

EDAG Engineering Group

Engineering the 'e-motive' future

EDAG is one of the world's leading independent engineering service providers to the global automotive manufacturing industry. With a reputation built over decades in the core German market, the company appears well positioned to benefit from the surge in new vehicle projects being driven by the megatrend towards electromobility. Its existing customer base, composed of many of the leading car manufacturers, needs to transition entire product ranges, and new independent vehicle projects are emerging around the world, requiring specialist engineering resources.

Leading independent automotive engineer

With 8,400 employees and a global network of around 60 sites in 19 countries, EDAG provides engineering services to the global vehicle OEMs and sophisticated automotive suppliers. It offers complementary solutions across its Vehicle Engineering (62% of FY17 sales), Electrics/Electronics (20%) and Production Solutions (18%) activities. It can support customers across the entire value chain from the original concept, through product development and prototype construction to delivery of turnkey production systems. It also has established centres of excellence that design innovative technologies for future automotive applications, with expertise in both established and emerging trends, such as vehicle lightweighting, e-mobility, autonomous driving, safety and connectivity.

Growth focused on mobility of the future

The focus on e-mobility is driving a surge in engineering resource requirements at the major OEMs, but competitive propositions are also emerging from potential new entrants. The electrification of model ranges not only requires innovative drive systems, but also accelerates trends such as new production systems, weight reduction and digital contents. All of this is encouraging EDAG to selectively shift towards a more global perspective where there is even less competition. Managing contract profitability will remain key in this dynamic environment.

Valuation: Attractive income as growth resumes

In an update on 16 October 2018, the company raised FY18 revenue guidance to at least 8% growth, with an adjusted operating margin of 5–7%. Consensus estimates appear slightly below that. Q3 results are due on 8 November 2018. Achievement of these forecasts with a return to growth leave the 12.5x FY19e reported PE looking undemanding, and supported by an attractive historical dividend yield of 4.3%.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (c)	DPS (c)	P/E (x)	Yield (%)
12/16	715.0	28.8	72.2	75.0	24.3	4.3
12/17	716.7	22.1	57.3	75.0	30.6	4.3
12/18e	771.0	38.3	105.0	77.0	16.7	4.4
12/19e	811.8	49.6	140.6	78.4	12.5	4.5

Source: EDAG Engineering Group reports, Bloomberg consensus estimates

Automobiles and parts

Price €17.52

Market cap €438m

Share price graph



Share details

Code	ED4
Shares in issue	25.0m
Net debt (€m) as at 30 June 2018	116.1

Business description

Founded in 1969, EDAG has grown into one of the world's leading independent automobile design and engineering specialists. The group's expertise is in the integrated design and optimisation of vehicles, production facilities, derivatives and modules. It listed on the Frankfurt Stock Exchange in December 2015.

Bull

- The trend to e-mobility is an encouraging surge in new, often independent vehicle projects.
- Megatrends in digitalisation and connectivity are providing new areas of collaborative focus.
- Dividend yield provides significant support.

Bear

- Automotive plans can often change rapidly with OEMs, which can be extremely fickle.
- Increased competition in e-mobility engineering services requires robust contract risk controls.
- Dividend was paid from reserves in the past two financial years but should be covered in FY18.

Analysts

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