

## MBH Corporation plc <sup>\*5a,11</sup>

**Rating: BUY**

**Target price: 1.72 €**  
**(1.55 GBP)**

Current share price: 0.42  
25.08.2020 / XETRA / 5:35 pm  
Currency: EUR

**Key data:**

ISIN: GB00BF1GH114  
WKN: A2JDGJ  
Ticker symbol: M8H:GR  
Number of shares <sup>3</sup>: 61.4  
Market cap <sup>3</sup>: 25.79  
Enterprise Value <sup>3</sup>: 22.58  
<sup>3</sup> in million  
Other shareholders: 30%

Level of transparency:  
Entry Standard

Market segment:  
Open market

Accounting:  
IFRS

FY-End: 31.12

Designated Sponsor:  
Renell Bank  
MWB Fairtrade

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\* Catalogue of possible conflicts of interest on page 7

Date (time) Completion:  
24.08.2020 (10:03)

Date (time) first transmission:  
26.08.2020 (09:30)

Target price valid until: max  
31.12.2021

**Company profile**

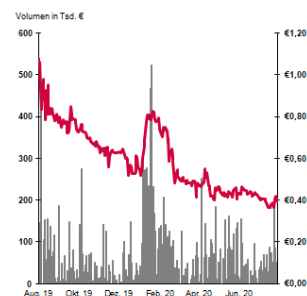
Industry: Holding company

Focus: Education, Construction, Leisure, Health

Foundation: 2016

Headquarters: London (United Kingdom)

Management: Callum Laing CEO, Victor Tan CFO



MBH Corporation PLC (MBH) is an investment holding company with subsidiaries in the construction, education, leisure and health-care sectors. The group brings together well-established and profitable small businesses with a buy and hold perspective. Most of these subsidiaries have been purchased by swapping all the business owners' shares with a new issue of MBH shares. According to this model, the earning contribution of each acquisition mitigates the dilutive effects of the new share issue. As with favorable market interest rates, MBH has recently started accretive acquisitions backed by debt issues, which cancel out dilution effects. An example is the acquisition of Robinsons Caravans in 2020 which has been settled with a five years unlisted loan and final payment at maturity in cash. MBH's excellent financial figures for 2019 proved management skills and methods in selecting and supporting the development of various businesses. Each segment has been managed autonomously under a responsible board with a structured earn-out scheme. The acquisition pipeline remains brisk including strategic and tactical deals. MBH shares have been listed on both the Quotation Board of the Frankfurt Stock Exchange ("FSE") since November 2018 and on the Düsseldorf Stock Exchange (Prime Market). The management announced a dividend of EUR 0.005 cents per share for FY2019.

P&L in GBPm	31.12.2019	31.12.2020e	31.12.2021e	31.12.2022e	31.12.2023e
Sales	50.78	55.90	112.44	163.30	213.97
EBITDA	5.23	5.05	12.46	18.62	24.40
EBIT	4.05	4.28	10.95	15.93	20.84
Net income	3.62	3.27	5.95	9.23	12.52

**Key figures in GBP**

Earnings per share	0.11	0.05	0.10	0.15	0.20
Dividend per share	0.00	0.01	0.03	0.03	0.04

\* Calculated on the basis of a number of shares of 61.4 million

**Key figures**

EV/Sales	0.46	0.42	0.21	0.14	0.11
EV/EBITDA	4.50	4.66	1.89	1.26	0.96
EV/EBIT	5.81	5.50	2.15	1.48	1.13
P/E	5.98	6.62	3.64	2.35	1.73
P/B	0.50				

**Financial calendar**

30.09.2020: Half-year report 2020

**\*\*last research by GBC:**

Date: Publication / Target price in EUR / Rating

29.06.2020: RS / 1.89 € / BUY

03.03.2020: IC / 1.95 € / BUY

\*\* the above mentioned research studies can be viewed at [www.gbc-ag.de](http://www.gbc-ag.de) or requested from GBC AG, Halderstr. 27, D86150 Augsburg

