

Sievi Capital

Company report

02/20/2023 19:03



Olli Vilppo
+358 40 761 9380
olli.vilppo@inderes.fi

✓ Inderes corporate customer

This report is a summary translation of the report “Huonekalumarkkinan vastatuulet vahvistuneet” published on 02/20/2023 at 7:06 pm

**inde
res.**

Headwinds in furniture market grow stronger

We lower our target price for Sievi to EUR 1.35 per share (previous 1.40) and our recommendation to Accumulate (previous Buy). We have lowered our estimates for Indoor for the next few quarters as the drop in the furniture market seems to have accelerated in Q4. We lowered Indoor's estimates and value a bit. This lowered the sum of the parts we estimate for Sievi, which decreased with our target price. In all, Sievi's investment story is unchanged and the new strategy (read [this](#) for more detail) offers a plausible route to bring out the hidden value of Sievi's parts, in our opinion.

We revised our Indoor estimates based on market data and the new collective agreement in trade

We lowered our Indoor estimates as based on Statistics Finland's data the drop in the furniture industry has accelerated in Q4 to 6% from the previous quarter (-3%) when Indoor still surprised us with a good result considering the circumstances. We now expect a decrease in sales of about 5% for Indoor and EBITDA (IFRS) to drop to EUR 6.9 million (Q4'21: 7.3 MEUR). We expect that the company's sales have developed slightly better than the market, as 10 Sotka stores became part of the company's own business during the quarter. In August, Indoor also started change negotiations involving the entire personnel. We expect savings from these to dampen the earnings drop. We also modified our cost estimates for the coming years to comply with the new collective agreement in trade. We expect Indoor's 2023 EBITDA to rise to EUR 28.7 million (2022e 22.4 MEUR), which is slightly below the pre-COVID level. We anticipate that H1'23 will be difficult for the furniture sector, but in H2'23 we expect some of the costs to make a downturn (freight and purchase prices). The ERP reform that will be finished in Q1 will also lower costs by EUR 4 million per year. The value of the Indoor holding is now EUR 33 million (previous 35 MEUR) and the 2023e P/E ratio is 10x.

Valuation of other holdings remain unchanged and we will examine them based on the Q4 report

KH-Koneet's earnings has developed strongly in recent years but we expect the slowdown of the construction market to act as a counterbalance to the good performance in 2023, which will keep the result at 2022 levels. We estimate the value of the KH-Koneet holding to be EUR 52.5 million which means its 2022 and 2023 P/E ratios are 7x. As construction slows KH-Koneet's development also involves risks and before visibility improves, we apply a safety margin to its valuation. If visibility improves and KH-Koneet's strong growth continues, the company could increase its value clearly. The sum of the parts also includes the present value of Logistikas (7 MEUR), HTJ (10 MEUR), NRG (1.6 MEUR) and discounted Group expenses (-14.5 MEUR), tax liabilities (-4.4 MEUR) and net cash (-7.2 MEUR). We have valued the parts of Sievi separately on an earnings-basis using relatively conservative valuation multiples (~EV/EBITDA 5-6x) typically used for unlisted companies.

Parts have hidden value even with our conservative estimates and valuations

The sum of the parts we calculate for Sievi Capital is now around EUR 78 million or EUR 1.35 per share even with the conservative assumptions we use and, relative to this we believe the share is clearly undervalued. Compared to Sievi's net asset value (EUR 1.49) the balance sheet-based P/B pricing (0.8x) is still very low compared to historical levels. The strategy update and change in the operating model are a clear short-term driver for the share. In the end, Sievi intends to become an industrial group built around KH-Koneet Group and dispose of other target companies. We believe that the remaining KH-Koneet would as an independent listed company be priced with much higher multiples than our current estimates, provided that it proves the sustainability of its earnings level in a weaker market as well. For Indoor, we find it very likely that Sievi eventually exits it by listing it on the stock exchange.

