

# PIERER Mobility

Happy biking holidays

**Strong global demand for powered two wheelers (motorcycles and e-bikes) has remained strong throughout H220. Production has been increased to meet demand and the volume lost in H120 due to pandemic-induced closures has been recovered. As a result, FY20 sales guidance has been raised again to €1.5bn with operational gearing driving FY20 EBIT of c €100m, 31% above our previous estimate. The 6.6% margin is above the guidance range of 4–6%. Management expects the supportive trends to continue in FY21 and all the improvement is accompanied by better-than-expected cash flows.**

Year end	Revenue (€m)	EBIT* (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/18	1,462	128.7	1.82	0.30	33.8	0.5
12/19	1,520	131.7	2.42	0.00	25.4	N/A
12/20e	1,514	99.5	1.43	0.30	43.0	0.5
12/21e	1,778	153.3	2.59	0.30	23.7	0.5

Note: \*PBT and EPS are normalised, excluding amortisation of acquired intangibles, and exceptional items

## Continuing to surprise in FY20

The improved guidance results from strong global demand for e-bikes and motorcycles during the pandemic, which reflects a trend that has been apparent for increased private mobility, fitness and recreation. As Europe's leading powered two-wheeler manufacturer with a double-digit share of its global addressable markets, PIERER is well placed to benefit from this trend and the rapidly developing push for increased urban e-mobility solutions. H220 sales are expected to be 17% ahead of H219 at around €900m. Management now expects FY20 group sales of over €1.5bn (€1.45bn previously), generating an EBIT of c €100m. The margin of 6.6% exceeds the prior forecast margin range of 4–6%. Free cash flow is expected to improve by c €130m against previous guidance of around €30m, due to the better operating performance and lower year-end dealership inventory levels.

## Positive outlook for FY21

The momentum being seen in markets in H220 is expected to continue in FY21, with strong growth anticipated for both motorcycles and e-bikes. We have increased our FY21 estimates accordingly, lifting our sales expectation 4% with the motorcycle EBIT margin returning to a more normal pre-pandemic range of 8–9%.

## Valuation: Change to structure may prove beneficial

The shareholder structure is expected to change, with Bajaj Auto taking a more direct holding in the group in exchange for its minority holding in the main KTM AG subsidiary. Negotiations have just restarted but our understanding is that minority free float shareholders are expected to see a benefit from higher EPS and no decline in absolute share of cash distributions (see below), which may increase if a progressive dividend policy is introduced. In the meantime, the improved trading performance leaves the stock trading on 23.7x FY21 EPS, with incremental growth from e-mobility expected from FY21. Our DCF value stands at €71 per share.

Increased guidance and earnings upgrade

Automobiles & parts

15 December 2020

**Price** €61.50

**Market cap** €1,372m

€0.93:CHF1

Net debt (€m) at 30 June 2020 489.4

Shares in issue 22.3m

Free float 38%

Code PMAG

Primary exchange SIX Swiss Exchange

Secondary exchange Frankfurt Stock Exchange

### Share price performance



% 1m 3m 12m

Abs 15.0 15.4 33.7

Rel (local) 16.3 16.3 34.4

52-week high/low €62.50 €25.00

### Business description

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

### Next events

FY20 results 1 February 2021

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## Revisions to earnings estimates

We assume the upgrade to revenues comes from the motorcycle business as we believe the e-bike business is relatively capacity constrained. The motorcycle brands are being produced at very high levels as dealership stock levels were reduced when production was halted in H120 but retail demand remained high. Despite the extra shifts and workforce this has required, operational gearing benefits are expected to modestly improve gross margins from our previous levels, which drops through to EBIT and PBT. Our EBIT estimates increase by 31% in FY20 and 9% in FY21, and PBT and EPS estimates increase by close to 40% in FY20 and 12% in FY21.

Management now expect free cash flow to be around €130m, c €100m above previous guidance, largely due to lower than expected year-end inventory levels, which should at least partially normalise in FY21.

