

# Vectron Systems AG

Buy → | Target 22.50 € vs 26.60 € ↘

Price (13/05/2019) : 10.65 € | Upside : 111%

Revision 2019e 2020e  
EPS

## Q1 19 results in line; POS fiscalization phase II to lift revenues from Q4; new digital businesses poised to make first contributions

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Sources : ODDO BHF Securities, SIX

Capital				
<b>V3S GR   V3SG.DE</b>				
Market Cap (€m)				77
Enterprise value (€m)				73
Extrema 12 months (€)	7.12			26.40
Free Float (%)				44.0
Performance (%)				
	1m	3m	12m	
Absolute	-2.7	43.9	-59.3	
Perf. rel. Country Index	1.2	41.0	-57.1	
Perf. rel. IT Hardware	-0.3	37.1	-58.0	
P&L				
	12/19e	12/20e	12/21e	
Sales (€m)	26.5	44.0	48.1	
EBITDA (€m)	-2.0	7.3	9.0	
Current EBIT (€m)	-3.7	5.6	7.4	
Attr. net profit (€m)	-3	3.7	4.9	
Adjusted EPS (€)	-0.38	0.51	0.68	
Dividend (€)	0.00	0.11	0.15	
P/E (x)	ns	21.0	15.7	
P/B (x)	6.3	4.8	3.8	
Dividend Yield (%)	0.0	1.0	1.4	
FCF yield (%)	ns	4.8	5.9	
EV/Sales (x)	2.90	1.67	1.45	
EV/EBITDA (x)	ns	10.1	7.7	
EV/Current EBIT (x)	ns	13.1	9.4	
Gearing (%)	-11	-32	-44	
Net Debt/EBITDA (x)	0.7	ns	ns	

### Next Events

19.06.2019	Annual General Meeting
30.08.2019	H1 Results
31.10.2019	Q3 Results

### Q1 revenues -20% yoy on high comps; EBITDA at € -0.9m

Vectron's Q1 2019 results were rather weak but in line with expectations. Group revenue decreased 20.7% yoy to €5.9m (Oddo BHF: € 5.8m), still continuing to normalize after completion of the first POS fiscalization phase. With phase II starting from January 2020, we originally expected increasing revenues from POS updates/sales in H2 2019. According to management and recent industry newsflow, however, this effect may not kick in until Q4 2019 or even 2020. Q1 2019 EBITDA was negative at € -0.9m (slightly above our estimate of € -1.1m), equating to a margin of -15.1%. Besides sales normalization, investments in the new digital business model have put additional pressure on Vectron's bottom line.

### Reported Q1 results vs Oddo BHF estimates

	reported	yoy	ODDO BHF	diff%
Revenue	5.9	-20.7%	5.8	1.6%
EBITDA	-0.9	NA	-1.1	NA
Margin%	-15.1%	NA	-19.3%	421bp

### New digital projects expected to contribute in H2 2019e

Vectron now groups its digital cloud services under the brand names myVectron and bonVito. These services range from loyalty and payment functions to online reservations and online reporting. All services are directly connected to the POS, and ultimately to a proprietary central data centre. Today (13 May), Vectron and Resmio GmbH, a leading table reservation platform with 10,000 restaurant participants, have announced a cooperation agreement to jointly offer integrated digital services for the catering industry. For this purpose, Resmio's functions will be integrated into Vectron's POS systems. Reservations are transferred directly to the POS, rendering additional hardware or duplicate entries and eliminating operating errors. Reservation fees are shared between the partners but are supposed to be below the price level of competitors. Since August 2018 Vectron has also been working with DeutschlandCard (DC), one of the largest loyalty solutions providers in the German market. The aim of this cooperation is to distribute DC via Vectron POS systems. Vectron's distributors began marketing DC in mid-January 2019 and the first caterers have already signed contracts. Vectron also recently announced a partnership with Epay to develop and offer new functions/services for POS operators focusing on alternative payment methods and the distribution of services such as mobile phone money recharges and electronic vouchers. In our view, Epay's range of cash-based payment options and the large portfolio of prepaid card products with internationally renowned brands is another valuable addition to Vectron's digital offers.

