

# Kone

## Company report

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This report is a summary translation of the report "Ryhteikössä eteenpäin" published on 10/26/2023 at 07:38 am EEST

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# Marching on in the thicket

KONE's Q3 figures were pretty close to consensus but slightly below our expectations. KONE reiterated its 2023 guidance and the market outlook comments were also unchanged. KONE's share is fairly fully priced with all the indicators we use. We reiterate our Reduce recommendation and lower our target price to EUR 42.00 (was 47.50) reflecting our forecast changes, as well as the expected total return.

## Reported figures were in the right ballpark

KONE's Q3 order intake (-8% y-o-y) was in line with the consensus but slightly below our expectation. However, in comparable currencies, orders were at last year's level. Orders grew surprisingly in China, which neutralized the decline in Europe and America. In Q3, KONE took back its previously lost market share in China. The Group's net sales (-8% y-o-y) were below expectations, but the decrease in comparable currencies was only -1% y-o-y. The adjusted EBIT margin (6.0%) was roughly on par with expectations. Profitability improved due to increased net sales in the maintenance and modernization businesses, better pricing of deliveries and lower material costs. However, KONE did not yet benefit much from the operating model reform aiming at cost savings of EUR 100 million. Headwind came from the negative operational leverage of new equipment deliveries as net sales fell, from cost inflation and currencies. Net financial income was slightly higher than expected, but adjusted EPS was slightly below the forecast.

## Cautious adjustments to estimates

KONE still expects its sales growth at comparable exchange rates for 2023 to be 3-6% and the adjusted EBIT margin to be 11.0-12.0%. Based on the guidance, growth and profitability is not subject to particular pressure during the rest of the year. According to KONE, the biggest problems in the Chinese market are the weak consumer sentiment and confidence and the constantly tight financial situation of real estate developers. Tailwind to the Chinese market comes from the active efforts of authorities to complete all unfinished residential buildings. KONE also believes that when new equipment sales, modernizations and maintenance are combined, the Chinese market will start to grow at some point in 2024. In addition, KONE expects India to become a key growth market in the coming years, supported by its young population, urbanization and economic growth. KONE's key margin drivers in the future will be 1) improved margins in the order book; 2) an active maintenance and modernization market; and 3) lower material and component prices. However, profitability continues to be burdened by declining volumes in many markets and persistent wage inflation. Our forecast changes are minor, but downward. However, we still expect moderate EPS growth in 2024-2025 (CAGR = 8%).

## Reasonable valuation but...

KONE's share is fairly fully priced with the indicators we use. Thus, investors are still in no particular rush to jump on board KONE, but have time to wait for the Chinese market to recover and for possible new openings in India. The share's EV/EBIT is at the median level of the peers with the 2024 ratio (13x). With 2024 P/E and EV/EBIT ratios, the expected total return is +6%, which is a bit below our 7% required return. Thus, the risk-adjusted expected return is not yet attractive. Although our DCF model gives the share a reasonable +24% upside, we do not yet see any drivers for its realization.

## Recommendation

**Reduce**  
(previous Reduce)

**EUR 42.00**  
(previous EUR 47.50)

**Share price:**  
39.50



## Key figures

	2022	2023e	2024e	2025e
<b>Revenue</b>	10907	11372	11819	12213
<b>growth-%</b>	4%	4%	4%	3%
<b>EBIT adj.</b>	1076.6	1285.5	1426.9	1511.2
<b>EBIT-% adj.</b>	9.9 %	11.3 %	12.1 %	12.4 %
<b>Net Income</b>	774.5	948.4	1094.6	1170.2
<b>EPS (adj.)</b>	1.59	1.94	2.12	2.26
<b>P/E (adj.)</b>	30.5	20.3	18.7	17.5
<b>P/B</b>	8.8	7.1	6.7	6.2
<b>Dividend yield-%</b>	3.6 %	4.4 %	4.6 %	4.6 %
<b>EV/EBIT (adj.)</b>	22.1	15.0	13.4	12.5
<b>EV/EBITDA</b>	18.4	12.9	11.3	10.6
<b>EV/S</b>	2.2	1.7	1.6	1.5

Source: Inderes

## Guidance

(Adjusted)

KONE expects its sales growth at comparable exchange rates for 2023 to be in the range of 3–6%. The adjusted EBIT margin is expected to be in the range of 11.0–12.0%.

