

Ericsson

RAN market not out of the woods yet – 4Q23 review

Reiterate Rating: UNDERPERFORM | PO: 56.00 SEK | Price: 63.53 SEK

Q4 wrap up; no formal Q1 guide but likely below css; U/P

ERICB reported 4Q23 sales of SEK 71.9bn, 6% below VA css at SEK 76.1bn, with IPR revenue of SEK 2.6bn (css at SEK 2.5bn). Gross margin (GM) of 41.1% was slightly above css at 39.7%. EBITA of SEK 8.2bn (11.4% margin) was 8% above css at SEK 7.54bn (9.9% margin). Free cash flow of SEK 13bn was slightly ahead of consensus at SEK 12.9bn, positively impacted by retroactive IPR payments. ERICB will propose a dividend of SEK 2.70 per share at its next AGM. ERIC has not formally guided its Q1 topline (similar market trends as in Q4) but expects Networks GM to be in the range of 39-41% range (BofA at 39%, VA at 40.3%). Our FY23-25E EPS ests remain unchanged as higher opex offset slightly higher topline. Our PO is raised to SEK 56 (\$5.13 for the ADR – prev SEK 53/\$4.86) on same 4.6x '25E EV/EBITDA multiple but higher cash. Re-iterate Underperform.

Risks: RAN market, opex, Enterprise, Open-RAN

(A) ERICB expects the RAN market to contract in '24 (-4% YoY vs prev -3%), mainly due to the decline in India and cautious customer capex. Within this, India rollouts are coming to an end with a 40% QoQ drop in Q4. (B) Lower variable pay accruals in '23 likely are likely to return to more normalized levels in '24. (C) ERICB sees slower growth in Enterprise due to macro headwinds (D) While AT&T contract should improve ERIC's topline with from H2, we see AT&T's decision to adopt Open RAN as a likely negative for the profit pool of the wireless equipment industry ([see note here](#)).

Likes: Cost reduction execution, new CFO, NA mkt share

(A) ERICB delivered on the SEK 12bn gross cost run rate savings, half of which impacted the P&L in '23, with the remainder to impact '24. (B) While N-T outlook remains uncertain, ERICB expects its share in North America to increase towards the later part of '24, based on recent AT&T contract wins. (C) ERICB has appointed Lars Sandstrom as new CFO (current CFO at Getinge, a global leader within Medtech) effective April 1st, who will replace Carl Mellander, whose departure was announced in April 23.

Estimates (Dec) (SEK)	2022A	2023A	2024E	2025E	2026E
EPS (NA)	5.44	(3.95)	4.26	5.71	5.78
EPS Change (YoY)	-16.7%	NM	NM	34.0%	1.2%
Dividend / Share	2.70	2.70	2.70	2.70	2.70
ADR EPS (NA - US\$)	0.54	(0.37)	0.41	0.55	0.55
ADR Dividend / Share (US\$)	0.27	0.25	0.26	0.26	0.26
Valuation (Dec)					
P/E	11.7x	NM	14.9x	11.1x	11.0x
Dividend Yield	4.25%	4.25%	4.25%	4.25%	4.25%
EV / EBITDA*	5.54x	6.99x	6.43x	5.48x	5.43x
Free Cash Flow Yield*	11.6%	0.81%	8.25%	15.4%	12.0%

* For full definitions of *IQmethod*SM measures, see page 5.

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Refer to important disclosures on page 6 to 9. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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Timestamp: 24 January 2024 12:00AM EST

24 January 2024

Equity

Key Changes

(SEK)	Previous	Current
Price Obj.	53.00	56.00
2024E Rev (m)	264,492.7	264,897.6
2025E Rev (m)	262,348.3	267,910.2
2026E Rev (m)	NA	269,622.2
2024E EPS	4.72	4.26
2025E EPS	5.69	5.71
2026E EPS	NA	5.78

Didier Scemama >>

Research Analyst
MLI (UK)
+44 20 7995 6751
didier.scemama@bofa.com

Marie Ganneval >>

Research Analyst
MLI (UK)
+44 20 7996 1034
marie.ganneval@bofa.com

Stock Data

Price (Common / ADR)	63.53 SEK / 5.84 USD
Price Objective	56.00 SEK / 5.13 USD
Date Established	24-Jan-2024 / 24-Jan-2024
Investment Opinion	B-3-7 / B-3-7
52-Week Range	48.53 SEK-65.33 SEK
Market Value (mn)	212,000 SEK
Shares Outstanding (mn)	3,337.0 / 3,337.0
Average Daily Value (mn)	54.81 USD
Free Float	95.2%
BofA Ticker / Exchange	ERICF / STO
BofA Ticker / Exchange	ERIC / NAS
Bloomberg / Reuters	ERICB SS / ERICb.ST
ROE (2024E)	14.3%
Net Dbt to Eqty (Dec-2023A)	-8.0%
ESGMeter TM	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "[BofA ESGMeter Methodology](#)".

