

Esautomotion

Sector: Mechatronics



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1H18: Export and R&D as drivers of growth

Esautomotion is a well-experienced player that designs, develops and manufactures Computerized Numerical Control systems (CNC), Drivers, Software and Brushless motors for the automation of industrial production machines

1H18: foreign markets boost sales... and profits

Esautomotion 1H18 results have been characterized by double-digit top-line growth (close to 30% YoY) driven by international expansion, with “direct” export now accounting roughly 54% of Sales, i.e. ca. +300 bps vs. 1H17. Chinese clients, in particular, generated €1.71mn revenues up +74.8% YoY and now accounting for ca. 34% of Group’s sales.

EBITDA Adjusted, i.e. net of some IPO costs, grew in line as the positive industrial operating leverage was offset by higher commercial costs. As far as the bottom line is concerned, Net Profit was up +41.9% YoY benefitting from a material decrease in tax charges.

Well on track to profit from market opportunities

Following the publication of 1H18 results we confirm our positive view on the company’s growth path. A real market opportunity is available (especially in fast developing countries such as China) and Esautomotion is well on track to profit from it.

Estimates 2018E-19E unchanged

1H18 results make us confident that our 2018E-19E estimates, (detailed in our initiation of coverage report published back as of 17 September 2018), are fully achievable.

To be more precise, we feel that there could be some room to revise our top line forecasts upwards while maintaining unchanged estimates on EBITDA-EBIT-Net Profit. Indeed, we expect the company to provide some selected clients with bundled offers i.e. adding to Esautomotion products also some third party ones, basically only with a very limited mark up.

Fair Value at €4.26 per share confirmed

We confirm our **€4.26 fair value per share**. At fair value, the stock would trade at 8.5x – 6.8x EV/EBITDA 2018E-19E and 17.6x – 14.6x PE 2018E-19E respectively, multiples in our view justified by the superior quality of the equity story (fast growth, high profitability).

Fair Value (€)	4.26
Market Price (€)	3.24
Market Cap. (€m)	42.5

KEY FINANCIALS (€m)	2017A	2018E	2019E
REVENUES	15.1	18.0	21.4
EBITDA	4.6	5.6	6.7
EBIT	3.5	4.2	5.0
NET PROFIT	2.5	3.2	3.8
EQUITY	5.3	15.4	19.2
NET FIN. POS.	-0.0	8.3	10.2
EPS ADJ. (€)	0.19	0.24	0.29
DPS (€)	0.1	0.0	0.0

Source: Esautomotion (historical figures),
Value Track (2018E-19E estimates)

RATIOS & MULTIPLES	2017A	2018E	2019E
EBITDA MARGIN (%)	30.3	30.8	31.2
EBIT MARGIN (%)	23.2	23.3	23.5
NET DEBT / EBITDA (x)	0.0	nm	nm
NET DEBT / EQUITY (x)	0.0	nm	nm
EV/EBITDA (x)	nm	6.1	4.8
EV/EBIT (x)	nm	8.1	6.4
P/E ADJ. (x)	nm	13.4	11.1
DIV YIELD (%)	nm	0.0	0.0

Source: Esautomotion (historical figures),
Value Track (2018E-19E estimates)

STOCK DATA

FAIR VALUE (€)	4.26
MARKET PRICE (€)	3.24
SHS. OUT. (m)	13.1
MARKET CAP. (€m)	42.5
FREE FLOAT (%)	23.8 (*)
AVG. -20D VOL. ('000)	47,475
RIC / BBG	ESAU.MI / ESAU IM
52 WK RANGE	3.10-4.53

Source: Stock Market Data

(*) on total outstanding Share Capital

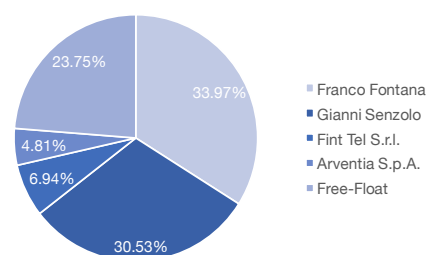


Business Description

Esautomotion is a well-experienced leader in the **design and production of integrated Computerized Numerical Control (CNC) systems**, Drivers, Software and Brushless motors dedicated to industrial production machineries such as Press brakes, Lasers and Waterjets.

