

31 August 2021

Francotyp-Postalia Holding

Germany

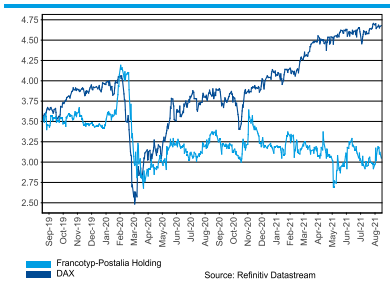
Support Services

Reuters: FPHG.DE Bloomberg: FPH GY

Buy

Closing price as of 30-Aug-21	EUR 3.05
Target price	EUR 4.00
High/Low (12M)	EUR 3.64/2.69
Market cap.	EUR mn 49
Enterprise value	EUR mn 94
Free float	46.9%
Avg. daily turnover	EUR mn 0.01

Price relative to Index



Performance (%)	1M	3M	6M
Absolute	3.4	-1.0	-2.9
rel. DAX	1.2	-3.3	-18.1
rel. STOXX Europe 600	1.0	-6.3	-19.6
rel. SXXP Industrials	-0.2	-9.7	-23.4

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Very solid 1H21 revenues and EBITDA as well as FY21 guidance increase already pre-released – Good opportunities within the US franking business

Our conclusion

- On 20 August, Francotyp-Postalia had already released somewhat higher than expected revenues (+12.1% yoy to EUR 48.0mn in 2Q21, -0.2% to EUR 99.5mn in 1H21) and EBITDA (EUR 3.9mn in 2Q21 vs. EUR 5.1mn in 2Q20, EUR 8.8mn in 1H21 vs. EUR 13.1mn in 1H20). 1H21 sales were down 3.1% to EUR 60.4mn in the core business with franking machines and related services, negatively impacted by the pandemic and EUR -2.3mn FX effects. Software & BPA and IoT generated 6.3% sales growth to EUR 8.7mn and Mail Services achieved 4.3% revenue increase to EUR 30.5mn. Earnings were still negatively affected by ongoing resizing of the company, the refocusing of business activities and by FX effects. On the other hand, the company benefited in 1H21 from EUR 2.7mn savings from the structural measures implemented in 2020. **The earnings quality in 1H21 was much better than in the previous year.** Excluding effects from FX changes and without own work capitalized, EBITDA would have increased from EUR 6.6mn to EUR 7.4mn. Figures below the EBITDA line met our recent expectations. FP reported 2Q21 EBIT of EUR -0.6mn (1H21: EUR -0.1mn) and a slight **net loss** of EUR 0.2mn (1H21: net profit of EUR 0.6mn). Positive aspects of the report are the solid **free cash flow** (EUR 4.0mn) and the relatively low **net debt** level of EUR 19.8mn (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	1Q20	2Q20	1H20	FY20	1Q21	2Q21E*	2Q21	1H21	FY21E	FY22E
					Baader		Rep.	Rep.	Baader	Baader
Sales	57.0	42.8	99.7	195.9	51.5	48.0	48.0	99.5	196.0	197.0
Change yoy (%)	9.4	-8.9	0.7	-6.3	-9.5	12.3	12.3	-0.2	0.1	0.5
EBITDA	8.0	5.1	13.1	8.0	4.9	3.9	3.9	8.8	15.5	21.4
Margin (%)	14.0	12.0	13.1	4.1	9.6	8.1	8.1	8.9	7.9	10.9
EBIT	2.6	-0.7	3.2	-14.0	0.5	-0.8	-0.6	-0.1	-3.3	2.2
Margin (%)	4.6	-1.6	3.2	-7.1	0.9	-1.7	-1.2	-0.1	-1.7	1.1
EBT	2.8	-0.1	3.9	-14.7	1.4	-0.4	-0.4	1.0	-3.5	2.0
Net income	1.9	-0.1	2.6	-15.1	0.9	-0.3	-0.2	0.6	-3.5	1.7

* Based on pre-released approx. figures for sales and EBITDA

Source: Company data, Baader Helvea Equity Research

- FP had already increased its FY21 guidance on 20 August and is expecting EUR 192-200mn sales and EUR 12-16mn EBITDA. During the conference call, we have got the impression that this guidance is conservative, reflecting existing forecast uncertainties related to the pandemic. Furthermore, ongoing restructuring measures (further reduction in the number of employees), costs related to the development of new digital solutions and the implementation of a new ERP/CRM system are being considered. We are therefore feeling very confident with our projection of EUR 15.5mn EBITDA.
- By 2023, EBITDA of around EUR 27mn should be achievable again according to our estimates. While sales in the franking machine business might continue to decline moderately in Europe, there are **excellent growth opportunities in the U.S.**: All meters in place need to comply to the IMI standard by December 2024. Therefore, ~700,000 meters (>80% of the total installed base) have to be replaced. This offers a great opportunity for FP with its fully IMI-compliant product range to gain market share and to increase its business in the U.S. In addition, we are expecting initial sales contributions from FP's new digital products. The cost position will presumably continue to improve and we do not expect any additional structural charges. We are forecasting for FY23 EUR 6.7mn net profit, EUR 0.42 EPS and the resumption of the dividend payment.