Recommendation

Accumulate

(previous Buy)

EUR 1.35

(previous EUR 1.40)

Share price:

1.20



	2021	2022e	2023e	2024e
EBIT adj.	20.2	-8.5	11.3	12.8
EBIT-% adj.	18.4	-6.9	9.0	10.2
Net Income	0.32	-0.12	0.16	0.18
EPS (adj.)				
	6.1	neg.	7.5	6.6
P/E (adj.)	1.2	0.8	0.7	0.6
P/B	0.0 %	0.0 %	0.0 %	0.0 %
Dividend yield-%	5.3	neg.	5.5	4.8
EV/EBIT (adj.)	5.3	neg.	5.5	4.8
EV/EBITDA	20.2	-8.5	11.3	12.8

Source: Inderes

Guidance

(Unchanged)

No guidance

Indoor Group

Indoor Group has been a very successful investment for Sievi Capital, especially through the strong cash flow the company generates.

Company description

Indoor Group Oy owns retail chains Asko and Sotka, and the company also includes the sofa factory Insofa Oy located in Lahti, as well as Indoor Group AS that is responsible for Estonian operations.

Business model

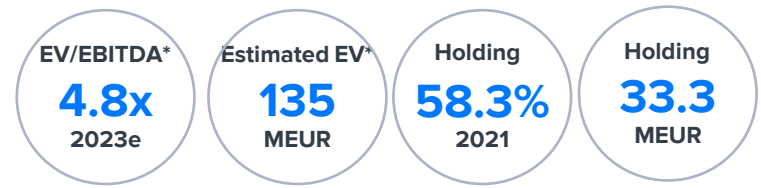
Indoor Group has a nationwide retail network in Finland. The importance of e-commerce has also increased in the company's multi-channel business model.

Investment story

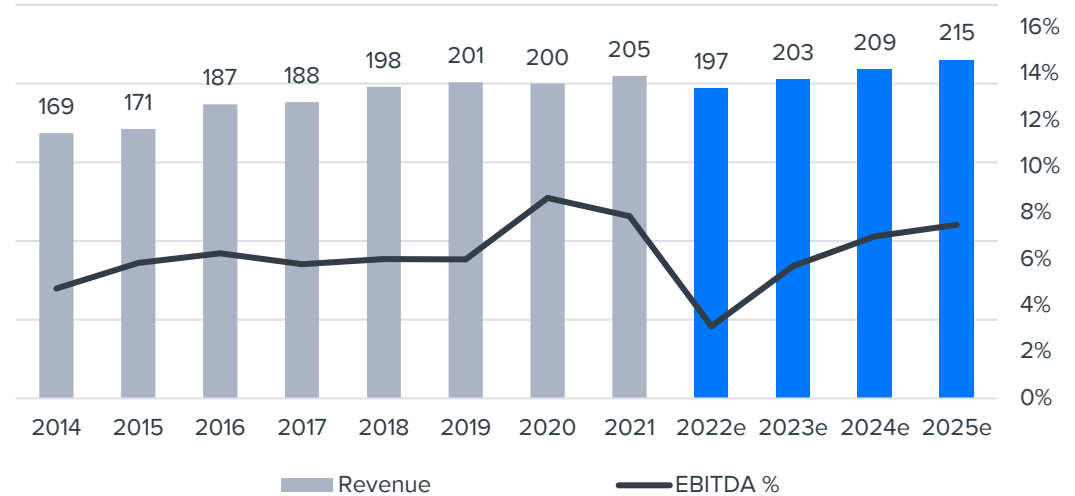
Sievi Capital acquired a majority holding in Indoor Group in 2017 from Kesko. Especially in the COVID year the company's earnings improvement has been strong. The strategy updated in summer 2020 aims to continue improving profitability from the already achieved strong level.

Competitive advantage

Indoor Group's competitive edge is well-known brands, good market position and the high volumes it generates. The own sofa factory in Lahti also enables demand-driven product tailoring for Asko.



