3 September 2014

Max Automation AG

Germany/Industrial Engineering

Analyser

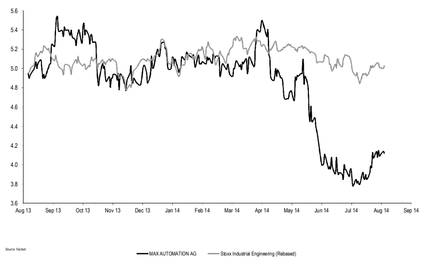
Buy

Recommendation unchanged

Share price: EUR	**4.12**
closing price as of 02/09/2014	
Target price: EUR	**6.00**
Target Price unchanged	
Reuters/Bloomberg	MAXG.DE/MXH GR

Market capitalisation (EURm)	110
Current N° of shares (m)	27
Free float	49%
Daily avg. no. trad. sh. 12 mth	24,810
Daily avg. trad. vol. 12 mth (m)	103
Price high 12 mth (EUR)	5.54
Price low 12 mth (EUR)	3.78
Abs. perf. 1 mth	8.99%
Abs. perf. 3 mth	-11.78%
Abs. perf. 12 mth	-14.70%

Key financials (EUR)	**12/13**	**12/14e**	**12/15e**
Sales (m)	270	379	424
EBITDA (m)	23	22	29
EBITDA margin	*8.6%*	*5.7%*	*6.7%*
EBIT (m)	17	16	20
EBIT margin	*6.3%*	*4.2%*	*4.7%*
Net Profit (adj.)(m)	10	9	12
ROCE	6.3%	5.8%	6.9%
Net debt/(cash) (m)	79	75	76
Net Debt/Equity	*0.8*	*0.7*	*0.7*
Debt/EBITDA	3.4	3.4	2.7
Int. cover(EBITDA/Fin. int)	12.1	6.4	7.7
EV/Sales	0.7	0.5	0.4
EV/EBITDA	8.6	8.1	6.2
EV/EBITDA (adj.)	8.6	8.1	6.2
EV/EBIT	11.7	11.0	8.8
P/E (adj.)	13.4	11.9	9.3
P/BV	1.4	1.1	1.0
OpFCF yield	*12.7%*	*2.7%*	*2.0%*
Dividend yield	*3.6%*	*3.6%*	*4.4%*
EPS (adj.)	0.38	0.34	0.44
BVPS	3.52	3.73	4.03
DPS	0.15	0.15	0.18



Shareholders: Günther Group 30%; DWS 7%; Stüber & Co. KG 6%; Baden-Württemb. Versorgungsanstalt 5%; Universa 3%;

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M'ment meeting supports our positive view

Facts: Yesterday we met Mr Fabian Spilker, new board member of MAX Automation. As CEO of the recently acquired AIM Group he is now member of the board (also responsible for capital markets communications) for around eight months. In our view he brings in a lot of fresh impulses without reversing everything.

Analysis: <u>Order development has been rather lively in recent weeks:</u> Recent results (2Q) had shown a much improved development of the operating business in all metrics. Sales growth and most importantly a strong improvement the operating profit were driven by high demand for "Industrial Automation (IA)" out of the automotive industry. This helped to more than offset the 15% yoy decline in 1H sales of "*Environmental Automation (EA)*" (includes *Vecoplan* and *BTD Behältertechnik*). With order intake of €94m in 2Q demand had been much improved vs 1Q. This positive development seems to have continued during recent weeks. Hence it looks like MAX continues benefitting from high demand out of the automotive industry but also from new customer gains in the area of automation solutions for the medical end-market.

<u>New strategic positioning of the group also by ways of harvesting the underlying synergies</u>: So far MAX is seen as a holding company of different activities. This shall be changes as MAX is likely to sharpen its profile by focussing on capabilities and competences around automation solutions for powertrain, gearboxes and steering (these are all major elements for reducing emission levels) and the medical end-market. This will also be supported by increases efforts to reap the underlying synergy potential (joint sourcing, international profiling, technology transfers) between the different activities. The strategic goal is to become acknowledged as an automation specialist rather than a holding company.

<u>Portfolio adjustments will start with small pieces but might end with selling the EA activities:</u> Together with the acquisition of AIM Group, Günther Holding (previous owner of AIM) became the new key shareholder (29.9%) of MAX whilst Mr Spilker was appointed as member of board of MAX. The outcome of the initial strategic analysis was that MAX will continue to bank on both activities "IA" and "EA" especially as the latter has much more potential in terms of profitability. The aim is to reap this potential which should take some time. Then it MIGHT however consider selling it. In the short-term m'ment seems aiming for a portfolio streamlining. We believe that MAX will divest its subsidiaries *EUROROLL* (sales '13: €12m) and *BTD Behältertechnik* (sales '13: €20m) as the latter is loss making (but offers the sales of real property) and doesn't fit into the group strategy.

<u>A stronger focus on profitability and capital efficiency:</u> Profitability levels of around 5-6% as witnessed in recent years are too low. A key focus will be on improving the profitability (a reasonable mid-term level is seen around 8% in terms of the operating margin) which will even mean some sales declines for some subsidiaries in the short-term (profit over volume). Besides the m'ment aims to bring down working capital levels and capital employed in order to improve capital efficiency which is one of the most important KPI's. Still MAX will strive for a business volume of around €500m p.a. in terms of sales over the mid-term.

Conclusion*: Results 1Q 14 had been strongly below expectations thus marking a weak start into the new year with postponements (in orders) and operating issues (unbalanced CU and workload). During 2Q the operating situation has improved strongly as MAX delivered a decent set of quarterly results. Hence we think that the weak 1Q has rather been an exception than a trend. With a (PER'14e and 15e of ~12x and ~9x) valuation is attractive and offers a discount vs. the sector of ~15-20% depending on the used metric and also marks a discount vs. the avg. valuation levels PER12m fwd of around 12x. Our DCF (WACC: 9% - mid-term operating margin of 6% - capex/ depr. of ~1x)* derives a FV of €6.3 p/sh. Buy!