

Bong

Sector: Industrial Goods & Services

A little brighter outlook

The Q1-report showed some improvement across the board. Nothing very drastic, but certainly better than in the last few quarters when gross margins deteriorated. Q1 gross margins of 17.5 percent is a little higher Y/Y and clearly better Q/Q.

Sales increased by 6 percent Y/Y to SEK 571 million. Again mainly thanks to currency tailwinds and the additional Intermail business. EBIT SEK 15 m is a little higher Y/Y and just above our estimate. Cash flow was a solid SEK 29 m after investments.

Room for margin improvement (?)

It now looks like the margin squeeze from higher raw material costs will abate. After last years' price increases for pulp and paper we have recently seen signs of a weaker paper market in some segments. Still difficult to know if suppliers will defend prices or not. But at least it looks like Bong will be able to improve its gross margins compared to last year, thanks to the price increases that they have already implemented.

The company will also run a factory efficiency program which includes most units. As we understand it, it will be a smooth process, not causing any restructuring charges.

Packaging up and envelopes down, as usual

Light Packaging is showing encouraging growth of 5 percent currency adjusted. Growth comes mainly from e-commerce and the retail segment. In Q1, sales of paper carrier bags almost doubled Y/Y and Bong seems clearly optimistic about future growth prospects within their retail business.

The European envelope market was down by 4 percent in the quarter and Bongs volumes also declined by 4 percent. There was probably a positive calendar effect which mitigated the decline. Volumes will probably go down more in Q2 since Easter was in April this year.

Positive revision of our estimates

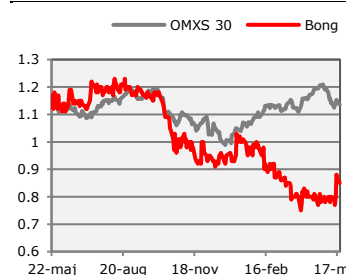
We are now able to make some positive adjustments in our financial forecast for the near term future. Top line has good tailwinds from currency effects in 2019 and we expect to see continued improvements in gross margins throughout the year. Our Base case fair value is now SEK 1.09 per share (vs. SEK 0.97 before).

KEY FINANCIALS (SEKm)	2017	2018	2019E	2020E	2021E	2022E
Net sales	2095	2220	2291	2213	2143	2143
EBITDA (excl IFRS 16)	91	71	83	94	97	89
EBIT	45	-52	44	60	68	64
EPS (adj.)	-0.1	-0.3	0.0	0.1	0.1	0.1
EV/Sales	0.2	0.2	0.2	0.2	0.2	0.2
EV/EBITDA	5.4	7.5	6.0	4.8	4.1	4.0
EV/EBIT	11.0	-10.4	11.5	7.6	5.9	5.5
P/E	-16.2	-1.3	2001.2	11.7	7.5	6.2

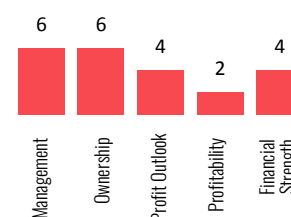
FAIR VALUE RANGE

BEAR	BASE	BULL
0.5	1.1	2.0

VERSUS OMXS30



REDEYE RATING



KEY STATS

Ticker	BONG
Market	Nasdaq
Share Price (SEK)	0.8
Market Cap (MSEK)	177
Net Debt, 19E (MSEK)	325
Free Float	70 %
Avg. daily volume ('000)	70

ANALYSTS

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A little brighter outlook

The Q1-numbers were a little better than we expected on all accounts. Adjusted for one-offs, earnings are on par with Q1-18. But compared to Q4-18, it is a clear improvement with healthier gross margins and a solid cash flow of SEK 29 million. Note that IFRS 16 has significant impact on EBITDA.

Bong: Expected vs. Actual

(SEKm)	Q1' 18	Q1' 19 Actual	Q1'19E	Diff
Net sales	538	571	560	2%
Whereof Light Packaging	97	106	105	1%
Gross profit	93	100	95	5%
EBITDA	23	37 *	20	n.m.
EBIT	12	15	10	50%
Pre-tax profit	1	5	-2	n.m.
Sales growth Y/Y	-1%	6%	4%	
Gross margin	17.3%	17.5%	17.0%	
EBITDA margin	4.3%	n.m.	3.6%	
EBIT margin	2.2%	2.6%	1.8%	

* EBITDA boosted SEK 14m by IFRS 16

Source: Bong, Redeye Research

Most of Bong's top-line growth during the last year is from currency effects. And this will continue during 2019, unless any major changes in the SEK vs EUR or GBP. Gross margins in 2018 hit an all-time low (since year 2003) of 16.5 percent. As mentioned earlier, there is reason to believe that gross margins will pick-up during this year.

