2023-03-29

Nekkar ASA (NKR)

Global Leader in an Overlooked Niche

Nekkar ASA ("Nekkar" or "the Company") is an industrial technology group combining innovative and sustainable maritime technologies with the world's leading shiplift solution, *Syncrolift*. Nekkar is organised into four business areas: *Shipyard Solutions*, *Aquaculture, Renewables* and *Digital Solutions*, all of which aim to unlock growth within ocean-based industries. With new management and a changed strategy in its core segment, *Shipyard Solutions*, the Company is positioned for further growth and commercialisation of the other segments. Deriving from a relative valuation, an EV/EBIT target multiple of 14.3x with an estimated EBIT of NOK 66m in 2023, implies a price per share of NOK 10.5 in a Base scenario.

▪ Increased Focus on Aftermarket Services

In 2022, Ole Falk Hansen was appointed as CEO of Nekkar. Following the shift in management, the Company has placed a greater focus on serving its current installed base with aftermarket services. In 2022, service revenues increased by 47.4% from NOK 46.1m in 2021 to NOK 67.9m. With a global market share of 60% and strong tailwinds stemming from the ship repair and maintenance market, the Company is estimated to further grow aftermarket revenues with a 20% CAGR from 2021 to 2025. This is expected to result in an overall gross margin expansion from 40.6% in 2022 to 43.1% in 2025.

▪ Syncrolift is the Backbone of the Business

After a spin-off in 2019, Nekkar separated from TTS Group and became its own company. Today, over 90% of revenue stems from *Shipyard Solutions*, which has grown with a 34.2% revenue CAGR between 2019 and 2021. With a solid backlog of NOK 824m that is estimated to be materialised until 2025, *Shipyard Solutions* ensures high activity for the Company in the medium term, and the other three segments should be seen as complementary, yet interesting, future options in the investment thesis.

▪ Promising Activity in New Business Areas

Nekkar operates in *Aquaculture*, *Renewables* and *Digital Solutions*, where the Company invests in sustainable maritime solutions. Nekkar is currently developing a disruptive installation tool for wind turbines and a cage for fish farming that can improve fish welfare and reduce operating expenses for the fish farming industry. The Company recently announced several meaningful partnerships to support the commercialisation of the projects, and structural ESG tailwinds are expected to accelerate the process.

▪ Concentrated Business Model

Shipyard Solutions is cyclical and depends on the general activity regards to shipyards. Furthermore, the complex projects have varying lead times which can lead to significant fluctuations in revenue between quarters.

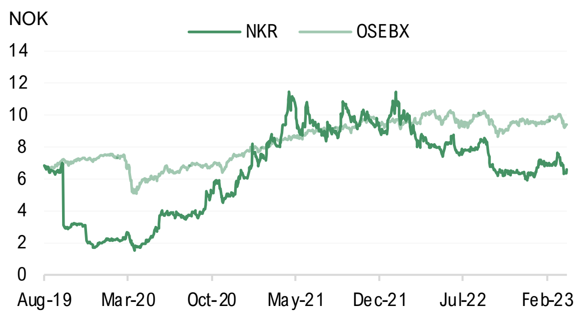
Valuation Range

Bear	Base	Bull
NOK 4.6	NOK 10.5	NOK 13.8

Key Information

Share Price (2023-03-28)	6.4
Shares Outstanding	107,427,112
Market Cap (NOKm)	687.5
Net cash(-)/debt(+) (NOKm)	-179.7
Enterprise Value (NOKm)	527.8
List	Oslo Stock Exchange
Half year report 2023	2023-08-30

Share Price Development



Owners (Source: Bloomberg)

Skeie Group AS	29.5%
Rasmussengruppen AS	10.8%
Avanza Bank AB	6.9%
MP Pensjon PK	5.3%
Tigerstaden AS	5.2%

Estimates (NOKm)	2022	2023E	2024E	2025E
Revenue	388.0	356.3	372.6	392.2
COGS	-230.3[1]	-207.7	-213.1	-223.1
Gross Profit	**157.7[1]**	**148.6**	**159.5**	**169.0**
Gross Margin	40.6%[1]	41.7%	42.8%	43.1%
Operating Costs	-95.7[1]	-75.5	-88.8	-92.1
EBITDA	**62.0**	**73.1**	**70.6**	**76.9**
EBITDA Margin	16.0%	20.5%	19.0%	19.6%
P/S	1.8x	1.9x	1.8x	1.8x
EV/S	1.4x	1.5x	1.4x	1.3x
EV/EBITDA	8.5x	7.2x	7.5x	6.9x
EV/EBIT	10.1x	8.0x	8.3x	7.6x

