

Rapala VMC

Company report

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Encouraging progress in turnaround

We raise our target price to EUR 9.0 (previous EUR 6.7) and reiterate our Accumulate recommendation. Rapala raised its guidance clearly late on Tuesday evening. We expect a clear positive share price reaction today, as after the estimate revisions we made, the current valuation is extremely attractive (2021e P/E 15x).

Guidance raised clearly

Now Rapala expects the full year 2021 comparable operating profit to increase significantly from EUR 21.5 million in the previous year (previously expected to be at the same level or higher). According to Rapala, the outlook for 2021 has improved thanks to stronger than expected financial performance in the first three months and improved positive business outlook for the rest of the year. The main drivers behind the improved outlook are exceptionally good winter sales, strong continued demand for fishing gear as it remains a popular COVID-safe activity globally, as well as faster than expected strategy implementation.

Progress in strategy implementation creates basis for sustainable turnaround

An especially positive factor behind the raised guidance is the faster than expected strategy implementation. The turnaround targeted by the strategy already got off to a good start in 2020, which was visible as capital being released from inventories and strong operating profit improvement in H2'20. The guidance of clear improvement in the operating profit in 2021 strengthens our confidence further in the turnaround progressing quickly. Strong sales in the winter sports and winter fishing season was no surprise as the season was extremely good in terms of weather in all relevant markets, while one year ago the situation was reversed. The tailwind provided by COVID on the fishing and camping market is also visible in Rapala's figures. This has resulted in the number of enthusiasts growing clearly. We believe the fishing boom will outlive the pandemic to some extent as, e.g., the sales volumes of recreational fishing boats have risen on the main market in North America, which supports the hobby continuing.

We raised our estimates clearly

We raised our 2021 net sales estimate by 6% to EUR 276 million and our adjusted operating profit estimate to EUR 30.4 million (previously EUR 22.6 million). We also raised our 2022-2023 net sales and operating profit estimates and believe earnings growth will continue also in these years at some 5% p.a. due to, e.g., growth in rod and reel sales in line with the strategy even though the pandemic coming to an end is likely to slow down the strong fishing boom.

We expect valuation to make a clear upward correction when trading starts

Rapala's adjusted earnings multiples (2021e P/E 15x and EV/EBIT 11x and 2022e P/E 14x and EV/EBIT 11x) are attractive for a defensive consumer brand company, as Rapala is priced on an earnings basis at a 30% discount compared to its peers. We believe the earnings growth outlook remains good as relative to the company's full potential (EBIT 15%) the company still has room for improvement (2021e adjusted EBIT margin 11.0%). Our confidence in the strategy implementation has strengthened after the clear rise in the guidance and we have lowered the high return requirement we have applied to Rapala somewhat. 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 9.00
(previous EUR 6.70)

Share price:
7.00



Key indicators

	2020	2021e	2022e	2023e
Net sales	261.3	276.1	287.8	300.9
growth %	-5%	6%	4%	5%
EBIT adjusted	21.5	30.4	31.4	33.1
EBIT % adjusted	8.2%	11.0%	10.9%	11.0%
Net profit	2.5	17.4	20.8	22.3
EPS (adjusted)	0.31	0.47	0.50	0.54

P/E (adjusted)	14.1	14.9	13.9	12.9
P/B	1.2	1.8	1.6	1.5
Dividend yield %	0.0%	1.4%	2.1%	2.6%
EV/EBIT (adjusted)	11.7	11.4	10.7	9.8
EV/EBITDA	10.2	8.2	8.1	7.5
EV/Net sales	1.0	1.3	1.2	1.1

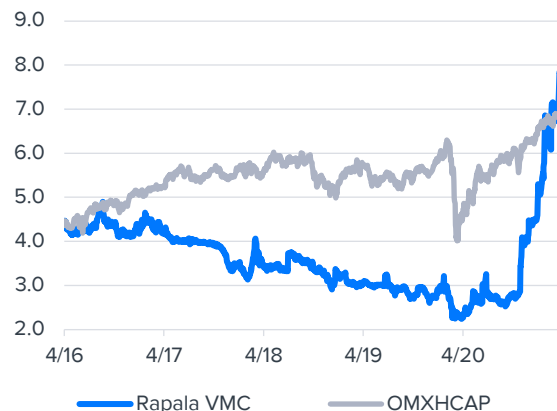
Source: Inderes, EV includes a hybrid loan

