

## Stable Y-Y growth & increasing margins combined with an attractive dividend yield

Even though Covid-19 had its impact in form of a decline in revenue due to a short-term decrease in the overall market demand as well as shortages of commodities and essential parts, such as semiconductors, Volvo still increased both their EBITDA & EBIT margins to 17.1% & 12.1% 2021A. Based on both a stable historical year on year growth in revenue and in orders during the latest quarters in the main segment, trucks, combined with a more positive outlook in both the production of essential components and continuous demand in the transportation sector, the assumption is that Volvo's financials will recover and improve during the coming years. Furthermore, the transformation towards sustainable solutions as well as continuous infrastructure investments is assumed to improve revenue growth.

Even though SEK 60 in dividends has been distributed during 2021, Volvo is distributing SEK 13 in dividends 2022 giving them an attractive dividend yield of 7.5% and an ordinary dividend yield of 3,8%.

Volvo's strong management has years of experience combined in the transportation sector, with a CEO that was former CEO of Scania. The management has also increased their holdings during the latest years, giving the impression that they believe in Volvo and its development. Looking at the ownership structure, we find that major funds and institutions have significant holdings.

## The share price reflects stable growth and margins throughout their segments

Based on a DCF valuation the fair value ranges between SEK 124.04 - 505.30 with SEK 349.98 in the base case. Giving an upside of 103.65% in the base case.

### Fair Value Range

Bear	Base	Bull
124.04	349.98	505.30

### Key data

Sector	Industry
Ticker	VOLV B
Market	OMXS30
Price	171.92
Market Cap	349 591
Net Debt	(309 612)
Shares fully diluted - M	1 588.5

### Share price - 12M



Financials (MSEK)	2019A	2020A	2021A	2022E	2023E
Revenue	431 977	338 444	372 216	410 909	432 795
Adj. EBITDA	70 026	48 390	63 756	71 354	76 378
Adj. EBIT	49 441	27 791	45 036	50 185	54 048
Revenue growth %	10.53	(21.65)	9.98	10.40	5.33
EBITDA margin %	16.21	14.30	17.13	17.36	17.65
EBIT margin %	11.45	8.21	12.10	12.21	12.49
EPS	18	10	16	n/a	n/a
DPS	10	0	16	13	n/a

## Investment Thesis

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As mentioned earlier, Volvo had a short-term decline in revenue due to the impacts of Covid-19 as a consequence of shortages in commodities and components, resulting in lower volumes in both delivered & ordered trucks. However, the assumption is that the supply will normalize thus increasing these volumes. Looking at the previous years, excluding 2020A, we see that Volvo has had stable growth in both Y-Y revenue as well as increasing margins. Looking at 2021A we can see that the recovery has already begun.

The stable revenue streams are assumed to be generated through increased demand in the truck segment, transformation towards sustainable solutions in all segments, continuous infrastructure investments and demand for commodities as well as a shift to increased revenue streams through service.

Looking at the Truck segment, the overall growth in transportation creates an increased demand for transportation solutions, which generates an increase in revenue. It's difficult to say how long it will take until this demand is satisfied, however, Volvo also generates revenue through service, which means that even though the demand is satisfied, Volvo will still be able to generate revenue. Another key factor when it comes to revenue streams is that the expected lifespan of a truck is approximately 10 years, meaning that if Volvo manages to keep their current customers, they still generate recurring revenue streams. There's also a transformation to more sustainable transportation solutions meaning that there's an incentive for companies to gradually replace their vehicles with sustainable alternatives, to satisfy already, and yet to come regulations.

The growth factors in the second-largest segment, construction equipment, has as the truck segment had a decline in revenue growth, however, the thesis is that the increased demand in commodities combined with the continuous growth and high infrastructure investments, will drive the growth in revenue and generate stable cash flows in this segment.

The overall replacement towards sustainability as well as revenue through service applies to all of Volvo's segments.

