



m-u-t AG

Buy → | Target price : 8.50 EUR vs 7.50 EUR ↗

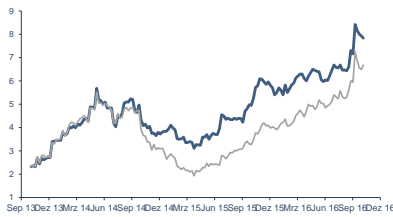
Price (11/03/2016) : 7.83 EUR | Upside : 9 %

Est.chg	2016e	2017e
EPS	12.3%	9.5%

Q3 in line with expectations; m-u-t continues to deliver; TP increased to € 8.5; Buy maintained

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Q3: Revenues +6%, EBIT flat

m-u-t AG (m7u) reported key Q3 figures today (4 November): Revenues were up 6% yoy to € 13.2m (Q3 15: € 12.5m). EBIT was flat yoy at € 1.6m, translating to an EBIT margin of 12.1% in Q3 (Q3 15: 12.8%). 9M 2016 revenues were up 1% yoy to € 41.4m (9M 15: € 40.8m), while 9M 2016 EBIT was up 16% yoy to € 5.9m (9M 15: € 5.1m) due to product mix optimisation.

Based on its Q3 performance, m-u-t increased its full-year 2016 guidance, raising EBIT from € 6.2m to € 6.7m. This implies Q4 16 EBIT of € 0.8m.

m-u-t: Q3 2016 results (in EUR m)

	Q3 2016	Q3 2015	Δ (%)	9M 2016
Revenues	13.2	12.5	+6%	41.4
EBIT	1.6	1.6	+0%	5.9
EBIT %	12.1%	12.8%	-70bp	14.3%

Source: Company data; Oddo Seydler

Capital

M7U GY M7UG.DE	
Market Cap (EURm)	37
Enterprise value (EURm)	42
Extrema 12 months	5.21 - 8.45
Free Float (%)	47.5

Performance (%)

	1m	3m	12m
Absolute	9.4	19.6	52.2
Perf. rel. Country Index	13.2	21.1	73.7
Perf. rel. Telcos	13.0	25.7	93.2

P&L

	12/16e	12/17e	12/18e
Sales (EURm)	52.0	53.5	55.0
EBITDA (EURm)	8.3	8.5	8.6
Current EBIT (EURm)	6.7	6.8	6.9
Attr. net profit (EURm)	3.2	3.2	3.2
Adjusted EPS (EUR)	0.67	0.67	0.68
Dividend (EUR)	0.00	0.00	0.00
P/E (x)	11.7	11.6	11.6
P/B (x)	4.0	3.0	3.4
Dividend Yield (%)	0.0	0.0	0.0
FCF yield (%)	10.2	9.9	ns
EV/Sales (x)	0.82	0.75	0.78
EV/EBITDA (x)	5.1	4.7	5.0
EV/Current EBIT (x)	6.3	5.9	6.2
Gearing (%)	-5	-20	-7
Net Debt/EBITDA(x)	ns	ns	ns

Raising our 2016e EPS estimate from € 0.60 to € 0.67

Against the backdrop of the Q3 results, we increase our 2016e EBIT forecast from € 6.2m to € 6.7m (i.e. in line with the company guidance). It is important note that the company has adopted a very conservative communications policy, i.e. there may be upside potential to the 2016 guidance. We increase our 2016e EPS estimate to € 0.67. While the company did not report EPS for Q3, and while the minority interest effects on the P/L are difficult to project due to the complex ownership structure, it is important to point out that H1 16 EPS was already € 0.51. This means the company would only need H2 16 EPS of € 0.16 to meet our full-year estimate.

TP increased to € 8.50; Buy maintained

Overall, we see the company progressing well and believe it is more likely to deliver positive surprise in 2016e and 2017e than negative ones. We increase our target price to € 8.50 (7.50) based on our updated DCF valuation (see next page for details).

We consider the stock currently undervalued and thus confirm our Buy rating. Based on our 2016e EPS estimate of € 0.67, the current stock price translates to a P/E of 11.7x. In our view this valuation does not adequately reflect the significant progress the company has made under its new management team.

Next Events

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DCF Valuation

After updating our DCF valuation we increase our target price to € 8.50 (7.50).

Our key DCF model assumptions are as follows:

Phase 1 (2016e – 2018e): Our Phase 1 free cash flow estimates (FCF) are based on the detailed financial forecasts of our explicit forecast period.

