

18 November 2021

Francotyp-Postalia Holding

Germany

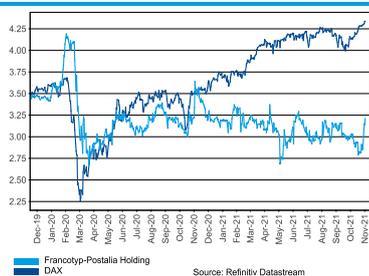
Support Services

Reuters: FPHG.DE Bloomberg: FPH GY

Buy

Closing price as of 17-Nov-21	EUR 3.21
Target price	EUR 4.00
High/Low (12M)	EUR 3.64/2.69
Market cap.	EUR mn 52
Enterprise value	EUR mn 91
Free float	46.9%
Avg. daily turnover	EUR mn 0.01

Price relative to Index



Performance (%)	1M	3M	6M
Absolute	7.4	7.7	6.3
rel. DAX	3.1	5.7	0.7
rel. STOXX Europe 600	3.0	4.3	-4.5
rel. SXXP Industrials	2.6	5.0	-6.6

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Surprisingly good 3Q21 EBITDA and FY21 guidance increase have already been pre-announced – Normalized 9M21 EBITDA clearly above 9M20 level

Our conclusion

- On 15 November, Francotyp-Postalia has already released solid 3Q/9M21 revenues (+3.2% yoy to EUR 49.3mn in 3Q21, +0.9% to EUR 148.9mn in 9M21) and EBITDA (EUR 6.4mn in 3Q21 vs. EUR 6.3mn in 3Q20, EUR 15.2mn in 9M21 vs. EUR 19.5mn in 9M20). 9M21 sales were down 2.6% to EUR 90.1mn in the core business with franking machines, negatively affected by the pandemic and EUR -2.1mn FX effects. Revenues benefited from the positive development of Hefter (acquired in 2020) i.e. with air purification systems and high-security shredders. Software & BPA and IoT generated 8.2% sales growth to EUR 13.2mn and Mail Services achieved 6.4% revenue increase to EUR 45.6mn. Earnings are increasingly benefiting from savings related to the in 2020 initiated overhead reduction and the simplification of structures (EUR 2.5mn savings in 3Q and EUR 5.2mn in 9M21). On the other hand, FP recorded one-off expenses for restructuring of EUR 2.8 mn in 9M21 and headwinds from higher expenses for power supply and raw materials. **The earnings quality in 9M21 was much better than in the previous year.** Adjusted for effects from FX changes and without own work capitalized and corona-related subsidies, EBITDA would have increased from EUR 9.6mn to EUR 12.4mn. Figures below the EBITDA are slightly exceeding our recent expectations. FP reported 3Q21 **EBIT** of EUR 1.9mn (9M21: EUR 1.7mn) and **net profit** of EUR 1.6mn (9M21: EUR 2.2mn). Positive aspects of the report are the solid **free cash flow** (EUR 4.6mn) despite the necessary inventory increase and still moderate **net debt** of EUR 21.4mn (EUR 23.8mn by Dec-2020).
- We are aware that uncertainties for FP regarding the digital activities remain high but considering the highly profitable franking machines base business and the continued improvement in FP's cost position, **we are confirming our Buy rating and our target price of EUR 4.00.** Based on our projections for FY23, valuation looks very attractive.

Facts & Analysis

EUR mn	3Q20	9M20	FY20	2Q21	3Q21E Prel.	3Q21 Rep.	9M21 Rep.	FY21E Baader	FY21E Cons.	FY22E Baader
Sales	47.8	147.6	195.9	48.0	49.4	49.3	148.9	200.5	198.8	202.0
Change yoy (%)	-10.4	-3.2	-6.3	12.3	3.2	3.2	0.9	2.4		0.7
EBITDA	6.3	19.5	8.0	3.9	6.3	6.4	15.2	17.9	15.9	22.4
Margin (%)	13.3	13.2	4.1	8.1	12.9	12.9	10.2	8.9		11.1
EBIT	1.7	4.9	-14.0	-0.6	1.8*	1.9	1.7	-0.3	-2.6	4.2
Margin (%)	3.5	3.3	-7.1	-1.2	3.7	3.8	1.2	-0.2		2.1
EBT	1.7	5.6	-14.7	-0.4	2.0*	2.4	3.4	0.8		4.4
Net income	1.2	3.8	-15.1	-0.2	1.4*	1.6	2.2	0.3	-2.2	3.7

* Baader Helvea estimates based on pre-released EBITDA figure

Source: Company data, Baader Helvea Equity Research

- FP has increased its FY21 guidance on 15 November and is expecting EUR 198-201mn sales (prev.: EUR 192-200mn) and EUR 17-18mn EBITDA (prev.: EUR 12-16mn). During the 3Q21 figures conference call, we have got the impression that this guidance (implying 4Q21 EBITDA of only EUR 1.8-2.8mn) is conservative, even considering for 4Q21 EUR 2-3mn higher expenses for the development of new digital solutions and the implementation of a new ERP/CRM system.
- The budgeting process for 2022 is still ongoing but FP indicated a slight increase in revenues. Sales in the franking business are expected to be stable to slightly growing (support from the necessary replacement of 700,000 meters in the US by December 2024 to comply to the IMI standard). While Mail Services revenues are expected to remain stable, Software & BPA will continue to grow. Cost savings from "Wave 1" of restructuring will increase in 2022. On the other hand, FP is calculating with EUR 2-3mn charges for the implementation of "Wave 2" and there will be additional costs for the ERP/CRM implementation and the development of new products/solutions. Overall, we are expecting clearly increasing earnings and feel comfortable with our EBITDA estimates of EUR 22.4mn for FY22 and EUR 27.8mn for FY23.

