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Deutsches Eigenkapitalforum

Global perspectives | Sector focus | Company profiles

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Welcome to the Edison research guide for the Deutsche Börse Eigenkapitalforum 2013. This book profiles 98 companies that will be presenting at the Investors Forum.

The guide opens with a strategy piece by Alastair George, who points out that equity markets in general have seemed numbed to fundamental risks since the September 2012 announcement of the open-ended US quantitative easing programme. We believe that with equity valuations at record levels and slow corporate revenue growth, it is time for equity investors to stress test their portfolios.

While there is too much optimism built into US and UK equity markets, European margin forecasts are not as extended and are close to 10-year averages. This is a reason to be more positive on quality European companies, which still trade at a discount to global peers and also have room for margin improvement.

There is also still plenty of value in the small-cap space. Investor perceptions are that low liquidity, the ensuing price volatility and lower transparency increase the risk profile for small caps. However, these are neither endemic nor uniform problems, suggesting that artful stock-picking will generously reward the brave and well informed.

Edison, the investment intelligence firm, is the future of investor interaction with corporates. Our team of over 100 analysts and investment professionals work with leading companies, fund managers and investment banks worldwide to support their capital markets activity. We provide services to more than 400 retained corporate and investor clients from our offices in London, New York, Frankfurt, Sydney and Wellington.

We welcome any comments/suggestions our readers may have.

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Introduction from Deutsche Börse

German Equity Forum 2013 – Entrepreneurs meet investors

Today investors need to analyse increasing volumes of data to make investment decisions. Limited time and the large number of securities are a hurdle, but not insuperable. For example the shares of more than 10,000 companies trade on the Deutsche Börse. While we are proud that so many companies use Deutsche Börse's platforms as the gateway to on-exchange financing, the sheer number of companies makes it difficult for investors to pick the investments that are most suitable to their personal circumstances.

Professional research helps institutional and private investors to identify suitable investment opportunities, through distilling and analysing the information companies release to the market. This reduces the time and effort investors spend selecting potential investments.

We are delighted that Edison Investment Research, a London-based research company, is one of the main sponsors of our German Equity Forum 2013. Edison has provided this research guide on the participating companies to help investors prepare for their conference schedule and one-on-one meetings. The guide provides sector and equity commentary to assist your investment research process. It, along with Edison's detailed coverage of c 400 listed companies, is available online at www.edisoninvestmentresearch.com

Yours,

Alexander von Preysing: Deputy Head of Issuer & Primary Market Relations

Alexander von Preysing joined Deutsche Börse in 1996. He was a member of the core team that launched Neuer Markt, by the end of the last decade Europe's leading technology market. He was Co-Founder of NeuerMarkt.com, which operated an investment portal in 2001. Since 2002 he has led and participated in various projects for the development of issuer services, some of those positioning and organising the German Equity Forum and the introduction of the Entry Standard, the Deutsche Börse primary market offering with a focus on small and medium-sized companies. Since August 2010 he has been responsible for the development of market segments, the relationship management towards listed companies and the acquisition of domestic and international companies for Deutsche Börse's primary market. Since April 2013 he has been in charge of the customer relationship side of the whole primary markets business of Deutsche Börse as Deputy Head of Issuer & Primary Market Relations.

Nicole Koludrovic: Vice President, Issuer Services

Nicole Koludrovic joined Deutsche Börse in 2004. She is responsible for the annual German Equity Forum event and is the contact person for small and medium-sized companies (SMEs) regarding financing options via the capital market as well as the support of issuers' investor relations. Since December 2006, she has been the account manager of the prime sectors: consumer, retail and food & beverages and media.

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Published 31 October 2013

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Global perspectives: Greater Fed theory

Analyst

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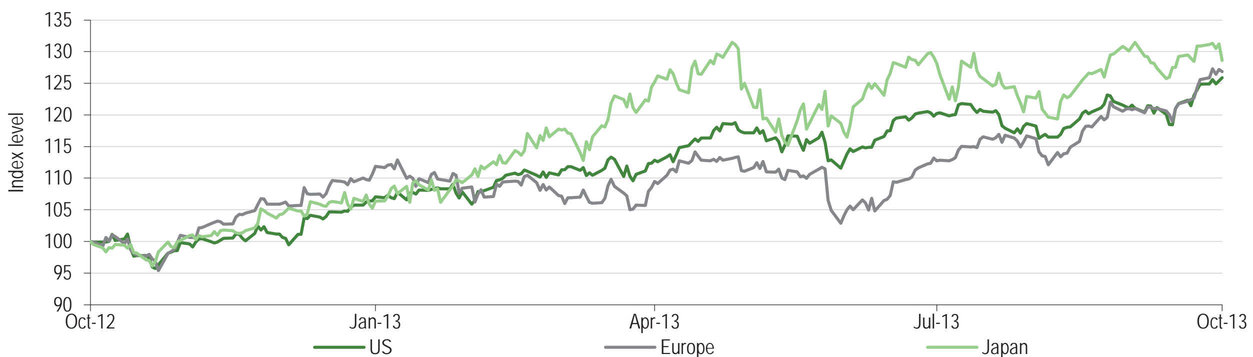
- **There is now far too much optimism built into equity markets**. High valuations sit uncomfortably with slowing corporate revenue growth. The quite astonishing turnaround in market sentiment from only 15 months ago corresponds closely to the start of the most recent round of US quantitative easing. The massive retail over-subscription and 50% trading premium to the offer price in the UK's Royal Mail IPO is illustrative of the lack of fear, if not greed, prevailing among investors. This is not an easy market for those focused on value and risk-adjusted returns.
- **US debt limit raised, but expect a repeat showing in Q114.** It appears that Obama held all the cards. The Republican-controlled Congress passed a bill to raise the debt limit and end the US government shutdown with very little in return. Unfortunately, the whole process is likely to be repeated (perhaps several times) during 2014 as the new debt limit is likely to be reached in February. Further political gridlock may yet provide meaningful volatility.
- **Unconventional monetary policy is now the only game in town.** Equity investors are greeting poor economic data with enthusiasm as the 'greater fool theory' is replaced by the 'greater Fed theory'. In this game, the US Federal Reserve stands ready to cover any losses in equity markets should there be a shortfall in economic growth. Formally put perhaps, but in reality there is no formal put and the Fed is no greater fool. When the music has been playing this long, it is time to check the exits.
- **Time to check the exits.** The temptation to reach for returns by sacrificing liquidity and quality is especially strong at this point in the cycle and should be resisted, in our view. The median stock price/sales ratio in the UK and US is at or near all-time highs as mid-cap stocks have outperformed. By contrast, what better time than now to stress test portfolios against adverse moves in liquidity, profit margins and a growth slowdown in 2014?

Greater Fed theory?

For equity investors bad news may be good news until it is very bad news. Equity markets have seemed numbed to fundamental risks since September 2012's announcement of the open-ended US quantitative easing program. We believe there is too much speculative capital gambling on the Fed's next move and perhaps also a conceptual misunderstanding of how to rationally trade central bank policy.

The only easing of the pace of gains in global equity markets came over the summer, when the US Federal Reserve considered "tapering" the QE program. Primarily due to the rapid steepening of the US yield curve, QE tapering was deferred in September. As soon as the debt limit negotiations were concluded for Q413, global equity markets rallied strongly in October and are now at or near their year highs.

Exhibit 1: Greater Fed theory – 12-month performance of global equities



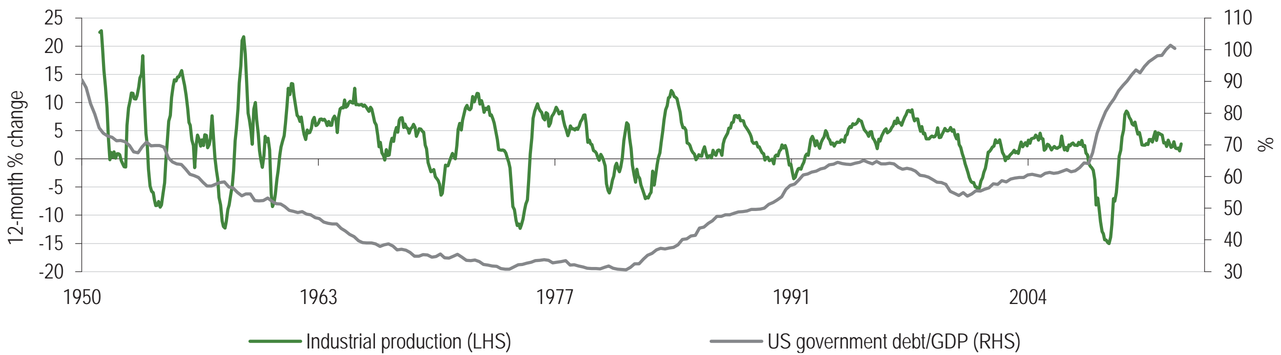
Source: Datastream

Initial public offerings are flowing once again and retail investors have returned. Enthusiasm for the UK's Royal Mail IPO is matched only by the Thatcher-era privatisations of the 1980s. Risk premia for the periphery of Europe continue to fall as spreads to German bonds have converged to post-financial crisis lows. We feel somewhat against the consensus highlighting the Bundesbank's still highly elevated TARGET2 payment balances, reflecting the continued absence of confidence in the eurozone interbank market.

Assuming the US Federal Reserve is able and will always be willing to backstop equity markets in our view is not a valid investment strategy. Firstly, equity prices are only a means to an end for Fed policy, in so far as a wealth effect is perceived by policymakers as stimulating the US economy. Secondly, should a slowdown in US growth flatten the yield curve sufficiently, the rationale for more monetary accommodation may be weakened just when equity investors most require it. Thirdly, if politics prevent continued further increases in the US debt limit, a more limited supply of US Treasury bonds places practical limits on the Fed's bond market intervention.

Perhaps more importantly, the exceptional use of fiscal deficits and debt monetisation has to date brought a remarkably subdued recovery in a historical context, Exhibit 2. Much sharper recoveries have been achieved in the past without resorting to exceptional fiscal and monetary policies, which clearly questions their efficacy. The rebuttal is typically framed in terms of an economic model indicating that the outcome would have been much worse if nothing was done. With the risks to public sector balance sheets and private sector asset prices increasing, tangible evidence of policy success rather than the absence of a theoretical downside would seem a necessary justification for continuation of these policies beyond the short term.

Exhibit 2: US – exceptional policy and a weaker-than-usual recovery



Source: Datastream

Investors should also consider whether the popular notion of the 'Greenspan put' fits the facts; Greenspan offered no protection to investors who bid up dot-com and real estate to unrealistically high prices. Instead, the benefits of a pro-growth central bank accrued to those who made much larger than anticipated gains buying when valuations were low (1998, 2001-3) and the outlook was perceived as murky. Re-casting the 'Greenspan/Bernanke put' as a 'Greenspan/Bernanke call' fits the last 15 years of stock market history much better. In our view, this call was a free option in 2011 and is now well in the money, while further gains are fully priced.

We believe equity investors should remain cautious. Rather than rely on today's version of the tale of one-way bet investing, we highlight high valuations, weakening trends in corporate sales growth and unusually low equity volatility.

'Bait-and-switch' equity valuations

While greed can be infectious, we are not among those bears now turning bullish. This is because from a strategic perspective we have been bullish, if a little cautious, until recently. We are therefore bulls turning bearish, primarily on valuation grounds, but also due to the weak picture presented by corporate fundamentals.

Exhibit 3: Equity valuation bait and switch – UK price/sales ratios

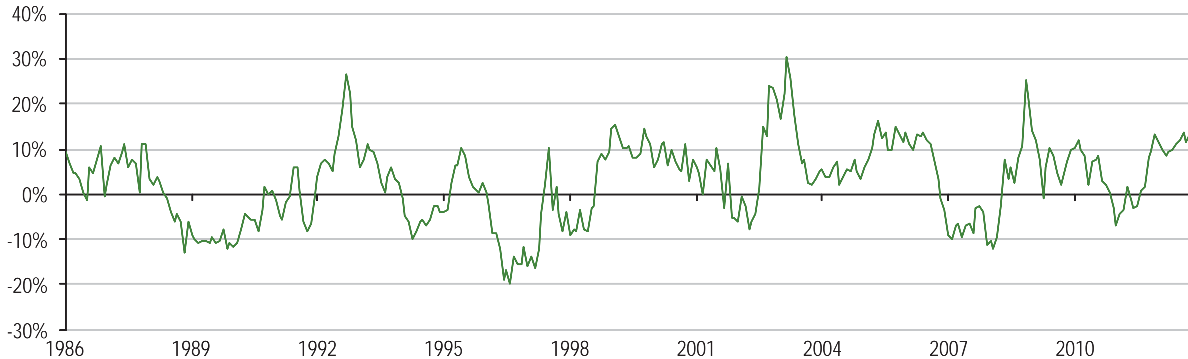
Source: Datastream, Edison investment Research calculations

At present we cannot over-emphasise the 'bait and switch'[1] potential offered by the current distribution of equity valuations. Aggregate equity valuations are not excessive in the UK, US or Europe, especially in the context of the very high valuation levels reached during the dot-com boom, or leading up to 2008. This is psychologically comforting for investors seeking an improved return against bonds and cash. However, this aggregate is misleading.

[1] A potentially misleading sales tactic whereby a bargain-priced item is used to attract customers, who are then encouraged to purchase a more expensive similar item.

A limited number of large-cap stocks trading at reasonable valuations conceal a vast number of fully priced mid-cap equities. This is revealed by comparing median valuations with the more often-quoted weighted averages, Exhibit 3. (This topic is covered in more detail in our strategy update in August 2013.) Of course, there appears to be no evidence of any investor enthusiasm for the cheaper large-cap equities. Investors seem to be baited by large caps, but switch into mid-caps that have outperformed strongly over the past year, Exhibit 4.

Exhibit 4: UK mid-cap versus large-cap performance

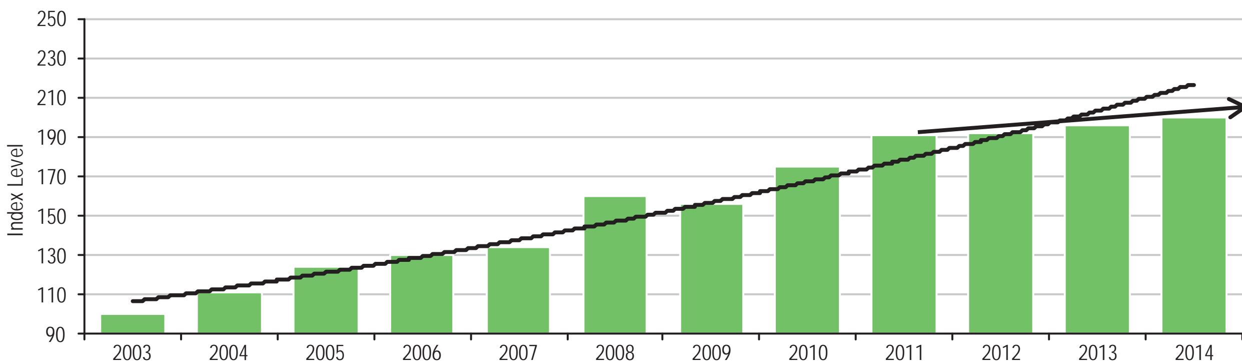


Source: Datastream, Edison Investment Research calculations

Trends in corporate performance weakening

Despite the recent improvement in survey data, corporate performance is weakening. Exhibit 5 shows revenues for UK non-financials. Over the entire period sales growth has averaged 6%, but from 2011 onwards has slowed to 1.5%. We believe the corporate sector was the prime beneficiary of the policy of running large fiscal deficits to exit the recession of 2009, but this effect appears to have peaked.

Exhibit 5: UK non-financials revenue growth rate slows



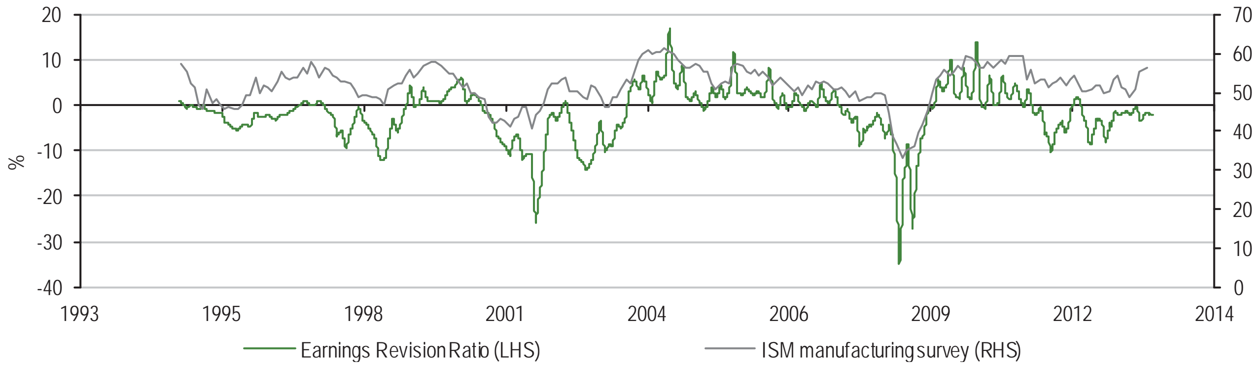
Source: Datastream, Edison Investment Research calculations

Typically, consensus earnings forecasts track PMI survey data with a lag, as the corporate sector guides higher following improved levels of economic activity, Exhibit 6. As PMI surveys have become much more optimistic in recent months, rising estimates are the key risk to our cautious equity thesis and for this reason we have been monitoring them carefully.

However, there has been no improvement in the outlook since 2012. Analysts' forecasts mirror the trend seen in the historical data which show that sales growth has declined substantially since the 2003-08 period and during the recovery in 2009-10. Most recently in Europe (including UK) reported Q3 sales have missed consensus forecasts by a ratio of 2:1, even if Q3 earnings are in line.

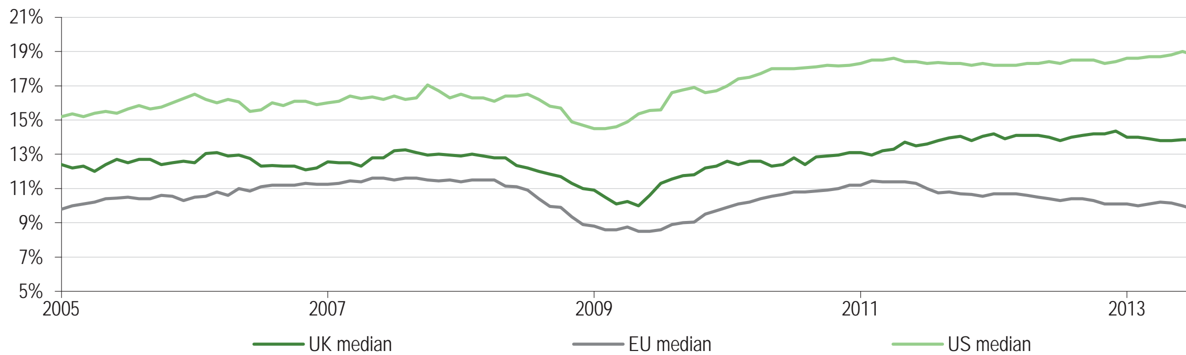
In terms of non-financial EBIT margins, Exhibit 7, both the US and UK are forecast to be at peak levels for 2013. The sustainability of peak profit margins has surprised many, but is unlikely to be maintained into perpetuity, and we believe disappointing future profits growth is a key risk for investors. European margin forecasts are not as extended and are close to 10-year averages. This is a reason to be more positive on quality European companies, which still trade at a discount to global peers and have room for margin improvement.

Exhibit 6: US ISM Index and global earnings estimates



Source: Datastream

Exhibit 7: EBIT margin forecasts for non-financials



Source: Datastream, Edison Investment Research calculations

Time to check the exits – stress test portfolios

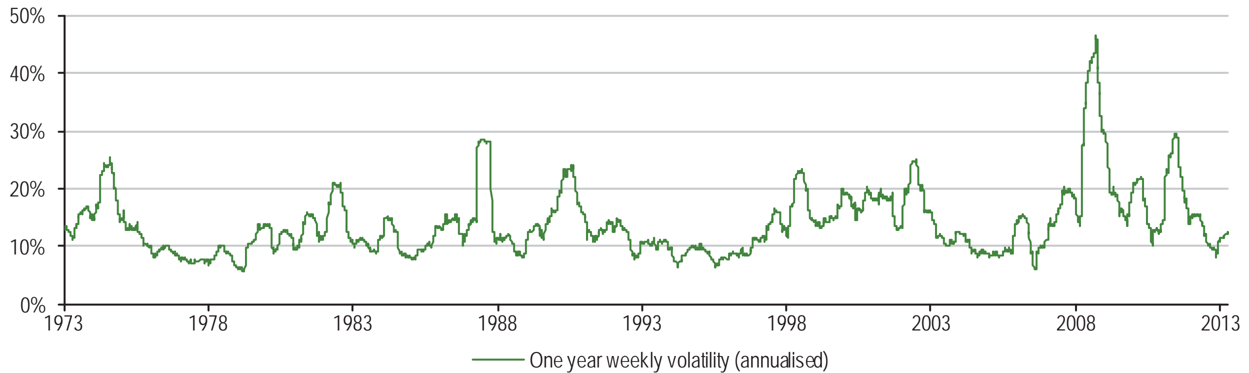
With returns on portfolios strong, we believe the focus should be on risk management – and before there are any market accidents. The steady drip of deficit spending combined with accommodative monetary policy has become the new normal, but is unsustainable in the medium term, and withdrawal from these policies may not be easy for investors. Exhibit 2 shows that during the post-war period, deep US recessions and recoveries were recorded, while the US debt/GDP ratio was continuously reduced and the Fed's balance sheet maintained at a steady and low percentage of GDP.

It should also be clear from Exhibit 2 that it would be rather premature to assert that economic boom and bust can now be avoided as a result of enlightened central bank policy as there are simply insufficient data to show any reduction in economic volatility. In this context, the suggestion of a permanently high plateau for equity prices would seem a bold if not heroic call as it jars against the evidence from economic history.

Long-dated portfolio insurance is notoriously expensive to buy. In today's market we have to acknowledge that in some quarters there is a presumption that this insurance is supplied for free by central banks. Therefore, developed market equity market volatility declined to exceptionally low levels earlier this year, Exhibit 8, and has remained lower than average as demand for protection

has diminished. This reduction in market volatility will have reduced trailing measures of volatility in equity portfolios, and if continued may encourage investors to take greater risks.

Exhibit 8: Developed market equity market volatility declines in 2013



Source: Datastream

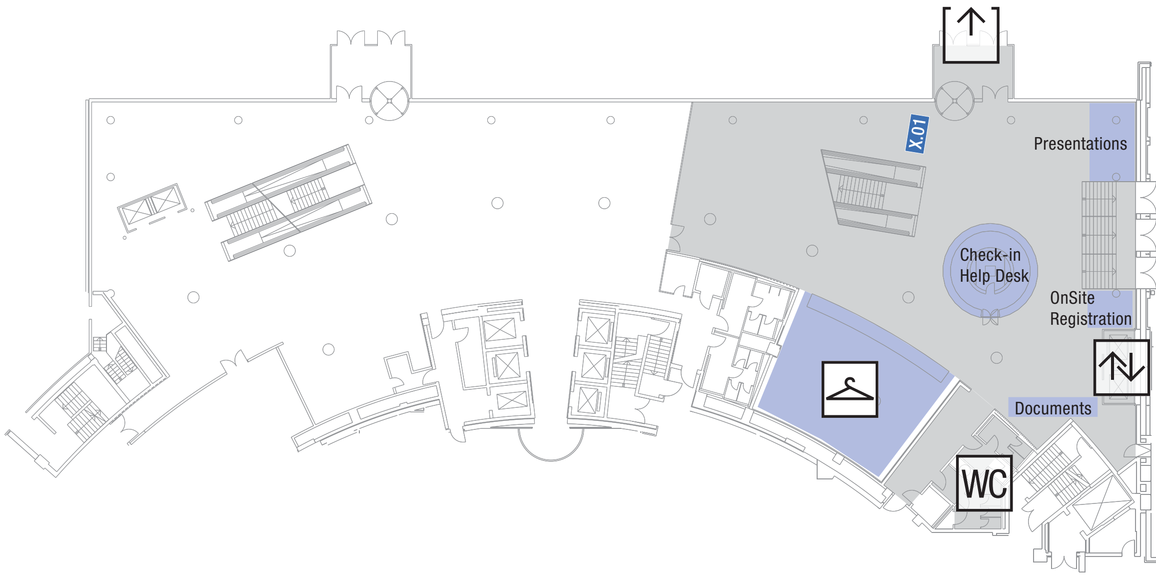
We believe the temptation to add equity exposure to maintain the same level of portfolio risk should be resisted. Volatility is itself highly volatile as central bank policies 'bottle up' economic risks, which cannot ultimately be contained (2008 being the most recent example). We would therefore be looking to benchmark portfolios against long-run market volatility, which includes periods of distress as part of any risk management exercise.

Conclusion

It has been unusually difficult to lose money over the last 12 months, but investors should not consider this a normal state. The combination of enormous amounts of taxpayer-funded stimulus and accommodative monetary policy has driven a large proportion of UK (and US) equities well above long-term average price/sales ratios.

In response, we believe investors should be using this period of calm to stress test portfolios. We are particularly concerned about valuations of mid-cap equities, which are extended and have substantially outperformed large caps over the last 12 months. In a difficult market, mid-caps can also suffer a loss of liquidity, which is highly undesirable if better opportunities present themselves elsewhere.

It should be clear we are concerned that ultra-loose monetary policy is creating a number of risks, not just in incentivising risk-taking behaviour, but also ultimately creating the economic and monetary volatility it was designed to prevent. This remains a difficult time for investors focused on maintaining or increasing the real value of their capital. We believe a diversified approach, including exposure to the largest capitalisation global equities, niches of the credit markets that still offer an acceptable return without undue interest rate risk, and a modest allocation to gold remains a strategy that will perform adequately under most scenarios.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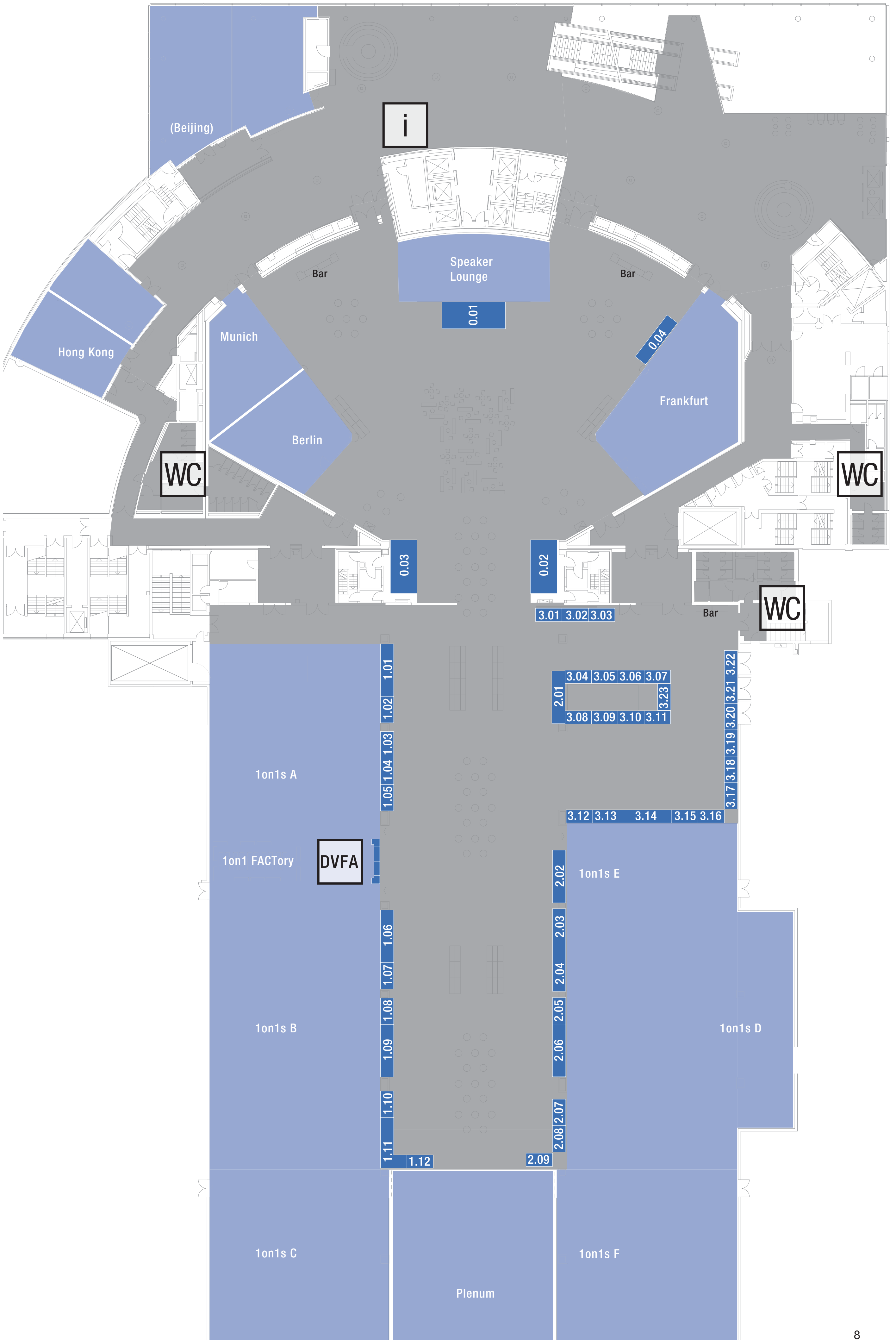
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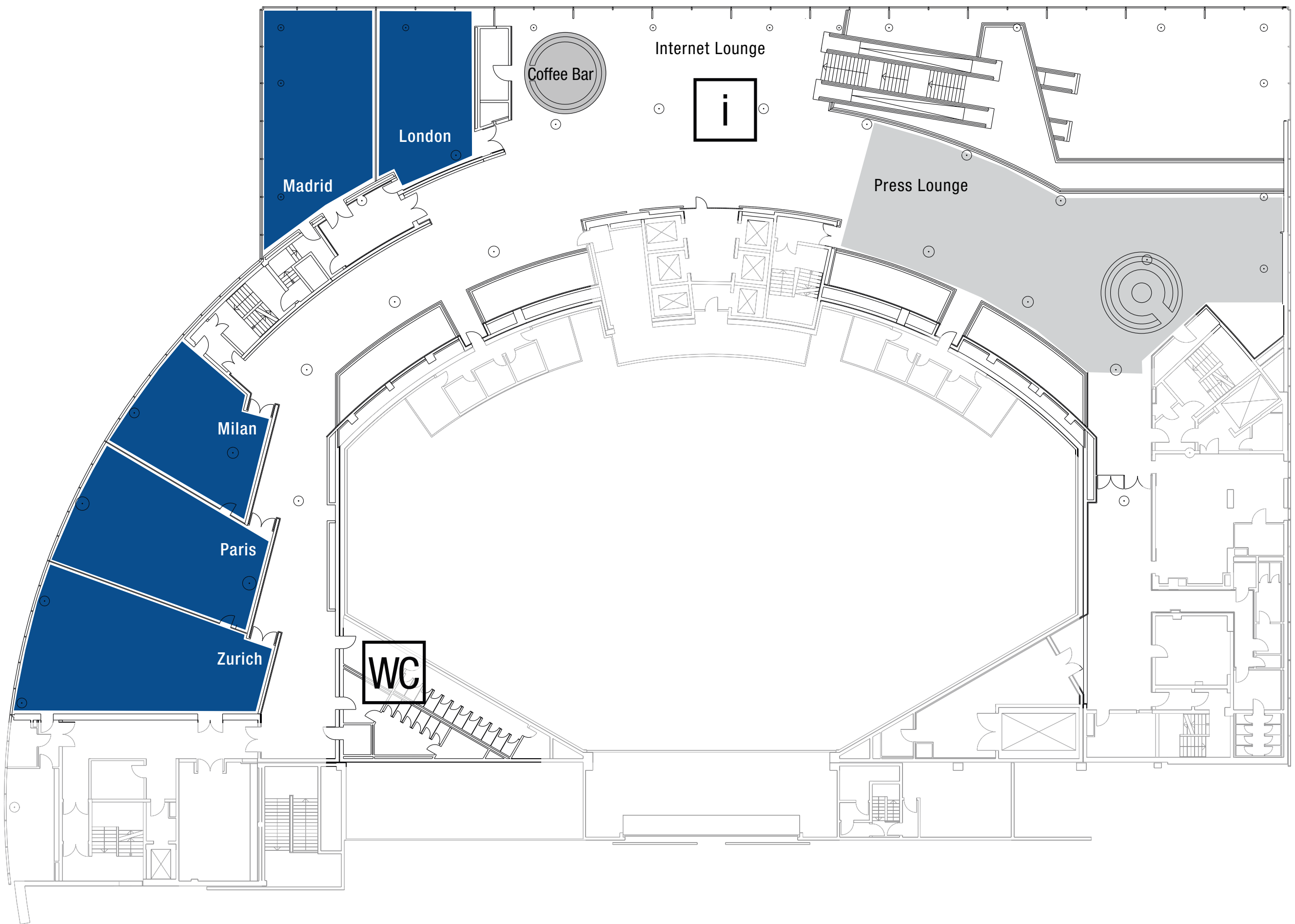
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Consumer

Sector focus: General retailers

Analyst: Neil Shah

Recovery, growth and e-commerce

There are three dominant themes for investors in the general retail sector. The first is the recovery of Western European markets and their consumers as economies emerge from the financial crisis. The second is the creation of a new global middle class as emerging markets, in particular China and India, create a new affluent aspirational middle class. The third is the changing behaviour of consumers with the continued growth of mobile and e-commerce. In varying degrees, all three themes point to winning companies having three key attributes: strong brands, the ability to afford advertising and engagement with consumers, and flexible business models that allow companies to meet rapidly changing consumer behaviours and preferences.

A year ago we commented that profits had come under pressure for many consumer companies, particularly those with exposure to the Southern European economies, where high rates of unemployment had impacted on consumer spending and confidence. Some of these factors had also started to spill over into the German market. A year on, the health of the German market has improved, and while there is still a healthy degree of scepticism, there are also tentative signs that the Southern European markets are starting to bottom. Earnings expectations tend to lag rebounds in consumption and while we believe it is prudent to remain sceptical, we consider there is still scope for alpha generation from a Southern European recovery, which markets are unlikely to price in until recovery becomes more apparent.

The emerging markets growth is well documented. Perhaps less well understood is the scale of the opportunity and the impact on general consumption. World Bank estimates have the number of people moving into the middle class increasing from 430 million to 1.2 billion between 2000 and 2030. These same projections also suggest that 93% of the middle class will be in emerging economies, up from 56%, thus accounting for the bulk of the growth. To put this into some context, this is equivalent to creating another 2.5 US populations of consumption.

Western European companies likely to capitalise on this growth in the new middle class will have strong brands and healthy advertising budgets. The emerging middle class is aspirational and has a strong desire for western brands. The one thing Western European companies have is a virtual monopoly on strong consumer brands. Companies such as Adidas (ETR:ADS) are well positioned for such growth. These same companies are using well-tested aspirational direct advertising to build their brands in emerging markets.

All companies, whether focused on developed or emerging markets, need to have embraced the importance of e-commerce to their business. In 2012 online goods sold in Germany saw a 21% increase, with notable growth in the over 60s demographic and growth in the use of mobile e-commerce. This trend is expected to continue. Those able to exploit e-commerce probably have the right characteristics of a winning company: strong brands that can be sold and trusted online, flexibility to respond to rapidly changing consumer behaviour and the ability to market effectively, using websites to inform and create consumer loyalty.

Sector focus: Travel & leisure

Analyst: Richard Finch

Measured progress

The popularity of 'Destination Germany' continues to impress. Despite persistent consumer spending pressures in key source markets (the Netherlands is comfortably the largest at 16%), the volume of overnight stays by visitors from abroad was up 4% in the first eight months of the year (7% in August) following 8% growth in 2012, which is well above the global and European average. Demand has proved buoyant in key areas such as Russia, China and the Gulf States in particular, with double-digit gains. Longer term, the German National Tourist Board confidently envisages that effective marketing can deliver a c 16% rise in the number of overnight stays of foreign guests by 2020.

However welcome, this does not guarantee success for the German hotel industry, which is driven by domestic demand (83% of overnight stays in the calendar year to date), as well as by the frequency and timing of trade fairs (Germany is second only to the US as a conference location). The market is also fragmented, with Berlin accounting, for example, for just 15% of total foreign overnight stays, yet twice as many as Munich, its nearest rival. Consequently, a nationwide statement of performance, eg RevPAR growth of 2% since January per STR Global, is not especially meaningful. With regard to Berlin, TRI Hospitality has reported that RevPAR was up 3% in the first seven months of 2013, only for September to be substantially down (-11% per Fairmas) owing to the absence of two important trade fairs. Such short-term volatility and an increase in room supply, primarily at the economy end, do not prevent research firm e-forecasting.com forecasting a stable yield for the year as a whole, whereas Frankfurt and Munich RevPARs are thought to fall by 1% and 3% respectively.

Accor, which has 32,000 rooms in Germany, has recently reported a slowdown at both ends of the market as Q3 saw a softening of RevPAR growth from 2.4% in H1 to 1.0% and 1.1% to 0.3% for respective segments, Upscale and Midscale and Economy.

As for German outbound tourism, key third quarter data have yet to be announced. However, given clear market confidence at the start of the year that 2013 would see decent growth (single digit, according to the German Travel Association) after a 5% gain in 2012, caution may be in order, given a marked slowdown in the second quarter and August's announcement by leading tour operator TUI Travel that its bookings in Germany for summer 2013 were down by 5%, albeit with average selling prices up 8%. Full-year results and winter bookings are due from Thomas Cook and TUI Travel in late November and mid-December respectively.

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CEWE

Growing confidence

Despite a sharp increase in Q2's seasonal loss (adjusted EBIT -€2.9m against -€0.6m), CEWE believes it is firmly on course to meet 2013 guidance of broadly similar profit on slightly higher revenue. Not only is the period unrepresentative, given the longstanding shift of the trading peak to the fourth quarter, but there is also reasoned confidence in the prospect of a better photofinishing product mix, easing consumer restraint and improving returns from the new high-potential online printing business. The company remains well-financed.

Q2 - more of the same

The quarter to June saw a further decline in the number of photos sold (both digital and analogue, reflecting the former market's move away from individual prints), offset by a decent 6% rise in revenue per photo thanks to higher-quality products, eg CEWE PHOTOBOOK, greeting cards and calendars. However, owing to a weather-led accentuation of volume reduction (-8% against -2% in Q1), there was a slight shortfall in Q2 year-on-year revenue in Photofinishing, CEWE's major activity. The 4% advance in the company's overall sales was predictably driven by the buoyant Online Printing business (revenue +43% as a result of strong marketing), while Retail was ahead in all markets despite subdued conditions. Adjusting for €1m one-off reorganisation costs, the rise in Photofinishing trading loss from €0.2m to €1.9m is viewed by management as simply a function of H1 "front-loading" as well as continued seasonal shift.

Realistic full-year forecasts

CEWE assumes that Photofinishing will be stable in H2 on its continuing pattern of business, which seems fair in view of evident demand for added-value branded product, notably the PHOTOBOOK, successful innovation and enhanced online marketing. Notwithstanding the move in trading to later in the year, Photofinishing revenue was up 1% in the first half. While the targeted top-line 2013 gain of 1% to 5% promises to be due entirely to Online Printing (potentially up to +40%, as in Q2), associated investment costs will continue to depress divisional returns, although potentially to a lesser extent than in H212 (€3m EBIT loss). There is therefore clear scope to reverse the EBIT setback in the first half.

Valuation: Not expensive

Undue reliance on Q4 trading (c 90% of annual EBIT) may be disconcerting, but growing confidence in CEWE's re-shaping and in more benign consumer markets may continue to spur an already buoyant share price. Assuming that 2013 estimates are met, their inclusion of likely material exceptional costs should allow for positive re-evaluation of CEWE's underlying operational performance. The consensus forecast yield of almost 4% is covered up to 2x on prospective earnings.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	469.0	29.2	2.84	1.40	14.6	3.4
12/12	503.3	26.7	2.88	1.45	14.4	3.5
12/13e	523.3	28.6	3.07	1.54	13.5	3.7
12/14e	542.5	31.4	3.22	1.68	12.8	4.1

Source: Thomson Reuters

General retailers

Price €41.38

Market cap €306m

Share price performance

Share details

Code	CWC
Shares in issue	7.4m
Net (debt)/cash (€) as at Jun '13	(44m)

Business description

CEWE is Europe's premier online printing and photofinishing service, last year producing 2.5bn photos and the market-leading photo book (printed and bound album). The company has c 190 of its own shops (online and offline) in East Europe and Norway.

Bull

- Leading photo service company in Europe
- Increasing mix of value-added products such as CEWE's market-leading PHOTOBOOK
- Strong distribution (online and retail)

Bear

- Pressures on consumer spending, although limited correlation with demand for photofinishing products
- Pronounced seasonality (90% of underlying 2012 EBIT in Q4)
- Continuing sharp decline in market for films and analogue pictures, but now only 5% of revenue

Analyst

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EDISON

Firstextile

Substantial expansion underway

Firstextile offers investors exposure to a fast-growing industry (top-end fabrics and shirts for the domestic Chinese market) and an entrepreneurial management team that has successfully diversified the business mix. In the last three years it has been capacity constrained, with profits growth coming from shifts in the product mix. It is building a new factory that will double capacity and should open end 2013/early 2014, allowing for a substantial increase in production in 2014. Aside from its high-quality fabrics business, growth opportunities come from the expansion of its newly repositioned VARPUM premium menswear brand and market share gains in the uniforms segment.

Excellent H1 results

H113 revenue grew 34% to €106.4m and EBIT by 20% to €22.9m. Fabrics gross profit increased by over 50% despite the capacity limitations, helped by a favourable shift in the mix and both volume and price increases. Uniforms gross profit increased by 6% with a much stronger Q2 (sales tend to be slightly lumpy) and Branded Products by 14%. Firstextile's new marketing director joined in March and her business plan for the repositioning of Branded Products has been implemented from July, with VARPUM launched as a full-range premium menswear brand with self-operated stores opened at a sensibly cautious rate.

New capacity a growth driver for 2014

Management has guided to revenues of €204-221m in 2013, with an EBIT margin of 20-24%, and at least 20% revenue growth in 2014. Edison's estimates (detailed in our research reports) are broadly in the middle of the guided range for 2013, but both Edison and consensus revenue estimates are above management guidance for 2014. The final outturn will depend on the ramp-up of production in the new facility. Firstextile can comfortably fund its expansion through positive cash flows. Net cash was €23.1m at 30 June and despite the €37.5m cost of the new factory, we expect a neutral year-end net cash position, growing to over €20m at end 2014. Firstextile has indicated that its dividend payout ratio will be 15-25%.

Valuation: Low rating and attractive dividend

The share rating remains very low, with investors not yet confident of the projected 2014 earnings uplift and some concern over the strength of the Chinese luxury market. However, Firstextile has substantial scope to grow its market share and its prospects are much more company specific. To date it has delivered very positive revenue and profits growth and we view the successful completion of the new plant as a key catalyst. The forecast dividend yield is also very attractive.

Edison estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	131.7	27.9	2.39	0.00	4.0	N/A
12/12	179.5	41.2	3.46	0.00	2.8	N/A
12/13e	213.0	43.0	3.00	0.45	3.2	4.7
12/14e	286.0	60.0	3.81	0.75	2.5	7.8

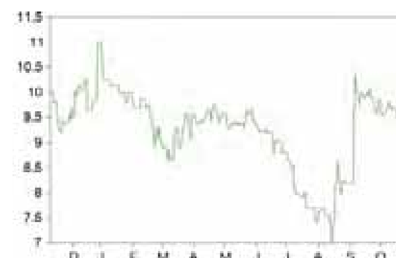
Source: Edison Investment Research

General retailers

Price €9.64

Market cap €114m

Share price performance



Share details

Code	FT8
Shares in issue	11.8m
Net (debt)/cash (€) as at Jun '13	23.1m

Business description

Firstextile is the leading manufacturer of high-end yarn-dyed fabrics in the Chinese domestic market. It also markets fabrics and shirts for uniforms, as well as its own-branded men's shirts for the Chinese premium market segment.

