

Market: OMXC Mid Cap

Ticker: FLUGB

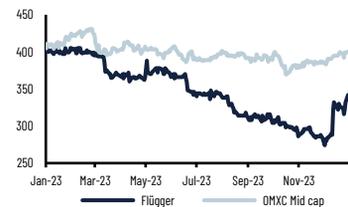
Share price (DKK): 342.0

Market cap (DKK): 1.0bn

Net debt (DKK): 712m

Enterprise value (DKK): 1.7bn

Share information



Ytd: 4.9% 1 year: -16.4%
1 month: 20.4% 3 year: -47.0%

Note: We apply the closing price from 08 January 2023
Index rebased to January 2023. Source: Refinitiv

Financials

(DKKm)	2021/22	2022/23	2023/24E*
Revenue	2,520	2,550	2,100-2,200
Revenue growth	16.6%	1.2%	-18% to -14%
EBITDA	301.3	207.4	N/A
EBITDA margin	12.0%	8.1%	N/A%
Adj. EBIT	173	39.0	55-75
EBIT margin	6.9%	1.5%	2-4%
Net income	-8	14.4	N/A
Net income margin	0%	0%	N/A

Note: *Flügger's own guidance for 2023/24; Net income in 2021/22 includes write-downs of DKK 132m relating to Eskaro following the war in Ukraine

Valuation multiples

	2021/22	2022/23	2023/24E*
P/S (x)	0.6	0.4	0.5
EV/Sales (x)	0.8	0.8	0.8
EV/EBITDA (x)	7.8	9.2	N/A
EV/EBIT (x)	53.6	44.3	23.3-31.7
P/E (x)	-178.4	75.8	N/A
P/B (x)	1.6	1.5	N/A
P/CF (x)	9.6	7.3	N/A

Note: Multiples for 2021/22 and 2022/23 are based on historical numbers
*Multiples in 2023/24 are based on the company guidance

Company description

Flügger is a Danish-based developer, producer, marketer, and seller of decorative paint, wood stains, filler, and tools, selling to professional painters, private customers, and builder's merchants. Flügger has three operational segments. The first concerns sales from its own stores and from close collaborative dealers. The second is for sales through builder's merchants and DIY chains. The third concerns sales through Eskaro, which Flügger took over in May 2021, of which continuing operations are based in Ukraine.

Investment case

Flügger has divested its Eskaro activities (Nov 2023), while maintaining 80% ownership of the activities in Ukraine, where Flügger sees the most potential, and returns management's full focus to ongoing operations. Flügger's full-year guidance has been adjusted, as a result, to revenue of DKK 2,100-2,200m (from DKK 2,500-2,700) and EBIT of DKK 55-75m (from DKK 60-120m).

In the first H1 2023/24, Flügger faced challenging markets, stating industry estimates showed a volume fall of around 10%. However, Flügger grew its topline by 1%, a sign of increasing market share, particularly in Denmark, while its activities in Poland also continue to grow. Activities in Poland and Ukraine can support accelerated long-term growth as their incomes per capita expand.

Gross margins have developed positively, driven by price increases and falling raw materials prices, while sales and development cost savings positively affected EBIT development in H1 2023/24. Segment 1 (Flügger's own and franchise stores) drove much of the EBIT improvement, driven by both consumers and professionals.

Despite highly challenged markets, Flügger has strengthened its fundamentals. Margins still lag historical norms, which can suggest room for further normalisation. Flügger is expected to unveil its new medium-term strategy in 2024 when the current "Going Green" strategy expires. A new strategy can clarify Flügger's medium-term growth and margin expectations.

Key investment reasons

The divestment of Eskaro renews focus on main markets. Structural factors support long-term growth in Poland and Ukraine while Flügger has grown its market share in the Nordics recently. The transaction also improves financial solidity, reducing debt (NIBD/EBITDA, now ~1.5x). Inventory levels also continue normalising with a positive cash flow effect to support dividends.

In the short to medium term, Flügger can further benefit from raw material and energy price declines as it has now implemented price increases, and hence, margins may continue expanding.

Over the longer term, Flügger can grow its online sales as a share of revenue, benefitting from the reduced costs of sales associated with online sales driving margin expansion; however, online sales growth remains slow. Additionally, its focus on ESG and e-labelled paints may improve demand over the long run.

Key investment risks

Flügger faces continued macroeconomic challenges as inflation and higher interest rates have squeezed consumer budgets, weighing on industry sales volumes. Flügger's premium nature has somewhat reduced its cyclicality relative to other brands; however, has historically shown some cyclicality.

It may take longer than expected for Flügger to return to normalised gross profit and EBIT margins, due to continued macroeconomic conditions and price pressures. While Flügger has developed market share in the Nordics, additional market share growth may be limited, particularly in Denmark, where its market share is high.

Flügger's Eskaro activities (segment 3) may face continued war-related challenges. While operations have mostly normalised, a re-escalation of the war could disrupt activities.

Peer group

Company	Price (local)	Total return Ytd	Market cap (EURm)	Latest net debt (EURm)	EV/sales		EV/EBITDA		EV/EBIT		EBIT margin	
					2022A	2023E	2022A	2023E	2022A	2023E	3-yr avg	TTM
Akzo Nobel NV	EUR 70	-5.8%	12,009	4,103	1.51	1.53	14.30	11.35	21.1	15.3	10.4%	4.9%
PPG Industries Inc	USD 147	-1.4%	31,765	4,655	2.24	2.21	16.43	13.79	21.3	16.5	10.5%	4.8%
Sherwin-Williams Co	USD 299	-4.0%	70,061	8,924	3.87	3.76	23.74	20.30	27.3	23.1	14.1%	3.4%
Simple Average		-3.7%	37,945	5,894	2.5	2.5	18.2	15.1	23.2	18.3	11.6%	4.4%
Flügger Group A/S	DKK 342	4.9%	138	95	0.7*	0.8*	9.2*	8.5*	44.3*	26.9*	4.9%	2.0%
Premium (+) / Discount (-) to peers					-70%	-69%	-49%	-45%	91%	43%		

Note: Data from 09/01/2024

Source: Refinitiv

Note: *Estimates calculated by HC Andersen Capital using Flügger's latest guidance as a midpoint where possible. No adjustments have been made for Flügger's skewed earnings season, which runs from 1 May - 30 April. Other forward guidance numbers are from consensus analyst estimates from Refinitiv. EV calculation includes listed and non-listed shares. Source: HC Andersen Capital and Refinitiv.

Estimates and assumptions: Some of the data in the peer group has not been calculated by HC Andersen Capital but is instead consensus analyst estimates from Refinitiv. HC Andersen Capital assumes no responsibility for the correctness of the numbers in the peer group; however, considers Refinitiv a credible source of information.

Selected peers overview:

PPG Industries Inc: manufactures and distributes a broad range of paints, coatings and speciality materials. PPG was incorporated in Pennsylvania in 1883. Headquartered in Pittsburgh, USA, PPG employs over 45,000 people globally and has operations in more than 70 countries.

Akzo Nobel: is a Dutch multinational company that creates paints and performance coatings for both industry and consumers worldwide. Headquartered in Amsterdam, the company has activities in more than 80 countries and employs over 30,000 people.

The Sherwin-Williams Company: The Sherwin-Williams Company is a global leader in the manufacture, development, distribution, and sale of paint, coatings, and related products. Headquartered in Ohio, USA, the company employs over 60,000 people globally, the majority of which are in the USA and has distribution capabilities to over 40 countries. The Sherwin-Williams Company is not a direct competitor to Flügger because it only sells its industrial coatings products in Europe, and not its consumer products.