GBC AG Investment Research

CENIT AG*5a,6a,7,11

Rating: BUY
Target price: € 18.70
(previously: € 19.00)

Current share price: 13.65
03.11.2022 / XETRA / 9:26 am

Currency: EUR

Key data:

ISIN: DE0005407100
WKN: 540710
Ticker symbol: CSH

Number of shares³: 8,368
Market cap³: 114.39
Enterprise value³: 121.93
³in million / in EUR million

Free float: 62.3%

Transparency level:
Prime Standard

Market segment:
Regulated market

Accounting:
IFRS

Financial year: 31.12.

Analysts:

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* catalogue of potential conflicts of interest on page 7

Date (time) of completion:
07/11/2022 (08:07 am)

Date (Time) first distribution:
07/11/2022 (09:30 am)

Target price valid until:
max. 31/12/2023

Company Profile

Sector: Software

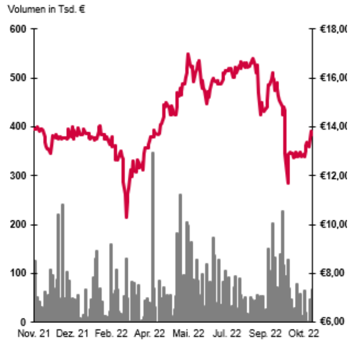
Specialty: Consulting and software specialist

Employees: 858 Status: 30.09.2022

Foundation: 1998

Head office: Stuttgart

Board of Directors: Peter Schneck, Axelle Mazé



For over 33 years, CENIT has been successfully active as a leading consulting and software specialist for the optimisation of business processes in the fields of Digital Factory, Product Lifecycle Management (PLM), SAP PLM, Enterprise Information Management (EIM) and Application Management Services (AMS). Standard solutions from strategic partners such as DASSAULT SYSTEMES, SAP and IBM are supplemented by CENIT's own established software developments. These include the FASTSUITE product family for software solutions in the digital factory sector, cenitCONNECT for processes around SAP PLM, cenitSPIN as a powerful PLM desktop, CENIT ECLISO for efficient information management and ECM Systemmonitor for monitoring IBM ECM applications. The company is represented worldwide at 26 locations in nine countries with over 850 employees. They work for customers in the automotive, aerospace, mechanical engineering, tool and mould making, financial services, trade and consumer goods sectors, among others.

P&L in EUR million \ FY-end	31.12.2021	31.12.2022e	31.12.2023e	31.12.2024e
Revenues	146.07	168.53	193.09	212.40
EBITDA	11.28	13.56	18.78	24.12
EBIT	6.23	8.70	13.84	19.29
Net profit	4.25	5.11	8.55	12.24
Key figures in EUR				
Earnings per share	0.51	0.61	1.02	1.46
Dividend per share	0.75	0.50	0.70	1.00
Key figures				
EV/Revenue	0.83	0.72	0.63	0.57
EV/EBITDA	10.81	8.99	6.49	5.05
EV/EBIT	19.56	14.01	8.81	6.32
P/E-ratio	26.91	22.38	13.37	9.34
Book-value per share	2.62			

Financial dates
-

**last research published by GBC:
Date: Publication / Target Price in EUR / Rating
04.08.2022: RS / 19.00 / BUY
12.05.2022: RS / 20.05 / BUY
13.04.2022: RS / 20.60 / BUY
11.11.2021: RS / 18.80 / BUY
** the research reports can be found on our website www.gbc-ag.de or can be requested at GBC AG, Halderstr. 27, D-86150 Augsburg

Note on research as a "minor non-monetary benefit" according to the MiFID II regulation: This research meets the requirements for being classified as a "minor non-monetary benefit". For more information, see the disclosure under "I. Research under MiFID II"

9M 2022: Growth course continued; Earnings increase despite special effects; GBC earnings estimates slightly adjusted; Target price: €18.70 (previously: €19.00); BUY rating

