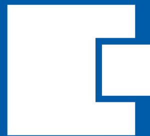

Deutsches Eigenkapitalforum
24 - 26 November 2014
Frankfurt / Main

»Entrepreneurs meet investors«

Global perspectives | Sector focus | Company profiles

Published by Edison Investment Research

Welcome to the Edison research guide for the Deutsche Börse Eigenkapitalforum 2014. Edison is delighted to be a partner for this event for the third time. This book profiles 75 companies that will be presenting at the Eigenkapitalforum.

The guide opens with a strategy piece by Alastair George, who provides an outlook for financial markets. Alastair highlights that volatility has returned to equity and bond markets in October. Although monetary policy remains supportive for now, we see no reason to change our cautious strategic view. Increased geopolitical tensions, a slowdown in economic activity and the pending end of US QE make the investment environment extremely challenging. At the same time it is clear that equities as an asset class cannot be ignored.

Connecting a large number of investors with a broad range of companies in a forum like this is more important than ever. Being able to discuss the business model and outlook directly with management is hugely important for investors to identify value. In the same way, it offers quality companies the chance to stand out of the crowd and attract new investors.

Edison is Europe's leading investment intelligence firm, setting the standards for investor interaction with corporates. Our team of over 120 analysts and investment professionals works with leading companies, fund managers and investment banks worldwide to support their capital markets activity. We provide services to more than 450 retained corporate and 60 investor clients from our offices in London, New York, Frankfurt, Sydney and Wellington. Our research can be accessed free of charge at www.edisongroup.com.

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EDISON

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Edison research clients*

Published 7 November 2014

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EDISON

Global perspectives: Volatility returns

Analyst

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- **Volatility returns to global markets during October.** While the proximate triggers for the recent market mini panic remain unclear, the risk factors of high equity and credit valuations were clearly in place. Slowing price momentum and some weak data points out of Europe may have been enough to trigger a mini avalanche of sell orders. While equities drew the headlines, the flash crash in sovereign bond yields and surge in volumes pointed to panic buying, discrediting the thesis of a "great rotation" out of bonds and into equities.
- **Central banks saved the day – again.** Dovish comments from St Louis Fed President James Bullard coincided neatly with the turn higher in market sentiment, while in the UK Andrew Haldane of the Bank of England (BoE) was on hand to brief the press with his softer stance on future policy, preempting the scheduled release of BoE minutes. In Europe, anonymous sources close to the ECB disclosed the limitations of the current asset purchase policy and teased markets with the prospect of corporate bond purchases and even full-blown QE in 2015.
- **Fundamental outlook downgraded.** Investors can be forgiven for sitting on their hands as policymakers try to jawbone markets higher while economic and earnings forecasts continue to decline. It is becoming increasingly difficult to avoid the suspicion that risk premia across the entire market spectrum have become a policy objective; many investors may be wishing for a return to times when security pricing was based on company or credit fundamentals.
- **We expected this rise in volatility at the end of US QE and do not see a buying opportunity.** US equity markets have completely recovered from their mid-month 7% dip. The recovery may have been dramatic, but in our view investors should consider whether this is another example of volatility rather than a restoration of the previous calm. In Europe, where the DAX sold off by nearly 15%, valuations are closer to (but still above) historical averages. However, investors are now having to deal with a number of high-profile earnings misses and downgraded growth expectations following the slowdown in eurozone economic activity.
- **There is no change to our cautious strategic view.** The so-called great rotation that was forecast to be the theme for 2014 has not happened as sovereign bonds have outperformed equities year to date. We cannot ignore slowing economic momentum, high-profile profit warnings and slow aggregate corporate revenue growth and believe that global equities will continue to tread water while the fundamental outlook remains uncertain.

Volatility returns

In June we highlighted the unusually low levels of market volatility and low risk premia across asset classes. In the absence of volatility, we felt that investors had become accepting of a slow growth, low volatility and a low return environment. In such an environment, some investors may have been encouraged to move out on the risk curve to maintain expected returns.

It is not at all clear to us precisely what shattered this uneasy positioning during October. Possible reasons include the continuing geopolitical risks in Ukraine, Syria and Iraq; the recent substantial losses incurred by some large funds in a number of event-driven situations; the weakening economic momentum in the eurozone; or even the uncertainties surrounding the spread of Ebola.

We view the recent market turbulence as a step along the road to normality and therefore see this recent heightened volatility as reflective of a regime shift. Equity and credit valuations remain in general too high in developed markets, in our view, given a global growth outlook that remains challenging. We believe that the 'flash surge' in government bond prices during October on a dramatic surge in volumes, Exhibit 1, is indicative of fixed income investors being caught on the wrong side of declining growth and inflation expectations.

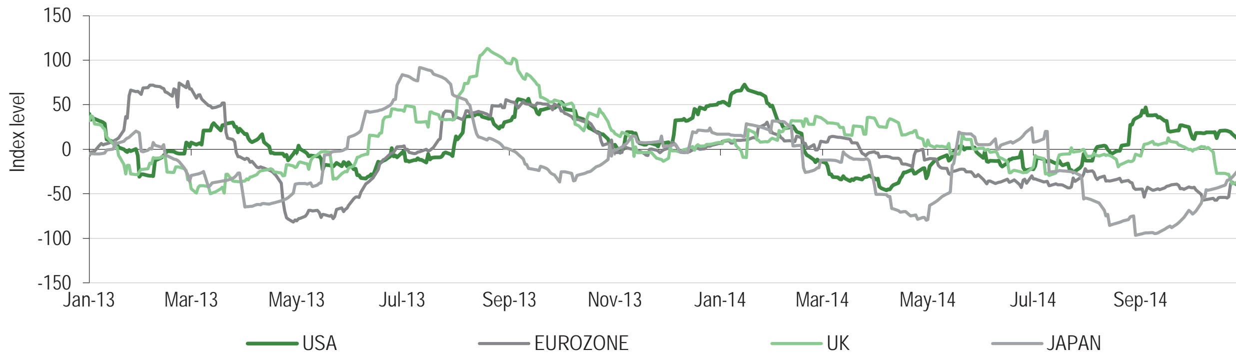
Exhibit 1: US 10-year Treasury Futures 'flash surge'

Source: Bloomberg

Central banks saved the day – again

By a remarkable coincidence, policymakers from the St Louis Fed, BoE and ECB saw fit to make comments reflecting a softer line on monetary policy at precisely the point when the market decline was starting to look like a rout. Comments from James Bullard of the St Louis Fed backed an extension of US QE and, judging from the immediate turn in prices that followed, appeared to put a floor under markets. In times past, single-digit variations in equity indices used to be the hallmark of a normally functioning market rather than cause for alarm. However, if the intention of this flurry of comments was to stabilise markets it was certainly effective.

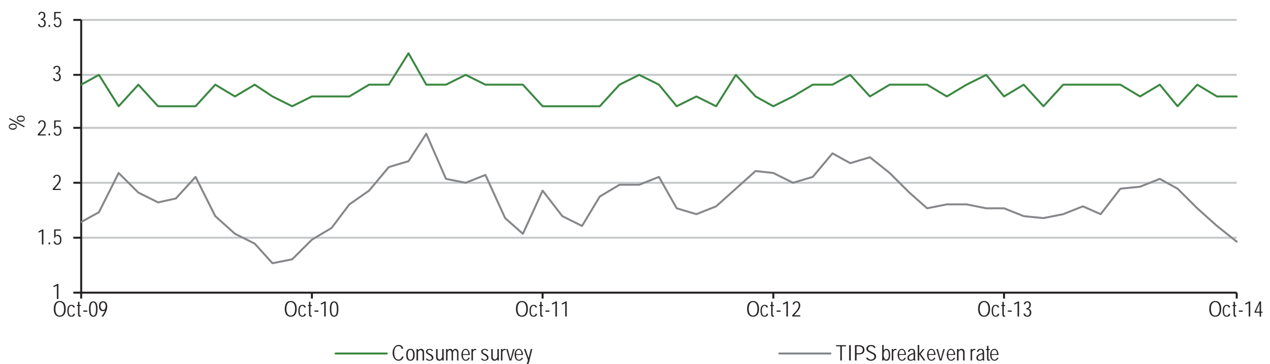
Exhibit 2: Regional economic surprise indices



Source: Thomson Reuters Datastream

While economic momentum has been declining recently in the eurozone, this is not news, nor would it be a reason to change the trajectory of US monetary policy, in our view. In contrast to the eurozone, to date US economic surprises remain positive, Exhibit 2. In addition, US official unemployment is converging towards target levels and the recent decline in US inflation expectations would appear to be insufficient, Exhibit 3, to motivate such a significant change in policy as an extension of US QE.

Exhibit 3: Market-implied and survey-based US inflation expectations



Source: Thomson Reuters Datastream

Where the Fed has given itself ample room is in delaying the first increase of US interest rates, should the incoming data warrant it. We were therefore unsurprised to find that the most recent FOMC meeting resolved to end US QE on schedule this month. In the FOMC statement, the data-dependent nature of the first increase in US interest rates was re-emphasised by refocusing attention on still too-low levels of inflation. However, unless the economic slowdown affecting the eurozone has a significant impact on US economic momentum, we view a restart of the US QE programme as unlikely.

In Europe there have been a number of strategic leaks to the media in respect of the ECB's future plans for expanding its balance sheet beyond the limited amount implied by the size of the asset-backed securities market. One such proposal was to buy corporate bonds. With eurozone investment-grade corporate bonds at record low yields of under 2%, it is not at all clear how this will benefit economic growth, even if there will be a modest windfall to existing bond investors and a marginal subsidy to corporate borrowers.

Although markets continue to speculate, full-blown QE requires Germany to overcome its objections to monetary financing and to accept credit risk for the indebted regions of the eurozone. With the rise of the eurosceptic Alternative for Germany (AfD) party, the political difficulties of supporting such a policy are only increasing. If recent press reports are accurate, there would

appear to be a growing disagreement in the ECB in relation to its next steps and Draghi's management style.

More significantly in terms of actual policy moves, in recent days the Bank of Japan (BoJ) voted by a 5-4 majority for a substantial step-up in the pace of its QE programme, which will increase from ¥65tn (US$600bn) to ¥80tn (US$720bn) per year. This move marks an acceleration of the remarkable pace of expansion of the BoJ's balance sheet relative to Japan's GDP.

On the same day the Japanese Government Pension Fund (GPIF) announced a shift in its asset allocation weighting by 25% in favour of equities over bonds. Possibly coincidentally, the BoJ's increase in QE will almost exactly match the anticipated bond sales by the GPIF, leading to an unsterilised inflow of approximately US$100bn into both Japanese and foreign equities. Following these announcements, there has been an 8% increase in the Japanese equity market and 5% depreciation in the yen/US dollar rate (at the time of writing). The BoJ's actions highlight the difficulties investors face in a post-2008 world as asset prices have once again been targeted by policy as fundamentals deteriorate.

In our view, there remains a high degree of doubt over the ultimate effectiveness of QE in Japan as industrial production and GDP growth have faded during 2014, despite the size of the original QE programme. In addition, when viewed in combination with the depreciation of the euro, the recent moves and volatility in FX markets are placing significant upward pressure on the trade-weighted value of the US dollar. We should also highlight a 50% decline in the value of the yen against the Chinese yuan since 2012. It remains to be seen for how long this continued yen depreciation will be tolerated by Japan's trading partners.

US earnings revisions turn lower; Europe stays lower

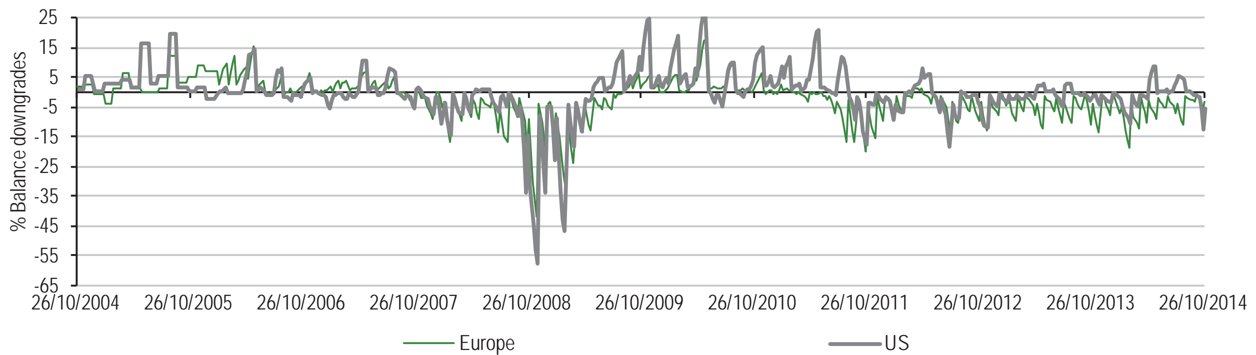
While European earnings revisions have remained negative for some time, which may account for much of the underperformance of European equities against ever more highly valued US peers, Exhibit 4, we note there has been a significant decline in US earnings revisions in recent weeks, Exhibit 5.

Exhibit 4: Europe and US relative price performance

Source: Thomson Reuters Datastream

This is something of a surprise as the recent earnings season, apart from some high-profile exceptions such as IBM and Walmart, has otherwise been solid with 75% of earnings and 60% of reported revenues beating consensus, which is above historical averages. One data point does not make a trend, but in our view the uptick in downgrades is consistent with declining prospects for earnings from overseas and disappointing durable goods orders over the summer.

Exhibit 5: US and Europe earnings revisions

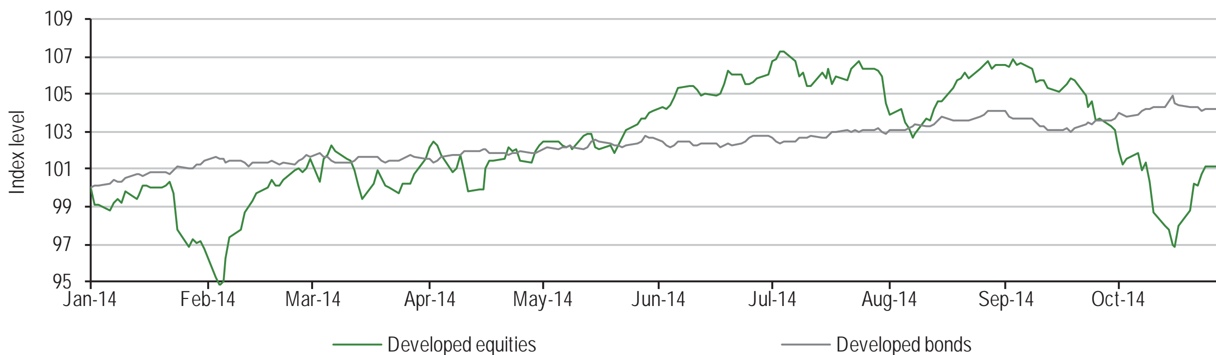


Source: Thomson Reuters Datastream

Conclusion

Investors are welcome to question our cautious positioning. However, we would highlight that so far in 2014, globally, bond indices have outperformed equities and with substantially less volatility, Exhibit 6. In both the US and Europe a five-year period of ultra-loose monetary policy has delivered only a weak recovery to date and the extent of the forward guidance still required to keep even this low level of economic growth on track is telling. In the circumstances, corporate revenue growth forecasts that are so much lower compared to the pre-2008 period should not be a surprise, nor should the corporate sector's continued preference for share buybacks over capital expenditure.

Exhibit 6: Government bonds outperform equities during 2014

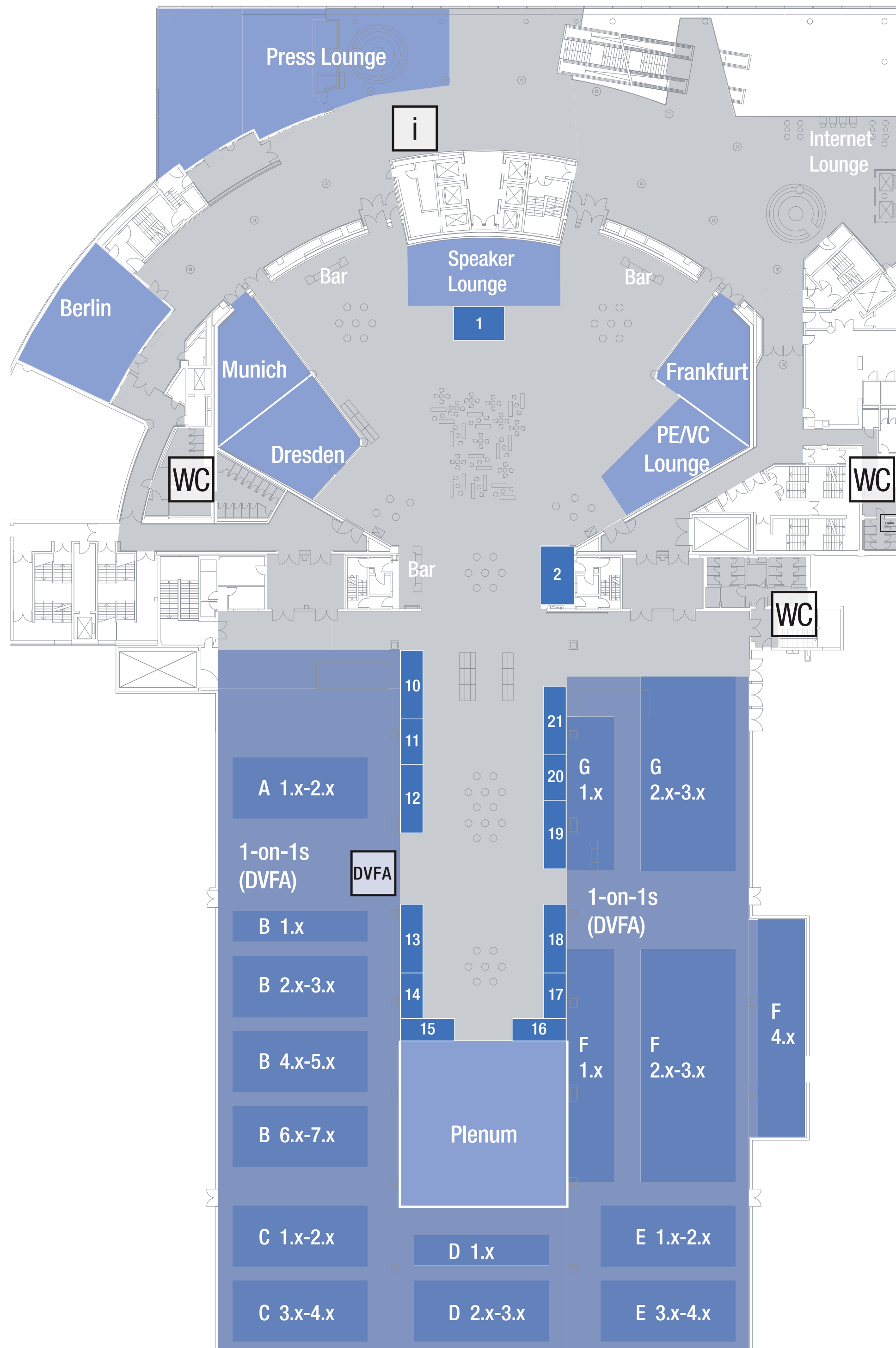


Source: Thomson Reuters Datastream

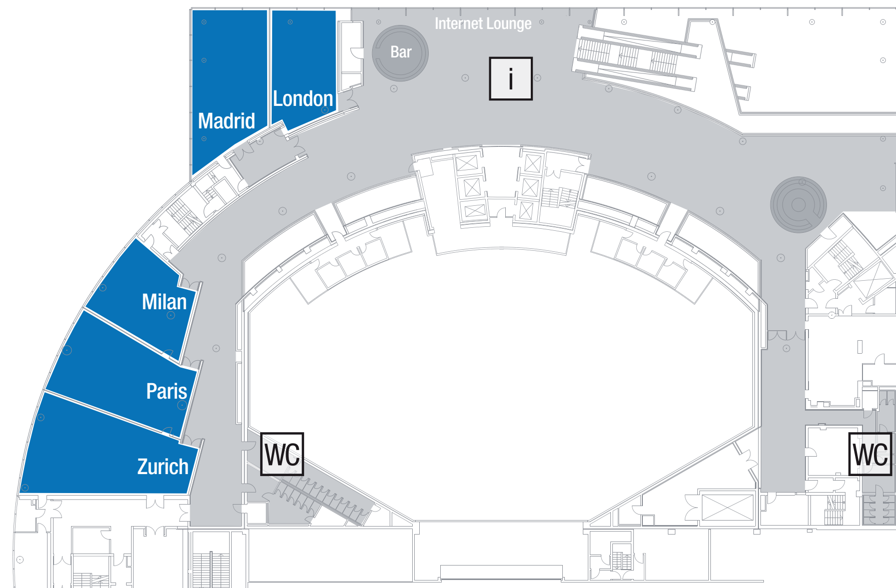
In this context, our enthusiasm to recommend overweighting or 'reaching for yield' in equities when markets continue to trade well above long-run valuation averages is significantly curtailed. Furthermore, the recent decline in oil and industrial commodity prices is indicative of a shortfall in demand in the short term, even if perhaps stabilising over the medium term. With the end of US QE now upon us and increased evidence of a secular slowdown in developed markets, we believe a period of increased volatility lies ahead.

Floor plans and programme

Main Level (C2)
Plenum
Exhibition
1-on-1s
Analysts' Conferences



Upper Level (C3)
Analysts' Conferences



Analysts' Conferences
Listed companies without presentation (1-on-1 only)

ADC African Development Corporation AG
Banken nur 1on1
Adler Modemärkte AG
Alphaform AG
ATOSS Software AG
China Specialty Glass AG
Colexon Energy AG
Continental AG (DAX)
Delticom AG
Deutsche Lufthansa AG (DAX)
Ekosem-Agrar GmbH
freenet AG (TecDAX)
Hannover Rück SE (MDAX)
INDUS Holding Aktiengesellschaft (SDAX)
LANXESS AG (DAX)
Sartorius AG (TecDAX)
SNP Schneider-Neureither & Partner AG
Splendid Medien AG
Steilmann-Boecker Fashion Point GmbH & Co. KG
TOM TAILOR Holding AG (SDAX)
Twintec AG

Presentations of listed companies: see next pages

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13 BERENBERG
1 Deutsche Börse AG
18 DZ BANK AG
12 Edison Investment Research Limited
21 equinet Bank AG
10 Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft
19 FCF Fox Corporate Finance GmbH
11 IKB Deutsche Industriebank AG
2 KfW
16 MSW GmbH
15 Standard & Poor's Credit Market Services Europe Ltd.
17 Truphone GmbH

Programme overview

Tuesday, 25 November 2014 – Main level (C2) >

Room	Plenum	Frankfurt	Dresden	Munich	Berlin
Time	Equity Forum	Workshop	Company Presentations Non listed (15min slots) and Bond issuer (30min)		Company Presentations …
08:00	Registration and Business Breakfast				
09:00			– / –	– / OEC AG	Einhell Germany AG*
09:30			– / –	SendR SE / Open Xchange AG	TAKKT AG
10:00	**Welcome Address and Opening Remarks** – Deutsche Börse AG (Andreas Preuß), KfW (Dr. Ingrid Hengster)				
10:30	**Plenum Keynote Speech:** J.P. Morgan (Dorothee Blessing, Vice Chairman)				
11:00	Goodbye Germany – will German startups emigrate due to the lack of medium-term funding?		Apogenix GmbH* / CEVEC GmbH	PSYWARE GmbH* / teambits GmbH*	NEXUS AG
11:30			Biomay AG / Genekam Biotechnology	SBC Deutschland* / Green Energy 3000*	Reply SpA
12:00	Lunch Buffet and Exhibition				
13:00	New perspectives for the VC market in Germany?!		Injex AG / Proteros Biostructures	Solar Tower […] / eyevis Holding*	Constantin Medien AG*
13:30			Protagen AG / CETICS GmbH	Sonnenbatterie […] / MicroPyros […]	Highlight Communications AG*
14:00	Development of the domestic bond markets	Indexwelt – Inside Deutsche Börse			BasteiLübbe AG*
14:30			– / –	Heliatec GmbH / Discovergy GmbH	DEAG Deutsche Entertainment AG*
15:00	Auditor rotation for listed companies		– / –	gestigon / brillen.de Optik AG	SYZYGY AG
15:30			– / –	ubc GmbH / iAd GmbH	artnet AG*
16:00	Be prepared: Development of strategic capital options 2015		Hapag-Lloyd AG	VST BUILDING TECHNOLOGIES AG*	SinnerSchrader AG
16:30			Grand City Properties S.A.	Sympatex Holding GmbH*	m4e AG*
17:00	Panel discussion Actual topic		Asklepios Kliniken GmbH*	Neue ZWL Zahnradwerk Leipzig GmbH*	Lotto24 AG
17:30				Rickmers Holding GmbH & Cie. KG	CEWE KGaA
18:00	Elevator Pitch PE & VC investors present their investment criteria and foci in 3 minutes		IPM GmbH & Co. KG	eterna Mode GmbH*	Haikui Seafood AG
18:30				Enterprise Holdings Ltd.	Feike AG
19:00	**End of Forums programme**				
19:30	**Get-Together (registered participants only)** Venue: Marriott Hotel Frankfurt				

Wednesday, 26 November 2014 – Main level (C2) >

Room	Plenum	Frankfurt	Dresden	Munich	Berlin
Time	Equity Forum	Workshop	**Company Presentations Stock Issuers** (For companies without presentation – 1-on-1 only – see previous pages)		
08:00	Registration and Business Breakfast				
09:00			Asian Bamboo AG	co.don AG	Firstextile AG
09:30			Dr. Hönle AG*	Formycon AG*	Snowbird AG
10:00	Panel discussion Actual topic		SFC Energy AG	Newron Pharmaceuticals SpA	Tipp24 SE
10:30			Global Bioenergies SA	Biofrontera AG	Ahlers AG
11:00	M&A transactions and their impact on the creditworthiness of companies		CARBIOS S.A.	BB Biotech AG*	Ultrasonic AG
11:30			Phoenix Solar AG	WILEX AG	Hawesko Holding AG
12:00	Lunch Buffet and Exhibition				
13:00	Lessons learned - IPO in Germany The issuers' perspective	GC Pooling® – Inside Deutsche Börse	Energiekontor AG*	Prosensa Holding NV	Leifheit AG
13:30			Albioma SE	COSMO PHARMACEUTICALS	
14:00	Panel discussion Actual topic			Erytech Pharma SA	
14:30			Daldrup & Söhne AG*	StemCells Inc	VanCamel AG
15:00	Access to international investors		KTG Energie AG*	Neovacs	zooplus AG
15:30			United Labels AG*	VALNEVA	mutares AG
16:00	The importance of sustainability in the capital markets		ifa systems AG*		mybet Holding SE*
16:30	CSR reporting requirements - 2016				Tintbright AG
17:00	**End of Forums programme** Please note: Programme of company presentations is scheduled from 09:00 to 16:30				

As of 06 November 2014

> Upper Level (C3)

	London	Madrid	Milan	Paris	Zurich	Room
	Company Presentations Stock Issuers (For companies without presentation – 1-on-1 only – see previous pages)					Time
						08:00
	MagForce AG		CENIT AG*	Advanced Vision [...] (AVT) Ltd.	STEICO SE*	09:00
	aap Implantate AG		msg life ag (COR&FJA AG)*	PVA TePla AG	HELMA Eigenheimbau AG*	09:30
						10:00
						10:30
	Eckert& Ziegler AG*	FUCHS PETROLUB SE	GFT Technologies AG	ISRA VISION AG	VBH Holding AG	11:00
		Axel Springer SE	GK Software AG*	SINGULUS TECHNOLOGIES AG	Arbonia-Forster-Holding AG	11:30
						12:00
	4SC AG	Deutsche Börse AG	Mensch und Maschine [...] SE*	SLM Solutions Group AG	Schaltbau Holding AG	13:00
	MorphoSys AG*	Dürr Aktiengesellschaft	DATAGROUP AG*	C.A.T. oil AG	GRAMMER AG	13:30
	Affimed N.V.*	Viscom AG*	TOMORROW FOCUS AG	Manz AG	init innovation in [...] AG*	14:00
	PAION AG	Balda Aktiengesellschaft	Orad Hi-Tec Systems Ltd.	GESCO AG	SHW AG	14:30
	SYGNIS AG	PNE WIND	USU Software AG	SMT Scharf AG	Progress-Werk Oberkirch AG*	15:00
	Evotec AG	exceet Group SE*	IVU Traffic Technologies AG*	SÜSS MicroTec AG	WashTec AG	15:30
	TRANSGENE	R. Stahl AG	InVision AG	Basler AG	MeVis Medical Solutions AG	16:00
	MOLOGEN AN	ROFIN-SINAR Technologies Inc.	PSI Aktiengesellschaft	Data Modul AG	STRATEC Biomedical AG	16:30
	Medigene AG	Innovation Group Plc	RIB Software AG	Francotyp-Postalia Holding AG	Medigene AG	17:00
	NeoStem Inc.	CENTROTEC Sustainable AG	CANCOM SE	Greiffenberger AG*		17:30
	Santhera Pharma[...] Ltd.*	AURELIUS AG	Hypoport AG*	KROMI Logistik AG		18:00
	Vita 34 AG*		ecotel communication AG*	Masterflex SE*		18:30
						19:00

> Upper Level (C3)

	London	Madrid	Milan	Paris	Zurich	
	Company Presentations Stock Issuers (For companies without presentation – 1-on-1 only – see previous pages)					Time
						08:00
	Höft & Wessel AG		Ecommerce Alliance AG*	EYEMAXX Real Estate AG*	ZhongDe Waste Tech[...] AG	09:00
	First Sensor AG*		bet-at-home.com AG	C-QUADRAT Investment AG*	Activa Resources AG*	09:30
	technotrans AG		euromicron AG*	DF Deutsche Forfait AG*	HMS Bergbau AG*	10:00
	Nanogate AG	Symrise AG	All for One Steeb AG	Fair Value REIT-AG	2G Energy AG	10:30
	Thin Film Electronics ASA	Wacker Chemie AG	artec technologies AG	ADLER Real Estate AG	Petrotec AG	11:00
	HOMAG Group AG*	Wincor Nixdorf AG	TXT e-solutions SpA	PATRIZIA Immobilien AG	MBB Industries AG*	11:30
						12:00
	LPKF Laser & Electronics AG		Nemetschek AG	Primary Health Properties Plc	MVV Energie AG	13:00
	JENOPTIK AG	comdirekt bank AG	S&T AG	Grand City Properties S.A.	Transglobe Energy Corp[...]	13:30
	SKW Stahl[...] Holding AG	Heartland New Zealand Ltd.	adesso AG	ISARIA Wohnbau AG*		14:00
	Vtion Wireless Technology AG	AutoBank AG	Solutions 30 SE	Westgrund AG*	United Power Technology AG	14:30
	Elmos Semiconductor AG	FinTech Group AG*		GRENKELEASING AG	Capital Stage AG	15:00
	OHB AG	VietNam Holding Limited*	Intershop Communications AG	DO Deutsche Office AG	CropEnergies AG	15:30
	SURTECO SE*	YOUNIQ AG	telegate AG	Deutsche Annington [...] SE	SAF-HOLLAND S.A.	16:00
	Softing AG		SEVEN PRINCIPLES AG	Blue Cap AG*		16:30
						17:00

* Presenation in German language

Consumer

Sector focus: Consumer

Analyst: Victoria Buxton

Brands, convenience and added value

In recent years the key themes affecting the performance of the consumer sector have been emerging market growth and premiumisation, both of which have significantly benefited from the emergence of a new, affluent and aspirational middle-class consumer in developing economies. However, as growth in a number of these markets has started to slow (the IMF downgraded global growth forecasts for 2014 and 2015 in October), attention must be refocused on companies that have a track record of organic performance driven by internal brand strength rather than simply being the beneficiary of broader market influences.

Whether brand strength is exposed to the more defensive consumer staples subsector or cyclical discretionary space, it has been and will continue to be the key to future success. As a statistical reflection of this, the Interbrand Best Global Brand index outperformed the MSCI and S&P by a factor of >5 between 2000 and 2013. Strong brands lead consumer trends and so generate additional demand, while weaker brands simply fulfil existing demand with diminishing success as the fast-moving consumer world continues to evolve and change around them. We identify the core attributes of a successful brand as differentiation, consistency, excellence in execution, perceived value, trust and consumer understanding.

In the defensive staples subsector, as the emerging market growth paradigm slows in the short to medium term, we believe that investors increasingly need to look for companies that have a strong track record for growth, even in the more sluggish developed economies, and specifically those with exposure to Southern European economies that are showing early signs of recovery, albeit from a very low base. Hence the importance of brand strength to a value-savvy consumer, where value does not necessarily simply mean the cheapest, but possesses a ‘value add’ through superior performance or convenience that has earned its premium.

In retail, one-dimensional e-tail models have come under increasing pressure and scrutiny in 2014, as not only are consumers starting to show a preference for multi-channel and progressively omni-channel business models, but also the cost of consumer acquisition for pure e-tailers is becoming increasingly evident. Once again superior branding and convenience have been the key drivers of retail success, hence in our view, the onset of Click & Collect is shifting the balance of power back towards traditional bricks and mortar retailers, the more successful of which are using their well-invested physical store base and value-added service proposition as key differentiators between themselves and their faceless e-tail peer group.

Looking into 2015, higher levels of employment may in turn drive wage inflation in some developed economies (UK, US, Southern Europe) supporting consumer demand. However the spectre of interest rate hikes early in 2015 may have an opposing impact. Hence whatever the macro backdrop, we believe that companies with a proven track record of strong brand equity or a portfolio of brands that add value to the developed consumer through increased convenience and /or value-added performance are best placed to navigate the uncertain macroeconomic backdrop.

EDISON

Firstextile

General retailers

Positive momentum building into FY15

A strong acceleration in performance in Q2 versus Q1 signalled the end of three consecutive quarters of decline, and makes full year guidance increasingly manageable. The achievement of short-listed supplier status for China Mobile in August 2014, in combination with new capacity scheduled to come on stream from Q215, mean that the outlook for 2015 and beyond looks more certain. At 2.6x 2015 P/E and 1.6x 2015 EV/EBITDA, the share price is not expensive.

Encouraging Q214 gives increased confidence in FY guidance

Firstextile reported an encouraging acceleration in performance in Q214 vs Q114, the first consecutive quarterly improvement for four quarters, and achieved its highest ever quarterly revenue at €59.6m. In combination with its appointment of preferred supplier status with China Mobile in August 2014, this gives us renewed confidence that FY14 guidance will be met.

New capacity coming on stream in Q215

The new factory is now scheduled for completion at the end of 2014, with commercial production expected from Q215. Management expects capacity to have reached 60% by end 2015, and full capacity by end 2016, resulting in a doubling of current volumes.

