

18 July 2023

Ernst Russ AG

Rating Buy
Share price (EUR) 5.34
Target price (EUR) 7.90

Bloomberg HXCK GR
 Sector Transport &

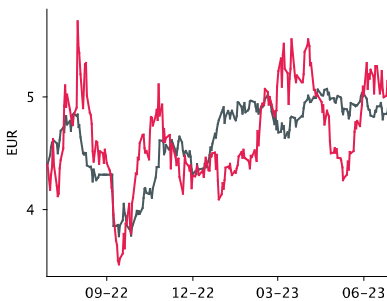
Share data

Shares out (m) 33.5
 Daily volume shs (m) 0.1
 Free float (%) 46.30
 Market cap (EUR m) 170
 EV (EUR m) 143
 DPS (EUR) 0.20
 Dividend yield (%) 3.9
 Payout ratio (%) 13.1

Performance

ytd (%) 15.2
 12 months (%) 23.1
 12 months rel. (%) 14.3
 Index SDAX

Share price performance



— Ernst Russ AG
 — Price rel. to SDAX - Price Index

Source: Bloomberg

Next triggers

24 August: H1/23 results

Analysts

Klaus Soer – Financial Analyst
 T +49 (0)69 2475049 27
 klaus.soer@quirinprivatbank.de

Expansion of ship portfolio and stabilization of charter rates lead to increased guidance

Ernst Russ expanded its ship portfolio by 3 ships to a total fleet of 31. The new investments of 2 smaller container vessels and one large container ship come with medium to long term charter contracts up to 2026. The company took advantage of its deleveraged balance sheet and the ongoing high cash flow in FY 23. In order to rejuvenate the fleet one smaller 20-year-old vessel has been sold.

Due to the recent acquisitions and a stabilisation of market charter rates we raise our estimates for FY23e significantly to EUR 205m (prev. EUR 192m). EBIT has been increased to EUR 89m (prev. EUR 78m). The current valuation of Ernst Russ does not reflect the upcoming operational performance. We stick to our Buy Rec. and will (positively) adjust our DCF and peer group-based TP as soon as more details based on the H1/23 performance (exp. 24 August 23) are out.

Ship portfolio enlarged by 3 ships in 2023 – 1 Divestment to optimize the fleet

Ernst Russ enlarged the current ship portfolio by 3 ships in 2023. This includes 2 smaller container ships with a capacity of 1,025 and 2,194 TEU. The company announced the acquisition of a large container ship "ROME EXPRESS" with a capacity of 13,371 TEU. The 2010 build ship operates the highly frequented Far east/ North Europe service. In order of a rejuvenation of the groups fleet a 20-year-old container ship with a capacity of 2,450 TEU has been divested. We estimate that the investments into the ship portfolio (without divestments) account for up to EUR 100m.

The new ships have been acquired with extended charter contracts. While the charter contracts of the smaller acquisitions last until 2024, the large new container ship ROME EXPRESS is chartered out to Hapag Lloyd until Q1/2026. The new investments and charter contracts will enlarge the groups average charter rate and the average live time of charter contracts.

Strong and deleveraged balance sheet allows to expand ship portfolio

With the recent acquisitions and investments, the company took advantage of the deleveraged balance sheet and the ongoing high cash flow in FY 23e. The investments confirm the announced strategy to expand the ship portfolio and to continue the growth path.

Key figures		2021	2022	2023e	2024e	2025e
Sales	EUR m	92	192	205	203	198
EBITDA	EUR m	39	122	116	105	102
EBIT	EUR m	31	90	89	76	71
EPS	EUR	0.49	1.43	1.47	1.34	1.25
Sales growth	%	66.1	107.7	6.7	-0.8	-2.2
EBIT growth	%	n.m.	192.9	-1.1	-14.8	-6.9
EPS growth	%	n.m.	199.8	4.4	-9.0	-6.8
EBITDA margin	%	41.8	63.5	56.8	52.0	51.3
EBIT margin	%	33.3	47.0	43.6	37.5	35.7
Net margin	%	17.1	24.7	24.1	22.2	21.1
EV/Sales	ratio	n.m.	1.4	1.2	0.8	0.5
EV/EBITDA	ratio	n.m.	2.2	2.2	1.5	0.9
EV/EBIT	ratio	n.m.	3.0	2.8	2.1	1.3
P/E	ratio	n.m.	3.4	3.3	3.6	3.9
P/BV	ratio	2.3	1.4	1.0	0.8	0.7
Dividend yield	%	0.0	0.0	4.0	4.0	4.0

