

Essity

Sweden | Main Market | Large Cap | Consumer Goods

2025-12-10

Rating:

Buy

12 M Target price: 288 SEK
Current price: 257 SEK
Difference: 12%

Defensive Growth at a Valuation Discount

Essity is a global leader in hygiene and health products with strong market positions and resilient demand characteristics. The company's exposure to non-cyclical hygiene and healthcare demand, combined with recurring consumption patterns and disciplined capital intensity, provides high visibility into future free cash flow generation. Following a period of portfolio refocusing and margin recovery, Essity is now operating on a structurally stronger earnings base. Despite this, Essity trades at a clear discount to both historical valuation multiples and global peers within Consumer Staples.

Our DCF valuation implies an equity value of approximately SEK 288 per share, corresponding to c. 12% upside from the current share price. Supported by stable free cash flow generation, a solid balance sheet, and a clear capital allocation framework, we initiate a Buy recommendation.

Key insights

Defensive end-markets with structural growth: Essity benefits from non-cyclical demand driven by demographics, hygiene awareness, and healthcare needs, providing earnings stability across economic cycles.

Margin expansion and improved cost discipline: Operational efficiency programs, improved product mix, and lower input cost pressure have lifted EBIT margins, with further upside from premiumization and innovation.

Attractive valuation: Essity trades at a significant discount well below its own 10-year average valuation multiples. In addition, the company trades at a significant discount on both EV/EBIT and P/E compared with global peers such as Procter & Gamble and Kimberly-Clark, despite comparable returns and balance-sheet strength.

Analyst

Hugo Söderberg

Fund Analyst

Market Data

Exchange	OMX
Trading Currency	SEK
Share Class	Ordinary B
Shares OS	693 000 000
Market Cap	181 300 MSEK
EV	209 400 MSEK

Metrics & Drivers	2025	2026E	2027E
P/E	14,9x	13,2x	12,0x
EV/EBIT	11,34x	10,69x	10,0x
P/S	1,33x	1,31x	1,29x
P/B	2,17x	1,85x	1,57x
Net Debt/EBITDA	1,2x	1,0x	0,9x

Major Shareholders (votes)

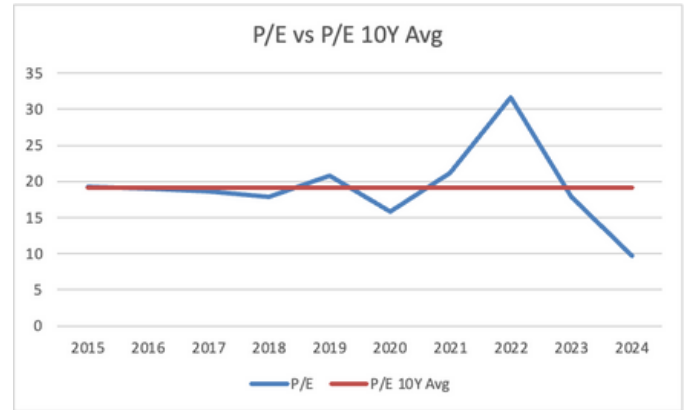
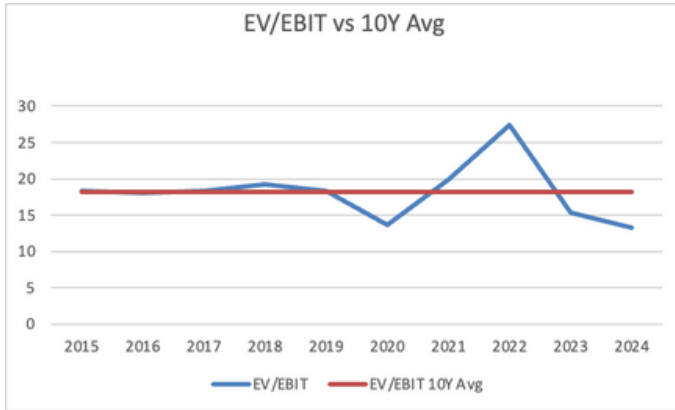
Industrivärden	11,1% (29,3%)
T. Rowe Price Fuunds	4,8% (2,7%)
Swedbank Robur Fonder	4,0% (2,3%)
Blackrock	3,8% (2,2%)
Vanguard Funds	3,7% (2,1%)
Handelsbanken Fonder	3,1% (1,8%)