Key figures and estimates **(FAS):



Value drivers

- Sharpening brands and pricing
- Utilizing customer data
- The source of growth is expansion of product groups and e-commerce
- Strong cash flow and good return on capital
- Streamlining operations by harmonizing background processes



Risk factors

- Overall market growth has been slow before COVID
- Forcing growth through expensive acquisitions
- Tighter competition
- Weakening economic situation
- Successful upgrade of ERP system



Valuation

- Valuation is in line with the peer group when the non-recurring ERP system cost is adjusted.
- We expect the company will start generating good dividend yield for Sievi's owners again in the second half of 2023

*EV and EBITDA according to IFRS accounting **FAS accordant EBITDA in the graph to maintain a comparable time series In IFRS accounting, EBITDA is some EUR 17.3 million higher and net liabilities EUR 66.6 million higher than in FAS. The dip in profitability we expect in 2022 is also explained by the ERP project and the related cloud service investment (-4 MEUR) that is processed as a cost.

KH-Koneet Group

KH-Koneet Group has been a successful investment for Sievi Capital as the company group has developed excellently since its formation.

Company description

KH-Koneet Group is an importer and retailer of construction and earth-moving machinery. It also offers maintenance and spare part services.

The company also has an earth-moving machinery rental company founded in 2018 and in 2019 the company expanded to Sweden with an acquisition.

Business model

KH-Koneet has a comprehensive network and service offering in Finland and now also in Sweden. There are very few intermediate stages in the supply chain. In the company's business model, the sellers are essential and the cost structure is flexible with its success.

Investment story

Sievi Capital invested in KH-Koneet Group in 2017. The growth of the group consisting of separate companies has been strong during the investment period. Now the company seeks profitable growth, especially in Sweden, where market shares are still low

Competitive advantage

The company has also been able to build strong relationships and a good negotiating position to both manufacturers and customers. The company's agile and self-directed organization also brings a clear competitive advantage.



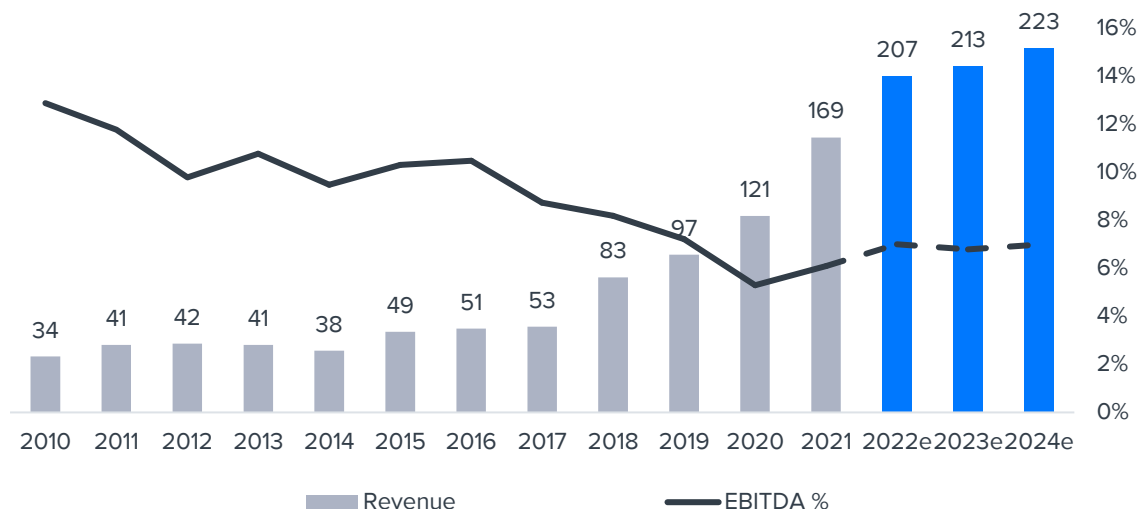
EV/EBITDA
6.0x
2022e

Estimated EV
87.0
MEUR

Holding
90.5%
2021

Holding
52.5
MEUR

Key figures and estimates:



Value drivers

- Sales growth in Sweden through expansion of the network and representation
- Introducing the operating model of KH-Koneet to Sweden and raising profitability to the level of Finland
- Increase rental activities



Risk factors

- Success of the acquisition
- Deterioration of the market situation
- Tightening competition
- Manufacturer's M&A transactions
- Effect of component shortage on availability
- As the Group grows, maintaining a self-directed culture can create challenges



Valuation

- We currently value the company with conservative 2022 and 2023 EV/EBITDA ratios of 6x and P/E ratios of 7x
- A discount to peers is justified as the peers are large companies that manufacture construction and earth-moving machinery and that are priced at a premium compared to importers.

