

01 June 2017

Closing price as of 31/05/17: €160.00

Company / Sector

ISRA VISION

Technology: Machine Vision

Fair Value

€128.0

(€109.5)

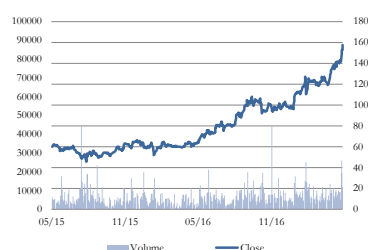
Recommendation

Neutral

(unchanged)

Q2 - it's all in

Share price performance



Share data

Reuters	ISRG.DE
Bloomberg	ISR.GY
No. of shares (m)	4.38
Daily turnover (3m)	7,310
Free float	70%
Market cap. (m)	700.7
EV (m)	709.1

Valuation	2017e	2018e
EV/Sales	5.0	4.5
EV/ EBITDA	16.9	14.9
EV/EBIT	25.2	21.8
PER	36.3	32.0
Div. yield	0.3%	0.3%
RoCE	12.2%	13.2%
RoE	11.0%	11.2%

Analyst

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Investment case

Q2 showed solid sales and earnings growth as well as the declared recovery of operating cash flow. While we have only marginally increased our earnings forecast, we have reworked our cash flow model in order to take into account mgmt's progress here. In addition, we have increased our long-term margin assumptions in order to reflect the stability of ISRA's business model. Our new fair value is EUR128, which is still clearly below the current share price. Nevertheless, as news on acquisitions and large orders should support the share price, our rating remains **NEUTRAL**.

➤ Q2 - DYNAMICS SWITCH TOWARDS SV

Q2 sales (EUR30.5m/+11%) were slightly higher than expected (e: EUR29.5m) with Surface Vision showing an increase in dynamics (+15%) and Industrial Automation (EUR6.7m/-1%) a slight decline. EBITDA came in bang in line (EUR9.3m/+10%). Net earnings were marginally lower due to higher taxes. H1 OCF (EUR15m/ +8%) recovered from the process changes in Q1, with EUR8.6m/+5% transforming into free cash. Order backlog stood at EUR90m/+6%.

➤ MGMT REITERATES FY16/17 TARGETS

For FY16/17, mgmt confirmed its targets of sales growth of approx. 10%, at least stable margins and keeping the OCF at the high level of last year. For Industrial Automation, mgmt expects solid growth again in H2. From the metal industry, mgmt expects large orders in the coming months. In addition, mgmt plans to close 2-3 smaller acquisitions in the near future.

➤ OUR FAIR VALUE INCREASES TO EUR128

We keep our sales and earnings forecast nearly unchanged but raise our OCF for FY16/17 to EUR34m (EUR29m) and for the coming years. In addition, we slightly raise the margins in our TV calculation.

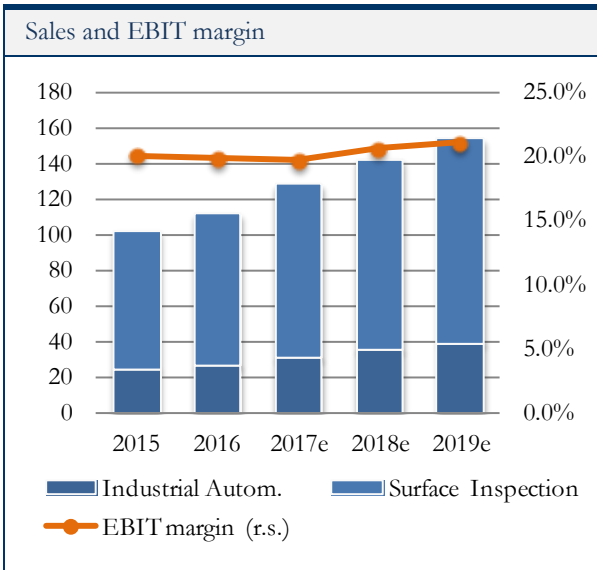
For additional disclosures please refer to the appendix

