

Bong

Sector: Industrial Goods & Services

Blended fourth quarter

Overall the Q4-numbers were just below our expectations, mainly because of lower envelope sales and gross margins. However, Light Packaging showed continued solid growth and SG&A expenses for the group have declined. Hence earnings were not too far from our estimates. Paper prices are soft at the moment. We believe this will give Bong a chance to improve gross margins in the coming year.

Paper prices coming down

According to Bong, raw material costs were basically unchanged in 2019 compared to 2018. Also gross margins for the full year were virtually unchanged, just below 17 percent. We saw a big drop in pulp and paper prices in the second half of 2019. Since Bong probably has fairly long supplier contracts, they do not seem to have benefited from this yet. But we expect it to feed through during 2020. Bongs envelope volumes took another hit in Q4. Sales declined 11 percent Y/Y in Q4 and 5 percent full year 2019. Currency adjusted even a little worse. Lower paper prices would give the company a chance to restore gross margins.

Light Packaging on the growth track

Packaging is showing double digit growth for the second consecutive quarter. Q4 sales of SEK 155 m is obviously a new all-time high. Paper carrier bags replacing plastics is still one of the major drivers. Bongs paper bags grew by 44 percent for the full year 2019. Light Packaging's total sales grew by 6 percent in 2019, also driven by e-commerce packaging. Bongs packaging business still has very small market shares in Continental Europe and we believe they will be able to grow for many years to come.

Estimates slightly down

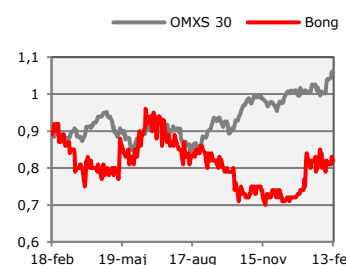
We still expect some improvement in gross margins this year. But operating leverage is somewhat diluted by declining envelope sales. We lower our earnings estimates slightly for 2020-23. Our Base case fair value is now SEK 1.3 per share (vs. SEK 1.4 before).

KEY FINANCIALS (SEKm)	2018	2019	2020E	2021E	2022E	2023E
Net sales	2220	2166	2079	2017	1977	1977
EBITDA	71	121	134	141	140	124
EBIT	-52	32	48	57	64	59
EPS (adj.)	-0.3	-0.1	0.0	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	4.8	4.0	3.6	3.6
EV/EBIT	-10.4	19.1	13.5	9.9	7.8	7.6
P/E	-1.3	-6.3	35.2	12.9	7.4	7.1

FAIR VALUE RANGE

BEAR	BASE	BULL
0.6	1.3	2.4

VERSUS OMXS30



REDEYE RATING



KEY STATS

Ticker	BONG
Market	Nasdaq
Share Price (SEK)	0.8
Market Cap (MSEK)	171
Net Debt 20E (MSEK)	478
Free Float	70 %
Avg. daily volume ('000)	130

ANALYSTS

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Blended outcome

On an aggregated level Q4 was a little weaker than we had anticipated. Light Packaging showed good growth but didn't make up for declining sales in envelopes. The major deviation is however in gross margins. We expected some impact from the drop in paper spot prices in Q4. Also, with packaging making up for a higher share of group revenues in Q4, gross margins should be higher than year average. On a positive note SG&A expenses were clearly lower.

Bong: Expected vs. Actual

(SEKm)	Q4' 18	Q4' 19 Actual	Q4'19E	Diff
Net sales	603	568	588	-3%
Whereof Light Packaging	138	155	148	5%
Gross profit	99	96	110	-13%
EBITDA *	5	36	47	-23%
EBIT, adjusted	-3	14	20	-30%
EBIT	-85	14	20	-30%
Pre-tax profit	-98	6	7	-14%
Sales growth Y/Y	4%	-6%	-2%	
Gross margin	16.4%	16.9%	18.7%	
EBITDA margin	0.8%	6.3%	8.0%	
EBIT margin	neg	2.5%	3.4%	

* EBITDA boosted SEK 15m by IFRS 16 in Q4-19

Source: Bong, Redeye Research

Volumes in the envelope market continues to decline and Bong had a double digit drop in envelope sales Y/Y in Q4. The office supply segment and the UK market have been particularly weak. Bong has deliberately reduced its exposure to some of these customers. Fortunately Light Packaging keeps growing across all regions, except UK which was flat. Cash flow improved substantially, mainly as a result of working capital reduction. Net debt, excluding leasing debt was SEK 346 million by year end. That's SEK 48 m lower Q/Q, but unchanged Y/Y.

