

Scherzer & Co. AG

Buy → | Target 2.80 EUR vs 2.70 EUR ↗

Price (05/09/2017) : 2.62 EUR | Upside : 7 %

Est.chg	2017e	2018e
EPS	45.3%	44.2%

Solid H1-17 results, TP increased to € 2.80

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A nearly fourfold yoy increase in income from financial instruments

Scherzer reported very sound results for H1 2017. Group income from financial instruments increased nearly 4fold from € 1.9m in H1 2016 to € 7.8m in H1 2017, mainly driven by the sale of securities (€ 2.77 from non-current assets and € 4.64 from current assets). On the expense side, Scherzer incurred losses from the sale of securities of roughly € 1.0m and write-downs on financial assets of € 2.64m vs € 3.53m in H1-16. Consequently, Scherzer realized a substantially positive EBIT of € 4.64m (H1-16: € -1.09m). EBT came in at € 4.57m (H1-16: € -1.11m) and net income at € 4.43m (H1-16: € -1.11m).

NAV up 33% yoy, strong performance of top 10 portfolio positions

Scherzer's shares have performed 25.4% year to date (ytd), while the DAX has advanced 5.8% ytd and the CDAX 8.15%. According to management, the NAV of Scherzer's portfolio positions increased by 33% yoy to € 2.61/share as of 31 July 2017. Consequently, the shares are now trading at their latest reported NAV p/s, closing their historic discounts (3.2% LTM, 9.5% L24M). In our view, this is a clear sign that the market is now factoring in Scherzer's i/ consistently successful active portfolio management and ii/ its potential earnings from compensatory claims.

As of 01 Sep, Scherzer's top ten portfolio positions (by size) accounted for 51.77% of the total portfolio and performed as follows (2016, 2017 ytd): GK Software AG (62.47%, 100.08%), freenet AG (-14.55%, 4.37%), Allerthal-Werke AG (14.77%, 21.95%), W&W Wüstenrot und Württembergische AG (-6.94%, 19.42%), K+S AG (-3.94%, -9.65%), Lotto24 AG (79.02%, 37.53%), Audi AG (-6.93%, 6.51%), Mobotix AG (-2.37%, -32.39%), Horus AG (3.25%, 41.37%), Pfeiffer Vacuum Technology AG (-5.06%, 57.34%).

Portfolio changes, 2017 Outlook

As of 01 Aug the company has acquired shares in Amaysim Australia Ltd. (an Australian mobile service provider). Additionally, in the course of the squeeze-out process of conwert Immobilien Invest SE, Scherzer received shares in Vonovia SE; it also received Vonovia shares for its investment in Luxembourg in Gagfah SA shares. As a potential sale, BKB Beteiligungsholding AG has offered € 20.04 / share to shareholders of Oldenburgischen Landesbank AG, in which Scherzer AG is invested.

Scherzer's compensatory claims currently total € 94.0m, equating to ~€ 3.14 per share. However, taking into account the investments in Allerthal-Werke AG and der RM Rheiner Management AG, held by Scherzer, the compensatory claims should total € 112m. According to management, the company lacks the visibility to make reliable business predictions for the remainder of H2 2017. It does however aim to close 2017 with a positive net income (Oddo est.: € 6.5m) based on its highly balanced investment portfolio.

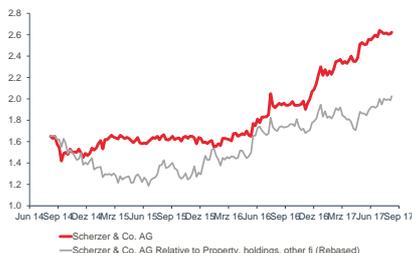
TP raised to € 2.80 (€ 2.70), Buy recommendation reiterated

All in all, Scherzer delivered a very solid H1 2017, and its share price has now fully eliminated the historic discount to reported NAV p/s. As discussed in earlier publications, we believe the shares' shrinking discount to NAV p/s has been driven in part by the newsflow on the ongoing legal case over AXA AG's 2006 squeeze-out, in which most recent auditor's opinion indicated a potential positive delta € 103 per share versus the original squeeze-out. In our view, the 176,471 AXA AG shares held by Scherzer, could be worth up to € 18m (€ 0.60 per Scherzer share).

We have adjusted our estimates based on the strong results of H1-2017. Factoring in positive active portfolio management, our residual-income-based valuation model renders a TP of € 2.80 (€ 2.70), equating to forward P/E multiples of 12.7x for 2018e and 12.5x for 2019e. Due to low predictability, we still do not include potential earnings from Scherzer's compensatory claims. We reiterate our Buy rating on the stock.

