

## Equities

14 June 2012 | 23 pages

# Daimler AG (DAIGn.DE)

## Too many headwinds for guidance?

- Company Update
- Target Price Change
- Estimate Change

■ **Too many headwinds?** — Global macro continues to deteriorate, and this is increasingly seen in Daimler-relevant data. Global Mercedes sales growth is slowing, mix in Q2 is deteriorating, and premium brand pricing in many markets is under pressure. European truck deliveries in April fell 12%. Having lowered our numbers last month, we cut FY12E-14E EPS by a further 6%, 6%, and 9%, to almost 10% below consensus each year. Our FY12E now has small yoy declines in Mercedes and Truck EBIT, below guidance. If our numbers are correct, we could see Daimler trade to the low €30s near-term on the back of consensus revisions. However, at below €35, we maintain our Buy rating (especially for longer-term investors), supported by 6% yield. We cut our TP from €50 to €45 to reflect our earnings downgrades.

■ **Mercedes is facing a tough year** — Mercedes was never going to have an easy year. Mercedes is replacing its key profit contributor, the S class in Q4 2012, which should have a negative impact on global sales and pricing in Q2 and Q3 2012 at least. Q2 sales growth has slowed from 12% to 3%. Mix is deteriorating as sales are supported by new B class sales, offsetting declines in E and S class. BMW, Mercedes, and Infiniti managements have all already reported pricing weakness in key markets such as China, Germany, and UK. FY13E should still benefit from new model launches, reflected in our higher yoy 8.9% EBIT margin forecast. We maintain a 9% margin target for FY14E, below internal targets, but hardly an aggressive downside view.

■ **Trucks are deteriorating more quickly** — Trucks are deteriorating more quickly than we believed just a few months ago. European truck deliveries fell 12% in April, following very weak (-27% in Western Europe) Volvo April deliveries reported earlier. Given that Europe is globally the most profitable truck market, and that absolute European deliveries are at very low levels, we do not see any Truck margin improvement in FY12. Poor Brazil truck demand has led to Daimler laying off workers at its main plant to control production. Our FY13E forecasts assume some recovery in European demand prior to new emission standards.

<b>Buy</b>	<b>1</b>
Price (13 Jun 12)	€34.97
Target price	€45.00
	from €50.00
Expected share price return	28.7%
Expected dividend yield	6.3%
<b>Expected total return</b>	<b>35.0%</b>
Market Cap	€37,285M
	US\$46,653M

### Price Performance (RIC: DAIGn.DE, BB: DAI GR)



### Daimler AG (EUR)

Year to 31 Dec	2010A	2011A	2012E	2013E	2014E
Sales (€M)	97,761.0	106,540.0	105,407.5	110,666.5	115,821.1
Net Income (€M)	4,498.0	5,667.0	5,110.0	6,060.0	6,430.0
Diluted EPS (€)	4.28	5.31	4.79	5.68	6.03
Diluted EPS (Old) (€)	4.28	5.31	5.11	6.05	6.64
PE (x)	8.2	6.6	7.3	6.2	5.8
EV/EBITDA (x)	3.5	3.2	2.4	2.0	1.8
DPS (€)	1.85	2.20	2.20	2.60	2.90
Net Div Yield (%)	5.3	6.3	6.3	7.4	8.3

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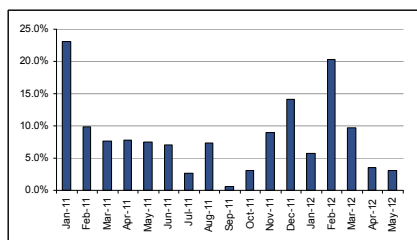
DAIGN.DE: Fiscal year end 31-Dec						Price: €34.97; TP: €45.00; Market Cap: €37,290m; Recomm: Buy					
Profit & Loss (€m)	2010	2011	2012E	2013E	2014E	Valuation ratios	2010	2011	2012E	2013E	2014E
Sales revenue	97,761	106,540	105,408	110,666	115,821	PE (x)	8.2	6.6	7.3	6.2	5.8
Cost of sales	-74,988	-81,023	-81,164	-85,213	-89,182	PB (x)	1.0	0.9	0.9	0.8	0.7
Gross profit	22,773	25,517	24,244	25,453	26,639	EV/EBITDA (x)	3.5	3.2	2.4	2.0	1.8
Gross Margin (%)	23.3	24.0	23.0	23.0	23.0	FCF yield (%)	14.1	4.7	10.9	10.5	11.3
<b>EBITDA</b>	<b>10,608</b>	<b>12,307</b>	<b>12,000</b>	<b>13,450</b>	<b>14,000</b>	Dividend yield (%)	5.3	6.3	6.3	7.4	8.3
EBITDA Margin (%)	10.9	11.6	11.4	12.2	12.1	Payout ratio (%)	43	41	46	46	48
Depreciation	-3,334	-3,552	-3,950	-3,950	-3,950	ROE (%)	13.5	14.9	12.4	13.4	13.1
Amortisation	0	0	0	0	0	<b>Cashflow (€m)</b>	<b>2010</b>	<b>2011</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>
<b>EBIT</b>	<b>7,274</b>	<b>8,755</b>	<b>8,050</b>	<b>9,500</b>	<b>10,050</b>	EBITDA	10,608	12,307	12,000	13,450	14,000
EBIT Margin (%)	7.4	8.2	7.6	8.6	8.7	Working capital	-651	-660	1,322	-700	-600
Net interest	-646	-306	-100	-150	-150	Other	109	-4,301	-3,040	-3,520	-3,690
Associates	0	0	0	0	0	<b>Operating cashflow</b>	<b>10,066</b>	<b>7,346</b>	<b>10,282</b>	<b>9,230</b>	<b>9,710</b>
Non-op/Except	0	0	0	0	0	Capex	-4,869	-5,595	-6,200	-5,300	-5,500
<b>Pre-tax profit</b>	<b>6,628</b>	<b>8,449</b>	<b>7,950</b>	<b>9,350</b>	<b>9,900</b>	Net acq/disposals	199	-698	0	0	0
Tax	-1,954	-2,420	-2,540	-2,990	-3,170	Other	3,929	30	0	0	0
Extraord./Min.Int./Pref.div.	-176	-362	-300	-300	-300	<b>Investing cashflow</b>	<b>-741</b>	<b>-6,263</b>	<b>-6,200</b>	<b>-5,300</b>	<b>-5,500</b>
<b>Reported net profit</b>	<b>4,498</b>	<b>5,667</b>	<b>5,110</b>	<b>6,060</b>	<b>6,430</b>	Dividends paid	-86	-2,241	-2,300	-2,300	-2,800
Net Margin (%)	4.6	5.3	4.8	5.5	5.6	<b>Financing cashflow</b>	<b>-8,600</b>	<b>-2,485</b>	<b>-2,300</b>	<b>-2,300</b>	<b>-2,800</b>
Core NPAT	4,498	5,667	5,110	6,060	6,430	<b>Net change in cash</b>	<b>1,103</b>	<b>-1,327</b>	<b>1,782</b>	<b>1,630</b>	<b>1,410</b>
<b>Per share data</b>	<b>2010</b>	<b>2011</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>	<b>Free cashflow to s/holders</b>	<b>5,197</b>	<b>1,751</b>	<b>4,082</b>	<b>3,930</b>	<b>4,210</b>
Reported EPS (€)	4.28	5.31	4.79	5.68	6.03						
Core EPS (€)	4.28	5.31	4.79	5.68	6.03						
DPS (€)	1.85	2.20	2.20	2.60	2.90						
CFPS (€)	9.57	6.88	9.64	8.65	9.10						
FCFPS (€)	4.94	1.64	3.83	3.68	3.95						
BVPS (€)	34.61	37.17	40.28	44.27	48.15						
Wtd avg ord shares (m)	1,051	1,066	1,066	1,066	1,066						
Wtd avg diluted shares (m)	1,052	1,067	1,067	1,067	1,067						
<b>Growth rates</b>	<b>2010</b>	<b>2011</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>						
Sales revenue (%)	23.9	9.0	-1.1	5.0	4.7						
EBIT (%)	580.8	20.4	-8.1	18.0	5.8						
Core NPAT (%)	270.4	26.0	-9.8	18.6	6.1						
Core EPS (%)	263.0	24.1	-9.8	18.6	6.1						
<b>Balance Sheet (€m)</b>	<b>2010</b>	<b>2011</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>						
Cash & cash equiv.	4,110	5,322	7,104	8,734	10,144						
Accounts receivables	6,964	7,580	6,900	7,300	7,600						
Inventory	14,056	16,575	15,800	16,600	17,400						
Net fixed & other tangibles	27,155	29,978	33,700	35,400	37,300						
Goodwill & intangibles	7,450	8,200	8,830	9,300	9,770						
Financial & other assets	76,095	80,477	77,123	78,723	80,323						
<b>Total assets</b>	<b>135,830</b>	<b>148,132</b>	<b>149,457</b>	<b>156,057</b>	<b>162,537</b>						
Accounts payable	7,429	9,233	9,100	9,600	10,100						
Short-term debt	8,313	1,145	2,848	3,228	3,568						
Long-term debt	5,046	12,895	12,895	12,895	12,895						
Provisions & other liab	77,089	83,522	79,827	81,427	82,827						
<b>Total liabilities</b>	<b>97,877</b>	<b>106,795</b>	<b>104,670</b>	<b>107,150</b>	<b>109,390</b>						
Shareholders' equity	36,373	39,624	42,934	47,194	51,324						
Minority interests	1,580	1,713	2,013	2,313	2,613						
<b>Total equity</b>	<b>37,953</b>	<b>41,337</b>	<b>44,947</b>	<b>49,507</b>	<b>53,937</b>						
<b>Net debt</b>	<b>9,249</b>	<b>8,718</b>	<b>8,639</b>	<b>7,389</b>	<b>6,319</b>						
Net debt to equity (%)	24.4	21.1	19.2	14.9	11.7						