In summary, the historical and positive outlook regarding revenue growth and EBIT, combined with the revenue streams from services, could hedge eventual changes in the general world economy. Volvo could be considered as a good complement in a portfolio of growth companies, to adjust the risk. The normalization in supply together with the following factors will create stable cash flows in the years coming.

## Operations Analysis

Volvo is a manufacturer of both transport- and infrastructure solutions that operates in ~190 countries. Volvo’s main operations can be divided into four main segments - Trucks, Buses, Construction Equipment, Power Solutions from marine and industrial applications, and also provides Service and Financial solutions. The four main segments can be subdivided into two revenue streams, vehicles and services, of which 2021A consisted of 75% (73%) & 25% (27%) of Volvo’s total revenue, whereas Financial services stood for 4% of revenue 2021A.

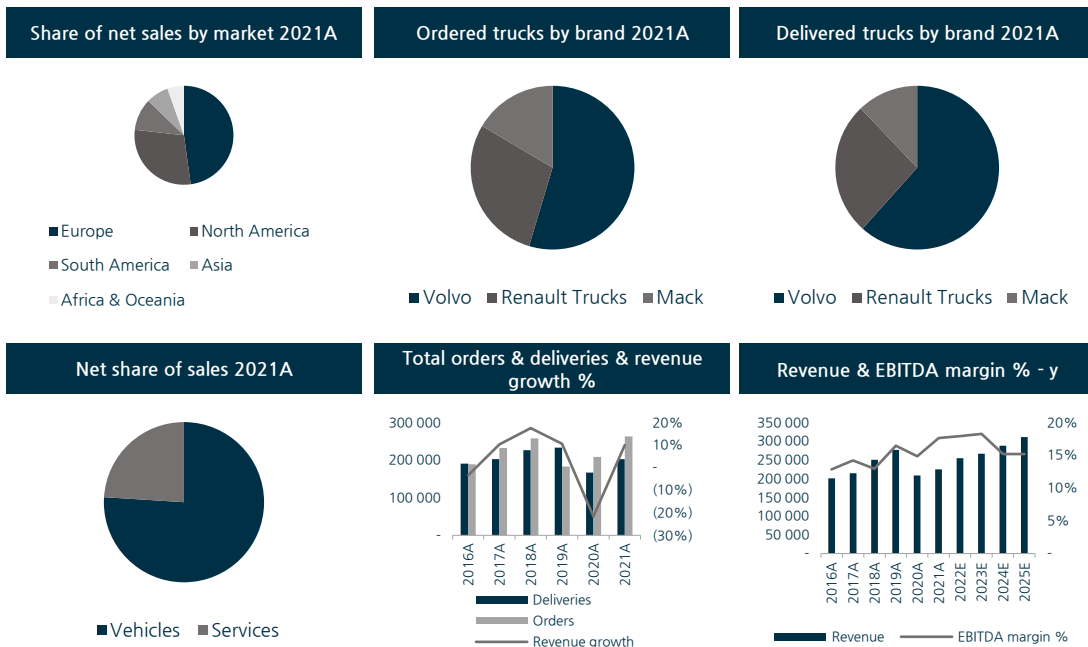
As seen below Volvo’s historical development in earnings and revenue have followed a positive and stable trend, with the exception of 2020A.



