

# Stern Groep

## Lower profitability in Q3

Stern reported a 5% reduction in revenues in its Q3 trading update. Profitability lagged, especially because of COVID-19 related effects in workshop utilisation and car repair. Stern did not use the Dutch government support package NOW2 in Q3, but is considering making use of NOW3, which could have an impact on the performance for the rest of the year. We have made small downward changes to our FY20 estimates on the back of the Q3 results, but maintain our 2021 estimates as we continue to expect a recovery post COVID-19. At an FY21e P/E of 9.4x that implies a 27% discount to peers, Stern still looks undervalued.

Year end	Revenue (€m)	PBT* (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/18	987.7	(5.8)	(0.73)	0.00	N/A	N/A
12/19	989.3	(1.4)	0.29	3.50	N/A	30.2
12/20e	815.5	0.6	1.00	0.30	11.6	2.6
12/21e	922.8	7.8	1.23	0.49	9.4	4.2

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

## A weaker Q3 leads to lower FY20e earnings

Stern's Q3 revenues were in line with our expectations, while the loss after tax was below our estimates in the seasonally weak third quarter. This was largely because Stern did not use NOW2 government support during the quarter, but also due to lower gross margins, mainly driven by car services (less car accidents) and lower utilisation at workshops (less maintenance). Stern did not provide Q4 guidance given current uncertainties, but we expect it to be a stronger quarter compared to Q3 and at present see no reason to change our revenue estimates for FY20. That said, we have reduced our underlying FY20e EBIT estimate to €5.1m from €7.5m and our net profit estimate to €5.7m from €7.4m.

## No news on Hedin and Renault expansion

An important element in Stern's investment case is the merger discussions with Hedin, and talks are still ongoing but are protracted due to travel restrictions. As a result, we do not expect these discussions to conclude this year. There was also no news on the desired expansion of Renault dealerships in the south of the Netherlands, but we expect this deal could materialise in the short term.

## Valuation: Attractive despite FY20e downgrade

Despite the weaker Q320 and lower FY20e estimates, we still believe that Stern's profitability could recover towards 1.3% EBIT margins in FY21e as COVID-19 effects become less pronounced and the 2020 investments in restructuring and the online repositioning of One Stern bear fruit. Trading at a P/E multiple of 9.4x on our unchanged FY21 estimates compared to the peer group average of 12.8x, the stock continues to look undervalued. On top of this, Stern has a participation in car insurer Bovemij that has a market value of €3.17 per Stern share.

Company update

Automobiles & parts

18 November 2020

**Price** €11.60

**Market cap** €66m

Net debt (€m) at H120 82

Shares in issue 5.7m

Free float 29.5%

Code STRN

Primary exchange Euronext

Secondary exchange N/A

### Share price performance



% 1m 3m 12m

Abs (5.7) 19.6 (7.9)

Rel (local) (10.8) 12.0 (8.2)

52-week high/low €17.90 €7.92

### Business description

Stern Groep is one of the largest automotive groups in the Netherlands. With 75 locations and revenues of almost €1bn it is the second largest car retailer group in the Netherlands. The company has over 1,850 employees.

### Next events

FY20 results 4 March 2021

### Analyst

Edwin De Jong +44 (0)20 3077 5700

[industrials@edisongroup.com](mailto:industrials@edisongroup.com)

[Edison profile page](#)

**Stern Groep is a research client of  
Edison Investment Research  
Limited**

## **Q3 results: Solid revenues, but more margin pressure**

---

Although Q320 new passenger car sales in the Netherlands, recovered from the 30% y-o-y decrease in H120 to a 15% decrease (source: Bovag), the market environment is still far from being favourable. Used car sales were stronger in the quarter (+6.8% y-o-y; source: VWE), while new light commercial vehicles sales were weaker (-9.0% y-o-y; source: Bovag). We estimate that year to date, Stern has won some market share in new passenger cars (4.3% from 4.1%), while losing share in light commercial vehicles (6.3% from 7.2%). All in all, Stern's top line dropped 5% to €198m in Q320, which we believe is a reasonable outcome given the challenging market conditions. For the full year, sector organisations Bovag and Aumacon expect a 22% decrease to 350,000 new passenger car sales and Aumacon expects a rebound to 415,000 new passenger cars by 2021.

