

Buy

PT: €22.00

Key data

Ticker	MUX GY
Price (11 March 2021)	€19.58
Upside to Price Target (%)	12.4
Market Cap (m)	250
Free Float (%)	50.0
Daily Value Traded (m)	0.4
Next Reporting Date	Apr 8 2021 1
No. of Shares (m)	15.20
1mth perf (%)	8.5
3mth perf (%)	23.4
12mth perf (%)	98.8
12mth high-low (€)	20 - 6

Key financials

(In EUR M)

Year to Dec	2019A	2020E	2021E
Group revenue	1,016	1,772	2,815
EBITDA (rep.)	79.1	84.6	(30.2)
EBIT (rep.)	26.1	(78.16)	(280.77)
DPS (c)	1.00	1.50	1.50
Net debt/(cash)	262.9	77.5	(170)
ROCE (NOPAT) (%)	13.3	15.9	20.0
EPS (adj.) y/y (%)	--	--	--
Net debt/EBITDA	35.1	(2.1)	6.76
EV/Sales	0.6	0.2	0.0
EV/EBITDA (adj.)	74.8	(10.2)	(5.1)
EV/EBIT (adj.)	9.3	3.0	0.6
P/E (adj.)	--	--	--
Dividend yield (%)	5.1	7.7	7.7
Free CF yield (%)	(3.6)	236.3	278.4
EV/CE	1.2	0.5	0.1

Price is as of 11 March 2021 close.

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All sources unless otherwise stated: Company data, FactSet, Stifel estimates

Share price performance (indexed)



Walking the talk - M&A activity remains on high levels

Key Points

In our view, Mutares management continues to execute on its growth strategy as M&A activity remains on elevated levels since the beginning of the year. The company announced two acquisitions and the sale of its majority stake in STS Group, which significantly increases the chances for the pay-out of a performance dividend for FY21E and, in our view, may render our current DPS estimate of €1.50 conservative. We expect more frequent exits to drive a re-rating of the stock and STS was a big step in this direction. We see the company fully on track to drive holding revenues and earnings, which form the basis for an attractive dividend pay-out policy.

- Today, Mutares announced the sale of its 73.25% stake in STS Group for a price of €7.0 per share (STS Group closed at €7.86 last night). Adding the re-payment of loans that Mutares granted to STS, this should translate into a total cash inflow of ~€35-40m. According to Mutares's CIO, the transaction generated a ROIC of ~9x over the lifetime of the investment, arguably leaving a bad taste for some investors in STS Group at the time of the IPO as Mutares floated the company at an IPO price of €24 per share in May 2018.
- The buyer is Adler Pelzer Group, a supplier of acoustic and thermal components for the automotive sector, based in Germany. The company had already acquired STS's acoustic segment in Nov 2020. The transaction is subject to the approval of cartel authorities and Adler Pelzer's banks / debt investors.
- The exit should be seen as a clear positive for two reasons: Firstly, MUX management is executing on its promise to show more frequent exits and, with that, provide more comfort on the quality and value of its investment portfolio. Secondly, the company made clear that any cash income from disposals will largely be paid out as extra-dividend to MUX shareholders, which significantly increases the chances for an attractive performance dividend for FY21E.
- We currently forecast a DPS of €1.50 for FY21E, consisting of €1.00 of base dividend, which is covered by consulting fees and regular dividend payments from portfolio companies, and €0.50 extra dividend, which would result from successful exits.
- Assuming a full post-tax pay-out of the cash inflow would result in a performance dividend of ~€1.50, which we concede may be too aggressive, given that Mutares incurred management, investment and transaction costs related to the STS Group investment. Even assuming a significant haircut, our current FY21E DPS forecast of €1.50 may prove conservative. On a DPS of €2.0, Mutares shares would offer a dividend yield of ~10%, which we believe is highly attractive, especially against the backdrop of a well-filled M&A pipeline, including potential further exits, most notably Dongs Group.
- In mid-Feb, MUX announced the acquisition of La Rochette (FY20 revenues of ~€120m), further cementing its strong position as a special situations-focused private equity investor in France but also creating another platform investment in the less cyclical 'Goods & Services' space.

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Company Snapshot

Investment case summary

The Mutares equity story is based on the company's transformation from an investment holding to a private equity firm in the niche area of special situations. As a result, earnings streams should become much more transparent and, as such, easier to value for analysts and investors alike. Consequently, we expect a continued rerating of the shares over the next 12 months. Recurring revenues from consulting services to and dividends from its portfolio companies should cover management's ambitions for attractive dividend payouts to shareholders. Mutares also plans to reduce significantly the holding period of portfolio companies. Hence, a higher exit frequency over the next few years should not only strengthen investor trust in the quality of the portfolio companies, but also result in potential performance dividends.

