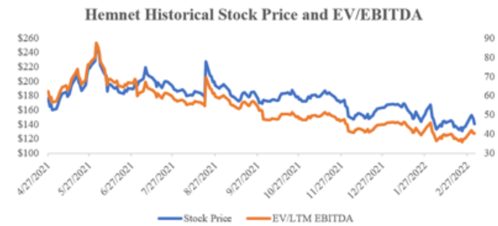
LONG Hemnet (STO: HEM) | 1-YR PT: SEK 170 (21.4% upside) **Analyst: Ma Lang ml3175@gsb.columbia.edu**

KEY STATISTICS & TRADING CHART

Current Price (SEK)	140	**Average Vol. (65-day avg.)**	202,513
52 Week Range (SEK)	124 - 257	**EV/EBITDA**	40.5x
Shares Outstanding (million)	101	**Net Debt/EBITDA**	0.6x
Market Cap (SEK, million)	14,180	**Float %**	71%
Net Debt (SEK, million)	189	**YTD Price Change/%**	-27.9/16.6%
Enterprise Value (SEK, million)	14,369	**12-mo Dividend Yield**	0.4%



EXECUTVE SUMMARY

Hemnet is the leading property classifieds portal in Sweden. It generates 9x the traffic volume and enjoys an audience 11x larger than the No. 2 provider. 90% of properties sold in Sweden are listed on Hemnet. Hemnet has a strong pricing power that has been far under-exploited in an attractively structured and resilient end market. I foresee steady top line growth and sustainable margin expansion, and I believe that **Hemnet is currently undervalued because the market 1) underappreciates its pricing power and speed for carrying out price increases, 2) underestimates the significant B2B value capture potential in short to medium term, and 3) misses the downside protection provided by cash return potentials.**

COMPANY OVERVIEW

Hemnet was founded in 1998 by two organizations that represent estate agents. The company enjoyed a first mover advantage, and initially only charged for advertising. It did not start charging listing fees to sellers until 2013. In 2016, the business was bought by a consortium of buyers including General Atlantic, Sprints Capital, and Sweden's two largest agencies Svensk Fastighetsförmedling and Swedbank Fastighetsbyrå. Since then, company has become more commercial and stepped up its monetization efforts. The company went public in April 2021, pricing at SEK 115/share. As of today, General Atlantic owns 32.4%, Sprints Capital owns 9.3%, and Mäklarsamfundet, one of real estate agencies that founded Hemnet, owns 10.5%.

Hemnet generates 60% of its revenue on the B2C side, directly from property sellers, and 40% of its revenue on the B2B side, from agents, developers, banks, and others. On the B2C side, Hemnet offers 3 listing packages: Bas, Plus and Premium. **Bas** is the default package, with two thirds of sellers going for this option. **Plus** offers large pictures and more exposure in searches. **Premium** offers two extra pictures on top of Plus, as well as exposure to sites outside of Hemnet. As of 4Q21, Plus and Premium has one third in penetration. Hemnet also offers two side products, **Raketen**, which pushes seller's listing to second position in search results, and **Republishing**, which resets prior listing data so that a listing gets renewed. As of 2021, 14% of listings use Raketen and 12% of listings use Republishing. Sellers purchase packages from Hemnet, and Hemnet reimburses agents 30% of the base listing fees (formerly 50% prior to pricing model change in 2021) and additional commissions.

On the B2B side, Hemnet mainly charges for display advertising, which made up 28% of revenue. Outside of that, there are 2 main products: 1) **Hemnet Business**, which gives agent listings enhancement and insight tools as a subscription service, and 2) **Mäklartipset**, which allows agents to feature their listings at the top of search results. Apart from those, real estate developers typically pay Hemnet for yearly subscription on listings, and banks pay to be part of the mortgage calculator on the website.

INVESTMENT THESIS

#1 – I expect Hemnet to see solid and sustainable margin expansion as it gradually steps up the pricing runway in Sweden's attractively structured and resilient end market.