The company's gross margins are still under pressure due to lower utilisation at the workshops, as cars making less miles in these mobility restricted COVID-19 times require less maintenance, and also at car repair facilities, as there are fewer accidents due to lower traffic. However, operational costs came down as well, as a result of restructuring with 3.2% lower staffing costs and 8.4% lower operational costs, despite rebranding to One Stern and the implementation of a CRM software package. Stern has not made use of grants from the Dutch government support program NOW2 (after tapping almost €5m from NOW1) according to the Q320 results, but is considering applying for NOW3 grants, which will run into next year. The adjusted loss after taxes from continued activities increased to €2.0m in Q320 from €0.8m in Q319.

## **Estimates revisions: Lower FY20, FY21 maintained**

---

We maintain our expectation that Stern will report revenues of €815.5m in FY20, a 17% y-o-y reduction. This is driven by the sharp reduction in new car sales and the divestment of Heron, partly offset by some normalisation of revenues in Q420 and a strong increase in electric vehicle (EV) model sales in December, especially the Volvo XC40 and KIA Niro. The latter is driven by a beneficial income tax regime this year compared to next year, which spurs lease car sales in December for delivery in January.

Nevertheless, the anticipated improvement in adjusted EBIT, which we initially expected to come in at €7.5m in FY20, is now expected to be somewhat lower at €5.1m, due to lower gross margins and higher operating costs than we previously expected. As a result, we also lower our FY20 estimate of an adjusted net profit (adjusted for €20m impairment of goodwill and €4m appreciation of the stake in insurer Bovemij) from €7.4m to €5.7m.

We currently keep our FY21 estimates unchanged and continue to expect a rebound in revenues to €0.9bn, as the effects of COVID-19 reverse, with a subsequent anticipated return to the pre COVID-19 revenue level of €1bn by 2023. EBITDA and EBIT should benefit significantly from the ongoing improvements in the dealer model and we expect that a 1.3% EBIT margin should still be achievable in 2021 rising to 1.9% by 2023.

**Exhibit 1: P&L**

Year end 31 December, €m	2016	2017	2018	2019	2020e old	2020e new	2021e old	2021e new
Revenue	1,096.9	1,124.5	988.7	989.3	815.5	815.5	922.8	922.8
Cost of Sales	(907.9)	(934.2)	(812.3)	(816.5)	(681.8)	(684.2)	(770.3)	(770.3)
Gross Profit	189.0	190.3	176.4	172.8	133.7	131.3	152.5	152.5
EBITDA	26.7	20.5	6.1	47.4	14.4	11.7	17.8	17.8
Normalised operating profit	16.5	11.4	(1.7)	5.5	7.5	5.1	12.3	12.3
Amortisation of acquired intangibles	0.0	0.0	(0.1)	(0.1)	0.0	0.0	0.0	0.0
Exceptionals	2.2	1.3	0.2	(2.8)	(18.0)	(18.3)	0.0	0.0
Reported operating profit	18.7	12.7	(1.5)	2.7	(10.5)	(13.2)	12.3	12.3
Net Interest	(3.4)	(3.3)	(4.1)	(6.9)	(4.5)	(4.5)	(4.5)	(4.5)
Profit Before Tax (norm)	13.1	8.1	(5.8)	(1.4)	3.0	0.6	7.8	7.8
Profit Before Tax (reported)	15.3	9.4	(5.6)	(4.2)	(15.0)	(17.7)	7.8	7.8
Reported tax	(4.0)	(1.9)	1.7	3.0	4.4	5.1	(0.8)	(0.8)
Profit After Tax (norm)	9.1	6.2	(4.1)	1.6	7.4	5.7	7.0	7.0
Profit After Tax (reported)	11.3	7.5	(4.0)	(1.2)	(10.6)	(12.6)	7.0	7.0
Discontinued operations	0.0	0.0	4.5	22.6	0.0	0.0	0.0	0.0
Net income (normalised)	9.1	6.2	(4.1)	1.6	7.4	5.7	7.0	7.0
Net income (reported)	11.3	7.5	0.5	21.3	(10.6)	(12.6)	7.0	7.0

Source: Stern Groep, Edison Investment Research estimates

## Valuation: Investment case remains intact

After the cyclical trough in 2016, Dutch new car sales started to pick up again in 2017 and 2018, which were followed by a difficult 2019. 2020 was looking better again driven by improved consumer confidence until COVID-19 hit. Valuations dropped fast in the face of the pandemic and Stern's share price declined from around €17 to a low of €7.9, but has since recovered to €11.60 at the time of writing.

Downturns tend to be opportunities to invest in car dealerships, especially those that are likely to emerge stronger. Stern is well positioned to weather the current storm with its significantly restructured organisation. Its valuation is undemanding at 9.4x 2021e P/E and there is additional optionality in light of a potential merger with much larger Swedish automotive group Hedin.

