Kendrion

Capital markets day

CMD confirms strategic direction and targets

Industrial engineering

At its capital markets day (CMD) on 8 September, Kendrion reiterated its financial targets for 2025 (originally set in September 2020) and confirmed its strategic direction. The Industrial division is continuing strong growth in revenues and profitability (despite market challenges), while Automotive still is affected by supply chain constraints, inflation and volatile demand. The long-term growth outlook for Kendrion remains strong, based on the favourable trends of electrification and green energy. The average of three valuation methods points at a value per share of €21.7.

Year end	Revenue (€m)	EBITDA* (€m)	EPS* (€)	DPS (€)	EV/EBITDA (x)	P/E (x)
12/20	396.4	44.6	0.79	0.40	8.3	17.5
12/21	463.6	55.8	1.39	0.70	8.2	10.0
12/22e	500.4	57.0	1.48	0.74	6.4	9.4
12/23e	536.7	68.6	1.96	0.98	5.2	7.1

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

Focus remains on electrification and green energy

At its CMD, Kendrion showed many market segments where it can grow strongly and confirmed its target of ≥ 5% pa organic revenue growth on average until 2025. For Industrial Brakes, it expects 6% annual growth in the existing markets wind power, automation and robotics, while adding high growth segments such as automated guided vehicles and collaborative robots. Automotive is currently facing tough market conditions, but IHS Markit expects a recovery to 7% growth in global car production in both 2023 and 2024. To put more focus on e-mobility, Kendrion will split Automotive into 'E' and 'Core' (internal combustion engine related). Kendrion also aims to strongly grow in China and the doubling of capacity by Q123 will support annual growth of at least 20% per year, according to management.

On track for >15% EBITDA margin in 2025

In the first two financial years of its strategic plan 2020–25, Kendrion has been very unlucky to be confronted with the COVID-19 pandemic and the supply chain constraints. Driven by the strong performance in Industrial, Kendrion managed to compensate for the declines in Automotive. We expect that the positive underlying trends and the enhanced growth profile to result in accelerating organic revenue growth to 5% in FY22 and 7–8% in 2023 and 2024. EBITDA margin is expected to continue to improve towards the targeted ≥ 15% in 2025, driven by operating leverage and cost savings within Automotive. Our estimates assume a 60bp lower margin in FY22, followed by a recovery of 140bp in 2023.

Valuation: Undervalued industrial player

Kendrion is valued at a 2022e EV/EBITDA of 6.4x and a P/E of 9.4x. The average of historical multiples, DCF and peer comparison points at a value per share of €21.7 (from €22.2 in our previous update due to lower peer multiples). Kendrion is trading at a discount to peers of 17% on 2022e EV/EBITDA, which could diminish over time as the company demonstrates accelerating growth and higher profitability.

30 September 2022

Price	**€13.9**
Market cap	**€210m**

Net debt (€m) at 30 June 2022	146
Shares in issue	15.1m
Free float	44%
Code	KENDR
Primary exchange	Euronext Amsterdam
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	(9.5)	(11.0)	(36.5)
Rel (local)	(0.3)	(6.3)	(22.3)

52-week high/low	€22.4	€14.0

Business description

Kendrion develops, manufactures and markets high-quality actuators for industrial (53% of revenues) and automotive applications (47%). The geographical spread of revenues is Germany 39%, other Europe 30%, the Americas 16% and Asia 15%.

Next events

8 November 2022	Q322 trading update

Analyst

Johan van den Hooven +44 (0)20 3077 5700

industrials@edisongroup.com

Edison profile page

Kendrion is a research client of Edison Investment Research Limited

Investment summary

Company description: Specialist in smart actuators

With its origin in Germany, which is the base for electromagnetic systems, Kendrion focuses on smart actuators. Its revenues are evenly split between industrial and automotive applications, with profitability levels in Industrial being clearly higher than in automotive. As one of the global market leaders in actuators, the company is spending 6–7% of revenues per annum on R&D. The company targets growth segments by developing new technologies in, for example, robotics, inductive heating and acoustic vehicle alerting systems that are mandatory for each electric vehicle.

Valuation: Upside on three valuation methods

Kendrion's share price has taken a hit of around 30% over the past six months, mainly driven by the investment climate turning negative under inflationary pressure, but also specifically the negative trends within the automotive sector. The anticipated after-pandemic recovery in automotive has been delayed due to persistent supply chain constraints. However, IHS Markit expects a recovery in global car production to 7% growth in both 2023 and 2024, which should trigger a rebound in revenues and particularly margins at Kendrion. The Industrial division will continue to benefit from good growth in segments such as wind power, automation and robotics, while entering new niche segments such as industrial heating solutions. Accelerating growth and improving margins should be positive catalysts for Kendrion's share price and help narrow the current valuation gap of 17% to peers. We think that Kendrion is still seen as an automotive supplier, even though Industrial represents more than 70% of group EBITDA. The average of three valuation methods – historical multiples (€22), DCF (€24) and peer comparison (€19) – point at a value per share of €21.7, while the company also offers a dividend of around 5%. Our model is based on organic growth only, although the company has been active in M&A over the past few years.

Financials: On track for financial targets

In FY20–21, Kendrion's group revenue was affected by the COVID-19 pandemic and the supply chain constraints. In this period, Industrial has shown strong growth while Automotive faced very challenging markets. As of 2022, we expect accelerating revenue growth and a continuation of the margin improvement, driven by the fading effect of the pandemic and positive trends towards electrification in both automotive and industry pushing up underlying demand. For FY22 we expect 5% organic revenue, followed by 7–8% in FY23–24 with EBITDA margin further improving towards 14% in FY24. This all delivers a CAGR of 23% in normalised EPS for the period FY22–24.

