

Scherzer & Co

Asset management

14 September 2021

H121 NAV return above market average

Scherzer's (PZS's) NAV increased 28.2% to end-August 2021 in total return terms, vastly outperforming the German equity markets, where the main indices posted 15–17% gains. The H121 EPS was 48% higher year-on-year at €0.14 per share, despite a higher base as a result of the one-off gains from the conclusion of the AXA case, which was accounted for in H120. Owing to strong results, PZS reintroduced a dividend pay-out, distributing €0.05 per share (ex-div in May 2021), implying a yield of 1.6%.

Continuation of strong results

PZS reported €4.1m net income in H121, up 48% y-o-y. The drivers of the strong results included a €4.9m net gain on trading (H120: €0.1m loss) and a €1.0m net gain on the currently-held portfolio (€4.9m write-downs in H120). Notably, PZS recognises gains on its portfolio only on disposal, owing to its accounting policy (holdings can appreciate back to original cost from previous write-downs). This may lead to the financial statement results not fully reflecting portfolio developments. In H121, NAV (reported at the actual value of the portfolio) increased 20%, whereas the book value of equity rose 4%. H221 results will include the recent squeeze-out at MAN, with a c €5m pre-tax profit.

'Hidden value' in ECS portfolio

At end-August 2021, PZS's extra compensatory claim (ECS) portfolio was €120m (FY20: €112.6m), which is likely to increase by €14m with the squeeze-out at MAN. ECS represents ongoing court cases, where PZS is attempting to prove the squeeze-out was priced below fair value. The portfolio value is presented in the amount of initial squeeze-out value and not in PZS's NAV. Any successful conclusions could act as a potential value kicker. In H121, PZS reported a €1k gain from ECS (H120: €5.7m) as the €2.6m Sky Deutschland case concluded without compensation.

Valuation: Discount to NAV and equity markets

PZS's shares have been trading close to par for several years but the discount widened in early 2020, and is currently at c 13% to end-August 2021 NAV. We believe the narrow discount could have reflected the market expectation of AXA case success, which materialised in H120. Although PZS trades at a 25% discount to German equity indices on FY21e P/E ratio, the actual figure may be higher as we believe consensus may be out of date.

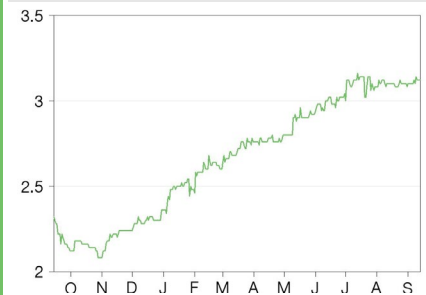
Consensus estimates

Year end	Revenue (€m)	EBITDA (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/19	5.2	(2.1)	(0.08)	0.00	N/A	0.0
12/20	21.2	9.3	0.42	0.00	7.4	0.0
12/21e	6.9	5.6	0.20	0.05	15.8	1.6
12/22e	7.1	5.8	0.21	0.05	15.1	1.7

Source: Scherzer & Co, Refinitiv consensus based on estimates from three analysts (EPS, DPS), two analysts (Revenue), and one analyst (EBITDA).

Price €3.12
Market cap €93m

Share price graph



Share details

Code	PZS
Listing	Deutsche Börse Scale
Shares in issue	29.9m
Last reported net debt as at end H121	€16.7m

Business description

Scherzer & Co invests its funds mainly in domestic equities. It looks for companies that are unknown or unloved, and special situations. The focus is on special situations, where the downside is perceived to be limited. In addition, it acquires value stocks, mainly below book value. These stocks need to demonstrate strong business models.

Bull

- Strong management, well known in the market.
- 'Hidden' NAV driver through extra compensatory claims, albeit with binary outcomes.
- Well diversified portfolio with attractive risk/return pattern, built over a number of years.

Bear

- Dependent on market environment.
- Still relatively small.
- For the strategy, market size is limited.

Analyst

Michal Mordel +44 (0) 20 3077 5700

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

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

Financials: 50% y-o-y increase in EPS

In H121, PZS's net income increased 48% y-o-y, predominantly because of net gains on trading in securities (including derivatives), which amounted to €4.9m compared with €0.1m loss in H120. We note that comparable H120 results benefitted from the successful conclusion of the AXA ECS case (c €8.5m pre-tax profit, of which €5.7m gains were from instruments and c €2.8m was interest income). The net impact of write-downs and reversals additionally amounted to a €1.0m gain compared with €4.9m loss in H120. PZS benefitted from healthy equity market performance. The DAX index increased 13.2% in H121 versus a 7.1% decline in H120, owing to challenges caused by the COVID-19 pandemic. In H121, PZS also recognised €0.9m income from dividends compared with €0.3m in H120 – while significantly higher year-on-year, the increase was from a low base as companies chose to mostly secure their liquidity needs in H120 instead of opting for distributions.

