

LPKF Laser & Electronics AG

Neutral → | Target 6.90 EUR vs 6.00 EUR ↗

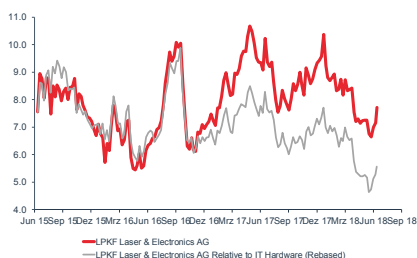
Price (10/07/2018) : 7.72 EUR | Upside : -11 %

Est.chg	2018e	2019e
EPS	137.5%	2.6%

TP raised to € 6.90 on strong preliminary Q2 top-line, Neutral maintained

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Source : Oddo BHF Securities, Fininfo

Capital

LPK GY LPKG.DE	
Market Cap (EURm)	172
Enterprise value (EURm)	200
Extrema 12 months	6.13 - 10.46
Free Float (%)	ns

Performance (%)	1m	3m	12m
Absolute	6.5	-7.3	-17.8
Perf. rel. Country Index	6.2	-9.2	-18.7
Perf. rel. IT Hardware	7.5	-14.9	-27.9

P&L	12/18e	12/19e	12/20e
Sales (EURm)	108	120	131
EBITDA (EURm)	13.3	17.8	21.4
Current EBIT (EURm)	7.1	11.2	14.6
Attr. net profit (EURm)	4.3	7.2	9.7
Adjusted EPS (EUR)	0.19	0.32	0.43
Dividend (€)	0.00	0.00	0.00

P/E (x)	39.9	23.8	17.8
P/B (x)	2.6	2.3	2.0
Dividend Yield (%)	0.0	0.0	0.0
FCF yield (%)	0.6	2.3	3.6
EV/Sales (x)	1.91	1.67	1.47
EV/EBITDA (x)	15.5	11.2	9.0
EV/Current EBIT (x)	29.2	17.9	13.1
Gearing (%)	44	30	16
Net Debt/EBITDA(x)	2.2	1.3	0.6

Next Events

11.08.2018 H1 Results

Strong preliminary Q2 sales

On 4 July LPKF released strong preliminary group Q2 2018 sales of c.€ 38m (+89% yoy). Order intake was up 15% yoy to € 72m and the order backlog was also up 14% yoy to € 52m. The order situation suggests sales improvement in the coming quarters.

Regarding the individual segments, we assume sales performed in line with the trends seen in Q1 2018, i.e. strong yoy sales growth in the Solar and Development segments in Q2 2018, Electronics probably improved its sales qoq, while Welding was probably more muted yoy. All in all, we estimate LPKF's Q2 2018 EBIT at € 2.5m, which would offset the EBIT loss in Q1 2018. The final Q2 2018 figures are due on 15 August.

Management guidance reiterated

Management reiterated its guidance for the full year 2018, i.e. sales of € 103-108m and an EBIT margin of 6%. Our full-year 2018 estimates are somewhat above the guidance, i.e. sales of € 108m (+5.8% yoy; consensus: € 108.4m) and an EBIT margin of 6.5%, translating into EBIT of € 7.1m (cons. of € 6.4m).

All board members replaced within 1 year, size reduction from 4 to 2

LPKF will reduce the size of its management board from four people to two. Mr. Lange and Dr. Bieniek will leave the board, while current CFO Bentz will remain in the company; he probably will train and advise the new CFO Christian until the end of 2018. Mr Witt will take over as CFO on 1 September. These changes are taking place under the direction of new CEO Dr. Bendele (on board since 1 May), whom we have not met yet.

Outlook

We have slightly adjusted our financial estimates to reflect: i/ a continuation of cost discipline and streamlining (employees); and ii/ a shift of the product mix toward more profitable products (LIDE/Laser Induced Deep Etching as a major driver in Electronics), also by targeting new customers and markets. We expect the company to see sustainable earnings improvement within the next 12 months. Management also stated that it plans to organize the company more like an "agile technology start-up", with more effective and faster processes and quicker response times to its customers.

