

Preview Note

6 April 2017

Buy

Recommendation unchanged

Share price: EUR 7.30

closing price as of 04/04/2017

Target price: EUR 13.00

Target Price unchanged

Upside/Downside Potential 78.1%

Reuters/Bloomberg EUCG.DE/EUCA.GY

Market capitalisation (EURm) 52

Current N° of shares (m) 7

Free float 100%

Daily avg. no. trad. sh. 12 mth 9

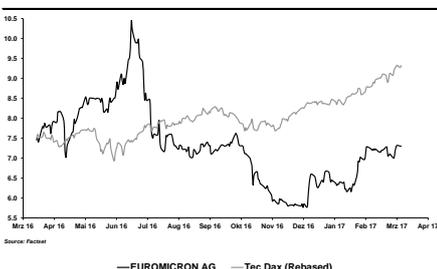
Daily avg. trad. vol. 12 mth (m) 51.47

Price high/low 12 months 5.76 / 10.44

Abs Perfs 1/3/12 mths (%) 0.39/14.94/8.63

Key financials (EUR)	12/16	12/17e	12/18e
Sales (m)	325	340	352
EBITDA (m)	7	13	16
EBITDA margin	2.3%	3.8%	4.6%
EBIT (m)	(2)	4	7
EBIT margin	nm	1.0%	2.0%
Net Profit (adj.)(m)	(10)	(1)	2
ROCE	3.1%	1.8%	3.2%
Net debt/(cash) (m)	66	74	71
Net Debt Equity	0.8	0.9	0.8
Net Debt/EBITDA	8.9	5.7	4.3
Int. cover(EBITDA/Fin.int)	1.4	(204.5)	(163.2)
EV/Sales	0.4	0.4	0.4
EV/EBITDA	16.3	10.8	8.4
EV/EBITDA (adj.)	10.1	10.8	8.4
EV/EBIT	nm	39.4	19.4
P/E (adj.)	nm	nm	29.2
P/BV	0.5	0.6	0.6
OpFCF yield	20.6%	-14.3%	5.3%
Dividend yield	0.0%	0.0%	8.2%
EPS (adj.)	(1.32)	(0.11)	0.25
BVPS	11.41	11.30	11.55
DPS	0.00	0.00	0.60

Shareholders



Analyst(s)

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Euromicron well on track to improve profitability

The facts: After euromicron reported Q4 2016 results and released its guidance for 2017 on March 29, we revised our estimates.

Our analysis: Q4 revenues came in at EUR 98.7m (-3.4% yoy), somewhat below our estimate and -12% below consensus. Operating EBITDA increased +46% yoy, 13% above our estimate and well above consensus (+37%), which was too pessimistic here (table on page 2).

Regarding full year figures for 2016, revenues came in at EUR 325.3m and thus at the lower end of the guided range of between EUR 330m and EUR 350m. This was in line with our estimate and 4% below consensus which was a little too optimistic here. However, revenue growth is not a strategic KPI – focus should be on margin improvement which significantly improved in Q4. As a reminder, in 2016 sales were burdened by the decision to avoid risky major projects. The projected revenues from those major projects could not be compensated through the realignment of sales and marketing. Also, work required to complete old projects, without generating margins had a negative effect on sales and earnings. However, those old projects had largely been concluded in 2016. More capacities are freed up now to start new projects with higher margins.

The operating EBITDA margin for 2016 came in at 4% and thus at the upper end of the guided range of between 2% and 4%. This was above our estimate (3.6%) and well above consensus (3%).

For FY 2017, euromicron guided revenues of between EUR 330m and EUR 350m – so midpoint guidance is slightly below our estimate (-2.9%) and consensus (-4.2%). Also, an operating EBITDA margin of between 4% and 5% was released which is in line with our forecast (4.3%) and consensus (4.1%). Thereafter, the operating EBITDA margin is guided to be increased continuously by one percentage point p.a. until the target corridor of 8% to 11% is reached.