### Share price



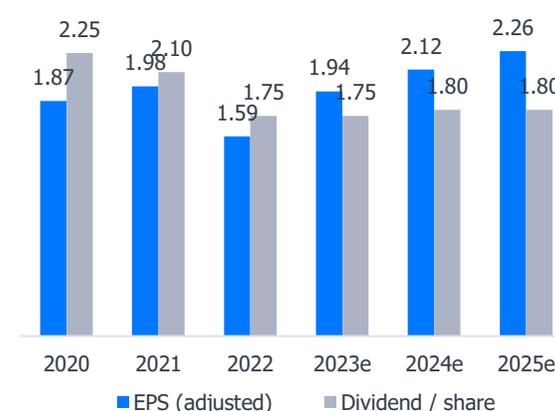
Source: Millstream Market Data AB

### Revenue and EBIT-%



Source: Inderes

### EPS and dividend



Source: Inderes



### Value drivers

- Demand recovery in the new equipment market
- Growth in the maintenance markets in China and other Asian countries
- Renewed operating model will start supporting margins
- Rise of new digital services



### Risk factors

- Delay in the recovery of the Chinese construction market and continued tight price competition
- The Western market remains sticky
- Standing out with digital services proves difficult

Valuation	2023e	2024e	2025e
Share price	39.5	39.5	39.5
Number of shares, million:	517.2	517.2	517.2
Market cap	20431	20431	20431
EV	19288	19103	18909
P/E (adj.)	20.3	18.7	17.5
P/E	21.5	18.7	17.5
P/FCF	25.5	18.9	18.4
P/B	7.1	6.7	6.2
P/S	1.8	1.7	1.7
EV/Sales	1.7	1.6	1.5
EV/EBITDA	12.9	11.3	10.6
EV/EBIT (adj.)	15.0	13.4	12.5
Payout ratio (%)	95.3 %	85.0 %	79.5 %
Dividend yield-%	4.4 %	4.6 %	4.6 %

Source: Inderes

# Reported figures were in the right ballpark

## Q3 figures were close to expected

KONE's Q3 figures were pretty close to consensus, but slightly below our expectations. The positive thing was that the order intake in comparable currencies was at last year's level.

## Market share was gained back in China

KONE's Q3 order intake (1,990 MEUR; -8% y-o-y) was in line with the consensus (1,980 MEUR), but slightly below our expectation (2,067 MEUR). However, in comparable currencies, orders were at last year's level. New equipment orders decreased by 0...-5% y-o-y, but this was compensated by a comparable increase in modernization orders of +5...+10% y-o-y. Surprisingly, orders grew in China, neutralizing the decline in orders in Europe and America. In Q3, KONE increased its order intake for new equipment measured by the number in China by +20% y-o-y, while

the market dived by -10% y-o-y, i.e. KONE took back its previously lost market share.

## New equipment sales dipped

The Group's net sales (-8% y-o-y) were below expectations, but the decrease in comparable currencies was only -1% y-o-y. New equipment sales fell by -21% y-o-y, but maintenance net sales increased by +4% y-o-y and modernizations by +12% y-o-y. APAC (-23% y-o-y) was the weakest of the regions, but EMEA and the Americas saw a small increase (+2% and +8% y-o-y respectively).

## No surprises in the margins

The adjusted EBIT margin (6.0%) was roughly on par with expectations. According to KONE, profitability improved due to increased net sales in the maintenance and modernization businesses, better pricing of deliveries and

lower material costs. KONE did not yet benefit much from the operating model reform aiming at cost savings of EUR 100 million, but it was stated that this would start to show more in Q4 and 2024. Headwind came from the negative operational leverage of new equipment deliveries as net sales fell, from cost inflation and currencies. Net financial income was slightly higher than expected, but adjusted EPS was slightly below the forecast.

Estimates MEUR / EUR	Q3'22	Q3'23	Q3'23e	Q3'23e	Consensus		Difference (%)	2023e
	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. inderes	Inderes
Revenue	2998	2750	2900	2841	2575	2916	-5%	11433
EBIT (adj.)	306	316	344	330	303	360	-8%	1330
EBIT	304	316	334	308	258	360	-5%	1262
PTP	313	320	336	309	266	380	-5%	1269
EPS (adj.)	0.46	0.47	0.51	0.50	0.44	0.57	-7%	2.00
EPS (reported)	0.46	0.47	0.49	0.46	0.40	0.57	-4%	1.87
Revenue growth-%	14.9 %	-8.3 %	-3.3 %	-5.3 %	-14.1 %	-2.7 %	-5 pp	4.3 %
EBIT-% (adj.)	10.2 %	11.5 %	11.9 %	11.6 %	11.8 %	12.3 %	-0.4 pp	11.6 %

Source: Inderes & Vara Research (consensus)

# Cautious adjustments to estimates

## The outlook was repeated

KONE reiterated its previous 2023 guidance. The market outlook for 2023 was also unchanged.