Source: Bloomberg, Company data, Quirin Privatbank estimates

FY 23 Management guidance increased – New estimates at the upper end of range

Based on the recent investments into the ship portfolio Management increased the corporate guidance for FY 23. Sales is now expected in a range of EUR 190-210m (previous EUR 180-200m). The new EBIT guidance goes for EUR 70-90m (previous EUR 57m-77m). We anticipate a sales and EBIT level at the upper end of the guided range. We increase our FY 23 sales forecast to EUR 205m (prev. 192m) and FY23e EBIT to EUR 89m (prev. EUR 70m). Due to the long duration of the charter contracts (average remaining duration FY23e >17 month) the operational performance is largely predictable. The shipping segment will clearly remain the most important revenue source, with the fixed charter contracts and their attractive conditions being the main drivers.

Valuation:

We continue to value Ernst Russ according to a DCF model backed by an international peer group multiple valuation.

Ernst Russ continues to trade significantly below its DCF and Peer group valuation. Given the described improvements in sales and profitability we need to revisit our assessments. Nevertheless, we expect a clear upward revision of fair value pricing. This is largely underlined by the international peers which based on median calculations. Ernst Russ trades basically on nearly all relevant multiples with a huge discount to its international peers.

Ernst Russ: Peer Valuation

Company	P/E 23e	P/E 24e	EV/Sales 23e	EV/Sales 24e	EV/EBITDA 23e	EV/EBITDA 24e	EV/EBIT 23e	EV/EBIT 24e
ERNST RUSS AG								
GOLDEN OCEAN GROUP LTD	8.6x	5.8x	3.9x	3.5x	7.5x	5.1x	10.7x	7.0x
NAVIOS MARITIME PARTNERS LP	1.7x	1.5x	1.8x	1.7x	3.1x	2.9x	4.2x	3.9x
COSTAMARE INC	3.8x	3.3x	2.7x	2.6x	4.5x	3.5x	5.0x	4.8x
EUROSEAS LTD	1.7x	2.0x	1.3x	1.3x	1.9x	2.6x	2.3x	3.6x
GLOBAL SHIP LEASE INC-CL A	2.3x	2.2x	2.2x	2.2x	2.7x	2.0x	3.2x	2.3x
MPC CONTAINER SHIPS AS	2.3x	3.0x	1.4x	1.6x	1.8x	2.4x	2.2x	3.2x
AP MOLLER-MAERSK A/S-A	9.4x	39.7x	0.5x	0.5x	3.3x	5.1x	8.4x	23.3x
COSCO SHIPPING PORTS LTD	6.1x	5.8x	4.1x	3.9x	9.7x	9.0x	19.4x	17.6x
KAWASAKI KISEN KAISHA LTD	1.5x	8.0x	1.0x	1.1x	8.1x	7.7x	12.4x	11.7x
HAPAG-LLOYD AG	11.7x	27.2x	1.2x	1.3x	6.3x	10.2x	10.7x	24.3x
MITSUI OSK LINES LTD	1.6x	6.5x	1.5x	1.6x	11.5x	12.0x	21.6x	24.4x
NIPPON YUSEN KK	1.6x	7.0x	0.8x	0.9x	5.2x	7.7x	7.1x	12.7x
WAN HAI LINES LTD	3.3x	n.a.	0.5x	0.5x	4.0x	2.9x	n.a.	n.a.
ERNST RUSS AG	3.4x	3.8x	1.2x	0.8x	2.2x	1.5x	2.8x	2.1x
MEDIAN	2.3x	5.8x	1.4x	1.6x	4.2x	4.3x	7.8x	9.4x
ERNST RUSS AG VS. MEDIAN	47%	-35%	-14%	-49%	-49%	-64%	-64%	-77%
Relative to Median:								

