

Blue Cap

Industrials

9 June 2020

Steady increase in NAV and stable dividend

Blue Cap reported a strong set of FY19 results, with revenues up 28% and adjusted EBITDA up 67%. Portfolio NAV increased 8% to €128.6m or €32.31 per share, which was mainly driven by expansion in the plastics segment. The coronavirus crisis has affected Blue Cap as management now expects a low double-digit organic decline in revenues in 2020. This will not be fully compensated for by the revenue contribution of acquired Con-Pearl. 2021 is expected to be much stronger, assuming a post-coronavirus recovery leading to increased activity, and the restructuring benefits at Con-Pearl.

Strong 2019 results

Blue Cap reported strong results over 2019. Revenues increased 28% to €225.6m, with organic growth at 5% and the remainder coming from the acquisitions of Knauer-Uniplast and Con-Pearl. Adjusted EBITDA showed a jump of 67% to €14.3m reflecting a margin improvement of 150bps to 6.4%. Blue Cap pays a stable dividend per share of €0.75. Net debt increased from €34m to €63m, due to acquisitions and higher leasing liabilities (IFRS 16).

Organic decline in revenues anticipated in 2020

At the beginning of the year, management was positive about Blue Cap's outlook for 2020, but the impact of the coronavirus crisis is unavoidable. Based on the assumption that economic activity will gradually normalise towards end Q320, management expects a low double-digit organic decline in revenues for FY20. The consolidation of Con-Pearl will partly compensate for this decline. Driven by the restructuring benefits in the Plastics segment, the effect of Kurzarbeit and savings on running costs, the decline in EBITDA margin could be limited. Consensus expects a 5% decline in revenues and a 180bp lower EBITDA margin. 2021 should be much better assuming a post-coronavirus recovery and the full benefit of restructuring at Con-Pearl. M&A activity is currently low but expected to pick up in H20.

Valuation: Steady growth in NAV

Blue Cap estimates portfolio NAV of €128.6m at end FY19. Total NAV, including the NAV of the Blue Cap holding, amounts to €141.2m or €35.48 per share. If we add the positive €11m increment in NAV from the divestment of Em-Tec in April 2020, we arrive at a NAV of €152.2m or €38.24 per share. This NAV is the value per April 2020 and is before any negative effects from the coronavirus crisis. Based on consensus, Blue Cap is currently valued at an EV/EBITDA of 7.1x for 2021e, which is clearly below historical valuation levels in 2018 and 2019.

Consensus estimates						
Year end	Revenue (€m)	Adj EBITDA (€m)	Net profit (€m)	EPS (€)	DPS (€)	EV/EBITDA (x)
12/18	176.0	8.6	12.5	3.14	0.75	11.7
12/19	225.6	14.3	2.8	0.71	0.75	9.6
12/20e	215.0	10.0	13.6	3.39	0.75	12.6
12/21e	235.0	17.5	1.8	0.45	0.75	7.1

Source: Blue Cap, Edison, Refinitiv consensus based on one analyst (Warburg)

Price €16.70
Market cap €67m

Share price graph



Share details

Code B7E
Listing Deutsche Börse Scale
Shares in issue 4.0m
Net debt at 31 December 2019 €63m

Business description

Blue Cap is a Munich-based industrial holding company, investing in medium-sized manufacturing companies with a turnover range of €30–80m. Blue Cap currently has 10 shareholders.

Bull

- Proven business model and management.
- Strong finances set for boost from transformative transactions.
- Economic downturn enhances buying opportunities.

Bear

- Execution risk in restructuring processes.
- Valuation risk in identifying acquisitions.
- Dependence on economic conditions, mitigated by diverse business and geographical mix.

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Strong revenue growth and better margins in 2019

Blue Cap's 2019 results were in line with the preliminary results published in April 2020. Revenues increased 28.2% to €225.6m after an increase of 25% in the first half. The main contributors to growth were acquisitions, namely Knauer-Uniplast (May 2018) and Con-Pearl (September 2019). Organic growth amounted to 5% after the reported 4% growth in the first half.

Adjusted EBITDA jumped 67% to €14.3m, reflecting a margin improvement of 150bp to 6.4%. Including several adjustments, reported net profit declined from €12.5m to €2.8m. The highest adjustment was €11.4m of goodwill related to the acquisition of Knauer-Uniplast in 2018. Blue Cap will distribute a dividend per share of €0.75, which is equal to last year's amount.

Net debt increased from €34m to €63m, due to acquisitions and the higher lease liabilities according to IFRS 16. The higher leverage will be reduced again by the potential restructuring at both Knauer-Uniplast and Con-Pearl and the divestment of Em-Tec in April 2020, which delivered a cash inflow of €25m.

Exhibit 1: Blue Cap FY19 results

€m	FY18	FY19	Change y-o-y
Total revenues	176.0	225.6	28.2%
EBITDA	21.1	15.0	-29%
Adjusted EBITDA	8.6	14.3	67%
Adjusted EBITDA margin	4.9%	6.4%	
EBIT	14.0	4.6	-67%
Adjusted EBIT	3.3	6.8	109%
Net profit	12.5	2.8	-78%
Number of shares outstanding (m)	3.98	3.98	
EPS (€)	3.14	0.71	-78%
DPS (€)	0.75	0.75	

Source: Blue Cap accounts, Edison Investment Research

Segment performance

Blue Cap's strategic focus is on industrial companies in the DACH region. In 2019, revenues based on customer location were as follows: Germany 52%, rest of Europe 34%, rest of World 14%.

Looking at activities, the company's focus is on companies that are active in the coating, adhesives and plastics sectors. Blue Cap reports in six segments, which are shown in Exhibit 2. Coatings and Adhesives showed stable development in 2019, but Plastics reported a jump in revenues of 93%, which is largely driven by the acquisitions Knauer-Uniplast (four additional months, given that it was consolidated per 1 May 2018) and Con-Pearl (consolidated since September 2019). Production increased 21%, driven by Gämmerler and SMD-David, while Nokra reported a decline in revenues. Medical's reported revenues were 1% below last year's level, but this was fully due to the divestment of Wisap Medical Technology. Excluding this effect, revenues in Medical were about 20% higher compared to last year. Precious metals showed a jump of 85% in revenues, benefiting from the higher price for gold.

Exhibit 2: Revenues per segment FY19, €m

Segments	Included companies	Revenues FY18	Revenues FY19	Change y-o-y
Coatings	Neschen	61.1	62.2	1.9%
Adhesives	Planatol	36.5	35.7	-2.2%
Plastics	Knauer-Uniplast, Con-Pearl	37.7	72.8	92.9%
Production	Gämmerler, SMB-David, Nokra	17.8	21.6	21.0%
Medical	Em-Tec	10.6	10.5	-1.0%
Precious metals	Carl Schaefer	12.5	23.2	85.3%
Other		(0.3)	(0.3)	4.1%
Total revenues		176.0	225.7	28.2%

Source: Blue Cap accounts, Edison Investment Research

Change in management, strategy and shareholder

In May 2019, founder and CEO Hannspeter Schubert announced he would leave Blue Cap at the end of 2019. It was also decided to broaden the management to three members instead of only one. The current management board consists of Tobias Hoffmann-Becking (CIO), Matthias Kosch (CFO) and Ulrich Blessing (COO). With the new management board, the strategy of Blue Cap has also undergone some changes:

- As a result of the growth development at Blue Cap over the past few years, the company has scaled up the size of targeted investments to a revenue range of €30–80m (was previously starting at €10m). This change in strategy means that several investments do not fit the profile any longer. Blue Cap already divested Em-Tec in April 2020 (revenues of €10.5m) and the three production companies Gämmerler (revenues €9.4m), SMB-David (€8.7m) and Nokra (€3.4m) no longer seem to fit the company's strategy, thus might be up for sale.
- Management wants to strengthen its investor relations strategy to increase its visibility and to expand investor access, in Germany and abroad.
- The company's focus remains on the local markets, but the targeted area is now the whole of Germany rather than predominantly the Bavarian region.

There will also be a change in the position of the large shareholder, as Partnerfonds (45% stake) has announced the start of the liquidation of the company including its holdings from January 2021. What is certain at the moment is that these shares in Blue Cap are planned to be transferred at some point, most likely at the end of the liquidation process, which might take longer. This transfer of shares might have different advantages to the shareholders, for example an increase of the free float, the division of the stake into smaller stakes or another option. Therefore, it is understandable that Blue Cap management is willing to increase its investor relations efforts, which will likely increase its visibility to a wider range of investors.

Outlook: Lower organic revenues in 2020

Blue Cap's management was very positive at the start of 2020 about its growth opportunities during the current financial year. Also, Con-Pearl was acquired in September 2019 and therefore will contribute significantly to the FY20 revenues (it contributed €17m to FY19 revenues while having annual revenues of €55.4m), while going through a reorganisation process this year.

