



euromicron AG

Unpopular decisions required

06/12/2018

Hold (Hold)
3.50 EUR (7.00 EUR)

Close 04/12/2018 3.39 EUR
Bloomberg: EUCA GY WKN: A1K030
Sector Technology

Share price performance

52 week high 8.94 EUR
52 week low 3.34 EUR
Compared to Prime All Share
YTD -47.4%
1 month -37.7%
12 months -47.8%



Share data

EV (m EUR; 2018) 119.6
Market Cap (m EUR) 24.3
No. of shares (m) 7.2
Free float 95.0%

Next event

- -

Change in model

	Sales	EBIT	EPS
2018e	-6.6%	-146.3%	937.3%
2019e	-6.6%	-27.2%	-89.4%
2020e	-6.6%	-4.9%	-21.1%

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See end of document for disclaimer.

Euromicron is still not able to take a fair share of the booming markets for critical infrastructure, building technology and related IOT-services, in our view. We have lowered our price target once again corresponding to reduced sales and earnings estimates.

LONG-TERM SUSTAINABILITY IS STILL NOT SECURED

The company has been undergoing extensive restructuring for several years, but a necessary return to growth is still not visible. Sales, EBITDA and FCF momentum is still disappointing and leverage (13x EBITDA_{2018e} up from 9x at the end of 2017) has reached an unhealthy level. Management focus remains on streamlining the organisational structure and pushing business activities in potential growth markets, but the tough financing situation offers limited options for active moves. Given the expected slow recovery of free cash flows, we doubt that the repayment of € 25 m of debt planned for January 2020 can be carried out without asset disposals. However, asset disposals would have a negative impact on future growth. We thus do not rule out that a larger capital increase will be needed to put the balance sheet back in shape.

NO CLEAR CATALYSTS VISIBLE

- (+/-) Operating trend: A return to positive quarterly EBITDA/FCF could work as a positive catalyst. We fear, however, that the FCF will remain negative until 2019.
- (+/-) Guidance 2019: Guidance for next year is likely to be issued with FY report in March 2019. We expect moderate growth ambitions (sales € 320-350 m; EBITDA margin 4-6%). Additional restructuring measures may weigh on the targets.
- (+/-) Refinancing: We believe that the company is actively evaluating larger asset sales. Such measures may solve refinancing needs but could also result in lower profitability for the remaining entity.

VALUATION

Our valuation of Euromicron is based on a DCF model. Following adjustments to our revenue and earnings estimates, we arrive at a fair value of € 3.50 per share.

in m EUR	2016	2017	2018e	2019e	2020e
Sales	325.3	332.9	324.4	335.8	345.1
EBIT	-2.3	1.1	-2.4	7.0	12.3
EBIT margin	-0.7%	0.3%	-0.7%	2.1%	3.6%
Net financial debt	74.2	88.9	93.3	93.7	93.6
Free cash flow	-14.9	-15.0	-6.8	-2.6	0.9
EPS (in EUR)	-1.76	-0.53	-0.88	0.04	0.64
DPS (in EUR)	0.00	0.00	0.00	0.00	0.00
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%
EV/sales	0.4	0.4	0.4	0.4	0.3
EV/EBIT	16.0	15.7	17.1	7.7	6.0
P/E	-3.3	-15.4	-3.9	78.7	5.3

Source: Company information, Bankhaus Lampe Research estimates

Updated DCF model delivers a fair value of € 3.50

DCF IS OUR KEY VALUATION TOOL

Our key valuation tool is a DCF model based on our estimates for the operating performance of the company's individual operating units (segments).

We assume an unchanged risk-free rate of 1% and an equity risk premium of 7.0% (up from 6.5% in our prior approach). Taking account of the still-poor FCF development and unfinished restructuring measures, we increased our beta to 1.50 (up from 1.45 in our prior approach) and calculate a WACC of 6.5%. Our DCF assumptions lead us to a fair value of € 3.50 for the share.

