Masterflex AG

Close Brothers Seydler Research AG

Recommendation:	Risk:	Price Target:
BUY (BUY)	MEDIUM (MEDIUM)	EUR 6.70 (6.70)

18 November 2011

9M 2011 results: Masterflex may exceed its full year guidance

- This week Masterflex published results for the 3Q 2011. The company generated sales of EUR 12.9m (3Q 2011: EUR 11.9m), while EBIT was improved from EUR 1.7m (2010) to now EUR 1.8m from continued operations. By 30 September 2011, cash amounted to EUR 4.1m and financial debts to EUR 26.9m. Equity was EUR 14.5m, translating into an impressive margin of 27.5%. After having entirely sold all its former activities, Masterflex now is a pure play for high-tech hose systems. Management confirmed its annual forecast (FY 2011E: Sales +8-10% to EUR 50-51m; EBIT EUR 7.0m).

- Taxes: According to IFRS regulations Masterflex has shown EUR -1.5m of taxes, resulting from amortization of deferred taxes that amount to EUR 5.4m by the end of September 2011. As seen in its cash flow statement, liquidity-related taxes just amounted to EUR -863k.

- 4Q 2011: In November a legal dispute regarding the claims for damages from an interest rate swap agreement terminated in 2009 was ended. Masterflex is to receive an additional amount of EUR 2.7m. After settlement of claims, this results in non-operating income of roughly EUR 0.9m or approx. EUR 0.10 per share. The additional liquid funds will be used to further reduce the Group's debt. Furthermore, Masterflex needs EUR 11m in sales and EUR 1.3m in EBIT to reach our estimates. This should be easily fulfilled, given the strong 3Q results.

- Crisis-proven business model: Currently economic indicators and the European debt crisis show a mixed picture. It is worth mentioning that Masterflex also in a downturn – which we do not assume – would continue to be highly profitable: As a comparison in FY 2009 the company achieved a 13% EBIT-margin in its remaining segment High-Tech Hose System during the crisis.

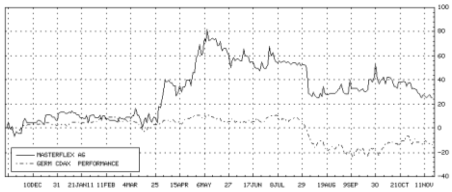
- We increase our EPS estimates for the current business year by 10 cents. Our recommendation remains BUY, valuation is attractive.

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	-1.1	7.9	3.8	3.8	4.6
EPS (continued operat.)	-1.76	-0.24	1.67	0.43	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	-3.11	-0.49	0.43	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.	23.2%	18.8%	18.2%
ROA	n.m.	n.m.	12.1%	6.3%	6.1%	6.9%
EV/EBITDA	7.0	10.6	7.1	6.5	5.7	5.2
EV/EBIT	10.8	n.m.	10.0	9.0	7.7	6.9
P/E (continued operat.)	n.m.	n.m.	2.8	10.9	10.9	9.1

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	-	55.0	-	59.0
EBIT	-	7.2	-	8.4	-	9.4
EPS	0.43	0.33	-	0.43	-	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):	**4.72**
Shares outstanding (m):	8.9
Market capitalisation (EUR m):	41.8
Enterprise value (EUR m):	64.6
Ø daily trading volume (3 m., no. of shares):	9,988

Performance data:

High 52 weeks (EUR):	7.11
Low 52 weeks (EUR):	3.35
Absolute performance (12 months):	25.1%
Relative performance vs. CDAX:	
1 month	-5.9%
3 months	-5.3%
6 months	-6.9%
12 months	45.6%

Shareholders:

SVB GmbH & Co. KG/Schmidt	18.9%
BBC GmbH	4.5%
Bischoping family	4.4%
Ärzteverband	3.3%
von Rautenkranz	3.3%
own shares	1.5%
free float	64.1%

Financial calendar:

German Equity Forum	21 November 2011
FY 2011 Annual Report	29 March 2012

Author: **Ralf Marinoni, CEFA** (Analyst)

Close Brothers Seydler Research AG
Phone: +49 (0) 69-977 84 56 0
Email: research@cbseydlerresearch.ag
www.cbseydlerresearch.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	-1.5	-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**	**5.7**	**6.0**	**7.1**
in % of sales	-12.5%	-6.9%	19.8%	11.1%	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%	-28.0%	-31.0%	-31.0%
Net income including minorities	**-7.6**	**-0.9**	**8.1**	**4.1**	**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**	**-1.1**	**7.9**	**3.8**	**3.8**	**4.6**
in % of sales	-10.4%	-2.8%	17.2%	7.4%	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**	**-0.24**	**1.67**	**0.43**	**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	-3.11	-0.49	0.43	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%	56.5%	53.6%	51.0%
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	**49.1**	**27.5**	**31.4**	**25.9**	**29.0**	**32.1**
as % of total assets	48.5%	39.7%	48.0%	43.5%	46.4%	49.0%
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	5.5	7.0	8.5
Assets held for sale	0.0	0.0	3.6	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**	**59.5**	**62.6**	**65.6**
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%	25.9%	31.2%	37.3%
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**	**24.2**	**22.4**	**19.7**
as % of total equity and liabilities	26.8%	36.1%	50.1%	40.7%	35.8%	30.0%
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	20.1	18.0	15.0
Other liabilities	4.2	4.1	2.2	3.6	3.9	4.1
Current liabilities	**59.2**	**43.3**	**20.4**	**19.8**	**20.6**	**21.5**
as % of total equity and liabilities	58.5%	62.4%	31.2%	33.4%	33.0%	32.7%
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	5.0	4.9	4.8
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
Total equity and liabilities	**101.3**	**69.3**	**65.4**	**59.5**	**62.6**	**65.6**

