

Green Landscaping Group AB

Sweden | Maintenance of Outdoor Environments | MCAP 914.7 SEKm

Buy

Target Price SEK 39.51
Current Price SEK 25.40
Up/downside 55.6%

A non-cyclical serial acquirer capitalizing on a fragmented green market

Green Landscaping Group AB (“Green Landscaping”, “The Company”) is a leading Nordic full-service provider of landscaping and maintenance services for outdoor environments. The Company has an aggressive acquisition strategy, consolidating the Swedish fragmented SEK 20.6bn market. A declining Net Debt/EBITDA estimated to reach 2.6x by 2021 and cash conversion rate of 4.4¹ indicates liquidity for future acquisitions. We estimate further acquisitions, at the historical range of EV/EBITDA 2.5-5x. This in turn will further drive the value creation and incremental growth (8.3% RONIC 2019). Applying target EV/EBITDA multiple of 9.6x, implies a share price of SEK 39.51 on 2020E EBITDA and a 55.55% upside.

High cash conversion ratio provides room for further acquisitions

There is an ongoing declining trend in their Net Debt/EBITDA, currently at 4.2x and is expected to reach their long-term goal of 2.5x by the start of 2022 given that they remain at a similar net debt level. A healthy cash conversion ratio of 4.4, suggest that Green Landscaping will be able to continue to acquire and consolidate the market going forward. Furthermore, as Green Landscaping is acquiring companies to an EBITDA-multiple of 2.5 to 5x, which is below their own of 10.03x it's expected that the company will be able to sustain a good RONIC alongside their margin expansion.

Capitalizing on a fragmented market in the Nordic region

The Swedish market for ground maintenance services is characterized by non-cyclical and fragmentation. There are c. 6,300 companies and the public service contracts span 5-10 years amounting to SEK 10-15m per year, providing a recurring stream of revenues. Green Landscaping has an 8.1% market share of the SEK 20.6bn Swedish market, the market is expected to market grow with a CAGR of 4.7% to 2020E. The remaining Nordic markets add up to SEK 30-36bn and are collectively growing on average by 4% annually.²

Economies of scale and value-creating acquisitions

Svensk Markservice synergy contribution is estimated to SEK 25m per year 2020 onwards. The integration of acquired companies has been successful, leading to a cost reduction in relation to sales thus gaining economies of scale. Between 2016 and 2019, EBITDA grew with a CAGR of 83% whilst sales grew by 43% annually. EBITDA is estimated to grow with a CAGR of 19% resulting in a margin expansion from 9.5% to 11.5% by 2022E. Lastly, Green Landscaping has a proven track record of creating value with a RONIC of 8.3%, which is expected to increase as profitability improves.

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Market Data

Listing Venue	NASDAQ Small Cap
Price (SEK)	25.4
No. of outstanding shares (m)	36.0
Market Cap (m)	914.7
Cash & Cash Equivalents (m)	44.5
Debt (m)	734.8
Net Debt (m)	690.3
Enterprise Value (m)	1 605.6

Key Financials (SEK)

	19A	20E	21E	22E
Sales (m)	1 992.6	2 317.0	2 547.9	2 802.9
Sales Growth y/y	68.9%	16.3%	10.0%	9.6%
Gross Profit (m)	1 142.1	1 274.4	1 414.1	1 569.6
Gross Margin	57.3%	55.0%	55.5%	56.0%
EBITDA (m)	163.9	220.1	267.5	322.3
EBITDA – Margin	8.2%	9.5%	10.5%	11.5%
EBIT (m)	28.7	64.7	96.6	134.3
EBIT – Margin (%)	1.4%	2.8%	3.8%	4.8%
Net Income	7.2	29.0	53.9	83.6
Profit Margin (%)	0.4%	1.3%	2.1%	3.0%

Key Ratios (SEK)

	19A	20E	21E	22E
EV/Sales	0.8x	0.7x	0.6x	0.6x
EV/EBITDA	10.0x	7.5x	6.1x	5.1x
EV/EBITA	28.7x	16.5x	12.2x	9.3x
Net Debt/EBITDA	4.2x	3.1x	2.6x	2.1x

Share price



Major shareholders

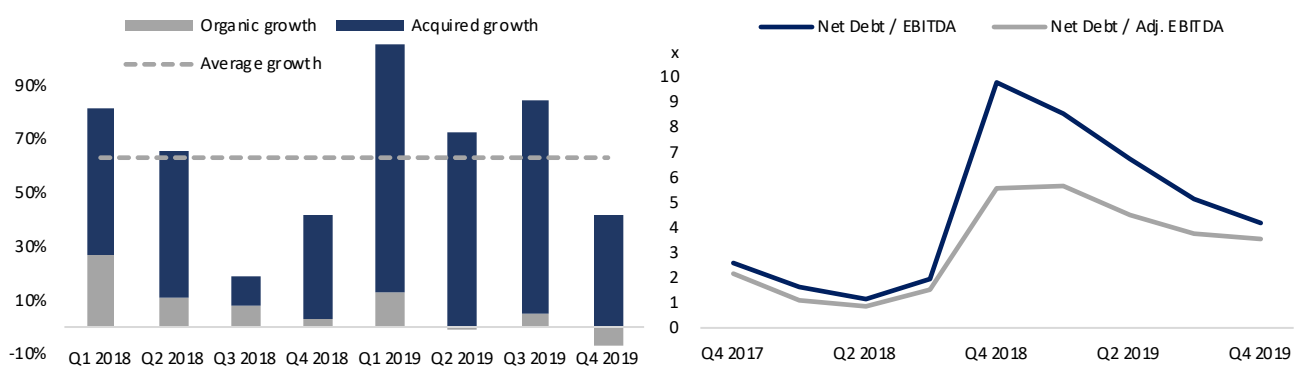
Byggmästare Anders J	21.2%
Ahlström Holding AB	
Salén Family	18.7%
Johan Nordström	10.4%
AFA Försäkring	6.3%
Per Sjöstrand	4.6%
Tredje AP-fonden	4.6%
Peter Lindell	2.8%
Total	68.6%

Investment thesis

Value creation through acquisitions and room for future acquisitions

The company's historical acquisitions has through improved efficiency, sourcing, resource optimization, and negotiation power led to cost reduction at the gross and operating level. Additionally, synergies from the acquisition of Svensk Markservice amounts to SEK 25m p.a. from 2020 onwards. Green Landscaping's EBITDA growth has been higher than their sales growth between 2016 and 2019 (83% vs 43% CAGR). This in turn has driven their incremental growth, at a RONIC of 8.3% during 2019 and is estimated to improve as profitability improves. According to our estimates, EBITDA will grow by 19% from 2020-2022 and reach 11.5% by 2022E, driven by the integration of prior- and future acquisitions as well as economies of scale.

Two new acquisitions were announced in February, furthering their geographical presence in the Nordic region. Considering an expected Net Debt/EBITDA of 2.6x by 2021 and a cash conversion ratio of 4.4, providing further room for expansion in the Nordic region as it provides liquidity and enables further leverage if needed. SME synergies are typically in distribution, sourcing and acquiring profitable backlog. The forecasted acquisitions are two per year with 62.2m in sales per acquisition from 2021.

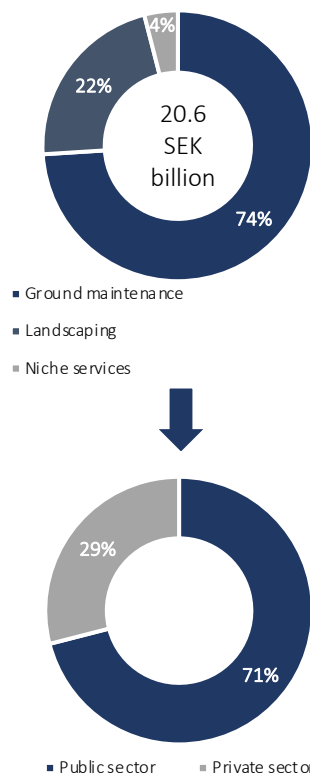


Green Landscaping is extending their focus to the remaining Nordic markets as they have successfully consolidated the Swedish market through acquisitions. Their market share grew from 3.3% to 8.1% between 2016 and 2019. The Swedish market is expected to grow with a 4.7% CAGR until 2020 at a total addressable value of SEK 20.6bn. The remaining Nordic market amounts to SEK 30-36bn and is growing on average by 4.0% annually. Green Landscaping's forecasted annual sales growth of 12.0% surpasses the expected market growth rate, reaching SEK 3.1bn by 2023E as a result of their acquisition strategy.