DCF model

euromicron AG DCF model (EUR m)	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	Terminal Value
EBIT	-2.4	7.0	12.3	12.5	12.8	13.0	13.3	13.6	13.7
EBIT Non-Operating / FD	0	0	0	0	0	0	0	0	0
EBIT Industrial Business	-2.4	7.0	12.3	12.5	12.8	13.0	13.3	13.6	13.7
Taxes	0.7	-2.1	-3.7	-3.8	-3.8	-3.9	-4.0	-4.1	-4.1
NOPAT	-1.7	4.9	8.6	8.8	9.0	9.1	9.3	9.5	9.6
+ Depreciation	9.4	8.6	7.7	7.9	8.0	8.7	9.3	10.0	12.0
- Capex	-9.4	-9.8	-10.8	-11.0	-11.2	-11.5	-11.7	-11.9	-12.0
+/- Change in working capital	-0.3	-1.8	-0.7	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
+/- Other cash items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Cashflow	-2.0	1.9	4.8	4.7	4.8	5.3	6.0	6.6	8.6
Discounting period in years	0.1	1.1	2.1	3.1	4.1	5.1	6.1	7.1	8.1
WACC	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%
Present value	-2.0	1.7	4.2	3.8	3.7	3.9	4.1	4.2	92.8

Calculation of fair value per share

Sum of all present values	116
thereof Terminal Value	80%
+ Operating Segment Financial Assets	0.2
- Minorities	-0.6
- Pension provisions	-1.4
- Net financial debt (cash) of operations	-88.9
Fair operating value	26
Bookvalue non-operating assets	0
Equity Value	26
Holding discount	0%
Fair equity value	26
No. of shares [in mio.]	7.2

Fair value per share [in €] 3.50

Source: BHL estimates

WACC model

Risk-free rate	1.00%
Equity risk premium	7.0%
Beta	1.50
Expected return on investment	11.5%
Cost of debt	5.50%
Tax rate	30.0%
Cost of debt after taxes	3.85%

Sensitivity of fair value per share

		TV growth				
		0.0%	0.5%	1.0%	1.5%	2.0%
Beta	1.1	4.5	5.9	7.7	9.9	12.7
	1.3	2.8	4.0	5.4	7.1	9.2
	1.5	1.4	2.4	3.5	4.9	6.6
	1.7	0.3	1.1	2.0	3.1	4.4
	1.9	-0.7	0.0	0.7	1.6	2.6

Source: Company information, Bankhaus Lampe Research

A variation of the beta within a range of 1.1-1.9 and of the terminal growth within a range of 0% to 2% delivers a wide fair value range of € -0.70 to € 12.70 per share.

Suitable peers are hard to identify based on business model and size

PEER-GROUP ANALYSIS

It is hard to identify close peers to Euromicron that are stock market listed. We have built a group of largely mid-cap names with activities in system/IT integration and the development of IT/TC equipment.

euromicron AG	Price [in €]	EV/Sales 2019e	EV/Sales 2020e	EV/EBITDA 2019e	EV/EBITDA 2020e	PER 2019e	PER 2020e	P/FCF 2019e	P/FCF 2020e
Peer group analysis									
Bechtle AG	70.80	0.7	0.6	13.4	11.0	21.9	17.9	23.4	24.4
LEONI AG	28.34	0.3	0.3	4.2	4.0	7.1	6.7		795.4
ADVA AG Optical Networking	7.19	0.7	0.6	5.4	4.5	19.7	15.2	10.5	15.1
QSC AG	1.44	0.7	0.7	6.6	6.1	47.9	22.1	19.1	14.4
HUBER+SUHNER AG	61.67	1.4	1.4	10.8	10.0	23.4	21.3	27.6	22.2
Belden Inc.	44.44	1.2	1.1	6.4	5.9	8.3	7.9	11.7	9.6
Caverion Oyj	5.32	0.3	0.3	10.9	7.1	26.3	13.6		
Peer Group median		0.7	0.6	6.6	6.1	21.9	15.2	19.1	18.7
euromicron AG	3.39	0.4	0.3	7.7	6.0	78.7	5.3	-9.4	27.4
Premium (+) / discount (-) in %		-51%	-45%	16%	-2%	2.6	-65%	-149%	47%
Value per share [€]		20.75	17.21	1.06	3.74	0.94	9.72	- - -	2.31
Discount/Premium	0.0%								
Fair value per share [€]									7.96

