

SkiStar (SKIS B)- Market leading position allows high margins



Business Description

Sector: Consumer Discretionary

Mkt Cap (MSEK): 9 170

SkiStar is the leading operator of ski resorts in Sweden and Norway with a market share of 47% and 30% respectively. The company owns a total of six resorts, including Åre, Sälen and Trysil, as well as St Antonn in Austria. SkiStar offers all services needed around their ski resorts including ski rental, ski schools and various forms of accommodation.

Investment Thesis

SkiStar are able to grow and maintain an EBIT-margin above 20% in the next 5 years.

- SkiStar has a market share of 47% in Sweden and 30% in Norway, making SkiStar the leading operator in the region. As a result, SkiStar is the first choice for many customers. This allows SkiStar to have a high degree of pricing power.
- In combination with effects of economies of scales, the pricing power allows the company to maintain an EBIT-margin above 20% during the next 5 years.
- In addition to increased revenues from SkiPasses, sales of equipments, clothes and properties further contributes to higher revenues. As a result, a CAGR of 7.4 % is estimated in the next 5 years.

High level of investments allows continuous growth and maintaining of high margins in the long term.

- Historically, SkiStar has invested around 15% of total revenues in infrastructure around their ski slopes, which indicates a long-term strategy. This also allows Skistar to grow and maintain their strong market position as they are able to maintain a higher investment budget than any other competitor, while continue offering their customers a complete experience.
- Investments in snow production has drastically decreased SkiStar's dependence on weather conditions.

DCF valuation indicates a value per share of 110 SEK, indicating that the share is fairly priced currently.

- Given a WACC of 7.6%, a DCF valuation indicates that the company is fairly priced.
- The share is currently trading at an EV/EBIT multiple of 16.8x, which is slightly below the 5-year average of 17.5x.
- A share price around 100 SEK, which is 10% below the value that the DCF indicated, could offer an attractive entry to this high-quality company. With a high ROIC of over 10%, an FCF-Yield of 5.4% in 2019-2020 and continuous good cash flow generation in the following years, SkiStar can be a wise long-term investment.

Current Price

117.4 SEK

Buy Range

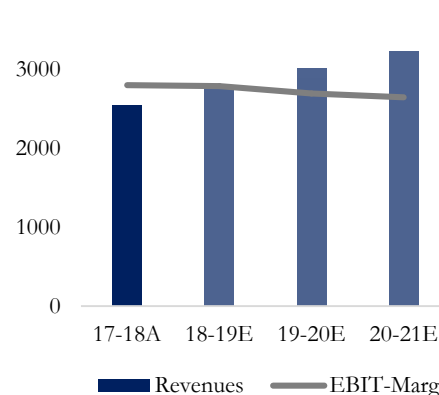
< 100 SEK

Sell Range

> 132 SEK

PNL (MSEK)	17-18A	18-19E	19-20E	20-21E
Sales	2 548	2 772	3 008	3 228
Growth	10.2%	8.8%	8.5%	7.3%
EBIT	611	662	694	734
EBIT Marg	24.0%	23.9%	23.1%	22.7%
Earnings	486	493	525	565
Key Ratios	17-18A	18-19E	19-20E	20-21E
EV/EBITDA	12.9	12.0	11.3	10.5
EV/EBIT	18.3	16.9	16.1	15.2
P/E	18.4	18.1	17.0	15.8
ND/EBITDA	2.8	2.4	2.1	1.8
ROIC	10.1	11.6	11.9	12.5
FCF-Yield	4.7	4.9	5.4	5.8

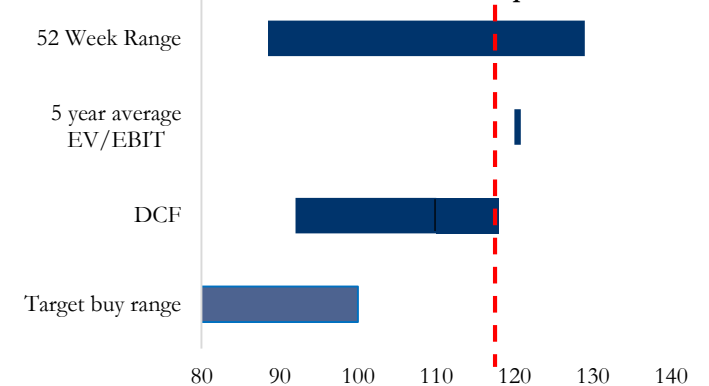
PnL Estimates



Share performance



Current price



Strategy

- SkiStar has acted as a consolidator on both the Swedish and Norwegian markets. While this reduced their dependence on local conditions and macro effects, it is also allowing effects of economies of scale. Another area in focus for SkiStar is digitalization, since most sales are attributed to their website. Their customer club has over 780 000 members while 80% of their customers use their app where they can track and compare their activity in the slopes.

