



Results due: 27 August

Hiccup in orders but backlog should support

Although we expect new orders to have been negatively impacted by the lockdowns and social distancing practices, we forecast an operationally solid quarter with healthy deliveries and margins. Prior to the report, we have made only minor estimate revision (adj. EPS .1%) and update our fair valuation mid-point to SEK 98 (96), implying 2021E EV/EBIT of 12x.

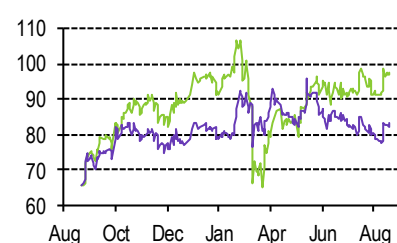
Key Data (2020E)

Price (SEK)	97.30
Reuters	BALCO.ST
Bloomberg	BALCO.SS
Market cap (SEKm)	2,085
Market cap (USDm)	239
Market cap (EURm)	202
Net debt (SEKm)	58
Net gearing	9%
Net debt/EBITDA (x)	0.3
Shares fully dil. (m)	21.4
Avg daily turnover (m)	0.0
Free float	0%

Estimate Revisions (%)

	2020E	2021E	2022E
Revenues	(1)	(1)	(1)
Adj. EBIT	(1)	(1)	(1)
Adj. EPS	(1)	(1)	(1)

Share Price (12M)



Absolute (green) / Relative to Sweden (purple).

Marketing communication

commissioned by:

Balco

Q2: underlying operations should be on track despite lockdowns

We expect an operationally solid quarter despite Covid-19 related lockdowns, and forecast sales to come in at SEK 343m, growing by 5.6% y/y. We expect EBIT at SEK 44m (margin of 12.9%, down 70 bp y/y) with some extra costs and anticipated delays weighing slightly on profitability, we believe. The biggest impact from the pandemic is expected on order intake as social distancing practices, lockdowns and cancelled housing association meetings are likely to have postponed decision making among customers. We forecast orders in Q2 to amount to SEK 284m, down by some 35% y/y, but expect the orders to come back gradually during H2 2020.

Orders should pick up in H2, but second wave is a threat

Despite the expected slump in new orders, Balco should in our view be able to keep its operations and delivery schedule unchanged during 2020 and early 2021 due to the strong order backlog (c. SEK 1.6bn in end Q1). We expect orders to pick up again in H2 2020 but remain somewhat cautious on the possible second wave threat that could have a negative impact on customers' willingness to initiate new projects during the autumn and impact 2021/22 deliveries.

Fair valuation mid-point increased slightly to SEK 98 (96)

Our updated fair valuation range is set at SEK 89-108, with mid-point value indicating a fair share value of SEK 98 (96) per share. The fair valuation mid-point implies 2021E EV/EBIT of 12x.

Financials (SEK)

Year end: Dec	2018	2019	2020E	2021E	2022E
Revenues (m)	1,058	1,221	1,385	1,451	1,517
Adj. EBIT	107	140	161	174	190
Pre-tax profit (m)	99	132	152	165	181
EPS	3.57	4.79	5.55	6.02	6.61
Adj. EPS	3.61	4.79	5.55	6.02	6.61
DPS	2.00	0.00	3.00	3.30	3.50
Revenue growth (%)	7.0	15.4	13.4	4.8	4.5
Adj. EBIT growth (%)	(8.1)	31.4	14.9	8.0	9.3
Adj. EPS growth (%)	48.7	32.6	15.9	8.4	9.8
Adj. EBIT margin (%)	10.1	11.5	11.6	12.0	12.5
ROE (%)	18.5	21.5	20.7	19.4	19.3
ROCE (%)	16.4	18.6	18.8	18.4	18.7
PER (x)	13.9	19.6	17.5	16.2	14.7
Free cash flow yield (%)	0.4	4.3	5.0	6.9	8.2
Dividend yield (%)	4.0	0.0	3.1	3.4	3.6
P/BV (x)	2.44	3.91	3.29	2.99	2.71
EV/Sales (x)	1.20	1.78	1.55	1.43	1.31
EV/Adj. EBITDA (x)	10.0	12.3	10.7	9.6	8.5
EV/Adj. EBIT (x)	11.9	15.5	13.3	12.0	10.4
Operating cash flow/EV (%)	2.2	4.5	6.6	9.1	10.4
Net debt/Adj. EBITDA (x)	1.53	0.92	0.29	(0.02)	(0.45)

