Research Report (Update)

Half-year figures in line with expectations
-
Increased profitability

Target price: €2.30

Rating: BUY

IMPORTANT NOTE:
Please take note of the disclaimer/risk warning, as well as the disclosure of potential conflicts of interest as required by section 34b of the Securities Trading Act (WpHG) on page II and ff.

Completion: 05/10/2012 **First publication: 08/10/2012**

Rating: Buy

Price target: € 2.30

current price: € 1.25

05/10/2012 / ETR

currency: EUR

Key date:

ISIN: DE000A0JCY37

WKN: A0JCY3

Ticker symbol: CEW3

Number of shares³: 7,250

Marketcap³: 9.16

EnterpriseValue³: 7.61

³ in m / in EUR m

Freefloat: 25.0 %

Transparency Level: Entry Standard

Market Segment: Freiverkehr

Accounting Standard: HGB

Financial year-end: 12/31

Designated Sponsor: SAB AG

Analyst:

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* catalogue of potential conflicts of interests on page IV

HPI AG *5

Company profile

Sector: Logistic

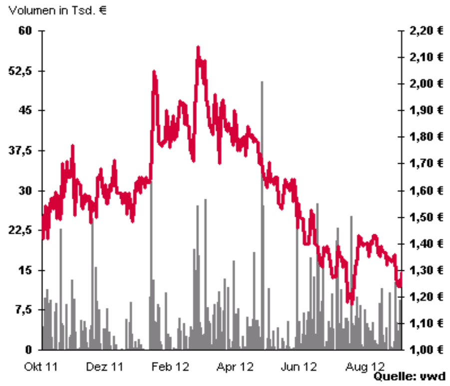
Speciality: Purchase and logistics

Employees: 130 (30/06/2012)

Founded: 1976

Head office: Munich

Executive Board: Michael Negel, Falk Raudies



According to its own account, HPI AG is a leading European industrial services provider in the field of purchasing and logistics, with highly specialised industry know-how in the areas of electronics, automotive and aerospace defence, the chemical and pharmaceutical industry as well as machinery and plant engineering. With a managed purchasing volume of over €4 billion and approximately 1,800 customers, 4,000 negotiated contracts and over 130 employees, HPI is Europe's largest independent service provider for strategic procurement management. The company is able to offer its customers everything from a single source - from short-term inventory management (brokerage) to the complete takeover of the entire procurement process (business processing) as well as warehousing. HPI Group handles more than 2 million goods movements and more than 750,000 orders per year. In addition, HPI Group supervises purchasing volumes in excess of 4 billion euros per year, including 200 million euros for orders in transport and logistics. HPI Group is globally represented in 21 locations – 16 of which are in Europe, two in North America and three in Asia.

P&L in EURm / Due date	31/12/2010	31/12/2011	31/12/2012e	31/12/2013e
Sales	29.90	77.11	72.91	81.44
EBITDA	1.31	3.20	2.83	3.23
EBIT	0.45	1.69	2.10	2.45
Net profit	0.42	0.20	0.73	0.93
Figures in EUR				
Earnings per share	0.07	0.03	0.10	0.13
Dividend per share	0.00	0.00	0.00	0.00
*2010/2011 based on HGB, 2012e/2013e based on IFRS				
Ratios				
EV/Sales	0.23	0.10	0.10	0.09
EV/EBITDA	5.19	2.35	2.65	2.32
EV/EBIT	14.98	4.44	3.57	3.06
P/E	21.68	44.86	12.41	9.80
P/B		0.81		

Financial Dates:

Date: Event

30/11/2012: Release Q3-Report 2012

05/12/2012: MKK

**** last research published by GBC:**

Date: publication/price target in €/Rating

17/08/2012: RR / €2.30 /BUY

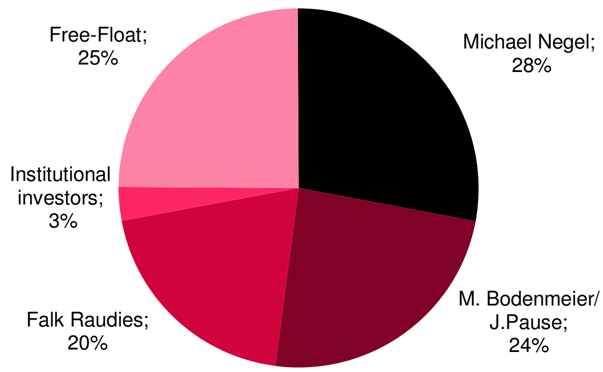
RS = Research Report; RG = Research Guide; ** the research reports can be found on our webside www.gbc-ag.de or can be requested at GBC AG, Halderstr. 27, D-86150 Augsburg

