

MBH Corporation Plc

United Kingdom / Industrial Goods & Services
 Frankfurt
 Bloomberg: M8H GR
 ISIN: GB00BF1GH114

Update on acquisition
 and H1/19 results

RATING
BUY

PRICE TARGET
€ 2.15

Return Potential 188.6%
 Risk Rating High

NEW SMALL ACQUISITION COMPLETED

MBH Corporation has announced the successful completion of a small acquisition within its construction vertical. The company has acquired 100% of the UK-based refurbishment specialist Gaysha Ltd. Gaysha reported sales of GBP 9.1m and EBITDA of GBP 0.46m in the year ending 28 February 2019. The consideration to vendors is 1.9m shares valued at €1.47, equating to a price of €2.8m (GBP 2.4m). The price represents a multiple of 5.6x EBITDA, which is in our view fair. However, based on the current share price trading below €0.80, the transaction is highly favourable for the MBH group and underscores commitment of the Gaysha founders to the group. The acquisition fits well with the group's portfolio. In addition, MBH reported H1/19 financial results which were slightly below our expectations. Revenues for H1/19 came in at GBP 22.0m (FBE: GBP 23.5m). EBIT amounted to GBP 1.4m (FBE: GBP 1.5m). While the holding companies have typically generated up to 70% of their income in the second half of the year, we prefer to take a more cautious stance on H2/19 in light of slowdown of the worldwide economy. We have slightly lowered our group sales and EBIT forecasts for 2019 and the following years in accordance with the performance seen in H1/19. We have also incorporated the acquired company Gaysha into our financial forecasts. Following these changes, our sum-of-the-parts valuation model gives a new price target of €2.15 (old: €2.25). At current levels, the stock is significantly undervalued. We reiterate our Buy rating.

Gaysha Ltd. (<http://gaysha.co.uk/>), a UK based family-owned refurbishment specialist Ian Elsey, Gaysha's current CEO, founded the company in 1997. Together with two younger generations of his family, Mr Elsey has been successfully running the business for over two decades. Gaysha is a fit out specialist and refurbishment contractor focusing on the central London area. It carries out external and internal building activities, roofing and internal refurbishments for residential, commercial (e.g. category A & B office refits, office design, retail units, etc) and industrial (e.g. business park) clients. Gaysha generated sales of GBP 9.1m and EBITDA of GBP 0.46m in the year ending 28 February 2019. p.t.o.

FINANCIAL HISTORY & PROJECTIONS

	2017	2018	2019E	2020E	2021E	2022E
Revenue (GBP m)	0.00	12.51	62.25	96.80	99.52	102.32
Y-o-y growth	n.a.	n.a.	397.6%	55.5%	2.8%	2.8%
EBIT (GBP m)	0.00	1.56	6.20	9.13	10.75	11.26
EBIT margin	0.0	12.5%	10.0%	9.4%	10.8%	11.0%
Net income (GBP m)	0.00	1.25	4.90	7.25	8.54	8.94
EPS (diluted) (GBP)	0.00	0.11	0.12	0.12	0.14	0.15
DPS (GBP)	0.00	0.00	0.07	0.07	0.09	0.09
FCF (GBPm)	0.00	0.34	2.85	3.44	7.42	7.66
Net gearing	0.0	0.6%	-8.0%	-9.3%	-15.7%	-19.9%
Liquid assets (GBP m)	0.00	1.52	3.42	4.18	7.18	9.64

RISKS

Risks include, but are not limited to operations and share price underperformance, acquisition risk, shareholder dilution and competition risks.

COMPANY PROFILE

MBH is a London-based holding company operating in accordance with a proprietary Agglomeration Model to acquire and grow established, profitable small and medium-sized enterprises (SMEs) in different sectors and geographic regions. The company is currently focused on the following four sectors: education, construction services, engineering, and telecommunications, media & technology (TMT).