Hemnet's end market is uniquely resilient and stable. In 2008, transactions fell 11% in Sweden vs. 47% in UK, and during the pandemic, they grew 5% in Sweden vs. -11% in the UK. **Hemnet is essentially an unregulated monopoly due to its network power and solid agent relationships.** It faces little competition: other players like Booli and Boneo don't even come close in terms of inventory and traction. The second largest player, Booli, faces "risk of losing much if not all of its listings because they scrape object content from real estate agencies websites, and do not own rights to even show images", according to my chat with Fredrik Engdahl, CEO of Boneo. Boneo, meanwhile, does not manifest strong traffic even with a decent inventory, as it receives a 0.2m visits a month (vs. Hemnet's 18.0m), based on my conversations with Hemnet IPO teams at Morgan Stanley and Barclays.

As of 2022, Hemnet takes roughly 0.06% of the transaction value, which is significantly lower compared to its developed market peers (UK's Rightmove charges 0.12%, Germany's Scout24 charges 0.14%, and Australia's REA charges 0.33%). Hemnet's 2021 EBITDA margin is 48.8%, compared to Rightmove's 67.4%, REA's 62.4% and Scout24's 56.0%. While management guides to a 45-50% margin, I believe the guidance is conservative, and I see no reason why Hemnet's margin will not converge to that of its developed market peers' ~60% average level. **During my interview with Mats Brandt, former CEO of Hemnet, he commented that the sponsors' ultimate and priority goal is to eventually monetize as much as global developed market peers, and the company is still on track to that.** Even though there have been attempts by agents to push back on the price increases, no agents left the site after the pricing model change in 2021, further demonstrating Hemnet's strong pricing power. In my model, I expect Hemnet to continue gradually ramping up its captured share of the total transaction value to a 0.14% by 2026 and 0.30% eventually in a steady state. The new pricing model introduced in 2021 will continue to yield acceleration in growth in terms of ARPL (average revenue per listing) and listings, since agents need to upsell to capture more commission. Based on the code price checker, Hemnet has increased price slightly again in February 2022, and very few people noticed it because it's a small change. I think the market undervalues Hemnet's ability to gradually align its value with pricing, since there's quite a bit of investor skepticism on Hemnet's ability and pace for raising price without pushbacks.

#2 – Hemnet has plenty of room for growth into additional TAM on the B2B side, which it has barely captured so far. Hemnet has plenty of TAM room to grow into on the B2B side, as it monetizes its existing products and introduce new products in the future. **According to Hemnet, by 2026, total TAM in B2B alone is estimated to be SEK 2.7-4.3 billion.** Based on the midpoint of the company's estimates, I have created the following chart to illustrate the opportunities and drivers:

Plenty of Room for Growth into TAM

(SEK, bn)		**B2C**	
B2B		Core Online Property Classifieds	1.9
Real Estate Agent Marketing Spend	1.1	**Total TAM**	**5.4**
Developers Marketing Spend	1.0		
Banks Display + Lead Generation Spend	0.5	Hemnet 2021 Revenue	0.7
Insurance + Utility Contract Spend	0.3	B2B Revenue	0.5
Rentals	0.4	B2C Revenue	0.2
Commercials	0.1	**% Current Total TAM Capture**	**14%**
Holiday Lets	0.1	% Current B2B TAM Capture	25%
Total B2B	**3.5**	% Current B2C TAM Capture	4%

Customers	Current Spend (SEK, bn)	Future Spend 2026 (SEK, bn)	% Growth	Annual CAGR	Drivers
Agents	0.25	1.10	340%	134%	Price increases & new products in pipeline
Developers	0.15	1.00	567%	146%	Tailored products
Banks	0.30	0.50	67%	111%	Mortgage lending growth
Subtotal	**0.70**	**2.60**	**271%**	**130%**	
Rentals	0.04	0.40	900%	158%	High demand low supply
Insurance/Utility	N/A	0.30	NM	NM	Tailored new products
Commercials	0.09	0.11	17%	103%	New rental penetration
Holiday Lets	N/A	0.05	NM	NM	Can penetrate quickly
Total B2B	**0.83**	**3.46**	**315%**	**133%**	

Based on conversations with 3 former developers, I believe Hemnet is prepared to roll out new features and products, including more personalized and tailored products for agents and developers, to further capture the TAM in the short to medium term. They took advantage of extensive existing user data to predict customers' future interests and potential spending. I am forecasting a 10.7% annual CAGR for 2021-2025, which I believe is quite conservative.