Source for all data on this page: SEB (estimates) and Millstream/Thomson Reuters (prices)

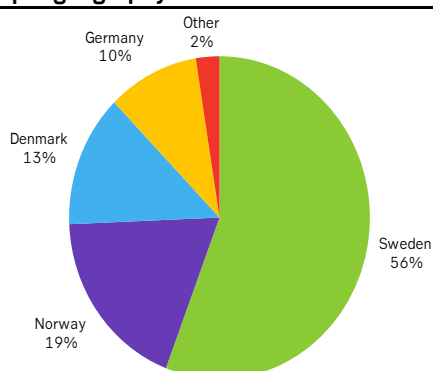
Pre-Q2 update and revisions

Earnings revision

(SEK)	2020E	2021E	2022E
Revenues (m)			
Old	1,396	1,463	1,529
New	1,385	1,451	1,517
Change (%)	(1)	(1)	(1)
Operating profit (m)			
Old	163	176	192
New	161	174	190
Change (%)	(1)	(1)	(1)
Pre-tax profit (m)			
Old	154	167	183
New	152	165	181
Change (%)	(1)	(1)	(1)
EPS (reported)			
Old	5.61	6.09	6.68
New	5.55	6.02	6.61
Change (%)	(1)	(1)	(1)
EPS (adjusted)			
Old	5.61	6.09	6.68
New	5.55	6.02	6.61
Change (%)	(1)	(1)	(1)