Guidance

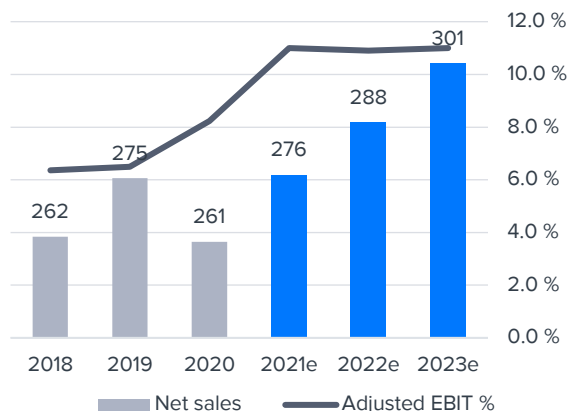
New

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



Net sales and EBIT %



EPS and dividend



Value drivers

- Strategy successful
- Net sales turning to 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
- Shimano distribution ending creates uncertainty in estimates
- Difficulties among Rapala's customers caused by COVID and possible new lockdowns if the disease situation worsens



Valuation

- Based on our raised estimates earnings-based multiples are attractive
- If the strategy progresses as planned, we still see clear upside
- Dividend distribution in coming years is dependent on the success of the profitability turnaround targeted by the strategy
- Likelihood of a purchase offer has increased, which creates a positive option for shareholders

We raised our estimates clearly

Estimate revisions	2021	2021	Change	2022e	2022e	Change	2023e	2023e	Change
MEUR / EUR	Old	New	%	Old	New	%	Old	New	%
Revenue	261	276	6%	272	288	6%	285	301	6%
EBIT (exc. NRIs)	22.6	30.4	34%	26.9	31.4	17%	30.8	33.1	7%
EBIT	20.6	28.4	37%	26.9	31.4	17%	30.8	33.1	7%
PTP	17.6	24.8	40%	24.4	28.9	18%	28.6	30.9	8%
EPS (excl. NRIs)	0.34	0.47	38%	0.42	0.50	20%	0.50	0.54	9%
DPS	0.10	0.10	0%	0.15	0.15	0%	0.18	0.18	0%