Conclusion & Action: Overall, Q4 figures were positive, especially regarding EBITDA, which significantly improved and was well above consensus. We continue to see significant improvements ahead and assume profitability will return to desired levels in the mid-term due to the on-going networking megatrend and IoT roll-outs. Also quite positive is the sale of the Telecommunication segment which confirms the consistent alignment of euromicron on its new core business and which will have a positive effect on margins. Moreover, the completion of old projects will also have positive effect on earnings. The reorganization process is now largely completed.

We revised our estimates in accordance with the company's guidance. However, regarding margin improvement, we are even more conservative as outlined below. Nonetheless, due to the rolling of our DCF model we keep our target price of EUR 13.00, and reiterate our Buy recommendation.



euromicron AG - Q4 2016

EUR m	Q4 2016	Q4 2015	yoy	equinet	delta	Consensus	delta
Revenues	98.7	102.2	-3.4%	105.4	-6%	112.4	-12%
EBITDA*	11.8	8.0	46%	10.4	13%	8.6	37%
EBITDA margin	11.9%	7.9%	406 BP	9.8%	209 BP	7.7%	427 BP
Net income	-2.8	-5.6	n.m.	3.0	n.m.	3.2	n.m.

*adjusted for special effects of the reorganization

Source: euromicron AG, equinet Research

Model changes

Due to the new guidance, we revised our model assumptions as outlined in the table below. For 2017 we are in line with the midpoint guidance for sales (EUR 340m; 4.5% yoy). Going forward, in 2018 we assume revenue growth of 3.5% yoy and 3% in 2019. Thereafter, revenue growth is fading towards 2% which we view as conservative. Regarding EBITDA, we are also in line with the midpoint guidance (reorganization costs are expected to have an EBITDA impact of midpoint EUR 2.5m in 2017). However, as we like to forecast conservatively, going forward, we assume an EBITDA margin improvement of 0.8 percentage points p.a. in contrast to the guided 1 percentage point until an EBITDA margin of 9.5% is reached (guided target corridor: 8% to 11%).

Model changes

EUR m	2017 old	new	2018 old	new	2019 old	new
Sales	350.0	340.0	362.3	351.9	373.1	362.5
Change		-2.9%		-2.9%		-2.9%
EBITDA	15.0	12.9	17.8	16.3	23.2	19.5
Change		-13.9%		-8.4%		-15.6%
EPS	0.26	-0.11	0.53	0.25	1.06	0.58
Change		n.m.		-52.5%		-45.3%

Source: equinet Research

Discounted Cash Flow model

EUR m	Phase I					Phase II					Phase III
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Sales	340.0	351.9	362.5	371.5	380.8	390.3	400.1	410.1	420.3	430.8	439.5
<i>Sales growth</i>	4.5%	3.5%	3.0%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.0%
EBIT	3.5	7.1	10.3	14.3	17.7	21.5	25.4	27.0	28.6	30.3	32.2
<i>EBIT margin</i>	10%	2.0%	2.9%	3.9%	4.6%	5.5%	6.4%	6.6%	6.8%	7.0%	7.3%
Normative tax rate EBIT	(1.1)	(2.1)	(3.1)	(4.3)	(5.3)	(6.4)	(7.6)	(8.1)	(8.6)	(9.1)	(9.7)
<i>Tax rate</i>	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
NOPAT	2.5	4.9	7.2	10.0	12.4	15.0	17.8	18.9	20.0	21.2	22.6
Depreciation	9.4	9.2	9.2	8.9	8.8	8.8	8.9	8.9	9.1	9.2	9.4
<i>in % of Sales</i>	2.8%	2.6%	2.5%	2.4%	2.3%	2.3%	2.2%	2.2%	2.2%	2.1%	2.1%
Capex	(8.5)	(8.8)	(9.1)	(8.4)	(8.6)	(8.8)	(9.0)	(9.2)	(9.5)	(9.7)	(9.4)
<i>in % of Sales</i>	2.5%	2.5%	2.5%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%	2.1%
Provision delta	0.3	0.3	0.3	0.2	0.1						
<i>in % of Sales</i>	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.0%
Change in working capital	(1.9)	(1.5)	(1.3)	(1.2)	(1.2)	(1.2)	(1.2)	(1.3)	(1.3)	(1.3)	0.3
<i>in % of Sales</i>	-0.5%	-0.4%	-0.4%	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%	0.1%
Other current assets delta	0.1	0.1	0.1	0.0	(0.0)						
<i>in % of Sales</i>	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Free Cash Flow	1.9	4.3	6.4	9.7	11.7	14.1	16.7	17.6	18.6	19.6	23.0
<i>FCF growth</i>	nm	nm	50.3%	49.9%	21.0%	20.7%	8.1%	5.7%	5.6%	5.6%	17.1%
Present Value FCF	1.7	3.6	4.9	6.6	7.2	7.9	8.4	8.0	7.7	7.3	99.3

PV Phase I	24.1	MCap	68.2	Targ. equity ratio	80.0%
PV Phase II	39.4	Risk premium	5.00%	Beta	1.70
PV Phase III	99.3	Risk free rate	3.50%	WACC	10.65%

Total present value	162.7							
+ capital increase/share buy back	0.0							
+ associates & other financial assets	0.8							
- market value of minorities	1.9							
+ cash and liquid assets	12.4							
- interest bearing debt**	81.0							
Implied Mcap	93.1							
Number of shares	7.2							
Implied value per share	12.97							
		Sensitivity	Growth rate Phase III					
		Analysis	1.0%	1.5%	2.0%	2.5%	3.0%	
			10.12%	13.15	13.95	14.84	15.86	17.02
			10.38%	12.32	13.05	13.87	14.80	15.85
		WACC	10.65%	11.53	12.21	12.97	13.82	14.78
			10.92%	10.79	11.42	12.12	12.90	13.77
			11.18%	10.10	10.68	11.32	12.03	12.84

*) relative to sales and not total output; **) including pension provisions

Source: equinet Bank AG

Euromicron AG : Summary tables

PROFIT & LOSS (EURm)	12/2013	12/2014	12/2015	12/2016	12/2017e	12/2018e
Sales	326	346	345	325	340	352
Cost of Sales & Operating Costs	-311	-321	-333	-313	-327	-336
Non Recurrent Expenses/Income	-5.5	-4.5	-4.5	-4.5	0.0	0.0
EBITDA	8.7	21.1	6.9	7.4	12.9	16.3
EBITDA (adj.)*	14.2	25.6	11.4	11.9	12.9	16.3
Depreciation	-3.5	-3.3	-3.6	-4.9	-4.7	-4.6
EBITA	5.2	17.8	3.3	2.5	8.2	11.7
EBITA (adj)*	10.7	22.3	7.8	7.0	8.2	11.7
Amortisations and Write Downs	-5.4	-6.4	-6.7	-4.8	-4.7	-4.6
<i>of which PPA amortisation</i>	<i>-2.0</i>	<i>-1.5</i>	<i>-1.2</i>	<i>-1.2</i>	<i>-1.2</i>	<i>-1.2</i>
EBIT	-0.2	11.4	-3.3	-2.3	3.5	7.1
EBIT (adj.)*	7.3	17.4	2.4	3.4	4.7	8.3
Net Financial Interest	-3.8	-3.7	-3.7	-5.3	0.1	0.1
Other Financials	0.0	0.0	0.0	0.0	0.0	0.0
Associates	0.0	0.0	0.0	0.0	0.0	0.0
Other Non Recurrent Items	0.0	-0.3	-0.3	-0.1	-4.4	-4.2
Earnings Before Tax (EBT)	-4.0	7.5	-7.4	-7.6	-0.8	3.0
Tax	-2.4	-4.9	-0.4	-4.8	0.2	-0.9
<i>Tax rate</i>	<i>n.m.</i>	<i>65.9%</i>	<i>n.m.</i>	<i>n.m.</i>	<i>30.0%</i>	<i>30.0%</i>
Discontinued Operations	0.0	0.0	0.0	0.0	0.0	0.0
Minorities	-0.1	-0.3	-0.1	-0.2	-0.2	-0.3
Net Profit (reported)	-6.5	2.3	-7.9	-12.7	-0.8	1.8
Net Profit (adj.)	-2.7	5.4	-4.8	-9.5	-0.8	1.8
CASH FLOW (EURm)	12/2013	12/2014	12/2015	12/2016	12/2017e	12/2018e
Cash Flow from Operations before change in NWC	4.4	11.1	-4.5	-3.4	2.9	13.1
Change in Net Working Capital	15.6	-11.7	4.4	20.8	-1.9	-1.5
Cash Flow from Operations	20.0	-0.6	-0.1	17.4	1.0	11.6
Capex	-6.4	-6.4	-8.1	-8.7	-8.5	-8.8
Net Financial Investments	-10.6	0.0	5.2	-0.2	0.0	0.0
Free Cash Flow	3.1	-7.0	-3.0	8.5	-7.5	2.8
Dividends	-2.0	0.0	0.0	0.0	0.0	0.0
Other (incl. Capital Increase & share buy backs)	10.7	-3.1	2.6	2.1	-0.2	-0.1
Change in Net Debt	11.7	-10.0	-0.4	10.6	-7.7	2.7
NOPLAT	5.1	12.2	1.7	5.6	3.3	5.8
BALANCE SHEET & OTHER ITEMS (EURm)	12/2013	12/2014	12/2015	12/2016	12/2017e	12/2018e
Net Tangible Assets	14.5	14.1	15.3	15.6	15.1	14.9
Net Intangible Assets (incl. Goodwill)	137	134	126	125	124	124
Net Financial Assets & Other	1.1	1.0	0.8	0.5	0.5	0.5
Total Fixed Assets	153	149	142	141	140	139
Inventories	28.0	29.0	30.8	29.1	30.4	31.4
Trade receivables	85.6	85.8	80.7	58.9	61.5	63.7
Other current assets	8.9	4.7	3.9	3.5	3.9	4.3
Cash (-)	-41.3	-18.6	-13.6	-12.4	-4.7	-7.4
Total Current Assets	164	138	129	104	100	107
Total Assets	316	287	271	245	240	246
Shareholders Equity	111	110	96.6	81.9	81.1	82.9
Minority	0.4	0.4	0.4	0.5	0.7	1.0
Total Equity	111	110	97.0	82.4	81.8	83.9
Long term interest bearing debt	40.1	45.7	21.0	38.5	38.5	38.5
Provisions	13.1	12.2	10.7	10.3	4.6	6.6
Other long term liabilities	5.8	1.4	1.4	4.8	4.8	4.8
Total Long Term Liabilities	59.0	59.3	33.1	53.6	47.8	49.9
Short term interest bearing debt	67.2	49.0	69.1	39.8	39.8	39.8
Trade payables	55.1	44.2	47.6	44.8	46.9	48.5
Other current liabilities	24.0	24.5	24.0	24.0	24.1	24.1
Total Current Liabilities	146	118	141	109	111	112
Total Liabilities and Shareholders' Equity	316	287	271	245	240	246
Net Capital Employed	196	200	186	163	165	166
Net Working Capital	54.9	66.6	62.2	41.4	43.3	44.8
GROWTH & MARGINS	12/2013	12/2014	12/2015	12/2016	12/2017e	12/2018e
<i>Sales growth</i>	<i>-1.3%</i>	<i>6.3%</i>	<i>-0.4%</i>	<i>-5.7%</i>	<i>4.5%</i>	<i>3.5%</i>
EBITDA (adj.)* growth	-51.9%	80.6%	-55.5%	4.0%	8.7%	26.3%
<i>EBITA (adj.)* growth</i>	<i>-59.5%</i>	<i>109.2%</i>	<i>-64.9%</i>	<i>-10.3%</i>	<i>16.7%</i>	<i>42.4%</i>
<i>EBIT (adj)*growth</i>	<i>-69.0%</i>	<i>138.9%</i>	<i>-86.3%</i>	<i>44.1%</i>	<i>37.8%</i>	<i>74.7%</i>



