

## NEXAM CHEMICAL

### Still waiting for wind of change

For yet another quarter, Nexam was hurt by slow demand in the wind power industry. However, sales for other parts of the Performance Chemicals segment seemed to expand, and the company's Reactive Recycling business appears to be on track. We have lowered our 2023e sales to SEK257m on a changed view on the near-term outlook for PET foam, and have reduced our fair-value range to SEK10–14 (13–17).

**Q4 review.** Q4 sales declined by c2% YOY, bringing 2022 net sales to cSEK222m (corresponding to an increase of 1% YOY). Adj. EBITDA was SEK-659k, lower than our estimate of cSEK1m. Nexam announced that it had initiated a cost-savings programme of SEK5m annually. We believe the weak results could give rise to speculation about whether it would need to do a rights issue. In our view, Nexam should be able to raise money through debt financing if it reaches a critical point (since it has low financial leverage). However, we believe the key for this is that it starts to show positive operating results (and we believe profitability will improve with the new production line and the cost-savings programme). But we do not rule out that the company may need to raise capital through a rights issue down the road if it does not reach profitability in 2023.

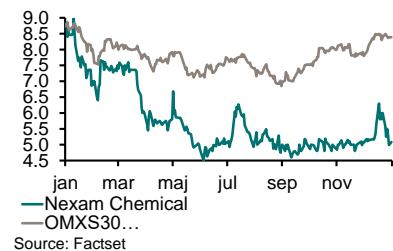
**Reactive Recycling.** Nexam recently announced a SEK2m order from a South Korean company to be delivered over three months (with potential annual sales of cSEK14m, we believe). In addition, Nexam is in advanced talks with a central European packaging manufacturer that has the potential to lead to annual sales of cSEK40m (and we expect Nexam to announce a first order from this customer during 2023). It has also highlighted that it has c25 potential customers that have moved past the first phase of sample testing and have the potential to generate orders of commercial size. We believe that Reactive Recycling could be a swing factor for Performance Chemicals' sales this year.

**Fair value reduced to SEK10–14.** While we believe the market for wind power will improve in 2023 YOY, we still expect it to be a challenging year for Nexam's PET-foam business (e.g. in light of Vestas' profit warning). We do not expect any sequential improvement within PET foam for Q1. We have lowered our 2023e sales to SEK257m as we believe Nexam's PET-foam business will continue to face slow demand in H1, which has led us to reduce our fair value estimate.

Year-end Dec	2019	2020	2021	2022	2023e	2024e	2025e
Revenue (SEKm)	130	166	219	222	257	320	398
EBITDA adj (SEKm)	-9	5	8	1	13	37	57
EBIT adj (SEKm)	-19	-5	-3	-11	-1	20	36
PTP (SEKm)	-17	-8	-5	-13	-3	17	31
EPS rep (SEK)	-0.25	-0.14	-0.07	-0.15	-0.04	0.16	0.30
EPS adj (SEK)	-0.31	-0.11	-0.05	-0.15	-0.04	0.16	0.30
Revenue growth (%)	18.4	27.5	32.3	1.0	15.7	24.6	24.5
EBIT growth adj (%)	nm	nm	nm	nm	nm	nm	75.8
EPS growth adj (%)	nm	nm	nm	nm	nm	nm	86.5
EBIT margin adj (%)	-14.9	-3.2	-1.4	-5.0	-0.3	6.3	8.9
EV/Sales adj (x)	4.33	4.07	3.71	1.92	1.70	1.33	1.05
EV/EBITDA adj (x)	nm	nm	nm	nm	33.2	11.3	7.3
EV/EBIT adj (x)	nm	nm	nm	nm	nm	21.0	11.7
P/E adj (x)	nm	nm	nm	nm	nm	31.7	17.0
ROE (%)	nm	nm	nm	nm	nm	5.9	10.2
ROCE (%)	nm	nm	nm	nm	nm	8.5	14.0

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

#### NEXAM versus OMXS30 (12m)



Source: Factset

#### SUMMARY

Share price (SEK)	5.09
Tickers	NEXAM SS
<b>CAPITAL STRUCTURE</b>	
No. of shares (m)	80.9
No. of shares fully dil. (m)	80.9
Market cap. (SEKm)	412
NIBD adj end-2023e (SEKm)	23
Enterprise value adj (SEKm)	435
Net debt/EBITDA adj (x)	1.79
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

Q1 2023	20/04/2023
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ESTIMATE CHANGES (SEK)	Year-end Dec	2023e	2024e	2025e
Sales (old)		305.3	396.3	
Sales (new)		256.5	319.5	397.8
Change (%)		-16.0	-19.4	nm
EPS adj (old)		0.09	0.29	
EPS adj (new)		-0.04	0.16	0.30
Change (%)		-143.2	-43.8	nm

Source: DNB Markets,

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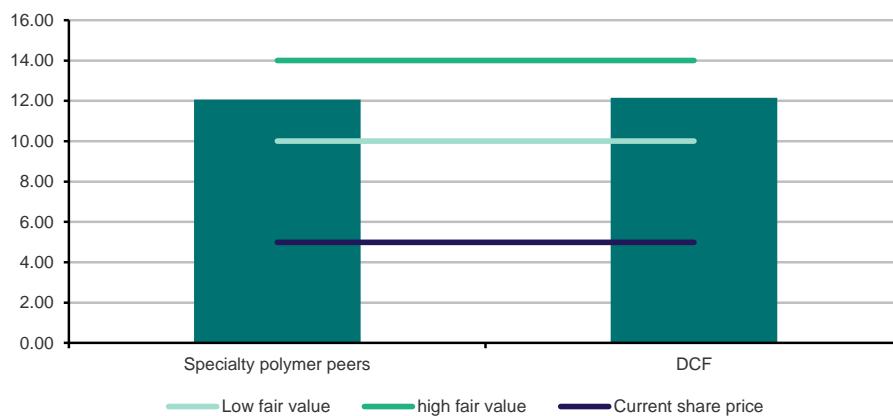
#### ANALYSTS

Hanna Lindbo

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# Overview

## Valuation (SEK)



Source: DNB Markets

## Valuation methodology

- Our fair value of SEK10–14 is based on speciality polymer peers' 2023e EV/sales and our DCF.
- The high end of our fair value is based on our peer group's 2023e EV/sales applied to our forecasts and DCF.
- The low end of our fair value is based on a 10% higher WACC of 14.4% in our base-case DCF.

