

Update: Report Q4 2020

2021-02-24

Hövding: New sales record in Q4

- Sustains strong growth trend but misses our earnings estimate
- Profit is probably few quarters away
- We maintain our fair value interval of SEK 21.10 – 30.50 per share

Analysts	Alf Riple, CFA 073-840 4008 alf.riple@vhcorp.se
	Jens Jacob Aabel Nordkvist 073-422 5876 jensjacob.aabelnordkvist@vhcorp.se
<hr/>	
Stock ticker:	HOVD
Industry:	Consumer goods
Listed on:	Nasdaq First North
Latest stock price (SEK):	19,24
Market cap (MSEK):	534,9
Enterprise Value (MSEK):	468,8
Total number of shares (M):	27,73
- of which free float (M):	14,10
<hr/>	
VHCF fair value per share	
DCF model	21,10 - 30,50 SEK
<hr/>	
	Hövding Sverige AB
Address:	Bergsgatan 33 214 22 Malmö
Webpage:	hovding.se
CEO:	Fredrik Carling
<hr/>	
Main owners (30 Jun 2020)	Capital (%)
Fosielund Holding AB	21,0
Safetech International Holding AB	20,0
Carl-Olof och Jenz Hamrins Stiftelse	10,3
VIH Sweden AB	10,2
<hr/>	
Stock price history	
Hovding Sverige AB vs. OMXS30	
Performance Price (Indexed to 23.86)	
	
Source: FactSet Prices	
	-1m -3m -12m
Change (%)	0,7 -9,6 -14,7
52 wk range (Low/Hi) - SEK	12,77 / 30,00
Source: FactSet	

Hövding's full year report for 2020 once again proves the company's remarkable ability to sustain growth. Net turnover in Q4 fell marginally short of our forecast, but nevertheless recorded a new all-time high of SEK 52.8 million. Costs were somewhat higher than we anticipated and the period's net loss consequently wider. According to our estimates, the company is still on a path to turn a profit later in 2021, probably from Q3. We make a few modifications to our forecast model but retain our valuation interval of SEK 21.10 – 30.50 per share.

Hövding sold a record-breaking 33 854 units in Q4, up 19 percent from the year-earlier period. This is a strong outcome, considering that sales in the comparison period Q4 2019 was boosted by the newly released Hövding 3. Still, sales were not quite as high as we had expected, cf. Table 2 on the next page. Total revenues came SEK 2.4 million lower than our forecast.

Several cost components were higher than we expected, which explains why Net profit for the period came in below our forecast. We had expected Hövding to post a narrow net loss of SEK 1.5 million vs. the actual net loss of SEK 7.4 million. First, we had expected a gross margin of 26 percent instead of the actual 24 percent. Second, higher than expected Personnel expenses and Other operating expenses together weighed down the result by SEK 2.7 million compared to our estimate. And finally, Amortisation and depreciation came in SEK 0.8 million higher than we anticipated.

Cash reserves at the end of 2020 stood at a comfortable SEK 62.0 million although lower than our estimate by SEK 4.8 million. Relative to our estimates, the cash reserve was negatively affected by the net loss and higher working capital investments. This was partly compensated by a SEK 4.3 million cash inflow from the exercise of personnel stock options. This also explains why total equity landed nearly as expected despite our results miss.

Table 1: Financial Overview

MSEK	2018	2019	2020	2021e	2022e
Net sales	92,5	112,9	152,5	277,9	426,8
Growth (%)	63,2%	22,0%	35,1%	82,2%	53,6%
Gross margin (%)	22,7%	26,1%	22,6%	26,2%	28,0%
EBIT	(41,5)	(51,0)	(43,8)	2,2	47,2
EBIT margin (%)	neg	neg	neg	0,8%	11,0%
Cash holdings	66,5	20,4	62,0	72,2	135,3
Total assets	95,7	78,8	114,2	160,8	260,1
Total equity	62,1	11,4	53,1	55,3	102,5
Solidity (%)	64,9%	14,4%	46,5%	34,4%	39,4%
P/E	neg	neg	neg	239,4	11,3
ROE	neg	neg	neg	1,4%	18,2%
EV/EBIT (x)	neg	neg	neg	209,6	9,9
EV/Sales (x)	5,0	4,1	3,1	1,7	1,1

