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# Mercedes-Benz Group

## Conference Call Highlights

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**Sales/Mix/Pricing.** Prudent 2024 outlook (-2.0%/+2.0% for MBC & -7.5%/-2.0% for MBV) as: (1) 48-volt supply constraints will persist in 1H24 (especially in 1Q24); and (2) the current macro environment flags for a heterogeneous pattern (MB expects slight negative sales in overseas, flat sales in China and Europe, as well as slight positive sales in the US). Mix is expected to remain flat with a similar penetration of xEV in 2024 compared to 2023 (19%-21%). The company is preparing the launch of its new BEV platforms starting with the CLA in 2025. On pricing, its strategy keeps focus on "value over volume" and maintain a flat ASP in 2024 (ASP was €74.2/car in 2023; +2.0% YoY). Management stressed that they do not want to buy market share by reducing prices, market share gains should rather come from product demand.

**EBIT Margin.** In our view, the 10%-12% EBIT margin for MBC assumes a sequential acceleration throughout the year with 1Q24 at the bottom of the range (4Q23 margin of 9.8% should be taken as a proxy for FY24, according MB). Management identifies: (1) tailwinds from raw materials, as well as (2) headwinds from supply chain related costs, FX and a lower contribution of its Chinese JV. This together with flat volumes/mix/price compared to 2023.

**Entry segment strategy.** Three levers were pointed out by the company: (1) portfolio optimization reducing models from seven to four (MB wants to be in the segment, but do not want to lead it in terms of market share); (2) higher refinement of the products; and (3) increasing significantly the technological component. In our view, this is a key pillar to make its current ASP structurally sustainable.

**Strategic targets.** While the company is on track to reduce fixed costs by 20% in 2025 vs 2019 (-16% in 2023 even despite the current inflationary environment), investment reductions (capex + R&D) of 20% in 2025 vs 2019 has been postponed to the second half of the decade. This delay reflects a slower-than-expected BEV adoption and probably higher than expected investments in the platforms and software, in our view. However, we believe the SBB policy announced means the company is quite comfortable with its current capital allocation strategy.

**Sales and brand strategy.** Increasing its brand value by: (1) training staff at dealerships; (2) dedicated dealerships for Maybach and AMG products; and (3) dealership renewal (1/3 worldwide already done).

## Outperform

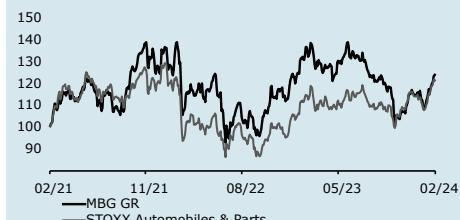
Price €68.07 (02/21/24 closing price)

Target Price €98.00

### Quick view on Mercedes-Benz's results.

The stock is up today c3%. MB presented good 4Q23 results that came in slightly ahead of VA consensus. Although 2024 outlook flags for a deceleration vs 2023 and a 2H24 stronger than 1H24 also came in quiet aligned with VA consensus. The major surprise was its improved shareholder remuneration policy (SBB) that we believe could set an industry's benchmark and also launches a strong message to the market that it feels quite comfortable with its current capital allocation strategy and balance sheet levels.

### Relative Performance (€)



Source: FactSet.

### Company Data, February 21, 2024 (closing price)

	MBG GR	(€ mn)	2021A	2022A	2023E	2024E
Bloomberg code	€68.07					
Current Price	€98.00					
Target Price (YE 2023)	(11.06)%					
Price Perf Last 12 Mth (Absolute)	55.08 - 76.10					
52 Week Range (€)	72,821					
Market Cap (€ mn)	78.4					
Free Float (%)	146					
3-Mth Avg daily vol (€ mn)	1,070					
(€)	2021A	2022A	2023E	2024E		
Adj EPS	9.96	12.79	10.75	10.97		
BVPS	67.26	73.71	78.34	83.85		
DPS	5.00	5.10	4.30	4.40		
Revenues	133,893	146,935	151,527	157,502		
EBITDA	30,379	34,686	32,865	33,813		
EBIT	16,028	19,699	17,106	17,433		
Net Profit	23,006	13,683	11,496	11,741		
FCFE	10,835	8,688	8,748	8,641		
Net Debt	95,144	89,771	86,475	82,439		
P/E (x)	2.9	4.8	6.3	6.2		
EV/EBITDA (x)	1.2	0.9	1.0	0.9		
FCFE Yield (%)	16.2	13.2	12.0	11.9		
Div Yield (%)	8.0	8.3	6.3	6.5		
Net Debt/EBITDA (x)	3.1	2.6	2.6	2.4		

Sources: FactSet, Company Data and Santander estimates.

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## 4Q23 Results Review

Mercedes-Benz reported 4Q23 revenues of €40.3bn (-1.8% YoY), EBIT of €4.3bn (-20.1% YoY; mg 10.7%) and attributable net profit of €3.1bn (-21.7% YoY). Revenues beat VA consensus by 2.6% (+1.8% vs SANe), EBIT beat consensus by 5.6% (+2.4% vs SANe), and net attributable profit beat consensus by 20.6% (+5.3% vs SANe). **We expect a positive reaction from the stock today on the back of an outlook in line with market expectations and improved shareholder remuneration policy.**

- **Mercedes-Benz Cars.** EBIT at €2,912mn (-31.4% YoY; mg of 9.8%). Compared to 4Q22, the division had tailwinds from FX of €87mn. Conversely, results were negatively affected by: (1) €-284mn of negative volume/mix/pricing (vols fell -4.1% due to constraints in 48V engine supply // mix: top-end vehicles -14.6%/core +4.1%/entry -11.2%); (2) €-549mn of higher inflation and supply chain-related costs; (3) €-5mn of higher investments in future technologies and vehicles; (4) €-312mn of others mainly related to a lower contribution of its Chinese JV; (5) €-55mn of higher SG&A expenses; and (6) €-58mn of negative special items due to legal proceedings.
- **Mercedes-Benz Vans.** EBIT was €855mn (+27.6% YoY; mg of 15.6%). Tailwinds from: (1) volume/mix/pricing of €600mn (vols increased +1.3%); (2) €94mn of positive FX; (3) €65mn of other items; and (4) €46mn of positive special items due to legal proceedings. However, this was negatively affected by: (1) €-549mn of higher inflation and supply chain related costs; (2) €-7mn of higher SG&A expenses; and (3) €-59mn of higher R&D expenditure.
- **Mercedes-Benz Mobility.** EBIT at €228mn (-53.8% YoY; 3.3% mg). Negative contributions from: (1) cost of credit risk of €-31mn; (2) FX (€-12mn); (3) volumes and margins affected by higher interest rates (€-235mn); and (4) special items (€-117mn) related to M&A transactions. Positive contributions from: (1) SG&A expenses (€40mn); and (2) others (€89mn). New contracts rose 10.5% YoY in 4Q23 to €16.7bn and contracted volumes closed 4Q23 at €135.0bn (+2.0% YoY).
- **4Q23 industrial FCF generation was €3.4bn (€2.5bn in 4Q22).** In 4Q23, R&D expenditure was €2.6bn (vs €2.1bn in 4Q22; +24.4% YoY) and the investment in capex was €2.6bn (vs €2.2bn in 4Q22; +20.0% YoY). R&D on sales was 6.4% (+130bp YoY) and capex on sales was 6.5% (+120bp YoY). WC recorded an inflow of €0.6bn in 4Q23 compared to €-0.6bn in 4Q22.
- **Net industrial liquidity increased €3.2bn QoQ to €31.7bn.** It reflects €3.4bn of automotive FCF, €-0.5bn of FX and €-0.8bn of the share buy-back.
- **Improved shareholder remuneration.** Management will propose: (1) a dividend of €5.30/sh (+€0.10/sh) implying a pay-out ratio of c40% and a dividend yield of 7.8%; and (2) new share buyback proposal of €3.0bn to be executed once the current is done (current share buyback €4.0bn is expected to be finished in 3Q24). Furthermore, management will propose at the AGM the implementation of share buyback policy funded with the excess of FCF generated by the industrial business (after the 40% dividend pay-out ratio and potential small-scale M&A).
- **Outlook 2024 in line with market expectations.** (1) Unit sales: -2.0%/+2.0% for cars (vs 3.0% VA consensus)/ -7.5%/-2.0% for vans (vs +1.1% VA consensus). (2) Revenues -2.0%/+2.0% (vs -0.8% VA consensus). (3) EBIT -15.0%/-5.0% (vs -12.8% VA consensus) with margins of 10-12% at MBC (vs 11.1% VA consensus) and 12%-14% at MBV (vs 13.1% VA consensus). (4) Capex investments >10.0% YoY both at MBC and MBV. (5) R&D investments >10.0% at MBV and -2.5%/+2.5% at MBC. (6) FCF of the industrial business -10%/-25% (vs -31.2% VA consensus).

**Figure 1 - MBG – 4Q23 P&L Figures Review**

	4Q22	4Q23	YoY (%)	4Q23 SANe	Dev	4Q23 Cons.	Dev
Mercedes-Benz Cars	30,557	29,569	-3.2%	28,738	2.9%	28,308	4.5%
Mercedes-Benz Vans	5,114	5,611	9.7%	5,525	1.5%	5,541	1.3%
Mercedes-Benz Mobility	6,858	7,012	2.2%	6,853	2.3%	6,663	5.2%
Eliminations	-1,526	-1,931	26.5%	-1,562	23.6%	-1,603	20.5%
Revenues	41,003	40,261	-1.8%	39,554	1.8%	39,253	2.6%
Mercedes-Benz Cars	4,243	2,912	-31.4%	3,017	-3.5%	2,951	-1.3%
Mercedes-Benz Vans	670	855	27.6%	785	9.0%	765	11.8%
Mercedes-Benz Mobility	494	228	-53.8%	363	-37.2%	324	-29.7%
Eliminations	4	331	8175.0%	60	451.7%	69	383.2%
EBIT Reported	5,411	4,326	-20.1%	4,225	2.4%	4,095	5.6%
mg %	13.2%	10.7%	-250 bp	10.7%	+10 bp	10.4%	+30 bp
Net Income	3,981	3,117	-21.7%	2,961	5.3%	2,585	20.6%

Source: Company data, Visible Alpha and Santander estimates.

**Figure 2 - MBG – FY23 P&L Figures Review**

	FY22	FY23	YoY (%)	FY23E SANe	Dev	FY23 Cons.	Dev
Mercedes-Benz Cars	111,601	112,756	1.0%	111,925	0.7%	111,495	1.1%
Mercedes-Benz Vans	17,217	20,288	17.8%	20,202	0.4%	20,218	0.3%
Mercedes-Benz Mobility	26,954	26,718	-0.9%	26,559	0.6%	26,369	1.3%
Eliminations	-5,755	-6,544	13.7%	-6,175	6.0%	-6,216	5.3%
Revenues	150,017	153,218	2.1%	152,511	0.5%	152,210	0.7%
Mercedes-Benz Cars	16,340	14,224	-12.9%	14,329	-0.7%	14,263	-0.3%
Mercedes-Benz Vans	1,897	3,138	65.4%	3,068	2.3%	3,048	2.9%
Mercedes-Benz Mobility	2,428	1,302	-46.4%	1,437	-9.4%	1,398	-6.9%
Eliminations	-207	996	-581.2%	725	37.4%	734	35.8%
EBIT Reported	20,458	19,660	-3.9%	19,559	0.5%	19,429	1.2%
mg %	13.6%	12.8%	-80 bp	12.8%	+0 bp	12.8%	+10 bp
Net Income	14,501	14,261	-1.7%	14,105	1.1%	13,729	3.9%

Source: Company data, Visible Alpha and Santander estimates.

## Mercedes-Benz Group - Three-Year Stock Performance (€)



Sources: FactSet and Santander. \*Note that our rating terminology changed on December 15th 2021. Prior to that, our current Outperform (O) was Buy (B); Neutral (N) was Hold (H); Underperform (U) was Underweight (UW)

## Valuation & Risks

**Valuation Methodology:** We value Mercedes-Benz Group using a sum-of-the-parts valuation of its different businesses. We value the industrial business using a DCF model, while we value Financial Services at 1.0x book value. The main parameters of our DCF model are: (1) rolling WACC of ~7.8% for the 2023E-30E period; and (2) mid-cycle terminal value applying a 2% terminal growth and 7.5% EBIT mg.

**Main Risks:** (1) Structural industry changes related to electric cars, autonomous driving and environmental regulations introduce risks on cash flow visibility, (2) Mercedes-Benz Group's international footprint exposes the company to economic cycles and conflicts; (3) rise in commodity prices; and (4) ongoing governmental proceedings and vehicles recall in different markets could pose risks to the company's future financial performance.

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		Covered with This Rating	Provided with Investment Banking Services in the Past 12 Months
Outperform	Total return 10% above benchmark. Upside of > 15%.	60.24%	53.00%
Neutral	Total return 0%-10% above benchmark. Upside of approximately 5%-15%.	26.51%	34.09%
Underperform	Total return below benchmark. Upside of < 5%.	11.45%	21.05%
Under Review		1.81%	0.00%

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## First Read

# Mercedes-Benz Group AG

## Share buyback outshines mixed 2024 guidance

### Q: How did the results compare vs expectations?

A: 7% beat/miss on adj. EBIT driven by Vans division. Cars adj. EBIT margin at 10.0% slightly below consensus (price down q/q, mix up q/q, ~€1bn negative impact from supplier negotiations as expected). Higher-than-usual €675m net positive impact from R&D capitalization driven by upcoming new launches. €5.30 DPS in line (7.8% DY). €11.3bn FCF beat was already pre-announced.

### Q: What were the most noteworthy areas in the results?

A: New share buyback announcement is large: Up to €3bn (on top of the ongoing €4bn programme, €2.1bn if which are executed) until July 2025. This leaves up to €4.9bn to be executed in the next ~16 months. After that, all future industrial FCF exceeding the ~40% dividend target payout ratio will be used to buy back shares. With that, MBG has in our view the clearest and most attractive cash return programme in the industry, yielding well above >10% p.a.

### Q: Has the company's outlook/guidance changed?

A: MBG guides 2024 flat volumes and revenues y/y, 10-12% Cars EBIT margin (buy-side view was split between 10-12% and 11-13%, ie, small negative) and 12-14% Vans EBIT margin (in line). Negative y/y items in Cars margin guide are residual values, FX and lower China JV contribution. Group EBIT is seen "slightly" below y/y, ie, €16.7-18.7bn (VA cons. €15.3bn). Capex is guided up significantly y/y and R&D flat y/y, resulting in FCF "slightly" below y/y, ie, €8.5-10.1bn (cons. €8.0bn). Q1/24 is guided at the low end of the Cars margin corridor due to lower volume q/q.

### Q: How would we expect investors to react?

A: Neutral on Q4 results & 2024 guidance but we expect a clear positive reaction to the new share buyback announcement & attractive future policy.

### Equities

Germany  
Automobile Manufacturers

**12-month rating** **Buy**

<b>12m price target</b>	<b>€78.00</b>
<b>Price (21 Feb 2024)</b>	<b>€68.07</b>
<b>RIC:</b> MBGn.DE <b>BBG:</b> MBG GR	

### Trading data and key metrics

<b>52-wk range</b>	€76.10-55.43
<b>Market cap.</b>	€72.8b/US\$78.8b
<b>Shares o/s</b>	1,070m (ORD)
<b>Free float</b>	81%
<b>Avg. daily volume ('000)</b>	2,340
<b>Avg. daily value (m)</b>	€145.8
<b>Common s/h equity (12/23E)</b>	€80.5b
<b>P/BV (12/23E)</b>	0.9x
<b>Net debt to EBITDA (12/23E)</b>	NM

### EPS (UBS, diluted) (€)

	<b>UBS</b>	<b>Cons.</b>
<b>12/23E</b>	12.10	12.84
<b>12/24E</b>	10.11	11.75
<b>12/25E</b>	10.85	11.95

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<b>Highlights (€m)</b>	<b>12/20</b>	<b>12/21</b>	<b>12/22</b>	<b>12/23E</b>	<b>12/24E</b>	<b>12/25E</b>	<b>12/26E</b>	<b>12/27E</b>
<b>Revenues</b>	154,309	167,971	150,017	150,379	144,598	150,732	157,619	165,123
<b>EBIT (UBS)</b>	6,160	27,129	18,591	16,906	13,036	14,050	15,483	16,520
<b>Net earnings (UBS)</b>	4,369	10,700	14,050	12,941	10,820	11,607	12,657	13,454
<b>EPS (UBS, diluted) (€)</b>	4.08	10.00	13.13	12.10	10.11	10.85	11.83	12.58
<b>DPS (net) (€)</b>	1.35	5.00	5.20	5.20	5.20	5.20	5.20	5.20
<b>Net (debt) / cash</b>	16,341	20,446	6,945	10,128	12,294	15,545	19,008	22,287
<b>Profitability/valuation</b>	<b>12/20</b>	<b>12/21</b>	<b>12/22</b>	<b>12/23E</b>	<b>12/24E</b>	<b>12/25E</b>	<b>12/26E</b>	<b>12/27E</b>
<b>EBIT (UBS) margin %</b>	4.0	16.2	12.4	11.2	9.0	9.3	9.8	10.0
<b>ROIC (EBIT) %</b>	10.2	52.2	32.5	24.0	18.0	19.1	20.6	21.3
<b>EV/EBITDA (UBS core) x</b>	1.1	1.4	1.1	1.5	1.6	1.5	1.4	1.3
<b>P/E (UBS, diluted) x</b>	8.5	6.3	4.7	5.6	6.7	6.3	5.8	5.4
<b>Equity FCF (UBS) yield %</b>	19.3	21.4	10.9	13.3	11.9	13.4	13.7	13.5
<b>Dividend yield (net) %</b>	3.9	8.0	8.4	7.6	7.6	7.6	7.6	7.6

Source: Company accounts, LSEG Eikon, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of € 68.07 on 21-Feb-2024

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## Key Metrics Q4 2023 (€m)

	<b>Consensus estimates</b>	<b>UBS estimates</b>	<b>Actual</b>	<b>%diff vs cons</b>
<b>Revenues</b>	39,078	38,876	40,261	+3%
<b>Adj. EBIT</b>	4,168	3,934	4,456	+7%
<b>% margin</b>	10.7%	10.1%	10.7%	
<b>Adj. EBIT (Cars)</b>	2,992	2,801	2,970	-1%
<b>% margin</b>	10.5%	10.3%	10.0%	-50bps
<b>FCF</b>	1,989	1,795	3,442	+73%

Source: UBS estimates, company consensus and actuals

## **Forecast returns**

Forecast price appreciation	14.6%
Forecast dividend yield	7.6%
Forecast stock return	22.2%
Market return assumption	7.9%
Forecast excess return	14.3%

## **Company Description**

Mercedes-Benz Group (MBG) is one of the largest premium car manufacturers globally in terms of units sold under its Mercedes brand. In 2022, its cars division generated 71% of the group's EBIT, followed by mobility and vans. BAIC Group (9.98%), Chinese investor Li Shufu (9.69%), and Kuwait's sovereign savings fund (~5%), after reducing their stake in March this year, are major shareholders in MBG. After Daimler Trucks Group's spin-off in December 2021, Mercedes-Benz Group holds a 35% stake in its former trucks division.

## **Valuation Method and Risk Statement**

Risks in the auto sector include, but are not limited to: (1) Commodities: Oil and raw material prices; (2) interest rates; (3) overall macro growth and consumer sentiment; (4) currency fluctuations; (5) new entrants in the OEM space (Silicon Valley players, ride-on-demand services). Our price target is based on a SOTP model using cycle-average target multiples.

## Quantitative Research Review

UBS Global Research publishes a quantitative assessment of its analysts' responses to certain questions about the likelihood of an occurrence of a number of short term factors in a product known as the 'Quantitative Research Review'. The views for this month can be found below. Views contained in this assessment on a particular stock reflect only the views on those short term factors which are a different timeframe to the 12-month timeframe reflected in any equity rating set out in this note. For previous responses please make reference to (i) previous UBS Global Research reports; and (ii) where no applicable research report was published that month, the Quantitative Research Review which can be found at <https://neo.ubs.com/quantitative>, or contact your UBS sales representative for access to the report or the Quantitative Research Team on [qa@ubs.com](mailto:qa@ubs.com). A consolidated report which contains all responses is also available and again you should contact your UBS sales representative for details and pricing or the Quantitative Research Team on the email above.

### Mercedes-Benz Group AG

Question	Response
1. Is the industry structure facing the firm likely to improve or deteriorate over the next six months? Rate on a scale of 1-5 (1 = getting worse, 3 = no change, 5 = getting better, N/A = no view)	3
2. Is the regulatory/government environment facing the firm likely to improve or deteriorate over the next six months? Rate on a scale of 1-5 (1 = getting tougher, 3 = no change, 5 = getting better, N/A = no view)	3
3. Over the last 3-6 months in broad terms have things been improving/no change/getting worse for this stock? Rate on a scale of 1-5 (1 = getting a lot worse, 3 = not much change, 5 = getting a lot better, N/A = no view)	2
4. Relative to the current CONSENSUS EPS forecast, is the next company EPS update likely to lead to: (1 = negative surprise vs consensus, 3 = in-line with consensus, 5 = positive surprise vs consensus expectations, N/A = no view)	3
5. What's driving the difference?	
6. Relative to YOUR current earnings forecast, is there relatively greater risk at the next earnings result of:(1 = downside skew risk to earnings, 3 = equal upside or downside risk to earnings, 5 = upside skew risk to earnings, N/A = no view)	3
7. What's driving the difference?	
8. Is there an upcoming catalyst for the company over the next three months?	Positive Catalyst
9. Is there an actual or approximate date for the catalyst?	
10. Is the catalyst date an actual or approximate date?	N/A
11. What is the catalyst?	large share buyback programme, >10% cash return

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12-Month Rating	Definition	Coverage <sup>1</sup>	IB Services <sup>2</sup>
Buy	FSR is > 6% above the MRA.	52%	38%
Neutral	FSR is between -6% and 6% of the MRA.	40%	38%
Sell	FSR is > 6% below the MRA.	8%	35%
Short-Term Rating	Definition	Coverage <sup>3</sup>	IB Services <sup>4</sup>
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 31 December 2023.

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

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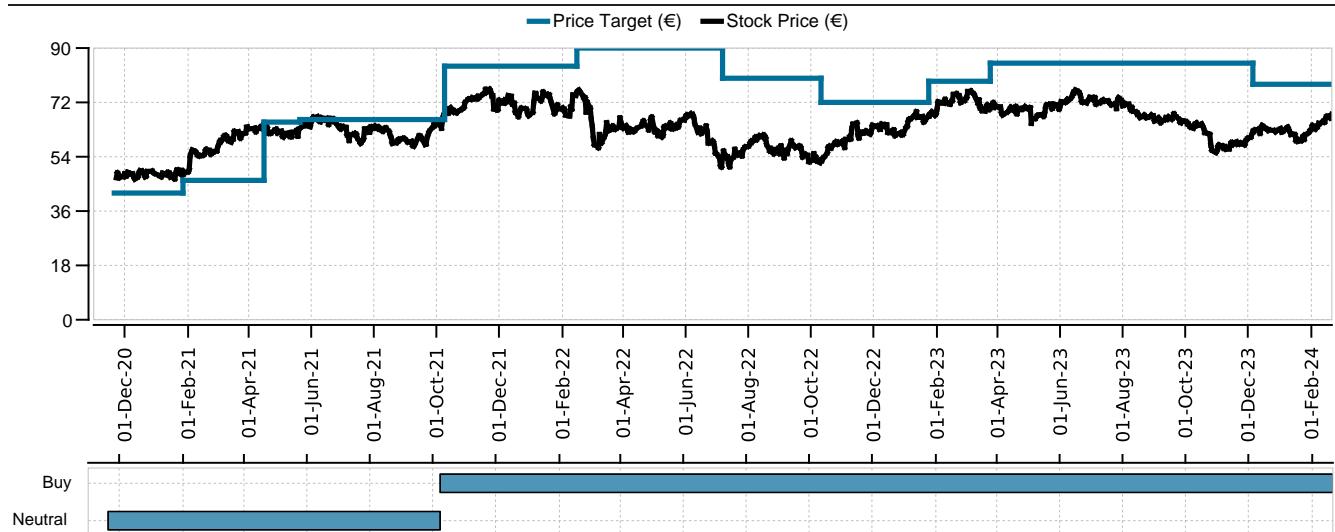
Company Name	Reuters	12-month rating	Price	Price date
<b>Mercedes-Benz Group AG</b> <sup>6,28,7</sup>	MBGn.DE	Buy	€68.07	21 Feb 2024

Source: UBS Global Research; LSEG Eikon. All prices as of local market close. Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date.

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## Mercedes-Benz Group AG (€)



Date	Stock Price (€)	Price Target (€)	Rating
2020-11-20	46.61	41.972	Neutral
2021-01-26	49.44	46.17	Neutral

Date	Stock Price (€)	Price Target (€)	Rating
2021-04-15	63.26	65.477	Neutral
2021-05-20	63.08	66.317	Neutral
2021-10-08	67.73	84.00	Buy
2022-02-14	74.31	90.00	Buy
2022-07-06	50.62	80.00	Buy
2022-10-10	52.05	72.00	Buy
2023-01-23	67.27	79.00	Buy
2023-03-24	69.65	85.00	Buy
2023-12-05	61.45	78.00	Buy

Source: UBS Global Research; LSEG Eikon as of 21-Feb-2024. All prices as of local market close. Ratings as of date shown.

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# Mercedes-Benz Group

## 4Q23 Results Review

**Outperform**

Price €64.92 (02/21/24 closing price)

Target Price €98.00

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Mercedes-Benz reported 4Q23 revenues of €40.3bn (-1.8% YoY), EBIT of €4.3bn (-20.1% YoY; mg 10.7%) and attributable net profit of €3.1bn (-21.7% YoY). Revenues beat VA consensus by 2.6% (+1.8% vs SANe), EBIT beat consensus by 5.6% (+2.4% vs SANe), and net attributable profit beat consensus by 20.6% (+5.3% vs SANe). We expect a positive reaction from the stock today on the back of an outlook in line with market expectations and improved shareholder remuneration policy.

- Mercedes-Benz Cars.** EBIT at €2,912mn (-31.4% YoY; mg of 9.8%). Compared to 4Q22, the division had tailwinds from FX of €87mn. Conversely, results were negatively affected by: (1) €-284mn of negative volume/mix/pricing (vols fell -4.1% due to constraints in 48V engine supply // mix: top-end vehicles -14.6%/core +4.1%/entry -11.2%); (2) €-549mn of higher inflation and supply chain-related costs; (3) €-5mn of higher investments in future technologies and vehicles; (4) €-312mn of others mainly related to a lower contribution of its Chinese JV; (5) €-55mn of higher SG&A expenses; and (6) €-58mn of negative special items due to legal proceedings.
- Mercedes-Benz Vans.** EBIT was €855mn (+27.6% YoY; mg of 15.6%). Tailwinds from: (1) volume/mix/pricing of €600mn (vols increased +1.3%); (2) €94mn of positive FX; (3) €65mn of other items; and (4) €46mn of positive special items due to legal proceedings. However, this was negatively affected by: (1) €-549mn of higher inflation and supply chain related costs; (2) €-7mn of higher SG&A expenses; and (3) €-59mn of higher R&D expenditure.
- Mercedes-Benz Mobility.** EBIT at €228mn (-53.8% YoY; 3.3% mg). Negative contributions from: (1) cost of credit risk of €-31mn; (2) FX (-€-12mn); (3) volumes and margins affected by higher interest rates (€-235mn); and (4) special items (€-117mn) related to M&A transactions. Positive contributions from: (1) SG&A expenses (€40mn); and (2) others (€89mn). New contracts rose 10.5% YoY in 4Q23 to €16.7bn and contracted volumes closed 4Q23 at €135.0bn (+2.0% YoY).
- 4Q23 industrial FCF generation was €3.4bn (€2.5bn in 4Q22).** In 4Q23, R&D expenditure was €2.6bn (vs €2.1bn in 4Q22; +24.4% YoY) and the investment in capex was €2.6bn (vs €2.2bn in 4Q22; +20.0% YoY). R&D on sales was 6.4% (+130bp YoY) and capex on sales was 6.5% (+120bp YoY). WC recorded an inflow of €0.6bn in 4Q23 compared to €-0.6bn in 4Q22.

**Relative Performance (€)**


Source: FactSet.

**Company Data, February 21, 2024 (closing price)**

	MBG GR	(€ mn)	2021A	2022A	2023E	2024E
Bloomberg code	€64.92					
Current Price	€98.00					
Target Price (YE 2023)	(11.06)%					
Price Perf Last 12 Mth (Absolute)	55.08 - 76.10					
52 Week Range (€)	69,451					
Market Cap (€ mn)	78.4					
Free Float (%)	146					
3-Mth Avg daily vol (€ mn)	1,070					
Outst shares (mn)						
(€)	2021A	2022A	2023E	2024E		
Adj EPS	9.96	12.79	10.75	10.97		
BVPS	67.26	73.71	78.34	83.85		
DPS	5.00	5.10	4.30	4.40		
Revenues	133,893	146,935	151,527	157,502		
EBITDA	30,379	34,686	32,865	33,813		
EBIT	16,028	19,699	17,106	17,433		
Net Profit	23,006	13,683	11,496	11,741		
FCFE	10,835	8,688	8,748	8,641		
Net Debt	95,144	89,771	86,475	82,439		
P/E (x)	2.9	4.8	6.0	5.9		
EV/EBITDA (x)	1.2	0.9	0.9	0.8		
FCFE Yield (%)	16.2	13.2	12.6	12.4		
Div Yield (%)	8.0	8.3	6.6	6.8		
Net Debt/EBITDA (x)	3.1	2.6	2.6	2.4		

Sources: FactSet, Company Data and Santander estimates.

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## 4Q23 Results Review

- Net industrial liquidity increased €3.2bn QoQ to €31.7bn.** It reflects €3.4bn of automotive FCF, €-0.5bn of FX and €-0.8bn of the share buy-back.
- Improved shareholder remuneration.** Management will propose: (1) a dividend of €5.30/sh (+€0.10/sh) implying a pay-out ratio of c40% and a dividend yield of 7.8%; and (2) new share buyback proposal of €3.0bn to be executed once the current is done (current share buyback €4.0bn is expected to be finished in 3Q24). Furthermore, management will propose at the AGM the implementation of share buyback policy funded with the excess of FCF generated by the industrial business (after the 40% dividend pay-out ratio and potential small-scale M&A).
- Outlook 2024 in line with market expectations.** (1) Unit sales: -2.0%/+2.0% for cars (vs 3.0% VA consensus)/ -7.5%/-2.0% for vans (vs +1.1% VA consensus). (2) Revenues -2.0%/+2.0% (vs -0.8% VA consensus). (3) EBIT -15.0%/-5.0% (vs -12.8% VA consensus) with margins of 10-12% at MBC (vs 11.1% VA consensus) and 12%-14% at MBV (vs 13.1% VA consensus). (4) Capex investments >10.0% YoY both at MBC and MBV. (5) R&D investments >10.0% at MBV and -2.5%/+2.5% at MBC. (6) FCF of the industrial business -10%/-25% (vs -31.2% VA consensus).

Figure 1 - MBG – 4Q23 P&L Figures Review

	4Q22	4Q23	YoY (%)	4Q23 SANe	Dev	4Q23 Cons.	Dev
Mercedes-Benz Cars	30,557	29,569	-3.2%	28,738	2.9%	28,308	4.5%
Mercedes-Benz Vans	5,114	5,611	9.7%	5,525	1.5%	5,541	1.3%
Mercedes-Benz Mobility	6,858	7,012	2.2%	6,853	2.3%	6,663	5.2%
Eliminations	-1,526	-1,931	26.5%	-1,562	23.6%	-1,603	20.5%
Revenues	41,003	40,261	-1.8%	39,554	1.8%	39,253	2.6%
Mercedes-Benz Cars	4,243	2,912	-31.4%	3,017	-3.5%	2,951	-1.3%
Mercedes-Benz Vans	670	855	27.6%	785	9.0%	765	11.8%
Mercedes-Benz Mobility	494	228	-53.8%	363	-37.2%	324	-29.7%
Eliminations	4	331	8175.0%	60	451.7%	69	383.2%
EBIT Reported	5,411	4,326	-20.1%	4,225	2.4%	4,095	5.6%
mg %	13.2%	10.7%	-250 bp	10.7%	+10 bp	10.4%	+30 bp
Net Income	3,981	3,117	-21.7%	2,961	5.3%	2,585	20.6%

Source: Company data, Visible Alpha and Santander estimates.

Figure 2 - MBG – FY23 P&L Figures Review

	FY22	FY23	YoY (%)	FY23E SANe	Dev	FY23 Cons.	Dev
Mercedes-Benz Cars	111,601	112,756	1.0%	111,925	0.7%	111,495	1.1%
Mercedes-Benz Vans	17,217	20,288	17.8%	20,202	0.4%	20,218	0.3%
Mercedes-Benz Mobility	26,954	26,718	-0.9%	26,559	0.6%	26,369	1.3%
Eliminations	-5,755	-6,544	13.7%	-6,175	6.0%	-6,216	5.3%
Revenues	150,017	153,218	2.1%	152,511	0.5%	152,210	0.7%
Mercedes-Benz Cars	16,340	14,224	-12.9%	14,329	-0.7%	14,263	-0.3%
Mercedes-Benz Vans	1,897	3,138	65.4%	3,068	2.3%	3,048	2.9%
Mercedes-Benz Mobility	2,428	1,302	-46.4%	1,437	-9.4%	1,398	-6.9%
Eliminations	-207	996	-581.2%	725	37.4%	734	35.8%
EBIT Reported	20,458	19,660	-3.9%	19,559	0.5%	19,429	1.2%
mg %	13.6%	12.8%	-80 bp	12.8%	+0 bp	12.8%	+10 bp
Net Income	14,501	14,261	-1.7%	14,105	1.1%	13,729	3.9%

Source: Company data, Visible Alpha and Santander estimates.

## Mercedes-Benz Group - Three-Year Stock Performance (€)



Sources: FactSet and Santander. \*Note that our rating terminology changed on December 15th 2021. Prior to that, our current Outperform (O) was Buy (B); Neutral (N) was Hold (H); Underperform (U) was Underweight (UW)

## Valuation & Risks

**Valuation Methodology:** We value Mercedes-Benz Group using a sum-of-the-parts valuation of its different businesses. We value the industrial business using a DCF model, while we value Financial Services at 1.0x book value. The main parameters of our DCF model are: (1) rolling WACC of ~7.8% for the 2023E-30E period; and (2) mid-cycle terminal value applying a 2% terminal growth and 7.5% EBIT mg.

**Main Risks:** (1) Structural industry changes related to electric cars, autonomous driving and environmental regulations introduce risks on cash flow visibility, (2) Mercedes-Benz Group's international footprint exposes the company to economic cycles and conflicts; (3) rise in commodity prices; and (4) ongoing governmental proceedings and vehicles recall in different markets could pose risks to the company's future financial performance.

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Outperform	Total return 10% above benchmark. Upside of > 15%.	60.24%	53.00%
Neutral	Total return 0%-10% above benchmark. Upside of approximately 5%-15%.	26.51%	34.09%
Underperform	Total return below benchmark. Upside of < 5%.	11.45%	21.05%
Under Review		1.81%	0.00%

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February 22, 2024 07:56 AM GMT

## Mercedes-Benz Group AG | Europe

# 4Q23 Results: Limited upgrades from guidance but upsized buyback should support shares

**Conclusion:** We expect Mercedes-Benz Group AG shares to see a strong positive market reaction (relative to SXAP) on the back of today's 4Q-2023 scheduled release. This positive view comes despite MBG margins clearly starting to normalise, and mostly reflects a strong commitment to cash returns with an upsized buyback programme putting MBG on a 12%+total yield. Such commitments to capital returns have been rewarded over results season in Autos. The 4Q23 print is above expectations and includes revenues of €40.3bn (+6.9% vs. MSe of €37.7bn, +3% vs. company-compiled consensus at €39.1bn), adj. EBIT of €4.5bn (+13.4% vs. MSe of €3.9bn, +15.3% vs. company cons. at €3.9bn). The Q4 Cars adj. EBIT margin came in at 10.0%, the lowest margin during this year. Management notes tailwinds from net pricing, lower raw materials and improved manufacturing costs were offset by higher inflation charges and supply-chain related costs. FY24 Group guidance is in line with expectations, as discussed below. We note the weaker Q4 Cars margin, but expect investors will focus on the newly announced €3bn share buyback programme as a key positive. There is also a small positive read-across to other European premium OEM stocks on the back of this set of results.