Phase 2 (2019e – 2025e): For Phase 2, we make more general assumptions: revenue growth gradually fades to 2.0%, resulting in a CAGR of 2.6% for the overall period. For this period we also assume the EBIT margin will be stable at 12% in this phase.

Phase 3: For our terminal value calculation we apply a long-term FCF growth rate of 2.0%, which we believe is reasonable considering the growth prospects in the company's underlying business and long term global economic outlook.

m-u-t AG: Discounted Cash Flow model

EURm	PHASE 1			PHASE 2						PHASE 3																																																											
	2016e	2017e	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	∞																																																										
Sales	52.0	53.5	55.0	56.7	58.3	60.1	61.6	63.1	64.7	66.0																																																											
YoY growth	0.0%	2.9%	2.8%	3.0%	3.0%	3.0%	2.5%	2.5%	2.5%	2.0%																																																											
EBIT	6.7	6.8	6.9	6.8	7.0	7.2	7.4	7.6	7.8	7.9																																																											
EBIT margin	12.9%	12.7%	12.5%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%																																																											
Income tax on EBIT (cash tax rate)	-2.0	-2.0	-2.1	-2.0	-2.1	-2.2	-2.2	-2.3	-2.3	-2.4																																																											
Depreciation and amortisation	1.6	1.7	1.6	1.9	2.0	2.0	2.1	2.1	2.2	2.2																																																											
Change in net working capital	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.4																																																											
Net capital expenditure	-2.0	-2.0	-2.1	-2.0	-2.1	-2.2	-2.2	-2.3	-2.3	-2.2																																																											
Free cash flow	3.8	3.9	3.9	4.2	4.3	4.4	4.6	4.7	4.8	5.2																																																											
Present values	3.7	3.5	3.2	3.1	2.9	2.8	2.6	2.5	2.3	2.2	32.0																																																										
Present value Phase 1	10.4						Risk free rate	2.50%	Target equity ratio	65.0%																																																											
Present value Phase 2	18.4						Equity risk premium	6.00%	Beta (fundamental)	1.4																																																											
Present value Phase 3	32.0						Debt risk premium	4.00%	WACC	9.13%																																																											
Total present value	60.9						Tax shield	30.0%	Terminal growth	2.0%																																																											
Fair EV (including minorities)	60.9																																																																				
Fair EV (excluding minorities)	45.6	25% discount for minorities																																																																			
+ Excess cash/Non-operating assets	6.4						<table border="1"> <thead> <tr> <th colspan="7">Sensitivity analysis</th> </tr> <tr> <th colspan="7">Terminal growth (Phase 3)</th> </tr> <tr> <th></th> <th>1.0%</th> <th>1.5%</th> <th>2.0%</th> <th>2.5%</th> <th>3.0%</th> <th></th> </tr> </thead> <tbody> <tr> <td>WACC</td> <td>8.1%</td> <td>9.63</td> <td>10.07</td> <td>10.58</td> <td>11.18</td> <td>11.90</td> </tr> <tr> <td></td> <td>8.6%</td> <td>8.94</td> <td>9.31</td> <td>9.73</td> <td>10.22</td> <td>10.80</td> </tr> <tr> <td></td> <td>9.1%</td> <td>8.34</td> <td>8.65</td> <td>8.83</td> <td>9.41</td> <td>9.88</td> </tr> <tr> <td></td> <td>9.6%</td> <td>7.81</td> <td>8.08</td> <td>8.37</td> <td>8.71</td> <td>9.10</td> </tr> <tr> <td></td> <td>10.1%</td> <td>7.34</td> <td>7.57</td> <td>7.82</td> <td>8.10</td> <td>8.43</td> </tr> </tbody> </table>					Sensitivity analysis							Terminal growth (Phase 3)								1.0%	1.5%	2.0%	2.5%	3.0%		WACC	8.1%	9.63	10.07	10.58	11.18	11.90		8.6%	8.94	9.31	9.73	10.22	10.80		9.1%	8.34	8.65	8.83	9.41	9.88		9.6%	7.81	8.08	8.37	8.71	9.10		10.1%	7.34	7.57	7.82	8.10	8.43		
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- Financial debt	-9.9																																																																				
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Number of shares (m)	4.8																																																																				
Fair value per share (EUR)	8.83																																																																				

Source: Oddo Seydler Bank AG

WACC: We set our risk-free rate at 2.5% on the basis of long-term German federal bond yields. We assume an equity risk premium of 6.0%, and a debt risk premium of 4.0%. We apply a beta of 1.4 to our DCF valuation which is above the company's historical beta. Our rationale for the high beta is based on i) the company's small size, and ii) the fact that it was not profitable in 2012 and 2013. We furthermore assume a long-term target equity ratio of 65%. The above parameters result in a WACC of 9.13%.

