

Rapala VMC

Company report

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✓ Inderes corporate customer

This report is a summary translation of the report "Palaset loksahdelevat paikoilleen ennätysvauhdilla" published on 07/18/2021 at 10:04 am

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Pieces falling in place at record speed

We raise our target price to EUR 12.0 (previously EUR 9.0) and reiterate our Accumulate recommendation. Rapala's H1 result was very strong as high-margin sales was efficiently reflected in the lower rows. Sales was clearly helped by the fishing boom generated by the pandemic and good weather but, in our opinion, the main background factor is that the company has been solving its chronic problems. Earnings growth has all preconditions to continue in coming years as there is still a distance to full potential and valuation is also cheap after we raised our estimates.

In our view, Rapala is making the right moves to reach a sustainable earnings turnaround

To summarize, the H1 result exceeded our high expectations by a good margin. The fishing boom and good weather explain part of the strong figures, but the strategy has also progressed clearly better than we expected. The key theme for the strategy has been to dissolve the complexity of the Group and simplify operations. Measures completed so far include, e.g., shutting down the loss-making Batam plant, centralizing inventories, strengthening a uniform team culture, simplifying the management model, and focusing more on customers in product development, as well as building an own rod and reel category. Next the number of products will be pruned, and the brand portfolio is unified as the company has many SKUs that do not generate return on equity and weaken the focus of production and sales.

Balance sheet is clearly stronger, and we expect the company to redeem the hybrid and start paying dividend

We raised our 2021 net sales estimate by 7% to EUR 295 million and our operating profit (cf.) estimate to EUR 38.6 million (previously EUR 30.4 million). In 2022, we expect the fishing boom to weaken and winter weather is probably not as good, which depresses net sales. The company also estimates that the peak of the fishing boom has passed but the market is still expected to be better than in 2019, e.g., supported by the growing number of recreational fishing boats. The negative effect of a slower market is efficiently overturned by the company's own growth projects and especially the start of Okuma sales (around EUR 10 million). As a whole, 2022 net sales decreases in our estimates by 2% to EUR 289 million and operating profit to EUR 35.8 million. The company's balance sheet has strengthened clearly, and net debt has more than halved over a year to EUR 30 million. We expect the company to redeem its hybrid loan in November 2021, which supports our EPS estimates. We also raised our dividend estimates.

You should still stay on board as the trip towards full potential is ongoing

After our estimate hikes, Rapala's adjusted earnings multiples (2021e P/E 18x and EV/EBIT 13x, and 2022e P/E 18x and EV/EBIT 13x) are attractive for a defensive consumer brand company, as Rapala is still priced on an earnings basis at a clear discount compared to its peers. The effects of the weakening fishing boom temporarily slow down earnings growth and slightly raise the short-term estimate risks. We do, however, find the fact that the company is now constantly making the right moves in its strategy more important and, thus, we feel earnings growth has the preconditions to continue in the longer term also in a more normal market. Relative to our estimate of the company's full potential (EBIT 15%), the company still has room for improvement (2021e adjusted EBIT margin 13.1%). We also remind investors that next to a successful implementation of the strategy there is also another potential route for dismantling the value of strong brands as Rapala's competitor previously bought a 19.2% share of the company. This also supports the share's return/risk ratio.

Recommendation

Accumulate

(previous Accumulate)

EUR 12.00

(previous EUR 9.00)

Share price:

10.60



Key indicators

	2020	2021e	2022e	2023e
Net sales	261.3	294.6	289.0	301.9
growth %	-5%	13%	-2%	4%
EBIT adjusted	21.5	38.6	35.8	40.6
EBIT % adjusted	8.2%	13.1%	12.4%	13.4%
Net profit	2.5	24.1	23.4	27.2
EPS (adjusted)	0.31	0.60	0.61	0.71
P/E (adjusted)	14.1	17.6	17.5	15.0
P/B	1.2	3.0	2.7	2.4
Dividend yield %	0.0%	1.9%	2.8%	3.3%
EV/EBIT (adjusted)	11.7	12.8	13.2	11.4
EV/EBITDA	10.2	9.5	10.3	9.0
EV/Sales	1.0	1.7	1.6	1.5

