

The fastest-growing construction company

We initiate coverage of Serneke, the fastest growing construction company in Sweden in recent years. Started less than 20 years ago, Serneke has grown to become the seventh largest construction company in Sweden. After a period of consolidation, Serneke has strengthened its balance sheet and turned its focus to restoring profitability, and we are excited about the potential that a successful turnaround in profitability would create.

Key Data (2021E)

Price (SEK)	48.80
Reuters	SRNKEb.ST
Bloomberg	SRNKEB SS
Market cap (SEKm)	1,363
Market cap (USDm)	158
Market cap (EURm)	134
Net debt (SEKm)	(325)
Net gearing	(14%)
Net debt/EBITDA (x)	(1.2)
Shares fully dil. (m)	27.9
Avg daily turnover (m)	0.0
Free float	65%

Growth ambitions on hold, for now

In our view, Serneke is equipped to continue to grow at above-industry growth rates despite a shift in focus towards profitability. With new management, both on the group and divisional levels, a stated focus on profitability, a 2020 project clean-up and a strengthened balance sheet, we believe that margins will also improve in the coming years supporting strong earnings growth, which gradually will support Serneke's share price.

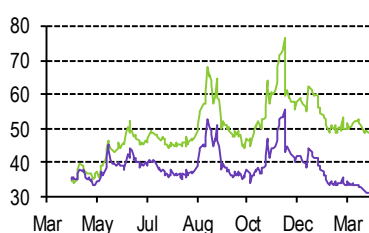
A unique landbank of opportunities

Serneke has a significant landbank consisting of around 900,000 sqm of mainly residential building rights. With a strengthened balance sheet and very strong demand for residential, we believe that Serneke will be able to utilise its assets and realise their value as it steps up activity in project development. Due to the lead times in developments and Serneke's prudent accounting methods revenues and profits from an increase in activity will be visible in 2023 and beyond.

Mid-point DCF value of SEK 70 per share

Based on our forecasts, Serneke trades at an EV/S of 0.2x, well below main peers at 0.6x, explained by the temporarily lower margins. Based on a DCF approach, supported by multiple and NAV valuations, we derive a fair share price range of SEK 62-78 per share with a mid-point value of SEK 70 (WACC of 8.5%, steady state EBIT margin of 3%).

Share Price (12M)



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

Marketing communication
commissioned by:
Serneke

Financials (SEK)

Year end: Dec	2019	2020	2021E	2022E	2023E
Revenues (m)	6,725	6,871	7,987	7,966	8,566
Adj. EBIT	(84)	(414)	223	200	321
Pre-tax profit (m)	(111)	(502)	181	160	283
EPS	(3.53)	(14.9)	5.24	4.59	8.09
Adj. EPS	(3.53)	(14.9)	5.24	4.59	8.09
DPS	0.00	0.00	0.00	1.50	2.00
Revenue growth (%)	3.2	2.2	16.2	(0.3)	7.5
Adj. EBIT growth (%)	n.m.	n.m.	n.m.	(10.3)	61.0
Adj. EPS growth (%)	n.m.	n.m.	n.m.	(12.3)	76.2
Adj. EBIT margin (%)	(1.2)	(6.0)	2.8	2.5	3.7
ROE (%)	(3.7)	(17.4)	6.9	5.5	9.1
ROCE (%)	(2.1)	(11.6)	6.3	5.5	8.6
PER (x)	n.m.	n.m.	9.3	10.6	6.0
Free cash flow yield (%)	(49.3)	(29.1)	9.3	(1.9)	7.3
Dividend yield (%)	0.0	0.0	0.0	3.1	4.1
P/BV (x)	0.65	0.73	0.60	0.57	0.53
EV/Sales (x)	0.39	0.21	0.13	0.13	0.10
EV/Adj. EBITDA (x)	(77.6)	(3.8)	3.7	3.9	2.2
EV/Adj. EBIT (x)	(31.4)	(3.5)	4.7	5.1	2.7
Operating cash flow/EV (%)	(24.5)	(24.4)	22.2	8.0	24.5
Net debt/Adj. EBITDA (x)	(36.00)	(0.05)	(1.17)	(1.35)	(1.31)

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

Contents

	Page
Investment conclusion	3
Sweden's fastest growing builder	3
Estimates	8
Group forecasts	8
Construction Sweden	10
Invest	11
International	12
Financial tables	12
Valuation	13
DCF valuation	13
Peer group valuation	14
Company overview	16
Serneke in brief	16
New organisation	18
Shareholder structure.....	20
Management and board	21
Market overview	23
The Swedish construction market	23
Swedish macro remains robust	25
Housing shortage.....	27
Business areas	29
Serneke Sweden.....	29
Serneke Invest	31
Serneke International	32
Overview	33

Investment conclusion

Sweden's fastest growing builder

Serneke is one of the fastest growing Swedish construction companies and in terms of size has reached seventh place in less than 20 years since its inception in 2002. The rapid growth has resulted in some growing pains which have affected the operation, financials, and valuation as well as the management. Following years of high growth and high profitability Serneke's growth slowed down in 2019 and 2020 while the company also made significant losses. Thanks to an impressive landbank of building rights built up over many years, Serneke has managed to manoeuvre through the difficult times by divesting assets and by strengthening its balance sheet in two new share issues. With a strengthened balance sheet, Serneke is now in a strong position to develop its building rights to create shareholder value. In our view, the investment case for Serneke relies on three pillars.

- A gradual turnaround of its construction operation in the division Serneke Sweden, where we expect the currently negative margins to gradually rebound and improve to just above 3.5%. Part of this margin recovery relates to the pure construction activities and part relates to an improvement in the mix with high margin development revenues.
- Continued growth in the Sweden division through market share gains with upside optionality from potential M&A, which is not part of our forecasts. We estimate an organic revenue CAGR of around 5% from 2019 through 2023.
- Ramping up activities within Serneke Invest, which holds the high margin property development operation, primarily within residential. Serneke should benefit from the currently high demand for residential by ramping up starts, which would both generate profits from the development and realise the now hidden excess value on the land bank. We expect Serneke Invest's high value-add services to grow significantly in the coming three years.

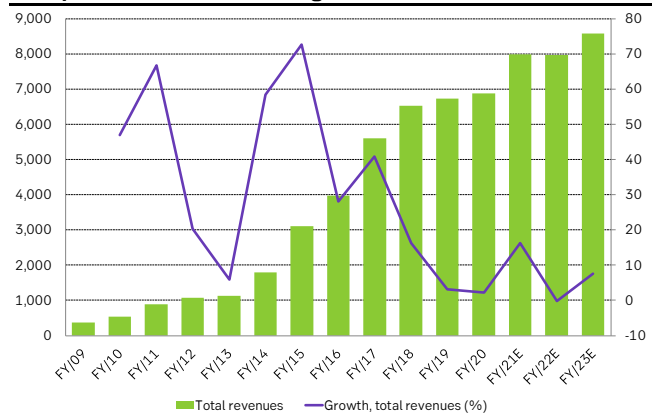
For the Serneke group as a whole we expect dramatic growth in EBIT from SEK -414m in 2020 to SEK 321m in 2023. The margin then increases from a negative 6% to a positive 3.7%.

Growth on hold to restore margins

In the past 10 years, Serneke has increased revenues quickly and grown at an average growth rate of just above 30% a year. Despite the rapid growth, the company is still only scratching the surface with a market share of around 1% as it is the seventh largest construction company in Sweden.

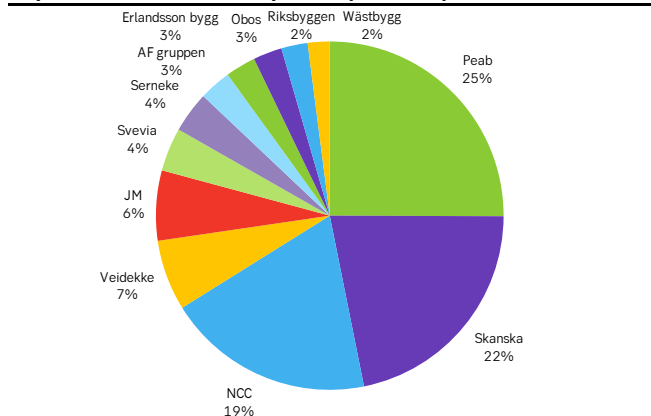
The growth has come at a cost, which became visible in 2019 and 2020 when margins declined significantly and turned negative. In order to restore the operation, the focus on growth has been toned down and instead all work is put into making sure profitability is restored. That said, growth is in the genes of Serneke and order intake has been strong throughout 2020, thus we expect some growth in the coming years. Also, as Serneke manages to reach stable profitability we expect the company to again outgrow the industry. We forecast a 2019-23E revenue CAGR of around 5% with further upside from selective M&A. Revenue growth in 2020 is expected to be around 16% mainly driven by the Invest division, on the back of divestments announced in 2020 but handed over in 2021.

Group revenue and revenue growth



Source: Serneke, SEB

Top 12 construction companies (Sweden)

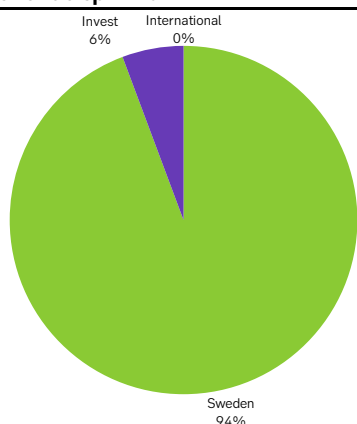


Source: Byggföretagen, SEB

Getting the high margin development operation growing again

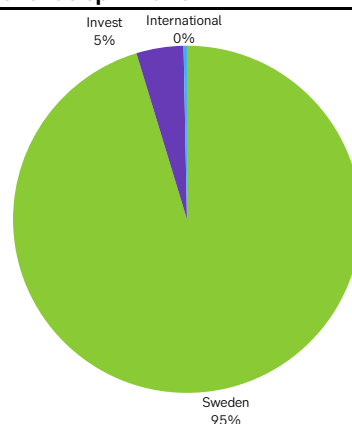
In the longer term we foresee a gradual shift towards Serneke’s higher margin property development operation, which we expect to grow faster than the overall market thanks to Serneke’s unique land bank. Up until 2023 we do not expect Serneke to manage to materially shift the mix in revenues among the divisions. This will come later as it depends on Serneke managing to start, complete, sell and hand over apartments.

Forecasted revenue split 2019



Source: Serneke, SEB

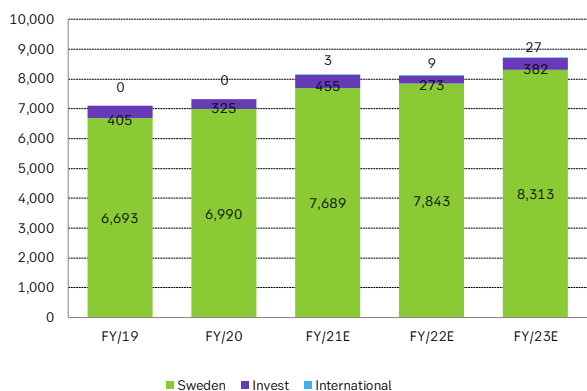
Forecasted revenue split 2023



Source: Serneke, SEB

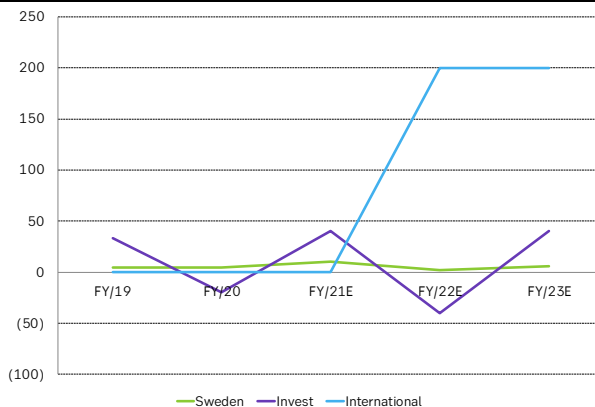
In the charts above there is no material difference in the split in revenues between 2019 and 2023, but in the charts below the difference in growth is more apparent. Invest’s revenues declined from 2019 to 2020 and then the growth pace increases rather quickly in 2021 but this is mainly related to divestments agreed in 2020 and handed over in 2021. The real underlying growth from own projects will come from 2023 onwards, we believe. The construction division, Sweden, has a more even growth rate and International is expected to pick up growth in 2022, from a low level.

Revenue by segment



Source: Serneke SEB

Revenue growth by segment y/y

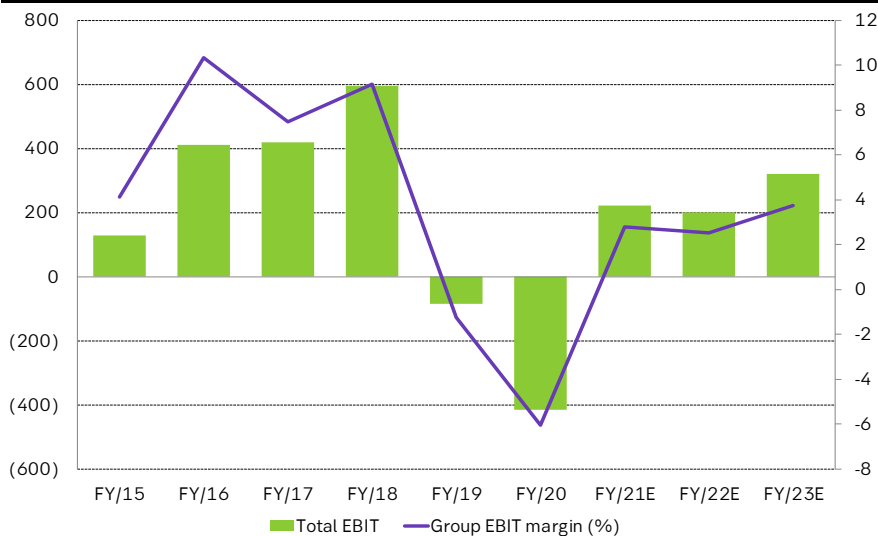


Source: Serneke, SEB

The scene is set for a turnaround

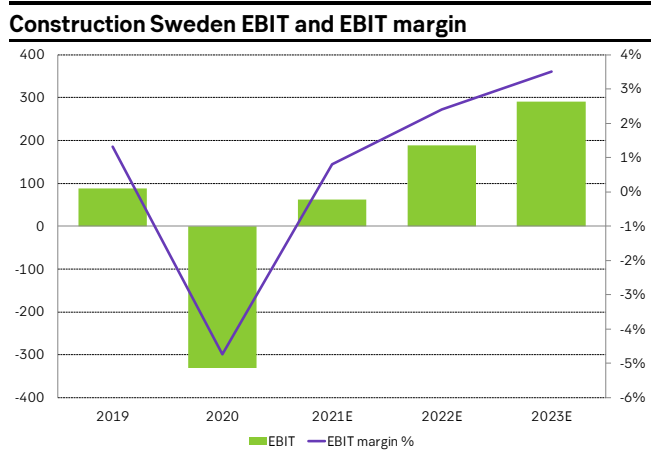
Serneke had decent profitability up until 2019 when the EBIT margin fell from 9.1% in the previous year to -1.2% and then further to -6% in 2020. Both years were hit by write-downs in both the construction operation and property development operations. We expect Serneke’s profitability to gradually improve in the coming years. The rapid pickup seen in 2021 is to a large extent the effect of divestments of land made, while the underlying margin development is more gradual.

Group EBIT and EBIT margin

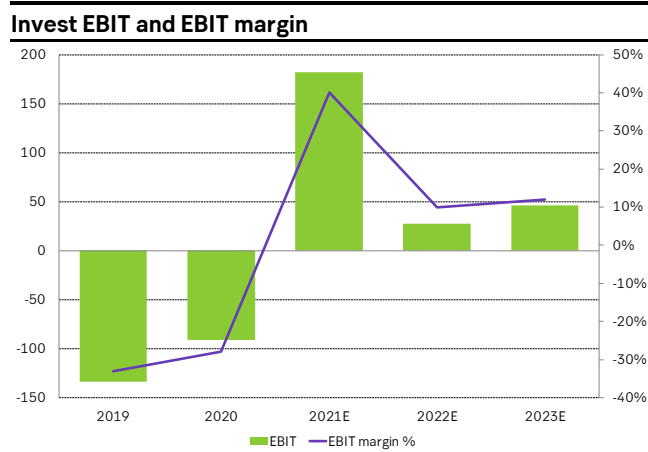


Source: SEB

In a group context, we suggest that the largest segment with the traditional construction operation, Sweden, will recover slowly and gradually while the property development operation will have a quicker turnaround depending on completion and handovers of properties.