Euromicron AG : Summary tables

GROWTH & MARGINS	12/2013	12/2014	12/2015	12/2016	12/2017e	12/2018e
Net Profit growth	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
EPS adj. growth	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
DPS adj. growth	n.m.					n.m.
EBITDA (adj)* margin	4.4%	7.4%	3.3%	3.7%	3.8%	4.6%
EBITA (adj)* margin	3.3%	6.4%	2.3%	2.2%	2.4%	3.3%
EBIT (adj)* margin	2.2%	5.0%	0.7%	1.1%	1.4%	2.4%
RATIOS	12/2013	12/2014	12/2015	12/2016	12/2017e	12/2018e
Net Debt/Equity	0.6	0.7	0.8	0.8	0.9	0.8
Net Debt/EBITDA	7.6	3.6	11.1	8.9	5.7	4.3
Interest cover (EBITDA/Fin.interest)	2.3	5.7	1.9	1.4	n.m.	n.m.
Capex/D&A	71.7%	66.1%	79.1%	90.3%	90.6%	95.2%
Capex/Sales	2.0%	1.9%	2.3%	2.7%	2.5%	2.5%
NWC/Sales	16.9%	19.2%	18.0%	12.7%	12.7%	12.7%
ROE (average)	-2.4%	4.9%	-4.6%	-10.6%	-0.9%	2.2%
ROCE (adj.)	2.5%	5.7%	0.8%	3.1%	1.8%	3.2%
WACC	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%
ROCE (adj.)/WACC	0.2	0.5	0.1	0.3	0.2	0.3
PER SHARE DATA (EUR)***	12/2013	12/2014	12/2015	12/2016	12/2017e	12/2018e
Average diluted number of shares	7.2	7.2	7.2	7.2	7.2	7.2
EPS (reported)	-0.91	0.32	-1.10	-1.76	-0.11	0.25
EPS (adj.)	-0.37	0.76	-0.66	-1.32	-0.11	0.25
BVPS	15.44	15.33	13.47	11.41	11.30	11.55
DPS	0.00	0.00	0.00	0.00	0.00	0.60
VALUATION	12/2013	12/2014	12/2015	12/2016	12/2017e	12/2018e
EV/Sales	0.6	0.5	0.4	0.4	0.4	0.4
EV/EBITDA	20.7	8.1	20.6	16.3	10.8	8.4
EV/EBITDA (adj.)*	12.7	6.7	12.5	10.1	10.8	8.4
EV/EBITA	34.9	9.6	42.7	47.7	17.0	11.7
EV/EBITA (adj.)*	16.9	7.7	18.2	17.2	17.0	11.7
EV/EBIT	n.m.	14.9	n.m.	n.m.	39.4	19.4
EV/EBIT (adj.)*	24.7	9.8	59.8	35.1	29.4	16.6
P/E (adj.)	n.m.	15.1	n.m.	n.m.	n.m.	29.2
P/BV	0.9	0.7	0.6	0.5	0.6	0.6
Total Yield Ratio	0.0%	0.0%	0.0%	0.0%	0.0%	8.2%
EV/CE	0.9	0.8	0.7	0.7	0.8	0.7
OpFCF yield	13.2%	-8.6%	-15.1%	20.6%	-14.3%	5.3%
OpFCF/EV	7.6%	-4.1%	-5.8%	7.2%	-5.4%	2.0%
Payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%	n.m.
Dividend yield (gross)	0.0%	0.0%	0.0%	0.0%	0.0%	8.2%
EV AND MKT CAP (EURm)	12/2013	12/2014	12/2015	12/2016	12/2017e	12/2018e
Price** (EUR)	14.35	11.39	7.57	5.85	7.30	7.30
Outstanding number of shares for main stock	7.2	7.2	7.2	7.2	7.2	7.2
Total Market Cap	103	82	54	42	52	52
Net Debt	66	76	77	66	74	71
<i>o/w Cash & Marketable Securities (-)</i>	<i>-41</i>	<i>-19</i>	<i>-14</i>	<i>-12</i>	<i>-5</i>	<i>-7</i>
<i>o/w Gross Debt (+)</i>	<i>107</i>	<i>95</i>	<i>90</i>	<i>78</i>	<i>78</i>	<i>78</i>
Other EV components	11	13	12	13	13	14
Enterprise Value (EV adj.)	180	171	143	121	139	137

Source: Company, equinet Bank estimates.