Light Packaging has grown organically around 4-5 percent during the last couple of years. As the fast growing segments get larger their impact on revenues will hopefully accelerate growth numbers.

Quarterly performance

(SEK m)	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19
Revenues	545	481	491	578	538	543	536	603	571
whereof Light Packaging	98	89	93	135	97	104	113	138	106
Gross profit	100	92	84	105	93	84	91	99	100
EBITDA *	25	19	13	34	25	17	18	12	21
EBIT	19	7	2	17	12	10	12	-85	15
Net financial items	-12	-12	-10	-11	-11	-23	-10	-13	-11
Pre tax profit	7	-4	-8	6	1	-13	1	-98	5
Revenue growth, Y/Y	-4%	-4%	0%	0%	-1%	13%	9%	4%	6%
Gross margin	18.3%	19.2%	17.0%	18.2%	17.3%	15.5%	16.9%	16.4%	17.5%
EBITDA-margin *	4.7%	4.0%	2.6%	5.9%	4.6%	3.1%	3.4%	2.0%	3.7%
Cash flow after investments	22	-12	9	27	-1	-48	-12	-6	29
Net debt, excl leasing debt	294	315	315	294	300	335	346	349	326

* Excluding non-recurring items and IFRS 16

Source: Bong, Redeye Research

Forecasts & Valuation

Envelopes

Volumes in the European envelope market have been decreasing by approximately 5 percent annually in the last few years. We expect this trend to continue and that Bong will follow the general market trend. In 2019 Bong still has a good tailwind from currencies which means that revenues will probably grow. These will however gradually subside during next year.

Gross margins probably hit a low point last year when Bong was squeezed by higher paper prices. The company has made price adjustment that are implemented during the first half of 2018. In addition to that, they are running a factory efficiency program to reduce fixed costs and paper waste. We expect to see some impact from the price adjustments this year and a further improvement in margins next year from the efficiency program. We are now a bit more optimistic about the short term trend and have raised our earnings estimates.

Envelopes adjusted upwards

Light Packaging

In Light Packaging on the other hand Bong has much better prospects for profitable growth. We believe the company can achieve a little over 5 percent annual growth at least in the next few years. The market potential in e-commerce and retail solutions is huge and Bong still only has a small share of these markets. The transition from plastic to paper carrier bags in Europe seems to accelerate and will continue for many years. Judging from recent performance Bong has a very attractive offer.

With a gradually improving sales mix, more packaging and less envelopes, we expect to see improving and more stable profitability. The shrinking envelope market will require future measures for downsizing. We include annual restructuring costs of SEK 15 m net. In many cases these costs are mitigated by machinery being sold to Asia or real estate divestments. Thus cash flow is not necessarily hit by the full amount of restructuring charges.

Packaging unchanged

Redeye forecasts						
SEK m	2016	2017	2018	2019E	2020E	2021E
Envelopes						
Revenues	1736	1680	1767	1802	1694	1593
Growth, Y/Y	-11%	-3%	5%	2%	-6%	-6%
EBIT *	11	25	-2	23	38	44
EBIT-margin	0.6%	1.5%	-0.1%	1.3%	2.3%	2.8%
Light Packaging						
Revenues	399	415	453	489	519	550
Growth, Y/Y	0%	4%	9%	8%	6%	6%
EBIT *	16	21	27	34	36	38
EBIT-margin	4.0%	5.0%	6.0%	7.0%	7.0%	7.0%
Non-recurring items	-18	0	-77	-13	-15	-15
Total revenues	2135	2095	2220	2291	2213	2143
Growth, Y/Y	-9%	-2%	6%	3%	-3%	-3%
Gross profit	373	381	367	401	409	407
Gross-margin	17.5%	18.2%	16.5%	17.5%	18.5%	19.0%
EBITDA ***	79	92	72	96	109	112
D.o. marginal	3.7%	4.4%	3.2%	4.2%	4.9%	5.2%
EBIT	9	45	-52	44	60	68
Net financial items **	384	-44	-57	-44	-43	-41
Pre tax profit	393	1	-109	0	17	26

* Redeyes assessment regarding previous years.

** Whereof SEK 427 million year 2016 following the refinancing.

*** Excluding non-recurring items and IFRS 16

Source: Bong, Redeye Research

Valuation

Fair value: ~SEK 1.1
SEK per share

Our DCF-model indicates an enterprise value of around SEK 580 million. After deducting net debt of SEK 349 m our fair value of equity is about SEK 230 million, or **SEK 1.09 per share**.