## 2023 guidance will be reached

KONE still expects its sales growth at comparable exchange rates for 2023 to be 3-6% and the adjusted EBIT margin to be 11.0-12.0%. Comparable net sales growth was already +6.5% y-o-y in Q1-Q3, so there is no particular pressure on growth toward the end of the year. The adjusted EBIT margin of 10.9% in Q1-Q3 also provides a good basis for achieving the guidance.

## China will start recovering in 2024 and India will emerge

KONE was still cautious in its comments concerning the Chinese market and the main problems identified were weak consumer sentiment and confidence and the

constantly tight financial situation of real estate developers. The declining Chinese market is also highly competitive. Tailwind to the Chinese market comes from the active efforts of authorities to complete all unfinished residential buildings. KONE believes that when new equipment sales, modernizations and maintenance are combined, the Chinese market will start to grow at some point in 2024. KONE also expects India to become a key growth market in the coming years. According to Kone, India's young population, urbanization and economic growth support the development. The company is of the same opinion as Schindler on the importance of India, while Otis spoke very little about India. KONE estimated the size of the Indian elevator market to be close to 100,000 while the market estimate for China is some 500,000 elevators.

## Discord in profitability drivers

KONE's key margin drivers in the future will be 1) improved margins in the order book; 2) an active maintenance and modernization market; and 3) lower material and component prices. However, profitability continues to be burdened by declining volumes in many markets and persistent wage inflation.

## Slight adjustments to forecasts

Our forecast changes are minor, but downward. We have taken a slightly more cautious position on the effects of wage inflation and the visibility of the savings from the new operating model at EBIT level. However, we still expect moderate EPS growth in 2024-2025 (CAGR = 8%).

Estimate revisions MEUR / EUR	2023e Inderes	2023 Actualized	Change %	2024e Old	2024e New	Change %	2025e Old	2025e New	Change %
Revenue	11433	11372	-1%	11898	11819	-1%	12293	12213	-1%
EBIT (exc. NRIs)	1330	1285	-3%	1495	1427	-5%	1597	1511	-5%
EBIT	1262	1228	-3%	1495	1427	-5%	1597	1511	-5%
PTP	1269	1239	-2%	1501	1433	-5%	1612	1527	-5%
EPS (excl. NRIs)	2.00	1.94	-3%	2.21	2.12	-4%	2.38	2.26	-5%
DPS	1.75	1.75	0%	1.80	1.80	0%	1.85	1.80	-3%

Source: Inderes

# Reasonable valuation but...

## Valuation is reasonable but we remain cautious

The valuation of KONE's share is still not particularly attractive, although the company's comments on the market and its own development contained many positive elements. KONE's dependence on the still uncertain Chinese market is high. The company also mentioned that its margins in China today represent the Group average, so also in this sense, focusing investments on China is not as justified as before. Competition in the new equipment market in India is also likely to intensify, so maintenance and modernization will continue to be the best sources of profit.

KONE's share is fairly fully priced with the indicators we use (e.g. total return model, peer valuation). Therefore, we still feel that investors are not in a particular hurry to jump on board KONE, but have time to wait and see if the Chinese market turns for the better and for possible new openings in India. We believe that maintenance and modernizations will continue to report good growth and profitability. We maintain our Reduce recommendation and cut our target price to EUR 42.00 (was EUR 47.50) based on the indication of our total return model and our estimate cuts.

## The expected total return is on par with the required return

The total expected return of KONE's share (upside potential in the share price based on earnings growth and expected change in valuation multiple plus dividend yield) with 2024 P/E and EV/EBIT ratios is +6,% which is a bit below our required return of around 7%. Based on this, the risk-adjusted expected return for the share is not yet attractive.

## Multiple-based valuation does not stand out

As KONE has about EUR 800 billion in net assets, the EV/EBIT ratio is better suited than the P/E to assess peer group pricing. The 2024 EV/EBIT ratio (13x) is on par with the median of peers and on average -6% below the ratios of the closest competitors Otis and Schindler. However, KONE's greater dependence on the Chinese market than its competitors (some 25% vs. 15...17%) increases the company's risk profile compared to the above companies.

## Reasonable potential to cash flow value

Our DCF model indicates a EUR 47 value for KONE's share to which the upside is +24 %. The potential is reasonable, but we do not yet see any drivers for its realization.

