

ESG insight



NEXAM CHEMICAL

Still set for impressive growth

Nexam Chemical reported Q2 sales 9% below our forecast driven mainly by lower than expected growth of 34% in Performance Chemicals (our estimate: 60%). However, we note that growth has historically been volatile between quarters and we still believe the company is well positioned to deliver on its growth potential while expanding margins. We note the valuation is at a 44% discount versus our peer group. Fair value maintained at SEK8–12.

Q2 highlights. Sales growth in Performance Chemicals was 34% YOY (we expected 60%), as Covid-19 had a larger than expected impact on order execution while we also attribute a large portion of the miss to timing effects between quarters. Growth in Performance Masterbatch was -11% owing mainly to Sweden. Gross margin of 42% was up 2%-points YOY driven by positive mix effect from increasing sales in Performance Chemicals.

Estimate changes. We have cut our 2020–2022e sales by c2% following the Q2 report and we are still in line with the company's 2022e sales target range. We have cut our EBITDA forecasts by 5% on average, mainly on higher personnel costs.

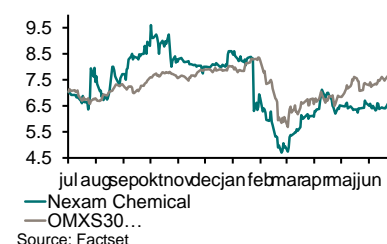
Still positioned to deliver >30% sales CAGR and margin gains. In our view Nexam Chemical is well placed to meet its 2022 revenue target of SEK275m–325m, with strong underlying growth trends (>100% in 2019) in Performance Chemicals, and considering the DIAB agreement alone equates to 35% of the target, we see ample scope for a 2019–2022 sales CAGR of 31%. The Q2 supported our view that the company is approaching EBITDA breakeven, and expect increased purchasing power and volume growth to drive up gross margins, which together with higher fixed-cost absorption, should yield an EBIT margin just shy of 10% by 2022e.

Fair value of SEK8–12 reiterated, based on specialty polymer peers' 2022e EV/sales, a small-cap/high growth regression valuation and our DCF, and corresponds to a 2022 P/E of 39.9x and EV/sales of 2.5x. On our valuation the stock is trading at a ~45% discount versus our peer group on an EV/sales of 1.6x while we note that we forecast the company to have 10%-points higher gross margins (and thus profitability potential) than its peers and we expect its growth rate to be c4x the rate of its peers.

Year-end Dec	2016	2017	2018	2019	2020e	2021e	2022e
Revenue (SEKm)	8	19	110	130	163	219	303
EBITDA adj (SEKm)	-20	-21	-9	-9	7	18	41
EBIT adj (SEKm)	-22	-24	-19	-19	-3	7	29
PTP (SEKm)	-22	-23	-17	-17	-6	4	24
EPS rep (SEK)	-0.36	-0.09	-0.25	-0.25	-0.08	0.04	0.25
EPS adj (SEK)	-0.36	-0.11	-0.30	-0.31	-0.07	0.04	0.25
Revenue growth (%)	5.4	126.1	487.5	18.4	25.1	34.3	38.8
EBIT growth adj (%)	nm	nm	nm	nm	nm	nm	303.8
EPS growth adj (%)	nm	nm	nm	nm	nm	nm	539.4
EBIT margin adj (%)	-268.0	-129.3	-16.9	-14.9	-1.9	3.3	9.6
EV/Sales adj (x)	76.19	31.49	5.58	4.33	2.82	2.17	1.57
EV/EBITDA adj (x)	nm	nm	nm	nm	68.5	26.8	11.5
EV/EBIT adj (x)	nm	nm	nm	nm	nm	65.8	16.4
P/E adj (x)	nm	nm	nm	nm	nm	nm	25.1
ROE (%)	nm	nm	nm	nm	nm	1.5	9.2

Source: Company (historical figures), DNB Markets (estimates)

NEXAM versus OMXS30 (12m)



SUMMARY

Share price (SEK)	6.20
Tickers	NEXAM SS, NEXAM.ST

CAPITAL STRUCTURE

No. of shares (m)	75.8
No. of shares fully dil. (m)	75.8
Market cap. (SEKm)	470
NIBD adj end-2020e (SEKm)	-11
Enterprise value adj (SEKm)	459
Net debt/EBITDA adj (x)	-1.67
Free float (%)	84

Source: Company, DNB Markets (estimates)

Note: Unless otherwise stated, the share prices in this note are the last closing price.

NEXT EVENT

Q3 2020	22/10/2020
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ESTIMATE CHANGES (SEK)

Year-end Dec	2020e	2021e	2022e
Sales (old)	166.2	223.4	309.8
Sales (new)	162.7	218.6	303.3
Change (%)	-2.1	-2.2	-2.1
EPS (old)	-0.07	0.05	0.27
EPS (new)	-0.07	0.04	0.25
Change (%)	nm	-26.2	-8.0

Source: DNB Markets,

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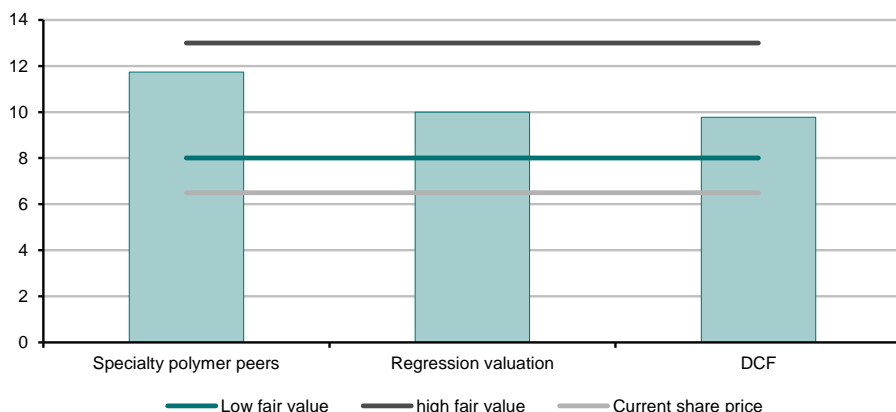
ANALYSTS

Viktor Trollsten

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Overview

Valuation (SEK)



Source: DNB Markets

Valuation methodology

- Our fair value of SEK8–12 is based on peer 2022e EV/sales, a small-cap/high-growth regression valuation and our DCF.
- The high end of the range is based on a 10% premium to our peer group’s 2022e EV/sales applied to our forecasts.
- The low end of the range is based on a 10% higher WACC of 14.1% in our base-case DCF.