Operating costs increased 87% y-o-y to €2.7m, predominantly attributable to €1.8m provisions for employee bonuses made in H121 following strong results. Net financial cost was €0.07m compared with €3.4m income in H120, which stemmed from the AXA case. As a result, net income was €4.1m (H120: €2.8m). We note that after the reporting date, the squeeze-out at MAN was concluded and PZS will recognise c €5m gain on the transaction in H221.

In H121, PZS did not report significant gains on its ECS portfolio (€1k) as none of the ongoing larger cases reached conclusion. The ECS represents positions where PZS was squeezed out by a majority shareholder and PZS is attempting to prove in court the squeeze-out was priced below fair value. When successful, PZS receives compensation for the difference, which acts as a potential value kicker to PZS's NAV. Having said that, the legal proceedings are lengthy, and the outcome is uncertain. The latest successful case (AXA) took c 14 years to conclude.

At end-H121, PZS had net debt position of €16.7m, which implied a net debt-to-equity ratio of 24% (compared with 22% at end-FY20). The ratio was below PZS's long-term average of 36% and will be strengthened by c €14m cash proceeds from the squeeze-out at MAN.

Exhibit 1: H121 results highlights

€000s, unless otherwise stated	H121	H120	y-o-y
Gains from financial instruments	6,864	9,950	(31%)
o/w securities	6,447	4,005	61%
o/w ECS	1	5,730	N/A
o/w derivatives and other	415	214	94%
Losses from financial instruments	(1,919)	(4,280)	(55%)
o/w securities	(713)	(3,100)	(77%)
o/w derivatives and other	(1,206)	(1,180)	2%
Result on financial instruments	4,945	5,670	(13%)
Other operating income (excluding value adjustments)	19	10	77%
Personnel expenses	(2,150)	(336)	541%
Other operating expenses	(532)	(1,104)	(52%)
Income from dividends	861	320	169%
Unrealised gains (losses)	1,023	(4,935)	N/A
EBIT	4,165	(374)	N/A
Other interest and similar income	13	3,465	(100%)
Interest and similar expenses	(81)	(93)	(13%)
EBT	4,097	2,998	37%
Income and other taxes	(21)	(235)	(91%)
Net profit for the period	4,077	2,763	48%
EPS (€)	0.14	0.09	48%

Source: Scherzer & Co accounts, Edison Investment Research

Squeeze-out of largest portfolio holding in H221

PZS invests in companies that management believes are undervalued owing to lack of understanding by the general market. It focuses on companies with difficult-to-evaluate business models and companies undergoing restructuring or M&A. It also positions itself in the shareholding structure of the company in anticipation of a squeeze-out to strengthen its ECS portfolio. PZS categorises its portfolio into two pools: 'opportunistic', with growth stocks and those with disruptive business models and companies in other special situations, which represented 47% of the portfolio at end-H121; and 'safe', comprising companies with high asset quality and sustainable earnings, which also includes squeeze-out candidates (53% of the portfolio).

PZS's portfolio is concentrated, with the 10 largest positions representing 52% of its portfolio, and is focused on stocks with limited trading volume. That said, portfolio value development rarely reflects broader market trends in the short term. In the long term, however, it aligns with the trajectory of the German equity markets, with nine-year NAV total return (to end-August 2021) at 13.8% pa, 4.3pp over the DAX (0.2pp and 1.1pp below MDAX and SDAX, respectively).

At end-August 2021, the largest portfolio holding was MAN, representing 10.3% of the portfolio. On 31 August 2021, TRATON successfully completed the squeeze-out of MAN shares, which is likely to be reflected in its end-September ECS portfolio. The transaction resulted in €14m cash inflow to PZS and €5m gain on disposal to be recognised in H221. Also, in Lotto24 (4.5% of portfolio value), the majority shareholder (ZEAL Network, 93% shareholding) recently announced a delisting purchase offer at €381 per share.

The second-largest position in PZS's portfolio is Rocket Internet (7.7%), which is also a squeeze-out candidate, with the take-private process first beginning in September 2020. The company is a start-up incubator focused on internet-based businesses globally, with current market capitalisation at c €3.1bn. After the initial repurchase offer (carried out by Rocket Internet itself), Global Founders owns 62% of the shares, which are traded on the Hamburg Stock Exchange. The remaining shares are held by Elliott International (19.0%) and Merrill Lynch (8.3%), as well as smaller shareholders including PZS. PZS estimates the current equity value per share amounts to c €39.00, while initial repurchase offer was carried out at €18.57 per share.

PZS's largest holdings have remained broadly the same since [our last report in April 2021](#). In the top 10, there are three 'opportunistic' stocks that are characterised by higher liquidity. Freenet shares delivered 27% year to date return as it delivered growth in its results and increased its FY21 EBITDA guidance and GK Software's share price increased 69% in the year to date as it delivered a fourfold year-on-year rise in operating profit in H121 and confirmed its 2023 target. However, ZEAL **Network** shares decreased 12% over the year to date.