## Downside risks to our fair value

- A lack of growth in the Performance Chemicals segment could make the valuation look high.
- A cyclical downturn hitting Performance Masterbatch (accounting for c53% of sales in 2022), leading to the group missing its sales target.
- 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 2023–2025e sales CAGR of 25%.
- We expect profitability to improve YOY in 2023 following the initiated cost savings programme and the new production line; we estimate adj. EBITDA of SEK13m for 2023.
- We believe the balance sheet is well capitalised for now but would not rule out further capital injections in the coming years.

Source: DNB Markets

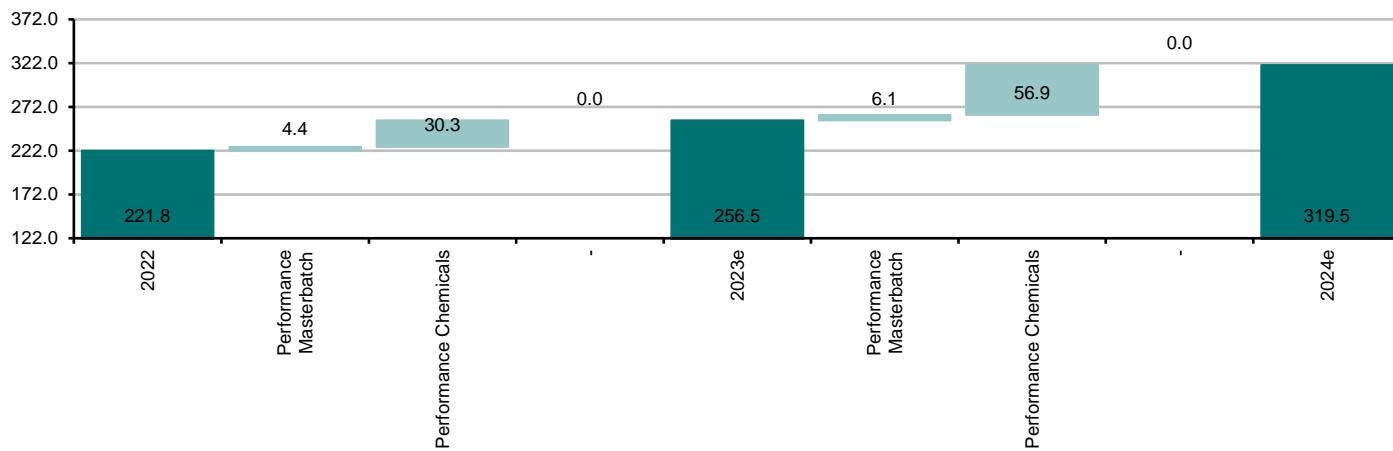
Source: DNB Markets

## Upside risks to our fair value

- Higher than expected order intake in the High Performance segment.
- In our view, the recycling business offers the largest potential, and any evidence of market share gains 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 2022–2024e (SEKm)



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

# ESG overview

## Sustainability assessment

	Positive	Negative
Conclusions	<ul style="list-style-type: none"> <li>■ 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.</li> <li>■ Nexam Chemical's products allow clients to substitute heavier materials with polymers, reducing energy consumption and aiding the environment.</li> </ul>	<ul style="list-style-type: none"> <li>■ 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.</li> <li>■ Despite contributing to higher plastic recyclability and resource-efficiency, there is a risk of a negative ESG perception, as Nexam Chemical's technology is designed to be used with plastics.</li> </ul>
Actions being taken by company	<ul style="list-style-type: none"> <li>■ 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.</li> </ul>	<ul style="list-style-type: none"> <li>■ Regulatory frameworks and directives could work against the use of plastics, while competing solutions could erode the scope for market share gains and opportunities for Nexam Chemical.</li> </ul>

## 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

- Governmental initiatives to increase the share of wind power in its energy mix could benefit Nexam long-term as it is well positioned in the PET-foam business.
- Hybrid and electric vehicles contain more polymers and composite technologies than ICE+ and could offer a sizeable market for Nexam Chemical's products.

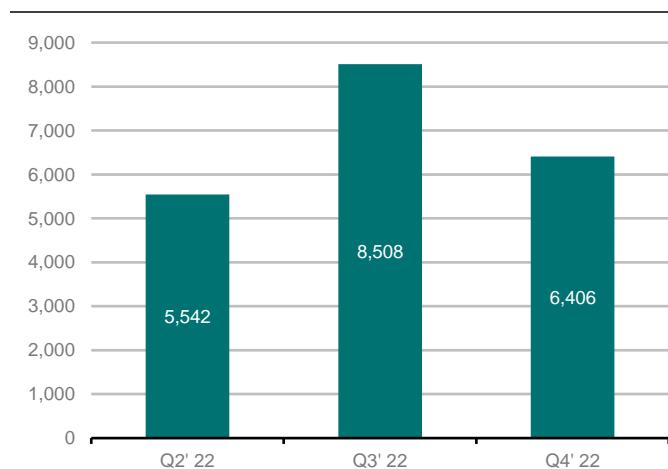
- Changing consumer behaviour could affect the market drivers for the more mature Performance Masterbatch segment, e.g. slumping demand if the use of certain plastics (like single-use) is banned, and finding alternative products for substitution could limit growth.

- Significant changes to regulations could render Nexam Chemical's technology and business model outdated or obsolete.

## Performance Chemicals

2022 was a tough year for the global wind power market, as many of the big OEMs struggled with profitability and investments in new wind projects seem to stay on hold. In turn, this affected Nexam's PET foam business within the wind power industry (with e.g. DIAB as customer). However, looking at Performance Chemicals excluding DIAB, we estimate that the business has grown 42% since Q2 2022. While the most recent three quarters are a small sample from which to draw any major conclusions, we believe it highlights the growth potential if the sales within PET foam start to accelerate.

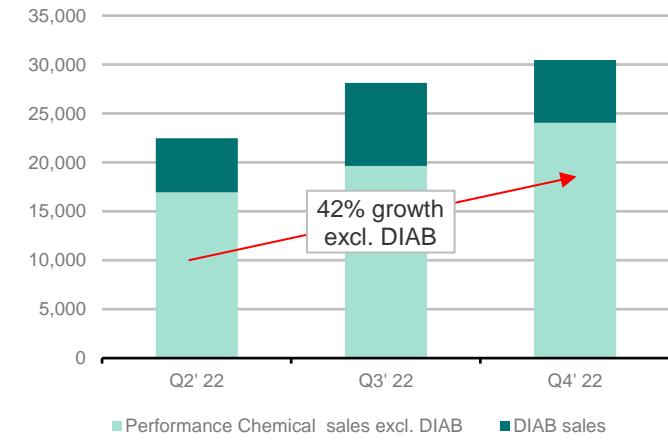
**Figure 1: Estimated sales from DIAB (SEKK)**



Source: Nexam, DNB Markets (estimates).

