

# Bong

Sector: Industrial Goods & Services

## Solid growth in Light Packaging

Bongs Q3-numbers were slightly better than we anticipated. Light Packaging is showing solid growth of 7 percent Y/Y (Fx-adjusted). Envelope sales were however down 9 percent (Fx-adjusted), which is no surprise and basically in line with the general market trend.

Gross margins recovered a little compared to the previous quarter while SG&A were stable. EBIT: SEK 7 million is lower Y/Y but higher Q/Q (and just above our estimate: SEK 3m).

### Paper prices hopefully softening

Raw material costs were basically unchanged during Q3. Bong expects stable or slightly declining raw material costs for the fourth quarter. We have seen a big drop in paper pulp and timber prices since the summer. Hopefully this will soon feed through to the paper market. Envelope manufacturers have had tough times during the last two years when paper prices were constantly on the rise. We believe there is now a good chance for improving gross margins in the coming year.

### One foot on the brake and one on the gas pedal

Volumes in the European envelope market declined by approximately 10 percent in Q3. Bong continues to reduce costs by efficiency programs and relocating production. On the more positive note, Bong has now started up manufacturing in Tunisia for the North African market. First envelopes and later on also packaging products. Hopefully the company will provide more progress report on this expansion soon.

Light Packaging sales in Q3 improved significantly, both compared to last year and the previous quarter. The main driver, paper carrier bags, are still growing fast. Just over 50 percent so far in 2019. Moving part of their production facility from Sweden to France will probably help securing the continued expansion in Central Europe.

### Near term estimates slightly up

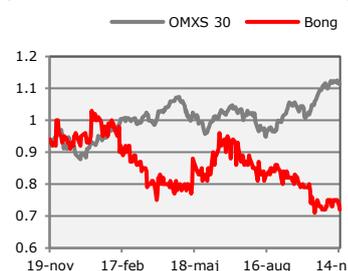
We have raised our near term earnings forecasts somewhat. Mainly based on softer paper prices and recovered gross margins. And regarding 2019E restructuring charges appear to be lower than we had anticipated. Our long term assumptions for growth and profitability are unchanged. Hence impact on valuation is modest. Our Base case fair value: SEK 1.45 per share (vs. SEK 1.4 before).

KEY FINANCIALS (SEKm)	2017	2018	2019E	2020E	2021E	2022E
Net sales	2095	2220	2188	2116	2051	1989
EBITDA	91	71	126	138	150	145
EBIT	45	-52	38	53	65	60
EPS (adj.)	-0.1	-0.3	-0.1	0.0	0.1	0.1
EV/Sales	0.2	0.2	0.3	0.3	0.3	0.3
EV/EBITDA	5.4	7.5	5.4	4.8	4.3	4.4
EV/EBIT	11.0	-10.4	17.9	12.7	10.0	10.6
P/E	-16.2	-1.3	-7.7	29.7	8.9	11.1

### FAIR VALUE RANGE

BEAR	BASE	BULL
0.7	1.5	2.7

### VERSUS OMXS30



### REDEYE RATING



### KEY STATS

Ticker	BONG
Market	Nasdaq
Share Price (SEK)	0.7
Market Cap (MSEK)	148
Net Debt 19E (MSEK)	531
Free Float	70 %
Avg. daily volume ('000)	60

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## Solid growth in Light Packaging

Overall the Q3-numbers were well in line with our estimates. Light Packaging is showing robust growth of 10 percent Y/Y, clearly better than we anticipated. Envelope sales however were down 6 percent and a bit more adjusted for currency effects. Gross margins were a notch higher than expected while SG&A were stable Q/Q and below last year.