Company

Shareholder structure

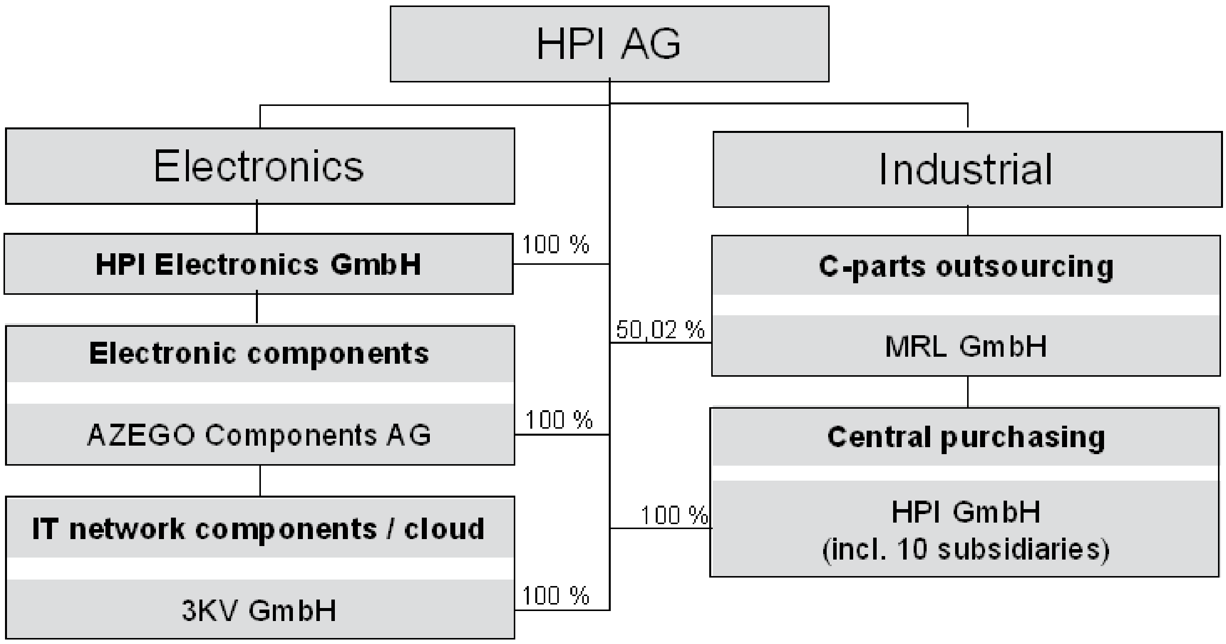
Michael Negel	28%
M. Bodenmeier/J.Pause	24%
Falk Raudies	20%
Institutional investors	3%
Free-Float	25%
Total	**100%**

Shareholder structure as of: June 2012



Source: HPI, GBC

Company structure



*Source: HPI, GBC; * With effect from 01/01/2012, 100 % of the subsidiary HPI Distribution GmbH and 51 % of VCE Virtual Chip Exchange were sold. With effect from 01/04/2012 51 % of the subsidiary ce Global Sourcing GmbH were sold.*

Important customers

Source: HPI, GBC

Business development in the first six months of the year 2012

in million €	First six months of the year 2011	Δ 2011/2012	First six months of the year 2012
Sales revenues	38.0	-7.9%	35.0
Electronics segment	24.7	-17.8%	20.3
Industrial segment	13.3	+ 8.3%	14.4
EBIT (*margin*)*	1.00 (2.6%)	+ 0.0%	1.00 (*2.9%*)

*Source: HPI, GBC; *Results are based on accounting according to the HGB (commercial code)*

