

Retail & Consumer Goods

CEWE

Online Print will be the main growth driver

Overweight

Old: Overweight

Target price: €66.30

Old: €63.50

Current price: €56.60

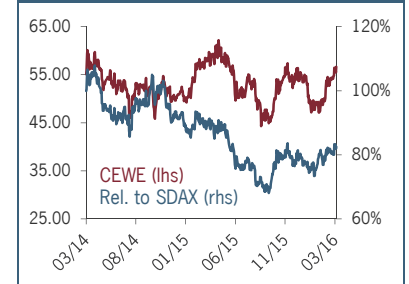
(30 March 2016)

Next event:

Q1 16: 12 May 2016

- ◆ **FY 2015 in line (analyst meeting):** Final figures are in line with the preliminary results from February. Reported EBIT 2015 came out at €36.8m and correlates to a margin of 6.6%. Online Print has reached break-even on EBIT-level excluding the PPA-effect: €1.2m or margin of 1.5%. Reported EBIT came out at €-0.9m.
- ◆ **Financial guidance 2016F – further growth:** Excluding the VAT issue CEWE has set a new sales target range of €555-575m while we are estimating €566m. The EBIT-range was set at €38-44m and signals further growth. We forecast an EBIT of €40.5m of which Photofinishing should contribute €40.7m and Online Print €0.3m (including PPA); Retail is expected to report a negative EBIT of €-0.5m.
- ◆ **Increase of VAT for photobooks unclear:** One of the uncertainties for our forecasts is a possible increase of the VAT for photo books in Germany and Austria which may come into effect as of 25 Dec. 2015. Outcome and time of a final decision is unclear. According to CEWE a possible EBIT-effect might be between "0" and a high single-digit €m value. We have not yet included an effect in our estimates (scenarios see Fig. 2).
- ◆ **OW confirmed:** Main triggers are new products and innovations in Photofinishing, earnings growth in Online Print and an overall value creating business model (ROCE >16% vs. our WACC of 7.8%). **Key risks:** 1) Changing customer behaviour could lead to slowing demand for value added photo products. 2) Online Print division will become profitable later than expected. 3) Q4 operational performance will be weaker than expected. 4) VAT increase for photo books will not be cancelled.

Share price performance



Share data

Free float (%)	70
Daily volume ('000, 3M avg.)	12.0
Shares outstanding ('000)	7,400
Reuters code	CWCG.DE
Bloomberg code	CWC GR
Index	SDAX

Key data

Market cap (€m)	418.8
EV (€m)	415.8
5y EPS CAGR	8.8%
5y Total Return/SDAX	23.1%

Performance (%)

	1 M	6 M	12 M
Absolute	9.1	13.8	-3.1
Relative	3.2	7.2	-7.7

Source: Datastream, BHF-BANK

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Key ratios (€m)	2014	2015	2016F		2017F	2018F
	Actual	Actual	BHF-BANK	Consensus*	BHF-BANK	BHF-BANK
Sales	524	554	566	552	579	591
EBITDA	66	75	76	76	78	79
EPS (€)	3.08	3.23	3.83	3.70	4.06	4.22
Dividend per share (€)	1.55	1.60	1.65	1.69	1.70	1.70
EV/Sales	0.71	0.72	0.73	0.77	0.68	0.63
EV/EBITDA	5.6	5.3	5.4	5.6	5.0	4.7
EV/EBIT	11.5	10.8	10.1	10.9	9.2	8.4
PER	16.7	16.6	14.8	15.3	13.9	13.4
Dividend yield	3.0%	3.0%	2.9%	3.0%	3.0%	3.0%
FCF yield	8.3%	5.6%	9.5%	4.7%	10.4%	11.2%
Net fin. debt(-) / cash(+)	-2	-8	3	28	20	39