The company has a competitive edge in receiving public service contracts larger than SEK 500m, driven by its full-scale ability to allocate resources and competitive pricing due to economies of scale. Furthermore, the barriers to entry for obtaining these larger contracts are high due to stricter requirements on the companies trying to get involved in the procurement of them. The market's non-cyclical characteristics stem from the recurring revenues provided by its contracts, which span 5-10 years with an average yearly payout of SEK 10-15m per contract. This results in an order backlog (SEK 3.6bn in 2019) and order backlog is one of the primary reasons for furthering their acquisition strategy. Moreover, the backlog is normally distributed over a 5-10 year period and we estimate a significant portion of the current SEK 3.6bn backlog to be accumulated by 2022E along with acquired backlog driving a CAGR of 19% between 2019-2022E.

A SEK c. 550m government grant to municipalities during 2020E will further fuel investments in green areas³, which will alongside 640,000 new accommodations by 2027E⁴ increase demand for Green Landscaping's core services; Ground Maintenance. The future investments in green areas and the increased demand has been incorporated in the 5.0% annual organic growth rate, alongside order backlog accumulation.

The Swedish Market



Valuation

The valuation is based on a target EV/EBITDA multiple of 9.6x. Green Landscaping is trading at an EV/EBITDA of 9,79x. Its peers consist of Nordic service-contract companies as well as interior and exterior property management companies. Using the target EV/EBITDA multiple of 9.6x, implies a SEK 2.11bn enterprise value and a SEK 1.42bn market capitalization, indicating an upside of 55.6% at a share price of SEK 39.51.

Valuation Statistics	Market Data		Financials			Valuation 2020E	
	Market Cap.	Enterprise Value	2016-2019 Sales CAGR	2019-2021E Sales CAGR	2020E EBITDA Margin	EV/Sales	EV/EBITDA
Company Name	(SEKb)	(SEKb)		%			x
Caverion OYJ	8.2	9.9	0.1%	1.8%	5.7%	0.4x	7.6x
ISS A/S	25.7	46.5	3.4%	3.0%	4.7%	0.4x	9.3x
Balco Group AB	1.9	2.0	15.0%	11.4%	12.9%	1.5x	11.5x
Coor Service Management AB	5.8	7.2	12.4%	1.5%	5.8%	0.7x	12.9x
Serneke Group AB	0.9	2.4	19.1%	16.7%	4.3%	0.3x	7.6x
Bravida Holding AB	17.3	17.2	11.3%	0.8%	8.0%	0.8x	10.5x
Instalco AB	7,0	7.8	33.2%	6.3%	9.0%	1.1x	12.7x
Lassila & Tikanoja Oyj	5.2	6.9	9.7%	2.7%	12.5%	0.9x	7.0x
Average	9.0	12.5	13.0%	5.5%	7.9%	0.8x	9.9x
Median	6.4	7.5	11.8%	2.8%	7.1%	0.8x	9.9x
Green Landscaping Group	0.9	1.6	43.0%	13.1%	9.5%	0.7x	7.4%

Green Landscaping is currently trading at lower multiples than its peers and the target EV/EBITDA multiple of 9.6x implies a slight adjustment of -1.9% over its current valuation. The target EV/EBITDA multiple is justified in relation to its peers and its historical valuation, suggesting an upside of 55.6%.