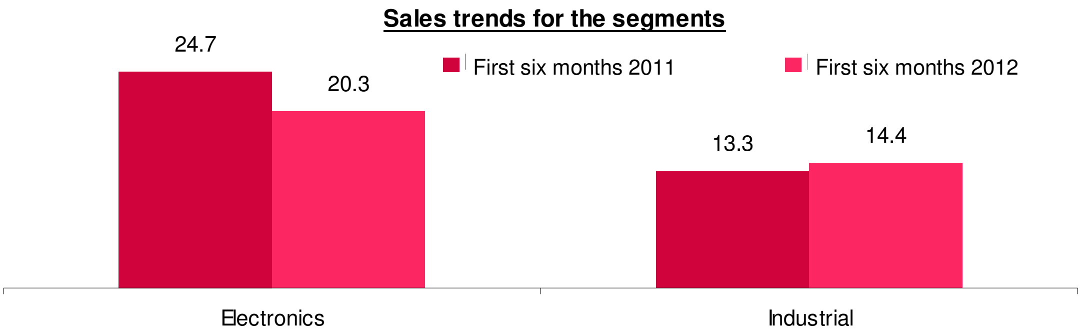
Sales trend - effects of deconsolidations - organic growth of 5.3%

The sales trend of HPI AG corresponded to our expectations in the first six months of 2012. After the company achieved an increase in turnover of 2.2% in the first quarter of 2012, sales decreased by 17.0% in the second quarter of 2012 so that an overall decrease in sales of 7.9% could be observed in the first six months of 2012. It should be noted here, however, that this includes deconsolidations of subsidiaries so that the decrease in sales must be classified as inorganic.

For example, in the electronics segment VCE Virtual Chip Exchange was deconsolidated by selling 51% of the shares as part of a management buyout and HPI Distribution GmbH was deconsolidated by selling 100% of the shares. In addition, 51% of the shares in ce Global Sourcing GmbH were also sold on 01/04/2012 as part of a management buyout and are therefore no longer consolidated from the second quarter of 2012. Overall, all three effects led to a reduction in sales of about €5 million.

If the sales trend is adjusted by the inorganic deconsolidation effects, the sales revenues would be correspondingly higher and an increase of 5.3% in comparison to the previous year would have been achieved.

Despite the deconsolidation effects, the two remaining companies in the electronics segment, AZEGO Components GmbH and 3KV GmbH, developed in a very satisfactory manner, which underlines the strategic decision to streamline the shareholding structure. For example, AZEGO Components GmbH, which specialises in the marketing of surplus chip inventory, achieved a growth of 20% in its core area. 3KV GmbH even exhibited a growth rate of 25% due to the good development in the areas of IT network safety and cloud computing. This partially compensated for the decrease in sales due to the deconsolidations.



Source: HPI, GBC

The industrial segment continued its positive development and achieved an increase of 8.3% compared to the previous year. The growth rate in the first six months of 2012 was lower than the first quarter of 2012, however this can be explained by the inorganic growth effect caused by the initial consolidation of MRL. This inorganic effect amounted to approximately €1.5 million, which correspondingly led to a levelling of the percentage growth in the second quarter of 2012.

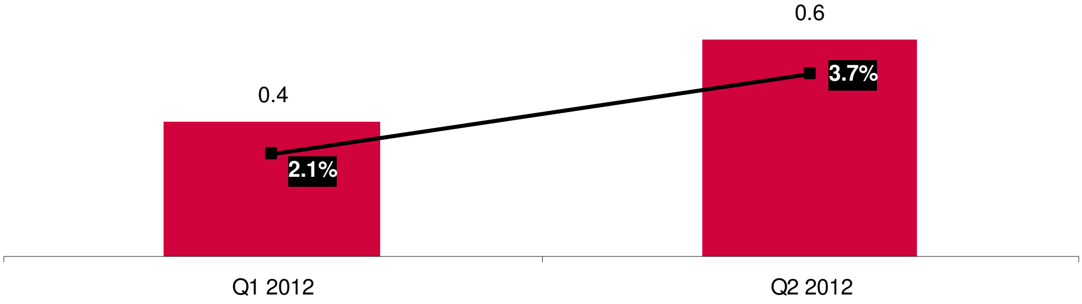
The expansion of the sales territory of MRL to include France already had a positive effect in the first six months of 2012, but this should be significantly noticeable in the second half of 2012.

