

Masterflex (MZX GY) | Industrial Technology

March 11, 2024

Undervalued asset

Following some restructuring measures and the diversification of its customer portfolio, Masterflex managed to deliver on its target to earn double digit EBIT margins already a while ago. Preliminary figures for FY23 including a new record EBIT of EUR12.6m underline that achievement. One reason for the profitability enhancement is a greater exposure to growing industries such as aerospace, food and medtech. Those industries combined account for about 30% of group revenues and most likely considerably more on profitability.

The ongoing development of Masterflex' portfolio, including acquisitions, should further reduce earnings volatility in the group. None of those achievements seem to be reflected in the share price. The deterioration of MZX shares multiples occurred simultaneously to the achieved margin expansion. Masterflex improved its position absolute but also relative vs the peer group. It appears the overall resistance of investors towards smaller capitalized stocks explains a large part of MZX valuation as the group delivered on its communicated targets. The groups strong FY21-23 performance and a solid chance to enter the next cycle from a basis with double-digit EBIT margins should facilitate a re-rating of the shares.

Valuation: Masterflex ambition to double sales by 2030, its profitability enhancement and the fact that comparable, non-listed assets seem to be sold at roughly twice MZX multiples suggest the shares are poised for a sharp rebound, once the reluctance towards small cap investments is over.

Fundamentals (in EUR m) ¹	2020	2021	2022	2023e	2024e	2025e
Sales	72	79	100	104	113	123
EBITDA	7	10	16	18	21	23
EBIT	2	5	11	12	15	17
EPS adj. (EUR)	0.08	0.35	0.81	0.80	1.02	1.09
EBIT (adj)	3.2	5.8	11.4	12.0	15.1	16.8
DPS (EUR)	0.08	0.12	0.00	0.25	0.33	0.35
BVPS (EUR)	4.26	4.64	5.37	6.19	7.25	8.34
Net Debt incl. Provisions	17	15	16	13	8	4
Ratios ¹	2020	2021	2022	2023e	2024e	2025e
EV/EBITDA	9.8	7.6	5.8	5.2	4.3	3.7
EV/EBIT	30.8	14.5	8.4	7.7	5.8	5.1
P/E adj.	67.8	18.7	10.1	10.5	8.2	7.7
Dividend yield (%)	1.4	1.9	0.0	3.0	3.9	4.2
EBITDA margin (%)	10.2	13.0	16.4	17.4	18.4	18.8
EBIT margin (%)	3.2	6.8	11.4	11.6	13.4	13.6
Net debt/EBITDA	2.4	1.5	1.0	0.7	0.4	0.2
PBV	1.3	1.4	1.5	1.4	1.2	1.0

¹Sources: Bloomberg, Metzler Research

Buy



unchanged

Price*

EUR 8.36

Price target

EUR 13.50 (unchanged)

* XETRA trading price at the close of the previous day unless stated otherwise in the Disclosures

Market Cap (EUR m) ¹	80
Enterprise Value (EUR m) ¹	88
Free Float (%) ¹	100.0

Price (in EUR)¹



Performance (in %) ¹	1m	3m	12m
Share	1.5	5.8	-11.1
Rel. to SDAX	0.2	1.1	-14.9

Changes in estimates (in %) ¹	2023e	2024e	2025e
Sales	0.0	0.0	0.0
EBIT	0.0	3.9	2.3
EPS	0.0	4.2	2.6

Sponsored Research



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company note

Strong preliminary headline figures for 2023

Strong FY23 and Q4 by all means

Masterflex reported preliminary group sales and earnings numbers for FY23. While revenues of EUR101.1m fall slightly short of the EUR103-110m guidance range, earnings surprise on the upside. The adjusted EBIT of EUR12.6m for FY23 compares with EUR12,0m in our estimate. Masterflex expanded organic profits by 10.6% y/y for the full year and 13.6% in Q4. Historically the group produced flattish Q4 earnings or even slight losses due to the lower number of working days in the final quarter of the year. The implemented restructuring programme changed that situation considerably. Q4/23 profits comprise a 7.0% EBIT margin after 5.7% in Q4/22. This swing underlines the successful reduction of Masterflex' fix cost basis and hence points towards a greater operational leverage into the next economic cycle.

