

Winner with the digitalization trend and consistent operational performance. What will it take for the stock to follow suit?

Bahnhof AB is a Swedish based telecommunications company offering internet services, both B2B and B2C. The company was founded in 1994, and was one of the first internet service providers in the country. Further, the company today operates service halls, develops anti-virus programs and offers cloud-based storage. The firm was listed on the Spotlight Stock Market in December 2007, and has since its initial public offering produced massive value to its shareholders with nearly a 4,000% return.

Bahnhof's vision is to be an international force in cloud- and internet services, with a focus on safe, environmentally friendly and innovative communication techniques for consumers and businesses. In a time of global concern regarding cyber security, a trend of digitalization and personal integrity online, Bahnhof is positioned for further growth.

The company operates in both the business-to-consumer and the business-to-business segments. At the end of year 2020, the company has approximately 400,000 unique households as customers in the B2C segment. These customers are offered a large variety of services, with broadband being the main product. For the B2B segment, Bahnhof offer network services, and is today the largest operator of datacenters in Stockholm City.

We believe that considering the global trend of digitalization, cyber security and cloud-based storage, Bahnhof is well positioned to grow together with this general trend.

Continued growth is assumed to affect the market value of Bahnhof positively, considering its past record of producing value to shareholders as well as its strong core-line of business that has a history of generating a fairly predictable cash flow. Today trading at a very attractive valuation, well below our fair value of the stock, we believe that Bahnhof AB should be a good addition to the Asset Management Group portfolio.

Based on a DCF analysis we believe that the fair value of Bahnhof should be SEK 35.80 per share in our base scenario, with a potential upside of 37.53% compared to its current market price.

Fair Value		
Current Price	Estimated Price	Upside
35.8	49.23	37.53% SEK 13.43

Key Data	
Sector	Telecom
Ticker	BAHN B
Market	Spotlight Stock Market
Price	35.80
Market Cap	3.9 B
Net Debt	154.4 M
Enterprise value	4.05 B
Shares fully dil.	107 565 130



Financials (SEK)	2019	2020	2021E	2022E	2023E
Revenue	1 293	1 473	1 664	1 881	2 069
Adj. EBIT	140	180	200	226	259
Adj. EBITDA	188	231	258	292	331
<i>Revenue growth %</i>	<i>13.67</i>	<i>13.89</i>	<i>13.00</i>	<i>13.00</i>	<i>10.00</i>
<i>Adj. EBIT margin %</i>	<i>10.81</i>	<i>12.23</i>	<i>12.00</i>	<i>12.00</i>	<i>12.50</i>

Investment Thesis

Labeled as one of the “winners” of the Covid-19 outbreak in early 2020 - with the share price reaching its all-time high of 45 SEK in April 2021 - the stock has since moved down a bit and stabilized at around 35-36 SEK, despite Bahnhof’s stellar performance operationally.

During the Covid-19 outbreak, the need for digitalization has seen a tremendous growth, both for companies and for households. Bahnhof experienced a significant customer growth over the past year, and our belief is that this growth will continue even after the pandemic. The global trend of digitalization, and everything that comes with it - cyber security, cloud-based storage, etc. - was an interesting market even before Covid-19, and may be even more relevant afterwards. Bahnhof aims to grow with this trend, and the firm is well-placed to do so. Therefore, we believe a bet on Bahnhof could be seen as a bet on continued digitalization.

However, this case is not just all about growth and future potential. Rather, the firm already operates a very profitable business model today. Bahnhof’s business model is built on recurring income, which means that the income for each year can be seen as fairly easy to predict. This makes the company somewhat of a cash generating machine - which protects the firm as it grows in other markets and segments. The company is at the same time delivering growth in the broadband market, with double digits in operational growth every year since 2007 and has doubled its share of the broadband market since 2014 to roughly 8% today.

Another important aspect of the Bahnhof case is its management. The CEO and Chairman are co-founders of the firm, and are heavily invested in its success. Insider ownership should be seen as an important signal to the market that management believes in the future development of the firm and its shares. This has been the case so far, Jon Karlung (CEO) has had a great track-record of providing shareholder value, both as a privately owned company and later as a publicly listed company. Since going public in December 2007, the Bahnhof AB share price is up almost 4,900%. The company has paid out dividends every year since going public and has even raised dividend per share for every year since 2011.

