

Well positioned to capitalize on the automation trend

- High growth in automation and e-commerce trends acts in Troax's favor
- Due to Russian-Ukraine crisis, weaker Q4 gross margins might not recover as expected
- Order entry increased 26.7% y/y and sales 44.2% y/y
- Target price set to SEK 272,25, recommendation HOLD

Company Background

Over 60 years ago, four innovative brothers decided to establish Troax with one single goal in mind; contributing to a safer world. Today, Troax is the global market leader of storage solutions and protective equipment. The company manufactures metal based mesh panels, which are devoted to protect people, process and property. Troax possesses approximately 15% of the global niche market and is represented on all continents, with retailers in more than 40 countries. Major shareholders consists of Latour controlling 30.1%, an investment company with strong track record within the industrial sector. Thomas Widstrand, the President and CEO of Troax since 2008, is also a major holder with 5.8% of the capital.

Investment Thesis

Competition and price squeezes are repeatedly increasing. Automation is a key to lean procurement that could help businesses remain profitable. In 2020, digital process automation market was estimated to a value of USD 7.8 billion. As the trend of digital technology is growing at a fast pace, the market is expected to reach a value of USD 16.12 billion by 2026 at a CAGR of 12.8%. This trend has not only contributed to continued high market activity within e-commerce, but also with an increased demand for industrial robots. Troax's business model is divided into three business areas; machine guarding, warehouse partitioning and property protection. The market for machine guarding accounts for the majority of revenues and is forecasted to grow by 7-8% annually. Furthermore, the market segment warehouse partitioning is expected to grow 3-4% and property protection approximately 2-3% on a yearly basis. Today's industries, warehouses and properties requires a higher degree of safety than ever before, such as the ISO 14120. Together with a rising trend within automation, e-commerce and industrial robots, the demand for Troax's mesh based panels is projected to increase.

In the end of 2016, Troax acquired Folding Guard, a market-leading manufacturer of net panels in the US. In Q4 report of 2021, Troax reported a yearly growth in sales of 79.1% in the North America region. As a consequence of modernized technology and a large amount of digital process automation retailers, North America is expected to experience significantly growth in the next couple of years. Thus, Troax is well positioned to capitalize on the automation trend. Through selective acquisitions of manufacturers and a continued dedication in the process of developing a global expansion strategy, Troax can empower its business to achieve higher growth in the long run.

Analyst

Olle Dahlberg Head of ERG

Key Data

Exchange	Large Cap Stockholm
Sector(s)	Industrials
Full Time Employees	1,102
Share price (SEK)	243
MCap (SEKm)	14,580
No. shares (m)	60
Free float (%)	64

Share Price 12M



Rating

Current price	243
Target price	275,25
Target price upside	13%
Recommendation	Hold

Major Shareholders

	Votes (%)	Capital (%)
Latour	30.1	30.1
Thomas Widstrand	5.8	5.8
State Street Bank & Trust Co	4.9	4.9
Svolder	4.3	4.3

Valuation & Risks

Based on a discounted cash flow model, the stock's target price is SEK 272,25. Target price implies an upside of 13% from current price at SEK 243. Troax is estimated to trade at approximately 20x 2023e EV/EBITDA and 4.5x EV/Sales, which could be perceived as expensive in comparison to peer's average of 17x 2023e EV/EBITDA and 2.5x EV/Sales. However, a market-leading company with an incredible track record and increasing opportunities driven by automation and e-commerce trends deserves a high valuation. Despite the upside of 13% in a base case scenario, the recommendation is HOLD, on grounds of the rapidly increasing market risk affected by the Russian-Ukraine conflict.

Troax is undoubtedly a quality company that has demonstrated strong financial momentum over the last couple of years. In Q4 of 2021, Troax reported an impressive order entry and sales increase of 26.7% y/y respectively 44.2% y/y. According to the DCF model, Troax revenues will grow approximately 12.5% in average on an annual basis during 2022-2024, and 9.72% during the following period 2025-2031. The industry is represented by a large amount of local providers, which lags behind in development of manufacturing metal based mesh panels. Thus, Troax has been able to command premium prices and retain high profit margins of approximately 20%.

Troax's CEO, Thomas Widstrand, announced that weaker Q4 gross margins were a consequence of late delivery of commodities and additional costs related to the acquisition of Natom Logistics. Furthermore, Widstrand indicated that price effects should have a positive impact of the gross margins already in Q1 of 2022. However, market exceptions for gross margins to bounce back already in Q1 do not match up with reality for primarily one reason; the Russian-Ukraine crisis. Russian's invasion of Ukraine has strengthened the fear of long-term inflation, especially in the manufacturing sector. Even if Troax sales descend from other countries, both Russia and Ukraine are major providers of commodities such as metal and steel. The cost of production is likely to accelerate in both the short and long term, as the western world probably will redirect the resource extraction in order to become independent from Russia in the future. Therefore, the DCF applies conservative and more realistic estimates regarding the forecast of COGS and profitability margins.

Gross margins are expected to decline further, with an average of 34.63% during 2022-2024, compared to 35% in Q4 2021. Troax's customer base consists of industrial manufacturers with an average order size of approximately EUR 3000 per order and EUR 10 000 per client annually. Despite the fact that the industry sector is characterized by low barriers to entry, there are only a few other manufacturers which can be regarded as global competitors. Furthermore, the metal based panels often accounts for a small part of the clients total investment, which indicates that the customer base is characterized by low price sensitivity. Troax is also market-leading and has prepared with increased inventory levels to minimize delivery delays to clients, hence it is reasonable to assume Troax will be able to raise their output prices in order to compensate for higher cost of production. Previously

Case Summary

Taken together, Troax is certainly standing on the cusp of an exciting future. One could argue that Troax's performance over the coming year lies in the hands of macroeconomic variables such as inflation, resource extraction and interest rates. On the contrary, their market-leading position in combination with increasing market activity in both e-commerce and automation could launch Troax into a new growth cycle. Robot workers are being hired at record rates in North America, which correlates with Troax's revenue growth of 79.1% in the US. Furthermore, digital technology is projected to grow at a CAGR of 12.8% 2021A-2026E. Thus, further acquisitions and globally expansion in countries characterized by high growth can be crucial in a long-term perspective. Fluctuations in commodity prices due to Russian-Ukraine conflict are disquieting and margins are expected to decline. However, Troax will remain highly profitable and will eventually be able to compensate the higher cost of production by increased prices. Based on a discounted cash flow and peer analysis, a target price of 275,25 with an upside of 13% is justified. Recommendation is rated with HOLD, due to increasing uncertainty in the market.

Appendix

Peer table	MCap (SEKM)	Price (SEK)	P/E Ratio		EV/EBITDA		EV/Sales	
			2022e	2023e	2022e	2023e	2022e	2023e
Beijer Alma	13 740	228	21,9	20,0	14,0	12,2	2,7	2,5
Instalco	17 979	69	29,7	26,7	18,7	17,1	1,9	1,8
Bufab	11 814	310	22,1	20,6	13,1	12,1	1,9	1,8
Garo	7 130	142,6	41,5	33,5	27,8	22,7	4,8	3,9
HMS Networks	18 774	401	47,6	42,9	30,8	28,0	8,4	7,7
Concentric	8 215	215	18,4	17,2	11,2	11,3	2,5	2,4
Median	12 777	221	25,90	23,65	16,35	14,65	2,64	2,46
Average	12 942	228	30,20	26,82	19,27	17,23	3,72	3,36
Troax Group	14 580	243	33,0	30,4	21,7	20,2	5,0	4,4
Troax vs, Median	14%	10%	28%	29%	33%	38%	88%	79%
Troax vs, Average	13%	7%	9%	13%	13%	17%	33%	31%

DCF MSEK	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e
Sales	3 051	3 439	3 810	4 218	4 655	5 124	5 618	6 145	6 703	7 294
Growth (%)	14%	13%	11%	11%	10%	10%	10%	9%	9%	9%
EBITDA	695	750	815	892	974	1 060	1 149	1 243	1 341	1 444
% margin	23%	22%	21%	21%	21%	21%	20%	20%	20%	20%
D&A	110	116	121	129	137	145	152	160	168	175
% of sales	4%	4%	4%	3%	3%	3%	3%	3%	3%	2%
EBIT	585	634	693	763	837	915	997	1 083	1 174	1 268
% margin	19%	18%	18%	18%	18%	18%	18%	18%	17%	17%
Taxes	133	144	158	173	190	208	227	246	267	288
% of EBIT	23%	23%	23%	23%	23%	23%	23%	23%	23%	23%
Capex	99	110	119	125	131	137	143	148	154	159
% of sales	3%	3%	3%	3%	3%	3%	3%	2%	2%	2%
ANWC	85	-32	-21	-21	11	-11	16	18	20	21
Unlevered FCF	378	528	559	615	642	725	764	831	901	975
NPV of FCF	355	465	463	478	468	497	492	502	511	519