We calculate a fair value for the company's entire core operating business of € 60.9m. To this we apply a discount of 25% to reflect the profit participation of minority shareholders. We furthermore add back the company's cash position (€ 6.4m) and deduct its debt of € 9.9m. We therefore derive a fair value of equity of € 42.2m, translating to a fair value per share of € 8.83. Our fair value per share estimate is based on 4.8m shares outstanding.

m-u-t AG: P&L 2012 – 2018e

	EURm	2012	2013	2014	2015	2016E	2017E	2018E
Sales		37.7	41.0	49.5	52.0	52.0	53.5	55.0
YoY growth		-6.2%	8.7%	20.8%	5.0%	0.0%	2.9%	2.8%
Change in stocks of finished goods		-0.7	0.0	1.6	0.0	0.0	0.0	0.0
Other activated own work		0.2	0.1	0.0	0.0	0.0	0.0	0.0
Total revenues		37.2	41.0	51.2	52.0	52.0	53.5	55.0
Material costs		-17.6	-18.8	-25.5	-23.9	-23.9	-24.6	-25.3
in % of sales		-46.8%	-45.8%	-51.4%	-46.0%	-46.0%	-46.0%	-46.0%
Gross income		19.6	22.2	25.7	28.1	28.1	28.9	29.7
in % of sales		51.9%	54.2%	51.9%	54.0%	54.0%	54.0%	54.0%
Personnel expenses		-13.1	-13.2	-14.3	-14.6	-14.6	-15.0	-15.4
in % sales		-34.7%	-32.1%	-28.8%	-28.0%	-28.0%	-28.0%	-28.0%
Other operating income		1.2	1.5	1.0	0.6	0.6	0.0	0.0
Other operating expenses		-8.9	-7.2	-7.8	-6.6	-5.8	-5.5	-5.7
in % sales		-23.5%	-17.4%	-15.8%	-12.7%	-11.2%	-10.2%	-10.4%
EBITDA		-1.1	3.4	4.6	7.5	8.3	8.5	8.6
in % of sales		-3.0%	8.3%	9.3%	14.4%	16.0%	15.8%	15.6%
Depreciation and amortisation		-2.0	-1.0	-1.6	-1.6	-1.6	-1.7	-1.7
in % of sales		-5.3%	-2.4%	-3.1%	-3.1%	-3.1%	-3.1%	-3.1%
EBIT		-3.1	2.4	3.0	5.9	6.7	6.8	6.9
in % of sales		-8.3%	5.9%	6.1%	11.3%	12.9%	12.7%	12.5%
Financial result		-0.4	-1.4	-0.5	-0.7	-0.7	-0.7	-0.7
EBT		-3.5	1.0	2.5	5.2	6.0	6.1	6.2
in % of sales		-9.4%	2.5%	5.1%	10.0%	11.5%	11.4%	11.3%
Extraordinary expenses		-0.4	0.0	-0.2	0.6	0.0	0.0	0.0
in % of sales		-1.1%	0.0%	-0.4%	1.2%	0.0%	0.0%	0.0%
Taxes		-0.8	-0.9	-0.5	-1.6	-1.8	-1.8	-1.9
as % of EBT		22.0%	-85.3%	-21.3%	-30.0%	-30.0%	-30.0%	-30.0%
Net income including minorities		-4.7	0.2	1.8	4.3	4.2	4.3	4.3
Minority interest		-0.3	-0.8	-0.7	-1.3	-1.0	-1.1	-1.1
Net income attributable to shareholders		-5.1	-0.7	1.1	3.0	3.2	3.2	3.2
in % of sales		-13.4%	-1.7%	2.3%	5.7%	6.2%	6.0%	5.9%
Shares outstanding (m)		4.4	4.4	4.8	4.8	4.8	4.8	4.8
Earnings per Share (EUR)		-1.16	-0.16	0.23	0.62	0.67	0.67	0.68