### Trucks

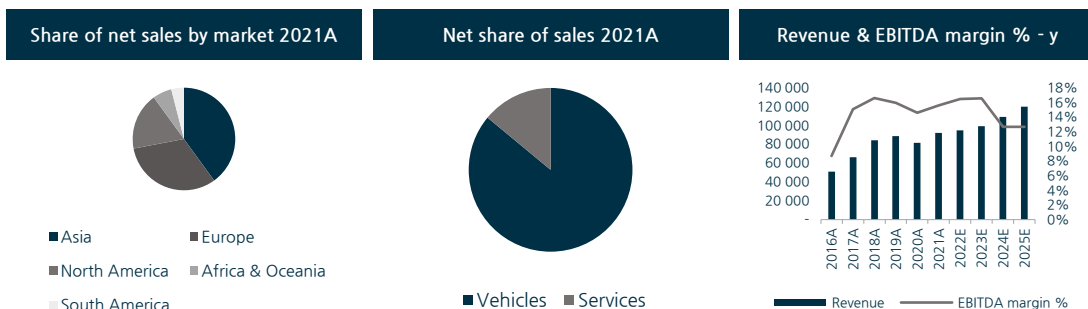
Volvo's largest segment, accounting for 62.0% of total revenue 2021A and 62.7% 2022E. This segment is further divided into three subsegments - heavy-, medium- and light-duty, which consisted of 84%, 7% and 9% of total deliveries 2021A and of which 2.9% (0.3%) is attributable to fully electric trucks.

The main markets in this segment are Europe 48%, North America 29% and South America 10% based on total sales 2021A. Volvo offers three brands in the truck segment - Volvo, Renault Trucks & Mack, where Volvo is the largest with 56% of total sales. In addition to vehicles, Volvo offers services, which accounted for 24% of revenue 2021A. The average revenue growth and EBITDA-margin 2016-2021A excluding 2020A was 7.6% & 14.8% and 2.3% & 14.82% including 2020A.



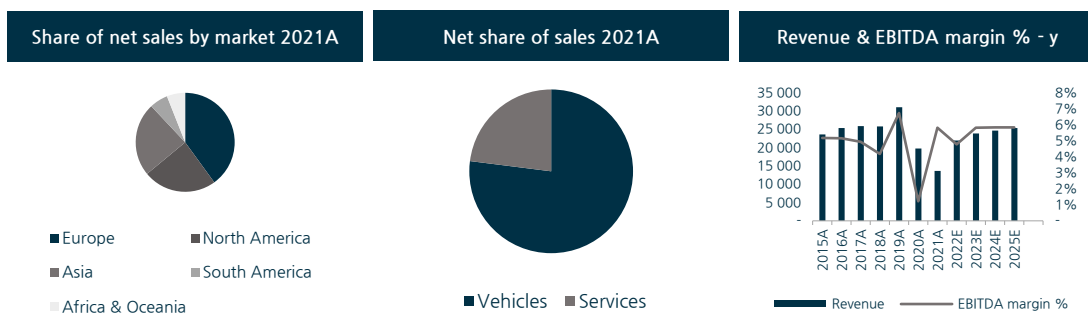
### Construction Equipment

Volvo is one of the largest manufacturers of haulers, wheel loaders & excavators in the world, of which the majority of sales, took place in Asia 40%, Europe 32% & North America 18% 2021A. Volvo also produces road construction machines and compact equipment. The revenue from construction equipment accounts for 24.7% 2021A and 23.1% 2022E. The segment consists of three brands, Volvo, SDLG & Rokbak, which consists of 40%, 60% & 0.2% of deliveries 2021A and of which 0.3% (0.01%) is attributable to fully electric. The majority, 91%, of SDLG's deliveries were attributable to China. The mix between vehicles and services was 86% and 14% 2021A. The average revenue growth and EBITDA-margin 2016-2021A excluding 2020A was 15.1% & 14.4% and 11.2% & 14.4% including 2020A.



