

12 M Target price:

114 SEK]

Current price:

102 SEK

Difference:

12 %

## Executive Summary

We initiate coverage on Ericsson with a target price of 117 SEK and a BUY recommendation based on a discounted cashflow model. Ericsson has been operating in a weak telecom market, but the market is expected to recover. At the same time, Ericsson is improving margins through cost reductions, gaining market share from Huawei, and returning capital to shareholders. Combined with a relatively low valuation, this creates potential upside for the stock.

Ericsson operates in the global telecommunications equipment market and is one of the leading suppliers of network infrastructure and telecom software. After a period of weak telecom operator investments, the market is expected to stabilize, which should support revenue growth and improved profitability.

Key risks include weak telecom operator capex, pricing pressure, competition from Nokia and Huawei, and currency fluctuations.

## Key insights

**Market Recovery:** After a period of weak telecom operator investments, the market is expected to stabilize, which should support revenue growth and improved profitability for Ericsson.

**Huawei phase-out** After a period of weak telecom operator investments, the market is expected to stabilize, which should support revenue growth and improved profitability for Ericsson.

**Margin Improvement** Ericsson has implemented cost reductions and is focusing on higher-margin software and services, which is expected to improve profitability over the coming years.

**Shareholder Returns** Strong cash flow and a solid balance sheet allow Ericsson to return capital to shareholders through dividends and share buybacks.

## Analyst

Hugo Söderberg

Fund Analyst

## Market Data

Exchange	OMX STHLM
Trading Currency	SEK
Share Class	Ordinary B
Shares OS	3 371 351 735
Market Cap	357 517 MSEK
EV	339 972 MSEK

## Metrics & Drivers 2025 2026E 2027E

P/E	10,52	15,48	15,08
EV/EBIT	7,72	10,06	9,55
P/S	1,28	1,54	1,52
P/B	2,74	3,07	2,86
Net Debt/EBITDA	0,41	-0,36	-0,08

## Major Shareholders (votes)

Investor	9,3%	24,5%
Cevian Capital	4,6%	2,7%
BlackRock	4,1%	2,4%
Fidelity International	4,0%	3,6%
Hotchkis and Wiley	3,5%	2,0%
Vanguard Group	3,1%	2,0%
AMF Pensionsförsäkringar	3,0%	5,0%
Swedbank Robur	2,8%	1,6%
Industrivärden	2,6%	15,1%

## Stock Price Movement 5Y %



## Investment Thesis

### Margin Expansion:

Ericsson has significantly improved its operational performance in recent years through cost reductions, improved capital allocation and a stronger focus on profitability. The company has implemented several restructuring and cost efficiency programs, reduced its workforce and improved project execution, which has supported margin expansion and stronger cash flow generation.

Ericsson's gross margin has improved to around 45–48% in recent years, while EBIT margin has recovered to approximately 16–17%, compared to significantly lower levels during the telecom downturn. The company is expected to further improve margins over the coming years, supported by cost discipline, higher software and services revenues and improved execution in network projects.

In addition, Ericsson is gradually increasing its exposure to software, enterprise networks and mission-critical communication networks, which typically have higher margins than traditional telecom equipment. Combined with continued cost discipline and operational efficiency improvements, this should support further margin expansion, higher returns on capital and long-term earnings growth.

### Market Recovery & EU to phase-out Huawei:

The telecom equipment market has been weak in recent years due to reduced telecom operator investments following the initial global 5G rollout and higher interest rates. Ericsson's quarterly sales show a gradual recovery: net sales were SEK 55.0 bn in Q1-2025 and 56.1 bn in Q2-2025, 56.2 bn in Q3-2025, and accelerated to 69.3 bn in Q4-2025

However, the market is expected to stabilize and gradually recover as mobile data traffic continues to grow, driven by video streaming, cloud computing, artificial intelligence and connected devices. Telecom operators must continue investing in network infrastructure to handle increasing data traffic and network capacity requirements.