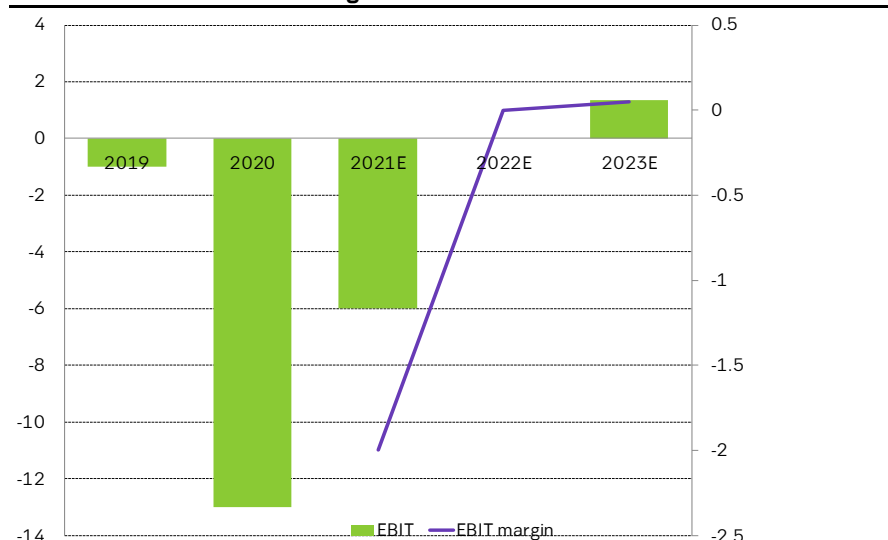
Source: Serneke, SEB



Source: Serneke, SEB

The International division, which today consists only of a part-owned business in Perth, Australia, has overhead that is not covered and we expect the activities in exporting construction knowledge to speed up towards the end of 2021, but for the division to remain lossmaking. In 2022 we expect enough revenues to cover the overhead and a small profit to be generated.

International EBIT and EBIT margin



Source: SEB, Serneke

We forecast that the turnaround will show already in Q1 2021 but come slowly and gradually. On a full-year basis, we expect Serneke to then turn profitable in 2021 with an EBIT margin of 2.8%. We expect the margin then to increase to 3.9% by 2023.

Based on our DCF valuation, supported by a multiple and NAV valuation we derive a fair price range of SEK 62-78 per share with a mid-point of SEK 70. Based on our forecasts, Serneke is currently trading at 2021 EV/sales of 0.2x, significantly below its key peers, but with significantly higher expected earnings growth. The industry average is EV/sales of 0.6x.

Serneke's EV/EBIT of 5x 2021E and 2022E is to be compared with the sector valuation of 12x 2021E and 10x 2022E. The PER of 6x 2023E represents a large discount to the sector average of 15x. The discount reflects the risks associated with the turnaround necessary, but we find it to be slightly exaggerated.

Risks and possible concerns

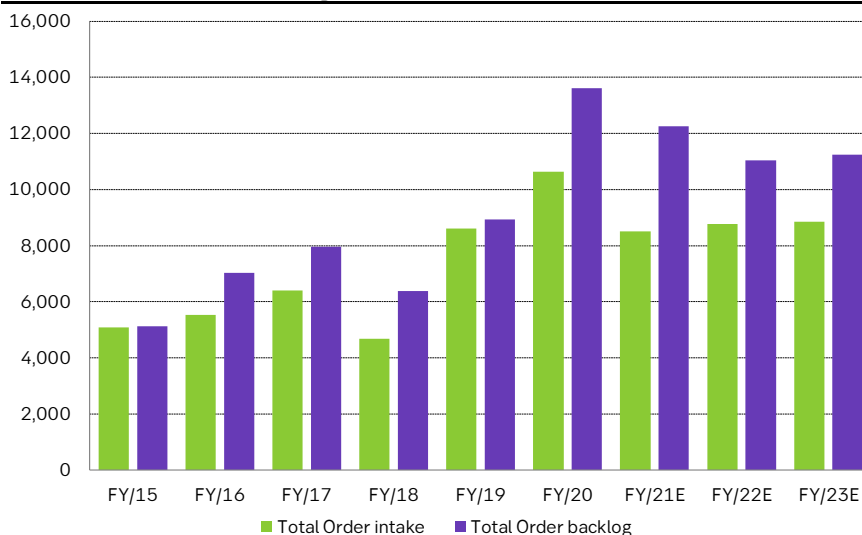
- The construction industry is characterized by high personnel turnover and Serneke, in line with its peers, is highly dependent on its ability to maintain and attract new employees.
- Serneke has lost a legal dispute in the lower courts and is required to pay compensation of SEK 28m to a former tenant. Serneke has appealed the ruling and not yet booked or paid the amount.
- While we expect operations to turn profitable in the near term, this is based on our forecast of Serneke having a higher margin in its order backlog than in its current production, which we expect will lift the operating margin.
- The Covid-19 pandemic poses threats, as well as opportunities. So far, Serneke has only experienced a limited impact from the virus outbreak, but there is a risk that there could be a more severe impact in the future, e.g. by delayed decision making among customers.
- Karlatornet is the largest project that Serneke has in production and with the divestment of the project to a JV with Balder, Serneke has all the production risk in the project and a cost overrun would have a negative impact on earnings.
- In early 2021, the founder and CEO of the company, decided to step down from his position and leave the board. This could create some short-term uncertainty in the organisation.

Estimates

Group forecasts

We expect Serneke’s revenues to continue to grow, although in a slower pace than historically. The growth is generated from the strong order intake in 2020 during which the order backlog increased significantly. That said the order backlog is boosted by some larger projects of which Karlatornet is the largest and the production of this is longer than the average for Serneke’s orders. The order backlog this has a longer duration now than before so revenues will not increase at the same pace as the order backlog, we believe. In addition, Serneke has struggled with profitability in its construction operation which is why they have shifted their focus from growth to profitability and this will also be noticed in an expected falling order backlog during 2021.

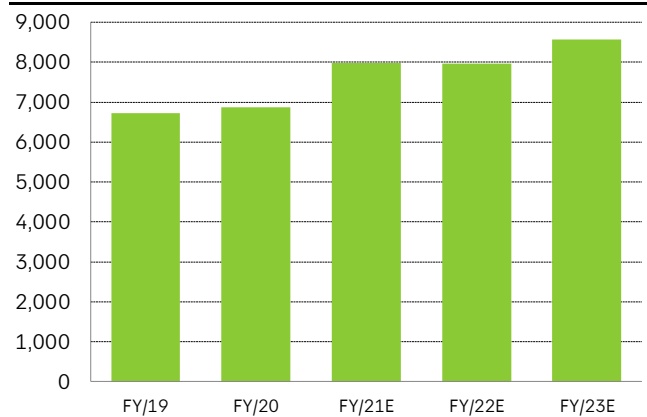
Order intake and order backlog



Source: Serneke, SEB

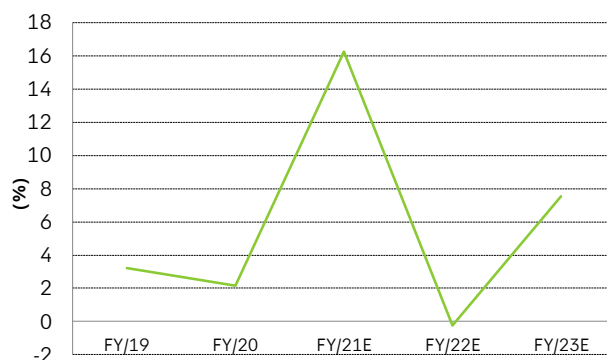
We estimate growth of 16% 2021 falling to 0% in 2022 and 8% in 2023. The step up in 2023 is driven by our assumption that Serneke will take advantage of the strong demand for residentials and its recently strengthened balance sheet to increase the number of starts and thereby also increase growth.

Group revenue



Source: Serneke, SEB

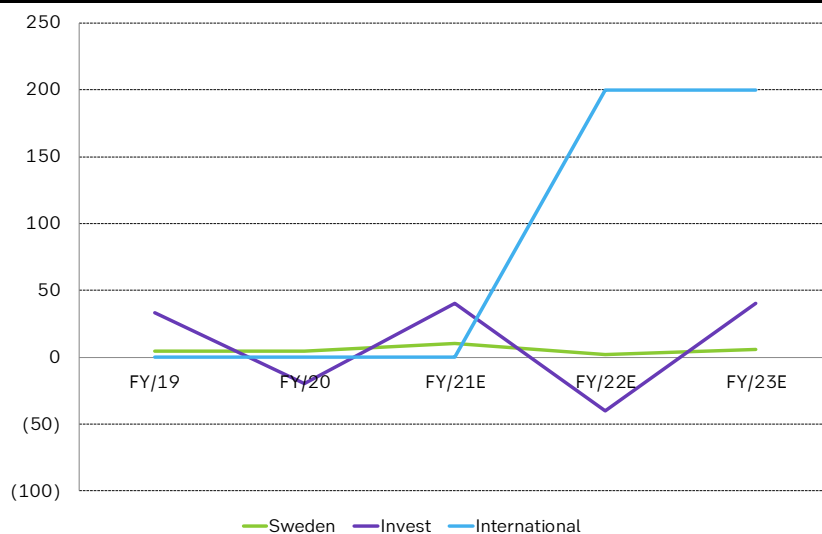
Group revenue growth y-o-y



Source: Serneke, SEB

In 2020, revenue growth was 2%, due to the restructuring taking place and also the uncertain markets as a result of Covid-19, mostly impacting the construction Sweden segment but also Invest. During the first part of 2021, we expect a continued focus on restructuring and profitability. When the restructuring and the new organization are in place, expected in 2021, we forecast revenue growth will improve gradually as profitability is restored and general internal stability. The segment Invest has a significant amount of capital tied up, and we expect some sales in this portfolio and capital to be released in 2021 and new projects started. We forecast the International segment, initiated in Q3 2020, will have a modest but growing revenue.

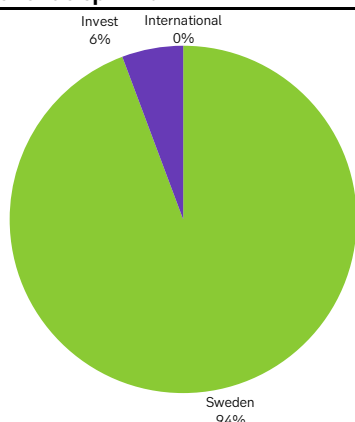
Revenue growth by segment y/y (%)



Source: Serneke, SEB

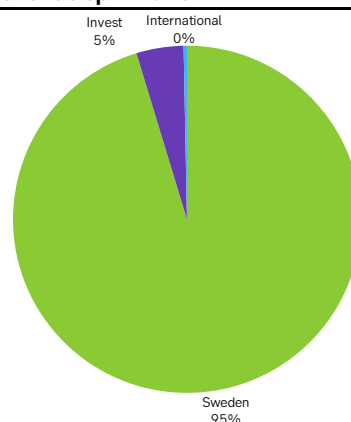
As can be seen in the charts below, the Invest and International divisions will remain a small share of the revenues in the foreseeable future, although we recognise that Invest could have a lumpier development than we estimate if Serneke decided to divest building rights instead of developing them in house. This is not a scenario that we expect in our current forecast as that only would be prompted by Serneke needing to divest assets. With the currently strengthened balance sheet we do not foresee any such need.

Forecasted revenue split 2019



Source: Serneke, SEB

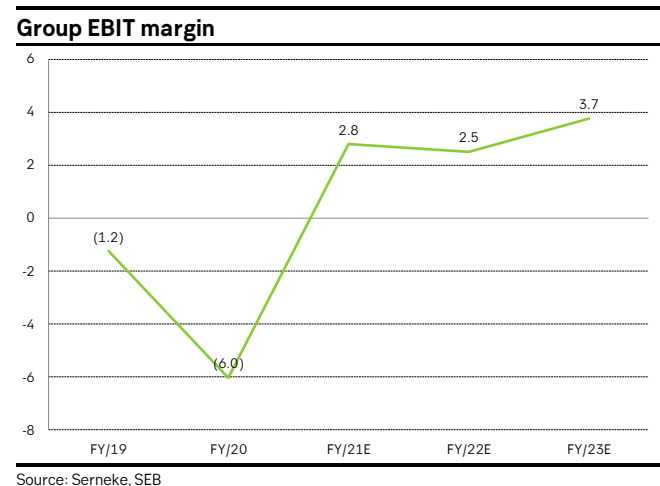
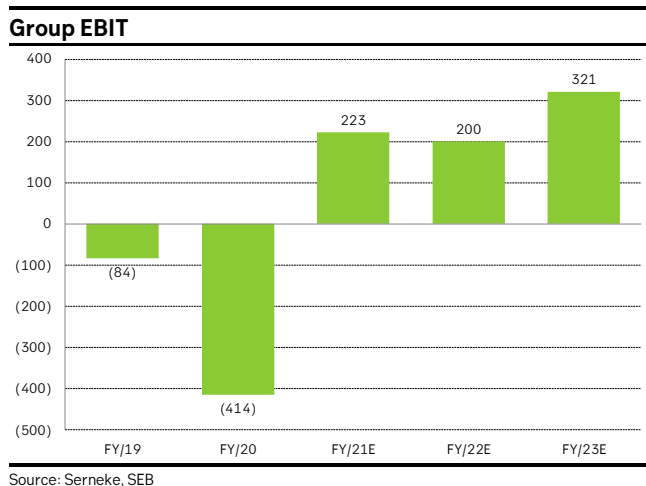
Forecasted revenue split 2023



Source: Serneke, SEB

Serneke has had some challenges regarding profitability during its rapid expansion phase but with the focus on profitability and stability set for the coming years we expect that profitability will rebound and return to a decent level, although the 6% group margin target set is still far away. In order to reach that target Serneke needs to increase its share of property development significantly which demands a ramp up of apartment starts that we expect during 2022 and then will result in revenues and earnings after our forecast period.

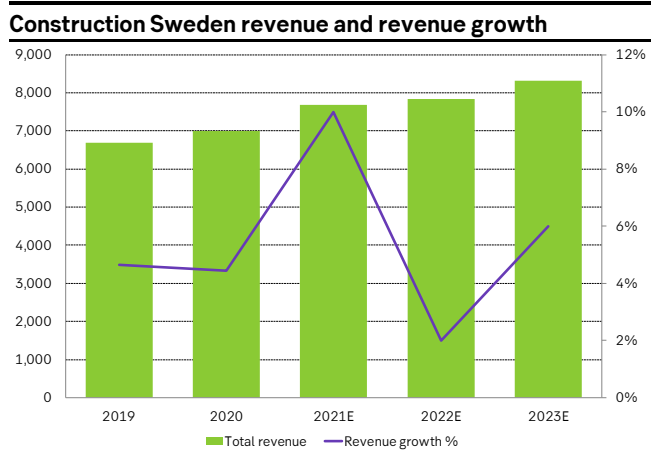
We see the potential for Serneke to reach a positive EBIT margin already in 2021 following the significant restructuring that has taken place in 2019 and 2020. Serneke's construction operation now has the right management with a focus on long-term profitability, which will gradually show through. In 2022 and 2023 we also expect to see a gradual margin improvement from Serneke increasing the share of its operation in property development, more specifically, residential where demand is currently very high. Below we set out our estimates in charts.