The company enhances a **highly loyal and scalable customers base** serving industrial clients all around the world and working with some of the major firms in industrial automation solutions and equipment.

Shareholders Structure (*)



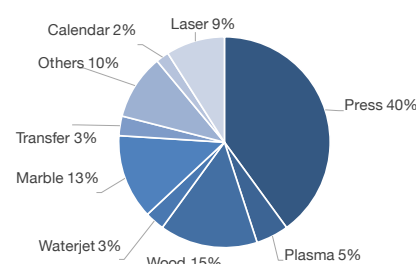
Source: Esautomotion (*) on total Share Capital

Key Financials

€mn	2017A	2018E	2019E	2020E
Net Revenues	15.1	18.0	21.4	25.3
Chg. % YoY	24.1%	19.2%	18.6%	18.3%
EBITDA	4.6	5.6	6.7	8.0
EBITDA Margin (% of Net Revenues)	30.4%	30.8%	31.2%	31.6%
EBIT	3.5	4.2	5.0	5.9
EBIT Margin (% of Net Revenues)	23.2%	23.3%	23.5%	23.5%
Net Profit	2.5	3.2	3.8	4.5
Chg. % YoY	56.8%	28.3%	20.6%	19.0%
Adjusted Net Profit	2.5	3.2	3.8	4.5
Chg. % YoY	56.8%	28.3%	20.6%	19.0%
Net Fin. Position	0.0	8.3	10.2	13.0
Net Fin. Pos. / EBITDA (x)	0.0	nm	nm	nm
Capex	-1.3	-2.0	-2.5	-2.5
OpFCF b.t.	2.0	2.5	3.1	4.2
OpFCF b.t. as % of EBITDA	43.0%	45.2%	46.2%	52.2%

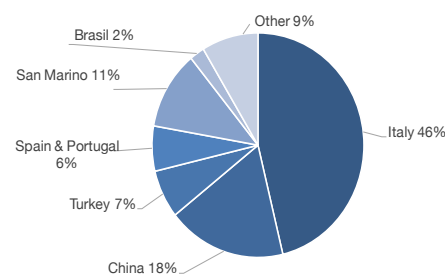
Source: Esautomotion (historical figures), Value Track (estimates)

Sales breakdown by products



Source: Esautomotion

Sales breakdown by geography



Source: Esautomotion

Investment case

Strengths / Opportunities

- ◆ Completely integrated software and hardware products offer;
- ◆ After-sale customer service active 24/7 thanks to a well structured network of Value Added Resellers;
- ◆ Efficient production organization i.e. internal software development (R&D) and outsourced hardware production.

Weaknesses / Risks

- ◆ Limited output capacity. Not easy to find mechatronic engineers;
- ◆ Price competition on motors and drives.

Stock multiples @ €4.26 Fair Value

	2017E	2018E
EV / SALES (x)	2.6	2.1
EV / EBITDA (x)	8.6	6.8
EV / EBIT (x)	11.3	9.1
EV / CAP.EMP. (x)	6.7	5.1
OpFCF Yield (%)	5.3	6.8
P / E (x)	17.7	14.6
P / BV (x)	3.6	2.9
Div. Yield. (%)	0.0	0.0

Source: Value Track

Esautomation 1H18 Financials

Esautomation has reported its IAS/IFRS based 1H18 figures that are extremely positive, with a Top line up ca. 30% YoY. These results make us confident that our 2018E-19E estimates, (detailed in our initiation of coverage report published back as of 17 September 2018), are fully achievable.

