

DR HÖNLE AG

GERMANY / INDUSTRIAL EQUIPMENT

Primary exchange: Frankfurt
Symbol: HNL

Prime Standard
ISIN: DE0005157101

RATING: Buy

PRICE TARGET: €1.85

RISK RATING: High

Q2 SHOWS HÖNLE ON TRACK TO MEET FULL YEAR GUIDANCE

COMPANY PROFILE

Dr Hönle AG develops, manufactures and markets various types of UV-equipment for industrial applications. The company's products are used to dry inks and lacquers, apply adhesives, simulate sunlight and sterilise surfaces. Dr Hönle operates throughout Europe, Asia and North America. As of 31 March 2008, the company had 229 employees.

KEY POINTS

Dr Hönle released Q2 results yesterday. The Panacol and PrintConcept acquisitions were consolidated for the first time and helped boost revenues to €10.8m, a y-o-y increase of 49.9%. The recent acquisition of Eltosch will provide another boost to revenues during the second half of the year – and we forecast full-year 2007/08 turnover of some €50m.

Normalised EBIT growth flat in Q2 EBIT was helped by a €0.5m extraordinary effect, coming in at €2.0m (Q1 2006/07: €1.4m). Thus, normalised EBIT growth was flat, despite the increase in revenues. This was largely due to an erosion in the gross margin which came in at 62.7% (Q2 2006/07: 64.7%). We had anticipated this, given that the acquired entities have lower margins than Hönle. However, we expect this reduced profitability to be more than offset by strong sales growth – over FY 2006/07-2009/10, we forecast a three-year CAGR of 31.7% for EBIT and 42.6% for sales.

Further upside to our current price target H1 2007/08 operating cash flow was €0.9m, exceeding our full-year forecast of c. -€0.07m. The impact of Eltosch remains to be seen, but should this figure remain significantly positive, it will increase our valuation.

Correction to previous publication On 13 May we published revised forecasts following the announcement of the Eltosch acquisition. We had assumed a full year of Eltosch results in our 2007/08 financial projections, which will not be the case. As such, we adjust our 2007/08 forecasts to only include four-and-a-half months of Eltosch's FY 2008, during which time the company, according to management, will break even. Our corrected 2007/08 estimates are shown in the "financial history & projections" table. We now forecast revenues of €50.2m and EBIT of €6.3m for fiscal-year 2007/08.

RECOMMENDATION

Hönle's Q2 results have kept the company on course to achieve our full-year forecasts. In the second half of the year, when Eltosch is consolidated, we expect sales of around €32m. Also, Hönle has traditionally experienced a strong fourth quarter, which we expect to continue. We believe the Eltosch acquisition represents a key strategic move, adding value to the company. We reiterate our Buy recommendation and €1.85 price target.

RISKS

The main risks to our price target include acquisition integration, vertical integration of customers, weak global demand, bargaining power, CAPEX volatility and working capital discipline.

TRADING DATA

Market capitalisation (15.05.08)	€49.34m
Shares outstanding	5.51m
Closing price (15.05.08)	€8.95
52-week range	€7.95 / 9.64
Free float (according to company)	80%
Average daily share volume (year)	10,275

STOCK OVERVIEW



Source: Bloomberg & First Berlin

FINANCIAL HISTORY & PROJECTIONS

	FY 06/07	FY 07/08E	FY 08/09E	FY 09/10E
Revenue €m	26.25	50.24	69.31	76.13
Yr/Yr growth	10.8%	91.4%	38.0%	9.8%
Operating profit €m	4.34	6.26	7.81	9.92
Operating margin	16.5%	12.5%	11.3%	13.0%
Net income €m	3.01	4.33	5.24	6.63
EPS €	0.56	0.78	0.95	1.20
P/E	16.0	11.4	9.4	7.4

COMPANY DATA (as of 31 March 2008)

Liquid assets	€13.59m
Current assets	€30.24m
Intangible assets (incl. goodwill)	€4.45m
Total assets	€41.85m
Current liabilities	€8.09m
Shareholders' equity (incl. minorities)	€29.81m

ANALYST INFORMATION

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FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.	Date of publication	Previous day closing price	Recommendation	Price target	Interim high	% change to high
Initial Report	4 June 2007	€8.66	Buy	€10.25	-	-
2...4	↓	↓	↓	↓	↓	↓
5	8 February 2008	€8.55	Buy	€11.85	€8.55	0.0%
6	14 February 2008	€8.50	Buy	€11.85	€9.13	7.4%
7	13 May 2008	€8.51	Buy	€11.85	€9.15	7.5%
8	Today	€8.95	Buy	€11.85	-	-

Source: Bloomberg & First Berlin

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BUY: Expected return greater than 15%

HOLD: Expected return between 0% and 15%

SELL: Expected negative return

Our risk ratings are Low, Medium, High and Speculative and are determined by ten factors: corporate governance, quality of earnings, management strength, balance sheet and financing risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, company size, free float and other company specific risks. These risk factors are incorporated into our valuation models and are therefore reflected in our price targets. Our models are available upon request to First Berlin clients.

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