Market outlook positive

Despite the market for corporate gifting coming under pressure, as evidenced in Q2 by a 56% decline in volumes of shirts sold under the Firstextile brand, growth in other areas such as uniforms and traded product items under the VARPUM brand should increasingly offset this, as well as the benefits of a doubling in capacity driving growth in the fabrics division from 2015. While slower than in recent years, forecast Chinese GDP in 2014 of 7.4% (IMF), and a strengthening Chinese RMB versus euro from H214 together give a resilient structural backdrop.

Valuation: Greater visability leaves valuation looking undemanding

A strong turnaround in performance in Q2 and a more certain outlook means management has been able to maintain full year guidance for 2014, despite a very weak start to the year. This increased confidence, together with a doubling of capacity in 2015 when the new plant comes on stream, makes the current valuation of 2.6x 2015 P/E and 1.6x 2015 EV/EBITDA look undemanding.

Edison estimates						
Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/2012	179.5	41.2	3.46	0.00	1.9	N/A
12/2013	200.3	40.1	2.79	0.00	2.4	N/A
12/2014e	194.0	31.3	2.25	0.00	2.9	N/A
12/2015e	247.5	35.5	2.56	0.00	2.6	N/A

Source: Edison Investment Research

Price €6.57

Market cap €78m

Share price performance

Share details

Code	FT8
Shares in issue	11.8m
Net (debt)/cash (€) as at Jun '14	49.6m

Business description

Firstextile is the leading manufacturer of high-end yarn-dyed fabrics in the Chinese domestic market. It also markets fabrics and shirts for uniforms, as well as its own-branded men's shirts for the Chinese premium market segment.

Bull

- Strong acceleration in performance Q2 versus Q1.
- New capacity coming on stream from Q215.
- Inexpensive valuation.

Bear

- Chinese GDP slowdown.
- Strong declines in corporate gifting market.
- Dividend payout unlikely for FY14 due to other priorities for cash flow.

Analyst

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EDISON

Leifheit

On track

Ahead of Q3 results on 10 November, Leifheit's focus on brands and margins looks to be paying off with a near 50% rise in underlying EBIT in the first half of 2014. A well-defined retail strategy, eg enhanced brand presence at the point of sale, increased e-commerce, product innovation and targeted expansion, is being effectively backed up by strict cost control. While underlying EBIT is set to fall for the full year, this reflects an exceptional Q4 comparative and it should still be well ahead of 2012. Moreover, revenue is reportedly holding steady and finances remain strong (at June €53m net cash).

Solid progress in H114

The half to June saw trading much on the lines of 2013 with growth driven, as intended, by successful product innovation in Leifheit's largest branded operations, cleaning and laundry care, in Germany and Central Europe. 2% revenue gain in this division would have been better but for the withdrawal of a significant customer in the DIY market. Unlike previously, Eastern Europe, an identified growth market, was subdued by the unrest in Ukraine. The smaller Volume business, which is no longer the company's strategic focus (only 17% of overall revenue), was predictably patchy. The performance at the EBIT level was particularly impressive. Adjusting for €1.2m severance payments and net €0.5m from the valuation of foreign exchange forward transactions included in the reported total of H113, underlying EBIT in the first half was up c 46%.

Consensus forecasts look reasonable

Newly-confirmed 2014 guidance of c €14-15m EBIT (excluding likely €4-5m currency benefit) against c €18m last year appears cautious after the aforementioned H1 gains, but H213 was materially flattered by the impact of reorganisation, which temporarily curbed costs, notably labour and marketing. The possible currency impact may not be fully reflected in market forecasts as only recently advised by the company. Management's maintained expectation of stable full-year revenue is in line with trading to date. In the summary box below, PBT includes extraordinary gains of €1.2m for 2012.

Valuation: Fully valued

Although Leifheit's premium rating (prospective P/E of c 17x) suggests little room for disappointment, the implementation of its retail strategy is still in its early stages, with management targeting sustainable and profitable revenue growth between +3% and +5% and underlying EBIT of €20m over the medium term.

Consensus estimates

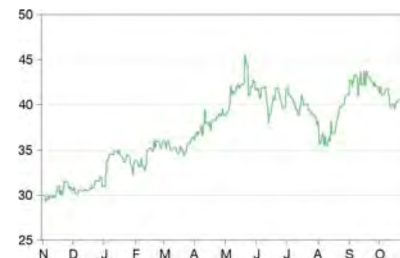
Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/2012	224.2	12.2	1.97	1.50	21.2	3.6
12/2013	220.9	13.3	2.16	1.65	19.3	3.9
12/2014e	221.6	16.6	2.42	1.76	17.3	4.2
12/2015e	233.2	17.0	2.51	1.93	16.6	4.6

Source: Thomson Reuters

General retailers

Price	€41.78
Market cap	€209m

Share price performance



Share details

Code	LEI
Shares in issue	4.8m
Net (debt)/cash (€) as at Jun '14	52.9m

Business description

Leifheit is a leading European brand supplier of household items, notably cleaning, laundry care, kitchen goods and well-being.

Bull

- Well-known brands with strong market positions.
- Product innovation.
- Strong finances (net cash).

Bear

- Pressures on consumer spending.
- Secondary Volume business in decline (being managed for profitability).
- Exchange rate exposure (54% of H114 revenue from outside Germany).

Analyst

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EDISON

TAKKT

Multichannel B2B equipment supplier

The breadth of TAKKT's business model across products, customer groups and geographies, in combination with the structural growth drivers of its exclusively B2B, direct marketing, multichannel business model, should help offset macroeconomic pressures in its European heartland. With guidance confirmed and a more positive macro outlook in the US and FX tailwinds, at 12.5x 2014 P/E it is not expensive.

A focused strategy drives structural benefits and margin support

While the key drivers of organic revenue growth include the breadth of products (>200k), customers (>3m) and geographies (>25 countries) across an increasingly multichannel distribution platform, the real strength of the business model lies in its strategic focus on providing durable/speciality products, exclusively B2B, via direct marketing channels. This is not only an area of structural growth, but also helps to protect margins.

M&A enhances organic growth profile

TAKKT's business model is cash-generative, enabling opportunistic M&A to form a core part of its revenue growth strategy of c 5% organic, 5% M&A. The key strategic rationale for M&A is to enhance growth through new products, brand names, customer groups, geographies and/or competencies, rather than efficiency-driven cost savings, although sharing best practice between group companies is becoming an increased area of focus.

Return to growth in 2014

After a slightly disappointing performance in 2013, 4.4% organic revenue growth in H114 marked a return to more normal long-term trends. EBITDA and earnings grew low and mid-single digits respectively. Despite the slowing of some key financial indicators in Europe (Oct German PMI 49.9 and Q2 GDP -0.2%). The company reaffirmed guidance of 3-5% organic revenue growth for 2014, and EBITDA margin in the middle of its long-term range of 12-15%, due to the continued strength of the American market, where external influences remain positive (Oct PMI 57.5 and Q2 GDP +4.6%).

Valuation: European uncertainty weighs on share price

At 12.5x 2014 P/E, and 7.9x EV/EBITDA, TAKKT's share price is not expensive on an absolute level, especially given its track record of five-year revenue, EBITDA and EPS CAGR (2009-14e) of 5.6%, 14.5% and 19.0% respectively. However, share price performance year to date (-8.2%) reflects broader concerns around slowing core European economies, despite the offsets of strong US fundamentals, and a short-term FX tailwind.

Consensus estimates

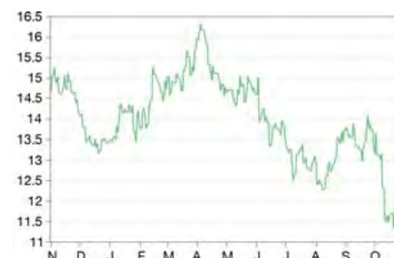
Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/2012	939.9	100.0	1.02	0.32	12.1	2.6
12/2013	952.5	81.2	0.80	0.32	15.5	2.6
12/2014e	964.2	96.4	0.99	0.34	12.5	2.7
12/2015e	1005.8	106.7	1.08	0.41	11.5	3.3

Source: Company accounts, Thomson Reuters

General retailers

Price	€12.38
Market cap	€812m

Share price performance



Share details

Code	TTK
Shares in issue	65.6m
Net (debt)/cash (€) as at Jun '14	(249.8m)

Business description

TAKKT is a leading multichannel B2B direct marketing specialist for business equipment in Europe and North America.

Bull

- Market shift towards direct sales.
- American operations offseting weakness in European markets.
- Portfolio diversification minimises dependence on individual sectors or regions.

Bear

- Deteriorating economic background in European heartland.
- Highly cyclical business model.
- Opportunistic M&A reduces y-o-y visibility of strategic revenue guidance.

Analyst

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EDISON

Lotto24

Online lottery potential

Germany's online lottery market has considerable scope to migrate players online. Lotto24 is the leading independent online lottery broker and is still in start-up mode, rapidly growing registered customers and revenues but incurring losses. 2014 has seen a more challenging market environment and increased competition, but Lotto24 has a first mover advantage and 12 years' management experience in online lottery operation, which puts it in a strong position.

A newly developing market

Germany's online lottery market reopened in 2012 when the State Treaty on Games of Chance came into effect, with advertising permitted from March 2013 (but with ongoing regulatory and advertising restrictions). The online market is expected to grow at a CAGR of 21% and account for 30% of the total lottery market by 2020, versus only 3% in 2013 (source: DLTB/MECN/GBGC/Lotto24). However, the market has also become more competitive, pushing up eg search engine costs. The state-owned lotteries have a joint online platform (Lotto.de) and there are now 23 private providers with brokerage and advertising permits, including two smaller competitors backed by media groups. However, Lotto24 remains the biggest independent with a 14% market share.

Accelerating growth but still in start-up phase

Despite the competition Lotto24 is growing strongly. For the nine months to September its billings were €57.5m and revenues €5.3m (2013 nine months: €16.3m and €1.4m respectively). In Q314 Lotto24 added a record 84,000 new registered customers to take the total to 456,000. It expects full-year revenues to be up to three times the 2013 level, partly depending on the number of attractive jackpots. The H114 net loss was €7.5m (H113: €3.0m) and the full-year loss is expected to be higher than in 2013 due to increased marketing spend. The consensus is for Lotto24 to move into profit in 2018 but much depends on the level of marketing spend, which is under management's control. Lotto24 had cash (including financial assets) of €11.9m at 30 June and has just raised €6m via a placing of 2 million new shares at €3 with two significant investors.

Valuation: Considerable potential

Investors are buying into Lotto24's potential as a leading online broker of lottery products across Germany, and for that market to grow rapidly as online lottery penetration increases. The brokers' mean target price is €6.57 (source: Thomson) and the fact that the recent capital increase was achieved at a 20% premium is very encouraging. However, Lotto24 is loss making and likely to require further fund-raising sometime in 2015/16, so investment is still quite high risk.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/2012	0.1	(4.3)	(0.34)	0.00	N/A	N/A
12/2013	2.8	(11.2)	(0.68)	0.00	N/A	N/A
12/2014e	8.0	(14.8)	(0.62)	0.00	N/A	N/A
12/2015e	14.5	(11.6)	(0.50)	0.00	N/A	N/A

Source: Thomson Reuters

Travel & leisure

Price **€2.86**
Market cap **€63m**

Share price performance

Share details

Code	LO24
Shares in issue	22.0m
Net (debt)/cash (€) as at Jun '14	11.9m

Business description

Lotto24 is Germany's leading online broker of state-licensed lotteries. It receives commissions when customer enter lotteries such as 'Lotto 6aus49' and does not bear any bookmaking risk. It was founded by Tipp24 in 2010 and spun off and listed in 2012.

Bull

- Market has good growth potential.
- Management expertise and experience.
- Scalable technology.

Bear

- Competitive market.
- Will take time to move into profit.
- Still regulatory hurdles.

Analyst

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EDISON

Tipp24 (ZEAL)

New international opportunities

Tipp24 is making good progress in its strategy to expand internationally, building on its secondary lottery expertise to develop new B2B and B2C businesses. It recently launched its new US B2B brand Lottovate and its innovative new UK lottery, GeoLotto. Its proposed new name, ZEAL, reflects this wider strategic focus. A combination of a weak H114 and start-up costs for the new businesses has put pressure on forecast 2014 results, but the 2015 consensus is for strong growth (helped by a favourable change in the UK tax regime). The 2015e EV/EBITDA is below five times.

Leveraging existing lottery expertise

The bulk of Tipp24's revenues currently come from MyLotto24, which organises secondary lotteries (based on European lotteries). This is a mature and profitable business (with statistical fluctuations in results since Tipp24 bears the bookmaking risk, partly hedged). Lotteries worldwide are moving online, which represents a significant opportunity for Tipp24 to provide technology and marketing services. It has already obtained a number of B2B deals (eg the ONCE lottery in Spain). The US offers huge potential: since a 2011 ruling clarified that the Federal Wire Act does not apply, a number of states have begun to legalise and launch online lotteries. In the UK, GeoLotto is aiming for a slice of a €7.5bn market.

Strong bounce in profits forecast for 2015e

H114 revenue declined by 11% to €68.2m and EBIT fell to €6.0m (H113: €21.4m) due to increased personnel costs, investment in new ventures, and an unusually high lottery payout in March of €6.7m. 2014 forecast revenues are €135-145m (unchanged) but management reduced its EBIT forecast in August, from €25-35m to €15-25m to allow for the lower H1, delays in the ramp-up of new businesses and higher marketing costs. Some of the 2014 costs are non-recurring (eg restructuring the hedging structure). Consensus estimates are for a strong recovery in 2015e EBITDA to €54.8m (2014e: €29.9m) helped by a change in the UK gaming tax regime from December 2014 (reducing pro forma costs by €16.5m pa). Tipp24 has a strong balance sheet (net cash of €82.8m at 30 June) to fund its expansion into new areas.

Valuation: Regulatory risk but new growth opportunities

The shares have recovered slightly, helped by 2015e profit upgrades and the launch of the US B2B brand. Yet the rating remains below average, mainly due to recent earnings disappointments and some regulatory uncertainties. Successful relocation to London and simplification of the organisational structure has facilitated the planned resumption of dividend payments in 2015 (plus a €7.5/share one-off special dividend in April 2014).

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/2012	142.7	56.8	5.12	0.00	7.5	N/A
12/2013	129.9	18.8	1.23	0.00	31.3	N/A
12/2014e	131.9	16.3	1.13	1.74	34.1	4.5
12/2015e	150.4	41.5	3.34	1.94	11.5	5.0

Source: Thomson Reuters

Travel & leisure

Price €38.56
Market cap €323m

Share price performance

Share details

Code	TIM
Shares in issue	8.4m
Net (debt)/cash (€) as at Jun '14	82.8m

Business description

Tipp24 (to be renamed ZEAL) is an online lottery specialist, founded in 1999. It has a long-established secondary lottery business and now also offers B2B/B2G services internationally. It recently launched its own lotto game, GeoLotto, in the UK.

Bull

- Online lottery expertise.
- New growth opportunities in Europe and the US as lotteries move online.
- Strong balance sheet.

Bear

- Earnings fluctuations from lottery payouts.
- Highly regulated markets (and potential Germany residual risks).
- Complex organisational structure (being unwound).

Analyst

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EDISON

artnet

Facilitating the international online art market

artnet continues to build market presence, buoyed by growth in the online channel in the international fine art trade. However, heavier sales and marketing investment and the launch costs of the revamped website are weighing on near-term profitability, with lower advertising revenues than had been hoped contributing to a further pull-back in forecasts. The group now expects to deliver revenues broadly flat on the year and a loss of c €0.5m.

Website enhancements should support growth

The website redesign and the successful launch of the online industry newswire, artnet News, in H114 are improving the visitor experience and repositioning business streams upmarket. Price increases for Price Database subscriptions are compensating for the smaller, but better quality, customer base, while Gallery Memberships have been decreasing in a competitive field. The website improvements, news service and consequent shifts in visitor profiles should encourage Advertising revenues, but these are building more slowly than hoped. The next phase of website development will be a redesign of the artnet Auctions site followed by a revamped transaction process for both buyers and sellers on the Auctions platform, which is now gaining market traction.

Costs front-end loaded

Gross profit built year-on-year in H114, with lower website maintenance charges and the natural leverage of higher revenues, although the amortisation of capitalised development costs now kicks in more. Greater investment has been made in product development (up 19.2%) and in sales and marketing (up 52.1%), which is geared towards monetising the return on the website investment and on personnel to support artnet News. The group is now expecting to return a loss for the year.

Price Database remains at the heart

Price Database remains at the heart of the business, informing the other divisions, and is the element that would be difficult and expensive to replicate, with records going back to 1985 from more than 1,600 leading auction houses globally. The value of this resource is not fully reflected in the balance sheet.

Valuation: Discount remains

The key Auctions business is still early stage and near-term losses mean a P/E-based valuation is invalid. artnet's net assets at end H114 were €2.4m (43c/share), but this understates the value of the revenue-generating database at the group's heart. There are no obvious quoted peers, but an EV/sales-based valuation for global web-based e-commerce and content companies currently implies a price of €4.53. The further delays in the expected return on current investment means the shares are likely to continue to trade at a discount until clear signs of recovery start to emerge.

Edison estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/2012	13.5	(0.6)	(0.11)	0.00	N/A	N/A
12/2013	13.0	0.1	0.03	0.00	99.8	N/A
12/2014e	N/A	N/A	N/A	N/A	N/A	N/A
12/2015e	N/A	N/A	N/A	N/A	N/A	N/A

Source: Edison Investment Research

Consumer support services

Price	€2.99
Market cap	€17m

Share price performance

Share details

Code	ART
Shares in issue	5.6m
Net (debt)/cash (€) as at Jun '14	0.427m

Business description

artnet is an online business offering an integrated range of information and transaction services in the fine art, design, and decorative art markets. It has four divisions: Price Database, Galleries, Auctions and Advertising.

Bull

- Increasing customer comfort with online transactions.
- Market opportunity to build leading auction site.
- Leverage opportunities from website upgrade.

Bear

- Delayed benefits from investment in website.
- Need for strong marketing/PR investment.
- Crowded competitive landscape.

Analyst

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Media & entertainment

EDISON

SYZYGY

Media & entertainment

Leading German independent digital agency

SYZYGY is benefiting from the migration of marketing budgets online; it has had a very strong start to 2014 with revenues in H1 up 33% and management expecting full-year sales +20% year-on-year. With a 4.9% dividend yield and 'in-line' P/E, there is support for the share at these levels. Visibility on sales momentum into FY15 is the key catalyst to share price performance.

All service digital agency

Changing consumer habits and the migration of both media and commerce online across a multiplicity of devices provides a supportive structural backdrop for growth in the digital agency market. SYZYGY provides technical, creative and media services that help companies manage the increasing importance of digital media within the overall marketing mix. It has a rosta of blue chip and international clients and is one of the leading digital agencies in Germany and the UK. With this strong franchise the company is well placed to capture its share of this growth.

Strong momentum in 2014

SYZYGY's platform business has been particularly buoyant this year and following the strongest revenue quarter in the group's history in Q1 (+39% y-o-y), revenues for the six months to June increased by 33% to €22.6m and operating profit by 53% to €2.0m. Management expects full-year revenues to increase by 20% to €43m (including €2m from the acquisition of a further 44% in Ars Thanea in Q114) and operating profit by c 75% to €3.5m.

Valuation: Visibility into 2015 key to driving performance

The share trades on a 20% FY15 P/E premium to the global 'all service' agencies, but broadly in line with digital agency peers. The 4.9% dividend yield and the company's share buyback programme, effective until 6 December 2014 (which corresponds to 0.78% of the stock) should provide support at these levels and evidence of ongoing sales growth into FY15 could drive upside in the share. Consensus is looking for 18% revenue growth this year and 12% for the next.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/2012	31.1	3.4	0.73	0.25	8.4	4.1
12/2013	35.0	4.1	0.26	0.28	23.5	4.6
12/2014e	41.6	5.8	0.32	0.30	19.1	4.9
12/2015e	46.6	5.8	0.34	0.33	17.9	5.4

Source: Thomson Reuters

Price	**€6.10**
Market cap	**€78m**

Share price performance

Share details

Code	SYZ
Shares in issue	12.8m
Net (debt)/cash (€) as at Jun '14	24.3m

Business description

SYZYGY is a leading German independent digital marketing group with operations in Germany and the UK. 39% of its revenues (Q214) were generated by the automotive industry, 24% retail and consumer goods, 13% telecom, 8% finance and 16% other.

Bull

- Strong franchise. International client base.
- Structural growth with marketing budgets moving online.
- Strong balance sheet and dividend yield supports the valuation.

Bear

- Dependency on key clients (top 10 represented 61% revenues in 2013).
- Weakening German economy.
- Competitive and fragmented market.

Analyst

Bridie Barrett

Media & Entertainment

Financials

EDISON

Sector focus: Financials

Analyst: Martyn King

Macro uncertainty

German financial stocks, like those elsewhere, are highly sensitive to the economic and financial market outlook, both of which have deteriorated in the late summer/early autumn of 2014. Expectations for real GDP growth have been lowered as a result of a feared slowdown in emerging markets and the effects of European sanctions on Russia, with which Germany has a strong trading relationship. In its September economic assessment, the OECD lowered expected German real GDP growth compared with its previous expectations in May for 2014 from 1.9% to 1.5% and for 2015 from 2.1% to 1.5%. The October 2014 World Economic Outlook from the IMF has similar forecasts, with real GDP growth of 1.4% for 2014 down from 1.9% in July and 1.5% for 2015, down from 1.7% in July. The imminent end of QE in the US, the slowdown in Germany and increase in geopolitical tensions produced a sharp sell-off in equities in October. Although markets have recovered from the bottom, the sell-off shows the nervous state of financial markets.

The reality of declining German growth rates has heightened fears that Europe could fall into recession and has reinforced the belief of those who think that the ECB should expand its asset buying programme to include government bonds as well as private sector bonds. German 10-year government bond yields have fallen steadily throughout the year from c 2.0% in January to c 0.8% now. With three-month EURIBOR having fallen to just less than 0.1% from 0.35% in the early summer, it seems that the yield curve for German banks is not just flattening but likely to stay low for an extended period. This is negative for banks that earn revenue on interest-insensitive deposits and from the slope of the yield curve. Moreover, loan growth in Germany remains subdued, and a worsening economic outlook is unlikely to help it recover.

Low interest rates are not favourable to the insurance sector as they reduce their earnings on assets held to meet policyholders' liabilities and these are usually an integral part of insurers' profitability. German households remain keen savers, although the savings ratio has been on a declining trend since 2008 and now is around 9%. They have predominantly invested in comparatively low-risk bank deposits and insurance and pension products, 76% of gross financial assets according to Deutsche Bundesbank. Securities, comprising bonds and equities, amount to around 23% of the total, down from 30% before the financial crisis. The current economic and market outlook and the ensuing uncertainty do not suggest this is likely to change in the near future.

One financial sector that is performing well in Germany is property. According to an index published by the VDP Association of German Pfandbrief Banks, residential property prices in the year to 30 June 2014 rose 4.8%, while office buildings rose 5.0% and retail rose 4.1% over the same period. German residential property is to a certain extent paying catch-up with properties in other comparatively well-performing developed economies and the low yields on offer from German bonds can only add to the attractions of property for many investors.

EDISON

Deutsche Börse

Difficult operating environment

The current market environment is depressed, but the group is pursuing significant structural growth initiatives, containing costs and remains committed to efficient capital management. Taking account of the business mix, the current rating appears undemanding and arguably provides a cushion in the event that the European economic backdrop deteriorates further.

Operating environment to remain difficult

At the time of writing, European equity markets have fallen 5% over the last week following concerns over economic growth, especially in Europe, and the end of QE in the US. European interest rates are set to remain low in an attempt to stimulate the European economy, all of which suggests a continuation of the difficult operating environment experienced in H114. H114 revenue growth was just 2% y-o-y and EBIT fell by 2% in the period.

Structural growth opportunities remain

Deutsche Börse has identified structural revenue growth opportunities amounting to €300-375m, equivalent to c 15-20% of 2013 revenue, in OTC clearing, collateral management, market data and services and Asia, which it hopes to achieve by 2017 and should go some way to offset the negative influences on revenue growth from the difficult operating environment.

Strong cash flow, balance sheet and ratings reinforce attractiveness of the dividend

Deutsche Börse had a gross debt to EBITDA ratio of 1.5 at end June 2014 and in the 12 months to 30 June reported cash flows from operating activities of €645m well ahead of dividend payments of €387m. Its current dividend yield is 3.9%.

Valuation: Discount to global peers

Based on consensus, the company trades on an FY14e P/E of c 15x, which is at a discount to peers (LSE: c 20x, ICE: c 24x) and is underpinned by an FY14e dividend yield of c 4%. A substantial re-rating is likely to be held back until the operating environment improves and its structural growth initiatives are realised.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/2012	2209.0	836.7	3.44	2.10	15.8	3.9
12/2013	2216.8	668.1	2.60	2.10	21.0	3.9
12/2014e	2261.8	945.3	3.66	2.14	14.9	3.9
12/2015e	2394.0	1022.6	3.99	2.23	13.7	4.1

Source: Thomson Reuters

Financials

Price €54.51

Market cap €10520m

Share price performance

Share details

Code	DB1
Shares in issue	193.0m
Net (debt)/cash (€) as at Jun '14	(1059m)

Business description

Deutsche Börse is a Germany-based international financial marketplace operator. It offers electronic trading systems for buying and selling securities on stock exchanges in Europe. It operates four business segments: Xetra, Eurex, Clearstream and Market Data & Services.

Bull

- Structural growth initiatives and potentially cyclical upswing.
- Circa 4% dividend yield, strong balance sheet and active capital managment.
- Cost containment.

Bear

- Regulatory change.
- Low trading volumes and interest rates.
- Long-term implementation costs of efficiency measures, estimated at €90-110m.

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EDISON

Heartland New Zealand

New Zealand-focused financial services company

Heartland New Zealand was created by merger in January 2011 and focuses on providing financial services to its core markets of SMEs, rural (ie farms, farm machinery and livestock) and households. It focuses on the less contested sectors to achieve a better risk/return balance. As a result, Heartland achieves an average interest margin of 4-5% compared to the larger banks of c 2%. It currently earns an ROE of 9% and targets 11% to 14%, which compares to a sector average of around 14% in 2013.

Activities and profitability

At 30 June 2014 it had NZ$3bn of total assets, with the retail and consumer segment accounting for 55% of the total, the business segment 18% and the rural segment 14%. It has a small market share overall in New Zealand, less than 1% of total assets, but is larger in certain selected sectors. For instance, over 50% of its loans comprise equity release mortgages and intermediated motor vehicles loans. It is the largest national provider of the former and number one or two of the latter. In the year to 30 June 2014 it earned an ROE of 9% on a cost-to-income ratio of 53%. It paid 6c of dividends and non-residents also receive a supplementary dividend to compensate for non-resident withholding tax so that they receive the full 6c.

Capital ratios and funding

At 30 June 2014 Heartland Bank (80% of group assets) published a common equity tier 1 ratio of 14.29%, net impaired loans were 0.9% of the loan book and past due but not impaired were 3.8% of the loan book, and the deposit-to-loan ratio was 87%.

Growth strategy

Future growth will be driven by extending its reach in core markets where it is already strong, developing and introducing new specialist products and targeting acquisitions that offer a good strategic fit and competitive advantage. It believes it can grow its business 5% organically with acquisitions increasing this figure further. It aims to boost its current ROE of 9% through increasing the focus on higher-yielding products, ROE accretive acquisitions and capital management.

Valuation: Discount to other Australian and New Zealand banks

Based on consensus, the company trades on an FY15e P/E of c 10.0x, which is at a discount to peers (ANZ: c 12.6x, Westpac: c 13.9x) and the FY15e dividend yield of c 7.0% is higher than that of peers (ANZ: c 6%, Westpac: c 6%).

Consensus estimates

Year end	Revenue (NZ$m)	PBT (NZ$m)	EPS (NZ$)	DPS (NZ$)	P/E (x)	Yield (%)
06/2013	106.9	9.4	0.02	0.06	50.0	6.0
06/2014	122.2	50.8	0.09	0.06	11.1	6.0
06/2015e	139.1	63.2	0.10	0.07	10.0	7.0
06/2016e	144.7	66.3	0.10	0.07	10.0	7.0

Source: Company accounts, Thomson Reuters

Financials

Price NZ$1.00

Market cap NZ$463m

Share price performance

Share details

Code	HNZ
Shares in issue	466.9m
Net (debt)/cash (NZ$)	N/A

Business description

Heartland New Zealand is a financial services company in New Zealand, owned and run by New Zealanders. It provides banking and other financial services throughout the country and focuses on SMEs, farms and families.

Bull

- Solid balance sheet.
- Focused strategy.
- Acquisition opportunities.

Bear

- Lacks scale.
- Strong competitors follow Heartland's niches.
- Acquisition risk.

Analyst

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Aurelius

Pan-European corporate turnaround specialist

Headquartered in Germany with offices in London, Stockholm and Madrid, Aurelius specialises in acquiring mid-market companies with potential for development, focusing on businesses in transition or distress, lacking a succession plan, with poor profitability or requiring restructuring. Transaction activity was brisk in the first nine months of 2014 and the company expects this to continue at a similar rate supported by its recent expansions into Scandinavia and Iberia.

Investment strategy and approach

Aurelius's primary goal is to restructure a portfolio company for profitability. It has five main platform investments which it aims to develop through focused strategic acquisitions. Potential targets are characterized by synergies with existing investments and include competitors, distribution partners, suppliers and companies with complementary products. Acquired companies are typically corporate spin-offs with revenues of €30-700m and Aurelius's average purchase price of around €8m makes deals too small for private equity groups to consider.

Investment portfolio

At end June 2014, Aurelius had 17 operating groups in its portfolio, with the main exposures being to the industrials, chemicals, business services, food & beverage and TMT sectors. While primarily invested in Germany-based companies, the portfolio includes businesses based in the UK, Spain, France, the Netherlands and Switzerland. The portfolio is concentrated, with the three largest investments Secop, UK Chemicals and Getronics representing 47% of NAV. Secop, a Germany-based household compressor manufacturer acquired in November 2010 from Danfoss, represents 23% of NAV.

Transaction activity and regional expansion

Five acquisitions and four disposals were completed in the first nine months of 2014 ahead of the average rate of 4-5 investments pa. Aurelius opened offices in Stockholm and Madrid in 2014 and expects the Scandinavian and Iberian regions each to generate 1-2 deals pa with the overall average rate rising to 5-7 per year. Recent disposals have been to strategic buyers at prices around 5-10% above NAV.

Valuation: NAV €33.7 per share at 30 June 2014

Aurelius fully consolidates investments and at 30 June 2014 reported for the first time a DCF-based NAV of €33.7/share with the share price at a 21% discount. The discount narrowed to 13% in August 2014 and has since widened to 18% despite a €15m share buyback programme commencing. The basic dividend yield is c 2.5% and a special dividend based on 50% of realisations is expected to be declared.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/2012	1195.0	51.8	4.23	1.37	6.6	4.9
12/2013	1455.5	2.1	0.10	1.05	277.2	3.8
12/2014e	1637.3	100.9	4.26	1.60	6.5	5.8
12/2015e	1915.2	36.6	1.60	0.72	17.3	2.6

Source: Company accounts, Thomson Reuters

Investment companies

Price	€27.72
Market cap	€878m

Share price performance

Share details

Code	AR4
Shares in issue	31.7m
Net (debt)/cash (€) as at Jun '14	129.7m

Business description

Aurelius is a Germany-based pan-European corporate turnaround specialist.

Bull

- Extensive transaction experience.
- Diversified sector and geographic exposure.
- Limited competition for investments.

Bear

- Weak European economic backdrop.
- Excess cash on balance sheet.
- Discount widening despite share buyback.

Analyst

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EDISON

Investment trusts

BB Biotech

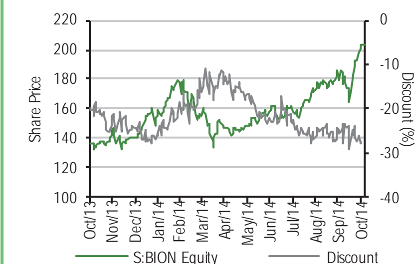
Profiting from medical advances

BB Biotech (BION) is a Swiss-based investment company aiming to harness the growth potential of global biotechnology stocks. The portfolio includes five to eight core, large-cap holdings (five holdings at 30 September making up 47% of the portfolio), with the balance in large- and mid-cap stocks (29 at 30 September). So far in 2014 major gains have come from core holdings in Gilead, whose blockbuster Hepatitis C drug Sovaldi is on track for $10bn of sales in its first year, and Celgene, which is finalising Phase III plans for a Crohn's disease treatment. Since 2013, 5% of the year-end share price is returned to investors in cash, with another 5% returned via share buybacks.

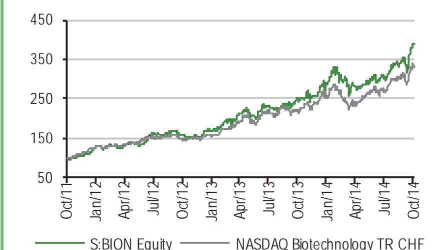
Price	**CHF203.7**
Market cap	**CHF2,414m**
AUM	**CHF3,317m**
NAV*	CHF280.0
Discount to NAV*	27.2%
Yield	3.4%

*Including income. As at 31 October 2014.

Share price/discount performance



Three-year cumulative perf. graph



Share details

Code	BION
Listing	Zurich, Frankfurt, Milan
Shares in issue	11.9m

Business description

BB Biotech (BION) is a Swiss-domiciled investment company, targeting long-term capital growth from biotechnology companies that are developing and marketing innovative drugs. At least 90% of the portfolio is in listed companies, primarily large and mid-cap names that are already profitable. It is benchmarked against the NASDAQ Biotech Index.

Analyst

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Investment strategy: Targets returns of 15% a year

BB Biotech targets total returns of 15% a year from a portfolio of fast-growing biotech companies that are developing and marketing innovative drugs to address unmet medical needs. Managed by life science specialists (backgrounds include biotechnology, microbiology, biochemistry and neurology) at Swiss-based Bellevue Asset Management, with significant input from its board of directors, the company undertakes multi-stage due diligence on all potential investments. Stocks are analysed using financial statements and modelling, assessment of the competitive landscape, R&D pipeline and customer perceptions. All investments must have demonstrable potential to double in value over a four-year timeframe. Meetings with management both before and after investment are key to the process.