[1]Estimated items

Nekkar ASA

Introduction

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About the Company

Nekkar, formerly TTS Group, is a Norwegian industrial group that provides solutions and services to the marine industry. The Company combines the world's leading shiplift company, *Syncrolift*, with investments in sustainable maritime solutions. Nekkar is organised into four business areas: *Shipyard Solutions, Digital Solutions, Aquaculture* and *Renewables,* all of which aim to unlock growth within ocean-based industries. Nekkar's core offering is built around its global leading *Syncrolift* shiplift technology which enables efficient docking of ships and other vessels.

CEO and Chairman	
CEO	Ole Falk Hansen
Chairman	Trym Skeie

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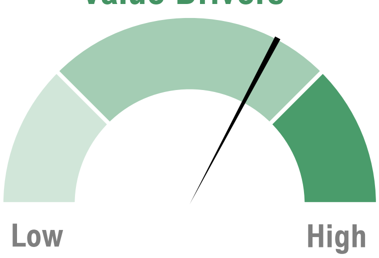
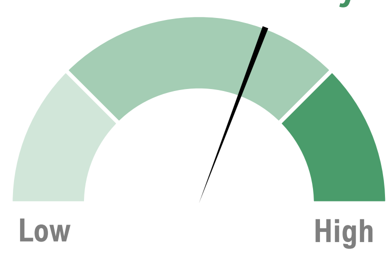
Value Drivers



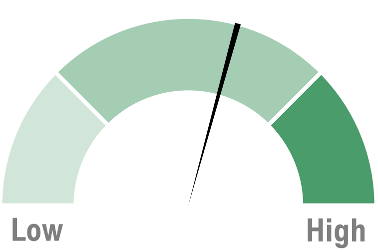
Nekkar's strategic focus on *Aquaculture, Digital Solutions* and *Renewables* presents several potential catalysts to drive the share price. These include successful full-scale testing of its *Aquabased* project, further contract wins within *Digital Solutions* and progress with the commercialisation of its wind-turbine installation tool within *Renewables.*

Historical Profitability



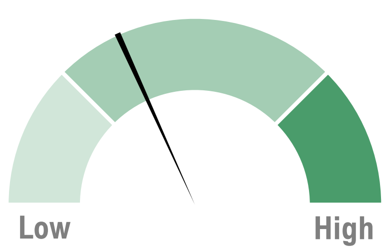
The Company's earnings, adjusted for losses and gains from discontinued operations, grew with a 51% CAGR between 2019 and 2021 from NOK 49.0m to NOK 116.6m, compared to a revenue CAGR of 34.2% in the same period. This is a result of a gross margin expansion from 39.9% in 2019 to 50.7% in 2021. However, the Company suffered customer delays in 2022, and earnings dropped by 71.3% in 2022. The rating is purely historical and not forward-looking.

Management & Board



Management has demonstrated strong leadership by strategically shifting its focus toward service revenues. Chairman Trym Skeie and his associated companies hold 31% of shares outstanding. However, CEO Ole Falk Hansen owns only 0.2% of the shares outstanding, and neither the executive management team nor the board of directors has any stock options.

Risk Profile



The risk profile is primarily characterised by the Company's heavy reliance on *Shipyard Solutions* and potential weakness in other segments. While the Company has invested in *Aquaculture, Renewables,* and *Digital Solutions*, these segments may fall short of expectations and incur additional costs for the Company.

Investment Thesis

Growing Demand for Aftermarket Services Bode for More Predictable Cash Flow

SECURED LONG-TERM SERVICE CONTRACTS

The Company has shifted towards a stronger focus on serving its global installed base of shiplifts and transfer systems with aftermarket services. This subsegment within *Shipyard Solutions* grew by 69.2% in Q3-22 compared to the same period. Nekkar currently only serves 15% of its installed base, which Analyst Group estimates will continue to grow, and the Company recently announced multiple 5-year service agreements. The ship repair and maintenance market is expected to grow with a 6.6% CAGR from 2023 to 2033[1]. Thereby, the Company is positioned to grow the aftermarket segment further and gain market share from its main competitor, Pearlson. This is expected to lead to higher margins and more consistent revenue streams, making the Company less cyclical and its cash flows more predictable. Analyst Group estimates aftermarket revenues to grow with a 20% CAGR from 2021 to 2025 and a gross margin expansion from 40.6% to 43.1% between 2022 and 2025.

