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Hold CeWe Color

GSC Research

Düsseldorf (aktiencheck.de AG) – GSC Research analyst Klaus Kränzle is downgrading CeWe Color (ISIN DE0005403901 / SIN 540390) from "buy" to "hold".

CeWe Color reported its figures for the second quarter of the current financial year of 2009 on 25 August. As had already been observed in previous reporting periods, the tendency towards declines in income outside the fourth quarter, which is increasing in significance, has been maintained, with second-quarter sales declining according to projections by 10.6 per cent, to 88.6 (99.1) million euros.

However, this drop is mainly due to retail activities conducted by CeWe Color, in which the Oldenburg company has reported a sharp drop of almost one third to 19.2 (28.2) million euros due to the negative economic situation in Eastern Europe. In its actual area of core business the company has almost managed to maintain last year's level, at 69.4 (70.9) million euros, despite the ongoing shift in sales from analogue to digital.

Operative earnings (EBIT) saw a slightly disproportionate drop when viewed against turnover, namely 16.8 per cent to 2.1 (2.6) million euros. The main reason here is staff costs, which at 24.3 (24.8) million euros are hardly decreasing. In connection with the process of restructuring that has now been concluded, extraordinary expenses were incurred here in addition to overheads.

Significant product-related decreases in material costs were reported, by 17.7 per cent to 33.5 (40.7) million euros. CeWe Color may have benefited from the fact that there were no longer any restructuring costs to report in other expenses, but marketing costs have remained high, with this cost item, at 27.2 (29.7) million euros, only 8.6 per cent lower than that of the previous year.

Report

The annual net profit after taxes and minority shareholdings has improved by 9.2 per cent to 1.5 (1.4) million euros. This is mainly due to improved financial earnings as a result of valuation amendments to derivatives.

The mid-year figures reported by CeWe Color Holding AG fully met analysts' expectations. The observed tendency of a shift in sales to the fourth quarter has continued, with the CeWe photo book becoming increasingly popular as a Christmas gift. The book is also the focus of various marketing campaigns launched by the Oldenburg company. With the new activities in the area of digital printing or commercial customers described in detail in the last issue of Research-Notes, the company is also opening up new potential for earnings.

Against this background the forecast of the company for the current year which has now been confirmed has not surprised analysts. Figures for operative business once again prove that the phase of restructuring has been completed and that the overall number of photos developed is likely to rise

slightly again soon since, in the opinion of analysts, the bottom of the development of analogue photos has almost been reached.

All of this means that in general, news presented by CeWe is positive. Analysts nevertheless believe that the share price has largely exploited its potential relating to the end of the restructuring phase by doubling since the autumn of 2008 and should now take a short breather. Converting estimations to 2010 shows that a rise in the significance of commercial digital printing during this period should result in greater potential for earnings and hence also for the share price.

In view of these facts analysts with GSC Research are adjusting their recommendation for the time being from "buy" to "hold", despite their very positive opinion of CeWe Color as an investment and the increase in their target price from 24 to 26 euros. A dividend yield of four per cent should however limit the setback risk. Investors should exploit temporary price declines in the region below 22 euros to stock up on CeWe Color shares. (Analysis of 28.08.2009).