



Indus Holding AG

Construction and Medtech performing

20/08/2019

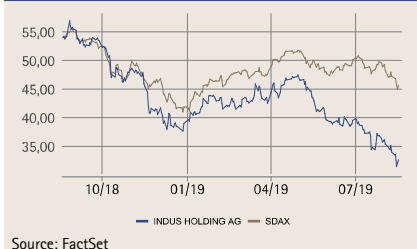
Buy (Buy)
50.00 EUR (56.00 EUR)

Close 16/08/2019 32.65 EUR
 Bloomberg: INH GY WKN: 620010
 Sector Industrials

Share price performance

52 week high / low 56.90 / 31.45 EUR
 YTD -16.3%
 12 months -39.0%

Share price vs. SDAX



Next event

Quarterly Results 14/11/2019

Change in model

	Sales	EBIT	EPS
2019e	-0.3%	-8.2%	-8.9%
2020e	-1.7%	-7.5%	-8.3%
2021e	-1.7%	-5.7%	-5.9%

Share data

Market Cap (m EUR) 798.3
 No. of shares (m) 24.5
 Free float 71.8%

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See end of document for disclaimer.

We have adjusted our earnings estimates after the H1 results and the reduction of the company's guidance, which now includes the gain from the sale of a JV stake. We are sticking to our BUY rating as we think that the share price reaction is by far overdone given the diversification of the company with its shining segments Construction and Medtech.

INVESTMENT CASE

We have reduced our EBIT forecast for Indus from € 166.1 m to € 152.4 m, due to the weaker-than-expected result in Q2, mainly affecting the Automotive segment, but also due to lower expectations for H2. Indus reduced its EBIT guidance (which included the € 16.5 m gain from the sale of a stake in JV) to € 152-158 m.

Due to the lower level of earnings in H2 and the deterioration of the global economy we have also reduced our expectations for 2020 and 2023. The reduction is due to reduced contributions from the segments Automotive, Metals and Engineering. It is mitigated slightly by higher expectations for the Construction and to a minor extent for the Medtech segment.

Due to the good performance of a company from the Engineering segment, there was a higher burden to the financial result from minorities. Our net profit estimate is therefore also affected. We think that this company will continue to perform in 2020 and 2021 as well.

CATALYSTS

- Interim results
- Portfolio additions

VALUATION

We based our price target on a DCF valuation model. Due to the reduced estimates, we arrive at a new price target of € 50.00.

in m EUR	2017	2018	2019e	2020e	2021e
Sales	1,641	1,711	1,741	1,776	1,841
EBIT	152.9	134.7	152.4	148.0	159.0
EBIT margin	9.3%	7.9%	8.8%	8.3%	8.6%
Net financial debt	398.9	482.7	564.0	544.7	553.1
Free cash flow	14.0	-23.6	48.9	56.8	28.3
EPS (in EUR)	3.37	2.90	3.69	3.32	3.58
DPS (in EUR)	1.50	1.50	1.50	1.50	1.60
Dividend yield	2.5%	3.8%	4.6%	4.6%	4.9%
EV/sales	1.2	0.9	0.8	0.8	0.8
EV/EBIT	12.4	11.0	9.2	9.4	8.8
P/E	17.7	13.4	8.8	9.8	9.1

Source: Company information, Bankhaus Lampe Research estimates

Party pooper Automotive

We have reduced our earnings expectations specifically for the Automotive segment, which posted a higher loss (by about € 5 m) than we had expected in Q2. We do not see a significant recovery in H2, so this segment will probably start the new year at a low level.

Hard metal suffering

Indus reported also a lower-than-expected contribution in the Metal segment (€ 7.7 m vs. BHL€ 9.5 m), primarily resulting from weaker business with hard metal tools and the mining industry. Due to the global slowdown of the economy, we also believe this segment will end 2019 at a lower-than-expected earnings level.