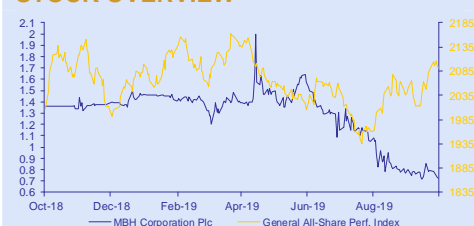
MARKET DATA

As of 28 Oct 2019

Closing Price	€ 0.75
Shares outstanding	30.85m
Market Capitalisation	€ 22.99m
52-week Range	€ 0.72 / 2.00
Avg. Volume (12 Months)	38,096

Multiples	2018	2019E	2020E
P/E	18.9	11.1	11.0
EV/Sales	1.2	0.7	0.4
EV/EBIT	15.9	6.8	4.6
Div. Yield	0.0%	10.0%	10.0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2019

Liquid Assets	GBP 4.63m
Current Assets	GBP 31.24m
Intangible Assets	GBP 2.97m
Total Assets	GBP 101.27m
Current Liabilities	GBP 62.03m
Shareholders' Equity	GBP 30.01m

SHAREHOLDERS

A. Presland	38.6%
Grandose Limited	9.6%
Unity Group	8.2%
D. Howes	8.0%
Others	35.6%



Acquisition price of 5.6x EBITDA seems fair, and it also underscores the founders' commitment to the MBH group

In accordance with MBH's acquisition policy under the agglomeration model, Gaysha's previous owners received shares in MBH. MBH paid 1.9 million shares at €1.47 per share to acquire 100% of Gaysha. The estimated acquisition price amounted to about €2.8m (GBP 2.4m), which equates to 5.6x EBITDA in 2019 and is in our view fair. Considering that the share price is currently trading below €0.80, we believe the transaction demonstrates the commitment of Gaysha-founders' to joining the MBH group and their perception that MBH's shares are undervalued. MBH estimates that the total number of group shares following the acquisition will be 60-65m. The acquisition is expected to be EPS accretive. We believe Gaysha fits well with the current construction portfolio comprising Cape Ltd (Australia), du Boulay Contracts Ltd (UK) and Guildprime Specialists Contracts Ltd (UK).

Acquisition dynamic is set to accelerate in the next few months Including Gaysha, the group comprises eight companies. Management has confirmed its ambitious goal to end the year with at least 15 companies in the group. This implies seven further acquisitions over the next two months.

H1/19 FINANCIAL RESULTS

MBH showed a positive financial performance in H1/19, although figures were slightly below our expectation

The company reported sales of GBP22.0m, below our projection of GBP23.5m. There is no comparable H1/18 sales figure, since the first company was not acquired until August 2018. However, the company reported that proforma sales from companies acquired in 2018 increased by 7% y/y, which in our view represents a healthy organic growth. Gross profit came in at GBP 5.9m (FBe: GBP 6.2m). The underlying gross margin was 26.9% in H1/19 (FBe: 27.2%). The company reported an EBITDA of GBP 1.8m (FB: GBP 1.9m). The proforma EBITDA also showed a positive growth of 6%. The company reported EBIT of GBP 1.4m in H1/19 (FBe: GBP 1.5m). Net income for the period came in at GBP 1.1m (FBe: GBP 1.2m).

Figure 1: P&L H1/19 reported figures vs. FB estimates and H1/18 (KPIs)

All figures in GBP '000	H1/19	H1/19E	Delta	H1/18	Delta
Revenue	21,955	23,500	-7%	0	n.a.
Gross profit	5,898	6,400	-8%	0	n.a.
EBITDA	1,765	1,900	-7%	-158	n.a.
Operating income (EBIT)	1,383	1,500	-8%	-158	n.a.
Net financial result	-22	-10	n.a.	0	n.a.
Tax result	-266	-300	-11%	0	n.a.
Net income / loss	1,095	1,190	-8%	-158	n.a.
Margins in %					
Gross profit	26.9%	27.2%		n.a.	
EBITDA	8.0%	8.1%		n.a.	
Operating income (EBIT)	6.3%	6.4%		n.a.	

Source: First Berlin Equity Research, MBH Corporation Plc.

Revising forecasts following H1/19 results and the acquisition of Gaysha Ltd. In the light of the slight weakness shown in H1/19 and the general economic slowdown, we believe the company will find it challenging to meet our previous 2019 financial projections. We have therefore lowered our 2019 sales and EBIT forecasts to respectively GBP 60.4m (previously GBP 65.9m) and GBP 6.0m (previously GBP 6.5m). Furthermore, we have included in our forecasts the acquisition of Gaysha adding proforma sales of GBP 9.1m and EBITDA of GBP 0.5m in 2019. We have summarised the main changes in figure 2 overleaf.

