



Strategic transformation continues

While Bergs Timber's Q2 results improved both y-o-y and sequentially and clearly exceeded our forecast, the big topic remains the recently announced plan to divest the entire Swedish sawmill operation to refocus on the higher profitability wood refining businesses and the Baltic sawmills. We have adjusted our forecasts accordingly.

Key Data (2020E)

Price (SEK)	2.72
Reuters	BET1.ST
Bloomberg	BRGB.SS
Market cap (SEKm)	943
Market cap (USDm)	108
Market cap (EURm)	92
Net debt (SEKm)	79
Net gearing	6%
Net debt/EBITDA (x)	0.5
Shares fully dil. (m)	346.7
Avg daily turnover (m)	0.0
Free float	35%

Divestment of the Swedish sawmills is reshaping the group

On 17 June Bergs signed an agreement to divest its Swedish sawmill operations to Vida in order to refocus on its more stable and profitable further processing business and its Baltic sawmill operations. In 2019 the operations to be sold accounted for SEK 1,150m (36%) of sales and SEK 39m (25%) of adjusted EBITDA, corresponding to a margin of 3.4%. The continuing operations had an adjusted EBITDA margin of 5.6%. The balance sheet will strengthen, enabling further growth in the refocused business. While the deal is dependent on regulatory approval, we have assumed it will close as planned on 1 September. In line with the company's accounting we treat the operations to be sold as discontinued operations until 1 September 2020E.

Strong Q2 improvement amid COVID-19 crisis

Q2 adjusted EBITDA including discontinued operations was SEK 70m, up from SEK 49m in Q2 2019 and SEK 50m in Q1 2020. It was well above our forecast of SEK 40m. The adjusted EBITDA margin of 8.4% jumped from 5.4% in Q2 2019 and 5.8% in Q1 2020.

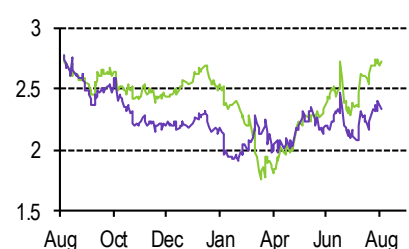
Adjusted EBIT unchanged in 2020E, but cut 36% in 2021E and 32% in 2022E

Although our adjusted EBIT forecast for 2020 is unchanged, we have cut our forecasts by 36% for 2021 and 32% for 2022 to reflect the planned divestment. Q3 2020E reported EBIT includes a SEK 100m capital gain.

Estimate Revisions (%)

	2020E	2021E	2022E
Revenues	(35)	(33)	(32)
Adj. EBIT	0	(36)	(32)
Adj. EPS	159	(41)	(42)

Share Price (12M)



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

**Marketing communication
 commissioned by:
 Bergs Timber**

Financials (SEK)

Year end: Dec	2018	2019	2020E	2021E	2022E
Revenues (m)	3,064	3,287	1,983	2,055	2,088
Adj. EBIT	236	78	91	87	92
Pre-tax profit (m)	214	45	167	68	74
EPS	0.75	0.13	0.43	0.16	0.17
Adj. EPS	0.78	0.13	0.18	0.16	0.17
DPS	0.10	0.00	0.05	0.07	0.08
Revenue growth (%)	152.0	7.3	(39.7)	3.6	1.6
Adj. EBIT growth (%)	536.7	(66.8)	15.6	(3.9)	5.1
Adj. EPS growth (%)	415.6	(83.0)	39.0	(14.3)	8.9
Adj. EBIT margin (%)	7.7	2.4	4.6	4.2	4.4
ROE (%)	25.9	4.2	12.7	4.3	4.6
ROCE (%)	21.4	4.5	5.1	5.0	5.3
PER (x)	3.8	19.3	14.8	17.3	15.8
Free cash flow yield (%)	8.5	1.8	19.6	4.9	7.1
Dividend yield (%)	3.4	0.0	1.8	2.6	2.9
P/BV (x)	0.96	0.80	0.76	0.74	0.72
EV/Sales (x)	0.53	0.48	0.51	0.49	0.46
EV/Adj. EBITDA (x)	5.2	9.3	6.5	6.4	5.9
EV/Adj. EBIT (x)	6.7	19.7	11.3	11.4	10.4
Operating cash flow/EV (%)	14.8	9.5	24.0	9.7	12.4
Net debt/Adj. EBITDA (x)	1.89	3.98	0.50	0.32	0.04