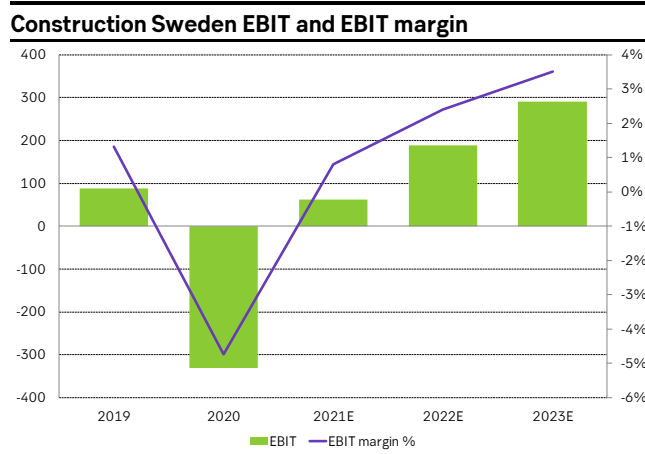
Construction Sweden

The main revenue generator today is the traditional construction services, now called Serneke Sweden. We expect revenues to grow by 10% in 2021, backed by a strong order intake in 2020, partly driven by Karlatornet booked in Q4 2020, for which production is now up and running. For the period between 2019 and 2023, we forecast revenue CAGR of around 5%.

We forecast the EBIT margin to improve from the 2020 low point, but expect the improvement to be gradual as old projects with low profitability are phased out and replaced by new tender wins with higher margins. There slow margin recovery is also impacted by a more prudent profit recognition in the projects now that Serneke has a new management in place, has performed the reorganisation, has strengthened its balance sheet and is more focused on long-term stable profitability than earlier. We expect an EBIT margin of 3.6% in 2023, which could be regarded as high if the division was a pure construction division. However, the division Sweden also contains a residential development operation which contributes higher margins than the construction business, explaining why the normalised margin could be in the range of 3-5% depending on how large the share of property development is in a given year.



Source: Serneke, SEB

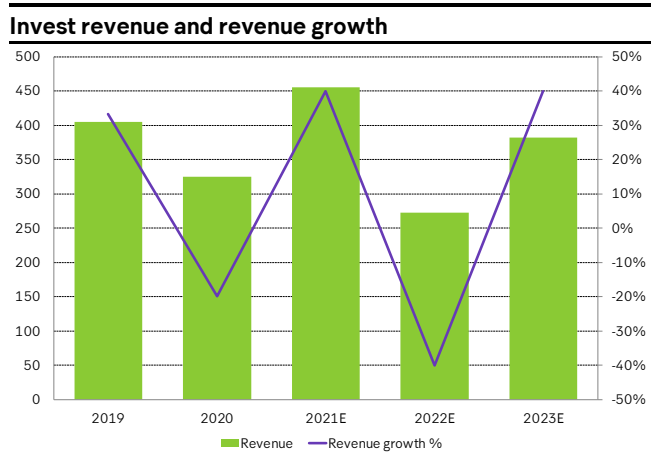


Source: Serneke, SEB

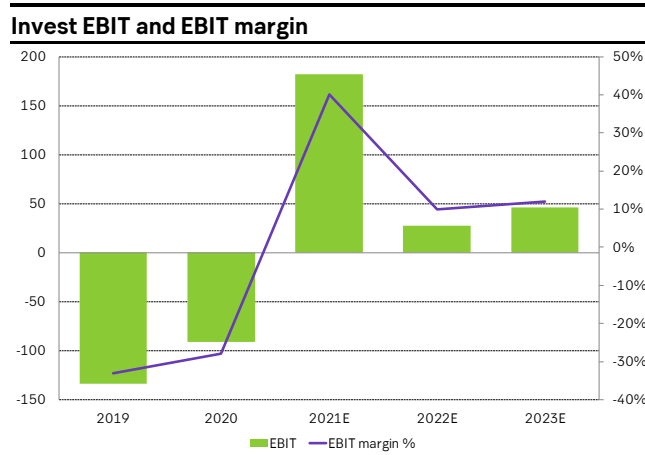
Invest

In our view, the segment Invest has the potential to grow and become an increasing part of Serneke’s revenues and particularly earnings as margins in this operation are significantly higher than in the other divisions. Property development should have the potential to generate a margin that is significantly higher than construction. Over time a margin around 10% could be expected from an operation that is efficient and competitive. In addition, if land has been acquired at attractive prices and end market prices have increased, as we have seen in recent years, the margin could be significantly higher. That said such a margin is not sustainable over the long term. For Serneke we find such potential, especially in the project Karlastaden, centrally located in an attractive area in Sweden’s second largest city Gothenburg.

As stated before, it takes time to ramp up production, which is recognised in our estimates to 2023 below. In 2019, the division was burdened by a SEK 90m write-down due to reversed earnouts relating to the sales of Säfve to Castellum. In addition, in 2020 the segment revenues were negatively affected by the Covid-19 crisis causing a slow-down in the market. Invest currently has a significant amount of capital tied up in the segment, the project portfolio has a book value of SEK 1.5bn in Q4 2020, but the market value of these assets is higher, evidenced by transactions made recently. We estimate that the market value could be around SEK 1bn higher, only looking at the assets Serneke has in Karlastaden.



Source: Serneke, SEB



Source: Serneke, SEB

International

International is a division created out of the new organisation in 2020. The aim of the division was to separate Serneke's international operations from the Swedish ones. Serneke sees its current international operations as an opportunity to test its capacity in the international market without taking too much risk and it is currently very small and therefore loss making. The plan is for Serneke to take part projects utilising its Swedish knowledge and competence without building up too much of an overhead. Serneke currently operates through a JV in Perth, Australia but the ambition is not to expand further with ownership of the business. The Perth investment should be seen as one off.

Financial tables

Interim financial statement												
(SEKm)	Q1/20	Q2/20	Q3/20	Q4/20	Q1/21E	Q2/21E	Q3/21E	Q4/21E	FY/20	FY/21E	FY/22E	FY/23E
Order intake	2,975	1,851	961	4,852	2,231	1,871	1,106	3,303	10,639	8,511	8,767	8,854
Total revenues	1,814	1,393	1,498	2,166	1,923	1,963	1,912	2,189	6,871	7,987	7,966	8,566
Cost of goods sold	(1,929)	(1,503)	(1,563)	(2,191)	(1,849)	(1,856)	(1,802)	(2,018)	(7,218)	(7,525)	(7,528)	(7,988)
Sales & general admin	(40)	(30)	(19)	(23)	(60)	(60)	(60)	(60)	(80)	(240)	(239)	(257)
Results from participations and comp. sold	6	1	5	1	0	0	0	0	13	0	0	0
EBIT	(149)	(139)	(79)	(47)	14	46	50	112	(414)	223	200	321
Net financial items	(5)	(8)	(3)	(72)	(10)	(10)	(10)	(10)	(88)	(41)	(39)	(39)
Pre-tax profit	(154)	(147)	(82)	(119)	4	35	40	101	(502)	181	160	283
Taxes	48	33	16	47	(1)	(8)	(9)	(19)	144	(36)	(32)	(57)
Net profit	(106)	(114)	(66)	(72)	3	27	31	83	(358)	145	128	226
Operating margin (%)	(8.2)	(10.0)	(5.3)	(2.2)	0.7	2.3	2.6	5.1	(6.2)	2.8	2.5	3.7
Pre-tax margin (%)	(8.5)	(10.6)	(5.5)	(5.5)	0.2	1.8	2.1	4.6	(7.3)	2.3	2.0	3.3
Growth, total revenues (%)	22.6	(13.8)	8.9	(3.9)	6.0	40.9	27.6	1.1	2.2	16.2	(0.3)	7.5
Growth, operating profit (%)	n.m	n.m	n.m	(51.5)	(109.3)	(132.8)	(163.5)	n.m	n.m	(152.1)	(10.3)	61.0
Growth, pre-tax profit (%)	n.m	n.m	86.4	40.0	(102.3)	(124.0)	(148.6)	(185.3)	n.m	(136.1)	(11.5)	76.2

Source: Serneke, SEB

Interim financial statement												
(SEKm)	Q1/20	Q2/20	Q3/20	Q4/20	Q1/21E	Q2/21E	Q3/21E	Q4/21E	FY/20	FY/21E	FY/22E	FY/23E
Total revenues												
Sweden	1,912	1,461	1,592	2,025	1,893	1,885	1,833	2,079	6,990	7,689	7,843	8,313
Invest	46	28	28	223	69	116	121	149	325	455	273	382
International	0	0	0	0	0	0	1	2	0	3	9	27
Koncernsgemensamt	39	14	20	17	23	24	20	22	88	90	92	93
Eliminations	(183)	(110)	(142)	(99)	(63)	(63)	(63)	(63)	(532)	(250)	(250)	(250)
Total revenues	1,814	1,393	1,498	2,166	1,923	1,963	1,912	2,189	6,871	7,987	7,966	8,566
Growth, total revenues (%)												
Sweden	24	(14)	12	(3)	(1)	29	15	3	4	10	2	6
Invest	318	8	(30)	(11)	50	314	332	(33)	(20)	40	(40)	40
International	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	200	200
Koncernsgemensamt	117	0	(55)	(61)	(40)	14	(1)	31	(40)	2	2	2
Total revenues	23	(14)	9	(4)	6	41	28	1	2	16	(0)	8
EBIT												
Sweden	(70)	(134)	(62)	(65)	6	9	19	28	(331)	62	188	291
Invest	(73)	(4)	(10)	(4)	14	42	36	90	(91)	182	27	46
International	(4)	(3)	(3)	(3)	(3)	(3)	(2)	(1)	(13)	(6)	0	1
Koncernsgemensamt	1	5	0	(6)	1	1	1	(2)	0	0	0	0
Eliminations	(3)	(3)	(4)	31	(4)	(4)	(4)	(4)	21	(15)	(16)	(17)
Total EBIT	(149)	(139)	(79)	(47)	14	46	50	112	(414)	223	200	321
EBIT margin (%)												
Sweden	(3.7)	(9.2)	(3.9)	(3.2)	0.3	0.5	1.0	1.3	(4.7)	0.8	2.4	3.5
Invest	(158.7)	(14.3)	(35.7)	(1.8)	20.0	35.9	30.0	60.5	(28.0)	40.0	10.0	12.0
International	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	(150.0)	(25.0)	n.a.	(200.0)	0.0	5.0
Koncernsgemensamt	2.6	35.7	0.0	(35.3)	3.0	3.0	3.0	(9.1)	0.0	0.0	0.0	0.0
Group EBIT margin (%)	(8.2)	(10.0)	(5.3)	(2.2)	0.7	2.3	2.6	5.1	(6.0)	2.8	2.5	3.7

Source: Serneke, SEB

Valuation

DCF valuation

DCF fair share price range of SEK 62-78

We derive a fair share price range of SEK 62-78 for Serneke based on a mid-point DCF value of SEK 70 with +/- 10% relative change to our EBIT assumptions being the upper- and lower end. Our weighted average cost of capital is 7.5% We use explicit forecasts for 2021-30 and then make the following assumptions:

- Revenues to grow at 2% long term and beyond our forecast period.
- A steady state EBIT margin of 3.0% beyond our forecast period.
- Working capital to stabilise at around -1.5% of sales.

DCF summary

DCF valuation (SEKm)		Weighted average cost of capital (%)	
NPV of FCF in explicit forecast period	825	Risk free interest rate	2.5
NPV of continuing value	807	Risk premium	6.0
Value of operation	1,632	Cost of equity	8.5
Net debt	(325)	After tax cost of debt	1.8
Share issue/buy-back in forecast period	-	WACC	8.5
Value of associated companies	-	Assumptions	
Value of minority shareholders' equity	-	Number of forecast years	10
Value of marketable assets	-	EBIT margin - steady state (%)	2.3
DCF value of equity	1,957	EBIT multiple - steady state (x)	8.4
DCF value per share (SEK)	70	Continuing value (% of NPV)	49.4
Current share price (SEK)	49.25		
DCF performance potential (%)	42		

Source: SEB

Sensitivity analysis I

		Cost of equity (%)					
		7.5	8.0	8.5	9.0	9.5	
Equity capital weight (%)	80	96	90	85	81	77	
	90	86	81	77	73	70	
	100	78	74	70	67	64	
	100	78	74	70	67	64	
	100	78	74	70	67	64	

Source: SEB

Sensitivity analysis II

		Relative change in EBITDA margin - all years					
		-20%	-10%	0	+10%	+20%	
Rel. change in sales growth - all years	-20%	56	63	70	76	83	
	-10%	56	63	70	77	84	
	0	56	63	70	77	84	
	+10%	56	63	70	77	84	
	+20%	57	64	71	78	85	

Source: SEB

DCF assumption details

(SEKm)	2021E	2022E	2023E	2024E	2025E	Average year 6	Average year 7-8	Average year 9-10
Sales growth (%)	16.2	(0.3)	7.5	2.0	1.0	(2.0)	1.5	1.0
EBITDA margin (%)	3.5	3.3	4.5	4.5	4.0	2.0	2.9	3.0
EBIT margin (%)	2.8	2.5	3.7	3.7	3.3	1.3	2.2	2.3
Gross capital expenditures as % of sales	0.7	0.7	0.1	0.7	0.7	0.7	0.7	0.7
Working capital as % of sales	(4.9)	(3.5)	(2.3)	(2.0)	(1.5)	(1.5)	(1.5)	(1.5)
Lease repayments as % of sales	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Sales	7,987	7,966	8,566	8,737	8,825	8,648	8,822	9,043
Depreciation	(55)	(60)	(65)	(66)	(62)	(61)	(62)	(68)
Intangibles amortisation	0	0	0	0	0	0	0	0
EBIT	223	200	321	327	291	112	194	203
Taxes on EBIT	(67)	(60)	(96)	(98)	(87)	(34)	(58)	(61)
Increase in deferred taxes	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0
NOPLAT	156	140	225	229	204	79	136	142
Gross capital expenditure	(55)	(57)	(10)	(61)	(62)	(61)	(62)	(63)
Increase in working capital	31	(107)	(81)	(25)	(42)	(3)	2	1
Lease repayments	0	0	0	0	0	0	0	0
Free cash flow (incl. lease repayments)	186	35	198	209	161	76	138	148
ROIC (%)	4.1	3.7	5.8	5.8	5.2	2.0	3.4	3.6
ROIC-WACC (%)	(4.4)	(4.8)	(2.7)	(2.7)	(3.3)	(6.5)	(5.1)	(4.9)
Share of total net present value (%)	0.0	1.9	10.1	9.8	7.0	3.0	9.7	8.9

Source: SEB

Peer group valuation

Serneke is significantly smaller and less mature than its larger peers and more importantly it is in a turnaround process such that earnings in neither 2020 nor 2021 provide much guidance. Instead we have to look further out into 2022 or 2023 for normalised earnings that are relevant. In our view, the most relevant multiple to look at would be EV/sales if using the current sales but PER and EV/EBIT if using long-term earnings.

Based on 2021E EV/sales of 0.2x, Serneke is trading at a large discount to close peers, despite higher expected revenue growth but justified by the currently low margin and hopes of a turnaround which has its risks. The industry average is an EV/sales of 0.6x. The EV/EBIT of 5x 2021E and 2022E to be compared with the sector valuation of 12x 2021E and 10x 2022E. The PER of 6x 2023E represents a large discount to the sector average of 15x. Again the discount is justified by the significant turnaround necessary.

Peer group valuation

	Rec.	Share price	Target price	Upside to TP	Mkt cap (SEKm)	2020	PER 2021E	2022E	EV/EBITA 2020	2021E	2022E	PBV 2021	EV/CE 2021	Div. yld 2021
Rockwool	0	2500.0	2200.0	-12%	54,062	29.9	24.2	23.9	22.6	17.9	13.7	3.2	3.3	1.3
Veidekke	0	120.6	130.0	8%	16,281	17.6	16.1	15.1	10.6	9.5	6.2	5.4	7.0	5.0
Uponor	0	18.4	18.5	1%	1,346	18.0	17.2	15.8	11.1	10.6	7.0	3.5	2.8	3.2
YIT	0	4.8	8.0	68%	999	11.9	7.9	7.4	10.4	7.8	11.4	1.0	0.9	4.2
Skanska	0	220.8	200.0	-9%	90,373	18.8	16.6	15.5	18.3	16.4	8.9	2.3	1.5	3.2
NCC	0	150.0	185.0	23%	16,265	12.2	10.5	10.1	10.4	8.3	6.6	3.4	2.8	3.7
JM	0	319.5	300.0	-6%	21,912	16.5	15.8	15.1	14.8	14.5	14.8	2.8	1.8	3.8
Bonava	0	104.5	90.0	-14%	11,276	16.4	14.8	14.2	12.9	11.8	11.9	1.4	1.2	3.3
Peab	0	107.5	110.0	2%	33,008	14.7	14.2	13.9	14.6	13.5	11.0	2.4	2.0	4.2
Average						17.3	15.2	14.6	14.0	12.3	10.2	2.8	2.6	

Source: SEB

Given the assets that Serneke holds we would also like to look at the price to book and the price to NAV multiples. Currently Serneke trades on a price to book value of 0.7x and with a conservative market valuation of the building rights that Serneke holds, similar to what we have indicated later in this report, the Price to NAV is closer to 0.4x.

