

LPKF Laser & Electronics AG

Neutral → | Target 7.00 € vs 7.20 € ↘

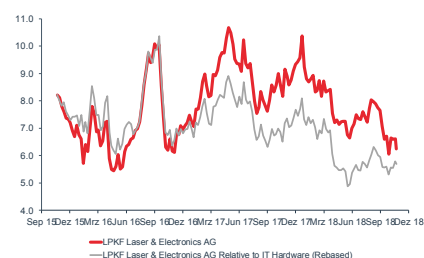
Price (20/11/2018) : 6.25 € | Upside : 12%

Revision	2018e	2019e
EPS	-10.6%	2.2%

Promising product rollouts; estimates adjusted; Neutral rating maintained, new TP of € 7.00 (€ 7.20)

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Sources : Oddo BHF Securities, SIX

Capital

LPK GY LPKG.DE	
Market Cap (€m)	148
Enterprise value (€m)	163
Extrema 12 months (€)	6.05 - 10.46
Free Float (%)	ns

Performance (%)	1m	3m	12m
Absolute	-6.9	-14.7	-25.6
Perf. rel. Country Index	-4.2	-6.9	-18.1
Perf. rel. IT Hardware	1.6	1.4	-14.2

P&L

	12/18e	12/19e	12/20e
Sales (€m)	116	124	135
EBITDA (€m)	14.8	19.9	23.5
Current EBIT (€m)	7.1	12.1	15.3
Attr. net profit (€m)	4.3	8.1	10.5
Adjusted EPS (€)	0.18	0.33	0.43
Dividend (€)	0.00	0.00	0.00

P/E (x)	35.3	18.8	14.6
P/B (x)	1.8	1.6	1.4
Dividend Yield (%)	0.0	0.0	0.0
FCF yield (%)	1.5	3.2	4.8
EV/Sales (x)	1.47	1.31	1.14
EV/EBITDA (x)	11.5	8.2	6.5
EV/Current EBIT (x)	24.0	13.5	10.0
Gearing (%)	14	4	-5
Net Debt/EBITDA (x)	0.8	0.2	ns

Next Events

26-03-2019	FY Results
27-03-2019	Analysts' meeting
14-05-2019	Q1 Results
15-08-2019	Q2 Results

Final Q3 18 revenue in line with prelim. figure, EBIT above our estimate

LPKF reported its final Q3 2018 results on 15 Nov. Revenues were up +10.5% yoy to € 29.3m, in line with the prelim. figure (11 Oct). EBIT was basically flat at € 2.7m (Q3 2017 € 2.8m) but beat our estimate of € 2.3m.

9M 2018 results: incoming orders were up +14% yoy to € 103.9m and orders on hand were also up 14% yoy to € 54.4m, continuing the positive trend of Q1 and Q2. 9M 2018 revenues rose +22.8% yoy to € 87.7m and EBIT came in at € 5m (9M 2017 EBIT of € 0.1m), translating into a 9M 2018 EBIT margin of 5.6%, close to the full-year guidance. 9M 18 EPS stood at € 0.17 vs € -0.02 in 9M 2017.

Viewing the individual segments, Solar showed a threefold sales increase to € 32.5m (9M 17: € 9.8m) with EBIT of € 7.5m (9M 17: € -0.9m). Development revenue came in as expected at € 18m with EBIT of € 3.6m (9M 17: € 3.8m). Electronics revenue was € 22m with EBIT of € -0.6m (9M 17: € 0.1m). Welding remained in the red as in 9M 2018 revenues decreased 22% yoy to € 15.2, resulting in an EBIT loss of € -1.6m (9M 17: € 0.5m).

2018 guidance achievable

Management confirmed its full-year 2018 outlook for consolidated sales of € 115-120m, a ROCE of 2-7%, and an EBIT margin of up to 6%. These targets are in line with our updated estimates, i.e. revenues of € 116m (old: € 113m) and EBIT margin of 6.1%, translating into EBIT of € 6.8m (old: € 7.8m). For 2020, management targets a ROCE of 10-15% (Oddo BHF: 10.2%).