#3 – Hemnet has very strong free cash flow conversion, and management prioritizes returning cash to shareholders as regular part of its capital allocation policy.

As a result of low CapEx (SEK 7 million in both 2021 and 2020) and low working capital intensity (SEK 3.3 million in 2021 and SEK 1 million in 2020), the company has very clean FCF conversion. The company earned SEK 369 million of FCF in 2021 and SEK 196 million in 2020, and in my model, I am forecasting SEK 636 million in free cash flow by 2026 based on a similar level of FCF conversion rate. Since the company has limited acquisition options due to antitrust regulations, the excess cash flow will most likely be returned to shareholders. Net debt/LTM EBITDA is 0.6x as of 4Q21, which is very low considering that company's target leverage level is <2.0x. **If company is going to keep the same leverage profile going forward, I believe it can easily return at least SEK 300 million every year from 2022E onwards in the form of dividends and stock buybacks. Management is willing to consider issuing debt to return additional cash to shareholder.**

 # ESG Highlights include female CEO, 52% of female in management in 2021, no management on board, and high employee satisfaction rate. Although Hemnet is not rated on Sustainalytics, its peers all have good ratings and are considered ESG friendly investments (REA scores 16.7, Rightmove scores 19.1, Scout24 scores 17.3, and they are all in the low ESG risk category).

VALUATION

I used a DCF model to come up with the base case 1-year price target of SEK 170, based on a WACC of 7.8%:

DCF Valuation (SEK million except PT)	
PV of FCF	8,256
Terminal Value	9,143
Enterprise Value	**17,399**
Net Debt	(197)
Equity Value	**17,202**
Shares Outstanding	101
Implied Equity Value per Share	**170**
Base Case Terminal Take Rate	0.28%
Base Case 2026 Take Rate	0.14%

WACC	
WACC Calculation	
Risk Free Rate	3.5%
Equity Risk Premium	4.4%
Beta (long term)	1.1
Debt:Equity (long term)	20.0%
Corporate Debt Premium	2.0%
Cost of Corporate debt	5.5%
Cost of Equity	**8.3%**
WACC	**7.8%**
Terminal Growth Rate	3.0%

(SEK)	Bull	Base	Bear
Terminal Take Rate	*0.35%*	*0.28%*	*0.20%*
2026 Take Rate	*0.16%*	*0.14%*	*0.11%*
2026 Revenue (million)	1,529	1,394	1,180
21-'26 Revenue CAGR	14.0%	12.8%	6.8%
2026 EBITDA (million)	963	856	649
2026 EBITDA Margin	63.0%	61.4%	55.0%
Terminal EBITDA Margin	66.0%	62.0%	57.0%
Price Target	218	170	130
%Upside/Downside	*47.4%*	*15.0%*	*-12.2%*

KEY RISKS

1. **Threat of competition.** In the words of Mats Brandt, former CEO of Hemnet, "the competitive forces that Hemnet need to worry about are the ones that are not in this market yet." There is possibility of an established company like Zillow or Facebook, or a smaller firm with groundbreaking technology, coming in and disrupting the space. However, it takes time and capital to build the network power, and Hemnet has not seen any material challengers yet.
2. **Seller upselling proving harder than expected.** Some investors are skeptical of the upselling potential, since it only takes 22 days on average to sell a property in Sweden – sounds like a basic package is good enough. However, sellers usually take their agent's advice on which package to choose, and agents are strongly incentivized to upsell under the new pricing model.
3. **2022 Swedish election.** If a new party comes into power, it can disrupt Hemnet's end market. However, based on all the major poll results in 2022 so far, the Swedish Social Democratic Party is expected to hold onto its power.