Notes

* Where EBITDA (adj.) or EBITA (adj.) = EBITDA (or EBITA) -/+ Non Recurrent Expenses/Income and where EBIT (adj.) = EBIT -/+ Non Recurrent Expenses/Income - PPA amortisation

**Price (in local currency): Fiscal year end price for Historical Years and Current Price for current and forecasted years

Sector: Electronic & Electrical Equipment/Electrical Components & Equipment

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Remarks

Recommendation System

Buy - The stock is expected to generate a total return of over 20% during the next 12 months time horizon.

Accumulate - The stock is expected to generate a total return of 10% to 20% during the next 12 months time horizon.

Hold - The stock is expected to generate a total return of 0% to 10% during the next 12 months time horizon

Reduce - The stock is expected to generate a total return of 0 to -10% during the next 12 months time horizon

Sell - The stock is expected to generate a total return below -10% during the next 12 months time horizon

Basis of Valuation

Equinet Bank uses for valuation purposes primarily DCF-Valuations and Sum-Of-The-Parts-Valuations as well as peer group comparisons.

Share prices

Share prices in this analysis are the German closing prices of the last trading day before the publication.

Sources

Equinet Bank has made any effort to carefully research all information contained in the analysis. The information on which the analysis is based has been obtained from sources which we believe to be reliable such as, for example, Reuters, Bloomberg and the relevant press as well as the company which is the subject of the analysis. Only that part of the research note is made available to the issuer, who is the subject of the analysis, which is necessary to properly reconcile with the facts. Should this result in considerable changes a reference is made in the research note.

Actualizations

Opinions expressed in this analysis are our current opinions as of the issuing date indicated on this document. We do not commit ourselves in advance to whether and in which intervals updates are made.

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Bundesanstalt für Finanzdienstleistungsaufsicht
-BaFin- (Federal Financial Supervisory Authority)
Graurheindorfer Straße 108, 53117 Bonn and
Marie-Curie-Str. 24-28, 60439 Frankfurt am Main



Recommendation history for EUROMICRON AG

Date	Recommendation	Target price	Price at change date
06. Apr 17	Buy	13.00	7.30
06. Aug 15	Buy	14.00	8.72
24. Mrz 15	Rating Suspended	19.00	10.80

Source: Factset & ESN, price data adjusted for stock splits.
 This chart shows equinet Bank continuing coverage of this stock; the current analyst may or may not have covered it over the entire period. Current analyst: Sebastian Droste (since 28/04/2010)



ESN Recommendation System

The ESN Recommendation System is **Absolute**. It means that each stock is rated on the basis of a **total return**, measured by the upside potential (including dividends and capital reimbursement) over a **12 month time horizon**.



The ESN spectrum of recommendations (or ratings) for each stock comprises 5 categories: **Buy (B)**, **Accumulate (A)**, **Neutral (N)**, **Reduce (R)** and **Sell (S)**.

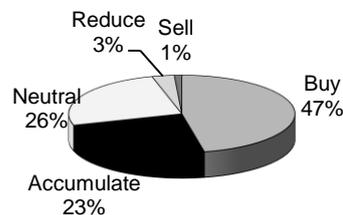
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Meaning of each recommendation or rating:

- **Buy:** the stock is expected to generate total return of **over 15%** during the next 12 months time horizon
- **Accumulate:** the stock is expected to generate total return of **5% to 15%** during the next 12 months time horizon
- **Neutral:** the stock is expected to generate total return of **-5% to +5%** during the next 12 months time horizon
- **Reduce:** the stock is expected to generate total return of **-5% to -15%** during the next 12 months time horizon
- **Sell:** the stock is expected to generate total return **under -15%** during the next 12 months time horizon
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Certain flexibility on the limits of total return bands is permitted especially during higher phases of volatility on the markets

Equinet Bank Ratings Breakdown



For full ESN Recommendation and Target price history (in the last 12 months) please see ESN Website [Link](#)

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