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Gigaset

Communications equipment

18 April 2013

Price	€0.937
Market cap	€47m

Investment summary: Recovery underway

In June 2012 CEO Charles Fränkl set out a strategy for overcoming the decline in the cordless phone market, especially in Europe, and returning Gigaset to sustainable, profitable growth by 2015. We see potential for upwards movement in the share price once the launch and uptake of new home networking products indicates that this strategy, in tandem with cost efficiencies, is being successful.

Creating a platform for growth

Faced with a decline in its core DECT phone market, Gigaset is enticing consumers by offering cordless phones similar in functionality to smartphones, ie activated by touchscreens and (Q313) supporting Android apps. It has formed a unit to focus on business customers, launching Gigaset-branded IP phones for this sector. Later this year it will launch a new product range for the home networking market, providing security, elderly care and energy management as well as generating a recurring revenue stream for Gigaset and service partners. In parallel, about € 30m of annualised cost savings will be made. More than €12m savings have already been secured for FY13 from personnel measures.

Part-way through execution of turnaround

FY12 revenues fell by 8.5% y-o-y to €419.6m. This reflects a 13% decline in the European cordless phone market, although Gigaset increased its share by 2%. EBITDA swung from €51.5m profit to €5.8m loss, reflecting €19.2m restructuring expenses, building up the new business segments and lower revenues. Net assets as at end December 2012 totalled €45.2m, close to its market cap, although €44.2m of this was intangibles.

Valuation: Significant upside if strategy succeeds

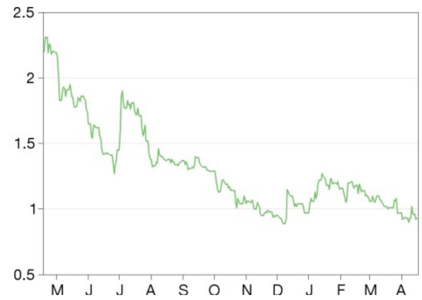
Management expects the restructuring programme to deliver positive EBITDA in FY13 on lower revenues, but with negative cash flow because of investment in new products. Growth in the business customers and home networking segments is then expected to give an increase in total sales and improved EBITDA in FY14. Consensus estimates take a more cautious approach than management guidance. Based on consensus, FY14 EV/EBITDA is 5.5x. This is a discount to the year two average for our sample of global telco equipment companies (8.6x), indicating scope for upwards share price movement if management delivers according to plan. In the event that management returns to the capital markets later this year, we note the potential for earnings dilution to close a possible liquidity gap.

Consensus estimates*

Year End	Revenue (€m)	EBITDA (€m)	PAT (€m)	DPS (€)	P/E (x)	Yield (%)
12/11	459	51.5	20.5	0.00	2.3	N/A
12/12	420	(5.8)	(28.2)	0.00	N/A	N/A
12/13e	377	3.5	(19.5)	0.00	N/A	N/A
12/14e	377	10.2	(13.4)	0.00	N/A	N/A

Note *Continuing operations.

Share price graph



Share details

Code	GGS
Listing	XETRA
Shares in issue	50.0m

Business description

A spin-off from Siemens AG, Gigaset is Europe's market leader in DECT (Digital Enhanced Cordless Telecommunications) telephones measured by sales volumes. It is ranked second largest worldwide. It has around 1,600 employees. Its products are manufactured in Germany.

Bull

- Strong brand recognition in Germany.
- Well established, extensive distribution channels.
- Applying wireless capability to new home networking products.

Bear

- Demand for DECT phones affected by weak economic environment and switch to mobile devices.
- Uptake of home networking product unknown.
- Cost-saving programme not yet complete.

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