



TWINTEC AG

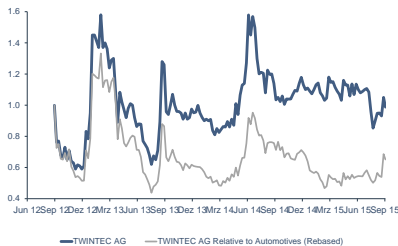
Buy → | Target price : 2.30 EUR

Price : 0.99 EUR | Upside : 133 %

Est.chg	2015e	2016e
EPS	-	-

Well positioned to benefit from ongoing exhaust emissions discussion

Friday 02 October 2015



Capital

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Market Cap (EURm)	45
Enterprise value (EURm)	59
Extrema 12 months	0.82 - 1.24
Free Float (%)	34.0

Performance (%)	1m	3m	12m
Absolute	9.8	-11.5	-6.0
Perf. rel. "sector"	11.9	-1.0	-7.6
Perf. rel. Automotives	21.2	19.7	-8.9

P&L	12/15e	12/16e	12/17e
Sales (EURm)	28.2	57.0	76.8
EBITDA (EURm)	-3.2	3.2	5.9
Current EBIT (EURm)	-7.5	0.4	2.1
Attr. net profit (EURm)	-9	0	1.5
Adjusted EPS (EUR)	-0.19	0.00	0.03
Dividend (EUR)	0.00	0.00	0.00

P/E (x)	ns	373.0	29.7
P/B (x)	2.6	2.6	2.4
Dividend Yield (%)	0.0	0.0	0.0
FCF yield (%)	ns	ns	0.4
EV/Sales (x)	2.08	1.04	0.77
EV/EBITDA (x)	ns	18.3	10.0
EV/Current EBIT (x)	ns	148.9	28.6
Gearing (%)	62	65	59
Net Debt/EBITDA(x)	ns	3.5	1.9

Next Events

TWINTEC has the technology for future emission standards

The Volkswagen emissions scandal has cast a shadow over the automotive sector, but one company can certainly benefit from the issue about exhaust emissions and testing in the automotive sector: TWINTEC AG. For years, international requirements for emission reduction of vehicles and machines have become stricter and stricter. Most technologies currently used to reduce nitrogen oxides (NOx) require high exhaust temperatures, which are not achieved on the road. Thus, actual nitrogen oxide emissions are often 8 to 40 times higher than allowed by emissions standards. TWINTEC initiated development of a new SCR (Selective Catalytic Reduction) technology several years ago and has already brought this technology to market. TWINTEC's BNOx system for the reduction of nitrogen oxides even works at low ambient temperatures and hence already meets the requirements of future standards. Consequently, the increased focus on such products/solutions not only from the off-road (e.g. agricultural machines) but also from the on-road customer side (e.g. cars) will certainly put TWINTEC's technology on OEM's radar screens and thus boost its business in the future.

Takeover of Kontec: scaling up for larger customers

Despite TWINTEC's weak, recently released H1 2015 results (sales: € 8.9m; EBITDA: € 2.4m) and the 2015 outlook (sales: € 29m; EBITDA: € -2.2m), we advise investors to focus on the coming years, especially in the context of TWINTEC's recent takeover of Kontec GmbH. Kontec develops, designs, simulates and validates engines and exhaust gas after-treatment systems for leading German OEMs like Daimler, Audi and Porsche. In the past, Kontec had repeatedly implemented successful projects for customers jointly with TWINTEC, which already has an attractive innovative technology that meets a critical customer need. Hence, in our assessment, the Kontec acquisition is an important step enabling TWINTEC to cover the whole supply chain for its clients. This makes TWINTEC/Kontec more visible to OEMs, and we expect it to emerge as the top supplier of and service provider for OEM exhaust gas after-treatment systems.

TWINTEC paid ~ € 7m for Kontec in a 100% share deal (7m TWINTEC shares priced at € 1.00). Given EBITDA of € 1.7m and net debt of ~€ 6.8m in 2014, Kontec was priced at an EV/EBITDA multiple of 8.1x, which we do not consider expensive given the expanded opportunities that should be available to the combined entity. Management expects to capture synergies of € 2m p.a. from the Kontec merger by 2016.

