

16 May 2019

Francotyp-Postalia Holding

Germany

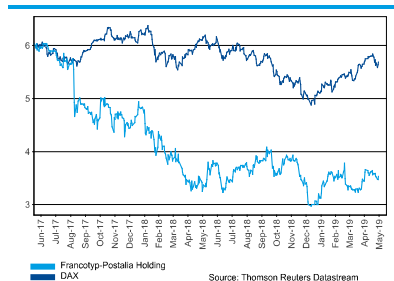
Machinery

Reuters: FPHG.DE Bloomberg: FPH GY

Buy

Closing price as of 15-May-19	EUR 3.53
Target price	EUR 6.30
High/Low (12M)	EUR 4.08/2.97
Market cap.	EUR mn 58
Enterprise value	EUR mn 103
Free float	80.0%
Avg. daily turnover	EUR mn 0.07

Price relative to Index



Performance (%)	1M	3M	6M
Absolute	2.6	0.6	-7.8
rel. DAX	2.0	-6.5	-14.4
rel. STOXX Europe 600	5.2	-1.9	-13.3
rel. SXXP Industrials	4.6	-3.7	-16.8

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Sales and EBIT decline in 1Q19 – FY19 growth expectations are backend-loaded

Francotyp-Postalia Holding's (FP) had a mixed start to the year. 1Q19 figures are characterized by moderate sales decline (more selective approach in the unprofitable Mail Services business) and somewhat lower profitability (among others due to the ramp-up of the new business fields and the JUMP implementation). As the company had indicated the business in FY19 being backend-loaded (due to the market introduction of the PostBase Vision, the ramp-up of FP Sign and IoT gateway solutions as well as the increase in postage in Germany), this performance does not come as a big surprise. **FP confirmed its FY19 guidance of strongly increasing revenues and a strong increase in EBITDA (adjusted for JUMP expenses).**

Despite uncertainties regarding the ramp-up speed of the new business activities, we consider FP with a P/E 20E of approx. 5x and an EV/EBIT 20E multiple of 5.3x as undervalued and confirm our Buy rating.

EUR mn	1Q18	2Q18	3Q18	4Q18	FY18	1Q19E	1Q19 rep.	FY19E
Sales	53.0	51.8	49.5	49.9	204.2	51.3	52.1	223.1
Change yoy (%)	-4.5	5.8	0.1	-4.9	-1.0	-3.2	-1.7	9.3
EBITDA	7.4	5.3	4.2	0.1	17.1	7.2	6.9	25.8
Margin (%)	14.1	10.3	8.6	0.1	8.4	14.0	13.3	11.6
Change yoy (%)	-10.3	20.9	-38.7	-99.2	-35.1	-3.8	-6.7	51.4
EBIT	3.2	1.0	0.0	-4.5	-0.3	2.7	1.3	7.8
Margin (%)	6.0	2.0	0.1	-9.0	-0.1	5.2	2.6	3.5
Change yoy (%)	-8.1	n.a.	-98.7	n.a.	-103.7	-15.8	-57.5	n.a.
EBIT adj.	3.4	1.7	0.5	2.1	7.7	3.1	2.2	10.8
Margin (%)	6.3	3.4	1.1	4.2	3.8	6.0	4.3	4.9
Change yoy (%)	-2.3	n.a.	-75.5	-5.6	6.6	-8.9	-33.3	40.1
EBT	3.4	1.5	0.1	-3.7	1.3	2.6	1.8	7.5
Change yoy (%)	-0.1	n.a.	-94.2	n.a.	-82.3	-23.5	-45.8	501.8
Net inc. after min.	2.2	1.0	0.1	-2.3	0.9	1.7	1.2	5.0
Change yoy (%)	-0.1	n.a.	-93.5	n.a.	-80.7	-22.4	-44.9	459.2

Source: Company data, Baader Helvea Equity Research

- **With EUR 52.1mn, 1Q19 sales were slightly lower than in 1Q18.** On the one hand, the company saw support from positive FX effects (EUR 0.9mn) and the gradual ramp-up of the new activities (IoT gateways, FP Sign and the discoverFP portal). On the other hand, FP's product business was only stable excl. FX effects, as the new generation of franking machines (PostBase Vision) will be gradually introduced in FP's core markets (following the approval from postal authorities). The product start is planned for mid-2019 in the U.S. and for 2H19 in several European markets. Therefore, product sales in 2019 will be backend loaded. The sales decline was related to the Mail Services business (-16% to EUR 14.4mn), as FP is still in the process of phasing out unprofitable business before increasing sales with higher margin projects (supported as well by the postage increase).
- As the company's JUMP measures are still in an early stage of implementation, FP did not benefit from cost savings in 1Q19, but still suffered from necessary implementation charges (EUR 0.9mn additional expenses in 1Q19) and the ramp-up of new the business activities. **EBITDA** therefore declined by 6.7% vs. the very high 1Q18 level to EUR 6.9mn. The decline in **EBIT** (-57.5% to EUR 1.3mn) was even more pronounced due to higher depreciations. While the **FCF** in 1Q19 was positive (EUR 2.9mn vs. EUR 2.6mn in 1Q18), **net debt** increased by to EUR 27.9mn (31-Dec-2018: EUR 18.1mn) due to the application of IFRS 16.