Source: DNB Markets

Downside risks to our fair value

- Lack of growth in the Performance Chemicals segment could make the valuation look high.
- A cyclical downturn hitting Performance Masterbatch (currently accounting for 50% of sales), leading to the group missing its sales target.
- Lower than expected margins raising the risk of recapitalisation.
- Long-term, substituting plastic bottles with bottles for life and plastic packaging with paper could be negative for Performance Masterbatch

Source: DNB Markets

DNB Markets estimates

- We expect a 2019–2022 sales CAGR of 31%, and the company to meet its 2022 sales target.
- We expect margins to improve as early as 2022, reflected in our forecast of an EBIT margin of 10%.
- We believe the balance sheet is well capitalised for now, but would not rule out further capital injections by 2022

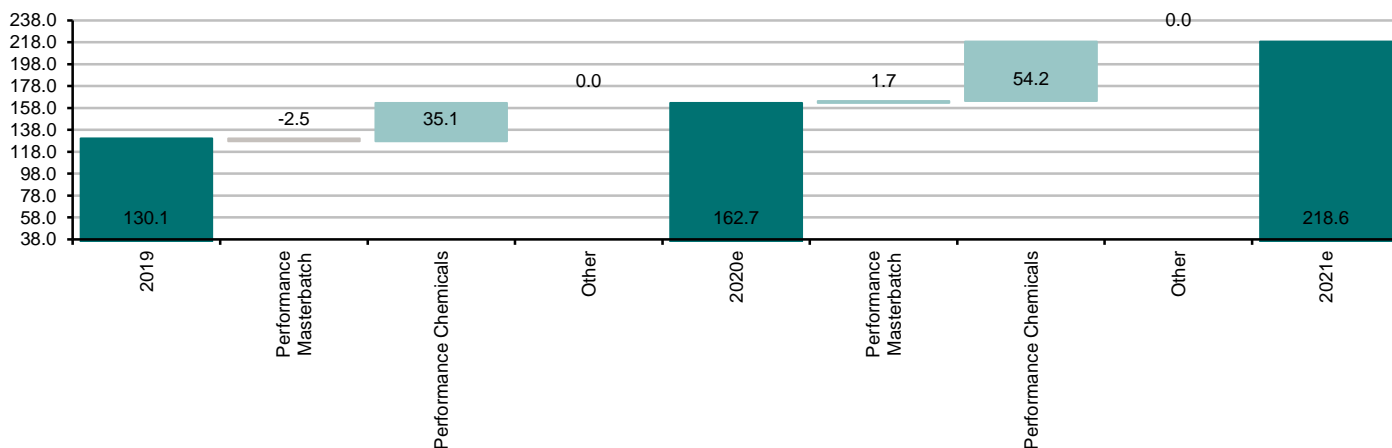
Source: DNB Markets

Upside risks to our fair value

- Higher than expected order intake in High Performance segment.
- In our view, the PE pipes market offers the largest potential, and any proof of gaining market share could be a swing factor in the valuation.
- Better cost control could improve the margin profile and in a mature state we note that EBIT margins average 18% at specialty polymer peers.

Source: DNB Markets

Sales bridge 2019–2021e (SEKm)



Source: DNB Markets (forecasts), company (historical data)

ESG overview

Sustainability assessment

Positive

- Conclusions ■ Nexam Chemical's products are designed to improve resource efficiency and recyclability, restoring features of used polymers, which is both cost- and climate-effective. For example, wind turbines can be built out of PET foam (from recycled PET), improving sustainability.
- Nexam Chemical's products allow clients to substitute heavier materials with polymers, reducing energy-consumption/aiding the environment.
 - Nexam Chemical's products are a crucial part of the wind energy market in our view, enhancing the performance of core materials, allowing for taller and larger rotor blades, and in turn improving efficiency and lowering the LCOE.

Negative

- We believe the Performance Masterbatch segment could face structural headwinds from increasing penetration of paper versus plastic in several applications such as bottles, packaging, etc. which could reduce the need for colour and additive masterbatches.
- Despite contributing to higher plastic recyclability and resource efficiency, there is a risk of negative ESG perception, as Nexam Chemical's technology is designed to be used with plastics.
- Regulatory frameworks and directives could work against the use of plastics, and competing solutions could erode the scope for market share gains and opportunities for Nexam Chemical.

Key ESG drivers

- Short-term ■ Lightweighting in industries like aerospace and automotive is a key topic, and complex settings such as engines are one of the few areas where development has not moved forward over the past few years. For instance, incorporating Nexam Chemical's additives in the production of jet engines can result in a c30% weight saving versus titanium.
- According to BNEF, installed wind capacity is set to increase significantly over the coming years. Given the move towards longer and larger rotor blades, we also expect demand for stronger core materials, and thus Nexam Chemical's products.
- Long-term ■ Hybrid and electric vehicles contain more polymers and composite technologies than ICE+, and could offer a sizeable market for Nexam Chemical's products.
- Changing consumer behaviour could affect the market drivers for the more mature Performance Masterbatch segment, e.g. slumping demand if the use of certain plastics (like single-use) is banned, and finding alternative products for substitution could limit growth.
 - Significant changes to regulations could render Nexam Chemical's technology and business model outdated/obsolete.

Summary of positives

Sustainability the core of business case

Nexam Chemical's products enhance the properties and performance of polymer materials, including improving strength, recyclability, ductility, and temperature resistance. This allows manufacturers to substitute more expensive and heavier materials with polymers, resulting in lower opex while increasing resource efficiency by using recycled polymers, and reducing energy consumption by lightweighting. This is a key topic in several industries such as wind power (Nexam Chemical's products make it possible to build taller and larger rotor blades, increasing efficiency and lowering the levelised cost of energy (LCOE) of wind energy) and aerospace (where lightweighting can dramatically cut fuel consumption).

Multiple uses and multiple benefits

Proof-of-concept in each focus area and evidence of customer demand

Orders from manufacturers have validated Nexam Chemical's decade-long R&D programme in all three of its focus areas, exemplified by the renewal of the delivery agreement with DIAB, one of the world's largest PET foam manufacturers, in 2019, which we believe is worth cSEK60m annually to Nexam Chemical (corresponding to 46% of 2019 group sales). Nexam Chemical has announced orders in all three of its focus areas, with high performance chemicals and PET foam in particular showing steady growth in volumes, demonstrating healthy demand.

Healthy demand evidenced in announced orders

Long-standing customer relationships and patented know-how

It takes several years to develop a product and reach commercial sales. Proof of its success, Nexam Chemical has built long-standing relationships with large international polymer producers, converters and recyclers. It is collaborating with some of the industry leaders in its focus areas, three of the four largest PET foam manufacturers and other well-established brands in the sector, such as DIAB and Armacell; we also believe it is in discussion with Rolls-Royce and Safran (related to jet engines). In addition, the company has 54 patents, in our view raising the barriers to entry and reinforcing its standing as first-mover in its niches.