Earnings development - streamlining of the structure shows an effect - margins increased

The streamlining of the consolidated companies already had a positive effect on earnings in the second quarter of 2012. Based on the fact that the deconsolidated companies are on the one hand active in highly cyclical business areas and on the other hand operate with lower margin levels than other group companies of HPI AG, the deconsolidation already had a very positive effect on the revenues of HPI AG in the second quarter of 2012.

After an EBIT of €0.4 million in the first quarter of 2012, an EBIT of €0.6 million was generated in the second quarter of 2012 despite the low level of sales. However, the EBIT margin especially improved from 2.1% in the first quarter of 2012 to 3.7% in the second quarter of 2012. The positive effects could also be observed in comparison with the same quarter of the previous year. In the second quarter of 2011, the generated EBIT margin stood at 3.4%, that is 0.3 percentage points below this year's figure.

EBIT and EBIT margin by quarters



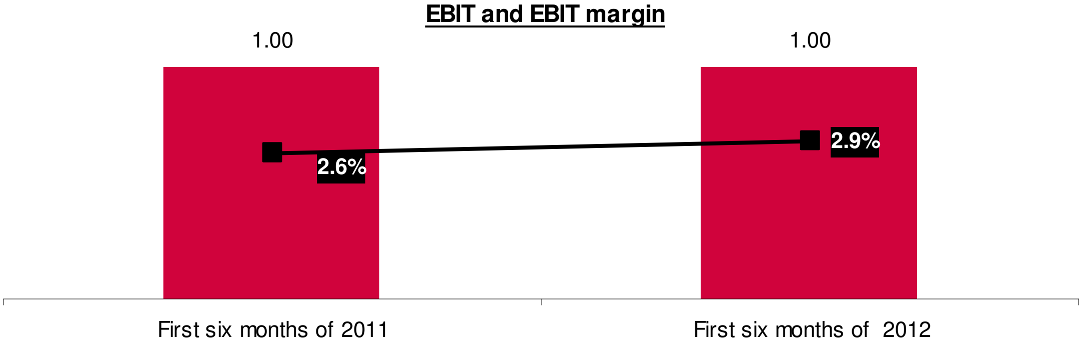
Source: HPI, GBC

In total, an EBIT of €1.0 million was generated in the first six months of 2012. In comparison with the previous year, this is an unchanged result in absolute terms, however, the deconsolidated companies have to be taken into account, which still generated positive contributions to earnings in the previous year.

On this basis, it was possible to improve profitability, which is also reflected in the EBIT margin achieved. This improved from 2.6% in the previous year to 2.9% in the first six months of 2012. The EBIT margin is thus already within the range of predictions for the whole year at the end of the first six months.

The positive development of the company has to be especially emphasised in light of the fact that there were increased expenses for personnel and logistics in the first six months of 2012 to promote the expansion of the operating activities. For example, the distribution network was expanded and a new logistics centre was acquired. In addition, a new logistics centre for MRL was completed in northern France to be able to serve the French market and new clients from that region in the future.

EBIT and EBIT margin



Source: HPI, GBC

Overall, we therefore consider the half-year results of HPI AG to be very satisfactory. The figures underline the strategic path that the company has taken and show the success of focussing on the high-growth markets of IT network security, cloud computing and outsourcing.

Forecast and model assumptions

in million €	Full year 2011	Full year 2012e (old)	Full year 2012e (new)	Full year 2013e (old)	Full year 2013e (new)
Sales revenues	77.11	80.11	72.91	88.44	81.44
EBITDA (*margin*)	3.20 (*4.1%*)	3.05 (*3.8%*)	2.83 (3.9%)	3.43 (*3.9%*)	3.23 (4.0%)
EBIT (*margin*)*	2.66 (*3.5%*)	2.32 (*2.9%*)	2.10 (2.9%)	2.65 (*3.0%*)	2.45 (3.0%)
Annual profit*	1.17	0.88	0.73	1.07	0.93

*Source: HPI, GBC; *according to IFRS*

Revenue and result forecasts adjusted to deconsolidations

The half-year results of HPI AG clearly met our expectations. The management is also satisfied with the company based on the half-year results and confirms the forecasts for the current full year 2012. Accordingly, the board of HPI AG continues to adhere to the forecast of achieving sales revenues of €80 million and an EBIT of €2.3 million. However, due to the successful deconsolidations, this goal will only be achieved - especially from a sales perspective - based on an additional acquisition which is to be expected in the second half of 2012.