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Source : Oddo BHF Securities, Fininfo

Capital			
PZS GR PZSG.DE			
Market Cap (EURm)			79
Enterprise value (EURm)			96
Extrema 12 months	1.90	-	2.72
Free Float (%)			100.0
Performance (%)			
	1m	3m	12m
Absolute	-0.1	3.8	35.2
Perf. rel. Country Index	2.2	8.9	26.9
Perf. rel. Property, holding	4.0	8.5	19.3
P&L			
	12/17e	12/18e	12/19e
Sales (EURm)	11.2	11.8	12.5
EBITDA (EURm)	9.2	9.8	10.4
Current EBIT (EURm)	7.3	7.9	8.5
Attr. net profit (EURm)	6.5	6.6	6.7
Adjusted EPS (EUR)	0.22	0.22	0.22
Dividend (EUR)	0.05	0.05	0.05
P/E (x)	12.2	12.0	11.8
P/B (x)	1.3	1.2	1.1
Dividend Yield (%)	1.9	1.9	1.9
FCF yield (%)	10.8	12.2	13.1
EV/Sales (x)	8.64	8.13	7.71
EV/EBITDA (x)	10.5	9.8	9.3
EV/Current EBIT (x)	13.2	12.2	11.4
Gearing (%)	30	27	26
Net Debt/EBITDA(x)	2.0	1.8	1.7