In our previous research update, as of February 2019, the corresponding value was SEK 0.97 per share. The difference is explained by our forecast adjustments for the next few years. No changes have been made in our assumptions for long term growth or profitability:

- Years 2022-26: zero growth, 3 percent EBIT-margin
- Terminal year (2027): 2 percent growth, 3 percent EBIT-margin
- WACC: 14.5 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 level out. For the period 2022-26 we assume zero growth and thereafter 2 percent annually. We expect sustainable 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					
13.5%	0.90	1.10	1.31	1.52	1.73
14.5%	0.71	0.90	1.09	1.27	1.46
15.5%	0.56	0.73	0.89	1.06	1.23

Source: Redeye Research

Multiples still on the low side

The share is still trading at rather low multiples based on our estimates. Note that we have excluded leasing debt from EV and IFRS 16 impact on EBITDA, since these items distort the comparison. The most relevant multiple for Bong is EV/EBITDA since it takes both the high net debt into account and the fact that depreciations are much higher than Capex. EV/EBITDA around 6x is not unique, but at the low end of Swedish companies listed at Nasdaq's main market. In Bongs case probably a reflection of poor profitability in the last few years.

Earnings multiples					
Share price, SEK: 0.84	2017	2018	2019E	2020E	2020E
P/E	neg	neg	>100	11.7	7.5
EV/EBITDA *	5.4	7.6	6.0	5.3	5.2
EV/EBIT *	10.9	neg	11.5	8.5	7.4

* Excl impact from IFRS 16

Source: Redeye Research

EV/EBITDA:~6x

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 1.1 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 2.0 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 around **SEK 0.5 per share**.

DCF-value, SEK per share					
Sustainable EBIT-margins	1.0%	2.0%	3.0%	4.0%	5.0%
Annual growth rate 2022-26					
-3.0%	0.29	0.60	0.92	1.24	1.56
0.0%	0.34	0.71	1.09	1.46	1.83
3.0%	0.39	0.82	1.25	1.68	2.10
6.0%	0.44	0.92	1.41	1.90	2.38

Source: Redeye Research

Summary Redeye Rating

The rating consists of five valuation keys, each constituting an overall assessment of several factors that are rated on a scale of 0 to 2 points. The maximum score for a valuation key is 10 points.

Rating changes in the report: No changes

Management: 6.0

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 and 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.

Ownership: 6.0

The fact that Holdham is by far the dominating owner and Stefan Hamelin is on the board, gives Bong a rather high rating score. The Chairman of the board, Christian Paulsson, also has incentives through a significant amount of shares. Bongs third largest owner (May 2019) is Svolder, a Swedish small cap investment company. A higher rating would require larger holdings among management, and CEO specifically.

Profit Outlook: 4.0

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.

Profitability: 2.0

The trend is quite uncertain and the impact from the restructuring measures are still difficult to assess. Maybe profitability will stabilize on a higher level than we anticipate today. Since depreciation is substantially higher than capex, cash flows are generally stronger than reported earnings. However, Bong has a weak track record in terms of profitability which puts the total score below average. We track return on equity and net margins for the last few years. Even if Bong is making progress it will take some time before these metrics will impact our profitability rating.

Financial Strength: 4.0

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. Interest coverage has improved substantially after the refinancing but we are still somewhat uncertain of how good it will be in the near future.

INCOME STATEMENT	2017	2018	2019E	2020E	2021E
Net sales	2,095	2,220	2,291	2,213	2,143
Total operating costs	-2,004	-2,148	-2,208	-2,118	-2,046
EBITDA	91	71	83	94	97
Depreciation	-40	-45	-37	-33	-27
Amortization	-6	-2	-2	-2	-2
Impairment charges	0	-76	0	0	0
EBIT	45	-52	44	60	68
Share in profits	0	0	0	0	0
Net financial items	-44	-57	-44	-43	-41
Exchange rate dif.	0	0	0	0	0
Pre-tax profit	1	-109	0	17	26
Tax	-10	-39	0	-2	-3
Net earnings	-12	-149	0	15	24

