



CEWE Stiftung & Co. KGaA

Neutral ↘ | Target 84.00 EUR vs 80.00 EUR ↗

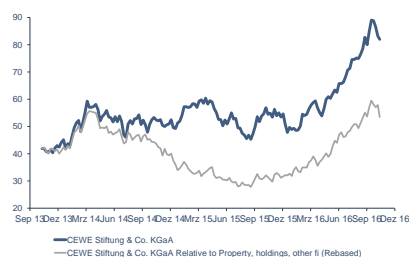
Price (11/10/2016) : 81.99 EUR | Upside : 2 %

Est.chng	2016e	2017e
EPS	-0.1%	0.0%

Strong Q3 figures included one-off items, guidance hike as expected

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Capital	
CWC GY CWC.G.DE	
Market Cap (EURm)	607
Enterprise value (EURm)	569
Extrema 12 months	47.11 - 90.55
Free Float (%)	70.5

Performance (%)	1m	3m	12m
Absolute	-5.8	13.2	48.5
Perf. rel. Country Index	-4.9	15.0	64.9
Perf. rel. Property, holding	-6.2	12.6	70.3

P&L	12/16e	12/17e	12/18e
Sales (EURm)	586	603	621
EBITDA (EURm)	79.8	83.8	88.5
Current EBIT (EURm)	42.6	47.1	50.8
Attr. net profit (EURm)	31.5	31.7	34.2
Adjusted EPS (EUR)	4.26	4.43	4.78
Dividend (EUR)	1.70	1.75	1.85
P/E (x)	19.2	18.5	17.2
P/B (x)	2.8	2.6	2.4
Dividend Yield (%)	2.1	2.1	2.3
FCF yield (%)	2.3	4.6	5.2
EV/Sales (x)	0.97	0.92	0.86
EV/EBITDA (x)	7.1	6.6	6.1
EV/Current EBIT (x)	13.3	11.8	10.5
Gearing (%)	-9	-15	-20
Net Debt/EBITDA(x)	ns	ns	ns

Next Events

Strong EBIT despite seasonal shift

Q3 2016 sales reached € 128.6m (Q3 2015: € 125.5m; +2.5% yoy). This included unusually high sales from deliveries of initial stocks of photofinishing products and equipment to new and existing business partners with a volume of ~€ 2.8m. CEWE qualifies these sales as “prepayments” for these business partners’ future sales of photofinishing products to consumers and therefore classifies them (as well as the earnings resulting from these sales) as a one-off factor. Without this € 2.8m, CEWE’s sales amounted to € 125.8m, which is fairly in line with our estimate (€ 126.2m).

Reported EBIT came in € 4.5m. Adjusted for one-off income of € 2.1m (€ 1.8m from the above-mentioned deliveries of initial stocks plus € 0.3m from a property sale), current EBIT accounted for € 2.4m (Q3 2015: € 2.7m). This was still above our estimate (€ -0.3m), since we had assumed a stronger impact from the seasonal shift in the Photofinishing segment (Q3 has recently shown seasonal declines in Photofinishing earnings year after year).

Guidance increased...

CEWE increased its EBIT guidance for 2016. Management now expects EBIT of € 40-46m (previously: € 38-44m), and also said that sales could come in above the previous guidance (€ 555-575m) as well.

...as we had already expected; but marketing spend to be raised

We already had expected a guidance hike and in our last update (12 August 2016) lifted our sales and earnings estimates above the previous guidance. Our estimates (sales of € 586.3m / EBIT of € 45.2m) already fit the (upper end of the) new guidance well. Hence, normally, we would not see any need to change in our estimates. In yesterday’s conference call, however, management announced that they had decided to increase their marketing spend by € 3-4m in Q4 (for TV advertising, international outdoor advertising) in order to improve CEWE’s brand recognition and thus enhance the company’s performance in the mid-term. We appreciate the decision to use the currently strong profitability to invest in the future success of the brand, but we cautiously lower our 2016 EBIT estimate from € 45.2m to € 44.0m. Since we also changed our net one-off income estimate, we set our current EBIT estimate at € 42.6m, resulting only in a little change in our adjusted EPS estimate.

Regarding 2017e, we continue to expect slower sales and earnings growth mainly due to the impending value added tax increase on photo books from 7% to 19%, which is scheduled to take effect on 1 January 2017. CEWE is still not ruling out the possibility that this VAT hike may be cancelled, since the industry association is still engaged in lobbying activities against it. However, as there is not much time left anymore, CEWE is currently preparing for the VAT increase. It remains unclear how much of the tax hike can be passed on to end customers, and how CEWE and its retail partners will split the rest of the burden. Discussion on this topic might prove complex due to the large number of retail partners. Furthermore, we expect a negative Brexit impact in CEWE’s Commercial Online Printing business.

