

Delignit

Materials
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Automotive drives strong recovery in H121

Delignit's H121 results showed a strong recovery compared to last year's results, which were affected by the pandemic. The company maintained its FY21 guidance of at least 14% revenue growth and an EBITDA margin of at least 9%. However, there is some uncertainty about the impact of the shortage of electronics components and higher raw materials prices. Delignit's strategy is focused on several ecologically driven trends, such as the use of renewable materials and weight optimisation of products. As most of Delignit's products are wood based, their life cycles are CO₂ neutral, which gives it a key competitive advantage.

Strong revenue growth and margin recovery in H121

The first half of 2021 showed a strong recovery compared to H120, when results were heavily affected by the pandemic. Revenues increased 42% y-o-y to €36.3m, mainly driven by the rebound in automotive activities, which showed 48% y-o-y growth thanks to higher call-offs from customers in the light commercial vehicle (LCV) segment and the further ramp-up of the motor caravan order. Driven by the strong revenue growth, EBITDA jumped 105% to €3.2m, driving a margin improvement of 240bp to 8.6%. This was despite the disrupting impact of the shortage of electronics components, which led to efficiency losses.

FY21 guidance maintained despite uncertainty

Delignit reiterated its revenue guidance of at least €67m in FY21 (+14% y-o-y). Management seems to prefer to be conservative following strong 42% y-o-y growth in H121, given uncertainty about the impact of the shortage of electronics components and higher raw materials prices. Management also maintained its guidance for an EBITDA margin of at least 9% (versus FY20 reported margin of 9.8% and normalised margin of 7.9%). Consensus expects FY21 revenues of €70m and an EBITDA margin of 9.2%. Over the next few years, Delignit will benefit from 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 in the railway segment. Its medium-term ambition is to realise revenues of more than €100m and an EBITDA margin of at least 10%.

Valuation: Discount to peers

Based on consensus estimates, Delignit is valued at a discount to peers of c 10% on EV/EBITDA in 2021e and 2022e. Delignit's profitability is below the peer group, which could be caused by the different product portfolios. Any closure of the margin gap to peers could trigger upside potential in the share price.

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	60.0	11.6
12/20	58.7	5.6	0.25	0.03	40.8	10.8
12/21e	70.1	6.4	0.31	0.05	32.9	13.2
12/22e	80.5	7.8	0.42	0.07	24.3	10.7

Source: Delignit, Refinitiv as at 2 September 2021

Price €10.2
Market cap €84m

Share price graph



Share details

Code	DLX
Listing	Deutsche Börse Scale
Shares in issue	8.2m
Net debt at 30 June 2021	€4.2m

Business description

Delignit manufactures ecological products and system solutions based on sustainable raw materials for the automotive, aviation and rail industries. Delignit's material is predominantly based on European hardwood and is CO₂ 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.
- Dependence on volatility in volume call-offs from customers.
- Impact from swings in raw material prices.

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Strong recovery in H121

Delignit showed a strong recovery in H121 compared to last year's results, which were affected by the pandemic. Revenues increased by 42% y-o-y to €36.3m and thereby surpassed the pre-pandemic level in H119 despite the continuing difficult market environment. The main reason for this is the ramp-up in volumes of the motor caravan order, which started in 2019.

EBITDA jumped 105% to €3.2m, driving a margin improvement of 240bp y-o-y to 8.6% (Delignit calculates the EBITDA margin as percentage of total income rather than total revenues). This recovery in profitability was realised despite the effect of shortages of electronics components, which disrupted production at OEMs as well as at Delignit plants, resulting in efficiency losses. Delignit's profitability could therefore have been higher in the first half under less volatile market conditions. Due to the company's long-term procurement strategy, it has prevented production stops due to supply constraints. Net profit recovered from around break-even to a profit of €1.4m, reflecting an EPS of €0.17 in H121.

Exhibit 1: Delignit H121 results

€m	H119	H120	H121
Automotive, change y-o-y	20%	-20%	48%
Technological Applications, change y-o-y	-21%	-26%	8%
Total revenues	32.3	25.6	36.3
Total income	34.8	25.5	37.8
Change y-o-y	10%	-21%	42%
Gross margin	42.3%	44.7%	43.7%
Staff costs	(8.4)	(7.8)	(9.3)
Other operating costs	(2.8)	(2.1)	(3.3)
EBITDA	2.4	1.6	3.2
Change y-o-y	-16%	-35%	105%
EBITDA margin (as % of total income)	6.9%	6.2%	8.6%
Depreciation	(1.1)	(1.3)	(1.2)
EBIT	1.3	0.3	2.1
Net interest	(0.1)	(0.1)	(0.1)
Pre-tax profit	1.2	0.1	2.0
Taxation	(0.4)	(0.1)	(0.6)
Net income	0.8	0.0	1.4
Number of shares (m)	8.2	8.2	8.2
EPS (€)	0.10	0.01	0.17

Source: Delignit, Edison Investment Research

Delignit's Automotive segment represented 87% of FY20 revenues and comprises product groups LCVs, motor caravans and passenger cars. Revenues recovered strongly from the low level in H120, which was affected by the pandemic. Revenue growth was 48% y-o-y and driven by strong demand in the LCV market, while the further ramp-up of the motor caravan order also contributed to growth. According to the European Automotive Manufacturers Association (ACEA), the LCV market reported a recovery in new registrations of 43% y-o-y in H121 in Europe, and the total volume of 1.1m units is already back to the pre-pandemic levels of H119. Growth in Germany, Delignit's home market (45% of total revenues in FY20), was 23% y-o-y. Passenger cars reported 27% y-o-y growth in new registrations in Europe and 15% in Germany.

