Masterflex AG

Close Brothers Seydler Research AG

Recommendation:	Risk:	Price Target:	
HOLD (BUY)	MEDIUM (MEDIUM)	EUR 6.70 (5.00)	13 May 2011

Successful restructuring …

… and dynamic start into FY 2011

- Masterflex recently confirmed its preliminary figures for FY 2010: The company increased revenues from EUR 38.4m in the previous year to EUR 46.1m in FY 2010 (+ 19.9%). EBIT from continued operations improved by approximately 76% from EUR 3.7m to EUR 6.4m. Consolidated net income improved significantly from minus EUR 13.6m to minus EUR 2.3m. Masterflex AG reduced net debt from EUR 46.7m to EUR 22.8m. In combination with the successful rights issue in December 2010, the company improved its equity ratio considerably to 18.7% (FY 2009: 1.4%). These figures clearly demonstrate: a) Masterflex now shows a healthy balance sheet and b) the concentration on its "High-Tech Hose Systems" unit lifts profitability clearly.

- 1Q 2011 results: Masterflex increased revenues from EUR 11.2m to EUR 13.9m (+ 24.2%). EBIT increased by 74.5% to EUR 2.4m. As a result, the EBIT margin was extended to impressive 17.2%. Net income improved from minus EUR 0.4m to EUR 0.9m. The equity ratio now stands at 21.3%

- Outlook: For 2011, Masterflex AG anticipates that the business trend will remain positive. The Executive Board is anticipating a revenue upturn of 8% to 10% to between EUR 50m and EUR 51m and an EBIT of approximately EUR 7.0m. In our view, these assumptions are far from being aggressive. Furthermore, the company plans to expand its activities in Russia and Brasil.

- The activities of the Mobility segment remaining in the Masterflex Group relate only to fuel cell technology. For this segment, Masterflex is also planning a disposal or transfer into a partnership with a strong partner.

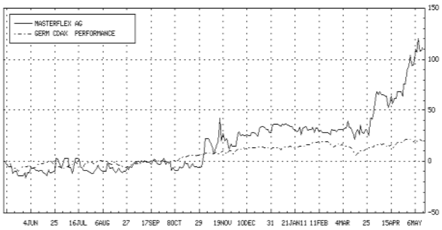
- We increase our price target to EUR 6.70 (old: EUR 5.00). Masterflex' business model with focus on High-Tech Hose Systems remains convincing. However, based on current valuation multiples upside potential looks rather limited. For the time being, we cut our recommendation from BUY to HOLD. Any strong weakness in the share price may be a new investment opportunity.

Key data

FY 12/31, EUR m	2008	2009	2010	2011E	2012E	2013E
Sales	73.4	38.4	46.1	51.0	55.0	59.0
EBIT	6.0	3.7	6.4	7.2	8.4	9.4
Net result	-7.6	-0.8	7.9	2.9	3.8	4.6
EPS (continued operat.)	-1.76	-0.19	1.67	0.33	0.43	0.52
EPS (discont. operat.)	-1.84	-2.87	-2.16	0.00	0.00	0.00
EPS (continued and disc.)	-3.60	-3.06	-0.49	0.33	0.43	0.52
Gross margin	61.2%	73.3%	72.8%	66.6%	66.9%	66.6%
EBIT margin	8.1%	n.m.	14.0%	14.1%	15.3%	16.0%
ROE	n.m.	n.m.	n.m.	18.8%	19.6%	18.8%
ROA	n.m.	n.m.	12.1%	4.1%	5.1%	5.6%
EV/EBITDA	8.7	13.1	8.8	8.1	7.1	6.4
EV/EBIT	13.5	n.m.	12.5	11.2	9.6	8.5
P/E (continued operat.)	n.m.	n.m.	3.9	19.9	15.0	12.5

Source: Masterflex AG, CBS Research AG

Share price (dark) vs. CDAX



Source: CBS Research AG, Bloomberg, Masterflex AG

Change	2011E		2012E		2013E	
	new	old	new	old	new	old
Sales	51.0	50.0	55.0	55.0	59.0	-
EBIT	7.2	7.0	8.4	8.4	9.4	-
EPS	0.33	0.32	0.43	0.44	0.52	-

Internet: www.masterflex.de
Sektor: All Industrial
WKN: 549293
ISIN: DE0005492938
Reuters: MZXG.DE
Bloomberg: MZX GY

Short company profile:

Masterflex AG is a specialist in developing and manufacturing superior connection and hose systems made of innovative high-tech plastics. Its competence and numerous innovations have allowed the company to set new standards for high-tech hose systems.