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

Interim financial statement (continuing operations)

(SEKm)	Q2/19	Q1/20	Q2/20	Q3/20E	Q4/20E	2019	2020E	2021E	2022E
Net sales	619	528	545	496	431	2,056	2,000	2,035	2,068
Changes in products in progress	-13	8	-37	0	0	18	-29	0	0
Other operating income	14	5	3	2	2	42	12	20	20
Total revenues	620	541	511	498	433	2,116	1,983	2,055	2,088
Raw materials and consumables	-417	-363	-341	-310	-269	-1,431	-1,284	-1,273	-1,294
Other opex	-152	-149	-118	-46	-128	-552	-441	-627	-634
EBITDA	51	29	52	142	35	133	258	155	160
Depreciation & amortisation	-15	-16	-17	-17	-17	-60	-67	-68	-68
EBIT	36	13	35	125	18	73	191	87	92
Financial items	-8	14	-31	-6	-6	-33	-23	-19	-17
Pre-tax profit	28	27	4	119	12	40	167	68	74
Tax	-1	-7	9	-24	-2	3	-24	-14	-15
Net profit cont ops	27	20	13	95	10	43	143	55	60
Net profit discount ops	1	-14	11	9	0	2	6	0	0
EPS (SEK)	0.08	0.02	0.07	0.27	0.03	0.13	0.43	0.16	0.17
Adjusted EBIT	25	13	35	25	18	55	91	87	92
Adjusted EBIT margin	4.0%	2.5%	6.4%	5.0%	4.2%	2.7%	4.5%	4.3%	4.4%
Adjusted EBITDA	40	29	52	42	35	115	158	155	160
Adjusted EBITDA margin	6.5%	5.5%	9.5%	8.4%	8.2%	5.6%	7.9%	7.6%	7.7%

Source: SEB

Earnings revision

(SEK)	2020E	2021E	2022E
Revenues (m)			
Old	3,059	3,050	3,058
New	1,983	2,055	2,088
Change (%)	(35)	(33)	(32)
Operating profit (m)			
Old	60	137	135
New	191	87	92
Change (%)	217	(36)	(32)
Pre-tax profit (m)			
Old	34	112	112
New	167	68	74
Change (%)	393	(39)	(34)
EPS (reported)			
Old	0.07	0.27	0.30
New	0.43	0.16	0.17
Change (%)	507	(41)	(42)
EPS (adjusted)			
Old	0.07	0.27	0.30
New	0.18	0.16	0.17
Change (%)	159	(41)	(42)

Source: SEB

Overview

Investment case

We expect good demand growth drivers for the use of wood products in the coming years, to which Bergs Timber offers an interesting exposure. Key structural demand drivers include urbanisation, emerging markets, sustainability and carbon policies. Transformative M&A and forward integration have improved the market position diversified the product mix. This helps to mitigate earnings volatility, which by nature is high in this construction-driven industry.

Company profile

Bergs Timber is a Swedish wood products company operating saw mills and wood refinement facilities in Sweden, Latvia and Estonia. After the acquisition of Norvik companies in May 2018, the company expanded its production to the Baltics and acquired a distribution centre in the UK. The company has a sawmill capacity of nearly 1m m³ per year. The primary focus has been on made-to-order sawn and planed wood products, but refined wood products are becoming increasingly important for the group.

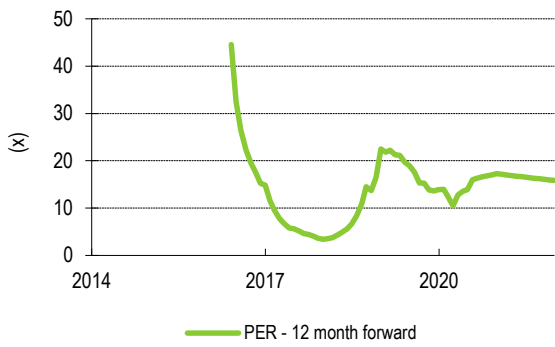
Valuation approach

We value the company using a DCF-based method.