Source: FactSet (Peers), Bankhaus Lampe Research

Comparing our expectations for Euromicron with the broker consensus (FactSet) for the seven peers listed above reveals a mixed pattern of overvaluation or undervaluation for Euromicron depending on multiple or year. The median value of € 7.96 looks somewhat overstated due to the high contribution from sales multiples and the exclusion of the negative P/FCF multiple 2019e.

Share is trading above the historical mean in terms of EV/EBITDA

HISTORICAL VALUATION

The share is still trading above the 5-year mean in terms of EV/EBITDA.

Historical EV/EBITDA



Source: FactSet

New price target is € 3.50

Based on our updated DCF model, we arrive at a new price target of € 3.50. The low visibility regarding operational development, restructuring needs and re-financing options results in a broad range of risks and opportunities. As a result, we maintain our HOLD rating for the stock.

Changes in our estimates

€m	2018E old	2018E new	change	2019E old	2019E new	change	2020E old	2020E new	change
Revenues	347.5	324.4	-6.6%	359.6	335.8	-6.6%	369.6	345.1	-6.6%
EBITDA	13.2	7.0	-47.0%	17.4	15.6	-10.4%	20.8	20.0	-4.0%
EBITDA margin	3.8%	2.2%		4.8%	4.6%		5.6%	5.8%	
EBIT	5.2	-2.4	-146.3%	9.6	7.0	-27.2%	12.9	12.3	-4.9%
Net income after minorities	-0.6	-6.3		2.9	0.3	-89.4%	5.8	4.6	
EPS, reported (€)	-0.08	-0.88	ns	0.41	0.04	-89.4%	0.81	0.64	-21.1%
FCF	1.2	-6.8		1.2	-2.6	-319.2%	na	0.9	na

Source: Bankhaus Lampe Research estimates

A valid market consensus is not available for Euromicron as the number of brokers covering the stock (3) is too low.

MAIN RISKS TO OUR INVESTMENT CASE

- Upside risks:
 - A stronger-than-expected recovery of the order book/sales/earnings/FCFs could trigger a share price recovery.
 - Successful asset disposals at solid price points could solve the leverage issue and bring back strategic flexibility.
- Downside risks:
 - Ongoing pressure on EBITDA/FCF could force fire sales of assets, trigger further restructuring measures and/or a capital increase.
 - The targeted growth segment of IOT solutions/services could find itself in an uncomfortable sandwich position between in-house developed services of target customers and (platform) solutions offered by large IOT players.

Key figures

euromicron AG – Income statement

in m EUR	2016	2017	2018e	2019e	2020e
Sales	325.3	332.9	324.4	335.8	345.1
Own work capitalised	6.4	5.0	4.4	5.2	5.5
Total sales	331.7	337.9	328.8	341.0	350.6
Material expenses	-171.5	-172.4	-166.1	-171.2	-175.3
Personnel expenses	-109.1	-112.6	-113.9	-109.5	-109.7
Unusual or infrequent items	0.0	0.0	0.0	0.0	0.0
Other operating result	-43.8	-43.4	-41.9	-44.7	-45.6
EBITDA	7.4	9.5	7.0	15.6	20.0
Depreciation	9.6	8.4	9.4	8.6	7.7
EBITA	-2.3	1.1	-2.4	7.0	12.3
Amortisation of goodwill	0.0	0.0	0.0	0.0	0.0
Amortisation of intangible assets	0.0	0.0	0.0	0.0	0.0
EBIT	-2.3	1.1	-2.4	7.0	12.3
Financial result	-5.3	-4.6	-5.9	-6.0	-5.9
Income on ordinary activities	-7.6	-3.6	-8.3	1.0	6.4
Extraordinary income/loss	0.0	0.0	0.0	0.0	0.0
EBT	-7.6	-3.6	-8.3	1.0	6.4
Taxes	-4.8	0.0	2.4	-0.3	-1.4
Net income from cont. operations	-12.5	-3.5	-5.9	0.7	5.0
Net income from discount. operations	0.0	0.0	0.0	0.0	0.0
Minority interest	-0.2	-0.3	-0.4	-0.4	-0.4
Net income (adj.)	-12.7	-3.8	-6.3	0.3	4.6
No. of shares	7.2	7.2	7.2	7.2	7.2
EPS	-1.76	-0.53	-0.88	0.04	0.64

