



Mercedes Benz

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MOI Global

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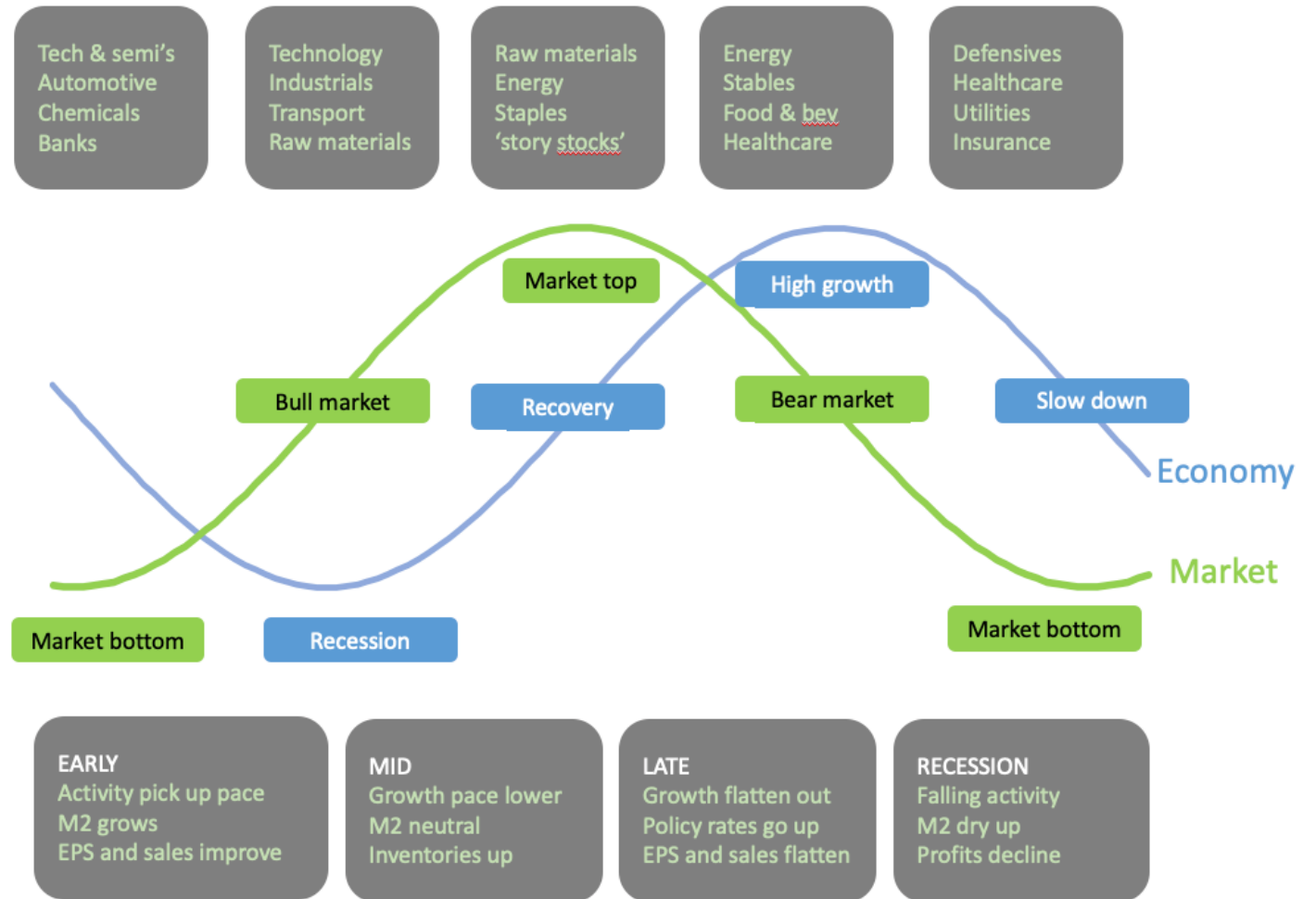
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Why a car company just ahead of a recession?

By 2024 we're likely on the way out of a recession.

Automotives perform well coming of recessionary periods

All models are wrong, but some are useful

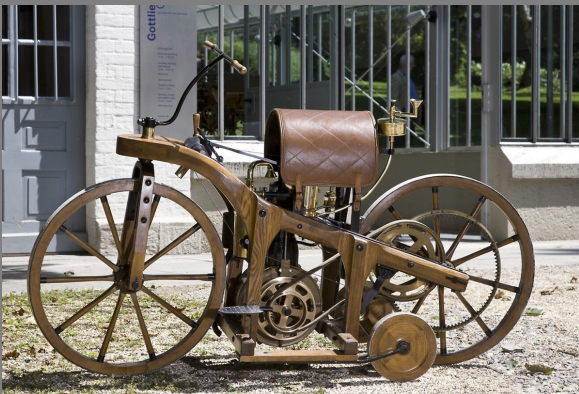


Mercedes

Mercedes Benz is a world leader in the high-end to luxury cars segment

Founded in 1886, but back then if you asked consumers what they wanted for transport they would say faster horses

Daimler riding car 1885



1

Global leader luxury personal transport with 2 mill units sold per year

2

Global high-end market is 9 million cars per year and

3

Mercedes is moving toward luxury high-end only

4

Founded in 1886 and listed in aprx 1900, merged with Daimler 1926

5

172.000 employees, 30 production facilities, 150bn € in sales and 17bn € EBIT

6

Net cash (industrial) 25bn € and 56bn € market cap. Daily trade 200m €.