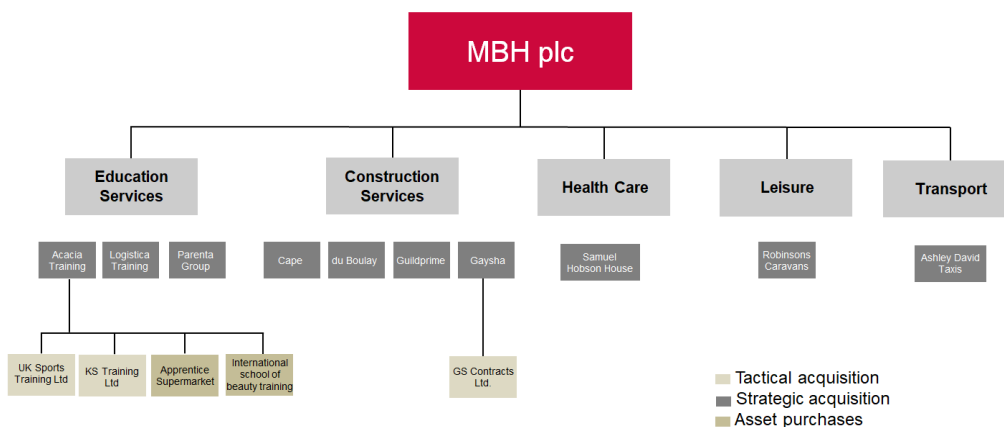
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### Fifth acquisition in 2020 reported, financing under the bond programme, forecasts slightly increased, BUY rating confirmed

After MBH Corporation plc (MBH) was able to expand its investment portfolio by three new companies (Samuel Hobson House, Robinson Caravans, Logistica Training) in the first half of 2020, two new acquisitions were recently added to the portfolio. At the end of July 2020, the acquisition of **GS Contracts (Joinery) Limited** (GS Contracts) was reported as the 14th acquisition in the MBH history. Similar to Cape Ltd., which is already included in the MBH portfolio and is active in New Zealand, GS Contracts specialises in the interior design of retail and catering facilities. The company offers services such as design management, project management, furnishing and custom manufacturing. In the past fiscal year (fiscal year-end December 31, 2019), GS Contracts generated revenues of GBP 5.3 million and, according to our information, should have generated a positive EBIT.

In the run-up to this acquisition, the MBH portfolio company Gaysha Ltd. has already worked together with GS Contracts, which means that a vertical integration can be implemented quickly. Gaysha Ltd., a company that offers extension and renovation services, could use the production facilities of GS Contracts and thus reduce its dependence on suppliers.

A further takeover was reported on 17.08.2020 with the acquisition of **Ashley David Taxis (ADT)**, a taxi company based in the UK. This acquisition creates the new MBH segment "Transport". Founded in 2002, ADT owns 150 vehicles and employs around 600 drivers. In the period May 2019 - April 2020, which thus partly includes the effects of the Covid 19 pandemic, ADT generated revenues of GBP 3.9 million and an EBITDA of GBP 0.8 million. Of particular interest to MBH is the technological approach of ADT. Around 70% of bookings are made via the app developed in-house and the fleet is completely cloud-based. Further business growth in the highly fragmented taxi market in Great Britain could be supported by the Corporate Driving or Food Delivery divisions.



Source: MBH plc; GBC AG

The purchase prices for both acquisitions of GBP 1.7 million (GS Contracts) and GBP 3.4 million (ADT) will be largely paid for by the listed bond issued for the first time in July 2020. Up to now, the company had primarily implemented the portfolio expansion by means of non-cash capital increases. However, due to the current low price level of the MBH share, but also in order to limit the dilution effect in the future, the company has set up a bond program with a volume of up to € 50 million. Bonds can be issued to the selling party as part of corporate acquisitions, which also significantly increases financing flexibility. The 5-year bonds have a semi-annual interest coupon of 5.0 % p.a. In addition, MBH has issued a euro-denominated bond with a coupon of 2.0 %.

## Forecasts and valuation

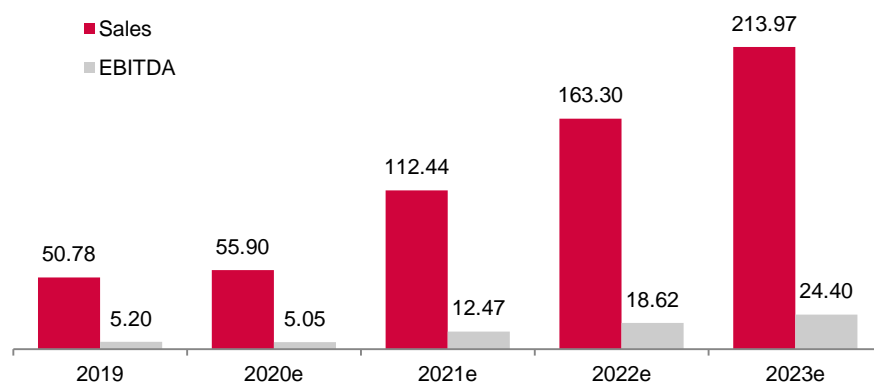
in GBP million	FY 2019	FY 2020e	FY 2021e	FY 2022e	FY 2023e
Sales	50.78	55.90	112.44	163.30	213.97
EBITDA	5.23	5.05	12.47	18.62	24.40
EBITDA margin	10.3%	9.0%	11.1%	11.4%	11.4%
Net income	3.62	3.27	5.95	9.23	12.52

