

## Datron

**Industrials**
**3 September 2021**

### Benefiting from returning demand

A strong year-on-year rebound in Datron's H121 figures reflects the continuous recovery of economic conditions and customer confidence. After posting a solid order intake in Q221, management revised up its full-year guidance in July 2021. Datron's performance should be further assisted by improving sentiment in the broader market, reflected in the upward revision of the forecast growth in production output of the German machine tools industry in 2021 to 8% y-o-y (from 6% expected earlier this year), issued by the German Machine Tool Builders' Association (VDW) in August 2021.

### Increased economic activity fuels growth in H121

After a weak FY20, affected by the COVID-19 pandemic, Datron's EPS improved to €0.42 in H121 from €0.07 in H120 (vs €0.32 in H119). The EBIT margin stood at 8.9% in H121 (vs 1.5% in H120 and 7.0% in H119), assisted by a particularly strong Q221 at 11.1%. Datron's sales recovered to €25.7m in H121 from €22.0m in H120 (vs €26.6m in H119), with strong growth across the largest segments (though likely including some pent-up demand), supported by the recurring revenue from the 'After sales and other' segment (c 20% of its sales in H121). Order intake increased 36% y-o-y to €27.6m in H121 and was ahead of the €26.6m in H119, backed by a broader economic recovery.

### Management full-year guidance revised upwards

Management raised its full-year guidance in July 2021 after posting a strong Q221 order intake (€15.5m vs management forecast of €12.5–14.0m). The company now guides to FY21 sales of €47–50m (vs c €42m in FY20 and c €54m in FY19), an EBIT margin of 6–8% (vs 5.1% and 7.2%, respectively) and EPS of €0.50–0.75 (€0.37 and €0.70, respectively). In Q321, Datron expects sales and order intake of €11.5–13.0m and EBIT of €0.4–1.0m, translating into an EBIT margin of c 6% at the midpoint of this guidance. Management forecasts assume that the COVID-19 pandemic will not worsen, and supply chains will remain uninterrupted.

### Valuation: Reflecting an improving outlook

Datron's share price has appreciated by 31% in 2021 to 2 September 2021, reflecting its solid performance in H121 and an improving economic outlook. The company's FY21e P/E of 19.2x and EV/EBITDA of 7.5x on Refinitiv consensus estimates imply 35% and 18% discounts, respectively, to medians for its peer group.

#### Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/19	53.8	3.9	0.7	0.1	16.4	0.9
12/20	42.1	2.1	0.4	0.05	28.8	0.4
12/21e	48.5	3.4	0.6	0.2	19.2	1.7
12/22e	55.8	4.0	0.7	0.15	16.4	1.3

Source: Datron, Refinitiv consensus (based on the estimates of one analyst).

**Price** €11.5  
**Market cap** €46m

#### Share price graph



#### Share details

Code	DAR
Listing	Deutsche Börse Scale
Shares in issue	4.0m
Net cash at end-H121	€13.4m

#### Business description

Datron is a long-established provider of innovative CNC milling machines, dental milling machines, dosing machines and milling tools.

#### Bull

- Improving market sentiment amid broader economic recovery.
- Solid balance sheet.
- Recurring income from aftersales has been increasing over recent years and helped mitigate market headwinds during the COVID-19 market slowdown.

#### Bear

- A cyclical business, which could suffer from another COVID-19 induced downturn.
- Risk of supply bottlenecks and high cost inflation.
- Small size relative to global market.

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## H120 results reflect improving market conditions

After a weak FY20 affected by the COVID-19 pandemic, Datron's sales increased 17% y-o-y to €25.7m in H121 (vs €26.6m in H119), including €11.4m posted in Q121 and €14.3m in Q221. The latter figure was likely assisted by pent-up demand. Its three major segments recorded double-digit sales growths in H121, including the largest 'Datron machines' (c 57% of sales in H121), where revenues were up 13% y-o-y to €14.7m. While sales in the 'Datron machines' and 'CNC/Dental milling tools' segments were still lower than in H119 (before the COVID-19 pandemic), this was partly offset by the dynamic revenue growth in the 'After sales and other' segment (where sales are largely recurring). Revenues in Germany, Datron's largest market (c 47% of sales in H121), grew 12% y-o-y to €11.4m in H121. Positive contributions to sales came also from other geographies except for 'other Europe' (ie European countries outside the EU, including Russia), where sales declined 26% y-o-y to €1.7m in H121 as growth in Russia was more than offset by the weakness of other countries, according to management.

