

# euromicron AG

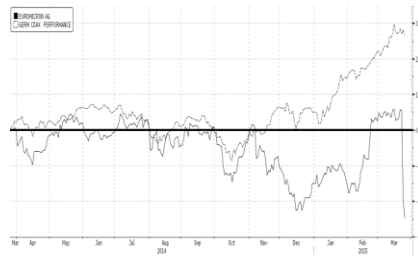
**HOLD (BUY) | Target EUR 13.00 (EUR 15.50)**

 Price (last closing price) : **EUR 10.08** | Upside: n/a

Est. change	<b>2015e</b>	<b>2016e</b>
EPS	-4.3%	-16.4%

## Accounting errors in previous years lead to EUR 15m equity cut, zero dividend, resignation of CEO

Thursday, 26 March 2015



Capital	
EUCA GY   EUCG.DE	72
Market Cap (EURm)	156
Enterprise value (EURm)	14.19 10.08
Extrema 12 months	100.0%
Free Float (%)	

Performance (%)	1m	3m	12m
Absolute	-27.0	-7.0	-24.8
Perf. rel. "sector"	-30.8	-23.0	-43.9
Perf. rel. CDAX	-30.7	-22.1	-40.6

P & L	12/14e	12/15e	12/16e
Sales (EURm)	344.0	363.6	383.6
EBITDA (EURm)	21.1	27.3	30.4
EBIT (EURm)	11.1	16.1	19.0
Attr. net profit (EURm)	4.7	8.4	10.7
EPS (EUR)	0.66	1.17	1.49
Dividend (EUR)	0.00	0.00	0.20
P/E (x)	15.4	8.6	6.8
P/B (x)	0.6	0.5	0.5
Dividend Yield (%)	0.0	0.0	2.0
FCF yield (%)	-18.3	2.3	9.4
EV/Sales (x)	0.5	0.4	0.4
EV/EBITDA (x)	7.4	5.7	5.1
EV/EBIT (x)	14.1	9.7	8.2
Gearing (%)	35	29	23
Net Debt/EBITDA(x)	2.1	1.5	1.1

Next Events	
FY 14 results	30 April 2015

### Impact on IFRS and German GAAP financial statements and dividend

euromicron discovered errors in accounting and the valuation of individual projects in 2012 and 2013 when preparing its annual consolidated financial statements for 2014. The company currently assumes that these errors must be corrected in the 2014 statements at no impact on earnings, in accordance with IAS 8. The exact amount of the corrections is currently being determined; it is presumed that they will **reduce equity by ~EUR 15m in the IFRS balance sheet**. As of 30 September 2014 group equity stood at ~EUR126m (equity ratio of ~40%). The corrections are not expected to impact group **liquidity**. Management assumes that all **financial covenants** agreed with credit institutions **will be met**.

In the parent company's (AG's) **German GAAP (HGB) financial statements** for 2014, the corrections will increase the existing net loss for the year (net loss as 31 December 2013: EUR 5.3m). Since the group's ability to pay dividends is based on the parent company's financial statements, the company will propose a DPS of zero at the AGM for 2014.

### Guidance apparently only just met – we lower our estimates

The company says group 2014 sales will probably make the targeted corridor of EUR 340-360m. Our latest sales estimate was EUR 344.0m. The company also indicated that its EBITDA margin for 2014 will probably come in at the lower end of the guided range of 6-8%. In our view, this wording does not rule out a margin slightly below 6%. Our latest EBITDA estimate lies at EUR 21.9m, equating to an EBITDA margin of 6.4%. We cautiously reduce our EBITDA margin estimate to 6.1%. Considering that euromicron at best only met its guidance for 2014 by a slim margin, we are now more cautious on 2015e und 2016e and lower our estimates.

### CEO resigns

After 15 years in office, CEO Dr Willibald Späth has resigned with immediate effect and has also left the executive board. This leaves Thomas Hoffmann as the sole executive board member; Mr Hoffmann will assume responsibility for those businesses that Dr Späth had been responsible for.