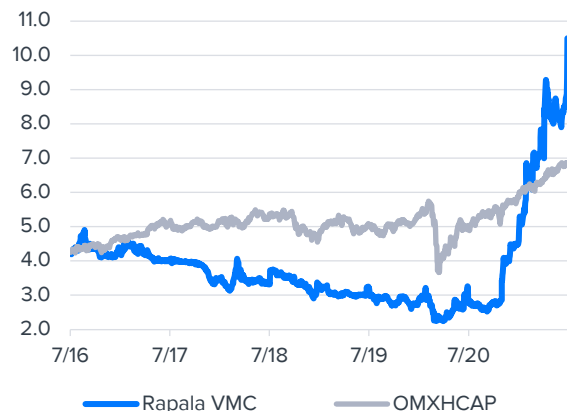
Source: Inderes

Guidance

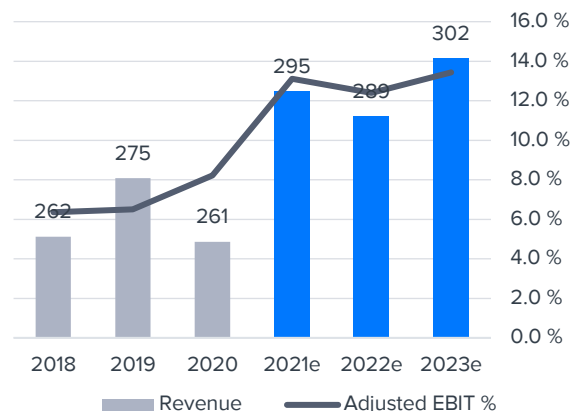
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The Group expects 2021 full year comparable operating profit (excluding mark-to-market valuations of operative currency derivatives and other items affecting comparability) to increase significantly from the previous year (EUR 21.5 million).

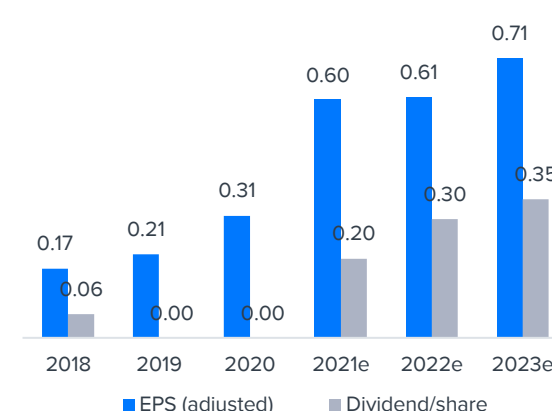
Share price



Revenue and EBIT %



EPS and dividend



Value drivers

- Strategy successful
- Net sales turning to sustainable growth
- Improved cost efficiency
- Removal of Batam's losses
- Release of capital



Risk factors

- Strategy unsuccessful
- Rapid digitalization of distribution
- High fixed costs
- High seasonality in demand
- Demand highly dependent on weather conditions
- Possible new lockdowns caused by COVID if the disease situation worsens

Valuation	2021e	2022e	2023e
Share price	10.6	10.6	10.6
Number of shares, millions	38.6	38.6	38.6
Market cap	409	409	409
EV	494	473	460
P/E (adj.)	17.6	17.5	15.0
P/E	17.8	17.5	15.0
P/FCF	32.0	13.8	16.6
P/B	3.0	2.7	2.4
P/S	1.4	1.4	1.4
EV/Sales	1.7	1.6	1.5
EV/EBITDA	9.5	10.3	9.0
EV/EBIT (adj.)	12.8	13.2	11.4
Payout ratio (%)	33.6 %	49.4 %	49.5 %
Dividend yield-%	1.9 %	2.8 %	3.3 %

Source: Inderes, EV includes hybrid loan

Estimates

Estimates	H1'20	H1'21	H1'21e	H1'21e	Consensus		Difference (%)	2021
	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. inderes	Inderes
MEUR / EUR								
Revenue	117	160	141				13%	295
EBIT (adj.)	4.2	26.5	17.8				49%	38.6
EBIT	-0.8	26.3	16.8				57%	38.4
EPS (reported)	-0.12	0.43	0.26				68%	0.60
Revenue growth-%	-17.1 %	36 %	20.6 %				15.7 pp	12.7 %
EBIT-% (adj.)	3.6 %	16.6 %	12.6 %				4 pp	13.1 %

