

Atlas Copco

Sweden | Main Market | Large Cap | Industrials

2025-09-17

Rating:

Buy

Target share price: 174.2 SEK
Current share price: 138.8 SEK
Upside 26 %

Currency-driven overreaction hides structural semi- and service growth

Atlas Copco, a global leader in compressors, vacuum, and industrial tools, reported an 8% decline in orders and revenues in Q2 2025. Market reaction was sharp, but the organic decline was limited (-1% in orders, -2% in revenues), with FX translation accounting for almost the entire drop. This highlights an overreaction in the share price rather than weakening fundamentals.

Looking ahead, structural growth drivers remain intact. Vacuum Technique is positioned to benefit from a semiconductor capex recovery, with SEMI data showing +27% YoY billings and record investments expected in 2025–26. Meanwhile, the growing service mix and ongoing bolt-on acquisitions provide resilient cash flows and margin stability.

With a strong balance sheet and proven capital discipline, Atlas Copco combines cyclical upside with structural growth. We see limited downside and about a 26% upside to our DCF-based target price.

Key insights

FX-driven miss & likely bottom quarter: Q2 headline misses (orders –8%, revenues –8%) were almost entirely currency-driven (–9% FX). Organically, demand was broadly stable (–1% orders, –2% revenues). This suggests a market overreaction and makes Q2 a likely trough, with the next report acting as a catalyst when FX headwinds ease.

Structural semi & service growth: Vacuum Technique is leveraged to the semiconductor capex upcycle, with SEMI billings +24% YoY in Q2 2025 and record investments expected 2025–26. New ventures such as the Shareway JV in China (SEK 926m revenues 2024) and bolt-ons like Casa Compressori in Italy strengthen growth and recurring service revenues.

Premium valuation, justified by quality: Atlas trades at 18.3x EV/EBIT vs sector median 18.0x, but this reflects superior margins, global market leadership, and service exposure. Compared to VAT Group at 26.3x, Atlas looks attractive given its diversified base and lower risk profile.

Cycle timing & sentiment: Swedish industrials are well positioned in this phase of the cycle. With Riksbanken cutting rates to 1.75% and capital rotation likely from defensives into cyclicals, Atlas could be among the first to benefit from renewed flows.

Analyst

Nick Heidarian

Market Data

Exchange	OMX
Trading Currency	SEK
Share Class	Ordinary B
Shares OS	486 800 000 000
Market Cap	684,6 MDSEK
EV	699,2 MDSEK

Metrics & Drivers	2025E	2026E	2027E
P/E adj. ful dil	28 x	26 x	23x
EV/EBIT	17.3 x	16.2 x	15.3 x
FCF yield	3.9 %	5.1 %	6.0 %
ROIC	21.0%	30.8%	33.5%
EV/Sales.	3.6 x	3.4 x	3.2 x

Major Shareholders (votes)