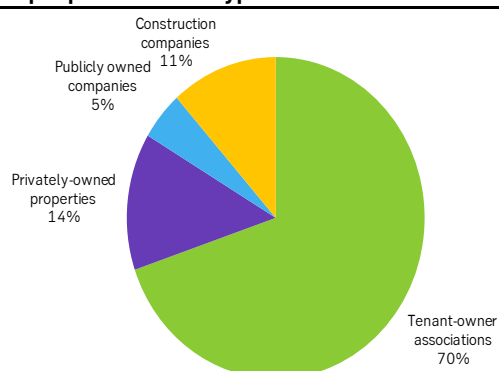
Source: SEB

Sales split per geography



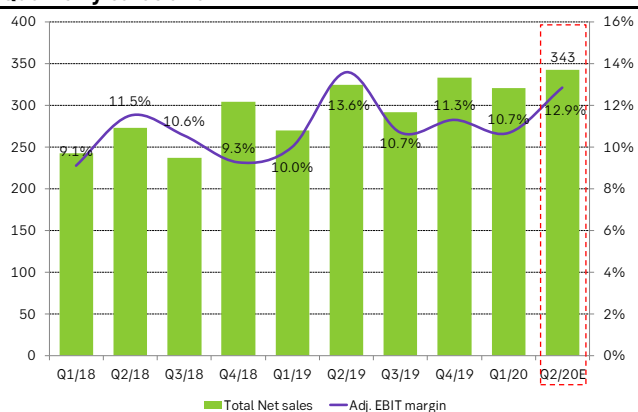
Source: SEB

Sales split per customer type



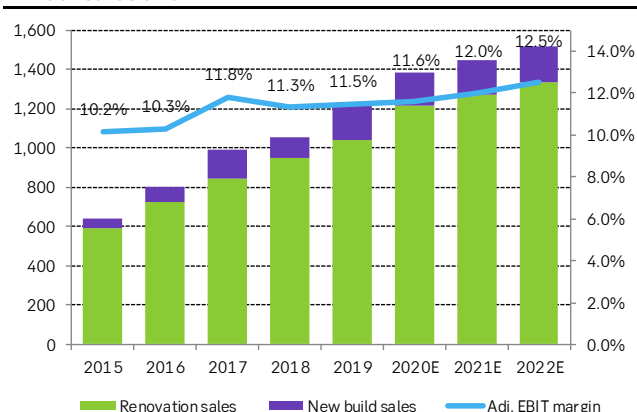
Source: SEB

Quarterly sales and EBIT-%



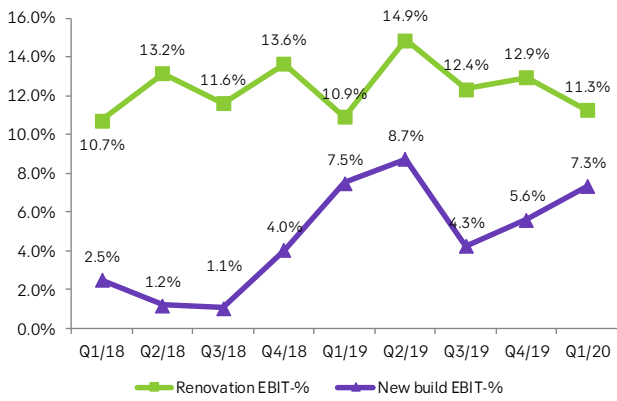
Source: SEB

Annual sales and EBIT-%



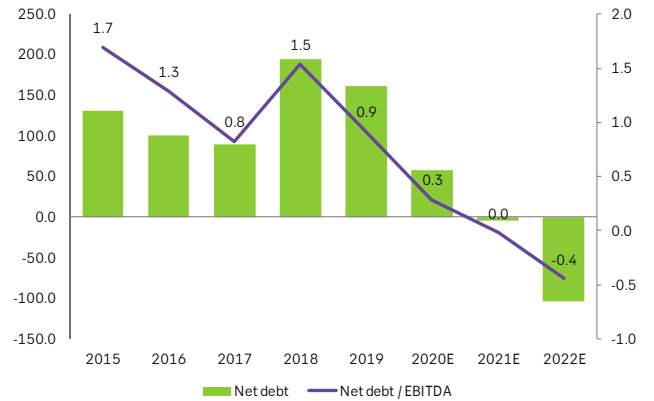
Source: SEB

EBIT-% per business area



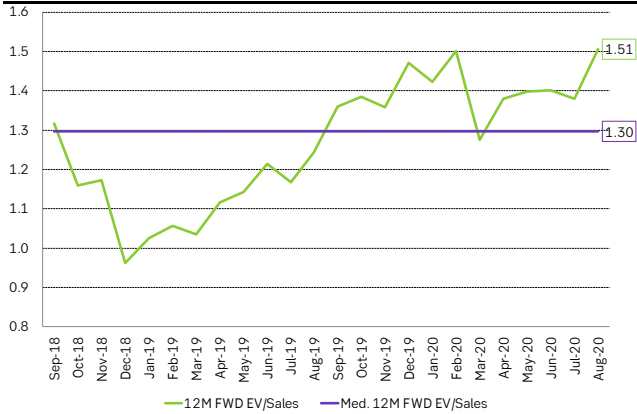
Source: SEB

Net debt levels trending down (SEKm)



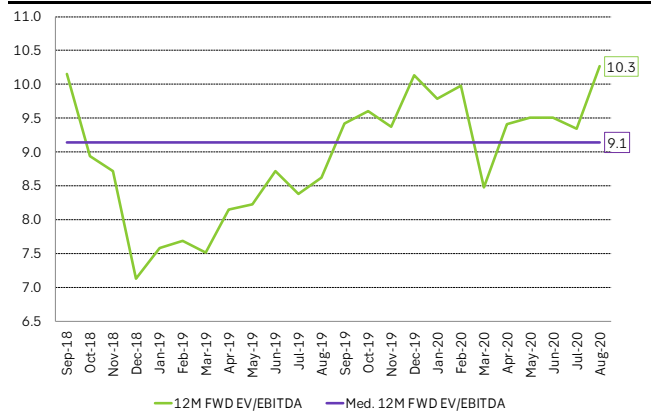
Source: SEB

12M FWD EV/SALES (x)