Key financials

EUR mn	2017	2018	2019E	2020E	CAGR (%)
Sales	206.3	204.2	223.1	238.1	4.9
EBIT adj.	7.3	7.7	10.8	18.1	35.7
EPS adj. (EUR)	0.29	0.38	0.43	0.72	36.1

Valuation ratios

x	2017	2018	2019E	2020E
EV/Sales	0.2	0.5	0.5	0.4
EV/EBIT adj.	5.0	12.4	9.5	5.3
P/E adj.	17.9	9.9	8.2	4.9

Source: Company data, Baader Helvea Equity Research

Francotyp-Postalia Holding

Key data

FY 31 Dec.	2015	2016	2017	2018	2019E	2020E
Share data						
EPS reported (EUR)	0.22	0.36	0.29	0.05	0.31	0.72
EPS adjusted (EUR)	0.22	0.36	0.29	0.38	0.43	0.72
Dividend (EUR)	0.12	0.16	0.12	0.03	0.15	0.25
Book value (EUR)	2.18	2.24	2.03	2.04	2.31	2.89
Free cash flow (EUR)	-0.09	0.28	0.36	0.58	-0.57	0.53
Avg. no. of shares (mn)	16.2	16.1	16.2	16.3	16.3	16.3
Market cap. (avg./current; EUR mn)	70.5	67.8	84.6	61.3	57.5	57.5
Enterprise value (EUR mn)	107.9	104.7	36.0	96.2	102.7	96.2
Valuation						
P/E adj. (x)	19.8	11.7	17.9	9.9	8.2	4.9
P/BV (x)	2.0	1.9	2.6	1.8	1.5	1.2
FCF/EV (%)	-1.5	4.9	65.8	10.2	-9.0	9.0
FCF yield (%) (FCF/Mcap.)	-2.0	6.7	6.8	15.3	-16.0	15.1
Dividend yield (%)	2.7	3.8	2.3	0.8	4.2	7.1
EV/Sales (x)	0.6	0.5	0.2	0.5	0.5	0.4
EV/EBITDA adj. (x)	4.0	3.8	1.4	3.8	3.6	2.5
EV/EBIT adj. (x)	12.0	10.7	5.0	12.4	9.5	5.3
EV/CE (x)	1.1	1.1	0.4	1.1	1.1	1.0
ROCE/WACC adj. (x)	1.2	1.3	1.0	1.1	1.5	2.3
Key company data						
Sales growth (%)	12.2	6.2	1.7	-1.0	9.3	6.7
EBITDA adj. growth (%)	16.1	1.6	-3.3	-4.7	15.0	31.2
EBITDA adj. margin (%)	14.0	13.4	12.8	12.3	12.9	15.9
EBIT adj. margin (%)	4.7	4.8	3.5	3.8	4.9	7.6
Net adj. margin (%)	1.9	2.9	2.3	3.0	3.1	4.9
Free cash flow margin (%)	-0.8	2.2	2.8	4.6	-4.1	3.6
Payout ratio (%)	54.7	43.9	42.0	54.6	48.8	34.6
Gearing (%) (net debt/equity)	57.9	55.0	59.0	56.7	75.9	47.2
Net debt/EBITDA (x)	0.8	0.7	0.7	1.1	1.1	0.6
Equity ratio (x) (equity/total assets)	22.6	21.5	19.4	20.0	21.3	25.1
Capital employed (EUR mn)	94.0	94.0	85.2	86.9	96.1	99.9
ROCE adj. (%)	9.6	10.4	8.5	8.9	11.3	18.1
Income statement (EUR mn)						
Turnover	191.1	203.0	206.3	204.2	223.1	238.1
EBITDA	26.8	27.2	26.3	17.1	25.8	37.8
EBITDA adj.	26.8	27.2	26.3	25.1	28.8	37.8
EBIT	9.0	9.7	7.3	-0.3	7.8	18.1
EBIT adj.	9.0	9.7	7.3	7.7	10.8	18.1
EBT	7.7	9.6	7.1	1.3	7.5	17.4
Net profit after minorities	3.5	5.9	4.6	0.9	5.0	11.8
Net profit adj.	3.5	5.9	4.6	6.2	7.0	11.8
Balance sheet (EUR mn)						
Non-current assets	14	10	15	17	19	19
thereof goodwill	8	8	8	10	10	10
Current assets	67	83	87	79	84	93
Total assets	156	167	170	167	177	187
Shareholders' equity	35	36	33	33	38	47
Total equity and liabilities	156	167	170	167	177	187
Net debt	20	20	19	19	29	22
Cash flow (EUR mn)						
Cash flow from operations	18.6	22.1	21.3	31.0	13.3	30.0
of which change in working capital	1.6	5.9	-2.7	-4.6	8.5	1.7
Cash flow from investments	-20.1	-17.6	-15.5	-21.7	-22.5	-21.3
of which investment in fixed assets	20.2	16.9	15.5	18.2	21.5	21.3
Free cash flow	-1.4	4.6	5.8	9.4	-9.2	8.7
Dividends paid	-2.6	-1.9	-2.6	-1.9	-0.5	-2.4
Cash flow from financing activities	2.4	-0.7	1.1	-10.2	2.9	-5.9
Change in cash position	1.0	3.8	6.9	-0.9	-6.3	2.7

Source: Company data, Baader Helvea Equity Research

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