The global light vehicle market

When I started investing annual global LV sales was 36 mill units

It was on path to 100 mill when Covid hit

Pent up demand in 2022 is 40 mill units

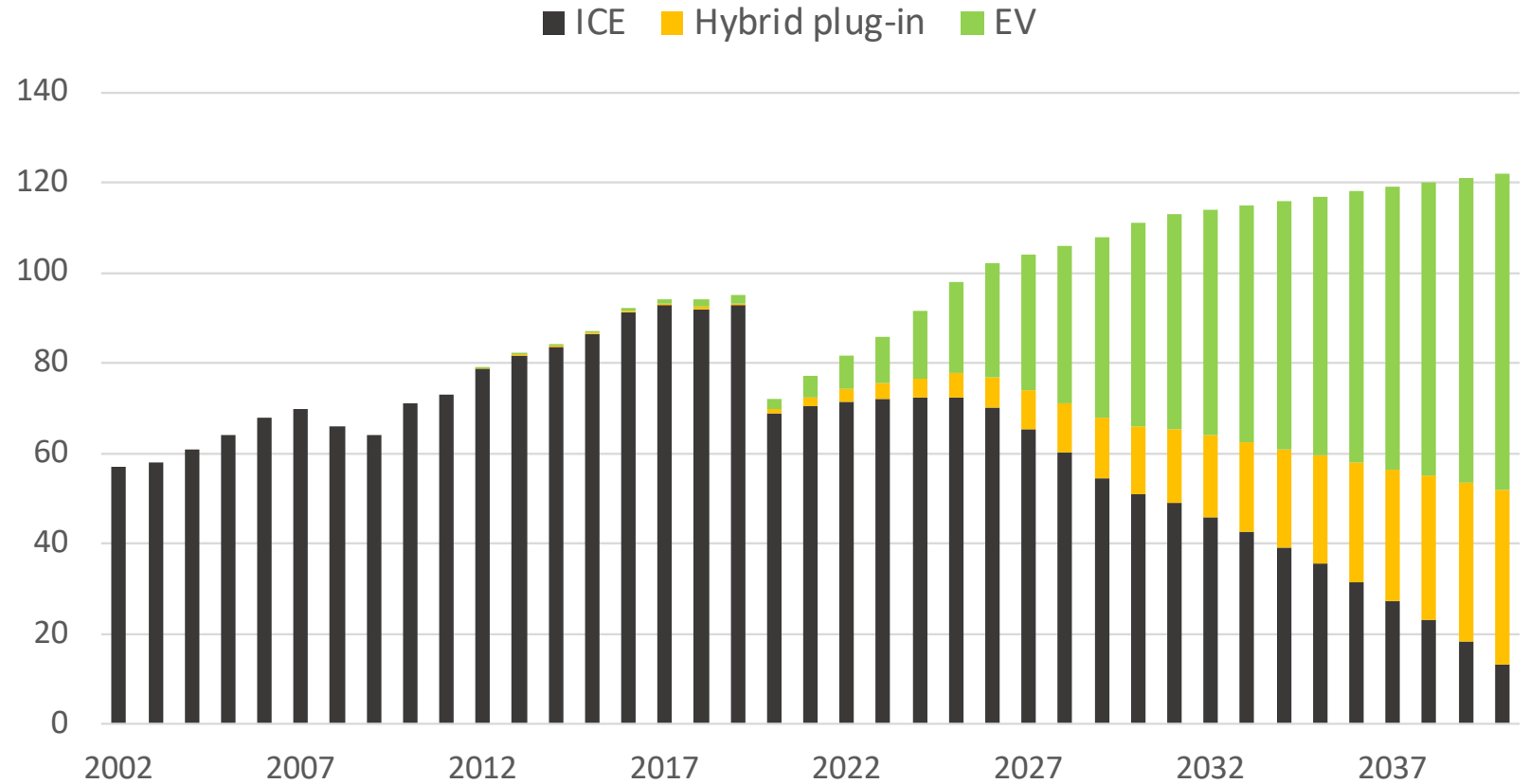
Big replacement need in some European countries and USA as average car is 11-14 years old