Source: SEB

12M FWD EV/EBITDA (x)



Source: SEB

Interim financials														
Balco (SEKm)	Q1/19	Q2/19	Q3/19	Q4/19	Q1/20	Q2/20E	Q3/20E	Q4/20E	2017	2018	2019	2020E	2021E	2022E
Net sales	270	325	292	333	321	343	339	381	989	1,058	1,221	1,385	1,451	1,517
Production and project costs	-205	-238	-225	-253	-241	-256	-258	-286	-741	-804	-921	-1040	-1084	-1123
Gross profit	65	87	67	81	81	88	81	95	248	254	300	344	368	394
Operating expenses	-38	-43	-36	-43	-46	-43	-45	-49	-156	-148	-160	-183	-193	-203
Share of associates	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other operating income	1	0	0	1	0	0	0	0	7	1	2	0	0	0
Other operating expenses	0	0	0	0	0	0	0	0	-7	-1	-1	0	-1	-1
One-offs	0	0	0	0	0	0	0	0	25	1	0	0	0	0
Adj. EBITDA	36	53	40	49	44	54	46	57	134	127	177	201	216	234
Adj. EBIT	27	44	31	38	34	44	37	46	117	107	140	161	174	190
Finance income	0	1	0	0	0	0	0	0	0	0	1	0	0	0
Finance expense	-2	-2	-2	-4	-2	-2	-2	-2	-37	-6	-10	-9	-9	-9
Profit before tax	25	43	30	34	32	42	34	44	55	99	132	152	165	181
Income tax	-5	-9	-6	-8	-7	-9	-7	-10	-18	-23	-29	-33	-36	-39
Net profit for the period	20	34	23	26	25	33	27	34	38	77	103	119	129	142
EPS reported	0.93	1.57	1.08	1.22	1.18	1.53	1.25	1.60	1.75	3.57	4.79	5.55	6.02	6.61
EPS adjusted	0.93	1.57	1.08	1.22	0.00	0.00	0.00	0.00	2.43	3.61	4.79	5.55	6.02	6.61
Dividends per share									1.0	2.0	0.0	3.0	3.3	3.5
Growth rates														
Sales growth (%)	11.3	18.8	23.0	9.6	19.0	5.6	16.1	14.3	23.4	7.0	15.4	13.4	4.8	4.5
Gross profit growth (%)	7.3	23.3	19.9	21.1	24.6	0.2	20.9	18.0	30.4	2.5	18.2	14.9	6.7	7.2
Adj. EBIT growth (%)	22.2	40.3	24.7	33.7	27.0	-0.1	16.7	22.2	41.7	-8.6	31.4	14.9	8.0	9.3
Margins														
Gross margin (%)	23.9	26.9	23.1	24.2	25.1	25.5	24.0	24.9	25.0	24.0	24.6	24.9	25.3	26.0
Adj. EBITDA margin (%)	13.2	16.2	13.7	14.6	13.6	15.8	13.7	15.0	13.5	12.0	14.5	14.5	14.9	15.4
Adj. EBIT margin (%)	10.0	13.6	10.7	11.3	10.7	12.9	10.8	12.1	11.8	10.1	11.5	11.6	12.0	12.5
Pre-tax margin (%)	9.3	13.1	10.1	10.3	10.0	12.2	10.1	11.5	5.6	9.4	10.8	11.0	11.4	11.9
Net margin (%)	7.4	10.3	7.9	7.8	7.8	9.5	7.9	9.0	3.8	7.2	8.4	8.6	8.9	9.3
Tax rate (%)	-21.0	-21.3	-21.4	-23.7	-21.5	-21.8	-21.8	-21.8	-31.9	-22.9	-21.9	-21.7	-21.8	-21.8
Orders														
Order intake	362	436	199	352	341	284	219	369	1,114	1,003	1,349	1,213	1,324	1,430
Order stock	1,529	1,641	1,557	1,522	1,561	1,501	1,381	1,370	1,238	1,429	1,522	1,370	1,242	1,155
Order intake growth (%)	33.4	45.7	56.4	15.3	-5.7	-35.0	10.0	5.0	4.4	-9.9	34.5	-10.1	9.1	8.0
Order stock growth (%)	19.4	25.4	29.5	26.5	2.1	-8.5	-11.3	-10.0	11.8	15.4	6.5	-10.0	-9.3	-7.0
Sales														
Renovation	225	285	255	280	282	307	301	328	848	948	1,044	1,217	1,275	1,339
New build	45	40	38	53	40	36	39	53	142	110	176	168	176	178
Renovation growth (%)	2.7	18.6	16.4	3.9	25.3	7.8	18.0	17.0	16.7	11.8	10.2	16.5	4.8	5.0
New build growth (%)	89.9	20.8	100.0	54.0	-12.4	-10.2	3.0	0.0	88.7	-22.0	59.6	-4.9	5.2	1.0

