

Musti

Company report

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✓ Inderes corporate customer

This report is a summary translation of the report “Päästämme koirat taas pihalle tassuttelemaan” published on 05/04/2021 at 9:37 pm

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We are letting the dogs out

Musti continued to take over market share and grow profitably in all operations in Q2. Earnings growth was somewhat below our expectations mainly due to an item that is interpreted as non-recurring. Our earnings estimates remain largely unchanged, but we raised our sales growth estimates slightly based on the new financial targets. We reiterate our EUR 31.0 target price but raise our recommendation to Accumulate (previously Reduce) as thanks to the share price drop, the valuation multiples are tolerable for a company with a strong earnings growth outlook.

Q2 sales exceeded expectations and adjusted result slightly below our estimate

Musti's Q2 net sales grew by 20.5% to EUR 82.4 million exceeding our EUR 81.7 million estimate and adjusted EBITA (earnings before interest, taxes, and amortization) grew by 39% to EUR 7.7 million, which was a bit below our EUR 8.6 million estimate. Examined by country, Norway developed better than we expected. Costs from Group functions were, however, higher than we expected, which was mainly the result of warehouse consolidation in Sweden that temporarily lowered efficiency. The company gained 33,000 new loyal customers in a quarter. The total number of loyal customers rose to 1.22 million, which is a convincing performance in a pet population of 5.3 million. In line with the strategy, the average purchase of loyal customers has also risen by 7% to EUR 186.7 from one year ago. Musti's market share among puppies is close to 50% and the continuing puppy boom gives it a strong tailwind. In terms of the outlook, Musti as usual stated that the company's basic growth has continued as strong also after the quarter.

New financial targets indicate continuation of aggressive store network expansion

As expected, Musti raised its financial targets, and they are now: net sales will reach at least EUR 500 million by 2024 and adjusted EBITA margin will be at least 13 per cent in the mid- to long-term. We increased our estimate on store openings for 2022-24 as the targets indicate net sales growth to continue as strong (CAGR 15%) and the management indicated that it sees even more opportunities for store openings than we expected. The increase in the number of stores lowered our profitability estimates for the next few years slightly but supports our longer-term estimates. According to our updated estimate, 2021 net sales will grow by 19% to EUR 339 million and the adjusted EBITA margin will rise to 12.0% (2020: 10.5%) as costs are scaled. In 2024, net sales will grow to EUR 461 million (2021-2024 CAGR 11%) and EBITA % rises to 14.5% as the share of stores in the ramp-up stage decreases. In 2024, the number of own stores will be 324 (now 247).

We feel the return/risk ratio turned slightly positive again

Musti's earnings-based valuation is very high in the next couple of years (2021e P/E 39x and 2022e P/E 33x). However, we feel that examining only the multiples of the next few years does not provide the right picture of the company's value due to Musti's strong concept and outlook. A considerable share of Musti's stores is still in the ramp-up stage. In our valuation we look to 2024 as visibility is exceptionally good in terms of earnings growth over the next few years. If Musti progresses as we expect, we estimate that it will in 2024 be priced with a P/E of 25-30x, which with our estimates would mean a price of some EUR 32-39. The current high valuation keeps the return expectation low in 2021e-2024e despite the estimated strong earnings growth (17% y-o-y) as most of the earnings growth will in the next couple of years be eaten up while digesting the multiples. The valuation has, however, decreased by some 10% from our previous update and, thus, the return expectation is again slightly above our return requirement.

