

# Has Volvo's strong value creation been overlooked by the market?

CASE  STUDY  
VALUATION MASTER CLASS  
by  
*A. Stoltz* INVESTMENT  
RESEARCH



**Valuation Master Class**





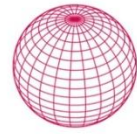
This video is for  
learning purposes only.

\*\*\*This is not  
investment advice or a  
recommendation.\*\*\*



Ask  
Ajarn  
Andrew





*World's second-largest manufacturer of trucks  
with a capacity of more than 200,000 units*

**Our estimate:**

**SEK263**  
(Upside 19%)

**BUY**



## 3 things to know about this company

- ★ Acquisition in China to ride demand wave
- ★ Consistent value addition through strong profitability
- ★ Leading role in EV and hydrogen to reclaim market share

## Key statistics

Analyst consensus (26)

**SEK240**  
(Upside 9%)

**HOLD**

PE ratio

**14x**

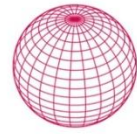
Dividend yield

**2.7+4.1\*%**

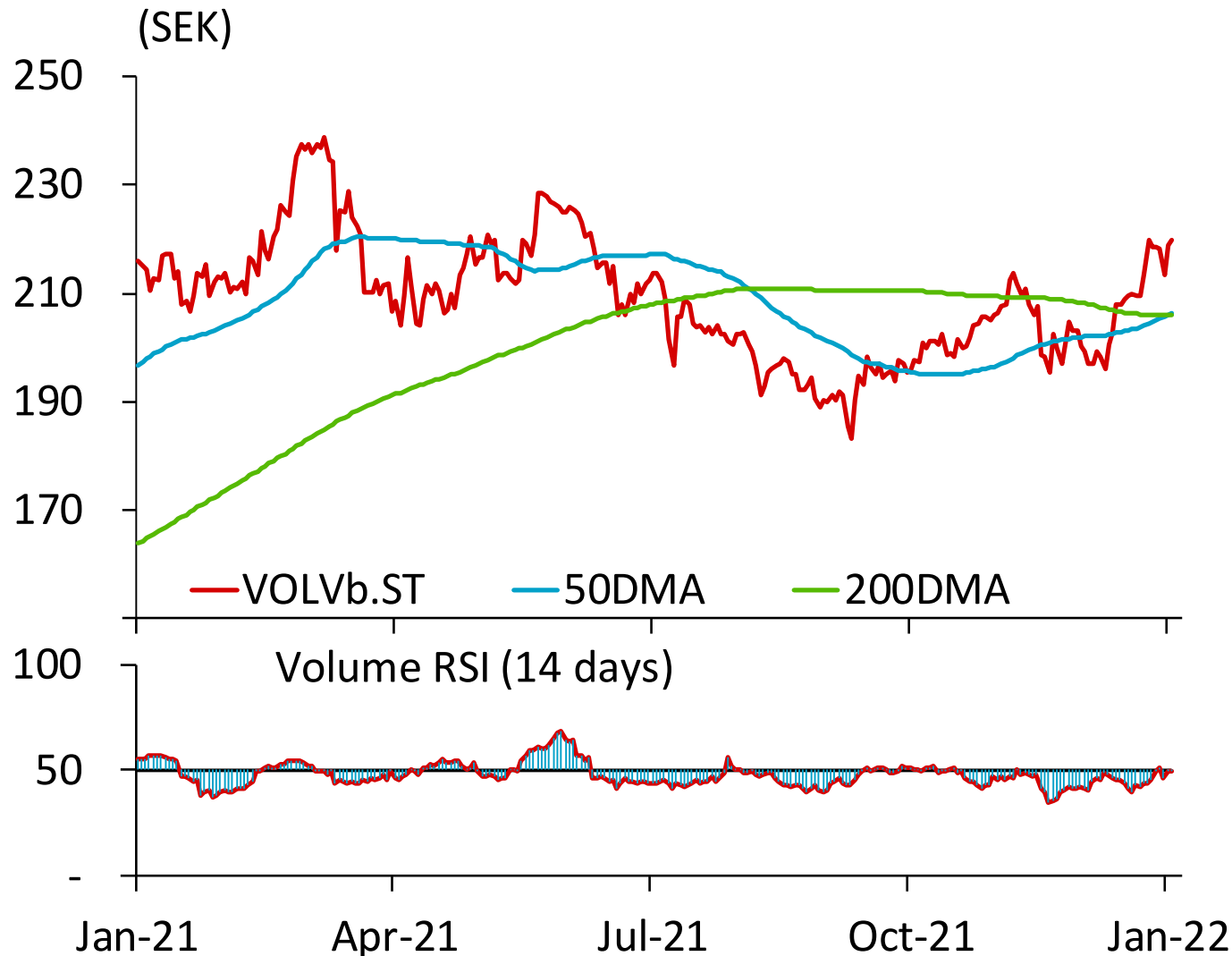
\*Extra dividend 2020



# Price on the way to turn bullish, volume signal unclear



VALUATION MASTER CLASS



- ★ In 2H21, the 50 DMA has mainly stayed below the 200 DMA
- ★ However, most recently, the 50 DMA started to rise, and it seems like it can cross the 200DMA very soon
  - If the 50 DMA-line were to continue to rise, we would consider it a bullish signal
- ★ The RSI-Volume recently converged to the 50%-line which, if continues, would also be a positive sign