TP raised to € 6.90 (€ 6.00), Neutral maintained

Having updated our DCF-based model we now derive a fair value of € 6.88 and accordingly raise our TP to € 6.90. As this implies downside potential of 11%, we maintain our Neutral rating on the shares. Our TP implies a target EV/Sales and P/E of 1.6x and 21.2x based on our 2019e estimates and 1.5x and 15.9x based on our 2020e estimates, respectively.

Felix Lutz (Analyst)

+49 (69) 71 83 674

felix.lutz@oddo-bhf.com

Conflict of interests:

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SEGMENTAL OUTLOOK

We base our adjusted financial estimates on the following assumptions for LPKF's segments:

Development segment (24% of revenues). We expect the Development segment to deliver positive sales growth at a double-digit margin (EBIT margin 2017: 21%).

Electronics segment (31% of revenues). LPKF's market share in this business currently stands at 65%. Going forward, the segment's earnings performance (2017: sales of € 31.7m, 2.8% EBIT margin) should improve driven by process streamlining and the LIDE technology. LIDE will go to market in 2018.

Welding segment (24% of revenues). After a weak 2017 (sales of € 25.4m, 2.3% EBIT margin), the Welding segment's earnings performance should improve on the back of further modularization and standardization of its machines, which should enhance their appeal to customers in the automotive supplier and medical device industries.

Solar segment (21% of revenues). We believe LPKF will benefit from growing thin-film solar production in the coming years. In 2017, the company expanded its production capacity to handle its strong increase in orders. The new Laser Transfer Printing (LTP) product is in its final stage of development and is likely to attract more attention; we expect this product to contribute to sales and earnings in the years to come. We expect this segment to contribute the largest share of group EBIT (2017: € 1.5m, 7.3% EBIT margin).

Based on the above assumptions, we have slightly adjusted our financial estimates as shown in the following table:

Estimate changes						
	2018e old	2018e new	2019e old	2019 new	2020e old	2020e new
Sales	102	108	114	119.9	124	130.7
EBIT	3.9	7.1	11.4	11.2	13.6	14.6
EBIT margin	3.8%	6.5%	10.0%	9.3%	11.0%	11.2%
EPS	0.08	0.19	0.32	0.32	-	0.43

Source: Oddo BHF Securities

Our P&L forecast now stands as follows:

Profit and loss accounts						
	2015a	2016a	2017a	2018e	2019e	2020e
Net sales	87.3	91.1	102.1	108.0	119.9	130.7
	-27.1%	4.4%	12.0%	5.8%	11.0%	9.0%
Total output						
Cost of materials	-24.90	-31.03	-33.81	-35.64	-39.56	-43.12
Personnel expense	-43.70	-43.90	-41.90	-40.14	-41.54	-43.23
Other operating income	7.13	5.78	5.73	5.40	5.99	6.53
Other operating expenses	-29.09	-23.29	-23.33	-24.30	-26.97	-29.40
EBITDA	3.44	1.31	11.63	13.32	17.80	21.45
as % of sales	3.9%	1.4%	11.4%	12.3%	14.8%	16.4%
EBIT	-3.72	-6.75	3.95	7.07	11.20	14.62
as % of sales	-4.3%	-7.4%	3.9%	6.5%	9.3%	11.2%
EBT	-4.40	-7.58	3.01	6.16	10.33	13.80
as % of sales	-5.0%	-8.3%	3.0%	5.7%	8.6%	10.6%
Net income	-3.48	-8.82	1.15	4.31	7.23	9.66
Earnings per share in EUR	-0.16	-0.40	0.05	0.19	0.32	0.43

Source: LPKF, Oddo BHF Securities



VALUATION

Having updated our DCF model and adjusted our sales growth expectations for the coming year, we derive a new fair value per share of € 6.88 and raise our TP to € 6.90: With downside of 11%, we confirm our Neutral rating on the shares. At our TP the shares would trade at EV/Sales multiples of 1.6x and 1.5x, and P/E multiples of 21.2x of 15.9x based on our sales and earnings estimates for 2019e and 2020e respectively.