Performance: Riding wave of biotech bull market

Over 12 months to 31 October 2014 BION produced a sterling NAV total return of 55.8%, as biotech rallied strongly after a mid-October sell-off. NAV returns in the first nine months of 2014 were 27.4% in US$, 36.3% in CHF and 38.7% in €. Three-year figures underline a strong bull run in biotech, with sterling investors trebling their money. As well as benefiting from developments in some of the big biotech players (see above), smaller stocks such as Puma Biotechnology, Medivation, Radius Health and Agios Pharmaceuticals also contributed to performance in Q3.

Valuation: Discount more than 25%

At 31 October, BION's shares stood at a 27.2% discount to NAV, wider than the one-, three- and five-year averages (all c 22%) and close to the widest point in the past 12 months, 29.0%, reached earlier in October 2014. Increased risk aversion from investors could see the discount widen further in the short term, but given strong longer-term and recent performance and a commitment to buybacks, there should be a degree of support.

12 mths ending	Share price* (%)	NAV (%)	NASBIOT Index (%)	MSCI World HealthCare (%)	DS World Pharma & Biotech (%)
31/10/11	(2.4)	(14.7)	(2.4)	(3.7)	(10.1)
31/10/12	59.4	53.2	44.5	28.4	17.2
31/10/13	57.0	63.1	51.9	28.6	19.1
31/10/14	56.4	64.9	54.2	31.6	6.9

Source: Thomson Datastream. Note: Total return figures.

EDISON

Investment trusts

Deutsche Beteiligungs

Focusing on the German Mittelstand

Deutsche Beteiligungs (DBAG) is distinguished from private equity peers by its focus on the German Mittelstand and the fact that it generates significant fee income from managing third-party funds. Strong nine-month results benefited from the sale of its largest holding, Homag, and while near-term macro concerns in Europe could hold back the share price, the NAV is likely to prove less volatile than the equity market.

Strong recent performance

For the 9M to 31 July 2014, DBAG's NAV increased 14.9% before dividends, ahead of the 12.8% CAGR achieved since October 2004. Homag (36% of portfolio at end July) contributed over half the increase. Total proceeds from the Homag divestment, 2007 IPO and dividends received represented a cash exit multiple of 3.5x the total investment made and a 15.0% IRR from first investment in 1997.

Stable transaction levels in mid-market MBO segment

In contrast with the recent resurgence in M&A activity, DBAG's target mid-market German MBO segment of the private equity market has seen stable transaction levels over recent years with DBAG's core industrial sectors representing a steady c 50% share. While increased private equity fund liquidity has put upward pressure on valuations, DBAG has targeted deals where valuation multiples are similar to historical levels. One new investment has been made in 2014 and management reports a strong pipeline of potential transactions, suggesting the pace of deals could pick up in due course.

Slower near-term pace of realisations expected

Following the Homag sale, DBAG's investment portfolio is relatively young with eight of the 21 companies owned for less than two years. While recent investments have made a significant contribution to NAV growth in the current year, the typical four- to seven-year investment horizon suggests a slower pace of realisations over the next two to three years with returns primarily generated by earnings growth.

Valuation: Premium to peers re-established

DBAG has historically traded at a premium P/NAV to listed European private equity peers, which we believe can be attributed to its stream of recurring asset management income. After contracting markedly in early 2014, the differential has returned to c 20%. DBAG's historical dividend yield is over 5% and the Homag sale provides the prospect of an increase in the current year's special dividend.

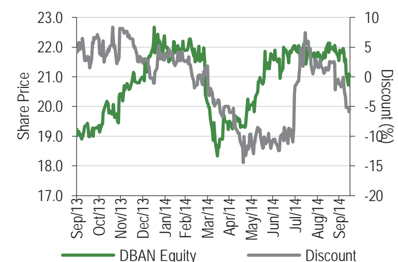
As at 31/07/14	Total share return (%)	Total NAV return (%)	LPX Europe (%)	DAX 30 Index (%)
1 year	28.2	17.6	12.0	13.7
3 years	38.9	33.0	38.1	31.4
5 years	95.8	66.1	121.1	76.4
9.75 years*	351.7	222.8	67.5	137.5

Source: Morningstar. Note: Cumulative total return performance data in euros as at last published NAV. *NAV figures restated under IFRS available from 30/10/2004.

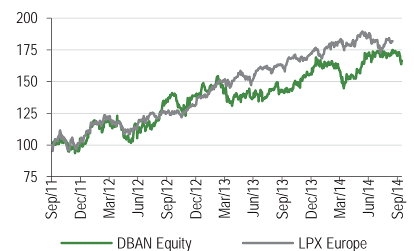
Price	**€21.07**
Market cap	**€288m**
AUM	**€301m**
NAV*	€22.01
Discount to NAV	4.3%
Yield	5.7%

*As at 31 July 2014.

Share price/discount performance



Three-year cumulative perf. graph



Share details

Code	DBA
Listing	Frankfurt
Shares in issue	13.7m

Business description

Deutsche Beteiligungs is a Germany-based listed private equity company focused on mid-sized companies in Germany and neighbouring German-speaking countries.

Analyst

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EDISON

Fair Value REIT

Investment companies

Reduced complexity improving returns

Fair Value REIT (FVI) provides exposure to German commercial property and offers an attractive yield that is underpinned by a substantial discount to net asset value. FVI's historically more complex structure of property investments held directly through consolidated subsidiaries and associate minority holdings has been substantially simplified over the past two years. This has involved shrinking and focusing the portfolio, but has allowed a more than doubling of the dividend payout. Even though relatively illiquid, in the context of historical NAV total returns that are similar to peers, the continuing modest valuation looks anomalous.

Substantial repositioning has been achieved

The c 35% reduction in the investment portfolio since the beginning of 2013 has been strategically driven with the aim of simplifying the overall structure (particularly increasing the proportion of wholly owned properties) and reducing the share of smaller and other non-core properties. The process is not complete, but we believe there is likely to be more of a balance between disposals and reinvestment over time. Management remains generally positive about the market, especially for retail assets.

On track for full year guidance

FVI recorded a positive business development in the first nine months of the year, unaffected by the recent slowdown in the economic environment. In Q3, occupancy increased to 90.1% after dipping (to a low of 89.4%) earlier in the year due to the insolvency of Praktiker. Subsequent lease activity should increase this further to 93%. WAULT remains at around five years. Rental income (gross and net) is showing the expected decline (on the lower asset base), down 19% y-o-y for the first nine months. However, lower administrative expenses and significantly lower financial expenses are an offset. EPRA earnings are down 8% y-o-y in the first nine months at €3.7m. The improving occupancy trend will be an increasing benefit, although maintenance and rental costs will also be under upward pressure. Management has reiterated its guidance of €5.1m for the year (also our forecast) and has reinforced its dividend forecast of €0.25 per share.

Valuation: Wide discount persists

FVI offers both an attractive dividend yield and a significant discount to NAV of more than 40%. Portfolio simplification is ongoing, but is yet to trigger the re-rating that would allow management to part equity fund a significant increase in scale. Nevertheless, a more modest return to net portfolio growth would be well received in our view.

Edison estimates						
Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/2012	36.8	10.1	0.64	0.10	7.7	2.0
12/2013	36.4	8.6	0.69	0.25	7.2	5.0
12/2014e	30.4	9.7	0.55	0.25	9.0	5.0
12/2015e	31.9	12.3	0.63	0.28	7.9	5.7

Source: Edison Investment Research

Price	**€4.95**
Market cap	**€47m**

Share price performance

Share details

Code	FVI
Shares in issue	9.3m
Net (debt)/cash (€) as at Sep '14	(151m)

Business description

Fair Value REIT (FVI) is a real estate investment trust managing 368,000sqm at 44 commercial properties spread across Germany. It has a diversified portfolio of office and retail assets, with a focus on regional locations.

Bull

- Large discount to NAV.
- Attractive yield.
- Flexible cost base.

Bear

- Relatively lacking in scale.
- Concentrated shareholder base.
- Shrinking asset base.

Analyst

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EDISON

VietNam Holding

A high-conviction single country fund

VietNam Holding (VNH) is a single-country investment company with a value-oriented and thematic approach. The portfolio is concentrated and performance may therefore deviate from the Vietnam All-Share index. VNH stands to benefit from the growth potential of the developing economy and favourable demographic profile of the country, the 14th most populous in the world.

Investment strategy: Sustainable value

The manager has a sustainable value investment approach. Three themes are seen as key avenues to gaining exposure to Vietnam's prospective growth: agriculture, domestic consumption and urbanisation, which accounted for 14%, 38% and 26% of the portfolio respectively at end June. The exposure to the agriculture theme has been reduced, reflecting in part reports of poor practice by Vietnamese rubber companies that led to the sale of two investments. This illustrates the manager's commitment to maintaining environmental, social and governance standards.

Outlook for Vietnamese equities

The economic backdrop in Vietnam suggests substantial potential for growth. The country is well endowed with natural resources, has a relatively young population and, despite the strong progress it has made over the last decade, still has a GDP per capita which is about one-third that of China and Thailand. After a period of slower growth and higher inflation, the macroeconomic position is now more stable and recent territorial tensions with China appear to have eased. The equity market has responded positively, but from a low base so valuations do not seem obviously overstretched; the portfolio's trailing P/E at the end of September was 11.6x.

Performance

The NAV performance for VNH has been ahead of both the Vietnam All-Share (VNAS – the fund's new benchmark) and Vietnam (VNI) indices over one, three and five years and the MSCI EM Asia and World markets over one and three years. VNH has also marginally outperformed the VN Index since inception in 2006.

Valuation

VNH shares trade on a discount to NAV of approximately 23%, modestly below the three- and five-year averages of 23% and 27% respectively, but still noticeably above the three-year low of 13%.

12 months ending	Share price return*	NAV return*	Vietnam All Share Index*	Vietnam VN Index*	MSCI EM Asia Index*
31/10/11	(21.0)	(16.5)	(17.5)	(10.0)	(6.3)
31/10/12	33.9	9.5	2.1	(3.4)	5.0
31/10/13	19.7	33.5	21.9	32.9	10.0
31/10/14	43.4	31.3	17.9	24.4	5.9

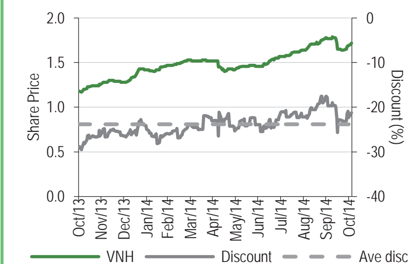
Source: Datastream, Bloomberg. Note: *Total % return in US$ terms.

Investment trusts

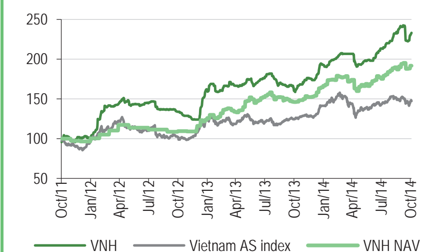
Price	**US$1.69**
Market cap	**US$103m**
Total NAV*	**US$132.6m**
NAV*	US$2.182
Discount to NAV	22.5%
Yield	N/A

* Company estimate as at 31 October 2014

Share price/discount performance



Three-year cumulative perf. graph



Share details

Code	VNH
Listing	Frankfurt Entry Standard and LSE AIM
Shares in issue*	60.8m

*Excluding 6.8m treasury shares

Business description

VietNam Holding (VNH) is an investment company established in 2006 to invest principally in the securities of former state-owned enterprises in Vietnam and other companies where a significant portion of assets/operations are in Vietnam. The manager is VietNam Holding Asset Management (offices in Zurich and Ho Chi Minh City).

Analyst

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Property

EDISON

Adler Real Estate

Fast-growing residential property specialist

Adler refocused on residential property investment in 2012. It has since grown rapidly to seize the opportunity it has identified and build the scale that in turn should provide operational and funding benefits. The investment portfolio has increased from c 200 units at the end of FY12 to c 32,000 (once the recent takeover of a majority of Jade, GmbH, with c 7,000 units) completed. Management plans a further increase in scale (a target of 47,500 units by the end of FY16) .

Rapid growth is continuing

Adler completed the takeover of Estavis at the end of June and has recently reported progress on non-core asset sales, completion of a 4,300 unit portfolio acquisition previously agreed by Estavis, agreement to acquire a majority stake in a Wilhelmshaven-based housing association (Jade GmbH) with c 7,000 units (of which c 6.600 are residential), and a successful strengthening in the financial position (towards further portfolio expansion). This was via a placing of 2.85m new shares (c 10%) at €7.40 per share. Nine-month results are due for release on 14 November, after this document goes to print.

Our forecasts seek to mirror management growth targets

We have assumed 47,500 units by the end of FY16. Management expects rent growth, supported by asset management initiatives, synergies and growth from Estavis, and scale economies to produce growing FFO earnings (our estimates show FFO1 per share of €1.36 by FY16 and an FFO1 earnings yield of c 18%). Excluded from FFO1, but included in IFRS earnings and equity, we have modelled continuing valuation gains on acquisition, as expected by management. Our estimates include €109m in FY15 and €126m in FY16m, and are a useful contribution to earnings and equity growth to fund the assumed portfolio additions.

Valuation: Growth should deliver upside

Although smaller than most peers, Adler is relatively liquid for its size. Gearing is higher (increasing NAV upside in a rising market but increasing risk if property prices fall). If current sector FFO1 and NAV multiples (c 20-25x and 1-1.5x trailing) are applied to 2016 targets, there is significant implied upside. The key is to grow cash flows off a larger asset base, providing scope for shareholder distributions and gearing reduction.

Edison estimates

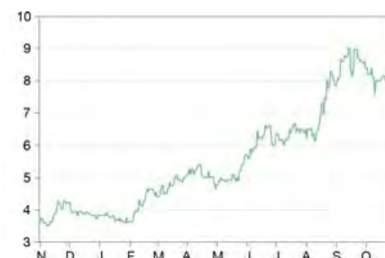
Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/2012	5.7	1.0	0.04	0.00	185.5	N/A
12/2013	19.2	63.0	2.21	0.00	3.4	N/A
12/2014e	100.2	128.4	3.36	0.00	2.2	N/A
12/2015e	248.7	148.6	2.80	0.00	2.7	N/A

Source: Edison Investment Research

Property

Price	**€7.42**
Market cap	**€237m**

Share price performance



Share details

Code	ADL
Shares in issue	31.9m
Net (debt)/cash (€) as at Jun '14	(823m)

Business description

Adler is a residential property company, targeting high-yielding portfolios in suburban locations across Germany. Its portfolio of c 25,000 residential units will increase to c 32,000 on completion of the takeover of Jade GmbH.

Bull

- German residential yields remain attractive.
- Adler trades at a significant discount to NAV.
- Active asset management lifting occupancy, rents and cash flows.

Bear

- Relatively high group level gearing.
- Rapid growth makes forecasting more uncertain.
- Rapidly growing, but currently small capitalisation.

Analyst

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EDISON

DO Deutsche Office

Return oriented management of German office properties

DO Deutsche Office was formed from the merger of Prime Office REIT and OCM German Real Estate Holding early in 2014. Headline financials for FY14 contain significant one-off items related to the merger and performance is best tracked adjusting for these. Recently published Q3 results showed further post-merger progress on lettings and continued FFO earnings growth, supported by lower costs and lower financing charges. The balance sheet also showed improvements, with a slightly lower LTV (54.6%) and lower debt. EPRA NAV per share was similar to Q2 at €4.60. Management expects further letting progress in Q4 and indicates that it hopes to reach the upper end of its unchanged full year FFO guidance.

Progress towards full year targets

On a like-for-like basis, over the first nine months of 2014 rental revenues and net operating income were slightly lower than in the previous year, but FFO earnings of €34.1m (€0.2 per share) were higher (€30.7m 9m13). Management hopes to achieve the top end of its (€44-46m) full year guidance.

Letting progress is key

Overall portfolio vacancy has declined from c 20% at December 2013 to 19.2% at the end of Q3. Letting volume ytd is c 108k/sqm (c 11.5% of the portfolio) and the seasonally slow quarter was stronger than usual. Vacancy reduction is important to drive earnings and cash flow and support property valuations, and increased post-merger scale supports a larger (22-person) asset management team to drive this. The target is to get vacancy below 10% over a two- to three-year period. Improvement in three high-impact properties (c 10% of the portfolio, but nearly 50% of vacancy), in the challenging markets of Frankfurt and Dusseldorf, is key.

Valuation: Attractive discount to NAV and growing cash flow

High vacancy is depressing current cash flow, but FFO earnings are steadily building. Management guidance equates to FFO earnings of €0.24-0.25 per share, and with a 40-45% payout ratio, implies a 2014 prospective dividend yield of c 3.6%. While this is lower than peers (c 5%), the c 35% discount to Q3 EPRA NAV per share provides additional support as DO works to reduce vacancy further on the existing portfolio and grow the overall portfolio with the potential for further cost and financing economies of scale.

Historic financials

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/2012	146.1	(3.2)	(0.01)	N/A	N/A	N/A
12/2013	120.5	(126.6)	(0.93)	N/A	N/A	N/A
12/2014e	N/A	N/A	N/A	N/A	N/A	N/A
12/2015e	N/A	N/A	N/A	N/A	N/A	N/A

Source: Company accounts

Property

Price €2.91

Market cap €525m

Share price performance

Share details

Code	PMOX
Shares in issue	180.5m
Net (debt)/cash (€) as at	(1,013m)

Business description

Deutsche Office was founded in 2014 out of a merger of Prime Office REIT Ag and OCM Real Estate Holding Ag. It aims to grow its position in the German office real estate market, to c €3bn over the medium term (from 53 properties valued at c €1.8bn today).

Bull

- Well diversified portfolio.
- Falling vacancy should increase cash flows further.
- Material discount to NAV.

Bear

- High vacancy focused on challenging Frankfurt & Dusseldorf.
- Concentrated shareholder base limits liquidity.
- Current yield relatively low vs peers.

Analyst

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EDISON

Grand City Properties

Buyer of undermanaged real estate adds value by better management

Grand City Properties' (GCP) core strategy of buying undermanaged properties, then improving occupancy and rental levels with financial and human investment, continues to add value not least through good revaluation gains. It has built a good brand as a buyer of undermanaged assets and continues to grow its portfolio ahead of expectations. At end October it owned c 42k units up from c 35k units in July, and 26k at end 2013. We have raised estimates through 2014 to reflect the above-expected growth in the year to date.

Core strategy

GCP is a German residential property specialist. It identifies undermanaged properties in a limited number of selected urban areas using its multi-year relationships with introducers to buy them at good prices. Importantly, it has established a good name as a buyer of undermanaged assets, which means that sellers are more inclined to deal with the company.Through better management GCP improves occupancy: the company presentation highlights many examples of this, including of one property with 41% vacancy in 2008 that is just 4% vacant now; and rent: through better, scaleable rent collection procedures, tenant management and targeted refurbishment increases the rent on each unit. While the vast majority of the portfolio is held long term post refurbishment for rental income, up to 10% of the portfolio will be sold for capital gains.

Scaleable business

GCP's procedures have good operational gearing through the use of centralised property management including a call centre. It has acquired a property management company to assist in the day-to-day management of the portfolio.

Low financial gearing

The end-June loan to value was 46% (32% if the convertible is exercised). Debt is long dated with no material maturities until 2017, 25 facilities from 14 different banks and S&P rating BB+ that has been upgraded twice in one year.

Valuation: Material upside on conservative assumptions

Our discounted "funds from operation" model indicates a value of €12.9, while our Gordon's growth model (GGM) is €12.2, an average of €12.6. We forecast an end-2014 EPRA NAV of €8.98, which rises rapidly (2015e EPRA NAV per share €10.54). The current share price is in line with our expected EPRA by summer next year. The rapid growth and associated valuation uplifts have upside potential.

Edison estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/2012	60.4	13.8	0.27	0.00	37.3	N/A
12/2013	169.6	51.8	0.51	0.00	19.8	N/A
12/2014e	235.8	85.5	0.66	0.00	15.3	N/A
12/2015e	326.9	122.5	0.96	0.00	10.5	N/A

Source: Edison Investment Research

Property

Price	**€10.07**
Market cap	**€1163m**

Share price performance

Share details

Code	GYC
Shares in issue	115.4m
Net (debt)/cash (€) as at Jun '14	(865m)

Business description

GCP is a specialist turnaround company focused primarily on investing in and managing German residential properties. As of October 2014, the group's real estate portfolio consisted of c 42k units with an annualised rent run rate of >€240m.

Bull

- Track record of strategy.
- Operational gearing.
- Low financial gearing.

Bear

- Rapid expansion carries risks.
- Regular equity issuer.
- Valuation has assumption risks.

Analyst

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EDISON

PATRIZIA Immobilien

Fully integrated real estate investment

Patrizia's transformation to a fully integrated real estate investment house is virtually complete. It is now positioned as a real estate investor and manager, and provides a full range of other real estate services; wholly self-owned investments are less than 4% of AUM and are targeted to be fully exited by the end of 2015. The move away from property owner to asset manager (and co-owner) and services provider should provide a more reliable income stream, with a lower capital requirement, and higher ROE.

Services growth continues

For 2014, management targets €14bn in AUM (€11.8m at the end of FY13). Including the acquisition of commercial real estate assets in Hessen in H1 (the "Leo portfolio"), €13.3bn had been reached by H1 and the July purchase agreement (expected to complete by year end) for a 5,500 residential portfolio in the Netherlands (€578m) will increase this further. Revenue from management services increased to €49.0m in H1 (H113: €36.8m) or 58% of the total. Most recently, Patrizia has announced the extension of its business model to include real estate funds for private investors from 2015. This should add incremental growth (the ambition is c €1bn in AUM over the next five years), while institutional AUM is likely to remain the driver of the business.

On target for full year guidance

Q3 earnings will be released on 11 November after this report goes to print. Adjusted operating profit as defined by Patrizia was 18.3% higher at €21.5m in H1 (H113: €18.1m). Reduced financial expense was an important contributor as expensive interest rate hedging has expired and has not been replaced. Q2 was lower than the corresponding quarter of 2013 because this included significant transaction fees related to the acquisition of GBW. For the year, management expects at least €50m in operating profit (including the H2 recognition of dividends from co-investments and performance fees), with c 80% of the result expected to be derived from services. Debt has continued to reduce (management expects less than €180m including bonded loans for year end vs €316m at H114). The equity ratio is expected to increase to c 80-90% by the end of FY15 (H114: 47.2%).

Valuation: Valuation focus on earnings rather than NAV

The group's continuing transformation from property owner to manager and services provider, with lower capital requirements and an increasing stream of stable fee business, renders NAV a less relevant measure of value than P/E, in our view. For now, the group pays no cash dividend, but offers shareholders reinvestment of earnings back into the group in the form of bonus issues (a bonus of one share for every 10 owned is again possible for 2014). The P/E anticipates a continuation of Patrizia's growth trend.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/2012	229.2	28.6	0.44	0.00	24.5	N/A
12/2013	217.4	39.6	0.59	0.00	18.3	N/A
12/2014e	301.1	46.7	0.62	0.03	17.4	0.3
12/2015e	255.9	53.1	0.67	0.22	16.1	2.0

Source: Thomson Reuters

Property

Price	€10.77
Market cap	€747m

Share price performance

Share details

Code	P1Z
Shares in issue	69.4m
Net (debt)/cash (€) as at Jun '14	(118.9m)

Business description

Patrizia is a fully integrated real estate investor and service provider, offering direct and indirect investment services across all real estate asset classes in Germany and Europe. AUM is in excess of €13bn.

Bull

- Growing recurring fee base.
- Significant European opportunity.
- Increasing scale benefits.

Bear

- A large element of service revenue is "one-time".
- ROE yet to reach full potential for business mix.
- Controlling shareholder.

Analyst

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EDISON

Primary Health Properties

Secure income

Primary Health Properties (PHP) offers a prospective yield of close to 6%, driven off a broad portfolio (c £1bn in value) of healthcare facilities on long-term leases (WAULT 16 years at H1) with rent growth potential. As of H114, 91% of the rent roll is paid directly or indirectly by the UK government. The group is achieving a cash yield on acquisition cost of c 7%, well ahead of the marginal cost of funding and management fees. H1 LTV was 63.6% with an average debt maturity of 7.1 years and an average cost, including the effect of interest rates swaps, of 4.85%. The combination of secure long-term income and locked-in funding, supplemented by active cost management, generates high income visibility to support a progressive dividend policy.

Attractive growth market

PHP has an 18-year track record of investing in the primary care sector, working with developers, GP groups and the NHS to develop modern, high-quality facilities, with the space and design specifications to meet the changing needs of the sector. The prospects for the future growth of the sector are strong, driven by an ageing population, the move to drive healthcare services into the local community where they can be delivered more effectively and the inadequacy of a considerable share of the existing, dated GP estate. The trend still has a long way to go and private sector investors like PHP will need to provide the necessary investment capital.

Investment driving earnings growth and dividend cover

PHP grew its investment portfolio by £319m to £942m in 2013. Including valuation gains of £16m, it passed the £1bn mark in H114. Dividend policy is progressive, with the majority of income distributed over time. Asset growth (we anticipate c £100m pa on average) thus requires periodic equity funding, which temporarily reduces dividend cover. Dividend cover is currently in rebuilding phase, increasing to 76% in H1 as properties acquired in late FY13 (the acquisition of PPP in December 2013 added 54 fully let primary care assets with a value of £233m), the refinancing of debt (including £178m of expensive amortising debt acquired with PPP) and the reduction in property management fees all contributed to increased earnings. We see these trends continuing to affect the balance of 2014. With forecast asset growth and modest rental growth (supported by asset management initiatives that benefit rents, lease length and valuation), we see full dividend cover restored by by H216.

Valuation: Attractive and dependable yield

We view PHP's current dividend yield as attractive, with visibility over its progressive dividend high. As well as direct or indirect government backing for rent payments, high and consistent occupancy is a sector feature. Lower volatility in capital values versus mainstream commercial property has been a consistent feature.

Edison estimates

Year end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
12/2012	33.2	7.4	10.2	18.5	N/A	5.4
12/2013	42.0	9.5	10.6	19.0	N/A	5.4
12/2014e	59.6	16.5	14.8	19.5	N/A	5.7
12/2015e	66.7	20.5	18.4	20.0	N/A	5.7

Source: Edison Investment Research

Property

Price	**352.50p**
Market cap	**£392m**

Share price performance

Share details

Code	PHP
Shares in issue	111.1m
Net (debt)/cash (£) as at Sep '14	(619m)

Business description

Primary Health Properties is invested in 266 primary healthcare properties in the UK (261 completed), principally let to GPs and NHS organisations backed by the UK government. The tenant profile provides an exceptionally secure rental outlook.

Bull

- Low-risk model with growth opportunity.
- Positive gap between asset yields and funding costs.
- Good cost control.

Bear

- NHS reforms still weighing on new building.
- Increased competition for properties from institutional investors.
- High payout requires equity funding for growth.

Analyst

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Industrials

Sector focus: Industrials

Analyst: Roger Johnston

Mixed outlook from economic data

Recent data on the strength of the German industrial economy has provided mixed messages, with output and confidence in a state of flux. With geopolitical events and sanctions on Russia providing headwinds and European-wide domestic weakness continuing, German manufacturing orders and confidence indicators have fallen. Despite this, October saw a return to production growth, one of only four countries in the eurozone to do so.

With exports remaining a key factor in the success of German industry, developments around the globe have a bearing on overall growth rates. The Federal Statistical Office (Destatis) reported that exports rose in September 2014 to €102.5bn, surpassing the previous peak in July 2014, while imports rose to €80.6bn, generating a foreign trade balance surplus of €21.9bn. In calendar and seasonally adjusted terms, these represented an export increase of 5.5% and import increase of 5.4%.

Despite the recovery in production output from August, activity in October, according to the Markit PMI survey, registered a reading of 51.4, a rebound from the 15-month low of 49.9 registered in September, but well below the rate of growth seen at the start of the year. However, business confidence is on the wane. Recent data from both the DIHK economic survey and the Ifo Business Climate Index indicate that industries' export expectations have also been lowered, with concern regarding orders for business with Russia in particular on the rise. Coupled with this, the potential dampening effect on trade from the conflict in the Near East and the Ebola crisis in West Africa have also heightened concerns. The US has provided one clear bright spot for German exporters and with economic growth continuing, we expect this to remain a key driver.

With some increasing concerns about the business outlook, various firms have been reporting a lowering of investment plans, particularly in the manufacturing sector, while the focus is tending increasingly towards increases in R&D and less around capacity expansion. We believe companies are increasingly reliant on product innovation and efficiency.

There remain several key sectors where German manufacturers continue to lead the way such as automotive, machine building, chemicals and increasingly areas such as speciality materials and process development. We believe investment here will continue apace and while there has been some short-term volatility in these markets, we consider that the long-run investment case remains solid.

EDISON

Albioma

On track to meet targets

The H1 results indicated that Albioma is on track to meet its full-year targets for net income and EBITDA, underpinned by a very strong performance from its new Brazilian assets. The performance of Brazil and the contribution of two new plants scheduled to come into operation in 2016 should help progress towards the company's longer-term targets. Our analysis suggests an average valuation for Albioma of c €24/share.

H1 EBITDA shows strong performance in Brazil

Although Albioma's H1 EBITDA fell by 3%, to €60.1m, excluding retroactive and non-recurring items, it was broadly in line with our estimate of FY EBITDA of €125.6m. Net debt, according to the company definition, was €450m. The year-on-year decline was caused by a reduction in the fixed premium paid to the Le Moule plant (-€2.5m) and technical problems at Bois-Rouge and Gaudeloupe, which prompted a rescheduling of the maintenance outage. These negative factors were in part offset by a strong performance in the solar business, and a very strong performance from the new Brazilian business. The profitability of the Brazilian assets was helped by achieving high selling prices for its output (590 BRL/MWh versus our forecast of 145 BRL/MWh), enabling it to report EBITDA of €3m in only two months of operation.

Albioma confirms growth targets

At the H1 results Albioma confirmed its targets for EBITDA of €123-6m (2014) and €160-3m (2016), and net income of €33-5m (2014) and €40-2m (2016). Based on the H1 results, and in particular the strong showing of the Brazilian operations, we believe Albioma is well placed to meet its 2014 targets for net income and EBITDA. Longer term, underpinned by the forward sale of Brazilian power at advantageous prices (c 50% of 2016 output sold at 180 BRL/MWh) and the potential for two new generation assets (Reunion and Galion 2) to come on stream in H216, we believe the forecasts for net income appear achievable

Valuation: Valuation upside

Our DCF valuation (30 years, perpetuity growth 0.5%, WACC 5.65%) and peer group analysis produce an average valuation of c €24/share, offering upside potential from the current share price.

Edison estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/2012	373.8	60.4	1.28	0.59	13.5	3.4
12/2013	364.3	68.0	1.42	0.60	12.2	3.5
12/2014e	377.4	67.3	1.41	0.63	12.3	3.6
12/2015e	392.1	68.0	1.42	0.63	12.2	3.6

Source: Edison Investment Research

Alternative energy

Price	€17.29
Market cap	€514m

Share price performance

Share details

Code	ABIO
Shares in issue	29.1m
Net (debt)/cash (€) as at Jun '14	(450m)

Net debt is company definition

Business description

Albioma is an energy producer active in the thermal (bagasse/coal), solar and anaerobic digestion power generation sectors. The majority of its assets are located in the French overseas departments.

Bull

- Excellent performance of Brazilian acquisition.
- Long-term contracts provide stability to business.
- Strong position in core markets.

Bear

- Sensitive to change in energy subsidies.
- Relative dominance of biomass generation in business mix.
- Reliance on Francophone markets.

Analyst

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EDISON

Global Bioenergies

Positioned for industrial pilots to progress

Global Bioenergies (GBE) is positioned with funding, partners and processes to move into the significant industrial pilot phase of its development. Full-year results showed the changing nature of spend in preparation for this, while agreements with Audi and Arkema highlight that GBE is drawing the attention of blue chip partners. With the first industrial pilot in Pomacle-Bazancourt due to come on stream in H214, followed by the second at Leuna in 2015, the path towards proving industrialisation is well underway. Success with these pilots should act as a catalyst for future licence agreements and hence further value creation.

Industrial pilots: Progress and partners

Global Bioenergies has not only secured funding for its industrial pilots through access to French and German government grants, but has also demonstrated the attractiveness of the opportunity through the partners it has secured. In France, the location of the first pilot is at Pomacle-Bazancourt, where the fermenter is currently in the commissioning phase. In Germany, the pilot is scheduled to be constructed in 2015, with Linde selected as the designer and the output to be used for the testing of drop-in Biofuels with Audi. We feel that the quality of partners highlights the strategic value attached to GBE's development.

Interim results highlight changing nature of spend

Global Bioenergies reported its half-year results to 30 June 2014 showing operating revenues of €1.3m, which included a portion of the Synthos payment, an initial amount from Audi and a grant payment from ADEME. Operating expenses increased by 22.5% to €5.3m as ongoing laboratory programmes continue at the same time as engineering studies for the industrialisation process ramp-up as anticipated. The group had a cash position of €19.5m at the period end. Importantly, Global Bioenergies announced on 23 October that it had reached the first productivity objective of the isobutene process, paving the way for larger-scale trials.

Valuation: Market assuming 15% chance of success

We estimate the market is assuming a 15% probability of success at a 16% cost of capital based on our DCF of the isobutene opportunity alone. With the first industrial pilot being installed and due to undergo initial trial runs over the coming month, we believe a successful launch would pave the way for a potential industrial licence agreement, which could provide a catalyst for a re-rating.

Edison estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/2012	1.8	(1.1)	(0.10)	0.00	N/A	N/A
12/2013	1.2	(6.5)	(2.40)	0.00	N/A	N/A
12/2014e	3.4	(9.0)	(2.80)	0.00	N/A	N/A
12/2015e	9.4	(6.1)	(1.70)	0.00	N/A	N/A

Source: Edison Investment Research. Note: GBE changed year end to December from 2012.

Alternative energy

Price €38.25
Market cap €106m

Share price performance

Share details

Code	ALGBE
Shares in issue	2.8m
Net (debt)/cash (€) as at Jun '14	17.6m

Business description

Global Bioenergies is in the scale-up stage to convert renewable resources into isobutene, a gaseous olefin with an existing market of €30bn. This is the first of a number of olefins which will be licensed out to partners once the process is proved in an industrial pilot.

Bull

- First industrial pilot in progress.
- Significant industrial partners on board.
- Substantial market opportunity.

Bear

- Increased expenses to support engineering studies.
- Further R&D on additional molecules.
- Initial licence agreements yet to be signed.

