

22 November 2019

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## Francotyp-Postalia Holding

Germany

### Machinery

Reuters: FPHG.DE Bloomberg: FPH GY

### Buy

Closing price as of 21-Nov-19 EUR 3.58

Target price EUR 5.00

High/Low (12M) EUR 3.87/2.97

Market cap. EUR mn 57

Enterprise value EUR mn 106

Free float 75.0%

Avg. daily turnover EUR mn 0.05

### Price relative to Index



Performance (%)	1M	3M	6M
Absolute	2.3	2.6	5.3
rel. DAX	-0.8	-8.7	-2.9
rel. STOXX Europe 600	0.3	-4.5	-0.7
rel. SXXP Industrials	-3.0	-8.1	-4.7

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## Strong earnings recovery supported by effects from the increase in German postage rates

### Our conclusion

- **Francotyp-Postalia Holding's 3Q19 figures are characterized by improved sales and favorable earnings, even slightly exceeding our expectations.** FP reiterated its FY19 guidance (adjusted in August) of "slight increase in sales and strong increase in EBITDA adjusted for JUMP expenses"
- **We are confirming our Buy rating for FP and our target price of EUR 5.00.** Based on our earnings projections, FP is valued at a P/E 20E of 7.3x and a P/E 21E of 5.7x as well as EV/EBIT multiples of 9.4x (FY20E) and 7.0x (FY21E). 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 but FP is constantly gaining market share. The new digital business activities, which are still in an early stage and do not contribute to FP's profitability so far, are as an add-on for free. FP' dividend yield is very attractive.

### Facts & Analysis

EUR mn	3Q18	9M18	FY18	1Q19	2Q19	3Q19E	3Q19	9M19	FY19E
						Baader	Reported	Reported	Baader
<b>Sales</b>	<b>49.5</b>	<b>154.3</b>	<b>204.2</b>	<b>51.3</b>	<b>46.9</b>	<b>52.5</b>	<b>53.4</b>	<b>152.4</b>	<b>206.2</b>
Change yoy (%)	0.1	0.3	-1.0	-3.2	-9.4	6.0	7.8	-1.2	1.0
<b>EBITDA</b>	<b>4.2</b>	<b>17.0</b>	<b>17.1</b>	<b>7.2</b>	<b>4.7</b>	<b>8.7</b>	<b>9.1</b>	<b>20.7</b>	<b>26.8</b>
Margin (%)	8.6	11.0	8.4	14.0	10.0	16.5	17.1	13.6	13.0
Change yoy (%)	-38.7	-13.3	-35.1	-3.8	-11.9	104.1	115.2	21.4	56.8
<b>EBIT</b>	<b>0.0</b>	<b>4.2</b>	<b>-0.3</b>	<b>2.7</b>	<b>-0.6</b>	<b>3.4</b>	<b>3.8</b>	<b>4.4</b>	<b>5.1</b>
Margin (%)	0.1	2.7	-0.1	5.2	-1.3	6.4	7.0	2.9	2.5
Change yoy (%)	-98.7	-15.9	-103.7	-15.8	-158.5	n.a.	n.a.	4.9	n.a.
<b>EBIT adj.</b>	<b>0.5</b>	<b>5.6</b>	<b>7.7</b>	<b>3.1</b>	<b>0.1</b>	<b>3.9</b>	<b>3.6</b>	<b>5.8</b>	<b>7.1</b>
Margin (%)	1.1	3.7	3.8	6.0	0.2	7.4	6.8	3.8	3.4
Change yoy (%)	-75.5	12.0	6.6	-8.9	-94.8	631.5	583.3	2.4	-8.7
<b>EBT</b>	<b>0.1</b>	<b>4.9</b>	<b>1.3</b>	<b>2.6</b>	<b>-0.8</b>	<b>3.5</b>	<b>3.0</b>	<b>3.9</b>	<b>4.7</b>
Change yoy (%)	-94.2	-8.3	-82.3	-23.5	-155.6	n.a.	n.a.	-21.2	272.4
<b>Net inc. after min.</b>	<b>0.1</b>	<b>3.2</b>	<b>0.9</b>	<b>1.7</b>	<b>-0.5</b>	<b>2.3</b>	<b>2.0</b>	<b>2.6</b>	<b>3.1</b>
Change yoy (%)	-93.5	-4.4	-80.7	-22.4	-156.5	n.a.	n.a.	-19.9	246.5