Below we set out the price to book valuation of the Swedish construction companies, which averages 2.4x. We would argue that Serneke has an excess value in its landbank that is smaller than JM per share but higher than the others. If Serneke were to trade on its book value it would be SEK 79 per share and if it traded on its NAV it would be SEK 115. On the other hand, Serneke's equity per share of SEK 79 includes SEK 46 per share representing long-term financial assets. These are loans to the Karlatornet JV and will be repaid on the successful completion on the project. It could be argued that the asset has some risks associated with it, although we would not argue that the value of these could be questioned and seen as uncertain.

Overall, we conclude that the book value, supported by the market value of Serneke's landbank, and taking into consideration the risk in the long-term interest-bearing financial assets, at least supports our valuation range of SEK 62-78.

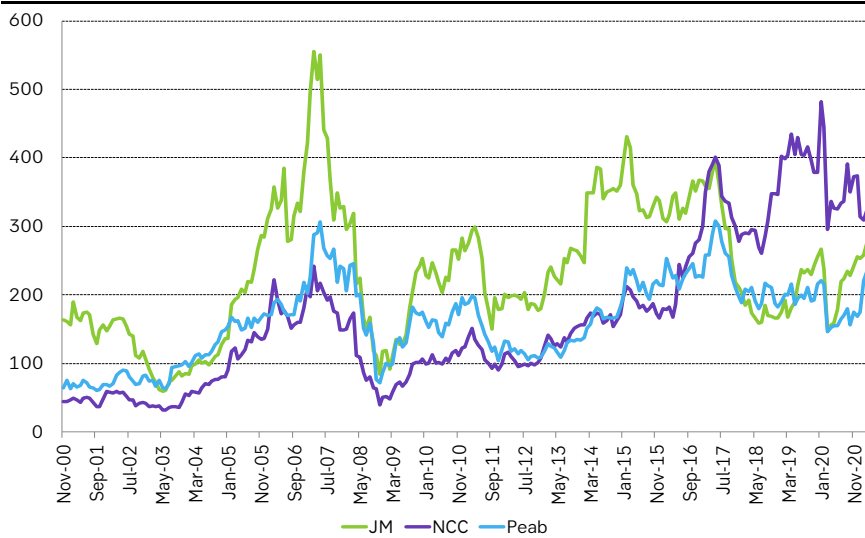
Price to book multiples for Sweden construction companies (average)



Source: SEB

The chart above shows our price to book multiples for the Swedish construction companies and below also the price to book of NCC, Peab and JM. JM and Peab, which have large assets and also property development operations are valued at a low multiple of around 2x, while NCC, which is asset light and lacks development operations of any size trades on a higher multiple, close to 3x.

Price to book multiples for JM, NCC and Peab



Source: SEB

Company overview

Serneke in brief

Founded in 2002, Sweden's seventh largest construction company in 2019

Serneke was founded by Ola Serneke in 2002. In 2008, after a few years of rapid growth, it became SEFA, consisting of the two companies Serneke and Fagerberg Bygg och Konsult. By 2012 the company had grown to SEK 1bn in annual revenues with operations in the south and west of Sweden. Two years later Värmdö Bygg was acquired and the company also established itself in Stockholm. The company also changed its name to Serneke AB and in 2016 was listed on Nasdaq Stockholm. In the wake of a decline in demand for co-ops in particular following a strong market up until 2017, Serneke is struggling with one of its largest projects, Karlatornet in Gothenburg. In 2021, after divesting Säve airport, residential building rights, finding an investor into Karlatornet and issuing new shares, Serneke has a strong balance sheet and can speed up the production of Karlatornet again.

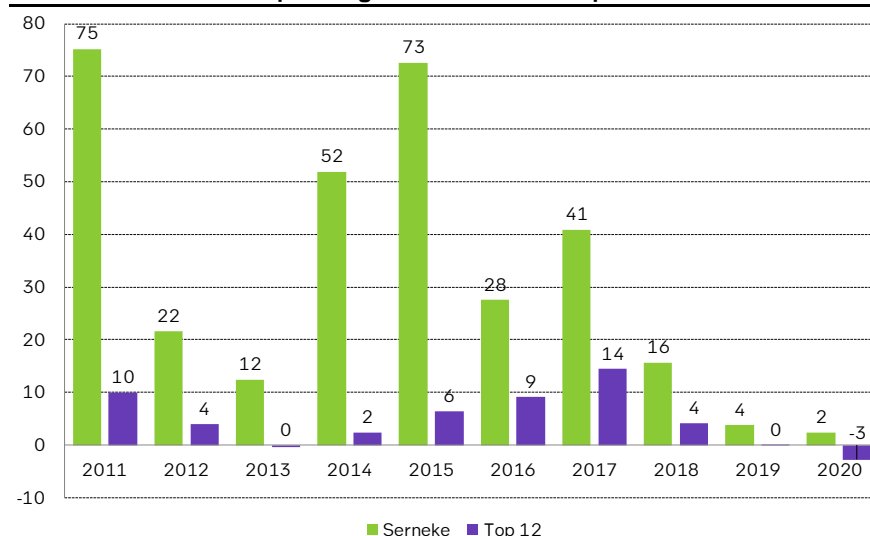
Selection of key events

Year	Event
2002	Serneke is founded
2008	Becoming SEFA
2010	Opens operations in Malmö
2012	Reaches 1 billion SEK in net sales
2013	Project Karlatornet in Karlastaden is presented
2014	Acquires Värmdö bygg and changes name to Serneke Gourp
2016	Listing on Nasdaq Stockholm Midcap.
2018	Establishes region Mid Sweden
2019	Announce a new organizational structure
2020	Balder comes in as shareholders and invests in Karlatornet
2021	New share issue to strengthen the balance sheet
2021	Ola Serneke steps down as CEO and is replaced by Michael Berglin

Source: Serneke, SEB

In less than 20 years the company has grown to become the seventh largest construction company in Sweden with revenues of just below SEK 7bn.

Growth Serneke vs the top 12 largest construction companies in Sweden



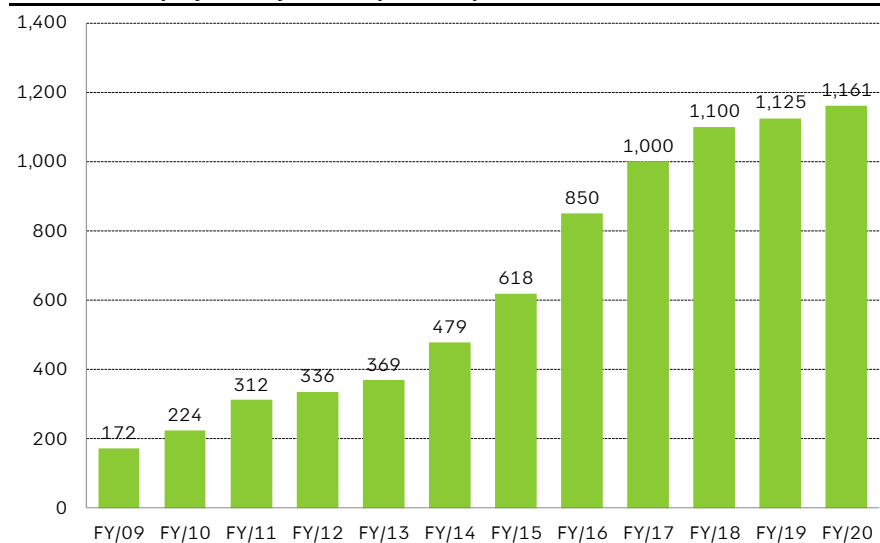
Source: SEB, Byggföretagen

Above we show the annual growth of the 12 largest construction companies. Comparing this with the growth of Serneke highlights the latter's rapid growth up until 2018. In 2019 and 2020 Serneke was forced to reorganise and refocus its operation and has set new financial targets aiming at prioritising profitability ahead of growth.

1,100 employees at 20 locations around Sweden

Being one of the larger construction companies in Sweden, Serneke has a full offering of construction and development services covering most of the country. Serneke has 20 offices with some 1,100 employees throughout Sweden. The head office is located in Gothenburg and the operation is focused on the three large cities Stockholm, Gothenburg and Malmö. However, the company is also targeting regional growth markets.

Number of employees at year end (Serneke)



Source: SEB, Serneke

The operation is divided into five regions, West, East, South, North and Mid. In every region Serneke has a full offering of services within construction and project development.

Within construction, Serneke conducts operations within building but also civil engineering and infrastructure. Serneke offers all types of construction such as building residential, commercial and public buildings. They also carry out all types of groundwork. The customers include public and private real estate companies, government-owned companies, manufacturing and private developers.

Within project development, Serneke develop residential and commercial properties. Serneke has been acquiring land both with and without buildings with the aim to develop attractive residential and commercial properties and hence create value for its shareholders. The development is done both by Serneke and in JVs with another party. Customers include private individuals, co-ops, private and public residential real estate companies.

Serneke's strategy is to deliver a full service within construction and development and be perceived as the most innovative, engaged and dynamic company in the industry. The focus is on larger and more complex projects where Serneke can make a difference.

New organisation

In 2019 Serneke announced a reorganisation into a structure that was implemented early in 2020, which divided operations into three divisions;

- Sweden.
- Invest.
- International.

Serneke Sweden

Serneke Sweden will conduct construction, property development and infrastructure related activities both for external customers and for Serneke Invest.

Serneke Invest

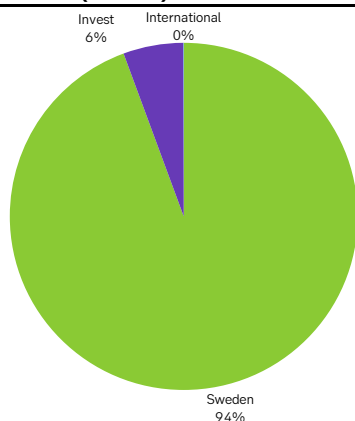
The Invest business area will conduct more complex development projects with higher transaction risk and a greater need for capital that will be tied up for a longer period.

Serneke International

Serneke International is the business area that will gather the group's international business; this business area is currently in a start-up phase. The operation today consists of an interest in a construction company in Perth, Australia, but it also focuses on project export where the work is conducted in undeveloped regions around the world based on competence and knowledge from Serneke's other divisions. These are in countries where there is a need for support from countries in developed regions like the Nordic countries.

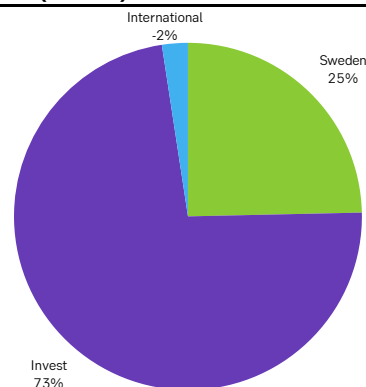
Below we set out the split of revenues between the divisions as we estimate them in 2021. The largest share of revenues is generated by Serneke Sweden. The margin in the division Sweden, with a large part of the revenues being construction and a smaller part being residential development, is expected to be low, while Invest should be higher over time. We therefore below also set out the EBIT split on 2021 estimates.

Revenue by division (2021E)



Source: SEB, Serneke

EBIT by division (2021E)



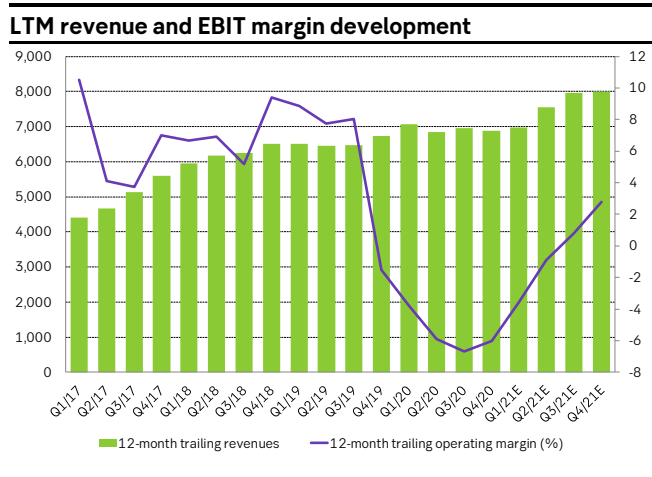
Source: SEB, Serneke

At the end of 2020, Serneke presented a new business plan with a new strategy. Over the next few years, the focus will be on improving profitability and stability while continuing to maintain a strong corporate culture. The high growth historically has come at the expense of profitability and an unhealthy financial situation. With recent transactions within Serneke Invest and new share issues, the financial situation is strong again and the route forward is primarily to improve margins, especially within Serneke Sweden. The new financial targets are:

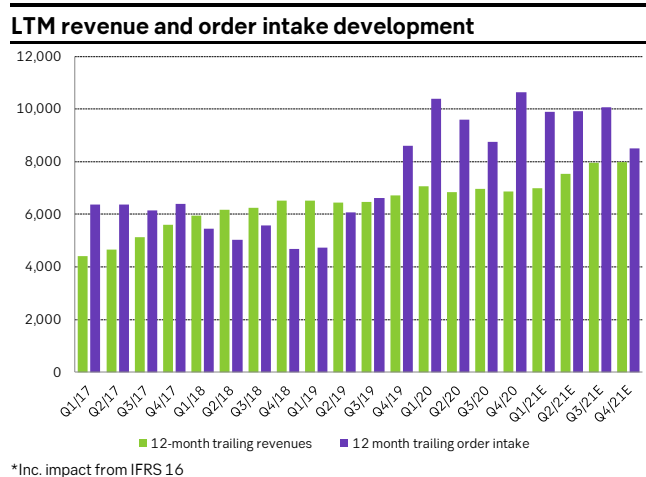
- Group EBIT margin of 6% (down from the previous 8%).
- Above 15% ROE.
- An equity ratio above 30% (up from 25-30%).
- Operating cash flow should be positive on a rolling six months basis.
- A dividend of 30-50% of net earnings.

Currently Serneke is meeting one out of these five targets and that is the equity ratio. Out of the targets that Serneke is not fulfilling currently we believe that the group margin of 6% or above is the most difficult to reach in the short term. In the longer term, as Invest matures further and delivers projects, the target is realistic, we believe.

Below we set out the LTM revenue and EBIT margin development since 2017 to the left and the LTM revenue and order intake since 2017 to the right. While order intake has remained strong, though boosted by Karlatornet in Q4 2020, supporting revenue growth, margins have suffered as Serneke has taken on projects at too low prices. Provisions for these projects have burdened Q4 2019 and 2020, but entering 2021 we should see a gradual recovery as these projects are completed and handed over.



Source: Serneke, SEB



*Inc. impact from IFRS 16

Source: Serneke, SEB

Shareholder structure

The founder, Ola Serneke is the largest shareholder with 25% of the capital and 55% of the votes. He therefore has full control of the company. The second largest shareholder is Lars-Olov Mattsson through Lommen Holding. In third place, based on share of the capital is Balder, controlled by Eric Selin, which entered as a shareholder in late 2020 as Serneke was recapitalised. The fourth largest owner is Svolder, controlled by Rolf Lundström. All the above are Gothenburg based families. The institutional ownership is small and in the top 10 list only represented by Cliens holding 3.2% of the capital and 1.1% of the votes.