Note: Company estimate of share of DIAB sales mentioned during public conference calls

**Figure 2: Estimated share of Performance Chemicals sales (SEKK)**



Source: Nexam, DNB Markets (estimates)

Note: Company estimate of share of DIAB sales mentioned during public conference calls

We believe Nexam to be highly dependent on the performance of its customers, which is why it was affected by a slowdown in the wind power market. A sub-supplier is (arguably) always somewhat dependent upon its customers' performance. Thus, it could be even more difficult to be second in line to the end-customer (which Nexam is), as it will be somewhat dependent on the performance of at least two companies. See the figure below for examples.

**Figure 3: Overview of manufacturing chain**



Source: Nexam, DNB Markets.

Note: selected examples of sub-suppliers and end-customers we believe Nexam has connection to

On the positive side, the trend appears to be Nexam's friend as renewable energy is broadly expected to gain a larger share of the global energy mix in the future. While we believe 2023 will continue to be a challenging year for the wind power industry (e.g. in light of Vestas' profit warning where it said it expects a steep ramp-up in 2024, but that 2023 sales are expected to be affected by a reduced number of installations), we believe it will experience somewhat of a recovery throughout the year. Therefore, we believe it is unlikely that we will see any turnaround in Q1, and in our estimates, we have accounted for slow demand in H1 within PET foam, with some recovery during H2. Note that Nexam comes earlier in the cycle than the big OEMs such as Vestas (we estimate it comes into the picture c6 months before the installation of a wind tower, as it delivers its additive to a sub-supplier that in turn delivers its product to Vestas before

completion of an installation). Nevertheless, we have been cautious in our sales estimates for PET foam throughout 2023 as we consider near-term visibility for demand within the segment to be low, and it seems that the transition towards renewable energy could take longer than we previously expected. However, if activity in the wind power industry improves, we see upside potential to our 2023 estimates.

## Bright outlook for Reactive Recycling

While the PET-foam business seems to be struggling with demand, Nexam's other future growth driver, Reactive Recycling, seems to be on track. Figure 4 shows the orders within Reactive Recycling that Nexam has announced so far (we believe there could be more orders that have not been publicly announced due to their small size). The most recent order from South Korea (same customer as the two previous orders from South Korea, we assume) is set to be delivered over three months, implies annual sales of SEK8m. However, we do not rule out that the order value should increase throughout the year (Nexam has previously said that this customer could contribute up to SEK14m to sales).

**Figure 4: Reactive Recycling orders**

Date	Value	Country	Run rate
2023-01-09	SEK 2m	South Korea	3 months
2022-10-06	SEK 1m	South Korea	
2022-09-19	SEK 140k	South Korea	
2021-12-08	SEK 2m	UK	Annually

Source: Nexam, DNB Markets (structuring)

In comparison to Nexam's group sales, the aggregated orders within Reactive Recycling retrieved so far are not material in size. However, we believe this could accelerate quickly, and a big swing factor for the company for 2023 could be if the Reactive Recycling business continues to gain commercial-sized orders (in our estimates we have cSEK15m of sales coming from Reactive Recycling in 2023, i.e. there is upside potential to our Performance Chemical sales estimates if the Reactive Recycling business accelerate). Preferably, we would like to see larger-size orders from multiple customers (Nexam has said it has c50 ongoing prospects, where we believe at least half have exceeded the first level of sample testing). Thus, we believe a catalyst for the stock could be if these projects start to materialise in orders. During the Q4 presentation, management also highlighted it was in advanced talks with a possible customer with potential sales of SEK40m annually. We consider this highly positive and expect a first order from the customer to be announced in 2023, with the potential of reaching the SEK40m annual sales figure in three years.

# Summary of positives

## Sustainability the core of the business case

Nexam Chemical's products enhance the properties and performance of polymer materials by, for instance, improving strength, recyclability, ductility, and temperature resistance. This allows manufacturers to substitute more expensive and heavier materials with polymers, resulting in lower operating expenses 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).

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, as exemplified by the renewal of the delivery agreement with DIAB, one of the world's largest PET foam manufacturers. Nexam Chemical has announced orders in all of its focus areas, with PET foam in particular showing steady growth in volumes, demonstrating healthy demand. In June 2021, the first fibre and filament order were placed, and by 2023 Nexam's Reactive Recycling business has started to receive some orders, which we believe could act as a proof-of-concept order to attract more customers.

Healthy demand evident in announced orders

## Long-standing customer relationships and patented know-how

It takes several years to develop a product and reach commercial sales. As 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. In addition, the company has 56 patents, in our view raising the barriers to entry and reinforcing its standing as a first-mover in its niches.

Client relationships, collaborations, and patents form the foundations of 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 Nexam Chemical's PET foam opportunity at cSEK500m based on the four largest PET foam manufacturers, of which Nexam Chemical is already collaborating with three. Moreover, we see great potential in its Reactive Recycling business. The level of recycling is expected to increase in the coming years, driven by governmental actions to reduce plastic waste. The EU targets recycled plastic to account for 50% of plastic packaging by 2025 (currently at 15%, according to Nexam Chemical), and even if the reduction of waste does not reach the targeted range, we believe the market will experience significant growth in the coming years.

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

## Energy independence

Russia's invasion of Ukraine has driven energy prices to historically high levels, as Russia accounted for a large part of the energy supply in Europe. This has shown the major impacts reliance on certain countries for energy supply can have. In turn, the importance of reducing reliance on certain countries has been put on the agenda, and several governments have already raised their targets for the exploration of domestic energy supply. Renewable energy has been highlighted as one key source when expanding the energy supply. Hence, we find the trend toward national energy independence to be positive for Nexam Chemical due to its exposure to wind power.

## Summary of negatives

The key risks that could affect our fair value relate to a potential failure to capitalise on the underlying growth prospects and could include: 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 56 patents and has built long-standing customer relationships in its focus areas, the polymer industry is still highly competitive, driven by technological advances and shifting market trends. Any further intensification 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 advancements and shifting demand trends can influence the competitive landscape

### Consolidated end-markets could limit customer base

The PET foam market is 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 might 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

Nexam's cash position at end-2022 was cSEK23m, implying that the company is not in direct need of financing. However, given that the company still has not showed positive operating results (with Q4 peaking at cSEK-4.4m), we see a risk for refinancing further on. We believe that the company at a first stage would be able to raise money through debt financing, as it has little interest-bearing debt. Yet, if it is unable to make a turn towards profitability, we do not rule out that a new rights issue might be necessary.

