EDISON

Scale research report - Update

Delignit

Materials

10 May 2021

Further recovery anticipated in FY21

Delignit's FY20 results exceeded company guidance due to the recovery in automotive segments in the second half of the year. Revenues declined 9% in FY20 with good growth of 3% in the second half. The normalised EBITDA margin increased 40bp, fuelled by lower ramp-up costs of the motor caravan order. Delignit's FY21 guidance assumes at least 14% growth in revenues and >30% growth in normalised EBITDA. In the longer term, Delignit will benefit from expected growth in commercial vehicles, further geographical expansion and broadening of its product offering.

Good recovery in second half of 2020

While the first half results were severely affected by the COVID-19 pandemic (revenues -21%, EBITDA -34%), the second half showed a good recovery with 3% revenue growth and 26% growth in normalised EBITDA. The recovery was fully driven by the automotive segment (87% of FY20 revenues), whereas Technology Applications (13% of FY20 revenues) still reported a decline in revenues of 10% in H220. Delignit's FY20 revenues were down 9% and normalised EBITDA only declined 4% to €4.6m, driving a modest margin increase of 40bp to 7.9%.

FY21 guidance assumes >14% revenue growth

Delignit started 2021 well with good growth in automotive and the railway product group. The light commercial vehicles (LCV) segment is benefiting from continued growth in e-commerce, which drives demand for last mile delivery. For FY21, Delignit expects revenues to increase to more than €67m, reflecting growth of more than 14%, and normalised EBITDA by >30%, driving a margin increase of at least 110bp to at least 9%. The company's long-term ambition is to generate revenues in excess of €100m and an EBITDA margin of at least 10%. The company will benefit from several growth drivers such as the expanding e-commerce sector, growing demand for ecological lightweight products, rising demand for safe independent travel and modernisation and digitisation within the railway segment.

Valuation: Discount to selected peers

Consensus expects revenues of €69m for 2021 and an EBITDA margin of 9.6%, both above company guidance. Given the very good start of the year, we would not be surprised if the current consensus might be too low. Based on these consensus figures, Delignit is valued at a discount to selected peers of around 20% for 2021e and 2022e EV/EBITDA. However, Delignit's profitability is below the peer group, which might be caused by the different product portfolios.

Consensus estimates

Year end	Revenue (€m)	EBITDA (€m)	EPS (€)	DPS (€)	P/E (x)	EV/EBITDA (x)
12/19	64.4	4.8	0.17	0.00	31.4	11.6
12/20	58.7	5.6	0.25	0.03	27.6	10.8
12/21e	69.1	6.6	0.30	0.05	26.0	10.4
12/22e	77.6	8.2	0.42	0.07	18.6	8.2

Source: Delignit, Refinitiv as at 10 May 2021

Price	€7.80
Market cap	€64m

Share price graph

Share details

Code	DLX
Listing	Deutsche Börse Scale
Shares in issue	8.2m
Net debt at 31 December 2020	€3.7m

Business description

Delignit manufactures ecological products and system solutions based on sustainable raw materials for the automotive and rail transport industry. Delignit's material is predominantly based on European hardwood and is CO_2 neutral in its lifecycle. Exports account for 55% of sales. MBB is the majority shareholder with 76%.

Bull

- Adding new serial supply contracts for LCV.
- Increased and enhanced applications for existing products.
- Expanding in adjacent markets.

Bear

- High dependence on large OEM contracts.
- An increase in oil prices could reduce the company's profitability.
- Valuation already factors in growth prospects.

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Edison profile page

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Good recovery in H220

Following the decline in revenues of 20.6% in H120, due to the impact of COVID-19, Delignit had expected full year revenues of €51–56m (guidance dating from 17 August 2020). The reported revenues for 2020 came in at €58.7m, thereby exceeding company guidance, with a good recovery in the second half. Revenue growth of 3% in H220 was fully driven by Automotive whereas Technological Applications still reported a decline of 10%. The geographical spread of revenues in 2020 was Germany 45%, other Europe 47% and rest of world 8%.

The gross margin increased by 240bp y-o-y to 44.8%, fuelled by the effects of insourcing of purchased services, the reduction of temporary staff and the change in product mix with significantly lower OEM business in H120 due to temporary plant closures.

Reported EBITDA increased 17% to €5.6m driving a margin improvement of 210bp y-o-y to 9.6% (we calculate EBITDA margin as percentage of revenues, whereas Delignit takes it as percentage of total income). Reported EBITDA included a non-recurring benefit of €1m related to on-charging costs for the additional expenses incurred in 2019 related to the motor caravan order. These expenses in 2019 of around €1m were related to additional investments and changes to the supply volume shortly before the start of production. Due to the ramping up of volumes during 2020 and cost efficiencies, the operating loss of this order significantly declined in 2020 (we estimate close to break-even). When adjusting for the non-recurring effect of €1m, normalised EBITDA was €4.6m, reflecting a small decline of 4% y-o-y but still a margin increase of 40bp to 7.9%.