2010-2016 figures are pro-forma figures including Edeco Tools Oy, KH-Koneet Oy, KH-Engineering Oy

Logistikas

The acquisition of Logistikas was carried out in December 2020. Logistikas is a logistics service company specialized in demanding customer relationships.

Company description

Logistikas currently operates in seven locations in Finland, both in its own logistics centers and in customers' premises. The Group employs approximately 230 people.

Business model

The services offered by the Group includes service products for local logistics, internal logistics and local warehousing, as well as expert services and comprehensive procurement services. The business model only ties a limited amount of capital.

Investment story

Logistikas has gained the reputation of a reliable operator, especially among demanding customers. The company's profitability has also risen to a strong level. With the support of Sievi Capital, the company carried out its first acquisition in July in Vaasa.

Competitive advantage

The company's competitive advantages are the ability to provide a comprehensive service package, strong customer relationships, satisfied personnel, highly invested information system and a good location near the Port of Rauma

Estimate of earnings growth rate



Value creation potential



Risk profile



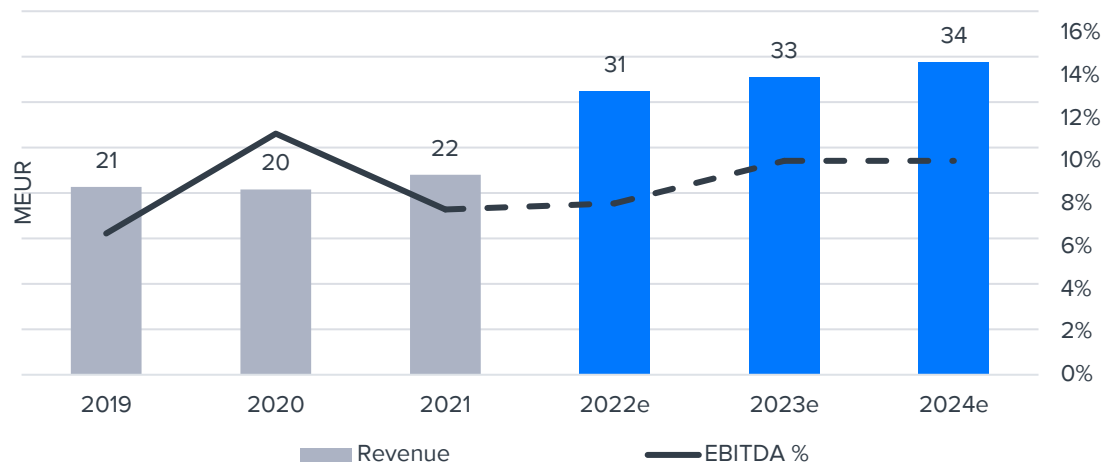
EV/EBITDA
6.5x
2022e

Estimated EV
16.9
MEUR

Holding
65.9%
2021

Holding
7.0
MEUR

Key figures and estimates:



Value drivers

- The outsourcing rate in logistics is still low in Finland which supports the market
- Continuing sales growth within existing customers
- Continuing new customer acquisition
- Acquisitions will boost growth in the future
- Costs scale with net sales growth



Risk factors

- Weakening economic situation
- Tightening competitive situation
- Failure in acquisitions



Valuation

- The company's business model requires little investment and its cash flow profile is good. Therefore, we believe the 2022e EV/EBITDA range of 6-7x we apply is conservative.
- However, the company is small and unlisted, which depresses the acceptable multiples

*2019 figures are pro-forma figures

Rakennuttajatoimisto HTJ

Rakennuttajatoimisto HTJ is Sievi Capital's latest acquisition carried out in October 2021.

Company description

HTJ is a construction consulting company established in 1999. The company provides building construction management and supervision services, as well as building engineering services and infrastructure construction services.