Source: Company data; Oddo Seydler Bank AG

M7UG.DE | M7U GY
Electronics | Germany

Buy
Upside 8.50% Price 7.83EUR
TP 8.50EUR

PER SHARE DATA (EUR)	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
Adjusted EPS	-1.16	-0.16	0.26	0.62	0.67	0.67	0.68
Reported EPS	-1.16	-0.16	0.26	0.62	0.67	0.67	0.68
Growth in EPS(%)	-	ns	ns	ns	8.5%	0.6%	0.6%
Net dividend per share	0.00	0.00	0.00	0.00	0.00	0.00	0.00
FCF to equity per share	-0.48	0.92	0.26	0.52	0.80	0.77	-0.98
Book value per share	0.35	0.44	0.76	1.30	1.97	2.64	2.32
Number of shares market cap	4.35	4.34	4.34	4.79	4.79	4.79	4.79
Number of diluted shares	4.35	4.34	4.34	4.79	4.79	4.79	4.79
VALUATION	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
12m highest price	6.37	3.72	5.68	6.28	8.45		
12m lowest price	3.27	2.12	2.70	3.10	5.25		
(*) Reference price	5.02	2.78	4.33	4.20	7.83	7.83	7.83
Capitalization	21.8	12.1	18.8	20.1	37.5	37.5	37.5
Restated Net debt	7.5	3.6	2.1	1.7	-0.6	-3.3	-1.0
Minorities (fair value)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial fixed assets (fair value)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Provisions	4.8	6.6	6.6	5.6	5.6	5.8	6.4
Enterprise Value	34.1	22.2	27.5	27.4	42.5	40.0	42.9
P/E (x)	ns	ns	16.8	6.8	11.7	11.6	11.6
P/CF (x)	ns	5.8	9.4	3.1	6.4	6.3	6.2
Net Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FCF yield (%)	ns	33.3%	6.0%	12.4%	10.2%	9.9%	ns
P/B incl. GW (x)	14.31	6.37	5.73	3.23	3.97	2.96	3.37
P/B excl. GW (x)	ns	ns	29.18	7.10	6.78	4.28	5.19
EV/Sales (x)	0.90	0.54	0.56	0.53	0.82	0.75	0.78
EV/EBITDA (x)	ns	6.6	6.0	3.6	5.1	4.7	5.0
EV/EBIT (x)	ns	9.2	9.1	4.6	6.3	5.9	6.2
(*) historical average price							
PROFIT AND LOSS (EURm)	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
Sales	37.7	41.0	49.5	52	52	54	55
EBITDA	-1.1	3.4	4.6	7.5	8.3	8.5	8.6
Depreciations	-2.0	-1.0	-1.6	-1.6	-1.6	-1.7	-1.7
Current EBIT	-3.1	2.4	3.0	5.9	6.7	6.8	6.9
Published EBIT	-3.1	1.6	3.0	5.9	6.7	6.8	6.9
Net financial income	-0.4	-0.6	-0.5	-0.7	-0.7	-0.7	-0.7
Corporate Tax	-0.8	-0.9	-0.5	-1.6	-1.8	-1.8	-1.9
Net income of equity-accounted companies	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Profit/loss of discontinued activities (after tax)	-0.4	0.0	-0.2	0.6	0.0	0.0	0.0
Minority interests	-0.3	-0.8	-0.7	-1.3	-1.0	-1.1	-1.1
Attributable net profit	-5.1	-0.7	1.1	3.0	3.2	3.2	3.2
Adjusted attributable net profit	-5.1	-0.7	1.1	3.0	3.2	3.2	3.2
BALANCE SHEET (EURm)	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
Goodwill	2.0	2.9	2.6	3.4	3.9	3.9	3.9
Other intangible assets	0.6	0.9	0.7	0.7	0.7	0.7	0.7
Tangible fixed assets	2.5	2.1	1.5	1.7	2.1	2.5	2.5
WCR	11.3	8.9	10.6	11.2	11.2	11.5	12.9
Financial assets	0.7	0.2	0.0	0.0	0.0	0.0	0.0
Ordinary shareholders equity	1.5	1.9	3.3	6.2	9.4	12.7	11.1
Minority interests	3.3	2.9	3.5	3.5	3.5	3.5	3.5
Shareholders equity	4.8	4.8	6.8	9.7	12.9	16.1	14.6
Non-current provisions	4.8	6.6	6.6	5.6	5.6	5.8	6.4
Net debt	7.5	3.6	2.1	1.7	-0.6	-3.3	-1.0
CASH FLOW STATEMENT (EURm)	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
EBITDA	-1.1	3.4	4.6	7.5	8.3	8.5	8.6
Change in WCR	1.6	2.5	-0.3	-1.6	0.0	-0.2	-6.5
Interests & taxes	-1.2	-2.3	-1.0	-2.3	-2.5	-2.5	-2.6
Others	-0.5	0.9	-1.6	0.6	0.0	0.0	0.0
Operating Cash flow	-1.3	4.5	1.7	4.3	5.8	5.8	-0.5
CAPEX	-0.8	-0.5	-0.6	-1.8	-2.0	-2.1	-4.2
Free cash-flow	-2.1	4.0	1.1	2.5	3.8	3.7	-4.7
Acquisitions / disposals	-0.7	-0.1	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	-0.4	0.0	-1.3	-1.0	-1.1	-1.1
Net capital increase	0.0	1.1	0.0	0.0	0.0	0.0	4.8
Others	5.3	-1.5	-1.6	-0.4	-0.4	-0.4	7.3
Change in net debt	-9.6	3.9	1.5	0.4	2.3	2.6	-5.6
GROWTH MARGINS PRODUCTIVITY	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
Sales growth	-	8.7%	20.8%	5.0%	0.0%	2.9%	2.8%
Lfl sales growth	-	-	-	-	-	-	-
Current EBIT growth	-	ns	25.6%	95.1%	13.6%	1.5%	1.5%
Growth in EPS(%)	-	ns	ns	ns	8.5%	0.6%	0.6%
Net margin	-13.4%	-1.7%	2.3%	5.7%	6.2%	6.0%	5.9%
EBITDA margin	-3.0%	8.3%	9.3%	14.4%	16.0%	15.8%	15.6%
Current EBIT margin	-8.3%	5.9%	6.1%	11.3%	12.9%	12.7%	12.5%
CAPEX / Sales	-2.2%	-1.3%	-1.2%	-3.5%	-3.8%	-3.9%	-7.6%
WCR / Sales	30.0%	21.8%	21.4%	21.5%	21.5%	21.5%	23.5%
Tax Rate	-22.0%	85.3%	21.3%	30.0%	30.0%	30.0%	30.0%
Normative tax rate	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
Asset Turnover	-	2.6	3.3	3.2	3.0	2.9	2.8
ROCE post-tax (normative tax rate)	-	10.8%	14.0%	25.5%	26.9%	26.1%	25.0%
ROCE post-tax hors GW (normative tax rate)	-	12.8%	17.1%	31.3%	34.0%	33.2%	31.3%
ROE	-	-39.6%	43.4%	62.0%	40.9%	29.2%	27.3%
DEBT RATIOS	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
Gearing	ns	74%	31%	17%	-5%	-20%	-7%
Net Debt / Market Cap	0.34	0.30	0.11	0.08	-0.02	-0.09	-0.03
Net debt / EBITDA	ns	1.05	0.46	0.22	ns	ns	ns
EBITDA / net financial charges	-2.8	5.6	8.8	10.7	11.9	12.1	12.3