*Bloomberg Finance LP

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 and focuses on individualised mass customisation; long-term the management is searching for new online business opportunities and therefore has taken a share in the German “High-Tech Gründerfonds (HTGF II)”.
- Growing mobile users: In the Photofinishing division CEWE is increasing the sales of value-added products like e.g. the CEWE PHOTOBOOK, CEWE CALENDAR, CEWE CARDS or CEWE WALL ART, which should constantly increase the revenue per print (2015: +10.3% to €0.1857 compared to 2014). CEWE’s newly launched Fotowelt Apps addresses new smartphone and tablet customers for photobooks and other products.
- Currently we have identified three main points for the attractiveness of the CEWE shares:
 - The new solution “CEWE MYPHOTO” will stimulate demand for photo products and will strengthen customer loyalty. A soft market launch was made since summer 2015 and in the meantime it is available for instance at the retail partner Budnikowski (Budni) in the Hamburg region. The rollout will continue.
 - The new division Online Print will be the main driver for further growth of the group and we expect the EBIT to become more positive in FY2016F with €0.3m (2012: €-4.8m) including PPA-effects. According to the management the operating EBIT before PPA-effects 2015 came out at €1.2m (PPA effect was €2.1m).
 - Attractive valuation: Since its last low at 09 February 2016 at €47.11 the shares clearly have recovered. We continue to see further upside potential. P/E 2016F stands at 14.8x and for 2017F at 13.9x. This compares to the sector P/E for consumer stocks of 22.4x (2016F) respectively of 20,1x (2017F). Cimpres, its biggest rival in Online Print, is traded at a P/E of 21,2x (2016F) and at 19.2x (2017F). Based on our updated target price of €66.30 per share the implicit P/E 2016F is at 17.3x.
- **Key risks:** 1) Changing customer behaviour could lead to slowing demand for value added photo products. 2) Online Print division will become more profitable later than expected by the financial community. 3) Q4 operational performance will be weaker than expected. 4) The value added tax increase for Germany and Austria coming from the EU’s Customs Code Committee will not be cancelled as hoped by the company.

Valuation update

- Updated DCF-fair value per share at €55.97 (old: 58.18)
- Peer-group multiples lead to higher value than DCF-model
- Implicit P/E based on our target price: 2016F: 17.3x; 2017F: 16.3x

We have not changed our valuation approach and continue to use our DCF-model and a peer-group valuation. We have included FY2015 results and introduce our 2018F estimates. Our updated DCF-based fair value came out at €55.97 (old: €58.18) per share and is slightly lower due to moderate reduced growth rates. Peer-group-multiples again (see our last update from 14 December 2015) resulted in a higher equal weighted average share price of €76.63 compared to our DCF-model. Based on our own definition (including pensions) CEWE in FY2015 had a minor net debt position of €8.4m. Looking forward this changed in 2016F and 2017F into a net cash position and we forecast for 2017F a value of €20m.

Fig 1 CEWE Stiftung: Market value equity per share 2017F (€)

	Minimum	Maximum	Average	Weight
EV/Sales	53.24	76.20	64.72	25%
EV/EBITDA	95.93	107.64	101.78	25%
EV/EBIT	66.13	77.28	71.71	25%
PER	65.60	71.04	68.32	25%
DCF-model: Fair value	55.97			
Multiples average (equal weight)			76.63	50%
DCF-model: Fair value			55.97	50%
CEWE: Target price per share			66.30	

Source: FactSet, BHF-BANK estimates

The total equal weighted new target price for the CEWE shares came out at €66.30 (old: €63.50) per share. Based on the current share price of €56.60 that offers an upside potential of 17.1%. The implicit P/E 2016F stands at 17.3x and for 2017F at 16.3x. This compares to the consumer stocks sub-index (Thomson Reuters) with a P/E 2016F of 22.4x and 2017F of 20,1x.

Looking forward one of the uncertainties is a possible increase of the value added tax for photo books in Germany and Austria which may come into effect as of 25 December 2015. Background: The increase is based on a decision made by the EU's Customs Code Commission, which allocated photo books to a new customs tariff. In Germany and Austria value added tax is linked to these EU custom tariffs. For Germany the tax rate should go up from 7% to 19% and in Austria it should jump from 10% to 20%. CEWE together with its rivals supported by the "Photoindustrie-Verband" is fighting for redemption of this tax increase.

Outcome and time of a final decision is unclear. Currently CEWE is still charging 7% and has decided to build provisions for the difference of 12%-points. A backdated increase is not likely in our view. According to the company a possible effect on the EBIT might be between "0" and a high single-digit €m value.

In order to reflect these uncertainties we have done a scenario analysis based on our DCF-model (see Fig.2). Taken into account that photo books account for roughly 50% of the Photofinishing division and that only Germany and Austria are affected, we arrive at a relevant sales volume of ~€140m.

The base case (see Fig.2) is our "official case". Due to the unclear outcome of the VAT issue we have not yet included any effect in our DCF-based fair value per share of €55.97. Our main scenario is that the Photofinishing division can maintain its high margin level and that Online Print will improve its EBIT-margin step by step. Concerning financials the group will maintain its net-cash-position.

Fig 2 CEWE KGaA: DCF scenario analysis

	Sales growth (%)				TV * Sales growth (%)	EBIT-margin (%)				TV * EBIT margin (%)	Fair value (€)
	16F	17F	18F	19 - 25F		16F	17F	18F	19 - 25F		
Bull case II	2.9	3.0	3.1	3.0	2.0	7.5	7.8	8	7.8 - 7.9	7.0	62.27
Bull Case I	2.7	2.8	2.7	2.7 - 2.8	2.0	7.3	7.5	7.5	7.4 - 7.5	6.5	57.47
Base case	2.2	2.3	2.0	2.0 - 2.1	2.0	7.2	7.4	7.5	7.3 - 7.4	6.0	55.97
Bear case I	-0.6	1.1	1.4	0.6 - 1.1	2.0	6.7	6.8	6.9	6.8 - 6.9	5.5	44.93
Bear case II	2.2	2.3	2.0	2.0 - 2.1	2.0	5.0	5.2	5.5	5.3	5.0	40.56

Source: BHF-BANK estimates

“Bear case II” is the most negative one. Our assumption is that CEWE's EBIT 2016F is burdened by €9.9m. In this case the company will not surpass any VAT increase to its customers but on the other side will not lose photo book customers. Taken the lower end of the EBIT guidance for 2016 of €38.44m, we deduct from the lower end €9.9m and arrive at €28.1m. In general the EBIT-margin level will be lower for the upcoming years. “Bear Case I” has the variation that CEWE takes only 50% of the VAT increase on its own account while the remaining 50% is charged to the customers. In our view customers will have a low price sensitivity but we take into account somewhat lower sales in the Photofinishing division.

“Bull Case I” takes into account no VAT increase at all and assumes that CEWE will be able to slightly increase market share for photo books and can sell more value-added products so that the price per print likely will increase. The Online Print division is able to increase its EBIT-margin slightly faster than in our base case. That leads also to a higher margin assumption for the terminal value calculation. “Bull Case II” is somewhat more optimistic. Photofinishing is increasing market share and the Online Print division will reach a margin level of 6% in 2018F. It was stated by the company that the long-term EBIT-margin target should reach a level between 6-8%.

Outlook 2016F

Fig 3 CEWE KGaA: 2016F quarterly breakdown

(€m)	1Q 16F	2Q 16F	3Q 16F	4Q 16F	FY 2016F
CEWE photobooks (units m)	1,160	1,125	1,385	2,380	6,050
Group sales	107.1	108.0	128.8	222.2	566.1
YoY (%)	0.3%	1.8%	2.6%	3.0%	2.2%
EBIT	-2.6	-3.2	4.1	42.2	40.5
EBIT-margin (%)	-2.4%	-3.0%	3.2%	19.0%	7.2%
EPS (€)	-0.49	-0.30	0.45	4.17	3.83

Source: BHF-BANK estimates

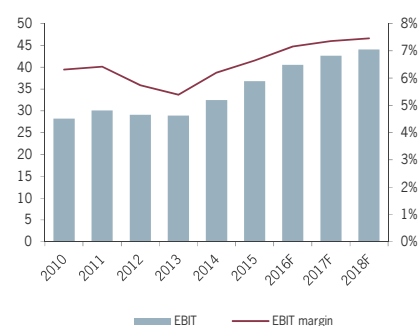
In our view the seasonal breakdown of sales and earnings likely will continue also in FY2016F and thereafter. That's why we estimate an Q1 16F EBIT of €-2.6m. Concerning EBIT again Q4 has to deliver more than 100% of the full-year EBIT of €40.5m. Thereof, Photofinishing will contribute €40.7m, while Online Print is expected to reach €0.3m including PPA. Our EPS-forecast of €3.83 compares to the Bloomberg consensus of €3.70 per share. This scenario gives room for another dividend increase in our view and we forecast €1.70 per share. The Photokina trade fair (20th to 25th September 2016) could slightly stimulate business in Q3 as well as the most important Christmas business in Q4.

Sales and sales growth



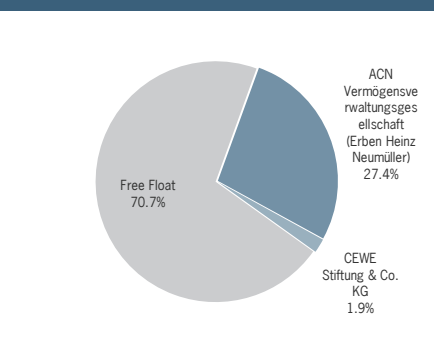
Source: Company data, BHF-BANK estimates

EBIT and EBIT margin



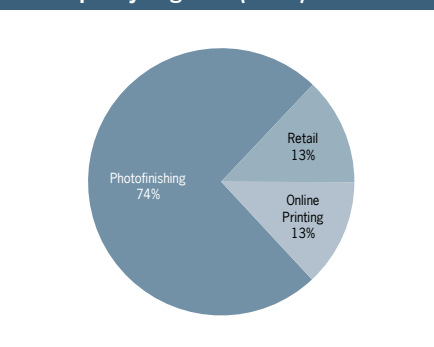
Source: Company data, BHF-BANK estimates

Shareholder structure



Source: Company data, BHF-BANK estimates

Sales split by segment (2014)



Source: Company data, BHF-BANK estimates

Profit & loss (€m)