Source: Bloomberg, Quirin Privatbank estimates

Profit & loss statement

Profit & loss statement (EUR m)	2021	YOY	2022	YOY	2023e	YOY	2024e	YOY	2025e	YOY
Sales	92.3	66.1 %	191.7	107.7 %	204.5	6.7 %	202.9	-0.8 %	198.4	-2.2 %
Unfinished Goods	0.0		0.0		0.0		0.0		0.0	
Other own work capitalized	n.a.		n.a.		n.a.		n.a.		n.a.	
Other operating earnings	4.8		30.7		7.0		0.5		0.5	
Cost of goods	-49.1		-89.7		-85.5		-87.0		-86.0	
Gross profit	97.1		222.4		211.5		203.4		198.9	
Personnel expenses	-5.1		-4.8		-4.9		-5.9		-6.2	
Depreciation	-7.8		-31.6		-27.0		-29.5		-31.0	
Other operating expenses	-4.3		-6.2		-5.0		-5.0		-5.0	
EBITDA	38.6	283.0 %	121.7	215.6 %	116.1	-4.6 %	105.5	-9.2 %	101.7	-3.6 %
EBITDA margin (%)	41.78		63.48		56.78		52.00		51.28	
EBIT	30.8	1098.3 %	90.1	192.9 %	89.1	-1.1 %	76.0	-14.8 %	70.7	-6.9 %
EBIT margin (%)	33.33		47.00		43.58		37.46		35.65	
Net interest	-3.3		-2.3		-0.6		-1.6		-1.5	
Income from Participations	0.1		0.0		0.0		0.0		0.0	
Net financial result	-3.2		-2.3		-0.6		-1.6		-1.5	
Exceptional items	0.0		0.0		0.0		0.0		0.0	
Pretax profit	26.7	390.9 %	84.3	215.9 %	87.4	3.7 %	75.6	-13.6 %	70.4	-6.8 %
Pretax margin (%)	28.92		43.97		42.75		37.26		35.50	
Taxes	-0.4		-0.4		-0.8		-0.7		-0.6	
Tax rate (%)	130.00		0.90		0.90		0.90		0.90	
Earnings after taxes	26.3		83.9		86.7		74.9		69.8	
Minorities	10.5		36.6		37.3		30.0		27.9	
Group attributable income	15.8	282.1 %	47.3	199.8 %	49.4	4.4 %	44.9	-9.0 %	41.9	-6.8 %
No. of shares (m)	33.5		33.5		33.5		33.5		33.5	
Earnings per share (EUR)	0.49	305.3 %	1.43	199.8 %	1.47	4.4 %	1.34	-9.0 %	1.25	-6.8 %