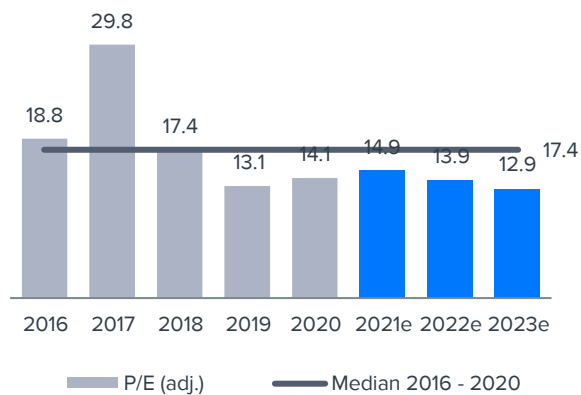
Source: Inderes

Valuation table

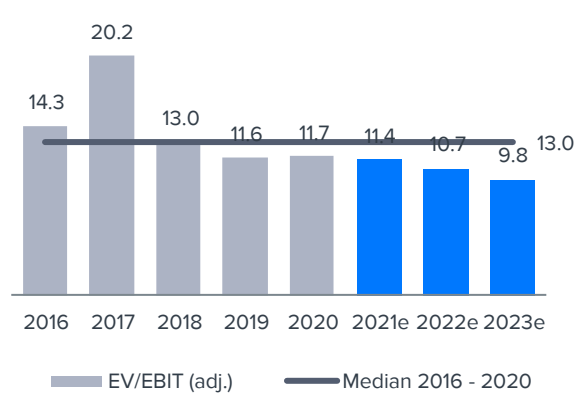
Valuation	2016	2017	2018	2019	2020	2021e	2022e	2023e	2024e
Share price	4.21	3.45	3.05	2.77	4.36	7.00	7.00	7.00	7.00
Number of shares, millions	38.3	38.3	38.3	38.3	38.6	38.6	38.6	38.6	38.6
Market cap	161	132	117	106	168	270	270	270	270
EV	269	232	216	207	252	348	336	325	309
P/E (adj.)	18.8	29.8	17.4	13.1	14.1	14.9	13.9	12.9	10.3
P/E	neg.	71.9	24.3	29.6	>100	16.8	13.9	12.9	10.3
P/FCF	5.5	4.9	neg.	11.4	3.3	24.5	16.3	15.2	11.7
P/B	1.3	1.0	0.8	0.7	1.2	1.8	1.6	1.5	1.3
P/S	0.6	0.5	0.4	0.4	0.6	1.0	0.9	0.9	0.9
EV/Sales	1.0	0.9	0.8	0.8	1.0	1.3	1.2	1.1	1.0
EV/EBITDA	19.1	14.7	9.7	8.0	10.2	8.2	8.1	7.5	6.3
EV/EBIT (adj.)	14.3	20.2	13.0	11.6	11.7	11.4	10.7	9.8	8.1
Payout ratio (%)	neg.	83.3 %	47.9 %	0.0 %	0.0 %	24.0 %	29.7 %	33.1 %	29.4 %
Dividend yield-%	2.4 %	1.2 %	2.0 %	0.0 %	0.0 %	1.4 %	2.1 %	2.6 %	2.9 %

Lähde: Inderes

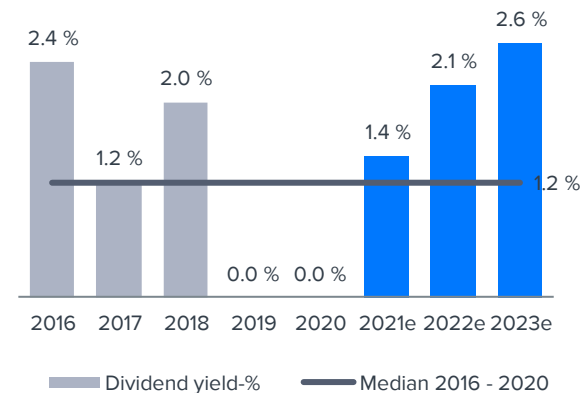
P/E (adj.)



EV/EBIT



Dividend yield %



Peer group valuation

Peer group valuation	Share price	Market cap	EV	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%		P/B
Company		MEUR	MEUR	2021e	2022e	2021e	2022e	2021e	2022e	2021e	2022e	2021e	2022e	2021e
Globeride Inc	4465.00	425	520			7.1	6.5	0.7		13.8	11.9	1.5	1.5	2.0
Shimano Inc	26580.00	19137	16822			17.3	18.0	4.8	4.0	31.7	32.1	0.7	0.7	4.2
Fiskars Oyj Abp	17.90	1468	1616	22.4	13.5	12.1	8.8	1.4	1.0	19.5	15.1	3.6	4.0	2.0
Fenix Outdoor International AG	1280.00	1395	1400	14.5	12.8	9.9	8.8	2.3	2.0	22.4	19.7	1.0	1.2	4.1
Johnson Outdoors Inc	149.10	1253	1090					1.9	1.0	20.2	19.3			
Deckers Outdoor Corp	327.90	7675	6739	17.2	16.0	15.8	14.6	3.4	3.0	25.2	22.8			6.0
Callaway Golf Co	28.40	4354	4622	156.8	34.6	27.0	14.7	2.0	1.0		167.9			
361Degrees International Ltd	2.60	534	79	0.8	0.7	0.8	0.8	0.1		9.9	8.9	4.1	4.5	0.6
Columbia Sportswear Co	108.80	6001	5343	18.5	15.6	14.8	13.5	2.1	1.0	26.8	22.2	1.0	1.0	3.5
Mizuno Corp	2084.00	439	430			17.5	7.0	0.4			15.2	2.3	2.3	0.6
Yonex Co Ltd	610.00	442	372			26.4	13.7	0.9		107.7	38.4	0.7	0.8	1.4
MIPS AB	714.50	1851	1826	71.5	55.1	67.5	52.3	35.4	27.0	91.2	70.0	0.6	0.7	34.7
Rapala VMC (Inderes)	7.00	270	348	11.4	10.7	8.2	8.1	1.3	1.2	14.9	13.9	1.4	2.1	1.8
Average				43.1	21.2	19.7	14.4	4.6	5.0	36.8	37.0	1.7	1.9	5.9
Median				18.5	15.6	15.8	13.5	2.0	1.5	23.8	21.0	1.0	1.2	2.8
Diff-% to median				-38%	-31%	-48%	-40%	-35%	-22%	-37%	-34%	45%	85%	-37%