For further data queries on Citi's full coverage universe please contact CIRA Data Services Europe at CIRADatasevicesEMEA@citigroup.com or +44-207-986-4050  
For definitions of the items in this table, please click [here](#).

14 June 2012

## Too many headwinds

Figure 1. Mercedes sales growth yoy (%)



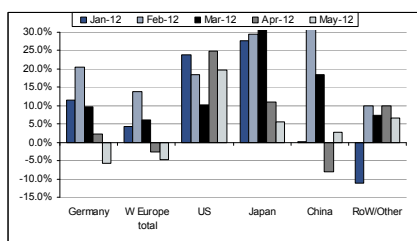
Source: CIRA, Company Reports

### Mercedes headwinds on volume, mix, and price.

Mercedes was never going to have an easy year. Mercedes is replacing its key profit contributor, the S class in Q4 2012, which should have a negative impact on global sales and pricing in Q2 and Q3 2012 at least. BMW is at the sweet spot in its cycle, having replaced all its key models. Mercedes global sales growth, although still reporting yoy growth, has slowed sharply, with just 3.5% and 3.1% growth globally in each of April and May 2012 – a much slower growth rate than the 12% reported in Q1 2012. Comparatives get easier in Q3, but Q2 is looking softer than Q1 at this stage. Every region outside of the US has seen sharp declines in sales growth in the past two months, including a first 5% drop in German sales in May.

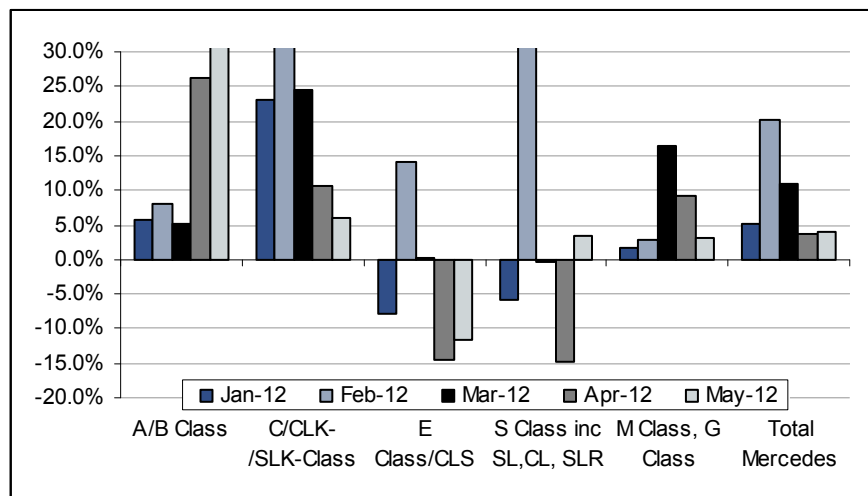
Further, Mercedes sales mix is changing due to the weaker underlying markets, and the introduction of the new B class. In the past two months, Mercedes yoy sales growth has been driven by the B class introduction, with A/B class yoy sales growth accelerating to over 25%. This has been offsetting a sharp slow-down in C and ML class growth to low single digits, sharp declines in E class sales, and QTD lower sales in S class.

Figure 2. Mercedes regional growth yoy (%)



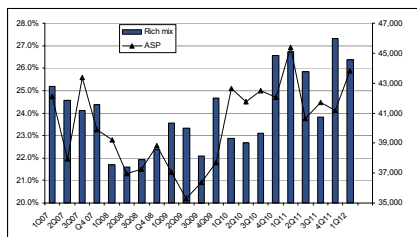
Source: CIRA, Company Reports

Figure 3. Mercedes monthly yoy sales growth by model (%)



Source: Citi Investment Research and Analysis, Company Reports

Figure 4. Mercedes rich mix (%)

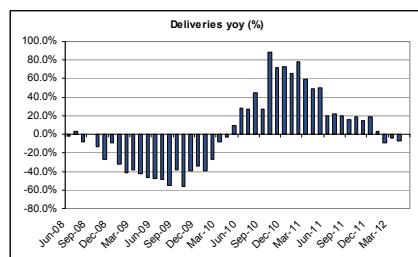


Source: CIRA, Company Reports

However, B class sales have not offset the revenue or EBIT impact of lower E and S class sales, with the latter retailing on average for double the price of the former. As a result, we suspect that Mercedes revenue growth, ex a positive Euro weakness impact, is actually falling yoy in Q2 on an underlying basis. Also, the impact on margin, especially with EBIT (but not revenue) hedged for Euro weakness, would be negative.

BMW, Mercedes, and Infiniti managements have all already reported pricing weakness in key markets such as China, Germany, and UK, not surprising given slowing demand, rising inventories, and rising (China) supply. With volumes, mix, and pricing all under pressure in recent months, Q2 2012 Mercedes results could prove somewhat weaker than the market currently forecasts, in our view. Hence our downgrades to our FY12 forecasts in this report. Longer-term, FY13E should still benefit from new model activity. We maintain a 9% margin target for FY14E, below internal targets, but hardly an aggressive downside view.

Figure 5. Euro truck sales growth yoy (%)

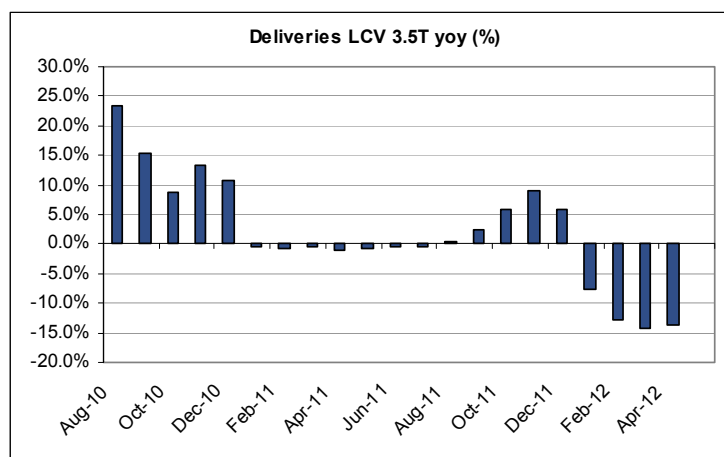


Source: CIRA, ACEA

### Truck and Van headwinds from volumes, and price as well?

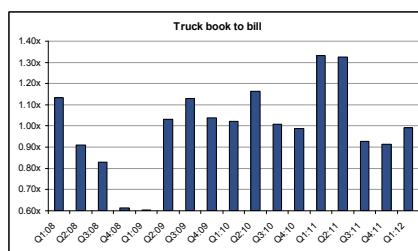
Trucks sales are deteriorating more quickly than we believed just a few months ago. European truck deliveries fell 12% in April, following very weak (-27% in Western Europe) Volvo April deliveries reported earlier. Given that Europe is globally the most profitable truck market, and that absolute European deliveries are at very low levels, we do not see any Truck margin improvement on the horizon. As we show below, European LCV deliveries (Vans) have slowed even more sharply, with LCV demand usually more cyclical than heavy trucks short-term.

