

# Kendrion

Q121 results review

## Strong recovery set to continue

Kendrion's results for the first quarter of 2021 showed a strong recovery after the declines in 2020, which were caused by the COVID-19 pandemic. Both the short-term and long-term outlooks are promising, driven by trends such as autonomous driving, electrification, emission reduction and industrial automation. We have slightly raised our estimates and expect a CAGR in EBITDA of 17% in 2021–23e. Kendrion's valuation shows a discount of 8% to peers based on 2022e EV/EBITDA, which should gradually diminish when its financial targets for 2025 in terms of revenue growth and margins are met.

Year end	Revenue (€m)	EBITDA* (€m)	EPS* (€)	DPS (€)	EV/EBITDA (x)	P/E (x)
12/19	412	43.8	0.94	0.00	8.7	22.4
12/20	396	44.6	0.79	0.40	8.3	20.9
12/21e	438	54.1	1.10	0.55	8.7	21.5
12/22e	478	62.9	1.52	0.76	7.3	15.5

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

## Good organic revenue recovery in Q121

Kendrion experienced a strong start of 2021 despite the ongoing effects of the COVID-19 pandemic. Organic revenue was up 6% y-o-y compared with the decline of 12% in Q120. All three business groups reported good organic revenue growth, ie automotive 4%, industrial brakes 11% and industrial actuators & controls 5%. Driven by revenue growth, operating leverage and cost savings, normalised EBITDA showed a strong recovery of 18% to €16.1m, driving a solid improvement in margin of 150bp to 14%.

## Positive trends will support acceleration of growth

Kendrion is positive about its short- and long-term outlooks. It expects strong underlying demand in its segments to continue in Q221 and the rest of the year (albeit dependant on national vaccination programmes). Longer term, Kendrion will benefit from multiple disruptive trends, such as autonomous driving, electrification, emission reduction and industrial automation. We have slightly raised our estimates after the good start of the year and now expect 10.5% revenue growth in 2021 versus 9% previously, with a stronger improvement in the EBITDA margin (+110bp versus 70bp previously). We expect sales growth of 8–10% in 2021–23e, and operating leverage and efficiency gains to result in an improvement in EBITDA margin of 240bp to 13.7% in 2021–23 (was 13.6%).

## Valuation: Discount to peers

We value Kendrion using three different methods: historical multiples, discounted cash flow (DCF) and peer comparison. On our increased estimates, the updated blended average of these three valuation methods points to a value of €28.2 per share, up from €27.9 previously. Kendrion is currently valued at an 8% discount to peers based on 2022e EV/EBITDA, which could diminish over time when the company is able to accelerate growth and significantly improve margins.

### Industrial engineering

10 May 2021

**Price** €23.5

**Market cap** €351m

Net debt (€m) at 31 March 2021 110

Shares in issue 14.9m

Free float 49%

Code KENDR

Primary exchange Euronext Amsterdam

Secondary exchange N/A

### Share price performance



%	1m	3m	12m
Abs	(0.2)	21.1	114.9
Rel (local)	(1.4)	10.1	54.5
52-week high/low	€24.60	€8.84	

### Business description

Kendrion develops, manufactures and markets high-quality electromagnetic systems for automotive (52% of revenues) and industrial applications (48%). The geographical spread of revenues is Germany 39%, other Europe 30%, the Americas 15% and Asia 16%.

### Next events

H121 results 25 August 2021

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## Q121 results: Strong start to the year

Kendrion's Q121 trading update showed a strong start of the year despite the ongoing impact of the COVID-19 pandemic. Revenues increased 5% y-o-y to €115.3m, with strong organic growth of 6%, driven by all three business groups. In Q120, the company faced an organic revenue decline of 12%, mainly caused by the COVID-19 pandemic. Automotive continued its recovery with organic revenue growth of 4%, despite the shortage in materials such as semiconductors, certain types of steel and some plastics. Growth was mainly driven by strong demand in passenger cars in Europe, whereas demand for commercial vehicles remained weak. Industrial brakes reported a stronger recovery with 11% organic revenue growth, broadly driven by all segments and geographies. Industrial actuators & controls reported 5% revenue growth, with strong growth in medical and machine safety offsetting a weaker performance in aerospace and textiles.

Growth continued in operations in China, with an easier comparison base as in Q120 this was the first region to be affected by COVID-19. Kendrion did not disclose the quarterly growth rate in China, but management commented that all three business groups showed growth excluding the reported growth in China. The company's financial targets for 2025 assume ongoing strong growth in China of at least 20% per year. To fulfil high local demand, Kendrion is constructing a new plant in China, which will add 28,000m<sup>2</sup> in capacity (doubling current local capacity). The new plant is on schedule to be operational in H122.

Normalised EBITDA recovered strongly by growing 18% to €16.1m, driving solid margin improvement of 150bp to 14%. Drivers of the improvement were a better gross margin (due to higher growth in the higher-margin industrial business), operating leverage and cost savings of €0.6m (full-year cost saving effect is estimated at €2.4m). Reported EBIT included restructuring changes of €0.2m and a tax claim receipt of €0.4m. With no material changes in financial expenses and tax rate, normalised net profit increased 36% y-o-y to €6.4m, or €0.43 per share.

<b>Exhibit 1: Kendrion Q121 results</b>			
€m	Q120	Q121	% change
Revenues	109.7	115.3	5%
Gross margin	49.6%	50.1%	
<b>EBITDA normalised</b>	<b>13.7</b>	<b>16.1</b>	<b>18%</b>
<b>EBITDA margin</b>	<b>12.5%</b>	<b>14.0%</b>	
Depreciation	(6.6)	(6.3)	-4%
Amortisation, acquisition related	(1.1)	(0.9)	-14%
EBIT normalised	6.1	8.9	46%
EBIT margin	5.6%	7.7%	
Restructuring and other items	(1.1)	0.2	
EBIT reported	5.0	9.1	82%
Financial income and expenses	(0.7)	(0.7)	
Pre-tax income	4.3	8.4	95%
Taxes	(1.3)	(2.5)	92%
Net profit	3.0	5.9	97%
Net profit normalised	4.7	6.4	36%
Shares outstanding, average	14.9	14.9	0%
EPS reported (€)	0.20	0.40	97%
EPS normalised (€)	0.31	0.43	36%

Source: Kendrion

Net debt increased from €103m at year-end 2020 to €110m in Q121 due to seasonal effects.

Kendrion's financial position remains strong with net debt/EBITDA of 2.3x, well within the covenant of 5.8x at the end of Q1 and the long-term covenant of 3.25x from 31 December 2021. The equity ratio increased 300bp y-o-y to 47%.

## Estimates slightly raised

Kendrion expects the strong underlying demand in its segments to continue in Q221 and the rest of the year (albeit dependant on national vaccination programmes). IHS Markit expects a recovery in passenger cars in 2021 with 14% growth. The coronavirus pandemic creates an uncertain market environment in the short term, but in the longer term Kendrion will benefit from multiple disruptive trends, such as autonomous driving, electrification, emission reduction and industrial automation. The shortage of materials might have an impact in the short term, although management commented that there had been hardly any effect on profitability in the first quarter.

Kendrion remains committed to its financial targets for 2025, ie organic revenue growth of 5% or more on average pa and an EBITDA margin of at least 15%, which compares to the 11% reported in 2020. Assuming the company achieves its targets, this should result in revenues of at least €625m in 2025 and EBITDA of at least €94m in 2025.

We have slightly raised our estimates after the strong start of the year (see Exhibit 2). We still assume a recovery in 2021 and 2022 from the low level in 2020, which was caused by the pandemic. For 2023 and beyond, we continue to expect 7–8% revenue growth, driven by positive underlying trends, new projects and the doubling of capacity in China.

For 2021–23, we expect an improvement in the EBITDA margin of 240bp to 13.7% (was 13.6%), driven by operating leverage and efficiency gains. This reflects a CAGR in EBITDA of 17%. Financial expenses are expected to decline gradually in line with lower net debt over the next few years. The tax rate is expected to remain stable at around 25%, which reflects Kendrion's country mix. This results in a CAGR in our estimated EPS of 34% in 2021–23e.

Exhibit 2: Change in estimates									
€m	2021e			2022e			2023e		
	Old	New	Change	Old	New	Change	Old	New	Change
Sales	432	438	1.4%	475	478	0.4%	511	513	0.4%
EBITDA normalised	52.0	54.1	3.9%	61.9	62.9	1.6%	69.3	70.4	1.6%
EBITDA margin	12.0%	12.3%		13.0%	13.2%		13.6%	13.7%	
EBITA margin	6.3%	6.7%		7.6%	7.8%		8.4%	8.6%	
Net profit adjusted	14.8	16.4	10.3%	21.9	22.7	3.4%	27.5	28.3	3.0%
EPS adjusted (€)	0.99	1.10	10.3%	1.47	1.52	3.4%	1.84	1.90	3.0%
DPS (€)	0.50	0.55	10.3%	0.73	0.76	3.4%	0.92	0.95	3.0%

Source: Edison Investment Research

Capex was below depreciation in the first quarter, but management expects full-year regular capex to be in line with depreciation, or around €25m. In addition, capex for the new plant in China is estimated at €15m, of which more than half will fall in 2021.

