

Green Landscaping

CMD: A rose among the thorns

- CMD: Solid M&A runway, improved underlying profitability
- Increased confidence in >15% growth potential
- 11-9x EBITA '24e-'26e, 5-10% FCF yields

Informative on the future M&A runway

Green Landscaping held its first CMD yesterday. The event did not include any new financial targets (10% sales growth vs. ABGSCe/cons 7% CAGR '23-'26e, 8% EBITA margin vs. ABGSCe 8.8-9.1%, cons 8.7-9.3% '24e-'26e), where we had hoped for somewhat higher margin ambitions given Green's continued focus on acquiring >10% margin companies in combination with improving profitability in underlying units. We had also hoped for a quantified target on return on capital, considering the group's improving ROCE (13-15%) and cash conversion (FCF ~95% of net profit '19-'24e). Overall, the event was largely informative, where focus was on M&A, and GLG's ambition to become a European leader in 3-5 years. On the German market, GLG continued to see good momentum, even if we assume a normalisation in margins (we have ~14-13% '25e-'26e vs. 23-18% in '23-'24e). In addition, GLG reiterated its ambition of acquiring 8-10 companies p.a., and to accelerate this to >20 per year in the next 2-3 years. Considering management's increased focus on quality, and that multiples remain disciplined, we believe this supports our view that GLG can deliver >15% earnings growth. We currently forecast a 7% EBITA CAGR '23-'26e vs. cons at 9%, excluding unannounced M&A.

Internal efforts to gradually show in earnings

We find two aspects as especially encouraging. First, GLG showed that legacy businesses had continuously improved margins from ~1% in 2018 to ~5% in 2023, which supports our own analysis of the underlying units, and that this should support a continued uplift in group margins and positive organic earnings growth. Second, GLG claimed that IRR on M&A was c. 20% as normalised EV/EBIT multiples remained at 4-6x, which should support a continued improvement from the current group ROCE of 13-15% '24e-'26e to above 15%, even when considering a future high M&A pace. Finally, we also appreciate GLG's added transparency on the performance of acquired units post-acquisition, which we have highlighted in our previous reports. According to GLG, acquired units tend to see an initial margin decline post-acquisition, but deliver solid earnings growth from year 3 and onwards, which should also support an improving organic earnings trend in future years.

Defensive organic growth, high M&A pace, solid margins

To conclude, we find today's CMD as largely informative with fairly little impact on near-term estimates and relatively neutral to the share. However, we find the added information on increased efforts to encourage cross-company collaboration, drive internal improvements, and ROCE-accretive acquisitions as supportive to the investment case. We like GLG's position to grow organically (historically 4-5% p.a.) in steadily growing markets with a high exposure to public customers, with continued upside potential to margins and M&A. For '23-'26e, we expect GLG to deliver growth, margins, ROCE and FCF fairly in line with peers, while the share (11-9x EBITA '24e-'26e, 5-10% FCF yields) is currently trading roughly in line with key peers (FG, INSTAL, NORVA) on '25e-'26e EBITA.

Fast comment

Commissioned research

Not rated

Services

GREEN-SE/GREEN SS

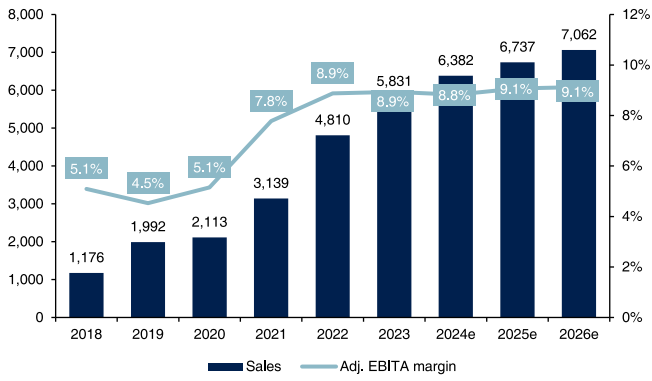
Share price (SEK)	27/11/2024	71.10
MCap (SEKm)		4,031
MCap (EURm)		349
No. of shares (m)		56.7
Free float (%)		55.8
Av. daily volume (k)		10

Next event CMD 27 November 2024

Analyst(s):

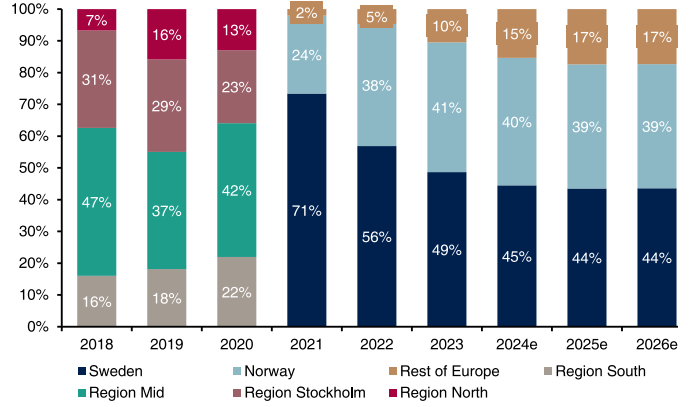
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Group sales and adj. earnings*