Outsourced Production Enables Higher Bargaining Power and More Flexible Production

WELL POSITIONED FOR SUCCESSFUL TENDERING

The Company has outsourced production of its shiplifts and transfer systems while designs are made in-house. This enables a more flexible business model where it is easier to adjust production after current customer demand than if produced internally. Furthermore, Nekkar's construction contracts are won through a tendering process, which typically is a poor price environment as it can force bidders into a race to the bottom. However, with an unthreatened global market share of 60% and outsourced production that enables lower Capex investments, the Company´s bargaining power is higher than peers that produce in-house.

Main Segment Fully Supports the Valuation

ORDER BACKLOG OF NOK 824m

In 2019, the Company sold its offshore business to MacGregor, following this transaction, the Company was involved in a legal dispute with MacGregor, severely threatening Nekkar's cash position. This case has been settled, and the last payment was made in 2021, thus reducing the risk significantly. The Company now derives over 90% of its revenue from the *Shipyard Solutions* segment, which grew with a 36.9% CAGR from 2019 to 2021. Despite the Company's rapid growth, Nekkar exhibited a decline of 19% in revenue in 2022, attributed to an extraordinary year in 2021 and the Company's order fulfillment process, where varying lead times can cause fluctuations in revenue. However, the Company reported an order backlog of NOK 824m in Q4-22, mainly consisting of construction contracts that take 18-48 months to complete. The backlog provides a solid foundation for the Company as it ensures high activity in the core segment in the medium term. Analyst Group estimates the backlog to be materialised by 2025, adding NOK 274.7m in annual revenue between 2023 and 2025. As a result, *Shipyard Solutions* fully supports the valuation, and the other three segments should be seen as complementary, yet interesting, future ventures.

Promising Activity in Other Segments Supported by ESG Tailwinds

The Company operates in three other business areas: *Aquaculture, Renewables* and *Digital Solutions*. Within these segments, the Company is developing a ground-breaking installation tool for wind turbines, a closed cage for fish farming, and a software platform. Although the *Aquaculture* and *Renewables* projects are still in the mid-to-late testing phase, the Company has announced several partnerships and grants that will support the commercialisation of the products, Analyst Group estimates the projects to be profitable after 2025.

Main Segment Sensitive to Market Fluctuations and Customer Delays

Shipyard Solutions is cyclical and dependent on the general activity in shipyards. The projects are large and complex, which can lead to end-customer delays, which in turn, would make the Company unable to complete its projects in time.