The company's net debt of €146m in H122 reflects a net debt/EBITDA ratio of 2.6x, which is well within the covenants of below 3.25x. The company's financial position offers sufficient room for the financing of organic revenue growth and dividend payments. However, we do not expect major M&A activity in the short term due to the relatively high net debt and low share price.

Sensitivities: Upside and downside risks

Kendrion is generally dependent on the economic cycles in its industrial and automotive segments. Triggers to Kendrion's investment case and therefore our forecasts would be a faster recovery in automotive than currently anticipated; a faster increase in the penetration of electric vehicles; an acceleration in the electrification trend; and a greater government push towards green energy. Risks to the investment case include prolonged supply chain constraints; consistent inflationary pressures; a sustained Chinese lockdown; a recessionary environment; increased competition in its chosen niche segments; and the emergence of alternative products.

Company description: Global specialist in actuators

Kendrion specialises in the development, production and marketing of actuators for a wide range of industrial and automotive applications. An actuator is a mechanical device that converts (electric) energy into force or motion. Kendrion products are used in applications for wind power, robots, factory automation, electric vehicles, energy distribution and industrial heating processes. Kendrion realised revenues of €464m in FY21 and is one of the larger players globally.

Exhibit 1: Examples of Kendrion products

Permanent magnet single-disc brake	Spring applied brake for servo motors	Valves for active damping
		

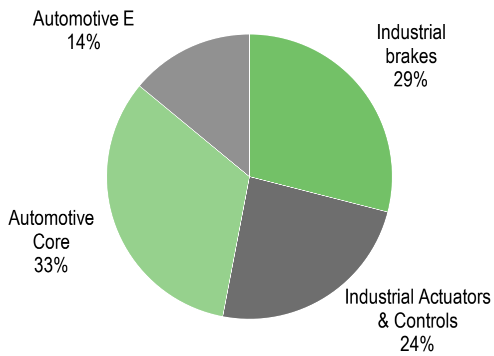
Source: Kendrion

Focus on industrial and automotive applications

For many years, Kendrion has been active in the market segments for industrial and automotive applications. Industrial represented 53% of H122 revenues and can be split into Industrial Brakes (29% of group revenues) and Industrial Actuators & Controls (24%). Within Industrial Brakes, Kendrion provides electromagnetic brakes for electromotors and focuses on high-growth areas such as automation (including collaborative and medical robots), wind power and intra logistics (automated guided vehicles). Industrial Actuators & Controls focuses on applications that are based on electromagnetic actuators, control technology and fluid technology in market segments such as medical, energy efficiency, manufacturing automation and security systems. Automotive focuses on advanced valve technology, smart actuation and control technology and offers solutions for passenger cars (two-thirds of Automotive) and commercial vehicles (one-third). At its CMD, the company announced that it will split Automotive into Core and E (to focus on E-mobility).

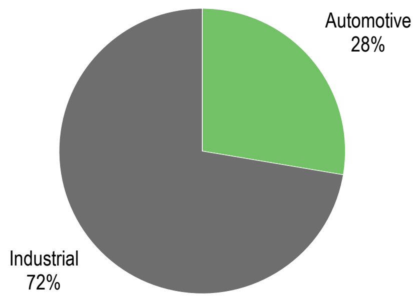
The Industrial division normally performs better than Automotive, reporting a higher EBITDA margin in FY21 of close to 17% versus 7%, and this difference further widened in H122.

Exhibit 2: H122 revenue spread of activities



Source: Kendrion

Exhibit 3: FY21 EBITDA spread of activities



Source: Kendrion

The products of Kendrion are used in many different applications, in both the Industrial and Automotive segments. A list of these applications is shown in Exhibit 4.

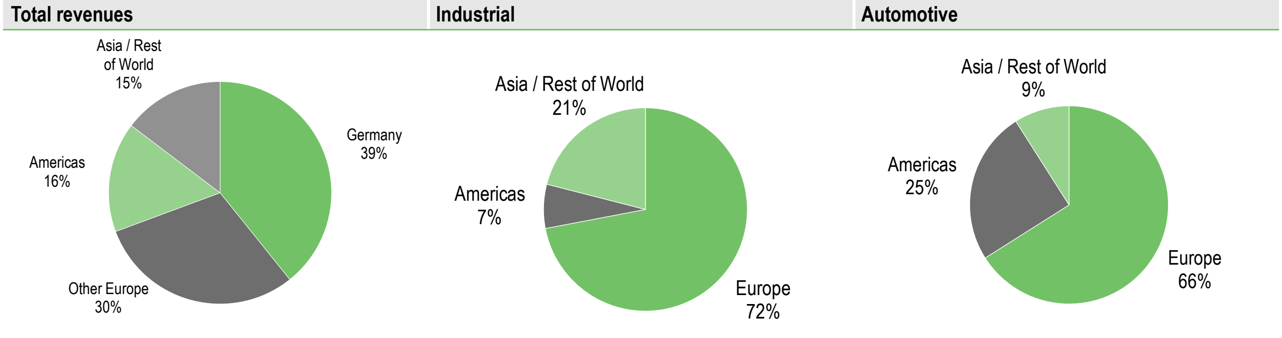
Exhibit 4: Overview of applications

Industrial	Automotive
Energy generation and distribution	Active suspension systems
Food and beverage industry	Fuel systems
Industrial automation	Mobile hydraulics
Intralogistics	Acoustic vehicle alerting systems
Medical equipment	Thermal management
Robotics	Sensor cleaning systems
Textile machinery	Transmission systems
Wind Power	

Source: Kendrion

Kendrion's geographical spread shows that Europe is its largest region, accounting for almost 70% of total revenues, while the Americas and Asia represent the remaining 30% (see Exhibit 5). When looking at the company's two divisions, Automotive is relatively more exposed to the Americas and Industrial is relatively more exposed to Asia (partly due to the acquisition in early 2020 of INTORQ, which has a stronger presence in China).