Source: SEB

DCF assumptions

DCF valuation (SEKm)		Weighted average cost of capital (%)	
NPV of FCF in explicit forecast period	1,068	Risk free interest rate	3.0
NPV of continuing value	1,098	Risk premium	4.5
Value of operation	2,165	Cost of equity	7.5
Net debt	58	After tax cost of debt	2.3
Share issue/buy-back in forecast period	-	WACC	7.4
Value of associated companies	-		
Value of minority shareholders' equity	-		
Value of marketable assets	-	Assumptions	
DCF value of equity	2,107	Number of forecast years	10
DCF value per share (SEK)	98	EBIT margin - steady state (%)	10.1
Current share price (SEK)	97.10	EBIT multiple - steady state (x)	10.7
DCF performance potential (%)	1	Continuing value (% of NPV)	50.7

Source: SEB

DCF sensitivity

		Absolute change in EBITDA margin - all years				
		-2%	-1%	0	+1%	+2%
Abs. change in sales growth - all years	-2%	75	82	89	97	104
	-1%	79	86	94	101	109
	0	82	90	98	106	114
	+1%	86	95	103	112	120
	+2%	90	99	108	117	126

Source: SEB

Peer group

Company	Mkt cap. (Ccy)	Mkt cap. (lcl ccy)	SP performance (%)			PER			EV/EBIT			EV / SALES		
			1M	3M	12M	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E
Bravida	SEK	20,318	11	21	21	21.0	20.7	19.8	16.5	16.2	15.3	1.01	1.01	0.97
Consti Oyj	EUR	68	16	31	69	11.8	9.7	8.8	9.3	7.9	7.3	0.29	0.28	0.27
Instalco	SEK	8,480	4	21	108	18.8	17.4	15.2	16.2	14.7	12.6	1.32	1.18	1.04
Inwido	SEK	4,806	-10	46	55	10.9	10.1	9.7	9.9	8.9	8.1	0.97	0.91	0.85
Lindab International AB	SEK	11,175	5	59	40	19.7	16.0	14.9	15.4	13.6	12.5	1.37	1.33	1.28
Nobia	SEK	9,008	6	40	-9	22.4	11.8	9.5	18.8	11.1	8.9	0.94	0.92	0.89
Nordic Waterproofing A/S	SEK	2,822	7	21	52	12.2	13.2	12.3	10.7	11.7	11.0	1.05	1.06	1.03
Systemair AB	SEK	10,303	15	37	68	22.0	21.1	17.7	18.3	16.3	14.1	1.37	1.37	1.29
Uponor	EUR	11,059	24	32	65	13.9	22.9	16.9	9.3	13.7	10.5	1.02	1.07	0.99
Median			7	32	55	18.8	16.0	14.9	15.4	13.6	11.0	1.02	1.06	0.99
Average			9	34	52	17.0	15.9	13.9	13.8	12.7	11.2	1.04	1.01	0.96
Alumasc Group PLC	GBP	28	21	2	-7	9.4	5.4	4.8	9.3	5.5	-	0.5	0.4	0.4
Epwin Group PLC	GBP	101	-2	-1	-2	6.8	6.6	-	9.1	8.9	-	0.6	0.6	-
Eurocell PLC	GBP	196	-1	-5	-12	16.4	11.4	8.9	25.1	12.5	10.9	1.0	0.9	0.8
Norcros PLC	GBP	120	-5	8	-31	5.4	5.9	4.7	5.4	5.6	4.4	0.5	0.6	0.5
