Technology - Telecommunications Equipment

ERICSSON B

SE0000108656 | ERICB | Sweden — Analysis of **29-Jul-2020** — Closing Price of **28-Jul-2020** — SEK 101.00

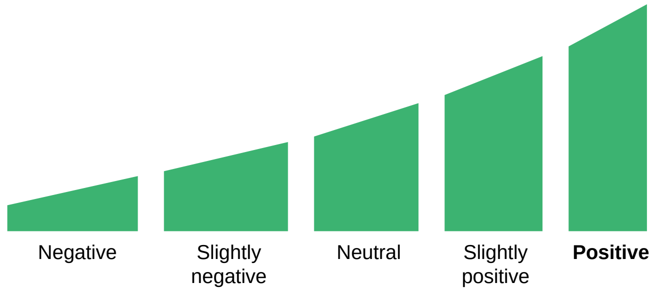
ERICSSON B active in the sector Telecommunications Equipment, belongs to the industry group Technology.

Its market capitalization of USD 38.71 bn. ranks it among large-cap stocks.

During the last 12 months this stock has reached a high of SEK 104.15 and a low of SEK 65.02; its current price of SEK 101.00 places it 3.0% under its 52 week high and 55.3% over its 52 week low.

Performance since July 26, 2019: ERICSSON B: 18.1%, Technology: 16.0%, DJ Stoxx 600: -5.9%

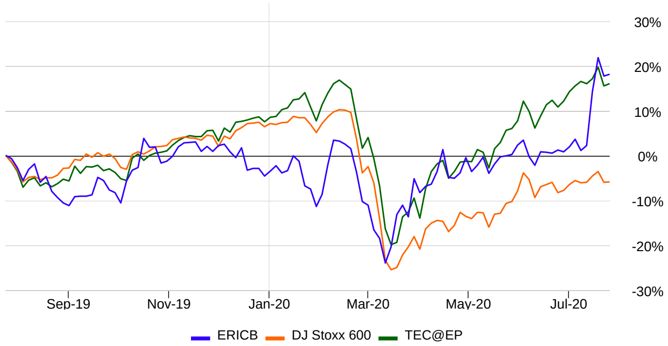
Global Evaluation



Company Name	Price	Perf YtD	Mkt Cap in $bn	Stars	Sensitivity	LT P/E	LT Growth	Div	4wk Rel Perf	Global Evaluation
ERICSSON B	101.00	23.8%	38.71	★★★★		14.4	17.3%	1.9%	14.1%	
Technology (EP)	129.00	7.8%	963.80	★★★★		20.7	22.4%	1.2%	1.4%	
DJ Stoxx 600	368.00	-11.6%	12,487.88	★★★★		14.1	18.9%	3.0%	2.6%	

Comparison

July 26, 2019 - July 28, 2020



The four-week relative performance against the reference index DJ Stoxx 600 is 14.1%. The technical trend is also positive, which validates this overperformance and confirms the investors' interest in this stock.
The four-week relative performance of its reference group Technology is positive.

Dividend
The 12-month indicated dividend yield is 1.9%. This estimated dividend represents 27.6% of the estimated earnings. Consequently, the dividend is easily covered, and very likely to prove sustainable.

Summary of the Fundamental and Technical Analysis

1. The positive earnings revisions trend is in line with the positive climate of the sector.
2. In terms of valuation, the stock has very good potential.
3. The technical trend is positive in a positive environment.
4. Both the stock and the environment Technology have outperformed the market over the last four weeks.

Fundamental and Technical Analysis

Price Level Analysis ★
In order to assess whether ERICSSON B is currently fairly priced, we can combine Peter Lynch's broadly accepted methodology, comparing the projected earnings growth and dividends to the estimated PE ratio, with historic multiples. Based on this,

- ERICSSON B appears fundamentally very undervalued compared to its theoretical fair price.
- its valuation is comparable to the European Technology aggregate.

The fundamental price potential for ERICSSON B looks good, and in line with the average of its industry group.

Earnings Revisions ★
ERICSSON B is strongly followed by financial analysts, as over the last three months an average of 19 analysts provided earnings estimate forecasts up until the year 2022.
Currently, these analysts are positively revising their earnings growth estimates by 7.2% compared with seven weeks ago. This positive pressure on the growth expectations has been apparent since June 9, 2020 when the stock closed at the price of SEK 85.28 and confirms the positive technical trend.
The positioning of ERICSSON B vs. its reference sector Technology accentuates that the clearly positive trend of earnings revisions fits in the general context because its environment is also positively revised.

