

Indus Holding

Restructuring starts to materialise

Final Q2 sales and EBIT (reported last week) were in line with preliminary data (€373m sales, down 15% y/y; (€34m EBIT)). As expected, all segments except for Construction were weak. Last week's Q2 conference call and management's indication at yesterday's AGM confirm our positive view on streamlining measures announced in July which Indus indicates to contribute a >100bp margin swing in 2021. We update our forecasts, now including announced streamlining cost (€41m in Q2 on EBIT level) and weaker than expected underlying business, forecasting €69m adj. EBIT 2020 when stripping out all one offs (down from €113m) and €21m reported EBIT based on €1,565m sales (up 4%). This is roughly in line with the €1.45-€1.6bn sales and €0-€20m reported EBIT guidance. We raise our adj. EBIT forecasts 2021-23 by 5%-10%, mainly on Indus' restructuring efforts now gaining pace but we see limited upside to BBG consensus, sitting 9%/2% below for 2021/22 (2023 is not meaningful). We raise our target price to €30 from €25 based on our higher estimates and our new c.10x target EV/EBIT for 2021 (old: 9x) which however leaves limited upside for now. Thus we reiterate our Hold recommendation.

Table 1 - Q2 2020 review

€m	Prel Q2	Q2 20	CB Q2E	Δ	Con.	Δ	Q2 19	y/y	Q1 20	q/q
Sales	373	373	361	3%	n.m.	n.m.	439	-15%	401	-7%
Construction / Infra.		106	101	4%			104	1%	93	13%
Engineering		82	78	5%			98	-17%	84	-3%
Automotive		54	59	-9%			91	-41%	79	-32%
Metals Technology		100	85	18%			105	-5%	106	-5%
Medical / Life Science		32	39	-17%			41	-21%	39	-18%
Adj. EBIT	9.8E	6.2	9.6	-36%			32.9	-81%	16.0	-62%
EBIT before imp.	3.6	3.6	-2.9	n/a			32.9	-89%	16.0	-78%
EBIT	-34.3	-34.3	-34.5	n/a	n.m.	n.m.	32.9	n/a	16.0	n/a
Construction / Infra.		20.7	18.4	12%			17.9	16%	15.5	33%
Engineering		1.5	1.1	42%			10.0	-85%	2.6	-42%
Automotive		-50.9	-52.3	n/a			-5.3	n/a	-12.0	n/a
Metals Technology		-4.2	-2.4	n/a			7.7	n/a	9.0	n/a
Medical / Life Science		1.0	2.7	-65%			5.3	-82%	3.1	-70%
Margin	4.0%	4.0%	-9.6%				7.5%		4.0%	
Construction / Infra.		19.6%	18.2%				17.1%		16.6%	
Engineering		1.8%	1.4%				10.1%		3.1%	
Automotive		-94.8%	-88.8%				-5.8%		-15.2%	
Metals Technology		-4.1%	-2.9%				7.3%		8.4%	
Medical / Life Science		3.0%	7.1%				13.0%		8.1%	
Net income	-48	-47.7	-36.5	n/a			17.5	n/a	8.4	n/a

Source: Commerzbank, company data

2020 dividend is a big question

We cut our 2020 dividend forecast to €0.40 from €0.90. This implies an optically high payout ratio of 160% vs. our €0.25 EPS forecast. Though we think that uncertainty regarding the dividend is high, we do not expect an even tougher cut to the €0.80 payout for 2019 since Indus' payout targets are based on FCF which we expect to benefit from Capex cuts and lower NWC given the drop in sales. Our forecast implies 12% payout of FCF vs. a c. 50% target.

Key Financials

Year End Dec (€ m)	2017A	2018A	2019A	2020E	2021E	2022E
Revenue	1,641	1,711	1,743	1,565	1,581	1,617
EBITDA	215	226	222	110	164	190
EBIT	153	158	132	69	122	146
EBITA adj.	0	0	0	0	0	0
EV/EBIT (x)	7.2	7.3	9.3	16.8	9.0	7.4
DPS	1.50	1.50	0.80	0.40	1.15	1.50
Div yield (%)	4.8	4.8	2.6	1.3	3.7	4.8
Net debt	304	356	411	350	286	265
Net fin. debt/EBITDA (x)	1.4	1.6	1.9	3.2	1.8	1.4

