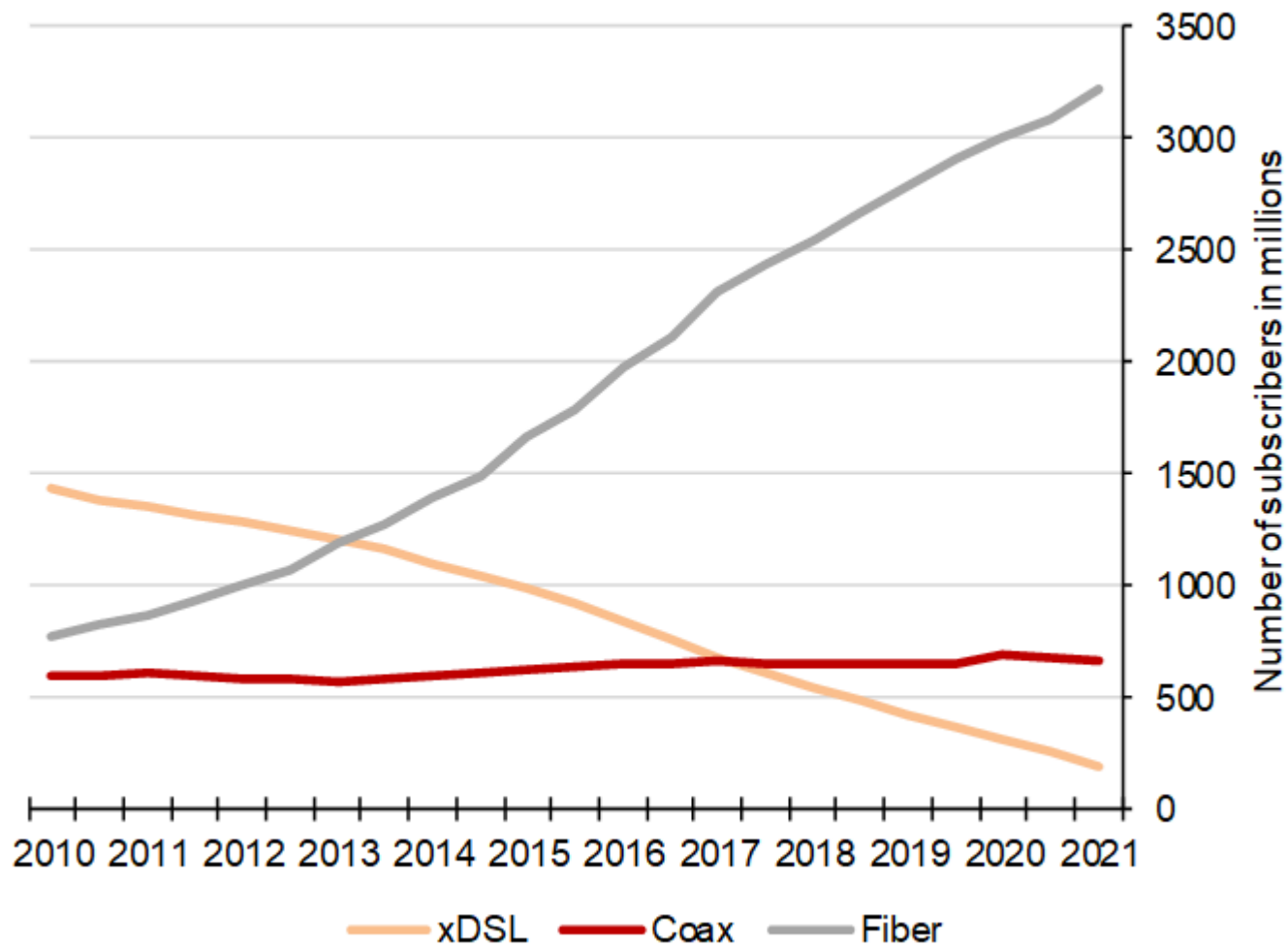
At the beginning of October, Transtema acquired Bäck. Below is a short description of the business (English translation of highlights from the PM):

"Bäck is one of Sweden's leading companies in the installation, service, and maintenance of cable TV (coax) networks in Sweden. The company has its headquarters in Kungsbacka and today covers the metropolitan areas in Sweden. The turnover amounts to approximately SEK 40 million with 50 employees and stable profitability. Bäck is expected to contribute positively to Transtema's revenue growth and strengthen the operating profit from the day of entry."