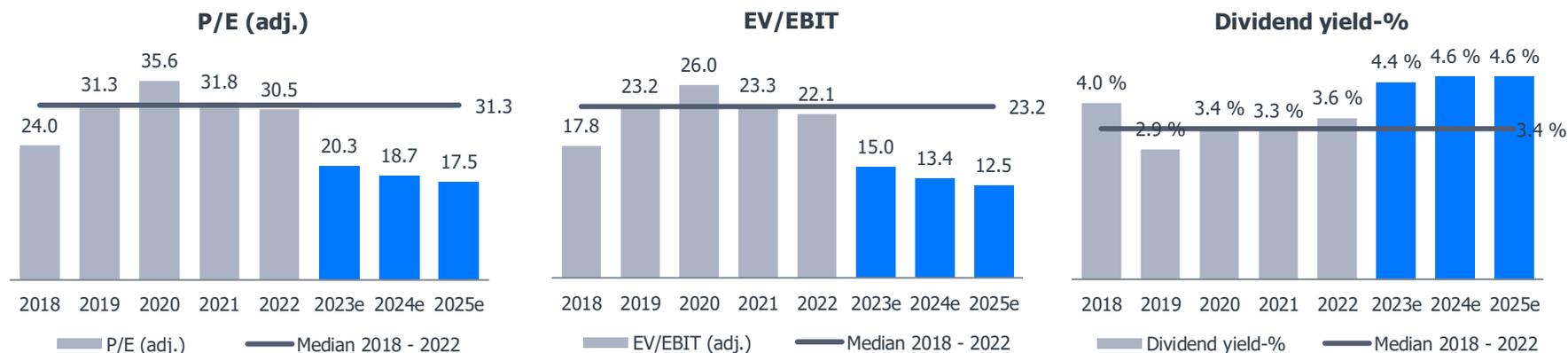
Valuation	2023e	2024e	2025e
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Number of shares, million	517.2	517.2	517.2
Market cap	20431	20431	20431
EV	19288	19103	18909
P/E (adj.)	20.3	18.7	17.5
P/E	21.5	18.7	17.5
P/FCF	25.5	18.9	18.4
P/B	7.1	6.7	6.2
P/S	1.8	1.7	1.7
EV/Sales	1.7	1.6	1.5
EV/EBITDA	12.9	11.3	10.6
EV/EBIT (adj.)	15.0	13.4	12.5
Payout ratio (%)	95.3 %	85.0 %	79.5 %
Dividend yield-%	4.4 %	4.6 %	4.6 %

Source: Inderes

# Valuation table

Valuation	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e
Share price	41.6	58.3	66.5	63.0	48.3	39.5	39.5	39.5	39.5
Number of shares, millions	516.1	518.4	518.4	518.0	517.1	517.2	517.2	517.2	517.2
Market cap	21489	30212	34452	32652	24975	20431	20431	20431	20431
EV	19758	28677	32555	30555	23780	19288	19103	18909	18620
P/E (adj.)	24.0	31.3	35.6	31.8	30.5	20.3	18.7	17.5	16.6
P/E	25.6	32.4	36.7	32.2	32.2	21.5	18.7	17.5	16.6
P/FCF	28.7	43.8	25.5	26.9	>100	25.5	18.9	18.4	17.1
P/B	7.0	9.5	10.9	10.3	8.8	7.1	6.7	6.2	5.7
P/S	2.4	3.0	3.5	3.1	2.3	1.8	1.7	1.7	1.6
EV/Sales	2.2	2.9	3.3	2.9	2.2	1.7	1.6	1.5	1.5
EV/EBITDA	17.0	20.0	22.4	19.8	18.4	12.9	11.3	10.6	9.9
EV/EBIT (adj.)	17.8	23.2	26.0	23.3	22.1	15.0	13.4	12.5	11.8
Payout ratio (%)	101.1 %	94.5 %	124.1 %	107.1 %	116.7 %	95.3 %	85.0 %	79.5 %	90.0 %
Dividend yield-%	4.0 %	2.9 %	3.4 %	3.3 %	3.6 %	4.4 %	4.6 %	4.6 %	5.4 %