Exhibit 5: Geographical spread of revenues, FY21



Source: Kendrion

Exhibit 6 shows examples of the company's customers in each division. Within Industrial, the company has longstanding relationships with, for example, Lenze, Schindler and Siemens. Within Automotive, customers include Continental, Daimler Group and Volkswagen Group. ThyssenKrupp Bilstein was the company's first customer for its active damping systems. In FY21, three customers accounted for over 5% of group revenues: Siemens within Industrial, and Volkswagen Group and ThyssenKrupp Bilstein within Automotive. Customers in Automotive tend to be larger than in Industrial, where Kendrion has a large roster of many smaller customers.

Exhibit 6: Examples of customers per division

Industrial	Automotive
ASML	Continental
Collins Aerospace	Daimler Group
Eaton Corporation	Danfoss
Euchner	FCA
Fresenius	Ford
Lenze	Great Wall Motors
Oerlikon	Hyundai Kia
Schindler	KYB
Siemens	Marelli
ST Drives Stoll	ThyssenKrupp Bilstein
	Volkswagen Group
	ZF Friedrichshafen

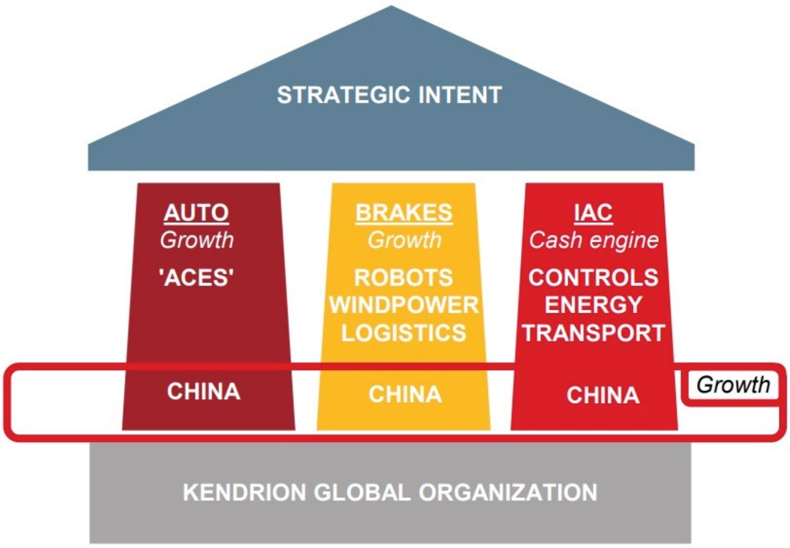
Source: Kendrion

CMD confirms strategic direction and financial targets

At its CMD on 8 September 2022, Kendrion confirmed its strategic direction and financial targets, which it set at its CMD in September 2020. Exhibit 7 shows the so-called strategic house of Kendrion, with the focus on the growth areas Automotive and Industrial Brakes and the cash engine Industrial Actuators & Controls. Throughout the company, the aim is to strongly expand in China. Below we briefly summarise the building blocks of the company's growth strategy.

- Industrial Brakes – grasping the growth opportunities in logistics, robotics and wind power.
- Industrial Actuators and Controls – focusing on selective niche markets where it can realise above average returns, such as inductive heating systems and security systems.
- Automotive – benefiting from trends such as autonomous driving, connected, electrification and shared mobility (so-called ACES).
- China – continuing strong growth path with Kendrion expecting at least 20% revenue growth per annum until 2027, with opportunities in all three product segments. The company is building a new facility in China, which more than doubles capacity towards 28,000m^2. This factory is expected to be operational in Q123 and has the capacity for annual revenues of c €100m.

Exhibit 7: Kendrion's strategic house



Source: Kendrion

Splitting Automotive into Core and E

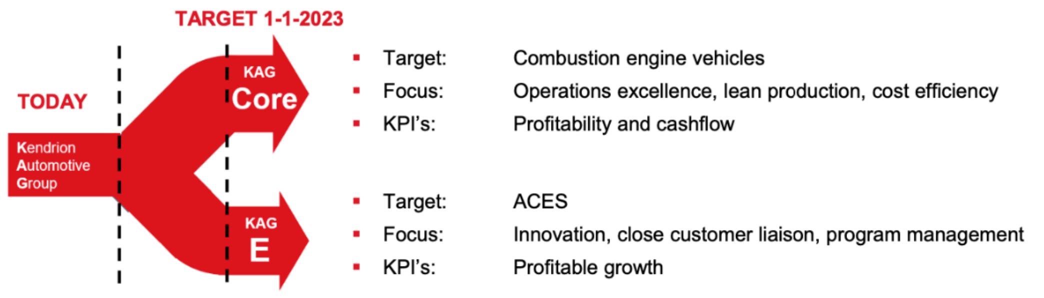
One of the news items of the CMD was the organisational change within the Automotive division, into Automotive Core and Automotive E, which we consider as positive because the company's development in the new growth area of e-mobility can be better tracked. The Automotive division will be split into:

- Core (72% of divisional revenues) comprises existing technologies for vehicles with an internal combustion engine, with the focus on cash flow generation. The company aims for a lean, flexible and simple organisation, which includes the allocation of product groups to dedicated production plants.
- E (28% of divisional revenues) will focus on the rapid developments in the e-mobility trends autonomous, connected, electrified and shared mobility. The company aims to add new customers and expand its portfolio with existing clients in the fast-growing market for electric vehicles, where IHS Markit expects a CAGR of 25% in the period 2022–27. Kendrion has three focus segments, being vehicle sound identity, active suspension and sensor cleaning. The last

one is still in the design phase and hardy generates revenues yet. Kendrion aims to add more product groups over the next few years.