Driven by improving results and relatively stable capex as a percentage of revenues, we expect Kendrion's free cash flow generation to improve strongly over the next few years and to exceed €27m in 2023. Driven by increasing cash flow generation, we expect Kendrion's financial position to further improve over the next few years. Net debt/EBITDA is expected to decline to 1.1x in 2023 and the equity ratio is expected to improve to 52% in 2023.

Kendrion's balance sheet offers ample opportunities to finance further organic revenue growth and solid dividend payments. The company has a dividend policy of 30–50% of normalised net profit, but has paid around 50% in recent years.

## Valuation

When valuing Kendrion, we look at three different methods: historical multiples, discounted cash flow (DCF) and peer comparison. Please refer to our recently published [initiation note](#) for more details.

We have not changed our assumptions for historical multiples, which show a discount of 15% on 2022e EV/EBITDA. Assuming a valuation in line with its historical multiples, as current profitability is in line with its historical average, this points to a value of €29.0 per share (versus €28.3 previously). For our DCF, we have not changed our assumptions, but our increased estimates have resulted in a slightly higher value per share of €29.4 versus €29.0.

The peer group multiples have not changed much since mid-April, resulting in the same potential value per share of €26.2 (was €26.3). The updated blended average of these three valuation methods points to a valuation of €28.2 per share, up from €27.9 previously.

### Exhibit 3: Valuation methods Kendrion

Valuation method	Edison assumptions	Equity value per share (€)
Historical valuation	2022e EV/EBITDA in line with historical multiples	29.0
DCF	Terminal growth 1.5%, terminal EBITA margin 7.5%	29.4
Peer group	2022e EV/EBITDA in line with peers	26.2
<b>Average value per share</b>		<b>28.2</b>
Current share price		23.5
<b>Upside/(downside)</b>		<b>20%</b>

Source: Edison Investment Research

### Exhibit 4: Peer comparison

Company name	Currency	Share price	Market cap (local FX)	EV/Sales (x)			EV/EBITDA (x)			EBITDA margin
				2021e	2022e	2023e	2021e	2022e	2023e	2022e
Aalberts	€	45.95	5,056	2.0	1.8	1.8	10.9	9.8	9.5	18%
Emerson Electric	US\$	93.72	56,204	3.3	3.0	2.8	14.5	13.0	11.8	23%
SKF	NOK	227.5	102,905	1.5	1.4	1.3	8.6	7.8	7.2	17%
TKH	€	44.5	1,837	1.5	1.4	1.3	10.5	8.5	7.6	15%
<b>Industrial average</b>				<b>2.1</b>	<b>1.9</b>	<b>1.8</b>	<b>11.1</b>	<b>9.8</b>	<b>9.0</b>	<b>18%</b>
BorgWarner	US\$	52.23	12,527	1.1	1.0	0.9	7.3	6.5	5.7	15%
Continental AG	€	112.12	22,314	0.8	0.7	0.7	6.3	5.2	4.6	14%
ElringKlinger	€	14.02	888	0.9	0.8	0.7	7.5	6.4	5.2	13%
Hella	€	51.18	5,686	1.0	0.9	0.8	7.7	6.6	5.6	13%
<b>Automotive average</b>				<b>1.0</b>	<b>0.9</b>	<b>0.8</b>	<b>7.2</b>	<b>6.2</b>	<b>5.3</b>	<b>14%</b>
<b>Universe average</b>				<b>1.5</b>	<b>1.4</b>	<b>1.3</b>	<b>9.2</b>	<b>8.0</b>	<b>7.1</b>	<b>16%</b>
<b>Kendrion</b>	€	<b>22.5</b>	<b>336</b>	<b>1.1</b>	<b>1.0</b>	<b>0.9</b>	<b>8.7</b>	<b>7.3</b>	<b>6.3</b>	<b>13%</b>
<b>Premium/(discount)</b>				<b>-29%</b>	<b>-30%</b>	<b>-32%</b>	<b>-5%</b>	<b>-8%</b>	<b>-11%</b>	
Assumed premium/(discount)				0%	0%	0%	0%	0%	0%	
<b>Implied value per share (€)</b>				<b>36.9</b>	<b>37.9</b>		<b>26.2</b>	<b>27.4</b>		

Source: Refinitiv, Edison Investment Research. Note: Prices as at 7 May 2021.