Promising products presented at the electronica trade fair

Having visited LPKF at this year's electronica in Munich (November 13-16), the world's leading trade fair for electronics, we can confirm its leading position as a specialist producer of laser systems for micro material processing. In our view LPKF is in a good competitive situation to further participate in the continuing miniaturization trend of the industry with following offerings: i/ LPKF's "ProtoLaser U" produced in the development segment for the research lab; ii/ a new picosecond laser system for the industrial production and de-panelling of high-quality PCBs with almost no heat transfer; iii/ applications of the Laser Direct Structuring (LDS – already used for several years) for 3D Molded Interconnect Devices, which leads to much higher flexibility with the layout of circuit boards, and iv/ a very promising exhibition of the Laser Induced Deep Etching (LIDE) technology used for producing glass wafers or making other micro-shapes into thin glass. From LIDE we don't expect meaningful revenues before 2020e.

Adjusting our estimates for 2018e, EPS cut to € 0.18 (€ 0.20)

We have slightly raised our 2018e revenue estimate from € 113m to € 116m in view of the solid order intake performance in 9M 18. Our new EBIT estimate for 2018e comes down from € 7.8m to € 7.1m, translating into an EBIT margin of 6.1% (6.9%) as Welding and Electronics slightly missed our expectations in Q3. For 2019e we leave our estimates unchanged.

Neutral maintained, TP lowered to € 7.00 (€ 7.20) due to increased WACC

Our EPS estimates for 2018e to 2020e now stand at: € 0.18 (old: € 0.20, cons.: € 0.21), € 0.33 (no change, consensus: € 0.31) and € 0.43 (consensus: € 0.43) respectively. In line with multiple compression in the sector, we have also increased our WACC from 8.0% to 8.5%, leading to a DCF-based fair value per share of € 7.08. We set our new TP at € 7.0 (€ 7.20) and remain at Neutral. Our TP implies a target 2019e P/E ratio of 21.1x and 2020e of 16.4x. A major catalyst would be substantial improvement in the Electronics and Welding segments.

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Valuation

DCF valuation

	PHASE 1			PHASE 2						PHASE 3	
	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	
Sales	115.8	124.3	135.5	146.3	156.6	166.0	174.3	181.2	186.7	190.4	
Y-o-Y growth	13.5%	7.3%	9.0%	8.0%	7.0%	6.0%	5.0%	4.0%	3.0%	2.0%	
EBIT	7.1	12.1	15.3	18.1	20.3	21.6	22.7	23.6	24.3	24.7	
EBIT margin	6.1%	9.7%	11.3%	12.4%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	
Income tax on EBIT	-1.9	-3.5	-4.5	-5.3	-6.0	-6.5	-6.8	-7.1	-7.4	-7.5	
Depreciation and amortisation	7.7	7.8	8.2	8.4	9.0	10.0	10.5	10.9	11.2	11.4	
Change in net working capital	-2.7	-2.4	-3.2	-3.1	-2.9	-2.7	-2.3	-2.0	-1.5	-1.1	
Net capital expenditure	-5.8	-7.4	-7.8	-8.3	-9.2	-10.0	-10.5	-10.9	-11.2	-11.4	
Free cash flow	4.5	6.6	8.1	9.9	11.2	12.5	13.6	14.6	15.4	16.1	
Present values	4.4	6.0	6.7	7.6	7.9	8.1	8.1	8.0	7.7	7.4	115.8
Present value Phase 1	17.2										
Present value Phase 2	54.8										
Present value Phase 3	115.8										
Total present value	187.7										
+ Excess cash/Non-operating assets	7.6										
- Financial debt	-22.0										
+ Minority interests	0.0										
Fair value of equity	173.3										
Number of shares (m)	24.5										
Fair value per share (in EUR)	7.08										