The change in organisation will be effective in January 2023 and both automotive segments will have their own P&L and key performance indicators. Kendrion will report the revenue developments separately. The change in organisation will deliver €4m in cost savings, mainly the result of Core not needing several supporting functions any longer, such as R&D and industrial engineering. To realise these savings, the company expects to incur €6m in one-off costs.

Exhibit 8: Automotive Core and E



Source: Kendrion CMD presentation

Financial targets for 2025 confirmed

At its CMD, Kendrion confirmed the financial targets for the period 2019–25, which it set two years ago. Exhibit 9 shows the targets and the reported results in the past three years.

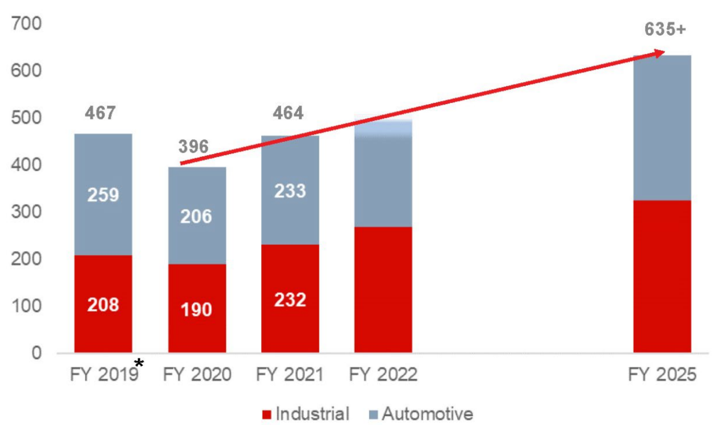
Exhibit 9: Kendrion's financial targets for 2025

Key performance indicators	Target 2025	Realised 2019	Realised 2020	Realised 2021
Organic revenue growth	>5% on average	-9%	-17%	16%
EBITDA margin	>15%	10.6%	11.3%	12.0%
Return on invested capital (ROIC)	>25%	11.7%	10.8%	15.5%
Pay-out ratio	35–50%	0%	50%	50%

Source: Kendrion

Kendrion is keeping its organic revenue growth target of 5% pa or more on average, despite the flat average organic growth in FY20–21, which was obviously affected by the COVID-19 pandemic and supply chain constraints. The company needs a CAGR of 8% in FY22–25 to realise its target. During the CMD, management was rather confident in achieving this target, based on the many new projects it is involved in. Given the long-term positive trends that support the growth of the company, we think the revenue target is achievable, except in a recessionary environment.

Exhibit 10: Kendrion's path towards the 2025 revenue target (€m)



Source: Kendrion. Note: * FY19 revenue pro forma including INTORQ with €54.5m.

The EBITDA margin target of at least 15% in 2025 was also maintained, which compares to the margin of 12.0% in FY21 (and 10.6% in FY19). According to management, the anticipated improvement of >300bp will come from operating leverage (180–200bp) and cost optimisations in Automotive Core (120–130bp). The cost savings in Automotive amount to €8m, because of the organisational change into Core and E (€4m) and the closure of the plant in Austria, which will be finalised in Q422 (€4m). Industrial is reporting solid margins of above 17% and we expect further upside towards almost 18% in 2025. Recovery in Automotive is therefore key for Kendrion to realise the targeted 15% margin and we expect an improvement in this division towards almost 12.5% in 2025 versus 7.2% in FY21 (and 5.0% in H122).

M&A remains on the agenda

At its CMD, the company commented that M&A remains on the company's agenda. Management did not express a preference for any segment or activity; it is looking for companies in general with a strategic and cultural fit. Management commented that its healthy balance sheet supports further deals, but we think that given the current net debt/EBITDA of 2.6x and the company's relatively low share price, M&A activity will be at a lower level in the short term.

Sustainability targets

As part of its overall strategic plan, Kendrion has set out a global sustainability programme, which aims to reduce energy consumption and emissions. Exhibit 11 shows the targets that were set for 2023 and the good progress made until H122. The overall focus is on energy efficiency, fuel efficiency and lowering weight of vehicles, and sustainable products (including safety and medical products) now make up 45% of total revenues.

Exhibit 11: Kendrion's sustainability targets 2019–23

	Realised by H122	Target 2023
Relative reduction in energy consumption	-11%	-15%
Relative reduction in CO_2 emissions	-26%	-15%

Source: Kendrion

Market expectations per division

The main major trends that will determine Kendrion's growth path over the next few years are electrification and clean energy, with the underlying global aim to reduce energy usage and carbon dioxide (CO_2) emissions, while increasing the overall comfort and safety of vehicles. Below we describe the growth prospects for the different activities of Kendrion.

Industrial: High growth with solid profitability

The Industrial division has been Kendrion's star performer in recent years and both segments have good growth prospects for the next few years.

Industrial Brakes: Two years ago, Kendrion expected revenue growth of >5% on average for Industrial Brakes. At the CMD, the updated growth profile shows growth in existing markets of 6% per annum (see Exhibit 12) and in addition the company targets emerging market segments such as logistics automated guided vehicles, collaborative robots and railway. As Kendrion aims to outperform the market, the company's internal budgets seem to assume much higher growth rate than the 6% for its existing markets.

Exhibit 12: Growth forecasts for Industrial Brakes' existing market segments

	Total market size (million EUR)	CAGR (estimate)
Industrial robots	80-90	~2-3%
Industrial trucks	60-70	~2-4%
Wind power	25-30	~7-12%
Electric motors	480-620	~2-3%
Other markets	500-700	~5-7%
Total	**~1,2 - 1,5 (billion EUR)**	**~6%**

Source: Kendrion CMD presentation

Industrial Actuators & Controls comprises many different product and market combinations, making it difficult to come to an overall growth expectation for this segment. These activities are focused on selective niche markets where the company can realise growth against above average returns. At the CMD, many interesting segments were presented and Exhibit 13 shows a few examples of niche segments with an attractive revenue growth profile while realising attractive EBITA margins of 15%.

Exhibit 13: Industrial Actuators & Controls

Trends	Technology/ Products	CAGR at +15 % EBITA
• Health / medical treatment	• Fluid technology (valve modules) • Locks	5 – 10%
• Sustainability / energy consumption and efficiency	• Inductive heating systems • NPP – pilot actuators	15 – 20 %
• Manufacturing automation (robotics, AGV, logistics)	• Control systems • Solenoid products	15 – 20 %
• Smart & remote operated security systems	• Locking systems & solenoids • Sensor modules, PCBs	10 – 15%

Source: Kendrion CMD presentation

Automotive: Focus on the high-growth e-mobility segment

The automotive market was expected to strongly recover from the impact of the COVID-19 pandemic in 2020, but the global supply chain constraints in 2021 caused a further delay in this recovery. IHS Markit reported a decline of 18% in global car production in 2020 followed by growth of only 5% in 2021. Despite the ongoing supply chain constraints, IHS Markit expects growth of 4% in 2022 followed by 7% in both 2023 and 2024 when the constraints might have eased.

For the period 2022–27, IHS Markit expects a CAGR of 3.5% in global car production. For Kendrion's Core segment, the development of the internal combustion engine is important. There will be an avoidable decline in internal combustion engines, but according to IHS Markit this decline is limited to a CAGR 1% until 2027, due to the still expected after-pandemic recovery. A much stronger CAGR of 25% is expected for electric vehicles, which is the focus area of Kendrion's E segment. With car manufacturers and suppliers increasingly focusing their R&D efforts on the high growth electric vehicle segment, we consider it positive that Kendrion has split its automotive division into Core and E so the development of both segments can be closely followed. Taking the revenue contribution of Core and E, this boils down to potential growth for Kendrion's automotive division of 7% on average per annum until 2027.

Financials

Our assumptions remain broadly similar to our estimates in the H122 update and we expect the trends we have seen in the first half to continue in the second half, that is a strong Industrial and a weaker Automotive division.

Earnings: An increasing contribution from new projects

Like all industrial and automotive players, Kendrion faced difficult market conditions in H122, such as inflation, geopolitical uncertainty, volatility in demand, supply chain constraints and lockdowns in China. Group revenue increased 9.5% to €257m, with 5% organic growth. Growth slowed down during the second quarter, partly due to the pandemic related shutdowns in China (according to management impacting revenues by €3.5m). Organic revenue growth in H122 in Industrial was 16%, while Automotive showed a decline of 4%. Kendrion expects that markets will remain volatile and that supply chain constraints will continue for the foreseeable future. After the H122 results, we have become more cautious about the pace of recovery within the automotive segment given the many uncertainties and continued volatile demand. We estimate 8% group revenue growth for FY22 after the 9.5% in H122 and this includes the contribution of 3T and a small positive currency effect (largely US dollars). For the years 2023 and 2024, we expect revenue growth of 7–8%, driven by the energy transition and accelerating electrification, while in addition the anticipated recovery in automotive will contribute to revenue growth. New projects will be ramped up and the doubling of capacity in China will also contribute to growth.

After the margin decline of 170bp in H122, we expect a decline of 60bp in the group EBITDA margin to 11.4% in FY22, followed by a recovery of 140bp to 12.8% in FY23, driven by operating leverage, the easing of the shortage in materials and the contribution of cost savings. The closure of the plant in Austria will lower costs by €4m, while the change in organisation within the Automotive division will deliver €4m in savings (against one-off costs of €6m in FY22). Despite the short-term uncertainties, we still see the opportunity for Kendrion to realise its target for FY25, driven by operating leverage and cost savings, and our current estimates assume a margin of 15.2% in 2025.

