



Indus Holding

Hidden momentum

Following Indus' release of final 2017 earnings and after looking into the details, we conclude that one-off headwinds from FX and restructuring were higher than we had estimated. We now forecast higher restructuring effects for 2018, lowering our EBIT forecasts by 2% while we lift our respective forecast by 4% for 2019 in particular based on our assumption of higher underlying earnings. Our updated forecast brings us 2% below consensus for EBIT 2018 but 3% ahead for 2019. Based on lower peer multiples our target price moves to €66 (from: €78). We reiterate our Buy recommendation where we expect that the market will start looking through 2018 restructuring headwinds.

Stronger headwinds in 2017 Following the analyst presentation hosted on 28 March, we estimate that FX and restructuring headwinds were somewhat stronger in 2017 than we had anticipated, estimating that the underlying margin would have been 10.3% (old: 10.0%) compared to a reported 9.3% when stripping out both effects.

Restructuring burdening 2018 We now forecast higher restructuring costs to phase into 2018. In the Automotive segment redundancies should trigger a material share of related expenses. In the Metal processing segment, we now expect restructuring to eat somewhat deeper into earnings. As a result, we forecast only a meagre 30pbs margin progression for 2018 year-over-year to 9.6% (old: 10.0%).

Margin recovery in 2019 Based on our estimate for higher underlying earnings in 2017, we now forecast that the margin recovery potential for 2019 and onwards is higher than previously expected. We forecast a 10.5% EBIT-margin for 2019/20 (old: 10.3%/10.4%), lifting our EBIT estimates by 4%. Our updated forecast brings us 2% below Bloomberg consensus for EBIT 2018 but 3% ahead for 2019. The 2020 Bloomberg consensus is not meaningful.

Management changes On Friday 23 March, Indus announced that CEO Jürgen Abromeit will not extend his contract, leaving the company by end of 2018. Dr. Johannes Schmidt will take over the chair. At the analyst presentation, we felt confirmed in our original assumption that Indus' entire strategic set-up is supported by Dr. Schmidt. As a result, we continue to expect no material strategic changes. We would not be surprised to see the recently more cautious acquisition strategy continued (on elevated price levels) continued while the focus on efficiency gains might be sharpened.

Key financial and valuation metrics

| Year-end Dec | 2015 | 2016 | 2017 | 2018E | 2019E | 2020E | CAGR 2017-20E |
|---------------------|-------|-------|-------|-------|-------|-------|---------------|
| Sales rep. (€m) | 1,389 | 1,444 | 1,641 | 1,689 | 1,708 | 1,727 | 1.7 % |
| EBITDA adj. (€m) | 186 | 201 | 215 | 226 | 243 | 246 | 4.6 % |
| EBITDA rep. (€m) | 186 | 201 | 215 | 226 | 243 | 246 | 4.6 % |
| EBITA adj. (€m) | 136 | 146 | 154 | 162 | 179 | 181 | 5.7 % |
| EBITA margin | 9.8% | 10.1% | 9.4% | 9.6% | 10.5% | 10.5% | |
| EBITA rep. (€m) | 136 | 146 | 154 | 162 | 179 | 181 | |
| FCF pre-div (€m) | 18.2 | 10.1 | 14.0 | 56.4 | 81.8 | 99.7 | 91.9 % |
| FCF yield | 1.7% | 0.9% | 0.9% | 4.1% | 5.9% | 7.2% | |
| EPS rep. (€) | 2.78 | 3.27 | 3.37 | 3.65 | 4.15 | 4.29 | 8.1 % |
| EPS adj. (€) | 2.78 | 3.27 | 3.37 | 3.65 | 4.11 | 4.21 | 7.4 % |
| DPS (€) | 1.20 | 1.35 | 1.50 | 1.60 | 1.75 | 1.80 | 5.3 % |
| EV/Sales (x) | 1.0 | 1.1 | 1.2 | 1.1 | 1.0 | 1.0 | |
| EV/EBITDA (x) | 7.7 | 7.6 | 9.0 | 8.0 | 7.3 | 7.0 | |
| EV/EBITA (x) | 10.5 | 10.5 | 12.6 | 11.2 | 9.9 | 9.5 | |
| P/E (x) | 15.5 | 14.1 | 18.0 | 15.6 | 13.9 | 13.5 | |
| Div yield | 2.8% | 2.9% | 2.5% | 2.8% | 3.1% | 3.2% | |
| Net debt (€m) | 384 | 406 | 443 | 425 | 384 | 329 | |
| Net debt/EBITDA (x) | 2.1 | 2.0 | 2.1 | 1.9 | 1.6 | 1.3 | |