Analyst

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EDISON

SFC Energy

Systems supplier

SFC Energy is in the enviable position in the fuel cell space in that it has moved well beyond R&D, testing and proving into real-world operation. This has been achieved through the group's hybrid-focused approach, with over 30,000 fuel cell units sold and installed operations with blue chip customers. This was further enhanced by the acquisition of Simark in 2013, which opened up the Canadian oil and gas market to become the group's largest end-market, accounting for c 50% of revenues. SFC is now targeting further expansion in Canada and penetrating the broader North American oil and gas market, while solid growth potential from the security and industry market for off-grid power solutions remains.

Transformed to a true industrial supplier

Since IPO in 2007, SFC Energy has developed from a developer of fuel cells into a supplier of complete hybrid power management solutions for off-grid applications. With a significant operational installed base of units and an increasing portfolio of products and capabilities – first through the acquisition of PBF in 2011 and subsequently Simark in 2013 – SFC now has a complete systems integration approach. The group is now fully developing the organisation to align the technology with sector-focused services and driving the group's hybrid power position to move further up the value chain to higher-margin products and services.

Significant oil and gas market opportunities

While SFC continues to pursue opportunities in its traditional security and industry market, the acquisition of Simark provided it with an immediate installed base and over 40 years' experience in the supply and service of power management solutions to the Canadian oil well market. Management estimates that this market alone has an addressable market of c $2.5bn, of which $1.0bn is off-grid, with further scope to expand into the broader North American market, which has an addressable market of some $14bn, of which $4.7bn is off-grid.

Valuation: Trajectory to achieve break-even in FY16

While SFC is still loss making, it is not suitable to value the group on a P/E or equivalent basis. However, the group is trending towards a consensus estimate of achieving a break-even result in FY16. Given that order intake improved by over 100% in H114 to €13.7m, we feel that forecast top-line growth appears achievable. This equates to an EV/Sales rating of 0.7x in FY14, falling to 0.6x in FY15.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/2012	31.3	(0.4)	(0.06)	0.00	N/A	N/A
12/2013	32.4	(9.0)	(1.16)	0.00	N/A	N/A
12/2014e	55.3	(2.6)	(0.40)	0.00	N/A	N/A
12/2015e	63.6	(0.4)	(0.07)	0.00	N/A	N/A

Source: Thomson Reuters

Alternative energy

Price	€5.06
Market cap	€41m

Share price performance

Share details

Code	F3C
Shares in issue	8.0m
Net (debt)/cash (€) as at Jun '14	0.7m

Business description

SFC Energy is a world-leading group of companies for mobile energy solutions and power management. It operates in three segments: Oil & Gas (50% 2014e revenues); Security & Industry (40%) and Consumer (10%).

Bull

- Significant oil and gas well opportunity for off-grid power.
- Large installed base already operationally proven.
- Full systems integration capability and hybrid solution allows easier adoption.

Bear

- Company yet to achieve break-even.
- Margin impact from broader Simark offering.
- Increased FX exposure following acquisition.

Analyst

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EDISON

Wacker Chemie

More speciality and less capital intensity

Wacker's strategy is to increase its portfolio share of high-value specialities and to drive for positive net cash flow following a phase of capital-intensive capacity build that is now subsiding. Combined with recovery this year from a difficult 2013, this gives solidity to management targets for 2017, which are sales of €6-6.5bn, lifting specialities to three-quarters of the total from two-thirds, EBITDA margin of 20% (15% in 2013) and ROCE of >11% (2.2% in 2013).

Direction of travel

Over the next three years, we expect the strongest margin uplift to be in Wacker Silicones, strategically moving deeper downstream (higher value) and technically close to customers. In polysilicons, where prices are stabilizing, the strategy is to reduce costs and grow with the market. The Tennessee expansion, due onstream in 2015, will provide increased volumes and cost efficiencies. In Siltronic (electronic wafers), increased use of sensors, a bottoming out of the PC market and widespread use of electronics in mobility and auto markets will be key volume drivers. Polymers is broadening its range with strong potential seen in powders.

2014 strong swing from depressed 2013

2013 was a difficult year, with losses in Siltronic and a steep fall in Polysilicons, triggering cost reductions and a winding down of capital expenditure. Most recently, a good set of Q314 results featured enhanced volumes, demand recovery from the depressed previous year level, improved polysilicon pricing and good cost coverage. Sales between January and September 2014 rose 7% to €3.63bn with EBITDA up 66% to €862m at a margin of 23.7% (15.3% in 9m13). Normalised EBITDA was €656m (+45%). Noting economic headwinds, management nonetheless lifted its full year outlook to EBITDA of c €1bn on a mid-single digit sales increase. Balance sheet net debt increased to €906m, but we see this reducing from 2015 once the Tennessee plant is completed and capex consequently declines.

Valuation: Recovery underway

Wacker's 2015e P/E of 30x (priced at 31 October) reflects market expectations, backed by evidence this year that earnings have sustainably swung back from the 2013 low. On an EV/EBITDA 2015e basis, the shares trade on a discount of around 35% to peers. There is potential for this to narrow as the value shift in portfolio is accomplished, thereby reducing the future impact of cyclicality in polysilicons, and the value should increasingly recognise enhanced positive cash flows as capex winds down, costs are contained and earnings recover.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/2012	4634.9	203.9	2.43	0.60	39.6	0.6
12/2013	4478.9	31.0	0.05	0.50	1924.6	0.5
12/2014e	4803.8	290.6	3.56	0.81	27.0	0.8
12/2015e	5109.2	240.3	3.18	0.97	30.3	1.0

Source: Company accounts, Thomson Reuters

Basic industries

Price €96.23

Market cap €5019m

Share price performance

Share details

Code	WCH
Shares in issue	49.7m
Net (debt)/cash (€) as at Sep '14	(906m)

Business description

Wacker is a leading global specialty chemicals company with a core focus on semiconductors, polysilicons, polymers, silicones and advanced materials. In Jan-Sept 2014, sales were split Asia 42%, Europe 24%, Americas 17% and other regions 17%.

Bull

- 2014: improving volumes and pricing for polysilicon from an extended low cycle. Focus now on costs and driving cash flow.
- Tilting portfolio focus to lift share of higher-value speciality products will reduce impact of cyclical commodities and lift longer-term margins.
- Leading positions in markets with high entry barriers.

Bear

- Sensitive to movements in global polysilicon prices.
- Capex and debt remain high ahead of 2015 Tennessee polysilicon start-up.
- Key end-markets of semiconductors and construction sensitive to levels of economic activity.

Analyst

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EDISON

Grammer

Global investments

Grammer has global operations across production, R&D and test facilities in the automotive and commercial vehicle sector. With a history steeped in suspended seating systems for commercial vehicles, it also has a portfolio of interior components (headrests, centre consoles and armrests), which it designs and develops for premium automotive customers such as German OEMs, but also local OEMs in the US and China. With 2014 new programme starts supporting lifetime revenues of >€1.2bn alone, Grammer is targeting c 3-5% revenue growth pa in 2014 and beyond. While investment in global expansion and site optimisation will provide a near-term headwind of €7-10m, this will provide a 40% increase in capacity, improved efficiency and open further regional opportunities.

Global positioning key to future growth

Grammer has established a global presence spanning Europe, the Americas and Asia. The global expansion is three pronged in nature, with production, R&D and group functional presence enabling Grammer to not only produce locally, but also design, develop and tailor to local markets. Revenues are split 67% Europe, 19% Americas and 14% Asia, highlighting Grammer's strength with the premium German manufacturers. The company is targeting significant growth from regional expansion including a doubling of revenues in Asia and an 85% increase in the Americas over the next five years.

R&D and M&A focused on innovation

To support its leading position, Grammer has focused its efforts on safety and ergonomics. It is also seeking to increasingly boost its capability in materials, both from a weight and surface finish perspective, and electronics content through a combined organic and acquisitive approach.

Valuation: Undemanding rating versus larger peers

Grammer has consistently targeted a revenue growth of 3-5% for 2014 and the H1 results in August 2014 supported that with 4% growth. While there will be a profit headwind of €7-10m resulting from the investment in global capacity and site optimisation, this is set to ease in 2015. The rating currently sits at a relatively undemanding 10.0x for CY14 EPS, falling further to 8.2x CY15 EPS as those profit headwinds ease. This sits at a c 20% discount to larger listed peers such as Johnson Controls, Lear and Faurecia.

Consensus estimates

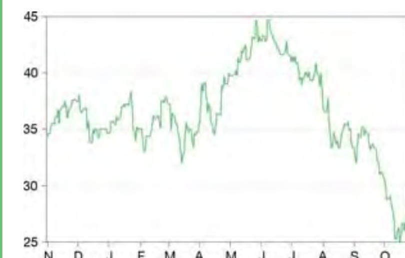
Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/2012	1133.0	38.3	2.38	0.50	12.2	1.7
12/2013	1265.7	42.4	2.67	0.65	10.9	2.2
12/2014e	1324.8	46.3	2.91	0.77	10.0	2.6
12/2015e	1417.1	56.8	3.55	0.92	8.2	3.2

Source: Company accounts, Thomson Reuters

Engineering

Price €29.13
Market cap €336m

Share price performance



Share details

Code	GMM
Shares in issue	11.5m
Net (debt)/cash (€) as at Jun '14	(122.4m)

Business description

Grammer is a leading developer and manufacturer of premium interior components (headrests, consoles, armrests) for automotive customers (63% FY13 revenues) and seating systems for commercial vehicles (37%). It operates in 19 countries with manufacturing, R&D and test facilities in Europe, the Americas and Asia.

Bull

- Leading positions in headrests, consoles and commercial vehicle seating.
- Good exposure to premium German OEMs.
- Positive order book visibility.

Bear

- Some potential weakening in certain markets in Q4 provides some caution.
- Profit headwind of global expansion and optimisation.
- Increased working capital during Eastern European site consolidation.

Analyst

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EDISON

PVA TePla

Vacuum and high-temperature systems

PVA TePla's new management is addressing continued weakness in two of its key markets with a three-strand action plan. Following cost-savings measures taken in FY13, management has instigated a further round of restructuring intended to return the group to profitability in FY15. The group is introducing products for complementary market segments and increasing its sales activities in the Americas.

FY13 cost-savings programme reducing losses

H114 group sales grew by 31% year-on-year to €38.7m. Industrial systems' sales rose by 43% to €18.2m, driven by vacuum systems for the production of hard metal. Semiconductor Systems revenues improved by 22% to €20.5m, supported by sales of plasma systems and crystal growing systems for customers in Asia. Unfortunately, the moderate recovery in orders noted in H213 did not continue. Demand for crystal growing systems for the semiconductor and solar markets and from the Chinese market for heat treatment furnaces for the production of hard metal was less than expected. In addition, certain customers in Thailand and Russia were in default of advance payments for orders received in H213 for crystal growing systems. Management reduced the order backlog by €9.9m to reflect the uncertainty regarding the future of these projects. Operating losses reduced from €8.2m to €5.1m, reflecting the impact of cost savings made during FY13.

Turnaround programme intensified

In May 2014 management announced that an extensive reorganisation of the group would be taken, reducing break-even level to around €70m. The group has introduced products aimed at new market segments such as a hot press for use in diffusion welding applications including the aviation industry and a crystal growing system for silicon carbide substrates used in power semiconductors and LEDs. Management is strengthening the sales channels in North and Latin America to take advantage of Industrial Systems' opportunities in these regions.

Valuation: Recovery factored in

Noting the issues with the aforementioned crystal growing systems contracts, in May management revised FY14 revenue guidance to €70-80m (previously €90-100m), generating a €6m operating loss rather than a modest profit. Following the decline from a high of €3.33 in February, the shares are currently trading on Year 2 EV/EBITDA and P/E multiples in line with the average for global semiconductor equipment manufacturers, indicating that the recovery is already priced in.

Consensus estimates

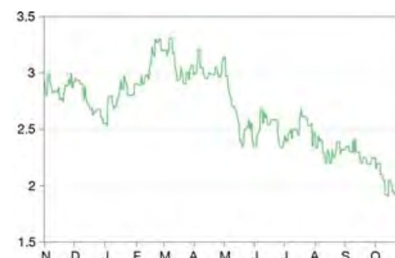
Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/2012	103.3	5.8	0.21	0.15	9.2	7.7
12/2013	64.1	(10.3)	(0.35)	0.10	N/A	5.2
12/2014e	78.4	(6.1)	(0.22)	0.02	N/A	1.0
12/2015e	98.0	3.7	0.11	0.08	17.6	4.1

Source: Company accounts, Thomson Reuters

Engineering

Price	€1.94
Market cap	€42m

Share price performance



Share details

Code	TPE
Shares in issue	21.8m
Net (debt)/cash (€) as at Jun '14	(12.1m)

Business description

PVA TePla offers systems for the production and refinement of high quality materials such as hard metals, semiconductors and silicon. These complex processes typically take place in vacuum conditions, in inert gas atmospheres, at high temperatures or using high temperature plasma.

Bull

- FY14 restructuring expected to reduce break-even point to around €70m revenues.
- Product innovation, much of which is in the Industrial Systems division and funded by customers.
- Presence in emerging markets, which are developing strategic solar manufacturing capacity.

Bear

- Significant overcapacity in hard metals market, especially in China.
- Photovoltaic market also characterised by significant overcapacity.
- Removal of significant crystal growing systems from order book.

Analyst

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EDISON

Arbonia-Forster-Holding

General industrials

Foundations in place for improved performance

Business conditions were challenging in the first half of 2014. However, with good order book positions going into H2, management expects to see a better trading performance get underway. Additionally, benefits from a new business structure – with increased focus on core competencies – under a new CEO should become increasingly apparent and result in improved financial metrics.

Focused supplier of building products and systems

During 2013, Arbonia-Forster began implementing a revised business strategy, focusing on core building competencies supplemented by investment and acquisitions with non-core business disposals. It now reports as three divisions: Building Technology (heating & sanitary equipment), Building Envelope (windows and exterior doors) and Building Security (profile systems and interior doors).

Mixed trading performance seen in the first half of 2014

Stable revenue performance in H114 but upward pressure on operating expenses resulted in a 240bp y-o-y reduction in adjusted EBIT margin (to 1.9%) for continuing operations. The largest division, Building Technology, increased underlying and reported revenues and maintained a stable EBIT position. However, Building Envelope and Building Security both experienced lower sales and more significant margin reductions. Geographically, relative weak Swiss sales (affected by competing imports) were compensated for by better revenue in some other European markets. Arbonia-Forster saw a normal working capital outflow in the period, being the primary driver behind a seasonal increase in net debt to CHF202.5m.

Valuation: Potential value opportunity

The share price is currently trading towards the lower end of its 2014 range. The rate of recovery in earnings is still to be seen but forward P/E ratings are fairly conventional multiples. This may suggest some market caution but also potential value investment opportunity if a faster recovery profile can be delivered.

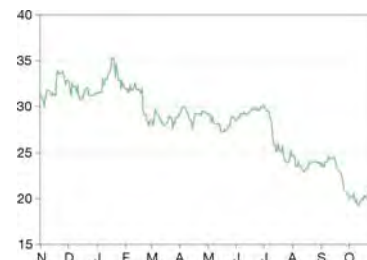
Consensus estimates

Year end	Revenue (CHFm)	PBT (CHFm)	EPS (CHF)	DPS (CHF)	P/E (x)	Yield (%)
12/2012	919.3	9.3	(0.02)	0.00	N/A	N/A
12/2013	1004.0	42.0	1.89	0.30	12.4	1.3
12/2014e	1044.5	33.7	1.56	0.38	15.0	1.6
12/2015e	1109.7	51.1	2.23	0.60	10.5	2.6

Source: Company accounts, Thomson Reuters. Note: Continuing operations.

Price CHF23.45
Market cap CHF427m

Share price performance



Share details

Code	AFGN
Shares in issue	18.2m
Net (debt)/cash (CHF) at Jun '14	(202.5m)

Business description

Arbonia-Forster is an international technology group that provides innovative construction materials, machinery and services for the outer shell and interior design of buildings.

Bull

- Business focus increased.
- Order position indicates trading improvement in H214.
- New CEO appointment.

Bear

- Mixed trading performance in H114.
- Some import pressures seen in Swiss market.
- Some distraction from discontinuing businesses.

Analyst

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EDISON

Dürr

Adding a new leg

Dürr has established itself as the leader in its niche industries, with global market shares between 30-60%. The group has four key strategies for future growth through its Dürr 2017 strategy: driving innovation and product development; capturing higher-margin service revenues; increasing globalisation; and a relentless focus on efficiency. In addition, the acquisition of Homag has added another leg where it can apply the same methodologies that have seen existing divisions achieve leading market shares and higher than average margins. With the acquisition, Dürr should achieve its 2017 revenue targets by 2015 and will provide updated group targets in the spring.

Results highlighted strong earnings and improving momentum

H114 results showed that while order intake and sales were down slightly due to previously flagged project delays, the group's focus on efficiency helped drive gross margins 260bp higher through strong capacity utilisation and order execution. With EBIT margins of 8.4% already in the full-year target corridor and reduced finance expenses, net income rose by 10.5% to €57.9m. The outlook for 2014 (ex-Homag) is for order intake and EBIT margins at the upper end of expectations (€2.3-2.5bn and 8-8.5% respectively), while sales are anticipated at the lower end (€2.4-2.5bn).

Homag acquisition provides diversification and opportunity

The majority acquisition of Homag was completed on 15 October 2014 and provides Dürr with a fifth division (Wood Processing Systems) focused on mechanical and plant technology, but providing a diversification of end-market and associated risk away from the predominant automotive exposure. Homag has a 28% market share and a leading position in wood processing machinery. Therefore, there is scope for top-line acceleration as Dürr seeks to drive global market share more akin to existing divisions. In addition, the group can drive efficiency in Homag through applying its established systems, tools and processes to increase pre-tax margins from the current 4% towards the group average of >8%.

Valuation: Value creation opportunity

We view Dürr as a market leader with the added potential to accelerate the development of its newly acquired fifth division. As the benefits of Dürr's approach begin to be realised, we would expect the potential value creation to be recognised in the rating.

Consensus estimates

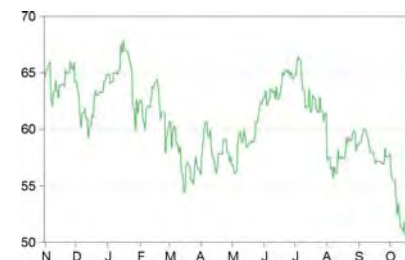
Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/2012	2399.8	147.7	3.10	1.13	18.0	2.0
12/2013	2406.9	184.6	4.05	1.45	13.8	2.6
12/2014e	2518.2	196.6	4.09	1.49	13.7	2.7
12/2015e	3408.2	247.1	4.65	1.70	12.0	3.0

Source: Thomson Reuters

General industrials

Price	€55.87
Market cap	€1933m

Share price performance



Share details

Code	DUE
Shares in issue	34.6m
Net (debt)/cash (€) as at Jun '14	(227.2m)

Business description

Following the acquisition of Homag, Dürr supplies products, systems and services across five divisions: Paint and Assembly Systems; Application Technology; Measuring & Process Systems; Clean Technology Systems; and Wood Processing Systems.

Bull

- Increasing emerging market exposure.
- Growing proportion of service revenues.
- History of improving margins and ROCE.

Bear

- Some project delays affecting full-year sales.
- Lower-margin Homag business will affect margins and ROCE in the short term.
- Further improvement in Clean Technology Systems required.

Analyst

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EDISON

INDUS Holding

Robust model and business performance in 2014

The INDUS business model has a diversified revenue stream which, in recent years, has delivered a comparatively stable earnings profile. Financial performance in the first half of 2014 has been in line with management expectations, with unchanged FY14 guidance. Several new acquisitions have been made in the year to date that fit into the existing sector footprint.

'Buy, hold and develop' strategy

INDUS has developed by acquiring and developing SMEs in its target sectors. On acquisition, INDUS typically takes a majority position with a one- to two-year earnout structure with existing management, under a specialist industry advisory role. Portfolio companies individually report directly to the board. In 2012, a more expansionary strategy ('Compass 2020') was adopted with greater emphasis on business development through a combination of R&D, international markets and complementary acquisitions.

Developing according to plan

In the first half of FY14, INDUS delivered revenue growth in all of its industry sectors with EBIT also ahead in four of them (these ones maintaining EBIT margins above 10%). At the group level, this translated to revenue and EBIT progress of around 5% (to €58.5m). Several sectors reported strong order positions and, for their existing businesses, INDUS provided FY14 EBIT guidance of €118m (vs €114.2m in FY13 and €58.5m in H114). Additionally, INDUS has made four acquisitions in the year to date across several sectors, with ROLKO joining as a new independent business and the others enhancing existing portfolio companies. One company was discontinued in H1 following closure.

Valuation: Premium for growth

Share price performance in the first eight months on 2014 was very strong. Despite some retracement from the August high, progress since the start of the year remains healthy. Slow eurozone economic growth must be taken into account, but if INDUS can combine organic and acquired growth to sustain earnings growth, this is likely to attract a premium rating to the wider industrial sector.

Consensus estimates

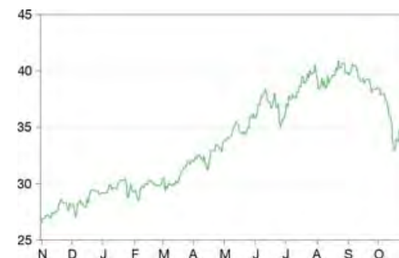
Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/2012	1105.3	84.9	2.47	1.00	14.8	2.7
12/2013	1195.2	94.1	2.85	1.10	12.8	3.0
12/2014e	1264.8	101.3	2.68	1.12	13.7	3.1
12/2015e	1325.0	109.2	2.91	1.21	12.6	3.3

Source: Thomson Reuters

General industrials

Price	€36.59
Market cap	€895m

Share price performance



Share details

Code	INH
Shares in issue	24.5m
Net (debt)/cash (€) as at Jun '14	(372.3m)

Business description

INDUS comprises 42 companies operating in five sectors: Construction/ Infrastructure (19% 2013 revenue); Automotive Technology (29%); Engineering (17%); Medical Engineering/Life Science (8%); and Metal/Metal Processing (27%).

Bull

- Robust business model.
- Sound financial performance in H114.
- Acquisitions supplement organic progress.

Bear

- Weak eurozone GDP growth expectations.
- Automotive sector experiencing slowdown in 2014.
- Short-term increase in net debt.

Analyst

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KTG Energie

Visibility, yield and growth with parent support

We expect KTG Energie will multiply earnings almost threefold by the end of this decade, driven by a growing biogas asset base with high visibility and cash generation. The company has confirmed it has reached its capacity target of 53MW for this year. It has updated its guidance and now looks for EBITDA of €19-20m, in line with our forecast. KTG stands out as a result of unique competitive advantages on feedstock supply, which make it one of the few viable names in the sector. The company has recently increased its payout to €0.45/ share, further underpinning its yield attraction. The company's value is driven by its mature cash flows from 2020. On 23 September the group announced a successful capital increase to raise €5.9m gross proceeds, as yet to be reflected in our forecasts.

Visibility defies regulatory risk

KTG's business model is based on a combination of existing plant generating strong cash flow, growth through selective new build, and optimisation and acquisition of more cash-generative plant still operating under the favourable regulation of EEG 2012. With the secured EEG subsidies, KTG has lifetime guaranteed revenues on its plant, secured stable financing and the benefit of margin expansion from operating leverage, a strong hedge against regulatory risk.

Unique competitive advantage differentiates profits

KTG has a unique competitive advantage on feedstock, the single most important determinant for profits after regulation: it sources its substrates from parent KTG Agrar on competitive terms, as it uses the catch crop method on KTG land. This means very low-cost, reliable supply with favourable logistics and no conflict with sustainability issues. The latter is very important as, over time, it may determine whether biogas qualifies for subsidies altogether. KTG stands out over its competitors in this respect.

Valuation: €15/share

Our three-stage DCF yields a fair value of €15/share, which provides attractive upside. KTG stands out with a c 5% 2015 yield, which is at the high end of our peer comparison universe, even when including high-yield names. Longer asset lives could add €2-5/share to our value. Each 0.01c/kWh change in achievable regulated revenues has a 3.3% impact on our valuation.

Edison estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
10/2012	37.7	2.8	0.41	0.00	26.9	N/A
10/2013	54.3	2.7	0.27	0.40	40.8	3.6
10/2014e	69.4	4.1	0.49	0.40	22.5	3.6
10/2015e	84.6	7.0	0.85	0.60	13.0	5.4

Source: Edison Investment Research

General industrials

Price €11.02
Market cap €72m

Share price performance

Share details

Code	KB7
Shares in issue	6.5m
Net (debt)/cash (€) as at Apr '14	(128.3m)

Business description

KTG Energie develops and operates biogas facilities. The output is sold under the German renewable energy law at subsidised rates.

Bull

- 2014 and 2015 revenues driven by guaranteed feed-in tariff revenues.
- Feedstock advantage through parent company relationship.
- Yield attraction with payout at the high end of the sector and dividend recently increased.

Bear

- Execution risk on future growth and dependence on acquisitions.
- Exposure to regulatory and political risk.
- Balance sheet leverage.

Analyst

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EDISON

LANXESS

General industrials

Energizing chemistry

From 2009 to 2012 LANXESS's strategy of portfolio transformation to focus on premium products with market-leading positions, combined with an increasing presence in emerging markets, generated year-on-year EBITDA growth. This trajectory has been interrupted by a mid-term supply/demand imbalance in the synthetic rubber market, which is causing acute pricing pressures. Management has instigated a strategic realignment programme intended to return LANXESS to profitable growth.

Realignment programme initiated in August 2014

Management is pressing ahead with its three-phase realignment programme. The first phase, to be completed by end FY14, merges business units and reduces the global workforce, thereby enhancing LANXESS's market and customer focus and cutting costs. The second phase will analyse site profitability, potentially mothballing or closing some sites. The third phase will rebalance the group portfolio so it becomes less dependent on the global tyre and automotive markets. By this point the major capital expenditure and restructuring programmes will be complete, returning to a more healthy cash profile.

Q214 margin improvement

Q214 was characterised by good demand for agrochemicals and a positive impetus from the construction industry, but also by a persistently difficult competitive situation for synthetic rubbers and negative currency effects, underscoring the need for continued action to improve competitiveness. Volumes for the group as a whole increased by 2%, partly offsetting a 5% fall in selling prices. Group sales fell by 5.7% year-on-year to €2,019m. Pre-exceptional EBITDA rose by 20.7% to €239m. This improvement was attributable to higher volumes, increased utilisation of production capacities and savings from the efficiency programme. In May 2014, the balance sheet was strengthened through a placing, raising €433m at €52.00/share.

Valuation: Trading at a discount to peers

Management continues to anticipate higher earnings in 2014 than 2013, taking into account the start-up costs of about €10m for the EPDM rubber plant in China in Q4, providing guidance of €780-820m pre-exceptional EBITDA. The shares are trading on prospective EV/EBITDA multiples that are at a discount to the average for global diversified chemicals companies, indicating the potential for upward movement as the strategic realignment programme bears fruit.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/2012	9094.0	660.0	6.11	1.00	6.8	2.4
12/2013	8300.0	(239.0)	(1.91)	0.50	N/A	1.2
12/2014e	8159.2	223.6	1.94	0.52	21.4	1.3
12/2015e	8440.9	353.4	2.88	0.71	14.4	1.7

Source: Company accounts, Thomson Reuters

Price	€41.48
Market cap	€3796m

Share price performance

Share details

Code	LXS
Shares in issue	91.5m
Net (debt)/cash (€) as at Jun '14	(1495m)

Business description

LANXESS is a specialty chemicals company, spun out from Bayer in 2005. It develops, manufactures and markets polymers, intermediates and specialty chemicals. It is focussed on stable and growing segments including high performance rubber, agrochemicals and liquid purification.

Bull

- Products address megatrends of mobility, accelerating urbanisation and rising demand for clean water and agricultural produce.
- In top four globally for all its main product categories.
- Matthias Zachert, who played a key role as CFO in restructuring the portfolio between 2004 and 2011, returned as chairman in April 2014.

Bear

- Mid-term supply/demand imbalance for some synthetic rubber products.
- LANXESS had invested in world-scale plants during an upward swing in the demand cycle.
- Cost-structure returned to pre-restructuring levels of 2005 and no longer appropriate.

Analyst

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EDISON

Nanogate

Expansion continues unabated

Nanogate has shown once again that strong organic growth and high demand continue to drive performance. The target to achieve €100m of sales under Nanogate's medium-term Phase V plan is supported by internationalisation, technology development, improved operational performance and M&A as witnessed by the Vogler acquisition. With a high visibility of sales and a strong order book made up largely of long-term contracts, management is confident of surpassing €60m of sales in 2014 and EBITDA of around €7m despite transaction and integration costs.

Results demonstrate progress

The HY14 results showed Nanogate's continued growth with strong demand across the group, particularly driven by the strategic growth areas of advanced metals and polymers. Net sales increased by 12.4% to €27.2m with strong organic growth, while EBITDA grew by 16.6% to €3.5m despite headwinds from growth investment and non-recurring transaction costs of c €0.3m.

Vogler acquisition provides capacity and technology

The group's acquisition of Vogler in July provides both additional capacity, easing some of the current constraints, while bringing complementary technology. With a specialism in decorative multifunctional surfaces for metals and plastics, Vogler brings new production methods in flat-spraying technology, as well as broader access to the automotive, building services and domestic appliance markets.

Valuation: Driven by growth prospects, acquisition

Nanogate's current rating reflects the high growth prospects of the group and the expectation for further rapid increases in revenues and earnings as the investment in new markets drops through to a further improvement in results. With the contribution from Vogler adding to strong organic growth, Nanogate is on track to deliver against its Phase V plan and continue its 30% CAGR in sales since its IPO in 2006.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/2012	38.2	1.6	0.10	0.10	345.0	0.3
12/2013	53.0	1.2	0.32	0.11	107.8	0.3
12/2014e	64.6	0.9	0.28	0.12	123.2	0.3
12/2015e	86.1	4.0	0.94	0.17	36.7	0.5

Source: Company accounts, Thomson Reuters

General industrials

Price €34.50

Market cap €103m

Share price performance

Share details

Code	N7G
Shares in issue	3.0m
Net (debt)/cash (€) as at Jun '14	(4.3m)

Business description

Nanogate is an international integrated systems provider for high-performance surfaces. The group is based in Göttelborn (Saarland), Germany and enables the integration of multifunctional properties such as non-stick, scratchproof and anti-corrosive into materials and surfaces.

Bull

- High growth potential.
- Increasing position with premium automotive OEMs.
- Acqusition of Vogler provides capacity and technology expansion.

Bear

- Investment requirement to support growth.
- Production capacity increase needs to be managed.
- Volatility in western European markets partially offset by international growth.

Analyst

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EDISON

Phoenix Solar

Solar system integrator and manager

Phoenix Solar is an experienced photovoltaic system integrator, operating independently of manufacturers. It has sold over 1GW of output capacity since its formation in 1999. Changes to feed-in tariffs have made the European market less attractive in recent years, so management has aligned the business to focus on activities in the US, Asia and the Middle East.

Strategic realignment on high-growth markets

The European market has been weakened by the gradual withdrawal of photovoltaic generation subsidies and the imposition in 2013 of import tariffs on solar modules. Management has implemented a strategic shift in focus away from Europe to the faster-growing markets of the US, Asia and the Middle East. In Q113 it closed its loss-making Germany-based projects and trading business. In August 2014 the profitable European operation and maintenance (O&M) business was sold. It is discontinuing its activity developing house-hold rooftop systems customised for the German market.

Q314 marks start of new phase

Q3 revenues from continuing operations declined by 87% year-on-year to €6.1m. Numerous potential customers in the US postponed projects as they looked for alternative sources of modules because of continued tariffs on Chinese imports. Revenues from the Components & Systems business (70% of total) dropped by 35%. Revenues from the Power Plants business fell by 96% as the prior year had benefited from a significant project in the US. 99% of continuing business revenues were derived outside Germany. Gross margin was stable at 12.2%. Continuing operations generated a €2.8m EBIT loss compared with €2.3m profit in Q313. The order book improved substantially during the quarter, with net orders rising by 51% to €41.0m at end Q3, following the receipt of a major order for the construction of a 32.1MW power plant in the US. Since most of these orders will benefit FY15, management has revised FY14 guidance downwards to €45-55m revenues (previously €70-100m), generating €3-4m EBIT loss (€0-3m profit). This includes the profit on disposal of the European O&M business, which completed in October. However, the current order book and scale of the sales pipeline, with projects totalling several 100MW, underpin management's expectations of a return to revenue growth and improved operating results in FY15. Crucially, new financing of €116m has been secured through to September 2016.

Valuation: Metrics distorted by debt

The shares are trading on a prospective EV/Sales multiple of 1.2x. However, this is unreliable as a comparator since debt at the end of FY13 was €40.3m.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/2012	155.4	(37.3)	(5.06)	0.00	N/A	N/A
12/2013	141.2	(6.5)	(1.45)	0.00	N/A	N/A
12/2014e	45.0	(8.7)	(0.46)	0.00	N/A	N/A
12/2015e	120.0	(2.8)	(0.77)	0.00	N/A	N/A

Source: Thomson Reuters

General industrials

Price	**€1.99**
Market cap	**€15m**

Share price performance

Share details

Code	PS4
Shares in issue	7.4m
Net (debt)/cash (€) as at Sep '14	(39.9m)

Business description

Phoenix Solar is a photovoltaic system integrator with global operations. It develops, plans, builds and operates photovoltaic plants and systems up to the multi-mega watt range. It is also a specialist wholesaler of complete solar power systems (which it helps design), solar modules and accessories.

Bull

- Ninefold increase in solar electricity generation capacity forecast by 2035 (World Energy Outlook 2013).
- Low wafer pricing reduces cost of solar generation to parity with conventional sources, making it competitive without recourse to subsidies.
- Sales pipeline with several 100MW worth of specific projects.

Bear

- Imposition of import tariffs on solar modules in the US and EU and withdrawal of feed-in subsidies in the EU reduce return on solar farms, depressing number of new projects.
- Plans by the German government to install tight caps on photovoltaic capacity installation under reform of the German Renewable Energies Act.
- Uncertainty regarding appointment of new CEO.

Analyst

Anne Margaret Crow

EDISON

Technotrans

Strategy driving growth

There is a strong strategic impetus within Technotrans to create growth momentum by building presence in some comparatively new sectors. The benefits of this are already apparent and the company has headroom to further accelerate this should acquisition opportunities arise.

International provider of fluid-based technologies and services

In 16 years as a listed company, Technotrans has built an international network of sales and service offices covering the Americas, Asia and Australia as well as European markets. From its origins as a provider of fluid-based technologies to the printing industry, Technotrans' strategic thrust since 2010 has been to diversify (by industry and technology) into additional sectors, partly via acquisitions. In FY13, almost 40% of revenue derived from the provision of services related to its product and system technologies.

Industry diversification driving group progress so far in FY14

Recent trading performance has been characterised by progress in developing industries (now 35% of total revenue) exceeding softness in the printing sector. This has resulted in growth in both revenue and EBIT in the first two quarters of FY14, with a c 120bp improvement in EBIT margin (to 5.5%) for H1 as a whole. Guidance for FY14 is for group revenue of c €110m, with an EBIT margin in the 4-6% range partly depending on new customer project launches.

Valuation: P/E multiples compress rapidly

Technotrans' share price has largely traded between €7-9 over the last 12 months and is currently towards the higher end of this range. Based on consensus estimates, forward P/E multiples compress rapidly beyond the current year and, with potential for acquisitions also, Technotrans could be considered a value investment opportunity.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/2012	90.7	4.7	0.48	0.12	17.7	1.4
12/2013	105.2	3.7	0.47	0.20	18.1	2.3
12/2014e	110.1	5.5	0.57	0.26	14.9	3.1
12/2015e	119.1	7.8	0.80	0.37	10.6	4.3

Source: Thomson Reuters

General industrials

Price	**€8.51**
Market cap	**€59m**

Share price performance

Share details

Code	TTR1
Shares in issue	6.9m
Net (debt)/cash (€) as at Jun '14	0.8m

Business description

Technotrans' core competencies are temperature control, measuring and metering technology, process control, filtration and separation. It sells systems for monitoring and controlling processing involving liquid technology, primarily to printing press manufacturers but more recently to the laser market and machine tool industry.

Bull

- Market leader in traditional print sector.
- Increasing momentum in sector diversification.
- Integrated product/system technology and service model.

Bear

- New sector growth partly diluted by offset printing industry demand.
- Weak eurozone economic growth expectations.
- Newest sectors not yet material in a group context.

Analyst

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EDISON

CropEnergies

European ethanol producer

Improved market conditions should lead to a stronger performance from CropEnergies in H215. Legislative clarity from the EU on the level of biofuels to be used in the renewable energy mix is, however, the key determinant of the health of the European ethanol industry. Implementation of the recently discussed 7% limit for conventional biofuels would help to drive medium-term demand for the product.

Tough H115 trading

CropEnergies has a c 15% share of the European ethanol market, enjoys the financial advantages of the backing of its majority shareholder, Südzucker Group, and derives additional supply chain benefits in the form of the supply of sugar as a feedstock in the ethanol production process. However, in the short term these advantages have been unable to protect CropEnergies from the negative effects of overcapacity in the European ethanol market, lower oil demand in the European transport sector and political uncertainty as to the role for ethanol. These factors have combined to lower ethanol prices and production margins, and led to CropEnergies reporting a loss at its recent H1 results. As a result of the weak H1 it now expects an operating loss in the range of €0m to -€20m for FY15.

Improving Conditions in H2

The recent pricing environment (since mid-August) has improved, with the ethanol price rising at a time when market feedstock prices have fallen. As CropEnergies' hedging strategy unwinds, and it is able to source feedstock at lower prices, this could lead to improving profitability in H2. However, the key long-term driver of profitability is the need to establish legislative clarity on amendments to the EU Renewable Energies Directive in relation to the use of biofuels. A recent agreement in the European Council makes provision for a blending limit of 7% for biofuels by 2020, an improvement on previously proposed limitations. Implementation of this proposal, which, according to CropEnergies is expected in the coming months, would provide clarity to the industry and help drive demand for biofuels.

Valuation: Depressed by market conditions

The tough conditions prevailing in the European ethanol market have resulted in a decline in CropEnergies' share price, from c €7/share to c €4/share, over the last year. Based on consensus forecasts, the shares are trading at c 7.7x EV/EBITDA for FY16 and 5.2x for FY17. The shares also trade at a c 20% discount to analysts' price targets of €4.9/share.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
02/2013	688.7	81.9	0.67	0.26	5.9	6.6
02/2014	780.8	23.3	0.14	0.10	28.2	2.5
02/2015e	850.9	(11.4)	(0.09)	0.08	N/A	2.0
02/2016e	917.7	28.2	0.24	0.10	16.5	2.5

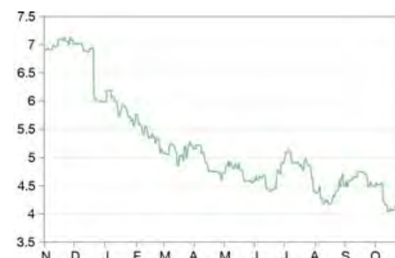
Source: Company accounts, Thomson Reuters

Industrial support services

Price €3.95

Market cap €345m

Share price performance



Share details

Code	CE2
Shares in issue	87.3m
Net (debt)/cash (€) as at Aug '14	(144.3m)

Business description

CropEnergies produces bioethanol from agro-raw materials and animal feed from the residues of bioethanol production. The company has 1.2 million cubic metres of production capacity, making it one of the top three ethanol producers in Europe.

Bull

- Strong market position.
- Backing of Südzucker Group brings financial and supply chain benefits.
- Expected confirmation of EU ethanol targets by early 2015.

Bear

- Depressed pricing environment.
- Ethanol market production overcapacity.
- Current legislative uncertainty in ethanol markets.

Analyst

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Pharmaceutical & healthcare

Sector focus: Healthcare

Analyst: Dr Mick Cooper

More patience required

The biotech sector has been booming in the US, but unfortunately that situation has not been replicated in Germany. In the US, the NASDAQ Biotechnology index has increased by c 30% this year, more than 120 life sciences companies have come to the public markets and more than $10bn has been raised. By contrast, most German biotech companies have seen their shares fall this year and there has been only one IPO over here (and Probiodrug decided to list in Amsterdam rather than Frankfurt).

While the situation is without doubt challenging for German healthcare companies, there are reasons to be more optimistic about the future. The same drivers of scientific innovation, which are key to the US biotech boom, are also present in Germany. We believe we are entering a third wave of innovation (previous waves were driven by advances in chemistry and first-generation biological products).

Biotech companies are benefiting from the scientific advances coming out of the sequencing of the human genome at the start of the millennium, combined with the development of new treatment classes (such as antibody-drug conjugates, RNAi and stem cell therapies). Greater scientific knowledge is providing new insights into disease mechanisms and the novel therapies offer alternative ways to target diseases.

So, the challenge for biotech companies is convincing investors of their potential. This could be difficult in the immediate future as a result of risk aversion caused by economic uncertainties. Fortunately, US investors could help catalyse a transformation in the sector’s prospects. Valuations of biotech companies in Europe are much more attractive than those in the US, causing US investors to look at opportunities in Europe.

One company that has seen its shares perform well over the last two years (up c 150% since beginning of 2013) is MorphoSys. The reason for this is twofold: firstly, it executed two transformational deals with GSK and Celgene; and secondly, it attracted many investors from the US after focusing much of its investor relations efforts on North America.

Not all biotech companies will be able to achieve the same level of success as MorphoSys, but the strength of science in Germany means that in time the sector should recover. However, patience will be required.

EDISON

4SC

Pharma & healthcare

Focus on resminostat

4SC is primarily focused on preparing a Phase II study with resminostat in first-line liver cancer, aimed at confirming the drug's efficacy and qualifying the proposed biomarker, ZFP64. This could deliver a compelling partnering and development case for pivotal studies, although funding for the Phase II trial is still required. Our valuation of 4SC is €105m, or €2.08 per share.

Encouraging Phase IIa data

A 57-patient, open-label, Phase IIa SHELTER study produced encouraging progression-free survival (PFS) and overall survival (OS) rates for resminostat in second-line liver cancer. The survival benefit appeared to be more pronounced in patients with high levels of the blood-based biomarker ZFP64. However, the ZFP64-correlated benefit was identified in a post-hoc analysis and the patient numbers were relatively small.

Further validation required

4SC therefore plans to conduct a larger Phase II study, to provide further evidence to support resminostat's survival benefit and validate ZFP64 (and potentially others) as a biomarker. This should increase resminostat's value/attractiveness to prospective partners. We assume the study will recruit ~150 patients with first-line liver cancer, testing a combination of resminostat with sorafenib (Nexavar), the standard of care for first-line liver cancer, versus sorafenib alone (1:1 randomisation).

Exploring finance options

We estimate the direct Phase II trial costs at €15m and 4SC is exploring a number of options (equity/debt/partner) to secure the required funds. The study should start in H115, subject to finance and regulatory approval. 4SC held €3.4m in cash at end-Q314, but financial flexibility has been secured through a €10m shareholder loan (€4m drawn so far) from Santo Holding (49% stake) and up to €15m from a Yorkville convertible note facility.

Valuation: rNPV of €105m

We value 4SC at €105m (€2.08/share) based on a rNPV analysis. The primary value driver is resminostat, based on peak global sales of c €800m (liver cancer + NSCLC), a potential launch in 2021 and a 40% probability of success (liver cancer). Yakult Honsha is developing resminostat in Japan (Phase II trials underway in liver cancer + NSCLC). We include a €25m contribution from the Phase I oncology assets, 4SC-202 (HDAC/LSD1 inhibitor) with promising data presented at ASCO 2014, and 4SC-205 (Eg5 inhibitor), which offer partnering potential.

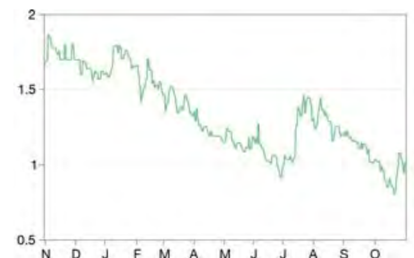
Edison estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/2012	4.4	(11.7)	(0.25)	0.00	N/A	N/A
12/2013	4.9	(8.0)	(0.16)	0.00	N/A	N/A
12/2014e	5.1	(5.3)	(0.11)	0.00	N/A	N/A
12/2015e	5.3	(9.6)	(0.19)	0.00	N/A	N/A

Source: Edison Investment Research

Price €0.98
Market cap €50m

Share price performance



Share details

Code	VSC
Shares in issue	50.6m
Net (debt)/cash (€) as at Jun '14	1.2m

Business description

4SC is a Munich-based drug discovery and development company focused on small-molecule compounds for cancer. Resminostat (HDAC inhibitor) is the lead candidate in Phase II for liver cancer, with two further agents in Phase I.

Bull

- Encouraging Phase IIa data with resminostat in liver cancer.
- Resminostat partnered with Yakult Honsha in Japan.
- 4SC Discovery has multiple active R&D partnerships.

Bear

- Fresh funds required for Phase II resminostat trial.
- Stock trading close to record low.
- Limited free float (c 35%).

Analyst

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aap Implantate AG

Loqteq's potential coming to the fore

The Loqteq launch and a simplified business should help drive future top-line growth and margin expansion. aap's expertise in biomaterials and trauma innovation, especially Loqteq, should both help cement its position as a specialised medtech player, supported by strategic relationships with global medtech partners and physicians. Loqteq's innovative design and potential clinical and cost advantages should drive uptake in a >$1bn market.

Loqteq is the key growth driver

Loqteq is aap's internally developed trauma plating system. Loqteq's locking and compression technology improves fracture repair by providing more stable fixation, even in weak bones or multi-fragment fractures. The existing market for locking plate technology is estimated at around $1bn in the US alone, based on market leader DePuy Synthes' sales. Loqteq's innovative design could offer a number of advantages over the traditional locking compression plating systems, including increased surgeon flexibility and potential clinical advantages on plate removal.

Simplified and specialised

Since 2009, aap has been working to focus and simplify the company around the key areas of biomaterials (bone cements) and trauma. These businesses take advantage of aap's existing relationships with leading orthopaedic surgeons and OEM partnerships with global medtech players (including Zimmer and Smith & Nephew). Both these help drive innovation and demonstrate aap's know-how and manufacturing capabilities.

Valuation: Enterprise value €63m

aap Implantate has an enterprise value of €62m (share price €2.38 and net cash of €11.4m at end Q214), EV/Sales of 1.83x and EV/EBITDA of 12.0x (consensus 2014) compared to its European orthopaedic peer Smith & Nephew at EV/sales of 3.63x and EV/EBITDA of 12.7x (consensus 2014).

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/2012	27.0	0.8	0.03	0.00	79.4	N/A
12/2013	28.6	0.6	0.02	0.00	119.0	N/A
12/2014e	34.6	2.9	0.09	0.00	26.5	N/A
12/2015e	40.3	3.9	0.12	0.04	19.8	1.7

Source: Company accounts, Thomson Reuters

Pharma & healthcare

Price **€2.38**
Market cap **€73m**

Share price performance

Share details

Code	AAQ
Shares in issue	30.7m
Net (debt)/cash (€) as at Jun '14	11.4m

Business description

aap is a German medical technology company focused on developing, manufacturing and selling products for bone fractures. These include the recently launched Loqteq trauma plating system, in addition to bone cements.

Bull

- Loqteq offers a number of advantages over its nearest competitors.
- Biomaterials expertise supported by OEM agreements with global medtech partners.
- Simplified business should help drive margin expansion.

Bear

- Loqteq is entering a competitive market place dominated by large players.
- Driving Loqteq uptake could require significant resources.
- It could take time to see sales growth and margin expansion.

Analyst

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EDISON

Epigenomics

Epi proColon – final steps ahead of FDA decision

Epigenomics is about to commence a behavioural study (ADMIT) that may pave the way for US regulatory approval and launch of its novel Epi proColon blood-based colorectal cancer (CRC) test in 2015. The study aims to prove that Epi proColon encourages greater compliance with CRC testing than traditional stool-based diagnostics. Progress towards market approval in 2015 is likely to support a recovery in the share price, in our opinion.

Preference for blood-based screening

Epi proColon's PMA was based on two large studies that showed sensitivity (across all CRC stages) of 68-72% at a specificity of 80-82%. However, the overall performance data may not be the key determinant of success in the market. The ability to identify early-stage CRC and the presumed patient preference for blood- versus stool-based FIT tests is likely to prove crucial. Resistance to CRC screening is thought to relate to a dislike of faecal-based screening (12% adherence vs typically 80% for blood-based tests).

Mid-2015 approval of Epi proColon remains possible

Indeed, in June the FDA requested a supplementary behavioural study to prove that patient compliance would improve using Epi proColon. The ADMIT (Adherence to Minimally Invasive Testing) study will be run in two arms: the FIT stool test kit for home use; and blood draw for the Epi proColon test. Each arm will have 210 patients who have previously proved resistant to CRC screening by recommended methods, such as colonoscopy or FIT test. The primary endpoint of ADMIT will be reached if 8% (17) more patients take the Epi proColon test than those offered the FIT test. A secondary endpoint will be a measurement of compliance to colonoscopy in those patients with positive test results. Once enrolled, participants will be given six weeks to complete their test. As we expect a start in the next few weeks, a launch by mid-2015 is possible. However, it may spill into H215 if the FDA takes its statutory 180 days to reach a decision.

Valuation: More funding secured before US launch

Epigenomics' H114 cash position stood at €6.8m at end of H1 and plans to raise €4.2m from its Chinese commercialisation partner BioChain by issuing 1.35m shares. With a cash burn of €7-8m pa, this may suffice to tide the company over until a possible US launch of Epi proColon. Other funding options are under study. The current EV of €57m is based on estimated net cash of €5m by year end.

Historic financials

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/2012	1.0	(12.0)	(1.38)	0.00	N/A	N/A
12/2013	1.6	(7.3)	(0.62)	0.00	N/A	N/A
12/2014e	N/A	N/A	N/A	N/A	N/A	N/A
12/2015e	N/A	N/A	N/A	N/A	N/A	N/A

Source: Company accounts

Pharma & healthcare

Price	€4.16
Market cap	€62m

Share price performance

Share details

Code	ECX
Shares in issue	13.5m
Net (debt)/cash (€) as at Jun '14	4.6m

Business description

Epigenomics is a German molecular diagnostics company focused on early detection of cancer. Its main product is Epi proColon, a blood-based DNA test for colorectal cancer that uses a sophisticated PCR assay to detect methylated copies of the septin9 gene.

Bull

- Blood-based test likely to be preferred above existing standard stool-based FIT testing.
- Commercial agreement with established CRC test distributor.
- In the US, CRC detection screening is recommended on an annual basis.

Bear

- Cost and reimbursement may be key issues.
- Uncertainty of the FDA decision.
- Higher overall efficacy of Exact Sciences' combined FIT and a stool DNA test.

Analyst

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EDISON

Erytech Pharma

Heading for 2016 EU Graspa launch

Graspa has successfully completed a Phase III trial in acute lymphoblastic leukaemia (ALL), which should pave the way for first European launches with partner Recordati in H116. Graspa is based on the well-established childhood leukaemia treatment L-asparaginase. However, toxicity precludes use in adult and frail patients, which Erytech has overcome with its red blood cell encapsulation technology. We value Erytech at €226m.

Graspa demonstrates superior safety in ALL

Graspa has demonstrated superior safety and non-inferior efficacy versus native L-asp in the pivotal Phase III ALL trial. There were no allergic reactions on Graspa, significantly below 43% with native L-asp. Coupled with a longer duration of activity and more complete remissions (74% on Graspa versus 42.3% on native L-asp) we believe these results support filing in Europe in H115 and launches with partner Recordati in H116; we forecast €225m peak ALL sales. A Phase I/II ALL trial is ongoing in the US and Erytech is working to accelerate US development.

Graspa/Eryasp could have broader potential

A Phase IIb AML (acute myeloid leukaemia) trial is ongoing and a safety and futility analysis could occur by YE14. If data become available in H215, this could be launched in Europe in 2017; we forecast peak AML sales of €285m. Erytech plans to expand to other blood cancers, with a Phase II non-Hodgkin's lymphoma (NHL) to start in 2015. Eryasp could also have utility in a number of solid tumours and a Phase II pancreatic cancer trial is ongoing with a further Phase II to start next year.

Unique benefits of red blood cell technology

Erytech's red blood cell (RBC) encapsulation technology captures therapeutic proteins within RBCs. This process protects both the molecule from degradation, extending the half-life, and the patient from exposure to potentially dangerous compounds, reducing severe reactions. The increased half-life allows smaller quantities of molecule to achieve similar efficacy, thereby improving safety.

Valuation: Risk-adjusted NPV of €226

We value Erytech at €226m including a 90% probability on Graspa in ALL in Europe in addition to risk-adjusted contributions in AML, NHL and solid tumours. Our valuation includes €11.3m net cash reported at end-June 2014. Cash has now been boosted with the recent €30m fund-raise, which Erytech believes will allow completion of currently planned Graspa/Eryasp development.

Edison estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/2012	5.7	(2.2)	(0.70)	0.00	N/A	N/A
12/2013	1.8	(8.2)	(1.74)	0.00	N/A	N/A
12/2014e	1.4	(7.1)	(1.28)	0.00	N/A	N/A
12/2015e	1.4	(7.6)	(1.36)	0.00	N/A	N/A

Source: Edison Investment Research

Pharma & healthcare

Price	**€26.35**
Market cap	**€179m**

Share price performance

Share details

Code	ERYP
Shares in issue	5.5m
Net (debt)/cash (€) as at Jun '14	11.3m

Business description

Erytech is a French oncology company with a red blood cell encapsulation technology. Lead product Graspa has successfully completed a Phase III ALL trial and a Phase IIb in AML is ongoing, in addition to a Phase II in pancreatic cancer.

Bull

- Graspa has successfully completed Phase III development in ALL in Europe.
- Experienced partner Recordati to commercialise Graspa in Europe.
- Broad applicability of the technology platform.

Bear

- L-asp is less established in other tumours.
- Clinical trial failure or delays in other indications.
- Limited visibility on timing and terms for US partnering.

Analyst

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EDISON

Evotec

On target to execute strategy

Evotec's EVT Innovate division has rapidly expanded its CureX/TargetX programmes, increasing the number from 14 to 21 during H114. With the support of EVT Execute, the core drug discovery division, these projects could potentially generate high-value commercial partnerships and make EVT Innovate the main growth driver for Evotec. Near-term catalysts include the formation of new alliances and the achievement of milestones. Positive Phase II data from EVT302 mid-2015, allowing entry to Phase III, could provide upside to our €465m valuation of Evotec.

EVT Execute provides stable foundation

Evotec's recent restructuring appears to be showing benefits, with underlying sales revenues up 12% to €40.1m in H114 and the acceleration of the 'CureX/TargetX' strategy. The two main business divisions are EVT Execute, the core, lower-risk, fee-for-service drug discovery service, currently providing the lion's share of revenues at €39.7m in H114; and EVT Innovate, delivering higher-risk target discovery programmes and innovative collaborations with academic institutions through its 'CureX/TargetX' initiatives.

EVT Innovate has potential to be main growth engine

Evotec raised €30m in August 2013 to accelerate the CureX/TargetX target discovery programmes implemented by EVT Innovate. In H114, the uptick was apparent with seven new projects added to 14 existing programmes. The corporate alliance formed with Debiopharm in April 2014 brings the total number of high-value alliances with potential for significant milestones and royalties to four. Other similar collaborations are expected to be signed at regular periods.

Clinical pipeline - robust despite setback

There was disappointment in September 2014 with the termination of Phase III product DiaPep277 by partner Hyperion; it is highly unlikely Evotec will receive any further milestones and we ascribe no residual value to DiaPep277. Despite this, the clinical pipeline still contains five partnered compounds, with lead asset EVT302 in Phase II for Alzheimer's disease with Roche (Phase II data expected mid-2015) and potential for an EVT100 series product to resume Phase II clinical development with partner Janssen.

Valuation: DCF valuation of €465m

Our DCF-based valuation of Evotec is €465m, based on a value of €233m for the drug alliance business, €167m for the pipeline (EVT302 and other clinical assets) and €64.9m net cash at H114.

Edison estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/2012	87.3	1.3	0.00	0.00	N/A	N/A
12/2013	85.9	5.1	0.04	0.00	73.5	N/A
12/2014e	89.2	1.4	0.07	0.00	42.0	N/A
12/2015e	105.5	8.0	0.05	0.00	58.8	N/A

Source: Edison Investment Research

Pharma & healthcare

Price	€2.94
Market cap	€387m

Share price performance

Share details

Code	EVT
Shares in issue	131.3m
Net (debt)/cash (€) as at Jun '14	64.9m

Business description

Evotec is a drug discovery business that provides outsourcing solutions to pharmaceutical companies, including Bayer, Boehringer Ingelheim, Janssen and Roche. It has operations in Germany, the UK and the US.

Bull

- Innovative pipeline and partnerships to drive long-term growth.
- Growing and differentiated drug discovery services business.
- Well capitalised to accelerate its innovative drug discovery strategy.

Bear

- Services business growth dependent on outsourcing strategy of pharma companies.
- Pipeline products could fail in clinical trials.
- Progress of partnered products/programmes depends on licensing partners.

Analyst

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EDISON

MagForce

Pharma & healthcare

Progressing NanoTherm in EU and US

MagForce continues to advance towards driving uptake and acceptance of its NanoTherm nanoparticle-based treatment for cancer. This is already approved in Europe for brain cancer and initial commercial revenues are being targeted this year. In the US, a $15m fund-raise should help to progress NanoTherm in both glioblastoma (GBM) and prostate cancer, with start of a prostate cancer trial next year. We value MagForce at €236m.

Targeting initial EU sales by YE14

MagForce has successfully increased the installed base of NanoActivators in Germany with further installations planned, and the post-marketing GBM trial has started, designed to raise awareness and increase uptake of NanoTherm therapy. MagForce is targeting initial commercial revenues by YE14 from patients not eligible for the current GBM trial. We estimate GBM in Europe could be a €100m opportunity if the installed based can be expanded more broadly.

Funds in place to continue progress in the US

With the regulatory path as a medical device confirmed in the US, MagForce plans to install a couple of NanoActivators in the US as part of a prostate cancer trial, anticipated to start in 2015, in addition to expanding the ongoing European GBM post-marketing study to the US. A smaller NanoActivator is also being developed in parallel. First US launch could be in 2017 with NanoTherm as monotherapy focal treatment for prostate cancer. We estimate prostate cancer could be a $300m (€215m) opportunity and GBM a $140m (€100m) market in the US.

NanoTherm: A new approach to cancer therapy

MagForce's NanoTherm therapy is designed to directly impact tumours from within, while sparing surrounding healthy tissue. Magnetic nanoparticles are directly injected into a tumour and are then heated in the presence of an external magnetic field generated by specialist equipment (NanoActivator), which either destroys or sensitises the tumour for additional treatment such as chemo- or radiotherapy.

Valuation: Risk-adjusted NPV of €236m

We value MagForce at €236m or €9.9/ share, based on a risk-adjusted NPV analysis, which includes €5.1m net cash in MagForce AG at end June, in addition to €15m in MagForce USA. We include both prostate cancer and GBM in the US and Europe, probability-adjusted to reflect the current stage of development.

Edison estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/2012	0.0	(5.7)	(1.17)	0.00	N/A	N/A
12/2013	0.0	(6.7)	(0.34)	0.00	N/A	N/A
12/2014e	0.4	(7.5)	(0.30)	0.00	N/A	N/A
12/2015e	3.6	(7.7)	(0.30)	0.00	N/A	N/A

Source: Edison Investment Research

Price	**€5.95**
Market cap	**€142m**

Share price performance

Share details

Code	MF6
Shares in issue	23.9m
Net (debt)/cash (€) as at Jun '14	5.1m

Business description

MagForce has a European approved nanotechnology-based therapy to treat brain cancer. Nanoparticles are injected into the tumour & activated by an external magnetic field, producing heat and thermally destroying or sensitising the tumour.

Bull

- EU-approved nanotechnology-based cancer therapy.
- Funds to execute US development.
- Limited treatments for GBM; prostate cancer could be a significant market.

Bear

- Slow commercial roll-out to date.
- Need to increase installed base of expensive NanoActivators.
- Clinical trial delays or failures.

Analyst

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EDISON

Medigene

Pharma & healthcare

Emerging cancer immunotherapy player

Medigene's purchase of Trianta Immunotherapies (Jan 2014) and subsequent €15.9m capital raise (July 2014) completes its transformation into an emerging cancer immunotherapy player. Medigene is focused on developing its three onco-immunotherapy technology platforms for haematological malignancies. The fresh finance provides an opportunity to deliver clinical data by 2016, initially for its dendritic cell (DC) based cancer vaccines, the most advanced technology in Phase I/II studies for AML and prostate cancer. We value Medigene at €99m, or €7.15 per share.

A biotech hotspot

Cancer immunotherapy (inducing an immune response against cancer cells) is starting to deliver on its huge potential and is attracting significant investor interest. The field is highly competitive but Medigene's three immunotherapy platforms – DC vaccines, adoptive T-cell therapy and T-cell specific antibodies – are well positioned in terms of potential technological advantages.

Transformation complete

Medigene's transformation involved the out-licensing of legacy assets (EndoTAG-1 to SynCore and RhuDex to Falk Pharma), acquisition of new technology platforms, and securing fresh finance. The c €10m total potential purchase price for Trianta (€4m upfront in 1m shares + €5.9m in milestones over the next two to four years) may prove to be shrewd and modest in light of current valuations for immunotherapy companies and programmes.

Proof-of-concept data required

An autologous (patient-derived) dendritic cell-based vaccine technology is the most advanced immunotherapy programme, with two investigator-initiated Phase I/II studies, in acute myeloid leukaemia (AML) and prostate cancer, ongoing (data in 2016/17). Medigene plans to initiate its own trials with a DC vaccine, including a Phase I/IIa study in AML (to start in Q414), followed by a second clinical trial in 2015.

Valuation: €99m, or €7.15 per share

We value Medigene at €99m, or €7.15 per share, based on a risk-adjusted NPV analysis of Medigene's products: Veregen (genital warts ointment, marketed by multiple global partners), EndoTAG-1 (global Phase III study planned for breast cancer), RhuDex (clinical programme planned in primary biliary cirrhosis) and the new onco-immunotherapy technology platforms (mainly DC vaccines). We view the Trianta acquisition as potentially transformational. Estimated end-Q314 cash of €17m is expected to be sufficient to the end of 2016, taking in some of the DC vaccine trial readouts.

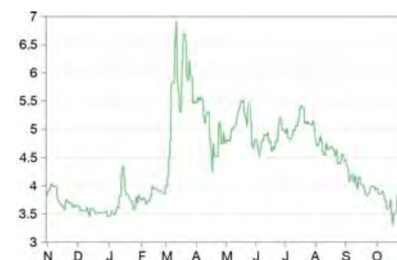
Edison estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/2012	6.3	(10.3)	(1.12)	0.00	N/A	N/A
12/2013	7.6	(9.7)	(1.01)	0.00	N/A	N/A
12/2014e	10.9	(6.4)	(0.54)	0.00	N/A	N/A
12/2015e	11.8	(7.6)	(0.54)	0.00	N/A	N/A

Source: Edison Investment Research

Price €4.05
Market cap €56m

Share price performance



Share details

Code	MDG1
Shares in issue	13.9m
Net (debt)/cash (€) as at Jun '14	4.1m

Business description

Medigene is a biotech company with a cancer immunotherapy technology franchise, focused on haematological malignancies. DC vaccines are in Phase I/II studies, while T-cell therapy and anti-TCR antibodies are preclinical.

Bull

- Cancer immunotherapy holds great clinical and commercial promise.
- Veregen sales could increase significantly.
- EndoTAG-1 (SynCore) and RhuDex (Falk) out-licensed.

Bear

- Early-stage of immunotherapy programmes, POC required.
- Few near-term catalysts (clinical readouts not until 2016).
- Fresh financing requirement by end-2016.

Analyst

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EDISON

Mologen

Pivotal cancer immunotherapy player

Mologen is developing cancer immunotherapies for the post-chemo maintenance setting, a unique position in this burgeoning field. Lead candidate MGN1703 (TLR9 agonist) is undergoing a pivotal Phase III study (IMPALA) as a maintenance therapy after first-line chemotherapy in patients with metastatic colorectal cancer (mCRC). A Phase II trial (IMPULSE) in small-cell lung cancer (SCLC) is also underway, and results in H116 could rekindle partnership discussions; fresh finance will be required in 2015/16. We value Mologen at €340m, or €20 per share.

Robust study design

In September 2014 the first mCRC patient was enrolled into the IMPALA study, which will recruit up to 540 patients across 100 clinical sites in eight EU countries. The primary endpoint is overall survival (OS), the gold standard for oncology trials, while secondary endpoints include progression-free survival (PFS), quality of life (QoL) and safety/tolerability. The trial design is based on the encouraging activity observed in the 59-patient Phase II IMPACT study (45% hazard ratio reduction in PFS), which also identified potential biomarkers for response such as CEA (tumour marker for CRC) and activated natural killer T-cells (NKT), that will be stratification factors in IMPALA.

A pivotal study

Mologen believes that positive OS data (projected for H217) from IMPALA will be sufficient to gain regulatory approvals for MGN1703 in Europe and the US. Clinical sites in the US may be added to the study (IND approved), which will help with engaging key opinion leaders and raising awareness of MGN10703, but should not be required for FDA approval.

Pipeline progressing

Mologen is conducting a 100-patient Phase II trial (IMPULSE) with MGN1703 in small-cell lung cancer, with preliminary data in H116, the most significant near-term clinical catalyst. The company is also assessing Phase II options (fresh finance and/or partner) for MGN1601, its unique cell-based renal cancer vaccine, which generated encouraging Phase I/II data. EnanDIM is a new generation TLR9 agonist in pre-clinical studies, with a broad immune activation (cancer/infection) and improved safety profile.

Valuation: €340m or €20 per share

We value Mologen at €340m (€20/share), based on a risk-adjusted, sum-of-the-parts DCF model. MGN1703 is the main value driver, with significant upside potential on positive results from the IMPULSE (H116) and IMPALA (H217) studies. Q214 cash of €23m runs to Q415/Q116, leaving a funding gap to reach the primary endpoint in IMPALA (H217). We assume a licensing deal post-IMPALA data.

Edison estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/2012	0.1	(7.7)	(0.56)	0.00	N/A	N/A
12/2013	0.2	(9.9)	(0.64)	0.00	N/A	N/A
12/2014e	0.1	(15.7)	(0.94)	0.00	N/A	N/A
12/2015e	0.1	(16.7)	(0.97)	0.00	N/A	N/A

Source: Edison Investment Research

Pharma & healthcare

Price €6.80

Market cap €115m

Share price performance

Share details

Code	MGN
Shares in issue	17.0m
Net (debt)/cash (€) as at Jun '14	22.9m

Business description

Mologen is a German biotech company developing cancer immunotherapies. The lead products are MGN1703 for metastatic colorectal cancer maintenance and SCLC; and MGN1601, an allogeneic renal cancer cell vaccine.

Bull

- Cancer immunotherapy holds great clinical and commercial potential.
- Phase III (mCRC) and II (SCLC) studies underway with MGN1703.
- MGN1701 is a unique cancer vaccine (cell line from one patient).

Bear

- Funding gap to IMPALA data (H217).
- Lack of near-term catalysts.
- Failure to secure a partner for MGN1703 on Phase II data.

Analyst

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EDISON

MorphoSys

Strength in depth

MorphoSys has become a leading European biotech company due to its expertise in antibody production and drug development. It has three high-potential antibodies in its proprietary clinical pipeline; MOR103 is licensed to GSK, MOR202 is being co-developed with Celgene and MOR208 could be taken to market by MorphoSys. A fourth proprietary product will soon start Phase I following the in-licensing of MOR209 from Emergent Biosolutions. Alongside these products, there is a portfolio of 18 products in its partnered clinical pipeline, from which it could receive milestones and royalties without any financial risk. We value MorphoSys at €2.04bn.

Three high-potential proprietary antibodies in clinical development

MorphoSys partnered MOR103 to GSK in a €450m deal in 2013 for rheumatoid arthritis (RA) and potentially other indications, and its partner is due to start a Phase II study in RA imminently. MOR202 was partnered with Celgene in a $818m co-development deal in 2013, and data from the current Phase I/II trial in multiple myeloma are due in Q414. MOR208 is in Phase II development and has potential in several haemtological cancers. MorphoSys plans to market both MOR202 and MOR208 in Europe.

Focused on developing proprietary pipeline

In August, MorphoSys in-licensed the ex-North American rights to ES414/MOR209 from Emergent Biosolutions. This product is a bispecific antibody for the treatment of castration-resistant prostate cancer (CRPC), designed to recruit T-cells. The product is due to start Phase I development in Q115. MorphoSys has also formed a collaboration with Temple University and exercised its option to the lanthipeptide technology from Lanthio Pharma to strengthen its drug discovery capabilities.

Broad pipeline of partnered products

There are 18 products in the clinic from MorphoSys' partnered pipeline. MorphoSys produced these antibodies for its various pharmaceutical/biotech companies, and may receive milestones payments and royalties from its partners. Three of the antibodies are in Phase III: Roche's gantenerumab for Alzheimer's disease, J&J's guselkumab for psoriasis and Novartis' bimagrumab for muscle loss and weakness.