# Revenue breakdown 9M21



VALUATION MASTER CLASS

Sales

Story

FVMR

Value

WCB

Risks

Trucks 60%



Construction equipment 25%



Buses 5%

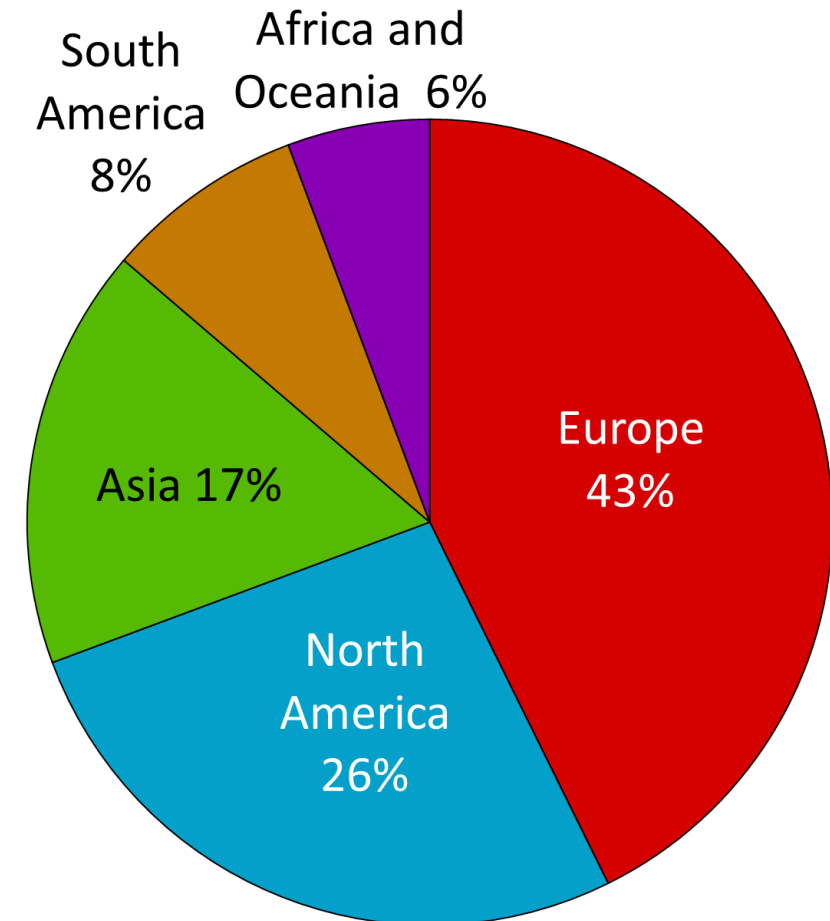


Others 10%



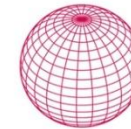
Volvo Car Financial Services

Breakdown by region





# 1 Acquisition in China to ride demand wave



Sales

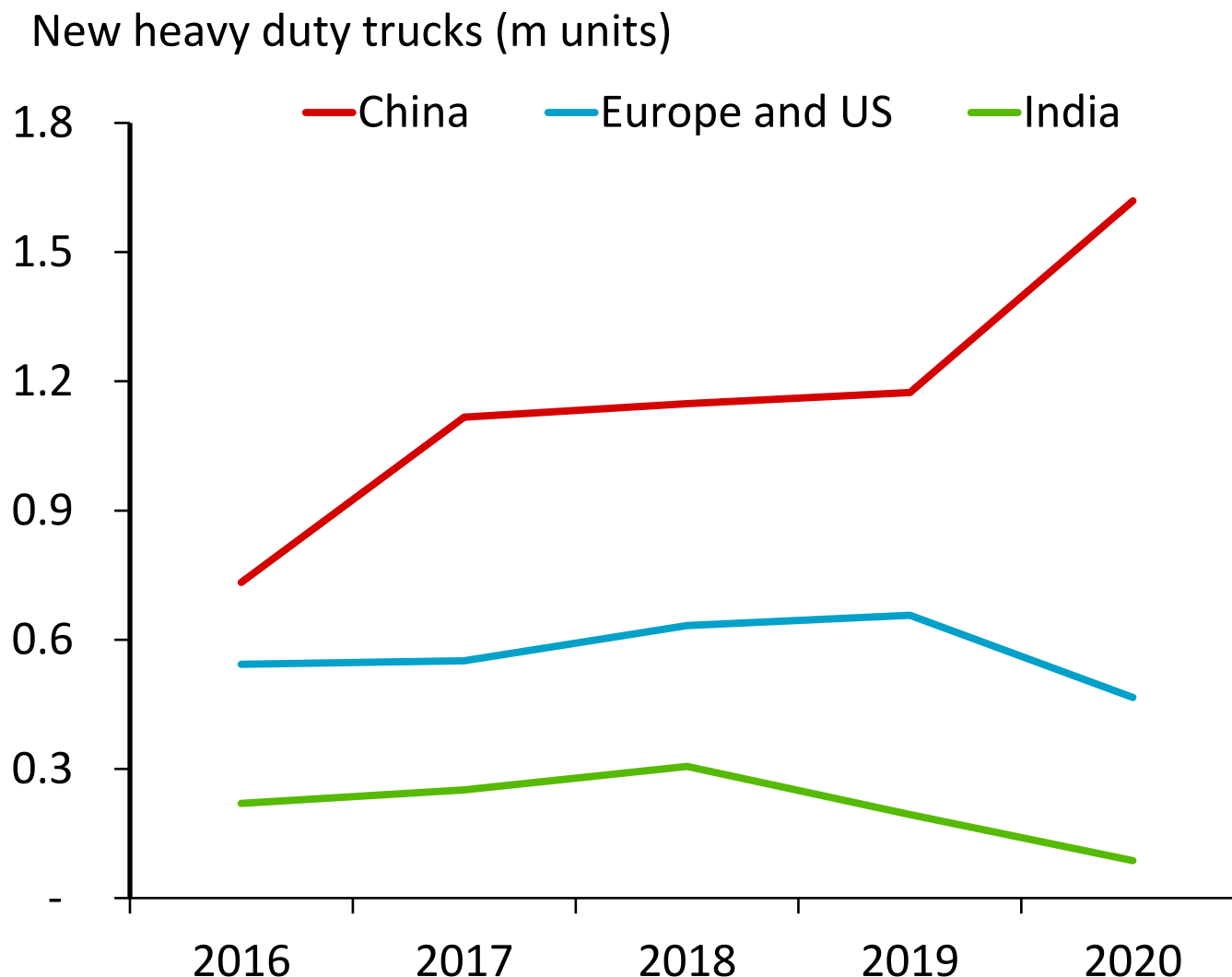
Story

FVMR

Value

WCB

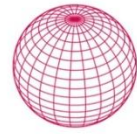
Risks



- ★ China is by far the strongest and fastest-growing market for heavy duty trucks in the world
  - It is the **primary market for the company to realize future growth opportunities**
- ★ Instead of exporting to China, Volvo aims to ramp up sales by establishing a production site in the country