Big shift from fossil fuel to electric powertrains – plug-in hybrid, full electric and at some point hydrogen electric

Huge government incentivised transformation towards lower carbon footprint

Global light vehicle sales

Millions per year



Source: S&P Global, HIS, company reports and own guess work

The product

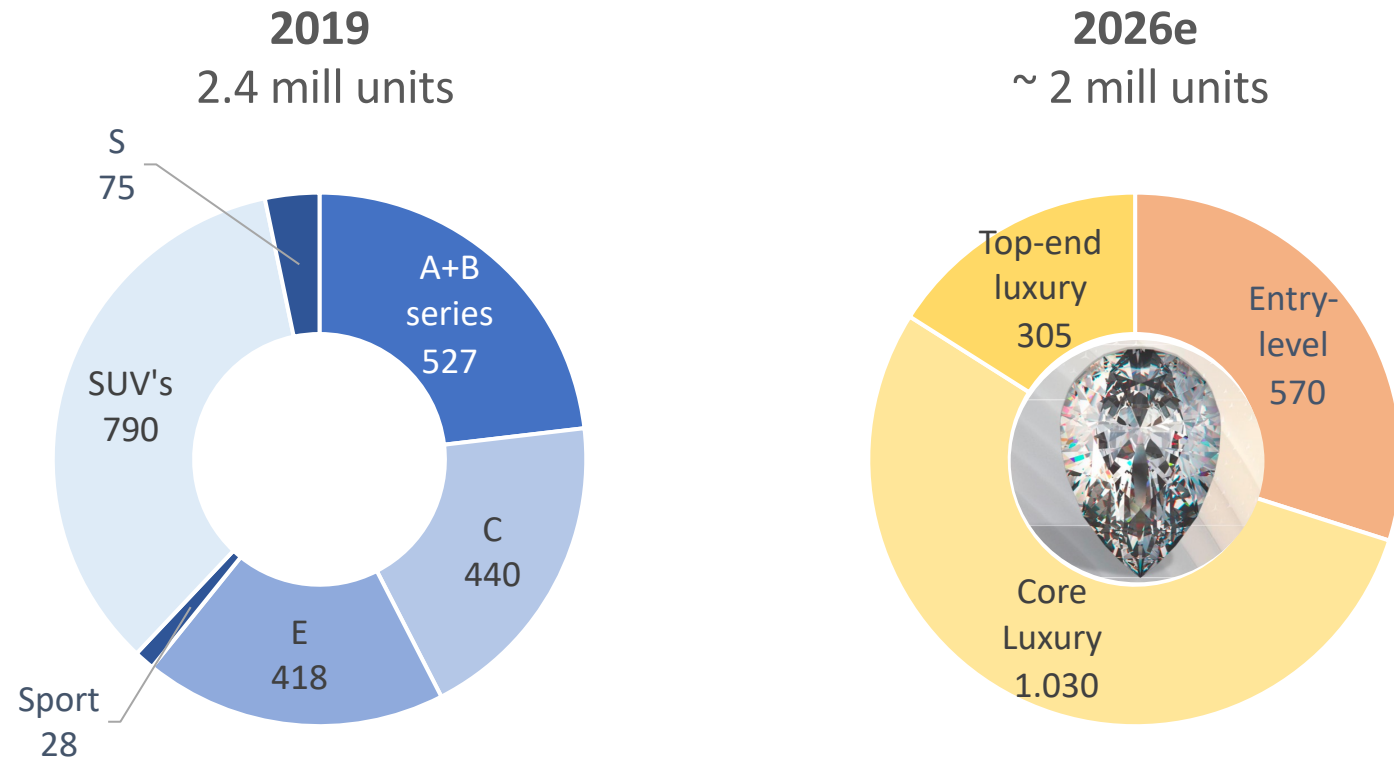
Mercedes Benz has a long history of quality German cars.

Leadership since 2019 with Ola Källenius as CEO are moving Mercedes more clearly towards luxury and better profitability

Old Mercedes cars hold good value



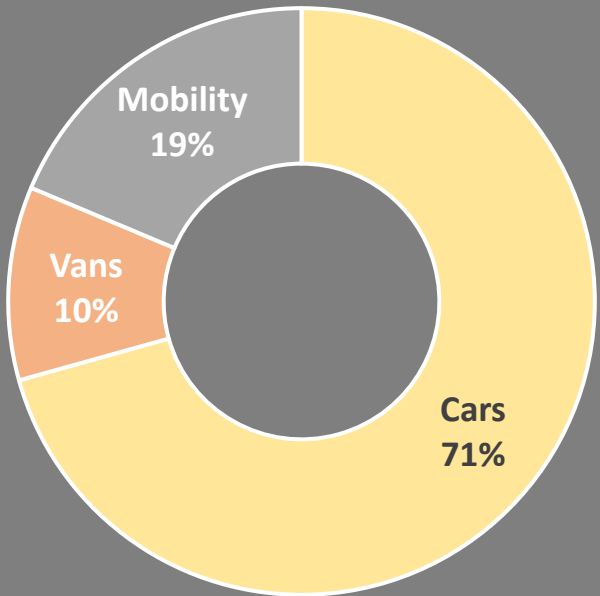
The transformation to fewer units. More luxury and digital and higher ASP