### Fair value per share is hard to determine – HOLD

euromicron's fundamental business model has not altered. On basis of our reduced estimates, we have determined using a fair value per share of EUR 13.43 using a DCF model. As long as the extent of the corrections in the financial statements is not yet definitively determined, and as long as we do not know the causes of the accounting errors, **a valuation is subject to considerable uncertainty**. Since the share price has plummeted by almost 30% after the announcement, the downside risk appears limited by now on the current share price level. In our view, however, the loss of confidence among investors will also limit the upside price potential for some time. The immediate resignation of the CEO because of irregularities in the financial department also leaves open questions. Even though our new price target of EUR 13.00 (previously: EUR 15.50) would justify a BUY recommendation on purely technical terms, we therefore downgrade the stock from BUY to **HOLD**.

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## Profit and loss account

	IFRS	EURm	2011	2012	2013	2014e	2015e	2016e
<b>Sales</b>			<b>305.3</b>	<b>330.0</b>	<b>329.4</b>	<b>344.0</b>	<b>363.6</b>	<b>383.6</b>
YoY growth			49.9%	8.1%	-0.2%	4.4%	5.7%	5.5%
Inventory changes			-7.4	-5.9	-0.7	0.0	0.0	0.0
Other own work capitalised			1.9	5.6	3.1	3.7	3.5	3.5
<b>Total output</b>			<b>299.8</b>	<b>329.8</b>	<b>331.8</b>	<b>347.7</b>	<b>367.1</b>	<b>387.1</b>
Cost of materials			-159.6	-171.0	-176.4	-179.1	-186.9	-197.7
as % of total output			-53.2%	-51.9%	-53.2%	-51.5%	-50.9%	-51.1%
<b>Gross profit</b>			<b>140.2</b>	<b>158.8</b>	<b>155.4</b>	<b>168.6</b>	<b>180.3</b>	<b>189.4</b>
as % of total output			46.8%	48.1%	46.8%	48.5%	49.1%	48.9%
Personnel expenses			-76.9	-93.6	-99.2	-105.2	-109.4	-114.6
as % of total output			-25.7%	-28.4%	-29.9%	-30.3%	-29.8%	-29.6%
Other operating income			2.7	2.8	1.9	2.9	3.1	3.2
as % of total output			0.9%	0.8%	0.6%	0.8%	0.8%	0.8%
Other expenses			-35.3	-43.0	-43.7	-45.2	-46.6	-47.6
as % of total output			-11.8%	-13.0%	-13.2%	-13.0%	-12.7%	-12.3%
<b>EBITDA</b>			<b>30.7</b>	<b>25.0</b>	<b>14.4</b>	<b>21.1</b>	<b>27.3</b>	<b>30.4</b>
as % of total output			10.2%	7.6%	4.3%	6.1%	7.4%	7.9%
as % of sales			10.1%	7.6%	4.4%	6.1%	7.5%	7.9%
Depreciation and amortisation			-6.6	-7.9	-8.9	-10.0	-11.2	-11.4
as % of total output			-2.2%	-2.4%	-2.7%	-2.9%	-3.0%	-2.9%
<b>EBIT</b>			<b>24.2</b>	<b>17.1</b>	<b>5.5</b>	<b>11.1</b>	<b>16.1</b>	<b>19.0</b>
as % of total output			8.1%	5.2%	1.7%	3.2%	4.4%	4.9%
Net financial result			-6.4	-4.9	-3.8	-4.2	-3.9	-3.5
<b>EBT (Earnings before income taxes)</b>			<b>17.8</b>	<b>12.2</b>	<b>1.7</b>	<b>6.9</b>	<b>12.2</b>	<b>15.5</b>
as % of total output			5.9%	3.7%	0.5%	2.0%	3.3%	4.0%
Income taxes			-4.9	-3.4	-2.5	-2.0	-3.5	-4.5
as % of EBT			-27.7%	-27.8%	-144.9%	-29.1%	-29.0%	-29.0%
<b>Net income of the group</b>			<b>12.9</b>	<b>8.8</b>	<b>-0.8</b>	<b>4.9</b>	<b>8.7</b>	<b>11.0</b>
as % of total output			4.3%	2.7%	-0.2%	1.4%	2.4%	2.8%
Minority interest			0.7	0.3	0.1	0.2	0.3	0.3
<b>Net income attributable to shareholders</b>			<b>12.2</b>	<b>8.6</b>	<b>-0.9</b>	<b>4.7</b>	<b>8.4</b>	<b>10.7</b>
Average number of shares outstanding (m)			5.2	6.7	7.2	7.2	7.2	7.2
<b>Basic earnings per share (EUR)</b>			<b>2.32</b>	<b>1.29</b>	<b>-0.12</b>	<b>0.66</b>	<b>1.17</b>	<b>1.49</b>