RAN: Radio Access Network

NA: North America

IPR: intellectual property rights

CSS: Consensus

iQprofileSM Ericsson

Key Income Statement Data (Dec)

(SEK Millions)

	2022A	2023A	2024E	2025E	2026E
Sales	271,546	263,351	264,898	267,910	269,622
EBITDA Adjusted	37,962	30,084	32,720	38,423	38,768
Depreciation & Amortization	(10,543)	(43,889)	(12,316)	(12,316)	(12,316)
EBIT Adjusted	27,419	(13,805)	20,404	26,107	26,452
Net Interest & Other Income	(2,411)	(2,993)	0	0	0
Tax Expense / Benefit	(5,497)	(2,785)	(4,233)	(6,112)	(6,196)
Net Income (Adjusted)	18,118	(13,158)	14,213	19,052	19,311
Average Fully Diluted Shares Outstanding	3,333	3,335	3,333	3,337	3,340

Key Cash Flow Statement Data

Net Income (Reported)	NA	NA	NA	NA	NA
Depreciation & Amortization	10,543	43,889	12,316	12,316	12,316
Change in Working Capital	(8,226)	(19,737)	(2,061)	7,311	(0.61)
Deferred Taxation Charge	5,383	3,189	0	0	0
Other CFO	4,051	5,940	0	0	0
Cash Flow from Operations	30,863	7,177	23,661	37,875	30,816
Capital Expenditure	(6,197)	(5,470)	(6,168)	(5,299)	(5,344)
(Acquisition) / Disposal of Investments	(51,688)	(2,140)	0	0	0
Other CFI	NA	NA	NA	NA	NA
Cash Flow from Investing	(34,397)	(8,713)	(6,568)	(5,799)	(5,844)
Share Issue / (Repurchase)	NA	NA	NA	NA	NA
Cost of Dividends Paid	(8,415)	(9,104)	(8,991)	(8,991)	(8,991)
Increase (decrease) debt	0	0	0	0	0
Other CFF	(7,515)	10,111	0	0	0
Cash Flow from Financing	(15,930)	1,007	(8,991)	(8,991)	(8,991)
Total Cash Flow (CFO + CFI + CFF)	NA	NA	NA	NA	NA
FX and other changes to cash	3,763	(2,630)	0	0	0
Change in Cash	(15,701)	(3,159)	8,102	23,086	15,981
Change in Net Debt	15,701	3,159	(8,102)	(23,086)	(15,981)
Net Debt	(23,319)	(7,832)	(15,934)	(39,019)	(55,000)

Key Balance Sheet Data

Property, Plant & Equipment	14,236	12,195	7,537	2,915	2,915
Goodwill	84,570	52,944	52,944	52,944	52,944
Other Intangibles	26,340	22,667	21,220	19,872	18,525
Other Non-Current Assets	148,629	115,244	113,797	112,449	111,102
Trade Receivables	NA	NA	NA	NA	NA
Cash & Equivalents	56,249	54,705	62,807	85,892	101,873
Other Current Assets	78,305	67,999	85,360	73,451	71,881
Total Assets	349,537	297,036	335,198	328,788	340,243
Long-Term Debt	26,946	29,218	29,218	29,218	29,218
Other Non-Current Liabilities	43,667	41,011	41,011	41,011	41,011
Short-Term Debt	5,984	17,655	17,655	17,655	17,655
Other Current Liabilities	139,636	111,744	145,491	129,824	127,192
Total Liabilities	216,233	199,628	233,375	217,708	215,076
Total Equity	133,304	97,408	101,823	111,080	125,167
Total Equity & Liabilities	349,537	297,036	335,198	328,788	340,243

Business Performance*

Return On Capital Employed	10.7%	-6.29%	8.27%	10.1%	9.62%
Return On Equity	15.1%	-11.4%	14.3%	17.9%	16.3%
Operating Margin	10.1%	-5.24%	7.70%	9.74%	9.81%
Free Cash Flow (MM)	24,666	1,707	17,493	32,577	25,472

