Masterflex AG

Close Brothers Seydler Research AG

Recommendation:	Risk:	Price Target:
BUY (BUY)	MEDIUM (MEDIUM)	EUR 7.15 (7.00)

17 August 2012

2Q 2012 results: Guidance confirmed

Masterflex will start business in China

- Masterflex published figures for the first half of the current business year: Revenue slightly increased by 4% to EUR 28.3m. 1H 2012 EBIT amounted to EUR 4.0m (margin: 14.2%). This margin is below last year's margin (15%), as Masterflex emphasizes on internationalisation and innovation. Target markets are North and South America and Asia. As Masterflex was able to improve its financial result, net profit from continued operations improved from EUR 1.7m to EUR 2.1m in 1H 2012. Furthermore, the company introduced 3 innovative hose systems that underline its development competence.

- Masterflex announced to have received a license for its upcoming China business. This is pretty good news as China's growth will remain in the high-single-digit area in the mid-term. First revenues should be realized in the current business year.

- Outlook confirmed: Masterflex is guiding sales in the range of EUR 57m to 58m, accompanied by an EBIT of EUR 8m for FY 2012. Based on half year results, this guidance should be fulfilled. Furthermore, the company forces the development of hoses in industries that are less dependent from fluctuations in the economy (e.g. foodstuffs, pharmaceuticals and medical technology).

- Change of estimates: Financial expenses dropped from EUR -1.3m (1H 2011) to EUR -0.8m, which was better than expected. Therefore we lowered our estimates for the financial result for the full year, resulting in higher EPS.

- New estimates lead to a price target of EUR 7.15 (old: EUR 7.00). The company plans an organic growth rate of 8-10% p.a. Due to its specific business model with focus on high-tech hose systems this assumption is realistic. Our recommendation remains BUY.

Key data

FY 12/31, EUR m	2009	2010	2011	2012E	2013E	2014E
Sales	38.4	46.1	53.0	57.0	62.0	67.0
EBIT	3.7	6.4	7.5	8.1	9.0	10.0
Net result (cont. operat.)	-1.1	7.9	4.0	4.1	4.7	5.5
EPS (continued operat.)	-0.24	1.67	0.45	0.46	0.54	0.62
EPS (discont. operat.)	-2.87	-2.16	-0.01	0.00	0.00	0.00
EPS (continued and disc.)	-3.11	-0.49	0.44	0.46	0.54	0.62
Gross margin	73.3%	72.8%	71.3%	71.4%	71.1%	70.8%
EBIT margin	9.5%	14.0%	14.2%	14.2%	14.5%	14.9%
ROE	n.m.	n.m.	24.6%	19.9%	18.5%	17.4%
ROA	-1.5%	12.1%	7.8%	7.5%	8.2%	9.0%
EV/EBITDA	10.3	6.9	6.4	5.9	5.4	4.9
EV/EBIT	n.m.	9.8	8.4	7.8	7.0	6.4
P/E (continued operat.)	n.m.	3.0	11.0	10.7	9.3	8.0

Source: Masterflex AG, CBS Research AG

Share price (dark) vs. CDAX

Source: CBS Research AG, Bloomberg, Masterflex AG

Change	2012E		2013E		2014E	
	new	old	new	old	new	old
Sales	-	57.0	-	62.0	-	67.0
EBIT	-	8.1	-	9.0	-	10.0
EPS	0.46	0.41	0.54	0.49	0.62	0.56

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):	**4.96**
Shares outstanding (m):	8.9
Market capitalisation (EUR m):	44.0
Enterprise value (EUR m):	63.3
Ø daily trading volume (3 m., no. of shares):	7,495

Performance data:

High 52 weeks (EUR):	5.76
Low 52 weeks (EUR):	4.29
Absolute performance (12 months):	-1.9%
Relative performance vs. CDAX:	
1 month	3.8%
3 months	-8.0%
6 months	-6.0%
12 months	-16.2%

Shareholders:

SVB GmbH & Co. KG/Schmidt	19.6%
BBC GmbH	4.6%
Bischoping family	5.3%
Ärzteverband	3.3%
von Rautenkranz	3.3%
own shares	1.5%
free float	62.4%

Financial calendar:

