

Indus Holding

Q3 with slightly better underlying

Indus reported a Q3 roughly in line with expectations with €436m revenue being up 1% y/y and 4% above consensus and €36.6m EBIT before impairments 1% above consensus. While the segments Construction and Engineering were ahead of our estimates, the €17.5m EBIT loss in Automotive (incl. €12.5m impairments as communicate earlier) was even worse than we had expected (€-12.0m). However, the major conclusion from our call with management is that by far the major part of the c.€5m underlying losses in the segment were contributed by restructuring and other charges (we estimate almost €5m) which should fall away in 2020. Thus, at first glance, we expect a material improvement in Indus' Automotive earnings going into 2020 relative to 2019. However, our back-of-the-envelope calculations still point to moderate low- to mid single digit percentage downside to 2020 BBG EBIT consensus. With the share trading at c. 9x EV/EBIT 2020, we remain neutral.

Table 1 - Q3 overview

€m except for EPS	Q3 19	CB Q3 19E	Δ	Con.Q3 19	Δ	Q3 18	y/y
Sales	436	432	1%	419	4%	430	1%
EBIT before imp.	36.6	38.9	-6%	36.1	1%	39.9	-8%
Margin	5.5%	6.1%		8.6%		9.3%	

Commerzbank, company data

2019 guidance reiterated

The guidance was reiterated. It is for €1.72bn to €1.77bn sales, in line with consensus and our estimate at the mid point and for €116m to €122m EBIT after €12.5m Automotive-impairments, €129m to €135m before, including a €16.5m one off gain from a disposal communicated earlier. Thus the clean EBIT guidance, before impairments and one off gains, is for €113m to €119. While this is clearly not reflected in the €145m Bloomberg consensus, we think that respective downside for the share is limited since Indus has communicated the Automotive problems in two warnings already.

Low- to mid-single digit downside to 2020 consensus

After a call with management, we conclude that by far the major part of the c.€5m underlying losses in Automotive as of Q3 were contributed by restructuring and other charges (we estimate almost almost €5m for Q3 and c.€12m ytd.) which should phase out in 2020. Thus we expect a material improvement in Indus' Automotive earnings going into 2020 relative to 2019. However, our back-of-the-envelope calculations still point to a low- to mid-single digit downside to consensus' €148m and our current €145m 2020 EBIT estimates, burdened in particular by Automotive while however further upside from Construction and Engineering looks limited.

Automotive and consensus downside to weigh on the share

We think exposure to Automotive will continue to trigger uncertainty even assuming that restructuring starts to bear fruit. We think that a solution is unlikely to be found in the foreseeable future. With the 2020 Bloomberg EBIT consensus having some low- to mid single digit percentage downside while the share is trading at c. 9x EV/EBIT 2020, we remain neutral.

Key Financials

Year End Dec (€ m)	2017A	2018A	2019E	2020E	2021E	2022E
Revenue	1,641	1,711	1,756	1,760	1,761	1,771
EBITDA	215	234	224	235	246	249
EBIT	153	151	138	149	160	163
EV/EBITDA (x)	5.8	5.6	6.1	5.5	5.1	4.8
EV/EBIT (x)	8.2	8.7	9.9	8.8	7.8	7.3
DPS	1.50	1.50	1.60	1.60	1.75	1.85
Div yield (%)	4.0	4.0	4.3	4.3	4.7	5.0
Net debt	304	356	419	351	295	237
Net debt/EBITDA (x)	1.4	1.5	1.9	1.5	1.2	1.0

Source Commerzbank Research, Bloomberg, Company Information

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14 November 2019

Hold
TP €38.00
CP €37.10

(Closing 13 November 2019)

Key information

Expected performance	2.4%
1M / 3M performance:	(1.5%) / 10.7%
Market Cap (m)	€907
Bloomberg:	INH GY
EV (CURm)	1,332
Shares outstanding (m)	24
Equity Free Float	74.8%
Dly trading vol (last 3-mth) (CURm)	0.8
Consensus recommendation	4.4
(5=Buy)	

Source: Commerzbank Research, Bloomberg

Relative and absolute performance (12M)



Source: Bloomberg

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Automotive remains the weak spot, Engineering/Construction better

The source of weakness in Q3 was again the Automotive segment. Here, the €84m sales were down 14% y/y and 2% below our estimate. EBIT incl. impairments in the segment was €-17,5m, -€5m when stripping out impairments, thus underlying losses incl. restructuring expenses were c. €5m worse than we had expected. For us, the positive surprise in Q3 reporting was in particular Engineering with €111m sales, 12% above our estimate and up 19% y/y and a €13.2m EBIT, 20% above our estimate. We assume that PoC effects were a material contributor here. Construction was also a material driver at €104m sales, up 5% y/y, 2% short of estimate while the segment's €19.2m EBIT beat our expectations by 6%. The op. cash flow of €82m is ahead of our €38m estimate, mainly on NWC.

Table 2 - Q3 review

€m except for EPS	Q3 19	CB Q3 19E	Δ	Con.Q3 19	Δ	Q3 18	y/y	Q2 19	q/q
Sales	436	432	1%	419	4%	430	1%	439	-1%
Construction / Infra.	104	106	-2%			99	5%	104	0%
Engineering	111	99	12%			93	19%	98	13%
Automotive	84	86	-2%			98	-14%	91	-7%
Metals Technology	98	101	-3%			102	-4%	105	-7%
Medical / Life Science	39	39	0%			38	5%	41	-3%
EBIT before imp.	36.6	38.9	-6%	36	1%	39.9	-8%	32.9	11%
Adj. EBIT	20.1	22.4	-10%			39.9	-50%	32.9	-39%
EBIT	24.1	26.4	-9%			39.9	-39%	32.9	-27%
Construction / Infra.	19.2	18.0	6%			17.4	10%	17.9	7%
Engineering	13.2	11.0	20%			10.5	25%	10.0	32%
Automotive	-17.5	-12.0	46%			1.2	-1624%	-5.3	n.m.
Metals Technology	7.1	7.2	-2%			5.9	19%	7.7	-8%
Medical / Life Science	4.9	4.7	3%			4.2	16%	5.3	-8%
Margin	5.5%	6.1%		8.6%		9.3%		7.5%	
Construction / Infra.	18.4%	17.0%				17.5%		17.1%	
Engineering	11.9%	11.1%				11.4%		10.1%	
Automotive	-20.8%	-14.0%				1.2%		-5.8%	
Metals Technology	7.2%	7.1%				5.8%		7.3%	
Medical / Life Science	12.4%	12.0%				11.2%		13.0%	
Net income	12.8	14.0	-8%	21	-39%	22.6	-43%	17.5	-27%
EPS	0.48	0.57	-17%	0.86	-44%	0.92	-48%	0.72	-33%

Commerzbank, company data

Balance Sheet

Year End Dec (€ m)	2017A	2018A	2019E	2020E	2021E	2022E
Cash	136	110	117	125	131	139
Trade receivables	198	203	208	208	211	213
Inventories	339	409	400	383	383	385
Other WC assets	27	31	31	31	31	31
Intangible assets	86	91	91	91	91	91
PP&E	397	418	537	533	530	526
Goodwill	429	419	419	419	419	419
Financial assets	19	17	17	18	18	19
Other assets	11	13	13	13	13	14
Total assets	1,653	1,720	1,843	1,831	1,838	1,847
Account payables	66	66	67	68	68	68
Other WC liabilities	280	291	295	295	295	296
Financial debt	440	466	536	476	426	376
Pension provisions	44	44	45	45	45	45
Other Provisions	75	75	72	74	78	84
Other liabilities	0	0	0	0	0	0
Total liabilities	979	1,010	1,086	1,029	982	940
Share Capital	64	64	64	64	64	64
Addl paid-in capital	0	0	0	0	0	0
Treasury shares	0	0	0	0	0	0
Equity & liabilities	1,653	1,720	1,843	1,831	1,838	1,847
Minority interest	3	3	3	3	3	3
Total equity	671	707	754	800	853	905

Source Commerzbank Research, Bloomberg, Company Information

Profit and Loss

Year End Dec (€ m)	2017A	2018A	2019E	2020E	2021E	2022E
Revenue	1,641	1,711	1,756	1,760	1,761	1,771
Material expenses	(746)	(812)	(807)	(814)	(809)	(813)
Gross profit	895	899	949	946	952	958
Other income/expenses	(210)	(217)	(190)	(195)	(190)	(190)
EBIT rep.	153	135	154	149	160	163
Adjustments	0	(16)	17	0	0	0
EBIT adj.	153	151	138	149	160	163
EBITDA rep.	215	218	240	235	246	249
Financial result	(24)	(20)	(19)	(18)	(18)	(17)
EBT rep.	129	115	135	130	142	146
Tax	(46)	(44)	(51)	(45)	(49)	(51)
Minorities	(1)	(0)	(0)	(0)	(0)	(0)
EAT rep.	82	71	84	85	92	95

Source Commerzbank Research, Bloomberg, Company Information

KPI

Year End Dec (€ m)	2017A	2018A	2019E	2020E	2021E	2022E
Revenues	1,641	1,711	1,756	1,760	1,761	1,771
EBITDA	215	234	224	235	246	249
EBIT	153	151	138	149	160	163
EBT	129	131	119	130	142	146
Free cash flow	14	(24)	55	107	96	101
EPS rep.	3.37	2.90	3.42	3.46	3.77	3.87
Net financial debt	304	356	419	351	295	237
Net economic debt	453	544	598	531	475	418
Net financial debt/EBITDA (x)	1.4	1.5	1.9	1.5	1.2	1.0

Source Commerzbank Research, Bloomberg, Company Information

Cash Flow

Year End Dec (€ m)	2017A	2018A	2019E	2020E	2021E	2022E
EBIT as rep.	153	135	154	149	160	163
Operating Cash Flow	124	75	179	190	179	183
Invest. cash flow	(110)	(98)	(124)	(83)	(83)	(82)
Free Cash Flow	14	(24)	55	107	96	101
Dividend payment	(33)	(37)	(37)	(39)	(39)	(43)
Free Cash Flow (after dividend)	(19)	(60)	18	68	57	58
Increase / (decrease) in debt	31	58	(10)	(60)	(50)	(50)
Net change in cash	9	(26)	8	8	6	8
Beginning cash	127	136	110	117	125	131
Ending cash	136	110	117	125	131	139

Source Commerzbank Research, Bloomberg, Company Information

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Indus Holding AG (INH GY)



Rating and PT Changes:

Company Name	Covering Analyst	Rating	Previous Rating	Price Target	Previous PT	Closing Price	Change Date
Indus Holding AG	Norbert Kretlow	Hold	Hold	€38.00	€48.00	€32.05	16/8/2019
Indus Holding AG	Norbert Kretlow	Hold	Buy	€48.00	€50.00	€46.05	5/4/2019
Indus Holding AG	Norbert Kretlow	Buy	-	€50.00	-	€43.30	27/3/2019

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Source: Commerzbank Research

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