Technical Trend and relative Performance ★★
The stock has been in a medium-term up trend, which started on March 31, 2020, at a price of SEK 81.06. Its adjusted technical reverse point is SEK 88.37, or 12.5% under the current price.

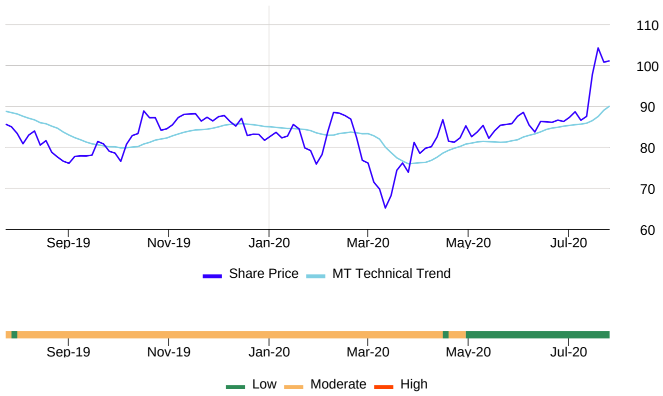
Checklist

Global Evaluation		**Upgrade from slightly positive to positive the 09-Jun-2020.**
Interest	★★★★	**Very strong interest since 07-Jul-2020.**
Earnings Rev Trend	★	Analysts positive since 09-Jun-2020
Valuation Rating	★	Strongly undervalued
MT Tech Trend	★	Trend positive since 31-Mar-2020
4wk Rel Perf	★	vs. DJ Stoxx 600
Sensitivity		**Decrease from moderate to low the 01-May-2020.**

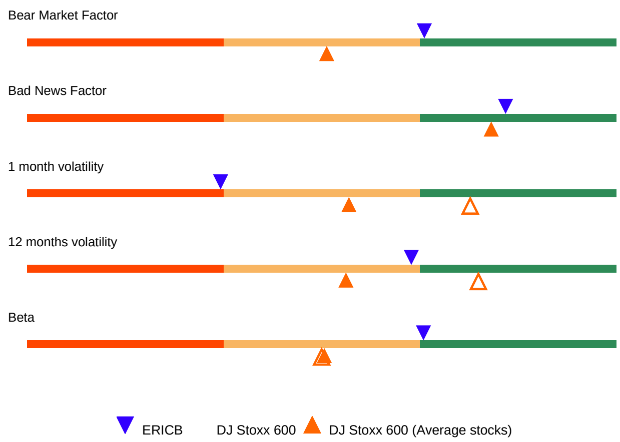
ERICSSON B - Sector and/or Group Comparison

Company Name	Symbol	Market	Price	Perf YtD	Mkt Cap in $bn	Stars	Sensitivity	LT P/E	LT Growth	Div	Global Evaluation
ERICSSON B	ERICB	SE	101.00	23.8%	38.71	★★★★		14.4	17.3%	1.9%	
HEXAGON AB	HEXAB	SE	588.40	12.1%	24.68	★★★☆		22.3	14.9%	1.1%	
EVOLUTION GAMING GROUP	EVO	SE	580.00	105.7%	12.00	★★☆☆		23.5	26.5%	1.6%	
NETENT	NETB	SE	74.50	196.9%	2.04	★★★☆		18.2	19.7%	2.6%	
CISCO SYSTEMS	CSCO	US	46.28	-3.5%	195.41	★★★☆		13.8	8.6%	3.2%	
QUALCOMM	QCOM	US	91.45	3.7%	102.87	★★★☆		15.1	33.8%	2.9%	
XIAOMI CORP	1810	HK	14.86	37.9%	50.35	★★★☆		17.2	20.9%	0.1%	
HANGZHOU HIK VIS.DIG. TECH.'A'	002415	CN	36.72	12.2%	48.97	★★★★		17.3	17.7%	2.2%	
L3HARRIS TECHNOLOGIES	LHX	US	171.40	-13.4%	37.00	★★☆☆		11.7	12.8%	2.1%	
NOKIA	NOKIA	FI	3.66	11.0%	24.27	★★☆☆		11.2	15.9%	2.3%	
PALO ALTO NETWORKS	PANW	US	244.81	5.9%	23.62	★★★☆		33.4	27.9%	0.0%	

Price & Sensitivity Evolution



Sensitivity Profile



Sensitivity Analysis

Beta, Correlation and Volatility

Beta is often used as a measure of sensitivity. Where a Beta is greater than 100, the stock is more volatile and therefore more sensitive. A Beta of 0.72 indicates that for 1% of index variation, ERICSSON B varies on average by 0.72%. But a Beta analysis coupled with the correlation gives a more relevant assessment.

