

24 February 2021

Francotyp-Postalia Holding

Germany

Support Services

Reuters: FPHG.DE Bloomberg: FPH GY

Buy

Closing price as of 23-Feb-21	EUR 3.25
Target price	EUR 4.00
High/Low (12M)	EUR 4.11/2.68
Market cap.	EUR mn 52
Enterprise value	EUR mn 97
Free float	44.7%
Avg. daily turnover	EUR mn 0.02

Price relative to Index



Performance (%)	1M	3M	6M
Absolute	1.9	-6.6	2.2
rel. DAX	1.9	-12.2	-6.4
rel. STOXX Europe 600	1.2	-12.4	-10.5
rel. SXXP Industrials	0.8	-14.2	-18.3

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FY20 result massively affected by high restructuring expenses and derecognition of intangible assets – 2021 will be a transition year

Our conclusion

- **FP released a profit warning for its FY20 results** (balance sheet press conference scheduled for 29 April). While the revenue guidance (EUR 195-203mn) and the free cash flow forecast (adjusted FCF on the FY19 level of around EUR 12mn) has been confirmed, results will come in lower than projected. EBITDA will be negatively impacted primarily by one-off items for restructuring measures (approx. EUR 9mn) and derecognition of intangible assets (approx. EUR 7mn) related to the revision of the ERP/CRM program. The Management Board expects EBITDA for FY20 of EUR 7-8mn. Furthermore, impairment losses of approx. EUR 2mn are expected, weighting on EBIT and EBT.
- **FP emphasized that without these one-off effects, the prognosis of EUR 24-28mn would almost be reached.** Nevertheless, operating results in 4Q20 were lower than initially expected, presumably due to negative COVID-19 effects and reluctance of customers in the US related to the elections. The implementation of structural measures does not come as a complete surprise following the management change in November. The company is working on the resizing of internal structures as initial growth expectations have not been fulfilled and as the franking market is declining noteworthy. In addition, the restructuring charges are also including severance payments for former Board members. In terms of the ERP/CRM system, the new management has made a cut (resulting in the derecognition of capitalized intangible assets) and will take a different approach.
- **We are expecting a negative short-term share price reaction.** FY will report a significant net loss for FY20. Nevertheless, the financing situation remains solid. The market environment in FY21 remains challenging and FP expects a decline in the core franking business in 2021. The initiated restructuring measures will result in initial savings in 2021 but the full effect of more than EUR 10mn annual cost reduction will only be seen in 2022/23. **We will have to lower our estimates for 2021 but we see FP in a good position to generate solid profitability in the medium term. Therefore, valuation looks still quite moderate.** We will not change our target price of EUR 4.00 ahead of the presentation of the management strategy expected for the upcoming weeks/months.

Facts & Analysis

EUR mn	4Q19	FY19	9M20	4Q20E	4Q20E	FY20E	FY20E	FY21E
				Baader	Prelim.	Baader	Prelim.	Baader*
Sales	56.7	209.1	147.6	50.4	47.4-55.4	198.0	195-203	209.5
Change yoy (%)	13.5	2.4	-3.2	-11.0		-5.3		5.8
EBITDA	12.4	33.3	19.5	6.5	0.5-1.5	26.0	7.0-8.0	28.8
Margin (%)	21.8	15.9	13.2	12.9	1.0-3.0	13.1	3.5-4.0	13.7
EBITDA adj.	12.4	33.3	19.5	6.5	-3.5-4.5	26.0	-23-24	28.8
Margin (%)	21.8	15.9	13.2	12.9	-7.0-9.0	13.1	-11.3-12.3	13.7
EBIT	1.2	5.9	4.9	-0.9		4.0		8.8
Margin (%)	2.1	2.8	3.3	-1.7		2.0		4.2
EBT	1.9	5.9	5.6	-1.2		4.4		8.3
Change yoy (%)	-152.9	314.9	37.3	-167.5		-26.5		90.0
Net inc. after min.	-1.1	1.7	3.8	-0.8		2.9		5.7
Change yoy (%)	-53.5	85.4	35.6	-21.8		71.8		94.2

* Not adjusted so far – we have to wait for statements of the management regarding the new strategy

Source: Company data, Baader Helvea Equity Research

Key financials

EUR mn	2019	2020E	2021E	2022E	CAGR (%)
Sales	209.1	198.0	209.5	219.5	1.6
EBIT adj.	7.2	4.0	8.8	11.4	16.5
EPS adj. (EUR)	0.16	0.18	0.36	0.49	44.4

Source: Company data, Baader Helvea Equity Research

Valuation ratios

x	2019	2020E	2021E	2022E
EV/Sales	0.5	0.5	0.5	0.4
EV/EBIT adj.	14.9	24.9	11.0	7.9
P/E adj.	21.6	17.7	9.0	6.6