**Group Guidance:** Mercedes guidance for looks for FY24 unit sales and revenues at the prior-year level with EBIT and FCF slightly below 2023 levels. Mercedes-Benz Cars adjusted return on sales (RoS) expected at 10-12% (down from 12-14% prior); Mercedes-Benz Vans adjusted RoS seen at 10-12% vs (13-15% prior) and Mercedes-Benz Mobility adjusted return on equity seen at 10-12% (12-14% prior). Taking the current FY24 Cars+ Vans estimates and combining these with the new MBG guides implies a small downgrade to consensus of ~75bps for FY24, we estimate. Mercedes-Benz also guides for a significant increase in capex, with cars R&D at the same levels of last year. We believe investors will look to get comfortable that the Cars margin profile can improve in 1H24 from the 10% level seen in 4Q23 as lower supplier costs, GLC/E-Class volume growth and lower raw mat costs come through.

**Buyback/Dividend:** Mercedes has elected accelerate its existing buyback of €4bn, of which c.€2bn was left to run through until Dec-24. The new programme adds a further €3bn for a total buyback of €5bn, with this upsized buyback now expected to complete in Jun-25 (old programme until 3Q24, the new programme thereafter). This effectively fully utilises a prior board approval to repurchase up to 10% of share capital by June 2025. Working through the numbers, this implies a quarterly buyback cadence of €0.8bn and an annualised buyback yield of ~5%. With the inclusion of the proposed FY23 dividend of €5.30 (+2%), which puts Mercedes on a dividend yield of 7.8%, this implies a total yield for Mercedes Benz of 12%+. On the new payout policy, 100% of future available FCF will be returned to shareholders going forward – which we think will be well received by investors. MBG also

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## Mercedes-Benz Group AG (MBGn.DE, MBG GY)

Autos &amp; Shared Mobility | Germany

Stock Rating	Equal-weight
Industry View	In-Line
Price target	€70.00
Shr price, close (Feb 21, 2024)	€68.07
52-Week Range	€76.10-55.08
Mkt cap, curr (mn)	€72,821
Net debt (12/23e) (mn)*	€(22,601)
EV, curr (mn)*	€52,494

\* = GAAP or approximated based on GAAP

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commented that it expects the dividend to actually grow over the coming years, which implies some upgrades to MSe/cons. DPS. This dividend growth will clearly be supported by the buyback, but we think investors would prefer a high yield that grows rather than a very high yield that does not grow. We note that buyback announcements have been rewarded by investors in European autos this reporting season, with Stellantis and Michelin both rewarded on the day of results for their buyback announcements.

# Variance

**Exhibit 1:** Variance table

<b>MBG -4Q23</b>		<b>Actuals</b>		<b>MSe</b>		<b>Cons</b>		<b>Growth</b>	
		<b>4Q23 Actual</b>		<b>4Q23 MSe</b>	<b>Diff. (%)</b>	<b>4Q23 Cons</b>	<b>Diff. (%)</b>	<b>4Q22 Actual</b>	<b>YoY (%)</b>
<b>Revenue(€m)</b>									
<b>Group revenue (€m)</b>		40,261		37,666	6.9%	39,078	3.0%	41,003	-1.8%
Mercedes + Vans		35,180		32,575	8.0%	33,951	3.6%	35671	-1.4%
Financial Services/Mobility		7,012		6,754	3.8%	6,632	5.7%	6858	2.2%
Other/Elim.		-1,931		-1,663	-16.1%	-1,505	(28.3%)	-1526	-26.5%
<b>EBIT (€m)</b>									
<b>Clean Group EBIT</b>		4,456		3,929	13.4%	3,864	15.3%	5,071	-12.1%
Mercedes + Vans		3,779		3,734	1.2%	3,451	9.5%	4589	-17.7%
Financial Services/Mobility		345		404	-14.7%	354	(2.5%)	494	-30.2%
Other / Consolidation		332		-209	na	60	453.3%	-12	-
<b>Clean Group EBIT Margin</b>		11.1%		10.4%		9.9%		12.4%	
Mercedes + Vans		10.7%		11.5%		10.2%		12.9%	
Financial Services/Mobility		4.9%		6.0%		5.3%		7.2%	
<b>FCF (€m)</b>									
<b>Industrial FCF</b>		4Q23 Actual		4Q23 MSe	Diff. (%)	4Q23 Cons	Diff. (%)	4Q22 Actual	YoY (%)
		3,442		1,331	158.6%	2,495	38.0%	2,494	38.0%

Source: Company-compiled consensus, Company data, Morgan Stanley Research estimates; na = not applicable

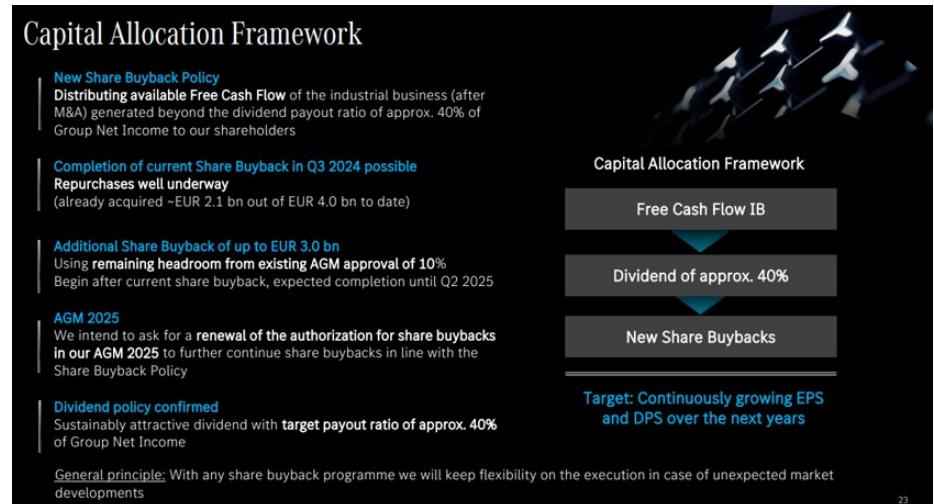
**Exhibit 2:** New FY24 MBG guidance

### Mercedes-Benz Divisional Guidance 2024

ASSUMPTION		
The premises regarding the economic situation and the development of automotive markets continue to be characterized by an exceptional degree of uncertainty. In addition to unexpected macroeconomic developments, uncertainties for the global economy and the business development of the Mercedes-Benz Group may arise in particular from geopolitical events and trade policy decisions. Other factors that could lead to significant changes in the environment include political and economic uncertainties that are particularly worth mentioning include an exacerbation of tensions between the United States and China and a further deterioration of political relations between the European Union and China.		
Further supply chain disruptions and, in particular, availability bottlenecks for critical components, remain a significant risk factor. In addition, inflationary pressures, higher energy prices, interest rates, potential financial market disruptions and an even more pronounced slowdown in economic growth in individual regions or worldwide may also have an impact on the development of the world economy and the automotive markets.		
Unit Sales	Mercedes-Benz Cars	At prior-year level
	Mercedes-Benz Vans	Slightly below
xEV share	Mercedes-Benz Cars (xEV)	19 to 21 %
	Mercedes-Benz Vans (xEV)	6 to 8 %
Return on Sales (adjusted*)	Mercedes-Benz Cars	10 to 12 %
	Mercedes-Benz Vans	12 to 14 %
	Mercedes-Benz Mobility (RoE)	10 to 12 %
Cash Conversion Rate** (adjusted)	Mercedes-Benz Cars	0.8 to 1.0
	Mercedes-Benz Vans	0.6 to 0.8
Investment in pp&e	Mercedes-Benz Cars	Significantly above
	Mercedes-Benz Vans	Significantly above
R&D expenditure	Mercedes-Benz Cars	At prior-year level
	Mercedes-Benz Vans	Significantly above

\* The adjustments include material adjustments if they lead to significant effects in a reporting period. These material adjustments relate in particular to legal proceedings and related measures, restructuring measures and M&A transactions.  
\*\* Adjusted Cash Flow before Interest and Taxes (CFBT) divided by adjusted EBIT

Source: Company data

**Exhibit 3:** New MBG capital allocation framework

# Valuation Methodology and Risks

## **Mercedes-Benz Group AG (MBGn.DE)**

Our price target is based on the historical P/E relative range of 45-55% of the market multiple, implying 6x P/E currently. We use our FY24 EPS estimate of ~€11.64 and ~6x P/E to reflect a recession risk discount on what we believe is peak EBIT margins and EPS.

### **Risks to Upside**

- Higher valuation multiples for Mercedes Cars with much higher EBIT margins / FCF
- Mercedes' BEV story changing the investment narrative
- Execution enabling EPS to remain higher than historically and less cyclical

### **Risks to Downside**

- Change in global credit (and/or China) economic conditions and sentiment
- Slowing pricing of Mercedes cars on tougher comps
- Exceptional conditions of 2021/22 reversing faster than expected

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Equal-weight/Hold	1692	45%	322	48%	19%	720	46%
Not-Rated/Hold	3	0%	0	0%	0%	1	0%
Underweight/Sell	630	17%	70	10%	11%	236	15%
Total	3,748		676			1578	

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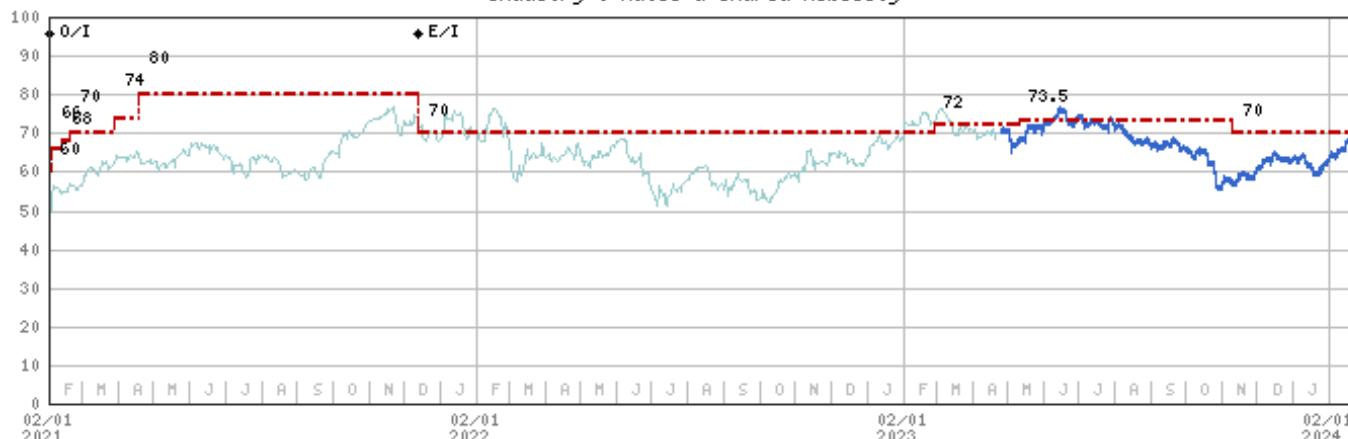
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Mercedes-Benz Group AG (MBGn.DE) – As of 2/21/24 in EUR  
Industry : Autos & Shared Mobility



Stock Rating History: 2/1/19 : O/A; 2/1/19 : E/I; 7/8/20 : E/I; 12/14/21 : E/I

Price Target History: 12/6/18 : 60; 5/3/19 : 62; 12/16/19 : 58; 3/20/20 : 48; 10/9/20 : 55; 10/20/20 : 58; 11/23/20 : 60;  
2/3/21 : 66; 2/12/21 : 68; 2/19/21 : 70; 3/29/21 : 74; 4/19/21 : 80; 12/14/21 : 70; 2/27/23 : 72; 5/11/23 : 73.5; 11/10/23 : 70

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target --- No Price Target Assigned (NA)

Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) ■

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## INDUSTRY COVERAGE: Autos & Shared Mobility

COMPANY (TICKER)	RATING (AS OF)	PRICE* (02/21/2024)
<b>Pete-Veikko Kujala</b>		
Aramis Autos (ARAMI.PA)	E (08/04/2023)	€3.88
AUTO1 Group SE (AG1G.DE)	U (01/03/2024)	€3.67
<b>Ross A MacDonald, CFA</b>		
Autoliv (ALV.N)	E (09/24/2021)	US\$110.51
BMW (BMW.GE)	E (04/26/2023)	€104.30
Mercedes-Benz Group AG (MBGn.DE)	E (12/14/2021)	€68.07
Michelin (MICP.PA)	O (10/03/2018)	€33.69
Pirelli & C SpA (PIRC.MI)	O (02/03/2023)	€5.36
Porsche AG (P911_p.DE)	E (11/08/2022)	€80.86
Renault (RENA.PA)	O (05/04/2023)	€36.98
Stellantis (STLAM.MI)	O (02/04/2021)	€23.54
Stellantis (STLA.N)	O (03/10/2021)	US\$25.63
Volkswagen (VOWG_p.DE)	E (12/07/2022)	€119.58
<b>Shaqueal A Kirunda</b>		
Daimler Truck Holding AG (DTGGe.DE)	O (01/28/2022)	€36.22
Iveco Group NV (IVG.MI)	E (01/05/2023)	€11.07
Traton SE (8TRA.DE)	E (09/29/2022)	€23.50
Volvo (VOLVb.ST)	E (04/25/2023)	SKr 276.20

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\* Historical prices are not split adjusted.



# Mercedes-Benz Hold

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Germany | Autos & parts

Beta Profile:



**MCap: EUR72.8bn**

**Target Price:** EUR65.00  
**Current Price:** EUR68.07  
**Up/downside:** -4.5%  
**Market data:** 21 February 2024

Bloomberg: MBG GR	Reuters: MBGn.DE
Free float	89%
Avg. daily volume (EURm)	326.0
YTD abs performance	8.8%
52-week high/low (EUR)	76.10/55.43

## Sending a clear cash return message for the future

### Key points:

- FY 2023 headline numbers in line with expectations, as is FY 2024 guidance.
- The key message sent by MBG is to want to return future industrial FCFs to shareholders through dividends and share buybacks.

### FY 2023 headline numbers in line with expectations, as is FY 2024 guidance

- Revenues slightly ahead of expectations: FY 2023 sales came in at EUR153.2bn (+2% YOY) and slightly ahead of our forecast of EUR152.3bn and consensus (as collected by company) of some EUR152bn. The MB Vans division actin as the biggest driver while sales of MB cars were flat YOY on the FY 2023 level
- Group earnings in line with expectations: Consolidated adjusted EBIT for FY 2023 came in at c. EUR20bn (down YOY by some 3%). While this is above our forecast of EUR18.6bn, consensus had expected EUR19.7bn, rendering effective numbers by MBG and “in-line with expectations” event. The adj. EBIT margin of MBC came in at 12.6% (off by 200bps YOY; in line with guidance to settle in the lower half of the 12-14% corridor) for the full-year, pretty much in line with our expectation of 12.7% and consensus of 12.8% respectively. In posting an adj. EBIT margin of 15.1%, MB Vans managed just top the originally set target corridor of 13-15% for FY 2023 and thus beat our forecast of 14% and consensus expectations of 14.9%. Mobility Services ended up with an EBIT margin of 6.3% for the full-year, thus landing below our forecast of 7.3% and consensus expectations of 6.5%.
- Cash conversion remained strong: Industrial FCF of EUR11.3bn (pre-released) was clearly better than anticipated by us as well as guided for by the company, continuing to mirror a sustained good cash conversion ability. MBG announced to propose a FY 2023 dividend of EUR5.3, slightly ahead of our expectation of a flat dividend of EUR5.2.
- FY 2024 guidance looking for small earnings decline, but sustained cash conversion: MBG guide for 2024 group revenues at the prior year level and a slight YOY decline in both group EBIT and industrial FCF. As for MB Cars, the group guides for a 10-12% margin, in line with our current forecast (11.5%), while for MB Vans its aims at 12-14%, slightly below our forecast (14.6%)

### Promising more cash returns to shareholders in the future: a strong signal, in our view

- Share buyback policy to be implemented – promising more cash returns to shareholders: MBG stated that it had decided to implement a share buyback policy that aims at using future industrial FCF after M&A and dividend outflows (40% of net income reconfirmed) for the purposes a buying back shares and redeeming them. While the current program is still running, (some EUR2.0bn utilised out of EUR4.0bn authorized), the company announced in this context to want to ask for permission for a new program of EUR3.0bn, starting after the conclusion of the current program. According to company information the shares are subsequently supposed to be cancelled after repurchase by the company.

### FY 2023 numbers and FY 2024 outlook broadly in line; modified cash-return-to-shareholders-policy is the key message

- FY 2023 numbers are in line with expectations, as is FY 2024 guidance. That is, both elements represent no major surprise factor, in our view.
- In our view, the share buyback policy and the related new programme attempts to signal management confidence in the sustained ability to generate positive FCF and to be able to use it for rewarding shareholders with cash returns -a clear positive, in our view. In our opinion, the company also attempts to make up with the prospects of rising cash return the message of a YOY decline in earnings. Combined with the dividend policy, this implies that 100% of future FCF will be transferred to shareholders, in our understanding.
- We expect the stock to react positively on the strengthened cash return message today.

## Appendix 1: Research framework

### Investment case

- MB has entered a new product life cycle, which we expect will help it to improve the mix in the medium term and support its strategy to focus on revenue per vehicle more than volumes. We expect a continued strong ICEV mix to support earnings, while the BEVs suffer from price competition.
- We see a substantial boost in xEVs, notably BEVs, until the middle of the decade with its focus on purpose-built architectures paying off, but we also expect the group's margins to remain dependent on ICEV products (breakeven between BEV and ICEV margins not seen before the second half of this decade).
- We expect MB to sustain its ability to convert earnings into positive FCFs and to raise its liquidity.

### Catalysts

- Suppliers' constraints influence MB Cars' Q4 margins significantly.
- Execution of share buyback programme announced.
- FY 2023 headline numbers in early February 2024.

## Appendix 2: Company description

Leveraging on its globalised production footprint, Daimler sells light vehicles under the Mercedes-Benz brand name. Its distribution activities are supported by the group's extensive financial services operation. Furthermore, it has retained a 30% stake in Daimler Truck Group after the corresponding spin-off.

**Mgmt** Ola Källenius, CEO | Harald Wilhelm, CFO

**Ownership** Free float: 89.30% | Kuwait: 7.60% | Renault/Nissan: 3.10%

## Appendix 4: SWOT analysis

### Strengths

- Global leader in all vehicle categories it offers.
- Strong balance sheet.
- Highest price point among the premium brands.

### Opportunities

- More scale economies from fewer vehicle architectures
- Broadening offer in the BEV segment.

Last model update: 27 October 2023

### Valuation Methodology

- We derive our target price from a 2:1 blend of a DCF model (average annual FCF of EUR5.5bn, average cost of equity of 18.7%, perpetual growth rate of 2%) and a peer multiple approach (P/E of 5.3x).
- Our valuation embeds the expected value of potential damages of EUR4.0bn or some EUR4 per share stemming from the pending diesel issue.

### Risk to our rating

- Cash conversion remains key, so any sustainable medium-term shortfall in net industrial liquidity of EUR10bn would likely be viewed as a disappointment.
- Further intensification of pricing competition in BEVs than we expect and a spillover to ICEVs.
- Apart from that, the key risk is a slower-than-expected upturn in demand, notably in Europe and in China, which would hamper increased capacity utilisation and additional positive operating gearing effects, burdening cash conversion.

## Appendix 3: share price perf.



### Weaknesses

- No exposure to premium subcompact segment.

### Threats

- Asynchronicity of cycles in individual areas of activity.
- Additional funding needs for financial services arm.

## Appendix 5: Key financials

Last model update: 27 October 2023

Market data date: 21 February 2024

FY to 31/12 (EUR)	12/16	12/17	12/18	12/19	12/20	12/21	12/22	12/23E	12/24E	12/25E
<b>Income Statement (EURm)</b>										
Sales										
Sales	153,261	164,330	167,362	172,745	154,309	133,893	150,017	152,329	153,977	162,015
% Change	2.5%	7.2%	1.8%	3.2%	-10.7%	-13.2%	12.0%	1.5%	1.1%	5.2%
EBITDA adjusted	21,422	26,988	25,595	25,959	25,133	29,840	32,907	34,796	34,155	35,810
EBITDA adj. margin (%)	14.0%	16.4%	15.3%	15.0%	16.3%	22.3%	21.9%	22.8%	22.2%	22.1%
EBIT adjusted	10,056	14,589	11,589	10,056	8,641	17,158	20,655	18,590	17,281	17,489
EBIT adj. margin (%)	6.6%	8.9%	6.9%	5.8%	5.6%	12.8%	13.8%	12.2%	11.2%	10.8%
Net financial items & associates	-316	-368	-537	-499	-264	-217	-154	-50	-50	-50
Others	0	0	0	0	0	0	0	0	0	0
Tax	-3,790	-3,437	-3,013	-1,121	-2,330	-4,761	-5,495	-5,131	-4,825	-4,883
Net profit from continuing operations	8,784	10,864	7,582	2,709	4,009	11,050	14,809	13,195	12,406	12,556
Net profit from discontinuing activities	0	0	0	0	0	12,346	0	0	0	0
Net profit before minorities	8,784	10,864	7,582	2,709	4,009	23,396	14,809	13,195	12,406	12,556
Net profit reported	8,526	10,525	7,249	2,377	3,627	23,006	14,501	12,795	12,006	12,156
Net profit adjusted	6,536	9,672	4,364	6,044	2,341	21,597	13,016	12,795	12,006	12,156
<b>Cash Flow Statement (EURm)</b>										
Levered post tax CF before capex	4,167	2,060	1,952	9,193	20,537	23,369	13,084	23,292	21,163	23,613
Capex	-12,676	-13,027	-11,666	-11,711	-6,400	-4,680	-2,620	-18,420	-19,620	-20,720
Free cash flow	-8,509	-10,967	-9,714	-2,518	14,137	18,689	10,464	4,872	1,543	2,893
Acquisitions & divestments	-2,549	-213	58	-280	1,774	-465	2,977	0	0	0
Dividend paid	-3,678	-3,727	-4,220	-3,740	-1,245	-1,810	-5,669	-5,564	-5,564	-5,618
Others	-1,272	7,907	1,369	-3,942	6,703	4,450	131	-2,000	-2,000	0
Change in net financial debt	16,008	7,000	12,507	10,480	-21,369	-20,864	-7,903	2,692	6,021	2,725
<b>Balance Sheet (EURm)</b>										
Intangible assets	12,098	13,735	14,801	15,978	16,399	15,005	15,869	14,039	12,359	10,249
Tangible assets	73,323	75,695	80,955	88,625	82,798	72,330	68,802	71,140	73,650	76,140
Financial & other non-current assets	11,967	11,882	12,366	15,869	16,656	21,076	22,556	22,878	23,467	24,176
Total shareholders' equity	59,133	65,314	66,053	62,841	62,248	73,167	86,540	92,171	97,013	103,951
Pension provisions	9,034	5,767	7,393	9,728	12,070	5,359	1,021	1,036	1,050	1,104
Liabilities and provisions	174,821	184,524	208,173	229,869	211,419	181,305	172,454	176,985	183,601	193,762
Net debt	150,634	154,367	168,500	184,515	165,488	137,913	125,133	127,840	133,874	136,653
Net financial debt	119,574	126,574	139,081	149,561	128,192	107,328	98,886	101,578	107,598	110,323
IFRS 16 debt	0	0	0	3,200	3,200	3,200	3,200	3,200	3,200	3,200
Net working capital	120,599	127,065	140,891	150,192	134,269	117,476	122,905	131,052	140,888	151,711
Invested capital	217,136	225,901	244,954	262,060	240,314	212,596	214,482	224,966	237,312	250,626
<b>Per share data (EUR)</b>										
EPS adjusted	6.11	9.04	4.08	5.65	2.19	20.18	12.16	11.96	11.22	11.36
EPS adj and fully diluted	6.11	9.04	4.08	5.65	2.19	20.18	12.16	11.96	11.22	11.36
% Change	-26.2%	48.0%	-54.9%	38.5%	-61.3%	822.5%	-39.7%	-1.7%	-6.2%	1.2%
EPS reported	7.97	9.84	6.77	2.22	3.39	21.50	13.55	11.96	11.22	11.36
Cash flow per share	3.89	1.93	1.82	8.59	19.19	21.84	12.23	21.77	19.78	22.07
Book value per share	54.16	59.83	60.44	57.33	56.72	67.24	79.83	84.72	88.87	94.98
Dividend per share	3.25	3.65	3.25	0.90	1.35	5.00	5.20	5.20	5.25	5.50
Number of shares, YE (m)	1,070.00	1,070.00	1,070.00	1,070.00	1,070.00	1,070.00	1,070.00	1,070.00	1,070.00	1,070.00
<b>Ratios</b>										
ROE (%)	11.7%	15.9%	6.8%	9.6%	3.8%	32.6%	16.5%	14.5%	12.9%	12.4%
ROIC (%)	3.4%	5.0%	3.5%	2.8%	2.2%	5.3%	7.1%	6.1%	5.4%	5.2%
ND(F+IFRS16) / EBITDA (x)	5.6	4.7	5.4	5.9	5.2	3.7	3.1	3.0	3.2	3.2
Gearing (%)	202.2%	193.8%	210.6%	238.0%	205.9%	146.7%	114.3%	110.2%	110.9%	106.1%
<b>Valuation</b>										
P/E adjusted	10.3	7.5	14.9	8.8	18.9	3.7	5.1	5.7	6.1	6.0
P/E adjusted and fully diluted	10.3	7.5	14.9	8.8	18.9	3.7	5.1	5.7	6.1	6.0
P/BV	1.2	1.1	1.0	0.9	0.7	1.1	0.8	0.8	0.8	0.7
P/CF	16.1	35.0	33.2	5.8	2.2	3.4	5.1	3.1	3.4	3.1
Dividend yield (%)	5.2%	5.4%	5.4%	1.8%	3.3%	6.8%	8.4%	7.6%	7.7%	8.1%
FCF yield (%)	-12.3%	-14.7%	-14.3%	-4.2%	28.8%	23.3%	15.4%	6.5%	2.1%	3.8%
EV/Sales	0.6	0.6	0.6	0.5	0.5	0.7	0.5	0.5	0.5	0.5
EV/EBITDA adj.	4.6	3.7	3.6	3.4	3.0	3.3	2.2	2.3	2.4	2.2
EV/EBIT adj.	9.9	6.9	8.0	8.9	8.6	5.7	3.6	4.3	4.7	4.4

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Reduce	10%	7%
Not Rated/Under Review/Accept Offer	2%	4%
Total	100%	100%

Source: Kepler Cheuvreux

A: % of all research recommendations

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# Local insight, European scale.



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## Mercedes-Benz Group AG

**FY'23 First Take:** strong cash flow, strong dividend and new capital deployment plan for shareholders

**Our Take:** All in all, Mercedes Benz Group delivered a solid full year result confirming the guidance across all KPIs in a relatively difficult supply environment. For 2023, Mercedes-Benz Cars delivered margins of 12.6%, Mercedes-Benz Vans delivered 15.5% margins, and Mercedes-Benz Mobility delivered EBIT margins of 4.9%. Fourth quarter margins on Cars came in at 9.8% in line with our expectations but Vans at 15.2% much better than our expectations. The capital deployment plan back to shareholders should be seen as a new benchmark for the Auto industry in Europe representing the highlight of results and for other OEMs to follow. Conf call at 8 UK time.

**Table 1: Mercedes Benz FY23 Financials**

€ in million, %

	FY22A	FY23A	FY23 JPM <sup>e</sup>	FY23 Cons	% Diff JPM <sup>e</sup>	% Diff Cons
<b>Group Revenue</b>	150,017	153,218	152,938	152,035	0%	1%
<b>EBIT</b>	20,458	19,660	19,311	19,708	2%	0%
<b>% EBIT</b>	13.6%	12.8%	12.6%	13.0%		
<b>Industrial FCF</b>	8,128	11,316	9,136	9,863	24%	15%
<b>MB Cars Revenue</b>	111,601	112,756	112,479	111,654	0%	1%
<b>MB Cars EBIT</b>	16,340	14,224	14,259	14,304	0%	-1%
<b>MB Cars Margin</b>	14.6%	12.6%	12.7%	12.8%		
<b>MB Vans Revenue</b>	17,217	20,288	20,144	20,161	1%	1%
<b>MB Vans EBIT</b>	1,897	3,138	2,981	3,038	5%	3%
<b>MB Vans Margin</b>	11.0%	15.5%	14.8%	15.1%		
<b>MB Mobility Revenue</b>	26,954	26,718	26,415	26,338	1%	1%
<b>MB Mobility EBIT</b>	2,428	1,302	1,400	1,428	-7%	-9%
<b>MB Mobility Margin</b>	9.0%	4.9%	5.3%	5.4%		

Source: J.P. Morgan estimates, Bloomberg consensus.

- Noteworthy Areas:** **1) Capital returns:** Dividend of €5.30 per share proposed (2022: €5.20). Shares worth up to €3bn to be repurchased, new buyback policy introduced. Any future free cash flow from the industrial business as available (post potential small-scale M&A) beyond the ~40% dividend payout ratio of Group Net Income, shall be used to fund share buybacks with the purpose of redeeming shares. **2) BEV sales** rose +61% to 240,700 units (2022: 149,200)
- Outlook & Guidance:**

**Outlook 2024:** Group Revenue expected at prior-year level, Group EBIT seen slightly below 2023 level, Free Cash Flow of the Industrial Business expected slightly below prior-year level, Mercedes-Benz Cars adjusted RoS seen in the range of 10% - 12%, Mercedes-Benz Vans adjusted RoS seen at 12% - 14% and Mercedes-Benz Mobility adjusted RoE at 10% - 12%.

- Likely changes to consensus:** We look for additional information including on one offs during the conference call.

## Overweight

**MBGn.DE, MBG GR**  
Price (21 Feb 24): €69.14  
Price Target (Jun-25): €78.00

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- **Valuation:** We value Mercedes Benz cars on a PE multiple correlated to its forward-looking Group Ebit margin and any stakes in entities at market value or book value.
- **Conference Call Details:** Today at 9.00am CET. Dial In:+49 30 2325 31490

## Investment Thesis, Valuation and Risks

### **Mercedes-Benz Group AG** (*Overweight; Price Target: €78.00*)

#### **Investment Thesis**

Mercedes-Benz cars is aiming to execute a premium luxury OEM strategy, growing the proportion of higher-priced vehicles within the car business in order to structurally improve the profitability of the company in the medium term. The growing proportion of higher-priced vehicles should lead to lower earnings volatility as well as structurally higher margins over the cycle for the firm. We believe Mercedes-Benz offers one of the most compelling premium OEM investment cases. We remain Overweight.

#### **Valuation**

We value Mercedes-Benz cars on a P/E multiple correlated to its forward-looking Group Ebit margin and any stakes in entities at market value or book value. We see the group trading on 7x PE FY24 at our price target.

#### **Risks to Rating and Price Target**

Downside risks could arise from: 1) a rapid decline in China car sales; 2) a deterioration of the pricing environment; 3) lower-than-expected car volumes in Europe and in the US; 4) higher-than-expected costs associated with the transition to EVs; and 5) a major acquisition.

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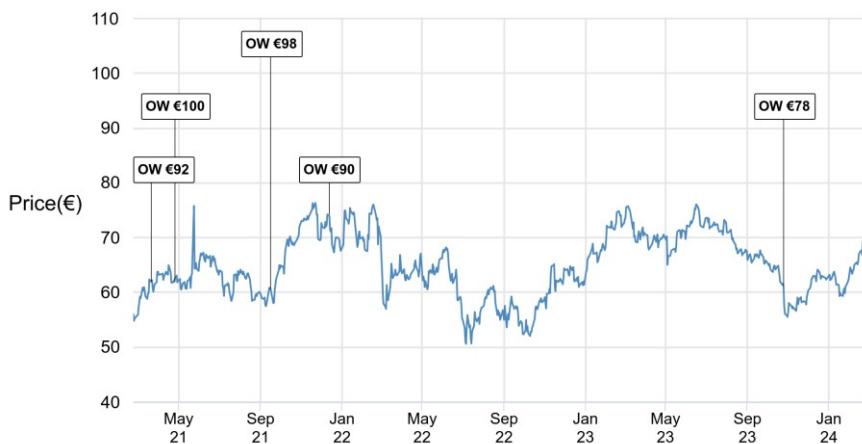
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### Mercedes-Benz Group AG (MBGn.DE, MBG GR) Price Chart



Date	Rating	Price (€)	Price Target (€)
22-Mar-21	OW	61.94	92
26-Apr-21	OW	61.87	100
17-Sep-21	OW	60.55	98
13-Dec-21	OW	74.25	90
26-Oct-23	OW	61.09	78

Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.  
 Initiated coverage Aug 26, 1998. All share prices are as of market close on the previous business day.

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IB clients**	48%	43%	32%
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Completed 22 Feb 2024 07:01 AM GMT

Disseminated 22 Feb 2024 07:09 AM GMT

<b>Buy</b>	<b>Value Indicators:</b>	EUR	<b>Warburg ESG Risk Score:</b> <span style="color: red;">4.7</span>	<b>Description:</b>
	DCF:	118.23	<b>ESG Score (MSCI based):</b> <span style="color: green;">4.0</span>	
	FCF-Value Potential 24e:	133.63	Balance Sheet Score:	5.0
	SotP 24e:	91.99	Market Liquidity Score:	5.0
<b>EUR 92.00</b>				
<b>Price</b>	<b>Market Snapshot:</b>	EUR m	<b>Shareholders:</b>	<b>Key Figures (WRe):</b>
	Market cap:	72,821	Freefloat	2023e
	No. of shares (m):	1,070	BAIC	Beta: 1.5
	EV:	44,226	Tenaciou3 Prospect Inv.	Price / Book: 0.8 x
<b>Upside</b>	Freefloat MC:	53,516	Kuwait	Equity Ratio: 36 %
	Ø Trad. Vol. (30d):	153 m		

## First Glance: Solid FY 2023 results; Outlook for 2024 meets market expectations

MBG reported Q4/FY 2023 figures that were slightly ahead of estimates on group level and provided an outlook for FY 2024, which is in line with estimates. At 12.6% (cons.: 12.8%; WRe: 12.5%), the FY 2023 adjusted EBIT margin at MBC was in the lower half of the 12-14% target corridor, as envisaged with the Q3/9M call, while the adj. EBIT margin of 15.1% at MB Vans surpassed the 13-15% goal (see table below). RoE of 12.3% in the Mobility segment met the FY target corridor of 12-14%. Strong Industrial FCF of EUR 11.3bn (+39% yoy) was already reported on 2 February. Net financial cash in the Industrial business stood at EUR 31.7bn at the end of 2023 (end of 2022: EUR 26.6bn).

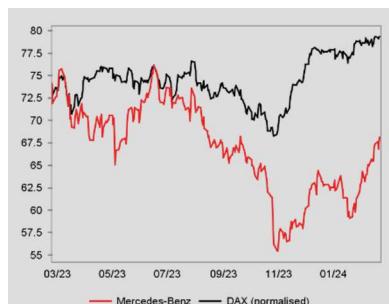
In view of the strong result, and in line with the 40% pay-out target ratio, MBG will propose a dividend of EUR 5.30 to the AGM (WRe: EUR 5.20). Based on yesterday's share price (EUR 68.07), the dividend proposal corresponds to a dividend yield of 7.8%. On Wednesday evening MBG already announced that it would add EUR 3bn to its share repurchase programme (in addition to the EUR 4bn announced last February of which some EUR 2.1bn has already been implemented). The company also announced a share buy-back policy for which it intends to use the FCF from the Industrial business generated beyond the 40% dividend pay-out ratio of group net income to fund share buybacks.

