

Small/Mid Cap
Germany

Dr Hönle AG

HNLG.DE; HNL GR

Buy

(Unchanged)

Strong start to 2007/08

Current price €8.99; Target price €11.85

Dr Hönle released strong Q1 2007/08 results this morning with sales and profitability exceeding our estimates. The strong start to the current fiscal year supports our full year forecasts. We expect Hönle to grow revenues by some 62% y-o-y driven by organic and external growth following its recent acquisitions. We maintain our Buy rating and target price.

Revenue growth driven by inkjet printing Q1 revenues were up 30.1% y-o-y, reaching a level of €7.3m. Growth was particularly strong in the company's principal coatings business – rising 38.5% y-o-y on the back of high demand for inkjet printing, which is emerging as a substitute to more traditional printing technologies.

Operating leverages realised The high sales levels allowed Hönle to experience operating leverages that benefited profitability. EBIT improved 118% y-o-y to €1.4m compared €0.6m, whereas net profit of €1.1m – more than doubled over last year's comparative Q1 figure. Both figures surpassed our estimates (table 1).

Operating cash flow shows market improvement In comparison to Q1 last year, operating cash flow showed an exceptional improvement. Operating cash flow benefited from a reduction in account receivables and reached €2.2m compared to a loss of €0.7m in the prior period.

Maintain our Buy recommendation and €11.85 target price The strong Q1 represents a good start to what should be a year of substantial sales growth. The company has a strong manufacturing platform from which economies of scales can be realised, leading to strong cash flow generation. Moreover, management will propose a dividend of €0.40 per share to shareholders at the AGM on 29 February.

Key Data

Year-end	2005/2006	2006/2007	2007/2008E	2008/2009E	2009/2010E
Net sales (€m)	23.7	26.2	42.5	48.0	54.2
EBITDA (€m)	4.0	5.0	7.1	8.2	9.3
EBITDA margin	17.0%	19.1%	16.8%	17.0%	17.3%
Free cash flow (€m)	4.5	2.7	-3.9	3.3	2.9
FCF margin	18.9%	10.4%	-9.1%	6.9%	5.4%
Net profit (€m)	2.8	3.0	4.6	5.0	5.7
EPS as reported (€)	0.54	0.58	0.88	0.94	1.04
EPS as adjusted (€)	0.51	0.56	0.85	0.92	1.05
DPS (€)	0.30	0.30	0.40	0.40	0.40
EV/Sales (x)	1.4	1.3	0.8	0.7	0.6
EV/EBITDA (x)	8.2	6.6	4.6	4.0	3.5
P/E (x)	16.7	15.5	10.2	9.6	8.7
Dividend yield	3.3%	3.3%	4.4%	4.4%	4.4%
Gearing	-55.4%	-56.7%	-32.1%	-31.8%	-29.6%
Net debt/EBITDA	-3.68	-3.21	-1.40	-1.32	-1.18

Source: Dr Hönle, First Berlin Equity Research

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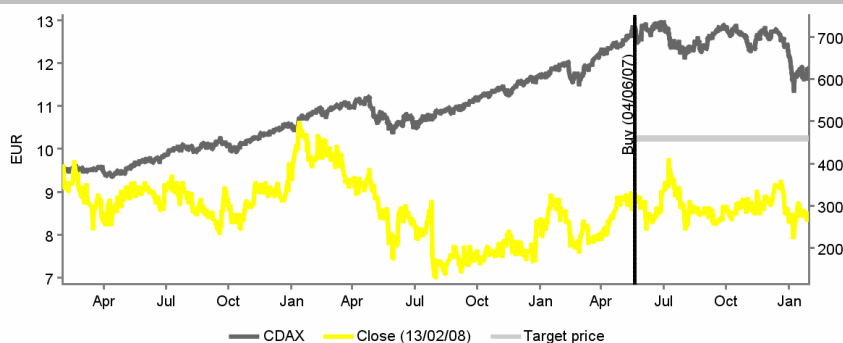
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TABLE 1: **Q1 2007/08 results**

€m	Q1 2007/08		Difference
	Estimate	Actual	
Sales	7.0	7.3	4.0%
EBIT	1.2	1.4	15.1%
Margin	17.1%	18.9%	–
Net Income	0.9	1.1	28.0%
Margin	12.5%	15.4%	–
EPS (€)	0.17	0.20	17.6%

Source: Dr Hönle, First Berlin Equity Research

Dr Höhle AG price chart



Source: Commerzbank Corporates & Markets

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Number of recommendations from Commerzbank, ZCM, within the second quarter 2007	thereof recommendations for issuers to which investment banking services were provided during the preceding twelve months
23 (63.8%) Buy / Add	0 (0.0%)
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