Mention of conflicts of interest

• Valuation method

Our target prices are established on a 12-month timeframe and we use three valuation methods to determine them. First, the discounting of available cash flows using the discounting parameters set by the Group and indicated on Oddo Securities' website. Second, the sum-of-the-parts method based on the most pertinent financial aggregate depending on the sector of activity. Third, we also use the peer comparison method which facilitates an evaluation of the company relative to similar businesses, either because they operate in identical sectors (and are therefore in competition with one another) or because they benefit from comparable financial dynamics. A mixture of these valuation methods may be used in specific instances to more accurately reflect the specific characteristics of each company covered, thereby fine-tuning its evaluation.

• Our stock market recommendations

Our stock market recommendations reflect the RELATIVE performance expected for each stock on a 12-month timeframe.

Buy: performance expected to exceed that of the benchmark index, sectoral (large caps) or other (small and mid caps).

Neutral: performance expected to be comparable to that of the benchmark index, sectoral (large caps) or other (small and mid caps).

Reduce: performance expected to fall short of that of the benchmark index, sectoral (large caps) or other (small and mid caps).

• The prices of the financial instruments used and mentioned in this document are the closing prices.

• All publications by Oddo Securities or Oddo Seydler concerning the companies covered and mentioned in this document are available on the research site: www.oddosecurities.com

Recommendation and target price changes history over the last 12 months for the company analysed in this report

Date	Reco	Price Target (EUR)	Price (EUR)	Analyst
04.11.16	Buy	8.50	7.83	Dr. Oliver Pucker, CFA
11.05.16	Buy	7.50	6.30	Dr. Oliver Pucker, CFA
17.03.16	Buy	6.50	5.90	Dr. Oliver Pucker, CFA
05.11.15	Buy	6.00	5.30	Dr. Oliver Pucker, CFA

Recommendation split

		Buy	Neutral	Reduce
Our whole coverage	(413)	48%	41%	11%
Liquidity providers coverage	(146)	53%	42%	5%
Research service coverage	(65)	65%	32%	3%
Investment banking services	(30)	70%	27%	3%

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