Source: Västra Hamnen Corporate Finance

Table 2: Estimates vs actual, Q4 2020

kSEK	Q4 '19	Q4 '20est	Q4 '20act	Diff
Sold units	28 551	34 000	33 854	(146)
Net Revenues	46 467	54 433	52 759	(1 674)
Other Revenues	504	788	105	(683)
Total Revenues	46 971	55 220	52 864	(2 356)
Cost of Goods Sold	(36 264)	(40 151)	(40 097)	54
Gross margin	22%	26%	24%	-2,2%
Personnel Expenses	(9 664)	(7 284)	(8 430)	(1 146)
Other Operating Expenses	(10 272)	(8 482)	(10 045)	(1 563)
Total OPEX	(56 200)	(55 916)	(58 572)	(2 656)
EBITDA	(9 229)	(696)	(5 708)	(5 012)
Amortisation and Depreciation	(980)	(772)	(1 613)	(841)
EBIT	(10 209)	(1 468)	(7 321)	(5 853)
Net Financial Items	72	-	(66)	(66)
EBT	(10 137)	(1 468)	(7 387)	(5 919)
Net Profit	(10 137)	(1 468)	(7 387)	(5 919)
Cash and Equivalents	20 353	66 805	62 024	(4 781)
Total Equity	11 359	54 651	53 056	(1 595)

Source: Västra Hamnen Corporate Finance

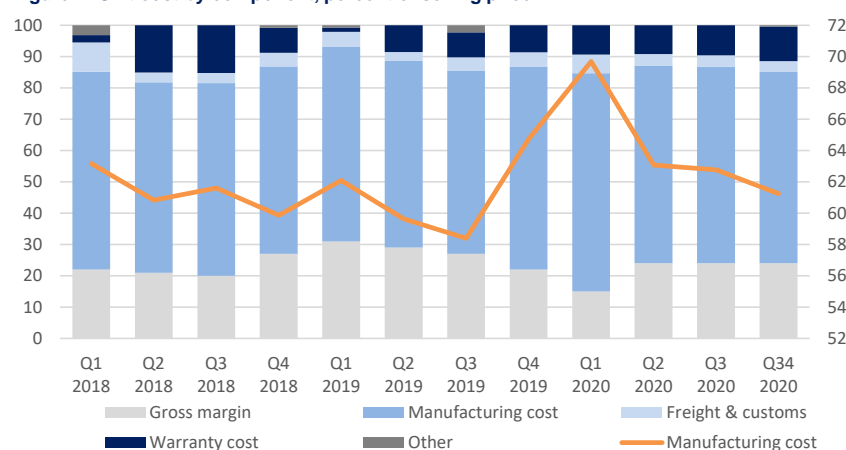
Gross margin steady at 24 percent

A key variable in our forecast model is the gross margin and Hövding is laudably open about how this breaks down into different cost components. In Figure 1 below, we decompose historic COGS into its separate components, expressed as a percentage of the unit selling price (columns, left scale). The gross margin (grey area, bottom) has been unchanged at 24 percent for three straight quarters. This proves that the margin drop in Q1 2020 was a one-off, relating to temporary cost increases when the company had to resort to air freight to battle delivery problems. On the other hand, we had expected margins to continue improving as sales volumes of Hövding 3 continues to rise.

Manufacturing cost per unit is falling

The numbers show some hopeful signs in this regard. The main cost component, manufacturing (orange line, right scale), is showing tentative signs of decreasing. It now stands at 61 percent of unit price, down from 63 percent in Q2 2020. The drop must be significantly steeper when counted in SEK, considering the drop in unit price between the two periods. Hövding does not release average unit prices, so we have to infer them by relating net turnover to sales volumes. According to our calculations, the selling price was nearly 5 percent lower in Q4 relative to Q2. Compounding these two effects suggests that the manufacturing cost fell 7.5 percent between the periods, to approximately SEK 955 per unit, which would be the lowest since the introduction of Hövding 3. Keep in mind, though, that the SEK has appreciated noticeably during the same period and probably contributed to lower costs, although we cannot say by how much.