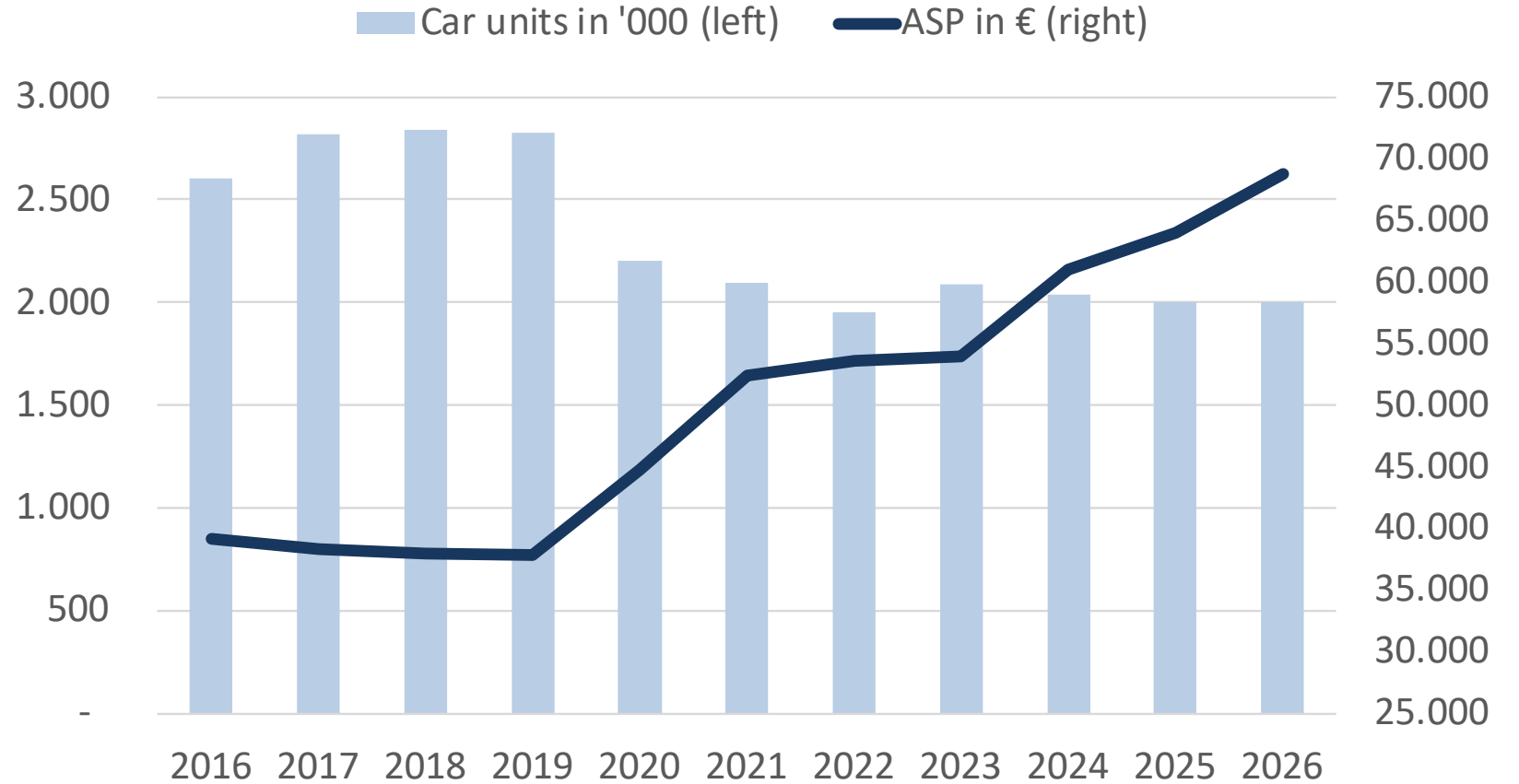
Key revenue drivers

Cars is the main driver for revenues: 2022 split

Est 2022 revenues 142bn €



Mercedes cars unit



Source: company report, Refinitiv and own guesstimates.