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
			2023e	2024e	2023e	2024e	2023e	2024e	2023e	2024e	2023e	2024e	2023e
Schindler Holding AG	20254	17859	14.1	13.0	11.1	10.5	1.5	1.5	21.5	19.9	2.5	2.6	4.2
Assa Abloy AB	21660	27520	14.5	13.4	12.2	11.2	2.3	2.1	17.9	15.9	2.3	2.4	2.6
Koninklijke Philips NV	16469	23509	15.1	13.0	8.4	7.8	1.3	1.2	14.7	12.4	5.0	5.0	1.3
Otis Worldwide Corp	30018	35536	16.7	15.6	15.5	14.4	2.7	2.6	22.1	20.1	1.7	1.9	
Ingersoll Rand Inc	22771	24292	16.7	16.3	15.0	13.9	3.8	3.6	21.6	19.5	0.1	0.2	2.5
Johnson Controls International PLC	31272	39406	12.7	11.6	10.2	9.3	1.6	1.5	13.8	12.3	2.8	3.1	2.0
Gree Electric Appliances Inc of Zhuhai	24392	15171	4.1	3.8	3.4	3.2	0.6	0.5	7.0	6.5	7.3	7.9	1.7
Dover Corp	17466	20425	13.6	12.7	11.7	10.9	2.5	2.4	15.0	13.8	1.5	1.6	3.7
Honeywell International Inc	113674	126155	16.2	15.0	14.2	13.2	3.6	3.4	19.8	18.1	2.3	2.5	6.8
Lennox International Inc	11577	13012	17.1	15.8	15.5	14.3	2.9	2.8	20.4	18.5	1.2	1.3	66.4
Melco International Development Ltd	1012	9311	72.7	16.5	10.6	7.4	2.7	2.1		117.7			
<b>Kone (Inderes)</b>	<b>20431</b>	<b>19288</b>	<b>15.0</b>	<b>13.4</b>	<b>12.9</b>	<b>11.3</b>	<b>1.7</b>	<b>1.6</b>	<b>20.3</b>	<b>18.7</b>	<b>4.4</b>	<b>4.6</b>	<b>7.1</b>
<b>Average</b>			<b>19.4</b>	<b>13.3</b>	<b>11.6</b>	<b>10.6</b>	<b>2.3</b>	<b>2.2</b>	<b>17.4</b>	<b>25.0</b>	<b>2.7</b>	<b>2.8</b>	<b>10.1</b>
<b>Median</b>			<b>15.1</b>	<b>13.4</b>	<b>11.7</b>	<b>10.9</b>	<b>2.5</b>	<b>2.1</b>	<b>18.9</b>	<b>18.1</b>	<b>2.3</b>	<b>2.5</b>	<b>2.6</b>
<b>Diff-% to median</b>			<b>-1%</b>	<b>0%</b>	<b>10%</b>	<b>3%</b>	<b>-32%</b>	<b>-23%</b>	<b>8%</b>	<b>3%</b>	<b>93%</b>	<b>86%</b>	<b>170%</b>

Source: Refinitiv / Inderes

# Income statement

Income statement	2021	2022	Q1'23	Q2'23	Q3'23	Q4'23e	2023e	Q1'24e	Q2'24e	Q3'24e	Q4'24e	2024e	2025e	2026e
<b>Revenue</b>	<b>10514</b>	<b>10907</b>	<b>2557</b>	<b>2836</b>	<b>2750</b>	<b>3229</b>	<b>11372</b>	<b>2553</b>	<b>3021</b>	<b>3024</b>	<b>3221</b>	<b>11819</b>	<b>12213</b>	<b>12674</b>
Group	10514	10907	2557	2836	2750	3229	11372	2553	3021	3024	3221	11819	12213	12674
<b>EBITDA</b>	<b>1539</b>	<b>1291</b>	<b>303</b>	<b>347</b>	<b>385</b>	<b>459</b>	<b>1494</b>	<b>328</b>	<b>440</b>	<b>441</b>	<b>488</b>	<b>1697</b>	<b>1789</b>	<b>1878</b>
Depreciation	-244.0	-259.3	-64.6	-64.0	-68.5	-68.5	-265.6	-67.6	-67.6	-67.6	-67.6	-270.3	-278.1	-296.8
<b>EBIT (excl. NRI)</b>	<b>1310</b>	<b>1077</b>	<b>242</b>	<b>332</b>	<b>316</b>	<b>396</b>	<b>1285</b>	<b>261</b>	<b>372</b>	<b>374</b>	<b>420</b>	<b>1427</b>	<b>1511</b>	<b>1581</b>
<b>EBIT</b>	<b>1295</b>	<b>1031</b>	<b>238</b>	<b>283</b>	<b>316</b>	<b>390</b>	<b>1228</b>	<b>261</b>	<b>372</b>	<b>374</b>	<b>420</b>	<b>1427</b>	<b>1511</b>	<b>1581</b>
Group	1295	1031	238	283	316	390	1228	261	372	374	420	1427	1511	1581
Net financial items	25.5	-2.7	2.8	1.5	3.3	3.3	10.9	1.4	1.4	1.4	1.4	5.6	15.6	22.4
<b>PTP</b>	<b>1321</b>	<b>1029</b>	<b>241</b>	<b>285</b>	<b>320</b>	<b>394</b>	<b>1239</b>	<b>262</b>	<b>374</b>	<b>375</b>	<b>422</b>	<b>1433</b>	<b>1527</b>	<b>1603</b>
Taxes	-298.1	-244.0	-55.5	-62.8	-71.9	-90.5	-280.7	-59.7	-85.1	-85.4	-96.1	-326.4	-345.9	-363.3
Minority interest	-8.5	-10.0	-2.0	1.2	-2.1	-7.1	-10.0	-1.0	-2.0	-5.0	-3.6	-11.6	-10.7	-10.5
<b>Net earnings</b>	<b>1014</b>	<b>775</b>	<b>184</b>	<b>223</b>	<b>246</b>	<b>296</b>	<b>948</b>	<b>201</b>	<b>287</b>	<b>285</b>	<b>322</b>	<b>1095</b>	<b>1170</b>	<b>1230</b>
<b>EPS (adj.)</b>	<b>1.983</b>	<b>1.586</b>	<b>0.362</b>	<b>0.526</b>	<b>0.474</b>	<b>0.583</b>	<b>1.944</b>	<b>0.389</b>	<b>0.554</b>	<b>0.550</b>	<b>0.623</b>	<b>2.116</b>	<b>2.262</b>	<b>2.377</b>
<b>EPS (rep.)</b>	<b>1.958</b>	<b>1.498</b>	<b>0.355</b>	<b>0.431</b>	<b>0.475</b>	<b>0.572</b>	<b>1.834</b>	<b>0.389</b>	<b>0.554</b>	<b>0.550</b>	<b>0.623</b>	<b>2.116</b>	<b>2.262</b>	<b>2.377</b>