Bull

- Strong growth prospects
- Major factory expansion underway
- Sound financial position

Bear

- Some pressure on Chinese luxury market
- Risk of delay to new factory
- Competitive markets

Analyst

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EDISON

Leifheit

Year of transition

Leifheit has overcome a difficult start to the year with a near-50% rise in underlying EBIT in Q2 and renewed commitment to an apparently well-defined retail strategy, eg enhanced brand presence at the point of sale, increased e-commerce and targeted growth in Central and Eastern Europe, as well as Turkey. The recent appointment of an experienced CEO from early next year is similarly encouraging. Confirmed guidance of stable full-year EBIT on slightly higher revenue appears sensible, given persistent pressures on consumer spending and the company's uneven performance in the year to date. Finances remain strong (at June €42m cash, no debt).

Q213 rebound

The quarter to June more than made up for the weather-related softness of Q1 (like-for-like revenue down 6%). Apart from an element of catch-up, growth was driven by successful product innovation in Leifheit's largest branded operations, cleaning and laundry care. Eastern Europe, an identified growth market, also made progress, albeit from a low base (still under 10% of revenue). By contrast, the smaller Volume business was patchy, largely for one-off company specific reasons. The performance at the EBIT level was yet more impressive. Adjusting for €1.2m severance payments (included in the reported total), underlying EBIT was up c 48%, effectively mirroring the c 40% decline in Q1, when €1m from the valuation of foreign exchange forward transactions bolstered the headline figure.

Consensus forecasts look reasonable

Such disparity in quarterly trading throws inevitable uncertainty on H2 assessment, as does admitted continued weakness in key markets such as the Netherlands, Italy and Belgium. Notwithstanding missed targets in the year to date, management's maintained expectation of a 2-4% top-line gain in the full year (+1% in H1) may well be in order in view of relative Q2 buoyancy, while adverse currency movements are likely to continue to subdue reported EBIT. In the summary box below PBT includes extraordinary gains of €2.5m and €1.2m for 2011 and 2012 respectively.

Valuation: Fully valued

Leifheit's premium rating (prospective P/E of c 18x) shows the market to be looking beyond recent trading difficulties, arguably to a potential change of ownership (the current majority shareholder stopped sales discussions in May at around the current share price). While this may provide a backstop, as well as highlighting the company's long-term strengths, evidence of further trading volatility could prompt a notable share price correction, as was the case after news of the end of sales negotiations.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	222.1	12.2	2.55	1.30	11.8	4.3
12/12	224.2	12.2	1.97	1.50	15.3	5.0
12/13e	221.0	10.7	1.66	1.48	18.2	4.9
12/14e	228.7	12.6	1.90	1.65	15.9	5.5

Source: Thomson Reuters

General retailers

Price €30.15

Market cap €151m

Share price performance

Share details

Code	LEI
Shares in issue	5.0m
Net (debt)/cash (€) as at Jun '13	41.9m

Business description

Leifheit is a leading European brand supplier of household items, notably cleaning, laundry care, kitchen goods and well-being.

Bull

- Well-known brands with strong market positions
- Product innovation
- Debt free

Bear

- Pressures on consumer spending
- Management transition but coherent strategy in place
- Exchange rate exposure (57% of 2012 revenue from outside Germany)

Analyst

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EDISON

MIFA AG

General retailers

Pedalling hard

A solid Q213 performance saw MIFA more than make up for the weather-induced shortfall of the first quarter and confirm full year guidance of double-digit revenue gain at a much improved margin. Exposure to the burgeoning high-ticket e-bike market grows apace (now over 30% of revenue), while average sales prices in the less buoyant conventional bicycle segment have been boosted by last year's acquisition of premium manufacturer Steppenwolf. Management's medium-term goal is for a trebling of 2012 EBIT margin (2.6%) on €200m annual revenue.

Q213: More than a rebound

The scale of revenue growth (12%) in the quarter to June shows the period not simply to have been a beneficiary of major customers delaying deliveries from Q1 owing to the long winter (the Q1 setback was just 6%). A key driver was the step change in average sales prices (+54% and +13% for e-bikes and conventional bicycles respectively), largely as a result of the initial inclusion of MIFA's Steppenwolf and GRACE specialist brands. The bulk of the revenue increase was in Germany, the company's main trading area (c 75% of sales in Q213). Given pressure at the gross profit level, a stable EBITDA margin reflected impressive control of costs, especially labour, following 2012 M&A.

Consensus estimates look reasonable

Market revenue expectations for 2013 are at the upper end of the company's post-Q2 guidance, ie €120-130m. Although the required second half increase is at first glance demanding (c +40% against +3% in H1), the period is much weaker seasonally, so a continued trading improvement, allied with the Steppenwolf acquisition boost, should be all the more achievable against a low base. Intriguingly, such market optimism appears not to be fully reflected at the bottom line as PBT forecasts suggest an EBIT margin slightly below management's recently confirmed aim (4-5%).

Valuation: Fully valued

The valuation clearly reflects the aforementioned medium-term confidence rather than current year prospects (prospective EV/EBITDA of c 11x). While this may be understandable as acquisitions are still being integrated, apparently ambitious 2014 forecasts (c 15% organic revenue gain at an EBIT margin well ahead of 2013 guidance) may leave little room for disappointment in still difficult consumer conditions (FY14 EV/EBITDA of c 8x). Encouragingly, MIFA's debt structure has been improved by a recent five-year €25m bond issue (net debt, reported in June before the issue was €40m, ie over 100% gearing). 2012 PBT and EPS in the summary box below include €2.1m extraordinary acquisition costs.

Consensus estimates

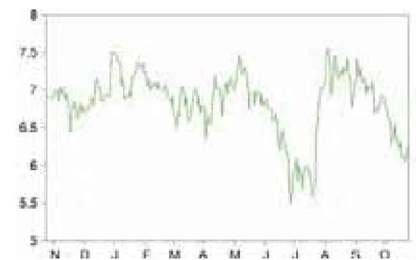
Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	100.5	2.8	0.18	0.00	35.1	N/A
12/12	111.3	(1.4)	(0.12)	0.00	N/A	N/A
12/13e	127.7	2.9	0.26	0.00	24.3	N/A
12/14e	147.5	6.6	0.48	0.00	13.2	N/A

Source: Thomson Reuters

Price €6.32

Market cap €62m

Share price performance



Share details

Code	FW1
Shares in issue	9.8m
Net (debt)/cash (€) as at Jun '13	(40m)

Business description

MIFA is the largest bicycle producer in Germany in terms of volume, with a comprehensive product range including electric bikes.

Bull

- A leading player in the rapidly growing e-bike market
- High degree of automation ensuring low production and labour costs per unit
- Strong relationships with customers and suppliers as Germany's largest bicycle manufacturer

Bear

- Pressures on consumer spending
- Sensitive to weather
- Highly indebted, albeit eased by recent re-financing

Analyst

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EDISON

TAKKT

Omnichannel B2B equipment supplier

Takkt expanded its range and reach with last year's acquisitions of Ratioform and GPA, both of which have performed well. The development of the group's web-focused brands is increasing the pool of potential customers that can be serviced via a low-cost model, while the multi-channel strategy for larger customers allows for efficient tailoring of the offer. Cash conversion is inherently strong and should allow for further reduction of debt, alongside investment in the business, possible additional acquisitions and a respectable yield. The placing of Haniel & Cie shares in June has increased the free float in the stock to just under 50%.

Structural market shifts

With each recession, the business equipment market shifts further from the dominant (c 80%) local dealer market towards direct channels, in what remains a very fragmented landscape. Breadth of range, flexibility of channel/ease of use and high levels of customer support are more easily funded across a larger customer base, without the overhead of a large physical branch infrastructure.

Multi-channel; increasing reach and range

The group has been developing a number of web-focused brands that allow it profitably to extend its customer base to smaller clients with lower order frequency, effectively incremental sales rather than cannibalising the existing business. The catalogues remain a core element of the multi-channel approach, but with greater integration across contact points, which drive more embedded relationships. The marketing approach is based on customer lifetime value, with the cost inevitably front-end loaded as customers are acquired, with ongoing spend driving order frequency and average order value. While sales of plant equipment are inevitably linked to the economic cycle, the broader product portfolio in North America (with an increasing speciality element) should provide a degree of smoothing.

Strong cash-generating model

Takkt's business model is strongly cash-generative, which should enable it to pay down the debt incurred with the acquisitions within a sensible time frame. Further purchases to add to product range, customer groups, geographies or competencies remain a key part of the corporate strategy, alongside organic growth targets.

Valuation: Reflecting US fiscal uncertainty

On the basis of current market forecasts, the shares look to be priced attractively at 1.2x 2013 EV/sales and 8.7x EV/EBITDA, particularly now that liquidity is so much improved. However, the continuing questions outstanding over the fiscal position in the US – of direct relevance to some group brands – may overshadow the price until the position is resolved.

Consensus estimates

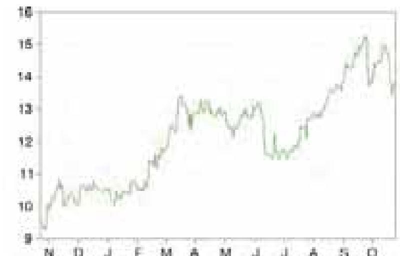
Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	852.2	95.6	1.01	0.85	13.8	6.1
12/12	939.9	100.1	1.02	0.32	13.6	2.3
12/13e	995.9	99.2	1.05	0.37	13.2	2.7
12/14e	1042.7	110.9	1.16	0.43	12.0	3.1

Source: Thomson Reuters

General retailers

Price	€13.90
Market cap	€912m

Share price performance



Share details

Code	TTK
Shares in issue	65.6m
Net (debt)/cash (€) as at Jun '13	(311.9m)

Business description

TAKKT is a leading B2B direct marketing specialist for business equipment in Europe and North America.

Bull

- Market shift towards direct sales
- Good performance of acquisitions
- Improved liquidity in shares

Bear

- European customers' reluctance to invest
- Exposure to US government spend
- Higher purchase cost of acquisitions

Analyst

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EDISON

Borussia Dortmund

It's football

While a surge in Q4 costs denied the expected step change in FY13 pre-transfer EBITDA, a 34% rise in full-year underlying revenue confirms Borussia Dortmund's continuing positive brand development on the back of sustained playing success. Even our possibly cautious forecasts (we assume exit from the Champions League at the group stage) reflect the creation of a sustainable high-margin business before lucrative transfer activity. Finances remain characteristically disciplined.

Q4: the price of success

Although the quarter to June enjoyed continuing involvement in the Champions League (five games against none in Q412), the expected bumper pre-transfer profit did not materialise. Despite revenue up c €32m underlying EBITDA barely rose, predominantly as a result of variable costs associated with the club's progress to the Champions League Final, eg player bonuses, advertising agency commissions, administration and match operations. Unsurprisingly, revenue was up across the board, mainly in broadcasting and match operations but with double-digit increases by advertising and merchandising thanks notably to the change of kit supplier to PUMA and new Champions League partners such as Turkish Airlines in Q4.

Another good year in prospect

Our FY14 forecast of a small decline in revenue and pre-transfer EBITDA assumes that the company's growing trading momentum in advertising and merchandising as well as a substantial boost to domestic TV rights may materially offset a failure to qualify for the knock-out stage of the Champions League. Such resilience of profit despite reduced on-field success is welcome, while our playing assumption may prove cautious as Dortmund's group is finely poised at the halfway stage. We look for the club to finish in the top three in the Bundesliga (after almost a third of the season Dortmund is nine points clear of fourth place).

Valuation: Long-term value

Despite a lower than forecast FY13 result at pre-transfer EBITDA level, share price strength suggests growing acceptance of the sustainability of the business model and scope for value creation, if also confidence that Dortmund will again go deep in the Champions League. While the latter may prove misplaced, in terms of pre-transfer EV/EBITDA, our key metric, a rating of 7.6x on possibly conservative FY14 forecasts fits the long-term potential of strong brand development, valuable media rights and positive cash flow, backed by substantial season ticket sales and hidden reserves from player investment.

Edison estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
06/12	189.1	45.1	0.55	0.06	6.8	1.6
06/13	253.4	71.6	0.99	0.10	3.8	2.7
06/14e	226.0	24.0	0.33	0.06	11.3	1.6
06/15e	236.0	27.5	0.38	0.06	9.8	1.6

Source: Edison Investment Research

Travel & leisure

Price €3.72

Market cap €229m

Share price performance

Share details

Code	BVB
Shares in issue	61.4m
Net (debt)/cash (€) as at Jun '13	(53.9m)

Business description

The group operates Borussia Dortmund, a leading German football club, recent back-to-back champions of the Bundesliga and competing in this season's UEFA Champions League (finalist last season).

Bull

- Successful player squad with significant transfer value potential
- One of the best-supported clubs in Europe with major brand and stadium assets
- Strong finances

Bear

- Inherently unpredictable business
- Pressures on consumer spending
- Subject to external governing bodies

Analyst

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EDISON

Lotto24

Market re-opened

Lotto24 is in a strong position in the newly re-animated German online lottery market, with management expertise and infrastructure already in place when licences were awarded in September 2012. The market has considerable catch-up potential and scope to migrate players online, especially since national advertising was allowed in March 2013. Hopefully, the remaining regulatory barriers will reduce over time. Lotto24 has rapidly increased its customer numbers and successfully raised €17m in August, but remains in a start-up phase and has indicated that it needs to be billing around €100m a year to cover its fixed costs.

Promising business model

Lotto24 brokers lottery products online and receives commission from the state lottery companies, so that it does not bear the bookmaking risk itself. The German lottery market is worth €6.3bn, but declined during a phase of restrictive regulations in 2008-12, and although 25% of German adults regularly play the state lottery, only a small proportion is currently online. Lotto24 was spun off from Tipp24 in 2012 via a successful IPO (to remove regulatory risk relating to Tipp24's past activities) and operates under the new State Treaty on Games of Chance that came in force in July 2012. Even this still has some restrictions, such as the requirement for regionalisation, which pushes up costs and limits negotiation power.

Accelerating growth in start-up phase

Q213 showed accelerating growth from a small base, with customers up from 44,000 to 97,000, billings doubling from €2.0m to €5.2m and revenues from €0.195m to €0.464m. However, start-up investment, including marketing, meant that the EBIT loss widened from €1.4m in Q1 to €3.1m in Q2. Net cash at 30 June was €6.5m (before the September rights issue). In May 2013, the German State Lotteries increased prices and changed products to produce more jackpots, both of which are positive for Lottto24. We expect continued rapid growth in revenues, but the cost of customer acquisition and timing of the move into profit depends in part on the competitive environment. Most of Lotto24's direct competitors are small, but Lotto.de is significant and online casinos (licensed in Schleswig Holstein or unlicensed) also compete to some degree.

Valuation: Considerable potential

Investors are buying into Lotto24's potential to become a leading online broker of lottery products across Germany, and for that market to grow rapidly now that advertising restrictions have been removed. Lotto24 has first mover advantage, scalable technology and 12 years' management experience in online lottery operation and marketing, which puts it in a strong position.

Consensus estimates

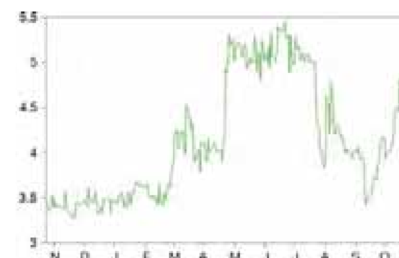
Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	0.0	(0.3)	(0.02)	0.00	N/A	N/A
12/12	0.1	(4.3)	(0.34)	0.00	N/A	N/A
12/13e	2.5	(13.8)	(0.57)	0.00	N/A	N/A
12/14e	7.6	(15.5)	(0.63)	0.00	N/A	N/A

Source: Thomson Reuters

Travel & leisure

Price	€4.31
Market cap	€86m

Share price performance



Share details

Code	LO24
Shares in issue	20.0m
Net (debt)/cash (€) as at Jun '13	6.5m

Business description

Lotto24 was founded by Tipp24 SE in 2010 and spun off in July 2012. It was one of the first German private online lottery brokers to receive a permit, in September 2012, and by October 2012 its online products covered 10 states. In March 2013, it received an advertising permit to market nationally.

Bull

- Market has good growth potential
- Management expertise and experience
- Scalable technology

Bear

- Will take time to move into profit
- Still regulatory uncertainties
- Competitive market

Analyst

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EDISON

mybet Holding

Leading German gaming brand

mybet is a top three gaming brand in Germany and is well positioned to benefit from market growth once the market is fully licensed. However, the process is unlikely to be completed in 2013 and there is considerable regulatory uncertainty. In the meantime, mybet is investing in new products and markets outside Germany and has implemented a programme of cost cutting. It has a sensible dual sales approach (online plus franchise shops) and a solid financial base.

Overshadowed by regulatory situation in Germany

mybet received one of the first German licences for sports betting, casino and poker in Schleswig Holstein in 2012, although, as with other operators, the 5% tax on sports wagers has put some pressure on margins. Reportedly, 90 operators have applied for the 20 national sports betting licences being awarded under the new State Treaty, but there are many legal inconsistencies and it is expected that a large proportion of gambling will take place on the black market if licences are not offered for all products. Meanwhile, mybet has put plans to expand its 222-shop network in Germany on hold and is putting more focus on its non-German activities (online and through another 284 shops), although economic pressures in southern European markets are unhelpful.

Outperforming industry in H1, but reduced 2013 guidance

First half revenue increased by 3% to €35.3m, a good performance against a strong Euro 2012 comparative, which also included the lottery/JAXX activities sold in May 2012. The core online sports, casino and poker operations grew by 13%, but shop revenues fell by 9%. H1 EBIT was a loss of €1.6m (H112 loss of €1.7m). With regulatory uncertainties delaying some product introductions, management has reduced the full year revenue guidance by €5m to €75-80m and EBIT to a range of zero to minus €1.0m (previously €2.5m profit).

Valuation: Reflects uncertainties

mybet is well positioned to take advantage of strong growth in online gambling, including mobile, but needs a suitable regulatory framework in Germany. With cash of €10.1m at 30 June it is in a strong financial position to take advantage of opportunities once the situation is resolved and will also benefit from economic recovery in non-German markets such as Spain and Italy.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	60.7	1.2	0.06	0.00	18.2	N/A
12/12	69.2	7.2	0.25	0.00	4.4	N/A
12/13e	77.6	1.0	0.02	0.00	54.5	N/A
12/14e	89.0	2.3	0.08	0.00	13.6	N/A

Source: Thomson Reuters

Travel & leisure

Price	€1.09
Market cap	€26m

Share price performance

Share details

Code	XMY
Shares in issue	24.2m
Net (debt)/cash (€) as at Jun '13	10.1m

Business description

Mybet is a leading licensed gaming provider offering sports betting, casino and poker online and through a network of 500 franchise betting shops. Its core market is Germany, where it is a top three brand, and it targets Spain, Italy, Austria, Greece, Belgium and various Eastern European countries.

Bull

- Top three gaming brand in Germany
- Online plus offline offering
- Licensed in Schleswig Holstein and Malta

Bear

- German regulatory uncertainties
- Competitive markets
- Weak economies in southern Europe

Analyst

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EDISON

Tipp24

New international opportunities

Tipp24 has a sustainable and profitable business of secondary lotteries but it has been affected by regulatory change, notably in Germany. Having successfully spun-off Lotto24 it is now focused on expanding internationally and offering new B2B and B2G services, aiming to derive a significant contribution from these growth initiatives in the next two to three years. It is also in the process of relocating to London (while retaining the Frankfurt listing). With net cash of €140m Tipp24 should be able to comfortably fund its planned development of new business areas.

Changing business model

Lotteries worldwide are moving online, which represents an opportunity for Tipp24 to provide technology and marketing services. Tipp24 has 2.4m customers who use it to play and bet on the major European lotteries, but with limited growth opportunities due to regulation. Its shareholding in UK-based Geonomics Global Games (acquired in December 2012) brings an innovative new lottery game, 'GeoLotto', which will shortly be marketed direct to UK customers and as a B2B/B2G product for North American lottery operators, where online lottery licences are beginning to be offered in some states. Tipp24 is in the process of setting up a US sales operation and North America represents a considerable upside opportunity for Tipp24. However, we believe there is still also some legal risk in the group relating to its former German operations.

Investment in new ventures limits near-term earnings

First half revenue increased by 12% to €76.4m but EBIT fell by 44% from €38.5m (H112 was boosted by €18.2m after the Lotto24 spin-off) to €21.4m. Management has guided to revenues of €130-140m and EBIT of €20-30m for 2013, unchanged despite a recent jackpot payout of €6.8m. This suggests only a small EBIT in H2 despite a price increase in the state lottery product from May, due to the investment in new business fields and technology (a total of about €15m) and further adjustments to hedging structures in the secondary lottery business. In our opinion the risk to 2014 estimates is on the downside. The balance sheet was strengthened by a capital increase at €40 per share in April 2013, which raised a gross €16.0m.

Valuation: Regulatory risk but new growth opportunities

The valuation reflects regulatory risks and uncertainties, balanced by the significant growth potential in the US market if Tipp24 is able to make inroads there. Successful relocation to London should also result in a less complex organisational structure (UK affiliates were 'orphanised' by selling 60% of economically stripped voting rights to a Swiss foundation to separate the foreign and German businesses; Tipp24 has a call-option to repurchase the shares). This could pave the way for dividends or some other return of cash to shareholders.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	139.3	52.8	4.55	0.00	10.5	N/A
12/12	142.7	56.8	5.12	0.00	9.3	N/A
12/13e	136.0	27.0	2.40	2.00	19.9	4.2
12/14e	149.0	39.0	3.31	5.00	14.5	10.4

Source: Thomson Reuters

Travel & leisure

Price	€47.87
Market cap	€401m

Share price performance

Share details

Code	TIM
Shares in issue	8.4m
Net (debt)/cash (€) as at Jun '13	140.4m

Business description

Tipp24 is an online lottery specialist. Founded in September 1999, it holds equity interests in a number of companies in Spain and the UK that enable participation in lottery games via the internet. In July 2012 its German online brokerage activities were spun off as the separately listed Lotto24 AG.

Bull

- Online lottery expertise
- B2B opportunities in US
- Strong balance sheet

Bear

- Historic German regulatory risks
- Changed business model unproven
- Complex organisational structure

Analyst

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EDISON

artnet

Facilitating the international online art market

2013 is a year of rebuilding and looking forward after the 2012 restructuring, with the first phase of the major relaunch of the website due shortly. The Q2 report showed considerable progress, particularly in relation to costs, with the group moving into a small profit in the quarter. The challenge now is to grow the top line from the current inflexion point. artnet's prime asset is the extensive database of global art work transaction values over the last 20 years, not fully reflected on the balance sheet due to accounting rules.

Online increases addressable market

The Auctions business (17% H113 revenues) has the greatest potential for growth as the market becomes more comfortable with online transactions for luxury goods. Listing price increases are helping to raise average achieved prices, while more targeted and themed auctions are allowing for a more efficient marketing effort, with greater numbers of potential bidders and higher sell-through rates. Increasing frequency of auctions will now help push the top line ahead, with the speed of turnaround a major competitive advantage over traditional providers. The more established elements of the business continue to be profitable, with revenues from Galleries (37%) stabilised, and the attrition rate of gallery memberships now the lowest since 2008. The Price Database is now again growing revenues, having achieved two price increases in as many years.

Leveraging art market data

While auction transaction data generated 36% of H113 group revenues, mostly through subscriptions, there are considerable opportunities to leverage the records held beyond simple comparative reference data (over eight million illustrated auction records from over 1,400 auction houses). Through analysing and packaging the data to add value, achievable margins can also be raised.

Website investment

The relaunch of the website is central to the corporate strategy, based on facilitating transactions and informing participants through greater transparency and on extending the targeted user base into the huge and global retail market. Existing traffic statistics show 2.0m unique monthly visitors on average over H113 across the three domains. Tying them in through more extensive and engaging content will help build the global artnet community and give greater leverage over the existing assets.

Valuation: Hidden assets

Last year's rejected and defeated bid was at the considerably higher level of €6.40 per share. Published group net assets are €2.4m, equivalent to 43c per share, but this does not reflect the full value of the revenue-generating database. Investment approaches are regularly received and appraised on alignment of intent and their ability to add value. There are currently no earnings forecasts in the market.

Edison estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	13.3	0.0	(0.07)	0.00	N/A	N/A
12/12	13.5	(0.6)	(0.20)	0.00	N/A	N/A
12/13e	N/A	N/A	N/A	N/A	N/A	N/A
12/14e	N/A	N/A	N/A	N/A	N/A	N/A

Source: Edison Investment Research

Consumer support services

Price €1.98

Market cap €11m

Share price performance

Share details

Code	ART
Shares in issue	5.6m
Net (debt)/cash (€) as at Jun '13	0.178m

Business description

artnet is an international transaction platform for the art market.

Bull

- Increasing customer comfort with online
- Market opportunity to build leading auction site
- Monetisation possibilities of market transaction data

Bear

- Inherent conflict from competition also as clients
- Need for stronger marketing/PR investment
- Reputational impact from bid

Analyst

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Financials

Sector focus: Financials

Analyst: Martyn King

Upside from macro sensitivity

The financials sector has an above-average sensitivity to macroeconomic factors and confidence levels, and conditions have been challenging for some years. While Germany continues to outperform the eurozone as a whole, in absolute terms its growth outlook remains modest. In its October 2013 World Economic Outlook, the IMF was predicting real GDP growth would be 0.5% in 2013 and 1.4% in 2014 and with stable unemployment (GDP forecasts down 0.1% pa from its April estimates). The continued low rate of German long-term bonds also makes generating good returns more difficult.

Looking forward, there are signs of improvement with 2014 growth expected to be up on 2013. The September IFO business climate index released on 24 September 2013 rose for the fifth consecutive month to the highest level since April 2012. The ZEW Indicator of Economic Sentiment for Germany has also increased by 7.6 points in September 2013. The indicator now stands at a level of 49.6 points (historical average: 23.8 points). In Q213 prices for houses, apartments and residential buildings climbed 4.1% from a year earlier, according to an index published by the VDP Association of German Pfandbrief Banks. The office-price index rose 5.6%, giving both measures their best gain since the second quarter of 2012.

While domestic factors are clearly important, the financial sector overall is one that is more exposed than many to sovereign risk, and near-term improving sentiment to weaker eurozone countries should also be positive. We believe the reaction to the German elections will be mixed, with some arguing it is a strong endorsement of current policies and others that any coalition government will be less idealogically coherent.

Historically, Germany has had a very stable savings ratio of 10-11% (OECD net basis) and has generally been conservative when dealing with money. A study by the Axel Springer and Bauer Media Group showed in 2012 that Germans opted for ultrasafe forms of investment and readily put up with declining yields. Almost 70% of Germans still had a conventional savings book with next to no interest paid. Other popular forms of safe, but low-yield investments are life insurance and building loan contracts, and there are no indications these will change. With gentle GDP growth, rising property prices and stable unemployment, credit-exposed financials should prove robust.

Domestically focused financials are highly diverse and as a consequence so are their business-specific sensitivities. There are long established insurance companies and long-term savings businesses (such as Nürnberger Beteiligungs) through to internet distributors of financial products (Hypoport) and internet banks (comdirect, DAB Bank) and investment banking (Baader Bank).

Some of the smaller financials are also sensitive to global rather than domestic factors, eg ADC African Development Corporation to sub-Saharan financial services, especially banking, and DF Deutsche Forfait to global trade receivables, especially emerging markets.

EDISON

African Development Corp

Penetrating a growing market

The 2012 €39m acquisition of a controlling stake in BancABC shifted African Development Corp's (ADC) focus in sub-Saharan Africa (SSA) from private equity financial services investment towards regional banking operations. It has since become a German stock corporation (AG), converting from a private equity partnership. It is broadly expected that strong GDP growth, reinforced by growing penetration, will drive significant SSA banking growth in years to come. With shareholder capital support, ADC plans to strengthen existing positions, enter new markets and consolidate its ownership of BancABC.

New footprint in developing markets

SSA is forecast to show continued high levels of GDP growth. As populations and average incomes grow, particularly as the middle classes expand, banking penetration is expected to increase from generally low levels, a pattern observed in other more developed regions. Economic growth and penetration, in combination, should be very positive for banking sector growth over time.

H2 is expected to show accelerated growth

Unlike the previous year, H1 results consolidate BancABC, representing the majority of the balance sheet and around half of profits after minorities. BancABC benefited from a further improvement in cost efficiency, while loans grew c 8% and deposits c 22%. Q2 balance sheet growth was deliberately slowed, reflecting management of risk exposures and liquidity. Exceptional provisions on two credits and non-core asset write-downs within the (Nigerian) UBN investment are not expected to repeat in H2, allowing for a stronger development, further supported by debt fund-raising.

Valuation: Discount to peers and book value

The shift in strategy and composition of ADC makes historical comparison of financial data meaningless. The new and increasing focus on operational activities suggests an earnings-based approach over asset value. A prospective P/E of around 5x consensus 2013e earnings compares with forecast growth of c 30% and appears favourable despite emerging market and banking-related risks.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	N/A	N/A	N/A	N/A	N/A	N/A
12/12	N/A	N/A	N/A	N/A	N/A	N/A
12/13e	159.6	46.0	1.90	N/A	4.7	N/A
12/14e	195.9	66.3	2.50	N/A	3.6	N/A

Source: Thomson Reuters

Financials

Price €9.02
Market cap €85m

Share price performance

Share details

Code	AZC
Shares in issue	9.5m
Net (debt)/cash (€) as at Jun '13	(135.2m)

Business description

ADC is a German-listed emerging pan-African banking group. It has a strong footprint in Southern Africa through its BancABC subsidiary. It also has a private equity portfolio active in growth markets in sub-Saharan Africa.

Bull

- Increased presence in growth markets
- Growth reinforced by expected penetration gains
- BancABC gaining share in key markets

Bear

- Retail deposit base still relatively small
- Rapid loan growth needs time to mature
- Smaller market positions are weaker

Analyst

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EDISON

Agrarius

East European agricultural land investor

The core business of Agrarius is the management of agricultural land. As well as investing in its own arable land, the company also brokers it to leaseholders, offering institutional investors an optional package of services provided by partner companies, including business consulting, insurance and geodata to optimise their tenancy. The company manages approximately 3,200 acres at two sites in Romania.

Raising capital to treble land investments

The portfolio structure of Agrarius in Romania was established in early 2009, when the company acquired a 550-acre farm. It now manages more than 3,200 acres, producing various crops including oilseed rape, wheat, sunflower and maize. The attraction of Romania is that the price for a hectare of land ranges from €3,500 to €5,000 compared with approximately €15,000 in Mecklenburg-Western Pomerania. Arable land worldwide is a limited resource and thus is likely to become more valuable over time due to the increasing global population and the growing demand for energy.

Within the next three years, Agrarius's cultivated area is expected to grow to 10,000 acres, from which the company expects to generate significant economies of scale. To finance its expansion in Eastern Europe, Agrarius is planning a capital increase of approximately €10m. Agrarius will use the capital to invest in machinery, warehouses and inventory. Together with the capacity expansion, the company has an operating margin target of more than 15%.

The company ascribes the weak performance last year to a devastating drought, which destroyed much of the corn crop. For the current fiscal year, Agrarius is confident income will rise to €3m, generating a small profit as a result. Operationally, it expects to produce a profit in the next two years of €1m-2m, but potentially much more by 2015, as revenues could have reached over €13m.

Valuation: Trading on 1.6x historic book value

Given the lack of profitability at Agrarius and a current price-to-sales ratio of over 40x, the main relevant valuation metric is P/BV, on which the company trades at 1.6x historic book.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	3.6	(0.3)	(0.06)	0.00	N/A	N/A
12/12	2.3	(0.2)	(0.02)	0.00	N/A	N/A
12/13e	N/A	N/A	N/A	N/A	N/A	N/A
12/14e	N/A	N/A	N/A	N/A	N/A	N/A

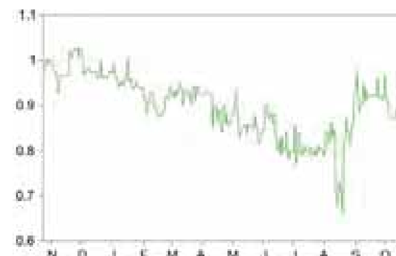
Source: Thomson Reuters

Financials

Price €0.89

Market cap €7m

Share price performance



Share details

Code	AU2
Shares in issue	8.1m
Net (debt)/cash (€) as at Jun '13	(2.4m)

Business description

Agrarius is an agricultural company specialising in acquiring, holding, managing and disposing of agricultural land, operations and related assets, in Central and Eastern Europe.

Bull

- Expansion of cultivated area to 10,000ha over three years
- Romanian land prices approximately one-third of Germany's
- Rising global population increases food demand from a limited land supply

Bear

- Limited profits despite size of invested land area
- Profitability can depend on weather factors
- External capital required to fund growth

Analyst

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EDISON

Baader Bank

Local investment bank

Baader Bank is an investment bank providing financial instrument trading and corporate finance advice/broking services to the German-speaking world. Baader is a market leader in broker companies in Frankfurt and a member of six other German stock exchanges, as well as key stock exchanges in Europe. The bank is located in Unterschleissheim near Munich and has 440 staff.

Challenging market conditions for trading

Baader Bank trades over 700,000 securities across a full range of instruments. However, performance continues to be affected by subdued stock market trading volumes, with Deutsche Börse reporting a 5% drop year-to-date in total volumes. Baader Bank is seeking to counter falling volumes by expanding its OTC trading. It has also entered into a partnership with BX Berne eXchange to trade in foreign equities.

Investment banking

The investment banking division was established following aggressive consolidation within the German-speaking countries, which created an opportunity for a specialist local broker. In H113, the Corporate Finance division made seven equity transactions for German issuers (nine in H112) and was ranked number four in terms of deals completed.

Valuation: Trading at a discount to larger peers

Based on consensus, the company trades on an FY14e P/E of c 12x and dividend yield of c 3%. Peer comparisons are difficult due to the lack of consensus estimates for its closest rivals, but larger investment banks are trading on an FY14e P/E of 10.0x (Deutsche Bank), 11.2x (Credit Suisse) and 18.8x (UBS).

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	113.5	0.9	0.01	0.03	242.9	1.2
12/12	107.9	11.0	0.20	0.05	12.1	2.1
12/13e	88.5	8.0	0.15	0.05	16.2	2.1
12/14e	101.7	11.5	0.21	0.07	11.6	2.9

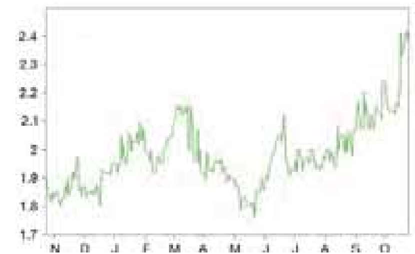
Source: Thomson Reuters

Financials

Price €2.43

Market cap €112m

Share price performance



Share details

Code	BWB
Shares in issue	45.0m
Net (debt)/cash (€) as at Jun '13	(68.8m)

Business description

Baader Bank is an investment bank offering trading financial instruments and financing solutions for German, Austrian and Swiss companies. It provides services to institutional investors in marketing and trades in shares, bonds and derivatives.

Bull

- Strong position in local markets
- Expansion into new markets
- Dividend yield of c 3%

Bear

- Challenging market conditions
- Low trading volumes
- Competition

Analyst

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EDISON

comdirect bank

Online financial services provider

comdirect was established in 1994, initially as a direct bank, but has since expanded into a full service bank with 1.8 million private customers and one million business customers. It is focusing on the growing trend towards mobile banking and securities trading. Through new product innovation and intensive marketing, comdirect aims to consolidate its strong position in the online securities business and increase its market share in banking.

Dual-brand strategy

The group is pursuing a dual-brand strategy following the acquisition of the European Bank for Financial Services GmbH (ebase) in May 2009. This was formerly known as the European Bank for Fund Services GmbH. The strategy is to keep comdirect for business-to-customer (B2C) and use ebase for business-to-business (B2B). The B2C business line provides a range of products and services in brokerage, banking and advice to customers, while ebase offers tailored product and service solutions for financial investments through its B2B partners.

Investing for future growth

comdirect grew net commission income by 11% to €138.7m during the first nine months of the year. This was supported by an increase in B2C customers and higher securities trading by clients. In the B2C business line, the number of customers increased by 73,000 to 1.79m while assets under custody rose to €30.49bn (FY12: €27.91bn). However, net interest income was 10.7% lower year-on-year as a result of persistently low market interest rates. This coupled with the planned investment in future growth led to a 10% declined in profit before tax to €65.5m. These related to increased marketing costs, the further development of products and additional investment in the banking platform. Management has increased its pre-tax profit target for the year from at least €65m to €75m to reflect the robust growth despite higher investment expenses.

Valuation: Yielding c 5%

Based on consensus estimates, comdirect is trading on a FY14e P/E of c 20x and is generating a dividend yield of c 5%.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	573.2	108.1	0.79	0.56	10.4	6.8
12/12	564.7	92.3	0.52	0.44	15.8	5.4
12/13e	327.7	72.0	0.38	0.34	21.6	4.1
12/14e	337.3	78.5	0.41	0.37	20.0	4.5

Source: Thomson Reuters

Financials

Price	€8.22
Market cap	€1161m

Share price performance

Share details

Code	COM
Shares in issue	141.2m
Net (debt)/cash (€) as at Sep '13	(756.7m)

Business description

comdirect bank is a German-based online bank. It serves private customers and institutional partners through two main business lines: B2C and B2B. Commerzbank is the majority shareholder.

Bull

- Market-leading position in online securities business for modern investors
- Focused growth strategy
- FY14e c 5% dividend yield

Bear

- Challenging market conditions
- Operating expenses to rise further
- Small free float (18%)

Analyst

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EDISON

Deutsche Beteiligungs

Focus is on earnings growth, not realisations

Deutsche Beteiligungs's (DBAG) NAV growth slowed in Q3 due to modest valuation gains and no investment exits. As the portfolio has rotated into the early stage of its investment cycle the majority of near-term growth is likely to come from improved earnings rather than realisations. DBAG is trading at a 3% discount to NAV, which appears full given the young portfolio and an expected fall in realised gains available for distribution.

Portfolio recycling into newer stage investments

DBAG's current portfolio is relatively young following a series of new investments and profitable realisations over recent years. As a result, value creation over the short term is likely to be limited to earnings growth rather than realisations. The latter has historically generated higher returns as investments have been sold to strategic buyers willing to pay premiums to realise synergies.

Gaining access to the German Mittelstand

DBAG has focused in recent years on mid-market German management buyouts (MBO) in its core Mittelstand market, a broad range of small-to medium-sized privately owned companies that have widely been credited with being a core strength of the German economy. DBAG believes substantial opportunities remain as less than 3% of the c 4,500 German companies in its target market have been approached by buyout sponsors, leaving plenty of room for future growth.

But competition is increasing for quality companies

DBAG says increased competition and low interest rates have pushed up the valuations of quality companies in Germany. It has found trade buyers with large cash balances are paying more as they hope to realise synergies, while some larger private equity funds need to invest cash as investment deadlines near. DBAG remains cautious about these prices and is instead focusing on businesses that have been overlooked. These companies are often smaller, more cyclical and/or faced with realignment challenges.

Valuation: Premium rating

DBAG has historically traded at a premium to peers. We attribute this to a robust balance sheet, a strong long-term track record, a regular dividend and a focused investment mandate. Its shares currently trade at a slight discount to NAV of 3%, or c 8% excluding net cash of €114m and its listed investment in Homag (€54m).

Edison estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
10/11	N/A	(19.9)	(1.22)	0.40	N/A	2.1
10/12	N/A	47.0	3.25	0.40	5.9	2.1
10/13e	N/A	N/A	N/A	N/A	N/A	N/A
10/14e	N/A	N/A	N/A	N/A	N/A	N/A

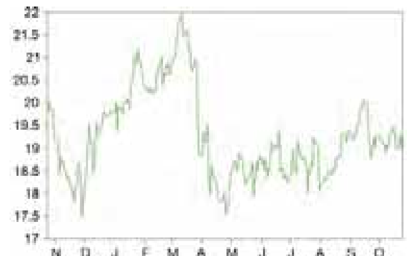
Source: Edison Investment Research

Financials

Price €19.26

Market cap €263m

Share price performance



Share details

Code	DBA
Shares in issue	13.7m
Net (debt)/cash (€) as at Aug '13	114m

Business description

Deutsche Beteiligungs is a German-based listed private equity company focused on mid-sized companies in Germany and neighbouring German-speaking countries.

Bull

- Large cash balance
- Strong track record
- Experienced management team

Bear

- Full valuation
- Increased competition
- Lower number of realisations expected over the short-term

Analyst

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EDISON

Deutsche Börse

Investing in future growth

Deutsche Börse's performance continues to be shaped by uncertainty about future regulatory developments, the European crisis, quantitative easing measures and low trading volatility. However, the company appears to be at an inflexion point. Product innovation and structural and cyclical drivers should lead to meaningful incremental revenue. Also, successful expansion of business in Asia (2007 revenue <€50m to >€110m in 2012) should continue, with doubled sales targeted over the medium term. The company trades at a discount to peers based on consensus estimates.

Full-year guidance unchanged while legal risks reduced

Adjusted group operating earnings fell 9% during Q3 due to subdued cash market volatility, low interest rate levels and higher investment in growth initiatives and infrastructure. Nevertheless, on the basis of the first three quarters the group has reaffirmed full-year forecasts. An option to settle an ongoing investigation by the US Treasury department into Clearstream has also greatly reduced the legal risks faced by the group.

Regulatory uncertainty

One of the main uncertainties remains the shape and impact of proposed regulatory changes. The total impact of the proposed EU financial transaction tax (FTT) remains unclear, but the proposals have the potential to significantly reduce derivative trading volumes in particular.

Efficiency measures create flexibility for investing

Deutsche Börse is proactive and plans to generate €70m of annualised cost savings by 2016, nearly 8% of the 2012 underlying cost base. This should give flexibility for investments in growth, specifically in the infrastructure investments necessary for the structural opportunities in OTC Clearing, collateral management, Market Data & Services and Asia. The full benefits of the refinancing of long-term debt (€600m in October 2012 and €600m in March 2013) will emerge in 2013 and 2014.

Valuation: Discount to peers

Based on consensus, the company trades on an FY14e P/E of c 14x, which is at a discount to peers (LSE: c 16x, NYSE Euronext: c 16x) and is underpinned by an FY14e dividend yield of c 4%. Substantial re-rating is likely to be held back until the impact of planned regulatory changes becomes more clear, but improvement in market conditions and more evidence of successful product initiatives provide short-term catalysts.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	2233.0	1150.4	4.56	2.30	12.8	4.0
12/12	2209.0	836.7	3.43	2.10	17.0	3.6
12/13e	2173.0	894.9	3.67	2.14	15.8	3.7
12/14e	2277.0	1052.6	4.12	2.27	14.1	3.9

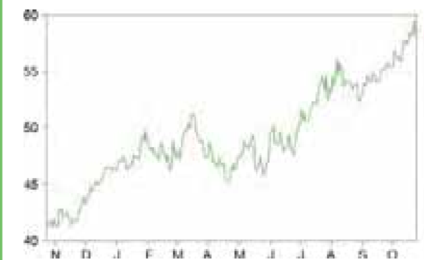
Source: Thomson Reuters

Financials

Price €58.15

Market cap €11223m

Share price performance



Share details

Code	DB1
Shares in issue	193.0m
Net (debt)/cash (€) as at Jun '13	(1237m)

Business description

Deutsche Börse is a Germany-based international financial marketplace operator. It offers electronic trading systems for buying and selling securities on stock exchanges in Europe. It operates four business segments: Xetra, Eurex, Clearstream and Market Data & Services.

Bull

- Product initiatives and further cost reductions
- Circa 4% dividend yield
- Improving revenue trends

Bear

- Regulatory change
- Low trading volumes
- Implementation costs of efficiency measures, est €90-110m

Analyst

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EDISON

DF Deutsche Forfait

Emerging market trade finance

DF Deutsche Forfait (DF) offers unique exposure to the superior growth of emerging market trade finance. Its primary business is buying developing market trade receivables and selling them on to a panel of investors, retaining in exceptional cases only a small proportion on its own account. In addition to the expected strong market growth, DF can deliver company specific profit increases, facilitated by a recent bond issue and a new asset management business promoting and running a trade finance fund.

Strong, structural growth in emerging market trade

DF buys receivables across global emerging markets and should benefit from the long-term, superior GDP growth in those markets and their increased proportion of global trade. The International Trade Centre reports that growth in interregional and intraregional trade among emerging markets currently makes up one-fifth of the world's total trade and is expected to surpass north-south trade flows by 2030. DF services its global customer base through a number of international marketing offices, while risk is centrally controlled in the Cologne head office.

