

Bong

Sector: Industrial Goods & Services

Intensifying restructuring efforts

Redeye is only making minor adjustments to forecasts and valuation following the Q2-report. 2020 will be a challenging year with a significant drop in revenues and more restructuring measures.

Q2: Tough market conditions

As expected, Q2 saw a dramatic drop in sales, minus 21 % Y/Y. Envelope sales were down 25% while Light Packaging held up surprisingly well, only 6% lower Y/Y. Covid-19 related shutdowns in April and May, particularly in UK and France had a severe impact on Bongs operations. Market conditions improved in June, but we expect to see continued negative growth in 2020 and a rather slow recovery next year.

Bong posted EBIT of minus SEK 20m (Redeye estimate: minus SEK 9m). Gross profit was clearly lower, while opex was surprisingly well contained. Both selling- and admin-expenses were much lower Y/Y as well as Q/Q. The second quarter included a few one-off items, which basically cancel each other out.

Intensifying restructuring efforts

Bong is now increasing its restructuring efforts in all countries but especially in UK and France. We expect to see quite substantial measures during the remainder of 2020. There is a constant need for capacity adjustments in the envelope market and given the current situation, there is certainly a considerable overcapacity in the industry.

On a more positive note Light Packing is growing in a couple of market segments. Most notably within e-commerce lately. Two new production machines will be up and running by the end of Q3, at the latest.

Estimates slightly down

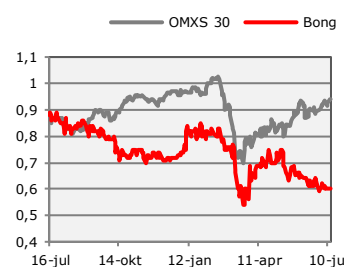
Our adjustments to estimates are rather small and mainly related to 2020 (lower gross margins and higher restructuring costs). We still believe Bong will return to profitability in 2021. Given Bongs financial leverage, impact on our fair value is however quite significant. Our Base case fair value is now **SEK 0.7 per share** (vs. SEK 0.9 before).

KEY FINANCIALS (SEKm)	2018	2019	2020E	2021E	2022E	2023E
Net sales	2220	2166	1882	1918	1877	1877
EBITDA	71	121	48	110	145	148
EBIT	-52	32	-44	23	58	66
EPS (adj.)	-0.3	-0.1	-0.4	-0.1	0.1	0.1
EV/Sales	0.2	0.3	0.3	0.3	0.3	0.2
EV/EBITDA	7.5	5.0	11.1	4.9	3.4	3.1
EV/EBIT	-10.4	19.1	-11.9	22.8	8.5	6.9
P/E	-1.3	-6.3	-1.3	-4.6	8.7	5.5

FAIR VALUE RANGE

BEAR	BASE	BULL
0.1	0.7	1.7

VERSUS OMXS30



REDEYE RATING



KEY STATS

Ticker	BONG
Market	Nasdaq
Share Price (SEK)	0.6
Market Cap (MSEK)	123
Net Debt 20E (MSEK)	513
Free Float	70 %
Avg. daily volume ('000)	120

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Intensifying restructuring efforts

Given the drastic market conditions, Q2-numbers were very difficult to predict. The decline in envelope sales was slightly worse than we anticipated, minus 25% Y/Y. Light Packaging was on the other hand a little better. The major deviation in earnings is caused by much lower gross margins. 12.4% is probably an all-time low and underscores the exceptional situation. Earnings are affected by some one-off items, positives as well as negatives. As far as we can judge these basically canceled each other out.

Bong: Expected vs. Actual

(SEKm)	Q2'19	Q2' 20 Actual	Q2'20E	Diff
Net sales	507	399	410	-3%
Whereof Light Packaging	105	99	95	4%
Gross profit	82	50	65	-24%
EBITDA	19	2	13	-85%
EBIT	-3	-20	-9	n.m.
Pre-tax profit	-15	-30	-20	n.m.
Sales growth Y/Y	-7%	-21%	-19%	
Gross margin	16.2%	12.4%	15.9%	
EBITDA margin	3.7%	0.5%	3.2%	
EBIT margin	-0.6%	-5.0%	-2.2%	

Source: Bong, Redeye Research

According to Bong, April and May saw the major part of the decline as a result of Covid-19 related shutdowns in several countries. UK and France took the hardest hit. The trend has been clearly more positive in June, but Bong is currently adjusting its capacity to adapt to the shrinking envelope market.