Valuation: DCF valuation of €2.04bn

We value MorphoSys at €2.04bn. The main value drivers are the company's proprietary pipeline products (especially MOR103 and MOR202), but the partnered pipeline still accounts for a third of our valuation and MorphoSys bears none of the development costs.

Edison estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/2012	51.9	7.1	0.28	0.00	271.1	N/A
12/2013	78.0	14.0	0.44	0.00	172.5	N/A
12/2014e	62.4	(1.2)	(0.00)	0.00	N/A	N/A
12/2015e	62.4	(25.1)	(0.63)	0.00	N/A	N/A

Source: Edison Investment Research

Pharma & healthcare

Price	€75.92
Market cap	€2002m

Share price performance

Share details

Code	MOR
Shares in issue	25.9m
Net (debt)/cash (€) as at Jun '14	374m

Business description

MorphoSys is a German biotechnology company that uses its proprietary antibody platforms to produce human antibodies for therapeutic use across a range of indications for partners and to develop its own pipeline.

Bull

- Major product collaborations with GSK and Celgene.
- Long-term antibody alliance with Novartis.
- Broad pipeline with 21 products in clinical trials.

Bear

- Risk of important products failing clinical trials.
- Competition from other antibodies in development.
- Antibody production is increasingly a standard process.

Analyst

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EDISON

NeoStem

The cell therapy specialist

NeoStem is a specialist in cellular therapy and immunotherapy. It has a broad array of clinical programmes in development as well as a valuable contract development and manufacturing service business. The lead programme, NBS20, is starting Phase III trials for malignant melanoma, but it is NBS10, a treatment for cardiac infarct, that is set to provide a value inflection point as it reports defining results from a Phase II study before the end of the year.

PreSERVE AMI Phase II data before end 2014

NBS10, a treatment for cardiac infarct, is in the spotlight as key results from the myocardial ischemic treatment programme are awaited. The last patients have completed their six-month follow up and all that remains is release of the full data. NBS10 uses autologous adult stem cells to treat patients with ventricular dysfunction after acute ST segment elevation myocardial infarction (STEMI). Other clinical indications are being evaluated.

Intus Phase III trial in metastatic melanoma to begin

NBS20, based on dendritic cell/tumour cell (DC/TC) technology, is set to enter Phase III for Stage IV or recurrent Stage III metastatic melanoma. NBS20 has both Fast Track and Orphan Drug status. A special protocol assessment (SPA) is in place that allows the FDA to use this trial as the basis for approval. Phase II results showed a significant improvement in two-year overall survival from 31% in controls to 72% in treated patients with advanced melanoma. This technology platform was added via the acquisition of California Stem Cell, Inc earlier this year.

Immune modulation programming trials expanded

A Phase I trial in Type 1 Diabetes (T1D) was recently completed and NeoStem has plans for a Phase II programme. The goal in T1D is to protect native pancreatic beta cells. A Phase I study looking to down-regulate inflammatory cytokines in steroid-resistant asthma is also planned for 2015.

Valuation: EV of c $170m

NeoStem held $32m in cash as of 30 September 2014 and an operating cash outflow of $36.0m during the first nine months of FY14, so we estimate the current EV is c $170m. The outcome of the STEMI trial is a clear inflection point and positive results could provide material upside.

Consensus estimates

Year end	Revenue ($m)	PBT ($m)	EPS ($)	DPS ($)	P/E (x)	Yield (%)
12/2012	14.3	(36.3)	(4.00)	0.00	N/A	N/A
12/2013	14.7	(38.7)	(1.90)	0.00	N/A	N/A
12/2014e	18.9	(50.6)	(1.59)	0.00	N/A	N/A
12/2015e	25.4	(49.0)	(1.40)	0.00	N/A	N/A

Source: Thomson Reuters

Pharma & healthcare

Price	US$5.13
Market cap	US$183m

Share price performance

Share details

Code	NBS
Shares in issue	35.3m
Net (debt)/cash ($) as at Sep '14	15.9m

Business description

NeoStem is a US-based early stage biotech company with a focus on cell therapies. It has four development programmes: targeted cancer immunotherapy, ischemic repair, immune modulation, and tissue regeneration.

Bull

- Recent acquisition adds a third platform and most advanced candidate.
- Technology platforms have applications beyond current indications.
- Leading cell therapy contract manufacturer.

Bear

- Many programmes are at early stages of development.
- Limited commercial success of cell therapies so far.
- Less than one year of cash.

Analyst

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Neovacs

Immunotherapy with a twist

Neovacs has developed a novel immunotherapy platform technology (Kinoids) with applications in autoimmune diseases. Patient recruitment has been completed for its Phase IIb TNF-Kinoid in rheumatoid arthritis (RA). A licensing partner for this drug, which has also been in Phase II studies for Crohn's disease, is important to Neovacs' investment case. Its second clinical product is IFN-Kinoid in systemic lupus erythematosus (SLE), which should start a Phase IIb trial in mid-2015. Our valuation is €101m.

Phase IIb for RA underway

A Phase IIb study (n=140) of TNF-Kinoid in RA completed patient recruitment in April and is on track to deliver results in Q414. The study is designed to maintain the momentum of the programme while Neovacs seeks a development partner for the product. The Kinoid approach has the potential to have significant commercial advantages over current targeted TNF-Kinoid therapies in this large, but highly competitive therapeutic area.

Phase IIb lupus trial with IFN-Kinoid in 2015

Neovacs entered into a strategic agreement with Pharmedartis to supply the IFN needed for the manufacturing of IFN-Kinoid in the upcoming Phase IIb clinical trial in SLE, due to start in mid-2015. AstraZeneca's sifalimumab, an anti-IFN mAb, looks likely to be the first anti-IFN to start Phase III trials for SLE, which helps to validate the anti-IFN targeting approach for SLE.

Kinoid platform has broad potential

People with autoimmune diseases generally secrete high levels of inflammatory cytokines. Kinoids are designed to treat the different indications by causing a person to develop antibodies against specific cytokine, thereby lowering levels of that cytokine. Kinoids have the potential to be more efficacious, have fewer side effects and are cheaper to produce than the various monoclonal antibodies used to treat autoimmune diseases.

Valuation: DCF valuation of €101m

Our risk-adjusted DCF of Neovacs is €101m. The company had a cash position of €2.9m at 30 June 2014 and an equity line to enable it to operate until mid 2015; it has recently extended its cash runway by signing a financing project with Kepler Cheuvreux; details are yet to be disclosed.

Edison estimates

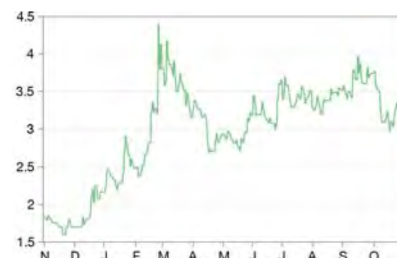
Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/2012	0.1	(8.4)	(0.46)	0.00	N/A	N/A
12/2013	0.0	(8.0)	(0.35)	0.00	N/A	N/A
12/2014e	0.0	(8.1)	(0.33)	0.00	N/A	N/A
12/2015e	0.0	(8.4)	(0.33)	0.00	N/A	N/A

Source: Edison Investment Research

Pharma & healthcare

Price	€3.02
Market cap	€60m

Share price performance



Share details

Code	ALNEV
Shares in issue	19.7m
Net (debt)/cash (€) as at Jun '14	2.9m

Business description

Neovacs is a biotech company focused on the development of targeted active immunotherapies for the treatment of severe chronic autoimmune and inflammatory diseases.

Bull

- Kinoids have advantages over monoclonal antibodies.
- Targeting lucrative markets (TNF market >$20bn).
- Limited competition.

Bear

- Significant competition in TNF market.
- Uncertainty about partnering.
- Limited capital to invest in pipeline.

Analyst

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EDISON

Newron Pharmaceuticals

Safinamide regulatory updates upcoming

Newron's lead asset safinamide for Parkinson's disease (PD) is under regulatory review in Europe with an approval decision expected by YE14, which could allow for first launches in 2015. Refiling in the US is expected in Q414. Newron also has a pipeline of three Phase II orphan drugs, which it is advancing in development and could potentially commercialise alone. We value Newron at €260m/CHF325m.

Safinamide could launch in Europe for PD in 2015

A European approval decision for safinamide is expected by YE14 following filing in 2013. If approved, this could trigger a milestone from partner Zambon and allow for first launches in Europe from H115. Following a Refusal to File (RTF) from the US FDA in July, based on administrative issues rather than clinical omissions, Newron is working to refile safinamide during Q414. Sub-licensing in the US will be key for maximising safinamide's potential in this region.

Safinamide could have a unique profile in PD

Safinamide could be the first add-on PD drug approved across all stages of disease, in both early disease with dopamine agonists and in mid-late stage patients with L-dopa. Safinamide has once-a-day dosing and a clean safety profile, which could position it uniquely in the growing PD market.

Orphan drug pipeline for commercialisation alone

Newron has a pipeline of three Phase II orphan drugs, which include sarizotan for Rett syndrome; sNN0031 for severe PD; and sNN0029 for ALS/Lou Gehrig's disease. A CHF18.6m fund-raising in April should help Newron to advance these assets and a sarizotan pivotal trial could start next year, which could allow for first launch from 2017. Newron could commercialise these assets alone. In addition, Newron is advancing NW-3509 as a potential treatment for schizophrenia patients who are poor responders to antipsychotics in preparation for partnering.

Valuation: Risk-adjusted NPV of €260m/CHF325m

We value Newron at €260m/CHF325m or CHF24.9/share, based on a risk-adjusted NPV analysis, which includes safinamide in PD, the portfolio of orphan drugs and NW-3509. Current net cash of €30m should be sufficient to fund operations into H216 beyond key value inflexion points, including safinamide regulatory approval decisions.

Edison estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/2012	8.9	(2.5)	(0.29)	0.00	N/A	N/A
12/2013	3.5	(7.7)	(0.62)	0.00	N/A	N/A
12/2014e	1.4	(11.4)	(0.90)	0.00	N/A	N/A
12/2015e	0.0	(14.8)	(1.13)	0.00	N/A	N/A

Source: Edison Investment Research

Pharma & healthcare

Price CHF15.10
Market cap CHF197m

Share price performance

Share details

Code	NWRN
Shares in issue	13.0m
Net (debt)/cash (€) as at Jun '14	30.1m

Business description

Newron is an Italian biotechnology company focused on CNS diseases. Its most advanced drug, safinamide, has been filed in Europe for Parkinson's disease and US refiling is underway. Safinamide is partnered with Zambon and Meiji Seika.

Bull

- Safinamide has completed Phase III trials and has been filed in Europe.
- Safinamide could treat all stages of Parkinson's disease, a growing market.
- Cash to execute on the orphan drug strategy.

Bear

- Regulatory setbacks or delays.
- Zambon does not have a presence in certain markets, including the US.
- Parkinson's disease is a largely generic market.

Analyst

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EDISON

Paion

A Japanese setback; near-term focus on US and Europe

Paion's Japanese partner, Ono, will return remimazolam rights due to strategic issues and considering issues with pharmacokinetic features. While this is clearly a setback, Paion does not expect this to affect the approval process in the lead European and US indications of general anaesthesia and procedural sedation. Paion has received indications of interest from parties interested to license remimazolam in Japan and the transfer process has started. We maintain our valuation at €170m.

Ono returns remimazolam rights

Paion's Japanese partner Ono has terminated its licence agreement for remimazolam following a profit warning on 5 November and an inconclusive result from a preclinical study to identify the cause of high blood plasma levels in a number of patients in ICU sedation. No adverse events of concern were observed during clinical trials. High blood plasma concentration is a common side effect in long-term sedation with approved sedatives and can be addressed by titration. Paion is in discussions with potential Japanese partners, which it intends to accelerate once the transfer of know-how and data is complete. The Phase III Japanese data package may position Paion to negotiate more attractive terms in any new agreement.

No obstacles seen for European and US data packages

Paion states that the US and European development process remains on track; it has set up a US subsidiary to support the Phase III study and to implement the market access plan for remimazolam. Paion will submit trial protocols to the FDA ahead of the Phase III study in lead US indication, procedural sedation, which is expected to start in Q115. The company is finalising preparations for the European study with the EMA for an expected H115 start leading in general anaesthesia.

Financing in place

Paion is fully funded to conduct pivotal trials in the US and Europe, using the proceeds of a total €50m June funding. We have increased our FY14 revenue forecast from €2.5m to €3.5m, adding €0.8m of a total €1.6m milestone from Yichang from out-licensing of the opioid M6G and making minor adjustments to interest payable and to tax credit receivable in FY14/15. End of September cash was €62.9m.

Valuation: Held at €170m

We hold our DCF valuation at €170m, or €3.4 per share, adjusting for Q3 cash, having previously adjusted for the delay in Japan.

Edison estimates

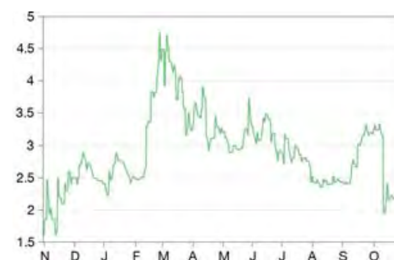
Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/2012	26.8	18.6	0.64	0.00	4.4	N/A
12/2013	4.2	(2.6)	(0.07)	0.00	N/A	N/A
12/2014e	3.5	(10.1)	(0.18)	0.00	N/A	N/A
12/2015e	1.0	(25.8)	(0.47)	0.00	N/A	N/A

Source: Edison Investment Research

Pharma & healthcare

Price	€2.82
Market cap	€143m

Share price performance



Share details

Code	PA8
Shares in issue	50.6m
Net (debt)/cash (€) as at Sep '14	62.9m

Business description

Paion, a specialty pharma company, develops anaesthesia products. Its lead product, remimazolam, is partnered with Yichang in China, Hana Pharma in S Korea, Pendopharm in Canada and R-Pharm in CIS, Turkey & MENA.

Bull

- Pivotal trials due to start in the US and Europe.
- Multiple regional partnerships.
- Unmet need for new, safer anaesthetics.

Bear

- Development rights for Japan being returned by Ono.
- Some regional partners are bridging anaesthesia data.
- Generic products available.

Analyst

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EDISON

Prosensa

Breakthrough therapy and an accelerated pathway

Prosensa is developing innovative RNA-modulating therapeutics that target rare genetic disorders, with the most advanced targeting Duchenne Muscular Dystrophy (DMD). The positive feedback from the FDA allows drisapersen to be filed using existing data under an accelerated approval pathway, with two confirmatory post-approval studies to be undertaken as soon as practicable. A similar European filing is expected shortly. There may be 3,500 DMD boys across the EU and US amenable for exon 51 skipping (13%), with about 200 new cases pa. Management estimates the number of DMD patients in countries where patients may get access to treatment at 75,000. Prosensa has €69.5m cash (June 2014) and burn in 2013 was c €22m.

Leading the charge for DMD treatment

Prosensa is a late clinical-stage drug discovery company that is developing a portfolio of RNA-modulating therapies to treat rare genetic disorders. The primary focus is DMD, where genetic defects result in the loss of dystrophin, a key protein for muscle function. Exon skipping is a mutation-specific approach that produces partially functional dystrophin and converts symptoms to the less debilitating Becker Muscular Dystrophy (BMD). Drisapersen is the most advanced drug in development, which skips exon 51 and would treat around 13% of patients. Prosensa is also developing compounds to address other mutations and skipping the 10 most applicable exons would allow treatment of c 41% of DMS boys.

FDA has outlined an accelerated approval pathway

Prosensa already has 450 patient years of data on more than 300 individuals, which suggest that drisapersen has most effect when treatment is initiated earlier in the disease or continued for longer periods. The FDA recognises the need for new treatment options and has outlined an accelerated approval pathway. Prosensa has filed an NDA (New Drug Application) based on the existing data and will undertake two confirmatory studies, which need to start before conditional approval is granted. The FDA has designated drisapersen a breakthrough therapy and the whole DMD portfolio has orphan drug status. Prosensa would supply drisapersen directly.

Valuation: Drisapersen granted breakthrough therapy designation

Prosensa appears to trade at an underserved discount to similar companies. For instance, Sarepta's eteplirsen is a similar therapy with limited data on 10 patients to date and appears to be covered by Prosensa's US and EU patents, yet is valued at considerably more.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/2012	7.9	(10.1)	(0.38)	0.00	N/A	N/A
12/2013	8.9	(16.6)	(0.51)	0.00	N/A	N/A
12/2014e	15.2	(18.5)	(0.56)	0.00	N/A	N/A
12/2015e	8.6	(52.9)	(1.18)	0.00	N/A	N/A

Source: Company accounts, Thomson Reuters

Pharma & healthcare

Price	US$11.79
Market cap	US$423m

Share price performance

Share details

Code	RNA
Shares in issue	36.1m
Net (debt)/cash (€) as at Jun '14	61.6m

Business description

Prosensa is a Dutch company that listed on NASDAQ in June 2013. It develops therapeutics for specific genetic disorders. The most advanced product, drisapersen, is for Duchenne muscular dystrophy. It has a pipeline and development experience in these difficult diseases.

Bull

- Prosensa has 300 patients' worth of data over 450 patient years on drisapersen.
- Three other DMD products are in clinical development and might progress faster.
- Strong support from key opinion leaders in DMD who see long-term treatment gains.

Bear

- Drisapersen is not curative and only applies to 13% of patients.
- Trial data are complex and recent analysis selecting subsets of patients may still not be accepted by regulators as valid.
- Many DMD variations exist, needing different therapeutic molecules, so fragmenting the market.

Analyst

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EDISON

Sartorius

Biotech booming

Sartorius, through its 74.4%-owned Stedim French subsidiary, is investing in the growing bioprocessing market through innovation and acquisition. Bioprocessing generated 62.4% of group sales year to date and is aiming for a long-term 8-9% CAGR. Sartorius also has a leading brand in laboratory equipment and consumables with a 5% long-term CAGR aim. The industrial unit is non-core and may be sold. Differential growth may strain the complex share structure.

Bioprocessing, growth engine helped by acquisitions

Bioprocessing made 62.4% of total sales in 9M14. Segment growth was 16.3% to €444.7m generating €103.6m of EBITDA, 74.3% of the €139.5m group total. Bioprocessing's speciality is single-use products like sterile bags and filters. Three acquisitions added c 10% to growth (2014 AllPure Technologies, 2013 TAP Biosystems and 2012 in cell culture media). North America, now 31.6% of segment sales, saw strong growth of 31.4% ytd to €141m. European sales of €205.8m are now 46% of segment revenues and grew 14.6%. Asia saw 8.4% growth to €85.8m.

Laboratory products and industrial technology

The wide range of laboratory consumables and small-scale equipment, like small plastic tubes for molecular biology, pipettes and balances, are subject to wider competition. These were 27% of group sales in 9M14, down -1.7% at €195.7m as some product lines were discontinued. EBITDA of €28.5m was 20.4% of the group total, although margins fell to 14.6% from 16.3%. Industrial sales of €72.4m fell 4.6%. Segment EBITDA was €7.3m, 5.2%, of group EBITDA, at 10.1% margin.

Valuation: Biotech booming, dawning dilemma

Sartorius owns 74.4% of Sartorius Stedim Biotech, its Paris-quoted bioprocessing business. Stedim has a market value of about €2.0bn, so the Sartorius equity stake is worth c €1.5bn. Sartorius AG has an equity capitalisation of about €1.7bn (including preference shares), with group net debt of €368m (of which €120m is in Stedim). This gives the combined lab and industrial segments (annualised sales of about €360m), an equity value of about €200m and an EV of around €448m. On management guidance, 2014 group revenues may grow 8-10% to €958-976m with 20% EBITDA, around €193m. If, as a scenario, Stedim grows at 9% till 2020, lab products grow at 5% and industrial is divested, Stedim, 74%-owned, could be c 75% of 2020 sales, which may be approaching €1.4bn. This could therefore become a strained share structure. A weaker lab business may exacerbate this tension.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/2012	845.7	96.5	2.84	0.94	33.9	1.0
12/2013	887.3	101.5	3.08	1.00	31.3	1.0
12/2014e	962.6	121.0	3.31	1.07	29.1	1.1
12/2015e	1024.9	144.7	4.19	1.30	23.0	1.3

Source: Company accounts, Thomson Reuters

Pharma & healthcare

Price	€96.40
Market cap	€1,737m

Share price performance

Share details

Code	SRT
Shares in issue	8.5m
Net (debt)/cash (€) as at Sep '14	(367.6m)

Business description

Sartorius is an established laboratory and bioprocess equipment manufacturer. The bioprocess division accounts for 62% of sales vs 27% lab products. An industrial weighing unit (11% sales) may be divested. Sartorius owns 74.4% of Paris-quoted Sartorius Stedim which leads the bioprocessing segment.

Bull

- Covers most aspects of the bioprocessing value chain, although weaker in purification.
- Bioprocess positioning very strong in disposables with high North American growth at 31% ytd.
- Strong pipeline of new products being developed; acquisitions add revenues and growth.

Bear

- Growth in bioprocessing masks short-term weaker lab sales and slowly declining industrial sales.
- Unbalanced corporate structure with highest growth in the Stedim, 74%-owned, subsidiary.
- Russian market, worth about €12m in 2013, is experiencing a big decline.

Analyst

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EDISON

StemCells

Neural stem cells advancing fast

StemCells is developing its human neural stem cell, HuCNS-SC, for the treatment of age-related macular degeneration (AMD) and spinal cord injury (SCI). Promising initial Phase I/II data in both indications has led to the company accelerating its development plans; a Phase II trial in SCI has just been started and one in AMD should be initiated in Q414. Full data from the Phase I/II studies are expected in mid-2015. In July, the company completed a $20m capital raise, which could provide funding through 2015.

Phase II Pathway trial in SCI just started

StemCells has just started the Phase II Pathway trial in SCI. This is a single-blind, randomised trial and the primary endpoint is extremity motor scores. The trial was started after initial results from eight patients with at least a six-month follow-up showed that four had sensory gains, while the others were stable. There were no treatment-related serious adverse events observed in the trial. Data from all 12 patients in the Phase I/II study should be reported in mid-2015.

Promising Phase I/II dry AMD interim results

Interim results from seven patients included a 70% reduction in geographic atrophy, the anatomical source of vision loss in dry AMD, with respect to the untreated eye. Contrast sensitivity – a functional measure – also improved in four patients, and the others remained stable. There were no reported safety issues. These data are from a small number of patients but were sufficiently compelling for StemCells to stop enrolment to the Phase I/II trial and bring forward the start of a Phase II trial to Q414, before the final Phase I/II data is due in mid-2015.

Cash runway to end of 2015 with warrants

StemCells completed a $20m ($18.8m net) cash raise during July by issuing 11.3m shares at $1.77. Pro forma cash following the raise was $37.8m. Guidance is to expect another $12-16m burn during H214 ($30-34m for FY14), leaving over $20m at the end of FY14. Another $20m could be raised if warrants with an exercise price of $2.17 are exercised, which would provide sufficient cash to operate to the end of 2015.

Valuation: EV of c $70m

StemCells' EV is currently c $70m. The company had reached an EV of over $100m following the announcement of the promising interim results, even though it still did not have enough cash to fund both of the Phase II trials set to begin before year end. However, the EV has regressed to earlier levels before the positive developments, largely because of a lawsuit on manufacturing processes from an ex-employee, which should ease now the FDA has allowed the new Phase II trial in SCI to start.

Consensus estimates

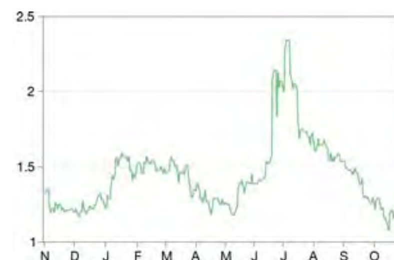
Year end	Revenue ($m)	PBT ($m)	EPS ($)	DPS ($)	P/E (x)	Yield (%)
12/2012	1.4	(28.5)	(0.99)	0.00	N/A	N/A
12/2013	1.2	(26.4)	(0.61)	0.00	N/A	N/A
12/2014e	1.1	(40.0)	(0.68)	0.00	N/A	N/A
12/2015e	1.1	(37.1)	(0.52)	0.00	N/A	N/A

Source: Thomson Reuters

Pharma & healthcare

Price	US$1.19
Market cap	US$82m

Share price performance



Share details

Code	STEM
Shares in issue	68.6m
Net (debt)/cash ($) as at Jun '14	2.8m

Business description

StemCells, Inc. is focused on developing and commercialising stem cell-based therapeutics. Its lead product, HuCNS-SC (human neural stem cells), is in clinical development for spinal cord injury (SCI) and age-related macular degeneration (AMD).

Bull

- Steady stream of clinical data expected over the next two years.
- Large body of preclinical work by independent investigators.
- Increasingly receptive regulatory environment.

Bear

- Limited human clinical efficacy data.
- Long path to efficacy from randomised trials.
- Additional financing needed.

Analyst

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EDISON

Stratec Biomedical

Back on the growth track

Stratec, a producer of sophisticated automated diagnostic instruments and software for global companies like DiaSorin, Abbott and Siemens, has moved back to a solid growth track with strong sales of the more profitable, newer complex instruments. Top-line growth improved to €105m in 9M14 with an improved adjusted EBIT of €17.7m, up 37.7%. Stratec continues to guide revenue CAGR of 8-12% with 2013-14 and 2016-17 identified as particularly strong periods as new systems gain market traction. Service part sales have been improving steadily and add significantly to EBIT.

A mix of products and services

In 2013, Stratec derived €100.6m, 78.6%, from five major clients. Clients buy a mix of development, manufactured systems, software and service parts. The top 20 diagnostics companies are increasingly using outsourcing partners like Stratec. Two new contracts may be signed in Q414. Stratec is increasing investment in development as a result, for example, in the Romanian software subsidiary. As systems are launched, both unit sales and, after a lag, profitable service part sales increase. Stratec has indicated it is now benefiting from launches over 2012-13, like the Panther molecular biology system, and expects to have a strong 2016-17, when the new Chinese operation starts to ship systems. The innovative Quanterix SiMoA system, in which Stratec has a corporate interest, is growing rapidly with excellent customer feedback.

Strengths reflected in financial performance

Management guidance is for 8-12% revenue CAGR. To achieve this, construction volumes are assumed to rise by at least 10%, indicating a volume of about 2,900-3,000 units in 2014, up from 2,679 in 2013. Service part sales provide the bulk of EBIT but there is no quarterly data. We forecast up to €28m in 2014; the peak was in 2011 at €27.4m with €27.3m in 2013. Development revenues worth €9.4m in 2013 and forecast by Edison at €10m in 2014, are now partly smoothed by the new accounting treatment. They are offset by matching costs so EBIT neutral.

Valuation: Revitalised growth trajectory

On annualised 2014 year to date sales of €140m, Stratec is valued at a 3.6x market cap to sales multiple. On our unchanged EBIT forecast of €26m, still possible with a strong Q4, the market cap:EBIT ratio is 19.3x. These ratings reflect Stratec's strengths but are ahead of the 8-12% revenue CAGR to 2017 expected by management, although EBIT should grow faster than sales.

Edison estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/2012	122.7	19.2	1.39	0.56	30.6	1.3
12/2013	128.0	25.3	1.83	0.60	23.2	1.4
12/2014e	140.9	27.3	1.84	0.60	23.1	1.4
12/2015e	155.3	31.0	2.08	0.62	20.4	1.5

Source: Edison Investment Research

Pharma & healthcare

Price	€42.50
Market cap	€501m

Share price performance

Share details

Code	SBS
Shares in issue	11.8m
Net (debt)/cash (€) as at Sep '14	27.5m

Business description

Stratec designs and manufactures OEM diagnostic instruments. Design and assembly of systems from modules is in Germany and Switzerland. There is a US subsidiary, a UK middleware company and a Berlin business.

Bull

- Leading company in design and supply of automated systems to global diagnostics companies.
- Consistently profitable, strong growth and dividends paid.
- Large contracts signed in 2014 leading to new China operation.

Bear

- Dependent on a few large contracts and eight major clients for growth.
- EBIT linked to service part sales and lags systems growth.
- Limited scope to develop new profit areas.

Analyst

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EDISON

Sygnis

Adding value through TruePrime

Sygnis uses its leading expertise in molecular biology to target the fast-growing DNA analysis and sequencing markets. Enzyme innovations now allow Sygnis to develop and sell its own molecular biology amplification kits direct to scientists and alongside leading next-generation sequencing systems under the TruePrime Brand. A new major enzyme, TthPrimPol with important heat stable properties has been developed. Qiagen already sells kits based on the SensiPhi enzyme from Sygnis. Sales may develop more strongly in 2015 with deals around the new kits. Cash at 30 June was €0.8m.

New technology allows TruePrime sales from 2015

Sygnis develops molecular biology enzyme products for the fast-growing DNA analysis and sequencing markets. The core IP is a range of engineered DNA polymerase enzymes; these are used to copy DNA enabling the genes from a single cell to be sequenced. Because of Sygnis' leading enzyme technology, Sygnis' management believes the company can gain more value from developing and selling its own range of amplification kits: TruePrime containing the enzymes and chemicals needed for the reaction. These use patented enzymes and avoid the blocking IP around synthetic primers. These kits could also be supplied with the next-generation sequencing systems sold by leading scientific equipment companies.

Brand new amplification technology

TthPrimPol is a new enzyme for DNA amplification. When combined with Sygnis' proprietary Phi29 DNA polymerase, TthPrimPol's ability to synthesise its own DNA primers allows for the amplification of whole genomic DNA without adding synthetic random primers. Encouraging results are claimed for DNA amplification yields, fidelity and coverage support using the new procedure of DNA amplification mediated by TthPrimPol. This brand new amplification technology is patent-protected until 2033.

Valuation: Market expectations of strong deal flow

Revenues in H114 were € 0.2m (H113: € 0.3m). EBIT improved 25% to -€ 1.5 m (H113: -€2.0 m). H1 operating expenses included sales and administrative costs of €0.9m and R&D of €0.8m. The H1 net loss for the period was €1.6m. H1 cash outflow from operating activities was €2.0m. Sygnis has guided that 2014 revenues will be in the range of €0.5-0.7m. Costs in H2 are expected to be level with H1. Cash on 30 June 2014 was €0.8m (31 December 2013: €2.2m). Cash is stated by management to be sufficient until the year end. Value progression depends on the launch of new kits and OEM deals plus Qiagen royalty levels.

Edison estimates

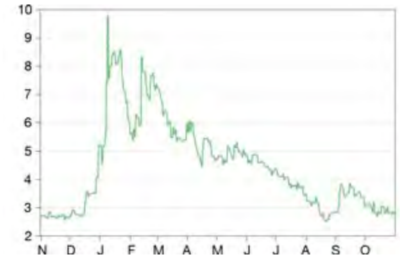
Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/2012	0.2	(1.4)	(0.19)	0.00	N/A	N/A
12/2013	0.5	(3.9)	(0.41)	0.00	N/A	N/A
12/2014e	0.6	(3.0)	(0.28)	0.00	N/A	N/A
12/2015e	N/A	N/A	N/A	N/A	N/A	N/A

Source: Edison Investment Research

Pharma & healthcare

Price	**€2.71**
Market cap	**€29m**

Share price performance



Share details

Code	LIO1
Shares in issue	10.6m
Net (debt)/cash (€) as at Jun '14	0.8m

Business description

Sygnis is a Spanish/German company developing tools for molecular biologists. Its main focus is in the field of polymerases for the amplification and sequencing of DNA. Its lead product, SensiPhi, is partnered with Qiagen.

Bull

- TruePrime offers direct access to high-growth sequencing market.
- Sygnis is a leader in polymerase development.
- Qiagen sells SensiPhi-based kits.

Bear

- Slow Qiagen sales development.
- No data or OEM deals yet on new kits.
- Further funding needed by year end.

Analyst

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EDISON

Transgene

Pipeline advances, partner news awaited

Transgene remains confident it will find a new partner for TG4010 following Novartis's decision in April not to in-licence. With consistently positive data from the Phase IIb TIME trial, we also believe it is likely that TG4010 will attract a partner with a greater focus on oncology immunotherapies than Novartis. Transgene is advancing the TIME trial into Phase III, and Pexa-Vec should enter Phase III in mid-2015 following the €65.5m capital raise in March and the acquisition of partner Jennerex by SillaJen. Our valuation is €415m.

TG4010 set to enter Phase III stage of TIME trial

Lead product TG4010 is a therapeutic vaccine (MVA-MUC1-IL2), which stimulates an immune response against tumour cells expressing the MUC1 antigen. Recent Phase IIb results from the Phase II/III TIME trial in non-small cell lung cancer (NSCLC) presented at the ESMO congress show consistently statistically significant benefits in progression-free survival in the treated arm (Hazard ratio = 0.71, p=0.05). This was especially the case in those patients with non-squamous cell NSCLC with low levels of the TrPAL biomarker (HR = 0.60, p=0.004). Overall survival (OS) data continue to mature and are expected by the end of the year, but an OS benefit is already being observed.

New TG4010 partner being sought

Transgene is in discussions with various potential partners, which will probably be concluded early next year. We are optimistic that a new partner will be signed in the coming months, given the data to date, and that the new partner may have other immunotherapy products and be better positioned to maximise the potential of TG4010.

Rest of pipeline advances, led by Pexa-Vec

Pexa-Vec is an oncolytic immunotherapy; Transgene and its partners, SillaJen and Lee's Pharmaceuticals, are due to start a Phase III trial in first-line hepatocellular cancer (HCC) with Pexa-Vec in mid-2015 on the strength of data from eight other clinical studies in over 300 patients, despite the negative results from the Phase IIb TRAVERSE trial in second-line (HCC). Transgene also expects to advance several preclinical products to Phase I in the next 12 months, including TG1050 (for chronic Hepatitis B) and TG6002 and TG3003 for solid tumours, while TG4001 is due to enter a Phase IIb study in HPV-related head and neck cancers.

Valuation: DCF Valuation of €415m

Our DCF valuation of Transgene is €415m. The key catalyst for the shares is the potential licensing deal for TG4010. The company has €96.2m in cash at H114, which should allow it to operate into 2016.

Edison estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/2012	13.1	(42.4)	(1.36)	0.00	N/A	N/A
12/2013	15.7	(41.5)	(1.36)	0.00	N/A	N/A
12/2014e	12.2	(53.9)	(1.44)	0.00	N/A	N/A
12/2015e	11.9	(59.7)	(1.55)	0.00	N/A	N/A

Source: Edison Investment Research

Pharma & healthcare

Price	**€7.40**
Market cap	**€284m**

Share price performance

Share details

Code	TNG
Shares in issue	38.4m
Net (debt)/cash (€) as at Jun '14	38m

Business description

Transgene is a French drug discovery and development company focused on the treatment of cancer and infectious diseases with immunotherapies. It has two products in Phase II development and two products about to enter Phase III.