Changed estimates for segmental contribution

€ m	2018		2019E		2020E		2021E	
			new	old	new	old	new	old
Construction								
Sales	358.7		382.7	367.7	385.4	373.2	391.2	378.8
EBIT	45.8		56.3	52.2	54.0	52.1	55.1	53.2
Margin (%)	12.8%		14.7%	14.2%	14.0%	14.0%	14.1%	14.0%
Engineering								
Sales	387.0		414.3	422.3	414.6	430.6	420.8	437.1
EBIT	52.2		48.7	52.8	48.3	56.8	51.7	58.3
Margin (%)	13.5%		11.8%	12.5%	11.6%	13.2%	12.3%	13.3%
Automotive								
Sales	391.0		363.9	366.9	362.1	368.7	363.9	378.6
EBIT	-4.3		7.8	16.7	0.6	4.2	2.7	5.9
Margin (%)	-1.1%		2.1%	4.6%	0.2%	1.1%	0.7%	1.6%
MedTech								
Sales	154.3		160.6	157.4	164.6	161.3	168.7	165.4
EBIT	17.3		18.4	16.9	17.8	17.5	18.1	17.7
Margin (%)	11.2%		11.5%	10.7%	10.8%	10.8%	10.7%	10.7%
Metal								
Sales	420.0		413.3	426.3	409.2	432.7	415.3	439.2
EBIT	28.3		29.4	35.7	34.3	36.3	34.8	36.9
Margin (%)	6.7%		7.1%	8.4%	8.4%	8.4%	8.4%	8.4%
Acquisitions								
Sales			6.0	6.0	40.6	40.6	81.2	81.2
EBIT			0.6	0.6	4.3	4.3	8.9	8.9
Margin (%)			10.0%	10.0%	10.6%	10.6%	11.0%	11.0%
Consolidation								
EBIT	-4.6		-8.8	-8.8	-11.3	-11.3	-12.3	-12.3

Source: Company information, Bankhaus Lampe Research

More cautious on Engineering

We have also reduced our expectations in the Engineering segment. The EBIT here was some € 3 m less than we expected. However, the company expressed confidence that the lower end of guidance (EBIT margin 12-14%) can still be reached as the order backlog is still high. In particular, the larger subsidiaries are continuing to perform well. Nevertheless, we have become more cautious for 2020 and 2021.

Construction brilliant

The Construction segment was brilliant and posted extraordinarily high sales and profitability boosted by a good business with air conditioning products. Here we expect earnings to be higher at the end of the year. In addition, the smallest segment Medtech showed an improvement in margins and sales.

Valuation

Valuation is based on a DCF model

We have reduced our price target for Indus Holding AG by € 6.00 to € 50.00 due to the reduction in earnings estimates resulting primarily from the weaker-than-expected development in the Automotive segment.

DCF MODEL

Our DCF model is based on detailed estimates for the period 2019-21. In the medium-term phase of our model from 2022 to 2025, we have assumed a very conservative EBIT growth rate of 2%. Our growth assumption for calculating the terminal value is only 1%.

Indus DCF model (EUR m)	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e	Terminal Value
EBIT	152.4	148.0	159.0	162.2	165.4	168.7	172.1	175.5	177.3
Taxes	-56.4	-54.8	-58.8	-60.0	-61.2	-62.4	-63.7	-65.0	-65.6
NOPAT	96.0	93.2	100.2	102.2	104.2	106.3	108.4	110.6	111.7
+ Depreciation	87.1	90.8	93.7	95.5	97.4	99.3	101.3	103.3	104.4
- Capex	-109.0	-105.0	-107.1	-109.2	-111.4	-113.7	-115.9	-118.2	-119.4
+/- Change in working capital	30.7	19.0	-10.0	-10.0	-10.2	-10.4	-10.6	-10.8	-10.9
+/- Other cash items	11.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Cashflow	115.8	98.0	76.8	78.4	80.0	81.6	83.2	84.9	85.7
Discounting period in years	0.4	1.4	2.4	3.4	4.4	5.4	6.4	7.4	8.4
WACC	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%
Present value	113.9	92.4	69.3	67.7	66.2	64.6	63.1	61.6	1,740.8

