

# Kone

## Company report

10/17/2022



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This report is a summary translation of the report "Tulosvaroitus oli kiinalainen juttu" published on 10/16/2022 at 6:55 pm.

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# China-driven profit warning

KONE's profit warning for 2022 on 14 October was not particularly surprising after the bad news on the Chinese real estate and construction markets. However, we had expected that the company's large order book would have enabled it to stick to the previous guidance. In any case, for Q4'22 and 2023-2024, the need for estimate revisions was relatively small. Given the still-tense valuation of the stock, we maintain our Reduce recommendation. We lower the target price to EUR 41.50 (was 44.00) to reflect the cuts to our estimates.

## China's problems prompted the profit warning

KONE's service business continued to perform strongly globally during Q3, and outside China, both demand and pricing in the new equipment business developed in line with expectations. However, the Chinese market environment deteriorated further due to liquidity constraints and COVID restrictions. The group's Q3 order intake in comparable currencies declined by -10% y/y and in China significantly more. KONE's Q3 net sales were surprisingly strong (+15% y/y) and exceeded our expectations. This was driven by the good performance of the services business and the recovery in China after the movement restrictions in Q2. Net sales grew well in new equipment sales, service and modernization. The adjusted EBIT margin for Q3 (10.2%), on the other hand, was quite weak considering the strong net sales development. Therefore, we suspect that the company's profitability in China has been significantly affected by the ongoing market turmoil.

## Need for estimate revisions remained moderate

KONE expects that liquidity constraints in China and slower development of construction sites in Europe and North America will lead to lower new equipment deliveries during Q4. KONE now expects currency-adjusted net sales for 2022 to decline by -1 to -4% y/y (was -1 to +3 % y/y). However, after strong Q3 net sales, the need to change our own 2022 net sales forecast has been limited. KONE's adjusted EBIT guidance for 2022 is 1,010-1,090 MEUR (was 1,103-1,210 MEUR), i.e., the cut at mid-point of the range is about -10%. The -8% cut we made to our 2022 adjusted EBIT estimate is in line with this. Our estimate revisions for 2023-2024 are minor at this stage. Although KONE has been able to continuously improve its operational efficiency and pricing, we continue to expect that the tightening market situation in China will cut profitability in the country. This is reflected in our more cautious margin expectations at group level as well. However, with a lower benchmark for 2022, EPS growth for 2023-2024 is still quick (CAGR = 15%) even with our new projections.

## The valuation remains tight

The total expected return on KONE's share at 2023-2024 multiples is around 3-5%, which is below our required return of around 7%. Based on this, the risk-adjusted expected return for the share is weak. The 2023 EV/EBIT multiple values the stock at 13% above the median of its peers and also above the multiples of its closest competitors Otis and Schindler. KONE's greater dependence on the Chinese market than its competitors is currently more of a disadvantage than an advantage for the company, and certainly doesn't support higher valuation multiples than its competitors. Our DCF model gives KONE an upside of about 17%, but with the earnings growth trajectory still down and required return up, relying on this alone isn't meaningful.

## Recommendation

### Reduce

(previous Reduce)

### EUR 41.50

(previous EUR 44.00)

### Share price:

39.09



## Key figures

	2021	2022e	2023e	2024e
<b>Revenue</b>	10514	10958	10833	11375
<b>growth-%</b>	6%	4%	-1%	5%
<b>EBIT adj.</b>	1309.8	1046.8	1226.1	1384.8
<b>EBIT-% adj.</b>	12.5 %	9.6 %	11.3 %	12.2 %
<b>Net Income</b>	1014.2	763.6	938.9	1065.9
<b>EPS (adj.)</b>	1.98	1.56	1.81	2.06
<b>P/E (adj.)</b>	31.8	25.0	21.6	19.0
<b>P/B</b>	10.3	7.1	6.8	6.4
<b>Dividend yield-%</b>	3.3 %	4.1 %	4.2 %	4.6 %
<b>EV/EBIT (adj.)</b>	23.3	17.7	15.0	13.1
<b>EV/EBITDA</b>	19.9	14.7	12.2	10.9
<b>EV/S</b>	2.9	1.7	1.7	1.6

Source: Inderes

## Guidance

(Lowered)

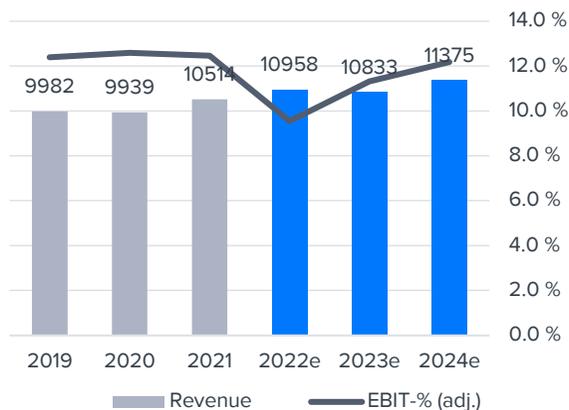
KONE expects its sales in 2022 to decline by -1 to -4% at comparable exchange rates as compared to 2021. The adjusted EBIT is expected to be in the range of EUR 1010–1090 million.