Figure 6. European LCV sales growth yoy (%)



Source: Citi Investment Research and Analysis, ACEA

Figure 7. Truck book to bill (x)



Source: CIRA, Company Reports

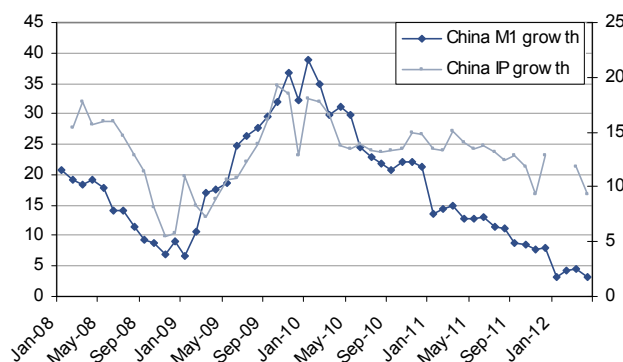
Although US truck sales and orders have supported Daimler's truck business to date, US class 8 truck orders have fallen 40% from the January 2012 30k monthly levels, to around 18k in the past two months, equating to a SAAR nearer 220k than the current 300k production rates and consensus FY12 delivery forecasts. Daimler, Paccar, and Volvo have all reported production cut-backs in the past two months in the US. As a result, our US trucks analyst, Tim Thein, has reduced his US truck delivery forecast for FY12 from 300k to 285k in a report this week – [Global Truck Monthly - Slow-Down Apparent in More Regions, Triggering Estimate Cuts](#). We reproduce some of his market overview pages below. Last, even in EM in Latin America, poor Brazil truck demand has led to Daimler plans to lay off 1,500 workers at its main plant to control production. Clearly, none of Daimler's global truck markets are improving.

Overall, then, it would seem that Daimler's truck business is facing far heavier headwinds in FY12 than even we would have thought three months ago, and the outlook for improved US deliveries has deteriorated also. On this basis, although we still see yoy improvement in US truck sales, it may prove tougher for Daimler to improve yoy truck profitability than consensus believes. The downgrades to our Truck and Van revenue and EBIT forecasts are starting to reflect this environment, with Truck margins likely close to or even below FY11 levels in FY12, and Van EBIT margins likely lower. Our FY13E margin forecast of 7.9% does not reflect any further market deterioration as yet, as we still see some potential for a European truck demand recovery ahead of emissions legislation.

## China macro has deteriorated sharply

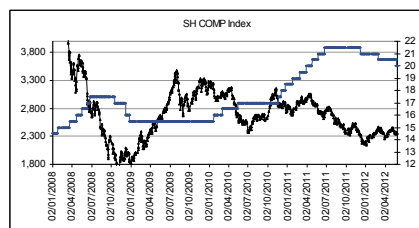
China growth has slowed sharply in recent quarters – from an annual GDP growth rate of almost 11% to just 8.5% currently, with the FY12 official target coming down to 7.5%. China money supply has slowed sharply, and official loan targets, so easily exceeded in previous years, are now being missed on a monthly basis. It seems the demand for loans and investment in the Chinese economy has slowed sharply. Without this investment, China GDP should continue to slow.

Figure 8. China money growth yoy (%)



Source: Citi Investment Research and Analysis, Bloomberg

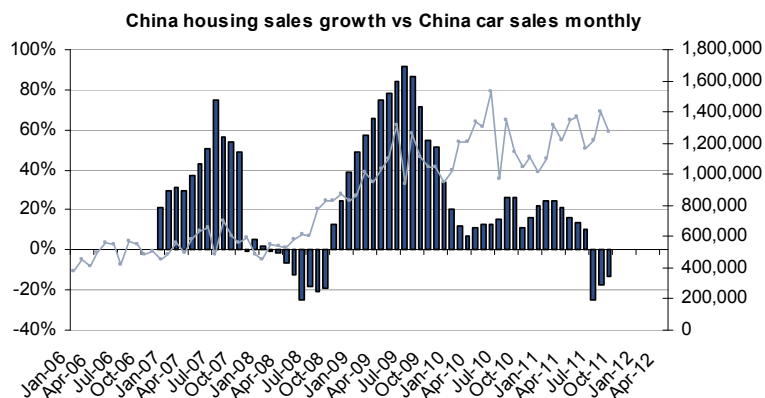
Figure 9. China RRR vs Shanghai Composite index(%)



Source: CIRA, Bloomberg

China April construction data was weak. Although home sales declined a bit less than in previous months, sales of commercial property fell much more sharply, as did new starts and land sales. Given that construction accounts for a large slice of the Chinese (or any EM) economy, these declines suggest GDP remains under pressure. Our concern is that in the UK and US, when housing markets peaked, premium brand car sales suffered both in volume terms and mix (and inevitably price). Although we have scant evidence of this in China yet, it is a concern, with house sales now falling sharply yoy for the past three months. The question is whether China policy stimulus (RRR cuts and more) will once again save the day. We would be cautious for now.

Figure 10. China housing sales growth (%) vs China car sales (vehicles)

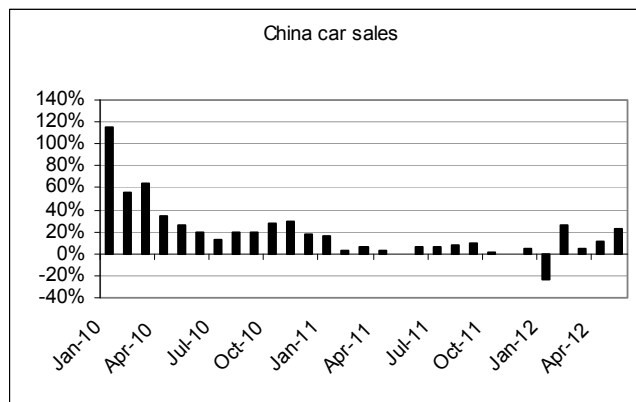


Source: Citi Investment Research and Analysis, Bloomberg

## China auto demand has slowed

Depending on the exact definition of vehicle sales, China sales have slowed sharply in recent months, driven by lower sales of commercial and light commercial vehicles (economically sensitive), and by falling sales of locally produced vehicles. Generally speaking, mass OEM JV sales have remained flat yoy, and premium brand sales have sharply beaten the market as we show below. BMW has performed best of all. However, especially given the housing data, we fear that the best months are behind us on this front.

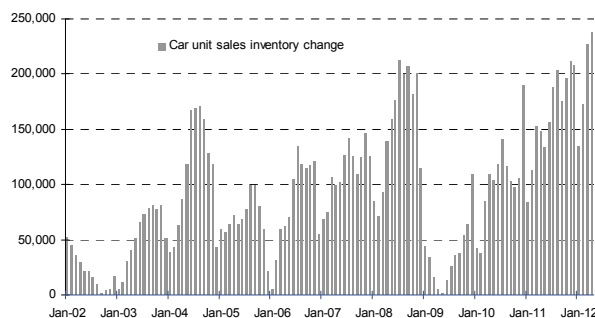
Figure 11. China auto sales yoy (%)



Source: Citi Investment Research and Analysis, CAMA

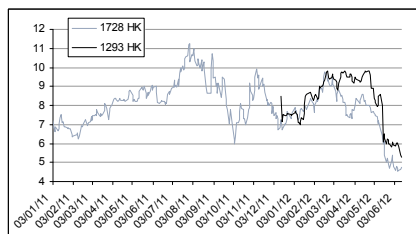
Interestingly, although ownership penetration in China remains low, at 60 cars per 1,000 drivers, annual sales have doubled since FY09 to around 24 per 1,000 drivers. This is similar to Brazil levels, and compares with around 40 in Europe or Japan. Given development variance between China East and West, this suggests China Eastern annualized sales per 1,000 drivers are getting very close to Western levels already – even if the fleet remains small relative to the population. Not only have sales slowed, but as is often the case in automotive markets, OEMs have been slow to respond with production cuts, meaning inventories at dealers have risen. As always, this means that dealerships become more nervous ordering new stock, and will be more amenable in price negotiations – there are many reports from OEMs that price levels in China have fallen. OEMs simply lose control over price as supply outstrips demand. This is basic auto economics.

