



quirin bank

MBB SE

quirin bank Equity Research

8 September 2016

**MBB SE**

**Rating** Buy (Buy)  
**Share price (EUR)** 39.99  
**Target price (EUR)** 45.00 (38.00)

Bloomberg MBB GY  
 Sector Industrial Holding

**Share data**

Shares out (m) 6.6  
 Daily volume shs (m) 0.1  
 Free float (%) 29.00  
 Market cap (EUR m) 264  
 EV (EUR m) 306  
 Dividend/Share (EUR) 0.59  
 Dividend yield (%) 2.5  
 Payout ratio (%) 30.0

**Performance**

ytd (%) 48.7  
 12 months (%) 77.7  
 12 months rel. (%) 67.4  
 Index SDAX

**Share price performance**



Source: Bloomberg

**Next triggers**

21 November 2016: German Equity Forum  
 30 November: Q3 Report

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# The growth story continues

**MBB delivered strong figures for H1-2015. Furthermore, we continue to believe that the company and its shareholders will take pleasure in its last year's acquisition Aumann. Based on upwards adjusted estimates, we increase our TP to EUR 45 (old: EUR 38) and confirm our BUY recommendation.**

**H1 2016 results**

The company generated a new revenue record with EUR159.4m in H1 2016 after EUR 124.4m in H1 2015. This corresponds to a growth in revenues of 28.1% yoy. Organic growth without Aumann group, which was first consolidated in November 2015, amounted to 11.0%. The EBITDA increased by 31.8% to EUR 15.6m (previous year: EUR 11.8m). The net profit after minorities was EUR 7.2m (previous year: EUR 5.9m) or EUR 1.09 per share in the first six months. Its balance sheet remained robust as liquidity (including gold and securities) amounted to EUR 55.6m, while net cash stood at EUR 9.9m compared to EUR 8.1m as of 31 December 2015.

**Delignit well on track**

Its stock-listed 76% subsidiary Delignit was able to increase sales by 4% to EUR 24.4m in H1 2016. Consolidated net profits were EUR 0.70m, an increase of 9.9% yoy. For FY 2016 a record level of revenue is expected. Furthermore, its mid-term prospects are convincing, too: Delignit has won two important automotive serial delivery contracts in August. With regard to FY 2018, in which these contracts will show their full revenue impact for the first time, an additional revenue volume of up to EUR 10m might be possible.

**Aumann a world-leading champion**

Aumann is now one of the world's leading providers of the high-performance machinery that is required to manufacture wound coils and, in particular, electric motors in large quantities. Therefore the company will directly benefit from the fast growing market of electric engines. Mr. Seidel – CTO of MBB – explained during the DVFA Small Cap Conference end of August that its order situation, mainly from the German OEMs, is excellent.

**TP up to EUR 45, BUY**

We believe that MBB will fulfill its in August increased guidance (revenues EUR >310m and EPS) EUR >2.10 easily. **We believe that MBB is among the best stock-listed holding companies in Germany. We therefore reiterate BUY and increase TP to EUR 45 (old: 38).**

**Key figures**

		2014	2015	2016e	2017e	2018e
Sales	EUR m	237	253	317	326	334
EBITDA	EUR m	22	25	29	30	31
EBIT	EUR m	16	18	23	24	25
EPS	EUR	2.01	1.79	2.15	2.30	2.45
Sales growth	%	3.7	6.8	25.2	2.8	2.5
EBIT growth	%	-9.1	13.1	25.2	6.4	5.9
EPS growth	%	-4.0	-11.0	20.3	6.9	6.7
EBITDA margin	%	9.3	9.8	9.1	9.3	9.3
EBIT margin	%	6.7	7.1	7.1	7.4	7.6
Net margin	%	5.6	4.7	4.5	4.7	4.8
EV/Sales	ratio	1.19	1.20	0.97	0.94	0.89
EV/EBITDA	ratio	12.8	12.3	10.6	10.1	9.6
EV/EBIT	ratio	17.6	16.9	13.6	12.7	11.7
P/E	ratio	11.9	13.0	18.6	17.4	16.3
P/BV	ratio	2.0	1.7	2.7	2.4	2.2
Dividend yield	%	2.4	2.5	1.6	1.7	1.8

Source: Bloomberg, Company data, quirin bank estimates

## Valuation

In our valuation of MBB's equity we focused on a discounted cash flow methodology based on free cash flow to the firm and a peer group valuation. We decide to weight the DCF fair value by 2/3 and the multiple approach by 1/3, too. Based on the methods we derive a fair value of EUR 44.66 per share.

