

Vectron Systems AG

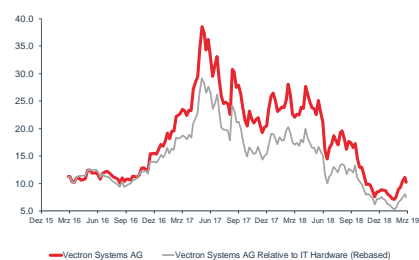
Buy → | Target 26.60 €

Price (26/03/2019) : 10.24 € | Upside : 160%

Expecting solid 2019e revenue and earnings improvement after rather muted 2018; new EPay cooperation to further monetize on digital service business

Publication date 27.03.2019 17:51

Writing date 27.03.2019 17:48



Sources : ODDO BHF Securities, SIX

Capital

V3S GR V3SG.DE	
Market Cap (€m)	68
Enterprise value (€m)	73
Extrema 12 months (€)	7.12 - 27.70
Free Float (%)	44.0

Performance (%)	1m	3m	12m
Absolute	34.0	21.0	-50.9
Perf. rel. Country Index	32.8	7.6	-52.7
Perf. rel. IT Hardware	32.0	2.5	-53.8

P&L	12/18e	12/19e	12/20e
Sales (€m)	24.9	38.3	60.2
EBITDA (€m)	-3.5	3.5	10.7
Current EBIT (€m)	-4.0	3.0	10.3
Attr. net profit (€m)	-4	1.9	7.0
Adjusted EPS (€)	-0.55	0.26	0.96
Dividend (€)	0.00	0.07	0.14
P/E (x)	ns	39.4	10.7
P/B (x)	12.5	4.3	3.2
Dividend Yield (%)	0.0	0.7	1.4
FCF yield (%)	ns	1.3	7.1
EV/Sales (x)	5.34	1.91	1.14
EV/EBITDA (x)	ns	21.2	6.4
EV/Current EBIT (x)	ns	24.3	6.6
Gearing (%)	30	-17	-33
Net Debt/EBITDA (x)	ns	ns	ns

Next Events

30.04.2019	FY Results

Current digital projects to contribute to 2019e

Vectron's digital cloud services are now consolidated under the brand names myVectron and bonVito. The range extends from loyalty and payment functions to online reservations and online reporting. All services are directly connected to the POS, and ultimately to a proprietary central data centre. Since August 2018 Vectron has been working with DeutschlandCard (DC), one of the large loyalty solutions providers in the German market. The aim of this cooperation, which was contractually fixed in December 2018, is distributing DC via Vectron POS systems. Vectron's sales started the marketing in mid-January 2019 and the first caterers have already signed contracts. Official market entry should take place in H1 2019. Vectron's ongoing cooperation with Coca-Cola is currently in the trial phase for the delivery of raw big data from POS networks for business intelligence and predictive analytics. We expect both cooperation agreements to start positively contributing to Vectron's group revenues and earnings in 2019e.

New promising partnership with Epay on alternative payment solutions

On 11 March, Vectron announced a new partnership with Epay, a subsidiary of payment services provider Euronet Worldwide Inc. with sales of \$2.5bn (2018), employees 7,100, and active in 165 countries. Epay is a leading full-service provider of payment and prepaid solutions and processed 1.15bn transactions in 2018. The cooperation will develop and offer new functions / services for POS operators focusing on alternative payment methods and the distribution of services such as mobile phone money recharges and electronic vouchers. In our view, Epay's range of cash-based payment options and the large portfolio of prepaid card products with internationally renowned brands is a valuable addition to Vectron's offers.

Capital increase to support to digital business build-up

On 7 March, Vectron increased its share capital from € 6,611,996 to up to € 7,273,195 by issuing 661,199 new no-par value bearer shares against cash contributions. All new shares were privately placed with investors in Germany and other European countries at € 7.60/share. Toshio Capital GmbH, owned by Vectron major shareholder and CEO Thomas Stümmler, acquired 63% of the new shares. The total proceeds of c.€ 5m will be used to i/ support investments in digital cloud services, ii/ build up a proprietary central data centre, and iii/ increase the group's liquidity cushion.

Phase 2 of POS system fiscalization to fire up demand in H2 2019

Vectron will report its FY2018 results on 30 April. We assume the Q3 slowdown in group revenues carried over into Q4, mainly due to a temporary dip in demand following the first phase of the fiscal conversion of POS solutions, which drove Vectron's above-average business execution in 2016/2017. After fine-tuning our estimates, we now expect 2018e group sales of € 24.9m and EBITDA of € -3.5m, burdened by i/ investments in new digital services and ii/ preparations for phase 2 of the POS system fiscalization. We expect this legally required second phase to lead to significantly boost demand for POS systems from H2 2019e onwards.

We maintain our Buy recommendation

All in all, we expect a rather muted 2018, mainly driven by the normalization of demand for POS systems. For 2019, however, we expect the POS market to gain significant traction, driven by regulations requiring POS systems to be updated and made manipulation-proof by 01 January 2020. Additionally, Vectron's new digital business areas are also poised to make their first significant contributions to group revenue and earnings. We believe Vectron has all it needs to fully participate in the digitalization of the hospitality and bakery industries. We maintain our Buy recommendation with a TP of € 26.6.

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Electronics | Germany

	Buy					Price 10.24EUR		
	Upside	159.77%				TP 26.60EUR		
PER SHARE DATA (€)	12/13	12/14	12/15	12/16	12/17	12/18e	12/19e	12/20e
Adjusted EPS	0.06	0.08	0.18	0.30	0.16	-0.55	0.26	0.96
Reported EPS	0.11	0.12	0.18	0.30	0.16	-0.55	0.26	0.96
Growth in adjusted EPS	18.8%	39.3%	ns	66.1%	-45.3%	ns	ns	ns
Net dividend per share	0.05	0.05	0.07	0.11	0.07	0.00	0.07	0.14
FCF to equity per share	-0.02	0.23	0.17	0.05	-0.45	-0.63	0.13	0.73
Book value per share	1.47	1.48	1.17	2.25	2.17	1.55	2.36	3.24
Number of shares market cap (m)	6.60	6.60	6.60	6.60	6.60	6.61	7.27	7.27
Number of diluted shares (m)	6.60	6.60	6.60	6.60	6.60	6.61	7.27	7.27
VALUATION (€m)	12/13	12/14	12/15	12/16	12/17	12/18e	12/19e	12/20e
12m highest price (€)	2.68	2.67	7.52	16.22	39.25	28.05	11.78	
12m lowest price (€)	1.76	1.80	2.47	6.62	14.86	7.60	7.12	
(*) Reference price (€)	2.27	2.30	4.48	11.15	24.73	19.37	10.24	10.24
Capitalization	15.0	15.2	29.6	73.6	163	128	74.5	74.5
Restated Net debt	-2.3	-3.2	-1.2	-6.6	-1.5	3.1	-2.9	-7.7
Minorities (fair value)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial fixed assets (fair value)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Provisions	0.7	0.9	2.0	3.2	1.7	1.7	1.7	1.7
Enterprise Value	13.4	12.9	30.3	70.2	163	133	73.3	68.5
P/E (x)	40.0	29.1	25.0	37.5	152	ns	39.4	10.7
P/CF (x)	16.7	16.0	11.7	19.7	4,440	ns	32.0	10.1
Net Yield	2.0%	2.0%	1.5%	1.0%	0.3%	0.0%	0.7%	1.4%
FCF yield	ns	10.1%	3.8%	0.5%	ns	ns	1.3%	7.1%
P/B incl. GW (x)	1.55	1.55	3.83	4.95	11.38	12.51	4.35	3.16
P/B excl. GW (x)	1.55	1.55	3.83	4.95	11.38	12.51	4.35	3.16
EV/Sales (x)	0.62	0.58	1.17	2.08	5.04	5.34	1.91	1.14
EV/EBITDA (x)	8.8	8.3	11.5	19.4	72.4	ns	21.2	6.4
EV/Current EBIT (x)	13.9	12.6	14.7	22.7	93.5	ns	24.3	6.6
(*) historical average price								
PROFIT AND LOSS (€m)	12/13	12/14	12/15	12/16	12/17	12/18e	12/19e	12/20e
Sales	21.4	22.4	25.9	33.7	32.4	24.9	38.3	60
EBITDA	1.5	1.6	2.6	3.6	2.3	-3.5	3.5	10.7
Depreciations	-0.6	-0.5	-0.6	-0.5	-0.5	-0.4	-0.4	-0.4
Current EBIT	1.0	1.0	2.1	3.1	1.7	-4.0	3.0	10.3
Published EBIT	1.0	1.0	2.1	3.1	1.7	-4.0	3.0	10.3
Net financial income	0.1	0.1	-0.2	-0.1	-0.1	-0.3	-0.3	-0.4
Corporate Tax	-0.3	-0.3	-0.7	-1.0	-0.6	0.6	-0.8	-3.0
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	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Attributable net profit	0.7	0.8	1.2	2.0	1.1	-3.7	1.9	7.0
Adjusted attributable net profit	0.4	0.5	1.2	2.0	1.1	-3.7	1.9	7.0