## Share price



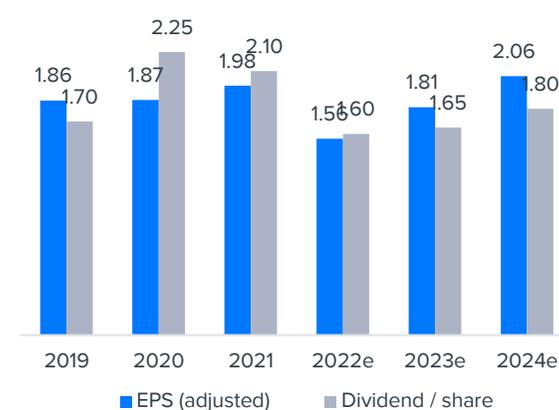
Source: Millstream Market Data AB

## Revenue and EBIT %



Source: Inderes

## EPS and dividend



Source: Inderes



## Value drivers

- Market recovery on the Western market
- Growth in the maintenance markets in China and other Asian countries
- More dynamic pricing and operational efficiency measures support margins
- Rise of new digital services



## Risk factors

- Deterioration of the Chinese construction market and tightening price competition
- Transferring component price pressures to own product prices is not fully successful
- Standing out with digital services proves difficult

Valuation	2022e	2023e	2024e
Share price	39.1	39.1	39.1
Number of shares, millions	518.4	518.4	518.4
Market cap	20264	20264	20264
EV	18487	18381	18107
P/E (adj.)	25.0	21.6	19.0
P/E	26.5	21.6	19.0
P/FCF	29.1	21.7	18.1
P/B	7.1	6.8	6.4
P/S	1.8	1.9	1.8
EV/Sales	1.7	1.7	1.6
EV/EBITDA	14.7	12.2	10.9
EV/EBIT (adj.)	17.7	15.0	13.1
Payout ratio (%)	108.5 %	91.0 %	87.4 %
Dividend yield-%	4.1%	4.2 %	4.6 %

Source: Inderes

# China's problems prompted the profit warning

## Surprise profit warning - yes and no

KONE's profit warning for 2022 on 14 October was not particularly surprising after the bad news on the Chinese real estate and construction markets. However, we had expected that KONE's large order book would have enabled it to stick to the previous guidance. Along with the profit warning, the company released the key numbers for Q3.

## The weakness of the Chinese market started to be reflected in orders

According to KONE, the service business continued to perform strongly globally during Q3, and outside China, both demand and pricing in the new equipment business developed in line with expectations". However, the market environment in China continued to deteriorate due to liquidity constraints and COVID restrictions. The group's Q3

order intake in comparable currencies declined by -10% y/y, when the reported decline was -3% y/y. As for Chinese orders, the company only commented that they fell significantly, i.e., by more than -10% y/y. If we rather optimistically assume that the group's orders outside China grew by 4% y/y on a comparable basis, the comparable drop in Chinese orders has been around -30% y/y. This is possible given that housing project starts in China were down -45% y/y in April-August.

## Q3 net sales surprisingly strong

KONE's Q3 net sales were surprisingly strong (+15% y/y, +7% currency-adjusted) and exceeded our expectations. This was driven in particular by the good performance of the services business mentioned above and the recovery in China after the movement restrictions in Q2. On the positive side,

net sales grew by +15 to 17% y/y both in new equipment sales, maintenance and modernizations.

## Softness in the margins

The adjusted EBIT margin for Q3 (10.2%) was quite weak considering the strong net sales development. It should also be remembered that of the EUR -200 million in extra component and logistics costs KONE had indicated for the full year 2022, EUR -150 million was already recorded in the Q1-Q2'22 result. Therefore, we suspect that the company's profitability in China has been significantly affected by the ongoing market turmoil. Therefore, we are eager to hear more about the situation and prospects for profitability drivers. KONE to publish its Q3 report on October 27.

Estimates	Q3'21	Q3'22	Q3'22e	Q3'22e	Difference (%)
MEUR / EUR	Comparison	Actualized	Inderes	Consensus	Act. vs. inderes
Revenue	2610	2998	2751	2924	9%
EBIT (adj.)	327	306	320	343	-4%
EBIT	327	304	320	342	-5%
PTP	336		326	348	
EPS (adj.)	0.50		0.48	0.52	
Revenue growth-%	0.9 %	14.9 %	5.4 %	12.0 %	9.5 pp
EBIT-% (adj.)	12.5 %	10.2 %	11.6 %	11.7 %	-1.4 pp

Source: Inderes & Vara Research (consensus)

NB: The Vara Research consensus was published on July 26, 2022 and is unlikely to reflect the consensus prior to the profit warning.

