

# Daimler AG (DAIGn.DE)

## Alert: Another warning

**Another warning, even after the Paris Auto Show one** – in our September report on DAI - [Daimler AG \(DAIGn.DE\) - No Upgrades, But Scope For a Higher Multiple?](#), we suggested investors buy Daimler after the fairly obvious downgrade. We got such a downgrade at Paris Auto Show. Now we have another, with Daimler further reducing FY12 Mercedes EBIT, but warning also on Trucks (which now won't match FY11), and Vans, and bigger losses in Buses. Although the trading deterioration in the summer is obvious, we do not fully understand why Daimler has chosen to deliver the message in two separate doses. Q3 revenue beat our low seasonal expectations at €28.6bn vs €25.2bn. Q3 EBIT was well above our forecasts at €1.9bn vs our €1.6bn - Mercedes at €975m remained in line with expectations with 6.4% EBIT margin (vs 10.5% for Audi yesterday), Trucks at €507m EBIT reported a 6.2% EBIT margin, helped by "lower warranty costs" offsetting higher product costs and weak demand in Europe and Brazil. Financial Services remained strong at €337m for the quarter, despite "higher cost of risk" but Vans and Buses were both weaker, both susceptible to European demand weakness. Group EBIT continues to be hit by low discount rates impacting provision compounding, offsetting Q3 FX gains. FCF was a negative €200m in Q3, due to a €800m working capital outflow – likely inventory, accounting for the cut guidance for Q4 2012.

**Guidance cut for FY12, FY13** – Daimler gives detailed guidance for each division for FY12, cutting almost all segments, with Mercedes now down to €4.4bn, trucks down yoy at €1.7bn, and lower EBIT for Vans and Buses also. Group guidance falls from €9bn to €8bn – although this is against our already low €7.8bn forecast. FY13 targets are also removed due to "current economic conditions", suggesting consensus EBIT will fall from €9.1bn closer to the FY12 result. Our FY13 expectations are already at €8.7bn, but the run-rate going into FY13 will now be much lower, and we had assumed an earlier S class launch benefit. Daimler plans to continue to expand its product range, and develop new capacity and distribution, planning to increase capex and R&D. With lower EBIT, returns on capital will suffer. We believe the strategy to grow Mercedes to be the global premium volume leader will continue to hurt Mercedes brand, and worry about the long-term impact of such a strategy.

**Valuation is low already, investor expectations well below consensus** – We maintain our Buy. Daimler shares have held the €35 to €40 range for many months, despite downgrades. We suspect consensus EPS will fall below €5, but this would still leave the shares on close to 7x FY13E PE, and close to trough PE relative. We would note that VW (VOWG\_p.DE; €151.00; 1) has better earnings momentum and is cheaper still.

### ■ Company Update

<b>Buy</b>	<b>1</b>
Price (24 Oct 12)	€37.82
Target price	€45.00
Expected share price return	19.0%
Expected dividend yield	5.8%
<b>Expected total return</b>	<b>24.8%</b>
Market Cap	€40,333M
	US\$52,325M

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



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## Daimler AG

### 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.

## Volkswagen AG(pref)

(VOWG\_p.DE; €151.00; 1)

### Valuation

Our target price of €175 is based on VW's historical PE relative of around 65 versus the European market, or around 8x PE, and a sustainable EPS figure that we estimate to be €21-22 per share, based on 3% margins for VW brand and 10% margins at Audi, and supported by new model launches and the new MQB toolkit. We think the 2013E PE multiple of c.8x implied by our target price appropriately reflects investors' recessionary concerns regarding any future forecast changes.

### Risks

Factors leading to the stock failing to achieve our target could flow from 1) greater than expected downside in European markets; and/or 2) continued deterioration in pricing in China and Europe. Conversely, potential market share gains by VW in a rising market could lead to strong renewed momentum in earnings.

