

Vectron Systems AG

Buy → | Target 34.00 EUR

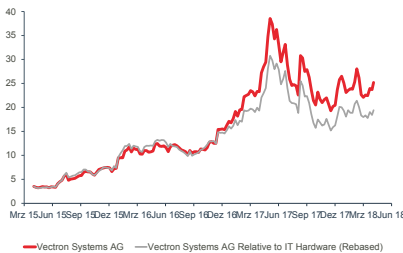
Price (02/05/2018) : 25.20 EUR | Upside : 35 %

Est.chg	2018e	2019e
EPS	-	-

Full-year 2017 results in line with preliminaries – solid earnings improvement expected in 2019

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Source : Oddo BHF Securities, Fininfo

Capital			
V3S GR V3SG.DE			
Market Cap (EURm)			166
Enterprise value (EURm)			165
Extrema 12 months	19.21		- 39.25
Free Float (%)			44.0
Performance (%)			
	1m	3m	12m
Absolute	14.0	9.1	2.6
Perf. rel. Country Index	9.2	9.3	3.1
Perf. rel. IT Hardware	8.0	7.5	-3.5
P&L			
	12/18e	12/19e	12/20e
Sales (EURm)	34.0	44.2	48.6
EBITDA (EURm)	2.3	4.8	6.4
Current EBIT (EURm)	1.7	4.0	5.7
Attr. net profit (EURm)	1.0	2.6	3.8
Adjusted EPS (EUR)	0.16	0.40	0.58
Dividend (EUR)	0.06	0.08	0.09
P/E (x)	159.1	63.0	43.4
P/B (x)	11.1	9.7	8.1
Dividend Yield (%)	0.3	0.3	0.3
FCF yield (%)	0.3	1.1	1.7
EV/Sales (x)	4.90	3.73	3.35
EV/EBITDA (x)	71.3	34.6	25.4
EV/Current EBIT (x)	96.7	40.9	28.5
Gearing (%)	-10	-17	-25
Net Debt/EBITDA(x)	ns	ns	ns

Next Events

31.08.2018	Q2 Results
26.10.2018	Q3 Results

Full-year 2017 results below record levels of 2016

Vectron posted final full-year 2017 results in line with the preliminaries released on 23 March. The 2017 results fell short of the record levels of 2016, mainly due to the normalizing demand pattern in the POS systems market. Revenues were down -4.0% yoy to € 32.4m (ODDO BHF: € 34.3m, cons.: € 33.8m). EBITDA was off -37% yoy to € 2.25m (ODDO BHF: € 3.2m, cons.: € 2.8m) and significantly below our estimate and consensus due to the build-up in infrastructure and pilots for its promising new software business. Thus, personnel expenses rose 12.6% yoy in 2017, mainly due to investments in the digitisation of the company, i.e. for the “GetHappy” joint project with Coca-Cola. Net income was also sharply lower yoy, down -45% to € 1.1m (ODDO BHF: € 1.8m, cons.: € 1.5m).

Further investment in digital platform

In 2017 Vectron invested € 1.3m (~53% of its total investment) in the “GetHappy” joint project with Coca-Cola. Going forward, we expect the company to continue to invest in its digital platform, given the scalability and promising opportunities (e.g. data analysis) that its digital platform offers. In this context, the company’s latest loan agreement for € 10m, to be invested in Vectron’s digitisation, i.e. its growth-oriented digital transformation strategy, is fully justified in our view.

Guidance reiterated for 2018 and 2019

Vectron reiterated its previously communicated guidance for 2018 and 2019. It expects a **rather muted 2018**, mainly driven by the normalisation of demand for POS systems. **In 2019**, however, management expects the POS market to gain significant traction, driven by regulations requiring POS systems to be updated and made manipulation-proof by 01 January 2020.

Expecting strong earnings improvement 2019

On the Hardware side of Vectron’s business, i.e. POS systems, we expect the company to profit from the aforementioned regulations, which should accelerate demand and thus boost Vectron’s revenues in 2019e, especially considering that the financial authorities have already started exercising their right to conduct random “POS systems inspections” since early 2018. **On the Software side, i.e. digital services**, we believe Vectron could capitalise on its innovation potential in the digital space. In our view, Vectron’s joint project with Coca-Cola (“GetHappy”), offers strong potential both by i/ expanding internationally, and ii/ offering the platform to non-beverage customers. Based on the positive results from the field test of GetHappy, the company is currently discussing the start of marketing activities with Coca-Cola.