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	H1'21e	H2'21e	2021e	2022e	2023e	2024e
Revenue	141	134	275	117	144	261	141	135	276	288	301	313
Konsernin omat tuotteet	95.2	89.9	185	78.3	109	188	118	115	233	245	258	270
Kolmansien osapuolten tuotteet	46.0	44.3	90.3	38.8	35.0	73.8	23.0	20.0	43.0	43.0	43.0	43.0
Eliminoinnit ja kertaerät	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	24.4	17.9	42.3	41.4	43.5	49.0
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	17.8	12.6	30.4	31.4	33.1	38.4
EBIT	11.4	2.0	13.4	-0.8	11.6	10.8	16.8	11.6	28.4	31.4	33.1	38.4
Konsernin omat tuotteet	11.2	7.7	18.9	4.3	19.1	23.4	20.1	14.6	34.7	35.3	36.1	40.5
Kolmansien osapuolten tuotteet	0.2	-1.9	-1.7	-0.1	-1.8	-1.9	-2.3	-2.0	-4.3	-3.9	-3.0	-2.2
Eliminoinnit ja kertaerät	0.0	-3.8	-3.8	-5.0	-5.7	-10.7	-1.0	-1.0	-2.0	0.0	0.0	0.0
Net financial items	-1.3	-2.3	-3.6	-1.9	-2.3	-4.2	-1.8	-1.8	-3.6	-2.6	-2.2	-1.7
PTP	10.1	-0.3	9.8	-2.7	9.3	6.6	15.0	9.8	24.8	28.9	30.9	36.7
Taxes	-2.7	-3.1	-5.8	-1.1	-2.1	-3.2	-4.5	-2.9	-7.4	-8.1	-8.7	-9.2
Minority interest	-0.4	0.8	0.4	-0.4	-0.5	-0.9	0.0	0.0	0.0	0.0	0.0	0.0
Net earnings	6.4	-2.8	3.6	-4.9	6.1	1.2	9.9	6.2	16.1	19.5	20.9	26.2
EPS (adj.)	0.18	0.03	0.21	0.00	0.30	0.31	0.28	0.19	0.47	0.50	0.54	0.68
EPS (rep.)	0.17	-0.07	0.09	-0.13	0.16	0.03	0.26	0.16	0.42	0.50	0.54	0.68

Key figures	H1'19	H2'19	2019	H1'20	H2'20	2020	H1'21e	H2'21e	2021e	2022e	2023e	2024e
Revenue growth-%			5.0 %	-17.1 %	7.5 %	-5.1 %	20.6 %	-6.5 %	5.7 %	4.2 %	4.5 %	4.1 %
Adjusted EBIT growth-%	-20.9 %	292%	7.2 %	-65.1 %	194%	20.1 %	323.8 %	-27.2 %	41.3 %	3.3 %	5.4 %	16.0 %
EBITDA-%	12.5 %	6.2 %	9.4 %	5.8 %	12.4 %	9.5 %	17.3 %	13.3 %	15.3 %	14.4 %	14.4 %	15.6 %
Adjusted EBIT-%	8.5 %	4.4 %	6.5 %	3.6 %	12.0 %	8.2 %	12.6 %	9.3 %	11.0 %	10.9 %	11.0 %	12.3 %
Net earnings-%	4.5 %	-2.1 %	1.3 %	-4.2 %	4.2 %	0.5 %	7.0 %	4.6 %	5.8 %	6.8 %	7.0 %	8.4 %