DF is also broadening its offering for sustainable growth

Historically, the core business was trading receivables, selling them on to a panel of investors, usually banks. Only a small part of the originated book was retained on own account. Although the business is capital and funding efficient, demand for the receivables was outside DF's control and it has proved sensitive to market sentiment, limiting recent performance. In 2013, DF will expand its offering by promoting and managing an external trade finance fund (generating asset management, agency and administration fees) and significantly increasing its own funding through a €30m bond facility. The bond facility should provide more stable financing for the trading portfolio. Both initiatives should allow the group to expand its volume from €675m in 2012 to over €1bn over the next three years.

Valuation: Emerging market growth driver

There are no peers quoted in the market against which to benchmark DF's historic P/E of c 12x and attractive historic dividend yield of c 4%. The group's exposure to emerging markets offers long-term growth prospects and, near term, management expects the impact of expanded funding (including a €30m bond issue in H1) to support an acceleration in H2 trading activity.

Edison estimates						
Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	39.9	(5.8)	(0.58)	0.00	N/A	N/A
12/12	21.2	4.1	0.37	0.18	12.0	4.1
12/13e	N/A	N/A	N/A	N/A	N/A	N/A
12/14e	N/A	N/A	N/A	N/A	N/A	N/A

Source: Edison Investment Research

Financials

Price €4.44

Market cap €30m

Share price performance

Share details

Code	DE6
Shares in issue	6.8m
Net (debt)/cash (€) as at Jun '13	(61.3m)

Business description

DF Deutsche Forfait Group is a specialist in the forfaiting of export-receivables in emerging markets and developing countries. It has a number of marketing offices across the world, and its headquarters are in Cologne, where the risk control functions are based.

Bull

- Long-term growth from emerging markets
- Fund management opportunity
- Robust margins in churn business

Bear

- Sentiment of end investors variable
- Uncertainty over what positions may be retained
- Legal risk – historic issue, now sentiment

Analyst

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EDISON

Grenkeleasing

Specialist focus exploiting large bank deleverage

Grenkeleasing (GLJ) offers specialist financial services to SMEs across Europe, and increasingly globally, exploiting the lack of appetite of major financiers to lend. It grew new business at 17% in 9M13 (12% in leasing), ahead of its short-term 13-16% target and well ahead of its long-term growth plans (c 10%). Impairments fell to normal levels in Q3 (after rising in Q2), and for 9M13 the increase in losses is now below average, responding to management actions to significantly reduce growth in countries with the greatest potential risks (including Southern Europe). The group's wholesale funding is diverse and it recently raised €100m by way of a four-year bond at a 2% coupon.The valuation is not unreasonable for the growth prospects.

Global expansion with strong balance sheet

GLJ has been expanding domestically (new leasing business up 13% 9M13 on 9M12) and globally. It has entered two new countries in the past year and will open in Canada in H213. Growth in (non-German) Western Europe was 17% 9M13 on 9M12, but in other European regions (eg Southern Europe) growth has been restricted to 10%. In the new countries – Brazil, Turkey and Dubai – growth has been further restricted to 3% 9M13 on 9M12. While leasing remains the key product (over 80% group profit), GLJ has been steadily innovating new products. Net profits rose 16% 9M13 on 9M12 and EPS 10% (following a share placement), and guidance is for €44-48m of net income in 2013.

GLJ has a strong balance sheet with a Q3 equity to assets ratio of 16.8%, up from 14.9% at end-2012, and ahead of its 16.0% long-term target. It raised €53.9m in a placement in February 2013 and also issued a €100m, four- year bond in June 2013, which was nearly 6x oversubscribed in one hour at a coupon of 2% (c 175bp below the level of last year). It has a broad diversification of wholesale funding and a modest, but strongly growing bank deposit base.

Valuation: Undemanding rating for expected growth

GLJ is trading on c 18x prospective 2014 earnings. This is for mid-teens earnings growth and does not appear demanding. The market capitalisation of €1bn is c 2.4x book for a business earning c 11-12% ROE. We would expect the ROE to rise as capital from the 2013 equity raise is deployed in the growing operations.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	N/A	50.4	2.87	0.75	24.4	1.1
12/12	N/A	59.7	3.10	0.80	22.6	1.1
12/13e	N/A	67.4	3.31	0.86	21.2	1.2
12/14e	N/A	79.8	3.90	0.95	18.0	1.4

Source: Thomson Reuters

Financials

Price €70.04

Market cap €1030m

Share price performance

Share details

Code	GLJ
Shares in issue	14.7m
Net (debt)/cash (€) as at	N/Am

Business description

Grenkeleasing's core business is providing leasing to SMEs for office communications including PCs, notebooks, copiers, printers or software. It offers standard transactions and bespoke solutions to customers' individual requirements, and are often tailored for the international market.

Bull

- Strong growth as major banks deleverage
- Geographic diversity (Germany <35% new business)
- Diversified funding mainly over one year

Bear

- Valuation fair
- Risk management restricting international growth
- Growth capital needs limit dividends

Analyst

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EDISON

BB Biotech

Mid- to large-cap biotechnology exposure

BB Biotech (BION) is a Swiss-based investment company investing in mid- to large-capitalisation biotech companies. It aims to generate a total return of 15% pa over the long term by investing in a portfolio of 20-35 stocks. Despite biotech's recent strong performance, the managers believe valuations remain attractive and that there are various pipeline developments that could drive further NAV growth.

Distribution policy: 5% cash div, 5% buybacks pa

At the end of 2012, a new distribution policy was announced whereby BION now makes a cash distribution equivalent to approximately 5% of its share price at the year end (31 December). Accordingly, BION made a cash distribution of CHF4.50 per share, approximately equivalent to 5% of BION's share price of CHF88.5 at 31 December 2012. In addition to this BION has committed to returning an additional 5% via the share buyback programme during the year.

Investment strategy: Profitable and late-stage biotech

The manager aims to identify companies whose products address areas of significant unmet medical need and are capable of generating above-average sales and profit growth. These tend to be either already profitable or have drugs in the late stages of development. BION also employs modest gearing (c 4% as at 30 September 2013) with a view to enhancing returns over the longer term.

Performance: Outperformed NASBIOT over two years

The trend during the last two years has been one of NAV outperformance, partially offsetting some of the underperformance that prevailed during the previous three years. BION has also been invested in strongly performing sector. During the last 12 months, BION has returned 52.2% in terms of NAV total return (CHF terms) whereas its benchmark NASDAQ Biotechnology index has returned 42.1%. Price performance has not kept pace with NAV (40.2% for price total return over 12 months) and so the discount has expanded.

Valuation: Discount at upper end of three-year range

BION'S current discount of 24.3% is towards the upper end of its three-year trading range (12-32%) and above longer-term averages (22.0%, 21.7% and 22.4% over one, three and five years respectively). The discount widened during H112 while the board reviewed the discount management policy and suspended capital returns. However, the board has now committed to return at least 10% of capital each year.

12 months ending	Total share price return* (%)	Total NAV return* (%)	Total return NASBIOT Index* (%)	Total return MSCI World HealthCare* (%)	Total return DS World Pharma & Biotech* (%)
30/09/10	(23.8)	(17.7)	0.6	0.8	1.3
30/09/11	0.6	(8.0)	0.9	(1.9)	(2.5)
30/09/12	75.6	78.2	59.0	31.2	30.8
30/09/13	40.2	52.2	42.1	22.0	22.4

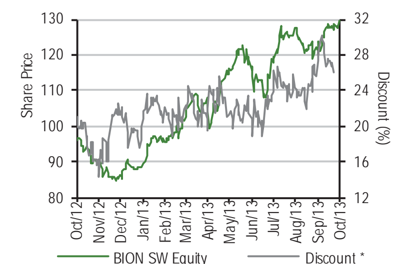
Note: *Twelve-month rolling discrete performance.

Investment trusts

Price	**CHF131.3**
Market cap	**CHF1,556m**
AUM	**CHF2,156m**
NAV*	CHF173.45
Discount to NAV	24.3%
Yield*	3.4%

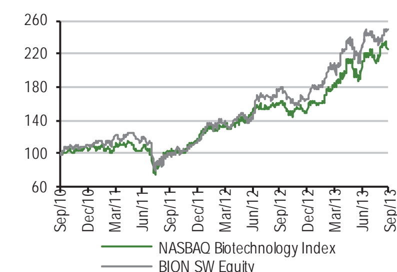
*As at 7 October 2013.

Share price/discount performance



*Positive values indicate a discount; negative values indicate a premium.

Three-year cumulative perf. graph



Share details

Code	BION
Listing	Zurich, Frankfurt, Milan
Shares in issue	11.3m

Business description

BION is a Swiss-domiciled investment company, targeting attractive long-term returns from predominantly mid-/large-cap biotech companies with established product portfolios (sales and earnings) and promising pipeline candidates. It is benchmarked against the NASDAQ Biotech Index.

Analyst

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EDISON

Canadian General Invmnts.

Investment trusts

Price	**C$16.17**
Market cap	**C$349m**
AUM	**C$635m**
NAV*	C$22.97
Discount to NAV	27.3%
Yield**	1.4%
Yield***	4.5%

*As at 4 October 2013. ** Excluding special capital gains dividend of $0.52. *** Including special capital gains dividend of $0.52.

Canadian equities exposure

Canadian General Investments (CGI) is an investment company domiciled in Canada and listed on both the TSX and LSE. It invests in listed Canadian equities and has been managed by Morgan Meighen and Associates (MMA) since 1956. It has a number of tax advantages conferred on it by its status as a Canadian investment corporation. CGI pays quarterly dividends of C$0.06 (yield: 1.4%) and an annual capital gains dividend from which it is entitled to a CGT rebate, allowing it to provide a higher yield than would otherwise be possible (3.1% total yield).

Alignment of managers' and shareholders' interests

MMA and CGI principals, Jonathan Morgan and Vanessa Morgan, exercise control over 52.51% of CGI's common shares, suggesting that managers' and shareholders' interests should be well aligned.

Listed Canadian equities

The investment process is bottom-up stock picking based on fundamental research. The managers' macro outlook may guide the portfolio's evolution, but CGI does not target sector or geographic allocations. Instead the managers look thematically for ideas. CGI follows a leveraged strategy with finance provided by 10-year preference shares (net gearing 30 September 2013: 29.3%). MMA aims to construct a portfolio that can broadly serve as a 'one-stop shop' for Canada.

Outperformance post crisis

The trend since early 2009 has been one of outperformance, albeit with some volatility, with CGI providing moderate outperformance over one, three and five years to 30 September 2013. Measured over the last 10 years, CGI's beta (price) with respect to the S&P/TSX Composite Index is 0.83.

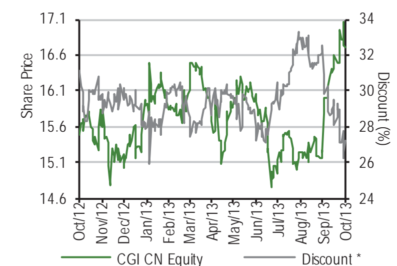
Valuation: Discount above longer-term averages

CGI's discount has widened gradually over the last three years so that, while the current discount of 29.7% is in line with its one-year average of 28.8%, it is above its three- and five-year averages of 24.0% and 23.0% respectively. Compared to its Canadian equity peers, CGI's discount is appreciably above the group average of 5.9%. While this may partly reflect CGI's high level of gearing and concentration in the control of the company's shares, the discount appears high given the liquidity of its underlying assets and broad outperformance during the last four years.

12 months ending	Total share price return* (%)	Total NAV return* (%)	Total return S&P/TSX Composite* (%)	Total return FTSE Canada* (%)	Total return FTSE World* (%)
30/09/10	18.0	23.0	11.6	8.5	3.3
30/09/11	(0.7)	(4.2)	(3.6)	(4.7)	(3.6)
30/09/12	4.7	18.4	9.2	8.3	15.2
30/09/13	14.2	8.3	7.1	7.6	24.7

Note: *Twelve-month rolling discrete performance.

Share price/discount performance



*Positive values indicate a discount; negative values indicate a premium.

Three-year cumulative perf. graph

Share details

Code	CGI
Listing	Toronto, LSE
Shares in issue	20.9m

Business description

CGI's investment objective is to provide better-than-average returns to investors by investing in a diversified portfolio of Canadian corporations. It aims to achieve this through prudent security selection, timely recognition of capital gains/losses and the selection of appropriate income-generating investments.

Analyst

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EDISON

Fair Value REIT

Unlocking value

Fair Value REIT (FVI) offers exposure to German commercial property at a substantial discount to net asset value, much larger than for peers despite a similar history of NAV total return over the past five years. FVI's historically more complex structure of property investments held directly through consolidated subsidiaries and associate minority holdings has limited distributable dividends compared with peer REITs. However, continued and gradual simplification or more immediate growth of directly owned investments, part-funded by equity issuance, are possible triggers to unlock value.

Solid progress in H1

On an EPRA basis, adjusting for volatile valuation movements, net income rose c 3% in H1 and NAV total return was c 4%. Non-core property disposals reduced rental income, but lower net interest costs and a greatly improved associate result more than compensated. IFRS net income was up 72% to €3.4m, including a €0.9m positive swing in valuation movements. Q3 results are scheduled for 7 November, 2013, after the publication of this document.

Strategic plans remain

FVI continues to sell non-core property (at a premium to NAV) and gradually simplify its structure. Meanwhile, it continues to explore significant expansion of its directly owned portfolio (particularly attractively yielding retail property), supported by an increase in the equity base. While this would dilute NAV per share, it would increase wholly owned distributable earnings and should improve liquidity.

Valuation: Wide discount persists

FVI's discount of c 50% to mid-year EPRA NAV is around twice that of peers despite similar five-year NAV total returns. However, the 2013e dividend yield of c 3% is less than the c 5% peer average. A simplified structure could trigger a re-rating over time, while an equity funded significant portfolio expansion would have a more immediate impact; the valuation outcome depends on the balance between increased dividend paying capacity and the likely NAV dilution.

Edison estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	13.4	5.1	0.59	0.08	7.3	1.9
12/12	13.6	2.3	0.60	0.10	7.2	2.3
12/13e	12.5	7.5	0.59	0.12	7.3	2.8
12/14e	12.7	7.3	0.60	0.12	7.2	2.8

Source: Edison Investment Research

Investment companies

Price €4.30
Market cap €40m

Share price performance

Share details

Code	FVI
Shares in issue	9.3m
Net (debt)/cash (€) as at Jun '13	(73.4m)

Business description

Fair Value REIT-AG (FVI) is a real estate investment trust managing c 400,000sqm at 61 commercial properties in 11 German states. It has a diversified portfolio of office and retail assets, with a focus on regional locations.

Bull

- Large discount to NAV
- Continuing sales above NAV
- Flexible cost base

Bear

- Complex structure
- Distributable earnings lag profits
- Size restricts liquidity

Analyst

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Industrials

Sector focus: Industrials

Analyst: Roger Johnston

Powering Europe

The German industrial sector has provided a clear ray of light during the past two years, having sustained European trade and delivered an impressive performance despite the global recession. Core to this has been the ability of the sector to maintain its leadership in manufacturing high-quality, technology-leading goods that have been more resilient to the downturn in global GDP.

Following strong growth signals in the summer, recent surveys and statistics have provided a more mixed picture for global economic growth. The IMF's World Economic Outlook in October highlighted the transitional nature of the world economy. There is caution on the outlook for the remainder of 2013 with growth in Asia having slowed, and a rebound in eurozone business remaining nascent. Encouragingly, US growth appears to be sustainable, despite recent US government uncertainty. Overall, the IMF trimmed global GDP forecasts by 0.3% to 2.9% in 2013, followed by 3.6% growth in 2014.

German exports provide a significant slice of output, accounting for approximately 52% of GDP in 2012 and contributing two thirds of economic growth over the past decade. More recently, slackening Asian demand saw exports to emerging markets rise by just 0.2% in Q2, according to October's BDI Foreign Economic Report. At the same time, recovery in US and eurozone exports did not offset this, and overall exports in Q213 fell by 0.6% year-on-year. Despite this, German exports remain higher than the pre-crisis level, at around €90bn. There have since been several positive signs in key sectors: automotive exports to Western Europe and the US have further developed; electrical engineering businesses expect stable or growing exports in the next three months; and the chemicals industry expects growth across the year. The sectors finding it more difficult include mechanical engineering, textiles and garments. Overall, the BDI expects exports to grow by 1.5-2% in 2013.

Despite such challenges in exports, industrial production rose by 1.4% in August (manufacturing up 2.1%), while Markit's Manufacturing Output Index rose to 53.3 in October from 53.2 in September. This highlights a return to growth in the domestic market, driven by improved consumer confidence and low unemployment. For further manufacturing growth to occur, we believe a sustained recovery needs to take hold across the EU, which remains Germany's largest end market. In addition, progress on the Transatlantic Trade and Investment Partnership (TTIP) being negotiated between the EU and US, will further open up transatlantic opportunities for German industry. We see both of these factors providing support for further growth of the sector in 2014.

EDISON

Ultra Electronics

Managing the market challenges

Ultra Electronics has positioned itself to provide a wide range of differentiated niche products in specialist electronics. End markets include; aerospace, defence, transport, security and energy, where Ultra becomes a vital partner in the development and production of complex systems. While the group's largest market defence, (54% of group revenues), is undergoing a difficult period due to US sequestration and a decline in tactical radio sales, Ultra's increasing focus on growth areas such as cyber security, transport and energy could help offset this. This could lead to a return to organic growth over the next two years.

Defence uncertainty and declines being managed

At its interim results, Ultra demonstrated that it was managing the current challenging conditions in defence markets, with US defence budget declines driven by sequestration exacerbated by a rapid decline in tactical radio sales. Despite this, sales were largely flat and operating profits increased by 1% with a 27bp improvement in operating margins. EPS increased by 2% and DPS increased by 4%, highlighting the group's confidence in the medium-term outlook. With a strong balance sheet and net debt of only £46.7m, Ultra has significant headroom with which to seek future growth. Since the interims, the US government shutdown has caused a delay in some revenues and therefore we have shaved our forecasts by approximately 1-2% to reflect the potential impact.

Long-term drivers in niche markets

Ultra's long-term strategy remains to develop capabilities across a broad range of niche sectors. This is being driven through organic R&D investment to move into adjacent markets, and through bolt-on acquisitions to acquire technology and market leadership. Increasingly, Ultra is seeking to capture a greater share of spend through cross-selling the group's capabilities to customers. We see this as increasing the scale of opportunities being pursued by the group and feel this will drive a return to historic growth rates over the medium term.

Valuation: A quality play in a challenging market

Ultra has demonstrated over the past two years, and during a challenging market, that it has both the technology and business model to produce results where others have struggled. The current rating of c15x CY14 EPS sits at a premium to its wider A&D peers and reflects the quality of earnings and cash conversion the group is able to achieve.

Edison estimates

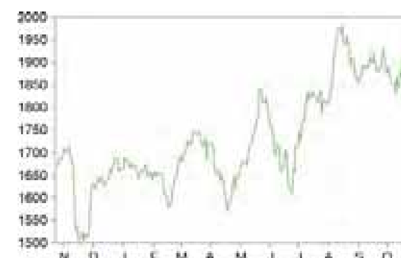
Year end	Revenue (£m)	PBT (£m)	EPS (£)	DPS (£)	P/E (x)	Yield (%)
12/11	731.7	114.9	1.20	0.39	16.1	2.0
12/12	760.8	116.5	1.26	0.40	15.3	2.1
12/13e	763.7	117.2	1.26	0.42	15.3	2.2
12/14e	787.0	122.5	1.31	0.44	14.7	2.3

Source: Edison Investment Research

Aerospace & defence

Price	1929.00p
Market cap	£1344m

Share price performance



Share details

Code	ULE
Shares in issue	69.7m
Net (debt)/cash (£) as at Jun '13	(46.7m)

Business description

Ultra Electronics is a global aerospace and defence electronics company, with operations across three divisions: tactical and sonar systems (39% of 2012 sales); aircraft and vehicle systems (19%); and information and power systems (42%).

Bull

- Good track record in a challenging market
- Broad range of specialist niches
- Strong balance sheet to fund future growth

Bear

- Defence markets remain challenged
- Organic growth profile lower than historic rates
- Larger projects may be more lumpy in nature

Analyst

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EDISON

Albioma

Investing for growth

After a period of modest investment, Albioma is poised to embark on a period of growth by adding to the installed capacity in its existing technologies and expanding its geographical coverage to Brazil, where it will target the significant opportunity for generation power from bagasse. Given the market opportunity, the valuation, which stands at a discount to the utility sector, appears undemanding.

Balance sheet strengthened

Interim results released at the end of July showed a significant improvement, on a like-for-like basis, in EBITDA (+20%) and net income (+68%). Net debt also fell from €504m as at 30 June 2012 to €443m at end June 2013. In our view, the results demonstrate that Albioma's current business model is capable of delivering attractive returns. After a period of modest investment, the lower level of net debt should allow the company to execute its plans for business expansion via a 10-year c €1bn capital expenditure programme.

Guidance and consensus appear achievable

Based on an expectation of similar economic conditions in H2, Albioma is forecasting 2013 EBITDA of €127m and group share of net income of €36.5m, excluding the capital gain on the disposal of the wind power business. In the longer term, Albioma is targeting net income of €40-2m in 2016. Given H1 EBITDA of €72m, even allowing for one-off costs in H2, the forecasts appear achievable. Consensus forecasts for 2013 of EBITDA of €127.2m mirror guidance.

Valuation: Discount to utilities and renewable companies

The average consensus price target for Albioma is €17.2/share, slightly below the current share price. At the current market price, Albioma trades on a prospective P/E of c 13x and EV/EBITDA multiple of 7.5x compared to multiples of 12.5x (P/E) and 7.5x (EV/EBITDA) at the consensus target price. European utilities as a whole trade on multiples of c 12.9x (P/E) and c 7.5x (EV/EBITDA) respectively, while renewable companies and coal/biomass generator Drax can boast significantly higher multiples.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	388.4	64.0	1.13	0.57	16.2	3.1
12/12	381.3	57.9	1.17	0.59	15.6	3.2
12/13e	377.1	67.8	1.36	0.65	13.4	3.6
12/14e	385.0	61.7	1.24	0.62	14.7	3.4

Source: Thomson Reuters

Alternative energy

Price €18.27
Market cap €522m

Share price performance

Share details

Code	ABIO
Shares in issue	28.6m
Net (debt)/cash (€) as at Jun '13	(442.6m)

Business description

Albioma is an energy producer active in the thermal (bagasse/coal), solar and anaerobic digestion power generation sectors. The majority of its assets are located in the French overseas departments.

Bull

- Well placed for growth in renewable generation markets
- Significant experience of biomass generation
- Strong position in core markets

Bear

- Sensitive to change in energy subsidies
- Relative dominance of biomass generation
- Reliance on Francophone markets

Analyst

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EDISON

Fuchs Petrolub

Smooth operator

Fuchs Petrolub ranks as a top 10 global finished lubricant manufacturer and is the leading independent company in the sector. In our view, the premium valuation is supported by the company's strong financial track record and growth opportunities, specifically in Russia and China.

Leading independent

As the leading independent lubricant manufacturer, the company benefits from customer and market proximity as well as product focus. It is also able to respond rapidly to changing markets trends, all of which differentiate it from its main competition, dominated by subsidiary companies of the oil majors. Its focus is on high value products and market segments, which it has built up through an emphasis on R&D. Lubricants are a small percentage of overall cost for most customers and performance is key, which places the group in a strong position. Partnerships with OEMs to develop bespoke products create entry barriers to potential competition.

Impressive track record

The company has generated returns at a significant premium to its cost of capital, leading to enhanced shareholder returns. A 10-year CAGR of 5.5% in sales has been accompanied by growth in operating margins from 6.9% to 15.5% and a CAGR of 19.6% in earnings after tax. Return on assets has averaged 20% over the past three years.

Looking ahead

Management expects EBIT margins to level off from 2014 with earnings predominantly driven by revenue growth. Fuchs is under-penetrated in the key emerging markets of Russia and China, which creates a substantial growth opportunity. New production facilities are currently under construction in these regions and sales and marketing structures are established. Fuchs also has the financial strength to grow by acquisition, with net cash of €86m (June 2013) and free cash flow forecast to be almost €200m pa (according to Bloomberg). If Fuchs is over-capitalised, management is committed to returning cash to shareholders via dividends and/or share buyback.

Valuation: Premium valuation, but justified

On consensus forecasts, Fuchs stands on a 2013 P/E of c 20x, falling to c 19x in 2014, and has a 2013 yield of c 2%. The company's strong market position and sustainable franchise, combined with the growth opportunities specifically in Russia and China, should support this premium valuation. Note, the price above is for the preference share while the market cap represents the combined ordinary and preference share capital. EPS and DPS in the table below are for the preference shares.

Consensus estimates

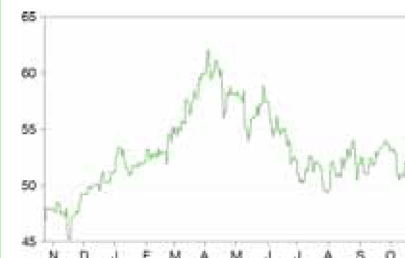
Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	1651.5	259.8	2.58	1.02	24.1	1.6
12/12	1819.1	291.4	2.92	1.32	21.3	2.1
12/13e	1864.6	309.9	3.08	1.41	20.1	2.3
12/14e	1949.7	330.5	3.29	1.51	18.9	2.4

Source: Thomson Reuters

Basic industries

Price	€62.10
Market cap	€4409m

Share price performance



Share details

Code	FPE
Shares in issue	71.0m
Net (debt)/cash (€) as at Jun '13	85.9m

Business description

Fuchs Petrolub manufactures and supplies lubricants and greases. Its key end markets are automotive oils (44% volumes) and industrial oils (24%).

Bull

- Stable, high return business
- Financial strength
- Growth potential in emerging markets

Bear

- Free float of 48% (voting shares)
- Margin growth complete
- Valuation premium

Analyst

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EDISON

Hansa Group

Personal and household care products

Hansa has undergone a strategic shift, transforming it into a fully integrated supplier of personal and household care products such as shampoos, shower gels, liquid detergents, fabric conditioners and laundry care products. Although demand for these products is fairly resilient to a weakness in economic conditions, there is little opportunity for growth in the market as a whole, so Hansa is focusing on segments with higher-than-average growth prospects. These include private label products, liquid clothes-washing detergents and markets in Eastern and Southern Europe, North Africa and Asia. Being a fully integrated supplier with a unique process for a key ingredient gives Hansa significant cost advantages.

Results affected by strategic disposal of Chemicals Trading business

H113 revenues dropped by 16.5% year-on-year to €174.0m. Consumer Product revenues were stable, reflecting moderate success in replacing the business lost when drug-store Schlecker became insolvent in Q112, but production volumes were lower, reflecting a weak order book. Chemicals revenues fell by €35.8m, partly because of the disposal of the Chemicals Trading business in Q412, partly because of decreased internal demand and a lack of orders resulting from higher product prices. A combination of lower sales volumes, delays in passing on feed material price increases to customers, the disposal of the Chemicals Trading business and costs associated with reducing the number of group locations resulted in operating losses widening from €2.2m to €9.6m. In June the group raised €10m (gross) through the placement of 3.4m shares at €2.92. Net debt rose by €6m to €109m, giving a net debt/equity ratio of 121%.

Noting continuing weakness in demand and increased competition and pricing pressure, management expects FY13 sales to be lower than FY12, generating an operating loss. It has initiated a comprehensive restructuring programme, intended to generate 'considerable' savings. This will complement longer-term programmes for improving costs and energy efficiency such as creating a 'Chemical Park' close to its Genthin facility, where Solvay Novecare will manufacture speciality surfactants, and signing an agreement in which Getec will invest in the construction of a power station to produce process heat and steam for Hansa's Ibbenbüren plant. Longer term, management expects growth from the private labels business and from increased utilisation of the surfactants plant through additional contract manufacturing.

Valuation: Awaiting information on restructuring programme

An observation on valuation is deferred pending information on the extent of the proposed restructuring programme.

Consensus estimates

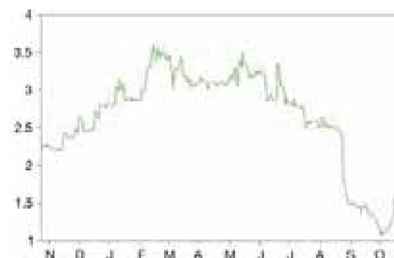
Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	383.5	6.4	0.09	0.10	16.8	6.6
12/12	399.3	1.1	3.10	0.80	0.5	52.8
12/13e	N/A	N/A	N/A	N/A	N/A	N/A
12/14e	N/A	N/A	N/A	N/A	N/A	N/A

Source: Thomson Reuters

Basic industries

Price	€1.51
Market cap	€78m

Share price performance



Share details

Code	H4G
Shares in issue	51.5m
Net (debt)/cash (€) as at Jun '13	(109.2m)

Business description

The Chemical segment (59% H113 revenues) manufactures surfactant feed materials and surfactants used in-house and by customers in the chemicals industry. The Consumer Products segment (41%) manufactures detergents, cleaning agents and body care products. 53% of H113 revenues were derived from exports.

Bull

- Disposal of Chemicals Trading business in Q412 frees up cash for use elsewhere in the business and reduces risk
- Unique process for manufacturing linear alkyl benzene gives a significant cost advantage
- Co-location with suppliers in 'Chemical Park' model reduces logistics costs

Bear

- Rising feed material prices may negatively affect demand
- Potential of compromising financial covenants if operating losses are sustained
- Potential for ad-hoc impairments in H213 as product portfolio is reviewed

Analyst

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EDISON

MVV Energie

Power to the people

MVV is a play on the growth in renewable electricity generation. It is also a low risk conventional utility company with a vertically integrated business model and a well capitalised balance sheet.

Vertically integrated electricity supplier

MVV has been listed on the Frankfurt exchange since 1999. The free float is only 12.2% with controlling investors listed as Mannheim (50.1%), RheinEnergie (16.3%), EnBW (15.1%), and GDF Suez (6.3%). It is a relatively low risk investment in the utility sector, as it is vertically integrated across key stages in the value chain i.e. energy generation, energy trading and sales & services. Around 35% of energy supplied to its customers is generated by its own plants, with 65% sourced by the Energy Trading division. MVV has no exposure to nuclear generation.

Investment focused on co-generation and renewables

Management is growing the company by investing in co-generation and renewable generation capacity. MVV already produces 30% of electricity from co-generation plants, well in excess of the German national target. Under MVV 2020, €3bn of capex is earmarked for the construction of co-generation, onshore wind, biomass and waste-to-energy plants. MVV is targeting economies with stable regulatory structures, and to date has invested in Germany, the Czech Republic and the UK. The investment programme is disciplined, with minimum IRR = WACC (8.6%) and project IRR calculated on a WACC plus risk premium basis.

Despite its vertically integrated structure, MVV produced weak results in the nine months to June 2013. Conventional generating plants in Germany have been squeezed by low prices and a narrowing of dark spreads. This affected margins at MVV, where group sales increased by 6% year-on-year, but adjusted EBIT fell by 3%. Looking ahead, there is political pressure for conventional plants to be remunerated on the basis of capacity available rather than electricity generated. This would relieve the negative effect of renewable feed in tariffs on conventional generators.

Financially robust

With net debt/equity at 90% (June 2013), MVV is well capitalised relative to its peer average of 175% (source: Bloomberg). Free cash flow is volatile, but has averaged €45m over the past three financial years. The yield is c 4% but the dividend payout ratio is high at 80%, primarily due to Mannheim's cash requirements.

Valuation: Priced for growth

MVV trades on a growth rating with 2013 and 2014 consensus P/E c 20x. The dividend yield for both years is an attractive c 4%, although we note that dividend cover is only 1.2x and the dividend is unlikely to grow in the medium term given the company's capex plans.

Consensus estimates

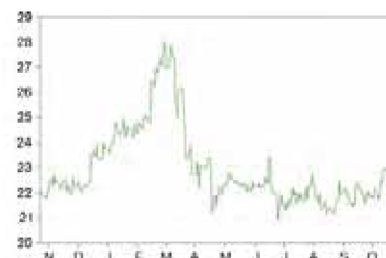
Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
09/11	3590.0	194.0	1.78	0.90	13.2	3.8
09/12	3895.0	131.0	0.95	0.90	24.8	3.8
09/13e	3972.0	144.2	1.13	0.93	20.8	4.0
09/14e	4055.0	141.7	1.16	0.93	20.3	4.0

Source: Thomson Reuters

Basic industries

Price	€23.52
Market cap	€1550m

Share price performance



Share details

Code	MVV1
Shares in issue	65.9m
Net (debt)/cash (€) as at Jun '13	(1200m)

Business description

MVV Energie is an integrated energy provider. Its activities include energy generation and infrastructure (FY12: 63% of adjusted EBIT), energy trading and portfolio management (1%), sales and services (10%), and strategic investments (17%). Other activities constitute 9% of adjusted EBIT.

Bull

- Vertically integrated
- Expanding renewable generation
- Balance sheet strength

Bear

- Majority controlled by city of Mannheim
- Low dividend cover
- High P/E multiples

Analyst

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EDISON

Grammer

Shaping up

Grammer is firing on all fronts, which is especially impressive given challenging conditions in its major European markets (two-thirds of H1 revenues). A focus on the premium segment, customer proximity, new products and the success of its nectec acquisition drove a 36% rise in Q2 EBIT, and, encouragingly, a sharp upgrade in 2013 guidance, with management expecting revenue and earnings to be "appreciably higher" than last year.

Q2 acceleration

The second quarter saw Grammer consolidate on a positive start to the year, with a 17% y-o-y increase in revenue (+9% in Q1) at a significantly higher trading margin (4.9% against 4.2% in Q212). Although progress was across the board, of particular note was the step change in Seating Systems profit (+57%), while Automotive improved revenue by almost a quarter. The company continued to outperform each of its core markets, most importantly Europe, where, for example, in the first half its 18% increase in revenue from passenger car products contrasted with a 5% decline in car registrations. Notwithstanding an initial boost from the February acquisition of nectec, a headrest manufacturer (c €35m revenue in 2012), market share gains from new products were again to the fore. Net debt at June would have been down 15% y-o-y but for M&A.

Consensus estimates look cautious

Raised post-Q2 guidance appears not to be reflected in current 2013 forecasts. In particular, market expectations of increases of just 8% and 26% in revenue and EPS respectively (versus restated 2012) are arguably at odds with management's newly heightened confidence (both measures now set to be "appreciably" up on 2012, compared with "slightly" up, post-Q1). In likely unchanged conditions, consensus assumptions are evidently for only flattish revenue and trading profit in H2, against +13% and +24% achieved by Grammer in the first half, which suggests the scale of potential market caution.

Valuation: Still attractive

Despite signal outperformance (ytd share price c +100% against DAX +16%) and even on probably conservative estimates, Grammer appears undervalued given its strong market position, global reach and established brand. With H1 interest cover of 5.7x, the company remains well-financed (its recent €90m bond issue was three times oversubscribed) and cash generative, with an increasingly generous dividend policy (the dividend has good cover of c 4.2x).

Consensus estimates

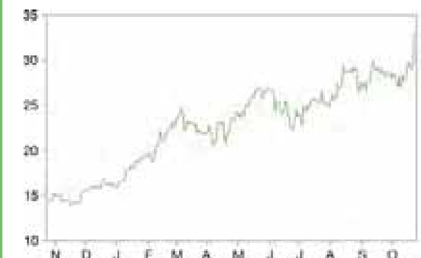
Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	1093.0	34.3	2.02	0.40	16.2	1.2
12/12	1133.0	38.5	2.39	0.50	13.7	1.5
12/13e	1236.0	44.6	2.73	0.65	12.0	2.0
12/14e	1332.0	53.0	3.24	0.82	10.1	2.5

Source: Thomson Reuters

Engineering

Price	€32.74
Market cap	€378m

Share price performance



Share details

Code	GMM
Shares in issue	11.5m
Net (debt)/cash (€) as at Jun '13	(102m)

Business description

Grammer operates under two divisions: Automotive (63% of sales) and Seating systems (37% of sales). In Automotive, Grammer supplies passenger vehicle headrests, armrests, and centre consoles. In Seating systems, it supplies complete seats for drivers and passengers of commercial and off-road vehicles.

Bull

- Well-known, innovative brand
- Global presence (more than 30 production and distribution sites in 18 countries)
- Comprehensive product mix and customer base in both automotive and seating systems divisions

Bear

- Mixed outlook for European car market
- Weak global commercial vehicles markets
- Capital-intensive

Analyst

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EDISON

LPKF Laser & Electronics

Laser processing

Lasers offer a high-precision technique for surface machining materials, so the continued trend for miniaturisation in electronics has led to the increasing adoption of laser technology for manufacturing small or delicate parts. Adoption has been accelerated by the evolution of LDS techniques, which replace separate printed circuit boards with circuitry created directly on the surface of plastic casings. This results in substantial space, weight and cost savings over conventional production techniques. As laser technology is displacing older techniques, LPKF is able to grow even when one or more of the markets served is weak. It has therefore shown profitable growth every year since its foundation in 1976.

Success based on adoption of laser processing technology

H113 revenues rose by 39% year-on-year to €69.9m, driven by continued demand for LDS machinery for manufacturing smart-phone antennae and demand for plastic welding systems and solar scribers. EBIT margin increased by 6.7pp to 21.5%, exceeding management's expectations. PBT doubled to €14.7m. The balance sheet is strong with a net debt/equity ratio of 17% at the end of June 2013. In August management raised its FY13 target to €119-123m (from €115-120m), generating 16-17% EBIT margin. It noted that H213 results would not be as strong as H113, which had benefited from unexpectedly positive performance from the LDS business and a major order, which is winding down, from the solar industry. Management reiterated guidance of around 10% revenue growth for FY14 and FY15 with EBIT margins of 15-17%. Consensus estimates therefore appear achievable.

Medium term, management looks for further growth in the LDS segment as a higher number of antennae are deployed in tablets to support novel usage cases, from LDS deployment in the production of LED light fixtures, sensors and camera modules and adoption of LDS techniques for 3D prototyping. Longer term, management expects an eventual recovery in the solar market but in the interim is using surplus solar production capacity for some production of plastic welding and PCB production equipment.

Valuation: Trading in line with peers

LPKF's share price has almost doubled in the last 12 months. The shares are now trading on multiples that are in line with the average for peers. In our opinion, LPKF's superior growth prospects suggest a premium is warranted.

Consensus estimates

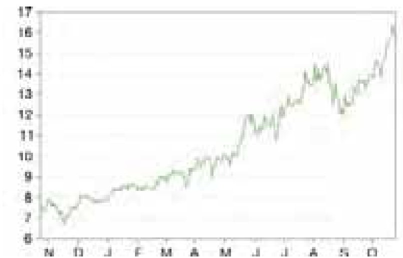
Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	91.1	14.8	0.45	0.20	35.3	1.3
12/12	115.1	19.6	0.61	0.25	26.0	1.6
12/13e	121.5	20.6	0.65	0.27	24.4	1.7
12/14e	134.4	23.3	0.72	0.31	22.1	2.0

Source: Thomson Reuters

Engineering

Price €15.89
Market cap €354m

Share price performance



Share details

Code	LPK
Shares in issue	22.3m
Net (debt)/cash (€) as at Jun '13	(11.1m)

Business description

LPKF designs and engineers machinery for micro material processing based on laser technology. Its machines design, process and cut out printed circuit boards (PCBs) or replace them entirely by employing laser direct structuring (LDS) techniques. The systems are used in the electronics and automotive industry, polymer technology applications and in the manufacture of solar panels.

Bull

- Increasing demand for miniaturised electronic products
- Demand for laser technology as this reduces manufacturing costs
- High proportion of exports (89% H113 sales, 66% revenues from Asia)

Bear

- Exposure to solar industry
- Inability to enforce LDS patent in China limits use of technology in products for indigenous consumption
- Investment in capacity a short-term drag on cash generation

Analyst

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EDISON

Engineering

Pfeiffer Vacuum Technology

Combining expertise in vacuum technology

Management continues to pursue its strategy of maximising the potential from the acquisition of Trinos and adixen, which broadened the product portfolio to include backing pumps and vacuum chambers for use with the original turbo-pump product. This move also strengthened the group's presence in the semiconductor market, which, despite its cyclicality, is expected to become increasingly important as the emergence of "smart" and "interconnected" devices boosts the number of silicon chips used globally. With the integration phase now complete, the group is focusing on launching products combining the key technologies and cross-selling to the enlarged customer base. This will place the group in a good position as the semiconductor market picks up again in H213 and beyond.

FY13 - a year of two contrasting halves as the semiconductor industry picks up

H113 group revenues declined by 17.5% year-on-year to €200.0m against a strong comparative. Weakness in the semiconductor market (27% H113 revenues) affected sales in both Asia, particularly Korea (Asia 34% H113 revenues), and the Americas (21% H113 revenues). This was offset by growth elsewhere, particularly in China. The subdued economic environment encouraged customers to repair equipment rather than replace it as revenues from services grew by 8% to 20% of total. Gross margin improved by 0.3pp to 36.2% and operating costs were €1.2m lower post-integration, but lower sales and adverse foreign exchange movements resulted in EBIT margins narrowing by 4.4pp to 10.7% and PBT dropping by 40% to €21.1m. The balance sheet remained strong with €30.2m net cash at end-June 2013.

In August, management noted that the order book and ongoing negotiations with customers led it to expect that performance will improve in H213, and reiterated its FY13 guidance of €420-450m sales, with an EBIT margin of 12%. Consensus FY13 estimates appear reasonable. Management targets €500m revenues and 20% EBIT margin in the longer term. Gartner expects the semiconductor equipment market to recover in 2014 and demand for solar cells is expected to balance supply in 2015.

Valuation: Trading in line with peers

The share price has strengthened since the drop following the lower-than-expected revenue guidance in May. The shares are now trading on prospective EV/EBITDA multiples in line with the average for its peers, which suggests they are fairly valued at present. Some investors may be attracted by the generous dividend, backed by a cash-rich balance sheet. It has dividend cover of 1.4x FY13 and FY14.

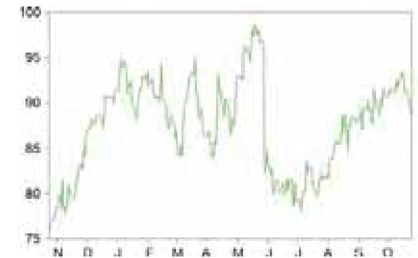
Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	519.5	59.5	4.19	3.15	21.4	3.5
12/12	461.3	66.3	4.59	3.45	19.5	3.8
12/13e	433.7	53.2	3.92	2.90	22.9	3.2
12/14e	470.1	71.8	5.20	3.79	17.2	4.2

Source: Thomson Reuters

Price	**€89.65**
Market cap	**€888m**

Share price performance



Share details

Code	PFV
Shares in issue	9.9m
Net (debt)/cash (€) as at Jun '13	30.2m

Business description

Pfeiffer develops, manufactures and services vacuum pumps, vacuum chambers and backing pumps, vacuum measurement and analysis equipment and complex vacuum systems. It serves a diverse mix of industries, including semiconductors (one third), paper, food and drink, solar, consumer electronics and automotive.

Bull

- Strong market position
- Acquisitions broaden product portfolio and strengthen presence in the semiconductor market
- Revenues from services resilient to economic pressures

Bear

- Demand from semiconductor industry affected by excess capacity and weak wafer prices
- Demand from solar industry continues to be affected by significant overcapacity
- Japanese competitors are currently benefiting from the weak yen

Analyst

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EDISON

PVA TePla

Restructuring to return group to profitability

Typically the diversity of markets served provides some protection against a slowdown, but all three segments suffered from challenging economic environments in H113. Management has instigated a restructuring exercise intended to return the group to profitability in H213 and provide a platform for profitable growth thereafter.

Profitable growth in the medium term as markets recover

H113 revenues halved year-on-year to €29.6m. Demand for industrial systems was affected by weaker demand for hard metals processing equipment from China where growth is slowing. Demand from the semiconductor industry was affected by excess capacity in the market and weak wafer prices, while that from the solar industry continued to be weak because of significant overcapacity in the sector. The group generated a pre-exceptional operating loss of €2.6m compared with an operating profit of €4.9m in H112. Management intensified the cost-cutting measures introduced in FY13 by reducing headcount by around 80. This restructuring and write-down of Solar Systems' inventory added €5.8m exceptional costs to the H113 losses, but are expected to generate around €4m in annualised cost savings. At the end of June 2013 the group had €5.0m cash, €3.2m net debt and €51.7m net assets, of which €8.7m was intangibles.