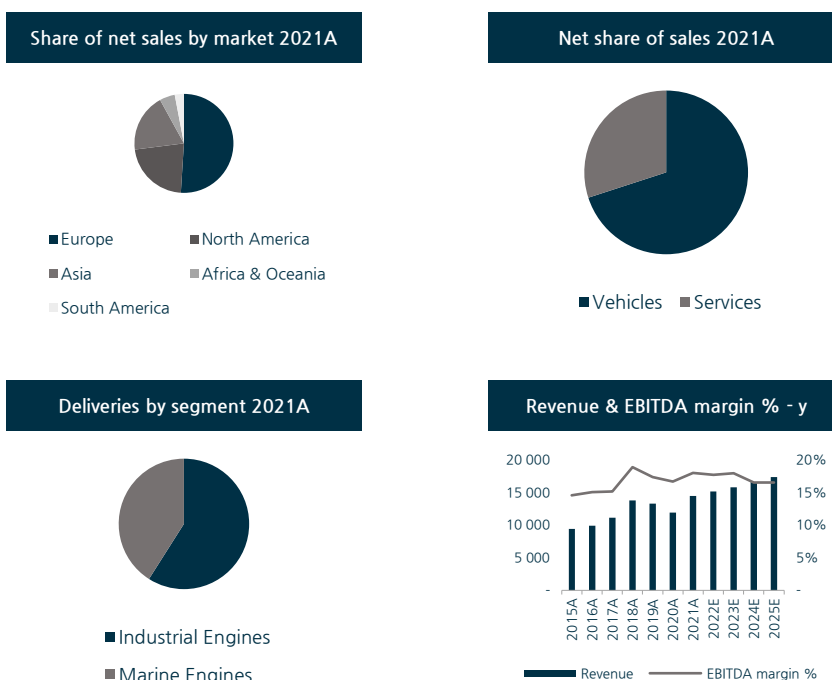
### Buses

The bus segment accounts for 3.7% 2021A & 5.3% 2022E and consists of two brands - Volvo Buses & Prevost. Volvo Buses is one of the market leaders when it comes to the development of sustainable public transportations solutions. Total deliveries of sustainable solutions have increased from 5.6% 2020A to 8.2% 2021A. The mix between vehicles and services was 77% and 23% in 2021A. The average revenue growth and EBITDA-margin 2016-2021A excluding 2020A was (0.3%) & 5.4% and (6.3%) & 4.7% including 2020A.



### Power Solutions

Volvo is a market-leading provider of power systems for industrial offroad & power generation systems and one of the world's largest producers of power systems for leisure boats. The segment consists of both industrial- & marine engines, accounting for 59% and 41% of the segment's sales. The segment, in general, accounts for 3.9% of total sales 2021A & 3.7% 2022E. Total deliveries attributable to sustainable solutions increased from 0 2020A to 39 units 2021A. When it comes to engines and service, the mix was 71% and 29% 2021A. The average revenue growth and EBITDA-margin 2016-2021A excluding 2020A was 11.8% & 16.9% and 8.1% & 16.8% including 2020A.



## Management & Ownership

**Martin Lundstedt**, President and CEO since 2015. Currently Chairman of the Board in Permobil AB, Member of the Board in ACEA Commercial Vehicle and Autoliv AB. Former CEO of Scania. Current holdings: 223 755 B shares.



**Jan Gurander**, Deputy CEO, member of the Executive Board since 2014. Member of the Board in Teknikföretagen and Skanska AB. Current holdings: 83 306 B shares.



**Roger Alm**, Executive VP Volvo Group & president Volvo Trucks. Member of the Executive Board since 2019. Worked at Volvo since 1989. Current holdings: 398 A shares & 26 332 B shares.



**Bruno Blin**, Executive VP Volvo Group and President Renault Trucks. Member of the Executive Board since March 2016. With Volvo since 1999. Current Holdings: 32 033 B shares



### Ownership Structure

Name	Shares %	Votes %
Industrivärden	8.6	27.7
Geely Holding	8.2	16.0
AMF Insurance & Funds	3.4	5.4
Alecta	3.3	4.2
AFA Insurance	0.7	2.3
BlackRock	3.4	2.1
AP4 Fund	0.8	1.7
Norges Bank Investment Management	2.3	1.6
Vanguard	2.5	1.5
Swedbank Robur Funds	3.3	1.4
<b>Total</b>	<b>36.5</b>	<b>63.9</b>
Other	63.5	36.1

## Valuation

The Valuation is based on a discounted cash flow analysis, with a 10 year estimation period to 2031. Since Volvo could be classified as a mature company looking at the growth and margins, the majority of the assumptions are based on averages from 2015 to 2021, excluding 2020, in order to normalize the values, since 2020 was an abnormal year due to Covid. Revenue, EBIT & D&A are divided into their respective segments, in order to give the valuation fairer assumptions, which are presented in the next page. Both the revenue & EBIT assumptions in the years 2022 & 2023 are based on average SME estimates.