Balance sheet well-capitalised for now

### Lack of sales in Performance Chemicals could hinder the growth story

We believe Nexam Chemical's growth story centres on Performance Chemicals. In the event sales in the segment do not materialise, we believe this would be far less appealing.

### Worsening economic conditions

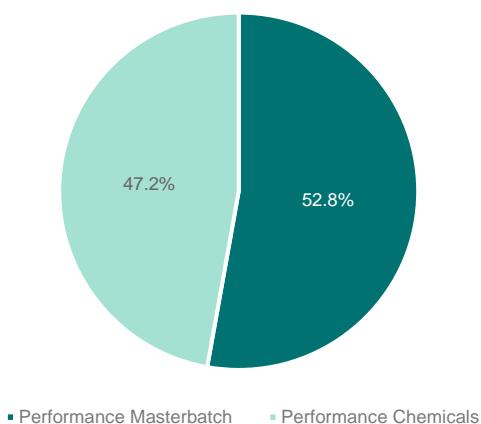
Demand in Performance Masterbatch (53% of 2022 group sales) generally tracks in line with overall economic activity, so is susceptible to weakening economic fundamentals. Our base case assumes Performance Chemicals offsets any deterioration in key indicators, given the structural growth drivers in its end-markets and market-share gains. However, we see a risk of a global recession slowing organic growth within the Performance Masterbatch segment, especially as the Performance Chemicals division has struggled with growth in recent quarters.

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

## Company overview

Nexam Chemical is a speciality 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 5: Sales by segment (2022)**



Source: Company, DNB Markets (graph structuring)

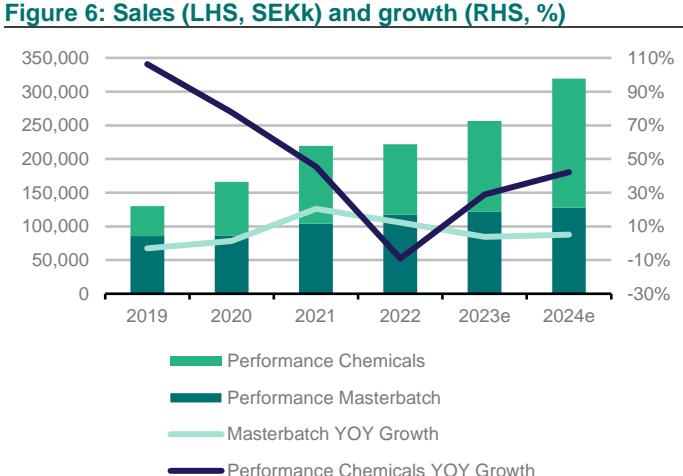
The company has two divisions:

- **Performance Chemicals (c47% of 2022 sales)** includes enhancing products for PET foam and high performance, polyethylene applications as well as the recycling business portfolio Reactive Recycling. The Performance Chemicals segment increased its top line by 45% in 2021, and we believe this will be the primary growth driver at Nexam Chemical.
- **Performance Masterbatch (c53% of 2022 sales)** includes the former Plasticolor, and mainly targets the plastics industry in the Nordics and Eastern Europe. We view Performance Masterbatch as more mature than Performance Chemicals, and see it as acting as a cash generator.

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 weight, 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

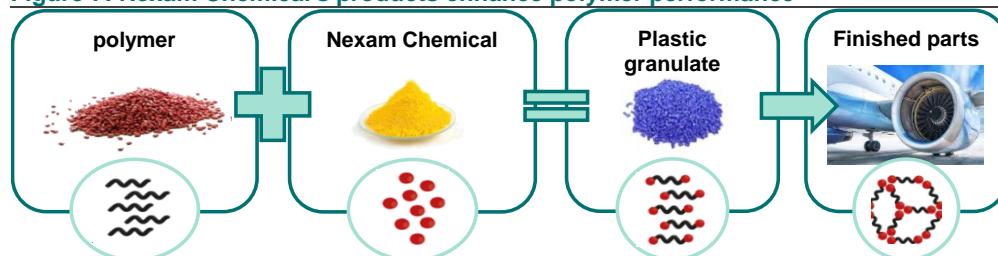
**Figure 6: Sales (LHS, SEKK) and growth (RHS, %)**



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

Source: Company (underlying data), DNB Markets (data structuring)

**Figure 7: Nexam Chemical's products enhance polymer performance**



## Appendix

### Shareholders

The following figures show the top shareholders of Nexam Chemical, and the ownership of the board and management.

**Figure 8: Top 30 shareholders as of 30 December 2022**

Owner	No. of shares	Holdings	Country	Verified
Avanza Pension	8,003,216	9.89%	SE	2022-12-28
Nerthus Investments LTD	7,174,257	9.09%	CY	2021-05-11
Leorex Capital Limited	3,910,000	4.96%	CY	2021-05-11
Veronica Wallman	3,641,225	4.50%	SE	2022-12-28
Länsförsäkringar Fonder	3,465,812	4.28%	SE	2022-12-31
SEB Fonder	2,755,817	3.41%	SE	2022-12-31
Lennart Holm med familj	2,010,483	2.48%	SE	2022-12-28
Nordnet Pensionsförsäkring	1,865,470	2.31%	SE	2022-12-28
Jan-Erik Rosenberg	1,362,002	1.68%	SE	2022-12-28
Futur Pension	1,200,980	1.48%	SE	2022-12-28
SEBinvest	1,053,378	1.30%	DK	2022-09-30
Öst/Väst Capital Management	1,012,686	1.25%	SE	2022-12-31
Michael Wandy Karlsson	968,342	1.20%	SE	2022-12-28
Björn Parkander	912,517	1.13%	UK	2022-12-28
Swedbank Försäkring	834,646	1.03%	SE	2022-12-28
Jimmy Holm	802,000	0.99%	SE	2022-12-28
Anders Dahlquist	638,755	0.79%	SE	2022-12-28
Försäkringsaktiebolaget Skandia	594,579	0.73%	SE	2022-12-28
Gunvald Berger	556,797	0.69%	SE	2022-12-28
Andrés Westerberg	519,956	0.64%	SE	2022-12-28
Patric Rydström	500,000	0.62%	SE	2022-12-28
Gunnar Jardelöw	465,854	0.58%	SE	2022-12-28
Michael Karlsson i Helsingborg AB	434,000	0.54%	SE	2022-12-28
Peter Sedira	427,388	0.53%	SE	2022-12-28
Jan Andreas Balzar Eriksson	401,000	0.50%	SE	2022-12-28
Alf Danielsson	395,000	0.49%	SE	2022-12-28
Ulf Thaung	384,764	0.48%	SE	2022-12-28
Lars Olof Jonsson	382,784	0.47%	SE	2022-12-28
Per Håkan Linné	360,000	0.44%	SE	2022-12-28
Karin Palmqvist Morin	336,140	0.42%	SE	2022-12-28