Quarterly performance

(SEK m)	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19	Q4'19
Revenues	578	538	543	536	603	571	507	520	568
whereof Light Packaging	135	97	104	113	138	106	105	124	155
Gross profit	105	93	84	91	99	100	82	87	96
EBITDA *	34	25	17	18	12	21	4	14	21
EBIT	17	12	10	12	-85	15	-3	7	14
Net financial items	-11	-11	-23	-10	-13	-11	-11	-12	-8
Pre tax profit	6	1	-13	1	-98	5	-15	-6	6
Revenue growth, Y/Y	0%	-1%	13%	9%	4%	6%	-7%	-3%	-6%
Gross-margin	18.2%	17.3%	15.5%	16.9%	16.4%	17.5%	16.1%	16.8%	16.9%
EBITDA-margin *	5.9%	4.6%	3.1%	3.4%	2.0%	3.7%	0.8%	2.7%	3.7%
Cash flow after investments	27	-1	-48	-12	-6	42	-11	-7	55
Net debt, excl leasing debt	294	300	335	346	349	326	360	394	346

* Excluding non-recurring items and IFRS 16

Source: Bong, Redeye Research

Forecasts & Valuation

Envelopes

The European envelope market has declined by approximately 5-6 percent per year in the last decade. We expect a similar development in the next few years. Bong can probably find some niche areas that are more resilient, but the majority of their business will be affected. North Africa seems like a great opportunity for Bong. But it is still difficult to project how well they will succeed in this new region. So we are still very cautious in our assumptions regarding the new subsidiary in Tunisia.

Pulp and paper prices have declined since last summer and envelope manufacturers now have a better chance to restore their gross margins. We think there is a good chance for somewhat lower paper prices in the coming year and also further improvement in margins from Bongs efficiency program.

We expect lower paper prices ahead

Light Packaging

Light Packaging on the other hand, has performed well and has good growth opportunities for many years to come. We believe the company can achieve at least 5 percent annual growth 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 is certainly taking place and Bong apparently has good traction in this market segment.

Sales mix improving over time

In 2019 this segment represented 23 percent of group sales versus 20 percent in 2018. This transition will continue which means a gradually improving sales mix. This trend should allow for Bong to improve profitability over time. The gradual downsizing of envelope production will require future restructuring measures. 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 will probably not be hit by the full amount of restructuring charges.

P&L, historic and forecast						
SEK m	2017	2018	2019	2020E	2021E	2022E
Envelopes						
Revenues	1680	1767	1676	1559	1466	1393
Growth, Y/Y	-3%	5%	-5%	-7%	-6%	-5%
EBIT *	25	-2	14	27	34	32
EBIT-margin	1.5%	-0.1%	0.8%	1.7%	2.3%	2.3%
Light Packaging						
Revenues	415	453	490	519	551	584
Growth, Y/Y	4%	9%	8%	6%	6%	6%
EBIT *	21	27	29	36	39	47
EBIT-margin	5.0%	6.0%	6.0%	7.0%	7.0%	8.0%
Non-recurring items	0	-77	-11	-15	-15	-15
Total revenues	2095	2220	2166	2079	2017	1977
Growth, Y/Y	-2%	6%	-2%	-4%	-3%	-2%
Gross profit	381	367	364	364	363	366
Gross-margin	18.2%	16.5%	16.8%	17.5%	18.0%	18.5%
EBITDA ***	92	72	132	149	156	155
D.o. marginal	4.4%	3.2%	6.1%	7.2%	7.8%	7.8%
EBIT	45	-52	32	48	57	64
Net financial items **	-44	-57	-42	-42	-41	-35
Pre tax profit	1	-109	-10	6	17	29

* Redeyes assessment regarding pre ** Whereof SEK 427 million year 2016 following the refinancing.