Figure 1: Unit cost by component, percent of selling price



Source: Hövding, Västra Hamnen calculations

Company committed to increasing margin

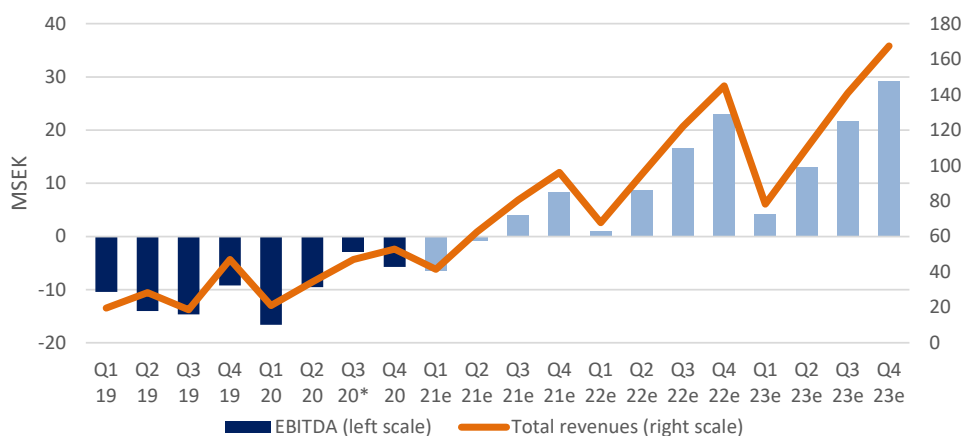
An opposite force is represented by the warranty cost, which remains stubbornly high. In Q4 it contributed a negative 11 percentage points to gross margin, up from around 9 – 9.5 percentage points in the previous three quarters. We note however, that this component is prone to vary and is partly affected by technical adjustments to the provisions for future warranty claims. We therefore assign a higher weight to the steady decline in manufacturing costs than a single period's increase in warranty costs. Moreover, the company is very clear on its commitment to boosting margins, through a combination of price increases and efforts to reduce both manufacturing and warranty costs. We therefore retain our assumption of a gross margin rising to 28 percent in our economic scenario. However, we adjust the time it takes to get there. In our new scenario, the margin increase will be gradual, ending at 28 percent in mid-2022.

We have also taken a new look on our cost projections following our underestimation of them in Q4. The company took a SEK 3.8 million one-time charge in Q3 related to downsizing, which was said to lower future operating costs by SEK 7 million per year. The cost savings are now said to be in full effect, which means operating costs for Q4 should be fairly representative for the next few quarters. This means that we have been slightly too optimistic on costs and have therefore increased our cost projections somewhat for this year and the next.

Black figures in Q3 2021

The changes are small, however, and do not alter our scenario that Hövding will turn to profit during the course of this year, cf. Figure 2 below. EBITDA and sales will probably drop in Q1 relative to Q4, considering the seasonal pattern that establishes Q1 as Hövding's weakest of the year. This Q1, there is extra uncertainty around the impact of the unusually cold weather and snowy conditions in all of the company's main markets. This could lead to subdued demand for cycling gear. Further out, we see a slight chance that Hövding will break even on EBITDA level already in Q2 although our forecast says a marginal loss. More likely, black figures will emerge in Q3. For that quarter, our model estimates a net turnover of SEK 79.8 million with an EBITDA of SEK 4.0 million and a net profit of SEK 3.4 million. We reckon with zero taxes since the company should be able to utilise tax loss carry-forwards.

Figure 2: Revenues and EBITDA



* Q3 2020 EBITDA adjusted for one-time charges
Source: Västra Hamnen Corporate Finance

Solid footprint in three markets

As noted, our forecast changes are small in magnitude and the main scenario is still intact. Hövding continues to grow, having now established a solid footprint in Sweden, Denmark and Germany. "Other countries" also contributed a full 6 percent of sales in Q4, which is said to derive mainly from France. The company is also well capitalised to take advantage of its growth opportunities without further financing needs.

Valuation interval unchanged

In conclusion, we maintain our valuation interval SEK 21.10 – 30.50 per share while looking forward to an exciting 2021.

