Symmetry 2024 top picks

As we approach the new year, we have posted our updated views on our three highest conviction investments going into 2024. The companies are the three largest investments in Symmetry Invest as of 5th December 2023.

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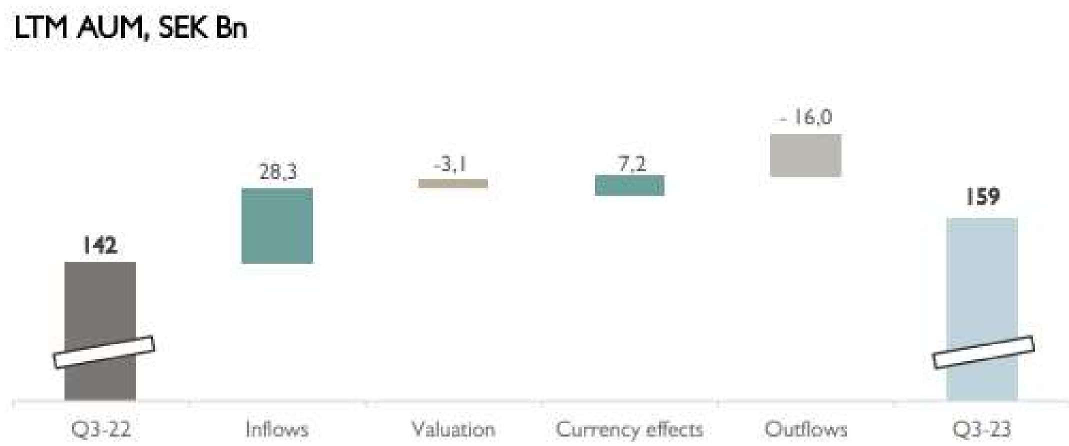
Catella AB

The Swedish listed property asset management company Catella has had a tuff 2023 with the stock price down 27 % YTD with further losses on the SEK weakening against the DKK/EUR. The underlying business has been resilient in one of the weakest property markets in several years. While Catella has not been immune to the downturn in the property market several important factors have helped them:

1) Catella has been significantly selling down assets in both principal investments (own book) and in the funds during 2020-2022 as Catella management recognized the hot market was about to turn.
2) This has led Catella to run with a net cash position during a time when most property companies have struggled with their debt.
3) While listed as a "Swedish property stock" – Catella is really anything but that. +80 % of the value of Catella comes from the asset management business where they mainly collect monthly fixed fees from managing property funds. A low-risk business. Only a small fraction of the AUM managed is from Sweden.

While the fundraising environment has also weakened, the existing AUM is extremely sticky. Total organic AUM has thus been flat during the year but up around 15 % including currency and M&A.



With a strong balance sheet and cash in the funds, Catella can take advantage of the weak market to build for the future.

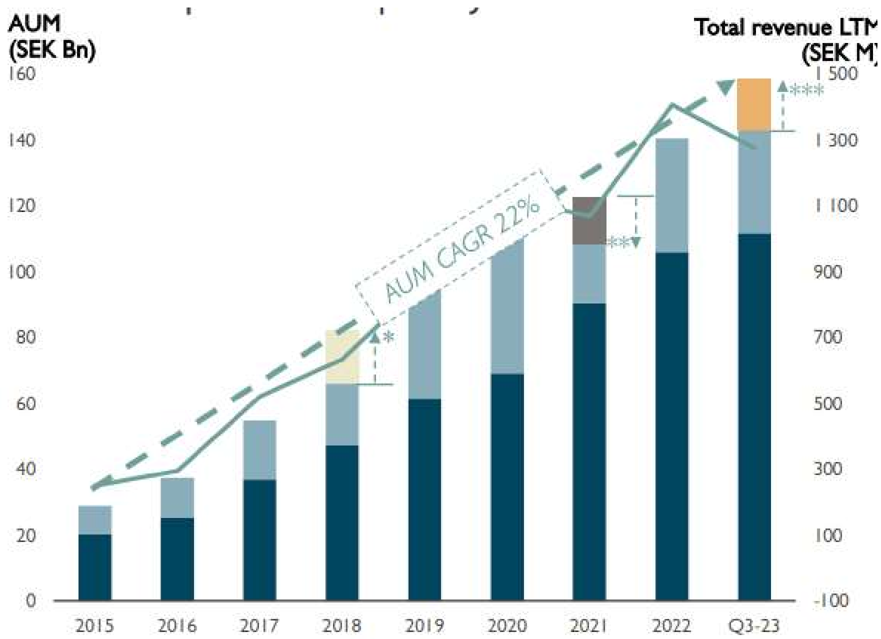
They have been reinvesting free cash in the funds in higher yielding assets and used their own balance sheet to buy a French platform in Aquila, growing AUM 10 %. We think Catella is still looking to keep playing offense in this market and add more inorganic AUM.

