

PIERER Mobility

H120 results

Powered two wheelers in demand

Interim results from PIERER Mobility confirmed the strong increases in demand being seen for powered two wheelers as lockdowns ended around the globe. Both motorcycles and e-bikes segments are benefiting and while Q220 bore the brunt of COVID-19 impacts, subsequent market developments require higher year-on-year production levels. The continued strength of demand in Q3 has led management to increase FY20 revenue guidance by around 3% to more than €1.45bn with an EBIT margin of 4–6%, and we are increasing our estimates modestly.

Year end	Revenue (€m)	EBIT* (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/18	1,462	128.7	1.82	0.30	28.0	0.6
12/19	1,520	131.7	2.42	0.00	21.1	N/A
12/20e	1,458	76.3	1.02	0.30	50.0	0.6
12/21e	1,736	140.7	2.30	0.30	22.2	0.6

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

PTW demand in major markets remains buoyant

H120 was affected by the pandemic with revenue falling 21%, but was more resilient than we anticipated as the subsequent bounce back in demand for powered two wheelers (PTWs) has been strong in most regions and across both the motorcycle and e-bikes businesses. Both KTM and HUSQVARNA motorcycle brands grew market share in all territories and increased registrations in North America and Australia/New Zealand. The previously noted temporary suspension of production in Austria from mid-March to mid-May together with other proactive cost and cash flow controls helped to alleviate some of the revenue declines that arose from dealership closures due to national lockdowns. The e-bikes business performed ahead of expectations, delivering a positive EBIT in its initial contribution.

Double-digit H220 revenue growth expected

As we approach the end of Q320, demand for PTWs in the major markets of Europe, North America and Australia/New Zealand continues to be high. The market remains strong for the motorcycle brands (KTM, HUSQVARNA and GASGAS) as well as for e-bikes in Europe. As a result, management has increased its revenue guidance for FY20 by 3% to more than €1.45bn, implying H2 revenues more than 10% higher than H219. With e-bike revenue guidance maintained at €110m, the additional impetus appears to be coming from motorcycles. We would expect the positive momentum to translate into a full recovery in H121. In response we have increased our revenue forecasts by 1.2% and 1.5% for FY20 and FY21 respectively and our EPS estimates by 2% and 9% respectively.

Valuation: e-mobility to augment core growth

With the anticipated recovery in FY21 financials to at least FY19 levels, the resumption of strong organic growth should be augmented by rising e-bike volumes and profitability with strong cash generation. The FY21 P/E rating of c 22x reflects the expectation that the move to e-mobility will sustain above average growth.

Automobiles & parts

1 October 2020

Price €51.0
Market cap €1,148m

Net debt (€m) at 30 June 2020	489.4
Shares in issue	22.5m
Free float	38%
Code	PMAG
Primary exchange	SIX Swiss Exchange
Secondary exchange	Frankfurt Stock Exchange

Share price performance



%	1m	3m	12m
Abs	(0.4)	14.6	4.2
Rel (local)	(0.9)	13.0	3.1
52-week high/low	€57.90	€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 event

Q320 results	November 2020
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Creditable H120 performance in the face of COVID-19

PIERER Mobility delivered a relatively resilient performance in H120 despite the pandemic. Disruptions caused to economies and activity levels by lockdowns in a number of countries included the closure of some dealerships for a significant part of Q220, with an inevitable financial impact. The results were also affected by the temporary suspension of production in Austria for eight weeks from mid-March to mid-May. Key financial highlights were:

- Revenue was down 21% to €600m (H119: €755m), which included the initial consolidation of the e-bikes business, which contributed €68m.
- EBITDA remained strongly positive at €64m, a margin of 10.7%, as the fall in gross profit was mitigated by proactive operational cost management undertaken during the period. The measures included furloughing of workers and lower sales and marketing expenses, which led to a €26m reduction in total operating overhead expenses.
- Encouragingly, a positive EBIT of €1.7m was achieved in H120 despite the pandemic and an increase in depreciation and amortisation of 20%, partially due to the consolidation of the e-bikes business but primarily reflecting high levels of investment.
- After a €0.7m increase in net financial charges, the company reported a loss before tax of €7.3m (H119 PBT: €38.3m).
- Net debt at the end of H120 stood at €489.4m, up from €395.8m at the start of the year despite only a modest decline in operating cash flow to €41.5m, from €46.3m in H119.