Calculation of fair value per share

Sum of all present values	2,340
thereof Terminal Value	74%
+ Operating Segment Financial Assets	19.7
- Minorities	-2.7
- Pension provisions	-43.7
- Net financial debt (cash) of operations	-570.7
Fair operating value	1,742
Bookvalue non-operating assets	0
Equity Value	1,742
Holding discount	30%
Fair equity value	1,220
No. of shares [in mio.]	24.5

Fair value per share [in €]

49.80

Source: Company information, Bankhaus Lampe Research

WACC model

Risk-free rate	1.0%
Equity risk premium	7.0%
Beta	1.10
Expected return on investment	8.7%
Cost of debt	2.50%
Tax rate	37.0%
Cost of debt after taxes	1.58%

Sensitivity of fair value per share

Beta	TV growth				
	0.0%	0.5%	1.0%	1.5%	2.0%
0.7	56.5	66.9	81.7	104.7	145.4
0.9	46.0	53.1	62.6	76.2	97.1
1.1	38.1	43.2	49.8	58.7	71.2
1.3	32.0	35.9	40.6	46.8	55.0
1.5	27.2	30.1	33.7	38.2	43.9

Model assumptions

Short-term CAGR (first 3 years)	5.7%
Medium-term CAGR (next 5 years)	2.0%
Terminal value growth (ad infinity)	1.0%
Terminal value EBIT margin	7.5%

Source: Company information, Bankhaus Lampe Research

Price target € 50.00

Including a holding discount of 30%, our DCF model leads us to a rounded fair value of € 50.00, which is also our new price target. As the upside potential to the price target is significantly greater than 10%, we reiterate our BUY rating.

MAIN RISKS

GDP growth

The main risks for Indus stem from the general development of GDP growth in Germany and abroad.

Increase in interest rates

Since the company uses borrowed funds to finance the portfolio, the announcement of interest rate increases may ultimately also exert a highly negative influence on the value of the company even though its refinancing is essentially long term. In addition, higher interest rates are likely to have a negative impact on valuation multiples.

Fewer acquisitions

Portfolio additions are part of the business case, although the impact has declined over time as the portfolio has grown to more than 40 holdings.

Key figures

Indus Holding AG – Income statement

in m EUR	2017	2018	2019e	2020e	2021e
Sales	1,641	1,711	1,741	1,776	1,841
Own work capitalised	10.3	43.0	14.0	14.0	14.0
Total sales	1,651	1,754	1,755	1,790	1,855
Material expenses	-745.9	-811.9	-796.7	-805.2	-834.0
Personnel expenses	-479.7	-506.6	-533.5	-539.2	-558.5
Unusual or infrequent items	0.0	0.0	0.0	0.0	0.0
Other operating result	-210.1	-216.9	-185.1	-207.2	-209.9
EBITDA	215.3	218.4	239.5	238.8	252.7
Depreciation	51.6	57.1	77.2	80.3	82.6
EBITA	163.7	161.3	162.3	158.5	170.1
Amortisation of goodwill	10.8	26.6	9.9	10.5	11.1
Amortisation of intangible assets	0.0	0.0	0.0	0.0	0.0
EBIT	152.9	134.7	152.4	148.0	159.0
Financial result	-23.7	-20.0	-17.9	-18.9	-19.3
Income on ordinary activities	129.2	114.7	134.5	129.1	139.7
Extraordinary income/loss	0.0	0.0	0.0	0.0	0.0
EBT	129.2	114.7	134.5	129.1	139.7
Taxes	-46.1	-43.5	-43.4	-47.1	-51.0
Net income from cont. operations	83.1	71.2	91.1	82.0	88.7
Net income from discount. operations	0.0	0.0	0.0	0.0	0.0
Minority interest	-0.7	-0.3	-0.8	-0.9	-1.2
Net income (adj.)	82.3	70.9	90.3	81.1	87.5
No. of shares	24.5	24.5	24.5	24.5	24.5
EPS	3.37	2.90	3.69	3.32	3.58

Source: Company information, Bankhaus Lampe Research estimates

	2017	2018	2019e	2020e	2021e
Gross margin	54.5%	52.5%	54.2%	54.7%	54.7%
EBITDA margin	13.1%	12.8%	13.8%	13.4%	13.7%
EBITA margin	10.0%	9.4%	9.3%	8.9%	9.2%
EBIT margin	9.3%	7.9%	8.8%	8.3%	8.6%
EBT margin	7.9%	6.7%	7.7%	7.3%	7.6%
Net profit margin	5.0%	4.1%	5.2%	4.6%	4.8%
Tax rate	35.7%	37.9%	32.3%	36.5%	36.5%

Source: Company information, Bankhaus Lampe Research estimates

Growth rates yoy	2017	2018	2019e	2020e	2021e
Sales	13.6%	4.3%	1.8%	2.0%	3.6%
EBITDA	7.1%	1.5%	9.7%	-0.3%	5.8%
EBIT	5.4%	-11.9%	13.1%	-2.9%	7.4%
EBT	4.7%	-11.2%	17.3%	-4.0%	8.2%
Net income (adj.)	2.9%	-13.9%	27.4%	-10.2%	7.9%
EPS	2.9%	-13.9%	27.4%	-10.2%	7.9%

Source: Company information, Bankhaus Lampe Research estimates

Indus Holding AG – Balance sheet

Assets (in m EUR)	2017	2018	2019e	2020e	2021e
Fixed assets	953.6	968.5	1,125	1,176	1,225
Property, plant and equipment	402.2	418.2	554.5	594.7	623.9
Intangible assets	515.0	509.4	535.0	545.0	565.0
Financial assets	24.9	24.7	19.7	19.7	19.7
Other long-term assets	11.5	16.2	16.2	16.2	16.2
Current assets	699.6	751.5	765.0	779.3	785.9
Inventories	339.2	408.7	400.0	390.0	400.0
Accounts receivable	197.5	202.5	210.0	215.0	220.0
Other current assets	27.0	30.6	30.6	30.6	30.6
Securities	0.0	0.0	0.0	0.0	0.0
Cash	135.9	109.7	124.4	143.7	135.3
Total assets	1,653	1,720	1,890	1,955	2,011
Equity and liabilities in m EUR					
Shareholders' equity	673.8	712.5	763.5	807.9	858.7
Shareholders' equity (before minority)	670.9	709.8	760.8	805.2	856.0
Minorities	2.9	2.7	2.7	2.7	2.7
Non-current liabilities	561.0	580.2	676.6	682.7	682.7
Pension provisions	44.0	43.7	43.7	43.7	43.7
Other provisions	2.4	1.7	1.7	1.7	1.7
Long-term financial debt	439.5	465.9	568.4	568.4	568.4
Other long-term debt	75.1	68.9	62.8	68.9	68.9
Current liabilities	418.4	427.3	450.3	464.3	469.3
Short-term debt	95.3	126.5	120.0	120.0	120.0
Other accruals short-term	72.4	73.6	73.6	73.6	73.6
Accounts payable	66.2	65.7	75.0	80.0	85.0
Other liabilities	184.5	161.5	181.7	190.7	190.7
Total equity and liabilities	1,653	1,720	1,890	1,955	2,011

Source: Company information, Bankhaus Lampe Research estimates

Indus Holding AG – Balance sheet structure

Assets	2017	2018	2019e	2020e	2021e
Fixed assets	57.7%	56.3%	59.5%	60.1%	60.9%
Property, plant and equipment	24.3%	24.3%	29.3%	30.4%	31.0%
Intangible assets	31.2%	29.6%	28.3%	27.9%	28.1%
Current assets	42.3%	43.7%	40.5%	39.9%	39.1%
Inventories	20.5%	23.8%	21.2%	19.9%	19.9%
Accounts receivable	11.9%	11.8%	11.1%	11.0%	10.9%
Cash	8.2%	6.4%	6.6%	7.4%	6.7%
Equity and liabilities					
Shareholders' equity	40.8%	41.4%	40.4%	41.3%	42.7%
Non-current liabilities	33.9%	33.7%	35.8%	34.9%	34.0%
Pension provisions	2.7%	2.5%	2.3%	2.2%	2.2%
Long-term financial debt	26.6%	27.1%	30.1%	29.1%	28.3%
Current liabilities	25.3%	24.8%	23.8%	23.8%	23.3%
Short-term debt	5.8%	7.4%	6.3%	6.1%	6.0%
Accounts payable	4.0%	3.8%	4.0%	4.1%	4.2%

