

# MBH Corporation Plc

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

## Update on acquisition and H1/19 results

<b>RATING</b>	<b>BUY</b>
<b>PRICE TARGET</b>	<b>€ 2.15</b>
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
<b>Multiples</b>	<b>2018</b> <b>2019E</b> <b>2020E</b>
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.
<b>Operating income (EBIT)</b>	<b>1,383</b>	<b>1,500</b>	<b>-8%</b>	<b>-158</b>	<b>n.a.</b>
Net financial result	-22	-10	n.a.	0	n.a.
Tax result	-266	-300	-11%	0	n.a.
<b>Net income / loss</b>	<b>1,095</b>	<b>1,190</b>	<b>-8%</b>	<b>-158</b>	<b>n.a.</b>
<b>Margins in %</b>					
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**

<b>Existing business - FCF forecasts</b>		2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
All figures in GBP '000									
Net sales	62,252	96,801	99,520	102,319	106,412	110,668	116,202	122,012	
<b>NOPLAT</b>	<b>4,961</b>	<b>7,308</b>	<b>8,599</b>	<b>9,004</b>	<b>9,705</b>	<b>10,447</b>	<b>11,248</b>	<b>12,240</b>	
+ 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	
<b>PV of FCF's</b>	<b>2,816</b>	<b>3,079</b>	<b>6,020</b>	<b>5,639</b>	<b>5,465</b>	<b>5,303</b>	<b>5,126</b>	<b>5,241</b>	
All figures in GBP '000									
PV of FCFs in explicit period	56,946								
PV of FCFs in terminal period	55,005								
<b>Enterprise value (EV) existing business</b>	<b>111,951</b>								
+ Net cash / - net debt	100								
<b>Shareholder value existing business</b>	<b>112,051</b>								
+ PV of the acquisition pipeline	137,881								
<b>Shareholder value MBH Group</b>	<b>249,932</b>								
Share count (fully diluted, PV)	131,048								
<b>Fair value/share (GBP)</b>	<b>1.91</b>								
<b>Fair value per share in EUR</b>	<b>2.15</b>								
		<b>WACC calculation</b>							
		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%					
		<b>WACC</b>		<b>10.0%</b>					
		<b>GBP - EUR FX rate:</b>		<b>1.12</b>					

\*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
<b>Revenues</b>	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
<b>Gross profit</b>	0	3,839	16,476	24,344	25,028	25,732
Administrative expenses	0	-2,280	-10,275	-15,209	-14,280	-14,477
<b>Operating income (EBIT)</b>	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
<b>Pre-tax income (EBT)</b>	0	1,418	6,129	9,060	10,672	11,176
Tax result	0	-172	-1,226	-1,812	-2,134	-2,235
<b>Net income / loss</b>	0	1,246	4,903	7,248	8,537	8,941
Other comprehensive income	0	7	0	0	0	0
<b>Total comprehensive income</b>	0	1,253	4,903	7,248	8,537	8,941
<b>Average diluted EPS (in pence)</b>	-0.01	11.21	12.36	12.44	14.28	14.81
<b>EBITDA</b>	0	1,798	7,073	10,006	11,644	12,176
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<b>Ratios</b>						
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%
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<b>Expenses as % of revenues</b>						
Administrative expenses	n.a.	18.2%	16.5%	15.7%	14.3%	14.1%
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<b>Y-Y Growth</b>						
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
<b>Assets</b>						
<b>Current assets, total</b>	<b>0</b>	<b>9,793</b>	<b>17,066</b>	<b>25,955</b>	<b>30,243</b>	<b>34,004</b>
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
<b>Non-current assets, total</b>	<b>250</b>	<b>32,745</b>	<b>32,745</b>	<b>33,277</b>	<b>33,725</b>	<b>34,165</b>
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
<b>Total assets</b>	<b>250</b>	<b>42,538</b>	<b>49,811</b>	<b>59,233</b>	<b>63,968</b>	<b>68,169</b>
<b>Shareholders' equity &amp; debt</b>						
<b>Current liabilities, total</b>	<b>0</b>	<b>9,851</b>	<b>12,277</b>	<b>17,015</b>	<b>17,526</b>	<b>17,864</b>
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
<b>Long-term liabilities, total</b>	<b>0</b>	<b>4,332</b>	<b>4,276</b>	<b>4,303</b>	<b>4,339</b>	<b>4,384</b>
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
<b>Shareholders' equity</b>	<b>250</b>	<b>28,355</b>	<b>33,258</b>	<b>37,915</b>	<b>42,103</b>	<b>45,921</b>
<b>Total consolidated equity and debt</b>	<b>250</b>	<b>42,538</b>	<b>49,811</b>	<b>59,232</b>	<b>63,968</b>	<b>68,169</b>
<b>Ratios</b>						
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
<b>Net income</b>	<b>0</b>	<b>1,246</b>	<b>4,903</b>	<b>7,248</b>	<b>8,537</b>	<b>8,941</b>
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
<b>Operating cash flow</b>	<b>0</b>	<b>830</b>	<b>5,020</b>	<b>6,734</b>	<b>10,978</b>	<b>11,336</b>
Tax paid	0	-54	-1,226	-1,812	-2,134	-2,235
Interest income	0	1	-22	-24	-27	-29
<b>Net operating cash flow</b>	<b>0</b>	<b>777</b>	<b>3,772</b>	<b>4,898</b>	<b>8,817</b>	<b>9,071</b>
CapEx	0	-435	-872	-1,404	-1,344	-1,361
Other investments and disposals	0	-2	-50	-50	-50	-50
<b>Cash flow from investing</b>	<b>0</b>	<b>-437</b>	<b>-922</b>	<b>-1,454</b>	<b>-1,394</b>	<b>-1,411</b>
<b>Free cash flow</b>	<b>0</b>	<b>340</b>	<b>2,851</b>	<b>3,444</b>	<b>7,424</b>	<b>7,661</b>
<b>Cash flow from financing</b>	<b>0</b>	<b>1,170</b>	<b>-952</b>	<b>-2,684</b>	<b>-4,430</b>	<b>-5,193</b>
Consolidation adjustments	0	13	0	0	0	0
<b>Net cash flow</b>	<b>0</b>	<b>1,523</b>	<b>1,899</b>	<b>760</b>	<b>2,994</b>	<b>2,468</b>
Cash, start of the year	0	0	1,523	3,422	4,182	7,176
<b>Cash, end of the year</b>	<b>0</b>	<b>1,523</b>	<b>3,422</b>	<b>4,182</b>	<b>7,176</b>	<b>9,644</b>
<b>EBITDA/share (in GBP)</b>	<b>0.00</b>	<b>0.16</b>	<b>0.18</b>	<b>0.17</b>	<b>0.19</b>	<b>0.20</b>
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<b>Y-Y Growth</b>						
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'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 <sup>1</sup>	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%

<sup>1</sup> 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

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- key sources of information in the preparation of this research report
- valuation methods and principles
- sensitivity of valuation parameters

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