We think the stock has been down this much YTD for several reasons:

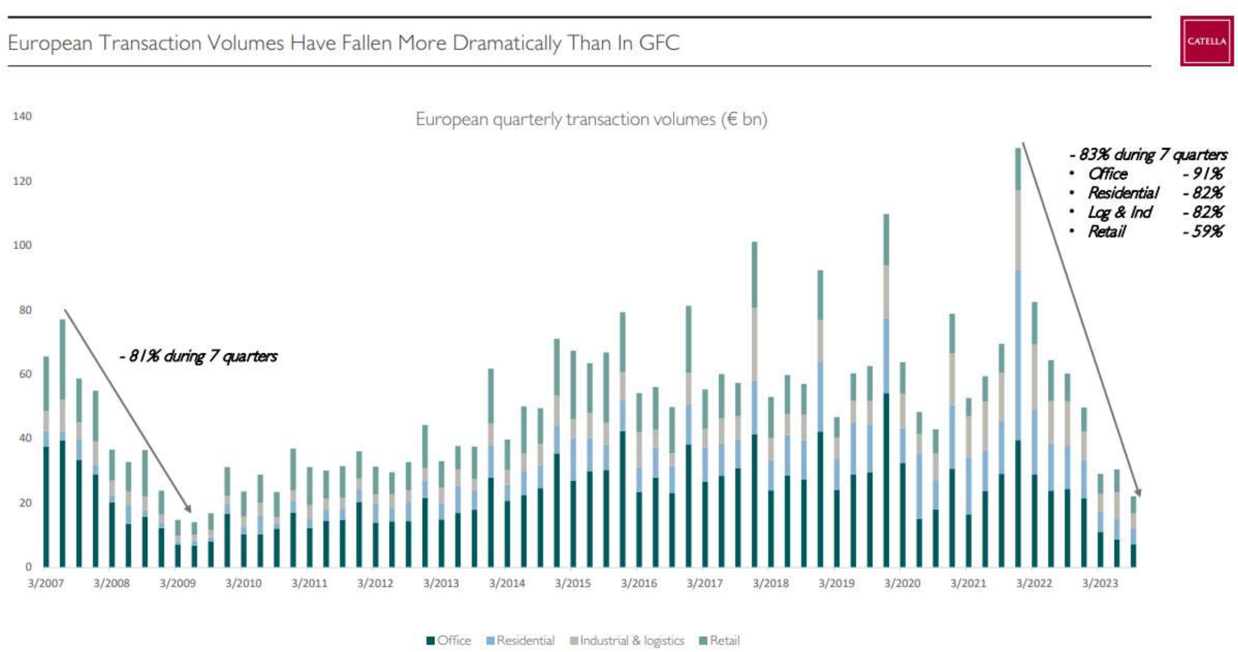
1) It was grouped together with other Swedish property stocks in H1 2023 and declined with the market.
2) It has not recouped the losses in H2 as funds have mainly flown back into the larger, more liquid, and more levered (higher beta) names.
3) The stock has had 2 big sellers – a distressed real estate developer and an investment fund with capital outflows.

We do not think any of these factors are structural and think Catella management is doing everything right, taking advantage of the weak market to build for the future.

Looking at the larger picture, Catella has still managed to grow AUM with a 22 % CAGR over the last 8 years, mainly organic and without any dilution.



The current market, based on transaction volumes (a key driver for all 3 Catella segments), has been down more than during the global financial crisis:



This will not continue forever. With interest rates already declining and comparables becoming extremely easy, we should see a reversal of this trend coming into 2024.