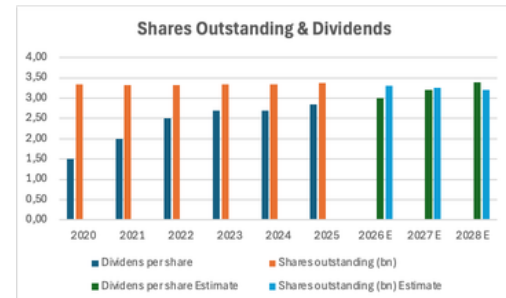
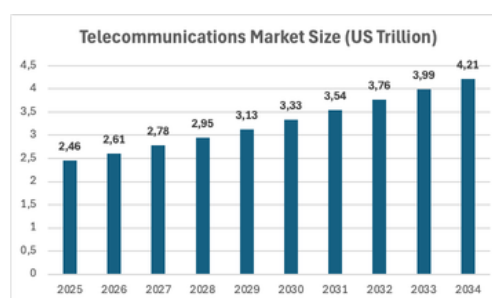
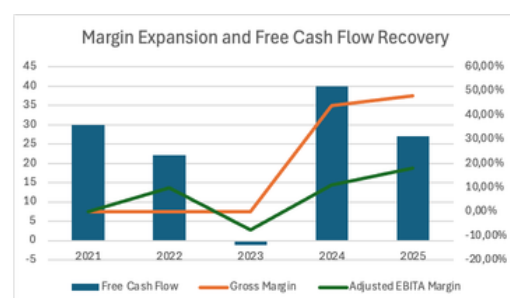
In addition, several European countries are phasing out Huawei equipment from their telecom networks due to security concerns. This creates opportunities for Ericsson and Nokia to replace existing network infrastructure and win new contracts in Europe. As one of the global leaders in mobile network infrastructure, Ericsson is well positioned to benefit from these network replacement projects and future network upgrades.

### Dividends & Share Buybacks:

Ericsson generates strong free cash flow and has a solid balance sheet, enabling shareholder returns through dividends and share buybacks. In recent years, Ericsson has generated free cash flow of approximately SEK 25–30 billion per year, supported by improved profitability, lower restructuring costs and improved working capital management.

Ericsson has gradually increased its dividend, reaching approximately SEK 3.00 per share, and the company has also introduced a share buyback program of up to SEK 15 billion, with the ambition to return a significant portion of free cash flow to shareholders. Total shareholder returns, including dividends and share buybacks, are expected to remain high over the coming years.

The company has also shifted its strategy away from large acquisitions towards returning capital to shareholders, which reduces the risk of value-destructive acquisitions and improves capital allocation. Combined with a relatively low valuation compared to historical multiples and peers such as Nokia and Cisco, this creates potential upside for the stock.



Source: Precedence Research

## Company Overview

Ericsson is a global provider of telecommunications equipment, software and services to telecom operators, enterprises and public sector customers. The company’s operations are organized into three main segments: Networks, Cloud Software & Services and Enterprise. The Networks segment represents the largest share of revenue, while software, enterprise solutions and mission-critical communications are becoming increasingly important growth areas for the company.

As shown in Figure 1, the Networks segment accounts for the majority of Ericsson’s revenue, reflecting the company’s strong position in mobile network infrastructure, particularly in 5G networks. Cloud Software & Services represents a significant share of revenue and includes core network software, cloud infrastructure and managed services. The Enterprise segment, while still relatively small, includes private networks, enterprise connectivity, mission-critical communications and network APIs, and represents a strategic growth area for Ericsson.

Geographically, Ericsson generates a large share of its revenue from the Americas, particularly the United States, which is one of the company’s most important and profitable markets. As shown in Figure X, the Americas represent the largest regional revenue share, followed by Europe, the Middle East and Africa. Ericsson’s strong position in the US market is important, as US telecom operators have historically invested heavily in network infrastructure and advanced communication technology.

In addition to traditional telecom infrastructure, Ericsson is increasingly focusing on defence communications, mission-critical networks and secure communication infrastructure for governments, emergency services and defense organizations. These networks require very high reliability, security and performance, and typically have higher margins and longer contract durations than traditional telecom equipment sales.