For FY 2024, Mercedes-Benz Group is targeting flat unit sales for Mercedes-Benz Cars (MBC) and slightly lower sales at Mercedes-Benz Vans (MBV) and is thus taking a prudent approach. The adjusted EBIT margins are assumed to reach 10-12% for MBC (cons.: 11.2%) and 12-14% for MBV (cons.: 13.0%). On Group level, EBIT is assumed to be slightly below (i.e. -5 to -15%) last year's level (EUR 19.7bn; cons.: -13.5%). FCF is expected to be slightly lower (i.e. -10 to -25%) than the very strong prior-year result.

### Conclusion:

Solid finish to FY 2023; MBC EBIT adj. margin in the double digits in Q4 in a challenging environment. Strong FCF was already reported. Outlook for 2024 meets estimates and envisages further strong cash generation (although slightly lower than in 2023). The dividend yield of 7.8% is attractive and further buy backs will add to cash-returns to shareholders. **We confirm our Buy rating and our PT of EUR 92.**

FY End: 31.12. in EUR m	Q4 2023	Q4 2023e	MBG Cons	Q4 2022	yoy	FY 2023	FY 2023e	FY Cons.	FY 2022	yoy	Cons. 2024e	Guidance 2024
<b>Sales</b>	40,261	39,105	39,078	41,003	-1.8%	153,218	152,062	152,035	150,017	2.1%	151,997	at prior year
<b>EBIT adj.</b>	4,456	4,003	4,077	5,071	-12.1%	20,004	19,634	19,708	20,655	-3.2%	16,995	
% margin	11.1%	10.2%	10.4%	12.4%		13.1%	12.9%	13.0%	13.8%		11.2%	
<b>EBIT IFRS</b>	4,326	3,953	4,085	5,411	-20.1%	19,660	19,370	19,502	20,458	-3.9%	16,999	slightly down
<b>Net income</b>	3,117	2,974	3,981	21.7%		14,261	14,118	14,501	14,501	-1.7%		
<b>EPS</b>	2.99	2.82	3.72	-19.6%		13.46	13.29	13.55	13.55	-0.7%		
<b>DPS</b>						5.30	5.20	5.20	5.20	1.9%		
<b>MB Cars Sales</b>	29,569	28,099	28,467	30,557	-3.2%	112,756	111,286	111,654	111,601	1.0%	111,763	
<b>MBC EBIT adj.</b>	2,970	2,673	2,988	4,088	-27.3%	14,252	13,955	14,270	16,245	-12.3%	12,513	
% margin	10.0%	9.5%	10.5%	13.4%		12.6%	12.5%	12.8%	14.6%		11.2%	10-12%
<b>MB Vans Sales</b>	5,611	5,463	5,484	5,114	9.7%	20,288	20,140	20,161	17,217	17.8%	19,927	
<b>MBV EBIT adj.</b>	809	662	668	501	61.5%	3,063	2,999	3,005	1,927	59.0%	2,598	
% margin	14.4%	12.1%	12.2%	9.8%		15.1%	14.9%	14.9%	11.2%		13.0%	12-14%
<b>Mobility Sales</b>	7,012	6,947	6,632	6,858	2.2%	26,954	26,653	26,338	26,954	0.0%	26,319	
<b>Mobility EBIT adj.</b>	345	338	354	494	-30.2%	1,695	1,688	1,704	2,428	-30.2%	1,553	RoE: 10-12%



<b>Rel. Performance vs DAX:</b>	
1 month:	12.5 %
6 months:	-8.3 %
Year to date:	6.9 %
Trailing 12 months:	-15.6 %
<b>Company events:</b>	
22.02.24	Prel. FY 2023
15.03.24	FY 2023
30.04.24	Q1
08.05.24	AGM

Analyst

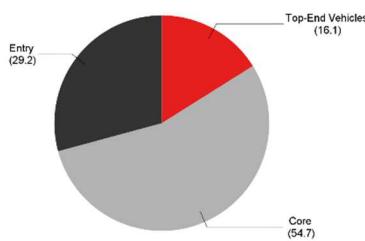
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FIRST GLANCE

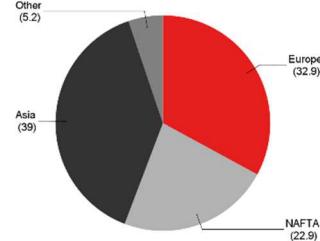
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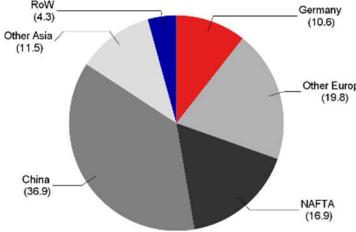
**Sales Mercedes-Benz Cars**  
2022; in %



**Sales by regions (MBC)**  
2022; in %



**Mercedes-Benz Retail Sales by region**  
2022; in %



Source: Warburg Research

Source: Warburg Research

Source: Warburg Research

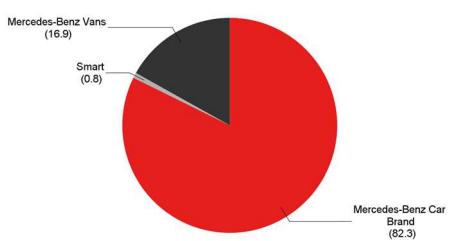
## Company Background

- Mercedes-Benz Group develops, produces and sells premium cars under the Mercedes-Benz brand. Together with smart and the van operations, the car business is bundled in the Mercedes Benz Cars & Vans (MBC&V) segment.
- For cars, the major sales markets are Germany/Europe (36%), NAFTA (15%) and China (36%).
- Mercedes-Benz Cars & Vans has the ambition to generate double digit EBIT margins at least in favourable market conditions and to achieve a cash conversion ratio of between 0.7x-0.9x
- By 2025 an all-electric alternative for every model the company makes will be available. BEVs and PHEVs should represent 50% of sales by 2025

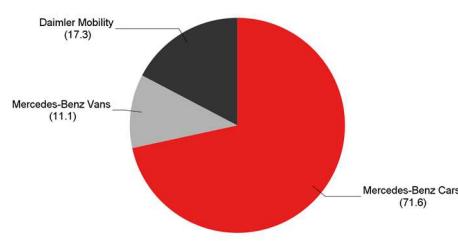
## Competitive Quality

- Mercedes-Benz still generates the highest average selling price per vehicle among the premium car manufacturers. This is proof of the still high brand value and the strong sales mix.
- Based on a strong model mix, solid pricing as well as focus on profitable models and regions, increased customer loyalty and growth in recurring revenues Daimler intends to further grow its enterprise value
- Dedicated EV-architectures, standardized and scalable battery systems as well as captive e-drives are prerequisites for a leading role in premium e-mobility
- Mercedes-Benz Group is the only European automobile manufacturer with no major state/family shareholder. This increases the pressure on management to reach the margins required by the capital market.

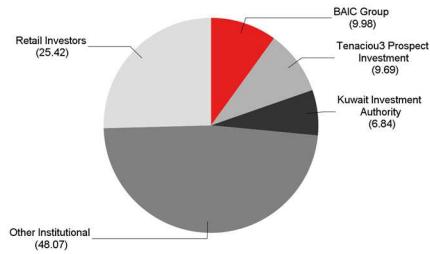
**Unit Sales Group**  
2022; in %



**Sales by segments**  
2022; in %



**Shareholder Structure**  
FY 2022; in %



Source: Warburg Research

Source: Warburg Research

Source: Warburg Research

## DCF model

Figures in EUR m	Detailed forecast period				Transitional period								Term. Value	
	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	2034e	2035e	
Sales	131,484	139,053	145,190	150,272	154,780	158,649	162,615	166,681	170,848	175,119	179,497	183,984	188,584	
<i>Sales change</i>	<i>2.1 %</i>	<i>5.8 %</i>	<i>4.4 %</i>	<i>3.5 %</i>	<i>3.0 %</i>	<i>2.5 %</i>	<i>2.5 %</i>	<i>2.5 %</i>	<i>2.5 %</i>	<i>2.5 %</i>	<i>2.5 %</i>	<i>2.5 %</i>	<i>2.5 %</i>	<i>1.0 %</i>
EBIT	14,471	13,600	14,353	13,975	13,466	12,851	12,196	11,668	11,959	11,383	11,667	11,959	12,258	
<i>EBIT-T-margin</i>	<i>11.0 %</i>	<i>9.8 %</i>	<i>9.9 %</i>	<i>9.3 %</i>	<i>8.7 %</i>	<i>8.1 %</i>	<i>7.5 %</i>	<i>7.0 %</i>	<i>7.0 %</i>	<i>6.5 %</i>	<i>6.5 %</i>	<i>6.5 %</i>	<i>6.5 %</i>	
<i>Tax rate (EBT)</i>	<i>30.0 %</i>	<i>30.0 %</i>	<i>30.0 %</i>	<i>30.0 %</i>	<i>30.0 %</i>	<i>30.0 %</i>	<i>30.0 %</i>	<i>30.0 %</i>	<i>30.0 %</i>	<i>30.0 %</i>	<i>30.0 %</i>	<i>30.0 %</i>	<i>30.0 %</i>	
NOPAT	10,130	9,520	10,047	9,783	9,426	8,995	8,537	8,167	8,372	7,968	8,167	8,371	8,581	
Depreciation <i>in % of Sales</i>	6,454	6,700	6,975	7,814	8,203	8,567	8,944	9,167	8,542	9,632	9,872	10,119	10,372	
<i>4.9 %</i>	<i>4.8 %</i>	<i>4.8 %</i>	<i>5.2 %</i>	<i>5.3 %</i>	<i>5.4 %</i>	<i>5.5 %</i>	<i>5.5 %</i>	<i>5.0 %</i>	<i>5.5 %</i>					
Changes in provisions	10	5	5	10	11	11	11	11	11	11	11	11	11	
Change in Liquidity from														
- Working Capital	1,370	1,530	1,222	-93	766	658	674	691	708	726	744	763	782	
- Capex	8,116	8,646	9,007	8,716	9,132	9,519	9,757	10,001	10,251	10,507	10,770	11,039	11,315	
<i>Capex in % of Sales</i>	<i>6.2 %</i>	<i>6.2 %</i>	<i>6.2 %</i>	<i>5.8 %</i>	<i>5.9 %</i>	<i>6.0 %</i>	<i>6.0 %</i>	<i>6.0 %</i>	<i>6.0 %</i>	<i>6.0 %</i>	<i>6.0 %</i>	<i>6.0 %</i>	<i>6.0 %</i>	
- Other	0	0	0	0	0	0	0	0	0	0	0	0	0	
Free Cash Flow (WACC Model)	7,108	6,049	6,799	8,984	7,742	7,396	7,061	6,654	5,966	6,377	6,537	6,700	6,867	7,039
PV of FCF	7,046	5,402	5,470	6,512	5,055	4,351	3,742	3,177	2,566	2,471	2,282	2,107	1,946	19,945
share of PVs	<b>24.86 %</b>			<b>47.47 %</b>			<b>27.67 %</b>							

## Model parameter

Derivation of WACC:	Derivation of Beta:		
Debt ratio	0.00 %	Financial Strength	1.00
Cost of debt (after tax)	3.2 %	Liquidity (share)	1.00
Market return	8.25 %	Cyclical	2.00
Risk free rate	2.75 %	Transparency	2.00
		Others	1.50
<b>WACC</b>	<b>11.00 %</b>	<b>Beta</b>	<b>1.50</b>

## Valuation (m)

Present values 2035e	52,131		
Terminal Value	19,945		
Financial liabilities	-6,460		
Pension liabilities	-1,317		
Hybrid capital	0		
Minority interest	2,750		
Market val. of investments	29,201		
Liquidity	20,177		
No. of shares (m)	1,069.8		
<b>Equity Value</b>	<b>126,481</b>		
Value per share (EUR)	118.23		

## Sensitivity Value per Share (EUR)

Terminal Growth							Delta EBIT-margin										
Beta	WACC	0.25 %	0.50 %	0.75 %	1.00 %	1.25 %	1.50 %	1.75 %	Beta	WACC	-3.0 pp	-2.0 pp	-1.0 pp	+0.0 pp	+1.0 pp	+2.0 pp	+3.0 pp
<b>1.77</b>	12.5 %	109.67	109.94	110.22	110.51	110.82	111.14	111.47	<b>1.77</b>	12.5 %	81.33	91.06	100.78	110.51	120.24	129.96	139.69
<b>1.68</b>	12.0 %	111.88	112.19	112.51	112.85	113.21	113.58	113.97	<b>1.68</b>	12.0 %	82.39	92.54	102.70	112.85	123.01	133.16	143.32
<b>1.59</b>	11.5 %	114.29	114.65	115.02	115.41	115.82	116.26	116.71	<b>1.59</b>	11.5 %	83.53	94.16	104.79	115.41	126.04	136.67	147.30
<b>1.50</b>	11.0 %	116.93	117.34	117.77	<b>118.23</b>	118.71	119.21	119.74	<b>1.50</b>	11.0 %	84.79	95.94	107.08	<b>118.23</b>	129.38	140.52	151.67
<b>1.41</b>	10.5 %	119.82	120.30	120.80	121.34	121.90	122.49	123.11	<b>1.41</b>	10.5 %	86.17	97.89	109.61	121.34	133.06	144.78	156.50
<b>1.32</b>	10.0 %	123.01	123.57	124.16	124.78	125.44	126.14	126.88	<b>1.32</b>	10.0 %	87.70	100.06	112.42	124.78	137.15	149.51	161.87
<b>1.23</b>	9.5 %	126.54	127.20	127.90	128.63	129.42	130.25	131.14	<b>1.23</b>	9.5 %	89.39	102.47	115.55	128.63	141.71	154.79	167.87

- Sales, earnings and cash flow figures for the industrial business only
- FS business considered at book value, Chinese JV with PER of 5x and Daimler Truck Group at market value
- WACC=11.0% due to 100% equity financing
- Long-term sales growth in line with potential growth of world car market in perpetuity
- Long-term EBITDA margin of 11.5% corresponds to 6% EBIT margin (target: 8-10%)

### Free Cash Flow Value Potential

Warburg Research's valuation tool "FCF Value Potential" reflects the ability of the company to generate sustainable free cash flows. It is based on the "FCF potential" - a FCF "ex growth" figure - which assumes unchanged working capital and pure maintenance capex. A value indication is derived via the perpetuity of a given year's "FCF potential" with consideration of the weighted costs of capital. The fluctuating value indications over time add a timing element to the DCF model (our preferred valuation tool).

in EUR m	2019	2020	2021	2022	2023e	2024e	2025e	
Net Income before minorities	1,194	3,096	25,290	13,012	13,430	12,454	13,289	
+ Depreciation + Amortisation	7,597	8,653	6,980	6,397	6,574	6,825	7,105	
- Net Interest Income	-290	-101	-167	-106	435	483	556	
- Maintenance Capex	9,014	8,256	7,371	8,214	8,424	8,875	9,281	
+ Other	-746	-454	-11,071	-1,039	-1,543	-1,539	-1,639	
<b>= Free Cash Flow Potential</b>	<b>-679</b>	<b>3,140</b>	<b>13,995</b>	<b>10,262</b>	<b>9,601</b>	<b>8,382</b>	<b>8,918</b>	
FCF Potential Yield (on market EV)	-1.2 %	7.5 %	21.1 %	23.4 %	20.9 %	19.4 %	22.4 %	
WACC	11.00 %	11.00 %	11.00 %	11.00 %	11.00 %	11.00 %	11.00 %	
<b>= Enterprise Value (EV)</b>	<b>54,952</b>	<b>41,627</b>	<b>66,206</b>	<b>43,855</b>	<b>46,035</b>	<b>43,219</b>	<b>39,862</b>	
<b>= Fair Enterprise Value</b>	<b>n.a.</b>	<b>28,548</b>	<b>127,229</b>	<b>93,288</b>	<b>87,286</b>	<b>76,200</b>	<b>81,071</b>	
- Net Debt (Cash)	-26,637	-26,637	-26,637	-26,637	-29,810	-32,381	-36,244	
- Pension Liabilities	1,098	1,098	1,098	1,098	1,095	1,092	1,089	
- Other	0	0	0	0	0	0	0	
- Market value of minorities	3,083	3,083	3,083	3,083	3,000	2,750	3,250	
+ Market value of investments	38,221	38,221	38,221	38,221	38,221	38,221	38,221	
<b>= Fair Market Capitalisation</b>	<b>n.a.</b>	<b>89,225</b>	<b>187,906</b>	<b>153,964</b>	<b>151,221</b>	<b>142,960</b>	<b>151,196</b>	
Number of shares, average	1,070	1,070	1,070	1,070	1,062	1,055	1,055	
<b>= Fair value per share (EUR)</b>	<b>n.a.</b>	<b>83.40</b>	<b>175.65</b>	<b>143.92</b>	<b>142.39</b>	<b>135.51</b>	<b>143.31</b>	
premium (-) / discount (+) in %					109.2 %	99.1 %	110.5 %	
<b>Sensitivity Fair value per Share (EUR)</b>								
WACC	14.00 %	n.a.	77.68	150.16	125.23	123.87	118.37	125.09
	13.00 %	n.a.	79.30	157.35	130.50	128.80	122.67	129.67
	12.00 %	n.a.	81.18	165.73	136.65	134.56	127.70	135.02
	<b>11.00 %</b>	<b>n.a.</b>	<b>83.40</b>	<b>175.65</b>	<b>143.92</b>	<b>142.39</b>	<b>135.51</b>	<b>143.31</b>
	10.00 %	n.a.	86.07	187.54	152.64	149.51	140.76	148.91
	9.00 %	n.a.	89.33	202.07	163.30	159.49	149.46	158.17
	8.00 %	n.a.	93.41	220.24	176.62	171.95	160.34	169.75

- FCF Value Potential Model for the industrial business
- Maintenance CAPEX seen at 5%, capitalised R&D added
- Pension Liabilities = difference between net present value of pension debt and pension funds
- Minorities valued at 10x net earnings
- Market value of investments includes FS business (@ 1x book value), China JV (@ 5x PER) and DTG at market value

**Valuation**

	2019	2020	2021	2022	2023e	2024e	2025e
Price / Book	0.9 x	0.7 x	1.1 x	0.8 x	0.8 x	0.7 x	0.7 x
Book value per share ex intangibles	42.41	41.40	53.23	65.01	72.77	79.06	86.28
EV / Sales	0.3 x	0.3 x	0.5 x	0.3 x	0.3 x	0.3 x	0.2 x
EV / EBITDA	4.6 x	2.7 x	2.9 x	1.6 x	1.8 x	1.7 x	1.5 x
EV / EBIT	12.7 x	6.3 x	4.1 x	2.1 x	2.4 x	2.4 x	2.1 x
EV / EBIT adj.*	5.3 x	4.8 x	3.9 x	2.1 x	2.3 x	2.4 x	2.1 x
P / FCF	25.1 x	5.2 x	8.5 x	7.5 x	7.7 x	8.9 x	7.7 x
P / E	22.4 x	12.2 x	3.4 x	4.6 x	5.1 x	5.5 x	5.1 x
P / E adj.*	22.4 x	12.2 x	7.4 x	4.6 x	5.1 x	5.5 x	5.1 x
Dividend Yield	1.8 %	3.3 %	6.8 %	8.4 %	7.6 %	7.6 %	7.7 %
FCF Potential Yield (on market EV)	-1.2 %	7.5 %	21.1 %	23.4 %	20.9 %	19.4 %	22.4 %

\*Adjustments made for: non recurring items on EBIT level

## Consolidated profit and loss

In EUR m	2019	2020	2021	2022	2023e	2024e	2025e
<b>Sales</b>	<b>172,745</b>	<b>154,309</b>	<b>133,893</b>	<b>150,017</b>	<b>152,062</b>	<b>159,743</b>	<b>166,625</b>
Change Sales yoy	3.2 %	-10.7 %	-13.2 %	12.0 %	1.4 %	5.1 %	4.3 %
COGS	143,581	128,721	103,218	115,997	118,084	126,475	131,434
<b>Gross profit</b>	<b>29,164</b>	<b>25,588</b>	<b>30,675</b>	<b>34,020</b>	<b>33,977</b>	<b>33,268</b>	<b>35,192</b>
<i>Gross margin</i>	16.9 %	16.6 %	22.9 %	22.7 %	22.3 %	20.8 %	21.1 %
Research and development	6,586	6,116	5,467	5,602	6,134	6,354	6,568
Sales and marketing	12,801	11,058	9,194	9,482	9,749	10,191	10,700
Administration expenses	4,050	3,534	2,808	2,584	2,671	2,849	2,962
Other operating expenses	4,469	742	1,735	416	1,375	1,225	1,200
Other operating income	2,837	2,022	2,888	2,450	2,700	2,750	2,750
Unfrequent items	217	443	1,669	2,072	2,622	2,566	2,731
<b>EBITDA</b>	<b>11,909</b>	<b>15,256</b>	<b>23,008</b>	<b>26,979</b>	<b>25,944</b>	<b>24,789</b>	<b>26,348</b>
<i>Margin</i>	6.9 %	9.9 %	17.2 %	18.0 %	17.1 %	15.5 %	15.8 %
Depreciation of fixed assets	4,602	5,648	3,715	3,484	3,160	3,305	3,453
<b>EBITA</b>	<b>6,709</b>	<b>9,167</b>	<b>18,591</b>	<b>22,867</b>	<b>21,984</b>	<b>20,684</b>	<b>22,095</b>
Amortisation of intangible assets	2,397	2,564	2,563	2,409	2,614	2,720	2,852
Goodwill amortisation	0	0	0	0	0	0	0
<b>EBIT</b>	<b>4,312</b>	<b>6,603</b>	<b>16,028</b>	<b>20,458</b>	<b>19,370</b>	<b>17,964</b>	<b>19,243</b>
<i>Margin</i>	2.5 %	4.3 %	12.0 %	13.6 %	12.7 %	11.2 %	11.5 %
<b>EBIT adj.</b>	<b>10,275</b>	<b>8,641</b>	<b>17,158</b>	<b>20,655</b>	<b>19,634</b>	<b>18,114</b>	<b>19,393</b>
Interest income	393	221	208	261	382	428	500
Interest expenses	683	322	375	367	-54	-55	-56
Other financial income (loss)	-193	-163	-50	-48	7	8	8
<b>EBT</b>	<b>3,830</b>	<b>6,339</b>	<b>15,811</b>	<b>20,304</b>	<b>19,812</b>	<b>18,455</b>	<b>19,807</b>
<i>Margin</i>	2.2 %	4.1 %	11.8 %	13.5 %	13.0 %	11.6 %	11.9 %
Total taxes	1,121	2,330	4,761	5,495	5,394	5,116	5,497
<b>Net income from continuing operations</b>	<b>2,709</b>	<b>4,009</b>	<b>11,050</b>	<b>14,809</b>	<b>14,418</b>	<b>13,339</b>	<b>14,310</b>
Income from discontinued operations (net of tax)	0	0	12,346	0	0	0	0
<b>Net income before minorities</b>	<b>2,709</b>	<b>4,009</b>	<b>23,396</b>	<b>14,809</b>	<b>14,418</b>	<b>13,339</b>	<b>14,310</b>
Minority interest	332	382	390	308	300	275	325
<b>Net income</b>	<b>2,377</b>	<b>3,627</b>	<b>23,006</b>	<b>14,501</b>	<b>14,118</b>	<b>13,064</b>	<b>13,985</b>
<i>Margin</i>	1.4 %	2.4 %	17.2 %	9.7 %	9.3 %	8.2 %	8.4 %
Number of shares, average	1,070	1,070	1,070	1,070	1,062	1,055	1,055
<b>EPS</b>	<b>2.22</b>	<b>3.39</b>	<b>21.50</b>	<b>13.55</b>	<b>13.29</b>	<b>12.38</b>	<b>13.26</b>
EPS adj.	2.22	3.39	9.96	13.55	13.29	12.38	13.26

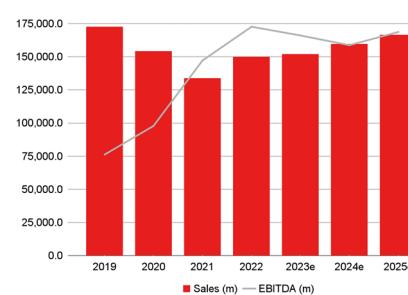
\*Adjustments made for: non recurring items on EBIT level

**Guidance: Group sales at prior year's level; IFRS EBIT at prior year's level**

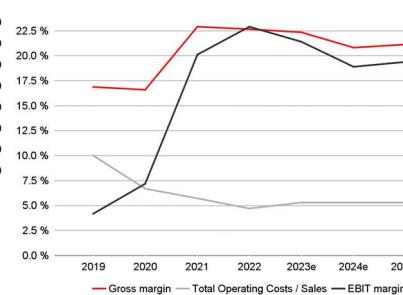
## Financial Ratios

	2019	2020	2021	2022	2023e	2024e	2025e
Total Operating Costs / Sales	10.0 %	6.7 %	5.7 %	4.7 %	5.3 %	5.3 %	5.3 %
Operating Leverage	-19.0 x	-5.0 x	-10.8 x	2.3 x	-3.9 x	-1.4 x	1.7 x
EBITDA / Interest expenses	17.4 x	47.4 x	61.4 x	73.5 x	n.m.	n.m.	n.m.
Tax rate (EBT)	29.3 %	36.8 %	30.1 %	27.1 %	27.2 %	27.7 %	27.8 %
Dividend Payout Ratio	35.5 %	36.0 %	48.4 %	37.6 %	38.3 %	41.1 %	38.7 %
Sales per Employee	578,410	559,206	776,529	857,240	851,886	883,778	913,016

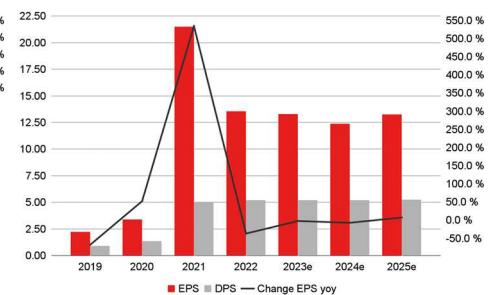
## Sales, EBITDA in EUR m



## Operating Performance in %



## Performance per Share



Source: Warburg Research

Source: Warburg Research

Source: Warburg Research

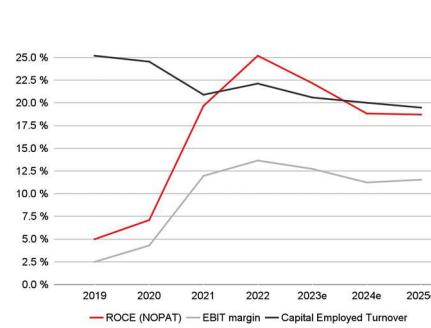
## Consolidated balance sheet

In EUR m	2019	2020	2021	2022	2023e	2024e	2025e
<b>Assets</b>							
Goodwill and other intangible assets	15,978	16,399	15,005	15,869	16,921	17,972	18,952
thereof other intangible assets	2,236	2,071	1,544	1,583	1,623	1,668	1,718
thereof Goodwill	1,217	1,221	764	749	749	749	749
Property, plant and equipment	32,909	31,536	25,148	24,524	26,344	28,469	30,771
Financial assets	9,296	9,356	16,769	18,008	18,701	19,722	20,834
Other long-term assets	55,716	51,262	47,182	44,278	41,769	40,896	43,004
<b>Fixed assets</b>	<b>113,899</b>	<b>108,553</b>	<b>104,104</b>	<b>102,679</b>	<b>103,734</b>	<b>107,059</b>	<b>113,561</b>
Inventories	29,757	26,444	21,466	25,621	26,336	27,536	28,619
Accounts receivable	12,332	10,649	7,673	8,100	8,465	9,156	9,701
Liquid assets	23,674	25,812	24,625	20,177	19,080	21,401	25,014
Other short-term assets	116,973	108,020	95,387	99,713	106,339	110,207	114,485
<b>Current assets</b>	<b>182,736</b>	<b>170,925</b>	<b>149,151</b>	<b>153,611</b>	<b>160,220</b>	<b>168,300</b>	<b>177,819</b>
<b>Total Assets</b>	<b>302,438</b>	<b>285,737</b>	<b>259,831</b>	<b>260,015</b>	<b>267,354</b>	<b>278,610</b>	<b>294,530</b>
<b>Liabilities and shareholders' equity</b>							
Subscribed capital	3,070	3,070	3,070	3,070	3,032	3,032	3,032
Capital reserve	11,552	11,551	11,723	11,718	11,312	11,312	11,312
Retained earnings	46,329	47,111	55,926	67,695	76,422	84,100	92,704
Other equity components	393	-1,041	1,232	2,932	2,932	2,932	2,932
Shareholders' equity	61,344	60,691	71,951	85,415	93,698	101,376	109,980
Minority interest	1,497	1,557	1,216	1,125	1,425	1,700	2,025
<b>Total equity</b>	<b>62,841</b>	<b>62,248</b>	<b>73,167</b>	<b>86,540</b>	<b>95,123</b>	<b>103,076</b>	<b>112,005</b>
Provisions	30,652	32,520	21,321	17,044	17,295	17,462	17,632
thereof provisions for pensions and similar obligations	9,728	12,070	5,359	1,021	1,031	1,036	1,042
Financial liabilities (total)	12,677	7,957	3,620	-6,460	-10,730	-10,980	-11,230
Short-term financial liabilities	41,875	40,294	38,037	37,851	37,742	38,112	38,962
Accounts payable	12,707	12,378	10,655	12,204	11,914	12,275	12,681
Other liabilities	183,561	170,634	151,068	150,687	153,753	156,776	163,442
<b>Liabilities</b>	<b>239,597</b>	<b>223,489</b>	<b>186,664</b>	<b>173,475</b>	<b>172,231</b>	<b>175,534</b>	<b>182,525</b>
<b>Total liabilities and shareholders' equity</b>	<b>302,438</b>	<b>285,737</b>	<b>259,831</b>	<b>260,015</b>	<b>267,354</b>	<b>278,610</b>	<b>294,530</b>

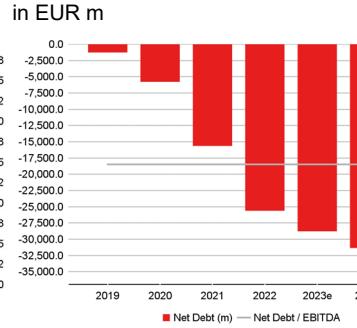
## Financial Ratios

	2019	2020	2021	2022	2023e	2024e	2025e
<b>Efficiency of Capital Employment</b>							
Operating Assets Turnover	2.8 x	2.7 x	3.1 x	3.3 x	3.1 x	3.0 x	3.0 x
Capital Employed Turnover	2.8 x	2.7 x	2.3 x	2.5 x	2.3 x	2.2 x	2.2 x
ROA	2.1 %	3.3 %	22.1 %	14.1 %	13.6 %	12.2 %	12.3 %
<b>Return on Capital</b>							
ROCE (NOPAT)	5.0 %	7.1 %	19.7 %	25.2 %	22.2 %	18.8 %	18.7 %
ROE	3.8 %	5.9 %	34.7 %	18.4 %	15.8 %	13.4 %	13.2 %
Adj. ROE	3.8 %	5.9 %	34.7 %	18.4 %	15.8 %	13.4 %	13.2 %
<b>Balance sheet quality</b>							
Net Debt	-1,269	-5,785	-15,646	-25,616	-28,778	-31,345	-35,202
Net Financial Debt	-10,997	-17,855	-21,005	-26,637	-29,810	-32,381	-36,244
Net Gearing	-2.0 %	-9.3 %	-21.4 %	-29.6 %	-30.3 %	-30.4 %	-31.4 %
Net Fin. Debt / EBITDA	n.a.						
Book Value / Share	57.3	56.7	67.3	79.8	88.8	96.1	104.2
Book value per share ex intangibles	42.4	41.4	53.2	65.0	72.8	79.1	86.3

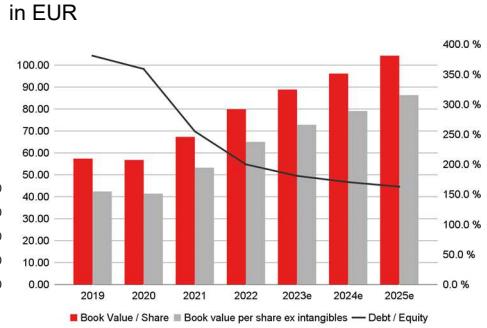
## ROCE Development



Net debt  
in EUR m



Book Value per Share  
in EUR



Source: Warburg Research

Source: Warburg Research

Source: Warburg Research

## Consolidated cash flow statement

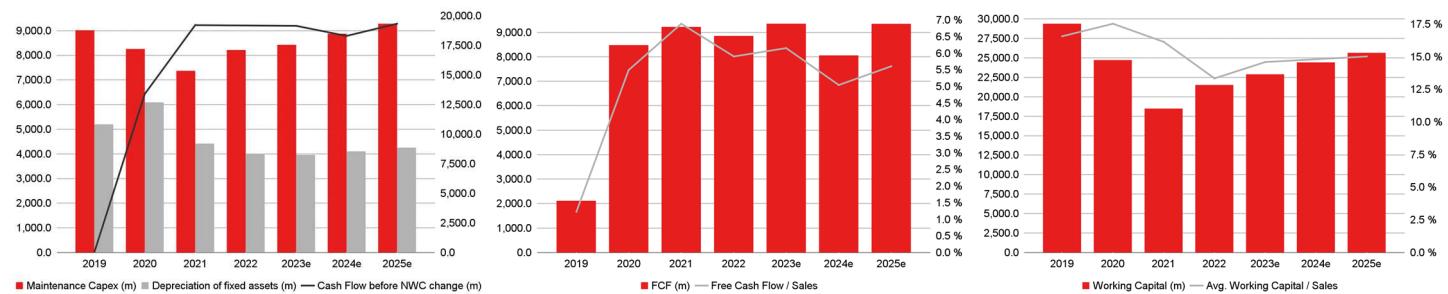
In EUR m	2019	2020	2021	2022	2023e	2024e	2025e
Net income	1,194	3,096	25,290	13,012	13,430	12,454	13,289
Depreciation of fixed assets	5,200	6,089	4,417	3,988	3,960	4,105	4,253
Amortisation of goodwill	0	0	0	0	0	0	0
Amortisation of intangible assets	2,397	2,564	2,563	2,409	2,614	2,720	2,852
Increase/decrease in long-term provisions	n.a.	0	0	0	10	5	5
Other non-cash income and expenses	-77	1,646	-13,051	-210	-868	-996	-1,063
<b>Cash Flow before NWC change</b>	<b>n.a.</b>	<b>13,395</b>	<b>19,219</b>	<b>19,199</b>	<b>19,147</b>	<b>18,288</b>	<b>19,337</b>
Increase / decrease in inventory	1	1,941	-3,067	-4,103	-708	-1,188	-1,072
Increase / decrease in accounts receivable	-410	901	245	-579	-361	-684	-539
Increase / decrease in accounts payable	-1,651	-285	1,451	1,500	-287	358	402
Increase / decrease in other working capital positions	n.a.	1,227	-547	-125	29	301	621
Increase / decrease in working capital (total)	n.a.	3,784	-1,918	-3,307	-1,327	-1,214	-589
<b>Net cash provided by operating activities [1]</b>	<b>12,443</b>	<b>17,179</b>	<b>17,301</b>	<b>15,892</b>	<b>17,819</b>	<b>17,074</b>	<b>18,748</b>
Investments in intangible assets	3,650	2,770	2,602	0	3,636	3,741	3,802
Investments in property, plant and equipment	6,995	5,702	4,579	6,838	4,930	5,376	5,697
Payments for acquisitions	0	0	0	0	0	0	0
Financial investments	0	0	0	0	0	0	0
Income from asset disposals	-232	-107	718	796	0	0	0
<b>Net cash provided by investing activities [2]</b>	<b>10,327</b>	<b>8,701</b>	<b>8,078</b>	<b>7,037</b>	<b>8,466</b>	<b>9,017</b>	<b>9,399</b>
Change in financial liabilities	6,760	-12,045	-13,455	-9,110	-250	-250	-250
Dividends paid	3,751	1,231	1,775	5,569	5,486	5,486	5,486
Purchase of own shares	0	12	49	0	0	0	0
Capital measures	0	0	0	0	-444	0	0
Other	-1,884	9,895	2,957	1,795	-4,094	172	168
<b>Net cash provided by financing activities [3]</b>	<b>1,125</b>	<b>-3,393</b>	<b>-12,322</b>	<b>-12,884</b>	<b>-10,274</b>	<b>-5,564</b>	<b>-5,568</b>
<b>Change in liquid funds [1]+[2]+[3]</b>	<b>2,358</b>	<b>3,156</b>	<b>-1,711</b>	<b>-4,519</b>	<b>-1,097</b>	<b>2,321</b>	<b>3,613</b>
Effects of exchange-rate changes on cash	112	-893	789	89	0	0	0
<b>Cash and cash equivalent at end of period</b>	<b>16,152</b>	<b>20,344</b>	<b>18,034</b>	<b>14,094</b>	<b>13,173</b>	<b>15,667</b>	<b>19,447</b>

## Financial Ratios

	2019	2020	2021	2022	2023e	2024e	2025e
<b>Cash Flow</b>							
FCF	2,116	8,478	9,223	8,855	9,353	8,057	9,349
Free Cash Flow / Sales	1.2 %	5.5 %	6.9 %	5.9 %	6.2 %	5.0 %	5.6 %
Free Cash Flow Potential	-679	3,140	13,995	10,262	9,601	8,382	8,918
Free Cash Flow / Net Profit	89.0 %	233.7 %	40.1 %	61.1 %	66.2 %	61.7 %	66.8 %
Interest Received / Avg. Cash	1.8 %	0.9 %	0.8 %	1.2 %	1.9 %	2.1 %	2.2 %
Interest Paid / Avg. Debt	6.6 %	3.1 %	6.5 %	-25.8 %	0.6 %	0.5 %	0.5 %
<b>Management of Funds</b>							
Investment ratio	6.2 %	5.5 %	5.4 %	4.6 %	5.6 %	5.7 %	5.7 %
Maint. Capex / Sales	5.2 %	5.3 %	5.5 %	5.5 %	5.5 %	5.6 %	5.6 %
Capex / Dep	152.1 %	103.2 %	114.4 %	116.0 %	148.4 %	151.3 %	150.7 %
Avg. Working Capital / Sales	16.6 %	17.5 %	16.1 %	13.3 %	14.6 %	14.8 %	15.0 %
Trade Debtors / Trade Creditors	97.0 %	86.0 %	72.0 %	66.4 %	71.1 %	74.6 %	76.5 %
Inventory Turnover	4.8 x	4.9 x	4.8 x	4.5 x	4.5 x	4.6 x	4.6 x
Receivables collection period (days)	26	25	21	20	20	21	21
Payables payment period (days)	32	35	38	38	37	35	35
Cash conversion cycle (Days)	69	65	59	62	65	65	66

## CAPEX and Cash Flow

in EUR m



Source: Warburg Research

Source: Warburg Research

Source: Warburg Research

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Company	Disclosure	Link to the historical price targets and rating changes (last 12 months)
Mercedes-Benz	-	<a href="https://www.mmwarburg.com/disclaimer/disclaimer_en/DE000710000.htm">https://www.mmwarburg.com/disclaimer/disclaimer_en/DE000710000.htm</a>

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Investment recommendation: expected direction of the share price development of the financial instrument up to the given price target in the opinion of the analyst who covers this financial instrument.

