



Scherzer & Co. AG

Buy → | Target 2.25 EUR vs 1.85 EUR ↗

Price (09/09/2016) : 1.96 EUR | Upside : 15 %

Est.chg 2016e 2017e
EPS

TP raised after H1 figures – extra compensatory claims are icing on the cake

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H1 2016 slightly better than expected

Scherzer & Co. AG's H1 2016 results were influenced by stock market volatility amid global economic weakness. Consequently, Scherzer completed H1 16 with a net loss of € -1.12m (H1 2015: € 3.25m). Group income was € 3.37m (H1 15: € 6.04m) resulting from i/ the sale of securities (long term & trading assets), ii/ write-ups (net of write-downs) on securities, and iii/ dividend income. EBIT came in at € -1.09m (H1 15: € +3.54m), mainly due to unusually high depreciation and write-offs on financial assets of € 3.53m versus € 1.72m in H1 2015.

Increased market volatility affects portfolio

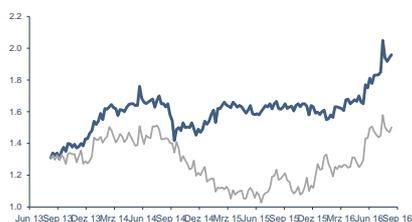
Scherzer's share price appreciated +10.68% in H1 2016 vs -9.9% for the DAX and -8.8% for the CDAX. At 30 June its top ten portfolio positions, accounting for 50.67% of total holdings, showed a mixed performance (ordered by size of holding): GK Software AG (+15.0%), W&W Wüstenrot und Württembergische AG (-15.8%), Freenet AG (May, June 2016: -8.0%), Allerthal-Werke AG (+16.4%), Lotto24 AG (+13.2%), Mobotix AG (+12.2%), Data Modul AG (+18.5%), MAN SE (preferred shares, +1.8%), Manz AG (-2.0%), and Horus AG (+0.8%). Since then Scherzer increased/entered positions in i/ Wincor Nixdorf AG currently taken over by Diebold, ii/ Mobotix AG after profit warning, iii/ freenet AG and iv/ InVision AG on solid H1 results. Total portfolio NAV per share now increased to € 1.99 from € 1.98 at 31 Dec 2015. Adding back the € 0.05 DPS paid in June 2016, NAV would have increased by ~3.0%.

H2 outlook includes potential positive NAV increase from Fidor Bank

Geopolitical tensions and the impact of Brexit on the EU will continue to fuel economic and financial market uncertainty. According to management, the company lacks the visibility to make reliable business predictions for the remainder of H2 2016. It does however aim to close 2016 with a positive net income (Oddo Seydler est.: € 2.34m) based on its highly balanced investment portfolio. In our view, Scherzer's main strategic advantage, i.e. its highly qualified management, should continue to safeguard and promote asset growth going forward. Furthermore, the company has entered a contract to sell its investment in Fidor-Bank AG. Closing is expected to be in Q4 2016; the transaction is estimated to be worth € ~2.9m (before tax) and should contribute an additional € ~0.10 to NAV per share.

Reiterate Buy, raising our TP to € 2.25 (€ 1.85)

Scherzer's shares currently trade at € 1.96, a ~2% discount to NAVpS of € 1.99 (at 1 Sep 16). The significant reduction of this discount (historical average: 15.1%) is in our view related to newsflow since 15 June connected to an ongoing legal case on AXA AG's 2006 squeeze out, in which a new auditor's opinion now indicates a potential delta of € 103 per share versus the original squeeze-out. Thus, Scherzer's 176,471 AXA AG claims could be worth up to € 18m (€ 0.60 per Scherzer share). We derive our new TP of € 2.25 (€ 1.85) from a NAV valuation model and excess-return model based on 2017/18 estimates. Due to low predictability, we still do NOT include potential earnings from Scherzer's compensatory claims (currently € 95.5m total). We reiterate our Buy rating on the stock. Our new TP of € 2.25 (€ 1.85) implies upside of 15% and forward P/E's of 16.1x 2017e and 15.0x 2018e.