**Exhibit 5: Financial summary**

€m	2018	2019	2020	2021e	2022e	2023e
31-December	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>INCOME STATEMENT</b>						
Revenue	448.6	412.4	396.4	438.1	477.5	513.5
Gross Profit	211.9	193.3	191.0	211.6	231.6	250.1
EBITDA normalised	58.5	43.8	44.6	54.1	62.9	70.4
EBITDA reported	49.7	38.1	40.2	52.1	61.9	70.4
Depreciation & Amortisation	(23.1)	(24.0)	(25.7)	(24.8)	(25.7)	(26.3)
EBIT normalised	35.4	19.8	18.9	29.3	37.2	44.2
Amortisation of acquired intangibles	(2.3)	(2.2)	(4.4)	(3.8)	(3.8)	(3.8)
Exceptionals (Edison definition)	(8.8)	(5.7)	(4.4)	(2.0)	(1.0)	0.0
EBIT reported	24.3	11.9	10.1	23.5	32.4	40.4
Net Interest	(3.1)	(0.9)	(4.4)	(3.8)	(3.3)	(2.8)
Participations	(0.1)	0.0	0.0	0.0	0.0	0.0
Profit Before Tax	21.1	11.0	5.7	19.7	29.1	37.6
Reported tax	(7.3)	(2.7)	(1.4)	(4.8)	(7.1)	(9.2)
Profit After Tax	13.8	8.3	4.3	14.9	21.9	28.3
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0
Net income (normalised)	22.6	12.6	11.7	16.4	22.7	28.3
Net income (reported)	13.8	8.3	4.3	14.9	21.9	28.3
Average number of shares (m)	13.4	13.5	14.8	14.9	14.9	14.9
Total number of shares (m)	13.5	14.9	14.9	14.9	14.9	14.9
EPS normalised (€)	1.69	0.94	0.79	1.10	1.52	1.90
EPS reported (€)	1.03	0.62	0.29	0.99	1.47	1.90
DPS (€)	0.87	0.00	0.40	0.55	0.76	0.95
Revenue growth	-2.9%	-8.1%	-3.9%	10.5%	9.0%	7.5%
Gross Margin	47.2%	46.9%	48.2%	48.3%	48.5%	48.7%
EBITDA Margin	13.0%	10.6%	11.3%	12.3%	13.2%	13.7%
Normalised Operating Margin	7.9%	4.8%	4.8%	6.7%	7.8%	8.6%
<b>BALANCE SHEET</b>						
Fixed Assets	246.4	244.8	299.6	305.3	306.9	304.7
Intangible Assets	116.1	115.5	158.1	154.4	150.8	147.4
Tangible Assets	113.6	111.4	118.7	128.1	133.3	134.5
Investments & other	16.7	17.9	22.8	22.8	22.8	22.8
Current Assets	128.9	113.2	129.5	135.7	150.4	166.5
Stocks	63.5	56.3	61.7	68.2	73.9	78.9
Debtors	48.0	42.9	47.2	52.2	56.9	61.1
Other current assets	7.2	6.9	7.6	8.4	9.2	9.8
Cash & cash equivalents	10.2	7.1	13.0	6.9	10.5	16.6
Current Liabilities	81.2	73.8	87.9	95.9	103.4	110.3
Creditors	41.7	41.3	44.0	48.6	53.0	57.0
Other current liabilities	27.3	26.9	31.9	35.3	38.4	41.3
Short term borrowings	12.2	5.6	12.0	12.0	12.0	12.0
Long Term Liabilities	112.0	80.7	137.8	132.8	127.8	117.8
Long term borrowings	78.5	48.9	104.2	99.2	94.2	84.2
Other long-term liabilities	33.5	31.8	33.6	33.6	33.6	33.6
Shareholders' equity	182.1	203.5	203.4	212.3	226.0	243.0
Balance sheet total	375.3	358.0	429.1	441.0	457.3	471.1
<b>CASH FLOW</b>						
Op Cash Flow before WC and tax	51.4	36.1	40.6	52.1	61.9	70.4
Working capital	(8.3)	13.0	5.4	(4.3)	(3.6)	(3.1)
Tax	(4.2)	(6.1)	(1.3)	(4.8)	(7.1)	(9.2)
Net interest	(2.2)	(2.1)	(2.9)	(3.8)	(3.3)	(2.8)
Net operating cash flow	36.7	40.9	41.8	39.2	47.9	55.3
Capex	(31.4)	(20.0)	(16.0)	(34.3)	(31.1)	(27.9)
Acquisitions/disposals	(2.6)	0.1	(78.2)	0.0	0.0	0.0
Equity financing	(6.6)	23.3	0.0	0.0	0.0	0.0
Dividends	(5.8)	(8.1)	0.0	(6.0)	(8.2)	(11.3)
Other	(0.2)	(3.1)	(3.4)	0.0	0.0	0.0
Net Cash Flow	(9.9)	33.1	(55.8)	(1.1)	8.6	16.1
Opening net debt/(cash)	70.6	80.5	47.4	103.2	104.3	95.7
Closing net debt/(cash)	80.5	47.4	103.2	104.3	95.7	79.6

Source: Kendrion, Edison Investment Research

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