# New production site adds 7% capacity



VALUATION MASTER CLASS

Sales

Story

FVMR

Value

WCB

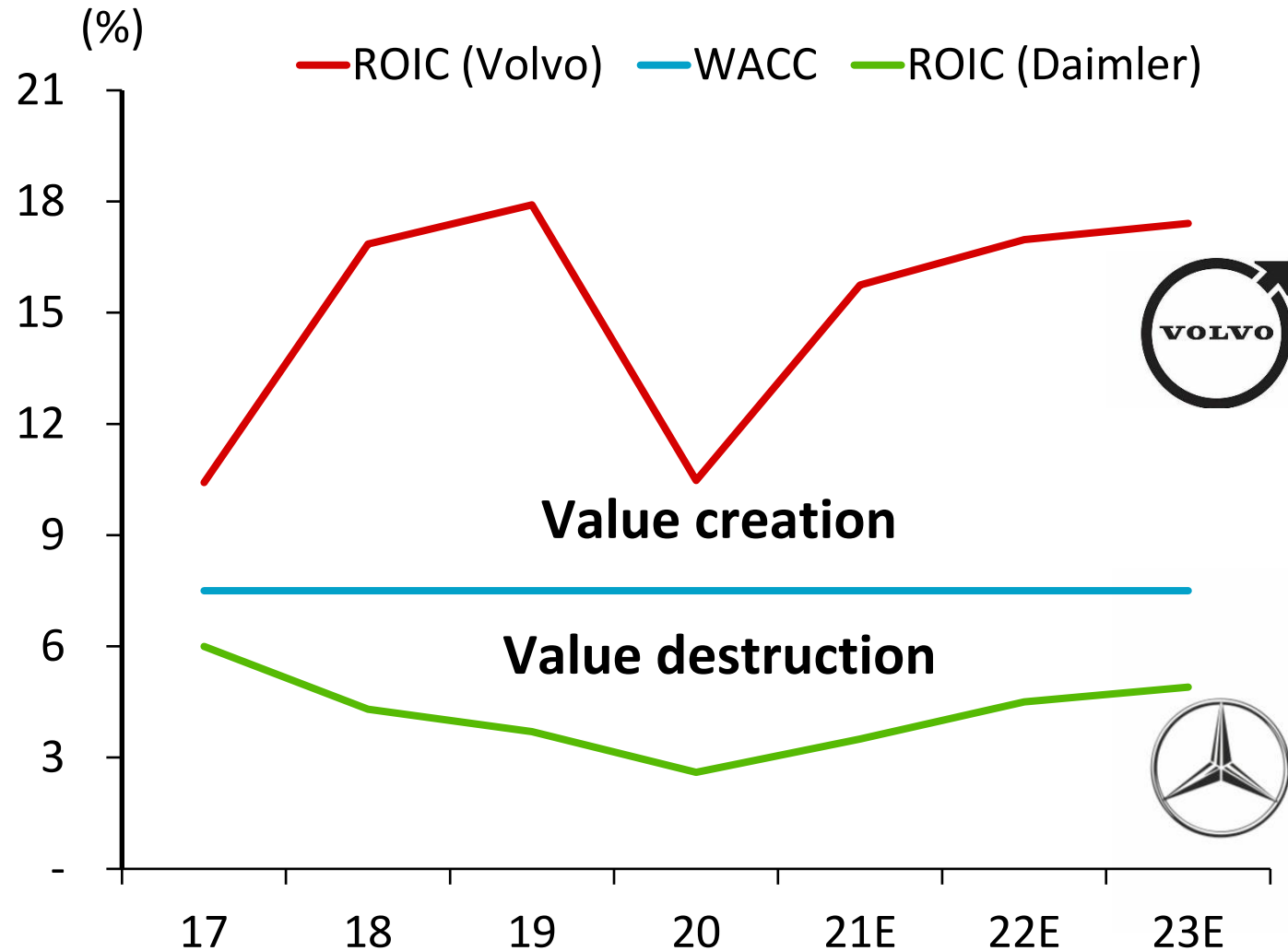
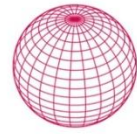
Risks

- ★ Volvo confirmed its plan to acquire JMC Heavy Duty Vehicle which owns a manufacturing site in Taiyuan, China
  - **The acquisition accumulates to SEK1.1bn**
- ★ With the acquisition, Volvo aims to ramp up its sales in China
  - **It adds 15,000 trucks to Volvo's capacity**
  - **As a comparison, in 2020, Volvo delivered 4,500 trucks to China**





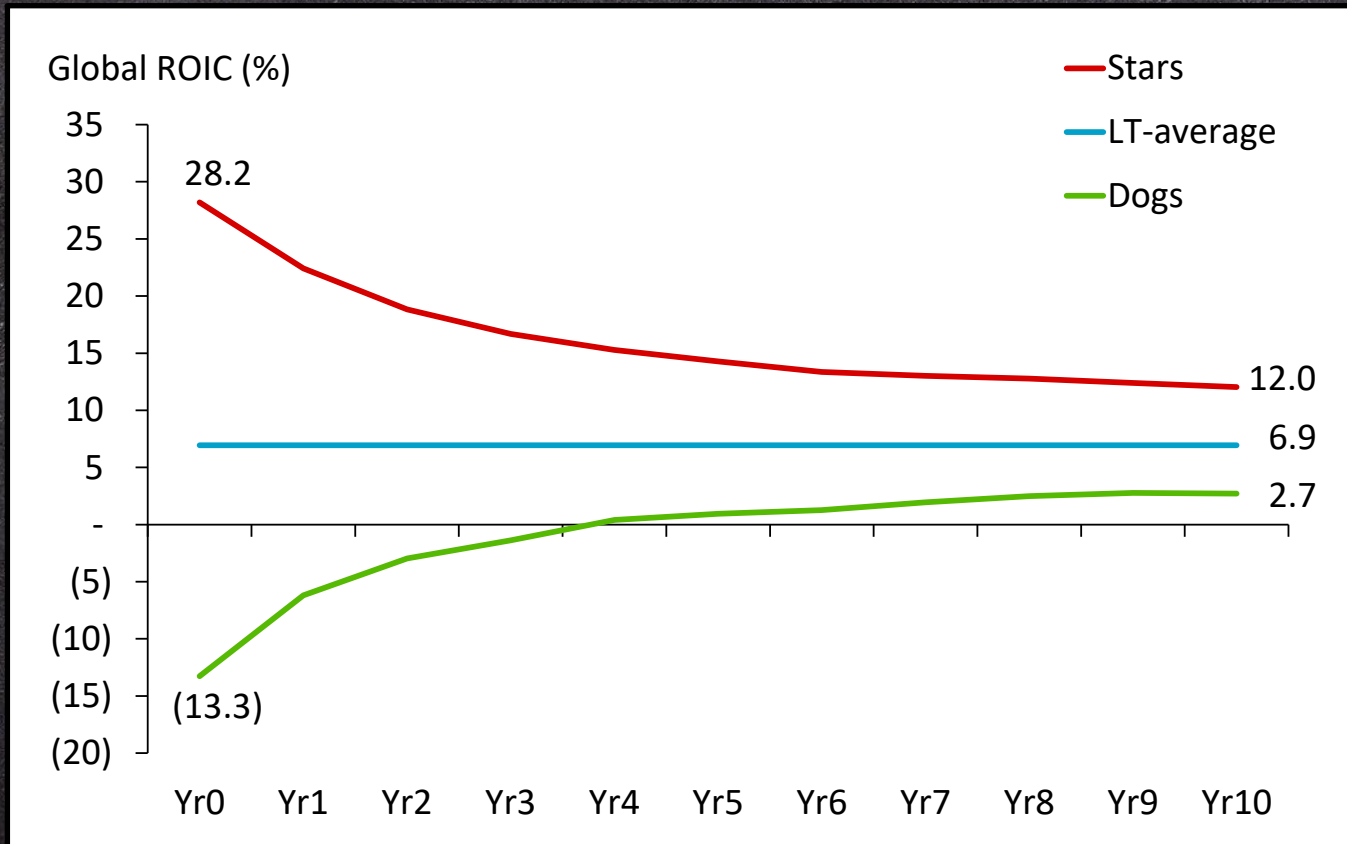
## 2 Consistent value addition through strong profitability