The order book improved slightly in June and July, primarily for Industrial Systems. Noting this plus the quality and the number of projects in hand, management is confident the positive trend in incoming orders will continue in H212 and has issued revenue guidance of €75-85m for FY13 (previously towards lower end of €90-100m). Key segments include ultra-high vacuum brazing systems for manufacturing vacuum interrupters, sintering furnaces for manufacturing hard metals, metrology and crystal-growing systems for silicon carbide used in high power electronics. Assuming this revenue growth is achieved, the goal of a "slightly positive" EBIT contribution for FY13 also appears achievable. In the longer term, we expect further revenue growth to be supported by an improvement in the markets served. Gartner expects the semiconductor equipment market to grow by around 14% in 2014. Demand for solar cells should balance supply during 2015.

Valuation: Recovery factored in

The share price has risen sharply since early July and is trading on year two EV/EBITDA multiples in line with its peers, suggesting the profits recovery is already factored in. Value investors should note that the shares are trading at a around net asset value.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	132.6	12.6	0.42	0.15	6.9	5.2
12/12	103.3	5.8	0.21	0.10	13.9	3.4
12/13e	74.0	(7.5)	(0.24)	0.00	N/A	N/A
12/14e	87.0	0.3	0.01	0.05	291.0	1.7

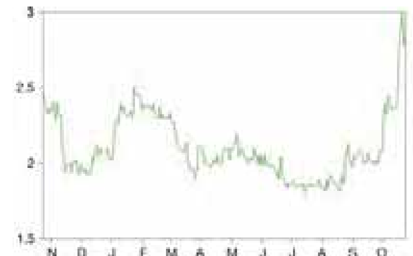
Source: Thomson Reuters

Engineering

Price €2.91

Market cap €63m

Share price performance



Share details

Code	TPE
Shares in issue	21.8m
Net (debt)/cash (€) as at Jun '13	(3.2m)

Business description

PVA TePla is a global supplier of systems for producing, refining and processing high-quality materials such as hard metals, metals, semiconductors, ceramics and silicon, and for the controlled surface treatment of such materials and a large range of plastic surfaces. These processes typically take place in vacuum conditions, in inert gas atmospheres, at high temperatures or using low-pressure plasma.

Bull

- Acquisition of JenaWave with complementary metrology offer brings key expertise in-house and presents opportunities for synergies
- Presence in emerging markets, which are developing strategic solar manufacturing capacity
- Product innovation, eg multi-pulling crystal systems

Bear

- Industrial growth in China is slowing
- Semiconductor industry investment subdued
- Solar market continues to be weak

Analyst

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EDISON

SHW

Finely poised

SHW continues to defy an ailing European car market by virtue of its increasingly sophisticated technology and successful product launches. While Q313 impressed with a 13% rise in the company's revenue at an increased margin and positive free cash flow despite further significant investment, a strong order book reinforces management's confidence in the prospect of higher full-year EBITDA. International expansion, a key strategic goal, is progressing well, notably in North America.

Q3 acceleration

Double-digit revenue growth in the quarter to September confirms the uncharacteristic softness in Q1 (-1%) to have been temporary, indeed a function of integrating processes (primarily, logistics) associated with the introduction of SAP. The improvement was yet more marked at the EBITDA level (+27%), driven by a step change in the Brake Discs division's profitability thanks to a more favourable product mix and efficiencies. The performance of the company's major activity, Pumps and Engine Components, was arguably no less creditable with record EBITDA on top-line growth of 16%, mainly in the passenger car segment, although there was an encouraging pick up in truck and off-highway demand.

Consensus profit estimates look reasonable

Market revenue forecasts for 2013 may be upgraded in view of newly-raised management guidance of €352-362m. While the sharpest quarterly increase of the year (c 20%) will be required to reach the bottom of the range, Q412 was relatively weak and the recent order intake is "very positive". However, it should be noted that industry forecasts are for the company's key market, light vehicles in Europe, to remain challenging and SHW's exposure to more buoyant areas such as North America and China remains slight (under 2% of H113 revenue). Targeted EBITDA of €35-38m assumes only flat margin (10%) for the year as a whole, which looks to be in order.

Valuation: Fairly valued

After marked outperformance (over the past three months share price +43% against DAX +16%) on the recovery in trading, the SHW share price may now await further evidence of its strength, especially given potentially ambitious 2014 forecasts and the recent replacement of senior management, even if early signs are good. The forecast 2013 dividend of €1.17 compares with an underlying payout of €1.00 last year, when a €3 special dividend was paid following the sale of SHW's Canadian joint venture. 2012 numbers below have been restated to exclude that business; on a like-for-like basis, against 2011, PBT and EPS were down just 2% and 5% respectively on 2% higher revenue.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	360.6	23.6	2.93	1.00	13.4	2.5
12/12	325.4	20.3	7.89	4.00	5.0	10.2
12/13e	347.2	23.5	2.79	1.17	14.1	3.0
12/14e	377.9	29.3	3.57	1.30	11.0	3.3

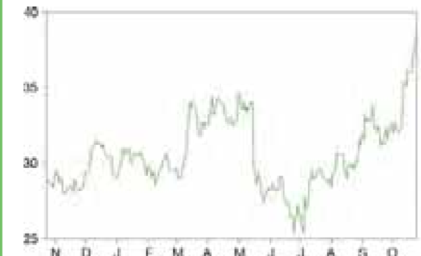
Source: Thomson Reuters

Engineering

Price €39.30

Market cap €230m

Share price performance



Share details

Code	SW1
Shares in issue	5.9m
Net (debt)/cash (€) as at Jun '13	(20.3m)

Business description

SHW is one of the leading automotive suppliers of CO2-relevant pumps, engine components and brake discs.

Bull

- Beneficiary of global aim to lower CO2 emissions
- Broad, innovative product range and good relationship with German OEMs
- Strong finances, allowing international expansion and selective acquisitions

Bear

- Reliance on difficult vehicle production market in Europe; minimal exposure to emerging growth areas
- Intense competition with associated risks from industry consolidation
- Top three customers (VW, Daimler and BMW) account for over 50% of sales

Analyst

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EDISON

2G Energy

General industrials

Growth expected in H2

Despite weaker-than-expected H113 results, the management expects an improved performance in H2 and renewed growth from 2014. 2G retains its long-term forecast of revenue of €300m and a 15% EBIT margin by 2020.

Price	€27.51
Market cap	€122m

Share price performance

Share details

Code	2GB
Shares in issue	4.4m
Net (debt)/cash (€) as at Dec '12	3.7m

Business description

2G develops, produces and installs cogeneration systems (20kW to 2MW) for decentralised energy production. The plants can utilise a variety of feedstocks including natural gas, biogas or biomethane.

Bull

- Strong international focus on CHP development
- Growing international gas market
- Strong balance sheet

Bear

- Biogas markets driven by legislation
- Historic over-reliance on Germany
- Historic over-reliance on biogas

Analyst

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Favourable outlook for the international CHP market

The long-term outlook for combined heat and power (CHP) systems appears favourable. German legislative targets seek an increase in the share of combined heat and power in electricity production, from 15% currently to 25% by 2020. An amendment to the Combined Heat and Power Act, passed in 2012, saw subsidy rates for CHP systems in the 50-250kW range almost double to 4c/kWh. In the US, the government is also targeting an increase in installed CHP capacity of 40GW (equivalent to an increase of c 50%) by 2020.

2G Energy repositioned

The growth of the international CHP market supports 2G’s increased focus on expanding its business outside Germany. A reduced exposure to the biogas market and greater focus on natural gas has already helped diminish the company’s sensitivity to German biogas subsidies, and will position it to take advantage of the burgeoning international market for natural gas. 2G believes it has a technological edge with 20kW to 500kW CPU units, especially with respect to gas motor optimisation, which is key in delivering efficiency improvements.

H213 expected to show improvement

While the long-term outlook appears favourable, poor economic conditions in southern Europe and changes to feed-in tariffs more generally led to weaker-than-expected H113 results. 2G is now forecasting revenue of €120-140m (previous guidance €160m). With an order book at previous year's levels and given current levels of invoicing, 2G expects a stronger second half and is guiding to EBIT for the year of €3-5m (consensus €3.4m). Based on an assumption of improving economic conditions, 2G expects a return to growth from 2014 (supported by consensus forecasts) and retains its long-term forecast of revenue of €300m and a 15% EBIT margin by 2020.

Valuation: Trading at a discount to the utility sector

Given revisions to earnings forecasts, 2G's short-term multiples now appear high. However, consensus forecasts continue to predict rapid growth beyond the current year and the shares trade at a discount to the consensus price target of €36/share.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	167.3	19.5	2.98	0.37	9.2	1.3
12/12	146.5	16.5	2.58	0.37	10.7	1.3
12/13e	132.9	3.5	0.62	0.34	44.4	1.2
12/14e	157.5	15.1	2.29	0.48	12.0	1.7

Source: Thomson Reuters

EDISON

Basler

General industrials

Price	€28.15
Market cap	€102m

Giving technology the power of sight

Basler is already the dominant provider of digital industrial cameras globally. It intends to achieve a CAGR of 10-15%, shipping over 300,000 units annually and generating over €100m revenues and €10m EBIT by 2017. It intends to achieve this by maintaining its position in the high-data rate, highly customised segment, where its cameras deliver superior image processing capability, are very reliable and are easy to integrate, and by expanding its position in the mainly standardised mainstream segment, where it already has a strong foothold, and in the entry level segment, where it is rapidly growing its market share. It intends to grow share in these segments by offering product designed to give a good price/performance ratio without compromising quality. It is able to offer technical support to customers on a global basis.

Revenues boosted by sales to Asia

Revenues for the nine months ended September 2013 rose by 17% year-on-year to €49.1m, significantly better than the 5% growth predicted by VDMA for the German image-processing industry and ahead of management expectations. This growth is attributable partly to sales of industrial cameras with the Gigabit Ethernet interface, where Basler has extended its market leadership by expanding the product portfolio with several new models with CMOS image sensors, and partly attributable to growth in Asia (42% total sales H113). Gross margin improved as end-of-life products were discontinued. Although considerable investment was made in sales, administrative and R&D functions, earnings before taxes (EBT) rose by 43% to €5.9m, generating a 12% EBT margin. Net cash (excluding finance leases) increased by €0.8m to €1.9m at end June 2013, despite expending €1.0m on a share buy-back programme completed in May, and €1.0m on dividends.

On track for €100m revenues by 2017

In October management raised its FY13 guidance to €63-65m revenues generating 11-12% EBT margin (previously similar revenues and 10-11% margin), indicating that consensus estimates are achievable. It intends to achieve this growth by maintaining its leading position in the Gigabit Ethernet market, building market share in the line scan camera market and successfully launching its USB3-Vision product line.

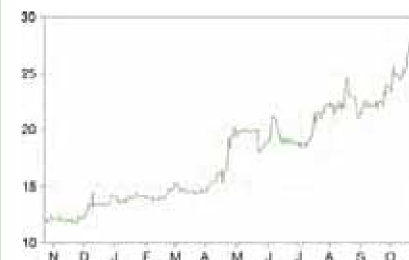
Valuation: Trading in line with peers

The share price has more than doubled since last November, so Basler is trading on prospective P/E multiples in line with those for its peers. However, in our opinion, its potential for stronger-than-average growth justifies a premium.

Consensus estimates						
Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	55.1	5.6	1.21	0.30	23.3	1.1
12/12	55.9	5.6	1.21	0.30	23.3	1.1
12/13e	65.1	7.4	1.55	0.33	18.2	1.2
12/14e	70.4	8.2	1.71	0.36	16.5	1.3

Source: Thomson Reuters

Share price performance



Share details

Code	BSL
Shares in issue	3.5m
Net (debt)/cash (€) as at Jun '13	(17.5m)

Business description

Basler's cameras are used for applications including industry, video surveillance, medicine and traffic control. Basler has more than 25 years' experience in image processing and has been developing high-grade digital cameras for 15 of these. More than 80% of its revenues (H113) are derived from exports.

Bull

- Cameras support megatrend of using visual input for decision making
- Cameras designed for optimal price/performance
- Focus on cameras rather than complete systems reduces volatility in demand

Bear

- High market growth may attract new market entrants
- Low free-float (32.8%)
- Dependent on distributors and value-added resellers to penetrate Asian market

Analyst

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EDISON

BayWa

Good for now

Robust trading in Q213 (core activity EBIT up by a third) shows BayWa is well on course for targeted higher revenue and earnings for the year as a whole. Despite a predictably significant element of catch-up after a harsh winter, notably in building materials and fertilisers, there is justifiable encouragement in the success of recent acquisitions and an improving business mix (over 40% of H113 EBIT from international agricultural and renewable energies). Market conditions appear reassuringly stable.

H113 – a tale of two quarters

Even excluding the €60m gain from the sale of real estate, which boosted reported earnings, BayWa delivered in Q2, with the aforementioned sharp increase in core profit more than making up for the previous quarter's weather-induced move into loss at the trading level. Although progress was acquisition led, principally the first inclusion of the agricultural trading company, Cefetra, the company's existing operations in grain products, fertilisers and crop protection all performed well, as did both conventional and renewable energies (divisional Q2 EBIT up 77% year-on-year). As for building materials, an encouraging recovery of Q1 seasonal losses was frustrated by further extreme weather in the spring, but still raised profit, if marginally.

2013 consensus estimates look reasonable

Adjusting for positive one-off items of €17m and €56m for last year and this respectively, current market expectation is for 2013 PBT up by a quarter. This may seem ambitious in view of management's somewhat vague post-Q2 guidance ("revenue and earnings can be increased"), but BayWa achieved a similar rate of underlying PBT growth in the first half, and the outlook for H2 remains positive. Agriculture, now much the most profitable division thanks to expansion, should be boosted by forecast strong harvests and further acquisition benefits, while renewable energies, the driver of the Energy segment, is seeing strong demand in the US and for its wind power projects.

Valuation: Fairly valued

As a low-margin business with particular sensitivity to external influences, BayWa is arguably undeserving of a premium rating. Moreover, 2014 forecasts of c 35% PBT gain (based on adjusted €132.5m this year) leave little room for error, especially on assumed revenue improvement of under 5%. Record €1.5bn net debt at June (134% gearing) may also advise caution, although H113 "clean" interest cover was almost 4x.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	9586.0	97.7	1.50	0.60	25.7	1.6
12/12	10691.0	122.6	2.82	0.65	13.7	1.7
12/13e	15987.0	188.7	3.16	0.71	12.2	1.8
12/14e	16629.0	181.1	3.28	0.77	11.8	2.0

Source: Thomson Reuters

General industrials

Price €38.59

Market cap €1282m

Share price performance

Share details

Code	BYW
Shares in issue	33.2m
Net (debt)/cash (€) as at Jun '13	(1549m)

Business description

BayWa is a leading international trading and services group, focused on agriculture, energy and building materials.

Bull

- Demand for food, energy and shelter fuelled by global population growth
- Successful international expansion with accent on strong regional presence in core markets
- Diverse business and customer mix

Bear

- Sensitivity to weather
- High volatility of grain, fertiliser and mineral oil prices
- Political risks, eg regulation of markets for agricultural products and government subsidies of energy carriers

Analyst

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EDISON

Continental

On the move

Continental has been able to deliver sustained growth ahead of the market due to its flexible operational position. This allows the company to ride market changes and benefit from long-term structural megatrends in the automotive market. The group has transitioned to become one of the top three global automotive suppliers and the systems-based supply of equipment has broadened to provide increasingly integrated offerings to global OEMs. With current results benefiting from organic growth across the automotive group and a slow recovery in replacement tyre trends, coupled with lower raw material costs, Continental is positioned to finish 2013 on an increasingly positive note, despite high ongoing R&D charges.

Market outlook stabilising and improving

Following a rather challenging period in the automotive market over the past few years, Continental is well placed to benefit from the stabilisation of European production and a recovery in replacement tyre markets. H113 sales were up 0.4% to €16.6bn with an organic increase of c 5% in Q213, while the group achieved an adjusted EBIT margin of 10.8% (Q213: 11.5%) highlighting the quarter-on-quarter progress. ROCE improved by 10bp to 18.6% in the quarter, while net debt stood at €6bn at 30 June, equating to a gearing ratio of 69%. The early repayment of an 8.5% bond and a 7.5% bond, replaced by a new long-term 3% coupon bond with a maturity of 2018, provides lower interest payments and a longer-duration debt profile.

Long-term move to systems-based content

Continental has positioned itself to benefit from the four global megatrends in automotive: environment, information, safety and affordability. It has achieved this by moving the group from a component to a systems supplier through both internal R&D and acquisition. By ensuring the group is also capturing the opportunities from globalisation to achieve a regional sales balance and significant local content, Continental is also providing a more balanced business, increasingly resilient to the swings that exist in automotive demand. Taken together, these strategic drivers are set to position Continental to achieve increasing efficiency and reach a target ROCE of 20% by 2015.

Valuation: Discount to peers narrowed

Continental's current rating of c 11x CY14 EPS now sits at a 10% premium to the basket of peers across both tyres (Goodyear 8x, Michelin 9x, Pirelli 10x) and component suppliers (Delphi 12x, Johnson Controls 13x, Lear 11x, TRW 10x). We feel this shows that investors are increasingly viewing Continental as a more integrated systems play.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	30504.9	1861.0	6.21	1.50	22.1	1.1
12/12	32736.2	2667.0	9.42	2.25	14.6	1.6
12/13e	33969.4	2728.0	10.55	2.47	13.0	1.8
12/14e	36098.7	3418.0	12.01	2.94	11.4	2.1

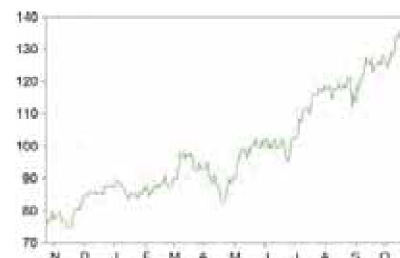
Source: Thomson Reuters

General industrials

Price €137.35

Market cap €27471m

Share price performance



Share details

Code	CON
Shares in issue	200.0m
Net (debt)/cash (€) as at Jun '13	(6012m)

Business description

Continental is a global automotive equipment supplier forged over 140 years consisting of two business groups: Automotive Group (60% of 2012 sales) – Chassis & Safety 21%, Powertrain 19% and Interior 20%; and Rubber Group (40%) – Tyres 29% and ContiTech 11%.

Bull

- Third-largest global supplier to Automotive OEMs
- Leading systems design capability
- Highly profitable Rubber Group

Bear

- High R&D spend in Automotive group
- Potential volatility in end-markets
- Slow market recovery in western regions

Analyst

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EDISON

Dürr

Emerging opportunities

Dürr has established itself as the leader in its niche industries with a global market share approaching 50%. The group has five key strategies for future growth: increasing emerging market exposure; driving innovation and product development; capturing higher margin service revenues; pursuing enhancing acquisitions; and developing the Clean Technology Systems division. With an improved H113 continuing into Q3, Dürr increased its full year earning guidance on stronger margin development and an improved outlook. The group sees strong growth potential for the global automotive industry with the pipeline increasing again, giving a book-to-bill of 1.14. The expected progress should enable good free cash flow generation despite higher expected capex as the group gears up for international market growth.

Margin improvement supporting earnings growth

The H113 results demonstrated that while orders and sales were down slightly, Dürr's focus on improving efficiency and managing its costs paid off with a gross margin improvement of 240bp to 19.4% and an EBIT margin improvement of 110bp to 7.3% driving earnings growth of 23% versus H112. With further progress in Q3, the group has therefore raised its full year earnings guidance and is targeting margins in the 7.5-8.0% range. A solid financial structure and significant capex investment in 2013 approaching €50m are designed to position the group for further growth.

Strategy focused on growth, optimisation and developing new markets

Dürr's 2015 strategy focuses on growth, global optimisation and developing new markets. With emerging markets set to deliver 75% of global automotive growth between 2012 and 2017, Dürr is focusing efforts on ensuring it has a local presence in these markets and is developing close relationships with global OEMs and local players alike, with >60% of its order intake from these regions. It is also focusing its technology on reducing production costs for clients through R&D and acquisition, which will support new and retrofit business, while seeking to expand its service business. New markets are also being identified such as Clean Technology and Energy Efficiency. Each of these is targeted to deliver enhanced sales and margin opportunities for the group.

Valuation: Growth drivers aplenty

We view Dürr as having many growth drivers, which it is positioning to deliver through its current investment programme, while also focusing on an optimisation approach that is set to deliver enhanced margins and ROCE. The current rating of c 16x CY14 EPS captures the forthcoming potential as witnessed by the recently upgraded guidance.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	1922.0	85.8	1.79	0.60	35.5	0.9
12/12	2399.8	147.7	3.10	1.13	20.5	1.8
12/13e	2497.2	178.0	3.70	1.27	17.2	2.0
12/14e	2590.9	191.7	3.88	1.36	16.4	2.1

Source: Thomson Reuters

General industrials

Price	€63.55
Market cap	€2199m

Share price performance

Share details

Code	DUE
Shares in issue	34.6m
Net (debt)/cash (€) as at Jun '13	(5.5m)

Business description

Durr supplies products, systems and services predominantly to automotive manufacturers across four divisions: Paint and Assembly Systems; Application Technology; Measuring & Process Systems; and Clean Technology Systems.

Bull

- Increasing emerging market exposure
- Growing proportion of service revenues
- Improving margins and ROCE

Bear

- 2013 capex peak
- Reduced order intake from 2012 high
- Slower adjacent market development

Analyst

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EDISON

Gesco

Transition year

Management has described FY13/14 as a transition year, characterised by subdued trading, integration of the previous year's acquisitions and a significant (€30m) investment programme. The business model enables subsidiary companies to take progressive steps in less favourable market conditions and invest for future growth.

Guidance lowered following Q1 results

FY12/13 results were modestly ahead of guidance, but in the absence of any growth pick-up, management expectations for FY13/14 are now toward the lower end of a previously indicated range (ie revenue €435-450m, EPS €5.56-6.17) following Q114 results. In this quarter, although group revenue rose by 2% y-o-y, with a book-to-bill ratio for new orders just above 1x, the EBIT margin declined by 200bp to 7.2%, owing to lower capacity utilisation, pricing pressures and prior year acquisition effects. Order intake, while in line with revenue, was below the previous year and this was felt in tool manufacture/ mechanical engineering rather than the smaller plastics technology segment, where order intake increased. Indications for the performance of subsidiary companies in the second quarter of the year showed a further slowdown in order intake for the group, with quarterly revenue stable sequentially (but down c 4.4% y-o-y) and ongoing margin pressure.

Financially strong, investing for growth

While the current trading environment is subdued, this highlights the strength of GESCO's business model with a diversified portfolio of subsidiary companies in a range of established industrial sectors. GESCO is a long-term investor in, and developer of, its businesses, as illustrated by plans to invest a record €30m in capex in the current year. We understand that around half of this relates to strategic projects over and above maintenance requirements (depreciation is c €16m pa). Hence, subsidiary companies are able to retain their operational independence, but benefit from being part of a financially strong group (net debt to EBITDA of 1x) and continue to invest during less favourable market conditions when competing companies may not be able to do so.

Valuation: Growth pause, healthy yield

The share price is c 15% above the level a year ago, having reached a high of €83 during this period (following a positive Q313 update in February). The current P/E rating, based on FY13/14 consensus, reflects a growth pause, but the yield – even with lower DPS – remains healthy.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
03/12	415.4	36.3	7.44	2.90	10.1	3.9
03/13	440.4	33.8	6.30	2.50	11.9	3.3
03/14e	441.1	30.5	5.76	2.26	13.0	3.0
03/15e	461.6	35.9	6.62	2.56	11.3	3.4

Source: Thomson Reuters

General industrials

Price €74.91
Market cap €249m

Share price performance

Share details

Code	GSC1
Shares in issue	3.3m
Net (debt)/cash (€) as at Jun '13	(46m)

Business description

GESCO was founded in 1989 to invest in SME companies in the German Mittelstand, focusing on companies facing succession challenges and with ongoing growth potential. There are currently 17 companies in GESCO's holding structure, with four of these added in the last 12 months. These companies are substantially focused on tool manufacturing and mechanical engineering – with some plastics technology exposure too – with a range of end markets addressed.

Bull

- Financially strong (1x net debt to EBITDA)
- Record capex programme planned for FY14
- Long-term growth investment strategy

Bear

- Current trading conditions are subdued
- Guidance toward lower end of previous range
- Order intake slowing

Analyst

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EDISON

Greiffenberger

Growth to resume in H2

Trading momentum is improving for Greiffenberger as evidenced by good order intake in H1, which is expected to translate to growth in H2. Broad exposure to a range of largely industrial markets puts the company in a good position to benefit from a return to growth in European markets.

Better trading performance expected in H2

Although H1 revenue was 6% lower than the previous year, this represented a modest increase over H212 and the period recorded a 13% y-o-y increase in order intake, equivalent to a book-to-bill ratio of 1.14. ABM, the largest division, was the most resilient (revenue -2%) with the best order intake performance in H1, and management commented confidently about a recovery here and at BKP. A strengthening German market, together with exposure to faster-growing overseas territories, supports this stance. For FY13, the operating performance is expected to stabilise increasingly y-o-y with start up costs for a new drive assembly facility for ABM in Poland (with shipments to start in January 2014) also to be taken into account. Additionally, financial results are to benefit from changes to the company's long term debt financing during FY12.

Stable management and business portfolio

The management team and three-business composition of Greiffenberger has been very stable for a number of years. Core design and manufacturing activities for each company are based in Germany, with sales and support functions in a number of European countries and the US. ABM has a small drive assembly facility in China and the new Polish plant further improves supply chain and quality management in this division. In the last quarter, the OECD raised its growth estimates for Germany and France, with growth expected to be more widespread in 2014. Greiffenberger also stands to benefit from exposure to the US and Chinese markets. We do not believe that acquisitions are imminent and so further debt reduction is expected in H2.

Valuation: Start-up costs affect FY13 earnings

Over the last two years, Greiffenberger's share price has substantially traded in the €5.5 to €6 range. In underlying trading terms, before €1.7m start-up costs relating to Poland, FY13 is expected to be broadly similar or slightly below FY12. Clearly, we should consider these costs to be one-off, with benefits to accrue from FY14 onwards. For illustration, based on reported FY12 figures, Greiffenberger's P/E would be c 11x, with an EV/EBITDA multiple of c 4x.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	156.6	3.8	0.52	0.00	11.5	N/A
12/12	158.0	3.5	0.53	0.00	11.2	N/A
12/13e	159.0	3.2	0.48	0.00	12.4	N/A
12/14e	169.0	6.1	0.90	0.00	6.6	N/A

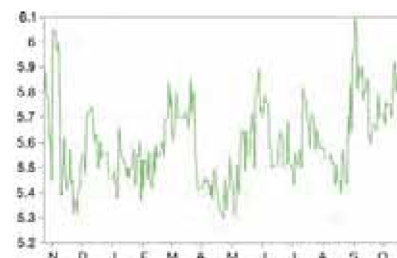
Source: Thomson Reuters

General industrials

Price €5.96

Market cap €29m

Share price performance



Share details

Code	GRF
Shares in issue	4.8m
Net (debt)/cash (€) as at Jun '13	(40m)

Business description

Greiffenberger is a niche market diversified engineering company producing electric motors and gearboxes (ABM), metal band saw blades and precision strip steel (Eberle), and solutions for trenchless pipeline renovation (BKP).

Bull

- Stable management team and business portfolio
- Recovering markets expected in H2
- Polish investment benefits to come

Bear

- Short-term earnings impact from Polish start-up
- Slow start to FY13 in Q1
- Low demand from German public sector to date at BKP

Analyst

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EDISON

INDUS Holding

Developing SME portfolio

FY13 has been characterised by a cautious trading environment, with some, but not all, portfolio companies moving ahead. Nevertheless, acquisitions consistent with a more expansionary corporate strategy are supporting expected forward momentum for the year overall.

Progress in H1 results and acquisitions

After a slow start to the year by some portfolio companies, revenue and EBIT margin performance improved in Q2. Sector performance was mixed; four out of five delivered higher revenues (including acquisitions), while two sectors increased profits, including the largest, Automotive Technology. Overall, H1 revenue and EBIT were both modestly ahead compared to the previous year. During the period, Indus acquired three new companies, with one subsidiary acquiring the outstanding minority interest of another. These companies all fit into one of the existing sectors addressed. This activity, together with some working capital investment and dividend cash payments, resulted in net debt rising to €413m compared to €342m at the beginning of the year. Before the effects of further acquisition, management expects net debt to reduce in H2.

'Buy, hold and develop' strategy

INDUS has developed by acquiring and holding SMEs in its target sectors over a 25-year period. Companies report directly to the board, and, on acquisition, Indus typically takes a majority position with a one- to two-year earnout structure with existing management, under a specialist industry advisory role. In the last year, a more expansionary strategy ('Compass 2020') has been adopted with greater emphasis on business development through a combination of R&D, international markets and complementary acquisitions.

Valuation: Attractive rating

Indus Holdings' share price has performed well over the last 12 months, especially in the early part of 2013. As consensus estimates indicate, some progression in earnings is anticipated in FY13. Based on management comments at the H1 stage, this is likely to come from acquisitions with a cautious overall stance regarding organic performance. Nevertheless, trading on a sub 10x P/E – with further acquisition benefits and a return to European growth to come – together with a trailing 4% dividend yield that is expected to grow, there are many attractions for investors.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	1105.0	89.0	2.70	1.00	9.8	3.8
12/12	1105.0	84.6	2.34	1.00	11.3	3.8
12/13e	1178.0	92.7	2.68	1.07	9.9	4.0
12/14e	1240.0	102.8	2.98	1.13	8.9	4.3

Source: Thomson Reuters

General industrials

Price	€26.50
Market cap	€589m

Share price performance

Share details

Code	INH
Shares in issue	22.2m
Net (debt)/cash (€) as at Jun '13	(413m)

Business description

INDUS comprises 40 companies operating in five sectors: Construction/ Infrastructure (21% 2012 revenue); Automotive Technology (29%); Engineering (14%); Medical Engineering/Life Science (8%); and Metal/Metal Processing (28%).

Bull

- Acquisition momentum in FY13 and FY14
- Largest sector performing well
- Attractive rating and yield

Bear

- Caution regarding organic performance
- Some variability across portfolio companies
- Short-term increase in net debt

Analyst

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EDISON

Lanxess

Chemical reaction

Lanxess has an excellent record in margin growth. Trading has weakened in 2013, leading to a strategic review by management and an action plan to reach the mid-term target of €1.8bn EBITDA.

Ongoing commitment to shareholders

Lanxess was spun out of Bayer in 2005. The management team, led by CEO Axel Heitmann, has transformed the company from a commodity chemicals producer to a shareholder value-driven company focused on specialist niches. Central to this has been the 'price-before-volume' strategy, which has steered the company into stable and growing businesses such as high-performance rubber (part of Performance Polymers), agrochemicals (part of Advanced Intermediates) and liquid purification technology (part of Performance Chemicals).

History of raising margins

Management has built an enviable track record in raising margins and improving returns. Following the IPO this centred on reducing operating costs by cutting employee numbers and consolidating production sites. Management then embarked on an ambitious portfolio optimisation programme to transform the group. This involved a series of divestments and acquisitions aimed at building a genuine speciality chemicals group with three segments: Performance Polymers (2012: 57% sales), Advanced Intermediates (19% sales) and Performance Chemicals (24% sales). EBITDA margins grew from 7.7% in 2005 to 13.9% in 2012.

Five-year target

However, trading in 2013 has been challenging, primarily due to a demand slowdown in the Asia-Pacific region (36.5% sales in 2011). Key end-markets such as Automotive, Tyre, and Construction have suffered a cyclical downturn and been growing below their estimated long-term trend rate. This led to management abandoning its 2013 financial targets in August 2013 and announcing a strategy update. This has been designed to generate EBITDA of €1.8bn by 2018 (2013e: €0.72bn) and has four phases ranked from short to long term: efficiency improvement, targeted restructuring ('Advance' programme), portfolio management and acquisition.

Valuation: Justified by potential recovery in EPS

On consensus forecasts, the 2013 P/E is c 31x. This falls to c 13x in 2014 as a cyclical recovery in key end-markets develops, while it yields c 2.0% for the year. This compares with peer group averages of c 13x and 2% respectively. From 2015, earnings growth should also be supported by the 'Advance' restructuring programme, which management expects will generate annual cost savings of €100m.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	8775.0	655.0	6.08	0.85	8.4	1.7
12/12	9094.0	669.0	6.18	1.00	8.3	2.0
12/13e	8373.0	163.3	1.63	0.88	31.3	1.7
12/14e	8969.0	434.0	3.98	1.04	12.8	2.0

Source: Thomson Reuters

General industrials

Price €51.03
Market cap €4246m

Share price performance

Share details

Code	LXS
Shares in issue	83.2m
Net (debt)/cash (€) as at Jun '13	(2045m)

Business description

Lanxess is a leading speciality chemicals group. The company was spun out of Bayer in 2005 and has since undergone a radical programme of cost reduction and portfolio optimisation.

Bull

- Track record of improving margins
- 'Price-before-volume' strategy
- Differentiated product portfolio

Bear

- End-markets currently growing below trend
- 2013 financial targets withdrawn by management
- Cyclical earnings profile

Analyst

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EDISON

Masterflex

Customised strength

International expansion and product innovation continue to drive Masterflex. Inevitably in the short term this comes at a price, with lower profit likely in the current year mainly as a result of start-up costs in Asia, but margins should still be robust (double-digit at the trading level) and finances stable. Q213 saw a welcome resumption of top-line growth, albeit expansion led, which management is confident will be sustained for the rest of the period. Recent re-financing should allow lucrative in-fill acquisitions in the medium term.

Contrasting fortunes in Q2

The second quarter saw Masterflex defy a quiet start to the year, with a 6% y-o-y increase in revenue (-1% in Q1) as new operations in Singapore and China began to contribute. A resilient performance in dull European markets, still the company's principal driver, reflected not only continuing successful innovation but the breadth of product and client base, particularly in growth sectors, eg medical products, which accounted for 13% of revenue in 2012. The long-established US business fared well, as did Brazil. By contrast, overall EBIT fell by 21% as operating costs, notably in staff (+10%), swelled, but importantly, the trading margin remained respectable (10%) and cash flow was positive.

Consensus estimates look optimistic

Despite the company's solid prospects, profitability will continue to be depressed by investment costs in H213, suggesting that consensus assumptions of a c 10% rise in full-year PBT are too positive. Indeed, there could well be a decline, given the aforementioned scale of setback in the first half and management expectation only of "clear double-digit EBIT margin" in 2013, which would allow for a lower out-turn. Consensus expectation of a 9% revenue increase in H2 compares with 2.5% in the first half.

Valuation: Long-term appeal

While the scope for disappointment with 2013 results may dictate caution for the time being, there is justifiable confidence in increasing returns from overseas expansion, new products and the recently unified brand identity with accompanied strengthening of online capabilities. In addition, with H1 interest cover of 3.8x, the company is well financed (€40m bank facilities have been successfully re-negotiated to 2018) and cash generative, with a medium-term prospect of dividend initiation. 2011 PBT below includes c €0.9m of non-recurring income.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	53.0	6.2	0.34	0.00	17.7	N/A
12/12	55.0	5.8	0.50	0.00	12.0	N/A
12/13e	57.8	6.4	0.44	0.00	13.7	N/A
12/14e	61.0	7.2	0.50	0.00	12.0	N/A

Source: Thomson Reuters

General industrials

Price	€6.01
Market cap	€53m

Share price performance

Share details

Code	MZX
Shares in issue	8.7m
Net (debt)/cash (€) as at Jun '13	(19.6m)

Business description

Masterflex is a leading supplier and manufacturer of high-tech advanced polymer hoses and connectors for use in numerous special environments including high temperature resistance, food quality, heating and medical tubing.

Bull

- Specialist manufacturer with strong brand and reputation for innovation
- Broad product and customer base
- Increasing international presence with scope for in-fill expansion

Bear

- Exposure to sluggish end markets in Europe
- Volatile input costs
- Relatively high borrowings but newly refinanced and decent interest cover

Analyst

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EDISON

Nanogate

2013 a year of strategic development

Nanogate has undergone a pivotal year in its development with significant orders and sales increases, several acquisitions that have added capability and reach, and a maiden dividend to shareholders. With strategically important orders received, positioning it as a tier one partner with premium automotive customers, Nanogate has demonstrated the benefits of its advanced surfaces. Several other markets are also embracing the group's technology, ranging from functional textiles to industrial filters. 2013 has so far provided many opportunities for the group, which anticipates further progress for the full year.

Results demonstrate progress

The HY13 results highlighted the rapid progress that Nanogate is undergoing, with revenues up 28% to €24.2m with strong demand across all target markets, while there was an improved order and product mix. Gross profit margin increased to 66.5% (H112: 65.3%) while consolidated EBITDA increased to €3.0m (H112: €2.8m) and EBIT fell to €1.1m (H112: €1.4m) largely due to the higher D&A charge following the first time consolidation of Plastic-Design AG. Consolidated net income increased to €0.5m (H112: €0.3m) and EPS increased to €0.19 (H112: €0.10).

Strategy development continues apace

The group has entered its next phase of strategic development with a focus on developing its international business and expanding in the target growth markets of innovative plastics and energy efficiency. The group has secured significant orders with the likes of Volkswagen, Porsche, FILA and August Bröjte, one of the world's leading manufacturers of heating systems. Having increased its equity holdings in Plastic-Design and GfO, the group is also increasing its strategic positioning and sales potential, which further contributes to its target of achieving €50m sales.

Valuation: Driven by growth prospects

Nanogate's current rating of c 40x CY14 EPS reflects the high growth prospects of the group and the expectation for further rapid increases in revenues and earnings as the investment in new markets drops through to a further improvement in results. With the progress achieved so far, we could well see this continue for the full year and into 2014.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	33.2	(0.3)	(1.68)	0.00	N/A	N/A
12/12	38.2	1.4	0.10	0.00	350.0	N/A
12/13e	49.6	1.0	0.19	0.10	184.2	0.3
12/14e	56.6	3.1	0.82	0.13	42.7	0.4

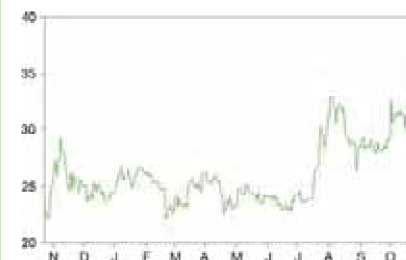
Source: Thomson Reuters

General industrials

Price €35.00

Market cap €95m

Share price performance



Share details

Code	N7G
Shares in issue	2.7m
Net (debt)/cash (€) as at Jun '13	(8.8m)

Business description

Nanogate is an international integrated systems provider for high-performance surfaces. The group is based in Göttelborn (Saarland), Germany and enables the integration of additional properties such as non-stick, scratchproof and anti-corrosive into materials and surfaces.

Bull

- High growth potential
- Strong international orders
- Increasing position with premium automotive OEMs

Bear

- High cash utilisation for investment
- Production capacity increase needs to be managed
- Volatility in western European markets offset by international growth

Analyst

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EDISON

paragon

Premium opportunity

paragon supplies leading-edge components, modules,and systems to the car sector. The company is a renowned industry innovator and management expects revenues to grow by 10% a year over the next three years. The valuation looks anomalously low given the expected growth rates.

Niche operator

paragon was founded 25 years ago by current chairman and majority shareholder Klaus Dieter Frers. The company has grown to be a key innovator in the automotive sector. The bulk of sales are to the German premium car segment and straddle three established divisions: Cockpit (2012: 40% sales), Sensors (38%) and Acoustics (16%). The group also includes two high-growth divisions: Body Works Kinematics (5%) and Electromobility (<1%).

R&D-focused company

This is a research-driven business with R&D/sales at 9% (2012). Almost uniquely in this sector, two-thirds of sales are products that have been independently developed from scratch with the rest developed to customer specification. paragon has tangible competitive advantages including a holistic approach to design that allows products to integrate with OEM and third-party systems. It also has the benefit of experienced engineering and management teams with industry expert, Mr Frers, in the driving seat.

Recent financial performance

The EBITDA margin fell sharply to 12.1% in Q113 (2012: 19.4%) but cost management helped this to recover to 16.1% in Q2 (2012: 19%). Management expects revenues to hit €100m by 2016 (2013e: €75m), driven by demand for electric battery systems (Electromobility) and adjustable spoiler systems (Body Works Kinematics). Assuming constant margins, this implies a CAGR in EPS of 10% over the next three years. However, margins may improve as automated production lines are gradually rolled out across the product range. Management also expects to make small bolt-on acquisitions. The balance sheet is well capitalised (2012: net debt/equity = 4.4%) and strong, with intangibles constituting only 11% of total assets.

Valuation: Excellent value if margins stabilise

The company has a strong track record in delivering sales growth. Assuming margins stabilise at Q2 levels, the shares are attractively valued on consensus earnings and management's three-year growth forecast. Using 2013e earnings the P/E of c 6x applied to the 10% forecast EPS CAGR results in a PEG ratio of 0.6. On 2013e consensus, EV/EBITDA is c 3x, which compares to c 8x for MSCI Germany.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	67.1	7.5	1.30	0.00	6.9	N/A
12/12	70.4	6.7	1.13	0.25	7.9	2.8
12/13e	75.0	8.3	1.43	0.15	6.2	1.7
12/14e	79.2	9.0	1.54	0.18	5.8	2.0

Source: Thomson Reuters

General industrials

Price €8.92

Market cap €37m

Share price performance

Share details

Code	PGN
Shares in issue	4.1m
Net (debt)/cash (€) as at Jun '13	(5.75m)

Business description

paragon is a Germany-based technology company that develops, manufactures and sells advanced automotive electronic solutions. As a supplier of the automotive industry, it manufactures products for air quality, drive train, acoustics, stepper motors, media interfaces and cockpits.

Bull

- Valuation
- Research-driven business model
- Operates in growth niches

Bear

- Majority controlled by founder
- Narrow industry exposure
- Narrow customer base

Analyst

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EDISON

Phoenix Solar

Solar system integrator and manager

Phoenix Solar is a solar system integrator, operating independently of manufacturers. It gears its range of products and services to customers' requirements and offers new technologies via its consulting services. The company's engineering, procurement and construction (EPC) services focus on building small to utility-scale photovoltaic systems, on behalf of a wide array of financial and commercial investors. In addition, the group is a specialist wholesaler of complete solar power systems, modules and related equipment. With subsidiaries on three continents, it has installed or sold solar crystalline and thin film modules with an output of well over one gigawatt worldwide.

Shift to US/Asia from Europe

Phoenix Solar has an international network of subsidiaries focusing on its market position in the faster growing regions of the US, Middle East and Southeast Asia, after downsizing its European activities as a result of the current low demand. The company is focusing on building on the sales achieved internationally in recent months, despite the weak condition of the European market. Management says it was prepared for the weakness and on the back of progress to date, confirmed its 2013 forecasts for revenue of €160-190m and a further reduction in the operating loss to between €7m and €2m, including restructuring expenses.

The H113 consolidated operating loss improved to €3.8m from €14.1m last year, including severance provisions of €1.9m, related to the discontinuation of the trading and project business in Germany. The net loss more than halved to €7.5m or €1.02 per share. However, in the second quarter the company generated its first quarterly operating profit (€0.4m) since 2010, despite an 18.5% year-on-year decline in revenue. Due to the strategic reorientation, with its focus on foreign markets, only 7.4% of these revenues were generated in Germany.

Valuation: Trading on 3x historic book value and 0.2x sales

As the company is currently loss-making the most relevant valuation metrics are P/BV and P/Sales. The stock currently trades on over 3x historic book value, but just 0.2x P/Sales.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	393.5	(88.9)	(11.80)	0.00	N/A	N/A
12/12	155.4	(37.3)	(5.10)	0.00	N/A	N/A
12/13e	174.0	(8.8)	(1.00)	0.00	N/A	N/A
12/14e	198.0	(2.9)	(0.39)	0.00	N/A	N/A

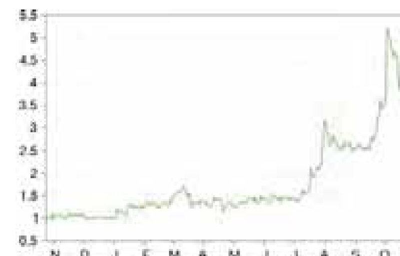
Source: Thomson Reuters

General industrials

Price €4.80

Market cap €35m

Share price performance



Share details

Code	PS4
Shares in issue	7.4m
Net (debt)/cash (€) as at Jun '13	(36m)

Business description

Phoenix Solar is an international photovoltaic system integrator, which started in 1999 and now develops, plans, constructs and manages large photovoltaic power plants globally.