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	163	170	177
Inventories	92.6	68.8	77.3	80.6	84.2
Other current assets	0.0	0.0	0.0	0.0	0.0
Receivables	51.8	53.0	56.0	58.4	61.0
Cash and equivalents	12.3	27.9	29.5	30.7	32.1
Balance sheet total	289	273	289	297	305

Source: Inderes

Liabilities & equity	2019	2020	2021e	2022e	2023e
Equity	152	143	159	175	190
Share capital	3.6	3.6	3.6	3.6	3.6
Retained earnings	102	109	125	141	156
Hybrid bonds	25.0	25.0	25.0	25.0	25.0
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	5.2	5.2	5.2
Non-current liabilities	63.5	69.2	69.0	61.7	54.9
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	55.5	48.2	41.4
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	61.3	60.7	60.6
Short term debt	39.7	19.6	17.9	15.6	13.4
Payables	34.7	41.0	43.3	45.2	47.2
Other current liabilities	0.0	0.0	0.0	0.0	0.0
Balance sheet total	289	273	289	297	305

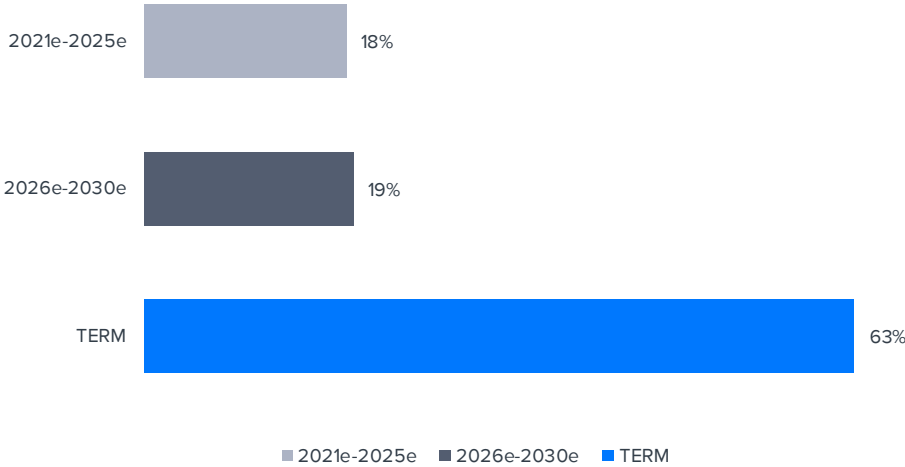
DCF calculation

DCF model	2020	2021e	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	TERM
EBIT (operating profit)	10.8	28.4	31.4	33.1	38.4	38.3	39.1	39.9	40.7	41.5	42.3	
+ 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	-7.4	-8.1	-8.7	-9.2	-9.3	-9.6	-9.9	-10.2	-10.4	-10.7	
- Tax, financial expenses	-1.3	-1.1	-0.8	-0.7	-0.5	-0.3	-0.2	-0.1	0.0	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	-9.2	-3.8	-4.3	-4.0	-2.0	-2.1	-2.1	-2.2	-2.2	-2.3	
Operating cash flow	53.7	24.6	28.8	29.9	35.4	37.5	38.1	38.8	39.4	40.0	40.6	
+ 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	-10.7	
Free operating cash flow	52.1	12.3	17.9	19.0	24.5	26.6	27.2	27.9	28.3	28.9	29.9	
+/- Other	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	
FCFF	50.8	11.0	16.6	17.7	23.1	25.3	25.9	26.6	27.0	27.6	28.6	534
Discounted FCFF		10.5	14.7	14.6	17.7	18.0	17.2	16.4	15.5	14.7	14.2	266
Sum of FCFF present value		419	409	394	379	362	344	326	310	295	280	266
Enterprise value DCF		419										
- Interesting bearing debt		-80.3										
+ Cash and cash equivalents		27.9										
-Minorities		-9.1										
-Dividend/capital return		0.0										
Equity value DCF		358										
Equity value DCF per share		9.3										

