

Cargotec

Company report

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This report is a summary translation of the report “Kurssissa kojootin hetken tuntua” published on 7/1/2024 at 10:24 pm EEST.

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res.**

Wile E. Coyote moment in the share price

Even after Kalmar spin-off, Cargotec will continue to be an investment in a kind of interim mode before the forthcoming divestment of MacGregor leaves only Hiab. The short-term prospects for both Hiab and MacGregor are reasonable, and the company that will change its name to Hiab after the sale of MacGregor has the potential to become popular among investors that look for moderate growth and risk profile. However, after the first trading day of the current Cargotec share, the stock looks overpriced relative to the sum of the parts. At this stage, we give the stock a Sell recommendation with a target price of EUR 39.0.

The goals set for Hiab are demanding

Our review of Hiab draws heavily on the company's Capital Markets Day communications in May. Hiab's organic growth consists of three overlapping layers: 1) A fundamental growth trajectory, with GDP growth, urbanization and climate change as components (ca. +3% p.a.); 2) Target market growth, driven by the need to improve safety, productivity and reliability in load handling, the shortage of qualified drivers and the need to reduce emissions; 3) Hiab's ability to grow faster than the market, based on long-term, deep customer relationships and an understanding of customer needs and the ability to develop products to meet them, combined with an extensive and competent service network. The latter two "growth layers" will bring Hiab's growth to +7% p.a. if the targets are met. The customer segments highlighted are waste & recycling, defense logistics, retail distribution and construction. Geographically, the focus will be on North America. In terms of service offerings, market share will be increased in consumables and spare parts for Hiab's own large equipment fleet, contract-based services and new digital services. Hiab aims to improve productivity by 1.5% per year through its Excellence programs. Without additional investments in product development or measures to mitigate the effects of inflation, the direct impact of the program on the EBIT margin would be +1.5 percentage points per year. However, the final margin impact will depend on market conditions and demand. In any case, Hiab's target of 18% comparable EBIT margin (calculated as Cargotec business area) by 2028 is challenging.

2024 guidance should be easy to meet

At this time, we have not changed our forecasts for either Hiab or MacGregor. Hiab is under pressure from a -14% year-on-year decline in order intake in Q2'23-Q1'24. Our expectation for Hiab's 2024 revenue growth (-15% y/y) is in line with consensus (-14% y/y). Hiab has been guided for >12% EBIT margin excluding group expenses for 2024 and both our own forecast (14.3%) and consensus forecast (14.7%) are well above this. MacGregor's guidance of a comparable EBIT improvement from 33 MEUR in 2023 is also reflected in both our own (73 MEUR; margin 7.7%) and consensus expectations (66 MEUR; margin 7.7%).

SOTP calculation indicates overvaluation

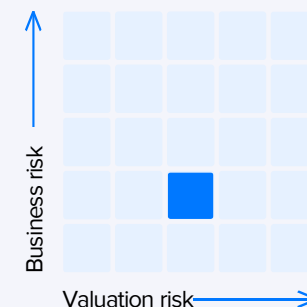
It is still difficult to make an accurate sum-of-the-parts calculation for Cargotec when debt information has not been disclosed. In our EV/EBIT based valuation for both Hiab and MacGregor, we arrive at a current share value of EUR 38-44 for Cargotec, which supports our Sell recommendation. It is clear that in the coming months the value will be strongly influenced by estimates or information on the sale price of MacGregor. We hope that the Q2 report (August 8) will provide more information on the market outlook for the businesses and the impact of the Excellence programs.

Recommendation

Sell
(previous Reduce)

EUR 39.00
(previous EUR 72.00)

Share price:
EUR 47.16



Key figures

	2023	2024e	2025e	2026e
Revenue	2519	2469	2468	2519
growth-%	17%	-2%	0%	2%
EBIT adj.	236.7	251.8	276.2	293.7
EBIT-% adj.	9.4 %	10.2 %	11.2 %	11.7 %
PTP	219.6	244.3	257.6	277.9
Net Income	162.4	177.3	186.5	201.2
EPS (adj.)	2.49	2.77	2.90	3.13
Dividend	n.a.	1.38	1.45	1.56

