

m-u-t AG

BUY (BUY) | Target EUR 5.50 (EUR 4.00)

 Price (last closing price) : **EUR 4.50** | Upside : 22%

Est. change	2015e	2016e
EPS	+85%	+64%

Very strong H1 2015 figures; m-u-t now on right track; TP upped to 5.50

Friday, 24 July 2015



Capital

m7u GY m7uG.DE	
Market Cap (EURm)	20
Enterprise value (EURm)	23
Extrema 12 months	5.35 - 3.00
Free Float (%)	24.0

Performance (%)

	1m	3m	12m
Absolute	19.6	45.0	-6.8
Perf. rel. "sector"	16.5	41.8	-15.6
Perf. rel. CDax	18.4	47.6	-21.5

P & L

	12/15e	12/16e	12/17e
Sales (EURm)	55.2	60.2	65.0
EBITDA (EURm)	6.7	7.4	8.0
EBIT (EURm)	5.0	5.5	6.0
Attr. net profit (EURm)	1.8	2.0	2.2
EPS (EUR)	0.37	0.41	0.46
Dividend (EUR)	0.00	0.00	0.00
P/E (x)	12.3	11.0	9.8
P/B (x)	2.3	1.9	1.5
Dividend yield (%)	0.0	0.0	0.0
FCF yield (%)	7.3	16.4	15.0
EV/Sales (x)	0.4	0.4	0.4
EV/EBITDA (x)	3.4	3.1	2.9
EV/EBIT (x)	4.6	4.2	3.8
Gearing (%)	40	33	27
Net Debt/EBITDA(x)	0.5	0.5	0.4

Next Events

AGM	August 2015
9m15 figures	November 2015

H1 2015: guidance already achieved; 2014 EBIT surpassed as well

m-u-t AG (m7u) reported preliminary Q2 figures. The figures were very strong overall with H1 2015 EBIT already reaching the full-year guidance of € 3.5m and surpassing full-year 2014 EBIT of € 3.0m:

(EUR m)	Q2 15	H1 15	H1 14	Δ (in %)	FY14
Sales	13.1	28.3	25.1	+12.5%	49.5
EBIT	2.0	3.5	2.3	+52.2%	3.0
EBIT margin	15.3%	12.4%	9.2%	+320bp	6.1%

Source: Company data, Oddo Seydler Bank AG

Key takeaways: m-u-t now looks like a promising turnaround story

- Now on the right track:** We see m7u's very strong H1 2015 performance as a clear indication that the company is now finally on the right track and could prove to be a very promising turnaround story. In our view, the new management is doing an excellent job of tapping the company's previously underused potential. The strong H1 2015 earnings performance is mainly due to (1) greater realization of synergies within the group (i.e. between group companies: m-u-t in Wedel, tec5 and Avantes), (2) stronger focus on profitability at product and project levels, (3) increased business in the US, and (4) the reduction of production costs and overheads.
- Momentum to continue in H2 2015:** We expect the positive momentum to continue in H2 2015 but less strongly, i.e. we expect EBIT to be ~50% of the H1 level, which still would be a very impressive performance. In particular, we do not expect the 2014 pattern to repeat itself, i.e. a strong H1 and a very weak H2.
- Operating leverage:** In our view the strong H1 results indicate that m7u has found the right cost setup, which now enables it to achieve operating leverage. Based on our new 2015e EBIT estimate, we expect the EBIT margin to increase to 9.1% in 2015e (PY: 6.1%).
- More cautious investor communications:** The company did not raise its 2015 guidance despite already meeting it in H1. While this approach may seem extremely conservative, especially considering that some of the strong momentum of H1 is bound to carry over into H2, we see it as a signal that the company has turned more cautious in its communications with investors. Investors may still remember the former management's very bullish comments which ultimately led to investor disappointment in 2013 and 2014. In our view, m7u now plans to deliver first instead of raising expectations too high.
- Valuation still cheap:** We now estimate 2015e EBIT at € 5.0m and EPS at ~€ 0.37/share. This translates to a 2015e EV/EBIT multiple of 4.6x and a P/E of 12.3x. We consider the stock undervalued (see our updated DCF model on p.2).

