

# Indus Holding

## Weak Q1 and cautious outlook

Q1 revenue was €438m, up 7% y/y on strong organic growth and 5% above consensus (4% above CB). The €33.6m EBIT is 5% below consensus (4% below CB) at a weak 7.7% margin, down c. 100bps y/y and 80bps below consensus, 60bps below CB. The op. cash flow of €-15m is below our €7m estimate on NWC. Automotive and Engineering were the key drivers behind the EBIT miss, mitigated by a better than expected performance in Construction/Infrastructure. Based on Q1, Indus now points to the lower end of its €156m to €162m EBIT guidance, which it still says is “very ambitious” (LTM EBIT Q1: €150m excl. impairments). At first glance we see low to mid single digit downside to the €162m consensus, so we reiterate our Hold recommendation.

### Q1 results review

€/€	Q1 2019	CB Q1 2019E	Δ	Cons Q1 2019	Δ	Q1 2018	y/y	Q4 2018	q/q
Sales	438	420	4%	415	5%	408	7%	436	0%
EBIT	33.6	34.9	-4%	35.4	-5%	35.4	-5%	18.6	81%
Margin	7.7%	8.3%		8.5%		8.7%		4.3%	
Net income	19.9	19.2	4%	19.5	2%	19.9	0%	5.1	287%
EPS	0.81	0.78	3%	0.80		0.81	0%	0.21	285%

Source: Commerzbank Research, company collected consensus

**Weak Automotive...** The source of weakness in Q1 was again Automotive. Sales of €93m were down 5% y/y on lower demand in series and 3% below our estimate, EBIT was €0.2m, down from €2.4m y/y and €1.2m below our estimate. While there is a chance for recovery in H2, We think that the exposure to series supply will continue to trigger uncertainty until a solution is found, which we do not expect in the next three to six months.

**...and margin pressure** We also consider the margin development in the segments Metals Engineering and Metal processing weak. While sales in Engineering were up 23% y/y at €109m, beating our estimates by 12%, EBIT of €12.8m is 11% short of our estimate. In a y/y comparison, the incremental sales came at a c. 0% incremental margin. Indus names projects as cause of this development. We expect these burdens to be transitory. In Metals Technology, €108m sales were in line with our estimates, up 2% y/y at a €8.6m EBIT, in line with our estimates on increasing input cost (in particular tungsten used in hard metal tools). Overall, the segment Construction/Infrastructure remains the only driver at €87m sales (up 13% yy and 5% above CB) and a €10.0m EBIT (15% above CB; margin up 140bps yy).

### Key financial and valuation metrics

Year-end Dec	2016	2017	2018	2019E	2020E	2021E	CAGR 2018-21E
Sales rep. (€m)	1,444	1,641	1,711	1,740	1,783	1,785	1.4 %
EBITDA rep. (€m)	201	215	218	235	245	245	4.0 %
EBITA adj. (€m)	146	154	151	157	164	165	3.1 %
EBITA margin	10.1%	9.4%	8.8%	9.0%	9.2%	9.3%	
EBITA rep. (€m)	146	154	151	157	164	0.0	
FCF pre-div (€m)	10.1	14.0	(23.7)	91.5	99.2	90.2	n.a.
FCF yield	0.9%	0.9%	(1.8%)	8.3%	9.0%	8.1%	
EPS rep. (€)	3.27	3.37	2.90	3.41	3.79	3.85	9.9 %
DPS (€)	1.35	1.50	1.50	1.70	1.75	1.80	6.3 %
EV/Sales (x)	1.1	1.2	1.1	1.0	0.9	0.9	
EV/EBITDA (x)	7.6	9.1	8.8	7.4	6.8	6.4	
EV/EBITA (x)	10.5	12.7	12.7	11.0	10.2	9.4	
P/E (x)	14.1	18.0	15.2	13.3	12.0	11.8	
Div yield	2.9%	2.5%	2.8%	3.7%	3.9%	4.0%	
Net debt (€m)	406	470	592	620	565	450	
Net debt/EBITDA (x)	2.0	2.2	2.7	2.6	2.3	1.8	

Sources: Company data, Commerzbank Research

For important disclosure information please see pages 4 and 6.

