



GESCO AG

Neutral → | Target 26.00 EUR vs 24.50 EUR ↗

Price (06/07/2017) : 24.79 EUR | Upside : 5 %

Est.chg	2018e	2019e
EPS	2.6%	10.4%

Guidance appears achievable, mid-term EBIT margin to approach 8%

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Source : Oddo, Fininfo

Capital				
GSC1 GY GSC1n.DE				
Market Cap (EURm)				247
Enterprise value (EURm)				353
Extrema 12 months		22.01	-	25.16
Free Float (%)				71.2
Performance (%)				
	1m	3m	12m	
Absolute	0.6	1.2	6.2	
Perf. rel. Country Index	2.9	1.3	-11.0	
Perf. rel. Capital Goods	2.2	-0.5	-18.5	
P&L				
	03/18e	03/19e	03/20e	
Sales (EURm)	521	530	539	
EBITDA (EURm)	56.3	60.5	64.9	
Current EBIT (EURm)	32.5	36.2	40.4	
Attr. net profit (EURm)	17.3	20.2	22.9	
Adjusted EPS (EUR)	1.59	1.86	2.11	
Dividend (EUR)	0.61	0.74	0.84	
P/E (x)	15.6	13.3	11.8	
P/B (x)	1.3	1.2	1.1	
Dividend Yield (%)	2.5	3.0	3.4	
FCF yield (%)	1.8	4.0	4.0	
EV/Sales (x)	0.71	0.67	0.63	
EV/EBITDA (x)	6.5	5.8	5.2	
EV/Current EBIT (x)	11.3	9.8	8.4	
Gearing (%)	35	26	19	
Net Debt/EBITDA(x)	1.4	1.1	0.8	

Next Events	
14.08.2017	Q1 Results
31.08.2017	AGM
14.11.2017	Q2 Results

GESCO paid € 42m for recent margin-accretive acquisition, aims to step up its M&A pace

At GESCO's CMD, we were given an impression of the high degree of automation at GESCO's new subsidiary Pickhardt & Gerlach (PGW). Given the purchase price of ~€ 42m and GESCO's target to lift its group's EBIT margin to 8% by 2020, we assume PGW's EBIT margin is very clearly above 10% (even including the additional depreciation/amortisation from the purchase price allocation on group level).

Although M&A price levels have risen, GESCO now plans to increase its pace of further takeovers, buying up to three companies per year. Management is also countering the recent slow-down in growth and earnings momentum with new benchmarking processes and a series of optimisation projects in its existing portfolio.

Balance sheet precautions for Protomaster probably sufficient

As we already signalled in our last update, GESCO incurred in fiscal 2016-17 a negative one-off effect of ~€ 6.6m (both before and after tax) from the impairment of fixed assets due to its decision to sell loss-making subsidiary Protomaster GmbH. Since the impairments had no effect on taxation, the tax rate increased yoy from 35.8% to 49.3%. According to IFRS 5, Protomaster (2016 sales: € 13.9m, -21.4% yoy) will continue to be included in the group's sales and earnings figures, but it remains unclear for how long. This presumably explains GESCO's broad sales guidance range (€ 510-530m). Its net income guidance range is tighter (€ 17-18m). Since the book value of Protomaster's net assets after impairment is negative (€ -2m), management assumes it can realise a book profit on the future disposal of Protomaster which will more or less offset or even exceed Protomaster's operating losses in 2017e. Officially, however, the annual report does not rule out the possibility of additional expenses from the disposal. We currently choose to assume neither a positive nor a negative impact from Protomaster on the group's EBIT in 2017-18e.

Guidance supported by order situation and strong Q1 sales growth

Given that Q1 for the operating group units ended on 31 March, Gesco has already reported preliminary sales and order figures for Q1 2017 which will be included in the Q1 2017-18 report on the group level. Q1 sales were ~€ 133m, up 17% yoy (Q1 CY 2016: € 113.6m). Assuming PGW contributed c.€ 7.5m to Q1 sales, we estimate Q1 organic growth at >10%. Q1 order intake increased 21% yoy to ~€ 148m. The book-to-bill ratio of 1.1x indicates improving business going forward. The order backlog increased 16% yoy to ~€ 209m.

We raise our sales and earnings estimates. We now expect full-year 2017-18 sales to come in at € 521.4m (old: € 501.3m), but we stress the uncertainty related to the timing of the Protomaster disposal. We estimate EBIT at € 32.5m (old: € 29.7m), and net income attributable to shareholders at € 17.3m (old: € 15.5m).