DCF model

Phase 1 cash flows (2017-20e): We now estimate a revenue CAGR2017-20e of 8.6% (formerly 6.7%). We assume the group EBIT margin increases from 3.9% in 2017 to 6.5% (3.8%) in 2018e, 9.3% (10%) in 2019e and 11.2% (11%) in 2020e. In our depreciation estimates we do not account for potential one-offs (e.g. related to the management changes). A growing positive impact from streamlining measures could further lead to further EBIT margin improvement.

Phase 2 (2021e-27e): We assume sales increase at a CAGR 2021e-27e of 5.8% and the EBIT margin expands from 11.2% (2020e) to its final level of 13.0% (2022e).

Phase 3 (terminal value): We assume a long-term FCF growth rate of 2.0%.

Parameters: We apply a WACC of 8.02%, a risk-free rate of 0.78% and a target equity ratio of 70%. The equity risk premium is 7.23% and the debt risk premium is 3.5%.

DCF model	PHASE 1			PHASE 2						PHASE 3	
	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E		2027E
Sales	108.0	119.9	130.7	141.1	151.0	160.1	168.1	174.8	180.0	183.6	
Y-o-Y growth	5.8%	11.0%	9.0%	8.0%	7.0%	6.0%	5.0%	4.0%	3.0%	2.0%	
EBIT	7.1	11.2	14.6	17.6	19.6	20.8	21.8	22.7	23.5	23.8	
EBIT margin	6.5%	9.3%	11.2%	12.4%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	
Income tax on EBIT	-1.8	-3.1	-4.1	-5.0	-5.7	-6.1	-6.4	-6.7	-7.0	-7.1	
Depreciation and amortisation	6.2	6.6	6.8	7.0	7.6	7.8	7.9	8.2	8.4	8.6	
Change in net working capital	-0.5	-3.4	-3.1	-3.0	-2.8	-2.6	-2.3	-1.9	-1.5	-1.0	
Net capital expenditure	-5.6	-6.2	-6.8	-7.3	-7.9	-7.8	-7.9	-8.2	-8.4	-8.6	
Free cash flow	5.4	5.1	7.5	9.2	10.8	12.1	13.1	14.1	15.0	15.6	
Present values	5.2	4.5	6.1	7.0	7.6	7.8	7.8	7.7	7.6	7.3	123.2
Present value Phase 1	15.8										
Present value Phase 2	52.7										
Present value Phase 3	123.2										
Total present value	191.7										
+ Excess cash/Non-operating assets	2.4										
- Financial debt	-41.0										
+ Minority interests	0.0										
Fair value of equity	153.1										
Number of shares (m)	22.3										
Fair value per share (in EUR)	6.88										

Risk free rate	0.78%	Target equity ratio	70%
Equity risk premium	7.23%	Beta	1.3
Debt risk premium	3.50%	WACC	8.02%
Tax shield (Phase 3)	30.0%	Terminal growth	2.00%

	Sensitivity analysis				
	Terminal growth rate				
	1.0%	1.5%	2.0%	2.5%	3.0%
7.02%	7.54	8.11	8.81	9.65	10.71
7.52%	6.73	7.20	7.75	8.42	9.23
WACC 8.02%	6.04	6.43	6.88	7.41	8.04
8.52%	5.45	5.77	6.13	6.56	7.07
9.02%	4.93	5.19	5.50	5.85	6.27

Source: Oddo BHF Securities

Our calculated target price of € 6.90 results in the target multiples:

Target multiples base on 2019e and 2020e estimates		
	2019e	2020e
EV/Sales	1.6	1.5
EV/EBITDA	10.8	8.9
EV/EBIT	17.1	13.1
P/E	21.2	15.9

Source: Company data, Oddo BHF Securities



SWOT ANALYSIS

Strengths

- Strong technological positioning in targeted markets (core competency: laser technology)
- Geographically well diversified with strong exposure to Asia
- Diverse product portfolio

Weaknesses

- Restructuring still ongoing
- New management will take time to settle into the job
- Some product lines exhibit a high exposure to a small number of customers
- Capital-intensive business (heavy fixed asset and inventory needs)
- High R&D requirements