Forecasts	2015	2016	2017e	2018e	2019e	2020e
Sales	112.24	128.82	142.98	154.42	166.78	180.12
EBITDA	32.41	37.68	41.87	48.06	52.73	57.84
EBIT	22.56	25.59	28.16	33.20	36.65	40.45
Adj. EPS	3.39	4.01	4.41	5.21	5.76	6.36
Dividend	0.41	0.48	0.48	0.48	0.48	0.48
Oper. CF	12.19	34.30	34.14	32.04	35.19	38.64
Free CF	-4.45	18.66	20.03	16.23	17.79	19.52

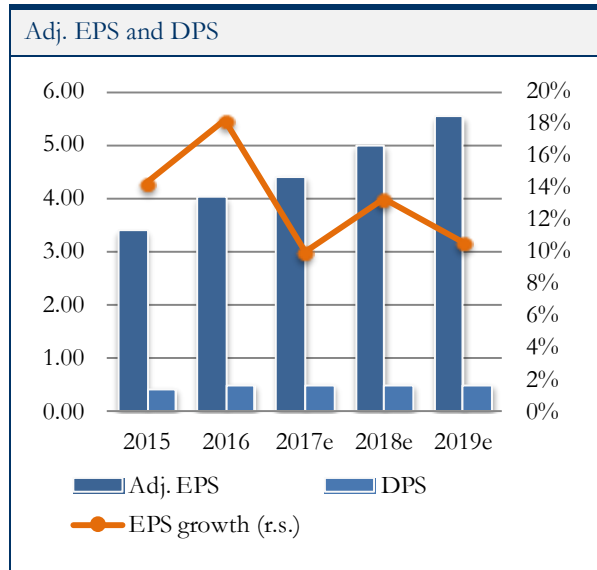
Q2 16/17 in line - no changes of our FY 16/17 forecast

€ m	Q2 16/17		Q2 15/16	%	H1 16/17	H1 15/16	%	FY 2016/17e		%	Mgmt outlook for FY 16/17
	estimated	reported	reported		reported	reported		new	old		
Net sales	29.8	30.5	27.3	11.4%	58.9	53.3	10.5%	143.0	141.7	0.9%	approx. 10%
Capitalized items	3.0	2.8	2.8		5.8	5.1		13.2	13.0	1.2%	
Total Output	32.8	33.2	30.1	10.4%	64.7	58.5	10.7%	156.1	154.7	0.9%	
Gross profit	20.2	20.4	18.5	10.2%	39.8	35.9	10.8%	95.5	94.3	1.2%	
<i>Gross margin</i>	<i>61.5%</i>	<i>61.4%</i>	<i>61.5%</i>		<i>61.4%</i>	<i>61.4%</i>		<i>61.1%</i>	<i>61.0%</i>		
EBITDA	9.3	9.3	8.5	9.5%	18.4	16.3	12.7%	41.9	41.0	2.0%	
<i>EBITDA margin</i>	<i>28.5%</i>	<i>28.0%</i>	<i>28.2%</i>		<i>28.4%</i>	<i>27.9%</i>		<i>26.8%</i>	<i>27.6%</i>		
EBIT	5.8	6.0	5.4	11.2%	11.7	10.6	10.1%	28.2	27.9	1.0%	
<i>EBIT margin</i>	<i>17.8%</i>	<i>18.1%</i>	<i>17.9%</i>		<i>18.0%</i>	<i>18.1%</i>		<i>18.0%</i>	<i>18.3%</i>		
EBT	5.8	5.9	5.3	11.6%	11.5	10.3	11.2%	27.8	27.5	1.0%	
<i>EBT margin</i>	<i>17.7%</i>	<i>17.7%</i>	<i>17.5%</i>		<i>17.7%</i>	<i>17.7%</i>		<i>17.8%</i>	<i>17.8%</i>		at least stable margin
Net income	4.1	4.0	3.8	5.7%	7.8	7.3	8.0%	19.3	19.2	0.4%	
<i>Net margin</i>	<i>12.5%</i>	<i>12.0%</i>	<i>12.6%</i>		<i>12.1%</i>	<i>12.4%</i>		<i>12.4%</i>	<i>12.5%</i>		
EPS	0.94	0.91	0.86	5.7%	1.79	1.66	8.0%	4.41	4.39	0.4%	
Order backlog	90	90	87	3.4%							