# Need for estimate revisions remained moderate

## Reasonable estimate revisions required

The 2022 guidance was cut substantially. However, for Q4'22 alone, the need for estimate revisions was quite minor. Our earnings forecast cuts for 2023-2024 are relatively small and reflect the still tight market conditions in China.

## Our net sales expectations for 2022 almost unchanged

KONE expects that liquidity constraints in China and slower development of construction sites in Europe and North America will lead to lower new equipment deliveries during Q4. KONE now expects currency-adjusted net sales for 2022 to decline by -1 to -4% y/y (was -1 to +3 % y/y). At the mid-point of the range, the change is about EUR -350 to -390 million. However, after strong Q3 net sales, the need to change our own 2022 net sales forecast has been limited.

## Earnings estimate for the rest of the year in line with guidance

KONE's adjusted EBIT guidance for 2022 is 1,010-1,090 MEUR (was 1,103-1,210 MEUR), i.e., the cut at mid-point of the range is about -10%. This is in line with the -8% cut we made to our 2022 adjusted operating EBIT estimate. However, for Q4'22, at the middle of the range, the guidance implied a rather moderate -6% y/y drop from Q4'21 (359 MEUR). KONE commented that cost inflation continues to weigh on earnings but expects the availability of components to improve. This is in line with the view already expressed in the Q2 report of a gradual improvement in the supply chain.

## The tense situation in China is diluting expectations

Our estimate revisions for 2023-2024 are minor at this stage. Although KONE has been able to continuously improve its operational efficiency and pricing, we continue to expect that the tightening market situation in China will cut profitability in the country. This is reflected in our more cautious margin expectations at group level as well. However, with a lower benchmark for 2022, EPS growth for 2023-2024 is still quick (CAGR = 15%) even with our new projections. Our estimates are still subject to change if KONE gives indications on the development of order book margins and the impact of its own efficiency measures in its Q3 report.

Estimate revisions MEUR / EUR	2022e			2023e			2024e		
	Old	New	Change %	Old	New	Change %	Old	New	Change %
Revenue	10888	10958	1%	10760	10833	1%	11296	11375	1%
EBIT (exc. NRIs)	1139	1047	-8%	1276	1226	-4%	1419	1385	-2%
EBIT	1093	1001	-8%	1276	1226	-4%	1419	1385	-2%
PTP	1097	1005	-8%	1288	1236	-4%	1436	1399	-3%
EPS (excl. NRIs)	1.70	1.56	-8%	1.89	1.81	-4%	2.11	2.06	-3%
DPS	1.70	1.60	-6%	1.70	1.65	-3%	1.85	1.80	-3%

Source: Inderes

# The valuation remains tight

## Drivers still negative, Reduce recommendation remains

The KONE share's justified upside margin is still narrow. The profit warning seen confirms the view that the big problems in China's real estate sector will continue. Elsewhere, cost inflation in the construction sector, rising interest rates and a weakening global economy are also weighing on expectations for the elevator market. Possible positive price drivers in the future include evidence of improving margins as a result of own pricing and efficiency programs, as well as signs of a resolution of China's real estate problems. At least for the latter, we don't expect rapid changes.

Given the relatively tight valuation of the stock and the lack of positive drivers in the near term, we maintain a Reduce recommendation. We lower the target price to EUR 41.50 (was 44.00) to reflect the cuts to our estimates.

## Risk-adjusted expected return still low

The total expected return on KONE's share (upside potential in the share price based on earnings growth and expected change in valuation multiple plus dividend yield) at 2023-24 multiples is around 3-5%, which is below our required return of around 7%. Based on this, the risk-adjusted expected return for the share is weak.

## Multiple-based valuation still pointing upwards

As KONE has about EUR 1.3 billion in net assets, the EV/EBIT ratio is better suited than the P/E to assess peer group pricing. EV/EBIT with the 2023 multiple (15x) is 13% above the median of peers and also above the multiples of nearest competitors Otis and

Schindler. KONE's greater dependence on the Chinese market than its competitors (KONE 33%; Otis 20% and Schindler 18% by 2021) is currently more of a disadvantage than an advantage for the company, and certainly doesn't support higher valuation multiples than its competitors.

## Not that great upside potential to the DCF value

Our DCF model indicates a EUR 46 value for KONE's share to which the upside is 17%. However, in the current market situation, the conditions for realizing this potential are quite weak.