### Multiple valuation

In our multiple approach we considered how a) holding companies and b) companies from the capital goods sector are evaluated by the capital market: We used EV/EBITDA, EV/EBIT and P/E multiples from FY 2016e to 2018e:

### MBB Peer Group valuation:

Peer Group Overview	EV/EBITDA			EV/EBIT			P/E		
	2016e	2017e	2018e	2016e	2017e	2018e	2016e	2017e	2018e
AURELIUS EQUITY OPPORTUNITIE	6.6	6.9	5.8	11.5	12.0	8.7	17.1	15.3	10.6
DUERR AG	8.0	7.8	7.5	10.2	9.8	9.1	15.0	14.2	13.3
GEA GROUP AG	13.1	11.4	10.7	15.5	13.4	12.3	22.2	20.2	18.4
GESCO AG	7.2	6.6	6.2	12.6	11.1	10.6	16.8	13.7	12.7
INDUS HOLDING AG	8.4	7.9	7.5	11.4	10.9	10.4	16.1	15.2	14.2
M.A.X. AUTOMATION AG	7.5	6.9	6.5	10.6	9.2	8.0	10.6	9.4	8.7
KRONES AG	8.4	7.8	7.4	11.9	11.0	10.1	17.3	16.0	14.8
<b>Median</b>	<b>8.0</b>	<b>7.8</b>	<b>7.4</b>	<b>11.5</b>	<b>11.0</b>	<b>10.1</b>	<b>16.8</b>	<b>15.2</b>	<b>13.3</b>

Source: Bloomberg, quirin bank

We applied these multiples from the peer group to our financial forecasts for MBB. We added the company's net financial cash, which includes financial assets and deducted pension provisions from the derived enterprise values in order to get the fair value of equity. With the P/E, EV/EBIT and EV/EBITDA multiples for 2016e to 2018e, we calculated the fair value of equity. The peer group approach indicates a fair value of EUR 35.37 per share.

Peer Group Results	EBITDA 2016e	EBITDA 2017e	EBITDA 2018e	EBIT 2016e	EBIT 2017e	EBIT 2018e	EPS 2016e	EPS 2017e	EPS 2018e
in EUR m									
Estimates MBB	28.8	30.2	31.0	22.6	24.0	25.4	2.15	2.30	2.45
Multiple	8.0x	7.8x	7.4x	11.5x	11.0x	10.1x	16.8x	15.2x	13.3x
<b>Enterprise value</b>	<b>232.1</b>	<b>235.7</b>	<b>228.2</b>	<b>258.6</b>	<b>263.2</b>	<b>258.1</b>	-	-	-
Pension provisions					-22.1				
Net Cash					12.5				
<b>Fair value of equity</b>	<b>222.5</b>	<b>226.2</b>	<b>218.6</b>	<b>249.0</b>	<b>253.6</b>	<b>248.6</b>	<b>237.9</b>	<b>230.5</b>	<b>214.1</b>
<b>Average</b>					<b>233.5</b>				
Number of shares (m)					6.6				
<b>Fair value per share (in EUR)</b>					<b>35.37</b>				

Source: Bloomberg, quirin bank

### DCF valuation

Our DCF model indicates a fair value of EUR 49.30 for MBB. Our assumptions are as follows:

#### Phase 1 (2016e-18e):

We estimated the free cash flows (FCF) of phase 1 according to our detailed financial forecasts for this period stated in the financials section.

#### Phase 2 (2019e-25e):

For Phase 2, we initially used more general assumptions. We assumed a sales growth of 3.0% which should drop to ~0.4% in 2025e. Furthermore, we forecasted constant EBIT margins of 8.0% (so far 7.5%).

#### Phase 3:

For the calculation of the terminal value, we applied a long-term FCF growth rate of 2.0% which equals the estimated long-term inflation rate.

Based on these assumptions, we calculated a fair value of the operating business of EUR 334.9m. We added MBB's net cash (financial debt minus cash and securities) and deducted current pension provisions. The resulting fair value of equity is EUR 325.4m. The fair value per share amounts to EUR 49.30 according to our DCF model.

EURm	PHASE 1			PHASE 2							PHASE 3
	2016e	2017e	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	∞
Sales	316.5	325.5	333.5	343.5	350.7	355.9	359.5	362.1	364.0	365.2	
YoY growth	25.2%	2.8%	2.5%	3.0%	2.1%	1.5%	1.0%	0.7%	0.5%	0.4%	
EBIT	22.6	24.0	25.4	27.5	28.1	28.5	28.8	29.0	29.1	29.2	
EBIT margin	7.1%	7.4%	7.6%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	
Income tax on EBIT (cash tax rate)	-6.4	-6.8	-7.3	-8.2	-8.4	-8.5	-8.6	-8.7	-8.7	-8.8	
Depreciation and amortisation	6.7	6.2	5.6	8.6	8.8	8.9	9.0	9.1	9.1	9.1	
Change in long-term provisions	5.8	0.8	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	
Other non-cash items	1.4	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	
Change in net working capital	-15.5	-2.2	-1.9	-2.4	-1.7	-1.2	-0.9	-0.6	-0.4	-0.3	
Net capital expenditure	-14.6	-16.4	-8.2	-8.9	-9.1	-9.3	-9.3	-9.4	-9.5	-9.1	
<b>Free cash flow</b>	<b>0.0</b>	<b>5.7</b>	<b>14.5</b>	<b>17.4</b>	<b>18.5</b>	<b>19.2</b>	<b>19.8</b>	<b>20.2</b>	<b>20.5</b>	<b>21.0</b>	
<b>Present values</b>	<b>0.0</b>	<b>5.2</b>	<b>12.3</b>	<b>13.8</b>	<b>13.7</b>	<b>13.3</b>	<b>12.8</b>	<b>12.2</b>	<b>11.5</b>	<b>11.0</b>	<b>229.1</b>
Present value Phase 1	17.5										
Present value Phase 2	88.4										
Present value Phase 3	229.1										
Total present value	334.9										
+ Excess cash/Non-operating assets	54.7										
- Financial debt	-42.2										
- Pension provisions	-22.1										
Fair value of equity	325.4										
Number of shares (m)	6.6										
Fair value per share (EUR)	49.30										

Risk free rate	3.00%	Target equity ratio	40.0%
Equity risk premium	6.00%	Beta (fundamental)	1.4
Debt risk premium	2.75%	<b>WACC</b>	<b>6.92%</b>
Tax shield	30.0%	<b>Terminal growth</b>	<b>2.0%</b>

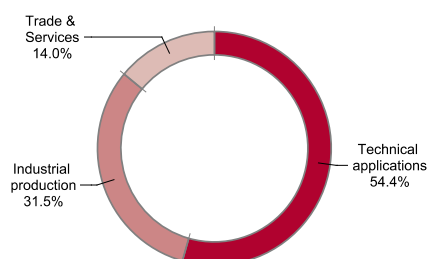
Sensitivity analysis						
		Terminal growth (Phase 3)				
		1.0%	1.5%	2.0%	2.5%	3.0%
<b>WACC</b>	<b>5.9%</b>	56.57	61.04	66.66	73.92	83.66
	<b>6.4%</b>	51.07	54.57	58.86	64.25	71.21
	<b>6.9%</b>	46.50	49.29	<b>49.30</b>	56.76	61.93
	<b>7.4%</b>	42.65	44.91	47.58	50.80	54.75
	<b>7.9%</b>	39.35	41.21	43.37	45.94	49.02

Source: quirin bank

### Company description

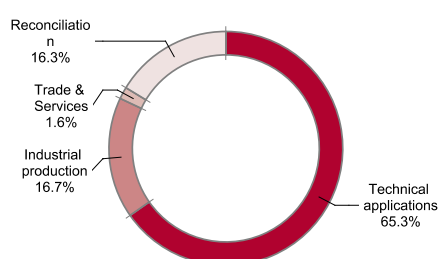
MBB SE is a medium-sized family business that has expanded steadily since it was founded in 1995 through organic growth and the acquisition of companies. Increasing long-term value of the independent subsidiaries and the Group as a whole is the center of its business model which has been profitable from the outset. The company is focussing on substantial growth and sustainable returns.