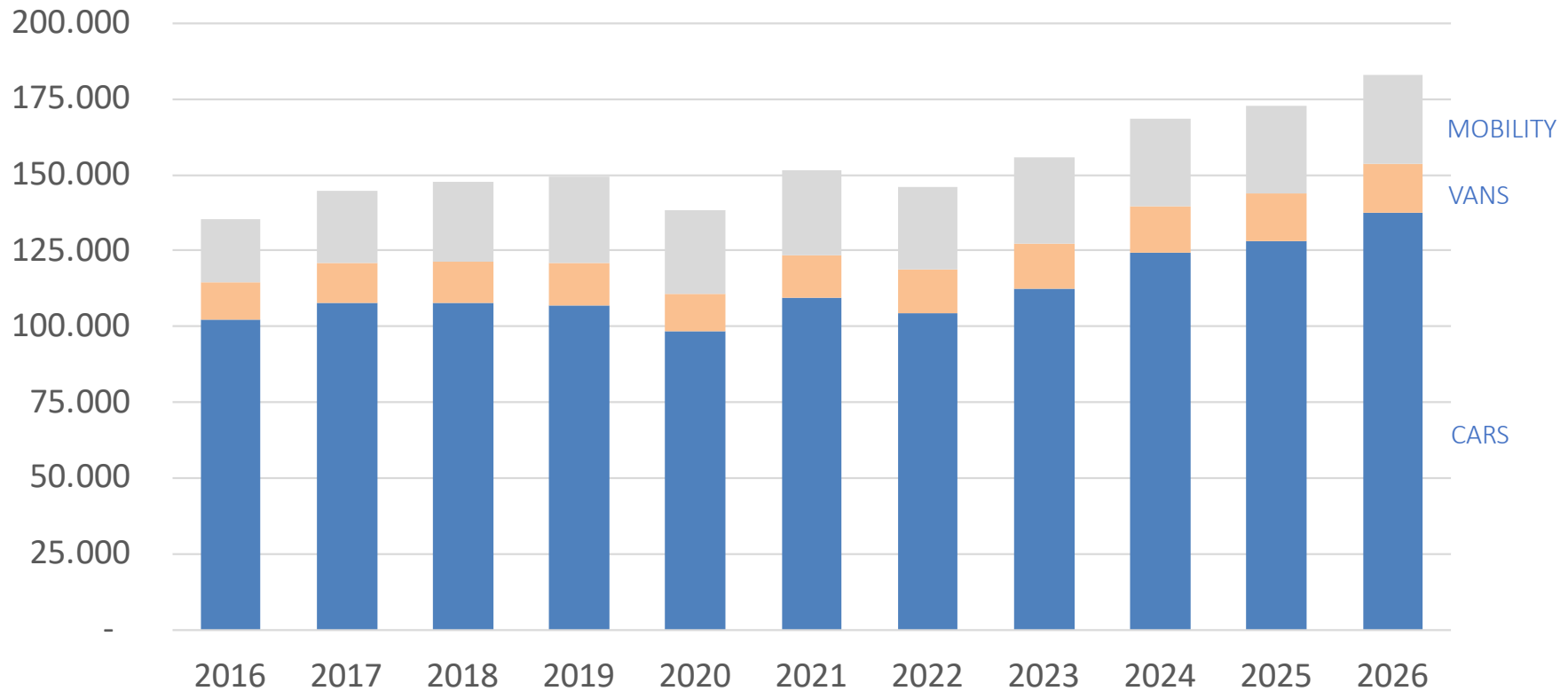
Revenues towards 2026

Mobility Services and Van's are expected to grow in line with nominal GDP

Car unit is a mix of lower volumes and higher selling prices

Mercedes revenue profile

In million €



Source: company report, Refinitiv and own guestimates.

