

Scherzer & Co. AG

BUY (BUY) | Target 1.85 EUR (1.85 EUR)

 Price (last closing price) : **1.63 EUR** | Upside : 13%

Est. change	2015e	2016e
EPS	15%	0%

Positive earnings impact of € 2.9m from amended squeeze-out compensation

Thursday, 27 August 2015



Capital	
PZS GY PZSG.DE	
Market Cap (EURm)	48.8
Enterprise value (EURm)	71.2
Extrema 12 months	1.70 - 1.42
Free Float (%)	100.0

Performance (%)	1m	3m	12m
Absolute	0.1	1.9	-1.8
Perf. rel. "sector"	7.6	6.4	-17.4
Perf. rel. CDAX	9.6	18.2	-7.8

P&L	12/15e	12/16e	12/17e
Total income (EURm)	10.8	8.1	8.9
EBIT (EURm)	6.5	5.2	5.2
Net income (EURm)	6.0	4.8	4.6
EPS (EUR)	0.20	0.16	0.15
DPS (EUR)	0.05	0.05	0.05

Dividend yield (%)	3.1	3.1	3.1
P/E (x)	8.1	10.2	10.6
P/B (x)	0.9	0.9	0.8
ROE (%)	11.6	8.6	7.9
ROA (%)	7.6	5.9	5.7
EBIT margin (%)	60.6	64.7	57.7

Next Events	
2015 prelim. results	January 2016

Scherzer benefits from compromise settlement (Schering squeeze-out)

After recently reporting sound H1 2015 figures, Scherzer & Co. AG announced that in the arbitration procedure to examine the adequacy of the cash compensation under the squeeze-out at the former Schering AG (or Bayer Schering Pharma AG) effective 2008, the regional and supreme court of Berlin yesterday have protocolled a compromise settlement. The compromise settlement includes earnings-effective amendments in the amount of € 2.9m (incl. interest and before taxes) on top of the squeeze-out compensation already received. In addition, Scherzer indirectly benefits through its shareholdings in RM Rheiner Management AG and Allerthal-Werke AG, which also expect amended compensations of € 2.3m and € 0.9m, respectively.

Amendments will partially offset impact of weak market on NAV

Scherzer's ten largest portfolio positions have not been immune to the overall market trend observed since beginning of the month (DAX -11.6%), depreciating an average of 5.6% in the current month. The worst performer by far was Biotest AG, the tenth largest position in the portfolio, (-22.2%; ytd -32.7%) followed by Lotto 24 AG (-11.8% ytd +18.2%) and Invision AG (-9.4%; ytd -6.2%). Only Data Modul AG has increased in August to date (+2.4%; +62.5% ytd). In our view, the positive cash effect from the above-mentioned amendments will partially offset the negative NAV impact resulting from the stock market's downturn, which we estimate at 8%. Assuming a positive cash effect attributable to the amended compensation of € ~0.10 per share and considering the €0.05 dividend that was distributed in May, the ytd total return on NAV, at 8.0%, exceeds the returns of both the DAX (+2.4%) and the CDAX (+3.9%) in the same time frame.

German economy looking resilient in the face of China fears

German companies shrugged off concerns about China's economy, a key survey showed. However, the results of this survey likely did not yet reflect the latest falls in Chinese and global stock markets. The Ifo index of business sentiment rose unexpectedly to 108.3 points from 108.0 last month. Analysts had predicted a decline to 107.6 points. The DAX might be a source of gloom as it includes many carmakers and industrial firms that rely heavily on Chinese demand; but the German economy is not the DAX: exports to China account for 6.6% of total German exports, or 2.6% of the German GDP. The rest of the Eurozone, the US and the UK, where growth has picked up, account for a combined 52.6% of total German exports.

We expect volatility to persist in H2 2015; PT € 1.85 Buy

Considering Scherzer's strict adherence to the (German GAAP) valuation principle of lower of cost or market, and presuming the volatile market environment persists in H2 2015, we have lifted our earnings estimates by 15% for 2015e, which we still regard as rather conservative. We maintain our Buy recommendation and confirm our PT of € 1.85, which implies a discount to our derived NAV of 2.4% (2yr average discount share price/reported NAV 14.9%) and forward P/Es of 9.3x (2015e) and 11.6x (2016e), respectively. The portfolio valuation excludes € 94.2m worth of rights for subsequent improvements that Scherzer held at 30 June 2015.