Buy – Target price upped to € 5.50

We confirm our BUY rating. In line with our new estimates we increase our TP from € 4.00 to € 5.50. At our price target the share would trade at a 2016e P/E of 13.4x.

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DCF model valuation

EURm	PHASE 1			PHASE 2							PHASE 3
	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	∞
Sales	55.2	60.2	65.0	69.6	73.7	77.4	80.5	82.9	85.0	86.7	
YoY growth	11.5%	9.0%	8.0%	7.0%	6.0%	5.0%	4.0%	3.0%	2.5%	2.0%	
EBIT	5.0	5.5	6.0	6.1	6.3	6.6	6.8	6.9	7.0	6.9	
EBIT margin	9.1%	9.1%	9.2%	8.7%	8.6%	8.5%	8.4%	8.3%	8.2%	8.0%	
Income tax on EBIT (cash tax rate)	-1.5	-1.7	-1.8	-1.8	-1.9	-2.0	-2.0	-2.1	-2.1	-2.1	
Depreciation and amortisation	1.7	1.9	2.0	2.4	2.5	2.6	2.7	2.8	2.9	2.9	
Change in net working capital	-2.0	-0.5	-0.5	-1.4	-1.3	-1.1	-0.9	-0.7	-0.6	-0.5	
Net capital expenditure	-1.8	-2.0	-2.8	-2.5	-2.7	-2.8	-2.9	-3.0	-3.1	-2.9	
Free cash flow	1.4	3.2	2.9	2.7	3.0	3.3	3.6	3.9	4.1	4.3	
Present values	1.5	3.1	2.5	2.1	2.1	2.1	2.0	1.9	1.8	1.7	19.6
Present value Phase 1	7.1										
Present value Phase 2	13.7										
Present value Phase 3	19.6										
Total present value	40.4										
Fair EV (including minorities)	40.4										
Fair EV (excluding minorities)	30.3	25% discount for minorities									
+ Excess cash/Non-operating assets	6.4										
- Financial debt	-9.9										
Fair value (excluding minorities)	26.9										
Number of shares (m)	4.8										
Fair value per share (EUR)	5.62										

Risk free rate	2.50%	Target equity ratio	60.0%
Equity risk premium	6.00%	Beta (fundamental)	2.0
Debt risk premium	4.00%	WACC	10.96%
Tax shield	30.0%	Terminal growth	2.0%

Sensitivity analysis						
		Terminal growth (Phase 3)				
		1.0%	1.5%	2.0%	2.5%	3.0%
WACC	10.0%	6.16	6.38	6.62	6.89	7.20
	10.5%	5.80	5.98	6.19	6.42	6.68
	11.0%	5.47	5.63	5.62	6.00	6.22
	11.5%	5.17	5.31	5.46	5.63	5.82
	12.0%	4.90	5.02	5.15	5.30	5.46