Key figures	2021	2022	Q1'23	Q2'23	Q3'23	Q4'23e	2023e	Q1'24e	Q2'24e	Q3'24e	Q4'24e	2024e	2025e	2026e
<b>Revenue growth-%</b>	5.8 %	3.7 %	4.7 %	11.0 %	-8.3 %	10.9 %	4.3 %	-0.1 %	6.5 %	10.0 %	-0.2 %	3.9 %	3.3 %	3.8 %
<b>Adjusted EBIT growth-%</b>	4.7 %	-17.8 %	23.1 %	58.6 %	3.3 %	8.4 %	19.4 %	7.8 %	12.1 %	18.2 %	6.2 %	11.0 %	5.9 %	4.6 %
<b>EBITDA-%</b>	14.6 %	11.8 %	11.8 %	12.2 %	14.0 %	14.2 %	13.1 %	12.9 %	14.6 %	14.6 %	15.1 %	14.4 %	14.7 %	14.8 %
<b>Adjusted EBIT-%</b>	12.5 %	9.9 %	9.5 %	11.7 %	11.5 %	12.3 %	11.3 %	10.2 %	12.3 %	12.4 %	13.0 %	12.1 %	12.4 %	12.5 %
<b>Net earnings-%</b>	9.6 %	7.1 %	7.2 %	7.9 %	8.9 %	9.2 %	8.3 %	7.9 %	9.5 %	9.4 %	10.0 %	9.3 %	9.6 %	9.7 %

Source: Inderes

# Balance sheet

Assets	2021	2022	2023e	2024e	2025e
<b>Non-current assets</b>	<b>2915</b>	<b>2899</b>	<b>2969</b>	<b>2997</b>	<b>3061</b>
Goodwill	1405	1415	1415	1415	1415
Intangible assets	217	208	205	205	247
Tangible assets	737	717	779	806	829
Associated companies	0.0	0.0	0.0	0.0	0.0
Other investments	147	124	97.4	97.4	97.4
Other non-current assets	22.9	10.0	12.9	12.9	12.9
Deferred tax assets	386	425	461	461	461
<b>Current assets</b>	<b>6805</b>	<b>6191</b>	<b>6148</b>	<b>6390</b>	<b>6603</b>
Inventories	718	844	796	827	855
Other current assets	0.0	0.0	0.0	0.0	0.0
Receivables	3202	3377	3298	3428	3542
Cash and equivalents	2885	1970	2054	2135	2206
<b>Balance sheet total</b>	<b>9720</b>	<b>9090</b>	<b>9118</b>	<b>9387</b>	<b>9664</b>

Source: Inderes

Liabilities & equity	2021	2022	2023e	2024e	2025e
<b>Equity</b>	<b>3199</b>	<b>2867</b>	<b>2911</b>	<b>3102</b>	<b>3342</b>
Share capital	66.2	66.2	66.2	66.2	66.2
Retained earnings	2549	2184	2229	2419	2660
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	559	586	586	586	586
Minorities	25.0	29.9	29.9	29.9	29.9
<b>Non-current liabilities</b>	<b>1000</b>	<b>949</b>	<b>1132</b>	<b>1060</b>	<b>976</b>
Deferred tax liabilities	218	214	233	233	233
Provisions	152	177	214	214	214
Interest bearing debt	435	418	564	493	409
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	194	140	121	121	121
<b>Current liabilities</b>	<b>5521</b>	<b>5275</b>	<b>5075</b>	<b>5225</b>	<b>5347</b>
Interest bearing debt	117	116	157	137	113
Payables	5405	5159	4918	5088	5233
Other current liabilities	0.0	0.0	0.0	0.0	0.0
<b>Balance sheet total</b>	<b>9720</b>	<b>9090</b>	<b>9118</b>	<b>9387</b>	<b>9664</b>

# DCF calculation

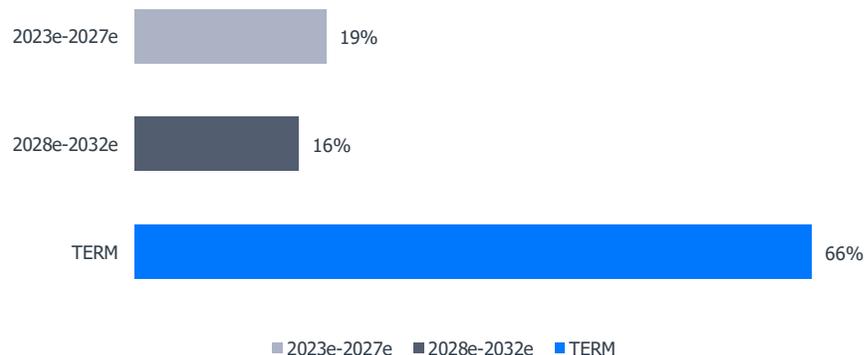
DCF model	2022	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	TERM
Revenue growth-%	3.7 %	4.3 %	3.9 %	3.3 %	3.8 %	3.8 %	3.7 %	3.7 %	3.7 %	3.7 %	2.5 %	2.5 %
EBIT-%	9.5 %	10.8 %	12.1 %	12.4 %	12.5 %	12.3 %	12.1 %	11.9 %	11.5 %	11.5 %	11.5 %	11.5 %
<b>EBIT (operating profit)</b>	<b>1031</b>	<b>1228</b>	<b>1427</b>	<b>1511</b>	<b>1581</b>	<b>1617</b>	<b>1654</b>	<b>1691</b>	<b>1688</b>	<b>1751</b>	<b>1794</b>	
+ Depreciation	259	266	270	278	297	306	315	325	335	345	356	
- Paid taxes	-286.7	-297.6	-326.4	-345.9	-363.3	-372.8	-381.8	-390.9	-390.7	-405.4	-416.3	
- Tax, financial expenses	-13.6	-8.0	-9.7	-7.8	-6.6	-5.7	-5.5	-5.3	-5.3	-5.2	-4.8	
+ Tax, financial income	12.9	10.5	11.0	11.3	11.7	12.1	12.6	13.1	13.5	14.0	14.5	
- Change in working capital	-546.8	-113.3	8.8	3.3	6.3	5.4	4.5	3.5	2.5	1.3	21.5	
<b>Operating cash flow</b>	<b>456</b>	<b>1085</b>	<b>1381</b>	<b>1450</b>	<b>1526</b>	<b>1562</b>	<b>1599</b>	<b>1636</b>	<b>1643</b>	<b>1701</b>	<b>1765</b>	
+ Change in other long-term liabilities	-29.2	17.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-204.3	-300.4	-297.7	-342.7	-328.7	-339.5	-350.5	-361.7	-373.2	-384.9	-391.3	
<b>Free operating cash flow</b>	<b>223</b>	<b>802</b>	<b>1083</b>	<b>1108</b>	<b>1197</b>	<b>1223</b>	<b>1249</b>	<b>1275</b>	<b>1270</b>	<b>1316</b>	<b>1374</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	223	802	1083	1108	1197	1223	1249	1275	1270	1316	1374	30689
<b>Discounted FCFF</b>		<b>792</b>	<b>999</b>	<b>954</b>	<b>963</b>	<b>918</b>	<b>875</b>	<b>835</b>	<b>776</b>	<b>751</b>	<b>733</b>	<b>16361</b>
Sum of FCFF present value		24957	24164	23165	22212	21249	20331	19455	18621	17844	17093	16361
<b>Enterprise value DCF</b>		<b>24957</b>										
- Interest bearing debt		-533.9										
+ Cash and cash equivalents		1970										
-Minorities		-212.0										
-Dividend/capital return		-903.8										
<b>Equity value DCF</b>		<b>25299</b>										
<b>Equity value DCF per share</b>		<b>48.9</b>										

## WACC

Tax-% (WACC)	23.5 %
Target debt ratio (D/(D+E))	3.0 %
Cost of debt	2.5 %
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>7.1 %</b>