Quality of Earnings*

Cash Realization Ratio	1.70x	NM	1.66x	1.99x	1.60x
Asset Replacement Ratio	0.59x	0.12x	0.50x	0.43x	0.43x
Tax Rate	22.3%	NM	24.0%	25.1%	25.1%
Net Debt/Equity	-17.5%	-8.04%	-15.6%	-35.1%	-43.9%
Interest Cover	11.4x	-4.61x	NA	NA	NA

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Telecom Equipment-Wireless/Cellular

Company Description

Ericsson is a leading global network equipment and software supplier to wireless carriers with a focus on Radio Access Network/RAN equipment, mobile core network/IMS and OSS/BSS solutions. The company also provides professional services such as consulting and network outsourcing to carriers.

Investment Rationale

We see several headwinds to growth and margins at Ericsson, such as (1) a peaking RAN market in 2022/23, (2) the rise of Open-RAN, (3) intense competition across old (RAN) and new (enterprise) verticals, and (4) cost-cutting/turnaround plans in recent years likely leaving less room for further restructuring. Against this backdrop, we see limited earnings growth potential and hence multiple expansion in the coming years.

Stock Data

Shares / ADR	1.00
Price to Book Value	2.1x

Quarterly Earnings Estimates

	2023	2024
Q1	0.67A	0.02E
Q2	0.51A	0.27E
Q3	-6.43A	1.14E
Q4	1.31A	2.83E

Key Changes

(US\$)	Previous	Current
Price Obj.	4.86	5.13
2024E EPS	0.45	0.41
2025E EPS	0.54	0.55
2026E EPS	NA	0.55

Changes to estimates table

Exhibit 1: Our FY23-25E EPS ests remain unchanged as higher opex offset slightly higher topline

Ericsson FY23-25E changes to estimates table, SEK mn

SEKm	2023E			2024E			2025E		
	Old	New	% chg	Old	New	% chg	Old	New	% chg
Revenue	265,762.7	263,351.0	-0.9%	264,492.7	264,897.6	0.2%	262,348.3	267,910.2	2.1%
YoY growth (%)	-2.1%	-3.0%	-0.9%	-0.5%	0.6%	1.1%	-0.8%	1.1%	1.9%
Adj. Gross Profit	104,188.6	104,404.0	0.2%	106,742.5	107,127.2	0.4%	110,186.3	112,421.3	2.0%
Adjusted Gross margin (%)	39.2%	39.6%	0.4%	40.4%	40.4%	0.1%	42.0%	42.0%	0.0%
Operating Exp. (Adj.)	(86,540.2)	(86,468.0)	-0.1%	(84,309.5)	(86,723.1)	2.9%	(84,474.2)	(86,314.6)	2.2%
% of sales	-33%	-33%	0.3%	-32%	-33%	0.9%	-32%	-32%	0.0%
Adj. EBITDA	61,815.4	62,115.0	0.5%	34,433.0	32,720.1	-5.0%	37,712.1	38,422.7	1.9%
Adj. EBITDA margin (%)	23.3%	23.6%	0.3%	13.0%	12.4%	-0.7%	14.4%	14.3%	0.0%
Adj. EBITA	53,251.4	53,464.0	0.4%	25,833.0	23,804.1	-7.9%	29,112.1	29,506.7	1.4%
EBITA margin (%)	20.0%	20.3%	0.3%	9.8%	9.0%	-0.8%	11.1%	11.0%	-0.1%
Adj. Depreciation	8564	8651	1.0%	8600	8916	3.7%	8600	8916	3.7%
Adj. Amortization	35,242.0	35,238.0	0.0%	3,400.0	3,400.0	0.0%	3,400.0	3,400.0	0.0%
Adj. EBIT	18,009.4	18,226.0	1.2%	22,433.0	20,404.1	-9.0%	25,712.1	26,106.7	1.5%
EBIT margin (%)	6.8%	6.9%	0.1%	8.5%	7.7%	-0.8%	9.8%	9.7%	-0.1%
Reported EBIT	(19,222.6)	(20,326.0)	5.7%	21,110.5	19,079.6	-9.6%	24,400.4	24,767.1	1.5%
EBIT margin (%)	-7.2%	-7.7%	-0.5%	8.0%	7.2%	-0.8%	9.3%	9.2%	-0.1%
Adj. Net income	13,068.6	10,544.6	-19.3%	15,754.5	14,212.5	-9.8%	19,031.8	19,052.2	0.1%
Net Margin (%)	4.9%	4.0%	-0.9%	6.0%	5.4%	-0.6%	7.3%	7.1%	-0.1%
Reported Net income	(23,164.4)	(26,446.0)	14.2%	14,749.4	13,205.9	-10.5%	18,034.9	18,048.4	0.1%
Net Margin (%)	-8.7%	-10.0%	-1.3%	5.6%	5.0%	-0.6%	6.9%	6.7%	-0.1%
Adj. EPS (basic)	3.92	3.17	-19.3%	4.73	4.27	-9.8%	5.72	5.72	0.1%
Adj. EPS (diluted)	3.92	3.16	-19.3%	4.72	4.26	-9.6%	5.69	5.71	0.3%
Reported EPS (basic)	-6.96	-7.94	14.2%	4.43	3.97	-10.5%	5.42	5.42	0.1%
Reported EPS (diluted)	-6.94	-7.92	14.1%	4.41	3.96	-10.3%	5.39	5.41	0.3%
DPS disclosed	2.70	2.70	0.0%	2.70	2.70	0.0%	2.70	2.70	0.0%
DPS calculated	2.73	2.73	0.1%	2.70	2.70	0.0%	0.00	2.70	#DIV/0!
FCF	355.3	1,707.0	380.5%	16,628.0	17,492.9	5.2%	27,138.4	32,576.5	20.0%
Net Debt	(8,873.8)	(7,832.0)	-11.7%	(15,810.8)	(15,933.9)	0.8%	(33,358.2)	(39,019.4)	17.0%
Tax rate (%)	-5.0%	-11.9%	-6.9%	24.0%	24.0%	0.0%	24.0%	25.1%	1.1%
Capex	(3,193.9)	(3,134.0)	-1.9%	(4,009.2)	(3,963.7)	-1.1%	(5,500.0)	(3,998.8)	-27.3%