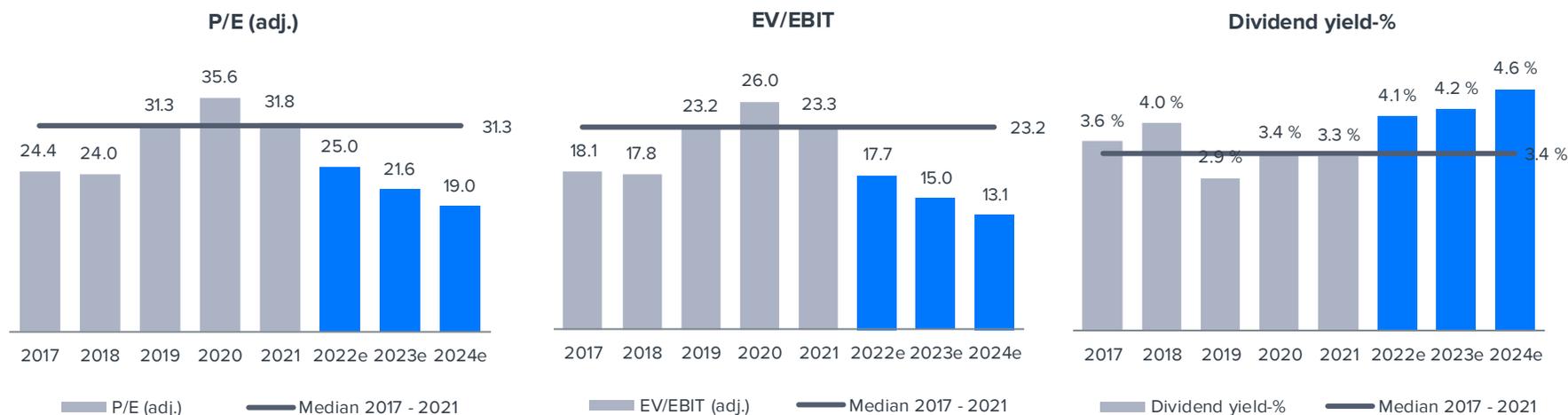
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EV	18487	18381	18107
P/E (adj.)	25.0	21.6	19.0
P/E	26.5	21.6	19.0
P/FCF	29.1	21.7	18.1
P/B	7.1	6.8	6.4
P/S	1.8	1.9	1.8
EV/Sales	1.7	1.7	1.6
EV/EBITDA	14.7	12.2	10.9
EV/EBIT (adj.)	17.7	15.0	13.1
Payout ratio (%)	108.5 %	91.0 %	87.4 %
Dividend yield-%	4.1 %	4.2 %	4.6 %

Source: Inderes

# Valuation table

Valuation	2017	2018	2019	2020	2021	2022e	2023e	2024e	2025e
Share price	45.7	41.6	58.3	66.5	63.0	39.1	39.1	39.1	39.1
Number of shares, millions	514.8	516.1	518.4	518.4	518.4	518.4	518.4	518.4	518.4
Market cap	23525	21489	30212	34452	32679	20264	20264	20264	20264
EV	21777	19758	28677	32555	30582	18487	18381	18107	17889
P/E (adj.)	24.4	24.0	31.3	35.6	31.8	25.0	21.6	19.0	17.9
P/E	24.6	25.6	32.4	36.7	32.2	26.5	21.6	19.0	17.9
P/FCF	29.1	28.7	43.8	25.5	26.9	29.1	21.7	18.1	17.8
P/B	7.8	7.0	9.5	10.9	10.3	7.1	6.8	6.4	6.0
P/S	2.7	2.4	3.0	3.5	3.1	1.8	1.9	1.8	1.7
EV/Sales	2.5	2.2	2.9	3.3	2.9	1.7	1.7	1.6	1.5
EV/EBITDA	16.7	17.0	20.0	22.4	19.9	14.7	12.2	10.9	10.2
EV/EBIT (adj.)	18.1	17.8	23.2	26.0	23.3	17.7	15.0	13.1	12.2
Payout ratio (%)	88.8 %	101.1 %	94.5 %	124.1 %	107.2 %	108.5 %	91.0 %	87.4 %	90.0 %
Dividend yield-%	3.6 %	4.0 %	2.9 %	3.4 %	3.3 %	4.1 %	4.2 %	4.6 %	5.0 %