### Bong: Expected vs. Actual

(SEKm)	Q3' 18	Q3' 19 Actual	Q3'19E	Diff
Net sales	536	520	516	1%
Whereof Light Packaging	113	124	116	7%
Gross profit	91	87	84	4%
EBITDA *	22	29	25	16%
EBIT	12	7	3	>100%
Pre-tax profit	1	-6	-8	n.m.
Sales growth Y/Y	9%	-3%	-4%	
Gross margin	16.9%	16.8%	16.3%	
EBITDA margin	4.1%	5.6%	4.8%	
EBIT margin	2.2%	1.3%	0.6%	

\* EBITDA boosted SEK 15m by IFRS 16 in Q3-19

Source: Bong, Redeye Research

Volumes in the envelope market remain on a sliding slope. According to Bong, the drop in Q3 was around 10 percent and YTD minus 7-8 percent. However price increases have mitigated the decline in terms of market value somewhat. Bongs envelope sales (Total sales minus Packaging) declined by 3 percent YTD and around 6 percent currency adjusted. Whether they have gained or lost market share is difficult to assess.

Light Packaging sales in Q3 improved significantly, both compared to last year and the previous quarter. The main driver, paper carrier bags, are still growing fast. Just over 50 percent so far in 2019. Moving part of their production facility from Sweden to France will probably help securing the continued expansion in Central Europe.

### Quarterly performance

(SEK m)	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19
Revenues	491	578	538	543	536	603	571	507	520
whereof Light Packaging	93	135	97	104	113	138	106	105	124
Gross profit	84	105	93	84	91	99	100	82	87
EBITDA *	13	34	25	17	18	12	21	4	14
EBIT	2	17	12	10	12	-85	15	-3	7
Net financial items	-10	-11	-11	-23	-10	-13	-11	-11	-12
Pre tax profit	-8	6	1	-13	1	-98	5	-15	-6
Revenue growth, Y/Y	0%	0%	-1%	13%	9%	4%	6%	-7%	-3%
Gross-margin	17.0%	18.2%	17.3%	15.5%	16.9%	16.4%	17.5%	16.1%	16.8%
EBITDA-margin *	2.6%	5.9%	4.6%	3.1%	3.4%	2.0%	3.7%	0.8%	2.7%
Cash flow after investments	9	27	-1	-48	-12	-6	42	-11	-7
Net debt, excl leasing debt	315	294	300	335	346	349	326	360	394

\* Excluding non-recurring items and IFRS 16

Source: Bong, Redeye Research

## Forecasts & Valuation

### Envelopes

*Africa seems promising  
but still in an early phase*

The European envelope market has seen a rather steady decrease of around 5 percent annually in the last decade. So far this year the decline has been a bit steeper. Maybe to some extent caused by the Brexit situation. However the long-term trend is clear and we basically expect that Bong will follow this general market trend. North Africa is different and seems like a great opportunity for Bong. But it is still very difficult to project how well they will succeed in this new region. So we are still cautious in our assumptions regarding North Africa.

*Hopefully lower paper  
prices ahead*

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

### Light Packaging

*Estimates slightly higher*

Light Packaging on the other hand, has good growth prospects. We believe the company can achieve around 5 percent annual growth in the next few years. The market potential in e-commerce and retail solutions is huge and Bong still only has a small share of these markets. The transition from plastic to paper carrier bags in Europe will continue for many years and Bong apparently has good traction in this market segment. We raise our estimates somewhat on the back of encouraging Q3-numbers.

With a gradually improving sales mix, more packaging and less envelopes, Bong should be able to show improving and more stable profitability. The gradual downsizing of envelope production will require future restructuring measures. We include annual restructuring costs of SEK 15 m net. In many cases these costs are mitigated by machinery being sold to Asia or real estate divestments. Thus cash flow will probably not be hit by the full amount of restructuring charges.

