

Recommendation: **BUY** (BUY) Risk: **MEDIUM** (MEDIUM) Price Target: **EUR 32.00** (30.00)

01 September 2014

## Final 2Q results and management meeting

### Strong 2H due to investments and project business

- MBB published its 2Q 2014 report. The final results were in line with the preliminary results. Revenues decreased by 5.5% to EUR 55.6m as a result of project related delays at MBB Fertigungstechnik. However, 2H 2014 should make up for the delays. The EBIT improved by 14% to EUR 4.9m. This includes a bargain purchase from the acquisition of the Tooling plates and pastes materials business of Huntsman in the amount of EUR 1.3m. Adjusted for the one-time effect, EBIT declined by 14% to EUR 3.6m (6.4% adj. EBIT margin, PY: 7.2%). The slightly lower margin should be the result of the lower revenue contribution from MBB Fertigungstechnik and start-up costs for the new paper machine at Hanke Tissue. We expect the adjusted EBIT margin in 2H 2014 to be stronger due to a higher contribution from MBB Fertigungstechnik and the new paper machine. The new paper machine has already been fully booked (so far Poland imported tissue parent rolls from Italy; due to the high transport costs Hanke sold already the whole production of the new machine) and will result in a doubling of revenues at Hanke Tissue (due to start in 2H 2014).
- The subsidiary Delignit (in cooperation with MBB Fertigungstechnik) presented recently a new wood-carbon fibre reinforced plastic composite material which was well accepted by the customers. The material weighs c. 10% less than CFR and is cheaper. The product could become a substantial revenue growth driver. However, so far it is still far away from serial production. We do not expect the product to contribute to revenues before FY 2018E.
- The outlook for FY 2014E was confirmed (EUR 250m revenues and earnings on last year's level). This implies a stronger 2H 2014 which we view as achievable (initial consolidation of Huntsman activities, production start of new paper machine at Hanke Tissue, stronger project business of MBB Fertigungstechnik). We raised our EPS estimates due to a lowered tax rate estimate. This is mainly due to Hanke Tissue which benefits from a Special Economic Zone in Poland (50% of investments can be offset against the taxable income). We reiterate our BUY recommendation and raise our PT to EUR 32.00 (based on DCF and peer group valuation).



Source: CBS Research AG, Bloomberg, MBB Industries AG

Change	2014E		2015E		2016E	
	new	old	new	old	new	old
Sales	250.4	252.5	269.0	260.0	280.0	269.4
EBIT	20.9	21.1	22.7	22.1	24.0	23.1
EPS	2.24	2.14	2.47	2.27	2.67	2.33

Internet: mbbindustries.com Sector: All Industrial  
WKN: A0ETBQ ISIN: DE000A0ETBQ4  
Reuters: MBBG.DE Bloomberg: MBB GY

#### Short company profile:

As an industrial holding company, MBB Industries AG purchases, develops and sells holdings in medium-sized industrial companies. Its focus lies on companies that are characterized by a strong position in the relevant industry.

#### Share data:

Share price (EUR, latest closing price):	<b>24.19</b>
Shares outstanding (m):	6.6
Market capitalisation (EUR m):	159.6
Enterprise value (EUR m):	155.9
Ø daily trading volume (3 m., no. of shares):	2,473

#### Performance data:

High 52 weeks (EUR):	27.46
Low 52 weeks (EUR):	17.92
Absolute performance (12 months):	26.5%
Relative performance vs. CDAX:	
1 month	6.2%
3 months	2.8%
6 months	8.4%
12 months	9.1%

#### Shareholders:

MBB Capital Group	74%
MBB Industries AG	2%
Free float	24%

#### Financial calendar:

9M 2014 results 28 November 2014

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#### Key data

FY 12/31, EUR m	2011	2012	2013	2014E	2015E	2016E
Sales	109.6	204.9	228.2	250.4	269.0	280.0
EBIT	5.2	19.7	17.5	20.9	22.7	24.0
Net result	2.9	13.6	13.5	14.8	16.3	17.6
EPS	0.43	2.11	2.09	2.24	2.47	2.67
DPS	0.44	0.50	0.55	0.56	0.62	0.67
Gross margin	38.0%	37.8%	38.5%	39.7%	39.2%	39.1%
EBITDA margin	8.0%	12.0%	10.0%	10.8%	10.8%	10.9%
EBIT margin	4.7%	9.6%	7.7%	8.3%	8.4%	8.6%
EV/EBITDA	4.1	3.6	6.0	5.8	5.0	4.4
EV/EBIT	7.0	4.5	7.8	7.5	6.5	5.6
P/E	13.8	7.2	10.1	10.8	9.8	9.1

