

SinnerSchrader

Dividend increased 67%

Forecasts updated

Software & comp services

SinnerSchrader (SZZ) expects another year of double-digit revenue growth and margin improvement in FY17, underpinned by the Audi win. This confidence is reflected in the 67% increase in the dividend to 20c. This should provide strong support to the shares which, on an FY17e P/E of 16x, trade in line with SZZ's wider peer group, although still at a discount to closest German peer Syzygy.

Year end	Revenue (€m)	EBITA* (€m)	EBITA** (€m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
08/15	47.7	2.1	4.2	25.1	12.0	22.7	2.1
08/16	51.1	4.7	5.1	29.4	20.0	19.4	3.5
08/17e	58.7	5.9	5.9	34.9	21.8	16.3	3.8
08/18e	64.5	6.8	6.8	38.7	24.2	14.7	4.2

Note: *EBITA and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. **Excludes discontinued items.

A year of progress

FY16 was a year of progress at SinnerSchrader, which took the decision to exit its underperforming adtech platform and focus resources on its core agency businesses. It continues to consolidate its position as one of Germany's leading agencies, delivering c 13% underlying revenue growth in FY16, as well as announcing a landmark deal when it was selected by Audi as its worldwide digital lead agency. The protracted Audi pitch process, the impact of trialling new project management techniques (agile scrums) and the ongoing impact of a tight labour market affected efforts to improve profitability. However, despite these factors EBITA margins still increased to 10% (from 9.3%) on a continuing basis.

Another buoyant year expected in FY17

As well as the Audi contract, which could become SZZ's largest ever contract (and has yet to materially contribute to revenues), management reports that it is seeing budget increases across the board. It has introduced guidance for FY17 of revenue growth of 10% with EBITA margins of 10.5%, implying an EBITA of €5.8-5.9m. This is consistent with our forecast for EBITA in FY17, although the revenue/margin mix is different. Audi should have a more significant impact in the coming months and consequently Q1 results should set the stage for the year. Given the strong growth backdrop and the current flux in the client base, we retain our forecasts, which reflect a more dynamic revenue development than guidance (+15%), but on a more modest margin (10%) in the light of staffing considerations.

Valuation: Dividend support, ratings expansion

SZZ shares have performed strongly over the last year and, on an FY17e P/E of 16x, now trade more in line with digital agency peers. Against a strong market backdrop and underpinned by the recent Audi win, we forecast one of the faster revenue growth profiles among its peer set for FY17 (+15%) and, given the rarity value of German digital agencies in a consolidating market (eg closest peer Syzygy, which has a similar growth and margin profile, trades on 27x FY17e P/E), a premium to the sector is arguably justified. The 67% hike in the full year dividend to 20c sets a new benchmark and, yielding 4%, should also provide a strong support.

28 November 2016

Price €5.7
Market cap €64m

Net cash (€m) at end August 2016	6.1
Shares in issue	11.2m
Free float	51%
Code	SZZ
Primary exchange	FRA
Secondary exchange	NA

Share price performance



%	1m	3m	12m
Abs	7.5	18.6	39.2
Rel (local)	8.1	16.7	45.3
52-week high/low	€5.7	€3.7	

Business description

SinnerSchrader is a leading European independent digital agency that specialises in helping companies use the internet to sell and market goods and services. The majority of sales originate in Germany, servicing accounts such as Allianz, Audi, Deutsche Bank, Telefonica and Unity Media.

Next events

Q1 report	13 January 2017
AGM	26 January 2013
Q2 report	13 April 2017

Analysts

Bridie Barrett	+44 (0)20 3077 5700
Dan Ridsdale	+44 (0)20 3077 5729

tech@edisongroup.com

[Edison profile page](#)

SinnerSchrader is a research client of Edison Investment Research Limited

Valuation: Peer comparison and M&A

Peer multiples: SZZ's rating gap with the wider peer set has closed considerably over the course of the last year. The shares trade on an FY17e P/E of 16.0x and EV/EBIT of 10.5x – more consistent with the wider peer group (Exhibit 1), although still at a c 15% discount to the average. However, compared to companies with similar revenue growth rates and margins, it continues to look mispriced. For instance, according to Bloomberg estimates, Syzygy, Ad Pepper Media and 1000mercis should deliver approximately the same revenue growth rate as SinnerSchrader this year, yet their P/E ratings are considerably higher.

M&A: given the wave of consolidation in the sector, it is also worth considering the possibility of trade interest; the German market is notoriously difficult to crack for non-German companies and SZZ brings 20 years' experience, relationships and approximately c 500 employees, of which roughly half are developers. Last year's takeover attempt for Syzygy by WPP highlights the potential value of assets of this genre to larger corporates. Syzygy, like SZZ, is one of Germany's largest independent digital agencies. WPP offered €9 per Syzygy share, which at the time implied an FY15 P/E of 24x and an EV/EBITA multiple of 14x. Applying a similar rating to SZZ would imply a value per share of approximately €7.5.