Exhibit 1: PIERER Mobility H120 results summary

Six months ending June (€m)	H119	H120	% change
<u>Revenues by segment</u>			
Motorcycles	749.9	529.4	(29%)
e-bicycles	0.0	68.3	
Other	5.0	2.3	(54%)
Revenue	754.9	600.0	(21%)
<u>Revenues by region</u>			
Europe	462.2	406.9	(12%)
North America	159.1	92.4	(42%)
Other	133.6	100.7	(25%)
Revenue	754.9	600.0	(21%)
Gross profit	212.5	141.3	(34%)
Gross margin	28.1%	23.5%	
<u>EBITDA</u>			
Motorcycles	97.5	57.2	(41%)
e-bicycles	(0.7)	5.6	n.m.
Other	1.2	1.4	17%
Consolidation	0.5	0.0	(90%)
Group EBITDA	98.5	64.2	(35%)
<u>Operating profit</u>			
Motorcycles	46.2	(2.5)	n.m.
e-bicycles	(0.7)	3.5	n.m.
Other	0.6	0.7	17%
Consolidation	0.5	0.0	(90%)
Operating profit	46.6	1.7	(96%)
Net financial charges	(8.3)	(9.0)	9%
Profit before tax	38.3	(7.3)	n.m.
Profit after tax	29.3	(9.6)	n.m.
Minorities	(14.5)	4.8	n.m.
Net income	14.8	(4.8)	n.m.
EPS (€)	0.66	(0.21)	n.m.

Source: PIERER Mobility reports

Free cash improved by €5m to an outflow of €26.6m and the primary additional increase in net debt was the €40.5m consolidation and recapitalisation of KTM Motohall in Mattighofen, Austria. A €13.2m cash dividend was paid to the minority shareholder in KTM AG (Bajaj 48%) in H120, but this should be returned by the minority partner in H220 as a reflection of the tougher operating environment and to assist liquidity.

Motorcycle volumes recover rapidly in late H120

Motorcycle performance was relatively resilient in the face of lockdowns that shut dealerships in many countries. Sales fell 29% to €529.4m in H120 with a consequent impact on gross margin which declined to 24.4% from 27.7% in H119. Some 30k units were lost as a result of the production shutdown, but management expects to recover the shortfall through higher H220 output with more shifts and employees.

Motorcycle demand, however, surprised on the upside versus our prior projections, as it recovered strongly towards the end of the period as lockdowns eased. The company continued to outperform its major markets in H120 despite the pandemic disruptions, increasing market shares in all of its main territories. While the European market declined sharply, especially due to the lockdowns in higher volume countries such as France, Italy, Spain, the UK and Austria, demand in Germany and Sweden for PIERER Mobility brands rose by c 3%. Overall KTM and HUSQVARNA registrations in Europe fell by 11.4% to 37.6k (H119: 42.4k) units against the addressable market decline of 14.7%, with market share rising to 11.8%.

Exhibit 2: PIERER Mobility main motorcycle markets* and registrations in H120

	Market			KTM & Husqvarna			Market share	
	H119	H120	Change	H119	H120	Change	H119	H120
Europe	374,531	319,478	-14.7%	42,412	37,590	-11.4%	11.3%	11.8%
North America	240,852	245,057	1.7%	22,558	26,677	18.3%	9.4%	10.9%
Australia/NZ	30,090	33,447	11.2%	4,253	5,926	39.3%	14.1%	17.7%
Total	645,473	597,982	-7.4%	69,223	70,193	1.4%	10.7%	11.7%
India	470,637	265,545	-43.6%	32,001	19,807	-38.1%	6.8%	7.5%

Source: PIERER Mobility. Note: *Market for motorcycles >120cc excluding ATV, scooters and e-motorcycles.

In North America, KTM and HUSQVARNA brands achieved healthy growth in market share to 10.9%, with registrations increasing by 18.3% to 26.7k motorcycles. In the smaller Australia and New Zealand market, PIERER Mobility brands saw even stronger growth of 39.3% to 5.9k units.

Wholesales to dealers fell by 33% to 90,331 motorcycles (including 501 GASGAS bikes) as management proactively suspended production in Austria for eight weeks from mid-March as COVID-19 took hold in Italy, disrupting major component suppliers. However, PIERER's extensive global dealership network, which now totals almost 3,200 dealers, was carrying enough stock to meet strong retail demand. Overall global registrations increased by 1.4%.

In 2020 PIERER Mobility has the capacity to produce around 140k KTM and Husqvarna motorcycles in Mattighofen, Austria, with the GASGAS facility in Girona, Spain, producing around 4k units. Bajaj output is likely to be around 108k units in Puna, India.