Mid-term margin estimates increased, TP raised to € 26

Management appears quite convinced that it will reach its EBIT margin target of 8% (a level which Gesco has already achieved in the past) by 2020, at the latest (our estimate: 7.5%). While there is obviously no guarantee of success regarding the announced more aggressive M&A strategy, especially since the M&A market has increasingly become a seller's market, the recent acquisition of PGW shows that GESCO's non-exit strategy is a clear advantage. Based on our increased estimates for the entire forecast period, our DCF model yields a fair value per share of € 26.14. We raise our TP to € 26. Our TP implies target P/E multiples of 16.3x for 2017-18e and 14.0x for 2018-19e. Neutral maintained.

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Discounted cash flow model

EURm	PHASE 1			PHASE 2							PHASE 3
	2017/18e	2018/19e	2019/20e	2020/21e	2021/22e	2022/23e	2023/24e	2024/25e	2025/26e	2026/27e	∞
Sales	521.4	530.1	538.8	546.8	555.0	563.4	571.8	580.4	589.1	597.9	
YoY growth	-2.3%	1.7%	1.6%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	
EBIT	32.5	36.2	40.4	41.0	41.6	42.3	42.9	43.5	44.2	44.8	
EBIT margin	6.2%	6.8%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	
Income tax on EBIT	-11.4	-11.7	-12.8	-13.0	-13.2	-13.4	-13.6	-13.8	-14.0	-14.2	
Depreciation and amortisation	23.7	24.3	24.4	24.6	24.7	24.8	24.9	25.0	25.2	25.3	
Change in net working capital	-6.6	-2.7	-3.4	-3.0	-3.1	-3.1	-3.2	-3.2	-3.3	-3.9	
Net capital expenditure incl. acquisitions	-21.4	-22.7	-24.2	-24.8	-24.9	-25.1	-25.2	-25.3	-25.4	-25.3	
Free cash flow	16.8	23.4	24.4	24.7	25.1	25.5	25.8	26.2	26.6	26.7	
Present values	17.2	22.2	21.5	20.2	19.0	17.9	16.9	15.9	15.0	14.0	240.1
Present value Phase 1	60.8										
Present value Phase 2	118.9										
Present value Phase 3	240.1										
Total present value	419.8										
+ Liquid funds*	35.1										
- Financial debt / long-term provisions*	-140.14										
- Minority interests (est. market value)	-31.5										
Fair value of equity	283.3										
Number of shares (m)	10.8										
Fair value per share (EUR)	26.14										

Risk free rate	0.78%	Target equity ratio	73.0%
Equity risk premium	7.23%	Beta (fundamental)	1.2
Debt risk premium	2.00%	WACC	7.4%
Tax shield	31.8%	Terminal growth	1.5%

Sensitivity analysis						
Terminal growth (Phase 3)						
		0.5%	1.0%	1.5%	2.0%	2.5%
WACC	6.4%	28.59	30.93	33.74	37.20	41.53
	6.9%	25.44	27.34	29.59	32.30	35.62
	7.4%	22.75	24.31	26.14	28.30	30.91
	7.9%	20.42	21.72	23.22	24.98	27.06
	8.4%	18.38	19.47	20.72	22.17	23.86