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APPENDIX

Profit and loss statement

HGB	EURk	2012	2013	2014	2015e	2016e	2017e
Income from securities		4,046	7,163	7,350	6,131	6,268	6,648
<i>YoY % change</i>		39.2%	77.0%	2.6%	-16.6%	2.2%	6.1%
<i>% of total income</i>		55.1%	78.9%	81.0%	56.8%	77.3%	74.3%
Income from dividends		1,056	937	1,622	1,775	1,397	1,677
<i>% of total income</i>		14.4%	10.3%	17.9%	16.4%	17.2%	18.7%
Other operating income		2,246	976	98	2,886	448	624
<i>% of total income</i>		30.6%	10.8%	1.1%	26.7%	5.5%	7.0%
Total income		7,349	9,076	9,070	10,792	8,113	8,949
<i>YoY % change</i>		43.3%	23.5%	-0.1%	19.0%	-24.8%	10.3%
Personnel expenses		-336	-452	-555	-586	-610	-631
<i>% of total income</i>		-4.6%	-5.0%	-6.1%	-5.4%	-7.5%	-7.1%
Other operating expenses		-590	-416	-448	-466	-464	-525
<i>% of total income</i>		-8.0%	-4.6%	-4.9%	-4.3%	-5.7%	-5.9%
EBITDA		6,424	8,208	8,067	9,740	7,039	7,793
<i>EBITDA margin</i>		87.4%	90.4%	88.9%	90.3%	86.8%	87.1%
Depreciation and write-offs		-2,187	-1,447	-3,828	-3,205	-1,791	-2,631
EBIT		4,237	6,760	4,238	6,535	5,248	5,162
<i>EBIT margin</i>		57.7%	74.5%	46.7%	60.6%	64.7%	57.7%
Financial result		-52	-208	-339	-350	-360	-440
EBT		4,185	6,552	3,900	6,185	4,888	4,722
<i>EBT margin</i>		56.9%	72.2%	43.0%	57.3%	60.2%	52.8%
Taxes		-277	-577	-124	-153	-121	-117
<i>Tax rate as % of EBT</i>		-6.6%	-8.8%	-3.2%	-2.5%	-2.5%	-2.5%
Net income		3,908	5,975	3,776	6,033	4,767	4,605
Weighted number of issued shares, basic in thousand shares		27,219	29,940	29,940	29,940	29,940	29,940
Earnings per share		0.14	0.20	0.13	0.20	0.16	0.15