The acquisitions mark Transtema's entry into the coax market, which shares many similarities with its other markets. We believe there is a substantial potential for synergies on the revenue side, as Transtema can utilize Bäck's know-how within coax to its nationwide operations.

While coax is old technology compared to fiber, Tele2 (Comhem) has invested substantial amounts into its coax network. Today's coax support speeds of ~1Gbit/s, which is well enough for most consumers today and in line with the maximum speed in a typically open city fiber network. The graph below shows that the number of coax subscriptions has been flat for over a decade, suggesting that switching from coax to fiber is an unattractive investment.

Fixed Broadband Sweden



Source: PTS

While we believe the coax speed is good enough, at least for now, we argue that the monopoly structure of the coax network makes it less attractive to consumers relative to the generally open fiber networks. However, the incentive for a real-estate owner (coax is most common in rental multiple dwelling units) to invest in fiber when coax already is in place is limited. The real-estate owner gets, in most cases, no advantage of switching to fiber.

Although we are doubtful about coax, in the very long run, the market is very stable, and the competition among support and maintenance providers is probably rather limited. All in all, we believe it is a solid acquisition, adding stable support and maintenance revenue with the potential for revenue synergies by utilizing Transtema’s nationwide organization.

Financial Forecasts

We raise our sales forecasts for 2023E by about 9%, mainly due to strong organic growth and impressive development in the recently acquired Tessta. Also, management seems optimistic regarding the demand situation. However, we lower our margin assumptions following limited supply and inflationary pressure, where we likely will see a ~4% increase in salaries next year. However, despite the lower margin assumptions, we raise our EBITA forecast by 2%.

Estimate Revisions	FYE 2022	Old	Change	FYE 2023	Old	Change
Revenues	2 347.9	2 210.1	6.2%	2 593.6	2 373.3	9.3%
Y/Y Growth (%)	67.1%	57.3%		10.5%	7.4%	
EBITA	164.4	156.8	4.9%	187.9	184.1	2.1%
EBITA Margin (%)	7.0%	7.1%		7.2%	7.8%	
EPS	2.19	2.15	2.2%	2.78	2.70	2.8%

Source: Transtema & Redeye Research

While lowering our EBITA margin somewhat for the coming years, we expect Transtema to reach its >7% EBITA margin target, which is industry-leading. However, thanks to the strong sales

growth seen in 2022 and an increased sales forecast for 2023, we increased the absolute EBITA throughout the forecast period.

We do not assume any material investments in or sales from new areas, such as EV-charging or coax, despite the recent acquisitions, which is currently a small part of Transtema. If Transtema is successful in its greenfield investment, we would likely see lower margins short-term in exchange for higher growth and possibly margins long-term.

Income Statement	2021	2022Q1	2022Q2	2022Q3	2022Q4	2022	2023	2024
Revenues	1 690	445	624	617	662	2 348	2 594	2 671
Y/Y Growth (%)	20.3%	14.6%	39.2%	59.6%	41.7%	38.9%	10.5%	3.0%
Cost of Revenues	(578)	(170)	(302)	(314)	(315)	(1 102)	(1 202)	(1 237)
Gross Profit	1 112	274	322	303	347	1 246	1 392	1 435
Gross Profit Margin (%)	65.8%	61.7%	51.6%	49.1%	52.4%	53.1%	53.7%	53.7%
Other external costs	(215)	(61)	(65)	(60)	(66)	(252)	(272)	(278)
Personnel expenses	(697)	(176)	(194)	(175)	(211)	(755)	(843)	(870)
Other operation income	3	1	6	1	1	8	2	2
EBITDA	202	38	70	68	70	247	279	288
EBITDA Margin (%)	12.0%	8.7%	11.2%	11.1%	10.6%	10.5%	10.7%	10.8%
Depreciation	(65)	(18)	(21)	(21)	(22)	(83)	(91)	(91)
EBITA	137	20	49	47	48	164	188	197
EBITA Margin (%)	8.1%	4.6%	7.9%	7.6%	7.2%	7.0%	7.2%	7.4%
Amortization	(13)	(5)	(9)	(0)	(9)	(23)	(38)	(38)
EBIT	124	16	40	47	39	141	150	159
EBIT Margin (%)	7.4%	3.5%	6.4%	7.6%	5.9%	6.0%	5.8%	6.0%
Interest Expenses	(10)	(3)	(9)	(18)	(3)	(33)	(12)	(12)
EBT	114	14	42	30	36	108	138	147
Income Tax Expenses	(23)	(3)	(9)	(7)	(7)	(22)	(28)	(30)
Effective Tax Rate (%)	20.6%	20.6%	21.8%	24.1%	20.6%	20.6%	20.6%	20.6%
Non-Controlling Interests	1	0	0	0	-	1	-	-
Net Income	91	11	36	23	28	87	110	117
Net Income Margin (%)	5.4%	2.5%	5.7%	3.8%	4.3%	3.7%	4.2%	4.4%

