

PIERER Mobility

Proactive mitigation measures

Faced with an unprecedented set of global circumstances arising from the coronavirus pandemic, management has taken pre-emptive action with respect to potential supply chain issues. Of course, demand effects are more difficult to predict. The good news is that Stefan Pierer, the CEO, can apply his experience from managing the financial crisis, when the group saw volumes fall by around 25–30%. Any forward-looking estimates need monitoring, but we are cutting our volume expectation across the group by 15%, with a drop-through impact on EBITDA of €45m.

Year end	Revenue* (€m)	EBIT* (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/18	1,462	128.7	1.82	0.30	14.8	1.1
12/19	1,520	132.0	2.42	0.30	11.2	1.1
12/20e	1,431	72.8	1.01	0.30	26.7	1.1
12/21e	1,698	132.3	2.07	0.30	13.0	1.1

Note: *Revenues, EBIT and EPS are continuing business, excluding amortisation of acquired intangibles, exceptional items and share-based payments. FY19 preliminary figures

Early production break in Europe

In anticipation of potential supply chain disruption, emanating mainly from northern Italy, the company has decided to suspend production at its main Mattighofen facility in Austria for two weeks, pulling forward the usual summer break.

Management indicates that it has manufactured sufficient stock to keep demand satisfied across its global dealer network and we expect it to build component stocks as a temporary buffer during this period. In India, the production at joint venture partner Bajaj Auto currently proceeds as normal.

Reducing our forecast for FY20

While the moves are not expected to affect the availability of product to the global dealership network, markets are likely to be at least temporarily depressed by the lockdown measures currently underway around the world. The overall medium- to long-term macroeconomic detriment to motorcycle demand is difficult to assess at present. Our assumption is that if the virus fades over the summer, then a v-shaped recovery is possible in FY21. In the meantime, we are assuming a 15% volume decline in the core business for FY20, with a 14% impact on revenues and a 16% or €76m drop in gross profit. We assume some saving in operating expenses from reduced marketing, travel, lower numbers of agency workers and other overhead controls. The resultant cut of €45m in EBITDA (-18%) drops directly into EBIT and PBT, although it is mitigated at the EPS level by the minority share. Of course, things may deteriorate further, requiring deeper rationalisation of fixed costs.

Valuation: Not rated for a recovery

The share price has halved in the face of the pandemic, and a P/E rating of just 13.0x in FY21e is discounting a far worse demand environment than we are currently assuming. If conditions normalise in the next few months, the rating is not reflecting a likely recovery in demand and profitability in FY21. It also fails to reflect expected medium-term growth from the entry into urban e-mobility markets.

Pandemic response

Automobiles & parts

20 March 2020

Price **€27**

Market cap **€607m**

€/CHF1.05

Net debt (€m) at 31 Dec 2019 396

Shares in issue 22.5m

Free float 39%

Code KTM1

Primary exchange SIX Swiss Exchange

Secondary exchange Frankfurt Stock Exchange

Share price performance



% 1m 3m 12m

Abs (47.9) (49.1) (54.1)

Rel (local) (33.2) (38.7) (50.2)

52-week high/low €61.5 €26.7

Business description

PIERER Mobility (previously KTM Industries) is a leading manufacturer of powered two wheelers, focusing on premium motorcycles and two-wheeled electric vehicles. With its well-known brands – KTM, HUSQVARNA and GASGAS – it is the largest sports motorcycle manufacturer in Europe.

Next events

FY19 results 31 March 2020

AGM June 2020

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Proactive measures

In the face of the global pandemic, PIERER Mobility last week announced a two-week production halt at its main facility in Austria. It was seen as a pre-emptive strike to avoid supply chain shortages from northern Italian suppliers as restrictions increased. Management says it has sufficient inventory to meet demand in its dealership network to facilitate pulling forward the normal summer break, and has also built component inventory buffers to allow production to proceed normally once the break is over. However, with many main markets in lockdown in Europe and North America, it seems likely that further production stoppages may be required over the next several months. At present, the Indian production is proceeding normally, but all operations are vulnerable to demand reductions

In the year to August 2009, the lowest point of the cycle, KTM Power Sports accounts show that revenues fell by 25% or just over €150m on the prior year to €454m, and EBITDA dropped by €11m to €39.5m from €50.4m. Management responded by cutting costs and restructuring, including a temporary cut in the workforce of 26%. Demand, sales and earnings started to recover from 2010.