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Key data

FY 31 Dec.	2018	2019	2020	2021E	2022E	2023E
Share data						
EPS reported (EUR)	0.06	0.11	-0.94	0.02	0.23	0.51
EPS adjusted (EUR)	0.39	0.16	-0.94	0.02	0.23	0.51
Dividend (EUR)	0.03	0.00	0.00	0.00	0.00	0.10
Book value (EUR)	1.97	2.01	0.85	0.98	1.20	1.72
Free cash flow (EUR)	0.19	0.11	0.71	1.00	0.93	0.97
Avg. no. of shares (mn)	15.9	15.9	16.1	16.1	16.1	16.1
Market cap. (avg./current; EUR mn)	59.8	55.1	52.5	51.6	51.6	51.6
Enterprise value (EUR mn)	97.4	107.4	96.8	90.6	89.4	81.7
Valuation						
P/E adj. (x)	9.6	21.6	-	160.5	14.0	6.3
P/BV (x)	1.9	1.7	3.8	3.3	2.7	1.9
FCF/EV (%)	3.1	1.6	11.8	17.7	16.7	19.0
FCF yield (%) (FCF/Mcap.)	5.0	3.0	21.7	31.0	29.0	30.1
Dividend yield (%)	0.8	0.0	0.0	0.0	0.0	3.1
EV/Sales (x)	0.5	0.5	0.5	0.5	0.4	0.4
EV/EBITDA adj. (x)	3.9	3.1	4.6	4.6	4.0	2.9
EV/EBIT adj. (x)	12.2	14.9	-6.9	n.m.	21.2	8.5
EV/CE (x)	1.1	1.1	1.2	1.2	1.2	1.1
ROCE/WACC adj. (x)	1.3	1.3	-2.8	-0.1	0.9	1.9
Key company data						
Sales growth (%)	-1.0	2.4	-6.3	2.4	0.7	1.5
EBITDA adj. growth (%)	-3.9	36.8	-39.2	-5.7	13.0	24.0
EBITDA adj. margin (%)	12.4	16.6	10.7	9.9	11.1	13.6
EBIT adj. margin (%)	3.9	3.4	-7.1	-0.2	2.1	4.7
Net adj. margin (%)	3.0	1.2	-7.7	0.1	1.8	4.0
Free cash flow margin (%)	1.5	0.8	5.8	8.0	7.4	7.6
Payout ratio (%)	51.9	0.0	0.0	0.0	0.0	19.5
Gearing (%) (net debt/equity)	60.4	99.2	174.0	120.9	92.0	36.5
Net debt/EBITDA (x)	1.1	1.0	3.0	1.1	0.8	0.4
Equity ratio (x) (equity/total assets)	18.7	17.2	7.9	9.5	11.7	15.7
Capital employed (EUR mn)	86.9	95.7	78.6	78.5	76.3	76.6
ROCE adj. (%)	9.2	7.5	-17.8	-0.4	5.5	12.6
Income statement (EUR mn)						
Turnover	204.2	209.1	195.9	200.5	202.0	205.0
EBITDA	17.3	33.3	8.0	17.9	22.4	27.8
EBITDA adj.	25.3	34.6	21.1	19.9	22.4	27.8
EBIT	0.0	5.9	-14.0	-0.3	4.2	9.6
EBIT adj.	8.0	7.2	-14.0	-0.3	4.2	9.6
EBT	1.4	5.9	-14.7	0.8	4.4	9.8
Net profit after minorities	0.9	1.7	-15.1	0.3	3.7	8.2
Net profit adj.	6.2	2.6	-15.1	0.3	3.7	8.2
Balance sheet (EUR mn)						
Non-current assets	88	102	82	79	79	79
thereof goodwill	10	5	4	4	4	4
Current assets	79	85	92	87	87	96
Total assets	167	186	174	166	166	176
Shareholders' equity	31	32	14	16	19	28
Total equity and liabilities	167	186	174	166	166	176
Net debt	19	32	24	19	18	10
Cash flow (EUR mn)						
Cash flow from operations	24.2	23.0	22.8	25.6	25.5	27.0
of which change in working capital	-4.6	3.5	1.9	0.0	-1.8	-0.3
Cash flow from investments	-21.2	-21.4	-11.4	-9.6	-10.5	-11.5
of which investment in fixed assets	18.0	21.2	9.4	9.6	10.5	11.5
Free cash flow	3.0	1.7	11.4	16.0	15.0	15.5
Dividends paid	-1.9	-0.5	0.0	0.0	0.0	0.0
Cash flow from financing activities	-6.4	-4.7	-5.7	-19.4	-11.8	-6.8
Change in cash position	-3.4	-3.1	5.7	-3.3	3.2	8.7

Source: Company data, Baader Helvea Equity Research

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Company	Date	Rating	Currency Target price	Closing price as of	Analyst
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