Capital			
PZS GR PZSG.DE			
Market Cap (EURm)			59
Enterprise value (EURm)			75
Extrema 12 months	1.55	-	2.05
Free Float (%)			100.0
Performance (%)			
	1m	3m	12m
Absolute	3.1	17.0	21.3
Perf. rel. Country Index	2.9	15.5	27.7
Perf. rel. Property, holding	2.1	17.6	31.1
P&L			
	12/16e	12/17e	12/18e
Sales (EURm)	8.0	8.2	8.7
EBITDA (EURm)	6.5	6.7	7.2
Current EBIT (EURm)	3.0	5.2	5.6
Attr. net profit (EURm)	2.3	4.1	4.4
Adjusted EPS (EUR)	0.08	0.14	0.15
Dividend (EUR)	0.05	0.06	0.06
P/E (x)	25.1	14.4	13.4
P/B (x)	1.1	1.1	1.0
Dividend Yield (%)	2.6	3.1	3.1
FCF yield (%)	8.5	10.8	11.6
EV/Sales (x)	9.38	9.35	9.13
EV/EBITDA (x)	11.5	11.4	11.1
EV/Current EBIT (x)	25.1	14.8	14.2
Gearing (%)	31	33	36
Net Debt/EBITDA(x)	2.5	2.7	2.9

Next Events	
30.11.2016	Q3 Results

Henning Steinbrink (Analyst)
+49 (69) 92 05 48 17
henning.steinbrink@oddoeydler.com

Abraham Cavoosi-Kaleno
+49 (69) 92 05 48 32
abraham.cavoosi-kaleno@oddoeydler.com