Source: MBB Industries AG, CBS Research AG

## MBB Industries AG

### Profit and loss account

	IFRS	EURm	2011	2012	2013	2014E	2015E	2016E
<b>Revenues</b>			<b>109.6</b>	<b>204.9</b>	<b>228.2</b>	<b>250.4</b>	<b>269.0</b>	<b>280.0</b>
YoY growth			9.7%	86.9%	11.4%	9.7%	7.4%	4.1%
Elimination of neg. difference from capital consolidation			0.0	1.7	0.6	1.3	0.0	0.0
Other operating income			3.3	4.6	4.4	2.8	2.9	3.0
Change in finished goods and work in progress			0.1	0.8	0.2	0.2	0.2	0.2
<b>Total revenues</b>			<b>113.1</b>	<b>211.9</b>	<b>233.3</b>	<b>254.7</b>	<b>272.1</b>	<b>283.2</b>
Cost of materials			-71.4	-134.6	-145.4	-155.2	-166.8	-173.6
in % of sales			-65.1%	-65.7%	-63.7%	-62.0%	-62.0%	-62.0%
<b>Gross income</b>			<b>41.7</b>	<b>77.4</b>	<b>87.9</b>	<b>99.5</b>	<b>105.3</b>	<b>109.6</b>
in % of sales			38.0%	37.8%	38.5%	39.7%	39.2%	39.1%
Personnel expenses			-23.5	-41.2	-50.2	-53.1	-56.5	-58.8
in % sales			-21.5%	-20.1%	-22.0%	-21.2%	-21.0%	-21.0%
Other operating expenses			-9.4	-11.6	-15.0	-19.3	-19.8	-20.2
<b>EBITDA</b>			<b>8.8</b>	<b>24.6</b>	<b>22.7</b>	<b>27.0</b>	<b>29.1</b>	<b>30.6</b>
in % of sales			8.0%	12.0%	10.0%	10.8%	10.8%	10.9%
Depreciation and amortisation			-3.6	-4.9	-5.2	-6.1	-6.4	-6.6
in % of total revenues			-3.2%	-2.3%	-2.2%	-2.4%	-2.3%	-2.3%
<b>EBIT</b>			<b>5.2</b>	<b>19.7</b>	<b>17.5</b>	<b>20.9</b>	<b>22.7</b>	<b>24.0</b>
in % of sales			4.7%	9.6%	7.7%	8.3%	8.4%	8.6%
Financial result			-1.1	-1.5	-0.4	-0.7	0.0	0.5
<b>EBT</b>			<b>4.1</b>	<b>18.1</b>	<b>17.2</b>	<b>20.2</b>	<b>22.7</b>	<b>24.5</b>
in % of sales			3.8%	8.9%	7.5%	8.1%	8.4%	8.8%
Taxes			-1.1	-4.1	-3.3	-4.7	-5.7	-6.1
as % of EBT			-27.5%	-22.7%	-19.2%	-23.4%	-25.0%	-25.0%
<b>Net income including minorities</b>			<b>3.0</b>	<b>14.0</b>	<b>13.9</b>	<b>15.5</b>	<b>17.0</b>	<b>18.4</b>
Minority interests			-0.2	-0.4	-0.4	-0.7	-0.7	-0.8
<b>Net income attributable to shareholders</b>			<b>2.9</b>	<b>13.6</b>	<b>13.5</b>	<b>14.8</b>	<b>16.3</b>	<b>17.6</b>
in % of sales			2.6%	6.6%	5.9%	5.9%	6.1%	6.3%
Shares outstanding (in millions)			6.6	6.5	6.5	6.6	6.6	6.6
<b>Earnings per share (EUR)</b>			<b>0.43</b>	<b>2.11</b>	<b>2.09</b>	<b>2.24</b>	<b>2.47</b>	<b>2.67</b>

Source: CBS Research AG, MBB Industries AG

**Consolidation of valuation models**

	Weighting factor	Fair value per share (EUR)
Peer group valuation	50.0%	29.22
DCF valuation	50.0%	33.89
<b>Fair value per share (EUR)</b>		<b>31.56</b>

