# Purmo Group

## Company report

10/25/2023 20:46

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Inderes corporate customer

This report is a summary translation of the report “Arvostus painunut edulliseksi” published on 10/25/2023 at 8:53 pm EEST

# Valuation is cheap

Purmo's Q3 result exceeded our expectations and guidance on maintaining full year result at last year's level was reiterated. We made no significant forecast changes for 2023, but lowered 2024-25 estimates with a weaker net sales outlook, partly compensated for by good margin management. We feel the share has fallen to cheap levels (P/E 8x, EV/EBIT 7x), so we raise our recommendation to Buy (was Accumulate) and cut the target price to EUR 8 (was EUR 8.5) driven by estimate changes.

### Expected weak demand, margin management supported earnings growth in Q3

Purmo Q3's adjusted EBITDA exceeded our expectations by some 10% despite slightly weaker net sales, as efficiency raised the Climate Products & Systems division's (CPS) profitability more than expected. The result was supported by both the efficiency program progressing faster and a decrease in raw material costs together with good pricing. Then again, smaller Climate Solutions performed weaker than expected in terms of net sales and earnings.

### 2023 guidance unchanged, but the weak outlook for next year depressed our forecasts

The company reiterated its guidance and expects the adjusted EBITDA margin for 2023 to be at the same level as in 2022. According to the company, this represents a change of +/- 5%, or around EUR 88-97.5 million. After Q3'23, Purmo had accumulated EUR 71 million or about EUR 6 million less than last year, but Q4'22 was weak and we expect the company will be able to improve its result in the last quarter. The company also commented that it sees the market weakening slightly next year. We believe that the progress of the company's efficiency program and good margin management will enable small earnings growth despite this. However, the weaker demand outlook and price pressure caused a decrease in our 2024-25 forecasts of 3-4% at adjusted EBITDA level.

### Efficiency plays the main role in the near future but growth is also sought

Purmo's value creation in the next few years is expected to take place in two ways. Firstly, with the EUR 40 million efficiency program, whose full effect will be visible in 2025. The efficiency measures mainly concern the CPS division. Secondly, it aims to grow in the Solutions division, where profitability is typically better than for CPS and thus growth would support the entire company's margin (however in Q3 Solutions' margin was weaker). This and next year, the earnings/margin improvement will only be achieved through efficiency measures, and in our forecasts we have to wait for growth until 2025. In the longer-term, growth is supported, e.g., by the need for energy renovations in buildings. Purmo's financial objective is an EBITDA margin of more than 15%. Although our margin forecasts have increased, they are still somewhat below the target, at around 13.5% for 2024-25.

### Valuation multiples are cheap, which together with dividend yield supports a good expected return

We consider the 2023 earnings multiples (P/E 8x, EV/EBIT 7x) to be at below the acceptable multiples for Purmo. The company's acceptable valuation is limited by the subdued growth potential in radiators and thus the entire company, and the return on capital of close on 10% even in the medium term. However, we believe that the combination of the earnings level that remains unchanged even in a difficult market, favorable valuation and good dividend yield creates a good expected return for the share. Our DCF and sum of the parts indicate a clearly higher level than the current share price. This requires, however, a sustainable improvement in profitability and/or a better growth profile.

## Recommendation

**Buy**
(previous Accumulate)

**EUR 8.00**
(previous EUR 8.50)

**Share price:**
6.18


## Key figures

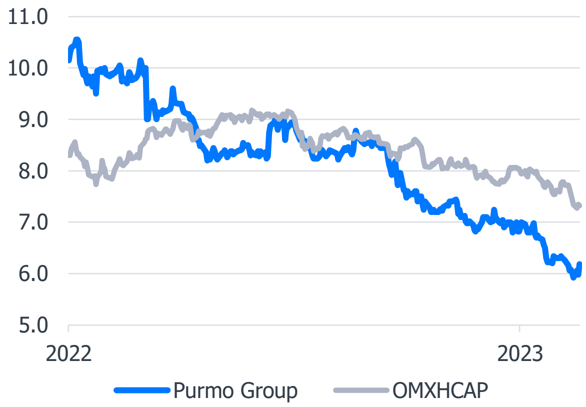
| | 2022 | 2023e | 2024e | 2025e |
|---|---|---|---|---|
| **Revenue** | 904.1 | 753.2 | 715.7 | 747.1 |
| **growth-%** | 7% | -17% | -5% | 4% |
| **EBITDA adj.** | 92.9 | 93.1 | 95.8 | 100.2 |
| **EBITDA-% adj.** | 10.3 % | 12.4 % | 13.4 % | 13.4 % |
| **Net Income** | 13.2 | -3.8 | 24.6 | 38.1 |
| **EPS (adj.)** | 0.85 | 0.74 | 0.81 | 0.89 |
| | | | | |
| **P/E (adj.)** | 9.7 | 8.3 | 7.6 | 6.9 |
| **P/B** | 0.9 | 0.6 | 0.6 | 0.6 |
| **Dividend yield-%** | 4.3 % | 5.7 % | 5.7 % | 6.3 % |
| **EV/EBIT (adj.)** | 10.3 | 7.4 | 6.5 | 5.8 |
| **EV/EBITDA** | 6.8 | 5.4 | 4.5 | 4.1 |
| **EV/S** | 0.7 | 0.6 | 0.6 | 0.6 |

Source: Inderes

## Guidance (Unchanged)

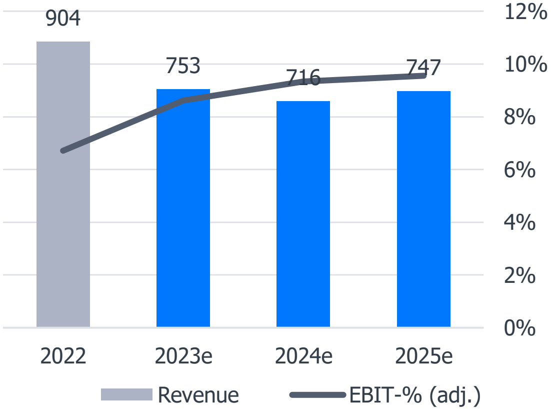
Purmo Group's adjusted EBITDA in 2023 is expected to be on a similar level to 2022 (EUR 92.9 million). Similar means being within +/- 5 per cent of the previous year.

