

Jensen-Group

11 June 2007

Heavy-Duty laundry frees up nice cash flows

Engineering & Machinery

Current price € 6.97

Buy

Belgium

Target price € 8.30

Rating Unchanged

Performance over	1m	3m	12m
Absolute	6%	14%	-26%
Rel. BEL20	11%	11%	-43%
Relative to sector	6%	14%	-26%
12m Hi/Lo	€ 12.00/5.51		
Reuters	JEN.BR		
Bloomberg	JEN BB		
Market Cap	€ 58m		
Next corporate event			
Results 1H07: 30 August 2007			

FY/e 31.12	2006	2007E	2008E	2009E
Sales	175,284.0	184,065.0	185,905.7	187,764.7
REBITDA	16,710.0	14,598.9	14,760.2	14,923.2
Net earnings	32,462.0	5,370.5	5,495.9	5,710.6
Diluted, adjusted EPS	0.62	0.65	0.66	0.69
Dividend	0.25	0.25	0.25	0.25
P/E	15.4	10.7	10.5	10.1
EV/REBITDA	4.7	5.6	5.3	5.0
Free cash flow yield	35.1%	-4.1%	10.2%	10.5%
Dividend yield	3.5%	3.6%	3.6%	3.6%

Source: KBC Securities

*Adjusted for goodwill and exceptionals

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Description: Jensen-Group is a leading global player (14.5% market share) in the production of turn-key heavy-duty laundry systems.

Investment arguments

- Jensen will consolidate its leading position in heavy duty systems
- Results were substantially better than expected and enabled the declaration of an attractive dividend
- Valuation is undemanding with normalised free cash flow yields in the high single digit order
- End-of-December back log stood at € 89m, up 36% y/y

Late February, Jensen reported excellent results. Following the sale of the commercial laundry division last year, the company's sole activity is now the heavy-duty laundry operations. Over 2006, these posted a top line of €175m, up an impressive 20% and triggering a jump in REBIT to €12.9m from €6.8m. On top of that – and right after the €5.7 per-share capital reduction late 2006 – Jensen-Group declared a €0.25 dividend, adding that it plans to hold on to that level going forward.

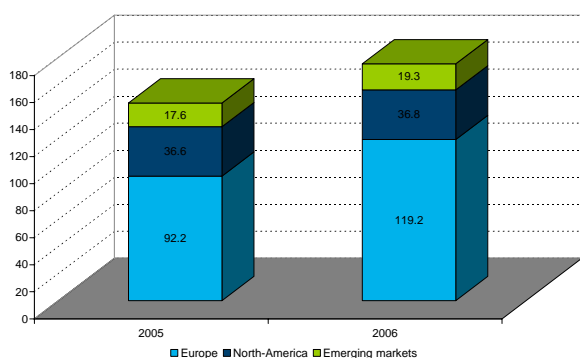
The outlook for 2007 looks even better with an end-of-December order book of €89m, up 36% y/y, with the majority due for invoice in 2007. Despite this, management cautiously guided for virtually flat revenues (€175-€180m) and a REBIT07 of €9m, well below the 2007 levels. While we are aware of adverse evolutions for both the dollar and steel prices, we think this estimate is overly cautious especially when we also take into account the fairly solid macro-economic forecasts for the EU. We therefore position ourselves ahead of the guidance with REBIT07E at €10.3m and revenues of €185m.

Jensen-Group has built up an impressive track record through intelligent asset management (CLD disposal), thoughtful restructurings (Futurail move) and a sensible one-stop-shop strategy enabling the company to exploit a recovering heavy-duty market. Still, we feel this is not fully reflected in the share price, which currently implies free cash flow yields of 10%. We reiterate our Buy rating and up our target price to €8.25 from €7.0 previously. Our new target price implies 2008 yields slightly above 8%.

