

Blue Cap

Well on track

Blue Cap continues to deliver with c 10% organic sales growth in H118 and confirmation that the recent, potentially transformative investment (Knauer) is well in hand. The shortfall in profit (EBIT down by 25%) was, as expected, rather a matter of timing as the impact of the disposal of a significant contributor to H117 (Biolink) was compounded by the initial inclusion of underperforming Knauer. Consensus forecasts for this year and next are therefore maintained, given renewed evidence of progress across the board, notably at key turnaround situations, Neschen and Knauer. Substantial increasing benefit is expected after joining forces with new major shareholder PartnerFonds (44%) as long as conducted by Blue Cap management. Internal disputes between PartnerFonds management and their shareholders should have no impact on independent Blue Cap.

H1: Good underlying progress

Blue Cap's performance risks being distorted by corporate activity, ie the absence of Biolink, which contributed in full to the comparative and the advent of Knauer for two months. As their revenues were similar (€9m), they cancel each other out on adjustment, yielding a c 10% like-for-like increase. While Production Technology stole the show with a doubling of revenue, there was progress across the board with continued solid low single-digit percentage gains by main divisions, Coating and Adhesives. However, in terms of profit, the performances of Biolink and Knauer were contrasting; H117 was boosted by c €2.5m from Biolink, while H118 was depressed by c €0.7m loss by Knauer (understandable as bought for its turnaround potential). Adjustment shows a c 40% EBITDA rise by continuing businesses. The Knauer deal explains higher net debt (€28m vs €11m at end 2017).

Continued optimism

Management has reaffirmed 2018 guidance (higher sales but lower EBIT). Once the latter is adjusted for likely restructuring costs, consensus forecasts suggest a sharp rise in H2 profit. Further out, the purchase of Knauer should allow a step change in returns, given its size (c €70m sales pa) and Blue Cap's success in turning round temporarily distressed businesses such as Biolink and Neschen.

Valuation: Long-term appeal

As well as current growth opportunities, the proposed PartnerFonds tie-up should bring scale and similar corporate targets. Blue Cap has a proven business model and strategy, highly experienced management and a visible record of success.

Consensus estimates

Year end	Revenue (€m)	EBITDA (€m)	Net profit (€)	EPS (€)	DPS (€)	EV/EBITDA (x)
12/16	96.6	6.8	1.2	0.3	0.00	18.9
12/17	141.8	11.2	39.9*	10.0	1.00	8.9
12/18e	181.0	12.7	4.9	1.2	0.75	9.0
12/19e	213.2	15.3	6.3	1.6	1.00	7.5

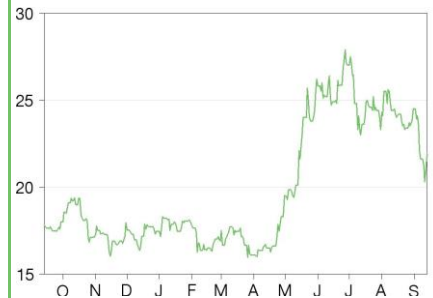
Source: Blue Cap accounts, consensus estimates. Note: *Includes €37m gain on Biolink sale.

Financials

14 September 2018

Price €22.00
Market cap €88m

Share price graph



Share details

Code B7E
Listing Deutsche Börse Scale
Shares in issue 4.0m
Net bank debt at June 2018 €27.6m

Business description

Blue Cap is a Munich-based industrial holding company, investing in medium-sized manufacturing companies with a turnover range of €10-100m.

Bull

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

Bear

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

Analyst

Richard Finch +44 (0)20 3077 5700

financials@edisongroup.com
[Edison profile page](#)

Edison Investment Research provides qualitative research coverage on companies in the Deutsche Börse Scale segment in accordance with section 36 subsection 3 of the General Terms and Conditions of Deutsche Börse AG for the Regulated Unofficial Market (Freiverkehr) on Frankfurter Wertpapierbörse (as of 1 March 2017). Two to three research reports will be produced per year. Research reports do not contain Edison analyst financial forecasts.