Source: Oddo Seydler Bank

*at the beginning of the first forecast period

GSC1n.DE | GSC1 GY
Holding companies | Germany

Neutral

Price 24.79EUR

Upside 4.88%

TP 26.00EUR

	03/13	03/14	03/15	03/16	03/17	03/18e	03/19e	03/20e
PER SHARE DATA (EUR)								
Adjusted EPS	2.10	1.82	1.24	1.62	1.45	1.59	1.86	2.11
Reported EPS	2.10	1.82	1.24	1.62	0.79	1.59	1.86	2.11
Growth in EPS(%)	-14.9%	-13.5%	-31.8%	30.6%	-10.5%	9.9%	16.9%	13.2%
Net dividend per share	0.83	0.73	0.58	0.67	0.35	0.61	0.74	0.84
FCF to equity per share	0.74	-0.32	-0.43	0.18	2.22	0.44	1.00	0.98
Book value per share	15.54	16.46	16.88	18.07	19.90	19.62	20.87	22.23
Number of shares market cap	9.95	9.97	9.97	9.97	9.99	10.84	10.84	10.84
Number of diluted shares	9.95	9.97	9.97	9.97	9.99	10.84	10.84	10.84
VALUATION								
12m highest price	27.65	26.27	26.02	25.26	25.16			
12m lowest price	22.00	21.57	20.95	22.01	22.05			
(*) Reference price	22.43	24.69	24.25	23.77	23.49	24.79	24.79	24.79
Capitalization	223	246	242	237	235	269	269	269
Restated Net debt	49.1	63.0	83.8	85.2	91.3	79.6	64.6	50.2
Minorities (fair value)	1.8	1.6	1.8	2.4	1.8	2.1	2.3	2.6
Financial fixed assets (fair value)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Provisions	15.3	14.9	17.1	16.3	17.1	17.3	17.4	17.6
Enterprise Value	290	326	344	341	345	368	353	339
P/E (x)	10.7	13.6	19.6	14.7	16.2	15.6	13.3	11.8
P/CF (x)	5.9	6.7	7.4	6.0	6.2	8.2	7.5	7.1
Net Yield (%)	3.7%	3.0%	2.4%	2.8%	1.5%	2.5%	3.0%	3.4%
FCF yield (%)	3.3%	ns	ns	0.8%	9.5%	1.8%	4.0%	4.0%
P/B incl. GW (x)	1.44	1.50	1.44	1.32	1.18	1.26	1.19	1.11
P/B excl. GW (x)	113	24.95	ns	21.63	ns	ns	ns	ns
EV/Sales (x)	0.66	0.72	0.76	0.69	0.72	0.71	0.67	0.63
EV/EBITDA (x)	5.6	6.7	7.5	6.4	6.9	6.5	5.8	5.2
EV/EBIT (x)	7.8	10.2	12.6	10.8	15.6	11.3	9.8	8.4
(*) historical average price								
PROFIT AND LOSS (EURm)								
Sales	440	453	451	494	482	521	530	539
EBITDA	52	48.7	46.2	53	49.7	56	60	65
Depreciations	-14.4	-16.7	-18.9	-21.8	-27.6	-23.7	-24.3	-24.4
Current EBIT	37.3	32.0	27.3	31.5	22.1	32.5	36.2	40.4
Published EBIT	37.3	32.0	27.3	31.5	22.1	32.5	36.2	40.4
Net financial income	-3.5	-3.0	-2.7	-2.6	-3.0	-2.8	-2.9	-3.1
Corporate Tax	-11.1	-9.3	-10.4	-10.3	-9.5	-10.4	-10.7	-11.8
Net income of equity-accounted companies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Profit/loss of discontinued activities (after tax)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minority interests	-1.8	-1.6	-1.8	-2.4	-1.8	-2.1	-2.3	-2.6
Attributable net profit	20.9	18.1	12.4	16.1	7.9	17.3	20.2	22.9
Adjusted attributable net profit	20.9	18.1	12.4	16.1	14.5	17.3	20.2	22.9
BALANCE SHEET (EURm)								
Goodwill	12.4	12.4	13.8	13.0	19.4	19.4	19.4	19.4
Other intangible assets	6.5	5.9	5.4	4.3	27.2	23.1	19.0	15.0
Tangible fixed assets	99.7	113	129	134	141	143	145	149
WCR	103	112	119	133	135	141	144	147
Financial assets	8.9	8.7	7.4	6.9	4.5	4.5	4.5	4.5
Ordinary shareholders equity	155	164	168	180	199	213	226	241
Minority interests	11.9	12.4	14.5	15.7	15.2	17.3	19.6	22.2
Shareholders equity	167	177	183	196	214	230	246	263
Non-current provisions	20.6	19.0	20.2	19.7	21.2	21.4	21.5	21.7
Net debt	49.1	63.0	83.8	85.2	91.3	79.6	64.6	50.2
CASH FLOW STATEMENT (EURm)								
EBITDA	51.8	48.7	46.2	53.3	49.7	56.3	60.5	64.9
Change in WCR	-8.2	-12.6	-5.8	-12.7	4.5	-6.4	-2.5	-3.2
Interests & taxes	-14.2	-12.0	-13.4	-13.2	-12.1	-13.2	-13.7	-15.0
Others	0.5	0.1	-0.1	-0.6	0.1	-10.3	-10.7	-11.9
Operating Cash flow	29.8	24.2	27.0	26.7	42.2	26.2	33.6	34.8
CAPEX	-22.4	-27.4	-31.3	-24.8	-20.0	-21.4	-22.7	-24.2
Free cash-flow	7.4	-3.2	-4.3	1.8	22.2	4.8	10.9	10.6
Acquisitions / disposals	1.0	0.6	0.5	4.1	0.8	0.0	0.0	0.0
Dividends	-9.6	-8.3	-7.3	-5.8	-6.7	-3.5	-6.6	-8.1
Net capital increase	0.0	0.0	0.0	0.0	19.9	0.0	0.0	0.0
Others	5.7	16.8	17.9	0.9	13.8	-2.0	-2.1	-2.3
Change in net debt	-13.9	-15.6	-21.2	-1.6	-2.3	-1.5	1.2	-0.6
GROWTH MARGINS PRODUCTIVITY								
Sales growth	6.0%	2.9%	-0.4%	9.4%	-2.3%	8.1%	1.7%	1.6%
Lfl sales growth								
Current EBIT growth	-4.5%	-14.3%	-14.7%	15.2%	-29.6%	46.9%	11.3%	11.7%
Growth in EPS(%)	-14.9%	-13.5%	-31.8%	30.6%	-10.5%	9.9%	16.9%	13.2%
Net margin	4.7%	4.0%	2.7%	3.3%	3.0%	3.3%	3.8%	4.2%
EBITDA margin	11.8%	10.7%	10.2%	10.8%	10.3%	10.8%	11.4%	12.0%
Current EBIT margin	8.5%	7.1%	6.0%	6.4%	4.6%	6.2%	6.8%	7.5%
CAPEX / Sales	-5.1%	-6.0%	-6.9%	-5.0%	-4.2%	-4.1%	-4.3%	-4.5%
WCR / Sales	23.5%	24.7%	26.4%	26.9%	27.9%	27.1%	27.1%	27.3%
Tax Rate	32.8%	31.9%	42.4%	35.8%	49.3%	35.0%	32.3%	31.8%
Normative tax rate	32.8%	31.9%	42.4%	35.8%	49.3%	35.0%	32.3%	31.8%
Asset Turnover	2.2	1.9	1.8	1.8	1.6	1.6	1.6	1.6
ROCE post-tax (normative tax rate)	12.4%	9.4%	6.2%	7.3%	3.7%	6.5%	7.5%	8.4%
ROCE post-tax hors GW (normative tax rate)	13.0%	9.9%	6.5%	7.7%	3.9%	6.9%	8.0%	8.9%
ROE	14.0%	11.4%	7.4%	9.3%	7.6%	8.4%	9.2%	9.8%
DEBT RATIOS								
Gearing	29%	36%	46%	44%	43%	35%	26%	19%
Net Debt / Market Cap	0.22	0.26	0.35	0.36	0.39	0.30	0.24	0.19
Net debt / EBITDA	0.95	1.29	1.81	1.60	1.83	1.41	1.07	0.77
EBITDA / net financial charges	16.4	17.7	15.6	18.2	18.8	19.9	20.3	20.8