Target price risks

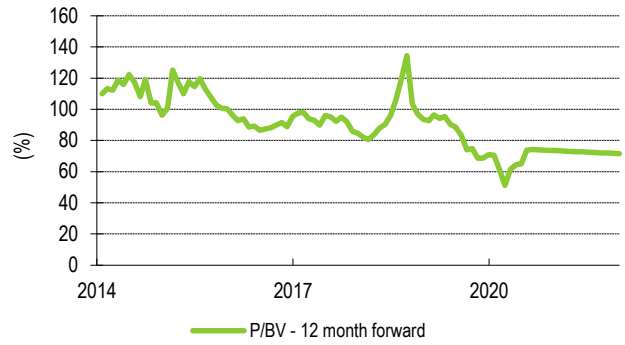
The biggest risks to estimates and valuation relate to economic conditions in general and construction particularly. In terms of currency exposures, a potential weakening of the British pound or strengthening of the Swedish krona are the biggest risks. The large acquisition of Norvik companies has opened new opportunities for Bergs Timber, but also increased the financial leverage risk.

PER - 12 month forward



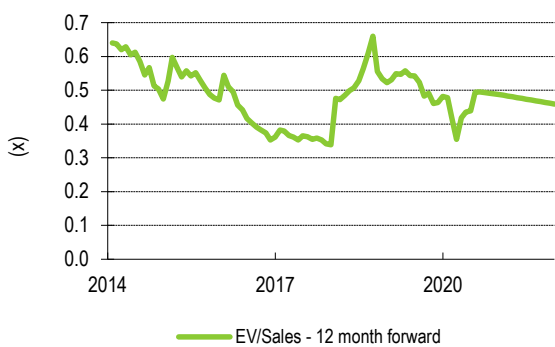
Source: SEB

P/BV - 12 month forward



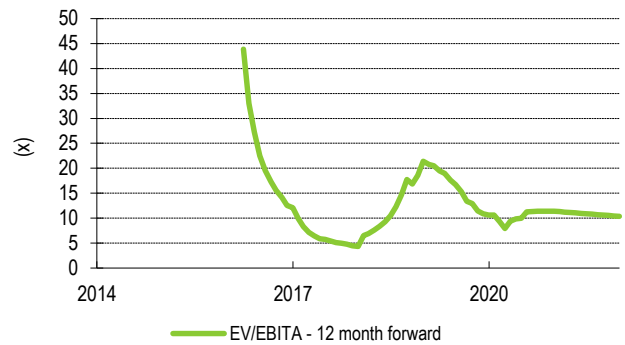
Source: SEB

EV/Sales - 12 month forward



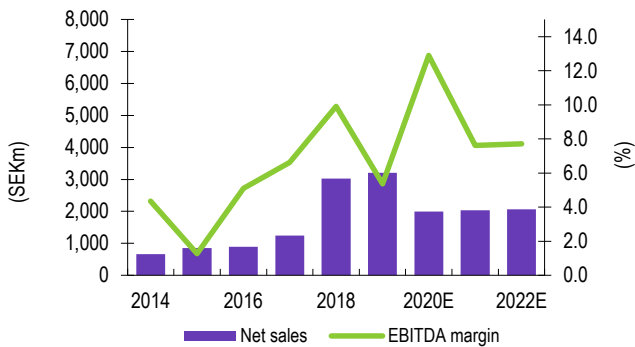
Source: SEB

EV/EBITA - 12 month forward



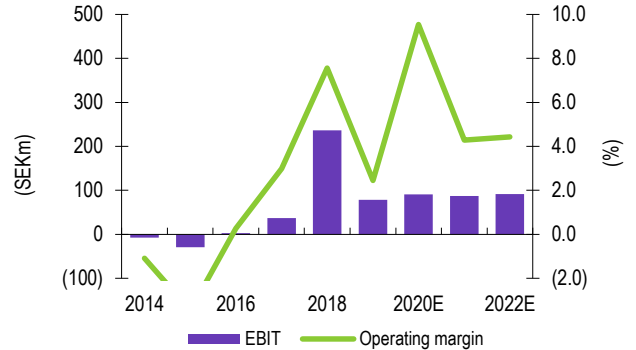
Source: SEB

Net sales & EBITDA margin



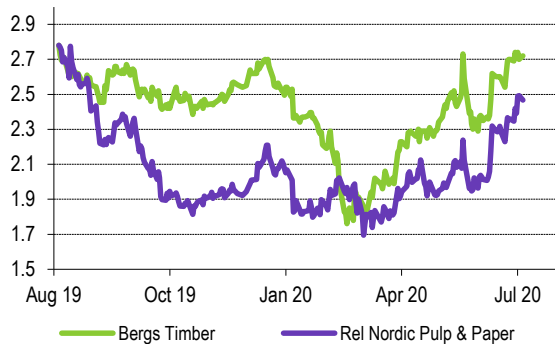
Source: SEB

EBIT & Operating margin



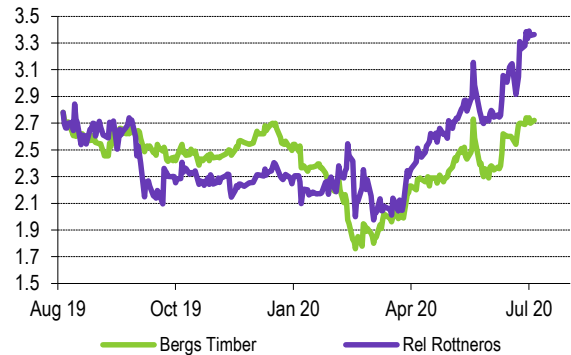
Source: SEB

Comparison with sector index - 1 year



Source: SIX

Comparison with Rottneros - 1 year



Source: SIX

Profit & loss statement - Bergs Timber									
(SEKm)	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E
Net Sales	665	853	894	1,244	3,031	3,206	2,000	2,035	2,068
Other revenues	32	23	22	(28)	33	81	(17)	20	20
Total revenues	697	876	916	1,216	3,064	3,287	1,983	2,055	2,088
Total expenses	(668)	(865)	(871)	(1,134)	(2,764)	(3,115)	(1,725)	(1,900)	(1,928)
Profit before depreciation	29	11	46	82	300	172	258	155	160
Depreciation - Fixed assets	(36)	(40)	(43)	(45)	(71)	(94)	(67)	(68)	(68)
Depreciation - Other assets	0	0	0	0	0	0	0	0	0
Amortisation - Goodwill	0	0	0	0	0	0	0	0	0
Amortisation - Other intangibles	0	0	0	0	0	0	0	0	0
Operating profit	(7)	(30)	2	37	229	78	191	87	92
Net interest expenses	(6)	(8)	(6)	(6)	(15)	(33)	(23)	(19)	(17)
Foreign exchange items	0	0	0	0	0	0	0	0	0
Other financial items	0	0	0	0	0	0	0	0	0
Value changes - Fixed assets	0	0	0	0	0	0	0	0	0
Value changes - Financial assets	0	0	0	0	0	0	0	0	0
Value changes - Other assets	0	0	0	0	0	0	0	0	0
Reported pre-tax profit	(14)	(37)	(4)	31	214	45	167	68	74
Minority interests	0	0	0	0	0	0	0	0	0
Total taxes	3	8	0	(6)	(26)	0	(24)	(14)	(15)
Reported profit after tax	(11)	(29)	(4)	25	188	45	143	55	60
Discontinued operations	0	0	0	0	0	0	0	0	0
Extraordinary items	0	0	0	0	0	0	0	0	0
Net Profit	(11)	(29)	(4)	25	188	45	143	55	60
Adjustments:									
