Diskus Werke

Mechanical engineering

26 July 2018

Grinding it out

2017 was a record year for revenue and EBIT, with all three divisions outperforming the market. However, H2 performance, broadly in line with management expectations but showing an absolute decline from H1, contrasts with a marked 'beat' in H117. A strong orderbook (up 4% at December 2017) and continued successful investment underpin 2018 guidance of 2–3% revenue growth at significantly higher margin (c 7.5% on operating performance vs 6.3% last year). The company feels well placed to grow by c 20% towards the €300m pa revenue mark long-term target.

H217 consolidation

The step-change in H117 financials (eg PBT more than doubled) was a hard act to follow as set against particularly weak comparatives. Improvement in the second half was thus predictably more measured, with revenue up 8% at a slightly higher EBIT margin (6.3% on revenue vs 6.1%), driving PBT up over 20%. Indeed, profit (not revenue) was lower than in the first half. Continued turnaround at three loss-making subsidiaries was accompanied by notable volatility at the largest companies BUDERUS (full-year profit down 85%) and PRÄWEMA (full-year profit up by a third). While half-year divisional performance is not disclosed, the strongest growth may be assumed to have come from Production and Tools & Components, albeit from a much smaller base than the main Machine Tools business.

A good year in prospect

Despite the apparent loss of profit momentum in H217, a year-end orderbook of €126m ensures a creditable workload for 2018 (over 50% of 2017 sales), supporting guidance of €253m order intake and revenue. Management expectation of further significant margin gain (7.5% on operating performance vs 6.3%) may seem ambitious, given slight 2-3% top-line growth, but simply returning the three loss-making subsidiaries to breakeven would restore EBIT margin to 8-9%.

Valuation: Little on offer

The vast bulk of the company's equity is firmly held and likely to remain so. With a free float of 0.4%, Diskus Werke is unlikely to appeal to most institutional investors. This means the peer group valuation is unlikely to play much of a part in setting the share price. Any activity is likely to be driven by private investors to whom absolute measures such as P/E (23x for 2017) and dividend yield (1.4% on 2017 payout) will be more important.

Historical financials

Year end	Revenue (€m)	EBIT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/14	160.5	9.0	0.36	0.10	48.9	0.6
12/15	199.2	14.0	0.78	0.21	22.6	1.2
12/16	218.4	11.4	0.52	0.20	33.8	1.1
12/17	246.9	16.2	0.75	0.25	23.5	1.4

Source: Diskus Werke data

Price	€17.60
Market cap	€171m

Share price graph

Share details

Code	DIS
Listing	Deutsche Börse Scale
Shares in issue	9.7m
Net debt at December 2017	€51.6m

Business description

Diskus Werke is an archetypal Mittelstand systems provider with extremely strong market positions in the sub-segments within which it operates. The company is organised around three business units: Machine Tools & Automation, Tools & Components, and Production.

Bull

- Strong market position.
- Few strategic threats.
- Potential high-margin growth in contract manufacturing.

Bear

- Very low free float.
- Loss-making subsidiaries in 2017.
- Core client industries are mature.

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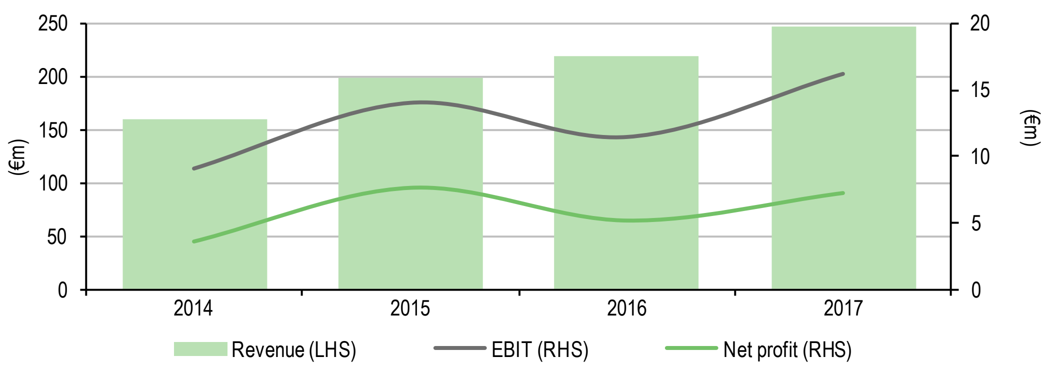
Review of 2017 results

Diskus Werke's recent volatile profit record was maintained in 2017. After sharp dips in EBIT in 2014 and 2016, a 42% y-o-y improvement in 2017 ensured a record outturn (also at EBITDA and PBT levels, if not at net profit). A prime contributor was loss elimination at three subsidiaries, Pittler, Diskus Werke Schleiftechnik and DVS Production South, ie c €2m vs c €6m in 2016 and near breakeven in 2015.