Business model

The company focuses on expert activities that generate good ROE and cash flow. The foundation of the service offering is versatile construction management, supervision and project management services.

Investment story

The market for the services provided by HTJ is estimated to have grown by an average of some 6% p.a. in 2015-2020. Under Sievi, HTJ also carried out its first acquisition (Infrap Oy spring 2022). In the past, the company has grown only organically.

Competitive advantage

The company has a strong growth track record and the business has grown organically by some 50% since 2017. Long-term customer relationships, skilled and committed personnel, and a strong service concept and brand form the competitive advantages of HTJ's operations.

Estimate of earnings growth rate



Value creation potential



Risk profile



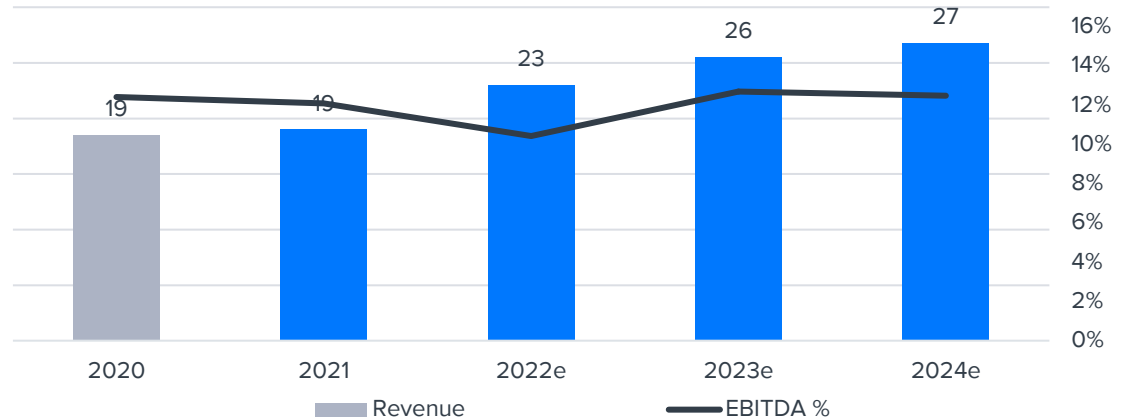
EV/EBITDA
6.3x
2023e

Estimated EV
20.2
MEUR

Holding
92.4%
2021

Holding
10.1
MEUR

Key figures and estimates:



Value drivers

- Strongly growing target market
- Continue growing stronger than the market organically
- In recent years, the biggest growth has come from infrastructure services, which continue to show significant growth potential
- Acquisitions as a growth catalyst



Risk factors

- Weakening economic situation
- Tightening competitive situation
- Failure in acquisitions



Valuation

- A clear discount to listed peers is justified due to the smaller size.
- We already look at 2023 multiples as the Infrap acquisition is only then visible in full-year earnings estimates.

Peer group valuations

Indoor Group*	EV	EV/EBITDA 22	EV/EBITDA 23	P/E 22	P/E 23
Surteco Group SE	477	5.6	5.2	11.6	11.9
Nobia AB	603	4.8	5.7	10.6	25.7
Maisons du Monde SA	1139	5.3	5.0	17.5	14.3
Leon's Furniture Ltd	1144	4.8	4.9	7.9	8.1
Williams-Sonoma Inc	1218	4.8	4.5	9.2	7.9
Median	1139	4.8	5.0	10.6	11.9
Indoor Group (IFRS)	135	5.1	4.8	13.7	10.3
Difference -%	-88 %	5 %	-6 %	29 %	-14 %

NB! Indoor's 2022 EBITDA will weaken temporarily by some EUR 4 million due to the ERP system update and we have adjusted this item in our 2022 estimates

HTJ	EV	EV/EBITDA 22	EV/EBITDA 23	EV/S 22
Sitowise Group Oyj	261	10.6	8.8	1.3
Sweco AB (publ)	4750	18.2	15.9	2.2
Afry AB	2348	10.9	9.8	1.1
Rejlers AB (publ)	314	8.9	8.3	1.0
WSP Global Inc	17599	16.7	14.1	2.9
Etteplan Oyj	450	9.3	8.7	1.3
Arcadis NV	4798	12.9	9.7	1.3
Median	2348	10.9	9.7	1.3
HTJ	20	8.4	6.3	0.9
Difference -%	-99 %	-22 %	-35 %	-31 %