Delignit is growing faster than the market and continues to focus on increasing the value of its products per vehicle. On 19 July 2021, Delignit announced that it will expand capacity for interior equipment components for motor caravans following a volume increase by its customer. According to Delignit, this increase will result in additional revenues of more than €20m in total between 2022 and 2029, or around €2–3m per year during the lifetime of the order.

Technological Applications represented 13% of FY20 revenues and comprises product groups building equipment, compressed wood, railfloor and special applications. After several years of weak performance due to lower orders in the Rail segment over the last few years and the impact of the pandemic last year, Delignit showed revenue growth of 8% y-o-y in this segment. The

company remains focused on the rail segment, as this sector will benefit from the modernisation and digitisation trend over the next few years.

Outlook

Management reiterated its revenue guidance of more than €67m in FY21, first provided on 24 March 2021. After the strong revenue performance of €36.3m in the first half, which showed 42% growth, full-year guidance of at least 14% growth seems rather conservative. However, market conditions have become more challenging due to uncertainty about the impact of higher raw material prices and the shortage of electronics components.

Management maintained its guidance for an EBITDA margin of at least 9% in FY21, which compares to the reported margin of 9.8% in FY20 or 7.9% when normalised for a non-recurring benefit of €1m related to on-charging costs for the additional expenses incurred in 2019 related to the motor caravan order. For FY21, Delignit still expects a profit from the motor caravan order after a small underlying loss in 2020 when it was still in the ramp-up phase. As mentioned above, Delignit showed a strong recovery in the EBITDA margin to 8.6% in the first half, but profitability would have been higher were it not for the effect of shortages of material. Delignit stated that its key OEM customers anticipate a gradual easing of shortages during H221 and significant backlog effects from previous plant closures. On the other hand, most of the materials used by the company, except for beech wood, are affected by price increases as well as shortages of material. Due to contractual clauses, Delignit is able to pass higher input prices on to customers, but only with a time delay, possibly resulting in temporary pressure on profitability. Consensus currently expects a revenue level of €70m in FY21 with an EBITDA margin of 9.2%.

Delignit's strategy is focused on further geographical expansion, broadening its product offering and on several ecologically driven trends, such as the use of renewable materials and weight optimisation of products. As most of its products are wood based, their life cycles are CO₂ neutral, which should become a key competitive advantage for Delignit.

Exhibit 2: Elements of Delignit's strategy



Source: Delignit

Management is positive about the company's long-term growth prospects based on several underlying trends such as increasing e-commerce, growing demand for ecological lightweight products, rising demand for safe independent travel, and modernisation and digitisation in the railway segment (see Exhibit 3). Delignit signed a contract for a new eLCV at the end of 2019, which had initial sales potential of more than €23m over the term of the contract (2022–32). Delignit recently mentioned that this order has been expanded with additional components, which will result in additional revenues of €11m during the lifetime of the contract.

The company's long-term ambition is unchanged: revenues of at least €100m and an EBITDA margin of at least 10%. Growth will also come from geographical expansion and broadening its product offering. Consensus is for revenues of €91m and an EBITDA margin of 10% in FY23.

Exhibit 3: Growth drivers in Delignit's business units

Key growth drivers



Growing e-commerce drives demand for light commercial vehicles (LCV)



E-Mobility trend in LCV market drives demand for ecological lightweight system solutions



Rising demand for flexible independent travelling



Continued urbanization and government funding drive demand for railway industry



Retailers investments in increasing offerings and service levels drive warehousing and distribution market

Automotive



Technological Applications



Source: Delignit

Financial position

Delignit's financial position remained strong in H121, with an equity ratio of 58%, up from 57% at year-end 2020. Net debt (including leases) slightly increased from €3.7m in FY20 to €4.2m at the end of H121, despite significantly higher activity levels. Inventories remained stable but could increase during H221, due to the rise in raw materials prices towards the end of H121..

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 than Delignit. We also compare Delignit with automotive suppliers Jost Werke and va-Q-tec. For the Technological Applications segment, we have selected SBF as a peer given its exposure to the railway sector.

Delignit trades at a c 10% discount based on 2021e and 2022e EV/EBITDA compared to peers. The reason for this discount could be the difference in profitability as Delignit's margins are below average compared to its peers, which in turn could be a result of the different product portfolios.

Exhibit 4: Peer group comparison

Company	Market cap €m	EV/sales (x)			EV/EBITDA (x)			EBITDA margin (%)	
		2020	2021e	2022e	2020	2021e	2022e	2022e	2022e
Wood processing companies									
Steico	1,698	5.8	4.4	3.9	30.9	19.4	17.2		22.8%
UPM	18,344	2.2	2.1	2.1	13.9	11.0	10.9		19.1%
Automotive suppliers									
Jost Werke	822	1.3	1.0	0.9	11.9	7.5	6.4		13.4%
va-Q-tec	335	5.1	4.4	3.7	31.0	22.1	16.7		19.8%
Technological applications									
SBF AG	86	3.3	2.6	1.8	17.1	14.4	8.5		18.3%
Universe average		3.0	2.9	2.5	19.1	14.9	12.0		18.7%
Delignit	82	1.1	1.0	0.8	10.8	13.2	10.7		9.9%
Premium/discount		(64%)	(66%)	(68%)	(43%)	(11%)	(10%)		(47%)

Source: Refinitiv. Note: Prices at 1 September 2021.

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