Mid-term targets now more reachable; >100% upside for share

Through the added sized from the Kontec acquisition, TWINTEC is well positioned to benefit from the expected surge in the OEM business stemming from stricter emissions standards taking effect in 2017/2018. First fruits should emerge 2016, where the company expects sales of € 55-60m and EBITDA of approx. € 3.5m. In our opinion this will mark the start of an acceleration of business in the upcoming years. Consequently, we now consider the mid-term (2018) targets (sales of € 80-100m, EBITDA-margin of 10%) more reachable than in the past. Based on our updated estimates post Kontec takeover and despite the dilution effect of increased shares outstanding, we derive an unchanged PT of € 2.30, implying an upside potential of more than 100% for the share. Hence, we stick to our Buy recommendation.

Daniel Kukalj (Analyst)

+49 (69) 92 05 48 21
daniel.kukalj@oddoseydler.com

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Automotive components | Germany

Buy

Price

0.99EUR

Upside 132.79%

TP 2.30EUR

PER SHARE DATA (EUR)	12/10	12/11	12/12	12/13	12/14	12/15e	12/16e	12/17e
Adjusted EPS	-0.05	-2.52	-0.47	-0.30	-0.24	-0.19	0.00	0.03
Reported EPS	-0.05	-2.09	-0.47	-0.29	-0.24	-0.19	0.00	0.03
Growth in EPS(%)	ns	ns	ns	ns	ns	ns	ns	ns
Net dividend per share	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
FCF to equity per share	-0.80	-0.32	-0.20	-0.02	-0.02	-0.43	-0.01	0.00
Book value per share	3.61	1.09	0.67	0.57	0.38	0.38	0.38	0.41
Number of shares market cap	6.50	6.50	9.01	29.25	32.29	46.04	46.04	46.04
Number of diluted shares	6.50	6.50	9.01	29.25	32.29	46.04	46.04	46.04
VALUATION	12/10	12/11	12/12	12/13	12/14	12/15e	12/16e	12/17e
12m highest price	12.07	3.72	1.49	1.75	1.64	1.24		
12m lowest price	3.40	0.87	0.58	0.55	0.79	0.82		
(*) Reference price	8.13	2.43	1.10	1.01	1.07	0.99	0.99	0.99
Capitalization	53	16	9.9	29	34	45	45	45
Restated Net debt	5.4	7.1	5.6	7.3	4.9	11	11	11
Minorities (fair value)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial fixed assets (fair value)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Provisions	1.2	2.0	2.4	2.6	2.5	2.5	2.5	2.6
Enterprise Value	59	25	18	39	42	59	59	59
P/E (x)	ns	ns	ns	ns	ns	ns	373	30
P/CF (x)	433	ns	ns	ns	14	ns	15	8.4
Net Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FCF yield (%)	ns	ns	ns	ns	ns	ns	ns	0.4%
P/B incl. GW (x)	2.25	2.23	1.64	1.76	2.80	2.63	2.61	2.40
P/B excl. GW (x)	2.25	2.23	1.64	ns	5.62	4.10	4.05	3.57
EV/Sales (x)	1.43	1.08	0.60	1.89	1.43	2.08	1.04	0.77
EV/EBITDA (x)	50	ns	ns	ns	22	ns	18	10
EV/EBIT (x)	ns	ns	ns	ns	ns	ns	149	29
(*) historical average price								
PROFIT AND LOSS (EURm)	12/10	12/11	12/12	12/13	12/14	12/15e	12/16e	12/17e
Sales	41	23	30	21	29	28	57	77
EBITDA	1.2	-7.2	-2.1	-2.4	1.9	-3.2	3.2	5.9
Depreciations	-1.2	-2.4	-1.6	-5.8	-10.2	-4.2	-2.8	-3.8
Current EBIT	0.0	-9.7	-3.8	-8.2	-8.3	-7.5	0.4	2.1
Published EBIT	0.0	-9.7	-3.8	-8.2	-8.3	-7.5	0.4	2.1
Net financial income	-0.3	-0.5	-0.5	-0.4	-0.4	-0.3	-0.3	-0.4
Corporate Tax	0.0	-3.4	0.0	0.0	1.0	-1.0	0.0	-0.2