2006 results

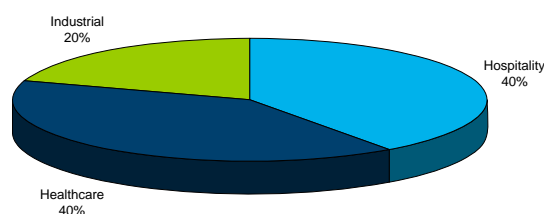
Jensen posted impressive results that far exceeded management's guidance. The top-line grew 20% to €175m, well ahead of the guided €155-165m range. REBIT of €12.9m was also far better than our €8.8m estimate. These stellar results are the result of **1/** a ramp up in European sales (+29% y/y) limiting the dollar impact, **2/** continued cost monitoring and **3/** a rise in both the hospitality segment and the high-margin industrial segment. The latter reached 20% of revenues in 2006 and supplies to service companies such as Rentokil Initial and industrial laundries like Malysse-Sterima. Next to this segment, the health care segment (40% of 2006 revenues), which provides integrated laundry solutions to hospitals, is seen as more or less stable. The hospitality sector (hotels, cruise-ships, ...) is the most cyclical activity and stood for an estimated 40% of turnover.

Geographical revenue break down 2006 (€m)



Source: KBC Securities estimates

Segment revenue break down 2006

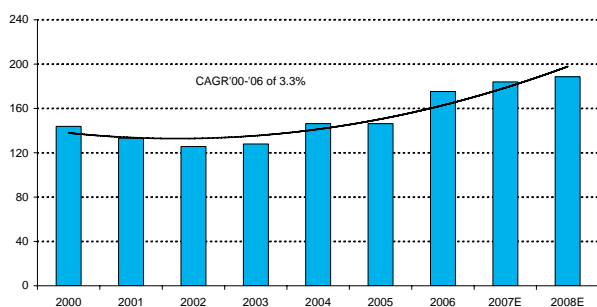


Source: KBC Securities estimates

Outlook

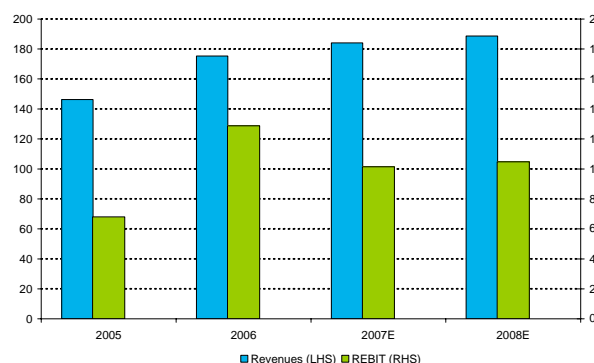
The **short-term** outlook for 2007 looks good judging by the end-of-December backlog of €89m, up 36% year-on-year. Management indicated the geographical and market segment breakdown of this order book was in line with revenue levels seen over 2006. At the analyst meeting, management also indicated the January order intake stood in excess of €15m. In the **longer term**, we see revenues consolidating above €185m based on growing market shares, expansion in CIS & CEE and a growing services offer. The latter should ultimately grow to 15% of turnover compared to current levels of 12%. Our modelled top-line forecasts discount a CAGR06-2016 of 1.5%, well below the 3.3% annualised growth rate over 2000-2006. Margins should be safeguarded by a growing proportion of services, continued operating leverage (turnover consolidating above €185m) and further cost monitoring/restructuring (plant optimisation along the lines of the 2006 Futurail move).

Revenue evolution (€m)



Source: KBC Securities estimates

Operating outlook (€m)



Source: KBC Securities estimates

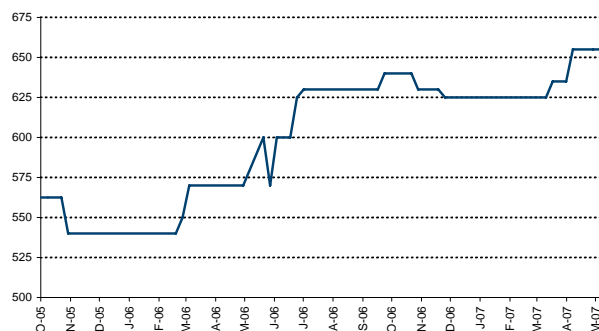
Guidance

\$/€rate



Source: Bloomberg

Cold rolled steel price (Antwerp fob, \$/ton, weekly)