[1] *Future Market Insights*

Financial Forecast

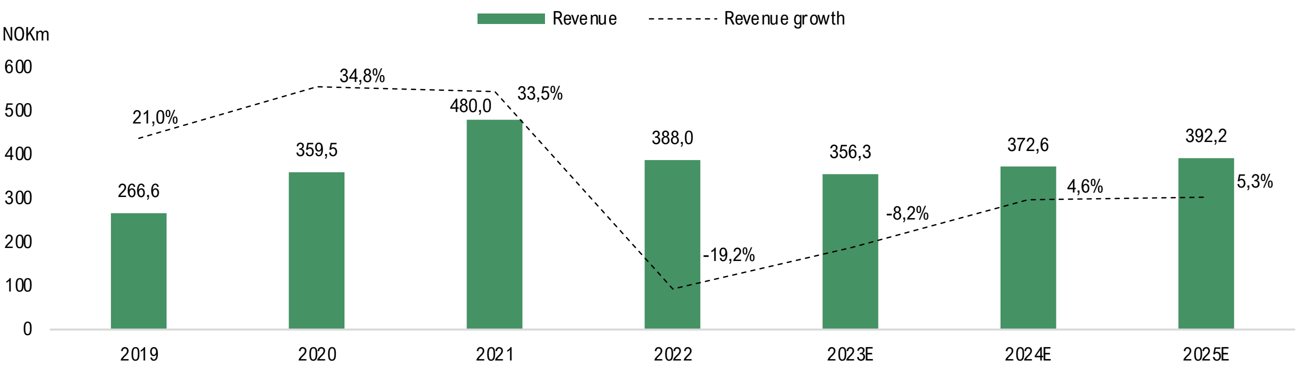
Revenue Forecast 2022-2025

GROWING AFTER-MARKET SEGMENT

Nekkar operates in an oligopoly with a 60% market share through its flagship product, *Syncrolift*, which is the market-leading solution for shiplifts and transfer systems. Although the Company operates in four different segments, *Shipyard Solutions* is estimated to be the primary source of revenue from 2022 to 2025 in a Base scenario. The order backlog of NOK 824m, which mainly consists of construction contracts that take 18-48 months to complete, is estimated to be materialised by 2025, adding NOK 274.4m in annual revenue between 2023 and 2025. Combined with a fast-growing aftermarket segment that is estimated to grow with a 20% CAGR between 2021 and 2025, the Company is estimated to increase its revenue to NOK 392.2m in 2025, corresponding to a CAGR of 4.9% between 2023 and 2025.

Revenue is estimated to grow with a 6.6% CAGR from 2019 to 2025.

Revenue and revenue growth



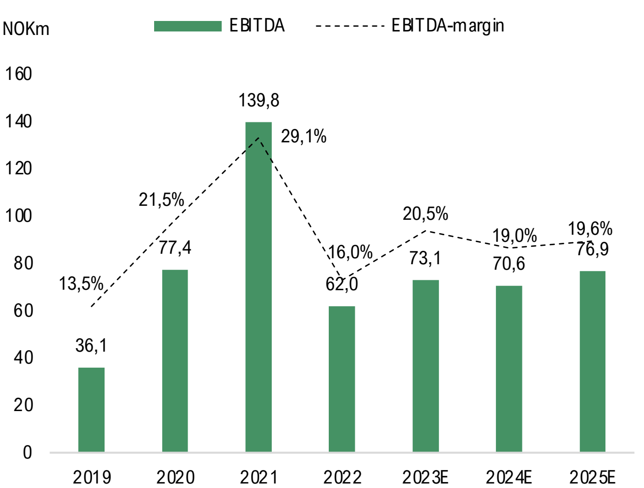
Source: Analyst Group's estimates

Higher Gross Margin than Historically due to Growth in Aftermarket Segment

Prior management of Nekkar did not prioritise the aftermarket segment, as the Company currently only serves 15% of its installed base. The new CEO, Ole Falk Hansen, has placed greater emphasis on this segment, and in Q3-22, the aftermarket segment grew by 69.2% compared to one year prior. The Company delivers highly customised and complex solutions that require regular maintenance. Since Nekkar only serves 15% of its installed base, further penetration of the service market is estimated to grow with a 20% CAGR between 2021 and 2025 and contribute to a gross margin expansion from 40.6% to 43.1% between 2022 and 2025. With outsourced production, no need to expand its organisation in terms of personnel and no interest-bearing debt, the Company's overall cost structure is estimated to remain constant.

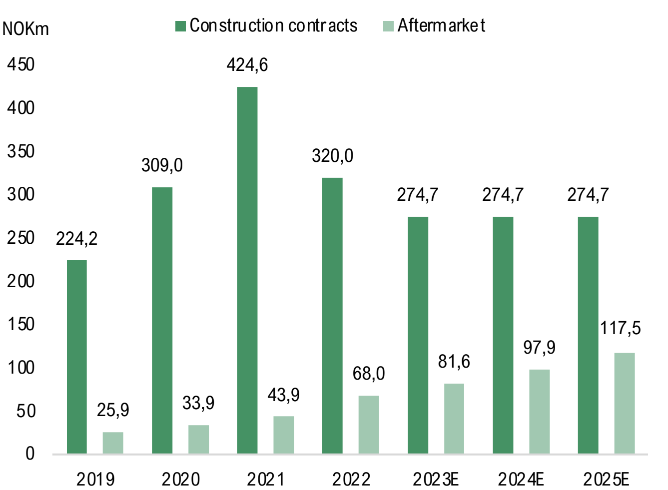
EBITDA margin is estimated to establish above the historical average.

EBITDA and EBITDA margin



Aftermarket revenues is estimated to grow with a 20% CAGR from 2022-2025.

Revenue split within Shipyard Solutions



Valuation

PEERS VALUED AT **17.9x** MEDIAN EV/EBIT

Comparable Companies

Nekkar is market-leading in a niche with few competitors that are non-public companies. To put the valuation into perspective, five comparable companies have been selected. The peers all operate in the marine infrastructure industry and have business segments equal to or similar to one of Nekkar's. Furthermore, they are asset-light and similar in market cap, revenue growth, and customer type.