The overall free cash flow growth rates decline to approx. 6.6% in the later estimate period. The terminal value is based on an EBITDA multiple of 7.4x representing the 10-year average. The WACC used in the base case is 5.06% and is used through the whole DCF.

Cash Flow (MSEK)	2022E	2023E	2043E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Revenue	410 909	432 795	461 788	492 906	526 318	562 205	592 803	625 202	659 516	695 866
Adj. EBIT	50 185	54 048	44 491	47 604	50 950	54 546	57 680	61 011	64 551	68 315
Non Cash Adjustments	21 169	22 330	23 976	25 743	27 637	29 670	31 649	33 768	36 038	38 471
Change net working Capital	(7 601)	6 464	8 563	9 191	9 868	10 599	9 037	9 569	10 134	10 736
CapEx	13 850	14 594	15 628	16 681	17 811	19 026	20 061	21 158	22 319	23 549
Tax	10 338	11 134	9 165	9 806	10 496	11 237	11 882	12 568	13 297	14 073
<b>Free cash Flow</b>	<b>54 767</b>	<b>44 186</b>	<b>35 112</b>	<b>37 669</b>	<b>40 412</b>	<b>43 355</b>	<b>48 349</b>	<b>51 483</b>	<b>54 838</b>	<b>58 428</b>
<b>DCF</b>	<b>52 128</b>	<b>40 030</b>	<b>30 277</b>	<b>30 917</b>	<b>31 570</b>	<b>32 238</b>	<b>34 219</b>	<b>34 682</b>	<b>35 161</b>	<b>35 659</b>
<i>Revenue growth %</i>	<i>10.40</i>	<i>5.33</i>	<i>6.70</i>	<i>6.74</i>	<i>6.78</i>	<i>6.82</i>	<i>5.44</i>	<i>5.47</i>	<i>5.49</i>	<i>5.51</i>
<i>Adj. EBIT margin %</i>	<i>12.21</i>	<i>12.49</i>	<i>9.63</i>	<i>9.66</i>	<i>9.68</i>	<i>9.70</i>	<i>9.73</i>	<i>9.76</i>	<i>9.79</i>	<i>9.82</i>
<i>Non-cash adjustments % of revenue</i>	<i>5.15</i>	<i>5.16</i>	<i>5.19</i>	<i>5.22</i>	<i>5.25</i>	<i>5.28</i>	<i>5.34</i>	<i>5.40</i>	<i>5.46</i>	<i>5.53</i>
<i>Change net working capital % revenue</i>	<i>(1.85)</i>	<i>1.49</i>	<i>1.85</i>	<i>1.86</i>	<i>1.87</i>	<i>1.89</i>	<i>1.52</i>	<i>1.53</i>	<i>1.54</i>	<i>1.54</i>
<i>CapEx % revenue</i>	<i>3.37</i>	<i>3.37</i>	<i>3.38</i>	<i>3.38</i>	<i>3.38</i>	<i>3.38</i>	<i>3.38</i>	<i>3.38</i>	<i>3.38</i>	<i>3.38</i>
<i>Tax % EBIT</i>	<i>(20.60)</i>	<i>(20.60)</i>	<i>(20.60)</i>	<i>(20.60)</i>	<i>(20.60)</i>	<i>(20.60)</i>	<i>(20.60)</i>	<i>(20.60)</i>	<i>(20.60)</i>	<i>(20.60)</i>