## Share price



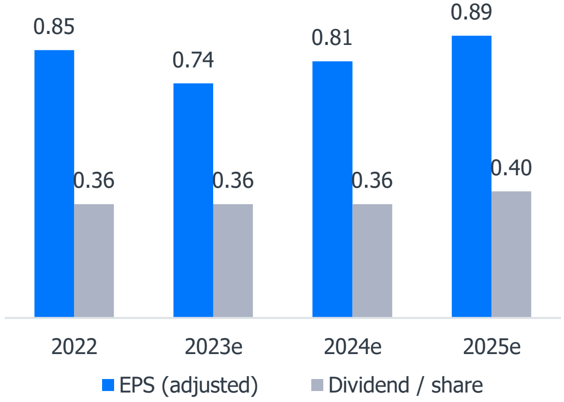

Source: Millistream Market Data AB

## Revenue and EBIT-%




Source: Inderes

## EPS and dividend




Source: Inderes

## Value drivers

- One of the largest product portfolios on the market
- Strong brands and market positions in Europe's radiator business
- Sustainable development, renovation debt, digitalization support the growth outlook of the market

## Risk factors

- Dependency on construction cycles, especially in housing construction
- Distribution is dependent on large wholesale customers
- Capacity management and successful growth investment

| Valuation | 2023e | 2024e | 2025e |
|---|---|---|---|
| Share price | 6.18 | 6.18 | 6.18 |
| Number of shares, million: | 42.7 | 42.7 | 42.7 |
| Market cap | 264 | 264 | 264 |
| EV | 538 | 495 | 471 |
| P/E (adj.) | 8.3 | 7.6 | 6.9 |
| P/B | 0.6 | 0.6 | 0.6 |
| P/S | 0.4 | 0.4 | 0.4 |
| EV/Sales | 0.6 | 0.6 | 0.6 |
| EV/EBITDA | 5.4 | 4.5 | 4.1 |
| EV/EBIT (adj.) | 7.4 | 6.5 | 5.8 |
| Payout ratio (%) | neg. | 61% | 44% |
| Dividend yield-% | 5.7 % | 5.7 % | 6.3 % |

Source: Inderes

# Increased efficiency supported the result more than expected

### Net sales decreased slightly more than expected driven by the Climate Solutions division

Purmo's net sales decreased as expected from the comparison period due to lower volumes but was also slightly lower than our expectations and the Q2'23 level. The comparison period Q3'22 was still relatively strong in terms of demand. Net sales decreased in the Climate Products & Systems division by 17%, roughly according to our expectations, but the decline in the Climate Solutions division was over 25%, which was more than we expected. This was still caused by the normalization of the division's main market, Italy, after strong demand, and the weakness of the second main market, Sweden. These factors were known in advance, but the impact was greater than we expected.

### The efficiency program strongly supported earnings, especially in the Products & Systems division

Despite clearly declining net sales and volumes, Purmo managed to improve its adjusted EBITDA to EUR 23.5 million (our estimate 21.5 MEUR, Q3'22: 19.6 MEUR and Q2'23: 21.2 MEUR). The result improved strongly (45%) in the Climate Products & Systems division and was also above our expectation (22 MEUR vs. 18 MEUR). The margin was at a strong level for the division, over 15% at adjusted EBITDA level. This was supported by the efficiency program and lower raw material costs. In the smaller Climate Solutions division, the result fell almost to half and was only EUR 3.6 million when we expected EUR 6 million. The drop was due to a clear decline in net sales.

### Cash flow improved, balance sheet still tight

Purmo was able to create a marginally positive (1 MEUR) operating cash flow from in Q3. The nine-month cash flow was EUR 8 million, a clear improvement from the comparison period, as seasonal commitment of working capital has been lower than last year. The company's balance sheet situation remained relatively tight as net debt/adj. EBITDA was 2.7x (excl. hybrid loan), while the company's goal is to stay below 3x.

| Estimates | Q3'22 | Q3'23 | Q3'23e | Q3'23e | Consensus | | Difference (%) | 2023e |
|---|---|---|---|---|---|---|---|---|
| MEUR / EUR | Comparison | Actualized | Inderes | Consensus | Low | High | Act. vs. inderes | Inderes |
| Revenue | 216 | 176 | 182 | 184 | | | -3% | 753 |
| EBITDA (adj.) | 19.6 | 23.5 | 21.5 | - | | | 9% | 93.1 |
| EBIT | 10.5 | 11.2 | -1.5 | 0.4 | | | -847% | 26.1 |
| EPS (reported) | 0.13 | 0.08 | 0.15 | -0.04 | | | -48% | 0.74 |
| | | | | | | | | |
| Revenue growth-% | - | -18.6 % | -15.9 % | -15.0 % | | | -2.7 pp | -16.7 % |
| EBITDA-% (adj.) | 9.1 % | 13.3 % | 11.8 % | | | | 1.5 pp | 12.4 % |

Source: Inderes & Bloomberg, 4 analysts (consensus)

# More cautious demand outlook depressed net sales forecasts for 2024-25

## Guidance on flat full-year results unchanged

The company has provided no net sales guidance for 2023 but reiterated its guidance that 2023 adjusted EBITDA will be at the same level as in 2022, i.e., around EUR 93 million. Purmo says this means a +/- 5% change, or about EUR 88-97.5 million. After 9 months, Purmo has accumulated EUR 71 million vs. EUR 77 million last year (7% decrease). However, Q4'22 was weak, so we expect the company to perform better than last year in the last quarter. Our estimate remains at EUR 93 million, i.e. at the mid-point of the guidance.

The company raised its estimate on the impact of the Accelerate PG efficiency program this year and now expects a run-rate of EUR 25 million by the end of 2023 (was 20 MEUR). In addition, it expects to achieve savings of EUR 40 million already at the end of H1'24, compared to the earlier schedule of the end of 2024. Overall, the company expects to achieve savings of more than EUR 40 million. At the end of Q3, good EUR 22 million of this had been achieved. Due to the accelerated schedule, the impact on the 2024 result is estimated to be EUR 35 million. However, this does not mean a corresponding earnings improvement, as we believe that the benefit will partly be passed on to growth investments and compensation of cost inflation.

## Only small adjustments to 2023 forecasts

Driven by weak Q3 net sales, we lowered our 2023 net sales forecast slightly, while the adjusted EBITDA forecast remained unchanged, After a good Q3 result, this means our Q4 predictions are slightly more cautious. Reported figures are affected by small changes in non-recurring items.

## The market is weak also next year

Purmo said in its Q3 presentation that it expects the market to decline slightly also in 2024. In addition, we expect falling raw material prices will put pressure on the company's sales prices. Therefore, we lowered our net sales forecasts of 2024-25 quite clearly.

With the excellently progressing efficiency measures, earnings estimates decreased less,  by 3-4% at adjusted EBITDA level. The company's depreciation decreased clearly in Q3, which we believe is permanent. A lower depreciation level in 2024-25 supports lower result lines so that the changes are small despite a relatively significant decrease in net sales forecasts.

| Estimate revisions | 2023e | 2023e | Change | 2024e | 2024e | Change | 2025e | 2025e | Change |
|---|---|---|---|---|---|---|---|---|---|
| MEUR / EUR | Old | New | % | Old | New | % | Old | New | % |
| Revenue | 769 | 753 | -2% | 803 | 716 | -11% | 839 | 747 | -11% |
| EBITDA (adj.) | 93.2 | 93.1 | 0% | 100 | 96 | -4% | 103 | 100 | -3% |
| EBIT | 28.5 | 26.1 | -8% | 57.4 | 56.9 | -1% | 71.0 | 71.4 | 1% |
| PTP | 7.9 | 6.5 | -18% | 39.4 | 38.9 | -1% | 55.0 | 55.4 | 1% |
| EPS (excl. NRIs) | 0.71 | 0.74 | 4% | 0.82 | 0.81 | -1% | 0.89 | 0.89 | 1% |
| DPS | 0.36 | 0.36 | 0% | 0.36 | 0.36 | 0% | 0.40 | 0.40 | 0% |

Source: Inderes

# Valuation 1/2

### Summary - recommendation and target price

We raise Purmo's recommendation to Buy (previously Accumulate). Our positive view is particularly supported by the company's low valuation and the small earnings growth we expect after 2023, as well as a good dividend yield of over 5%.