Recommendation

Accumulate

(previous Reduce)

EUR 31.00

(previous EUR 31.00)

Share price:

30.14



Key indicators

	2020	2021e	2022e	2023e
Net sales	284	339	387	426
growth %	15%	19%	14%	10%
EBIT adjusted	23.7	34.2	43.3	51.5
EBIT % adjusted	8.4%	10.1%	11.2%	12.1%
Net profit	11.8	25.1	30.9	37.0
EPS (adjusted)	0.48	0.77	0.92	1.10
P/E (adjusted)	43.2	39.3	32.7	27.3
P/B	4.5	6.1	5.6	5.1
Dividend yield %	1.8%	1.6%	2.0%	2.8%
EV/EBIT (adjusted)	33.1	32.0	25.0	20.7
EV/EBITDA	18.0	18.0	15.5	12.9
EV/Net sales	2.8	3.2	2.8	2.5

Source: Inderes

Guidance

(Unchanged)

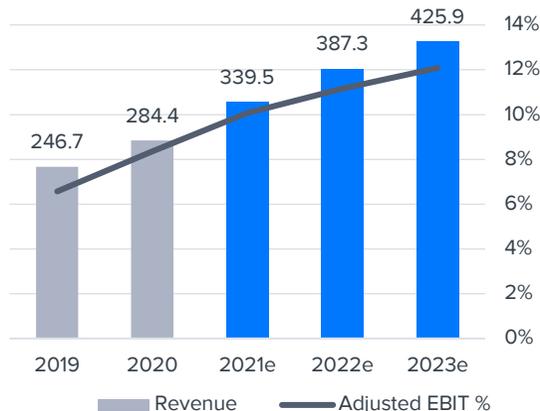
Musti does not publish short-term guidance. The company's long-term targets are net sales above EUR 500 million by the financial year 2024 and over 13% EBITA margin in the medium- to long-term.

Share price



Source: Thomson Reuters

Revenue and EBIT %



Source: Inderes

EPS and dividend



Source: Inderes



Value drivers

- Opening new stores, especially in Sweden and Norway
- Success in new customer acquisition
- Increasing sales to old customers, e.g., by utilizing customer data
- Increasing service sales
- Benefits of scale from volumes
- Improving the sales mix in Norway and Sweden towards Finland's level



Risk factors

- Weakening economic situation, consumers' purchasing power weakening
- Strong historical growth rate slowing down
- Increasing price competition due to growing e-commerce
- Grocery stores striking back
- Unsuccessful placement of stores
- High goodwill in balance sheet



Valuation

- 2021e and 2022e earnings-based valuation high
- As a result of strong earnings growth, 2024e multiples drop to reasonable level
- Company's excellent position on the market and low risk profile entitle to a clear premium compared to peers
- Share's high valuation limits the long-term return expectation but considering the risk we see it as a sufficient compensation

Estimates

Estimates MEUR / EUR	Q2'20	Q2'21	Q2'21e	Q2'21e	Consensus		Difference (%)	2021e
	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. inderes	Inderes
Revenue	68.5	82.4	81.7	81.0	79.0	82.0	1%	339
(optional estimate)	5.5	7.7	8.6	8.3	7.8	8.6	-10%	40.7
EBIT	2.2	6.1	7.0	6.7	6.0	7.0	-13%	33.6
EPS (reported)	-0.02	0.11	0.14	0.14	0.14	0.14	-21%	0.77
Revenue growth-%	9.7 %	20.3 %	19.3 %	18.2 %	15.3 %	19.7 %	1 pp	19.4 %
EBITA-% (oik.)	8.1 %	9.3 %	10.5 %	10.2 %	9.9 %	10.5 %	-1.2 pp	12.0 %

Source: Inderes & Thomson Reuters (consensus)