Correlation is the degree of similarity in which a stock fluctuates in relation to its reference index. ERICSSON B has a correlation rate of 0.51. This indicates that 51% of the stock's movements are explained by index variations. ERICSSON B is fairly correlated to DJ Stoxx 600.

The volatility is also used as a sensitivity factor. The 1 month annualized volatility of ERICSSON B is : 48.0%, that of the index DJ Stoxx 600 is 13.5% and that of the world aggregate for the group Technology is 17.7%. By comparison, the average volatility of the stocks that make up the reference index is clearly lower at 26.5%.

Sensitivity to Bear Markets

The Bear Market Factor measures the behavior of a stock in declining markets. ERICSSON B has a tendency to mitigate drops of the DJ Stoxx 600 by on average -0.73%. The sensitivity to bear markets is hence below average.

Sensitivity to Bad News

The Bad News Factor measures negative swings of a stock in rising markets. In the case of specific pressure, ERICSSON B is only moderately sanctioned by the market in most of the times. When the stock goes down in a rising environment, its average deviation is -2.42%.

Summary of the Sensitivity Analysis

By comparing with other stocks, the sensitivity of ERICSSON B on bear markets and bad news has been rather low and this since May 1, 2020.

Conclusion

At the analysis date of July 28, 2020, the impression that the fundamental and technical elements (valuation, earnings revisions, group benchmarking, technical factors) give is very positive.
Moreover, the combination of the different criteria of sensitivity appreciation leads to a qualification of low sensitive.

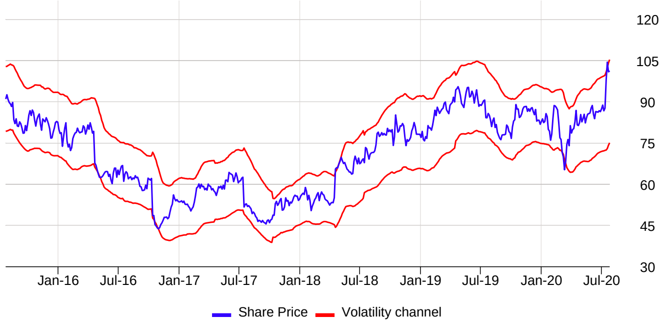
By combining the very positive fundamental and technical analysis, with the low sensitivity, the general evaluation seems positive.

Key Figures

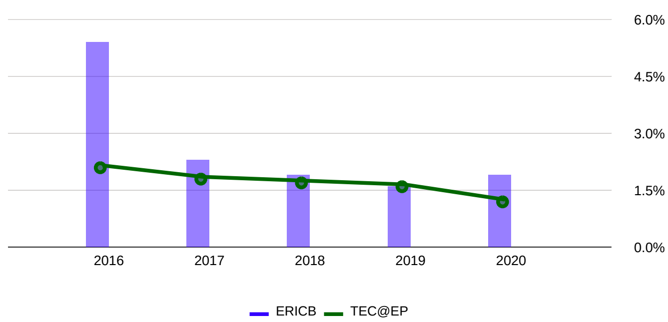
Annualized estimate for current year to	2022
Estimated PE (LT PE) for 2022	14.4
Projected earnings growth (LT Growth)	17.3%
Dividend (Ex Date: 01-Oct-2020)	SEK 0.75
Number of analysts	19
First analysis date	02-Jan-2002