### Earnings-based valuation is cheap

Purmo's historical profile is of a company with relatively weak growth and average profitability. We believe the company's valuation level is negatively affected at least by the fact that nearly half of its sales come from radiators, where the market has been structurally declining for a long time and stable development is expected for the next few years. In addition, the company's return on capital is average, reflecting historically weak capital allocation (a large amount of goodwill in the balance sheet). The company now aims to focus on growing segments in heating and cooling solutions, but we do not believe the company will be able to achieve significant (over 5%) sustainable net sales growth with its current structure. Acquisitions create an opportunity to accelerate growth, but these are unlikely in the near future, at least on a significant scale.

The acceptable valuation level we have determinedfor Purmo's share is P/E 10-12x and EV/EBIT 9-11x. This includes an assumption of a positive earnings trend from 2024 onwards at the latest. If we were convinced that the company could achieve its margin target in the medium term, the valuation could be higher, as faster earnings growth in the coming years would compensate for it.

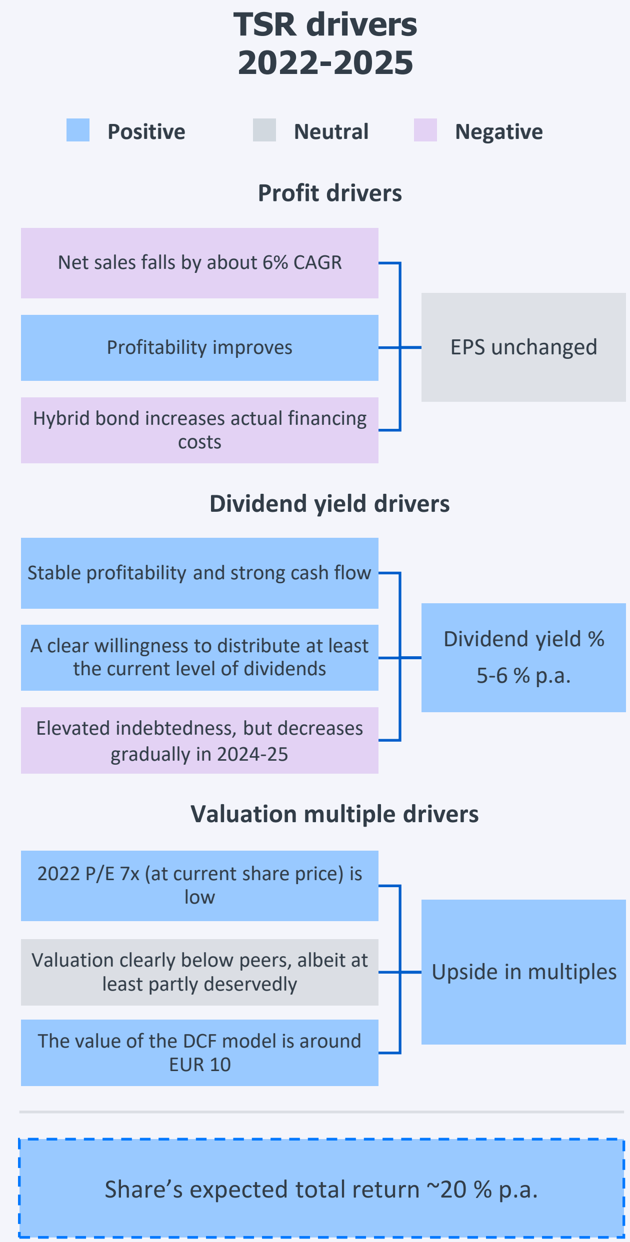
The company's valuation for this year is P/E around 8x and EV/EBIT around 7.5x, considering the hybrid bond as debt and its interest rates in EPS. So, the valuation is below the acceptable multiples. Given that 2023 is the weakest year in our projections for the next few years, this seems favorable. Expected earnings growth pushes the multiples slightly lower in 2024-25. It is also worth noting that with our estimates the company can repay the hybrid bond in 2026, which reduces the company's interest expenses.

### DCF valuation

The lack of historical financial information and changes in the focus of the business make it difficult to determine Purmo's DCF. However, due to the moderate growth profile and relatively stable profitability, the DCF model is, in our opinion, suitable for Purmo as such. Our estimates also for the longer term were already discussed in the estimates section above. The weight of the terminal period is around 50% in our model.

Our required return on capital (WACC) for Purmo is about 8.8 % and the cost of equity is around 10%. The lowish WACC is supported by relatively stable business operations and the use of debt leverage, while a higher WACC is supported by, e.g., business cyclicality.

Our DCF model indicates that Purmo's debt-free value is about EUR 720 million and the value of the share capital is about EUR 430 million, or about EUR 10 per share. The DCF model assumes that profitability improves from the current level and that good cash flow improves the debt situation in the coming years, which enables, e.g., repayment of the hybrid bond. We put more weight on the multiples of the next few years when defining the target price, but the DCF model shows the company's potential in the longer term.



# Valuation 2/2

## Balance sheet-based valuation looks cheap

With our forecasts, Purmo's return on capital will remain moderate even in the medium term, with both return on equity and return on capital as a whole being in the range of 8-10%. Therefore, a P/B ratio of 1.0x or even slightly below seems justified for the company. However, the hybrid bond must be adjusted from the figures, which has been recognized as equity, although we believe that it is in practice a debt. Considering this, the current P/B valuation is about 0.7x. Purmo's book value for this year (excluding the hybrid bond) is approximately EUR 9, which would mean a fair value of P/B 1.0x. The return on capital is depressed by the large amount of goodwill that the company has generated from acquisitions.

## Sum-of-the-parts value higher than current share price

Purmo's reporting was still divided into Radiators and ICS divisions in 2022 figures. We believe that this clear division into different profile activities provides a good basis for a sum of the parts valuation. We believe that the main competitor for the Radiators segment, and thus the closest peer, is Stelrad, whose 2023 EV/EBITDA ratio (around 5x) we use directly to determine the value of the division. We use a broader peer group for the ICS division, i.e. in practice the entire peer group of the company from which we have removed Stelrad and Arbonia that operate more in radiators. These peers give ICS an EV/EBITDA ratio of around 9x. By using the 2021-23e EBITDA average for Purmo's (former) divisions, the fair value of Purmo's share is around EUR 8.5. The peer valuation has decreased significantly in recent months, as in the previous update the corresponding sum of the parts, with almost the same earnings figures, was over EUR 11.