Source: Inderes

## Cash flow distribution



# Summary

Income statement	2020	2021	2022	2023e	2024e	Per share data	2020	2021	2022	2023e	2024e
Revenue	9938.5	10514.1	10906.7	<b>11371.7</b>	<b>11819.4</b>	EPS (reported)	1.81	1.96	1.50	<b>1.83</b>	<b>2.12</b>
EBITDA	1451.9	1539.3	1290.5	<b>1493.9</b>	<b>1697.2</b>	EPS (adj.)	1.87	1.98	1.59	<b>1.94</b>	<b>2.12</b>
EBIT	1212.9	1295.3	1031.2	<b>1228.3</b>	<b>1426.9</b>	OCF / share	2.80	3.01	0.88	<b>2.10</b>	<b>2.67</b>
PTP	1224.3	1320.8	1028.5	<b>1239.2</b>	<b>1432.6</b>	FCF / share	2.61	2.34	0.43	<b>1.55</b>	<b>2.09</b>
Net Income	939.3	1014.2	774.5	<b>948.4</b>	<b>1094.6</b>	Book value / share	6.12	6.13	5.49	<b>5.57</b>	<b>5.94</b>
Extraordinary items	-37.6	-14.5	-45.4	<b>-57.2</b>	<b>0.0</b>	Dividend / share	2.25	2.10	1.75	<b>1.75</b>	<b>1.80</b>
Balance sheet	2020	2021	2022	2023e	2024e	Growth and profitability	2020	2021	2022	2023e	2024e
Balance sheet total	8792.0	9720.4	9090.4	<b>9117.6</b>	<b>9387.1</b>	Revenue growth-%	0%	6%	4%	<b>4%</b>	<b>4%</b>
Equity capital	3197.2	3199.2	2866.5	<b>2911.1</b>	<b>3101.7</b>	EBITDA growth-%	1%	6%	-16%	<b>16%</b>	<b>14%</b>
Goodwill	1327.0	1405.2	1414.7	<b>1414.7</b>	<b>1414.7</b>	EBIT (adj.) growth-%	1%	5%	-18%	<b>19%</b>	<b>11%</b>
Net debt	-2120.8	-2332.9	-1436.5	<b>-1333.4</b>	<b>-1505.3</b>	EPS (adj.) growth-%	0%	6%	-20%	<b>23%</b>	<b>9%</b>
Cash flow	2020	2021	2022	2023e	2024e	EBITDA-%	14.6 %	14.6 %	11.8 %	<b>13.1 %</b>	<b>14.4 %</b>
EBITDA	1451.9	1539.3	1290.5	<b>1493.9</b>	<b>1697.2</b>	EBIT (adj.)-%	12.6 %	12.5 %	9.9 %	<b>11.3 %</b>	<b>12.1 %</b>
Change in working capital	314.2	358.7	-546.8	<b>-113.3</b>	<b>8.8</b>	EBIT-%	12.2 %	12.3 %	9.5 %	<b>10.8 %</b>	<b>12.1 %</b>
Operating cash flow	1453.9	1557.7	456.4	<b>1085.4</b>	<b>1380.9</b>	ROE-%	29.6 %	31.9 %	25.8 %	<b>33.2 %</b>	<b>36.8 %</b>
CAPEX	-144.0	-349.3	-204.3	<b>-300.4</b>	<b>-297.7</b>	ROI-%	33.7 %	36.1 %	30.4 %	<b>36.2 %</b>	<b>40.1 %</b>
Free cash flow	1351.8	1213.1	222.9	<b>802.3</b>	<b>1083.2</b>	Equity ratio	45.5 %	41.2 %	40.7 %	<b>41.8 %</b>	<b>43.7 %</b>
						Gearing	-66.3 %	-72.9 %	-50.1 %	<b>-45.8 %</b>	<b>-48.5 %</b>
Valuation multiples	2020	2021	2022	2023e	2024e						
EV/S	3.3	2.9	2.2	<b>1.7</b>	<b>1.6</b>						
EV/EBITDA (adj.)	22.4	19.8	18.4	<b>12.9</b>	<b>11.3</b>						
EV/EBIT (adj.)	26.0	23.3	22.1	<b>15.0</b>	<b>13.4</b>						
P/E (adj.)	35.6	31.8	30.5	<b>20.3</b>	<b>18.7</b>						
P/B	10.9	10.3	8.8	<b>7.1</b>	<b>6.7</b>						
Dividend-%	3.4 %	3.3 %	3.6 %	<b>4.4 %</b>	<b>4.6 %</b>						

Source: Inderes

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Accumulate The 12-month risk-adjusted expected shareholder return of the share is attractive

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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Date	Recommendation	Target	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 €
1/27/2023	Reduce	46.00 €	52.48 €
4/28/2023	Reduce	47.50 €	51.98 €
7/21/2023	Reduce	47.50 €	45.47 €
10/26/2023	Reduce	42.00 €	39.50 €



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