

Delignit

Materials
12 September 2017

Investment paying off

Strong H1 results (EBITDA +42%) and recent major orders in the LCV and rail transport segments reinforce confidence in confirmed positive profit guidance for 2017. Moreover, it is particularly encouraging that well-defined strategic development looks increasingly to be paying off, with the current 2016/17 €6m bumper capex affording capacity expansion, efficiency gains and a more diversified revenue base. Finances remain secure (net debt/EBITDA of 1.3x for the last 12 months), allowing ample room for further investment.

Pleasing H1

The half to June combined continued buoyancy (revenue +11%) with a significant improvement in profitability (EBITDA margin 9% against 7% y-o-y). While Automotive, Delignit's principal sector, was to the fore (+12%) thanks, as in 2016, to strong OEM business and new orders from carmakers, Technological Applications managed to improve on a demanding comparative. Again, as previously, exports were the driver, justifying the company's strategic broadening. The step-change in trading profit (+65%) reflected investment-led economies of scale, with material costs and depreciation respectively up just 4% and 7%.

More growth to come – 2017 forecasts maintained

Management expects more of the same in the second half. Positive conditions apart, Automotive should benefit materially from follow-up work from 2016 as well as new orders, while Technological Applications has newly won contracts for floor solutions for trains from the European subsidiary of an Asian group. Confirmed full-year guidance is for 10-15% higher sales and EBITDA margin of 7.5-8.3% against 7.5% in 2016. Clear EBITDA margin outperformance (9%) in H1 on such volume enhancement suggests that this full-year forecast may well prove cautious.

Valuation: Not cheap

Recent share price consolidation (flat over the past two months) after sharp c 30% appreciation in June suggests that the market is awaiting further evidence of Delignit's strong growth prospects. The stock is now trading at an FY16 P/E ratio of c 33x – a premium to both its wood processing and automotive supplier peer group. Management guidance (no consensus data available) for FY17 suggests an EV/EBITDA multiple of 12.2-14.2x, which, even if cautious, is well ahead of the 5.9x peer average.

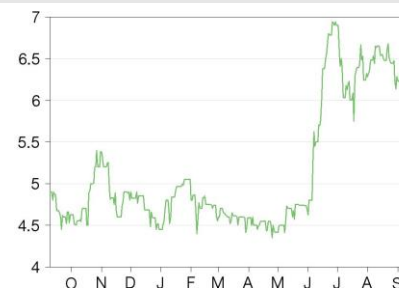
Historical financials

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/13	35.3	2.2	0.21	0.00	28.5	N/A
12/14	42.7	1.7	0.13	0.03	46.1	0.5
12/15	44.4	1.7	0.14	0.03	42.8	0.5
12/16	48.6	2.1	0.18	0.03	33.3	0.5

Source: Delignit accounts, Edison Investment Research

Price €5.99
Market cap €49m

Share price graph



Share details

Code DLX
 Listing Deutsche Börse Scale
 Shares in issue 8.2m
 Last reported net debt at June 2017 €5.8m

Business description

Delignit is a German manufacturer of ecological products and system solutions based on hardwood for the automotive, rail and safety equipment industries. It was acquired by Germany-based industrial holding company MBB (Messerschmitt-Bölkow-Blohm) in 2003 and was listed in 2007. Two-thirds of group sales are derived domestically.

Bull

- Solid order intake in the LCV and rail transport segments.
- Increased and enhanced applications for existing products.
- Rapid take-up of the products in global markets.

Bear

- High dependence on large OEM contracts.
- An increase in oil prices could reduce the company's profitability.
- Valuations already factor in growth prospects, creating downside risk.

Analyst

Richard Finch +44 (0)20 3077 5700

industrials@edisongroup.com

[Edison profile page](#)

Edison Investment Research provides qualitative research coverage on companies in the Deutsche Börse Scale segment in accordance with section 36 subsection 3 of the General Terms and Conditions of Deutsche Börse AG for the Regulated Unofficial Market (Freiverkehr) on Frankfurter Wertpapierbörse (as of 1 March 2017). Two to three research reports will be produced per year. Research reports do not contain Edison analyst financial forecasts.

Review of H117 results

Exhibit 1: Analysis of half-yearly revenue and profit						
Year end December (€m)	H116	H216	FY16	H117		FY17 F/C
REVENUE	24.4	24.2	48.6	27.1		53.5 – 55.9
Change (%)	+6%	+13%	+9%	+11%		+10-15%
Automotive			35.2			
Change	+1%		+8%	+12%		
Technological applications			13.3			
Change	+22%		+12%	+8%		
Germany	17.4	16.6	34.0	16.6		
Change	+1%	+2%	+1%	-5%		
Exports	7.0	7.6	14.6	10.5		
Change	+23%	+46%	+34%	+50%		
Other income	0.5	0.4	0.9	0.3		
Total income	24.9	24.6	49.5	27.4		
Material costs	(14.9)	(14.0)	(28.9)	(15.5)		
Labour costs	(6.6)	(6.9)	(13.5)	(7.6)		
Other operating costs	(1.7)	(1.7)	(3.4)	(1.8)		
EBITDA	1.7	2.0	3.7	2.5		4.0 – 4.6
Margin	7.0%	8.1%	7.5%	9.0%		+7.5 – 8.3%
Depreciation	(0.7)	(0.7)	(1.4)	(0.7)		
EBIT	1.1	1.3	2.4	1.7		
Net interest	(0.1)	(0.1)	(0.2)	(0.1)		
Pre-Tax Profit	1.0	1.1	2.1	1.6		
Taxation	(0.3)	(0.4)	(0.7)	(0.5)		
Net income	0.7	0.7	1.4	1.1		