Buy rating and TP of € 34.00 maintained

Vectron’s transformation programme from its traditional hardware centricity to a data-centric software group appears to be in good hands with Oliver Kaltner as CEO and recently appointed COO Silvia Ostermann, both of whom have extensive experience in the digital space. Therefore, we now expect Vectron’s management to focus on: i/ expanding Vectron’s business internationally, ii/ increasing internal engineering capacity, and iii/ accelerating technological innovations at all product levels. We maintain our Buy recommendation and TP of € 34 given the promising opportunities offered by Vectron’s software platform combined with POS demand arising due to upcoming regulatory deadlines by German tax authorities.

Henning Steinbrink (Analyst)
+49 (69) 71 83 672
henning.steinbrink@oddo-bhf.com

Abraham Cavoosi-Kaleno
+49 (69) 71 83 668
abraham.cavoosi-kaleno@oddo-bhf.com

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Overview of P&L

	4Q17			Growth		FY17					Growth	2016		
	(€m)	Rep	Oddo	Δ	YoY	QoQ	Rep	Oddo	Δ	Cons.	Δ	YoY	FY	Q4
Total revenue		7.0	9.0	-22.4%	-36.8%	14.3%	32.4	34.3	-5.7%	33.8	-4.2%	-4.0%	33.7	11.0
EBITDA		-0.1	0.8	n.m.	n.m.	n.m.	2.26	3.24	-30.2%	2.80	-0.19	-0.38	3.61	1.64
Margin		-1.9%	9.4%	n.m.			7.0%	9.4%	-245bp	8.3%	-132bp	-375bp	10.7%	14.9%
Net Profit		-0.2	0.5	n.m.	n.m.	n.m.	1.07	1.76	-39.2%	1.50	-0.29	-0.46	1.97	1.22
Margin		-3.3%	5.1%				3.3%	5.1%	-182bp	4.4%	-113bp	-252bp	5.8%	11.1%