- ★ Volvo's impressive ROIC is attributable to its specialization in high-margin trucks and construction equipment
  - Volvo sold its passenger vehicles unit in 1999 as the synergies between commercial and passenger vehicles were low
  - Since 2021, Volvo Car is a separate listed entity under majority control of Geely
- ★ Volvo's biggest competitor Daimler followed a similar strategy by spinning-off its truck segment in January 2022



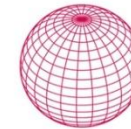
# What happens to a company's ROIC over time?



Ask  
Ajarn  
Andrew



### 3 Leading role in EV and hydrogen to reclaim market share



Sales

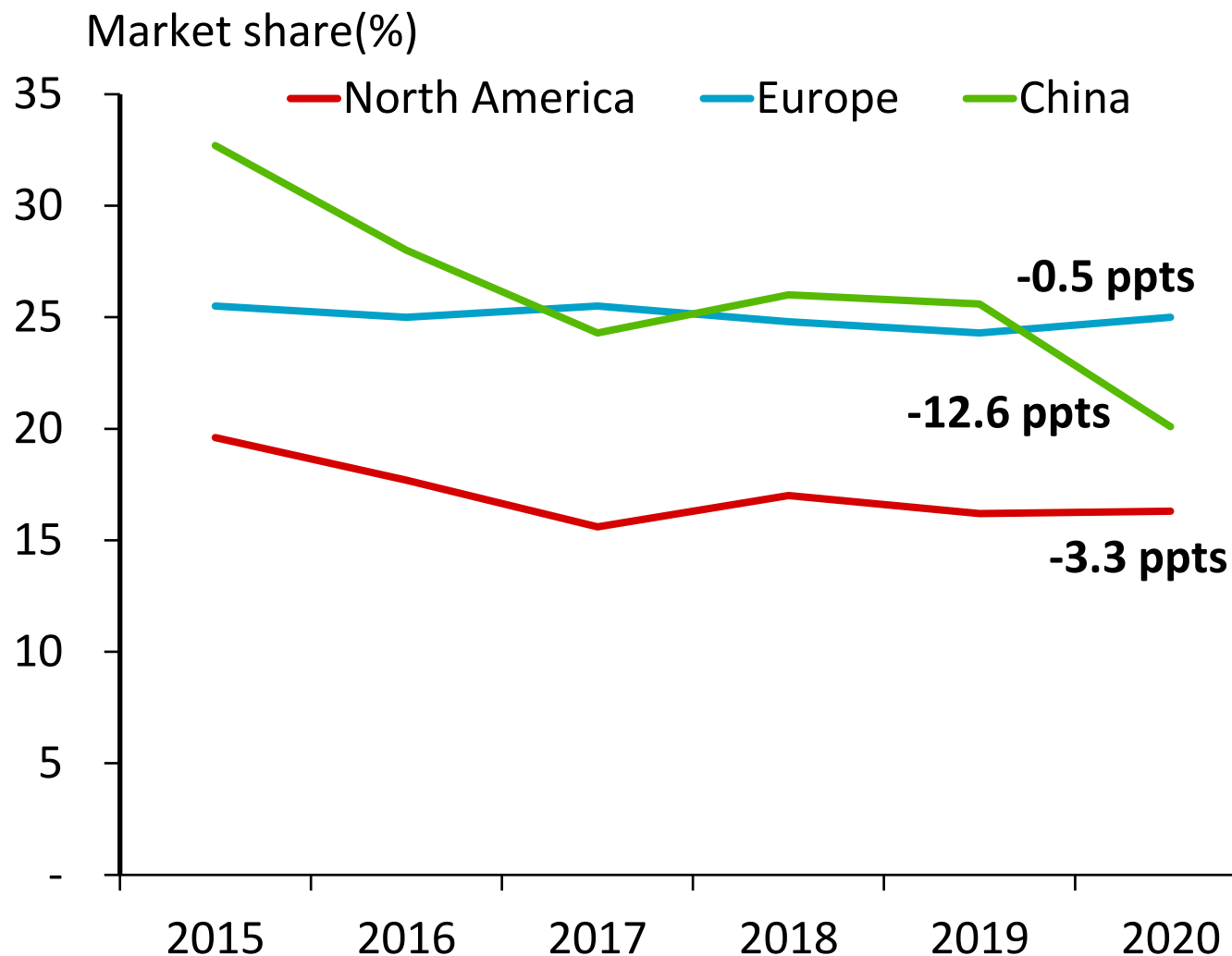
Story

FVMR

Value

WCB

Risks



- ★ Over the past 5 years, Volvo has lost market share in its most important regions
- ★ Still, its early shift toward pure EV vehicles could help to regain its market share over the long run
  - The company is also betting on hydrogen which could be more suitable for trucks due to its long-distance ability
  - Strategic partnerships with Daimler (largest truck manufacturer) could lead to a more concentrated industry





VALUATION MASTER CLASS

Home

Student login

FAQ

Blog

Resources

Testimonials



### What Is Going to Happen with Inflation?

By Valuation Master Class Student

Many forces at work impact inflation. There are current trends that cause both inflationary and deflationary measures. Whether we'll see inflation or deflation in the future depends on which of these forces dominate.

[Read More](#)



### How to Value a Startup

By Andrew Stotz

This story started when Dan, a podcast listener, replied to my recent weekly email with this question, "How do you value a startup, especially if there is no revenue?"

[Read More](#)



### How to Fight Back When Your Dreams Are Crushed

By Andrew Stotz

The trouble you face is not your fault, and I'm gonna show you how you can fight back. I challenge you to recommit to your dreams today!

[Read More](#)

ValuationMasterClass.com



### What Does It Mean to Be Financially World Class?



### What Is Liabilities To Assets Ratio?



### What Is Growth Year Over Year?

Scan this QR code  
to go to the  
**ValuationMasterClass.com**  
blog to download all full  
Case Study reports for free.

