

Gesco AG

It is already 2022

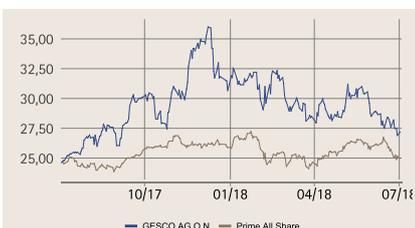
04/07/2018

Buy (Buy)
42.00 EUR (40.00 EUR)

Close 02/07/2018 27.20 EUR
Bloomberg: GSC1 GY WKN: A1K020
Sector Industrials

Share price performance

52 week high 36.00 EUR
52 week low 24.64 EUR
Compared to Prime All Share
YTD -7.8%
1 month -0.9%
12 months 9.2%



Share data

EV (m EUR; 2018) 398.1
Market Cap (m EUR) 294.8
No. of shares (m) 10.8
Free float 86.3%

Next event

Quarterly Results 14/08/2018

Change in model

| | Sales | EBIT | EPS |
|----------|-------|-------|-------|
| 2017/18 | --- | --- | --- |
| 2018/19e | 3.4% | 17.2% | 22.4% |
| 2019/20e | 3.4% | 10.9% | 14.3% |

Analyst

Christoph Schlienkamp, Investmentanalyst DVFA
Phone: +49 (0)211 4952-311
christoph.schlienkamp@bankhaus-lampe.de

See end of document for disclaimer.

Following Gesco's very well attended Capital Market Day and our talks with the new CEO, Ralph Rumberg, we updated our estimates and increased our price target from € 40.00 to € 42.00. We clearly confirm our BUY rating after we significantly increased our forecasts. In its Portfolio Strategy 2022 the company wanted to achieve an 8% EBIT margin in 2022. Currently, it is fair to assume that this margin target could already be achieved in the current fiscal year.

INVESTMENT CASE

We assume that the key elements of Portfolio Strategy 2022 are still valid. These are better benchmarking, improved technical support from the holding, and a more active management of the portfolio companies. A more active investment process and a clear focus on megatrends are the key drivers for ongoing growth and improving margins in the future. A sustainable cash flow that is higher than the historical average will also give Gesco an opportunity to fund further acquisitions from its own balance sheet. Despite all the political uncertainties, there are many indications of further positive economic developments. At some companies, Gesco is experiencing longer delivery times for primary materials and components. We do not yet regard this as a sign of overheating, but rather as evidence of an ongoing high level of utilisation of the industry's capacities. We therefore expect to see sales growth and an above-average increase in earnings in the current FY. In addition to the positive operational outlook for organic growth, Gesco is continuously reviewing options for growth through acquisitions.

CATALYSTS

Gesco should report positive Q1 results (sales +5.5%, further earnings improvement) on 14/08/2018. A dividend of € 0.60 is to be paid after the AGM on 30/08/2018.

VALUATION

Our price target is still based on a DCF model. The higher price target results from the changes in the cash-flow estimates.

[Click here for full note.](#)

| in m EUR | 2016/17 | 2017/18 | 2018/19e | 2019/20e | 2020/21e |
|--------------------|---------|---------|----------|----------|----------|
| Sales | 482.5 | 547.2 | 560.0 | 571.2 | 582.6 |
| EBIT | 22.1 | 33.8 | 44.6 | 46.4 | 50.8 |
| EBIT margin | 4.6% | 6.2% | 8.0% | 8.1% | 8.7% |
| Net financial debt | 87.3 | 80.5 | 72.4 | 57.1 | 45.5 |
| Free cash flow | -21.5 | 14.8 | 12.4 | 26.2 | 23.5 |
| EPS (in EUR) | 0.79 | 1.49 | 2.49 | 2.59 | 2.86 |
| DPS (in EUR) | 0.35 | 0.60 | 1.00 | 1.10 | 1.20 |
| Dividend yield | 1.4% | 2.1% | 3.7% | 4.0% | 4.4% |
| EV/sales | 0.8 | 0.8 | 0.7 | 0.7 | 0.6 |
| EV/EBIT | 16.7 | 12.4 | 8.9 | 8.2 | 7.2 |
| P/E | 31.6 | 19.2 | 10.9 | 10.5 | 9.5 |

Source: Company information, Bankhaus Lampe Research estimates