Client relationships, collaborations and patents form the foundations to Nexam Chemical's strategy

Vast market potential

Given the broad applications for Nexam Chemical's products, quantifying the addressable market is challenging; however, we believe the potential is vast. We estimate a total PET foam opportunity of cSEK500m based on the four largest PET foam manufacturers, of which Nexam Chemical is already collaborating with three. We estimate a total High Performance opportunity of SEK100m just looking at the jet engine market. In our view, Nexam Chemical has yet to prove its entry in the Polyethylene (PE) pipe market, which we believe is the largest swing factor, offering the most potential at SEK1bn. Overall, we estimate the total market opportunity amounts to SEK1.7bn in 2020, meaning the company has an implicit market share of 5%, indicating solid growth prospects if it can exploit its addressable market.

The sheer number of applications for Nexam Chemical's products indicates real scope for growth

Well positioned for 2019–2022e sales CAGR of >30%, and 10% EBIT margin by 2022e

We believe the company is well positioned to meet its 2022 sales target of SEK275m–325m, implying a 2019–2022e sales CAGR of >30% as:

- we expect continued solid growth in sales in our forecast horizon;
- following the DIAB delivery agreement, we believe SEK110m in sales growth is needed to reach the mid-point (implying fewer than two additional DIAB deals); and
- Nexam Chemical is already collaborating with three of the four largest PET foam manufacturers; it would be on course to meet its sales target if it could capture 40% of the value of the other two compared with currently capturing 60% of DIAB, we estimate.

We still believe our 2022 sales estimate of cSEK303m will be within the company's reach, even if growth slows from the 2019 level. Nexam Chemical is already approaching EBITDA breakeven, and we expect higher purchasing power versus suppliers and volume growth to boost gross margins. Taken together with higher fixed cost absorption, we forecast an EBIT margin just shy of 10% in 2022, increasing the attractiveness of the investment story.

20 July 2020

Summary of negatives

The key risks that could affect our fair value are failure to capitalise on the underlying growth prospects, such as: 1) slower composite uptake in select focus areas than expected; 2) entry of large and well-resourced companies offering composite solutions in select applications, and 3) slower regulatory approvals than expected significantly delaying volume growth.

Competitive landscape

While Nexam Chemical has 54 patents and has built long-standing customer relationships within its focus areas, the polymer industry is still highly competitive, driven by technological advances and shifting market trends; any further intensifying of competition could threaten Nexam Chemical's value offering. The entry of any large and well-resourced companies could hit the company's market share trajectory hard. Nexam Chemical's products also face indirect competition from other materials, such as metals, while falling metal and oil prices could reduce the economic appeal of substituting metals with composite materials.

Technology advances and shifting demand trends can influence the competitive landscape

Consolidated end-markets could limit customer base

The PET foam market and jet engine industry are both highly consolidated. Nexam Chemical has built close relationships with key participants; however, other market leaders could look for alternative solutions to prevent any information-sharing with competitors. While we believe Nexam Chemical's products are the most attractive in the market, failure to expand its customer base could limit the total market potential and/or delay growth.

Potential clients may be reluctant to work with a company that is already working with many of the sector leaders

Financing and future capital requirements and dilution risk

We estimate the company will have cash of cSEK40m at end-2020 following the rights issue at the start of 2020, and a quarterly burn-rate of cSEK4.5m, indicating a well-capitalised balance sheet for now. However, given the growth potential, we do not expect the company to be cash-flow positive during our forecast horizon, and have not ruled out that it could need additional funding, resulting in dilution risk for investors. With options from the last rights issue, the company could raise another SEK13.5m and SEK17.6m in Q3 of 2021 and 2022, respectively, although we highlight the risk that the share price performance could make the economics of exercising the options unfavourable.

Balance sheet well capitalised, for now at least

Valuation could look high if performance chemicals fail to take off

We believe the narrative on the stock centres on the Performance Chemicals growth case. In the event sales do not materialise, we believe the entire organic growth case would be far less appealing, and a 2022e EV/sales of 3.0x would be unwarranted (Plasticolor, now Masterbatch, was acquired at an EV/sales of 1.35x). Assuming market share gains to just 9% in PET foam by 2025 and an unsuccessful launch in high performance chemicals and PE pipes would warrant a low-case fair value of SEK3–5 in our view.

Low-case fair value of SEK3–5 based on Performance Chemicals failing to take off

Worsening economic conditions

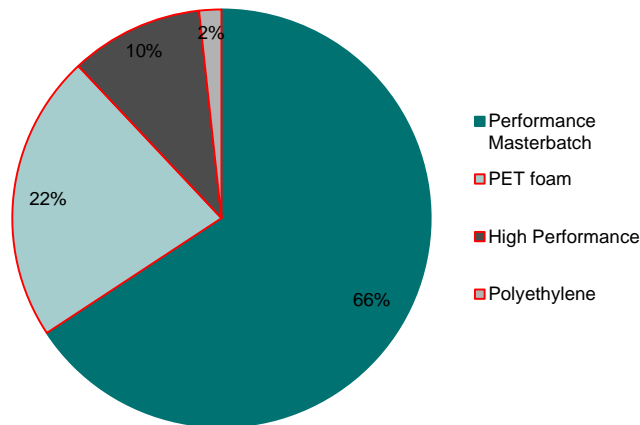
Demand in Performance Masterbatch (accounting for 65% of 2019 group sales) generally tracks overall economic activity, so is susceptible to weakening economic fundamentals. Our base case assumes Performance Chemicals offsets any deterioration in key indicators, given structural growth drivers in its end-markets and market share gains. However, we see a risk to the group reaching its 2022 sales target in the event a global recession slows organic growth in the Performance Masterbatch segment.

Time will tell if Performance Chemicals makes Nexam Chemical immune to recession

Company overview

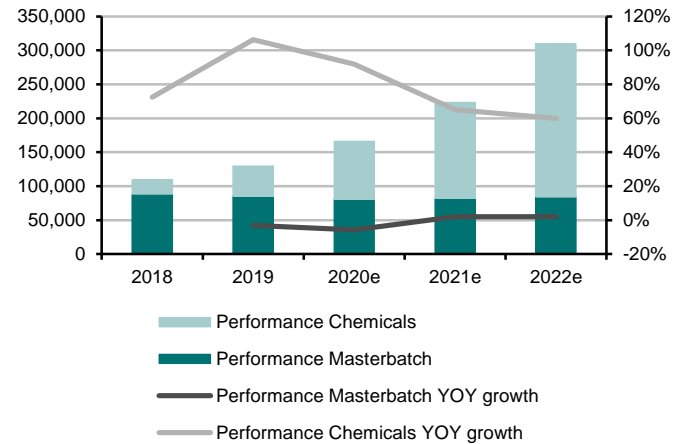
Nexam Chemical is a specialty chemical company with a world-leading, unique technology to enhance the properties and performance of plastics and polymers based on a decade-long R&D programme. It has deep roots in the scientific community, such as NASA's space programme.

