EDISON Scale research report - Update

DVS TECHNOLOGY

Industrials

21 October 2021

Recovering markets support results

DVS TECHNOLOGY's H121 results have recovered since last year, which was affected by the COVID-19 pandemic. Operating leverage triggered an improvement in EBITDA margin of 440bp to 7.8%. The order intake was strong with 32% y-o-y growth in the first half and management expects further improvement in H221. The company has maintained its FY21 guidance for revenue growth of 11% but adjusted it for pre-tax profit from €5m to €3–5m, partly due to the expected impact of higher raw material prices and a shortage of components.

Good margin recovery in H121

DVS TECHNOLOGY has reported H121 results, which showed a recovery compared to last year, which was significantly affected by the COVID-19 pandemic. Revenues increased 12% y-o-y, with 24% y-o-y growth in the second quarter. With higher revenues, EBITDA jumped 175% to €8.4m, driving a margin improvement of 440bp to 7.8%. Flat staff costs were the main driver for the better margin. Management commented there was hardly any material impact from higher raw material prices and shortage of components in the first half.

H221 might be affected by shortage of components

The machine tool market is recovering and VDW, the German Machine Tool Builders' Association, expects production growth of 10% in FY21. DVS TECHNOLOGY's order intake increased 32% in H121 and management expects a continuous improvement during H221. The company maintained its FY21 revenue guidance at €215m, which reflects growth of 11% y-o-y. Management expects there will be an impact from the higher raw material prices and shortage of components in the second half of 2021 and will make investments in the segments e-mobility and digitalisation. As a result, it has adjusted its pre-tax profit budget for FY21 from €5m to €3–5m, after reporting €2.5m in the first half.

Order intake shows recovery in automotive

DVS TECHNOLOGY's automotive activities showed a strong recovery in order intake in H121 after being hit hard last year. As a percentage of total order intake, automotive increased from 28% in FY20 to 42% in H121. The e-mobility segment is expected to be an important driver for growth and this segment's order intake stayed relatively stable at 35% of the total. The free float of the shares is only 2% and there are no consensus estimates available.

Historical financials

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/17	246.9	13.6	0.75	0.25	22.1	1.5
12/18	264.0	14.6	0.89	0.25	18.7	1.5
12/19	261.6	5.1	0.56	0.00	30.5	N/A
12/20	193.8	(1.3)	(0.13)	0.00	N/A	N/A

Source: DVS TECHNOLOGY

Price	€17.10
Market cap	€166m

Share price graph

Share details

Code	DIS
Listing	Deutsche Börse Scale
Shares in issue	9.7m
Net debt at 30 June 2021	€69m

Business description

Besides engineering and manufacturing machine, grinding and honing tools, DVS TECHNOLOGY operates two production sites where automotive parts are machined in series production exclusively on DVS machines. It has three business units: Machine Tools & Automation, Tools & Components and Production.

Bull

- Strong market position.
- Few strategic threats.
- Growth in contract manufacturing and tooling.

Bear

- Very low free float of 2%.
- Several loss-making subsidiaries.
- Development of traditional automotive industry.

Analyst

Johan van den Hooven +44 (0)20 3077 5700

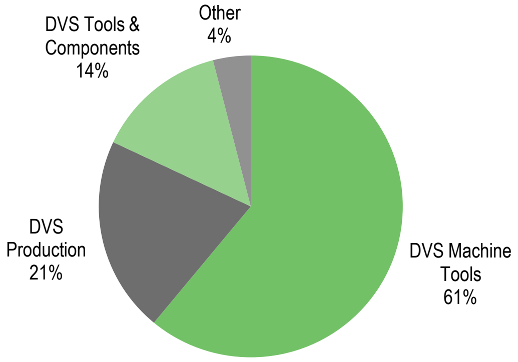
industrials@edisongroup.com
Edison profile page

Review of H121 results

DVS TECHNOLOGY consists of 15 operationally independent production companies in the machine tool and abrasives industry, and three international sales and service companies. The company is split into three divisions, as shown in Exhibit 1. DVS Machine Tools & Automation is involved in producing high-precision machine tools and automation units and associated services (technical services, spare parts, overhauls/repairs), DVS Production consists of series production/system suppliers of automotive and commercial vehicle components on DVS machine tools and DVS Tools & Components focuses on the customised development, production and distribution of tools and abrasives. Several smaller units are grouped in 'Other', which represented 4% of total revenues in FY20.