Shareholder structure (as of 31 December 2020)

	Share of capital	Share of votes	Number of shares
Ola Serneke Holding AB	24.7%	55.2%	6,114,205
Lommen Holding	16.2%	12.4%	3,997,803
Christer Larsson I Trollhättan AB	3.6%	6.0%	877,000
Ledge Ing AB	3.2%	5.3%	786,763
Vision Group i väst AB	3.2%	4.3%	801,000
Balder	9.3%	3.2%	2,300,000
Svolder Aktiebolag	5.4%	1.9%	1,327,609
Cliens Fonder	3.2%	1.1%	795,000
Försäkringsbolaget Avanza Pension	1.4%	0.5%	352,886
Michael Berlin	1.1%	0.4%	270,781
Top 10	71.3%	90.1%	17,623,047
Other	28.8%	9.9%	7,110,418
Total	100.0%	100.0%	24,733,465

Source: Serneke Group AB, SEB

Management and board

Executive management team

Michael Berglin owns 270,781 B-shares in Serneke Group and has held the position as President and CEO of Serneke Group and has been an employee since 2012. He has previous experience from Folksam in 2000-12 and assignments within NCC and Skanska during 1994 - 2000. He has had several assignments within Serneke Group and serves as a member of the board in Jägaren Alingsås Ekonomisk förening, Änglagården Fastighetsutveckling AB and Göteborgs Nya Arena drift & event AB. He holds a degree in engineering.

Ola Serneke owns 3,710,000 A-shares and 2,385,691 B-shares in Serneke Group and has been a board member since 2004. He is the largest shareholder and founder of the company and was also the President and CEO of Serneke Group AB up until 2021. He is now employed within the division Invest and focuses on Property development. In addition he is also a member of the board of Änglagården Fastighetsutveckling AB, Gothenburg's New Arena operation and Event AB. Ola Serneke holds a master's degree in engineering from Chalmers University.

Anders Düring owns 11,780 B-shares in Serneke Group. He is the CFO of Serneke Group and has been an employee since 2017. He has previous experience as CFO of KappAhl AB, Volvo IT, Group Controller & CIO at Ballingslöv. He also has experience as a consultant at Arthur D. Little and Andersen Consulting. Anders Düring has a MSc in Business Administration from Gothenburg University and an Executive MBA degree in Finance and Accounting from Gothenburg University.

Anders Arfwén does not hold any shares in Serneke Group. He has been the CEO of Serneke Sweden AB since 2020. He has previous experience as Business Area Manager at Veidekke 2014-20, Site Manager, Work Manager, Regional Manager and Division Manager PEAB 1987 - 2014. Anders Arfwén holds a degree in construction engineering.

Daniel Modéus owns 5,000 B-shares in Serneke Group through a company and privately holds 5,999 B-shares. He has been an employee since 2018. He is the General Counsel of Serneke Group. He has previous experience from Modéus Advokatbyrå, Entreprenadjurist Stockholms Byggmästareförening, Advokat Foyen Advokatfirma, and Advokat Celsus Advokatbyrå. Daniel has a legal degree from Lunds University.

Jonas Fjällman owns 10,000 B-shares in Serneke Group. He is the Head of Staff and has been an employee since 2017. He has previous experience from senior positions in HR since 2008. He worked from 2011 to 2017 within IAC Group, most recently as HR Director Europe. Jonas holds a master's degree in politics from Gothenburg University.

Robin Gerum owns 52,682 B-shares in Serneke Group. He is the Head of Business Development and has been an employee since 2017. He has previous experience from corporate finance at Carnegie investment bank and Private Equity at Liberty Lane Partners. Robin holds an M.Sc. in Finance and Investments from Rotterdam School of Management and a B.Sc. in Business Administration from University of New Hampshire.

Board of directors

Jan C. Johansson holds 19,780 B-shares in Serneke Group and has served as a member of the board since 2020 and is the current chairman. He has long experience from corporate management through his previous experiences as CEO of SCA, CEO of Boliden, management positions at Telia, Vattenfall and Shell. He holds a law degree.

Ola Serneke owns 3,710,000 A-shares and 2,385,691 B-shares in Serneke Group and has been a board member since 2004. He is the largest shareholder and founder of the company and was also the President and CEO of Serneke Group AB up until 2021. He is now employed within the division Invest and focuses on Property development. In addition, he is also a member of the board of Änglagården Fastighetsutveckling AB, Gothenburg's New Arena operation and Event AB. Ola Serneke holds a master's degree in engineering from Chalmers University.

Ludwig Mattson holds 540,000 A-shares and 3,457,803 B-shares in Serneke Group and has been a member of the board since 2013 and in addition to this serves as a member of the Remuneration Committee. Ludwig Mattson is the CEO of the Gavia Group, previously had several assignments within the Gavia Group and assignments within the Lommen Group. Ludwig Mattson holds an MA degree in economics from Stockholm School of Economics.

Marie Broman holds 909 B-shares in Serneke Group and has been a member of the board since 2015. She has previously held a position as Vice President at Riksbyggen and has served as a member of the board in several real estate and construction companies over the years. Marie Broman holds a Degree of Master of Political Science from Gothenburg University.

Per Åkerman holds 20,200 shares in Serneke Group and has been a member of the board since 2020. He has previous experience as CEO of Skanska Industrial Solutions and several other positions in Skanska both in Sweden and Internationally. Per Åkerman holds a master's degree in engineering from Lund University.

Veronica Rörsgård does not hold any shares in Serneke Group and has been a member of the board since 2020. She has previous experience as Managing Director at Pyslingen preschools (AcadeMedia), former IT and Personnel Director Skanska AB, Sweden Manager at Alumni, Board member Aditro. She holds a B.S. in Business Administration from Mälardalens University and Université Jean Moulin III Lyon.

Anna Belfrage does not hold any shares in Serneke Group has held a position as a member of the board since 2019. She has previous experience as Chief Financial Officer (CFO) for Södra Skogsägarna with responsibility also for purchasing and IT, previously acting CEO of Beijer Electronics, CFO of ABS Group in the Cardo Group and before that various roles in industrial companies such as Dresser Wayne Fueling Systems, Obducat, Lund Eastern Energy and Åkerlund & Rausing board member of Eyeonid AB. She holds an MBA in Business Administration from Lund University

Fredrik Alvarsson does not hold any shares in Serneke Group has held a position as a member of the board since 2019. He has previous experience as former CEO of CA Fastigheter, Project Development Manager at Hemsö Fastighets AB and several different positions within NCC, Kungsleden and Vasakronan. He is also the current CEO and Partner for SHH Samhällsfastigheter AB. Fredrik Alvarsson holds a degree in engineering from Lund University and an IFL from Stockholm School of Economics.

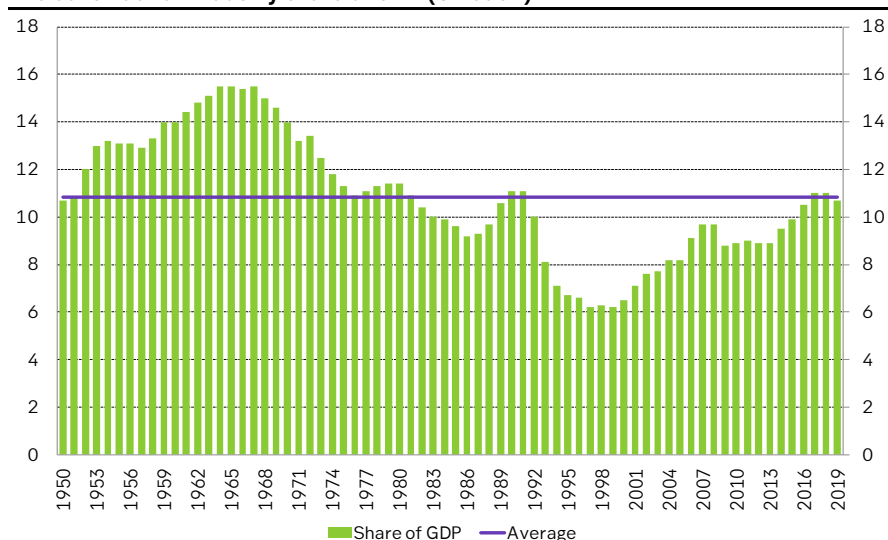
Market overview

The Swedish construction market

Closely linked to GDP

The construction market as a whole is worth around SEK 550bn and represents around 11% of annual GDP in Sweden. Historically this has varied between 6% during the 1990s and 15% during the 1960s. On average since 1950 it has been around 11% as it is currently. In the 1960s extraordinarily high activity within residential construction was the driving force. In the 1990s residential production slowed down dramatically before recovering towards the turn of the century. At the same time construction of commercial properties also increased to historically high levels.

The construction industry share of GDP (Sweden)



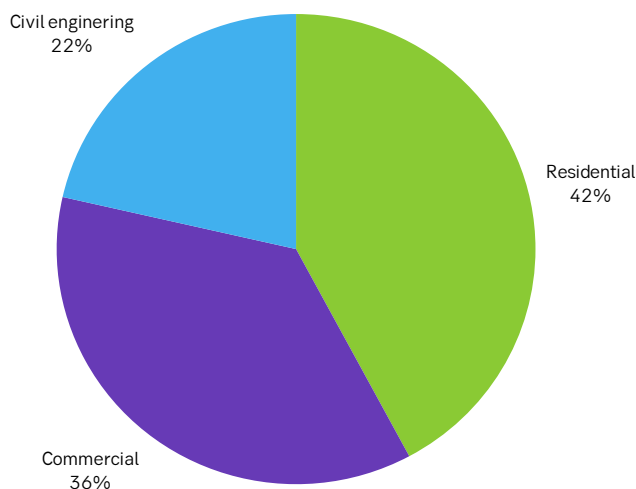
Source: SEB, Byggföretagen

Currently around 42% of the market is construction of residential, 36% construction of commercial property and 22% civil engineering. In a historical perspective, the share of commercial is high and should most likely come down in the coming years. Historically, commercial has been around 30% of the investments. Further support for this view is provided by the increasing vacancies for office space and retail space. At the same time hotels are suffering from lower demand, partly Covid related, and projects are postponed.

Civil engineering on the other hand is on the low side and is likely to come up in the next few years, partly driven by government incentives to invest in order to mitigate a recession.

Residential is lower than its 55% share from the 1950s to the 1980s, but in those years, Sweden went through dramatic urbanization and an increasing standard of living. Comparing to more recent history a 40% share would be more normal. We believe that the current demand for housing strong and that it will support the investments in the near future, after which expect a slowdown again.

Spilt of construction investments (Sweden)

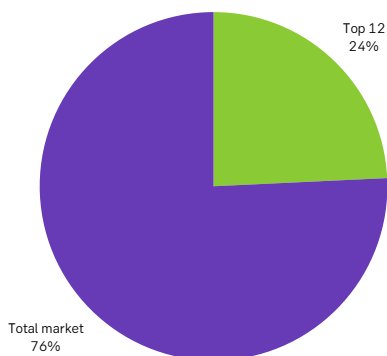


Source: SEB, Byggföretagen

Being as has much as 11% of GDP over time, the construction industry tends to grow in line with GDP, and we will elaborate on our view on Swedish GDP growth later in this report.

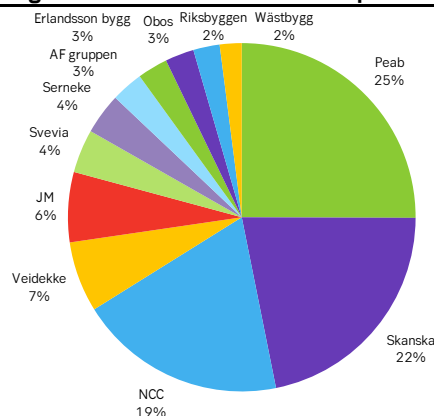
Occasionally we see construction companies that outgrow its market. A few years back it was Peab, which now has the position of being the largest construction company in Sweden. In that position it is then difficult to over time deviate much from GDP growth. M&A is one way and adding new business lines is another. Among the smaller companies with the highest growth in recent years we find Serneke and Erlandssons bygg. As can be seen in the chart below Serneke has managed to get to the number seven position in Sweden.

Total construction market vs the top 12 (Sweden)



Source: SEB, Byggföretagen

The 12 largest Swedish construction companies

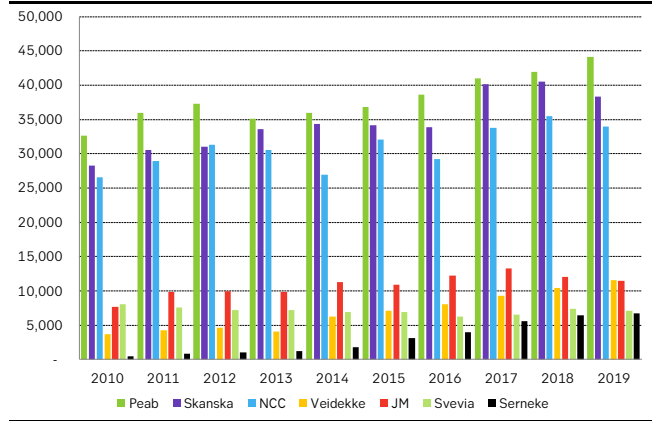


Source: SEB, Byggföretagen

As can be seen in the chart to the left above, the top 12 construction companies represent around 24% of the total construction market, which is very fragmented.

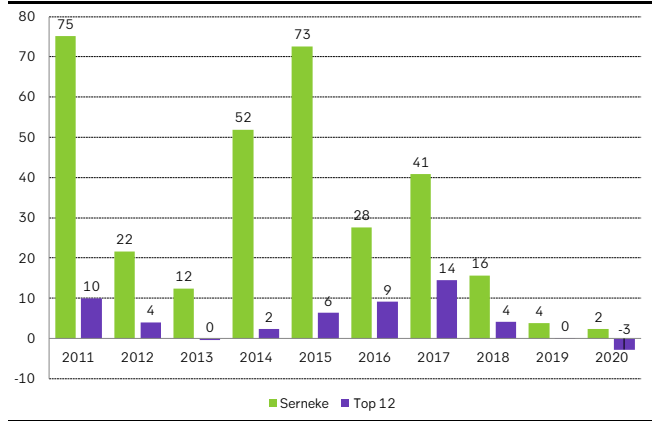
Below we set out the growth among the largest construction companies and it then becomes clear that the larger players struggle to outgrow the market and hence GDP, while some smaller ones, like Serneke manage to outgrow GDP dramatically. In the chart to the right we compare the annual growth of Serneke in Sweden (as defined by Byggföretagen) and the 12 largest construction companies combined.

Top seven construction companies in Sweden



Source: SEB, Byggföretagen

Annual growth Serneke vs the top 12



Source: SEB, Byggföretagen

Swedish macro remains robust

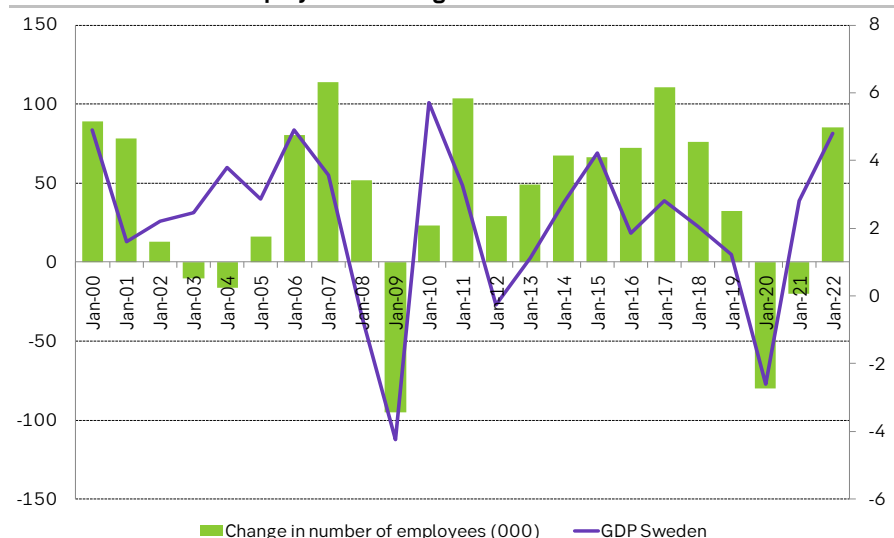
Swedish economy shows resilience

The Swedish economy remains robust despite Covid-19, with low sovereign debt, solid corporate and household balance sheets and a profitable, well capitalized banking system. Following a turbulent 2020, we expect an increasingly optimistic household sector in 2021 and an improving labour market which should drive a recovery in growth. Swedish GDP declined only 2.6% in 2020 but is expected to increase 2.8% in 2021 and 4.8% in 2022, outperforming the eurozone with a decline of 6.6% in 2020 and an increase of 3.1% in 2021 and 4.9% in 2022.