Income Statement - Annual Data

kSEK	2018	2019	2020	2021e	2022e	2023e	2024e	2025e
Net revenues	92 536	112 919	152 517	277 921	426 827	493 281	546 339	594 222
Other revenues	2 076	571	2 720	3 019	3 049	3 082	3 127	3 176
Total revenues	94 612	113 490	155 237	280 940	429 877	496 364	549 465	597 398
Cost of goods sold	(71 535)	(83 490)	(118 016)	(205 238)	(307 517)	(353 559)	(391 588)	(425 908)
Gross profit	23 077	30 000	37 221	75 702	122 360	142 805	157 878	171 490
Personnel costs	(29 651)	(35 257)	(37 095)	(33 731)	(35 100)	(36 074)	(36 800)	(37 542)
Other external costs	(31 776)	(42 801)	(35 802)	(35 868)	(36 591)	(37 328)	(38 080)	(38 847)
Other operating expenses	(481)	(270)	(2 881)	(1 272)	(1 272)	(1 272)	(1 272)	(1 272)
EBITDA	(38 831)	(48 328)	(38 557)	4 832	49 397	68 131	81 725	93 829
Amortisation & depreciation	(2 656)	(2 654)	(5 193)	(2 606)	(2 197)	(1 864)	(1 592)	(1 371)
EBIT	(41 487)	(50 982)	(43 750)	2 225	47 200	66 268	80 133	92 458
Net financial items	8	53	(496)	-	-	-	-	-
EBT	(41 479)	(50 929)	(44 246)	2 225	47 200	66 268	80 133	92 458
Taxes	-	-	-	-	-	-	-	-
Net profit	(41 479)	(50 929)	(44 246)	2 225	47 200	66 268	80 133	92 458
Earnings per share (SEK)	(2,25)	(2,33)	(1,78)	0,08	1,70	2,39	2,89	3,33
Growth (%)								
Net revenues	63,2%	22,0%	35,1%	82,2%	53,6%	15,6%	10,8%	8,8%
EBITDA	na	na	na	na	922,4%	37,9%	20,0%	14,8%
EBIT	na	na	na	na	2020,9%	40,4%	20,9%	15,4%
Net profit	na	na	na	na	2020,9%	40,4%	20,9%	15,4%
% of revenues (%)								
Gross margin	22,7%	26,1%	22,6%	26,2%	28,0%	28,3%	28,3%	28,3%
EBITDA margin	neg	neg	neg	1,7%	11,5%	13,7%	14,9%	15,7%
EBIT margin	neg	neg	neg	0,8%	11,0%	13,4%	14,6%	15,5%
EBT margin	neg	neg	neg	0,8%	11,0%	13,4%	14,6%	15,5%
Profit margin	neg	neg	neg	0,8%	11,0%	13,4%	14,6%	15,5%
Personnel costs	32,0%	31,2%	24,3%	12,1%	8,2%	7,3%	6,7%	6,3%
Total OPEX	66,9%	69,4%	49,7%	25,5%	17,1%	15,1%	13,9%	13,1%
Profitability (%)								
ROE	neg	neg	neg	1,4%	18,2%	18,9%	22,9%	20,6%

Source: Västra Hamnen Corporate Finance

Balance Sheet - Annual Data

kSEK	2018	2019	2020	2021e	2022e	2023e	2024e	2025e
Subscr but not paid-in cap	-	-	-	-	-	-	-	-
Inventories	6 013	20 848	18 328	38 360	56 729	65 463	72 009	77 770
Account receivable	13 977	18 019	15 642	31 414	47 417	54 800	60 280	65 102
Tax receivables	717	775	892	1 882	2 841	3 283	3 611	3 900
Prepaid costs & accrued income	1 175	159	931	2 427	3 663	4 234	4 657	5 030
Other receivables	151	585	2 450	2 738	4 133	4 777	5 255	5 675
Cash and cash equivalents	66 464	20 353	62 024	72 196	135 327	209 642	296 146	394 211
Total current assets	88 497	60 739	100 267	149 018	250 111	342 198	441 959	551 688
Tangible assets	641	2 474	1 835	1 866	1 891	1 911	1 927	1 941
Intangible assets	6 526	15 499	12 058	9 821	8 000	6 516	5 307	4 323
Financial assets	52	52	52	52	52	52	52	52
Total fixed assets	7 219	18 025	13 945	11 739	9 942	8 479	7 286	6 315
Total assets	95 716	78 764	114 212	160 757	260 053	350 677	449 245	558 003
Accounts payable	15 001	49 606	38 002	69 049	102 112	117 833	129 617	139 986
Accrued cost & prepaid income	5 653	5 865	8 378	15 288	23 076	26 669	29 336	31 683
Other liabilities	557	1 477	4 633	3 073	4 639	5 361	5 898	6 369
Total current liabilities	21 211	56 948	51 013	87 410	129 827	149 864	164 851	178 039
Other provisions	12 371	10 457	10 143	18 065	27 744	32 063	35 512	38 624
Total equity	62 135	11 359	53 056	55 281	102 482	168 749	248 882	341 340
Total equity and liabilities	95 717	78 764	114 212	160 757	260 053	350 677	449 245	558 003