## Appendix A-1

### Analyst Certification

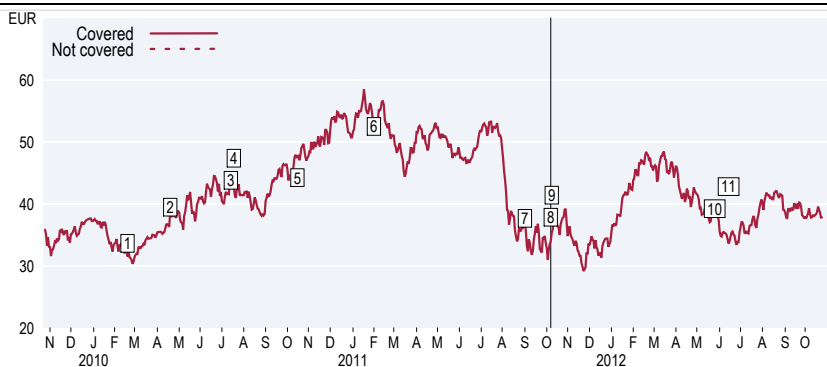
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Analyst: Harald C Hendrikse  
Covered since April 17 2012



Date	Rating	Target Price	Closing Price
1 18-Feb-10	2M	*36.00	31.50
2 20-Apr-10	2M	*42.00	39.00
3 14-Jul-10	2M	*44.00	43.55
4 19-Jul-10	2M	*47.00	42.63

\* Indicates change

Date	Rating	Target Price	Closing Price
5 15-Oct-10	2M	*51.00	47.73
6 1-Feb-11	*1M	*65.00	53.30
7 1-Sep-11	1M	*55.00	36.92
8 7-Oct-11	Stock rating system changed		

Date	Rating	Target Price	Closing Price
9 8-Oct-11	*1	55.00	33.98
10 25-May-12	1	*50.00	38.05
11 14-Jun-12	1	*45.00	33.60

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

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### Volkswagen AG(pref) (VOWG\_p.DE)

#### Ratings and Target Price History Fundamental Research

Analyst: Harald C Hendrikse  
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Date	Rating	Target Price	Closing Price
1 14-Jul-10	*2M	*80.00	77.30
2 6-Sep-10	*1M	*92.00	83.14
3 15-Oct-10	1M	*108.00	92.20
4 28-Oct-10	1M	*125.00	107.35
5 1-Feb-11	*2M	125.00	118.15

\* Indicates change

Date	Rating	Target Price	Closing Price
6 30-Sep-11	2M	*120.00	100.05
7 5-Oct-11	2M	*102.00	95.38
8 7-Oct-11	Stock rating system changed		
9 8-Oct-11	*2	102.00	101.55
10 13-Oct-11	2	*111.00	112.00

Date	Rating	Target Price	Closing Price
11 27-Jan-12	2	*140.00	136.45
12 2-Oct-12	2	*155.00	144.05
13 10-Oct-12	*1	*175.00	145.80

Rating/target price changes above reflect Eastern Standard Time

## Volkswagen AG(pref) (VOWG\_p.DE)

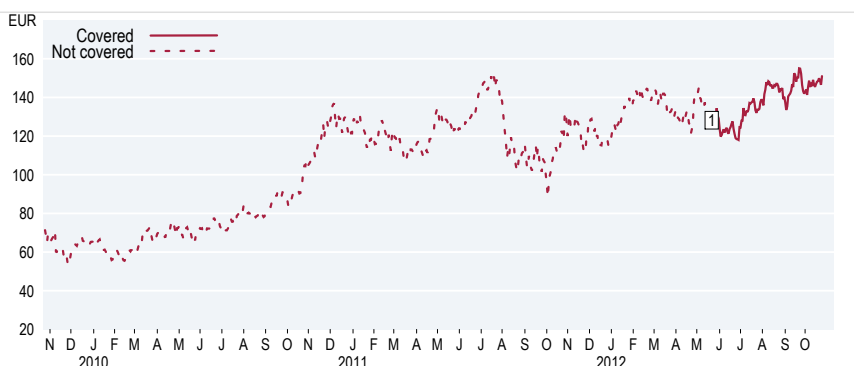
### Ratings and Target Price History

#### Best Ideas Research

#### Relative Call (3 Month)

Analyst: Harald C Hendrikse

Covered since April 17 2012



Date	Rating	Target Price	Closing Price
1 22-May-12	*ADD MP	-	132.65

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12 Month Rating			Relative Rating		
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50%	47%	45%	59%	47%	50%

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