We are adjusting our forecasts accordingly in consideration of the deconsolidation of ce Global Sourcing GmbH as of 01/04/2012 and are now expecting sales revenues for the full year 2012 of €72.91 million. In this, we continue to adhere to our expectations in terms of the organic development. We therefore expect that the trends of the first six months of 2012 will be confirmed and that the electronics segment and especially the area of IT network products (3KV) will be the major growth driver. The segment C-parts outsourcing is also expected to develop well. The expansion of the C-parts outsourcing business to France and the acquisition of new clients should have a positive effect during the first six months of 2012.

We have not taken further acquisitions into account in our forecasts. However, an acquisition is very likely in the second six months of 2012 according to company information. According to statements by the management, a successful acquisition would lead to additional sales revenues of more than €10 million and with that, the current sales volume in the management prognosis of €80 million would be achieved accordingly.

Segments (in million €)	Sales 2011	Sales 2012e	Delta 11/12	Sales 2013e	Delta 12/13
Electronics – electronic components*	24.22	5.60	-76.9%	6.25	+11.9%
Electronics – IT network products	24.58	35.00	+42.4%	38.50	+10.0%
Electronics segment total	**48.80**	**40.60**	**-16.8%**	**44.75**	**+10.2%**
Industrial – C-parts outsourcing	22.42	25.83	+15.2%	29.88	+15.7%
Industrial – central purchasing	5.89	6.48	+10.0%	6.80	+5.0%
Industrial segment total	**28.31**	**32.31**	**+14.1%**	**36.69**	**+13.6%**
Total	**77.11**	**72.91**	**-5.4%**	**81.44**	**+11.7%**

*Source: HPI, GBC; *The decrease in sales can be attributed to the deconsolidation of ce Global Sourcing GmbH as of 01/04/2012.*

The deconsolidation of ce Global Sourcing GmbH also has an effect on the results of HPI AG. We therefore expect that they will have an effect on the EBIT of about €0.2 million in comparison with our previous estimates. ce Global Sourcing GmbH achieved with €0.9 million a significantly higher EBIT in the full year of 2011, but the business benefited in the previous year from the shortage of electronic components due to the extraordinary factors of the tsunami in Japan and the flood in Thailand. A normalisation should be expected in the current year. Additionally, the deconsolidation occurred as of 01.04.12, so that the result of the first quarter 2012 was still included in the group result.

Furthermore, the deconsolidations carried out already had a very positive effect on the margin development in the first six months of 2012. This will also have a supportive effect in the second six months of 2012 and will strengthen the margin levels. We therefore adhere to our previous margin expectations for the EBIT figures of 2.9% for the full year of 2012 and 3.0% for the full year of 2013. The expected acquisition should contribute accordingly to achieving the EBIT aimed for by management of €2.3 million.

Valuation

Discounted cash flow valuation

Model assumptions

HPI AG was valued using a three-phase DCF model. Starting from the specific estimates for the years 2012 to 2013 in phase 1, the second phase from 2014 to 2019 forecasts the effect of value drivers. We expect an annual increase in turnover of 5.0%. We took as our target an EBITDA margin of 4.00%. For Phase 2, we applied a tax rate of 30.0%. For the third phase beyond the forecast horizon, a residual value was calculated using a perpetual annuity formula. In the final value, we assume conservatively a growth rate of 2.0%.

Definition of cost of capital

The weighted average cost of capital (WACC) for HPI AG is calculated on the basis of internal capital costs and external capital costs. In order to determine the internal cost of capital, the fair market premium, the company beta and the risk-free interest rate need to be established.

The interest rate for 10-year German federal bonds is taken as the risk-free interest rate. This currently stands at 2.00%.

We used the historic market premium of 5.50% as a suitable expectation of market premium. This is supported by historical analyses of stock market yields. The market premium reflects the percentage of the expected excess return of the stock market over the low-risk government bonds.

Using the GBC estimation method there is currently a beta of 1.81.

Applying these assumptions we can calculate an internal cost of capital of 11.96% (beta multiplied by the risk premium, plus 10-year interest rate). As we assume a long-term weighting of internal capital costs of 100%, the weighted average cost of capital (WACC) is 11.96%.