The group appears to be much less cyclical than expected

First indications like growing truck traffic numbers or rebounding volumes in base chemicals point toward a looming end of the current recession. Masterflex recent profit expansion in Q4/23 coincided with a cyclical volume contraction. Assuming the group is able to defend current levels of profitability - as its more diversified customer portfolio and restructured cost base suggest - Masterflex would enter the next economic cycle with double-digit EBIT-margins. Such an achievement would not at all comply with the earnings profile of a cyclical capital goods company and hence would require a reassessment of the groups earnings potential over the long-term. In other words: Masterflex' shares appear to be ready for a re-rating.

Masterflex diversification is paying off

Outperforming the sector peers

Production figures for the German and European plastics- tubes- and fluid handling industries show a rather mixed picture. While manufacturer within the tubes- and fluid handling industries enjoy production volumes below levels, observed between 2017 and 2019, though substantially above the troughs through the pandemic, contenders from the plastics industry fare much worse. In total, the industrial background of Masterflex was apparently characterized by falling volumes during 2023 after a volatile but flattish development in 2022. Masterflex sales expanded almost by 27% in 2022 and remained in a flattish mode last year. Hence, the group seems to have outperformed the broader industry over the last 24 months.

Non-cyclicals play a greater role

One reason behind could have been Masterflex ongoing diversification of its customer portfolio. Meanwhile, about 30% of the groups products end-up in less cyclical industries like pharma/medtech, aerospace and food processing. That development limits Masterflex exposure to the highly cyclical capital goods sectors. The achieved diversification that allows a better capacity utilization was one reason for Masterflex margin expansion over recent years. As management aims to further diversify its customer profile, elevated profitability levels appear to be sustainable.