ERICSSON B - 5 Year History

Price Changes July 28, 2015 - July 28, 2020



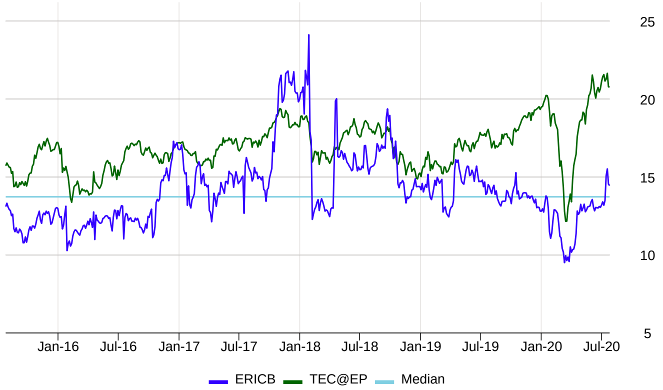
Expected Dividend Yield 2016 - 2020



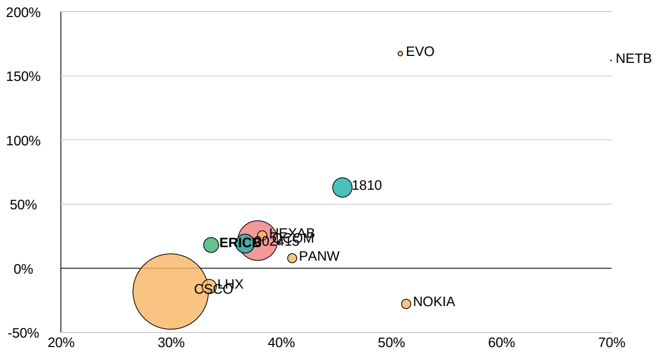
The volatility channel shows a stock's average fluctuations over the last 5 years. During this period, the high of SEK 104.15 was reached on July 2020 and the low of SEK 43.50 in the month of November 2016.
The price development is generally in the volatility channel whose upper and lower limits are presented here. Crossing one of these limits is an exceptional situation accompanied by strong increases in short-term volatility.

The 12-month indicative dividend yield is 1.9%, more than the 1.2% average of ERICSSON B's industry group.
Reminder, this estimated dividend represents 27.6% of the estimated earnings. It is thus largely covered, and its payment looks very sustainable.
The last estimation of the expected dividend is close to the historical average of 2.6%.

Comparative LTPE July 28, 2015 - July 28, 2020



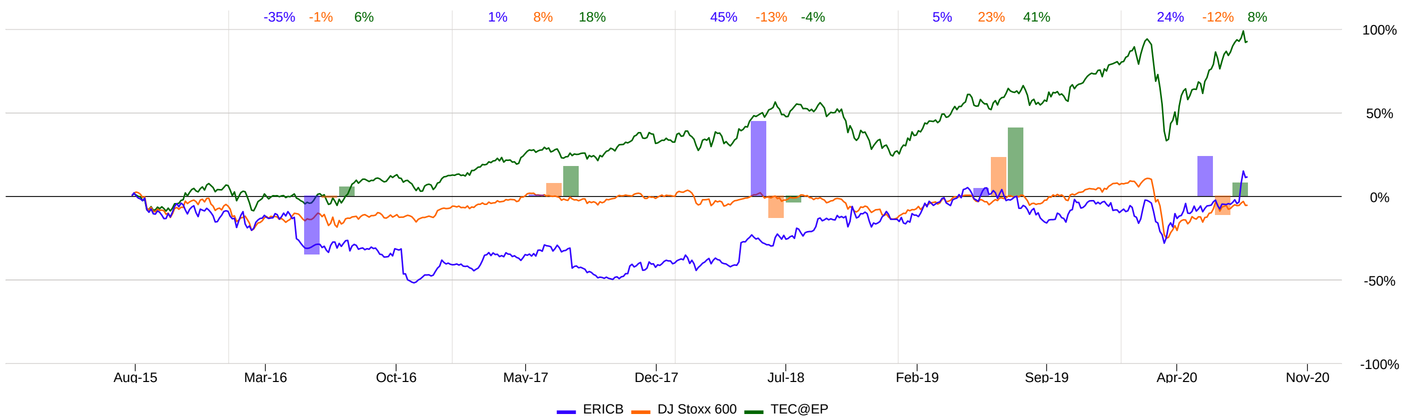
Performance vs Volatility



While the projected forward PE of the stock ERICSSON B is 14.40, the PE of the group Technology is clearly higher (20.74); this indicates that the stock is trading at a large discount compared to its group.
On the other hand, historically speaking, this stock is currently trading above its median value of 13.68.

The vertical axis measures the performance since July 26, 2019 of the 10 stocks presented in the table on page 2, while the horizontal axis measures the 12 month annualized volatility.
The bubbles are sized according to market capitalization, and their colors indicate the overall rating (Global Valuation).