Exhibit 1: Summary peer multiple comparison

	Spot price (ccy)	Market cap m (ccy)	Sales growth FY1 (%)	Sales growth FY2 (%)	EBIT margin FY1 (%)	P/E FY1 (x)	P/E FY2 (x)	EV/EBIT FY1 (x)	EV/EBIT FY2 (x)
SinnerSchrader	5.60	64	15	10	10	16.0	14.5	10.5	9.1
Syzygy	12.36	159	15	11	10	29.8	27.2	22.4	19.3
Ad Pepper Media Int.	2.35	54	10	10	3	29.4	21.4	17.7	13.6
1000mercis	40.98	128	10	13	17	18.2	16.0	11.6	11.0
NetBooster	2.46	47	(19)	11	6	19.7	14.1	10.6	9.4
Weborama	11.70	41	7	18	N/A	30.0	36.6	N/A	N/A
dotdigital group	53.00	153	2	23	24	23.6	20.0	17.8	14.5
Reply	106.20	993	9	9	12	15.4	13.5	10.1	8.9
Next Fifteen Com.	322.00	236	23	9	14	15.7	13.9	11.4	10.5
Triboo	2.60	75	201	14	9	13.7	10.0	7.6	5.8
Publicis Groupe	60.96	13,773	2	4	15	13.6	12.6	10.7	9.9
Havas	7.42	3,112	4	4	14	16.0	15.0	10.6	10.0
WPP	1,707.00	21,836	12	9	15	15.4	13.6	12.9	11.8
Interpublic Group	23.61	9,373	3	4	12	17.9	16.3	11.2	10.4

Source: Bloomberg. Note FY equates to forecast year. Prices as at 25 November 2016.

Exhibit 2: Financial summary

	€'000s	2014	2015	2016	2017e	2018e
Aug		IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue		48,601	47,690	51,131	58,650	64,515
Cost of Sales		(37,168)	(35,659)	(38,337)	(41,055)	(45,161)
Gross Profit		11,433	12,032	12,794	17,595	19,355
Continuing EBITDA		5,384	5,251	4,514	6,365	7,384
Continuing EBITA		4,600	4,200	5,135	5,865	6,774
Intangible Amortisation		(82)	0	0	0	0
Exceptionals		0	(614)	0	0	0
Discontinued operations		(1,536)	(1,503)	(400)	0	0
Operating Profit		2,982	2,083	4,735	5,865	6,774
Net Interest		8	(2)	(1)	0	1
Profit Before Tax (norm)		4,608	4,198	5,134	5,865	6,775
Profit Before Tax (FRS 3)		2,990	2,081	4,734	5,865	6,775
Tax		(1,147)	(563)	(1,361)	(1,760)	(2,182)
Profit After Tax (norm)		3,124	2,847	3,373	4,106	4,594
Profit After Tax (FRS 3)		1,843	1,518	3,373	4,106	4,594
Average Number of Shares Outstanding (m)		11.1	11.3	11.4	11.7	11.8
EPS - normalised (c)		28.0	25.2	29.6	35.2	39.0
EPS - normalised fully diluted (c)		27.8	25.1	29.4	34.9	38.7
EPS - (IFRS) (c)		16.5	13.4	29.6	35.2	39.0
Dividend per share (c)		12.0	12.0	20.0	21.8	24.2
Gross Margin (%)		23.5	25.2	25.0	30.0	30.0
EBITDA Margin (%)		11.1	11.0	8.8	10.9	11.4
Operating Margin (before GW and except.) (%)		9.5	8.8	10.0	10.0	10.5
BALANCE SHEET						
Fixed Assets		7,039	6,601	6,524	6,238	6,143
Intangible Assets		5,136	4,999	5,105	5,105	5,035
Tangible Assets		1,902	1,603	1,419	1,132	1,108
Investments		0	0	0	0	0
Current Assets		21,512	21,130	19,919	22,911	25,878
Stocks		0	0	0	0	0
Debtors		15,590	14,830	12,971	14,878	16,366
Cash		5,833	5,559	6,099	7,183	8,662
Other		90	741	850	850	850
Current Liabilities		(13,777)	(12,475)	(10,043)	(11,426)	(12,499)
Creditors		(13,777)	(12,475)	(10,043)	(11,426)	(12,499)
Short term borrowings		0	0	0	0	0
Long Term Liabilities		(699)	(296)	(530)	(530)	(530)
Long term borrowings		0	0	0	0	0
Other long term liabilities		(699)	(296)	(530)	(530)	(530)
Net Assets		14,075	14,960	15,870	17,192	18,992
CASH FLOW						
Operating Cash Flow		2,656	2,244	4,862	5,876	7,008
Net Interest		8	(2)	(1)	0	1
Tax		(1,147)	(563)	(1,361)	(1,760)	(2,182)
Capex		(1,504)	(458)	(465)	(500)	(515)
Acquisitions/disposals		(306)	(300)	(1,135)	0	0
Financing		177	153	1	0	0
Dividends		0	(1,348)	(1,361)	(2,533)	(2,833)
Net Cash Flow		(117)	(274)	540	1,084	1,480
Opening net debt/(cash)		(5,949)	(5,833)	(5,559)	(6,099)	(7,183)
HP finance leases initiated		0	0	0	0	0
Other		0	0	(0)	(0)	0
Closing net debt/(cash)		(5,833)	(5,559)	(6,099)	(7,183)	(8,662)

Source: Company accounts (historic), Edison Investment Research (forecasts)

Edison, the investment intelligence firm, is the future of investor interaction with corporates. Our team of over 100 analysts and investment professionals work with leading companies, fund managers and investment banks worldwide to support their capital markets activity. We provide services to more than 400 retained corporate and investor clients from our offices in London, New York, Frankfurt, Sydney and Wellington. Edison is authorised and regulated by the [Financial Conduct Authority](#). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison and is not regulated by the Australian Securities and Investment Commission. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. www.edisongroup.com

DISCLAIMER

Copyright 2016 Edison Investment Research Limited. All rights reserved. This report has been commissioned by SinnerSchrader and prepared and issued by Edison for publication globally. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison Aus and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison US is registered as an investment adviser with the Securities and Exchange Commission. Edison US relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. As such, Edison does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c)(1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison has a restrictive policy relating to personal dealing. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (ie without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision. To the maximum extent permitted by law, Edison, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. FTSE International Limited ("FTSE") © FTSE 2016. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.