

PIERER Mobility

Outstanding performance continues

PIERER Mobility's performance during the pandemic has been exceptional, with proactive management control enabling the company to successfully expand market share as demand for its products has surged. The positive momentum in Q421 has led to another upgrade to FY21 guidance. We expect growth to continue in FY22 albeit moderating as booming motorcycle demand normalises. The rapid expansion of the e-bikes business and entry into the e-scooter market provide growing and complementary revenue streams. The now complete simplification of the Bajaj shareholding enhances FY22 EPS by a further 23%. Shareholder returns are significantly enhanced, which is reflected in our capped DCF valuation of the group, which currently stands at €116 per share.

Year end	Revenue (€m)	EBIT* (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/19	1,520	131.7	2.42	0.00	37.2	N/A
12/20	1,530	107.2	1.55	0.30	58.1	0.3
12/21e	2,027	188.6	3.20	0.50	28.4	0.6
12/22e	2,235	204.1	4.08	1.00	22.1	1.1

Note: *EBIT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Record year in prospect

With continued strong global demand for motorcycles augmented by the rapid growth of the e-bike activity, FY21 is set to be a record year for the group. In FY21 it sold 332,881 motorcycles (FY20: 270,407), up 23% and a record for the 11th consecutive year. The bicycle division (operating under the HUSQVARNA, RAYMON and GASGAS brands) grew sales by over 40% to 102,753 bicycles (FY20: 73,277), of which 76,916 were e-bicycles (FY20: 56,064). The move into urban mobility should accelerate in FY23 with the launch of the e-scooter range approaching. The growth in demand for e-bikes should continue, driven by positive market dynamics in PIERER Mobility's established European markets, as well as entry into new sales territories in Europe and North America, as evidenced by the recent acquisition of the FELT brand with its US market position.

Simplified Bajaj shareholding enhances returns

The recent deal with Bajaj to simplify its shareholding in the group has served to enhance returns to investors as PIERER Mobility expands its e-mobility portfolio. In addition to the run of trading upgrades, FY21 EPS are further enhanced by 5% reflecting the part year benefit of the transaction. In FY22 the EPS estimate is enhanced by 23%. In the longer term there is some value sacrifice as Bajaj will participate in the growing e-bikes business as well as the motorcycles business.

Valuation: Justifying a premium rating

The shares have performed well in FY21 and the company retains a premium rating, with the FY22 P/E of 22.1x reflecting the prospects for sustainable growth accompanied by strong cash flows to invest in growing the new e-mobility revenue streams.

FY21 guidance increase

Automobiles & parts

19 January 2022

Price €90

Market cap €3bn

Net debt (€m) at 31 December 2021e 231

Shares in issue 33.8m

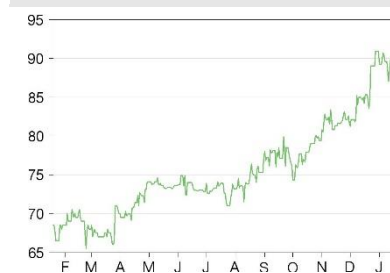
Free float 23%

Code PMAG

Primary exchange SIX Swiss Exchange

Secondary exchange Frankfurt Stock Exchange

Share price performance



% 1m 3m 12m

Abs 4.2 15.0 28.8

Rel (local) (0.4) 10.6 (0.1)

52-week high/low €90.90 €65.50

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

FY21 preliminary results 1 February 2022

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FY21 setting new records

PIERER Mobility, Europe's leading supplier of powered two wheelers, is set to report record FY21 results on 1 February 2022. This follows the heavily disrupted FY20 trading but more significantly FY21 will be well ahead of the FY19 pre-pandemic performance. The continued strong demand globally for both motorbikes and e-bikes and the targeted replenishment of dealer inventory levels mean that motorcycle production is running at close to capacity in Austria and supporting strong growth from India. Supply chain issues have been manageable and the impact limited. The situation for e-bikes has been more difficult with the market generally relying on an Asian supply chain that remains disrupted, with some basic components such as frames in short supply. PIERER Mobility has addressed this through the expanded supply cooperation with its main supplier in Bulgaria.

As a result, management has raised the forecast range again for FY21 and now expects to report revenues of €2.02–2.04bn (from €1.90–2.00bn). In addition, it has raised its EBIT margin expectation to 9.0–9.5% (from 8.0–9.0%).