Source: Commerzbank Research, Bloomberg, Company Information

14 August 2020

Hold
TP €30.00 (from €25.00)
CP €30.95[^]
 (Closing 13 August 2020)

Key information

Expected performance	(3.1)%
1M / 3M performance:	2.8% / 14.6%
Market Cap (m)	€757
Bloomberg:	INH GY
EV (CURm)	1,332
Shares outstanding (m)	24
Equity Free Float	74.8%
Consensus rec (5=Buy)	4.3

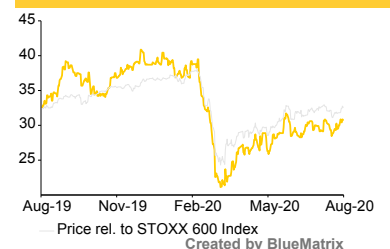
Source: Commerzbank Research, Bloomberg

ESG / Global Compact Scores

GC-Score Total	51.9
ESG-Score Total	45.7
ESG-Score Environment	50.5
ESG-Score Social	53.9
ESG-Score Governance	35.3

Source: Commerzbank Research, Bloomberg, powered by Arabesque S-Ray

Relative and absolute performance (12M)



Source: Bloomberg

Changes in estimates

€(m)	2020n	2020o	2021n	2021o
Revenues	1,565	1,506	1,581	1,513
EBIT	69	100	122	116
EPS	0.25	1.84	2.24	2.33

Source: Commerzbank Research, Bloomberg, Company Information

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We raise adj. EBIT 2021-23E by 5% to 10%, 2020 down 40%**Table 2 - Changed estimates 2020E - 2023E**

€m except for EPS/DPS	2020			2021			2022			2023		
	old	new	Δ	old	new	Δ	old	new	Δ	old	new	Δ
Sales	1,506	1,565	3.9%	1,521	1,581	3.9%	1,567	1,617	3.2%	1,620	1,666	2.8%
Construction / Infra.	366	395	8.0%	372	399	7.2%	389	413	6.2%	406	427	5.1%
Engineering	366	360	-1.8%	365	392	7.5%	387	405	4.4%	412	423	2.5%
Automotive	271	255	-5.8%	277	249	-10.0%	267	248	-7.3%	261	249	-4.6%
Metals Technology	347	403	16.2%	346	380	9.8%	357	386	8.2%	368	395	7.2%
Medical / Life Science	156	152	-2.6%	161	160	-0.2%	166	166	-0.2%	172	172	-0.2%
Adj. EBIT E	113.4	69.1	-39.0%	116.7	122.1	4.6%	134.3	146.2	8.9%	153.1	168.4	10.0%
Margin	7.5%	4.4%		7.7%	7.7%		8.6%	9.0%		9.4%	10.1%	
Total one offs	-13.0	-48.0		-10.0	-20.0		0.0	-12.5		0.0	0.0	
Restructuring exp. E	-13.0	-5.1		-10.0	-20.0		-5.0	-12.5		0.0	0.0	
Other one off exp. E	0.0	0.0		0.0	0.0		0.0	0.0		0.0	0.0	
EBIT ex. impairments	87.4	64.0	-26.8%	106.7	102.1	-4.4%	129.3	133.7	3.5%	153.1	168.4	10.0%
EBIT margin ex. imp	5.8%	4.1%		7.0%	6.5%		8.3%	8.3%		9.4%	10.1%	
Impairments	0.0	-42.9		0.0	0.0		0.0	0.0		0.0	0.0	
EBIT as reported	87.4	21.1	-75.8%	106.7	102.1	-4.4%	129.3	133.7	3.5%	153.1	168.4	10.0%
Construction / Infra.	52.7	71.0	34.7%	54.0	71.5	32.5%	58.1	74.4	28.0%	62.6	78.4	25.3%
Engineering	30.0	15.5	-48.2%	29.6	28.2	-4.7%	35.6	32.4	-9.1%	44.6	39.9	-10.5%
Automotive	-22.6	-86.5	282.3%	-8.5	-29.7	250.8%	1.5	-10.2	-791.0%	9.2	10.5	13.9%
Metals Technology	18.2	16.4	-10.1%	21.6	24.3	12.6%	23.3	27.6	18.4%	25.2	29.1	15.4%
Medical / Life Science	16.2	13.7	-14.9%	17.7	16.6	-6.4%	18.7	18.7	-0.1%	19.8	19.7	-0.1%
Margin	5.8%	1.4%		7.0%	6.5%		8.3%	8.3%		9.4%	10.1%	
Construction / Infra.	14.4%	18.0%		14.5%	17.9%		15.0%	18.0%		15.4%	18.4%	
Engineering	8.2%	4.3%		8.1%	7.2%		9.2%	8.0%		10.8%	9.4%	
Automotive	-8.3%	-33.9%		-3.1%	-11.9%		0.6%	-4.1%		3.5%	4.2%	
Metals Technology	5.3%	4.1%		6.2%	6.4%		6.5%	7.2%		6.9%	7.4%	
Medical / Life Science	10.4%	9.1%		11.0%	10.4%		11.3%	11.3%		11.5%	11.5%	
Net income	44.9	6.1	-86.5%	57.3	54.8	-4.3%	71.6	74.9	4.5%	86.8	97.1	11.9%
EPS	1.84	0.25	-86.5%	2.34	2.24	-4.3%	2.93	3.06	4.5%	3.55	3.97	11.9%
DPS	0.90	0.40	-55.6%	1.15	1.15	0.0%	1.50	1.50	0.0%	1.50	1.50	0.0%

Source: Commerzbank estimates

Our forecasts compared to consensus**Table 3 - Commerzbank estimates 2019-23 vs. consensus**

€m*	Con20E	CB20E	Δ	Con21E	CB21E	Δ	Con22E	CB22E	Δ	Con23E	CB23E	Δ
Revenue	1,511	1,565	4%	1,610	1,581	-2%	1,692	1,617	-4%	1,743	1,666	-4%
EBIT	43	21	-51%	112	102	-9%	137	134	-2%	125	168	35%
margin	2.9%	1.4%		6.9%	6.5%		8.1%	8.3%		7.2%	10.1%	
EPS	0.29	0.25	-13%	2.43	2.24	-8%	3.08	3.06	0%	n.a.	3.97	
DpS	0.66	0.40	-39%	1.09	1.15	5%	1.46	1.50	3%	n.a.	1.50	

Source: Commerzbank estimates, BBG consensus, *except for EPS/DPS

Table 4 - Peer group valuation: INDUS HLDG AG - C

Company	Price (LC)	MCap. (LC m)	EV/SALES			EV/EBITDA			EV/EBIT			PE		
			2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E
Construction / Infrastructure														
GEBERIT AG-REG	406.50	15,057	5.1x	4.9x	4.8x	17.7x	16.9x	16.3x	20.3x	19.4x	18.6x	23.6x	22.1x	21.4x
STEICO SE	23.40	330	1.4x	1.2x	1.1x	7.9x	6.2x	5.9x	12.3x	11.0x	10.1x	14.8x	13.2x	12.4x
STO SE & CO.-PFD	83.00	569	0.4x	0.4x	0.4x	4.3x	4.1x	n/a	5.8x	5.4x	4.9x	8.3x	7.7x	n/a
UZIN UTZ AG	44.50	224	0.8x	0.7x	0.7x	6.6x	6.3x	n/a	9.6x	9.1x	8.7x	11.2x	10.8x	n/a
Median I			1.1x	1.0x	0.9x	7.2x	6.3x	11.1x	10.9x	10.1x	9.4x	13.0x	12.0x	16.9x
Average I			1.9x	1.8x	1.7x	9.1x	8.4x	11.1x	12.0x	11.2x	10.6x	14.5x	13.5x	16.9x
Engineering and Metals Technology														
AALBERTS NV	20.73	2,292	1.1x	1.1x	1.1x	7.3x	6.2x	6.2x	14.0x	10.4x	10.4x	12.3x	9.2x	9.1x
DUERR AG	18.05	1,249	0.4x	0.4x	0.4x	4.4x	3.9x	4.0x	6.4x	5.5x	5.4x	9.1x	7.5x	7.2x
HEIDELBERG DRUCK	0.57	173	0.3x	0.3x	0.3x	5.2x	3.1x	2.4x	n/a	17.6x	7.8x	568.5x	n/a	5.6x
MAX AUTOMATION S	2.83	83	0.5x	0.5x	0.5x	5.2x	4.6x	3.9x	10.6x	8.9x	6.6x	6.7x	6.2x	4.6x
Median II			0.5x	0.4x	0.5x	5.2x	4.2x	4.0x	10.6x	9.6x	7.2x	10.7x	7.5x	6.4x
Average II			0.6x	0.5x	0.6x	5.5x	4.4x	4.1x	10.4x	10.6x	7.5x	149.2x	7.7x	6.6x
Automotive														
BERTRANDT AG	30.55	310	0.5x	0.5x	0.4x	5.2x	4.4x	3.9x	8.7x	7.8x	7.3x	11.4x	7.8x	6.9x
EDAG ENGINEERING	8.38	210	0.6x	0.6x	0.6x	4.8x	4.2x	3.4x	13.8x	10.8x	8.6x	10.2x	7.6x	5.2x
ELRINGKLINGER AG	3.94	250	0.5x	0.5x	0.5x	5.7x	4.8x	4.4x	17.5x	11.8x	9.8x	6.5x	7.8x	5.4x
NORMA GROUP SE	16.42	523	0.9x	0.9x	0.9x	5.4x	4.7x	4.4x	7.9x	6.8x	6.7x	7.9x	6.4x	5.9x
SAF-HOLLAND SE	3.53	160	0.4x	0.4x	0.4x	5.0x	3.8x	5.1x	11.8x	7.2x	6.9x	5.7x	3.6x	4.5x
SHW AG	12.25	79	0.4x	0.4x	n/a	8.0x	4.8x	n/a	n/a	48.6x	13.3x	n/a	144.1x	n/a
Median III			0.5x	0.5x	0.5x	5.3x	4.5x	4.4x	11.8x	9.3x	8.0x	7.9x	7.7x	5.4x
Average III			0.6x	0.5x	0.6x	5.7x	4.5x	4.2x	11.9x	15.5x	8.8x	8.3x	29.6x	5.6x
Medical Engineering / Life Science														
FIELMANN AG	51.05	4,288	2.8x	2.6x	2.5x	12.2x	10.9x	10.7x	18.2x	15.8x	14.9x	26.4x	23.0x	21.6x
SMITH & NEPHEW	1,422.50	12,441	3.3x	3.1x	2.9x	9.1x	8.1x	7.6x	14.9x	13.1x	12.3x	17.2x	15.1x	14.0x
DRAEGERWERK-PREF	88.50	1,347	0.5x	0.5x	0.5x	8.0x	7.4x	6.6x	13.8x	12.2x	10.1x	26.9x	23.2x	17.9x
GERRESHEIMER AG	57.95	1,820	1.9x	1.8x	1.7x	9.5x	8.6x	7.9x	18.3x	15.7x	13.6x	14.2x	12.4x	11.0x
Median II			2.4x	2.2x	2.1x	9.3x	8.3x	7.7x	16.6x	14.4x	12.9x	21.8x	19.1x	16.0x
Average II			2.1x	2.0x	1.9x	9.7x	8.8x	8.2x	16.3x	14.2x	12.7x	21.2x	18.4x	16.1x
Total Median			0.6x	0.6x	0.6x	6.2x	4.8x	5.1x	13.0x	10.9x	9.2x	11.4x	9.2x	7.2x
Total Average			1.2x	1.1x	1.2x	7.3x	6.3x	6.2x	12.8x	13.2x	9.8x	45.9x	19.3x	10.2x
INDUS HLDG AG - C	30.30	741	0.8x	0.8x	0.8x	8.8x	6.6x	5.5x	18.8x	10.1x	8.3x	121.8x	13.5x	9.9x
<i>relative (+ Premium / - Discount)</i>			42%	41%	28%	42%	36%	9%	44%	-8%	-10%	972%	46%	38%
INDUS HLDG AG - C @PT	30.00	734	0.8x	0.8x	0.7x	8.7x	6.6x	5.5x	18.6x	10.0x	8.2x	120.6x	13.4x	9.8x
<i>relative (+ Premium / - Discount)</i>			41%	40%	27%	41%	36%	8%	43%	-8%	-11%	961%	45%	36%

Source: Commerzbank Research, Bloomberg, Share prices as of 14 August 2020, 1:00 p.m.

Profit and Loss

Year End Dec (€ m)	2017A	2018A	2019A	2020E	2021E	2022E
Revenue	1,641	1,711	1,743	1,565	1,581	1,617
Material expenses	(746)	(812)	(782)	(748)	(713)	(713)
Gross profit	895	899	960	817	867	904
Other income/expenses	(210)	(223)	(195)	(185)	(192)	(192)
EBIT rep.	153	128	114	21	102	134
Adjustments	0	(30)	(17)	(48)	(20)	(13)
EBIT adj.	153	158	132	69	122	146
EBITDA rep.	215	212	222	148	187	220
Financial result	(24)	(14)	(19)	(11)	(13)	(12)
EBT rep.	129	115	96	10	89	122
Tax	(46)	(44)	(39)	(4)	(34)	(46)
Minorities	(1)	(0)	(1)	(0)	(1)	(1)
EAT rep.	82	71	56	6	55	75

Source: Commerzbank Research, Bloomberg, Company Information

Balance Sheet

Year End Dec (€ m)	2017A	2018A	2019A	2020E	2021E	2022E
Cash	136	110	135	231	244	216
Trade receivables	198	203	203	219	190	194
Inventories	339	409	381	342	346	354
Other WC assets	27	31	31	31	31	31
Intangible assets	86	91	101	101	101	101
PP&E	397	418	431	339	348	366
Goodwill	429	419	415	415	415	415
Financial assets	19	17	9	10	11	12
Other assets	11	13	95	95	95	96
Total assets	1,653	1,720	1,808	1,791	1,789	1,792
Account payables	66	66	56	50	51	52
Other WC liabilities	280	291	288	274	275	278
Financial debt	440	466	546	581	531	481
Pension provisions	44	44	53	53	53	55
Other Provisions	75	75	76	64	64	64
Other liabilities	0	0	0	0	0	0
Total liabilities	979	1,010	1,080	1,077	1,030	986
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	1,808	1,791	1,789	1,792
Minority interest	3	3	2	2	2	2
Total equity	671	707	726	712	758	804

Source: Commerzbank Research, Bloomberg, Company Information

Cash Flow

Year End Dec (€ m)	2017A	2018A	2019A	2020E	2021E	2022E
EBIT as rep.	153	128	114	21	102	134
Operating Cash Flow	124	75	147	137	168	153
Invest. cash flow	(110)	(98)	(76)	(55)	(94)	(103)
Dividend payment	(33)	(37)	(37)	(20)	(10)	(28)
Free Cash Flow (after dividend)	(19)	(60)	34	62	64	22
Increase / (decrease) in debt	31	58	(6)	35	(50)	(50)
Net change in cash	9	(26)	25	96	13	(29)
Beginning cash	127	136	110	135	231	244
Ending cash	136	110	135	231	244	216

Source: Commerzbank Research, Bloomberg, Company Information

KPI

Year End Dec (€ m)	2017A	2018A	2019A	2020E	2021E	2022E
Revenues	1,641	1,711	1,743	1,565	1,581	1,617
EBITDA	215	226	222	110	164	190
EBIT	153	158	132	69	122	146
EBT	129	145	113	58	109	135
Free cash flow	14	(24)	71	81	74	50
EPS rep.	3.37	2.90	2.43	0.25	2.24	3.06
Net financial debt	304	356	411	350	286	265
Net economic debt	453	544	628	556	493	473
Net financial debt/EBITDA (x)	1.4	1.6	1.9	3.2	1.8	1.4

Source: Commerzbank Research, Bloomberg, Company Information

In accordance with ESMA MAR requirements this report was completed 14/8/2020 15:36 CEST and disseminated 14/8/2020 15:36 CEST.

Indus Holding AG (INH GY)



Distribution of ratings:

Number of recommendations from Commerzbank Research, at the end of Q2 2020	thereof recommendations for issuers to which investment banking services were provided during the preceding twelve months
86 (40.38%) Buy	31 (36.05%)
98 (46.01%) Hold	19 (19.39%)
29 (13.62%) Reduce	6 (20.69%)

Source: Commerzbank Research

^ Prior trading day's closing price unless otherwise noted. Company name: Indus Holding AG; Exchange: XETRA

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