



Full Company Report

Reason: Fundamental report with strategy

28 June 2018

Accumulate

Recommendation unchanged

Share price: EUR 37.80

closing price as of 27/06/2018

Target price: EUR 43.00

from Target Price: EUR 35.00

Upside/Downside Potential 13.8%

Reuters/Bloomberg

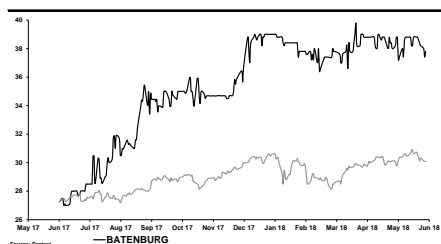
BTBN.AS/BATEN NA

Market capitalisation (EURm)	91
Current N° of shares (m)	2
Free float	9%
Daily avg. no. trad. sh. 12 mth	0
Daily avg. trad. vol. 12 mth (m)	17.05
Price high/low 12 months	27.00 / 39.80
Abs Perfs 1/3/12 mths (%)	-0.53/-0.53/37.45

Key financials (EUR)	12/17	12/18e	12/19e
Sales (m)	173	180	190
EBITDA (m)	11	12	15
EBITDA margin	6.3%	6.5%	7.8%
EBIT (m)	7	8	12
EBIT margin	4.3%	4.7%	6.4%
Net Profit (adj.)(m)	6	7	8
ROCE	15.0%	16.4%	19.6%
Net debt/(cash) (m)	0	(3)	(6)
Net Debt Equity	0.0	-0.1	-0.1
Net Debt/EBITDA	0.0	-0.2	-0.4
Int. cover(EBITDA/Fin.int)	75.5	251.8	(258.4)
EV/Sales	0.5	0.5	0.4
EV/EBITDA	8.2	7.5	5.8
EV/EBITDA (adj.)	7.0	6.6	5.8
EV/EBIT	11.9	10.5	7.0
P/E (adj.)	13.7	12.6	11.1
P/BV	2.1	2.0	1.9
OpFCF yield	4.8%	6.4%	8.9%
Dividend yield	3.2%	3.9%	5.4%
EPS (adj.)	2.68	2.99	3.40
BVPS	17.49	18.74	20.10
DPS	1.20	1.47	2.04

Shareholders

Bech NV 77%; Decico 9%; J.L. van den Heuvel 5%;



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Successful transformation towards Industrial Automation

Batenburg's focus on more attractive segments of its addressable markets is paying off, resulting in a higher growth profile with better margins. This transformation towards Industry and Infrastructure could be accelerated by the divestment of Technical Installation, potentially lifting the EBITDA margin 130bps to 8.8%. With an estimated CAGR of 8% for EBITDA for 2018-2020, the absence of the retention bonus related to Bellt after 2018 and a lower corporate tax rate, our estimates currently imply a CAGR in EPS of 23%. We value Batenburg by using the average of historical multiples, DCF and SOTP and we set our new price target at EUR 43.00 (was EUR 35.00). We therefore maintain our Accumulate rating.

- ✓ Batenburg is transforming itself to a more focused company in the Industry and Infrastructure segments. The company's growth profile has improved with more revenues coming from Industrial Automation and the company's profitability is now structurally higher with an EBITDA margin of 7.4% in 2017 compared to 5% on average over the past 10 years.
- ✓ The new divisional names also hint at a stronger focus on Industry. Both Industrial Components and Industrial Automation show higher margins compared to Technical Installation and we would not be surprised if the latter will be divested at some point. This could lift the overall EBITDA margin from 7.5% for 2018E to a pro forma level of 8.8%. Excluding Technical Installation, Industrial Components would represent 45% of total revenues and 30% of EBITDA and Industrial Automation would represent 55% of revenues and 70% of EBITDA.
- ✓ Batenburg's financial position is strong with solvency at around 50% and an expected return to a net cash position in 2018. Free cash flow generation is expected to improve from EUR 4m in 2017 towards EUR 9.5m by 2020, based on improving results and relatively stable capex. There is ample financial room for financing investments that could boost organic growth, add-on acquisitions and a high dividend (we estimate a pay-out ratio of 60% of net profit). With more than EUR 30m available for acquisitions, Batenburg could potentially add 25% to group EBITDA.
- ✓ We value Batenburg by using the average outcome from historical multiples, DCF and SOTP and set our new price target at EUR 43.00 per share (was EUR 35.00). Based on a terminal growth rate of 1.5% and an EBITDA margin of 5.75%, our DCF points to a value of EUR 43 per share. Given the higher growth profile and better margins we think that a larger premium to its historical multiples is justified and assuming a premium of 25% delivers a value per share of EUR 41. Our SOTP valuation points at the highest value per share, i.e. EUR 45, when assuming an EV/EBITDA multiple of 9 for Industrial Automation and 5 for Technical Installation.
- ✓ Triggers for the share price are the sale of Technical Installation, sustained high level of organic revenue growth and more strategic acquisitions in Industry and Infrastructure. Risks are a slowdown in growth and scarcity of staff hampering growth and margins.