Source: Oddo Seydler Bank AG

Profit and loss account

	EURm	2012	2013	2014	2015E	2016E	2017E
Sales		37.7	41.0	49.5	55.2	60.2	65.0
YoY growth		-6.2%	8.7%	20.8%	11.5%	9.0%	8.0%
Change in stocks of finished goods		-0.7	0.0	1.6	0.0	0.0	0.0
Other activated own work		0.2	0.1	0.0	0.0	0.0	0.0
Total revenues		37.2	41.0	51.2	55.2	60.2	65.0
Material costs		-17.6	-18.8	-25.5	-25.4	-27.7	-29.9
in % of sales		-46.8%	-45.8%	-51.4%	-46.0%	-46.0%	-46.0%
Gross income		19.6	22.2	25.7	29.8	32.5	35.1
in % of sales		51.9%	54.2%	51.9%	54.0%	54.0%	54.0%
Personnel expenses		-13.1	-13.2	-14.3	-15.5	-16.9	-18.2
in % sales		-34.7%	-32.1%	-28.8%	-28.0%	-28.0%	-28.0%
Other operating income		1.2	1.5	1.0	0.6	0.6	0.0
Other operating expenses		-8.9	-7.2	-7.8	-8.2	-8.9	-8.9
in % sales		-23.5%	-17.4%	-15.8%	-14.9%	-14.8%	-13.7%
EBITDA		-1.1	3.4	4.6	6.7	7.4	8.0
in % of sales		-3.0%	8.3%	9.3%	12.2%	12.2%	12.3%
Depreciation and amortisation		-2.0	-1.0	-1.6	-1.7	-1.9	-2.0
in % of sales		-5.3%	-2.4%	-3.1%	-3.1%	-3.1%	-3.1%
EBIT		-3.1	2.4	3.0	5.0	5.5	6.0
in % of sales		-8.3%	5.9%	6.1%	9.1%	9.1%	9.2%
Financial result		-0.4	-1.4	-0.5	-0.7	-0.7	-0.7
EBT		-3.5	1.0	2.5	4.3	4.8	5.3
in % of sales		-9.4%	2.5%	5.1%	7.8%	8.0%	8.2%
Extraordinary expenses		-0.4	0.0	-0.2	0.0	0.0	0.0
in % of sales		-1.1%	0.0%	-0.4%	0.0%	0.0%	0.0%
Taxes		-0.8	-0.9	-0.5	-1.3	-1.4	-1.6
as % of EBT		22.0%	-85.3%	-21.3%	-30.0%	-30.0%	-30.0%
Net income including minorities		-4.7	0.2	1.8	3.0	3.4	3.7
Minority interest		-0.3	-0.8	-0.7	-1.3	-1.4	-1.5
Net income attributable to shareholders		-5.1	-0.7	1.1	1.8	2.0	2.2
in % of sales		-13.4%	-1.7%	2.3%	3.2%	3.3%	3.4%
Shares outstanding (m)		4.4	4.4	4.8	4.8	4.8	4.8
Earnings per Share (EUR)		-1.16	-0.16	0.23	0.37	0.41	0.46

Source: Company data, Oddo Seydler Bank AG

Balance Sheet

EURm	2012	2013	2014	2015E	2016E	2017E
Assets						
Noncurrent assets	5.8	6.0	4.9	5.7	6.4	7.1
as % of total assets	24.8%	24.6%	20.2%	22.2%	22.6%	23.2%
Intangible assets	2.6	3.8	3.3	4.1	4.6	4.6
Fixed assets	2.5	2.1	1.5	1.6	1.7	2.5
Deferred Tax	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.7	0.2	0.0	0.0	0.0	0.0
Current assets	17.4	18.4	18.7	20.0	21.7	23.5
as % of total assets	74.6%	75.2%	77.4%	77.5%	77.1%	76.5%
Inventories	5.2	5.7	7.4	7.7	8.4	9.1
Accounts Receivables	5.6	4.9	4.2	6.6	7.2	7.8
Other assets	1.9	0.7	0.7	0.7	0.7	0.7
Cash	4.7	7.1	6.4	4.9	5.4	5.9
Income tax receivables	0.1	0.1	0.6	0.1	0.1	0.1
Total Assets	23.3	24.5	24.1	25.8	28.2	30.8
Shareholders' equity and liabilities						
Shareholders' equity	4.8	4.8	6.8	8.5	10.5	12.7
as % of total equity and liabilities	20.8%	19.6%	28.1%	33.1%	37.3%	41.3%
Capital stock	4.4	5.4	4.8	4.8	4.8	4.8
Capital reserve	0.0	0.0	0.6	0.6	0.6	0.6
Revenue reserves	0.0	0.0	0.0	0.0	0.0	0.0
Minorities	3.3	2.9	3.5	3.5	3.5	3.5
Retained earnings	-2.8	-3.5	-2.4	-0.6	1.3	3.6
Other comprehensive income	0.0	0.0	0.3	0.3	0.3	0.3
Noncurrent liabilities	14.4	14.7	11.3	10.9	10.7	10.6
as % of total equity and liabilities	61.6%	59.9%	47.0%	42.1%	38.0%	34.4%
Other Provisions	2.2	4.0	2.8	2.8	3.0	3.3
Deferred taxes	0.0	0.0	0.0	0.0	0.0	0.0
Financial liabilities	12.2	10.7	8.5	8.1	7.7	7.3
Other liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Current liabilities	4.1	5.0	6.0	6.4	7.0	7.5
as % of total equity and liabilities	17.6%	20.5%	24.9%	24.8%	24.7%	24.3%
Other provisions	0.0	0.0	0.0	0.0	0.0	0.0
Financial liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Accounts Payables	1.5	2.4	2.2	3.3	3.6	3.9
Other liabilities	2.6	2.6	3.8	3.1	3.4	3.6
Debt from assets to be disposed	0.0	0.0	0.0	0.0	0.0	0.0
Total equity and liabilities	23.3	24.5	24.1	25.8	28.2	30.8