Figure 1: Sales by segment (2019)



Source: Company, DNB Markets (Performance Chemicals split)

Figure 2: Sales (LHS, SEKk) and growth (RHS, %)



Source: Company (historical data), DNB Markets (estimates)

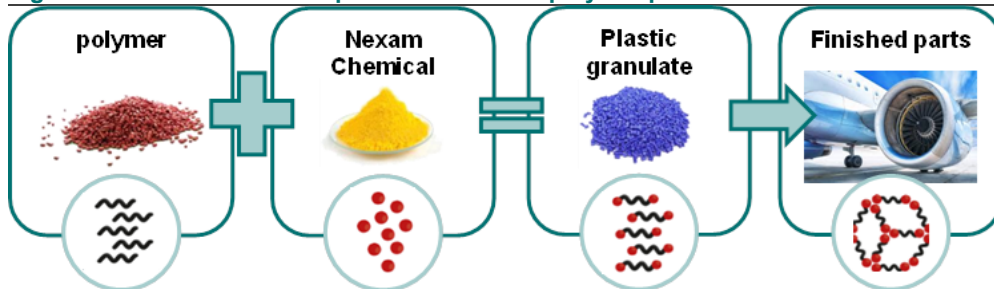
The company is structured into two divisions:

- **Performance Chemicals.** Includes the company's enhancing products for PET foam, high performance and polyethylene applications. The segment doubled its top line in 2019, and we believe will be the growth driver at Nexam Chemical.
- **Performance Masterbatch.** Includes the former Plasticolor and mainly targets the plastics industry in the Nordics and eastern Europe. We view the masterbatch business as more mature than performance chemicals.

Man-made polymers are found in everything, from clothing to packaging, household goods and coatings. Durability, flexibility and low costs are key characteristics. Nexam Chemical has created additives that are incorporated in the production process to improve the end-products, making them more resource-efficient in terms of lightweighting, temperature resistance, strength, durability and recyclability. This allows customers to substitute heavier and often more expensive inputs, in turn reducing opex. They also enhance environmental credentials, allowing manufacturers to use recycled plastics by restoring and improving the plastic's original properties.

Polymers are (pretty much) everywhere and in (pretty much) everything

Figure 3: Nexam Chemical's products enhance polymer performance



Source: Company

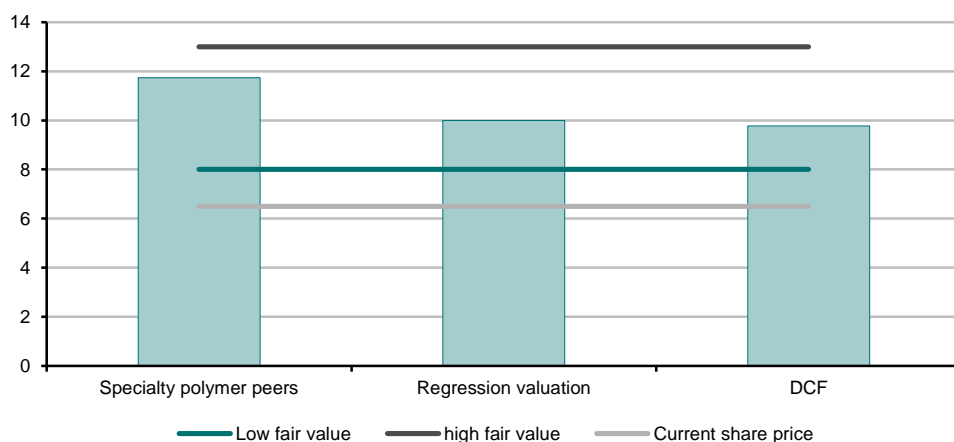
20 July 2020

Valuation

We have calculated a fair value of SEK8–12 for Nexam Chemical, based on an equally weighted average of the 2022e EV/sales for our specialty polymer peer group, a small-cap/high-growth regression valuation, and our DCF. Our fair value corresponds to 2022e EV/sales of 2.5x, an EV/EBITDA of 18.1x, and a P/E of 39.9x.

- **The low end of the range assumes:** a 10% higher WACC of 14.1% in our base-case DCF.
- **The high end of the range assumes:** a 10% premium to our peer group's 2022e EV/Sales applied to our forecasts.

Figure 4: Valuation summary (SEK/share)



Source: DNB Markets

Peer group valuation

Being in a growth phase, we believe investors are more likely to focus on EV/sales, even though we expect Nexam Chemical's bottom line to move into the black only in 2021. We have identified relevant specialty polymer peers in terms of value proposition, end-market exposure, and business models. Nexam Chemical is trading at a 44% discount versus our peer group on 2022e EV/sales, with a 10%-point higher gross margin but 9%-point lower EBIT margin versus peers. This indicates a fair value of SEK11–13 for Nexam Chemical.

Figure 5: Valuations – Nexam Chemical versus listed peers

	Mkt. Cap. (SEKm)	P/E (x)			EV/EBITDA (x)			EV/Sales (x)			Gross margin			EBIT margin		
		2020e	2021e	2022e	2020e	2021e	2022e	2020e	2021e	2022e	2020e	2021e	2022e	2020e	2021e	2022e
Nexam Chemical (DNBe)	411	-87.4	168.5	26.4	71.9	28.1	12.1	3.0	2.3	1.6	42%	43%	45%	-2%	3%	10%
Premium(+)/discount(-)*		-446%	741%	51%	491%	164%	26%	16%	-2%	-44%	20%	24%	26%	-113%	-81%	-50%
Specialty polymer peers																
Solvay SA	79,033	12.6	11.5	9.8	5.4	5.1	4.6	1.1	1.1	1.0	27%	28%	28%	11%	12%	13%
Ashland Global Holdings, Inc.	41,109	29.6	23.6	20.0	11.8	10.7	9.7	2.6	2.5	2.3	33%	34%	34%	11%	13%	16%
Croda International Plc	82,475	32.4	29.2	27.1	19.8	18.1	16.9	5.8	5.4	5.2	37%	38%	39%	24%	24%	25%
Hexcel Corporation	33,068	30.4	22.6	17.6	13.1	11.1	9.5	2.6	2.4	2.1	23%	25%	26%	13%	15%	17%
Umicore	113,487	37.3	29.0	25.2	17.2	14.3	12.7	4.0	2.6	2.3	62%	48%	49%	15%	13%	12%
Victrex plc	19,167	24.8	21.8	19.8	16.6	14.9	13.4	6.2	5.8	5.4	57%	58%	59%	30%	32%	33%
Johnson Matthey Plc	50,449	15.6	11.7	10.1	9.0	7.6	6.8	1.4	1.3	1.2	21%	23%	23%	11%	13%	14%
Toray Industries, Inc.	69,421	21.5	13.8	11.2	8.1	7.0	6.4	0.8	0.7	0.7	18%	18%	20%	4%		
Lonza Group AG	402,337	43.8	38.0	33.2	26.5	23.1	20.0	7.2	6.6	6.0	39%	41%	43%	19%	21%	23%
Average	98,950	27.5	22.3	19.3	14.2	12.4	11.1	3.5	3.2	2.9	35%	35%	36%	15%	18%	19%
Median	69,421	29.6	22.6	19.8	13.1	11.1	9.7	2.6	2.5	2.3	33%	34%	34%	13%	14%	16%