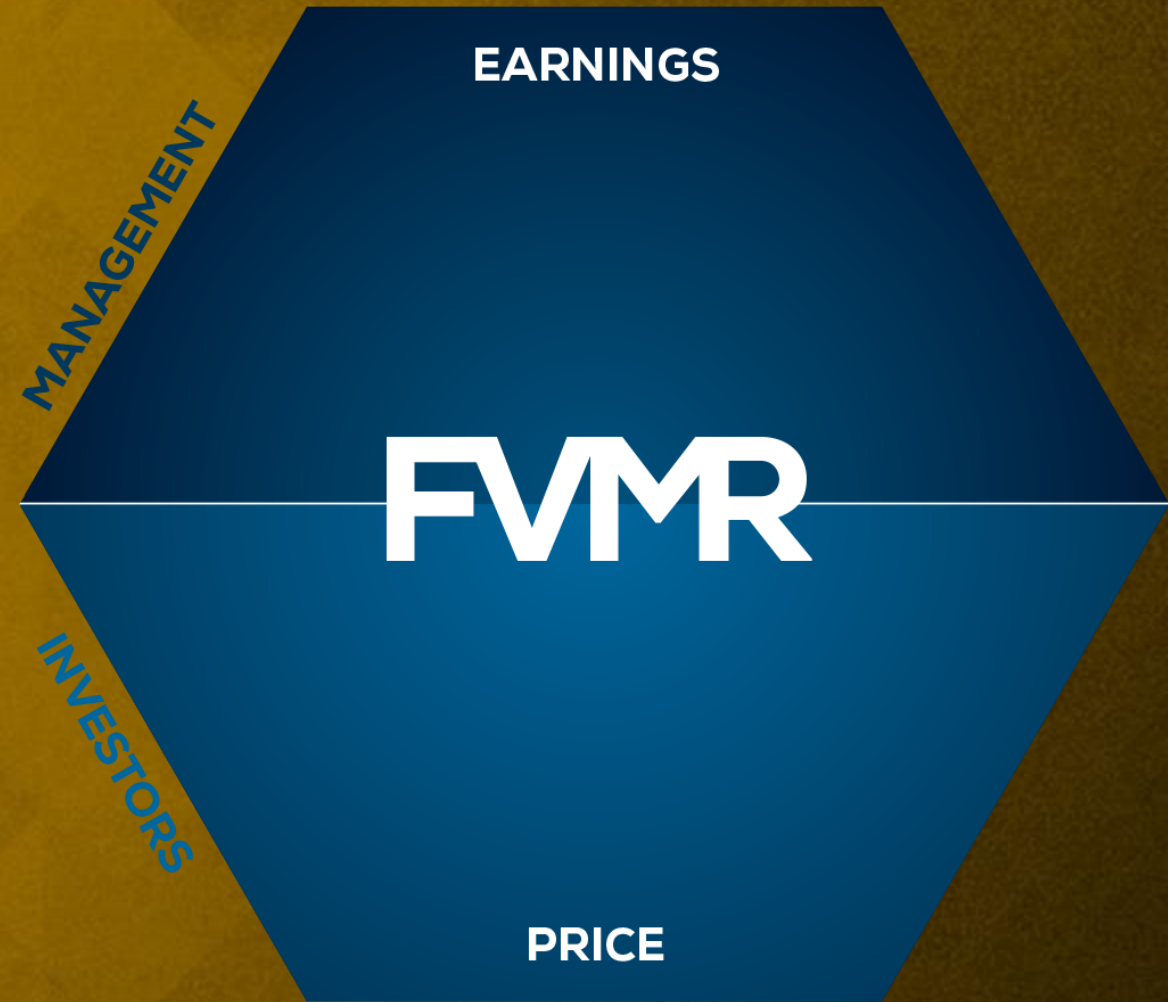
*\*It's usually up within 24h.*





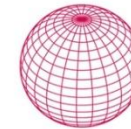
# FVMR Scorecard

- ★ Measures a stock's attractiveness relative to all other companies
- ★ Attractiveness is based on four elements
  - Fundamentals, Valuation, Momentum, and Risk
- ★ Scale from 1 (Best) to 10 (Worst)





# Strong fundamentals for a cheap price



VALUATION MASTER CLASS

Sales

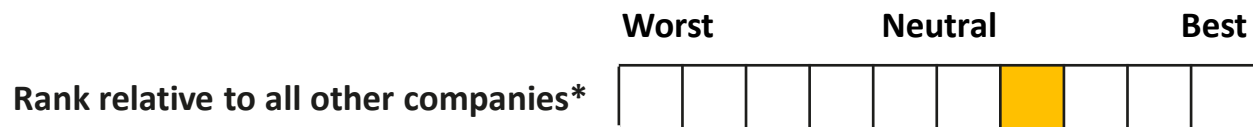
Story

FVMR

Value

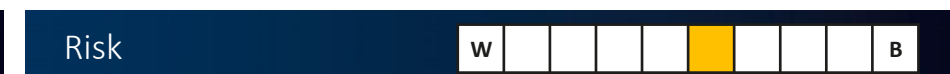
WCB

Risks



(%)	Dec-17	Dec-18	Dec-19	Dec-20	PTM**
Operating profit margin	8.9	9.0	11.1	9.1	12.2
Recurring net margin	6.2	6.6	8.1	6.5	9.3
Asset turnover	81.4	87.5	86.4	65.4	73.7
Return on assets	5.0	5.7	7.0	4.2	6.8
Recurring return on equity	20.4	22.3	26.6	15.5	25.1

(x)	Dec-17	Dec-18	Dec-19	Dec-20	PTM**
Price-to-sales	0.9	0.7	0.6	1.3	1.1
Price-to-earnings	15.0	11.4	7.0	20.4	11.8
Price-to-book	2.9	2.4	1.8	3.1	3.1
PE-to-EPS growth (PEG)	0.3	0.5	0.2	nm	0.1
EV/EBIT	12.9	10.3	6.8	15.9	10.9



(%)	Dec-17	Dec-18	Dec-19	Dec-20	PTM**
Revenue growth	10.2	17.5	10.5	(21.7)	5.7
Recurring EPS growth	47.7	24.3	35.9	(36.8)	102.7
Operating profit margin chg. (bps)	174	6	209	(197)	517
	6mth	3mth	1mth	3wk	1wk
Price change	(13.5)	2.5	(3.6)	(5.0)	(0.8)