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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	-0.22	0.11	0.42
EPS adjusted (EUR)	0.39	0.16	-0.94	-0.22	0.11	0.42
Dividend (EUR)	0.03	0.00	0.00	0.00	0.00	0.10
Book value (EUR)	1.97	2.01	0.85	0.68	0.78	1.20
Free cash flow (EUR)	0.19	0.11	0.71	0.54	0.47	0.86
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	49.1	49.1	49.1
Enterprise value (EUR mn)	97.4	107.4	96.8	94.4	98.6	41.6
Valuation						
P/E adj. (x)	9.6	21.6	-	-	27.7	7.3
P/BV (x)	1.9	1.7	3.8	4.5	3.9	2.5
FCF/EV (%)	3.1	1.6	11.8	9.2	7.7	33.2
FCF yield (%) (FCF/Mcap.)	5.0	3.0	21.7	17.7	15.6	28.2
Dividend yield (%)	0.8	0.0	0.0	0.0	0.0	3.3
EV/Sales (x)	0.5	0.5	0.5	0.5	0.5	0.2
EV/EBITDA adj. (x)	3.9	3.1	4.6	5.4	4.6	1.5
EV/EBIT adj. (x)	12.2	14.9	-6.9	-28.2	44.0	5.1
EV/CE (x)	1.1	1.1	1.2	1.2	1.3	0.5
ROCE/WACC adj. (x)	1.3	1.2	-2.8	-0.7	0.5	1.6
Key company data						
Sales growth (%)	-1.0	2.4	-6.3	0.1	0.5	2.0
EBITDA adj. growth (%)	-3.9	36.8	-39.2	-17.1	22.9	27.5
EBITDA adj. margin (%)	12.4	16.6	10.7	8.9	10.9	13.6
EBIT adj. margin (%)	3.9	3.4	-7.1	-1.7	1.1	4.0
Net adj. margin (%)	3.0	1.2	-7.7	-1.8	0.9	3.4
Free cash flow margin (%)	1.5	0.8	5.8	4.4	3.9	6.9
Payout ratio (%)	51.9	0.0	0.0	0.0	0.0	23.9
Gearing (%) (net debt/equity)	60.4	99.2	174.0	232.5	233.6	115.9
Net debt/EBITDA (x)	1.1	1.0	3.0	1.6	1.4	0.8
Equity ratio (x) (equity/total assets)	18.7	17.2	7.9	6.4	7.5	11.1
Capital employed (EUR mn)	86.9	95.7	78.6	76.5	77.8	78.1
ROCE adj. (%)	9.2	7.5	-17.8	-4.4	2.9	10.4
Income statement (EUR mn)						
Turnover	204.2	209.1	195.9	196.0	197.0	201.0
EBITDA	17.3	33.3	8.0	15.5	21.4	27.3
EBITDA adj.	25.3	34.6	21.1	17.5	21.4	27.3
EBIT	0.0	5.9	-14.0	-3.3	2.2	8.1
EBIT adj.	8.0	7.2	-14.0	-3.3	2.2	8.1
EBT	1.4	5.9	-14.7	-3.5	2.0	7.9
Net profit after minorities	0.9	1.7	-15.1	-3.5	1.7	6.7
Net profit adj.	6.2	2.6	-15.1	-3.5	1.7	6.7
Balance sheet (EUR mn)						
Non-current assets	88	102	82	80	81	82
thereof goodwill	10	5	4	4	4	4
Current assets	79	85	92	89	87	93
Total assets	167	186	174	169	168	175
Shareholders' equity	31	32	14	11	13	19
Total equity and liabilities	167	186	174	169	168	175
Net debt	19	32	24	25	29	22
Cash flow (EUR mn)						
Cash flow from operations	24.2	23.0	22.8	19.7	20.6	26.8
of which change in working capital	-4.6	3.5	1.9	-1.5	0.2	-0.8
Cash flow from investments	-21.2	-21.4	-11.4	-11.0	-13.0	-13.0
of which investment in fixed assets	18.0	21.2	9.4	11.0	13.0	13.0
Free cash flow	3.0	1.7	11.4	8.7	7.6	13.8
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	-5.9	-10.3	-8.3
Change in cash position	-3.4	-3.1	5.7	2.8	-2.7	5.5

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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