

Share price (23/03/23)

EUR 73.50

Target valuation range

EUR 85.00 - 103.00

Risk	Low
Bloomberg	LXMP:LX
Shares number (m)	20.1
Market cap (m)	EUR 1,478.9m
Net debt 12/22 (m)	EUR
Net debt/EBITDA 12/23	
1 year price perf.	-0.7%
Diff. with EuroStoxx	-4.5%
Volume (sh/day)	19
L/H 1 year	EUR 67.50 -79.50
Free Float	24.2%
Foyer Finance	50.4%
Stable Shareholders	16.6%
Sofina Group	6.1%
Treasury Shares	2.7%

Company description

Luxempart is a Luxembourg-based investment company managing a portfolio of >EUR 2bn. Luxempart's portfolio consists of three pillars: a listed portfolio (11%), a private equity portfolio (62%) and investment funds (27%).

Luxempart is a long-term investor with a flexible investment policy.



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Luxempart

FY22: Continued resilience; FY23: Year of opportunities

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NAV resilient in tough year for investment companies

Luxempart's NAV at the end of FY22 remained comfortably above the EUR 2bn mark, coming in at EUR 2.2bn or EUR 108.3 p/s. That is a slight increase vs. last year's EUR 107.8, and also above our estimate of EUR 106.8 p/s. It is also significantly better than its benchmark (MSCI Europe Mid Cap) which went down by -19.3% over the year. The strong performance was also reflected in its share price performance, which was down only 3.2%. Adjusted for the dividend pay-out, the stock was roughly flat. That is especially extraordinary when compared to the rest of our investment company coverage which went down by 11.5% over 2022.

Plenty of liquidity hereby creating opportunities

Luxempart has a net cash position of EUR 451.1m, or 20.7% of the portfolio. That allows for a proposed dividend of EUR 1.98 p/s, a whopping 10% increase. On top of that, we believe that all that fire power will also become very useful in 2023 for other reasons. Research has shown that investments made during downturns provide better returns. Additionally, Luxempart has a clear strategy to deploy the cash with among others looking for partnerships with family/founder-owned businesses that have a leading position in a niche market. A great example of that in practice is its latest EUR 110m investment in Kestrel Vision. That company is a market leader in the niche market of machine vision-based quality control and inspection solutions for the packaging industry.

Discount season is back providing a good entry point

We estimate today's NAV to be EUR 110.3 p/s, implying a discount of 33%. That is quite elevated vs. the long-term average but also compared to the low 20s we witnessed in late 2021 just after we initiated coverage on the stock. We believe today's level remains excessive for an investment company with such a rich track record like Luxempart. As a reminder, Luxempart returned more than 14% per year to shareholders over the last 10 years. We slightly change our target range to EUR 85 – 103 p/s (vs. EUR 86-105). This provides an upside of 17-40%, which is quite attractive versus the average upside in our investment company coverage of 15%.

EUR	12/19a	12/20a	12/21a	12/22a	12/23e	12/24e	12/25e
Share price	53.00	49.00	74.50	74.50	73.50	73.50	73.50
NAV per share	78.40	85.11	107.80	108.30			
NAV	1,573.9	1,709.4	2,166.4	2,182.9	0.0	0.0	0.0
Premium/discount	-32.4%	-42.4%	-30.9%	-31.2%			
10yr average premium	-31.4	-31.4	-31.4	-31.4	-31.4	-31.4	-31.4
Dividend per share	1.48	1.60	1.80	1.98	2.16	2.33	2.52
Dividend growth	+5.2%	+8.1%	+12.5%	+10.0%	+9.0%	+8.0%	+8.0%
Dividend yield	2.8%	3.3%	2.4%	2.7%	2.9%	3.2%	3.4%
LTV	-9.3%	-13.6%	-17.0%	20.6%			

Source: Luxempart/Degroof Petercam estimates

FY22: Continued resilience

Investments in the Direct Investment segment amounted to EUR 161m, including investments in Technotrans, Metalworks, Salice, Nexus and Tonies. Post-close, the company also invested EUR 110m in Kestrel Vision.

Divestments amounted to EUR 214.4m and all were done above last reported NAV. Divestments included Vivalto, Novotergum, Edupro, Marlink, Talbot, Rimed.

Investment Funds generated 10.6% performance as well as EUR 134.6m in proceeds. Going forward, Luxempart is looking for 40-50% in Buyouts, 20-30% in Growth Equity, 10-20% in VC and 10-20% in Secondaries and Co-investments. As such, the portfolio is relatively close to Brederode's portfolio, which also had 55% in Buyouts and 20% in Growth. In other words, the risk profile is significantly different from a pure-play in VC. Luxempart is partnering up also with more and more well-known names in the industry including Insight Partners, General Atlantic and Thoma Bravo. This is partially thanks to Luxempart's external consultant, which is partially owned by Sofina.

The firm proposed a dividend of EUR 1.98 p/s. That is an impressive increase of 10% which beat our estimate of EUR 1.94 and as such the company continues on its long-standing track record.

FY23: Year of opportunities

With EUR 451.1m in net cash or about 20.7% of the portfolio, Luxempart has plenty of firepower available in 2023.

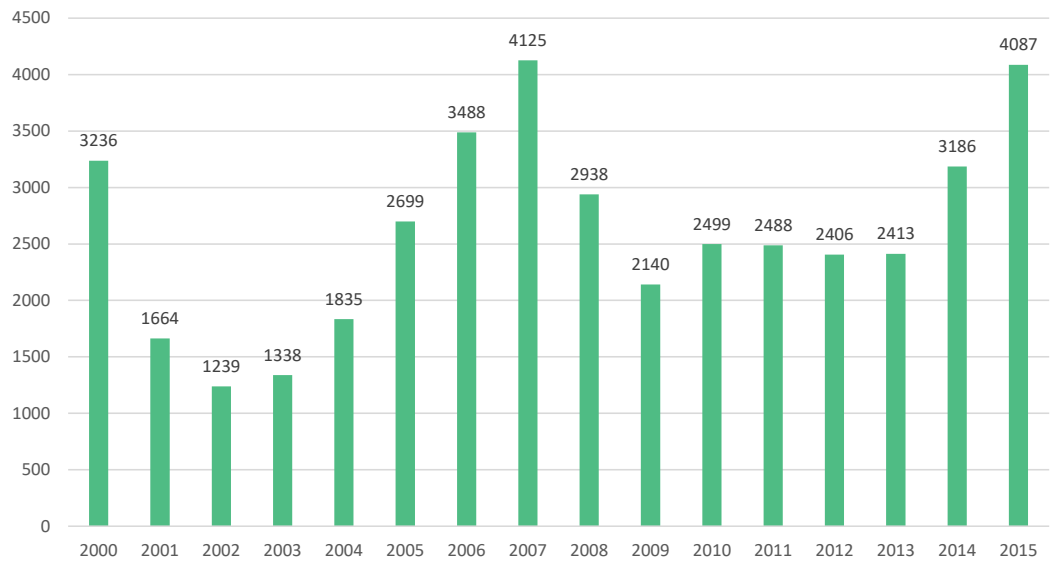
Vik Sawhney, Blackstone's Chief Administrative Officer, said on an event recently:

*"2023 will be a period of slower transaction volume (vs. 2021) but as we get more visibility on interest rates, possible bank contagion and market uncertainty, **we will see very attractive capital deployment.**"*

We tend to agree with this view. During our investment company conference in December, several companies, including Luxempart, indicated that there was still a big gap between the offerings of buyers and the demands of sellers. We see that this repricing is currently ongoing. Although transaction volume remains exceptionally low, the deals that are coming through are done at adjusted valuations.