Especially the high share of radiators and the lower growth profile resulting from this, therefore, depresses the valuation of the entire company. We do not believe that Purmon will start divesting parts of the company, so in that sense the sum of the parts value is unlikely to materialize. However, we feel it provides a useful angle for valuation

## Achieving the targeted margin would bring more upside

The company has ambitious financial targets on a 3-5-year horizon. If we assume that Purmo reaches its 15% adjusted EBITDA margin target in 2026 (using our current net sales estimate), it would generate EBITDA of around EUR 115 million and EPS of goof EUR 1.0. If the company would then be priced at 11x P/E, the calculated value of the share would be EUR 11.5 in 2026. However, as we have already mentioned, our estimates are clearly below the target level. In this respect, too, the potential is lower than we previously estimated, as our net sales forecasts have decreased and margin forecasts have risen closer to Purmo's targets thanks to the company's good margin management. Thus, reaching the margin target no longer creates as much upside potential to our forecasts as before.

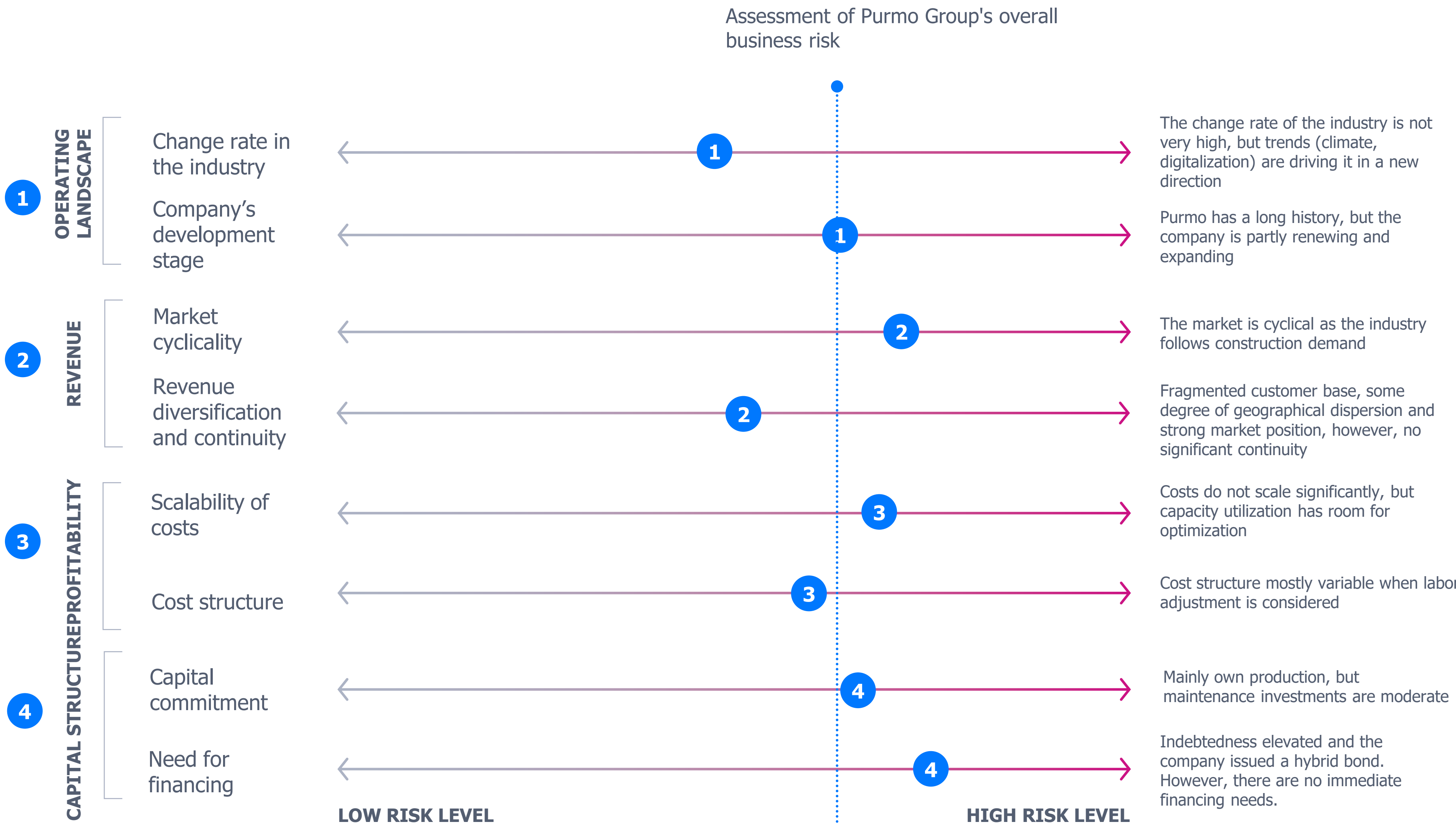
| Valuation | 2023e | 2024e | 2025e |
|---|---|---|---|
| Share price | 6.18 | 6.18 | 6.18 |
| Number of shares, million | 42.7 | 42.7 | 42.7 |
| Market cap | 264 | 264 | 264 |
| EV | 538 | 495 | 471 |
| P/E (adj.) | 8.3 | 7.6 | 6.9 |
| P/B | 0.6 | 0.6 | 0.6 |
| P/S | 0.4 | 0.4 | 0.4 |
| EV/Sales | 0.6 | 0.6 | 0.6 |
| EV/EBITDA | 5.4 | 4.5 | 4.1 |
| EV/EBIT (adj.) | 7.4 | 6.5 | 5.8 |
| Payout ratio (%) | neg. | 61% | 44% |
| Dividend yield-% | 5.7 % | 5.7 % | 6.3 % |

Source: Inderes

| Sum of the parts | Value, MEUR | Valuation method |
|---|---|---|
| Radiators | 288 | Stelrad EV/EBITDA 2023 |
| ICS | 439 | Peer group EV/EBITDA 2023 |
| Others | -90 | EV/EBITDA 9x |
| EV total | 637 | |
| Net debt at end of 2023 | 275 | Includes hybrid |
| Share capital | 363 | |
| per share | 8.5 | |

Source: Inderes

# Risk profile of the business model




Source: Inderes

# Investment profile

1. **Strong market position and well-known brands, especially in radiators**
2. **Energy efficiency investments support market growth**
3. **Business supports sustainability**
4. **Largest product category radiators does not support growth**
5. **Weakish balance sheet limits acquisition possibilities**

## Potential

- A wide product range and well-known, strong brands
- Megatrends of sustainable development and digitalization play a large part in the business
- Potential to shape more into a growth company through acquisitions

## Risks

- The industry is cyclical and depends on construction growth
- Risks generated by acquisitions or expansion investments
- Structural lack of growth in the radiator market and tightish competition

Source: Inderes

# Strategy 1/2

## Purmo's strategic objectives

### Solution selling

- Providing end-to-end solutions to unlock growth potential

### Growth markets

- Exploiting the best opportunities outside the current market

### Smart products

- Delivering smarter, more sustainable and aesthetically pleasing products

## Inderes' comments on Purmo's strategic objectives

- Purmo's largest division by far is Climate Products & Systems, whose distribution channel is mainly construction/HVAC industry wholesalers.
- We, therefore, believe that solution selling mainly concerns the smaller Climate Solutions division. Growing sales in this division is, therefore, Purmo's main growth project.
- There is definitely demand for solutions related to lowering energy consumption but, on the other hand, there is also a lot of supply.
- We believe that Purmo can grow in this area, but we are not convinced that it has competitive advantages that will enable it to gain market shares.
- The key to the success of the strategy is that HVAC designers adopt Purmo's solutions, as they usually make decisions on behalf of end-users or make recommendations on solutions. Thus, growth in solution selling requires development of the currently small sales channel for Purmo.