Source: Company data, Oddo BHF Securities



V3SG.DE | V3S GR
Electronics | Germany

	Buy					Price 25.20EUR			
	Upside	34.92%				TP 34.00EUR			
PER SHARE DATA (EUR)	12/13	12/14	12/15	12/16	12/17	12/18e	12/19e	12/20e	
Adjusted EPS	0.06	0.08	0.18	0.30	0.16	0.16	0.40	0.58	
Reported EPS	0.11	0.12	0.18	0.30	0.16	0.16	0.40	0.58	
Growth in EPS(%)	18.8%	39.3%	ns	66.1%	-45.3%	-2.8%	ns	45.2%	
Net dividend per share	0.05	0.05	0.07	0.11	0.07	0.06	0.08	0.09	
FCF to equity per share	-0.02	0.23	0.17	0.05	-0.45	0.07	0.27	0.43	
Book value per share	1.47	1.48	1.17	2.25	2.17	2.27	2.60	3.10	
Number of shares market cap	6.60	6.60	6.60	6.60	6.60	6.60	6.60	6.60	
Number of diluted shares	6.60	6.60	6.60	6.60	6.60	6.60	6.60	6.60	
VALUATION	12/13	12/14	12/15	12/16	12/17	12/18e	12/19e	12/20e	
12m highest price	2.68	2.67	7.52	16.22	39.25	28.05			
12m lowest price	1.76	1.80	2.47	6.62	14.86	20.85			
(*) Reference price	2.27	2.30	4.48	11.15	24.73	25.20	25.20	25.20	
Capitalization	15.0	15.2	29.6	73.6	163	166	166	166	
Restated Net debt	-2.3	-3.2	-1.2	-6.6	-1.5	-1.5	-2.9	-5.2	
Minorities (fair value)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Financial fixed assets (fair value)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Provisions	0.7	0.9	2.0	3.2	1.7	1.7	1.7	1.7	
Enterprise Value	13.4	12.9	30.3	70.2	163	166	165	163	
P/E (x)	40.0	29.1	25.0	37.5	152	159	63.0	43.4	
P/CF (x)	16.7	16.0	11.7	19.7	4.440	100	49.3	36.8	
Net Yield (%)	2.0%	2.0%	1.5%	1.0%	0.3%	0.3%	0.3%	0.3%	
FCF yield (%)	ns	10.1%	3.8%	0.5%	ns	0.3%	1.1%	1.7%	
P/B incl. GW (x)	1.55	1.55	3.83	4.95	11.38	11.12	9.68	8.12	
P/B excl. GW (x)	1.55	1.55	3.83	4.95	11.38	11.12	9.68	8.12	
EV/Sales (x)	0.62	0.58	1.17	2.08	5.04	4.90	3.73	3.35	
EV/EBITDA (x)	8.8	8.3	11.5	19.4	72.4	71.3	34.6	25.4	
EV/EBIT (x)	13.9	12.6	14.7	22.7	93.5	96.7	40.9	28.5	
(*) historical average price									
PROFIT AND LOSS (EURm)	12/13	12/14	12/15	12/16	12/17	12/18e	12/19e	12/20e	
Sales	21.4	22.4	25.9	33.7	32.4	34.0	44.2	48.6	
EBITDA	1.5	1.6	2.6	3.6	2.3	2.3	4.8	6.4	
Depreciations	-0.6	-0.5	-0.6	-0.5	-0.5	-0.6	-0.7	-0.7	
Current EBIT	1.0	1.0	2.1	3.1	1.7	1.7	4.0	5.7	
Published EBIT	1.0	1.0	2.1	3.1	1.7	1.7	4.0	5.7	
Net financial income	0.1	0.1	-0.2	-0.1	-0.1	-0.3	-0.4	-0.4	
Corporate Tax	-0.3	-0.3	-0.7	-1.0	-0.6	-0.4	-1.0	-1.5	
Net income of equity-accounted companies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Profit/loss of discontinued activities (after tax)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Attributable net profit	0.7	0.8	1.2	2.0	1.1	1.0	2.6	3.8	
Adjusted attributable net profit	0.4	0.5	1.2	2.0	1.1	1.0	2.6	3.8	
BALANCE SHEET (EURm)	12/13	12/14	12/15	12/16	12/17	12/18e	12/19e	12/20e	
Goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other intangible assets	0.7	0.6	0.5	0.4	1.5	1.5	1.6	1.8	
Tangible fixed assets	0.9	0.8	0.8	0.7	0.6	1.1	1.7	2.4	
WCR	5.8	5.0	6.2	9.3	10.4	10.6	10.7	10.9	
Financial assets	0.6	1.0	1.0	1.0	1.9	1.9	1.9	1.9	
Ordinary shareholders equity	9.7	9.8	7.7	14.9	14.3	15.0	17.2	20.5	
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Shareholders equity	9.7	9.8	7.7	14.9	14.3	15.0	17.2	20.5	
Non-current provisions	0.7	0.9	2.0	3.2	1.7	1.7	1.7	1.7	
Net debt	-2.3	-3.2	-1.2	-6.6	-1.5	-1.5	-2.9	-5.2	
CASH FLOW STATEMENT (EURm)	12/13	12/14	12/15	12/16	12/17	12/18e	12/19e	12/20e	
EBITDA	1.5	1.6	2.6	3.6	2.3	2.3	4.8	6.4	
Change in WCR	-0.7	0.9	-1.0	-3.0	-1.5	-0.1	-0.1	-0.1	