**Figure 2: Changes to our forecasts (KPIs)**

All figures in GBP '000	2019E			2020E			2021E		
	Old	New	% change	Old	New	% change	Old	New	% change
Revenue	65,936	62,252	-5.6%	97,807	96,801	-1.0%	102,683	99,520	-3.1%
EBITDA	7,458	7,073	-5.2%	11,156	10,006	-10.3%	12,014	11,644	-3.1%
margin	11.3%	11.4%		11.4%	10.3%		11.7%	11.7%	
Operating income (EBIT)	6,534	6,201	-5.1%	10,275	9,135	-11.1%	11,090	10,748	-3.1%
margin	9.9%	10.0%		10.5%	9.4%		10.8%	10.8%	
Net income / loss	5,170	4,903	-5.2%	8,161	7,248	-11.2%	8,811	8,537	-3.1%
margin	7.8%	7.9%		8.3%	7.5%		8.6%	8.6%	
EPS (in EUR, dil.)	13.04	12.36	-5.2%	14.01	12.44	-11.2%	14.90	14.28	-4.2%

Source: First Berlin Equity Research estimates

Healthy balance sheet MBH's balance sheet in H1/19 was substantially enlarged chiefly due to the acquisitions performed in the reporting period (Guildprime and APEV). The company reported a higher cash position of GBP 4.6m (FY/18: GBP 1.5m), which is chiefly explained by the higher number of holdings following the acquisitions made during H1/19. Similarly, goodwill rose to GBP 65.4m (FY/18: GBP 29.6m). Trade receivables also increased to GBP 26.6m (FY/18: GBP 8.5m). The contingent consideration to settle the incentive scheme related to the acquisitions rose substantially to GBP 47.8m (FY/18: GBP 6.8m). Trade and other payables also rose to GBP 22.7m (FY/18: GBP 5.4m). Financial liabilities (LT+ST) declined to GBP 1.4m in H1/19 (FY/18: GBP 1.7m). Net cash amounted to GBP 3.2m (FY/18: GBP -0.2m). Equity increased slightly to GBP 30.0m (FY/18: GBP 28.4m), corresponding to a low equity ratio of 30% (FY/18: %).

Positive operating cash flow Operating cash flow came in at GBP 1.5m. Cash flow from investment activities amounted to GBP 1.7m. Financing cash flow was GBP-112k in H1/19, chiefly due to loan and interest payments. Net cash inflow in H1/19 amounted to GBP 3.1m.

Buy rating reiterated at slightly lower price target Based on our updated estimates, our sum-of-the parts valuation model yields a lower price target of €2.15 (previously: €2.25). Following the share price decline over the last months, the stock offers attractive upside potential of over 180%. We reiterate our Buy recommendation.



VALUATION MODEL

Figure 3: DCF Model

Existing business - FCF forecasts								
All figures in GBP '000								
	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Net sales	62,252	96,801	99,520	102,319	106,412	110,668	116,202	122,012
NOPLAT	4,961	7,308	8,599	9,004	9,705	10,447	11,248	12,240
+ depreciation & amortisation	872	871	896	921	958	996	1,046	1,464
Net operating cash flow	5,832	8,179	9,494	9,925	10,662	11,443	12,294	13,704
- total investments (CAPEX and WC)	-2,965	-4,729	-2,076	-2,281	-2,514	-2,746	-3,046	-3,303
Capital expenditures	-872	-1,404	-1,344	-1,361	-1,245	-1,383	-1,453	-1,708
Working capital	-2,093	-3,326	-732	-920	-1,269	-1,362	-1,594	-1,595
Free cash flows (FCF)	2,868	3,450	7,418	7,644	8,149	8,698	9,248	10,402
PV of FCF's	2,816	3,079	6,020	5,639	5,465	5,303	5,126	5,241

All figures in GBP '000	
PV of FCFs in explicit period	56,946
PV of FCFs in terminal period	55,005
Enterprise value (EV) existing business	111,951
+ Net cash / - net debt	100
Shareholder value existing business	112,051
+ PV of the acquisition pipeline	137,881
Shareholder value MBH Group	249,932
Share count (fully diluted, PV)	131,048
Fair value/share (GBP)	1.91
Fair value per share in EUR	2.15

WACC calculation	
Cost of equity	10.0%
Pre-tax cost of debt	5.0%
Tax rate	20.0%
After-tax cost of debt	4.0%
Share of equity capital	100.0%
Share of debt capital	0.0%
WACC	10.0%
GBP - EUR FX rate:	1.12

*Please note our model runs through 2030 and we have only shown the abbreviated version for formatting purposes

Source: First Berlin Equity Research

DCF Model assumptions We have assumed a terminal free cash flow growth rate of 2.0%. Using the First Berlin methodology, which takes into account company-specific risk factors, we have derived a cost of equity (COE) of 10.0% for MBH's existing business. Based on a debt ratio of 0%, we arrive at a WACC of 10.0%, which we used to discount projected cash flows. We also refer to a GBPEUR exchange rate of 1.12 to arrive at our Euro based fair value.