Exhibit 1: Analysis of revenue and profit (€m)

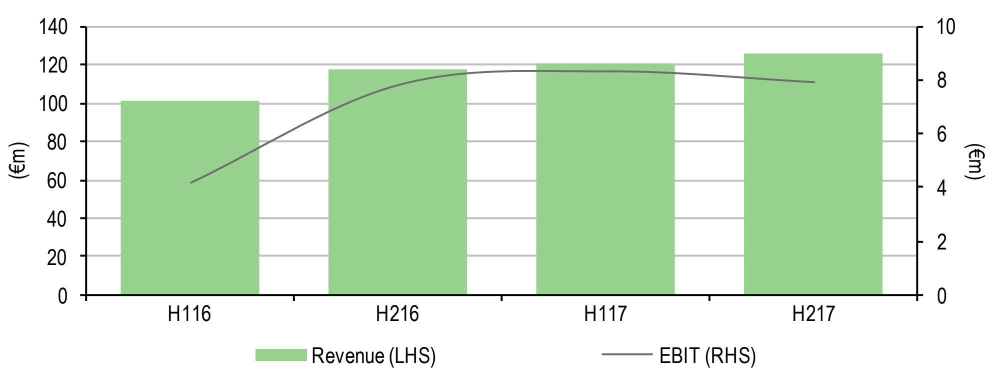


Source: Diskus Werke accounts

Second-half performance showed continued profit restoration against a subdued H216 (EBIT up 10% y-o-y) but not compared with the preceding half (EBIT down 5%). By contrast, revenue growth was ahead on both counts (by 8% and 5%, respectively).

Overall, the company appears to have performed visibly better than the German machine tool industry as a whole (production up 4% in 2017).

Exhibit 2: Analysis of half-yearly revenue and EBIT (€m)



Source: Diskus Werke accounts

Order inflow in H2 was notably positive at +19% y-o-y (€133.4m) compared with +4% in the first half. This took the orderbook to €126.4m at the end of the period (€125.7m at December 2016 and €119.3m at June 2017). Costs remained under good control. Payroll, for example, was up 8% at €36.9m and despite a sharp increase in the cost of bought-in services (up 40% to €13.5m), raw material costs rose more slowly than turnover (+8% y-o-y), up just 4% to €43.7m.

There was further considerable progress in turning around the three subsidiaries that burdened 2016 results, with losses cut to €0.7m in the second half of 2017 from €3.0m in the comparable period. As a result, DVS Production South (formerly Fröhlich) returned almost to the black but the performances of Diskus Werke Schleiftechnik and Pittler remained unsatisfactory by management admission.

Exhibit 3: Financial performance

Year-end December (€m), HGB	H116	H216	FY16	H117	H217	FY17
Revenue						
Machine Tools			164			178
Change			+9%			+9%
Production			28			37
Change			+27%			+32%
Tools & Components			24			30
Change			+9%			+25%
Other			2			2
International			57%			68%
Total	**100.9**	**117.5**	**218.4**	**120.5**	**126.4**	**246.9**
Change	**+19%**	**+3%**	**+10%**	**+19%**	**+8%**	**+13%**
EBITDA	8.9	12.0	20.9	13.5	12.8	26.3
EBIT	**4.2**	**7.2**	**11.4**	**8.3**	**7.9**	**16.2**
Margin	**4.2%**	**6.1%**	**5.2%**	**6.9%**	**6.3%**	**6.6%**
Net interest	(1.4)	(1.6)	(3.0)	(1.3)	(1.6)	(2.9)
Pre-tax profit	**3.1**	**5.3**	**8.4**	**7.1**	**6.5**	**13.6**
Net profit	**1.1**	**4.0**	**5.1**	**4.1**	**3.1**	**7.2**

Source: Diskus Werke accounts

2018

Management looks for revenue and order intake of €253m, a rise of 2%. In view of the size of the orderbook (c 50% of forecast sales), this may seem cautious and by comparison with the 8% gain in H217. There may also be scope for surprise in the targeted improvement in margin on operating performance (7.5% against 6.3%), given the scale of guidance overshoot in H117 (PBT was 32% above management expectations). However, there was an absolute decline in H217 margin from the first half, eg from 6.9% to 6.3% (EBIT on sales), which may reflect the persistence of structural issues at the three problematic subsidiaries.

Balance sheet and cash flow

Finances remain sound with net debt at December 2017 of €52m (vs €57m in December 2016 and €56m at June 2017). This represents a manageable 41% of equity (book value) with an equity ratio of 52%.

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