Source: GBC AG

With the acquisition of the two companies, pro forma revenues as of December 31, 2019 will increase to GBP 85.4 million annually. With the announcement of the commencement of listing of the corporate bond, the MBH management has once again confirmed its plans to make around 10 acquisitions over the year as a whole. In view of the five corporate acquisitions made so far in 2020, this target appears realistic. In our previous forecasts (see study dated June 29, 2020), we had assumed a total of five acquisitions for the full year 2020, which has now been achieved with the acquisition of Ashley David Taxis.

As a result, we are increasing the number of acquisitions forecast for 2020 to a total of eight and are therefore expecting three more acquisitions. On average, each acquisition in 2020 has resulted in an increase in pro forma revenue of GBP 6.04 million, accompanied by positive earnings contributions in each case. However, we conservatively assume that the other three acquisitions will lead to an average increase in pro forma sales of GBP 3.8 million p.a. We are adjusting our revenue and earnings forecasts accordingly:

### Sales and earnings forecasts (in GBP million)



Source: GBC AG

For the coming corporate acquisitions, we have also assumed financing primarily within the framework of the bond program, which will result in an increase in borrowed capital with correspondingly higher financial expenses. On the other hand, this will lead to a significantly lower dilution effect. In our DCF valuation model, we have also made a slight change in the cost of debt, which has slightly reduced the WACC. Since the number of outstanding shares increased significantly to 61.4 million (previously: 49.2 million), the result of the DCF model is subject to a dilution effect. Although the fair enterprise value calculated by us increases to GBP 95.11 million (previously: GBP 83.65 million), the fair value per share is GBP 1.55 (previously: GBP 1.70) due to the higher number of shares.

## Evaluation

### *Model Assumptions*

MPH Corporation plc was valued by us using a three-stage DCF model. Starting with the concrete estimates for the years 2020 to 2022 in phase 1, the second phase covers the period from 2023 to 2027 and includes a forecast of the value drivers. We expect revenue growth of 7.5 %. We have assumed an EBITDA margin target of 12.0 %. We have included a tax rate of 20.0 % in phase 2. In the third phase, a residual value will be determined by means of the perpetual annuity after the end of the forecast horizon. We have assumed a growth rate of 2.0 % in the terminal value. The figures were calculated in GBP (EUR/GBP 0.90€).

### *Determination of the cost of capital*

The weighted average cost of capital (WACC) of MPH Corporation plc 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 determined. The risk-free interest rate is derived from current yield curves for risk-free bonds in accordance with the recommendations of the IDW's Technical Committee for Company Valuations and Business Administration (FAUB). It is based on the zero bond interest rates published by the Deutsche Bundesbank using 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 is 1.00 % (previously: 1.00 %). This value represents the lower limit currently used by us.**

As a reasonable expectation of a market premium, we apply the historical market premium of 5.50 %. This is supported by historical analyses of stock market returns. The market premium reflects by what percentage the equity market is expected to outperform low-risk government bonds.

According to the GBC estimation method, a beta of 1.86 is currently determined (previously: 1.86).

Using the assumptions made, the cost of equity is calculated at 11.21 % (previously: 11.21 %) (beta multiplied by risk premium plus risk-free interest rate). Since we assume a sustainable weighting of the cost of equity of 75% (previously: 75%), the weighted average cost of capital (WACC) is 9.35% (previously: 9.63%). The WACC reduction includes a reduction of 5.0 % (previously: 6.5 %) in the cost of capital to the value of the corporate bond issued.

### *Evaluation result*

In view of the WACC reduction, the slightly increased forecasts for the coming financial years and the so-called roll-over effect, the fair enterprise value of MBH Corporation plc increases to GBP 95.11 million (previously: GBP 83.65 million). However, based on the higher number of outstanding shares of 61.4 million (previously: 49.2 million), the fair value per share is reduced to GBP 1.55 (previously: GBP 1.70) respectively € 1.72 (previously: € 1.86).