Unlike in the car industry, motorcycle buyers do not normally expect to have to wait to ride away on their desired machine. Therefore, we think retail sales and wholesales are closely matched at present, which leads to a sharp decline in inventory at the year-end compared to the prior year when dealership stocks at pre-pandemic levels were normal. A rebuild of stocking levels in FY21 seems likely and should lead to higher inventory levels, subduing cash flow performance.

We have upgraded our FY21 expectations for PIERER e-bikes to reflect the strong demand growth. We still believe we are some way below management's expected ramp up of volumes despite the higher growth assumed. While PIERER's main market is in the well-developed but rapidly growing European market, we note that at the EKF conference management indicated the North American market had trebled to around 300k units, which could be a future opportunity for the group as it starts to sell e-bikes through its motorcycle dealerships.

### Exhibit 1: PIERER Mobility adjustments to earnings estimates

Year to December €m	2020e			2021e		
	Prior	New	% change	Prior	New	% change
<b>Revenues</b>						
Core Motorcycle business	1348.0	1403.7	4.1	1604.2	1623.8	1.2
E-motorcycles	0.0	0.0		0.0	0.0	
E-bikes	110.0	110.0	0.0	132.0	154.0	16.7
<b>Total revenues</b>	<b>1458.0</b>	<b>1513.7</b>	<b>3.8</b>	<b>1736.2</b>	<b>1777.8</b>	<b>2.4</b>
<b>Gross profit</b>						
Core Motorcycle business	392.1	415.3	5.9	468.6	480.8	2.6
E-motorcycles	0.0	0.0		0.0	0.0	
E-bikes (PEXCO)	15.0	15.0	0.0	23.8	27.7	16.7
<b>Total gross profit</b>	<b>407.1</b>	<b>430.3</b>	<b>5.7</b>	<b>492.3</b>	<b>508.5</b>	<b>3.3</b>
Operating expenses	-204.7	-204.7	0.0	-207.3	-210.9	1.7
<b>EBITDA</b>	<b>202.3</b>	<b>225.5</b>	<b>11.5</b>	<b>285.0</b>	<b>297.6</b>	<b>4.4</b>
D&A	-126.0	-126.0	0.0	-144.3	-144.3	0.0
<b>EBIT</b>	<b>76.3</b>	<b>99.5</b>	<b>30.5</b>	<b>140.7</b>	<b>153.3</b>	<b>9.0</b>
<b>PBT</b>	<b>60.8</b>	<b>84.0</b>	<b>38.2</b>	<b>125.6</b>	<b>141.0</b>	<b>12.3</b>
Net Income	23.0	32.2	39.8	51.9	58.3	12.3
<b>EPS (€)</b>	<b>1.02</b>	<b>1.43</b>	<b>39.8</b>	<b>2.30</b>	<b>2.59</b>	<b>12.3</b>
Dividend (€)	0.30	0.30	0.0	0.3	0.30	0.0
Adjusted net debt	413	322	-21.9	366	296	-19.1

Source: Edison Investment Research

## Potential ownership structure change

On 27 November 2020 PIERER Industrie announced that a previous discussion to transfer Bajaj Auto's interest in the group from a subsidiary level (KTM AG) to the parent group has restarted.

As an initial step PIERER Industrie is transferring 60% of its 63% shareholding in PIERER Mobility to a new 100% owned company PTW Holdings.

In the transactional phase, the 48% Bajaj stake in KTM would be transferred via a payment in kind to a minority stake in PTW Holdings that would own a stake in PIERER Mobility.