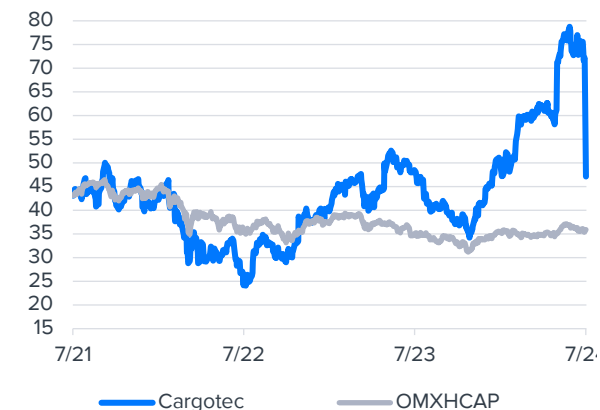
P/E (adj.)	n.a.	17.0	16.3	15.1
P/B	n.a.	3.0	2.7	2.5
Dividend yield-%	n.a.	2.9 %	3.1 %	3.3 %
EV/EBIT (adj.)	n.a.	12.8	11.3	10.4
EV/EBITDA	n.a.	10.4	9.5	8.7
EV/S	n.a.	1.3	1.3	1.2

Source: Inderes

Guidance (Unchanged)

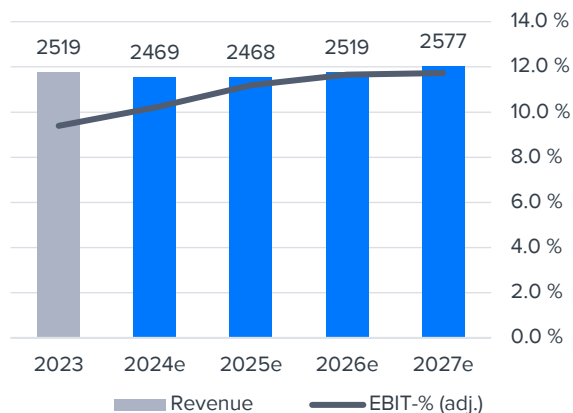
Cargotec expects Hiab's comparable EBIT margin in 2024 to be above 12% and MacGregor's comparable EBIT to improve from 2023 (33 MEUR).

Share price



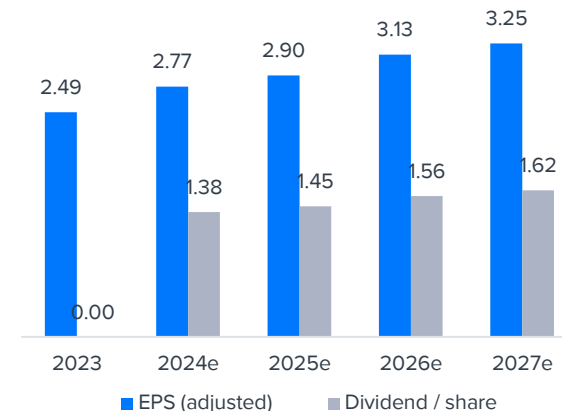
Source: Millstream Market Data AB

Revenue and EBIT-%



Source: Inderes

EPS and dividend



Source: Inderes



Value drivers

- Recovery in construction growth after H1'24
- Growth investments in North America
- Growth in service business
- Increase in MacGregor's value before divestment
- Margin effect of Excellence programs



Risk factors

- Continued slowdown in customers' investment decisions
- Delay in MacGregor divestment and/or price missing expectations
- General cyclicality of equipment demand

Valuation	2024e	2025e	2026e
Share price	47.2	47.2	47.2
Number of shares, millions	64.3	64.3	64.3
Market cap	3034	3034	3034
EV	3224	3133	3040
P/E (adj.)	17.0	16.3	15.1
P/E	17.1	16.3	15.1
P/B	3.0	2.7	2.5
P/S	1.2	1.2	1.2
EV/Sales	1.3	1.3	1.2
EV/EBITDA	10.4	9.5	8.7
EV/EBIT (adj.)	12.8	11.3	10.4
Payout ratio (%)	50.2 %	49.9 %	50.0 %
Dividend yield-%	2.9 %	3.1 %	3.3 %

Source: Inderes

No changes to estimates

Hiab is expected to turn to growth in 2025

Our forecasts for Cargotec in its current form are unchanged. For Hiab's sales, growth expectations are at an all-time low after an all-time high in 2023: our forecast for 2024-2026 is -4.5% p.a., while the consensus is -3.4% p.a.. For 2025-2026, however, a slight growth is expected (Inderes +1.1% p.a.; consensus: +2.2% p.a.). MacGregor's growth expectations are better, driven by both commercial vessel and offshore orders: between 2024 and 2026, we expect revenue growth of +9.5% p.a., while the consensus forecast is +8.6% p.a.

