

Stern Groep

Q1 results

Opportunities opening up

In 2020, Stern restructured its balance sheet and further streamlined operations. This puts it in a good position to cope with the uncertain car market, as was evident in Q1. In 2021, a number of opportunities relating to the company's financial position, as well as its participation in Bovemij and M&A, could start to materialize. We expect profitability to increase in the next few years, driven by the restructured organisation, digitisation efforts, a focus on margin over volume and an improving market environment. The valuation is undemanding, at 7.0x 2022e P/E.

Year end	Revenue (€m)	EBIT* (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/19	876.8	5.1	0.29	3.50	45.7	26.4
12/20	751.1	6.3	(0.85)	0.00	N/A	N/A
12/21e	819.8	13.4	1.49	0.00	8.9	N/A
12/22e	846.7	16.6	1.91	0.77	7.0	5.8

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

COVID-19 still a dominant factor in Q1

Stern reported 6.8% lower revenues at €217.2m in Q121, a quarter in which Dutch dealer sites were mostly closed, or opened with restrictions due to the pandemic, and new passenger cars were down 21.6%. Aided by generous government support measures, net profit came in at €3.3m, a significant decrease versus €4.2m in Q120, which was hardly affected by COVID-19. Stern did not provide specific guidance for FY21, due to the uncertainties regarding COVID-19 and the supply of cars from OEMs, which are suffering from chip shortages. Given the strong Q1 results, we have raised our estimates for 2021 and 2022 modestly.

Opportunities opening up

We see a number of opportunities for Stern shareholders that could start to materialise in 2021: 1) Stern reported 'over-solvency' of €39.5m (c €7 per share), which is an indication of the amount Stern sees fit to distribute to shareholders in Q121. We would expect a significant part of this amount to be paid to shareholders in the coming years; 2) unlisted car insurer Bovemij is considering increasing the liquidity of its shares. This could represent a material liquidity event for Stern as it holds a 5% equity stake in Bovemij at a book value of €3.32/share; 3) talks with Scandinavian automotive group Hedin could be restarted; and 4) Stern has made significant progress in its digitisation process, opening up new sales channels that could start to pay out in terms of extra revenues.

Valuation: Attractive on a standalone basis

Stern is trading at an FY22e P/E of 7.0x based on an anticipated recovery in profitability in the coming years. Compared to the peer group average of 12.1x, this reflects a large discount. Applying the average multiple and adding the market value of the stake in insurer Bovemij (€3.32 per Stern share) results in an implied valuation of €26.7/share (versus €22.99/share in March 2021).

Automobiles & parts

12 May 2021

Price €13.25

Market cap €79m

Net debt (€m) at 31 December 2020 104

Shares in issue 5.7m

Free float 29.5%

Code STRN

Primary exchange Euronext

Secondary exchange N/A

Share price performance



%	1m	3m	12m
Abs	11.8	10.4	36.9
Rel (local)	14.6	5.4	2.3

52-week high/low €13.60 €9.02

Business description

Stern Groep is one of the largest automotive groups in the Netherlands. With 61 dealer and Stern Point car repair locations and revenues of almost €900m, it is the third largest car retailer group in the Netherlands. The company has more than 1,557 employees.

Next events

H121 results 19 August 2021

Analyst

Edwin De Jong +44 (0)20 3077 5700

industrials@edisongroup.com
[Edison profile page](#)

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Strong Q1 results despite restrictions

Stern reported its Q1 trading update on 6 May. Revenues decreased by 6.8% to €217.2m in a quarter in which Dutch dealer sites were mostly closed, or opened with restrictions due to the pandemic. New passenger car sales in the Netherlands decreased by 21.6% to 80,885 new cars in Q121, while used car sales showed a limited slowdown of 0.8% to 318,537. As such, Stern's performance seemed to stand out, but its market share in passenger cars decreased to 4.4% from 4.6% in Q120. Higher average selling prices (ASPs), which increased by 23%, driven by a higher amount of SUVs and EVs, were responsible for the relatively strong revenue performance. Furthermore, in Q1 Stern benefited from deliveries of cars sold in December and shipped to IKEA parking lots in January. In light commercial vehicles, Stern sold 7.8% more new cars and its market share increased to 7.1% from 6.5% in Q120.

Staffing costs and opex were 15% lower y-o-y due to ongoing efforts to reduce cost footprint. The contribution of insurer Bovemij, in which Stern has a 5% stake, was lower compared to last year. All in all, the net result decreased to €3.3m from €4.2m in Q120, which we view as strong given that Q120 was hardly affected by COVID-19.