Downgrade to Neutral due to increased share price level

Since our last update (at Buy, share at € 73.48), the share appreciated ~24% to € 90.81, but then fell back to the level of our TP. Our valuation approach (blend of DCF model and peer group comparison) supports an increase in our TP from € 80 to € 84. At the current share price level, however, we downgrade from Buy to Neutral, even though CEWE’s equity story remains convincing in our view.

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Neutral
Upside 2.45%

Price 81.99EUR
TP 84.00EUR

PER SHARE DATA (EUR)	12/11	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
Adjusted EPS	2.84	2.88	3.39	3.08	3.24	4.26	4.43	4.78
Reported EPS	2.84	2.88	3.39	3.08	3.24	4.40	4.43	4.78
Growth in EPS(%)	-	1.4%	17.6%	-9.2%	5.2%	31.7%	4.0%	7.8%
Net dividend per share	1.40	1.45	1.50	1.55	1.60	1.70	1.75	1.85
FCF to equity per share	4.65	-1.16	1.90	4.31	0.82	1.85	3.77	4.23
Book value per share	18.38	19.95	21.71	24.94	26.25	29.02	31.75	34.78
Number of shares market cap	6.54	6.54	6.58	6.96	7.13	7.16	7.16	7.16
Number of diluted shares	6.54	6.54	6.58	6.96	7.13	7.16	7.16	7.16
VALUATION	12/11	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
12m highest price	35.98	35.00	42.96	60.10	62.18	90.55		
12m lowest price	25.78	27.50	30.42	41.42	44.34	47.11		
(*) Reference price	30.89	31.38	35.82	51.37	53.64	81.99	81.99	81.99
Capitalization	202	205	236	358	383	587	587	587
Restated Net debt	-6.7	18.1	16.3	-23.5	-15.0	-18.2	-33.0	-50.8
Minorities (fair value)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial fixed assets (fair value)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Enterprise Value	195	223	252	334	368	569	554	536
P/E (x)	10.9	10.9	10.6	16.7	16.6	19.2	18.5	17.2
P/CF (x)	3.9	3.7	4.0	6.3	5.7	8.7	8.6	8.2
Net Yield (%)	4.5%	4.6%	4.2%	3.0%	3.0%	2.1%	2.1%	2.3%
FCF yield (%)	15.0%	ns	5.3%	8.4%	1.5%	2.3%	4.6%	5.2%
P/B incl. GW (x)	1.68	1.57	1.65	2.06	2.06	2.83	2.58	2.36
P/B excl. GW (x)	1.68	1.57	1.65	2.06	2.04	2.83	2.58	2.36
EV/Sales (x)	0.42	0.44	0.47	0.64	0.66	0.97	0.92	0.86
EV/EBITDA (x)	3.1	3.4	3.8	5.1	4.9	7.1	6.6	6.1
EV/EBIT (x)	6.5	7.7	8.7	10.3	10.0	13.3	11.8	10.5
(*) historical average price								
PROFIT AND LOSS (EURm)	12/11	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
Sales	469	507	536	524	554	586	603	621
EBITDA	64	66	67	66	75	80	84	89
Depreciations	-33.5	-37.0	-37.9	-33.5	-38.4	-37.2	-36.7	-37.7
Current EBIT	30.1	29.1	28.9	32.6	36.8	42.6	47.1	51
Published EBIT	30.1	29.1	28.9	32.6	36.8	44.0	47.1	51
Net financial income	-1.0	-2.2	-1.9	-1.0	-0.5	-0.5	-0.6	-0.6
Corporate Tax	-10.6	-8.0	-4.8	-10.1	-13.6	-12.4	-15.0	-16.1
Net income of equity-accounted companies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Profit/loss of discontinued activities (after tax)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minority interests	0.0	0.0	0.0	0.0	0.4	0.4	0.3	0.1
Attributable net profit	18.6	18.8	22.3	21.4	23.1	31.5	31.7	34.2
Adjusted attributable net profit	18.6	18.8	22.3	21.4	23.1	30.5	31.7	34.2
BALANCE SHEET (EURm)	12/11	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
Goodwill	9.1	28.5	25.4	25.4	37.4	36.5	36.5	36.5
Other intangible assets	13.0	21.8	20.0	19.3	17.2	15.0	13.7	13.4
Tangible fixed assets	79.2	101	98.6	103	109	121	123	124
WCR	21.8	12.0	23.8	12.0	22.8	30.7	33.8	36.9
Financial assets	13.8	14.3	19.2	21.9	20.3	20.3	20.4	20.4
Ordinary shareholders equity	120	130	143	174	187	208	227	249
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shareholders equity	120	130	143	174	187	208	227	249
Non-current provisions	23.3	29.3	27.8	31.0	34.1	34.2	34.2	34.3
Net debt	-6.7	18.1	16.3	-23.5	-15.0	-18.2	-33.0	-50.8
CASH FLOW STATEMENT (EURm)	12/11	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
EBITDA	63.6	66.1	66.8	66.0	75.1	79.8	83.8	88.5
Change in WCR	8.6	-6.0	-13.1	13.0	-7.7	-7.8	-3.1	-3.0
Interests & taxes	-10.7	-13.5	-7.9	-8.5	-12.9	-12.9	-15.6	-16.7
Others	-1.0	2.3	-0.3	-0.8	1.3	0.3	0.0	0.0
Operating Cash flow	60.4	48.9	45.7	69.8	58.9	59.4	65.0	68.8
CAPEX	-30.0	-56.5	-33.2	-39.7	-53.0	-46.2	-38.0	-38.5
Free cash-flow	30.4	-7.6	12.5	30.0	5.9	13.2	27.0	30.3
Acquisitions / disposals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends	-8.5	-9.2	-9.5	-10.6	-11.1	-11.5	-12.2	-12.5
Net capital increase	-6.5	0.5	0.5	23.7	-0.2	0.0	0.0	0.0
Others	-7.1	-11.8	-1.3	-26.0	1.6	0.0	0.0	0.0
Change in net debt	14.0	-8.6	1.4	39.7	-7.6	1.8	14.8	17.8
GROWTH MARGINS PRODUCTIVITY	12/11	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
Sales growth	-	8.1%	5.7%	-2.3%	5.8%	5.8%	2.8%	3.0%
Lfi sales growth	-	8.1%	5.7%	-2.3%	5.8%	5.8%	2.8%	3.0%
Current EBIT growth	-	-3.5%	-0.4%	12.5%	13.0%	15.8%	10.5%	7.9%
Growth in EPS(%)	-	1.4%	17.6%	-9.2%	5.2%	31.7%	4.0%	7.8%
Net margin	4.0%	3.7%	4.2%	4.1%	4.2%	5.2%	5.3%	5.5%
EBITDA margin	13.6%	13.0%	12.5%	12.6%	13.6%	13.6%	13.9%	14.3%
Current EBIT margin	6.4%	5.7%	5.4%	6.2%	6.6%	7.3%	7.8%	8.2%
CAPEX / Sales	-6.5%	-11.3%	-6.6%	-7.7%	-9.7%	-7.9%	-6.3%	-6.2%
WCR / Sales	4.7%	2.4%	4.4%	2.3%	4.1%	5.2%	5.6%	5.9%
Tax Rate	36.3%	29.9%	17.7%	32.0%	37.4%	28.5%	32.3%	32.0%
Normative tax rate	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
Asset Turnover	-	3.5	3.2	3.2	3.2	3.0	2.9	3.0
ROCE post-tax (normative tax rate)	-	14.2%	12.2%	13.9%	14.9%	15.3%	16.1%	17.0%
ROCE post-tax hors GW (normative tax rate)	-	16.3%	14.6%	16.5%	18.2%	18.9%	19.5%	20.6%
ROE	-	15.0%	16.3%	13.5%	12.8%	15.5%	14.6%	14.4%
DEBT RATIOS	12/11	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
Gearing	-6%	14%	11%	-14%	-8%	-9%	-15%	-20%
Net Debt / Market Cap	-0.03	0.09	0.07	-0.07	-0.04	-0.03	-0.06	-0.09
Net debt / EBITDA	ns	0.27	0.24	ns	ns	ns	ns	ns
EBITDA / net financial charges	66.7	30.0	35.9	63.7	163.7	148.9	139.6	147.5

