

Allgeier SE

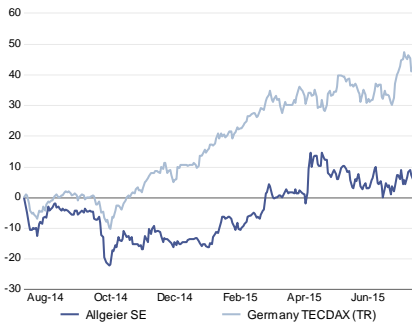
BUY (BUY) | Target 22.00 EUR (17.00 EUR)

Price (last closing price) : 17.25 EUR | Upside : 28%

E.st. change	15e	16e
EPS	-12%	+10%

Back to growth from 2015

Thursday, 30 July 2015



Management finished its homework

Management still sees a discrepancy between its current market cap of € 155m and the intrinsic value of its business segments. Therefore, the company recently discussed options with us as to how it can become more attractive for institutional investors. AEI's business model follows the classical holding company blueprint. The number of companies that AEI consolidates under its holding structure has meanwhile grown to ~62. Many market observers attribute the company's operational underperformance in 2013 and 2014 to what may be a sub-optimal management structure. With regard to this point, AEI made clear that they have already done their homework by realigning management capacities towards i) deeper integration/merger of acquired companies, and ii) improved targeting of business segments with significant growth and market leadership potential. Furthermore, management also wants to improve its external communication i.e. financial reporting and guidance by including i) detailed FX reporting and ii) constant currency comparisons.

Adjusted estimates

We have adjusted our estimates for AEI in view of i) the recent acquisitions, ii) the currently improving business performance within its segments, and iii) the guidance given by management. After 2 years of restructuring and underperformance, we now expect all of AEI's business segments to significantly improve their results on both the top and bottom lines. For the **Solutions** segment we estimate revenues to increase by 10% p.a. on the back of its improved project pipeline and execution. The Solutions EBITDA margin should thereby improve from currently 5% towards 8% in 2017e. For the **Experts** segment we estimate revenues to increase organically by 5% p.a. Adjusting for the May 2015 "networker" acquisition, total segment revenue should increase by 15% in 2015e and 10% in 2016e. In the process, the Experts EBITDA margin should improve from 5% towards 6% within the next 3 years on our estimates. For the **Projects** segment we estimate revenues and profits to increase at a rate of ~20% p.a. mainly due to the significantly increasing demand for "Nagarro's" high-end software application development.

Attractive risk/reward profile

Based on a pure sum-of-the-parts valuation AEI's market cap could be roughly double its current level. The necessary catalyst for a revaluation in our view would be consistent proof that the company's enhanced management structure can indeed successfully cope with its still-growing number of acquired companies. Based on our revised estimates our DCF valuation derives a new 12 month target price of € 22 (€17) equating to 0.45x EV/sales and 6.9x EV/EBITDA. These valuation ratios would still incorporate significant discounts of 18% and 50% relative to current EV/EBITDA and EV/sales multiples of the corresponding IT service sector/industry. AEI is currently trading at the lower end of the IT service sector valuation bandwidth of 0.3 to 1.2 for NTM EV/sales and 5 to 12 for NTM EV/EBITDA. In view of AEI's expected business turn-around, its currently bottoming valuation levels provide an attractive risk/ reward profile. We therefore recommend Buying the stock.

Capital

AEI GY AEI.DE	
Market Cap (EURm)	155
Enterprise value (EURm)	181
Extrema 12 months	18.80 12.60
Free Float (%)	53.8%

Performance (%)	1m	3m	12m
Absolute	0.5	-6.9	5.6
Perf. rel. "sector"	-2.3	-3.0	-20.5
Perf. rel. TecDAX	-3.7	-13.3	-28.0

P & L	12/15e	12/16e	12/17e
Sales (EURm)	496	560	617
EBITDA (EURm)	29	37	45
Adj.EBITDA (EURm)	33	39	47
EBIT (EURm)	15	23	31
Attr. net profit (EURm)	6	10	15
EPS (EUR)	0.68	1.15	1.67
Adj.EPS (EUR)	0.90	1.27	1.79
Dividend (EUR)	0.63	0.56	0.60