Earnings revisions

Management has cancelled guidance. We are making an assumption that the impact on demand will be severe for a short period, and now assume sales volumes in the core business will be down 15% in FY20, although this needs to be monitored depending on how the pandemic develops, especially measures to counter it. To a degree, we are trying to show an element of sensitivity of financials to a downturn, of which PIERER management has previous experience from the financial crisis in 2008/09.

It should be noted that the structural changes of adding GASGAS motorbike sales and e-bikes initial consolidation partially mitigate the year-on-year impact on revenues

Exhibit 1: PIERER Mobility earnings estimates revisions						
Year to Dec	2020e			2021e		
€m	Prior	New	Change	Prior	New	Change
Core Motorcycle business	1558.1	1330.8	-14.6%	1636.7	1577.8	-3.6%
E-motorcycles	0.0	0.0		0.0	0.0	
E-bikes	100.0	100.0	0.0%	120.0	120.0	0.0%
Total revenues	1658.1	1430.8	-13.7%	1756.7	1697.8	-3.4%
Core Motorcycle business	463.4	387.1	-16.5%	484.4	460.9	-4.9%
E-motorcycles	0.0	0.0		0.0	0.0	
E-bikes (PEXCO)	15.0	15.0	0.0%	21.6	21.6	0.0%
Total gross profit	478.4	402.1	-15.9%	506.0	482.5	-4.6%
Operating expenses	233.4	202.0	-13.5%	226.6	212.4	-6.2%
EBITDA	245.0	200.1	-18.3%	279.5	270.1	-3.4%
D&A	-129.5	-127.2	-1.8%	-137.4	-137.8	0.3%
EBIT	115.5	72.8	-36.9%	142.1	132.3	-6.9%
PBT	100.0	57.3	-42.6%	128.2	118.1	-7.8%
Net Income	39.5	22.7	-42.6%	50.7	46.7	-7.8%
EPS (€)	1.75	1.01	-42.6%	2.25	2.07	-7.8%
Dividend (€)	0.30	0.30	0.0%	0.3	0.30	0.0%
Adjusted net debt	378	385	2.0%	324	368	13.7%

Source: Edison Investment Research estimates

In terms of cost of goods sold (COGS), the company is able to reduce the number of temporary staff, which should help to alleviate some of the fixed cost nature of production staff, which account for approximately 11% of COGS. The materials bill and purchased services account for around 85% of COGS, which should vary with production volumes and these should fall. However, we note that management says it has built near-term component buffer stocks to mitigate any supply shortages

that may emerge, and these would need to be worked off during the remainder of 2020. The remainder is largely depreciation of property, plant and equipment and amortisation of capitalised development costs.

In the overhead, we expect marketing costs to fall and, with the sporting calendar curtailed, racing budgets should also decline. R&D investment is likely to be maintained. Administrative cost may be relatively more fixed, although there may be some agency workers who can be flexed.

Assuming the pandemic is controlled by 2021, we would expect a recovery. The overall financial impact on the global economy is hard to predict at present, but will be negative. Our assumption includes a view that some sales are deferred from 2020 to 2021. We assume the move into urban e-mobility markets through e-bikes and eventually e-motorcycles continues as expected, and near break-even for e-bikes operating performance in FY20.

Exhibit 2: Financial summary

Accounts: IFRS, year-end: December, €m	2017	2018	2019	2020e	2021e	2022e
INCOME STATEMENT						
Total revenues	1,354	1,462	1,520	1,431	1,698	1,872
Cost of sales	(945)	(1,029)	(1,066)	(1,029)	(1,215)	(1,338)
Gross profit	409	433	454	402	482	534
SG&A (expenses)	(128)	(166)	(150)	(136)	(143)	(155)
R&D costs	(34)	(27)	(33)	(35)	(36)	(38)
Other income/(expense)	(28)	(29)	(30)	(31)	(33)	(34)
Depreciation and amortisation	(97)	(82)	(109)	(127)	(138)	(144)
Reported EBIT	122	129	132	73	132	163
Finance income/(expense)	(11)	(15)	(13)	(15)	(14)	(13)
Other income/(expense)	(2)	(1)	(1)	(1)	0	0
Reported PBT	109	112	118	57	118	149
Income tax expense	(30)	(27)	(22)	(14)	(28)	(36)
Minorities	(39)	(44)	(41)	(21)	(43)	(55)
Reported net income (post-minorities)	40	41	54	23	47	59
Basic average number of shares, m	225	23	23	23	23	23
Basic EPS (€)	1.98	2.99	2.42	1.01	2.07	2.62
Dividend per share (€)	0.30	0.30	0.30	0.30	0.30	0.35
Adjusted EBITDA	219	211	241	200	270	307
Adjusted EBIT	122	129	132	73	132	163
Adjusted PBT	109	112	118	57	118	149
Adjusted EPS (€)	1.77	1.82	2.42	1.01	2.07	2.62
Adjusted diluted EPS (€)	1.77	1.82	2.42	1.01	2.07	2.62
BALANCE SHEET						
Property, plant and equipment	357	283	380	413	435	451
Goodwill	117	96	146	146	146	146
Intangible assets	280	327	345	345	345	345
Other non-current assets	28	39	17	17	17	17
Total non-current assets	782	745	888	921	943	959
Cash and equivalents	169	89	161	151	149	192
Inventories	297	287	324	313	351	367
Trade and other receivables	216	220	235	226	253	271
Other current assets	1	13	8	8	8	8
Total current assets	683	609	728	698	761	838
Non-current loans and borrowings	373	339	477	457	437	417
Other non-current liabilities	89	95	110	110	110	110
Total non-current liabilities	461	435	587	567	547	527
Trade and other payables	178	191	205	198	234	257
Current loans and borrowings	171	73	80	80	80	80
Other current liabilities	125	104	116	116	116	116
Total current liabilities	475	368	401	394	430	453
Equity attributable to company	318	297	334	343	369	403
Non-controlling interest	211	253	295	316	359	414
CASH FLOW STATEMENT						
Profit for the year	84	114	96	44	90	114
Taxation expenses	33	29	22	14	28	36
Net finance expenses	4	(16)	(16)	16	14	13
Depreciation and amortisation	86	91	109	127	138	144
Movements in working capital	(23)	(83)	70	13	(30)	(10)
Interest paid / received	(13)	(15)	(12)	(16)	(14)	(13)
Income taxes paid	(10)	(36)	(10)	(14)	(28)	(36)
Cash from operations (CFO)	161	85	258	184	198	248
Capex	(182)	(167)	(165)	(160)	(160)	(160)
Acquisitions & disposals net	28	70	0	0	0	0
Other investing activities	0	(6)	(1)	0	0	0
Cash used in investing activities (CFIA)	(154)	(102)	(166)	(160)	(160)	(160)
Movements in debt	(96)	(38)	0	(20)	(20)	(20)
Dividends paid	(20)	(19)	(20)	(14)	(21)	(25)
Other financing activities	(2)	(6)	(1)	0	0	0
Cash from financing activities (CFF)	(118)	(63)	(21)	(34)	(41)	(45)
Currency translation differences and other	(4)	0	0	0	0	0
Increase/(decrease) in cash and equivalents	(115)	(80)	72	(10)	(3)	43
Cash and equivalents at end of period	169	89	161	151	149	192
Net (debt)/cash	(375)	(323)	(396)	(385)	(368)	(305)
Movement in net (debt)/cash over period	(375)	52	(73)	10	17	63

Source: Company accounts, Edison Investment Research

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