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

Source: Bong, Redeye Research

Valuation

Fair value: ~SEK
1.27 per share

Our DCF-model indicates an enterprise value of just above SEK 600 million. After deducting net debt of SEK 346 m (excluding lease liabilities) our fair value of equity is around SEK 270 million, or **SEK 1.27 per share**. In our previous update, as of November 2019, the corresponding value was SEK 1.45 per share.

The change in fair value is quite small and due to some minor revisions of our 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 level out. For the period 2023-28 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					
11.0%	1.06	1.31	1.56	1.81	2.07
12.0%	0.83	1.05	1.27	1.49	1.70
13.0%	0.64	0.84	1.03	1.23	1.42

Source: Redeye Research

Multiples similar to previous years

The share has been trading mostly sideways lately and multiples are fairly 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. EV/EBITDA of 6-7x is not unique, but at the low end of shares 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: 0.81	2017	2018	2019	2020E	2021E	2022E
P/E	neg	neg	neg	30.2	10.0	5.7
EV/EBITDA *	5.4	7.6	8.1	6.9	5.9	6.5
EV/EBIT	10.9	neg	20.8	14.1	11.1	9.5

* Excl impact from IFRS 16 as of 2019

Source: Redeye Research

EV/EBITDA:6-7x

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 1.27 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 2.4 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 costs 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 0.6 per share**.

DCF-value, SEK per share					
Sustainable EBIT-margins	1.0%	2.0%	3.0%	4.0%	5.0%
<u>Annual growth rate 2023-28</u>					
-3.0%	0.33	0.71	1.08	1.45	1.82
0.0%	0.39	0.83	1.27	1.70	2.14
3.0%	0.45	0.95	1.46	1.96	2.46
6.0%	0.51	1.08	1.65	2.21	2.78

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: No changes **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: 1

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	2,079	2,017	1,977
Total operating costs	-2,148	-2,046	-1,945	-1,876	-1,837
EBITDA	71	121	134	141	140
Depreciation	-45	-87	-86	-65	-57
Amortization	-2	-2	0	0	0
Impairment charges	-76	0	0	0	0
EBIT	-52	32	48	57	64
Share in profits	0	0	0	0	0
Net financial items	-57	-42	-42	-41	-35
Exchange rate dif.	0	0	0	0	0
Pre-tax profit	-109	-10	6	17	29
Tax	-39	-14	-1	-3	-6
Net earnings	-149	-24	5	13	23

BALANCE SHEET	2018	2019	2020E	2021E	2022E
Assets					
<i>Current assets</i>					
Cash in banks	72	100	96	123	91
Receivables	289	223	214	212	208
Inventories	195	200	197	192	188
Other current assets	99	95	95	95	95
Current assets	655	618	602	621	581
<i>Fixed assets</i>					
Tangible assets	179	315	239	189	151
Associated comp.	0	0	0	0	0
Investments	1	1	1	1	1
Goodwill	518	530	530	530	530
Cap. exp. for dev.	0	0	0	0	0
O intangible rights	17	9	10	11	12
O non-current assets	0	0	0	0	0
Total fixed assets	716	854	879	811	773
Deferred tax assets	110	113	113	113	113
Total (assets)	1,481	1,586	1,595	1,545	1,467
Liabilities					
<i>Current liabilities</i>					
Short-term debt	0	0	0	0	0
Accounts payable	221	182	175	170	166
O current liabilities	240	299	289	289	289
Current liabilities	461	481	463	458	455
Long-term debt	421	446	467	410	312
O long-term liabilities	16	14	14	14	14
Convertibles	0	0	0	0	0
Total Liabilities	898	941	945	882	781
Deferred tax liab	14	10	10	10	10
Provisions	0	0	0	0	0
Shareholders' equity	569	529	534	547	570
Minority interest (BS)	0	0	0	0	0
Minority & equity	569	529	534	547	570
Total liab & SE	1,481	1,586	1,595	1,545	1,467