COVID-19 also had an impact on OEMs. The supply of new cars is stagnating because of chip shortages. As a result of this and ongoing uncertainty around the reopening of the economy, Stern has not provided specific guidance for FY21.

Four opportunities materialising

Despite uncertainty in the market, there are a number of opportunities for Stern shareholders that could start to materialise this year:

1. Stern's balance sheet developed favourably in 2020 and that persisted into Q121. Stern reported 'over-solvency' of €39.5m in Q121 versus €29.5m at the end of FY20. Over-solvency refers to the difference between healthy and actual proportions of equity and liabilities on the balance sheet. The difference, expressed as an amount, is usually available to distribute to shareholders. Stern cannot pay a dividend in 2020/21 as a result of government restrictions because it uses COVID-19 related government support. However, we would expect a significant part of this amount to be paid to shareholders in the coming years. For now, we continue to model a dividend payout of 40% (€0.77 per share in 2022), but we would not rule out a higher payout once government restrictions are lifted.
2. According to the privately owned car insurer Bovemij, it could be working on a way to increase the liquidity of its shares. This could indicate a liquidity event like a sale or IPO, which could benefit Stern shareholders. With a book value of only €3.32 per Stern share (€18.8m for a 5% stake), this could represent a material opportunity for the company.
3. Talks with Scandinavian automotive group Hedin could be restarted. Acquisition talks were suspended during the pandemic, but the rationale for combining the two companies remains. The potential acquisition of Stern by Hedin would bring economies of scale, geographical diversification and a platform for further growth with Stern's stock listing. In addition, Hedin would add complementary car brands in several smaller countries to the Stern brand portfolio.
4. Further progress on digitisation: COVID-19 has made Stern's Focus on Value programme even more pressing and there is good progress in execution. The programme runs to 2022 and is aimed at completing the transformation from a traditional bricks and mortar car dealership to an integrated automotive service platform with a strong digital offering. Stern is nearing completion of systems that engage with the client on their journey from purchasing a car to financing and

logistics. Furthermore, Stern is focusing more on its client rather than the car itself. Last quarter, used cars from lease partner ALD were advertised on Stern's platform, which we believe is a signal that Stern's proposition is maturing and adding extra sources of revenue.

FY21/22 estimates increased slightly

After a drop in new car sales in 2020 by 20% to 356,051 in the Netherlands, sector organisation Aumacon expects a rebound of 16.6% to 415,000 new passenger cars in 2021, while sector organisations RAI and Bovag expect a rebound of 12.3% to 400,000. Given that Q121 new car sales were 21.6% lower, this might seem very challenging.

However, as Q120 was still pretty strong and Q220 was the first fully COVID-19 affected quarter, a low double-digit increase is plausible based on the anticipated economic recovery in H221. April's new car sales were up more than 50% y-o-y, which confirms the upward trend. However, we should note that new car sales levels were well below 2019 levels.

We anticipated a more modest recovery with our [FY20 update](#), so there is no need to change our car sales estimates at present. Moreover, in light of the higher ASPs in Q121 driven by a higher percentage of more expensive EVs and SUVs, we see upside to our top-line estimates for Stern Groep (90% of group revenues).

Exhibit 1: Revised estimates								
€m	FY19	FY20	FY21 old	FY21 new	Change	FY22 old	FY22 new	Change
Revenue	876.8	751.1	819.8	819.8	0.0%	846.7	846.7	0.0%
Cost of Sales	(719.8)	(614.2)	(677.1)	(669.8)	0.0%	(696.5)	(696.5)	0.0%
Gross Profit	157.1	136.9	142.7	150.0	5.1%	150.2	155.0	3.2%
EBITDA	26.4	27.8	17.7	18.4	3.7%	20.8	21.7	4.4%
Normalised operating profit	5.1	6.3	12.8	13.4	5.0%	15.8	16.6	5.4%
Amortisation of acquired intangibles	(0.1)	(0.1)	0.0	0.0		0.0	0.0	
Reported operating profit	0.2	(16.3)	12.8	13.4	5.0%	15.8	16.6	5.4%
Net Interest	2.1	(5.5)	(3.8)	(3.8)	-0.3%	(3.8)	(3.8)	0.2%
Profit Before Tax (norm)	(6.6)	0.8	9.0	9.7	7.2%	12.0	12.8	7.0%
Profit Before Tax (reported)	(1.4)	(21.7)	9.0	9.7	7.2%	12.0	12.8	7.0%
Reported tax	(4.4)	(4.8)	(1.1)	(1.2)	10.9%	(1.8)	(2.0)	8.5%
Profit After Tax (norm)	3.1	(4.0)	7.9	8.4	6.7%	10.2	10.9	6.7%
Profit After Tax (reported)	1.7	(26.6)	7.9	8.4	6.7%	10.2	10.9	6.7%
Minority interests	(1.3)	0.0	0.0	0.0		0.0	0.0	
Discontinued operations	22.6	(0.8)	0.0	0.0		0.0	0.0	
Net income (normalised)	1.7	(4.8)	7.9	8.4	6.7%	10.2	10.9	6.7%

Source: Stern Group, Edison Investment Research

For Mobility Services (6% of group revenues), which represents Stern's rental activities, we continue to expect stable revenues compared to FY20, driven by higher rental revenues offset by lower remarketing (sale of rental carts), and for Car Services (4% of group revenues), we expect an increase driven by the service level agreement with ALD (oil refreshing, winter/summer tyre changes, bodywork repairs for lease cars), together with market recovery due to postponed maintenance. Mobility Services and Car Services will be reported together in future. We have not changed our estimates.

Gross margins developed well in 2020 driven by mix effects (relatively more higher-margin workshop revenues) and that effect will probably level off as the pandemic eases. However, increased traffic will also have favourable effects like more damages to cars and more maintenance. On balance, we estimate a slightly higher gross margin of 18.3% for FY21 (FY20: 18.2%).

Opex has been lower in 2020 because of cost reductions and lower than expected staff expenses, partly due to government support measures (NOW 1, NOW 3 and NOW 5), which also support

Stern in H121. We have decreased our opex estimates for FY21 given the strong execution in Q1 and now arrive at adjusted group EBIT of €13.4m (+5% compared to our previous estimate) for FY21. Of course, we take into account that government support measures will end this year. For 2022, we increase our EBIT estimate by 5.4% to €16.6m.

As a result, we expect net profit of €8.4m (vs €7.9m) in 2021 and €10.9m in 2022 (vs €10.2m).

Valuation: Investment case remains intact

Looking at Stern's valuation compared to international peers, the stock is trading at a discount on an adjusted P/E ratio, with a much larger discount on a price to book ratio. Among other things, this could be explained by the fact that Stern's profitability is generally lower compared to international peers, especially the Scandinavian companies. We believe that the current share price does not take into account the potential for significant dividend payments in the future, a liquidity event from its participation in car insurer Bovemij, or M&A.

Furthermore, Stern should be able to achieve or exceed its adjusted EBIT margins targets of at least 2%, certainly if it successfully implements the restructuring outlined in its Focus on Service & Brand Value strategy. We have included this in our estimates and currently model EBIT margins to gradually recover to 2.1% by 2023 from 1.6% in 2021.

Overall, noting the difference in capital structures and quality of balance sheet in the peer group companies, we consider P/E as a more relevant valuation metric for the sector. We apply the average FY22e P/E of the comparable European dealership holdings to our FY22 adjusted net profit estimate of €10.9m and add the market value of the Bovemij stake (which we estimate at €3.32 per Stern share), arriving at an implied value for Stern of €26.7 per share (previously €22.99 per share), mainly because of higher peer multiples.

Exhibit 2: Peer group valuation

	Market cap (m)	P/E (x)			P/B (x)			EV/EBITDA (x)		
		2020	2021e	2022e	2020	2021e	2022e	2020	2021e	2022e
Bilia	SEK14,549	12.7	10.4	10.7	3.9	3.2	2.8	8.3	6.5	6.4
Kamux	€623	27.3	24.4	21.1	6.5	5.6	4.7	16.2	15.0	13.2
Marshall Motors	£138	7.8	8.6	7.9	0.6	N/A	N/A	4.8	5.1	4.9
Pendragon	£292	31.8	10.8	8.7	2.2	N/A	N/A	4.9	4.7	4.4
Peer average		19.9	13.5	12.1	3.3	4.4	3.8	8.6	7.8	7.3
Stern	€77	-2.4	9.1	7.0	0.5	0.6	0.5	5.5	8.9	7.3
Premium/(discount)		(112%)	(33%)	(42%)	(84%)	(87%)	(86%)	(36%)	14%	1%

Source: Stern, Refinitiv, Edison Investment Research. Note: Prices as at 11 May 2021.