Nekkar is undervalued compared to peers.
Peer group of comparable companies

Comparable companies	Market data			Financials		Valuation
	Market cap	Enterprise value	EBIT-margin	Revenue CAGR	ND/EBITDA	EV/EBIT
Company name	**NOKm**	**NOKm**	**2023E**	**2020-2023E**	**Current**	**2023E**
Endúr ASA	1,351.9	1,938.9	4.6%	77.1%	2.5x	19.5x
Akva group ASA	2,295.4	3,282.9	4.1%	2.1%	4.6x	23.8x
Cavotec SA	1,189.1	1,499.2	4.8%	4.0%	19.3x	16.3x
HAV Group ASA	381.5	178.0	6.5%	Neg.	-7.0x	4.4x
Average	**1,304.5**	**1,724.8**	**5.0%**	**27.7%**	**4.8x**	**16.0x**
Median	**1,270.5**	**1,719.1**	**4.7%**	**4.0%**	**3.6x**	**17.9x**
Discount(+)/Premium(-) to mean						100.2%
Discount(+)/Premium(-) to median						124.1%
Nekkar ASA	687.5	527.8	18.5%	Neg.	-2.9x	8.0x

Source: Analyst Group's estimates, Bloomberg

NOK 10.5 PER SHARE IN BASE SCENARIO

Valuation: Base Scenario

To adjust for the difference in capital structure, EV/EBIT has been chosen as the target multiple. Nekkar is trading at 8.0x EV/EBIT based on Analyst Group's estimates for 2023, representing a discount of 124.1% compared to peers. While the Company's estimated EBIT-margin and ND/EBITDA outperform the average and median of its peers, the disparity in market capitalisation compared to peers necessitates a consideration of a 20% size discount. The target multiple of 14.3x is above the average 3-year historical EV/EBIT of 7.6x, which is motivated by a fast-growing aftermarket segment and significant progress in the other business areas, especially in Aquaculture, which has come closer to commercialisation. In addition, there is no longer any legal risk surrounding the Company, and cash flows are estimated to be more consistent, making the Company less cyclical. Based on the Company's profitability, an estimated EBIT of NOK 66m in 2023, and future growth potential, an EV/EBIT target multiple of 14.3x is applied, indicating a potential price per share of NOK 10.5 on 2023 estimates.

NOK 13.8 PER SHARE IN BULL SCENARIO

Bull scenario

The following is a selection of potential drivers in a Bull scenario:

- Nekkar successfully commercialises its *Aquaculture* project before 2025 and generates an incremental NOK 34.7m in revenue between 2022 and 2025.
- Aftermarket segment grows faster than expected at 35% CAGR in 2022-2025.
- Contract wins within *Digital Solutions* leads to an additional NOK 117m in revenue between 2022 and 2025.

With a target multiple of EV/EBIT 15.8x and an estimated EBIT of NOK 82.3m in 2023 implies a price per share of NOK 13.8.

NOK 4.6 PER SHARE IN BEAR SCENARIO

Bear scenario

The following is a selection of potential factors in a Bear scenario:

- Due to customer delays, the Company only succeeds in materialising 75% of its backlog until 2025.
- Slower growth in the aftermarket segment at 5% CAGR in 2022-2025 due to higher competition from Pearlson.
- The Company's ventures fail to succeed commercially and fall short of expectations.

With a target multiple of EV/EBIT 10.3x and an estimated EBIT of NOK 29.9m in 2023 implies a price per share of NOK 4.6.