Source: Inderes



# Peer group valuation

Peer group valuation Company	Market cap MEUR	EV MEUR	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%		P/B 2022e
			2022e	2023e	2022e	2023e	2022e	2023e	2022e	2023e	2022e	2023e	
Schindler Holding AG	17130	15008	15.7	13.2	12.2	10.4	1.3	1.3	24.8	20.4	2.4	2.7	4.1
Assa Abloy AB	21133	23844	14.5	13.1	12.1	11.0	2.2	2.0	18.0	16.4	2.2	2.4	2.9
Koninklijke Philips NV	11984	18657	15.2	11.8	7.6	6.3	1.0	1.0	11.0	9.3	6.6	6.4	0.9
Otis Worldwide Corp	27627	33781	15.4	14.7	14.2	13.4	2.4	2.4	20.2	18.4	1.7	1.9	
Ingersoll Rand Inc	18647	20193	17.4	16.0	14.1	13.1	3.4	3.3	19.7	18.0	0.2	0.1	2.0
Johnson Controls International PLC	35904	44057	15.0	13.1	11.6	10.4	1.7	1.6	17.0	14.4	2.6	2.8	2.1
Gree Electric Appliances Inc of Zhuhai	26003	29550	7.5	6.8	6.4	5.8	1.0	0.9	7.2	6.5	7.6	8.5	1.6
Dover Corp	17600	20485	13.3	12.4	11.0	10.4	2.3	2.3	14.2	13.2	1.7	1.8	3.8
Honeywell International Inc	120297	131576	17.0	15.7	14.7	13.6	3.6	3.5	20.1	18.4	2.3	2.4	6.5
Lennox International Inc	7795	9467	13.9	13.3	12.5	12.0	2.0	2.0	15.1	14.3	1.7	1.6	
Melco International Development Ltd	1090	9964		73.9	34.2	10.9	4.9	2.8			0.1	0.1	3.6
<b>Kone (Inderes)</b>	<b>20264</b>	<b>18487</b>	<b>17.7</b>	<b>15.0</b>	<b>14.7</b>	<b>12.2</b>	<b>1.7</b>	<b>1.7</b>	<b>25.0</b>	<b>21.6</b>	<b>4.1</b>	<b>4.2</b>	<b>7.1</b>
<b>Average</b>			<b>14.5</b>	<b>18.6</b>	<b>13.7</b>	<b>10.7</b>	<b>2.4</b>	<b>2.1</b>	<b>16.7</b>	<b>14.9</b>	<b>2.6</b>	<b>2.8</b>	<b>3.1</b>
<b>Median</b>			<b>15.1</b>	<b>13.2</b>	<b>12.2</b>	<b>10.9</b>	<b>2.2</b>	<b>2.0</b>	<b>17.5</b>	<b>15.4</b>	<b>2.2</b>	<b>2.4</b>	<b>2.9</b>
<b>Diff-% to median</b>			<b>17%</b>	<b>13%</b>	<b>20%</b>	<b>12%</b>	<b>-22%</b>	<b>-17%</b>	<b>43%</b>	<b>40%</b>	<b>84%</b>	<b>76%</b>	<b>143%</b>

Source: Refinitiv / Inderes. NB: The market cap Inderes uses does not consider own shares held by the company.

# Income statement

Income statement	2020	2021	Q1'22	Q2'22	Q3'22e	Q4'22e	2022e	2023e	2024e	2025e
<b>Revenue</b>	<b>9939</b>	<b>10514</b>	<b>2442</b>	<b>2555</b>	<b>2998</b>	<b>2962</b>	<b>10958</b>	<b>10833</b>	<b>11375</b>	<b>11778</b>
Group	9939	10514	2442	2555	2998	2962	10958	10833	11375	11778
<b>EBITDA</b>	<b>1452</b>	<b>1539</b>	<b>234</b>	<b>253</b>	<b>370</b>	<b>400</b>	<b>1257</b>	<b>1511</b>	<b>1668</b>	<b>1757</b>
Depreciation	-239.0	-244.0	-62.9	-64.3	-64.3	-64.3	-255.8	-284.5	-282.9	-290.0
<b>EBIT (excl. NRI)</b>	<b>1251</b>	<b>1310</b>	<b>197</b>	<b>209</b>	<b>306</b>	<b>335</b>	<b>1047</b>	<b>1226</b>	<b>1385</b>	<b>1467</b>
<b>EBIT</b>	<b>1213</b>	<b>1295</b>	<b>171</b>	<b>189</b>	<b>306</b>	<b>335</b>	<b>1001</b>	<b>1226</b>	<b>1385</b>	<b>1467</b>
Group	1213	1295	171	189	306	335	1001	1226	1385	1467
Net financial items	11.4	25.5	-0.4	-8.9	6.0	7.0	3.7	9.7	14.5	20.2
<b>PTP</b>	<b>1224</b>	<b>1321</b>	<b>171</b>	<b>180</b>	<b>312</b>	<b>342</b>	<b>1005</b>	<b>1236</b>	<b>1399</b>	<b>1487</b>
Taxes	-276.9	-298.1	-39.3	-41.4	-71.7	-78.7	-231.1	-284.2	-321.8	-341.9
Minority interest	-8.1	-8.5	-2.2	-3.4	-2.5	-2.1	-10.2	-12.6	-11.6	-10.9
<b>Net earnings</b>	<b>939</b>	<b>1014</b>	<b>129</b>	<b>135</b>	<b>238</b>	<b>261</b>	<b>764</b>	<b>939</b>	<b>1066</b>	<b>1134</b>
<b>EPS (adj.)</b>	<b>1.868</b>	<b>1.981</b>	<b>0.298</b>	<b>0.300</b>	<b>0.458</b>	<b>0.504</b>	<b>1.561</b>	<b>1.811</b>	<b>2.056</b>	<b>2.187</b>
<b>EPS (rep.)</b>	<b>1.812</b>	<b>1.956</b>	<b>0.249</b>	<b>0.261</b>	<b>0.458</b>	<b>0.504</b>	<b>1.473</b>	<b>1.811</b>	<b>2.056</b>	<b>2.187</b>