Source: Västra Hamnen Corporate Finance

Cash flow statement

kSEK	2018	2019	2020	2021e	2022e	2023e	2024e	2024e
Operating activities	(35 709)	(50 189)	(39 360)	12 753	59 076	72 451	85 174	96 941
Changes in working capital	17 290	17 384	(3 799)	(2 181)	4 455	2 264	1 731	1 523
Investing activities	(5 966)	(13 460)	(1 113)	(400)	(400)	(400)	(400)	(400)
Financing activities	69 239	153	85 943	-	-	-	-	-
Cash flow for the period	44 854	(48 099)	41 671	10 172	63 131	74 314	86 505	98 064
Beginning cash balance	21 634	66 464	20 353	62 024	72 196	135 327	209 642	296 146
Adjustments	(24)	-	-	-	-	-	-	-
Ending cash balance	66 464	20 353	62 024	72 196	135 327	209 642	296 146	394 211

Source: Västra Hamnen Corporate Finance

Income Statement - Quarterly Data

kSEK	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021e	Q2 2021e	Q3 2021e	Q4 2021e
Net revenues	20 953	33 493	45 312	52 759	40 851	61 688	79 831	95 551
Other revenues	35	852	1 728	105	687	851	851	630
Total revenues	20 988	34 345	47 040	52 864	41 538	62 539	80 682	96 181
Cost of goods sold	(17 881)	(25 410)	(34 628)	(40 097)	(30 537)	(45 808)	(58 885)	(70 008)
Gross profit	3 107	8 935	12 412	12 767	11 001	16 731	21 797	26 173
Personnel costs	(9 926)	(8 632)	(10 107)	(8 430)	(8 307)	(8 390)	(8 474)	(8 559)
Other external costs	(8 305)	(9 629)	(8 141)	(9 727)	(8 900)	(8 945)	(8 989)	(9 034)
Other operating expenses	(1 495)	(216)	(852)	(318)	(318)	(318)	(318)	(318)
EBITDA	(16 619)	(9 542)	(6 688)	(5 708)	(6 525)	(921)	4 015	8 262
Amortisation & depreciation	(1 196)	(1 194)	(1 190)	(1 613)	(695)	(665)	(637)	(610)
EBIT	(17 815)	(10 736)	(7 878)	(7 321)	(7 219)	(1 586)	3 379	7 652
Net financial items	(129)	(82)	(219)	(66)	-	-	-	-
EBT	(17 944)	(10 818)	(8 097)	(7 387)	(7 219)	(1 586)	3 379	7 652
Taxes	-	-	-	-	-	-	-	-
Net profit	(17 944)	(10 818)	(8 097)	(7 387)	(7 219)	(1 586)	3 379	7 652
Earnings per share (SEK)	(0,76)	(0,46)	(0,29)	(0,27)	(0,26)	(0,06)	0,12	0,28
Y-o-Y Growth (%)								
Net revenues	6,7%	18,6%	143,8%	13,5%	95,0%	84,2%	76,2%	81,1%
EBITDA	na	na	na	na	na	na	na	na
EBIT	na	na	na	na	na	na	na	na
Net profit	na	na	na	na	na	na	na	na
% of revenues (%)								
Gross margin	14,7%	24,1%	23,6%	24,0%	25,2%	25,7%	26,2%	26,7%
EBITDA margin	neg	neg	neg	neg	neg	neg	neg	neg
EBIT margin	neg	neg	neg	neg	neg	neg	neg	neg
EBT margin	neg	neg	neg	neg	neg	neg	neg	neg
Profit margin	neg	neg	neg	neg	neg	neg	neg	neg
Personnel costs	47,4%	25,8%	22,3%	16,0%	20,3%	13,6%	10,6%	9,0%
Total OPEX	94,1%	55,2%	42,2%	35,0%	42,9%	28,6%	22,3%	18,7%
Profitability (%)								
ROE	neg	neg	neg	neg	neg	neg	2,5%	4,8%

