

22 November 2017

EQS Group AG

Rating Hold (Buy)
Share price (EUR) 63.03
Target price (EUR) 60.00 (60.00)
 Bloomberg EQS GY
 Sector Technology

9M-17 characterized by high investment activity

EQS confirmed its reduced outlook for FY 2017. We leave our estimates unchanged and reduce our recommendation from Buy to Hold as our target price has been reached.

Share data

Shares out (m) 1.3
 Daily volume shs (m) 0.1
 Free float (%) 43.00
 Market cap (EUR m) 85
 EV (EUR m) 89
 DPS (EUR) 0.75
 Dividend yield (%) 1.2
 Payout ratio (%) 0.0

Performance

ytd (%) 37.8
 12 months (%) 50.6
 12 months rel. (%) 5.6
 Index TecDAX

Share price performance



Source: Bloomberg

Next triggers

27 November 2017: equity forum

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Earnings dropped as expected

Consolidated sales of EQS Group AG increased by 22% in the first nine months of 2017. Adjusted for revenues from the majority holding of ARIVA.DE AG (67.5%), growth was 9%. Domestic business, including the large share of ARIVA.DE AG in Germany, achieved 28% growth, compared to the 3% growth in foreign businesses. The small increase abroad is mainly a result of EQS' subsidiary in Asia where sales dropped from EUR 1.93m (9M-16) to EUR 1.67m. However, this decline is no reason to worry, as low-margin business was reduced.

Due to high investment activities the adjusted EBIT dropped by 50% from EUR 1.97m (9M-16) to EUR 0.98m. The decline of the reported EBIT was even higher (EUR 1.52m in 9M-16 compared to EUR 0.46m in 9M-17) although the position "own work capitalized" rose.

Reduced project business with ARIVA.DE in Q3-17

In Q3-17, the company generated sales revenues of EUR 7.02m, 9% less than in the same period in 2016 (EUR 7.68m). The adjusted EBIT decreased to EUR 71k (EUR 1.03m). The adjusted consolidated net income is EUR -399k (EUR 160k). The adjusted EpS amounted to EUR -0.40 (EUR 0.13). In our view, the decline is a result of reduced project business with ARIVA.DE in Q3-17. However, in the 9M-17 period, sales amounted to EUR 5.08m which was on last year's level

TP unchanged but recommendation reduced to Hold

The company expects revenues of EUR 31.2m to EUR 32.5m for FY 2017. EBIT before one-off acquisition costs, purchase price allocation, and scheduled depreciation (non-IFRS) will decrease to a range of EUR 2m to EUR 2.3m as a result of the investment program undertaken in FY 2017. Sales growth of 10%-15% is expected for FY 2018 and is assumed to increase to 15%-20% beginning in FY 2019.

Our projections are a little more cautious and lead to a TP of EUR 60. Based on EQS' current share price we change our recommendation from Buy to Hold.

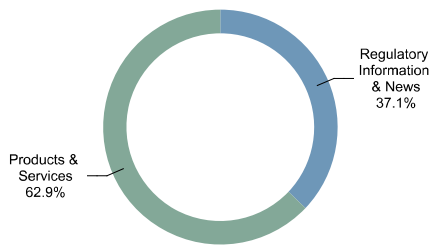
Key figures		2015	2016	2017e	2018e	2019e
Sales	EUR m	18	26	32	36	41
EBITDA	EUR m	3	4	3	4	5
EBIT	EUR m	2	3	1	2	2
EPS	EUR	0.96	0.43	0.12	0.18	0.25
Sales growth	%	12.1	41.8	23.4	12.7	13.8
EBIT growth	%	-16.2	12.6	-48.7	20.0	15.0
EPS growth	%	-32.2	-55.7	-73.0	60.4	37.9
EBITDA margin	%	17.5	16.0	10.5	11.4	11.9
EBIT margin	%	12.9	10.2	4.2	4.5	4.6
Net margin	%	6.1	2.0	0.5	0.7	0.8
EV/Sales	ratio	4.87	3.35	2.76	2.45	2.13
EV/EBITDA	ratio	27.8	20.9	26.3	21.4	17.9
EV/EBIT	ratio	37.8	32.8	64.9	54.1	46.6
P/E	ratio	31.7	84.1	561.7	323.2	234.3
P/BV	ratio	2.1	1.7	3.5	3.2	3.2
Dividend yield	%	1.2	1.2	0.0	0.2	0.3