Source: Company data, Quirin Privatbank estimates

Balance sheet

Balance sheet (EUR m)	2021	YOY	2022	YOY	2023e	YOY	2024e	YOY	2025e	YOY
Assets										
Cash and cash equivalents	26.4		57.7		95.4		166.2		233.4	
Accounts receivables	12.9		15.2		15.2		15.2		15.2	
Inventories	1.4		1.7		1.7		1.7		1.7	
Other current assets	0.0		0.0		0.0		0.0		0.0	
Tax claims	0.0		0.0		0.0		0.0		0.0	
Total current assets	40.7	35.2 %	74.7	83.6 %	112.3	50.4 %	183.1	63.0 %	250.3	36.7 %
Fixed assets	210.4		196.1		277.3		279.8		280.8	
Goodwill	0.0		0.0		0.0		0.0		0.0	
Other intangible assets	3.0		2.3		2.3		2.3		2.3	
Financial assets	0.0		0.0		0.0		0.0		0.0	
Deferred taxes	0.5		0.5		0.5		0.5		0.5	
Other fixed assets	9.1		9.7		9.7		9.7		9.7	
Total fixed assets	223.0	67.3 %	208.6	-6.5 %	289.8	38.9 %	292.3	0.9 %	293.3	0.3 %
Total assets	263.7	61.4 %	283.3	7.4 %	402.1	42.0 %	475.4	18.2 %	543.7	14.3 %
Equity & Liabilities										
Subscribed capital	32.4		32.4		32.4		32.4		32.4	
Reserves & other	6.7		6.7		6.7		6.7		6.7	
Revenue reserves	8.5		8.5		8.5		8.5		8.5	
Accumulated other comprehensive	24.5		70.4		119.8		164.8		206.6	
Shareholder's equity	72.2	25.5 %	118.0	63.6 %	167.4	41.9 %	212.4	26.8 %	254.2	19.7 %
Minorities	70.7		89.5		126.7		156.7		184.6	
Shareholder's equity incl. minorities	142.8	78.2 %	207.5	45.3 %	294.2	41.8 %	369.1	25.5 %	438.9	18.9 %
Long-term liabilities										
Pension provisions	0.0		0.0		0.0		0.0		0.0	
Financial liabilities	79.1		3.3		35.5		33.9		32.3	
Tax liabilities	5.6		5.7		5.7		5.7		5.7	
Other liabilities	22.1		36.3		36.3		36.3		36.3	
Total long-term debt	106.9	45.6 %	45.2	-57.7 %	77.4	71.2 %	75.8	-2.1 %	74.2	-2.1 %
Short-term debt										
Other provisions	8.0		11.7		11.7		11.7		11.7	
Trade payables	4.5		5.1		5.1		5.1		5.1	
Financial debt	0.0		12.5		12.5		12.5		12.5	
Other liabilities	1.5		1.3		1.3		1.3		1.3	
Total short-term debt	14.0	42.4 %	30.6	118.1 %	30.6	0.0 %	30.6	0.0 %	30.6	0.0 %
Total equity & liabilities	263.7	61.4 %	283.3	7.4 %	402.1	42.0 %	475.5	18.2 %	543.7	14.3 %

Source: Company data, Quirin Privatbank estimates

Financial key ratios

Key ratios	2021	2022	2023e	2024e	2025e
Per share data (EUR)					
EPS	0.49	1.43	1.47	1.34	1.25
Book value per share	2.15	3.52	5.00	6.34	7.59
Dividend per share	0.00	0.00	0.20	0.20	0.20
Valuation ratios					
EV/Sales	n.m.	1.4	1.2	0.8	0.5
EV/EBITDA	n.m.	2.2	2.2	1.5	0.9
EV/EBIT	n.m.	3.0	2.8	2.1	1.3
P/E	10.3	3.4	3.3	3.6	3.9
P/B	2.3	1.4	1.0	0.8	0.7
Dividend yield (%)	0.0	0.0	4.0	4.0	4.0
Growth					
Sales growth (%)	66.1	107.7	6.7	-0.8	-2.2
EBITDA growth (%)	283.0	215.6	-4.6	-9.2	-3.6
EBIT growth (%)	1098.3	192.9	-1.1	-14.8	-6.9
EPS growth (%)	305.3	199.8	4.4	-9.0	-6.8
Profitability ratios					
EBITDA margin (%)	41.8	63.5	56.8	52.0	51.3
EBIT margin (%)	33.3	47.0	43.6	37.5	35.7
Net margin (%)	17.1	24.7	24.1	22.2	21.1
ROCE (%)	12.3	35.6	24.0	17.1	13.8
Financial ratios					
Total equity (EUR m)	72.2	118.0	167.4	212.4	254.2
Equity ratio (%)	54.2	73.2	73.1	77.6	80.7
Net financial debt (EUR m)	52.7	-42.0	-47.4	-119.9	-188.7
Net debt/Equity	0.3	0.4	0.4	0.4	0.5
Interest cover	8.7	32.2	81.0	38.0	35.4
Net debt/EBITDA	1.4	-0.3	-0.4	-1.1	-1.9
Payout ratio (%)	0.0	0.0	13.1	14.4	15.5

Source: Company data, Quirin Privatbank estimates

Legal Disclaimer

This report was completed 18/07/2023 12:30 CEST (Delegierte Verordnung 2016/958, Artikel 3 Absatz 1e)

This document has been prepared by Quirin Privatbank AG (hereinafter referred to as „the Bank“). This document does not claim completeness regarding all the information on the stocks, stock markets or developments referred to in it. On no account should the document be regarded as a substitute for the recipient procuring information for himself/herself or exercising his/her own judgments.

The document has been produced for information purposes for institutional clients or market professionals. Private customers, into whose possession this document comes, should discuss possible investment decisions with their customer service officer as differing views and opinions may exist with regard to the stocks referred to in this document.