BALANCE SHEET (€m)	12/13	12/14	12/15	12/16	12/17	12/18e	12/19e	12/20e
Goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other intangible assets	0.7	0.6	0.5	0.4	1.5	1.6	1.8	2.3
Tangible fixed assets	0.9	0.8	0.8	0.7	0.6	1.0	1.5	2.5
WCR	5.8	5.0	6.2	9.3	10.4	10.6	10.7	10.9
Financial assets	0.6	1.0	1.0	1.0	1.9	1.9	1.9	1.9
Ordinary shareholders equity	9.7	9.8	7.7	14.9	14.3	10.2	17.1	23.6
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shareholders equity	9.7	9.8	7.7	14.9	14.3	10.2	17.1	23.6
Non-current provisions	0.7	0.9	2.0	3.2	1.7	1.7	1.7	1.7
Net debt	-2.3	-3.2	-1.2	-6.6	-1.5	3.1	-2.9	-7.7
CASH FLOW STATEMENT (€m)	12/13	12/14	12/15	12/16	12/17	12/18e	12/19e	12/20e
EBITDA	1.5	1.6	2.6	3.6	2.3	-3.5	3.5	10.7
Change in WCR	-0.7	0.9	-1.0	-3.0	-1.5	-0.1	-0.1	-0.1
Interests & taxes	-0.1	-0.5	-0.2	-0.2	-1.7	0.6	-0.8	-3.0
Others	-0.5	-0.1	0.1	0.4	-0.6	-0.3	-0.3	-0.4
Operating Cash flow	0.2	1.8	1.5	0.8	-1.5	-3.4	2.2	7.3
CAPEX	-0.4	-0.3	-0.4	-0.4	-1.5	-0.8	-1.2	-1.9
Free cash-flow	-0.1	1.5	1.1	0.3	-3.0	-4.2	1.0	5.3
Acquisitions / disposals	0.0	0.0	0.0	0.0	-0.9	0.0	0.0	0.0
Dividends	-0.3	-0.3	-0.5	-0.7	-1.6	-0.4	0.0	-0.5
Net capital increase	0.0	0.0	0.0	5.9	0.0	0.0	5.0	0.0
Others	0.0	-0.3	1.1	-3.4	-0.2	10.0	0.0	0.0
Change in net cash	-2.4	0.9	-1.9	5.4	-5.1	-4.6	6.0	4.8
GROWTH MARGINS PRODUCTIVITY	12/13	12/14	12/15	12/16	12/17	12/18e	12/19e	12/20e
Sales growth	-5.6%	4.7%	15.4%	30.4%	-4.0%	-23.1%	53.8%	57.2%
Lfl sales growth	-	-	-	-	-	-	-	-
Current EBIT growth	9.3%	6.3%	ns	49.3%	-43.4%	ns	ns	ns
Growth in adjusted EPS	18.8%	39.3%	ns	66.1%	-45.3%	ns	ns	ns
Net margin	1.7%	2.3%	4.6%	5.8%	3.3%	-14.7%	4.9%	11.6%
EBITDA margin	7.1%	7.0%	10.2%	10.7%	7.0%	-14.2%	9.0%	17.8%
Current EBIT margin	4.5%	4.6%	8.0%	9.2%	5.4%	-16.0%	7.9%	17.1%
CAPEX / Sales	-3.2%	-1.4%	-1.6%	-1.3%	-4.7%	-3.2%	-3.2%	-3.2%
WCR / Sales	26.9%	22.5%	23.8%	27.5%	32.2%	42.5%	28.0%	18.1%
Tax Rate	28.5%	29.7%	35.6%	33.7%	35.2%	14.0%	30.0%	30.0%
Normative tax rate								
Asset Turnover	2.8	3.2	3.7	3.8	2.8	1.9	2.8	4.1
ROCE post-tax (normative tax rate)	-	-	-	-	-	-	-	-
ROCE post-tax hors GW (normative tax rate)								
ROE	3.8%	5.4%	13.5%	17.4%	7.4%	-29.8%	13.8%	34.2%
DEBT RATIOS	12/13	12/14	12/15	12/16	12/17	12/18e	12/19e	12/20e
Gearing	-24%	-32%	-16%	-45%	-10%	30%	-17%	-33%
Net Debt / Market Cap	-0.15	-0.21	-0.04	-0.09	-0.01	0.02	-0.04	-0.10
Net debt / EBITDA	ns	ns	ns	ns	ns	ns	ns	ns
EBITDA / net financial charges	-21.7	-24.5	11.5	30.0	25.5	-12.3	10.9	30.6

Source: ODDO BHF Securities, SIX



- **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 BHF' 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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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).

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Date	Reco	Price Target (EUR)	Price (EUR)	Analyst
12.11.18	Buy	26.60	11.22	Henning Steinbrink
19.07.18	Buy	25.00	16.50	Henning Steinbrink

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Recommendation split				
		Buy	Neutral	Reduce
Our whole coverage	(436)	52%	41%	8%
Liquidity providers coverage	(84)	55%	44%	1%
Research service coverage	(37)	68%	30%	3%
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