

9 November 2020

Francotyp-Postalia Holding

Germany

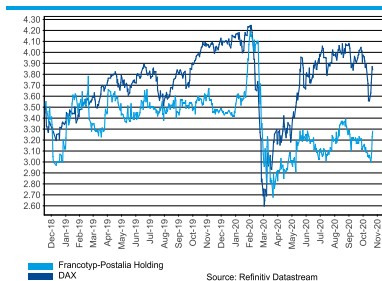
Support Services

Reuters: FPHG.DE Bloomberg: FPH GY

Buy

Closing price as of 06-Nov-20	EUR 3.28
Target price	EUR 4.00
High/Low (12M)	EUR 4.19/2.68
Market cap.	EUR mn 52
Enterprise value	EUR mn 100
Free float	44.7%
Avg. daily turnover	EUR mn 0.03

Price relative to Index



Performance (%)	1M	3M	6M
Absolute	3.5	5.8	11.6
rel. DAX	6.8	6.7	-6.1
rel. STOXX Europe 600	3.3	4.7	2.0
rel. SXXP Industrials	1.0	-0.8	-17.3

Analyst:

Peter Rothenaicher

+49 89 5150 1817

peter.rothenaicher@baaderbank.de

Pre-released 3Q20 key figures slightly better than we had expected – Guidance for FY20 confirmed – Favorable free cash flow trend

Our conclusion

- **Ahead of its virtual annual shareholder meeting (on 10 November 2020), FP pre-released 9M20 key figures that were slightly ahead of our expectations and missed prior-year sales and earnings only moderately despite negative effects from COVID-19.** FP confirmed its FY20 guidance for revenues (EUR 195-203mn vs. EUR 209.1mn in FY19) and EBITDA (EUR 24-28mn vs. EUR 33.3mn in FY19). Adjusted free cash flow, however, is performing better than initially expected and FP is now forecasting a level roughly on par with the previous year of EUR 12.4mn (so far significant decline projected).
- **We are confirming our Buy rating for FP and our target price of EUR 4.00.** We still consider FP shares as undervalued. Based on our earnings projections, FP is valued at a P/E 21E of 9.1x and a P/E 22E of 6.7x as well as EV/EBIT multiples of 11.1x (FY21E) and 7.9x (FY22E). This is still far below the average valuation of German industrials companies. We are aware that the market is applying a discount for the shrinking franking business. It has to be kept in mind, however, that FP is constantly gaining market share and is the most innovative player in the market.

Facts & Analysis

EUR mn	3Q19	9M19	FY19	2Q20	3Q20E Baader	3Q20E Prel.	9M20E Prel.	FY20E Baader	FY21E Baader
Sales	53.4	152.4	209.1	42.8	46.0	47.9	147.6	198.0	209.5
Change yoy (%)	7.8	-1.2	2.4	-8.9	-13.8	-10.2	-3.1	-5.3	5.8
EBITDA	9.2	21.0	33.3	5.1	5.1	6.3	19.5	26.0	28.8
Margin (%)	17.3	13.8	15.9	12.0	11.0	13.2	13.2	13.1	13.7
Change yoy (%)	117.3	23.2	92.6	10.3	-44.4	-31.2	-7.2	-22.0	10.9
EBIT	3.8	4.7	5.9	-0.7	-0.3	1.5*	3.5*	4.0	8.8
Margin (%)	7.2	3.1	2.8	-1.6	-0.7	3.2	2.3	2.0	4.2
Change yoy (%)	n.a.	12.0	n.a.	0.6	-108.5	-59.9	-26.8	-32.7	121.7
EBT	3.1	4.2	5.9	-0.1	-0.6	1.6*	4.2*	4.4	8.3
Net incl. after min.	2.1	2.9	1.7	-0.1	-0.4	1.1*	2.8*	2.9	5.7

* Estimates based on the pre-released EBITDA figure

Source: Company data, Baader Helvea Equity Research

- **FP reported for 9M20 preliminary sales of EUR 147.6mn, down only 3.1% vs. the previous year's level.** Sales in 3Q20 declined stronger by 10.2% to EUR 47.9mn as sales in 3Q19 were positively impacted by the postage increase in Germany. Detailed figures will only be published on 16 November but we expect that FP benefited in 9M20 from increasing revenues in its Mail Services business, while sales in the core business with franking machines declined due to negative effects from COVID-19. Nevertheless, we are convinced that FP continued to perform better than its competitors did.
- **EBITDA in 9M20 reached EUR 19.5mn vs. EUR 21.0mn in 9M19. Correspondingly, EBITDA for 3Q20 amounts to EUR 6.3mn, which is better than we had expected (Baader Helvea (E) EUR 5.1mn.** EBITDA in 3Q19 (EUR 9.2mn) had been unusually strong due to high level of very profitable service sales related to the increase in German postage rates as of the beginning of July 2019.
- **FP generated in 9M20 strong free cash flow of EUR 7.1mn (9M19: EUR 0.6mn).** Adjusted for investments in finance lease assets, M&A and payments for the ACT project JUMP, free cash flow reached EUR 11.7mn compared to EUR 7.0mn in 9M19.