	2014	2015	2016F	2017F	2018F
Sales	524	554	566	579	591
YoY	-2.3%	5.8%	2.2%	2.3%	2.0%
EBITDA	66	75	76	78	79
EBITDA growth YoY	-1.2%	13.9%	1.1%	2.2%	1.1%
EBITDA margin	12.6%	13.6%	13.4%	13.4%	13.3%
EBIT	33	37	41	43	44
EBIT growth YoY	12.5%	13.2%	10.1%	5.2%	3.4%
EBIT margin	6.2%	6.6%	7.2%	7.4%	7.5%
Net income (rep.)	21	23	27	29	30
Net income (adj.)	21	23	27	29	30
EPS (€)	3.08	3.23	3.83	4.06	4.22
EPS growth YoY	-9.0%	4.9%	18.5%	6.0%	3.8%
Gross profit margin	68.9%	70.7%	69.2%	69.2%	69.2%
Net income margin (adj.)	4.1%	4.2%	4.8%	5.0%	5.1%

Balance sheet data (€m)

	2014	2015	2016F	2017F	2018F
Intangibles / Goodwill	45	55	52	49	45
Total non-current assets	168	182	188	189	189
Cash & equivalents	28	22	33	50	69
Total current assets	172	173	184	200	218
Shareholder's equity	174	187	203	220	238
Net debt(-) / net cash(+)	-2	-8	3	20	39

Cash flow statement (€m)

	2014	2015	2016F	2017F	2018F
Net income, as rep.	21	23	27	29	30
Depreciation & amortization	34	38	36	35	35
NWC changes	13	-8	1	1	1
Other non-cash items	3	6	1	2	2
Operating cash flow	71	60	65	68	68
Capex	-38	-41	-39	-37	-34
Free cash flow	30	21	38	42	45
Dividends	10.79	11.41	11.77	12.13	12.13
Change in net debt	-39.0	6.1	-11.3	-17.1	-19.1
Operating cash flow / sales	13.6%	10.8%	11.4%	11.7%	11.5%
Free cash flow / sales	5.6%	3.8%	6.8%	7.3%	7.7%

Key financials matrix

	2014	2015	2016F	2017F	2018F
BVPS (€)	24.95	26.24	28.45	30.83	33.32
PBR (x)	2.06	2.04	1.99	1.84	1.70
ROE	12.3%	12.1%	13.3%	13.0%	12.5%
ROCE	17.9%	17.4%	18.9%	20.0%	21.0%
Net working capital / sales	6.5%	8.7%	8.3%	7.7%	7.1%
Current ratio (x)	1.06	1.25	1.30	1.41	1.54
Gearing (net)	1.2%	4.4%	-1.5%	-9.2%	-16.5%
Equity ratio	51.1%	52.6%	54.5%	56.6%	58.4%
Net debt / EBITDA (x)	0.0	-0.1	0.0	0.3	0.5
OCFPS (€)	10.2	8.4	9.0	9.5	9.5
P / OCF (x)	5.2	6.5	6.4	6.1	6.1
FCFPS (€)	4.24	2.98	5.37	5.89	6.34
FCF Yield	8.0%	5.5%	9.3%	10.2%	11.0%
Capex / sales	-7.2%	-7.3%	-6.9%	-6.3%	-5.8%
Payout ratio	49.5%	48.1%	42.5%	41.4%	41.1%

Source: Company data, BHF-BANK estimates

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

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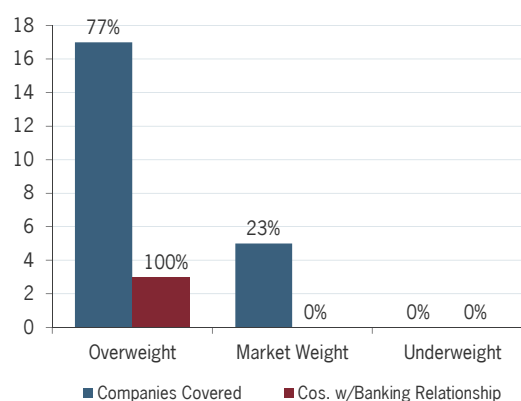
Market Weight: We rate the share valued in line with the market.

Underweight: We rate the share as significantly overvalued.

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Equity rating dispersion and banking relationships



Company	ISIN	Price	Disclosure
CEWE	DE0005403901	€56.60 (30/03/2016)	2,4,5



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CEWE^[2,4,5]

	Date of statement	Recommendation		Date of statement	Recommendation
First Take	25/02/2016	Overweight	First Take	11/08/2015	Overweight
First Take	22/01/2016	Overweight	Report	25/06/2015	Overweight
Update	14/12/2015	Overweight	First Take	12/05/2015	Overweight
First Take	18/09/2015	Overweight			

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