Discontinued operations	0	0	0	0	0	0	0	0	0
Interest on convertible debt	0	0	0	0	0	0	6	0	0
Minority interests (IFRS)	0	0	0	0	0	0	0	0	0
Value changes	0	0	0	0	0	0	0	0	0
Goodwill/intangibles amortisations	0	0	0	0	0	0	0	0	0
Restructuring charges	0	0	0	0	7	0	0	0	0
Other adjustments	0	0	0	0	0	0	0	0	0
Tax effect of adjustments	0	0	0	0	(1)	0	(86)	0	0
Adjusted profit after tax	(11)	(29)	(4)	25	194	45	64	55	60
Margins, tax & returns									
Operating margin	(1.1)	(3.5)	0.3	3.0	7.6	2.4	9.5	4.3	4.4
Pre-tax margin	(2.0)	(4.3)	(0.4)	2.5	7.1	1.4	8.4	3.4	3.6
Tax rate	20.7	21.8	7.5	19.6	12.2	0.0	14.5	20.0	20.0
ROE	(4.1)	(11.2)	(1.2)	6.7	25.9	4.2	12.7	4.3	4.6
ROCE	(1.8)	(6.8)	0.5	7.2	21.4	4.5	5.1	5.0	5.3
Growth rates y-o-y (%)									
Total revenues	n.a.	25.7	4.6	32.7	152.0	7.3	(39.7)	3.6	1.6
Operating profit	n.m.	n.m.	n.m.	1,445.8	517.8	(65.8)	143.1	(54.3)	5.1
Pre-tax profit	n.m.	n.m.	n.m.	n.m.	588.8	(78.8)	268.5	(59.2)	8.9
EPS (adjusted)	0.0	0.0	0.0	0.0	415.6	(83.0)	39.0	(14.3)	8.9
Cash flow									
(SEKm)	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E
Net profit	(11)	(29)	(4)	25	188	45	143	55	60
Non-cash adjustments	30	33	32	49	82	64	(48)	53	68
Cash flow before work cap	20	4	28	74	270	109	95	108	128
Ch. in working capital / Other	(68)	36	(62)	38	(34)	38	150	(11)	(10)
Operating cash flow	(48)	40	(34)	112	236	147	245	97	117
Capital expenditures	(51)	(10)	(19)	(35)	(173)	(131)	(60)	(50)	(50)
Asset disposals	8	2	2	6	1	11	400	0	0
L/T financial investments	0	0	0	0	(6)	8	0	0	0
Acquisitions / adjustments	0	3	69	(31)	(86)	(25)	(80)	0	0
Free cash flow	(91)	35	18	52	(28)	10	505	47	67
Net loan proceeds	(4)	(25)	(41)	(17)	117	35	(48)	(48)	(48)
Dividend paid	0	0	0	0	(9)	(34)	0	(17)	(24)
Share issue	0	0	0	0	0	0	0	0	0
Other	49	(11)	39	(51)	(7)	1	0	0	(0)
Net change in cash	(46)	(1)	16	(16)	73	12	457	(19)	(5)
Adjustments									
C/flow bef chng in work cap	20	4	28	74	270	109	95	108	128
Adjustments	0	0	0	0	0	0	0	0	0
Int on conv debt net of tax	0	0	0	0	0	0	6	0	0
Cash earnings	20	4	28	74	270	109	101	108	128
Per share information									
Cash earnings	0.2	0.03	0.23	0.44	1.08	0.32	0.29	0.31	0.37
Operating cash flow	(0.49)	0.35	(0.28)	0.67	0.94	0.43	0.72	0.28	0.34
Free cash flow	(0.94)	0.31	0.15	0.31	(0.11)	0.03	1.47	0.13	0.19
Investment cover									
Capex/sales (%)	7.7	1.2	2.1	2.8	5.7	4.1	3.0	2.5	2.4
Capex/depreciation (%)	141	25	43	78	243	140	90	74	74