Valuation

What we really like with Catella (outside the strong management team and market position) is the insanely cheap valuation of the shares:

The first thing to get right is the enterprise value:

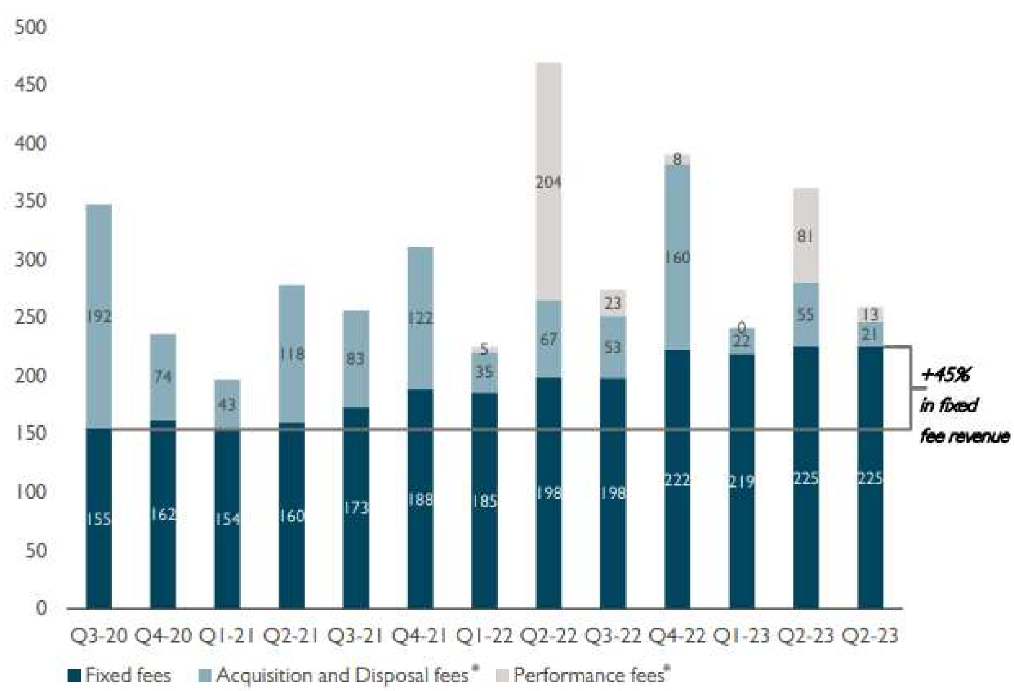
	incl. Kaktus	excl. Kaktus
Market Cap	**2.350**	**2.350**
Cash	-1.139	-1.139
Bond loan	1.240	1.240
Principal investments	-1.709	-2.880
Project debt	0	1.171
Enterprise Value	**742**	**742**

Here we have shown the calculated EV both with Kaktus project consolidated and on a net equity basis. We have several times seen analysts include the project debt from Kaktus but not the gross value of the real estate. In this way you are getting the EV calculation wrong with more than a billion SEK.

We also think it's a rather conservative approach to EV as all principal investments are held on the balance sheets at the lowest level of either cost or net realisation value. Properties have not been written up doing the bull market but kept at cost. In the past properties have been sold at a huge premium to book value.

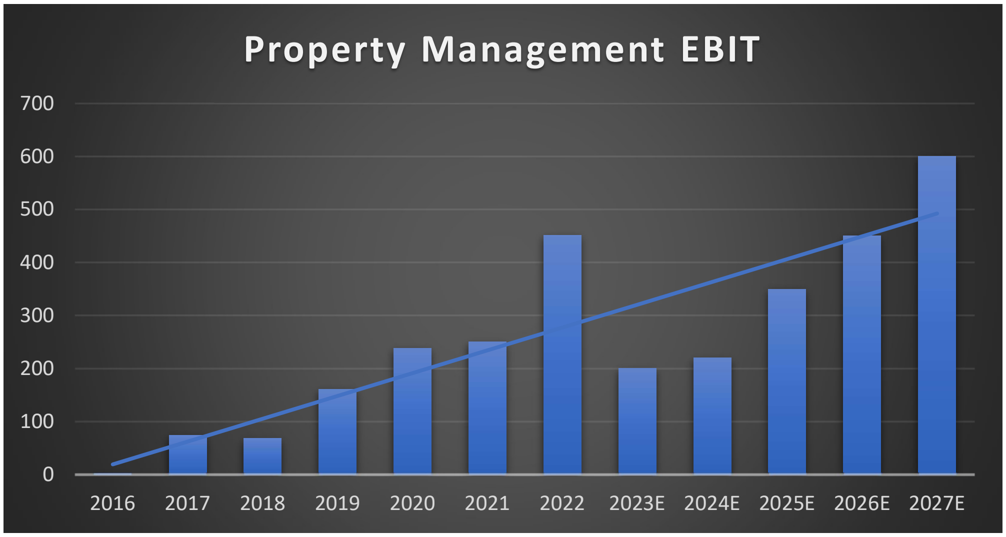
We do not ascribe any value to the corporate finance segment as we think it will net out the corporate overhead costs over time.

