

Delignit

Materials
30 April 2018

Firing on all cylinders

Delignit is delivering across the board with growing evidence that well-defined strategic development is paying off. While 2017 performance was impressive (EBITDA up a third), the pace may accelerate thanks to recent bumper investment in capacity, efficiencies and a more diversified revenue base, allied with continued positive conditions. Indeed, management looks to double annual revenue at enhanced margin by 2022, which suggests that, as for 2017, current year guidance of sales up 8%+ at broadly similar margin may be cautious. Robust finances (FY17 net debt/EBITDA of 0.8x) support investment and dividend growth (+67% in 2017).

H217 margin surprise

Continued clear EBITDA margin outperformance (9.4% in H2, giving 9.2% for FY17 against guidance of 7.5-8.3%) made up comfortably for a slight revenue miss (+6% in H2, giving +9% for FY17 against expected +10-15%). Investment-led economies of scale again drove notable growth (20%) in second-half EBITDA, if less than the step change 42% of H1. While Automotive, Delignit's principal sector, took a relative pause (revenue up 2%), albeit still buoyant on the back of strong OEM business and new orders from car makers, Technological Applications stepped up materially (+16%), thanks to early returns from contracts for floor solutions for trains from the European subsidiary of an Asian group. Once more, exports were the driver (+17% in H2 and +33% for the full year), endorsing the strategic broadening.

Acceleration on the cards

Management expects more of the same in 2018 thanks to buoyant target markets, a good order book and increasing invitation to major tenders reflecting Delignit's reputation for development and technology. Guidance is for EBITDA margin at least that of 2017 on a similar rate of revenue growth (8%+). Last year's margin beat suggests that, on such volume gain, the company's forecast may prove cautious.

Valuation: Rich prospects factored in

The 2017 earnings surprise was greeted with a rapid c 50% share price rise, so current consolidation is understandable, pending further signs of Delignit's strong growth prospects. Also, its FY17 P/E ratio of c 39x is at a sizeable premium to both its wood processing and automotive supplier peer groups. Management guidance (no consensus data available) for 2018 gives EV/EBITDA of c 16x (vs peer average c 5x).

Historical financials

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/14	42.7	1.7	0.13	0.03	72.3	0.3
12/15	44.4	1.7	0.14	0.03	67.1	0.3
12/16	48.6	2.1	0.18	0.03	52.2	0.3
12/17	52.7	2.9	0.24	0.05	39.2	0.5

Source: Delignit accounts, Edison Investment Research

Price €9.40
Market cap €77m

Share price graph



Share details

Code	DLX
Listing	Deutsche Börse Scale
Shares in issue	8.2m
Last reported net debt as at December 2017	€4.0m

Business description

Delignit is a German manufacturer of ecological products and system solutions based on hardwood for the automotive, rail and safety equipment industries. It was acquired by Germany-based industrial holding company MBB (Messerschmitt-Bölkow-Blohm) in 2003 and was listed in 2007. Over 60% of group sales are derived domestically.

Bull

- Solid order intake in the LCV and rail transport segments.
- Increased and enhanced applications for existing products.
- Rapid take-up of the products in global markets.

Bear

- High dependence on large OEM contracts.
- Higher oil price could reduce the company's profitability.
- Valuations already factor in growth prospects, creating downside risk.