Key figures	2020	2021	Q1'22	Q2'22	Q3'22e	Q4'22e	2022e	2023e	2024e	2025e
<b>Revenue growth-%</b>	-0.4 %	5.8 %	5.0 %	-9.1 %	14.9 %	7.1 %	4.2 %	-1.1 %	5.0 %	3.6 %
<b>Adjusted EBIT growth-%</b>	1.1 %	4.7 %	-21.3 %	-44.1 %	-6.3 %	-6.7 %	-20.1 %	17.1 %	12.9 %	5.9 %
<b>EBITDA-%</b>	14.6 %	14.6 %	9.6 %	9.9 %	12.3 %	13.5 %	11.5 %	13.9 %	14.7 %	14.9 %
<b>Adjusted EBIT-%</b>	12.6 %	12.5 %	8.0 %	8.2 %	10.2 %	11.3 %	9.6 %	11.3 %	12.2 %	12.5 %
<b>Net earnings-%</b>	9.5 %	9.6 %	5.3 %	5.3 %	7.9 %	8.8 %	7.0 %	8.7 %	9.4 %	9.6 %

Source: Inderes

# Balance sheet

Assets	2020	2021	2022e	2023e	2024e
<b>Non-current assets</b>	<b>2748</b>	<b>2915</b>	<b>3012</b>	<b>3006</b>	<b>3031</b>
Goodwill	1327	1405	1405	1405	1405
Intangible assets	223	217	214	213	214
Tangible assets	710	737	840	835	858
Associated companies	0.0	0.0	0.0	0.0	0.0
Other investments	144	147	142	142	142
Other non-current assets	19.2	22.9	23.5	23.5	23.5
Deferred tax assets	325	386	388	388	388
<b>Current assets</b>	<b>6044</b>	<b>6805</b>	<b>7092</b>	<b>7012</b>	<b>7362</b>
Inventories	597	718	748	740	777
Other current assets	0.0	0.0	0.0	0.0	0.0
Receivables	2818	3202	3337	3299	3464
Cash and equivalents	2629	2885	3007	2973	3121
<b>Balance sheet total</b>	<b>8792</b>	<b>9720</b>	<b>10104</b>	<b>10017</b>	<b>10393</b>

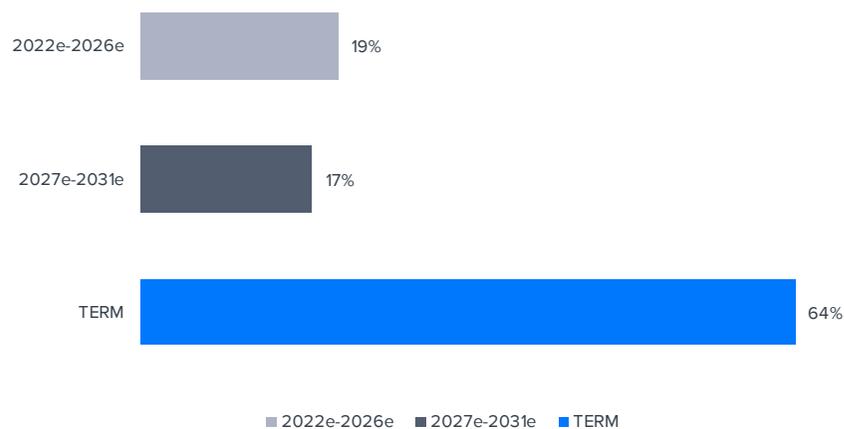
Source: Inderes

Liabilities & equity	2020	2021	2022e	2023e	2024e
<b>Equity</b>	<b>3197</b>	<b>3199</b>	<b>2875</b>	<b>2986</b>	<b>3198</b>
Share capital	66.2	66.2	66.2	66.2	66.2
Retained earnings	2747	2549	2225	2336	2547
Hybrid bonds	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	0.0	0.0	0.0	0.0	0.0
Other equity	362	559	559	559	559
Minorities	22.6	25.0	25.0	25.0	25.0
<b>Non-current liabilities</b>	<b>790</b>	<b>1000</b>	<b>1369</b>	<b>1264</b>	<b>1174</b>
Deferred tax liabilities	204	218	206	206	206
Provisions	155	152	164	164	164
Long term debt	244	435	847	741	651
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	187	194	153	153	153
<b>Current liabilities</b>	<b>4805</b>	<b>5521</b>	<b>5860</b>	<b>5768</b>	<b>6022</b>
Short term debt	265	117	227	199	175
Payables	4540	5405	5633	5569	5847
Other current liabilities	0.0	0.0	0.0	0.0	0.0
<b>Balance sheet total</b>	<b>8792</b>	<b>9720</b>	<b>10104</b>	<b>10017</b>	<b>10393</b>

