EDISON

Scale research report - Update

Delignit

Materials

3 September 2021

Automotive drives strong recovery in H121

Delignit's H121 results showed a strong recovery compared to last year's results, which were affected by the pandemic. The company maintained its FY21 guidance of at least 14% revenue growth and an EBITDA margin of at least 9%. However, there is some uncertainty about the impact of the shortage of electronics components and higher raw materials prices. Delignit's strategy is focused on several ecologically driven trends, such as the use of renewable materials and weight optimisation of products. As most of Delignit's products are wood based, their life cycles are CO_2 neutral, which gives it a key competitive advantage.

Strong revenue growth and margin recovery in H121

The first half of 2021 showed a strong recovery compared to H120, when results were heavily affected by the pandemic. Revenues increased 42% y-o-y to €36.3m, mainly driven by the rebound in automotive activities, which showed 48% y-o-y growth thanks to higher call-offs from customers in the light commercial vehicle (LCV) segment and the further ramp-up of the motor caravan order. Driven by the strong revenue growth, EBITDA jumped 105% to €3.2m, driving a margin improvement of 240bp to 8.6%. This was despite the disrupting impact of the shortage of electronics components, which led to efficiency losses.

FY21 guidance maintained despite uncertainty

Delignit reiterated its revenue guidance of at least €67m in FY21 (+14% y-o-y). Management seems to prefer to be conservative following strong 42% y-o-y growth in H121, given uncertainty about the impact of the shortage of electronics components and higher raw materials prices. Management also maintained its guidance for an EBITDA margin of at least 9% (versus FY20 reported margin of 9.8% and normalised margin of 7.9%). Consensus expects FY21 revenues of €70m and an EBITDA margin of 9.2%. Over the next few years, Delignit will benefit from growth drivers such as the expanding e-commerce sector, growing demand for ecological lightweight products, rising demand for safe independent travel, and modernisation and digitisation in the railway segment. Its medium-term ambition is to realise revenues of more than €100m and an EBITDA margin of at least 10%.

Valuation: Discount to peers

Based on consensus estimates, Delignit is valued at a discount to peers of c 10% on EV/EBITDA in 2021e and 2022e. Delignit's profitability is below the peer group, which could be caused by the different product portfolios. Any closure of the margin gap to peers could trigger upside potential in the share price.

Consensus estimates

Year end	Revenue (€m)	EBITDA (€m)	EPS (€)	DPS (€)	P/E (x)	EV/EBITDA (x)
12/19	64.4	4.8	0.17	0.00	60.0	11.6
12/20	58.7	5.6	0.25	0.03	40.8	10.8
12/21e	70.1	6.4	0.31	0.05	32.9	13.2
12/22e	80.5	7.8	0.42	0.07	24.3	10.7

Source: Delignit, Refinitiv as at 2 September 2021

Price	€10.2
Market cap	€84m

Share price graph

Share details

Code	DLX
Listing	Deutsche Börse Scale
Shares in issue	8.2m
Net debt at 30 June 2021	€4.2m

Business description

Delignit manufactures ecological products and system solutions based on sustainable raw materials for the automotive, aviation and rail industries. Delignit's material is predominantly based on European hardwood and is CO_2 neutral in its lifecycle. Exports account for 55% of sales. MBB is the majority shareholder with 76%.

Bull

- Adding new serial supply contracts for LCV.
- Increased and enhanced applications for existing products.
- Expanding in adjacent markets.

Bear

- High dependence on large OEM contracts.
- Dependence on volatility in volume call-offs from customers.
- Impact from swings in raw material prices.

Analyst

Johan van den Hooven +44 (0)20 3077 5700

industrials@edisongroup.com

Edison profile page

Edison Investment Research provides qualitative research coverage on companies in the Deutsche Börse Scale segment in accordance with section 36 subsection 3 of the General Terms and Conditions of Deutsche Börse AG for the Regulated Unofficial Market (Freiverkehr) on Frankfurter Wertpapierbörse (as of 1 March 2017). Two to three research reports will be produced per year. Research reports do not contain Edison analyst financial forecasts.

EDISON

Strong recovery in H121

Delignit showed a strong recovery in H121 compared to last year's results, which were affected by the pandemic. Revenues increased by 42% y-o-y to €36.3m and thereby surpassed the pre-pandemic level in H119 despite the continuing difficult market environment. The main reason for this is the ramp-up in volumes of the motor caravan order, which started in 2019.

EBITDA jumped 105% to €3.2m, driving a margin improvement of 240bp y-o-y to 8.6% (Delignit calculates the EBITDA margin as percentage of total income rather than total revenues). This recovery in profitability was realised despite the effect of shortages of electronics components, which disrupted production at OEMs as well as at Delignit plants, resulting in efficiency losses. Delignit's profitability could therefore have been higher in the first half under less volatile market conditions. Due to the company's long-term procurement strategy, it has prevented production stops due to supply constraints. Net profit recovered from around break-even to a profit of €1.4m, reflecting an EPS of €0.17 in H121.