Source: Transtema & Redeye Research

Valuation

We leave our Base Case at SEK 50 despite increasing the WACC to 9.5% (9), following an increased risk-free rate from 2% to 2.5%. The somewhat higher EBITA forecast offsets the negative effect of the WACC raise.

Also, note that Transtema has few institutional investors despite a market cap above SEK 1bn. The transformed Transtema has many features that institutional investors find attractive, such as non-cyclical recurring revenue streams and a genuine commitment to ESG.

Peer Valuation

Transtema is trading at a discount to peers for 2023E. Also, its margins are the highest, and it has had a solid track record since its transformation. Thus, we believe a premium is motivated, at least relative to the similar-sized peers, and our Base Case of SEK 50 equals ~10x EBITA 2023E.

Company	EV	Sales	EV/SALES			EV/EBITA (x)			Sales growth			EBITA margin		
	(SEK)	20A	21A	22E	23E	21A	22E	23E	21A	22E	23E	21A	22E	23E
Eltel	1 075	8 628	0.1	0.1	0.1	7.3	15.2	5.9	5%	5%	6%	1.7%	0.8%	1.9%
Bravida	20 983	21 875	1.0	0.8	0.8	14.7	13.1	12.7	0%	16%	4%	6.5%	6.3%	6.3%
Caverion	10 382	2 140	0.4	0.4	0.4	11.7	10.1	9.3	0%	7%	2%	3.8%	4.2%	4.5%
Enersense	1 047	239	0.4	0.4	0.4	14.3	69.2	11.5	0%	5%	9%	2.8%	0.6%	3.1%
Netel	1 635	2 418	0.7	0.5	0.5	9.2	8.2	6.7	n/a	26%	19%	7.3%	6.6%	6.8%
Median	5 728	5 384	0.4	0.4	0.4	13.0	14.1	10.4	0%	6%	5%	3.3%	2.5%	3.8%
Average	8 372	8 220	0.5	0.4	0.4	12.0	26.9	9.9	1%	8%	5%	3.7%	3.0%	3.9%
Transtema	1 069	1 405	0.6	0.5	0.4	7.5	6.5	5.7	20%	39%	10%	8.1%	7.0%	7.2%

Source: Redeye, FactSet

Income Statement

SEKm	2020	2021E	2022E	2023E	2024E
Revenues	1,405	1,690	2,348	2,594	2,671
Cost of Revenue	602	578	1,102	1,202	1,237
Operating Expenses	685	909	999	1,113	1,146
Exchange Rate Differences	-	-	-	-	-
EBITDA	118	202	247	279	288
Depreciation	(15)	(15)	(19)	(21)	(21)
Amortizations	(26)	(13)	(23)	(38)	(38)
EBIT	16	124	141	150	159
Shares in Associates	67	56	59	59	59
Interest Expenses	(10)	(10)	(33)	(12)	(12)
Net Financial Items	10	10	33	12	12
Non Recurring Income Expense	-	-	-	-	-
EBT	8	114	108	138	147
Income Tax Expenses	15	(23)	(22)	(28)	(30)
Net Income	4	91	87	110	117

Balance Sheet

SEKm	2020	2021E	2022E	2023E	2024E
Revenues	1,405	1,690	2,348	2,594	2,671
Cost of Revenue	602	578	1,102	1,202	1,237
Operating Expenses	685	909	999	1,113	1,146
Exchange Rate Differences	-	-	-	-	-
EBITDA	118	202	247	279	288
Depreciation	(15)	(15)	(19)	(21)	(21)
Amortizations	(26)	(13)	(23)	(38)	(38)
EBIT	16	124	141	150	159
Shares in Associates	67	56	59	59	59
Interest Expenses	(10)	(10)	(33)	(12)	(12)

SEKm	2020	2021E	2022E	2023E	2024E
Net Financial Items	10	10	33	12	12
Non Recurring Income Expense	-	-	-	-	-
EBT	8	114	108	138	147
Income Tax Expenses	15	(23)	(22)	(28)	(30)
Net Income	4	91	87	110	117

Cash Flow

SEKm	2020	2021E	2022E	2023E	2024E
Revenues	1,405	1,690	2,348	2,594	2,671
Cost of Revenue	602	578	1,102	1,202	1,237
Operating Expenses	685	909	999	1,113	1,146
Exchange Rate Differences	-	-	-	-	-
EBITDA	118	202	247	279	288
Depreciation	(15)	(15)	(19)	(21)	(21)
Amortizations	(26)	(13)	(23)	(38)	(38)
EBIT	16	124	141	150	159
Shares in Associates	67	56	59	59	59
Interest Expenses	(10)	(10)	(33)	(12)	(12)
Net Financial Items	10	10	33	12	12
Non Recurring Income Expense	-	-	-	-	-
EBT	8	114	108	138	147
Income Tax Expenses	15	(23)	(22)	(28)	(30)
Net Income	4	91	87	110	117

Redeye Rating and Background Definitions

Company Quality

Company Quality is based on a set of quality checks across three categories; PEOPLE, BUSINESS, FINANCE. These are the building blocks that enable a company to deliver sustained operational outperformance and attractive longterm earnings growth.

Each category is grouped into multiple sub-categories assessed by five checks. These are based on widely accepted and tested investment criteria and used by demonstrably successful investors and investment firms. Each sub-category may also include a complementary check that provides additional information to assist with investment decision-making.

If a check is successful, it is assigned a score of one point; the total successful checks are added to give a score for each sub-category. The overall score for a category is the average of all sub-category scores, based on a scale that ranges from 0 to 5 rounded up to the nearest whole number. The overall score for each category is then used to generate the size of the bar in the Company Quality graphic.

People

At the end of the day, people drive profits. Not numbers. Understanding the motivations of people behind a business is a significant part of understanding the long-term drive of the company. It all comes down to doing business with people you trust, or at least avoiding dealing with people of questionable character.

The People rating is based on quantitative scores in seven categories:

- Passion, Execution, Capital Allocation, Communication, Compensation, Ownership, and Board.

Business

If you don't understand the competitive environment and don't have a clear sense of how the business will engage customers, create value and consistently deliver that value at a profit, you won't succeed as an investor. Knowing the business model inside out will provide you some level of certainty and reduce the risk when you buy a stock.

The Business rating is based on quantitative scores grouped into five sub-categories:

- Business Scalability, Market Structure, Value Proposition, Economic Moat, and Operational Risks.

Financials

Investing is part art, part science. Financial ratios make up most of the science. Ratios are used to evaluate the financial soundness of a business. Also, these ratios are key factors that will impact a company's financial performance and valuation. However, you only need a few to determine whether a company is financially strong or weak.

The Financial rating is based on quantitative scores that are grouped into five separate categories:

- Earnings Power, Profit Margin, Growth Rate, Financial Health, and Earnings Quality.