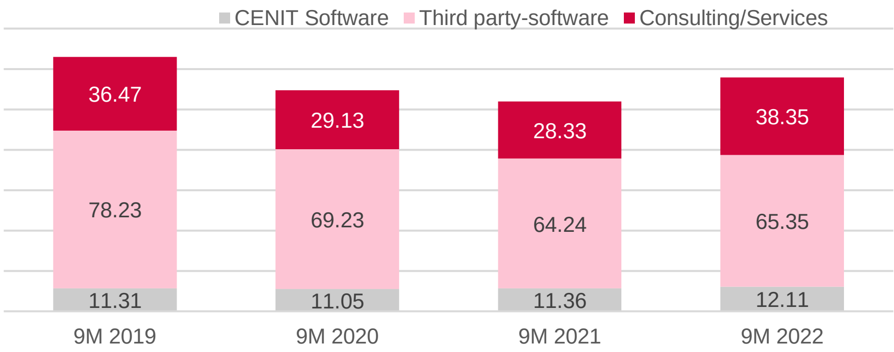
in EURm	9 month 2020	9 month 2021	9 month 2022
Revenues	109.71	103.96	115.86
Revenues – CENIT Software	11.05	11.36	12.11
Revenues – Third party software	69.23	64.24	65.35
Revenues – Consulting/Services	29.13	28.33	38.35
Revenues - recurring	70.95	68.35	69.52
Revenues – licence (non recurring)	9.33	7.25	7.93
EBIT	1.67	2.44	2.58
Net result	0.96	1.63	1.23

Sources: Cenit AG; GBC AG; Previous year's value adjusted for change in balance sheet (principal to agent)

Sales and earnings development 9 months 2022

In the past third quarter of 2022, CENIT AG achieved a significant increase in sales revenues of 31.0 % to € 41.95 million (PY: € 32.04 million), thus significantly accelerating the growth dynamics of the first two quarters of the year. However, a significant part of the growth has an inorganic origin. This is because the acquired ISR Information Products AG (ISR for short) has been contributing to the group's revenues since June 2022. In the third quarter, the inorganic sales contribution amounted to € 5.94 million, which means that CENIT AG achieved organic sales growth of 12.4%. Over the first nine months, the increase in sales was 11.5% to € 115.86 million (previous year: € 103.96 million). Adjusted for ISR sales totalling € 7.97 million, organic growth was 3.8%.

Revenues in the first 9 months (in € million)



Sources: Cenit AG; GBC AG

Separated according to the individual revenue segments, the disproportionate increase in consulting revenues (+35.4%) is again evident, while proprietary software revenues (+6.5%) and third-party software revenues (+1.7%) show a significantly lower growth dynamic. Since the business of the newly acquired ISR consists largely of consulting services, the inorganic effect can be found in particular in the consulting revenues. In this sales segment, CENIT AG is also benefiting from high demand from the aerospace sector and, in principle, from catch-up effects after consulting and service sales had each declined sharply during the corona pandemic.

Total revenues of € 69.52 million (previous year: € 68.35 million) for the first nine months of 2022 consist of recurring revenues, which account for 60.0% of the total. There is therefore good planning predictability for the subsequent reporting periods.

Compared to the 11.5% increase in sales, CENIT AG reports a disproportionately low increase in EBIT of 6.0% to € 2.58 million (previous year: € 2.44 million) and thus a slightly lower EBIT margin of 2.2% (previous year: 2.3%). Although the newly acquired ISR contributed € 1.00 million to the group EBIT, this was offset by ancillary acquisition costs of € 0.16 million. In addition, CENIT AG had received short-time working benefits of around € 1.3 million in the previous year, which led to a corresponding reduction in personnel expenses. Finally, research allowances were reduced by around € 0.50 million compared to the previous year. Against the background of the above-mentioned effects, their EBIT development can be considered a success.

The bottom line is that the result for the period declined to € 1.23 million (previous year: € 1.63 million). On the one hand, this is related to an increase in financial expenses. CENIT AG borrowed € 23.00 million to finance the purchase price of 74.9% of the ISR shares and two other smaller acquisitions totalling € 27.93 million. The decline in the after-tax result is also related to a significant increase in minority interests to € 0.31 million (previous year: € 0.05 million), which was also due to the acquisition of ISR.

Forecasts and model assumptions

in EURm	FY 2021	FY 2022e (old)	FY 2022e (new)	FY 2023e	FY 2024e
Revenues	146.07	168.53	168.53	193.09	212.40
EBIT	6.23	9.42	8.70	13.84	19.29
EBIT-margin	4.3%	5.6%	5.2 %	7.2%	9.1%
Net profit	4.25	5.83	5.11	8.55	12.24

Source: GBC AG

CENIT's management has confirmed its guidance for the current business year, subject to the express proviso that the economic and industry-specific conditions do not deteriorate significantly. The company continues to expect consolidated sales of around € 170 million and a consolidated EBIT of around € 9.0 million. Based on this, the company would have to generate revenues of around € 54 million and an EBIT of around € 6.4 million in the fourth quarter of 2022, which would be equivalent to a significant increase in revenues and earnings compared to the final quarter of the previous year.

However, the Executive Board is confident that it will be able to achieve what it has forecast. On the one hand, the inorganic contributions to turnover and earnings should contribute significantly to the expansion of the key operating figures expected for the fourth quarter. On the other hand, foreseeable new customers could already lead to an increase in proprietary software sales, which should be particularly relevant for the expected increase in earnings. In our previous forecasts (see study of 04.08.2022) we were slightly above the company's guidance, especially on the earnings side. We are taking the current business development as an opportunity to reduce our earnings forecasts for the current financial year only. We now expect an EBIT of € 8.70 million (previously: € 9.42 million). Our forecasts for the coming financial years remain unchanged.

Within the framework of the adjusted DCF valuation model, we have determined a new target price of € 18.70 (previously: € 19.00). Although the slight reduction in the target price is slightly due to the lowering of the 2022 earnings forecasts, the main reason for this is the further increase in the risk-free interest rate to 1.50% (previously: 1.25%). We continue to assign a rating of BUY.

Evaluation

Model assumptions

CENIT AG was valued by us using a three-stage DCF model. Starting with the concrete estimates for the years 2022 to 2024 in phase 1, the forecast is made from 2025 to 2029 in the second phase by applying value drivers. We expect increases in turnover of 2.0 %. We have assumed a target EBITDA margin of 11.4% (previously: 11.4%). We have taken the tax rate into account at 30.0% in phase 2. In the third phase, a residual value is also determined after the end of the forecast horizon using the perpetual annuity. In the terminal value we assume a growth rate of 2.0%.

Determining the cost of capital

The weighted average cost of capital (WACC) of CENIT AG is calculated from the cost of equity and the cost of debt. To determine the cost of equity, the fair market premium, the company-specific beta and the risk-free interest rate must be calculated.

The risk-free interest rate is derived from current yield curves for risk-free bonds in accordance with the recommendations of the Fachausschuss für Unternehmensbewertungen und Betriebswirtschaft (FAUB) of the IDW. The basis for this is the zero bond interest rates published by the Deutsche Bundesbank according to the Svensson method. To smooth short-term market fluctuations, the average yields of the previous three months are used and the result rounded to 0.25 basis points. The currently used value of the risk-free interest rate 1.50 % (previously: 1.25 %).

We use the historical market premium of 5.50% as a reasonable expectation of a market premium. This is supported by historical analyses of stock market returns. The market premium reflects the percentage by which the equity market is expected to yield better than low-risk government bonds.

According to the GBC estimation method, a beta of 1.34 is currently determined.

Using the assumptions made, we calculate a cost of equity of 8.85 % (previously: 8.60 %) (beta multiplied by risk premium plus risk-free interest rate). Since we assume a sustainable weighting of the cost of equity of 95% (previously: 95%), the weighted average cost of capital (WACC) is 8.51% (previously: 8.28%).

Valuation result

Within the framework of our DCF valuation model, we have determined a new target price of € 18.70 (previously: € 19.00). The price target reduction is mainly due to the increased weighted cost of capital as a result of the higher risk-free interest rate.