We are currently paying around 750 million SEK for the asset management business. What are we getting for that?



While acquisition and disposal fees are currently low and performance fees will be limited in the coming years, Catella is still earning a strong profit just based in the monthly fixed fees.

Looking at the historical numbers, EBIT expanded significantly from 2016 to 2022 as AUM grew and Catella reached critical scale in several areas of the business.



While 2023 and 2024 will be hard years with low transaction and performance fees, Catella will still be highly profitable. We expect transaction fees to start coming back in the end of 2024 and into 2025/2026 with more significant performance fees to come in 2027.

But what valuation are we then paying for Catella shares?

	Low	High	Mid
EBIT	200	500	350
EV/EBIT	**3,7**	**1,5**	**2,1**

As shown above, we think 2023/2024 will be low-cycle EBIT with around 200 million in EBIT. Currently we estimate the business can earn +500 in a bull-market. As shown on the trend-line we think "mid-cycle-earnings" currently is around 350 million SEK yearly EBIT.

Compared to the enterprise value today for Catella, investors are thus only paying 3,7 times current EBIT and around 2,1 times mid-cycle EV/EBIT.

We simply think such a low earnings multiple is absurd for a business with highly sticky monthly recurring revenue that has compounded at a 22 % CAGR over the last 8 years.

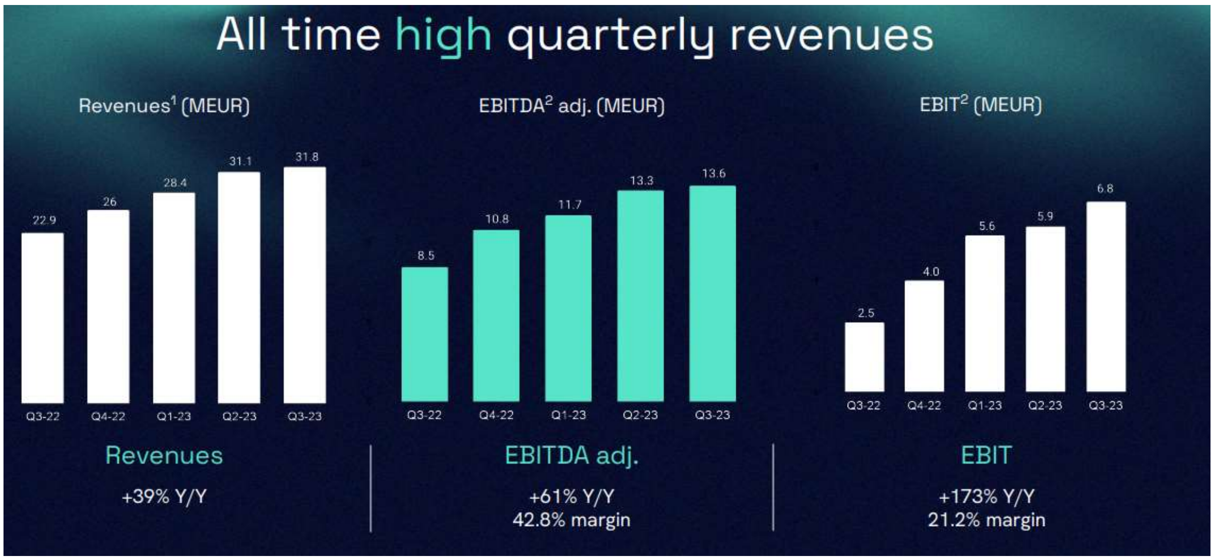
We also think there is several short-term triggers for the stock to re-rate upwards.