Source: Delignit accounts

While Delignit's H1 performance was much as expected, it was no less impressive. Strong top-line growth across the board at much higher margin was accompanied by a further surge in export business (c 40% of group sales against c 30% y-o-y) and consequent successful diversification. The main activity, Automotive, saw double-digit growth thanks to continued OEM demand and additional orders from car makers. Notwithstanding positive macro conditions, such buoyancy is justifiably attributed by management to early signs that its record investment (€6m) last year and this is paying off in terms of both customised system solutions and expanded product applications.

Good control of costs (see Exhibit 1) elicited material margin gain, notably an EBITDA margin of 9% against 7% in H116. With depreciation and finance costs broadly unchanged, the revenue boost was yet more evident further down the line (pre-tax profit up 70%).

H2 confidence

Maintained trading momentum and H1 EBITDA margin (9%) well ahead of full-year guidance give confidence that management expectations should be met, if not exceeded. As shown above, even management's worst-case EBITDA outturn in H2 (€1.5m) would imply c 6% margin, which the company has comfortably achieved throughout the last five years. Even their best-case EBITDA outturn (€2.1m) may prove cautious as the assumed margin would only be on a par with that of H216. This would seem to contradict management's conviction that economies of scale from the ongoing investment programme should only boost margins.

Balance sheet and cash flow

Cash flow was slightly negative in H117 as a result of continued historically high capex and increased stocks. Nevertheless period end net debt of €5.8m ensures that Delignit remains lowly borrowed with minimal interest cover.

Valuation

As there are no companies that match closely Delignit's profile, we have identified for peer comparison four wood processing companies, even if with lower exposure to the automotive sector (Westag & Getalit, Pfeleiderer, Surteco and Ober) as well as four automotive suppliers (Grammer, Progress Werk, SHW and Delfingen) offering products such as seat covers, insulation, components and systems for car interiors.

As consensus forecasts for Delignit are not available, we have conducted a comparative analysis based on the last two reported years, as well as management's EBITDA margin guidance for 2017. After the Q2 share price rally Delignit trades at a marked premium to the blended peer group on trailing P/E (84%) and trailing EV/EBITDA (127%). This suggests that the company's robust growth outlook is priced in. Management's newly confirmed guidance for the full-year implies EV/EBITDA of 12.2-14.2x, well ahead of the 5.9x peer average.

Exhibit 2: Peer group comparison

	Market cap	P/E (x)		EV/EBITDA (x)	
	(€m)	2016	2017e	2016	2017e
Wood processing companies					
Westag & Getalit	137	18.3	17.3	5.7	N/A
Pfleiderer	661	44.4	19.7	8.2	5.9
Surteco	385	16.5	14.6	7.0	6.8
Ober	18	14.1	N/A	7.6	N/A
Automotive suppliers					
Grammer	568	11.3	10.7	5.9	5.8
Progress Werk	136	14.3	11.4	5.8	5.5
SHW	228	17.9	N/A	5.2	N/A
Delfingen	96	13.3	N/A	7.5	5.6
Peer group average		18.8	14.7	6.6	5.9
Delignit	51	34.6	N/A	15.0	12.2-14.2
Premium (discount) to peer group		84%	N/A	127%	124%

Source: Company accounts, Bloomberg, company guidance. Note: Prices as of 4 September 2017.

Edison, the investment intelligence firm, is the future of investor interaction with corporates. Our team of over 100 analysts and investment professionals work with leading companies, fund managers and investment banks worldwide to support their capital markets activity. We provide services to more than 400 retained corporate and investor clients from our offices in London, New York, Frankfurt and Sydney. Edison is authorised and regulated by the [Financial Conduct Authority](#). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison and is not regulated by the Australian Securities and Investment Commission. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. www.edisongroup.com

DISCLAIMER

Any information, data, analysis and opinions contained in this report do not constitute investment advice by Deutsche Börse AG or the Frankfurter Wertpapierbörse. Any investment decision should be solely based on a securities offering document or another document containing all information required to make such an investment decision, including risk factors.

Copyright 2017 Edison Investment Research Limited. All rights reserved. This report has been commissioned by Deutsche Börse AG and prepared and issued by Edison for publication globally. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison Aus and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison US is registered as an investment adviser with the Securities and Exchange Commission. Edison US relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. As such, Edison does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison has a restrictive policy relating to personal dealing. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (ie without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision. To the maximum extent permitted by law, Edison, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. FTSE International Limited ("FTSE") © FTSE 2017. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.

Frankfurt +49 (0)69 78 8076 960

Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700

280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026

295 Madison Avenue, 18th Floor
10017, New York
US

Sydney +61 (0)2 8249 8342

Level 12, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia