

Retail & Consumer Goods

CEWE

- Ready for Christmas business-

Overweight

Old: Overweight

Target price: €61.70

Old: €60.50

Current price: €52.31

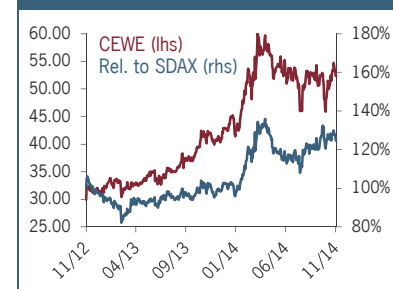
(17 November 2014)

Next event:

Annual report: Mar 15

- ◆ **9M14 with continuation of business:** 9M14 group sales declined by 3.4% to €329.0m. Including an IFRS-change concerning turnover the decline came out at -4.6%. The planned decline in the Retail division could not be fully offset by the growth of Photofinishing and Online Print. EBIT was not affected by the IFRS change and the 9M figure came out at €-4.1m, the same figure than last year. EBIT included €1.2m costs for the Photokina trade fair (every second year) and higher marketing costs for Photofinishing.
- ◆ **Christmas business ahead:** The trend that 4Q business will become more important will continue this year. CEWE is prepared and has increased personnel capacity in order to handle the volume. We expect the company to sell more than 2.2m photobooks and generate group sales of €204m (+8.5% y-o-y).
- ◆ **TP slightly up to €61.70:** Based on the new figures our DCF-model leads to a fair value of €60.76 (old: €61.26). In contrast our peer group valuation increased to €62.72 (old: €59.73) per share. This resulted in our new target price of €61.74, rounded down to €61.70, and compares to the old figure of €60.50 per share.
- ◆ **Overweight recommendation confirmed:** CEWE shares have continued to show some resilience following our last update in August. The business model is somewhat resistance in times of an economic cooling. Based on our new target price currently the shares offer an upside potential of 18%. Key element in our equity story is the sales and earnings improvement in Online Print. **Key risks:** Slowing demand for photofinishing products; Online Print does not perform as we expect.

Share price performance



Share data

Free float (%)	70
Daily volume ('000, 3M avg.)	10.0
Shares outstanding ('000)	7,214
Reuters code	CWCG.DE
Bloomberg code	CWC GR
Index	SDAX

Key data

Market cap (€m)	377.4
EV (€m)	416.1
5y EPS CAGR	44.4%
5y Total Return/SDAX	185.3%

Performance (%)

	1 M	6 M	12 M
Absolute	9.3	0.6	24.8
Relative	1.8	5.1	23.2

Source: Datastream, BHF-BANK

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Key ratios (€m)	2012	2013	2014F		2015F	2016F
	Actual	Actual	BHF-BANK	Consensus*	BHF-BANK	BHF-BANK
Sales	507	529	533	536	549	564
EBITDA	66	67	69	72	71	73
EPS (rep.) (€)	2.88	3.29	3.33	3.44	3.46	3.60
EPS (adj.) (€)	2.87	3.28	3.33		3.46	3.60
Dividend per share (€)	1.45	1.50	1.55	1.64	1.55	1.60
EV/Sales	0.49	0.52	0.78	0.70	0.75	0.71
EV/EBITDA	3.7	4.1	6.1	5.3	5.8	5.5
EV/EBIT	8.5	9.4	12.3	11.0	11.6	10.9
PER	10.9	10.9	15.7	15.2	15.1	14.5
Dividend yield	4.6%	4.2%	3.0%	3.1%	3.0%	3.1%
FCF yield	12.7%	12.3%	10.5%	8.7%	12.0%	13.7%
Net debt(-) / net cash(+)	-41	-40	-38	1	-35	-25