P&L, historic and forecast						
SEK m	2016	2017	2018	2019E	2020E	2021E
<b>Envelopes</b>						
Revenues	1736	1680	1767	1705	1604	1508
Growth, Y/Y	-11%	-3%	5%	-3%	-6%	-6%
EBIT *	11	25	-2	13	32	42
EBIT-margin	0.6%	1.5%	-0.1%	0.8%	2.0%	2.8%
<b>Light Packaging</b>						
Revenues	399	415	453	483	512	543
Growth, Y/Y	0%	4%	9%	7%	6%	6%
EBIT *	16	21	27	29	36	38
EBIT-margin	4.0%	5.0%	6.0%	6.0%	7.0%	7.0%
Non-recurring items	-18	0	-77	-4	-15	-15
<b>Total revenues</b>	<b>2135</b>	<b>2095</b>	<b>2220</b>	<b>2188</b>	<b>2116</b>	<b>2051</b>
Growth, Y/Y	-9%	-2%	6%	-1%	-3%	-3%
<b>Gross profit</b>	<b>373</b>	<b>381</b>	<b>367</b>	<b>379</b>	<b>391</b>	<b>390</b>
Gross-margin	17.5%	18.2%	16.5%	17.3%	18.5%	19.0%
<b>EBITDA ***</b>	<b>79</b>	<b>92</b>	<b>72</b>	<b>130</b>	<b>153</b>	<b>165</b>
D.o. marginal	3.7%	4.4%	3.2%	5.9%	7.2%	8.0%
<b>EBIT</b>	<b>9</b>	<b>45</b>	<b>-52</b>	<b>38</b>	<b>53</b>	<b>65</b>
Net financial items **	384	-44	-57	-46	-47	-46
Pre tax profit	393	1	-109	-9	6	19

\* Redeyes assessment regarding previous years. \*\* Whereof SEK 427 million year 2016 following the refinancing.

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

Source: Bong, Redeye Research

## Valuation

Fair value: ~SEK  
1.45 SEK per share

Our DCF-model indicates an enterprise value of around SEK 650 million. After deducting net debt of SEK 349 m our fair value of equity is just above SEK 300 million, or **SEK 1.45 per share**. In our previous update, as of July, the corresponding value was SEK 1.42 per share.

Our estimates for years 2019-21 are somewhat higher, while no changes have been made in our assumptions for long term growth or profitability:

- Years 2023-27: zero growth, 3 percent EBIT-margin
- Terminal year (2028): 2 percent growth, 3 percent EBIT-margin
- WACC: 12 percent (derived from our Redeye Rating model)

### Long term assumptions for growth and profitability

As Bongs packaging business expands, the negative growth on group level will level out. For the period 2023-27 we assume zero growth and thereafter 2 percent annually. We expect sustainable EBIT-margins of 3.0 percent. This is based on packaging making up for a larger part of group total, recurring costs for downsizing the envelope business, a general down-turn in the economy or other potential problems during this period.

DCF-value, SEK per share					
Sustainable EBIT-margins	2.0%	2.5%	3.0%	3.5%	4.0%
<b>WACC</b>					
11.0%	1.21	1.49	1.76	2.04	2.32
12.0%	0.97	1.21	<b>1.45</b>	1.70	1.94
13.0%	0.78	1.00	1.22	1.43	1.66

Source: Redeye Research

### Multiples are now a little higher

The share is now trading at slightly higher multiples compared to the previous two years, based on our estimates. The most relevant multiple for Bong is EV/EBITDA since it takes both the high net debt into account and the fact that depreciations are much higher than Capex. Note that we have excluded the impact from IFRS 16 on this key ration, since these items distort the comparison. EV/EBITDA of 6-7x is not unique, but at the low end of shares listed at Nasdaq's main market. In Bongs case probably a reflection of poor profitability in the last few years.

Earnings multiples					
Share price, SEK: 0.72	2017	2018	2019E	2020E	2021E
P/E	neg	neg	neg	30.6	9.2
EV/EBITDA *	5.4	7.6	<b>8.0</b>	<b>6.8</b>	<b>6.0</b>
EV/EBIT	10.9	neg	<b>18.9</b>	<b>13.5</b>	<b>11.0</b>

\* Excl impact from IFRS 16 as of 2019

Source: Redeye Research

EV/EBITDA:~7x

## Scenarios

Our Base case scenario, which is was outlined on the previous page, is what we believe a probable scenario that corresponds to a fair value of approximately **SEK 1.45 per share**. There is certainly a possibility that the company will develop better than we anticipate, but also worse. We have drafted two scenarios that illustrate this down below.