Source: Company information, Bankhaus Lampe Research estimates

	2016	2017	2018e	2019e	2020e
Gross margin	47.3%	48.2%	48.8%	49.0%	49.2%
EBITDA margin	2.3%	2.9%	2.2%	4.6%	5.8%
EBITA margin	-0.7%	0.3%	-0.7%	2.1%	3.6%
EBIT margin	-0.7%	0.3%	-0.7%	2.1%	3.6%
EBT margin	-2.3%	-1.1%	-2.6%	0.3%	1.9%
Net profit margin	-3.9%	-1.1%	-1.9%	0.1%	1.3%
Tax rate	-63.5%	1.3%	28.9%	29.7%	21.9%

Source: Company information, Bankhaus Lampe Research estimates

Growth rates yoy	2016	2017	2018e	2019e	2020e
Sales	-5.7%	2.3%	-2.5%	3.5%	2.8%
EBITDA	6.5%	28.9%	-26.4%	>100%	28.1%
EBIT	-73.7%	---	---	---	75.4%
EBT	-40.0%	-53.4%	>100%	---	>100%
Net income (adj.)	-4.5%	-70.2%	67.3%	---	>100%
EPS	-4.5%	-70.2%	67.3%	---	>100%

Source: Company information, Bankhaus Lampe Research estimates

euromicron AG – Balance sheet

Assets (in m EUR)	2016	2017	2018e	2019e	2020e
Fixed assets	141.2	146.8	146.8	148.0	151.1
Property, plant and equipment	15.6	19.1	19.1	20.3	23.4
Intangible assets	124.7	127.2	127.2	127.2	127.2
Financial assets	0.5	0.2	0.2	0.2	0.2
Other long-term assets	0.4	0.3	0.3	0.3	0.3
Current assets	103.3	105.3	99.8	104.7	107.6
Inventories	28.4	31.5	32.4	35.4	36.4
Accounts receivable	58.9	61.5	59.6	61.6	63.3
Other current assets	9.3	7.4	7.2	7.5	7.7
Securities	0.0	0.0	0.0	0.0	0.0
Cash	6.8	5.0	0.6	0.2	0.2
Total assets	244.6	252.2	246.6	252.7	258.7
Equity and liabilities in m EUR					
Shareholders' equity	82.4	78.5	74.7	77.0	80.6
Shareholders' equity (before minority)	81.9	77.9	74.1	76.4	80.0
Minorities	0.5	0.6	0.6	0.6	0.6
Non-current liabilities	48.2	30.7	30.5	30.8	31.0
Pension provisions	1.4	1.4	1.4	1.4	1.5
Other provisions	1.7	1.8	1.7	1.8	1.8
Long-term financial debt	39.4	21.9	21.9	21.9	21.9
Other long-term debt	5.7	5.6	5.5	5.6	5.8
Current liabilities	114.0	142.9	141.4	144.9	147.1
Short-term debt	41.6	71.9	71.9	71.9	71.9
Other accruals short-term	1.9	2.0	1.9	2.0	2.0
Accounts payable	45.9	49.0	48.0	50.8	52.4
Other liabilities	24.7	20.0	19.5	20.2	20.8
Total equity and liabilities	244.6	252.2	246.6	252.7	258.7