- Purmo's original growth strategy (published at the end of 2021) highlighted the Chinese and Russian markets in particular. Now Russia is, naturally, out of the picture.
- Purmo is still small in China, and we do not see Purmo having a competitive advantage that would enable it to become a serious player in China. With the support of an own local factory, some growth can be achieved that supports the growth of the company as a whole. However, China only represents about 1% of the company's net sales.
- The aim is also to increase radiator sales outside the current markets. We find this challenging, because already in its current market, Purmo faces fierce price competition from radiators from cheaper production countries and we believe that it is challenging to win over new areas
- Purmo is also pursuing acquisitions, which we believe are necessary to change the company's structure more towards growth areas and to reduce the weight of radiators.

- New products are a natural part of any product company.
- We also believe that Purmo's competitors are developing similar products, and we do not believe that Purmo has a major advantage in this respect.
- Purmo's Italian Emmeti brand/company focuses on integrated system solutions, where smart products also play a role.

Source: Inderes

# Strategy 2/2

### Vision of an indoor climate system supplier

The company announces that its vision is that perfect indoor climate should not cost the planet's climate. Purmo's mission is to be the global leader in sustainable indoor climate comfort solutions.

### The strategy is built on three pillars

- Solution selling
- Smart products
- Growth markets

We already discussed these on the previous page, and we believe that the most important of these is growing solution sales, which in practice will determine the growth profile of the entire company in coming years.

In addition, the company says that its strategy is supported by:

- Operational excellence
- People and culture

Improving business efficiency is a natural part of any company. With this Purmo refers in particular to improving the efficiency in operational, commercial and business support. The efficiency program launched last year, which we described earlier, aims specifically at this.

People and culture are also a natural part of any company, and in fact a prerequisite for the existence of a company. So we do not believe that these activities that support the strategy in themselves constitute a particular competitive advantage for the company, but rather how they are implemented in practice. Under the current management, the company successfully completed a previous efficiency improvement program in 2020-21, so the company has expertise in this area. On the other hand, when a relatively short time has passed since the previous efficiency program, implementing new savings that are double the size is a bit more challenging in our view.

### Business acquisitions as a growth enabler

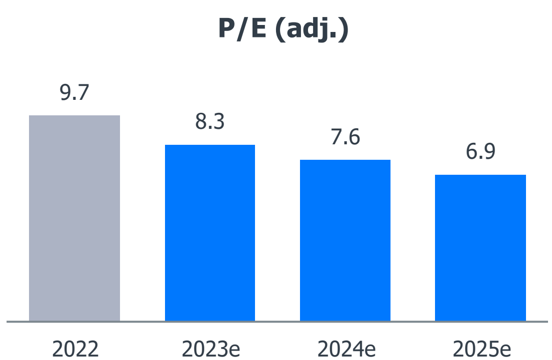
In addition to the previous strategic points, Purmo sees acquisitions as an enabler of growth and aims to be active in acquisitions. However, the current balance sheet situation does not allow the company to carry out significant acquisitions with debt, and we do not believe that the company at the current share price level is particularly willing to use its own shares to finance the transaction either. Thus, we believe that in 2023-24 Purmo will focus more on improving own operations and efficiency, e.g., by implementing the efficiency improvement program. The company's management has also commented that they are currently disciplined and cautious about acquisitions.

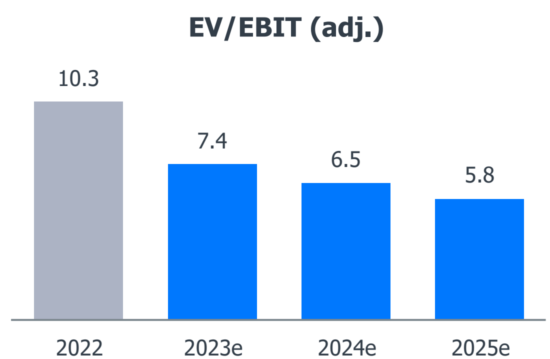
The company has also been active in acquisitions in the past and acted as a consolidator in the radiator market in past years. It is impossible to assess the quality of these transactions comprehensively afterwards, but in light of the drop in the demand of radiators, market consolidation has not generated value in the long run. On page 14, we have mentioned some more recent acquisitions. Here too, the lack of information makes it challenging to assess success, but generally we believe that the Emmeti and Thermotech acquisitions were sensible, as they have moved the company to more growth areas. However, we estimate that Emmeti's net sales in 2021 were about EUR 100 million, which was slightly lower than at the time of the acquisition in 2015. In 2022, Emmeti grew strongly supported by Italy's generous energy renovation subsidies, but a clear growth trend in previous years is not visible in Emmeti (however, we do not know the figures for 2016-2020 or their background). Hewing is more component production and Sigarth is a rather small company in the complementary product category, so we do not see them as strategically important and we do not have sufficient information to evaluate their economic success.

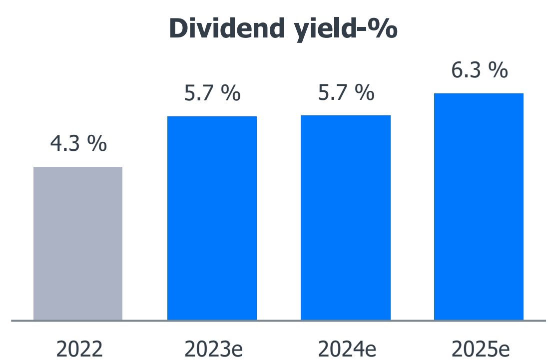
# Valuation table

| Valuation | 2018 | 2019 | 2020 | 2021 | 2022 | 2023e | 2024e | 2025e | 2026e |
|---|---|---|---|---|---|---|---|---|---|
| **Share price** | | | | | 8.22 | **6.18** | **6.18** | **6.18** | **6.18** |
| **Number of shares, millions** | | | | | 41.2 | **42.7** | **42.7** | **42.7** | **42.6** |
| **Market cap** | | | | | 351 | **264** | **264** | **264** | **264** |
| **EV** | | | | | 627 | **538** | **495** | **471** | **441** |
| **P/E (adj.)** | | | | | 9.7 | **8.3** | **7.6** | **6.9** | **5.7** |
| **P/B** | | | | | 0.9 | **0.6** | **0.6** | **0.6** | **0.6** |
| **P/S** | | | | | 0.4 | **0.4** | **0.4** | **0.4** | **0.3** |
| **EV/Sales** | | | | | 0.7 | **0.6** | **0.6** | **0.6** | **0.6** |
| **EV/EBITDA** | | | | | 6.8 | **5.4** | **4.5** | **4.1** | **4.3** |
| **EV/EBIT (adj.)** | | | | | 10.3 | **7.4** | **6.5** | **5.8** | **5.9** |
| **Payout ratio (%)** | | | | | 112.9 % | **neg.** | **60.6 %** | **43.5 %** | **40.0 %** |
| **Dividend yield-%** | | | | | 4.3 % | **5.7 %** | **5.7 %** | **6.3 %** | **7.0 %** |

