

Kendrion

Industrials
23 October 2020

Interface between electricity and movement

Kendrion specialises in high-quality electromagnetic systems that increase safety, performance and comfort in automotive and industrial applications. Its actuators are crucial in the interface between electricity and movement. Despite the short-term impact of the coronavirus pandemic on the automotive and industrial segments, the company is well positioned to benefit from multiple long-term disruptive trends, such as autonomous driving, electrification and industrial automation (eg robotics).

Ample long-term growth opportunities

In early 2020, Kendrion acquired industrial brakes specialist Intorq and total revenue is now evenly spread over automotive and industrial applications. With its exposure to these segments, the effect of the coronavirus pandemic on FY20 is unavoidable and revenues and profitability are under significant pressure. At its CMD in September, Kendrion highlighted three long-term growth areas. First, automotive will benefit from trends such as autonomous driving, electrification, connected vehicles and shared mobility. The total value of Kendrion's products in electric and hybrid platforms is much higher than in combustion engines (with applications in sensor cleaning, battery cooling and acoustic alerting). Second, according to management, industrial brakes are expected to show more than 5% pa growth, with stronger expansion in robotics, wind power and intra logistics (forklifts and automated guided vehicles). Third, the company expects at least 20% pa growth over the next five years in its Chinese operations that, including Intorq, now represents 10% of total revenues.

Financial targets to 2025

Kendrion recently set targets for the period to 2025. Organic revenue growth is aimed at 5% or more on average per year, with 2019 as starting point including pro-forma revenues for Intorq. For 2025, an EBITDA margin of at least 15% is targeted and a ROIC of above 25% (excluding acquisition related intangibles). The company maintained its dividend policy to distribute 35–50% of net profit. Although the focus seems on organic growth, management has not ruled out further acquisitions. Over the past few years, Kendrion has been the consolidator in its market segments.

Valuation: 25% discount to peers

Kendrion's share price was significantly affected by COVID-19 and hit a low of €8.63, but has recovered and now trades c 20% below the pre-pandemic level. Despite the comparable recovery in consensus revenues and profits versus peers, Kendrion is valued at c 25% discount to peers based on FY21e EV/EBITDA.

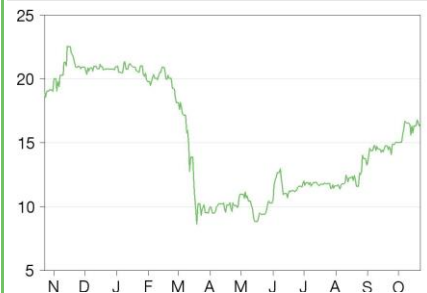
Consensus estimates

Year end	Revenue (€m)	EBITDA (€m)	EPS (€)	DPS (€)	P/E (x)	EV/EBITDA (x)
12/18	448.7	58.5	1.69	0.87	12.4	6.5
12/19	412.4	43.3	0.79	0.00	26.5	8.1
12/20e	388.5	37.5	0.24	0.00	69.4	10.4
12/21e	407.0	47.5	0.75	0.33	21.7	8.2

Source: Kendrion, Refinitiv

Price €16.30
Market cap €241m

Share price graph



Share details

Code	KENDR
Shares in issue	14.8m
Net debt at 30 June 2020	€130.5m

Business description

Kendrion develops, manufactures and markets high-quality electromagnetic systems for automotive (50% of revenues) and industrial applications (50%). Its products are used in systems such as lifts, door-locking, robots, medical equipment, electrical switch boxes and advanced actuators for electrical and hybrid vehicles in applications such as sensor cleaning, battery cooling and acoustic alerting.

Bull

- Strong market positions globally.
- Strong R&D competences.
- Consolidator in a fragmented market.

Bear

- High exposure to German industry (machine building and automotive).
- Exposure to diesel segment >10% of revenues.
- Relatively large clients.

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