Light Packaging had slightly better sales than we expected. Central and southern Europe was on par or even a little higher Y/Y. E-commerce products are growing and Bong is adding further capacity in this segment during 2020. However, retail gift bags and paper bags have suffered from the shut-down of retail stores throughout Europe.

Quarterly performance

(SEK m)	Q4'18	Q1'19	Q2'19	Q3'19	Q4'19	Q1'20	Q2'20
Revenues	603	571	507	520	568	518	399
whereof Light Packaging	138	106	105	124	155	116	99
Gross profit	99	100	82	87	96	96	50
EBITDA *	12	21	4	14	21	22	-14
EBIT	-85	15	-3	7	14	5	-20
Net financial items	-13	-11	-11	-12	-8	-8	-10
Pre tax profit	-98	5	-15	-6	6	-3	-30
Revenue growth, Y/Y	4%	6%	-7%	-3%	-6%	-9%	-21%
Gross-margin	16.4%	17.5%	16.1%	16.8%	16.9%	18.5%	12.5%
EBITDA-margin *	2.0%	3.7%	0.8%	2.7%	3.7%	4.1%	-3.5%
Cash flow after investments	-6	42	-11	-7	55	14	1
Net debt, excl leasing debt	349	326	360	394	346	338	351

* Excluding non-recurring items and IFRS 16

Source: Bong, Redeye Research

Forecasts & Valuation

Envelopes

We believe the current year may turn out to be the worst ever in terms of declining volumes in the European envelope market. The long-term trend over the last decade has seen an annual decline of around 5-6%. Judging from Bongs sales H1 2020, the market dropped around 20%. H2 will probably not be as bad but still significantly lower Y/Y, and we expect to see some recovery in 2021. Market segment Direct Mail Marketing is probably the weakest area at the moment, and this is a significant part of Bongs business. This marketing tool is typically very sensitive to the business climate.

Bong will increase its restructuring efforts in all countries. We expect to see substantial measures, including relocation of production and closing down manufacturing units. We have included restructuring costs of SEK 40m in 2020 and SEK 30m in 2021. On top of that goodwill impairment is quite likely. But since it has no cash flow impact, we chose not to include this item in our forecasts.

Major restructuring measures

Light Packaging

Light Packaging is holding up well, even if the retail segment must have been quite significantly affected in Q2. Paper carrier bags have been a major growth engine the last couple of years. We believe it will be back on the growth track soon again, since the switch from plastic to paper bags throughout Europe still is far from completed. E-commerce products are growing and most likely given an extra boost from the current situation in Europe. Bong is expecting continued growth in this segment with their new product range and additional production capacity.

Sales mix improving over time

We have no insight into Bongs profitability in Envelopes or Light Packaging. But we can easily conclude that Light Packaging is much more profitable. Hence, over time the group will gradually improve its sales mix, which should allow for better profitability.

P&L, historic and forecast						
SEK m	2017	2018	2019	2020E	2021E	2022E
Envelopes						
Revenues	1680	1767	1676	1407	1414	1344
Growth, Y/Y	-3%	5%	-5%	-16%	1%	-5%
EBIT *	25	-2	14	-28	18	31
EBIT-margin	1.5%	-0.1%	0.8%	-2.0%	1.3%	2.3%
Light Packaging						
Revenues	415	453	490	475	504	534
Growth, Y/Y	4%	9%	8%	-3%	6%	6%
EBIT *	21	27	29	24	35	43
EBIT-margin	5.0%	6.0%	6.0%	5.0%	7.0%	8.0%
Non-recurring items	0	-77	-11	-40	-30	-15
Total revenues	2095	2220	2166	1882	1918	1877
Growth, Y/Y	-2%	6%	-2%	-13%	2%	-2%
Gross profit	381	367	364	294	336	347
Gross-margin	18.2%	16.5%	16.8%	15.6%	17.5%	18.5%
EBITDA **	92	72	132	84	140	160
D.o. marginal	4.4%	3.2%	6.1%	4.4%	7.3%	8.5%
EBIT	45	-52	32	-44	23	58
Net financial items	-44	-57	-42	-40	-42	-41
Pre tax profit	1	-109	-10	-84	-19	18

* Redeyes assessment regarding previous years.

** Excluding non-recurring items (but including IFRS 16)

Source: Bong, Redeye Research

Valuation

Fair value: ~SEK 0.7
per share

Our DCF-model indicates an enterprise value of almost SEK 500 million. After deducting net debt of SEK 346 m (excluding lease liabilities) our fair value of equity is around SEK 150 million, or **SEK 0.7 per share**. In our most recent update, as of May 2020, the corresponding value was SEK 0.9 per share.