Profit & Loss

The following items have characterized Esautomation's 1H18 P&L performance:

- ◆ Total Revenues, i.e. Value of Production, stood at €9.48mn, i.e. ca +28.4%YoY, thanks to an increased penetration of both domestic and foreign markets such as China and Turkey. As far as China is concerned, demand remained very strong for the replacement of the most obsolete machinery fleet to be employed in both local for local business and towards exports. Turkey, despite its internal difficulties, remains a world-leading exporter for sheet metal machines and is also helped by its currency weakness;
- ◆ EBITDA was up 18.7%YoY at ca. €2.54mn. If we adjust for ca. €147K one-off costs related to IPO we obtain EBITDA adjusted stood at ca. €2.69mn, i.e. ca +27.5%YoY. We note the increase in travel costs, due to the Group's commercial boost, while the achievement of production efficiency led to a less than proportional increase in fixed costs;
- ◆ Net Profit increased sharply, i.e. ca. + 41.9% YoY, at ca. €1.66mn also thanks to lower tax charges driven by "patent box" effects.

Esautomation: 1H17-1H18 P&L evolution

€mn, IAS	1H17	1H18	% YoY
Total Revenues from Sales	7.36	9.47	28.7%
Other Revenues	0.02	0.01	50.0%
Total Value of Production	7.38	9.48	28.4%
Operating Expenses	-5.24	-6.94	32.4%
EBITDA	2.14	2.54	18.7%
<i>EBITDA margin (on Revenues from Sales)</i>	<i>29.1%</i>	<i>26.8%</i>	
EBITDA Adjusted	2.14	2.69	25.7%
<i>EBITDA Adjusted margin (on Revenues from Sales)</i>	<i>29.1%</i>	<i>28.4%</i>	
D&A	-0.43	-0.53	23.3%
EBIT	1.71	2.01	17.5%
<i>EBIT margin (on Revenues from Sales)</i>	<i>23.2%</i>	<i>21.2%</i>	
Interest expenses	-0.02	-0.03	50.0%
Taxes	-0.52	-0.32	-38.5%
Net Profit	1.17	1.66	41.9%

Source: Esautomation, Value Track Analysis

Balance Sheet and Cash Flow Statement

We remind that the IPO of Esautomotion was finalized back as of July 6th so 1H18 Balance Sheet and Cash Flow Statement figures do not include IPO proceeds.

That said, at the end of June 2018 the company's Balance Sheet did not release material differences vs. 2017 year-end one. Three things are worth being mentioned:

- ◆ Low capital intensity, as the key asset is represented by intellectual property, usually fully expensed in the P&L;
- ◆ High weight of trade receivables, i.e. ca. 77% of Revenues from Sales. Indeed, Esautomotion is active in a B2B business;
- ◆ Net Financial position pre-IPO proceeds at break-even.

Esautomotion: 1H18 vs 2017YE Balance Sheet structure

€mn, IAS	2017YE	1H18
Net Working Capital	4.30	5.44
Net Fixed Assets	1.29	1.43
Provisions	0.24	0.28
Total Capital Employed	5.35	6.59
Group Net Equity	5.32	5.96
Net Fin Position [I.e. Net Debt (-) Cash (+)]	-0.03	-0.63

Source: Esautomotion, Value Track Analysis

As far as 1H18 cash flow generation is concerned, it was slightly negative, mainly as a result of the €1mn dividend to shareholders approved back in May partly offset by the robust cash generation recorded in the period.

Esautomotion: 1H18 vs 1H17 Cash Flow Statement

€mn, IAS	1H17	1H18
EBITDA	2.14	2.54
Change in Net Working Capital	-0.42	-1.21
Capex	-0.60	-0.50
Change in Provisions	0.00	0.00
OpFCF b.t.	1.13	0.83
Cash Taxes	-0.52	-0.32
OpFCF a.t.	0.61	0.51
Other Items (incl. Fin. Inv.)	0.53	-0.91
Net Financial Charges	-0.02	-0.03
Dividends paid	-0.27	-0.26
Net Cash generated	0.85	-0.69