Employment growth peaked in 2017

Domestic employment and GDP growth, in combination with population growth, are the key drivers of demand for residential property. A relatively rapid population increase, driven by net immigration, is contributing to the increase in labour supply and the lowering of interest rates in Sweden and globally has supported economic activity. As a result, employment has increased strongly at a pace of around 75,000 annually since the last recession in 2009. In the current Covid-19 environment we expect a decline in employment of 80,000 in 2020 and another 20,000 in 2021 while Sweden is expected to be back into growth again in 2022.

Sweden - increase in employees vs GDP growth



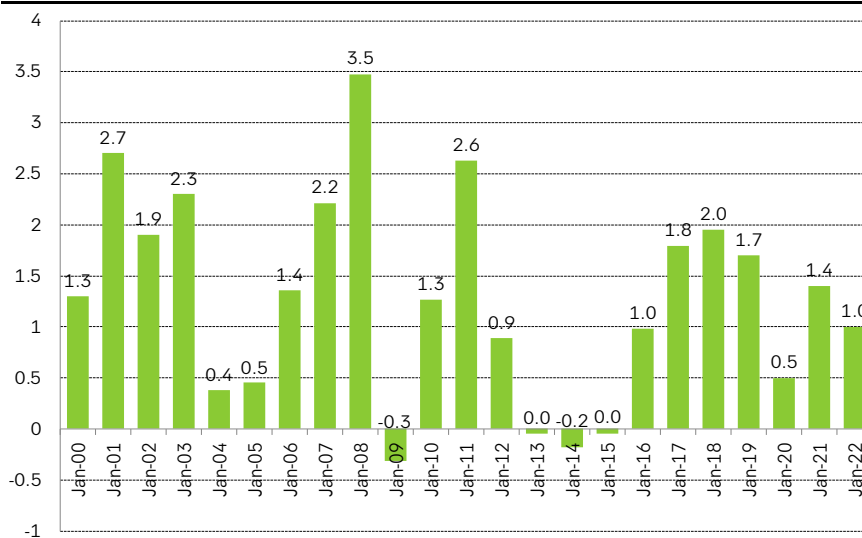
Source: SEB and SCB

SEB forecasts employment declining by around 1.5% in 2020 and around 0.5% in 2021, then growing 1.5% again in 2022. Naturally the weak economic development could impact demand, but no such sign has been visible so far during this Covid-19 crisis and prices for co-op apartments have recovered rather rapidly from an initial decline in the early spring of 2020. Given the large deficit in housing, incentives from the government and low interest rates we expect demand to continue at a solid level, as will the supply of housing which currently is very much tilted towards production of rental apartments.

We expect CPI growth to be above 1% in 2021 and 2022

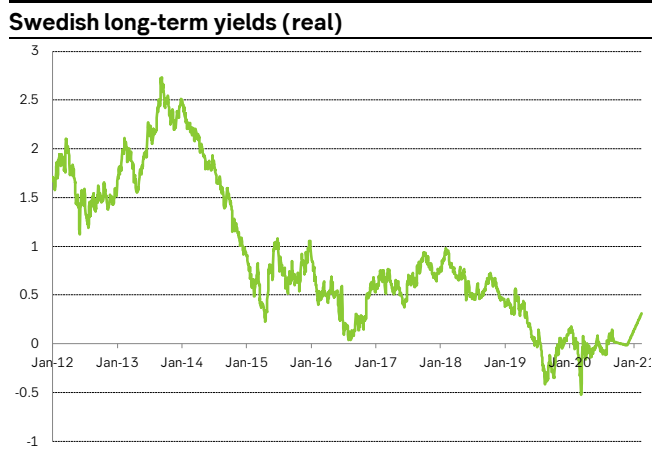
Price inflation has been established at around 2% Sweden – this means Swedish property companies are receiving support from rental index adjustments which are often directly linked to the CPI. The fact that the CPI also takes into account mortgage costs means that our expectation of an unchanged repo rate at 0% by the central bank until 2022 implies that the CPI is likely to remain below the central bank’s 2% long-term target in the foreseeable future. Still, despite a GDP drop of above 2.6% in 2020 CPI growth was 0.6% for 2020, which we expect will increase to 1.4% in 2021 and 1.0% 2022. As a consequence, we expect rent increases to be slightly lower than in recent years.

CPI Sweden

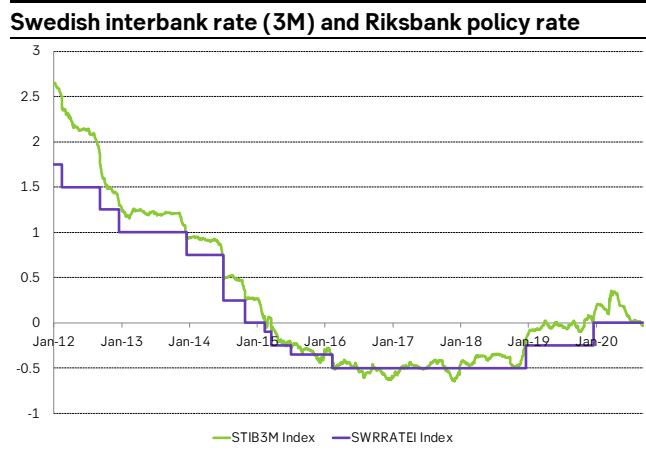


Source: SEB

The Swedish central bank increased its repo rate to 0% in January 2020 as inflation was on target. Since then Covid-19 weakened the economy and took away any hopes for a raised repo rate in Sweden. Looking at the long-term yields, we can see that they have been rising internationally in recent months, and the Swedish 10-year sovereign bond yield has stabilised at around 0%, some 280bps lower than the average since 2000. We expect the low rate environment to persist for some time although higher short- and long-term rates are likely in the longer term.



Source: SEB and Thomson Reuters Datastream



Source: SEB and Infront

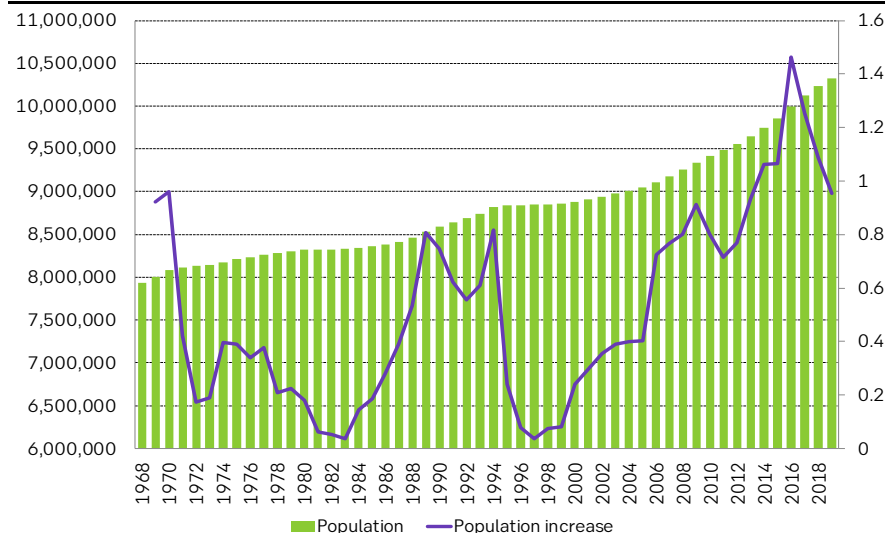
It should be pointed out that any interest rate increases from negative to zero have a had a positive impact on the financial costs as there is a floor in bank loans while there is no floor in the interest swaps.

Housing shortage

Population growth drives demand for housing

Supported by high population growth, strong employment and a shortage of housing, the Swedish residential rental market is something of a safe haven for investors. Further comfort is found in the Swedish model of regulated rents guaranteeing that rents increase in line with inflation on a yearly basis.

Population and growth (Sweden)



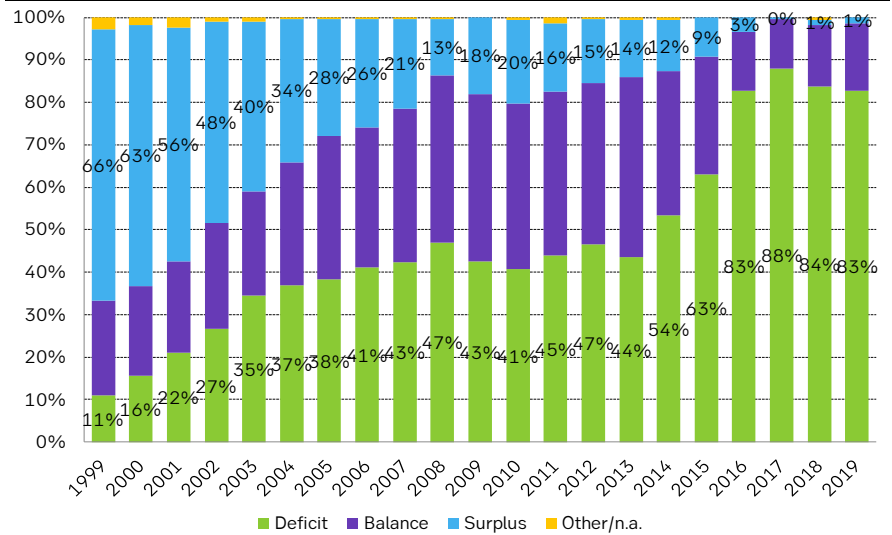
Source: SCB

Above we set out the population growth in Sweden since 1968. In periods of strong economic growth such as in the 1960s, 1980s and 2000s, immigration has supported Sweden’s population growth as the birth rate is not high enough to create levels above 0.5%. In a Nordic perspective Sweden stands out with its growth well above 1% annually in recent years. This is a level that is significantly higher than Finland and also above Denmark and Norway.

The growth rate has come down since its peak in 2016 as a result of the more restrictive immigration regulation not only in Sweden but all over Europe. In the wake of Covid-19 we expect immigration levels to remain muted, at least for 2021.

Below we set out the estimated deficit of apartments according to Boverket. As can be seen, the peak in immigration following 2014 has had an impact on the shortage of housing. Production of residential units peaked in 2017, when there was an oversupply of co-op apartments in particular. This is also visible in the charts where there is a slight decline in the deficit in 2018 and 2019 in Sweden.

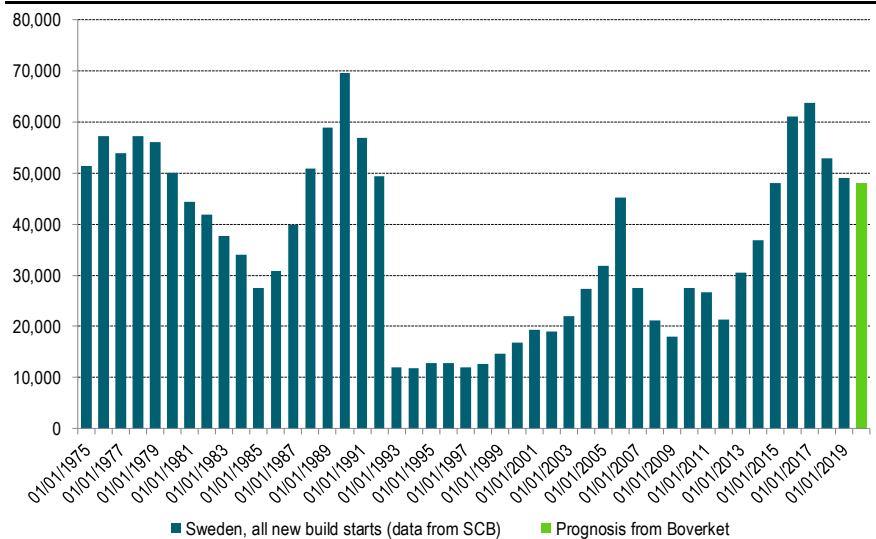
Apartment deficit in Sweden's municipalities



Source: Boverket

Looking at the flipside in this, supply, housing starts have been around or above 50,000 per year since 2015. The mix has changed somewhat, and the proportion of rental apartments was a record high 65% in 2020. Although the supply appears to be large in a historical perspective, we should remember that there is a total of 2.6m apartments in Sweden and another 2m detached houses thus the supply is only 1.1% of the total stock. If we just look at apartments in multitenant buildings, the supply is around 40,000 annually or 1.5%. If we look at rental apartments in multitenant buildings some 25,000 are expected to be started in 2020 which in relation to the stock of 1.6m gives a supply of 1.6%.

Starts of apartments (Sweden)



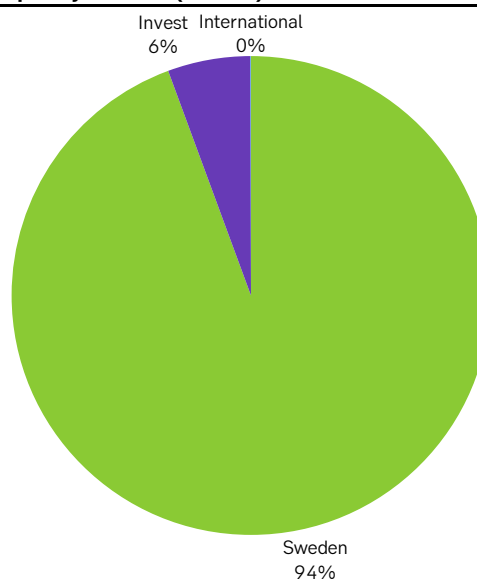
Source: SCB, Boverket

Business areas

Serneke Sweden

Serneke Sweden carries out traditional construction activities. The division represents around 94% of group revenues and is the by far largest of Serneke's three divisions.

Serneke revenues split by division (2021E)

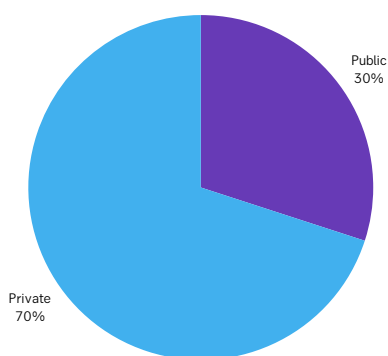


Source: SEB, Serneke

Serneke Sweden is active in all areas including both building and civil engineering. In addition, the division also does residential property development and at year end 2020 Serneke Sweden had 107 apartments in production. In the fourth quarter, 24 apartments were started and 23 were sold. The division has just over 18,000 building rights on its balance sheet and another 2,300 through JVs. In addition, it has options to take on another 260,000 building rights. The projects and building rights portfolio has a book value of SEK 259m, representing around SEK 13,000 per building right, but this also includes 111 partly completed apartments. If we assume that the apartments are half way through construction and subtract 50% of the value of 111 completed apartments, the book value per building right is closer to SEK 5,000, which we do not find excessive given the location of the assets.

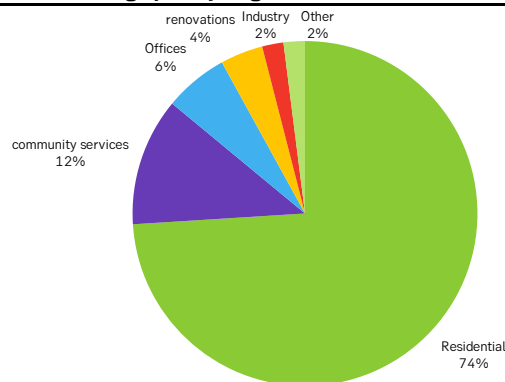
The residential market is the largest segment to which Serneke Sweden is exposed. Of its order backlog as much as 74% is residential buildings, followed by 12% community services and only 6% offices. This mix is favourable in the current market where there are some concerns about the future need for new commercial buildings in general, but limited concerns about residential demand. Of the order backlog, 30% is with public customers and 70% private.