Consensus margin expectations for Hiab are higher than ours

Relatively modest expected volume growth slows Hiab's EBIT margin improvement in our forecasts (2024e: 14.3%; 2025e: 14.0% and 2026e: 14.4%)

when consensus is more optimistic (2024e: 14.7%; 2025e: 15.2% and 2026e: 14.5%). Hiab's 18% target for 2028 is therefore still a long way off. We expect a faster-than-consensus earnings turnaround at MacGregor, and our 2025 EBIT margin forecast is 11.0% (consensus 8.9%). However, we will not be in a position to see this materialize if Cargotec succeeds in divesting MacGregor before the end of 2024 as planned. For the same reason, the projections for the current Cargotec Group for 2025-2026 are not very interesting.

Estimate revisions	2024e		Change	2025e		Change	2026e		Change	
	MEUR / EUR	Old		New	Old		New	Old		New
Revenue		2469	2469	0%	2468	2468	0%	2519	2519	0%
EBITDA		311	311	0%	330	330	0%	348	348	0%
EBIT (exc. NRIs)		252	252	0%	276	276	0%	294	294	0%
EBIT		250	250	0%	276	276	0%	294	294	0%
PTP		244	244	0%	258	258	0%	278	278	0%
EPS (excl. NRIs)		2.77	2.77	0%	2.90	2.90	0%	3.13	3.13	0%
DPS		1.39	1.39	0%	1.45	1.45	0%	1.56	1.56	0%

Source: Inderes

Sum-of-the-parts valuation supports Sell recommendation

Valuation toolkit has now become narrow

Looking at the value of Cargotec in its current form does not make sense neither from the point of view of risk-adjusted returns, nor from the point of view of peer group pricing, nor from the point of view of the DCF model. This is of course due to the planned divestment of MacGregor before the end of 2024. The sum-of-the-parts analysis also lacks input data, especially regarding Cargotec and the debt position of its parts.

SOTP valuation indicates overvaluation

Our sum-of-the-parts analysis is based on the median EV/EBIT multiple of the Hiab peer group for 2024 (10x), around which we have chosen lower and upper bound multiples (9x and 11x) that represent a realistic price range. There is no comparable meaningful peer group for MacGregor and due to the higher business

risk profile, we have chosen slightly lower relevant valuation multiples for MacGregor (8x and 10x). We have allocated Cargotec's assumed net interest-bearing debt as of March 31, 2024 ("old" Cargotec's net debt of 57 MEUR ./ 145 MEUR in net liabilities to Kalmar) between Hiab and MacGregor in proportion to their capital employed. In the calculation, both Hiab and MacGregor are slightly net cash positive. The results of the calculation are shown in the table below.

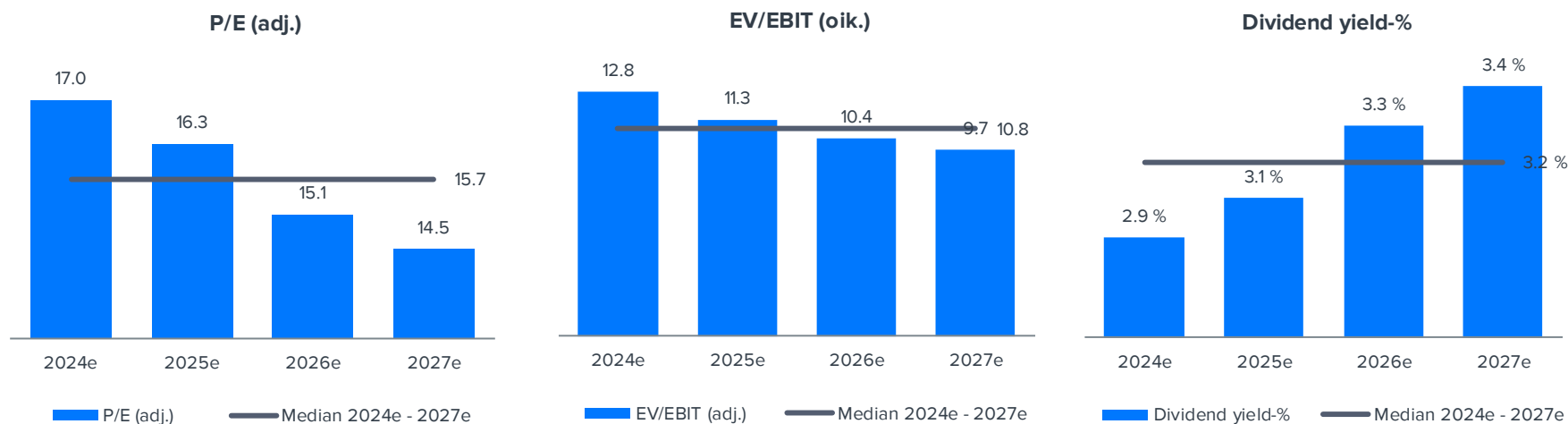
Based on our rather rough calculation, the value of a Cargotec share in its current form is between EUR 36-44. Compared to Monday's closing price, the downside is therefore -7 to -24%, which indicates that the share is overvalued. The same calculation suggests that the value of MacGregor's equity in a future sale should be at least 500-600 MEUR.