Bull

- International expertise in large-scale power plants
- Group order book of €86m as of end-June 2013
- Net debt of €36m and committed financing of €126m

Bear

- International expansion driven by weak European home market
- Needs to roll out post-subsidy solar business models
- Reported EBIT was negative from 2010 to Q113

Analyst

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EDISON

R. STAHL

General industrials

The whole package

35% underlying EBIT growth in H113 is impressive in competitive markets, and a more reliable indicator of R. STAHL's strengths than the reported comparative, which was depressed by adverse currency movements and the absence of positive one-off items. The company's unique systems solutions and product capability continues to pay off, as does its geographical and industry mix as North Sea buoyancy offsets a cooling in Asian markets. The benefits of current substantial investment in international manufacturing underpin management's medium-term target of 10% PBT margin (6.8% in H113).

H1 - solid progress in mixed markets

The half to June saw almost double-digit revenue gain, driven by oil and gas finds in the North Sea region, whereas Asian markets weakened and demand in Canada was checked by a reduction in the gas price as a result of fracking. Although ex-growth, Germany pleased with a 4% top-line increase. As for profit, the aforementioned improvement in underlying EBIT was after adjusting for €1.5m negative exchange rate effect, as well as for €1.6m from currency and non-recurring items, which boosted reported H112. Finances remain healthy even after an investment-led year-on-year hike in net debt at June to €17m (gearing of just 20%).

2013 consensus PBT forecasts above company guidance

August's outlook statement saw management expectation of full-year revenue and PBT cut to the bottom of its longstanding target range of €305m to €315m and €21m to €23m respectively. Notwithstanding continued currency concerns and specific market softening, the second half performance would have to be no more than flat to meet guidance, which could mean that more positive PBT consensus estimates (below) are realistic, given the encouraging like-for-like progress in H1.

Valuation: Long-term value

R. STAHL's premier position in a regulated, growth market and its bold measures to make the most of attractive new markets, notably India, Brazil and the US, should be rewarded by investors. The company is the leading explosion protection business in systems solutions, which is itself high margin and particularly resilient, and it has a good growth record (sales CAGR of 10% since 2005). Strong finances should allow continued profitable investment in product innovation and manufacturing to improve productivity and customer service.

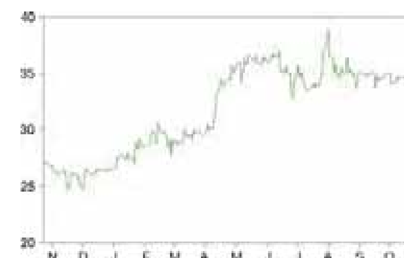
Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	242.9	13.1	1.51	0.70	23.1	2.0
12/12	290.9	21.1	2.43	1.00	14.4	2.9
12/13e	308.7	22.5	2.64	1.14	13.2	3.3
12/14e	327.2	25.3	2.96	1.29	11.8	3.7

Source: Thomson Reuters

Price	€34.90
Market cap	€225m

Share price performance



Share details

Code	RSL2
Shares in issue	6.4m
Net (debt)/cash (€) as at Jun '13	(17.4m)

Business description

R. STAHL is a leading supplier of explosion protection products, systems and services to protect against combustible gases, vapours, mists and dusts.

Bull

- A leading player in a global growth market with high barriers to entry
- Resilience from ability to combine comprehensive product range in systems solutions
- Wide customer and regional spread

Bear

- Intensely competitive, especially in components business
- Reputational risk with safety relevant products
- Exchange rate exposure (80% of revenue outside Germany)

Analyst

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EDISON

ROFIN-SINAR Technologies

Quality at a price

ROFIN has been a pioneer in laser technology for more than 35 years and has a global installed base of over 45,000 units. Following a strong three-year recovery, 2012 saw a setback due to market weakness in Europe and China. The shares look fully valued at current levels.

Laser-sharp fundamentals

ROFIN is a leading developer, manufacturer and marketer of lasers and laser-based technologies. It is fundamentally strong with net cash, a research-driven business model and global sales exposure. At a lower rating the shares look a sound long-term investment, as sales of high-growth products (ie fibre optic and low-power COL2 lasers) expand and China is fully penetrated.

Results for Q2 and Q3

Recent results have been somewhat mixed. Q213 was characterised by margin pressure and a continued drag on results from weak demand in Europe and China. Notably, the product mix deteriorated, with units sold rising 38% y-o-y to 1,260, yet sales only growing by 1.3%. Q3 results showed a marked improvement, with net sales rising to $139.1m (+6% y-o-y) driven by sales related to Macro Applications (+8%) and Components (+15%). However, the book-to-bill ratio deteriorated to 0.95x (Q2: 1.05x).

Management is confident that margins will increase in Q4 as fibre laser manufacturing costs are reduced and the semiconductor and consumer electronics markets start to improve (together with Photovoltaics these account for 33% of sales). Consensus expects PBT margins to fall to 8.7% in 2013 (2012: 9.7%) and then recover to 11.6% in 2014.

Valuation: Fully valued

The stock currently trades on a 2014 P/E c 15x, which reflects a substantial recovery in PBT margins to 11.6%. However, margins may be slower to recover than expected and consensus EPS for 2014 could be downgraded further. The company is not expected to pay a dividend near term.

Consensus estimates

Year end	Revenue ($m)	PBT ($m)	EPS ($)	DPS ($)	P/E (x)	Yield (%)
09/11	597.8	87.1	2.06	0.00	11.8	N/A
09/12	540.1	52.4	1.20	0.00	20.3	N/A
09/13e	550.9	48.0	1.19	0.00	20.5	N/A
09/14e	589.5	68.2	1.65	0.00	14.8	N/A

Source: Thomson Reuters

General industrials

Price €19.00
Market cap €536m

Share price performance

Share details

Code	RSTI
Shares in issue	28.2m
Net (debt)/cash ($) as at Jun '13	101.96m

Business description

ROFIN-SINAR is a leader in the design and manufacture of laser-based systems for industrial use. Its key customers are in the automotive, machine tooling and semiconductor industries. The stock is quoted in Frankfurt and on NASDAQ.

Bull

- Financial strength
- Research-based business model
- Global sales exposure

Bear

- Price pressure in fibre lasers
- Risk to 2014 consensus earnings
- Fully valued at current price

Analyst

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EDISON

SAG Solarstrom

Solar supplier and operator

SAG Solarstrom's project business of constructing and supplying photovoltaic plants is supported by high-margin segments such as services and power production. The group offers services for the complete life cycle of photovoltaic plants and produces solar energy. It has 117 of its own photovoltaic power plants, with total power production of over 26.8MWp. Founded in 1998, the company has more than 15 years' experience and has installed approximately 8,000 plants.

Targeting low risk markets

The group has been pursuing international expansion in attractive low-risk markets by implementing large-scale projects and positioning itself as both a ground-mounted and rooftop specialist, thereby reducing the dependency on markets with a higher saturation level. Management took two important steps in H113 as a result of the increasingly difficult market environment in Europe: to accelerate the internationalisation of project activity outside Europe and to discontinue the loss-making business, Partner Sales. The secondary market business, integrated energy projects and power production were also combined in a new business area.

Recent results

The group reported continued implementation of projects at home and abroad in H113, despite the market environment, which remained difficult and volatile. The group reported a positive EBIT of €0.5m in Q213, although the net loss for H113 was €6.3m, due to project pre-funding costs and unrealised contributions from a UK project. In H113 24% of sales were achieved in Germany, 67% in the UK and 9% in other countries. The 2013 annual installation volume forecast is confirmed at more than 117MWp and a positive operating result is expected.

Valuation: P/E premium offset by yield and discount to book value

The company trades on a prospective P/E of c 23x for 2013, which is a significant premium to the market, partly explained by the difficult trading conditions. However, it currently trades in line with the last reported book value and has a forecast dividend yield of c 5%.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	261.8	(4.6)	(0.48)	0.13	N/A	4.6
12/12	188.6	2.2	0.09	0.00	31.3	N/A
12/13e	166.9	2.1	0.12	0.13	23.5	4.6
12/14e	187.6	5.6	0.29	0.13	9.7	4.6

Source: Thomson Reuters

General industrials

Price €2.82

Market cap €37m

Share price performance

Share details

Code	SAG
Shares in issue	13.1m
Net (debt)/cash (€) as at Jun '13	(125.5m)

Business description

SAG Solarstrom is an independent developer, supplier and servicer of photovoltaic plants, installing plants of all sizes, designed individually for their customers, in Germany and abroad.

Bull

- Covers the complete photovoltaic life cycle, including servicing
- International experience building utility size PV power plants
- Further expansion of its own power plant portfolio

Bear

- Difficult market environment in Europe
- Partner sales retail business discontinued
- Loss of €6m in H113 despite sales of €63m

Analyst

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EDISON

SKW Stahl-Metallurgie

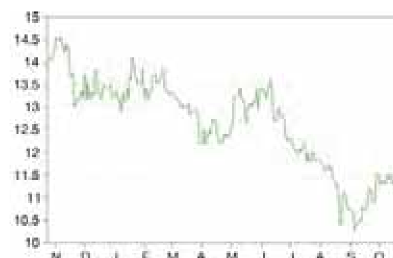
General industrials

Positioned for recovery

SKW is experiencing reduced demand from its customer base, reflecting lower global steel production volumes currently. Its global manufacturing footprint and completed investment programme puts SKW in a strong position when this pattern reverses and it has financial flexibility with which to develop the group further.

Price	€12.21
Market cap	€80m

Share price performance



Share details

Code	SK1
Shares in issue	6.5m
Net (debt)/cash (€) as at Jun '13	(75m)

Business description

SKW Stahl-Metallurgie Holding (SKW) has leading positions with the steel producing industry internationally as a supplier of specialist materials and services. The group comprises the Cored Wire division (c 46% of group revenue) and Powder and Granules (c 44%). Quab (c10%) produces reagents mainly used to produce industrial starch which is used in paper manufacturing.

Bull

- Leading market positions
- Broad international footprint
- Low financial gearing

Bear

- Weak steel production in major markets served
- Cautious demand outlook for H2 production
- Limited exposure to China

Analyst

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Actions taken to offset the effects of weaker markets

Steel production in SKW's leading markets (EU, US and Brazil) fell by 5.1% in the first half of 2013. Accordingly, SKW experienced lower volumes, compounded by passing through lower input costs to leave H1 revenues down by 20% (slightly less in Q2). The group EBIT margin was 1.8% (down 210bp) and although disappointing indicates that significant action was taken to preserve profitability despite lower activity levels. In fact gross margins increased in the period (+230bp to 31.3%) from greater focus on higher value added products and improved mix. There is ongoing caution regarding market demand levels in the remainder of the current year. In the absence of a recovery in the steel economy, management indicates that revenue and EBITDA in FY13 are unlikely to attain FY12 levels (though H2 is expected to exceed H1). Efficiency actions taken are expected to benefit results in FY14.

Investment benefits to come through

While the global steel production picture is currently challenging, this should not detract from SKW's global manufacturing structure of 16 facilities (plus 2 in an Indian JV) located in a mix of traditional and emerging markets. It has completed a significant investment expansion and investment phase and the implications of this are twofold. Firstly the benefit of newer plants can feed in progressively as market conditions improve and, secondly, this should enhance cash flow through both lower capex spend and rising profitability. SKW has continued to generate positive profits and free cash flow during the down cycle and remains conservatively financed (net debt to equity of 0.66 at the end of June). Hence, SKW has the flexibility to continue to build its global positions and, in particular, emerging market exposure.

Valuation: Expected FY15 recovery

SKW's share price has weakened in the last quarter, having traded in the €12-14 range for the first six months of the year. The current year P/E rating acknowledges reduced earnings but, on existing estimates, this compresses rapidly in FY14 with the expectation of an accelerating recovery. Consensus estimates suggest a lower current year yield of c 3%.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	428.9	16.2	1.86	0.50	6.6	4.1
12/12	404.6	6.1	0.65	0.50	18.8	4.1
12/13e	385.7	7.4	0.58	0.42	21.1	3.4
12/14e	399.4	13.3	1.18	0.40	10.3	3.3

Source: Thomson Reuters

EDISON

Softing

Automotive electronics and industrial automation

Within its particular niches Softing has established a strong position in the global automotive and process automation sectors. It is benefiting from three key trends: the increasing complexity of electronics in both premium and budget cars; the rise of fracking and associated requirement for equipment controlling drilling operations in an efficient manner; and greater adoption of gas turbines in electricity generation. This is enabling it to report revenue and earnings growth despite weakness in the eurozone.

H113 performance shows EBIT margin expanding

H113 sales rose by 5% year-on-year to €25.5m. Automotive Electronics revenues grew by 11%, sharing in the good fortune of German premium automotive manufacturers. We note that segmental sales are not related to the volume of vehicles sold but rather the amount of on-board electronics. Industrial Automation revenues were flat. Lack of investment in factory automation in Germany, which is typically skewed towards the second half, was offset by growing demand from global customers in the process automation sector including General Electric for gas turbine controls, ABB and Baker Hughes in the oil and gas industry and new business with large customers in Asia. EBIT jumped 29% to €3.1m, boosting EBIT margin by 2.2pp to 12.2%. This resulted from a combination of product mix as the Automotive Electronics segment focused on newer, higher-margin products and projects such as software licences as well as a higher proportion of development being undertaken by the Romanian subsidiary. After the dilutive effect of the 2012 capital increase, earnings per share rose by 17% to €0.35. Net cash, including marketable securities, increased by €0.7m to €12.8m end H113, despite an increase of almost 25% in product development costs.

On track to achieve another record full year result

Softing expects higher sales and earnings in the Industrial Automation segment in H213. Management raised guidance to sales of more than €55m and €6m EBIT (previously around €54.3m and €5.4m). The group is working on several interesting project queries from new customers, which could result in sales of mid-seven digit euros in 2014 and 2015. Management is aiming for €100m revenues in four to five years achieved through a combination of organic growth and acquisition, probably outside Germany.

Valuation: Trading in line with peers

The share price has more than doubled from €6.68 in November 2012 and is now on P/E multiples that are in line with the average for its peers, limiting the potential for upward movement in the short term.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	41.1	4.2	0.57	0.27	24.9	1.9
12/12	49.4	4.9	0.59	0.27	24.1	1.9
12/13e	54.0	6.2	0.70	0.30	20.3	2.1
12/14e	60.0	6.9	0.79	0.30	18.0	2.1

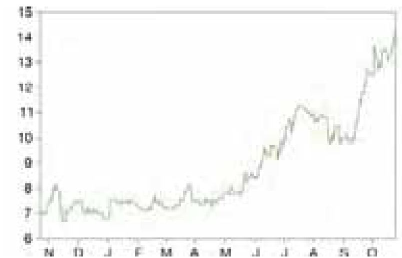
Source: Thomson Reuters

General industrials

Price €14.22

Market cap €92m

Share price performance



Share details

Code	SYT
Shares in issue	6.4m
Net (debt)/cash (€) as at Jun '13	12.8m

Business description

Softing's Industrial Automation division (50% H113 revenues) provides customised industrial communications solutions and products for the process and manufacturing industry. The Automotive Electronics division (50% H113 revenues), with over 80,000 installations worldwide, specialises in diagnostics, measurement and testing of in-vehicle electronic networks.

Bull

- Technically differentiated product
- Development of export markets
- Lower-cost development in Romania

Bear

- Southern European automotive industry weak
- German industrial automation sector cautious about investment
- Dilutive impact of FY12 capital raise

Analyst

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EDISON

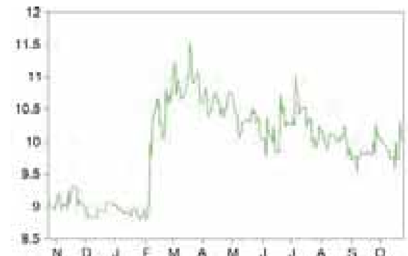
Washtec

Positive H2 outlook

General industrials

Price	€10.05
Market cap	€141m

Share price performance



The first half results reflected the various challenges in WashTec's core European markets, including limited financing opportunities for individual operators and the impact of poor weather – particularly the floods experienced by key markets towards the period end – on wash counts. Interim revenues at €139.9m (H112: €142.6m) did include some negative forex effects and a lower contribution from core Europe, particularly Germany and France, which was partly offset by year-on-year growth in Asia-Pacific and Eastern Europe. Most positively, the group order book at end June was higher than 12 months earlier.

Cost cutting to address margin pressure

Despite the mixed market backdrop, WashTec increased gross margins in the first half from 58.1% to 59.7%; gross profit was 1% ahead y-o-y at €83.6m. That reflects changes to the product mix, with sales of new and used equipment down 6% y-o-y at €72.5m, but revenues from chemicals and operator businesses were ahead by 10% and 7% respectively. However, personnel costs were €3.2m higher at €53.1m due to higher wage and pension costs; the group personnel expense ratio was 38% (H112: 35%). That put pressure on the EBIT margin, which was 2% in the first half (H112: 4%), and the pre-tax margin was 1.5% (H112: 3.4%). A series of cost-cutting initiatives are expected to benefit these measures from FY14.

Revenue outlook underpinned by better order book

The interim statement included a positive outlook for the second half, based on a higher mid-year order book, which should result in a 5-6% EBIT margin. Performance in the eurozone is constrained by the continued limited access for individual operators to finance to fund expansion. The performance from Asia-Pacific is mainly derived from Australia, a stable market, with only a small contribution so far from growth markets such as China.

Valuation: Forecasts and valuation

The group anticipates stable revenues this year at a 5-6% EBIT margin, but does not expect the second half to fully offset a slower first six months. Initiatives to cut expenses are expected to benefit future periods. WashTec's forecasts see further weakness in core European markets, but better performances from North America, Eastern Europe and Asia-Pacific. The shares have drifted this year in line with consensus estimates and the current rating looks fair, pending positive news flow.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	293.3	(11.8)	(1.04)	0.00	N/A	N/A
12/12	301.5	16.5	0.72	0.58	14.0	5.8
12/13e	302.3	14.0	0.68	0.30	14.8	3.0
12/14e	309.5	16.3	0.81	0.36	12.4	3.6

Source: Thomson Reuters

Share details

Code	WSU
Shares in issue	13.9m
Net (debt)/cash (€) as at Jun '13	6.4m

Business description

Headquartered in Augsburg, Germany, WashTec is a global provider of vehicle washing equipment. It has over 40 years of experience in the carwash industry and provides a range of services, from spare parts delivery to 24-hour self-staffed maintenance.

Bull

- Stable revenues; margins to benefit from cost-cutting initiatives
- Improving order book despite tough markets
- Diversifying revenues into faster growth markets

Bear

- 81% of revenues generated in Europe
- Core markets still affected by financial crisis
- Higher employee costs affecting margins

Analyst

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EDISON

Wacker Neuson

So far, so good

Although flattered by one-off factors, the scale of Q2 pick-up, eg EBITDA +20%, is all the more welcome after a weak start to 2013, and strengthens confidence in management guidance of double-digit EBITDA gain for the year as a whole, even if consensus forecasts appear demanding. To Wacker Neuson's credit, its global footprint and strategic alliances are mitigating pressures from tough European markets and intensifying competition, while robust finances (28% gearing at June) allow continued expansion and a generous dividend policy.

Q2 bounce back

The quarter to June saw double-digit revenue advances across all business segments and core regions, which is impressive, notwithstanding the benefit of orders delayed from the previous period by harsh weather and the imminent landmark triennial Bauma trade show. In particular, growth in compact equipment (excavators, wheel loaders, dumpers etc), the company's largest operation, was driven, as planned, by demand from outside Europe, while the Americas, both North and South, were again the company's star turn thanks to buoyant economic activity. Progress at the bottom line was checked by a hike in SG&A and R&D expenses (maintained share of Q2 revenue), largely because of the Bauma trade fair, as well as pressures on pricing.

Consensus estimates may be optimistic

Post-Q2 guidance of full year EBITDA margin ahead of 2012 assumes a particularly strong showing in the second half, given the collapse in Q1 margin (down by a third). While management may reasonably justify such confidence by reference to a good order book, "positive signs" in key markets and further efficiencies, consensus forecasts, which are somewhat bolder, suggest little room for error. For example, the required improvement in EBITDA margin (likely at least c 3bp on 12% in H212) appears even more demanding when set against the level achieved (13.6%) in the second quarter, itself a bumper period but for Bauma trade fair costs.

Valuation: Suitably cautious

The limited share price recovery (+14% over the last three months) from the sharp reverse in Q2 suggests investor preoccupation with uncertainty in key European agricultural and construction markets, rather than faith in apparently positive financial forecasts. Such scepticism may be justified even if Wacker Neuson is doing the right things, eg coherent business plan and sound finances. It should be noted that the 2011 PBT below is after €10.8m reversal of brand impairment.

Consensus estimates						
Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	991.6	120.3	1.22	0.50	9.6	4.3
12/12	1091.7	77.8	0.77	0.30	15.2	2.6
12/13e	1182.6	96.9	0.99	0.35	11.8	3.0
12/14e	1276.3	114.6	1.18	0.40	9.9	3.4

Source: Thomson Reuters

Industrial support services

Price €11.71

Market cap €821m

Share price performance

Share details

Code	WAC
Shares in issue	70.1m
Net (debt)/cash (€) as at Jun '13	(254.7m)

Business description

Wacker Neuson is a leading manufacturer of branded light and compact equipment for a wide range of industries, principally construction and agriculture.

Bull

- Global presence with over 40 affiliates and 5,200 dealers worldwide
- Comprehensive product range covering entire production process
- Important strategic alliances, notably with Claas and Caterpillar

Bear

- Macroeconomic uncertainties in Europe (c 70% of sales)
- Exposure to weather
- Highly competitive

Analyst

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Media & entertainment

Sector focus: Media & entertainment

Analyst: Fiona Orford-Williams

Digital continues to lead growth

RTL's successful IPO in Frankfurt in April refocused investors' attention on the shift that is taking place in the way viewers consume content and the threats and opportunities for broadcasters and content owners. Broadcasters have new ways to engage with their audiences on multiple platforms, often simultaneously. They also have the opportunity to sell both new and library content to new digital channels. Audiences can be engaged for longer and across different platforms by creating digital extensions leveraged off existing content material. Questions of monetisation and ROI are still unresolved, with various models undergoing continuous appraisal. Axel Springer's use of online paywalls and freemium models is not creating the level of pushback that might have been anticipated in a somewhat conservative market, with additional content availability – such as the Bundesliga coverage – driving conversion.

The transition programme as digital builds inevitably means some cannibalisation of budgets from traditional media. In a recent report on the media and entertainment industry, PwC estimated the overall value of the German market at €64.5bn, forecasting growth at 1.8% CAGR to 2017. Within this, the traditional media sector is forecast to grow by just 0.7%, with the higher market growth within digital pushing the overall total ahead. The largest element of the total market size is the consumer spend, including the cost of fixed/mobile access, spending on eBooks, television or content subscriptions.

The advertising sector shows a similar spending trend, but from a current position where the traditional media, particularly print, still accounts for a disproportionately high percentage of the overall market. While overall media advertising spend per head in the German market is not dissimilar from other markets at $319 versus the UK at $347, both well behind the US level of $540, the picture in terms of digital ad spend per internet user is well adrift. In Germany, the latter figure stands at $97 versus the UK at $201 and the US at $174 (source: eMarketer).

As data management becomes more developed and targeting more focused, the value to brand advertisers should increase, while the basic per impression cost for bulk ad serving continues to fall. The increasing prevalence of mobile within the German market, with penetration gradually moving up the age cohorts, should also lift spending on mobile internet advertising ahead of spend on fixed by around 2015, according to PwC. However, social media has not grabbed Germans' imagination in the same way as it has in other Western markets, with only just over half of internet users being regular users of social network sites. Among social network users, Facebook has less prevalence than in other markets, where it has an established presence at just 24.6% of the population in 2012.

The always on, anywhere, anytime consumption of content, and the marketing opportunities it presents, continues to fundamentally change the way the industry functions.

EDISON

Axel Springer

Leading digital media group

Axel Springer has been ahead of the curve on its transition to a digitally-driven business, pro-actively managing the retrenchment of traditional print. The high market recognition and reach of its key brands is enabling the group to monetise its content through advertising, with early indications that the content paywall models are working well. The disposal of the regional titles and large parts of the magazines in Germany, subject to regulatory approval, together with the partnership arrangements elsewhere in the business, give substantial firepower for further acquisitions. The additional investment costs of the accelerated transition to digital will have an impact on current year EBITDA and earnings but improve longer-term sustainability.

Branding and content

Bild is one of the most recognised of any consumer brands in its home market, with an H113 reach in print of 12.2m and 9.8m unique visitors online – a self-evident attraction to mass advertisers. The Freemium online model introduced in June, with subscriptions to access exclusive content, will facilitate audience segmentation, particularly regarding the multimedia bundles with the Bundesliga. The metered model introduced for Die Welt in December 2012 has already delivered an increase in ad revenues and increased reach, despite being first mover in its domestic market. Both core brands have existing multimedia brand extensions, giving the opportunity for further audience segmentation and increasing the potential ad revenue base.The Digital Classified segment provides the largest element of EBITDA within Digital Media, at the highest margin. The group has been building a portfolio through organic growth and acquisition, leveraging group synergies to drive market positioning and returns. The partnership approach, with General Atlantic holding a 30% minority stake in the division, allows for larger transactions due to their financial contribution, but also brings the benefit of experience and expertise in valuation and less familiar geographies. The disposal of the regional titles and magazines is a major step change for the business model and will allow investors to focus on the core strengths of the brand portfolio.

Accelerated transition investment

The current year will see a step up in the costs associated with the accelerated digital transition coupled with an increase in the level of restructuring expense associated with the decline in the traditional print business. A 'single-digit percentage' decline in EBITDA is therefore expected, with a greater impact at the earnings level due to the minority interests.

Valuation: Large discount to international peers

Axel Springer is currently valued as a print business in a declining market with a digital business alongside. While growth in EBITDA is constrained by the costs of transition in the short term, the scale of discount to the international digital-led media-owning peers on our preferred measure of EV/EBITDA is overdone at around 50% in the current year coming in to 35% by FY15 on market forecasts.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	3184.9	421.4	2.62	1.70	17.0	3.8
12/12	3310.3	401.5	2.41	1.70	18.5	3.8
12/13e	3382.1	424.2	2.63	1.72	16.9	3.9
12/14e	3065.2	429.3	2.55	1.75	17.5	3.9

Source: Thomson Reuters

Media & entertainment

Price	€44.54
Market cap	€4407m

Share price performance

Share details

Code	SPR
Shares in issue	98.9m
Net (debt)/cash (€) as at Jun '13	(423.4m)

Business description

One of the leading publishers in Europe (best known for Bild and Die Welt), Axel Springer is focusing on growing its digital portfolio, which already accounts for 40% of turnover.

Bull

- Early mover in digital transfer
- Strong consumer-facing brands
- Partnership arrangements give additional firepower

Bear

- Drag from decreasing print circulation
- Limited short-term EBITDA growth
- Earnings diluted by minorities

Analyst

Fiona Orford-Williams

Media & Entertainment

EDISON

Splendid Medien

Entertaining Europe

Splendid Medien is benefiting from the growing demand for entertainment content and a strong product line-up. As a leading independent distributor in its core markets, it is well placed to acquire new product and to exploit its library on new digital platforms, as well as in its traditional home entertainment and cinema markets. Splendid aims to achieve double-digit growth over the next several years, although results depend in part on the timing and success of releases, reflected in a reduction in 2013 guidance in August. The balance sheet is sound and medium-term prospects promising.

Strong market position

Splendid Medien is one of the biggest independent entertainment distributors in German-speaking markets and Benelux. Historically, its core strength was in home entertainment, but in recent years it has also invested in higher-profile films for cinema release, such as the highly successful 'Expendables' titles. DVD and Blu-ray still dominate the German market with a 90% share, but digital is growing rapidly and accounted for 9% of Splendid's H1 Content sales. It is an aggregator for iTunes and also has its own video on demand (VoD) platform, Videociety. It has a very experienced management team and works with a broad range of partners, both for products and with its Services division.

Financials depend in part on film release timings

Revenue increased by 20% in 2012 and by 30% in H113, to €28.4m. Home entertainment performed strongly in H113 and offset a slightly disappointing half for cinema releases (notably 'The Last Stand'). In August, Splendid reported that a number of film releases had shifted into 2014 and reduced the 2013 sales guidance to €53-56m (previously €58-61m). EBIT margins depend in part on the mix of releases; EBIT increased by 10% in H113, but the full year is now expected to be slightly below 2012 at €3.8-4.2m (previously €4.4-4.9m). However, analysts expect growth in 2014 to be helped by the release of major titles such as 'Expendables 3' and 'Sin City 2'. Film investment more than doubled in H113 to €10.4m and although the balance sheet is strong, we expect some fund-raising to meet the group's expansion plans.

Valuation: Value in content

After a strong share price rise in 2011-12, there has been some reverse in 2013. Brokers remain positive for the medium term given the earnings potential from content exploitation. Based on an EV of €25.5m and FY14e EBITDA of €4.8m (post-content amortisation), the EV/EBITDA is only 5.3x versus an industry average of c 11.5x – Splendid Medien's small size versus leaders such as Lions Gate and Entertainment One only explains some of the difference. The free float is about 35%.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	41.8	3.8	0.53	0.10	4.2	4.5
12/12	50.1	3.4	0.37	0.10	6.0	4.5
12/13e	55.1	3.2	0.26	0.10	8.5	4.5
12/14e	68.5	3.9	0.31	0.10	7.1	4.5

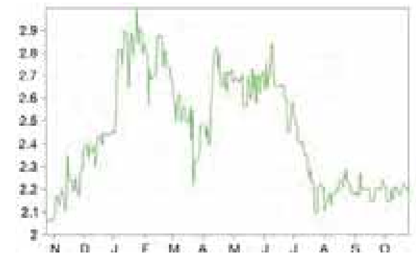
Source: Thomson Reuters

Media & entertainment

Price €2.21

Market cap €22m

Share price performance



Share details

Code	SPM
Shares in issue	9.8m
Net (debt)/cash (€) as at Jun '13	(3.5m)

Business description

Splendid is a media group operating primarily in German-speaking Europe and Benelux. Content (93% of sales) acquires and distributes entertainment content via home entertainment (DVD, Blu-ray, VOD) and cinema. Services (7% of sales) include digitisation.

Bull

- Growing demand for entertainment content
- Strong position in key territories, broad product range
- Management expertise

Bear

- Results depend on timing and success of releases
- DVD market in decline (will digital fully offset this?)
- Content investment may not deliver the expected returns

Analyst

Jane Anscombe

Media & Entertainment

EDISON

Telegate

A dynamic local search company

The directory assistance market is transitioning away from print and telephony on line. This transition has weighed on top-line growth in recent years. However, the traditional DA service continues to make an important contribution to profitability as the new media services are developed; in 2012 the new media offer was re-launched. It has been received well by customers and is feeding significantly lower churn and higher average revenue per customer; profitability in this division has started to improve and it is expected to break even at the end of 2013.

Headline results mask improving fundamentals of new media business

H113 revenues declined 18% to €37.0m (DA -24%, Media -9%), EBITDA declined 30% to €5.2m with DA down 31% to €7.4m and the Media loss improving 34% to €2.1m. Although headline figures continue to weaken, this masks to an extent the improving fundamentals of the new media business. Telegate has been undergoing a transition since 2011 when its first new media services were launched. Alongside its classic DA service (11880), which accounts for 57% of sales, it now has a portfolio of new media assets including the internet portals 11880.com and klickTel.de; klickTel CD ROMs software solutions; DA services for mobile apps (its apps are pre-installed on all Vodafone and Nokia smartphones); website design, business advertising and search engine marketing via its distribution brand Telegate MEDIA (the largest Google re-seller in Germany). In 2012, the new media offer was re-launched with the introduction of a free website design offer, which is having considerable success; 56% of new customers are taking up the website offer (19% in H112) and 65% are moving to 24-month contracts (39% H112). The benefits of this new strategy are starting to become evident - churn was reported down 26% in H1 and with more customers moving to 24-month contracts, sales efficiency has improved. The product continues to evolve. A mobile service was launched in December 2012, and a lead guarantee tool is planned for Q413, which should drive further improvements in sales efficiency and churn. EBITDA break-even for the new media division is targeted for the end of 2013. Management guides for 2013 revenues down 15% to 20% with full year group EBITDA of €10-12m in 2013 and 2014.

Valuation: Strong balance sheet

Despite the investment being made in the new media franchises, it is cash generative and even after the payment of a special dividend on the 27 August, the balance sheet remains strong (€40m cash end August 2013). This is likely to be invested in business development, M&A and ongoing dividend payments; in 2012 and 2013 the ordinary dividend was 25c - a 4% yield which if repeated should support the valuation as the company transitions.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	110.0	4.6	0.18	0.35	34.4	5.6
12/12	92.7	74.2	2.46	2.00	2.5	32.3
12/13e	74.8	(2.9)	(0.13)	0.35	N/A	5.6
12/14e	71.5	5.6	0.25	0.35	24.8	5.6

Source: Thomson Reuters

Media & entertainment

Price	€6.20
Market cap	€118m

Share price performance

Share details

Code	TGT
Shares in issue	19.1m
Net (debt)/cash (€) as at Jun '13	82.4m

Business description

Telegate is a directory assistance group with a 40% market share in telephone DA services in Germany. The classic telephone DA service (11 88 0) accounts for 65% of sales, and the balance is derived from a range of new media activities.

Bull

- Leading provider in large German market
- New media business engine for future growth
- Dividend underpins valuation

Bear

- Classic service in decline
- More competition online
- Further investment required in new services

Analyst

Bridie Barrett Schmidt

Media & Entertainment

Pharmaceutical & healthcare

Sector focus: Pharmaceutical & healthcare

Analyst: Dr Mick Cooper

Growth returns

After a disappointing FY12, this year has generally been a good year for healthcare investors. The TecDAX has risen by over 30% since the start of the year, due in part to MorphoSys, Sartorius and Evotec. Other healthcare companies that have performed well this year include BioTest, Epigenomics and Formycon.

This is driven by a combination of risk capital returning, sentiment improving and companies achieving significant progress. The sector in Germany has also benefited from US healthcare investors looking to achieve better returns, as valuations in their domestic sector soared during the course of the year. Both MorphoSys and Evotec have benefited from this and, understandably, used it to raise additional capital to provide them with operating flexibility.

In the US, there are concerns about a bubble having being been created and there are signs of valuations coming down. Infinity Pharmaceuticals Inc, which has one product in Phase II development, saw its share price rise from $35 at the start of the year to $50 in April, but the shares have since fallen back to $15 despite promising data on its lead product in June. However, there does not seem to be a valuation bubble in Germany. Companies have seen their share prices rise in response to promising developments and valuations are generally well supported by the underlying value in the companies.

In the coming year, we believe returns are likely to be more modest overall, and largely driven by operating success. There is a risk that valuations in the US could come under pressure, which could result in adverse sentiment towards the sector. But as share price increases have been more modest in Europe and are generally fully supported by the progress of the companies, negative US sentiment should probably not spill over to Europe, and we are optimistic that investors will continue to make attractive returns in the sector.

In the longer term, the well documented underlying drivers remain in place, notably the demographic shifts and the large number of still unmet medical needs, but pricing pressures are unlikely to abate. In this environment, it will be the companies that can demonstrate genuine innovation or material cost benefits that will thrive as reimbursement agencies like Germany's G-BA examine the therapeutic merits of treatments more closely.

Within our universe there are a number of companies that appear well placed. For example, aap Implantate's innovative Loqteq trauma plating system could offer a number of advantages over its closest competitors in a market segment estimated at up to $1bn in the US alone. Even modest success could lead to a doubling of sales over the next seven years.

Mologen's anti-cancer immune therapies are good examples of innovations that offer worthwhile benefits. A deal on the lead project, MGN1703, could transform the company's outlook and allow the progression of other promising pipeline projects. Also in the oncology area, Magforce's novel treatment, designed to directly treat the tumour from within, while sparing surrounding healthy tissue, looks set to have material newsflow during the year; as should 4SC, where the focus on resminostat in liver cancer could pay dividends.

EDISON

4SC

Pharma & healthcare

(Bio)marker of success

4SC's investment case now hinges on the successful development, partnering and commercialisation of resminostat for front-line hepatocellular carcinoma (HCC). There is a clear rationale for targeting front-line HCC and, as such, we are optimistic that 4SC will secure financing and/or a partner to conduct a pivotal Phase IIb/III study. We project peak resminostat sales of €789m. Our valuation is €122m or €2.41/share.

Restructured and realigned

Following a strategic review and restructuring, 4SC is now focused on exploiting the potential of resminostat in front-line HCC and, as such, the company aims to secure additional financing and/or partnerships (ex-Japan) to run a pivotal US/EU Phase IIb/III trial. Separately, 4SC's two active Phase I products (4SC-202, 4SC-205) have delivered promising interim data and will render final results in Q413.

Refocused – resminostat for front-line HCC

We anticipate FDA agreement on the resminostat Phase II/III study in front-line HCC in Q413 and, pending further capital, trial initiation in 2014. There is a clear rationale for targeting front-line HCC with the resminostat/sorafenib combination: positive Phase II data in second-line HCC; a potential biomarker (ZFP64) linked to survival benefit with resminostat therapy; harmonisation with Japanese partner Yakult's front-line HCC strategy; and a significant contestable market. We project a 2019 approval and peak sales of €789m across the US, EU and Japan.

Cash runway to Q314

4SC's net funds of €9.2m (at end Q213) provide a cash runway into Q314. This funds 4SC through important milestones (preparations for the pivotal resminostat trial, 4SC-202 and 4SC-205 Phase I readouts) but not execution of the key HCC study. We model 2013 R&D and SG&A spend of €12m and €3.9m respectively, with significantly lower operating costs in 2014. We estimate that c €20m will be required to fund the Phase IIb portion of the planned Phase II/III study in HCC.

Valuation: rNPV of €122m

We value 4SC at €122m, or €2.41 per share, based on a risk-adjusted NPV analysis. Our rNPV includes resminostat at €108.5m, an indicative contribution from Phase I assets of €20m, year-end net cash of €4.5m, and deducts €11m of central costs. Potential Phase IIb development (vidofludimus) or divestment of non-core programmes (4SC-203, 4SC-207) would represent upside to our valuation.

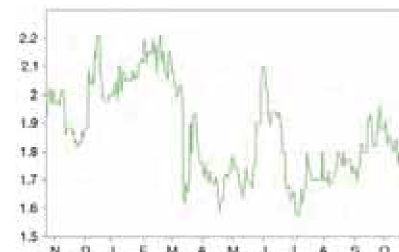
Edison estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	0.8	(17.3)	(0.43)	0.00	N/A	N/A
12/12	4.4	(11.8)	(0.26)	0.00	N/A	N/A
12/13e	5.0	(11.7)	(0.23)	0.00	N/A	N/A
12/14e	5.0	(7.1)	(0.14)	0.00	N/A	N/A

Source: Edison Investment Research

Price	€1.71
Market cap	€86m

Share price performance



Share details

Code	VSC
Shares in issue	50.4m
Net (debt)/cash (€) as at Jun '13	9.2m

Business description

4SC is a Munich-based drug discovery and development company focused on the development of small-molecule compounds for treating cancer and autoimmune diseases. Its R&D pipeline has three NCEs in active clinical development.

Bull

- Resminostat showed evidence of efficacy in Phase II trial in HCC
- Resminostat partnered with Yakult Honsha (Japan) in €133m deal
- 4SC Discovery has seven active R&D partnerships

Bear

- 4SC requires further capital (financing or deal) to initiate pivotal resminostat trial
- 4SC could fail to secure partner or financing for vidofludimus
- Limited free float (c 30%) with a single large shareholder, Santo Holding, having a 48% stake

Analyst

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EDISON

aap Implantate AG

Unlocking Loqteq's potential

The Loqteq launch and a simplified business should help drive future top-line growth and margin expansion. aap's expertise in Biomaterials and Trauma innovation, especially Loqteq, should both help cement its position as a specialised medtech player, supported by strategic relationships with global medtech partners and physicians. Loqteq's innovative design and potential clinical and cost advantages should drive uptake in a >$1bn market.

Loqteq is the key growth driver

Loqteq is aap's internally developed and recently launched trauma plating system. Loqteq's locking and compression technology improves fracture repair by providing more stable fixation, even in weak bones or multi-fragment fractures. The existing market for locking plate technology is estimated at up to $1bn in the US alone. Loqteq's innovative design could offer a number of advantages over the nearest competitor, including increased surgeon flexibility and potential clinical advantages on plate removal. We conservatively forecast peak Loqteq sales of around €40m by 2020.

Simplified and specialised

Since 2009, aap has been working to focus and simplify the company around the key areas of Biomaterials (bone cements) and Trauma. These businesses take advantage of aap's existing relationships with leading orthopaedic surgeons and OEM partnerships with global medtech players (including Zimmer and Smith & Nephew). Both these help drive innovation and demonstrate aap's know-how and manufacturing capabilities.

Share price broadly underpinned by base business

Our forecasts suggest that if aap only grows revenues 1-2% in the medium to long term, with limited margin expansion, our DCF valuation is €44m or €1.4/share, just below the current share price. This suggests the share price is broadly underpinned by the existing business even in the absence of Loqteq.

Valuation: €100m based on DCF

We value aap at €100m or €3.3/share, based on a DCF valuation. We forecast 10% 2012-15 revenue CAGR and a doubling of current sales to around €80m by 2020, driven by Loqteq. In addition, we assume EBITDA margins can expand around 200 basis points over the next two to three years. In the longer term, we expect operating margins to reach around 25% from 14% today.

Edison estimates

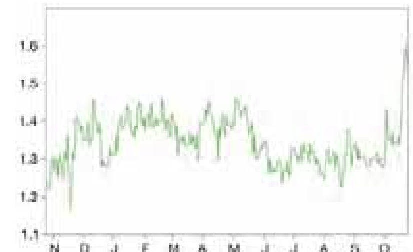
Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	29.2	2.7	0.08	0.00	18.9	N/A
12/12	36.4	4.9	0.14	0.00	10.8	N/A
12/13e	40.1	6.0	0.17	0.00	8.9	N/A
12/14e	44.5	6.7	0.20	0.00	7.6	N/A

Source: Edison Investment Research

Pharma & healthcare

Price	€1.51
Market cap	€46m

Share price performance



Share details

Code	AAQ
Shares in issue	30.7m
Net (debt)/cash (€) as at Jun '13	0.6m

Business description

aap is a German medical technology company focused on developing, manufacturing and selling products for bone fractures. These include the recently launched Loqteq trauma plating system, in addition to bone cements.

Bull

- Loqteq offers a number of advantages over the nearest competitors
- Biomaterials expertise supported by OEM agreements with global medtech partners
- Simplified business should help drive margin expansion

Bear

- Loqteq is entering a competitive market place dominated by large players
- Driving Loqteq uptake could require significant resources
- Could take time to see sales growth and margin expansion

Analyst

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EDISON

Eckert & Ziegler

Diversified, defensive

Eckert & Ziegler's (EUZ) core activity is selling isotope products to a range of industries. This provides the foundations for the growth of its radiation therapy and radiopharma divisions and M&A. Growth will mainly be driven by acquisition, but there is still significant scope for organic growth. It most recently acquired the US brachytherapy (sealed-source radiotherapy) business of Biocompatibles for $5m plus milestones, which gives it a platform to sell its afterloaders in the US and management believes it should be earnings accretive in 2014.

Isotope Products a stable core

The outlook for EUZ's largest and most profitable division, Isotope Products, is for stable revenue of c €50m in 2013. Despite the 5% drop in sales in H113, the H2 order book is full. While there is little scope for price increases, demand is stable as the company is a key supplier and has a diversified customer base: sales drivers are components for medical imaging devices and for high-temperature drill heads. Organic synergies are created through supply of raw isotopes to its radiopharma/radiation therapy divisions.

Growth opportunities in medical applications

EUZ is targeting organic growth by focusing on high-margin growth areas, notably in radio-diagnostics. The key product in this segment is FDG (fludeoxyglucose), a radioactive material for use in PET scanning, particularly for tumours. It intends to accelerate sales of high-margin radiopharmaceutical manufacturing contracts based on growth in the use of PET as a diagnostic and by developing new isotopes. It also plans to grow sales of devices used to synthesise radio-diagnostic materials, selling to academic and pharmaceutical customers.