Order backlog split by type of customer



Source: SEB, Serneke

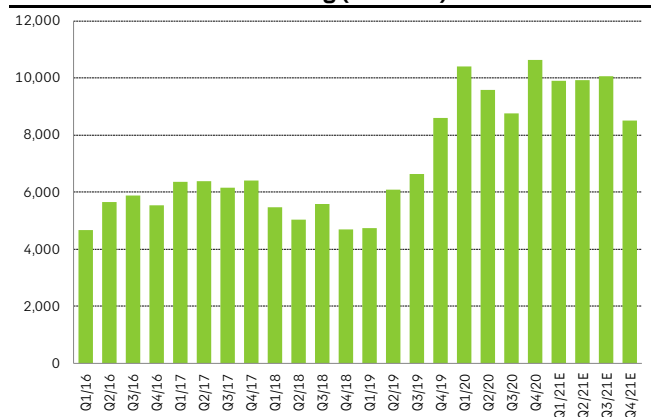
Order backlog split by segment



Source: SEB, Serneke

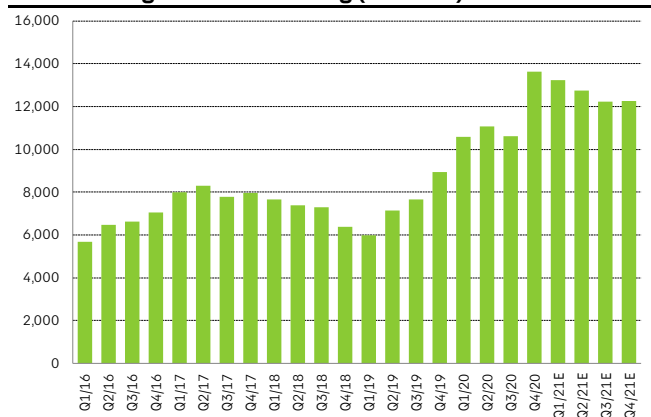
Serneke Sweden had a strong order intake during 2020 building up a strong order backlog growth. The order backlog is at the end of 2020 was SEK 13.6bn, up from 8.9bn as at the end of 2019 and SEK 6.4bn at the end of 2018. A large part of the order intake growth in 2020 is explained by Karlatornet,, where SEK 2.9bn was booked in Q4 2020. The production of this project is relatively long thus we expect the duration in the order backlog to have become longer and do therefore not expect a similar rapid increase in growth for the division.

Orderintake 12 months trailing (Serneke)



Source: SEB, Serneke

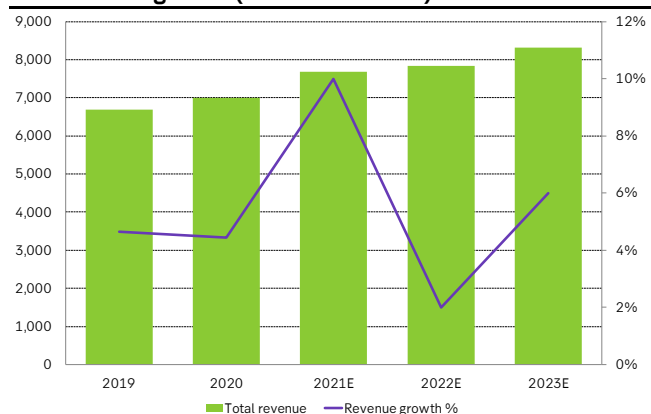
Orderbacklog 12 months trailing (Serneke)



Source: SEB, Serneke

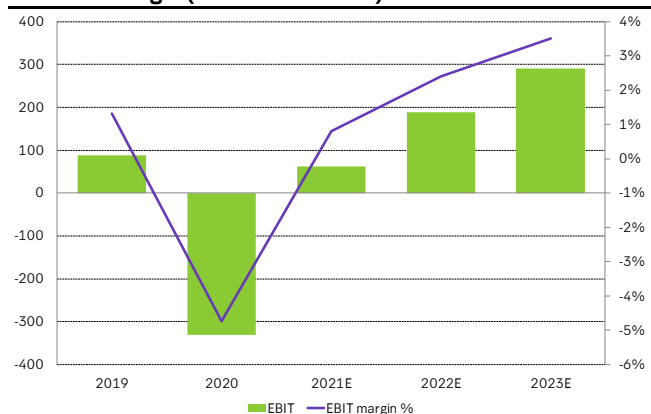
In both 2019 and 2020, the segment's revenues increased by 4% annually, a significant slowdown compared to the expansive growth in earlier years. A small pick-up is expected in 2021 due to the growth in the order backlog but we also recognise that Serneke aims to focus on margins ahead of growth offsetting some of the positive order intake momentum in 2020.

Revenue and growth (Serneke Sweden)



Source: SEB, Serneke

EBIT and margin (Serneke Sweden)



Source: SEB

The division has struggled with a number of loss-making contracts explaining the negative 4.7% EBIT margin in 2020. In 2019 the division also struggled but managed to generate a 1.3% margin. We expect a slow margin recovery as Serneke remains prudent in profit taking on ongoing projects at least throughout 2021.

Serneke Invest

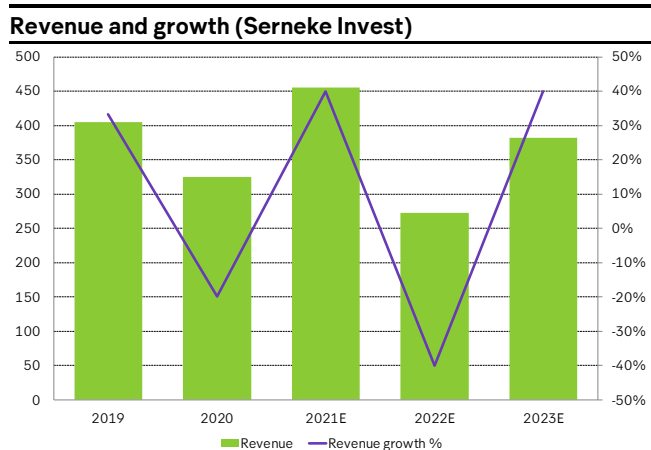
Serneke Invest works within property development and holds most of the real estate in the Serneke group. Some of the developments are to be built by Serneke Sweden under the ownership of Serneke but some could also be built by Serneke Sweden but on assignment from a third party that has acquired the building rights from Serneke. The third party could be fully external or a JV in which Serneke participates. The division represented only 4% of revenues in 2019 and 2020. Serneke Invest is also the division that own shares in other companies and JVs.

As of the end of 2020, Serneke Invest had 228,000 sqm residential building rights fully owned and another 50,000 sqm owned through JVs. In addition, Serneke Invest has options for some 360,000 sqm residential building rights. The division also has 594 apartments in production, but no apartments were started or sold in the fourth quarter. The project and building rights are booked at SEK 1.5bn representing around SEK 5,500 per sqm.

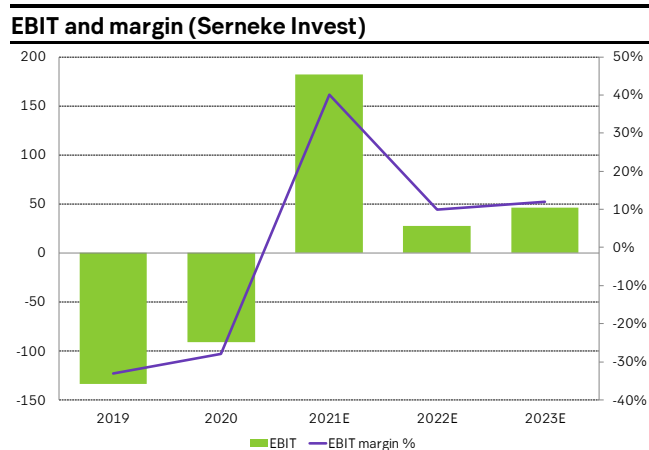
In the end of 2020 Serneke divested 15,000 sqm of building rights in Karlastaden in Gothenburg to Tosito for SEK 190m which represents SEK 13,000 per sqm. Serneke still has 155,000sqm of building rights in Karlastaden, which we assume is valued at around SEK 6,500 per sqm with a potential excess value of around SEK 1bn, or SEK 35 per share.

In 2019 and 2020, Invest had revenues between SEK 300m and SEK 400m and we expect the revenue stream to remain in this range, although increasing slowly as the demand for residential is high and the potential for Serneke is large. We recognise that it will take some time to ramp up production, hence our slow increase in revenues. Also, Serneke has been active, divesting assets due to its liquidity issues, and with recently announced transactions and share issues, Serneke does not have the need to divest building rights, which will have a negative impact on revenues initially.

We expect Serneke Invest's margins to slowly recover as its development operation regains stability. Long term the division should be able to generate margins of 10% or above.



Source: SEB, Serneke



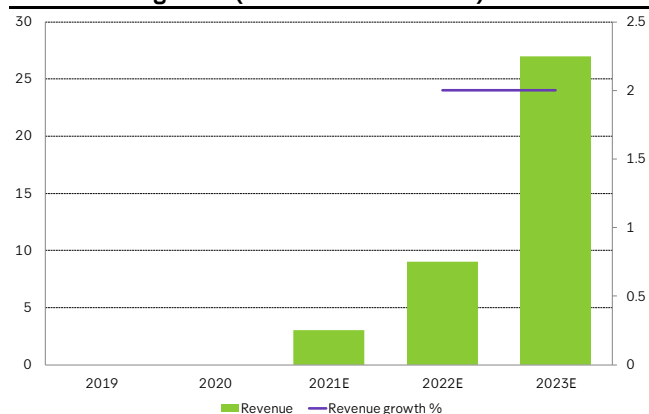
Source: SEB

Serneke has a number of associates and JVs which contribute to earnings in the division. The larger holdings are Fjätervålen Alpine Centre, IFK Göteborg Transfer Intressenter and Prioritet Serneke Arena. In 2019 profits from associates/JVs were SEK 10m and in 2020 they were SEK 14m, primarily relating to IFK Göteborg being successful in a few transfers deals of football players.

Serneke International

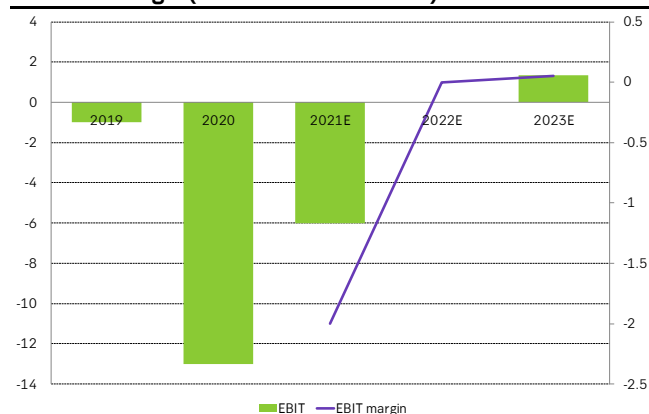
The International division is the smallest of Serneke's three divisions. The aim is to participate in projects internationally where knowledge and competence from Serneke in Sweden is used on a project by project basis. There is no plan to build up an international organisation. In 2019 and 2020 no revenues were generated in the division. We expect a slow ramp up in the next few years, but the division will remain a very small part of Serneke's operation.

Revenue and growth (Serneke International)



Source: SEB, Serneke

EBIT and margin (Serneke International)



Source: SEB

The SEK 13m loss for 2020 relates to operating costs and is likely to be repeated in 2021 as the operation remains too small to cover its overhead.

Serneke is also part owner in a small construction operation in Perth, Australia.

Overview

Investment considerations

Following some years with high growth Serneke ran into difficulties in 2019 and 2020 where it had to take a step back and consolidate. With a strengthened balance sheet we expect a margin turnaround that will drive the share price ahead.

Company profile

Serneke was founded by Ola Serneke in 2002 and has following a few years of very strong growth become Sweden's 7th largest construction company with almost SEK 7bn in revenues. Serneke has 20 offices with some 1,100 employees throughout Sweden. The head office is located in Gothenburg and the operation is focused on the three large cities Stockholm, Gothenburg and Malmö. The largest part of its operation is construction activities but with a significant landbank in attractive locations it also is a large property developer.

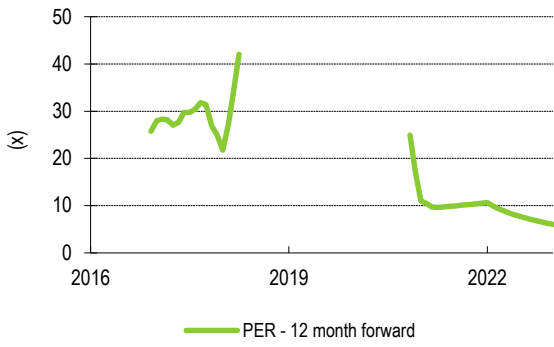
Valuation approach

Based on our forecasts, Serneke trades at a EV/S of 0.2x, well below main peers at 0.6x, explained by the temporarily lower margins. Based on a DCF approach, supported by multiple and NAV valuations, we derive a fair share price range of SEK 62-78 per share with a mid-point value of SEK 70 (WACC of 7.5%, steady state EBIT margin of 3%).

Investment risks

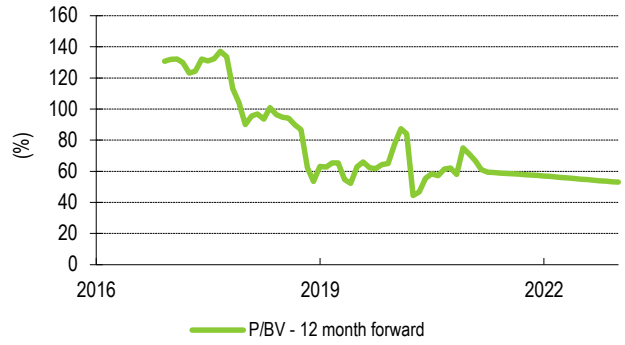
Being a construction company Serneke has project risks of which the largest is Karlatornet and a miscalculation or poor project management in the larger projects would have a large negative impact on Serneke's earnings.

