

Hold EUR 11.00 Price EUR 10.80 Upside 1.9 %	Value Indicators: EUR NAV 20e: 9.82	Share data: Bloomberg: GBQ GR Reuters: GBQG ISIN: DE0005850903	Description: Private equity company focussed on the German Mittelstand
	Market Snapshot: EUR m Market cap: 72.9 No. of shares (m): 6.8 EV: 68.2 Freefloat MC: 29.9 Ø Trad. Vol. (30d): 15.04 th	Shareholders: Freefloat 41.0 % Rossmann Bet. GmbH 28.1 % FRISS Beteiligungsgesellschaft 15.0 % HANNOVER Finanz GmbH 11.3 % M.M. Warburg & Co 4.6 %	Risk Profile (WRe): 2018e Beta: 1.0 Price / Book: 1.2 x Equity Ratio: 91 %

Profits from divestments expected to normalise following rather strong years

GBK Beteiligungen AG, founded in 1969, is one of the oldest German investment companies. Its shares have been traded in the OTC market of the stock markets in Hamburg and Munich since 2002 in Stuttgart since 2007. The company invests in medium-sized German companies, known as the Mittelstand, in various sectors with a focus on company succession and changes of ownership. In terms of the selection of target companies, special focus is placed on the earnings prospects and management quality. Normally, GBK management does not interfere in the operative management. Additionally, GBK makes equity available to strongly growing Mittelstand companies (e.g. for acquisitions, internationalisation, product innovations) or companies that are encountering temporary difficulties but are essentially healthy. GBK addresses production, services but also trading companies.

Currently the portfolio includes investments in more than 30 Mittelstand companies with revenues of between EUR 10m and EUR 1.1bn, in which GBK has frequently invested as a co-investor of Hannover Finanz either with an equity participation or mezzanine financing. Focal areas of the portfolio are companies from the sectors of automotive, chemicals, transport/logistics/tourism, engineering and plant building, food, trade and services.

While the average investment period is between 7–10 years, this varies widely as, in the past, portfolio companies were divested after two or three years but some were kept for 20 years or more. As results are heavily dependent on divestments, this makes it rather difficult to predict results on an annual basis. Last year for example, apart from the operating development, GBK's result was positively influenced by the divestment of four portfolio companies. The 2017 result amounted to EUR 3.5m, based on realised earnings of EUR 5.6m and non-realised earnings of EUR -2.1m. The net asset value per share was reported at EUR 9.69. The company paid a dividend for 2017 of EUR 0.70 per share, which leads to a total payout of EUR 4.7m, equivalent to 82% of realised earnings.

Non-realised profits of the existing portfolio declined to EUR 9.4m as of the end of 2017 (was EUR 11.5m at the end of 2016 and EUR 16.3m at the end of 2015). This development is the result of divestments made over the last two years which led to rather strong results in both 2016 and 2017. We therefore expect realised profits from divestments to normalise in the foreseeable future. GBK has divested 18 holdings over the last three years. At the same time, GBK acquired stakes in 15 companies. Thus, the current portfolio is relatively new and will, in our view, need some time to build up fresh reserves, which could be translated into realised profits. Generally, the valuation of portfolio companies depends on future earnings expectations and sector multiples that (apart from company-specific development) are related to overall economic prospects and interest rates.

We currently rate the GBK Beteiligungen share at Hold and expect an annual dividend in the range of EUR 0.40–0.50, which is equivalent to a dividend yield of 3.3–4.2% for 2018 and the subsequent years.