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	Buy		14.85%		Price 1.96EUR			
	Upside				TP 2.25EUR			
PER SHARE DATA (EUR)	12/11	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
Adjusted EPS	-0.10	0.14	0.20	0.13	0.18	0.08	0.14	0.15
Reported EPS	-0.10	0.14	0.20	0.13	0.18	0.08	0.14	0.15
Growth in EPS(%)	ns	ns	39.0%	-36.8%	40.9%	-56.0%	74.5%	7.4%
Net dividend per share	0.00	0.00	0.00	0.05	0.05	0.05	0.06	0.06
FCF to equity per share	-0.05	0.08	-0.38	0.19	0.52	0.17	0.21	0.23
Book value per share	1.12	1.38	1.46	1.58	1.71	1.74	1.83	1.91
Number of shares market cap	27.22	27.22	29.94	29.94	29.94	29.94	29.94	29.94
Number of diluted shares	27.22	27.22	29.94	29.94	29.94	29.94	29.94	29.94
VALUATION	12/11	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
12m highest price	1.34	1.14	1.43	1.76	1.69	2.05		
12m lowest price	0.90	0.91	1.10	1.42	1.45	1.55		
(*) Reference price	1.17	1.02	1.28	1.59	1.61	1.96	1.96	1.96
Capitalization	31.7	27.9	38.4	47.5	48.3	58.7	58.7	58.7
Restated Net debt	12.7	7.7	21.4	20.6	13.8	14.4	16.1	18.1
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	0.3	0.4	2.1	1.8	1.6	1.8	2.1	2.5
Enterprise Value	44.7	36.0	62.0	69.9	63.7	74.9	76.9	79.3
P/E (x)	ns	7.1	6.4	12.6	9.1	25.1	14.4	13.4
P/CF (x)	ns	5.2	6.6	10.3	19.5	15.0	11.9	10.7
Net Yield (%)	0.0%	0.0%	0.0%	3.1%	3.1%	2.6%	3.1%	3.1%
FCF yield (%)	ns	8.2%	ns	11.9%	32.0%	8.5%	10.8%	11.6%
P/B incl. GW (x)	1.04	0.74	0.88	1.00	0.94	1.13	1.07	1.02
P/B excl. GW (x)	1.04	0.74	0.88	1.00	0.94	1.13	1.07	1.02
EV/Sales (x)	8.73	4.90	6.83	7.71	7.15	9.38	9.35	9.13
EV/EBITDA (x)	10.3	5.6	7.5	8.7	8.3	11.5	11.4	11.1
EV/EBIT (x)	ns	8.5	9.2	16.5	10.4	25.1	14.8	14.2
(*) historical average price								
PROFIT AND LOSS (EURm)	12/11	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
Sales	5.1	7.3	9.1	9.1	8.9	8.0	8.2	8.7
EBITDA	4.3	6.4	8.2	8.1	7.7	6.5	6.7	7.2
Depreciations	-7.1	-2.2	-1.4	-3.8	-1.5	-3.5	-1.5	-1.6
Current EBIT	-2.8	4.2	6.8	4.2	6.1	3.0	5.2	5.6
Published EBIT	-2.8	4.2	6.8	4.2	6.1	3.0	5.2	5.6
Net financial income	0.0	-0.1	-0.2	-0.3	0.6	-0.1	-0.1	-0.1
Corporate Tax	0.0	-0.3	-0.6	-0.1	-1.4	-0.6	-1.0	-1.1
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	-2.8	3.9	6.0	3.8	5.3	2.3	4.1	4.4
Adjusted attributable net profit	-2.8	3.9	6.0	3.8	5.3	2.3	4.1	4.4
BALANCE SHEET (EURm)	12/11	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
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	28.3	30.2	48.1	47.3	36.5	35.4	34.0	32.6
Financial assets	15.6	15.9	21.1	24.3	31.7	34.7	41.1	47.8
Ordinary shareholders equity	30.6	37.7	43.6	47.4	51.2	52.1	54.7	57.2
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shareholders equity	30.6	37.7	43.6	47.4	51.2	52.1	54.7	57.2
Non-current provisions	0.3	0.4	2.1	1.8	1.6	1.8	2.1	2.5
Net debt	13.0	8.1	23.5	22.4	15.4	16.2	18.2	20.6
CASH FLOW STATEMENT (EURm)	12/11	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
EBITDA	4.3	6.4	8.2	8.1	7.7	6.5	6.7	7.2
Change in WCR	0.3	-3.1	-17.0	1.1	13.0	1.1	1.4	1.4
Interests & taxes	0.0	-0.3	-0.8	-0.5	-0.8	-0.6	-1.1	-1.2
Others	-5.9	-0.7	-1.6	-3.0	-4.4	-2.0	-0.7	-0.5
Operating Cash flow	-1.2	2.3	-11.2	5.7	15.5	5.0	6.3	6.8
CAPEX	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Free cash-flow	-1.2	2.3	-11.2	5.7	15.5	5.0	6.3	6.8
Acquisitions / disposals	3.1	-0.5	-4.2	-4.5	-7.0	-4.3	-6.9	-7.4
Dividends	0.0	0.0	0.0	0.0	-1.5	-1.5	-1.5	-1.8
Net capital increase	0.0	2.7	0.0	0.0	0.0	0.0	0.0	0.0
Others	-2.0	-2.4	13.4	-1.3	-5.5	1.8	2.0	2.2
Change in net debt	1.9	4.9	-15.4	1.2	6.9	-0.8	-2.0	-2.4
GROWTH MARGINS PRODUCTIVITY	12/11	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
Sales growth	-28.7%	43.3%	23.5%	-0.1%	-1.8%	-10.4%	3.1%	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	ns	59.5%	-37.3%	44.9%	-51.4%	74.0%	7.8%
Growth in EPS(%)	ns	ns	39.0%	-36.8%	40.9%	-56.0%	74.5%	7.4%
Net margin	-54.0%	53.2%	65.8%	41.6%	59.7%	29.3%	49.7%	50.5%
EBITDA margin	84.6%	87.4%	90.4%	88.9%	85.9%	81.7%	81.9%	82.5%
Current EBIT margin	-54.3%	57.7%	74.5%	46.7%	68.9%	37.4%	63.2%	64.4%
CAPEX / Sales	-0.2%	0.0%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%
WCR / Sales	ns	ns	ns	ns	ns	ns	ns	ns
Tax Rate	1.6%	6.6%	8.8%	3.2%	20.6%	20.0%	20.0%	20.0%
Normative tax rate	-1.6%	-6.6%	-8.8%	-3.2%	20.6%	-20.0%	-20.0%	-20.0%
Asset Turnover	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.3
ROCE post-tax (normative tax rate)	-9.9%	15.4%	18.8%	9.2%	11.6%	10.0%	18.0%	20.2%
ROCE post-tax hors GW (normative tax rate)	-9.9%	15.4%	18.8%	9.2%	11.6%	10.0%	18.0%	20.2%
ROE	-8.7%	11.5%	14.7%	8.3%	10.8%	4.5%	7.7%	7.8%
DEBT RATIOS	12/11	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
Gearing	43%	22%	54%	47%	30%	31%	33%	36%
Net Debt / Market Cap	0.41	0.29	0.61	0.47	0.32	0.28	0.31	0.35
Net debt / EBITDA	3.00	1.26	2.87	2.77	2.01	2.49	2.71	2.88
EBITDA / net financial charges	137.4	123.5	39.5	23.8	-13.6	112.9	77.7	63.1

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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 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).

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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
12.09.16	Buy	2.25	1.96	#N/A

Recommendation split				
		Buy	Neutral	Reduce
Our whole coverage	(412)	50%	38%	11%
Liquidity providers coverage	(145)	59%	36%	6%
Research service coverage	(65)	66%	31%	3%
Investment banking services	(26)	69%	31%	

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