Source: CBS Research AG, Masterflex AG

Research

Close Brothers Seydler Research AG

Schillerstrasse 27 - 29
60313 Frankfurt am Main

Phone: +49 (0)69 – 977 8456-0

Roger Peeters Member of the Board	+49 (0)69 -977 8456- 12 Roger.Peeters@cbseydlerresearch.ag		
Martin Decot	+49 (0)69 -977 8456- 13 Martin.Decot@cbseydlerresearch.ag	Kristina Kardum	+49 (0)69 -977 8456- 21 Kristina.Kardum@cbseydlerresearch.ag
Igor Kim	+49 (0)69 -977 8456- 15 Igor.Kim@cbseydlerresearch.ag	Anna von Klopmann	+49 (0)69 -977 8456- 10 Anna.Klopmann@cbseydlerresearch.ag
Gennadij Kremer	+49 (0)69 – 977 8456- 23 Gennadij.Kremer@cbseydlerresearch.ag	Ralf Marinoni	+49 (0)69 -977 8456- 17 Ralf.Marinoni@cbseydlerresearch.ag
Manuel Martin	+49 (0)69 -977 8456- 16 Manuel.Martin@cbseydlerresearch.ag	Felix Parmantier	+49 (0)69 -977 8456- 22 Felix.Parmantier@cbseydlerresearch.ag
Marcus Silbe	+49 (0)69 -977 8456- 14 Marcus.Silbe@cbseydlerresearch.ag	Veysel Taze	+49 (0)69 -977 8456- 18 Veysel.Taze@cbseydlerresearch.ag
Ivo Višić	+49 (0)69 -977 8456- 19 Ivo.Visic@cbseydlerresearch.ag		

Institutional Sales

Close Brothers Seydler Bank AG

Schillerstrasse 27 – 29
60313 Frankfurt am Main

Phone: +49 (0)69 – 9 20 54-400

Raimar Bock Head of Sales	+49 (0)69 -9 20 54-115 Raimar.Bock@cbseydler.com		
Rüdiger Eich (Germany, Switzerland)	+49 (0)69 -9 20 54-119 Ruediger.Eich@cbseydler.com	Sule Erkan (Sales-Support)	+49 (0)69 -9 20 54-107 Sule.Erkan@cbseydler.com
Ulf Homeyer (Germany, Switzerland)	+49 (0)69 -9 20 54-111 Ulf.Homeyer@cbseydler.com	Klaus Korzilius (Benelux, Germany)	+49 (0)69 -9 20 54-114 Klaus.Korzilius@cbseydler.com
Stefan Krewinkel (Execution, UK)	+49 (0)69 -9 20 54-118 Stefan.Krewinkel@cbseydler.com	Markus Laifle (Execution)	+49 (0)69 -9 20 54-120 Markus.Laifle@cbseydler.com
Bruno de Lencquesaing (Benelux, France)	+49 (0)69 -9 20 54-116 Bruno.deLencquesaing@cbseydler.com	Thomas Rosen (Germany, Switzerland)	+49 (0)69 -9 20 54-112 Thomas.Rosen@cbseydler.com
Christopher Seedorf (Sales-Support)	+49 (0)69 -9 20 54-110 Christopher.Seedorf@cbseydler.com	Janine Theobald (Austria, Germany)	+49 (0)69 -9 20 54-106 Janine.Theobald@cbseydler.com
Bas-Jan Walhof (Benelux)	+49 (0)69 -9 20 54-105 Bas-Jan.Walhof@cbseydler.com		

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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
14 December 2010	BUY	EUR 3.91	EUR 5.00
13 May 2011	HOLD	EUR 6.50	EUR 6.70
16 August 2011	BUY	EUR 4.85	EUR 6.70
18 November 2011	BUY	EUR 4.72	EUR 6.70

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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

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Responsible Supervisory Authority:
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin, Federal Financial Supervisory Authority)
Graurheindorferstraße 108
53117 Bonn

and

Lurgiallee 12
60439 Frankfurt

Close Brothers Seydler Research AG

Schillerstrasse 27 - 29
60313 Frankfurt am Main
www.cbseydlerresearch.ag
Tel.: 0049 - (0)69 - 97 78 45 60