**Discounted Cash Flow Model**

EURm	PHASE 1			PHASE 2						PHASE 3	
	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	∞
Sales	250.4	269.0	280.0	288.4	297.1	306.0	315.1	324.6	334.3	344.4	
YoY growth	11.4%	7.4%	4.1%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	
EBIT	20.9	22.7	24.0	23.9	24.7	25.4	26.2	26.9	27.7	28.6	
EBIT margin	8.3%	8.4%	8.6%	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%	
Income tax on EBIT (cash tax rate)	-4.9	-5.7	-6.0	-6.0	-6.2	-6.3	-6.5	-6.7	-6.9	-7.1	
Depreciation and amortisation	6.1	6.4	6.6	6.9	7.1	7.3	7.6	7.8	8.0	8.3	
Change in net working capital	-4.3	-3.6	-2.1	-1.7	-1.7	-1.8	-1.8	-1.9	-1.9	-2.0	
Net capital expenditure	-9.0	-9.5	-10.0	-8.4	-8.6	-8.9	-9.1	-9.4	-9.7	-10.0	
<b>Free cash flow</b>	<b>8.9</b>	<b>10.3</b>	<b>12.5</b>	<b>14.8</b>	<b>15.3</b>	<b>15.7</b>	<b>16.2</b>	<b>16.7</b>	<b>17.2</b>	<b>17.7</b>	
<b>Present values</b>	<b>8.6</b>	<b>9.2</b>	<b>10.3</b>	<b>11.2</b>	<b>10.6</b>	<b>10.0</b>	<b>9.5</b>	<b>9.0</b>	<b>8.5</b>	<b>8.1</b>	<b>128.2</b>
Present value Phase 1	28.2										
Present value Phase 2	67.0										
Present value Phase 3	128.2										
Total present value	223.4										
+ net cash - pension provisions	0.3										
Fair value of equity	223.7										
Number of shares (m)	6.6										
Fair value per share (EUR)	33.89										

  

Risk free rate	3.00%	Target equity ratio	60.0%
Equity risk premium	6.00%	Beta (fundamental)	1.4
Debt risk premium	2.00%	<b>WACC</b>	<b>8.42%</b>
Tax shield	25.0%	<b>Terminal growth</b>	<b>2.0%</b>

  

<b>Sensitivity analysis</b>						
		<b>Terminal growth (Phase 3)</b>				
		<b>1.0%</b>	<b>1.5%</b>	<b>2.0%</b>	<b>2.5%</b>	<b>3.0%</b>
<b>WACC</b>	<b>7.4%</b>	36.29	38.18	40.43	43.13	46.45
	<b>7.9%</b>	33.51	35.07	36.88	39.04	41.63
	<b>8.4%</b>	31.11	32.40	<b>33.89</b>	35.64	37.70
	<b>8.9%</b>	29.01	30.09	31.33	32.76	34.44
	<b>9.4%</b>	27.17	28.08	29.12	30.30	31.68

Source: CBS Research AG

**Peer group valuation**

EURm, except EPS (EUR)	EBITDA			EBIT			EPS		
	2014E	2015E	2016E	2014E	2015E	2016E	2014E	2015E	2016E
MBB Industries AG: Financial estimates CBS Research	27.0	29.1	30.6	20.9	22.7	24.0	2.24	2.47	2.67
Applied multiples: Peer group median	7.7	6.6	6.0	10.5	8.6	7.7	14.4	12.3	12.1
<b>Enterprise value (derived)</b>	<b>208.3</b>	<b>190.5</b>	<b>185.1</b>	<b>220.2</b>	<b>194.6</b>	<b>185.3</b>	-	-	-
+ net cash - pension provisions		0.3							
<b>Market capitalization (derived)</b>	<b>208.6</b>	<b>190.8</b>	<b>185.4</b>	<b>220.5</b>	<b>194.9</b>	<b>185.6</b>	<b>213.3</b>	<b>199.9</b>	<b>212.6</b>
<b>Median</b>		<b>192.9</b>							
Premium (discount) vs. Peer Group		0%							
<b>Fair market capitalization (after discount)</b>		<b>192.9</b>							
Number of shares (m)		6.6							
<b>Fair value per share (EUR)</b>		<b>29.22</b>							

Source: CBS Research AG; Bloomberg

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Recommendation System:

CBSR uses a 3-level absolute share rating system. The ratings pertain to a time horizon of up to 12 months:

BUY: The expected performance of the share price is above +10%.

HOLD: The expected performance of the share price is between 0% and +10%.

SELL: The expected performance of the share price is below 0%.

This rating system is only a guideline. Therefore, deviations from this system may apply.

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

Date	Recommendation	Price at change date	Price Target
01 September 2014	BUY	EUR 24.19	EUR 32.00
06 August 2014	BUY	EUR 22.24	EUR 30.00

15 May 2014	BUY	EUR 25.60	EUR 30.00
2 May 2014	BUY	EUR 26.00	EUR 30.00
5 March 2014	BUY	EUR 22.55	EUR 27.00
22 November 2013	BUY	EUR 22.55	EUR 27.00
31 October 2013	BUY	EUR 21.45	EUR 27.00

Risk-scaling System:

CBSR uses a 3-level risk-scaling system. The ratings pertain to a time horizon of up to 12 months:

- LOW: The volatility is expected to be lower than the volatility of the benchmark
- MEDIUM: The volatility is expected to be equal to the volatility of the benchmark
- HIGH: The volatility is expected to be higher than the volatility of the benchmark

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The figures taken from the income statement, the cash flow statement and the balance sheet upon which the evaluation of companies is based are estimates referring to given dates and therefore subject to risks.

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