

# Vectron Systems AG

Buy → | Target 25.00 EUR vs 34.00 EUR ↘

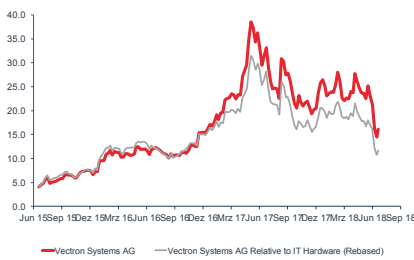
Price (18/07/2018) : 16.12 EUR | Upside : 55 %

Est.chg	2018e	2019e
EPS	5.3%	19.0%

## CEO's departure could delay digital transformation process – TP lowered to € 25.00 (€ 34.00)

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Source : ODDO BHF Securities, Fininfo

### Capital

V3S GR | V3SG.DE

Market Cap (EURm)	106
Enterprise value (EURm)	105
Extrema 12 months	14.36 - 34.50
Free Float (%)	44.0

Performance (%)	1m	3m	12m
Absolute	-33.5	-30.4	-50.8
Perf. rel. Country Index	-33.7	-31.3	-51.3
Perf. rel. IT Hardware	-33.2	-37.1	-58.5

### P&L

	12/18e	12/19e	12/20e
Sales (EURm)	34.0	44.2	53.0
EBITDA (EURm)	2.3	5.4	8.5
Current EBIT (EURm)	1.8	4.7	7.7
Attr. net profit (EURm)	1.1	3.1	5.2
Adjusted EPS (EUR)	0.17	0.48	0.79
Dividend (€)	0.07	0.10	0.12

P/E (x)	96.7	33.8	20.3
P/B (x)	7.1	6.0	4.8
Dividend Yield (%)	0.4	0.6	0.7
FCF yield (%)	0.4	2.1	4.0
EV/Sales (x)	3.13	2.37	1.91
EV/EBITDA (x)	45.7	19.3	11.9
EV/Current EBIT (x)	59.2	22.1	13.2
Gearing (%)	-10	-19	-31
Net Debt/EBITDA(x)	ns	ns	ns

### Next Events

31.08.2018	Q2 Results
26.10.2018	Q3 Results

### Oliver Kaltner's departure could delay innovation process

**Vectron recently announced** the termination of its employment contract with CEO Oliver Kaltner by mutual agreement, highlighting differences of opinion on the implementation of the company's growth strategy. Co-founder and supervisory board member Thomas Stümmler has been re-appointed to the management board with immediate effect. Although we previously argued that Oliver Kaltner was a good fit for **the transformation process** from hardware-centric to data-centric company, we believe Thomas Stümmler, as the co-founder and renowned industry expert, needs to stay fully involved in the group's innovation process. We continue to believe Vectron's online platform bonVito/Coca-Cola's GetHappy initiative offers significant revenue potential from a multitude of big-data AI driven innovations. Given the depth of such innovations, however, we believe Vectron will require significant additional **up-front investments** to transform these digital plans into revenue-generating services. Thus, we expect some delays in its corporate digitization initiative.

### Vectron reorganizing its sales / engineering team as part of its strategic realignment

Traditionally, Vectron has been known as a hardware-based POS manufacturer. Under its current strategic realignment, however, the company announced it will restructure its sales and engineering teams to better adapt to the new ecosystem as a full-sized system solution provider. Here the group is focusing on: i/ B2B2C cloud services and hardware, and ii/ streamlining product lines to reduce complexity. **In its new set-up** Vectron will concentrate on: i/ expanding its business internationally, ii/ increasing its internal engineering capabilities, and iii/ accelerating technological innovation at all product levels.

### Attractive equity story still intact

In our view, Vectron should benefit from two major catalysts in the mid-term: **i/ on the Hardware side**, we expect the POS market to gain significant traction driven by regulations in Germany requiring POS systems to be updated and made manipulation-proof by 01 January 2020, and **ii/ on the software/digital services side**, although there might be some project delays linked to Mr Kaltner's departure, we believe Vectron should be able to capitalize on its joint project with Coca-Cola via: i/ international project expansions, and ii/ offering the platform also to non-beverage customers. Thus, despite potential delays in the transformation process linked to Mr Kaltner's departure, we still consider Vectron's equity story including digitization initiative intact. Nevertheless, to achieve **sustainable long-term growth**, we believe, Vectron needs to invest in both its Hardware and Digital business lines. In this regard, Vectron could require additional sources of capital.