Free float	83 %
Investor AB	17 %
Blackrock	4.78 %
Swedbank Robur	4.14 %

Management

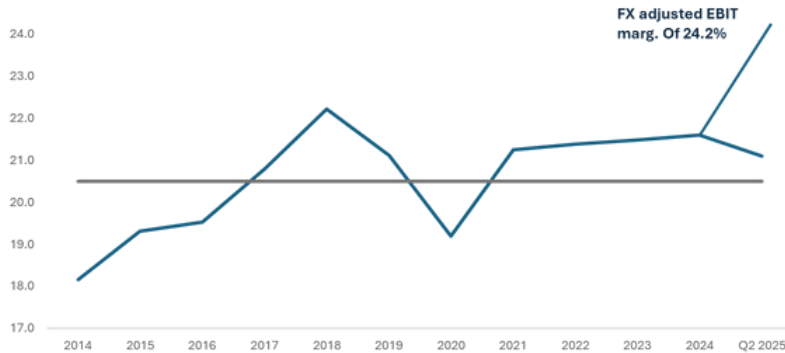
Vagner Rego, CEO
Peter Kinnart, CFO

Stock Price Movement 5Y %



Investment Thesis Overview

FX Headwinds masking record margins



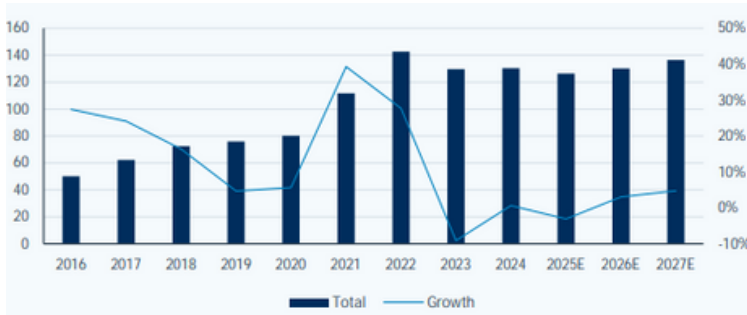
Source: Börnsdata

Sales bridge uncovers true performance

April-June		
MSEK	Order entry	Income
2024	43654	44803
Structural changes, %	+2	+2
FX, %	-9	-8
Organic*, %	-1	-2
Total, %	-8	-8
2025	40087	41210

Source: Atlas Copco Q2 2025 report

Semiconductor capex expected to grow (bnUSD; %)



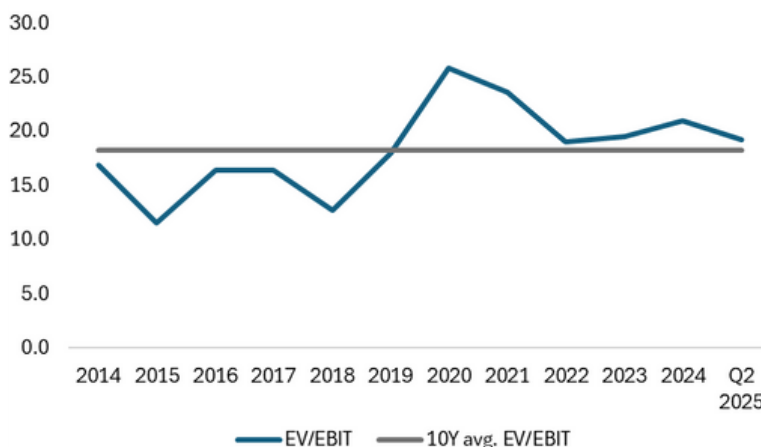
Source: Industry data

Rapidly growing semiconductor market (bnUSD)



Source: Precedence Research

EV/EBIT trading at 10Y average, yet low expectations despite sound cashflow developments



Source: Börnsdata



Source: Börnsdata

Investment Thesis

FX normalization

The -7% share price drop following Q2'25 report was primarily driven by FX headwinds rather than weakening fundamentals. Adjusted for currency effects, EBIT margins reached 24.2%, well above the 10Y average of 21% and the consensus estimates of 20.9%. With 35% of revenues coming from aftermarket services and a flexible cost base, Atlas Copco is structurally positioned to sustain EBIT margins above 22%. As FX headwinds normalize, reported profitability should converge with underlying strength, paving the way for consensus upgrades and a rerating.

Vacuum Technology recovery driven by semiconductor capex

Vacuum Technique (23% of sales) remains highly geared toward semiconductor investments, where global fab spending is expected to grow at 6–7% CAGR through 2030. With rising process complexity and record fab expansions, demand for vacuum systems is set to accelerate after a period of muted orders. The segment carries significant operating leverage, and its growing service mix (35% of VT EBIT) enhances margin stability. As the semicapex cycle recovers, Vacuum Technology offers meaningful upside potential.

Sound cash flow generation despite tough times

Atlas Copco continues to demonstrate resilient cash generation, with operating cash flow reaching SEK 36.4bn in Q2'25 and operating cash flow margins improving to 21.0 %, which is higher than pre-2020 levels despite macro headwinds. This underscores the company's ability to fund growth, sustain shareholder returns, and pursue bolt-on M&A even in a tougher environment. Our conservative DCF suggests a fair value of SEK 174.2 per share, with potential upside toward SEK 185 depending on market conditions.