Source: Bloomberg (underlying data), DNB Markets (Nexam Chemical estimates)

DCF valuation

Figure 6: DCF model – detailed base-case assumptions (SEKk)

	Explicit forecasts				Growth state						Maturing state					Terminal Value
	2019	2020e	2021e	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	
Sales	136,011	162,505	218,564	303,296	379,120	473,900	592,375	740,469	925,586	1,156,983	1,330,530	1,530,110	1,759,626	2,023,570	2,327,106	2,385,283
Growth		19%	34%	39%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	15.0%	15.0%	15.0%	15.0%	15.0%	2.5%
EBITDA	-5,575	6,696	17,693	41,213	56,868	71,085	88,856	111,070	138,838	173,547	266,106	306,022	351,925	404,714	465,421	357,792
Margin	-4%	4%	8%	14%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	20.0%	20.0%	20.0%	20.0%	20.0%	15%
D&A	-9,836	-9,830	-10,491	-12,132	-12,819	-16,277	-20,466	-25,582	-29,016	-36,269	-49,965	-58,191	-66,340	-74,073	-79,887	-91,870
% of sales	7%	6%	5%	4%	3%	3%	3%	3%	3%	3%	4%	4%	4%	4%	3%	4%
EBIT	-15,411	-3,134	7,202	29,081	44,049	54,808	68,391	85,488	109,822	137,278	216,141	247,831	285,585	330,641	385,534	265,923
Margin	-11%	-2%	3%	10%	12%	12%	12%	12%	12%	12%	16%	16%	16%	16%	17%	11%
Net financial items	-1,608	-2,376	-3,404	-4,798	-5,997	-7,496	-9,370	-11,713	-14,641	-18,301	-21,046	-24,203	-27,834	-32,009	-36,810	-37,730
Pre tax profit	-17,019	-5,510	3,798	24,284	38,052	47,312	59,021	73,776	95,181	118,977	195,095	223,628	257,752	298,632	348,724	228,192
Taxes	-54	-126	-874	-5,585	-10,131	-12,606	-15,730	-19,662	-25,259	-31,574	-49,712	-57,001	-65,685	-76,047	-88,673	-61,162
Tax rate	0%	-2%	23%	23%	23%	23%	23%	23%	23%	23%	23%	23%	23%	23%	23%	23%
Net income	-17,073	-5,636	2,925	18,698	27,921	34,706	43,291	54,113	69,922	87,403	145,383	166,627	192,067	222,585	260,051	167,030
FCF calculation																
EBIT	-15,411	-3,134	7,202	29,081	44,049	54,808	68,391	85,488	109,822	137,278	216,141	247,831	285,585	330,641	385,534	265,923
D&A (-)	9,836	9,830	10,491	12,132	12,819	16,277	20,466	25,582	29,016	36,269	49,965	58,191	66,340	74,073	79,887	91,870
Taxes (+)	-54	-126	-874	-5,585	-10,131	-12,606	-15,730	-19,662	-25,259	-31,574	-49,712	-57,001	-65,685	-76,047	-88,673	-61,162
Capex (+)	-10,506	-9,755	-12,598	-16,104	-20,130	-25,163	-31,453	-39,317	-49,146	-61,432	-63,994	-73,593	-84,632	-97,327	-111,926	-114,724
% sales	7.7%	6.0%	5.8%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%
Acquisitions (-)/divestments (+)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Change in NWC (-)	-14,186	-9,187	-15,778	-16,827	-14,300	-17,875	-22,344	-27,930	-34,912	-43,640	-29,259	-33,648	-38,695	-44,500	-51,175	-9,809
% of sales growth		35%	28%	20%	19%	19%	19%	19%	19%	19%	17%	17%	17%	17%	17%	17%
Free cash flow		-12,373	-11,556	2,696	12,307	15,442	19,329	24,162	29,521	36,901	123,140	141,779	162,913	186,840	213,647	172,097
PV calculation																
Discount period	n.a.	0.42	1.42	2.42	3.42	4.42	5.42	6.42	7.42	8.42	9.42	10.42	11.42	12.42	13.42	14.42
Discount factor	n.a.	1.05	1.19	1.35	1.52	1.72	1.95	2.20	2.49	2.82	3.19	3.60	4.08	4.61	5.22	5.90
Present value of free cash flow	n.a.	-11,755	-9,707	2,002	8,081	8,965	9,923	10,967	11,847	13,094	38,633	39,329	39,956	40,517	40,964	
ROIC calculation																
NOPLAT	-15,465	-3,260	6,328	23,496	33,918	42,202	52,661	65,826	84,563	105,704	166,429	190,830	219,901	254,593	296,861	204,760
Invested capital	180,800	189,655	207,539	228,339	262,769	305,807	359,605	426,851	510,909	615,982	709,236	816,478	939,806	1,081,633	1,244,734	1,369,267
ROIC	-8.6%	-1.7%	3.0%	10.3%	12.9%	13.8%	14.6%	15.4%	16.6%	17.2%	23.5%	23.4%	23.4%	23.5%	23.8%	15.0%

Source: Company (historical data), DNB Markets (estimates)