Exhibit 14: Divisional forecasts

Divisions (€m)	2020	2021	2022e	2023e	2024e
Industrial	190.3	231.5	270.6	289.5	309.8
Automotive	206.1	232.2	229.9	247.1	271.8
Total revenues	**396.4**	**463.7**	**500.5**	**536.7**	**581.6**
Industrial	24%	22%	17%	7%	7%
Automotive	-20%	13%	-1%	8%	10%
Total revenue growth (%)	**-4%**	**17%**	**8%**	**7%**	**8%**
Industrial	-11%	20%	12%	7%	7%
Automotive	-20%	13%	-2%	8%	10%
Total organic revenue growth (%)	**-17%**	**16%**	**5%**	**7%**	**8%**
Industrial	29.1	39.0	47.0	51.1	55.0
Automotive	15.5	16.8	10.0	17.5	26.3
Total EBITDA normalised	**44.6**	**55.8**	**57.0**	**68.6**	**81.3**
Industrial	15.3%	16.8%	17.4%	17.6%	17.8%
Automotive	7.5%	7.2%	4.4%	7.1%	9.7%
Total EBITDA margin (%)	**11.3%**	**12.0%**	**11.4%**	**12.8%**	**14.0%**

Source: Kendrion, Edison Investment Research

Below the EBITDA level, we expect higher cash flows to gradually drive down financial expenses (despite the upward pressure from the increasing interest rates on around half of the outstanding debt), and we do not anticipate major changes in the company's tax rate of around 28%. All in all, our estimates point at a CAGR in EPS of 23% for FY22–24.

Improving cash flows

Over the past 12 months, free cash flows have been affected by higher inventory levels, for buffer stocks to cope with the supply chain constraints and temporarily buffer inventories in FY22 to facilitate the move of equipment from the plant in Austria to Germany and Romania.

Maintenance capex is expected to remain relatively stable as a percentage of revenues. The additional capex for the new factory in China is around €20m, of which €14m will fall in FY22. The new factory will almost double Kendrion's capacity in China from Q123.

Kendrion's pay-out ratio has been around 50% of normalised net profit in recent years and we expect the company to maintain this level over the next few years. This reflects a cash dividend of €10–15m over the next three years, but the cash out will be most likely be lower as shareholders also opt for stock dividends.

With accelerating revenue growth and improving margins, we estimate free cash flow to increase to €25m in 2023 and €32m in 2024.

Exhibit 15: Kendrion cash flow statement

(€m)	2020	2021	2022e	2023e	2024e
Cash flow from operations	41.8	27.8	35.7	51.1	59.6
Cash flow from investments	(94.2)	(48.8)	(40.8)	(25.9)	(27.1)
Cash flow from financing	58.3	26.6	(10.4)	(21.2)	(24.8)
Change in cash	5.9	5.6	(15.5)	4.0	7.7
Free cash flow	25.8	(2.2)	(5.1)	25.2	32.4

Source: Kendrion, Edison Investment Research

Financial position is sufficient for growth plan

In H122, net debt increased by €8.6m to €145.6m, mainly due to the cash portion of the dividend payment. Net debt/EBITDA slightly increased by 20bp to 2.6x on an annualised basis versus Q1, which is, however, well within the covenant of below 3.25x. At the CMD, management commented to expect a positive free cash flow for the full year; our estimates currently assume a net debt/EBITDA level of 2.5x at year-end.

Driven by the expected increase in free cash flow towards €32m in 2024, net debt will gradually decline over the next few years, resulting in a solid net debt/EBITDA of 1.4x in 2024. Kendrion's financial position offers sufficient room for organic expansion and dividend payments in line with its dividend policy of a pay-out ratio of 30–50% (in recent years the pay-out has been 50%).

As discussed previously in this note, the current net debt/EBITDA multiple of 2.6x and relatively low share price might limit the company in making relatively large acquisitions in the short term, but the expected declining net debt will gradually offer more room for M&A.

Valuation

For the valuation of Kendrion we use three methods: historical multiples, discounted cash flow (DCF) and peer comparison. The average of these three valuation methods points at a value per share of around €21.7. On top of this, the company offers an estimated dividend yield of 5%, based on a pay-out ratio of 50% of normalised net profit.

Exhibit 16: Valuation methods for Kendrion

Valuation method	Edison assumptions	Equity value per share (€)
Historical valuation	2022e EV/EBITDA in line with historical multiples	22.2
DCF	Terminal growth 1.5%, EBITA margin 7.5%	23.9
Peer group	2022e EV/EBITDA in line with peers	18.8
Average value per share		21.7
Current share price		13.9

Source: Edison Investment Research

Historical multiples

When looking at the EV/EBITDA for 2022e, Kendrion is valued at a discount of 26% compared to its historical valuation of 8.6x (which is based on the nine years after Kendrion became completely focused on electromagnetic systems). The company's current EBITDA margin (2022e: 11.4%) is in line with its nine-year average of 11.6% and we expect an improvement over the next few years. We believe that this equal level of profitability should be reflected in its valuation. If we assume a valuation in line with its average historical EV/EBITDA multiple for 2022e, the value per share would be €22.2.

Exhibit 17: Historical multiples

	Historical valuation (eight years)			Current valuation			Premium/(discount) versus average	
	Average	Min	Max	2021	2022e	2023e	2022e	2023e
EV/sales	1.0	0.9	1.4	1.0	0.7	0.7	-27%	-33%
EV/EBITDA	8.6	6.5	10.5	8.2	6.4	5.2	-26%	-40%
P/E	18.2	12.4	23.1	15.1	9.4	7.1	-48%	-61%
Assumed premium, EV/EBITDA							0%	0%
Value per share, €							**22.2**	**29.3**

Source: Kendrion, Edison Investment Research

DCF

Our discounted cash flow model is based on the following assumptions:

- Our model includes organic revenue growth only, although we do expect the company to make acquisitions from time to time.
- A terminal revenue growth rate of 1.5% as the proportion of higher-growth segments is increasing.
- A terminal EBITA margin of 7.5% or an EBITDA margin of around 12.5%, which is well below Kendrion's target of at least 15% for 2025. If Kendrion succeeds in realising its target there is upside to our terminal margin assumption, which is essentially our 'mid-cycle' estimate.
- An effective tax rate of 28%, which reflects Kendrion's country mix.
- We use a beta of 1.25 to reflect the relatively low liquidity of the shares.
- We set a risk-free rate and market equity risk premium of 3.0% and 5.0%, which deliver a WACC of 8.0%.