### Adjusting TP to reflect shifted phase II execution and reduced visibility

All in all, Q1 2019 was again driven by the normalization of demand for POS systems after a regulation-driven surge. Management has yet to provide detailed guidance for 2019 but emphasizes the importance of its new digital business model in its future growth strategy. For 2020e, we expect the POS market to gain significant traction, driven by regulations requiring POS systems to be updated and made manipulation-proof (fiscalization). Vectron's new digital business areas are also poised to make their first contributions to group revenue and earnings. We have fine-tuned our model in view of the delayed phase II POS execution and overall reduced market visibility. Our adjusted DCF based TP is €22.5 (€ 26.60).

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### Conflict of interests:

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**Vectron Systems AG: Discounted Cash Flow valuation**

EURm	PHASE 1			2022E	2023E	PHASE 2				PHASE 3	
	2019E	2020E	2021E			2024E	2025E	2026E	2027E	2028E	∞
Sales	26.5	44.0	48.1	51.6	52.9	57.4	62.5	67.2	72.0	73.5	
YoY growth	6.9%	65.8%	9.2%	7.3%	2.7%	8.5%	8.9%	7.5%	7.2%	2.0%	
EBIT	-3.7	5.6	7.4	12.3	14.3	17.1	20.2	21.8	23.4	23.8	
EBIT margin	-13.9%	12.7%	15.3%	23.9%	27.0%	29.8%	32.4%	32.4%	32.4%	32.4%	
Income tax	1.3	-0.4	-0.5	-3.1	-3.6	-4.3	-5.1	-6.5	-7.0	-7.1	
Depreciation and amortisation	1.7	1.7	1.7	0.9	1.0	1.0	1.2	1.2	1.2	1.2	
Change in net working capital	-0.1	-0.2	-0.5	-0.4	-0.2	-0.8	-0.9	-0.8	-0.9	-0.3	
NWC gemessen am Umsatz	30.6%	19.0%	18.5%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	
NWC absolut	8.1	8.3	8.9	9.3	9.5	10.3	11.3	12.1	13.0	13.2	
Net capital expenditure	-0.3	-0.8	-1.4	-1.7	-1.6	-1.3	-1.3	-1.2	-1.2	-1.2	
<b>Free cash flow</b>	<b>-1.2</b>	<b>5.8</b>	<b>6.7</b>	<b>8.0</b>	<b>9.9</b>	<b>11.8</b>	<b>14.1</b>	<b>14.4</b>	<b>15.5</b>	<b>16.4</b>	
<b>Present values</b>	<b>-1.1</b>	<b>5.0</b>	<b>5.2</b>	<b>5.7</b>	<b>6.5</b>	<b>7.1</b>	<b>7.8</b>	<b>7.2</b>	<b>7.1</b>	<b>6.9</b>	<b>100.5</b>
Present value Phase 1	9.1	6%									
Present value Phase 2	48.4	31%									
Present value Phase 3	100.5	64%									
Total present value	158.0	100%									
+ Excess cash	16.6										
- Financial debt	-11.3										
Fair value of equity	163.3										
Number of shares (m)	7.3										
<b>Fair value per share (€)</b>	<b>22.46</b>										

  

Risk free rate	1.10%	Target equity ratio	75.0%
Equity risk premium	7.86%	Beta (fundamental)	1.3
Debt risk premium	3.00%	<b>WACC</b>	<b>9.0%</b>
Tax shield	30.0%	<b>Terminal growth</b>	<b>2.0%</b>

  

<b>Sensitivity analysis</b>						
<b>Terminal growth (Phase 3)</b>						
		<b>1.0%</b>	<b>1.5%</b>	<b>2.0%</b>	<b>2.5%</b>	<b>3.0%</b>
<b>WACC</b>	<b>8.0%</b>	24.20	25.44	26.88	28.59	30.64
	<b>8.5%</b>	22.28	23.31	24.50	25.88	27.52
	<b>9.0%</b>	20.61	21.47	<b>22.46</b>	23.59	24.92
	<b>9.5%</b>	19.14	19.87	20.69	21.64	22.72
	<b>10.0%</b>	17.84	18.46	19.16	19.95	20.85