Exhibit 1: Delignit H121 results

€m	H119	H120	H121
Automotive, change y-o-y	20%	-20%	48%
Technological Applications, change y-o-y	-21%	-26%	8%
Total revenues	**32.3**	**25.6**	**36.3**
Total income	34.8	25.5	37.8
Change y-o-y	10%	-21%	42%
Gross margin	42.3%	44.7%	43.7%
Staff costs	(8.4)	(7.8)	(9.3)
Other operating costs	(2.8)	(2.1)	(3.3)
EBITDA	2.4	1.6	3.2
Change y-o-y	-16%	-35%	105%
EBITDA margin (as % of total income)	**6.9%**	**6.2%**	**8.6%**
Depreciation	(1.1)	(1.3)	(1.2)
EBIT	1.3	0.3	2.1
Net interest	(0.1)	(0.1)	(0.1)
Pre-tax profit	1.2	0.1	2.0
Taxation	(0.4)	(0.1)	(0.6)
Net income	0.8	0.0	1.4
Number of shares (m)	8.2	8.2	8.2
EPS (€)	0.10	0.01	0.17

Source: Delignit, Edison Investment Research

Delignit's Automotive segment represented 87% of FY20 revenues and comprises product groups LCVs, motor caravans and passenger cars. Revenues recovered strongly from the low level in H120, which was affected by the pandemic. Revenue growth was 48% y-o-y and driven by strong demand in the LCV market, while the further ramp-up of the motor caravan order also contributed to growth. According to the European Automotive Manufacturers Association (ACEA), the LCV market reported a recovery in new registrations of 43% y-o-y in H121 in Europe, and the total volume of 1.1m units is already back to the pre-pandemic levels of H119. Growth in Germany, Delignit's home market (45% of total revenues in FY20), was 23% y-o-y. Passenger cars reported 27% y-o-y growth in new registrations in Europe and 15% in Germany.

Delignit is growing faster than the market and continues to focus on increasing the value of its products per vehicle. On 19 July 2021, Delignit announced that it will expand capacity for interior equipment components for motor caravans following a volume increase by its customer. According to Delignit, this increase will result in additional revenues of more than €20m in total between 2022 and 2029, or around €2–3m per year during the lifetime of the order.

Technological Applications represented 13% of FY20 revenues and comprises product groups building equipment, compressed wood, railfloor and special applications. After several years of weak performance due to lower orders in the Rail segment over the last few years and the impact of the pandemic last year, Delignit showed revenue growth of 8% y-o-y in this segment. The company remains focused on the rail segment, as this sector will benefit from the modernisation and digitisation trend over the next few years.

Outlook

Management reiterated its revenue guidance of more than €67m in FY21, first provided on 24 March 2021. After the strong revenue performance of €36.3m in the first half, which showed 42% growth, full-year guidance of at least 14% growth seems rather conservative. However, market conditions have become more challenging due to uncertainty about the impact of higher raw material prices and the shortage of electronics components.

Management maintained its guidance for an EBITDA margin of at least 9% in FY21, which compares to the reported margin of 9.8% in FY20 or 7.9% when normalised for a non-recurring benefit of €1m related to on-charging costs for the additional expenses incurred in 2019 related to the motor caravan order. For FY21, Delignit still expects a profit from the motor caravan order after a small underlying loss in 2020 when it was still in the ramp-up phase. As mentioned above, Delignit showed a strong recovery in the EBITDA margin to 8.6% in the first half, but profitability would have been higher were it not for the effect of shortages of material. Delignit stated that its key OEM customers anticipate a gradual easing of shortages during H221 and significant backlog effects from previous plant closures. On the other hand, most of the materials used by the company, except for beech wood, are affected by price increases as well as shortages of material. Due to contractual clauses, Delignit is able to pass higher input prices on to customers, but only with a time delay, possibly resulting in temporary pressure on profitability. Consensus currently expects a revenue level of €70m in FY21 with an EBITDA margin of 9.2%.

Delignit's strategy is focused on further geographical expansion, broadening its product offering and on several ecologically driven trends, such as the use of renewable materials and weight optimisation of products. As most of its products are wood based, their life cycles are CO_2 neutral, which should become a key competitive advantage for Delignit.