Source: Bloomberg

Despite the impressive order book dynamics (+36% y/y), management is guiding for virtually flat turnover in the €175-180m range. Management justifies this by rising lead times now standing at around 6 months (compared to 3 months a year ago) as demand for wash room tunnels (Jensen Senking) and flatwork solutions (Jensen Denmark) is particularly strong. **EBIT-wise** management cautiously guides REBIT07 at around €9m (below €12.9m REBIT06) referring to the unchanged corporate expense base following the CLD disposal as well as unfavourable dollar and steel price trends. With regards to the former, there is an estimated €0.7m **overhead** that will no longer be allocated to the sold CLD division. Over 2006, the **dollar** averaged around \$/€1.26, while YTD it stands at \$/€1.33. We nevertheless see two reasons why the dollar's impact on 2007 earnings should not be exaggerated. First, the move of the Futurail plant to the US has reduced net dollar exposure to €15m (down from €22m). Second, at y/e 2006, the Jensen Group hedged its entire order book plus 50% of expected orders at an average \$/€1.27 compared to an average \$/€1.24 over 2006. **Steel prices** have (again) been climbing of late. However, as most of the heavy-duty turnover is executed, delivered and priced on a project-by-project basis, the company is better equipped to manage this exposure. This was not the case for the sold CLD division, where output prices were fixed for a full year.

Estimates

Earnings adjustments

		Old	New	% diff
EBIT	2007E	€8.8m	€10.3m	17%
	2008E	€9.2m	€10.5m	13%
EPS	2007E	€0.43	€0.65	51%
	2008E	€0.49	€0.66	36%

Source: KBC Securities estimates

We have made big changes to our earnings model as indicated in our morning note dated February 28 2007. For the reasons mentioned above, we decided to set our EBIT forecast above the €9m guidance at €10.3m, but still €2.5m below last year's level and this in spite of the 5% top-line growth in our model. The latter is based on favourable order book dynamics and buoyant European macro-economic forecasts¹. Modelled 2008 EBIT assumes flat margins and 1% top-line growth. Overall, we feel our 2007 operating earnings forecasts could be pitched too low. In addition to the operating upgrade, EPS's also improve on the back of lower modelled tax rates (from 33% to guided 30%) and lower modelled net debt positions.

¹ KBC Asset Management sees real EMU GDP growth of 2.6% (2007) and 2.1% (2008) compared to 2.8% (2006).

Valuation

A DCF using a 7.6% WACC and 1% terminal free cash flow growth yields a €9.1 six-month fair value. From a multiples perspective, Jensen is cheaply valued, currently trading at a P/E08E, EV/EBITDA08E and FCF yield for 2008 of respectively 10.5x, 5.3x and 10%.

Investment case

Jensen-Group has built up an **impressive track record** through intelligent asset management (CLD disposal), thoughtful restructurings (Futurail move) and a sensible one-stop-shop strategy that has enabled the group to exploit a recovering heavy-duty market. Moreover, the solid order book dynamics and reduced dollar exposure make **our earnings forecasts look fairly conservative**. Combined with the cheap valuation, this leads us to reiterate our Buy recommendation and up our target price to €8.25 from €7.0. Our new target price implies a P/E08 of around 12.5x and a 2008 free cash flow yield of 8.5%.