Source: Holdings

**Figure 9: Board and management ownership as of 30 December 2022**

Owner	Position	No. of shares	Holdings
Martin Roos	Board member	269,500	0.33%
Johan Anders Arvidsson	CEO	196,345	0.24%
Mats Persson	Chairman	137,705	0.17%
Cecilia Jinert Johansson	Board member	72,830	0.09%
Marcus Nyberg	CFO	24,165	0.03%
Jörgen Heby	CPO	15,000	0.02%
Jonna Opitz	Board member	14,500	0.02%
Oskar Tuwesson	Board member	10,000	0.01%

Source: Holdings

## Forecast changes – P&amp;L

(SEKm)	New			Old			Change		
	2023e	2024e	2025e	2023e	2024e	2025e	2023e	2024e	2025e
Revenues	257	320	398	305	396		-49	-77	
Cost of sales	-149	-176	-219	-172	-218		23	42	
Gross profit	109	144	179	134	178		-25	-35	
Operating expenses	-96	-106	-122	-103	-121		7	14	
EBITDA	13	37	57	31	58		-18	-20	
EBITDA adj	13	37	57	31	58		-18	-20	
EBITDA margin (%)	5.1	11.7	14.3	10.2	14.5	nm	-5.1	-2.8	nm
Depreciation	-14	-17	-21	-17	-22		3	5	
EBIT	-1	20	36	14	36		-15	-16	
EBIT adj	-1	20	36	14	36		-15	-16	
Net interest	-3	-3	-4	-4	-6		2	2	
Net financial items	-3	-3	-4	-4	-6		2	2	
PBT	-3	17	31	10	30		-13	-13	
Taxes	0	-4	-7	-2	-7		2	3	
Net profit	-3	13	24	8	23		-11	-10	
Adjustments to net profit	0	0	0	0	0		0	0	
Net profit adj	-3	13	24	8	23		-11	-10	
<i>Per share data (SEK)</i>									
EPS	-0.04	0.16	0.30	0.09	0.29		-0.13	-0.13	
EPS adj	-0.04	0.16	0.30	0.09	0.29		-0.13	-0.13	
<i>Other key metrics (%)</i>									
Revenue growth	15.7	24.6	24.5	33.4	29.8	nm	-17.7	-5.3	nm
EBIT adj growth	nm	nm	75.8	-230.1	151.4	nm	nm	nm	nm
EPS adj growth	nm	nm	86.5	-165.4	204.6	nm	nm	nm	nm
Avg. number of shares (m)	81	81	81	81	81		0	0	
Capex	-10	-15	-19	-14	-19		5	3	
OpFCF	3	22	38	17	39		-13	-17	
NIBD adj	23	13	4	-7	-14		30	27	

Source: DNB Markets

## Forecast changes – By segment and assumptions

(SEKm)	New			Old			Change		
	2023e	2024e	2025e	2023e	2024e	2025e	2023e	2024e	2025e
<b>Revenue</b>									
Performance Masterbatch	122	128	134	130	138		-9	-10	
Performance Chemicals	135	192	264	175	259		-40	-67	
<b>Assumptions</b>									
Revenue org. % YOY	15.13	24.55	24.49	33.02	29.82		-17.89	-5.26	
Structure impact % YOY	0.00	0.00	0.00		0.00			0.00	
Currency impact % YOY	0.55	0.00	0.00	0.40	0.00		0.15	0.00	

Source: DNB Markets

## Quarterly numbers

(SEKm)	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023e	Q2 2023e	Q3 2023e	Q4 2023e	Q1 2024e
<b>Revenues</b>	50	57	54	55	57	56	60	61	66	70	73
Cost of sales	-32	-37	-32	-34	-35	-34	-36	-35	-37	-40	-40
<b>Gross profit</b>	18	20	21	22	22	21	24	26	29	30	33
Operating expenses	-17	-19	-21	-23	-21	-23	-23	-23	-24	-25	-25
<b>EBITDA</b>	1	1	2	-1	1	-1	1	2	4	5	8
Depreciation	-3	-3	-3	-3	-3	-3	-3	-3	-4	-4	-4
<b>EBIT</b>	<b>-2</b>	<b>-2</b>	<b>-1</b>	<b>-4</b>	<b>-2</b>	<b>-4</b>	<b>-2</b>	<b>-1</b>	<b>1</b>	<b>1</b>	<b>4</b>
Net interest	0	0	0	0	0	0	-1	-1	-1	-1	-1
Net financial items	0	0	0	0	0	0	-1	-1	-1	-1	-1
<b>PBT</b>	<b>-2</b>	<b>-2</b>	<b>-2</b>	<b>-4</b>	<b>-2</b>	<b>-4</b>	<b>-3</b>	<b>-2</b>	<b>0</b>	<b>1</b>	<b>3</b>
Taxes	0	0	0	0	0	0	0	0	0	0	-1
<b>Net profit</b>	<b>-2</b>	<b>-2</b>	<b>-2</b>	<b>-4</b>	<b>-2</b>	<b>-5</b>	<b>-3</b>	<b>-2</b>	<b>0</b>	<b>1</b>	<b>2</b>
Adjustments to net profit	0	0	0	0	0	1	0	0	0	0	0
Net profit adj	-2	-2	-2	-4	-2	-4	-3	-2	0	1	2
Avg. number of shares (m)	76	81	81	81	81	81	81	81	81	81	81
<i>Per share data (SEK)</i>											
EPS	-0.02	-0.02	-0.02	-0.05	-0.05	-0.03	-0.03	-0.02	0.00	0.01	0.03
<b>EPS adj</b>	<b>-0.03</b>	<b>-0.02</b>	<b>-0.02</b>	<b>-0.05</b>	<b>-0.03</b>	<b>-0.05</b>	<b>-0.03</b>	<b>-0.02</b>	<b>0.00</b>	<b>0.01</b>	<b>0.03</b>
<i>Growth and margins (%)</i>											
Revenues, QOQ growth	-15.8	13.6	-5.5	2.8	2.3	-1.8	7.9	0.7	8.7	6.7	4.6
Revenues, YOY growth	22.3	22.2	2.7	-7.1	12.9	-2.4	11.5	9.2	15.9	25.9	22.1
EPS adj, YOY growth	nm	nm	nm	nm							
Gross margin	35.9	35.8	39.8	39.5	38.6	38.5	40.0	41.5	43.0	43.0	45.0
EBITDA adj margin	2.1	2.1	3.1	nm	1.3	nm	2.1	3.8	6.6	7.4	10.6
Depreciation/revenues	-5.3	-4.8	-5.3	-5.8	-5.1	-5.4	-5.4	-5.4	-5.4	-5.4	-5.4
EBIT adj margin	-3.2	-2.7	-2.2	-7.5	-3.8	-6.6	-3.3	-1.6	1.2	2.0	5.2
Net profit margin	nm	nm	nm	nm							