Source: Inderes



# Peer group valuation

| Peer group valuation | Market cap | EV | EV/EBIT | | EV/EBITDA | | EV/Liikevaihto | | P/E | | Dividend yield-% | | P/B |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Company** | **MEUR** | **MEUR** | **2023e** | **2024e** | **2023e** | **2024e** | **2023e** | **2024e** | **2023e** | **2024e** | **2023e** | **2024e** | **2023e** |
| Nibe Industrier AB | 11158 | 11974 | 18.7 | 16.8 | 15.2 | 13.6 | 2.9 | 2.6 | 24.3 | 22.0 | 1.2 | 1.3 | 4.1 |
| Lindab International AB | 952 | 1255 | 12.9 | 11.0 | 8.8 | 7.8 | 1.2 | 1.1 | 13.4 | 11.5 | 3.1 | 3.5 | 1.5 |
| Systemair AB | 1024 | 1145 | 12.0 | 11.0 | 8.5 | 8.1 | 1.1 | 1.1 | 16.2 | 14.0 | 2.1 | 2.4 | 2.5 |
| Uponor Oyj | 2089 | 2184 | 16.3 | 14.3 | 11.1 | 10.2 | 1.7 | 1.7 | 24.9 | 20.5 | 2.5 | 2.7 | 4.3 |
| Arbonia AG | 553 | 808 | 39.5 | 19.7 | 8.1 | 6.7 | 0.7 | 0.7 | 94.3 | 22.0 | 3.8 | 3.8 | 0.5 |
| Volution Group PLC | 780 | 894 | 12.1 | 11.6 | 10.0 | 9.5 | 2.4 | 2.2 | 13.8 | 13.4 | 2.2 | 2.4 | |
| Zehnder Group AG | 982 | 975 | 14.7 | 13.8 | 10.5 | 9.8 | 1.2 | 1.2 | 11.3 | 10.5 | 3.6 | 3.7 | 1.7 |
| Stelrad Group PLC | 140 | 232 | 7.1 | 6.1 | 5.1 | 4.5 | 0.6 | 0.6 | 7.2 | 5.9 | 8.0 | 8.0 | |
| Ecoclime Group AB | 19 | 16 | | 10.7 | | 6.8 | 0.6 | 0.5 | | 12.6 | | | 1.1 |
| **Purmo Group (Inderes)** | **264** | **478** | **7.4** | **6.5** | **5.4** | **4.5** | **0.6** | **0.6** | **8.3** | **7.6** | **5.7** | **5.7** | **0.6** |
| **Average** | | | **16.7** | **12.8** | **9.6** | **8.6** | **1.4** | **1.3** | **25.7** | **14.7** | **3.3** | **3.5** | **2.2** |
| **Median** | | | **13.8** | **11.6** | **9.4** | **8.1** | **1.2** | **1.1** | **15.0** | **13.4** | **2.8** | **3.1** | **1.7** |
| ***Diff-% to median*** | | | ***-47%*** | ***-44%*** | ***-42%*** | ***-44%*** | ***-45%*** | ***-45%*** | ***-44%*** | ***-43%*** | ***101%*** | ***83%*** | ***-64%*** |

Source: Refinitiv / Inderes

# Income statement

| Income statement | Q1'22 | Q2'22 | Q3'22 | Q4'22 | 2022 | Q1'23 | Q2'23 | Q3'23 | Q4'23e | 2023e | 2024e | 2025e | 2026e |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Revenue** | **236** | **245** | **216** | **207** | **904** | **212** | **180** | **176** | **185** | **753** | **716** | **747** | **768** |
| Climate Products & Systems | 195 | 192 | 171 | 163 | 721 | 169 | 145 | 143 | 150 | 607 | 577 | 600 | 612 |
| Climate Solutions | 42 | 53 | 45 | 44 | 184 | 43 | 36 | 33 | 35 | 147 | 139 | 147 | 156 |
| **EBITDA** | **29.3** | **24.3** | **18.5** | **6.3** | **78.4** | **23.1** | **16.9** | **17.3** | **-3.0** | **54.3** | **85.8** | **100.2** | **103.4** |
| **EBITDA (adj.)** | **29.2** | **27.8** | **19.6** | **16.3** | **92.9** | **26.4** | **21.2** | **23.5** | **22.0** | **93.1** | **95.8** | **100.2** | **103.4** |
| Depreciation | -15.2 | -8.4 | -8.0 | -7.9 | -39.4 | -8.0 | -8.0 | -6.1 | -6.1 | -28.2 | -28.9 | -28.8 | -28.6 |
| **EBIT (excl. NRI)** | **21.6** | **19.5** | **11.5** | **8.1** | **60.7** | **18.5** | **13.1** | **17.4** | **15.9** | **64.9** | **66.9** | **71.4** | **74.8** |
| **EBIT** | **14.1** | **15.9** | **10.5** | **-1.5** | **39.0** | **15.1** | **8.9** | **11.2** | **-9.1** | **26.1** | **56.9** | **71.4** | **74.8** |
| Climate Products & Systems (adj. EBITDA) | 22.9 | 21.2 | 15.3 | 12.3 | 71.7 | 22.7 | 17.3 | 22.2 | 20.0 | 82.2 | 85.0 | 87.0 | 89.0 |
| Climate Solutions (adj. EBITDA) | 8.5 | 8.7 | 6.4 | 6.3 | 29.9 | 6.2 | 6.6 | 3.6 | 4.5 | 20.9 | 21.0 | 23.6 | 25.0 |
| Other | -2.1 | -2.1 | -2.1 | -2.4 | -8.7 | -2.5 | -2.7 | -2.3 | -2.5 | -10.0 | -10.2 | -10.4 | -10.6 |
| Share of profits in assoc. compan. | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net financial items | -2.8 | -3.0 | -4.3 | -7.3 | -17.4 | -5.6 | -5.0 | -4.0 | -5.0 | -19.6 | -18.0 | -16.0 | -13.8 |
| **PTP** | **11.3** | **12.9** | **6.2** | **-8.8** | **21.6** | **9.5** | **3.9** | **7.2** | **-14.1** | **6.5** | **38.9** | **55.4** | **61.0** |
| Taxes | -4.8 | -4.5 | -0.9 | 1.8 | -8.4 | -2.7 | -0.5 | -2.7 | -1.0 | -6.9 | -8.5 | -11.6 | -14.0 |
| Minority interest | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Net earnings** | **6.5** | **8.4** | **5.3** | **-7.0** | **13.2** | **7.0** | **0.6** | **3.1** | **-16.5** | **-5.9** | **24.6** | **38.1** | **46.0** |
| **EPS (adj.)** | **0.34** | **0.29** | **0.15** | **0.06** | **0.85** | **0.24** | **0.11** | **0.22** | **0.16** | **0.74** | **0.81** | **0.89** | **1.08** |
| **EPS (rep.)** | **0.16** | **0.20** | **0.13** | **-0.17** | **0.32** | **0.16** | **0.01** | **0.07** | **-0.39** | **-0.14** | **0.58** | **0.89** | **1.08** |