Profitability drivers

Gross margin expected to move towards 25-27%

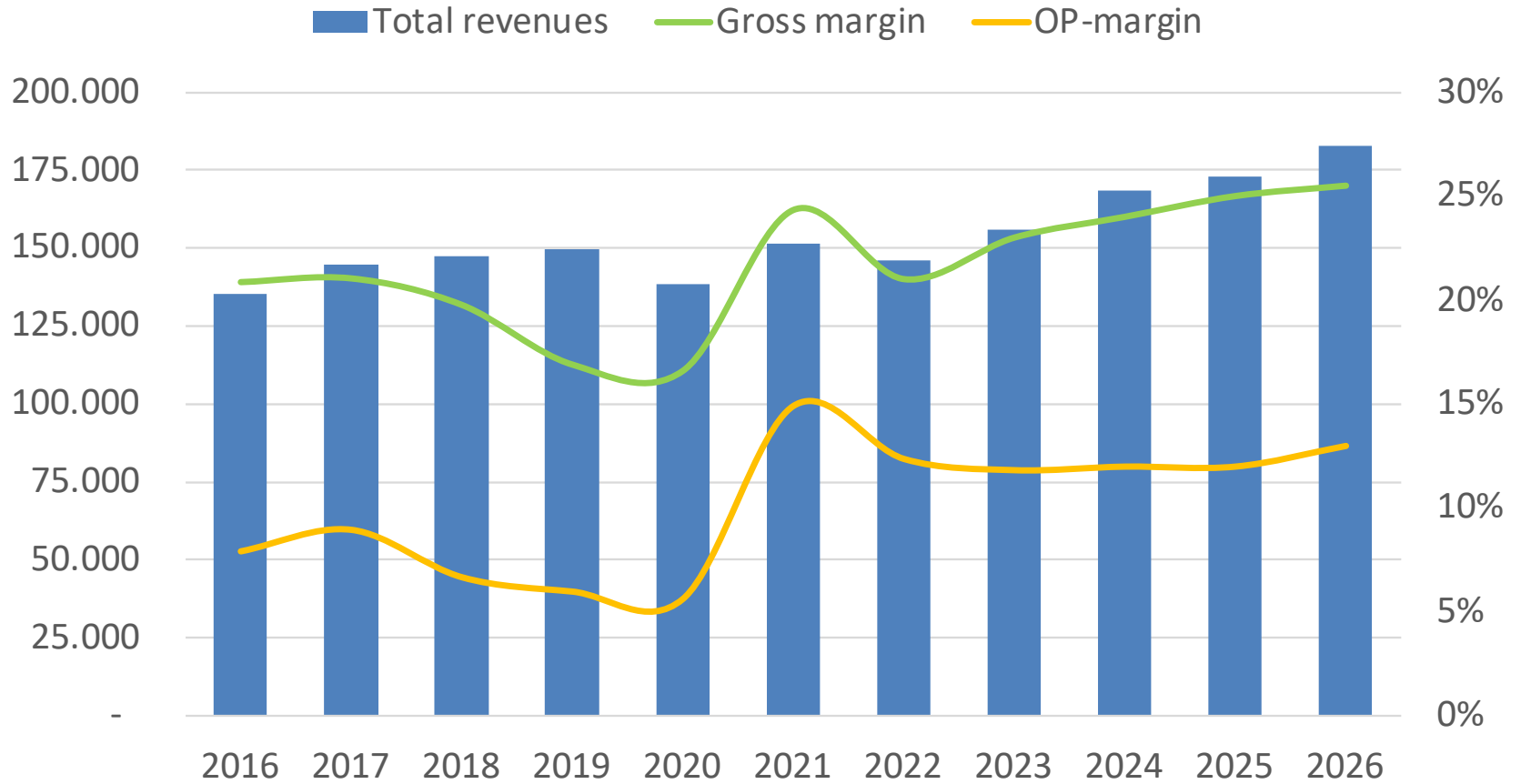
Opex to remain stable at 6.5% of sales

Guidance is for 20% cost reduction 2019-25

14% OP-margin ambition, with 8-10% in poor economic conditions

Cash flow conversion ratio is guided at 70-90%

Revenue and profitability profile



Source: company report, Refinitiv and own guesstimates.

Simplified model

Current estimates are for 8-10bn € in after tax cash flow in 2022 and going to 11-14bn € in 4 years given positive economic conditions

60bn € investment plan in EV and components for future

Maintain a healthy dividend and cash pile-up open up for buy backs

In mill €	2019	2020	2021	2022e	2023e	2024e	2025e	2026e	2027e
Sales	172.745	154.309	128.789	142.195	151.033	155.564	163.342	169.875	176.670
Gross profit	43.186	33.948	34.773	32.705	34.738	35.780	39.202	43.318	46.818
EBITDA	12.080	15.560	23.008	23.405	24.738	25.080	27.802	31.218	34.018
Capex	-10.406	-6.421	-4.579	-7.110	-7.552	-7.778	-8.167	-8.494	-8.834
Gross cash formation	1.674	9.139	18.429	16.295	17.186	17.301	19.635	22.724	25.184
EBIT	10.292	8.642	19.230	17.592	17.863	18.668	19.601	22.084	22.967
- margin	6,0%	5,6%	14,9%	13,0%	12,2%	12,0%	12,0%	12,5%	13,0%
EPS	2,22	3,36	12,89	11,68	11,85	12,41	13,05	14,78	15,40
Dividend	0,90	1,35	5,00	4,67	4,74	4,96	5,22	5,91	6,16
Net cash position	10.997	17.900	21.005	28.066	35.865	43.323	52.588	63.555	76.465

Source: company report, Refinitiv and own guestimates.