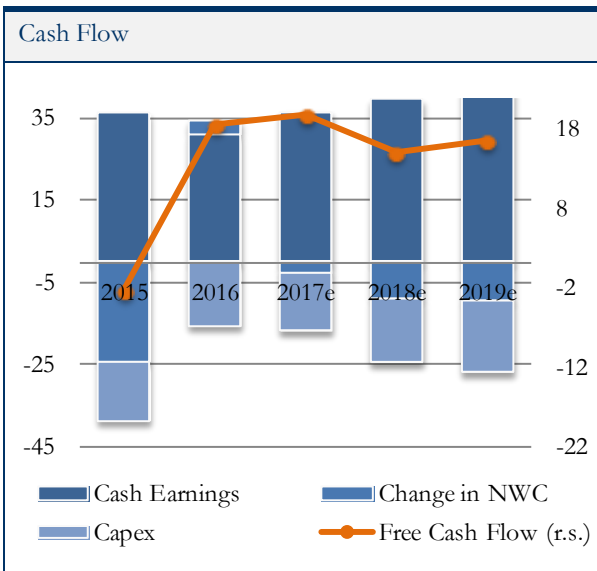
Source: ISRA Vision, Matelan Research



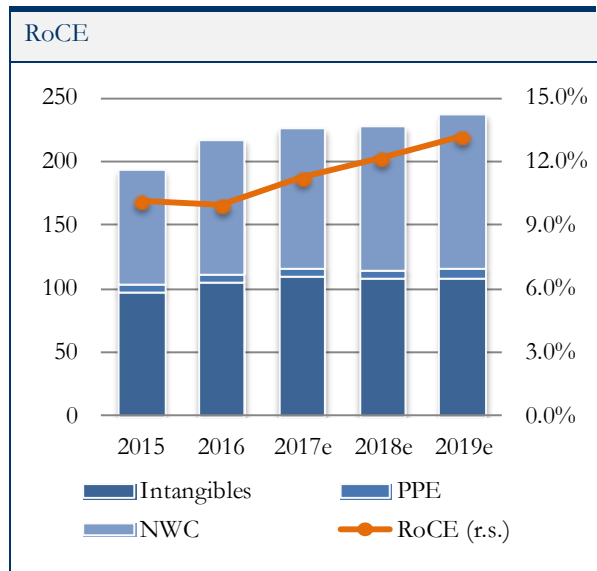
In EURm



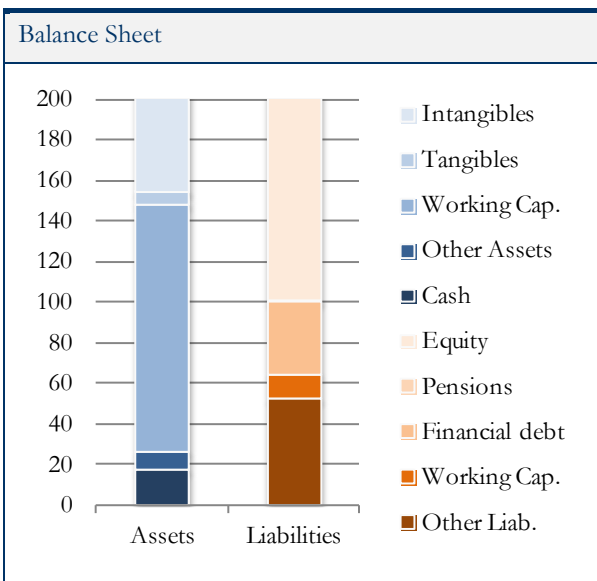
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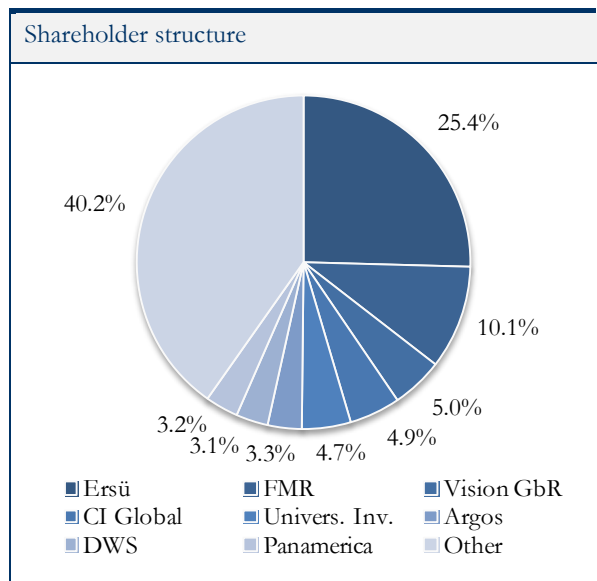
In EURm