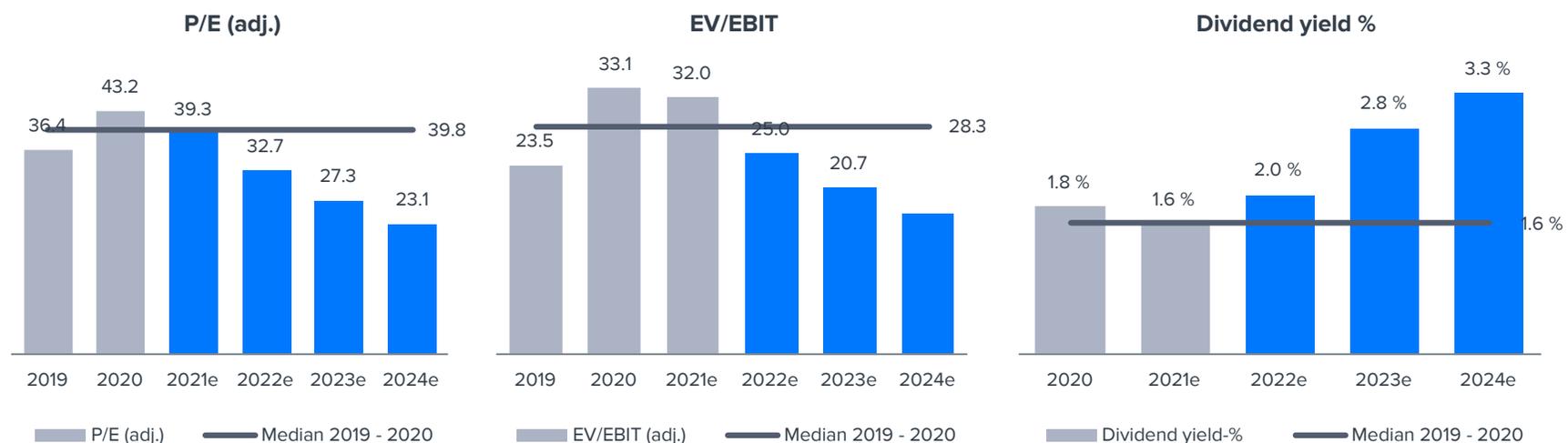
Estimate revisions MEUR / EUR	2021e		Change %	2022e		Change %	2023e		Change %
	Old	New		Old	New		Old	New	
Revenue	336	339	1%	377	387	3%	409	426	4%
EBIT (exc. NRIs)	35.0	34.2	-2%	43.5	43.3	-1%	51.5	51.5	0%
EBIT	34.4	33.6	-2%	43.5	43.3	-1%	51.5	51.5	0%
PTP	32.1	31.2	-3%	39.1	38.9	-1%	46.9	46.8	0%
EPS (excl. NRIs)	0.80	0.77	-4%	0.93	0.92	-1%	1.11	1.10	0%
DPS	0.49	0.49	0%	0.60	0.60	0%	0.85	0.85	0%

Source: Inderes

Valuation table

Valuation	2017	2018	2019	2020	2021e	2022e	2023e	2024e
Share price			8.75	20.6	30.1	30.1	30.1	30.1
Number of shares, millions			28.4	33.5	33.5	33.5	33.5	33.5
Market cap			248	691	1011	1011	1011	1011
EV			382	787	1093	1082	1065	1051
P/E (adj.)			36.4	43.2	39.3	32.7	27.3	23.1
P/E			82.3	58.7	40.2	32.7	27.3	23.1
P/FCF			16.2	>100	38.9	32.8	24.8	21.5
P/B			2.5	4.5	6.1	5.6	5.1	4.8
P/S			1.0	2.4	3.0	2.6	2.4	2.2
EV/Sales			1.5	2.8	3.2	2.8	2.5	2.3
EV/EBITDA			11.2	18.0	18.0	15.5	12.9	11.6
EV/EBIT (adj.)			23.5	33.1	32.0	25.0	20.7	17.5
Payout ratio (%)			0.0 %	108.1 %	65.4 %	65.1 %	77.0 %	75.3 %
Dividend yield-%			0.0 %	1.8 %	1.6 %	2.0 %	2.8 %	3.3 %