-B-	<b>Buy:</b>	The price of the analysed financial instrument is expected to rise over the next 12 months.
-H-	<b>Hold:</b>	The price of the analysed financial instrument is expected to remain mostly flat over the next 12 months.
-S-	<b>Sell:</b>	The price of the analysed financial instrument is expected to fall over the next 12 months.
" "	<b>Rating suspended:</b>	The available information currently does not permit an evaluation of the company.

## WARBURG RESEARCH GMBH – ANALYSED RESEARCH UNIVERSE BY RATING

Rating	Number of stocks	% of Universe
Buy	148	70
Hold	50	24
Sell	7	3
Rating suspended	7	3
<b>Total</b>	<b>212</b>	<b>100</b>

## WARBURG RESEARCH GMBH – ANALYSED RESEARCH UNIVERSE BY RATING ...

... taking into account only those companies which were provided with major investment services in the last twelve months.

Rating	Number of stocks	% of Universe
Buy	48	83
Hold	7	12
Sell	0	0
Rating suspended	3	5
<b>Total</b>	<b>58</b>	<b>100</b>

## PRICE AND RATING HISTORY MERCEDES-BENZ AS OF 22.02.2024



Markings in the chart show rating changes by Warburg Research GmbH in the last 12 months. Every marking details the date and closing price on the day of the rating change.

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# Mercedes-Benz Group AG

Getting very serious about capital returns

## Buy

Price 20/02/24	<b>€66.78</b>
12m target	<b>€75.0</b>
o/w ESG component	<b>5.0%</b>
Upside to TP	<b>12.3%</b>
12m f'cast div	<b>€5.15</b>
12m TSR	<b>20.0%</b>

### Main changes since last report

Target (€)	75.0	nc
EPS 23e (€)	12.70	nc
EPS 24e (€)	11.97	nc
EPS 25e (€)	13.03	nc

nc: no change

### Sector ESG materiality meter ([@link](#))



### Sector exposure to E & S factors

High	Medium	Low
High	Medium	Low

### Company ESG momentum

Improving	Stable	Declining
Improving	Stable	Declining

### Preferred stock

BMW GY, MBG GY, RNO FP, RACE UN, STLAM IM

### Least preferred stock

FR FP, VOW3 GY

### SG strategy team sector weighting

Neutral

### Share price performance



EV 23 (€m)	29,572
Mkt cap. (€m)	71,441

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After the market close on 21 February 2024, Mercedes-Benz announced a further €3bn share buyback programme. The programme is intended to begin immediately after the completion of the ongoing €4bn share buyback programme announced on 16 February 2023 and is expected to be completed by 7 July 2025. We estimate that this new programme means that Mercedes will return €8.4bn to its shareholders in dividends and buybacks in 2024, equivalent to 11.8% of its current market capitalisation (see over). This is higher than that of Stellantis and BMW.

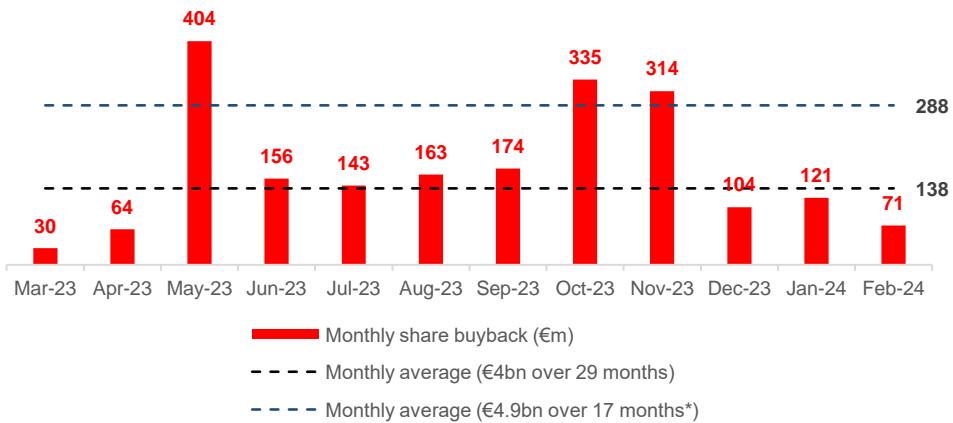
**Where are we now with the original €4bn share buyback programme?** As of February 2024, Mercedes had spent €2.1bn on share buybacks (see chart on the next page), which is just over half of the €4bn programme. The largest tranches of share buybacks were purchased during periods when Mercedes' share price was at a low – as in the case of May 2023, October 2023 and November 2023. According to Mercedes' share buyback tracker ([link](#)), 31,919,942 shares have been repurchased in total, which represent approximately ~3% of the shares outstanding; these shares were repurchased at an average share price of €65.13. This would indicate that Mercedes could repurchase an additional 7% of shares outstanding in accordance with the 10% limit imposed at the General Meeting.

**What is left and what we can expect** With €2.1bn already spent, €1.9bn worth of shares from the original €4bn programme need to be repurchased over the next 17 months (to 7 July 2025). The €4bn original target worked out as an average repurchase of €138m worth of shares per month over 29 months (March 2023 to July 2025). Now, with the additional €3bn buyback programme, Mercedes will repurchase €4.9bn worth of shares over the 17 months to July 2025, which averages €288m per month. If Mercedes were to repurchase €4.9bn shares as of yesterday's closing price of €66.78, this would equate to ~74m shares or roughly 7% of the shares outstanding, thus bringing it up to its authorised 10% buyback limit after taking the 3% already purchased into consideration.

### Below is the extract from the 21 February 2024 press release

"Mercedes-Benz Group AG has resolved to implement a share buyback policy. Based on such policy, the future Free Cash Flow from the industrial business (as available post potential small-scale M&A) generated beyond the approximate 40% dividend payout ratio of Group Net Income shall be used to fund share buybacks with the purpose of redeeming shares. In this context, Mercedes-Benz Group AG moreover has resolved to conduct a further share buyback programme, through which it is intended to acquire own shares worth up to €3bn (not including incidental costs) on the stock exchange and to then cancel them. The further share buyback programme will be based on the authorization by the Annual General Meeting of Mercedes-Benz Group AG on July 8, 2020, authorizing the Board of Management to acquire, with the approval of the Supervisory Board, own shares up to a maximum of 10% of the share capital until 7 July 2025. It is scheduled to commence immediately after the conclusion of the ongoing share buyback programme announced on 16 February 2023, and is expected to be completed before the expiry of the Annual General Meeting's above-mentioned authorization."

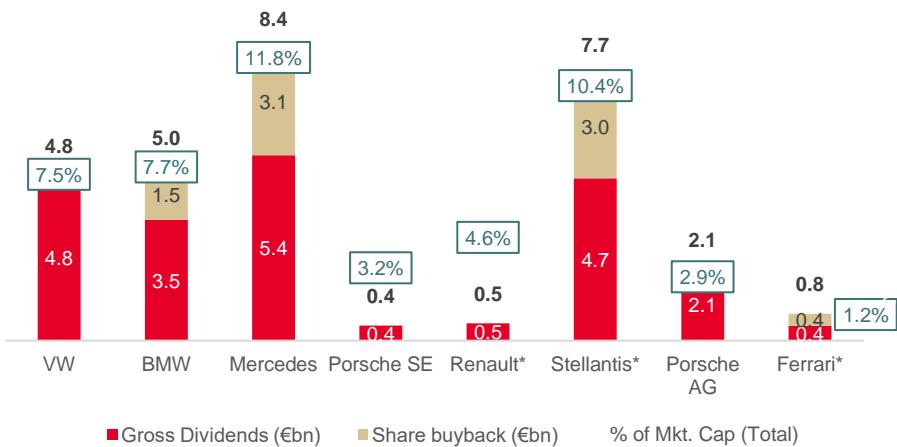
### Total amount of spent on share buyback per month (€m)



Source: SG Cross Asset Research/Equity, Mercedes. Note: The €4.9bn refers to the difference between the cumulative share buyback count as of February 2024 at €2.1bn and the total announced share buyback of €7bn (€4bn announced in February 2023 + €3bn announced in February 2024).

In the chart below, we show the expected capital return based on announced and expected gross dividends and share buybacks for 2024. For BMW, we have assumed €1.5bn in share buybacks in 2024 while Mercedes is assumed at €3.1bn following the additional €3bn buyback announced in February 2024 (on top of the €1.9bn remaining from the €4bn share buyback). Mercedes has the highest expected capital return in 2024 both in absolute terms and as a % of market capitalisation, followed by Stellantis and BMW.

### Expected capital return for European OEMs under SG coverage in 2024 (€bn & %)



Source: SG Cross Asset Research/Equity, Datastream as of market close 20/02/2024. Note: % refers to cash returned through dividends and open market buybacks as of percentage of each companies respective market capitalisation as of 20/02/2024. \*Companies have already reported FY23 results and subsequent dividends

On the next page we discuss Mercedes' historical share buyback programmes and the high bar these set before any further share buybacks were authorised.

## Share buybacks – current and past

Mercedes announced after the market close on 16 February 2023 that beginning in March 2023 it intended to acquire up to a maximum of 10% of its share capital on the stock market at a cost of up to €4bn over a period of up to two years. The acquired shares were to be subsequently cancelled. Mercedes has separately agreed with its shareholders, Beijing Automotive Group Co Ltd and Geely Group, that they will each keep their shareholdings in Mercedes below 10% by divesting their shares on a pro rata basis concurrently with the share buyback.

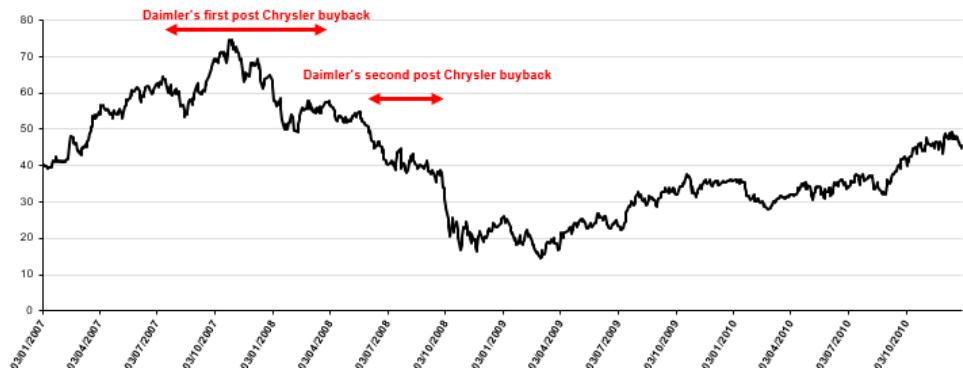
In its FY22 results press release the following day, Mercedes further elaborated that the buyback was designed to optimise its capital structure, now that it was sitting on €26.6bn of net industrial liquidity at end-2022 (now expected to exceed €28bn when Mercedes reports its FY23 results on 22 February). It was made possible by Mercedes' strong operating performance and continued strong cash generation. The buyback will be funded by Mercedes-Benz's expected future excess free cash flow and is fully compatible with the company's strategic priorities and its dividend policy. Mercedes-Benz remains committed to a strong investment grade credit rating and targets an A rating by the major agencies.

The decision to commit to a share buyback had been under discussion for some time with CFO Harald Wilhelm preferring not to comment on market rumours and wishing to preserve optionality. We believe there was considerable institutional memory within Mercedes to overcome its predecessor Daimler's poorly timed buy-back programmes of 2007/08. Having just sold an 80% stake in Chrysler, Daimler announced in August 2007 during its 2Q07 results briefing that it would buy back 10% of its shares for up to €7.5bn over the next 12 months – this was its first buyback since acquiring Chrysler in 1998. Daimler had spent €3.48bn by December 2007 for 4.73% of its shares and had completed the programme by the end of March 2008, buying back ~99.8m shares for €6.2bn, at an average price of €62.11 per share.

On 17 June 2008, Daimler announced a new buyback programme of 10% or approximately 96.4m of the outstanding shares for a maximum amount of €6bn that would run up to the next AGM on 8 April 2009. The aim was to further optimise Daimler's capital structure with the goal of reducing the use of equity capital, which is more expensive than debt capital. This would avoid investment decisions being limited by excessively high capital costs. Between June and October 2008, Daimler bought back 37.28m shares for €1,449m, so averaging €38.86 per share and equivalent to 3.87% of the shares outstanding. However, due to the worsening of the worldwide financial and economic crisis and its impact on the real economy, Daimler discontinued implementation of the share buyback programme on 24 October 2008.

In early March 2009 during the depths of the global financial crisis – so one year after the first buyback had been completed – Daimler's stock price hit a low of €14.44, prompting some within Daimler to complain that they had been strong-armed by the investment community into doing the buybacks. Furthermore, they had nothing to show for these apart from a depleted cash position and complaints from the self-same investment community that Daimler had squandered its cash doing the very thing they had long demanded.

### Unfortunate timing – Daimler's stock price and 2007/08 buybacks (€)



Source: SG Cross Asset Research/Equity, Datastream

Even though the Daimler/Mercedes board is now completely different from 16 years ago, we imagine that institutional memories of Mercedes' 2007/08 buybacks run deep within the company, so we assume that the bar for approving this new buyback was set very high. We believe that CFO Harald Wilhelm had to present a very strong case to both the management and supervisory boards before this was green-lit. Despite the capital commitments required for one of the most ambitious BEV trajectories to zero emissions (target up to 100% of mix by 2030), Mercedes is confident that it will generate sufficient excess FCF to fund the buyback. During the 3Q23 call, Wilhelm updated us on how the buyback is progressing: "*We bought back €0.5bn shares (in 3Q23) in line with our share buyback programme and as we speak, or as of today, we bought all-in-all roughly €1.3bn back. That means we are well on track for the €4bn programme which runs up to two years. So, I think in terms of timing, we are front-loaded*". Note that the buyback has now reached €2.1bn.

When asked during a previous call whether one should now consider buybacks as an ongoing pillar of Mercedes' capital allocation framework along with the 40% dividend payout, Wilhelm stated that he was not adverse to further programmes. However, he also said that "*let's (first) do 2023, 2024 in terms of strategy execution, in terms of margin, in terms of cash generation, in terms of implementation of the €4bn and then we have ample of time to see where we're going. Anything beyond that does not make too much sense at this stage.*"

Report completed on 22 February 2024 5:03 CET

## APPENDIX

### SUBJECT COMPANIES

Mercedes-Benz Group AG (MBGn.DE)

### ANALYST CERTIFICATION

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### Historical Price: Mercedes-Benz Group AG (MBGn.DE)



Source: SG Cross Asset Research/Equity

### VALUATION METHODOLOGY AND RISKS TO RATING, RECOMMENDATION AND PRICE TARGET

#### Valuation Methodology Mercedes-Benz Group AG

We base our TP on the SOP-based valuation for FY24e. For Cars & Vans, we Cars & Vans at 26% EV/sales, 5.4x EV/EBIT and 3.2x EV/EBITDA and Mercedes Mobility at 1.0x book value. We then apply a 35% discount related to ongoing macro concerns and headwinds from supply side compensation and component delays. That discount already includes a positive ESG factor of 5%, which we award Mercedes for its credible electrification strategy.

#### Risks

Downside risks: 1) Resurgence of COVID-19 cases slows recoveries in key markets 2) Margin dilution from increased BEV sales 3) Evidence that Mercedes has been colluding with other German car makers in breach of anti-cartel regulations. 4) Trade war between the US and China hits profits of US sourced SUVs and US-Europe trade war causes further dislocation

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**BUY:** absolute total shareholder return forecast of 15% or more over a 12 month period.

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Total shareholder return means forecast share price appreciation plus all forecast cash dividend income, including income from special dividends, paid during the 12 month period. Ratings are determined by the ranges described above at the time of the initiation of coverage or a change in rating (subject to limited management discretion). At other times, ratings may fall outside of these ranges because of market price movements and/or other short term volatility or trading patterns. Such interim deviations from specified ranges will be permitted but will become subject to review by research management.

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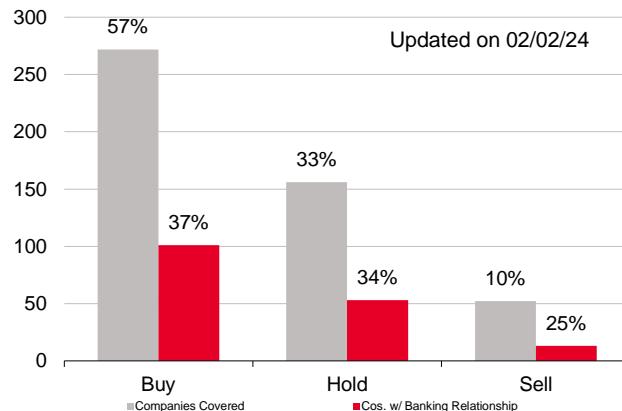
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### Equity rating and dispersion relationship



Source: SG Cross Asset Research/Equity

Updated on 02/02/24

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# EQUITY RESEARCH QUICK TAKE



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February 22, 2024

## Mercedes-Benz Group AG

### Q4/23 Results - In line Q4/23, 2024 Cars Margin also In line

**XETRA: MBG | EUR 69.04 | Outperform | Price Target EUR 86.00**

**Sentiment: Neutral**

**Bottom Line:** Mercedes reported a generally inline Q4/23 and provided a 2024 car margin outlook consistent with expectations. Yesterday, it announced a €3B share buyback program to conclude in 2025. We know investors were expecting something of the sort. The buyback does highlight how strong STLA's buyback plan is for 2024 which is the same amount all in one year. As such we would not expect a significant reaction in shares today either way. The company is holding a call at 9:00AM CET. We expect questions to focus on: 1) What price/mix assumptions are embedded in the guidance given the downshift vs 2023 levels, 2) How impactful the 48 volt issue will be, 3) the state of the consumer in Europe on BEVs and whether the company plans on shifting to PHEV/ICE powertrains, and 4) Given the strong liquidity position and cash generation, why management is not buying back more shares or over a shorter period.

**Mercedes Benz Cars reported Q4/23 Adj. EBIT €2.970B vs Cons €2.988B**, driven by margins of 10% vs Cons 10.5%. MB Vans reported Q4 Adj. EBIT of €809M vs cons €751M, driven by margins of 14.4% vs cons 13.7%. Industrial FCF was €3.442B vs cons €2.388B. Finco EBIT was €345M vs cons €354M.

**2024 cars margin guidance in line with consensus:** Mercedes is calling for MB Cars Adj EBIT margin to be between 10%-12% vs cons 11%, MB Vans Adj. EBIT margins of 12%-14% vs cons 13.5% and industrial FCF of "Slightly below from 2023 FCF €11.3B" , vs cons €8.6B.



Mercedes-Benz Group, Q4/23		Actual	Consensus	Variance %
<i>EUR millions, unless noted</i>				
<b>Sale</b>				
MB Cars	€ 29,569	€ 28,467	3.9%	
Vans	€ 5,611	€ 5,484	2.3%	
Finco	€ 7,012	€ 6,632	5.7%	
<b>Group</b>	<b>€ 40,261</b>	<b>€ 39,078</b>	3.0%	
<b>Adj EBIT</b>				
MB Cars	€ 2,970	€ 2,988	(0.6%)	
Vans	€ 809	€ 751	7.7%	
Finco	€ 345	€ 354	(2.4%)	
<b>Group</b>	<b>€ 4,456</b>	<b>€ 4,195</b>	6.2%	
<b>Margins %</b>				
MB Cars	10.0%	10.5%		
Vans	14.4%	13.7%		
Finco	4.9%	5.3%		
<b>Group</b>	<b>11.1%</b>	<b>10.7%</b>		
<b>Ind FCF</b>	<b>€ 3,442</b>	€ 2,388	44.1%	

Mercedes-Benz Cars, Q4/23		Actual	Consensus	Variance %
<i>EUR, unless noted</i>				
Unit Sales-Ex China ('000)	386	366	5.5%	
Revenue Per Unit (Cars)	€ 76,508	€ 75,790	0.9%	

Mercedes-Benz Group	Outlook	Consensus	RBC
2024 Outlook			
MB Cars Adj. EBIT Margin	10-12%	11.0%	11.1%
MB Vans Adj. EBIT Margin	12-14%	13.5%	14.0%
FCF (in B)	< \$11.3B	€ 8.6	€ 5.6

Source: Company Reports, Visible Alpha



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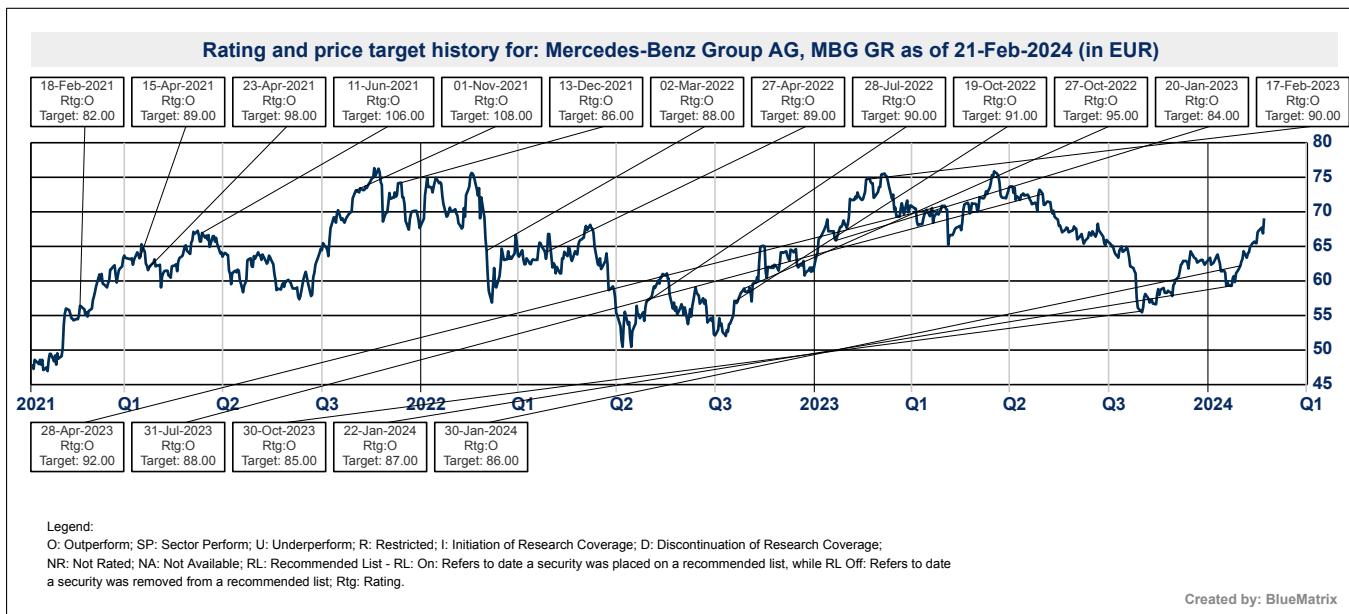
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	Percent	Serv./Past 12 Mos.	Count	Percent
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HOLD [Sector Perform]	575	39.66	154	26.78
SELL [Underperform]	46	3.17	6	13.04



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### Mercedes-Benz Group AG

#### Valuation

Our €86 price target is derived by applying a 2x historical trough multiple to our 2024E Industrial EBITDA. We then add Industrial Net Cash, Finco (at 1x Book Value), and China JV (at 8x peer P/E), and subtract Underfunded Pension liabilities, but give no credit



for 35% ownership of Daimler Truck and discount back at 7.5% WACC to arrive at our price target. Our price target supports our Outperform rating.

### Risks to rating and price target

1. MB China performance worsens
2. MB delays or abandons restructuring plans
3. Lack of EV consumer demand
4. Battery prices do not fall and profitability is impaired
5. US trade situation worsens
6. COVID shutdowns last longer than anticipated and consumer demand does not return

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## Mercedes-Benz Group

Equity Research  
February 22, 2024

### Guiding to a World of Relative Stability

#### Conclusion

Outlook well within expectations, with guidance of flattish Group revenue, and both Group EBIT and Industrial FCF guided slightly down. Car margin 10-12% (23A 12-14%) and Vans 12-14% (13-15%). FCF slightly below last year despite capex guided significantly above (MMA related, down in 23A) and Car R&D (flat vs Van signif above). xEV penetration guided 19-21% vs 20% in 2023, implies some growth ex smart volume.

No surprise in 2023 results which had been directly (FCF) or implicitly pre-released. Car clean margin estimated 7.3% ex capitalized R&D and China JV. DPS €5.3bn. 39% pay-out, yield 7.7%.

We view the cash return policy announced last night as a sign of confidence and consistent with the premium/luxury positioning, with buy-back set to keep EPS growing.

#### Detail

#### Q4 details

MBG adj EBIT €4.46bn on revenue €40.3bn for margin 11.0% vs company-compiled cons €4.2bn / €39.1bn / 10.6%.

- Car revenue €29.6bn, -3.2% y/y on consolidated units -4.1%, adj EBIT €2.97bn, 10.0% margin (cons €28.5bn/€3.0bn/10.5%). Volume/mix/price -ve €284m ; vs cost up c.-ve €609m. FX tailwind €87m. Net capitalised R&D added €675m, 2.2pts, and China at equity €157m, 0.5pts; yields clean 7.3% margin, -4pp y/y.
- Van revenue €5.6bn and adj EBIT €809m, 14.4% margin; vs. cons €751m, 13.7%.
- FCF pre-released at €11.3bn for FY, €3.4bn in Q4. Q4: €603m WC inflow and €763m China divi. 120% MBG-defined FCF conversion for Cars, 90% for Vans. €2.6bn capex +20% y/y and 6.4% of sales, ahead of D&A at 4.2% of sales. Net liquidity €31.6bn, +€3.1bn in Q4.
- Finco EBIT €345m, -30% y/y and -3% vs cons €354m.
- DPS proposed €5.30, 39% payout ratio. Buybacks expanded by €3bn and new cash return policy [details here](#).

#### Guidance

- Cars volume flat, Vans slightly below FY23 (VA cons Car rev flat y/y, Vans -1%).
- Cars margin 10-12% (cons 11.1%). 80-100% MBG-defined FCF conversion. +ve from raw mats and used prices still
- Vans margin 12-14% (cons 13.4%). 60-80%
- FCF slightly below FY23 of €11.3bn (cons €8bn)

#### Related Research

Mercedes-Benz Group AG : Cash Return Policy: Bold and Coherent	February 21, 2024
Mercedes-Benz Group AG : Testing the downcycle and valuation lows	November 5, 2023
Mercedes-Benz Group AG : MBG Q3 - No Surprise and Outlook Confirmed	October 26, 2023

FIRST VIEW	
RATING	HOLD
PRICE	€68.07^
PRICE TARGET   % TO PT	€72.00   +6%
52W HIGH-LOW	€76.10 - €55.08
FLOAT (%)   ADV MM (USD)	80.3%   180.04
MARKET CAP	€72.8B   \$78.8B
TICKER	MBG GR

<sup>^</sup>Prior trading day's closing price unless otherwise noted.

## Company Description

### Mercedes-Benz Group

Mercedes-Benz Group (MBG) is a leading manufacturer of premium cars and commercial vans. It was created in December 2021 as a result of Daimler AG spinning off its Truck and Bus activities into Daimler Trucks (DT) in which MBG retains a 30% stake. MBG operates through three business segments: Mercedes-Benz Cars, Mercedes-Benz Vans and Mercedes-Benz Mobility. In 2022 MBG sold 2.45m vehicles globally under the brands Mercedes-Benz, Smart, AMG, Maybach as well as battery EVs under the sub-brand EQ. Headquartered in Stuttgart, Germany, the Group has its main production facilities in Europe, North America and China, where it manages operations through BBAC, a JV with BAIC in which Daimler also owns a 10% stake.

## Company Valuation/Risks

### Mercedes-Benz Group

We value Mercedes on a DCF/SOP-based PT of €75, including China JV dividend income. Risks include difficulties implementing the transition to electrification and the challenges of shifting product mix towards higher mix while protecting volume.

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Recommendation Published	February 22, 2024 , 02:15 ET.
Recommendation Distributed	February 22, 2024 , 02:15 ET.

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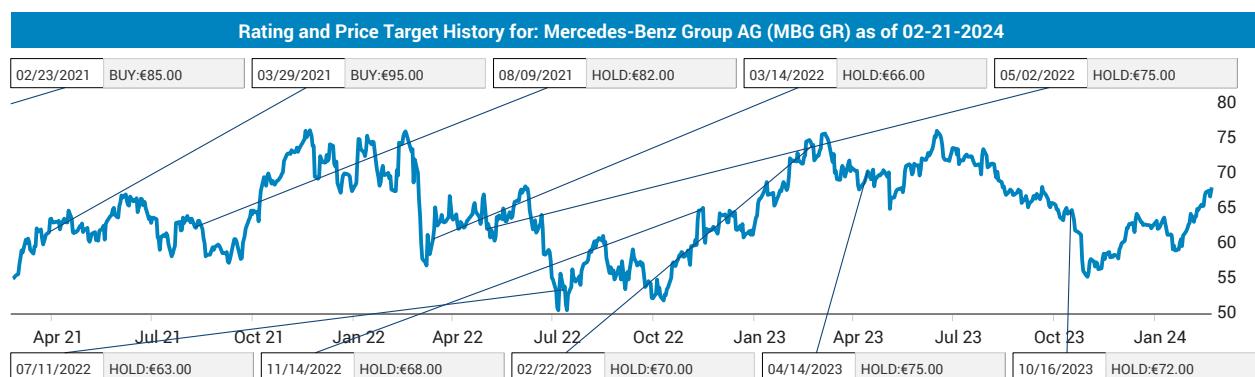
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## Mercedes-Benz Group

Equity Research  
February 21, 2024

### Cash Return Policy: Bold and Coherent

#### Conclusion

MBG announced a new policy for cash returns that in our view is both bold and coherent with the group's pitch for a more luxury investment case underpinned by stable cash generation.

- MBG announced it intends to allocate all the industrial free cash available after a c.40% dividend pay-out of group net income and small-scale M&A to purchase and redeem shares.
- We think the policy 1) preserves flexibility to adjust capital spending as required to be competitive as well as maintain the existing net cash position for opportunities and 2) could support a different approach for the valuation of OEMs that are self-funding the industry transition as the policy is based on recurring FCF.
- As a first step, MBG is seeking authorisation of a further €3bn buyback for completion by Jul-2025 (after completion of the remaining c.€2bn of the current €4bn programme).

#### Detail

For reference, taking the average of 2021-2023, under this new policy, we estimate MBG would have bought back shares worth €4bn each year on top of annual dividend payments of over €5bn vs current market capitalization of €71bn.

FIRST VIEW	
RATING	HOLD
PRICE	€66.78^
PRICE TARGET   % TO PT	€72.00   +8%
52W HIGH-LOW	€76.10 - €55.08
FLOAT (%)   ADV MM (USD)	80.3%   173.53
MARKET CAP	€71.4B   \$77.3B
TICKER	MBG GR

^Prior trading day's closing price unless otherwise noted.

#### Related Research

Mercedes-Benz Group AG : Testing the downcycle and valuation lows	November 5, 2023
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## Company Description

### Mercedes-Benz Group

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### (Article 3(1)e and Article 7 of MAR)

Recommendation Published	February 21, 2024 , 13:36 ET.
Recommendation Distributed	February 21, 2024 , 13:36 ET.

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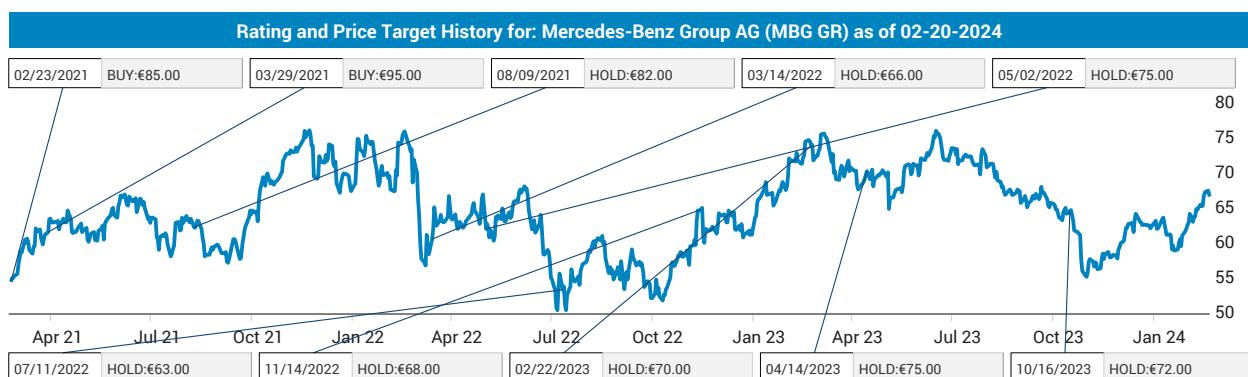
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- Mercedes-Benz Group AG (MBG GR: €66.78, HOLD)



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Legend:

I: Initiating Coverage

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B: Buy

H: Hold

UP: Underperform

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HOLD	1209	36.36%	116	9.59%
UNDERPERFORM	165	4.96%	5	3.03%

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## Mercedes-Benz Group AG

### FY23 Prelim Results

Mercedes-Benz Group's preliminary and unaudited results for the financial year 2023 show that the free cash flow of the industrial business exceeds guidance and market expectations, mainly due to lower working capital levels and a favorable cash conversion rate in the industrial business.