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

## Adjustments to quarterly numbers

(SEKm)	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023e	Q2 2023e	Q3 2023e	Q4 2023e	Q1 2024e
<b>EBITDA</b>	1	1	2	-1	1	-1	1	2	4	5	8
Gains and losses	0	0	0	0	0	0	0	0	0	0	0
<b>EBITDA adj</b>	1	1	2	-1	1	-1	1	2	4	5	8
Gains and losses	0	0	0	0	0	0	0	0	0	0	0
<b>EBIT</b>	<b>-2</b>	<b>-2</b>	<b>-1</b>	<b>-4</b>	<b>-2</b>	<b>-4</b>	<b>-2</b>	<b>-1</b>	<b>1</b>	<b>1</b>	<b>4</b>
Gains and losses	0	0	0	0	0	0	0	0	0	0	0
<b>EBIT adj</b>	-2	-2	-1	-4	-2	-4	-2	-1	1	1	4
<b>Net profit</b>	<b>-2</b>	<b>-2</b>	<b>-2</b>	<b>-4</b>	<b>-2</b>	<b>-5</b>	<b>-3</b>	<b>-2</b>	<b>0</b>	<b>1</b>	<b>2</b>
Gains and losses	0	0	0	0	0	0	0	0	0	0	0
<b>Net profit adj</b>	-2	-2	-2	-4	-2	-4	-3	-2	0	1	2

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

## Quarterly numbers by segment and assumptions

(SEKm)	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023e	Q2 2023e	Q3 2023e	Q4 2023e	Q1 2024e
<b>Revenue</b>											
Performance Masterbatch	26	26	30	33	29	25	31	31	31	29	32
Performance Chemicals	24	31	24	22	28	30	29	29	35	41	41
<b>Assumptions</b>											
Revenue org. % YOY	22.57	22.20	1.99	-7.59	12.31	-3.27	10.81	8.49	15.37	25.67	22.14
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	-0.22	-0.01	0.69	0.48	0.61	0.91	0.68	0.71	0.56	0.27	0.00

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

## Annual P&amp;L

(SEKm)	2016	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
<b>Revenues</b>	8	19	110	130	166	219	222	257	320	398
Cost of sales	-5	-12	-68	-82	-95	-135	-135	-149	-176	-219
<b>Gross profit</b>	5	9	47	54	71	85	88	109	144	179
Operating expenses	-24	-29	-53	-59	-66	-79	-88	-96	-106	-122
<b>EBITDA</b>	-19	-20	-6	-6	5	6	0	13	37	57
Depreciation	-2	-3	-10	-10	-10	-11	-12	-14	-17	-21
<b>EBIT</b>	-22	-23	-16	-15	-5	-4	-12	-1	20	36
Net interest	0	0	-1	-2	-2	-1	-1	-3	-3	-4
Net financial items	0	0	-1	-2	-2	-1	-1	-3	-3	-4
<b>PBT</b>	-22	-23	-17	-17	-8	-5	-13	-3	17	31
Taxes	0	17	0	0	0	0	0	0	-4	-7
Effective tax rate (%)	0	75	-1	0	-7	-3	0	0	23	23
<b>Net profit</b>	-22	-6	-17	-17	-8	-5	-13	-3	13	24
Adjustments to net profit	0	-1	-3	-4	0	1	1	0	0	0
Net profit adj	-22	-7	-20	-21	-8	-4	-12	-3	13	24
Avg. number of shares	62	65	68	68	73	80	81	81	81	81
<i>Per share data (SEK)</i>										
EPS	-0.36	-0.09	-0.25	-0.25	-0.14	-0.07	-0.15	-0.04	0.16	0.30
<b>EPS adj</b>	<b>-0.36</b>	<b>-0.11</b>	<b>-0.30</b>	<b>-0.31</b>	<b>-0.11</b>	<b>-0.05</b>	<b>-0.15</b>	<b>-0.04</b>	<b>0.16</b>	<b>0.30</b>
<i>Growth and margins (%)</i>										
Revenue growth	5.4	126.1	487.5	18.4	27.5	32.3	1.0	15.7	24.6	24.5
EPS adj growth	nm	nm	86.5							
Gross margin	43.4	37.4	38.1	36.7	42.8	38.5	39.1	41.9	45.0	45.0
EBITDA margin	nm	nm	nm	nm	3.0	2.9	0.1	5.1	11.7	14.3
EBITDA adj margin	nm	nm	nm	nm	3.0	3.5	0.4	5.1	11.7	14.3
Depreciation/revenues	-29.5	-15.9	-9.0	-7.6	-6.1	-4.8	-5.4	-5.4	-5.4	-5.4
EBIT margin	nm	6.3	8.9							
EBIT adj margin	-268.0	-129.3	-16.9	-14.9	-3.2	-1.4	-5.0	-0.3	6.3	8.9
PBT margin	nm	5.3	7.9							
Net profit margin	nm	nm	nm							