*Bloomberg

Source: Company data, BHF-BANK estimates

Investment case

- CEWE is a family-owned enterprise with a focus on long-term development and performance
- Following the shift from analogue to digital business with the acquisition of Saxoprint in February 2012, CEWE has entered the new segment of online offset printing
- The new division Online Print in our view will be the main driver for further growth. We expect sales 2016F to reach the level of €100m or 17% of group sales (2012: 8.5%) while the EBIT-figure is expected to turn into positive with 1.0m (2012: €-4.8m)
- Growing mobile users: In the Photofinishing division CEWE is increasing the sale of value-added products like the CEWE Photobook, photo calendars, photo greeting cards, which should constantly increase the average revenue per print (2013: +6.4% to €0.1533). CEWE's newly launched Fotowelt Apps addresses new smartphone and tablet customers for photobooks and other products
- Strong key financials 2013: Equity ratio at 42.4%; Net gearing at only 0.3; 9M 14 ROCE according to the company at favourable level of 15.4% versus 13.2% a year ago
- Valuation: Our combined DCF and multiples valuation lead to a new target price of €61.70 (old: €60.50) per share. The increase is solely coming from a better multiple-valuation (see Fig. 5). On the basis of our new target price the shares currently will have an upside potential of 18%. The implicit P/E 2014F came out at 18.5 and for 2015F the figure is 17.8. Since the last market downturn in July 2014 CEWE shares have shown some resilience (see Fig. 5).
- **Risks:** Slowing demand for value added photofinishing products; Online Print division does not grow as expected; Q4 operational performance will be weaker than expected

Valuation update

Our valuation for the CEWE shares is based on a combination of a Discounted Cash Flow analysis (DCF) and a peer-group multiple-analysis. Both methods are equally weighted.

Discounted cash Flow analysis

To assess the equity value of CEWE we have primarily employed our three-stage DCF-model to determine future free cash flows. In the first stage we calculate a detailed P&L, Balance sheet and Cash Flow statements for the period up to 2016F based on information provided by the company and our market assessment. In stage two we switch over to a trend analysis until 2023F for some key value drivers like e.g. sales growth, EBIT-margin or capex. In the third stage we analyse and calculate on the basis of a going-concern assumption the terminal value. Currently we use a terminal growth rate of 2%, a beta of 1.2 and a risk free rate of 4.0%. Compared to our last update (14 August 2014) these factors have not changed.

Fig 1 CEWE KGaA: DCF-valuation

(€m)	Detailed forecast					Trend analysis					Term. value
	2014F	2015F	2016F	2017F	2018F	2019F	2020F	2021F	2022F	2023F	
Value driver											
Sales Growth	0.8%	3.0%	2.7%	3.0%	3.2%	3.3%	3.2%	3.2%	3.2%	3.2%	2.0%
EBIT-margin	6.3%	6.5%	6.6%	6.3%	6.0%	6.3%	6.2%	6.2%	6.2%	6.2%	5.0%
Depreciation / Sales	6.5%	6.5%	6.4%	6.5%	6.5%	6.4%	6.5%	6.5%	6.5%	6.5%	5.0%
Capex / sales	6.5%	5.8%	4.7%	5.2%	5.3%	5.1%	5.2%	5.2%	5.1%	5.2%	5.0%
Working Capital /Sales	7.0%	9.2%	11.3%	9.2%	9.9%	10.1%	9.7%	9.9%	9.9%	9.9%	7.6%
Net Sales	533.0	549.0	564.0	580.9	599.4	619.4	639.1	659.7	681.1	703.0	717.1
Operating costs	-499.3	-513.5	-527.0	-544.3	-563.5	-580.5	-599.5	-619.1	-638.9	-659.6	-681.2
EBIT	33.7	35.5	37.0	36.6	35.9	38.9	39.5	40.6	42.3	43.5	35.9
Operating cash-taxes	-10.1	-10.7	-11.1	-11.0	-10.8	-11.7	-11.9	-12.2	-12.7	-13.0	-10.8
NOPAT	23.6	24.9	25.9	25.6	25.1	27.2	27.7	28.4	29.6	30.4	25.1
Depreciation / Amortization	34.8	35.8	36.0	37.6	38.7	39.9	41.3	42.6	43.9	45.4	35.9
Chg. in oth. non-cash items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.2
Operating Cash Flow	58.4	60.7	61.9	63.3	63.8	67.1	69.0	71.0	73.5	75.8	60.7
Capital expenditure	-34.5	-32.1	-26.7	-30.2	-31.5	-31.4	-33.1	-34.1	-35.0	-36.3	-35.9
Change in Working Capital	-12.3	-13.4	-12.9	10.3	-6.0	-3.3	0.5	-3.2	-2.2	-1.7	14.8
Other adjustments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Free Cash Flow (FCF)	11.6	15.1	22.3	43.4	26.3	32.4	36.4	33.7	36.4	37.8	39.7
Cost of capital	9.7%	9.7%	9.7%	9.7%	9.7%	9.7%	9.7%	9.7%	9.7%	9.7%	7.8%
ROCE	12.1%	12.1%	12.3%	12.6%	12.1%	13.1%	13.4%	13.7%	14.3%	14.7%	12.1%
Present value of FCF	11.4	13.6	18.3	32.4	17.9	20.1	20.6	17.4	17.1	16.2	292.0
Non-operating assets	0										
Enterprise value	477.1										
Net debt (-) / net cash (+)	-20.3										
Pension provisions	-18.5										
Minorities	0										
Other	0										
Equity value	438.3										
Number of shares (m)	7.21										
Equity value per share (€)	60.76										
						Risk free rate	4.0%		Beta	1.2	
						Risk premium	5.0%		Equity ratio	60.0%	

Source: BHF-BANK estimates

CEWE will continue with its proven strategy. Management wants to keep the leading position in Europe's Photofinishing business and further topline growth should be generated by the Online Print division. In our own scenario the EBIT for Online Print will turn into a positive area in FY 2016F and reach €1.0m. Volume growth for the CEWE Photobook will be generated by some innovations, e.g. in paper format and size, which should lead to higher prices per print. The same strategy will be followed for CEWE cards, CEWE calendars and other applications. Important for the profitability is a rise in the price per picture. In 3Q2014 it increased by 8.8% to €0.1498 compared to 3Q last year.

Based on our operational assumptions our DCF-model calculates an enterprise value of €477.1m (old: €473.5m), of which the terminal value account for 61.2%. Including net debt and pensions the equity value is €438.3m or €60.76 (old: €61.26) per share, including a slightly higher number of shares.

Fig 2 CEWE KGaA: DCF-model - sensitivity

		Discount rate (WACC)				
		6.8%	7.3%	7.8%	8.3%	8.8%
Growth rate	3.0%	88.36	77.65	69.16	62.27	56.55
	2.5%	80.61	71.76	64.57	58.61	53.60
	2.0%	74.46	66.97	60.76	55.54	51.08
	1.5%	69.48	63.01	57.56	52.92	48.91
	1.0%	65.35	59.67	54.83	50.65	47.01

Source: BHF-BANK estimates

Peer group valuation

Our peer group has not changed compared to our last update in August. Since then markets have somewhat recovered and stock multiples have improved.

Fig 3 CEWE KGaA: Peer group valuation I

Company	EV / EBITDA		EV / EBIT		EV / Sales	
	2014F	2015F	2014F	2015F	2014F	2015F
Vistaprint NV	9.6	8.4	18.2	13.7	1.5	1.4
Villeroy & Boch AG	4.6	4.2	7.6	6.8	0.4	0.4
Bic Camera, Inc.	10.1	9.3	13.2	11.9	0.3	0.3
Hawesko Holding AG	12.5	11.0	15.9	13.5	0.9	0.8
Average	9.2	8.2	13.7	11.5	0.8	0.7
Median	9.9	8.8	14.5	12.7	0.6	0.6
Variance	11.1	8.3	20.9	10.4	0.3	0.2
Standard deviation (SD)	2.9	2.5	4.0	2.8	0.5	0.4
Median + 1/4 SD (Max.)	10.6	9.5	15.5	13.4	0.8	0.7
Median - 1/4 SD (Min.)	9.2	8.2	13.5	12.0	0.5	0.5
	Min. 14F	Min. 15F	Min. 14F	Min. 15F	Min. 14F	Min. 15F
Band width Peer group	9.2	8.2	13.5	12.0	0.5	0.5
CEWE: EBITDA, EBIT, Sales, (€m)	68.5	71.3	33.7	35.5	533.0	549.0
CEWE: Enterprise value (€m)	628.0	585.8	456.7	427.2	274.7	276.1
CEWE: Net debt (-) / Net cash (+); other, (€m)	-38.8	-35.6	-38.8	-35.6	-38.8	-35.6
CEWE: Equity value (€m)	589.3	550.3	417.9	391.6	235.9	240.6
CEWE: Number of shares (m)	7.214	7.214	7.214	7.214	7.214	7.214
CEWE: Equity value per share (€)	81.68	76.28	57.93	54.28	32.70	33.35
	Max. 14F	Max. 15F	Max. 14F	Max. 15F	Max. 14F	Max. 15F
Band width Peer group	10.6	9.5	15.5	13.4	0.8	0.7
CEWE: EBITDA, EBIT, Sales, (€m)	68.5	71.3	33.7	35.5	533.0	549.0
CEWE: Enterprise value (€m)	726.9	674.7	523.5	476.7	400.3	393.4
CEWE: Net debt (-) / Net cash (+); other, (€m)	-38.8	-35.6	-38.8	-35.6	-38.8	-35.6
CEWE: Equity value (€m)	688.1	639.1	484.7	441.1	361.5	357.8
CEWE: Number of shares (m)	7.214	7.214	7.214	7.214	7.214	7.214
CEWE: Equity value per share (€)	95.39	88.59	67.19	61.15	50.11	49.59

Source: FactSet, BHF-BANK estimates

EV/EBIT 2014F (Min; see Fig.3) leads to an equity value per share of €57.93 (old: €57.42; last update from August 2014), while the maximum value came out at €67.19 (old: €65.85) per share. The EV/EBIT 2014F median for the peer group increased from 13.9 to now 14.5.

Fig 4 CEWE KGaA: Peer group valuation II

Company	P / E			
	2014F	2015F		
Vistaprint NV	17.8	15.1		
Villeroy & Boch AG	13.5	11.8		
Bic Camera, Inc.	17.2	16.3		
Hawesko Holding AG	22.0	18.9		
Average	17.6	15.5		
Median	17.5	15.7		
Variance	12.1	8.6		
Standard deviation (SD)	3.0	2.5		
Median + 1/4 SD (Max.)	18.3	16.3		
Median - 1/4 SD (Min.)	16.8	15.1		
	Min. 14F	Max. 14F	Min. 15F	Max. 15F
Band width P/E	16.8	18.3	15.1	16.3
CEWE KGaA, EPS (€)	3.33	3.33	3.46	3.46
CEWE KGaA, price (€)	55.86	60.88	52.00	56.40

Source: FactSet, BHF-BANK estimates

P/E multiples have shown a stronger increase than EV-multiples. P/E 2014F of Vistaprint of 17.8 is very close to the median of 17.5. In case of Hawesko the company most recently was a target for a takeover bid from its main shareholder Tocos. Excluding Hawesko in the P/E 2014F computation, the median came down slightly to 17.2 and this will lead to a price for CEWE of €55.82 per share.

Valuation summary

Fig 5 CEWE KGaA: Market value equity per share 2014F

	Minimum	Maximum	Average	Weight
EV/Sales	32.70	50.11	41.41	25%
EV/EBITDA	81.68	95.39	88.54	25%
EV/EBIT	57.93	67.19	62.56	25%
PER	55.86	60.88	58.37	25%
DCF-model: Fair value (€)		60.76		
Multiples average (equal weight)			62.72	50%
DCF-model: Fair value (€)			60.76	50%
CEWE: Target price per share (€)			61.74	

Source: FactSet, BHF-BANK estimates

Individual valuation figures were summarized in Fig.5. Equal weighted multiple valuation lead to a new and higher average price of €62.72 (old: €59.73) per share. In contrast the DCF-based fair value came down to €60.76 (old: €61.26) per share. Our new target price came out at €61.74 (old: €60.49) rounded down to €61.70 per share. This is only in minor change and we have not changed our general and positive view on the company and the shares. Currently the shares will have an upside potential of 18%.

Since our last update (share price: €50.15) the shares improved by 4.3%. Fig. 6 indicated that the shares have shown some resilience in the last downturn since July 2014. The group is less exposed to the various areas of political crisis in Eastern Europe and the Middle East. CEWE is less dependent on exports and the business is less volatile in times of economic downturns and vice versa.

Fig 6 CEWE: Index and share performance

	03/07/2014	17/11/2014	% change
DAX	10,029.4	9,306.4	-7.2%
SDAX	7,512.5	6,829.0	-9.1%
CEWE	53.60	52.31	-2.4%

Source: FactSet

9M 2014 results: CEWE on track to reach guidance

The positive volume trend of the first half 2014 continues in 3Q 2014. Volume of the most important single product, the CEWE photobook, was up 4.8% (y-o-y) to 1.413m units. Accumulated for the first nine months 3.673m (+3.7%, y-o-y) CEWE photobooks were sold. Given this result, CEWE so far is well above their own volume target 2014 for photobooks which is an increase of 1% to 2% versus last year. Given the strong 4Q with the Christmas business we are looking for a full year 2014F figure of 5.880m (+1.9%). In order to reach it, in 4Q 2014 CEWE has to sell 2.206m photobooks, which is in our view realistic to reach. 4Q 2013 the company has shipped 2.224m photobooks to customers.

9M 2014 group sales declined by 3.4% down to €329.0m, and the decrease is mainly explained by the planned reduction of the wholesale business in the Retail division. The growth in the Photofinishing division could not fully compensate the decline in Retail. Based on total sales the Photofinishing division account for 75% (9M 2013: 67.9%) of the group's total, while Retail and Online Print accounts for 15% each. Consolidation/Other account for 5%. 9M 2014 group EBIT was stable at €-4.1m. Q3 2014 EBIT of €3.2m was significantly below last year's figure of €6.2m. The gap is explained mainly by €1.2m costs for the Photokina trade fair, which takes place every second year and by higher marketing expenses for the upcoming Christmas season. Supported by a higher print volume the Online Print division was able to improve the EBIT from €-3.2m (9M 2013) to €-2.6m in 2014. 9M 2014 operating cash flow showed a favourable increase to €22.8m (9M 2013: €7.1m) thanks to an improvement in the working capital.

Fig 7 CEWE KGaA: 2014 quarterly breakdown

(€m)	1Q14	2Q14	3Q14	4Q14F	FY14F
CEWE photobooks (m)	1,142.0	1,118.1	1,413.3	2,206.6	5,880.0
Group sales	102.7	104.5	121.8	204.0	533.0
YoY (%)	-3.7%	-6.4%	-0.4%	8.5%	0.8%
EBIT	-4.0	-3.3	3.2	37.8	33.7
EBIT-margin (%)	-3.9%	-3.2%	2.6%	18.5%	6.3%
EPS (€)	-0.77	-0.41	0.38	4.13	3.33

Source: Company data, BHF-BANK estimates

CEWE again has confirmed the financial guidance for 2014. Group sales should be in a corridor between €525-540m. By updating our model we are estimating now group sales 2014F €533m (old: €534m). The Online Print division is expected to reach €71m which is in line with the mid-term growth story. It is the company's target to reach the €100m-level in fiscal year 2016F. The EBIT guidance also has not changed and ranks between €30-36m. We have slightly reduced our full year 2014F estimate to €33.7m (old: €34.3m). On this basis we estimate the EBIT-margin to improve from 5.6% (2013) to 6.3% in 2014F (see Fig.7). Reasons for the improvement are the shortfall of the low profit wholesales business, reduced losses at Online Print and an increase of the value per photo. Finally our new EPS forecast 2014F came out at €3.33 compared to the old estimate of €3.39.

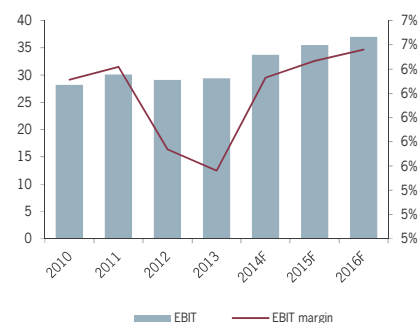
Given CEWE's general dividend policy and based on our estimates 2014F we see a solid ground for a further increase in the dividend per share. We estimate €1.55 per share after €1.50 a year earlier. Given the current share price of €52.31 (closing price as of 17.11.2014) the dividend yield came out at 2.96%.

Sales and sales growth



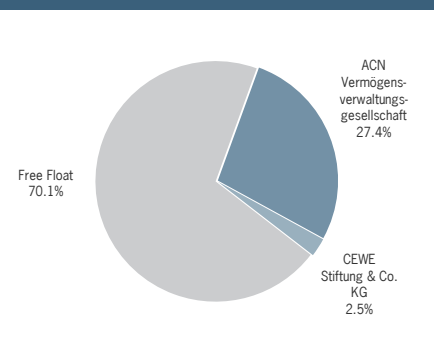
Source: Company data, BHF-BANK estimates

EBIT and EBIT margin



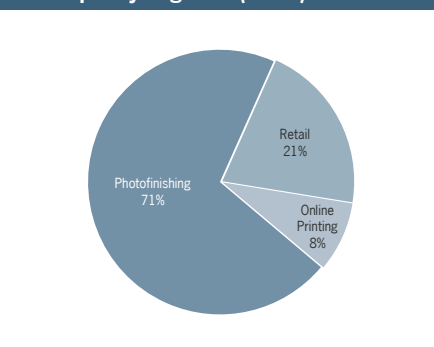
Source: Company data, BHF-BANK estimates

Shareholder structure



Source: Company data, BHF-BANK estimates

Sales split by segment (2013)



Source: Company data, BHF-BANK estimates

Profit & loss (€m)

	2012	2013	2014F	2015F	2016F
Sales	507	529	533	549	564
YoY	8.1%	4.2%	0.8%	3.0%	2.7%
EBITDA	66	67	69	71	73
EBITDA growth YoY	3.9%	1.8%	1.8%	4.1%	2.4%
EBITDA margin	13.0%	12.7%	12.9%	13.0%	12.9%
EBIT	29	29	34	36	37
EBIT growth YoY	-3.3%	1.0%	14.7%	5.3%	4.2%
EBIT margin	5.7%	5.6%	6.3%	6.5%	6.6%
Net income (rep.)	19	22	23	24	25
Net income (adj.)	19	22	23	24	25
EPS (€)	2.88	3.29	3.33	3.46	3.60
EPS growth YoY	1.4%	14.2%	1.1%	3.8%	4.2%
Gross profit margin	63.4%	64.1%	64.3%	63.9%	63.9%
Net income margin (adj.)	3.7%	4.1%	4.3%	4.4%	4.5%

Balance sheet data (€m)

	2012	2013	2014F	2015F	2016F
Intangibles / Goodwill	50	45	43	39	36
Total non-current assets	166	160	159	156	146
Cash & equivalents	13	14	13	17	27
Total current assets	158	172	176	186	205
Shareholder's equity	131	140	153	166	180
Net debt(-) / net cash(+)	-41	-40	-38	-35	-25

Cash flow statement (€m)