Bull

- Promising Phase IIb data with TG4010.
- Broad portfolio of immunotherapy therapies.
- TG4010 and Pexa-Vec have considerable commercial potential.

Bear

- Novartis returned rights to TG4010.
- Potential of oncology therapeutic vaccines not yet proven.
- Risk of clinical trial failure.

Analyst

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EDISON

Wilex

ADC platform is the focus

Wilex is focusing on its antibody drug conjugate ADC technology and has extended its research alliance with Roche and added a new oncology target to the pipeline. Wilex has established global licence deals for Mesupron across a range of oncology indications. It also seeks partners for the clear cell renal cancer programmes. Our valuation is €46m, which could increase to €116m if Wilex can out-license Rencarex and Redectane.

Extension of the ADC partnership with Roche

Wilex is focusing internal R&D on its proprietary ADC toxin-linker technology and recently announced the extension of its research collaboration with Roche. The extension of the alliance is validation of the technology platform as Roche is a leader in the ADC field. Under the terms of the partnership, Heidelberg Pharma will identify new preclinical candidates based on Roche antibodies and grants Roche exclusive rights to one additional tumour target. Heidelberg Pharma is eligible to receive up to €52 million in upfront and milestone payments up to approval, plus royalties for the new tumour target, in addition to an undisclosed upfront payment, back-end loaded milestones and royalties for all other targets.

Wilex commercialises pipeline assets

In March, Wilex out-licensed its uPA-inhibitor Mesupron to Link Health, for China, Hong Kong, Taiwan and Macao, and in June Israeli company RedHill Biopharma in-licensed rights for all other territories. The deal terms include US$1m upfront plus tiered royalties from RedHill and an upfront fee, €7m in milestones plus royalties from Link Health. Both deals are back-end loaded. These partners will conduct large-scale Phase II/III studies with Mesupron, which was shown to enhance the activity of chemotherapy in Phase II trials in breast and pancreatic cancer. Wilex is seeking partners for its clear cell renal cancer diagnostic Redectane and for antibody therapy Rencarex.

Cash reaches into Q115

Wilex reported 9m14 revenue of €6.1m, including sales revenue of €2.8m and other income of €3.3m from UCB's waiver of a €2.5m loan. Operating expenses of €7.8m led to a net loss of €1.8m for the period. End-August gross cash of €2.8m gives estimated cash reach into Q115.

Valuation: Base valuation of €46m with upside from potential deals

Our valuation of Wilex is €46m (€5.9 per share). There is upside scope to €116m if the company is able to form agreements for the renal cancer programmes. Other catalysts include further news of progress with the ADC pipeline.

Edison estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
11/2012	17.8	(9.4)	(0.36)	0.00	N/A	N/A
11/2013	19.1	(5.0)	(0.16)	0.00	N/A	N/A
11/2014e	4.0	(5.0)	(0.64)	0.00	N/A	N/A
11/2015e	2.0	(4.0)	(0.51)	0.00	N/A	N/A

Source: Edison Investment Research

Pharma & healthcare

Price	€2.18
Market cap	€17m

Share price performance

Share details

Code	WL6
Shares in issue	7.8m
Net (debt)/cash (€) as at Aug '14	2.8m

Business description

Wilex is focusing on the novel antibody drug conjugate (ADC) technology at its Heidelberg Pharma subsidiary. The company out-licensed Mesupron to Link Health (China, HK, Taiwan, Macao) and to RedHill Biopharma (RoW).

Bull

- Extension of alliance with Roche for ADC platform.
- Mesupron now partnered globally in oncology.
- Rencarex and Redectane - Phase III ready.

Bear

- Limited cash resources.
- Stock trading near lows despite share split.
- Limited free float of c 13%.

Analyst

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Technology

Sector focus: Technology

Analyst: Dan Ridsdale

Whether to play offence or defence

With increased geopolitical and economic risk driving small-cap German technology stocks down 9% over the past six months, and the P/E for the overall sector now a more reasonable 17x, is it now time to start increasing exposure? And if so, what attributes should we be looking for?

This time last year, with valuations of 'hot' technology stocks looking stretched, we were recommending a growth at a reasonable price (GARP) approach to investing, to benefit from the ostensible recovery in economic and earnings momentum. However, this year the situation is very different. Technology valuations have come off their peak, but there is still plenty of room for a further de-rating if sentiment deteriorates further – the sector was rated at 14.5x as recently as 2012. Earnings momentum has deteriorated significantly – German TMT earnings downgrades outnumbered upgrades by almost 2:1 in the last three months and the ratio has been similar in the US and UK. An unusually diverse mix of geopolitical, economic and currency risks makes for a particularly uncertain business climate and obscures visibility.

When conditions are on the wane, the traditional defensive advice to focus on quality is well founded. In the technology sector this equates to companies with strong and defensible market positions, diverse customer exposure and a high element of recurring revenues. Proven performers invariably attract premium valuations and a small downgrade for a highly rated company can be more damaging than a large downgrade for a cheap one. The trick is to find those companies that have added resilience to their businesses in recent times, but where this progress is as yet underappreciated by the market.

We also believe that a deep-value, turnaround focus could generate returns. The operational gearing inherent in most of the sector makes the P/Es an unreliable value indicator, but the underpinning of a very low EV/Sales or price to book can provide downside support, and it becomes easier to effect substantial turnaround plans when times are obviously tough.

M&A also provides a potential outlet for upside, and activity levels on this front are buoyant. In H114 the value of global M&A deals across the global technology, media and telecommunications (TMT) sectors reached US$383.4bn, up 122% y-o-y and the highest value since at least 2001. The number of deals (1,041) increased by over 25% y-o-y with the TMT sector accounting for 24.3% of total deal value (source: Mergermarket). While US acquirers have dominated deal flow, a recent poll of European executives by Mergermarket indicated that Germany was seen as most ripe for increased M&A activity and that the TMT sector would be the most active segment.

EDISON

All for One Steeb

Increased scale, better alignment

All for One Steeb has established itself as the leading supplier of SAP solutions to the Mittelstand. Scale benefits, a broad solution offering and good alignment with SAP's partnership-driven SME strategy provide the key elements for robust performance to continue.

Buy-and-build strategy to consolidate number one position

The 2011 merger between All for One and Steeb established the business as the leading supplier of SAP solutions into the German-speaking mid-market. Since then, the company has continued to build scale, supplementing organic growth with focused M&A. Most recently, the May 2014 acquisition of Avantum, a consulting company specialising in business analytics and corporate performance management, enhanced the company's capability set for larger mid-market companies and corporations.

Well aligned with SAP's partner-driven model

The company's positioning and growth strategy is well aligned with SAP's increasingly partner-driven approach to address the SME market. For example, SAP's recent move to shift Business ByDesign onto the HANA platform and shift the go-to market model to a partner-driven model marks a continuation of this trend.

Scale benefits

Overall momentum in the business looks robust. Q1-Q314 sales grew 19% to €160.9m, with EBIT increasing 27% to €9.2m (5.7% margin from 5.3%). Full-year sales guidance has also been raised to at least €215m (from €205-210m) with EBIT of €11-12m (from €10.5-11m). A drop-off in EBIT margins in Q3 (3.5% from 6.8% in H1) reflects exceptionally strong licensing sales in H114. The lumpy nature of high-margin licensing deals adds volatility to near-term earnings, but recurring Outsourcing service revenues that account for c 46% of sales provide a solid foundation and there is scope to expand this through growing the contribution from cloud-based services. Consensus FY15 estimates call for mid-single digit organic revenue growth and EBIT margin expansion (to 5.8%).

Valuation: Further robust performance priced in

Having performed strongly in H1, the subsequent retrenchment in All for One Steeb's share price is likely to factor in some overextrapolation of strong licensing performance in H1, as well as more difficult market conditions overall. Nevertheless, the FY15 P/E rating of c 17x (at the time of writing) factors in the expectation of performance remaining robust. The company's market position and alignment with SAP's strategy put it in a good position, although uncertainty over the economic cycle clearly provides an element of risk.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
09/2012	153.2	5.0	0.76	0.15	36.4	0.5
09/2013	186.3	8.8	0.99	0.50	28.0	1.8
09/2014e	215.2	10.4	1.32	0.27	21.0	1.0
09/2015e	232.4	12.2	1.57	0.23	17.6	0.8

Source: Thomson Reuters

Technology

Price	€27.68
Market cap	€138m

Share price performance

Share details

Code	A1OS
Shares in issue	5.0m
Net (debt)/cash (€) as at Jun '14	(10.2m)

Business description

All for One Steeb is a leading supplier of SAP industry solutions to mid-market companies in German-speaking countries. The company supplies a combination of consultancy and implementation services, outsourcing and cloud-based services. Through United VARs, a global SAP partners alliance, the company also provides international customers with worldwide SAP support.

Bull

- Market leadership position.
- Strategy and position closely aligned with that of SAP.
- Scope for cloud services to grow recurring revenue contribution.

Bear

- Possibility of near-term margin contraction.
- Exposed to an economic deterioration.
- Limited operational leverage.

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EDISON

CENIT

Dividend growth opportunity

Cenit is a business with solid foundations, a long history of profitability and consistent five-year CAGR in revenue (7.3%) and EPS (11.8%) since the financial crisis. Industrial weakness in Germany (82% of H114 revenues) may be a short-term headwind, but the operational cost savings planned over the next two years should put the company in a good position when sentiment and industrial growth improve. €31m of its €92m market cap is held as cash and it has 2x cover on its 3.2% dividend yield, so there is downside protection with upside potential from proprietary software growth, margin improvements, international expansion and possible acquisitions.

Technology

Price	€11.05
Market cap	€92m

Share price performance

Share details

Code	CSH
Shares in issue	8.4m
Net (debt)/cash (€) as at Jun '14	31.0m

Business description

CENIT AG is a leading provider of consulting and software PLM and EIM solution to tier 1 automotive, aerospace, banking, insurance and industrial companies.

Bull

- Large cash balance with no debt.
- Improving margins.
- Discount to peers and historic average on EV/net income.

Bear

- Highly competitive market place.
- Declining EIM revenue.
- Reliance on Germany (82% of H114 revenue).

Analyst

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Focus on improving profitability

Increased focus on profitability has resulted in EBIT margins improving from 6% in H113 to 7% in H114 and EBIT growing by 17% y-o-y to €4.3m despite a 15% y-o-y decline in EIM revenues (21% of H114 revenues). PLM revenues (79% of H114 revenues) grew by 3% over the same period. Growth of proprietary software sales could help improve margins further if widely adopted.

PLM is the driver of growth

Cenit resells Dassault Systèmes and SAP PLM software and has a number of tier one customers including Porsche, Daimler, Airbus and Boeing. PLM (Product Lifecycle Management) software tends to be used in companies with complex engineering products so while the opportunity is significant in Germany, international expansion is likely to be important in achieving sustained long-term growth.

EIM: Cost management and higher-margin contracts key to maintaining earnings

Cenit resells IBM's content management solution and also provides integration and consulting services. Sales in the EIM segment have fallen from €14.5m in H113 to €12.3m in H114 and are likely to fall further. However, EBIT from the segment was only €0.3m in H114, so provided management can manage costs in line with further revenue declines there is limited further earnings downside.

Valuation: 7.3x EV/EBIT with 3.2% dividend yield

The large cash balance means EV-based multiples are the most appropriate comparatives for valuation. Cenit is currently trading at 7.3x EV/FY14e EBIT and 5.7x EV/EBITDA compared to an average of 11.6x and 7.4x for its system integrator peers. Fears of further decline in EIM and weak industrial growth data from Germany are likely to be two factors worrying potential investors, but Cenit has a solid balance sheet and multiple opportunities to drive revenues and earnings growth.

Edison estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/2012	119.6	8.1	0.65	0.55	17.0	5.0
12/2013	120.1	8.4	0.70	0.35	15.8	3.2
12/2014e	121.0	8.5	0.71	0.35	15.6	3.2
12/2015e	123.2	8.7	0.73	0.35	15.1	3.2

Source: Edison Investment Research

EDISON

DATAGROUP

IT services one-stop-shop for Mittelstand companies

DATAGROUP has established an interesting niche providing Mittelstand companies with a modular suite of technology solutions. The Mittelstand sector needs to modernise its IT infrastructure, and DATAGROUP is ideally positioned to benefit, as its large international IT services competitors are focusing their energy on larger enterprises. Further, Mittelstand companies are particularly sensitive about security and DATAGROUP can offer hosting services from three datacentres in Germany, supported by the group's ISO 27001 certification for information security management.

Focusing on long-term, fixed-price contracts

DATAGROUP is a full IT outsourcing provider, focused on the German market with a follow-the-customer strategy. It is evolving its business model to focus on three- to five-year fixed-price contracts, targeting companies with 250-5,000 IT users. It believes there is a huge opportunity in the Mittelstand space, as these companies typically rely on their own expensive in-house IT departments and have difficulty adapting to new technologies such as mobility and cloud security. Customers can select from a range of solutions, such as Service Desk, Cloud Services, Network Services, Application Management Services and SAP services. These solutions are based on standardised processes that are certified according to ISO 20000 and backed by service level agreements (SLAs). The broad range of services allows customers to fully outsource their IT operations. Much of the work is done remotely, and the group can scale its data centre services and shared services desk to support a large number of customers.

Q3 EBITDA margin jumps by 180bp

Q3 revenues slipped by 3.4% to €36.8m, while EBITDA jumped 24.4% to €2.9m, resulting in a 180bp improvement in the margin to 7.9%. These movements reflect the de-emphasising of time-and-materials (T&M) business, with two large, less-profitable, T&M contracts exited in H1. Services generated 76% of revenues in the period, of which the bulk is fixed price. DATAGROUP wishes to be a consolidator in the German IT service space, and on 1 October it announced the acquisition of Excelsis to broaden its offerings into mobile apps and portals.

Valuation: Modest valuation given the attractive growth potential

DATAGROUP's shares look attractively priced, trading on 0.6x consensus FY15 EV/sales and c 6x EV/EBITDA, given that the outlook is underpinned by the strong case for Mittelstand companies to improve efficiencies and outsource their IT.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
09/2012	146.2	3.6	0.36	0.20	24.9	2.2
09/2013	156.9	2.5	0.25	0.20	35.8	2.2
09/2014e	155.0	3.0	0.31	0.20	28.9	2.2
09/2015e	161.0	8.4	0.76	0.23	11.8	2.6

Source: Company accounts, Thomson Reuters

Technology

Price €8.95

Market cap €68m

Share price performance

Share details

Code	D6H
Shares in issue	7.6m
Net (debt)/cash (€) as at Jun '14	(27.3m)

Business description

DATAGROUP provides IT solutions to companies. The company offers the full range of IT services such as cloud services, service desk and application management. DATAGROUP also provides SAP and software solutions as well as solutions for mobile applications.

Bull

- A compelling growth strategy.
- Cost base has been restructured.
- Attractive business drivers.

Bear

- Significant net debt levels (€27.3m at end June).
- Revenues declined in Q3, although this was as planned.
- Highly exposed to the German economy.

Analyst

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EDISON

First Sensor

Aiming to be first in high-end sensors

Following the acquisition of Sensortechnics in 2011, First Sensor has become one of the top 10 manufacturers of high-end sensors globally. It is now moving to the next stage of development. Following a change to the management board in June 2013, the company is focused on three high-growth market segments with high added value, which industry analysts expect collectively to represent a €20bn market by 2018, a CAGR of 9% between 2011 and 2016. Management expects First Sensor to become one of the market leaders in each of these sectors within the next five years.

Realignment on high-growth markets

The company is now focused on serving customers in the medical technology, industrial applications and automotive and transport sectors. In April 2014 the operations were reorganised into three dedicated market-focused business units supported by a shared engineering and production operation. The cost-cutting programme launched in 2012 continues to drive production efficiencies and achieve savings, for example by rationalising the supplier base. There has been a switch from sales of third-party product to higher-margin, in-house product and price increases pushed through with selected customers. Sales activities in Europe outside Germany, Asia and North America are being expanded, resulting in H114 in the first Mobility sales success in the US. The production capability in Singapore is being strengthened to offer low-cost production to local customers. The €29m syndicated loan used to fund the Sensortechnics purchase has been replaced with promissory notes totalling €31.0m, thus reducing cash outflow relating to financial charges.

Strong H114 underpins FY14 profits growth

Group revenues rose by 11% year-on-year to €59.3m, primarily the result of high sales to the Mobility segment and production services, which more than compensated for lower sales of third-party products. Gross margin declined by 3.1pp to 51.3%, reflecting the higher proportion of lower-margin Mobility sales. EBITDA rose by 10% to €6.8m. Incoming orders grew by 19% to €78.8m, supporting management FY14 guidance of €114-119m sales and €13-15m EBITDA.

Valuation: Valuation: Trading at discount to global peers

The share price has rallied from a low of €7.16 in November 2013, but the shares are still trading on prospective EV/EBITDA multiples at a discount to the mean for our sample of global semiconductors.

Consensus estimates

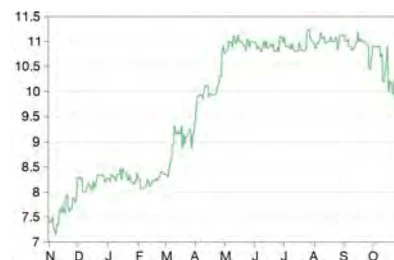
Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/2012	111.9	0.9	0.05	0.00	201.1	N/A
12/2013	108.5	(1.1)	(0.05)	0.00	N/A	N/A
12/2014e	117.3	3.5	0.27	0.00	37.2	N/A
12/2015e	127.2	6.9	0.53	0.05	19.0	0.5

Source: Thomson Reuters

Technology

Price €10.05
Market cap €102m

Share price performance



Share details

Code	SIS
Shares in issue	10.1m
Net (debt)/cash (€) as at Jun '14	(34.6m)

Business description

First Sensor offers innovative integrated solutions in the fields of optoelectronics and MEMS sensors, microsystems technology and hybrid electronics. It is headquartered in Berlin and employs around 750 people globally.

Bull

- Ability to offer flexible production runs from single items to millions of units.
- Fully integrated – manufacturing wafers, components, modules and complete systems in house.
- Offers customer-specific solutions rather than standard parts.

Bear

- Relatively low proportion of revenues currently generated outside Europe.
- Uncertainty regarding intentions of significant shareholder, FS Technology Holding.
- Low free float (42%).

Analyst

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EDISON

GFT Group

Technology

Consulting and IT services for banks

GFT Group posted a strong set of H1 results, with organic revenue growth of 18% and margins strengthened in both divisions. GFT, the group's solutions business, continued to grow apace, with H1 organic revenue growth of 32% (40% in Q1 and 26% in Q2), while emagine, a contract recruitment business, saw a small revenue decline but returned to profit. We note the group benefits from a number of strong growth drivers as management scales up the business internationally. Hence, the valuation looks attractive at 13x our conservatively maintained FY15 EPS.

Scaling up, outsourcing benefits.

GFT Group is building a global IT services and consulting business, focused on the growing opportunity in the financial services sector. It is diversifying geographically and broadening its customer base, and we estimate that two-thirds of revenues are recurring in nature. Its main division, GFT, benefits from high levels of IT spending and complex business requirements in the financial services industry, along with favourable outsourcing trends in banking. The acquisition of Rule Financial, the UK-based provider of consultancy and IT services to investment banks, has significantly boosted GFT's presence in Anglo Saxon countries and added near-shore hubs in Poland and Costa Rica to the existing ones in Spain and Brazil.

H1 results: Solutions unit growth remains strong

The GFT solutions division's total H1 growth, after the inclusion of GFT Italy, acquired in May 2013, was 65% at €114.1m and the EBT margin lifted by 0.4% to 10.3%. emagine's revenues slipped by 5% to €42.7m, while the margin rose to 2%. Following the acquisition of c 98% Rule Financial for c €60m just before the period end, the number of group employees doubled to 2,983 from 1,503 a year earlier, including c 660 from Rule. The group swung to a net debt position of €34.4m at 30 June from €16.3m net cash at 31 March, after the initial €43.7m paid for Rule. In addition, a further €17.1m is to be paid for Rule in November, and acquisition liabilities remain over the remaining Rule 2% minority interest and GFT Italy.

Valuation: Discount to larger global IT services businesses

The stock trades on 0.8x FY15 EV/revenues and 9.2x EBITDA. These numbers look favourable when compared to c 2.0-2.4x sales and c 9.9-14.0x EBITDA for larger global IT services businesses. Our DCF model (which assumes a WACC of 11%) values the shares at €11.20, which is 2% ahead of the current share price.

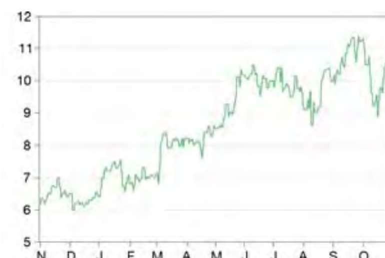
Edison estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/2012	230.7	9.6	0.22	0.15	50.1	1.4
12/2013	264.3	18.5	0.55	0.20	20.1	1.8
12/2014e	352.0	25.3	0.67	0.23	16.5	2.1
12/2015e	403.9	32.0	0.85	0.25	13.0	2.3

Source: Edison Investment Research

Price	€11.03
Market cap	€290m

Share price performance



Share details

Code	GFT
Shares in issue	26.3m
Net (debt)/cash (€) as at Jun '14	(34.4m)

Business description

GFT Group is a global technology services and recruitment business primarily focused on banks and insurance companies.

Bull

- GFT solutions business is still growing very quickly, albeit decelerating.
- Sempla and Rule acquisitions have significantly scaled up the business internationally.
- Strong balance sheet with moderate debt levels.

Bear

- While emagine has returned to profitability, its margins remain slim.
- Deutsche Bank generates c 25% of revenues.
- Challenging economic conditions in Europe.

Analyst

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EDISON

ifa systems

The opportunity is clear

As the leader in the German market, ifa has an established position in the expanding international market for ophthalmology software and clinical decision support systems. It is well placed to gain from the expected growth in this area in the US, Latin America and China. We forecast that, after several years of heavy spend on market and product development, ifa should see strong growth in revenues and margins. In spite of this, its shares trade at material discounts to European and US peers.

Leveraging a leadership position in Germany

As an established player in healthcare IT, ifa systems is an opportunity for investors to gain exposure to an expanding area of IT spend. ifa has a leading position in Germany, where it has a solid base of high-margin recurring revenues, and it is using its experience and technical advantages to build revenues in the Americas and China in the medium term. In the short term, it is capacity constrained with strong demand from Latin America and the Middle East. Management is putting in place an enhanced product strategy to widen its addressable market, looking to smaller as well as larger customers internationally.

The Americas and China drive long-term growth

Growth in US revenues is expected to come from the move to electronic medical records and clinical decision support systems, driven by economics and legislation, and management anticipates that Latin America will follow in its wake. In China, where blindness is a major social and economic problem, ifa is working with a local partner and a leading hospital to develop a dual-language clinical decision support system that it believes could be adopted in clinics across China.

Valuation: Growth not factored into the price

Our valuation work shows ifa's shares to be trading at revenue and earnings multiple discounts to both its US and European peer groups – discounts that we regard as unjustified. Our basic DCF model suggests a share price of €9.9, based on assumptions of high to mid single-figure percent pa revenue growth over the rest of the decade, with EBIT margins building up from 21% (2014e) to a peak of 29% (2024e) and a cost of capital of 10%. Our reverse DCF work finds the current share price can be seen as reflecting 2% revenue growth in the medium term, with ongoing operating margins at 18% – levels well below those suggested by ifa's opportunities in the US, Latin America and China.

Edison estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/2012	7.4	0.9	0.24	0.03	28.1	0.4
12/2013	7.8	1.5	0.42	0.08	16.1	1.2
12/2014e	8.4	1.7	0.48	0.10	14.1	1.5
12/2015e	9.1	2.1	0.59	0.12	11.4	1.8

Source: Edison Investment Research

Technology

Price	€6.75
Market cap	€17m

Share price performance

Share details

Code	IS8
Shares in issue	2.5m
Net (debt)/cash (€) as at Jun '14	(0.5m)

Business description

As the leader in the German market, ifa systems has an established position in the expanding international market for ophthalmology software and clinical decision support systems.

Bull

- Leading position in major home market.
- Established technologies including decision support systems.
- Considerable international potential.

Bear

- Relatively small player in healthcare IT.
- Regulatory and legislative delays can affect revenues.
- Developing country infrastructure issues can impede progress.

Analyst

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EDISON

Innovation Group

BPS and software to the insurance industry

Innovation Group is a leading international provider of Business Process Services (BPS) and software to the automotive and property insurance industry. The company uses a combination of software, innovative repair techniques, economies of scale and domain expertise to streamline the claims cycle, reduce costs and shorten the time to resolve a claim. Successful execution on three key growth opportunities - growth in the US, expanding its 'wet' perils property BPS offering and growing software sales could unlock significant upside.

International motor BPS business

BPS accounted for 86% of H1 sales, with the majority coming from the automotive sector, where Innovation has a broad international footprint. Germany accounted for 33% of BPS sales in H114 and in October 2014 the company announced a significant new two-year BPS contract win with Zurich Insurance in Germany, covering both the Zurich and the DA Direkt brands.

'Wet' claims addition expands BPS opportunity

The group's property operations are mainly UK-based, where Innovation is the leading outsourced claims solutions provider to the UK subsidence market. The company entered the 'wet' perils claims-handling segment through the March 2014 acquisition of LAS. This expanded Innovation's UK PBS addressable market from a claims spend of c £100m to c £1.3bn. Management also plans to export the LAS services, further expanding the addressable market for BPS.

Targeting significant growth in software

Expanding the contribution of software sales from 14% of sales in H1 to about 20% is key to management's ambition to expand operating margins to 15% exiting FY15. Software sales grew by 37% y-o-y to £14.7m in H1 and with new leadership in place, more reference sites in the US going live and a receptive customer base, an inflection point may now be arriving.

Valuation: Undemanding given margin expansion potential

Innovation's P/E looks undemanding given the company's growth opportunity and scope for margin expansion. The performance of the software business could be a particularly strong value driver, given its potential to drive margins and the high multiples commanded by insurance software companies.

Edison estimates

Year end	Revenue (£m)	PBT (£m)	EPS (£)	DPS (£)	P/E (x)	Yield (%)
09/2012	193.7	18.5	1.10	0.00	24.5	N/A
09/2013	204.4	22.0	1.40	0.00	19.3	N/A
09/2014e	226.5	27.3	1.60	0.30	16.9	1.1
09/2015e	251.4	34.8	2.00	0.40	13.5	1.5

Source: Edison Investment Research

Technology

Price	27.00p
Market cap	£326m

Share price performance

Share details

Code	TIG
Shares in issue	1,206.9m
Net (debt)/cash (£) as at Mar '14	59.8m

Business description

Innovation Group provides outsourcing and software to the insurance industry and related sectors. The group's solutions help provide much-needed efficiencies and flexibility to insurance providers.

Bull

- Exposure to an investment cycle in the insurance industry.
- Scope for continued margin expansion.
- Strong management track record.

Bear

- Adverse currency movements.
- Need to build scale in the US.
- Intense competition in some areas.

Analyst

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EDISON

InVision

Clear vision on SaaS potential

InVision is a rare investment opportunity as a listed European software as a service (SaaS) company. It has borne the pain of making the move to a SaaS platform and is well placed to profit from the growth in the use of its injixo workforce management (WFM) software and online training offerings in call centres. Although valued at a premium to more traditional, smaller listed European software companies, it stands at a significant discount to other SaaS plays.

European SaaS opportunity

InVision has leading positions in undeveloped and growing markets. The majority of target users still use in-house solutions for WFM and traditional classroom training, but management sees a combined €600m market opportunity in the shift to cloud-based application-specific software and online training. The transition to SaaS has been painful but well executed and the results are being seen in the top and bottom lines.

Clear logic for increasing product adoption

The business case for InVision's WFM product is based on its low price per agent call centre WFM SaaS offer. Management estimates that the €9 cost per agent per month is more than made up for by the typical €30 per agent per month savings. With pricing for its e-learning offering, The Call Centre School (TCCS), set at a fraction of the level of traditional teaching methods, this business area also has a compelling story. The strong progress since the launch of the e-learning product at the start of this year is very encouraging.

Valuation: Valuation: Premium rating but not a SaaS rating

InVision is forecast to see strong underlying growth and to generate cash over the coming years. To an extent this is reflected in its premium valuation multiples compared to the more traditional smaller European software companies and the larger call centre software vendors. However, the discount to the leading names of the SaaS world remains significant. This discount could narrow as further evidence of the growth in SaaS revenues comes through and as early progress with TCCS translates into material income.

Edison estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/2012	13.2	0.8	0.36	0.00	115.1	N/A
12/2013	13.6	1.8	0.91	0.00	45.5	N/A
12/2014e	13.5	4.0	1.70	0.00	24.4	N/A
12/2015e	15.5	5.7	2.41	0.00	17.2	N/A

Source: Edison Investment Research

Technology

Price	€41.43
Market cap	€93m

Share price performance

Share details

Code	IVX
Shares in issue	2.2m
Net (debt)/cash (€) as at Jun '14	0.6m

Business description

InVision provides workforce management software and online training for contact centres on a software as a service platform. It is based in Germany and is focused on European and North American opportunities.

Bull

- Strong position in small- and medium-sized call centres.
- Scalable SaaS business model.
- e-learning potential across the US and Europe.

Bear

- Relatively small player.
- Niche markets make for limited investor visibility.
- Limited liquidity of shares.

Analyst

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EDISON

Jenoptik

Integrated optoelectronics group

Jenoptik's internationalisation strategy, supplemented with small corporate acquisitions, is intended to drive growth in revenues to €800m by 2018, with more than 40% of revenues generated from Asia and the Americas. Combining this growth with a continued focus on operational excellence is intended to deliver EBIT margins of 9-10% over the market cycle by 2018.

Internationalisation strategy delivering

During H114, Jenoptik received a substantial order for stationary and mobile traffic monitoring systems in Kuwait, two multi-million orders for traffic systems from customers in the Netherlands and Singapore and a €10m order to deliver laser machines to automotive suppliers in Asia and North America. This highlights the growing importance of international markets and the shift to provide complete systems as well as components. Product introductions included the JenLas femtosecond laser for ultra-precise cutting and drilling of medical implants, injection nozzles and watch components. The Defence & Civil Systems division launched a last mile diesel-driven genset for locomotives targeted initially at rail operators in the growth areas of Central and Eastern Europe. Revenues benefited from successful project start-ups in the medical technology and life sciences segments, and stronger demand for laser processing products for plastic materials, which offset investment constraints in the automotive industry and delays in projects relating to energy systems. Revenues in Asia grew by 70% to 14% of the total, while revenues from the Americas, Middle East and Africa declined as customers transferred projects from the Americas to Asia. Q3 results were announced earlier this month.

Profits growth expected in FY15 despite challenging environment

On the condition that a major international order in the Defence & Civil Systems segment can still be completed by year end, the executive board is now expecting group revenue for the current fiscal year of around €600m (FY13 €600.3m) and EBIT of around €50m (FY13 €52.7m). This guidance assumes that uncertainties in the defence business will not increase over the coming weeks. Group order intake supports management expectations of profitable growth in FY15.

Valuation: Trading at discount to global peers

The share price has declined since the mid-October profits warning. The shares are trading at a discount to the global mean for electronic equipment and instrumentation companies, though we note the potential for a further FY14 profits downgrade if a substantial Defence & Civil Systems order slips into FY15.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/2012	585.0	41.4	0.88	0.18	10.4	2.0
12/2013	600.3	44.4	0.83	0.20	11.0	2.2
12/2014e	606.4	47.2	0.69	0.20	13.2	2.2
12/2015e	647.8	54.9	0.81	0.22	11.3	2.4

Source: Thomson Reuters

Technology

Price	€9.12
Market cap	€522m

Share price performance

Share details

Code	JEN
Shares in issue	57.2m
Net (debt)/cash (€) as at Jun '14	(84.4m)

Business description

Jenoptik is an integrated optoelectronics group and supplier of high-quality capital goods with global operations. 42% of H114 revenues were from sales of lasers, material processing and optical systems, 30% from industrial metrology and traffic enforcement systems, and 28% from defence and civil systems.

Bull

- Positive trends in medical technology market are continuing.
- Jenoptik Excellence Programme driving improved operational performance.
- Sales outside Germany 65% of H114 total.

Bear

- Demand from automotive and machine construction industry remains subdued.
- Decline in investment goods in Germany and elsewhere in Europe.
- Increasing export regulation affecting Civil & Defence division.

Analyst

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EDISON

Mensch & Maschine Software

CAD/CAM specialist

Mensch & Maschine Software (MUM) has substantially completed its transition from distributor to value-added reseller (VAR) business model, and management's focus has shifted to consolidating recent small VAR acquisitions and driving profitability across both business lines. H114 results showed that the company is making progress in terms of revenue growth and improving margins.

H114 trading: Return to growth

After a slower H213 (which was negatively affected by the strengthening of the euro versus the yen), H114 returned to revenue growth (+8.4% y-o-y), with 9.1% growth in the VAR business and 6.4% growth in the Software business. Q1 revenues were stronger than Q2, following typical seasonality for Autodesk software sales (Autodesk's y/e is January). The group EBITDA margin of 7.9% improved from H113's 6.6%. The Software business (MUM's proprietary CAM software) generated an EBITDA margin of 18.2%; the VAR business generated an EBITDA margin of 4.1%, an improvement on the 2.0% margin reported in FY13. Excluding earnouts from the sale of the distribution business, the VAR business generated an EBITDA margin of 1.2% in H114 compared to -2.0% in H113.

Focus on revenue growth to improve profitability

The business generates gross profit in roughly equal shares to the Software and VAR businesses. The company's focus is on improving the profitability of the business, with a long-term aim of achieving VAR EBITDA margins of c 10% and Software EBITDA margins in the range 20-25%. The VAR business has finally broken even (excluding earnouts) and the Software business is well on the way to reaching its long-term target. For both businesses, the company expects to improve profitability through driving increased sales levels. For example, the re-licensing of ecscad from Autodesk should provide a boost to Software sales.

Valuation: On track to meet FY14 guidance

Management confirmed FY14 sales guidance of c €140m, with EBITDA of €11.5m (c 8.2% margin) and EPS of €0.35. Consensus is forecasting close to this revenue level and EPS in line with guidance. This requires H214 revenue growth of 12.4% y-o-y or -3.7% h-o-h and an EBITDA margin of 9.1%. Considering H114 growth and profitability, this appears achievable. Forecasts assume 10.3% group revenue growth for FY14 with improving profitability, resulting in a modest c 17.0x P/E multiple for FY14. Combined with a dividend yield of 3.3%, in our view the valuation is undemanding and the share price could respond positively to evidence of stronger end demand.