Effective April 2020, Blue Cap sold Em-Tec to Dover Corporation for a cash inflow of €25m, which compares positively to the FY19 NAV of €14m for this asset. This sale fits the company's strategy to focus on companies within the revenue range of €30–80m.

Due to the unavoidable effect of the coronavirus crisis, management has adjusted its expectations for 2020. Management assumes a gradual normalisation of economic activity towards the end of the third quarter and expects revenues to show a low double-digit organic decline. The contribution of Con-Pearl will bring compensation and easily offset the loss of revenues of Em-Tec, but its contribution will not be enough to generate overall revenue growth in FY20. Consensus currently expects a 5% decline in total revenues.

The company's diversification strategy is paying off as the business units are affected differently by the current crisis. Knauer-Uniplast benefits from increased demand in the food sector, Carl Schaeffer benefits from the rising gold price and Inheco (minority stake) benefits from higher demand for laboratory automation products. On the other hand, Con-Pearl is affected by the decline in the automotive sector and both Neschen and Planatol face declining demand from the graphic industry.

M&A will remain an important driver for growth, but due to the coronavirus crisis management expects M&A activity to be temporarily low and pick up again as of the second half of 2020.

Valuation: Steady growth in NAV

Blue Cap values its business units by using a discounted cash flow model, which is based on the individual FY19 results and the approved budgets for the years 2020 to 2022. Blue Cap assumes an average perpetual growth rate of 1.5% (FY18: 2.0%) and an average WACC of 6.1% (FY18: 7.5%). Exhibit 3 below shows the development of the NAV in 2018 and 2019 of the various business units of Blue Cap. The NAV of the total portfolio increased 8.8% to €128.6m. The major change came from Plastics, where Blue Cap added Con-Pearl to its portfolio in September 2019.

Exhibit 3: NAV of Blue Cap's business units, €m

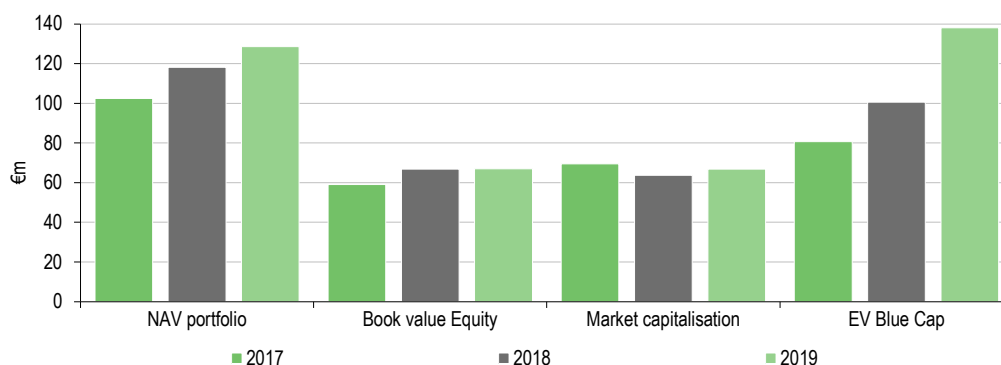
Segments	NAV FY18	NAV FY19	Change y-o-y
Coatings	61.1	60.9	-0.3%
Adhesives	15.7	15.9	1.3%
Plastics	10.7	22.1	106.5%
Production	15.9	12.2	-23.3%
Medical	11.6	14.0	20.7%
Precious metals	3.2	3.5	9.4%
Total	118.2	128.6	8.8%

Source: Blue Cap accounts, Edison Investment Research

This NAV excludes the net debt at holding level (€2.8m), the book value of real estate (€12.4m) and the book value of minority stakes (€3.0m). Including these items, the overall NAV is €141.2m, reflecting a value per share of €35.48. Including the Em-Tec transaction, while assuming all other factors unchanged, would lift the total NAV of Blue Cap by €11m to €152.2m, or €38.24 per share. This amount reflects the NAV per April 2020 and does not take into account any negative effects from the coronavirus crisis.

This adjusted NAV per share compares to the current share price of the company of €16.70. The current share price of Blue Cap is generally in line with the book value per share of €16.80.

Exhibit 4: Development of Blue Cap's NAV



Source: Blue Cap accounts, Edison Investment Research

Based on Refinitiv consensus estimates, Blue Cap is currently valued at an EV/EBITDA of 7.1x for 2021e, which is relatively low when compared to the company's historical EV/EBITDA multiples in 2018 and 2019 of 11.7x and 9.6x, respectively.

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