Source: Inderes NB! Subscription price used as the 2019 closing price



Peer group valuation

Peer group valuation Company	Share price	Market cap MEUR	EV MEUR	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%		P/B 2021e
				2021e	2022e	2021e	2022e	2021e	2022e	2021e	2022e	2021e	2022e	
Axfood AB	214.80	4398	4944	19.0	18.8	10.0	10.0	0.9	0.9	22.6	22.5	3.6	3.8	9.4
ICA Gruppen AB	385.90	7721	9341	18.5	17.9	9.5	9.1	0.8	0.8	18.8	18.4	3.3	3.5	2.1
Kesko Oyj	25.17	9897	12170	20.3	21.1	11.4	11.6	1.2	1.2	22.8	23.8	3.3	3.4	4.3
Zooplus AG	259.20	1899	1885	46.0	34.8	23.4	18.6	0.7	0.6	92.9	65.6			14.8
Pets at Home Group PLC	444.40	2544	3145	23.2	17.7	12.3	10.0	2.0	1.9	32.7	23.9	1.7	2.1	2.3
Tractor Supply Co	192.84	18579	18472	19.7	19.5	16.0	15.6	1.9	1.9	26.1	25.1	1.1	1.2	12.1
Freshpet Inc	184.00	6599	6544	379.6	267.1	114.9	83.5	16.0	13.9	480.0	232.3			10.6
Jeronimo Martins SGPS SA	15.23	9666	11669	14.9	13.6	7.5	7.1	0.5	0.5	23.5	20.6	2.1	2.4	3.9
Verkkokauppa.com Oyj	8.61	394	385	17.3	15.0	14.1	12.5	0.7	0.6	22.9	19.7	3.1	3.2	9.8
Tokmanni Group Corp	20.98	1242	1579	15.3	13.9	9.2	8.6	1.4	1.3	16.7	15.5	4.1	4.5	5.2
Swedencare AB (publ)	510.00	1051	1046	65.7	50.9	63.5	48.7	18.6	14.4	82.8	61.2	0.5	0.6	9.5
Musti (Inderes)	30.14	1011	1093	32.0	25.0	18.0	15.5	3.2	2.8	39.3	32.7	1.6	2.0	6.1
Average				58.1	44.6	26.5	21.4	4.1	3.5	76.5	48.1	2.5	2.7	7.6
Median				19.7	18.8	12.3	11.6	1.2	1.2	23.5	23.8	3.1	3.2	9.4
Diff-% to median				62%	33%	46%	34%	175%	141%	68%	37%	-47%	-39%	-35%

Source: Thomson Reuters / Inderes

NB: The market cap Inderes uses does not consider own shares held by the company

Income statement

Income statement	2019	Q1'20	Q2'20	Q3'20	Q4'20	2020	Q1'21	Q2'21	Q3'21e	Q4'21e	2021e	2022e	2023e	2024e
Revenue	247	70.3	68.5	68.7	76.9	284	84.4	82.4	81.9	90.8	339	387	426	461
Finland	123	34.6	33.2	32.0	36.0	136	39.1	37.1	36.2	40.3	153	167	177	185
Sweden	108	29.9	29.8	30.1	33.4	123	35.7	35.6	34.9	38.7	145	164	179	191
Norway	16.4	5.8	5.5	6.6	7.5	25.4	9.6	9.7	10.8	11.8	41.9	56.6	70.7	84.8
EBITDA	34.2	11.0	8.1	10.4	14.2	43.8	15.1	13.1	13.9	18.7	60.8	69.9	82.3	90.7
Depreciation on tangible assets	-16.2	-4.2	-4.4	-4.7	-4.8	-18.2	-5.1	-5.4	-5.1	-5.1	-20.8	-20.0	-24.1	-23.8
Finland (EBITA)	29.7	8.7	7.6	7.3	9.4	33.0	10.0	8.4	8.3	10.7	37.4	41.3	44.3	46.9
Sweden (EBITA)	9.9	3.9	2.9	3.2	4.9	14.9	5.6	4.5	4.5	6.5	21.1	24.8	28.4	32.8
Norway (EBITA)	0.6	0.6	0.1	1.0	1.2	2.9	1.8	1.6	2.3	2.4	8.1	11.8	15.5	19.2
Group functions and adj. (EBITA)	-22.2	-6.3	-7.0	-5.8	-6.1	-25.2	-7.4	-6.8	-6.4	-6.0	-26.5	-28.0	-30.0	-32.0
Depreciation on intangible assets	-5.6	-1.5	-1.5	-1.5	-1.6	-6.0	-1.6	-1.6	-1.6	-1.7	-6.5	-6.6	-6.8	-7.0
EBIT (excl. NRI)	16.2	6.3	4.1	4.9	8.5	23.7	9.0	6.1	7.2	12.0	34.2	43.3	51.5	60.0
EBIT	12.4	5.4	2.2	4.2	7.8	19.5	8.4	6.1	7.2	12.0	33.6	43.3	51.5	60.0
Net financial items	-8.5	-0.7	-5.6	1.9	-1.4	-5.9	1.1	-1.2	-1.1	-1.2	-2.4	-4.4	-4.6	-4.7
PTP	4.0	4.7	-3.4	6.1	6.3	13.7	9.5	4.9	6.0	10.8	31.2	38.9	46.8	55.3
Taxes	-0.9	-1.0	0.8	-1.2	-0.4	-1.9	-1.7	-1.1	-1.2	-2.0	-6.0	-8.0	-9.8	-11.6
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net earnings	3.0	3.7	-2.7	4.9	5.9	11.8	7.8	3.8	4.8	8.8	25.1	30.9	37.0	43.7
EPS (adj.)	0.24	0.16	-0.02	0.17	0.20	0.48	0.25	0.11	0.14	0.26	0.77	0.92	1.10	1.30
EPS (rep.)	0.11	0.13	-0.09	0.15	0.18	0.35	0.23	0.11	0.14	0.26	0.75	0.92	1.10	1.30