Source: Company data, Oddo Seydler Bank AG

Cash flow statement

	EURm	2012	2013	2014	2015E	2016E	2017E
Income (loss) after tax		-4.7	0.2	1.8	3.0	3.4	3.7
Depreciation and amortisation		2.4	1.8	1.7	1.7	1.9	2.0
Expenses from disposal of long-term assets		0.1	0.0	0.2	0.0	0.0	0.0
Changes in provisions and others		-0.6	0.1	-1.7	0.0	0.0	0.0
Changes in inventories and account receivables and others		0.5	1.7	-1.5	-2.3	-1.3	-1.3
Changes in account payables and others		1.1	0.8	1.2	0.4	0.8	0.8
Cash flow from operating activities		-1.3	4.5	1.7	2.7	4.7	5.2
Investment in intangible assets		-0.9	-0.5	-0.2	-0.8	-0.5	0.0
Investments in PP&E		-0.8	-0.5	-0.6	-1.8	-2.0	-2.8
Investments in financial assets		-0.7	-0.1	0.0	0.0	0.0	0.0
Investments for the purchase of consolidated subsidiaries		-6.0	0.0	0.0	0.0	0.0	0.0
Income from disposal of subsidiaries		0.0	0.0	0.0	0.0	0.0	0.0
Cash flow from investing activities		-8.4	-1.2	-0.7	-2.6	-2.5	-2.8
Cash inflow from capital increases		0.0	1.1	0.0	0.0	0.0	0.0
Minority Interest		0.0	-0.4	0.0	-1.3	-1.4	-1.5
Dividends paid		0.0	0.0	0.0	0.0	0.0	0.0
Issuance / retirement of financial debt		5.3	-1.5	-2.2	-0.4	-0.4	-0.4
Cash flow from financing activities		5.3	-0.8	-2.2	-1.7	-1.8	-1.9
Total change in cash and cash equivalents		-4.3	2.5	-1.2	-1.5	0.4	0.6
Currency effects		0	0	1	0	0	0
Cash and cash equivalents at the start of the period		9.0	4.7	7.1	6.4	4.9	5.4
Cash and cash equivalents at the end of the period		4.7	7.1	6.4	4.9	5.4	5.9

Source: Company data, Oddo Seydler Bank AG

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Date	Recommendation	Price at change date	Price target
24 July 2015	BUY	EUR 4.50	EUR 5.50
07 April 2015	BUY	EUR 3.25	EUR 4.00
07 November 2014	BUY	EUR 4.00	EUR 6.00
29 August 2014	BUY	EUR 4.66	EUR 6.90

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