Masterflex AG

Germany / Industrial Products & Plastics
Primary exchange: Frankfurt
Bloomberg: MZX GR
ISIN: DE0005492938

H1 2012 results

RATING	**BUY**
PRICE TARGET	**€7.50**
Return Potential	55.8%
Risk Rating	High

IMPROVED FINANCIAL RESULT BOOSTS BOTTOM LINE

Masterflex has published its H1 2012 figures on 13 August. While sales development was slightly below our forecast, profitability was better than we had anticipated. As expected, H1 development was burdened by higher costs associated with the company's international expansion. Masterflex confirmed guidance for the current fiscal year. Sales are forecast to increase to €57-58m. EBIT is expected to come in at €8m. Our updated DCF model yields an unchanged price target of €7.50. We reiterate our Buy recommendation.

Sales growth of 4.0% y/y In H1/12, sales of €28.26m (H1/11: €27.18m) were slightly below our forecast (FBe: €28.95m).
As expected, Masterflex reported an increase in operating expenditures due to its international expansion. Material costs as a percentage of sales increased to 31.7% (FBe: 31.7%; H1/11: 30.7%). Personnel expenses as a percentage of sales rose to 34.7% (FBe: 33.7%; H1/11: 32.5%). EBIT came in at €4.01m (FBe: €4.04; H1/11: €4.10m), which corresponds to an EBIT margin of 14.2% (FBe: 14.0%; H1/11: 15.1%).
Due to last year's restructuring of financial liabilities and the firm's gradual increase in creditworthiness (leads to lower interest rates for syndicated loan), Masterflex' financial result improved to €-0.69m (FBe: €-0.78m; H1/11: €-1.11m). At the net level, income increased to €1.94m (FBe: €2.02m; H1/11: €1.45m).

Further improvement in equity position In H1/12, Masterflex' operating cash flow came in at €0.52m (H1/11: €0.72m). Since last year's cash flow development was characterised by debt repayment (cash flow from financing activities of €-10.22m in H1/11), net cash flows improved markedly in y/y comparison to €-1.78m (H1/11: €-9.02m) in H1/12.
Liquid funds at the end of June were €2.85m (end of FY11: €4.54m). Financial debt (short- & long-term) remained at the December 2011 level (€23.85m; end of FY11: €23.87m). (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2010	2011	2012E	2013E	2014E	2015E
Revenue (€m)	46.06	53.00	57.61	62.91	68.19	73.58
Y-o-y growth	n.a.	15.1%	8.7%	9.2%	8.4%	7.9%
EBIT (€m)	6.45	7.50	8.09	8.99	9.85	10.70
EBIT margin	14.0%	14.2%	14.0%	14.3%	14.4%	14.5%
Net income (€m)	-2.33	3.88	3.99	5.35	5.99	6.66
EPS (diluted) (€)	-0.49	0.44	0.46	0.61	0.69	0.76
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	2.65	2.10	1.74	3.83	4.34	5.02
Net gearing	192.9%	123.3%	75.4%	46.2%	24.7%	7.8%
Liquid assets (€m)	14.40	4.54	1.98	4.90	6.94	1.33

RISKS

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

COMPANY PROFILE

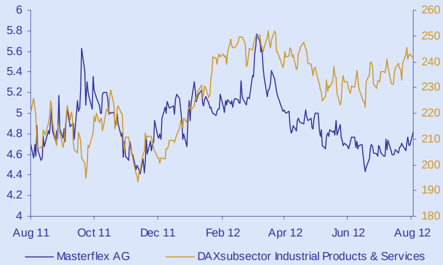
Masterflex AG focuses on developing and manufacturing high grade connection and hose systems made of innovative high-tech plastics. The firm is a global market leader in high-tech hose systems.

MARKET DATA

	As of 13 Aug 2012
Closing Price	€ 4.81
Shares outstanding	8.73m
Market Capitalisation	€ 42.03m
52-week Range	€ 4.42 / 5.77
Avg. Volume (12 Months)	10,209

Multiples	2011	2012E	2013E
P/E	11.7	11.4	8.5
EV/Sales	1.3	1.2	1.1
EV/EBIT	8.9	8.2	7.4
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

	As of 30 Jun 2012
Liquid Assets	€ 2.84m
Current Assets	€ 20.95m
Intangible Assets	€ 4.05m
Total assets	€ 51.26m
Current Liabilities	€ 12.81m
Shareholders' Equity	€ 17.65m

SHAREHOLDERS

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

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Given H1/12's operating development and the increase in net debt, Masterflex' net debt/trailing 12 months EBITDA ratio increased to 2.14 (end of FY11: 1.96).
However, the company's equity position improved to €18.05m (end of FY11: €16.24m) due to the reporting period's net profit. Thus, the firm's equity ratio improved to 35.2% (end of FY11: 31.9%) as of the end of June 2012.

Guidance for FY12 confirmed Masterflex confirmed its guidance for the current fiscal year. Sales are expected in the range €57-58m (y/y sales growth of more than 7.5%). At the operating level, Masterflex predicts EBIT of €8m.

Target price and rating confirmed Even though sales were slightly below our estimates, Masterflex' H1 development was generally in line with our forecasts. As expected, business development was characterised by higher operating costs associated with the firm's growth strategy (investments in international expansion and R&D). However, we have adjusted our forecasts for FY12 to Masterflex' H1/12 development (higher than expected tax burden in Q2/12, amongst others). Changes to our estimates are shown in figure 2 below. Our updated DCF model yields an unchanged target price of €7.50. We reiterate our Buy recommendation.

Figure 1: Estimates vs. reported figures

All figures in €m	Q2-12A	Q2-12E	Delta	Q2-11	Delta	6M 2012	6M 2011	Delta
Sales	13.75	14.44	-4.7%	13.25	3.8%	28.26	27.18	4.0%
EBIT	1.89	1.92	-1.6%	1.71	10.8%	4.01	4.10	-2.2%
margin	*13.7%*	*13.3%*	-	*12.9%*	-	*14.2%*	*15.1%*	-
Net income	0.88	0.95	-8.0%	0.51	71.3%	1.94	1.45	34.1%
margin	*6.4%*	*6.6%*	-	*3.9%*	-	*6.9%*	*5.3%*	-
EPS (in €, diluted)	0.10	0.11	-8.0%	0.06	71.3%	0.22	0.17	34.1%

Source: First Berlin Equity Research, Masterflex AG

Figure 2: Changes to our estimates

	2012E			2013E			2014E		
All figures in €m	Old	New	Delta	Old	New	Delta	Old	New	Delta
Sales	57.87	57.61	-0.5%	62.91	62.91	0.0%	68.19	68.19	0.0%
EBIT	8.16	8.09	-0.9%	8.99	8.99	0.0%	9.85	9.85	0.0%
margin	*14.1%*	*14.0%*	-	*14.3%*	*14.3%*	-	*14.4%*	*14.4%*	-
Net income	4.48	3.99	-11.0%	5.35	5.35	0.0%	5.99	5.99	0.0%
margin	*7.7%*	*6.9%*	-	*8.5%*	*8.5%*	-	*8.8%*	*8.8%*	-
EPS (diluted)	0.51	0.46	-11.0%	0.61	0.61	0.0%	0.69	0.69	0.0%

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...3	↓	↓	↓	↓
4	4 April 2012	€5.27	Buy	€7.50
5	26 April 2012	€4.95	Buy	€7.50
6	9 May 2012	€4.87	Buy	€7.50
7	Today	€4.81	Buy	€7.50

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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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