Source: Oddo, Fininfo

• **Valuation method**

Our target prices are established on a 12-month timeframe and we use three valuation methods to determine them. First, the discounting of available cash flows using the discounting parameters set by the Group and indicated on Oddo Securities' website. Second, the sum-of-the-parts method based on the most pertinent financial aggregate depending on the sector of activity. Third, we also use the peer comparison method which facilitates an evaluation of the company relative to similar businesses, either because they operate in identical sectors (and are therefore in competition with one another) or because they benefit from comparable financial dynamics. A mixture of these valuation methods may be used in specific instances to more accurately reflect the specific characteristics of each company covered, thereby fine-tuning its evaluation.

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• **Our stock market recommendations**

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Buy: performance expected to exceed that of the benchmark index, sectoral (large caps) or other (small and mid caps).

Neutral: performance expected to be comparable to that of the benchmark index, sectoral (large caps) or other (small and mid caps).

Reduce: performance expected to fall short of that of the benchmark index, sectoral (large caps) or other (small and mid caps).

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Recommendation and target price changes history over the last 12 months for the company analysed in this report

Date	Reco	Price Target (EUR)	Price (EUR)	Analyst
07.07.17	Neutral	26.00	24.79	Martin Decot
22.02.17	Neutral	24.50	22.80	Martin Decot

Recommendation split		Buy	Neutral	Reduce
Our whole coverage	(428)	47%	43%	10%
Liquidity providers coverage	(153)	46%	49%	5%
Research service coverage	(67)	51%	46%	3%
Investment banking services	(52)	58%	37%	6%

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