Comparison July 28, 2015 - July 28, 2020

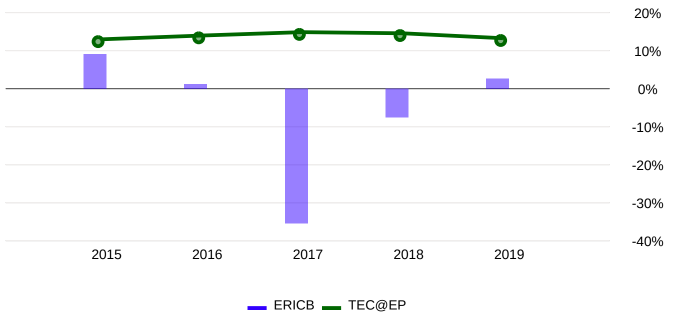


On a 5 year moving average, the performance of the stock ERICSSON B is 11.3%, vs. -5.7% for the DJ Stoxx 600 and 92.4% for the group Technology (TEC@EP).

ERICSSON B - Financial Ratios

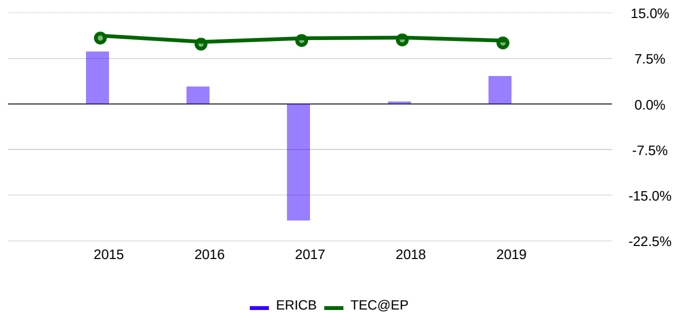
2019

Return on Equity



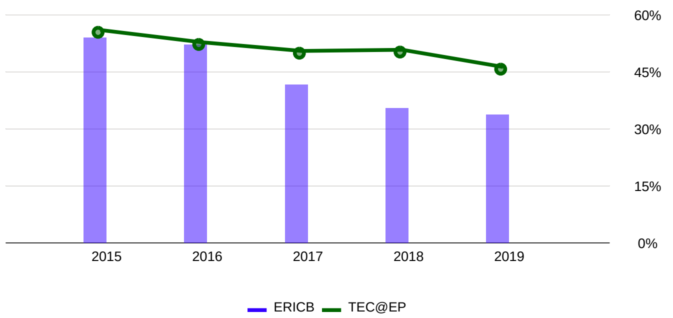
The return on equity, or ratio between profits and available equity, varies greatly from industry to industry. The historical average return on equity of ERICSSON B is -6%. This is below the industry average of 13%, indicating a moderately efficient use of shareholder capital.
The last publicized return on equity of 3% is above the long term average of -6%.

Earnings Before Interest & Taxes



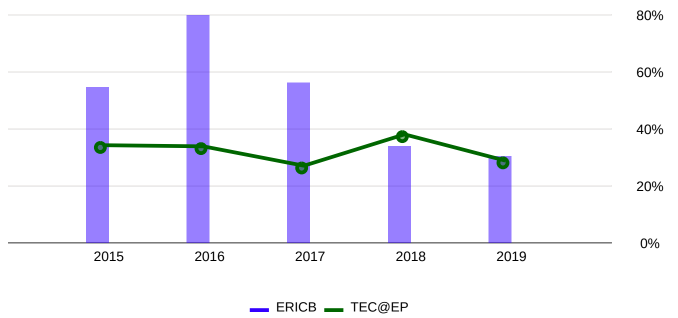
The average historical operating margin (EBIT) of ERICSSON B has been at -1%. This is below the industry average. The competitors achieved an on average EBIT margin of 10%.
The last reported 5% are above the historical average of -1%.

Equity on Assets



The graph shows the share of own funds in relation to the total assets. The higher the value, the more conservative the company's finances. ERICSSON B has an average equity ratio of 43%, which is below the industry average of 51%.
The current capital share of 34% is below the historical average of 43%.

Book Value / Price



The book value of the company is shown in relation to the stock's value. The larger the ratio, the more asset value is obtained relative to the market price. The average value of ERICSSON B is with 51% above the industry average of 32%. With 31% the current value is below the historical average of 51%.