Valuation result

Discounting future cash flows was carried out using the entity approach. Applying the corresponding cost of capital (WACC) of 11.96%, results in a fair company value at the end of fiscal year 2013 in the amount of **€16.71 million** or **€2.30 per share**.

The lower sales and earnings estimates in effect of the deconsolidations are balanced by a higher profitability. With the underlying estimates we now assume a sustainable EBITDA-margin of 4.0%, after 3.9% before. This leads to a balancing effect and a unchanged target price.

HPI AG - Discounted Cashflow (DCF) model scenario

Value driver of the DCF - model after the estimate phase:

consistency - phase	
Sales growth	5.0%
EBITDA-Margin	3.9%
Depreciation to fixed assets	10.0%
Working Capital to sales	5.0%

final - phase	
Eternal growth rate	2.0%
Eternal EBITA - margin	2.8%
Effective tax rate in final phase	30.0%

three phases DCF - model:

Phase	estimate		consistency						final
In € m	FY 2012e	FY 2013e	FY 2014e	FY 2015e	FY 2016e	FY 2017e	FY 2018e	FY 2019e	
Sales	72.91	81.44	85.47	89.70	94.14	98.80	103.69	108.83	
Sales change	-5.4%	11.7%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	2.0%
Sales to fixed assets	8.58	9.05	9.00	9.50	9.50	9.50	9.50	9.50	
EBITDA	2.83	3.23	3.38	3.54	3.72	3.90	4.10	4.30	
EBITDA-Margin	3.9%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	
EBITA	2.10	2.45	2.48	2.59	2.77	2.91	3.06	3.21	
EBITA-Margin	2.9%	3.0%	2.9%	2.9%	2.9%	2.9%	2.9%	2.9%	3.0%
Taxes on EBITA	-0.65	-0.75	-0.74	-0.78	-0.83	-0.87	-0.92	-0.96	
Taxes to EBITA	30.9%	30.8%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
EBI (NOPLAT)	1.45	1.70	1.73	1.82	1.94	2.04	2.14	2.24	
Return on capital	13.4%	14.0%	13.3%	13.1%	13.9%	13.9%	13.9%	13.9%	13.5%
Working Capital (WC)	3.65	4.07	4.31	4.52	4.74	4.98	5.23	5.48	
WC to sales	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	
Investment in WC	-1.22	-0.43	-0.24	-0.21	-0.22	-0.23	-0.25	-0.26	
Operating fixed assets (OAV)	8.50	9.00	9.50	9.44	9.91	10.40	10.92	11.46	
Depreciation on OAV	-0.73	-0.78	-0.90	-0.95	-0.94	-0.99	-1.04	-1.09	
Depreciation to OAV	8.6%	8.7%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	
Investment in OAV	-0.83	-1.28	-1.40	-0.89	-1.41	-1.48	-1.55	-1.63	
Capital employed	12.15	13.07	13.81	13.96	14.65	15.38	16.14	16.94	
EBITDA	2.83	3.23	3.38	3.54	3.72	3.90	4.10	4.30	
Taxes on EBITA	-0.65	-0.75	-0.74	-0.78	-0.83	-0.87	-0.92	-0.96	
Total invesment	-2.05	-1.71	-1.64	-1.11	-1.64	-1.72	-1.80	-1.89	
Invesmtent in OAV	-0.83	-1.28	-1.40	-0.89	-1.41	-1.48	-1.55	-1.63	
Investment in WC	-1.22	-0.43	-0.24	-0.21	-0.22	-0.23	-0.25	-0.26	
Investment in Goodwill	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Free Cashflows	0.13	0.77	1.00	1.66	1.25	1.31	1.38	1.45	19.61

Value operating business (due date)	14.46	15.42
Net present value explicit free Cashflows	5.56	5.46
Net present value of terminal value	8.90	9.96
Net debt	-2.74	-3.01
Net present value of options	0.00	0.00
Value of equity	17.20	18.43
Minority interests	-1.60	-1.72
Value of share capital	15.60	16.71
Outstanding shares in m	7.250	7.250
Fair value per share in €	2.15	**2.30**

Cost of capital

Risk free rate	2.0%
Market risk premium	5.5%
Beta	1.81
Cost of equity	12.0%
Target weight	100.0%
Cost of debt	7.6%
Target weight	0.0%
Taxshield	28.7%
WACC	**12.0%**