Exhibit 1: Analysis of 2020 revenues and profit

Year-end December (€m)	H119	H219	FY19	H120	H220	FY20
Automotive	N/A		55.0	N/A	N/A	51.1
Change y-oy	20%		18%	(20%)	3%	(7%)
Technological Applications	N/A		9.4	N/A	N/A	7.6
Change y-o-y	(21%)		(31%)	(26%)	(10%)	(19%)
Total revenues	**32.3**	**32.1**	**64.4**	**25.6**	**33.1**	**58.7**
Change y-o-y	**10%**	**4%**	**7%**	**(21%)**	**3%**	**(9%)**
Other income	2.5	0.8	3.3	(0.2)	(1.1)	(1.3)
Total income	34.8	32.8	67.6	25.5	31.9	57.4
Normalised EBITDA	**2.4**	**2.4**	**4.8**	**1.6**	**3.0**	**4.6**
Change y-o-y	**(16%)**	**(12%)**	**(15%)**	**(34%)**	**26%**	**(4%)**
Normalised EBITDA margin, % of revenues	**7.4%**	**7.5%**	**7.5%**	**6.2%**	**9.2%**	**7.9%**
EBITDA reported	2.4	2.4	4.8	1.6	4.0	5.6
EBITDA margin, % of revenues	7.4%	7.5%	7.5%	6.2%	12.2%	9.6%
Depreciation	(1.1)	(1.4)	(2.5)	(1.3)	(1.3)	(2.6)
EBIT	1.3	1.0	2.3	0.3	2.8	3.0
Net interest	(0.1)	(0.2)	(0.3)	(0.1)	(0.1)	(0.3)
Pre-tax profit	1.2	0.8	2.0	0.1	2.7	2.8
Taxation	(0.4)	(0.2)	(0.6)	(0.1)	(0.6)	(0.7)
Net income	0.8	0.6	1.4	0.0	2.0	2.1
Number of shares (m)	8.2	8.2	8.2	8.2	8.2	8.2
EPS (€)	0.10	0.07	0.17	0.01	0.25	0.25
DPS (€)			0.00			0.03

Source: Delignit, Edison Investment Research

Delignit's Automotive segment represented 87% of FY20 revenues and comprises the product groups LCVs, motor caravans and passenger cars. Revenues declined 7% in FY20, which reflects a strong recovery to around 3% growth in the second half after the decline of 20% in the first half, which was significantly affected by plant closures by its customers as a result of the COVID-19 pandemic. The reported decline is significantly smaller when compared to market growth, based on data from the European Automotive Manufacturers Association (ACEA). In 2020, the LCV market reported a decline in new registrations of 18% in the European Union and 12% in Germany, and passenger cars reported a decline in new registrations of 24% in the European Union and 19% in Germany. Delignit is gaining market share in the automotive segment, which is driven by the increasing value of its products per vehicle, adding new customers and the entrance of the motor caravan segment with the first serial production contract won in 2019 (which is still in ramping up phase).

Technological Applications represented 13% of FY20 revenues and comprises the product groups building equipment, compressed wood, railfloor and special applications. Revenues declined 19% in FY20 after a decline of 25.8% in H120. The decline was due to lower volumes caused by the COVID-19 pandemic and the postponement of major investment projects. Also, the lack of follow-up orders in rail vehicle equipment resulted in lower than anticipated revenues. Delignit would like to expand in the railway product group, as this sector will benefit from the modernisation and digitisation trend over the next few years. Currently, Delignit only offers flooring, but could expand its product offering like it has done did in the LCV segment over the past decade.