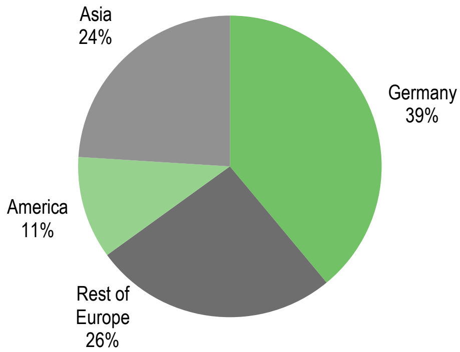
Germany is still the most important country for the company as it represented 39% of total revenues in H121 (see Exhibit 2). The rest of Europe ranks second with 26% of total revenues, followed by Asia (24%) and America (11%). In H121, the rest of Europe reported the slowest recovery within DVS TECHNOLGY, while America reported the highest growth although it was hit the hardest by the pandemic last year.

Exhibit 1: Revenues split by segment, FY20



Source: DVS TECHNOLOGY

Exhibit 2: Revenues split by geography, H121



Source: DVS TECHNOLOGY

H121 results showed a recovery compared to last year, which was significantly affected by the COVID-19 pandemic. Revenues increased 12% y-o-y to €101.2m with 24% y-o-y growth in Q2, after 2% growth in Q1. This revenue level is still below the H119 level of €126m. With a higher change in inventories, the total operating income increased 16% y-o-y to €108m. Other operating income from Kurzarbeit (short-time work: German governmental subsidy system) amounted to €0.7m in H121, which compares to €2.5m in H120.

EBITDA strongly recovered from €3.1m in H120 to €8.4m in H121, with margins increasing 440bp to 7.8% (as a percentage of total operating income). The margin in Q221 was 7.5%, slightly below the level in Q1. The margin improvement was largely caused by the flat staff costs with the average number of staff in H121 declining 2% y-o-y to 1,329. The other operating costs increased 12% when compared to last year.

EBIT turned from a loss of €1.5m in H120 to a profit of €4.0m in H121. Pre-tax profit improved to €2.5m, up from a loss of €3.1m in H120. The pre-tax profit was €1.1m in Q221 after €1.4m in Q121. DVS TECHNOLOGY reported a net profit of €1.5m, which is an improvement compared to the net loss of €2.8m last year.

The focus of the company's R&D activities in FY21 will be on establishing the DVS Digital division, which will bundle digitalisation competences and develop digital products (in H121 the company spent €1.4m on development costs).

Exhibit 3: H121 results

€m, HGB accounting	H120	H121	% change
Revenue	89.9	101.2	12
Change in inventory	3.1	5.1	
Capitalised own work	0.2	1.8	
Total operating income	93.3	108.0	16
Other income	2.2	1.8	-19
Total income	95.5	109.8	15
Cost of materials	-38.5	-45.4	18
Personnel costs	-37.2	-37.2	0
Other operating costs	-16.8	-18.8	12
EBITDA	3.1	8.4	175
EBITDA margin (based on total operating income)	3.3%	7.8%	
Depreciation	-4.6	-4.4	-5
EBIT reported	-1.5	4.1	N/A
EBIT margin (based on total operating income)	3.6%	2.1%	
Net interest	-1.6	-1.5	N/A
Profit before tax (PBT)	-3.1	2.5	N/A
PBT margin (based on total operating income)	-3.4%	2.3%	
Tax	0.4	-1.0	N/A
Net profit	-2.8	1.5	N/A
Minorities	-0.2	-1.4	N/A
EPS (€)	-0.31	0.01	N/A