A more short-term trigger of the stock price could potentially be that Bahnhof is currently working on changing its stock list of exchange from Spotlight Stock Market to OMX Midcap. This move is expected to be completed during Q1 2022, and could per our estimations generate more attention to the company from funds and possibly foreign investors.

To summarize, we believe that the Asset Management Group should have a position that captures the trend of digitalization - which we believe Bahnhof could offer.

Strategy and Operations Analysis

As mentioned earlier, Bahnhof today offers its broadband services to roughly 400,000 separate households, which is about 8% of the Swedish broadband market. The broadband business-model is built on recurring revenue. This means that income can be fairly easy to predict, and the downside should be well protected against market cycles. The upside isn't limited however, the company has grown its sales remarkably for multiple years whilst also remaining very profitable. This part of the business is seen as Bahnhof's core and delivers most of its revenue for any given year. On the business-to-consumer side of the firm, we believe Bahnhof are well-positioned compared to its competitors by having better margins and a far stronger growth in customer acquisition.

Bahnhof recently closed a deal with real estate company Fastighets AB Balder, where Bahnhof will provide broadband services to thousands of households and businesses in Balder properties. These types of cooperation's between Bahnhof and real estate companies provides exponential growth to Bahnhof's customer stock, and is a very profitable strategy for the firm to acquire new customers.

Bahnhof's business-to-business segment delivers about 30% of Bahnhof's revenue, and focuses on network services and digital infrastructure. The business-to-business segment also includes business-to-municipalities, which usually is a good long-term customer of broadband and network services.

Bahnhof is continually looking at new segments and investments to complement its core business, and one of its more interesting recent investments is the Elementica AB project. This is a new infrastructure project that we think sets Bahnhof AB apart from its other competitors (such as Bredband2 for example). The goal of Elementica is to have one of the largest data centres in Sweden, and it's centrally located in Stockholm. Our view is that there's lots of synergies between Bahnhof AB's current operations and the Elementica project, which should affect the bottom line positively after its completion. They have approved permits for the building, and it will be finished in 2 to 3 years.

According to our analysis, Bahnhof's main competitors for the core business are Bredband2, Telia, Tele2 and A3. There has been somewhat of a consolidation on the Nordic broadband market in recent times, with Bredband2's acquisition of A3 in late 2020 - which valued A3 at roughly SEK 622M - and we believe that this is a trend that may continue. Fewer alternatives on the market for customers, would lead to the ability for companies such as Bahnhof to charge higher prices for its services.

Revenue & EBIT %



EBIT & Margin



Management & Ownership

Andreas Norman: Chairman, is one of the founders of Bahnhof. Norman brings a wealth of experience within the company as the Chairman, whilst also holding the position as the firms Head of Business Development. Chairman and CEO together own about 50% of the shares and control 86% of the votes of the company.

Jon Karlung: CEO, is also one of the founders of Bahnhof. Has a great track-record of providing value for shareholders. As said previously, Karlung together with Norman own a large part of the firms outstanding shares.

Erik Hasselqvist: Board Member, is an entrepreneur with a background in the music industry through his company Ten Music Group. He is also a board member of Cassandra Oil. He owns about 250,000 shares in Bahnhof AB.

Jens Nylander: Board Member, is a serial entrepreneur with expertise in SaaS and IoT. He has previously founded Jens of Sweden, JAYS and Automile. Has worked with Bahnhof operationally on several projects. He owns about 8,000 shares in Bahnhof AB.

Ownership Structure		
Owner	Shares %	Votes %
Karlung & Norman	50,42	85,87
Investment Öresund AB	6,86	1,95
First Fondene	3,37	0,96
Nordea Fonder	3,19	0,91
Avanza Pension	2,93	0,84
Spiltan Fonder	2,53	0,72
Berenberg Funds	1,47	0,42
Futur Pension	1,31	0,37
Nordnet Pensionsförsäkring	1,12	0,32
Total	73,2	92,36
Other	26,8	7,64

Valuation

The intrinsic value of Bahnhof, based on our DCF is SEK 49.23. The DCF consists of a 10 year estimate period, where we believe that Bahnhof will become a more mature company. As seen in the DCF, the revenue growth rate declines from 13% the two first years to 8% in the more mature years 7-10, with increases in their EBIT margin from 12% (Y 1-2) to 18% (Y 7-10). Due to Bahnhof's current lack of interest-bearing debt, their Cost of Debt in their WACC, equals to 0.23%. It's more likely that their future long term financing increases, which should give them a lower WACC and therefore a higher share price. Please find the WACC sensitivity table below.