#### Revenues by segment 2015



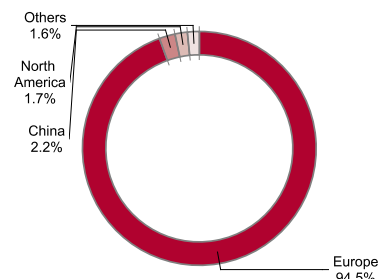
Source: Company data

#### Operating profit by segment 2015



Source: Company data

#### Revenues by region 2015



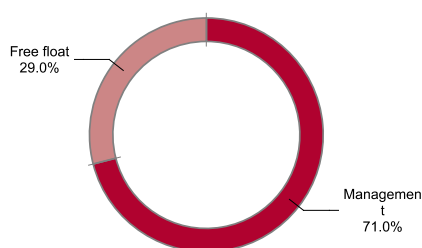
Source: Company data

#### Segment data (EUR m)

	2014	2015	2016e	2017e	2018e
<b>Revenues (growth in %)</b>					
Technical applications	138.8	137.7	190.0	194.0	198.0
Industrial production	64.0	79.9	87.0	90.0	92.0
Trade & Services	34.6	35.5	40.0	42.0	44.0
Reconciliation	-0.7	-0.4	-0.5	-0.5	-0.5
<b>EBIT (margin in %)</b>					
Technical applications	12.4	11.8	16.7	17.5	18.2
Industrial production	4.2	3.0	4.4	5.0	5.5
Trade & Services	0.3	0.3	2.0	2.1	2.2
Reconciliation	-1.0	-0.4	-0.5	-0.5	-0.5

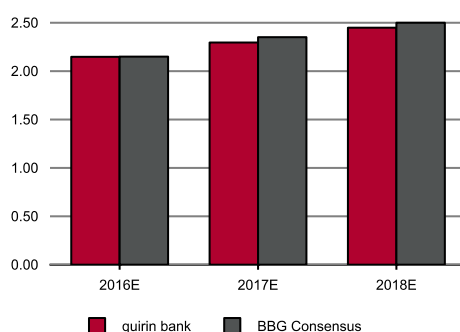
Source: Company data, quirin bank estimates

#### Shareholder structure



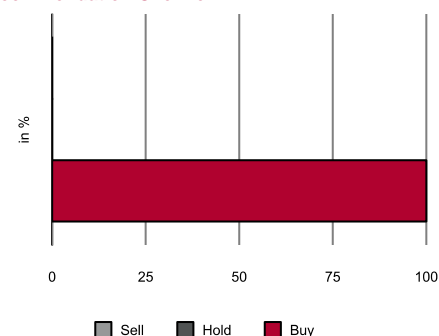
Source: Company data

#### EPS: quirin bank vs. consensus



Source: quirin bank Research, Bloomberg

#### Recommendation Overview



Source: Bloomberg

**Company guidance 2015**

Given the current course of business and the very strong order intake in the first half of the year, MBB raised in August its forecast for 2016 to revenues of more than EUR310m (old: EUR 300m) and earnings per share of more than EUR 2.10 (old: EUR 2.00).