Key figures	2019	Q1'20	Q2'20	Q3'20	Q4'20	2020	Q1'21	Q2'21	Q3'21e	Q4'21e	2021e	2022e	2023e	2024e
Revenue growth-%	14.2 %	9.5 %	16.1 %	16.4 %	19.2 %	15.3 %	20.0 %	20.3 %	19.2 %	18.1 %	19.4 %	14.1 %	10.0 %	8.3 %
Adjusted EBIT growth-%	117.1 %	37.0 %	28.4 %	70.8 %	51.9 %	46.4 %	43.8 %	47.9 %	46.6 %	40.8 %	44.0 %	26.5 %	18.9 %	16.5 %
EBITDA-%	13.9 %	15.7 %	11.8 %	15.2 %	18.5 %	15.4 %	17.9 %	15.9 %	17.0 %	20.6 %	17.9 %	18.0 %	19.3 %	19.7 %
Adjusted EBIT-%	6.6 %	8.9 %	6.0 %	7.1 %	11.1 %	8.4 %	10.7 %	7.4 %	8.7 %	13.2 %	10.1 %	11.2 %	12.1 %	13.0 %
Net earnings-%	1.2 %	5.2 %	-3.9 %	7.1 %	7.7 %	4.1 %	9.2 %	4.6 %	5.9 %	9.6 %	7.4 %	8.0 %	8.7 %	9.5 %

Source: Inderes

Balance sheet

Assets	2019	2020	2021e	2022e	2023e
Non-current assets	231	246	248	252	251
Goodwill	144	145	145	145	145
Intangible assets	22.7	20.5	17.0	14.9	14.4
Tangible assets	56.9	73.4	79.6	85.1	85.3
Associated companies	0.3	1.0	0.0	0.0	0.0
Other investments	0.0	0.0	0.0	0.0	0.0
Other non-current assets	0.2	0.3	0.3	0.3	0.3
Deferred tax assets	7.3	5.9	5.9	5.9	5.9
Current assets	48	66	79	90	99
Inventories	32.5	36.4	44.1	50.4	55.4
Other current assets	1.3	1.4	1.4	1.4	1.4
Receivables	5.7	6.5	7.7	8.8	9.7
Cash and equivalents	8.6	21.6	25.8	29.4	32.4
Balance sheet total	280	312	327	342	350