FY22 expected to grow well although at more moderate rates

We expect growth in motorcycles to continue even if the current boom has satisfied the immediate enlarged appetite for both street and off-road models. In addition, while we expect the shortages of components due to the pandemic-related supply chain issues to diminish as the year progresses, they are still constraining production in the short term. The urban mobility exposure should be further advanced by the launch of the e-motorcycle and e-scooter ranges over the next few years (for clarity, ride-on scooters not electric stand-ons). The strong growth in demand for e-bikes should continue, driven by positive market dynamics in PIERER Mobility's established DACH markets, as well as entry into new sales territories in Europe and North America.

Revisions to earnings estimates

Following the latest guidance, we have updated our estimates to reflect the strong trading momentum through FY21 as well as the simplification of Bajaj's shareholding. It has been some time since we last updated our numbers so with several guidance increases, the uplift shown below is considerably greater than the c 13% increase in EBIT implied by the centre of the ranges in the latest management guidance issued on 12 January 2022. We now include e-motorcycles in our model with a modest sales contribution in FY21 and FY22, but this could grow rapidly from FY23 as PIERER Mobility seeks to penetrate the European urban mobility market.

Before the Bajaj transaction, the increase compared to our previous estimates is shown in Exhibit 1.

Exhibit 1: PIERER Mobility earnings estimates revisions (before Bajaj deal)

Year to December (€m)	2021e		% change	2022e		% change
	Prior	New		Prior	New	
Core motorcycle business	1,641.2	1,836.1	11.9%	1,739.7	1,942.5	11.7%
E-motorcycles	12.0	24.0	71.4%	40.0	40.0	0.0%
E-bikes	169.9	163.0	0.1%	230.3	248.3	7.8%
Other	3.8	3.8	0.0%	3.8	3.8	0.0%
Total revenues	1,826.9	2,026.9	11.8%	2,013.8	2,234.6	11.0%
EBITDA	306.3	333.1	8.8%	335.0	361.1	7.8%
D&A	(151.6)	(144.5)	-4.7%	(156.0)	(157.0)	0.6%
EBIT	154.7	188.6	22.0%	179.0	204.1	14.0%
PBT	142.9	165.5	15.9%	167.6	181.3	8.2%
Net income	59.1	68.4	15.9%	70.5	75.0	6.3%
EPS (€)	2.62	3.04	15.9%	3.13	3.33	6.3%
Dividend (€)	0.30	0.50	66.7%	0.30	1.00	233.3%
Adjusted net debt	302	231	-23.5%	215	129	-40.2%

Source: Edison Investment Research

As discussed later, the additional enhancement arising from the Bajaj deal is shown in Exhibit 2.

Exhibit 2: Earnings enhancement arising from Bajaj transaction

Year to December (€m)	2021e		% change	2022e		% change
	Prior	New		Prior	New	
Total revenues	2,026.9	2,026.9	0.0%	2,234.6	2,234.6	0.0%
Total gross profit estimates	577.0	577.0	0.0%	634.3	634.3	0.0%
EBITDA	333.1	333.1	0.0%	361.1	361.1	0.0%
D&A	(144.5)	(144.5)	0.0%	(157.0)	(157.0)	0.0%
EBIT	188.6	188.6	0.0%	204.1	204.1	0.0%
PBT	165.5	165.5	0.0%	181.3	181.3	0.0%
Net income	68.4	78.0	14.0%	75.0	137.8	83.8%
EPS (€)	3.04	3.20	5.3%	3.33	4.08	22.6%
Dividend (€)	0.50	0.50	0.0%	1.00	1.00	0.0%
Adjusted net debt	231	231	0.0%	129	129	0.0%

Source: Edison Investment Research

Valuation

With the elimination of the large minority and dividend and the imminent start of the new e-scooter product segment, we now use our capped discounted cash flow (DCF) model as our primary valuation tool. It encompasses all of the PIERER Mobility operations, whereas previously we had separated the core DCF from the new e-mobility offerings. We regard it as relatively conservative as after a six-year forecast period we assume a growth rate of zero in the terminal period, albeit normalising capex to depreciation and neutralising working capital flows, which in combination eliminate significant value from the tail period when e-mobility activities are expected to be growing strongly.

Currently our calculation returns a value of €116 per share using a calculated WACC of 7.4%. The sensitivity to WACC and terminal value growth rates is shown in the table below.