The ramifications for the PIERER Mobility free float shareholders are indicated below, but we suspect the arrangement should be positive for them in aggregate, despite the likely dilution to proportionate ownership. In other words, we expect them to receive at least as much in absolute terms of earnings and cash flow per share although as in any minority free-float situation there is no direct control over that. The expected effects are:

- No change to company trading performance.
- Bajaj's minority holding in KTM AG is eliminated and the associated cash payment changes from a minority dividend to a normal PIERER Mobility dividend paid to Bajaj through its stake in PTW Holdings.
- A lower free float share of the total market capitalisation as the Bajaj stake is effectively a capital injection to the group requiring the issue of additional PIERER Mobility shares.

Clearly how the financial mathematics of the deal work will depend on the terms agreed, which have yet to be negotiated.

**Exhibit 2: Financial summary**

Accounts: IFRS, year end December (€m)	2018	2019	2020e	2021e
<b>Income statement</b>				
Total revenues	1,462	1,520	1,514	1,778
Cost of sales	(1,031)	(1,074)	(1,083)	(1,269)
Gross profit	431	446	430	508
SG&A (expenses)	(194)	(191)	(179)	(183)
R&D costs	(27)	(24)	(25)	(26)
Other income/(expense)	1	10	(1)	(1)
Depreciation and amortisation	(82)	(109)	(126)	(144)
Reported EBIT	129	132	100	153
Finance income/(expense)	(15)	(14)	(15)	(12)
Other income/(expense)	(1)	0	(1)	0
Reported PBT	112	118	84	141
Income tax expense	(27)	(22)	(20)	(34)
Minorities	(44)	(41)	(32)	(49)
Reported net income (post-minorities)	41	54	32	58
Basic average number of shares, m	23	23	23	23
Basic EPS (€)	2.99	2.42	1.43	2.59
Dividend per share	0.30	0.00	0.30	0.30
Adjusted EBITDA	211	241	226	298
Adjusted EBIT	129	132	100	153
Adjusted PBT	112	118	84	141
Adjusted EPS (€)	1.82	2.42	1.43	2.59
Adjusted diluted EPS (€)	1.82	2.42	1.43	2.59
<b>Balance sheet</b>				
Property, plant and equipment	283	326	353	345
Goodwill	96	130	131	131
Intangible assets	327	392	441	465
Other non-current assets	39	29	27	26
Total non-current assets	745	878	952	967
Cash and equivalents	89	161	252	258
Inventories	287	322	260	301
Trade and other receivables	220	248	226	258
Other current assets	13	5	5	5
Total current assets	609	736	743	822
Non-current loans and borrowings	339	470	476	456
Other non-current liabilities	95	118	120	121
Total non-current liabilities	435	589	596	577
Trade and other payables	191	223	231	243
Current loans and borrowings	73	86	98	98
Other current liabilities	104	98	105	105
Total current liabilities	368	407	434	446
Equity attributable to company	297	338	353	405
Non-controlling interest	253	280	311	360
<b>Cashflow statement</b>				
Profit for the year	114	96	64	107
Taxation expenses	29	22	20	34
Net finance expenses	(16)	(18)	18	14
Depreciation and amortisation	91	109	126	144
Movements in working capital	(83)	71	88	(61)
Interest paid / received	(15)	(13)	(16)	(12)
Income taxes paid	(36)	(10)	(20)	(34)
Cash from operations (CFO)	85	257	280	193
Capex	(167)	(157)	(160)	(160)
Acquisitions & disposals net	70	(13)	(0)	0
Other investing activities	(6)	4	0	0
Cash used in investing activities (CFIA)	(102)	(166)	(160)	(160)
Movements in debt	(38)	5	(10)	(20)
Dividends paid	(19)	(20)	(13)	(7)
Other financing activities	(6)	(0)	(1)	0
Cash from financing activities (CFF)	(63)	(21)	(29)	(27)
Currency translation differences and other	0	0	0	0
Increase/(decrease) in cash and equivalents	(80)	72	91	6
Cash and equivalents at end of period	89	161	252	258
Net (debt) cash	(323)	(396)	(322)	(296)
Movement in net (debt) cash over period	52	(73)	74	26

Source: Company reports, Edison Investment Research

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