Source: Company information, Bankhaus Lampe Research estimates

euromicron AG – Balance sheet structure

Assets	2016	2017	2018e	2019e	2020e
Fixed assets	57.7%	58.2%	59.5%	58.6%	58.4%
Property, plant and equipment	6.4%	7.6%	7.8%	8.0%	9.1%
Intangible assets	51.0%	50.4%	51.6%	50.3%	49.2%
Current assets	42.3%	41.8%	40.5%	41.4%	41.6%
Inventories	11.6%	12.5%	13.2%	14.0%	14.1%
Accounts receivable	24.1%	24.4%	24.2%	24.4%	24.5%
Cash	2.8%	2.0%	0.2%	0.1%	0.1%
Equity and liabilities					
Shareholders' equity	33.7%	31.1%	30.3%	30.5%	31.2%
Non-current liabilities	19.7%	12.2%	12.4%	12.2%	12.0%
Pension provisions	0.6%	0.6%	0.6%	0.6%	0.6%
Long-term financial debt	16.1%	8.7%	8.9%	8.7%	8.5%
Current liabilities	46.6%	56.7%	57.3%	57.3%	56.9%
Short-term debt	17.0%	28.5%	29.2%	28.5%	27.8%
Accounts payable	18.8%	19.4%	19.5%	20.1%	20.2%

Source: Company information, Bankhaus Lampe Research estimates

euromicron AG – Cash flow statement

in m EUR	2016	2017	2018e	2019e	2020e
Net income (adj.)	-12.7	-3.8	-6.3	0.3	4.6
Depreciation	9.6	8.4	9.4	8.6	7.7
Amortisation of goodwill & intangible assets	0.0	0.0	0.0	0.0	0.0
Change of provisions	-0.2	0.5	-0.1	0.2	0.1
Other	1.2	-1.1	0.0	0.0	0.0
Operating cash flow before changes in w/c	-2.0	4.0	2.9	9.1	12.4
Change in inventory	3.0	-3.8	-1.0	-3.0	-1.0
Change in accounts receivable	12.8	-2.4	2.0	-2.1	-1.7
Change in accounts payable	-6.9	3.3	-1.0	2.8	1.6
Change in other working capital positions	-17.4	-2.9	-0.3	0.4	0.4
Operating cash flow	-7.4	-1.8	2.6	7.2	11.7
Capex, incl. capitalized R&D	-7.2	-13.5	-9.4	-9.8	-10.8
Payments for acquisitions	-0.6	0.0	0.0	0.0	0.0
Financial investments	0.2	0.3	0.0	0.0	0.0
Income from asset disposals	0.0	0.0	0.0	0.0	0.0
Income from financial investments	0.0	0.0	0.0	0.0	0.0
Cash flow from investing activities	-7.5	-13.2	-9.4	-9.8	-10.8
Free cash flow	-14.9	-15.0	-6.8	-2.6	0.9
Capital measures	0.0	0.0	2.5	2.0	-1.0
Increase/decrease in debt position	11.7	13.9	0.0	0.0	0.0
Purchase of own shares	0.0	0.0	0.0	0.0	0.0
Other financing Cash-flow	-0.7	-0.8	-0.1	0.2	0.2
Dividend paid	0.0	0.0	0.0	0.0	0.0
Cash flow from financing activities	11.0	13.1	2.4	2.2	-0.8
Increase/ decrease in liquid assets	-3.9	-1.8	-4.4	-0.4	0.0
Effects of exchange rate changes	0.0	0.0	0.0	0.0	0.0
Cash at beginning of period	10.7	6.8	5.0	0.6	0.2
Change in total cash and cash equivalents	-3.9	-1.8	-4.4	-0.4	0.0
Cash at end of period	6.8	5.0	0.6	0.2	0.2