M&A options

EUZ has a low-risk policy towards M&A and is targeting bolt-on acquisitions. Debt financing is the most likely option; potentially it could raise c €80m in debt. Its acquisition of the brachytherapy business of Biocompatibles for $5m cash and sales-related milestones (FY12 sales of €8m) is a typical size and takeout multiple. It intends to restore production in 2013 and will market the implants to its European customer base. The acquisition also provides a US platform for the commercialisation of its afterloaders. The acquisition will incur €1.2m one-off start-up costs in FY13 and is forecast to be accretive in 2014.

Valuation: Rated as a defensive stock

The FY13 P/E ratio of c 15x EPS falls to 11x in FY14 and is undemanding in comparison to the European medtech peer group average of 18x FY13. Eckert & Ziegler is viewed as a defensive play; re-rating depends on the delivery of its growth targets.

Consensus estimates

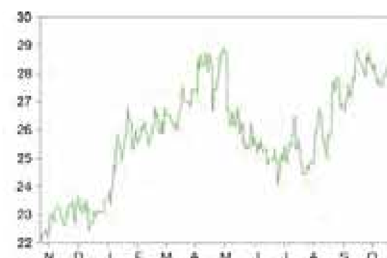
Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	116.2	20.2	1.98	0.60	14.8	2.0
12/12	120.0	17.5	1.95	0.60	15.0	2.0
12/13e	124.3	17.2	1.98	0.62	14.8	2.1
12/14e	134.7	21.6	2.62	0.77	11.2	2.6

Source: Thomson Reuters

Pharma & healthcare

Price €29.31
Market cap €155m

Share price performance



Share details

Code	EUZ
Shares in issue	5.3m
Net (debt)/cash (€) as at Jun '13	(7.44m)

Business description

Eckert & Ziegler is a producer of radioactive materials, chiefly in cancer therapy, industrial measurement, nuclear imaging and radioactive waste disposal. It operates in four business segments; isotope products, radiation therapy, radiopharma and environmental services.

Bull

- Cancer implants acquisition entry point to the US brachytherapy market
- High level of expertise in handling radioactive materials is a barrier to competition
- Broad and diversified portfolio of products

Bear

- Diversified business rather than a pure-play medtech company
- Little scope for price increases for core product ranges
- Limits on public funding of radiotherapy and radiopharma equipment

Analyst

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EDISON

Epigenomics

Pharma & healthcare

Epi proColon – awaiting the FDA decision

Price	€4.59
Market cap	€55m

Share price performance

Share details

Code	ECX
Shares in issue	12.0m
Net (debt)/cash (€) as at Jun '13	3.56m

Business description

Epigenomics is a German molecular diagnostics company focused on early detection of cancer. Its main product is Epi proColon, a blood-based DNA test for colorectal cancer that uses a sophisticated PCR assay to detect methylated copies of the septin9 gene.

Bull

- Blood-based test likely to be preferred above existing standard stool-based FIT testing
- Commercial agreement with established CRC test distributor
- In the US, CRC detection screening is recommended on an annual basis

Bear

- Cost and reimbursement may be key issues
- Lots of CRC tests with similar specificities and sensitivities, especially for early stage CRC
- PMA application from competitor, Exact Sciences, is in final stages

Analyst

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Epigenomics has submitted the final PMA module to the FDA for approval of Epi proColon and the final review of its blood-based colorectal cancer (CRC) test is underway. In preparation for the potential roll-out of Epi proColon, the company has just signed a co-promotion agreement with Polymedco, the largest provider of CRC tests in the US. A key advantage of Epi proColon over other CRC diagnostics is that it is a blood-based test, which could encourage greater compliance with testing. The US is the key market for the product, as annual CRC screening is recommended by the American College of Gastroenterology. Our valuation is €84m.

Epi proColon PMA filing complete

The PMA submission for Epi proColon is under final review by the FDA and a date for the meeting of the advisory board is expected to be set shortly. The PMA was based on two large studies that showed sensitivity (across all CRC stages) of 68-72% at a specificity of 80-82%. However, the overall performance data may not be the key determinant of success in the market. The ability to identify early stage CRC and the presumed patient preference for blood- versus stool-based tests may prove to be as important. In the US, screening for CRC is recommended systematically for the over-50s.

Epi proColon commercial agreement

Epigenomics' co-promotion agreement with Polymedco gives it access to the distributor's specialised CRC sales force, as well as its existing client base of over 1,500 laboratories in North America. The terms of the deal include a transfer pricing agreement and staged sales milestone payments. Polymedco is the market leader in CRC tests, with a range of diagnostics, including FIT (faecal immunochemical tests) and should help Epigenomics maximise the potential of Epi proColon.

Financial and cash outlook

Epigenomics' H113 cash position stood at €3.56 and it has since entered into a financing agreement with Yorkville to issue up to €5m in convertible notes and carried out a 4.2m private placing, which should fund the company into FY14, by which time the FDA should have approved Epi proColon.

Valuation: Regulatory news is a key catalyst

Our risk-adjusted NPV for Epigenomics is €84m. The key catalyst for the shares is the regulatory decision by the FDA.

Edison estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	1.4	(8.3)	(1.00)	0.00	N/A	N/A
12/12	1.0	(10.9)	(1.30)	0.00	N/A	N/A
12/13e	2.0	(11.1)	(1.10)	0.00	N/A	N/A
12/14e	13.1	(3.7)	(0.30)	0.00	N/A	N/A

Source: Edison Investment Research

EDISON

Evotec

Fast forward with fresh funds

Evotec is making good progress with its Action Plan 2016, which aims to double revenues by 2016, increase operating margin to c 15% and develop a more mature pipeline. We expect the company to deliver FY13 revenues of €93.4m, with its drug discovery services business (EVT Execute) contributing €70.8m and its innovative pipeline programmes/alliances (EVT Integrate/Innovate) adding another €22.6m. The recent €30m equity raise will allow Evotec to accelerate its innovative drug discovery strategy. Our DCF valuation is €480m.

Accelerating CureX/Target X strategy

Evotec recently raised €30m in new equity to accelerate its CureX/TargetX strategy, which is focused on discovery alliances with academia. The additional capital allows Evotec to build more alliances more rapidly, thereby enhancing its long-term growth prospects. There are now three CureX and two TargetX initiatives, one of which (CureBeta) has been partnered with Janssen. Further collaborations and/or deals are likely in Q413.

Pipeline set to grow

Evotec now has six partnered drugs in clinical development following Boehringer Ingelheim's initiation of Phase I for a cancer compound. Another four could enter the clinic over the next 18 months, including an EVT100 product for treatment-resistant depression partnered with Janssen, which could start a Phase II study in Q413/Q114. Trials with its most valuable assets are advancing well; data from the second Phase III trial with DiaPep277 in Type1 diabetes are due in Q414 and data from the Phase IIb trial with EVT302 in Alzheimer's disease in Q115.

FY13 revenue guidance of €90-100m

Revenues in H113 were €36.7m, with underlying sales of drug discovery services rising by 6% to €33.3m and gross margin excluding milestones, upfronts and licence revenues increased by 9.1% to 23.5%. Evotec maintained its revenue guidance of €90-100m (Edison projects €93.4m) as it remains on track to earn significant milestones in H213 (€6m Boehringer Ingelheim milestone recently announced). We estimate that Evotec will earn milestone, upfront and licence revenues worth >€15m in H213 vs €3.4m in H113.

Valuation: DCF valuation of €480m

We value Evotec at €480m (€3.68 per share) based on a DCF analysis of drug discovery alliances (€183.1m), key clinical-stage programmes (€228.5m) plus net cash (€68.7m). Upcoming catalysts could include Q3 results (November), further CureX/TargetX partnerships and the potential start of the EVT100 Phase II trial.

Edison estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	80.1	7.5	0.06	0.00	65.8	N/A
12/12	87.3	1.3	0.00	0.00	N/A	N/A
12/13e	93.4	8.0	0.06	0.00	65.8	N/A
12/14e	100.9	8.3	0.06	0.00	65.8	N/A

Source: Edison Investment Research

Pharma & healthcare

Price €3.95
Market cap €516m

Share price performance

Share details

Code	EVT
Shares in issue	130.6m
Net (debt)/cash (€) as at Jun '13	38.7m

Business description

Evotec is a drug discovery business that provides outsourcing solutions to pharmaceutical companies, including Boehringer Ingelheim, Pfizer and Roche. It has operations in Germany, the UK and the US.

Bull

- Innovative pipeline and partnerships to drive long-term growth
- Growing and differentiated drug discovery services business
- Well capitalised to accelerate its innovative drug discovery strategy

Bear

- Services business growth dependent on outsourcing strategy of pharma companies
- Pipeline products could fail in clinical trials
- Progress of partnered products/programmes depends on licensing partners

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EDISON

Formycon

Pharma & healthcare

Biosimilar opportunities

Formycon is preparing to exploit the emerging opportunity for biosimilars. By 2020, protein-based therapeutics with sales of >$70bn will lose patent protection. Its first two biosimilar programmes are progressing well and could be partnered in 2015. There should be significant demand for Formycon products because of the size of the markets and the challenges of developing biosimilar products with the correct characteristics.

First biosimilars could be partnered in 2015

Formycon is focused on using its knowledge of protein-based therapeutics to develop biosimilars to compete against established branded products once they are not protected by patents. Its first two biosimilar programmes are under way and it is preparing to expand its product and technology pipeline. The first programme could be partnered in mid-2015 after completion of Phase I, the key value inflection point for biosimilars, and the second six months later.

Formycon has expertise to develop biosimilars

The development costs and risks associated with biosimilars are lower than with novel biologicals and a product can enter the clinic in only two years. However, the process is much more complicated than that of generics for small molecules, so the price of biosimilars will probably be c 30% below the branded original. Formycon's experience in analysing protein structures in detail and its extensive libraries of cell lines should enable it to produce biosimilars with characteristics sufficiently similar to the original drug.

Biologicals with sales of >$70bn to face competition

Biologic drugs with sales of over $70bn are expected to lose patent protection and face competition from biosimilars by 2020. The regulatory route for biosimilars is also becoming clearer following the EMA's decision in September 2013 to approve Hospira's and Celltrion's Inflectra as a biosimilar to infliximab (Remicade), which generated sales of $6.2bn in FY12.

Valuation: EV of c €50m

The EV of Formycon is c €50m and the company had €4.6m in cash at H113. The current valuation reflects the potential size of the biosimilar market and relatively low development risks and costs.

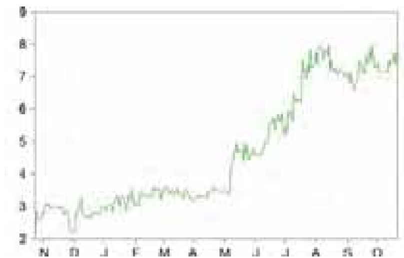
Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	0.1	(1.3)	(0.18)	0.00	N/A	N/A
12/12	0.1	(2.4)	(0.33)	0.00	N/A	N/A
12/13e	0.6	(7.2)	(0.97)	0.00	N/A	N/A
12/14e	0.8	(9.8)	(1.01)	0.00	N/A	N/A

Source: Thomson Reuters

Price	€7.81
Market cap	€58m

Share price performance



Share details

Code	FYB
Shares in issue	7.4m
Net (debt)/cash (€) as at Jun '13	4.6m

Business description

Formycon is a biopharmaceutical company, based in Munich, which is focused on developing biosimilars to compete with existing biological drugs.

Bull

- Experience of company and management
- Biologic products with sales of >$70bn to lose patent protection by 2020
- Biosimilars expected to be priced at modest discount to branded originals

Bear

- Regulatory uncertainty for biosimilars
- Complex characteristics of original product cannot be replicated
- Competition from originals and other biosimilars

Analyst

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EDISON

MagForce

A new approach for cancer therapy

The successful €33.5m fund-raising provides the necessary funds to conduct the important, new glioblastoma study with NanoTherm, which already has regulatory approval. This study is crucial for this approved brain cancer therapy to gain acceptance throughout the medical community, and to increase usage. Furthermore, the appointment of a new CEO strengthens the leadership and could help entry into the US market.

Capital increase secures funding for new study

MagForce successfully completed a €33.5m capital increase in March. After reducing debt, MagForce has €13.5m net cash (at end June 2013). This cash will primarily be used to finance the new glioblastoma study with NanoTherm.

Glioblastoma study designed to raise acceptance of new therapy

The planned new NanoTherm glioblastoma study, for which approval was received in May 2013, should help clinicians better understand the potential of NanoTherm and subsequently drive sales growth. The study has been designed in collaboration with a number of German and EU key opinion leaders and should help raise awareness, increase clinical experience and grow the NanoActivator installed base.

Experienced CEO strengthens the management team

Dr Ben Lipps was appointed CEO on 1 September. Dr Lipps was previously CEO of Fresenius Medical Care since 1999 and has over 30 years' in medtech, with significant senior management experience in the US.

Thermal treatment of solid tumours

NanoTherm therapy is designed to directly affect the tumour from within while sparing surrounding healthy tissue. Nanoparticles are injected into the tumour and heated by an external magnetic field generated by NanoActivator, which either destroys or sensitises tumour cells to other treatments. The product is approved in Europe for the treatment of brain tumours, including glioblastoma multiforme.

Valuation: Building out NanoTherm will be key

MagForce's share price has increased by over 30% since the start of this year, reflecting strengthened financials and leadership. The current enterprise value is around €70m based on its market cap and net cash of €13.5m. Executing on strategy and driving sales of NanoTherm will be key for valuation.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	0.0	(8.6)	(1.99)	0.00	N/A	N/A
12/12	0.0	(5.7)	(1.35)	0.00	N/A	N/A
12/13e	N/A	N/A	N/A	N/A	N/A	N/A
12/14e	N/A	N/A	N/A	N/A	N/A	N/A

Source: Thomson Reuters

Pharma & healthcare

Price	€3.61
Market cap	€86m

Share price performance

Share details

Code	MF6
Shares in issue	23.9m
Net (debt)/cash (€) as at Jun '13	13.5m

Business description

MagForce is a German medtech firm with a European approved nanotechnology to treat brain cancers. NanoTherm therapy involves injecting NanoTherm particles with a magnetic core into the tumour. These are activated by an external magnetic field to produce heat and thermally destroy the tumour.

Bull

- EU approved nanotechnology-based cancer therapy
- Limited treatment options for brain cancers
- Financial position and management team strengthened

Bear

- Slow commercial roll-out to date
- Need to increase installed base of expensive NanoActivators
- Limited free float

Analyst

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EDISON

Medigene

Solid base for franchise building

Medigene has a solid base to embark on a new phase of development, initially focused on progressing RhuDex to proof-of-concept data in primary biliary cirrhosis (PBC), a potentially lucrative orphan drug market. A robust Phase II trial design and positive regulatory feedback should help support the partnering and/or fresh financing required to complete the study. Sales of Veregen (genital warts) could increase significantly over the next few years, while SynCore Biotechnology is now responsible for developing EndoTAG-1 in triple negative breast cancer. A recently completed 4:1 share consolidation improves Medigene's transaction capacity.

RhuDex an attractive proposition for PBC

RhuDex, a small molecule CD80 inhibitor and previously in development for RA, is now being studied in PBC, an autoimmune disorder of the liver and an attractive orphan drug market. A Phase II study is scheduled to start in H114 and report headline results by end 2015, with a robust trial design that could ultimately make RhuDex a valuable and attractive asset to support partnering and/or fresh financing.

Veregen poised for growth

Veregen (topical ointment for genital warts) is licensed globally to 17 partners and Medigene receives supply chain revenues, royalties and milestones (€3.4m Veregen revenues received in FY12 based on €12m in-market sales). Already marketed in the US, Germany, Austria, Spain, Switzerland, the Netherlands, Serbia and Taiwan, multiple new country launches (particularly in Europe) are planned for 2013/14, providing a platform for significant sales growth (peak sales estimated at $100m).

EndoTAG-1 still in play

SynCore is now a strategic investor in Medigene, with a 6.09% stake as a result of granting global rights to EndoTAG-1 (€2.4m from 2.4m shares sold to SynCore). A global Phase III study of EndoTAG-1 in triple negative breast cancer is expected to start in H214. Finalising the study design, the production of study material and obtaining regulatory approvals are the key next steps.

Valuation: €81m or €8.16 per share

We value Medigene at €81m, or €8.16 per share (post the 4:1 share consolidation), based on a total rNPV of its products (Veregen, EndoTAG-1 and RhuDex) at €66m and €15m in net cash as at end Q213. With cash reserves estimated at €11m by the end of 2013, Medigene is funded to the beginning of 2015.

Edison estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	4.7	(15.5)	(1.06)	0.00	N/A	N/A
12/12	6.3	(10.3)	(1.12)	0.00	N/A	N/A
12/13e	8.5	(9.4)	(0.99)	0.00	N/A	N/A
12/14e	11.0	(8.9)	(0.91)	0.00	N/A	N/A

Source: Edison Investment Research

Pharma & healthcare

Price	€3.81
Market cap	€38m

Share price performance

Share details

Code	MDG1
Shares in issue	9.9m
Net (debt)/cash (€) as at Jun '13	15m

Business description

Medigene is a German biotech company. Veregen (genital warts) is marketed through global partners, while RhuDex (autoimmune disorders) and EndoTAG-1 (breast cancer) are in development.

Bull

- PBC represents a potentially lucrative market
- Veregen sales could increase significantly
- EndoTAG-1 fully financed by SynCore

Bear

- No clinical data for RhuDex in PBC
- Competitive pipeline landscape in PBC
- Fresh financing requirement by end 2014

Analyst

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EDISON

Mologen

A strengthening pipeline

Mologen develops anti-cancer immune maintenance therapies aiming to give long-lasting responses. The investment case rests on a deal on the lead project, MGN1703, which has high-quality, Phase II metastatic colorectal cancer data showing a statistically significant reduction in the hazard ratio (HR) of progression. An MGN1703 deal would fund development of MGN1601, a cell-based vaccine for metastatic renal cancer. MGN1601 could be an orphan drug with no generic version possible sold directly by Mologen. An MGN1703 lung cancer Phase II is ready to start. A melanoma gene therapy (MGN1404) is expected to start trials soon.

MGN1703 – colorectal cancer maintenance

MGN1703 is a stable, dumbbell-shaped DNA molecule (dSLIM) that activates innate immunity. Final data in metastatic colorectal cancer (mCRC), taking into account investigator assessments, showed the HR for Progression-Free Survival on maintenance was 0.55 (p= 0.04) and the HR for Progression-Free Survival from start of induction therapy was 0.50 (p= 0.02). This is better than initially concluded. Mologen aims to partner MGN1703, but may progress into Phase IIb/III independently of a deal. An IND has been filed with the FDA for a US Phase I.

MGN1601 – cell-based renal cancer vaccine

This allogeneic renal cancer cell vaccine plus dSLIM has reported data for a 19-patient Phase I metastatic renal cancer safety study, ASET. Immune effects were detected in some patients and one partial response was seen with some stable disease; some of these patients are still alive. There are good data for a small, initial study. Mologen is developing a Phase II trial. If MGN1601 is approved, Mologen plans to sell direct. Generic competition will not be possible as this is a unique, proprietary cell line, so MGN1601 could yield valuable long-term profits.

New projects

Mologen has started development of MGN1404 for melanoma. This uses a DNA construct to deliver the TNF gene into the tumour as a high-velocity, fine water jet. The design for a lung cancer indication for MGN1703 has been finalised, so a trial may start in H114. Both of these could be important, major new indications.

Valuation: MGN1703 deal value of €18.20

Mologen's core value depends on an MGN1703 deal, giving a value of €18.20 per share, assuming 45% MGN1703 and 25% MGN1601 probabilities. Cash on 30 June was €19.9m; this is sufficient to last until the end of 2014.

Edison estimates

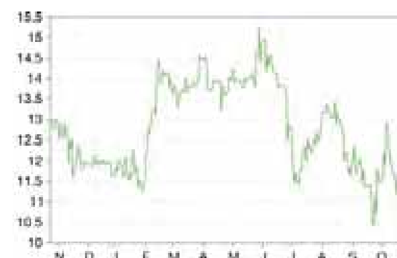
Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	1.4	(7.0)	(0.57)	0.00	N/A	N/A
12/12	0.6	(7.2)	(0.52)	0.00	N/A	N/A
12/13e	1.0	(10.2)	(0.67)	0.00	N/A	N/A
12/14e	1.0	(13.7)	(0.89)	0.00	N/A	N/A

Source: Edison Investment Research

Pharma & healthcare

Price	€10.61
Market cap	€164m

Share price performance



Share details

Code	MGN
Shares in issue	26.1m
Net (debt)/cash (€) as at Jun '13	19.9m

Business description

Mologen's lead products are MGN1703 for metastatic colorectal cancer maintenance and MGN1601, an allogeneic renal cancer cell vaccine. Both use dSLIM and MIDGE.

Bull

- Cancer immunotherapy has gained commercial credibility with potential partners during 2013
- dSLIM is a novel immune stimulant with good Phase II data in colorectal cancer
- Strong pipeline of new products being developed

Bear

- Needs a good deal on MGN1703 to progress project and securely fund MGN1601
- Small, expert team will be stretched with too many projects
- Still small patient numbers, so bigger confirmatory trials needed using immune response criteria

Analyst

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EDISON

MorphoSys

Foundations for growth

MorphoSys has been transformed over the last year as a result of the major licensing deals with GlaxoSmithKline and Celgene. Its main value drivers are now its proprietary pipeline, especially MOR103 and MOR208. The deal with Celgene for MOR208 also sets a path for MorphoSys to have its own European sales force. The company has a broad clinical pipeline with 19 antibodies and a strong cash position, so it is not dependent on any single programme and can invest in its pipeline and technology.

€450m deal with GSK for MOR103

MorphoSys partnered its lead antibody, MOR103 (GM-CSF antibody), in June 2013 with GSK in a €450m deal for rheumatoid arthritis (RA), multiple sclerosis and potentially other indications. Promising Phase I/II data in RA were presented in Q412, which suggested that MOR103 was an efficacious treatment with a fast onset of action and well tolerated. GSK is currently investing heavily in developing a portfolio of RA products, including co-developing sirukumab (IL-6 antibody) with Janssen (J&J).

$818m deal with Celgene for MOR202

In June, MorphoSys also signed an $818m co-development deal with Celgene for MOR202 (CD38 antibody), which is in a Phase I/II for multiple myeloma and has potential in other haematological indications. MorphoSys will contribute a third of the development costs, but has retained co-promotion rights in Europe and will earn tiered double-digit royalties in other countries.

Solid foundations for further growth

MorphoSys has a strong cash position of c €370m, a long-term alliance with Novartis, from which it earns c €40m pa, a leading antibody discovery platform and 19 antibodies in clinical development, including its three proprietary antibodies (MOR103, MOR202 and MOR208). Following the licensing deals and an €84m capital raise, it is expected to increase investment in its product pipeline and technology platforms, which could include M&A or licensing deals.

Valuation: DCF valuation of €1.42bn

In August we raised our valuation to €1.42bn (€59.45/share) from €804m, largely because of the deal with Celgene. MOR103 and MOR202 are the main value drivers, but there are other antibodies with considerable potential in the pipeline, such as MOR208 in haematological cancers, Roche's gantenerumab for Alzheimer's disease and Novartis' bimagrumab for muscle loss and weakness.

Edison estimates

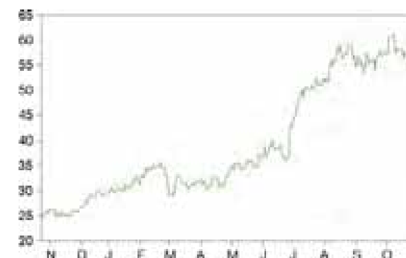
Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	81.7	20.9	0.69	0.00	82.0	N/A
12/12	51.9	7.1	0.28	0.00	202.1	N/A
12/13e	77.2	10.3	0.38	0.00	148.9	N/A
12/14e	63.7	(21.3)	(0.54)	0.00	N/A	N/A

Source: Edison Investment Research

Pharma & healthcare

Price	€56.60
Market cap	€1478m

Share price performance



Share details

Code	MOR
Shares in issue	26.1m
Net (debt)/cash (€) as at Jun '13	146.2m

Business description

MorphoSys is a German biotechnology company that uses its proprietary antibody platforms to produce human antibodies for therapeutic use across a range of indications for partners and to develop its own pipeline.

Bull

- Major product collaborations with GSK and Celgene
- Long-term antibody alliance with Novartis
- Broad pipeline with 19 products in clinical trials

Bear

- Risk of important products failing clinical trials
- Competition from other antibodies in development
- Antibody production is increasingly a standard process

Analyst

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EDISON

Paion

German Phase II anaesthesia trial underway

Paion has started a 90-patient Phase II study for its sedative remimazolam in general anaesthesia. Remimazolam has potential as an alternative to standard propofol because of its favourable side effect profile. In Japan, partner Ono Pharmaceutical is expecting Phase II/III anaesthesia data in Q114 needed for the European data package. We have maintained our valuation at €56m.

German anaesthesia trial underway

Paion has started a Phase II trial of GABAA receptor agonist remimazolam in its lead European indication, general anaesthesia, following approval from the German regulator. Paion will finance the trial at a cost of €2-4m, and the results are due in H114, and it is in discussions to find a partner for a pivotal European Phase III trial. Remimazolam has potential to meet the need for new anaesthetics with rapid onset/offset, but which have lower risk of cardiopulmonary events than the standard of care propofol.

Ono's anaesthesia readout due Q114

Paion's Japanese partner Ono has halted its Phase II trial of remimazolam in ICU sedation due to an unclear pharmacokinetic (PK) result in long-term administration. Ono is committed to the programme in ICU sedation and will carry out preclinical studies and PK modelling to determine if dose adjustment is needed for further trials. However, the data from Ono's Phase II/III trial in general anaesthesia are due in Q114 and will be used to support EU and US partnering discussions. The Japanese launch in general anaesthesia is set for 2015.

H113 financials and cash outlook

H113 income of €1.5m comprised €1.2m from Yichang for the technology transfer of remimazolam and a €300k option fee from the agreement with Hana Pharma. After repayment of a net €7m loan, Q213 cash and equivalents stood at €14.2m. We forecast that Paion is funded into Q115, including the cost of the Phase II study.

Valuation: Maintained at €56m

We maintain our DCF valuation at €56m, including €37m for remimazolam, €14m of H113 cash and €4m for the GGF2 with Acorda. We have made minor adjustments to short-term costs based on company guidance. The shares have risen c 60% over the past quarter, but near-term data on remimazolam could serve as new catalysts.

Edison estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	3.2	(6.9)	(0.26)	0.00	N/A	N/A
12/12	26.8	18.6	0.64	0.00	1.3	N/A
12/13e	1.5	(9.0)	(0.34)	0.00	N/A	N/A
12/14e	1.0	(5.8)	(0.21)	0.00	N/A	N/A

Source: Edison Investment Research

Pharma & healthcare

Price €0.86

Market cap €22m

Share price performance

Share details

Code	PA8
Shares in issue	25.4m
Net (debt)/cash (€) as at Jun '13	(14.16m)

Business description

Paion is a biopharmaceutical company specialising in the development of anaesthesia products. It has four NCEs in its R&D portfolio, with the lead programme, remimazolam, partnered with Ono Pharmaceutical in Japan and Yichang in China.

Bull

- Unmet need for new, safer anaesthetics
- Partnerships in place in Japan, China and potentially Korea
- Near-term data catalysts general anaesthesia, European Phase II trial underway

Bear

- EU partnering discussions have not been fruitful to date
- Japanese studies of remimazolam in ICU sedation under review
- Remimazolam is sole product

Analyst

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EDISON

Sartorius

French connection

Sartorius has a leading brand in laboratory equipment and consumables. It is investing in the fast-growing bioprocessing market through innovation and acquisition, and this division now accounts for almost 60% of sales. Many bio-pharmaceuticals are in development and Sartorius is now one of an oligarchy of suppliers. Sartorius holds 74% of Sartorius Stedim, a French quoted bioprocessing company, with a total market capitalisation of €1.8bn valuing the Sartorius shareholding at €1.3bn: about much as the parent.

Bioprocessing, an engine for growth

Bioprocessing rose to 58% of sales to Q3 13 with 6.1% growth. It generated 69% of total EBITDA to Q313. Bioprocessing's speciality is single use products like fermentation bags and filters, which are 75% of sales. It is small in purification, where GE Healthcare leads. Once a biopharmaceutical production process is set, around Phase IIa, it is essentially fixed for decades, resulting in long-term revenue streams. This has led to an effective oligopoly and high barriers to entry.

Laboratory Products and Industrial Weighing

The wide range of laboratory consumables and small-scale equipment, like small plastic tubes for molecular biology, pipettes and balances, are subject to wider competition. These were 30% of sales to Q312, down -1.7% and 26% of total EBITDA. Industrial weighing had 11.5% of sales to Q313 down -1.1% with 5% of total EBITDA; its divestment is on hold.

Complex share structures

Sartorius's shares are split 8.5m:8.5m between ordinary and non-voting preference shares. Bio-Rad, a US scientific equipment supplier, holds 33% of the ordinary shares; about 4% are free float. Most trading is in preference shares; 91% are free float. Issue of new shares is blocked by a 50% ordinary share holding controlled by an executor until 2028. Sartorius owns 74% of Sartorius Stedim, its Paris-quoted bioprocessing subsidiary and this can raise cash and do equity deals. To Q313, Stedim's sales were €453m, so comprised 69% of Sartorius's €657m sales.

Valuation: Value mismatch

Sartorius's ordinary and preference share market value totals about €1.4bn. This is 1.7x 2012 revenues and 1.6x annualised Q3 2013 revenues. The historic P/E ratio for preference shares was 29x. Stedim is valued in Paris at €1.8bn, of which Sartorius owns €1.3bn. Hence, the value of Sartorius is largely supported by the value of its holding in its own subsidiary. Stedim is valued at about 3x sales and a P/E of about 26x.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	733.1	76.3	2.44	0.80	34.4	1.0
12/12	845.7	96.5	2.84	0.94	29.6	1.1
12/13e	N/A	N/A	N/A	N/A	N/A	N/A
12/14e	N/A	N/A	N/A	N/A	N/A	N/A

Source: Thomson Reuters

Pharma & healthcare

Price	€84.05
Market cap	€1433m

Share price performance

Share details

Code	SRT
Shares in issue	17.1m
Net (debt)/cash (€) as at Jun '13	(342m)

Business description

Sartorius is an established laboratory and bioprocess equipment manufacturer. The bioprocess division accounts for 59% of sales vs 30% lab products. An industrial weighing unit (11% sales) is for sale. Sartorius owns 74% of Paris-quoted Sartorius Stedim.

Bull

- Covers most aspects of the bioprocessing value chain, although weaker in purification
- Stedim subsidiary market positioning very strong
- Strong pipeline of new products being developed; acquisitions add revenues and growth

Bear

- Hard to break into high margin purification area
- Growth in bioprocessing partly masked by steady but slow lab products sales
- Value structure unbalanced between French and German quotations

Analyst

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EDISON

Stratec Biomedical

A tumultuous 2013

Stratec, based in the Black Forest in Germany, occupies a pivotal, but understated position in global diagnostics, supplying sophisticated instruments to global companies like DiaSorin, Abbott and Siemens. Outsourcing the complex business of integrating clinical assays with a sophisticated instrument enables Stratec's customers to focus on selling their proprietary assays. So far, 2013 has been a hard year with water damage hitting manufacturing in Q2 and a cancelled major contract in Q3, which will affect 2014 revenues. However, the business is strongly placed with long-term customers and will continue to grow profitably.

Outlook for 2013

Management guidance is for revenues of €127-138m in 2013. Edison forecasts 2013 sales as €131m; down on Edison's May 2013 forecast of €140m. System construction may be 50 units fewer than expected at 2,950 worth €92.3m. Other 2013 revenues are forecast at €5m from subsidiaries, €6m from development (from €11m forecast), €26.25m from profitable service parts (formerly €28m) and €1.6m of other revenues. The 2013 EBIT margin guidance is 14.0-15.5% (€17.8-21.5m); Edison's EBIT margin forecast is 15% or €19.7m (May estimate €21.5m).

Revised 2014 guidance and market trends

Sales growth is guided to be between 8% and 12% from 2014. Innovative products such as the digital Quanterix system (now sold for research use with clinical use from H2 2014) may avoid the tough mainstream IVD testing market. A further major deal is still expected in Q4 2013, which might require higher volume manufacturing from 2016/17. The diagnostics market continues to change with increased volatility in orders to Stratec as clients adjust to tighter healthcare budgets. The trend to outsourcing instrumentation development and production continues. In molecular diagnostics, a major growth area, new US reimbursement codes will push sales to automated mainstream labs and away from niche specialist labs.

Valuation: Heading up a slightly lower mountain

Stratec has a strong pipeline of new launches over 2013-15. The current share price appears to indicate an approximate 20x 2013 earnings valuation by the market. Guidance is for revenue growth of 8-12%, but EBIT growth could reach 20-25% if service revenues develop to over €28m. A higher growth rating would be 25x indicating €39.75/share.

Edison estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	116.6	23.7	1.54	0.55	21.0	1.7
12/12	122.4	19.4	1.37	0.56	23.6	1.7
12/13e	131.1	21.7	1.48	0.57	21.8	1.8
12/14e	145.7	28.0	1.90	0.58	17.0	1.8

Source: Edison Investment Research

Pharma & healthcare

Price €32.33

Market cap €380m

Share price performance

Share details

Code	SBS
Shares in issue	11.7m
Net (debt)/cash (€) as at Jun '13	5.8m

Business description

Stratec Biomedical designs and manufactures OEM diagnostic instruments. Design and assembly of systems from modules is in central Germany and Switzerland. There is a US subsidiary, a UK middleware company and a Berlin business.

Bull

- Leading company in design and supply of automated systems to global diagnostics companies
- Consistently profitable, dividends paid
- Significant IP and design element adds value

Bear

- Dependent on a few large contacts for growth; one cancelled in Q3 leading to lower 2014 revenues
- New major contract expected but not yet signed
- Profits largely from service part sales; most cost in upfront R&D

Analyst

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EDISON

WILEX

Focus on partnering

Wilex has an interesting portfolio mix but requires partner support to progress clinical development. The prospects for partnering Rencarex, once it has regained the US rights from its current partner, improved with the subgroup analysis data. Mesupron, a cancer therapy, could also be partnered in the coming months. Recent licensing deals with UCB and Roche have provided validation and financing and Wilex has reduced its costs by selling the US diagnostics division to Nuclea. Further deals could enable Wilex to operate beyond Q314 without issuing new equity.

Rencarex making a come back

Subgroup analysis from the Phase III ARISER study in renal cell carcinoma (RCC) showed that patients with tumours that expressed high levels of CAIX benefited from Rencarex treatments, although the trial overall failed to demonstrate a survival benefit. Wilex is in the process of regaining the US rights from its partner Prometheus, and will then aim to find a new partner, which would fund another Phase III trial to confirm the findings of the retrospective analysis.

Mesupron and other therapeutics

Mesupron, which inhibits the invasive spread of tumours, produced Phase II data on pancreatic cancer in 2010 and breast cancer in mid-2012. Wilex could partner it in the next six months for further development. A MEK inhibitor (WX-554) is in Phase Ib/II and WX-037 (a PI3K inhibitor) is in preclinical development. Wilex partnered an antibody programme to UCB for non-oncology indications. The Heidelberg subsidiary has also licensed a proprietary toxin-linker technology for use in antibody-drug conjugates (ADC) in oncology to Roche.

Limiting cash burn

Wilex is focused on financing and cost control to extend its cash runway. The recent deals with UCB and Roche will hopefully be followed by deals for Rencarex and Mesupron. It also sold its US diagnostics operations to Nuclea in September enabling development of a CAIX companion diagnostic test for Rencarex. It had €9.9m cash at Q313, which should currently enable it to operate into Q314.

Valuation: Base valuation of €1.50/share with upside from deals

Excluding Rencarex, the indicative value is about €1.50/share using a 50% probability of a Mesupron deal. An H213 Mesupron deal with a €15m upfront might take Wilex through FY14 and boost its value by €1.00/share. If partnered, Rencarex could add a further €1.50 per share as the subgroup data looks strong.

Edison estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
11/11	11.7	(13.6)	(65.80)	0.00	N/A	N/A
11/12	16.1	(7.4)	(21.90)	0.00	N/A	N/A
11/13e	13.6	(6.7)	(20.00)	0.00	N/A	N/A
11/14e	5.0	(18.3)	(58.50)	0.00	N/A	N/A

Source: Edison Investment Research

Pharma & healthcare

Price	€1.18
Market cap	€37m

Share price performance

Share details

Code	WL6
Shares in issue	31.3m
Net (debt)/cash (€) as at Sep '13	7.3m

Business description

Wilex develops therapeutic and diagnostic products for cancer. Lead development programmes are Redectane, Rencarex and Mesupron. Its Heidelberg subsidiary sells novel anti-cancer toxin-linker chemistry.

Bull

- Rencarex subgroup data looked highly promising and could rescue the product
- Management has stated that talks on Mesupron are advanced
- Costs have been reduced giving cash into Q314

Bear

- Re-partnering of Rencarex and Redectane complicated by incumbent partners
- Earlier stage pipeline lacks novelty in target choice
- Limited cash resources

Analyst

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Property

Sector focus: Property

Roger Leboff

Performance reflects economic backdrop

The recent strong performance by Germany's real estate market reflects the country's positive economic backdrop, which has attracted increased attention from both domestic and international investors. Asset prices have benefited this year from increased demand for both residential and office space, with the latter market experiencing tight supply. According to agency Savills, demand has been driven by a search by institutional investors for safe havens during the prolonged eurozone recession. It recorded €12.5bn investment in commercial property for the first half of 2013, the best performance since 2008. Office prices were up 5.6% y-o-y at end June 2013.

This year has also seen a progressive shift from retail to office investment. Offices accounted for 39% of total transactions in the first half, close to twice that of the previous year. There was still a 10% increase in retail investment, but it was constrained by a shortage of core institutional assets. Domestic buyers remain key, at around two-thirds of total transactions during H113. Insurance companies and pension funds were the most active, followed by private investors and listed property companies.

Private equity was an important source of assets for sale, as were banks, which continue to unwind troubled portfolios. Savills recorded a six-fold y-o-y increase in investment from Middle Eastern investors. The agent expects further demand from this source, attracted by forecast German domestic GDP growth ahead of much of the rest of Europe. The market has defensive, safe-haven characteristics, which offsets lingering concern over the future of the euro.

The price of residential assets (houses, apartments and residential buildings) was up 4.1% y-o-y (VDP Association of German Pfandbrief Banks), which can be attributed to improving demographics. This contrasts with prolonged falls from 1994-2008. German residential property has since recovered in real terms, by a significant amount in some cities, which has attracted the attention of domestic and international investors. Although the latter has raised concerns about an emerging housing bubble, an alternative view is that the progress so far may simply be a return to more 'normal' market conditions.

The fundamentals are good. Demand for housing in cities such as Berlin and Frankfurt is ahead of the pipeline of new construction, helped by the movement of workers to areas of the country with better job prospects. Average prices at end Q213 were up 6.0% y-o-y for owner-occupied apartments and by 4.9% for residential buildings, the latter seeing 4.6% y-o-y rental growth on new lettings.

This growth may be tempered by increased supply, but is currently supported by an ageing population and immigration, driven by economic difficulties in other eurozone countries. The latter's influence could diminish if concerns over the currency's future receded, or an improved outlook for other European economies drew the attention of less risk-averse investors.

EDISON

ESTAVIS

Berlin region property focus

The most important regional residential property market for the refocused Estavis group is the Berlin region. Its positioning was significantly boosted by acquisition in September last year in a market that has seen the fastest rental and price growth for 20 years. Management sees further advance and seeks additional acquisition opportunities subject to available finance. FY13 saw a return to profit, albeit with the help of transaction and valuation gains, and management expects further progress from the core business without the costs and distraction of reorganisation.

Profit despite restructuring

During the year to 30 June 2013, Estavis implemented its new corporate strategy, which saw it withdraw from project development and marketing listed property to focus residential portfolio management and housing privatisation. The acquisition of c 1,400 flats (net of on-placement of c 1,900 units) in the booming Berlin region takes the proprietary residential portfolio to c 2,100 units. In September, Estavis acquired 80% of J2P, a Chemnitz-based manager of proprietary and third-party portfolios in Saxony. Subsequently, J2P's own portfolio in Saxony has doubled to 320 units. The newly acquired units will be refurbished to target rental and capital growth.

Core growth expected to continue as reorganisation costs fall

Without giving specific guidance, management expects further growth from the core businesses in the current financial year, and for this growth to be enhanced by further significant expansion of its proprietary residential portfolio. That expansion is dependent on access to funding. The privatisation business is also expected to see growing volumes from third-party vendors, as well as from the group's own stock of units held for sale.

Valuation: Growing cash flow supported by NAV discount

Estavis says that its enlarged investment portfolio is immediately cash generative, which without the drag of reorganisation should suggest growing cash flows. Stable and growing income support should provide support to asset valuation, and the existing significant discount to NAV of nearly 50% provides considerable protection even to those investors concerned about concentrated exposure to the buoyant Berlin market.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
06/12	54.1	(2.9)	(0.21)	0.00	N/A	N/A
06/13	120.6	6.2	0.09	0.00	21.9	N/A
06/14e	N/A	N/A	N/A	N/A	N/A	N/A
06/15e	N/A	N/A	N/A	N/A	N/A	N/A

Source: Thomson Reuters

Property

Price	€1.97
Market cap	€36m

Share price performance

Share details

Code	E7S
Shares in issue	18.1m
Net (debt)/cash (€) as at Jun '13	(105.7m)

Business description

Estavis manages a long-term portfolio of c 2,300 German residential properties and is a leader in German housing privatisation services. 2012 saw the group refocus away from project development and marketing listed properties.

Bull

- Low P/NAV
- Refocused on growing core businesses
- Current strength is Berlin region

Bear

- Concentrated portfolio around Berlin area
- Concentration of privatisation clients
- Growth strategy requires significant funding

Analyst

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EDISON

PATRIZIA Immobilien

Integrated real estate investment

Patrizia is well advanced in its development from proprietary property investor and trading-oriented business to a co-investor and provider of management and services. As proprietary investments (and debt) reduces, it targets 80% of profits from services by 2015. The offering to clients includes direct and indirect investments in commercial and residential real estate in Germany, and increasingly across its growing European network.

Services growth continues apace

In Q1, Patrizia led a successful consortium bid for BayernLB's shares in GBW, owner of a 32,000-apartment portfolio (in 2012 it successfully led the acquisition of LBBW Immobilien with 21,000 apartments). The co-investment in GBW will increase recurring asset management fee income, boost purchase fee income for 2013, and takes AUM to €10.2bn, above the €10bn target set for 2015. The UK acquisition of Tamar Capital Group completed in April and has subsequently entered into its first two co-investments, both with Oaktree Capital Management. Q3 results are scheduled for publication on 7 November 2013, after the publication of this document.

Revenue progress, but temporary cost pressures

For 2013, management has guided to an adjusted operating result of €47-49m, a 7-12% increase on 2012, with two-thirds expected to originate from the service segment. Recent portfolio activity suggests that revenue is likely to meet expectations, while debt reduction (target €350m of gross bank debt by year end compared with €436m at H1) is reducing interest costs. However, foreign acquisition integration and compliance with the AIFM Directive is creating temporary cost pressure. The strength of the real estate market also means the group will need to work hard at sourcing investment properties that meet its financial hurdles.

Valuation: Focus on earnings

The group's continuing transformation from property owner to manager and services provider, with lower capital requirements and an increasing stream of stable fee business, renders NAV a less relevant measure of value. For now, the group pays no cash dividend, but offers shareholders reinvestment of earnings back into the group in the form of bonus issues (again planned for 2013).

Consensus estimates

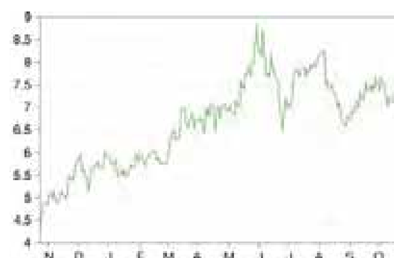
Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	286.4	19.9	0.22	0.00	33.1	N/A
12/12	265.0	28.6	0.40	0.00	18.2	N/A
12/13e	284.5	37.5	0.53	0.00	13.7	N/A
12/14e	235.7	40.0	0.54	0.13	13.5	1.8

Source: Thomson Reuters

Property

Price	€7.29
Market cap	€460m

Share price performance



Share details

Code	P1Z
Shares in issue	63.1m
Net (debt)/cash (€) as at Jun '13	(323.95m)

Business description

Patrizia is a real estate investment house and full service provider, offering direct and indirect investment services in commercial and residential real estate in Germany and Europe. Assets under management are in excess of €10bn.