The higher EV/EBITDA multiple in comparison to its peers is justified due to the following reasons:

- **Less cyclical than peers due to heavy backlog and long service contracts with the public sector:** Green Landscaping operates in a market where primary income comes from stable non-cyclical public service contracts that span over five to ten years. Through their strategic business model acquiring companies and gaining access to their profitable order backlog and service contracts, it lowers their risk exposure; e.g. the acquisition of Svensk Markservice resulted in an additional SEK 2bn in total order backlog during Q4 2019. The backlog accumulates over time and provides a steady recurring stream of revenues, and there is a strong correlation between the backlog and future income.
- **An unjustified COVID-19 scarcity is driving the selloff:** The market has unduly driven Green Landscaping's share price very close to an all-time low of SEK 23.9. Seemingly not taking into account the non-cyclicity of Green Landscaping during these uncertain times. Their primary customer base is the public sector, to which Green Landscaping provides *ground maintenance* services amounting to 90% of sales. These contracts span several years and are unaffected by seasonality or economic downturns as they have a predetermined continuous payment for the services.
- **Acquisition multiples for SME in the range of 2.5-5x EBITDA:** Historically, their acquisitions of SMEs have proven to be very profitable, as they acquire companies at 2.5-5x EBITDA. As they consolidate these within the group, their immediate sales and profit are valued 2-3 times higher than they initially were. Furthermore, they have grown with a CAGR of 43% since 2016 which is 31% higher than the industry average and is doing so at a higher EBITDA-margin which is not reflected upon in the valuation.

Appendix 1, RONIC

MSEK	2017	2018	2019
EBIT	25.5	3.7	28.6
NOPAT	20.0	2.9	22.5
CAPEX	-109.2	-513.6	-270.3
Change in PP&E	38.7	83.7	126.0
Current Depreciation	25.7	37.4	106.6
Change in Intangibles	40.2	378.3	9.1
Current Amortization	4.6	14.2	28.6
Change in NWC	-28.9	-25.7	-31.3
FCFF	-118.1	-536.4	-279.1
Delta NOPAT	16.5	-21.8	24.9
Reinvestments	138.1	539.3	301.6
RONIC	11.95%	-4.04%	8.26%

Appendix 2, WACC

WACC	
Debt to Total Capitalization	74.00%
Equity to Total Capitalization	26.00%
Debt to Equity Ratio	284.62%
Normalized Risk-free rate	0.50%
Adj. Beta	0.7
Risk premium	6.8%
Size premium	2.5%
Cost of Equity	7.76%
Cost of Debt	8%
Tax rate	21.4%
After tax Cost of Debt	6.3%
WACC	6,67%

Appendix 3, Income Statement

Green Landscaping Group	2017A	2018A	2019A	2020E	2021E	2022E
MSEK	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec
Net sales	799.3	1 180.1	1 992.6	2 317.0	2 547.9	2 802.9
Cost of goods and services sold (COGS)	-373.9	-586.6	-850.5	-1 042.7	-1 133.8	-1 233.3
Gross Profit	425.4	593.5	1 142.1	1 274.4	1 414.1	1 569.6
OPEX	-369.6	-538.2	-978.2	-1 054.2	-1 146.6	-1 247.3
EBITDA	55.8	55.3	163.9	220.1	267.5	322.3
Depreciation	-25.7	-37.4	-106.6	-120.7	-132.7	-146.0
EBITA	30.1	17.9	57.3	99.5	134.9	176.4
Amortization	-4.6	-14.2	-28.6	-34.8	-38.2	-42.0
EBIT	25.5	3.7	28.7	64.7	96.6	134.3
Financial net	-17.2	-15.7	-19.2	-27.8	-28.0	-28.0
EBT	8.3	-12.0	9.5	36.9	68.6	106.3
Tax	-4.1	6.3	-2.3	-7.9	-14.7	-22.8
Net Income	4.2	-5.7	7.2	29.0	53.9	83.6

Appendix 4, Share price sensitivity

Share Price Sensitivity						
		EBITDA 2020E				
		260	240	220,12	200	180
Net Debt	650	51.26	45.93	40.63	35.27	29.94
	670	50.71	45.37	40.08	34.71	29.38
	690.3	50.14	44.81	39.51	34.15	28.82
	710	49.60	44.26	38.96	33.60	28.27
	730	49.04	43.71	38.41	33.05	27.71

Appendix 5, Historical average peer EV / EBITDA multiple