BALANCE SHEET	2017	2018	2019E	2020E	2021E
Assets					
<i>Current assets</i>					
Cash in banks	124	72	100	151	189
Receivables	282	289	298	288	279
Inventories	189	195	202	195	189
Other current assets	73	99	99	99	99
Current assets	668	655	698	732	755
<i>Fixed assets</i>					
Tangible assets	209	179	149	123	103
Associated comp.	0	0	0	0	0
Investments	2	1	1	1	1
Goodwill	575	518	518	518	518
Cap. exp. for dev.	0	0	0	0	0
0 intangible rights	29	17	16	15	14
0 non-current assets	0	0	0	0	0
Total fixed assets	814	716	684	657	636
Deferred tax assets	144	110	110	110	110
Total (assets)	1,626	1,481	1,493	1,500	1,502
Liabilities					
<i>Current liabilities</i>					
Short-term debt	0	0	0	0	0
Accounts payable	240	221	229	221	214
0 current liabilities	250	240	240	240	240
Current liabilities	490	461	469	461	454
Long-term debt	418	421	425	425	410
0 long-term liabilities	0	16	16	16	16
Convertibles	0	0	0	0	0
Total Liabilities	908	898	909	901	879
Deferred tax liab	22	14	14	14	14
Provisions	0	0	0	0	0
Shareholders' equity	685	569	570	585	608
Minority interest (BS)	11	0	0	0	0
Minority & equity	696	569	570	585	608
Total liab & SE	1,626	1,481	1,493	1,500	1,502

FREE CASH FLOW	2017	2018	2019E	2020E	2021E
Net sales	2,095	2,220	2,291	2,213	2,143
Total operating costs	-2,004	-2,148	-2,208	-2,118	-2,046
Depreciations total	-46	-123	-39	-35	-29
EBIT	45	-52	44	60	68
Taxes on EBIT	-10	11	-7	-6	-7
NOPLAT	35	-57	37	54	61
Depreciation	46	123	39	35	29
Gross cash flow	81	66	77	89	90
Change in WC	10	-68	-8	9	8
Gross CAPEX	-28	-25	-8	-8	-8
Free cash flow	63	-26	60	90	90

CAPITAL STRUCTURE	2017	2018	2019E	2020E	2021E
Equity ratio	43%	38%	38%	39%	41%
Debt/equity ratio	61%	74%	75%	73%	67%
Net debt	294	349	325	274	221
Capital employed	990	918	895	859	829
Capital turnover rate	1.3	1.5	1.5	1.5	1.4

GROWTH	2017	2018	2019E	2020E	2021E
Sales growth	-2%	6%	3%	-3%	-3%
EPS growth (adj)	-103%	1,105%	-100%	16,996	56%

DCF VALUATION		CASH FLOW, MSEK	
WACC (%)	14.5 %	NPV FCF (2018-2020)	191
		NPV FCF (2021-2027)	201
		NPV FCF (2028-)	187
		Non-operating assets	72
		Interest-bearing debt	-421
		Fair value estimate MSEK	230
Assumptions 2022-2026 (%)			
Average sales growth	0 %	Fair value e. per share, SEK	1.1
EBIT margin	3 %	Share price, SEK	0.8

PROFITABILITY	2017	2018	2019E	2020E	2021E
ROE	-2%	-24%	0%	3%	4%
ROCE	4%	-5%	4%	6%	7%
ROIC	3%	-6%	4%	6%	7%
EBITDA margin	4%	3%	4%	4%	5%
EBIT margin	2%	-2%	2%	3%	3%
Net margin	-1%	-7%	0%	1%	1%

DATA PER SHARE	2017	2018	2019E	2020E	2021E
EPS	-0.06	-0.71	0.00	0.07	0.11
EPS adj	-0.06	-0.35	0.00	0.07	0.11
Dividend	0.00	0.00	0.00	0.00	0.00
Net debt	1.39	1.65	1.54	1.30	1.05
Total shares	211.25	211.25	211.25	211.25	211.25

VALUATION	2017	2018	2019E	2020E	2021E
EV	497.8	538.7	502.6	451.3	398.2
P/E	-16.2	-1.3	2,001.2	11.7	7.5
P/E diluted	-16.2	-1.3	2,001.2	11.7	7.5
P/Sales	0.1	0.1	0.1	0.1	0.1
EV/Sales	0.2	0.2	0.2	0.2	0.2
EV/EBITDA	5.4	7.5	6.0	4.8	4.1
EV/EBIT	11.0	-10.4	11.5	7.6	5.9
P/BV	0.3	0.3	0.3	0.3	0.3

SHARE PERFORMANCE	GROWTH/YEAR		16/18
1 month	3.7 %	Net sales	4.6 %
3 month	-6.7 %	Operating profit adj	-1.5 %
12 month	-27.6 %	EPS, just	◆
Since start of the year	-11.6 %	Equity	-9.6 %