Consensus estimates

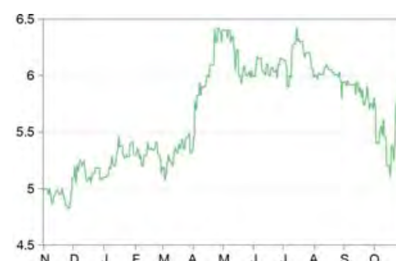
Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/2012	118.8	5.1	0.23	0.20	26.3	3.3
12/2013	125.8	2.6	0.17	0.20	35.6	3.3
12/2014e	138.8	5.9	0.35	0.20	17.3	3.3
12/2015e	151.3	8.4	0.43	0.23	14.1	3.8

Source: Company accounts, Thomson Reuters

Technology

Price	€6.05
Market cap	€94m

Share price performance



Share details

Code	MUM
Shares in issue	15.4m
Net (debt)/cash (€) as at Jun '14	(34.4m)

Business description

Mensch und Maschine Software (M+M) sells proprietary and Autodesk CAD/CAM software. It reports across two business lines: M+M Software (27% of H114 revenues) and VAR (73% of H114 revenues). The company has operations in Europe, the US and Asia-Pacific.

Bull

- Largest European Autodesk value-added reseller.
- High-margin internally developed software.
- Loyal workforce.

Bear

- Reliant on the technology development plans of Autodesk.
- Net debt position.
- Acquisition/integration risk.

Analyst

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EDISON

Technology

PSI

Price	€11.03
Market cap	€173m

Setting a recovery path

PSI develops and integrates software solutions for utilities, manufacturers and infrastructure providers, automating complex control systems to reduce costs, improve efficiency and avoid catastrophe. While recent progress has been affected by execution issues and the geopolitical climate has raised risk, migration to a single software platform and to a product-orientated software revenue model should provide a structural basis for significant margin and earnings expansion in the longer term.

Control and optimisation

PSI has three operating segments: energy management (36% of H114 sales), which delivers intelligent utility solutions for electricity, gas, oil, water and district heating; production management (46% of H114 sales), which supplies software and solutions for production planning, control and logistics; and infrastructure management (18% of H114 sales), which provides high-availability control solutions for monitoring and operating critical transport, public safety and environmental infrastructures.

Geopolitical instability clouds visibility

A five-year track record of revenue growth and EBIT margin expansion was interrupted in 2013. This was due to a combination of execution issues, mainly in the company's logistics operations (in production management) and accelerated product investment. The hangover from this lasted into H114, although order intake (+29% y-o-y) and revenues (+4% y-o-y) both moved forwards again in Q3. Demand from the German energy market is recovering and prospects in the US are buoyed by renewed investment in the metals industry. However, with geopolitical risk in overseas markets (Russia, Thailand and the Middle East) and the Chinese economic slowdown clouding visibility, the company did not offer earnings guidance for the full year.

Structural margin expansion initiatves

Two key initiatives are being implemented to add resilience and put the business back on a margin expansion trajectory. Firstly, the shift towards a more product-led vs project-based model should reduce exposure to cost overruns. Secondly, the progressive migration of customers and products onto a unified technology platform should improve development and implementation efficiency.

Valuation: Recovery potential

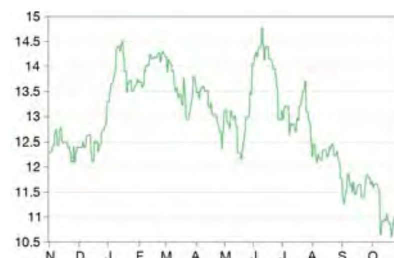
PSI's shares trade on typical recovery multiples with a relatively high FY15e P/E but a low EV/sales. While patience is likely to be needed, we feel the initiatives above give PSI scope to expand to the mid-teens EBIT margin over time vs our 7.2% FY15 estimate and drive a meaningful share price recovery.

Edison estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/2012	180.9	11.9	0.64	0.30	17.2	2.7
12/2013	176.3	3.3	0.11	0.00	100.3	N/A
12/2014e	177.7	8.5	0.45	0.13	24.5	1.2
12/2015e	188.5	11.9	0.63	0.31	17.5	2.8

Source: Edison Investment Research

Share price performance



Share details

Code	PSAN
Shares in issue	15.7m
Net (debt)/cash (€) as at Jun '14	10.9m

Business description

PSI develops and integrates software solutions and complete systems for utilities, manufacturers and infrastructure providers.

Bull

- Recovery and margin expansion potential.
- Strong footprint in Germany, expanding footprint overseas.
- Potential strategic attractiveness.

Bear

- Recent execution issues.
- Geopolitical uncertainty.
- Consolidating the business onto a single technology platform is complex and will take time.

Analyst

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REALTECH

Restructuring substantially complete

Management has spent the last year restructuring the business, and Q2 results showed this has started to have a positive impact on margins. While H114 revenues declined y-o-y, Q2 revenues showed sequential improvement. A flat year in 2014 should prepare the way for growth in revenues and margins in FY15.

H114 results show profitability is starting to improve

Group revenues for H114 fell 10.1% y-o-y and 16.6% h-o-h. The Consulting business fell 12.9% y-o-y, with a similar performance in Q1 and Q2. The Software business declined 3.5% y-o-y. This resulted in an EBIT loss of €1.3m for H114, although the split across Q1/Q2 was -€1.0m/-€0.3m showing a sequential improvement. For FY14, the company expects revenues at a similar level to FY13 and to produce EBIT in the range -€1m to €0m. Consensus forecasts assume a small revenue decline and EBIT of -€0.7m for FY14, which implies a return to EBIT profitability in H214 to the tune of €0.6m.

Strategy to return to profitability and growth

Restructuring through 2013 included putting in place new sales and marketing structures, closing operations in Singapore and Denmark, and terminating development of the Timplify project. The two divisions are now working more closely together, which should improve the efficiency of the sales process and provide better customer support. The Software business now appears to have stabilised, and with Realtech now a SAP channel partner and theGuard! integrated into SAP's infrastructure management software, the company has more scope to sell its own software. The Consulting business struggled in FY13 because of changes to SAP's sales strategy and saw a project in Japan pushed back in H114, but is now starting to show signs of revenue stabilisation.

Valuation: Return to revenue growth key to upside

The current valuation reflects the recent revenue declines, particularly in the Consulting business, which have pushed the company into a loss-making position. While margins are starting to move in the right direction, a return to revenue growth should provide additional support to the stock.

Consensus estimates

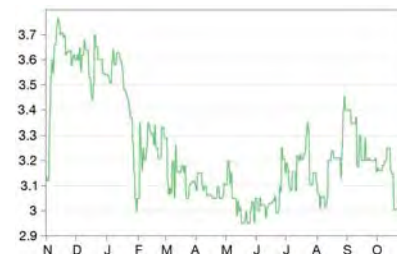
Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/2012	39.8	0.5	(0.04)	0.00	N/A	N/A
12/2013	39.1	(6.7)	(1.32)	0.00	N/A	N/A
12/2014e	38.1	(0.9)	(0.16)	0.00	N/A	N/A
12/2015e	41.1	1.2	0.16	0.03	18.8	1.0

Source: Thomson Reuters

Technology

Price €3.01
Market cap €16m

Share price performance



Share details

Code	RTC
Shares in issue	5.4m
Net (debt)/cash (€) as at Jun '14	7.4m

Business description

REALTECH provides SAP consulting services (66% of FY13 revenues) and proprietary software products (34% of FY13 revenues). The software business develops IT service management software and its core product is theGuard!. 70% of revenues are generated in Germany.

Bull

- Strong SAP consulting expertise.
- Elements of theGuard! integrated into SAP IT Infrastructure Management products.
- Strong balance sheet.

Bear

- Loss making.
- Dependent on SAP's strategy.
- Dependent on German economy.

Analyst

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EDISON

Reply SpA

Driving growth through innovation

Reply has grown its IT services business through a combination of in-house innovation and acquisition, with a focus on digital media and new communication channels. The company has grown revenues at a CAGR of more than 10% over the last five years, while maintaining double-digit EBIT margins. In our view, the valuation does not reflect this performance.

H114 results: Italy strong, investment supresses UK and Germany margins

Reply reported revenue growth of 14.3% y-o-y in H114. On a divisional basis, Italy grew 13.1% (73% of H1 revenues), Germany 21.0% (15% of revenues) and the UK 21.6% (12% of revenues). Italy reported a 16.0% EBITDA margin, up from 12.7% for FY13. Investment in innovation in Germany resulted in an EBITDA margin of 5.9% (vs 8.4% in FY13). After a period of integrating acquisitions, the UK business invested in improved management structures, and combined with a problematic contract, reported EBITDA of 3.4% (vs 16.6% in FY13). The company expects margins to improve in Germany and the UK in H214. The group achieved an EBIT margin of 12.3% in H114, up from 11.5% for FY13. Net cash at the end of H114 stood at €9m.

Innovation still key to maintaining impressive track record

The company encourages an entrepreneurial approach across its network of partners and has a track record of developing in-house solutions for the latest technology trends. The company has also regularly acquired businesses active in high-growth areas of technology. Recent areas of investment include the Internet of Things, social media monitoring and analytics and gaming technologies.

Valuation: Modest considering growth and margins

The company continues to target double-digit revenue growth and expects to achieve double-digit EBIT margins in FY14. Consensus forecasts imply FY14 revenue growth of 13.5% with an 11.7% EBIT margin. This implies H214 revenue growth of 12.8% y-o-y/ 6.1% h-o-h, which looks achievable based on H1 performance. The EBIT forecast implies a slightly lower margin in H2, as improved margins in Germany and the UK are unlikely to completely compensate for Italy reverting back to a more normal margin. In our view, the stock is trading on modest P/E multiples considering its growth and profitability.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/2012	494.8	50.3	3.01	0.57	19.3	1.0
12/2013	560.2	61.7	3.81	0.70	15.3	1.2
12/2014e	636.0	73.0	4.33	0.81	13.4	1.4
12/2015e	692.5	83.5	5.01	0.90	11.6	1.5

Source: Company accounts, Thomson Reuters

Technology

Price	€58.12
Market cap	€544m

Share price performance

Share details

Code	REY
Shares in issue	9.4m
Net (debt)/cash (€) as at Jun '14	9m

Business description

Reply offers consulting, systems integration and application management services, specialising in the creation and implementation of solutions based on new communication networks and digital media. The main regions of focus are Italy, Germany and the UK.

Bull

- Innovative, entrepreneurial attitude.
- Experienced management.
- Strong margins.

Bear

- Acquisition risk.
- Currency exposure.
- Strong exposure to the Italian economy.

Analyst

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EDISON

Seven Principles

Margin expansion could drive re-rating

A weak trading environment and overruns on fixed-price contracts resulted in Q2 revenues and EBITDA below management expectations. Seven Principles (7P) is focused on driving the top line, recently raised €4m in new equity and is considering acquisitions. With current suboptimal consultant utilisation, revenue growth should quickly result in expanding EBITA margin, key to improving the low EV/sales valuation.

Difficult trading conditions

7P is a leading German mid-market IT consulting group servicing a roster of blue chip clients in the telecoms and utility sectors, and has a strong reputation for enterprise mobility solutions. With companies' budgets under pressure in its core sectors, 7P's growth over the last two years has been elusive despite its strong franchise, and the group recently completed a restructuring to improve its strategic positioning. In Q2, 7P reported an EBITDA loss of €1.50m on revenues of €21.80m, 6.2% down on Q213 and business development remained weak. The quarter was affected in particular by two sizeable fixed-price software development projects, which overran and were loss making. These projects were the first of their kind for these customers and management expects future projects to be profitable.

Post-restructuring focus on growth

After the restructuring, management is focused on returning 7P to an overall growth position in its core telecommunications segment, which accounts for some 60% of sales and is in the process of expanding its sales effort by recruiting an additional two to three salespeople. Having recently raised €4m in new equity, acquisitions are also on the agenda.

Valuation: EV/sales at discount to peers

With a streamlined cost base and suboptimal consultant utilisation, returning the company to a growth position, or extracting synergies from an opportunistic acquisition, would quickly result in an expanding EBITA margin, which is key to rating expansion. On 0.14x FY14 EV/sales, 7P trades at an eye-catching discount to peers (0.7x). If management can succeed in returning to growth, the upside could be significant.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/2012	97.5	(0.8)	(0.16)	0.00	N/A	N/A
12/2013	98.7	(2.4)	(0.65)	0.00	N/A	N/A
12/2014e	96.0	(1.1)	(0.21)	0.00	N/A	N/A
12/2015e	100.3	0.6	0.10	0.00	25.9	N/A

Source: Thomson Reuters

Technology

Price €2.59

Market cap €14m

Share price performance

Share details

Code	T3T
Shares in issue	5.4m
Net (debt)/cash (€) as at Jun '14	0.8m

Business description

Seven Principles (7P) is a leading mid-sized German IT consulting and services group. Headquartered in Cologne, 89% of revenues comes from Germany, with a presence in the UK and Austria.

Bull

- Cheapest stock in peer group on sales multiples.
- Potential to drive margin improvement.
- Expertise in strategically valuable growth segment in largest market in Europe.

Bear

- Large proportion of group revenue from two largest clients.
- 66% of 7P's revenue is from the telecoms, energy/utility verticals, which are under pressure.
- Geographic limitations could inhibit business development with larger clients.

Analyst

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EDISON

SinnerSchrader

Strong momentum and platform 'option value'

New business wins at SinnerSchrader's agency business have been very strong this year and the company is now rated as Germany's leading independent digital agency. The launch of the Next Audience Platform is scheduled towards the end of the year and, if successful, could contribute to considerable earnings growth over the next few years. This is not reflected in the P/E rating which, excluding the platform investment, trades at a marked discount to peers despite the current growth momentum.

Very strong momentum in the agency business

As the leading independent e-commerce agency in Germany, SinnerSchrader is well positioned to capture the structural growth in the sector as companies increasingly prioritise their online media and e-commerce strategies to be more aligned with consumer media and spending habits. Over the last year, demand has been very strong, from both existing and new clients; in February, the group won the largest contract in its history, which has enabled it to report net revenue growth of more than 33% for the year to August and c +37% in Q4. For the full year, it expects to report EBITA of €3-3.1m, making FY14 the most profitable year in its history.

Next Audience DMP to launch later this year

Over the last few years, management has been investing (€1.5m forecast in 2014 and €0.9m in 2015) in the development of a data management platform - the Next Audience Platform. This platform enables brands to consolidate customer data gathered both on and offline to present a holistic picture of a consumer for advertising and marketing purposes. It has been running in pilot mode since the end of January and is scheduled for commercial launch towards the end of the year. The platform has some unique qualities and in pre-marketing has generated strong interest from potential customers. If commercial launch proceeds to plan, this platform could provide a strong catalyst to the group's overall growth over the coming years.

Valuation: Does not reflect the Next Audience potential

The share trades on a P/E of 15.4x FY15, broadly in line with peers. However, the rating does not take account of the investment in the Next Audience platform - excluding this investment it trades on 11.4x. Provided management can launch the platform towards the end of 2014 as planned, losses should quickly reduce, and provided growth continues in the agency business, it should drive a strong growth in overall profitability. Effectively, the investment in the Next Audience platform adds a near-term option value to the share.

Edison estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
08/2012	36.0	1.7	0.10	0.00	33.8	N/A
08/2013	36.4	0.7	0.02	0.00	169.0	N/A
08/2014e	48.1	3.0	0.14	0.00	24.1	N/A
08/2015e	51.7	4.0	0.22	0.00	15.4	N/A

Source: Edison Investment Research

Technology

Price	€3.38
Market cap	€39m

Share price performance

Share details

Code	SZZ
Shares in issue	11.2m
Net (debt)/cash (€) as at May '14	1m

Business description

SinnerSchrader is the largest independent digital agency in Germany, with over 500 employees. It has a strong franchise in e-commerce platform solutions and online sales and marketing services.

Bull

- Germany's largest e-commerce agency.
- Very strong momentum in agency business.
- Next Audience potential.

Bear

- Next Audience investment absorbing cash.
- Dependency on largest customers Deutsche Bank and Alliance (10% sales each).
- Little visibility into 2015.

Analyst

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EDISON

SNP AG

Specialists in enterprise resource planning (ERP) transformations

SNP Schneider-Neureither & Partner (SNP) swung firmly back onto the growth path in FY14. This follows a reorganisation of the group's sales and marketing functions in FY13, which drove a fresh focus on building the pipeline. The recovery began in Q413 and has continued into FY14, with such strong momentum that consultant utilisation has been full. The strategy remains to drive software growth to boost margins and a key focus is to broaden its T-B software capabilities to handle any-to-any transformations.

A strong bounce back in 2014

9m revenues jumped 41% to €22.5m, with professional services revenues up 33% to €17.0m and software rising 73% to €5.5m, boosted by a significant T-B deal with Russian Rail in Q1. The group swung back into profit, reporting EBIT of €0.6m (€3.0m loss in 9m13). In FY13 SNP struggled to win new business after two large deals were completed in FY12. Consultant utilisation rate has risen to 100% and SNP has begun an in-house training scheme to grow its consultant team, as it is difficult to acquire the right skills in the market. Also, SNP is building a near-shore unit in Spain.

Broadening SNP Transformation Backbone (T-B) to handle any-to-any transformations

SNP's T-B automates the process of combining, upgrading, or carving out data from ERP systems. The software speeds up the process, reducing consultant days. Further, it improves the transformation quality and is the only solution that has been accredited by both E&Y and PWC, which means it can significantly reduce auditing costs. M&A activity is a driver, as the ERP systems of acquired businesses will typically be integrated with the acquirer's IT system, while data of disposed businesses need to be "carved out". The focus has traditionally been on SAP-to-SAP transformations, and SNP has recently integrated SAP Data Services into T-B to enable other transformations. The development roadmap includes adding direct functionality for other transformations into T-B, starting with Oracle to SAP, which will further improve the process.

Valuation: Consensus forecasts point to software gaining traction

Management anticipates a strong Q4, and guidance is for FY14 revenues of €30m and mid-single digit EBIT margins, which could return to double-digit margins in FY15 as software sales gain traction. Given that the market size is very large, with a huge opportunity to integrate various ERP systems across enterprises or upgrade them to newer systems, and that SNP is also expanding its presence into the US, we believe the outlook for SNP is very promising. Hence, on our view, 1.1x consensus FY15e EV/sales, and 7.6x EBITDA, appear undemanding.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/2012	27.2	2.9	0.53	0.24	23.7	1.9
12/2013	23.5	(2.8)	(0.65)	0.08	N/A	0.6
12/2014e	30.8	1.6	0.29	0.18	43.3	1.4
12/2015e	36.7	4.3	0.76	0.25	16.5	2.0

Source: Thomson Reuters

Technology

Price €12.55
Market cap €47m

Share price performance

Share details

Code	SHF
Shares in issue	3.7m
Net (debt)/cash (€) as at Sep '14	4m

Business description

SNP is a software and consulting business focused on supporting customers in implementing change, and rapidly and economically tailoring IT landscapes to new situations. It has developed a proprietary software product called SNP Transformation Backbone (T-B).

Bull

- T-B software offers improved efficiency and accuracy.
- Broadening the functionality to include any-to-any transformations.
- Utilisation rates are now c 100%.

Bear

- The group was loss-making in FY13.
- Software sales cycle can be long and lumpy.
- Recruiting challenges in consulting.

Analyst

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EDISON

Thin Film Electronics

Ubiquitous computing

Thinfilm has developed technology in the field of printed electronics that enables it to incorporate intelligence into high-volume disposable items. The range of potential applications is vast and it has already demonstrated a printed, NFC-enabled, temperature sensor label that could be used for product-level packaging. The goal is to demonstrate scale production and then license the technology to third parties. Provided this is successful, Thinfilm should be able to generate substantial high-margin recurring revenue.

Transitioning to production

Thinfilm's revenue to date is predominantly from technology access fees and development grants. It received its first commercial orders for products in H213; the products were delivered in H114, but volumes are still relatively small. It aims to obtain licensing partners or form a joint venture to start the process of production scale-up by the end of 2014. This will be a key stage in the commercialisation of the technology and should drive a step-change in revenue from FY15 onwards.

Printed timers, sensors and NFC tags

Thinfilm works with its partners to develop applications such as temperature sensor tags for food and pharmaceuticals, timer labels, brand protection labels and NFC tags. Its partners are global companies such as Brady and Bemis, which could help Thinfilm achieve high volume very quickly if the production is proven in scale. The brand protection product has been delivered to customers in small scale, but the smart wireless tags are expected to be key to driving earnings growth as a result of their innovative and higher value-adding applications.

Valuation: High growth potential

Thinfilm's valuation is predicated on a high level of sales growth driven by scale production by licencees and/or joint ventures. The nature of the applications (intelligent product labels) means that volumes and revenues could ramp up very quickly and so the high growth forecasts (particularly in FY16), although ambitious, are not unrealistic. Our base case DCF produces a valuation of NOK16.84 and the slower adoption scenario a valuation of NOK6.28.

Edison estimates

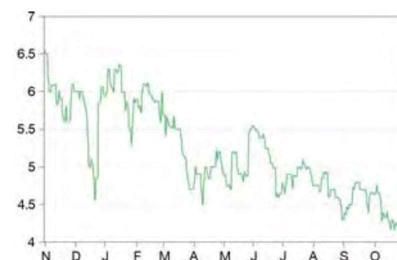
Year end	Revenue (NOKm)	PBT (NOKm)	EPS (NOK)	DPS (NOK)	P/E (x)	Yield (%)
12/2012	3.8	(42.0)	(0.13)	0.00	N/A	N/A
12/2013	11.5	(63.3)	(0.15)	0.00	N/A	N/A
12/2014e	29.3	(127.0)	(0.27)	0.00	N/A	N/A
12/2015e	145.1	(121.1)	(0.25)	0.00	N/A	N/A

Source: Edison Investment Research

Technology

Price	NOK4.16
Market cap	NOK1986m

Share price performance



Share details

Code	THIN
Shares in issue	477.5m
Net (debt)/cash (NOK) as at Jun '14	164.8m

Business description

Thinfilm is a leader in the development of printed electronics. It incorporates intelligence into high-volume disposable items using IP developed internally and licensed from partners. Products include temperature sensors, timer labels and NFC tags.

Bull

- High growth potential.
- Industry leader in transformational technology.
- Potential for high-margin, recurring licensing revenue.

Bear

- Technical development still required.
- High degree of uncertainty over forecasts.
- Not expected to be profitable until 2016.

Analyst

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TXT e-solutions

Growing international presence

TXT Perform has a strong position in end-to-end supply chain planning software for fashion and luxury goods and is looking to use its experience and the recent Maple Lake acquisition to grow its position in North America. TXT Next has a loyal customer base with business predominantly generated in Italy - it is looking to grow this business internationally where customers demand it, and is aiming to grow its automotive and rail businesses in Italy.

H114 results reflect Q2 slowdown; stronger H2 forecast

TXT reported revenue growth of 4.7% y-o-y in H114. TXT Perform grew 8.1% y-o-y whereas TXT Next saw a 0.1% decline. The higher proportion of service revenues resulted in a gross margin of 51.0% versus 52.8% a year ago. Q214 margins were also affected by non-recurring costs on two Perform projects. Consequently, the EBITDA margin dropped to 9.2% from 12.0% a year ago - we expect a full-year margin of 10.9% rising to 12.8% in FY15 on revenue growth of 4.5% and 9.9% respectively.

Growth strategy

The group plans to drive growth through greater internationalisation (more than 50% of revenues are generated outside of Italy already), cross-selling and product development. Post its acquisition of Maple Lake in North America, the company has opened a subsidiary in the US and made several senior hires to bolster the North American business. TXT may make bolt-on acquisitions in either division and has a strong balance sheet to finance this.

Valuation: Supported by strong cash position

TXT trades on a P/E of 21.3x FY14e and 15.7x FY15e normalised EPS. This is at a discount to global supply chain software vendors and at a premium to European IT services companies. The company has a strong cash position and we forecast a dividend yield of at least 3% for FY14 and FY15. To see upside from this point, we would need to see recent investment in North America driving new business, demand from the European retail market recovering, operating profitability improving or TXT Next returning to growth.

Edison estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/2012	46.5	4.2	0.37	0.20	21.3	2.5
12/2013	52.6	4.8	0.45	0.25	17.5	3.2
12/2014e	54.9	4.8	0.37	0.26	21.3	3.3
12/2015e	60.3	6.8	0.50	0.27	15.7	3.4

Source: Edison Investment Research

Technology

Price	**€7.87**
Market cap	**€93m**

Share price performance

Share details

Code	TXT
Shares in issue	10.4m
Net (debt)/cash (€) as at Jun '14	6.6m

Business description

TXT e-solutions operates through TXT Perform, providing software solutions to the international retail and consumer-driven industrial sectors; and TXT Next, providing IT, consulting and R&D services to Italian aerospace, manufacturing, banking and finance.

Bull

- Opportunity for growth in North America.
- Net cash position.
- Strong market position in fashion and luxury goods.

Bear

- TXT Next reliant on Italian market.
- Currency exposure.
- Large competitors.

Analyst

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EDISON

Wincor Nixdorf

IT solutions for retail banking and retail

Wincor Nixdorf is one of the top two providers of ATMs and electronic point of sale (EPOS) systems globally. As the retail banking and retail sectors in Europe remain under pressure, management is seeking to deliver growth through product innovation, increased penetration of emerging economies and the development of high-value services.

Temporary stalling in certain emerging markets

For the nine months ended June 2014, sales declined by 2% year-on-year to €1,803m. Revenues from the banking segment (63% total) fell by 7% while revenues from the smaller retail segment rose by 7%. EBITA was unchanged at €92m. Gearing was stable at 33% at the end of June 2013. Greater penetration of emerging markets remains a core element of management's strategy. However, demand from these markets was lower than expected. Firstly, business performance in these regions was affected by a sustained deceleration of economic momentum. Secondly, depreciation of local currencies in some key emerging markets affected customers' purchasing power. Sales to Europe outside Germany (47% of total) fell by 9% because of a downturn in emerging European markets. Sales to the Asia/Pacific/Africa region (18% of total) were flat. Sales to the Americas (12% of total) rose by 18% in US dollar terms, but only 12% in euros.

Continued focus on product innovation

Wincor Nixdorf is about to release a TP.net 5.5, a major expansion of the software portfolio that is designed to support the omni-channel strategies increasingly adopted by retailers. The TP.net 5.5 is part of the modular TP application suite, which is installed in over 200,000 checkout systems in over 70 countries. The acquisition of DATEC Retail Systems, a provider of e-commerce software for €5.0m in January 2014, has helped strengthen the retail software portfolio. The shift to online banking requires retail banks to modernise their IT structure to provide greater efficiency and higher levels of customer service in bank branches. Wincor Nixdorf's software and service portfolio will enable it to benefit from this transformation process.

Valuation: Trading at a discount to main competitor

The shares have fallen from a high of €58.07 and are trading on prospective EV/EBITDA multiples that are at a discount to those for NCR Corporation. This indicates potential for share price appreciation as the currency headwinds abate.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
09/2012	2343.0	89.7	2.10	1.05	17.4	2.9
09/2013	2465.0	124.3	2.93	1.48	12.5	4.0
09/2014e	2464.5	140.7	3.30	1.70	11.1	4.6
09/2015e	2545.6	146.2	3.48	1.77	10.5	4.8

Source: Thomson Reuters

Technology

Price	€36.63
Market cap	€1212m

Share price performance

Share details

Code	WIN
Shares in issue	29.8m
Net (debt)/cash (€) as at Jun '14	(129m)

Business description

The banking segment offers ATMs and other hardware, software and services for banks. The retail segment provides EPOS systems, automated self-checkout systems, cash management systems and associated software and services. 46% of revenues are from hardware (nine months ended Jun14), 54% software and services.

Bull

- Retail banking growing in economies such as Asia, Africa and Latin America.
- Ranked first in Europe and second worldwide for volumes of ATMs and EPOS systems shipped.
- Half of net income generated paid out as dividend.

Bear

- Retail banking in Europe, which remains Wincor Nixdorf's largest market, continues to be subdued.
- Retail banking transitioning to mobile formats.
- Adverse currency movements holding back sales to developing countries.

Analyst

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Oil & gas

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Activa Resources

High growth potential in Woodbine oil-rich formation

Activa Resources is a Frankfurt-listed, Texas-based E&P company with assets in the Woodbine/Eaglebine play, a growing tight/shale oil play in Texas. Activa owns 3,600 net acres in the play's sweet spot, 2P reserves of 8.5mmboe and production of 270boe/d in 2013, most of it oil. Its strategy is to grow organically and selectively monetise assets after initial de-risking. Output is expected to increase tenfold in the medium term from its large drilling inventory, with upside from stacked horizons and downspacing.

Woodbine: High-potential oily trend

The Woodbine is a well-known, primarily conventional trend in East Texas of late Cretaceous age that is being rejuvenated by horizontal drilling and fracking. It has multiple conventional (albeit tight) and unconventional drilling objectives, primarily the Woodbine sandstone and the overlying Eagleford shale, but also the Austin Chalk, the deeper Dexter sands and Buda-Georgetown limestones. Activa's main asset, OSR-Halliday (77% of production in H114), is in the sweet spot of the Woodbine play. The play is mostly oil prone (c 80%). Companies operating in the Woodbine include US independents (eg EOG, Encana and Devon) and small operators, eg Activa, Contango Oil & Gas, Hawkwood Energy and ZaZa Energy.

Rapid growth from low base

Activa has drilled eight horizontal wells in its OSR-Halliday acreage since its acquisition in 2007. Activity is accelerating with three wells drilled year to date, one well spudding in Q414 and at least four in 2015. Horizontal well results have been encouraging so far, with stabilised initial flow rates in a range of 340-800boe/d and average estimated ultimate recovery (EURs) of 350-500mmboe. Activa is in the process of proving up 19-24mmboe of economically recoverable reserves in the Woodbine. The company has identified more than 50 horizontal well locations in the Woodbine alone, with stacked pay upside in the Eagleford, the Dexter and other formations. Given its large drilling inventory and potential from downspacing, Activa aims to grow production tenfold in the next few years, from 270boe/d in 2013 to 3,000boe/d.

Valuation: Potential OSR deal to provide upside

Activa had net debt/capital employed of 77% at end-June 2014. 2013 organic capex was €3.5m, funded through operating cash flow of €0.8m and debt issuance of €2.0m. Its strategy is to grow organically and selectively monetise projects after initial de-risking. Activa has been approached by several parties interested in OSR-Halliday, but prefers to develop the asset further before divesting. Activa appears to be undervalued as its current market capitalisation of €11.0m ($14m) is materially below its 2P reserves PV-10 of €148m ($188m).

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/2012	4.9	(0.8)	(0.15)	0.00	N/A	N/A
12/2013	5.3	0.1	0.02	0.00	103.0	N/A
12/2014e	6.6	0.4	0.10	0.00	20.6	N/A
12/2015e	8.0	1.2	0.21	0.00	9.8	N/A

Source: Thomson Reuters

Oil & gas

Price	€2.06
Market cap	€11m

Share price performance

Share details

Code	NXI
Shares in issue	5.2m
Net (debt)/cash (€) as at Jun '14	(11.3m)

Business description

Activa Resources AG is a Germany-based company engaged in the discovery, acquisition, development and exploitation of oil and natural gas properties in the US. The company focuses on producing petroleum and natural gas products and is engaged in a variety of onshore oil and gas projects in Louisiana, Arkansas and Texas.

Bull

- Position in sweet spot of Woodbine.
- Mostly oily play.
- Potential sale of OSR-Halliday.

Bear

- Restricted equity funding ability.
- High gearing ratio.
- Small size in a business driven by efficiency and scale.

Analyst

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TransGlobe Energy

Egyptian focus, asset-backed plus growth

TransGlobe Energy holds producing assets in Egypt and Yemen, with production from both regions at c 16.5mb/d for Q214 and annual production expected to average 16.2mb/d. We see TransGlobe Energy (TGA) as having developed a strong production hub in Egypt, with processing and export facilities in place, surrounded by highly prospective exploration acreage on all sides. In this acreage we expect positive newsflow from an 18-well exploration programme currently underway, in addition to the identification of further prospects from the company's ongoing 3D seismic programmes covering the area.

Maintaining a material production base

TGA's Egyptian assets are the focus of group activity with 16mb/d of current production coming from West Gharib (10mb/d), West Bakr (5.2mb/d) and East Ghazalat (800b/d). These licences will effectively be fully developed on completion of this year's 48-well development programme. From 2015 onwards, the company will be engaged in arresting production decline in its developed fields and growing production in the adjacent new lands.

Significant exploration potential

TGA has a fully funded, 18-well exploration programme underway at its highly prospective North West Gharib licence, close to producing licences West Bakr and West Gharib. With three wells completed, the 18-well programme has already logged two oil discoveries and targets a total 58.4mmbbl of prospective resources.

Future deals could replicate Egyptian success

We see TGA as funded beyond its capital requirements in Egypt, holding c US$110m gross in cash and US$182.7m receivables at end June 2014; hence we view M&A activity as likely. However, we would stress that future deals are likely to be geared towards exploiting the group's competence in applying secondary recovery techniques rather than targeting outsized, high-risk exploration.

Valuation

We are yet to initiate on TransGlobe Energy, therefore we are unable to provide a valuation at this time.

Consensus estimates

Year end	Revenue ($m)	PBT ($m)	EPS ($)	DPS ($)	P/E (x)	Yield (%)
12/2012	317.7	175.8	1.16	0.00	3.7	N/A
12/2013	315.3	143.9	0.79	0.00	5.5	N/A
12/2014e	296.6	131.2	0.89	0.18	4.9	4.1
12/2015e	302.9	118.1	0.96	0.20	4.5	4.6

Source: Company accounts, Thomson Reuters

Oil & gas

Price	US$4.34
Market cap	US$325m

Share price performance

Share details

Code	TGA
Shares in issue	74.9m
Net (debt)/cash ($) as at Jun '14	21.2m

Business description

An exploration and production company with producing assets in Egypt (16,000b/d) and Yemen (200b/d). The group currently has an active 18-well exploration programme underway adjacent to its producing licences in Egypt targeting 58.4mmbbl of prospective resources.

Bull

- Material existing production base.
- Fully funded exploration programme underway.
- Strong balance sheet with $110m in cash (gross).

Bear

- Geographic concentration.
- Balance sheet strength suggests high reinvestment risk.
- Payment schedule for $182.7m receivables balance due from EGPC uncertain.

Analyst

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