Ericsson has also been involved in large communication infrastructure and secure network projects in the United States, sometimes referred to as the “Golden Dome” initiative, which involves secure communication networks, critical infrastructure protection and advanced network technology. Increased defence spending, secure communication requirements and digitalization of critical infrastructure are expected to drive growth in mission-critical communication networks over the coming years.

Overall, Ericsson is transitioning from being primarily a telecom equipment vendor towards becoming a broader provider of network infrastructure, software platforms, enterprise connectivity and mission-critical communication solutions. These newer business areas typically have higher margins, more recurring revenue and lower cyclicity than traditional telecom equipment, which could improve Ericsson’s profitability and valuation over time.

Figure 1.

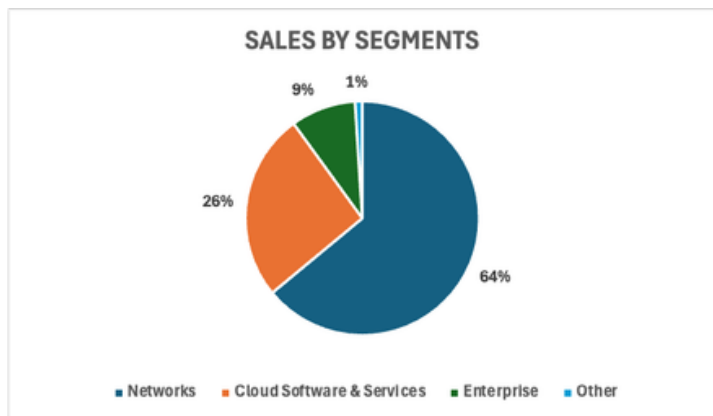
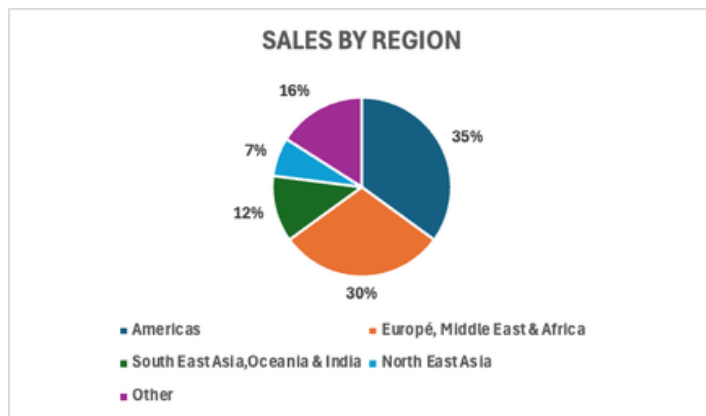


Figure 2.



## Market Overview

Ericsson operates in the global telecommunications infrastructure market, which is driven by telecom operators' investments in network infrastructure and technology upgrades. The market is cyclical and depends on telecom operators' capital expenditure cycles, which are influenced by economic conditions, interest rates and new technology generations such as 4G, 5G and future 6G networks.

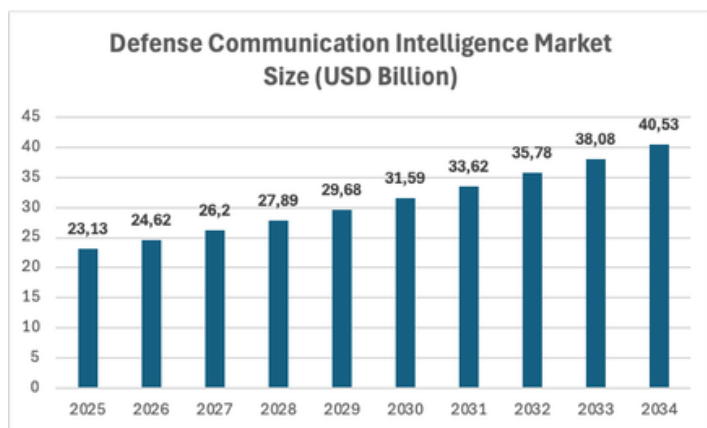
Following the initial global rollout of 5G, telecom operator investments declined in recent years, leading to a weaker telecom equipment market. However, the market is expected to stabilize and gradually recover as data traffic continues to grow and new use cases for 5G, private networks and enterprise connectivity increase demand for network capacity.