Customers

- SkiStar mainly targets families. With several activities for children both in and around the ski slopes, and an efficient booking system on SkiStar.com, Skistar is the first choice for many Nordic families.

Sales

- SkiStar offers all services needed by its customers, which creates synergies as customers can order all services needed at the same place. The sales of SkiPasses is SkiStar's primary source of revenues followed by accommodation and sale of properties.

Margins

- High barriers of entry allows SkiStar to increase their overall prices. The revenues per sold ski pass increased by 6.8% YoY in 2018-2017 and by 5.8% YoY in 2017-2016.

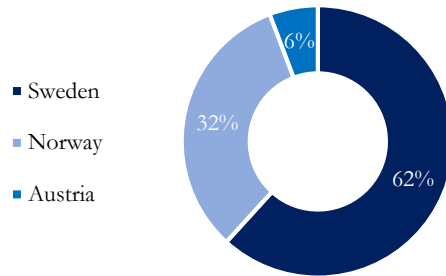
Founders are still largest owners

- SkiStar is owned by the founders Mats and Erik Paulsson who together with their respective families holds 46.4% of the shares and 62.2% of the votes.

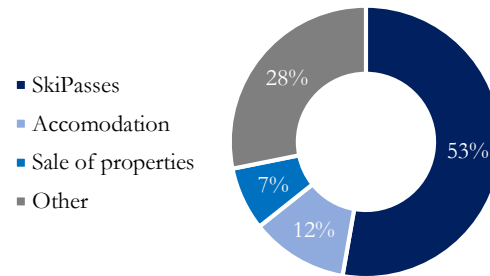


Locations	1000s sold ski passes 2017-18A
Åre (Swe)	1 265
Vemdalen (Swe)	760
Trysil (Nor)	1 128
Sälen (Swe)	1 675
Hemsedal (Nor)	661
+ St. Johann (Aus)	317

Sales per country



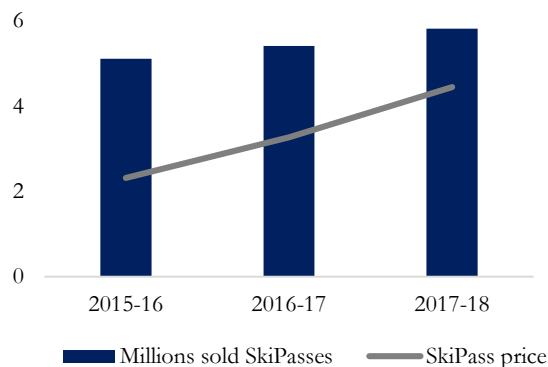
Sales per segment



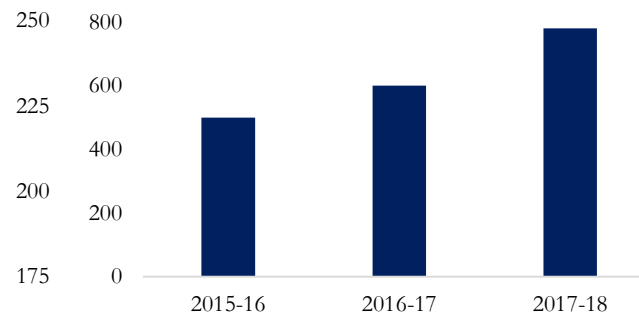
5 Largest Owners

	Shares	Votes
Mats & Fredrik Paulsson incl. Families	24.2%	46.6%
Erik Paulsson incl. Family	22.3%	15.7%
Swedbank Robur Funds	4.8%	3.4%
Nordea Investment Funds	3.3%	2.3%
Lima Jordägande Sockenmän	2.3%	1.6%