Exhibit 2: PZS's top 10 holdings

Company	% of total (Aug 21)	% of total (Aug 20)	Change (pp)	Opportunistic/safe
MAN	10.3	9.2	1.1	Safe
Rocket Internet	7.7	N/A	N/A	Safe
Allerthal-Werke	6.6	4.6	2.0	Safe
GK Software	5.3	8.5	(3.2)	Opportunistic
Lotto24	4.5	3.7	0.8	Safe
freenet	4.4	8.0	(3.6)	Opportunistic
RM Rheiner Management	3.5	N/A	N/A	Safe
Weleda	3.3	3.8	(0.5)	Safe
Kabel Deutschland Holding	3.3	N/A	N/A	Safe
ZEAL Network	3.2	4.3	(1.0)	Opportunistic
Total top-10 holdings	52.1	63.8	(11.7)	-

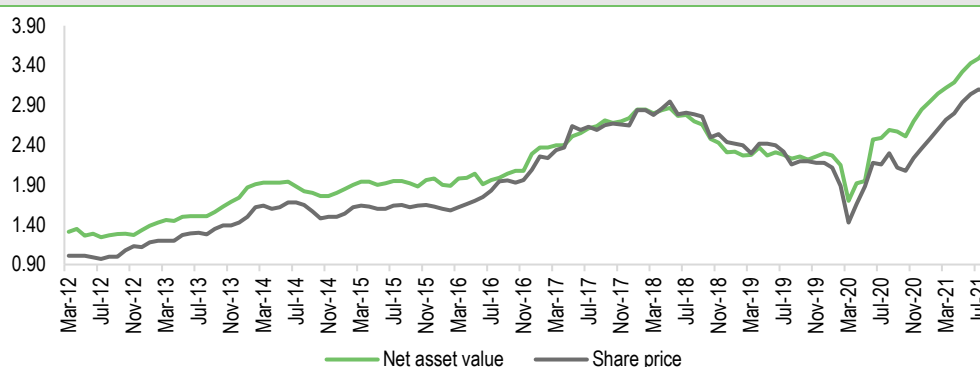
Source: Scherzer & Co, Edison Investment Research. Note: *Top 10 holdings at end of August 2020.

The ECS portfolio was €110.1m at end-August 2021 versus €112.6m at end-FY20. This was attributable to the €2.6m Sky Deutschland case (started in September 2015), which concluded with no additional compensation for minority shareholders and was excluded from the portfolio. We highlight that PZS presents its ECS portfolio in the amount of received compensation on corporate action (mostly squeeze-outs), which has limited informational value for potential outcomes because they are difficult to predict. That said, the ECS portfolio is likely to be increased by c €14m due to the recently concluded squeeze-out at MAN. The values of the largest ECSs are Linde €22.8m, HVB €17.2m and Audi €16.9m.

Valuation: Trading at 13% discount

At end-August 2021, PZS's NAV per share was €3.60 after a strong 28.2% total return in the year to date. The share price of €3.12 implies a 13.3% discount. For the three years before the COVID-19-induced sell-off, PZS's shares traded at par on average. The current discount may seem relatively high, but we should emphasise that the AXA case accounted for 20% of the ECS portfolio (€25.6m) at end-FY19 and its potential was realised in H120. We believe positive newsflow related to currently owned ECS may contribute to a narrowing in the discount in the future.

Exhibit 3: PZS's NAV per share and share price comparison (€)



Source: Scherzer & Co accounts

Although there is no appropriate peer group, we note that PZS shares delivered a year-to-date return to 3 September of 33.6%, sharply outperforming the German equity indices; the DAX, MDAX and SDAX delivered returns between 15.0% (DAX) and 17.1% (MDAX). PZS trades at a 13% discount to the indices' average on FY22e P/E multiple, which is considerably lower than its historical value. However, it is unlikely PZS's consensus estimates (published in April to June 2021 by three analysts) reflect the strong H121 results and recent developments. To put that into perspective, FY21 net income consensus stands at €5.8m, whereas PZS reported H121 net income at €4.1m and recently announced that H221 figures will include gain on the MAN squeeze-out at c €5m pre-tax. PZS trades on FY22e P/BV ratio of 1.2x, a 32% discount against indices, and in line with the long-term average 42% discount.

Exhibit 4: Comparable market P/E ratios (x)

	2016	2017	2018	2019	2020	2021e	2022e
DAX	19.3	15.4	14.4	23.2	42.7	14.5	13.7
MDAX	17.5	16.8	15.5	27.0	loss	30.8	21.7
SDAX	24.0	18.1	16.4	29.4	76.6	18.2	16.4
Arithmetic average	20.3	18.5	15.4	26.6	59.6	21.2	17.2
PZS	14.0	10.2	loss	loss	7.4	15.8	15.1
PZS discount	31%	45%	N/A	N/A	88%	25%	13%

Source: Refinitiv on 7 September 2021, PZS reports. Note: PZS forecast is Refinitiv consensus based on three analysts. P/E ratios based on year-end prices, forward ratios based on current prices.

General disclaimer and copyright

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

Edison Investment Research standard fees are £49,500 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of Liability: To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out or in connection with the access to, use of or reliance on any information contained on this note.

No personalised advice: The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Investment in securities mentioned: Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Copyright: Copyright 2021 Edison Investment Research Limited (Edison).

Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

United States

Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

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

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

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

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