The preliminary and unaudited free cash flow of the industrial business amounts to € 11.3 billion (guidance: slightly above the prior-year level; consensus: € 9.9 billion).

Mercedes-Benz Group EBIT, the adjusted Return on Sales at Mercedes-Benz Cars and at Mercedes-Benz Vans as well as the adjusted Return on Equity of Mercedes-Benz Mobility will be published along with further 2023 full-year and fourth-quarter earnings figures on February 22, 2024. We await further details from the company.

### Overweight

**MBGn.DE, MBG GR**  
 Price (01 Feb 24):€63.58  
**Price Target (Jun-25):€78.00**

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### Style Exposure

Quant Factors	Current %Rank	Hist %Rank (1=Top)				
		6M	1Y	3Y	5Y	
Value	3	18	7	10		30
Growth	78	85	83	7		
Momentum	72	28	13	2		81
Quality	45	57	63	70		94
Low Vol	73	11	30	26		19
ESGQ	93	82	99	100		97

Sources for: Style Exposure – J.P. Morgan Quantitative and Derivatives Strategy; all other tables are company data and J.P. Morgan estimates.

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## Price Performance



## Company Data

Shares O/S (mn)	1,070
52-week range (€)	76.10-55.08
Market cap (\$ mn)	73,948.55
Exchange rate	0.92
Free float(%)	80.1%
3M - Avg daily vol (mn)	2.50
3M - Avg daily val (\$ mn)	164.5
Volatility (90 Day)	21
Index	STOXX Europe 600 Automobiles & Parts
BBG BUY HOLD SELL	18 9 2

## Key Metrics (FY Dec)

€ in millions	FY23A	FY24E	FY25E
<b>Financial Estimates</b>			
Revenue	152,938	152,862	152,812
Adj. EBITDA	27,282	24,281	22,013
Adj. EBIT	19,311	16,265	13,951
Adj. net income	12,738	10,489	8,795
Net margin	8.3%	6.9%	5.8%
Adj. EPS	11.91	9.80	8.22
BBG EPS	12.98	11.71	11.92
Cashflow from operations	18,183	16,523	14,974
FCFF	9,314	7,251	5,600
<b>Margins and Growth</b>			
Revenue Growth Y/Y (%)	1.9%	(0.0%)	(0.0%)
EBITDA margin	17.8%	15.9%	14.4%
EBITDA Growth Y/Y (%)	(3.3%)	(11.0%)	(9.3%)
EBIT margin	12.6%	10.6%	9.1%
Adj. EPS growth	(5.5%)	(17.7%)	(16.1%)
<b>Ratios</b>			
Adj. tax rate	31.1%	32.0%	32.9%
Interest cover	105.7	94.1	85.3
Industrial Net Debt/Equity	0.0	0.0	0.0
Industrial Net Debt/EBITDA	(1.2)	(2.1)	(1.8)
ROCE	6.4%	5.3%	4.4%
ROE	15.8%	12.4%	10.1%
<b>Valuation</b>			
FCFF yield	13.7%	10.7%	8.2%
Industrial Dividend yield	7.7%	8.8%	8.8%
Industrial EV/EBITDA	1.2	1.4	1.2
Industrial EV/Sales	0.2	0.2	0.2
Industrial P/E	5.7	6.1	7.3

## Summary Investment Thesis and Valuation

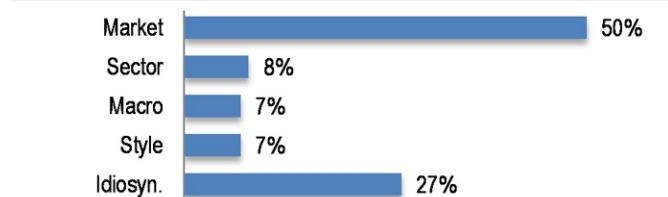
### Investment Thesis

Mercedes-Benz cars is aiming to execute a premium luxury OEM strategy, growing the proportion of higher-priced vehicles within the car business in order to structurally improve the profitability of the company in the medium term. The growing proportion of higher-priced vehicles should lead to lower earnings volatility as well as structurally higher margins over the cycle for the firm. We believe Mercedes-Benz offers one of the most compelling premium OEM investment cases. We remain Overweight.

### Valuation

We value Mercedes-Benz cars on a P/E multiple correlated to its forward-looking Group Ebit margin and any stakes in entities at market value or book value. We see the group trading on 7x PE FY24 at our price target.

## Performance Drivers



Factors	6M Corr	1Y Corr
<b>Market:</b> MSCI Europe ex UK	0.74	0.73
<b>Sect:</b> Cons Discretionary	0.30	0.41
<b>Ind:</b> Automobiles & Comp	0.83	0.72
<b>Macro:</b>		
Eurozone CPI	-0.20	-0.26
Eurozone Exports	0.14	0.16
Germany Govt 10Y Yield	0.12	0.10
<b>Quant Styles:</b>		
Value	0.35	0.39
DivYld	0.44	0.37
Quality	-0.24	-0.28

## Investment Thesis, Valuation and Risks

### **Mercedes-Benz Group AG** (*Overweight; Price Target: €78.00*)

#### **Investment Thesis**

Mercedes-Benz cars is aiming to execute a premium luxury OEM strategy, growing the proportion of higher-priced vehicles within the car business in order to structurally improve the profitability of the company in the medium term. The growing proportion of higher-priced vehicles should lead to lower earnings volatility as well as structurally higher margins over the cycle for the firm. We believe Mercedes-Benz offers one of the most compelling premium OEM investment cases. We remain Overweight.

#### **Valuation**

We value Mercedes-Benz cars on a P/E multiple correlated to its forward-looking Group Ebit margin and any stakes in entities at market value or book value. We see the group trading on 7x PE FY24 at our price target.

#### **Risks to Rating and Price Target**

Downside risks could arise from: 1) a rapid decline in China car sales; 2) a deterioration of the pricing environment; 3) lower-than-expected car volumes in Europe and in the US; 4) higher-than-expected costs associated with the transition to EVs; and 5) a major acquisition.

## Mercedes-Benz Group AG: Summary of Financials

Group P&L (EUR m)	FY22	FY23	FY24E	FY25E	Group Balance sheet (EUR m)	FY22	FY23	FY24E	FY25E
Revenues	150,017	152,938	152,862	152,812	Intangibles	15,849	16,454	17,059	17,664
% change Y/Y	12.0%	1.9%	(0.0%)	(0.0%)	PP&E	28,048	28,519	29,345	30,226
Cost of Sales	(115,997)	(117,644)	(120,630)	(122,836)	Investments	17,642	17,642	17,642	17,642
EBITDA	28,211	27,282	24,281	22,013	Non-current receivables from sales financing	46,955	46,955	46,955	46,955
EBIT	20,458	19,311	16,265	13,951	Leased assets	44,471	44,471	44,471	44,471
% Ebit	13.6%	12.6%	10.6%	9.1%	Other	4,970	4,970	4,970	4,970
Net financial result	(258)	(258)	(258)	(258)	Total non current assets	157,935	159,011	160,442	161,928
Pretax Income	20,200	19,053	16,007	13,693	Inventories	22,151	22,774	22,903	23,032
Net Income	13,486	12,738	10,489	8,795	Trade receivables	8,912	9,163	9,215	9,267
Adj. EPS	12.61	11.91	9.80	8.22	Receivables from sales financing	33,670	33,670	33,670	33,670
Industrial Cash flow (EUR m)	FY22	FY23	FY24E	FY25E	Cash and cash equivalents	37,599	41,172	42,632	42,442
Net income	12,467	12,716	10,667	9,073	Other	7,215	7,215	7,215	7,215
Depreciation & amortization	7,753	7,971	8,016	8,061	Total current assets	109,547	113,994	115,634	115,626
Working capital	(204)	(525)	(109)	(109)	<b>Total assets</b>	<b>267,482</b>	<b>273,005</b>	<b>276,076</b>	<b>277,554</b>
Other change in operating cash flow	(1,187)	(1,978)	(2,051)	(2,051)	Equity	79,098	84,272	87,272	88,677
Operating cash flow	18,829	18,183	16,523	14,974	Long term liabilities	73,543	73,543	73,543	73,543
Net capex	(8,786)	(9,047)	(9,447)	(9,547)	Pension provisions	5,359	5,359	5,359	5,359
Free cash flow	10,220	9,314	7,251	5,600	Other non current liabilities	20,087	20,087	20,087	20,087
Financing cash flow	(5,349)	(5,563)	(5,616)	(5,616)	Total non current liabilities	98,989	98,989	98,989	98,989
Currency	0	0	0	0	Short term financial liabilities	52,300	52,300	52,300	52,300
Net change in cash	4,694	3,573	1,459	(189)	Trade payables	12,376	12,724	12,796	12,868
Net industrial debt (cash)	(26,637)	(30,210)	(31,670)	(31,481)	Other current liabilities	24,720	24,720	24,720	24,720
Industrial multiples	FY22	FY23	FY24E	FY25E	Total current liabilities	89,396	89,744	89,816	89,888
Industrial EV/Sales	0.2	0.2	0.2	0.2	<b>Total Liabilities and Equity</b>	<b>267,482</b>	<b>273,005</b>	<b>276,076</b>	<b>277,554</b>
Industrial EV/Ebitda	1.2	1.2	1.4	1.2					
Industrial EV/Ebit	1.6	1.7	1.4	1.6					
Industrial P/E	5.1	5.7	6.1	7.3					
Industrial Dividend yield	8.1%	7.7%	8.8%	8.8%					
Industrial Net debt to Ebitda	(1.0)	(1.2)	(2.1)	(1.8)					

Source: Company reports and J.P. Morgan estimates.

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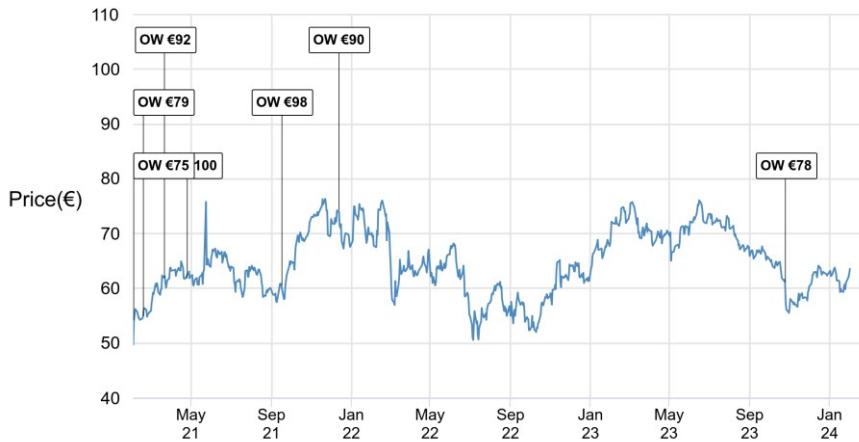
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## Mercedes-Benz Group AG | Europe

## Pre-release on FCF

We expect a positive market reaction following the pre-release published this morning.

**What happened?** Mercedes-Benz pre-released on industrial free cash flow for FY23, citing lower working capital levels and a favourable cash conversion rate as drivers of the beat. Industrial FCF came in at €11.3bn vs cons. of €9.9bn (+14%). We expect a positive market reaction, with readacross to key premium peers.

**Only FCF for now.** Mercedes-Benz has not shared any details on the other items of its FY guidance, which will be published alongside 4Q23 and FY23 earnings on February 22nd. We think this could indicate that those items, including the Cars RoS, may have ended up closer to cons. estimates.

**Focus remains on FY24.** Whilst the pre-release presents a positive picture of 4Q23 cash generation, we think investors will remain focused on the FY24 guidance, with particular interest in Cars RoS. Cons. (VA) sees an c. 11% Cars RoS in FY24, suggesting a potential guidance range of 10-12% down from 12-14% in FY23.

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## Mercedes-Benz Group AG (MBGn.DE, MBG GY)

Autos &amp; Shared Mobility | Germany

Stock Rating	Equal-weight
Industry View	In-Line
Price target	€70.00
Shr price, close (Feb 1, 2024)	€63.08
52-Week Range	€76.10-55.08
Mkt cap, curr (mn)	€67,483
Net debt (12/23e) (mn)*	€(22,601)
EV, curr (mn)*	€47,156

\* = GAAP or approximated based on GAAP

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# Valuation Methodology and Risks

## **Mercedes-Benz Group AG (MBGn.DE)**

Our price target is based on the historical P/E relative range of 45-55% of the market multiple, implying 6x P/E currently. We use our FY24 EPS estimate of ~€11.64 and ~6x P/E to reflect a recession risk discount on what we believe is peak EBIT margins and EPS.

### **Risks to Upside**

- Higher valuation multiples for Mercedes Cars with much higher EBIT margins / FCF
- Mercedes' BEV story changing the investment narrative
- Execution enabling EPS to remain higher than historically and less cyclical

### **Risks to Downside**

- Change in global credit (and/or China) economic conditions and sentiment
- Slowing pricing of Mercedes cars on tougher comps
- Exceptional conditions of 2021/22 reversing faster than expected

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(as of January 31, 2024)

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	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
Overweight/Buy	1423	38%	284	42%	20%	621	39%
Equal-weight/Hold	1692	45%	322	48%	19%	720	46%
Not-Rated/Hold	3	0%	0	0%	0%	1	0%
Underweight/Sell	630	17%	70	10%	11%	236	15%
Total	3,748		676			1578	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the " % of total" column may not add up to exactly 100 percent.

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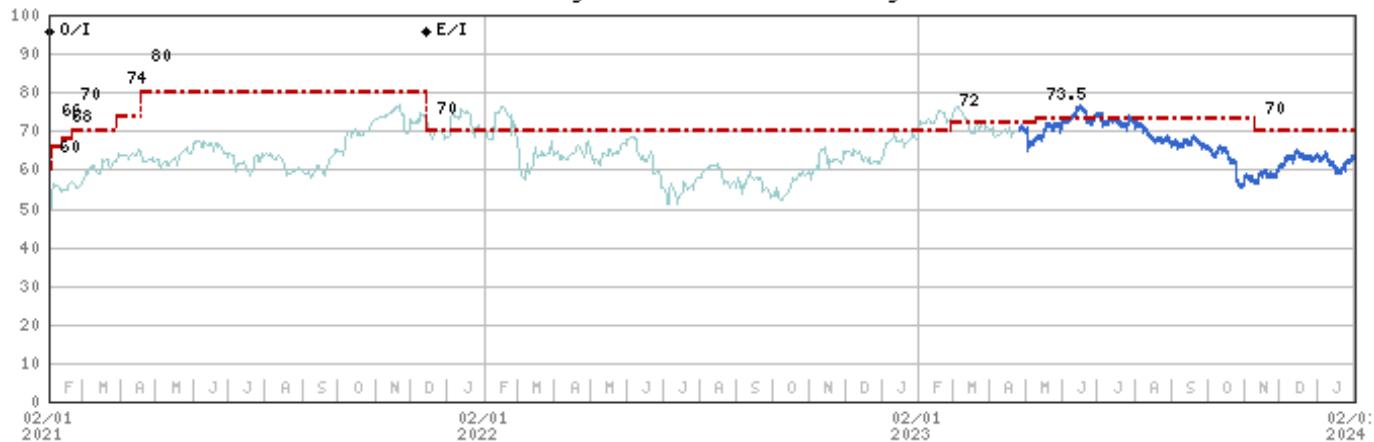
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## Stock Price, Price Target and Rating History (See Rating Definitions)

Mercedes-Benz Group AG (MBGn.DE) – As of 2/1/24 in EUR  
Industry : Autos & Shared Mobility



Stock Rating History: 2/1/19 : O/A; 2/1/19 : E/I; 7/8/20 : E/I; 12/14/21 : E/I

Price Target History: 12/6/18 : 60; 5/3/19 : 62; 12/16/19 : 58; 3/20/20 : 48; 10/9/20 : 55; 10/20/20 : 58; 11/23/20 : 60; 2/3/21 : 66; 2/12/21 : 68; 2/19/21 : 70; 3/29/21 : 74; 4/19/21 : 80; 12/14/21 : 70; 2/27/23 : 72; 5/11/23 : 73.5; 11/10/23 : 70

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target --- No Price Target Assigned (NA)

Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) ■

Stock and Industry Ratings (abbreviations below) appear as + Stock Rating/Industry View

Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)

Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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COMPANY (TICKER)	RATING (AS OF)	PRICE* (02/01/2024)
<b>Pete-Veikko Kujala</b>		
Aramis Autos (ARAMI.PA)	E (08/04/2023)	€3.89
AUTO1 Group SE (AG1G.DE)	U (01/03/2024)	€3.79
<b>Ross A MacDonald, CFA</b>		
Autoliv (ALV.N)	E (09/24/2021)	US\$111.00
BMW (BMW.GE)	E (04/26/2023)	€97.03
Mercedes-Benz Group AG (MBGn.DE)	E (12/14/2021)	€63.08
Michelin (MICPPA)	O (10/03/2018)	€30.61
Pirelli & C SpA (PIRC.MI)	O (02/03/2023)	€5.01
Porsche AG (P911_p.DE)	E (11/08/2022)	€78.70
Renault (RENA.PA)	O (05/04/2023)	€34.60
Stellantis (STLAM.MI)	O (02/04/2021)	€20.77
Stellantis (STLA.N)	O (03/10/2021)	US\$22.84
Volkswagen (VOWG_p.DE)	E (12/07/2022)	€118.18
<b>Shaqueal A Kirunda</b>		
Daimler Truck Holding AG (DTGGe.DE)	O (01/28/2022)	€33.42
Iveco Group NV (IVG.MI)	E (01/05/2023)	€9.95
Traton SE (8TRA.DE)	E (09/29/2022)	€22.80
Volvo (VOLVb.ST)	E (04/25/2023)	SKr 253.25

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\* Historical prices are not split adjusted.

# Mercedes-Benz Hold

**Michael Raab, CFA**  
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**Germany | Autos & parts**

**Beta Profile:**



**MCap: EUR67.5bn**

**Target Price:** EUR65.00

Bloomberg: MBG GR

Reuters: MBGn.DE

**Current Price:** EUR63.08

Free float

89%

**Up/downside:** 3.0%

Avg. daily volume (EURm)

322.6

**Market data:** 01 February 2024

YTD abs performance

0.8%

52-week high/low (EUR)

76.10/55.43

## Positive FY 2023 industrial FCF surprise

### Key points:

- Industrial FCF for FY 2023 exceeded company guidance expectations.
- In our view, this is a positive surprise.
- We expect the share to outperform today.

### Releasing industrial FCF above expectations

- Releasing an ad hoc message, MBG stated that its industrial FCF for FY 2023 amounted to EUR11.3bn. This number is significantly above the company's target to slightly exceed FY 2022 industrial FCF (c. EUR8.1bn). It also exceeds consensus expectations (collected by company) of EUR9.9bn and our forecast of EUR8.5bn.
- With respect to the other FY 2023 guidance metrics, MBG stated in the release that: "*Mercedes-Benz Group EBIT, the adjusted Return on Sales at Mercedes-Benz Cars and at Mercedes-Benz Vans as well as the adjusted Return on Equity of Mercedes-Benz Mobility (in each case preliminary and unaudited figures) are not subject to an ad hoc disclosure obligation and will be published along with further 2023 full-year and fourth-quarter earnings figures on February 22, 2024*". As per Q3 reporting, the guidance for these metrics was as follows: group EBIT at prior year level, adj. EBIT margin MBC in the lower half of the 12-14% range, adj. EBIT margin MBV in the 13-15% range, and RoE of MBM at the lower end of the 12-14% target range.

### This is clearly a positive surprise

- In our view, the industrial FCF number is a clear positive surprise that we attribute to solid cash conversion by MBC due to WCAP reductions.
- The statements with respect to the other metrics inherent in the FY 2023 guidance suggest in our interpretation that preliminary numbers for adj. margin of MBC as well as MBV, the RoE for MBM, and group EBIT are in line with company targets as well as consensus expectations. Otherwise, the company would also have had to include these metrics in the scope of the ad hoc.
- Overall, this suggests that the cash conversion factor of industrial operations has been much higher than originally envisaged by the company, consensus, and us respectively.
- We expect a positive share price reaction today.

## Appendix 1: Research framework

### Investment case

- MB has entered a new product life cycle, which we expect will help it to improve the mix in the medium term and support its strategy to focus on revenue per vehicle more than volumes. We expect a continued strong ICEV mix to support earnings, while the BEVs suffer from price competition.
- We see a substantial boost in xEVs, notably BEVs, until the middle of the decade with its focus on purpose-built architectures paying off, but we also expect the group's margins to remain dependent on ICEV products (breakeven between BEV and ICEV margins not seen before the second half of this decade).
- We expect MB to sustain its ability to convert earnings into positive FCFs and to raise its liquidity.

### Catalysts

- Suppliers' constraints influence MB Cars' Q4 margins significantly.
- Execution of share buyback programme announced.
- FY 2023 headline numbers in early February 2024.

## Appendix 2: Company description

Leveraging on its globalised production footprint, Daimler sells light vehicles under the Mercedes-Benz brand name. Its distribution activities are supported by the group's extensive financial services operation. Furthermore, it has retained a 30% stake in Daimler Truck Group after the corresponding spin-off.

Mgmt Ola Källenius, CEO | Harald Wilhelm, CFO

Ownership Free float: 89.30% | Kuwait: 7.60% | Renault/Nissan: 3.10%

## Appendix 4: SWOT analysis

### Strengths

- Global leader in all vehicle categories it offers.
- Strong balance sheet.
- Highest price point among the premium brands.

### Opportunities

- More scale economies from fewer vehicle architectures
- Broadening offer in the BEV segment.

Last model update: 27 October 2023

### Valuation Methodology

- We derive our target price from a 2:1 blend of a DCF model (average annual FCF of EUR5.5bn, average cost of equity of 18.7%, perpetual growth rate of 2%) and a peer multiple approach (P/E of 5.3x).
- Our valuation embeds the expected value of potential damages of EUR4.0bn or some EUR4 per share stemming from the pending diesel issue.

### Risk to our rating

- Cash conversion remains key, so any sustainable medium-term shortfall in net industrial liquidity of EUR10bn would likely be viewed as a disappointment.
- Further intensification of pricing competition in BEVs than we expect and a spillover to ICEVs.
- Apart from that, the key risk is a slower-than-expected upturn in demand, notably in Europe and in China, which would hamper increased capacity utilisation and additional positive operating gearing effects, burdening cash conversion.

## Appendix 3: share price perf.



### Weaknesses

- No exposure to premium subcompact segment.

### Threats

- Asynchronicity of cycles in individual areas of activity.
- Additional funding needs for financial services arm.

## Appendix 5: Key financials

Last model update: 27 October 2023

Market data date: 01 February 2024

FY to 31/12 (EUR)	12/16	12/17	12/18	12/19	12/20	12/21	12/22	12/23E	12/24E	12/25E
<b>Income Statement (EURm)</b>										
Sales										
Sales	153,261	164,330	167,362	172,745	154,309	133,893	150,017	152,329	153,977	162,015
% Change	2.5%	7.2%	1.8%	3.2%	-10.7%	-13.2%	12.0%	1.5%	1.1%	5.2%
EBITDA adjusted	21,422	26,988	25,595	25,959	25,133	29,840	32,907	34,796	34,155	35,810
EBITDA adj. margin (%)	14.0%	16.4%	15.3%	15.0%	16.3%	22.3%	21.9%	22.8%	22.2%	22.1%
EBIT adjusted	10,056	14,589	11,589	10,056	8,641	17,158	20,655	18,590	17,281	17,489
EBIT adj. margin (%)	6.6%	8.9%	6.9%	5.8%	5.6%	12.8%	13.8%	12.2%	11.2%	10.8%
Net financial items & associates	-316	-368	-537	-499	-264	-217	-154	-50	-50	-50
Others	0	0	0	0	0	0	0	0	0	0
Tax	-3,790	-3,437	-3,013	-1,121	-2,330	-4,761	-5,495	-5,131	-4,825	-4,883
Net profit from continuing operations	8,784	10,864	7,582	2,709	4,009	11,050	14,809	13,195	12,406	12,556
Net profit from discontinuing activities	0	0	0	0	0	12,346	0	0	0	0
Net profit before minorities	8,784	10,864	7,582	2,709	4,009	23,396	14,809	13,195	12,406	12,556
Net profit reported	8,526	10,525	7,249	2,377	3,627	23,006	14,501	12,795	12,006	12,156
Net profit adjusted	6,536	9,672	4,364	6,044	2,341	21,597	13,016	12,795	12,006	12,156
<b>Cash Flow Statement (EURm)</b>										
Levered post tax CF before capex	4,167	2,060	1,952	9,193	20,537	23,369	13,084	23,292	21,163	23,613
Capex	-12,676	-13,027	-11,666	-11,711	-6,400	-4,680	-2,620	-18,420	-19,620	-20,720
Free cash flow	-8,509	-10,967	-9,714	-2,518	14,137	18,689	10,464	4,872	1,543	2,893
Acquisitions & divestments	-2,549	-213	58	-280	1,774	-465	2,977	0	0	0
Dividend paid	-3,678	-3,727	-4,220	-3,740	-1,245	-1,810	-5,669	-5,564	-5,564	-5,618
Others	-1,272	7,907	1,369	-3,942	6,703	4,450	131	-2,000	-2,000	0
Change in net financial debt	16,008	7,000	12,507	10,480	-21,369	-20,864	-7,903	2,692	6,021	2,725
<b>Balance Sheet (EURm)</b>										
Intangible assets	12,098	13,735	14,801	15,978	16,399	15,005	15,869	14,039	12,359	10,249
Tangible assets	73,323	75,695	80,955	88,625	82,798	72,330	68,802	71,140	73,650	76,140
Financial & other non-current assets	11,967	11,882	12,366	15,869	16,656	21,076	22,556	22,878	23,467	24,176
Total shareholders' equity	59,133	65,314	66,053	62,841	62,248	73,167	86,540	92,171	97,013	103,951
Pension provisions	9,034	5,767	7,393	9,728	12,070	5,359	1,021	1,036	1,050	1,104
Liabilities and provisions	174,821	184,524	208,173	229,869	211,419	181,305	172,454	176,985	183,601	193,762
Net debt	150,634	154,367	168,500	184,515	165,488	137,913	125,133	127,840	133,874	136,653
Net financial debt	119,574	126,574	139,081	149,561	128,192	107,328	98,886	101,578	107,598	110,323
IFRS 16 debt	0	0	0	3,200	3,200	3,200	3,200	3,200	3,200	3,200
Net working capital	120,599	127,065	140,891	150,192	134,269	117,476	122,905	131,052	140,888	151,711
Invested capital	217,136	225,901	244,954	262,060	240,314	212,596	214,482	224,966	237,312	250,626
<b>Per share data (EUR)</b>										
EPS adjusted	6.11	9.04	4.08	5.65	2.19	20.18	12.16	11.96	11.22	11.36
EPS adj and fully diluted	6.11	9.04	4.08	5.65	2.19	20.18	12.16	11.96	11.22	11.36
% Change	-26.2%	48.0%	-54.9%	38.5%	-61.3%	822.5%	-39.7%	-1.7%	-6.2%	1.2%
EPS reported	7.97	9.84	6.77	2.22	3.39	21.50	13.55	11.96	11.22	11.36
Cash flow per share	3.89	1.93	1.82	8.59	19.19	21.84	12.23	21.77	19.78	22.07
Book value per share	54.16	59.83	60.44	57.33	56.72	67.24	79.83	84.72	88.87	94.98
Dividend per share	3.25	3.65	3.25	0.90	1.35	5.00	5.20	5.20	5.25	5.50
Number of shares, YE (m)	1,070.00	1,070.00	1,070.00	1,070.00	1,070.00	1,070.00	1,070.00	1,070.00	1,070.00	1,070.00
<b>Ratios</b>										
ROE (%)	11.7%	15.9%	6.8%	9.6%	3.8%	32.6%	16.5%	14.5%	12.9%	12.4%
ROIC (%)	3.4%	5.0%	3.5%	2.8%	2.2%	5.3%	7.1%	6.1%	5.4%	5.2%
ND(F+IFRS16) / EBITDA (x)	5.6	4.7	5.4	5.9	5.2	3.7	3.1	3.0	3.2	3.2
Gearing (%)	202.2%	193.8%	210.6%	238.0%	205.9%	146.7%	114.3%	110.2%	110.9%	106.1%
<b>Valuation</b>										
P/E adjusted	10.3	7.5	14.9	8.8	18.9	3.7	5.1	5.3	5.6	5.6
P/E adjusted and fully diluted	10.3	7.5	14.9	8.8	18.9	3.7	5.1	5.3	5.6	5.6
P/BV	1.2	1.1	1.0	0.9	0.7	1.1	0.8	0.7	0.7	0.7
P/CF	16.1	35.0	33.2	5.8	2.2	3.4	5.1	2.9	3.2	2.9
Dividend yield (%)	5.2%	5.4%	5.4%	1.8%	3.3%	6.8%	8.4%	8.2%	8.3%	8.7%
FCF yield (%)	-12.3%	-14.7%	-14.3%	-4.2%	28.8%	23.3%	15.4%	7.0%	2.2%	4.1%
EV/Sales	0.6	0.6	0.6	0.5	0.5	0.7	0.5	0.5	0.5	0.4
EV/EBITDA adj.	4.6	3.7	3.6	3.4	3.0	3.3	2.2	2.1	2.2	2.0
EV/EBIT adj.	9.9	6.9	8.0	8.9	8.6	5.7	3.6	4.0	4.4	4.1

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Hold	33%	33%
Reduce	10%	6%
Not Rated/Under Review/Accept Offer	2%	3%
Total	100%	100%

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A: % of all research recommendations

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### 12 months rating history

The below table shows the history of recommendations and target prices changes issued by KEPLER CHEUVREUX research department (Equity and Credit) over a 12 months period.

Company Name	Date	Business Line	Rating	Target Price	Closing Price
Mercedes-Benz (EUR)	20/02/2023 06:27	Equity Research	Hold	78.00	74.64
	28/07/2023 04:38	Equity Research	Hold	79.00	72.72
	09/10/2023 05:12	Equity Research	Hold	72.00	63.85
	27/10/2023 04:54	Equity Research	Hold	65.00	57.84

Credit research does not issue target prices. Left intentionally blank.

Please refer to the following link <https://research.keplercheuvreux.com/disclosure/stock/> for a full list of investment recommendations issued over the last 12 months by the author(s) and contributor(s) of this report on any financial instruments.

### Equity research

#### Rating system

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**Buy:** The minimum expected upside is 10% over next 12 months (the minimum required upside could be higher in light of the company's risk profile).

**Hold:** The expected upside is below 10% (the expected upside could be higher in light of the company's risk profile).

**Reduce:** There is an expected downside.

**Accept offer:** In the context of a total or partial take-over bid, squeeze-out or similar share purchase proposals, the offer price is considered to be fairly valuing the shares.

**Reject offer:** In the context of a total or partial take-over bid, squeeze-out or similar share purchase proposals, the offered price is considered to be undervaluing the shares.

**Under review:** An event occurred with an expected significant impact on our target price and we cannot issue a recommendation before having processed that new information and/or without a new share price reference.

**Not rated:** The stock is not covered.

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# Local insight, European scale.



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January 30, 2024

# Mercedes-Benz Group AG

## Model Update

**Our view:** Our PT is tweaked slightly lower to €86 from €87 reflecting a small cut to numbers.

### Key points:

We lower our Q4 cars EBIT margin to 10.1% from 11.3%. This is coming from high inflation costs from suppliers. We are hearing this from other OEMs in Europe. We think the 48 volt issue will only improve after H2/24, so Q4/23E will likely have a significant impact. We also make an adjustment for typical seasonality in Q4/23E.

We adjust Q4/23E Finco EBIT to flat q/q. This is primarily due to high interest rates in the quarter and charging infrastructure costs.

Finally, our FCF is adjusted to €1.5B from €1.1B. We think the inventory situation has improved in the quarter.

RBC Capital Markets, LLC  
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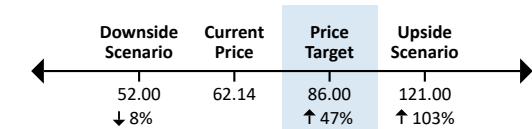
## Outperform

XETRA: MBG; EUR 62.14  
**Price Target EUR 86.00** ↓ 87.00

### WHAT'S INSIDE

<input type="checkbox"/> Rating/Risk Change	<input checked="" type="checkbox"/> Price Target Change
<input type="checkbox"/> In-Depth Report	<input checked="" type="checkbox"/> Est. Change
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### Scenario Analysis\*



\*Implied Total Returns

### Key Statistics

Shares O/S (MM):	1,070.0	Market Cap (MM):	66,490
Dividend:	5.20	Yield:	8.4%

### RBC Estimates

FY Dec	2022A	2023E	2024E	2025E
EBITDA, Adj	22,512.0	21,930.4	20,177.7	21,148.0
Prev.		22,280.4	20,527.7	21,498.0
EPS, Adj Diluted	13.73	13.19	11.20	11.89
Prev.		13.45	11.46	12.15
P/AEPS	4.5x	4.7x	5.5x	5.2x
EBITDA, Adj		Q1	Q2	Q3
2022	5,747.0A	5,486.0A	5,631.0A	5,648.0A
2023	5,971.0A	5,831.0A	5,329.0A	4,799.4E
Prev.				5,149.4E
2024	5,194.8E	5,258.0E	4,939.4E	4,785.6E
Prev.	5,195.0E		4,939.0E	5,136.0E
EPS, Adj Diluted		Q1	Q2	Q3
2022		3.31A	3.10A	3.74A
2023		3.62A	3.48A	3.50A
Prev.				2.85E
2024		2.93E	2.93E	2.86E
Prev.				2.49E
				2.74E

Historicals restated post Daimler Truck & Bus spin off.

All values in EUR unless otherwise noted.

Priced as of prior trading day's market close, EST (unless otherwise noted).