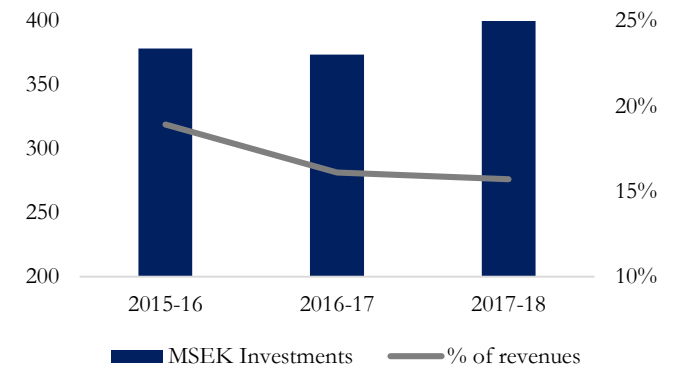
SkiPasses sales



MySkiStar: 1000s members



PPE Investments



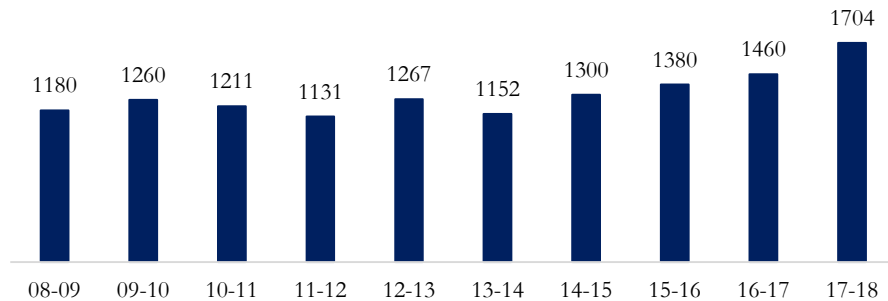
Market Outlook

- Total revenues from ski passes in the Swedish market has grown by a CAGR of 3.7% in the past 10 years. The Norwegian market grew accordingly at a CAGR of 3.2%.
- SkiStar has expected the overall market to continue grow at a slightly faster pace than the overall economy over time, which according to the National Institute of Economic Research (KI) is expected to grow 1.5-1.6% yearly during the next 3 years.
- Both the Swedish and Norwegian markets are fragmented, consisting mainly of small companies owning one ski resort each. An exception is Alpinco, which has a 10% of market share in Norway.
- Companies such as Campagnie des Alpes in France and Vail Resorts in the US are two similar companies that have acted as consolidators of their respective markets. As there are significant advantages associated with being a large operator, this has also been a strategy for SkiStar.

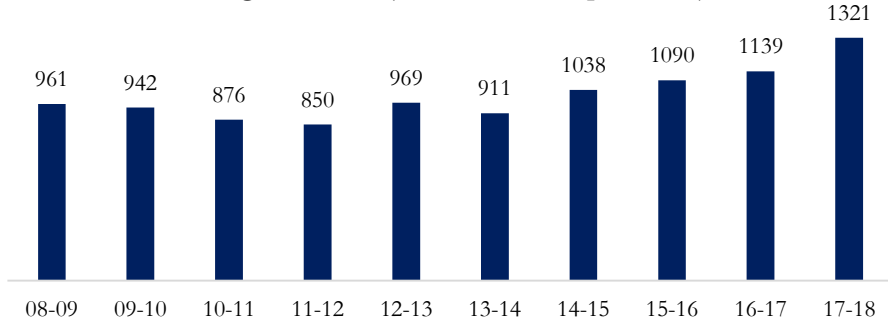
Macro Outlook

- SkiStar's operations are affected by the business cycle. As seen on the upper right graph, the market growth is correlated with the unemployment level, which is a lagging indicator. This means SkiStar can continue grow until late into the cycle. It should also be noticed that the fact that families are the company's main target customers makes the business a bit less prone to be affected by slowdowns in the economy.
- The Swedish currency affects SkiStars' operations. The effects of a weak SEK means Swedish travelers will prefer the Swedish resorts over the Alps, while Sweden will be a more attractive destination for foreign travelers.
- Relating to the long term, disposable incomes has increased steadily in the Nordic households which contributes to increased travelling. In addition, the Swedish government has proposed an increased number of vacation days for parents during school holidays which may benefit SkiStar.