SHAREHOLDER STRUCTURE %	CAPITAL	VOTES
Stéphane Hamelin	25.0 %	25.0 %
Per-Arne Åhlgren	14.4 %	14.4 %
Svalder	7.7 %	7.7 %
Avanza Pension	5.6 %	5.6 %
Theodor Jeansson	4.7 %	4.7 %
Christian Paulsson	4.3 %	4.3 %
John Elvesjö	2.2 %	2.2 %
Dan Drottman	2.1 %	2.1 %
Skandinaviska Enskilda Banken S.A	1.8 %	1.8 %
Mattias Cramby	1.8 %	1.8 %

SHARE INFORMATION	
Reuters code	BOLJST
List	Nasdaq Small Cap
Share price	0.8
Total shares, million	211.2
Market Cap, MSEK	177.4

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

FINANCIAL INFORMATION	
Q2 report	July 12, 2019

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Redeye Rating and Background Definitions

The aim of a Redeye Rating is to help investors identify high-quality companies with attractive valuation.

Company Qualities

The aim of Company Qualities is to provide a well-structured and clear profile of a company's qualities (or operating risk) – its chances of surviving and its potential for achieving long-term stable profit growth.

We categorize a company's qualities on a ten-point scale based on five valuation keys; 1 – Management, 2 – Ownership, 3 – Profit Outlook, 4 – Profitability and 5 – Financial Strength.

Each valuation key is assessed based a number of quantitative and qualitative key factors that are weighted differently according to how important they are deemed to be. Each key factor is allocated a number of points based on its rating. The assessment of each valuation key is based on the total number of points for these individual factors. The rating scale ranges from 0 to +10 points.

The overall rating for each valuation key is indicated by the size of the bar shown in the chart. The relative size of the bars therefore reflects the rating distribution between the different valuation keys.

Management

Our Management rating represents an assessment of the ability of the board of directors and management to manage the company in the best interests of the shareholders. A good board and management can make a mediocre business concept profitable, while a poor board and management can even lead a strong company into crisis. The factors used to assess a company's management are: 1 – Execution, 2 – Capital allocation, 3 – Communication, 4 – Experience, 5 – Leadership and 6 – Integrity.

Ownership

Our Ownership rating represents an assessment of the ownership exercised for longer-term value creation. Owner commitment and expertise are key to a company's stability and the board's ability to take action. Companies with a dispersed ownership structure without a clear controlling shareholder have historically performed worse than the market index over time. The factors used to assess Ownership are: 1 – Ownership structure, 2 – Owner commitment, 3 – Institutional ownership, 4 – Abuse of power, 5 – Reputation, and 6 – Financial sustainability.

Profit Outlook

Our Profit Outlook rating represents an assessment of a company's potential to achieve long-term stable profit growth. Over the long-term, the share price roughly mirrors the company's earnings trend. A company that does not grow may be a good short-term investment, but is usually unwise in the long term. The factors used to assess Profit Outlook are: 1 – Business model, 2 – Sale potential, 3 – Market growth, 4 – Market position, and 5 – Competitiveness.

Profitability

Our Profitability rating represents an assessment of how effective a company has historically utilised its capital to generate profit. Companies cannot survive if they are not profitable. The assessment of how profitable a company has been is based on a number of key ratios and criteria over a period of up to the past five years: 1 – Return on total assets (ROA), 2 – Return on equity (ROE), 3 – Net profit margin, 4 – Free cash flow, and 5 – Operating profit margin or EBIT.

Financial Strength

Our Financial Strength rating represents an assessment of a company's ability to pay in the short and long term. The core of a company's financial strength is its balance sheet and cash flow. Even the greatest potential is of no benefit unless the balance sheet can cope with funding growth. The assessment of a company's financial strength is based on a number of key ratios and criteria: 1 – Times-interest-coverage ratio, 2 – Debt-to-equity ratio, 3 – Quick ratio, 4 – Current ratio, 5 – Sales turnover, 6 – Capital needs, 7 – Cyclicity, and 8 – Forthcoming binary events.

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Disclaimer

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Redeye Rating (2019-05-22)

Rating	Management	Ownership	Profit outlook	Profitability	Financial Strength
7,5p - 10,0p	53	52	21	12	22
3,5p - 7,0p	94	88	126	44	60
0,0p - 3,0p	14	21	14	105	79
Company N	161	161	161	161	161

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CONFLICT OF INTERESTS

Henrik Alveskog owns shares in the company : No

Viktor Westman owns shares in the company : No

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