

Epiroc AB Class A

CORE HOLDING*

Recommended since 05.07.21

12.04.2024



Country SE	Market capitalization (bn) SEK 248,7	Perf. since reco. (%)
Sector Industrial Goods & Services	Free float 73,9%	Epiroc AB Class A 9,0
Factset EPI.A-SE	Closing price SEK 213,40	Sector 13,4
ISIN SE0015658109	ESG Risk score* 21,9 Medium risk	

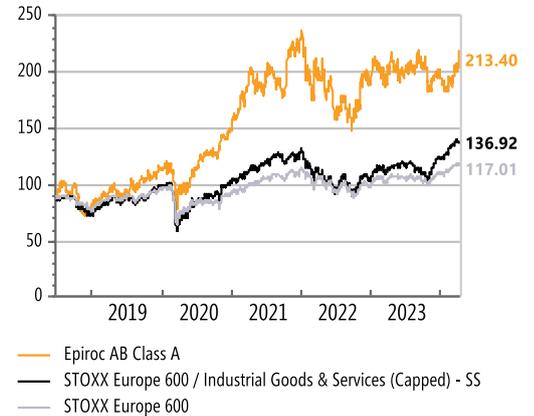
*From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.

Profile

Epiroc is one of two major players in the production of underground mining equipment. The company has been independent since 2018, following its spin-off from Atlas Copco, founded in 1873. It employs 18,000 people, is present in 150 countries and generates about SEK 60 billion in sales (circa EUR 6 billion). In the medium term (2030), the machines sold by Epiroc should be entirely electric / zero emission. Sales are divided between underground mining equipment (77%) and infrastructure equipment (23%), e.g. tunnel boring and c. 2/3 are after sales.

Market - competition - positions - barriers to entry

The market for underground mining equipment has reached USD 31 billion (c. SEK 330 bn) in 2022. Within this market, Sandvik and Epiroc operate in a particular segment and represent a near-duopoly of similar sizes. Innovation is an important barrier to entry (3% of sales and 8% of Epiroc's workforce) and will be reinforced with the development of autonomous electric vehicles and digitalization. 75% of Epiroc's costs are outsourced, so the added value is mainly in design and assembly.



Source: Factset

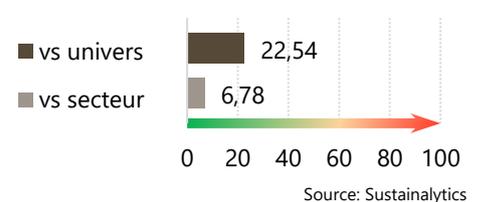
Investment case

- Epiroc is a leader and "pure player" in an industry that should benefit from an acceleration in mining sector investment, in response to the low levels of investment over the last ten years, combined with the need for metals/minerals that the energy transition will require. Epiroc is targeting 8% annual growth over the cycle, including recurrent acquisitions. Our valuation takes account of this potential, which is offset in the short term by the weakness of the Construction market, which we believe accounts for c.20% of sales.
- In addition, the average quality of ores has fallen sharply over the past 15 years, which should lead to an increase in capital expenditure per tonne produced, under more demanding conditions. The electrification and sophistication of Epiroc's offering (autonomous vehicles, digitization, aimed in particular at a higher utilization rate) should lead, in the medium term, to a higher average price, with a positive effect on margins. Finally, c. 2/3 of sales are "recurring": maintenance and spare parts. This "business model", which the Group will strengthen with the planned "Battery as a Service" model, offers visibility, resilient margins, good cash flow generation through the cycle and results in a high ROCE, averaging 26% over 2018-2023.
- The 2021-22-23 results were marked by a strong rebound in orders and sales. However, operating margin fell in 2023 and will remain a focus of attention. We are factoring in a recession scenario in Construction in 2024-25 and the announced acquisition of Stanley Infrastructures, as well as a further diluted operating margin, notably due to acquisitions, in 2024. The stock has recently been positively influenced by the rebound in prices of the main raw materials.

ESG - risks and key points

- Epiroc is rated as "Low Risk" on the basis of an assessment of ESG criteria. This rating stems from Epiroc's exposure to material ESG risks being judged to be moderate, coupled with its strong risk management; moreover, Epiroc has not been involved in any major controversies.
- Epiroc's ESG reporting is of a high standard, with a compliance unit set up to oversee these issues and a whistleblower system (Speak Up) put in place. This combination of solutions delivers strong ESG-related risk management.

ESG risk vs. universe & sector (percentile)*



Source: Sustainalytics

Valuation** in SEK

Current price	Value Bordier Scenario
213	224

Our fundamental valuation incorporates long rates at 2.5% for Europe and the revenue and margin trajectory described above. We believe that the eventual fall of the stock below SEK 190 represents an entry point for a long-term thematic investment perspective.

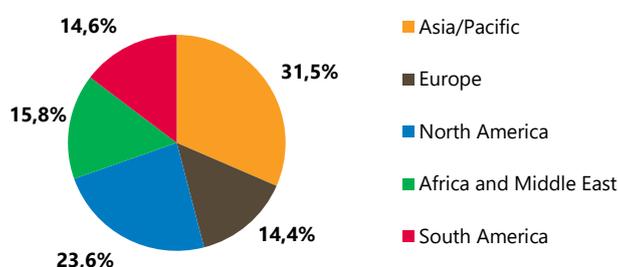
** The theoretical value reflects the company's business model, our baseline growth and profit scenario and market data, exogenous to the company (risk-free rate and equity risk premium). It does not in itself constitute a target price.

"Bordier Core Holding" indicators

In millions of SEK	2022	2023	2024e	2025e	2026e
Sales revenue	49 694	60 343	63 867	68 568	72 682
Sales growth %	25,0%	21,4%	5,8%	7,4%	6,0%
o/w organic	11,0%	9,0%	1,0%	4,0%	4,0%
EBIT adjusted	11 147	13 183	13 148	14 459	15 690
% of sales	22,4%	21,8%	20,6%	21,1%	21,6%
Net income	8 411	9 458	10 015	11 034	11 971
Adjusted EPS	6,96	7,81	8,28	9,12	9,90
Adjusted EPS growth	19,0%	12,3%	5,9%	10,2%	8,5%
Capex/Sales	13,1%	8,8%	3,7%	3,7%	3,7%
Free cash-flow	-433	1 846	8 029	8 170	9 171
FCF/Sales	-0,9%	3,1%	12,6%	11,9%	12,6%
Dividend per share	3,40	3,80	4,00	4,30	4,60
Dividend yield	1,6%	1,8%	1,9%	2,0%	2,2%
ROCE - WACC	15,4%	14,0%	9,0%	9,8%	10,5%
ROE (%)	25,4%	25,6%	23,5%	22,6%	21,4%
Net debt/Ebitda	27%	48%	76%	49%	23%

Source: Factset, Bordier estimates

Sales breakdown - 12/2023



Ratios

	Epiroc AB Class A		Stoxx Europe 600	
	Sector	Market	Sector	Market
PE (x)***	Indus. Good & Serv.	STOXX 600		
	2023	25,9	20,8	14,5
	2024e	25,8	19,4	14,2
2025e	23,4	17,0		12,8
P/B (x)***				
	2023	6,6	3,2	2,0
	2024e	6,1	3,1	1,9
2025e	5,3	2,9		1,8
Beta (2Y, daily) vs market: 1,16				

***) The valuation ratios set out are provided for information only. They do not constitute the criteria based upon which Core Holdings are selected, and may present significant premi-ums representing the quality of the company's business model.

Governance and ownership structure

Since 2020: CEO Mrs Helena Hedblom.

Key shareholders (if any):

Investor AB holds 22.7% of the voting rights.

Any special characteristics of ownership (multiple voting rights, controlling holding company, shareholders' agreements, etc.):

Two classes of share: A (one voting right per share) and B (10 voting rights per share).

Glossary

ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainalytics, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

b-Digital, b-Transition & b-Well

Over and above the conventional geographical and sectoral approaches to asset management, at B&Cie we believe the world of tomorrow is being shaped by structural trends. We have identified three main megatrends: ongoing digital globalisation of the economy; economic transition, particularly in the energy sector; and the quest for wellness. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", those in the economic transition space "b-Transition" and those in the wellness space "b-Well". A given recommendation may fall under more than one theme, in which case it will carry the relevant matching labels.

This document has been issued for information purposes and is exclusively supplied by Bordier & Cie SCmA in the framework of an existing contractual relationship with the recipient of this document. The views and opinions contained in it are those of Bordier & Cie SCmA. Its contents may not be reproduced or redistributed by unauthorized persons. The user will be held liable for any unauthorized reproduction or circulation of this document, which may give rise to legal proceedings. All the information contained in it is provided for information only and should in no way be taken as investment, legal or tax advice provided to third parties. Furthermore, it is emphasized that the provisions of our legal information page are fully applicable to this document and namely provisions concerning the restrictions arising from different national laws and regulations. Consequently, Bordier Bank does not provide any investment services or advice to "US persons" as defined by the Securities and Exchange Commission rules. Furthermore, the information on our website – including the present document – is by no means directed to such persons or entities.