As illustrated in Figure 3, the global telecommunications market is expected to grow steadily over the next decade (CAGR of 6,14%), driven by increasing digitalization, cloud computing, artificial intelligence and connected devices. These trends require continuous investments in network infrastructure and communication technology.

The network infrastructure market, shown in Figure 1, is expected to grow as telecom operators continue to upgrade networks, expand coverage and improve network performance (CAGR of 9,15%). In addition, software and cloud-based network solutions are becoming increasingly important, shifting the industry towards more software-driven networks and recurring revenue models.

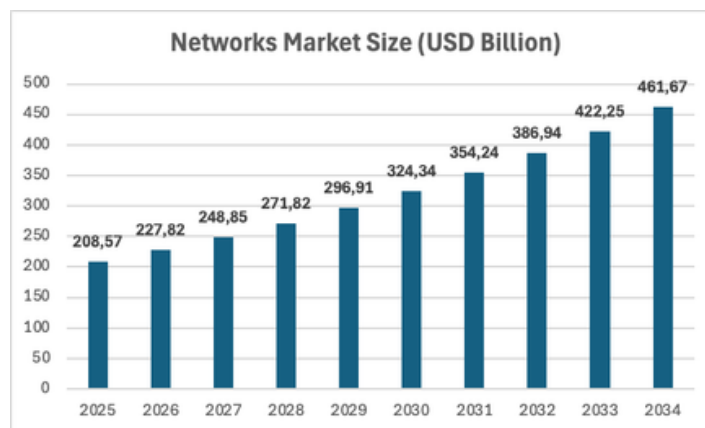
Furthermore, the defence communication and intelligence market is expected to grow, Figure 2, (CAGR of 6,43%) due to increased geopolitical tensions, higher defence budgets and increased demand for secure communication networks, surveillance systems and intelligence infrastructure. Governments and defence organizations require highly secure and reliable communication networks, which creates opportunities for companies with advanced communication technology and network infrastructure expertise.

Figure 2.



Source: Precedence Research

Figure 1.



Source: Precedence Research

## Valuation & Financial Analysis

The valuation of Ericsson is primarily based on a Discounted Cash Flow (DCF) model, complemented by a relative valuation using trading multiples. The DCF model values the company based on projected free cash flows and a terminal value, discounted using the company's weighted average cost of capital (WACC).

The financial forecasts are based on assumptions regarding telecom market recovery, moderate revenue growth and gradually improving margins driven by cost reductions and increasing software and services revenues. Capital expenditures and working capital are assumed to remain relatively stable as a percentage of revenue over time.

The terminal value is calculated using a perpetual growth model, reflecting long-term telecom market growth and inflation. The discount rate is based on Ericsson's cost of equity and cost of debt, weighted by the company's capital structure.

Since DCF valuations are sensitive to assumptions regarding WACC and terminal growth, a sensitivity analysis is conducted to analyze how changes in these assumptions affect the implied equity value per share.

## DCF & Sensitivity Analysis

DCF	2021A	2022A	2023A	2024A	2025A	2026E	2027E	2028E	2029E	2030E	
NOPAT	13	1	(3)	17	11	12	12	13	13	13	
(+) D&A	11	11	10	9	10	10	10	10	10	10	
(-) CapEX	(6)	(3)	(2)	(3)	(4)	(4)	(4)	(4)	(4)	(4)	
(-) Change in OWC	(14)	8	9	4	(7)	(1)	(1)	(1)	(1)	(1)	
Discount period						1	2	3	4	5	
Unlevered FCF		3	17	14	27	10	17	17	18	18	
Present Value of FCF						10	14	14	13	12	
Terminal Value										294	
Present Value of Terminal Value	<b>Example</b>									198	
Sum of FCF										24%	63
TV										76%	198
EV											261
(-) Debt											35
(+) Cash											56
Equity Value											352
Share outstanding											3
Equity Value per Share											117,24