Source: BofA Global Research estimates

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Price objective basis & risk

Ericsson (ERIXF / ERIC)

Our PO for Ericsson of SEK 56 (US\$ 5.13) is based on 4.6x our FY24E EBITDA estimate, within its 5-year range of 4x to 9x but at a discount to Ericsson's five-year average of 7.3x. We believe that Ericsson should trade at a discount to its five-year average given that we believe we are at the peak of the RAN market.

Upside risks to our PO are 1) better product mix and cost cuts, 2) improved wireless capex environment, 3) significant share gains, and 4) longer-than-expected 5G investment cycle.

Downside risks to our PO are 1) poor cost cut execution, 2) share and customer losses, 3) worsening macro/capex outlook, 4) deflationary shifts away from RAN and other hardware products, 5) 5G standard or product delays, and 6) faster-than-expected adoption of Open-RAN.

Analyst Certification

I, Didier Scemama, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

EMEA - Technology Hardware Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	ASMI	ASMXF	ASM NA	Didier Scemama
	ASML Holding N.V.	ASMLF	ASML NA	Didier Scemama
	ASML Holding N.V.	ASML	ASML US	Didier Scemama
	Comet Holding AG	XCHHF	COTN SW	Marie Ganneval
	Infineon Technologies AG	IFNNF	IFX GY	Didier Scemama
	Infineon Technologies AG	IFNNY	IFNNY US	Didier Scemama
	Logitech International S.A.	XLGKF	LOGN SW	Didier Scemama
	Logitech International S.A.	LOGI	LOGI US	Didier Scemama
	Nordic Semiconductor	NDCVF	NOD NO	Didier Scemama
	Soitec	SLOIF	SOI FP	Didier Scemama
	STMicroelectronics NV	STMEF	STMPA FP	Didier Scemama
	STMicroelectronics NV	STM	STM US	Didier Scemama
	Technoprobe S.p.A.	XMDDF	TPRO IM	Marie Ganneval
NEUTRAL				
	Aixtron	AIXXF	AIXA GR	Didier Scemama
	BE Semiconductor Industries N.V.	BESVF	BESI NA	Didier Scemama
	Nokia	NOKBF	NOKIA FH	Didier Scemama
	Nokia	NOK	NOK US	Didier Scemama
	VAT Group AG	VTTGF	VACN SW	Didier Scemama
UNDERPERFORM				
	ams Osram AG	AUKUF	AMS SW	Didier Scemama
	Ericsson	ERIXF	ERICB SS	Didier Scemama
	Ericsson	ERIC	ERIC US	Didier Scemama
	Inficon Holding AG	IFCNF	IFCN SW	Marie Ganneval
	Siltronic AG	SLLF	WAF GR	Marie Ganneval