## DCF model

### MBH Corporation plc - Discounted Cashflow (DCF) model

Value driver used in the DCF-model's estimate phase:

consistency - Phase		final - Phase	
Revenue growth	7.5%	Perpetual growth rate	2.0%
EBITDA-margin	12.0%	Perpetual EBITA margin	12.0%
Depreciation on fixed assets	2.4%	Effective tax rate in terminal value	20.0%
Working capital to sales	7.0%		

#### Three-phase DCF - model:

Phase in mGBP	estimate				consistency				final value
	FY 20e	FY 21e	FY 22e	FY 23e	FY 24e	FY 25e	FY 26e	FY 27e	
Revenue (RE)	55.90	112.44	163.30	213.97	230.02	247.27	265.82	285.76	
Revenue change	10.1%	101.1%	45.2%	31.0%	7.5%	7.5%	7.5%	7.5%	2.0%
Revenue to fixed assets	1.82	1.58	1.48	1.44	1.44	1.44	1.44	1.44	
EBITDA	5.05	12.46	18.62	24.40	27.60	29.67	31.90	34.29	
EBITDA-margin	9.0%	11.1%	11.4%	11.4%	12.0%	12.0%	12.0%	12.0%	
EBITA	4.28	10.95	15.93	20.84	24.04	25.84	27.78	29.86	
EBITA-margin	7.7%	9.7%	9.8%	9.7%	10.5%	10.5%	10.5%	10.5%	12.0%
Taxes on EBITA	-0.68	-2.91	-4.44	-5.94	-4.81	-5.17	-5.56	-5.97	
Tax rate	15.9%	26.6%	27.9%	28.5%	20.0%	20.0%	20.0%	20.0%	20.0%
EBI (NOPLAT)	3.60	8.04	11.49	14.90	19.23	20.67	22.23	23.89	
Return on Capital	35.6%	23.2%	14.6%	12.3%	11.8%	11.8%	11.8%	11.8%	12.8%
Working Capital (WC)	3.91	7.87	11.43	14.98	16.10	17.31	18.61	20.00	
WC to sales	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	
Investment in WC	1.84	-3.96	-3.56	-3.55	-1.12	-1.21	-1.30	-1.40	
Operating fixed assets (OFA)	30.76	70.97	109.99	148.14	159.25	171.20	184.04	197.84	
Depreciation on OFA	-0.77	-1.51	-2.69	-3.56	-3.56	-3.83	-4.12	-4.43	
Depreciation to OFA	2.5%	2.1%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	
CAPEX	-27.17	-41.71	-41.71	-41.71	-14.67	-15.77	-16.96	-18.23	
Capital Employed	34.67	78.84	121.42	163.12	175.35	188.51	202.64	217.84	
EBITDA	5.05	12.46	18.62	24.40	27.60	29.67	31.90	34.29	
Taxes on EBITA	-0.68	-2.91	-4.44	-5.94	-4.81	-5.17	-5.56	-5.97	
Total Investment	-25.33	-45.67	-45.27	-45.26	-15.80	-16.98	-18.25	-19.62	
Investment in OFA	-27.17	-41.71	-41.71	-41.71	-14.67	-15.77	-16.96	-18.23	
Investment in WC	1.84	-3.96	-3.56	-3.55	-1.12	-1.21	-1.30	-1.40	
Investment in Goodwill	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Free Cashflows	-20.96	-36.12	-31.10	-26.80	7.00	7.52	8.09	8.69	321.49

Value operating business (due date)	158.08
Net present value explicit free Cashflows	-29.98
Net present value of terminal value	188.06
Net debt	62.97
Value of equity	95.11
Minority interests	0.00
Value of share capital	95.11
Outstanding shares in m	61.40
Fair value per share in GBP	1.55
Fair value per share in €	1.72

#### Cost of Capital:

Risk free rate	1.0%
Market risk premium	5.5%
Beta	1.86
Cost of equity	11.2%
Target weight	75.0%
Cost of debt	5.0%
Target weight	25.0%
Taxshield	25.0%
WACC	9.3%

Return on Capital	WACC				
	8.7%	9.0%	9.3%	9.6%	9.9%
12.3%	1.77	1.58	1.41	1.25	1.10
12.6%	1.85	1.66	1.48	1.31	1.16
12.8%	1.93	1.73	1.55	1.38	1.23
13.1%	2.01	1.81	1.62	1.45	1.29
13.3%	2.09	1.88	1.69	1.51	1.35

## ANNEX

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Other person involved:

**Jörg Grunwald, Board Member**

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