Source: Esautomotion, Value Track Analysis

2016A-20E Group financial figures at a glance

Esautomotion: P&L evolution

€mn	2016A	2017A	2018E	2019E	2020E
Group Revenues from sales	12.2	15.1	18.0	21.4	25.3
Revenues growth %	20%	24%	19%	19%	18%
Cost of sales (net of Other revenues)	-7.5	-8.6	-10.5	-12.6	-15.0
As a % of Sales	-61.6%	-57.2%	-58.5%	-58.9%	-59.3%
Gross profit	4.7	6.5	7.5	8.8	10.3
Gross margin	38.4%	42.8%	41.5%	41.1%	40.7%
Labour costs	-1.5	-1.9	-1.9	-2.1	-2.3
Labour costs / Sales	-12.2%	-12.3%	-10.7%	-9.9%	-9.1%
EBITDA	3.2	4.6	5.6	6.7	8.0
EBITDA margin (%)	26.2%	30.3%	30.8%	31.2%	31.6%
EBITDA growth (%)	99.6%	44.1%	20.7%	19.9%	19.9%
Depreciation & Amortization	-0.8	-1.10	-1.4	-1.7	-2.1
EBIT	2.4	3.5	4.2	5.0	5.9
EBIT margin (%)	19.3%	23.2%	23.3%	23.5%	23.5%
EBIT growth (%)	nm	49.1%	20.0%	19.2%	18.5%
Net Fin.Income (charges)	-0.1	-0.04	0.01	0.07	0.11
Pre-tax Profit	2.3	3.5	4.2	5.1	6.0
Tax	-0.7	-1.00	-1.05	-1.27	-1.51
Tax rate (%)	-31.4%	-28.8%	-25.0%	-25.0%	-25.0%
Minorities	0.0	0.0	0.0	0.0	0.0
Net Profit	1.6	2.5	3.2	3.8	4.5
Net Profit growth (%)	nm	56.8%	28.3%	20.6%	19.0%
Adjusted Net Profit	1.6	2.5	3.2	3.8	4.5

Source: Esautomotion, Value Track Analysis

Esautomotion: Balance Sheet evolution

€mn	2016A	2017A	2018E	2019E	2020E
Working Capital	2.78	4.30	5.24	6.36	7.73
As a % of Sales	22.8%	28.5%	29.1%	29.8%	30.6%
Net Fixed Assets	1.12	1.29	1.94	2.79	3.24
Provisions	0.09	0.24	0.14	0.18	0.23
Total Capital Employed	3.80	5.35	7.04	8.97	10.74
As a % of Sales	31.2%	35.4%	39.1%	42.0%	42.5%
Shareholders' Equity	3.12	5.32	15.37	19.18	23.72
Minorities' Equity	0.00	0.00	0.00	0.00	0.00
Group Net Equity	3.12	5.32	15.37	19.2	23.7
Net Fin. Position [i.e. Net Debt (-) Cash (+)]	-0.68	-0.03	8.33	10.21	12.98

Source: Esautomotion, Value Track Analysis

Esautomotion: Cash Flow Statement

€mn	2016A	2017A	2018E	2019E	2020E
EBITDA	3.2	4.60	5.55	6.66	7.99
Working Capital Needs	-2.0	-1.52	-0.94	-1.12	-1.37
Capex	-1.7	-1.25	-2.00	-2.50	-2.50
Change in Provisions	0.0	0.15	-0.11	0.04	0.05
OpFCF b.t.	-0.4	1.98	2.51	3.08	4.17
As a % of EBITDA	-13.9%	43.0%	0.45	0.46	0.52
Cash Taxes	-0.7	-1.00	-1.05	-1.27	-1.51
OpFCF a.t.	-1.2	0.98	1.45	1.81	2.65
Capital Injections	0.0	0.00	7.89	0.00	0.00
Other Op. Items (incl. Fin. Inv.)	0.0	-0.29	0.00	0.00	0.00
Net Financial Charges	-0.1	-0.04	0.01	0.07	0.11
Dividends paid	0.0	0.00	-1.00	0.00	0.00
Net Cash generated	-1.2	0.64	8.36	1.88	2.77

Source: Esautomotion, Value Track Analysis

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