Source: Company data, Baader Helvea Equity Research

- **FP's 3Q19 sales increased by 7.8% to EUR 53.4mn** (+6.7% excl. FX effects), FP's revenues have been boosted by effects from the increase in German postage rates as of the beginning of July. Particularly Service sales (related to the service charge for the postage rate change in the installed base) were up considerably. Furthermore, sales at Mail Services (9M19 -13.1% to EUR 41.1mn) stabilized in 3Q19 (trough in 2Q19) in view of the higher attractiveness for customers related to an increase in relevant discounts. FP's core business with franking machines and related services improved in 3Q19 and increased by 2.7% in 9M19 to EUR 98.3mn, in-line with expectations. The new generation of franking machines (PostBase Vision) will be gradually introduced in FP's core markets, following the approval from postal authorities (introduction in the U.S. in mid-2019, sales start in Germany was in November, France and UK will follow until 1Q20). Sales contributions from new activities (IoT gateways, FP Sign and the discoverFP portal) were still very low.
- **The strong increase in (highly profitable) service sales had a very positive margin impact. 3Q19 reported EBITDA increased by 115% to EUR 9.1mn (17.1% margin), supported as well by IFRS 16 effects of around EUR 1.0mn.** The company's JUMP measures delivered first cost savings in 3Q19 that will ramp up in 4Q19 and particularly in FY20. 3Q19 EBIT reached EUR 3.8mn and net profit amounted to EUR 2.0mn, despite EUR 0.9mn impairment charges on the JUCONN capital stake.
- While **FCF** in 9M19 was positive (EUR 0.6mn reported vs. EUR -2.7mn in 9M18; EUR 7.0mn adjusted FCF vs. EUR 4.3mn in 9M18), **net debt** increased by to EUR 31.2mn (31-Dec-2018: EUR 18.1mn) due to the application of IFRS 16.