DCF summary		WACC	%
NPV of FCF	356 881	Beta - #	1.208
NPV of TV	482 267	Equity risk premium	5.08
<b>Enterprise value</b>	<b>839 148</b>	Risk free rate	0.35
TV EBITDA multiple	7.4x	<b>Cost of equity</b>	<b>10.80</b>
Net debt	(309 612)	<i>Implied weight of equity</i>	<i>46.87</i>
Other Adjustments	21 224	Default spread	0.40
<b>DCF Value of equity</b>	<b>550 760</b>	<b>After tax cost of debt</b>	<b>0.00</b>
<b>DCF value per share</b>	<b>350.07</b>	<b>WACC</b>	<b>5.06</b>

## Valuation - segment assumptions

Revenue growth rates by segment (%)	2018A	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E - 2028E*	2029E - 2031E*
Trucks	16.52	10.50	(24.72)	10.86	11.52	5.58	6.00	6.00	5.67	5.00
Construction Equipment	27.03	5.18	(8.07)	12.99	2.92	4.65	10.00	10.00	9.00	7.00
Busses	(0.20)	20.11	(36.20)	(31.02)	61.02	8.72	3.00	3.00	3.00	3.00
Volvo Penta	23.57	(3.30)	(10.50)	21.41	4.95	3.95	5.00	5.00	4.00	2.00
Group Functions	10.65	13.77	(6.12)	(0.87)	2.01	3.56	8.00	8.00	8.67	10.00
Financial Services	30.46	109.63	(59.12)	138.97	1.27	1.27	1.27	1.27	1.27	1.27
<b>Total</b>	<b>17.46</b>	<b>10.53</b>	<b>(21.65)</b>	<b>9.98</b>	<b>10.40</b>	<b>5.33</b>	<b>6.70</b>	<b>6.74</b>	<b>6.35</b>	<b>5.49</b>

EBIT margin by segment (%)	2018A	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E - 2028E*	2029E - 2031E*
Trucks	7.81	11.41	7.57	11.85	12.24	12.56	9.48	9.48	9.48	9.48
Construction Equipment	14.39	13.44	11.77	13.29	13.45	13.55	9.64	9.64	9.64	9.64
Busses	2.23	4.31	(2.64)	0.57	2.38	3.42	3.43	3.43	3.43	3.43
Volvo Penta	17.04	14.12	11.79	14.49	14.90	15.12	13.69	13.69	13.69	13.69
Group Functions	18.68	18.60	11.20	23.77	22.32	22.40	22.50	22.50	22.50	22.50
Financial Services	(69.82)	1.27	(9.82)	(26.62)	(39.99)	(39.99)	(39.99)	(39.99)	(39.99)	(39.99)
<b>Total</b>	<b>9.47</b>	<b>11.45</b>	<b>8.21</b>	<b>12.10</b>	<b>12.21</b>	<b>12.49</b>	<b>9.63</b>	<b>9.66</b>	<b>9.70</b>	<b>9.79</b>

D&A % of revenue by segment (%)	2018A	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E - 2028E*	2029E - 2031E*
Trucks	5.13	5.03	7.26	5.77	5.70	5.70	5.70	5.70	5.70	5.70
Construction Equipment	2.21	2.50	2.83	2.28	3.00	3.00	3.00	3.00	3.00	3.00
Busses	1.96	2.42	3.86	5.24	2.40	2.40	2.40	2.40	2.40	2.40
Volvo Penta	1.82	3.21	4.88	3.49	2.80	2.80	2.80	2.80	2.80	2.80
Group Functions	35.56	32.20	33.46	31.96	35.00	35.00	35.00	35.00	35.00	35.00
Financial Services	(46.14)	(19.86)	(91.90)	(31.68)	(30.00)	(30.00)	(30.00)	(30.00)	(30.00)	(30.00)
<b>Total</b>	<b>4.72</b>	<b>4.77</b>	<b>6.09</b>	<b>5.03</b>	<b>5.15</b>	<b>5.16</b>	<b>5.19</b>	<b>5.22</b>	<b>5.29</b>	<b>5.46</b>