Source: Inderes

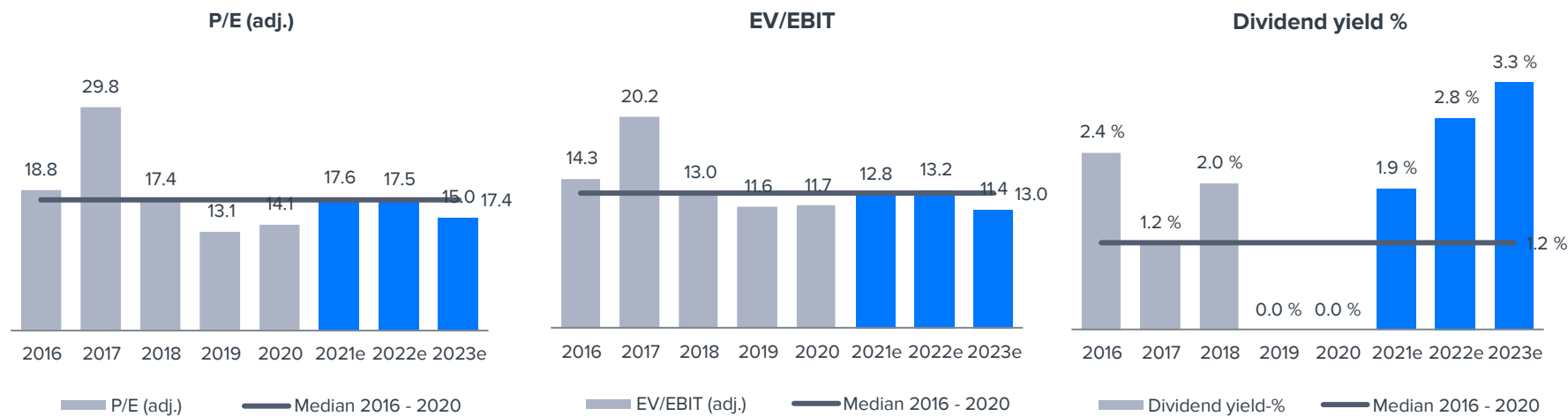
Estimate revisions	2021		Change %	2022e		Change %	2023e		Change %
	Old	New		Old	New		Old	New	
MEUR / EUR									
Revenue	276	295	7%	288	289	0%	301	302	0%
EBIT (exc. NRIs)	30.4	38.6	27%	31.4	35.8	14%	33.1	40.6	23%
EBIT	28.4	38.4	35%	31.4	35.8	14%	33.1	40.6	23%
PTP	24.8	35.2	42%	28.9	32.5	13%	30.9	37.8	22%
EPS (excl. NRIs)	0.47	0.60	28%	0.50	0.61	20%	0.54	0.71	30%
DPS	0.10	0.20	0%	0.15	0.30	100%	0.18	0.35	94%

Source: Inderes

Valuation table

Valuation	2016	2017	2018	2019	2020	2021e	2022e	2023e	2024e
Share price	4.21	3.45	3.05	2.77	4.36	10.6	10.6	10.6	10.6
Number of shares, millions	38.3	38.3	38.3	38.3	38.6	38.6	38.6	38.6	38.6
Market cap	161	132	117	106	168	409	409	409	409
EV	269	232	216	207	252	494	473	460	446
P/E (adj.)	18.8	29.8	17.4	13.1	14.1	17.6	17.5	15.0	13.6
P/E	neg.	71.9	24.3	29.6	>100	17.8	17.5	15.0	13.6
P/FCF	5.5	4.9	neg.	11.4	3.3	32.0	13.8	16.6	14.7
P/B	1.3	1.0	0.8	0.7	1.2	3.0	2.7	2.4	2.2
P/S	0.6	0.5	0.4	0.4	0.6	1.4	1.4	1.4	1.3
EV/Sales	1.0	0.9	0.8	0.8	1.0	1.7	1.6	1.5	1.4
EV/EBITDA	19.1	14.7	9.7	8.0	10.2	9.5	10.3	9.0	8.4
EV/EBIT (adj.)	14.3	20.2	13.0	11.6	11.7	12.8	13.2	11.4	10.5
Payout ratio (%)	neg.	83.3 %	47.9 %	0.0 %	0.0 %	33.6 %	49.4 %	49.5 %	46.0 %
Dividend yield-%	2.4 %	1.2 %	2.0 %	0.0 %	0.0 %	1.9 %	2.8 %	3.3 %	3.4 %