| Key figures | Q1'22 | Q2'22 | Q3'22 | Q4'22 | 2022 | Q1'23 | Q2'23 | Q3'23 | Q4'23e | 2023e | 2024e | 2025e | 2026e |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Revenue growth-%** | 24.0 % | 15.5 % | -1.0 % | -7.1 % | 7.2 % | -10.4 % | -26.3 % | -18.6 % | -10.5 % | -16.7 % | -5.0 % | 4.4 % | 2.8 % |
| **Adj. EBITDA growth-%** | 0.3 % | 3.8 % | -22.8 % | -27.9 % | -10.6 % | -9.6 % | -23.8 % | 19.9 % | 35.0 % | 0.2 % | 2.9 % | 4.6 % | 3.2 % |
| **EBITDA-%** | 12.4 % | 9.9 % | 8.6 % | 3.1 % | 8.7 % | 10.9 % | 9.4 % | 9.8 % | -1.6 % | 7.2 % | 12.0 % | 13.4 % | 13.5 % |
| **Adj. EBITDA-%** | 12.4 % | 11.4 % | 9.1 % | 3.9 % | 10.3 % | 12.5 % | 11.8 % | 13.3 % | 11.9 % | 12.4 % | 13.4 % | 13.4 % | 13.5 % |
| **Net earnings-%** | 2.8 % | 3.4 % | 2.5 % | -3.4 % | 1.5 % | 3.5 % | 1.1 % | 1.7 % | -8.9 % | -0.5 % | 3.4 % | 5.1 % | 6.0 % |

Source: Inderes

# Balance sheet

| Assets | 2021 | 2022 | 2023e | 2024e | 2025e |
|---|---|---|---|---|---|
| **Non-current assets** | **602** | **619** | **614** | **612** | **610** |
| Goodwill | 369 | 371 | 371 | 371 | 371 |
| Intangible assets | 36.3 | 47.0 | 45.0 | 43.2 | 41.5 |
| Tangible assets | 163 | 167 | 167 | 167 | 167 |
| Associated companies | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other investments | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other non-current assets | 7.2 | 5.6 | 5.6 | 5.6 | 5.6 |
| Deferred tax assets | 26.5 | 29.2 | 25.0 | 25.0 | 25.0 |
| **Current assets** | **444** | **365** | **359** | **342** | **374** |
| Inventories | 157 | 174 | 151 | 122 | 127 |
| Other current assets | 31.7 | 45.4 | 30.0 | 30.0 | 30.0 |
| Receivables | 77.1 | 89.1 | 82.9 | 71.6 | 74.7 |
| Cash and equivalents | 178 | 56.3 | 95.3 | 119 | 142 |
| **Balance sheet total** | **1046** | **984** | **972** | **954** | **984** |

Source: Inderes

Vuosi 2021 Pro forma

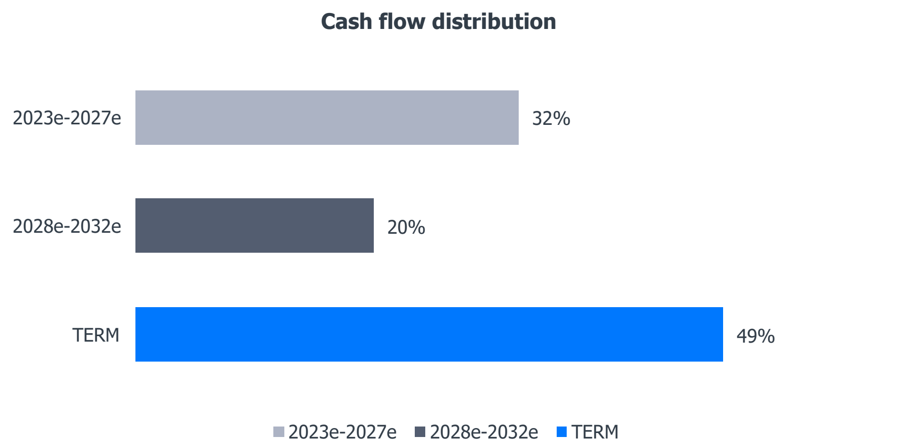
| Liabilities & equity | 2021 | 2022 | 2023e | 2024e | 2025e |
|---|---|---|---|---|---|
| **Equity** | **391** | **403** | **443** | **452** | **476** |
| Share capital | 3.1 | 3.1 | 3.1 | 3.1 | 3.1 |
| Retained earnings | 6.6 | 24.4 | 3.8 | 13.5 | 36.7 |
| Hybrid bonds | 0.0 | 0.0 | 60.0 | 60.0 | 60.0 |
| Revaluation reserve | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other equity | 381 | 376 | 376 | 376 | 376 |
| Minorities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Non-current liabilities** | **351** | **346** | **313** | **293** | **283** |
| Deferred tax liabilities | 2.6 | 5.4 | 5.4 | 5.4 | 5.4 |
| Provisions | 7.6 | 7.8 | 7.8 | 7.8 | 7.8 |
| Interest bearing debt | 316 | 312 | 280 | 260 | 250 |
| Convertibles | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other long term liabilities | 24.7 | 20.1 | 20.1 | 20.1 | 20.1 |
| **Current liabilities** | **304** | **235** | **216** | **208** | **225** |
| Interest bearing debt | 101 | 20.7 | 30.0 | 30.0 | 40.0 |
| Payables | 192 | 193 | 166 | 157 | 164 |
| Other current liabilities | 11.7 | 20.7 | 20.7 | 20.7 | 20.7 |
| **Balance sheet total** | **1046** | **984** | **972** | **954** | **984** |

