

Blue Cap

Industrials
18 September 2020

Weathering the storm relatively well

Blue Cap has performed relatively well during the coronavirus pandemic. Reported revenues rose 8% in H120 while organic decline was limited to 12%, despite exposure to the industry sector including automotive. For FY20, Blue Cap expects a slight decline in revenues (also due to portfolio changes) and a significant decline in adjusted EBIT. Despite positive and negative swings in the NAV of the individual holdings, Blue Cap's overall NAV remained broadly unchanged at €138.5m at H120. The current share price reflects a large discount of 46% to the NAV per share of €34.68.

Higher revenues in H120 due to acquisitions

Blue Cap reported a revenue increase of 8% to €114m in H120, which was mainly driven by the acquisition of Con-Pearl in September 2019. Organically, the decline in revenues was 12%, which is a solid performance given the general effect of the coronavirus pandemic on industrial companies. Blue Cap focused on cost savings and made use of Kurzarbeit (reduced working hours), which limited the decline in adjusted EBITDA to 21%. Mainly driven by the proceeds from the sale of Em-Tec (Medical) at the end of April, net profit increased to €15.6m, up from €4.2m last year.

Slight revenue decline expected for the full year

Assuming no severe coronavirus second wave, Blue Cap expects reported revenues for FY20 to be slightly below last year's level. The effect from the full consolidation of Con-Pearl will be lower compared to H120 as it already contributed for four months in H219, while both Em-Tec (divested) and SMB-David (insolvent) will not contribute to revenues. For FY20, Blue Cap expects a significant decline y-o-y in adjusted EBIT, after the 72% decline to €1.3m in H120.

Valuation: Large discount to NAV

Blue Cap's NAV was broadly stable at €138.5m. The NAV of its segments declined 31% to €88.1m, particularly in Coatings and Production, but also due to the divestment of Medical. This was offset by the proceeds from the sale of Medical, the higher NAV of Plastic after the restructuring effects at Con-Pearl and the change to fair value accounting of Inheco (42% stake) instead of the book value. Inheco showed strong growth as it is an important supplier for the so-called PCR test to detect coronavirus and through the development of vaccines and medicines. The increase in Inheco valuation had a positive effect of €5.75 on the NAV per share. Blue Cap is trading at a discount of 46% to the NAV per share of €34.68.

Consensus estimates

Year end	Revenue (€m)	Adj EBITDA (€m)	Net profit (€)	EPS (€)	DPS (€)	EV/EBITDA (x)
12/18	176.0	8.6	12.5	3.14	0.75	11.7
12/19	225.6	14.3	2.8	0.71	0.75	9.6
12/20e	219.0	12.0	15.4	3.86	0.75	10.4
12/21e	235.0	17.5	1.8	0.45	0.75	7.0

Source: Blue Cap, Refinitiv (based on one analyst)

Price €18.75
Market cap €75m

Share price graph



Share details

Code	B7E
Listing	Deutsche Börse Scale
Shares in issue	4.0m
Net debt at 30 June 2020	€42m

Business description

Blue Cap is a Munich-based industrial holding company, investing in medium-sized manufacturing companies with a turnover range of €30–80m. Blue Cap currently has nine shareholdings.

Bull

- Proven business model and management.
- Strong finances set for boost from transformative transactions.
- Economic downturn enhances buying opportunities.

Bear

- Execution risk in restructuring processes.
- Valuation risk in identifying acquisitions.
- Dependence on economic conditions, mitigated by diverse business and geographical mix.

Analyst

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

industrials@edisongroup.com

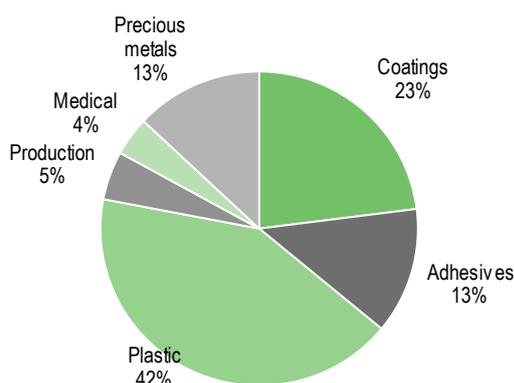
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Higher revenues in H120 due to acquisitions

