

27 August 2020

## Francotyp-Postalia Holding

Germany

### Support Services

Reuters: FPHG.DE Bloomberg: FPH GY

### Buy

Closing price as of  
26-Aug-20 EUR 3.24

Target price EUR 4.00

High/Low (12M) EUR 4.19/2.68

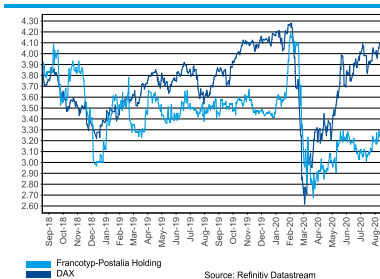
Market cap. EUR mn 52

Enterprise value EUR mn 99

Free float 44.7%

Avg. daily turnover EUR mn 0.03

### Price relative to Index



Performance (%)	1M	3M	6M
Absolute	3.8	1.6	-21.2
rel. DAX	1.1	-13.1	-24.4
rel. STOXX Europe 600	2.3	-5.4	-13.4
rel. SXXP Industrials	-1.9	-12.8	-18.3

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2Q20 sales and earnings affected from COVID-19 headwinds but FP kept up quite well in 1H20 – FY20 guidance slightly above our previous projections

### Our conclusion

- While FP's performance in 1Q20 (sales +9.4%, EUR 8.0mn EBITDA) was not noteworthy affected by COVID-19 headwinds, 2Q20 has been a much more challenging quarter for the company. 2Q20 figures showed a 9% sales decline with FP's Franking & Inserting segment down 15.5%. Nevertheless, 2Q20 EBITDA, increased by 12% vs. the weak 2Q19 level to EUR 5.2mn. 1H20 EBITDA amounts to EUR 13.2mn (13.2% margin; +14.4% yoy), however, FP reported stable sales and even improved results.
- FP specified its outlook for 2020 (so far "significant decline in sales and EBITDA"). The company is projecting sales of EUR 195-203mn and EBITDA of EUR 24-28mn. The company emphasized that in particular 3Q20 will remain challenging. In view of the quite solid 2Q20 figures and the company's outlook, we are slightly raising our FY20 projections from EUR 295.4mn sales to EUR 198mn and our EBITDA forecast from EUR 23.6mn to EUR 26mn (13.1% margin, -22% yoy).
- We are confirming our Buy rating for FP and our target price of EUR 4.00. We still consider FP shares as undervalued. Based on our earnings projections, FP is valued at a P/E 21E of 9.0x and a P/E 22E of 6.6x as well at EV/EBIT multiples of 11.0x (FY21E) and 7.8x (FY22E). This is still far below the average valuation of German industrials companies. We are aware that the market is applying a discount for the shrinking franking business. It has to be kept in mind, however, that FP is constantly gaining market share and is the most innovative player in the market.

### Facts & Analysis

EUR mn	1Q19	2Q19	1H19	FY19	1Q20	2Q20E	2Q20	1H20	FY20E	Baader	Baader
										Prev.	New
Sales	52.1	46.9	99.0	209.1	57.0	42.5	42.8	99.7	195.4	198.0	198.0
Change yoy (%)	-1.7	-9.4	-5.5	2.4	9.4	-9.5	-9.0	0.7	-6.5	-5.3	-5.3
EBITDA	6.9	4.6	11.7	33.3	8.0	4.9	5.1	13.1	23.6	26.0	26.0
Margin (%)	13.3	9.9	11.8	15.9	14.0	11.5	11.9	13.1	12.1	13.1	13.1
Change yoy (%)	-6.7	-12.9	-8.8	92.6	15.2	5.2	9.1	12.1	-29.1	-22.0	-22.0
EBIT	1.3	-0.6	0.8	5.9	2.6	-0.6	-0.7	1.9	4.3	4.0	4.0
Margin (%)	2.6	-1.3	0.8	2.8	4.6	-1.5	-1.7	1.9	2.2	2.0	2.0
Change yoy (%)	-57.5	n.a.	-80.7	n.a.	94.0	3.8	19.6	133.0	-26.7	-32.7	-32.7
EBT	1.8	-0.9	1.0	5.9	2.8	-0.8	0.0	2.7	3.8	4.4	4.4
Net inc. after min.	1.2	-0.6	0.7	1.7	1.9	-0.6	-0.1	1.8	2.6	2.9	2.9

Source: Company data, Baader Helvea Equity Research

- Francotyp-Postalia reported for 2Q20 9% sales decrease to EUR 42.8mn, while 1H20 sales were slightly up 0.7% to EUR 99.7mn. 1H20 sales were down 2.6% to EUR 62.3mn in the core business with franking machines and related services, including EUR 1.7mn sales contribution from the acquired activities of HEFTER. FP once again massively outperformed its key competitors in the franking machine business. Mail Services was negatively impacted in 2Q20 from COVID-19 headwinds but sales in 1H20 were still up 11.8% to EUR 29.3mn, benefiting from the postage tariff increase by Deutsche Post AG as of July 2019 (EUR 3mn sales effect). Profitability of Mail Services improved noteworthy in view of positive results from the realignment. The 1H20 performance of the Software/Digital segment was very unsatisfactory with a sales decline of 8.5% to EUR 8.1mn. The hybrid mail services business declined and IoT projects were postponed due to the corona crisis. The sales contribution of FP Sign was still negligible.
- 2Q20 EBITDA of EUR 5.1mn (+9% yoy; 11.9% margin) was remarkable considering the low sales volume. FP benefited from the improvement at Mail Services (EUR 1mn earnings contribution) and increasing cost savings related to JUMP. Reported free cash flow was surprisingly positive (EUR 5.9mn vs. EUR -1.3mn in 1H19) and net debt could be reduced.