## Profit &amp; loss statement

Profit & loss statement (EUR m)	2014	YOY	2015	YOY	2016e	YOY	2017e	YOY	2018e	YOY
<b>Sales</b>	<b>236.7</b>	<b>3.7 %</b>	<b>252.8</b>	<b>6.8 %</b>	<b>316.5</b>	<b>25.2 %</b>	<b>325.5</b>	<b>2.8 %</b>	<b>333.5</b>	<b>2.5 %</b>
Unfinished Goods	1.6		0.8		1.0		1.0		1.0	
Other own work capitalized	1.6		0.0		0.3		0.4		0.4	
Other operating earnings	2.9		5.7		4.8		3.7		3.7	
Cost of goods	150.9		161.0		201.6		207.4		212.4	
Gross profit	91.9		98.2		120.9		123.2		126.2	
Personnel expenses	53.3		58.9		73.8		75.9		77.7	
Depreciation	6.1		6.8		6.3		6.2		5.6	
Other operating expenses	16.5		14.4		22.3		17.2		17.4	
<b>EBITDA</b>	<b>22.0</b>	<b>-3.0 %</b>	<b>24.8</b>	<b>12.7 %</b>	<b>28.8</b>	<b>16.1 %</b>	<b>30.2</b>	<b>4.6 %</b>	<b>31.0</b>	<b>2.8 %</b>
EBITDA margin (%)	9.31		9.83		9.11		9.27		9.30	
<b>EBIT</b>	<b>15.9</b>	<b>-9.1 %</b>	<b>18.0</b>	<b>13.1 %</b>	<b>22.6</b>	<b>25.2 %</b>	<b>24.0</b>	<b>6.4 %</b>	<b>25.4</b>	<b>5.9 %</b>
EBIT margin (%)	6.73		7.13		7.13		7.38		7.63	
Net interest	-1.5		-1.2		-1.2		-1.2		-1.1	
Income from Participations	0.0		0.0		0.0		0.0		0.0	
Net financial result	-1.6		-1.7		-1.2		-1.2		-1.1	
Exceptional items	0.0		0.0		0.0		0.0		0.0	
<b>Pretax profit</b>	<b>14.4</b>	<b>-16.2 %</b>	<b>16.3</b>	<b>13.4 %</b>	<b>21.4</b>	<b>31.0 %</b>	<b>22.8</b>	<b>6.9 %</b>	<b>24.3</b>	<b>6.7 %</b>
Pretax margin (%)	6.07		6.45		6.75		7.01		7.30	
Taxes	0.6		3.9		6.4		6.8		7.3	
Tax rate (%)	4.22		23.75		30.00		30.00		30.00	
Earnings after taxes	13.8		12.4		14.9		16.0		17.0	
Minorities	0.6		0.6		0.8		0.8		0.9	
<b>Group attributable income</b>	<b>13.2</b>	<b>-2.0 %</b>	<b>11.8</b>	<b>-10.7 %</b>	<b>14.2</b>	<b>20.3 %</b>	<b>15.1</b>	<b>6.9 %</b>	<b>16.2</b>	<b>6.7 %</b>
No. of shares (m)	6.6		6.6		6.6		6.6		6.6	
<b>Earnings per share (EUR)</b>	<b>2.01</b>	<b>-4.0 %</b>	<b>1.79</b>	<b>-11.0 %</b>	<b>2.15</b>	<b>20.3 %</b>	<b>2.30</b>	<b>6.9 %</b>	<b>2.45</b>	<b>6.7 %</b>

## Balance sheet

Balance sheet (EUR m)	2014	YOY	2015	YOY	2016e	YOY	2017e	YOY	2018e	YOY
<b>Assets</b>										
Cash and cash equivalents	37.4		23.6		28.5		29.7		39.2	
Accounts receivables	51.7		61.8		77.3		79.5		81.5	
Inventories	20.2		23.3		29.2		30.0		30.7	
Other current assets	11.8		15.4		15.4		15.4		15.4	
Tax claims	0.0		0.0		0.0		0.0		0.0	
<b>Total current assets</b>	<b>121.1</b>	<b>n.a.</b>	<b>124.0</b>	<b>2.4 %</b>	<b>150.4</b>	<b>21.2 %</b>	<b>154.6</b>	<b>2.8 %</b>	<b>166.9</b>	<b>7.9 %</b>
Fixed assets	51.6		58.5		66.9		77.2		79.8	
Goodwill	1.8		11.9		11.9		11.9		11.9	
Other intangible assets	5.7		5.8		5.8		5.8		5.8	
Financial assets	9.6		15.7		15.7		15.7		15.7	
Deferred taxes	6.8		6.6		6.6		6.6		6.6	
Other fixed assets	0.0		0.0		0.0		0.0		0.0	
<b>Total fixed assets</b>	<b>75.6</b>	<b>n.a.</b>	<b>98.5</b>	<b>30.3 %</b>	<b>106.9</b>	<b>8.5 %</b>	<b>117.2</b>	<b>9.6 %</b>	<b>119.8</b>	<b>2.3 %</b>
<b>Total assets</b>	<b>196.7</b>	<b>n.a.</b>	<b>222.6</b>	<b>13.2 %</b>	<b>257.3</b>	<b>15.6 %</b>	<b>271.8</b>	<b>5.7 %</b>	<b>286.7</b>	<b>5.5 %</b>
<b>Equity &amp; Liabilities</b>										
Subscribed capital	6.6		6.6		6.6		6.6		6.6	
Reserves & other	17.8		17.5		17.5		17.5		17.5	
Revenue reserves	50.7		58.0		68.2		79.1		90.8	
Accumulated other comprehensive income	0.0		0.0		0.0		0.4		0.7	
<b>Shareholder's equity</b>	<b>78.6</b>	<b>n.a.</b>	<b>87.7</b>	<b>11.7 %</b>	<b>98.0</b>	<b>11.7 %</b>	<b>109.3</b>	<b>11.5 %</b>	<b>121.2</b>	<b>10.9 %</b>
Minorities	3.5		5.7		5.7		5.7		5.7	
<b>Shareholder's equity incl. minorities</b>	<b>78.6</b>	<b>n.a.</b>	<b>87.7</b>	<b>11.7 %</b>	<b>98.0</b>	<b>11.7 %</b>	<b>109.3</b>	<b>11.5 %</b>	<b>121.2</b>	<b>10.9 %</b>
<b>Long-term liabilities</b>										
Pension provisions	22.4		22.1		27.7		28.4		29.1	
Financial liabilities	24.8		30.7		30.7		30.7		30.7	
Tax liabilities	3.3		3.2		4.0		4.1		4.2	
Other liabilities	2.3		3.4		4.2		4.3		4.4	
<b>Total long-term debt</b>	<b>53.5</b>	<b>n.a.</b>	<b>60.4</b>	<b>13.0 %</b>	<b>67.9</b>	<b>12.4 %</b>	<b>69.0</b>	<b>1.6 %</b>	<b>69.9</b>	<b>1.4 %</b>
<b>Short-term debt</b>										
Other provisions	24.7		22.9		28.7		29.5		30.3	
Trade payables	19.6		23.7		29.6		30.5		31.2	
Financial debt	7.4		11.4		12.5		12.5		12.5	
Other liabilities	7.1		6.4		8.0		8.3		8.5	
<b>Total short-term debt</b>	<b>64.7</b>	<b>n.a.</b>	<b>74.4</b>	<b>15.0 %</b>	<b>91.3</b>	<b>22.8 %</b>	<b>93.6</b>	<b>2.5 %</b>	<b>95.6</b>	<b>2.1 %</b>
<b>Total equity &amp; liabilities</b>	<b>196.7</b>	<b>-</b>	<b>222.6</b>	<b>13.2 %</b>	<b>257.3</b>	<b>15.6 %</b>	<b>271.8</b>	<b>5.7 %</b>	<b>286.7</b>	<b>5.5 %</b>