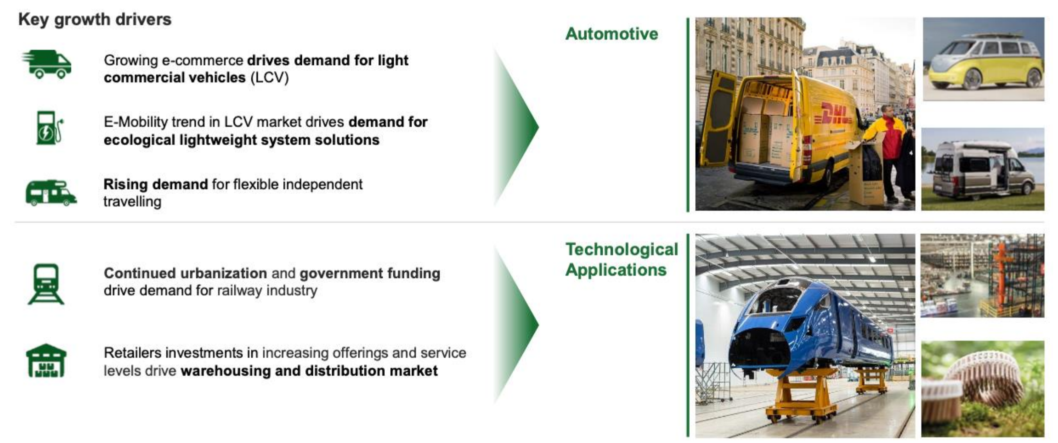
Outlook

Despite the ongoing impact of the COVID-19 pandemic, Delignit had a good start to 2021, with further orders in automotive and the railway product group. Strong call-offs were reported in the LCV market, which benefits from the strong growth in e-commerce driving high demand for last mile delivery. On 24 March 2021, management provided guidance for 2021, being revenues of more than €67m, which reflects growth of at least 14%. For the Technological Applications division management expects a stable development in its markets, meaning that growth will be fully realised by the Automotive division. According to management, growth in this division will be driven by all three segments, ie LCV, motor caravan and passenger cars. The further volume ramp-up of the motor caravan contract will significantly contribute to overall revenues.

Management estimates an EBITDA margin for 2021 of more than 9%, which compares to the reported margin of 9.6% and normalised margin of 7.9% in 2020. Part of the improvement will come from the motor caravan order, which is expected to turn to profit compared to the small loss in 2020. This guidance seems very much achievable based on the normalised EBITDA margin of 9.2% in the second half of 2020. Consensus is currently looking at revenues of €69m and EBITDA of €6.6m, or a margin of 9.6%.

Management is positive about long-term growth prospects based on several underlying growth drivers, such as growing e-commerce, growing demand for ecological lightweight products, rising demand for safe independent travel and modernisation and digitisation within the railway segment (see Exhibit 2). Delignit signed a contract for a new eLCV at the end of 2019, which has sales potential of more than €23m over the term of the contract (2022–32). The company's long-term ambition remains revenues of at least €100m and an EBITDA margin of at least 10%. Further growth will also come from geographical expansion and broadening its product offering.

Exhibit 2: Growth drivers in Delignit's business units



Source: Delignit

Financial position

Despite the difficult market conditions in 2020, due to the COVID-19 pandemic, Delignit has improved its financial position with the equity ratio increasing from 48.8% in 2019 to 57.3% in 2020 and net debt (including lease) declining from €9.5m in 2019 to €3.7m in 2020. The decline in net debt was due to the higher reported operating result, a sharp decline in inventories from €15m to €11m and significantly lower capex. The decline in inventories reflected a normalisation effect after the spike in inventories in 2019 from €10m to €15m due to the lower-than-expected ramp-up in the large order in the motor caravan segment. Management expects inventories as percentage of revenues to stabilise in 2021 compared to 2020. Driven by the uncertain market conditions, capex of €0.5m was significantly below €2.9m in 2019. Net debt/EBITDA improved from 2.5 in 2019 to 0.7 in 2020. There are no bank covenants and the company stated that it has sufficient lines of credit to finance working capital.

The company does not have a specific dividend policy but normally pays a dividend. Due to the impact of the COVID-19 pandemic, management decided not to pay any dividends for 2019 but is proposing a dividend per share of €0.03 for 2020.

Valuation

There are no companies that closely match Delignit's business profile. We have selected two wood processing companies, namely Steico and UPM, although these companies have lower exposure to the automotive sector compared to Delignit. We also compare Delignit with the automotive suppliers Jost Werke, va-Q-tec and SHW. For the Technological Applications activities we have selected Schaltbau Holding as a peer given its exposure to the railway sector.

As shown in Exhibit 3, Delignit trades at a discount of around 20% based on 2021e and 2022e EV/EBITDA. The reason for this might be the difference in profitability as margins at Delignit are below average when compared to its peers, which in turn might be based on the different product portfolios.

Exhibit 3: Peer group comparison

Company	Market cap	EV/sales (x)			EV/EBITDA (x)			EBITDA margin (%)
	€m	2020	2021e	2022e	2020	2021e	2022e	2022e
Wood processing companies								
Steico	1,165	4.1	3.6	3.1	21.7	16.5	14.6	21.5%
UPM	17,494	2.1	2.1	2.1	13.3	11.2	10.9	18.6%
Automotive suppliers								
Jost Werke	800	1.3	1.0	0.9	11.8	8.2	7.0	12.4%
va-Q-tec	405	6.1	4.6	3.8	35.8	22.4	16.7	20.4%
SHW AG	121	0.5	0.6	0.5	9.3	7.7	6.9	7.5%
Technological applications								
Schaltbau Holding	292	0.7	0.8	0.8	9.3	9.0	7.8	8.9%
Universe average		**2.5**	**2.1**	**1.9**	**17.0**	**12.5**	**10.6**	**14.9%**
Delignit AG	64	1.0	1.0	0.9	10.8	10.4	8.2	10.6%
Premium/discount		-58%	-53%	-54%	-37%	-17%	-23%	-29%

Source: Refinitiv. Note: Prices at 10 May 2021.

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