Sensitivity Analysis							
		Terminal Value					
		1,0%	1,5%	2,0%	2,5%	3,0%	
WACC	116,98	7,1%	121,70	128,29	136,18	145,77	157,70
		7,6%	114,02	119,43	125,79	133,39	142,61
		8,2%	107,52	112,01	117,24	123,37	130,69
		8,7%	101,92	105,71	110,06	115,11	121,03
		9,3%	97,07	100,30	103,97	108,18	113,05

WACC	
Market Cap	358
% of Equity	91,08%
Risk Free Rate	2,70%
Beta	1
Market Risk Premium	6%
Cost of Equity	8,70%
Debt	35
% of Debt	8,92%
Cost of Debt	4,00%
Tax Rate	21%
Total	393
<b>WACC</b>	<b>8,21%</b>

## Peer valuation and Financials

To complement the intrinsic valuation, Ericsson is valued using relative valuation multiples compared to a selected peer group consisting of telecom equipment and network infrastructure companies such as Nokia, Cisco and other industry peers. The peer group is selected based on similar business models, market exposure and margin structures.

The peer valuation is based on EV/Sales, EV/EBITDA, EV/EBIT and P/E multiples, which are commonly used to compare companies within the same industry. EV-based multiples are particularly relevant as they account for differences in capital structure, while P/E reflects equity valuation relative to earnings.

Compared to peers, Ericsson currently trades at lower valuation multiples, particularly on EV/EBIT and EV/EBITDA. This discount can partly be explained by lower margins and slower growth in recent years. However, if margins improve and telecom operator investments recover, Ericsson could see multiple expansion over time.

The financial forecasts show stable revenue growth, gradually improving EBIT margins and strong free cash flow generation over the forecast period. Overall, both the peer valuation and financial metrics suggest that Ericsson is slightly undervalued relative to its peer group.

Income Statement	2021A	2022A	2023A	2024A	2025A	2026E	2027E	2028E	2029E	2030E
Revenue	232,314	271,546	263,351	247,88	236,681	241	246	251	256	261
% growth	--	--	17%	(3%)	(10%)	2%	2%	2%	2%	2%
Bear case						0,00%	0,00%	0,00%	0,00%	0,00%
Base case						2,00%	2,00%	2,00%	2,00%	2,00%
Bull case						4,00%	4,00%	4,00%	4,00%	4,00%
COGS	131,565	158,251	161,749	138,515	124,013	138	140	143	146	149
% of revenue	57%	58%	61%	56%	52%	57%	57%	57%	57%	57%
Bear case						60%	60%	60%	60%	60%
Base case						57%	57%	57%	57%	57%
Bull case						54%	54%	54%	54%	54%
Gross Profit	101	113	102	109	113	104	106	108	110	112
% sales	43%	42%	39%	44%	48%	43%	43%	43%	43%	43%
OPEX	69,1	86,519	89,619	103,128	82,298	80	81	83	85	86
% of revenue		32%	34%	42%	35%	33%	33%	33%	33%	33%
Bear case						36%	36%	36%	36%	36%
Base case						33%	33%	33%	33%	33%
Bull case						30%	30%	30%	30%	30%
EBITDA	32	27	12	6	30	24	25	25	26	26
% sales	14%	10%	5%	3%	13%	10%	10%	10%	10%	10%
D&A	8,969	10,543	11,157	10,02	8,909	10	10	10	10	10
EBIT	23	16	1	(4)	21	14	15	16	16	17
% sales	10%	6%	0%	(2%)	9%	6%	6%	6%	6%	6%
% marginal tax rate	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%
NOPAT	18	13	1	(3)	17	11	12	12	13	13

Company Name	Valuation (LTM)			
	EV/Sales (x)	EV/EBITDA (x)	EV/EBIT (x)	P/E (x)
Ericsson	1,6x	7,6x	9,2x	14,0x
Nokia	2,0x	17,3x	34,4x	63,8x
Ciena	10,6x	114,6x	143,3x	228,0x
Cisco Systems	5,4x	18,8x	22,2x	27,8x
<b>Average</b>	<b>4,9x</b>	<b>39,6x</b>	<b>52,3x</b>	<b>83,4x</b>
<b>Median</b>	<b>3,7x</b>	<b>18,0x</b>	<b>28,3x</b>	<b>45,8x</b>



## Valuation & Financial Analysis

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