**Bull case** is based on sales returning to sustainable growth and improving profitability. If the expansion within packaging is really strong Bong may be able to show positive top-line growth on group level and higher margins than we anticipate. The green area in the table below shows the impact on DCF-value for different levels of sustainable margins and growth (all else being equal). These do not appear completely unrealistic, yet quite optimistic. Fair value would then be around **SEK 2.7 SEK per share**.

**Bear case** could potentially materialize if the negative trend in the envelope market accelerates causing even tougher squeeze on margins and recurring costs for capacity adjustments. It could also happen as a combination of Bongs packaging business stalling in terms of growth and profitability. The orange colored area indicates possible outcomes in this scenario. Fair value would then be only approximately **SEK 0.7 per share**.

<b>DCF-value, SEK per share</b>					
<b>Sustainable EBIT-margins</b>	<b>1.0%</b>	<b>2.0%</b>	<b>3.0%</b>	<b>4.0%</b>	<b>5.0%</b>
<b>Annual growth rate 2023-27</b>					
-3.0%	0.41	0.82	1.24	1.65	2.07
<b>0.0%</b>	0.48	0.97	<b>1.45</b>	1.94	2.43
3.0%	0.55	1.12	1.67	2.23	2.79
6.0%	0.62	1.26	1.89	2.52	3.16

Source: Redeye Research

## Summary Redeye Rating

The rating consists of three valuation keys, each constituting an overall assessment of several factors that are rated on a scale of 0 to 1 points. The maximum score for a valuation key is 5 points.

### Rating changes in the report: No changes

#### People: 3

Management has several years of experience and knows its markets very well. Kai Steigleder is however new on the job as CEO but he has been with Bong since 2007. Most recently as managing director of the largest business unit, Central Europe. The last few years have been characterized by heavy restructuring measures which have been well managed. On the other hand we cannot assess whether management has the ability to create growth, which is now their ambition. The public quarterly reports are quite brief in terms of numbers and information. Hence transparency is limited which makes it more difficult to review and understand the company.

#### Business: 3

All-and-all Bong is a little below average in this category. Primarily because of the negative market trend for envelopes where volumes are going down, products are standardized and competition is tough. Bong has economies of scale and probably better stamina than most of its peers. The envelope business will hardly attract new players, but with shrinking volumes and over capacity, price pressure will remain. For Light Packaging the prospects are clearly better and Bong has a good position withing a couple of growing market segments.

#### Financials: 1

Profitability has been weak during the past several years. In spite of substantial cost-cutting programs margins and earnings are very thin. Since depreciation is substantially higher than capex, cash flows are generally stronger than reported earnings. Bongs financial gearing is relatively high but manageable and the debt is primarily long term. The business is diversified in terms of products and customers but to some extent cyclical. Also, for the longer term there is a recurring need for restructuring measures as the envelope market is declining.

INCOME STATEMENT	2017	2018	2019E	2020E	2021E
Net sales	2,095	2,220	2,188	2,116	2,051
Total operating costs	-2,004	-2,148	-2,062	-1,977	-1,901
EBITDA	91	71	126	138	150
Depreciation	-40	-45	-86	-83	-82
Amortization	-6	-2	-2	-2	-2
Impairment charges	0	-76	0	0	0
EBIT	45	-52	38	53	65
Share in profits	0	0	0	0	0
Net financial items	-44	-57	-46	-47	-46
Exchange rate dif.	0	0	0	0	0
Pre-tax profit	1	-109	-9	6	19
Tax	-10	-39	-11	-1	-3
Net earnings	-12	-149	-19	5	17