# DCF calculation

| DCF model | 2022 | 2023e | 2024e | 2025e | 2026e | 2027e | 2028e | 2029e | 2030e | 2031e | 2032e | TERM |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Revenue growth-% | 7.2 % | -16.7 % | -5.0 % | 4.4 % | 2.8 % | 2.5 % | 2.5 % | 2.5 % | 2.5 % | 2.5 % | 2.0 % | 2.0 % |
| EBIT-% | 4.3 % | 3.5 % | 7.9 % | 9.6 % | 9.7 % | 7.5 % | 7.5 % | 7.5 % | 7.0 % | 7.0 % | 7.0 % | 7.0 % |
| **EBIT (operating profit)** | **39.0** | **26.1** | **56.9** | **71.4** | **74.8** | **59.0** | **60.5** | **62.0** | **59.3** | **60.8** | **62.0** | |
| + Depreciation | 39.4 | 28.2 | 28.9 | 28.8 | 28.6 | 28.5 | 28.3 | 28.2 | 28.1 | 28.0 | 24.4 | |
| - Paid taxes | -8.3 | -3.5 | -8.5 | -11.6 | -14.0 | -10.6 | -10.9 | -11.3 | -10.7 | -11.0 | -11.3 | |
| - Tax, financial expenses | -5.0 | -4.5 | -4.0 | -3.4 | -3.2 | -3.0 | -3.0 | -3.0 | -3.0 | -3.0 | -3.0 | |
| + Tax, financial income | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| - Change in working capital | -32.0 | 17.4 | 32.0 | -1.6 | -1.0 | -1.0 | -1.0 | -1.0 | -1.0 | -1.1 | -0.9 | |
| **Operating cash flow** | **33.1** | **63.8** | **105** | **83.6** | **85.1** | **73.0** | **73.9** | **75.0** | **72.8** | **73.8** | **71.3** | |
| + Change in other long-term liabilities | -4.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| - Gross CAPEX | -53.3 | -27.0 | -27.0 | -27.0 | -27.0 | -27.0 | -27.0 | -27.0 | -27.0 | -3.5 | -20.2 | |
| **Free operating cash flow** | **-24.6** | **36.8** | **78.3** | **56.6** | **58.1** | **46.0** | **46.9** | **48.0** | **45.8** | **70.3** | **51.1** | |
| +/- Other | 0.0 | -1.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| FCFF | -24.6 | 34.9 | 78.3 | 56.6 | 58.1 | 46.0 | 46.9 | 48.0 | 45.8 | 70.3 | 51.1 | 764 |
| **Discounted FCFF** | | **34.4** | **70.8** | **47.0** | **44.4** | **32.3** | **30.3** | **28.4** | **24.9** | **35.2** | **23.5** | **351** |
| Sum of FCFF present value | | 722 | 688 | 617 | 570 | 526 | 493 | 463 | 435 | 410 | 375 | 351 |
| **Enterprise value DCF** | | **722** | | | | | | | | | | |
| - Interest bearing debt | | -333 | | | | | | | | | | |
| + Cash and cash equivalents | | 56 | | | | | | | | | | |
| -Minorities | | 0.0 | | | | | | | | | | |
| -Dividend/capital return | | -14.9 | | | | | | | | | | |
| **Equity value DCF** | | **431** | | | | | | | | | | |
| **Equity value DCF per share** | | **10.1** | | | | | | | | | | |

| WACC | |
|---|---|
| Tax-% (WACC) | 23.0 % |
| Target debt ratio (D/(D+E) | 20.0 % |
| Cost of debt | 5.0 % |
| Equity Beta | 1.30 |
| Market risk premium | 4.75% |
| Liquidity premium | 1.40% |
| Risk free interest rate | 2.5 % |
| **Cost of equity** | **10.1 %** |
| **Weighted average cost of capital (WACC)** | **8.8 %** |

Source: Inderes



# Summary

| Income statement | 2022 | 2023e | 2024e |
|---|---|---|---|
| Revenue | 904.1 | 753.2 | 715.7 |
| EBITDA | 78.4 | 54.3 | 85.8 |
| EBIT | 39.0 | 26.1 | 56.9 |
| PTP | 21.6 | 6.7 | 38.9 |
| Net Income | 13.2 | -5.7 | 24.6 |
| Extraordinary items | -21.7 | -38.8 | -10.0 |

| Per share data | 2022 | 2023e | 2024e |
|---|---|---|---|
| EPS (reported) | 0.32 | -0.13 | 0.58 |
| EPS (adj.) | 0.85 | 0.74 | 0.81 |
| OCF / share | 0.80 | 1.49 | 2.47 |
| FCF / share | -0.60 | 0.82 | 1.84 |
| Book value / share | 9.79 | 10.38 | 10.61 |
| Dividend / share | 0.36 | 0.36 | 0.36 |

| Balance sheet | 2022 | 2023e | 2024e |
|---|---|---|---|
| Balance sheet total | 983.9 | 972.4 | 953.9 |
| Equity capital | 403.3 | 442.7 | 452.4 |
| Goodwill | 370.6 | 370.6 | 370.6 |
| Net debt | 276.8 | 214.7 | 171.0 |

| Growth and profitability | 2022 | 2023e | 2024e |
|---|---|---|---|
| Revenue growth-% | 7% | -17% | -5% |
| EBITDA growth-% | 133% | -31% | 58% |
| EBIT (adj.) growth-% | -18% | 7% | 3% |
| EPS (adj.) growth-% | -53% | -12% | 9% |
| EBITDA-% | 8.7 % | 7.2 % | 12.0 % |
| EBIT (adj.)-% | 6.7 % | 8.6 % | 9.3 % |
| EBIT-% | 4.3 % | 3.5 % | 7.9 % |
| ROE-% | 3.3 % | -1.3 % | 5.5 % |
| ROI-% | 5.1 % | 3.5 % | 7.6 % |
| Equity ratio | 41.0 % | 45.5 % | 47.4 % |
| Gearing | 68.6 % | 48.5 % | 37.8 % |

| Cash flow | 2022 | 2023e | 2024e |
|---|---|---|---|
| EBITDA | 78.4 | 54.3 | 85.8 |
| Change in working capital | -32.0 | 17.4 | 32.0 |
| Operating cash flow | 33.1 | 63.8 | 105.3 |
| CAPEX | -53.3 | -27.0 | -27.0 |
| Free cash flow | -24.6 | 34.9 | 78.3 |

| Valuation multiples | 2022 | 2023e | 2024e |
|---|---|---|---|
| EV/S | 0.7 | 0.6 | 0.6 |
| EV/EBITDA (adj.) | 6.8 | 5.4 | 4.5 |
| EV/EBIT (adj.) | 10.3 | 7.4 | 6.5 |
| P/E (adj.) | 9.7 | 8.3 | 7.6 |
| P/B | 0.9 | 0.6 | 0.6 |
| Dividend-% | 4.3 % | 5.7 % | 5.7 % |

Source: Inderes

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Reduce The 12-month risk-adjusted expected shareholder return of the share is weak

Sell The 12-month risk-adjusted expected shareholder return of the share is very weak

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| Date | Recommendation | Target | Share price |
|---|---|---|---|
| 1/5/2022 | Accumulate | 16.00 € | 14.80 € |
| 3/4/2022 | Accumulate | 12.50 € | 10.90 € |
| 4/13/2022 | Accumulate | 13.00 € | 12.00 € |
| 5/13/2022 | Buy | 13.00 € | 10.35 € |
| 8/12/2022 | Buy | 13.00 € | 11.00 € |
| 11/9/2022 | Buy | 12.00 € | 10.00 € |
| 11/11/2022 | Buy | 12.00 € | 9.00 € |
| 12/9/2022 | Accumulate | 10.00 € | 9.20 € |
| 2/10/2023 | Accumulate | 9.50 € | 8.38 € |
| 4/5/2023 | Accumulate | 9.50 € | 8.32 € |
| 4/27/2023 | Accumulate | 9.50 € | 8.68 € |
| 7/20/2023 | Accumulate | 8.50 € | 7.20 € |
| 10/26/2023 | Buy | 8.00 € | 6.18 € |

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