This document is not a solicitation or an offer to buy or sell the mentioned stock.

The document may include certain descriptions, statements, estimates, and conclusions underlining potential market and company development. These reflect assumptions, which may turn out to be incorrect. The Bank and/or its employees accept no liability whatsoever for any direct or consequential loss or damages of any kind arising out of the use of this document or any part of its content.

Any forecasts or price targets shown for companies discussed in this document may not be achieved due to multiple risk factors including without limitation market volatility, sector volatility, corporate actions, the unavailability of complete and accurate information. For investments in foreign markets and instruments there are further risks, generally based on changes in economic and political environment, changes in financial conditions of the relevant company, on exchange rate changes, etc.

The Bank and/or its employees may hold, buy or sell positions in any securities mentioned in this document, derivatives thereon or related financial products. The Bank and/or its employees may underwrite issues for any securities mentioned in this document, derivatives thereon or related financial products or seek to perform capital market or underwriting services.

The Bank reserves all the rights in this document.

The preparation of this document is subject to regulation by German Law.

Remarks regarding to U.K. clients: Distribution of this material in the U.K. is governed by the FSA Rules. This Report is intended only for distribution to Professional Clients or Eligible Counterparties (as defined under the rules of the FSA) and is not directed at Retail Clients (as defined under the rules of the FSA).

Disclosures in respect of section 85 of the German Securities Trading Act, the market abuse regulation and the Commission Delegated Regulation (EU) 2016/958

Section 85 of the German Securities Trading Act in combination with the European regulations requires an enterprise preparing a securities analyses to point possible conflicts of interest with respect to the company that is the subject of the analyses. Catalogue of potential conflicts of interest:

1. The Bank and/or its affiliate(s) own a net long or short position exceeding the threshold of 0,5% of the total issued share capital of the company that is the subject of the Research Document, calculated in accordance with Article 3 of regulation (EU) No 236/2012 and with Chapter III and IV of Commission Delegated Regulation (EU) No 918/2012
2. The company that is the subject of the Research Document owns 5% or more in the total issued share capital of the Bank and/or its affiliate(s)
3. The Bank and/or its affiliate(s) was Lead Manager or Co-Lead Manager over the previous 12 months of a public offering of analyzed company
4. The Bank and/or its affiliate(s) act as Market Maker or Designated Sponsor for the analyzed company
5. The Bank and/or its affiliate(s) over the previous 12 months has been providing investment banking services for the analyzed company for which a compensation has been or will be paid
6. The responsible analyst named in this report disclosed a draft of the analysis set forth in this Research Document to the company that is the subject of this Research Document for fact reviewing purposes and changes were made to this Research Document before publication
7. The Bank and/or its affiliate(s) effected an agreement with the analyzed company for the preparation of the financial analysis
8. The Bank and/or its affiliate(s) holds a trading position in shares of the analyzed company
9. The Bank and/or its affiliate(s) has other important financial interests in relation to the analyzed company

In relation to the security or financial instrument discussed in this analyses the following possible conflict of interest exists: (5, 7)

The Bank have set up effective organizational administrative arrangements to prevent and avoid possible conflicts of interest and, where applicable, to disclose them. The Quirin research analysts involved in issuing research reports operate independently of Quirin Investment Banking business. Information barriers and procedures are in place between the research analysts and staff involved in securities trading for the account of Quirin or clients to ensure the price sensitive information is treated according to applicable laws and regulations.

The valuation underlying the rating of the company analyzed in this report is based on generally accepted and widely used methods of fundamental valuation, such as the DCF model, Free Cash Flow Value Potential, peer group comparison and – where applicable – a sum-of-the-parts model.

We do not commit ourselves in advance to whether and in which intervals an update is made. The document and the recommendation and the estimations contained therein are not linked – whether directly or indirectly – to the compensation of the analyst responsible for the document.

All share prices given in this equity analysis are closing prices from the last trading day before the publication date stated, unless another point in time is explicitly stated.

The rating in this report are based on the analyst's expectation of the absolute change in stock price over a period of 6 to 12 months and reflect the analyst's view of the potential for change in stock price as a percentage. The BUY and SELL ratings reflect the analyst's expected high change in the value of the stock.