Source: Market data

Company Overview

Company description

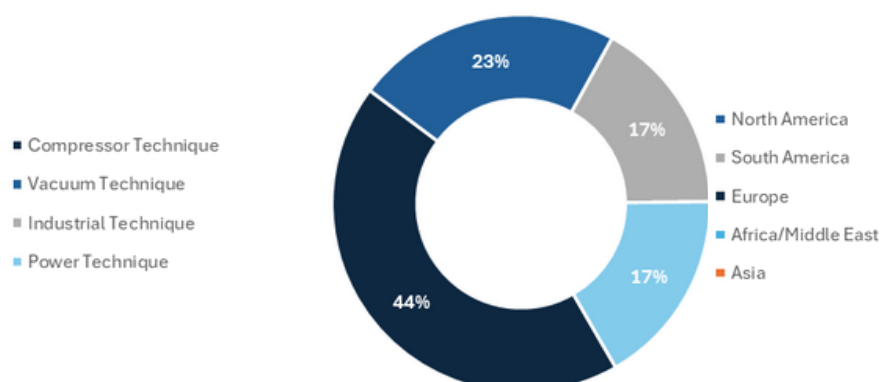
Atlas Copco is a leading global industrial group founded in 1873 and headquartered in Nacka, Sweden. The company develops and manufactures compressors, vacuum solutions, air treatment systems, industrial tools, assembly systems, and power and flow solutions. A significant share of revenues comes from aftermarket services, including rental and maintenance offerings.

Atlas Copco operates on a truly global scale with strong presence across Europe (28%), North America (26%), and Asia (36%). The company is organized into four business areas: Compressor Technique (44% of revenues), Vacuum Technique (23%), Industrial Technique (17%), and Power Technique (17%). This diversified structure provides both cyclical and structural growth exposure.

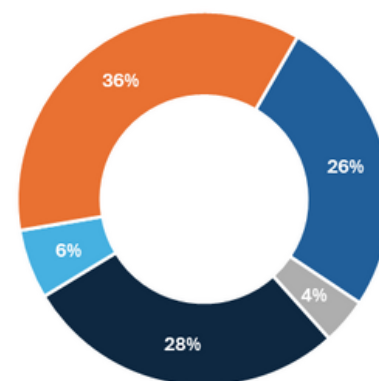
Business Strategy

Atlas Copco aims to deliver sustainable, profitable growth through innovation, a strong aftermarket focus, and recurring service revenues. Growth is complemented by value-adding acquisitions, while sustainability and inclusion remain central to long-term value creation.

Sales split by Division



Sales split by region



Source: Q2 2025 Atlas Copco Report

Market Overview

Atlas Copco's diversified industrial exposure makes the company sensitive to the global economic cycle, but also well positioned in structurally attractive markets. Compressor Technique (44% of revenues) benefits from steady industrial and infrastructure demand, with the global compressor market expected to grow at 3–5% CAGR through 2028. Vacuum Technique (23% of revenues) is more cyclical, but offers the strongest near-term upside through semiconductor investments. The vacuum pump market is expected to expand at 5-7% CAGR until 2030, driven by more complex manufacturing processes and record fab capex.

Industrial Technique (17% of revenues) is tied to general manufacturing and automotive, and should grow in line with global GDP, supported by electrification and automation trends. Power Technique (17% of revenues) benefits from infrastructure and energy-related investments, particularly in emerging markets. Across all segments, the growing share of service and aftermarket (35% of group sales) provides recurring revenues and margin stability, making Atlas Copco structurally more resilient than peers.

While Atlas Copco remains exposed to cyclical swings in global manufacturing, its high service share provides resilience through downturns.



Valuation

DCF Valuation

DCF	2020A	2021A	2022A	2023A	2024A	2025E	2026E	2027E	2028E	2029E
NOPAT	15,317	18,847	24,173	29,673	30,533	32,244	34,589	36,613	38,233	39,380
(+) D&A	5,189	5,466	6,333	7,761	8,785	6,084	6,527	6,909	7,214	7,431
(-) CapEX	2,703	3,233	4,912	5,368	5,898	6,084	6,527	6,909	7,214	7,431
(-) Change in OWC	2,166	244	7,415	5,775	(2,068)	(11,562)	(4,028)	(1,604)	(1,658)	(2,667)
Discount period						1	2	3	4	5
Unlevered FCF	25,375	27,790	42,833	48,577	43,148	32,850	43,615	48,826	51,003	51,574
Present Value of FCF						30,246	36,974	38,110	36,654	34,125
Terminal Value										795,817
Present Value of Terminal Value										526,574
Sum of FCF (Vo)									25%	176,109
TV									75%	526,574
EV										702,683
(-) Debt										31,632
(+) Cash										113,700
Equity Value (Market value of equity)										848,015
Share outstanding										4868.80
Equity Value per Share										174.17