Stern is currently trading at a 27% discount to the European peer group on FY21e P/E and a 3% discount on FY21e EV/EBITDA (excluding its stake in Bovemij). However, noting the difference in capital structures and quality of the balance sheets of the peer group companies, we see P/E as a more relevant valuation metric for the sector. Nordic peers trade at an average FY19 P/B of more than 3x versus Stern's 0.5x. All in all, we believe Stern is conservatively valued given its transparent and significantly impaired balance sheet.

**Exhibit 2: Peer group valuation**

Company	Market cap (m)	P/E (x)			P/B (x)			EV/EBITDA (x)		
		2019	2020e	2021e	2019	2020e	2021e	2019	2020e	2021e
Bilia	SEK13,084	15.2	12.8	12.6	4.3	3.4	3.0	7.7	8.1	8.0
Kamux	€519	27.0	25.8	20.0	6.4	5.5	4.7	16.3	14.4	12.6
Marshall Motors	£107	5.9	9.3	9.6	0.5	0.6	0.6	4.8	5.4	5.5
Pendragon	£190	N/A	66.7	9.0	1.1	1.6	1.6	5.5	6.3	4.7
Peer average		<b>16.0</b>	<b>28.6</b>	<b>12.8</b>	<b>3.0</b>	<b>2.8</b>	<b>2.5</b>	<b>8.6</b>	<b>8.5</b>	<b>7.7</b>
Stern	€66	N/A	11.6	9.4	0.5	0.5	0.5	3.1	10.4	7.5
Premium/(discount)		<b>N/A</b>	<b>-59%</b>	<b>-27%</b>	<b>-82%</b>	<b>-83%</b>	<b>-81%</b>	<b>-64%</b>	<b>22%</b>	<b>-3%</b>

Source: Stern, Refinitiv, Edison Investment Research. Note: Prices as at 17 November 2020.