Lähde: Inderes



Peer group valuation

Peer group valuation Company	Share price	Market cap MEUR	EV MEUR	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%		P/B 2021e
				2021e	2022e	2021e	2022e	2021e	2022e	2021e	2022e	2021e	2022e	
Globeride Inc	5420.00	501	596			8.1	6.8	0.8	0.7	16.3	10.1	1.2	1.4	2.4
Shimano Inc	27800.00	19864	17484			17.0	17.6	4.8	4.8	29.9	30.9	0.7	0.7	4.3
Fiskars Oyj Abp	18.86	1535	1716	16.7	13.7	11.1	9.3	1.5	1.5	30.5	16.2	3.5	3.9	2.1
Fenix Outdoor International AG	1284.00	1384	1418	14.5	13.1	9.7	8.9	2.3	2.2	22.3	19.4	1.0	1.2	4.1
Johnson Outdoors Inc	114.84	984	825					1.4	1.3	14.4	13.7			
Deckers Outdoor Corp	380.86	8968	8046	20.1	17.5	18.5	16.0	3.9	3.2	29.2	25.5			7.0
Callaway Golf Co	30.87	4826	5531	59.7	34.8	23.0	16.2	2.3	1.9	296.0	95.0			
361 Degrees International Ltd	3.80	856	390	3.4	3.1	4.0	3.7	0.5	0.5	14.6	12.9	2.8	3.1	0.9
Columbia Sportswear Co	99.66	5607	4867	15.2	13.1	12.2	11.4	1.9	1.7	22.5	19.3	1.1	1.1	3.2
Mizuno Corp	2506.00	513	483			19.6	7.6	0.4	0.4		17.4	2.0	2.0	0.7
Yonex Co Ltd	787.00	568	488			34.6	17.0	1.2	1.0	138.1	46.0	0.5	0.8	1.8
MIPS AB	794.00	2046	2004	78.6	61.0	74.4	58.0	39.7	31.2	101.5	78.9	0.6	0.7	38.8
Rapala VMC (Inderes)	10.60	409	494	12.8	13.2	9.5	10.3	1.7	1.6	17.6	17.5	1.9	2.8	3.0
Average				29.7	22.3	21.1	15.7	5.1	4.2	65.0	32.1	1.5	1.6	6.5
Median				16.7	13.7	17.0	11.4	1.7	1.6	29.2	19.3	1.1	1.2	2.8
Diff-% to median				-23%	-3%	-44%	-9%	1%	2%	-40%	-10%	76%	138%	7%

Source: Thomson Reuters / Inderes

NB: The market cap Inderes uses does not consider own shares held by the company

Income statement

Income statement	H1'19	H2'19	2019	H1'20	H2'20	2020	H1'21	H2'21e	2021e	2022e	2023e	2024e
Revenue	141	134	275	117	144	261	160	135	295	289	302	314
Group's own products	95.2	89.9	185	78.3	109	188	121	110	230	246	259	271
Third party products	46.0	44.3	90.3	38.8	35.0	73.8	39.2	25.0	64.2	43.0	43.0	43.0
Eliminations and non-recurring items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBITDA	17.7	8.3	26.0	6.8	17.9	24.7	33.9	18.4	52.3	45.8	50.9	53.1
Depreciation	-6.3	-6.3	-12.6	-7.6	-6.3	-13.9	-7.6	-6.3	-13.9	-10.0	-10.4	-10.6
EBIT (excl. NRI)	12.0	5.9	17.9	4.2	17.3	21.5	26.5	12.1	38.6	35.8	40.6	42.5
EBIT	11.4	2.0	13.4	-0.8	11.6	10.8	26.3	12.1	38.4	35.8	40.6	42.5
Group's own products	11.2	7.7	18.9	4.3	19.1	23.4	22.1	14.6	36.7	36.9	41.4	43.4
Third party products	0.2	-1.9	-1.7	-0.1	-1.8	-1.9	4.5	-2.5	2.0	-1.1	-0.9	-0.9
Eliminations and non-recurring items	0.0	-3.8	-3.8	-5.0	-5.7	-10.7	-0.2	0.0	-0.2	0.0	0.0	0.0
Net financial items	-1.3	-2.3	-3.6	-1.9	-2.3	-4.2	-1.4	-1.8	-3.2	-3.3	-2.7	-2.3
PTP	10.1	-0.3	9.8	-2.7	9.3	6.6	24.9	10.3	35.2	32.5	37.8	40.2
Taxes	-2.7	-3.1	-5.8	-1.1	-2.1	-3.2	-6.9	-3.1	-10.0	-9.1	-10.6	-10.1
Minority interest	-0.4	0.8	0.4	-0.4	-0.5	-0.9	-1.1	0.0	-1.1	0.0	0.0	0.0
Net earnings	6.4	-2.8	3.6	-4.9	6.1	1.2	16.3	6.7	23.0	23.4	27.2	30.2
EPS (adj.)	0.18	0.03	0.21	0.00	0.30	0.31	0.43	0.17	0.60	0.61	0.71	0.78
EPS (rep.)	0.17	-0.07	0.09	-0.13	0.16	0.03	0.42	0.17	0.60	0.61	0.71	0.78