Opportunities

- New products, especially in the Electronics business (LIDE)
- Successful turnaround measures
- New growth opportunities arising from new applications and new end markets

Threats

- Restructuring could fail
- Traditional laser players could move into LPKF's niches
- New and/substitute technologies could harm LPKF's business



LPKG.DE | LPK GY
Electronics | Germany

Neutral
Upside -10.62%

Price 7.72EUR
TP 6.90EUR

	12/13	12/14	12/15	12/16	12/17	12/18e	12/19e	12/20e
PER SHARE DATA (EUR)								
Adjusted EPS	1.41	0.38	-0.16	-0.40	0.05	0.19	0.32	0.43
Reported EPS	1.41	0.38	-0.16	-0.40	0.05	0.19	0.32	0.43
Growth in EPS(%)	5.1%	-72.9%	ns	ns	ns	ns	67.7%	33.6%
Net dividend per share	0.12	0.00	0.00	0.00	0.00	0.00	0.00	0.00
FCF to equity per share	0.00	0.33	0.12	-0.28	0.12	0.04	0.18	0.28
Book value per share	6.11	2.83	2.44	2.44	2.63	2.95	3.39	3.92
Number of shares market cap	11.13	22.27	22.27	22.27	22.27	22.27	22.27	22.27
Number of diluted shares	11.13	22.27	22.27	22.27	22.27	22.27	22.27	22.27
VALUATION								
12m highest price	18.92	20.80	13.53	10.64	10.68	10.46		
12m lowest price	7.88	9.86	7.14	5.41	6.95	6.13		
(*) Reference price	12.38	14.78	9.26	7.11	8.68	7.72	7.72	7.72
Capitalization	138	329	206	158	193	172	172	172
Restated Net debt	30.2	37.5	39.9	37.7	33.2	28.9	22.3	13.8
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	2.6	4.1	4.5	4.6	4.9	5.4	5.8	6.3
Enterprise Value	171	371	251	201	231	206	200	192
P/E (x)	8.8	38.6	ns	ns	168	39.9	23.8	17.8
P/CF (x)	5.9	20.1	56.1	ns	22.0	16.7	13.4	11.2
Net Yield (%)	1.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FCF yield (%)	0.0%	2.2%	1.3%	ns	1.4%	0.6%	2.3%	3.6%
P/B incl. GW (x)	2.03	5.22	3.79	2.92	3.30	2.61	2.28	1.97
P/B excl. GW (x)	2.03	5.22	3.79	2.92	3.30	2.61	2.28	1.97
EV/Sales (x)	1.32	3.10	2.87	2.20	2.27	1.91	1.67	1.47
EV/EBITDA (x)	5.5	18.0	73.0	154	19.9	15.5	11.2	9.0
EV/EBIT (x)	7.3	29.2	ns	ns	58.5	29.2	17.9	13.1
(*) historical average price								
PROFIT AND LOSS (EURm)								
Sales	130	120	87	91	102	108	120	131
EBITDA	31.0	20.6	3.4	1.3	11.6	13.3	17.8	21.4
Depreciations	-7.8	-7.9	-7.2	-8.1	-7.7	-6.2	-6.6	-6.8
Current EBIT	23.2	12.7	-3.7	-6.8	4.0	7.1	11.2	14.6
Published EBIT	23.2	12.7	-3.7	-6.8	4.0	7.1	11.2	14.6
Net financial income	-0.7	-0.8	-0.7	-0.8	-0.9	-0.9	-0.9	-0.8
Corporate Tax	-6.8	-3.4	0.9	-1.2	-1.9	-1.8	-3.1	-4.1
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	15.7	8.5	-3.5	-8.8	1.2	4.3	7.2	9.7
Adjusted attributable net profit	15.7	8.5	-3.5	-8.8	1.2	4.3	7.2	9.7
BALANCE SHEET (EURm)								
Goodwill	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other intangible assets	8.5	13.5	15.2	15.4	15.4	15.5	15.9	16.5
Tangible fixed assets	47.1	50.8	48.4	46.6	45.9	45.4	45.0	44.8