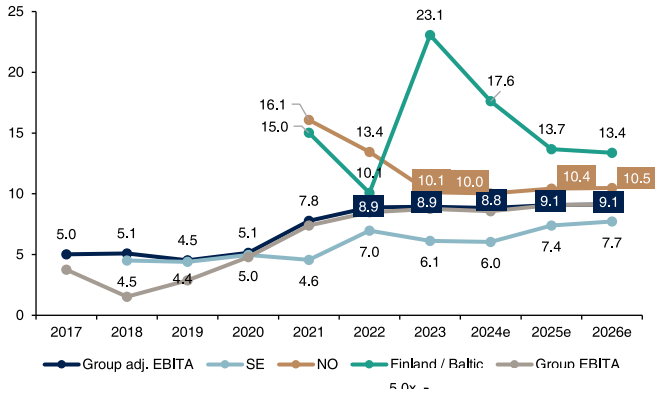
Source: ABG Sundal Collier, company data, *ABGSCe adj. for acq and IPO cost

Sales split per region



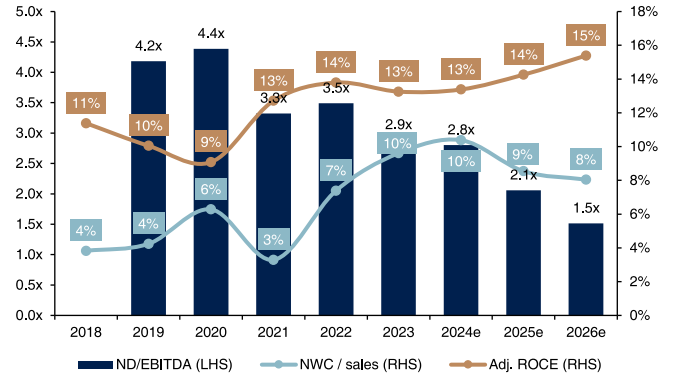
Source: ABG Sundal Collier, company data

Margin by region



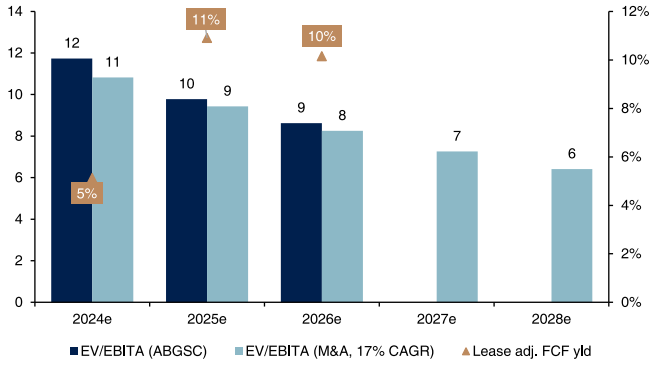
Source: ABG Sundal Collier, company data

Gearing, working capital and ROCE



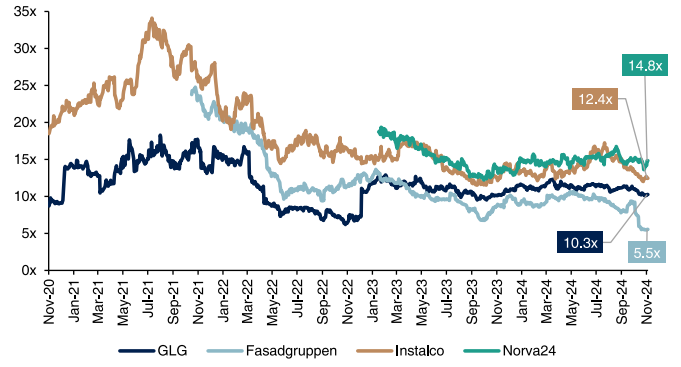
Source: ABG Sundal Collier, company data

ABGSC M&A scenario valuation



Source: ABG Sundal Collier, company data

F12m EV/EBITA vs. peers



Source: ABG Sundal Collier, FactSet

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SEKm	2022	2023	2024e	2025e	2026e
Sales	4,810	5,831	6,382	6,737	7,062
<i>Sales growth (%)</i>	53.2	21.2	9.4	5.6	4.8
EBITDA	569	739	821	901	950
<i>EBITDA margin (%)</i>	11.8	12.7	12.9	13.4	13.5
EBIT adj.	327	404	460	495	528
<i>EBIT adj. margin (%)</i>	6.8	6.9	7.2	7.3	7.5
Pretax profit	250	292	307	388	463
EPS	3.40	3.78	4.02	5.13	6.13
<i>EPS growth (%)</i>	87.5	11.2	6.3	27.6	19.5
EPS adj.	5.02	5.45	5.59	6.67	7.67
DPS	0.00	0.00	0.00	0.00	0.00
EV/EBITDA (x)	10.3	8.4	7.8	6.6	5.8
EV/EBIT adj. (x)	17.9	15.4	13.8	12.0	10.4
P/E (x)	20.9	18.8	17.7	13.9	11.6
P/E adj. (x)	14.2	13.0	12.7	10.7	9.3
EV/sales (x)	1.22	1.06	1.00	0.88	0.78
FCF yield (%)	-9.9	2.5	4.3	15.6	15.1
Le. adj. FCF yld. (%)	-13.5	-2.2	-0.5	10.4	9.7
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net IB debt/EBITDA (x)	3.5	2.9	2.8	2.1	1.5
Le. adj. ND/EBITDA (x)	3.2	2.7	2.6	1.8	1.2

Source: ABG Sundal Collier, Company Data

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