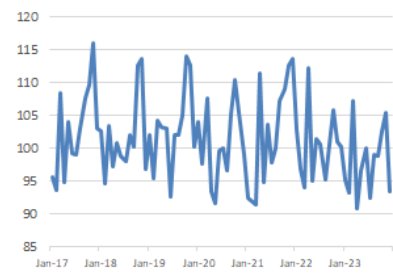
company note

Robust demand out of most customer industries

EU industrial production - rail & rolling stock



German industrial production - food



EU industrial production - medical & dental instruments



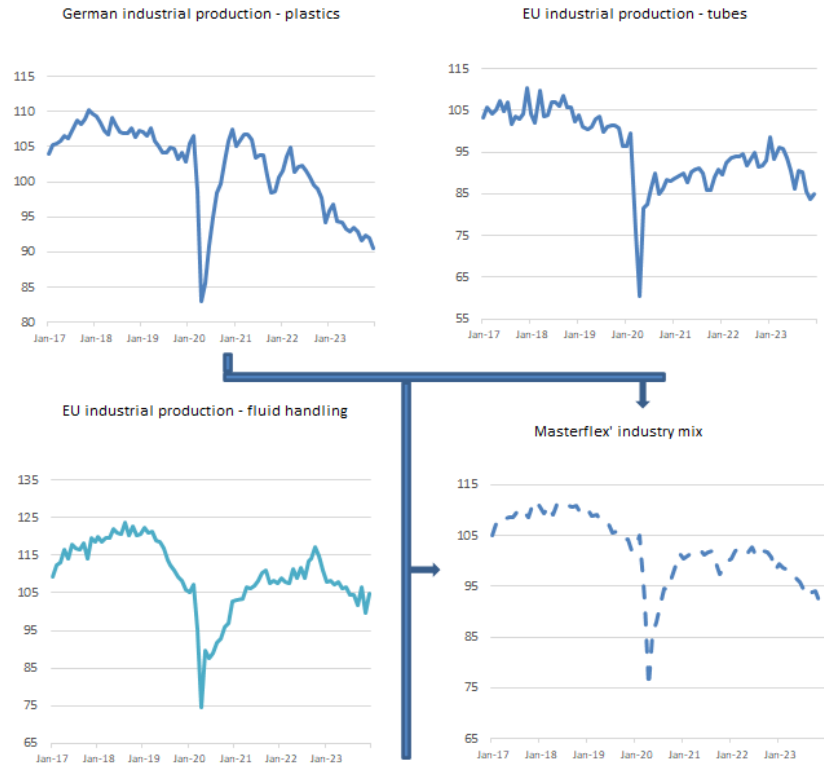
EU industrial production - aerospace



Sources: Bloomberg, Metzler Research

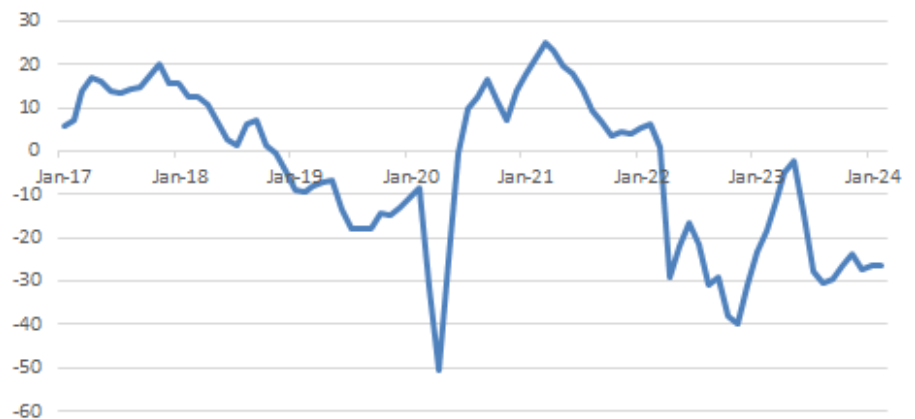
company note

Tube- and fluid handling industries continue to outperform plastics producers



Source: Bloomberg, Metzler Research

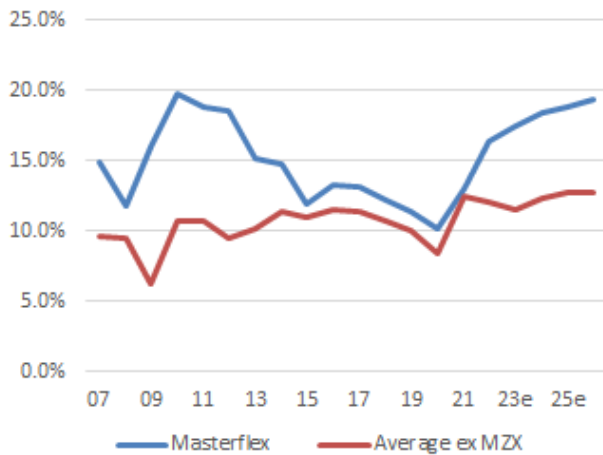
IFO German manufacturing business expectations



Sources: Bloomberg, Metzler Research

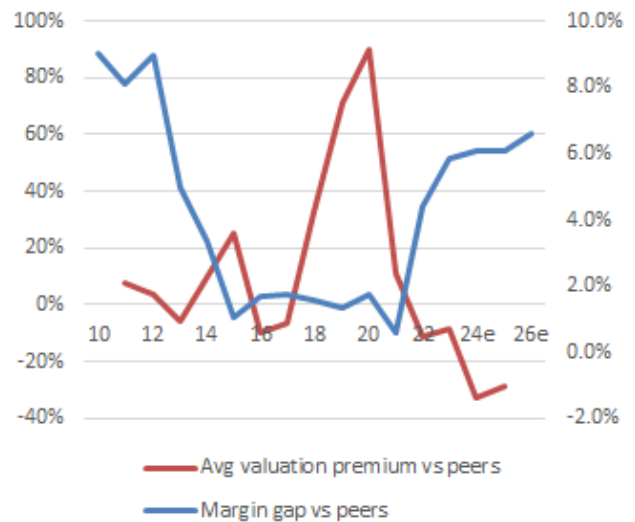
company note

Masterflex EBITDA margin is considerably above the peers ...