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

## Adjustments to annual P&amp;L

(SEKm)	2016	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
<b>EBITDA</b>	<b>-19</b>	<b>-20</b>	<b>-6</b>	<b>-6</b>	<b>5</b>	<b>6</b>	<b>0</b>	<b>13</b>	<b>37</b>	<b>57</b>
Gains and losses	-1	-2	-5	-6	0	0	-1	-1	0	0
EBITDA adj	-20	-21	-9	-9	5	8	1	13	37	57
Gains and losses	-1	-2	-5	-6	0	0	-1	-1	0	0
<b>EBIT</b>	<b>-22</b>	<b>-23</b>	<b>-16</b>	<b>-15</b>	<b>-5</b>	<b>-4</b>	<b>-12</b>	<b>-1</b>	<b>20</b>	<b>36</b>
Gains and losses	-1	-2	-5	-6	0	0	-1	-1	0	0
EBIT adj	-22	-24	-19	-19	-5	-3	-11	-1	20	36
<b>Net profit</b>	<b>-22</b>	<b>-6</b>	<b>-17</b>	<b>-17</b>	<b>-8</b>	<b>-5</b>	<b>-13</b>	<b>-3</b>	<b>13</b>	<b>24</b>
Gains and losses	-1	-2	-5	-6	0	0	-1	-1	0	0
Net profit adj	-22	-7	-20	-21	-8	-4	-12	-3	13	24
<i>Per share data (SEK)</i>										
EPS	-0.36	-0.09	-0.25	-0.25	-0.14	-0.07	-0.15	-0.04	0.16	0.30
Recommended adjustment	0.00	-0.02	-0.05	-0.06	0.03	0.02	0.00	0.00	0.00	0.00
EPS adj	-0.36	-0.11	-0.30	-0.31	-0.11	-0.05	-0.15	-0.04	0.16	0.30

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

## Cash flow

(SEKm)	2016	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
Net profit	-22	-6	-17	-17	-8	-5	-13	-3	13	24
Other non-cash adjustments	0	0	-1	-2	-2	0	0	-3	-7	-11
Change in net working capital	2	1	-6	-14	-19	2	-11	-8	-4	-18
<b>Cash flow from operations (CFO)</b>	<b>-18</b>	<b>-18</b>	<b>-13</b>	<b>-21</b>	<b>-17</b>	<b>7</b>	<b>-11</b>	<b>2</b>	<b>26</b>	<b>28</b>
Capital expenditure	-2	-84	-6	-11	-7	-6	-33	-10	-15	-19
<b>Cash flow from investing (CFI)</b>	<b>-2</b>	<b>-84</b>	<b>-6</b>	<b>-11</b>	<b>-7</b>	<b>-6</b>	<b>-33</b>	<b>-10</b>	<b>-15</b>	<b>-19</b>
<b>Free cash flow (FCF)</b>	<b>-20</b>	<b>-102</b>	<b>-18</b>	<b>-32</b>	<b>-23</b>	<b>2</b>	<b>-44</b>	<b>-8</b>	<b>11</b>	<b>8</b>
Net change in debt	117	55	-14	1	30	32	4	-4	-4	-4
<b>Cash flow from financing (CFF)</b>	<b>117</b>	<b>55</b>	<b>-14</b>	<b>1</b>	<b>30</b>	<b>32</b>	<b>4</b>	<b>-4</b>	<b>-4</b>	<b>-4</b>
<b>Total cash flow (CFO+CFI+CFF)</b>	<b>97</b>	<b>-47</b>	<b>-33</b>	<b>-31</b>	<b>7</b>	<b>34</b>	<b>-40</b>	<b>-12</b>	<b>7</b>	<b>4</b>
<i>FCFF calculation</i>										
Free cash flow	-20	-102	-18	-32	-23	2	-44	-8	11	8
Less: net interest	0	0	1	2	2	1	1	3	3	4
Less: tax shields/other	0	0	0	0	0	0	0	0	0	0
<i>Growth (%)</i>										
CFO	24.1	-5.0	30.2	-65.1	20.8	143.1	-253.0	118.8	1151.4	6.0
CFI	16.6	-3923.3	93.4	-89.7	37.2	16.5	-500.7	70.9	-59.1	-26.3
FCF	23.4	-418.9	81.9	-72.5	26.2	107.4	-2640.0	82.9	243.8	-22.8
CFF	19874.1	-52.6	-125.9	105.6	3666.3	7.9	-88.1	-204.0	0.0	0.0
FCFF	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm

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

## Balance sheet

(SEKm)	2016	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
<b>Assets</b>	174	282	248	228	250	284	278	274	292	320
Inventories	6	15	19	25	32	32	35	41	48	60
Trade receivables	2	15	16	19	32	38	46	52	58	72
Other receivables	3	5	3	5	6	4	6	6	6	6
Cash and cash equivalents	133	86	54	23	30	64	23	11	18	23
<b>Current assets</b>	<b>143</b>	<b>121</b>	<b>92</b>	<b>72</b>	<b>100</b>	<b>138</b>	<b>110</b>	<b>110</b>	<b>130</b>	<b>160</b>
Property, plant and equipment	9	50	48	49	45	44	66	62	61	59
Goodwill	19	111	108	106	105	103	102	102	101	101
Non-current financial assets	3	0	0	0	0	0	0	0	0	0
<b>Non-current assets</b>	<b>30</b>	<b>161</b>	<b>156</b>	<b>156</b>	<b>150</b>	<b>147</b>	<b>168</b>	<b>164</b>	<b>162</b>	<b>160</b>
<b>Total assets</b>	<b>174</b>	<b>282</b>	<b>248</b>	<b>228</b>	<b>250</b>	<b>284</b>	<b>278</b>	<b>274</b>	<b>292</b>	<b>320</b>
<b>Equity and liabilities</b>	<b>174</b>	<b>282</b>	<b>248</b>	<b>228</b>	<b>250</b>	<b>284</b>	<b>278</b>	<b>274</b>	<b>292</b>	<b>320</b>
<b>Total equity</b>	<b>164</b>	<b>188</b>	<b>171</b>	<b>155</b>	<b>187</b>	<b>228</b>	<b>216</b>	<b>212</b>	<b>225</b>	<b>250</b>
Trade payables	1	14	14	12	14	17	20	23	32	40
Other payables and accruals	5	11	11	7	8	11	10	10	10	10
Short-term debt	1	13	13	14	13	13	6	6	6	6
<b>Total current liabilities</b>	<b>7</b>	<b>38</b>	<b>39</b>	<b>33</b>	<b>36</b>	<b>42</b>	<b>36</b>	<b>40</b>	<b>48</b>	<b>56</b>
Long-term debt	1	50	37	35	23	11	23	19	15	11
Pension liabilities	0	0	0	0	0	0	0	0	0	0
Other non-current liabilities	1	5	1	4	5	3	3	3	3	3
<b>Total non-current liabilities</b>	<b>2</b>	<b>56</b>	<b>39</b>	<b>40</b>	<b>27</b>	<b>15</b>	<b>26</b>	<b>22</b>	<b>18</b>	<b>14</b>
<b>Total liabilities</b>	<b>10</b>	<b>94</b>	<b>77</b>	<b>73</b>	<b>63</b>	<b>56</b>	<b>62</b>	<b>62</b>	<b>67</b>	<b>70</b>
<b>Total equity and liabilities</b>	<b>174</b>	<b>282</b>	<b>248</b>	<b>228</b>	<b>250</b>	<b>284</b>	<b>278</b>	<b>274</b>	<b>292</b>	<b>320</b>
<b>Key metrics</b>										
Net interest bearing debt	-131	-31	-15	17	-2	-36	16	23	13	4