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Forecast changes – P&L

(SEKm)	New			Old			Change		
	2020e	2021e	2022e	2020e	2021e	2022e	2020e	2021e	2022e
Revenues	163	219	303	166	223	310	-3	-5	-6
Cost of sales	-94	-125	-167	-96	-127	-170	2	3	4
Gross profit	69	94	136	71	96	139	-2	-2	-3
Operating expenses	-62	-76	-95	-64	-77	-97	2	1	1
EBITDA	7	18	41	7	19	43	0	-2	-2
EBITDA adj	7	18	41	7	19	43	0	-2	-2
EBITDA margin (%)	4.1	8.1	13.6	4.3	8.6	13.8	-0.2	-0.5	-0.2
Depreciation	-10	-10	-12	-10	-11	-12	1	1	0
EBIT	-3	7	29	-3	8	30	0	-1	-1
EBIT adj	-3	7	29	-3	8	30	0	-1	-1
Net interest	-2	-3	-5	-2	-3	-4	-1	0	-1
Net financial items	-2	-3	-5	-2	-3	-4	-1	0	-1
PBT	-6	4	24	-5	5	26	0	-1	-2
Taxes	0	-1	-6	0	-1	-6	0	0	0
Net profit	-6	3	19	-5	4	20	-1	-1	-2
Adjustments to net profit	0	0	0	0	0	0	0	0	0
Net profit adj	-6	3	19	-5	4	20	-1	-1	-2
<i>Per share data (SEK)</i>									
EPS	-0.08	0.04	0.25	-0.07	0.05	0.27	-0.01	-0.01	-0.02
EPS adj	-0.07	0.04	0.25	-0.07	0.05	0.27	-0.01	-0.01	-0.02
<i>Other key metrics (%)</i>									
Revenue growth	25.1	34.3	38.8	27.8	34.4	38.7	-2.7	-0.1	0.1
EBIT adj growth	nm	nm	303.8	-82.6	-339.6	276.1	nm	nm	27.7
EPS adj growth	nm	nm	539.4	-78.4	-177.8	412.9	nm	nm	126.5
Avg. number of shares (m)	76	76	76	76	76	76	0	0	0
Capex	-10	-13	-16	-11	-13	-17	1	0	0
OpFCF	-3	5	25	-4	6	26	1	-1	-1
NIBD adj	-11	4	6	-4	8	6	-7	-4	0

Source: DNB Markets

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Quarterly numbers

(SEKm)	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020e	Q4 2020e	Q1 2021e	Q2 2021e	Q3 2021e
Revenues	32	35	31	32	42	36	40	45	56	47	52
Cost of sales	-24	-21	-20	-17	-24	-21	-23	-26	-32	-27	-30
Gross profit	14	15	12	14	19	14	17	19	24	20	22
Operating expenses	-15	-14	-13	-17	-16	-14	-15	-16	-19	-18	-19
EBITDA	-2	0	-1	-3	2	0	1	3	5	3	4
Depreciation	-2	-2	-3	-2	-3	-3	-2	-2	-3	-2	-2
EBIT	-4	-2	-4	-5	0	-2	-1	0	2	0	1
Net interest	0	0	0	-1	0	-1	-1	-1	-1	-1	-1
Net financial items	0	0	0	-1	0	-1	-1	-1	-1	-1	-1
PBT	-4	-2	-5	-6	0	-3	-1	0	1	0	0
Taxes	0	0	0	0	0	0	0	0	0	0	0
Net profit	-4	-2	-5	-6	-1	-4	-1	0	1	0	0
Adjustments to net profit	-5	0	0	1	0	0	0	0	0	0	0
Net profit adj	-9	-2	-5	-5	-1	-4	-1	0	1	0	0
Avg. number of shares (m)	68	68	68	68	68	76	76	76	76	76	76
<i>Per share data (SEK)</i>											
EPS	-0.06	-0.03	-0.07	-0.09	-0.01	-0.05	-0.02	0.00	0.01	0.00	0.00
EPS adj	-0.14	-0.04	-0.07	-0.07	-0.01	-0.05	-0.02	0.00	0.01	0.00	0.00
<i>Growth and margins (%)</i>											
Revenues, QOQ growth	7.5	10.8	-11.7	3.0	30.2	-12.8	8.7	14.0	23.3	-15.0	9.6
Revenues, YOY growth	17.4	27.4	21.3	8.4	31.3	3.4	27.2	40.7	33.3	29.9	31.0
EPS adj, YOY growth	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm
Gross margin	23.9	39.8	34.3	45.6	42.8	41.8	42.5	42.5	43.0	43.0	43.0
EBITDA adj margin	nm	0.9	nm	nm	5.5	0.5	3.6	6.2	8.3	5.8	7.3
Depreciation/revenues	-7.6	-7.0	-8.9	-6.8	-6.0	-7.3	-5.5	-5.5	-4.8	-4.8	-4.8
EBIT adj margin	-28.9	-6.1	-14.5	-13.6	-0.5	-6.8	-1.9	0.7	3.5	1.0	2.5
Net profit margin	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm

Source: Company (historical figures), DNB Markets (estimates)

Adjustments to quarterly numbers

(SEKm)	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020e	Q4 2020e	Q1 2021e	Q2 2021e	Q3 2021e
EBITDA	-2	0	-1	-3	2	0	1	3	5	3	4
Gains and losses	0	0	0	0	0	0	0	0	0	0	0
EBITDA adj	-7	0	-2	-2	2	0	1	3	5	3	4
Gains and losses	0	0	0	0	0	0	0	0	0	0	0
EBIT	-4	-2	-4	-5	0	-2	-1	0	2	0	1
Gains and losses	0	0	0	0	0	0	0	0	0	0	0
EBIT adj	-9	-2	-5	-4	0	-2	-1	0	2	0	1
Net profit	-4	-2	-5	-6	-1	-4	-1	0	1	0	0
Gains and losses	0	0	0	0	0	0	0	0	0	0	0
Net profit adj	-9	-2	-5	-5	-1	-4	-1	0	1	0	0

Source: Company (historical figures), DNB Markets (estimates)

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Quarterly numbers by segment and assumptions

(SEKm)	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020e	Q4 2020e	Q1 2021e	Q2 2021e	Q3 2021e
Revenue											
Performance Masterbatch	23	24	22	18	22	21	22	18	22	21	23
Performance Chemicals	8	12	9	14	20	15	17	27	33	26	29
Assumptions											
Revenue org. % YOY	16.05	26.55	20.52	7.46	30.89	3.35	27.13	40.81	33.31	29.89	31.03
Structure impact % YOY	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Currency impact % YOY	1.38	0.87	0.79	0.92	0.45	0.01	0.08	-0.07	-0.01	0.00	0.00

Source: Company (historical figures), DNB Markets (estimates)