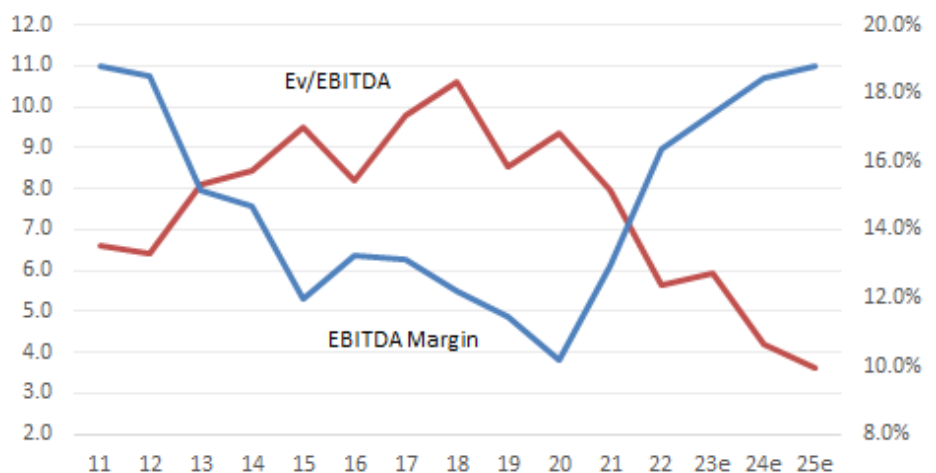
Source: Bloomberg, Metzler Research

... which is not at all reflected in MZX valuation



Source: Bloomberg, Metzler Research

Applying historic (2011-2023) valuation Masterflex shares are poised to double



Source: Bloomberg, Metzler Research

Huge disparity between historic valuation and current multiples

Structural EBIT swing not yet priced in

Masterflex shares traded on an average Ev/EBITDA of 8.3x between 2011 and 2023. During that time-span, the groups average EBITDA-margin was around 14.0%. Between 2011 and 2021, there was no single year with the Ev/EBITDA multiple falling below 6.4x. From 2022, MZXs shares valuation began to contract to unprecedented levels with the multiples under review falling below 6.0x. The forward valuation based on our profitability projections for 2025 even point to an Ev/EBITDA of 3.6x. That is all the more surprising as non-listed and comparably profitable assets have been sold for multiples above 9.0x.

company note

We see two major reasons behind: Firstly there is a pronounced aversion among investors versus mid- and smaller capitalized companies as the huge underperformance of respective indices vs the DAX40 illustrate. Masterflex is not the only listed enterprise that experienced a considerable multiple deterioration over recent years. Secondly, the market may not yet believe in the sustainability of the groups turnaround and its double-digit operating margins. We believe both phenomenon will disappear over time.

Disparity cannot last forever

Either shareholders benefit from a taking private of the group as there is an apparent disparity between prices for listed and non-listed assets that generate comparable returns. Another likely option is that the huge divergence in valuation levels between smaller capitalized companies and large caps will dissolve at some stage. In both cases, a considerable revaluation of MZX shares would only be a question of time. The longer Masterflex reports quarterly profitability on current levels, the more pronounced the revaluation could become.