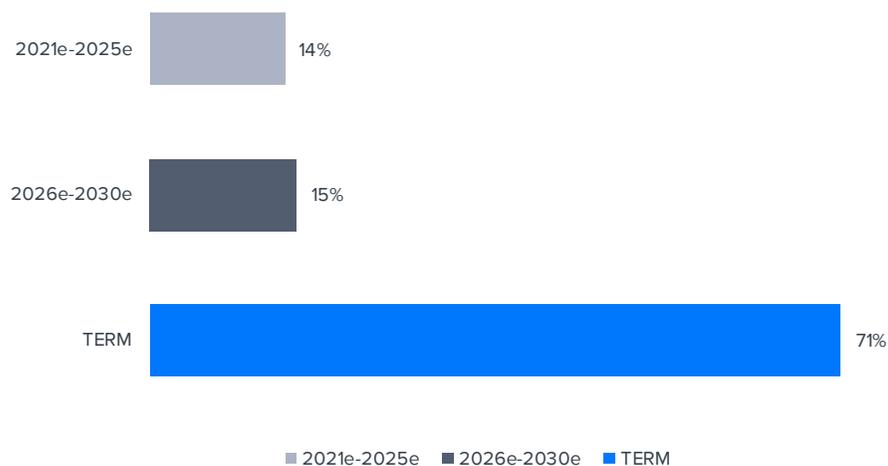
Source: Inderes

Liabilities & equity	2019	2020	2021e	2022e	2023e
Equity	98	153	166	180	197
Share capital	11.0	11.0	11.0	11.0	11.0
Retained earnings	-35.1	-25.1	-12.7	1.8	18.6
Hybrid bonds	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	122	167	167	167	167
Other equity	0.0	0.0	0.0	0.0	0.0
Minorities	0.1	0.2	0.0	0.0	0.0
Non-current liabilities	126	102	94	88	76
Deferred tax liabilities	2.2	2.2	2.2	2.2	2.2
Provisions	0.0	0.0	0.0	0.0	0.0
Long term debt	123	100	92.1	85.7	73.4
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	0.0	0.0	0.0	0.0	0.0
Current liabilities	56	56	67	74	78
Short term debt	18.7	15.9	16.3	15.4	13.5
Payables	36.3	40.3	50.9	58.1	63.9
Other current liabilities	0.6	0.2	0.2	0.2	0.2
Balance sheet total	280	312	327	342	350

DCF calculation

DCF model	2020	2021e	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	TERM
EBIT (operating profit)	19.5	33.6	43.3	51.5	60.0	64.9	67.5	69.5	71.6	73.7	75.2	
+ Depreciation	24.2	27.2	26.6	30.9	30.8	30.9	30.9	30.9	31.0	31.0	31.0	
- Paid taxes	-0.6	-6.0	-8.0	-9.8	-11.6	-12.7	-13.3	-13.7	-14.2	-14.6	-15.7	
- Tax, financial expenses	-0.8	-0.5	-0.9	-1.0	-1.0	-0.9	-0.9	-0.9	-0.9	-0.9	-0.1	
+ Tax, financial income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Change in working capital	-1.2	1.6	-0.1	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	
Operating cash flow	41.2	56.0	60.9	71.4	78.1	82.0	84.2	85.8	87.5	89.2	90.4	
+ Change in other long-term liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-40.1	-30.0	-30.0	-30.6	-31.0	-31.0	-31.0	-31.0	-31.0	-31.0	-31.6	
Free operating cash flow	1.1	26.0	30.9	40.8	47.1	51.0	53.2	54.8	56.5	58.2	58.7	
+/- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	1.1	26.0	30.9	40.8	47.1	51.0	53.2	54.8	56.5	58.2	58.7	1489
Discounted FCFF		25.0	28.0	34.9	38.0	38.9	38.2	37.1	36.1	35.1	33.4	846
Sum of FCFF present value		1191	1166	1138	1103	1065	1026	988	951	915	880	846
Enterprise value DCF		1191										
- Interesting bearing debt		-116.2										
+ Cash and cash equivalents		21.6										
-Minorities		0.0										
-Dividend/capital return		-12.7										
Equity value DCF		1084										
Equity value DCF per share		32.3										

Cash flow distribution



Wacc	
Tax-% (WACC)	22.0 %
Target debt ratio (D/(D+E))	20.0 %
Cost of debt	4.0 %
Equity Beta	1.00
Market risk premium	4.75%
Liquidity premium	0.00%
Risk free interest rate	2.0 %
Cost of equity	6.8 %
Weighted average cost of capital (WACC)	6.0 %