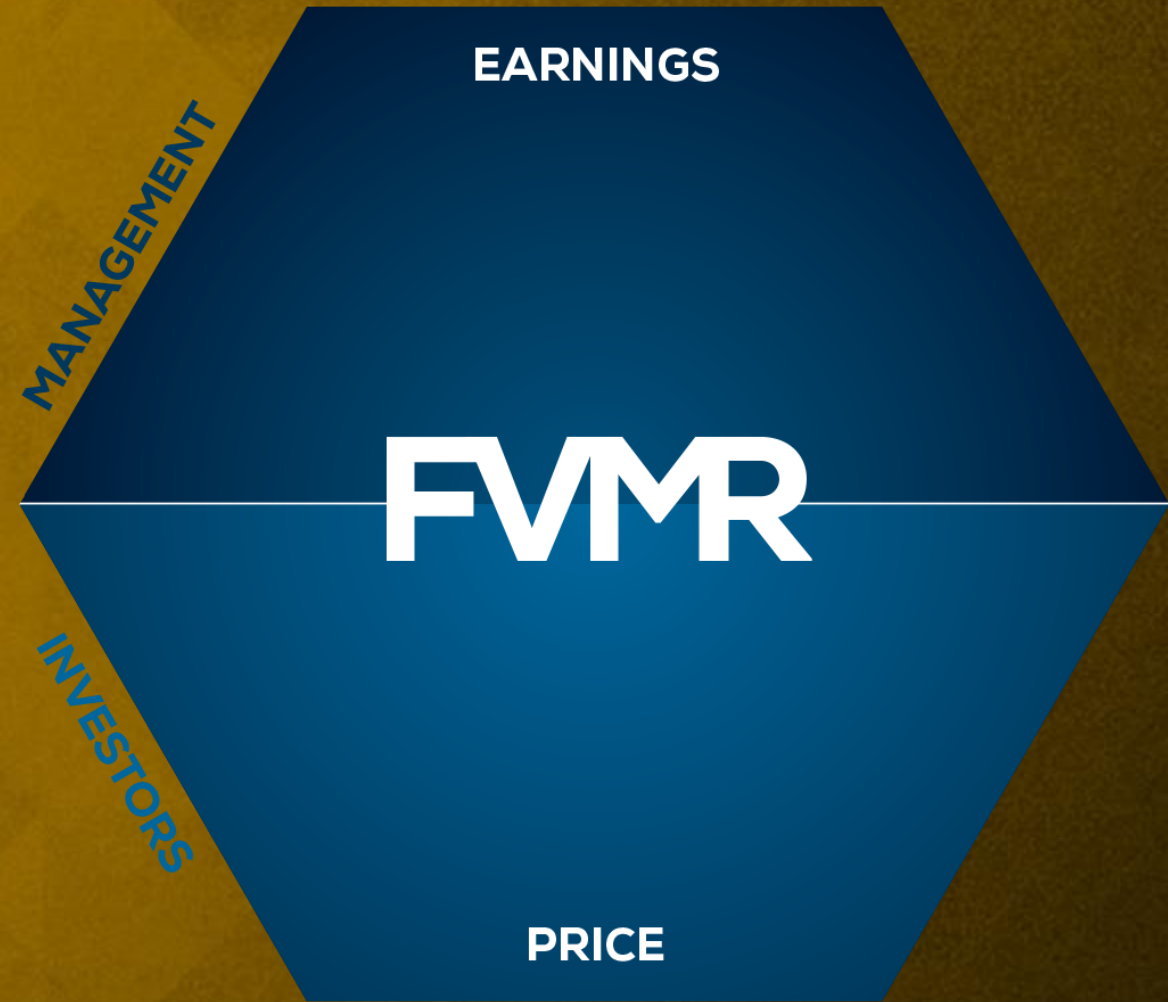
(x)	Dec-17	Dec-18	Dec-19	Dec-20	PTM**
Current ratio	1.1	1.2	1.4	1.4	1.2
Net debt-to-equity (%)	87.8	73.0	70.2	48.3	77.9
Times-interest-earned	16.0	21.2	28.6	22.8	37.7
	5yr	3yr	1yr	6mth	3mth
Beta	1.3	1.3	0.8	0.7	0.9

Note: Benchmarking against 190 non-financial companies in Sweden.



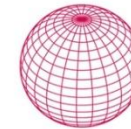
Recently, I created a short  
online course explaining my  
FVMR investing approach

Get \$97 value  
for FREE  
(limited offer)





# Consensus remains cautious but sees upside



VALUATION MASTER CLASS

Sales

Story

FVMR

Value

WCB

Risks

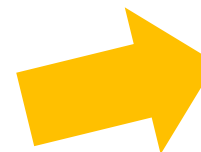
## Analyst consensus valuation

Recommendation	Oct-21	Nov-21	Dec-21	Current
Strong buy	5	5	6	6
Buy	13	12	12	11
Hold	4	5	5	6
Sell	2	2	2	3
Strong sell	-	-	-	-
Average score	2.1	2.2	2.1	2.2

Price target	Oct-21	Nov-21	Dec-21	Current
Median	241	240	240	240
Mean	238	238	238	239

#26  
analysts



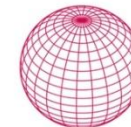
Upside: 9%

## Analyst consensus 3-year forecast

(%)	18	19	20	21E	22E	23E
Revenue growth	2.5	10.5	(21.7)	7.4	10.1	4.6
Gross margin	22.4	24.6	23.4	26.0	26.2	26.4
EBIT margin	10.4	10.8	9.1	11.4	11.6	11.8
Net margin	6.4	8.3	5.7	8.6	8.8	9.0

- ★ 17 analysts expect the company to outperform while 9 analysts still stay cautious
- ★ Analysts expect strong revenue growth in the next two years, but might be too pessimistic in 23E
  - Given that the global truck segment is expected to grow by 7-8% until 25E, I believe that Volvo can maintain a growth rate above 5%





Sales

Story

FVMR

Value

WCB

Risks

(YE Dec, kr m)	2019A	2020A	2021E	2022E
Revenue	431,980	338,446	364,168	396,943
Cost of goods & services	(325,603)	(259,319)	(274,583)	(297,707)
<b>Gross profit</b>	<b>106,377</b>	<b>79,127</b>	<b>89,585</b>	<b>99,236</b>
SG&A	(60,430)	(49,783)	(49,163)	(53,587)
Other operating (exp)/inc	922	1,439	1,439	1,367
<b>EBIT</b>	<b>46,869</b>	<b>30,783</b>	<b>41,862</b>	<b>47,015</b>
Interest expense (net)	(1,354)	(1,050)	(1,116)	(1,369)
Other non-operating inc/(exp)	(535)	64	-	-
<b>Earnings before taxes (EBT)</b>	<b>44,980</b>	<b>29,797</b>	<b>40,746</b>	<b>45,647</b>
Income tax	(10,337)	(5,843)	(9,779)	(10,955)
<b>Earnings after taxes (EAT)</b>	<b>34,643</b>	<b>23,954</b>	<b>30,967</b>	<b>34,692</b>
Equity income/Minority interest	1,224	994	991	1,678
<b>Earnings from cont. operations</b>	<b>35,867</b>	<b>24,948</b>	<b>31,958</b>	<b>36,369</b>
Forex/Exceptionals before tax	(7)	(5,629)	(0)	-
<b>Net profit</b>	<b>35,860</b>	<b>19,319</b>	<b>31,958</b>	<b>36,369</b>