Exhibit 3: PIERER Mobility capped DCF sensitivity to WACC and terminal growth (€/share)

WACC	6.0%	7.0%	7.4%	8.0%	9.0%	10.0%
<u>Terminal growth rate</u>						
0%	151	125	116	106	91	79
1%	180	144	133	119	101	87
2%	222	172	157	138	114	97
3%	294	212	190	164	132	109

Source: Edison Investment Research

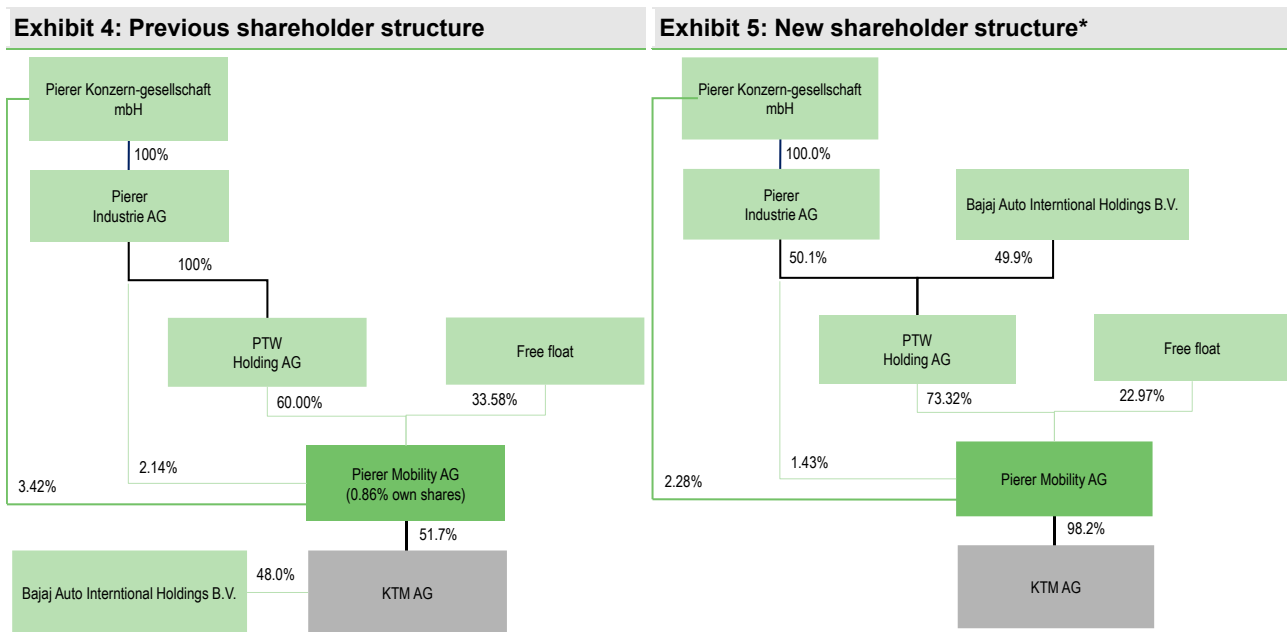
Bajaj shareholding adjustment enhances returns

The simplification of the Bajaj Auto participation in PIERER Mobility was completed in late October 2021. The value of \$895m was for 46.5% of the shares Bajaj held in KTM in return for a 49.9% stake in PTW Holdings, a new holding company created to facilitate the transaction. PIERER Industrie had placed 60% of its holding in PIERER Mobility. PTW Holdings then transferred the 46.5% KTM shares as a payment in kind to PIERER Mobility in return for 11,257,861m new shares issued at €79.5 by PIERER Mobility.

As a result:

- Bajaj now holds an interest of 36.7% in PIERER Mobility and retains a direct c 1.5% stake in PIERER Mobility's motorcycle operating subsidiary, KTM. The deal provides Bajaj with participation in the expected growth of e-mobility, which is external to KTM.
- PIERER Industrie retains control through the 50.1% stake held in the main shareholder, PTW Holdings, providing for the appointment of the majority of board members.
- PIERER Mobility also sold the treasury shares (0.86% of the existing capital) in the market, becoming part of the free float (now 22.97%).

The resulting new structure is compared to the previous structure below:



Source: PIERER Mobility

Source: PIERER Mobility. Note: *After the 49.9% capital increase.

