

**RINGMETALL AG**

HP3 GY | 24 July 2019

Industrials
Germany

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OUTPERFORM

Price Target: EUR 5.00

FLASH: A profit warning with opportunities

Ringmetall issued a profit warning today. The revenue guidance for FY-19E was cut from EUR 120-130m down to EUR 115-125m. A reduction of 4% at the mid-point. However, the old guidance did not include the contribution of the Tesseraux acquisition, which was consolidated from 1st July. Excluding the contribution of Tesseraux, which we estimate will be around EUR 5m, the cut is more in the region of 8%.

The reduction of the EBITDA guidance is clearly more pronounced, as the target is cut from EUR 12-14m down to EUR 8.5-11m, a reduction of 25% at mid-point, which reflects Ringmetall's high operating leverage. Once again, adjusted for Tesseraux, which we estimate should add c. EUR 0.5m to FY-19E EBITDA, the new EBITDA target is c. 29% below the old one at mid-point.

While clearly severe in nature, the profit warning should not come as a big surprise, post the series of profit warnings in the chemical industry over recent weeks, followed by a warning by Jungheinrich, a major customer in the (arguably less important Industrial Handling division). Hence, we believe that investors likely anticipated a profit warning and we do not believe that the share price reaction will be as pronounced as the EBITDA guidance cut.

We note two other facts that may make today's profit warning a good entry point: Firstly, from our conversation with Ringmetall, we understand that recent talks with its major customers in the chemical industry revealed that the overall economic situation may not be as the recent profit warnings may suggest. Secondly, the current weakness in the industry might even prove beneficial in the mid- to long-term: We remind investors that Ringmetall's equity story is predominantly based on M&A-driven product portfolio expansion and market consolidation. Funding for a further EUR 70m revenues has been secured, and with declining valuations in the sector, Ringmetall may be able to acquire suitable companies at lower prices.

Lastly the positive effects from the Tesseraux acquisition, one month ago, has gone almost unnoticed with investors and, therefore, is not adequately reflected in current share price levels, in our view.

There will be a conference call tomorrow at 8:30am CEST. Dial-In details are [available online](#) and the PIN is 42524380#. Next important news will be the preliminary Q2 results in the first week of August.

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|-------------------|------|
| LAST CLOSE (EUR) | 2.73 |
| MKTCAP (EUR m) | 77 |
| UPSIDE (%) | 83.2 |
| DAILY T/O (EUR m) | 0.03 |

| YEAR TO DEC (EUR M) | 2018 | 2019E | 2020E | 2021E |
|---------------------|------|-------|-------|-------|
| Group revenue | 111 | 122 | 128 | 134 |
| EBITDA (adj.) | 10 | 13 | 15 | 17 |
| EBIT (adj.) | 8 | 11 | 13 | 15 |
| EPS (adj.) (EUR) | 0.17 | 0.24 | 0.28 | 0.32 |
| DPS (EUR) | 0.06 | 0.06 | 0.07 | 0.07 |
| FCF | 3 | 3 | 5 | 7 |
| Net debt (cash) | 11 | 10 | 7 | 2 |
| RoIC (%) | 12.4 | 15.6 | 16.7 | 17.1 |
| P/E (adj.) | 23.0 | 11.6 | 9.71 | 8.50 |
| EV/EBITDA (adj.) | 11.9 | 6.53 | 5.50 | 4.71 |
| Free CF yield (%) | 2.8 | 4.2 | 6.9 | 8.5 |

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Flash formats do not involve any estimate, price target or rating changes.