Share data:

Share price (EUR, latest closing price):	**6.50**
Shares outstanding (m):	8.9
Market capitalisation (EUR m):	57.6
Enterprise value (EUR m):	80.4
Ø daily trading volume (3 m., no. of shares):	10,318

Performance data:

High 52 weeks (EUR):	7.11
Low 52 weeks (EUR):	2.52
Absolute performance (12 months):	112.5%
Relative performance vs. CDAX:	
1 month	33.2%
3 months	61.5%
6 months	74.0%
12 months	75.4%

Shareholders:

SVB GmbH & Co. KG/Schmidt	18.9%
BBC GmbH	4.5%
Bischoping family	4.4%
own shares	1.5%
free float	70.7%

Financial calendar:

AGM	28 June 2011
2Q 2011 Report	11 August 2011

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Valuation

Valuation summary

Consolidation of valuation methods

	Weighting factor	Fair value per share (EUR)
Peer group valuation	50.0%	6.64
DCF valuation	50.0%	6.82
Fair value per share (EUR)		**6.73**

Source: CBS Research AG

Peer group analysis

As Masterflex lacks listed peers, we used SDAX multiples (FY 2011E to 2013E) as a proxy. It is worth mentioning that Masterflex' profitability lies ahead of SDAX companies. For Masterflex we estimate an EBITDA-margin of 19.6% and an EBIT-margin of 14.1% (FY 2011E). The median of SDAX companies amounts to 14.5% and 10.4%, respectively. We therefore decided to grant a 20% premium towards SDAX companies. As a result, we derive a fair value of EUR 6.64. Regarding FY 2011E we used earnings from continued operations. Depending on the sales process of its fuel cell technology activities, consolidated earnings could come in slightly lower: R&D and personnel costs could amount to approximately EUR 0.6m for the fuel cell technology entity.

EURm, except EPS (EUR)		EBITDA 2011E	EBITDA 2012E	EBITDA 2013E	EBIT 2011E	EBIT 2012E	EBIT 2013E	EPS 2011E	EPS 2012E	EPS 2013E
Masterflex AG: Financial estimates CBS Research		10.0	11.3	12.5	7.2	8.4	9.4	0.33	0.43	0.52
Applied multiples: Peer group median		7.0	6.4	6.2	10.2	8.5	8.0	14.6	11.8	10.8
Enterprise value (derived)		**69.6**	**71.8**	**77.4**	**73.0**	**71.8**	**75.8**	**-**	**-**	**-**
+ Excess cash and marketable securities	14.4									
- Financial debt and minority interest	-37.2									
Market capitalization (derived)		**46.8**	**49.0**	**54.6**	**50.3**	**49.0**	**53.0**	**42.4**	**45.4**	**49.9**
Average	**49.0**									
Premium (discount) vs. Peer Group	20%									
Fair market capitalization (after discount)	**58.8**									
Number of shares (m)	8.9									
Fair value per share (EUR)	**6.64**									

Source :Bloomberg, CBS Research AG

DCF model

Our DCF model indicates a fair value of EUR 6.82 for Masterflex.

Discounted Cash Flow Model

EURm	PHASE 1 2011E	2012E	2013E	PHASE 2 2014E	2015E	2016E	2017E	2018E	2019E	2020E	PHASE 3 ∞
Sales	51.0	55.0	59.0	62.0	65.0	68.3	71.7	75.3	79.1	83.0	
YoY growth	19.9%	7.8%	7.3%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	
EBIT	7.2	8.4	9.4	9.3	9.8	10.2	10.8	11.3	11.9	12.5	
EBIT margin	14.1%	15.3%	16.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	
Income tax on EBIT (cash tax rate)	-2.6	-3.0	-3.1	-3.1	-3.2	-3.4	-3.5	-3.7	-3.9	-4.1	
Depreciation and amortisation	2.8	2.9	3.1	3.1	3.3	3.4	3.6	3.8	4.0	4.2	
Other non-cash items	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	-6.2	-1.2	-1.2	-1.9	-2.0	-2.0	-2.2	-2.3	-2.4	-2.5	
Net capital expenditure	-2.5	-2.9	0.0	-3.2	-3.3	-3.5	-3.7	-3.8	-4.0	-4.2	
Free cash flow	**-1.3**	**4.2**	**8.2**	**4.3**	**4.5**	**4.7**	**5.0**	**5.2**	**5.5**	**5.9**	
Present values	**-1.2**	**3.7**	**6.7**	**3.3**	**3.2**	**3.1**	**3.0**	**3.0**	**2.9**	**2.8**	**52.8**

Present value Phase 1	9.2
Present value Phase 2	21.3
Present value Phase 3	52.8
Total present value	83.3
+ Excess cash/Non-operating assets	14.4
- Financial debt	-37.2
Fair value of equity	60.5
Number of shares (m)	8.9
Fair value per share (EUR)	6.82