Source: Västra Hamnen Corporate Finance

Balance Sheet - Quarterly Data

kSEK	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021e	Q2 2021e	Q3 2021e	Q4 2021e
Subscr but not paid-in cap	12 902	-	-	-	-	-	-	-
Inventories	35 821	29 234	27 792	18 328	16 733	25 100	32 266	38 360
Account receivable	5 425	11 991	16 029	15 642	13 431	20 281	26 246	31 414
Tax receivables	520	644	768	892	805	1 215	1 572	1 882
Prepaid costs & accrued income	1 780	1 293	506	931	1 038	1 567	2 028	2 427
Other receivables	743	645	595	2 450	1 171	1 768	2 288	2 738
Cash and cash equivalents	5 647	10 927	66 134	62 024	53 506	59 138	59 684	72 196
Total current assets	49 936	54 734	111 824	100 267	86 682	109 069	124 083	149 018
Tangible assets	2 292	2 147	1 971	1 835	1 843	1 851	1 859	1 866
Intangible assets	15 445	14 431	13 465	12 058	11 455	10 882	10 338	9 821
Financial assets	52	52	52	52	52	52	52	52
Total fixed assets	17 789	16 630	15 488	13 945	13 350	12 785	12 249	11 739
Total assets	80 627	71 364	127 312	114 212	100 033	121 855	136 332	160 757
Accounts payable	48 646	44 248	45 839	38 002	35 139	52 710	58 078	69 049
Accrued cost & prepaid income	5 254	5 944	10 623	8 378	6 536	9 870	12 773	15 288
Other liabilities	621	5 950	6 250	4 633	1 314	1 984	2 568	3 073
Total current liabilities	54 521	56 142	62 712	51 013	42 989	64 564	73 419	87 410
Other provisions	9 422	9 357	8 481	10 143	11 207	13 040	15 283	18 065
Total equity	16 684	5 866	56 119	53 056	45 837	44 250	47 629	55 281
Total equity and liabilities	80 627	71 365	127 312	114 212	100 033	121 855	136 332	160 757

Source: Västra Hamnen Corporate Finance

Cash flow statement

kSEK	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021e	Q2 2021e	Q3 2021e	Q4 2021e
Operating activities	(17 528)	(9 812)	(7 783)	(4 237)	(5 461)	911	6 259	11 044
Changes in working capital	(6 585)	2 226	4 687	(4 127)	(2 957)	4 821	(5 614)	1 569
Investing activities	(960)	(36)	(48)	(69)	(100)	(100)	(100)	(100)
Financing activities	10 367	12 902	58 351	4 323	-	-	-	-
Cash flow for the period	(14 706)	5 280	55 207	(4 110)	(8 518)	5 632	545	12 512
Beginning cash balance	20 353	5 647	10 927	66 134	62 024	53 506	59 138	59 684
Adjustments	-	-	-	-	-	-	-	-
Ending cash balance	5 647	10 927	66 134	62 024	53 506	59 138	59 684	72 196

Source: Västra Hamnen Corporate Finance

Disclaimer

This marketing material has been prepared by Västra Hamnen Corporate Finance AB ("Västra Hamnen").

The material has not been prepared in accordance with the regulations designed to promote the independence of investment research and it is not subject to any legal prohibition on dealing ahead of the dissemination of the report.

The material has been prepared on the basis of publicly available information that Västra Hamnen has deemed to be reliable. However, it cannot be guaranteed that the information is correct. The material is published for marketing purposes and does not purport to constitute a basis for any investment decision. The information provided herein does not constitute investment advice and neither does the information take into consideration the individual needs, goals and circumstances of any particular recipient of this material. The reader is recommended to seek supplementary information elsewhere and to obtain relevant and specific professional advice before making any investment decision.

All views, opinions and conclusions communicated through this material shall be seen as valid on the publication date of this report only and are subject to change without notice. None of the information herein shall be construed as a recommendation or solicitation for the purchase or sale of any financial instrument.

In no event will Västra Hamnen be liable for direct, indirect or incidental damages resulting from the information in this report. Financial instruments can decrease as well as increase in value. Past performance is not indicative of future results.

The material is not directed at any such person, physical or legal, to whom the distribution of such material would imply a risk of violation of any laws or regulations applicable in Sweden or any other jurisdiction.

Contents of this report shall not be copied, reproduced or distributed to any third party without prior written permission from Västra Hamnen.

Conflicts of interest

Recipients should note that this material has been commissioned by the company mentioned in this report and that Västra Hamnen has received remuneration from the company for the production of the report. The remuneration is fixed and predetermined and in no way dependent on the content of the report or the views expressed herein.

The company mentioned in the report has reviewed the material prior to publication. The recipient may assume that this review has led to changes in the factual information presented in the report. Any assumptions, conclusions and scenarios are however the result of Västra Hamnen's own analysis of available information.

Västra Hamnen has internal rules prohibiting all of its employees from buying or selling shares issued by companies with which Västra Hamnen has ongoing agreements to produce marketing material like the present.

Västra Hamnen has a separate agreement with Hövding Sverige AB to act as its Certified Adviser on Nasdaq First North.

Västra Hamnen Corporate Finance AB

Jungmansgatan 12
211 11 Malmö
Telefon: +46 40 200 250
E-post: info@vhcorp.se
www.vhcorp.se