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Review of 2017 results

Exhibit 1: Analysis of half-yearly revenue and profit						
Year-end December (€m)	H116	H216	FY16	H117	H217	FY17
Revenue	24.4	24.2	48.6	27.1	25.6	52.7
Change (%)	+6%	+13%	+9%	+11%	+6%	+9%
Automotive			35.2			37.7
Change	+1%	+15%	+8%	+12%	+2%	+7%
Technological applications			13.3			15.0
Change	+22%	+2%	+12%	+8%	+16%	+12%
Germany	17.4	16.6	34.0	16.6	16.7	33.3
Change	+1%	+2%	+1%	-5%	+1%	-2%
Exports	7.0	7.6	14.6	10.5	8.9	19.4
Change	+23%	+46%	+34%	+50%	+17%	+33%
Other income	0.5	0.4	0.9	0.3	(0.3)	Neg.
Total income	24.9	24.6	49.5	27.4	25.3	52.7
Material costs	(14.9)	(14.0)	(28.9)	(15.5)	(13.8)	(29.3)
Labour costs	(6.6)	(6.9)	(13.5)	(7.6)	(7.0)	(14.6)
Other operating costs	(1.7)	(1.7)	(3.4)	(1.8)	(2.2)	(4.0)
EBITDA	1.7	2.0	3.7	2.5	2.4	4.9
Margin	7.0%	8.1%	7.5%	9.0%	9.4%	9.2%
Depreciation	(0.7)	(0.7)	(1.4)	(0.7)	(1.0)	(1.8)
EBIT	1.1	1.3	2.4	1.7	1.4	3.1
Net interest	(0.1)	(0.1)	(0.2)	(0.1)	(0.1)	(0.2)
Pre-Tax Profit	1.0	1.1	2.1	1.6	1.3	2.9
Taxation	(0.3)	(0.4)	(0.7)	(0.5)	(0.5)	(1.0)
Net income	0.7	0.7	1.4	1.1	0.8	1.9
Source: Delignit accounts						

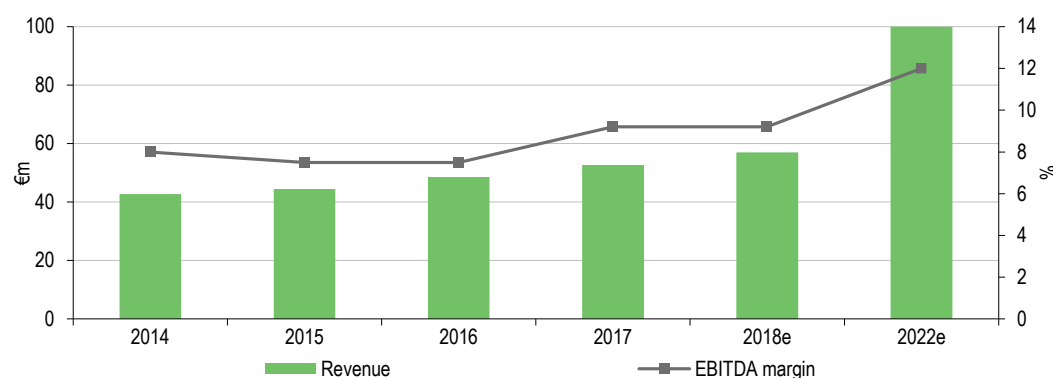
Delignit's H1 performance was a hard act to follow, so the relative revenue slowdown in the second half (see Exhibit 1) should not concern. Creditable top-line growth in H2 at much higher margin was accompanied by a further rise in export business (c 35% of group sales against c 31% y-o-y) and successful diversification. For the year as a whole, the main activity, Automotive, saw 7% higher revenue thanks to continued OEM demand and additional orders from car makers. Notwithstanding positive macro conditions (eg lightweight automotive registrations up 5% in Germany), such buoyancy is attributed by management to early signs that its record investment (c €6m) last year is paying off in terms of both customised system solutions and expanded product applications.

Good control of costs in 2017 allowed decent margin gain, notably an EBITDA margin of 9.2% against 7.5% in 2016, and EBITDA up by almost a third. With depreciation and finance costs up by a quarter, the revenue boost was even sharper further down the line (pre-tax profit up c 40%).

Set fair

The outlook, both macro and company-specific, looks to be as good as it gets. 2018 economic forecasts have been raised domestically and for exports, now such an important contributor (37% of 2017 revenue) to Delignit. Its key market of lightweight automotive is expected to show almost 4% CAGR until 2021.