PIERER Mobility took full control of GASGAS ahead of plan in July 2020. As a side note, the return to racing appears to be proving successful, with a maiden MotoGP win and strong showings in recent races as well as good results across MotoX and Enduro competitions.

E-bike demand increasing strongly

Following the purchase of 100% of PEXCO in late December 2019, the newly formed e-bike business operates as PIERER E-Bikes selling under the Husqvarna and R-Raymon brands, adding GASGAS in the future. It was fully consolidated in the income statement for the first time in H120. It is mainly European business with around 1,100 dealers in an e-bike market estimated by PIERER

Mobility at 3.4m units, as well as 15k e-mopeds. Management maintains its target of 250k unit sales by 2024 generating revenues of approximately €500m. FY20 revenue guidance is maintained at €110m.

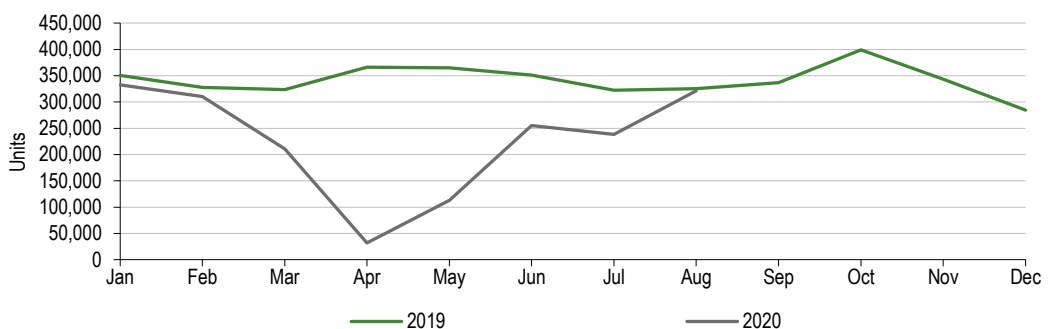
In H120 a total of 34,351 Husqvarna and R-Raymon e-bikes were sold. In addition, 8,492 traditional bicycles were sold under the R-Raymon brand. The business made an initial €68m revenue contribution and generated a better than expected positive EBIT contribution of €3.5m. Initial sharp market declines during European lockdowns were largely reversed in May and June, as pent up demand was absorbed and the public propensity for cycling increased.

Outlook

The encouraging trends seen in the major markets since lockdown eased have continued through August. Partly driven by changes in attitudes towards public transport and potentially supported by the relative freedom for individuals by powered two wheelers, off road and e-bike demand has been particularly strong, according to the company.

The worst affected of PIERER's markets in H120 was India, but there are now signs of encouragement. If we take total Bajaj Auto's two wheeler registrations, which we believe includes KTM and HUSQVARNA brand motorcycles manufactured by the company in India, as a proxy for Indian market performance, it can be seen that in August sales volumes finally recovered to prior year levels. In August 2020 Bajaj's total two wheeler sales (including KTM and HUSQVARNA brands) were just 1% below August 2019 levels, following the weak H120 market performance during the lockdown. The lockdown had decimated the Indian market in H120 when volumes were down 44%, with April down 90%. While PIERER Mobility brand sales were already anticipated to perform better than the market overall due to new model introductions, we expect demand for its brands are following a similar recovery pattern for imported motorcycles from Austria as well as local licensed production.

Exhibit 3: Bajaj Auto total two-wheeler sales volumes in India



Source: Bajaj Auto

If the recovery is maintained, the Indian market will only be down around 5% in H220 compared to the prior year period. It should be remembered that Indian production only produces licence income that is included in revenue for PIERER, which currently accounts for only around €5m in revenue (essentially at 100% margin).

Revenue guidance increased

The strength of demand for PTWs noted in the later weeks of H120 continues in PIERER's major markets of North America, Europe and Australia. In addition, markets elsewhere appear to be recovering to pre-lockdown levels, notably in India. As a result of the apparent structural shift in

demand for motorcycles and e-bikes, PIERER Mobility is running at higher levels of production in H220 than last year.

On 28 September 2020 management indicated that the continuation of the positive trends had led it to increase its FY21 revenue guidance by 3% to more than €1.45bn (previously €1.40bn) and maintained the EBIT margin range of 4–6%. E-bike revenue guidance was maintained at €110m so the increase appears to reflect buoyancy in motorcycle markets. H220 revenues are now guided to be some 10% ahead of H219, and that momentum should continue into H121 when a repetition of the market disruptions seen in H120 appears less likely.

