

Schindler (SHP)

Good second quarter, but cautious outlook and surprising restructuring measures

Rating: Market Perform

Sector: Industrial Machinery

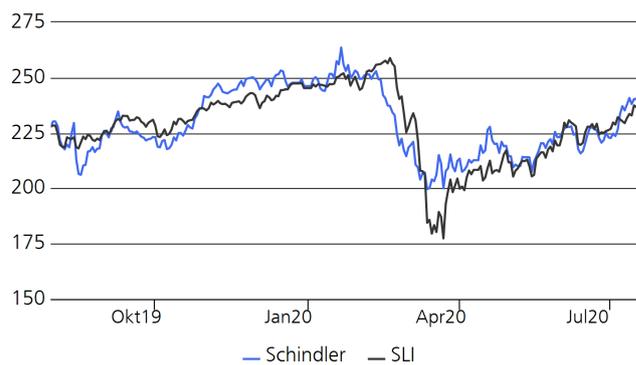
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In CHF	2019	2020E	2021E
EPS	8.04	6.38	7.94
P/E	30.1x	37.9x	30.5x
P/B	6.9x	6.4x	5.8x
Dividend	4.00	3.85	4.05

Source: Zürcher Kantonalbank

Sec. no.: PC: 2 463 819

Price: CHF 242,00



Sources: Zürcher Kantonalbank, Refinitiv

(in CHF mn)	2Q19	2Q20	ZKB E	Consensus*	Remarks / *consensus: Vara Research, n=18
Order intake	3,122	2,635	2,585	2,595	Order intake is 1.5% above the consensus forecast , falling by 9.9% in LC.
- Change yoy	2.5%	-15.6%	-17.2%	-16.9%	The order level was maintained in Europe, but declined in America and Asia Pacific. However, China, the largest elevator market, recorded a steady level of incoming orders.
Sales	2,849	2,512	2,392	2,375	Sales were 5.7% above the consensus forecast . In LC, they fell by 5.8%. Sales declined in all regions, but China posted growth.
- Change yoy	2.4%	-11.8%	-16.0%	-16.6%	
Adj. EBIT	334	286	230	220	Adjusted EBIT is 36% higher than the consensus forecast . Although the EBIT margin dropped slightly from 11.7% to 11.4%, The decline is due to lower sales, temporary plant closures and idle construction sites.
- Margin	11.7%	11.4%	9.6%	9.3%	
EBIT	322	255	194	193	The reported EBIT is also around one third above expectations. Restructuring costs and expenses for the start-up Building Minds had a negative impact of CHF 31 mn (ZKB E: CHF 36 mn).
- Margin	11.3%	10.2%	8.1%	8.1%	
Financial result	-17	-9	-20		The financial result is stronger than expected.
Pre-tax profit	305	246	174		
Taxes	-66	-58	-39		The tax rate climbed from 21.6% to 23.6%.
Tax rate	21.6%	23.6%	22.4%		
Group profit	239	188	135	141	Group profit is 33% above consensus.
- Change yoy	-22.4%	-21.3%	-43.5%	-41.1%	

Source: Zürcher Kantonalbank

Outlook: The recession caused by Covid-19 will have a negative impact on the market for elevators and escalators. Schindler's forecast for 2020 now calls for a decline in sales in LC of 0% to 6% (previously: decrease of 0% to 10%). Taking into account restructuring costs of CHF 130 mn (ZKB E to date: CHF 100 mn), Schindler estimates group profit at CHF 680 to 720 mn. We had previously assumed a figure of CHF 743 mn.

Schindler expects a further weakening of the markets for new installations and modernisations and does **not expect a recovery to the 2019 level until 2022**. The further appreciation of the CHF continues to have a negative impact on the results. According to CEO Oetterli, conditions have continued to deteriorate in recent months, **and a cost optimisation programme is therefore being launched, under which approximately 2,000 jobs (3% of total) will be cut worldwide. Restructuring costs of up to CHF 150 mn will be incurred over the next 2 years.**

Conclusion: The company reported Q2 results that were much better than expected. However, this had become somewhat apparent due to the good results reported by rival Kone (last Friday). Kone recorded

an organic decline in sales in 2Q20 and a decline of -0.1% in LC. The adjusted EBIT margin came in at 12.8% (+20 bp). Schindler recorded a somewhat more restrained performance compared to Kone.

We see a need for downward adjustment, especially for our 2021 estimates.

However, we are surprised by the cautious assessment of future developments, which necessitates restructuring measures. Schindler seems to be affected by the difficult environment for a longer period of time as it is later in the cycle.

There will be a conference call at 10 a.m:
www.schindler.com/Com/Internet/en/investor-relations/conference-call-details.html

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14.08.2019 From Outperform (229.5 CHF) to Market Perform

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