

Recommendation:

BUY (BUY)

Risk:

HIGH (HIGH)

Price Target:

EUR 1.70 (1.70)

29 July 2013

1H 2013: Earnings before taxes at EUR 0.88m

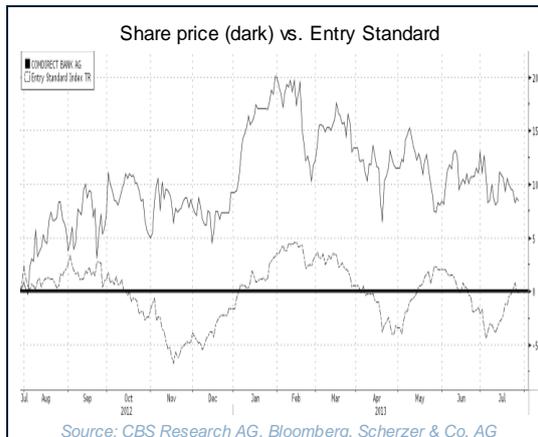
EUR 1.5m proceeds on successful exit

- Scherzer & Co. AG recently disclosed its financial results for 1H 2013, reporting earnings before interest and taxes (EBIT) of EUR 0.99m (PY: EUR 1.83m). After subtracting the negative financial result of EUR -0.11m, earnings before taxes (EBT) arrived at EUR 0.88m (PY: EUR 1.92m). The positive result was primarily attributable to realised valuation gains in the amount of EUR 1.71m whereas other operating income came in at EUR 0.69m. Moreover, Scherzer earned approx. EUR 0.78m from dividend payments. Operating expenses stood at EUR 0.43m. In addition, Scherzer's operating income was partially set off by write-downs on financial assets in the amount of EUR 2.50m, which were largely allocable to GK Software AG's weak performance during the first half of FY 2013.
- Scherzer's ten largest portfolio positions showed a predominantly favourable ytd performance. Eight out of ten investments have gained in value since the beginning of FY 2013. IBS AG showed the best performance (+57.6%), followed by WMF Württembergische Metallwarenfabrik AG (+33.0%) and Allerthal-Werke AG (+32.6%). GK Software AG's (-24.0%) and Highlight Communications AG's (-0.5%) share prices have decreased ytd. The reported NAV, at EUR 1.51 per share, remained virtually unchanged since the end of June. The potential squeeze-out volume stood at EUR 88.0m. This corresponds to approximately EUR 2.94 on a per share basis.
- According to the Scherzer & Co. management, the most recent sale of a long-term investment will make an earnings contribution in the amount of EUR 1.5m, positively affecting the performance in the second half of FY 2013. We assume that the exit refers to Generali Deutschland Holding AG as it does not appear anymore in the top ten holdings of Scherzer. Assicurazioni Generali S.p.A. had agreed to acquire a 3% stake in Generali Deutschland Holding AG from a group of private investors, as it intends to exercise its right to start the squeeze-out procedure of the outstanding 4% stake in order to take full equity control of the company. The delisting of Generali Deutschland is expected to take place in the first half of 2014. It is worth mentioning that the buyer is obliged to grant for adjustments to the purchase price under certain circumstances.
- Considering the most recent news flow, we leave our ambitious estimates unchanged as they seem accomplishable, if one allows for the proceeds stemming from the above mentioned exit which were not included in the 1H 2013 results. Accordingly, **we maintain our price target of EUR 1.70** and **confirm our BUY recommendation** as Scherzer shares are trading with a notable discount to its reported NAV and our price target, respectively.

Key data

FY 12/31, EUR m	2010	2011	2012	2013E	2014E	2015E
Total income	7.19	5.13	7.35	8.03	8.00	8.89
EBIT	4.32	-2.78	4.24	4.66	5.04	6.05
Net income	3.93	-2.77	3.91	4.53	4.90	5.90
EPS	0.14	-0.10	0.14	0.15	0.16	0.20
Fin. assets & securities	48.51	43.33	43.33	50.63	54.64	56.79
ROE	11.8%	-9.0%	10.4%	11.5%	11.1%	11.1%
ROA	7.9%	-6.2%	7.8%	8.3%	8.4%	9.5%
EV/EBIT	10.7	n.a.	11.0	10.0	9.2	7.7
P/E	8.9	n.a.	9.1	8.5	7.8	6.5

Source: CBS Research AG, Scherzer & Co. AG



Change	2013E		2014E		2015E	
EURm	new	old	new	old	new	old
Total income	-	8.03	-	8.00	-	8.89
EBIT	-	4.66	-	5.04	-	6.05
EPS	-	0.15	-	0.16	-	0.20

www.scherzer-ag.de

WKN: 694280

Reuters: PZSG.DE

Sector: Financial Services

ISIN: DE0006942808

Bloomberg: PZS GY

Short company profile:

Scherzer & Co. AG is a private equity company. The Company invests in a wide range of securities, with a focus on special situations and/or corporate actions.

Share data:

Share price (EUR, latest closing price):	1.28
Shares outstanding (m):	29.9
Market capitalisation (EUR m):	38.3
Enterprise value (EUR m):	46.4
Ø daily trading volume (3 m., no. of shares):	6,430

Performance data:

High 52 weeks (EUR):	1.36
Low 52 weeks (EUR):	0.95
Absolute performance (12 months):	28.0%
Relative performance vs. Entry Standard:	
1 month	-2.2%
3 months	5.8%
6 months	14.1%
12 months	33.2%

Shareholders:

Free float	100%
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Financial calendar:

Meeting of the supervisory board	September 27, 2013
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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 analyzed in this report:

Date	Recommendation	Price at change date	Price target
29 July 2013	BUY (Update)	EUR 1.28	EUR 1.70
22 March 2013	BUY (Update)	EUR 1.20	EUR 1.70
16 January 2013	BUY (Update)	EUR 1.15	EUR 1.60
07 November 2012	BUY (Update)	EUR 1.10	EUR 1.50

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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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