Earnings revisions

We have modestly increased our earnings estimates, as shown in Exhibit 4. We have assumed slightly increased motorcycles sales with a volume decline of 13% on FY19 rather than 15%. Our e-bike forecasts remain unchanged. As we expect the momentum of recovery from H220 to continue into FY21, our revenue expectations increase by 1.2% in FY20 and 1.5% in FY21.

There is an increase in net debt resulting from the high level of investment being made, which included €40.5m in the recapitalisation and consolidation of KTM Motohall in H120. The resulting higher average debt levels increases interest payable. We have adjusted the minority charge payable to Bajaj to reflect a faster than expected rise in the proportion of e-bikes profitability, albeit still relatively modest.

Exhibit 4: PIERER Mobility earnings estimates revisions

Year to 31 December €m	2020			2021		
	Prior	New	Change	Prior	New	Change
Revenues						
Core Motorcycle business	1,330.8	1,348.0	1.3%	1,577.8	1,604.2	1.7%
E-motorcycles	0.0	0.0		0.0	0.0	
E-bikes	110.0	110.0	0.0%	132.0	132.0	0.0%
Total revenues	1,440.8	1,458.0	1.2%	1,709.8	1,736.2	1.5%
Core Motorcycle business	387.1	392.1	1.3%	460.9	468.6	1.7%
E-motorcycles	0.0	0.0		0.0	0.0	
E-bikes (PEXCO)	15.0	15.0	0.0%	23.8	23.8	0.0%
Total gross profit	402.1	407.1	1.2%	484.7	492.3	1.6%
Operating expenses	(202.0)	(204.7)	0.9%	(212.4)	(207.3)	-2.4%
EBITDA	200.1	202.3	1.1%	272.3	285.0	4.7%
D&A	(127.2)	(126.0)	-0.9%	(137.8)	(144.3)	4.7%
EBIT	72.8	76.3	4.7%	134.5	140.7	4.6%
PBT	57.3	60.8	6.0%	120.5	125.6	4.2%
Net Income	22.7	23.0	1.7%	47.6	51.7	9.0%
EPS (€)	1.01	1.02	1.7%	2.11	2.30	9.0%
Dividend (€)	0.30	0.30	0.0%	0.30	0.30	0.0%
Adjusted net debt	380	413	8.7%	361	366	1.4%

Source: Edison Investment Research estimates

Exhibit 5: Financial summary

Accounts: IFRS, year-end: December, €m	2018	2019	2020e	2021e
INCOME STATEMENT				
Total revenues	1,462	1,520	1,458	1,736
Cost of sales	(1,031)	(1,074)	(1,051)	(1,244)
Gross profit	431	446	407	492
SG&A (expenses)	(194)	(191)	(179)	(180)
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	76	141
Finance income/(expense)	(15)	(14)	(15)	(15)
Other income/(expense)	(1)	0	(1)	0
Reported PBT	112	118	61	126
Income tax expense	(27)	(22)	(15)	(30)
Minorities	(44)	(41)	(23)	(44)
Reported net income (post-minorities)	41	54	23	52
Basic average number of shares, m	22.5	22.5	22.5	22.5
Basic EPS (€)	2.99	2.42	1.02	2.29
Dividend per share	0.30	0.00	0.30	0.30
Adjusted EBITDA	211	241	202	285
Adjusted EBIT	129	132	76	141
Adjusted PBT	112	118	61	126
Adjusted EPS (€)	1.82	2.42	1.02	2.30
Adjusted diluted EPS (€)	1.82	2.42	1.02	2.30
BALANCE SHEET				
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	161	188
Inventories	287	322	315	354
Trade and other receivables	220	248	237	267
Other current assets	13	5	5	5
Total current assets	609	736	718	814
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	224	265
Current loans and borrowings	73	86	98	98
Other current liabilities	104	98	105	105
Total current liabilities	368	407	427	468
Equity attributable to company	297	338	344	389
Non-controlling interest	253	280	303	346
CASH FLOW STATEMENT				
Profit for the year	114	96	46	95
Taxation expenses	29	22	15	30
Net finance expenses	(16)	(18)	18	17
Depreciation and amortisation	91	109	126	144
Movements in working capital	(83)	71	15	(28)
Interest paid / received	(15)	(13)	(16)	(15)
Income taxes paid	(36)	(10)	(15)	(30)
Cash from operations (CFO)	85	257	189	213
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	1	26
Cash and equivalents at end of period	89	161	161	188
Net (debt)/cash	(323)	(396)	(413)	(366)
Movement in net (debt)/cash over period	52	(73)	(34)	42

Source: Company reports, Edison Investment Research estimates

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