Source: Bloomberg, Company data, quirin bank estimates

Company description

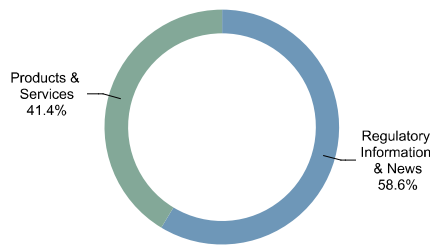
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Revenues by segment 2016



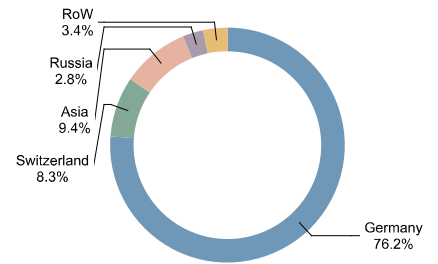
Source: Company data

Operating profit by segment 2016



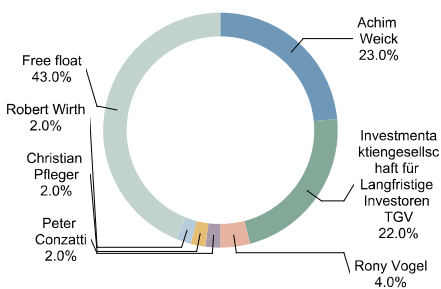
Source: Company data

Revenues by region 2016



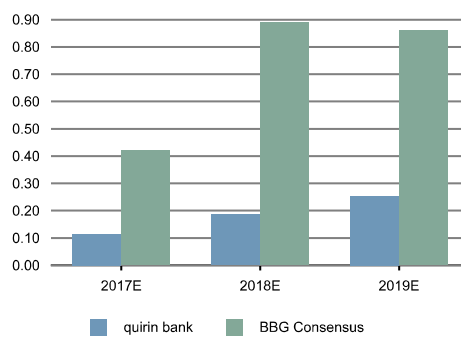
Source: Company data

Shareholder structure



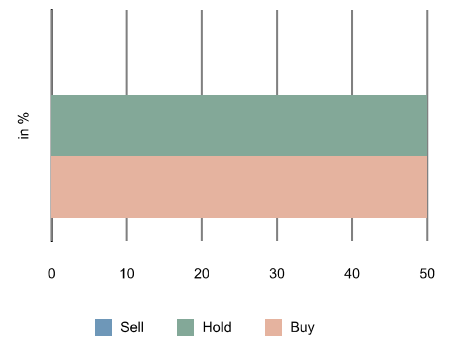
Source: Company data

EPS: quirin bank vs. consensus



Source: quirin bank Research, Bloomberg

Recommendation Overview



Source: Bloomberg

Company guidance 2017

The company expects revenues of EUR 31.2m to EUR 32.5m for FY 2017. EBIT before one-off acquisition costs, purchase price allocation, and scheduled depreciation (non-IFRS) will decrease to EUR 2m to EUR 2.3m as a result of the investment program undertaken in FY 2017