The EBIT margin improved to 8.9% in H121 (from 1.5% in H120 and 7.0% in H119) after it reached 6.3% in Q121 (vs 1.3% in Q120 and 4.4% in Q119) and 11.1% in Q221 (vs 1.8% in Q220 and 9.5% in Q219). This was despite a 15% y-o-y rise in total operating costs to €25.1m in H121, affected by higher material and personnel expenses (up 29% y-o-y and 15% y-o-y, respectively). We note that the growth in total operating costs was from a low H120 base, including personnel expenses as Datron resumed a full-time work setup in April 2021. Last year, personnel expenses were lower due to shortened working hours during the COVID-19 outbreak as headcount remained broadly stable year-on-year (281 on average in H121 vs 278 in H120). Other operating expenses declined by 17% y-o-y to €3.1m in H121, largely due to lower delivery costs as well as advertising and travel costs in the COVID-19 pandemic. Consequently, EPS reached €0.42 in H121 vs €0.07 a year earlier.

Datron's balance sheet remains solid, with gross cash of €14.2m at end-H121 (vs €13.1m at end-FY20) and liabilities to banks at a minor €0.8m (€0.6m). In April 2021, the company bought back 50k shares (or c 1.25% of its current share capital) at a price of €9.30 per share. Although the size of the buyback and dividend pay-out is moderate, we believe it shows management's confidence in the company's liquidity position.

### Exhibit 1: Financial performance

HGB figures in €000s unless otherwise stated	H121	H120	change y-o-y	H119
<b>Revenue</b>	<b>25,663</b>	<b>21,988</b>	<b>17%</b>	<b>26,584</b>
o/w Datron machines (mainly CNC milling)	14,650	12,941	13%	16,525
o/w CNC/Dental milling tools	5,584	4,780	17%	5,434
o/w After sales and other	5,158	4,267	21%	4,289
o/w Other*	271	319	-15%	335
Change in stocks	1,704	177	N/M	711
Other operating income	12	37	-68%	127
Material costs	(11,999)	(9,293)	29%	(11,596)
Personnel costs	(9,355)	(8,141)	15%	(9,025)
Other operating costs	(3,149)	(3,789)	-17%	(4,322)
Depreciation	(582)	(640)	-9%	(608)
<b>EBIT</b>	<b>2,294</b>	<b>340</b>	<b>N/M</b>	<b>1,871</b>
Profit before taxes	2,344	376	N/M	1,880
Income tax	(667)	(100)	N/M	(607)
Other taxes	(6)	(7)	-16%	(5)
<b>Net income</b>	<b>1,671</b>	<b>268</b>	<b>N/M</b>	<b>1,268</b>
Minorities adjustment	(84)	38	N/M	20
Net income ex minorities	1,587	307	N/M	1,287
<b>EPS (€) - reported</b>	<b>0.42</b>	<b>0.07</b>	<b>N/M</b>	<b>0.32</b>

Source: Datron accounts, Edison Investment Research. Note: \*Other revenues as per BilRUG (the German Accounting Directive Implementation Act).

Order intake increased 36% y-o-y to €27.6m in H121, supported by a solid €15.5m in Q221, which exceeded management expectations of €12.5–14.0m for the period. Datron's order intake in H121 was also slightly ahead of the €26.6m in H119. The book-to-bill ratio was 1.09x in H121 (vs 0.94x in

H120 and 1.01x in H119). While the year-on-year growth in order intake in H121 was below the broader German machine tools industry (up 57% y-o-y, according to VDW), we note that this may be due to a less severe decline at Datron compared to the market in 2020 in terms of revenue (down 22% vs 31% according to VDW data, respectively) and order intake (down 20% and 30%, respectively).