Redeye Equity Research Team

MANAGEMENT



Björn Fahlén
bjorn.fahlen@redeye.se



Tomas Otterbeck
tomas.otterbeck@redeye.se

EDITORIAL



Joel Karlsson
joel.karlsson@redeye.se

TECHNOLOGY TEAM



Alexander Flening
alexander.flening@redeye.se



Anton Hoof
anton.hoof@redeye.se



Danesh Zare
danesh.zare@redeye.se



Douglas Forsling
douglas.forsling@redeye.se



Forbes Goldman
forbes.goldman@redeye.se



Fredrik Reuterhäll
fredrik.reuterhall@redeye.se



Fredrik Nilsson
fredrik.nilsson@redeye.se



Henrik Alveskog
henrik.alveskog@redeye.se



Hjalmar Ahlberg
hjalmar.ahlberg@redeye.se



Jacob Svensson
jacob.svensson@redeye.se



Jesper Von Koch
jesper.vonkoch@redeye.se



Jessica Grunewald
jessica.grunewald@redeye.se



Mark Siöstedt
mark.siostedt@redeye.se



Mattias Ehrenborg
mattias.ehrenborg@redeye.se



Niklas Sävås
niklas.savas@redeye.se



Rasmus Jacobsson
rasmus.jacobsson@redeye.se



Viktor Lindström
viktor.lindstrom@redeye.se

LIFE SCIENCE TEAM



Christian Binder
christian.binder@redeye.se



Ethel Luvall
ethel.luvall@redeye.se



Filip Einarsson
filip.einarsson@redeye.se



Fredrik Thor
fredrik.thor@redeye.se



Gustaf Meyer
gustaf.meyer@redeye.se



Johan Unnerus
johan.unnerus@redeye.se



Kevin Sule
kevin.sule@redeye.se



Mats Hyttinge
mats.hyttinge@redeye.se



Oscar Bergman
oscar.bergman@redeye.se



Richard Ramanius
richard.ramanius@redeye.se



Sebastian Andersson
sebastian.andersson@redeye.se

Disclaimer

Important information

Redeye AB ("Redeye" or "the Company") is a specialist financial advisory boutique that focuses on small and mid-cap growth companies in the Nordic region. We focus on the technology and life science sectors. We provide services within Corporate Broking, Corporate Finance, equity research and investor relations. Our strengths are our award-winning research department, experienced advisers, a unique investor network, and the powerful distribution channel redeye.se. Redeye was founded in 1999 and since 2007 has been subject to the supervision of the Swedish Financial Supervisory Authority.

Redeye is licensed to; receive and transmit orders in financial instruments, provide investment advice to clients regarding financial instruments, prepare and disseminate financial analyses/recommendations for trading in financial instruments, execute orders in financial instruments on behalf of clients, place financial instruments without position taking, provide corporate advice and services within mergers and acquisition, provide services in conjunction with the provision of guarantees regarding financial instruments and to operate as a Certified Advisory business (ancillary authorization).

Limitation of liability

This document was prepared for information purposes for general distribution and is not intended to be advisory. The information contained in this analysis is based on sources deemed reliable by Redeye. However, Redeye cannot guarantee the accuracy of the information. The forward-looking information in the analysis is based on subjective assessments about the future, which constitutes a factor of uncertainty. Redeye cannot guarantee that forecasts and forward-looking statements will materialize. Investors shall conduct all investment decisions independently. This analysis is intended to be one of a number of tools that can be used in making an investment decision. All investors are therefore encouraged to supplement this information with additional relevant data and to consult a financial advisor prior to an investment decision. Accordingly, Redeye accepts no liability for any loss or damage resulting from the use of this analysis.

Potential conflict of interest

Redeye's research department is regulated by operational and administrative rules established to avoid conflicts of interest and to ensure the objectivity and independence of its analysts. The following applies:

- For companies that are the subject of Redeye's research analysis, the applicable rules include those established by the Swedish Financial Supervisory Authority pertaining to investment recommendations and the handling of conflicts of interest. Furthermore, Redeye employees are not allowed to trade in financial instruments of the company in question, from the date Redeye publishes its analysis plus one trading day after this date.
- An analyst may not engage in corporate finance transactions without the express approval of management and may not receive any remuneration directly linked to such transactions.
- Redeye may carry out an analysis upon commission or in exchange for payment from the company that is the subject of the analysis, or from an underwriting institution in conjunction with a merger and acquisition (M&A) deal, new share issue or a public listing. Readers of these reports should assume that Redeye may have received or will receive remuneration from the company/companies cited in the report for the performance of financial advisory services. Such remuneration is of a predetermined amount and is not dependent on the content of the analysis.

Redeye's research coverage

Redeye's research analyses consist of case-based analyses, which imply that the frequency of the analytical reports may vary over time. Unless otherwise expressly stated in the report, the analysis is updated when considered necessary by the research department, for example in the event of significant changes in market conditions or events related to the issuer/the financial instrument.

Recommendation structure

Redeye does not issue any investment recommendations for fundamental analysis. However, Redeye has developed a proprietary analysis and rating model, Redeye Rating, in which each company is analyzed and evaluated. This analysis aims to provide an independent assessment of the company in question, its opportunities, risks, etc. The purpose is to provide an objective and professional set of data for owners and investors to use in their decision-making.

Duplication and distribution

This document may not be duplicated, reproduced or copied for purposes other than personal use. The document may not be distributed to physical or legal entities that are citizens of or domiciled in any country in which such distribution is prohibited according to applicable laws or other regulations.

Copyright Redeye AB.

People:

Business:

Financials: