

PB Holding

The value of PB Holding

Acquisition update

Automobiles & parts

23 March 2022

Price €3.65

Market cap €22m

Net debt (€m) at H121 92.8

Shares in issue 5.7m

Free float 29.5%

Code PBH

Primary exchange Euronext

Secondary exchange N/A

Stern Groep's shareholders have approved the sale of its operational activities to Hedin. After the sale and the payment of the €14.50/share super dividend, Stern has been renamed PB Holding and strategic options for the remaining 5.1% stake in car insurance company Bovemij will be assessed. The stake has a book value of €3.43 per share and might be valued up to €5.16 per PB Holding share based on peer valuations. In light of the transaction, we are suspending our forecasts.

Year end	Revenue (€m)	EBIT* (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/19	876.8	5.1	0.29	3.50	47.9	28.9
12/20	751.1	6.3	(0.85)	0.00	N/A	N/A

Note: *EBIT and EPS are normalised, excluding amortisation and exceptional items

Transaction with Hedin completed

Stern has sold its operational activities to Hedin for €83m and changed its name to PB Holding on 16 March. On 9 March Stern reported its FY21 results, which no longer have an impact on the investment case, with all operational activities sold.

Post-deal PB Holding

PB Holding shareholders of record at 23 March (ex-dividend date 22 March) will receive a cash payment of €14.50 per share on 29 March. PB Holding has a 5.1% stake in Bovemij, a tax loss compensation of around €4m and €1.8m in cash to run the operation as a listed entity. Stern estimates operating costs for the entity at ~€350,000 per year. Income for PB Holding will come from Bovemij dividends (targeting a 30% pay out of net profit), which were €0.10 per Stern share in FY20. Stern's CEO and large shareholder (12.8%) Henk van der Kwast has become CEO of PB Holding and remains committed to realising the highest value for PB Holding shareholders from the Bovemij stake. The challenge will be to realise at least the book value of the stake of €3.43 per PB Holding share.

Valuation: An interesting case

The transaction results in an interesting valuation case. The value of PB Holding might be up to around €5.16 per share based on a peer multiple approach to Bovemij and the expected value of the listed entity. This value includes Bovemij's FY21 dividend payment to PB Holding, which we estimate will be €0.13 per PB Holding share. The book value of €3.43 per share appears to be at the low end of the valuation range. Nevertheless, it is highly uncertain if, when and how the value in Bovemij can be realised, justifying a discount in our view. Ex the €14.50 per share dividend, PB Holding shares started to trade at €2 on 22 March.

Share price performance



%	1m	3m	12m
Abs	23.4	23.1	76.0
Rel (local)	24.1	32.2	65.3
52-week high/low		€3.65	€2.01

Business description

After the sale of Stern's operational activities to Hedin, PB Holding only holds a 5.1% stake in insurance company Bovemij, a loss compensation and €1.8m cash.

Next events

AGM and FY21 results 12 May 2022

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Investment summary

Bovemij: Car insurance for dealerships

Bovemij is an insurance company for the Dutch mobility sector where a company can arrange car insurance for itself, its employees or its clients. In addition, Bovemij operates a smaller financing division, a data division and the IT services company RDC. Company revenues have been around €350m in the last few years and net profit varied between €4.6m in 2018 to €48.8m in 2020. H121 was extremely strong with a net profit of €31.7m.

Exhibit 1: Bovemij financial summary					
€m	2018	2019	2020	Change	H121
Year-end Dec.				(%)	
Net insurance income	355.4	340.0	342.1		
Other (investment income)	-0.1	10.5	4.5		
Total revenues	355.3	350.4	346.5		
Gross profit		210.9	174.9		
Opex		104.8	97.9		
Operational result		106.1	77.0		
Net result	4.6	31.1	48.8		31.7
Per share (€)	0.45	3.06	4.80		
Equity	172.2	199.0	221.3		242.0

Source: Bovemij published accounts

Bovemij is 82.5% owned by car dealer association BOVAG and 17.5% by 290 BOVAG network members united in a STAK structure (an asset administrator). The 17.5% stake was issued in 2010. Stern is the largest shareholder within the STAK, with 5.1%, or 515k certificates. Stern's CEO, Henk van der Kwast, was the supervisory board chairman of Bovemij from 2001 to 2016.

The leadership recently changed at Bovemij. Former CEO René Leander stepped down in October 2021 and was succeeded in February 2022 by Hans Coffeng, who has experience in M&A transactions. This could indicate the direction BOVAG sees the company going.

As the largest shareholder, BOVAG has the final say in Bovemij's future. However, BOVAG's position is unclear. It is reasonable to assume that BOVAG's members would encourage a distribution of the value of Bovemij to the association, as they would receive the proceeds. Bovemij itself has indicated it is working on a way to increase the liquidity of its 10.17m outstanding shares where there is currently only unregulated trading, which could imply a liquidity event like a sale or IPO.

Bovemij pays dividends (€11m in FY20, which at €1.08 per certificate represented a payout of 23%) and had an equity value of €242m at the end of H121 on its balance sheet. PB Holding believe a higher dividend could be paid, given the strong financial position and the policy to pay out 30% of net profit.

A valuation of Bovemij

We see a number of pricing points in the valuation of Bovemij:

- The annual valuation by PWC, which was the basis for the book value on Stern's balance sheet.
- Unregulated trading in the certificate.
- Peer valuation.

The PWC valuation

The book value, as recognised in Stern's accounts of €19.4m (implying a company value of €473m) is calculated by PWC based on the average value of a dividend discount model and a peer valuation model based on the P/E ratio. A 20% discount is given for the lower liquidity of Bovemij shares in both models. PWC's valuation reports on Bovemij are not public.

The dividend discount model is based on a standard equity ratio (standard not disclosed). Similar to the way Stern calculated its dividends, Bovemij applies standard equity ratios to its different insurance, financial services and internet activities. It then compares the standard equity value to the actual equity to determine the dividend that can be paid out. The peer group valuation is based on a group of comparable listed European insurers. Normalised net earnings of the prior, current and next years of the peer group are the basis for the calculation. The average multiples at which the peer group trades are multiplied by Bovemij's normalised earnings (projections) and adjusted for the dividend that is paid out in the current year.

PWC's most recent valuation (2020) implies a value of €47.28 per Bovemij certificate according to Stern's annual report. The FY21 valuation of PWC will be disclosed at Bovemij's 2021 AGM on 22 April. In May Bovemij will pay the FY21 dividend (not known; FY20 dividend €11.1m, or €1.09 per Bovemij certificate).

Unregulated trading

Bovemij certificates are illiquid and only occasionally traded on a private platform, www.captin.nl. The last traded prices were €20.1–25.99 per certificate. This year, only five certificates have changed hands, at €20.10 each.

Using the €20.10 price point, PB Holding's 515k certificates shares would have an implied value of €10.4m, or €1.82 per Stern share, which is much lower than the book value. Given the very limited trading activity and number of trading members (trades are registered and only BOVAG members can be registered shareholders), in our opinion this is not an accurate estimate of the value of the stake.

A basic peer valuation

If we assume that Bovemij's H2 net profit is in line with H1 (€31.7m), we arrive at a figure of €63.4m for Bovemij in 2021. Given the positive developments in the stock markets in H221 and the results of other insurers, this assumption does not seem unrealistic. If we multiply Bovemij's net profit by the average multiple of European property and casualty peers of 8.7x (see Exhibit 2), on 2021 EPS, we arrive at an equity value of €552m. This reflects €54.24 per Bovemij certificate, or €4.92 per PB Holding share. Of course, a discount is required given Bovemij is much smaller and has limited activities compared to the peer group that we have used.

Exhibit 2: Peer table of European P&C insurers

P/E	2020 (x)	2021 (x)
Ageas	8.9	9.9
Allianz	11.1	9.3
ASR	8.5	8.0
Coface	15.2	7.2
Axa	9.9	9.2
Mean	10.7	8.7

Source: Refinitiv. Note: Priced at 21 March 2022.

We realise that P/E is not the only metric that is important to assess the value of an insurer.

PB Holding believes the stake has a considerably higher value than reflected by the book value as determined by PWC. It intends to realise this value by attempting to remove the liquidity discount that PWC uses in its calculations, as we explain below.

Possible scenarios for the development of PB Holding

Stern identified the following scenarios for the development of PB Holding in a letter to shareholders dated 9 February:

- BOVAG selling (part) of Bovemij in a transaction that also facilitates certificate holders to sell.
- BOVAG buying out the certificate holders.
- BOVAG and Bovemij setting up a financing structure (a bond, for instance) and buying out certificate holders.
- Other scenarios could emerge and PB Holding intends to discuss options with Bovemij and BOVAG after closing the transaction with Hedin.

For PB Holding shareholders, all of the scenarios above lead to the same outcome. The Bovemij certificates will be sold, leaving PB Holding with some cash and a tax loss compensation. After this, the listing will probably be sold.

The other obvious option for PB Holding is that it stays listed and pays out the dividend it receives from Bovemij. In FY20 Bovemij paid a €0.561m dividend to Stern. This would translate into €0.10 per PB Holding share. At this point, there is no certainty which scenario will emerge.

Building the valuation case

For current PB Holding shareholders we believe two things are relevant.

- The value of the Bovemij stake, which is complicated and speculative. From the valuation points discussed in the earlier paragraphs, the peer multiple approach might provide an optimistic scenario with a per share value of €4.92. We add the expected dividend of €0.13 per share over 2021 (based on a 30% payout) and arrive at value of €5.05 per PB Holding share for the Bovemij activities. In an M&A scenario, this value could be higher.
- For the listing, remaining cash and the tax loss compensation, we estimate a value of approximate €0.6m. Listed entities without activities have been sold on Euronext Amsterdam for €0.2–0.9m in the past few years and we have taken the average. This equates to €0.11 per PB Holding share. We consider the cash of €1.8m as operational and do not include this in the valuation.

The value of PB Holding's shares might be up to around €5.16 per share based on a peer multiple approach to Bovemij and the expected value of the listed entity. This includes an FY21 dividend that we estimate at €0.13 per PB Holding share, which would represent a yield of c 2.5%. The book value of €3.43 per share would be the low end of the valuation range. Nevertheless, it is uncertain if, when and how the value in Bovemij is going to be realised, which we feel justifies a discount.

Exhibit 3: Financial summary

€m	2018	2019	2020
Year end 31 December	IFRS	IFRS	IFRS
INCOME STATEMENT			
Revenue	988.7	876.8	751.1
Cost of Sales	(812.3)	(719.8)	(614.2)
Gross Profit	176.4	157.0	136.9
EBITDA	6.1	26.4	27.8
Normalised operating profit	(1.7)	5.1	6.3
Amortisation of acquired intangibles	(0.1)	(0.1)	(0.1)
Exceptionals	0.2	0.0	(22.4)
Share-based payments	0.0	0.0	0.0
Reported operating profit	(1.5)	2.1	(16.3)
Net Interest	(4.1)	(6.6)	(5.5)
Joint ventures & associates (post tax)	0.0	0.1	0.0
Exceptionals	0.0	0.0	0.0
Profit Before Tax (norm)	(5.8)	(1.4)	0.8
Profit Before Tax (reported)	(5.6)	(4.4)	(21.7)
Reported tax	1.7	3.1	(4.8)
Profit After Tax (norm)	(4.1)	1.7	(4.0)
Profit After Tax (reported)	(4.0)	(1.4)	(26.6)
Minority interests	0.0	0.0	0.0
Discontinued operations	4.5	22.6	(0.8)
Net income (normalised)	(4.1)	1.7	(4.8)
Net income (reported)	0.5	21.2	(27.4)
Average number of shares outstanding (m)	5.68	5.68	5.68
EPS (€)	0.09	3.74	(4.83)
Normalised EPS (€)	(0.73)	0.29	(0.85)
DPS (€)	0.00	3.50	0.00
Revenue growth (%)	-12.1	-11.3	-14.3
Gross Margin (%)	17.8	17.9	18.2
EBITDA Margin (%)	0.6	3.0	3.7
Normalised Operating Margin (%)	-0.2	0.6	0.8
BALANCE SHEET			
Fixed Assets	391.8	278.6	227.8
Intangible Assets	30.6	22.4	2.3
Tangible Assets	343.1	243.5	198.5
Investments & other	18.1	12.7	27.0
Current Assets	283.6	294.8	205.6
Stocks	237.6	201.4	181.2
Debtors	35.3	41.7	10.9
Cash & cash equivalents	0.7	0.7	0.3
Other	10.0	51.0	13.2
Current Liabilities	272.6	271.7	177.2
Creditors	139.9	97.4	71.5
Tax and social security	0.0	0.0	0.0
Short term borrowings	93.9	90.0	76.5
Other	38.8	84.3	29.2
Long Term Liabilities	247.6	149.1	130.8
Long term borrowings	244.0	49.7	27.9
Other long term liabilities	3.6	99.4	102.9
Net Assets	155.2	152.6	125.4
Minority interests	0.0	0.0	0.0
Shareholders' equity	155.2	152.6	125.4
CASH FLOW			
Op Cash Flow before WC and tax	52.6	11.9	(6.8)
Working capital	(0.9)	(8.3)	7.8
Net operating cash flow	51.6	3.6	39.9
Capex	(81.6)	26.6	10.2
Dividends	(4.3)	(19.9)	0.0
Other	33.7	(10.4)	(15.2)
Net Cash Flow	(0.5)	(0.1)	34.8
Opening net debt/(cash)	302.9	337.1	139.0
Closing net debt/(cash)	337.1	139.0	104.2

Source: Stern Groep, Edison Investment Research. Note: 2019 numbers adjusted for Heron divestment.

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