The change in fair value is due to our revisions of 2020-22 estimates. No changes have been made in our assumptions for long term growth or profitability:

- Years 2023-28: zero growth, 3 percent EBIT-margin
- Terminal year (2028): 2 percent growth, 3 percent EBIT-margin
- WACC: 12 percent (derived from our Redeye Rating model)

Long term assumptions for growth and profitability

As Bongs packaging business expands, the negative growth on group level will abate. For the period 2023-28 we assume zero growth and thereafter 2 percent annually. We expect sustainable average EBIT-margins of 3.0 percent. This is based on packaging making up for a larger part of group total, recurring costs for downsizing the envelope business, a general down-turn in the economy or other potential problems during this period.

DCF-value, SEK per share					
Sustainable EBIT-margins	2.0%	2.5%	3.0%	3.5%	4.0%
WACC					
11.0%	0.44	0.70	0.95	1.21	1.46
12.0%	0.25	0.47	0.70	0.92	1.15
13.0%	0.10	0.27	0.47	0.67	0.87

Source: Redeye Research

Multiples 2021-22E similar to previous years

EV/EBITDA is the most useful key ratio to track, since it takes both the high net debt into account and the fact that depreciations are much higher than Capex. Note that we have excluded the impact from IFRS 16 on this key ration, since these items distort the comparison. Bongs EV/EBITDA multiples 2021-22 are fairly similar to previous years.

Earnings multiples						
Share price, SEK: 0.58	2017	2018	2019	2020E	2021E	2022E
P/E	neg	neg	neg	neg	neg	8.7
EV/EBITDA *	5.4	7.6	8.1	neg	9.4	5.5
EV/EBIT	10.9	neg	20.8	neg	25.8	10.3

* Excl impact from IFRS 16 as of 2019

Source: Redeye Research

Scenarios

Our Base case scenario, which is was outlined on the previous page, is what we believe a probable scenario that corresponds to a fair value of approximately **SEK 0.7 per share**. There is certainly a possibility that the company will develop better than we anticipate, but also worse. We have drafted two scenarios that illustrate this down below.

Bull case is based on sales returning to sustainable growth and improving profitability. If the expansion within packaging is really strong Bong may be able to show positive top-line growth on group level and higher margins than we anticipate. The green area in the table below shows the impact on DCF-value for different levels of sustainable margins and growth (all else being equal). These do not appear completely unrealistic, yet quite optimistic. Fair value would then be around **SEK 1.7 SEK per share**.

Bear case could potentially materialize if the negative trend in the envelope market accelerates causing even tougher squeeze on margins and recurring costs for capacity adjustments. It could also happen as a combination of Bongs packaging business stalling in terms of growth and profitability. The orange colored area indicates possible outcomes in this scenario. Fair value would then be only approximately **SEK 0.1 per share**.

DCF-value, SEK per share					
Sustainable EBIT-margins	1.0%	2.0%	3.0%	4.0%	5.0%
Annual growth rate 2023-28					
-3.0%	-0.09	0.21	0.59	0.98	1.36
0.0%	-0.10	0.25	0.70	1.15	1.6
3.0%	-0.12	0.29	0.80	1.32	1.84
6.0%	-0.13	0.33	0.91	1.50	2.08

Source: Redeye Research

Summary Redeye Rating

The rating consists of three valuation keys, each constituting an overall assessment of several factors that are rated on a scale of 0 to 1 points. The maximum score for a valuation key is 5 points.

Rating changes in the report

People: 3

Management has several years of experience and knows its markets very well. Kai Steigleder is however new on the job as CEO but he has been with Bong since 2007. Most recently as managing director of the largest business unit, Central Europe. The last few years have been characterized by heavy restructuring measures which have been well managed. On the other hand we cannot assess whether management has the ability to create growth, which is now their ambition. The public quarterly reports are quite brief in terms of numbers and information. Hence transparency is limited which makes it more difficult to review and understand the company.

Business: 3

All-and-all Bong is a little below average in this category. Primarily because of the negative market trend for envelopes where volumes are going down, products are standardized and competition is tough. Bong has economies of scale and probably better stamina than most of its peers. The envelope business will hardly attract new players, but with shrinking volumes and over capacity, price pressure will remain. For Light Packaging the prospects are clearly better and Bong has a good position withing a couple of growing market segments.

Financials: 2

Profitability has been weak during the past several years. In spite of substantial cost-cutting programs margins and earnings are very thin. Since depreciation is substantially higher than capex, cash flows are generally stronger than reported earnings. Bongs financial gearing is relatively high but manageable and the debt is primarily long term. The business is diversified in terms of products and customers but to some extent cyclical. Also, for the longer term there is a recurring need for restructuring measures as the envelope market is declining.