# DCF calculation

DCF model	2021	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	TERM
Revenue growth-%	5.8 %	4.2 %	-1.1%	5.0 %	3.6 %	3.4 %	3.2 %	3.0 %	2.9 %	2.7 %	2.5 %	2.5 %
EBIT-%	12.3 %	9.1%	11.3 %	12.2 %	12.5 %	12.3 %	12.1%	11.9 %	11.7 %	11.5 %	11.5 %	11.5 %
<b>EBIT (operating profit)</b>	<b>1295</b>	<b>1001</b>	<b>1226</b>	<b>1385</b>	<b>1467</b>	<b>1493</b>	<b>1517</b>	<b>1538</b>	<b>1557</b>	<b>1572</b>	<b>1611</b>	
+ Depreciation	244	256	285	283	290	303	309	315	321	327	333	
- Paid taxes	-346.1	-244.6	-284.2	-321.8	-341.9	-349.0	-355.4	-361.2	-366.3	-370.8	-380.7	
- Tax, financial expenses	-5.5	-11.7	-10.8	-10.0	-9.2	-8.7	-8.3	-7.9	-7.4	-7.0	-6.5	
+ Tax, financial income	11.2	12.5	13.1	13.3	13.9	14.4	14.8	15.3	15.7	16.2	16.6	
- Change in working capital	359	62.6	-17.5	76.4	57.0	56.1	55.0	53.7	52.1	50.3	48.3	
<b>Operating cash flow</b>	<b>1558</b>	<b>1076</b>	<b>1211</b>	<b>1426</b>	<b>1476</b>	<b>1509</b>	<b>1532</b>	<b>1553</b>	<b>1571</b>	<b>1588</b>	<b>1622</b>	
+ Change in other long-term liabilities	4.7	-29.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-349.3	-351.1	-278.4	-308.1	-340.4	-324.4	-331.1	-337.5	-343.8	-349.8	-366.2	
<b>Free operating cash flow</b>	<b>1213</b>	<b>695</b>	<b>933</b>	<b>1118</b>	<b>1136</b>	<b>1184</b>	<b>1201</b>	<b>1215</b>	<b>1228</b>	<b>1238</b>	<b>1256</b>	
+/- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	1213	695	933	1118	1136	1184	1201	1215	1228	1238	1256	27096
<b>Discounted FCFF</b>		<b>685</b>	<b>857</b>	<b>958</b>	<b>908</b>	<b>882</b>	<b>834</b>	<b>787</b>	<b>741</b>	<b>697</b>	<b>659</b>	<b>14227</b>
Sum of FCFF present value		22236	21551	20693	19736	18828	17946	17112	16324	15583	14886	14227
<b>Enterprise value DCF</b>		<b>22236</b>										
- Interesting bearing debt		-194.2										
+ Cash and cash equivalents		2885										
-Minorities		-177.7										
-Dividend/capital return		-1087.5										
<b>Equity value DCF</b>		<b>23683</b>										
<b>Equity value DCF per share</b>		<b>45.7</b>										

Cash flow distribution



## Wacc

Tax-% (WACC)	23.5 %
Target debt ratio (D/(D+E))	0.0 %
Cost of debt	3.5 %
Equity Beta	1.00
Market risk premium	4.75%
Liquidity premium	0.00%
Risk free interest rate	2.5 %
<b>Cost of equity</b>	<b>7.3 %</b>
<b>Weighted average cost of capital (WACC)</b>	<b>7.3 %</b>