company note

Peer group valuation

P/E	16	17	18	19	20	21	22	23e	24e	25e
Masterflex	15.6	17.4	22.9	21.7	63.6	20.0	9.8	12.3	8.0	7.5
Deutz	-	47.0	7.4	7.0	-	23.2	10.4	8.2	8.1	6.9
Krones	18.9	19.5	17.0	13.8	-	25.6	19.4	16.1	13.1	11.2
Jungheinrich	19.9	22.3	18.7	8.3	25.4	15.3	13.2	10.4	10.8	9.6
Ringmetall	12.9	14.8	14.2	17.6	20.8	10.2	8.7	20.0	12.0	8.8
AVG ex MZX	18.9	20.9	15.6	11.1	23.1	19.3	11.8	13.3	11.4	9.2
Premium/discount	-17%	-17%	47%	97%	176%	4%	-17%	-7%	-30%	-18%
Ev/Ebitda	16	17	18	19	20	21	22	23e	24e	25e
Masterflex	8.2	9.8	10.6	8.6	9.4	8.0	5.7	5.9	4.2	3.6
Deutz	3.9	6.6	3.2	2.2	-	5.9	5.0	4.3	4.3	3.9
Krones	8.1	9.4	9.2	6.5	16.1	9.0	8.4	7.8	6.6	5.9
Jungheinrich	8.7	9.4	8.8	5.2	9.0	7.1	6.9	6.6	6.5	6.0
Ringmetall	15.6	10.0	9.8	9.8	8.0	6.3	5.0	6.6	5.1	4.4
AVG ex MZX	8.4	9.4	9.0	5.9	9.0	6.7	6.0	6.6	5.8	5.2
Premium/discount	-2%	4%	18%	46%	4%	19%	-5%	-10%	-28%	-30%

		Multiples between 2007 and 2015								
P/E	07	08	09	10	11	12	13	14	15	
Masterflex	39.2	-	-	2.1	11.6	9.6	20.3	19.5	24.8	
Deutz	26.9	10.0	-	-	7.2	7.3	29.8	18.4	24.1	
Krones	21.4	14.3	8.9	28.0	27.7	28.3	25.4	18.2	22.7	
Jungheinrich	14.9	7.3	4.7	12.2	13.8	9.8	15.0	15.7	17.0	
Ringmetall	12.0			31.0	7.4	11.8		17.8	18.5	
AVG ex MZX	18.2	10.0	6.8	28.0	10.6	10.8	25.4	18.0	20.6	
Premium/discount	116%			-32%	9%	-11%	-20%	8%	21%	
Ev/Ebitda	07	08	09	10	11	12	13	14	15	
Masterflex	16.4	9.5	10.5	3.8	6.6	6.4	8.1	8.4	9.5	
Deutz	9.3	3.2	4.5	9.1	8.0	3.5	5.1	5.3	4.5	
Krones	9.2	7.9	4.0	11.0	6.7	5.9	9.3	8.2	9.7	
Jungheinrich	6.1	4.3	3.5	12.6	5.9	4.9	5.7	7.0	7.8	
Ringmetall	5.5			5.9	5.1	6.7	10.2	14.0	7.0	
AVG ex MZX	7.6	4.3	4.0	10.0	6.3	5.4	7.5	7.6	7.4	
Premium/discount	115%	120%	164%	-62%	6%	19%	8%	12%	29%	

	07	08	09	10	11	12	13	14	15	16
	115.3%			7.6%	3.7%	-5.9%	9.9%	24.9%	-9.8%	
Premium/discount vs peers (P/E, Ev/Ebitda)		17	18	19	20	21	22	23e	24e	25e
		-6.3%	32.5%	71.2%	89.8%	11.3%	-10.8%	-8.4%	-28.7%	-24.2%

Source: Bloomberg, Metzler Research

company note

Key Data

Company profile

CEO: Dr. Andreas Bastin

CFO: Mark Becks

Gelsenkirchen

Masterflex Group is a specialist in the development and manufacture of sophisticated connector and hose systems made of high-performance plastics and fabrics for a wide range of applications in almost all industries.