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14 May 2019

**Hold**  
**TP €48**  
**CP €44.65**  
 (Closing 13 May 2019)

### Key information

Expected performance	7.5%
Volatility (60d, realized)	18.1%
1M / 3M performance	(2.0%) / 6.1%
Bloomberg / Reuters:	INH GY, INHG.DE
Market cap (€m)	1,109
EV (€m)	1,674
Shares outstanding (m)	24.5
Free float	74.2%
Dly trading vol (last 3-mth) (€m)	0.8

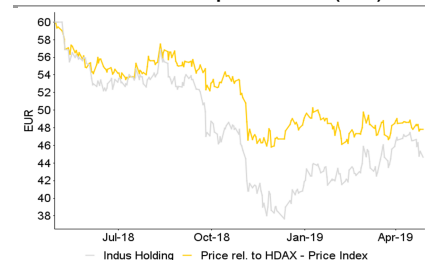
Source: Commerzbank Research, Bloomberg

### Changes in estimates

€m	2019o	2019n	2020o	2020n
Sales	1,740	-	1,783	-
EBITA	157	-	164	-
EPS	3.41	-	3.79	-

Source: Commerzbank Research

### Relative and absolute performance (12M)



Source: Bloomberg

### Company events


Date	Event
13 August 2019	Q2 earnings
14 November 2019	Q3 earnings

Sources: Bloomberg, Company data, Commerzbank Research

### Shareholder structure

Major shareholders	Stake
Versicherungskammer Bayern	19.4%
Hans Joachim Selzer at. al.	6.4%

Sources: Bloomberg, Company data, Commerzbank Research



**THANK YOU  
for voting**

**for Commerzbank in the  
EXTEL SURVEY 2019 !**

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## Q1 results review

TABLE 1: Q1 results review

€m/€	Q1 2019	CB Q1 2019E	Δ	Cons Q1 2019	Δ Q1 2018	y/y	Q4 2018	q/q	Comment	
<b>Sales</b>	<b>438</b>	<b>420</b>	<b>4%</b>	<b>415</b>	<b>5%</b>	<b>408</b>	<b>7%</b>	<b>436</b>	<b>0%</b>	<b>7% org. growth</b>
Construction / Infra.	87	82	5%			77	13%	87	-1%	contr. Boom above exp.
Engineering	109	97	12%			89	23%	112	-2%	driven by auto projects
Automotive	93	95	-3%			98	-5%	96	-4%	drop in series supply
Metals Technology	108	109	-1%			106	2%	101	7%	growth in line
Medical / Life Science	41	39	4%			39	5%	39	5%	
<b>EBIT</b>	<b>33.6</b>	<b>34.9</b>	<b>-4%</b>	<b>35.4</b>	<b>-5%</b>	<b>35.4</b>	<b>-5%</b>	<b>18.6</b>	<b>81%</b>	<b>up on Q4 due to imp. then</b>
Construction / Infra.	10.0	8.7	15%			7.8	28%	9.4	6%	constr. boom drives margin
Engineering	12.8	14.4	-11%			12.5	2%	19.1	-33%	burdens from low marg. projects
Automotive	0.2	1.4	-86%			2.4	-92%	-9.7	-102%	weak series supply
Metals Technology	8.6	8.5	1%			11.4	-24%	-0.1	-6377%	input cost headwinds
Medical / Life Science	3.8	4.0	-4%			3.8	1%	4.7	-20%	weakness in surgicals
<b>Margin</b>	<b>7.7%</b>	<b>8.3%</b>		<b>8.5%</b>		<b>8.7%</b>		<b>4.3%</b>		
Construction / Infra.	11.5%	10.6%				10.1%		10.8%		
Engineering	11.7%	14.8%				14.1%		17.0%		
Automotive	0.2%	1.5%				2.4%		-10.1%		
Metals Technology	7.9%	7.8%				10.7%		-0.1%		
Medical / Life Science	9.3%	10.1%				9.6%		12.2%		
<b>Net income</b>	<b>19.9</b>	<b>19.2</b>	<b>4%</b>	<b>19.5</b>	<b>2%</b>	<b>19.9</b>	<b>0%</b>	<b>5.1</b>	<b>287%</b>	
<b>EPS</b>	<b>0.81</b>	<b>0.78</b>	<b>3%</b>	<b>0.80</b>		<b>0.81</b>	<b>0%</b>	<b>0.21</b>	<b>285%</b>	

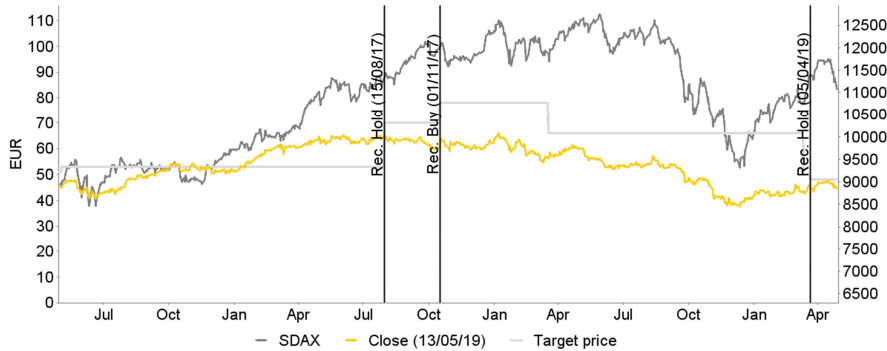
Source: Commerzbank Research, company collected consensus

TABLE 2: Financials

Balance Sheet (€m)	2017	2018	2019E	2020E	2021E	CAGR 2018-21E
Property, plant & equipment	397	418	503	507	511	6.9%
Intangible fixed assets	86.5	90.8	90.8	90.8	90.8	0.0%
Goodwill	429	419	419	419	419	
<b>Total operating fixed assets</b>	<b>912</b>	<b>928</b>	<b>1,013</b>	<b>1,016</b>	<b>1,020</b>	<b>3.2%</b>
Net working capital	241	338	327	320	321	(1.7%)
as a % of sales	14.7%	19.8%	18.8%	18.0%	18.0%	
<b>Operating invested capital</b>	<b>1,153</b>	<b>1,266</b>	<b>1,340</b>	<b>1,337</b>	<b>1,341</b>	<b>1.9%</b>
<b>ROIC (%)</b>	<b>9.8%</b>	<b>9.0%</b>	<b>8.7%</b>	<b>8.8%</b>	<b>8.9%</b>	
IC/sales (x)	0.7	0.7	0.8	0.7	0.8	
Investments	19.2	16.6	16.6	16.6	16.6	0.0%
<b>Capital employed</b>	<b>1,172</b>	<b>1,283</b>	<b>1,357</b>	<b>1,353</b>	<b>1,358</b>	<b>1.9%</b>
<b>ROCE</b>	<b>9.6%</b>	<b>8.8%</b>	<b>8.5%</b>	<b>8.7%</b>	<b>8.8%</b>	
Cash and cash equivalents	136	110	134	141	128	5.4%
Interest-bearing liabilities	535	592	642	592	532	(3.5%)
Interest-bearing provisions	44.0	43.7	44.4	45.5	45.6	1.4%
<b>Net debt</b>	<b>470</b>	<b>592</b>	<b>620</b>	<b>565</b>	<b>450</b>	<b>(8.8%)</b>
thereof pension provisions	n.a.	n.a.	n.a.	n.a.	n.a.	
<b>Total equity</b>	<b>674</b>	<b>710</b>	<b>756</b>	<b>808</b>	<b>859</b>	<b>6.6%</b>
<b>Equity Ratio</b>	<b>41.4%</b>	<b>42.9%</b>	<b>43.1%</b>	<b>45.9%</b>	<b>47.1%</b>	
<b>ROE</b>	<b>12.6%</b>	<b>12.6%</b>	<b>11.4%</b>	<b>11.9%</b>	<b>11.3%</b>	
<b>Total assets</b>	<b>1,626</b>	<b>1,654</b>	<b>1,753</b>	<b>1,759</b>	<b>1,822</b>	<b>3.3%</b>
Income Statement (€m)	2017	2018	2019E	2020E	2021E	CAGR 2018-21E
<b>Sales</b>	<b>1,641</b>	<b>1,711</b>	<b>1,740</b>	<b>1,783</b>	<b>1,785</b>	<b>1.4%</b>
growth y/y	13.6%	4.3%	1.7%	2.5%	0.1%	
Operating expenses	1,425	1,492	1,505	1,538	1,540	1.0%
Gross margin	36.8%	35.8%	36.6%	36.8%	36.8%	
<b>EBITDA</b>	<b>215</b>	<b>218</b>	<b>235</b>	<b>244</b>	<b>245</b>	<b>4.0%</b>
as a % of sales	13.1%	12.8%	13.5%	13.7%	13.7%	
Depreciation and intangible amortisation	61.7	83.7	78.5	80.0	80.1	(1.4%)
<b>EBITA</b>	<b>154</b>	<b>151</b>	<b>157</b>	<b>164</b>	<b>165</b>	<b>3.1%</b>
as a % of sales	9.4%	8.8%	9.0%	9.2%	9.3%	