MEUR	Hiab		MacGregor		Total	
	Lower	Upper	Lower	Upper	Lower	Upper
Adj. EBIT 2024e	195	195	59	59	254	254
EV/EBIT 2024e, lower/upper	9.0x	11.0x	8.0x	10.0x	8.8x	10.8x
EV 2024e	1,759	2,149	469	587	2,229	2,736
./ Net liabilities	53	53	35	35	88	88
Equity value	1,813	2,202	504	621	2,317	2,824
- per share, EUR	28.2	34.2	7.8	9.7	36.0	43.9
Cargotec's present value					3,034	3,034
- per share, EUR					47.2	47.2
Discount (-) / premium (+)					+31%	+7%

Valuation table

Valuation	2024e	2025e	2026e	2027e
Share price	47.2	47.2	47.2	47.2
Number of shares, millions	64.3	64.3	64.3	64.3
Market cap	3034	3034	3034	3034
EV	3224	3133	3040	2946
P/E (adj.)	17.0	16.3	15.1	14.5
P/E	17.1	16.3	15.1	14.5
P/B	3.0	2.7	2.5	2.3
P/S	1.2	1.2	1.2	1.2
EV/Sales	1.3	1.3	1.2	1.1
EV/EBITDA	10.4	9.5	8.7	8.2
EV/EBIT (adj.)	12.8	11.3	10.4	9.7
Payout ratio (%)	50.2 %	49.9 %	50.0 %	50.0 %
Dividend yield-%	2.9 %	3.1 %	3.3 %	3.4 %

Source: Inderes



Peer group valuation

Peer group valuation	Market cap	EV	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%		P/B
Company	MEUR	MEUR	2024e	2025e	2024e	2025e	2024e	2025e	2024e	2025e	2024e	2025e	2024e
Konecranes Abp	4195	4525	9.8	9.1	8.0	7.5	1.1	1.1	13.5	12.4	2.9	3.2	2.4
Metso Corp	8194	9010	11.0	10.2	9.3	8.7	1.7	1.6	14.7	13.1	3.8	4.1	2.9
Manitou BF	825	1242	6.4	6.1	4.7	4.5	0.4	0.4	6.0	6.1	6.3	6.6	0.8
Palfinger AG	835	1567	9.9	8.5	6.3	5.6	0.7	0.7	10.4	8.1	3.8	4.3	1.1
Wacker Neuson SE	1084	1556	7.6	6.4	4.8	4.2	0.6	0.6	8.0	6.6	5.8	6.7	0.7
Terex Corp	3444	3779	5.9	6.1	5.4	5.5	0.8	0.8	7.7	7.7	1.3	1.3	1.8
Deere & Co	96067	152223	18.5	18.8	16.1	16.8	3.6	3.6	14.7	14.8	1.5	1.6	4.8
Caterpillar Inc	151995	182695	14.2	13.8	12.5	12.3	3.0	2.9	15.4	14.7	1.6	1.8	8.0
Hyundai Construction Equipment Co Ltd	734	1023	6.3	5.7	5.1	4.5	0.4	0.4	6.5	5.8	2.4	2.7	0.6
Kongsberg	13412	13210	24.0	22.7	20.6	18.2	3.3	2.9	29.5	28.6	2.0	2.2	8.4
Nov Inc.	7016	8561	10.9	9.0	7.9	6.8	1.0	1.0	12.3	10.2	1.4	1.6	1.1
Cargotec (Inderes)	3034	3224	12.8	11.3	10.4	9.5	1.3	1.3	17.0	16.3	2.9	3.1	3.0
Average			11.3	10.6	9.2	8.6	1.5	1.4	12.6	11.6	3.0	3.3	3.0
Median			9.9	9.0	7.9	6.8	1.0	1.0	12.3	10.2	2.4	2.7	1.8
Diff-% to median			29%	26%	32%	40%	29%	34%	39%	59%	25%	16%	67%