Figure 12. China car inventory change (vehicles)



Source: Citi Investment Research and Analysis, CAMA

Figure 13. China dealer stocks (yuan)

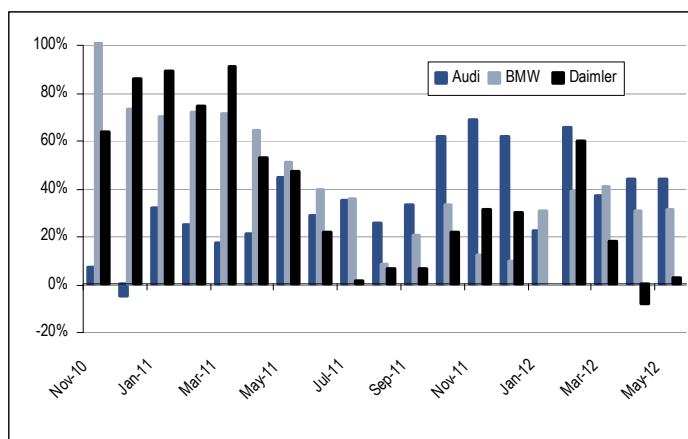


Source: CIRA, Bloomberg

## China premium growth has been stronger

Premium brands have seen far stronger sales growth than other OEMs in China. However, even this has been slowing. In fact, Daimler reported Mercedes sales down 11% in April. Here also, inventories have risen and waiting lists have disappeared.

Figure 14. Premium OEM China car sales growth yoy (%)

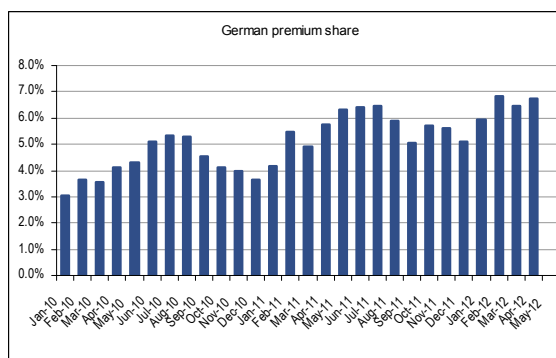


Source: Citi Investment Research and Analysis, Company reports

Although we believe the supply process is better managed at the premium OEMs, we do not believe they can side-step the process altogether. China luxury car dealer stocks Baoxin and China Zhengtong have borne the brunt of this pressure, with share prices falling sharply in the past month. Inevitably, price weakness will hit OEM margins with some lag. It would seem that, even without further demand weakness, China margins have peaked for now.

In fact, it is not just China slowing that will hit premium OEM profitability. China margins are not only impacted by less extraordinary pricing, but also by new investments in technology and capacity in China, with BMW's second China factory opening last week, initially doubling, then trebling China capacity, but obviously adding costs. This means more locally produced cars at lower margins, and fewer exports at record margins. Further, new China capacity means less utilization in European production facilities, potentially reducing incremental margins there also.

Figure 15. China premium brand penetration (%)

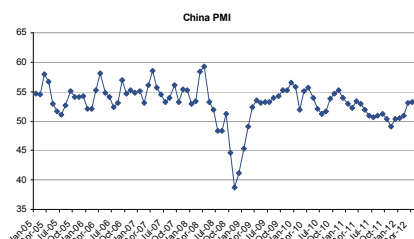


Source: Citi Investment Research and Analysis, CAMA

## Mercedes China car sales (and profits) slow

China growth is slowing, after three years of very strong growth. Overall China GDP growth is already slowing towards the 7.5% range, and China's PMI readings suggest that the slowing is not yet over, with the official PMI falling below 50 last October, but with the HSBC PMI staying below 50 since then.

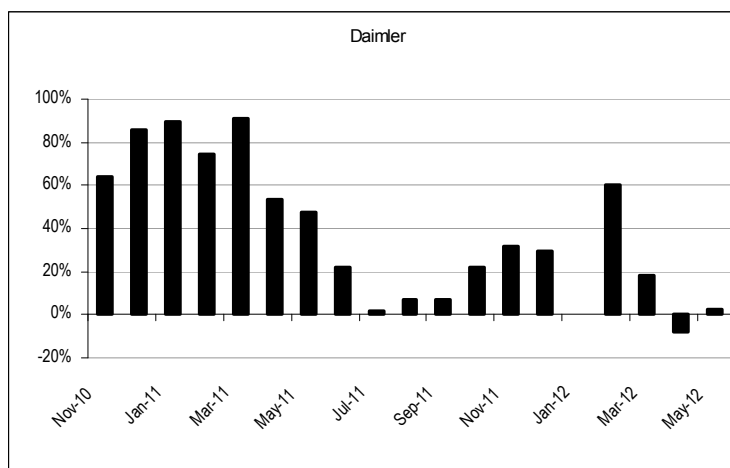
Figure 16. China PMI



Source: Bloomberg

Given auto dependence on China for profits, this is not helpful. Although Daimler is less exposed to China (as a proportion of group profits) than BMW or VW, Daimler's yoy sales fall in April 12 and only small recovery in May has hurt sentiment already. Daimler's reported Q1 2012 loss in its China JV was also not helpful.

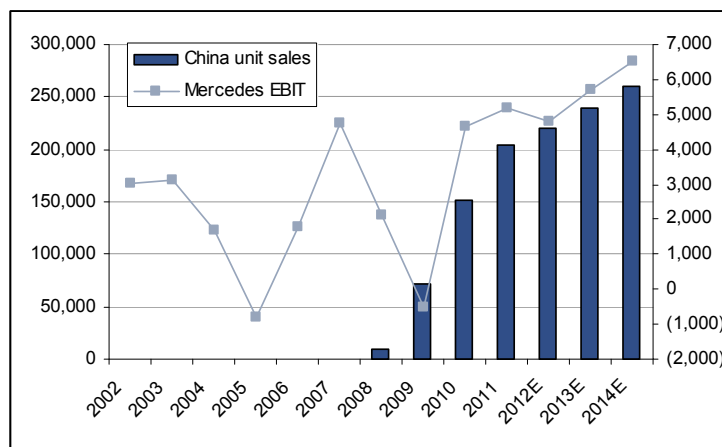
Figure 17. Daimler China sales growth yoy (%)



Source: Citi Investment Research and Analysis, Company Reports

We cannot overstate the importance of China to the premium car OEMs. Before China sales took off in FY10, Mercedes EBIT averaged around €3bn, omitting the FY09 disaster year. Since 2010, Mercedes EBIT has averaged almost €4bn, and we forecast this to continue in FY12, despite the replacement of the S class. Clearly, China is contributing at least 25%-30% of Mercedes EBIT.

Figure 18. Daimler China sales vs Mercedes EBIT (vehicles, Euro m)

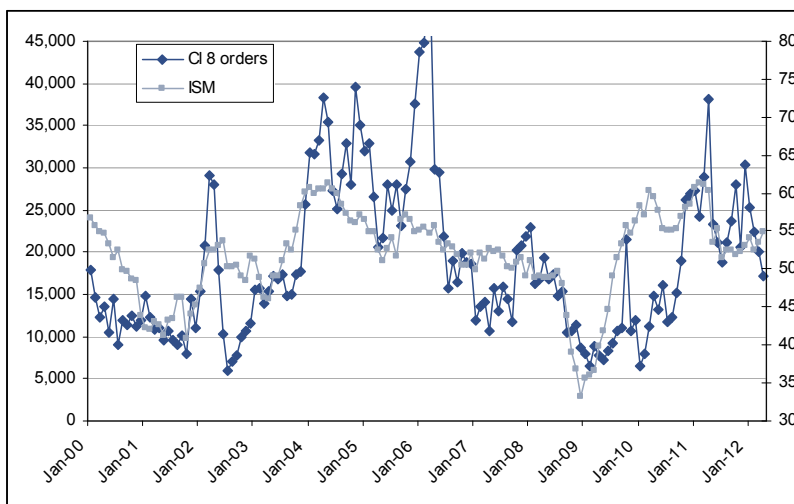


Source: Citi Investment Research and Analysis, Daimler

## Truck orders slow with ISM/PMI

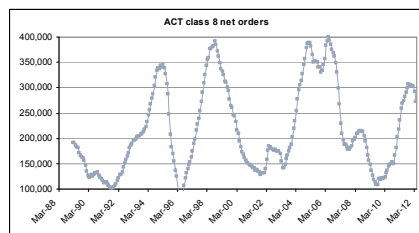
As we have shown before, truck orders correlate strongly with ISM/PMI surveys. As in previous cycles, US truck orders peaked in early 2011 with the ISM, although tax credits created a second spike in orders in late Q4 11, which has not been sustained.