Target price methodology

Mutares has decided to provide more transparency on the revenue and profit streams at the holding level, which form the basis for our valuation framework. We also take into account that management is highly committed to dividend payments. Our financial forecasts therefore flow into a private equity peer group analysis (FY21E P/E target multiple of 16x) as well as a dividend discount model (DDM). The average of the two implied equity values, result in our price target of €22.00.

Risk to our valuation and rating

While a larger portfolio is the prerequisite for growth, it will naturally be more complex to manage. This requires more investment professionals, consultants and, as a consequence, higher fixed costs. We could argue that Mutares's holdings are in a restructuring mode for a reason and a longer-than-expected optimisation phase would postpone dividend income. In some cases, the turnaround does not materialise and potentially results in insolvency procedures. This would naturally lead to either a low or even negative selling price, or trigger a costly liquidation process. That said, we note that Mutares has a strong track record since inception and, in addition, has baked in such, probability-weighted, scenarios in its financial guidance.

Key dates

- FY20 results: 8 April
- Q1 2021 results: 11 May

Company description

Mutares is an investment holding company, headquartered in Munich, Germany. It was founded in 2008 and went public in the same year. It is currently listed in the SCALE segment of the Frankfurt stock exchange.

Key products, clients and end markets

Mutares's investments are focused on medium-sized companies located throughout continental Europe. Management claims to have a particular expertise in investing in and managing special situations or turnaround cases, facilitated by its ~70 consultants FTEs. With offices in Munich, Frankfurt am Main, Vienna, Paris, Madrid, Milan, Stockholm, Helsinki, as well as London, and investment activities in Europe, North Africa, North and South America and Asia, Mutares has a global footprint. The current portfolio comprises 19 equity investments. The firm takes a sector-agnostic approach to investment, albeit with a focus on targets which operate in the industrial sector.

Key shareholders

- Robin Laik (founder and CEO): 29%
- Mutares management: 11%
- Treasury shares: 3%

Senior management

- Robin Laik: CEO
- Johannes Laumann: CIO
- Mark Friedrich: CFO
- Dr. Kristian Schleede is CRO

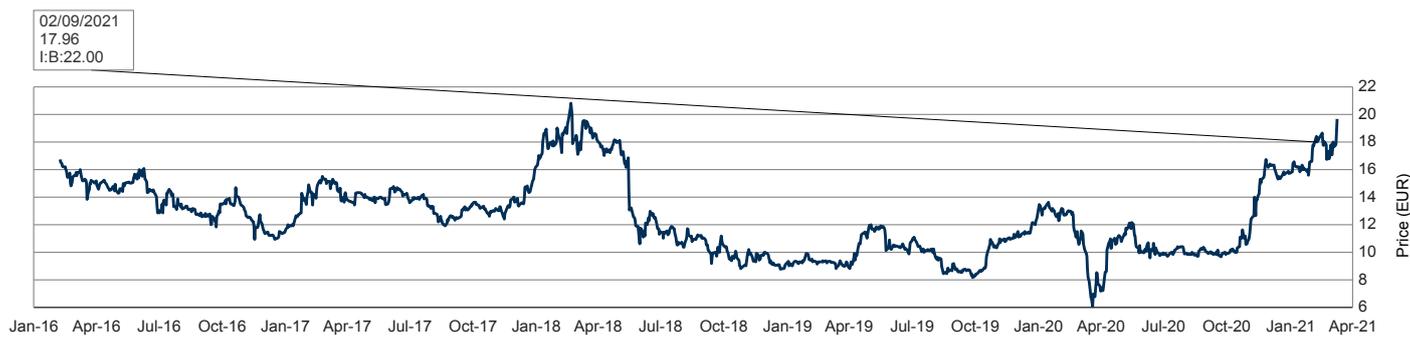
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Mutares SE & Co KGaA (MUX GY) as of March 10, 2021 (in EUR)



*Represents the value(s) that changed.

Buy=B; Hold=H; Sell=S; Discontinued=D; Suspended=SU; Discontinued=D; Initiation=I

For a price chart with our ratings and any applicable target price changes for MUX GY go to http://stifel2.bluematrix.com/sellside/Disclosures.action?ticker=MUX_GY

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Hold - We expect a total return between -5% and 10% over the next 12 months with total return equal to the percentage price change plus dividend yield.

Sell - We expect a total return below -5% over the next 12 months with total return equal to the percentage price change plus dividend yield.

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¹ This rating is only utilised by Stifel Canada.

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