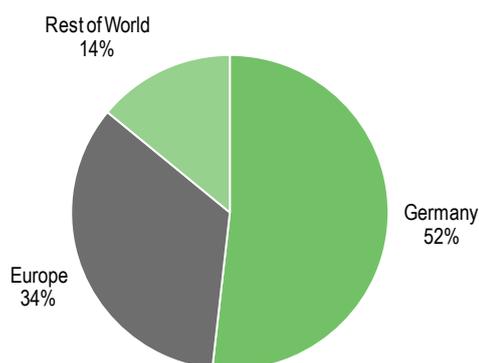
In H120, Blue Cap's reported revenues increased 8% to €114m, driven by the consolidation of Con-Pearl, which added 20% to revenues. The organic revenue decline of 12% is a good performance given the effect of the coronavirus pandemic on industrial companies, and automotive in particular. In reaction to the coronavirus pandemic, Blue Cap focused on cost savings and made use of Kurzarbeit (reduced working hours). As a result, the decline in adjusted EBITDA was limited to 21%, ending up at €6.0m. The proceeds from the divestment of Em-Tec resulted in exceptional income of €21m, which was partly offset, among other things, by the costs of €2.4m related to the insolvency of SMB-David. Including the total net adjustments of €16.5m, net profit came in at €15.6m compared to €4.2m last year. Inheco (minority stake of 42%) strongly benefited from the coronavirus pandemic. This medical technology manufacturer has become an important supplier for the so-called PCR test to detect coronavirus infection and through the development of vaccines and medicines.

Exhibit 1: Revenues by segment (H120)



Source: Blue Cap, Edison Investment Research

Exhibit 2: Revenues by geography (FY19)



Source: Blue Cap, Edison Investment Research

In April 2020, Blue Cap announced the divestment of its medical subsidiary Em-Tec to Dover Corporation for net proceeds of €25m. The divestment of Em-Tec in April 2020 did not have a large negative affect on revenues as the company reported €4.2m in revenues in the four months in 2020 (vs €5.0m in H119), but will become more visible in H220.

In July 2020, Blue Cap announced the insolvency of production subsidiary SMB-David. This relatively small company was poorly performing over the past few years and the coronavirus pandemic made the situation worse. In 2019, SMB-David represented 4% of total revenues, but only 1% of net asset value (NAV) and contributed negatively to adjusted EBITDA (1.4%). The insolvency of SMB-David led to costs of €2.4m and the liquidation process might take a few years. However, a possible sale of this asset could still generate positive proceeds for Blue Cap.

Exhibit 3: Blue Cap H120 results

€m	H119	H120	% change
Revenues	105.5	113.9	8%
Total income	106.6	119.1	12%
EBITDA adjusted	7.7	6.0	-22%
EBITDA adjusted, margin (based on net revenues)	7.3%	5.3%	
Depreciation & amortisation	(3.2)	(5.2)	
Result participations	0.3	0.6	
EBIT adjusted	4.8	1.3	-72%
Net financial income	(0.9)	(1.3)	
Adjustments/exceptionals	0.2	16.5	
Income taxes	0.1	(1.0)	
Net profit	4.2	15.6	
Number of shares outstanding (m)	3.98	3.98	
EPS (€)	1.05	3.92	

Source: Blue Cap, Edison Investment Research

Segment performance: Plastic is a driver for growth

Coronavirus-related declines were evident in the Coatings, Adhesives and Production segments, whereas Plastic and Precious Metals showed a much better performance. Coatings had a good start of the year but a significant drop in revenues in April resulted in a 19% decline in H120 revenues and a 120bp lower adjusted EBITDA margin. Adhesives reported a decline in revenues of 18%, with declines of 30% in Italy and France and a more modest decline of 15% in Germany. The Production segment was significantly affected by the coronavirus pandemic and reported a decline in revenues of 56% and a loss at adjusted EBITDA level of €1.4m compared to a profit of €1.6m last year.

Plastic reported a jump of 69% in revenues due to the first-time contribution of Con-Pearl. Knauer-Uniplast performed relatively well during the coronavirus pandemic as it delivers plastic packaging to the fast-moving consumer goods sector, which was less affected compared to other sectors. The organic decline in revenues of 6% was mainly due to problems with one of the machines and the planned loss of unprofitable orders.

Precious metals benefited from the higher gold price and higher trade volumes and reported an increase in revenues of 61%, but the adjusted EBITDA margin remained relatively low at 3.4% compared to Blue Cap's average of 5.3% in H120 (margin based on net revenues).

Medical was divested at the end of April but still contributed €4.2m to the H120 revenues, with a clearly above average adjusted EBITDA margin of 17.2%.