Looking at the comparable analysis, Bahnhof's multiples based on enterprise value, are in the higher region, which might be due to their negative net debt, giving them a higher EV than its competitors. Despite Bahnhof's lack of debt, they have managed to generate both the highest ROE and ROIC of 35,5% and 170,6% respectively. The peer valuation can be found in the Appendix on page 7.

Free Cash Flow (MSEK)	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Revenue	1 664	1 881	2 069	2 276	2 503	2 753	2 974	3 212	3 469	3 746
EBIT	200	226	259	296	325	358	535	578	624	674
Non-cash adjustments	(58)	(66)	(72)	(80)	(88)	(96)	(119)	(128)	(139)	(150)
Change net working capital	(11)	9	8	8	9	10	3	9	10	11
CapEx	117	132	145	159	175	193	119	128	139	150
Tax	41	46	53	61	67	74	110	119	129	139
Free cash flow	112	105	125	147	162	178	422	450	486	525
Growth rate	15,95%	(6,30%)	19,75%	17,20%	10,00%	10,00%	137,39%	6,59%	8,00%	8,00%
Discounted free cash flow	103	89	98	105	106	108	235	230	229	227
EBITDA	258	292	331	375	413	454	654	707	763	824
Inputs										
Revenue growth %	13,00%	13,00%	10,00%	10,00%	10,00%	10,00%	8,00%	8,00%	8,00%	8,00%
EBIT margin %	12,00%	12,00%	12,50%	13,00%	13,00%	13,00%	18,00%	18,00%	18,00%	18,00%
Non-cash adjustments % of revenue	(3,50%)	(3,50%)	(3,50%)	(3,50%)	(3,50%)	(3,50%)	(4,00%)	(4,00%)	(4,00%)	(4,00%)
Change net working capital % revenue	4,00%	4,00%	4,00%	4,00%	4,00%	4,00%	3,80%	3,80%	3,80%	3,80%
CapEx % revenue	7,00%	7,00%	7,00%	7,00%	7,00%	7,00%	4,00%	4,00%	4,00%	4,00%
Tax % EBIT	20,60%	20,60%	20,60%	20,60%	20,60%	20,60%	20,60%	20,60%	20,60%	20,60%

		EBIT Margin % Mature Years						
		10,00%	12,50%	15,00%	18,00%	20,00%	25,00%	30,00%
WACC	7,0%	41,03	50,12	59,20	70,11	77,38	95,56	113,73
	8,0%	33,59	40,79	47,99	56,64	62,40	76,81	91,21
	8,5%	30,74	37,23	43,71	51,49	56,68	69,65	82,62
	8,73%	29,56	35,75	41,94	49,37	54,32	66,70	79,08
	9,5%	26,21	31,56	36,91	43,32	47,60	58,30	69,00
	10,0%	24,37	29,27	34,16	40,03	43,95	53,73	63,52
	11,0%	21,33	25,48	29,62	34,59	37,91	46,19	54,48

DCF Assumptions		WACC	
NPV of FCF	525	Beta	0.601
NPV of TV	7 952	Equity risk premium	6.0%
Enterprise value	3 442	Risk free rate	0.23%
		Cost of equity	9.47%
Net debt	41	Risk free rate	0.23%
Other Adjustments	3	Cost of debt	0.0%
		Tax rate	20.6%
DCF Value of equity	4 928	After tax cost of debt	0.23%
DCF value per share	49.23	WACC	8.73%

Case Summary

Bahnhof is one of Sweden's leading and fastest growing internet service providers. Currently offering its broadband and fiber services to about 400,000 unique households in Sweden, the company is well-positioned to continue its growth trajectory in a market with potential for further consolidation. The business-to-business angle of the firm delivers fairly predictable revenue from year-to-year, but is an interesting segment that could grow further depending on new offerings and product lines - such as the Elemantica data centre, for example.

Our bullish outlook on the firm is backed by the very talented management team at Bahnhof, who's record of producing shareholder value has been nothing short of remarkable for the last one and half decade as a listed company.

We believe that Bahnhof is an interesting case that should closely follow the general global trend of digitalization, which is a trend that Asset Management Group doesn't track with its current holdings in the portfolio.

The operational risks of this case is considered to be a slowed growth, particularly in the business-to-consumer segment of the business. At some point, there might also be a need to expand its product offering to other countries outside of Sweden, which would take significant investment and would be a huge risk for the company.

Even though we believe there is an upside in Bahnhof researching and developing new projects and products, there is always a risk in stepping too far away from the core business. The Elemantica development, for example, is currently seen by the market as a big risk for the company - partly because of the size of the investment - and although we believe the synergies with the core business are there, we understand the risks of investments in product development.

To summarize, based on a discounted cash flow analysis we believe that the fair value of Bahnhof should be around SEK 49.2 per share in a base scenario, with a potential upside of 37.5% compared to the current market price of the share. Alongside our DCF model, our peer analysis makes a valid case for a potential multiple expansion compared to peers such as Bredband2, Telia and Tele2.

Appendix

		Revenue Growth % Mature Years						
		5,00%	6,00%	7,00%	8,00%	9,00%	10,00%	11,00%
WACC	7%	68,35	68,93	69,52	70,11	70,70	71,29	71,87
	8%	55,24	55,71	56,17	56,64	57,10	57,57	58,03
	9%	50,24	50,66	51,08	51,49	51,91	52,33	52,75
	9%	48,17	48,57	48,97	49,37	49,77	50,17	50,57
	10%	42,29	42,64	42,98	43,32	43,67	44,01	44,36
	10%	39,09	39,40	39,72	40,03	40,35	40,66	40,98
	11%	33,79	34,06	34,33	34,59	34,86	35,12	35,39

Comparables - Bahnhof

Company Name	Ticker	Sector	Market Cap	P / E	EV / EBITDA	EV / EBIT	ROE	ROIC	Dividend Yield	Net debt / EBITDA	Solidity
Bredband2	BRE2	Telekommunikation	2 192	44,9	13,0	37,8	9,5%	7,4%	2,2%	(0,1)	39,7%
Elisa	ELISA	Telekommunikation	8 624	25,4	9,0	23,7	30,4%	14,6%	3,6%	1,2	38,3%
Millicom	TIGO SDB	Telekommunikation	30 854	(32,7)	5,2	15,9	-5,1%	-1,3%		3,1	18,8%
Nortel	NTEL	Telekommunikation	339	(11,9)	(9,7)	(8,0)	-38,9%	-103,0%			77,1%
Tele2 A	TEL2 A	Telekommunikation	85 533	11,5	9,2	16,2	24,6%	12,5%	7,2%	2,3	40,3%
Tele2 B	TEL2 B	Telekommunikation	84 812	11,3	9,0	15,8	24,9%	12,7%	7,3%	2,3	40,3%
Telenor	TEL	Telekommunikation	191 075	28,1	6,1	14,1	21,9%	4,7%	6,6%	2,0	13,2%
Telia Company	TELIA	Telekommunikation	140 827	(10,2)	11,4	(21,9)	-19,2%	-8,2%	5,8%	3,6	30,9%
Telia Company oyj	TELIA1	Telekommunikation	14 183	(6,1)	(14,5)	(6,5)			5,5%		
Bahnhof	BAHN B	Telekommunikation	3 899	26,6	14,3	18,3	35,5%	170,6%	2,1%	(1,6)	46,0%
Maximum			191 075	44,9	14,3	37,8	35,5%	170,6%	7,3%	3,6	77,1%
75th Percentile			99 357	27,0	11,8	19,7	27,7%	13,6%	7,1%	2,9	43,1%
Median			22 519	11,4	9,0	15,8	21,9%	7,4%	5,6%	2,2	39,7%
Mean			56 234	8,7	5,3	10,5	9,3%	12,2%	5,0%	1,6	38,3%
25th Percentile			3 472	(10,6)	1,5	(6,9)	-12,2%	-4,7%	2,5%	0,2	24,9%
Minimum			339	(32,7)	(14,5)	(21,9)	-38,9%	-103,0%	2,1%	(1,6)	13,2%

Disclaimer

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