## Francotyp-Postalia Holding

## Key data

FY 31 Dec.	2017	2018	2019	2020E	2021E	2022E
<b>Share data</b>						
EPS reported (EUR)	0.29	0.06	0.11	0.18	0.36	0.49
<b>EPS adjusted (EUR)</b>	<b>0.29</b>	<b>0.39</b>	<b>0.16</b>	<b>0.18</b>	<b>0.36</b>	<b>0.49</b>
Dividend (EUR)	0.12	0.03	0.00	0.00	0.12	0.20
Book value (EUR)	2.03	1.97	2.01	2.18	2.54	2.90
Free cash flow (EUR)	0.36	0.19	0.11	0.08	0.19	0.60
Avg. no. of shares (mn)	16.2	15.9	15.9	15.9	15.9	15.9
Market cap. (avg./current; EUR mn)	84.6	59.8	55.1	51.5	51.5	51.5
Enterprise value (EUR mn)	36.0	97.4	107.4	99.4	96.6	89.2
<b>Valuation</b>						
<b>P/E adj. (x)</b>	<b>17.9</b>	<b>9.6</b>	<b>21.6</b>	<b>18.0</b>	<b>9.0</b>	<b>6.6</b>
P/BV (x)	2.6	1.9	1.7	1.5	1.3	1.1
FCF/EV (%)	141.8	3.4	1.6	1.3	3.1	10.7
FCF yield (%) (FCF/Mcap.)	6.8	5.0	3.0	2.5	5.8	18.5
Dividend yield (%)	2.3	0.8	0.0	0.0	3.7	6.2
EV/Sales (x)	0.2	0.5	0.5	0.5	0.5	0.4
EV/EBITDA adj. (x)	1.4	3.9	3.1	3.8	3.4	2.8
EV/EBIT adj. (x)	5.0	12.2	14.9	25.1	11.0	7.8
EV/CE (x)	0.4	1.1	1.1	1.0	1.0	0.9
ROCE/WACC adj. (x)	1.1	1.3	1.2	0.7	1.4	1.8
<b>Key company data</b>						
Sales growth (%)	1.7	-1.0	2.4	-5.3	5.8	4.8
EBITDA adj. growth (%)	-3.3	-3.9	36.8	-25.0	10.9	11.1
EBITDA adj. margin (%)	12.8	12.4	16.6	13.1	13.7	14.6
<b>EBIT adj. margin (%)</b>	<b>3.5</b>	<b>3.9</b>	<b>3.4</b>	<b>2.0</b>	<b>4.2</b>	<b>5.2</b>
Net adj. margin (%)	2.3	3.0	1.2	1.5	2.7	3.5
Free cash flow margin (%)	2.8	1.5	0.8	0.6	1.4	4.3
Payout ratio (%)	42.0	51.9	0.0	0.0	33.6	41.2
Gearing (%) (net debt/equity)	59.0	60.4	99.2	86.2	66.7	41.7
Net debt/EBITDA (x)	0.7	1.1	1.0	1.2	0.9	0.6
Equity ratio (x) (equity/total assets)	19.4	18.7	17.2	17.0	19.6	22.1
Capital employed (EUR mn)	85.2	86.9	95.7	95.4	96.0	94.9
ROCE adj. (%)	8.5	9.2	7.5	4.2	9.2	12.0
<b>Income statement (EUR mn)</b>						
Turnover	206.3	204.2	209.1	198.0	209.5	219.5
EBITDA	26.3	17.3	33.3	26.0	28.8	32.0
EBITDA adj.	26.3	25.3	34.6	26.0	28.8	32.0
EBIT	7.3	0.0	5.9	4.0	8.8	11.4
EBIT adj.	7.3	8.0	7.2	4.0	8.8	11.4
EBT	7.1	1.4	5.9	4.4	8.3	11.3
Net profit after minorities	4.6	0.9	1.7	2.9	5.7	7.7
Net profit adj.	4.6	6.2	2.6	2.9	5.7	7.7
<b>Balance sheet (EUR mn)</b>						
Non-current assets	82	88	102	98	98	98
thereof goodwill	8	10	5	5	5	5
Current assets	87	79	85	106	107	111
<b>Total assets</b>	<b>170</b>	<b>167</b>	<b>186</b>	<b>204</b>	<b>206</b>	<b>209</b>
Shareholders' equity	33	31	32	35	40	46
<b>Total equity and liabilities</b>	<b>170</b>	<b>167</b>	<b>186</b>	<b>204</b>	<b>206</b>	<b>209</b>
Net debt	19	19	32	30	27	19
<b>Cash flow (EUR mn)</b>						
Cash flow from operations	21.3	24.2	23.0	15.5	15.0	22.5
of which change in working capital	-2.7	-4.6	3.5	-0.3	1.0	0.0
Cash flow from investments	-15.5	-21.2	-21.4	-14.2	-12.0	-13.0
of which investment in fixed assets	15.5	18.0	21.2	13.0	12.0	13.0
<b>Free cash flow</b>	<b>5.8</b>	<b>3.0</b>	<b>1.7</b>	<b>1.3</b>	<b>3.0</b>	<b>9.5</b>
Dividends paid	-2.6	-1.9	-0.5	0.0	0.0	-1.9
Cash flow from financing activities	1.1	-6.4	-4.7	22.0	-4.0	-6.9
<b>Change in cash position</b>	<b>6.9</b>	<b>-3.4</b>	<b>-3.1</b>	<b>23.2</b>	<b>-1.0</b>	<b>2.6</b>

Source: Company data, Baader Helvea Equity Research

## Francotyp-Postalia Holding

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