Major shareholders

Key figures

P&L (in EUR m)	2020	%	2021	%	2022	%	2023e	%	2024e	%	2025e	%
Sales	72	-10.1	79	10.0	100	26.8	104	3.2	113	8.8	123	9.3
EBITDA	7	-20.0	10	40.2	16	60.2	18	9.8	21	15.1	23	11.6
EBITDA margin (%)	10.2	-11.0	13.0	27.5	16.4	26.4	17.4	6.4	18.4	5.7	18.8	2.1
EBIT	2	-48.6	5	128.9	11	113.0	12	5.7	15	25.7	17	10.8
EBIT margin (%)	3.2	-42.8	6.8	108.1	11.4	68.0	11.6	2.4	13.4	15.5	13.6	1.4
Financial result	-1	29.5	-1	17.1	-1	23.5	-1	-116.6	-1	-4.0	-2	-53.8
EBT	1	-56.2	5	222.1	11	135.4	11	-0.2	14	28.2	15	6.8
Taxes	-1	23.0	-1	-106.6	-3	-131.2	-3	-5.0	-4	-28.2	-4	-6.8
Tax rate (%)	-43.8	n.a.	-28.1	n.a.	-27.6	n.a.	-29.0	n.a.	-29.0	n.a.	-29.0	n.a.
Net income	1	-67.2	3	312.1	8	137.1	8	-2.2	10	28.2	10	6.8
Minority interests	0	-100.0	0	n.a.	0	-100.0	0	n.a.	0	n.a.	0	n.a.
Net Income after minorities	1	-68.4	3	314.5	8	135.8	8	-2.2	10	28.2	10	6.8
Number of shares outstanding (m)	10	0.0	10	0.0	10	0.0	10	0.0	10	0.0	10	0.0
EPS adj. (EUR)	0.08	-68.4	0.35	314.5	0.81	135.8	0.80	-2.2	1.02	28.2	1.09	6.8
DPS (EUR)	0.08	n.a.	0.12	50.0	0.00	-100.0	0.25	n.a.	0.33	32.0	0.35	6.1
Dividend yield (%)	1.4	n.a.	1.9	n.a.	0.0	n.a.	3.0	n.a.	3.9	n.a.	4.2	n.a.
Cash Flow (in EUR m)	2020	%	2021	%	2022	%	2023e	%	2024e	%	2025e	%
Gross Cash Flow	7	-19.7	9	34.0	0	-100.0	15	n.a.	17	12.3	19	12.7
Increase in working capital	4	n.a.	-3	n.a.	0	n.a.	-0	n.a.	-3	n.a.	-3	n.a.
Capital expenditures	-2	20.8	-3	-72.6	0	100.0	-4	n.a.	-5	-3.7	-5	-9.3
D+A/Capex (%)	-284.8	n.a.	-162.7	n.a.	n.a.	n.a.	-138.1	n.a.	-125.0	n.a.	-130.0	n.a.
Free cash flow (Metzler definition)	9	108.1	3	-65.4	0	-100.0	10	n.a.	9	-8.7	11	15.1
Free cash flow yield (%)	17.0	n.a.	5.1	n.a.	0.0	n.a.	12.7	n.a.	11.6	n.a.	13.4	n.a.
Dividend paid	-1	n.a.	-1	-14.3	0	100.0	-2	n.a.	-3	-32.0	-3	-6.1
Free cash flow (post dividend)	10	123.2	4	-60.0	0	-100.0	13	n.a.	13	-1.0	14	12.8
Balance sheet (in EUR m)	2020	%	2021	%	2022	%	2023e	%	2024e	%	2025e	%
Assets	76	-6.4	79	3.8	90	13.8	92	1.7	98	6.8	106	8.1
Goodwill	9	0.0	9	0.0	9	0.0	10	10.9	11	9.8	12	8.9
Shareholders' equity	41	-1.7	45	8.9	52	15.6	60	15.4	70	17.2	81	15.1
Equity/total assets (%)	54.1	n.a.	56.7	n.a.	57.6	n.a.	65.3	n.a.	71.7	n.a.	76.4	n.a.
Net Debt incl. Provisions	17	-24.6	15	-12.7	16	4.6	13	-20.2	8	-36.7	4	-44.4
thereof pension provisions	0	n.a.	0	n.a.	0	n.a.	0	n.a.	0	n.a.	0	n.a.
Gearing (%)	42.3	n.a.	33.9	n.a.	30.7	n.a.	21.2	n.a.	11.5	n.a.	5.5	n.a.
Net debt/EBITDA	2.4	n.a.	1.5	n.a.	1.0	n.a.	0.7	n.a.	0.4	n.a.	0.2	n.a.