1) We are still bullish on the Kaktus project and think it can be sold at a 200-400 million SEK profit within the next 6 months. This would both reduce the enterprise value and multiple further and simplify the balance sheet and equity story.
2) The large overhang in the stock from the current #4 largest shareholder could be removed if he manages to sell his shares. We think a lot of investors are waiting on the sideline until the overhang has been lifted.

Gaming Innovation Group

Gaming Innovation Group have had a strong 2023 business wise with high growth and expanding margins. The stock price is up only 4 % in SEK terms and around flat in DKK/EUR terms. With earnings growing fast and the stock being flat, multiples have contracted significantly for GiG.

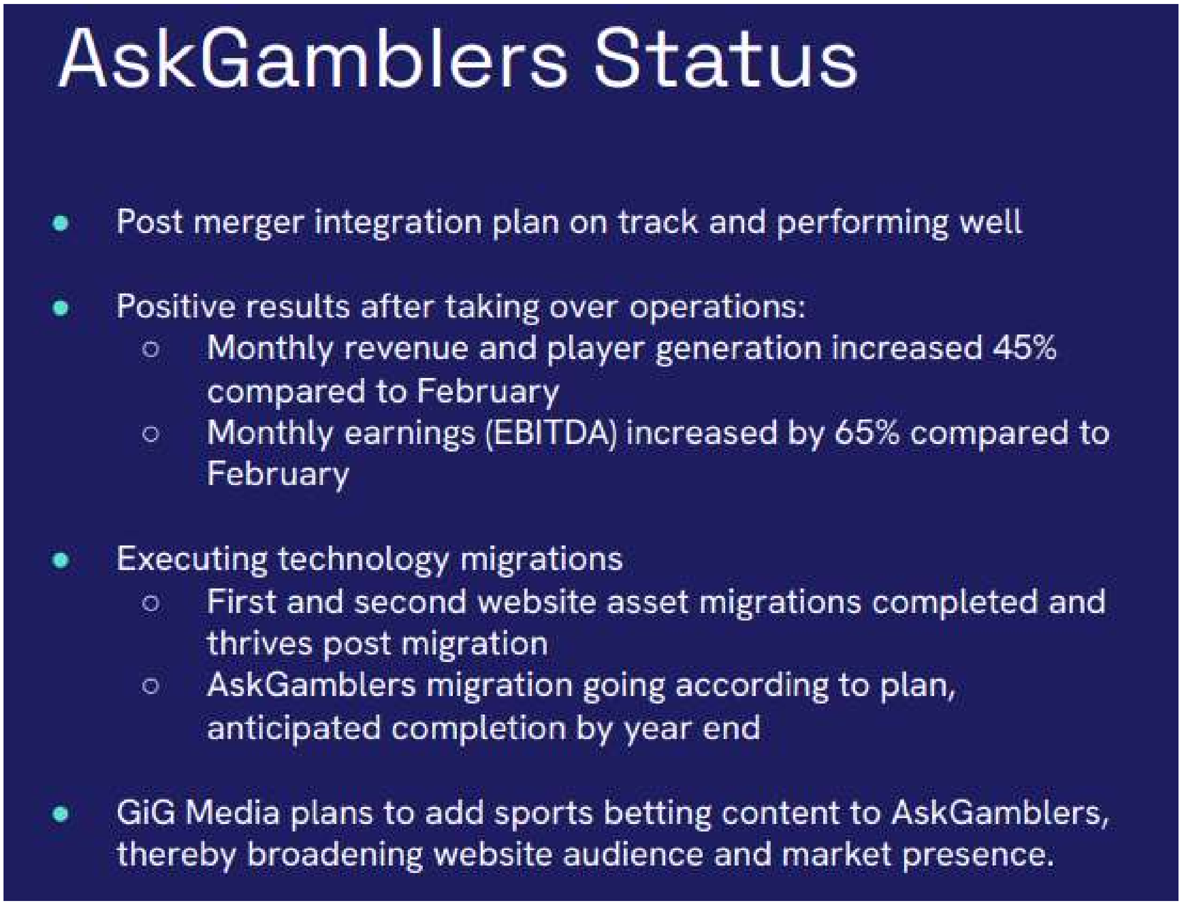
The interesting part with GiG is the upcoming split of the Media business and the Platform business which is currently planning to happen in H1 2024. As the company already provides good segment disclosures, we can already now do a SOTP analysis and use peer comparables.