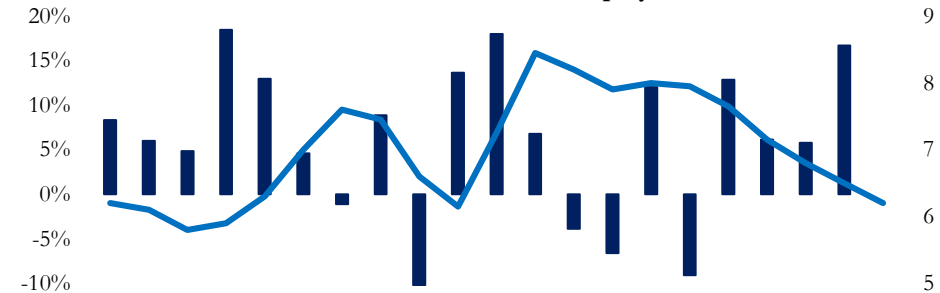
Swedish Market (Total MSEK skipass sales) 2008-2018



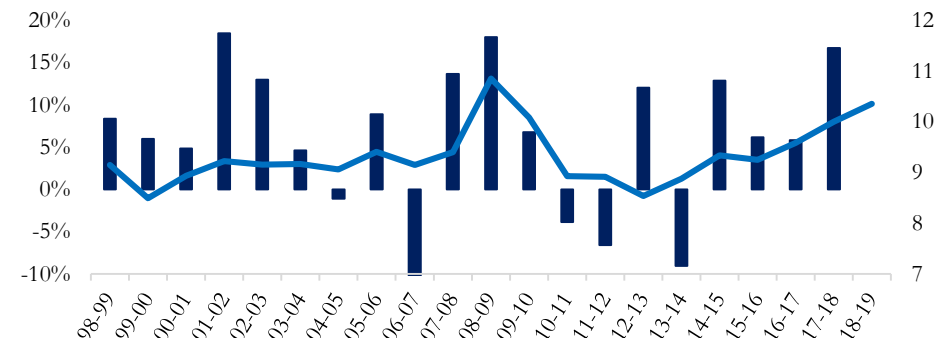
Norwegian Market (Total MNOK skipass sales) 2008-2018



Swedish Market Growth & Swedish Unemployment, 1998-2019



Swedish Market Growth & EUR/SEK, 1998-2019



Sales

- Revenues are estimated to grow from 2 548 MSEK to 3 635 MSEK from 2017-18A until 2022-23E, representing a CAGR of 7.4%. To a large extent, this is driven by the sales of SkiPasses, as SkiStar are estimated to increase sales volume by a CAGR of 3.4% during the next 5 years. Furthermore, SkiStar are expected to be able to increase their prices. Average revenues per sold SkiPass (1 person and day) is estimated to increase from 230 SEK to 300 SEK during the next 5 years.

EBIT-margin

- EBIT-margin is estimated to be relatively stable during the next 5 years as SkiStar are able to maintain their leading market position. An EBIT-margin of 22.7% is estimated in 2020-21E.

Net Debt/EBITDA

- A Net Debt/EBITDA of 1.8x is estimated in 2020-21E, down from 2.8x 2017-18A. It is likely that SkiStar will make larger investments in new or existing resorts as the debt decreases. Although not part of our estimates, this could potentially further contribute to higher revenues long term.