Source: Company information, Bankhaus Lampe Research estimates

Indus Holding AG – Cash flow statement

in m EUR	2017	2018	2019e	2020e	2021e
Net income (adj.)	82.3	70.9	90.3	81.1	87.5
Depreciation	51.6	57.1	77.2	80.3	82.6
Amortisation of goodwill & intangible assets	10.8	26.6	9.9	10.5	11.1
Change of provisions	3.6	-0.9	0.0	0.0	0.0
Other	-29.1	22.6	-5.2	6.9	0.2
Operating cash flow before changes in w/c	119.2	176.3	172.2	178.8	181.4
Change in inventory	-30.5	-69.5	8.7	10.0	-10.0
Change in accounts receivable	-19.9	-5.0	-7.5	-5.0	-5.0
Change in accounts payable	10.8	-0.5	9.3	5.0	5.0
Change in other assets	44.4	-26.6	20.2	9.0	0.0
Operating cash flow	124.0	74.7	202.9	197.8	171.4
Capex, incl. capitalized R&D	-79.0	-90.9	-109.0	-105.0	-107.1
Payments for acquisitions	-32.4	-11.5	-50.0	-36.0	-36.0
Financial investments	-2.5	-1.4	5.0	0.0	0.0
Income from asset disposals	3.9	5.5	0.0	0.0	0.0
Income from financial investments	0.0	0.0	0.0	0.0	0.0
Cash flow from investing activities	-110.0	-98.3	-154.0	-141.0	-143.1
Free cash flow	14.0	-23.6	48.9	56.8	28.3
Capital measures	0.0	0.0	0.0	0.0	0.0
Increase/decrease in debt position	29.8	34.5	96.0	0.0	0.0
Purchase of own shares	0.0	0.0	0.0	0.0	0.0
Other financing Cash-flow	-0.7	-0.5	-0.6	-0.8	0.0
Dividend paid	-33.0	-36.7	-36.7	-36.7	-36.7
Cash flow from financing activities	-3.9	-2.7	58.7	-37.5	-36.7
Increase/ decrease in liquid assets	10.1	-26.3	107.6	19.3	-8.4
Effects of exchange rate changes	-1.4	0.1	-93.0	0.0	0.0
Cash at beginning of period	127.2	135.9	109.7	124.4	143.7
Change in total cash and cash equivalents	8.7	-26.2	14.6	19.3	-8.4
Cash at end of period	135.9	109.7	124.4	143.7	135.3

Source: Company information, Bankhaus Lampe Research estimates

Indus Holding AG – Ratios

	2017	2018	2019e	2020e	2021e
Per Share Data					
EPS	3.37	2.90	3.69	3.32	3.58
Book value per share	27.56	29.14	31.23	33.04	35.12
Free Cash-flow per share	0.57	-0.97	2.00	2.32	1.16
Dividend per share	1.50	1.50	1.50	1.50	1.60
Valuation ratios					
EV/Sales	1.2	0.9	0.8	0.8	0.8
EV/EBITDA	8.8	6.8	5.9	5.8	5.5
EV/EBIT	12.4	11.0	9.2	9.4	8.8
P/E	17.7	13.4	8.8	9.8	9.1
Price to book (total equity)	2.2	1.3	1.0	1.0	0.9
Dividend yield	2.5%	3.8%	4.6%	4.6%	4.9%
Profitability ratios					
EBITDA margin	13.1%	12.8%	13.8%	13.4%	13.7%
EBIT margin	9.3%	7.9%	8.8%	8.3%	8.6%
Net return on sales	5.0%	4.1%	5.2%	4.6%	4.8%
Return on capital employed (ROCE)	12.2%	10.0%	10.2%	9.6%	10.0%
Productivity ratios					
Capital turnover	86.8%	88.5%	95.4%	95.7%	95.6%
Operating leverage	0.4	-2.8	7.5	-1.4	2.0
Sales per employee (in thousands)	160,686	165,135	165,633	166,642	170,315
EBIT per employee (in thousands)	14,971	13,002	14,500	13,884	14,709
Number of employees (in thousands)	10.2	10.4	10.5	10.7	10.8
Financial ratios					
Equity ratio	40.8%	41.4%	40.4%	41.3%	42.7%
Net financial debt (in m EUR)	398.9	482.7	564.0	544.7	553.1
Net debt / Equity	59.2%	67.7%	73.9%	67.4%	64.4%
Interest cover	6.3	6.6	7.9	7.3	7.6
Net debt / EBITDA	1.85	2.21	2.35	2.28	2.19
Working Capital (in m EUR)	470.5	545.5	535.0	525.0	535.0
Change in working capital (in m EUR)	39.6	75.0	-10.5	-10.0	10.0
WC /sales	28.7%	31.9%	30.7%	29.6%	29.1%
Stocks in days of sales	75	87	84	80	79
Trade debtors in days of sales	44	43	44	44	44
Trade creditors in days of COGS/sales	15	14	16	16	17
Cash conversion cycle	104	116	112	108	106
Invest. (property/plant/equity) / Depreciation	153.1%	159.2%	141.2%	130.8%	129.7%
Others					
Sales CAGR (last 3 years)	9.3%	7.2%	6.4%	2.7%	2.5%
EBIT CAGR (last 3 years)	6.3%	-0.4%	1.7%	-1.1%	5.7%
Net income CAGR (last 3 years)	9.2%	1.4%	4.1%	-0.5%	7.3%
Pay-out ratio	44.6%	51.7%	40.6%	45.2%	44.7%
Free cash flow (in m EUR)	14.0	-23.6	48.9	56.8	28.3
Free cash flow yield	1.0%	-2.5%	6.1%	7.1%	3.5%

Source: Company information, Bankhaus Lampe Research estimates

Disclaimer

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Analyst declaration

The relevant research analysts, as named on the front cover of this research report, certify that (a) all of the views expressed in this research report accurately reflect their personal views about the securities and companies mentioned in this research report; and (b) that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views expressed by them in this research report.

Rating system

Shares are rated based upon analyst forecasts with regard to the performance of the share during a period of twelve months. The rating "Buy" within this general concept means that the share's forecast performance is at least 10%. "Hold" means a price movement in a bandwidth of -10% to 10%. "Sell" means that the share's forecast performance is less than -10%.

Explanation of valuation

Unless shown otherwise, the stated upside targets are based upon either a discounted cash-flow pricing or upon a comparison of the performance ratios of companies that the respective analyst considers to be comparable, or upon a combination of these two analyses. Analysts modify the result of this fundamental assessment to incorporate the potential trend in market sentiment.

Details on the concepts and methods as well as the valuation models employed are available on our [website](#).

Overview of changes in our recommendations/price targets in the previous twelve months for: Indus Holding AG (INH GY), Close (15/08/2019): 32.05 EUR, Analyst: Dr. Georg Kanders (Analyst).

Date of publication	Price at recommendation	Rating	Price target
25/07/2019	37.20 EUR	Buy	56.00 EUR
18/07/2019	36.80 EUR	Buy	55.00 EUR
20/05/2019	42.90 EUR	Buy	56.00 EUR
03/04/2019	45.05 EUR	Buy	61.00 EUR
30/01/2019	43.85 EUR	Buy	60.00 EUR
30/08/2018	55.50 EUR	Buy	73.00 EUR

The distribution of recommendations in our investments universe is currently as follows (date: 01/07/2019)

Rating	Basis: all analysed companies	Basis: companies with investment banking relationships
Buy	57.8%	62.5%
Hold	37.9%	25.0%
Sell	4.3%	12.5%
Under Review	0.0%	0.0%

Frequency of updates

The Bank intends to publish at least one research report per year for the aforementioned stock/stocks.

Complete list of recommendations

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Company	Disclosure
Indus Holding AG	6, 7

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