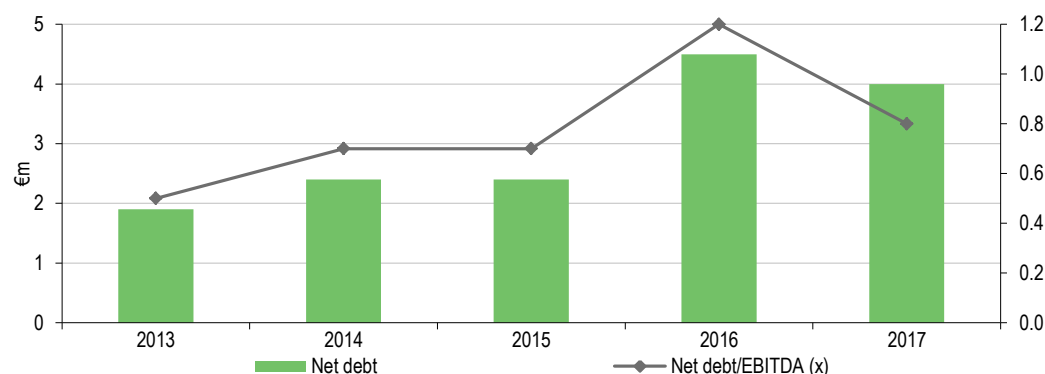
Recent sustained success has prompted management to forecast in Vision 2022 an effective doubling of revenue over the next five years. There should also be clear economies of scale, although margin benefits have not been quantified formally. In Exhibit 2, we have notionally shown EBITDA margin of 12% (our estimate) to show the positive trend. Such buoyancy is exemplified by the newly announced contract for motor caravans. Not only is this award significant (up to double-digit million euros in 2021, its first full year), but it is also further evidence of expanded product applications.

Exhibit 2: Revenue and EBITDA margin from 2014 to management's Vision 2022


Source: Edison Investment Research

Balance sheet and cash flow

Cash flow was slightly positive in 2017 as a result of a moderation from historically high capex in the previous year and the first half (€2.4m for 2017 against €3.5m in 2016) and despite increased stocks. Net debt of €4.0m at end 2017 ensures that Delignit remains lowly borrowed with minimal interest cover.

Exhibit 3: Net debt/EBITDA


Source: Edison Investment Research

Valuation

As there are no companies which match Delignit's profile closely, we have identified for peer comparison four wood processing companies, albeit with lower exposure to the automotive sector (Westag & Getalit, Pfeiderer, Surteco and Ober), as well as four automotive suppliers (Grammer, Progress Werk, SHW and Delfingen) offering products such as seat covers, insulation, components and systems for car interiors.

As consensus forecasts for Delignit are not available, we have conducted a comparative analysis based on the last reported year, as well as management's EBITDA margin guidance for 2018. After the post-2017 results share price rally (now somewhat tempered), Delignit trades at an even sharper premium to the blended peer group on trailing P/E (117%) and trailing EV/EBITDA (146%). Management's new guidance for 2018 implies EV/EBITDA of c 15.6x, admittedly on most cautious assumptions but well ahead of the 5.3x peer average. While this obviously suggests that the company's strong growth outlook is priced in, it also reflects confidence that company earnings may again surprise and that investors should look at the long term, ie management's "vision" of more than €100m revenue in 2022 at double-digit margin owing to scale benefits, ie our 2022 estimate of

c €12m EBITDA for indicative purposes, compared with formal guidance for the current year of at least €5.2m.

Exhibit 4: Peer group comparison

	Market cap	P/E (x)		EV/EBITDA (x)	
	(€m)	2017	2018e	2017	2018e
Wood processing companies					
Westag & Getalit	118	17.9	N/A	5.8	N/A
Pfleiderer	533	27.5	13.5	6.4	5.1
Surteco	409	15.1	11.3	7.4	6.3
Ober	18	16.8	13.2	10.0	N/A
Automotive suppliers					
Grammer	662	19.4	11.5	4.6	4.2
Progress Werk	131	14.4	9.2	5.8	4.9
SHW	231	22.7	13.1	6.0	4.6
Delfingen	97	10.6	10.6	7.2	6.6
Peer group average		18.1	11.8	6.7	5.3
Delignit	77	39.2	N/A	16.5	c15.6
Premium to peer group		117%	N/A	146%	194%

Source: Company accounts, Bloomberg, company guidance. Note: Prices as at 30 April 2018.

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