### Buy reiterated, TP lowered to € 25.00 (€ 34.00)

Implementing the company's latest developments in our SoTP (sum of the parts) valuation model, we now value i/ the Hardware business line (i.e. POS) at € 11.24 (previously € 10.17), and ii/ the Digital business line at € 13.68 (previously 23.75), the latter change mainly driven by lengthier ramp-ups and the need for further investments. Our new TP of € 25.00 (revised down from € 34.00) implies target P/Es of 52.5x, and 31.5x for 2019e and 2020e respectively. We maintain our Buy rating.

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#### Conflict of interests:

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## Valuation of the Hardware Business Line – DCF model

We value Vectron's Hardware business line using a discounted cash flow approach. Our DCF-based model renders a fair value of € 11.24 / share (prev.: € 10.17). Our revenue and profitability estimates are based on assumptions of increasing demand for POS systems, mainly driven by regulations requiring POS systems to be updated and made manipulation-proof by 01 January 2020.

### Valuation of the Hardware business line i.e. POS (including impact of new cash register regulations)

EURm	PHASE 1			PHASE 2							PHASE 3
	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	∞
Sales	34.0	44.2	53.0	47.7	48.7	49.7	50.7	51.7	52.7	53.8	
YoY growth	5.0%	30.0%	20.0%	-10.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	
EBIT	1.8	4.7	7.7	7.0	7.2	7.3	7.5	7.7	8.0	8.2	
EBIT margin	5.3%	10.7%	14.5%	14.6%	14.7%	14.8%	14.9%	15.0%	15.1%	15.2%	
Income tax	-0.4	-1.2	-2.0	-1.7	-1.8	-1.8	-1.9	-2.3	-2.4	-2.5	
Depreciation and amortisation	0.5	0.7	0.8	1.0	1.2	1.5	1.8	1.8	1.8	1.9	
Change in long-term provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Change in net working capital	-0.1	-0.1	-0.1	1.0	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	
Net capital expenditure	-1.1	-1.4	-1.7	-1.5	-1.6	-1.6	-1.6	-1.7	-1.7	-1.7	
<b>Free cash flow</b>	<b>0.7</b>	<b>2.6</b>	<b>4.6</b>	<b>5.7</b>	<b>4.8</b>	<b>5.2</b>	<b>5.6</b>	<b>5.4</b>	<b>5.5</b>	<b>5.7</b>	
<b>Present values</b>	<b>0.7</b>	<b>2.4</b>	<b>3.8</b>	<b>4.3</b>	<b>3.4</b>	<b>3.4</b>	<b>3.3</b>	<b>3.0</b>	<b>2.8</b>	<b>2.7</b>	<b>41.3</b>
Present value Phase 1	6.8	10%									
Present value Phase 2	22.8	32%									
Present value Phase 3	41.3	58%									
Total present value	71.0	100%									
+ Excess cash	5.5										
- Financial debt	-2.3										
Fair value of equity	74.2										
Number of shares (m)	6.6										
<b>Fair value per share (€)</b>	<b>11.24</b>										

Risk free rate	0.78%	Target equity ratio	75.0%
Equity risk premium	7.23%	Beta (fundamental)	1.3
Debt risk premium	3.00%	<b>WACC</b>	<b>8.02%</b>
Tax shield	30.0%	<b>Terminal growth</b>	<b>1.5%</b>

Sensitivity analysis						
Terminal growth (Phase 3)						
	0.5%	1.0%	1.5%	2.0%	2.5%	
<b>WACC</b>	<b>7.0%</b>	12.04	12.64	13.35	14.20	15.25
	<b>7.5%</b>	11.14	11.63	12.21	12.89	13.71
	<b>8.0%</b>	10.36	10.77	<b>11.24</b>	11.80	12.45
	<b>8.5%</b>	9.67	10.02	10.41	10.87	11.40
	<b>9.0%</b>	9.07	9.36	9.70	10.07	10.51

Source: Company data, Oddo BHF Securities

## Valuation of the digital platform – P/E multiples

We value Vectron's digital platform using a multiple valuation approach. We believe the current market undervaluation of Vectron's Digital business line is mainly related to i/ the early stage of the initiative, and ii/ delays in project ramp-up. We apply a P/E multiple approach taking OpenTable as the closest peer (acquired by Priceline Group in 2014, profitability margins of 25-30%). We now assume only a 33% market penetration rate for the digital platform in 2021e (prev.: 40%), due to potential project delays. We apply a 2021e P/E multiple of 20.0x and arrive at a fair value per share of € 13.68 (prev.: € 23.75).