Review of H118 results

Exhibit 1: Analysis of revenue and profit					
€m	H117	H217	FY17	H118	Guidance: FY18 vs FY17
Revenue					
Coating technology:					
Neschen	30.1	29.2	59.3	30.6	Higher
Change	n/a	n/a	n/a	+2%	
Biolink*	9.3	-	9.3	-	-
Total Coating technology	39.4	29.2	68.6	30.6	Lower
Adhesive technology					
	18.0	17.7	35.7	18.7	Higher
Change	-5%	Flat	-3%	+4%	
Plastics technology (Knauer)**					
	-	-	-	9.6	
Production technology					
	5.4	9.3	14.7	10.6	Higher
Change	-25%	-28%	-27%	+97%	
Precious metals recycling					
	6.4	6.0	12.4	6.3	Higher
Change	n/a	-15%	n/a	-1%	
Medical technology					
	5.2	5.0	10.2	5.5	Lower****
Total revenue	74.4	67.4	141.8	81.5	
Change	+73%	+25%	+45%	+9%	
EBITDA					
Continuing	4.9	3.8	8.7	6.8	
Margin	7.5%	5.6%	6.6%	9.4%	
Biolink*	2.5	-	2.5	-	
Knauer**	-	-	-	(0.7)***	
Total EBITDA	7.4	3.8	11.2	6.1	
Margin	9.9%	5.6%	7.9%	7.5%	
EBIT	6.0	2.5	8.5	4.5	

Source: Blue Cap accounts, management guidance, Edison Investment Research. Note: *Sold June 2017. **From May 2018. ***Excluding estimated €0.3m restructuring costs. ****WISAP sold September 2018.

As explained, the timing of significant transactions masks an otherwise positive performance in H118, hence management's upbeat comment. Exhibit 1 shows the impact of the disposal of a highly profitable investment (Biolink) coinciding with that of initial consolidation of an underperforming activity (Knauer). The focus should therefore be on continuing businesses, where evident top-line gains have been converted disproportionately and impressively at the bottom line, ie indicative of a c 40% EBIT increase.

We highlight Neschen as the single largest Blue Cap investment before Knauer. Enhancements in H1 included expansion of the main plant to improve productivity, a focus on digital strategy and a revamp of Filmolux. Apart from a continued commitment to graphics, documents and industrial applications and synergy benefits with Coating Technology, Neschen has brought a new sales channel to Blue Cap through its international Filmolux subsidiaries. Efficiencies have been secured through elimination of substantial consulting expenses, the revision of insurance and energy contracts and leases, and organisational streamlining. While not disclosed, the apparently slight rise in revenues (2% in H1) may be assumed to have translated into marked profit improvement.

Production Technology, if smaller, was boosted by strong contributions from SMB-David and nokra, while Gämmerler benefited from the postponement of a major order from 2017 and continued reorganisation.

Precious Metals was the single revenue loser in the half, albeit marginally. This is attributed to the lower gold price, which is now being seen by management as a clear buying opportunity.

More of the same in H2

Guidance for 2018 remains positive, if vague, ie no quantification of sales growth. Nevertheless, management indications of divisional performances (see Exhibit 1) indicate good H2 trading momentum and order books, which should more than reverse the decline in H1 profit. This is despite the disposal of WISAP at the end of Q3.

Balance sheet and cash flow

The disposal of Biolink for €39m led to a significant y-o-y reduction in net debt at end 2017. A balance of €11.3m was historically low for Blue Cap and reinvestment, namely in Knauer, duly followed (€27.6m at June 2018). Further significant scope for spend is indicated by consensus forecasts, enhanced by WISAP proceeds. This explains management's recent reversal of its longstanding policy not to pay a dividend, preferring to reinvest to fund expansion.

Valuation

Share price consolidation is understandable after the c 50% rise in the spring, Blue Cap appears attractively rated at c 9x 2018e EV/EBITDA. The company has a proven business model and strategy, highly experienced and stable management, and a visible record of financial success and prudence (eg borrowing and dividend policy). There is enthusiasm about the company's latest deal of size (Knauer) and clear opportunity for more of the same. This is reinforced by new collaboration with PartnerFonds, which shares its 'buy, hold & develop' strategy, targeting medium-sized industrial companies in the DACH region.

NAV (fair value of the portfolio companies included in the businesses less net debt), published for the first time by Blue Cap, was €102m at December 2017. This is well ahead of the current market cap (c 15% premium) and of course excludes Knauer.

Edison is an investment research and advisory company, with offices in North America, Europe, the Middle East and AsiaPac. The heart of Edison is our world-renowned equity research platform and deep multi-sector expertise. At Edison Investment Research, our research is widely read by international investors, advisers and stakeholders. Edison Advisors leverages our core research platform to provide differentiated services including investor relations and strategic consulting. 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 Pty Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. www.edisongroup.com

DISCLAIMER

Any information, data, analysis and opinions contained in this report do not constitute investment advice by Deutsche Börse AG or the Frankfurter Wertpapierbörse. Any investment decision should be solely based on a securities offering document or another document containing all information required to make such an investment decision, including risk factors.

Copyright 2018 Edison Investment Research Limited. All rights reserved. This report has been commissioned by Deutsche Börse AG 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 Investment Research Pty Ltd (Corporate Authorised Representative (1252501) of Myonlineadvisers Pty Ltd (AFSL: 427484)) and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. 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 2018. "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.