Assumptions	
TGR	2%
WACC	7%

Intrinsic value	
Unlevered FCF (m)	6 918
NPV of FCF (m)	4 751
Terminal value (m)	23 077
Net debt (m)	530
NPV of TV (m)	12 294
Enterprise value (m)	17 045
Equity value (m)	16 515
No. shares (m)	60
DCF value/share	275,25

Profit & Loss - Annual Data (MSEK)	2016	2017	2018	2019	2020	2021	2022e	2023e	2024e
Sales	1 227	1 611	1 707	1 782	1 734	2 674	3 051	3 439	3 810
COGS	-710	-975	-1 032	-1 071	-1 054	-1 676	-1 971	-2 255	-2 514
Gross profit	517	636	674	711	681	999	1 081	1 184	1 297
Other operating income & costs	-220	-279	-297	-299	-272	-338	-386	-435	-482
EBITDA	297	357	377	412	408	660	695	750	815
Depreciation PP&E & Amortization	-29	-33	-30	-64	-82	-105	-110	-116	-121
EBIT	268	324	348	349	326	555	585	634	693
Net interest expenses	-41	-54	-8	-11	-7	-11	-11	-11	-11
EBT	227	270	339	338	319	545	574	623	683
Paid tax	-54	-89	-81	-81	-73	-124	-133	-144	-144
Net income	173	181	259	258	246	421	441	479	539

Growth Y/Y (%)	2016	2017	2018	2019	2020	2021	2022e	2023e	2024e
Sales	-	31,3	5,9	4,4	-2,7	54,2	14,1	12,7	10,8
COGS	-	37,3	5,9	3,7	-1,6	59,1	17,6	14,4	11,5
Gross profit	-	23,0	6,0	5,5	-4,3	46,7	8,2	9,6	9,5
EBITDA	-	20,4	5,6	9,3	-1,0	61,8	5,2	7,9	8,7
EBIT	-	20,9	7,2	0,3	-6,4	70,1	5,3	8,4	9,4
EBT	-	19,2	25,5	-0,3	-5,6	70,8	5,4	8,6	9,5
Net income	-	4,9	42,7	-0,4	-4,5	71,1	4,9	8,6	12,4

Margin (% of sales)	2016	2017	2018	2019	2020	2021	2022e	2023e	2024e
Gross margin	42,1	39,5	39,5	39,9	39,2	37,3	35,4	34,4	34,0
EBITDA	24,2	22,2	22,1	23,1	23,5	24,7	22,8	21,8	21,4
EBIT	21,8	20,1	20,4	19,6	18,8	20,8	19,2	18,4	18,2
EBT	18,5	16,8	19,9	19,0	18,4	20,4	18,8	18,1	17,9
Net income	14,1	11,3	15,2	14,5	14,2	15,7	14,5	13,9	14,1

Per share data (SEK)	2016	2017	2018	2019	2020	2021	2022e	2023e	2024e
No. shares (m)	60	60	60	60	60	60	60	60	60
Share price YE/Current	65	93	85	121	192	464	243		
Share price high	66	102	107	127	207	469	468,5		
Share price low	30,7	59	74,5	81,2	71	195	206		
MCap (m)	3 882	5 568	5 088	7 260	11 520	27 810	14 580		
Net debt (m)	578	535	469	517	516	599	530		
EV (m)	4460	6 103	5 557	7 777	12 036	28 409	15 110		
EPS YE	2,88	3,02	4,31	4,29	4,10	7,01	7,36	7,99	8,98
P/E YE	22,47	30,72	19,67	28,19	46,84	66,09	33,02	30,42	27,06
EV/EBIT YE	16,63	18,81	15,98	22,30	36,86	51,15	25,84	23,84	21,79
EV/EBITDA YE	15,03	17,08	14,73	18,86	29,49	43,02	21,75	20,16	18,54
EV/Sales YE	3,63	3,79	3,26	4,36	6,94	10,62	4,95	4,39	3,97

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