## Financial key ratios

Key ratios	2014	2015	2016e	2017e	2018e
<b>Per share data (EUR)</b>					
EPS	2.01	1.79	2.15	2.30	2.45
Book value per share	11.9	13.3	14.9	16.6	18.4
Dividend per share	0.57	0.59	0.64	0.69	0.73
<b>Valuation ratios</b>					
EV/Sales	1.19	1.20	0.97	0.94	0.89
EV/EBITDA	12.8	12.3	10.6	10.1	9.6
EV/EBIT	17.6	16.9	13.6	12.7	11.7
P/E	11.9	13.0	18.6	17.4	16.3
P/B	2.0	1.7	2.7	2.4	2.2
Dividend yield (%)	2.4	2.5	1.6	1.7	1.8
<b>Growth</b>					
Sales growth (%)	3.7	6.8	25.2	2.8	2.5
EBITDA growth (%)	-3.0	12.7	16.1	4.6	2.8
EBIT growth (%)	-9.1	13.1	25.2	6.4	5.9
EPS growth (%)	-4.0	-11.0	20.3	6.9	6.7
<b>Profitability ratios</b>					
EBITDA margin (%)	9.3	9.8	9.1	9.3	9.3
EBIT margin (%)	6.7	7.1	7.1	7.4	7.6
Net margin (%)	5.6	4.7	4.5	4.7	4.8
ROCE (%)	12.1	12.2	13.6	13.5	n.a.
<b>Financial ratios</b>					
Total equity (EUR m)	78.6	87.7	98.0	109.3	121.2
Equity ratio (%)	39.9	39.4	38.1	40.2	42.3
Net financial debt (EUR m)	17.3	40.7	42.4	41.9	33.1
Net debt/Equity	0.4	0.4	0.4	0.4	0.4
Interest cover	7.4	9.2	11.4	12.0	12.7
Net debt/EBITDA	0.8	1.6	1.5	1.4	1.1
Payout ratio (%)	28.4	33.1	30.0	30.0	30.0
Working Capital (EUR m)	56.4	49.6	59.0	61.1	71.3
Working capital/Sales	0.24	0.20	0.19	0.19	0.21



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#### Price and Rating History (last 12 months)

Date	Price target-EUR	Rating	Initiation
08.09.2016	45.00	Buy	
01.06.2016	38.00	Buy	01.06.2016

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