

Masterflex SE

Germany / Industrial Products & Plastics

Primary exchange: Frankfurt

Bloomberg: MZX GR

ISIN: DE0005492938

9M 2012 results

RATING**PRICE TARGET**

Return Potential

Risk Rating

BUY**€7.50**

53.7%

High

DEMAND INCREASES AGAIN IN Q3 2012

Masterflex has published 9M 2012 results which were slightly below our expectations. Even though the company reported a gradual improvement in year-on-year sales growth in Q3 2012, 9M 2012 sales growth of 4.8% y/y was below the firm's full year guidance of 8% to 10% y/y. However, Masterflex' 9M 2012 EBIT margin of 14.1% was in line with the company's FY 2012 guidance. For the current fiscal year, the firm still expects sales to range between €57m and €58m as well as an EBIT margin of around 14%. Management concedes that FY 2012 sales guidance is ambitious based on the firm's 9M results. However, even though it is possible that the firm will miss its sales guidance for the current fiscal year, profitability targets should be met. Based on revised estimates, our DCF model yields an unchanged price target of €7.50. We maintain our Buy recommendation.

Mixed results in foreign markets 9M 2012 sales increased by 4.8% y/y (H1/12: 4.0% y/y) to €42.03m (FBe: €42.94m; 9M/11: €40.10m). While sales development in Russia and the Czech Republic was better than expected, revenue contribution from the US, Brazil and especially France was below the company's internal forecast. As expected, personnel costs (as a percentage of sales: 35.6%; FBe: 34.7%; 9M/11: 33.5%) increased due to the firm's regional expansion strategy. Material costs (as a percentage of sales: 31.3%; FBe: 30.8%; 9M/11: 30.5%) remained stable at around 30% of sales. EBIT came in at €5.91m (FBe: €6.19m; 9M/11: €5.86m), which corresponds to an EBIT margin of 14.1% (FBe: 14.4%; 9M/11: 14.6%). Net income from continuing operations amounted to €3.08m (FBe: €3.17m; 9M/11: €2.73m).

Further improvement in equity position 9M operating cash flow improved slightly y/y to €2.14m (9M/11: €1.91m) due mainly to the improvement in bottom-line results. Net cash flow was €-1.88m (9M/11: €-10.23m due mainly to the repayment of financial debt). Liquid funds at the end of September thus decreased YTD to €2.67m (end of FY11: €4.54m). (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2010	2011	2012E	2013E	2014E	2015E
Revenue (€m)	46.06	53.00	55.97	60.44	65.52	70.63
Y-o-y growth	n.a.	15.1%	5.6%	8.0%	8.4%	7.8%
EBIT (€m)	6.45	7.50	7.81	8.61	9.43	10.30
EBIT margin	14.0%	14.2%	14.0%	14.2%	14.4%	14.6%
Net income (€m)	-2.33	3.88	3.73	4.99	5.74	6.42
EPS (diluted) (€)	-0.49	0.44	0.43	0.57	0.66	0.73
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	2.65	2.10	2.62	3.71	4.18	4.84
Net gearing	192.9%	123.3%	72.7%	44.8%	23.7%	7.1%
Liquid assets (€m)	14.40	4.54	2.80	5.60	7.48	1.69

RISKS

Risks to our price target include debt servicing, dependency on raw material prices and burdened profitability due to regional expansion.

COMPANY PROFILE

Masterflex SE focuses on developing and manufacturing high grade connection and hose systems made of innovative high-tech plastics. The firm is a global market leader in high-tech hose systems.

MARKET DATA

As of 20 Nov 2012

Closing Price	€ 4.88
Shares outstanding	8.73m
Market Capitalisation	€ 42.60m
52-week Range	€ 4.42 / 5.77
Avg. Volume (12 Months)	8,365

Multiples	2011	2012E	2013E
P/E	11.7	12.2	9.1
EV/Sales	1.2	1.2	1.1
EV/EBIT	8.8	8.4	7.7
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Sep 2012

Liquid Assets	€ 2.67m
Current Assets	€ 20.87m
Intangible Assets	€ 4.09m
Total Assets	€ 51.98m
Current Liabilities	€ 13.17m
Shareholders' Equity	€ 18.39m

SHAREHOLDERS

SVB GmbH & Co. KG/Schmidt	19.9%
Familienmitglieder Bischoping	5.3%
BBC GmbH	4.6%
Other	8.1%
Free Float	62.1%



Financial debt (short- and long-term) decreased slightly to €23.19m (end of FY11: €23.87m). The firm's equity position improved to €18.84m (end of FY11: €16.24m), which corresponds to an equity ratio of 36.2% (end of FY11: 31.9%).

Guidance for FY 2012 confirmed, but... Masterflex confirmed guidance for the current fiscal year and still expects sales to range between €57m and €58m and an EBIT margin of around 14%. However, management does not rule out FY 2012 sales missing the company's increasingly ambitious-looking guidance due to weaker than expected development on some foreign markets – even though there has been a gradual improvement in year-on-year sales growth in Q3 2012. Masterflex confirmed its profitability guidance without any reservations. Despite higher expenditures associated with ramping up international activities, the company predicts an EBIT margin of around 14%.

Adjustments to our forecasts We have adjusted our estimates for FY 2012 and subsequent years for the delay in ramping up activities in new regional markets and the weaker than expected development in existing markets. However, since management confirmed that profitability is a higher priority for it than sales growth, we are confident that Masterflex will be able to maintain a certain level of profitability (also via further internal optimisation/restructuring). In our view, the company's general growth path is intact – not only with regard to innovation (introduction of new products at next year's "Hannover Messe" is not unlikely), but also regarding international expansion. Activities in Eastern Europe are progressing well, and Brazil in particular is expected to fuel future transatlantic growth due to upcoming major sports events, amongst others (Olympic Games and Soccer World Cup). Moreover, Masterflex is also slowly gaining traction in Asia. For example, Masterflex expects first noteworthy orders from China during the remainder of the year. Changes to our estimates are shown in figure 2 below. Our updated DCF model yields an unchanged price target of €7.50. We reiterate our Buy recommendation.

Figure 1: Estimates vs. reported figures

All figures in €m	Q3-12A	Q3-12E	Delta	Q3-11A	Delta	9M 2012A	9M 2011A	Delta
Sales	13.76	14.67	-6.2%	12.92	6.5%	42.03	40.10	4.8%
EBIT	1.89	2.17	-12.8%	1.75	8.2%	5.91	5.86	0.9%
margin	13.8%	14.8%	-	13.6%	-	14.1%	14.6%	-
Net income*	1.03	1.21	-15.3%	1.00	3.1%	3.08	2.73	12.9%
margin	7.5%	8.3%	-	7.7%	-	7.3%	6.8%	-
EPS (in €, diluted)*	0.11	0.14	-15.3%	0.10	3.1%	0.33	0.28	12.9%

*net income from continued operations

Source: First Berlin Equity Research, Masterflex SE

Figure 2: Changes to estimates

All figures in €m	2012E			2013E			2014E		
	Old	New	Delta	Old	New	Delta	Old	New	Delta
Sales	57.61	55.97	-2.9%	62.91	60.44	-3.9%	68.19	65.52	-3.9%
EBIT	8.09	7.81	-3.5%	8.99	8.61	-4.3%	9.85	9.43	-4.2%
margin	14.0%	14.0%	-	14.3%	14.2%	-	14.4%	14.4%	-
Net income*	3.99	3.95	-0.9%	5.35	4.99	-6.8%	5.99	5.74	-4.2%
margin	6.9%	7.1%	-	8.5%	8.2%	-	8.8%	8.8%	-
EPS (in €, diluted)*	0.46	0.45	-0.9%	0.61	0.57	-6.8%	0.69	0.66	-4.2%

*net income from continued operations

Source: First Berlin Equity Research

FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	5 December 2011	€4.61	Buy	€7.10
2...4	↓	↓	↓	↓
5	26 April 2012	€4.95	Buy	€7.50
6	9 May 2012	€4.87	Buy	€7.50
7	14 August 2012	€4.81	Buy	€7.50
8	Today	€4.88	Buy	€7.50

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STRONG BUY: Expected return greater than 50% and a high level of confidence in management's financial guidance

BUY: Expected return greater than 25%

ADD: Expected return between 0% and 25%

REDUCE: Expected negative return between 0% and -15%

SELL: Expected negative return greater than -15%

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