The levels of change expressed in each rating categories are:

BUY > +10%

HOLD <=-10% and < = +10%

SELL > -10%.

Analyst certification

Klaus Soer, financial analyst, hereby certifies that all of the views expressed in this report accurately reflect my personal views about any and all of the subject securities or issuers discussed herein. In addition, I hereby certify that no part of my compensation was, is, or will be, directly or indirectly related to the specific recommendations or views expressed in this research report, nor is it tied to any specific investment banking transaction performed by the Bank or its affiliates.

Price and Rating History (last 12 months)

Date	Price target-EUR	Rating	Initiation
18.07.2023	7.90	Buy	
28.03.2023	7.90	Buy	28.03.2023

Bank distribution of ratings and in proportion to investment banking services can be found on the internet at the following address:

<https://www.quirinprivatbank.de/kapitalmarktgeschaeft/institutionelles-research>

Bank disclosures, conflict of interest on complete list of financial analysis on the last 12 month can be found on the internet at the following address:

<https://research.quirinprivatbank.de/content/disclosures>

Competent supervisory authority

Bundesanstalt für Finanzdienstleistungsaufsicht - BaFin – (Federal Financial Supervisory Authority), Graurheindorfer Str. 108 , 53117 Bonn

Contact Quirin Privatbank AG Frankfurt am Main

Schillerhaus / Schillerstraße 20 / 60313 Frankfurt am Main

Management Board: Karl Matthäus Schmidt • Johannes Eismann •

Contact Details

Quirin Privatbank AG

Schillerhaus | Schillerstrasse 20 | 60313 Frankfurt am Main

Tel.: +49 69 2 47 50 49-0 | Fax: +49 69 2 47 50 49-44 | Institutional-Sales-FFM@quirinprivatbank.de

Equity Research	Tel.	Email
Klaus Soer	+49 (0) 69 2475049-27	klaus.soer@quirinprivatbank.de
Ralf Marinoni	+49 (0) 69 2475049-24	ralf.marinoni@quirinprivatbank.de
Sebastian Droste	+49 (0) 69 2475049-26	sebastian.droste@quirinprivatbank.de
Daniel Kukalj	+49 (0) 69 2475049-28	daniel.kukalj@quirinprivatbank.de
Marcel Ghazi	+49 (0) 692475049-18	marcel.ghazi@quirinprivatbank.de
Vincent Steindl	+49 (0) 69 2475049-29	vincent.steindl@quirinprivatbank.de

Equity Sales	Tel.	Email
Klaus Korzilius	+49 (0) 69 2475049-25	klaus.korzilius@quirinprivatbank.de
Klaus Messenzehl	+49 (0) 69 2475049-46	klaus.messenzehl@quirinprivatbank.de
Bruno de Lencquesaing	+49 (0) 69 2475049-81	bruno.delencquesaing@quirinprivatbank.de
Tina Heidenreich	+49 (0) 69 2475049-73	tina.heidenreich@quirinprivatbank.de

Fixed Income Sales	Tel.	Email
Jürgen Raabe	+49 (0) 69 2475049-41	juergen.raabe@quirinprivatbank.de
Janine Kaiser	+49 (0) 69 24750 49-83	janine.kaiser@quirinprivatbank.de
Michael Laufenberg	+49 (0) 69 2475049-48	michael.laufenberg@quirinprivatbank.de
Roman Piroutek	+49 (0) 69 2475049-47	roman.piroutek@quirinprivatbank.de

Trading / Sales Trading	Tel.	Email
Jean-Marie Frémion	+49 (0) 69 2475049-90	jean-marie.fremion@quirinprivatbank.de
Lars Haussmann	+49 (0) 69 2475049-76	lars.haussmann@quirinprivatbank.de
Peter Rumstich	+49 (0) 69 2475049-65	peter.rumstich@quirinprivatbank.de
Carsten Pfersdorf	+49 (0) 69 2475049-75	carsten.pfersdorf@quirinprivatbank.de

Business Support	Tel.	Email
Suganya Sutharsan	+49 (0) 69 2475049-88	suganya.sutharsan@quirinprivatbank.de