Profit & loss statement

Profit & loss statement (EUR m)	2015	YOY	2016	YOY	2017e	YOY	2018e	YOY	2019e	YOY
Sales	18.4	12.1 %	26.1	41.8 %	32.2	23.4 %	36.2	12.7 %	41.2	13.8 %
Unfinished Goods	0.0		0.0		0.0		0.0		0.0	
Other own work capitalized	0.3		0.4		0.2		0.2		0.2	
Other operating earnings	0.3		0.5		0.7		0.8		0.9	
Cost of goods	2.9		4.1		5.1		5.8		6.6	
Gross profit	16.1		22.8		28.0		31.5		35.8	
Personnel expenses	8.5		12.9		15.9		17.9		20.4	
Depreciation	0.9		1.5		2.0		2.5		3.0	
Other operating expenses	4.4		5.7		8.7		9.4		10.5	
EBITDA	3.2	-6.8 %	4.2	29.7 %	3.4	-19.1 %	4.1	22.8 %	4.9	17.9 %
EBITDA margin (%)	17.51		16.01		10.49		11.44		11.86	
EBIT	2.4	-16.2 %	2.7	12.6 %	1.4	-48.7 %	1.6	20.0 %	1.9	15.0 %
EBIT margin (%)	12.86		10.21		4.25		4.52		4.57	
Net interest	-0.1		0.0		0.0		0.0		0.0	
Income from Participations	0.2		-0.9		-0.9		-0.9		-0.9	
Net financial result	-0.5		-0.9		-0.9		-0.9		-0.9	
Exceptional items	0.0		0.0		0.0		0.0		0.0	
Pretax profit	2.5	-16.2 %	1.8	-28.1 %	0.5	-73.6 %	0.7	56.2 %	1.0	34.4 %
Pretax margin (%)	13.43		6.81		1.46		2.02		2.39	
Taxes	1.3		1.0		0.2		0.2		0.3	
Tax rate (%)	54.50		54.11		32.29		30.47		28.65	
Earnings after taxes	1.1		0.8		0.3		0.5		0.7	
Minorities	0.0		0.3		0.2		0.3		0.4	
Group attributable income	1.1	-39.0 %	0.5	-54.1 %	0.2	-70.7 %	0.2	60.4 %	0.3	37.9 %
No. of shares (m)	1.3		1.3		1.3		1.3		1.3	
Earnings per share (EUR)	0.96	-32.2 %	0.43	-55.7 %	0.12	-73.0 %	0.18	60.4 %	0.25	37.9 %

Balance sheet

Balance sheet (EUR m)	2015	YOY	2016	YOY	2017e	YOY	2018e	YOY	2019e	YOY
Assets										
Cash and cash equivalents	3.6		6.6		5.3		5.2		6.1	
Accounts receivables	2.8		3.9		4.8		5.4		6.2	
Inventories	0.0		0.0		0.0		0.0		0.0	
Other current assets	0.4		0.7		0.7		0.7		0.7	
Tax claims	0.0		0.6		0.6		0.6		0.6	
Total current assets	7.0	46.8 %	12.0	72.3 %	11.6	-3.4 %	12.1	4.6 %	13.8	13.9 %
Fixed assets	1.4		2.1		3.6		4.5		4.5	
Goodwill	0.0		0.0		0.0		0.0		0.0	
Other intangible assets	17.9		26.3		26.3		26.3		26.3	
Financial assets	3.2		1.2		1.2		1.2		1.2	
Deferred taxes	0.4		0.7		0.7		0.7		0.7	
Other fixed assets	0.0		0.0		0.0		0.0		0.0	
Total fixed assets	22.8	17.5 %	30.4	33.4 %	31.8	4.7 %	32.8	3.0 %	32.7	-0.1 %
Total assets	29.7	23.3 %	42.4	42.5 %	43.4	2.4 %	44.9	3.4 %	46.6	3.7 %
Equity & Liabilities										
Subscribed capital	1.2		1.3		1.3		1.3		1.3	
Reserves & other	5.1		10.3		10.3		10.3		10.3	
Revenue reserves	10.9		10.7		10.8		10.9		11.0	
Accumulated other comprehensive	0.0		0.0		-1.0		-0.8		-0.7	
Shareholder's equity	17.1	8.0 %	25.2	47.1 %	24.4	-3.3 %	24.6	1.0 %	24.8	0.5 %
Minorities	0.0		3.0		3.0		3.0		3.0	
Shareholder's equity incl. minorities	17.1	8.0 %	25.2	47.1 %	24.4	-3.3 %	24.6	1.0 %	24.8	0.5 %
Long-term liabilities										
Pension provisions	0.0		0.0		0.0		0.0		0.0	
Financial liabilities	6.4		5.1		5.1		5.1		5.1	
Tax liabilities	0.8		2.0		2.5		2.8		3.2	
Other liabilities	0.0		0.0		0.0		0.0		0.0	
Total long-term debt	7.3	87.4 %	7.2	-0.5 %	7.7	7.0 %	8.1	4.4 %	8.5	5.1 %
Short-term debt										
Other provisions	0.7		1.3		1.6		1.8		2.1	
Trade payables	0.7		1.5		1.9		2.1		2.4	
Financial debt	2.0		4.2		4.2		4.2		4.2	
Other liabilities	1.6		2.7		3.3		3.7		4.2	
Total short-term debt	5.3	21.6 %	9.9	86.7 %	11.3	13.6 %	12.2	8.0 %	13.3	9.1 %
Total equity & liabilities	29.7	23.2 %	42.4	42.5 %	43.4	2.4 %	44.9	3.4 %	46.6	3.7 %