Source: Company Data, Oddo Seydler Bank AG

## Discounted Cash Flow Model

EURm	PHASE 1			PHASE 2							PHASE 3
	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	∞
Sales	363.6	383.6	400.9	420.9	427.2	433.6	440.1	446.7	453.4	460.0	
YOY growth	5.7%	5.5%	4.5%	5.0%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	
EBIT	16.1	19.0	23.4	25.5	25.6	26.0	26.4	26.8	27.2	25.3	
EBIT margin (% of sales)	4.4%	5.0%	5.8%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	5.5%	
Income tax on EBIT	-4.7	-5.6	-6.9	-7.6	-7.6	-7.8	-7.7	-7.9	-8.1	-7.5	
Depreciation and amortisation	11.2	11.4	11.5	11.2	11.1	11.1	11.3	11.2	11.1	11.1	
Change in long-term provisions	0.2	0.0	0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.0	
Change in net working capital	-6.4	-4.8	-3.7	-4.4	-1.9	-1.9	-2.0	-2.0	-2.0	-2.0	
Net capital expenditure and payments for the purchase of companies	-13.3	-12.4	-12.3	-12.0	-12.2	-12.4	-12.5	-12.7	-12.6	-11.1	
<b>Free cash flow</b>	<b>3.0</b>	<b>7.6</b>	<b>12.0</b>	<b>12.7</b>	<b>15.1</b>	<b>15.2</b>	<b>15.5</b>	<b>15.4</b>	<b>15.6</b>	<b>15.8</b>	
<b>Present values</b>	<b>2.9</b>	<b>6.6</b>	<b>9.6</b>	<b>9.3</b>	<b>10.1</b>	<b>9.4</b>	<b>8.8</b>	<b>8.1</b>	<b>7.5</b>	<b>7.0</b>	<b>103.9</b>
Present value Phase 1	19.0										
Present value Phase 2	60.3										
Present value Phase 3	103.9										
Total present value	183.2										
+ Liquid funds and securities	19.4										
- Financial debt	-103.1										
- Pension liabilities	-1.0										
- Est. market value of minority interest	-2.2										
<b>Fair value of equity</b>	<b>96.4</b>										
Number of shares outstanding (m)	7.2										
<b>Fair value per share (EUR)</b>	<b>13.43</b>										

Risk free rate	3.0%	Target equity ratio	65.0%
Equity risk premium	6.0%	Beta	1.30
Debt risk premium	2.2%	<b>WACC</b>	<b>8.31%</b>
Tax shield (Phase 3)	29.7%	<b>Terminal growth</b>	<b>1.5%</b>

Sensitivity analysis						
Terminal growth (Phase 3)						
		0.5%	1.0%	1.5%	2.0%	2.5%
	<b>7.31%</b>	15.38	16.71	18.26	20.11	22.33
	<b>7.81%</b>	13.29	14.39	15.66	17.14	18.91
<b>WACC</b>	<b>8.31%</b>	11.46	12.38	<b>13.43</b>	14.64	16.07
	<b>8.81%</b>	9.86	10.63	11.50	12.51	13.67
	<b>9.31%</b>	8.43	9.09	9.83	10.66	11.63

Source: Oddo Seydler Bank AG

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

Date	Recommendation	Price at change date	Price target
26 March 2015	HOLD	EUR 10.08	EUR 13.00
11 November 2014	BUY	EUR 12.43	EUR 15.50
8 August 2014	BUY	EUR 13.37	EUR 15.50
9 May 2014	BUY	EUR 13.12	EUR 15.50
1 April 2014	BUY	EUR 13.37	EUR 16.00

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