INCOME STATEMENT

All figures in GBP '000	2017	2018	2019E	2020E	2021E	2022E
Revenues	0	12,511	62,252	96,801	99,520	102,319
Cost of goods sold	0	-8,672	-45,775	-72,457	-74,493	-76,588
Gross profit	0	3,839	16,476	24,344	25,028	25,732
Administrative expenses	0	-2,280	-10,275	-15,209	-14,280	-14,477
Operating income (EBIT)	0	1,559	6,201	9,135	10,748	11,255
Net financial result	0	-20	-22	-24	-27	-29
Non-operating expenses	0	-121	-50	-50	-50	-50
Pre-tax income (EBT)	0	1,418	6,129	9,060	10,672	11,176
Tax result	0	-172	-1,226	-1,812	-2,134	-2,235
Net income / loss	0	1,246	4,903	7,248	8,537	8,941
Other comprehensive income	0	7	0	0	0	0
Total comprehensive income	0	1,253	4,903	7,248	8,537	8,941
Average diluted EPS (in pence)	-0.01	11.21	12.36	12.44	14.28	14.81
EBITDA	0	1,798	7,073	10,006	11,644	12,176
Ratios						
Gross margin	n.a.	30.7%	26.5%	25.1%	25.1%	25.1%
EBIT margin on revenues	n.a.	12.5%	10.0%	9.4%	10.8%	11.0%
EBITDA margin on revenues	n.a.	14.4%	11.4%	10.3%	11.7%	11.9%
Net margin on revenues	n.a.	10.0%	7.9%	7.5%	8.6%	8.7%
Tax rate	n.a.	17.5%	20.0%	20.0%	20.0%	20.0%
Expenses as % of revenues						
Administrative expenses	n.a.	18.2%	16.5%	15.7%	14.3%	14.1%
Y-Y Growth						
Revenues	n.a.	n.a.	397.6%	55.5%	2.8%	2.8%
Operating income (EBIT)	n.a.	n.a.	297.8%	47.3%	17.7%	4.7%
Net income/ loss	n.a.	n.a.	293.5%	47.8%	17.8%	4.7%



BALANCE SHEET

All figures in GBP '000	2017	2018	2019E	2020E	2021E	2022E
Assets						
Current assets, total	0	9,793	17,066	25,955	30,243	34,004
Cash and cash equivalents	0	1,523	3,422	4,182	7,176	9,644
Receivables	0	8,270	13,644	21,774	23,067	24,360
Non-current assets, total	250	32,745	32,745	33,277	33,725	34,165
Property, plant & equipment	0	246	495	979	1,377	1,786
Goodwill & other intangibles	250	32,497	32,248	32,296	32,346	32,377
Other assets	0	2	2	2	2	2
Total assets	250	42,538	49,811	59,233	63,968	68,169
Shareholders' equity & debt						
Current liabilities, total	0	9,851	12,277	17,015	17,526	17,864
Short-term debt	0	1,218	400	360	324	292
Accounts payable	0	4,620	7,901	12,705	13,266	13,639
Contingent consideration (earn out)	0	2,988	2,868	2,754	2,644	2,538
Other current liabilities	0	1,025	1,107	1,196	1,292	1,396
Long-term liabilities, total	0	4,332	4,276	4,303	4,339	4,384
Long-term debt	0	484	350	298	253	215
Deferred taxes	0	10	11	12	13	15
Contingent consideration (earn out)	0	3,848	3,926	4,005	4,086	4,169
Shareholders' equity	250	28,355	33,258	37,915	42,103	45,921
Total consolidated equity and debt	250	42,538	49,811	59,232	63,968	68,169
Ratios						
Current ratio (x)	n.a.	1.0	1.4	1.5	1.7	1.9
Quick ratio (x)	n.a.	1.0	1.4	1.5	1.7	1.9
Net debt/(net cash)	0	179	-2,672	-3,524	-6,599	-9,137
Net gearing	0.0%	0.6%	-8.0%	-9.3%	-15.7%	-19.9%
Return on equity (ROE)	0.0%	15.2%	14.7%	19.1%	20.3%	19.5%