BALANCE SHEET	2017	2018	2019E	2020E	2021E
<b>Assets</b>					
<i>Current assets</i>					
Cash in banks	124	72	71	69	67
Receivables	282	289	285	275	267
Inventories	189	195	197	190	185
Other current assets	73	99	99	99	99
Current assets	668	655	652	633	617
<i>Fixed assets</i>					
Tangible assets	209	179	333	330	332
Associated comp.	0	0	0	0	0
Investments	2	1	1	1	1
Goodwill	575	518	518	518	518
Cap. exp. for dev.	0	0	0	0	0
0 intangible rights	29	17	16	15	14
0 non-current assets	0	0	0	0	0
Total fixed assets	814	716	869	864	866
Deferred tax assets	144	110	110	110	110
Total (assets)	1,626	1,481	1,630	1,607	1,593
<b>Liabilities</b>					
<i>Current liabilities</i>					
Short-term debt	0	0	0	0	0
Accounts payable	240	221	218	211	205
0 current liabilities	250	240	230	220	220
Current liabilities	490	461	448	431	425
Long-term debt	418	421	602	592	567
0 long-term liabilities	0	16	16	16	16
Convertibles	0	0	0	0	0
Total Liabilities	908	898	1,066	1,038	1,007
Deferred tax liab	22	14	14	14	14
Provisions	0	0	0	0	0
Shareholders' equity	685	569	550	555	572
Minority interest (BS)	11	0	0	0	0
Minority & equity	696	569	550	555	572
Total liab & SE	1,626	1,481	1,630	1,607	1,593

FREE CASH FLOW	2017	2018	2019E	2020E	2021E
Net sales	2,095	2,220	2,188	2,116	2,051
Total operating costs	-2,004	-2,148	-2,062	-1,977	-1,901
Depreciations total	-46	-123	-88	-85	-84
EBIT	45	-52	38	53	65
Taxes on EBIT	-10	11	-8	-8	-10
NOPLAT	35	-57	30	45	55
Depreciation	46	123	88	85	84
Gross cash flow	81	66	118	130	140
Change in WC	10	-68	-11	-1	8
Gross CAPEX	-28	-25	-241	-81	-86
Free cash flow	63	-26	-134	48	62

CAPITAL STRUCTURE	2017	2018	2019E	2020E	2021E
Equity ratio	43%	38%	34%	35%	36%
Debt/equity ratio	61%	74%	109%	107%	99%
Net debt	294	349	531	523	500
Capital employed	990	918	1,081	1,078	1,072
Capital turnover rate	1.3	1.5	1.3	1.3	1.3

GROWTH	2017	2018	2019E	2020E	2021E
Sales growth	-2%	6%	-1%	-3%	-3%
EPS growth (adj)	-103%	1,105%	-87%	-126%	232%

DCF VALUATION		CASH FLOW, MSEK	
WACC (%)	12%	NPV FCF (2019-2021)	171
		NPV FCF (2022-2027)	249
		NPV FCF (2028-)	238
		Non-operating assets	72
		Interest-bearing debt	-421
		Fair value estimate MSEK	308
Assumptions 2023-2027 (%)			
Average sales growth	0%	Fair value e. per share, SEK	1.5
EBIT margin	3%	Share price, SEK	0.7

PROFITABILITY	2017	2018	2019E	2020E	2021E
ROE	-2%	-24%	-3%	1%	3%
ROCE	4%	-5%	4%	5%	6%
ROIC	3%	-6%	3%	4%	5%
EBITDA margin	4%	3%	6%	7%	7%
EBIT margin	2%	-2%	2%	3%	3%
Net margin	-1%	-7%	-1%	0%	1%

DATA PER SHARE	2017	2018	2019E	2020E	2021E
EPS	-0.06	-0.71	-0.09	0.02	0.08
EPS adj	-0.06	-0.35	-0.09	0.02	0.08
Dividend	0.00	0.00	0.00	0.00	0.00
Net debt	1.39	1.65	2.51	2.47	2.37
Total shares	211.25	211.25	211.25	211.25	211.25

VALUATION	2017	2018	2019E	2020E	2021E
EV	497.8	538.7	678.7	670.6	647.8
P/E	-16.2	-1.3	-7.7	29.7	8.9
P/E diluted	-16.2	-1.3	-7.7	29.7	8.9
P/Sales	0.1	0.1	0.1	0.1	0.1
EV/Sales	0.2	0.2	0.3	0.3	0.3
EV/EBITDA	5.4	7.5	5.4	4.8	4.3
EV/EBIT	11.0	-10.4	17.9	12.7	10.0
P/BV	0.3	0.3	0.3	0.3	0.3

SHARE PERFORMANCE	GROWTH/YEAR		16/18
1 month	-6.7%	Net sales	2.2%
3 month	-16.7%	Operating profit adj	-8.4%
12 month	-25.5%	EPS, just	24.8%
Since start of the year	-26.3%	Equity	-11.1%

SHAREHOLDER STRUCTURE %	CAPITAL	VOTES
Stéphane Hamelin	25.0%	25.0%
Per-Arne Åhlgren	14.8%	14.8%
Svalder	7.7%	7.7%
Avanza Pension	5.2%	5.2%
Theodor Jeansson	4.7%	4.7%
Christian Paulsson	4.3%	4.3%
John Elvesjö	2.3%	2.3%
Dan Drottman	2.1%	2.1%
Skandinaviska Enskilda Banken S.A	1.8%	1.8%
Mattias Cramby	1.8%	1.8%

SHARE INFORMATION	
Reuters code	BONG.ST
List	Nasdaq Small Cap
Share price	0.7
Total shares, million	211.2
Market Cap, MSEK	147.9

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

FINANCIAL INFORMATION	
FY 2019 Results	February 13, 2020
Q1 report	May 14, 2020

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## Redeye Rating and Background Definitions

### Company Quality

Company Quality is based on a set of quality checks across three categories; PEOPLE, BUSINESS, FINANCE. These are the building blocks that enable a company to deliver sustained operational outperformance and attractive long-term earnings growth.

Each category is grouped into multiple sub-categories assessed by five checks. These are based on widely accepted and tested investment criteria and used by demonstrably successful investors and investment firms. Each sub-category may also include a complementary check that provides additional information to assist with investment decision-making.

If a check is successful, it is assigned a score of one point; the total successful checks are added to give a score for each sub-category. The overall score for a category is the average of all sub-category scores, based on a scale that ranges from 0 to 5 rounded up to the nearest whole number.

The overall score for each category is then used to generate the size of the bar in the Company Quality graphic.

### People

At the end of the day, people drive profits. Not numbers. Understanding the motivations of people behind a business is a significant part of understanding the long-term drive of the company. It all comes down to doing business with people you trust, or at least avoiding dealing with people of questionable character.

The People rating is based on quantitative scores in seven categories: Passion, Execution, Capital Allocation, Communication, Compensation, Ownership, and Board.

### Business

If you don't understand the competitive environment and don't have a clear sense of how the business will engage customers, create value and consistently deliver that value at a profit, you won't succeed as an investor. Knowing the business model inside out will provide you some level of certainty and reduce the risk when you buy a stock.

The Business rating is based on quantitative scores grouped into five sub-categories: Business Scalability, Market Structure, Value Proposition, Economic Moat, and Operational Risks.

### Financials

Investing is part art, part science. Financial ratios make up most of the science. Ratios are used to evaluate the financial soundness of a business. Also, these ratios are key factors that will impact a company's financial performance and valuation. However, you only need a few to determine whether a company is financially strong or weak.

The Financial rating is based on quantitative scores that are grouped into five separate categories: Earnings Power, Profit Margin, Growth Rate, Financial Health, and Earnings Quality.

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## Disclaimer

### Important information

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### Redeye Rating (2019-11-19)

Rating	People	Business	Financials
5p	11	10	2
3p - 4p	82	64	28
0p - 2p	10	29	73
Company N	103	103	103

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### CONFLICT OF INTERESTS

Henrik Alveskog owns shares in the company : No

Viktor Westman owns shares in the company : No

Redeye performs/have performed services for the Company and receives/have received compensation from the Company in connection with this.