Balance Sheet	**2017**	**2018**	**2019**	
	31-Dec	31-Dec	31-Dec	
Currency 'mio	SEK	SEK	SEK	
Cash & Short Term Invest	43,804	45,014	51,838	*21%*
Receivables	83,172	84,528	69,383	*28%*
Inventories	24,960	29,255	30,863	*13%*
Total Current Assets	154,820	161,167	153,914	*63%*
Properties & Equipment	12,857	12,849	22,337	*9%*
Intangible	36,556	37,746	37,731	*15%*
Total Assets	**239,316**	**245,609**	**245,209**	*100%*
Account Payable	26,321	29,883	30,403	*12%*
Short Term Debt	2,545	2,255	11,726	*5%*
Total Current Liabilities	97,586	110,914	116,819	*48%*
Long Term Debt	30,500	30,870	35,852	*15%*
Total Liabilities	**239,316**	**245,609**	**245,209**	*100%*

Annual Statement	**2017**	**2018**	**2019**	
	31-Dec	31-Dec	31-Dec	
Currency 'mio	SEK	SEK	SEK	
Total Revenue	**201,303**	**210,838**	**227,216**	*100%*
Cost	146,635	128,657	132,985	*59%*
Gross Income	46,217	74,960	85,632	*38%*
General Cost & Administration	63,184	64,771	63,754	*28%*
Amortization	8,451	7,221	8,599	*4%*
Operating Income	-17,083	10,146	10,240	*5%*
Research & Development	33,085	37,616	38,471	*17%*
Net Income Before Extra Items	-35,206	-6,530	2,223	*1%*
Net Income Before Taxes	-38,228	-5	10,705	*5%*
Dividend	3,334	3,334	5,001	*2%*
Net Income	**-35,206**	**-6,530**	**2,223**	*1%*

Key Figures

Book Value	30.31	26.38	24.91
Shares Outstanding ('000)	3,283,886	3,297,095	3,314,298
NB of Employees	100,735	95,359	99,417

Ratios

Current Ratio	1.6	1.5	1.3
Long Term Debt	12.7%	12.6%	14.6%
Revenues on Assets	84.1%	85.8%	92.7%
Cash Flow on Revenues	-13.3%	0.3%	4.8%

Glossary - Equities

Global Evaluation

The rating results from several factors : fundamental and technical analysis, measure of sensitivity and benchmark trend.
The synthesis is rated on a 5 level scale:

- : Positive
- : Slightly positive
- : Neutral
- : Slightly negative
- : Negative

The synthesis for the Indices and Industries is rated on a 3 level scale: Positive, Neutral and Negative.

Number of Stocks

The number of stocks in the index that can be analyzed.

Mkt Cap in $bn

This number represents the Market Capitalization in USD bn. It is calculated by multiplying a firm's share price by the number of outstanding shares. For reasons of comparison, all results are in USD.

Valuation Rating

Our Valuation Rating indicates if a stock is "expensive" or "cheap" relative to its growth potential. This is used to determine whether or not the investor is paying a premium for anticipated growth.
To estimate a stock's value relative to its current price, our Valuation Rating combines:

- stock price
- projected earnings
- projected earnings growth
- dividends

We establish our rating by combining these elements.
There are five ratings, ranging from strongly undervalued to strongly overvalued.

Stars

theScreener.com's star rating system is designed to enable you to identify high-quality stocks quickly and easily.
In this easy-to-use rating system, stars are earned for each element specified below:

- Earnings Rev Trend =
- Valuation Rating , , =
- MT Tech Trend =
- 4 week Relative Performance > 1% =

Therefore, a stock can earn a maximum of four stars.
The lowest rating a stock can have is no stars.
Once a stock has earned a star, it will keep it until:

- Earnings Rev Trend becomes negative
- Valuation Rating becomes negative ,
- MT Tech Trend becomes negative
- 4 week Relative Performance drops below -1% (<-1%)

Div

This is the dividend in % for the next 12 months.
Even if the same number is shown, the dividend value can appear in one of four colors, depending on the earnings coverage:

- 0%, no dividend
- 4%, the dividends are covered (between 0% and 40% of earnings)
- 4%, the dividends represent between 40% and 70% of earnings
- 4%, the dividends are higher than 70% of earnings, which implies that the dividend coverage is not guaranteed.