As we see above the business has continued its strong performance in 2023. On top of the strong business performance and the upcoming split, GiG also recently disclosed the acquisition of KaFe Rocks that will strengthening the media business in 2024:

This deal is important because it comes on top of the AskGamblers deal in December 2023 that crystalized the capabilities of GiG Media and their ability to acquire and integrate assets. Remember GiG Media bought AskGamblers for only 2-3 x EBITDA as AG was a declining asset at the time of the acquisition and only few people believed in it.

But in just 6 months GiG has not only managed to stop the decline, but they have also managed to increase player intake with 45 % and EBITDA with 65 %.



We are looking forward to seeing what they can achieve with KafeRocks. Together with the KafeRocks deal GiG provided 2024 guidance for the Media segment of 125-135 million EUR. We think they are again conservative and will achieve around 140 million EUR with a 46 % margin, those achieving around 65 million EUR in FY24 EBITDA for GiG Media alone.

Valuation

Looking at the two closest peers of GiG Media we have Better Collective and gambling.com. Both are listed companies, they are large companies, and they are also growing companies (unlike some of the smaller peers like CTM, XLM etc.)

	FCF multiple	EV/EBITDA
Better Collective	12,5	10,5
Gambling.com	11,1	8,9
Median	**11,8**	**9,7**
GIG	43	65
Valuation	507	531
Per share	**45**	**47**

Using the median level of the 2024 estimates for the 2 peers on both a FCF multiple and EV/EBITDA multiple, GiG Media is currently worth around 46 SEK per share.

The platform segment is harder to value. We think it will deliver around 15 million EUR in EBITDA for FY24. There are many different peers, but many are much larger and some also operates in other verticals. We think the most direct peer is Bragg Gaming as its around the same size and within the same segments. Bragg trades around 6x EV/EBITDA

	EV/EBITDA
Bragg multiple	5,9
GiG Platform EBITDA	15
Valuation	88,5
Per share	**8**

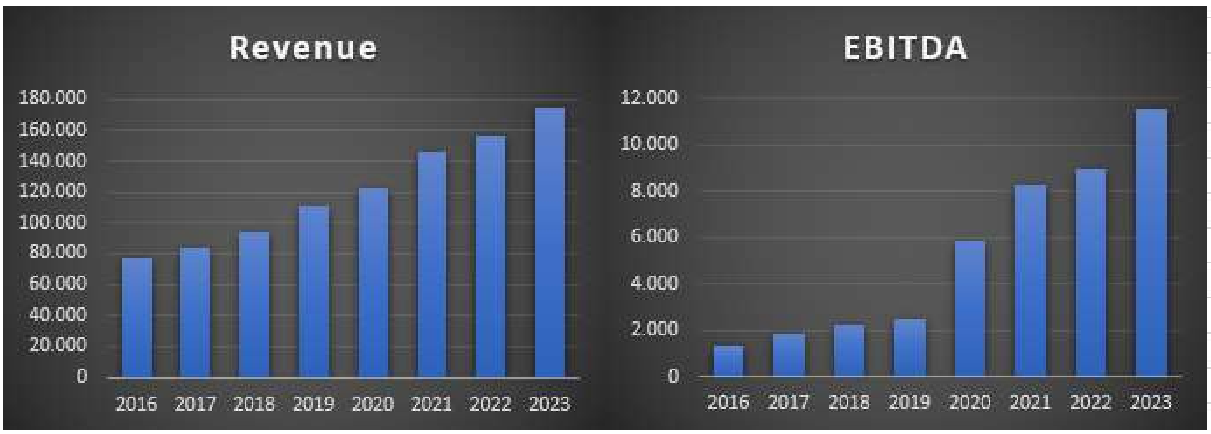
In summary: Using a simple peer group analysis ahead of the upcoming split of Gaming Innovation Group indicates to us a fair value of around **54 SEK per share**. This is a return of around 100 % just from the rerating.

But we think the estimates we use are conservative (see decent upside) and we also think some of the peers are cheap. We think both GiG Media and Better Collective should trade closer to 14-16 x EV/EBITDA as they are asset light business models growing +20 % organic. In that scenario the fair value for GiG would be closer to 85 SEK per share or around 200 % upside from the current share price.