Interests & taxes	-0.1	-0.5	-0.2	-0.2	-1.7	-0.4	-1.0	-1.5	
Others	-0.5	-0.1	0.1	0.4	-0.6	-0.3	-0.4	-0.4	
Operating Cash flow	0.2	1.8	1.5	0.8	-1.5	1.5	3.2	4.4	
CAPEX	-0.4	-0.3	-0.4	-0.4	-1.5	-1.1	-1.4	-1.6	
Free cash-flow	-0.1	1.5	1.1	0.3	-3.0	0.4	1.8	2.8	
Acquisitions / disposals	0.0	0.0	0.0	0.0	-0.9	0.0	0.0	0.0	
Dividends	-0.3	-0.3	-0.5	-0.7	-1.6	-0.4	-0.4	-0.5	
Net capital increase	0.0	0.0	0.0	5.9	0.0	0.0	0.0	0.0	
Others	0.0	-0.3	1.1	-3.4	-0.2	10.0	0.0	0.0	
Change in net debt	-2.4	0.9	-1.9	5.4	-5.1	0.0	1.4	2.3	
GROWTH MARGINS PRODUCTIVITY	12/13	12/14	12/15	12/16	12/17	12/18e	12/19e	12/20e	
Sales growth	-5.6%	4.7%	15.4%	30.4%	-4.0%	5.0%	30.0%	10.0%	
Lfl sales growth	-	-	-	-	-	-	-	-	
Current EBIT growth	9.3%	6.3%	ns	49.3%	-43.4%	-1.5%	ns	41.7%	
Growth in EPS(%)	18.8%	39.3%	ns	66.1%	-45.3%	-2.8%	ns	45.2%	
Net margin	1.7%	2.3%	4.6%	5.8%	3.3%	3.1%	6.0%	7.9%	
EBITDA margin	7.1%	7.0%	10.2%	10.7%	7.0%	6.9%	10.8%	13.2%	
Current EBIT margin	4.5%	4.6%	8.0%	9.2%	5.4%	5.1%	9.1%	11.8%	
CAPEX / Sales	-3.2%	-1.4%	-1.6%	-1.3%	-4.7%	-3.2%	-3.2%	-3.2%	
WCR / Sales	26.9%	22.5%	23.8%	27.5%	32.2%	31.1%	24.2%	22.3%	
Tax Rate	28.5%	29.7%	35.6%	33.7%	35.2%	28.0%	28.0%	28.0%	
Normative tax rate									
Asset Turnover	2.8	3.2	3.7	3.8	2.8	2.6	3.2	3.3	
ROCE post-tax (normative tax rate)	-	-	-	-	-	-	-	-	
ROCE post-tax hors GW (normative tax rate)									
ROE	3.8%	5.4%	13.5%	17.4%	7.4%	7.1%	16.4%	20.4%	
DEBT RATIOS	12/13	12/14	12/15	12/16	12/17	12/18e	12/19e	12/20e	
Gearing	-24%	-32%	-16%	-45%	-10%	-10%	-17%	-25%	
Net Debt / Market Cap	-0.15	-0.21	-0.04	-0.09	-0.01	-0.01	-0.02	-0.03	
Net debt / EBITDA	ns	ns	ns	ns	ns	ns	ns	ns	
EBITDA / net financial charges	-21.7	-24.5	11.5	30.0	25.5	8.6	13.0	16.3	

Source: ODDO BHF Securities, Fininfo



• **Valuation method**

Our target prices are established on a 12-month timeframe and we use three valuation methods to determine them. First, the discounting of available cash flows using the discounting parameters set by the Group and indicated on Oddo BHF' website. Second, the sum-of-the-parts method based on the most pertinent financial aggregate depending on the sector of activity. Third, we also use the peer comparison method which facilitates an evaluation of the company relative to similar businesses, either because they operate in identical sectors (and are therefore in competition with one another) or because they benefit from comparable financial dynamics. A mixture of these valuation methods may be used in specific instances to more accurately reflect the specific characteristics of each company covered, thereby fine-tuning its evaluation.

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Buy: performance expected to exceed that of the benchmark index, sectoral (large caps) or other (small and mid caps).

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Recommendation and target price changes history over the last 12 months for the company analysed in this report

Date	Reco	Price Target (EUR)	Price (EUR)	Analyst
19.09.17	Buy	34.00	28.70	Henning Steinbrink

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Recommendation split		Buy	Neutral	Reduce
Our whole coverage	(413)	50%	41%	9%
Liquidity providers coverage	(129)	46%	49%	5%
Research service coverage	(58)	57%	38%	5%
Investment banking services	(41)	73%	22%	5%

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