Risk free rate	0.78%	Target equity ratio	80%
Equity risk premium	7.23%	Beta	1.3
Debt risk premium	3.50%	WACC	8.51%
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%
WACC	7.51%	7.63	8.08	8.62	9.26	10.05
	8.01%	6.97	7.35	7.78	8.30	8.91
	8.51%	6.41	6.72	7.08	7.49	7.99
	9.01%	5.91	6.17	6.47	6.82	7.22
	9.51%	5.48	5.70	5.95	6.24	6.57

Source: Company data, Oddo BHF Securities



LPK GY | LPKG.DE
Electronics | Germany

Neutral

Price 6.25EUR

Upside 12.00%

TP 7.00EUR

	12/13	12/14	12/15	12/16	12/17	12/18e	12/19e	12/20e
PER SHARE DATA (€)								
Adjusted EPS	0.71	0.38	-0.16	-0.40	0.05	0.18	0.33	0.43
Reported EPS	0.71	0.38	-0.16	-0.40	0.05	0.18	0.33	0.43
Growth in adjusted EPS	-47.4%	-45.8%	ns	ns	ns	ns	87.8%	28.4%
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	0.02	0.09	0.20	0.30
Book value per share	3.06	2.83	2.44	2.44	3.05	3.38	3.81	4.32
Number of shares market cap (m)	22.27	22.27	22.27	22.27	24.50	24.50	24.50	24.50
Number of diluted shares (m)	22.27	22.27	22.27	22.27	24.50	24.50	24.50	24.50
VALUATION (€m)								
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	6.05		
(*) Reference price (€)	12.38	14.78	9.26	7.11	8.68	6.25	6.25	6.25
Capitalization	276	329	206	158	213	153	153	153
Restated Net debt	30.2	37.5	39.9	37.7	17.9	11.8	4.1	-5.5
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	5.2	5.6	6.1	6.5
Enterprise Value	309	371	251	201	236	170	163	154
P/E (x)	17.5	38.6	ns	ns	185	35.3	18.8	14.6
P/CF (x)	11.7	20.1	56.1	ns	24.7	12.8	9.6	8.2
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	0.2%	1.5%	3.2%	4.8%
P/B incl. GW (x)	4.05	5.22	3.79	2.92	2.84	1.85	1.64	1.45
P/B excl. GW (x)	4.05	5.22	3.79	2.92	2.84	1.85	1.64	1.45
EV/Sales (x)	2.38	3.10	2.87	2.20	2.31	1.47	1.31	1.14
EV/EBITDA (x)	10.0	18.0	73.0	154	20.3	11.5	8.2	6.5
EV/Current EBIT (x)	13.3	29.2	ns	ns	59.6	24.0	13.5	10.0
(*) historical average price								
PROFIT AND LOSS (€m)								
Sales	130	120	87	91	102	116	124	135
EBITDA	31.0	20.6	3.4	1.3	11.6	14.8	19.9	23.5
Depreciations	-7.8	-7.9	-7.2	-8.1	-7.7	-7.7	-7.8	-8.2
Current EBIT	23.2	12.7	-3.7	-6.8	4.0	7.1	12.1	15.3
Published EBIT	23.2	12.7	-3.7	-6.8	4.0	7.1	12.1	15.3
Net financial income	-0.7	-0.8	-0.7	-0.8	-0.9	-0.9	-0.5	-0.4
Corporate Tax	-6.8	-3.4	0.9	-1.2	-1.9	-1.9	-3.5	-4.5
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	15.7	8.5	-3.5	-8.8	1.2	4.3	8.1	10.5
Adjusted attributable net profit	15.7	8.5	-3.5	-8.8	1.2	4.3	8.1	10.5
BALANCE SHEET (€m)								
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	14.1	13.8	13.7	13.9
Tangible fixed assets	47.1	50.8	48.4	46.6	46.0	45.8	45.6	45.2
WCR	45.0	39.9	34.9	34.4	37.6	40.4	44.0	47.6
Financial assets								