Source: Oddo Seydler Bank AG, Scherzer & Co. AG

Scherzer & Co. AG

Balance Sheet

HGB	EURk	2012	2013	2014	2015e	2016e	2017e
Assets							
Intangible assets		0	0	0	0	0	0
YoY change in %		-99.1%	0.0%	0.0%	0.0%	0.0%	0.0%
Fixed assets		12	14	17	9	-4	-12
YoY change in %		-20.1%	20.9%	21.1%	-50.5%	-149.8%	191.0%
Financial assets		15,876	21,119	24,273	27,311	29,315	31,238
YoY change in %		1.6%	33.0%	14.9%	12.5%	7.3%	6.6%
Non-current assets		15,888	21,133	24,290	27,320	29,311	31,226
YoY change in %		1.6%	33.0%	14.9%	12.5%	7.3%	6.5%
Inventories		0	0	0	0	0	0
YoY change in %		n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Other receivables and other assets		755	491	559	559	559	559
YoY change in %		27.3%	1.0%	13.1%	0.0%	0.0%	0.0%
Securities		30,770	47,801	46,731	50,297	48,667	46,555
YoY change in %		11.1%	55.3%	-2.2%	7.6%	-3.2%	-4.3%
Cash and cash equivalents		2,562	506	382	976	2,462	2,309
YoY change in %		445.2%	-80.2%	-24.6%	155.7%	152.2%	-6.2%
Current assets		34,086	48,799	47,672	51,832	51,688	49,422
YoY change in %		18.5%	43.2%	-2.3%	8.7%	-0.3%	-4.4%
Accruals and deferrals		10	10	11	11	11	11
Total assets		49,985	69,942	71,973	79,163	81,010	80,660
Total equity and liabilities							
Capital stock		29,940	29,940	29,940	29,940	29,940	29,940
Capital reserve		8,773	8,773	8,773	8,773	8,773	8,773
Treasury stocks		0	0	0	0	0	0
Regulatory retained earnings		80	80	80	80	80	80
Other retained earnings		0	0	6,722	6,722	6,722	6,722
Retained Earnings		80	80	6,802	6,802	6,802	6,802
Balance sheet profit/loss		-1,141	4,834	1,888	6,424	9,694	12,802
Minorities		0	0	0	0	0	0
Total equity		37,652	43,627	47,403	51,939	55,209	58,317
Equity ratio		75.3%	62.4%	65.9%	65.6%	68.2%	72.3%
Other provisions		335	2,087	1,671	1,952	1,922	2,069
YoY change in %		24.2%	523.1%	-19.9%	16.8%	-1.5%	7.7%
Financial liabilities		10,672	24,028	22,735	25,155	23,738	20,144
YoY change in %		-20.9%	125.2%	-5.4%	10.6%	-5.6%	-15.1%
Payables		1,297	173	40	40	40	40
YoY change in %		n.a.	-86.6%	-76.7%	0.0%	0.0%	0.0%
Other liabilities		30	27	123	77	100	89
YoY change in %		-31.3%	-7.6%	351.3%	-37.4%	29.9%	-11.5%
Current liabilities		12,333	26,315	24,570	27,224	25,801	22,343
YoY change in %		-10.6%	113.4%	-6.6%	10.8%	-5.2%	-13.4%
Non-Current liabilities		0	0	0	0	0	0
YoY change in %		n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total liabilities		12,333	26,315	24,570	27,224	25,801	22,343
YoY change in %		-10.6%	113.4%	-6.6%	10.8%	-5.2%	-13.4%
Total equity and liabilities		49,985	69,942	71,973	79,163	81,010	80,660

Source: Oddo Seydler Bank AG, Scherzer & Co. AG

Cash Flow Statement

HGB	EURk	2012	2013	2014	2015e	2016e	2017e
Net income		3,908	5,975	3,776	6,033	4,767	4,605
Valuation gains (-)/losses (+) on financial assets and loans and receivables, depreciation and amortisation on property, plant and equipment and intangible		269	-1,073	1,359	880	1,751	704
Increase (-)/decrease (+) trade receivables and other assets except (netted)		-160	263	-69	0	0	0
Increase (+)/decrease (-) in trade payables and other liabilities except (netted)		1,348	626	-452	235	-7	136
Increase (-)/decrease (+) financial assets		-3,063	-17,031	1,070	-3,566	1,630	2,112
Other		0	0	0	0	0	0
Cash flows from operating activities		2,303	-11,239	5,684	3,582	8,141	7,557
<i>Operating cash flow margin in %</i>		<i>58.9%</i>	<i>-188.1%</i>	<i>150.5%</i>	<i>59.4%</i>	<i>170.8%</i>	<i>164.1%</i>
(+/-)Proceeds from disposal of tangible assets and financial assets		6,708	3,523	6,052	7,263	7,989	5,592
(-)Purchase of property, plant and equipment and intangible assets		-2	-9	-11	-11	-12	-8
Acquisition of non-current financial assets and investments in loans and receivables		-7,227	-7,687	-10,558	-11,161	-11,719	-8,204
Cash flow from investing activities		-522	-4,172	-4,516	-3,909	-3,742	-2,619
(+/-) Change in capital reserve, Retained earnings		408	0	0	0	0	0
Cash inflow from capital increases (+) / Payments for share repurchases (-)		2,721	0	0	0	0	0
(-) Payments to shareholders (dividends)		0	0	0	-1,497	-1,497	-1,497
Increase (+)/decrease (-) in bank liabilities and amounts due to group companies		-2,818	13,356	-1,292	2,419	-1,416	-3,594
Cash flow from financing activities		311	13,356	-1,292	922	-2,913	-5,091
Net change in cash and cash equivalents		2,092	-2,055	-124	595	1,486	-153
Cash and cash equivalents at the beginning of the period		470	2,562	506	382	976	2,462
Cash and cash equivalents at the end of the period		2,562	506	382	976	2,462	2,309