Exhibit 3: Financial summary

€m	2018	2019	2020	2021e	2022e	2023e
Year end 31 December	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT						
Revenue	988.7	876.8	751.1	819.8	846.7	873.7
Cost of Sales	(812.3)	(719.8)	(614.2)	(669.8)	(696.5)	(716.2)
Gross Profit	176.4	157.0	136.9	150.0	155.0	160.8
EBITDA	6.1	26.4	27.8	18.4	21.7	23.8
Normalised operating profit	(1.7)	5.1	6.3	13.4	16.6	18.6
Amortisation of acquired intangibles	(0.1)	(0.1)	(0.1)	0.0	0.0	0.0
Exceptionals	0.2	0.0	(22.4)	0.0	0.0	0.0
Share-based payments	0.0	0.0	0.0	0.0	0.0	0.0
Reported operating profit	(1.5)	2.1	(16.3)	13.4	16.6	18.6
Net Interest	(4.1)	(6.6)	(5.5)	(3.8)	(3.8)	(3.8)
Joint ventures & associates (post tax)	0.0	0.1	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0	0.0
Profit Before Tax (norm)	(5.8)	(1.4)	0.8	9.7	12.8	14.7
Profit Before Tax (reported)	(5.6)	(4.4)	(21.7)	9.7	12.8	14.7
Reported tax	1.7	3.1	(4.8)	(1.2)	(2.0)	(2.4)
Profit After Tax (norm)	(4.1)	1.7	(4.0)	8.4	10.9	12.3
Profit After Tax (reported)	(4.0)	(1.4)	(26.6)	8.4	10.9	12.3
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0
Discontinued operations	4.5	22.6	(0.8)	0.0	0.0	0.0
Net income (normalised)	(4.1)	1.7	(4.8)	8.4	10.9	12.3
Net income (reported)	0.5	21.2	(27.4)	8.4	10.9	12.3
Average number of shares outstanding	5.68	5.68	5.68	5.68	5.68	5.68
EPS (€)	0.09	3.74	(4.83)	1.49	1.91	2.17
Normalised EPS (€)	(0.73)	0.29	(0.85)	1.49	1.91	2.17
DPS (€)	0.00	3.50	0.00	0.00	0.77	0.87
Revenue growth (%)	-12.1	-11.3	-14.3	9.2	3.3	3.2
Gross Margin (%)	17.8	17.9	18.2	18.3	18.3	18.0
EBITDA Margin (%)	0.6	3.0	3.7	2.2	2.6	2.7
Normalised Operating Margin (%)	-0.2	0.6	0.8	1.6	2.0	2.1
BALANCE SHEET						
Fixed Assets	391.8	278.6	227.8	229.4	230.2	230.2
Intangible Assets	30.6	22.4	2.3	2.2	2.2	2.2
Tangible Assets	343.1	243.5	198.5	200.1	201.0	201.0
Investments & other	18.1	12.7	27.0	27.0	27.0	27.0
Current Assets	283.6	294.8	205.6	225.7	235.9	246.8
Stocks	237.6	201.4	181.2	164.0	169.3	174.7
Debtors	35.3	41.7	10.9	32.8	33.9	34.9
Cash & cash equivalents	0.7	0.7	0.3	16.6	22.5	28.4
Other	10.0	51.0	13.2	12.3	10.2	8.7
Current Liabilities	272.6	271.7	177.2	189.7	194.1	197.5
Creditors	139.9	97.4	71.5	80.4	83.6	85.9
Tax and social security	0.0	0.0	0.0	0.0	0.0	0.0
Short term borrowings	93.9	90.0	76.5	76.5	77.5	77.5
Other	38.8	84.3	29.2	32.8	33.0	34.1
Long Term Liabilities	247.6	149.1	130.8	131.7	131.7	131.8
Long term borrowings	244.0	49.7	27.9	27.9	27.9	27.9
Other long-term liabilities	3.6	99.4	102.9	103.7	103.8	103.9
Net Assets	155.2	152.6	125.4	133.7	140.3	147.7
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0
Shareholders' equity	155.2	152.6	125.4	133.7	140.3	147.7
CASH FLOW						
Op Cash Flow before WC and tax	52.6	11.9	(6.8)	14.2	16.0	17.7
Working capital	(0.9)	(8.3)	7.8	8.7	(1.5)	(1.5)
Net operating cash flow	51.6	3.6	39.9	22.9	14.6	16.3
Capex	(81.6)	26.6	10.2	(6.6)	(5.9)	(5.2)
Dividends	(4.3)	(19.9)	0.0	0.0	(4.4)	(5.0)
Other	33.7	(10.4)	(15.2)	0.0	0.0	0.0
Net Cash Flow	(0.5)	(0.1)	34.8	16.4	4.3	6.1
Opening net debt/(cash)	302.9	337.1	139.0	104.2	87.8	83.5
Closing net debt/(cash)	337.1	139.0	104.2	87.8	83.5	77.4

Source: Company accounts, Edison Investment Research

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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