Appendix: Base Scenario

Base scenario (NOKm)	2021	2022	2023E	2024E	2025E
Project revenue	478.9	388.0	356.3	372.6	392.2
Other income	1.1	0.0	0.0	0.0	0.0
Total revenue	**480.0**	**388.0**	**356.3**	**372.6**	**392.2**
Cost of goods sold	-236.7	-230.3[1]	-207.7	-213.1	-223.1
Gross profit	**243.3**	**157.7**[1]	**148.6**	**159.5**	**169.0**
Gross margin	50.7%	40.6%	41.7%	42.8%	43.1%
Personnel costs	-73.8	-67.4[1]	-55.4	-66.4	-69.4
Other operating expenses	-29.7	-28.3[1]	-20.1	-22.4	-22.7
EBITDA	**139.8**	**62.0**	**73.1**	**70.6**	**76.9**
EBITDA margin	29.1%	16.0%	20.5%	19.0%	19.6%
Depreciation and amortisation	-5.7	-10.0[1]	-7.1	-7.4	-7.6
EBIT	**134.1**	**52.0**	**66.0**	**63.3**	**69.3**
EBIT margin	27.9%	13.4%	18.5%	17.0%	17.7%
Financial income	5.7	2.6[1]	6.1	6.3	6.0
Financial expense	-7.3	-13.6[1]	-7.7	-7.9	-8.0
EBT	**132.5**	**41.0**[1]	**64.4**	**61.7**	**67.3**
Tax	-20.9	-9.0[1]	-14.2	-13.6	-14.8
Net income	**111.6**	**32.0**	**50.3**	**48.1**	**52.5**
Net income margin	23.3%	8.3%	14.1%	12.9%	13.4%

[1]*Estimated items*

Appendix: Bull Scenario

Bull scenario (NOKm)	2021	2022	2023E	2024E	2025E
Project revenue	478.9	388.0	403.6	433.1	472.6
Other income	1.1	0.0	0.0	0.0	0.0
Total revenue	**480.0**	**388.0**	**403.6**	**433.1**	**472.6**
Cost of goods sold	-236.7	-230.3[1]	-228.5	-234.4	-245.5
Gross profit	**243.3**	**157.7**[1]	**175.1**	**198.6**	**227.1**
Gross margin	50.7%	40.6%	43.4%	45.9%	48.1%
Personnel costs	-73.8	-67.4[1]	-63.7	-76.4	-79.8
Other operating expenses	-29.7	-28.3[1]	-22.1	-25.8	-29.6
EBITDA	**139.8**	**62.0**	**89.4**	**96.5**	**117.7**
EBITDA margin	29.1%	16.0%	22.1%	22.3%	24.9%
Depreciation and amortisation	-5.7	-10.0[1]	-7.1	-7.4	-7.6
EBIT	**134.1**	**52.0**	**82.3**	**89.1**	**110.2**
EBIT margin	27.9%	13.4%	20.4%	20.6%	23.3%
Financial income	5.7	2.6[1]	6.3	6.6	6.9
Financial expense	-7.3	-13.6[1]	-7.7	-7.9	-8.1
EBT	**132.5**	**41.0**[1]	**80.9**	**87.8**	**109.0**
Tax	-20.9	-9.0[1]	-17.8	-19.3	-24.0
Net income	**111.6**	**32.0**	**63.1**	**68.5**	**85.0**
Net income margin	23.3%	8.3%	15.6%	15.8%	18.0%

[1]Estimated items

Appendix: Bear Scenario

Bear scenario (NOKm)	2021	2022	2023E	2024E	2025E
Project revenue	478.9	388.0	254.4	256.8	259.3
Other income	1.1	0.0	0.0	0.0	0.0
Total revenue	**480.0**	**388.0**	**254.4**	**256.8**	**259.3**
Cost of goods sold	-236.7	-230.3[1]	-166.2	-170.5	-178.5
Gross profit	**243.3**	**157.7**[1]	**88.2**	**86.3**	**80.8**
Gross margin	50.7%	40.6%	34.7%	33.6%	31.2%
Personnel costs	-73.8	-67.4[1]	-37.6	-43.5	-43.6
Other operating expenses	-29.7	-28.3[1]	-14.3	-15.5	-15.0
EBITDA	**139.8**	**62.0**	**36.3**	**27.3**	**22.2**
EBITDA margin	29.1%	16.0%	14.3%	10.6%	8.5%
Depreciation and amortisation	-5.7	-10.0[1]	-6.4	-7.4	-7.6
EBIT	**134.1**	**52.0**	**29.9**	**20.0**	**14.6**
EBIT margin	27.9%	13.4%	11.8%	7.8%	5.6%
Financial income	5.7	2.6[1]	5.8	6.0	5.7
Financial expense	-7.3	-13.6[1]	-6.9	-7.1	-7.2
EBT	**132.5**	**41.0**[1]	**28.8**	**18.9**	**13.1**
Tax	-20.9	-9.0[1]	-6.3	-4.2	-2.9
Net income	**111.6**	**32.0**	**22.5**	**14.7**	**10.2**
Net income margin	23.3%	8.3%	8.8%	5.7%	3.9%

[1]Estimated items

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The analyst does not own shares in the Company.