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### Key data

FY 31 Dec.	2016	2017	2018	2019E	2020E	2021E
<b>Share data</b>						
EPS reported (EUR)	0.36	0.29	0.06	0.20	0.49	0.63
<b>EPS adjusted (EUR)</b>	<b>0.36</b>	<b>0.29</b>	<b>0.39</b>	<b>0.28</b>	<b>0.49</b>	<b>0.63</b>
Dividend (EUR)	0.16	0.12	0.03	0.06	0.18	0.22
Book value (EUR)	2.24	2.03	2.09	2.34	2.77	3.21
Free cash flow (EUR)	0.28	0.36	0.59	0.26	0.41	0.58
Avg. no. of shares (mn)	16.1	16.2	15.9	15.9	15.9	15.9
Market cap. (avg./current; EUR mn)	67.8	84.6	59.8	56.9	56.9	56.9
Enterprise value (EUR mn)	104.7	36.0	94.8	106.1	102.9	98.7
<b>Valuation</b>						
<b>P/E adj. (x)</b>	<b>11.7</b>	<b>17.9</b>	<b>9.6</b>	<b>12.8</b>	<b>7.3</b>	<b>5.7</b>
P/BV (x)	1.9	2.6	1.8	1.5	1.3	1.1
FCF/EV (%)	4.8	60.2	10.2	3.8	6.4	9.3
FCF yield (%) (FCF/Mcap.)	6.7	6.8	15.7	7.1	11.5	16.1
Dividend yield (%)	3.8	2.3	0.8	1.7	5.0	6.1
EV/Sales (x)	0.5	0.2	0.5	0.5	0.5	0.4
EV/EBITDA adj. (x)	3.8	1.4	3.8	3.8	3.1	2.6
EV/EBIT adj. (x)	10.7	5.0	12.3	15.0	9.4	7.0
EV/CE (x)	1.1	0.4	1.1	1.0	1.0	0.9
ROCE/WACC adj. (x)	1.4	1.1	1.3	1.0	1.5	1.9
<b>Key company data</b>						
Sales growth (%)	6.2	1.7	-1.0	1.0	7.5	5.7
EBITDA adj. growth (%)	1.6	-3.3	-4.7	12.7	19.1	11.8
EBITDA adj. margin (%)	13.4	12.8	12.3	13.7	15.2	16.1
<b>EBIT adj. margin (%)</b>	<b>4.8</b>	<b>3.5</b>	<b>3.8</b>	<b>3.4</b>	<b>5.0</b>	<b>6.0</b>
Net adj. margin (%)	2.9	2.3	3.0	2.2	3.5	4.3
Free cash flow margin (%)	2.2	2.8	4.6	2.0	3.0	3.9
Payout ratio (%)	43.9	42.0	53.3	30.7	37.0	35.1
Gearing (%) (net debt/equity)	55.0	59.0	56.7	89.0	67.8	49.9
Net debt/EBITDA (x)	0.7	0.7	1.1	1.2	0.9	0.7
Equity ratio (x) (equity/total assets)	21.5	19.4	20.0	20.4	23.2	26.4
Capital employed (EUR mn)	94.0	85.2	86.9	104.0	107.0	109.5
ROCE adj. (%)	10.4	8.5	8.9	6.8	10.3	12.8
<b>Income statement (EUR mn)</b>						
Turnover	203.0	206.3	204.2	206.2	221.6	234.2
EBITDA	27.2	26.3	17.1	26.8	33.7	37.6
EBITDA adj.	27.2	26.3	25.1	28.3	33.7	37.6
EBIT	9.7	7.3	-0.3	5.1	11.0	14.0
EBIT adj.	9.7	7.3	7.7	7.1	11.0	14.0
EBT	9.6	7.1	1.3	4.7	11.5	14.5
Net profit after minorities	5.9	4.6	0.9	3.1	7.7	10.0
Net profit adj.	5.9	4.6	6.2	4.4	7.7	10.0
<b>Balance sheet (EUR mn)</b>						
Non-current assets	10	15	17	20	20	21
thereof goodwill	8	8	10	10	10	10
Current assets	83	87	79	78	84	88
<b>Total assets</b>	<b>167</b>	<b>170</b>	<b>167</b>	<b>183</b>	<b>190</b>	<b>194</b>
Shareholders' equity	36	33	33	37	44	51
<b>Total equity and liabilities</b>	<b>167</b>	<b>170</b>	<b>167</b>	<b>183</b>	<b>190</b>	<b>194</b>
Net debt	20	19	19	33	30	26
<b>Cash flow (EUR mn)</b>						
Cash flow from operations	22.1	21.3	31.0	27.1	27.8	31.2
of which change in working capital	5.9	-2.7	-4.6	2.5	2.9	2.3
Cash flow from investments	-17.6	-15.5	-21.7	-23.0	-21.3	-22.0
of which investment in fixed assets	16.9	15.5	18.2	22.0	21.3	22.0
<b>Free cash flow</b>	<b>4.6</b>	<b>5.8</b>	<b>9.4</b>	<b>4.1</b>	<b>6.5</b>	<b>9.2</b>
Dividends paid	-1.9	-2.6	-1.9	-0.5	-1.0	-2.9
Cash flow from financing activities	-0.7	1.1	-10.2	-10.6	-6.0	-9.9
<b>Change in cash position</b>	<b>3.8</b>	<b>6.9</b>	<b>-0.9</b>	<b>-6.5</b>	<b>0.6</b>	<b>-0.7</b>

Source: Company data, Baader Helvea Equity Research

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