INCOME STATEMENT	2018	2019	2020E	2021E	2022E
Net sales	2,220	2,166	1,882	1,918	1,877
Total operating costs	-2,148	-2,046	-1,834	-1,808	-1,732
EBITDA	71	121	48	110	145
Depreciation	-45	-27	-28	-28	-24
Amortization	-2	-62	-60	-58	-63
Impairment charges	-76	0	-4	0	0
EBIT	-52	32	-44	23	58
Share in profits	0	0	0	0	0
Net financial items	-57	-42	-40	-42	-41
Exchange rate dif.	0	0	0	0	0
Pre-tax profit	-109	-10	-84	-19	18
Tax	-39	-14	-10	-8	-4
Net earnings	-149	-24	-94	-27	14

BALANCE SHEET	2018	2019	2020E	2021E	2022E
Assets					
<i>Current assets</i>					
Cash in banks	72	100	87	88	86
Receivables	289	223	194	192	188
Inventories	195	200	188	192	188
Other current assets	99	95	95	95	95
Current assets	655	618	563	566	556
<i>Fixed assets</i>					
Tangible assets	179	209	186	163	143
Associated comp.	0	0	0	0	0
Investments	1	1	1	1	1
Goodwill	518	530	526	526	526
Cap. exp. for dev.	0	0	0	0	0
Intangible rights	17	9	10	11	12
Non-current assets	0	0	0	0	0
Total fixed assets	716	854	828	808	787
Deferred tax assets	110	113	113	113	113
Total (assets)	1,481	1,586	1,505	1,488	1,457
Liabilities					
<i>Current liabilities</i>					
Short-term debt	0	0	0	0	0
Accounts payable	221	182	158	161	158
Other current liabilities	240	299	289	289	289
Current liabilities	461	481	447	450	446
Long-term debt	421	446	493	500	458
Other long-term liabilities	16	14	14	14	14
Convertibles	0	0	0	0	0
Total Liabilities	898	941	954	964	919
Deferred tax liab	14	10	10	10	10
Provisions	0	0	0	0	0
Shareholders' equity	569	529	434	408	422
Minority interest (BS)	0	0	0	0	0
Minority & equity	569	529	434	408	422
Total liab & SE	1,481	1,586	1,505	1,488	1,457

FREE CASH FLOW	2018	2019	2020E	2021E	2022E
Net sales	2,220	2,166	1,882	1,918	1,877
Total operating costs	-2,148	-2,046	-1,834	-1,808	-1,732
Depreciations total	-123	-89	-92	-86	-87
EBIT	-52	32	-44	23	58
Taxes on EBIT	11	-7	-6	-5	-12
NOPLAT	-57	25	-49	18	47
Depreciation	123	89	92	86	87
Gross cash flow	66	114	43	105	134
Change in WC	-49	14	8	2	5
Gross CAPEX	-6	-23	-6	-6	-6
Free cash flow	11	105	44	100	132

CAPITAL STRUCTURE	2018	2019	2020E	2021E	2022E
Equity ratio	38%	33%	29%	27%	29%
Debt/equity ratio	74%	104%	138%	149%	134%
Net debt	349	452	513	518	478
Capital employed	918	875	841	819	794
Capital turnover rate	1.5	1.4	1.3	1.3	1.3

GROWTH	2018	2019	2020E	2021E	2022E
Sales growth	6%	-2%	-13%	2%	-2%
EPS growth (adj)	1,105%	-84%	292%	-72%	-153%

DCF VALUATION		CASH FLOW, MSEK	
WACC (%)	12.0%	NPV FCF (2020-2022)	64
		NPV FCF (2023-2028)	214
		NPV FCF (2029-)	216
		Non-operating assets	206
		Interest-bearing debt	-552
		Fair value estimate MSEK	147

Assumptions 2023-2028 (M)			
Average sales growth	0.0%	Fair value e. per share, SEK	0.7
EBIT margin	3.0%	Share price, SEK	0.6

PROFITABILITY	2018	2019	2020E	2021E	2022E
ROE	-24%	-4%	-20%	-6%	3%
ROCE	-5%	3%	-4%	2%	6%
ROIC	-6%	3%	-6%	2%	6%
EBITDA margin	3%	6%	3%	6%	8%
EBIT margin	-2%	1%	-2%	1%	3%
Net margin	-7%	-1%	-5%	-1%	1%