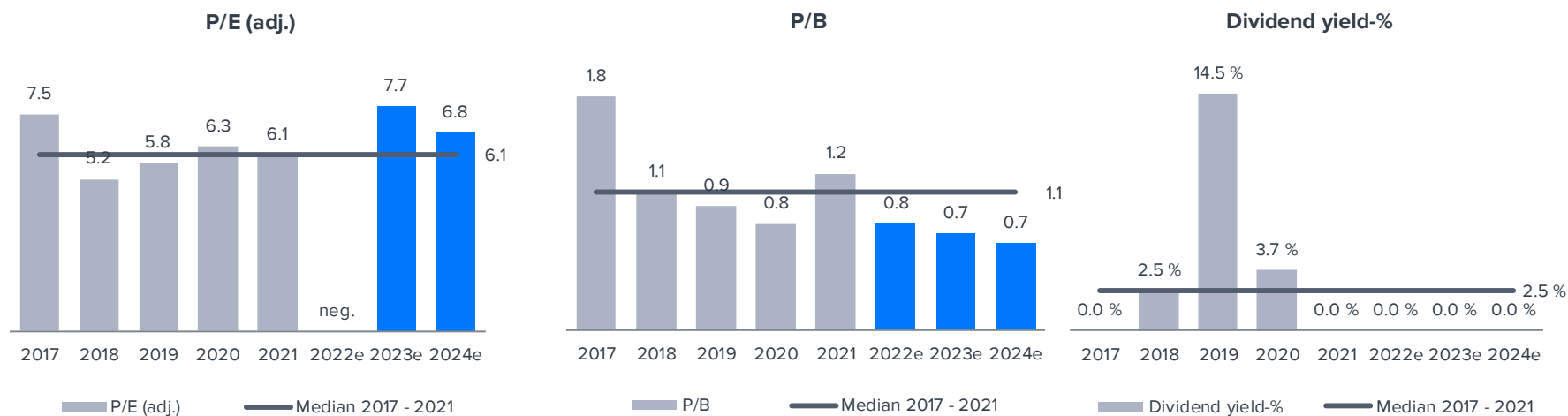
KH-Koneet Group	EV	EV/EBITDA 22	EV/EBITDA 23	P/E 22	P/E 23
Ponsse Oyj	793	10.1	9.1	19.8	16.1
Palfinger AG	1722	7.6	6.8	14.4	12.2
Volvo AB	50113	8.3	8.4	11.2	12.0
Deere & Comp	167823	16.5	13.9	18.9	15.1
Caterpillar Inc	148134	15.1	13.3	17.8	15.6
AGCO Corp	10306	7.3	6.3	11.7	10.2
Terex Corp	4046	9.4	8.0	13.8	11.7
Median	10306	9.4	8.4	14.4	12.2
KH-Koneet Group	87	6.0	6.0	7.2	7.4
Difference -%	-99 %	-36 %	-28 %	-50 %	-39 %

Source: Inderes and Refinitiv, valuation levels for peers collected on February 20, 2023. * Indoor Group EV includes lease liabilities under IFRS