P/E (x)	19.1	13.6	9.6
P/B (x)	1.6	1.5	1.3
Dividend yield (%)	3.6	3.3	3.5
FCF yield (%)	3.1	10.9	14.6
EV/Sales (x)	0.4	0.3	0.3
EV/Adj.EBITDA (x)	5.6	4.4	3.3
EV/EBIT (x)	11.8	7.6	5.0
Gearing (%)	29.4	23.9	13.2
Net Debt/EBITDA(x)	1.1	0.7	0.3

Next Events

2Q15 report	06. Aug 15
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Allgeier SE: Discounted Cash Flow Model

	PHASE 1			PHASE 2							PHASE 3
	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	∞
Sales	495.9	559.5	617.4	673.0	733.6	792.3	847.7	898.6	943.5	971.8	
Y-o-Y growth	15.8%	12.8%	10.4%	9.0%	9.0%	8.0%	7.0%	6.0%	5.0%	3.0%	
EBIT	15.4	22.6	31.2	36.3	41.4	42.8	46.1	48.5	50.6	51.8	
EBIT margin	3.1%	4.0%	5.1%	5.4%	5.6%	5.4%	5.4%	5.4%	5.4%	5.3%	
Income tax on EBIT	-6.6	-9.1	-13.0	-15.3	-17.5	-18.2	-19.7	-20.7	-21.6	-22.2	
Depreciation and amortisation	13.2	14.0	14.2	13.4	12.9	15.5	16.6	17.7	18.7	19.5	
Change in net working capital	0.4	-0.6	0.3	3.0	2.1	0.7	0.7	0.6	0.5	0.3	
Net capital expenditure	-17.4	-11.7	-13.0	-14.1	-22.7	-24.6	-26.3	-27.9	-29.2	-30.1	
Free cash flow	5.1	15.1	19.8	23.3	16.1	16.2	17.5	18.3	18.9	19.3	
Present values	4.9	13.4	16.1	17.4	11.1	10.3	10.2	9.8	9.3	8.7	119.0
Present value Phase 1	34.4										
Present value Phase 2	76.8										
Present value Phase 3	119.0										
Total present value	230.2										
+ Excess cash/Non-operating assets	99.1										
- Financial debt	-128.7										
Fair value of equity	200.6										
Number of shares (m)	9.0										
Fair value per share (in EUR)	22.28										

Risk free rate	2.50%	Target equity ratio	80.0%
Equity risk premium	6.00%	Beta	1.20
Debt risk premium	3.00%	WACC	8.42%
Tax shield (Phase 3)	40.0%	Terminal growth	1.00%

		Sensitivity analysis				
		Terminal growth rate				
		0.0%	0.5%	1.0%	1.5%	2.0%
	7.42%	24.05	25.16	26.45	27.96	29.75
	7.92%	22.21	23.15	24.22	25.46	26.90
WACC	8.42%	20.60	21.39	22.28	23.31	24.49
	8.92%	19.16	19.84	20.59	21.45	22.43
	9.42%	17.88	18.46	19.10	19.83	20.65