Net income of equity-accounted companies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Profit/loss of discontinued activities (after tax)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Attributable net profit	-0.3	-13.6	-4.3	-8.6	-7.8	-8.8	0.1	1.5
Adjusted attributable net profit	-0.3	-16.4	-4.3	-8.8	-7.8	-8.8	0.1	1.5
BALANCE SHEET (EURm)	12/10	12/11	12/12	12/13	12/14	12/15e	12/16e	12/17e
Goodwill	0.0	0.0	0.0	5.4	2.5	2.5	2.5	2.5
Other intangible assets	4.3	1.0	0.6	12	7.8	9.0	7.9	6.5
Tangible fixed assets	7.1	6.2	5.9	4.0	3.3	6.1	6.9	7.9
WCR	19	8.9	7.6	5.4	6.1	13	14	16
Financial assets	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ordinary shareholders equity	23	7.1	6.1	17	12	17	17	19
Minority interests	0.0	0.0	0.0	0.6	0.0	0.0	0.0	0.0
Shareholders equity	23	7.1	6.1	17	12	17	17	19
Non-current provisions	1.2	2.0	2.4	2.6	2.5	2.5	2.5	2.6
Net debt	5.4	7.1	5.6	7.3	4.9	11	11	11
CASH FLOW STATEMENT (EURm)	12/10	12/11	12/12	12/13	12/14	12/15e	12/16e	12/17e
EBITDA	1.2	-7.2	-2.1	-2.4	1.9	-3.2	3.2	5.9
Change in WCR	-2.4	9.5	0.6	3.6	-1.7	-6.8	-1.1	-1.8
Interests & taxes	-0.3	-3.9	-0.5	-0.4	0.6	-1.3	-0.3	-0.5
Others	-0.7	0.1	0.5	-0.8	-0.1	0.0	0.0	0.0
Operating Cash flow	-2.3	-1.6	-1.5	0.0	0.7	-11.3	1.9	3.6
CAPEX	-3.0	-0.5	-0.3	-0.6	-1.3	-8.3	-2.6	-3.5
Free cash-flow	-5.2	-2.1	-1.8	-0.6	-0.6	-19.6	-0.7	0.2
Acquisitions / disposals	0.0	0.2	0.0	0.9	0.7	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net capital increase	0.0	0.0	3.3	0.0	1.4	13.7	0.0	0.0
Others	3.3	1.3	-1.2	0.2	-0.8	5.7	0.2	0.2
Change in net debt	-5.2	-1.9	1.5	1.2	1.5	-5.8	-0.7	0.2
GROWTH MARGINS PRODUCTIVITY	12/10	12/11	12/12	12/13	12/14	12/15e	12/16e	12/17e
Sales growth	-9.7%	-44.6%	31.7%	-31.1%	40.0%	-3.3%	ns	34.8%
Lfl sales growth	-	-	-	-	-	-	-	-
Current EBIT growth	-99.3%	ns	ns	ns	ns	ns	ns	ns
Growth in EPS(%)	ns	ns	ns	ns	ns	ns	ns	ns
Net margin	-0.8%	-71.3%	-14.1%	-42.2%	-26.6%	-31.1%	0.2%	2.0%
EBITDA margin	2.9%	-31.4%	-7.0%	-11.7%	6.4%	-11.5%	5.7%	7.7%
Current EBIT margin	0.0%	-42.0%	-12.4%	-39.5%	-28.6%	-26.5%	0.7%	2.7%
CAPEX / Sales	-7.2%	-2.3%	-0.8%	-2.9%	-4.5%	-29.3%	-4.5%	-4.5%
WCR / Sales	44.8%	38.7%	25.2%	26.1%	21.1%	45.8%	24.6%	20.5%
Tax Rate	-7.0%	-33.9%	-0.4%	0.2%	11.2%	-12.3%	0.0%	10.0%
Normative tax rate	-	-	-	-	-	-	0.0%	10.0%
Asset Turnover	1.4	1.0	2.0	1.0	1.2	1.1	1.8	2.4
ROCE post-tax (normative tax rate)	-	-	-	-	-	-	1.3%	5.8%
ROCE post-tax hors GW (normative tax rate)	-	-	-	-	-	-	1.4%	6.3%
ROE	-1.4%	ns	-64.9%	-77.0%	-53.4%	-59.3%	0.7%	8.4%
DEBT RATIOS	12/10	12/11	12/12	12/13	12/14	12/15e	12/16e	12/17e
Gearing	23%	ns	93%	42%	40%	62%	65%	59%
Net Debt / Market Cap	0.10	0.45	0.57	0.25	0.14	0.24	0.25	0.25
Net debt / EBITDA	4.51	ns	ns	ns	2.63	ns	3.50	1.89
EBITDA / net financial charges	3.8	-15.5	-4.4	-6.1	4.6	-9.7	11.7	15.8

Recommendation and target price changes history over the last 12 months for the company analysed in this report

Date	Reco	Price Target (EUR)	Price (EUR)
23.04.15	Buy	2.30	1.09
01.12.14	Buy	2.00	1.12
12.08.14	Neutral	1.30	1.27
06.08.14	Buy	1.80	1.34

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