Ordinary shareholders equity	68.1	63.0	54.3	54.2	74.8	82.9	93.4	106
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	74.8	82.9	93.4	106
Non-current provisions	2.6	4.1	4.5	4.6	5.2	5.6	6.1	6.5
Net debt	30.2	37.5	39.9	37.7	17.9	11.8	4.1	-5.5
CASH FLOW STATEMENT (€m)								
EBITDA	31.0	20.6	3.4	1.3	11.6	14.8	19.9	23.5
Change in WCR	-10.1	6.5	5.6	0.6	-2.7	-2.4	-3.2	-3.1
Interests & taxes	-7.5	-4.2	0.2	-2.1	-2.8	-2.8	-4.0	-4.9
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	6.1	9.6	12.7	15.6
CAPEX	-7.0	-15.6	-6.6	-6.0	-5.8	-7.4	-7.8	-8.3
Free cash-flow	6.5	7.4	2.7	-6.2	0.4	2.2	4.9	7.3
Acquisitions / disposals	-0.2	-0.1	0.1	0.1	0.0	0.0	0.0	0.0
Dividends	-2.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net capital increase	0.0	0.0	0.0	16.2	0.0	0.0	0.0	0.0
Others	6.8	-7.5	-5.2	-26.9	18.6	4.1	3.3	2.3
Change in net cash	10.2	-7.4	-2.4	2.2	19.0	6.4	8.2	9.6
GROWTH MARGINS PRODUCTIVITY								
Sales growth	12.7%	-7.6%	-27.1%	4.4%	12.0%	13.5%	7.3%	9.0%
Lfl sales growth								
Current EBIT growth	14.1%	-45.5%	ns	ns	ns	79.8%	70.3%	26.8%
Growth in adjusted EPS	-47.4%	-45.8%	ns	ns	ns	ns	87.8%	28.4%
Net margin	12.1%	7.1%	-4.0%	-9.7%	1.1%	3.7%	6.6%	7.7%
EBITDA margin	23.9%	17.2%	3.9%	1.4%	11.4%	12.8%	16.0%	17.4%
Current EBIT margin	17.9%	10.6%	-4.3%	-7.4%	3.9%	6.1%	9.7%	11.3%
CAPEX / Sales	-5.4%	-13.0%	-7.5%	-6.6%	-5.6%	-6.4%	-6.3%	-6.1%
WCR / Sales	34.7%	33.3%	40.0%	37.7%	36.9%	34.9%	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	1.2	1.2	1.3
ROCE post-tax (normative tax rate)	16.5%	8.7%	-2.6%	-4.8%	2.8%	5.0%	8.3%	10.2%
ROCE post-tax hors GW (normative tax rate)	16.5%	8.7%	-2.6%	-4.9%	2.9%	5.0%	8.3%	10.2%
ROE	25.6%	13.0%	-5.9%	-16.3%	1.8%	5.5%	9.2%	10.5%
DEBT RATIOS								
Gearing	44%	60%	73%	69%	24%	14%	4%	-5%
Net Debt / Market Cap	0.11	0.11	0.19	0.24	0.08	0.08	0.03	-0.04
Net debt / EBITDA	0.97	1.82	ns	ns	1.54	0.80	0.20	ns
EBITDA / net financial charges	42.2	27.4	5.1	1.6	12.4	16.2	42.7	58.3

Source: ODDO BHF Securities, SIX



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).

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).

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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
20-11-18	Neutral	7.00	6.25	==VLOOKUP(RC[-5],RunHist
22-08-18	Neutral	7.20	7.65	==VLOOKUP(RC[-5],RunHist
11-07-18	Neutral	6.90	7.80	==VLOOKUP(RC[-5],RunHist

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Recommendation split				
		Buy	Neutral	Reduce
Our whole coverage	(473)	52%	40%	8%
Liquidity providers coverage	(98)	56%	40%	4%
Research service coverage	(60)	58%	37%	5%
Investment banking services	(37)	68%	27%	5%

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