

7 January 2020

Buy

PT: €3.50

Key data

Price (6 January 2020)	€2.68
Upside To Price Target (%)	30.6
Market Cap (m)	78
Free float (%)	32.0
Daily Value Traded (m)	0.1
Next Report Date	Mar 5 2020 1
Nb of shares (m)	29.07
1mth perf (%)	(9.4)
3mths perf (%)	(5.8)
12mths perf (%)	(9.4)
12mth high-low (€)	4 - 2

Key financials

(In EUR M)

Year to Dec	2018A	2019E	2020E
Group revenue	111	120	126
EBITDA (rep.)	10.4	10.4	13.7
EBIT (rep.)	8.28	6.14	9
EPS (adj.) (€)	0.17	0.11	0.18
EPS (cons.) (€)	0.0	0.14	0.22
DPS (€)	0.06	0.06	0.07
Net debt/(cash)	11	33	30
ROCE (NOPAT) (%)	12.8	6.8	9.8
EPS (adj.) y/y (%)	(37.3)	(32.5)	59.2
Net debt/EBITDA	1.09	3.20	2.15
EV/Sales	0.70	0.85	0.78
EV/EBITDA (adj.)	7.4	9.8	7.2
EV/EBIT (adj.)	9.4	16.6	10.9
P/E (adj.)	16.1	23.8	15.0
Dividend yield (%)	2.2	2.2	2.6
Free CF yield (%)	4.1	2.0	5.2
EV/CE	1.21	1.13	1.07

Price is intraday 7 January at 10:15am CET.

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All sources unless otherwise stated: Company data, FactSet, MainFirst estimates

Share price performance (indexed)



Further clamping ring deal: Sorini Ring (USA)

Key Points

Ringmetall announced the acquisition of the Chicago based Sorini Ring, an American clamping ring manufacturer.

- With USD 6m (EUR 5.4m) in revenues, we estimate the deal would add c. 4% to our Ringmetall 2020E revenue estimate (EUR 125.6m) on completion.
- EBITDA contribution is significantly below Ringmetall group-average and should increase to comparable levels in the medium term, in our view. We estimate Ringmetall's Industrial Packaging segment to reach an EBITDA margin of 12.8% prior to completion.
- Sorini should be consolidated from 1 January 2020 through the US-based Self Industries, with the transaction costs of EUR 50k accounted for in 2019.
- The reasoning behind the deal is not only to achieve further consolidation in the clamping ring business, but to broaden Ringmetall's customer base, especially for drum reconditioners in the US.
- The exact size of the deal has not been disclosed, however based on historic deal multiples of between 6x EBITDA and 8x EBITDA, we believe a purchase price of between EUR 1m and EUR 2m is reasonable.
- Consensus seems to anticipate ongoing M&A activity for Ringmetall, but has yet to factor in any impact from this deal. We expect revenue estimates to increase by c. 4% in 2020E on completion, with the impact on EBITDA and EPS limited to very low single digit upward revisions, given the low profitability of Sorini.

We like the acquisition, as we believe it will strengthen Ringmetall's position in the Industrial Packaging market by expanding its market share and allowing it to gain new reconditioner customers, which could act as a catalyst for further business.

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All relevant disclosures and certifications appear on pages 3 - 6 of this report.

Company Snapshot

Investment case summary

Coming from the clamping ring and accessories business, Ringmetall is now extending its product portfolio in the broader industrial packaging business. With the acquisitions of Nittel and Tesseraux, Ringmetall entered the inliner business, which is concentrated more heavily in pharma and food. This makes the company's business more diversified and more profitable.

We believe that the company will continue its journey of successfully integrating new businesses and companies in the current structure. The ongoing consolidation driven by Ringmetall should be beneficial for top-line development, scaling, pricing and profitability. M&A is a central point for the company's strategy and our investment case.

Ringmetall combines high management ownership with extensive experience in M&A deals with very good market shares in the existing business.

Target price methodology

We apply a peer-group based sum of the parts valuation for Ringmetall. We use 2020E based multiples and equally weight the P/E, EV/EBITDA and EV/Sales to arrive at our final target price.

Risk to our valuation and rating

Despite dominating the clamping ring market and having a strong position overall in the industrial packaging market, possible risks to Ringmetall and our investment case are:

- Sustained slowdown in the chemicals industry's development
- Fewer cost synergies coming from the ongoing and planned acquisitions than initially expected
- Competition starts taking material market share from Ringmetall, through a higher quality product or aggressive pricing
- Growing too fast through acquisitions. Management and integration of the new companies overstretches Ringmetall
- Financing of new and big deals in particular could become difficult and eventually become too much of a burden for Ringmetall

Key dates

FY-19 prelim results: 05.03.2020

AGM: 15.06.2020

Company description

Ringmetall is a leading global specialist supplier to the industrial packaging industry with a primary focus on the chemicals industry. The company focuses on the production and distribution of high quality and customised packaging elements designed to meet the specific needs of its customers. Ringmetall also develops and manufactures mounting systems for special purpose vehicles in the areas of logistics and warehouse logistics. Consequently, the company reports in the two segments Industrial Packaging and Industrial Handling.

With the acquisition of Nittel in 2018 (first consolidated from 01.01.2019 onwards) and Tesseraux in 2019 (first consolidated from 01.07.2019 onwards) Ringmetall extends its portfolio in the Industrial Packaging segment for inliners made from plastic or aluminium.

Key products, clients and end markets

Ringmetall's core product is the clamping ring to seal open-top drums securely. The product range here includes mass produced standard products and small batch speciality rings. In total the company offers over 2,000 different clamping rings, featuring different materials, with steel being the most important. Clamping rings are not eligible for multiple use, hence there is a regular replacement cycle. In addition to clamping rings, the company offers accessories around the drum, however never the drum itself. The inliner business, (simplified: plastic bags for drums) is a rather new business to Ringmetall. The Industrial Handling business manufactures several additions and speciality parts for the forklift and agricultural machinery business.

Ringmetall's two biggest customers in the Industrial Packaging business are Greif and Mauser, two American/European drum manufacturers. Additionally, Ringmetall delivers its products to end customers like BASF, the chemicals industry in general, but also pharma and food companies which have contracts with Ringmetall. In the Industrial Handling business, Jungheinrich and Kion are the biggest customers of Ringmetall's products.

Currently, the single most important sector for Ringmetall is the chemicals industry, accounting for roughly 60% of sales. Here, BASF is a key customer. However, not all of that exposure is directly coming from the chemicals industry, but routed through the drum manufacturers. Further important markets are the food and beverage industry in general, as well as breweries in particular. Furthermore, the pharmaceutical industry plays an important role, since regulatory requirements provide Ringmetall with higher margins in that business.

Key shareholders

Management Pool: 55%

Senior management

CEO: Mr Christoph Petri

COO: Mr Konstantin Winterstein

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Ringmetall AG (HP3 GY) as of January 06, 2020 (in EUR)



*Represents the value(s) that changed.
Buy=B; Hold=H; Sell=S; Discontinued=D; Suspended=SU; Discontinued=D; Initiation=I

For a price chart with our ratings and any applicable target price changes for HP3 GY go to <http://stifel2.bluematrix.com/sellside/Disclosures.action?ticker=HP3 GY>

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