Source: Refinitiv / Inderes

Income statement

Income statement	2023	Q1'24	Q2'24e	Q3'24e	Q4'24e	2024e	2025e	2026e	2027e
Revenue	2519	617	631	589	631	2469	2468	2519	2577
MacGregor	733	203	241	229	273	946	943	963	1005
Hiab	1787	415	390	359	359	1523	1525	1556	1572
Group	0.0	-0.7	0.0	0.0	0.0	-0.7	0.0	0.0	0.0
EBITDA	294	87.2	77.8	67.4	78.9	311	330	348	359
Depreciation	-57.8	-17.5	-14.5	-14.5	-14.5	-61.0	-53.8	-54.7	-56.4
EBIT (excl. NRI)	237	71.2	63.3	52.9	64.4	252	276	294	302
EBIT	236	69.7	63.3	52.9	64.4	250	276	294	302
MacGregor	31.8	10.7	16.5	16.3	28.0	71.5	104	112	115
Hiab	252	68.7	56.5	46.3	46.1	218	214	224	231
Group	-47.9	-9.7	-9.7	-9.7	-9.7	-38.8	-41.0	-42.5	-44.0
Net financial items	-16.4	-1.5	-1.5	-1.5	-1.5	-6.0	-18.6	-15.8	-13.5
PTP	220	68.2	61.8	51.4	62.9	244	258	278	289
Taxes	-57.2	-21.2	-16.1	-13.4	-16.4	-67.0	-70.6	-76.2	-79.2
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0	-0.5	-0.5	-0.5
Net earnings	162	47.0	45.7	38.1	46.6	177	186	201	209
EPS (adj.)	2.52	0.75	0.71	0.59	0.72	2.77	2.90	3.13	3.25
EPS (rep.)	2.51	0.73	0.71	0.59	0.72	2.76	2.90	3.13	3.25

Key figures	2023	Q1'24	Q2'24e	Q3'24e	Q4'24e	2024e	2025e	2026e	2027e
Revenue growth-%	17.4 %	4.8 %	-2.6 %	-1.6 %	-7.7 %	-2.0 %	0.0 %	2.1 %	2.3 %
Adjusted EBIT growth-%	35.9 %	43.3 %	-21.5 %	-13.1 %	41.6 %	6.4 %	9.7 %	6.3 %	3.0 %
EBITDA-%	11.7 %	14.1 %	12.3 %	11.5 %	12.5 %	12.6 %	13.4 %	13.8 %	13.9 %
Adjusted EBIT-%	9.4 %	11.5 %	10.0 %	9.0 %	10.2 %	10.2 %	11.2 %	11.7 %	11.7 %
Net earnings-%	6.4 %	7.6 %	7.2 %	6.5 %	7.4 %	7.2 %	7.6 %	8.0 %	8.1 %

Source: Inderes

Balance sheet

Assets	2023	2024e	2025e	2026e
Non-current assets	908	913	913	916
Goodwill	618	618	618	618
Intangible assets	19.6	19.2	19.2	19.6
Tangible assets	172	173	172	175
Associated companies	27.8	28.8	28.8	28.8
Other investments	0.0	0.0	0.0	0.0
Other non-current assets	3.3	3.7	3.7	3.7
Deferred tax assets	67.8	70.7	70.7	70.7
Current assets	1541	1397	1397	1472
Inventories	573	580	580	592
Other current assets	50.3	14.8	14.8	14.8
Receivables	605	555	555	567
Cash and equivalents	312	247	247	299
Balance sheet total	2530	2380	2386	2471