Earnings Rev. Trend

The symbol shows that compared with their earnings revisions of seven weeks ago, the analysts have now raised their estimates (7wk EPS Rev; > 1%); the symbol indicates that compared with their earnings revisions of seven weeks ago, the analysts have now lowered their estimates (7wk EPS Rev < -1%).
When the earnings revisions (7wk EPS Rev) fall between +1% and -1%, the trend is considered to be neutral .
The symbol indicates that the last significant revisions have been trending positive.
The symbol indicates that the last significant revisions have been negative.

7wk EPS Rev

This is an abbreviation for 7 week Earnings Per Share Revision. This column indicates the value of these revised earnings. A figure of 2.8 signifies that compared with seven weeks ago, the analysts have now revised and raised their estimates by 2.8%. On the contrary, a negative number means that the earnings would have been revised lower.

G/PE Ratio

In order to establish our Valuation Rating, we calculate the estimated growth of future earnings (LT Growth) plus dividend in %, divided by the estimated future PE ratio (Long Term P/E).

LT PE

This is the relationship between the price (P) and the estimated long-term future earnings.

LT Growth

This is the estimated annual growth rate of future earnings, normally projected over the next two to three years.

MT Tech Trend

The MT Tech Trend indicates the current trend, positive or negative , and the Tech Reverse indicates up to which price this trend will remain valid.
When a price falls to 1.75% above or below the Tech Reverse, the MT Tech Trend is considered neutral .
Once the price breaks out of the +1.75% neutral zone, the MT Tech Trend will change to positive.
The symbol indicates that the previous MT Tech Trend was positive.
The symbol indicates that the previous MT Tech Trend was negative.

4wk (Rel) Perf.

This figure measures the performance of a stock relative to its national or regional index (compared to four weeks ago). As for an Index, it measures the net performance over 4 weeks.

Bad News Factor

To determine the "Bad News Factor" we analyze a stock's declines in rising markets. In this purely objective analysis, the actual reasons for a stock's behavior are not important. If a stock price falls while its relative index goes up, it can be assumed that the stock's performance has been affected by bad news - hence the name, "Bad News Factor".
Here a stock's movements are measured on a bi-weekly basis, during a sliding 52 week period. Every time a stock drops while its reference index rises, the difference is calculated in %, integrated into a yearly average and expressed in basis points.
The higher the "Bad News Factor," the more a stock has proven to be sensitive to bad news.
The lower the "Bad News Factor," the less the stock has proven to be sensitive to bad news.

Bear Market Factor

To determine the "Bear Market Factor" we analyze a stock's price movements in declining markets.
This is the analysis of the movements, in a bi-weekly intervals, during a sliding 52 week period.
The higher the "Bear Market Factor," the greater the probability a stock would drop when its relative index drops.
A "Bear Market Factor" that is strongly negative means the stock has been more resistant to losses in declining markets.

Sensitivity

Stock price developments are generally volatile and contain high risks that can result in a total loss. Based on a their historical behaviour, stocks are classified by sensitivity level. These sensitivity levels have to be considered solely in relative historical comparison to other stocks. Please note that even “Low Sensitivity” stocks are equities and therefore high risk investments that can lose up to all of their value, and that past performance is no indication of current or future performance.
"Sensitivity" is determined by measuring the "Bear Market Factor" and the "Bad News Factor" against its benchmark.
There are three grades of sensitivity levels:

- Low Sensitivity: The sensitivity indicators fall below the world reference average.
- Moderate Sensitivity: The sensitivity indicators are situated higher than the world reference average, but lower than standard deviation.
- High Sensitivity: The sensitivity indicators are at levels higher than standard deviation.

Volatility 12 M

Volatility measures the magnitude of upwards and downwards movements of a stock or index.
The volatility 12 M shows the average volatility over the last 12 months.

% of Stocks in Uptrend

This is the percentage of stocks in a given list that have a positive Medium Term Technical Trend. If, for example, the aggregate of Technology / World, (which is made up of 458 stocks) has 8% "of stocks in Uptrend," it means that 38 of the stocks within that aggregate have a positive Medium Term Technical Trend.

Beta

Beta is often used as a measure of sensitivity. Where a Beta is greater than 100, the stock is more volatile than its reference index.

Correlation

Correlation is the degree of similarity in which a stock fluctuates in relation to its reference index.