Figure 19. US class 8 heavy truck orders vs ISM (vehicles, index)



Source: Citi Investment Research and Analysis, ACT, Bloomberg

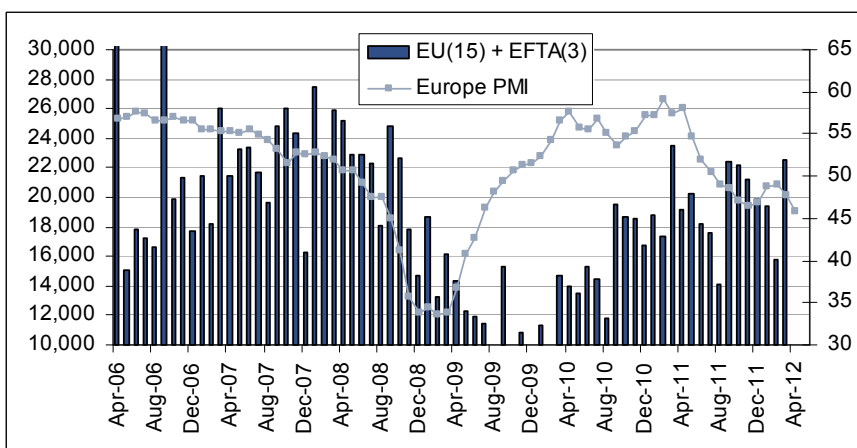
Figure 20. US Class 8 net order cycle since 1988 (vehicles)



Source: Citi Investment Research and Analysis, ACT

Net orders in the US have already fallen from an annualized 300k to around 270k, although April's run-rate was closer to 200k. Current build-rate forecasts of close to 300k for FY12 seem too optimistic. In Europe, we don't get order data, which leaves us with lagged delivery numbers. Again, however, European PMI data near 45 suggests European truck deliveries could fall for some time before recovering, as Volvo's delivery figures suggest. The anticipated FY13 order recovery story may have to wait. Hence our forecast downgrades.

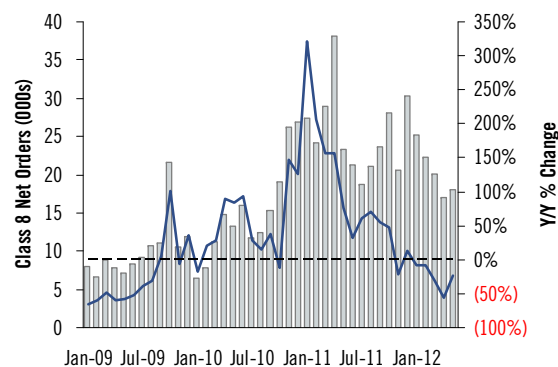
Figure 21. European heavy truck deliveries vs European PMI (vehicles, index)



Source: Citi Investment Research and Analysis, ACEA, Bloomberg

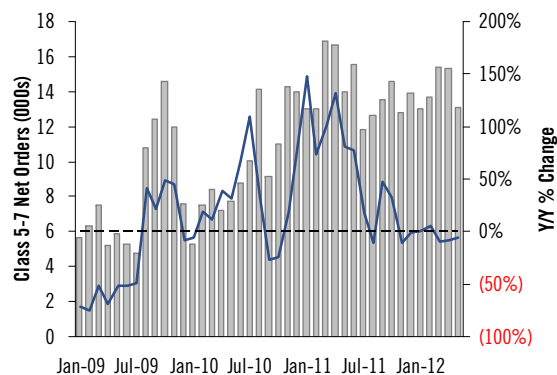
## North American Truck Market

Figure 22. Class 8 Truck: Monthly Net Orders



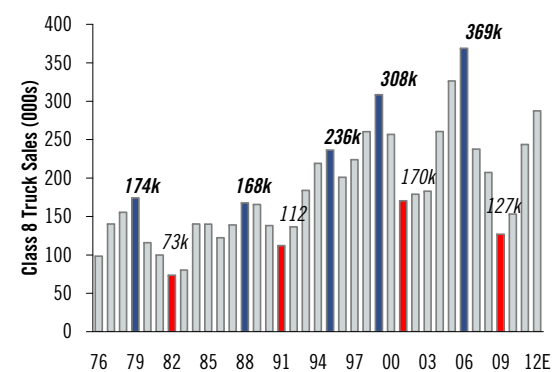
Source: ACT Research, CIRA Estimates

Figure 23. Class 5-7 Truck: Monthly Net Orders



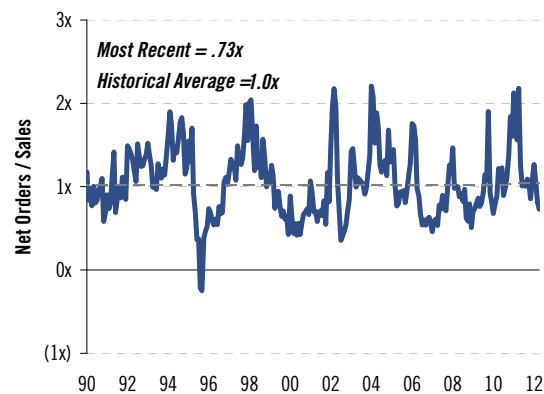
Source: ACT Research, CIRA Estimates

Figure 24. Class 8 Truck: Historical Sales Cycles



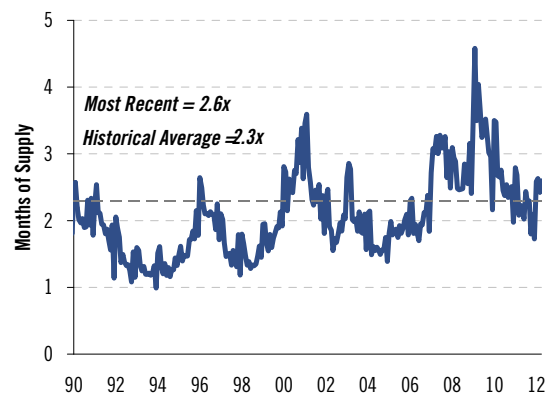
Source: ACT Research, CIRA Estimates

Figure 25. Class 8 Truck: Monthly Book-to-Bill



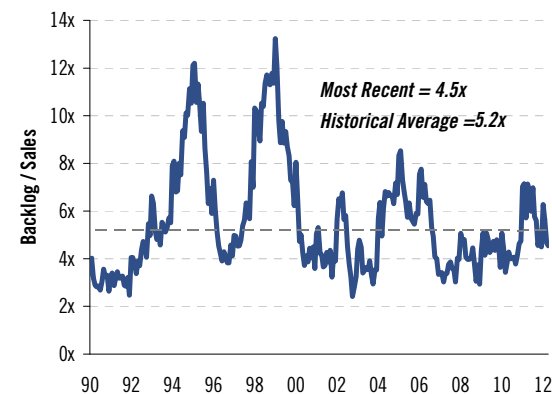
Source: ACT Research, CIRA Estimates

Figure 26. Class 8 Truck: Monthly Inventory / Sales Ratio



Source: ACT Research, CIRA Estimates

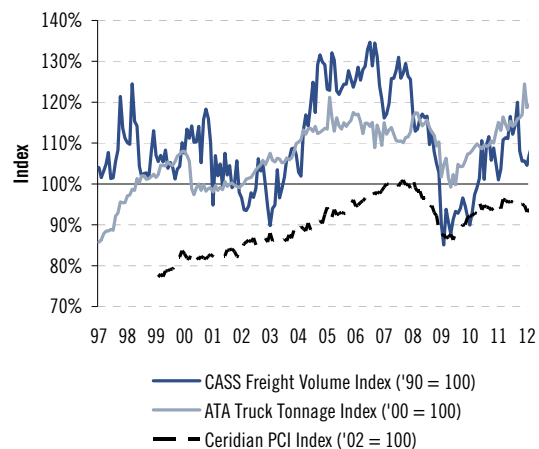
Figure 27. Class 8 Truck: Monthly Backlog / Sales Ratio



Source: ACT Research, CIRA Estimates

## North American Truck Market (Continued)

Figure 28. Freight Volume Indices



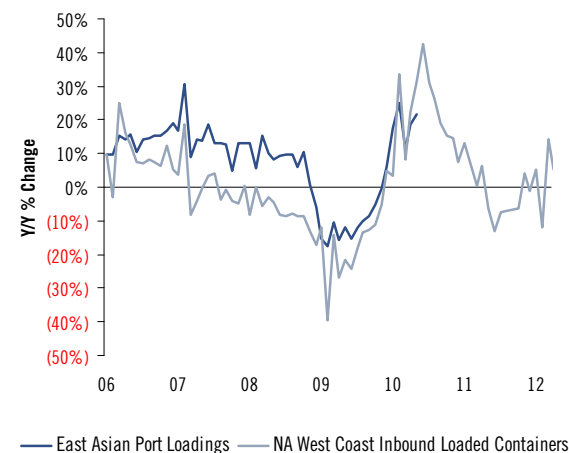
Source: ATA, CASS, Ceridian, CIRA Estimates