Next Events	
20.03.2018	Earnings Release

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PZSG.DE PZS GR Financial Services Germany	Buy					Price 2.62EUR		
	Upside	6.75%				TP 2.80EUR		
PER SHARE DATA (EUR)	12/12	12/13	12/14	12/15	12/16	12/17e	12/18e	12/19e
Adjusted EPS	0.14	0.20	0.13	0.18	0.15	0.22	0.22	0.22
Reported EPS	0.14	0.20	0.13	0.18	0.15	0.22	0.22	0.22
Growth in EPS(%)	ns	39.0%	-36.8%	40.9%	-16.0%	44.5%	1.8%	1.3%
Net dividend per share	0.00	0.00	0.05	0.05	0.05	0.05	0.05	0.05
FCF to equity per share	0.08	-0.38	0.19	0.52	0.34	0.28	0.32	0.34
Book value per share	1.38	1.46	1.58	1.71	1.81	1.98	2.14	2.32
Number of shares market cap	27.22	29.94	29.94	29.94	29.94	29.94	29.94	29.94
Number of diluted shares	27.22	29.94	29.94	29.94	29.94	29.94	29.94	29.94
VALUATION	12/12	12/13	12/14	12/15	12/16	12/17e	12/18e	12/19e
12m highest price	1.14	1.43	1.76	1.69	2.10	2.72		
12m lowest price	0.91	1.10	1.42	1.45	1.55	2.11		
(*) Reference price	1.02	1.28	1.59	1.61	1.79	2.62	2.62	2.62
Capitalization	27.9	38.4	47.5	48.3	53.5	78.5	78.5	78.5
Restated Net debt	7.7	21.4	20.6	13.8	15.8	14.2	11.5	9.1
Minorities (fair value)	0.0	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	0.0
Provisions	0.4	2.1	1.8	1.6	2.8	3.8	5.9	8.7
Enterprise Value	36.0	62.0	69.9	63.7	72.1	96.5	96.0	96.3
P/E (x)	7.1	6.4	12.6	9.1	12.0	12.2	12.0	11.8
P/CF (x)	5.2	6.6	10.3	19.5	8.0	11.0	9.4	8.6
Net Yield (%)	0.0%	0.0%	3.1%	3.1%	2.8%	1.9%	1.9%	1.9%
FCF yield (%)	8.2%	ns	11.9%	32.0%	19.2%	10.8%	12.2%	13.1%
P/B incl. GW (x)	0.74	0.88	1.00	0.94	0.99	1.33	1.22	1.13
P/B excl. GW (x)	0.74	0.88	1.00	0.94	0.99	1.33	1.22	1.13
EV/Sales (x)	4.90	6.83	7.71	7.15	8.42	8.64	8.13	7.71
EV/EBITDA (x)	5.6	7.5	8.7	8.3	10.8	10.5	9.8	9.3
EV/EBIT (x)	8.5	9.2	16.5	10.4	14.8	13.2	12.2	11.4
(*) historical average price								
PROFIT AND LOSS (EURm)	12/12	12/13	12/14	12/15	12/16	12/17e	12/18e	12/19e
Sales	7.3	9.1	9.1	8.9	8.6	11.2	11.8	12.5
EBITDA	6.4	8.2	8.1	7.7	6.7	9.2	9.8	10.4
Depreciations	-2.2	-1.4	-3.8	-1.5	-1.8	-1.9	-1.9	-1.9
Current EBIT	4.2	6.8	4.2	6.1	4.9	7.3	7.9	8.5
Published EBIT	4.2	6.8	4.2	6.1	4.9	7.3	7.9	8.5
Net financial income	-0.1	-0.2	-0.3	0.6	-0.1	-0.1	-0.2	-0.2
Corporate Tax	-0.3	-0.6	-0.1	-1.4	-0.3	-0.7	-1.2	-1.7
Net income of equity-accounted companies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Profit/loss of discontinued activities (after tax)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Attributable net profit	3.9	6.0	3.8	5.3	4.5	6.5	6.6	6.7
Adjusted attributable net profit	3.9	6.0	3.8	5.3	4.5	6.5	6.6	6.7
BALANCE SHEET (EURm)	12/12	12/13	12/14	12/15	12/16	12/17e	12/18e	12/19e
Goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other intangible assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tangible fixed assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
WCR	30.2	48.1	47.3	36.5	31.0	29.7	28.5	
Financial assets	15.9	21.1	24.3	31.7	44.5	51.1	59.1	68.6
Ordinary shareholders equity	37.7	43.6	47.4	51.2	54.2	59.1	64.2	69.4
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shareholders equity	37.7	43.6	47.4	51.2	54.2	59.1	64.2	69.4
Non-current provisions	0.4	2.1	1.8	1.6	2.8	3.8	5.9	8.7
Net debt	8.1	23.5	22.4	15.4	18.6	17.9	17.4	17.8
CASH FLOW STATEMENT (EURm)	12/12	12/13	12/14	12/15	12/16	12/17e	12/18e	12/19e
EBITDA	6.4	8.2	8.1	7.7	6.7	9.2	9.8	10.4
Change in WCR	-3.1	-17.0	1.1	13.0	3.6	1.3	1.3	1.2
Interests & taxes	-0.3	-0.8	-0.5	-0.8	-0.4	-0.9	-1.3	-1.8
Others	-0.7	-1.6	-3.0	-4.4	0.4	-1.1	-0.1	0.6
Operating Cash flow	2.3	-11.2	5.7	15.5	10.3	8.5	9.6	10.3
CAPEX	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Free cash-flow	2.3	-11.2	5.7	15.5	10.3	8.5	9.6	10.3
Acquisitions / disposals	-0.5	-4.2	-4.5	-7.0	-12.0	-6.3	-7.6	-9.2
Dividends	0.0	0.0	0.0	-1.5	-1.5	-1.5	-1.5	-1.5
Net capital increase	2.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	-2.4	13.4	-1.3	-5.5	1.6	1.7	1.9	2.0
Change in net debt	4.9	-15.4	1.2	6.9	-3.2	0.6	0.5	-0.4
GROWTH MARGINS PRODUCTIVITY	12/12	12/13	12/14	12/15	12/16	12/17e	12/18e	12/19e
Sales growth	43.3%	23.5%	-0.1%	-1.8%	-3.9%	30.5%	5.7%	5.7%
Lfl sales growth	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Current EBIT growth	ns	59.5%	-37.3%	44.9%	-20.5%	49.7%	7.8%	7.6%
Growth in EPS(%)	ns	39.0%	-36.8%	40.9%	-16.0%	44.5%	1.8%	1.3%
Net margin	53.2%	65.8%	41.6%	59.7%	52.2%	57.8%	55.6%	53.3%
EBITDA margin	87.4%	90.4%	88.9%	85.9%	78.3%	82.1%	82.7%	83.4%
Current EBIT margin	57.7%	74.5%	46.7%	68.9%	57.1%	65.5%	66.7%	67.9%
CAPEX / Sales	0.0%	-0.1%	-0.1%	-0.1%	-0.1%	-0.2%	-0.2%	-0.3%
WCR / Sales	ns	ns	ns	ns	ns	ns	ns	
Tax Rate	6.6%	8.8%	3.2%	20.6%	5.8%	10.0%	15.0%	20.0%
Normative tax rate	-6.6%	-8.8%	-3.2%	20.6%	5.8%	-10.0%	-15.0%	-20.0%
Asset Turnover	0.3	0.2	0.2	0.2	0.3	0.4	0.4	-
ROCE post-tax (normative tax rate)	15.4%	18.8%	9.2%	11.6%	13.6%	26.5%	31.1%	-
ROCE post-tax hors GW (normative tax rate)	15.4%	18.8%	9.2%	11.6%	13.6%	26.5%	31.1%	-
ROE	11.5%	14.7%	8.3%	10.8%	8.5%	11.4%	10.6%	10.0%
DEBT RATIOS	12/12	12/13	12/14	12/15	12/16	12/17e	12/18e	12/19e
Gearing	22%	54%	47%	30%	34%	30%	27%	26%
Net Debt / Market Cap	0.29	0.61	0.47	0.32	0.35	0.23	0.22	0.23
Net debt / EBITDA	1.26	2.87	2.01	2.01	2.77	1.96	1.71	1.71
EBITDA / net financial charges	123.5	39.5	23.8	-13.6	46.8	63.3	63.1	62.8

Source: ODDO BHF Securities, Fininfo



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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 BHF 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.

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

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Date	Reco	Price Target (EUR)	Price (EUR)	Analyst
01.09.17	Buy	2.80	2.61	Henning Steinbrink
03.05.17	Buy	2.70	2.38	Henning Steinbrink

Recommendation split				
	Buy	Neutral	Reduce	
Our whole coverage	(419)	46%	44%	11%
Liquidity providers coverage	(147)	41%	52%	6%
Research service coverage	(60)	50%	47%	3%
Investment banking services	(49)	59%	35%	6%

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