JDC Group

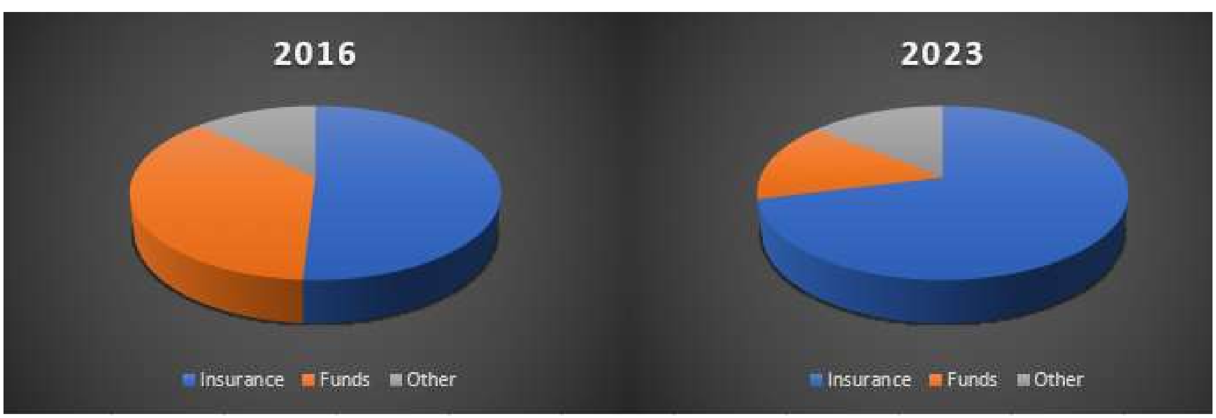
JDC Group is another stock that many investors have lost patient in and sold out of in 2023. We love situations when a company is improving structurally while short term investors and traders gets impatient and sell the stock. As we are quite certain the best is yet to come in JDC, we have accumulated a lot of shares in FY23 and expect a strong 2024.

Firstly, I don't think the management team is getting enough credit for their performance. They have kept delivering good numbers in both good and bad market environments. Over the last 7 years revenue, has gone up 135 % and EBITDA 10x



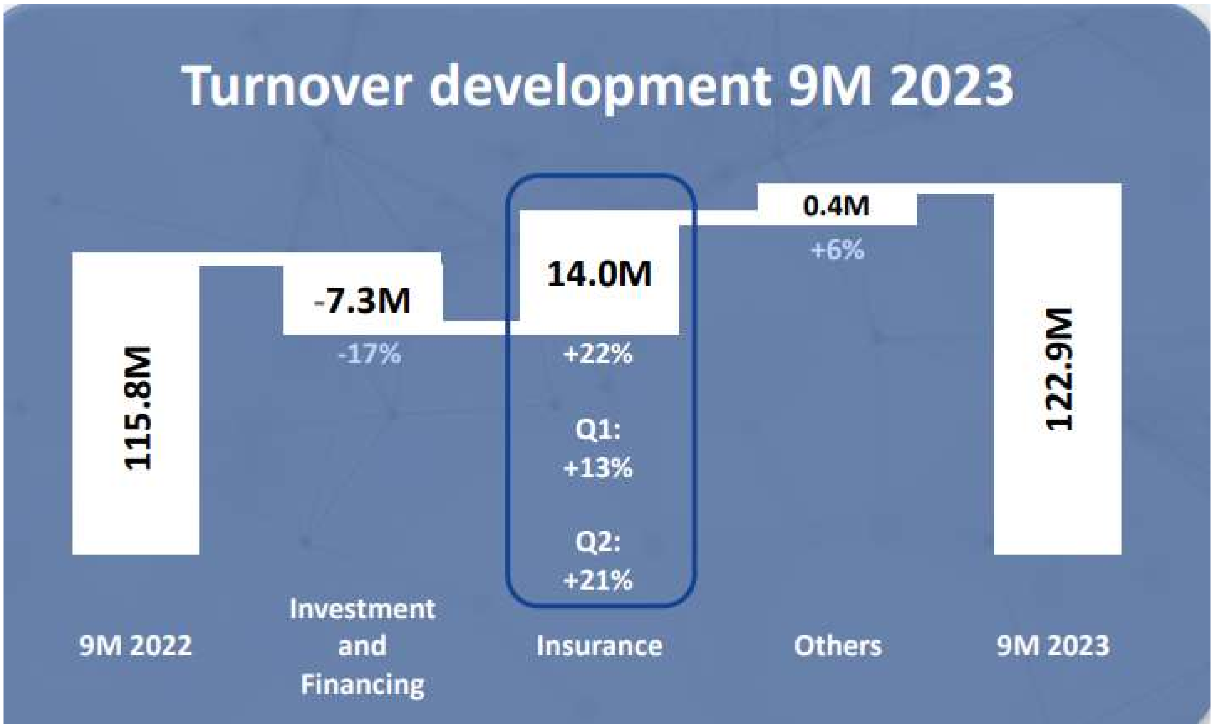
The revenue has gone up 13 % per year during these 7 years. But even more important to us is that the quality of the revenue has improved a lot. We are invested in JDC because we like their InsurTech business and the structural growth they can achieve here.

But back in 2016 we estimate that only around 55 % of JDC revenue came from insurance. The remaining was funds and other (loans, consulting, software fees etc.)



The revenue CAGR for the insurance business we estimate have been +20 % per year over the last 7 years.

This trend has been even more elevated in 2023 so far:



As can be seen above, the insurance business has grown 22 % YTD and even more (+25 %) in the recent Q3. Some people have lost patient in management and the equity story here because the overall revenue only is up 7 % YTD.

But with insurance now approaching 70 % of the whole business, coming into 2024 that will have a profound effect on reaccelerating the overall revenue growth for JDC. And with easy comps starting in Q4 2023 the investment and financing business will not be a drag anymore.

We will not dig deeper into what JDC does, their market position etc. as we did that fairly deeply in our 2021 initiation 2021 report and the 2023 follow up 2023 report.

But as the business is starting to ramp the new deals (we can already see the results with +25 % insurance growth in Q3) we are positive for a reacceleration going into 2024.

One thing is to be a great operator, but if management teams don't understand capital allocation, they will end up wasting all the cash flow they generate. JDC management is performing an A+ here just looking at their recent track record:

1) H1 2020: JDC buyback shares at 6,1 as retail dump the stock during Covid.
2) September 2021: JDC issue stock to strategic partner VKB at 19,7 EUR
3) H2 2022: JDC buyback stock at 17,4 as retail sell down the stock after Ukraine war.
4) September 2023: JDC Issue shares to strategic partner Provinzial at 19 EUR
5) November 2023: JDC start new buyback program with stock at 17 after Q3 selloff.

Valuation

While we think the business is doing much better than the numbers show, we think the biggest misunder-standing of the company is the valuation. There are several reasons why EBITDA or FCF multiple is the best metric to value the company:

1) JDC amortize around 6 million EUR per year from prior investments and M&A but only capitalize around 2 million per year. Including leases payments of 1 million this "underreports" the true earnings with 3 million EUR per year.
2) JDC has significant tax-loss carry forwards from prior losses dating back to the financial crisis. JDC will those not be a significant taxpayer the coming 6-8 years. Actual cash taxes those underestimate the reported tax rate.
3) JDC operates with a significant negative working capital balance of around 12-16 % of revenue. This is because JDC collects commission from insurance companies upfront and then it takes a few months for them to calculate and pay out the commission to the brokers.

All these factors together means that while JDC group looks expensive at a P/E ratio of 45x 2023 and 25x 2024, the free cash flow multiple is significantly lower.

Looking at the past 4 years, the company have on averaged converted 80 % of EBITDA to free cash flow. We do not think that metric will change much over the next 4-5 years. So, while we normally do not like to use EBITDA as the best valuation metric, in this case it is a good proxy for underlying earnings/free cash flow.

Management has in the past guided to around 25 million EUR in 2025 EBITDA. We think that is achievable. With an 80 % FCF conversion, 2025 FCF is around 20 million EUR. That is only an 8x FCF multiple.

	2023	2024	2025
Enterprise value	200	180	160
EBITDA	11,5	17	25
EV/EBITDA	17	11	6
FCF multipel	**21**	**13**	**8**

We still think a business like this with fast growing recurring revenue and excellent management team and market positions should trade at a +20x FCF multiple. We therefore still think the stock is worth +50 EUR or a 200 % premium to the current stock price.