Figure 29. Intermodal Rail Traffic



Source: Atlantic Systems, CIRA Estimates

Figure 30. Seaborne Port Container Traffic



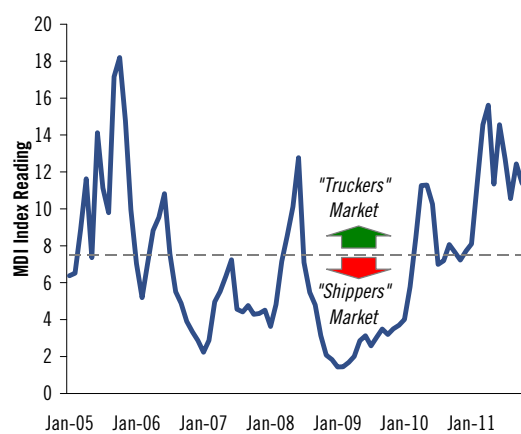
Source: Haver Analytics, CIRA Estimates

Figure 31. International Air Cargo Traffic



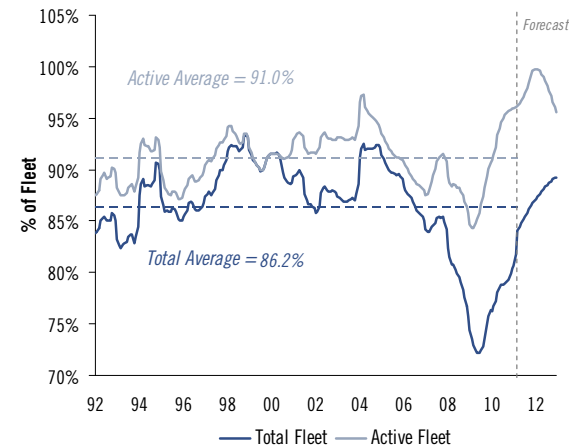
Source: IATA, CIRA Estimates

Figure 32. Internet Truck Stop: Market Demand Indicator



Source: Internet Truck Stop, CIRA Estimates

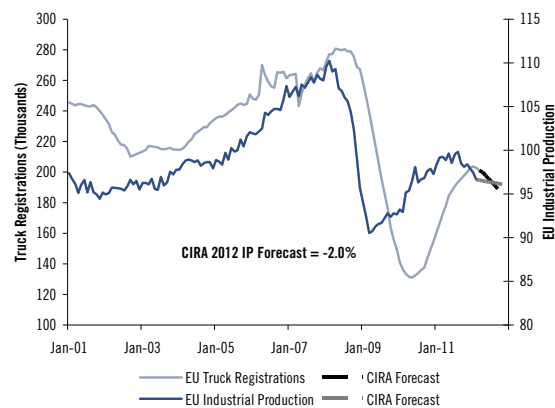
Figure 33. Class 8 Fleet Utilization



Source: FTR Associates, CIRA Estimates

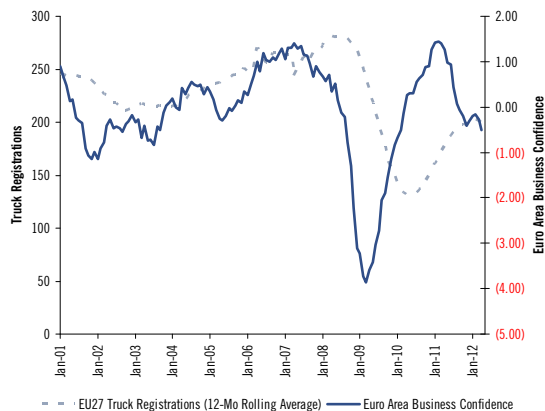
## European Truck Market

Figure 34. European Truck Registrations vs. Industrial Production



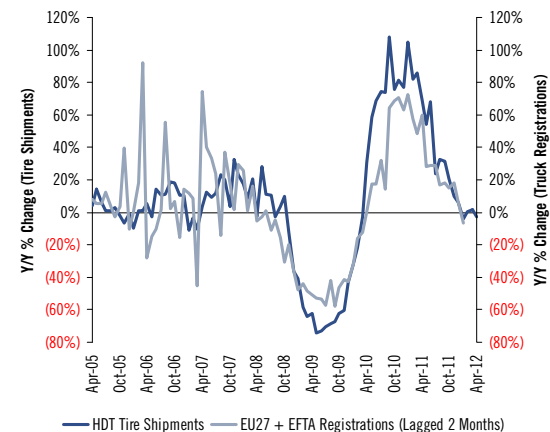
Source: ACEA, EuroStat, CIRA Estimates

Figure 35. European Truck Registrations vs. Business Confidence



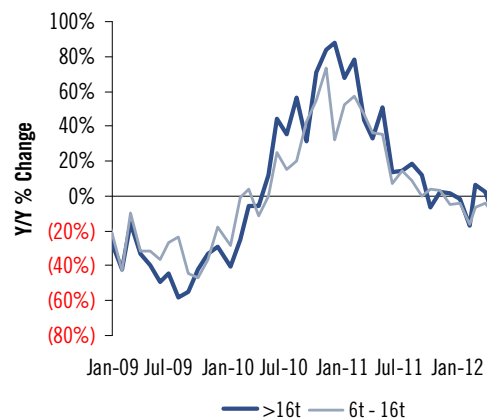
Source: ACEA, EuroStat, CIRA Estimates

Figure 36. European Truck Registrations vs. Tire Shipments



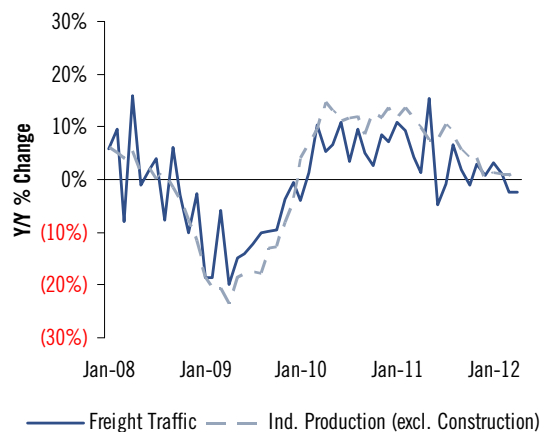
Source: ACEA, Michelin, CIRA Estimates

Figure 37. German Truck Registrations



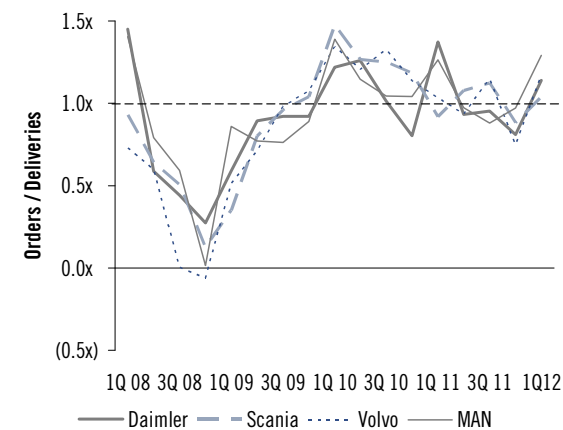
Source: VDA

Figure 38. German Highway Freight Traffic vs. Ind. Prod



Source: Bundesamt für Güterverkehr, Eurostat and CIRA Estimates

Figure 39. European Book-to-Bill by OEM

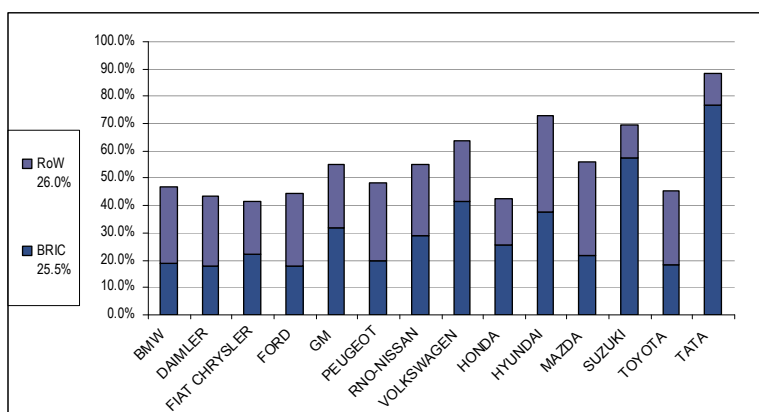


Source: Company Reports, CIRA Estimates

## Daimler is less exposed to China than some

Daimler is much less exposed to China than some of its peers. Although Mercedes BRIC and RoW exposure is similar to BMW, it has been less exposed to China, and the overall proportion of profits coming from China is lower. Add to this the fact that the truck business has no China exposure, but accounts for approximately 30% of group EBIT, highlights how China has less impact on Daimler than on BMW.