Source: Inderes

Summary

Income statement	2018	2019	2020	2021e	2022e	Per share data	2018	2019	2020	2021e	2022e
Revenue	216.1	246.7	284.4	339.5	387.3	EPS (reported)	-0.23	0.11	0.35	0.75	0.92
EBITDA	21.9	34.2	43.8	60.8	69.9	EPS (adj.)	-0.02	0.24	0.48	0.77	0.92
EBIT	1.5	12.4	19.5	33.6	43.3	OCF / share	0.87	1.27	1.23	1.67	1.81
PTP	-8.2	4.0	13.7	31.2	38.9	FCF / share	-0.95	0.54	0.03	0.77	0.92
Net Income	-6.4	3.0	11.8	25.1	30.9	Book value / share	3.35	3.47	4.57	4.94	5.37
Extraordinary items	-6.0	-3.8	-4.2	-0.6	0.0	Dividend / share	0.00	0.00	0.38	0.49	0.60
Balance sheet	2018	2019	2020	2021e	2022e	Growth and profitability	2018	2019	2020	2021e	2022e
Balance sheet total	283.0	279.5	312.3	327.3	341.7	Revenue growth-%		14%	15%	19%	14%
Equity capital	95.2	98.4	153.5	165.7	180.2	EBITDA growth-%		56%	28%	39%	15%
Goodwill	145.2	144.0	145.4	145.4	145.4	EBIT (adj.) growth-%		117%	46%	44%	26%
Net debt	142.5	133.4	94.6	82.6	71.6	EPS (adj.) growth-%		-1643%	98%	61%	20%
Cash flow	2018	2019	2020	2021e	2022e	EBITDA-%	10.1 %	13.9 %	15.4 %	17.9 %	18.0 %
EBITDA	21.9	34.2	43.8	60.8	69.9	EBIT (adj.)-%	3.5 %	6.6 %	8.4 %	10.1 %	11.2 %
Change in working capital	3.9	4.1	-1.2	1.6	-0.1	EBIT-%	0.7 %	5.0 %	6.9 %	9.9 %	11.2 %
Operating cash flow	24.8	36.1	41.2	56.0	60.9	ROE-%	-7.4 %	3.1 %	9.4 %	15.8 %	17.9 %
CAPEX	-51.8	-20.7	-40.1	-30.0	-30.0	ROI-%	0.6 %	5.2 %	7.7 %	12.4 %	15.6 %
Free cash flow	-27.0	15.4	1.1	26.0	30.9	Equity ratio	33.6 %	35.2 %	49.1 %	50.6 %	52.7 %
						Gearing	149.8 %	135.5 %	61.6 %	49.8 %	39.8 %
Largest shareholders	% of shares					Valuation multiples	2018	2019	2020	2021e	2022e
Fidelity Investments	8.7 %					EV/S			2.8	3.2	2.8
Capital Group	8.4 %					EV/EBITDA (adj.)			18.0	18.0	15.5
Investment AB Öresund	5.1 %					EV/EBIT (adj.)			33.1	32.0	25.0
Mandatum Henkivakuutusosakeyhtiö	3.8 %					P/E (adj.)			43.2	39.3	32.7
DNCA Finance	2.7 %					P/E			4.5	6.1	5.6
David Rönnerberg	2.7 %					Dividend-%		0.0 %	1.8 %	1.6 %	2.0 %

Source: Inderes

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Sell	The 12-month risk-adjusted expected shareholder return of the share is very weak

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Recommendation history (>12 mo)

Date	Recommendation	Target price	Share price
21-09-20	Reduce	18.00 €	18.22 €
30-09-20	Reduce	18.80 €	19.37 €
13-11-20	Accumulate	21.70 €	20.62 €
13-01-21	Accumulate	27.00 €	25.66 €
10-02-21	Accumulate	28.50 €	27.50 €
27-04-21	Reduce	31.00 €	32.96 €
05-05-21	Accumulate	31.00 €	30.14 €



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