Financial data

Income statement (€th)	2006	2007E	2008E	2009E
Sales	175,284.0	184,065.0	185,905.7	187,764.7
Gross profit	92,365.0	97,002.3	97,972.3	98,952.0
EBIT	9,081.0	10,328.8	10,464.1	10,600.7
Pre-tax earnings	7,387.0	7,672.1	7,851.2	8,158.1
Net earnings	32,462.0	5,370.5	5,495.9	5,710.6
EBITDA	12,910.0	14,598.9	14,760.2	14,923.2
REBITDA	16,710.0	14,598.9	14,760.2	14,923.2
REBITA	12,881.0	10,328.8	10,464.1	10,600.7
Balance sheet (€th)	2006	2007E	2008E	2009E
Intangible assets	2,912.0	2,912.0	2,912.0	2,912.0
Tangible assets	24,701.0	24,930.9	25,164.8	25,402.6
Financial assets	0.0	0.0	0.0	0.0
Net other assets & liabilities	10,482.0	10,482.0	10,482.0	10,482.0
Net working capital	26,416.0	33,916.0	33,324.0	32,731.0
Net debt	11,990.0	16,415.6	12,627.9	8,628.3
Provisions	18,814.0	18,814.0	18,814.0	18,814.0
Minorities	0.0	0.0	0.0	0.0
Equity	33,707.0	37,011.3	40,440.9	44,085.3
Capital employed	53,407.0	61,136.9	60,778.8	60,423.6
TOTAL ASSETS	150,843.0	143,978.3	144,831.0	145,899.3
Cash flow statement (€th)	2006	2007E	2008E	2009E
Cash flow from operations	22,069.0	640.6	8,884.0	9,126.1
Net capital expenditure	-1,325.0	-3,000.0	-3,030.0	-3,060.3
Free cash-flow	20,744.0	-2,359.4	5,854.0	6,065.8
Acquisitions / disposals	55,378.0	0.0	0.0	0.0
Dividend payments	0.0	-2,066.2	-2,066.2	-2,066.2
Shares issues	-47,110.0	0.0	0.0	0.0
New borrowings / reimbursements	-13,347.0	-2,669.0	-2,669.0	-2,669.0
Other	-251.0	0.0	0.0	0.0
CHANGE IN CASH & EQUIVALENTS	15,414.0	-7,094.6	1,118.8	1,330.6
Performance criteria	2006	2007E	2008E	2009E
Sales growth	n.a.	5.0%	1.0%	1.0%
Gross margin	52.7%	52.7%	52.7%	52.7%
REBITDA margin	9.5%	7.9%	7.9%	7.9%
REBITA margin	7.3%	5.6%	5.6%	5.6%
EBIT margin	5.2%	5.6%	5.6%	5.6%
Net debt / Equity + Minorities	35.6%	44.4%	31.2%	19.6%
Net debt / EBITDA	0.93	1.12	0.86	0.58
EBITDA / net interest	12.78	10.76	11.24	13.06
Pay-out ratio	-6.4%	-38.5%	-37.6%	-36.2%
= Return on Equity (avg)	78.7%	15.2%	14.2%	13.5%
Return on Capital Employed (avg)	7.7%	12.6%	12.0%	12.2%
Per share data (€)	2006	2007E	2008E	2009E
weighted average # shares, diluted	8,264,842	8,264,842	8,264,842	8,264,842
Basic EPS	3.93	0.65	0.66	0.69
Diluted EPS	3.93	0.65	0.66	0.69
Diluted, adjusted EPS	0.62	0.65	0.66	0.69
Net book value / share	4.08	4.48	4.89	5.33
Free cash flow / share	2.51	-0.29	0.71	0.73
Dividend	0.25	0.25	0.25	0.25
Valuation data	2006	2007E	2008E	2009E
Reference share price (€)	9.59	6.97	6.97	6.97
Reference market capitalisation	79,226.8	57,605.9	57,605.9	57,605.9
Enterprise value (€th)	98,926.8	81,731.6	77,943.8	73,944.2
P/E	15.4	10.7	10.5	10.1
EV/sales	0.4	0.4	0.4	0.4
EV/EBITDA	6.1	5.6	5.3	5.0
EV/Capital employed	1.5	1.3	1.3	1.2
P/ NBV	1.8	1.6	1.4	1.3
Free cash flow yield	35.1%	-4.1%	10.2%	10.5%
Dividend yield	3.5%	3.6%	3.6%	3.6%

Source: KBC Securities

*Historic valuation data are based on historic prices

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Stock rating	Definition
BUY	Expected total return (including dividends) of 10% or more over a 6-month period
ACCUMULATE	Expected total return (including dividends) between 0% and 10% over a 6-month period
REDUCE	Expected total return (including dividends) between -10% and 0% over a 6-month period
SELL	Expected total return (including dividends) of -10% or worse over a 6-month period

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Stock rating	% of covered universe	% of covered universe with investment banking relationship during last year
BUY	40.30%	50.00%
ACCUMULATE	44.00%	50.00%
REDUCE	13.40%	0.00%
SELL	2.20%	0.00%

Jensen-Group is a leading global player (14.5% market share) in the production of turn-key heavy-duty laundry systems.

The price target for Jensen-Group is based on following parameters: Discounted Cash Flow (DCF), Absolute Multiples

The risks which may impede the achievement of our price target are: USD rate, steel prices, consolidated client base, strong European competition

Any reference made to a DCF valuation for Jensen-Group is based on the following parameters: a forecast period from 2007 until 2016, a perpetual growth rate of 1% and a calculated WACC of 7.6%.

Below is an overview of the stock ratings and target price history in the last 12 months for the stock described in this report.

Date	Rating	Target price
11-JUN-07	Buy	€ 8.30
28-FEB-07	Buy	€ 7.00
19-DEC-06	Accumulate	€ 6.30
27-SEP-06	Accumulate	€ 12.00

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