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

## Valuation ratios

(SEKm)	2016	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
<i>Enterprise value</i>										
Share price (SEK)	12.25	9.55	9.30	8.10	9.26	10.65	5.06	5.09	5.09	5.09
Number of shares (m)	62.11	64.85	67.52	67.52	73.06	79.91	80.92	80.92	80.92	80.92
Market capitalisation	761	619	628	547	677	851	409	412	412	412
Net interest bearing debt	-131	-31	-15	17	-2	-36	16	23	13	4
Adjustments to NIBD	0	0	0	0	0	0	0	0	0	0
Net interest bearing debt adj	-131	-31	-15	17	-2	-36	16	23	13	4
EV	630	589	613	563	674	815	425	435	424	416
EV adj	630	589	613	563	674	815	425	435	424	416
<i>Valuation</i>										
EPS	-0.36	-0.09	-0.25	-0.25	-0.14	-0.07	-0.15	-0.04	0.16	0.30
<b>EPS adj</b>	<b>-0.36</b>	<b>-0.11</b>	<b>-0.30</b>	<b>-0.31</b>	<b>-0.11</b>	<b>-0.05</b>	<b>-0.15</b>	<b>-0.04</b>	<b>0.16</b>	<b>0.30</b>
P/E	-34.0	-106.1	-37.2	-32.4	-66.1	-155.0	-33.3	-125.5	31.7	17.0
P/E adj	-34.1	-88.5	-31.4	-26.1	-83.6	-205.0	-34.2	-125.5	31.7	17.0
Average ROE	-19.2%	-3.3%	-9.6%	-10.5%	-4.7%	-2.6%	-5.7%	-1.5%	5.9%	10.2%
Earnings yield adj	-2.9%	-0.9%	-2.7%	-3.1%	-1.5%	-0.6%	-3.0%	-0.8%	3.2%	5.9%
EV/SALES	76.19	31.49	5.58	4.33	4.07	3.71	1.92	1.70	1.33	1.05
EV/SALES adj	76.19	31.49	5.58	4.33	4.07	3.71	1.92	1.70	1.33	1.05
EV/EBITDA	-32.3	-29.5	-106.4	-101.1	137.3	129.4	3797.4	33.2	11.3	7.3
EV/EBITDA adj	-31.9	-27.8	-71.2	-59.4	137.3	107.3	502.7	33.2	11.3	7.3
EV/EBIT	-28.7	-25.7	-39.1	-36.6	-127.7	-190.6	-35.8	-589.8	21.0	11.7
EV/EBIT adj	-28.4	-24.4	-33.1	-29.2	-127.6	-273.6	-38.1	-589.8	21.0	11.7
EV/capital employed	3.8	2.4	2.9	2.9	3.1	3.4	1.8	1.9	1.7	1.6
EV/OpFCF (taxed)	-37.5	-7.3	-56.3	-36.6	-517.8	508.5	-17.1	162.3	24.9	14.3

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

## Key accounting ratios

	2016	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
<i>Profitability (%)</i>										
ROA	-17.8	-2.5	-6.5	-7.2	-3.4	-2.0	-4.5	-1.2	4.6	7.9
ROCE	-18.8	-11.8	-8.2	-9.6	-2.6	-1.3	-4.6	-0.3	8.5	14.0
<i>Return on invested capital (%)</i>										
Net PPE/revenues	105.3	268.4	43.5	37.8	27.1	19.9	29.8	24.3	19.0	14.8
<i>Cash flow ratios (%)</i>										
FCF/revenues	-237.8	-545.8	-16.8	-24.4	-14.1	0.8	-19.9	-2.9	3.4	2.1
FCF yield (%)	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm
CFO/revenues	-212.7	-98.8	-11.7	-16.4	-10.2	3.3	-5.0	0.8	8.2	7.0
CFO/market capitalisation	-2.3	-3.0	-2.1	-3.9	-2.5	0.9	-2.7	0.5	6.4	6.7
CFO/capex	-846.7	-22.1	-232.7	-202.5	-255.3	131.6	-33.5	21.7	170.8	143.2
CFO/current liabilities	-237.5	-48.0	-33.4	-63.6	-47.2	17.5	-30.6	5.3	54.1	49.3
Cash conversion ratio	89.0	1775.1	107.2	186.2	289.9	-32.0	348.1	229.7	83.4	34.5
Capex/revenues	25.1	447.0	5.0	8.1	4.0	2.5	14.9	3.8	4.8	4.9
Capex/depreciation	85.2	2817.4	55.8	106.8	64.8	52.2	275.8	69.5	88.8	90.1
OpFCF margin	-263.7	-560.4	-12.9	-15.4	-1.0	0.9	-14.6	1.4	6.9	9.5
<i>Leverage and solvency (x)</i>										
Interest cover	nm	nm	-11.49	-9.43	-2.06	-3.58	-7.72	-0.60	7.60	10.89
EBIT/interest payable	nm	nm	nm	nm	nm	nm	nm	nm	7.91	11.18
Cash coverage	-120.28	-179.78	-4.29	-3.47	2.13	6.11	0.14	5.15	11.21	13.96
Net debt/EBITDA	6.72	1.53	2.62	-2.96	-0.48	-5.76	141.73	1.79	0.34	0.07
Total debt/total capital (BV)	0.01	0.23	0.20	0.22	0.14	0.09	0.10	0.09	0.07	0.05
LTD / (LTD + equity (MV))	0.00	0.08	0.06	0.06	0.03	0.01	0.05	0.04	0.04	0.03
<i>Cash conversion cycle</i>										
Inventory turnover days	465.8	460.9	104.4	110.4	124.8	87.4	93.3	100.6	99.5	99.5
Receivables turnover days	193.3	384.6	62.6	68.2	83.9	69.5	86.4	82.2	72.8	71.4
Credit period	98.4	448.8	77.8	53.6	54.5	46.4	53.7	56.9	66.4	66.4
Cash conversion cycle	560.7	396.8	89.1	124.9	154.3	110.5	126.0	125.9	106.0	104.6

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

## Important Information

Company: Nexam Chemical  
 Coverage by Analyst: Hanna Lindbo  
 Date: 30/01/2023

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30 January 2023

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