DATA PER SHARE	2018	2019	2020E	2021E	2022E
EPS	-0.71	-0.11	-0.45	-0.13	0.07
EPS adj	-0.35	-0.11	-0.43	-0.13	0.07
Dividend	0.00	0.00	0.00	0.00	0.00
Net debt	1.65	2.14	2.43	2.45	2.26
Total shares	211.25	211.25	211.25	211.25	211.25

VALUATION	2018	2019	2020E	2021E	2022E
EV	538.7	604.4	529.6	534.4	494.6
P/E	-1.3	-6.3	-1.3	-4.6	8.7
P/E diluted	-1.3	-6.3	-1.3	-4.6	8.7
P/Sales	0.1	0.1	0.1	0.1	0.1
EV/Sales	0.2	0.3	0.3	0.3	0.3
EV/EBITDA	7.5	5.0	11.1	4.9	3.4
EV/EBIT	-10.4	19.1	-11.9	22.8	8.5
P/BV	0.3	0.3	0.3	0.3	0.3

SHARE PERFORMANCE	GROWTH/YEAR		18/20E
1 month	-7.9%	Net sales	-7.9%
3 month	-15.9%	Operating profit adj	-7.6%
12 month	-34.1%	EPS, just	11.0%
Since start of the year	-20.6%	Equity	-12.7%

SHAREHOLDER STRUCTURE %	CAPITAL	VOTES
Stéphane Hamelin	25.0%	25.0%
Per-Arne Ahlgren	14.9%	14.9%
Swolder	7.7%	7.7%
Avanza Pension	5.3%	5.3%
Theodor Jeansson	4.7%	4.7%
Christian Paulsson	4.3%	4.3%
Dan Drottman	2.3%	2.3%
John Elvesjö	2.2%	2.2%
Skandinaviska Enskilda Banken S.A	1.8%	1.8%
Mattias Cramby	1.8%	1.8%

SHARE INFORMATION	
Reuters code	BONG.ST
List	Nasdaq Small Cap
Share price	0.6
Total shares, million	211.2
Market Cap, MSEK	122.5

MANAGEMENT & BOARD	
CEO	Kai Steigleder
CFO	Carsten Grimmer
IR	
Chairman	Christian Paulsson

FINANCIAL INFORMATION	
Q3 report	November 12, 2020
FY 2020 Results	February 11, 2021

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Redeye Rating and Background Definitions

Company Quality

Company Quality is based on a set of quality checks across three categories; PEOPLE, BUSINESS, FINANCE. These are the building blocks that enable a company to deliver sustained operational outperformance and attractive long-term earnings growth.

Each category is grouped into multiple sub-categories assessed by five checks. These are based on widely accepted and tested investment criteria and used by demonstrably successful investors and investment firms. Each sub-category may also include a complementary check that provides additional information to assist with investment decision-making.

If a check is successful, it is assigned a score of one point; the total successful checks are added to give a score for each sub-category. The overall score for a category is the average of all sub-category scores, based on a scale that ranges from 0 to 5 rounded up to the nearest whole number. The overall score for each category is then used to generate the size of the bar in the Company Quality graphic.

People

At the end of the day, people drive profits. Not numbers. Understanding the motivations of people behind a business is a significant part of understanding the long-term drive of the company. It all comes down to doing business with people you trust, or at least avoiding dealing with people of questionable character.

The People rating is based on quantitative scores in seven categories:

- Passion, Execution, Capital Allocation, Communication, Compensation, Ownership, and Board.

Business

If you don't understand the competitive environment and don't have a clear sense of how the business will engage customers, create value and consistently deliver that value at a profit, you won't succeed as an investor. Knowing the business model inside out will provide you some level of certainty and reduce the risk when you buy a stock.

The Business rating is based on quantitative scores grouped into five sub-categories:

- Business Scalability, Market Structure, Value Proposition, Economic Moat, and Operational Risks.

Financials

Investing is part art, part science. Financial ratios make up most of the science. Ratios are used to evaluate the financial soundness of a business. Also, these ratios are key factors that will impact a company's financial performance and valuation. However, you only need a few to determine whether a company is financially strong or weak.

The Financial rating is based on quantitative scores that are grouped into five separate categories:

- Earnings Power, Profit Margin, Growth Rate, Financial Health, and Earnings Quality.

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Redeye Rating (2020-07-16)

Rating	People	Business	Financials
5p	14	11	3
3p - 4p	109	84	33
0p - 2p	6	34	93
Company N	129	129	129

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CONFLICT OF INTERESTS

Henrik Alveskog owns shares in the company : No

Viktor Westman owns shares in the company : No

Redeye performs/have performed services for the Company and receives/have received compensation from the Company in connection with this.