In our view, from a free float shareholder's perspective the transaction would mean:

- No change to the number of shares in free float, although the proportional ownership of PIERER Mobility decreases to just under 23% in line with the non-pre-emptive capital increase.
- The minority to Bajaj from KTM is eliminated, leading to FY21 and FY22 EPS being enhanced by 5% and 23% respectively.
- Potential for increased dividends although we believe any progressive policy is likely to retain conservative levels of earnings cover in excess of 3.0x.
- A sacrifice of a proportion of the future value potential from the e-mobility operations that Bajaj had no direct stake in, but where it is an active partner.
- Enhanced cooperation with Bajaj on technology and market reach for the e-mobility business.

Exhibit 6: Financial summary

	€m	2019	2020	2021e	2022e
Year end 31 December		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		1,520.1	1,530.4	2,026.9	2,234.6
Cost of Sales		(1,074.1)	(1,103.6)	(1,451.7)	(1,595.5)
Gross Profit		446.0	426.8	575.2	639.1
EBITDA		230.8	233.7	333.1	361.1
Operating Profit (before amort. and except.)		187.7	172.5	260.1	284.7
Intangible Amortisation		(56.0)	(65.3)	(71.5)	(80.6)
Exceptionals		0.0	0.0	0.0	0.0
Other		0.1	(2.8)	(3.9)	(3.9)
Operating Profit		131.8	104.4	184.7	200.2
Net Interest		(13.9)	(13.6)	(13.3)	(12.9)
Profit Before Tax (norm)		117.8	90.8	165.6	181.5
Profit Before Tax (FRS 3)		117.8	90.8	165.6	181.5
Tax		(22.1)	(21.4)	(39.7)	(43.5)
Profit After Tax (norm)		95.7	69.5	125.9	137.9
Profit After Tax (FRS 3)		95.7	69.5	125.9	137.9
Average Number of Shares Outstanding (m)		22.5	22.5	24.4	33.8
EPS (€)		2.42	1.55	3.20	4.08
EPS - normalised fully diluted (€)		2.42	1.55	3.20	4.08
EPS - (IFRS) (€)		2.42	1.55	3.20	4.08
Dividend per share (€)		0.00	0.30	0.50	1.00
Gross Margin (%)		29.3	27.9	28.4	28.6
EBITDA Margin (%)		15.2	15.3	16.4	16.2
Operating Margin (before GW and except.) (%)		12.3	11.3	12.8	12.7
BALANCE SHEET					
Fixed Assets		862.4	927.3	918.3	906.2
Intangible Assets		522.3	557.9	614.1	667.2
Tangible Assets		326.5	356.2	291.0	225.7
Right of use asset		0.0	0.0	0.0	0.0
Investments		13.6	13.3	13.3	13.3
Current Assets		751.5	758.7	898.9	975.2
Stocks		321.6	298.7	354.7	383.2
Debtors		175.2	144.9	182.4	199.1
Cash		160.9	218.3	238.3	258.3
Other		93.8	96.8	123.4	134.6
Current Liabilities		(406.6)	(450.5)	(454.8)	(498.0)
Creditors		(320.2)	(375.9)	(454.8)	(498.0)
Short term borrowings		(86.4)	(74.6)	0.0	0.0
Long Term Liabilities		(588.7)	(581.4)	(593.4)	(510.3)
Long term borrowings		(470.3)	(456.1)	(469.1)	(387.0)
Lease liabilities		0.0	0.0	0.0	0.0
Other long term liabilities		(118.3)	(125.3)	(124.3)	(123.3)
Net Assets		618.6	654.1	768.9	873.1
CASH FLOW					
Operating Cash Flow		297.9	348.1	294.8	320.8
Net Interest		(18.4)	(13.9)	(13.6)	(13.3)
Tax		(22.1)	(21.4)	(39.7)	(43.5)
Capex		(149.8)	(147.9)	(135.8)	(144.9)
Acquisitions/disposals		(0.2)	(1.0)	0.0	0.0
Financing		(5.2)	(4.6)	0.0	0.0
Dividends		(20.2)	(26.7)	(24.5)	(16.9)
Other		(130.7)	(49.3)	0.4	0.0
Net Cash Flow		(48.7)	83.4	81.6	102.1
Opening net debt/(cash)		444.5	395.8	312.4	230.8
HP finance leases initiated		0.0	0.0	0.0	0.0
Other		0.0	0.0	0.0	0.0
Closing net debt/(cash)		395.8	312.4	230.8	128.7
Net financial Liabilities		395.8	312.4	230.8	128.7

Source: Company reports, Edison Investment Research estimates

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