CASH FLOW STATEMENT

All figures in GBP '000	2017	2018	2019E	2020E	2021E	2022E
Net income	0	1,246	4,903	7,248	8,537	8,941
Depreciation and amortisation	0	239	872	871	896	921
Tax expense	0	172	1,226	1,812	2,134	2,235
Changes in working capital	0	-1,462	-2,053	-3,272	-665	-840
Other adjustments	0	494	0	0	0	0
Net interest result	0	141	72	74	77	79
Operating cash flow	0	830	5,020	6,734	10,978	11,336
Tax paid	0	-54	-1,226	-1,812	-2,134	-2,235
Interest income	0	1	-22	-24	-27	-29
Net operating cash flow	0	777	3,772	4,898	8,817	9,071
CapEx	0	-435	-872	-1,404	-1,344	-1,361
Other investments and disposals	0	-2	-50	-50	-50	-50
Cash flow from investing	0	-437	-922	-1,454	-1,394	-1,411
Free cash flow	0	340	2,851	3,444	7,424	7,661
Cash flow from financing	0	1,170	-952	-2,684	-4,430	-5,193
Consolidation adjustments	0	13	0	0	0	0
Net cash flow	0	1,523	1,899	760	2,994	2,468
Cash, start of the year	0	0	1,523	3,422	4,182	7,176
Cash, end of the year	0	1,523	3,422	4,182	7,176	9,644
EBITDA/share (in GBP)	0.00	0.16	0.18	0.17	0.19	0.20
Y-Y Growth						
Operating cash flow	n.a.	n.a.	504.8%	34.1%	63.0%	3.3%
Free cash flow	n.a.	n.a.	738.5%	20.8%	115.6%	3.2%
EBITDA/share	n.a.	n.a.	10.3%	-3.7%	13.4%	3.6%

FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	27 June 2019	€1.54	Buy	€2.25
	↓	↓	↓	↓
2	Today	€0.75	Buy	€2.15

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First Berlin Equity Research GmbH (hereinafter referred to as: "First Berlin") prepares financial analyses while taking the relevant regulatory provisions, in particular the German Securities Trading Act [WpHG], Regulation (EU) No 596/2014 of the European Parliament and of the Council of April 16, 2014, on market abuse (market abuse regulation) and the German Ordinance on the Analysis of Financial Instruments [FinAnV] into consideration. In the following First Berlin provides investors with information about the statutory provisions that are to be observed in the preparation of financial analyses.

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PRICE TARGET DATES

Unless otherwise indicated, current prices refer to the closing prices of the previous trading day.

AGREEMENT WITH THE ANALYSED COMPANY AND MAINTENANCE OF OBJECTIVITY

The present financial analysis is based on the author's own knowledge and research. The author prepared this study without any direct or indirect influence exerted on the part of the analysed company. Parts of the financial analysis were possibly provided to the analysed company prior to publication in order to avoid inaccuracies in the representation of facts. However, no substantial changes were made at the request of the analysed company following any such provision.

ASSET VALUATION SYSTEM

First Berlin's system for asset valuation is divided into an asset recommendation and a risk assessment.

ASSET RECOMMENDATION

The recommendations determined in accordance with the share price trend anticipated by First Berlin in the respectively indicated investment period are as follows:

Category		1	2
Current market capitalisation (in €)		0 - 2 billion	> 2 billion
Strong Buy ¹	An expected favourable price trend of:	> 50%	> 30%
Buy	An expected favourable price trend of:	> 25%	> 15%
Add	An expected favourable price trend of:	0% to 25%	0% to 15%
Reduce	An expected negative price trend of:	0% to -15%	0% to -10%
Sell	An expected negative price trend of:	< -15%	< -10%

¹ The expected price trend is in combination with sizable confidence in the quality and forecast security of management.

Our recommendation system places each company into one of two market capitalisation categories. Category 1 companies have a market capitalisation of €0 – €2 billion, and Category 2 companies have a market capitalisation of > €2 billion. The expected return thresholds underlying our recommendation system are lower for Category 2 companies than for Category 1 companies. This reflects the generally lower level of risk associated with higher market capitalisation companies.

RISK ASSESSMENT

The First Berlin categories for risk assessment are low, average, high and speculative. They are determined by ten factors: Corporate governance, quality of earnings, management strength, balance sheet and financial risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, strength of brand name, market capitalisation and free float. These risk factors are incorporated into the First Berlin valuation models and are thus included in the target prices. First Berlin customers may request the models.

INVESTMENT HORIZON

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