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

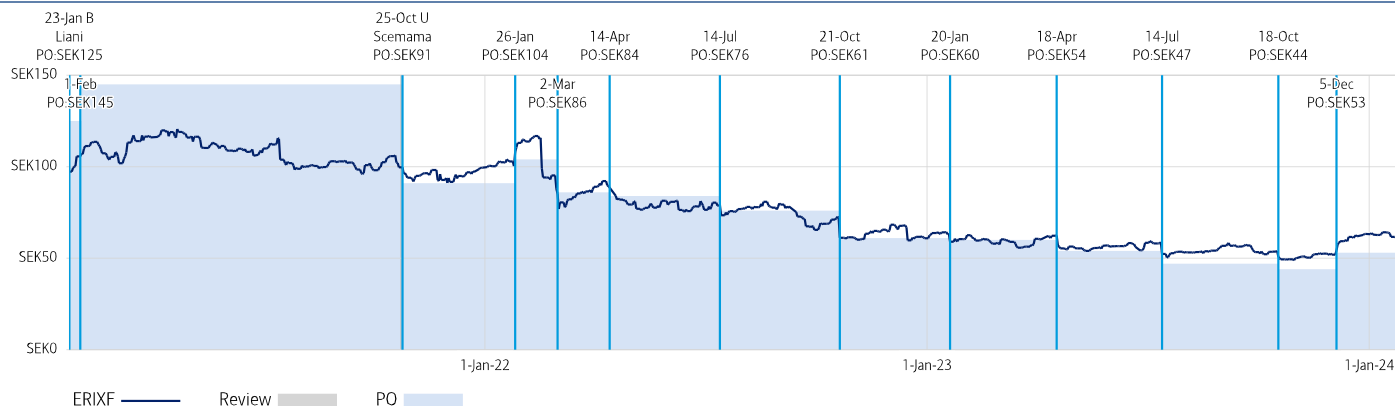
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Disclosures

Important Disclosures

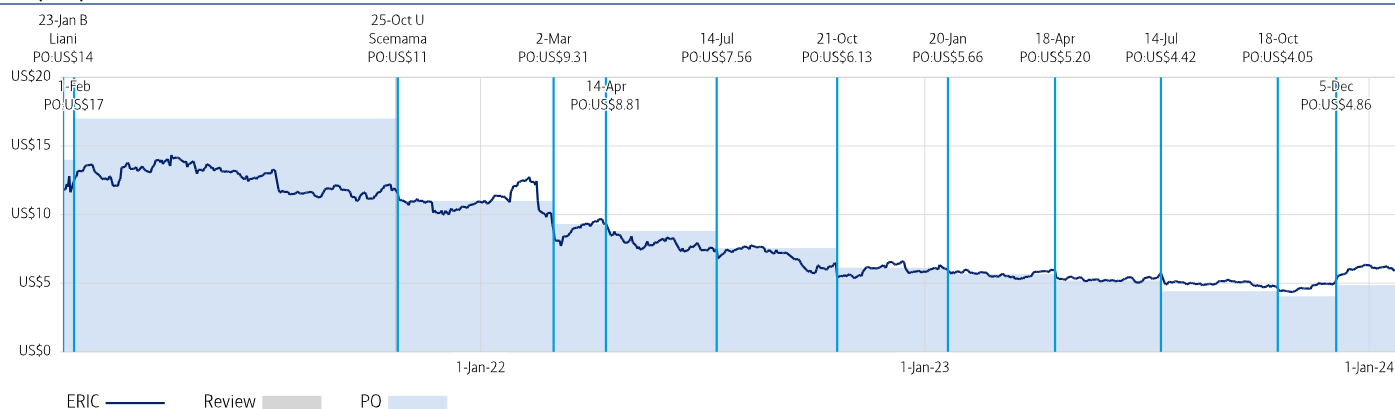
Ericsson (ERIXF) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Ericsson (ERIC) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Telecommunications Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	57	51.82%	Buy	43	75.44%
Hold	27	24.55%	Hold	17	62.96%
Sell	26	23.64%	Sell	12	46.15%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2}Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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