Source: Oddo Seydler Bank AG

Profit and loss account

	IFRS	EURm	2011A	2012A	2013A	2014A	2015E	2016E	2017E
Net sales			378.8	422.8	421.3	428.2	495.9	559.5	617.4
YoY growth				11.6%	-0.4%	1.6%	15.8%	12.8%	10.4%
Chg. inventory & other work cap.			0.3	0.7	0.6	-0.2	0.2	1.0	1.0
Total output			379.1	423.5	422.0	428.0	496.1	560.5	618.4
as % of sales			100.1%	100.2%	100.2%	100.0%	100.0%	100.2%	100.2%
Cost of materials			-220.24	-218.84	-190.33	-170.56	-195.54	-215.02	-230.61
as % of sales			-58.1%	-51.8%	-45.2%	-39.8%	-39.4%	-38.4%	-37.3%
Personnel expense			-108.98	-149.01	-169.70	-191.76	-221.39	-250.42	-277.91
as % of sales			-28.8%	-35.2%	-40.3%	-44.8%	-44.6%	-44.8%	-45.0%
Other operating income			-27.59	-34.90	-35.74	-42.23	-50.60	-58.50	-64.50
as % of sales			-7.3%	-8.3%	-8.5%	-9.9%	-10.2%	-10.5%	-10.4%
Other operating expenses			-1.63	-0.81	-0.12	0.01	0.00	0.00	0.00
as % of sales			-0.4%	-0.2%	0.0%	0.0%	0.0%	0.0%	0.0%
EBITDA			20.69	19.97	26.07	23.50	28.59	36.57	45.42
as % of sales			5.5%	4.7%	6.2%	5.5%	5.8%	6.5%	7.4%
Depreciation and amortization			-10.33	-13.65	-11.33	-12.79	-13.19	-14.00	-14.17
as % of sales			-2.7%	-3.2%	-2.7%	-3.0%	-2.7%	-2.5%	-2.3%
EBIT			10.36	6.31	14.74	10.71	15.40	22.57	31.25
as % of sales			2.7%	1.5%	3.5%	2.5%	3.1%	4.0%	5.1%
Net financial results			-0.86	0.00	-0.79	-5.55	-2.04	-2.34	-2.33
as % of sales			-0.2%	0.0%	-0.2%	-1.3%	-0.4%	-0.4%	-0.4%
EBT			9.50	6.12	10.36	6.22	13.37	20.23	28.92
as % of sales			2.5%	1.4%	2.5%	1.5%	2.7%	3.6%	4.7%
Income tax			-4.19	-2.38	-7.07	-5.10	-6.59	-9.10	-13.01
as % of EBT			-44.1%	-38.9%	-68.3%	-82.0%	-49.3%	-45.0%	-45.0%
Net income			5.31	3.74	3.29	1.12	6.78	11.13	15.91
Minority interests			-0.93	-0.44	-0.12	-0.64	-0.70	-0.80	-0.90
Net income attributable to shareholders			4.38	3.30	3.16	0.48	6.08	10.33	15.01
as % of sales			1.2%	0.8%	0.8%	0.1%	1.2%	1.8%	2.4%
Adjustments (Non-IFRS)			1.29	0.18	3.12	2.25	2.03	1.10	1.10
Adjusted net income (Non-IFRS)			5.67	3.48	6.28	2.72	8.11	11.43	16.11
as % of sales			1.5%	0.8%	1.5%	0.6%	1.6%	2.0%	2.6%
Shares outstanding (in m)			8.38	8.38	8.44	9.00	9.0	9.0	9.0
Earnings per share in EUR			0.52	0.39	0.37	0.05	0.68	1.15	1.67
Adjusted EPS in EUR (Non-IFRS)			0.68	0.42	0.74	0.30	0.90	1.27	1.79

Source: Company Data, Oddo Seydler Bank AG

Balance Sheet

	IFRS	EURm	2011A	2012A	2013A	2014A	2015E	2016E	2017E
Assets									
Non-current assets			111.6	143.5	133.5	138.6	142.9	146.5	152.0
as % of total assets			46.1%	49.6%	46.1%	42.0%	41.2%	39.8%	38.4%
Intangible assets			23.6	25.0	20.3	18.0	17.0	12.4	9.7
Goodwill			79.2	103.4	100.8	104.8	107.7	107.7	107.7
Property, plant and equipment			1.8	2.5	3.1	3.6	4.1	4.7	5.3
Long-term investments (incl. Financial assets)			0.0	3.9	0.2	4.4	4.4	10.0	16.2
Other assets			7.0	8.7	9.1	7.9	9.6	11.7	13.1
Current assets			130.6	146.1	155.8	191.2	204.3	221.9	244.0
as % of total assets			53.9%	50.4%	53.9%	58.0%	58.8%	60.2%	61.6%
Inventories			3.0	4.9	4.4	3.2	5.0	5.6	6.2
Trade accounts receivable			87.4	94.5	89.2	78.6	89.3	100.7	111.1
Other assets and prepaid expenses			7.1	6.8	9.0	10.3	11.4	12.3	13.0
Cash and cash equivalents			33.1	39.9	53.3	99.1	98.7	103.3	113.8
Total assets			242.1	289.6	289.3	329.8	347.2	368.4	396.0
Shareholders' equity and liabilities									
Shareholders' equity			88.2	93.4	94.7	100.7	103.0	108.8	120.1
as % of total equity and liabilities			36.4%	32.3%	32.7%	30.5%	29.7%	29.5%	30.3%
Subscribed capital			9.1	9.1	9.1	9.1	9.1	9.1	9.1
Remaining equity			74.7	79.8	83.2	87.5	89.8	95.3	106.1
Minority interests			4.5	4.5	2.4	4.1	4.2	4.4	4.9
Noncurrent liabilities			32.3	33.8	23.0	15.6	17.7	22.6	28.7
as % of total equity and liabilities			13.4%	11.7%	8.0%	4.7%	5.1%	6.1%	7.3%
Pension provisions			1.0	2.2	2.3	1.9	2.2	2.5	2.8
Other long-term provisions			22.2	21.4	12.2	4.8	5.5	8.4	12.3
Other provisions			9.2	10.2	8.5	8.9	9.9	11.7	13.6
Current liabilities			121.6	162.4	171.6	213.6	226.5	237.0	247.2
as % of total equity and liabilities			50.2%	56.1%	59.3%	64.8%	65.2%	64.3%	62.4%
Interest-bearing debt			43.1	76.3	76.6	126.8	126.8	126.8	126.8
Trade accounts payable			41.3	40.0	39.8	34.7	40.2	45.9	52.5
Other liabilities and prepaid income			37.2	46.2	55.2	52.2	59.5	64.3	67.9
Total equity and liabilities			242.1	289.6	289.3	329.8	347.2	368.4	396.0