Shareholders

BAIC 9.98%

Geely (Li) 9.67%

Kuwait 6.80%

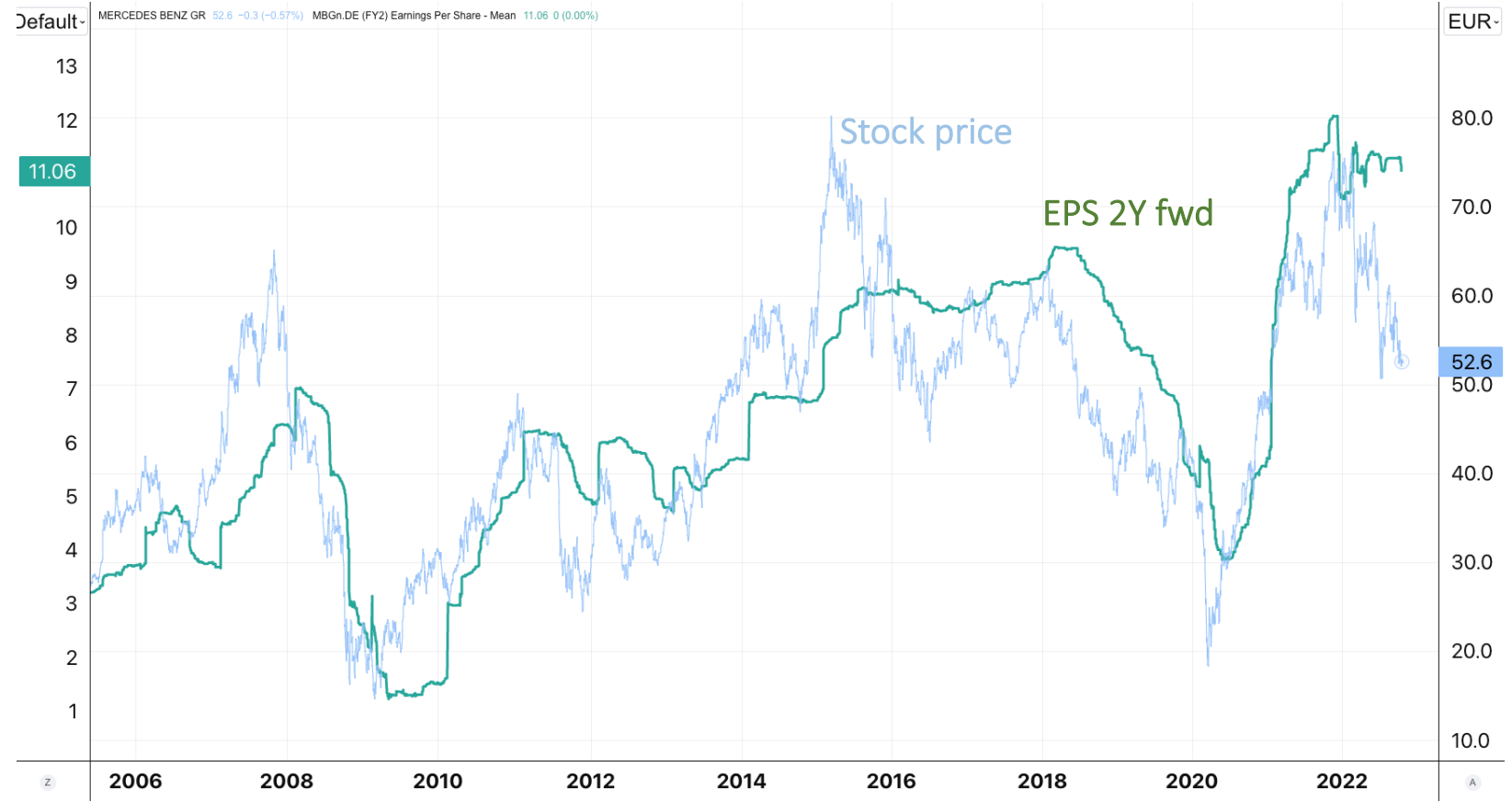
BlackRock 5.50%

China Gov 5.00%

Bank America 2.54%

Free float 70%

Stock price history and 2Y fwd EPS



Source: Refinitiv

Valuation

How to value a 5% grower with improving profitability and ROE 12-15%?

ROIC is 11-12% and WACC with beta 1.34x is 10%

Past valuation ranges are not directly comparable due Daimler truck spin-off in late 2021

Net present value matrix based on EPS – make your choice

Even if converted to 70% cash flow EPS it's difficult to get to current price set by Mr Market

		EPS growth rate					
		1%	2%	3%	4%	5%	6%
Discounting rate	2%	257	272	288	306	326	347
	4%	209	220	232	245	260	275
	6%	173	182	190	200	210	222
	8%	146	152	159	166	173	182
	10%	125	129	134	139	145	151
	12%	108	111	115	119	123	128