Exhibit 4: Results per segment H120

€m	Companies included	H119	H120	% change
Coatings	Neschen	32.4	26.3	-19%
Adhesives	Planatol	17.8	14.6	-18%
Plastic	Knauer-Uniplast, Con-Pearl	28.4	48.1	69%
Production	Gämmerler, SMB-David, Nokra	12.3	5.4	-56%
Medical (divested in April 2020)	Em-Tec	5.0	4.2	-16%
Precious metals	Carl Schaefer	9.5	15.2	61%
Other		0.1	0.2	78%
Total revenues		105.5	113.9	8%
Coatings		3.6	2.6	-27%
Adhesives		1.1	0.7	-36%
Plastic		0.0	2.5	N/A
Production		1.6	(1.4)	N/A
Medical (divested in April 2020)		0.9	0.7	-19%
Precious metals		0.3	0.5	70%
Other		0.2	0.3	31%
Total EBITDA adjusted		7.7	6.0	-22%
Coatings		11.2%	10.0%	
Adhesives		6.3%	4.9%	
Plastic		-0.2%	5.2%	
Production		12.8%	-25.4%	
Medical (divested in April 2020)		17.9%	17.2%	
Precious metals		3.2%	3.4%	
Total EBITDA margin (adjusted)		7.3%	5.3%	

Source: Blue Cap, Edison Investment Research

Outlook: Slight decrease in revenues expected

For 2020, Blue Cap expects a slight decrease in revenues and a significant decline in adjusted EBIT. This breaks down in guidance per segment as follows: in Coatings, Adhesives and Production, management expects revenues and adjusted EBIT to be significantly lower compared to last year, mainly due to the effect of the coronavirus pandemic. Precious Metals is expected to post slightly higher revenues and adjusted EBIT due to higher trade volumes and the positive development of the gold price. Plastic revenues are expected to be significantly higher, with

adjusted EBIT guided above the previous year, due to the consolidation and restructuring at Con-Pearl.

Management will remain focused on M&A, although activity levels have recently been low due to the coronavirus pandemic. There are possibilities of add-on acquisitions in Coatings, Adhesives and Plastic, while the two remaining production companies do not seem to be in Blue Cap's focus any longer because of their small size. Management also expects a first real estate sale in H220, concerning a production and warehouse facility leased to third parties, which is part of Production (assets held for sale amounted to €1m on the mid-year balance sheet).

There is no significant news to mention about Partnerfonds (46% stake in Blue Cap), which has announced the start of the liquidation of the company including its holdings from January 2021. The transfer/sale of the shares in Blue Cap is most likely at the end of the liquidation process, which might take a few years. This transfer of shares might have different advantages to the shareholders, for example an increase of the free float or the division of the stake into smaller holdings.

Valuation

Blue Cap values its business units using a discounted cash flow model, which is based on the individual H120 results and planning until 2024. Blue Cap has kept the average perpetual growth rate stable at 1.5% compared to year-end 2019 but has raised the average WACC to 7.5% from 6.1% at year-end 2019 (based on the average WACC of selected peers). Exhibit 5 shows the development of the NAV of Blue Cap in H120 compared to FY19. Despite the broadly unchanged NAV of €138.5m there were six significant swing factors, of which three were positive and three negative. The three negative factors were: 1) the divestment of EM-Tec lowered the NAV by €14m, 2) the revised business plan for Coatings, combined with a peer driven higher WACC, lowered the NAV of this segment by €21.4m and 3) the effect of the coronavirus pandemic on the production units was significant resulting in a decline in NAV of €9.3m. The three positive factors were: 1) the proceeds of the sale of Em-Tec resulted in a net cash position at holding level of €12.3m, versus net debt of €2.8m at year-end 2019, 2) the successful restructuring of Con-Pearl has lifted the profitability of the Plastic segment and the NAV by €5.9m and 3) Blue Cap now values its 42% stake in Inheco at fair value instead of book value, which lifted the NAV from €3m to €26m. The last factor had a major positive impact on the NAV, which would otherwise have seen a significant drop compared to FY19.

The NAV per share only declined by 2% to €34.68, which compares to the current share price of €18.75. Blue Cap's book value per share increased to €20.8 compared to €16.8 at year-end 2019.

Exhibit 5: Blue Cap NAV (€m)			
Segments	FY19	H120	Change y-o-y
Coatings	60.9	39.5	-35%
Adhesives	15.9	14.2	-11%
Plastic	22.1	28.0	27%
Production	12.2	2.8	-77%
Medical (divested in April 2020)	14.0	0.0	-100%
Precious Metals	3.5	3.6	3%
NAV business units	128.6	88.1	-31%
Net cash/(debt) at the holding level	(2.8)	12.3	
Real Estate value (book value minus debt)	12.4	12.1	
Minority stakes (market value, previously book value)	3.0	26.0	
NAV Blue Cap group	141.2	138.5	-2%
NAV per share (€)	35.48	34.68	-2%

Source: Blue Cap, Edison Investment Research

Based on Refinitiv consensus estimates, Blue Cap is currently valued at an EV/EBITDA of 7.0x for 2021e, which is relatively low when compared to the company's historical EV/EBITDA multiples in 2018 and 2019 of 11.7x and 9.6x, respectively.

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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