Risk free rate	3.50%	Target equity ratio	30.0%
Equity risk premium	6.00%	Beta (fundamental)	1.95
Debt risk premium	2.75%	**WACC**	**7.49%**
Tax shield	33.0%	**Terminal growth**	**2.0%**

Sensitivity analysis

		Terminal growth (Phase 3)				
		1.0%	**1.5%**	**2.0%**	**2.5%**	**3.0%**
WACC	**6.5%**	7.55	8.24	9.07	10.12	11.47
	7.0%	6.63	7.18	7.84	8.64	9.64
	7.5%	5.86	6.30	**6.82**	7.45	8.22
	8.0%	5.19	5.56	5.98	6.48	7.08
	8.5%	4.62	4.92	5.27	5.67	6.15

Source: CBS Research AG

Masterflex AG

Profit and loss account (continued operations)

IFRS EURm	2008	2009	2010	2011E	2012E	2013E
Sales	**73.4**	**38.4**	**46.1**	**51.0**	**55.0**	**59.0**
YoY growth	-95.3%	-47.7%	19.9%	10.7%	7.8%	7.3%
Change in inventories	0.1	-0.7	0.2	0.5	0.5	0.5
Other activated own work	0.9	0.1	0.0	0.5	0.5	0.5
Other operating income	0.9	1.3	0.8	0.8	0.8	0.9
Total revenues	**75.2**	**39.1**	**47.1**	**52.8**	**56.8**	**60.9**
COGS	-30.3	-11.0	-13.5	-18.9	-20.1	-21.5
in % of sales	-41.3%	-28.6%	-29.4%	-37.0%	-36.5%	-36.5%
Gross income	**44.9**	**28.1**	**33.6**	**34.0**	**36.8**	**39.3**
in % of sales	61.2%	73.3%	72.8%	66.6%	66.9%	66.6%
Personnel expenses	-23.5	-14.3	-16.0	-19.0	-23.0	-23.0
in % sales	-32.1%	-37.3%	-34.8%	-37.3%	-41.8%	-39.0%
Other operating expenses	-12.1	-7.7	-8.4	-5.0	-2.5	-3.8
EBITDA	**9.3**	**6.1**	**9.1**	**10.0**	**11.3**	**12.5**
in % of sales	12.6%	15.9%	19.8%	19.6%	20.5%	21.2%
Depreciation and amortisation	-3.3	-2.5	-2.7	-2.8	-2.9	-3.1
in % of total revenues	-4.4%	-6.3%	-5.7%	-5.3%	-5.0%	-5.0%
EBIT	**6.0**	**3.7**	**6.4**	**7.2**	**8.4**	**9.4**
in % of sales	8.1%	9.5%	14.0%	14.1%	15.3%	16.0%
Financial result	-2.9	-3.2	-3.3	-2.4	-2.4	-2.3
Non-operating expenses	-12.2	-3.1	6.0	0.0	0.0	0.0
EBT	**-9.1**	**-2.7**	**9.1**	**4.8**	**6.0**	**7.1**
in % of sales	-12.5%	-6.9%	19.8%	9.4%	10.9%	12.1%
Taxes	1.5	1.7	-1.0	-1.6	-1.9	-2.2
as % of EBT	-16.8%	-64.9%	-11.3%	-33.0%	-31.0%	-31.0%
Net income including minorities	**-7.6**	**-0.9**	**8.1**	**3.2**	**4.1**	**4.9**
Minority interests	0.0	0.1	-0.2	-0.3	-0.3	-0.3
Net income attributable to shareholders	**-7.6**	**-0.8**	**7.9**	**2.9**	**3.8**	**4.6**
in % of sales	-10.4%	-2.1%	17.2%	5.7%	7.0%	7.8%
Shares outstanding (in millions)	4.3	4.3	4.7	8.9	8.9	8.9
EPS from continued business units	**-1.76**	**-0.19**	**1.67**	**0.33**	**0.43**	**0.52**
EPS from discontinued business units	-1.84	-2.87	-2.16	0.00	0.00	0.00
EPS from continued and discontin. business units	-3.60	-3.06	-0.49	0.33	0.43	0.52

Source: CBS Research AG, Masterflex AG

Masterflex AG

Balance Sheet

IFRS EURm	2008	2009	2010	2011E	2012E	2013E
Assets						
Noncurrent assets	**52.2**	**41.8**	**34.0**	**33.6**	**33.5**	**33.5**
as % of total assets	51.5%	60.3%	52.0%	46.9%	43.5%	40.1%
Intangible assets	15.1	6.3	4.1	4.1	4.1	4.1
Fixed assets	28.0	25.4	21.2	20.9	20.9	20.9
Financial assets	4.7	4.0	2.7	2.7	2.7	2.7
Deferred taxes	3.4	5.8	5.9	5.7	5.6	5.5
Others	0.9	0.3	0.3	0.3	0.3	0.3
Current assets	**46.9**	**27.3**	**27.6**	**38.1**	**43.6**	**50.0**
as % of total assets	46.3%	39.5%	42.2%	53.1%	56.5%	59.9%
Inventories	21.1	13.1	7.4	12.8	13.8	14.8
Accounts receivables	7.4	4.4	4.4	5.1	5.5	5.9
Other receivables and other assets	7.3	2.1	1.5	2.6	2.8	3.0
Cash equivalents	0.0	0.0	0.0	0.0	0.0	0.0
Cash	11.0	7.8	14.4	17.7	21.6	26.4
Assets held for sale	0.0	0.0	3.6	0.0	0.0	0.0
Accruals and deferrals	0.0	0.0	0.0	0.0	0.0	0.0
Income tax assets	2.2	0.2	0.2	0.0	0.0	0.0
Total Assets	**101.3**	**69.3**	**65.4**	**71.7**	**77.2**	**83.4**
Shareholders´ equity and liabilities						
Shareholders´ equity	**14.8**	**1.0**	**12.2**	**15.4**	**19.5**	**24.5**
as % of total equity and liabilities	14.7%	1.4%	18.7%	21.5%	25.3%	29.3%
Capital stock	4.4	4.4	8.7	8.7	8.7	8.7
Capital reserve	17.5	17.5	26.3	26.3	26.3	26.3
Retained earnings	-7.2	-21.1	-23.2	-20.0	-15.8	-10.9
Minorities	0.2	0.2	0.4	0.4	0.4	0.4
Noncurrent liabilities	**27.2**	**25.1**	**32.8**	**34.4**	**35.0**	**35.6**
as % of total equity and liabilities	26.8%	36.1%	50.1%	48.0%	45.4%	42.7%
Pension provision and other liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Deferred taxes	1.5	1.5	0.5	0.5	0.5	0.5
Financial liabilities	21.5	19.5	30.0	30.3	30.6	31.0
Other liabilities	4.2	4.1	2.2	3.6	3.9	4.1
Current liabilities	**59.2**	**43.3**	**20.4**	**21.8**	**22.6**	**23.4**
as % of total equity and liabilities	58.5%	62.4%	31.2%	30.5%	29.3%	28.0%
Tax provisions	0.0	0.0	0.0	0.0	0.0	0.0
Other provisions	3.5	2.9	4.5	4.1	4.4	4.7
Financial liabilities	47.5	35.0	7.1	7.0	6.9	6.7
Trade accounts payables	4.8	2.2	1.8	2.6	2.8	3.0
Received prepayments	0.0	0.0	4.4	4.6	4.9	5.1
Other liabilities	2.9	2.4	1.5	2.6	2.8	3.0
Accruals and deferrals	0.5	0.7	1.1	1.0	1.0	0.9
Debt from assets to be disposed	0.0	0.0	0.0	0.0	0.0	0.0
Total equity and liabilities	**101.3**	**69.3**	**65.4**	**71.7**	**77.2**	**83.4**

Source: CBS Research AG, Masterflex AG

Research

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<u>Recommendation System:</u>
Close Brothers Seydler Research AG uses a 3-level absolute share rating system. The ratings pertain to a time horizon of up to 6 months:

BUY: The expected performance of the share price is above +10%.
HOLD: The expected performance of the share price is between 0% and +10%.
SELL: The expected performance of the share price is below 0%.

Recommendation history over the last 12 months for the company analysed in this report:

Date	Recommendation	Price at change date	Price target
13 August 2010	HOLD (Initiating Coverage)	EUR 3.43	EUR 3.50
10 November 2010	HOLD	EUR 4.35	EUR 4.40
14 December 2010	BUY	EUR 3.91	EUR 5.00
13 May 2011	HOLD	EUR 6.50	EUR 6.70

Risk-scaling System:
Close Brothers Seydler Research AG uses a 3-level risk-scaling system. The ratings pertain to a time horizon of up to 6 months:

LOW: The volatility is expected to be lower than the volatility of the benchmark
MEDIUM: The volatility is expected to be equal to the volatility of the benchmark
HIGH: The volatility is expected to be higher than the volatility of the benchmark

The following valuation methods are used when valuing companies: Multiplier models (price/earnings, price/cash flow, price/book value, EV/Sales, EV/EBIT, EV/EBITA, EV/EBITDA), peer group comparisons, historical valuation approaches, discounting models (DCF, DDM), break-up value approaches or asset valuation approaches. The valuation models are dependent upon macroeconomic measures such as interest, currencies, raw materials and assumptions concerning the economy. In addition, market moods influence the valuation of companies.
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