Sensitivity analysis - fair value per share in €

	WACC				
Return on Capital	10.0%	11.0%	12.0%	13.0%	14.0%
11.5%	2.51	2.26	2.07	1.91	1.78
12.5%	2.68	2.40	2.19	2.01	1.87
13.5%	2.85	2.54	**2.30**	2.11	1.96
14.5%	3.01	2.68	2.42	2.22	2.05
15.5%	3.18	2.82	2.54	2.32	2.14

Conclusion

First six months meet expectations - good development in profitability - forecasts adjusted to deconsolidation - price target of €2.30 confirmed

The development of HPI AG fully met our expectations in the first six months of 2012. The sales revenues of €35 million showed a decrease by 7.9%, but it should be noted that the sale of 100% of the shares in HPI Distribution GmbH and the sale of 51% of the shares in each of the companies VCE Virtual Chip Exchange and ce Global Sourcing GmbH as part of management buyouts led to inorganic changes.

Altogether, sales revenues of about €5 million are omitted due to the deconsolidations. Adjusted for this effect, the sales revenues would accordingly be about €40 million, which would correspond to an organic increase by around 5.3% compared to the previous year.

The basis for the good organic development of HPI AG despite the increasingly gloomy economic situation is especially the strong development of the subsidiaries AZEGO Components GmbH and 3KV GmbH. Both companies clearly exhibited double-digit growth rates in the first six months and partially compensated the decrease in sales revenues due to the deconsolidations.

The earnings situation also developed very well. Despite the deconsolidations, an EBIT of €1.0 million was achieved in the first six months of 2012, which was at the same level as in the previous year. At the same time, the EBIT margin improved from 2.6% to 2.9%. In particular, the positive effect of streamlining the consolidated companies could already be clearly observed in the second quarter of 2012. Here, an EBIT margin of 3.7% was already achieved.

Based on this good development in the first six months of 2012, we have left our organic expectations for HPI AG unchanged but have made adjustments due to the deconsolidations. We therefore now expect that sales revenues of €72.91 million will be achieved in the full year of 2012. On the results side, we think, taking the deconsolidations into account, that an EBIT of €2.10 million would be realistic.

However, we have not taken further acquisitions into account in our forecasts. HPI AG is currently in concrete negotiations regarding another acquisition, and this should still be completed in the second six months of 2012. Taking this inorganic growth effect into account, management of HPI AG continues to expect to achieve sales revenues of €80 million and an EBIT of €2.3 million.

With a valuation on book value level and a P/E for 2013 of 9.8, the stock of HPI AG is not valued as high. Additionally, the company exhibits an attractive organic and inorganic growth potential also in the coming periods. On this basis and based on the increased profitability in the first six months of 2012, we confirm our price target of €2.30. According to the high upside potential for the stock, we are also renewing our BUY rating.

Annex

Section 1 Disclaimer and exclusion of liability

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A detailed update of the present analysis/analyses at any fixed date has not been planned at the current time. GBC AG reserves the right to update the analysis without prior notice.

Section 2 (II) Recommendation/ Classifications/ Rating:

Since 1/7/2006 GBC AG has used a 3-level absolute share rating system. Since 1/7/2007 these ratings relate to a time horizon of a minimum of 6 to a maximum of 18 months. Previously the ratings related to a time horizon of up to 12 months. When the analysis is published, the investment recommendations are defined based on the categories described below, including reference to the expected returns. Temporary price fluctuations outside of these ranges do not automatically lead to a change in classification, but can result in a revision of the original recommendation.

The recommendations/ classifications/ ratings are linked to the following expectations:

BUY	The expected return, based on the derived target price, incl. dividend payments within the relevant time horizon is >= + 10 %.
HOLD	The expected return, based on the derived target price, incl. dividend payments within the relevant time horizon is > - 10 % and < + 10 %.
SELL	The expected return, based on the calculated target price, incl. dividend payments within the relevant time horizon, is <= - 10 %.

GBC AG's target prices are determined using the fair value per share, derived using generally recognised and widely used methods of fundamental analysis, such as the DCF process, peer-group benchmarking and/or the sum-of-the-parts process. This is done by including fundamental factors such as e.g. share splits, capital reductions, capital increases, M&A activities, share buybacks, etc.

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http://www.gbc-ag.de/index.php/publisher/articleview/frmCatId/17/frmArticleID/98

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