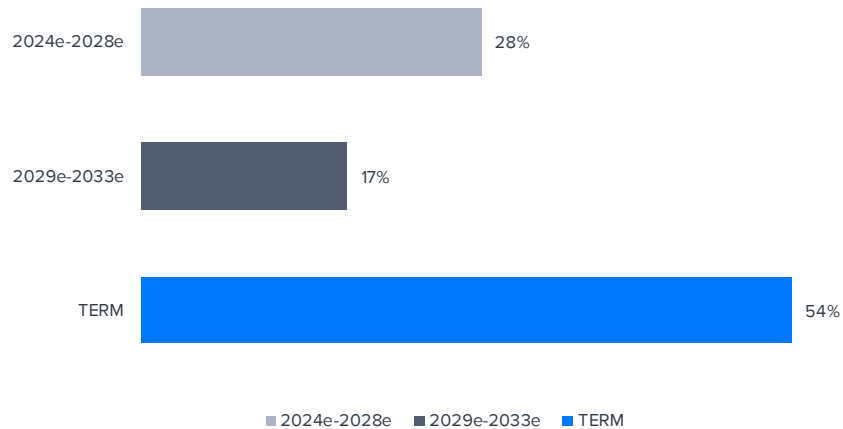
Source: Inderes

Liabilities & equity	2023	2024e	2025e	2026e
Equity	936	1008	1106	1214
Share capital	44.3	44.3	44.3	44.3
Retained earnings	815	888	985	1093
Hybrid bonds	0.0	0.0	0.0	0.0
Revaluation reserve	0.0	0.0	0.0	0.0
Other equity	74.4	74.4	74.4	74.4
Minorities	1.5	1.7	1.7	1.7
Non-current liabilities	669	424	356	325
Deferred tax liabilities	12.0	13.0	13.0	13.0
Provisions	2.4	2.2	2.2	2.2
Interest bearing debt	594	349	281	250
Convertibles	0.0	0.0	0.0	0.0
Other long term liabilities	60.2	60.2	60.2	60.2
Current liabilities	926	947	924	932
Interest bearing debt	17.9	83.0	60.3	50.0
Payables	908	864	864	882
Other current liabilities	0.0	0.0	0.0	0.0
Balance sheet total	2530	2380	2386	2471

DCF calculation

DCF model	2023	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	TERM
Revenue growth-%	17.4 %	-2.0 %	0.0 %	2.1 %	2.3 %	2.4 %	2.6 %	2.7 %	2.8 %	2.8 %	2.5 %	2.5 %
EBIT-%	9.4 %	10.1 %	11.2 %	11.7 %	11.7 %	11.2 %	10.7 %	10.2 %	9.7 %	9.3 %	9.3 %	9.3 %
EBIT (operating profit)	236	250	276	294	302	297	291	285	279	272	279	
+ Depreciation	57.8	61.0	53.8	54.7	56.4	58.0	59.6	61.1	62.7	64.3	65.8	
- Paid taxes	-15.0	-68.9	-70.6	-76.2	-79.2	-78.2	-77.0	-75.7	-74.2	-72.4	-74.4	
- Tax, financial expenses	-7.3	-3.0	-6.5	-5.9	-5.7	-5.7	-5.7	-5.7	-5.7	-5.7	-5.7	
+ Tax, financial income	3.1	1.4	1.4	1.6	2.0	2.5	2.9	3.2	3.4	3.5	3.7	
- Change in working capital	135	33.8	0.0	-5.6	-6.4	-6.9	-7.5	-8.2	-8.6	-8.8	-7.9	
Operating cash flow	409	275	254	262	270	266	263	260	257	253	260	
+ Change in other long-term liabilities	-100.8	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	498	-49.7	-60.5	-64.3	-65.5	-66.6	-67.9	-69.3	-70.6	-71.8	-73.2	
Free operating cash flow	806	225	194	198	204	200	195	191	186	181	187	
+/- Other	186	34.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	992	259	194	198	204	200	195	191	186	181	187	3488
Discounted FCFF		249	173	164	156	142	128	116	105	94.6	90.5	1688
Sum of FCFF present value		3106	2856	2684	2520	2364	2222	2094	1978	1873	1778	1688
Enterprise value DCF		3106										
- Interest bearing debt		-612.1										
+ Cash and cash equivalents		312										
-Minorities		-5.1										
-Dividend/capital return		-139.0										
Equity value DCF		2662										
Equity value DCF per share		41.4										

Cash flow distribution



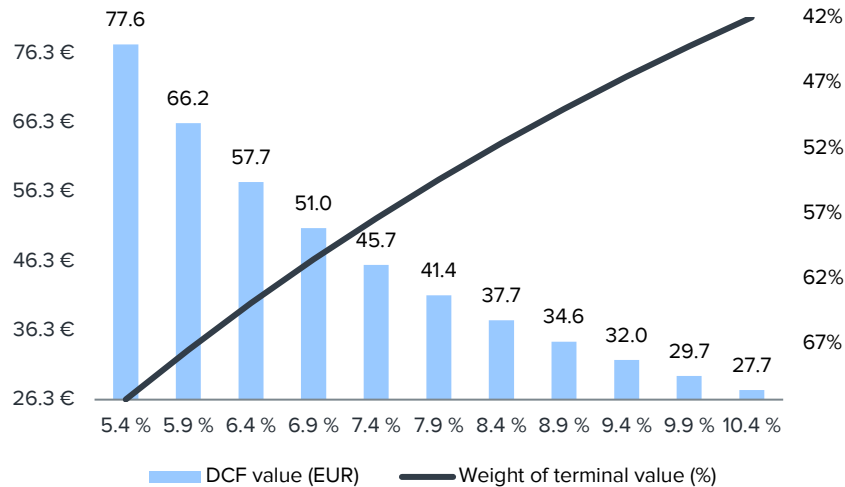
WACC

Tax-% (WACC)	28.0 %
Target debt ratio (D/(D+E))	20.0 %
Cost of debt	3.0 %
Equity Beta	1.45
Market risk premium	4.75%
Liquidity premium	0.00%
Risk free interest rate	2.5 %
Cost of equity	9.4 %
Weighted average cost of capital (WACC)	7.9 %