Valuation table

Valuation	2017	2018	2019	2020	2021	2022e	2023e	2024e	2025e
Share price	1.65	1.22	1.28	1.08	1.92	1.20	1.20	1.20	1.20
Number of shares, millions	57.8	57.8	57.8	58.0	58.1	58.1	58.1	58.1	58.1
Market cap	95	70	74	63	112	70	70	70	70
EV	112	74	42	54	107	66	65	64	62
P/E (adj.)	7.5	5.2	5.8	6.3	6.1	neg.	7.7	6.8	6.0
P/E	7.5	5.2	5.8	6.3	6.1	neg.	7.7	6.8	6.0
P/FCF	4.5	4.4	8.1	5.7	4.8	neg.	7.1	6.3	5.7
P/B	1.8	1.1	0.9	0.8	1.2	0.81	0.74	0.7	0.6
P/S	65.5	19.0	>100	19.6	9.7	34.8	34.8	23.2	23.2
EV/Sales	76.6	19.9	83.3	16.9	9.3	32.9	32.4	21.2	20.6
EV/EBITDA	7.0	4.5	2.6	4.6	5.3	neg.	5.7	5.0	4.3
EV/EBIT (adj.)	7.0	4.5	2.6	4.6	5.3	neg.	5.7	5.0	4.3
Payout ratio (%)	0.0 %	12.8 %	83.5 %	23.4 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Dividend yield-%	0.0 %	2.5 %	14.5 %	3.7 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %

Source: Inderes



Disclaimer and recommendation history

The information presented in Inderes reports is obtained from several different public sources that Inderes considers to be reliable. Inderes aims to use reliable and comprehensive information, but Inderes does not guarantee the accuracy of the presented information. Any opinions, estimates and forecasts represent the views of the authors. Inderes is not responsible for the content or accuracy of the presented information. Inderes and its employees are also not responsible for the financial outcomes of investment decisions made based on the reports or any direct or indirect damage caused by the use of the information. The information used in producing the reports may change quickly. Inderes makes no commitment to announcing any potential changes to the presented information and opinions.

The reports produced by Inderes are intended for informational use only. The reports should not be construed as offers or advice to buy, sell or subscribe investment products. Customers should also understand that past performance is not a guarantee of future results. When making investment decisions, customers must base their decisions on their own research and their estimates of the factors that influence the value of the investment and take into account their objectives and financial position and use advisors as necessary. Customers are responsible for their investment decisions and their financial outcomes.

Reports produced by Inderes may not be edited, copied or made available to others in their entirety, or in part, without Inderes' written consent. No part of this report, or the report as a whole, shall be transferred or shared in any form to the United States, Canada or Japan or the citizens of the aforementioned countries. The legislation of other countries may also lay down restrictions pertaining to the distribution of the information contained in this report. Any individuals who may be subject to such restrictions must take said restrictions into account.

Inderes issues target prices for the shares it follows. The recommendation methodology used by Inderes is based on the share's 12-month expected total shareholder return (including the share price and dividends) and takes into account Inderes' view of the risk associated with the expected returns. The recommendation policy consists of four tiers: Sell, Reduce, Accumulate and Buy. As a rule, Inderes' investment recommendations and target prices are reviewed at least 2–4 times per year in connection with the companies' interim reports, but the recommendations and target prices may also be changed at other times depending on the market conditions. The issued recommendations and target prices do not guarantee that the share price will develop in line with the estimate. Inderes primarily uses the following valuation methods in determining target prices and recommendations: Cash flow analysis (DCF), valuation multiples, peer group analysis and sum of parts analysis. The valuation methods and target price criteria used are always company-specific and they may vary significantly depending on the company and (or) industry.

Inderes' recommendation policy is based on the following distribution relative to the 12-month risk-adjusted expected total shareholder return.

Buy	The 12-month risk-adjusted expected shareholder return of the share is very attractive
Accumulate	The 12-month risk-adjusted expected shareholder return of the share is attractive
Reduce	The 12-month risk-adjusted expected shareholder return of the share is weak
Sell	The 12-month risk-adjusted expected shareholder return of the share is very weak

The assessment of the 12-month risk-adjusted expected total shareholder return based on the above-mentioned definitions is company-specific and subjective. Consequently, similar 12-month expected total shareholder returns between different shares may result in different recommendations, and the recommendations and 12-month expected total shareholder returns between different shares should not be compared with each other. The counterpart of the expected total shareholder return is Inderes' view of the risk taken by the investor, which varies considerably between companies and scenarios. Thus, a high expected total shareholder return does not necessarily lead to positive performance when the risks are exceptionally high and, correspondingly, a low expected total shareholder return does not necessarily lead to a negative recommendation if Inderes considers the risks to be moderate.