Source: DVS TECHNOLOGY

Outlook

The overall recovering market conditions are reflected in the 32% y-o-y increase in the company's order intake to €112.5m, with the order book up 10% y-o-y to €106m. The order intake was 59% higher y-o-y in Q221 after an increase of 11% y-o-y in Q121. As can be seen in Exhibit 4, the order intake strongly recovered in the automotive segment, which was hit the hardest during the COVID-19 pandemic. Due to the strong recovery in automotive, non-automotive has declined as a percentage of total revenues. This segment includes for instance agriculture, energy (windmills) and aircraft engines. The order intake was in particularly strong in Asia, which now represents 47% of the total, up from 32% in H120. DVS TECHNOLOGY expects a continuous improvement of the order intake in the second half of 2021 and, based on the current market conditions, it might be able to exceed the budgeted order intake of €215m by 5–10%.

Exhibit 4: Order intake by market segment

Percentage of total	H120	FY20	H121
Future mobility	36%	37%	35%
Automotive	29%	28%	42%
Non-automotive	35%	35%	23%
Total order intake, %	100%	100%	100%
Total order intake, €m	85.5	187.6	112.5

Source: DVS TECHNOLOGY

According to VDW, the German Machine Tool Builders' Association, nominal production for the machine tools industry as a whole in 2021 is expected to increase 10% y-o-y (in spring 2021 VDW expected 6% growth in production), based on an increase in order intake of 29% y-o-y in the first half. VDW expects a good recovery in the US and Asia, whereby the investment upswing in Europe is decisive for the magnitude of the overall recovery. Looking at sectors, development in the automotive industry will influence the outcome of market growth in 2021.

DVS TECHNOLOGY maintains its FY21 revenue guidance of €215m (+11%), with an anticipated normalisation of activities from Q3. This is still well below the level of €262m in 2019. Management has mentioned that the higher prices of raw materials and the shortage of semiconductor products have not had any material negative impact on results in the first half, but disruptions are expected to have an effect in H2. At the time of the FY20 results in June 2021, management expected the

EBIT margin to improve by 180bp y-o-y to 3.9%. It now refers to pre-tax profit for which the previous budget was €5m, but is now adjusted to a range of €3–5m, mainly due to costs related to the higher sales levels and investments in the segments e-mobility and digitalisation. The guidance range compares to the reported pre-tax profit of €2.5m in the first half.

Financials

Cash flow from operating activities was €0.9m, which compares to a negative cash flow of €8m in H120. The cash flow from investing activities was €3.0m, higher than the €1.7m in H120 when investments were restricted due to the uncertain situation of the pandemic. The equity ratio of 51.5% was stable compared to 51.8% at year-end FY20 and net debt only increased slightly from €66m at the end of FY20 to €69m in H121. This was mainly due to the increase in working capital because of the higher activity level and the pending incoming orders.

A covenant holiday period was agreed from 1 July 2020 to 29 June 2021 for the company's syndicated loan financing. The liquidity reserve ratio is used as covenant for this waiver and with €30.2m on 31 March 2021, this was significantly above the required €15m. Management assumes its financial resources will be sufficient to meet its payment obligations.

DVS TECHNOLOGY's shareholder base has not changed in recent years, with 98% in the hands of shareholders holding a stake of more than 5% each. The shareholder base remains dominated by the Rothenberger family, which remains on board as a long-term investor.

Exhibit 5: DVS TECHNOLOGY shareholders

Shareholder	Stake
Rothenberger 4xS Vermögensverwaltung	65.8%
Günter Rothenberger Beteiligungen	17.6%
FWI Fritz Werner International	7.9%
Maschinenfabrik Heid	6.8%
Total of more than 5% stakes	98.1%
Free float	1.9%

Source: DVS TECHNOLOGY

Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia