GBC AG Investment Research

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

Rating: BUY
Target price: €20.90
(previously: €21.00)

Current share price: 12.05
02/11/2023 / XETRA /
5:36 pm

Currency: EUR

Key data:

ISIN: DE0005407100
WKN: 540710
Ticker symbol: CSH

Number of shares³: 8,368
Market cap³: 100.83
Enterprise value³: 111.89
³in million / in EUR million

Free float: 56.0%

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:
03/11/23 (09:18 am)

Date (time) first distribution:
03/11/23 (10:30 am)

Target price valid until:
max. 31/12/2024

Company Profile

Sector: Software

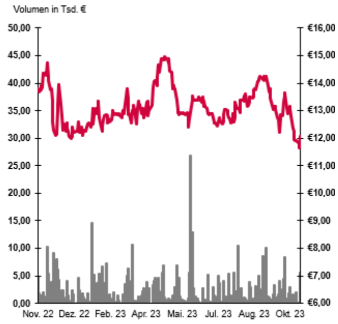
Specialty: Consulting and software specialist

Employees: 899 (30.09.2023)

Foundation: 1998

Head office: Stuttgart

Board of Directors: Peter Schneck, Axel Otto



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	31.12.2022	31.12.2023e	31.12.2024e	31.12.2025e
Revenues	162.15	181.61	208.85	233.91
EBITDA	11.94	15.93	21.85	26.19
EBIT	6.30	9.55	15.35	19.79
Net profit	6.28	5.24	8.70	11.69
Key figures in EUR				
Earnings per share	0.75	0.63	1.04	1.40
Dividend per share	0.50	0.50	0.75	1.00
Key figures				
EV/revenue	0.69	0.62	0.54	0.48
EV/EBITDA	9.37	7.03	5.12	4.27
EV/EBIT	17.75	11.72	7.29	5.65
P/E-ratio	16.05	19.25	11.59	8.63
Book-value per share	2.25			

Financial dates
27.11.- 29.11.23: Equity forum
02.04.2024: Annual Report 2023
14.05.2024: Q1 report 2024
06.06.2024: General meeting

*last research published by GBC:
Date: Publication / Target Price in EUR / Rating
03.08.2023: RS / 21.00 / BUY
11.07.2023: RS / 19.75 / BUY
12.05.2023: RS / 19.75 / BUY
06.04.2023: RS / 19.75 / 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

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9 months 2023: Three more companies acquired in 2023; High revenue and earnings growth achieved; Slight forecast and price target adjustment; Rating: BUY

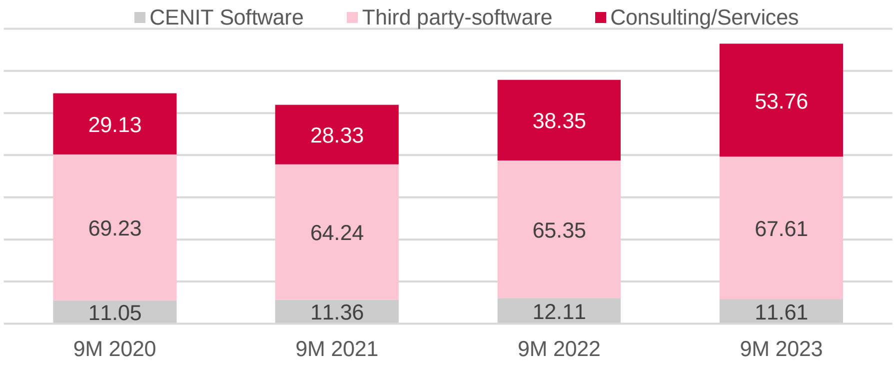
In €m	9 months 2021	9 months 2022	9 months 2023
Revenues	103.96	115.86	133.31
Revenues – CENIT Software	11.36	12.11	11.61
Revenues – Third-party software	64.24	65.35	67.61
Revenues – Consulting/Services	28.33	38.35	53.76
thereof recurring	68.35	69.52	73.59
thereof one-off licence revenues	7.25	7.93	5.62
EBIT	2.44	2.58	4.60
Net result	1.63	1.23	2.40

Sources: CENIT AG; GBC AG

Development of sales and earnings 9 months 2023

In the third quarter of 2023, CENIT AG achieved sales growth of 9.3% to € 45.84 million (Q3 2022: € 41.95 million), thus seamlessly continuing the previous development of the current business year 2023. In the first two quarters, an increase in turnover of 22.7% (Q1) and 14.4% (Q2) was achieved. In total, sales revenues of € 133.31 million (previous year: € 115.86 million) were achieved in the first nine months, which corresponds to an increase of 15.1% compared to the previous year. A major growth driver was the continuation of inorganic growth, which was advanced in the current financial year by the acquisitions of mip Management Informations Partner GmbH, PI Informatik GmbH and ACTIVE BUSINESS CONSULT. ISR Informations Products AG was already acquired in the previous financial year 2022, which was only consolidated from 31 May 2022, so that there is also a base effect here. Overall, the inorganic contribution to growth is likely to have been around 14.00 million euros according to our calculations, which means organic growth in turnover of around 3.0%.

Turnover separated by turnover type (in € million)



Sources: CENIT AG; GBC AG

Since the most recent company acquisitions and ISR, which was acquired in the past financial year, generate consulting revenues in particular, the increase in consulting revenues by 40.2% to € 53.76 million (previous year: € 38.35 million) was particularly strong. In contrast, sales of third-party software rose by 3.5% and sales of proprietary software even fell by 4.1%. According to the company, own software revenues continued to be affected by shifts in customer orders. Within software revenues, however, recurring revenues increased by 5.9% to € 73.59 million (PY: € 69.52 million) and thus form a good basis for the stability of the CENIT business model.

The strong sales growth of 9.3% was accompanied by a disproportionate increase in EBIT of 78.1% to € 4.60 million (previous year: € 2.58 million). Although the EBIT was positively influenced by a one-time gain of € 0.87 million from the sale of the subsidiary CENIT Japan K.K., the company would have achieved an EBIT increase of 44.6% to € 3.73 million even without this effect. On the one hand, the higher EBIT margin of the acquired companies is likely to have had a positive effect. On the other hand, the Sirius cost-cutting programme that has been introduced is also likely to have made a positive contribution to earnings.

CENIT AG plans to continue the high M&A activity of the last quarters. In this context, the company has restructured its bank liabilities and taken out a new loan of € 40.00 million. With this loan, the existing loan of € 22.66 million was repaid. Since the acquisitions of the current financial year were financed from the operating cash flow, the borrowing less the dividend distribution (€ 4.18 million) and the repayment of leasing liabilities (€ 2.83 million) led to an increase in liquid funds to € 30.07 million (31.12.22: € 19.91 million). The company thus has sufficient financial leeway to opportunistically acquire further companies.

Forecast and Valuation

in €m	FY 2022	FY 23e (old)	FY 23e (new)	FY 24e (old)	FY 24e (new)	FY 25e (old)	FY 25e (new)
Revenues	162.15	181.61	181.61	208.85	208.85	233.91	233.91
EBIT (EBIT-margin)	6.31 (3.9%)	9.80 (5.5%)	9.55 (5.3%)	15.35 (7.4%)	15.35 (7.4%)	19.79 (8.5%)	19.79 (8.5%)
Net profit	6.28	5.75	5.24	9.47	8.70	12.44	11.69

Sources: CENIT AG; GBC AG

With the publication of the nine-month figures, CENIT's management has confirmed the forecast for the current business year. Sales of around € 180 million and an EBIT of around € 9.5 million are still expected. Based on the figures achieved in the first nine months, sales of around € 46.70 million and an EBIT of around € 4.90 million are expected for the fourth quarter. While turnover is expected to remain at about the same level as in the fourth quarter of the previous year, EBIT should improve significantly compared to the same period of the previous year.

An increase in EBIT in the fourth quarter should be primarily related to an expected rise in high-margin proprietary software sales. According to the company, there were postponements of orders, which could, however, still be realised in the current financial year. The affected order volume amounts to approximately € 1.5 million. In addition, the positive effect from the deconsolidation of the Japanese subsidiary should also make a slightly positive EBIT contribution in the fourth quarter. In addition, the savings effects from the Sirius programme should also increase earnings.

While we are keeping our revenue forecast unchanged, we are adjusting our EBIT estimate slightly to € 9.55 million (previously: € 9.80 million). However, we are taking into account the new loan of € 40 million in our estimates for the first time, which will lead to higher interest expenses. In particular, this leads to an adjustment of our estimated after-tax results for the financial years 2024 and 2025, while we leave both the revenue and earnings estimates for these estimation periods unchanged. Although the funds raised are to be used for the implementation of further M&A activities, we have not yet included them in our forecasts because they have yet to be realised. According to company information, an acquisition is very likely in 2023. In addition, there is currently an extensive M&A pipeline which, if fully realised, would increase turnover by around € 70 million.

Due to the slight adjustment of the EBIT for 2023 as well as the consideration of higher interest expenses in connection with the extensive borrowing, our price target determined within the framework of the DCF model is only slightly reduced to € 20.90 (previously: € 21.00). We continue to assign the BUY rating.

Evaluation

Model assumptions

CENIT AG was valued by us using a three-stage DCF model. Starting with the concrete estimates for the years 2023 to 2025 in phase 1, the forecast is made from 2026 to 2030 in the second phase using the approach of value drivers. We expect increases in turnover of 2.0%. We have assumed a target EBITDA margin of 11.2% (previously: 11.2%). 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 2.00% (previously: 2.00%).

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 9.35% (previously: 9.35%) (beta multiplied by risk premium plus risk-free interest rate). Since we assume a sustainable weighting of 95% for the cost of equity, the weighted average cost of capital (WACC) is 8.99% (previously: 8.99%).