	2012	2013	2014F	2015F	2016F
Net income, as rep.	19	22	23	24	25
Depreciation & amortization	37	38	35	36	36
NWC changes	-6	-13	-12	-13	-13
Other non-cash items	2	2	2	0	1
Operating cash flow	51	48	48	48	50
Capex	-34	-36	-35	-32	-27
Free cash flow	26	29	38	45	51
Dividends	9.48	9.87	10.78	10.97	11.32
Change in net debt	35.6	-1.2	-1.2	-3.2	-10.4
Operating cash flow / sales	10.1%	9.1%	9.0%	8.7%	8.8%
Free cash flow / sales	5.1%	5.5%	7.2%	8.1%	9.0%

Key financials matrix

	2012	2013	2014F	2015F	2016F
BVPS (€)	19.95	21.35	21.97	23.47	25.49
PBR (x)	1.57	1.68	2.38	2.23	2.05
ROE	14.4%	15.4%	15.2%	14.7%	14.1%
ROCE	16.1%	15.7%	17.1%	17.5%	18.2%
Net working capital / sales	5.7%	8.2%	10.3%	11.7%	13.0%
Current ratio (x)	1.14	1.20	1.09	1.22	1.39
Gearing (net)	31.3%	28.2%	25.1%	21.2%	13.8%
Equity ratio	40.3%	42.4%	45.6%	48.6%	51.4%
Net debt / EBITDA (x)	-0.6	-0.6	-0.6	-0.5	-0.3
OCFPS (€)	7.8	7.2	7.2	7.2	7.5
P / OCF (x)	4.0	4.9	7.9	7.9	7.6
FCFPS (€)	3.98	4.40	5.52	6.30	7.18
FCF Yield	12.7%	12.3%	10.2%	11.8%	13.5%
Capex / sales	-6.7%	-6.8%	-6.5%	-5.8%	-4.7%
Payout ratio	48.9%	44.0%	46.5%	45.7%	43.9%

Source: Company data, BHF-BANK estimates

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Equity rating key

We have changed our stock recommendations with effect from 26 October 2010. Our ratings are now:

Overweight: We rate the share as significantly undervalued.

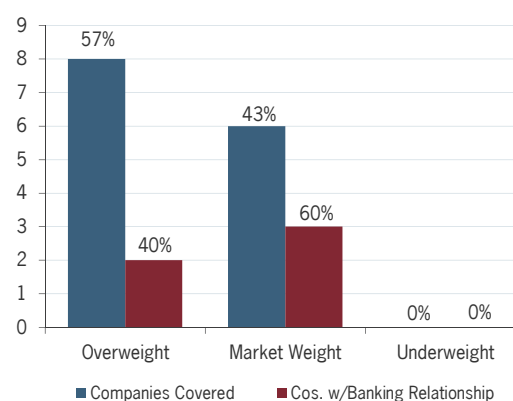
Market Weight: We rate the share valued in line with the market.

Underweight: We rate the share as significantly overvalued.

These ratings relate to our expected performance for each stock relative to their respective sector within the German market over the next twelve months. Our ratings are arrived at by comparing DCF valuations, peer group multiples and asset based valuations across analogue stocks within the sector and market.

Stocks previously rated Strong Buy are now rated Overweight. Stocks previously rated Buy or Reduce are now rated Overweight, Market Weight or Underweight, depending on the balance of expected relative performance. Stocks previously rated Sell are now rated Underweight. We will update our ratings on each stock with each new publication.

Equity rating dispersion and banking relationships



Company	ISIN	Price	Disclosure
CEWE	DE0005403901	€52.31 (17/11/2014)	2,5



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CEWE^[2,5]

	Date of statement	Recommendation		Date of statement	Recommendation
Update	14/08/2014	Overweight	First Take	28/03/2014	Overweight
Update	05/06/2014	Overweight	First Take	26/02/2014	Overweight
First Take	13/05/2014	Overweight	Update	26/11/2013	Overweight

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