Sources: Company data, Commerzbank Research

3 April 2018

Buy
TP €66 (from €78)
CP €56.90
 (Closing 29 March 2018)

Key information

| | |
|-----------------------------------|-----------------|
| Expected performance | 16.0% |
| Volatility (60d, realized) | 18.1% |
| 1M / 3M performance | (0.7%) / (5.3%) |
| Bloomberg / Reuters: | INH GY, INHG.DE |
| Market cap (€m) | 1,391 |
| EV (€m) | 1,775 |
| Shares outstanding (m) | 24.5 |
| Free float | 74.2% |
| Dly trading vol (last 3-mth) (€m) | 1.3 |

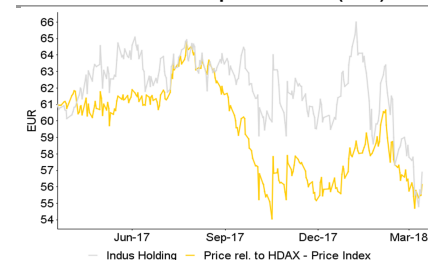
Source: Commerzbank Research

Changes in estimates

| €m | 2018o | 2018n | 2019o | 2019n |
|----------|-------|-------|-------|-------|
| Sales | 1,650 | 1,689 | 1,668 | 1,708 |
| EBITA | 165 | 162 | 172 | 179 |
| EPS adj. | 3.73 | 3.65 | 4.02 | 4.11 |

Source: Commerzbank Research

Relative and absolute performance (12M)



Source: Bloomberg

Company events

| Date | Event |
|-------------|-------------|
| 15 May 2018 | Q1 earnings |
| 24 May 2018 | AGM |

Sources: Bloomberg, Company data, Commerzbank Research

Shareholder structure

| Major shareholders | Stake |
|-----------------------------|-------|
| Versicherungskammer Bayern | 19.4% |
| Hans Joachim Selzer et. al. | 6.4% |

Sources: Bloomberg, Company data, Commerzbank Research

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Changed estimates

TABLE 1: Changed estimates overview

| €m except for EPS/DPS | 2017E | 2017r | chg. | 2018o | 2018n | chg. | 2019o | 2019n | chg. | 2020o | 2020n | chg. |
|------------------------------------|---------------|---------------|-------------|---------------|---------------|--------------|---------------|---------------|-------------|---------------|---------------|-------------|
| Sales | 1600.7 | 1640.6 | 2.5% | 1650.4 | 1689.0 | 2.3% | 1668.4 | 1708.3 | 2.4% | 1687.1 | 1727.4 | 2.4% |
| Construction / Infrastructure | 322.9 | 330.4 | 2.3% | 340.6 | 344.9 | 1.3% | 351.8 | 356.2 | 1.3% | 363.3 | 367.9 | 1.3% |
| Engineering | 359.5 | 375.1 | 4.3% | 380.5 | 394.6 | 3.7% | 388.1 | 402.5 | 3.7% | 395.9 | 410.6 | 3.7% |
| Automotive | 386.1 | 394.1 | 2.1% | 389.6 | 400.7 | 2.8% | 381.8 | 392.6 | 2.8% | 374.2 | 384.8 | 2.8% |
| Metal / Metal Processing | 380.5 | 385.6 | 1.3% | 384.3 | 387.5 | 0.8% | 388.2 | 391.4 | 0.8% | 392.1 | 395.3 | 0.8% |
| Med. Eng. / Life Science | 151.6 | 155.2 | 2.4% | 155.4 | 161.3 | 3.8% | 158.5 | 165.5 | 4.4% | 161.7 | 168.8 | 4.4% |
| EBITDA | 215.0 | 215.3 | 0.1% | 227.6 | 225.7 | -0.8% | 235.1 | 243.3 | 3.5% | 238.7 | 246.1 | 3.1% |
| EBIT before PPA | 163.7 | 163.7 | 0.0% | 176.8 | 173.0 | -2.2% | 183.8 | 190.0 | 3.4% | 186.8 | 192.2 | 2.9% |
| EBIT | 152.2 | 152.9 | 0.4% | 165.2 | 162.2 | -1.9% | 172.2 | 179.2 | 4.0% | 175.2 | 181.4 | 3.5% |
| Construction / Infrastructure | 46.9 | 49.4 | 5.4% | 49.5 | 51.8 | 4.6% | 51.7 | 52.9 | 2.3% | 53.9 | 54.3 | 0.6% |
| Engineering | 52.8 | 53.5 | 1.4% | 56.2 | 56.5 | 0.7% | 57.7 | 57.1 | -1.0% | 59.2 | 58.6 | -1.0% |
| Automotive | 13.1 | 14.7 | 12.0% | 14.4 | 13.6 | -5.9% | 15.4 | 21.8 | 41.7% | 13.7 | 20.1 | 46.8% |
| Metal / Metal Processing | 27.9 | 24.2 | -13.4% | 30.3 | 24.7 | -18.5% | 32.1 | 31.2 | -2.8% | 32.4 | 31.5 | -2.8% |
| Med. Eng. / Life Science | 19.4 | 20.8 | 7.0% | 22.4 | 24.1 | 7.4% | 23.0 | 24.9 | 8.1% | 23.7 | 25.6 | 8.0% |
| Margin | 9.5% | 9.3% | | 10.0% | 9.6% | | 10.3% | 10.5% | | 10.4% | 10.5% | |
| Construction / Infrastructure | 14.5% | 15.0% | | 14.5% | 15.0% | | 14.7% | 14.8% | | 14.8% | 14.8% | |
| Engineering | 14.7% | 14.3% | | 14.8% | 14.3% | | 14.9% | 14.2% | | 15.0% | 14.3% | |
| Automotive | 3.4% | 3.7% | | 3.7% | 3.4% | | 4.0% | 5.5% | | 3.7% | 5.2% | |
| Metal / Metal Processing | 7.3% | 6.3% | | 7.9% | 6.4% | | 8.3% | 8.0% | | 8.3% | 8.0% | |
| Med. Eng. / Life Science | 12.8% | 13.4% | | 14.4% | 14.9% | | 14.5% | 15.0% | | 14.6% | 15.1% | |
| Net income after minorities | 82.3 | 82.3 | 0.0% | 91.2 | 89.2 | -2.2% | 99.2 | 101.4 | 2.2% | 104.1 | 104.9 | 0.7% |
| EPS | 3.37 | 3.37 | 0.0% | 3.73 | 3.65 | -2.2% | 4.06 | 4.15 | 2.2% | 4.26 | 4.29 | 0.7% |
| DPS | 1.50 | 1.50 | 0.0% | 1.60 | 1.60 | 0.0% | 1.70 | 1.75 | 2.9% | 1.75 | 1.80 | 2.9% |
| Payout ratio | 44.5% | 44.5% | | 42.9% | 43.9% | | 41.9% | 42.2% | | 41.1% | 42.0% | |

Source: Company data, Commerzbank Research

CBK vs. BBG consensus

TABLE 2: CBK vs. BBG consensus

| €m | 2018E | 2019E | 2020E |
|-----------------|--------------|--------------|--------------|
| Sales | 1689.0 | 1708.3 | 1727.4 |
| Sales Consensus | 1693.4 | 1746.6 | 1822.0 |
| Diff. | -0.3% | -2.2% | -5.2% |
| EBIT | 162.2 | 179.2 | 181.4 |
| EBIT Cons. | 165.6 | 174.3 | 172.0 |
| Diff. | -2.1% | 2.8% | 5.5% |
| EPS | 3.65 | 4.15 | 4.29 |
| EBIT Cons. | 3.77 | 4.02 | 3.81 |
| Diff. | -3.3% | 3.1% | 12.6% |

Source: Commerzbank Research, Bloomberg data

Target price moves to €66 from €78

Based on lower peer multiples our target price moves to €66 (from: €78).

We think that the Indus share lost some tailwind from the now more cautious acquisition activity which we consider prudent in the currently 'hot' M&A environment. We think that this factor, combined with restructuring headwinds and an easing macroeconomic environment as reflected e.g. in the German ifo-Index, explains the major part of the recent share price weakness. The market should start looking through 2018 restructuring headwinds and price margin upside for 2019 and 2020, as we believe.

TABLE 3: Sum-of-the-parts valuation

| Multiples based on share prices as of 3 April 2018 | Ev/EBIT 2018 | Ev/EBIT 2019 | Ev/EBIT 2020 |
|--|--------------|--------------|--------------|
| Panel Construction / Infrastructure | | | |
| Peer average | 12.6 | 11.3 | 11.8 |
| EBIT Construction / Infrastructure | 51.8 | 52.9 | 54.3 |
| Fair value (€m) | 654.7 | 595.0 | 641.7 |
| Panel Engineering | | | |
| Peer Average | 13.0 | 11.2 | 10.1 |
| EBIT Engineering | 56.5 | 57.1 | 58.6 |
| Fair value (€m) | 734.9 | 639.7 | 589.3 |
| Panel Automotive | | | |
| Peer Average | 10.6 | 9.4 | 8.6 |
| EBIT Automotive | 13.6 | 21.8 | 20.1 |
| Fair value (€m) | 143.6 | 203.6 | 172.2 |
| Panel Metal / Metal Processing | | | |
| Peer Average | 13.0 | 11.2 | 10.1 |
| EBIT Metal / Metal Processing | 24.7 | 31.2 | 31.5 |
| Fair value (€m) | 320.6 | 349.5 | 316.5 |
| Panel Medical Engineering / Life Science | | | |
| Peer Average | 20.6 | 16.8 | 14.7 |
| EBIT Medical Engineering / Life Science | 24.1 | 24.9 | 25.6 |
| Fair value (€m) | 497.1 | 419.3 | 376.8 |
| Overhead/Reconciliation | | | |
| Peer Multiple - Average | 14.0 | 12.0 | 11.0 |
| EBIT Overhead/Reconciliation | -8.5 | -8.6 | -8.7 |
| Fair value (€m) | -118.8 | -102.9 | -96.0 |
| EV (€m) | 2232 | 2104 | 2001 |
| Adjusted net debt | -495 | -464 | -414 |
| Net debt | -380 | -338 | -282 |
| Provisions for pensions | -45 | -46 | -46 |
| Minorities | -100 | -110 | -116 |
| Financial assets | 19 | 19 | 19 |
| At equity shareholdings | 11 | 11 | 11 |
| Fair value of equity (€m) | 1737 | 1640 | 1587 |
| Fair value of equity per share (€) | 71 | 67 | 65 |
| Target price (€) | 71 | 67 | 65 |

Source: Bloomberg peer data, Commerzbank Research

TABLE 4: Financials

| Balance Sheet (€m) | 2016 | 2017 | 2018E | 2019E | 2020E | CAGR 2017-20E |
|--|---------------|---------------|--------------|--------------|--------------|---------------|
| Property, plant & equipment | 369 | 397 | 421 | 439 | 444 | 3.8% |
| Intangible fixed assets | 74.3 | 86.5 | 86.5 | 86.5 | 86.5 | 0.0% |
| Goodwill | 409 | 429 | 429 | 429 | 429 | |
| Total operating fixed assets | 852 | 912 | 936 | 954 | 959 | 1.7% |
| Net working capital | 252 | 241 | 253 | 259 | 264 | 3.1% |
| as a % of sales | 17.4% | 14.7% | 15.0% | 15.1% | 15.3% | |
| Operating invested capital | 1,104 | 1,153 | 1,190 | 1,213 | 1,222 | 2.0% |
| ROIC (%) | 9.8% | 9.8% | 10.0% | 10.7% | 10.7% | |
| IC/sales (x) | 0.8 | 0.7 | 0.7 | 0.7 | 0.7 | |
| Investments | 17.6 | 19.2 | 19.2 | 19.2 | 19.2 | 0.0% |
| Capital employed | 1,122 | 1,172 | 1,209 | 1,232 | 1,241 | 1.9% |
| ROCE | 9.6% | 9.6% | 9.8% | 10.6% | 10.6% | |
| Cash and cash equivalents | 127 | 136 | 135 | 137 | 143 | 1.7% |
| Interest-bearing liabilities | 504 | 535 | 515 | 475 | 425 | (7.4%) |
| Interest-bearing provisions | 29.0 | 44.0 | 45.3 | 45.8 | 46.3 | 1.7% |
| Net debt | 406 | 443 | 425 | 384 | 329 | (9.5%) |
| Total equity | 645 | 674 | 726 | 789 | 851 | 8.1% |
| Equity Ratio | 42.4% | 40.8% | 42.9% | 45.9% | 49.1% | |
| ROE | 13.0% | 12.6% | 12.9% | 13.4% | 12.7% | |
| Total assets | 1,522 | 1,653 | 1,692 | 1,717 | 1,732 | 1.6% |
| Income Statement (€m) | 2016 | 2017 | 2018E | 2019E | 2020E | CAGR 2017-20E |
| Sales | 1,444 | 1,641 | 1,689 | 1,708 | 1,727 | 1.7% |
| growth y/y | 4.0% | 13.6% | 2.9% | 1.1% | 1.1% | |
| Operating expenses | 1,243 | 1,425 | 1,463 | 1,465 | 1,481 | 1.3% |
| Gross margin | 37.3% | 36.8% | 37.0% | 37.6% | 37.6% | |
| EBITDA | 201 | 215 | 226 | 243 | 246 | 4.6% |
| as a % of sales | 13.9% | 13.1% | 13.4% | 14.2% | 14.2% | |
| Depreciation and intangible amortisation | 55.3 | 61.7 | 63.5 | 64.1 | 64.7 | 1.6% |
| EBITA | 146 | 154 | 162 | 179 | 181 | 5.7% |
| as a % of sales | 10.1% | 9.4% | 9.6% | 10.5% | 10.5% | |
| Impairments | 0.7 | 0.8 | 0.0 | 0.0 | 0.0 | |
| EBIT | 145 | 153 | 162 | 179 | 181 | |
| as a % of sales | 10.1% | 9.4% | 9.6% | 10.5% | 10.5% | |
| Net interest result | (21.6) | (23.7) | (23.8) | (23.3) | (22.3) | (1.2%) |
| PBT | 123 | 129 | 138 | 156 | 159 | 7.1% |
| Tax expense | (43.0) | (46.1) | (48.4) | (54.6) | (55.3) | 6.4% |
| Adjustment | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Tax rate | 34.8% | 35.7% | 35.0% | 35.0% | 34.8% | |
| Net profit from continuing operations | 80.4 | 83.1 | 90.0 | 101 | 104 | 7.4% |
| as a % of sales | 5.6% | 5.1% | 5.3% | 5.9% | 6.0% | |
| Minorities | (0.4) | (0.7) | (0.8) | (0.9) | (0.9) | |
| Net income attributable to shareholders | 80.0 | 82.3 | 89.2 | 101 | 105 | 8.1% |
| Cash Flow Statement (€m) | 2016 | 2017 | 2018E | 2019E | 2020E | CAGR 2017-20E |
| Operating cash flow | 115 | 124 | 144 | 164 | 169 | 10.7% |
| as a % of sales | 7.9% | 7.6% | 8.5% | 9.6% | 9.8% | |
| Gross capex | (70.0) | (79.0) | (87.8) | (82.0) | (69.1) | (4.4%) |
| Asset disposals | 3.7 | 3.9 | 0.0 | 0.0 | 0.0 | |
| Net financial investments | (8.3) | (2.5) | 0.0 | 0.0 | 0.0 | |
| Net acquisitions | (29.9) | (32.4) | 0.0 | 0.0 | 0.0 | |
| Gross capex as a % of sales | 4.8% | 4.8% | 5.2% | 4.8% | 4.0% | |
| Gross capex as a % of depreciation | 126.5% | 128.1% | 138.3% | 127.9% | 106.8% | |
| Free cash flow | 10.1 | 14.0 | 56.4 | 81.8 | 99.7 | 91.9% |
| as a % of sales | 0.7% | 0.9% | 3.3% | 4.8% | 5.8% | |
| Dividends | (29.3) | (33.0) | (36.7) | (39.1) | (42.8) | |
| Free cash flow (post dividend) | (19.6) | (20.5) | 18.9 | 41.7 | 56.0 | |
| Increase / (decrease) in debt | 14.8 | 30.6 | (20.0) | (40.0) | (50.0) | |
| Increase / (decrease) in equity | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Other financing cash flows | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| FX effects | (0.2) | (1.4) | 0.0 | 0.0 | 0.0 | |
| Other items | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Change in cash | (5.0) | 8.7 | (1.1) | 1.7 | 6.0 | |

Source: Commerzbank Research

Indus Holding price chart



Source: Commerzbank Research

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|--|---|
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| 103 (50.5%) Hold | 5 (4.9%) |
| 20 (9.8%) Sell/Reduce | 3 (15.0%) |

Source: Commerzbank Research

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