### Base-case scenario – Valuation of digital platform i.e. bonVito / GetHappy

#### Base case scenario

Total number of installed POS systems in Germany	100,000
Mid-term penetration target rate (in % / # systems)	33% / 33000
Additional yearly revenue contribution in € (Per system, total)	€ 660 / 21.78m
Net profit margin	25% / 5.445m
Valuation based on 20x P/E multiple (2021)	108.9
Number of shares	6.6
Value per share (2020)	16.50
Required rate of return on equity	9.82%
<b>Value per share (2018)</b>	<b>13.68</b>

Source: Company data, Oddo BHF Securities



## Sum of the parts valuation

We believe Vectron is best valued with a sum of the parts (SoTP) valuation method, given the diverse business models in its business lines. We conduct our SoTP model based on i/ our DCF-model for hardware business line, and ii/ a P/E multiple valuation for the online platform. This renders a fair value per share of € 24.93 (prev: € 34.00). Therefore, we reduce our TP to € 25.00 (prev: € 34.00).

Sum of the part: Hardware business line + Digital platform	
Sum of the parts valuation	
Hardware business (€/share)	11.24
bonVito / GetHappy business (€/share)	13.68
<b>Fair value (€/share)</b>	<b>24.93</b>

Source: Company data, Oddo BHF Securities



**V3SG.DE | V3S GR**  
**Electronics | Germany**

**Buy**

Upside 55.09%

Price 16.12EUR

TP 25.00EUR

	12/13	12/14	12/15	12/16	12/17	12/18e	12/19e	12/20e
<b>PER SHARE DATA (EUR)</b>								
Adjusted EPS	0.06	0.08	0.18	0.30	0.16	0.17	0.48	0.79
<b>Reported EPS</b>	<b>0.11</b>	<b>0.12</b>	<b>0.18</b>	<b>0.30</b>	<b>0.16</b>	<b>0.17</b>	<b>0.48</b>	<b>0.79</b>
Growth in EPS(%)	18.8%	39.3%	ns	66.1%	-45.3%	2.4%	ns	66.6%
Net dividend per share	0.05	0.05	0.07	0.11	0.07	0.07	0.10	0.12
FCF to equity per share	-0.02	0.23	0.17	0.05	-0.45	0.06	0.35	0.64
Book value per share	1.47	1.48	1.17	2.25	2.17	2.27	2.68	3.38
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
<b>VALUATION</b>								
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	14.36		
(*) Reference price	2.27	2.30	4.48	11.15	24.73	16.12	16.12	16.12
Capitalization	15.0	15.2	29.6	73.6	163	106	106	106
Restated Net debt	-2.3	-3.2	-1.2	-6.6	-1.5	-1.5	-3.3	-6.9
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
<b>Enterprise Value</b>	<b>13.4</b>	<b>12.9</b>	<b>30.3</b>	<b>70.2</b>	<b>163</b>	<b>107</b>	<b>105</b>	<b>101</b>
P/E (x)	40.0	29.1	25.0	37.5	152	96.7	33.8	20.3
P/CF (x)	16.7	16.0	11.7	19.7	4.440	65.1	27.7	17.5
Net Yield (%)	2.0%	2.0%	1.5%	1.0%	0.3%	0.4%	0.6%	0.7%
FCF yield (%)	ns	10.1%	3.8%	0.5%	ns	0.4%	2.1%	4.0%
P/B incl. GW (x)	1.55	1.55	3.83	4.95	11.38	7.09	6.01	4.77
P/B excl. GW (x)	1.55	1.55	3.83	4.95	11.38	7.09	6.01	4.77
EV/Sales (x)	0.62	0.58	1.17	2.08	5.04	3.13	2.37	1.91
EV/EBITDA (x)	8.8	8.3	11.5	19.4	72.4	45.7	19.3	11.9
EV/EBIT (x)	13.9	12.6	14.7	22.7	93.5	59.2	22.1	13.2
(*) historical average price								
<b>PROFIT AND LOSS (EURm)</b>								
Sales	21.4	22.4	25.9	33.7	32.4	34.0	44.2	53
EBITDA	1.5	1.6	2.6	3.6	2.3	2.3	5.4	8.5
Depreciations	-0.6	-0.5	-0.6	-0.5	-0.5	-0.5	-0.7	-0.8
<b>Current EBIT</b>	<b>1.0</b>	<b>1.0</b>	<b>2.1</b>	<b>3.1</b>	<b>1.7</b>	<b>1.8</b>	<b>4.7</b>	<b>7.7</b>
Published EBIT	1.0	1.0	2.1	3.1	1.7	1.8	4.7	7.7
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	-1.2	-2.0
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	1.1	3.1	5.2
<b>Adjusted attributable net profit</b>	<b>0.4</b>	<b>0.5</b>	<b>1.2</b>	<b>2.0</b>	<b>1.1</b>	<b>1.1</b>	<b>3.1</b>	<b>5.2</b>
<b>BALANCE SHEET (EURm)</b>								
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	1.6	1.7	1.8
Tangible fixed assets	0.9	0.8	0.8	0.7	0.6	1.1	1.7	2.5
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	17.7	22.3
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	17.7	22.3
Non-current provisions	0.7	0.9	2.0	3.2	1.7	1.7	1.7	1.7
<b>Net debt</b>	<b>-2.3</b>	<b>-3.2</b>	<b>-1.2</b>	<b>-6.6</b>	<b>-1.5</b>	<b>-1.5</b>	<b>-3.3</b>	<b>-6.9</b>
<b>CASH FLOW STATEMENT (EURm)</b>								
<b>EBITDA</b>	<b>1.5</b>	<b>1.6</b>	<b>2.6</b>	<b>3.6</b>	<b>2.3</b>	<b>2.3</b>	<b>5.4</b>	<b>8.5</b>
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	-1.2	-2.0
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	3.7	5.9
CAPEX	-0.4	-0.3	-0.4	-0.4	-1.5	-1.1	-1.4	-1.7
<b>Free cash-flow</b>	<b>-0.1</b>	<b>1.5</b>	<b>1.1</b>	<b>0.3</b>	<b>-3.0</b>	<b>0.4</b>	<b>2.3</b>	<b>4.2</b>
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	-0.6
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	1.8	3.6
<b>GROWTH MARGINS PRODUCTIVITY</b>								
Sales growth	-5.6%	4.7%	15.4%	30.4%	-4.0%	5.0%	30.0%	20.0%
<b>Lfl sales growth</b>								
Current EBIT growth	9.3%	6.3%	ns	49.3%	-43.4%	3.0%	ns	62.4%
Growth in EPS(%)	18.8%	39.3%	ns	66.1%	-45.3%	2.4%	ns	66.6%
Net margin	1.7%	2.3%	4.6%	5.8%	3.3%	4.2%	7.1%	9.9%
<b>EBITDA margin</b>	<b>7.1%</b>	<b>7.0%</b>	<b>10.2%</b>	<b>10.7%</b>	<b>7.0%</b>	<b>6.9%</b>	<b>12.3%</b>	<b>16.1%</b>
<b>Current EBIT margin</b>	<b>4.5%</b>	<b>4.6%</b>	<b>8.0%</b>	<b>9.2%</b>	<b>5.4%</b>	<b>5.3%</b>	<b>10.7%</b>	<b>14.5%</b>
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%	20.5%
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	3.6
<b>ROCE post-tax (normative tax rate)</b>								
ROCE post-tax hors GW (normative tax rate)	-	-	-	-	-	-	-	-
ROE	3.8%	5.4%	13.5%	17.4%	7.4%	7.5%	19.2%	26.2%
<b>DEBT RATIOS</b>								
Gearing	-24%	-32%	-16%	-45%	-10%	-10%	-19%	-31%
Net Debt / Market Cap	-0.15	-0.21	-0.04	-0.09	-0.01	-0.01	-0.03	-0.06
<b>Net debt / EBITDA</b>	<b>ns</b>	<b>ns</b>	<b>ns</b>	<b>ns</b>	<b>ns</b>	<b>ns</b>	<b>ns</b>	<b>ns</b>
EBITDA / net financial charges	-21.7	-24.5	11.5	30.0	25.5	8.6	14.8	20.4