Structure

Sales by region (mln) 2022



Sources: Bloomberg, Metzler Research

company note

Disclosures

Recommendation history

Recommendations for each financial instrument or issuer - mentioned in this document - published by Metzler in the past twelve months

Date of dissemination	Metzler recommendation *		Current price **	Price target *	Author ***
	Previous	Current			
Issuer/Financial Instrument (ISIN): Jungheinrich (DE0006219934)					
12.01.2024	Buy	Buy	31.96 EUR	42.00 EUR	Bauer, Stephan
10.11.2023	Buy	Buy	27.64 EUR	42.00 EUR	Bauer, Stephan
20.07.2023	Buy	Buy	32.84 EUR	42.00 EUR	Bauer, Stephan
Issuer/Financial Instrument (ISIN): Kronos (DE0006335003)					
26.02.2024	Buy	Buy	113.40 EUR	141.00 EUR	Bauer, Stephan
22.02.2024	Buy	Buy	115.40 EUR	140.00 EUR	Bauer, Stephan
31.01.2024	Buy	Buy	114.90 EUR	140.00 EUR	Bauer, Stephan
16.10.2023	Buy	Buy	92.00 EUR	135.00 EUR	Bauer, Stephan
01.08.2023	Buy	Buy	109.60 EUR	135.00 EUR	Bauer, Stephan
19.07.2023	Buy	Buy	111.40 EUR	135.00 EUR	Bauer, Stephan
Issuer/Financial Instrument (ISIN): Masterflex (DE0005492938)					
09.11.2023	Buy	Buy	8.76 EUR	13.50 EUR	Neuberger, Alexander
14.08.2023	Buy	Buy	9.30 EUR	13.50 EUR	Neuberger, Alexander
11.05.2023	Buy	Buy	11.40 EUR	14.50 EUR	Neuberger, Alexander
21.03.2023	Buy	Buy	8.88 EUR	12.50 EUR	Neuberger, Alexander
14.03.2023	Buy	Buy	9.18 EUR	12.50 EUR	Neuberger, Alexander

* Effective until the price target and/or investment recommendation is updated (FI/FX recommendations are valid solely at the time of publication)

** XETRA trading price at the close of the previous day unless stated otherwise herein

*** All authors are financial analysts

Masterflex

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The categories for investment recommendations in research publications by Metzler have the following meanings:

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BUY	The price of the analysed financial instrument is expected to rise in the next 12 months.
HOLD	The price of the analysed financial instrument is expected to largely remain stable in the next 12 months.
SELL	The price of the analysed financial instrument is expected to fall in the next 12 months.

Bonds:

BUY	The analysed financial instrument is expected to perform better than similar financial instruments.
HOLD	The analysed financial instrument is not expected to perform significantly better or worse than similar financial instruments.
SELL	The analysed financial instrument is expected to perform worse than similar financial instruments.

Summary of investment recommendations

A list of all investment recommendations for each financial instrument or issuer published by Metzler in the past twelve months can be found at www.metzler.com/disclaimer-capital-markets-en.

The quarterly quotation of the number of all investment recommendations given as “buy”, “hold”, “sell” or similar for the past 12 months as a proportion of the total number of investment recommendations made by Metzler and the quotation of the proportion of these categories relating to issuers to whom Metzler has provided services within the meaning of Annex I sections A and B of Regulation 2014/65/EU within the past 12 months can be accessed and downloaded at www.metzler.com/disclaimer-capital-markets-en.

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