Source: Company information, Bankhaus Lampe Research estimates

euromicron AG – Ratios

	2016	2017	2018e	2019e	2020e
Per Share Data					
EPS	-1.76	-0.53	-0.88	0.04	0.64
Book value per share	11.48	10.94	10.41	10.74	11.24
Free Cash-flow per share	-2.08	-2.09	-0.95	-0.36	0.12
Dividend per share	0.00	0.00	0.00	0.00	0.00
Valuation ratios					
EV/Sales	0.4	0.4	0.4	0.4	0.3
EV/EBITDA	16.0	15.7	17.1	7.7	6.0
EV/EBIT	-51.8	135.7	-49.7	17.1	9.8
P/E	-3.3	-15.4	-3.9	78.7	5.3
Price to book (total equity)	0.5	0.7	0.3	0.3	0.3
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%
Profitability ratios					
EBITDA margin	2.3%	2.9%	2.2%	4.6%	5.8%
EBIT margin	-0.7%	0.3%	-0.7%	2.1%	3.6%
Net return on sales	-3.9%	-1.1%	-1.9%	0.1%	1.3%
Return on capital employed (ROCE)	-1.4%	0.6%	-1.4%	4.1%	7.0%
Productivity ratios					
Capital turnover	56.1%	57.3%	58.8%	57.9%	57.5%
Operating leverage	0.7	1.5	3.2	3.9	-0.8
Sales per employee (in thousands)	180,322	181,619	174,138	180,235	185,226
EBIT per employee (in thousands)	0	599	0	3,762	6,599
Number of employees (in thousands)	1.8	1.8	1.9	1.9	1.9
Financial ratios					
Equity ratio	33.7%	31.1%	30.3%	30.5%	31.2%
Net financial debt (in m EUR)	74.2	88.9	93.3	93.7	93.6
Net debt / Equity	90.1%	113.2%	124.8%	121.6%	116.1%
Interest cover	-0.4	0.2	-0.4	1.2	2.1
Net debt / EBITDA	10.06	9.36	13.34	6.00	4.68
Working Capital (in m EUR)	41.3	44.0	44.0	46.3	47.4
Change in working capital (in m EUR)	-21.7	2.6	0.0	2.3	1.1
WC /sales	12.7%	13.2%	13.6%	13.8%	13.7%
Stocks in days of sales	32	35	37	39	39
Trade debtors in days of sales	66	67	67	67	67
Trade creditors in days of COGS/sales	51	54	54	55	55
Cash conversion cycle	47	48	50	50	50
Invest. (property/plant/equity) / Depreciation	74.3%	160.3%	100.0%	114.0%	140.3%
Others					
Sales CAGR (last 3 years)	-0.4%	-1.3%	-2.0%	1.1%	1.2%
EBIT CAGR (last 3 years)	-174.5%	-54.2%	-34.7%	-245.5%	123.7%
Net income CAGR (last 3 years)	145.0%	-213.9%	-21.9%	-129.0%	-206.8%
Pay-out ratio	0.0%	0.0%	0.0%	0.0%	0.0%
Free cash flow (in m EUR)	-14.9	-15.0	-6.8	-2.6	0.9
Free cash flow yield	-35.6%	-25.8%	-28.0%	-10.6%	3.6%

Source: Company information, Bankhaus Lampe Research estimates

Disclaimer

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Unless shown otherwise, the stated upside targets are based upon either a discounted cash-flow pricing or upon a comparison of the performance ratios of companies that the respective analyst considers to be comparable, or upon a combination of these two analyses. Analysts modify the result of this fundamental assessment to incorporate the potential trend in market sentiment.

Details on the concepts and methods as well as the valuation models employed are available on our [website](#).

Overview of changes in our recommendations/price targets in the previous twelve months for: euromicron AG (EUCA GY), Close (04/12/2018): 3.39 EUR, Analyst: Wolfgang Specht (Analyst).

Date of publication	Price at recommendation	Rating	Price target
22/05/2018	7.16 EUR	Hold	7.00 EUR
05/12/2017	8.39 EUR	Hold	8.50 EUR

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Company	Disclosure
euromicron AG	---

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06 December 2018

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