Impairments	0.8	-0.0	0.0	0.0	0.0	
<b>EBIT</b>	<b>153</b>	<b>151</b>	<b>157</b>	<b>164</b>	<b>165</b>	
as a % of sales	9.4 %	8.8 %	9.0 %	9.2 %	9.3 %	
Net interest result	(23.7)	(20.0)	(21.8)	(21.7)	(20.4)	0.7%
Result from participations	0.0	0.0	0.0	0.0	0.0	
Other financial result	0.0	0.0	0.0	0.0	0.0	
Adjustments	0.0	0.0	0.0	0.0	0.0	
<b>PBT</b>	<b>129</b>	<b>131</b>	<b>135</b>	<b>143</b>	<b>145</b>	<b>3.4%</b>
Tax expense	(46.1)	(43.5)	(51.1)	(49.6)	(50.3)	5.0%
Adjustment	0.0	0.0	0.0	0.0	0.0	
<b>Tax rate</b>	<b>35.7%</b>	<b>33.3%</b>	<b>37.9%</b>	<b>34.8%</b>	<b>34.8%</b>	
Net profit from continuing operations	83.1	87.3	83.7	93.1	94.5	2.7%
as a % of sales	5.1%	5.1%	4.8%	5.2%	5.3%	
Minorities	(0.7)	(0.3)	(0.4)	(0.4)	(0.4)	
<b>Net income attributable to shareholders</b>	<b>82.3</b>	<b>87.0</b>	<b>83.3</b>	<b>92.7</b>	<b>94.1</b>	<b>2.6%</b>
Cash Flow Statement (€m)	2017	2018	2019E	2020E	2021E	CAGR 2018-21E
<b>Operating cash flow</b>	<b>124</b>	<b>74.7</b>	<b>175</b>	<b>183</b>	<b>174</b>	<b>32.6%</b>
as a % of sales	7.6%	4.4%	10.1%	10.3%	9.8%	
Gross capex	(79.0)	(90.9)	(83.5)	(83.8)	(83.9)	(2.6%)
Asset disposals	3.9	5.5	0.0	0.0	0.0	
Net financial investments	(2.5)	(1.4)	0.0	0.0	0.0	
Net acquisitions	(32.4)	(11.5)	0.0	0.0	0.0	
Gross capex as a % of sales	4.8%	5.3%	4.8%	4.7%	4.7%	
Gross capex as a % of depreciation	128.1%	108.6%	106.4%	104.7%	104.8%	
<b>Free cash flow</b>	<b>14.0</b>	<b>(23.7)</b>	<b>91.5</b>	<b>99.2</b>	<b>90.2</b>	<b>n.a.</b>
as a % of sales	0.9%	(1.4%)	5.3%	5.6%	5.1%	
Dividends	(33.0)	(36.7)	(36.7)	(41.6)	(42.8)	
<b>Free cash flow (post dividend)</b>	<b>(20.5)</b>	<b>(83.9)</b>	<b>54.4</b>	<b>57.2</b>	<b>47.0</b>	
Increase / (decrease) in debt	30.6	57.5	(30.0)	(50.0)	(60.0)	
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	(1.4)	0.1	0.0	0.0	0.0	
Other items	0.0	0.0	0.0	0.0	0.0	
<b>Change in cash</b>	<b>8.7</b>	<b>(26.2)</b>	<b>24.4</b>	<b>7.2</b>	<b>(13.0)</b>	

Source: Commerzbank Research

## Indus Holding price chart



Source: Commerzbank Research

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100 (43.7%) Buy	13 (13.0%)
99 (43.2%) Hold	14 (14.1%)
30 (13.1%) Sell/Reduce	2 (6.7%)

Source: Commerzbank Research

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