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.

• **Sensitivity of the result of the analysis/ risk classification:**

The opinions expressed in the financial analysis are opinions as per a particular date, i.e. the date indicated in the financial analysis. The recommendation (cf. explanation of the recommendation systematic) can change owing to unforeseeable events which may, for instance, have repercussions on both the company and on the whole industry.

• **Our stock market recommendations**

Our stock market recommendations reflect the RELATIVE performance expected for each stock on a 12-month timeframe.

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

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

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

• **The prices of the financial instruments used and mentioned in this document are the closing prices.**

• **All publications by Oddo BHF concerning the companies covered and mentioned in this document are available on the research site:** [www.securities.oddo-bhf.com](http://www.securities.oddo-bhf.com)

**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
14.09.17	Buy	20.09	29.80	Henning Steinbrink

In accordance with Article 20 of European Regulation No. 596/2014 (Market Abuse Regulation), a list of all recommendations on any financial instrument or issuer that have been disseminated over the past twelve months is available by clicking on the following link [www.securities.oddo-bhf.com](http://www.securities.oddo-bhf.com)

Recommendation split		Buy	Neutral	Reduce
Our whole coverage	(462)	50%	41%	9%
Liquidity providers coverage	(155)	46%	48%	6%
Research service coverage	(58)	53%	40%	7%
Investment banking services	(40)	70%	25%	5%

**Risk of conflict of interest:**

Investment banking and/or Distribution		
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