Valuation result

Within the framework of our DCF valuation model, we have determined a new target price of € 20.90 (previously: € 21.00). The price target reduction is solely due to the slight EBIT adjustment for the current financial year and the consideration of higher interest expenses for the coming financial years. We continue to assign the BUY rating.

DCF-model

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	11.2%
Depreciation to fixed assets	25.5%
Working capital to revenue	2.6%

final - phase	
Eternal growth rate	2.0%
Eternal EBITA - margin	7.6%
Effective tax rate in final phase	30.0%

three phases DCF - model:

phase	Estimate			Consistency					final
in €m	FY 23e	FY 24e	FY 25e	FY 26e	FY 27e	FY 28e	FY 29e	FY 30e	value
Revenues (RE)	181.61	208.85	233.91	238.59	243.36	248.23	253.20	258.26	
RE change	12.0%	15.0%	12.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
RE to fixed assets	6.99	8.19	9.32	9.66	9.97	10.27	10.54	10.81	
EBITDA	15.93	21.85	26.19	26.71	27.25	27.79	28.35	28.92	
EBITDA-Margin	8.8%	10.5%	11.2%	11.2%	11.2%	11.2%	11.2%	11.2%	
EBITA	9.55	15.35	19.79	20.31	20.95	21.57	22.18	22.79	
EBITA-Margin	5.3%	7.4%	8.5%	8.5%	8.6%	8.7%	8.8%	8.8%	7.6%
Taxes on EBITA	-2.86	-4.61	-5.94	-6.09	-6.29	-6.47	-6.66	-6.84	
Taxes to EBITA	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
EBI (NOPLAT)	6.68	10.75	13.85	14.22	14.67	15.10	15.53	15.96	
Return on capital	27.0%	36.8%	45.7%	45.7%	47.6%	49.3%	50.8%	52.3%	46.2%
Working Capital (WC)	3.20	4.80	6.00	6.12	6.24	6.37	6.49	6.62	
WC to Revenues	1.8%	2.3%	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%	
Investment in WC	-1.70	-1.60	-1.20	-0.12	-0.12	-0.12	-0.13	-0.13	
Operating fixed assets (OAV)	26.00	25.50	25.10	24.70	24.40	24.18	24.01	23.89	
Depreciation on OAV	-6.38	-6.50	-6.40	-6.40	-6.30	-6.22	-6.17	-6.12	
Depreciation to OAV	24.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	
Investment in OAV	-9.15	-6.00	-6.00	-6.00	-6.00	-6.00	-6.00	-6.00	
Capital employed	29.20	30.30	31.10	30.82	30.64	30.55	30.51	30.52	
EBITDA	15.93	21.85	26.19	26.71	27.25	27.79	28.35	28.92	
Taxes on EBITA	-2.86	-4.61	-5.94	-6.09	-6.29	-6.47	-6.66	-6.84	
Total investment	-10.85	-7.60	-7.20	-6.12	-6.12	-6.12	-6.13	-6.13	
Investment in OAV	-9.15	-6.00	-6.00	-6.00	-6.00	-6.00	-6.00	-6.00	
Investment in WC	-1.70	-1.60	-1.20	-0.12	-0.12	-0.12	-0.13	-0.13	
Investment in Goodwill	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Free cashflows	2.22	9.65	13.05	14.50	14.84	15.20	15.57	15.95	192.83

Value operating business (due date)	175.01	181.10
Net present value explicit free Cashflows	69.46	66.05
Net present value of terminal value	105.56	115.04
Net debt	7.67	4.01
Value of equity	167.34	177.09
Minority interests	-2.07	-2.19
Value of share capital	165.28	174.90
Outstanding shares in m	8.37	8.37
Fair value per share in €	19.75	20.90

Cost of capital:

Risk free rate	2.0%
Market risk premium	5.5%
Beta	1.34
Cost of equity	9.3%
Target weight	95.0%
Cost of debt	3.0%
Target weight	5.0%
Taxshield	26.4%
WACC	**9.0%**

Return on capital	WACC				
	8.0%	**8.5%**	**9.0%**	**9.5%**	**10.0%**
36.2%	20.27	18.93	17.79	16.81	15.96
41.2%	22.19	20.65	19.35	18.22	17.25
46.2%	24.11	22.38	**20.90**	19.64	18.54
51.2%	26.03	24.10	22.46	21.05	19.83
56.2%	27.95	25.82	24.01	22.46	21.12

ANNEX

I.
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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's target prices are determined using the fair value per share, derived using generally recognised and widely used methods of fundamental analysis, such as the DCF process, peer-group benchmarking and/or the sum-of-the-parts process. This is done by including fundamental factors such as e.g. share splits, capital reductions, capital increases, M&A activities, share buybacks, etc.

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GBC AG is currently represented by its board members Manuel Hölzle (Chairman) and Jörg Grunwald.

The analysts responsible for this analysis are:
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Other person involved in this study:
Jörg Grunwald, Board of Directors

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