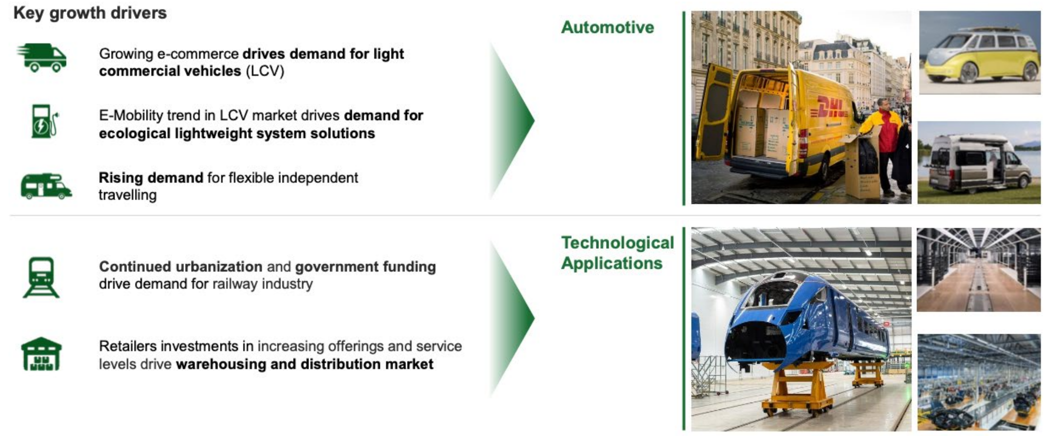
Exhibit 2: Elements of Delignit's strategy

Source: Delignit

Management is positive about the company's long-term growth prospects based on several underlying trends such as increasing e-commerce, growing demand for ecological lightweight products, rising demand for safe independent travel, and modernisation and digitisation in the railway segment (see Exhibit 3). Delignit signed a contract for a new eLCV at the end of 2019, which had initial sales potential of more than €23m over the term of the contract (2022–32). Delignit recently mentioned that this order has been expanded with additional components, which will result in additional revenues of €11m during the lifetime of the contract.

The company's long-term ambition is unchanged: revenues of at least €100m and an EBITDA margin of at least 10%. Growth will also come from geographical expansion and broadening its product offering. Consensus is for revenues of €91m and an EBITDA margin of 10% in FY23.

Exhibit 3: Growth drivers in Delignit's business units



Source: Delignit

Financial position

Delignit's financial position remained strong in H121, with an equity ratio of 58%, up from 57% at year-end 2020. Net debt (including leases) slightly increased from €3.7m in FY20 to €4.2m at the end of H121, despite significantly higher activity levels. Inventories remained stable but could increase during H221, due to the rise in raw materials prices towards the end of H121..

Valuation

There are no companies that closely match Delignit's business profile. We have selected two wood processing companies, namely Steico and UPM, although these companies have lower exposure to the automotive sector than Delignit. We also compare Delignit with automotive suppliers Jost Werke and va-Q-tec. For the Technological Applications segment, we have selected SBF as a peer given its exposure to the railway sector.

Delignit trades at a c 10% discount based on 2021e and 2022e EV/EBITDA compared to peers. The reason for this discount could be the difference in profitability as Delignit's margins are below average compared to its peers, which in turn could be a result of the different product portfolios.

Exhibit 4: Peer group comparison

Company	Market cap	EV/sales (x)			EV/EBITDA (x)			EBITDA margin (%)
	€m	2020	2021e	2022e	2020	2021e	2022e	2022e
Wood processing companies								
Steico	1,698	5.8	4.4	3.9	30.9	19.4	17.2	22.8%
UPM	18,344	2.2	2.1	2.1	13.9	11.0	10.9	19.1%
Automotive suppliers								
Jost Werke	822	1.3	1.0	0.9	11.9	7.5	6.4	13.4%
va-Q-tec	335	5.1	4.4	3.7	31.0	22.1	16.7	19.8%
Technological applications								
SBF AG	86	3.3	2.6	1.8	17.1	14.4	8.5	18.3%
Universe average		3.0	2.9	2.5	19.1	14.9	12.0	18.7%
Delignit	82	**1.1**	**1.0**	**0.8**	**10.8**	**13.2**	**10.7**	**9.9%**
Premium/discount		(64%)	(66%)	(68%)	(43%)	(11%)	(10%)	(47%)

Source: Refinitiv. Note: Prices at 1 September 2021.

General disclaimer and copyright

Any Information, data, analysis and opinions contained in this report do not constitute investment advice by Deutsche Börse AG or the Frankfurter Wertpapierbörse. Any investment decision should be solely based on a securities offering document or another document containing all information required to make such an investment decision, including risk factors. This report has been commissioned by Deutsche Börse AG and prepared and issued by Edison for publication globally.

Edison Investment Research standard fees are £49,500 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of Liability: To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out or in connection with the access to, use of or reliance on any information contained on this note.

No personalised advice: The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Investment in securities mentioned: Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

United States

Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.