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Key data

FY 31 Dec.	2017	2018	2019	2020E	2021E	2022E
Share data						
EPS reported (EUR)	0.29	0.06	0.11	0.18	0.36	0.49
EPS adjusted (EUR)	0.29	0.39	0.16	0.18	0.36	0.49
Dividend (EUR)	0.12	0.03	0.00	0.00	0.12	0.20
Book value (EUR)	2.03	1.97	2.01	2.18	2.54	2.90
Free cash flow (EUR)	0.36	0.19	0.11	0.08	0.19	0.60
Avg. no. of shares (mn)	16.2	15.9	15.9	15.9	15.9	15.9
Market cap. (avg./current; EUR mn)	84.6	59.8	55.1	50.7	51.7	51.7
Enterprise value (EUR mn)	36.0	97.4	107.4	98.6	96.8	89.4
Valuation						
P/E adj. (x)	17.9	9.6	21.6	17.7	9.0	6.6
P/BV (x)	2.6	1.9	1.7	1.5	1.3	1.1
FCF/EV (%)	16.1	3.1	1.6	1.3	3.1	10.7
FCF yield (%) (FCF/Mcap.)	6.8	5.0	3.0	2.5	5.8	18.4
Dividend yield (%)	2.3	0.8	0.0	0.0	3.7	6.2
EV/Sales (x)	0.2	0.5	0.5	0.5	0.5	0.4
EV/EBITDA adj. (x)	1.4	3.9	3.1	3.8	3.4	2.8
EV/EBIT adj. (x)	5.0	12.2	14.9	24.9	11.0	7.9
EV/CE (x)	0.4	1.1	1.1	1.0	1.0	0.9
ROCE/WACC adj. (x)	1.1	1.3	1.2	0.7	1.4	1.8
Key company data						
Sales growth (%)	1.7	-1.0	2.4	-5.3	5.8	4.8
EBITDA adj. growth (%)	-3.3	-3.9	36.8	-25.0	10.9	11.1
EBITDA adj. margin (%)	12.8	12.4	16.6	13.1	13.7	14.6
EBIT adj. margin (%)	3.5	3.9	3.4	2.0	4.2	5.2
Net adj. margin (%)	2.3	3.0	1.2	1.5	2.7	3.5
Free cash flow margin (%)	2.8	1.5	0.8	0.6	1.4	4.3
Payout ratio (%)	42.0	51.9	0.0	0.0	33.6	41.2
Gearing (%) (net debt/equity)	59.0	60.4	99.2	86.2	66.7	41.7
Net debt/EBITDA (x)	0.7	1.1	1.0	1.2	0.9	0.6
Equity ratio (x) (equity/total assets)	19.4	18.7	17.2	17.0	19.6	22.1
Capital employed (EUR mn)	85.2	86.9	95.7	95.4	96.0	94.9
ROCE adj. (%)	8.5	9.2	7.5	4.2	9.2	12.0
Income statement (EUR mn)						
Turnover	206.3	204.2	209.1	198.0	209.5	219.5
EBITDA	26.3	17.3	33.3	26.0	28.8	32.0
EBITDA adj.	26.3	25.3	34.6	26.0	28.8	32.0
EBIT	7.3	0.0	5.9	4.0	8.8	11.4
EBIT adj.	7.3	8.0	7.2	4.0	8.8	11.4
EBT	7.1	1.4	5.9	4.4	8.3	11.3
Net profit after minorities	4.6	0.9	1.7	2.9	5.7	7.7
Net profit adj.	4.6	6.2	2.6	2.9	5.7	7.7
Balance sheet (EUR mn)						
Non-current assets	82	88	102	98	98	98
thereof goodwill	8	10	5	5	5	5
Current assets	87	79	85	106	107	111
Total assets	170	167	186	204	206	209
Shareholders' equity	33	31	32	35	40	46
Total equity and liabilities	170	167	186	204	206	209
Net debt	19	19	32	30	27	19
Cash flow (EUR mn)						
Cash flow from operations	21.3	24.2	23.0	15.5	15.0	22.5
of which change in working capital	-2.7	-4.6	3.5	-0.3	1.0	0.0
Cash flow from investments	-15.5	-21.2	-21.4	-14.2	-12.0	-13.0
of which investment in fixed assets	15.5	18.0	21.2	13.0	12.0	13.0
Free cash flow	5.8	3.0	1.7	1.3	3.0	9.5
Dividends paid	-2.6	-1.9	-0.5	0.0	0.0	-1.9
Cash flow from financing activities	1.1	-6.4	-4.7	22.0	-4.0	-6.9
Change in cash position	6.9	-3.4	-3.1	23.2	-1.0	2.6

Source: Company data, Baader Helvea Equity Research

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Company	Date	Rating	Currency	Target price	Closing price as of	Analyst
Francotyp-Postalia Holding	28-May-20	Buy	EUR	4.00	3.10 27-May-20	Peter Rothenaicher

Francotyp-Postalia Holding

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