FREE CASH FLOW	2018	2019	2020E	2021E	2022E
Net sales	2,220	2,166	2,079	2,017	1,977
Total operating costs	-2,148	-2,046	-1,945	-1,876	-1,837
Depreciations total	-123	-89	-86	-84	-77
EBIT	-52	32	48	57	64
Taxes on EBIT	11	-7	-10	-11	-13
NOPLAT	-57	25	38	46	51
Depreciation	123	89	86	84	77
Gross cash flow	66	114	124	130	127
Change in WC	-49	14	-5	3	5
Gross CAPEX	-6	-23	-11	-16	-21
Free cash flow	11	105	108	117	111

CAPITAL STRUCTURE	2018	2019	2020E	2021E	2022E
Equity ratio	38%	33%	33%	35%	39%
Debt/equity ratio	74%	104%	107%	94%	73%
Net debt	349	452	478	393	327
Capital employed	918	875	905	834	791
Capital turnover rate	1.5	1.4	1.3	1.3	1.3

GROWTH	2018	2019	2020E	2021E	2022E
Sales growth	6%	-2%	-4%	-3%	-2%
EPS growth (adj)	1,105%	-84%	-120%	174%	74%

DCF VALUATION	WACC (%)	CASH FLOW, MSEK	
	12 %	NPV FCF (2020-2022)	272
		NPV FCF (2023-2028)	181
		NPV FCF (2029-)	161
		Non-operating assets	100
		Interest-bearing debt	-446
		Fair value estimate MSEK	268
Assumptions 2023-2028 (%)			
Average sales growth	0 %	Fair value e. per share, SEK	1.3
EBIT margin	3 %	Share price, SEK	0.8

PROFITABILITY	2018	2019	2020E	2021E	2022E
ROE	-24%	-4%	1%	2%	4%
ROCE	-5%	3%	4%	5%	6%
ROIC	-6%	3%	4%	5%	6%
EBITDA margin	3%	6%	6%	7%	7%
EBIT margin	-2%	1%	2%	3%	3%
Net margin	-7%	-1%	0%	1%	1%

DATA PER SHARE	2018	2019	2020E	2021E	2022E
EPS	-0.71	-0.11	0.02	0.06	0.11
EPS adj	-0.35	-0.11	0.02	0.06	0.11
Dividend	0.00	0.00	0.00	0.00	0.00
Net debt	1.65	2.14	2.26	1.86	1.55
Total shares	211.25	211.25	211.25	211.25	211.25

VALUATION	2018	2019	2020E	2021E	2022E
EV	538.7	604.4	649.0	564.0	498.4
P/E	-1.3	-6.3	35.2	12.9	7.4
P/E diluted	-1.3	-6.3	35.2	12.9	7.4
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	4.8	4.0	3.6
EV/EBIT	-10.4	19.1	13.5	9.9	7.8
P/BV	0.3	0.3	0.3	0.3	0.3

SHARE PERFORMANCE	GROWTH/YEAR	16/18	
1 month	-1.2 %	Net sales	-3.2 %
3 month	12.5 %	Operating profit adj	n.m.
12 month	-12.0 %	EPS, just	n.m.
Since start of the year	11.0 %	Equity	-3.2 %

SHAREHOLDER STRUCTURE %	CAPITAL	VOTES
Stéphane Hamelin	25.0 %	25.0 %
Per-Arne Åhlgren	14.8 %	14.8 %
Svolder	7.7 %	7.7 %
Avanza Pension	5.4 %	5.4 %
Theodor Jeansson	4.7 %	4.7 %
Christian Paulsson	4.3 %	4.3 %
John Elvesjö	2.3 %	2.3 %
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	BONG.ST
List	Nasdaq Small Cap
Share price	0.8
Total shares, million	211.2
Market Cap, MSEK	171.1

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

FINANCIAL INFORMATION	
Q1 report	May 14, 2020

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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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Important information

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Redeye Rating (2020-02-16)

Rating	People	Business	Financials
5p	12	12	4
3p - 4p	93	72	27
0p - 2p	9	30	83
Company N	114	114	114

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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.