Sources: Company data, Oddo BHF Securities



**V3S GR | V3SG.DE**  
**Electronics | Germany**

	Buy Upside 111.27%					Price 10.65EUR TP 22.50EUR		
	12/14	12/15	12/16	12/17	12/18	12/19e	12/20e	12/21e
<b>PER SHARE DATA (€)</b>								
Adjusted EPS	0.08	0.18	0.30	0.16	-0.59	-0.38	0.51	0.68
<b>Reported EPS</b>	<b>0.12</b>	<b>0.18</b>	<b>0.30</b>	<b>0.16</b>	<b>-0.59</b>	<b>-0.38</b>	<b>0.51</b>	<b>0.68</b>
Growth in adjusted EPS	39.3%	ns	66.1%	-45.3%	ns	ns	ns	34.0%
Net dividend per share	0.05	0.07	0.11	0.07	0.00	0.00	0.11	0.15
FCF to equity per share	0.23	0.17	0.05	-0.45	-0.39	-0.28	0.51	0.63
Book value per share	1.48	1.17	2.25	2.17	1.53	1.70	2.21	2.77
Number of shares market cap (m)	6.60	6.60	6.60	6.60	6.61	7.27	7.27	7.27
Number of diluted shares (m)	6.60	6.60	6.60	6.60	6.61	7.27	7.27	7.27
<b>VALUATION (€m)</b>								
12m highest price (€)	2.67	7.52	16.22	39.25	28.05	11.78		
12m lowest price (€)	1.80	2.47	6.62	14.86	7.60	7.12		
(*) Reference price (€)	2.30	4.48	11.15	24.73	19.37	10.65	10.65	10.65
Capitalization	15.2	29.6	73.6	163	128	77.5	77.5	77.5
Restated Net debt	-3.2	-1.2	-6.6	-1.5	1.6	-1.4	-5.1	-8.8
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	0.9	2.0	3.2	1.7	1.0	1.0	1.0	1.0
<b>Enterprise Value</b>	<b>12.9</b>	<b>30.3</b>	<b>70.2</b>	<b>163</b>	<b>131</b>	<b>77.1</b>	<b>73.3</b>	<b>69.6</b>
P/E (x)	29.1	25.0	37.5	152	ns	ns	21.0	15.7
P/CF (x)	16.0	11.7	19.7	4,440	ns	ns	14.4	11.7
Net Yield	2.0%	1.5%	1.0%	0.3%	0.0%	0.0%	1.0%	1.4%
FCF yield	10.1%	3.8%	0.5%	ns	ns	ns	4.8%	5.9%
P/B incl. GW (x)	1.55	3.83	4.95	11.38	12.64	6.27	4.83	3.84
P/B excl. GW (x)	1.55	3.83	4.95	11.38	12.64	6.27	4.83	3.84
EV/Sales (x)	0.58	1.17	2.08	5.04	5.26	2.90	1.67	1.45
EV/EBITDA (x)	8.3	11.5	19.4	72.4	ns	ns	10.1	7.7
<b>EV/Current EBIT (x)</b>	<b>12.6</b>	<b>14.7</b>	<b>22.7</b>	<b>93.5</b>	<b>ns</b>	<b>ns</b>	<b>13.1</b>	<b>9.4</b>
(*) historical average price								
<b>PROFIT AND LOSS (€m)</b>								
Sales	22.4	25.9	33.7	32.4	24.8	26.5	44.0	48.1
EBITDA	1.6	2.6	3.6	2.3	-3.8	-2.0	7.3	9.0
Depreciations	-0.5	-0.6	-0.5	-0.5	-1.7	-1.7	-1.7	-1.7
<b>Current EBIT</b>	<b>1.0</b>	<b>2.1</b>	<b>3.1</b>	<b>1.7</b>	<b>-5.4</b>	<b>-3.7</b>	<b>5.6</b>	<b>7.4</b>
Published EBIT	1.0	2.1	3.1	1.7	-5.4	-3.7	5.6	7.4
Net financial income	0.1	-0.2	-0.1	-0.1	-0.2	-0.3	-0.3	-0.3
Corporate Tax	-0.3	-0.7	-1.0	-0.6	1.7	1.2	-1.6	-2.1
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	0.8	1.2	2.0	1.1	-3.9	-2.8	3.7	4.9
<b>Adjusted attributable net profit</b>	<b>0.5</b>	<b>1.2</b>	<b>2.0</b>	<b>1.1</b>	<b>-3.9</b>	<b>-2.8</b>	<b>3.7</b>	<b>4.9</b>
<b>BALANCE SHEET (€m)</b>								
Goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other intangible assets	0.6	0.5	0.4	1.5	0.2	0.2	0.5	0.9
Tangible fixed assets	0.8	0.8	0.7	0.6	0.6	-0.3	-0.9	-1.4
WCR	5.0	6.2	9.3	10.4	8.5	8.6	8.8	9.3
Financial assets	1.0	1.0	1.0	1.9	3.5	3.5	3.5	3.5
Ordinary shareholders equity	9.8	7.7	14.9	14.3	10.1	12.4	16.0	20.2
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shareholders equity	9.8	7.7	14.9	14.3	10.1	12.4	16.0	20.2
Non-current provisions	0.9	2.0	3.2	1.7	1.0	1.0	1.0	1.0
<b>Net debt</b>	<b>-3.2</b>	<b>-1.2</b>	<b>-6.6</b>	<b>-1.5</b>	<b>1.6</b>	<b>-1.4</b>	<b>-5.1</b>	<b>-8.8</b>
<b>CASH FLOW STATEMENT (€m)</b>								
<b>EBITDA</b>	<b>1.6</b>	<b>2.6</b>	<b>3.6</b>	<b>2.3</b>	<b>-3.8</b>	<b>-2.0</b>	<b>7.3</b>	<b>9.0</b>
Change in WCR	0.9	-1.0	-3.0	-1.5	2.3	-0.1	-0.2	-0.5
Interests & taxes	-0.5	-0.2	-0.2	-1.7	-0.2	1.2	-1.6	-2.1
Others	-0.1	0.1	0.4	-0.6	-0.7	-0.3	-0.3	-0.3
Operating Cash flow	1.8	1.5	0.8	-1.5	-2.3	-1.2	5.1	6.1
CAPEX	-0.3	-0.4	-0.4	-1.5	-0.3	-0.8	-1.4	-1.5
<b>Free cash-flow</b>	<b>1.5</b>	<b>1.1</b>	<b>0.3</b>	<b>-3.0</b>	<b>-2.6</b>	<b>-2.1</b>	<b>3.7</b>	<b>4.6</b>
Acquisitions / disposals	0.0	0.0	0.0	-0.9	0.0	0.0	0.0	0.0
Dividends	-0.3	-0.5	-0.7	-1.6	-0.3	0.0	0.0	-0.8
Net capital increase	0.0	0.0	5.9	0.0	0.0	5.0	0.0	0.0
Others	-0.3	1.1	-3.4	-0.2	8.7	0.0	0.0	0.0
Change in net cash	0.9	-1.9	5.4	-5.1	-3.1	3.0	3.7	3.7
<b>GROWTH MARGINS PRODUCTIVITY</b>								
Sales growth	4.7%	15.4%	30.4%	-4.0%	-23.3%	6.9%	65.8%	9.2%
<b>Lfl sales growth</b>								
Current EBIT growth	6.3%	ns	49.3%	-43.4%	ns	ns	ns	31.8%
Growth in adjusted EPS	39.3%	ns	66.1%	-45.3%	ns	ns	ns	34.0%
Net margin	2.3%	4.6%	5.8%	3.3%	-15.6%	-10.4%	8.4%	10.3%
<b>EBITDA margin</b>	<b>7.0%</b>	<b>10.2%</b>	<b>10.7%</b>	<b>7.0%</b>	<b>-15.2%</b>	<b>-7.6%</b>	<b>16.5%</b>	<b>18.8%</b>
<b>Current EBIT margin</b>	<b>4.6%</b>	<b>8.0%</b>	<b>9.2%</b>	<b>5.4%</b>	<b>-22.0%</b>	<b>-13.9%</b>	<b>12.7%</b>	<b>15.3%</b>
CAPEX / Sales	-1.4%	-1.6%	-1.3%	-4.7%	-1.3%	-3.2%	-3.2%	-3.2%
WCR / Sales	22.5%	23.8%	27.5%	32.2%	34.1%	32.4%	20.0%	19.5%
Tax Rate	29.7%	35.6%	33.7%	35.2%	31.0%	30.0%	30.0%	30.0%
Normative tax rate								
Asset Turnover	3.2	3.7	3.8	2.8	2.3	3.0	5.2	5.5
<b>ROCE post-tax (normative tax rate)</b>								
ROCE post-tax hors GW (normative tax rate)	-	-	-	-	-	-	-	-
ROE	5.4%	13.5%	17.4%	7.4%	-31.7%	-24.7%	25.9%	27.3%
<b>DEBT RATIOS</b>								
Gearing	-32%	-16%	-45%	-10%	16%	-11%	-32%	-44%
Net Debt / Market Cap	-0.21	-0.04	-0.09	-0.01	0.01	-0.02	-0.07	-0.11
<b>Net debt / EBITDA</b>	<b>ns</b>	<b>ns</b>	<b>ns</b>	<b>ns</b>	<b>ns</b>	<b>0.68</b>	<b>ns</b>	<b>ns</b>
EBITDA / net financial charges	-24.5	11.5	30.0	25.5	-22.9	-7.4	22.4	29.1