**Mercedes-Benz Group AG**

<b>Income Statement (December Fiscal Year End)</b> <i>EUR in millions unless noted</i>	Dec-21 2021A	Dec-22 2022A	Mar-23 Q123A	Jun-23 Q223A	Sep-23 Q323A	Dec-23 Q423E	Dec-23 2023E	Mar-24 Q124E	Jun-24 Q224E	Sep-24 Q324E	Dec-24 Q424E	Dec-24 2024E	Dec-25 2025E
Mercedes Benz Cars	€ 96,712	€ 111,601	€ 27,812	€ 28,244	€ 27,131	€ 28,724	€ 111,911	€ 25,587	€ 26,832	€ 26,453	€ 29,585	€ 108,457	€ 112,795
Mercedes Benz Vans	€ 14,735	€ 17,217	€ 4,615	€ 5,123	€ 4,939	€ 5,421	€ 20,098	€ 4,615	€ 5,123	€ 4,939	€ 5,367	€ 20,044	€ 20,391
MB Cars and Vans	€ 111,447	€ 128,818	€ 32,427	€ 33,367	€ 32,070	€ 34,144	€ 132,008	€ 30,202	€ 31,955	€ 31,392	€ 34,952	€ 128,500	€ 133,186
Intersegment	(€ 5,495)	(€ 5,755)	(€ 1,550)	(€ 1,632)	(€ 1,431)	(€ 1,564)	(€ 6,177)	(€ 1,008)	(€ 1,061)	(€ 1,216)	(€ 1,564)	(€ 4,849)	(€ 3,942)
<b>Industrial Sales</b>	<b>€ 105,952</b>	<b>€ 123,063</b>	<b>€ 30,877</b>	<b>€ 31,735</b>	<b>€ 30,639</b>	<b>€ 32,580</b>	<b>€ 125,831</b>	<b>€ 29,195</b>	<b>€ 30,894</b>	<b>€ 30,175</b>	<b>€ 33,388</b>	<b>€ 123,652</b>	<b>€ 129,244</b>
Financial Services Sales	€ 27,941	€ 26,954	€ 6,639	€ 6,506	€ 6,561	€ 6,858	€ 26,564	€ 6,639	€ 6,506	€ 6,561	€ 6,858	€ 26,564	€ 26,564
<b>Total Sales</b>	<b>€ 133,893</b>	<b>€ 150,017</b>	<b>€ 37,516</b>	<b>€ 38,241</b>	<b>€ 37,200</b>	<b>€ 39,438</b>	<b>€ 152,395</b>	<b>€ 35,834</b>	<b>€ 37,400</b>	<b>€ 36,736</b>	<b>€ 40,246</b>	<b>€ 150,216</b>	<b>€ 155,808</b>
Industrial COGs (excludes R&D)	€ 80,328	€ 94,379	€ 22,394	€ 23,588	€ 23,327	€ 27,659	€ 96,968	€ 21,208	€ 22,509	€ 24,648	€ 23,675	€ 92,041	€ 96,468
Industrial R&D	€ 5,467	€ 5,602	€ 1,695	€ 1,644	€ 1,541	€ 1,501	€ 6,381	€ 1,780	€ 1,726	€ 1,618	€ 1,576	€ 6,700	€ 4,832
Industrial SG&A/Other	€ 7,866	€ 6,966	€ 2,440	€ 2,275	€ 2,060	€ 192	€ 6,967	€ 2,635	€ 3,003	€ 588	€ 4,922	€ 11,148	€ 13,210
<b>MB Cars and Vans EBIT</b>	<b>€ 12,422</b>	<b>€ 16,061</b>	<b>€ 4,297</b>	<b>€ 4,069</b>	<b>€ 3,259</b>	<b>€ 3,240</b>	<b>€ 14,865</b>	<b>€ 3,521</b>	<b>€ 3,496</b>	<b>€ 2,869</b>	<b>€ 3,227</b>	<b>€ 13,113</b>	<b>€ 14,083</b>
Intersegment	(€ 131)	€ 55	€ 51	€ 159	€ 452	(€ 12)	€ 650	€ 51	€ 159	€ 452	(€ 12)	€ 650	€ 650
<b>Industrial EBIT</b>	<b>€ 12,291</b>	<b>€ 16,116</b>	<b>€ 4,348</b>	<b>€ 4,228</b>	<b>€ 3,711</b>	<b>€ 3,228</b>	<b>€ 15,515</b>	<b>€ 3,572</b>	<b>€ 3,655</b>	<b>€ 3,321</b>	<b>€ 3,215</b>	<b>€ 13,763</b>	<b>€ 14,733</b>
Financial Services EBIT	€ 3,449	€ 2,428	€ 539	€ 448	€ 363	€ 360	€ 1,710	€ 539	€ 448	€ 363	€ 360	€ 1,710	€ 1,710
<b>Total EBIT</b>	<b>€ 15,740</b>	<b>€ 18,544</b>	<b>€ 4,887</b>	<b>€ 4,676</b>	<b>€ 4,074</b>	<b>€ 3,588</b>	<b>€ 17,225</b>	<b>€ 4,111</b>	<b>€ 4,103</b>	<b>€ 3,684</b>	<b>€ 3,575</b>	<b>€ 15,473</b>	<b>€ 16,443</b>
<b>Total EBIT + Equity Investments</b>	<b>€ 17,092</b>	<b>€ 20,540</b>	<b>€ 5,399</b>	<b>€ 5,207</b>	<b>€ 4,907</b>	<b>€ 3,888</b>	<b>€ 19,401</b>	<b>€ 4,495</b>	<b>€ 4,501</b>	<b>€ 4,392</b>	<b>€ 3,830</b>	<b>€ 17,218</b>	<b>€ 18,263</b>
<i>Adjusted (According to MB - includes equity income)</i>													
MB Cars Margin	€ 12,689 13.1%	€ 16,295 14.6%	€ 4,113 14.8%	€ 3,812 13.5%	€ 3,357 12.4%	€ 2,896 10.1%	€ 14,178 12.7%	€ 3,206 12.5%	€ 3,122 11.6%	€ 2,854 10.8%	€ 2,867 9.7%	€ 12,049 11.1%	€ 13,035 11.6%
MB Vans Margin	€ 1,229 8.3%	€ 1,927 11.2%	€ 719 15.6%	€ 792 15.5%	€ 743 15.0%	€ 644 11.9%	€ 2,898 14.4%	€ 699 15.1%	€ 772 15.1%	€ 723 14.6%	€ 615 11.5%	€ 2,809 14.0%	€ 2,868 14.1%
Industrial D&A	€ 6,176	€ 6,396	€ 1,623	€ 1,603	€ 1,618	€ 1,571	€ 6,415	€ 1,623	€ 1,603	€ 1,618	€ 1,571	€ 6,415	€ 6,415
<b>Industrial EBITDA</b>	<b>€ 18,467</b>	<b>€ 22,512</b>	<b>€ 5,971</b>	<b>€ 5,831</b>	<b>€ 5,329</b>	<b>€ 4,799</b>	<b>€ 21,930</b>	<b>€ 5,195</b>	<b>€ 5,258</b>	<b>€ 4,939</b>	<b>€ 4,786</b>	<b>€ 20,178</b>	<b>€ 21,148</b>
Interest Expense	(€ 217)	(€ 175)	€ 65	€ 97	€ 138	€ 138	€ 438	€ 65	€ 65	€ 65	€ 65	€ 260	€ 260
Other	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0
Total Equity Investments	€ 1,352	€ 1,996	€ 512	€ 531	€ 833	€ 300	€ 2,176	€ 384	€ 398	€ 708	€ 255	€ 1,745	€ 1,820
<b>Pre-tax Income</b>	<b>€ 16,875</b>	<b>€ 20,365</b>	<b>€ 5,464</b>	<b>€ 5,304</b>	<b>€ 5,045</b>	<b>€ 4,026</b>	<b>€ 19,839</b>	<b>€ 4,560</b>	<b>€ 4,566</b>	<b>€ 4,457</b>	<b>€ 3,895</b>	<b>€ 17,478</b>	<b>€ 18,523</b>
Taxes	€ 5,081	€ 5,348	€ 1,529	€ 1,506	€ 1,261	€ 1,208	€ 5,504	€ 1,368	€ 1,370	€ 1,337	€ 1,168	€ 5,243	€ 5,557
Tax Rate	30.1%	26.3%	28.0%	28.4%	25.0%	30.0%	27.7%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
Other													
Minority interests and equity earnings	€ 390	€ 324	€ 66	€ 78	€ 83	€ 80	€ 307	€ 80	€ 80	€ 80	€ 80	€ 320	€ 320
<b>Net Income</b>	<b>€ 11,403</b>	<b>€ 14,693</b>	<b>€ 3,869</b>	<b>€ 3,720</b>	<b>€ 3,701</b>	<b>€ 2,738</b>	<b>€ 14,029</b>	<b>€ 3,112</b>	<b>€ 3,116</b>	<b>€ 3,040</b>	<b>€ 2,646</b>	<b>€ 11,915</b>	<b>€ 12,646</b>
Diluted Shares	1070	1070	1070	1070	1057	1057	1064	1064	1064	1064	1064	1064	1064
<b>Adj EPS</b>	<b>€ 10.66</b>	<b>€ 13.73</b>	<b>€ 3.62</b>	<b>€ 3.48</b>	<b>€ 3.50</b>	<b>€ 2.59</b>	<b>€ 13.19</b>	<b>€ 2.93</b>	<b>€ 2.93</b>	<b>€ 2.86</b>	<b>€ 2.49</b>	<b>€ 11.20</b>	<b>€ 11.89</b>

*Source: Company reports and RBC Capital Markets estimates*



## Key fundamental questions

### Our view

#### Is MB well positioned in China and Emerging Markets?

Yes. MB is the second-most China-exposed name of the European OEMs at over 35% in terms of unit sales. MB unit sales in China have outperformed the overall China market, helped by the decoupling of luxury and mass-market performance. China and Emerging markets currently represent ~40% of Daimler total pass-car unit sales. That said, given MB's high premium segment exposure, it likely will not capture as much share of first-time motorization as some of the mass-market car-makers. In terms of profitability, helped largely by strong China margins, we do not see increasing EM growth as detrimental to company-level profitability long term.

#### How is MB positioned in the global electrification race?

Very well. The pushback on automakers is that their EV rollout initially will hurt margins given uncertain consumer demand and the higher costs they would have to pass through to maintain profitability. We believe car-makers like MB and BMW are at an advantage over mass-market players introducing EVs given the price flexibility of premium customers. Moreover, Daimler's BEVs are already profitable and battery prices are falling.

#### Are threats from new entrants concerning?

No. In recent times, "the Tesla bear thesis" has emerged, which points out that new premium EV entrants (notably Tesla) could gain enough market share that MB can no longer sell enough cars to justify its breakeven production level. As we have long argued, however: 1) all EV makers, including Tesla, are somewhat battery constrained (and in the case of Tesla, manufacturing constrained), limiting their near-term growth potential; 2) legacy premium auto-makers like Mercedes simply know how to do luxury better; 3) for its long-term volume and mobility as a service ambitions, Tesla might be going after the volume segment more than the capacity limited premium one; and 4) Tesla appears to have ceded the SUV segment to legacy players like Mercedes.

## Key ESG questions

*This section is intended to highlight key ESG discussion points relevant to this company, as well as our views on the outlook. Both the questions we highlight and our responses will evolve over time as the dialogue between management, analysts and investors continues to advance. We welcome any feedback on the topics.*

### Our view

#### **What are the most material ESG issues facing this company?**

The most material ESG issues faced by Mercedes are uncertainty in geopolitical and trade policy developments that can adversely affect the development of the company. Also, labour law standards, occupational and product safety, product liability and suppliers' compliance with labour law standards are other ESG issues faced by the company.

#### **Does the company integrate ESG considerations into its strategy?**

The company's strategy mainly focuses on climate protection and air quality, resource conservation, liveable cities, traffic safety, data responsibility and human rights. Daimler's ambition is to make its fleet of new cars CO2 neutral by 2039, covering technical development to raw material extraction, production, service life and recycling.

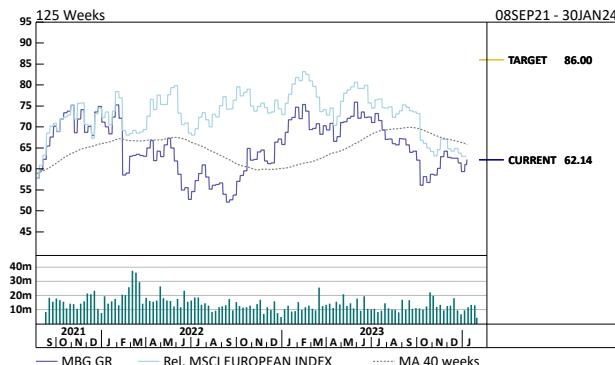
#### **What is diversity like at board / management level?**

Mercedes-Benz's Board of Management has 7 members (3 female, 4 male). The company also has a supervisory Board in place consisting of 20 members (10 elected by shareholders, 10 by employees), which is mainly responsible for control and monitoring of executive management, appointments of the Board of Management and approval of the operative planning and important corporate decisions.



## Target/Upside/Downside Scenarios

Mercedes-Benz Group AG



Source: Bloomberg and RBC Capital Markets estimates for Target

### Valuation

Our €86 price target is derived by applying a 2x historical trough multiple to our 2024E Industrial EBITDA. We then add Industrial Net Cash, Finco (at 1x Book Value), and China JV (at 8x peer P/E), and subtract Underfunded Pension liabilities, but give no credit for 35% ownership of Daimler Truck and discount back at 7.5% WACC to arrive at our price target. Our price target supports our Outperform rating.

### Upside scenario

Our €121 upside value is derived by applying a 4x (historical peak cycle) multiple to our 2024E Industrial EBITDA. We then add Industrial Net Cash, Finco (@ 1x Book Value), China JV (@ 8x peer P/E), subtract Unfunded Pension liabilities, but give no credit of 35% owned in Daimler Truck and discount back @7.5% WACC to arrive at our upside value.

### Downside scenario

Our €52 downside value is derived by applying a 1x historical trough multiple to our 2024E Industrial EBITDA (with a 70% discount). We then add Industrial Net Cash, Finco, China JV (@ 10% discount to peer P/E), subtract Unfunded Pension liabilities, but give no credit of 35% owned in Daimler Truck and discount back @7.5% WACC to arrive at our downside value.

### Investment summary

We believe fears over competition and electrification are somewhat overblown. Mercedes is a premier luxury carmaker with a history of fending off new entrants. Further, we believe consumers and governments, particularly in Europe and China, are receptive to EV adoption. Moreover, with battery prices coming down over time and public charging infrastructure improving, the company should be able to navigate the energy transition. There will be challenges along the way, especially on the supply side, but it is tough for us to make a case against Mercedes-Benz.

MB is well positioned in China and emerging markets, in our view. Helped by its luxury offering, Benz has outperformed the overall China market and dodged the downshift in monthly sales. We expect China and emerging markets to represent 46% share of total unit sales by 2025, up from 39% in 2018. Finally, we do not expect to see profitability impaired by this dynamic, as China margins are above those of developed markets.

We believe MB is well positioned in the global electrification race. We think luxury players like MB and BMW are at an advantage over mass-market players in electrification given the price flexibility of premium customers. Moreover, MB's BEVs are already profitable and battery prices are falling.

### Potential catalysts

1. China unit sales
2. EV profitability
3. Corporate restructuring
4. US trade resolution

### Risks to rating and price target

1. MB China performance worsens
2. MB delays or abandons restructuring plans
3. Lack of EV consumer demand
4. Battery prices do not fall and profitability is impaired
5. US trade situation worsens
6. COVID shutdowns last longer than anticipated and consumer demand does not return



## Company description

Mercedes-Benz produces Mercedes-Benz, a premium passenger car brand with 43% exposure in Europe, 28% in China and 13% in the US in terms of unit sales. Daimler also produces vans and has 35% stake in Daimler Trucks & Bus.

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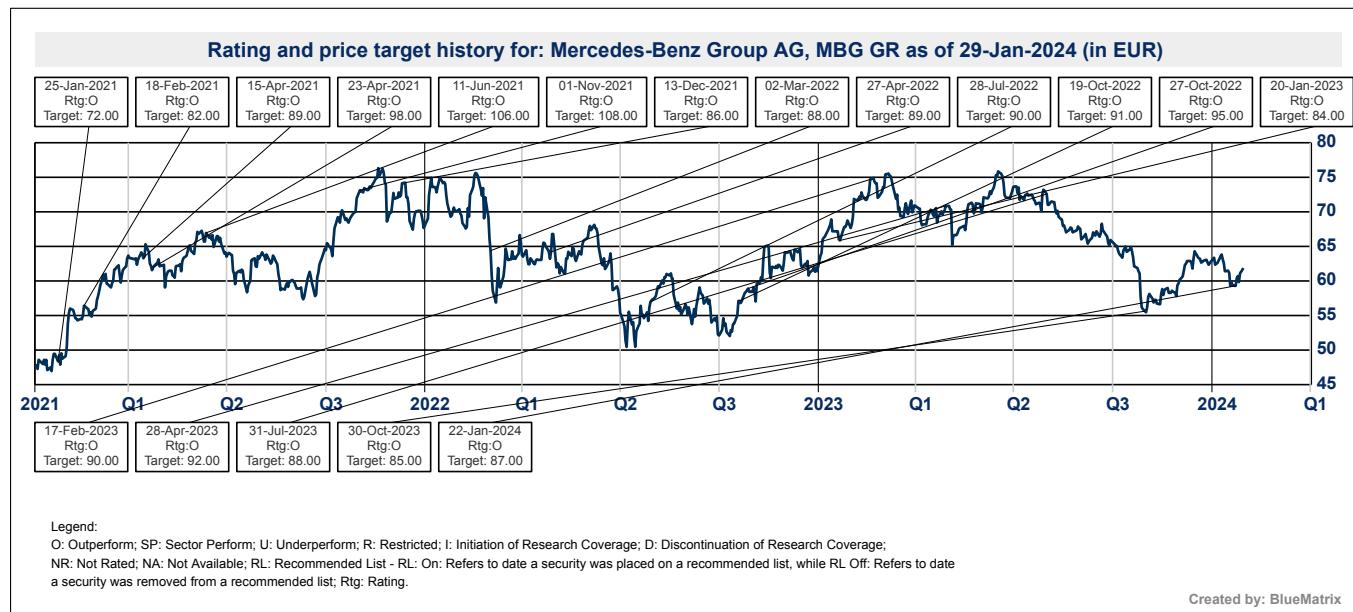
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HOLD [Sector Perform]	575	39.66	154	26.78	
SELL [Underperform]	46	3.17	6	13.04	



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### Mercedes-Benz Group AG

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Rating

**Buy**

Europe  
Germany

Autos

Auto Manufacturing

Company

# Mercedes-Benz Group

Reuters  
MBGn.DE

Bloomberg  
MBG GR

Exchange  
GER

Ticker  
MBGn

ADR  
DDAIY

ISIN  
US2338251083

Date

29 January 2024

## Company Update

Price at 26 Jan 2024 (EUR) 61.26

Price Target (EUR) 115.00

52-week range (EUR) 76.10 - 55.43

## A premium finish? - Q4 preview

### Looking for encouraging comments

Mercedes is due to release its FY23 figures on February 22<sup>nd</sup> and will host a conference call the same day. Unit sales in Q4 have been 4% weaker y/y due to a double-digit decline in the entry and TEV segment. The latter will likely have a negative impact on the mix albeit some of the TEV models had a record year. We understand that pricing remains stable but the component shortage on 48V systems impacted earnings in the final quarter. Vans had very strong momentum in '23 and we look for a solid finish while mobility will likely be pressured by higher refinancing costs. Cash generation should be solid.

2024 should be much more challenging compared to the previous years in terms of volumes, prices and costs for the entire industry. We actually believe that this is an opportunity for Mercedes to prove its resilience and to comfortably maintain margins in double-digits, thereby also showing that a 5x PE is unjustified.

### Outlook - slight unit sales growth but lower margin

We expect Mercedes to guide for unit sales at prior-year level (-2% to +2%) which would be in line with the previous management comments. Similar to the entire sector, we see that pricing should also be a headwind for Mercedes this year and look for negative mix effects from a higher BEV share. In sum, we would expect the OEM to guide for an adj. Cars margin between 10-12%. We could see upside for the stock from potential 11-13% guidance.

### Valuation & Risks

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### Key changes

TP	120.00 to 115.00	↓	-4.2%
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Source: Deutsche Bank



## Key charts

Figure 1: Mercedes Q4 preview

Revenues (EUR m)	Q4-19A	Q4-22A	Q4-23E	y/y
MBC & Vans	31,152	35,671	35,288	-1%
Mobility	7,534	6,858	6,439	-6%
Elimination/Others	-2,452	-1,526	-1,387	nm
<b>Group</b>	<b>36,234</b>	<b>41,003</b>	<b>40,340</b>	<b>-2%</b>
<b>Adjusted EBIT (EUR m)</b>				
MBC & Vans	1,763	4,589	3,815	-17%
Mobility	384	494	364	-26%
Elimination/Others	-323	-12	135	nm
<b>Group</b>	<b>2,377</b>	<b>5,071</b>	<b>4,314</b>	<b>-15%</b>
<b>Margin</b>				
MBC & Vans	5.7%	12.9%	10.8%	-205 bps
Mobility	5.1%	7.2%	5.7%	-155 bps
Elimination/Others	13.2%	0.8%	-9.7%	nm
<b>Group</b>	<b>6.6%</b>	<b>12.4%</b>	<b>10.7%</b>	<b>-167 bps</b>

Source : Deutsche Bank, company data

## Key forecast changes

We fine-tune our earnings and FCF estimates amid lower used car prices and likely higher wages in 2024. Our new TP is EUR115.

Figure 2: Key forecast changes

Revenue	2022			2023			2024			2025		
	Actual	Old	New	Change	Old	New	Change	Old	New	Change	Old	New
Cars & VANS	128,818	133,044	132,854	0%	133,170	131,671	-1%	137,553	135,975	-1%		
Mobility	26,954	26,145	26,145	0%	25,622	25,622	0%	26,135	26,135	0%		
Eliminations	-5,755	-6,000	-6,000	0%	-6,000	-6,000	0%	-6,000	-6,000	0%		
<b>Group</b>	<b>150,017</b>	<b>153,190</b>	<b>153,000</b>	<b>0%</b>	<b>152,792</b>	<b>151,294</b>	<b>-1%</b>	<b>157,687</b>	<b>156,110</b>	<b>-1%</b>		
<b>Stated EBIT</b>												
Cars & VANS	18,237	17,514	17,410	-1%	16,183	16,004	-1%	16,401	16,212	-1%		
Mobility	2,428	1,490	1,438	-4%	1,537	1,409	-8%	1,699	1,699	0%		
Eliminations	-207	800	800	0%	800	800	0%	800	800	0%		
<b>Group</b>	<b>20,458</b>	<b>19,804</b>	<b>19,648</b>	<b>-1%</b>	<b>18,520</b>	<b>18,213</b>	<b>-2%</b>	<b>18,900</b>	<b>18,710</b>	<b>-1%</b>		
<b>EBIT margin</b>												
Cars & VANS	14.2%	13.2%	13.1%	-6 bps	12.2%	12.2%	0 bps	11.9%	11.9%	0 bps		
Mobility	9.0%	5.7%	5.5%	-20 bps	6.0%	5.5%	-50 bps	6.5%	6.5%	0 bps		
<b>Group</b>	<b>13.6%</b>	<b>12.9%</b>	<b>12.8%</b>	<b>-9 bps</b>	<b>12.1%</b>	<b>12.0%</b>	<b>-8 bps</b>	<b>12.0%</b>	<b>12.0%</b>	<b>0 bps</b>		
<b>Industrial FCF</b>	<b>8,128</b>	<b>8,851</b>	<b>9,075</b>	<b>3%</b>	<b>9,103</b>	<b>8,971</b>	<b>-1%</b>	<b>12,650</b>	<b>12,513</b>	<b>-1%</b>		

Source : Deutsche Bank, company data



# Appendix 1

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Company	Ticker	Recent price*	Disclosure
Mercedes-Benz Group	MBGn.DE	61.26 (EUR) 26 Jan 2024	1, 2, 7, 8, 14, 15, 24, 26

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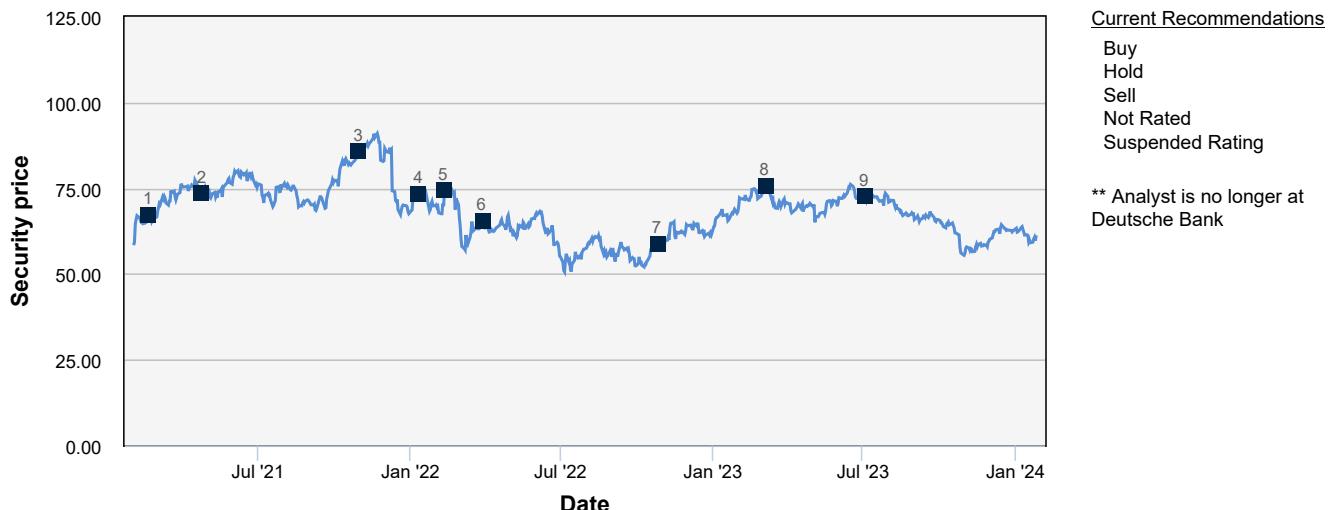
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**Historical recommendations and target price: Mercedes-Benz Group (MBGn.DE)**  
 (as of 01/26/2024)



1. 02/19/2021 Buy, Target Price Change EUR 80.00, Current Price EUR 67.22 Tim Rokossa
2. 04/25/2021 Buy, Target Price Change EUR 85.00, Current Price EUR 73.70 Tim Rokossa
3. 10/31/2021 Buy, Target Price Change EUR 95.00, Current Price EUR 85.74 Tim Rokossa
4. 01/12/2022 Buy, Target Price Change EUR 100.00, Current Price EUR 73.42 Tim Rokossa
5. 02/11/2022 Buy, Target Price Change EUR 110.00, Current Price EUR 74.44 Tim Rokossa

6. 03/30/2022 Buy, Target Price Change EUR 105.00, Current Price EUR 65.35 Tim Rokossa
7. 10/27/2022 Buy, Target Price Change EUR 100.00, Current Price EUR 58.81 Tim Rokossa
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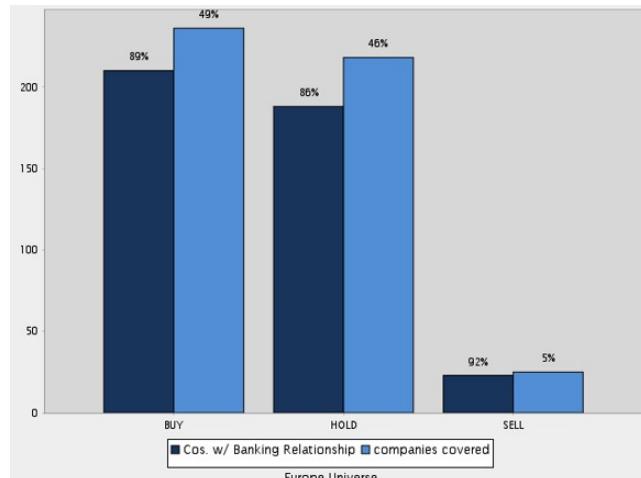
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Mercedes-Benz Group AG

## Q4'23/2024 preview: Intriguing TSR

MBG reports FY23 results on 22 Feb. We make only very small changes in this note, but have noticed improved investor sentiment. MBG has essentially retained its constructive tone since its Q3 results call, while consensus has adjusted and total shareholder return looks strong. EW and PT €60 unchanged.

**Q4-23 preview:** We make only small estimates changes in this report, mainly reflecting FY23 reported actuals for volume and mix as well as updated FX. At the Q3 stage MBG lowered the FY guidance for MB Cars to the "bottom half" of 12-14% (after 13.6% in 9M-23), reflecting in our view that: 1) MBG is missing c5%/100,000 units of mix-rich GLC and E-Classes in 2023 due to supply issues; 2) higher-than-expected supplier compensation payments of c€1.0-1.5bn (BARCe), which will have been disproportionately weighted in H2; 3) somewhat lower-than-expected "top-end/core -luxury" mix. Q4 volumes were similar to the Q3 level, with top-end mix improving sequentially but down yoy vs a tough comp, and the margin is set to decline sequentially due to increased supplier compensation payments. Overall we remain near the 10% margin floor provided by management at Q3 stage, and we forecast a 10.5% MB Cars margin for Q4. We forecast that MBG will apply a 40% payout ratio, implying a €5.38 DPS on our estimates, and pursue a stable dividend thereafter (even if that means exceeding a 40% payout ratio) in the context of its strong cash position (and indeed the CFO had suggested at IAA in September that MBG can operate on less net cash, which we hadn't fully reflected as absolute dividend stability in our previous forecasts).

**2024 preview:** Our 2024/25e estimates continue to reflect our negative net pricing forecasts (at -2.25% a clearly more negative assumption than our -1.5% for BMW and more negative than MBG's ambition for more stable net pricing). We still forecast MB Cars margins to decline c11.0% in 2024/25e, and we still think MBG might guide for a 2024 MB Cars EBIT margin of 10-12% at the FY23 stage or possibly 11-13% (considering its stated ambition for more stable net pricing/ASPs), which we think would be taken well by the market, with consensus (and ourselves) at the bottom end of this latter potential guidance range.

**Investment case:** We downgraded MBG to EW from OW in November (see [Not broken, but bruised](#), 24 Nov 2023). On reported EBIT level we are 6% above 2023 Bloomberg consensus, but only 1% above for 2024/25. We still think MBG will struggle to perform both in absolute and relative terms in the near term, given the negative Q1-Q4'23e margin trajectory, industry-wide price normalisation expectations for 2024/25, higher-than-expected MBG specific discount development, further normalisation of re-marketing gains, and a "not broken, but bruised" resilience/luxury narrative. And while these factors have made MBG a more complex proposition

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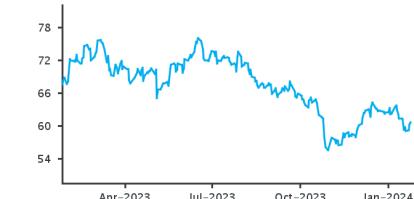
Completed: 25-Jan-24, 20:30 GMT Released: 26-Jan-24, 04:00 GMT Restricted - External

## CORE

MBGn.DE/MBG GY	<b>EQUAL WEIGHT</b>
	Unchanged
European Autos & Auto Parts	<b>NEGATIVE</b>
	Unchanged
Price Target	<b>EUR 60.00</b>
	Unchanged
Price (25-Jan-24)	<b>EUR 59.75</b>
Potential Upside/Downside	<b>+0.4%</b>
Market Cap (EUR mn)	<b>63167</b>
Shares Outstanding (mn)	<b>1057.20</b>
Free Float (%)	<b>80.09</b>
52 Wk Avg Daily Volume (mn)	<b>2.5</b>
Dividend Yield (%)	<b>8.68</b>
Return on Equity TTM (%)	<b>17.53</b>
Current BVPS (EUR)	<b>85.07</b>

Source: Bloomberg

Price Performance	<b>Exchange-GER</b>
52 Week range	<b>EUR 76.10-55.08</b>



Source: IDC

[Link to Barclays Live for interactive charting](#)

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for us vs our previous long-held OW rating, we still like MBG's "higher-price, lower-volume" and "top-end premium" propositions as well as its practical attitude and strategic patience towards electrification. We also acknowledge the company's unchanged constructive tone since the Q3 results stage and how strongly it screens on total shareholder return. But overall, we think MBG will need to deliver well above the indicated 10% Q4 2023 margin floor again (and credibly convey that it can sustainably retain that level) before the market will give it credit for earnings resilience again (not least after an arguably deserved upward re-rating never happened in the first place, even before the warning at Q3 stage).

**MBGn.DE: Financial and Valuation Metrics EPS EUR**

FY Dec	2021	2022	2023	2024	2025
EPS	10.70A	13.69A	13.62E	11.95E	12.14E
Previous EPS	10.70A	13.69A	13.42E	11.68E	11.93E
P/E	5.6	4.4	4.4	5.0	4.9

Consensus numbers are from Bloomberg received on 25-Jan-2024; 13:51 GMT

Source: Barclays Research

European Autos & Auto Parts						NEGATIVE
Mercedes-Benz Group AG (MBGn.DE)						EQUAL WEIGHT
Income statement group (€mn)	2022A	2023E	2024E	2025E	CAGR	Price (25-Jan-2024) EUR 59.75
Sales	150,017	152,920	154,280	155,210	1.1%	Price Target EUR 60.00
Gross profit	34,020	34,251	32,139	31,943	-2.1%	<b>Why EQUAL WEIGHT?</b>
EBIT	20,458	19,740	16,991	16,921	-6.1%	We continue to like MBG's 'value-over-volume' and 'top-end premium' proposition as well as its practical attitude and strategic patience towards electrification.
EBIT (adj)	20,655	19,996	17,066	16,996	-6.3%	However, following the FY23 guidance cut and signs of pricing normalisation, we think it will need to demonstrate these qualities in 2024 for investor sentiment to turn more positive.
Net income	14,501	14,220	12,231	12,181	-5.6%	
Net income (adj)	14,645	14,405	12,285	12,236	-5.8%	
EPS (reported) (€)	13.55	13.45	11.90	12.09	-3.7%	
EPS (adj) (€)	13.69	13.62	11.95	12.14	-3.9%	
DPS (€)	5.20	5.38	5.38	5.38	1.1%	
Industrial cash flow (€mn)	2022A	2023E	2024E	2025E	CAGR	
Cash flow from operations	14,899	17,390	18,841	19,211	8.8%	
Cash flow from investing	-5,554	-6,700	-7,500	-7,330	N/A	
Free cash flow (company definition)	9,294	10,380	7,765	9,115	-0.6%	
Industrial net debt/(funds)	-26,637	-31,360	-33,440	-37,030	N/A	
Capital expenditure (PPE)	-3,481	-3,900	-3,730	-3,640	N/A	
Cash R&D	-8,541	-10,140	-10,040	-9,830	N/A	
Industrial balance sheet (€mn)	2022A	2023E	2024E	2025E	CAGR	
Cash and equivalents	14,094	15,390	19,040	25,060	21.1%	
Accounts receivable	7,328	7,580	7,680	7,740	1.8%	
Inventories	24,906	26,550	27,540	27,840	3.8%	
Net PP&E	26,942	26,180	25,660	25,160	-2.3%	
Total assets	117,491	124,748	133,059	140,384	6.1%	
Accounts payable	11,101	12,090	12,550	12,680	4.5%	
Pension liabilities	683	680	680	680	-0.1%	
Total liabilities	44,527	45,490	45,260	45,600	0.8%	
Shareholders' equity	72,964	79,258	87,799	94,784	9.1%	
FS book value	13,576	13,300	13,300	13,300	-0.7%	
Margin and return data	2022A	2023E	2024E	2025E	Average	
Gross margin (%)	22.7	22.4	20.8	20.6	21.6	
EBIT margin (%)	13.6	12.9	11.0	10.9	12.1	
EBIT (adj) margin (%)	13.8	13.1	11.1	11.0	12.2	
Industrial EBIT margin (%)	14.7	14.5	12.2	12.1	13.3	
Industrial EBIT (adj) margin (%)	14.8	14.5	12.3	12.1	13.4	
Industrial ROCE (%)	16.6	15.7	12.5	11.8	14.2	
Valuation, leverage and performance data	2022A	2023E	2024E	2025E	Average	
Industrial net debt/EBITDA (x)	-1.1	-1.3	-1.5	-1.7	-1.4	
R&D/sales (%)	4.6	5.2	5.1	5.0	5.0	
Capex/sales (%)	5.6	6.1	5.9	5.7	5.8	
P/E (reported) (x)	4.4	4.4	5.0	4.9	4.7	
P/E (adj) (x)	4.4	4.4	5.0	4.9	4.7	
Dividend yield (%)	8.7	9.0	9.0	9.0	8.9	
Equity FCF yield (%)	13.8	15.3	18.5	19.7	16.8	
EV/sales (%)	35.7	32.2	30.9	28.6	31.8	
EV/EBITDA (x)	2.0	1.9	2.0	1.9	1.9	
EV/EBITDA (adj) (x)	2.0	1.9	2.0	1.9	1.9	
EV/EBIT (x)	2.6	2.5	2.8	2.6	2.6	
EV/EBIT (adj) (x)	2.6	2.5	2.8	2.6	2.6	

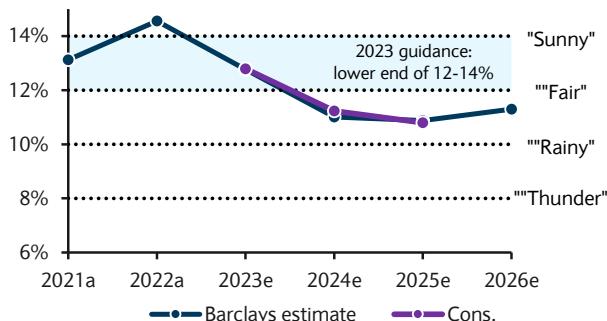
Note: FY End Dec

Source: Company data, Bloomberg, Barclays Research



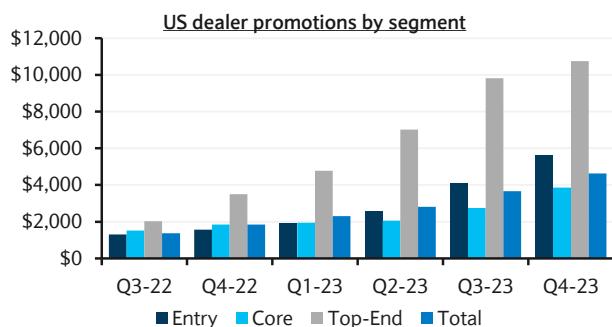
## Mercedes-Benz (EW; €60 PT): EW on discount angst

**FIGURE 1. Barclays MBC EBIT margin vs. MBC 2025 targets/consensus:**  
We see 'rainy' to 'fair' margins in 2024-26e...



Source: Mercedes-Benz, Barclays Research estimates

**FIGURE 3. ...as discounts have increased more, and faster, than we had expected (in all regions, incl in the US)...**



Source: Motor Intelligence, Barclays Research

**FIGURE 5. Recent and upcoming events / catalysts**

### Recent relevant events

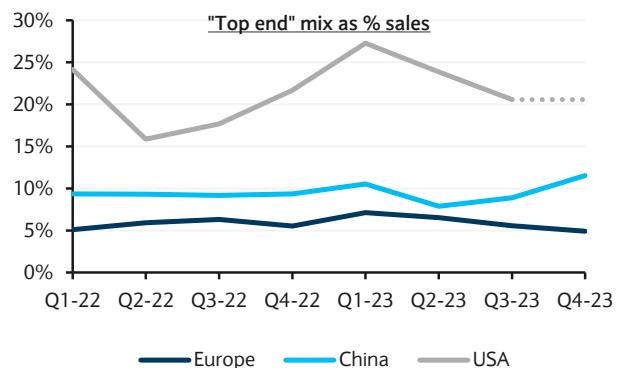
- 19 May: Economics of desire CMD – Very well perceived capital market event to further substantiate its ambition as a 'luxury' car company. New mid-term EBIT margin ranges with "higher structural margin and lower volatility", new 5% unit CAGR 2021-25, and new target top-, core-, and entry-segment shares (targeting more weight in higher segments).
- 17 Feb: FY-22 results – €4bn share-buy back announced over 2 year period.
- 22 Feb: MB.OS CMD – MBG showed a practical guide to digitalisation, working alongside leading Tech players to ensure MB.OS will have strong integration and functionality. MBG targets low- to mid-single digit Euro revenue by 2025 and high single-digit Euro revenue by 2030, with c€1bn EBIT in 2025.
- 16 May: Vans CMD – MBV emphasised the segment's stability and its premium position within this market. Not unlike in MB Cars, the focus is on high-price, high-margin segments and cost/complexity reduction - while the BEV transition and associated D&A will weigh on margins until mid-decade.
- 26 Oct: Q3 results - 12.4% margin for MB Cars and guidance lowered to "bottom half" of 12-14% margin due to supplier compensation costs and a volume shortfall due to 48V component supply constraints.