9M 2012 Report — 12 November 2012

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Valuation

Valuation summary

Consolidation of valuation methods

	Weighting factor	Fair value per share (EUR)
Peer group valuation	50.0%	5.90
DCF valuation	50.0%	8.39
Fair value per share (EUR)		**7.15**

Source: CBS Research AG

Peer group analysis

EURm, except EPS (EUR)		EBITDA 2012E	EBITDA 2013E	EBITDA 2014E	EBIT 2012E	EBIT 2013E	EBIT 2014E	EPS 2012E	EPS 2013E	EPS 2014E
Masterflex AG: Financial estimates CBS Research		10.8	11.8	12.9	8.1	9.0	10.0	0.46	0.54	0.62
Applied multiples: Peer group median		5.7	5.7	5.5	9.7	8.8	8.0	12.3	11.0	9.7
Enterprise value (derived)		**61.5**	**67.1**	**71.1**	**78.7**	**79.1**	**79.7**	**-**	**-**	**-**
+ Excess cash and marketable securities	4.5									
- Financial debt and minority interest	-23.9									
Market capitalization (derived)		**42.1**	**47.8**	**51.8**	**59.4**	**59.7**	**60.3**	**50.6**	**52.3**	**53.2**
Median	**52.3**									
Premium (discount) vs. Peer Group	0%									
Fair market capitalization (after discount)	**52.3**									
Number of shares (m)	8.9									
Fair value per share (EUR)	**5.90**									

Source: CBS Research AG

Annotation: As Masterflex runs a very specific business model, we decided to use average multiples from the SDAX companies.

DCF model

Discounted Cash Flow Model

	PHASE 1			PHASE 2							PHASE 3
EURm	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	∞
Sales	57.0	62.0	67.0	72.4	78.1	84.4	91.2	98.4	106.3	114.8	
YoY growth	19.9%	8.8%	8.1%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	
EBIT	8.1	9.0	10.0	10.9	11.7	12.7	13.7	14.8	15.9	17.2	
EBIT margin	14.2%	14.5%	14.9%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	
Income tax on EBIT (cash tax rate)	-2.9	-3.2	-3.3	-3.6	-3.9	-4.2	-4.5	-4.9	-5.3	-5.7	
Depreciation and amortisation	2.7	2.8	2.9	3.6	3.9	4.2	4.6	4.9	5.3	5.9	
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	-2.0	-1.3	-1.3	-3.4	-3.6	-3.9	-4.3	-4.6	-5.0	-5.4	
Net capital expenditure	-2.9	-3.1	-3.2	-3.7	-4.0	-4.3	-4.6	-5.0	-5.4	-5.9	
Free cash flow	**3.0**	**4.1**	**5.1**	**3.8**	**4.1**	**4.5**	**4.8**	**5.2**	**5.6**	**6.2**	
Present values	**3.0**	**3.7**	**4.3**	**3.0**	**3.0**	**3.0**	**3.0**	**3.1**	**3.1**	**3.1**	**61.4**

Present value Phase 1	11.0
Present value Phase 2	21.3
Present value Phase 3	61.4
Total present value	93.7
+ Excess cash/Non-operating assets	4.5
- Financial debt	-23.9
Fair value of equity	74.4
Number of shares (m)	8.9
Fair value per share (EUR)	8.39

Risk free rate	3.50%	Target equity ratio	30.0%
Equity risk premium	6.00%	Beta (fundamental)	1.80
Debt risk premium	2.75%	**WACC**	**7.22%**
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	**6.2%**	9.18	10.02	11.06	12.37	14.10
	6.7%	8.11	8.78	9.58	10.58	11.84
	7.2%	7.22	7.76	**8.39**	9.17	10.12
	7.7%	6.47	6.90	7.41	8.02	8.76
	8.2%	5.81	6.17	6.59	7.08	7.67

Source: CBS Research AG

Research

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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 12 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
18 November 2011	BUY	EUR 4.72	EUR 6.70
06 March 2012	BUY	EUR 5.21	EUR 6.70
04 April 2012	BUY	EUR 5.33	EUR 7.00
25 April 2012	BUY	EUR 4.93	EUR 7.00
17 August 2012	BUY	EUR 4.96	EUR 7.15

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MEDIUM: The volatility is expected to be equal to the volatility of the benchmark
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