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	276.1	287.8	EPS (reported)	0.13	0.09	0.03	0.42	0.50
EBITDA	22.4	26.0	24.7	42.3	41.4	EPS (adj.)	0.17	0.21	0.31	0.47	0.50
EBIT	14.8	13.4	10.8	28.4	31.4	OCF / share	0.16	0.69	1.39	0.64	0.75
PTP	12.7	9.8	6.6	24.8	28.9	FCF / share	-0.01	0.24	1.32	0.29	0.43
Net Income	4.8	3.6	1.2	16.1	19.5	Book value / share	3.71	3.84	3.57	3.99	4.40
Extraordinary items	-1.9	-4.5	-10.7	-2.0	0.0	Dividend / share	0.06	0.00	0.00	0.10	0.15
Balance sheet	2018	2019	2020	2021e	2022e	Growth and profitability	2018	2019	2020	2021e	2022e
Balance sheet total	277.1	289.4	272.8	289.3	297.1	Revenue growth-%	4%	5%	-5%	6%	4%
Equity capital	147.1	151.5	143.0	159.1	174.6	EBITDA growth-%	42%	16%	-5%	71%	-2%
Goodwill	47.9	49.1	49.1	49.1	49.1	EBIT (adj.) growth-%	46%	7%	20%	41%	3%
Nettovelat	95.4	107.4	77.4	68.9	58.0	EPS (adj.) growth-%	51%	21%	46%	52%	8%
Cash flow	2018	2019	2020	2021e	2022e	EBITDA-%	8.5 %	9.4 %	9.5 %	15.3 %	14.4 %
EBITDA	22.4	26.0	24.7	42.3	41.4	EBIT (adj.)-%	6.4 %	6.5 %	8.2 %	11.0 %	10.9 %
Change in working capital	-9.1	6.1	28.9	-9.2	-3.8	EBIT-%	5.6 %	4.9 %	4.1 %	10.3 %	10.9 %
Operating cash flow	6.3	26.4	53.7	24.6	28.8	ROE-%	3.5 %	2.5 %	0.8 %	11.0 %	12.0 %
CAPEX	-4.0	-32.3	-1.6	-17.3	-10.9	ROI-%	6.6 %	5.7 %	4.7 %	12.5 %	13.4 %
Free cash flow	-0.3	9.3	50.8	11.0	16.6	Equity ratio	53.1 %	52.3 %	52.4 %	55.0 %	58.8 %
						Nettovelkaantumisaste	47.9 %	54.4 %	36.6 %	27.6 %	18.9 %
Largest shareholders	% of shares					Valuation multiples	2018	2019	2020	2021e	2022e
Viellard Migeon & Cic	38.4 %					EV/S	0.8	0.8	1.0	1.3	1.2
Sycamore Partners	19.2 %					EV/EBITDA (adj.)	9.7	8.0	10.2	8.2	8.1
Nordea Fonder	13.8 %					EV/EBIT (adj.)	13.0	11.6	11.7	11.4	10.7
Valtion Eläkerahasto	3.3 %					P/E (adj.)	17.4	13.1	14.1	14.9	13.9
Quaero Capital	3.1 %					P/B	0.8	0.7	1.2	1.8	1.6
						Dividend-%	2.0 %	0.0 %	0.0 %	1.4 %	2.1 %

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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

The assessment of the 12-month risk-adjusted expected total shareholder return based on the above-mentioned definitions is company-specific and subjective. Consequently, similar 12-month expected total shareholder returns between different shares may result in different recommendations, and the recommendations and 12-month expected total shareholder returns between different shares should not be compared with each other. The counterpart of the expected total shareholder return is Inderes' view of the risk taken by the investor, which varies considerably between companies and scenarios. Thus, a high expected total shareholder return does not necessarily lead to positive performance when the risks are exceptionally high and, correspondingly, a low expected total shareholder return does not necessarily lead to a negative recommendation if Inderes considers the risks to be moderate.

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Recommendation history (>12 mo)

Date	Recommendation	Target price	Share price
22-05-17	Reduce	4.20 €	4.00 €
23-07-17	Reduce	4.20 €	4.07 €
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 €



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