Stock Price Movement 5Y %

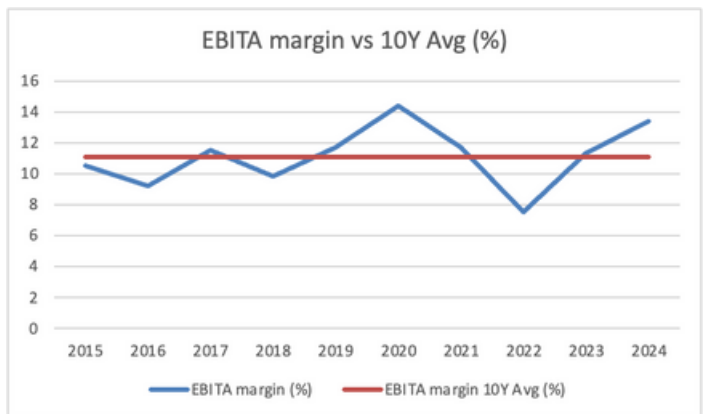
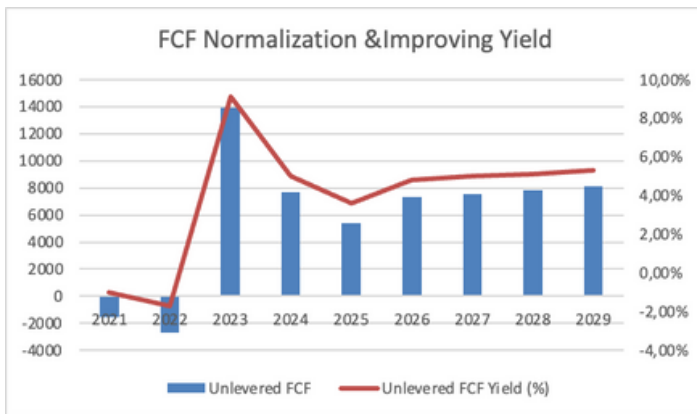


Investment Thesis Overview

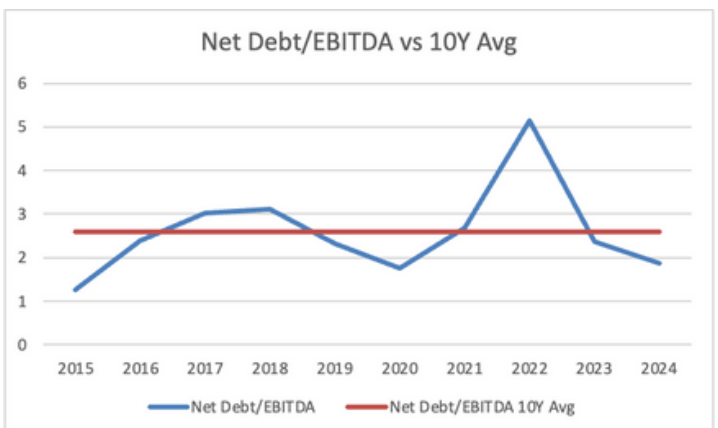
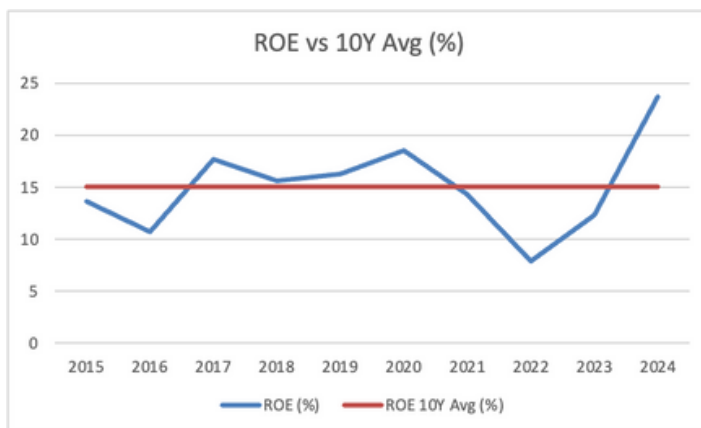
Valuation



Free Cash Flow & Operational Performance



Returns Above Historical Average with Reduced Financial Risk





Investment Thesis

Margin recovery and structural cost programme:

Essity has demonstrated pricing power and execution on cost initiatives. In Q3 2025 the group's adjusted EBITA margin rose to 14.6 %, up from 13.7 % in Q2, as higher prices more than offset raw-material inflation. Management simultaneously launched a SEK 1 bn cost-saving programme that will split the Consumer Goods division into consumer tissue and personal-care units and reduce SG&A; the programme is targeted to deliver annual savings by end-2026. Price/mix improved by 0.7 % and organic growth remained positive despite signs of down-trading in lower-margin consumer tissue. We believe this combination of pricing power, volume recovery and structural cost reduction will support EBITA margins approaching management's >15 % target over the next few years.

Defensive end-markets, strong cash flow and disciplined capital allocation:

Essity sells essential hygiene and healthcare consumables, resulting in resilient demand and high cash-flow visibility. In 2024 the company generated SEK 146 bn in net sales and SEK 20.3 bn in EBITA, with growth driven by improved volume and product mix. Demand is well diversified across segments; Consumer Goods (54 % of net sales), Professional Hygiene (26 %) and Health & Medical (20 %), and across geographies (Europe accounts for ~60 % of revenue). Management has set new long-term targets of >3 % organic growth and an EBITA margin >15 %, signalling confidence in the earnings base. Cash flow is robust enough to fund dividends and a SEK 3 bn share buy-back programme, which commenced in April 2025 and will be financed by cash flow from operations after the ordinary dividend. With the ambition to make buy-backs a recurring part of capital allocation we expect shareholder returns to grow alongside earnings.

Attractive valuation vs peers and historical range:

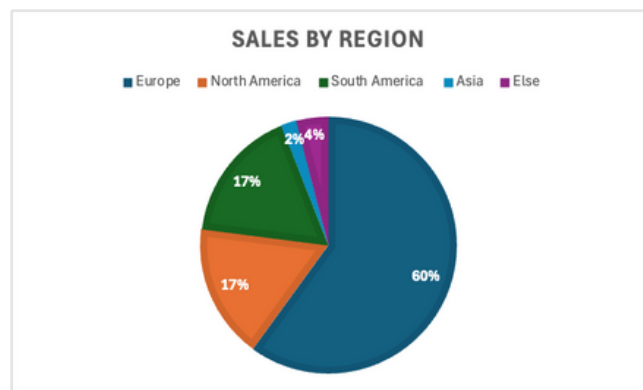
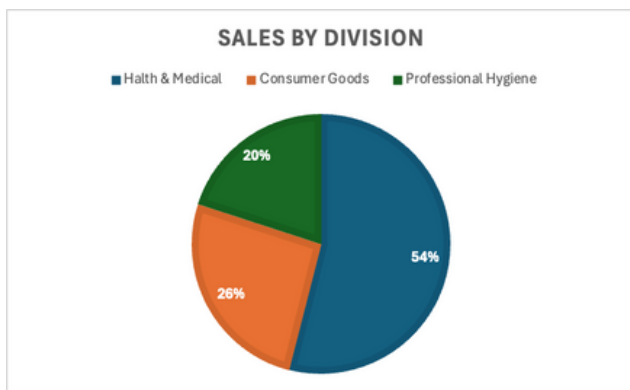
Despite its defensive profile and strengthening profitability, Essity trades at a steep discount to both peers and its own 10-year averages. The shares currently trade at c. 9.76× 2025E P/E and c. 13.21× EV/EBITDA, well below the peer median multiples, and meaningfully under the company's ten-year average (c. 19.19× 2025E P/E and c. 18.16× EV/EBITDA). Return on equity has increased to approximately 24%, well above the company's 10-year average of around 15%, reflecting improved profitability and disciplined capital allocation. Our DCF base-case suggests fair value around SEK 287 per share, implying double-digit upside from current levels (c. SEK 257). With margins recovering, end-markets resilient, a disciplined buy-back programme underway and valuation near historic troughs, we see a compelling risk/reward profile for long-term investors.

Company Overview

Essity is a Swedish hygiene and health company with roots dating back to 1849, when the forest products company Munksjö was founded. Essity was established in its current form in 2017 following the demerger of SCA's hygiene operations, and is today headquartered in Stockholm, Sweden.

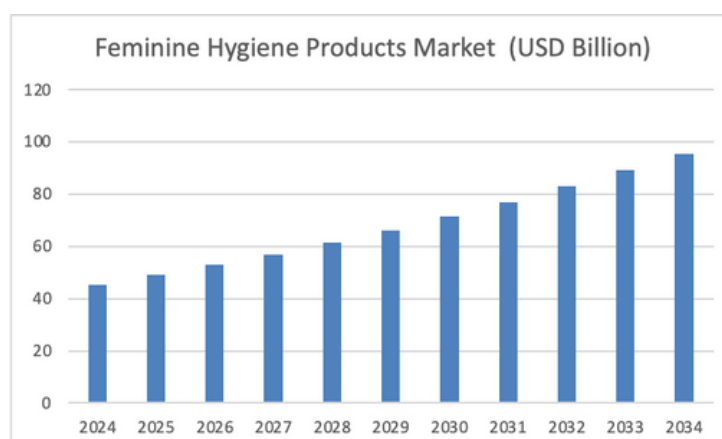
The company develops, produces and sells hygiene and health products for consumers, professional users and healthcare providers. Essity's product portfolio includes tissue, personal care products, incontinence solutions and medical products, sold under well-established global brands such as TENA, Tork, Libresse and Libero.