Free Cash Flow & ROIC

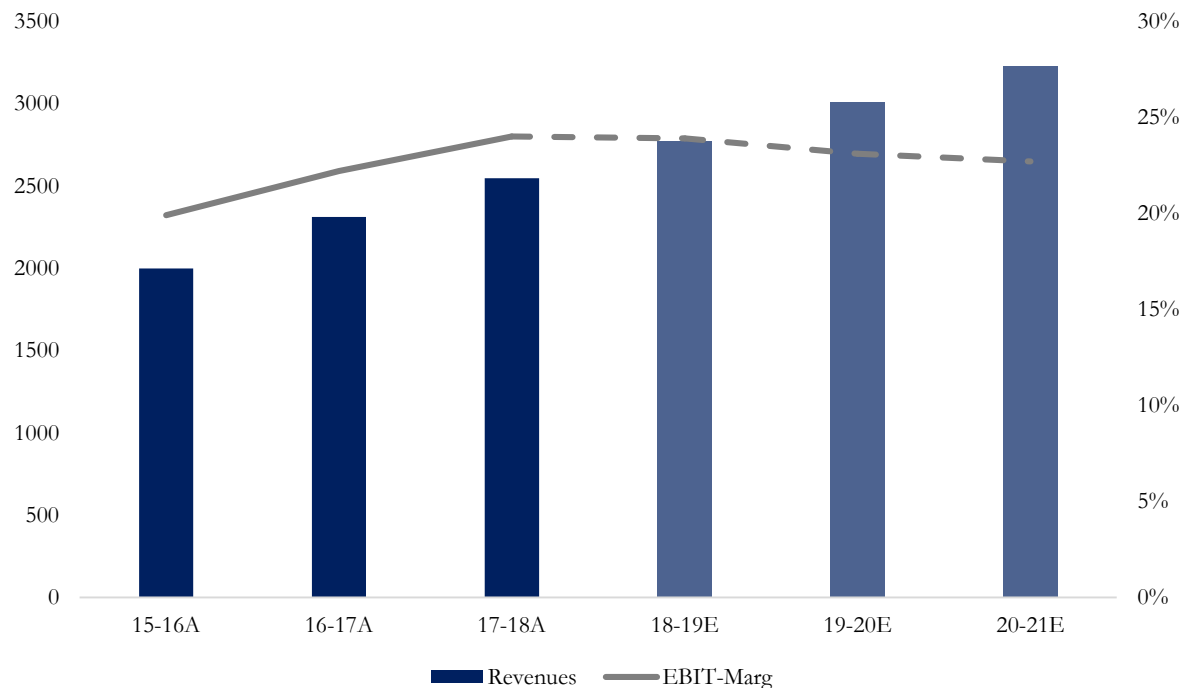
- Free cash flow of 511 MSEK is estimated in 2020-21E, resulting in a FCF Yield of 5.8%, while FCF-margin is estimated to 15.8%. ROIC is estimated to 12.5% during the same year.

PNL (MSEK)	17-18A	18-19E	19-20E	20-21E
Sales	2 548	2 772	3 008	3 228
Growth	10.2%	8.8%	8.5%	7.3%
OPEX	-1 692	-1 882	-2 043	-2 194
EBITDA	865	934	994	1 064
EBITDA Marg	33.9%	33.7%	33.0%	33.0%
D&A	-254	-272	-300	-329
EBIT	611	662	694	734
EBIT Marg	24.0%	23.9%	23.1%	22.7%
Earnings	486	493	525	565
EPS	6.2	6.3	6.7	7.2

Cash Flow (MSEK)	17-18A	18-19E	19-20E	20-21E
OCF	768	740	817	887
Investing	-394	-344	-373	-400
Δ NWC	-89	6	22	24
FCF	285	401	466	511
FCF Marg	11.2%	14.5%	15.5%	15.8%

Ratios	17-18A	18-19E	19-20E	20-21E
ROIC	10.1%	11.6%	11.9%	12.5%
ROE	21.6%	19.4%	18.8%	18.4%
ROA	10.4%	10.0%	10.3%	10.9%
Dividend Yield	2.4%	2.8%	2.9%	3.2%
FCF Yield	4.7%	4.9%	5.4%	5.8%
Net Debt/EBITDA	2.8x	2.4x	2.1x	1.8x

Estimated Sales (MSEK and EBIT Margin)



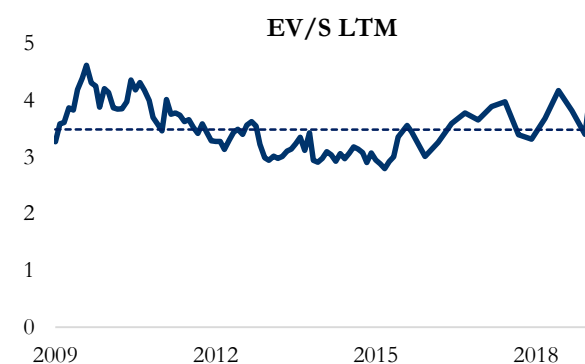
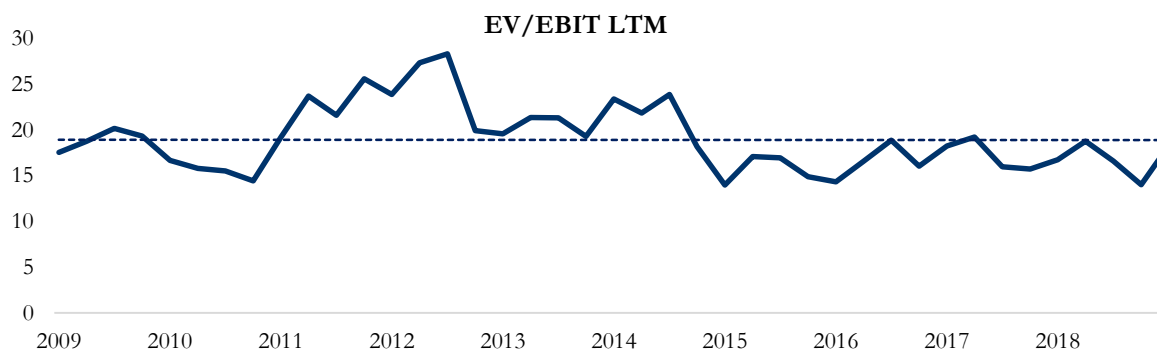
Both according to a DCF valuation and looking at historical multiples, SkiStar seems to be fairly priced currently, which results in a hold recommendation.