**Exhibit 3: Financial summary**

	2016	2017	2018	2019	2020e	2021e	2022e	2023e
Year end 31 December	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>INCOME STATEMENT</b>								
Revenue	1,096.9	1,124.5	988.7	989.3	815.5	922.8	955.9	987.9
Cost of Sales	(907.9)	(934.2)	(812.3)	(816.5)	(684.2)	(770.3)	(795.8)	(819.9)
Gross Profit	189.0	190.3	176.4	172.8	131.3	152.5	160.1	167.9
EBITDA	26.7	20.5	6.1	47.4	11.7	17.8	21.0	24.3
Normalised operating profit	16.5	11.4	(1.7)	5.5	5.1	12.3	15.3	18.3
Amortisation of acquired intangibles	0.0	0.0	(0.1)	(0.1)	0.0	0.0	0.0	0.0
Exceptionals	2.2	1.3	0.2	(2.8)	(18.3)	0.0	0.0	0.0
Share-based payments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reported operating profit	18.7	12.7	(1.5)	2.7	(13.2)	12.3	15.3	18.3
Net Interest	(3.4)	(3.3)	(4.1)	(6.9)	(4.5)	(4.5)	(4.5)	(4.5)
Joint ventures & associates (post tax)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Profit Before Tax (norm)	13.1	8.1	(5.8)	(1.4)	0.6	7.8	10.8	13.8
Profit Before Tax (reported)	15.3	9.4	(5.6)	(4.2)	(17.7)	7.8	10.8	13.8
Reported tax	(4.0)	(1.9)	1.7	3.0	5.1	(0.8)	(1.5)	(2.2)
Profit After Tax (norm)	9.1	6.2	(4.1)	1.6	5.7	7.0	9.3	11.6
Profit After Tax (reported)	11.3	7.5	(4.0)	(1.2)	(12.6)	7.0	9.3	11.6
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	4.5	22.6	0.0	0.0	0.0	0.0
Net income (normalised)	9.1	6.2	(4.1)	1.6	5.7	7.0	9.3	11.6
Net income (reported)	11.3	7.5	0.5	21.3	(12.6)	7.0	9.3	11.6
Basic average number of shares outstanding (m)	6	6	6	6	6	6	6	6
Average number of shares outstanding	5.68	5.68	5.68	5.68	5.68	5.68	5.68	5.68
EPS (€)	1.99	1.32	0.09	3.76	(2.23)	1.23	1.64	2.05
Normalised EPS (€)	1.60	1.09	(0.73)	0.29	1.00	1.23	1.64	2.05
DPS (€)	1.00	1.00	0.00	3.50	0.30	0.49	0.66	0.82
Revenue growth (%)	-2.9	2.5	(12.1)	0.1	(17.6)	13.2	3.6	3.3
Gross Margin (%)	17.2	16.9	17.8	17.5	16.1	16.5	16.7	17.0
EBITDA Margin (%)	2.4	1.8	0.6	4.8	1.4	1.9	2.2	2.5
Normalised Operating Margin (%)	1.5	1.0	-0.2	0.6	0.6	1.3	1.6	1.9
<b>BALANCE SHEET</b>								
Fixed Assets	345.0	362.2	391.8	278.6	285.9	287.7	288.7	288.7
Intangible Assets	30.0	30.5	30.6	22.4	22.3	22.3	22.3	22.3
Tangible Assets	280.3	297.1	343.1	243.5	250.9	252.7	253.7	253.7
Investments & other	34.7	34.6	18.1	12.7	12.7	12.7	12.7	12.7
Current Assets	278.9	262.7	283.6	294.8	222.7	232.4	240.8	250.4
Stocks	222.8	227.2	237.6	201.4	163.1	184.6	191.2	197.6
Debtors	47.6	24.6	35.3	41.7	32.6	32.3	33.5	34.6
Cash & cash equivalents	1.0	1.2	0.7	0.7	19.6	7.2	7.6	9.3
Other	7.5	9.7	10.0	51.0	7.3	8.3	8.6	8.9
Current Liabilities	456.8	255.9	272.6	271.7	223.8	230.9	234.6	237.1
Creditors	133.1	134.4	139.9	97.4	101.3	104.0	103.5	106.6
Tax and social security	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short term borrowings	292.8	97.7	93.9	90.0	90.0	90.0	91.0	91.0
Other	30.9	23.9	38.8	84.3	32.6	36.9	40.1	39.5
Long Term Liabilities	10.0	209.8	247.6	149.1	146.5	146.8	146.9	147.0
Long term borrowings	6.3	206.4	244.0	49.7	49.7	49.7	49.7	49.7
Other long term liabilities	3.7	3.4	3.6	99.4	96.8	97.1	97.2	97.3
Net Assets	157.0	159.1	155.2	152.6	138.2	142.4	148.0	155.0
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shareholders' equity	157.0	159.1	155.2	152.6	138.2	142.4	148.0	155.0
<b>CASH FLOW</b>								
Op Cash Flow before WC and tax	55.5	53.6	52.6	11.9	(10.3)	12.9	15.1	17.6
Working capital	(1.9)	10.7	(0.9)	(8.3)	43.2	(15.1)	(5.4)	(5.3)
Net operating cash flow	53.6	64.4	51.6	3.6	32.9	(2.2)	9.8	12.3
Capex	(49.9)	(63.7)	(81.6)	26.6	(12.2)	(7.4)	(6.7)	(5.9)
Dividends	0.0	0.0	(4.3)	(19.9)	(1.7)	(2.8)	(3.7)	(4.6)
Other	(3.3)	(0.4)	33.7	(10.4)	0.0	0.0	0.0	0.0
Net Cash Flow	0.4	0.2	(0.5)	(0.1)	19.0	(12.4)	(0.7)	1.8
Opening net debt/(cash)	295.8	298.1	302.9	337.1	139.0	120.0	132.5	133.1
Closing net debt/(cash)	298.1	302.9	337.1	139.0	120.0	132.5	133.1	131.4

Source: Stern Groep, Edison Investment Research

## General disclaimer and copyright

This report has been commissioned by Stern Groep and prepared and issued by Edison, in consideration of a fee payable by Stern Groep. Edison Investment Research standard fees are £49,500 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

**Accuracy of content:** All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

**Exclusion of Liability:** To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out of or in connection with the access to, use of or reliance on any information contained on this note.

**No personalised advice:** The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

**Investment in securities mentioned:** Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Copyright: Copyright 2020 Edison Investment Research Limited (Edison).

## Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

## New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

## United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

## United States

Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

Frankfurt +49 (0)69 78 8076 960  
Schumannstrasse 34b  
60325 Frankfurt  
Germany

London +44 (0)20 3077 5700  
280 High Holborn  
London, WC1V 7EE  
United Kingdom

New York +1 646 653 7026  
1185 Avenue of the Americas  
3rd Floor, New York, NY 10036  
United States of America

Sydney +61 (0)2 8249 8342  
Level 4, Office 1205  
95 Pitt Street, Sydney  
NSW 2000, Australia