## Management raises FY21 guidance after a solid Q221

After a strong order intake in Q221, the company raised its full-year guidance for sales to €47–50m (vs €44.5–48.5m in its previous forecast released in June 2021), EBIT margin to 6–8% (5–7.5%) and EPS to €0.50–0.75 (€0.40–0.65) in July 2021. Management guidance assumes that COVID-19 pandemic will not worsen, and supply chains will remain uninterrupted. The company's guidance at the midpoint implies H221 sales slightly lower than in H121 (translating into c 15% y-o-y growth in total sales in FY21) as well as lower EBIT margin and EPS in H221 (c 4.8% and €0.21, respectively, according to our calculations). VDW expects a further recovery in demand in 2021 and in August 2021; it raised its production forecast for the German machine tools industry in 2021 to 8% from the 6% expected earlier. This would bring the production volume to €13.2bn in 2021, compared with the peak result of €17bn in 2018/2019, according to VDW. For Q321, Datron guides to sales and order intake of €11.5–13.0m and EBIT of €0.4–1.0m, translating into an EBIT margin of c 6% at the midpoint of this guidance.

€m unless otherwise stated	Q121	Q221	Q321 – management guidance	FY21 – management guidance	FY20 – reported	FY19 – reported
Total sales	11.4	14.3	11.5–13.0	47–50	42.1	53.8
EBIT	0.7	1.6	0.4–1.0	3.3*	2.1	3.9
EBIT margin (%)	6.3	11.1	5.7%*	6–8%	5.1%	7.2%
EPS (€)	0.12	0.30	N/A	0.50–0.75	0.37	0.70
Order intake	12.1	15.5	11.5–13.0	47–50	42.4	53.2

Source: Datron, Edison Investment Research. Note: \*Edison calculations based on midpoints of company's guidance.

## Valuation

We believe that Datron's closest peers are Hermle and DMG Mori, though these are much larger companies as illustrated by their market capitalisation. Thus, we have supplemented our peer group with smaller companies engaged in the machinery industry, including Prima Industries and Biesse (both Italy based), Meier Tobler and Starrag Group (both based in Switzerland) and Nicolas Correa (Spain).

Datron is currently trading on an FY21e P/E multiple of 19.2x and an FY21e EV/EBITDA multiple of 7.5x, on Refinitiv consensus estimates, which implies a discount to its peer group medians of 35% and 18%, respectively. The discounts narrow to 10% for the P/E multiple and 5% for the EV/EBITDA multiple in FY22e. We note that Refinitiv consensus on Datron is based on the estimates of one analyst.

**Exhibit 3: Peer group comparison**

Company name	Market cap local ccy (m)	P/E (x)			EV/EBITDA (x)			Dividend yield (%)		
		2020	2021e	2022e	2020	2021e	2022e	2020	2021e	2022e
DMG Mori	¥258,457	153.5	29.4	12.9	10.1	7.3	5.0	1.0	1.3	2.4
Hermle	€1,395	35.6	31.5	20.6	N/A	N/A	N/A	1.8	2.2	3.6
Biesse Spa	€839	133.8	27.8	25.3	17.4	10.3	8.9	0.6	1.6	1.4
Prima Industrie	€216	N/M	29.5	13.8	13.4	9.0	6.5	0.0	0.3	1.3
Meier Tobler	CHF237	60.0	26.1	18.1	10.9	9.5	8.8	0.0	2.5	3.7
Starrag Group	CHF161	154.8	38.1	18.0	16.1	11.5	7.2	0.0	0.0	2.1
Nicolas Correa	€71	11.8	11.6	10.5	8.2	7.6	6.7	2.9	2.9	3.0
<b>Peer group median</b>		<b>96.9</b>	<b>29.4</b>	<b>18.0</b>	<b>12.2</b>	<b>9.2</b>	<b>7.0</b>	<b>0.6</b>	<b>1.6</b>	<b>2.4</b>
Datron	€46	31.1	19.2	16.2	10.8	7.5	6.6	0.4	0.9	1.3
<b>Premium/(discount)</b>		<b>(68%)</b>	<b>(35%)</b>	<b>(10%)</b>	<b>(11%)</b>	<b>(18%)</b>	<b>(5%)</b>	<b>(28%)</b>	<b>(45%)</b>	<b>(45%)</b>

Source: Refinitiv data at 3 September 2021. Note: Refinitiv consensus for Datron is based on the estimates of one analyst.

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