Source: ODDO BHF Securities, SIX



- **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 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.

- **Sensitivity of the result of the analysis/ risk classification:**

The opinions expressed in the financial analysis are opinions as per a particular date, i.e. the date indicated in the financial analysis. The recommendation (cf. explanation of the recommendation systematic) can change owing to unforeseeable events which may, for instance, have repercussions on both the company and on the whole industry.

- **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 BHF concerning the companies covered and mentioned in this document are available on the research site: [www.securities.oddo-bhf.com](http://www.securities.oddo-bhf.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
13.05.19	Buy	22.50	10.65	Henning Steinbrink
12.11.18	Buy	26.60	11.22	Henning Steinbrink
19.07.18	Buy	25.00	16.50	Henning Steinbrink

In accordance with Article 20 of European Regulation No. 596/2014 (Market Abuse Regulation), a list of all recommendations on any financial instrument or issuer that have been disseminated over the past twelve months is available by clicking on the following link [www.securities.oddo-bhf.com](http://www.securities.oddo-bhf.com)

**Recommendation split**

		Buy	Neutral	Reduce
Our whole coverage	(423)	51%	41%	8%
Liquidity providers coverage	(81)	56%	43%	1%
Research service coverage	(32)	69%	31%	76%
Investment banking services	(25)	24%		

**Risk of conflict of interest:**

<b>Investment banking and/or Distribution</b>	
Has ODDO BHF, managed or co-managed in the past 12 months a public offering of securities for the subject company/ies?	No
Has ODDO BHF, received compensation for investment banking services from the subject company/ies in the past 12 months or expects to receive or intends to seek compensation for investment banking services from the subject company/ies in the last 12 months?	No
<b>Research contract between ODDO group &amp; the issuer</b>	
ODDO BHF and the issuer have agreed that ODDO BHF will produce and disseminate investment recommendations on the said issuer as a service to the issuer	Yes
<b>Liquidity provider agreement and market-making</b>	
At the date of the distribution of this report, does ODDO BHF, act as a market maker or has ODDO BHF, signed a liquidity provider agreement with the subject company/ies?	Yes
<b>Significant equity stake</b>	
Does ODDO BHF, own 5% or more of any class of common equity securities of the subject company/ies?	No
Does the subject company beneficially own 5% or more of any class of common equity of ODDO BHF or its affiliates?	No
<b>Disclosure to Company</b>	
Has a copy of this report ; with the target price and/or rating removed, been presented to the subject company/ies prior to its distribution, for the sole purpose of verifying the accuracy of factual statements ?	No
Have the conclusions of this report been amended following disclosure to the company/ies and prior its distribution?	No
<b>Additional material conflicts</b>	
Is ODDO BHF, aware of any additional material conflict of interest?	No
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