Key figures	H1'19	H2'19	2019	H1'20	H2'20	2020	H1'21	H2'21e	2021e	2022e	2023e	2024e
Revenue growth-%			5.0 %	-17.1 %	7.5 %	-5.1 %	36.4 %	-6.5 %	12.7 %	-1.9 %	4.5 %	4.1 %
Adjusted EBIT growth-%	-20.9 %	292%	7.2 %	-65.1 %	194%	20.1 %	531.0 %	-30.0 %	79.6 %	-7.2 %	13.2 %	4.8 %
EBITDA-%	12.5 %	6.2 %	9.4 %	5.8 %	12.4 %	9.5 %	21.2 %	13.7 %	17.8 %	15.9 %	16.9 %	16.9 %
Adjusted EBIT-%	8.5 %	4.4 %	6.5 %	3.6 %	12.0 %	8.2 %	16.6 %	9.0 %	13.1 %	12.4 %	13.4 %	13.5 %
Net earnings-%	4.5 %	-2.1 %	1.3 %	-4.2 %	4.2 %	0.5 %	10.2 %	5.0 %	7.8 %	8.1 %	9.0 %	9.6 %

Source: Inderes

Balance sheet

Assets	2019	2020	2021e	2022e	2023e
Non-current assets	133	123	127	127	128
Goodwill	49.1	49.1	49.1	49.1	49.1
Intangible assets	26.4	22.1	28.4	28.0	27.6
Tangible assets	40.2	33.0	30.1	31.4	32.3
Associated companies	4.4	11.7	11.7	11.7	11.7
Other investments	7.8	7.2	7.2	7.2	7.2
Other non-current assets	0.2	0.0	0.0	0.0	0.0
Deferred tax assets	4.6	0.0	0.0	0.0	0.0
Current assets	157	150	174	168	175
Inventories	92.6	68.8	82.5	78.0	81.5
Other current assets	0.0	0.0	0.0	0.0	0.0
Receivables	51.8	53.0	59.7	58.6	61.2
Cash and equivalents	12.3	27.9	31.5	30.9	32.2
Balance sheet total	289	273	300	295	303

Source: Inderes

Liabilities & equity	2019	2020	2021e	2022e	2023e
Equity	152	143	142	158	173
Share capital	3.6	3.6	3.6	3.6	3.6
Retained earnings	102	109	132	148	164
Hybrid bonds	25.0	25.0	0.0	0.0	0.0
Revaluation reserve	0.0	0.0	0.0	0.0	0.0
Other equity	16.4	0.0	0.0	0.0	0.0
Minorities	4.6	5.2	6.3	6.3	6.3
Non-current liabilities	63.5	69.2	87.9	72.7	65.3
Deferred tax liabilities	0.0	0.0	0.0	0.0	0.0
Provisions	0.0	0.0	0.0	0.0	0.0
Long term debt	55.0	60.7	74.4	59.2	51.8
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	8.5	8.5	13.5	13.5	13.5
Current liabilities	74.4	60.6	70.3	64.5	64.1
Short term debt	39.7	19.6	24.0	19.1	16.7
Payables	34.7	41.0	46.2	45.4	47.4
Other current liabilities	0.0	0.0	0.0	0.0	0.0
Balance sheet total	289	273	300	295	303