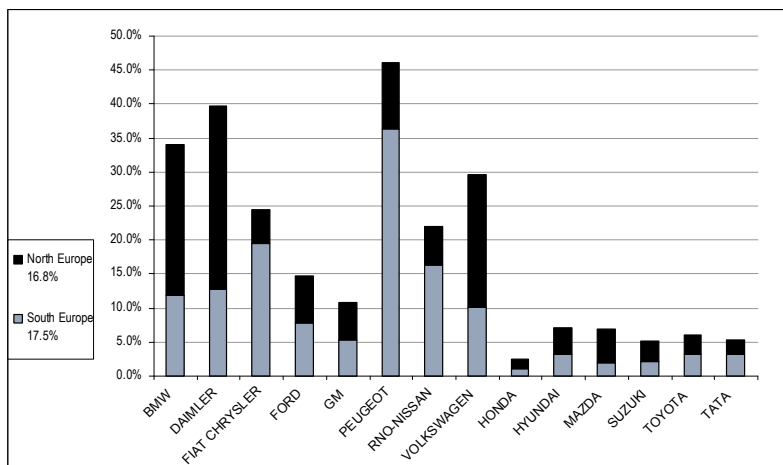
Figure 40. Global OEM Em exposure (%)



Source: Citi Investment Research and Analysis, JD Power

The problem is the rest of the world. Although the US has remained resilient, Europe obviously has not. Southern European sales have slowed sharply, and BMW commented on its recent Q1 conference call that it was concerned that the UK and Germany had started weakening also. BMW also reported a 5% drop in German sales yoy, the first yoy German decline

Figure 41. Global OEM European exposure (%)



Source: Citi Investment Research and Analysis, JD Power

## Forecast downgrades to reflect macro

Daimler forecasts remain high relative to historical margin achievements. We have reduced our revenue and EBIT forecasts for the second time in a month to reflect a deteriorating macro view in both Mercedes and especially in Trucks and Vans, both of which are very dependent on Europe, and hence, credit and industrial production growth in Europe. Our margin forecasts for both Mercedes and Trucks, at 9.0% and 7.9%, remain at the high end of long-term achieved profitability.

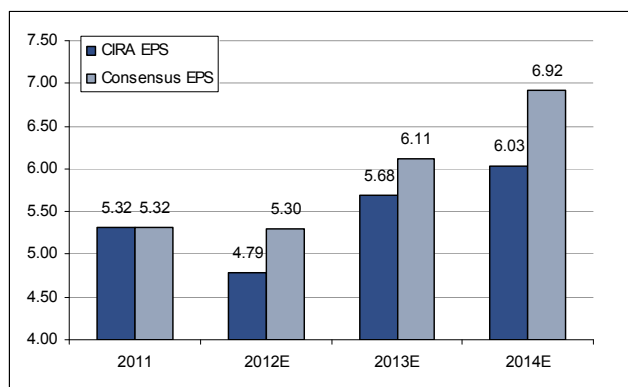
Figure 42. Daimler forecast changes (Euro m, %)

Forecast Changes	ACTUAL 2011	NEW 2012E	2013E	2014E	OLD 2012E	2013E	2014E	Change 2012E	2013E	2014E
Mercedes-Benz Cars	57,410	57,885	60,721	63,786	57,535	60,721	63,786	0.6%	0.0%	0.0%
Daimler Trucks	28,751	28,622	30,396	31,535	29,793	30,623	31,770	-3.9%	-0.7%	-0.7%
Financial Services	12,080	12,500	13,000	13,500	12,500	13,000	13,500	0.0%	0.0%	0.0%
Mercedes Vans	9,179	8,600	9,000	9,500	9,000	9,500	10,000	-4.4%	-5.3%	-5.0%
Daimler Buses	4,418	3,300	3,300	3,500	4,000	4,200	4,500	-17.5%	-21.4%	-22.2%
Reconciliations	(5,298)	(5,500)	(5,750)	(6,000)	(5,500)	(5,750)	(6,000)	0.0%	0.0%	0.0%
<b>Group Revenue</b>	<b>106,540</b>	<b>105,408</b>	<b>110,666</b>	<b>115,821</b>	<b>107,327</b>	<b>112,293</b>	<b>117,556</b>	<b>-1.8%</b>	<b>-1.4%</b>	<b>-1.5%</b>
Revenue growth	9.0%	-1.1%	5.0%	4.7%	0.7%	4.6%	4.7%			
Mercedes-Benz Cars	5,192	4,800	5,400	5,750	4,800	5,700	6,400	0.0%	-5.3%	-10.2%
Margin (%)	9.0%	8.3%	8.9%	9.0%	8.3%	9.4%	10.0%	-0.6%	-5.3%	-10.2%
Daimler Trucks	1,876	1,750	2,300	2,500	2,000	2,500	2,700	-12.5%	-8.0%	-7.4%
Margin (%)	6.5%	6.1%	7.6%	7.9%	6.7%	8.2%	8.5%	-8.9%	-7.3%	-6.7%
Financial Services	1,312	1,250	1,250	1,250	1,250	1,250	1,250	0.0%	0.0%	0.0%
Mercedes Vans	835	700	800	800	750	750	750	-6.7%	6.7%	6.7%
Daimler Buses	162	(200)	0	0	(200)	0	0			
Reconciliations	(622)	(250)	(250)	(250)	(250)	(250)	(250)	0.0%	0.0%	0.0%
<b>Operating Profit/EBIT</b>	<b>8,755</b>	<b>8,050</b>	<b>9,500</b>	<b>10,050</b>	<b>8,350</b>	<b>9,950</b>	<b>10,850</b>	<b>-3.6%</b>	<b>-4.5%</b>	<b>-7.4%</b>
Operating Income Margin	8.2%	7.6%	8.6%	8.7%	7.8%	8.9%	9.2%			
Pre-Tax Profit (as reported basis)	<b>8,449</b>	<b>7,950</b>	<b>9,350</b>	<b>9,900</b>	<b>8,250</b>	<b>9,800</b>	<b>10,700</b>	<b>-3.6%</b>	<b>-4.6%</b>	<b>-7.5%</b>
<b>EPS (SKr per share) adjusted</b>	<b>5.32</b>	<b>4.79</b>	<b>5.68</b>	<b>6.03</b>	<b>5.11</b>	<b>6.06</b>	<b>6.64</b>	<b>-6.2%</b>	<b>-6.2%</b>	<b>-9.2%</b>
Change in cash	(1,327)	1,782	1,630	1,410	1,582	2,040	1,750	12.6%	-20.1%	-19.4%
Net debt	<b>11,981</b>	<b>13,760</b>	<b>15,390</b>	<b>16,800</b>	<b>13,560</b>	<b>15,600</b>	<b>17,350</b>	<b>1%</b>	<b>-1%</b>	<b>-3%</b>

Source: Citi Investment Research and Analysis, Company Reports

Our forecasts are now approximately 10% below consensus for FY12-FY14E, reflecting our bearish macro outlook. Depending on the exact European and global GDP growth outcome, we think our new Daimler FY13E and FY14E forecasts remain challenging under current conditions.

Figure 43. Daimler EPS forecasts relative to consensus (EPS)



Source: Citi Investment Research and Analysis, Bloomberg

## Valuation

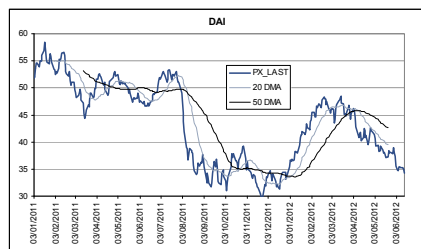
Daimler shares already reflect much of the downgrades we are putting through, suggesting investors have little faith in Daimler delivering on their FY13E and beyond guidance, and have marked the shares lower in anticipation of downgrades as the macro has deteriorated. The shares appear to be trading on very low multiples, but in autos valuation alone is rarely a reason to buy – share prices simply reflect earnings momentum. We maintain our Buy rating but acknowledge that there could be further near-term weakness in the shares as earnings expectations come down.