PER - 12 month forward



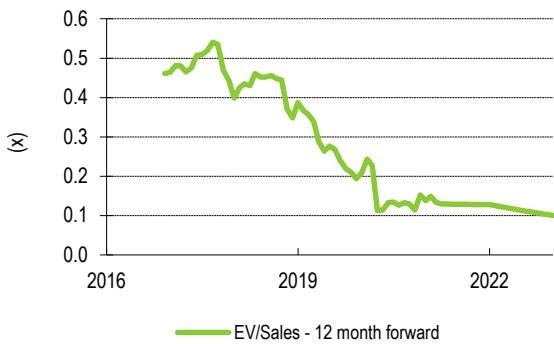
Source: SEB

P/BV - 12 month forward



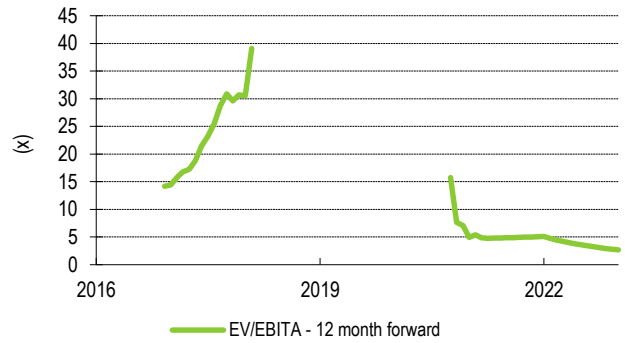
Source: SEB

EV/Sales - 12 month forward



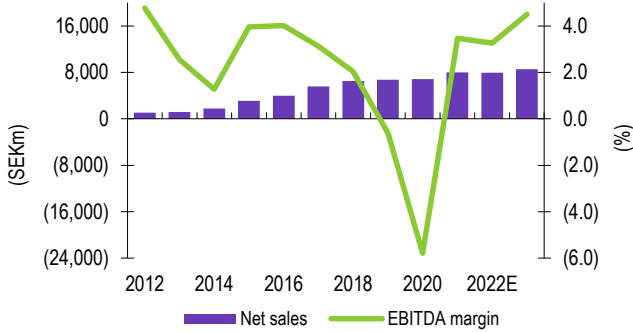
Source: SEB

EV/EBITA - 12 month forward



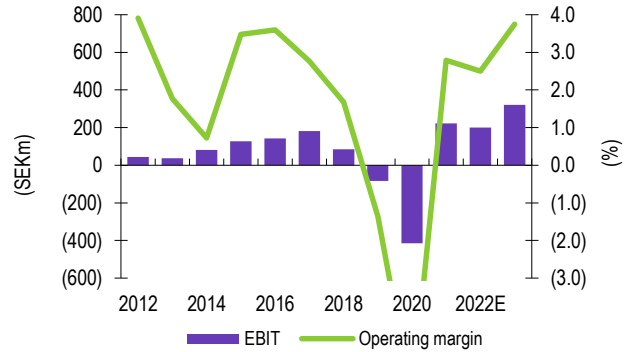
Source: SEB

Net sales & EBITDA margin



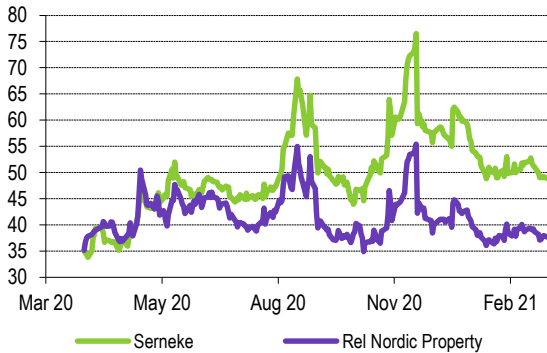
Source: SEB

EBIT & Operating margin



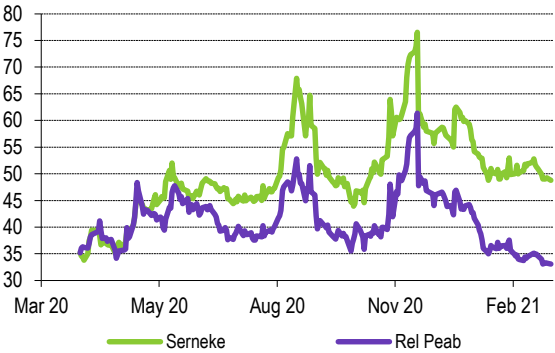
Source: SEB

Comparison with sector index - 1 year



Source: SIX

Comparison with Peab - 1 year



Source: SIX

Profit & loss statement - Serneke												
(SEKm)	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
Net Sales	1,075	1,157	1,800	3,107	3,978	5,605	6,516	6,725	6,871	7,987	7,966	8,566
Other revenues	0	0	0	0	0	0	0	0	0	0	0	0
Total revenues	1,075	1,157	1,800	3,107	3,978	5,605	6,516	6,725	6,871	7,987	7,966	8,566
Total expenses	(1,023)	(1,128)	(1,777)	(2,984)	(3,818)	(5,430)	(6,383)	(6,767)	(7,268)	(7,709)	(7,707)	(8,180)
Profit before depreciation	51	30	23	123	160	175	133	(42)	(397)	278	260	386
Depreciation - Fixed assets	(9)	(9)	(10)	(15)	(17)	(20)	(24)	(50)	(30)	(55)	(60)	(65)
Depreciation - Other assets	0	0	0	0	0	0	0	0	0	0	0	0
Amortisation - Goodwill	0	0	0	0	0	0	0	0	0	0	0	0
Amortisation - Other intangibles	0	0	0	0	0	0	0	0	0	0	0	0
Operating profit	42	21	13	108	143	155	109	(92)	(427)	223	200	321
Associated companies	2	16	69	20	0	26	(24)	8	13	0	0	0
Net interest expenses	(5)	(15)	(12)	(16)	(17)	(18)	(37)	(27)	(88)	(41)	(39)	(39)
Foreign exchange items	0	0	0	0	0	0	0	0	0	0	0	0
Other financial items	0	0	0	0	0	0	0	0	0	0	0	0
Value changes - Fixed assets	0	0	0	0	42	238	281	0	0	0	0	0
Value changes - Financial assets	0	0	0	0	0	0	0	0	0	0	0	0
Value changes - Other assets	0	0	0	0	226	0	229	0	0	0	0	0
Reported pre-tax profit	40	32	70	112	394	401	558	(111)	(502)	181	160	283
Minority interests	(1)	0	0	0	0	0	0	0	0	0	0	0
Total taxes	(1)	9	(2)	25	0	(78)	46	29	144	(36)	(32)	(57)
Reported profit after tax	37	41	68	137	394	323	604	(82)	(358)	145	128	226
Discontinued operations	0	0	0	0	0	0	0	0	0	0	0	0
Extraordinary items	0	0	0	0	0	0	0	0	0	0	0	0
Net Profit	37	41	68	137	394	323	604	(82)	(358)	145	128	226
Adjustments:												
Discontinued operations	0	0	0	0	0	0	0	0	0	0	0	0
Interest on convertible debt	0	0	0	0	0	0	0	0	0	0	0	0
Minority interests (IFRS)	0	0	0	0	0	0	0	0	0	0	0	0
Value changes	0	0	0	0	(268)	(238)	(510)	0	0	0	0	0
Goodwill/intangibles amortisations	0	0	0	0	0	0	0	0	0	0	0	0
Restructuring charges	0	0	0	0	0	0	0	0	0	0	0	0
Other adjustments	0	0	0	0	0	0	0	0	0	0	0	0
Tax effect of adjustments	0	0	0	0	0	0	0	0	0	0	0	0
Adjusted profit after tax	37	41	68	137	126	85	94	(82)	(358)	145	128	226
Margins, tax & returns												
Operating margin	3.9	1.8	0.7	3.5	3.6	2.8	1.7	(1.4)	(6.2)	2.8	2.5	3.7
Pre-tax margin	3.7	2.8	3.9	3.6	9.9	7.2	8.6	(1.7)	(7.3)	2.3	2.0	3.3
Tax rate	2.0	(27.2)	2.9	(22.3)	0.0	19.5	(8.2)	26.1	28.7	20.0	20.0	20.0
ROE	56.1	22.6	24.5	35.3	41.0	19.6	29.5	(3.7)	(17.4)	6.9	5.5	9.1
ROCE	56.8	13.8	14.8	16.1	10.6	8.7	4.3	(2.1)	(11.6)	6.3	5.5	8.6
Growth rates y-o-y (%)												
Total revenues	n.a.	7.7	55.5	72.6	28.0	40.9	16.3	3.2	2.2	16.2	(0.3)	7.5
Operating profit	n.m.	(51.2)	(36.6)	730.8	32.4	8.4	(29.7)	n.m.	n.m.	n.m.	(10.3)	61.0
Pre-tax profit	n.m.	(18.2)	116.5	60.0	251.8	1.8	39.2	n.m.	n.m.	n.m.	(11.5)	76.2
EPS (adjusted)	0.0	(50.8)	41.6	87.0	(24.1)	(42.3)	9.3	0.0	0.0	0.0	(12.3)	76.2
Cash flow												
(SEKm)	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
Net profit	37	41	68	137	394	323	604	(82)	(358)	145	128	226
Non-cash adjustments	8	(7)	(59)	(5)	(251)	(244)	(462)	42	17	55	60	65
Cash flow before work cap	46	34	9	132	143	79	142	(40)	(341)	200	188	291
Ch. in working capital / Other	(90)	(12)	92	(95)	(98)	(32)	123	(605)	(11)	31	(107)	(81)
Operating cash flow	(44)	23	101	37	45	47	265	(645)	(352)	231	81	210
Capital expenditures	(1)	(3)	(10)	(6)	(175)	(62)	(67)	(52)	(50)	(105)	(107)	(110)
Asset disposals	1	0	0	0	(16)	0	205	298	30	50	50	100
L/T financial investments	0	(80)	4	2	0	(1)	(23)	(20)	0	0	0	0
Acquisitions / adjustments	0	(8)	(45)	0	(10)	(256)	(592)	(15)	0	0	0	0
Free cash flow	(44)	(69)	50	33	(156)	(272)	(212)	(434)	(372)	176	24	200
Net loan proceeds	31	(11)	5	(41)	136	147	353	188	(238)	(100)	(100)	(100)
Dividend paid	0	0	0	0	0	0	(93)	0	0	0	0	(42)
Share issue	20	50	0	36	598	2	(65)	0	122	170	0	0
Other	(3)	37	15	(100)	(18)	(17)	(25)	19	560	0	0	(0)
Net change in cash	5	7	71	(72)	560	(140)	(42)	(227)	72	245	(76)	58
Adjustments												
C/flow bef chng in work cap	46	34	9	132	143	79	142	(40)	(341)	200	188	291
Adjustments	0	0	0	0	0	0	0	0	0	0	0	0
Int on conv debt net of tax	0	0	0	0	0	0	0	0	0	0	0	0
Cash earnings	46	34	9	132	143	79	142	(40)	(341)	200	188	291
Per share information												
Cash earnings	7.92	2.65	0.6	8.15	7.28	3.44	6.11	(1.72)	(14.2)	7.23	6.74	10.4
Operating cash flow	(7.63)	1.76	6.74	2.27	2.29	2.05	11.4	(27.7)	(14.7)	8.33	2.89	7.5
Free cash flow	(7.56)	(5.33)	3.34	2.02	(7.94)	(11.8)	(9.12)	(18.7)	(15.5)	6.35	0.85	7.14
Investment cover												
Capex/sales (%)	0.1	0.3	0.6	0.2	4.4	1.1	1.0	0.8	0.7	1.3	1.3	1.3
Capex/depreciation (%)	6	37	100	40	1,029	310	279	104	167	191	178	169

Source for all data on this page: SEB

Balance sheet - Serneke												
(SEKm)	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
Cash and liquid assets	5	13	84	11	571	431	389	162	234	479	403	461
Debtors	76	114	278	352	589	845	972	825	1,012	1,160	1,157	1,244
Inventories	6	5	4	4	2	1	1	1	1	2	2	2
Other	285	335	351	248	873	1,162	592	811	849	800	800	800
Current assets	372	465	697	615	2,035	2,439	1,954	1,799	2,096	2,441	2,362	2,507
Interest bearing fixed assets	0	0	0	21	30	10	51	37	1,354	1,354	1,354	1,354
Other financial assets	15	144	77	277	655	659	685	303	362	362	362	362
Capitalized development cost	0	0	0	0	0	0	0	0	0	0	0	0
Goodwill	4	0	23	0	0	0	0	0	0	0	0	0
Other intangibles	0	0	0	23	23	23	23	23	24	24	24	24
Fixed tangible assets	14	53	585	87	404	990	335	298	416	416	413	358
Other fixed assets	48	23	28	629	290	283	2,507	3,274	1,740	1,740	1,740	1,740
Fixed assets	81	220	713	1,037	1,402	1,965	3,601	3,935	3,896	3,896	3,893	3,838
Total assets	453	684	1,410	1,652	3,437	4,404	5,555	5,734	5,992	6,337	6,255	6,345
Creditors	119	152	273	349	541	799	991	958	1,058	1,203	1,179	1,244
Other trade financing	27	81	66	80	156	193	193	239	544	547	437	352
S/T interest bearing debt	6	121	283	312	128	54	166	461	768	400	400	400
Other	51	44	262	60	379	557	644	462	618	600	625	650
Current liabilities	202	397	884	801	1,204	1,603	1,994	2,120	2,988	2,751	2,640	2,646
L/T interest bearing debt	27	60	133	107	436	641	826	962	840	1,108	1,008	908
Other long-term liabilities	81	0	46	190	208	152	83	162	31	31	31	31
Convertible debt	25	0	0	0	0	0	0	0	0	0	0	0
Pension provisions	0	0	0	0	0	0	0	0	0	0	0	0
Other provisions	2	0	16	101	120	158	223	183	187	187	187	187
Deferred tax	8	(4)	8	0	0	29	157	128	0	0	0	0
Long term liabilities	142	56	203	398	764	980	1,289	1,435	1,058	1,326	1,226	1,126
Minority interests	0	0	0	0	0	0	0	0	0	0	0	0
Shareholders' equity	108	231	323	453	1,469	1,821	2,272	2,179	1,946	2,261	2,389	2,573
Total liabilities and equity	452	684	1,409	1,652	3,437	4,404	5,555	5,734	5,992	6,337	6,255	6,345
Net debt (m)	53	168	333	387	(37)	254	552	1,224	20	(325)	(349)	(507)
Working capital (m)	171	175	13	115	388	459	(263)	(22)	(358)	(389)	(281)	(200)
Capital employed (m)	166	412	739	872	2,033	2,516	3,264	3,602	3,554	3,769	3,797	3,881
Net debt/equity (%)	49	73	103	85	(3)	14	24	56	1	(14)	(15)	(20)
Net debt/EBITDA (x)	1.0	3.7	3.6	2.7	(0.2)	1.3	5.1	(36.0)	(0.1)	(1.2)	(1.3)	(1.3)
Equity/total assets (%)	24	34	23	27	43	41	41	38	32	36	38	41
Interest cover	0.0	3.1	1.1	6.1	5.5	4.8	2.0	(2.1)	(4.9)	4.6	4.3	6.9

Valuation												
(SEK)	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
No of shares, fully dil. (y/e)	11.5	14.2	15.8	16.6	22.7	23.2	23.2	23.2	24.7	27.9	27.9	27.9
No of shares, fully dil. avg.	5.8	12.9	15.0	16.2	19.6	23.0	23.2	23.2	24.0	27.7	27.9	27.9
Share price, y/e					103.4	87.9	59.2	60.8	57.6	48.8	48.8	48.8
Share price, high					115.5	134.7	108.4	69.8	89.5	64.6		
Share price, low					90.4	86.7	46.9	41.5	23.6	48.0		
Share price, avg					101.4	110.7	83.4	54.2	52.4	53.1		
EPS (reported)	6.48	3.19	4.52	8.46	20.1	14.1	26.0	(3.53)	(14.9)	5.24	4.59	8.09
EPS (adjusted)	6.48	3.19	4.52	8.46	6.42	3.70	4.04	(3.53)	(14.9)	5.24	4.59	8.09
Cash earnings/share	7.92	2.65	0.60	8.15	7.28	3.44	6.11	(1.72)	(14.2)	7.23	6.74	10.4
Dividend/share	0.00	0.00	0.00	0.00	0.00	4.00	0.00	0.00	0.00	0.00	1.50	2.00
Enterprise value/share					102	99	83	113	58	37	36	31
Book value/share	9.4	16.2	20	27	65	78	98	94	79	81	86	92
Adjusted equity/share	9.4	16.2	20	27	65	78	98	94	79	81	86	92
PER (adjusted)					16.1	23.8	14.6	n.m.	n.m.	9.3	10.6	6.0
CEM					14.2	25.6	9.7	(35.3)	(4.1)	6.8	7.2	4.7
Dividend yield					0.0	4.5	0.0	0.0	0.0	0.0	3.1	4.1
EV/EBITDA					14.5	11.4	17.7	(77.6)	(3.8)	3.7	3.9	2.2
EV/EBITA					16.2	12.7	22.7	(31.4)	(3.5)	4.7	5.1	2.7
EV/EBIT					16.2	12.7	22.7	(31.4)	(3.5)	4.7	5.1	2.7
EV/Sales (x)					0.58	0.41	0.30	0.39	0.21	0.13	0.13	0.10
Price/Book value					1.60	1.12	0.61	0.65	0.73	0.60	0.57	0.53
Price/adjusted equity					1.60	1.12	0.61	0.65	0.73	0.60	0.57	0.53
Free cash flow/Market cap (%)					(6.4)	(0.7)	14.4	(49.3)	(29.1)	9.3	(1.9)	7.3
Operating cash flow/EV (%)					1.9	2.0	13.7	(24.5)	(24.4)	22.2	8.0	24.5
EV/Capital employed (x)					1.1	0.9	0.6	0.7	0.4	0.3	0.3	0.2

Main shareholders				Management			Company information	
Name	(%)	Votes	Capital	Title	Name	Contact		
Ola Serneke	56.3		26.4	COB	Jan C. Johansson	Internet	https://www.serneke.se/	
Lommen Holding	12.6		17.2	CEO	Michael Berglin	Phone number	031-712 97 00	
Christer Larsson i Trollhättan AB	6.1		3.8	CFO	Anders Düring			
				IK				

Source for all data on this page: SEB

About this publication

This report is a marketing communication commissioned by Serneke 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 Serneke, (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 Serneke as of 28 Feb 2021.

The analyst(s) responsible for this research report (jointly with their closely related persons) hold(s) 0 shares in Serneke 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