### Upcoming events and potential catalysts

- 22 Feb 2024: FY results – we forecast a 10.5% MB Cars margin in Q4. We have positioned ourselves around 11% MB Cars EBIT margin for 2024-26 (equivalent to "rainy" to "fair" weather in MBC's weather chart).

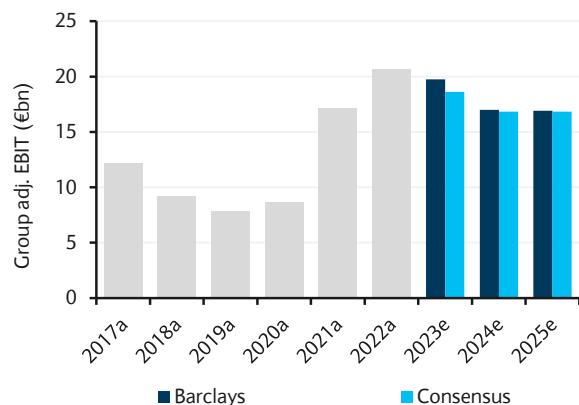
Source: Mercedes-Benz, Barclays Research estimate

**FIGURE 2. ...with a recently softer 'top-end' mix in the important US region...**



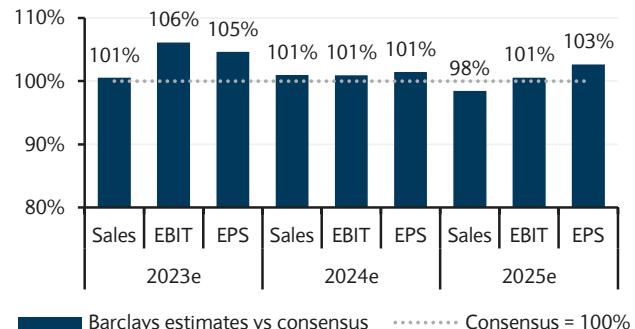
Note: S, EQS, GLS, EQS SUV and G-Class as % of total sales  
Source: JATO, CATARC, Motor Intelligence

**FIGURE 4. ...and so we forecast absolute earnings normalisation from net pricing (in the absence of meaningful volume and/or mix growth)**



Source: Mercedes-Benz, Barclays Research estimates, Bloomberg consensus

**FIGURE 6. Barclays estimates vs. consensus**



Source: Barclays Research estimates, Bloomberg consensus

## Changes to Barclays estimates

FIGURE 7. Mercedes-Benz – Barclays new vs. old forecasts

€m unless otherwise stated	FY 2023E			FY 2024E			FY 2025E		
	New	Old	% chg.	New	Old	% chg.	New	Old	% chg.
Mercedes-Benz Cars	112,270	111,300	+1%	113,900	113,190	+1%	114,550	115,410	-1%
Mercedes-Benz Vans	20,480	20,460	+0%	20,700	20,920	-1%	21,030	21,650	-3%
Mercedes-Benz Mobility	26,410	26,410	-	26,410	26,410	-	26,410	26,410	-
Reconciliation	(6,240)	(6,190)	-1%	(6,730)	(6,710)	-0%	(6,780)	(6,850)	+1%
<b>Revenue</b>	<b>152,920</b>	<b>151,980</b>	<b>+1%</b>	<b>154,280</b>	<b>153,810</b>	<b>+0%</b>	<b>155,210</b>	<b>156,620</b>	<b>-1%</b>
Mercedes-Benz Cars	14,330	14,190	+1%	12,540	12,470	+1%	12,460	12,570	-1%
Mercedes-Benz Vans	3,160	3,000	+5%	2,960	2,640	+12%	2,850	2,440	+17%
Mercedes-Benz Mobility	1,686	1,686	-	1,400	1,400	-	1,400	1,400	-
Reconciliation	820	822	-0%	166	166	-0%	286	285	+1%
<b>Adjusted EBIT</b>	<b>19,996</b>	<b>19,698</b>	<b>+2%</b>	<b>17,066</b>	<b>16,676</b>	<b>+2%</b>	<b>16,996</b>	<b>16,695</b>	<b>+2%</b>
<b>EBIT</b>	<b>19,740</b>	<b>19,442</b>	<b>+2%</b>	<b>16,991</b>	<b>16,601</b>	<b>+2%</b>	<b>16,921</b>	<b>16,620</b>	<b>+2%</b>
Mercedes-Benz Cars	12.8%	12.7%	+00bps	11.0%	11.0%	+00bps	10.9%	10.9%	+00bps
Mercedes-Benz Vans	15.4%	14.7%	+80bps	14.3%	12.6%	+170bps	13.6%	11.3%	+230bps
Mercedes-Benz Mobility	6.4%	6.4%	+00bps	5.3%	5.3%	+00bps	5.3%	5.3%	+00bps
<b>Adjusted EBIT margin, %</b>	<b>13.1%</b>	<b>13.0%</b>	<b>+10bps</b>	<b>11.1%</b>	<b>10.8%</b>	<b>+20bps</b>	<b>11.0%</b>	<b>10.7%</b>	<b>+30bps</b>
Profit before tax	20,130	19,832	+2%	17,381	16,991	+2%	17,311	17,010	+2%
Net Profit	14,220	14,002	+2%	12,231	11,951	+2%	12,181	11,970	+2%
<b>EPS (€)</b>	<b>13.45</b>	<b>13.24</b>	<b>+2%</b>	<b>11.90</b>	<b>11.63</b>	<b>+2%</b>	<b>12.09</b>	<b>11.88</b>	<b>+2%</b>
Dividend (€)	5.38	5.30	+2%	5.38	4.65	+16%	5.38	4.75	+13%
<b>Industrial FCF (reported)</b>	<b>10,280</b>	<b>9,680</b>	<b>+6%</b>	<b>7,765</b>	<b>7,225</b>	<b>+7%</b>	<b>9,115</b>	<b>8,735</b>	<b>+4%</b>
<b>Industrial net cash</b>	<b>31,360</b>	<b>30,560</b>	<b>+3%</b>	<b>33,440</b>	<b>31,940</b>	<b>+5%</b>	<b>37,030</b>	<b>35,600</b>	<b>+4%</b>

Source: Barclays Research estimates

FIGURE 8. Mercedes-Benz – quarterly forecasts

€m unless otherwise stated	2021a	2022a	Q1-23a	Q2-23a	Q3-23a	Q4-23e	2023e	2024e	2025e
Mercedes-Benz Cars	96,712	111,601	27,812	28,244	27,131	29,083	112,270	113,900	114,550
Mercedes-Benz Vans	14,735	17,217	4,615	5,123	4,939	5,803	20,480	20,700	21,030
Mercedes-Benz Mobility	27,941	26,954	6,639	6,506	6,561	6,704	26,410	26,410	26,410
Reconciliation	(5,495)	(5,755)	(1,550)	(1,632)	(1,431)	(1,627)	(6,240)	(6,730)	(6,780)
<b>Revenue</b>	<b>133,893</b>	<b>150,017</b>	<b>37,516</b>	<b>38,241</b>	<b>37,200</b>	<b>39,963</b>	<b>152,920</b>	<b>154,280</b>	<b>155,210</b>
Mercedes-Benz Cars	12,689	16,245	4,113	3,812	3,357	3,048	14,330	12,540	12,460
Mercedes-Benz Vans	1,229	1,927	719	792	743	906	3,160	2,960	2,850
Mercedes-Benz Mobility	3,449	2,428	539	448	363	336	1,686	1,400	1,400
Reconciliation	(209)	55	51	159	452	158	820	166	286
<b>Adjusted EBIT</b>	<b>17,158</b>	<b>20,655</b>	<b>5,422</b>	<b>5,211</b>	<b>4,915</b>	<b>4,448</b>	<b>19,996</b>	<b>17,066</b>	<b>16,996</b>
Mercedes-Benz Cars	13.1%	14.6%	14.8%	13.5%	12.4%	10.5%	12.8%	11.0%	10.9%
Mercedes-Benz Vans	8.3%	11.2%	15.6%	15.5%	15.0%	15.6%	15.4%	14.3%	13.6%
Mercedes-Benz Mobility	12.3%	9.0%	8.1%	6.9%	5.5%	5.0%	6.4%	5.3%	5.3%
<b>Adjusted EBIT margin, %</b>	<b>12.8%</b>	<b>13.8%</b>	<b>14.5%</b>	<b>13.6%</b>	<b>13.2%</b>	<b>11.1%</b>	<b>13.1%</b>	<b>11.1%</b>	<b>11.0%</b>
Profit before tax	15,811	20,304	5,569	5,085	4,980	4,496	20,130	17,381	17,311
Net Profit	10,695	14,501	3,945	3,563	3,636	3,076	14,220	12,231	12,181
<b>EPS (€)</b>	<b>10.00</b>	<b>13.55</b>	<b>3.69</b>	<b>3.34</b>	<b>3.44</b>	<b>2.91</b>	<b>13.45</b>	<b>11.90</b>	<b>12.09</b>
Dividend (€)	5.00	5.20					5.38	5.38	5.38
<b>Industrial FCF (reported)</b>	<b>7,880</b>	<b>8,128</b>	<b>2,164</b>	<b>3,363</b>	<b>2,347</b>	<b>2,406</b>	<b>10,280</b>	<b>7,765</b>	<b>9,115</b>
<b>Industrial net cash</b>	<b>21,005</b>	<b>26,637</b>	<b>28,889</b>	<b>25,845</b>	<b>28,485</b>	<b>31,360</b>	<b>33,440</b>	<b>37,030</b>	

Source: Barclays Research estimates, Mercedes-Benz

## Barclays vs. consensus

FIGURE 9. Mercedes-Benz – Barclays' estimates vs consensus

€m unless otherwise stated	2023E			2024E			2025E		
	Barclays	Cons.	VS Cons.	Barclays	Cons.	VS Cons.	Barclays	Cons.	VS Cons.
Revenue	152,920	152,122	+1%	154,280	152,815	+1%	155,210	157,641	-2%
EBIT	19,740	18,602	+6%	16,991	16,836	+1%	16,921	16,829	+1%
EBIT margin, %	12.9%	12.2%	+70bps	11.0%	11.0%	+00bps	10.9%	10.7%	+20bps
Profit before tax	20,130	19,655	+2%	17,381	17,373	+0%	17,311	17,922	-3%
Net Profit	14,220	13,568	+5%	12,231	12,109	+1%	12,181	12,150	+0%
EPS (€)	13.45	12.85	+5%	11.90	11.73	+1%	12.09	11.78	+3%
Dividend (€)	5.38	5.20	+4%	5.38	4.99	+8%	5.38	5.12	+5%
Industrial FCF (reported)	10,280	9,245	+11%	7,765	8,397	-8%	9,115	8,366	+9%
Industrial net cash	31,360			33,440			37,030		

Source: Barclays Research estimates, Bloomberg consensus

## Valuation

We determine our price target for Mercedes-Benz using an 80:20 weighted average of a target multiple-based sum-of-the-parts (SOTP) and DCF valuation. In our SOTP (based on 2024e), we value both Mercedes-Benz Cars and Mercedes-Benz Vans at a target EV/sales and P/E of 25% and 5.0x, respectively. We value Mercedes-Benz Mobility at 0.75x price-to-book (P/B) multiple on 2022a Financial Services equity. MBG's 30% stake in Daimler Truck we value at a 30% holding discount to its market value, while the 49% stake in its Chinese JV BBAC we value at 5.0x P/E. We subsequently adjust for Net Automotive cash/debt (only the value in excess of 10% of Group sales), pensions and minorities. In our DCF, we use an explicit forecast period of 2023-27e linked to our operating forecast model, a semi-explicit period of 2028-32e and a terminal period. For the terminal period, we assume a -5.0% terminal growth rate and an 8.0% terminal EBIT margin. Further assumptions include a risk-free rate of 2.8%, an equity risk premium of 5.0% and a beta of 1.2, resulting in a WACC of 8.2%. To our combined SOTP / DCF fair value, we apply a discretionary 15% 'conglomerate discount' (consistent across our EU OEM coverage) to reflect what we observe as the market's treatment of EU OEMs with significant Financial Services activities, significant financial stakes, significant consolidated or non-consolidated Chinese operations and significant net industrial liquidity positions.

**FIGURE 10. Mercedes-Benz – SOTP valuation**

€bn unless otherwise stated	Sales 2024E	EV/sales	Valuation	Adj. Net income 2024E	P/E	Valuation	Average
Mercedes-Benz Cars (ex BBAC)	113.9	25.0%	28.5	7.5	5.0x	37.5	
Mercedes-Benz Vans	20.7	25.0%	5.2	2.0	5.0x	10.1	
Reconciliation (ex DTG and PPA)	(6.7)	25.0%	(1.7)	(0.1)	5.0x	(0.7)	
<b>MBC core industrial total</b>	<b>127.9</b>	<b>25%</b>	<b>32.0</b>	<b>9.4</b>	<b>5.0x</b>	<b>46.9</b>	
Financial Services (0.75x Book Value)	26.4	39%	10.2	1.0	9.8x	10.2	
Daimler Truck (30% stake)			5.1	1.1	4.8x	5.1	
BBAC JV (49% stake)			5.5	1.6	5.0x	5.5	
Other associates			0.3				
<b>Enterprise value</b>	<b>154.3</b>	<b>35%</b>	<b>53.3</b>	<b>13.0</b>	<b>5.2x</b>	<b>68.2</b>	
Industrial Net Cash (cash >10% of Group sales)			11.6				
Group Pension liabilities			(0.7)				
Healthcare liabilities			(0.3)				
Minorities			(1.1)				
<b>Equity value</b>			<b>63</b>			<b>68</b>	<b>65</b>
<b>Per Share (€)</b>			<b>59</b>			<b>65</b>	<b>62</b>

Source: Barclays Research estimates

**FIGURE 11. Mercedes-Benz – DCF EV to equity walk**

<b>Mercedes-Benz EV</b>	<b>90,770</b>
Industrial net cash > 10% Group sales (2022a)	11,635
Pension (2022a)	(683)
Healthcare liabilities (2022a)	(338)
Minorities (2022a)	(1,125)
FS at 0.75x Book Value (2022a)	10,182
Associates	10,841
<b>Mercedes-Benz Equity Value</b>	<b>121,300</b>
<b>Per share (€)</b>	<b>113</b>
<i>Current Share Price</i>	60
<i>Upside / Downside</i>	89%

Source: Barclays Research estimates

**FIGURE 12. Mercedes-Benz – target price calculation**

€ unless otherwise stated	Mercedes-Benz valuation
SotP Weighting	80%
DCF Weighting	20%
SotP Valuation	62
DCF Valuation	113
<b>Blended Valuation</b>	<b>71</b>
15% discount	(11)
<b>Target price</b>	<b>60</b>
<i>Current Share Price</i>	60
<i>Upside / Downside</i>	0%

Source: Barclays Research estimates

## Financial summary

FIGURE 13. Mercedes-Benz – key financial data

€m / % unless stated	2021a	2022a	2023e	2024e	2025e	2026e
<b>Volume data (k units)</b>						
<b>Mercedes-Benz Cars</b>						
Europe	602	619	659	689	672	668
North America	291	344	339	359	364	389
China	735	754	737	701	711	765
<i>of which consolidated</i>	174	162	147	132	130	99
RoW	316	324	308	312	304	324
<b>Total</b>	<b>1,944</b>	<b>2,041</b>	<b>2,044</b>	<b>2,061</b>	<b>2,052</b>	<b>2,146</b>
YoY	-6.9%	5.0%	0.2%	0.8%	-0.4%	4.6%
Average revenue per unit (€ k)	65.2	71.6	72.8	72.0	73.5	75.4
<b>Mercedes-Benz Vans</b>						
<b>Total</b>	<b>386</b>	<b>415</b>	<b>448</b>	<b>433</b>	<b>427</b>	<b>420</b>
YoY	3.1%	7.5%	7.8%	-3.3%	-1.4%	-1.5%
Average revenue per unit (€ k)	42.4	45.2	49.4	50.4	52.0	53.5
<b>Group</b>						
Revenue	133,893	150,017	152,920	154,280	155,210	158,950
YoY %	-13.2%	12.0%	1.9%	0.9%	0.6%	2.4%
EBIT adj.	17,158	20,655	19,996	17,066	16,996	18,014
Margin %	12.8%	13.8%	13.1%	11.1%	11.0%	11.3%
Pre-tax income	15,811	20,304	20,130	17,381	17,311	18,329
Net income	11,450	14,645	14,405	12,285	12,236	12,973
EPS (€)	10.00	13.55	13.45	11.90	12.09	12.86
DPS (€)	5.00	5.20	5.38	5.38	5.38	5.38
Automotive FCF adj.	10,197	9,294	10,380	7,765	9,115	9,105
Automotive net cash (debt)	21,005	26,637	31,360	33,440	37,030	40,720
<b>Segments</b>						
<b>Mercedes-Benz Cars</b>						
Revenue	96,712	111,601	112,270	113,900	114,550	118,120
YoY		15.4%	0.6%	1.5%	0.6%	3.1%
EBIT adj.	12,689	16,245	14,330	12,540	12,460	13,350
Margin %	13.1%	14.6%	12.8%	11.0%	10.9%	11.3%
<b>Mercedes-Benz Vans</b>						
Revenue	14,735	17,217	20,480	20,700	21,030	21,400
YoY		16.8%	19.0%	1.1%	1.6%	1.8%
EBIT adj.	1,229	1,927	3,160	2,960	2,850	2,770
Margin %	8.3%	11.2%	15.4%	14.3%	13.6%	12.9%
<b>Mercedes-Benz Mobility</b>						
Revenue	27,941	26,954	26,410	26,410	26,410	26,410
YoY		-3.5%	-2.0%	0.0%	0.0%	0.0%
EBIT adj.	3,449	2,428	1,686	1,400	1,400	1,400
Margin %	12.3%	9.0%	6.4%	5.3%	5.3%	5.3%
<b>Reconciliation</b>						
Revenue	(5,495)	(5,755)	(6,240)	(6,730)	(6,780)	(6,980)
YoY		4.7%	8.4%	7.9%	0.7%	2.9%
EBIT adj.	(209)	55	820	166	286	494
Margin %	3.8%	-1.0%	-13.1%	-2.5%	-4.2%	-7.1%

Source: Barclays Research estimates, Mercedes-Benz

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**Mercedes-Benz Group AG** (MBGn.DE, 25-Jan-2024, EUR 59.75), Equal Weight/Negative, A/CD/D/E/FC/J/K/L/M/N

**Materially Mentioned Stocks (Ticker, Date, Price)**

**BMW AG** (BMWG.DE, 25-Jan-2024, EUR 93.69), Underweight/Negative, A/D/E/J/K/L/M/N

**Daimler Truck** (DTGGe.DE, 25-Jan-2024, EUR 32.78), Overweight/Negative, J/K/M

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**European Autos & Auto Parts**

Aston Martin Lagonda plc (AML.L)	BMW AG (BMW.G.DE)	Continental (CONG.DE)
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FORVIA (FRVIA.PA)	Gestamp (GEST.MC)	Mercedes-Benz Group AG (MBGn.DE)
Michelin (MICP.PA)	Porsche AG (P911_p.DE)	Porsche Automobil Holding SE (PSHG_p.DE)
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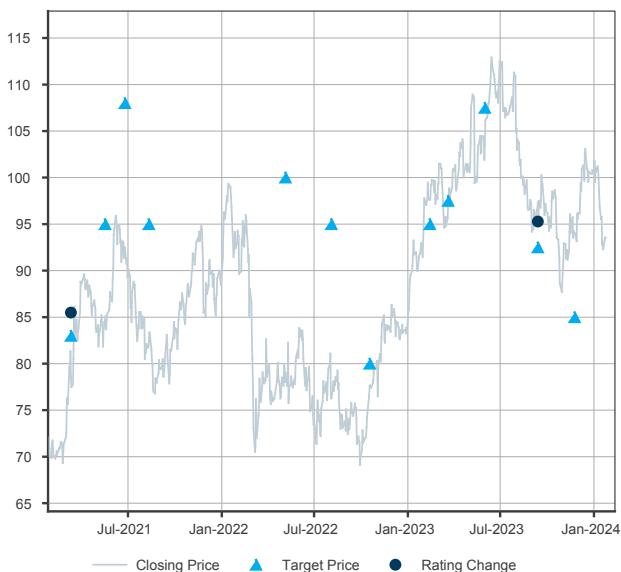
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**BMW AG (BMW GY / BMWG.DE)**Stock Rating: **UNDERWEIGHT**Industry View: **NEGATIVE**Closing Price: **EUR 93.69** (25-Jan-2024)**Rating and Price Target Chart - EUR (as of 25-Jan-2024)**

Currency=EUR



Source: IDC, Barclays Research

[Link to Barclays Live for interactive charting](#)

Publication Date	Closing Price*	Rating	Adjusted Price Target
24-Nov-2023	94.13		85.00
13-Sep-2023	96.62	Underweight	92.50
01-Jun-2023	104.18		107.50
21-Mar-2023	95.77		97.50
13-Feb-2023	97.61		95.00
18-Oct-2022	77.62		80.00
04-Aug-2022	76.57		95.00
06-May-2022	78.03		100.00
11-Aug-2021	82.29		95.00
25-Jun-2021	92.40		108.00
17-May-2021	84.69		95.00
11-Mar-2021	78.52	Equal Weight	83.00

On 25-Jan-2021, prior to any intra-day change that may have been published, the rating for this security was Overweight, and the adjusted price target was 78.00.

Source: Bloomberg, Barclays Research

\*This is the closing price referenced in the publication, which may not be the last available closing price at the time of publication.

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**Valuation Methodology:** We determine our price target for BMW using an 80:20 weighted average of a target-multiple-based sum-of-the-parts (SOTP) valuation and a DCF valuation. In our SOTP (based on 2024e) we value the Automotive divisions at EV/sales and P/E target multiples of c33% and 5.25x respectively (o.w. BMW Automotive "Core" at 27.5% EV/Sales and 5.25x P/E, and BBA at 50.0% EV/sales and 5.0x P/E) - these multiples are lower than in our last update, reflecting an increasing risk in our view from price normalisaiton. We value Motorcycles at 30% EV/sales and 5.0x P/E . We value the Financial Services business at 0.75x price-to-book (P/B) multiple on 2022 Financial Services equity. We subsequently adjust for net Automotive cash/debt (only the value in excess of 10% of Group sales, with a further 50% discount for cash in excess of 20% of Group sales), pensions and minorities. For our DCF, we use an explicit forecast period from 2023-27e linked to our operating forecast model, a semi-explicit period 2028-32e and a terminal period. For the terminal period, we assume a -5.0% terminal growth rate and a 5.0% terminal EBIT margin. Further assumptions include a risk-free rate of 3.0%, an equity risk premium of 5.0% and a beta of 1.20, resulting in a WACC of 8.4%. We apply a 15% conglomerate discount to the resulting weighted average valuation to derive our price target.

**Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target:** The main risks to our price target, in our view, are: 1) GLVS recovery – BMW could benefit more strongly than we anticipate from a strong premium market (especially in 2024/25) and therefore beat our earnings forecasts. 2) The transition to BEVs could stall – this would benefit BMW's flexible platform and strong PHEV offering, and thus favour it vs. its closest peers. 3) China JV consolidation – BMW's earnings profile could improve greater than we have estimated now that it fully consolidates its JV in its financials. Moreover, investors might apply a higher multiple to the now higher margin Automotive business. 4) BMW has benefited from strong pricing in recent years. We model negative pricing in both 2024/25, but stronger pricing than we model could lead to better margins than we currently forecast.

## Daimler Truck (DTG GY / DTGGe.DE)

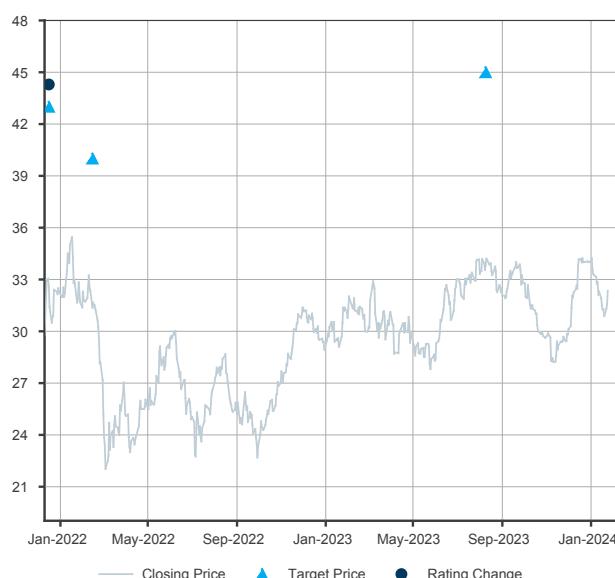
Stock Rating: **OVERWEIGHT**

Industry View: **NEGATIVE**

Closing Price: **EUR 32.78** (25-Jan-2024)

### Rating and Price Target Chart - EUR (as of 25-Jan-2024)

Currency=EUR



Source: IDC, Barclays Research

[Link to Barclays Live for interactive charting](#)

Publication Date	Closing Price*	Rating	Adjusted Price Target
09-Aug-2023	33.55		45.00
14-Feb-2022	32.35		40.00
16-Dec-2021	32.62	Overweight	43.00

Source: Bloomberg, Barclays Research

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**Valuation Methodology:** We value Daimler Truck using a SotP analysis based on our 2024E forecasts. We value each of the vehicle segments using EV/Sales multiples to reflect their respective margin profiles: Trucks North America at 90%, Mercedes-Benz at 55%, Trucks Asia at 35%, and Daimler Buses at 20%. We then add associates and financial services at 0.75x book value before including our estimated excess industrial net cash (i.e., only net cash position above its €6.0bn minimum operating net liquidity threshold), pension liabilities and minorities forecasts. Finally, we apply a 10% SotP discount to get to our €45 price target.

**Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target:** Risks to our valuation include: Market - a weaker market environment would have direct consequences for volumes and hence for DTG's profitability; Emission Targets - Emission requirements for the new trucking space are tightening in Europe, which could further increase cost for the business; Restructuring - set-backs in the streamlining of the business could lead to weaker profitability than targeted and therefore disappoint the market; Technology - Some of DTG's investments into fuel cell and/or battery technology could struggle to succeed and lead to a lack of return on those investments; Shareholding - Daimler AG could sell its 35% shareholding in DTG, creating overhang risk.

## Mercedes-Benz Group AG (MBG GY / MBGn.DE)

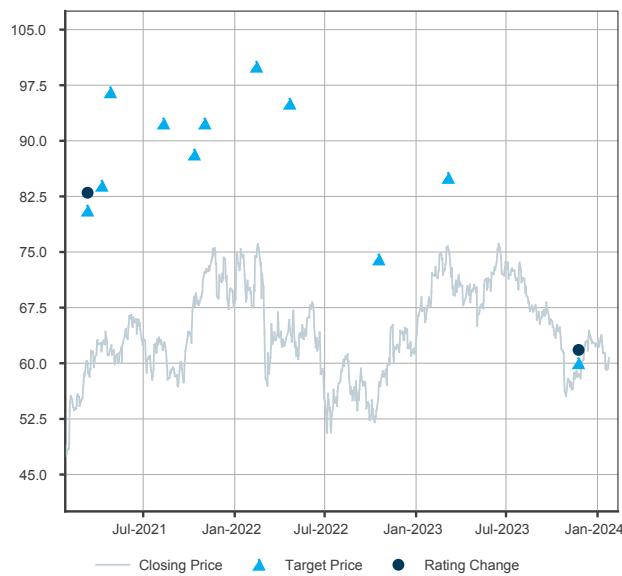
Stock Rating: **EQUAL WEIGHT**

Industry View: **NEGATIVE**

Closing Price: **EUR 59.75** (25-Jan-2024)

### Rating and Price Target Chart - EUR (as of 25-Jan-2024)

Currency=EUR



Source: IDC, Barclays Research

[Link to Barclays Live for interactive charting](#)

Publication Date	Closing Price*	Rating	Adjusted Price Target
24-Nov-2023	58.28	Equal Weight	60.00
07-Mar-2023	75.77		85.00
18-Oct-2022	57.14		74.00
22-Apr-2022	65.85		95.00
14-Feb-2022	74.44		100.00
02-Nov-2021	73.11		92.34
12-Oct-2021	69.10		88.14
11-Aug-2021	62.86		92.34
26-Apr-2021	62.70		96.54
09-Apr-2021	62.88		83.95
11-Mar-2021	60.52	Overweight	80.59

On 25-Jan-2021, prior to any intra-day change that may have been published, the rating for this security was Equal Weight, and the adjusted price target was 46.17.

Source: Bloomberg, Barclays Research

\*This is the closing price referenced in the publication, which may not be the last available closing price at the time of publication.

Historical stock prices and price targets may have been adjusted for stock splits and dividends.

**A:** Barclays Bank PLC and/or an affiliate has been lead manager or co-lead manager of a publicly disclosed offer of securities of Mercedes-Benz Group AG in the previous 12 months.

**CD:** Barclays Bank PLC and/or an affiliate is a market-maker in debt securities issued by Mercedes-Benz Group AG.

**D:** Barclays Bank PLC and/or an affiliate has received compensation for investment banking services from Mercedes-Benz Group AG in the past 12 months.

**E:** Barclays Bank PLC and/or an affiliate expects to receive or intends to seek compensation for investment banking services from Mercedes-Benz Group AG within the next 3 months.

**FC:** Barclays Bank PLC and/or an affiliate beneficially owns a short position of more than 0.5% of a class of equity securities of Mercedes-Benz Group AG, as calculated in accordance with EU regulations.

**J:** Barclays Bank PLC and/or an affiliate is a liquidity provider and/or trades regularly in the securities by Mercedes-Benz Group AG and/or in any related derivatives.

**K:** Barclays Bank PLC and/or an affiliate has received non-investment banking related compensation (including compensation for brokerage services, if applicable) from Mercedes-Benz Group AG within the past 12 months.

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**N:** Mercedes-Benz Group AG is, or during the past 12 months has been, a non-investment banking client (non-securities related services) of Barclays Bank PLC and/or an affiliate.

**Valuation Methodology:** We determine our price target for Mercedes-Benz using a weighted average of a sum-of-the-parts (SOTP) valuation and a DCF valuation. In our SOTP (based on 2024e), we value both Mercedes-Benz Cars and Mercedes-Benz Vans at a target EV/sales and P/E of 25% and 5.0x, respectively. These metrics are set at a slight discount to those that we use for its a closest peer, as we see a higher risk of net price normalisation at MBG from a higher base. We value Mercedes-Benz Mobility at 0.75x price-to-book (P/B) multiple on 2022a Financial Services equity. MBG's 30% stake in Daimler Truck we value at a 30% holding discount to its market value, while the 49% stake in its Chinese JV BBAC we value at 5.0x P/E. We subsequently adjust for Net Automotive cash/debt (only the value in excess of 10% of Group sales), pensions and minorities. In our DCF, we use an explicit forecast period of 2023-27e linked to our operating forecast model, a semi-explicit period of 2028-32e and a terminal period. For the terminal period, we assume a -5.0% terminal growth rate and a 8.0% terminal EBIT margin. Further assumptions include a risk-free rate of 2.8%, an equity risk premium of 5.0% and a beta of 1.2, resulting in a WACC of 8.2%. We use an 80:20 weighted average of our target-multiple-based sum-of-the-parts (SOTP) approach and our DCF valuation to derive a blended fair value. To this value we apply a discretionary 15% 'conglomerate discount' (consistent across our EU OEM coverage) to reflect what we observe as the market's treatment of EU OEMs with significant Financial Services activities, significant financial stakes, significant consolidated or non-consolidated Chinese operations and significant net industrial liquidity positions.

**Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target:** The main upside/downside risks to our price target, in our view, are: 1) GLVS trends - we think the biggest risk is a slowdown in the premium car market, which will continue to be an underlying driver for Mercedes-Benz. Further lockdown restriction measures would also negatively weigh on MBG's financials, as would an inability to meet customer demand due to constraints in the supply chain. Conversely, strong premium vehicle demand would represent an upside risk to our estimates. 2) BEV competition - the premium BEV market is becoming increasingly packed with new high-end players competing for the typical German premium-brand customer, such that Mercedes-Benz may struggle to gain share in this competitive market. 3) Mercedes-Benz has benefited from strong pricing in recent years. Were Mercedes to lose its strong pricing discipline, this would likely result in downward earnings revisions. Conversely, if the market has underestimated Mercedes' pricing power, it would represent an upside risk to our estimates. 4) Mercedes-Benz is investing significantly in its transition to BEVs - higher R&D and capex numbers than we have forecast would impact MBG's profitability and cash generation.

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## Mercedes-Benz Group AG

### Model Update

We trim earnings on average by 4% FY23/24 and see Mercedes delivering FY23 at €152.9bn sales and €19.3bn Ebit with 12.6% margins. The fourth quarter auto margin in line with the communication provided during Q3 will be impacted by a) supplier bottlenecks, b) supplier compensation payments, and c) lack of operating leverage which should take the Auto Ebit margin to around the 10% level of 10.1% in Q4. We expect the mobility business to deliver an Ebit in Q4 slightly below Q3 impacted by investments in charging as well as higher interest rates. The Van division should again deliver a very strong year with a full year margin in the upper end of the 13-15% range offsetting any weakness across the remaining divisions. We forecast full year free cash flow at more than €9bn in FY23. The key focus during the full year results will be the earnings guidance for the year, where currently Bloomberg sourced consensus estimates looks for a group Ebit decline of 15% yoy.