Safestyle UK PLC	GBP	49	29	15	-28	-	24.4	10.6	na.	15.1	8.4	0.5	0.4	0.4
Titon Holdings PLC	GBP	9	2	-10	-42	-	-	-	9.1	6.4	4.6	-	-	-
Tyman PLC	GBP	396	14	17	-5	10.6	8.5	7.5	10.5	8.7	7.8	1.2	1.1	1.0
Somec SpA	EUR	112	-10	-12	-23	-	-	-	-	-	-	-	-	-
Median			0	0	-17	9.4	7.6	7.5	9.2	8.7	7.8	0.6	0.6	0.5
Average			6	2	-19	9.7	10.4	7.3	11.4	9.0	7.2	0.7	0.7	0.6
Median			6	21	-2	13.0	11.8	10.2	10.5	11.4	9.7	1.0	0.9	0.9
Average			7	19	19	14.4	13.7	11.5	12.9	11.0	9.7	0.9	0.9	0.8
Balco			-2	4	48	17.5	16.1	14.7	13.3	11.9	10.4	1.54	1.43	1.30
Diff to Nordic peers (%)						3.1	1.6	6.0	-3.9	-5.8	-6.9	48.7	41.2	36.3
Diff to entire peer group (%)						21.7	18.0	27.6	3.3	8.1	6.6	70.0	63.4	55.8

Source: SEB, TR

Overview

Investment considerations

Balco is a well-positioned growth company in the growing balcony renovation market. We believe Balco is an interesting investment opportunity, where the main drivers are increasing demand for balcony renovations due to an ageing dwelling stock and market leading positions in fragmented key markets. Balco has demonstrated an effective business model where it controls the entire value chain as it has been able to outgrow other market participants while generating good margins and cash flow.

Company profile

Balco offers turnkey solutions in balcony construction and renovations, primarily in Sweden, Denmark and Norway, but it also has operations in Finland, Germany, the Netherlands and the UK. The company operates within the new build and renovation markets, although mainly the latter, representing approximately 90% of revenues in 2019. The offering focuses on glazed balcony solutions, but also includes open balconies, maritime balconies and related products. All the products are made and tailored in Balco's own facilities and installed using in-house expertise.

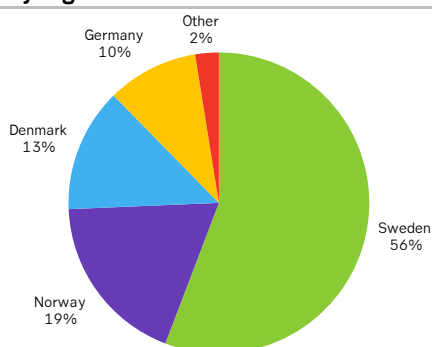
Valuation approach

We value the company using a discounted cashflow (DCF) model.

Risks

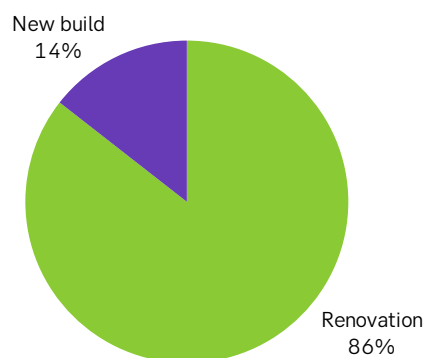
The project nature of the business exposes the company to related risks that might affect profitability. Prolonged impact from the Covid-19 pandemic could have a negative impact on order intake.