Figure 44. Daimler valuation (x)

	2010	2011	2012e	2013e	2014e
EV/Sales	38%	37%	27%	24%	22%
EV/EBITDA	3.5x	3.2x	2.4x	2.0x	1.9x
Adjusted EV/EBITDA	3.5x	3.2x	2.4x	2.0x	1.9x
EV/EBIT	5.2x	4.5x	3.5x	2.9x	2.6x
P/E	9.7x	8.3x	7.3x	6.2x	5.8x
FCF Yield	12.0%	3.7%	11.8%	9.7%	11.3%
Price/Sales	44%	44%	36%	34%	32%
Price/Book	1.2x	1.2x	0.9x	0.8x	0.7x
Dividend yield	4.5%	5.0%	6.3%	7.4%	8.3%

Source: Citi Investment Research and Analysis

Figure 45. Daimler price vs 20 and 50 dma (Euro)



Source: CIRA, Bloomberg

We reduce our Daimler TP again to €45 from €50, reflecting our downgrades. We set our Target Price at €45, based on post-2008 EV/sales average of just over 0.3x and around 9x PE. While this appears cheap in the context of Daimler's historical valuation range and its current EBIT margin, we continue to see significant downside risk to consensus EPS, and believe that the low rating for Daimler should be viewed in the context of depressed valuation multiples for the autos sector and the market in general.

We would point out the following on the Daimler valuation:

1. Daimler has over €10 per share in net industrial cash, rising by almost €2 per share each year. Daimler is currently forecast to pay dividend yield of well over 5%. Daimler's PE, even on 2011 historical EPS, is just 7x. On FY13E forecasts, this falls to just 6.3x. EV/EBITDA of just 2.1x FY13E is lower than prospective EV/EBITDA even for the European mass market OEMs – hence Daimler looks much more attractive on risk/reward terms.
2. Daimler's enterprise value of under €30bn compares with BMW and Volvo combined EV of over €45bn, when Daimler's revenues in both premium cars and trucks are larger than these peers (but obviously less profitable). The €15bn+ gap in valuation represents a record 50% potential upside to Daimler equity relative to its peers – if management can start to close the profitability gap. We think this starts in FY13E.

**Figure 46. Companies mentioned**

Company	RIC	Rating	TP Currency	Target Price	SP Currency	Share Price
BMW	BMWG.DE	1	EUR	75.00	EUR	58.76
Daimler	DAIGN.DE	1	EUR	45.00	EUR	34.97
EADS	EAD.PA	1	EUR	36.50	EUR	26.56
Fiat	FIA.MI	3	EUR	3.00	EUR	3.49
Ford Motor	F.N	1	H	USD	USD	10.50
General Motors Co	GM.N	1	H	USD	USD	22.17
Hyundai Motor	005380.KS	1	KRW	320000.00	KRW	238500.00
Nissan	7201.T	1	JPY	1290.00	JPY	750.00
Paccar Inc	PCAR.O	2	USD	42.00	USD	39.44
Peugeot	PEUP.PA	2	EUR	11.50	EUR	7.51
Renault	RENA.PA	1	EUR	46.00	EUR	31.03
Tata Motors	TAMO.BO	1	INR	316.00	INR	237.85
Toyota	7203.T	2	JPY	3990.00	JPY	3050.00
Volkswagen	VOWG.DE	2	EUR	130.00	EUR	118.90
Volvo AB	VOLVB.ST	2	SEK	85.00	SEK	77.90
Baoxin Auto Grp	1293.HK		HKD		HKD	5.31
Zhengtong Auto	1728.HK	1	HKD	9.00	HKD	5.14
Honda	7267.T	2	JPY	3530.00	JPY	2546.00
Mazda	7261.T	2	JPY	160.00	JPY	99.00
Suzuki	7269.T	1	JPY	2370.00	JPY	1628.00

Source: Citi Investment Research and Analysis. June 13, 2012

## Daimler AG

### Company description

The 1998 merger between Daimler-Benz and Chrysler Corp was reversed in August 2007. DAI is now the leading upscale car maker globally (51% of revenues) and global leader in medium/heavy trucks (21% of revenues). It also has a large Financial Services business, Van and Bus segment, plus a 15% economic interest in EADS.

### Investment strategy

We rate Daimler AG Buy. Daimler has fallen behind major German peers on perceptions that it is a serial operational underperformer. We see current underperformance as relatively minor in nature, with the same positive trends driving all 3 major Germans. We also see current relative handicaps – a truck sector that has bounced back less quickly than luxury cars and model-cycle headwinds on the car side – turning into 2012-2014 relative benefits as the truck sector global expansion and product renewal completes, while car product renewal is particularly dense in this period. As a result, we consider DAI has at least equal claim to sustainability of recent high margins as other Germans – realisation of which is the key to a re-rating.

### Valuation

We set our target price at €45, based on post-2008 EV/sales average of just over 0.3x and around 9x PE applied to our 13E estimates. The current Daimler share prices represent an EV/sales of under 30%, suggesting investors already discount sustained margins at current levels of around 8%. Compared with peers, which have similar premium branded car and truck businesses, Daimler's enterprise value is some €15bn lower.

### Risks

Particular risks to DAI which may cause it to deviate below our price target include possible adverse quarterly EBIT performance relative to peers, possible acquisition activity in areas not central to current business, rapid adverse exchange rate change, abrupt trend change in the Chinese luxury vehicle market, or generally prolonged weak automotive and truck markets that may impede the recovery of profits and undermine valuations.

# Appendix A-1

## Analyst Certification

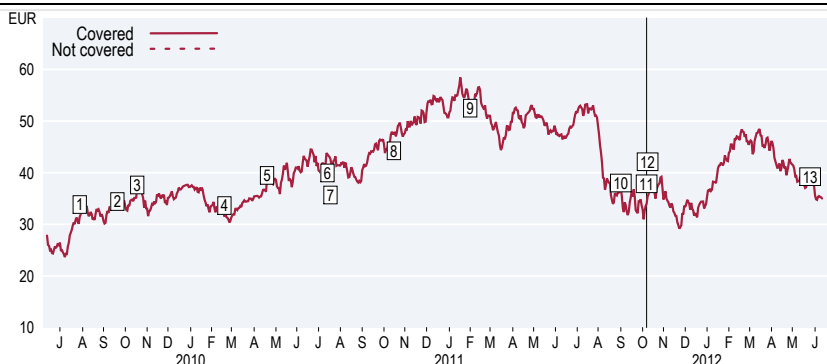
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## IMPORTANT DISCLOSURES

### Daimler AG (DAIGN.DE)

#### Ratings and Target Price History Fundamental Research

Analyst: Harald C Hendrikse  
Covered since April 17 2012



	Date	Rating	Target Price	Closing Price
1	29-Jul-09	2M	*34.00	31.46
2	21-Sep-09	2M	*36.00	33.06
3	19-Oct-09	2M	*40.00	37.62
4	18-Feb-10	2M	*36.00	31.50
5	20-Apr-10	2M	*42.00	39.00

\* Indicates change

	Date	Rating	Target Price	Closing Price
6	14-Jul-10	2M	*44.00	43.55
7	19-Jul-10	2M	*47.00	42.63
8	15-Oct-10	2M	*51.00	47.73
9	1-Feb-11	*1M	*65.00	53.30
10	1-Sep-11	1M	*55.00	36.92

	Date	Rating	Target Price	Closing Price
11	7-Oct-11	Stock rating system changed		
12	8-Oct-11	*1	55.00	33.98
13	25-May-12	1	*50.00	38.05

Rating/target price changes above reflect Eastern Standard Time

### Daimler AG (DAIGN.DE)

#### Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Harald C Hendrikse  
Covered since April 17 2012



	Date	Rating	Target Price	Closing Price
1	11-Feb-11	*ADD MP	-	56.51
2	21-Feb-12	*REM MP	-	47.98

\* Indicates change

	Date	Rating	Target Price	Closing Price
3	23-Feb-12	*ADD MP	-	46.93
4	23-May-12	*REM MP	-	37.91

Rating/target price changes above reflect Eastern Standard Time

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#### Citi Investment Research & Analysis Ratings Distribution

<i>Data current as of 31 Mar 2012</i>	<b>12 Month Rating</b>			<b>Relative Rating</b>		
	<b>Buy</b>	<b>Hold</b>	<b>Sell</b>	<b>Buy</b>	<b>Hold</b>	<b>Sell</b>
Citi Investment Research & Analysis Global Fundamental Coverage	52%	37%	11%	10%	79%	10%
% of companies in each rating category that are investment banking clients	44%	42%	40%	47%	42%	43%

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