Source: Oddo Seydler Bank AG

Ratios/ Multiples/ per share Data

HGB	2012	2013	2014	2015e	2016e	2017e
Growth analysis						
Total income growth in %	43.3%	23.5%	-0.1%	19.0%	-24.8%	10.3%
EBITDA growth in %	48.0%	27.8%	-1.7%	20.7%	-27.7%	10.7%
EBIT growth in %	-252.3%	59.5%	-37.3%	54.2%	-19.7%	-1.6%
EPS growth in %	-241.2%	39.0%	-36.8%	59.8%	-21.0%	-3.4%
Profitability ratios						
EBITDA margin in %	87.4%	90.4%	88.9%	90.3%	86.8%	87.1%
EBIT margin in %	57.7%	74.5%	46.7%	60.6%	64.7%	57.7%
EBT margin in %	56.9%	72.2%	43.0%	57.3%	60.2%	52.8%
Net profit margin in %	53.2%	65.8%	41.6%	55.9%	58.8%	51.5%
Return on equity (ROE) in %	10.4%	13.7%	8.0%	11.6%	8.6%	7.9%
Return on assets (ROA) in %	7.8%	8.5%	5.2%	7.6%	5.9%	5.7%
Return on net assets (RONA) in %	7.8%	8.5%	5.2%	7.6%	5.9%	5.7%
Return on invested capital (ROIC) in %	8.1%	8.8%	5.4%	7.8%	6.0%	5.9%
Return on capital employed (ROCE) in %	11.3%	15.5%	8.9%	12.6%	9.5%	8.9%
Basic Earnings Power Ratio in %	8.5%	9.7%	5.9%	8.3%	6.5%	6.4%
Efficiency ratios						
Operating costs / total income in %	12.6%	9.6%	11.1%	9.7%	13.2%	12.9%
Liquidity ratios						
Current Ratio	2.8	1.9	1.9	1.9	2.0	2.2
Quick Ratio	2.8	1.9	1.9	1.9	2.0	2.2
Cash Ratio	2.7	1.8	1.9	1.9	2.0	2.2
Operating Cash Flow Ratio	0.2	-0.4	0.2	0.1	0.3	0.3
Solvency ratios						
Debt Ratio in %	21.3%	34.4%	31.6%	31.8%	29.3%	25.0%
Net debt to equity ratio (Gearing) in %	21.5%	53.9%	47.2%	46.6%	38.5%	30.6%
Long-term debt to equity Ratio in %	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total debt to EBITDA Ratio in %	166.1%	292.8%	281.8%	258.3%	337.2%	258.5%
Net debt to EBITDA Ratio in %	126.3%	286.6%	277.1%	248.2%	302.3%	228.9%
Dividend cover ratio in %	0.0%	0.0%	39.6%	24.8%	31.4%	32.5%
Interest coverage Ratio in %	888.0%	1498.3%	882.7%	1385.4%	991.1%	748.6%
Per share data						
EPS basic	0.14	0.20	0.13	0.20	0.16	0.15
Operating cash flow per share	0.08	-0.38	0.19	0.12	0.27	0.25
Book value per share	1.38	1.46	1.58	1.73	1.84	1.95
DPS	0.00	0.00	0.05	0.05	0.05	0.05
Dividend payout ratio	0.0%	0.0%	39.6%	24.8%	31.4%	32.5%
Valuation Ratios						
P/E-Ratio	11.4	8.2	12.9	8.1	10.2	10.6
EV / EBIT	16.8	10.5	16.8	10.9	13.6	13.8
EV / EBITDA	11.1	8.7	8.8	7.3	10.1	9.1
EV / Total income	9.7	7.8	7.8	6.6	8.8	8.0
P/B	1.3	1.1	1.0	0.9	0.9	0.8
Dividend Yield in %	0.0%	0.0%	3.1%	3.1%	3.1%	3.1%

Source: Oddo Seydler Bank AG, Scherzer & Co. AG

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Recommendation history over the last 12 months for the company analysed in this report:

Date	Recommendation	Price at change date	Price target
27 August 2015	BUY (Update)	EUR 1.63	EUR 1.85
24 July 2015	BUY (Update)	EUR 1.63	EUR 1.85
29 January 2015	BUY (Update)	EUR 1.56	EUR 1.80

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