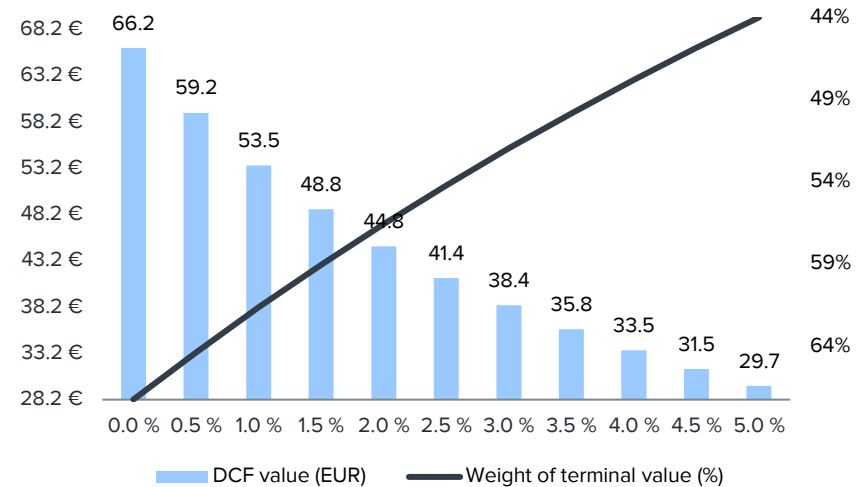
Source: Inderes

DCF sensitivity calculations and key assumptions in graphs

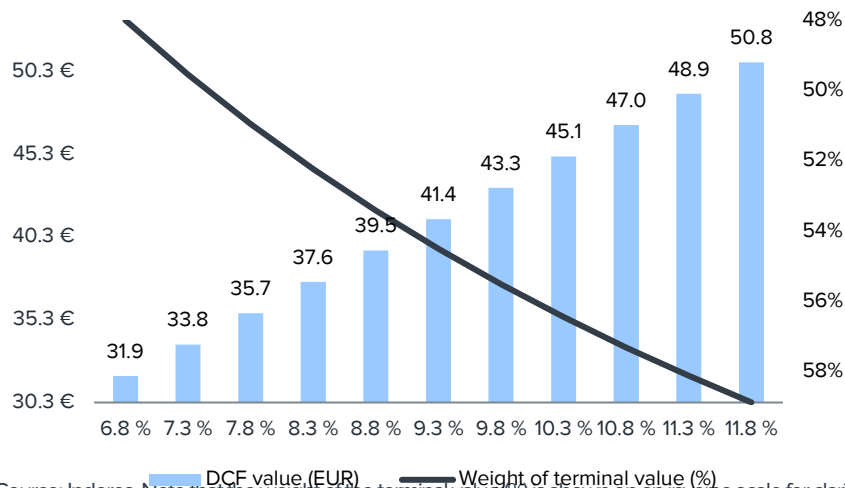
Sensitivity of DCF to changes in the WACC-%



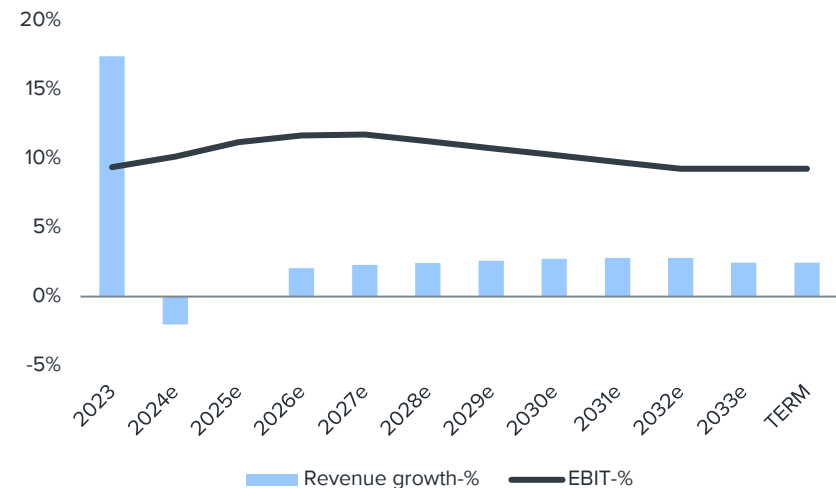
Sensitivity of DCF to changes in the risk-free rate



Sensitivity of DCF to changes in the terminal EBIT margin



Growth and profitability assumptions in the DCF calculation



Source: Inderes. Note that the weight of the terminal value (%) is shown on an inverse scale for clarity.

