



**Buy** (old: Buy)

**Price target: EUR 48.00** (old: EUR 48.00)

**Price:** EUR 37.45      **Next result:** FY '17 22.03.18  
**Bloomberg:** EUZ GR      **Market cap:** EUR 192.3 m  
**Reuters:** EUZG.DE      **Enterprise Value:** EUR 168.7 m

10-January-18

**Aliaksandr Halitsa**  
Analyst

aliaksandr.halitsa@ha-ib.de  
Tel.: +49 40 414 3885 83

### Improving operating results to fuel share re-rating

**Eckert & Ziegler (EUZ) operates a quality business benefitting from niche focus and steep entry barriers.** The company is active in the highly regulated field of handling and processing isotope-based radioactive materials used in e.g. medical imaging, scientific applications, and industrial measurement.

Logically, **there are only few rivals none of which are able to match the breadth of EUZ's offering.** By leveraging its material-related know-how into technology the company also offers devices for cancer therapy and equipment for the production of radiopharmaceuticals.

Unfortunately, over the recent past EUZ **did not manage to translate sound competitive quality into consistent earnings growth.** Reorganisation initiatives as well as acquisitions and divestments have concealed the "true" earnings potential of the company. **But this is set to change:**

**EUZ has positioned itself for healthy earnings growth** by getting rid of unprofitable business activities, closing underutilised units and streamlining processes **explaining expected EPS growth of >9% p.a. through 2020E.** Key driver should be Isotope Products (>50% of sales) benefiting from fading M&A integration costs and normalising product mix (higher industrial demand). Meanwhile, Radiation Therapy (20% of sales) is thriving on rising demand from EM thanks to cost advantages of EUZ's cobalt-based radiation devices.

**This does not seem to be adequately accounted for by valuation.** EUZ trades on less than 10x earnings '19E (adj for excess cash) and hence on a substantial discount to peers (see next page). In light of the improving growth outlook, the discount looks unjustified and stronger operating results should serve to re-gain the capital market's trust **triggering a positive re-rating of the shares.**

Our **€ 48.00 PT is based on FCFY'19E**, which better allows to reflect the improving visibility on earnings growth. A peer group analysis fully backs our positive view on valuation. – *continued* –

Y/E 31.12 (EUR m)	2013	2014	2015	2016	2017E	2018E	2019E
Sales	117.1	127.3	139.7	137.9	141.0	147.8	151.8
Sales growth	-2 %	9 %	10 %	-1 %	2 %	5 %	3 %
EBITDA	22.1	20.1	27.0	25.0	28.1	30.9	32.7
EBIT	12.8	13.0	18.2	16.2	19.1	21.4	23.0
Net income	9.1	6.8	10.7	9.6	15.2	13.3	14.3
Net debt	-6.8	-3.1	-15.9	-24.9	-35.7	-42.8	-52.3
Net gearing	-8.2 %	-3.5 %	-16.0 %	-23.7 %	-30.3 %	-33.9 %	-38.5 %
Net Debt/EBITDA	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EPS pro forma	1.72	1.28	2.21	1.97	2.28	2.52	2.71
CPS	1.14	0.82	1.62	2.42	1.44	2.02	2.50
DPS	0.60	0.60	0.60	0.66	0.73	0.80	0.88
Dividend yield	1.6 %	1.6 %	1.6 %	1.8 %	1.9 %	2.1 %	2.3 %
Gross profit margin	48.7 %	50.1 %	45.0 %	47.9 %	46.3 %	49.8 %	49.9 %
EBITDA margin	18.8 %	15.8 %	19.3 %	18.1 %	19.9 %	20.9 %	21.5 %
EBIT margin	10.9 %	10.2 %	13.0 %	11.8 %	13.5 %	14.5 %	15.1 %
ROCE	9.3 %	8.6 %	11.6 %	10.6 %	13.4 %	14.9 %	15.5 %
EV/sales	1.7	1.6	1.3	1.3	1.2	1.1	1.0
EV/EBITDA	8.8	10.0	6.9	7.2	6.0	5.2	4.7
EV/EBIT	15.2	15.5	10.3	11.0	8.8	7.6	6.6
PER	21.8	29.2	17.0	19.0	16.5	14.8	13.8
Adjusted FCF yield	5.1 %	4.5 %	7.6 %	7.0 %	8.1 %	9.3 %	10.6 %