Peer Valuation

Market Data				Financial Data (LTM)				Valuation (LTM)				
	Price	Market Cap	Net debt	Enterprise Value	Sales	EBITDA	EBIT	EPS	EV/Sales	EV/EBITDA	EV/EBIT	P/E
Company Name	(SEK per share)	(Bn SEK)	(Bn SEK)	(Bn SEK)	(Bn SEK)	(Bn SEK)	(Bn SEK)	(SEK)	(x)	(x)	(x)	(x)
Atlas Copco	138.8	683	16	696	177	47	38	6	4.0	14.9	18.3	22.8
Alfa Laval	429.8	178	5	183	67	13	10	18	2.7	14.2	17.6	24.0
ABB	650	1199	12	1211	309	55	48	20	3.9	12.6	14.6	32.4
Autoliv	1169	342	16	358	98	13	9	76	3.7	27.9	38.9	15.5
Epiroc	179.3	218	15	232	64	16	12	7	3.7	14.7	18.8	24.8
Sandvik	252.1	316	41	357	123	26	18	10	2.9	13.5	19.4	25.8
SKF	233.6	106	16	123	99	15	10	14	1.2	8.3	11.9	16.4
Trelleborg	374.8	91	7	97	34	7	5	16	2.8	13.4	18.4	23.8
Volvo	293.6	597	-76	521	527	89	67	25	1.0	5.8	7.8	11.8
High									3.9	27.9	38.9	32.4
75th Percentile									3.7	14.6	19.2	25.6
Average									2.7	13.8	18.4	21.8
Median									2.9	13.5	18.0	23.9
25th Percentile									1.6	9.4	12.6	15.7
Low									1.0	5.8	7.8	11.8

Sensitivity Analysis

Sensitivity table								
WACC	Terminal Value							
	7.6%	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%
	170.82		179.22	189.00	200.53	214.30	231.07	251.92
	8.1%	161.26	168.42	176.67	186.27	197.58	211.11	227.57
	8.6%	152.88	159.04	166.08	174.18	183.60	194.71	207.98
	9.1%	145.47	150.83	156.88	163.79	171.74	180.99	191.89
9.6%	138.89	143.57	148.82	154.77	161.55	169.35	178.44	

Appendix

DCF assumptions and projections

Based on the investment thesis and identified catalysts, the terminal growth rate (TGR) is set at 2%, reflecting both structural growth opportunities and Atlas Copco's stable profile in its maturity phase. The cost of debt is assumed at 5.6%, in line with current credit conditions, while the cost of equity and market risk premium are derived from *PwC's Risk Premium Study 2025* to ensure market-consistent assumptions.

For revenue projections, an interpolation from the medium-term 5Y CAGR down to the 2% TGR was conducted, capturing the expected normalization from cyclical recovery drivers (e.g., semiconductor capex) toward long-term structural growth.

Net Working Capital (NWC) is projected as a stable percentage of revenue, based on historical averages. This reflects the operational reality that receivables, payables, and inventories scale with sales activity.

Lastly, operating costs, depreciation, and capex are assumed to scale proportionally with revenue, reflecting Atlas Copco's operating leverage and high aftermarket share (35% of group sales), which provides structural margin stability.

WACC

WACC	(MSEK)
Market Cap	682.68
Equity	113,700
% of Equity	78.23%
Risk Free Rate	2.60%
Beta	1.21
Market Risk Premium	5.9%
Cost of Equity (RE)	9.76%
Debt	31632
% of Debt	21.77%
Cost of Debt	5.60%
Tax Rate	20%
Total	145,332
WACC	8.61%

Comparable company analysis

Currency conversions between USD and SEK where made to adjust to different company reportings.



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