- Using a WACC of 7.6%, a DCF analysis implies a value per share of 110 SEK, which indicates a roughly fairly valued share currently. In a scenario where growth slows down quickly while margins decreases implies a share price of 92 SEK, while a more positive scenario where SkiStar are able to maintain their current high growth and high margins for another 5 years indicates a share price of 118 SEK.
- SkiStar is currently trading at a trailing EV/EBIT multiple of 16.8x, slightly lower than the 5-year average multiple of 17.5x. However, since 2014, ROIC has increased from around 6% to 10% in 2017-18A. While this could motivate a higher valuation than what we see currently, it's possible that the market is starting to price in a bit slower growth.
- As the fundamentals for the company are looking good, we believe that SkiStar is a company to keep an eye on and buy if the price comes down a bit. A price of 100 SEK per share could be a good target for entry, which is 10% below the price implied by the DCF. As mentioned, SkiStar has a strong and stable market position on a market that slowly is growing. Looking at 2019-20E, the ROIC is estimated to 11.9 %, while FCF-yield is estimated to 5.4 %. But just as the founders of the company, it will likely be a good idea to stay with the company for a longer period.

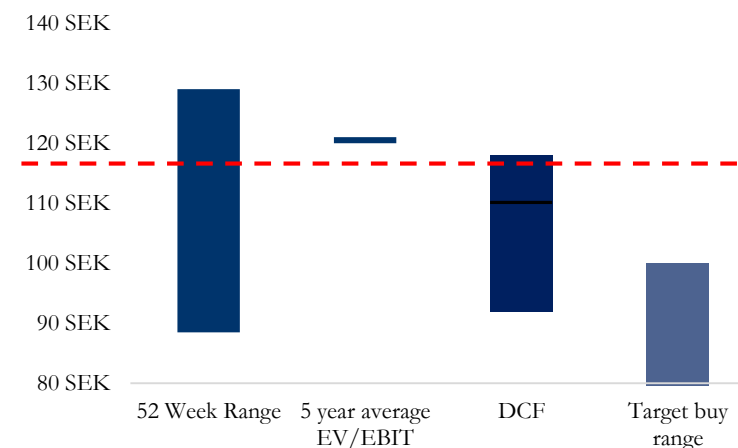
Valuation Metrics	17-18A	18-19E	19-20E	20-21E
EV/S	4.4	4.0	3.7	3.5
EV/EBITDA	12.9	12.0	11.3	10.5
EV/EBIT	18.3	16.9	16.1	15.2
EV/FCF	26.6	25.7	23.3	21.7
P/E	18.4	18.1	17.0	15.8
P/B	3.7	3.3	3.0	2.8

DCF Output (MSEK)

FCF Build Up (5 year)	2 180
WACC (%)	7.6
Terminal Growth (%)	2.0
Terminal Value (Gordon)	8 530
Enterprise Value	10 709
Equity Value	8 272
Implied Value per Share (SEK)	110.3
Current share price	117.4



Terminal growth (%)	WACC (%)				
	6.5	7.0	7.5	8.0	8.5
1.0	121	108	97	87	79
1.5	133	117	105	94	85
2.0	147	129	114	102	91
2.5	165	143	125	111	98
3.0	188	160	139	121	107



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