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

Valuation ratios

x	2019	2020E	2021E	2022E
EV/Sales	0.5	0.5	0.5	0.4
EV/EBIT adj.	14.9	25.2	11.1	7.9
P/E adj.	21.6	18.2	9.1	6.7

Source: Company data, Baader Helvea Equity Research

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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	52.2	52.2	52.2
Enterprise value (EUR mn)	36.0	97.4	107.4	100.1	97.3	89.8
Valuation						
P/E adj. (x)	17.9	9.6	21.6	18.2	9.1	6.7
P/BV (x)	2.6	1.9	1.7	1.5	1.3	1.1
FCF/EV (%)	122.3	3.4	1.6	1.3	3.1	10.6
FCF yield (%) (FCF/Mcap.)	6.8	5.0	3.0	2.4	5.7	18.3
Dividend yield (%)	2.3	0.8	0.0	0.0	3.7	6.1
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	3.9	3.4	2.8
EV/EBIT adj. (x)	5.0	12.2	14.9	25.2	11.1	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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Baader Bank AG, Weißenstephaner Strasse 4, 85716 Unterschleißheim, Germany

Baader Helvea AG, Talstrasse 9, 8001 Zurich, Switzerland

Baader Helvea Limited, 5 Royal Exchange Buildings, London EC3V 3NL, United Kingdom

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Contacts

Markus Mayer

Head of Research
+49 89 5150 1818
markus.mayer@baaderbank.de

EQUITY RESEARCH

Capital Goods

Capital Goods (Switzerland)	Jorg Schirmacher, CFA	+41 43 388 9267	jschirmacher@helvea.com
Capital Goods (Switzerland)	Rolf Renders	+41 43 388 9213	rrenders@helvea.com
Capital Goods	Christian Obst, CEFA	+49 89 5150 1805	christian.obst@baaderbank.de
Capital Goods (Germany)	Peter Rothenaicher	+49 89 5150 1817	peter.rothenaicher@baaderbank.de

Chemicals

Markus Mayer	+49 89 5150 1818	markus.mayer@baaderbank.de
--------------	------------------	----------------------------

Consumer

Consumer Durables / Food Retail / Non Food Retail	Volker Bosse, CEFA Co-Head Equity Research	+49 89 5150 1815	volker.bosse@baaderbank.de
Food & Beverages	Andreas von Arx Head of Swiss Equity Research	+41 43 388 9257	avonarx@helvea.com

Financial Services

Tim Dawson	+41 43 388 9232	tdawson@helvea.com
Andreas von Arx	+41 43 388 9257	avonarx@helvea.com

Metals & Mining

Christian Obst, CEFA	+49 89 5150 1805	christian.obst@baaderbank.de
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Pharma

Bruno Bulic, Ph.D.	+41 43 388 9225	bbulic@helvea.com
--------------------	-----------------	-------------------

Real Estate

Andre Remke, CFA Co-Head Equity Research	+49 89 5150 1816	andre.remke@baaderbank.de
---	------------------	---------------------------

Technology

Software / IT Services / Support Services	Knut Woller, CEFA	+49 89 5150 1807	knut.woller@baaderbank.de
---	-------------------	------------------	---------------------------

Transport

Christian Obst, CEFA	+49 89 5150 1805	christian.obst@baaderbank.de
----------------------	------------------	------------------------------

EQUITY STRATEGY

Gerhard Schwarz, CEFA Head of Equity Strategy	+49 89 5150 1812	gerhard.schwarz@baaderbank.de
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EQUITY SALES

Frankfurt	+49 69 1388 1357
London	+44 20 7054 7100
Munich	+49 89 5150 1850
Zurich	+41 43 388 9200

For North American clients:

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DERIVATIVES SALES

Munich	+49 89 5150 1990
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EQUITY SALES TRADING

Frankfurt	+49 69 1388 1355
London	+44 20 7054 7100
Munich	+49 89 5150 1870
New York	+1 212 935 5150
Zurich	+41 43 388 9200

PUBLICATION ADDRESSES

Baader Bank AG
Equity Research
Weihestephaner Strasse 4
85716 Unterschleissheim, Germany

T +49 89 5150 1810

Baader Helvea AG
Equity Research
Talstrasse 9
8001 Zurich, Switzerland

T +41 43 388 9250