CENIT AG - Discounted Cashflow (DCF) model scenario

Value driver of the DCF - model after the estimate phase:

consistency - phase	
Revenue growth	2.0%
EBITDA-Margin	11.4%
Depreciation to fixed assets	14.9%
Working Capital to revenue	3.0%

final - phase	
Eternal growth rate	2.0%
Eternal EBITA - margin	7.8%
Effective tax rate in final phase	30.0%

three phases DCF - model:

phase	estimate			consistency					final
in €m	FY 22e	FY 23e	FY 24e	FY 25e	FY 26e	FY 27e	FY 28e	FY 29e	value
Revenues (RE)	168.53	193.09	212.40	216.64	220.98	225.40	229.90	234.50	
RE change	15.4%	14.6%	10.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
RE to fixed assets	6.48	6.55	6.55	6.45	6.39	6.36	6.36	6.38	
EBITDA	13.56	18.78	24.12	24.61	25.10	25.60	26.11	26.63	
EBITDA-Margin	8.0%	9.7%	11.4%	11.4%	11.4%	11.4%	11.4%	11.4%	
EBITA	8.70	13.84	19.29	19.78	20.09	20.45	20.83	21.25	
EBITA-Margin	5.2%	7.2%	9.1%	9.1%	9.1%	9.1%	9.1%	9.1%	7.8%
Taxes on EBITA	-2.96	-4.33	-5.79	-5.93	-6.03	-6.13	-6.25	-6.37	
Taxes to EBITA	34.0%	31.3%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
EBI (NOPLAT)	5.74	9.51	13.51	13.84	14.07	14.31	14.58	14.87	
Return on capital	22.2%	31.2%	38.4%	35.8%	35.2%	34.8%	34.6%	34.6%	29.8%
Working Capital (WC)	4.50	5.70	6.27	6.39	6.52	6.65	6.78	6.92	
WC to Revenues	2.7%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	
Investment in WC	-0.74	-1.20	-0.57	-0.13	-0.13	-0.13	-0.13	-0.14	
Operating fixed assets (OAV)	26.00	29.50	32.43	33.60	34.59	35.44	36.16	36.77	
Depreciation on OAV	-4.85	-4.94	-4.83	-4.83	-5.00	-5.15	-5.28	-5.39	
Depreciation to OAV	18.7%	16.7%	14.9%	14.9%	14.9%	14.9%	14.9%	14.9%	
Investment in OAV	-8.70	-8.44	-7.76	-6.00	-6.00	-6.00	-6.00	-6.00	
Capital employed	30.50	35.20	38.69	39.99	41.11	42.09	42.94	43.69	
EBITDA	13.56	18.78	24.12	24.61	25.10	25.60	26.11	26.63	
Taxes on EBITA	-2.96	-4.33	-5.79	-5.93	-6.03	-6.13	-6.25	-6.37	
Total investment	-37.37	-9.64	-8.32	-6.13	-6.13	-6.13	-6.13	-6.14	
Investment in OAV	-8.70	-8.44	-7.76	-6.00	-6.00	-6.00	-6.00	-6.00	
Investment in WC	-0.74	-1.20	-0.57	-0.13	-0.13	-0.13	-0.13	-0.14	
Investment in Goodwill	-27.93	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Free cashflows	-26.78	4.81	10.01	12.55	12.94	13.34	13.73	14.12	186.70

Value operating business (due date)	162.71	171.75
Net present value explicit free Cashflows	57.33	57.41
Net present value of terminal value	105.37	114.35
Net debt	14.43	14.22
Value of equity	148.27	157.53
Minority interests	-0.79	-0.84
Value of share capital	147.49	156.69
Outstanding shares in m	8.38	8.38
Fair value per share in €	17.60	**18.70**

Cost of capital:

Risk free rate	1.5%
Market risk premium	5.5%
Beta	1.34
Cost of equity	8.8%
Target weight	95.0%
Cost of debt	3.0%
Target weight	5.0%
Taxshield	26.4%
WACC	**8.5%**

Return on capital	WACC				
	7.5%	**8.0%**	**8.5%**	**9.0%**	**9.5%**
9.8%	9.85	9.33	8.89	8.52	8.20
19.8%	15.97	14.79	13.80	12.95	12.23
29.8%	22.09	20.25	**18.70**	17.38	16.25
39.8%	28.21	25.71	23.60	21.81	20.27
49.8%	34.34	31.16	28.50	26.24	24.29

ANNEX

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The recommendations/ classifications/ ratings are linked to the following expectations:

BUY	The expected return, based on the derived target price, incl. dividend payments within the relevant time horizon is >= + 10%.
HOLD	The expected return, based on the derived target price, incl. dividend payments within the relevant time horizon is > - 10% and < + 10%.
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GBC AG is currently represented by its board members Manuel Hölzle (Chairman) and Jörg Grunwald.

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