Our DCF model points at a fair value per share for Kendrion of €23.9. We show sensitivity analyses in the following exhibits, with fair value outcomes under different scenarios for terminal growth rates, EBITA margins and WACC.

Exhibit 18: Kendrion sensitivity analysis, WACC versus terminal growth rate

Value per share, €		Terminal growth rate				
		0.5%	1.0%	1.5%	2.0%	2.5%
	7.0%	26.3	28.1	30.3	33.0	36.2
	7.5%	23.5	25.1	26.9	29.0	31.5
WACC	8.0%	21.2	22.4	23.9	25.6	27.6
	8.5%	19.1	20.2	21.4	22.8	24.4
	9.0%	17.3	18.2	19.2	20.4	21.7

Source: Edison Investment Research

Exhibit 19: Kendrion sensitivity analysis, WACC versus EBITA margin

Value per share, €		EBITA margin				
		6.5%	7.0%	7.5%	8.0%	8.5%
	7.0%	26.1	28.2	30.3	32.5	34.6
	7.5%	23.0	24.9	26.9	28.8	30.7
WACC	8.0%	20.5	22.2	23.9	25.6	27.3
	8.5%	18.3	19.8	21.4	22.9	24.5
	9.0%	16.4	17.8	19.2	20.6	22.0

Source: Edison Investment Research

Peer comparison

When looking for a peer group for Kendrion, it is difficult to find any company that matches its profile. As the company has two divisions, we have made two peer groups to reflect the industrial and the automotive exposure. Industrial companies are typically valued at higher multiples when compared to automotive (and that seems to be caused by the level of visibility and profitability) and for Kendrion we take the blended average based on the revenue split of the two divisions. Kendrion is trading at a discount to this industrial and automotive universe of 17%, based on EV/EBITDA for 2022e. We expect that Kendrion will gradually close the growth profile and margin gap to peers as it is strongly benefiting from the growth trends of electrification and green energy. We believe that this should justify a valuation in line with its peers and this assumption would imply a value per share for Kendrion of €18.8.

Exhibit 20: Peer comparison

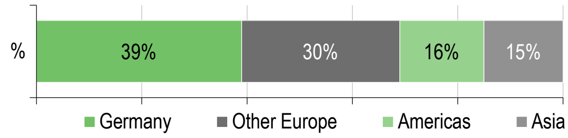
Company name	Currency	Share price	Market cap (local FX)	EV/SALES (x)			EV/EBITDA (x)			EBITDA margin
				2021e	2022e	2023e	2021e	2022e	2023e	2022e
Aalberts	€	33.9	3,694	2.1	1.5	1.4	10.6	7.4	7.0	20%
Emerson Electric	US$	75.02	44,359	3.4	2.8	2.6	14.8	11.1	10.3	23%
SKF	NOK	149.85	67,410	1.4	1.0	0.9	8.3	6.4	5.9	17%
TKH	€	33.24	1,343	1.5	1.1	1.1	9.7	7.3	7.1	15%
Industrial average				**2.1**	**1.6**	**1.5**	**10.9**	**8.0**	**7.6**	**19%**
BorgWarner	US$	33.54	7,943	1.1	0.7	0.7	7.3	5.1	4.4	14%
Continental AG	€	47.95	9,450	0.8	0.5	0.5	6.4	4.8	3.6	11%
ElringKlinger	€	6.3	399	0.8	0.6	0.5	5.7	7.2	4.4	8%
Aptiv	US$	85.94	23,284	2.8	1.6	1.4	20.9	12.1	9.4	13%
Automotive average				**1.4**	**0.8**	**0.8**	**10.1**	**7.3**	**5.5**	**11%**
Universe average				**1.7**	**1.2**	**1.1**	**10.5**	**7.7**	**6.5**	**15%**
Kendrion	**€**	**13.9**	**210**	**1.0**	**0.7**	**0.7**	**8.2**	**6.4**	**5.2**	**13%**
Premium/(discount)				**-43%**	**-41%**	**-42%**	**-22%**	**-17%**	**-20%**	
Assumed premium/(discount)					0%	0%		0%	0%	
Implied value per share (€)					**30.4**	**30.7**		**18.8**	**19.9**	

Source: Refinitiv, Edison Investment Research. Note: Prices as at 29 September 2022.