The analysts who produce Inderes' research and Inderes employees cannot have 1) shareholdings that exceed the threshold of significant financial gain or 2) shareholdings exceeding 1% in any company subject to Inderes' research activities. Inderes Oyj can only own shares in the target companies it follows to the extent shown in the company's model portfolio investing real funds. All of Inderes Oyj's shareholdings are presented in itemised form in the model portfolio. Inderes Oyj does not have other shareholdings in the target companies analysed. The remuneration of the analysts who produce the analysis are not directly or indirectly linked to the issued recommendation or views. Inderes Oyj does not have investment bank operations.

Inderes or its partners whose customer relationships may have a financial impact on Inderes may, in their business operations, seek assignments with various issuers with respect to services provided by Inderes or its partners. Thus, Inderes may be in a direct or indirect contractual relationship with an issuer that is the subject of research activities. Inderes and its partners may provide investor relations services to issuers. The aim of such services is to improve communication between the company and the capital markets. These services include the organisation of investor events, advisory services related to investor relations and the production of investor research reports.

More information about research disclaimers can be found at www.inderes.fi/research-disclaimer.

Inderes has made an agreement with the issuer and target of this report, which entails compiling a research report.

Recommendation history (>12 mo)

Date	Recommendation	Target price	Share price
23-08-19	Reduce	1.25 €	1.24 €
30-10-19	Reduce	1.25 €	1.23 €
29-11-19	Accumulate	1.30 €	1.21 €
08-01-20	Reduce	1.40 €	1.40 €
30-01-20	Reduce	1.25 €	1.35 €
04-03-20	Reduce	1.15 €	1.18 €
27-04-20	Reduce	0.90 €	0.87 €
29-04-20	Accumulate	0.92 €	0.88 €
23-06-20	Accumulate	0.98 €	0.89 €
26-08-20	Accumulate	1.10 €	1.04 €
30-10-20	Buy	1.15 €	1.01 €
25-02-21	Buy	1.30 €	1.19 €
14-04-21	Accumulate	1.55 €	1.49 €
30-04-21	Accumulate	1.55 €	1.48 €
17-06-21	Buy	1.65 €	1.34 €
18-08-21	Accumulate	2.10 €	2.06 €
19-08-21	Accumulate	2.80 €	2.39 €
30-09-21	Buy	2.80 €	1.95 €
01-11-21	Accumulate	2.50 €	2.09 €
15-12-21	Accumulate	2.00 €	1.94 €
04-03-22	Buy	1.80 €	1.52 €
17-03-22	Accumulate	1.80 €	1.64 €
06-05-22	Buy	1.80 €	1.36 €
18-08-22	Accumulate	1.50 €	1.29 €
04-11-22	Buy	1.40 €	1.14 €
16-12-22	Buy	1.40 €	1.17 €
21-02-23	Accumulate	1.35 €	1.20 €



Inderes' mission is to connect listed companies and investors. We produce high-quality research and content for the needs of our extensive investor community.

At Inderes we believe that open data is every investor's fundamental right. We guarantee investors' access to award-winning research, insightful video content and an active investor community.

For listed companies we ensure that there is always high-quality information available on the company for investors and shareholders for decision making, and that data collected from investors can be utilized by the companies.

Over 100 Finnish listed companies want to serve their shareholders and investors through us by utilizing our company research services, data driven IR services, content creation and consulting.

Inderes Oyj

Itämerentori 2

FI-00180 Helsinki, Finland

+358 10 219 4690

Award-winning research at [inderes.fi](https://www.inderes.fi)



STARMINE
ANALYST AWARDS
FROM REFINITIV



THOMSON REUTERS
ANALYST AWARDS



Juha Kinnunen
2012, 2016, 2017, 2018, 2019, 2020



Mikael Rautanen
2014, 2016, 2017, 2019



Sauli Vilén
2012, 2016, 2018, 2019, 2020



Antti Viljakainen
2014, 2015, 2016, 2018, 2019, 2020



Olli Koponen
2020



Joni Grönqvist
2019, 2020



Erkki Vesola
2018, 2020



Petri Gostowski
2020



Atte Riikola
2020

**Research belongs
to everyone.**