★ Net profit sees a strong rebound in 21E and could exceed its pre-pandemic level in 22E

- The strong bottom-line is mainly driven by the margin expansion, but also strong growth prospects





Sales

Story

FVMR

Value

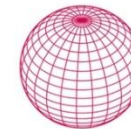
WCB

Risks

(YE Dec, kr m)	2019A	2020A	2021E	2022E
Cash & short-term investments	61,661	85,419	74,276	85,271
Accounts receivable	56,285	50,918	58,671	63,952
Inventories	56,644	47,625	64,832	62,022
Other current assets	107,597	96,154	80,117	87,327
<b>Total current assets</b>	<b>282,187</b>	<b>280,116</b>	<b>277,896</b>	<b>298,573</b>
Long-term investments	13,113	13,436	20,288	21,911
<b>Net fixed assets</b>	<b>96,822</b>	<b>87,075</b>	<b>88,800</b>	<b>90,680</b>
Intangible assets	13,687	12,349	11,597	11,895
Goodwill	22,981	22,228	22,228	22,228
Other long-term assets	96,047	95,617	98,486	101,440
<b>Total assets</b>	<b>524,837</b>	<b>510,821</b>	<b>519,294</b>	<b>546,727</b>

- ★ Net assets have fallen in 2020 after selling UD truck segment to Isuzu Motors
  - However, increased CAPEX for capacity expansion and battery development lead to increase in net fixed assets again





Sales

Story

FVMR

Value

WCB

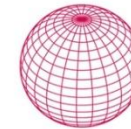
Risks

(YE Dec, kr m)	2019A	2020A	2021E	2022E
Overdrafts & short-term loans	55,769	58,028	59,217	60,401
Accounts payable	100,695	90,988	67,120	78,562
Other current liabilities	49,853	54,460	80,117	87,327
<b>Total current liabilities</b>	<b>206,317</b>	<b>203,476</b>	<b>206,454</b>	<b>226,290</b>
Long-term debt	100,095	94,750	96,617	98,549
Other long-term liabilities	76,747	64,453	58,008	52,207
<b>Total liabilities</b>	<b>383,159</b>	<b>362,679</b>	<b>361,078</b>	<b>377,046</b>
<b>Minority interest</b>	<b>3,083</b>	<b>2,847</b>	<b>3,334</b>	<b>3,888</b>
Paid-up capital - Common shares	-	-	-	-
Paid-up capital - Preferred shares	-	-	-	-
Retained earnings	129,004	145,281	154,868	165,779
Revaluation/Forex/Others	9,591	14	14	14
<b>Total equity</b>	<b>138,595</b>	<b>145,295</b>	<b>154,882</b>	<b>165,793</b>
<b>Total liab &amp; shareholders' equity</b>	<b>524,837</b>	<b>510,821</b>	<b>519,294</b>	<b>546,727</b>

★ The company is moderately leveraged

- In 2020, its net-debt to equity ratio stood at 0.9x





Sales

Story

FVMR

Value

WCB

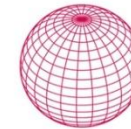
Risks

(YE Dec, kr m)	2019A	2020A	2021E	2022E
Net income	35,860	19,319	31,958	36,369
Depreciation & amortization	20,586	20,599	17,847	19,351
Calculated chg in net working capital	(27,630)	20,729	(7,134)	8,971
Other non-cash & balancing items	10,231	(30,037)	(991)	(1,678)
<b>Operating cash flow</b>	<b>39,047</b>	<b>30,610</b>	<b>41,680</b>	<b>63,014</b>
Capital expenditures	(14,591)	(10,974)	(18,820)	(21,530)
(Inc)/dec in other investments	402	1,033	(8,243)	(2,346)
<b>Investing cash flow</b>	<b>(14,189)</b>	<b>(9,941)</b>	<b>(27,063)</b>	<b>(23,876)</b>
Increase/(dec) in debt	9,342	7,321	3,056	3,117
Dividend paid	(20,335)	-	(22,371)	(25,459)
Change in equity	-	-	-	-
Others	176	(877)	(6,445)	(5,801)
<b>Financing cash flow</b>	<b>(10,817)</b>	<b>6,444</b>	<b>(25,760)</b>	<b>(28,143)</b>
<b>Net inc/(dec) in cash &amp; cash equi</b>	<b>14,041</b>	<b>27,113</b>	<b>(11,143)</b>	<b>10,995</b>
Beginning cash	47,093	61,661	85,419	74,276
Adjustment for historic data	527	(3,355)	-	0
<b>Ending cash</b>	<b>61,661</b>	<b>85,419</b>	<b>74,276</b>	<b>85,271</b>

★ Strong operating cash flow allows the company to resume its dividend payments in line with its pre-pandemic policy

- I expect dividend yield over the near-term to range between 2.5-3.5%





Sales

Story

FVMR

Value

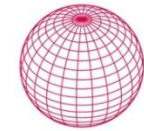
WCB

Risks

(YE Dec)	2019A	2020A	2021E	2022E
<b>General growth (YoY, %)</b>				
Revenue	10.5	(21.7)	7.6	9.0
Assets	10.6	(2.7)	1.7	5.3
Gross profit	21.8	(25.6)	13.2	10.8
Operating profit	15.0	(34.3)	36.0	12.3
Attributable profit	44.0	(46.1)	65.4	13.8
EPS	44.0	(46.1)	65.4	13.8
Recurring EPS	13.6	(34.2)	35.5	13.8
<b>Du Pont analysis (%)</b>				
Net profit margin	8.3	5.7	8.8	9.2
Revenue per kr100 of assets	86.4	65.4	70.7	74.5
Assets/equity (x)	6.6	6.7	4.4	3.3
Return on equity	47.0	25.0	27.4	22.7

- ★ After the revenue rebound in 22E, we assume revenue growth to normalize
  - Beyond 2022, I see a healthy annual revenue growth potential around 5%





