

Wacker Neuson

Industrials
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Improving prospects in key end-markets

Following a weak FY16, Wacker Neuson (WAC) returned to its profitable growth path in 9M17, with sales up 12.7% y-o-y and adjusted EBIT margin up 300bp y-o-y to 9.5%. This was driven by the upturn in both construction and agricultural machinery markets. Management raised its FY17 sales guidance to the upper end of €1,450-1,500m from €1,400-1,450m in March. Solid balance sheet headroom (net debt/EBITDA FY17e at 0.9x) allows for further investments into extending WAC's global reach (medium-term target of 40% sales outside Europe vs 25% in FY16). The shares are trading on a FY17e P/E of 20.7x, implying a c 18% discount to the peer average.

Europe and Americas driving results

WAC posted solid 9M17 results, with EPS growing by 55% y-o-y to €1.01 and sales improving by 12.7% y-o-y to €1,142.4m. Sales in Europe (73% of group revenues in 9M17) rose by 9.7% y-o-y supported by favourable trends in the construction industry, as well as a major demand revival in the agricultural machinery sector. Americas sales increased by 25.8% y-o-y to €273.1m on the back of good momentum in compact equipment, including the contribution from production ramp-up of skid steer loaders in US. Total adjusted EBIT margin reached 9.5% (up 300bp) supported by higher capacity utilisation, growth within the margin-attractive light equipment segment and cost improvements.

Recovery in global construction machinery ahead

Revised guidance for FY17 implies revenues at the upper end of €1,450m-1,500m (vs. €1,400m-€1,450m in March) and adjusted EBIT margin at the upper end of the 7.5% to 8.5% range. WAC's results should be supported by the expected recovery in global construction machinery sales, which could achieve a 2016-2020 CAGR of 5.7% in volume terms according to Off-Highway Research. Demand for agricultural equipment should be helped by high investment appetite among landholders (eg in Germany), coupled with the below-average dealer inventory in Europe. WAC's mid-term guidance is for sales of >€2.0bn and EBIT margin of >9%. Stronger collaboration with key customers (eg John Deere) should be an additional driver.

Valuation: Discount amid muted market expectations

WAC's shares are currently trading at a FY17e P/E of 20.7x, which represents a c 18% discount to the peer average. However, the multiple moves to a c 15% premium in FY18, as consensus suggests only limited EPS growth next year.

Price €28.18

Market cap €1,977m

Share price graph



Share details

Code	WAC
Listing	XETRA
Shares in issue	70.1m

Business description

Wacker Neuson Group is a leading international manufacturer of light and compact equipment for professional users in construction, gardening, landscaping and agriculture, as well as municipal bodies/companies in industries such as recycling, energy and rail transport.

Bull

- Expected upturn in the construction and agriculture machinery sector.
- New strategic collaborations and alliances with key customers.
- Ramp-up of skid steer loaders production in US.

Bear

- Oil & gas market environment remains tough.
- Currency headwinds from strong EUR/USD.
- Residential market slowdown in Germany.

Analyst

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Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/15	1,375.3	97.2	0.81	0.50	34.8	1.8
12/16	1,361.4	81.8	0.94	0.50	30.0	1.8
12/17e	1,507.0	146.6	1.36	0.69	20.7	2.5
12/18e	1,601.0	144.0	1.42	0.62	19.8	2.3

Source: Wacker Neuson accounts, Bloomberg consensus

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