Bull

- Growing recurring fee base
- Significant European opportunity
- Increasing scale benefits

Bear

- Recurring profitability to be improved
- Near term cost pressures
- Relatively low interest cover

Analyst

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EDISON

TAG Immobilien

Seeking to leverage the strength of the residential market

TAG Immobilien continues to focus on leveraging the strength of the residential market, with large-scale acquisitions of privatised housing portfolios, with asset management potential, in Eastern Germany. TAG is seeking locations which it believes offer positive prospects, that can be enhanced by portfolio improvement, and in areas that can be managed by existing infrastructure. There are continued exits from the commercial portfolio, which is no longer an area of focus. Increasing low-volatility cash flow should drive shareholder returns through attractive dividends and asset growth. The shares trade at a discount to NAV per share, which protects against an unexpected slowing in the residential market.

Strong market fuelled by acquisitive growth

H1 FFO profits, a measure that adjusts for non-cash items such as impairments and valuation movements, increased 92% on H112. Vacancy rates improved (9.3% versus 9.9% in December) and rents increased, while H113 also included the first-time consolidation of TAG Wohnen, acquired at the end of 2012. This acquisition has been integrated and its debt renegotiated (from c 4.25% to c 2.55%). In July, the company repurchased a portion of its outstanding convertible bond, which reduces the dilutive effect on NAV by c 7.7m shares (c 5%). The balance sheet was bolstered by the issue of a €200m non-dilutive debenture at a fixed 5.125%.

Guidance should be exceeded

Management expects to exceed full year guidance of €68m of FFO; the guidance did not include expected TAG Wohnen synergies, the potential for loan renegotiation to further reduce interest costs, or the benefit from improving vacancy. Management also sees a strong pipeline for further residential acquisitions and expects to be able to acquire 10,000 additional units by year end. Of the current c 70,000-unit portfolio, TAG Wohnen added c 11,000 units, and TAG Potsdam added c 25,000 units earlier in 2012.

Valuation: Attractive yield with asset support

TAG shares benefit from an attractive dividend yield that is expected to grow with increasing cash flows, which reflect falling vacancy, increasing rents and scale economies. A c 15% discount to mid-2013 EPRA basic NAV (10% fully diluted, but with convertible bond dilution now reduced) provides additional support, even for investors concerned about slowing growth in residential values.

Consensus estimates

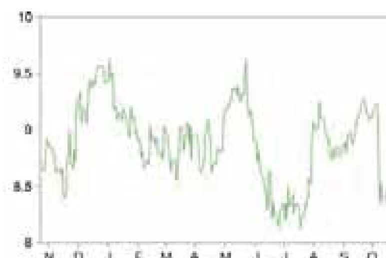
Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	192.7	83.2	0.89	0.20	9.7	2.3
12/12	271.6	203.0	1.60	0.25	5.4	2.9
12/13e	276.3	99.7	0.61	0.33	14.2	3.8
12/14e	275.7	112.1	0.74	0.39	11.7	4.5

Source: Thomson Reuters

Property

Price €8.65
Market cap €1131m

Share price performance



Share details

Code	TEG
Shares in issue	130.7m
Net (debt)/cash (€) as at Jun '13	(2248m)

Business description

TAG Immobilien's operations are focused on the management and development of a growing portfolio of c 70,000 residential properties in urban locations in German growth regions.

Bull

- Attractive yield
- Discount to net asset value
- Strong German residential market

Bear

- Housing affordability has reduced
- Relatively high debt level
- Relatively high supply of equity in sector

Analyst

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EDISON

Youniq

Property

Price	€2.29
Market cap	€24m

Niche player in German student accommodation

Youniq offers investors exposure to the premium end of the high-occupancy, growing German student accommodation market, across 16 sites in 12 cities. Management's strategy is to exploit the whole value chain, generating revenue from development profits, management fees and rental income. The cost infrastructure needs greater scale to achieve profitability. The balance sheet is already strong and the sale of non-student, non-core properties (22% of the portfolio by valuation) is releasing cash. The current discount to NAV is material and we see re-rating triggers through 2013 and 2014.

Exploit German student accommodation opportunity

Youniq is focused on premium students offering higher-end, sole-occupancy units with services such as Wi-Fi, laundry, etc, for an all-in rent (c 23% for these ancillary services). Youniq has a student development pipeline of 1,583 units (36,445sqm), across six sites with an expected annual rental income in excess of €6m. The property-related rental yields assumed in the valuation range from 5.0% to 7.0%. Some of the development sites will be sold and some retained, with a strategic target of a portfolio of rented properties half owned and half managed for third parties. Youniq currently earns rental income from a portfolio of 702 units (20,766sqm), across three sites, with a total annual rental income of €3m. It earns management fees from 985 units (27,823sqm) across seven sites with a capital value of €67m.

Youniq has a historic portfolio of non-student residential and commercial properties. These are being sold steadily at prices close to book value. At the start of August it comprised 12 properties with 159 units (end June 18 properties with 416 units, end 2012 34 properties, 537 units). The cash released will be used to repay debt and to fund further expansion of the student book.

Valuation: Significant discount to NAV may close

At H113 the group's NAV was €60m, well above its current market capitalisation. While it is currently loss-making, has a small market capitalisation and low share trading liquidity, triggers for a re-rating include: (i) delivery of improved earnings and operational leverage, (ii) identification of a pipeline of future projects, (iii) capital return, and (iv) corporate action. The latter two could be a result of the majority shareholder (a closed-end fund with maturity in 2015) wishing to crystallise its position.

Share price performance

Share details

Code	YOU:GR
Shares in issue	10.4m
Net (debt)/cash (€) as at Jun '13	(59.1m)

Business description

Youniq has been operating in the student housing segment since 2009 and is the leading German provider, with 3,270 units under management or in the planning and construction stage. It offers a "plug and study" concept of furnished one-room apartments with all-inclusive rent.

Bull

- Attractive core market
- Clearly identified product
- Triggers for re-rating

Bear

- Strategy is still relatively new and unproven
- Cost over-runs
- Major shareholder uncertainty

Analyst

Mark Thomas

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Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	29.6	(30.5)	(2.31)	0.00	N/A	N/A
12/12	6.3	(1.5)	(0.68)	0.00	N/A	N/A
12/13e	7.4	(0.2)	(3.93)	0.00	N/A	N/A
12/14e	7.5	4.0	0.03	0.00	76.3	N/A

Source: Thomson Reuters

Technology

Sector focus: Technology

Analyst: Dan Ridsdale

Tipping the risk-reward balance

While the German technology sector has not performed as well as its UK, French and US counterparts in 2013, this may change as investors seek out better value opportunities and exposure to a European recovery. A change in earnings momentum may be the key catalyst for this to happen, but there are more encouraging signs emerging on this front.

Small and mid-cap technology stocks have, on the whole, significantly outperformed the market in most geographies in 2013 with the US, UK and French indices appreciating by 24%, 49% and 38% respectively. Performance in Germany has been more muted, with gains limited to 19%.

This outperformance was driven almost entirely by the weight of capital being allocated to the sector. It has certainly not been driven by a broad-based recovery in earnings momentum. Over the past 12 months, earnings estimate downgrades have outnumbered upgrades by 2.5 to 1 across France, Germany, the UK and US. In Germany, downgrades have outnumbered upgrades by 3.8 to 1. We believe this is in part due to the German technology sector being more tied to the domestic, manufacturing-led economy, which, having remained comparatively robust through the downturn, is not accelerating out of the trough as fast as many other segments.

The German market has also not benefited to nearly as great an extent from the inflows of higher-risk capital becoming available as confidence rises and capital is allocated out of the underperforming resources sector. This has resulted in a significant inflation of the multiples being awarded to high-growth technology companies offering exposure to structural growth trends such as big data and cloud computing.

The lack of IPO activity in the German technology sector has also meant that fewer high-growth, innovative companies have entered the German market. So, while we feel that the valuations of many high-growth technology companies are now looking full, for the sector to thrive it needs to be regularly supplemented by the entrance of high-growth companies pioneering innovative technologies or business models. Many of these companies may struggle to grow into their valuations, but a few will and one or two may progress to become global leaders. A persistently risk-averse environment is likely to reduce the probability of such a rising star emerging in Germany.

However, things look as if they are turning. German investor confidence is at a three-year high, which should support an increased appetite for equities and higher-risk/growth stocks. Our conversations with investors in the US and UK also suggest that an increasing number are looking to invest in a European recovery. An increasing number, being put off by sky-high-growth multiples are also looking for growth at a reasonable price (GARP), or recovery ideas, where Germany offers greater potential.

A recovery in earnings momentum may be the final piece in the jigsaw and there may be signs that things are about to turn on this front as well. While downgrades in the German technology sectors have outnumbered upgrades by nearly four to one over the past 12 months, over the past three, the ratio has been one to one.

EDISON

adesso

Germany drives the growth

adesso recorded healthy H1 organic revenue growth of 10%, driven by strong growth from the group's German operations. EBITDA more than doubled as utilisation rates rose across the group's enlarged headcount. adesso has been investing to expand its product portfolio and targeted industries, while also positioning for geographical growth with bridgeheads recently established in Turkey and the US. The stock looks attractive trading on c 10x Thomson consensus FY14 earnings and a c 3.5% yield given the potential for margin expansion combined with a healthy balance sheet position.

Expanding geographically, adding new business lines

The group delivers highly customised IT solutions, which encompass business and IT consulting, software development and managed services, to a range of industry verticals. The targeted industries include insurance, banks and healthcare (which are the largest sectors), along with utilities, public authorities and lotteries, while telecoms has just been added. The group also develops its own proprietary software solutions, including FirstSpirit (a content management system, or CMS) and in|MOTION (middleware for mobile devices). The expansion in the US is focused on sales of the CMS application to North American enterprises.

H1 results: Utilisation rates improve

H1 revenues jumped 16% to €65.3m, including c 10% organic growth and €3.4m from Arithnea, the e-business specialist acquired in March 2012. Revenues in Germany rose 20% to €54.5m, which was above management expectations, while foreign revenues were easier. The EBITDA margin bounced from 2.4% to 4.5%, reflecting stronger utilisation rates among the group's consultants/developers and a recovery from adesso's energy sector activities. H1 operating cash outflow more than halved to €3.2m, while net cash slipped by €5.0m over the six months to €6.0m. Cash flow is typically stronger in H2 - we note that variable salary components for the previous year and the final dividend are paid in H1.

Valuation: A significant opportunity for margin expansion

At the time of the interims, management maintained its FY13 guidance of c €130m revenues and €7.5-8.0m EBITDA (c 5.8-6.2% FY13 margin), which implies a significant jump in H2 profitability. The stock trades on 0.3x consensus FY14 revenues and c 5x EBITDA which looks attractive if management can continue to expand margins and grow revenues.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	106.0	5.0	0.72	0.18	11.5	2.2
12/12	120.5	2.4	0.12	0.18	69.2	2.2
12/13e	132.6	5.5	0.58	0.18	14.3	2.2
12/14e	139.2	8.0	0.84	0.29	9.9	3.5

Source: Thomson Reuters

Technology

Price €8.30
Market cap €48m

Share price performance

Share details

Code	ADN1
Shares in issue	5.8m
Net (debt)/cash (€) as at Jun '13	6m

Business description

adesso is an IT services company that offers consulting and software development services to specific industry verticals. It also develops and sells its own proprietary software products. The Dortmund-based group is one of Germany's largest IT services businesses, with more than 1,200 employees.

Bull

- Healthy H1 organic growth of 10%
- Internationalisation of the business
- Strong balance sheet with net cash

Bear

- Modest single-digit margins
- Recent troubles in utilities sector
- Cash outflow in H1, though this is normal

Analyst

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EDISON

Advanced Vision Technology

Print inspection, process and colour control

Advanced Vision Technology (AVT) has a dominant position in the global packaging and labels market segment. This segment is flourishing as manufacturers of consumer goods such as food processors in developing regions are adopting more sophisticated packaging as their economies evolve, and those in developed regions are using packaging to differentiate their products and gain share in an intensely competitive marketplace. Moreover, AVT's products help packaging manufacturers raise their margins by reducing waste materials and improving efficiency and quality. AVT has a strong presence in both the developed economies of North America and Europe as well as emerging markets in Asia-Pacific and Latin America.

Strategy delivers further growth in H113

H113 revenues grew by 5% year-on-year to $24.7m, driven by higher sales to the Labels and Packaging and Commercial Printing segments. Sales to the Americas grew by an estimated 18% (44% of total), while sales in the Asia-Pacific region were stable (20% of total) and sales in Europe declined by an estimated 6% (36% of total). Gross margin rose by 1.3pp to 54.2% through a combination of product mix, higher volumes and favourable €/US$ exchange movements. Pre-tax profit increased by 25% to $2.6m. The balance sheet is strong, with $22.4m cash (including short-term deposits) and no debt at the end of June 2013.

Continued growth in H213 and beyond

Order backlog at the end of June totalled $17.3m, an estimated 50-65% of which will become revenue in Q313, the remainder during the following three quarters. In August, management reiterated its guidance of US$49-50.0m revenues and US$5.2-5.4m PBT for FY13, which require H213 performance to be similar to H113, suggesting consensus estimates are achievable. We expect this growth to be driven by new product innovation, including PrintVision/Titan, used for inspecting decorative metal sheets that are formed into items such as decorative biscuit tins. This reduces the amount of material wasted, which is critical when the print material is around 80% of total manufacturing costs. Two beta site customers signed acceptance for this system in Q213. Management expects this product to generate further business in H213 and beyond.

Valuation: Trading at a discount to peers

AVT is trading on prospective P/Es that are at a discount to its peers. Given the group's strong presence in the packaging and labelling segment and in the Asia-Pacific region, this discount appears unjustified.

Consensus estimates

Year end	Revenue ($m)	PBT ($m)	EPS ($)	DPS ($)	P/E (x)	Yield (%)
12/11	46.0	3.2	0.70	0.00	11.5	N/A
12/12	48.0	5.3	0.88	0.00	9.2	N/A
12/13e	54.3	5.7	0.91	0.37	8.9	4.6
12/14e	58.2	6.5	1.00	0.39	8.1	4.8

Source: Thomson Reuters

Technology

Price	€6.30
Market cap	€41m

Share price performance

Share details

Code	VSJ
Shares in issue	6.3m
Net (debt)/cash ($) as at Jun '13	22.4m

Business description

Advanced Vision Technology develops and manufactures automatic process, quality and colour control solutions for the printing industry based on its proprietary machine vision and spectrophotometry technologies.

Bull

- Focus on packaging and labels printing markets that are relatively resilient to recession
- Product innovation
- Strong presence in Americas and Asia-Pacific

Bear

- Temporary weakness in EMEA
- Commercial print market permanently affected by transition to digital media
- Low visibility beyond Q313

Analyst

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EDISON

All for One Steeb

In SAP's slipstream

With focused M&A complemented by robust organic growth, All for One Steeb has established itself as the leading supplier of SAP solutions to the Mittelstand. Recent results suggest that the company is gaining leverage from the increased scale and brand awareness this has brought about. Neither consensus estimates nor the 14x 2015 P/E rating look demanding.

Buy-and-build strategy to consolidate No 1 position

The acquisition of Steeb, a wholly owned subsidiary of SAP, for €39m in December 2011 created one of the largest SAP solutions providers to the German-speaking mid-market. Since then, a number of smaller acquisitions complemented by robust organic growth (20% in 2012) have projected the company into the number one position. All for One Steeb strengthened its balance sheet with a €35m promissory note (repaying a €29m syndicated loan) to support a continuation of the buy-and-build strategy and consolidate its position in its core market. The company also recently established an operation in Turkey, primarily to provide additional capacity and strengthen delivery capability. The company continues to hire in Germany.

Full suite of services to the mid-market

The company has over 2,000 clients, mainly in the manufacturing, consumer goods and services sectors. It offers a full suite of services. Outsourcing (including hosting) and software maintenance (47% of ytd sales) provide a bedrock of recurring revenues. Consulting (both management and implementation) accounted for 38% of sales ytd, hardware 3% and software licences 13%. The company offers 75 proprietary add-on SAP solutions. Itelligence (now essentially a subsidiary of NTT Data) is the company's closest competitor.

Valuation: Q3 results suggest synergies are coming through

Momentum in the business looks good, with financial performance benefiting from the increased scale and brand awareness established over the past two years. Sales grew by 24% to €135.7m (17% organically) for the nine months to the end of June. EBIT increased by 83% to €7.3m, with margins expanding from 3.6% to 5.3% helped by exceptionally high software sales, which grew from €5.3m to €7.0m (+34%) in Q3, and a high consultant utilisation rate. While we naturally expect some degree of normalisation in margins in Q4, the company looks firmly on track to deliver FY guidance of €180m sales and €9m EBIT or better.

Consensus estimates

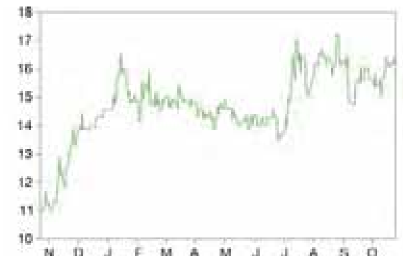
Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
09/11	90.2	5.0	1.41	0.15	11.6	0.9
09/12	153.2	5.0	0.76	0.20	21.5	1.2
09/13e	182.3	7.9	0.87	0.27	18.8	1.7
09/14e	194.2	9.4	1.11	0.20	14.7	1.2

Source: Thomson Reuters

Technology

Price €16.33
Market cap €79m

Share price performance



Share details

Code	A1OS
Shares in issue	4.9m
Net (debt)/cash (€) as at Jun '13	(9.8m)

Business description

All for One Steeb is a leading supplier of SAP industry solutions to mid-market companies in German speaking countries. The company supplies a combination of consultancy and implementation services, outsourcing and cloud based services. Though United VARs, a global SAP partners alliance, the company also provides international customers with worldwide SAP support.

Bull

- Market leadership position.
- Good business momentum.
- Bedrock of recurring revenues.

Bear

- Possibility of near-term margin contraction.
- Exposed to an economic deterioration.
- Limited operational leverage.

Analyst

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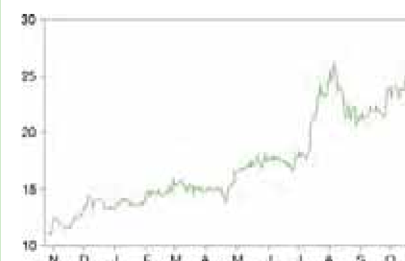
EDISON

CANCOM

Technology

Price	€25.45
Market cap	€291m

Share price performance



Share details

Code	COK
Shares in issue	11.4m
Net (debt)/cash (€) as at Jun '13	(5.3m)

Business description

CANCOM is an IT architect and managed services provider and is one of the largest independent systems integrators in Germany. CANCOM also distributes hardware and software from major manufacturers. The group operates across Germany and Austria.

Bull

- Strong market position in Germany and Austria
- Broad software vendor expertise
- Private cloud solution

Bear

- Tied to fortunes of German economy
- Acquisition/integration risk
- Competition for skilled staff

Analyst

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Independent German IT services provider

CANCOM has seen an improved trading environment for both business lines, resulting in margin expansion and the raising of longer-term margin guidance. It continues to drive growth through its focus on higher value services as well as through acquisitions.

Q2 saw increasing demand for both businesses

CANCOM reported a strong Q2, with revenues up 3.7% compared to Q1 and up 10.3% y-o-y. The company saw an improving performance in both businesses, with both IT Solutions and e-commerce gaining 3.7% q-o-q. The IT Solutions business continues to see strong demand for its private cloud solution. The performance year-on-year on a divisional basis is less relevant as the company shifted some e-commerce business into the IT Solutions segment in H212. The company generated an EBITDA margin of 5.4% in H113, up from 5.0% in H112, with e-commerce increasing to 8.8% from 6.8% in H112, and IT Solutions flat at 5.9%.

Strategy for organic growth

Management is aiming to grow the IT Solutions business organically by focusing on higher value services such as integrated solutions, consulting and managed services. The CANCOM AHP Private Cloud was developed to take advantage of growing demand for private cloud solutions. In the e-commerce business, the company plans to develop the distribution of customised shops through its new E-Supply-Chain platform. The company grew revenues at 14.7% in FY11 and 2.5% in FY12 and is targeting growth at a faster rate than the IT market. Consensus forecasts assume growth of 4.8% in FY13 and 7.1% in FY14, which given the recovery in the German economy and recent acquisitions, appears achievable. In the medium term, the company is targeting revenues of €1bn and above average profitability, with an EBITDA margin target of 6%.

Acquisitions also under consideration

CANCOM continues to look for acquisitions that will help it gain market share, particularly to gain regional strength and add complementary skills. Recent acquisitions include a mobile app business and an SAP hosting business. At the end of September, CANCOM acquired Datensysteme GmbH, a Berlin-based systems integrator with a focus on the public sector, in exchange for 750,000 shares.

Valuation: Continued focus on profitable growth to drive share price

CANCOM is trading on a P/E of c 19x FY13e and c 15x FY14e, reflecting its consistent growth profile and profitability. Continued progress towards the longer-term revenue and EBITDA margin targets should support further share price growth.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	544.4	16.9	1.11	0.30	22.9	1.2
12/12	558.1	18.9	1.15	0.35	22.1	1.4
12/13e	589.7	22.5	1.33	0.38	19.1	1.5
12/14e	646.3	28.3	1.65	0.42	15.4	1.7

Source: Thomson Reuters

EDISON

CENIT

A cash-rich software consultancy with attractive growth prospects

CENIT is a software consultancy and value-added reseller (VAR) focused on the discrete manufacturing industry and financial services sectors. Growth is coming through the expansion of the group's own software (IBM ECM System Monitoring, CONNECT SAP Integration, FASTSUITE) and through its third-party software offerings. FASTSUITE, which is one of the group's main product offerings for digital factory solutions, is based on Dassault Systèmes' platform. By mid-FY14, CENIT is preparing to launch a neutral platform suite. This will appeal to a much wider customer base, as customers will be able to run the software on the platform of their choice.

Own digital factory solutions on a neutral platform will significantly widen the opportunity

The group has two divisions: PLM (76% of H113 sales), which provides software to manufacturing companies for managing the life cycles of their products, and EIM (24% of sales), which provides document management software mainly to financial services companies. Revenues are generated from consulting and services (46% of sales), re-sales of third-party software (43% of sales), and increasingly through sales of the group's own software products (11% of sales). Customers include many blue chip companies such as Airbus, Allianz, Alstom, AXA, BMW, Daimler, EADS, Swatch, UBS and VW. CENIT typically maintains very long-term working relationships with its customers.

Increased sales of software should help to boost margins

H1 revenues grew 4.5% to €60.4m, while operating profit eased 1.5% to €3.6m. Management's five-year objective is to grow revenues to €150-155m and lift operating margins to 10% (6.8% in FY12). It seeks to achieve the growth primarily through the expansion of the group's own software and third-party software, while focusing on the high end of the market. It is also seeking selective acquisitions to broaden the group's customer base and increase its product offerings.

Valuation: Cheap when adjusted for the large cash pile

The stock trades on c 15x Thomson consensus FY13 EPS. However, after adjusting for the €29.8m net cash position (which represents c 35% of the market capitalisation), this falls to an attractive c 8x in FY14. Alternatively, the stock trades on c 0.4x sales, c 6x operating profit and provides a c 4% prospective dividend yield.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	107.8	6.5	0.50	0.30	20.2	3.0
12/12	118.9	8.1	0.70	0.55	14.4	5.4
12/13e	123.0	8.6	0.68	0.34	14.8	3.4
12/14e	128.8	9.5	0.77	0.39	13.1	3.9

Source: Thomson Reuters

Technology

Price €10.11

Market cap €85m

Share price performance

Share details

Code	CSH
Shares in issue	8.4m
Net (debt)/cash (€) as at Jun '13	29.8m

Business description

CENIT is a software consultancy specialising in Product Lifecycle Management (PLM) software for manufacturing companies and Enterprise Information Management (EIM) software, primarily for financial services companies.

Bull

- Own software sales are growing quickly
- Healthy H1 operating cash flow
- Strong balance sheet with c €30m net cash

Bear

- Highly competitive market place
- Lower H1 operating margins and flat EPS
- Large dependence on Germany (82% FY12 sales)

Analyst

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EDISON

Elmos Semiconductor

Diversifying beyond auto sector

Management continues to pursue its strategy of reducing reliance on the European automotive industry. Since establishing new sales offices in Shanghai and Singapore in 2011, sales to Asia have risen to almost a quarter of the total. New application-specific standard products (ASSPs) such as the Halios gesture recognition chips are driving sales in the industrial and consumer electronic sectors.

H113 affected by lower pricing for more mature MEMs products

H113 revenues were 2% lower year-on-year at €90.2m. Sales of semiconductors (91% of H113 total) were similar to H112, with Q213 significantly stronger than Q113 as design-ins of new products such as the Halios range ramped up. Sales of MEMs (9% of total) fell by 20.5% year-on-year, reflecting a weaker automotive market, particularly at the start of the year, and product generation changes. Sales to Asia-Pacific grew by 12% year-on-year to 23.4% of the total, while European sales declined by 4% to 62.7% reflecting the relative strength of the automotive industries in the two regions. Gross margin was stable at 39.0%, though negatively affected by costs associated with maintaining some 6" production until the end of 2014, when the transfer to 8" will be complete. Lower sales volumes and higher distribution costs in Asia resulted in PBT (excluding €1.8m exceptional arising from consolidation of MAZ in H112) falling by 23% to €1.7m. Net cash, including securities, totalled €31.3m, supporting an attractive dividend.

H213 expected to be stronger

In August management said it expected mid-single digit sales growth in FY13, generating EBIT margin ahead of the 6.3% achieved in FY12, indicating that consensus estimates are achievable. We expect medium-term growth to be driven by sales outside Europe and by ASSPs (c 20% FY12 revenues) as customers shift away from customised designs towards cheaper, more generic solutions. ASSPs are offered to customers in the automotive, industrials and consumer electronics sector. For example, the Halios chips are being used in the central console display of the new VW Golf VII and for controlling consumer products such as lights.

Valuation: Trading in line with peers

The share price has risen by around 50% since last November. The shares are now trading on a prospective P/E multiple in line with that of our sample set of global semiconductor companies. We see potential for upwards share price movement if ASSP devices such Halios are able to deliver better than average growth for the sector in the medium term.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	194.3	25.8	0.96	0.25	10.2	2.6
12/12	180.1	9.6	0.41	0.25	23.9	2.6
12/13e	189.7	12.9	0.49	0.26	20.0	2.7
12/14e	203.4	19.2	0.72	0.26	13.6	2.7

Source: Thomson Reuters

Technology

Price €9.80

Market cap €193m

Share price performance

Share details

Code	ELG
Shares in issue	19.7m
Net (debt)/cash (€) as at Jun '13	31.3m

Business description

Elmos Semiconductor designs and manufactures ICs (integrated circuits) and MEMS (micro electro-mechanical systems) pressure sensors used in the automotive, industrial, consumer and medical sectors. These include ultrasonic park assistance ICs, airbag sensor ICs and tyre pressure sensors among others. Elmos is headquartered in Dortmund, Germany, and has sold over two billion silicon chips worldwide.

Bull

- Strong position in European automotive market
- Increased presence in Asian market
- ASSPs, consumer and industrial sectors present opportunities for growth

Bear

- MEMs product line being rejuvenated
- Ongoing cost of phasing out 6" production
- Low market share in US

Analyst

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EDISON

exceet Group

Technology

Price	**€5.50**
Market cap	**€113m**

A growth play in medical technology and industrial automation

exceet joined the börse via a reverse IPO of Helikos, a Luxembourg-based investment vehicle, in 2011. The timing was unlucky as the tough European economic backdrop led to the stock price halving in 2012. However, trading has stabilised in 2013 - the group swung to positive organic growth in Q2 and reported a significant improvement in profitability. Going forward, we see the shares as a leveraged play on economic recovery in Europe, as exceet operates across a range of high growth areas covering medical technology (eg cochlea implants, hearing aids, insulin pumps), industry (robotics, M2M, sensors) and security (secure cloud storage, smart cards).

Manufacturer of complex embedded electronic products for OEMs

exceet supplies high-end electronic modules and printed circuit boards (miniaturised and highly reliable) to original equipment manufacturers (OEMs). Devices and modules are developed and engineered jointly with customers and exceet is usually the sole supplier. Medical technology is the group's biggest end-market (47% of FY12 sales) and customers include blue-chip companies such as GE, Philips, Roche and Siemens. The group also makes smart cards for customers operating in sectors including banks and finance, retail, transport, telecoms and healthcare. In July, exceet announced it had won a four-year contract to supply Transport for London with the Oyster Card.

Organic revenue growth turned positive in Q2

H1 revenues rose 0.3% to €90.8m, reflecting an organic decline of 7.4%. Nevertheless, organic revenue growth turned positive in Q2, at 1.9%, after the weak Q1, which was held back by a significant contract deferral in the industrials sector. EBITDA margins were also significantly stronger in Q2, at 11.2%, while the margin over the full H1 was 9%. H1 cash flow saw a significant improvement over the corresponding period in 2012, with operating cash flow of €1m compared with €3.6m outflow in H112. However, there was still an overall cash outflow, and net debt rose by €1.3m over the six months to €25.7m. We note the group's cash flow is usually stronger in H2. There are also retirement benefit obligations of €6.1m.

Valuation: Cheap if the group can meet its growth objectives

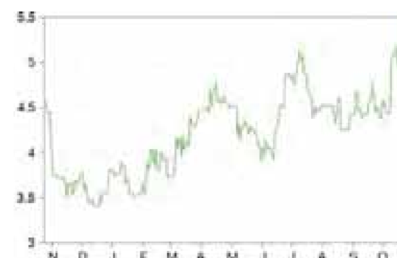
Management's targets are to grow revenues organically by 5-10% a year and to lift EBITDA margins to 18% in the medium term. Further, acquisitions are also possible if opportunities arise. While the shares trade on a punchy c 20x Thomson consensus FY13 EPS, the rating could fall quickly if management can achieve its growth objectives.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	170.5	19.6	0.40	0.00	13.7	N/A
12/12	188.8	5.3	0.10	0.00	55.0	N/A
12/13e	200.3	10.6	0.27	0.00	20.4	N/A
12/14e	215.8	14.9	0.39	0.00	14.3	N/A

Source: Thomson Reuters

Share price performance



Share details

Code	EXC
Shares in issue	20.5m
Net (debt)/cash (€) as at Jun '13	(25.7m)

Business description

exceet is an international technology group specialising in intelligent electronics and card-based security technology. The group's offerings range from smart cards to complex embedded electronic modules and security solutions.

Bull

- Fast-growing markets
- Broad range of industry drivers
- Exposure to the defensive medical technology sector

Bear

- Reliance on several customers – top four generate c 27% of sales
- Number of shares could rise to 34.7m if certain targets are reached
- Moderate debt position including retirement benefit obligations

Analyst

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EDISON

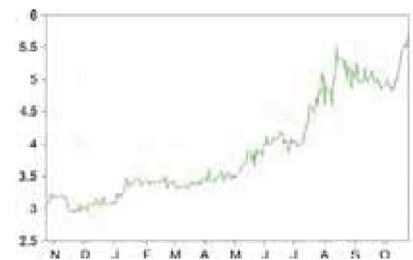
GFT Technologies

GFTS Q2 acceleration

Technology

Price	€5.68
Market cap	€150m

Share price performance



Share details

Code	GFT
Shares in issue	26.3m
Net (debt)/cash (€) as at Jun '13	25.1m

Business description

GFT Technologies is a global technology services and recruitment business primarily focused on banks and insurance companies.

Bull

- GFT Solutions organic growth of 21% in Q2
- Sempla (c €49m FY14e revenues) boosts margins
- Strong balance sheet with a net cash position

Bear

- emagine currently has low profitability
- Deutsche Bank generates c 30% of revenues
- Exposure to Southern Europe

Analyst

Richard Jeans

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H1 results were strong, with organic revenue growth of 14% from the core GFT Solutions (GFTS) division, including 21% in Q2. Growth came from across the customer base, as customers extended IT projects to new areas. There was particularly strong demand from UK investment banks, and management is optimistic it will continue to see healthy growth from the Solutions division, to be boosted in H2 by the Sempla acquisition. The stock looks attractive on a c 11x FY14e P/E and a c 4% yield given the potential to leverage market growth internationally and increase margins.

Scaling up, outsourcing benefits

GFT is building a global IT services and consulting business, focused on the growing opportunity in the financial services sector. It is diversifying geographically and broadening its customer base, and we estimate that two-thirds of revenues are recurring in nature. Its main division, GFTS, benefits from high levels of IT spending and complex business requirements in the financial services industry. It also benefits from favourable outsourcing trends in banking and has integrated near/far-shore hubs in Spain and Brazil. Sempla adds a significant presence in Italy, boosts group margins and brings cross-selling opportunities. The strategy in Southern Europe is opportunistic and potentially highly rewarding if the timing proves right.

H1 results: GFTS growth accelerates to 21% in Q2

Group revenue fell 2% to €114m. Excluding the discontinued third-party management contracts within emagine, organic growth was 6%. The profits improvement came from GFTS, while the resourcing business, emagine, which generated 39% of revenues, only broke even. Group profit before tax on an IFRS basis jumped 46% to €5.5m; after adjusting for a €1.18m credit relating to an earn-out payment and €250k in M&A expenses, underlying growth was 21%. The acquisition of Sempla, an Italian IT services and solutions provider, announced in late May, was completed on 3 July. The purchase price was €21.08m for an initial 80% stake in Sempla; this reduces the pro forma net cash pile to c €4m.

Valuation: Discount to international peers

The stock trades on 0.4x FY14 revenues and c 6x operating profit. These numbers look favourable when compared to c 1.5-2.4x sales and c 10-13x operating profits for larger global IT services businesses. Our DCF model (which assumes a WACC of 12%) values the shares at c €7.0, or 23% above the current share price, which is up from our €6.53 valuation at the time of the initiation note.

Edison estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	272.4	11.6	0.34	0.15	16.7	2.6
12/12	230.7	9.5	0.22	0.15	25.8	2.6
12/13e	260.2	16.3	0.42	0.18	13.5	3.2
12/14e	300.3	21.7	0.53	0.20	10.7	3.5

Source: Edison Investment Research

EDISON

GK Software

Software solutions for retailers

The retail sector is having to adjust quickly to changes in consumer purchasing habits such as shopping online for food and making payments with mobile devices. Retailers are also adapting to margin pressures by precise control of stock, self-service tills and sophisticated price-based promotional activity. In Germany, a quarter of retail software systems from competitors are over 10 years old and will struggle to accommodate these developments (source: EHI Retail Institute - Till Systems in 2012). This represents an opportunity for GK Software, with its broad product portfolio able to fulfil emerging requirements and its ability to handle customisation projects quickly. Partnerships with SAP, HP and RedIron are enabling the group to expand beyond Germany, particularly in North America, opening up a much larger market.

H113 profitability affected by AWEK acquisition

H113 revenues rose by €2.2m (13%) year-on-year to €18.4m. This growth is entirely attributable to the acquisition of AWEK, which contributed €5.0m revenues (27% of total). Licence sales halved to €1.3m (7% of total). Although the SAP partnership secured four smaller projects in Germany and Russia it did not deliver the strong sales management expected. Revenues from Services declined by 17% to €7.5m (41% of total) reflecting less customisation work. Maintenance revenues grew by 25% to €6.7m (36% of total), boosted by the AWEK acquisition. Underlying maintenance growth was 13%. The AWEK acquisition raised personnel, depreciation and other operating expenditures by €3.9m. The group moved from €3.0m pre-tax profit in H112 to €1.0m pre-tax loss. Net cash reduced by €0.9m during the period to €7.7m at the end of June 2013.

Full-year result depends on closing key large orders

Management remains confident about the group's prospects. Based on positive trends in the retail sectors in Germany and the United States, it believes growth from the core GK/retail businesses is still achievable if some of the major tenders it is engaged in are secured in a timely fashion. However, it notes the possibility of delays as potential customers debate the optimal configuration for supporting omni-channel retailing. The expenditure associated with recruiting staff in preparation for major projects will be a drag on FY13 EBIT margins, which are expected to return to 19-20% from FY14 onwards.

Valuation: Potential for share price improvement as large orders announced

The share price has fallen by over 20% in the last 12 months, so the shares are now trading at a significant discount to our sample of global software companies. We see potential for upwards price movement as the awaited large orders are secured.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	31.8	6.6	2.55	0.50	11.6	1.7
12/12	28.4	0.8	0.38	0.00	77.9	N/A
12/13e	41.2	4.0	1.64	0.40	18.0	1.4
12/14e	47.3	6.8	2.75	0.57	10.8	1.9

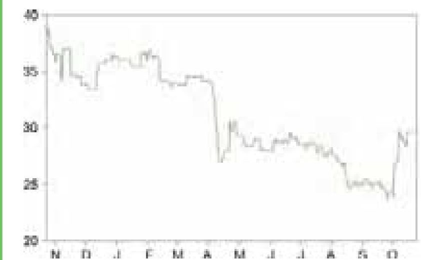
Source: Thomson Reuters

Technology

Price €29.60

Market cap €53m

Share price performance



Share details

Code	GKS
Shares in issue	1.8m
Net (debt)/cash (€) as at Jun '13	7.7m

Business description

GK Software provides software for use in store branches and head offices, and for integrating subsystems at store branches with ERP (enterprise resource planning) systems. The software is used by European retailers, including Galeria Kaufhof, Lidl, Netto Marken-Discount, Parfümerie Douglas International and Tchibo, and handles millions of transactions every day in 36,000 stores in 36 countries. The acquisition of AWEK Group in December 2012 expanded the service offer to include third-party hardware and software.

Bull

- Outstanding Tier 1 reference clients
- Partnerships with SAP, HP and RedIron support geographic expansion
- Evolution in retail environment renders older software systems obsolete

Bear

- Dependence on individual large orders to meet management expectations
- Lower visibility of sales pipeline when selling through partners
- Project delays while omni-channel requirements evaluated

Analyst

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EDISON

Innovation in Traffic Systems

Technology

Price	€23.50
Market cap	€236m

Share price performance

Share details

Code	IXX
Shares in issue	10.0m
Net (debt)/cash (€) as at Jun '13	6.1m

Business description

init is a producer of telematics, planning and electronic fare management systems. Its solutions optimise the efficiency of public transportation systems. 48.9% of H113 revenue was from North America, 22.1% from Germany, 19.4% from the rest of Europe and 9.6% from others.

Bull

- Pure play on public transport market growth
- Strong order book
- High proportion of cash earnings returned to shareholders

Bear

- FY13 revenue target may not be met as a result of poor H113
- Sensitive to government spending decisions, particularly within Europe
- Strong competition from larger players

Analyst

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Growth market with high cash return to shareholders

init has good visibility of revenues thanks to a strong order book and c 25% of recurring revenues. A dividend yield of c 4% combined with opportunities for growth in new markets should make it an appealing option to investors.

Increasing public transport efficiency through technology

init provides products and solutions to improve the efficiency of public transport systems. It is split into two segments: telematics and electronic fare collection systems, which accounted for c 93% of H113 revenue, and other, which accounted for the remainder. Telematics and fare collection includes passenger information displays, passenger counting systems and e-ticketing solutions. Other includes planning, data management and analysis systems, which help operators manage their staff and resources and improve efficiency.

Growth through innovation and geographical expansion

init's strategy for growth is to continue to develop innovative products to expand sales with existing customers and move into new geographies such as Asia-Pacific. Its competitive advantage is its comprehensive product range and ability to offer complete integrated solutions. init conducts workshops with customers to identify additional opportunities for growth and product improvement.

Weak H1 but full-year guidance remains unchanged

Sales in H113 were 11.8% lower than last year due to the timing of revenue recognition for some large projects. Management expects to meet key milestones in H2 so revenue and EBIT guidance remains unchanged at €105m and €18m respectively. Consensus forecasts assume init will beat this. The balance sheet remains strong with net cash of €6.1m at 30 June 2013, an order backlog of €180m and consistently strong cash flow from operations.

Valuation: Discount to peer and market average

init is trading on c 18x FY13 earnings with a c 4% dividend yield compared to the current global tech hardware average of c 17x with an average dividend yield of c 2%. Consensus forecasts EPS growth of c 19% for FY14 compares to a median for global tech hardware of c 17%.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	88.7	20.2	1.51	0.80	15.6	3.4
12/12	97.3	17.2	1.11	0.80	21.2	3.4
12/13e	106.5	18.4	1.30	0.85	18.1	3.6
12/14e	113.8	21.2	1.49	0.90	15.8	3.8

Source: Thomson Reuters

EDISON

Mensch & Maschine Software

CAD/CAM specialist

Mensch und Maschine Software made good progress in H113, with organic growth in both businesses. As the transition from distributor to value-added reseller (VAR) business model is substantially complete, the pace of VAR acquisitions is slowing. Demand remains strong in the Software business. Management's focus is shifting to consolidating the recent VAR acquisitions and driving profitability across both business lines.

H113 trading: Still on track to meet FY13 expectations

A strong Q1, followed by a slightly weaker Q2, generated H113 results in line with management expectations. The Software business (M+M's proprietary CAM software) grew 8.4% in H113 (all organic) and drove gross margin up 240bp y-o-y to 93.5%. The VAR business grew 13.1% y-o-y, with around half of this growth from the acquisition of VARs over the last 12 months, which also depressed the gross margin (36.9% vs 39.3% a year ago). The group EBITDA margin of 6.6% was lower than the 8.5% achieved in H112 due to the higher level of staff after the VAR acquisitions, increased investment in developing own software and a lower level of earn-out received from the Distribution business sale.

Focus moves to improving profitability

The business generates gross profit in roughly equal shares from the Software and VAR businesses. While the company may make several more small acquisitions in the VAR business, the transformation from distributor to VAR business model is substantially complete, and the focus now is on integrating the acquisitions and improving the profitability of the business, with a long-term aim of achieving VAR EBITDA margins of c 10% (H113: 2.2%). The Software business already generates EBITDA margins close to the long-term target of 20-25% (H113: 18.2%).

Valuation: FY13 guidance – reflected in consensus

With customer demand picking up from mid-year, management reiterated FY13 sales guidance of €135-140m, with EBITDA similar to last year's €10m level (7.1-7.4%), net profit of €4.5m and EPS close to 30c. To reach the low end of guidance would require H213 revenue growth of 7% h-o-h or 12.6% y-o-y and an EBITDA margin of at least 8.1%. Considering H113 growth, this appears achievable. Forecasts assume 12.9% group revenue growth for FY14 with improving profitability, resulting in a modest c 14x P/E multiple for FY14. Combined with a strong dividend yield of more than 4%, in our view the valuation is undemanding and the share price could respond positively to evidence of stronger end demand.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	191.7	11.1	0.45	0.20	10.9	4.1
12/12	118.8	5.3	0.23	0.20	21.3	4.1
12/13e	136.9	5.0	0.27	0.20	18.1	4.1
12/14e	154.5	8.2	0.36	0.23	13.6	4.7

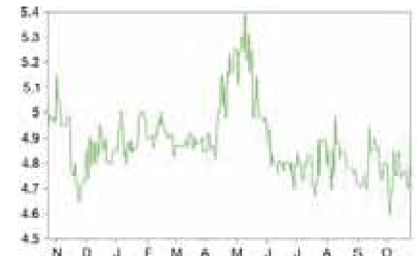
Source: Thomson Reuters

Technology

Price €4.90

Market cap €76m

Share price performance



Share details

Code	MUM
Shares in issue	15.5m
Net (debt)/cash (€) as at Jun '13	(23m)

Business description

Mensch und Maschine Software (M+M) sells proprietary and Autodesk CAD/CAM software. It reports across two business lines: M+M Software (27% of H113 revenues) and VAR (73% of H113 revenues). The company has operations in Europe, the US and Asia-Pacific.

Bull

- Largest European Autodesk value-added reseller
- High-margin internally developed software
- Loyal workforce

Bear

- Reliant on the technology development plans of Autodesk
- Net debt position
- Acquisition/integration risk

Analyst

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EDISON

Nemetschek

Software solutions for AEC

Nemetschek is Europe's largest vendor of software to the architecture, engineering and construction (AEC) industries, and after Autodesk, the second largest globally.

Covering the complete AEC value chain

Having grown both organically and through acquisition, Nemetschek offers a number of branded solutions covering the design and planning of buildings (80% of H1 sales), construction (8% of H1 sales) and building management (3% of H1 sales). Its Multimedia division (9% of H1 sales) provides visualisation solutions for architecture, film, animation and advertising.

Open standards approach

The company has adopted an open standards-based product strategy and is a leading participant in the Open BIM initiative, which has established standards and workflows to enable collaboration between parties and packages in the AEC value chain.