Revenues by region



Source: SEB

Revenues by division



Source: SEB

About this publication

This report is a marketing communication commissioned by Balco and prepared by Skandinaviska Enskilda Banken AB (publ). It does not constitute investment research; as such, it has not been prepared in accordance with the legal requirements to promote the independence of investment research, nor is it subject to any prohibition on dealing ahead of the dissemination of investment research.

This statement affects your rights

This report is confidential and may not be reproduced, redistributed or republished by any recipient for any purpose or to any person. Redistributing this report to third parties may invoke legal requirements on the person engaging in such activities.

Producers and Recipients

SEB Research is approved and issued by Skandinaviska Enskilda Banken AB (publ) ("SEB"), a bank organized under the laws of the Kingdom of Sweden, on behalf of itself and its affiliates for institutional investors. When SEB Research is issued by an SEB subsidiary, the subsidiary itself is subject to this disclaimer.

Use

This material has been prepared by SEB for information purposes only. It does not constitute investment advice and is being provided to you without regard to your investment objectives or circumstances. The document does not constitute an invitation or solicitation of an offer to subscribe for or purchase any securities and neither this document nor anything contained herein shall form the basis for any contract or commitment whatsoever. Opinions contained in the report represent the authors' present opinion only and may be subject to change. In the event that the authors' opinion should change, we shall endeavour (but do not undertake) to disseminate any such change, within the constraints of any regulations, applicable laws, internal procedures within SEB, or other circumstances.

Good faith and limitations

All information, including statements of fact, contained in this research report have been obtained and compiled in good faith from sources believed to be reliable. However, no representation or warranty, express or implied, is made by SEB with respect to the completeness or accuracy of its contents, and it is not to be relied upon as authoritative and should not be taken in substitution for the exercise of reasoned, independent judgement by you. Recipients are urged to base their investment decisions upon such investigations as they deem necessary. To the extent permitted by applicable law, no liability whatsoever is accepted by SEB for any direct or consequential loss arising from the use of this document or its contents.

Distribution

This research report has been prepared by SEB or its affiliates and is being distributed by SEB offices in Stockholm, Copenhagen, Oslo, Helsinki, Frankfurt, London, Tallinn, Vilnius and Riga. Research reports are prepared and distributed in Lithuania by AB SEB bankas and in Estonia by AS SEB Pank in accordance with the requirements of the local laws and Financial Supervision Authority's conduct of business rules. This document may not be distributed in the United States, Canada, Japan or Australia or in any other jurisdiction where to do so would be unlawful. Addresses and Phone numbers for each office can be found at the end of the report.

The SEB Group: members, memberships and regulators

SEB is a member of, inter alia, Nasdaq OMX Nordic, Oslo Stock Exchange, the London Stock Exchange, NYSE Euronext, SIX Swiss Exchange, Frankfurt Stock Exchange, Tallinn Stock Exchange as well as certain European MTF's such as BATS-Chi-X, Turquoise and Burgundy. SEB is regulated by Finansinspektionen in Sweden and, for the conduct of investment services business, in (i) Denmark by Finanstilsynet, (ii) Norway by Finanstilsynet, (iii) Finland by Finanssivalvonta, (iv) Germany by Bundesanstalt für Finanzdienstleistungsaufsicht, (v) the UK by the Financial Conduct Authority and Prudential Regulation Authority (details about the extent of our regulation by the Financial Conduct Authority and Prudential Regulation Authority are available from us on request), (vi) Estonia by the Estonian Financial Supervision Authority, (vii) Lithuania by the Bank of Lithuania, (viii) Latvia by the Financial and Capital Markets Commission and Futures Commission.