	FY End: 31.12. in EUR m	CAGR (17-20e)	2014	2015	2016	2017	2018e	2019e	2020e
	Income from investment activity	-5.6 %	2.9	2.6	10.8	8.3	6.0	6.5	7.0
Expenses from investment activity		3.2	2.3	4.2	3.3	3.5	3.7	3.9	
Ordinary earnings		-0.3	0.3	6.5	5.0	2.5	2.8	3.1	
Income from divestitures	74.7 %	1.2	6.7	5.9	0.6	2.0	2.5	3.0	
Realised earnings	3.2 %	0.9	7.0	12.5	5.6	4.5	5.3	6.1	
Non-realised earnings		5.0	-5.8	-4.9	-2.1	-2.5	-2.8	-3.0	
Net income	-3.8 %	6.0	1.2	7.6	3.5	2.0	2.5	3.1	
EPS	-4.0 %	0.88	0.18	1.13	0.52	0.30	0.37	0.46	
EPS adj.		0.14	1.04	1.85	0.82	0.67	0.79	0.90	
DPS	-10.6 %	0.30	0.70	1.00	0.70	0.40	0.40	0.50	
Dividend Yield		5.2 %	9.4 %	10.6 %	6.1 %	3.7 %	3.7 %	4.6 %	
NAV per share exc. dividend		9.57	9.05	10.18	9.69	9.29	9.26	9.32	
FCFPS		0.96	0.20	1.53	0.20	0.31	0.38	0.47	
P / E		6.5 x	41.3 x	8.3 x	22.2 x	36.0 x	29.2 x	23.5 x	
Net Debt		-10.1	-8.0	-12.5	-5.4	-4.7	-5.6	-6.0	
ROE		10.5 %	1.8 %	11.3 %	5.2 %	3.1 %	4.0 %	4.9 %	
ROCE (NOPAT)		13.8 %	2.1 %	13.3 %	6.0 %	3.4 %	4.3 %	5.4 %	
Guidance:	n.a.								

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Company	Disclosure	Link to the historical price targets and rating changes (last 12 months)
GBK Beteiligungen	5, 6, 7	http://www.mmwarburg.com/disclaimer/disclaimer_en/DE0005850903.htm

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-B-	Buy:	The price of the analysed financial instrument is expected to rise over the next 12 months.
-H-	Hold:	The price of the analysed financial instrument is expected to remain mostly flat over the next 12 months.
-S-	Sell:	The price of the analysed financial instrument is expected to fall over the next 12 months.
“-“	Rating suspended:	The available information currently does not permit an evaluation of the company.

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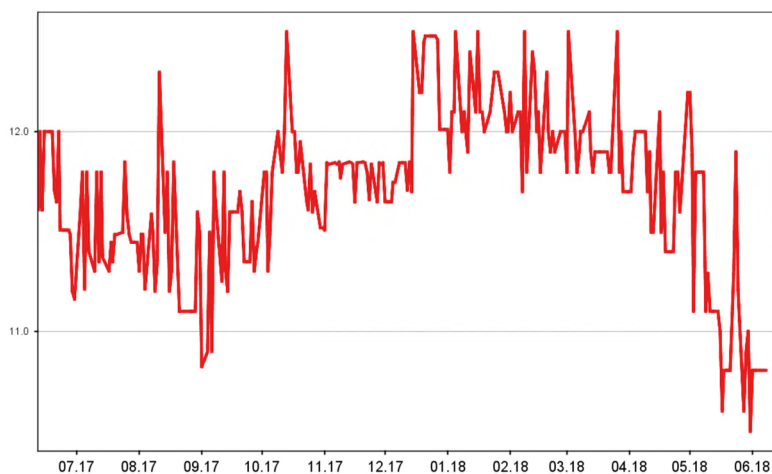
Rating	Number of stocks	% of Universe
Buy	110	54
Hold	88	44
Sell	4	2
Rating suspended	0	0
Total	202	100

WARBURG RESEARCH GMBH – ANALYSED RESEARCH UNIVERSE BY RATING ...

... taking into account only those companies which were provided with major investment services in the last twelve months.

Rating	Number of stocks	% of Universe
Buy	32	71
Hold	13	29
Sell	0	0
Rating suspended	0	0
Total	45	100

PRICE AND RATING HISTORY GBK BETEILIGUNGEN AS OF 11.06.2018



Markings in the chart show rating changes by Warburg Research GmbH in the last 12 months. Every marking details the date and closing price on the day of the rating change.

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