International expansion

Expansion outside the company's stronghold in Germany (40% of H1 sales) is also a key element of the growth strategy. The Americas, Asia, Northern and Eastern Europe are the key regions targeted, with organic growth, alliances and acquisitions all options on the table to help strengthen to footprint.

Multimedia - Adobe partnership set to start contributing

Maxon, the company's multimedia group, provides professional solutions for 3D modelling, painting, animation and rendering across a range of verticals, including movies, TV and gaming. While the group contributes only 9% of sales, its contribution to EBITDA is much higher at 16% due to its high margins. Sales grew 8.8% in H1, but a strategic partnership signed with Adobe in March 2013, whereby elements of Maxon's technology is being integrated into Adobe's creative product suite, has the potential to accelerate this.

Valuation: Looks fair in absolute terms but discount to larger peers

Nemetscheck's 2014 P/E of c 16x is not out of kilter with other software companies with similar growth and margin profiles, but at a significant discount to other leading CAD players such as Autodesk, Dassault Systemes and Aveva at 22x-25x. This is understandable given the company's lower free float, scale and more domestic revenue weighting, although further progress overseas could help this discount to close somewhat.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	164.0	28.1	2.16	1.15	22.2	2.4
12/12	175.1	28.5	1.96	1.15	24.5	2.4
12/13e	187.0	31.4	2.43	1.20	19.7	2.5
12/14e	201.6	40.2	2.97	1.31	16.2	2.7

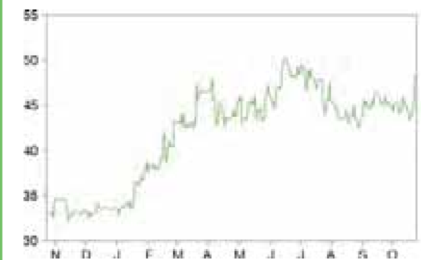
Source: Thomson Reuters

Technology

Price €47.97

Market cap €462m

Share price performance



Share details

Code	NEM
Shares in issue	9.6m
Net (debt)/cash (€) as at Jun '13	48.7m

Business description

Nemetschek is Europe's largest vendor of software into the architecture, engineering and construction (AEC) industries. Offering solutions under a number of different brands, the company serves more than 300,000 customers in 142 countries.

Bull

- Solid growth, margins and cash flows. Strong balance sheet
- Leading market position in Germany, with scope for strengthening global footprint
- Valuation is a significant discount compared to larger peers

Bear

- Recent management changes
- Limited free float
- Competition with larger players

Analyst

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EDISON

OHB

In a space of its own

OHB provides a unique opportunity to invest in a niche technology manufacturer active in the space and aerospace component industry. Having achieved record sales in H113 and with several significant orders won since, we feel OHB is set to undergo a period of sustained growth and accelerating earnings. With the group underpinned by a record order book of €2.3bn, which should drive revenue increases across both divisions, OHB appears on track to achieve its 2013 targets of total revenues >€700m.

Results highlight long-term growth trend

The HY13 results continued a long-term trend of revenue growth that stretches back over eight years, with revenues up 9% to €310m. With increases in material and personnel costs, EBITDA and EBIT both rose by c 2%, while finance costs decreased by 22% to €2.5m, leaving profit from ordinary activity up 8% to €12.8m. Following a reduced tax expense, net profit increased by 18% to €8.4m and EPS was up 20% to €0.48, highlighting the strong performance in the half, driven predominantly by the good operating performance in Space Systems in Q2.

Orders provide visibility and secure content

OHB secured several strategically important orders over the past year: the development and construction of the SARah radar satellite reconnaissance system for the German federal armed forces (€816m contract); the European Data Relay System (EDRS) for Astrium (€157.5m contract); a contract from Boeing for the development and construction of the large tank components for NASA's future launch family; and more recently, the development of the Electra telecommunications satellite. These contracts, coupled with the longer-term Gallileo navigation satellite constellation (22 satellites) and the third generation Meteosat, MTG platforms (six satellites), provide OHB with a record backlog of some €2.3bn and visibility for design and production for many years.

Valuation: Unique exposure with growth prospects

OHB provides the potential for the most direct exposure to the space market. With the underpinning of a significant order backlog and recent contract announcements, there is a clear support for OHB's growth trajectory. This is reflected in the current rating of c 15x CY13 EPS, dropping to c 13x CY14 EPS, sitting at a small discount to international A&D peers.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	555.7	19.5	0.78	0.35	22.9	2.0
12/12	616.0	24.0	0.85	0.37	21.0	2.1
12/13e	700.8	32.3	1.20	0.43	14.9	2.4
12/14e	720.3	38.4	1.43	0.51	12.5	2.9

Source: Thomson Reuters

Technology

Price	€17.86
Market cap	€312m

Share price performance

Share details

Code	OHB
Shares in issue	17.4m
Net (debt)/cash (€) as at Jun '13	(45m)

Business description

OHB is a German-based technology and space company operating across the value chain for satellite development, construction and operation, data transmission and processing, as well as the development and construction of scientific payloads and aerospace/aviation structures.

Bull

- Leading position in space
- Supported by highly visible contracts
- Exposure to both space and aerospace

Bear

- Cash outflow as prepayments utilised
- Lower margins achieved in Aeropsace & Industrial division
- Large reliance on public sector budgets in space creates risk

Analyst

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EDISON

PSI

Setting a recovery path

PSI develops and integrates software solutions for utilities, manufacturers and infrastructure providers, automating complex control systems to reduce costs, improve efficiency and avoid catastrophe. The September profit warning has dented sentiment, but with substantial downside risk now taken out of estimates and action being taken to improve execution in logistics, the long process of rebuilding investor confidence should start from here.

Control and optimisation

PSI has three segments: Energy Management (34% of H113 sales), which delivers intelligent utility solutions for electricity, gas, oil, water and district heating; Production Management (46% of H113 sales), which supplies software and solutions for production planning, control and logistics; and Infrastructure Management (17% of H113 sales), which provides high-availability control solutions for monitoring and operating critical transport, public safety, environmental and disaster prevention infrastructures.

International growth

The company is well established in Germany, where the government's energy transition policy (away from nuclear towards renewables) creates a near-term headwind. This raises the imperative to grow internationally, which offers attractive prospects, particularly in Russia (energy), the US (production management) and China (across all segments). The proportion of orders from international markets has grown from 21% of sales in 2007 to 47% in 2012 and we expect this trend to continue.

Estimates rebased

The profit warning in September surprised both in terms of its magnitude and its breadth. A combination of legacy litigation issues, market weakness in Energy, execution issues in Logistics and further investment in growth initiatives (rail energy and transport logistics) conspired to drive a 70% downgrade to FY13 EPS. However, we feel that conservatism has now been built into guidance at a number of levels, and recent management changes in logistics suggest action is being taken to improve execution and transparency within the organisation.

Valuation: Recovery potential

On a P/E basis, the shares look expensive at 23x FY14 earnings, but undemanding on EV/Sales at c 0.9x. This is usually the case with recovery stocks and is struck at an estimated EBIT margin of 6%. We still think the low teens is an achievable target in the longer term, which would imply the potential to at least double earnings from the estimated 2014 level. At these levels, we feel the shares warrant close attention for investors with a recovery remit.

Edison estimates

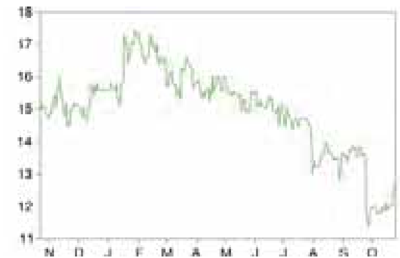
Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	169.5	9.7	0.54	0.25	23.3	2.0
12/12	180.9	11.8	0.63	0.30	20.0	2.4
12/13e	184.1	3.6	0.19	0.07	66.4	0.6
12/14e	193.4	10.2	0.54	0.27	23.3	2.1

Source: Edison Investment Research

Technology

Price	€12.61
Market cap	€198m

Share price performance



Share details

Code	PSAN
Shares in issue	15.7m
Net (debt)/cash (€) as at Jun '13	14m

Business description

PSI develops and integrates software solutions and complete systems for utilities, manufacturers and infrastructure providers.

Bull

- Entrenched position in German market
- Substantial international growth opportunities
- Recovery margin and earnings expansion potential

Bear

- Recent earnings momentum and execution issues
- Weak spending environment in German energy sector
- High price earnings multiple at present

Analyst

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EDISON

REALTECH

Technology

SAP specialism the key to recovery

Realtech has seen mixed fortunes over the last year. With a focus on strategic SAP product areas, its specialist SAP Consulting business has returned to growth, while its Software business has struggled to regain positive momentum. A change of management has the potential to reverse this decline and return the group to profitability.

H113 results highlight divergence between the two business lines

Group revenues for H113 were flat vs H112. The Consulting business grew 3% y-o-y, with a similar performance in Q1 and Q2. The Software business declined 7% y-o-y, with Q2 revenues declining 5% versus Q1. This resulted in an EBIT loss of €2.78m for H113. For FY13, the company expects to produce an operating loss in the region of low single-digit millions of euros. Consensus forecasts assume minimal revenue growth and EBIT of -€2.95m for FY13. This implies a very similar performance to last year, with a pick-up in H2 revenues to €21.2m (+0.9% y-o-y, +12.4% h-o-h), and EBIT of -€0.17m for H213.

Strategy to drive return to growth

The Consulting business is showing steady growth and is focused on the high-growth areas within SAP of in-memory computing (HANA), cloud computing and mobility, while continuing to recruit and train high-quality consultants. The Software business has disappointed over recent periods, declining since 2010, creating a drag on profitability. There have been recent changes in management - the previous CEO left in June and the CFO Thomas Mayerbacher stepped up to the CEO role, and Volker Hensel was appointed as CFO in September. New management could provide the change in direction required to reverse the Software business decline and return the group to profitability.

Valuation: Software turnaround key to upside

The current valuation reflects the slow return to growth, particularly in the Software business, which has pushed the company into a loss-making position. While the Consulting business is moving in the right direction, an improvement in the higher-margin Software business could drive earnings upgrades and restore confidence in the stock.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	39.2	0.0	(0.06)	0.30	N/A	10.4
12/12	39.8	0.5	(0.04)	0.00	N/A	N/A
12/13e	40.0	(2.9)	(0.42)	0.10	N/A	3.5
12/14e	42.4	1.2	0.07	0.10	41.2	3.5

Source: Thomson Reuters

Price	€2.88
Market cap	€16m

Share price performance

Share details

Code	RTC
Shares in issue	5.4m
Net (debt)/cash (€) as at Jun '13	4.8m

Business description

REALTECH provides SAP consulting services (69% of FY12 revenues) and proprietary software products (31% of FY12 revenues). The software business develops IT service management software and its core product is theGuard!. Two-thirds of revenues are generated in Germany.

Bull

- Strong SAP consulting expertise
- Elements of theGuard! integrated into SAP IT Infrastructure Management products
- Strong balance sheet

Bear

- Loss making
- Recent downgrade of guidance
- Dependence on German economy

Analyst

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EDISON

Reply SpA

Profitable growth

Reply has grown its IT services business through a combination of in-house innovation and acquisition, with a focus on digital media and new communication channels. The company has grown revenues at a CAGR of more than 10% over the last five years, while maintaining double-digit EBIT margins. In our view, the valuation does not reflect this performance.

H113 results: continued growth and profitability

Reply reported a strong H113, with revenues up 10.6% y-o-y. On a divisional basis, Italy grew 8.3%, contributing 74% of H1 revenues, Germany 0.1% (14% of revenues) and the UK 49.5% (12% of revenues). Some of the UK growth came from the acquisition of Avvio Design Associates in December 2012. All divisions improved profitability at the EBITDA level on a year-on-year basis – Italy 13.9%, Germany 7.2% and the UK 18.5%, resulting in EBIT of €32.8m (12.2% margin).

Keeping ahead through innovation and acquisitions

Reply has a track record of developing in-house solutions for the latest technology trends - recent new units include Pay Reply (specialising in remote and proximity payments) and Juice Reply (big data services). The company has also regularly acquired businesses active in high-growth areas of technology. In 2012, acquisitions included Arlanis Software AG in Germany (specialist in social business applications, CRM, data migration and integration) and Avvio Design Associates in the UK (consulting and implementation of solutions for corporate social networking-based brand engagement and internal communications). This year, the company bought Triplesense GmbH in Germany for its consulting skills in the area of digital communications on mobile and social channels.

Valuation: Modest considering growth and margins

The company expects to see a similar growth trend in H213 versus H113, but gave no quantitative guidance. Consensus forecasts assume revenue growth of 9.9% in FY13, implying H213 revenue growth of 9.2% y-o-y/1.4% h-o-h, which looks achievable based on H1 performance. The EBIT forecast implies a lower margin in H2, which is reasonable considering that the high margin in the UK business may not be repeatable. The stock is trading on modest P/E multiples considering its growth and profitability.

Consensus estimates

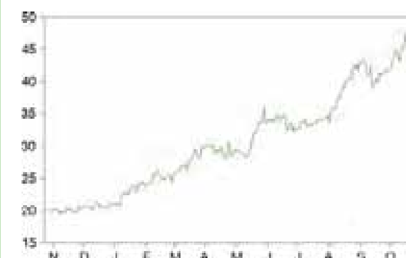
Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	440.3	46.5	2.63	0.50	18.0	1.1
12/12	494.8	50.3	2.94	0.57	16.1	1.2
12/13e	544.7	59.5	3.58	0.57	13.2	1.2
12/14e	577.5	65.0	3.81	0.57	12.4	1.2

Source: Thomson Reuters

Technology

Price	€47.39
Market cap	€440m

Share price performance



Share details

Code	REY
Shares in issue	9.3m
Net (debt)/cash (€) as at Jun '13	6.2m

Business description

Reply offers consulting, systems integration and application management services, specialising in the creation and implementation of solutions based on new communication networks and digital media. The main regions of focus are Italy, Germany and the UK.

Bull

- Innovative
- Experienced management
- Strong margins, especially in the UK business

Bear

- Acquisition risk
- Work needed to bring German margins up to group average
- Strong exposure to the Italian economy

Analyst

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EDISON

Seven Principles

Consulting services

A difficult economic climate and concurrent restructuring process has taken its toll on the top line and margins over the last two years. However, with a restructuring process largely complete, management can refocus on driving top-line growth and improving consultant utilisation rates - key to margin expansion and driving the valuation that languishes at the bottom of its peers on EV/sales of 0.13x, but offers significant upside potential if management executes on strategy.

Restructuring largely complete

Seven Principles (7P) is a leading German mid-market IT consulting group servicing a roster of blue-chip clients in the telecoms and utility sectors, and a strong reputation for enterprise mobility solutions. It has delivered a impressive 12-year CAGR in revenues of 35% to 2012. However, with companies' budgets under pressure, 7P has experienced a significant slowdown in the last 12 months – reporting 2012 revenues down 1% and H113 revenues up only 1.6%. The group has responded to changing client needs by restructuring its core consulting business to better align consultants with client verticals and growth segments. This has been time consuming and costly; it reported H113 EBITDA loss of €2.8m, which included €0.9m of exceptional redundancy costs. However, the restructuring is largely complete, and management can now return its focus to growing the business by: using its expertise in enterprise mobility to drive penetration in verticals where it is under represented (66% of its revenues come from the Telecoms and Energy segments); exploiting cross-selling and upselling opportunities with existing clients; and improving consultant utilisation rates.

Valuation: Margin expansion would drive valuation

On an EV/sales multiple, it is the cheapest stock in the sector, trading on a mere 0.13x 2013 sales (large-cap peer average 0.4x, mid- and small-cap peer average 0.7x). Growth and profitability have been depressed since 2012, but it is emerging from its two-year restructuring process as a stronger company; the market is giving it very little credit for its track record and the potential to improve margins.

Edison estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	98.9	4.7	0.80	0.00	5.4	N/A
12/12	97.5	(0.3)	(0.10)	0.00	N/A	N/A
12/13e	98.0	(0.7)	(0.10)	0.00	N/A	N/A
12/14e	100.0	0.8	0.17	0.00	25.4	N/A

Source: Edison Investment Research

Technology

Price	€4.31
Market cap	€17m

Share price performance

Share details

Code	T3T
Shares in issue	4.0m
Net (debt)/cash (€) as at Jun '13	4.1m

Business description

Seven Principles (7P) is a leading mid-sized German IT consulting and services group. Headquartered in Cologne, 85% of revenues comes from Germany, with a presence in the UK and Austria.

Bull

- Cheapest stock in peer group on sales multiples
- Potential to drive margin improvement
- Expertise in strategically valuable growth segment in largest market in Europe

Bear

- 90% of group revenue was generated by the 25 largest clients
- 66% of 7P's revenue comes from two industry verticals: telecoms and energy/utility
- Geographic limitations could inhibit business development with larger clients

Analyst

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Singulus Technologies

Innovation drives growth prospects

Singulus Technologies' strategy is based upon a continual evolution of technology in its core production machines for high fidelity manufacturing in its optical discs (67% H113 sales), solar cells (19%) and semiconductor (14%) markets. While demand in each of these industries can fluctuate, Singulus has been able to capture significant market share and is at the forefront of improving the efficiency of production techniques. With H113 results demonstrating some progress towards a recovery following difficult solar market trends and the prospect of significant growth in the Blu-ray segment where Singulus has a 90%+ market share, we believe that the full year should provide a return to positive results.

H113 showed progress

The H113 results highlighted that although certain markets remained weak, Singulus's focus on the development and delivery of advanced production machines has allowed it to position itself for growth as markets recover and demand returns. With revenues driven 13% higher by good order intake for the group's BLULINE II optical disc machines and the delivery of existing order books in semiconductor and solar, year-on-year progress was witnessed with North and South American strength offsetting weakness in Europe and Asia. The progress helped EBIT losses for the half reduce from €12.4m to €6.5m.

Long-term diversification strategy

Singulus's long-term strategy is to replicate its current market leading position across a broader product range, where vapour deposition technologies can improve manufacturing efficiency and quality. These include areas such as automotive and medical, and could be achieved through either organic investment in R&D or via acquisitions.

Valuation: A return to positive results should drive a re-rating

Singulus is targeting further growth across its segments, allowing it to achieve a slightly positive EBIT result and a slightly negative net result in 2013. We believe that as Singulus transitions back to positive earnings and momentum driven by new product introductions and market recovery, the shares should re-rate.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	157.5	5.6	0.14	0.00	12.8	N/A
12/12	107.5	(63.8)	(1.23)	0.00	N/A	N/A
12/13e	129.4	(4.2)	(0.08)	0.00	N/A	N/A
12/14e	147.7	3.7	0.06	0.00	29.8	N/A

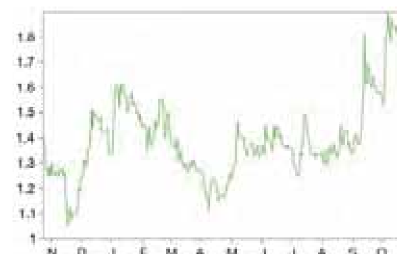
Source: Thomson Reuters

Technology

Price €1.79

Market cap €87m

Share price performance



Share details

Code	SNG
Shares in issue	48.9m
Net (debt)/cash (€) as at Jun '13	(19.2m)

Business description

Singulus Technologies is a Germany-based company engaged in the optical data storage sector, as well in the solar and the semiconductor sector. It makes machines and integrated production lines for manufacturers located around the globe.

Bull

- Leader in manufacturing technology
- High market share in chosen end-markets
- Positive dynamics for Blu-ray outlook

Bear

- Difficult solar markets continue
- Greater diversity required to provide greater stability of earnings
- High ongoing R&D investment required

Analyst

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EDISON

SinnerSchrader

A leading European independent digital agency

SinnerSchrader's strong track record of revenue growth was interrupted in H1, affected by a weak economy and cutbacks at two of its major customers. H2 has been more dynamic with year-on-year revenue growth of 9% in Q3 and 6% in Q4. Consensus estimates forecast 20% growth in 2014 – if this is delivered, the current rating of 0.4x sales and 4.3x EBITDA is undemanding.

Germany's leading e-commerce agency

The group has its origins as a technology company specialising in platform infrastructure and web design software services. It is Germany's leading e-commerce agency and this still represents over 50% of sales. Over the past few years, it has developed a range of digital advertising services, both organically and via acquisition (ad serving, audience management, media buying, mobile advertising) and is now well represented in most areas of digital marketing. Consequently, in a fragmented market place with over 200 digital agencies, SinnerSchrader counts itself among the top 10 European independent digital agencies. It has the benefit of experience and scale in e-commerce. In digital media, it sets itself apart as a result of its strong technological understanding. It provides services to over 100 clients and brands; its largest clients, Deutsche Bank and Alliance, each represent approximately 10% of sales. Other clients include the recently won SKODA, TUI, Unitymedia KBW, Holy Fashion Group, PPR Group, E-Plus Group and Tchibo.

Valuation: Undemanding rating if the top line recovers

The strong track record of growth (five-year CAGR in revenues of 20.4% to 2012) slowed considerably in the first half of the year (-4%), with two major clients cutting back service levels and low levels of new business. However, a stronger H2 (Q3 +9%, Q4 +6%) lends some confidence that this will be short lived. Preliminary full-year revenues of €36.4m, and EBITA of €0.65m to €0.7m have been announced. Management reports a strong pick-up in new business and enquiries going into 2014, and consensus is forecasting revenue growth will return to trend 20% in 2014. If this is delivered, the shares trade on a fairly undemanding 0.4x sales and 4.3x 2014 EV/EBITDA .

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
08/11	30.9	2.1	0.11	0.10	16.0	5.7
08/12	36.0	0.8	0.01	0.00	176.3	N/A
08/13e	36.4	0.3	(0.03)	0.00	N/A	N/A
08/14e	43.7	2.7	0.15	0.08	11.8	4.5

Source: Thomson Reuters

Technology

Price	€1.76
Market cap	€20m

Share price performance

Share details

Code	SZZ
Shares in issue	11.1m
Net (debt)/cash (€) as at Sep '13	3m

Business description

One of the largest independent digital agencies in Germany, with 450 employees. Its emphasis is the use of the internet for e-commerce, marketing, communications and acquisition, and retention of customers.

Bull

- Germany's largest e-commerce agency and leading independent European all-service digital agency
- Q3 growth points to top-line recovery
- Significant M&A activity in sector

Bear

- Very competitive market place
- High degree of dependency on largest customers
- Strong growth already factored into 2014 estimates

Analyst

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EDISON

SNP

Rebuilding the pipeline

After a weak H1, SNP's management is focused on building the sales pipeline for both own-software licence sales and professional services, and is strengthening its sales team to achieve this. The recent signing of a services partnership with SAP should drive higher professional services revenues in the medium term, and the acquisition of a US-based specialist in Oracle-related transformations adds Oracle ERP-based technology and consulting expertise. Q213 should mark a trough in revenues and losses, with a return to growth and profitability in FY14.

Weak H113 results trigger operational changes

SNP reported disappointing results in H113 as it struggled to win new consulting projects and sign new licences for its T-Bone software. Revenues fell 24.6% y-o-y and 24.2% h-o-h, resulting in an EBIT loss of €2.3m. In response, SNP started to strengthen its sales team, adding specialist expertise for direct sales and partner support. Q313 revenues (+15.4% q-o-q) showed a pick-up across the board: Professional Services +7.6%, Licensing +60.8% and Maintenance +32.1%. Excluding the contribution from the August acquisition of GL Consulting (GL), organic growth was 9.9% q-o-q with a narrowed EBIT loss. Strong Q3 order intake led to a book-to-bill of 1.3x.

Recent deals expand SNP's growth potential

Since the beginning of Q213, SNP has taken several significant steps to stimulate top-line growth. In April, SNP signed an OEM agreement with SAP to integrate SAP Data Services into its T-Bone software, and in May it joined the SAP PartnerEdge programme in Germany as a SAP services partner. In August, SNP acquired GL for low single-digit millions of euros (funded from existing cash balances). GL offers consulting services and a software-based approach to Oracle ERP transformations. This gives SNP access to more of the ERP software market – it has typically focused on SAP-related transformations, but can now work with Oracle-related transformations (SAP has ERP market share of 22% and Oracle is the next largest with 15%).

Valuation: Forecasts point to FY14 recovery

In early-July, SNP withdrew FY13 guidance. Consensus forecasts for a revenue decline of 7% in FY13 imply strong sequential revenue growth in Q413 (+65% or +48% y-o-y) and EBIT margin improving to 19.9% in Q4. Assuming the GL acquisition contributes revenues of c €0.9m in Q4, underlying revenues would need to grow by c €3m or 56% q-o-q, challenging but possible if the company sees a typically strong Q4. FY14 forecasts assume 27% revenue growth (we estimate 18% organic). Assuming SNP's drive to rebuild and convert the sales pipeline starts to take effect from H114, the EV/sales multiple of 1.7x FY13e and 1.4x FY14e appears undemanding.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	26.6	4.7	0.88	0.58	14.3	4.6
12/12	27.2	2.9	0.52	0.24	24.3	1.9
12/13e	25.2	(1.7)	(0.44)	0.00	N/A	N/A
12/14e	32.1	1.9	0.31	0.18	40.7	1.4

Source: Thomson Reuters

Technology

Price	€12.63
Market cap	€47m

Share price performance

Share details

Code	SHF
Shares in issue	3.7m
Net (debt)/cash (€) as at Jun '13	7m

Business description

SNP is a software and consulting business focused on supporting customers in implementing change, and rapidly and economically tailoring IT landscapes to new situations. It has developed a proprietary software product called SNP Transformation Backbone (T-Bone).

Bull

- Recent acquisition expands addressable market to Oracle ERP installations
- Resumption of SAP partnership adds indirect sales capacity
- T-Bone software replaces manual processes

Bear

- Software sales cycle longer than anticipated
- Loss-making for last three quarters
- Low consultant utilisation

Analyst

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EDISON

Software AG

Eyes on a tipping point

Software AG is in a transition phase. It is investing in the structural growth opportunity for Business Process Excellence (BPE) while managing the revenue and profitability of its mature Enterprise Transaction Systems (ETS) and consulting businesses. Deal slippage in BPE affected financial progress in the first half of the year, but progress in Q3 suggests that larger deals are now starting to come through. A continuation of this trend could drive earnings upside and a re-rating upwards.

Mix of structural growth and mature businesses

Software has three core divisions. BPE, which accounted for 42% of ytd 2013 sales, is the key growth engine. Its product suite covers multiple facets of business processes through three key products: webMethods (Middleware), ARIS (Business Process Analysis tool) and Terracotta (in-memory database). These products are increasingly sold together, hence the company is seeing its pipeline becoming more heavily weighted towards large (€10m) deals. Supported by structural growth trends such as big data, cloud computing and social collaboration, the company's mid-term goal is to grow its BPE product revenue to €1bn. ETS (28% of ytd 2013 sales), which provides database technology and development environments for mainframes and solutions for modernising mainframe-based IT systems, is in structural decline. The company's consulting business (29% of ytd 2013 sales) provides independent product consulting services for BPE-, ETS- and SAP-related services. The company has recently realigned its consulting business, withdrawing from unprofitable markets. This has led to a decline in year-on-year revenues this year, which should stabilise going forward.

Conversion of BPE pipeline the key trigger

In the first half of the year, progress in the core BPE division was hampered by deal slippage, which was in part due to the pipeline becoming more weighted towards larger, complex deals. Q3 saw strong forwards progress, with divisional revenue growing 25% year-on-year to €114.3m. Performance was boosted by two large deals, one worth US$17m (c €13m) from a US public sector client and another worth €10m from Europe. The company also reports a strong worldwide pipeline in BPE, and if large deals continue to drop through at a higher rate we could see a recovery in estimates momentum and investor sentiment.

Valuation: An undemanding rating

Software's rating of c 14x 2013 earnings is in line with other software businesses that are considered mature. Higher-growth software companies deemed to be carrying greater exposure to structural growth from big data and cloud computing typically trade at mid-teens-plus ratings. Hence, further evidence that the BPE pipeline is converting could prompt some upside to estimates and the rating.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	1098.3	248.3	2.03	0.46	13.4	1.7
12/12	1047.3	231.5	1.89	0.46	14.4	1.7
12/13e	997.5	211.9	1.91	0.45	14.2	1.7
12/14e	1049.4	234.0	2.10	0.48	12.9	1.8

Source: Thomson Reuters

Technology

Price €27.16

Market cap €2361m

Share price performance

Share details

Code	SOW
Shares in issue	86.9m
Net (debt)/cash (€) as at Jun '13	(83.8m)

Business description

Software is a global leader in business process software, integration services and big data. In FY12, revenue was split into 68% software licence sales/maintenance and 32% consultancy, while geographically, the Americas accounted for 48% of revenue, Germany 13%, EMEA 35% and other 4%.

Bull

- BPE pipeline conversion could be a catalyst for P/E discount to peers to close
- Improving product mix leading to higher gross margin, supporting investment in sales capability
- Average deal size in BPE is growing

Bear

- Investment in BPE and declining ETS sales suppressing sales and earnings growth
- Earnings visibility reduced during transition period
- Remains exposed to deal slippage

Analyst

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EDISON

SÜSS MicroTec

Signs of recovery

SÜSS has suffered as the downturn in the chip industry has reduced demand for its equipment. The potential recovery in demand for semiconductor production equipment in H114 supports a return to growth for Süss, bolstered by increasing volume orders for its newer technology as customers move from demo to production tools.

H113 revenues affected by order deferrals

SÜSS has seen weak demand year to date as certain orders were deferred to H2, resulting in a 19% y-o-y and 43% h-o-h decline in H113 revenues. In May, the company restructured the Substrate Bonding division, withdrawing from the permanent bonding market for image sensors to focus on MEMs and LEDs. This resulted in write-downs of inventory, fixed assets and capitalised development costs, contributing €6m of the €15m EBIT loss in H113.

Industry rebound to drive FY14 growth

The company expects Q3 orders to remain at a similar level to Q2 (range €30-40m vs €36.7m), but expects revenues to jump significantly in Q4 as a result of normal seasonal budget flush. Industry analyst, Gartner, expects the semiconductor equipment market to show 15.8% growth in CY14 after an 8.5% decline in CY13, which should result in strong growth in orders for Süss equipment in H114.

Advanced technology a further growth driver

Aside from general industry improvement, the company views its temporary bonding business (in the Substrate bonding division) and photonic business (Tamarack acquisition, reported in the Lithography division) as potential sources of growth as customers move from using demonstration tools to placing volume orders for production tools.

Valuation: Not pricing in rebound

The company maintained FY13 guidance for revenues of at least €150m and an EBIT loss of €10-15m (including the €6m in H1 one-off charges). This implies a pick-up in H2 revenues to c €95m (+73% h-o-h) and an H2 EBIT of €0-5m, both achievable assuming the company sees the usual Q4 seasonal uptick. The stock is trading on an EV/Sales multiple of 0.8x FY13e and 0.7x FY14e, with substantial scope for multiple expansion as revenue and profitability recover.

Consensus estimates

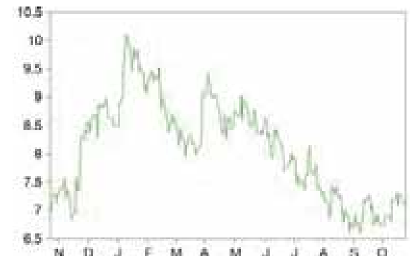
Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	175.4	19.6	0.71	0.00	9.8	N/A
12/12	163.8	11.8	0.48	0.00	14.6	N/A
12/13e	150.9	(9.9)	(0.47)	0.00	N/A	N/A
12/14e	176.2	12.4	0.43	0.00	16.2	N/A

Source: Thomson Reuters

Technology

Price	€6.99
Market cap	€134m

Share price performance



Share details

Code	SMH
Shares in issue	19.1m
Net (debt)/cash (€) as at Jun '13	19.5m

Business description

SÜSS MicroTec designs and manufactures semiconductor equipment for lithography (67% of H113 revenues; for advanced packaging, LEDs, MEMs and 3D integration), substrate bonding (12% of H113 revenues; for LEDs, MEMs and 3D integration) and photomask equipment (17% of H113 revenues; for chip manufacturing).

Bull

- Strong market position
- Refocused Strategic Bonding division
- Strong cash position

Bear

- Tamarack acquisition taking time to deliver
- Dependent on semiconductor's market recovery
- Currency exposure

Analyst

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EDISON

Technotrans

Meeting growth targets through internal development and acquisition

In 2009 management embarked on a strategic reorientation programme to reduce the dependence on the print industry to less than 70% of total revenues. According to management this will help to not only return to pre-crisis revenue levels of around €150m in six years, but to eventually reach the €300m mark. Through a combination of internal development and the acquisitions of Termotek in 2011 and former partner KLH Kältetechnik in January this year, the group has established a strong presence in the laser cooling market. According to the H113 report, this market is expected to show well over average growth of 6.5% through to 2020. Technotrans has begun to sell precision spray lubrication systems for forming and stamping technology and cooling systems for the energy sources on battery powered trams. Within the printing sector, it has developed products for the digital and flexographic (packaging) segments, which are both growing.

First target achieved in H113 with 30% of revenues from outside print industry

H113 revenues rose by 25% to €52.5m, admittedly against weak comparatives, as sales were subdued during H112 in anticipation of new product at the quadrennial drupa exhibition. This growth was driven by the acquisition of KLH as other business activities remained at prior-year levels because economic conditions in Europe and Asia held back investment. Development costs rose sharply, reflecting the importance of new product development. Pre-tax profit increased by 31% to €1.9m. Net cash at the end of June totalled €0.9m.

Continued product innovation the route to achieving second target

In October management revised its FY13 target to €102m revenues with an EBIT margin of 3.5% (previously €105m and 6%) with around 6% revenue growth in FY14 generating 6-7% EBIT margin. Growth is expected to be from new projects creating extra sources of revenue such as sales to the KLH customer base and spray lubrication systems, as well as increasing market share in the print industry in North America and China. Consensus estimates for FY13 appear high but those for FY14 remain achievable.

Valuation: Share price does not reflect FY14 potential

The shares have dipped since the revision to guidance. The FY14 P/E multiple based only on recently revised estimates is now significantly lower than the average for its peers, giving scope for upwards movement.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	97.3	3.9	0.47	0.00	16.9	N/A
12/12	90.7	4.7	0.48	0.12	16.6	1.5
12/13e	107.2	5.8	0.65	0.27	12.2	3.4
12/14e	120.1	9.1	0.96	0.46	8.3	5.8

Source: Thomson Reuters

Technology

Price €7.95

Market cap €55m

Share price performance

Share details

Code	TTR1
Shares in issue	6.9m
Net (debt)/cash (€) as at Jun '13	0.9m

Business description

Technotrans' core competencies are temperature control, measuring and metering technology, process control, filtration and separation. It sells systems for monitoring and controlling processing involving liquid technology, primarily to printing press manufacturers but more recently to the laser market and machine tool industry.

Bull

- Diversification into digital print, packaging, laser cooling and machine tool industry
- Around 60% share of global offset print segment
- High proportion of service revenues (41% FY12)

Bear

- Commercial print market affected by transition to digital media
- Subdued economic environment in Germany
- Relatively low presence outside Europe (23% FY12)

Analyst

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EDISON

USU Software

Technology

Price	€9.36
Market cap	€98m

Controlling costs of IT services

USU Software has delivered revenue and profits growth in each of the last five years, because its customers benefit not only from improved IT services, but also from cost savings. Management has set itself a target to achieve over €100m revenues by 2017. This above market growth will be achieved through product innovation, eg USU Lifebelt, an IT self-service solution that reduces help desk costs, and through internationalisation and acquisition, eg of a majority stake in social media company BIG Social Media in January 2013. Its dividend policy is to distribute around half the profit generated to its shareholders. This is supported by a debt-free balance sheet.

Share price performance

Share details

Code	OSP2
Shares in issue	10.5m
Net (debt)/cash (€) as at Jun '13	12.8m

Business description

USU Software develops and sells business service management software that enables efficient, cost-optimised deployment of a company's IT infrastructure and knowledge management solutions for fine-tuning knowledge-based business processes. USU also provides related consulting services. It has over 500 client companies drawn from all economic sectors, but particularly from IT-reliant areas such as insurance companies and banks.

Bull

- Outstanding reference clients – Allianz, BOSCH, BMW and Texas Instruments
- Partnership with CA Technologies accelerates international expansion
- High proportion of maintenance revenues (25% H113)

Bear

- Service business revenues dependent on major contract wins
- Short-term profit development held back by investment in product portfolio
- Low free float (35.75%)

Analyst

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H113 profit development held back by investment for future

H113 sales declined by 1% year-on-year to €24.6m. Sales in the product business segment, which encompasses all activities relating to the USU product range, grew by 8% to €18.1m (73% of total). Segmental sales were boosted by the consolidation of BIG Social Media and a higher level of consulting income. Revenues from the service business segment (27%), which comprises consulting services for IT projects and individual application development, dropped by 20% to €6.5m as new orders for services were insufficient to fully offset the expiry of two major projects at the end of FY12. The operating cost base grew by 10%, partly as a result of the BIG Social Media acquisition and partly as the workforce was expanded to achieve medium-term growth targets. EBIT, adjusted for amortisation and the impact of the acquisition of the outstanding stake in Aspera in H112, fell from €2.9 to €0.2m. Net cash grew by €1.4m to €12.8m at end June 2013.

Returning to growth in H213

H213, the seasonally stronger half, is expected to benefit from sales of the new products launched toward the end of H113; from licence, maintenance and consulting income from the CA partnership following the completion of the integration of USU's licence management software and CA's IT asset management software in June; and from major project deals for consultancy works for the services business segment. Orders on hand at end June 2013 totalled €23.4m, deliverable in the succeeding 12 months. In August, management reiterated FY13 sales guidance of at least €58m, generating over €8m adjusted EBIT, indicating that the consensus estimates are achievable.

Valuation: Trading at a discount to peers

The shares are trading on EV/EBITDA and P/E multiples at a discount to peers, which seems unjustified given USU's better-than-average growth prospects.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/11	45.6	4.5	0.34	0.20	27.5	2.1
12/12	51.2	3.4	0.46	0.25	20.3	2.7
12/13e	59.1	7.3	0.61	0.26	15.3	2.8
12/14e	66.2	8.8	0.73	0.32	12.8	3.4

Source: Thomson Reuters

EDISON

VASCO Data Security

Technology

A leading position in strong authentication

VASCO is well positioned in its core banking market, which continues to show solid but lumpy growth. Alongside banking, it has developed initiatives to leverage its platform in other verticals in the Enterprise Security, in the B2C and B2B application markets. More work is needed to effectively commercialise these opportunities, but if it can execute on strategy, its addressable market will significantly increase. Although growth has disappointed this year, for the only listed pure play in this structural growth sector, VASCO's P/E rating is justified.

VASCO's traditional products are well positioned in structural growth markets

VASCO is the global market leader in the internet banking vertical, which accounts for 85% of revenues. Although orders in this sector can be lumpy, there remains significant opportunities for growth as more people bank online and as governments increasingly see the need to regulate for better authentication procedures. With companies increasingly using cloud services, the need for stronger authentication in the Enterprise and Applications verticals increases. While competition is intense, this vertical represents a significant growth opportunity for VASCO which is reworking its sales strategy to try to improve its market penetration.

Commercialisation of new cloud services is starting

VASCO launched DIGIPASS as a Service for businesses in 2010 and MYDIGIPASSS.COM for consumers in 2012. A dedicated US sales team has been put in place to drive the commercialisation of these products to the revenue-generation stage; 69 ASPs had signed up at the time of the interims. The challenge now is to convert the ASPs' customers to the products by increasing awareness of the risks associated with transacting online and expand use across multiple applications. If management can execute on this strategy, the opportunity is significant.

Valuation: Well positioned, pure-play cyber security group

The digital security sector is a direct beneficiary of growth in online and mobile banking and the fast-growing e-commerce sectors. VASCO is the only listed pure play in this segment. Although recent quarters have disappointed compared to market expectations, there remain sizeable growth opportunities in its traditional markets, and the potential for significant returns from its cloud offerings, which offer a degree of option value on the shares' longer-term value. With a strong balance sheet and against this backdrop, the FY14 P/E of c 19x looks undemanding for the only pure play listed company in this segment.

Consensus estimates

Year end	Revenue ($m)	PBT ($m)	EPS ($)	DPS ($)	P/E (x)	Yield (%)
12/11	168.1	25.8	0.59	0.00	13.0	N/A
12/12	154.0	21.7	0.40	0.00	19.2	N/A
12/13e	154.0	14.2	0.30	0.00	25.6	N/A
12/14e	162.9	19.3	0.40	0.00	19.2	N/A

Source: Thomson Reuters

Price	**US$7.67**
Market cap	**US$303m**

Share price performance

Share details

Code	VDSI
Shares in issue	39.5m
Net (debt)/cash ($) as at Jun '13	85.6m

Business description

VASCO is a global internet security company with a leading position in strong authentication and e-signature solutions. The DIGIPASS family of hardware and software products is used by more than 10,000 companies. 73% of revenues are from the banking sector; 62% of revenues are from EMEA and 7% from the US, with the remaining 31% from Asia-Pacific and other.

Bull

- Structural growth sector
- Dominant player in financial services security
- Innovative products (mydigipass.com and Cronto) provide additional growth opportunities

Bear

- Largest customer accounts for 11% of revenue
- Increasingly competitive markets
- Risk of credibility and contracts being lost if hacking occurs or weakness is shown to exist

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EDISON

Wincor Nixdorf

IT solutions for retail banking and retail

Wincor Nixdorf is one of the top two providers of ATMs and electronic point of sale (EPOS) systems globally. Although the retail banking and retail sectors in Europe are generally under pressure, it is delivering growth from product innovation, increased penetration of emerging economies and the development of high-value services. Top-line growth, combined with cost reductions arising from a recently completed restructuring programme, is expected to return EBIT margin to historic levels (10% banking, 5% retail). With a policy of paying out around half of cash net income to shareholders, this is expected to result in continued dividend increases.

Continued growth from product innovation and developing economies

For the nine months ended June 2013, sales rose by 8% year-on-year to €1,841m. Revenues from the banking segment (66% total) grew by 11%, driven by demand from emerging markets in Europe, Asia, Africa and the Americas. Revenues from the retail segment (34% total) increased by 2% as investment in the sector continued to be subdued, particularly in those parts of Europe still subject to strict austerity measures. Gross margin was stable at 21.4%. EBITA rose by 33% to €92m, representing an EBITA margin of 5%. The restructuring of the hardware segment's procurement, manufacturing and supply network, now complete, involves outsourcing manufacturing processes to suppliers in low-cost countries and the manufacture of cost-sensitive items in its own plant in China rather than its Singapore facility, which is to be sold. Net debt reduced by €81m to €118m (end June), benefiting from a €34m reduction in working capital. This helped cut gearing from 61% at end FY12 to 33% at the end of June 2013.

In the medium term, we expect growth to be derived from greater penetration of emerging economies and product innovation. For example, the pressure on retail banks in developed economies to control costs is promoting the adoption of software that can operate ATMs from multiple vendors. The company is already well-positioned in this market, which is expected to grow by 75% globally by 2017. Retailers are reducing costs by deploying automated checkouts. Both banks and retailers need to address the growing requirement of enabling consumers to conduct transactions via smartphone. We note pent-up demand from Southern Europe, where banks have not been replacing ATMs.

Valuation: Share price trading in line with NCR

The share price has risen from €31.27 last November and is now trading on similar prospective P/E multiples to NCR Corporation, suggesting the potential for further upward movement is limited.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
09/11	2328.2	155.4	3.47	1.70	13.8	3.5
09/12	2343.0	89.7	2.10	1.05	22.8	2.2
09/13e	2465.1	122.4	2.83	1.40	16.9	2.9
09/14e	2561.3	156.7	3.63	1.81	13.2	3.8

Source: Thomson Reuters

Technology

Price	€47.96
Market cap	€1587m

Share price performance

Share details

Code	WIN
Shares in issue	33.1m
Net (debt)/cash (€) as at Jun '13	(118m)

Business description

The banking segment produces ATMs, other hardware and software for banks. The retail segment provides EPOS systems, automated self-checkout systems, cash management systems and associated software. Half the revenues are from hardware, half from software and services.

Bull

- Retail banking growing in economies such as Asia, Africa and Latin America
- Ranked second in Europe and worldwide for volume of ATMs shipped
- Ranked first in Europe and second worldwide for EPOS systems shipped

Bear

- Retail banking sector in developed economies under pressure
- Retail sector in developed economies continues to be weak
- Competition in Asia from Chinese and Japanese companies

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