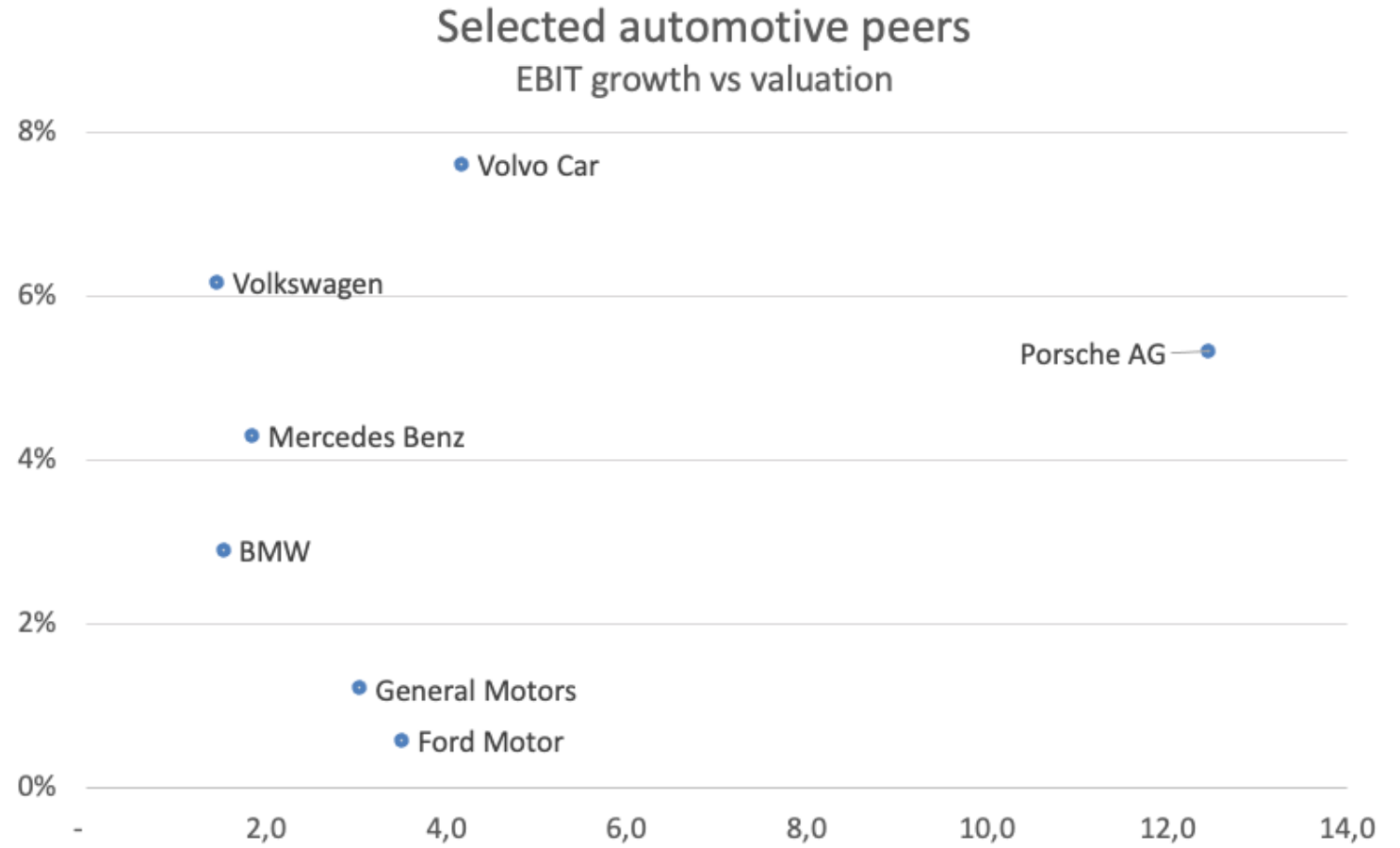
Using consensus EPS for 2022-26 and then annual EPS growth to 2042. No terminal value

Peers

The high-end segment in automotive grows 6% per year and is around 9 mill units in 2023

2021 EBIT was in general quite good hence impacting CAGR towards 2025

EBIT CAGR 2021-25



EV/EBIT 2023

Data is consensus ex Porsche AG which is own estimates

Risks and triggers

The obvious volatility driver is the economic cycle and consumer demand/sentiment

A new Mercedes is probably not the first thing you run out and buy when a recession starts



Triggers

1. Porsche AG comparison pricing
2. MBG full order book and component shortage is easing for lower opex
3. ROE and ROIC improvement
4. Stock buy backs vs cash dividend only
5. Significant pent up demand to unfold in coming years
6. Quarterly performance updates
 - 26 October 2022
 - February 2023

Volatility factors

1. Economic situation due to high energy prices impacting consumer sentiment
2. 2022 guidance miss and modest 2023 guidance
3. The luxury strategy doesn't play out as planned due to deep multi year recession and/or lack of consumer enthusiasm for the product
4. China boycott of European and US companies

Triggers for 100 €

Case prepared by

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Mercedes Benz Group 52.50 €

- 1 Porsche AG comparison pricing
- 2 Quarterly updates (late October and February 2023)
- 3 Pent-up demand materializes (gradually after current slump)
- 4 Stock buy back to complement dividend (with full year 2022 report?)
- 5 Gradually higher profitability as ASP and gross margin rise (2025)