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Our target prices are established on a 12-month timeframe and we use three valuation methods to determine them. First, the discounting of available cash flows using the discounting parameters set by the Group and indicated on Oddo Securities' website. Second, the sum-of-the-parts method based on the most pertinent financial aggregate depending on the sector of activity. Third, we also use the peer comparison method which facilitates an evaluation of the company relative to similar businesses, either because they operate in identical sectors (and are therefore in competition with one another) or because they benefit from comparable financial dynamics. A mixture of these valuation methods may be used in specific instances to more accurately reflect the specific characteristics of each company covered, thereby fine-tuning its evaluation.

• Our stock market recommendations

Our stock market recommendations reflect the RELATIVE performance expected for each stock on a 12-month timeframe.

Buy: performance expected to exceed that of the benchmark index, sectoral (large caps) or other (small and mid caps).

Neutral: performance expected to be comparable to that of the benchmark index, sectoral (large caps) or other (small and mid caps).

Reduce: performance expected to fall short of that of the benchmark index, sectoral (large caps) or other (small and mid caps).

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Date	Reco	Price Target (EUR)	Price (EUR)	Analyst
11.11.16	Neutral	84.00	81.99	Martin Decot
12.08.16	Buy	80.00	74.60	Martin Decot
25.02.16	Buy	57.00	49.52	Marcus Silbe, CEFA

Recommendation split

		Buy	Neutral	Reduce
Our whole coverage	(414)	49%	40%	11%
Liquidity providers coverage	(147)	53%	41%	5%
Research service coverage	(66)	65%	32%	3%
Investment banking services	(33)	70%	27%	3%

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