Source: Company data, Hauck & Aufhäuser Close price as of: 09.01.2018



Source: Company data, Hauck & Aufhäuser

**High/low 52 weeks:** 40.40 / 25.06  
**Price/Book Ratio:** 1.7  
**Relative performance (SDAX):**  
 3 months 1.8 %  
 6 months -10.6 %  
 12 months 11.4 %

#### Changes in estimates

		Sales	EBIT	EPS
2017	old:	141.0	19.1	2.28
	Δ	-	-	-
2018	old:	147.8	21.4	2.52
	Δ	-	-	-
2019	old:	151.8	23.0	2.71
	Δ	-	-	-

#### Key share data:

Number of shares: (in m pcs) 5.3  
 Authorised capital: (in € m) 0.6  
 Book value per share: (in €) 22.2  
 Ø trading volume: (12 months) 20,453

#### Major shareholders:

Free float 67.8 %  
 Founders 32.2 %  
 Eckert & Ziegler AG 0.1 %

#### Company description:

Produces and markets a wide range of industrial and medical applications featuring radioactive isotopes, including prostate seed implants, calibration standards and radiation afterloaders.

EUZ is trading on a substantial discount to the sector...

ECKERT+ZIEGLER AG O.N.	PER 17E (x)	PER 18E (x)	PER 19E (x)
CARL ZEISS MEDITEC AG	35.1	36.5	32.6
DRAEGERWERK VZO O.N.	16.6	17.9	16.0
SARTORIUS AG VZO O.N.	59.7	48.1	40.5
STRATEC BIOMEDICAL NA ON	37.7	31.9	26.8
<b>ECKERT+ZIEGLER AG O.N. (adj for excess cash)</b>	<b>12.7</b>	<b>11.0</b>	<b>9.7</b>
<b>Median (peer group)</b>	<b>36.4</b>	<b>34.2</b>	<b>29.7</b>
<b>Premium+/discount- in (%)</b>	<b>-65%</b>	<b>-68%</b>	<b>-67%</b>

Source: H&A estimates, CapitalIQ, company filings

...which can ONLY be partially explained by lower EPS growth prospects due to its “niche-player” status.

ECKERT+ZIEGLER AG O.N.	Price	MC (€m)	EBITDA margin 17E	Dividend yield 17E	5Y EPS CAGR	5Y EPS CAGR*
CARL ZEISS MEDITEC AG	54.4	4,866	17.2%	1.0%	9.3%	10.3%
DRAEGERWERK VZO O.N.	78.0	592	9.0%	0.2%	3.3%	3.6%
SARTORIUS AG VZO O.N.	86.1	6,443	24.8%	0.6%	18.0%	18.6%
STRATEC BIOMEDICAL NA ON	69.6	830	20.2%	1.2%	13.7%	14.9%
<b>ECKERT+ZIEGLER AG O.N.</b>	<b>37.5</b>	<b>198.0</b>	<b>19.9%</b>	<b>2.0%</b>	<b>8.0%</b>	<b>10.0%</b>
<b>median peer group</b>			<b>18.7%</b>	<b>0.8%</b>	<b>11.1%</b>	<b>11.8%</b>
<i>Premium+/discount- in (%)</i>			6.6%	144.7%	-27.8%	-15.8%

Source: H&A estimates, CapitalIQ, company filings \* incl. effect of dividends

Peer group valuation underscores attractive upside.

Implied FV	PER 17E (x)	PER 18E (x)	PER 19E (x)
Peer group median PE	36.4	34.2	29.7
Appropriate discount (eH&A)	-30%	-30%	-30%
Fair PE	25.5	23.9	20.8
<b>Fair MC</b>	<b>306.6</b>	<b>319.6</b>	<b>298.0</b>
Nosh	5.3	5.3	5.3
<b>implied FV</b>	<b>58.0</b>	<b>60.4</b>	<b>56.4</b>
<i>Premium+/discount- in (%)</i>	-35.4%	-38.0%	-33.5%
<b>implied FV</b>	<b>58.0</b>		
<i>Upside(+)/downside(-)</i>		54.8%	