In EURm



In EURm



P & L					
EURm	2015	2016	2017e	2018e	2019e
Sales	112.2	128.8	143.0	154.4	166.8
<i>Growth</i>	9.5%	14.8%	11.0%	8.0%	8.0%
Material costs	-37.0	-42.0	-47.5	-50.9	-54.7
Gross profit	75.3	86.8	95.5	103.6	112.1
<i>Gross margin</i>	67.1%	67.4%	66.8%	67.1%	67.2%
Other operating costs	-42.9	-49.2	-53.6	-56.9	-60.8
EBITDA	32.4	37.7	41.9	46.7	51.3
<i>Margin</i>	28.9%	29.2%	29.3%	30.2%	30.7%
Depreciation	-9.8	-12.1	-13.7	-14.9	-16.1
EBIT	22.6	25.6	28.2	31.8	35.2
<i>Margin</i>	20.1%	19.9%	19.7%	20.6%	21.1%
Financial result	-0.7	-0.4	-0.3	-0.3	-0.3
EBT	21.8	25.2	27.8	31.5	34.9
Taxes	-7.1	-7.4	-8.3	-9.4	-10.4
Net profit	14.8	17.8	19.5	22.1	24.5
Minorities	0.0	-0.2	-0.2	-0.3	-0.3
Net profit a.m.	14.8	17.6	19.3	21.9	24.2
<i>Growth</i>	14.0%	18.5%	10.0%	13.3%	10.6%
No of shares	4.4	4.4	4.4	4.4	4.4
EPS	3.39	4.01	4.41	4.99	5.52
Adj. EPS	3.39	4.01	4.41	4.99	5.52
<i>Growth</i>	14.2%	18.3%	10.0%	13.3%	10.6%
Dividend	0.41	0.48	0.48	0.48	0.48

Cash Flow					
EURm	2015	2016	2017e	2018e	2019e
EBIT	22.6	25.6	28.2	31.8	35.2
Depreciation	9.8	12.1	13.7	14.9	16.1
Other non-cash items	7.0	3.4	3.3	2.6	2.8
Cash taxes	-2.9	-9.9	-8.3	-9.4	-10.4
Cash earnings	36.5	31.2	36.9	39.9	43.7
Change in NWC	-24.3	3.1	-2.7	-8.8	-9.5
CF from operations	12.2	34.3	34.1	31.1	34.2
Capex	-14.4	-15.6	-14.1	-15.8	-17.4
Other investm./divestm.	-2.2	0.0	0.0	0.0	0.0
CF from investing	-16.6	-15.6	-14.1	-15.8	-17.4
CF from fin. and other	8.4	-16.9	-3.8	-2.1	-2.1
Change in cash	3.9	1.8	16.2	13.2	14.7

Valuation multiples					
	2015	2016	2017e	2018e	2019e
Share price	50.0	97.2	160.0	160.0	160.0
x No of shares	4.4	4.4	4.4	4.4	4.4
Market Capitalisation	218.8	425.5	700.7	700.7	700.7
+ Net financial debt	34.9	19.0	2.8	-10.3	-25.0
+ Pension provision	3.1	4.1	4.0	4.4	4.7
+ Minorities	1.3	1.5	1.5	1.5	1.5
- Participations	0.0	0.0	0.0	-1.0	-2.0
Enterprise Value	258.1	450.2	709.1	695.2	679.9
Sales	112.2	128.8	143.0	154.4	166.8
Adj. EBITDA	32.4	37.7	41.9	46.7	51.3
Adj. EBIT	22.6	25.6	28.2	31.8	35.2
Adj. Net profit a.m.	14.8	17.6	19.3	21.9	24.2
EV / Sales	2.3	3.5	5.0	4.5	4.1
EV / EBITDA	8.0	11.9	16.9	14.9	13.3
EV / EBIT	11.4	17.6	25.2	21.8	19.3
PE	14.8	24.2	36.3	32.0	29.0

Balance Sheet					
EURm	2015	2016	2017e	2018e	2019e
Intangible assets	105.4	109.6	109.0	108.9	109.2
Tangible assets	5.9	6.2	5.7	6.7	7.7
Participations	0.0	0.0	0.0	1.0	2.0
Other non-current assets	9.7	2.7	4.4	3.6	2.9
Non-current assets	120.9	118.5	119.1	120.2	121.7
Inventories	30.7	33.7	35.3	38.1	41.1
Receivables	86.8	88.5	91.3	98.6	106.5
Cash	15.2	16.9	33.1	46.3	61.0
Other current assets	2.5	6.2	6.9	7.4	8.0
Current Assets	135.2	145.4	166.5	190.4	216.6
Total assets	256.1	263.8	285.6	310.6	338.3
Equity	143.0	157.8	173.8	193.5	215.6
Minorities	1.3	1.5	1.5	1.5	1.5
Total equity	144.3	159.3	175.3	195.0	217.1
LT financial liabilities	0.0	0.0	0.0	0.0	0.0
Pension provisions	3.1	4.1	4.0	4.4	4.7
Other LT liabilities	31.9	33.2	36.9	39.9	43.0
Non-current liabilities	35.0	37.4	40.9	44.2	47.7
ST financial liabilities	50.1	36.0	36.0	36.0	36.0
Payables	11.8	12.4	14.0	15.3	16.8
Other ST liabilities	14.9	18.7	19.5	20.1	20.7
Current liabilities	76.8	67.1	69.4	71.3	73.4
Total liabilities	256.1	263.8	285.6	310.6	338.3

Segments					
EURm	2015	2016	2017e	2018e	2019e
Industrial Automation	26.6	31.1	35.5	39.4	42.6
<i>Growth</i>	6.2%	17.1%	14.1%	11.0%	8.0%
Surface Inspection	85.6	97.7	107.5	115.0	124.2
<i>Growth</i>	10.6%	14.1%	10.0%	7.0%	8.0%
Sales	112.2	128.8	143.0	154.4	166.8
<i>Growth</i>	9.5%	14.8%	11.0%	8.0%	8.0%
Industrial Automation	5.3	6.2	7.1	8.9	9.6
<i>Margin</i>	20.1%	20.0%	20.0%	22.4%	22.6%
Surface Inspection	17.2	19.4	21.1	23.0	25.6
<i>Margin</i>	20.1%	19.8%	19.6%	20.0%	20.6%
EBIT	22.6	25.6	28.2	31.8	35.2
<i>Margin</i>	20.1%	19.9%	19.7%	20.6%	21.1%

Key operational indicators					
	2015	2016	2017e	2018e	2019e
Equity ratio	55.8%	59.8%	60.8%	62.3%	63.7%
Gearing	0.3	0.2	0.2	0.2	0.2
Asset turnover	0.9	1.1	1.2	1.3	1.4
NWC / sales	94.2%	85.3%	78.7%	78.6%	78.4%
Payable days outstanding	38.4	35.2	35.7	36.2	36.7
Receivable days outstand.	282.4	250.8	233.0	233.0	233.0
Fix operating assets	120.9	118.5	119.1	119.2	119.7
NWC	105.7	109.8	112.5	121.3	130.8
Capital employed	226.7	228.3	231.6	240.5	250.5
RoE	10.3%	11.0%	11.0%	11.2%	11.1%
RoA	8.8%	9.7%	9.9%	10.3%	10.4%
RoCE	10.0%	11.2%	12.2%	13.2%	14.0%
Gross margin	67.1%	67.4%	66.8%	67.1%	67.2%
EBITDA margin	28.9%	29.2%	29.3%	30.2%	30.7%
EBIT margin	20.1%	19.9%	19.7%	20.6%	21.1%
Net profit margin	13.2%	13.6%	13.5%	14.2%	14.5%

Source: MATELAN Research, margins are calculated as percentage of sales

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Neutral:	30.8%
Reduce:	0.0%
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Stock ratings for the companies covered in this report have developed as follows:

ISRA	
Date	Rating
01/09/16	Neutral
07/08/15	Buy
02/03/15	Neutral
16/08/13	Buy
27/05/13	Neutral
18/03/08	Buy
29/08/07	Neutral
24/07/07	Str. Buy
14/05/07	Neutral
02/05/07	Buy

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