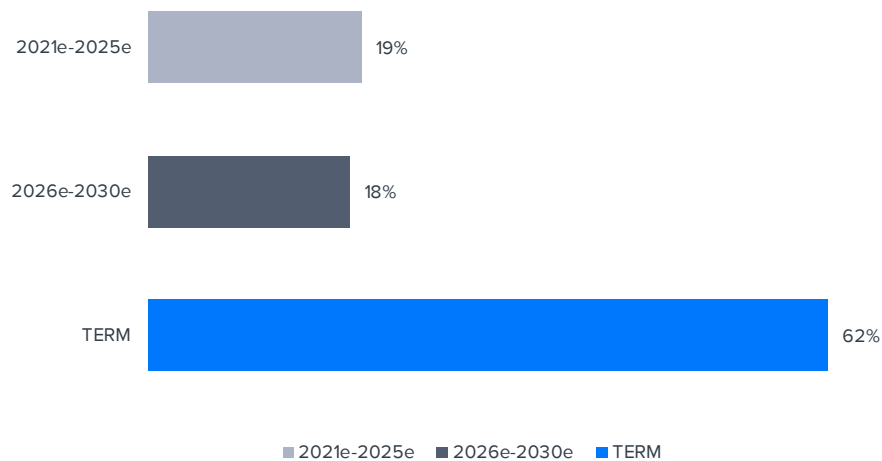
DCF calculation

DCF model	2020	2021e	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	TERM
EBIT (operating profit)	10.8	38.4	35.8	40.6	42.5	44.9	45.8	46.7	47.6	48.6	49.5	
+ Depreciation	13.9	13.9	10.0	10.4	10.6	10.8	10.9	11.0	11.0	11.1	11.1	
- Paid taxes	1.4	-10.0	-9.1	-10.6	-10.1	-10.8	-11.1	-11.5	-11.8	-12.2	-12.5	
- Tax, financial expenses	-1.3	-1.0	-1.0	-0.8	-0.6	-0.5	-0.4	-0.2	-0.1	0.0	0.0	
+ Tax, financial income	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	
- Change in working capital	28.9	-15.2	4.7	-4.1	-3.9	-2.0	-2.0	-2.1	-2.1	-2.1	-2.2	
Operating cash flow	53.7	26.2	40.5	35.5	38.6	42.4	43.2	43.9	44.6	45.3	46.1	
+ Change in other long-term liabilities	0.0	5.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-1.6	-17.3	-10.9	-10.9	-10.9	-10.9	-10.9	-10.9	-11.1	-11.1	-10.9	
Free operating cash flow	52.1	13.9	29.6	24.6	27.7	31.5	32.3	33.0	33.5	34.2	35.2	
+/- Other	-1.3	-1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	50.8	12.8	29.6	24.6	27.7	31.5	32.3	33.0	33.5	34.2	35.2	657
Discounted FCFF		12.4	26.7	20.6	21.6	22.9	21.8	20.7	19.6	18.6	17.8	333
Sum of FCFF present value		536	523	497	476	454	431	410	389	369	351	333
Enterprise value DCF		536										
- Interesting bearing debt		-80.3										
+ Cash and cash equivalents		27.9										
-Minorities		-19.0										
-Dividend/capital return		0.0										
Equity value DCF		464										
Equity value DCF per share		12.0										

Wacc	
Tax-% (WACC)	30.0 %
Target debt ratio (D/(D+E))	25.0 %
Cost of debt	5.0 %
Equity Beta	1.10
Market risk premium	4.80%
Liquidity premium	1.50%
Risk free interest rate	2.0 %
Cost of equity	8.8 %
Weighted average cost of capital (WACC)	7.5 %

Source: Inderes

Cash flow distribution



Summary

Income statement	2018	2019	2020	2021e	2022e	Per share data	2018	2019	2020	2021e	2022e
Revenue	262.4	275.4	261.3	294.6	289.0	EPS (reported)	0.13	0.09	0.03	0.60	0.61
EBITDA	22.4	26.0	24.7	52.3	45.8	EPS (adj.)	0.17	0.21	0.31	0.60	0.61
EBIT	14.8	13.4	10.8	38.4	35.8	OCF / share	0.16	0.69	1.39	0.68	1.05
PTP	12.7	9.8	6.6	35.2	32.5	FCF / share	-0.01	0.24	1.32	0.33	0.77
Net Income	4.8	3.6	1.2	23.0	23.4	Book value / share	3.71	3.84	3.57	3.52	3.93
Extraordinary items	-1.9	-4.5	-10.7	-0.2	0.0	Dividend / share	0.06	0.00	0.00	0.20	0.30
Balance sheet	2018	2019	2020	2021e	2022e	Growth and profitability	2018	2019	2020	2021e	2022e
Balance sheet total	277.1	289.4	272.8	300.2	294.9	Revenue growth-%	4%	5%	-5%	13%	-2%
Equity capital	147.1	151.5	143.0	142.1	157.7	EBITDA growth-%	42%	16%	-5%	112%	-12%
Goodwill	47.9	49.1	49.1	49.1	49.1	EBIT (adj.) growth-%	46%	7%	20%	80%	-7%
Net debt	95.4	107.4	77.4	66.9	47.4	EPS (adj.) growth-%	51%	21%	46%	95%	1%
Cash flow	2018	2019	2020	2021e	2022e	EBITDA-%	8.5 %	9.4 %	9.5 %	17.8 %	15.9 %
EBITDA	22.4	26.0	24.7	52.3	45.8	EBIT (adj.)-%	6.4 %	6.5 %	8.2 %	13.1 %	12.4 %
Change in working capital	-9.1	6.1	28.9	-15.2	4.7	EBIT-%	5.6 %	4.9 %	4.1 %	13.0 %	12.4 %
Operating cash flow	6.3	26.4	53.7	26.2	40.5	ROE-%	3.5 %	2.5 %	0.8 %	16.8 %	16.3 %
CAPEX	-4.0	-32.3	-1.6	-17.3	-10.9	ROI-%	6.6 %	5.7 %	4.7 %	16.6 %	15.1 %
Free cash flow	-0.3	9.3	50.8	12.8	29.6	Equity ratio	53.1%	52.3%	52.4%	47.3%	53.5%
						Net gearing	47.9%	54.4%	36.6%	47.1%	30.1%
Valuation multiples	2018	2019	2020	2021e	2022e						
EV/S	0.8	0.8	1.0	1.7	1.6						
EV/EBITDA (adj.)	9.7	8.0	10.2	9.5	10.3						
EV/EBIT (adj.)	13.0	11.6	11.7	12.8	13.2						
P/E (adj.)	17.4	13.1	14.1	17.6	17.5						
P/B	0.8	0.7	1.2	3.0	2.7						
Dividend-%	2.0 %	0.0 %	0.0 %	1.9 %	2.8 %						

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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

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Recommendation history (>12 mo)

Date	Recommendation	Target price	Share price
30-10-17	Reduce	4.20 €	3.92 €
18-12-17	Reduce	3.60 €	3.45 €
19-02-18	Reduce	3.10 €	3.20 €
06-05-18	Reduce	3.50 €	3.44 €
23-07-18	Accumulate	4.00 €	3.70 €
10-09-18	Accumulate	4.00 €	3.50 €
14-01-19	Accumulate	3.80 €	3.33 €
17-02-19	Reduce	3.30 €	3.21 €
23-04-19	Accumulate	3.30 €	3.05 €
21-07-19	Reduce	3.10 €	3.15 €
09-01-20	Reduce	2.90 €	2.73 €
27-01-20	Accumulate	3.10 €	2.86 €
13-02-20	Accumulate	3.10 €	2.94 €
18-03-20	Reduce	2.30 €	2.38 €
26-05-20	Reduce	2.40 €	2.60 €
10-06-20	Reduce	2.60 €	2.67 €
20-07-20	Reduce	2.60 €	2.80 €
02-10-20	Accumulate	2.80 €	2.60 €
18-11-20	Accumulate	3.80 €	3.44 €
23-11-20	Buy	4.50 €	3.65 €
21-01-21	Accumulate	5.60 €	5.10 €
11-02-21	Accumulate	6.20 €	5.68 €
10-03-21	Accumulate	6.70 €	6.08 €
21-04-21	Accumulate	9.00 €	7.00 €
19-07-21	Accumulate	12.00 €	10.50 €



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