\*Average values

WACC %	Share price SEK								Returns %							
	EBITDA multiple x								EBITDA multiple x							
	5.0	6.0	7.0	7.6	8.0	9.0	10.0	5.0	6.0	7.0	7.6	8.0	9.0	10.0		
4.0	284.97	330.75	376.53	403.99	422.31	468.08	513.86	65.76	92.39	119.01	134.99	145.64	172.27	198.90		
4.25	276.61	321.33	366.04	392.87	410.75	455.47	500.18	60.90	86.90	112.91	128.52	138.92	164.93	190.94		
4.5	268.44	312.12	355.80	382.00	399.47	443.15	486.83	56.15	81.55	106.96	122.20	132.36	157.77	183.17		
5.1	250.76	292.20	333.64	358.50	375.08	416.52	457.96	45.86	69.96	94.07	108.53	118.17	142.27	166.38		
6.0	223.19	261.18	299.16	321.95	337.15	375.13	413.12	29.82	51.92	74.01	87.27	96.11	118.20	140.29		
7.0	196.27	230.91	265.56	286.35	300.21	334.85	369.50	14.16	34.31	54.47	66.56	74.62	94.77	114.93		
8.0	171.64	203.27	234.90	253.87	266.53	298.15	329.78	(0.16)	18.23	36.63	47.67	55.03	73.43	91.82		



## Risks

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### Macro & market

The main risks in this section are both inability to adapt to large changes in demand, which could have a negative impact on the earnings as well as financial position due to inefficiency in production. The other risk is that Volvo operates in a cyclical commercial vehicle industry affected by the operational regions GDP and demand for their products. However, Volvo operates in ~190 countries, creating a more diversified customer portfolio. Since Volvo operates in a highly competitive market, there's always a risk that new competitors could enter the market, therefore Volvo could lose market shares.

### Operational

Since the world is transforming towards more sustainable as well as increased demand for digitalized & autonomous solutions, the main risk is that Volvo unsuccessfully satisfies these demands resulting in a negative impact on earnings and market shares. Other risks such as inability to satisfy deliveries due to e.g., shortages in components and increased commodity prices affect both profitability and the brand as a whole negatively.

### Financial

As mentioned earlier, the world is transforming towards sustainability, thus increased R&D costs are to consider. Looking at the currency risks, ~95% of Volvo's net sales are generated outside, which could fluctuate the cashflows Y-Y & Q-Q. There's also a risk related to fluctuations in interest rates, which could affect the cashflows Y-Y & Q-Q.

## Case Summary

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Volvo operates through four main segments, Trucks, Construction Equipment, Buses & Volvo Penta, where Trucks is the largest segment consisting of 63% of total revenue. Volvo has had a good historical financial performance during the latest years, with both increasing earnings and dividends excluding 2020. It's fair to believe that Volvo's operations will revert to their normal state and even increase performance based on overall market outlook and orders in form of the major transformation towards sustainable solutions and demand for Volvo's products.

Competent management team with years of experience in the industry combined, leading Volvo in the right direction, together with major institutional investors.

The major risks to take into consideration are inability to satisfy the demand due to shortages of essential components, resulting in lower revenue growth and inability to satisfy the transformation towards sustainable solutions. The later could also lead to higher R&D costs, affecting the profits.

This case is aimed towards those who diversify the risk in a more high-risk portfolio, through stable cash flows and dividends, in contradistinction to companies without positive cash flows and or profits.

The fair value in this case ranges between SEK 124.04 - 505.30. The fair value in the base case is estimated to SEK 349.98, with an upside of 103.65%.

## Disclosures & disclaimers

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