WCR	45.0	39.9	34.9	34.4	35.1	39.0	42.5	45.9
Financial assets								
Ordinary shareholders equity	68.1	63.0	54.3	54.2	58.5	65.8	75.4	87.2
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shareholders equity	68.1	63.0	54.3	54.2	58.5	65.8	75.4	87.2
Non-current provisions	2.6	4.1	4.5	4.6	4.9	5.4	5.8	6.3
Net debt	30.2	37.5	39.9	37.7	33.2	28.9	22.3	13.8
CASH FLOW STATEMENT (EURm)								
EBITDA	31.0	20.6	3.4	1.3	11.6	13.3	17.8	21.4
Change in WCR	-10.1	6.5	5.6	0.6	-0.5	-3.4	-3.1	-3.0
Interests & taxes	-7.5	-4.2	0.2	-2.1	-2.8	-2.8	-4.0	-5.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Operating Cash flow	13.4	22.9	9.3	-0.2	8.3	7.2	10.8	13.5
CAPEX	-7.0	-15.6	-6.6	-6.0	-5.6	-6.2	-6.8	-7.3
Free cash-flow	6.5	7.4	2.7	-6.2	2.7	1.0	4.0	6.2
Acquisitions / disposals	-0.2	-0.1	0.1	0.1	0.0	0.0	0.0	0.0
Dividends	-1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net capital increase	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	5.5	-7.5	-5.2	8.3	1.3	2.7	1.7	1.8
Change in net debt	10.2	-7.4	-2.4	2.2	4.0	3.7	5.7	8.0
GROWTH MARGINS PRODUCTIVITY								
Sales growth	12.7%	-7.6%	-27.1%	4.4%	12.0%	5.8%	11.0%	9.0%
Lfl sales growth								
Current EBIT growth	14.1%	-45.5%	ns	ns	ns	78.9%	58.4%	30.6%
Growth in EPS(%)	5.1%	-72.9%	ns	ns	ns	ns	67.7%	33.6%
Net margin	12.1%	7.1%	-4.0%	-9.7%	1.1%	4.0%	6.0%	7.4%
EBITDA margin	23.9%	17.2%	3.9%	1.4%	11.4%	12.3%	14.8%	16.4%
Current EBIT margin	17.9%	10.6%	-4.3%	-7.4%	3.9%	6.5%	9.3%	11.2%
CAPEX / Sales	-5.4%	-13.0%	-7.5%	-6.6%	-5.5%	-5.8%	-5.7%	-5.6%
WCR / Sales	34.7%	33.3%	40.0%	37.7%	34.4%	36.1%	35.4%	35.1%
Tax Rate	30.2%	28.6%	20.8%	-16.4%	61.8%	30.0%	30.0%	30.0%
Normative tax rate	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
Asset Turnover	1.3	1.2	0.9	0.9	1.1	1.1	1.2	1.2
ROCE post-tax (normative tax rate)	16.5%	8.7%	-2.6%	-4.8%	2.9%	5.0%	7.7%	9.7%
ROCE post-tax hors GW (normative tax rate)	16.5%	8.7%	-2.6%	-4.9%	2.9%	5.0%	7.7%	9.7%
ROE	25.6%	13.0%	-5.9%	-16.3%	2.0%	6.9%	10.2%	11.9%
DEBT RATIOS								
Gearing	44%	60%	73%	69%	57%	44%	30%	16%
Net Debt / Market Cap	0.22	0.11	0.19	0.24	0.17	0.17	0.13	0.08
Net debt / EBITDA	0.97	1.82	ns	ns	2.85	2.17	1.25	0.65
EBITDA / net financial charges	42.2	27.4	5.1	1.6	12.4	14.6	20.6	26.1

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.oddobhf.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
09.07.18	Neutral	6.90	7.47	Felix Lutz

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.oddobhf.com

Recommendation split

		Buy	Neutral	Reduce
Our whole coverage	(459)	49%	41%	10%
Liquidity providers coverage	(155)	45%	50%	5%
Research service coverage	(57)	51%	42%	7%
Investment banking services	(40)	70%	28%	3%

Risk of conflict of interest:

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