Source for all data on this page: SEB

Balance sheet - Bergs Timber									
(SEKm)	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E
Cash and liquid assets	2	0	17	1	74	86	543	525	520
Debtors	90	106	113	178	377	329	205	209	212
Inventories	151	189	254	226	653	667	416	423	430
Other	0	0	0	0	0	0	0	0	0
Current assets	243	295	383	406	1,104	1,082	1,164	1,157	1,162
Interest bearing fixed assets	0	0	0	0	8	1	1	1	1
Other financial assets	1	0	0	0	0	6	6	6	6
Capitalized development cost	0	0	0	0	0	0	0	0	0
Goodwill	2	2	2	2	191	193	193	193	193
Other intangibles	0	0	0	0	0	0	0	0	0
Fixed tangible assets	234	245	251	264	771	948	621	603	585
Other fixed assets	10	22	28	22	0	0	0	0	0
Fixed assets	247	269	280	287	970	1,148	821	803	785
Total assets	490	564	663	693	2,074	2,230	1,985	1,960	1,947
Creditors	47	67	76	123	0	0	0	0	0
Other trade financing	8	10	19	13	0	0	0	0	0
S/T interest bearing debt	58	171	137	59	416	158	158	158	158
Other	22	33	30	34	361	347	347	347	347
Current liabilities	135	281	263	229	777	505	505	505	505
L/T interest bearing debt	102	17	53	35	245	593	545	497	449
Other long-term liabilities	1	1	1	30	0	30	(195)	(195)	(195)
Convertible debt	0	0	0	0	0	0	0	0	0
Pension provisions	0	0	0	0	0	0	0	0	0
Other provisions	0	0	0	0	0	0	(115)	(130)	(130)
Deferred tax	0	0	0	0	0	0	0	0	0
Long term liabilities	102	18	54	65	245	623	235	172	124
Minority interests	0	0	0	0	0	0	0	0	0
Shareholders' equity	253	266	347	398	1,052	1,102	1,245	1,283	1,318
Total liabilities and equity	490	564	663	693	2,074	2,230	1,985	1,960	1,947
Net debt (m)	158	187	174	93	580	664	79	49	6
Working capital (m)	164	185	241	234	669	649	274	285	295
Capital employed (m)	413	454	538	492	1,714	1,853	1,868	1,858	1,845
Net debt/equity (%)	63	70	50	23	55	60	6	4	0
Net debt/EBITDA (x)	5.5	17.2	3.8	1.1	1.9	4.0	0.5	0.3	0.0
Equity/total assets (%)	52	47	52	58	51	49	63	65	68
Interest cover	(1.1)	(3.8)	0.4	6.1	15.3	2.3	7.2	3.7	4.2