Essity operates on a global scale, with sales in more than 150 countries and a strong presence across Europe, North America and Asia. The company is organized into three business areas: Consumer Goods, Professional Hygiene and Health & Medical. The company has strengthened its US presence through the acquisition of Edgewells feminine care-unit, expanding capacity and market access in its largest and most profitable end-market.



Market Overview

Essity operates in the hygiene and health market and the market is characterised by low cyclicality, demand is less sensitive to economic fluctuations and grows steadily with population growth, urbanization, and increased health awareness. In emerging markets, rising living standards, urbanization, improved healthcare, and increased awareness drive demand for disposable and sanitary products. In mature markets, products are largely saturated; growth primarily comes from innovation (thinner, stronger, more sustainable products), improved product mix, and premiumization. A growing and ageing global population increases demand for hygiene and health products. Consumers and regulators demand more recycled materials, biodegradable products, and reduced waste. Online sales are growing faster than traditional retail. Digital health solutions open new segments in personal care.



Source: Precedence Research



Valuation

Revenue growth assumptions are based on a combination of historical performance, management targets and long-term market fundamentals. In the explicit forecast period, revenues are assumed to grow at approximately 2% per year, reflecting Essity's exposure to mature, non-cyclical hygiene and healthcare markets. This growth rate is below the company's long-term organic growth target, resulting in a conservative base-case scenario.

Cost assumptions are derived from historical averages and normalized margin levels. Cost of goods sold is assumed to remain around 70% of revenue, reflecting stable input costs and pricing discipline. Operating expenses are projected at approximately 18% of revenue in the base case, supported by ongoing efficiency initiatives and SG&A-focused cost-saving programs.

Capital expenditures and depreciation are modeled as a stable percentage of revenue, in line with historical levels, reflecting Essity's capital-light expansion profile and limited need for large-scale capacity investments. Net working capital is assumed to remain broadly stable relative to revenue, consistent with the predictable nature of the company's operating cash flow dynamics.

Overall, the forecast relies on normalized assumptions rather than margin expansion or aggressive growth, providing a conservative foundation for the valuation.

Peer Valuation

Company Name	Valuation (LTM)			
	EV/Sales (x)	EV/EBITDA (x)	EV/EBIT (x)	P/E (x)
Essity	1,4x	7,9x	10,8x	8,7x
Procter & Gamble	4,4x	15,4x	17,5x	21,8x
Kimberly-Clark	2,2x	11,5x	13,4x	14,1x
3M	4,0x	15,4x	18,9x	26,7x
Unilever	2,9x	15,4x	18,4x	26,7x
Average	3,0x	13,1x	15,8x	19,6x
Median	2,9x	15,4x	17,5x	21,8x

WACC

WACC	MSEK
Market Cap	181 326
% of Equity	80,91%
Risk Free Rate	2,80%
Beta	0,8
Market Risk Premium	6%
Cost of Equity	7,60%
Debt	42 769
% of Debt	19,09%
Cost of Debt	4,50%
Tax Rate	21%
Total	224 095
WACC	6,83%



Disclaimer

DISCLAIMER:

KTH Finance Society ("KTHFS") provides the following analyses, documents, and information solely for informational and educational purposes and general distribution. It is not intended to be treated as financial advice in any manner. The content presented in these analyses is based on sources, data, and individuals that KTHFS deems reliable. However, KTHFS cannot assure the accuracy or completeness of such information. Predictions and forward-looking statements included in this analysis are speculative and inherently uncertain. Users should exercise caution when basing decisions on this information. Any investment decisions influenced by the information provided by KTHFS, its employees, or affiliates should be considered the sole responsibility of the investor. The materials offered by KTHFS are meant to complement, not replace, other resources in the decision-making process for various investment types. Investors are encouraged to seek additional data and consult with a professional financial advisor before making any investment decisions. KTHFS expressly disclaims any liability for losses or damages of any kind arising from the use of its analyses, documents, and any other provided information. This research paper may also contain inaccuracies due to incorrect data sources or human error.

CONFLICTS OF INTEREST AND IMPARTIALITY:

To maintain its independence and integrity, KTHFS has implemented strict compliance guidelines for its analysts. Furthermore, all analysts are bound by an agreement that mandates the disclosure of any potential conflicts of interest. These measures are in place to align with COMMISSION DELEGATED REGULATION (EU) 2016/958 of 9 March 2016, which supplements Regulation (EU) No 596/2014 of the European Parliament and of the Council. This regulation pertains to the regulatory technical standards for the objective presentation of investment recommendations or other information suggesting an investment strategy, as well as for the disclosure of specific interests or potential conflicts of interest. The author of this paper may hold an open position in the underlying instrument, but have no intentions to gain leverage of this papers potential perception by the markets by trading the instruments in a way thats aligned with any potential profitable outcomes.