Source: Company Data, Oddo Seydler Bank AG

Cash flow statement

	IFRS	EURm	2011A	2012A	2013A	2014A	2015E	2016E	2017E
Net income			5.3	3.7	3.3	1.1	6.8	11.1	15.9
Loss (profit) asset disposals			0.0	0.0	0.0	0.0	0.0	0.0	0.0
Depreciation and amortisation			10.3	13.7	11.3	12.8	13.2	14.0	14.2
In-/-(De)crease in long term provisions				-0.8	-9.2	-7.5	0.8	2.8	4.0
Cash flow				16.6	5.4	6.4	20.7	28.0	34.0
(In-)/Decrease in inventories				-1.9	0.6	1.2	-1.8	-0.6	-0.6
(In-)/Decrease in trade acc. receivable				-7.1	5.3	10.5	-10.6	-11.4	-10.4
(In-)/Decrease in other assets, prep. exp.				0.4	-2.2	-1.3	-1.1	-0.9	-0.7
In-/-(De)crease in trade accounts payable				-1.3	-0.2	-5.1	5.5	5.7	6.6
In-/-(De)crease in short-term provisions				1.0	-1.7	0.4	1.1	1.8	1.8
In-/-(De)crease in other liabilities				9.0	9.0	-3.0	7.4	4.8	3.6
Change in Working Capital				0.0	10.8	2.7	0.4	-0.6	0.3
CAPEX				-41.7	-5.0	-13.7	-17.4	-11.7	-13.0
Financial investments				-3.9	3.7	-4.2	0.0	-5.6	-6.2
In-/-(De)crease in pension provisions				1.2	0.1	-0.4	0.3	0.3	0.3
In-/-(De)crease in long-term debt				69.4	-1.3	39.8	0.0	0.0	0.0
In-/-(De)crease in short-term debt				-36.3	1.7	10.4	0.0	0.0	0.0
Proceeds from capital increase				0.0	0.0	0.0	0.0	0.0	0.0
Dividend payment				-4.2	-4.2	-4.2	-4.5	-5.7	-5.1
Change of cash by other items				26.3	0.0	41.3	-4.2	-11.0	-11.0
Total change in cash and cash equivalents				1.2	11.1	36.8	-0.4	4.7	10.5
Cash and cash equivalents at start of period				33.1	39.9	53.3	99.1	98.7	103.3
Cash and cash equivalents at end of period				33.1	39.9	53.3	99.1	103.3	113.8

Source: Company Data, Oddo Seydler Bank AG

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Recommendation history over the last 12 months for the company analysed in this report:

Date	Recommendation	Price at change date	Price target
30 July 2015	BUY	EUR 17.25	EUR 22.00
19 November 2014	BUY	EUR 14.28	EUR 17.00
15 August 2014	BUY	EUR 15.23	EUR 20.00
30 July 2014	BUY	EUR 15.50	EUR 20.00

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