Valuation									
(SEK)	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E
No of shares, fully dil. (y/e)	96.6	113.8	159.8	170.8	340.8	346.7	346.7	346.7	346.7
No of shares, fully dil. avg.	96.6	113.4	121.2	166.2	250.5	343.8	346.7	346.7	346.7
Share price, y/e	2.3	2.2	2.2	2.6	3.0	2.6	2.7	2.7	2.7
Share price, high	3.5	3.0	2.4	2.9	4.3	3.4	2.7		
Share price, low	2.1	2.0	1.8	2.1	2.4	2.4	1.8		
Share price, avg	2.8	2.5	2.1	2.5	3.1	2.8	2.3		
EPS (reported)	(0.11)	(0.26)	(0.03)	0.15	0.75	0.13	0.43	0.16	0.17
EPS (adjusted)	(0.11)	(0.26)	(0.03)	0.15	0.78	0.13	0.18	0.16	0.17
Cash earnings/share	0.20	0.03	0.23	0.44	1.08	0.32	0.29	0.31	0.37
Dividend/share	0.00	0.00	0.00	0.05	0.10	0.00	0.05	0.07	0.08
Enterprise value/share	3.9	3.8	3.3	3.2	4.7	4.5	2.9	2.9	2.7
Book value/share	2.6	2.3	2.2	2.3	3.1	3.2	3.6	3.7	3.8
Adjusted equity/share	2.6	2.3	2.2	2.3	3.1	3.2	3.6	3.7	3.8
PER (adjusted)	n.m.	n.m.	n.m.	17.4	3.8	19.3	14.8	17.3	15.8
CEM	11.0	63.4	9.7	5.9	2.8	8.0	9.3	8.8	7.4
Dividend yield	0.0	0.0	0.0	1.9	3.4	0.0	1.8	2.6	2.9
EV/EBITDA	12.9	39.9	11.6	6.5	5.2	9.3	6.5	6.4	5.9
EV/EBITA	(52.1)	(14.8)	220.8	14.5	6.7	19.7	11.3	11.4	10.4
EV/EBIT	(52.1)	(14.8)	220.8	14.5	6.7	19.7	11.3	11.4	10.4
EV/Sales (x)	0.56	0.51	0.59	0.43	0.53	0.48	0.51	0.49	0.46
Price/Book value	0.86	0.93	1.03	1.12	0.96	0.80	0.76	0.74	0.72
Price/adjusted equity	0.86	0.93	1.03	1.12	0.96	0.80	0.76	0.74	0.72
Free cash flow/Market cap (%)	(45.4)	12.1	(19.4)	17.7	8.5	1.8	19.6	4.9	7.1
Operating cash flow/EV (%)	(12.7)	9.2	(6.4)	20.8	14.8	9.5	24.0	9.7	12.4
EV/Capital employed (x)	0.9	1.0	1.0	1.1	0.9	0.8	0.5	0.5	0.5

Main shareholders			Management		Company information	
Name	(%)	Votes	Capital	Title	Name	Contact
Norvik hf	64.7		64.7	COB	Michael Bertorp	Internet http://www.bergstimmer.se
Danica Pension	4.9		4.9	CEO	Peter Nilsson	Phone number
Setra Trävaror AB	3.2		3.2	CFO	Anders Marklund	
Foreign owners (total)			70.0	IR		0

Source for all data on this page: SEB

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