### Overweight

**MBGn.DE, MBG GR**

Price (25 Jan 24):€59.71

Price Target (Jun-25):€78.00

### European Autos & Auto Parts

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### Key Changes (FYE Dec)

	Prev	Cur
Adj. EBIT - 24E (€ mn)	16,555	16,265
Adj. EBIT - 25E (€ mn)	14,406	13,951

### Style Exposure

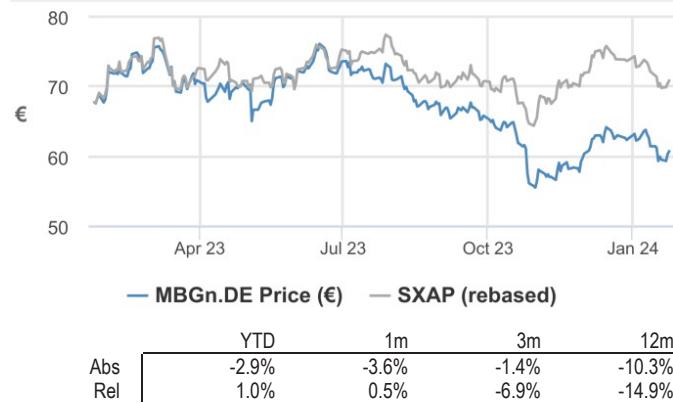
Quant Factors	Current %Rank	Hist %Rank (1=Top)				
		6M	1Y	3Y	5Y	
Value	3	18	7	10	30	
Growth	78	85	83	7		
Momentum	72	28	13	2	81	
Quality	45	57	63	70	94	
Low Vol	73	11	30	26	19	
ESGQ	93	82	99	100	97	

Sources for: Style Exposure – J.P. Morgan Quantitative and Derivatives Strategy; all other tables are company data and J.P. Morgan estimates.

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## Price Performance



## Company Data

Shares O/S (mn)	1,070
52-week range (€)	76.10-55.08
Market cap (\$ mn)	69,530.60
Exchange rate	0.92
Free float(%)	80.1%
3M - Avg daily vol (mn)	2.66
3M - Avg daily val (\$ mn)	173.8
Volatility (90 Day)	21
Index	STOXX Europe 600 Automobiles & Parts
BBG BUY HOLD SELL	18 9 2

## Key Metrics (FYE Dec)

	FY23A	FY24E	FY25E
<b>Financial Estimates</b>			
Revenue	152,938	152,862	152,812
Adj. EBITDA	27,282	24,281	22,013
Adj. EBIT	19,311	16,265	13,951
Adj. net income	12,738	10,489	8,795
Net margin	8.3%	6.9%	5.8%
Adj. EPS	11.91	9.80	8.22
BBG EPS	12.99	11.79	12.11
Cashflow from operations	18,183	16,523	14,974
FCFF	9,314	7,251	5,600
<b>Margins and Growth</b>			
Revenue Growth Y/Y (%)	1.9%	(0.0%)	(0.0%)
EBITDA margin	17.8%	15.9%	14.4%
EBITDA Growth Y/Y (%)	(3.3%)	(11.0%)	(9.3%)
EBIT margin	12.6%	10.6%	9.1%
Adj. EPS growth	(5.5%)	(17.7%)	(16.1%)
<b>Ratios</b>			
Adj. tax rate	31.1%	32.0%	32.9%
Interest cover	105.7	94.1	85.3
Industrial Net Debt/Equity	0.0	0.0	0.0
Industrial Net Debt/EBITDA	(1.2)	(2.1)	(1.8)
ROCE	6.4%	5.3%	4.4%
ROE	15.8%	12.4%	10.1%
<b>Valuation</b>			
FCFF yield	14.6%	11.4%	8.8%
Industrial Dividend yield	7.7%	8.8%	8.8%
Industrial EV/EBITDA	1.2	1.4	1.2
Industrial EV/Sales	0.2	0.2	0.2
Industrial P/E	5.7	6.1	7.3

## Summary Investment Thesis and Valuation

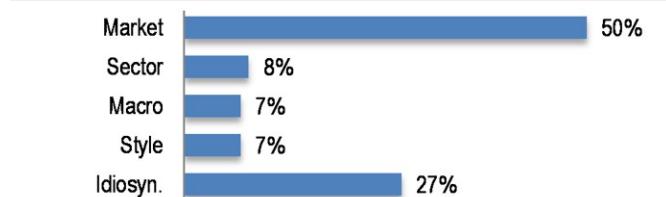
### Investment Thesis

Mercedes-Benz cars is aiming to execute a premium luxury OEM strategy, growing the proportion of higher-priced vehicles within the car business in order to structurally improve the profitability of the company in the medium term. The growing proportion of higher-priced vehicles should lead to lower earnings volatility as well as structurally higher margins over the cycle for the firm. We believe Mercedes-Benz offers one of the most compelling premium OEM investment cases. We remain Overweight.

### Valuation

We value Mercedes-Benz cars on a P/E multiple correlated to its forward-looking Group Ebit margin and any stakes in entities at market value or book value. We see the group trading on 7x PE FY24 at our price target.

## Performance Drivers



Factors	6M Corr	1Y Corr
<b>Market:</b> MSCI Europe ex UK	0.74	0.73
<b>Sect:</b> Cons Discretionary	0.30	0.41
<b>Ind:</b> Automobiles & Comp	0.83	0.72
<b>Macro:</b>		
Eurozone CPI	-0.20	-0.26
Eurozone Exports	0.14	0.16
Germany Govt 10Y Yield	0.12	0.10
<b>Quant Styles:</b>		
Value	0.35	0.39
DivYld	0.44	0.37
Quality	-0.24	-0.28

## Investment Thesis, Valuation and Risks

### **Mercedes-Benz Group AG** (*Overweight; Price Target: €78.00*)

#### **Investment Thesis**

Mercedes-Benz cars is aiming to execute a premium luxury OEM strategy, growing the proportion of higher-priced vehicles within the car business in order to structurally improve the profitability of the company in the medium term. The growing proportion of higher-priced vehicles should lead to lower earnings volatility as well as structurally higher margins over the cycle for the firm. We believe Mercedes-Benz offers one of the most compelling premium OEM investment cases. We remain Overweight.

#### **Valuation**

We value Mercedes-Benz cars on a P/E multiple correlated to its forward-looking Group Ebit margin and any stakes in entities at market value or book value. We see the group trading on 7x PE FY24 at our price target.

#### **Risks to Rating and Price Target**

Downside risks could arise from: 1) a rapid decline in China car sales; 2) a deterioration of the pricing environment; 3) lower-than-expected car volumes in Europe and in the US; 4) higher-than-expected costs associated with the transition to EVs; and 5) a major acquisition.

## Mercedes-Benz Group AG: Summary of Financials

Group P&L (EUR m)	FY22	FY23	FY24E	FY25E	Group Balance sheet (EUR m)	FY22	FY23	FY24E	FY25E
Revenues	150,017	152,938	152,862	152,812	Intangibles	15,849	16,454	17,059	17,664
% change Y/Y	12.0%	1.9%	(0.0%)	(0.0%)	PP&E	28,048	28,519	29,345	30,226
Cost of Sales	(115,997)	(117,644)	(120,630)	(122,836)	Investments	17,642	17,642	17,642	17,642
EBITDA	28,211	27,282	24,281	22,013	Non-current receivables from sales financing	46,955	46,955	46,955	46,955
EBIT	20,458	19,311	16,265	13,951	Leased assets	44,471	44,471	44,471	44,471
% Ebit	13.6%	12.6%	10.6%	9.1%	Other	4,970	4,970	4,970	4,970
Net financial result	(258)	(258)	(258)	(258)	Total non current assets	157,935	159,011	160,442	161,928
Pretax Income	20,200	19,053	16,007	13,693	Inventories	22,151	22,774	22,903	23,032
Net Income	13,486	12,738	10,489	8,795	Trade receivables	8,912	9,163	9,215	9,267
Adj. EPS	12.61	11.91	9.80	8.22	Receivables from sales financing	33,670	33,670	33,670	33,670
Industrial Cash flow (EUR m)	FY22	FY23	FY24E	FY25E	Cash and cash equivalents	37,599	41,172	42,632	42,442
Net income	12,467	12,716	10,667	9,073	Other	7,215	7,215	7,215	7,215
Depreciation & amortization	7,753	7,971	8,016	8,061	Total current assets	109,547	113,994	115,634	115,626
Working capital	(204)	(525)	(109)	(109)	<b>Total assets</b>	<b>267,482</b>	<b>273,005</b>	<b>276,076</b>	<b>277,554</b>
Other change in operating cash flow	(1,187)	(1,978)	(2,051)	(2,051)	Equity	79,098	84,272	87,272	88,677
Operating cash flow	18,829	18,183	16,523	14,974	Long term liabilities	73,543	73,543	73,543	73,543
Net capex	(8,786)	(9,047)	(9,447)	(9,547)	Pension provisions	5,359	5,359	5,359	5,359
Free cash flow	10,220	9,314	7,251	5,600	Other non current liabilities	20,087	20,087	20,087	20,087
Financing cash flow	(5,349)	(5,563)	(5,616)	(5,616)	Total non current liabilities	98,989	98,989	98,989	98,989
Currency	0	0	0	0	Short term financial liabilities	52,300	52,300	52,300	52,300
Net change in cash	4,694	3,573	1,459	(189)	Trade payables	12,376	12,724	12,796	12,868
Net industrial debt (cash)	(26,637)	(30,210)	(31,670)	(31,481)	Other current liabilities	24,720	24,720	24,720	24,720
Industrial multiples	FY22	FY23	FY24E	FY25E	Total current liabilities	89,396	89,744	89,816	89,888
Industrial EV/Sales	0.2	0.2	0.2	0.2	<b>Total Liabilities and Equity</b>	<b>267,482</b>	<b>273,005</b>	<b>276,076</b>	<b>277,554</b>
Industrial EV/Ebitda	1.2	1.2	1.4	1.2					
Industrial EV/Ebit	1.6	1.7	1.4	1.6					
Industrial P/E	5.1	5.7	6.1	7.3					
Industrial Dividend yield	8.1%	7.7%	8.8%	8.8%					
Industrial Net debt to Ebitda	(1.0)	(1.2)	(2.1)	(1.8)					

Source: Company reports and J.P. Morgan estimates.

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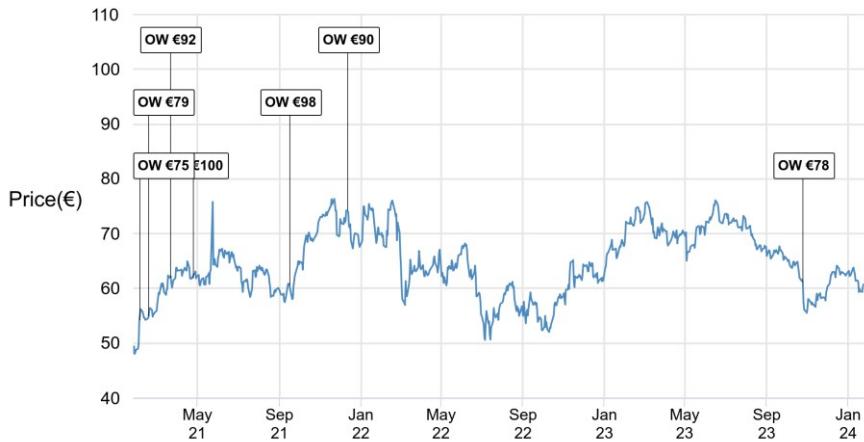
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### Mercedes-Benz Group AG (MBGn.DE, MBG GR) Price Chart



Date	Rating	Price (€)	Price Target (€)
04-Feb-21	OW	54.20	75
18-Feb-21	OW	54.93	79
22-Mar-21	OW	61.94	92
26-Apr-21	OW	61.87	100
17-Sep-21	OW	60.55	98
13-Dec-21	OW	74.25	90
26-Oct-23	OW	61.09	78

Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.  
 Initiated coverage Aug 26, 1998. All share prices are as of market close on the previous business day.

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IB clients**	68%	63%	46%

\*Please note that the percentages may not add to 100% because of rounding.

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## MERCEDES-BENZ GROUP

**UNDERPERFORM**

CLOSING PRICE\* EUR60.7 ■ TARGET PRICE **EUR64** (UPSIDE 5%)

# Non material data changes

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We have adjusted our estimates following our Q4 pre close call.

We do not consider the changes to be material; our rating is unchanged.

### ESG RATING & KEY TOPICS

#### Leader

4/5 Climate change  
3/5 Workers (own) | Restructuring  
4/5 Circular economy  
4/5 Governance

Topics scored vs peers from 1 (low) to 5 (high performance)

#### \*Closing Price (24 January 2024)

EUR60.7

Market cap (EURbn)	61.2
Free float (EURbn)	52.3
EV (EURbn)	22.8
3m avg volume (EURm)	157.7
Refinitiv / Bloomberg	MBGn.DE / MBG GY
Country / Sub Sector	Germany / OEMs

#### Performance<sup>(1)</sup>

1w 1m 3m 12m

Absolute(%)	2	(3)	(1)	(5)
Rel. Automotive(%)	1	0	(6)	(13)
Rel. MSCI Europe(%)	0	(3)	(10)	(12)

#### Financials

12/24e 12/25e 12/26e 12/27e

EPS, Adjusted (EUR)	10.7	10.4	11.9	12.8
EPS, Company (EUR)	11.2	10.7	12.0	13.0
EPS - Refinitiv (EUR)	11.8	12.0	12.2	11.5
Net dividend (EUR)	4.5	4.3	4.8	5.2
Sales (EURm)	153,039	157,990	163,474	169,560
EBITA, Adj. (EURm)	12,730	11,760	13,307	14,621
Net profit, Adj.(EURm)	10,994	10,368	11,434	12,157
ROCE (%)	10.5	9.3	9.9	10.3
Net Debt/EBITDA, Adj. (x)	-	-	-	-

#### Valuation metrics

12/24e 12/25e 12/26e 12/27e

P/E (x)	5.7	5.8	5.1	4.7
Net yield (%)	7.4	7.0	7.9	8.5
FCF yield (%)	10.3	9.3	10.8	12.1
EV/Sales (x)	0.1	0.1	0.1	0.1
EV/EBITDA (x)	1.4	1.2	0.9	0.6
EV/EBITA (x)	1.8	1.7	1.2	0.8
EV/CE (x)	0.3	0.2	0.2	0.1

All valuation metrics based on adjusted figures

Source: BNP Paribas Exane (estimates), Refinitiv (consensus)

(1) In listing currency, with dividend reinvested

**See page 4 for Analyst Certification, Important Disclosures, Non-US Research Analyst disclosures and BNP Paribas Group Corporate Social Responsibility ("CSR") policies.** For time of dissemination, please refer to the [Cube](#). In November 2023, Exane SA and BNP Paribas SA completed their legal merger, with BNP Paribas SA as the succeeding legal entity. 'BNP Paribas Exane' is a trade name of BNP Paribas SA and its affiliates and branches. BNP Paribas has adopted strict CSR policies that govern financing and investment in certain sectors. \*Closing Price (24 January 2024).



## Investment case, valuation and risks

### **Mercedes-Benz Group (Underperform, Target Price EUR64)**

#### ***Investment case***

We regard Mercedes-Benz as a well-run business and commend management's focus on shareholder returns. Delivery on electrification, however, has disappointed to date and may require more spending on capex and cash R&D to remedy than currently expected. At the same time the group's efforts to push its ASP and mix ever higher may prove challenging in the current macro context.

#### ***Valuation methodology***

We value Daimler by using a blend of a SOP and P/E based approach. Our 2024e SOP splits Mercedes earnings streams into non-China, China imports and China royalties. We also use a 2024e based P/E multiple. The average of these two approaches sets our target price.

#### ***Risks***

##### ***To the upside:***

Key upside risks include a further acceleration in global premium demand, stronger BEV sales and FX tailwinds (primarily USD & RMB). More benign input cost dynamics, in particular on the battery front, could also surprise positively.

##### ***To the downside:***

Key risks to the downside include weaker premium demand and pricing (particularly in BEVs), FX headwinds (primarily USD & RMB) and input cost inflation. In the context of the sector's tech transition, softer ICE pricing, for example as a result of higher ICE taxation or ICE driving bans, remains a concern.

## **ANALYST CERTIFICATION AND IMPORTANT DISCLOSURES**

### **Analyst Certification**

We, **Dorothee Cresswell, Stuart Pearson**, hereby certify that all of the views expressed in this report accurately reflect our personal view(s) about the company or companies and securities discussed in this report. No part of our compensation was, is, or will be, directly, or indirectly, related to the specific recommendations or views expressed in this research report.

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Dorothee Cresswell      BNP Paribas London Branch      Stuart Pearson      BNP Paribas London Branch

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**Outperform (O/P):** The stock is expected to outperform the stock's relevant MSCI sector index, at either the country or regional level.

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**ESG Leader:** Relative to sector peers an ESG Leader is better positioned on the chosen ESG topics, or other relevant ESG considerations.

**ESG Average:** A company rated as ESG Average may have strong or poor performance on an individual ESG topic, but overall has an average exposure to ESG risks and opportunities.

**ESG Laggard:** Relative to sector peers an ESG Laggard is poorly positioned on the chosen ESG topics, or other relevant ESG considerations for the stock.

### Distribution of BNP Paribas' Equity Recommendations#

As at 30/11/2023 BNP Paribas covered 949 companies. The companies that, for regulatory reasons, are not accorded a rating by BNPP are excluded from these statistics. For regulatory reasons, our ratings of Outperform, Neutral and Underperform correspond respectively to Buy, Hold and Sell; the underlying signification is, however, different as our ratings are relative to the sector.

47% of the companies covered by BNP Paribas were rated Outperform. BNPP provided investment banking services to 23% of the companies accorded this rating\*.

38% of the companies covered by BNP Paribas were rated Neutral. BNPP provided investment banking services to 21% of the companies accorded this rating\*.

15% of the companies covered by BNP Paribas were rated Underperform. BNPP provided investment banking services to 18% of the companies accorded this rating\*.

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#As of 30 Nov 2023, we have changed the recommendation rating structure for our Indian stock coverage from Buy, Hold and Reduce to Outperform, Neutral and Underperform. Ratings and target prices for dates prior to 30 Nov 2023 used an absolute rating structure whereby the upside or downside to target price relative to the current share price determined the recommendation, and were prepared and distributed without involvement of a FINRA member firm. We now use a relative recommendation structure whereby the applied rating is based on the stock's expected performance as compared to the relevant MSCI sector index, with the index used as specified in the valuation section of each report.

## Price and Ratings Chart#

### Mercedes-Benz Group

Historical closing price & target price (as of 24/01/2024)



Source: BNP Paribas

### Historical rating & target price changes

Date & Time of Dissemination (UTC)	Rating	Target Price	Closing Price	Key Changes	Person(s) Involved
19 Jan. 2024 23:00	-	EUR62.00	EUR59.11	TP down	D. Cresswell
13 Dec. 2023 06:09	-	EUR62.00	EUR62.72	Rating down, TP down	S. Pearson, D. Cresswell, J. Picariello
26 Oct. 2023 18:45	=	EUR75.00	EUR57.84	TP down	D. Cresswell, S. Pearson
5 Sep. 2023 15:41	=	EUR82.00	EUR66.91	TP down	S. Pearson, D. Cresswell, G. Pescatore, W. Jones
27 Jul. 2023 14:37	=	EUR84.00	EUR72.72	TP up	D. Cresswell, S. Pearson
21 Jul. 2023 05:16	=	EUR83.00	EUR71.56	Rating down, TP down	D. Cresswell, S. Pearson
28 Apr. 2023 11:41	+	EUR91.00	EUR70.58	TP up	D. Cresswell, S. Pearson
23 Mar. 2023 06:14	+	EUR90.00	EUR70.72	TP down	S. Pearson, D. Cresswell, G. Pescatore
17 Feb. 2023 18:03	+	EUR91.00	EUR74.64	TP up	D. Cresswell, S. Pearson
11 Jan. 2023 16:40	+	EUR86.00	EUR68.14	TP up	S. Pearson, D. Cresswell, G. Pescatore
8 Dec. 2022 05:59	+	EUR79.00	EUR63.12	TP down	D. Cresswell, S. Pearson
26 Oct. 2022 15:48	+	EUR80.00	EUR58.94	TP up	D. Cresswell, S. Pearson
10 Oct. 2022 15:42	+	EUR75.00	EUR52.05	TP down	S. Pearson, D. Cresswell, G. Pescatore
27 Jul. 2022 11:45	+	EUR84.00	EUR56.25	TP up	D. Cresswell, S. Pearson
28 Jun. 2022 15:43	+	EUR82.00	EUR58.93	TP down	S. Pearson, D. Cresswell, G. Pescatore, A. Bregeaut
6 May 2022 05:05	+	EUR88.00	EUR62.08	TP up	D. Cresswell, S. Pearson
27 Apr. 2022 17:19	+	EUR86.00	EUR63.88	TP up	D. Cresswell, S. Pearson
16 Mar. 2022 16:52	+	EUR79.00	EUR65.26	TP down	S. Pearson, D. Cresswell, G. Pescatore, A. Bregeaut
24 Jan. 2021 05:42	+	EUR98.00	EUR68.30	TP up	S. Pearson, D. Cresswell, G. Pescatore, A. Bregeaut
12 Jan. 2021 06:14	+	EUR97.00	EUR73.42	TP up	S. Pearson, D. Cresswell, G. Pescatore, A. Bregeaut
13 Dec. 2021 05:48	+	EUR90.00	EUR74.00	TP up	D. Cresswell, S. Pearson
29 Oct. 2021 15:45	+	EUR89.82	EUR71.97	TP up	D. Cresswell, S. Pearson
16 Sep. 2021 15:40	+	EUR83.95	EUR60.55	TP down	S. Pearson, D. Cresswell, G. Pescatore, A. Bregeaut
21 Jun. 2021 04:45	+	EUR92.34	EUR66.62	TP up	S. Pearson, D. Cresswell, G. Pescatore, A. Bregeaut
27 May 2021 04:58	+	EUR89.82	EUR65.37	TP down	S. Pearson, D. Cresswell, G. Pescatore, A. Bregeaut
23 Apr. 2021 15:40	+	EUR92.34	EUR61.87	TP up	D. Cresswell, S. Pearson
20 Apr. 2021 15:47	+	EUR89.82	EUR61.86	TP up	S. Pearson, D. Cresswell, G. Pescatore, A. Bregeaut
12 Apr. 2021 05:04	+	EUR87.30	EUR63.77	TP up	S. Pearson, D. Cresswell, G. Pescatore, A. Bregeaut
12 Mar. 2021 10:01	+	EUR77.23	EUR59.37	TP down	S. Pearson
2 Mar. 2021 05:51	+	EUR92.00	EUR57.31	TP up	S. Pearson, D. Cresswell
18 Feb. 2021 20:57	+	EUR90.00	EUR56.15	TP up	D. Cresswell, S. Pearson
29 Jan. 2021 10:11	+	EUR68.83	EUR48.79	TP up	D. Cresswell, S. Pearson
25 Jan. 2021 05:51	+	EUR68.00	EUR48.22	TP up	S. Pearson, D. Cresswell, G. Pescatore, A. Bregeaut
12 Jan. 2021 16:42	+	EUR66.32	EUR48.80	TP down	S. Pearson, D. Cresswell, G. Pescatore, A. Bregeaut

Note:

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## Mercedes-Benz Group AG

### Early look at 2023

2023. We are looking for revenues at around €152.7bn and group Ebit at €19.4bn, with auto margins in Q4 at 10.3% and auto revenues in the fourth quarter down 5% yoy.

2024. We estimate volumes up 1% in FY24 and auto margins down from 12.7% to 10.6% yoy impacted by limited volume growth and higher pricing pressure from peers. However we expect Mercedes to accelerate its cost-cutting initiatives in FY24 containing to an extent the incremental fixed costs. We are trimming our earnings estimates on average by 3% FY23/24 on the back of slightly lower volume expectations in FY24 as we believe the firm will not chase volumes at the expense of higher incentives and we take into consideration industry datapoints, peer reporting and our conversations with the company.

### Overweight

**MBGn.DE, MBG GR**

Price (12 Jan 24):€61.40

Price Target (Jun-25):€78.00

### European Autos & Auto Parts

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### Key Changes (FYE Dec)

	Prev	Cur
Revenue - 24E (€ mn)	158,307	152,692
Revenue - 25E (€ mn)	164,247	152,646

### Style Exposure

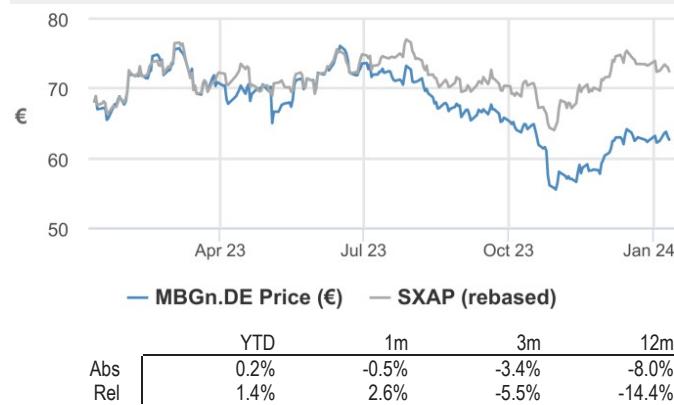
Quant Factors	Current %Rank	Hist %Rank (1=Top)				
		6M	1Y	3Y	5Y	
Value	6	12	6	32	27	
Growth	78	85	12			
Momentum	72	41	12	2	78	
Quality	44	59	64	91	93	
Low Vol	77	8	41	26	21	
ESGQ	87	99	99	100	91	

Sources for: Style Exposure – J.P. Morgan Quantitative and Derivatives Strategy; all other tables are company data and J.P. Morgan estimates.

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## Price Performance



## Company Data

Shares O/S (mn)	1,070
52-week range (€)	76.10-55.08
Market cap (\$ mn)	72,071.23
Exchange rate	0.91
Free float(%)	80.1%
3M - Avg daily vol (mn)	2.64
3M - Avg daily val (\$ mn)	174.9
Volatility (90 Day)	20
Index	STOXX Europe 600 Automobiles & Parts
BBG BUY HOLD SELL	18 8 2

## Key Metrics (FY Dec)

	FY23A	FY24E	FY25E
<b>Financial Estimates</b>			
Revenue	152,764	152,692	152,646
Adj. EBITDA	27,364	24,561	22,457
Adj. EBIT	19,404	16,555	14,406
Adj. net income	12,806	10,754	9,207
Net margin	8.4%	7.0%	6.0%
Adj. EPS	11.97	10.05	8.61
BBG EPS	12.95	11.79	12.17
Cashflow from operations	18,266	16,577	15,074
FCFF	9,397	7,306	5,702
<b>Margins and Growth</b>			
Revenue Growth Y/Y (%)	1.8%	(0.0%)	(0.0%)
EBITDA margin	17.9%	16.1%	14.7%
EBITDA Growth Y/Y (%)	(3.0%)	(10.2%)	(8.6%)
EBIT margin	12.7%	10.8%	9.4%
Adj. EPS growth	(5.0%)	(16.0%)	(14.4%)
<b>Ratios</b>			
Adj. tax rate	31.1%	31.6%	32.2%
Interest cover	106.1	95.2	87.0
Industrial Net Debt/Equity	0.0	0.0	0.0
Industrial Net Debt/EBITDA	(1.2)	(2.1)	(1.8)
ROCE	6.5%	5.4%	4.6%
ROE	15.9%	12.7%	10.6%
<b>Valuation</b>			
FCFF yield	14.3%	11.1%	8.7%
Industrial Dividend yield	8.8%	8.8%	8.8%
Industrial EV/EBITDA	0.8	1.3	1.2
Industrial EV/Sales	0.2	0.2	0.2
Industrial P/E	5.0	6.0	7.0

## Summary Investment Thesis and Valuation

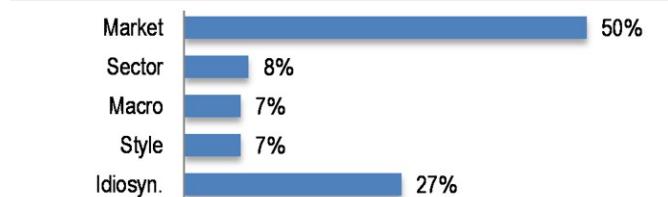
### Investment Thesis

Mercedes-Benz cars is aiming to execute a premium luxury OEM strategy, growing the proportion of higher-priced vehicles within the car business in order to structurally improve the profitability of the company in the medium term. The growing proportion of higher-priced vehicles should lead to lower earnings volatility as well as structurally higher margins over the cycle for the firm. We believe Mercedes-Benz offers one of the most compelling premium OEM investment cases. We remain Overweight.

### Valuation

We value Mercedes-Benz cars on a P/E multiple correlated to its forward-looking Group Ebit margin and any stakes in entities at market value or book value. We see the group trading on x7 PE FY24 at our price target.

## Performance Drivers



Factors	6M Corr	1Y Corr
<b>Market:</b> MSCI Europe ex UK	0.74	0.73
<b>Sect:</b> Cons Discretionary	0.30	0.41
<b>Ind:</b> Automobiles & Comp	0.83	0.72
<b>Macro:</b>		
Eurozone CPI	-0.20	-0.26
Eurozone Exports	0.14	0.16
Germany Govt 10Y Yield	0.12	0.10
<b>Quant Styles:</b>		
Value	0.35	0.39
DivYld	0.44	0.37
Quality	-0.24	-0.28

## Investment Thesis, Valuation and Risks

### **Mercedes-Benz Group AG** (*Overweight; Price Target: €78.00*)

#### **Investment Thesis**

Mercedes-Benz cars is aiming to execute a premium luxury OEM strategy, growing the proportion of higher-priced vehicles within the car business in order to structurally improve the profitability of the company in the medium term. The growing proportion of higher-priced vehicles should lead to lower earnings volatility as well as structurally higher margins over the cycle for the firm. We believe Mercedes-Benz offers one of the most compelling premium OEM investment cases. We remain Overweight.

#### **Valuation**

We value Mercedes-Benz cars on a P/E multiple correlated to its forward-looking Group Ebit margin and any stakes in entities at market value or book value. We see the group trading on x7 PE FY24 at our price target.

#### **Risks to Rating and Price Target**

Downside risks could arise from: 1) a rapid decline in China car sales; 2) a deterioration of the pricing environment; 3) lower-than-expected car volumes in Europe and in the US; 4) higher-than-expected costs associated with the transition to EVs; and 5) a major acquisition.

## Mercedes-Benz Group AG: Summary of Financials

Group P&L (EUR m)	FY22	FY23	FY24E	FY25E	Group Balance sheet (EUR m)	FY22	FY23	FY24E	FY25E
Revenues	150,017	152,764	152,692	152,646	Intangibles	15,849	16,454	17,059	17,664
% change Y/Y	12.0%	1.8%	(0.0%)	(0.0%)	PP&E	28,048	28,530	29,367	30,258
Cost of Sales	(115,997)	(117,390)	(120,183)	(122,229)	Investments	17,642	17,642	17,642	17,642
EBITDA	28,211	27,364	24,561	22,457	Non-current receivables from sales financing	46,955	46,955	46,955	46,955
EBIT	20,458	19,404	16,555	14,406	Leased assets	44,471	44,471	44,471	44,471
% Ebit	13.6%	12.7%	10.8%	9.4%	Other	4,970	4,970	4,970	4,970
Net financial result	(258)	(258)	(258)	(258)	Total non current assets	157,935	159,022	160,464	161,960
Pretax Income	20,200	19,146	16,297	14,148	Inventories	22,151	22,743	22,872	23,003
Net Income	13,486	12,806	10,754	9,207	Trade receivables	8,912	9,150	9,202	9,255
Adj. EPS	12.61	11.97	10.05	8.61	Receivables from sales financing	33,670	33,670	33,670	33,670
Industrial Cash flow (EUR m)	FY22	FY23	FY24E	FY25E	Cash and cash equivalents	37,599	41,255	42,768	42,679
Net income	12,467	12,783	10,732	9,184	Other	7,215	7,215	7,215	7,215
Depreciation & amortization	7,753	7,960	8,005	8,051	Total current assets	109,547	114,033	115,728	115,821
Working capital	(204)	(499)	(109)	(110)	<b>Total assets</b>	<b>267,482</b>	<b>273,055</b>	<b>276,192</b>	<b>277,781</b>
Other change in operating cash flow	(1,187)	(1,978)	(2,051)	(2,051)	Equity	79,098	84,340	87,404	88,921
Operating cash flow	18,829	18,266	16,577	15,074	Long term liabilities	73,543	73,543	73,543	73,543
Net capex	(8,786)	(9,047)	(9,447)	(9,547)	Pension provisions	5,359	5,359	5,359	5,359
Free cash flow	10,220	9,397	7,306	5,702	Other non current liabilities	20,087	20,087	20,087	20,087
Financing cash flow	(5,349)	(5,563)	(5,616)	(5,616)	Total non current liabilities	98,989	98,989	98,989	98,989
Currency	0	0	0	0	Short term financial liabilities	52,300	52,300	52,300	52,300
Net change in cash	4,694	3,656	1,513	(89)	Trade payables	12,376	12,706	12,779	12,851
Net industrial debt (cash)	(26,637)	(30,293)	(31,806)	(31,806)	Other current liabilities	24,720	24,720	24,720	24,720
Industrial multiples	FY22	FY23	FY24E	FY25E	Total current liabilities	89,396	89,726	89,799	89,871
Industrial EV/Sales	0.2	0.2	0.2	0.2	<b>Total Liabilities and Equity</b>	<b>267,482</b>	<b>273,055</b>	<b>276,192</b>	<b>277,781</b>
Industrial EV/Ebitda	1.2	0.8	1.3	1.2					
Industrial EV/Ebit	1.6	1.2	1.3	1.6					
Industrial P/E	5.1	5.0	6.0	7.0					
Industrial Dividend yield	8.1%	8.8%	8.8%	8.8%					
Industrial Net debt to Ebitda	(1.0)	(1.2)	(2.1)	(1.8)					

Source: Company reports and J.P. Morgan estimates.

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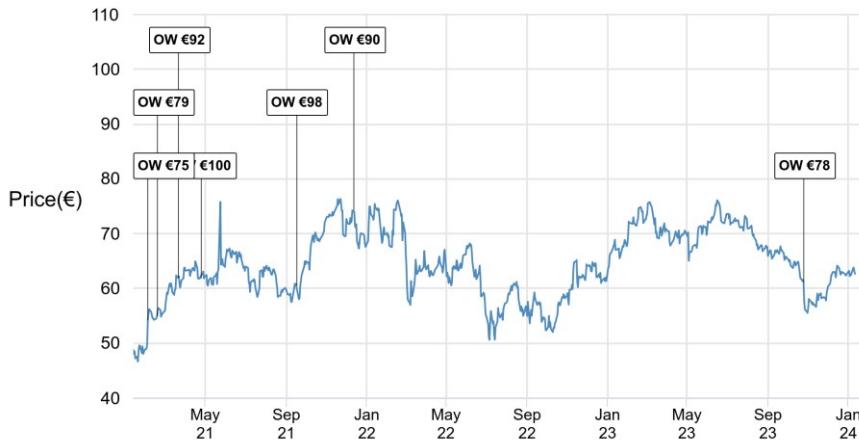
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### Mercedes-Benz Group AG (MBGn.DE, MBG GR) Price Chart



Date	Rating	Price (€)	Price Target (€)
04-Feb-21	OW	54.20	75
18-Feb-21	OW	54.93	79
22-Mar-21	OW	61.94	92
26-Apr-21	OW	61.87	100
17-Sep-21	OW	60.55	98
13-Dec-21	OW	74.25	90
26-Oct-23	OW	61.09	78

Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.  
 Initiated coverage Aug 26, 1998. All share prices are as of market close on the previous business day.

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