Exhibit 21: Financial summary

€ m	2019	2020	2021	2022e	2023e	2024e
31-December	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT						
Revenue	412.4	396.4	463.6	500.5	536.7	581.6
Gross Profit	193.3	191.0	225.8	243.2	262.4	285.0
EBITDA normalised	43.8	44.6	55.8	57.0	68.6	81.3
EBITDA reported	38.1	40.2	51.7	48.6	68.6	81.3
Depreciation & Amortisation	(24.0)	(25.7)	(23.9)	(22.8)	(24.6)	(24.7)
EBITA normalised	19.8	18.9	31.9	34.2	44.0	56.5
Amortisation of acquired intangibles	(2.2)	(4.4)	(3.9)	(4.8)	(4.8)	(4.8)
Exceptionals (Edison definition)	(5.7)	(4.4)	(4.1)	(8.4)	0.0	0.0
EBIT reported	11.9	10.1	23.9	21.0	39.2	51.7
Net Interest	(0.9)	(4.4)	(3.7)	(3.5)	(3.1)	(2.5)
Participations	0.0	0.0	(0.1)	0.0	0.0	0.0
Profit Before Tax	11.0	5.7	20.1	17.5	36.1	49.3
Reported tax	(2.7)	(1.4)	(5.7)	(4.9)	(10.1)	(13.8)
Profit After Tax	8.3	4.3	14.4	12.6	26.0	35.5
Net income (normalised)	12.6	11.7	20.6	22.3	29.6	39.1
Net income (reported)	8.3	4.3	14.4	12.6	26.0	35.5
Average number of shares (m)	13.5	14.8	14.8	15.1	15.1	15.1
Total number of shares (m)	14.9	14.9	14.9	15.1	15.1	15.1
EPS normalised before amortisation (€)	0.94	0.79	1.39	1.48	1.96	2.58
EPS reported (€)	0.62	0.29	0.97	0.83	1.72	2.35
DPS (€)	0.00	0.40	0.70	0.74	0.98	1.29
Revenue growth	-8.1%	-3.9%	17.0%	8.0%	7.2%	8.4%
Gross Margin	47.4%	48.4%	48.3%	48.6%	48.9%	49.0%
EBITDA Margin	10.6%	11.3%	12.0%	11.4%	12.8%	14.0%
Normalised Operating Margin	4.8%	4.8%	6.9%	6.8%	8.2%	9.7%
BALANCE SHEET						
Fixed Assets	244.8	299.6	324.5	337.7	334.2	331.8
Intangible Assets	115.5	159.1	183.4	181.6	179.0	176.4
Tangible Assets	111.4	118.7	121.9	136.9	136.0	136.2
Investments & other	17.9	21.8	19.2	19.2	19.2	19.2
Current Assets	113.2	129.5	166.3	168.0	177.0	198.3
Stocks	56.3	61.7	79.7	85.5	91.1	98.2
Debtors	42.9	47.2	56.8	61.3	65.8	71.3
Other current assets	6.9	7.6	11.2	12.1	13.0	14.1
Cash & cash equivalents	7.1	13.0	18.6	9.1	7.1	14.8
Current Liabilities	73.8	87.9	97.6	104.3	111.0	119.2
Creditors	41.3	44.0	51.6	55.7	59.7	64.7
Other current liabilities	26.9	31.9	33.2	35.8	38.4	41.7
Short term borrowings	5.6	12.0	12.8	12.8	12.8	12.8
Long Term Liabilities	80.7	137.8	170.2	176.2	160.2	150.2
Long term borrowings	48.9	104.2	136.4	136.4	126.4	116.4
Other long term liabilities	31.8	33.6	33.8	39.8	33.8	33.8
Shareholders' equity	203.5	203.4	223.0	225.2	240.0	260.7
Balance sheet total	358.0	429.1	490.8	505.7	511.1	530.0
CASH FLOW						
Op Cash Flow before WC and tax	36.1	40.6	54.6	54.6	62.6	81.3
Working capital	13.0	5.4	(17.4)	(4.5)	(4.3)	(5.4)
Tax	(6.1)	(1.3)	(6.2)	(4.9)	(10.1)	(13.8)
Net interest	(2.1)	(2.9)	(3.2)	(3.5)	(3.1)	(2.5)
Net operating cash flow	40.9	41.8	27.8	41.7	45.1	59.6
Capex	(20.0)	(16.0)	(30.0)	(40.8)	(25.9)	(27.1)
Acquisitions/disposals	0.1	(78.2)	(18.8)	0.0	0.0	0.0
Equity financing	23.3	0.0	0.0	0.0	0.0	0.0
Dividends	(8.1)	0.0	(4.3)	(10.4)	(11.2)	(14.8)
Other	(3.1)	(3.4)	4.0	0.0	0.0	0.0
Net Cash Flow	33.1	(55.8)	(21.3)	(9.5)	8.0	17.7
Opening net debt/(cash)	80.5	47.4	103.2	124.5	134.0	126.0
Closing net debt/(cash)	47.4	103.2	124.5	134.0	126.0	108.3

Source: Kendrion, Edison Investment Research

Contact details	Revenue by geography (FY21)
Kendrion N.V. Vesta Building - 5th floor Herikerbergweg 213 1101 CN Amsterdam The Netherlands +31(0)850731500 www.kendrion.com	

Management team	
CEO: Joep van Beurden	**CFO: Jeroen Hemmen**
Mr Joep van Beurden has been the company's CEO since December 2015. In his first three years he led the company's strategy of 'simplify, focus and grow', which resulted in fewer plants, fewer management layers and better margins. Before 2015, Joep van Beurden was CEO of UK-listed CSR for about eight years and CEO of NexWave for about three years. Before that he had roles at Royal Dutch, Philips, Canesta and McKinsey.	Mr Jeroen Hemmen was appointed CFO in July 2019. He joined Kendrion in 2005 and occupied several financial roles such as group treasurer, group controller, finance director industrials and finance director automotive. Before 2005, Jeroen Hemmen held financial planning and treasury roles at Rabobank and AVEBE.

Principal shareholders	(%)
Teslin Capital Management	15.1%
Kempen Capital Management	10.1%
T. Rowe Price	7.1%
FIL	6.3%
Invesco	5.4%
Cross Options	5.4%
Add Value	3.2%
Midlin	3.1%

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Australia

New Zealand

United Kingdom

United States

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