Annual P&L

(SEKm)	2013	2014	2015	2016	2017	2018	2019	2020e	2021e	2022e
Revenues	3	2	8	8	19	110	130	163	219	303
Cost of sales	-5	-4	-5	-5	-12	-68	-82	-94	-125	-167
Gross profit	2	1	5	5	9	47	54	69	94	136
Operating expenses	-27	-32	-25	-24	-29	-53	-59	-62	-76	-95
EBITDA	-24	-31	-19	-19	-20	-6	-6	7	18	41
Depreciation	-3	-4	-3	-2	-3	-10	-10	-10	-10	-12
EBIT	-27	-35	-22	-22	-23	-16	-15	-3	7	29
Net interest	0	0	0	0	0	-1	-2	-2	-3	-5
Net financial items	0	0	0	0	0	-1	-2	-2	-3	-5
PBT	-27	-35	-22	-22	-23	-17	-17	-6	4	24
Taxes	0	0	0	0	17	0	0	0	-1	-6
Effective tax rate (%)	0	0	0	0	75	-1	0	-2	23	23
Net profit	-27	-35	-22	-22	-6	-17	-17	-6	3	19
Adjustments to net profit	-2	-2	-1	0	-1	-3	-4	0	0	0
Net profit adj	-28	-37	-23	-22	-7	-20	-21	-6	3	19
Avg. number of shares	47	52	52	62	65	68	68	76	76	76
<i>Per share data (SEK)</i>										
EPS	-0.56	-0.58	-0.42	-0.36	-0.09	-0.25	-0.25	-0.08	0.04	0.25
EPS adj	-0.59	-0.71	-0.44	-0.36	-0.11	-0.30	-0.31	-0.07	0.04	0.25
<i>Growth and margins (%)</i>										
Revenue growth	233.4	-37.1	389.5	5.4	126.1	487.5	18.4	25.1	34.3	38.8
EPS adj growth	nm	nm	nm	nm	nm	nm	nm	nm	nm	539.4
Gross margin	nm	nm	30.8	43.4	37.4	38.1	36.7	42.4	43.0	45.0
EBITDA margin	nm	nm	nm	nm	nm	nm	nm	4.1	8.1	13.6
EBITDA adj margin	nm	nm	nm	nm	nm	nm	nm	4.1	8.1	13.6
Depreciation/revenues	-100.9	-259.4	-35.7	-29.5	-15.9	-9.0	-7.6	-6.0	-4.8	-4.0
EBIT margin	nm	nm	nm	nm	nm	nm	nm	nm	3.3	9.6
EBIT adj margin	-1117.0	-2328.9	-295.6	-268.0	-129.3	-16.9	-14.9	-1.9	3.3	9.6
PBT margin	nm	nm	nm	nm	nm	nm	nm	nm	1.7	8.0
Net profit margin	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm

Source: Company (historical figures), DNB Markets (estimates)

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Adjustments to annual P&L

(SEKm)	2013	2014	2015	2016	2017	2018	2019	2020e	2021e	2022e
EBITDA	-24	-31	-19	-19	-20	-6	-6	7	18	41
Gains and losses	-5	-3	-3	-1	-2	-5	-6	0	0	0
EBITDA adj	-26	-33	-20	-20	-21	-9	-9	7	18	41
Gains and losses	-5	-3	-3	-1	-2	-5	-6	0	0	0
EBIT	-27	-35	-22	-22	-23	-16	-15	-3	7	29
Gains and losses	-5	-3	-3	-1	-2	-5	-6	0	0	0
EBIT adj	-28	-37	-23	-22	-24	-19	-19	-3	7	29
Net profit	-27	-35	-22	-22	-6	-17	-17	-6	3	19
Gains and losses	-5	-3	-3	-1	-2	-5	-6	0	0	0
Net profit adj	-28	-37	-23	-22	-7	-20	-21	-6	3	19
<i>Per share data (SEK)</i>										
EPS	-0.56	-0.58	-0.42	-0.36	-0.09	-0.25	-0.25	-0.08	0.04	0.25
Recommended adjustment	-0.03	-0.13	-0.02	0.00	-0.02	-0.05	-0.06	0.01	0.00	0.00
EPS adj	-0.59	-0.71	-0.44	-0.36	-0.11	-0.30	-0.31	-0.07	0.04	0.25

Source: Company (historical figures), DNB Markets (estimates)

Cash flow

(SEKm)	2013	2014	2015	2016	2017	2018	2019	2020e	2021e	2022e
Net profit	-27	-35	-22	-22	-6	-17	-17	-6	3	19
Other non-cash adjustments	1	0	0	0	0	-1	-2	-1	-4	-10
Change in net working capital	-1	0	-4	2	1	-6	-14	-9	-16	-17
Cash flow from operations (CFO)	-25	-31	-23	-18	-18	-13	-21	-5	-2	14
Capital expenditure	-3	-2	-2	-2	-84	-6	-11	-10	-13	-16
Cash flow from investing (CFI)	-3	-2	-2	-2	-84	-6	-11	-10	-13	-16
Free cash flow (FCF)	-28	-33	-26	-20	-102	-18	-32	-15	-15	-2
Net change in debt	53	63	-1	117	55	-14	1	32	-10	-10
Cash flow from financing (CFF)	53	63	-1	117	55	-14	1	32	-10	-10
Total cash flow (CFO+CFI+CFF)	25	30	-26	97	-47	-33	-31	17	-25	-12
<i>FCFF calculation</i>										
Free cash flow	-28	-33	-26	-20	-102	-18	-32	-15	-15	-2
Less: net interest	0	0	0	0	0	1	2	2	3	5
Less: tax shields/other	0	0	0	0	0	0	0	0	0	0
Growth (%)										
CFO	-58.6	-27.1	26.4	24.1	-5.0	30.2	-65.1	75.2	55.2	692.8
CFI	58.8	39.3	-40.0	16.6	-3923.3	93.4	-89.7	7.1	-29.1	-27.8
FCF	-21.8	-20.1	22.8	23.4	-418.9	81.9	-72.5	52.7	0.4	86.0
CFF	11431.6	19.3	-100.9	19874.1	-52.6	-125.9	105.6	3872.1	-131.5	0.0
FCFF	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm

Source: Company (historical figures), DNB Markets (estimates)

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Balance sheet

(SEKm)	2013	2014	2015	2016	2017	2018	2019	2020e	2021e	2022e
Assets	55	85	74	174	282	248	228	256	255	273
Inventories	3	5	6	6	15	19	25	32	46	62
Trade receivables	2	0	2	2	15	16	19	25	33	42
Other receivables	1	3	2	3	5	3	5	6	6	6
Cash and cash equivalents	33	63	36	133	86	54	23	40	15	3
Current assets	39	70	46	143	121	92	72	102	99	112
Property, plant and equipment	12	13	11	9	50	48	49	48	50	54
Goodwill	4	2	18	19	111	108	106	106	106	106
Non-current financial assets	0	0	0	3	0	0	0	0	0	0
Non-current assets	16	15	28	30	161	156	156	154	156	160
Total assets	55	85	74	174	282	248	228	256	255	273
Equity and liabilities	55	85	74	174	282	248	228	256	255	273
Total equity	44	74	66	164	188	171	155	191	194	212
Trade payables	2	2	1	1	14	14	12	16	21	30
Other payables and accruals	3	4	3	5	11	11	7	8	8	8
Short-term debt	1	2	1	1	13	13	14	13	13	13
Total current liabilities	6	7	5	7	38	39	33	37	43	52
Long-term debt	2	2	2	1	50	37	35	25	15	5
Pension liabilities	0	0	0	0	0	0	0	0	0	0
Other non-current liabilities	3	2	1	1	5	1	4	3	3	3
Total non-current liabilities	5	4	3	2	56	39	40	29	19	9
Total liabilities	11	11	8	10	94	77	73	66	61	60
Total equity and liabilities	55	85	74	174	282	248	228	256	255	273
<i>Key metrics</i>										
Net interest bearing debt	-27	-59	-33	-131	-31	-15	17	-11	4	6