Sales

Story

FVMR

Value

WCB

Risks

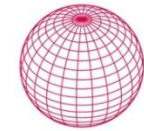
(YE Dec)	2019A	2020A	2021E	2022E
<b>Internal liquidity (x)</b>				
Current ratio	1.4	1.4	1.3	1.3
Quick, or acid test ratio	1.1	1.1	1.0	1.0
<b>Working cap. mgmt (Days)</b>				
Inventory conversion period	68	72	74	77
Receivables collection period	47	57	54	56
Days from raw mat to coll	115	129	128	132
Payables deferral period	114	133	104	88
Cash conversion cycle	1	(4)	24	44
<b>Profitability ratios (%)</b>				
Gross profit margin	24.6	23.4	24.6	25.0
EBIT margin	10.8	9.1	11.5	11.8
EBIT return on avg assets	9.4	5.9	8.1	8.8
Return on average assets	7.2	3.7	6.2	6.8

- ★ EBIT margin expansion in 21E likely to stay
  - This helps Volvo to be among the most profitable trucks manufacturer









Sales

Story

FVMR

Value

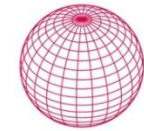
WCB

Risks

(YE Dec, kr m)	2019A	2020A	2021E	2022E
EBIT	46,869.0	30,783.0	41,861.6	47,015.5
<i>Est tax rate (%)</i>	23.0	24.2	24.0	24.0
<b>NOPAT</b>	<b>36,096.2</b>	<b>23,340.7</b>	<b>31,814.8</b>	<b>35,731.8</b>
Add: Depre & amort	20,586.0	20,599.0	17,847.2	19,351.5
Less: CAPEX	(10,637.0)	(7,951.0)	(16,144.3)	(17,597.3)
Chg in A/R	765.0	5,367.0	(7,753.5)	(5,280.4)
Chg in inventory	9,139.0	9,019.0	(17,207.0)	2,809.7
Chg in oth curr assets	(42,848.0)	11,443.0	16,037.1	(7,210.5)
Chg in A/P	(5,293.0)	(9,707.0)	(23,867.8)	11,441.4
Chg in oth curr liabs	10,607.0	4,607.0	25,656.9	7,210.5
<b>Less: Chg in working cap</b>	<b>(27,630.0)</b>	<b>20,729.0</b>	<b>(7,134.3)</b>	<b>8,970.7</b>
Less: Chg in invest cap				
<b>Free cash flow to firm</b>	<b>18,415.2</b>	<b>56,717.7</b>	<b>26,383.4</b>	<b>46,456.6</b>
<i>FCF per share (kr)</i>	9.1	27.9	13.0	22.8
<i>NOPAT growth (%)</i>	14.2	(35.3)	36.3	12.3
<i>FCF growth (%)</i>	(39.9)	208.0	(53.5)	76.1

- ★ Strong cash flow generation is crucial for returning dividends to shareholders





Sales

Story

FVMR

Value

WCB

Risks

Forecast assumptions			
3-year average	Consensus	My assumptions	
Revenue growth (CAGR)	7.3	7.5	7.5
Gross margin	26.2	24.9	24.9
EBIT margin	11.6	11.7	11.7
Net margin	8.8	9.0	9.0

My valuation method			
Market: Sweden			
Market risk-free rate	1.0	Valuation Method: FCFF	
Market equity risk premium	7.0		
Market return	8.0		
Company beta (x)	1.3		
COE	9.8		
WACC	7.2		
Terminal growth rate	3.0		

- ★ I see a slightly higher revenue growth than consensus
  - Tapping further into the Chinese market could constitute a catalyst for the share price
  - Truck market has favorable growth prospects





Sales

Story

FVMR

WCB

Ratios

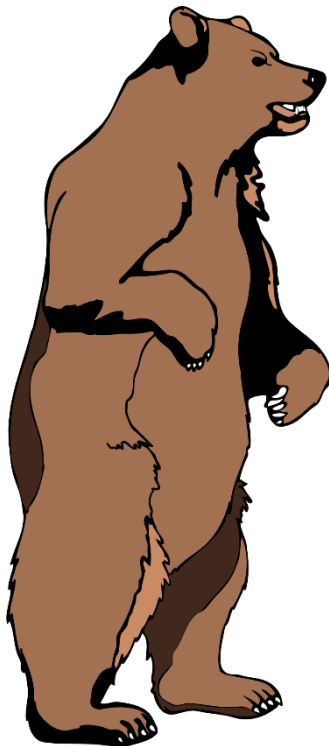
Value

Risks

**Bear**

**SEK248**

(Upside 12%)



**Base**

**SEK263**

(Upside 19%)



**Bull**

**SEK279**

(Upside 26%)





# World Class Benchmarking Scorecard

- ★ Identifies a company's competitive position relative to global peers
- ★ Uses a composite rank of profitability and growth, called "Profitable Growth"
- ★ Scale from 1 (Best) to 10 (Worst)





# Profitable Growth has been consistently strong



VALUATION MASTER CLASS

Sales

Story

FVMR

Value

WCB

Risks

Good  
profitability  
over time

Profitable Growth				
'17	'18	'19	'20	PTM
4	4	2	4	3

Growth  
returned to  
top 3

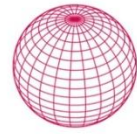
Profitability				
'17	'18	'19	'20	PTM
4	4	2	4	3

Growth				
'17	'18	'19	'20	PTM
3	3	2	8	3

Benchmarked against 1,480 large Industrials companies worldwide.



# Key risk is intensified competition in local markets



VALUATION MASTER CLASS

Sales

Story

FVMR

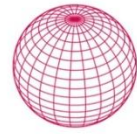
Value

WCB

Risks

- ★ Adverse regulatory environment in China could hamper business
- ★ Underestimating smaller local competitors could make expansion difficult
- ★ Failure to keep up with technological shift to long-distance EV vehicles





*World's second-largest manufacturer of trucks  
with a capacity of more than 200,000 units*

**Our estimate:**

**SEK263**

(Upside 19%)

**BUY**



## 3 things to know about this company

- ★ Acquisition in China to ride demand wave
- ★ Consistent value addition through strong profitability
- ★ Leading role in EV and hydrogen to reclaim market share

## Key statistics

Analyst consensus (26)

**SEK240**

(Upside 9%)

**HOLD**

PE ratio

**14x**

Dividend yield

**2.7+4.1\*%**

\*Extra dividend 2020



# CONCLUSION

---

- Riding demand wave in China is biggest potential for growth
- Fast adaption to EV and hydrogen give it a timing advantage in the market
- Industry-leading ROIC, but still trading at a discount