Summary

Income statement	2023	2024e	2025e	Per share data	2023	2024e	2025e
Revenue	2519	2469	2468	EPS (reported)	2.51	2.76	2.90
EBITDA	294	311	330	EPS (adj.)	2.52	2.77	2.90
EBIT	236	250	276	OCF / share	6.33	4.27	3.95
PTP	220	244	258	FCF / share	15.34	4.02	3.01
Net Income	349	212	186	Book value / share	14.44	15.65	17.16
Extraordinary items	-1	-2	0	Dividend / share	2.15	1.39	1.45
Balance sheet	2023	2024e	2025e	Growth and profitability	2023	2024e	2025e
Balance sheet total	2530	2380	2386	Revenue growth-%	17%	-2%	0%
Equity capital	936	1008	1106	EBITDA growth-%	75%	6%	6%
Goodwill	618	618	618	EBIT (adj.) growth-%	36%	6%	10%
Net debt	300	185	94	EPS (adj.) growth-%	-5643%	11%	5%
Cash flow	2023	2024e	2025e	EBITDA-%	11.7 %	12.6 %	13.4 %
EBITDA	294	311	330	EBIT (adj.)-%	9.4 %	10.2 %	11.2 %
Change in working capital	135	34	0	EBIT-%	9.4 %	10.1 %	11.2 %
Operating cash flow	409	275	254	ROE-%	13.2 %	18.3 %	17.7 %
CAPEX	498	-50	-60	ROI-%	12.7 %	17.1 %	19.5 %
Free cash flow	992	259	194	Equity ratio	43.4 %	50.1 %	54.8 %
				Gearing	32.0 %	18.3 %	8.5 %

Source: Inderes

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Accumulate	The 12-month risk-adjusted expected shareholder return of the share is attractive
Reduce	The 12-month risk-adjusted expected shareholder return of the share is weak
Sell	The 12-month risk-adjusted expected shareholder return of the share is very weak

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Recommendation history (>12 mo)

Date	Recommendation	Target	Share price
4/18/2019	Sell	31.50 €	36.72 €
4/26/2019	Sell	33.00 €	38.46 €
5/14/2019	Reduce	33.00 €	32.12 €
7/19/2019	Reduce	30.00 €	28.28 €
10/23/2019	Reduce	31.00 €	29.60 €
2/10/2020	Accumulate	35.00 €	32.54 €
3/19/2020	Accumulate	19.00 €	16.78 €
4/24/2020	Accumulate	18.00 €	17.09 €
6/3/2020	Accumulate	23.00 €	20.74 €
7/20/2020	Accumulate	27.50 €	25.52 €
9/16/2020	Accumulate	31.00 €	27.94 €
10/2/2020	Reduce	36.00 €	35.74 €
10/23/2020	Reduce	33.00 €	31.78 €
2/5/2021	Reduce	39.00 €	41.90 €
3/29/2021	Reduce	41.00 €	44.80 €
4/26/2021	Accumulate	53.00 €	48.54 €
4/29/2021	Accumulate	55.00 €	50.20 €
7/29/2021	Accumulate	55.00 €	45.10 €
11/1/2021	Buy	55.00 €	44.84 €
1/11/2022	Buy	54.00 €	44.70 €
2/4/2022	Accumulate	44.00 €	40.36 €
4/5/2022	Accumulate	38.00 €	34.06 €
5/1/2022	Accumulate	38.00 €	33.18 €
7/21/2022	Accumulate	38.00 €	30.30 €
10/27/2022	Reduce	41.00 €	40.14 €
2/3/2023	Accumulate	50.00 €	44.96 €
4/28/2023	Accumulate	58.00 €	51.85 €
7/21/2023	Accumulate	54.00 €	45.50 €
10/27/2023	Buy	49.00 €	35.56 €
12/19/2023	Accumulate	57.00 €	51.10 €
2/1/2024	Accumulate	62.00 €	55.55 €
5/2/2024	Reduce	72.00 €	74.00 €
7/1/2024	Sell	39.00 €	47.16 €



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