Source: Company (historical figures), DNB Markets (estimates)

20 July 2020

Valuation ratios

(SEKm)	2013	2014	2015	2016	2017	2018	2019	2020e	2021e	2022e
<i>Enterprise value</i>										
Share price (SEK)		11.55	12.50	12.25	9.55	9.30	8.10	6.20	6.20	6.20
Number of shares (m)	47.02	51.14	51.78	62.11	64.85	67.52	67.52	75.80	75.80	75.80
Market capitalisation		591	647	761	619	628	547	470	470	470
Net interest bearing debt	-27	-59	-33	-131	-31	-15	17	-11	4	6
Adjustments to NIBD	0	0	0	0	0	0	0	0	0	0
Net interest bearing debt adj	-27	-59	-33	-131	-31	-15	17	-11	4	6
EV		532	614	630	589	613	563	459	474	476
EV adj		532	614	630	589	613	563	459	474	476
<i>Valuation</i>										
EPS	-0.56	-0.58	-0.42	-0.36	-0.09	-0.25	-0.25	-0.08	0.04	0.25
EPS adj	-0.59	-0.71	-0.44	-0.36	-0.11	-0.30	-0.31	-0.07	0.04	0.25
P/E		-19.9	-29.8	-34.0	-106.1	-37.2	-32.4	-76.9	160.7	25.1
P/E adj		-16.3	-28.2	-34.1	-88.5	-31.4	-26.1	-83.4	160.7	25.1
Average ROE	-89.6%	-59.8%	-31.4%	-19.2%	-3.3%	-9.6%	-10.5%	-3.3%	1.5%	9.2%
Earnings yield adj		-5.0%	-3.4%	-2.9%	-0.9%	-2.7%	-3.1%	-1.3%	0.6%	4.0%
EV/SALES		332.05	78.28	76.19	31.49	5.58	4.33	2.82	2.17	1.57
EV/SALES adj		332.05	78.28	76.19	31.49	5.58	4.33	2.82	2.17	1.57
EV/EBITDA		-17.0	-31.8	-32.3	-29.5	-106.4	-101.1	68.5	26.8	11.5
EV/EBITDA adj		-16.0	-30.1	-31.9	-27.8	-71.2	-59.4	68.5	26.8	11.5
EV/EBIT		-15.0	-27.8	-28.7	-25.7	-39.1	-36.6	-146.4	65.8	16.4
EV/EBIT adj		-14.3	-26.5	-28.4	-24.4	-33.1	-29.2	-146.4	65.8	16.4
EV/capital employed		6.9	8.9	3.8	2.4	2.9	2.9	2.1	2.2	2.2
EV/OpFCF (taxed)		-19.8	-34.9	-37.5	-7.3	-56.3	-36.6	-194.7	120.7	24.6

Source: Company (historical figures), DNB Markets (estimates)

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Key accounting ratios

	2013	2014	2015	2016	2017	2018	2019	2020e	2021e	2022e
<i>Profitability (%)</i>										
ROA	-69.7	-50.3	-27.7	-17.8	-2.5	-6.5	-7.2	-2.3	1.1	7.1
ROCE	-85.7	-59.1	-31.6	-18.8	-11.8	-8.2	-9.6	-1.5	3.3	13.4
<i>Return on invested capital (%)</i>										
Net PPE/revenues	485.6	784.3	135.8	105.3	268.4	43.5	37.8	29.7	23.0	17.8
<i>Cash flow ratios (%)</i>										
FCF/revenues	-1087.7	-2076.8	-327.4	-237.8	-545.8	-16.8	-24.4	-9.2	-6.8	-0.7
CFO/revenues	-972.5	-1965.7	-295.6	-212.7	-98.8	-11.7	-16.4	-3.2	-1.1	4.6
CFO/market capitalisation		-5.3	-3.6	-2.3	-3.0	-2.1	-3.9	-1.1	-0.5	3.0
CFO/capex	-844.5	-1770.2	-931.0	-846.7	-22.1	-232.7	-202.5	-54.0	-18.7	87.0
CFO/current liabilities	-415.7	-428.9	-490.5	-237.5	-48.0	-33.4	-63.6	-14.3	-5.5	27.1
Cash conversion ratio	104.5	94.9	116.8	89.0	1775.1	107.2	186.2	266.6	-511.5	-11.2
Capex/revenues	115.2	111.0	31.8	25.1	447.0	5.0	8.1	6.0	5.8	5.3
Capex/depreciation	114.1	42.8	89.0	85.2	2817.4	55.8	106.8	99.2	120.1	132.7
OpFCF margin	-1131.3	-2180.5	-291.7	-263.7	-560.4	-12.9	-15.4	-1.9	2.3	8.3
<i>Leverage and solvency (x)</i>										
Interest cover	nm	nm	nm	nm	nm	-11.49	-9.43	-1.24	2.16	6.28
EBIT/interest payable	nm	nm	nm	nm	nm	nm	nm	nm	2.21	6.33
Cash coverage	85.89	70.59	192.85	-120.28	-179.78	-4.29	-3.47	2.82	5.20	8.59
Net debt/EBITDA	1.13	1.87	1.73	6.72	1.53	2.62	-2.96	-1.67	0.21	0.14
Total debt/total capital (BV)	0.05	0.04	0.04	0.01	0.23	0.20	0.22	0.15	0.11	0.07
LTD / (LTD + equity (MV))		0.00	0.00	0.00	0.08	0.06	0.06	0.05	0.03	0.01
<i>Cash conversion cycle</i>										
Inventory turnover days	220.2	454.6	385.7	465.8	460.9	104.4	110.4	125.8	133.5	135.0
Receivables turnover days	463.9	689.2	174.3	193.3	384.6	62.6	68.2	67.9	64.5	58.0
Credit period	167.9	179.0	52.5	98.4	448.8	77.8	53.6	60.7	62.9	66.4
Cash conversion cycle	516.2	964.8	507.6	560.7	396.8	89.1	124.9	133.0	135.2	126.7

Source: Company (historical figures), DNB Markets (estimates)

20 July 2020

Important Information

Company: Nexam Chemical
 Coverage by Analyst: Viktor Trollsten
 Date: 20/07/2020

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% of total	55%	26%	9%	10%	
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20 July 2020

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