Source: Inderes

# Summary

Income statement	2019	2020	2021	2022e	2023e	Per share data	2019	2020	2021	2022e	2023e
Revenue	9981.8	9938.5	10514.1	<b>10957.6</b>	<b>10833.5</b>	EPS (reported)	1.80	1.81	1.96	<b>1.47</b>	<b>1.81</b>
EBITDA	1434.0	1451.9	1539.3	<b>1257.0</b>	<b>1510.6</b>	EPS (adj.)	1.86	1.87	1.98	<b>1.56</b>	<b>1.81</b>
EBIT	1192.5	1212.9	1295.3	<b>1001.2</b>	<b>1226.1</b>	OCF / share	2.45	2.80	3.00	<b>2.08</b>	<b>2.34</b>
PTP	1217.6	1224.3	1320.8	<b>1004.9</b>	<b>1235.8</b>	FCF / share	1.33	2.61	2.34	<b>1.34</b>	<b>1.80</b>
Net Income	931.4	939.3	1014.2	<b>763.6</b>	<b>938.9</b>	Book value / share	6.12	6.12	6.12	<b>5.50</b>	<b>5.71</b>
Extraordinary items	-44.9	-37.6	-14.5	<b>-45.6</b>	<b>0.0</b>	Dividend / share	1.70	2.25	2.10	<b>1.60</b>	<b>1.65</b>
Balance sheet	2019	2020	2021	2022e	2023e	Growth and profitability	2019	2020	2021	2022e	2023e
Balance sheet total	8613.3	8792.0	9720.4	<b>10104.0</b>	<b>10017.5</b>	Revenue growth-%	10%	0%	6%	<b>4%</b>	<b>-1%</b>
Equity capital	3192.8	3197.2	3199.2	<b>2875.3</b>	<b>2985.9</b>	EBITDA growth-%	23%	1%	6%	<b>-18%</b>	<b>20%</b>
Goodwill	1366.5	1327.0	1405.2	<b>1405.2</b>	<b>1405.2</b>	EBIT (adj.) growth-%	11%	1%	5%	<b>-20%</b>	<b>17%</b>
Net debt	-1703.2	-2120.8	-2332.9	<b>-1933.2</b>	<b>-2032.4</b>	EPS (adj.) growth-%	7%	0%	6%	<b>-21%</b>	<b>16%</b>
Cash flow	2019	2020	2021	2022e	2023e	EBITDA-%	14.4 %	14.6 %	14.6 %	<b>11.5 %</b>	<b>13.9 %</b>
EBITDA	1434.0	1451.9	1539.3	<b>1257.0</b>	<b>1510.6</b>	EBIT (adj.)-%	12.4 %	12.6 %	12.5 %	<b>9.6 %</b>	<b>11.3 %</b>
Change in working capital	102.5	314.2	358.7	<b>62.6</b>	<b>-17.5</b>	EBIT-%	11.9 %	12.2 %	12.3 %	<b>9.1 %</b>	<b>11.3 %</b>
Operating cash flow	1271.3	1453.9	1557.7	<b>1075.9</b>	<b>1211.1</b>	ROE-%	29.9 %	29.6 %	31.9 %	<b>25.3 %</b>	<b>32.3 %</b>
CAPEX	-595.8	-144.0	-349.3	<b>-351.1</b>	<b>-278.4</b>	ROI-%	35.3 %	33.7 %	36.1 %	<b>27.4 %</b>	<b>32.6 %</b>
Free cash flow	689.1	1351.8	1213.1	<b>695.2</b>	<b>932.7</b>	Equity ratio	46.5 %	45.5 %	41.2 %	<b>35.7 %</b>	<b>38.0 %</b>
Valuation multiples	2019	2020	2021	2022e	2023e	Gearing	-53.3 %	-66.3 %	-72.9 %	<b>-67.2 %</b>	<b>-68.1 %</b>
EV/S	2.9	3.3	2.9	<b>1.7</b>	<b>1.7</b>						
EV/EBITDA (adj.)	20.0	22.4	19.9	<b>14.7</b>	<b>12.2</b>						
EV/EBIT (adj.)	23.2	26.0	23.3	<b>17.7</b>	<b>15.0</b>						
P/E (adj.)	31.3	35.6	31.8	<b>25.0</b>	<b>21.6</b>						
P/E	9.5	10.9	10.3	<b>7.1</b>	<b>6.8</b>						
Dividend-%	2.9 %	3.4 %	3.3 %	<b>4.1 %</b>	<b>4.2 %</b>						

Source: Inderes

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Reduce The 12-month risk-adjusted expected shareholder return of the share is weak

Sell The 12-month risk-adjusted expected shareholder return of the share is very weak

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## Recommendation history (>12 mo)

Date	Recommendation	Target price	Share price
7/20/2018	Reduce	43.00 €	47.30 €
10/26/2018	Reduce	42.00 €	40.60 €
1/25/2019	Reduce	40.00 €	42.73 €
4/29/2019	Sell	41.00 €	48.90 €
7/19/2019	Sell	41.00 €	51.12 €
10/24/2019	Sell	42.00 €	54.18 €
1/29/2020	Sell	45.00 €	61.02 €
3/24/2020	Sell	42.00 €	46.90 €
4/23/2020	Sell	46.00 €	55.00 €
7/20/2020	Sell	48.00 €	64.28 €
9/23/2020	Sell	61.00 €	73.38 €
10/23/2020	Sell	61.00 €	71.26 €
1/29/2021	Sell	61.00 €	67.08 €
4/30/2021	Sell	61.00 €	66.12 €
7/21/2021	Sell	61.00 €	70.82 €
11/1/2021	Reduce	59.00 €	58.72 €
2/3/2022	Reduce	57.00 €	56.80 €
5/2/2022	Accumulate	51.00 €	46.09 €
7/15/2022	Accumulate	51.00 €	45.85 €
7/22/2022	Accumulate	51.00 €	44.38 €
8/31/2022	Reduce	44.00 €	40.89 €
10/17/2022	Reduce	41.50 €	39.09 €



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