Financial key ratios

Key ratios	2015	2016	2017e	2018e	2019e
Per share data (EUR)					
EPS	0.96	0.43	0.12	0.18	0.25
Book value per share	14.7	20.9	18.6	18.8	18.9
Free cash flow per share	1.4	0.8	2.5	3.0	2.3
Dividend per share	0.75	0.75	0.00	0.16	0.18
Valuation ratios					
EV/Sales	4.87	3.35	2.76	2.45	2.13
EV/EBITDA	27.8	20.9	26.3	21.4	17.9
EV/EBIT	37.8	32.8	64.9	54.1	46.6
P/E	31.7	84.1	561.7	323.2	234.3
P/B	2.1	1.7	3.5	3.2	3.2
Dividend yield (%)	1.2	1.2	0.0	0.2	0.3
Growth					
Sales growth (%)	12.1	41.8	23.4	12.7	13.8
EBITDA growth (%)	-6.8	29.7	-19.1	22.8	17.9
EBIT growth (%)	-16.2	12.6	-48.7	20.0	15.0
EPS growth (%)	-32.2	-55.7	-73.0	60.4	37.9
Profitability ratios					
EBITDA margin (%)	17.5	16.0	10.5	11.4	11.9
EBIT margin (%)	12.9	10.2	4.2	4.5	4.6
Net margin (%)	6.1	2.0	0.5	0.7	0.8
ROCE (%)	9.7	8.2	4.3	5.0	5.7
Financial ratios					
Total equity (EUR m)	17.1	25.2	24.4	24.6	24.8
Equity ratio (%)	57.6	59.5	56.2	54.8	53.2
Net financial debt (EUR m)	4.7	2.6	3.9	4.0	3.1
Net debt/Equity	0.6	0.6	0.6	0.5	0.5
Interest cover	28.8	21.3	10.9	13.1	15.1
Net debt/EBITDA	1.5	0.6	1.2	1.0	0.6
Payout ratio (%)	78.1	176.1	0.0	85.0	69.5
Working Capital (EUR m)	1.6	2.1	0.3	-0.1	0.5
Working capital/Sales	0.09	0.08	0.01	0.00	0.01

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The levels of change expressed in each rating categories are:

BUY > +10%

HOLD <=-10% and < = +10%

SELL > -10%.

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Price and Rating History (last 12 months)

Date	Price target-EUR	Rating	Initiation
22.11.2017	60.00	Hold	
18.05.2017	60.00	Buy	
21.11.2016	50.00	Buy	10.10.2016

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