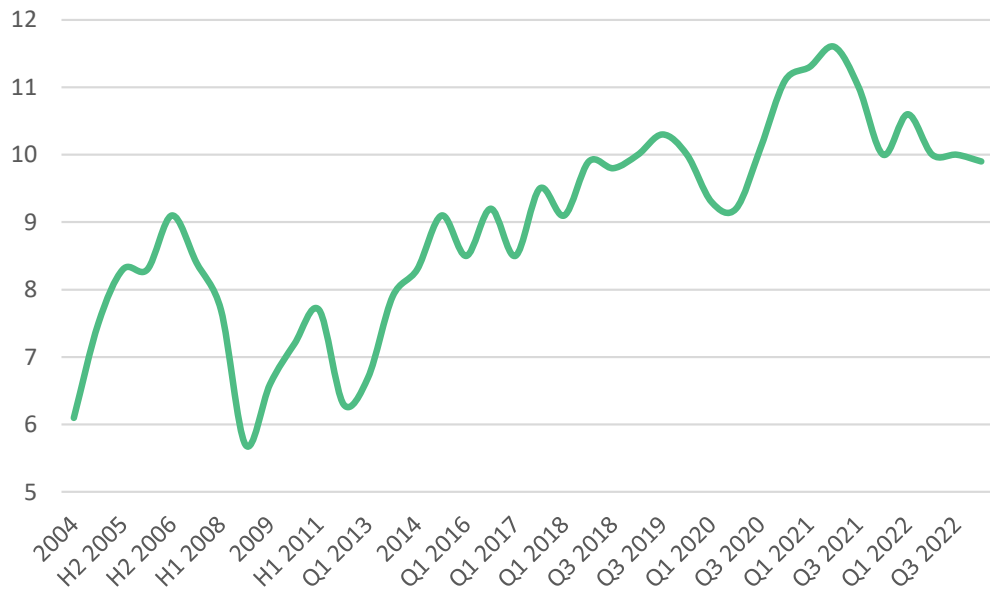
Research from Harvard, Bain & Company, EY and McKinsey all point in the same direction: M&A done during downturns outperform. 2008 deal volume dipped almost 30% in 2008-2009 versus the peak in 2007. Similarly, we expect deal volume to dip in 2023 vs. the peak in 2021. 2022 already showed a first decline but was still inflated. Combined with lower deal volume, multiples dipped in 2008 resulting in impressive returns in the years to follow for those who pursued M&A. Something similar could well be possible in 2023. Luxempart is well-positioned to profit from this.

Exhibit 1 Global M&A Deal Activity in USD bn 2000-2015



Source: EY & Dealogic

Exhibit 2 Average mid-market EV/EBITDA multiple 2004-2022



Source: Argos

The company also confirmed this idea in its outlook by saying:

“We see in this respect our historically high cash situation as very favorable, as it confers a solid security buffer to face tougher times, while allowing us to benefit from attractive opportunities both in new investments as well as in external growth opportunities for our existing portfolio companies.”

François Tesch, Chairman of the Board, will leave his position and yield it to François Gillet who is also member of the Executive Committee at Sofina. He will likely be able to provide insightful experience about private funds as well as Xavier Coirbay who will also be proposed to join the Board and also sit on the Executive Committee of Sofina.

Our view: Investment case remains strong

We estimate today's NAV to be EUR 110.3 p/s, implying a discount of ~33%, quite elevated compared to both the historical average of 30% and our target discount of 15%. As a reminder, we believe Luxempart's discount will decline thanks to its improved communication and transparency and (hopefully) improving liquidity over time. The latter can be achieved through a combination of a secondary listing in Brussels and the increase of its free float.

After updating our model, we slightly lower our target range to EUR 85-103 p/s vs. EUR 86-105 before. This provides 17-40% of upside. This remains attractive vs. the average upside in our investment company coverage of 15%. We continue to believe that Luxempart is an excellent opportunity for investors willing to partner up with a stable (family) shareholdership with a long-term vision.

Exhibit 3 NAV 23/03/2023				
Participations	Spot value (€m)	Per share	% of GAV	12m Target
Direct Investments (Listed)	238.0	11.8	13%	259.5
Direct Investments (Private)	1,243.0	61.8	66%	1,392.2
of which Foyer (DPe)	543.3	27.0	29%	592.1
Investment Funds	396.4	19.7	21%	440.0
Gross Asset Value (GAV)	1,877.5	93.3	100%	2,091.7
Net cash	341.1	17.0		341.1
Net Asset Value (NAV)	2,218.6	110.3		2,432.8
per share	110.3			120.9
Share price	73.5			
	Current	Hist. average	Target	
Discount	-33%	-30%	-15%	
Target range in EUR		85	103	

Source: Degroof Petercam

Source: Luxempart/Degroof Petercam estimates

Commissioned Research

Degroof Petercam is commissioned by this company to publish research and is paid for this service.

Disclosures

None.

Rating system & Valuation methods

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Report completion and updates

This report was first disseminated by Degroof Petercam on 24 March 2023 08:40 CET

Valuations are continuously reviewed by the analyst and will be updated and/or refreshed regularly. The rationale behind a change in target valuation will be explained in such a refresher/update.

An overview of the research published on this company can be found on our website:

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This report has not been reviewed by the company prior to publication.

The report has been reviewed by Kris Kippers, Equity Analyst.

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