SEB's research reports are prepared in accordance with the industry standards and codes of conduct applicable to financial analysts in the countries where they are based. In Denmark, Finland, Norway and Sweden, analysts act in accordance with the rules of ethics of each country's Society of Financial Analysts. Analysts comply with the recommendations and industry standards of the Danish, Norwegian and the Swedish Securities Dealers Associations and with those of the Federation of Finnish Financial Services. Analysts certified by the CFA Institute also comply with the Code of Ethics of the CFA Institute.

Prevention and avoidance of conflicts of interest

The remuneration of staff within the Research department is determined exclusively by research management and senior management and may include discretionary awards based on the firm's total earnings, including investment banking and markets (sales and trading businesses) income; however, no such staff receive remuneration based upon specific investment banking or markets transactions. SEB's Compliance department monitors the production of research and the observance of the group's procedures designed to prevent any potential conflicts of interest from affecting the content of research; the latter are described in greater detail in the "Statement of Policies for dealing with potential conflicts of interest surrounding our Research activities" which is available on our SEB Research website.

Your attention is also drawn to the fact that:

The current market price of the securities shown in this report is the price prevailing at the close of the business day preceding the date of publication, save where such price was more than 5% different from the price prevailing as at the time of publication, in which case it is the latter.

Unless explicitly stated otherwise in this report, SEB expects (but does not undertake) to issue updates to this report following the publication of new figures or forecasts by the company covered, or upon the occurrence of other events which could potentially have a material effect on it.

The securities discussed in this research report may not be eligible for sale in all countries, and such securities may not be suitable for all types of investors. Offers and sales of securities discussed in this research report, and the distribution of this report, may be made only in countries where such securities are exempt from registration or qualification or have been so registered or qualified for offer and sale, and in accordance with applicable broker-dealer and agent/salesman registration or licensing requirements. A copy of this report, not including the recommendation, has been provided to the issuer prior to its dissemination to check factual statements for accuracy; as a result, some amendments have been made.

A full list of disclosures for other companies mentioned herein (in which SEB has research coverage), can be found on our SEB Research website

Methodology

Final consideration as to any valuations, projections and forecasts contained in this report are based on a number of assumptions and estimates and are subject to contingencies and uncertainties, and their inclusion in this report should not be regarded as a representation or warranty by or on behalf of the Group or any person or entity within the Group that they or their underlying assumptions and estimates will be met or realized. Different assumptions could result in materially different results. Past performance is not a reliable indicator of future performance. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related investment mentioned in this report. In addition, investors in securities, such as ADRs, whose values are influenced by the currency of the underlying security, effectively assume currency risk.

Company specific disclosures and potential conflicts of interest

A member of, or an entity associated with, SEB or its affiliates, officers, directors, employees or shareholders of such members (a) is not, and has never been, represented on the board of directors or similar supervisory entity of Balco, (b) has from time to time bought or sold the securities issued by the company or options relating to the company, and (c) SEB does not hold any short / long position exceeding 0.5% of the total issued share capital of Balco as of 31 Jul 2020.

The analyst(s) responsible for this research report (jointly with their closely related persons) hold(s) 0 shares in Balco and do(es) not have holdings in other instruments related to the company.

Skandinaviska Enskilda Banken AB (publ). All rights reserved.

Copenhagen

Bernstorffsgade 50
P.O. Box 100
DK-1577 Copenhagen V

Telephone: (45) 3328 2828

Oslo

Filipstad Brygge 1,
P.O. Box 1363 Vikta
NO-0113 Oslo

Telephone: (47) 2100 8500

Frankfurt

Stephanstrasse 14-16
D-60313 Frankfurt am Main

Telephone: (49) 69 9727 7740

Stockholm

Kungsträdgårdsgatan 8
S-106 40 Stockholm

Telephone: (46) 8 522 29500

Helsinki

Eteläesplanadi 18
P.O. Box 630
FIN-00101 Helsinki

Telephone: (358) 9 616 28700

Tallinn

Tornimäe 2
EE-Tallinn 15010

Telephone: (372) 665 7762

London

One Carter Lane
London, EC4V 5AN

Telephone: (44) 20 7246 4000