Corporate Credit Comment

11 February 2020

Daimler (DAIGR) FY19 results highlight a difficult year, spreads still not compelling

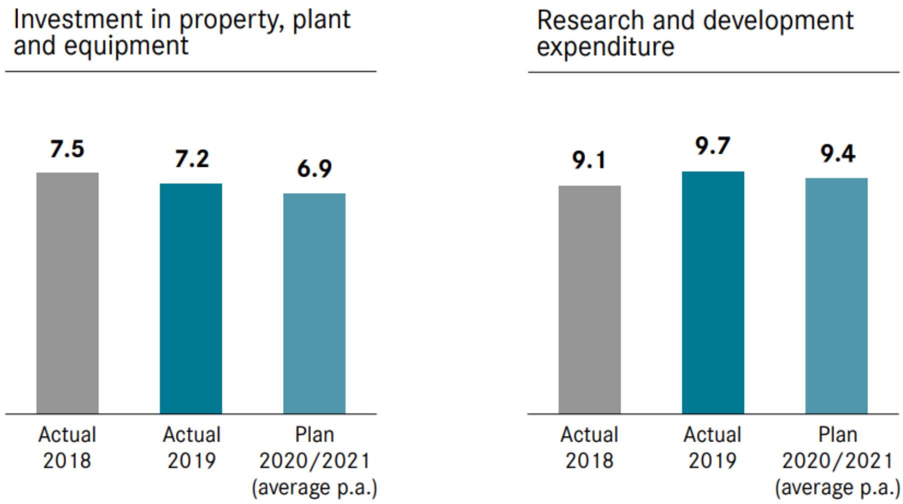
Daimler reported FY19 results which saw unit sales unchanged at 3.34m vehicles, revenues grew by 3% to €172.7bn but the impact on EBIT was significantly lower with EBIT coming in at €4.3bn down from €11.1bn, the considerably lower result was due to a number of factors that included expenses related to legal proceedings and restructuring costs. Divisionally Mercedes Benz cars sold 2.4m vehicles slightly increasing on prior record levels but EBIT fell 53% to €3,359m, the difference was driven by legal costs and expenses related to recalls. Daimler Truck volumes fell 6% to 489k units with EBIT falling 11% to €2,463m with volume declines in Europe and Asia. Mercedes Benz Vans sae volumes increasing 4% to 438k units, but EBIT swung to a negative -€3,085m due to diesel costs and associated expenses. Daimler Bus sales grew by 6% to 32,600 units and EBIT was marginally better at €283m.

Investments for the year were €7.1bn down some €400m from prior year but R&D ticked up to €9.7bn from €9.1bn as management are pivoting to increase investments to achieve CO2 neutrality, and in digitalisation. FCF generation at the industrial business halved to €1.4bn as it was hampered by cash outflows connected to the legal proceedings related to diesel engines. Liquidity dropped to €11.0bn from €16.3bn in prior year, part of the impact was due to a €3.2bn adjustment that reflected IFRS 16 lease accounting, still the industrial arm remains in a comfortable net cash position. Management also slashed the dividend by two-thirds to conserve cash, in 2019 the pay-out will be €1bn down from €3.5bn, a healthy saving of cash.

Outlook for 2020 was a more positive story, whilst volumes are slightly below on a yoy basis, revenues are expected to be stable with EBIT expected to bounce back at to "significantly above the 2019 level". Management have tackled costs which has also included staff redundancies, with staff reductions and associated administrative costs to decline by more than €1.4bn by the end of 2022.

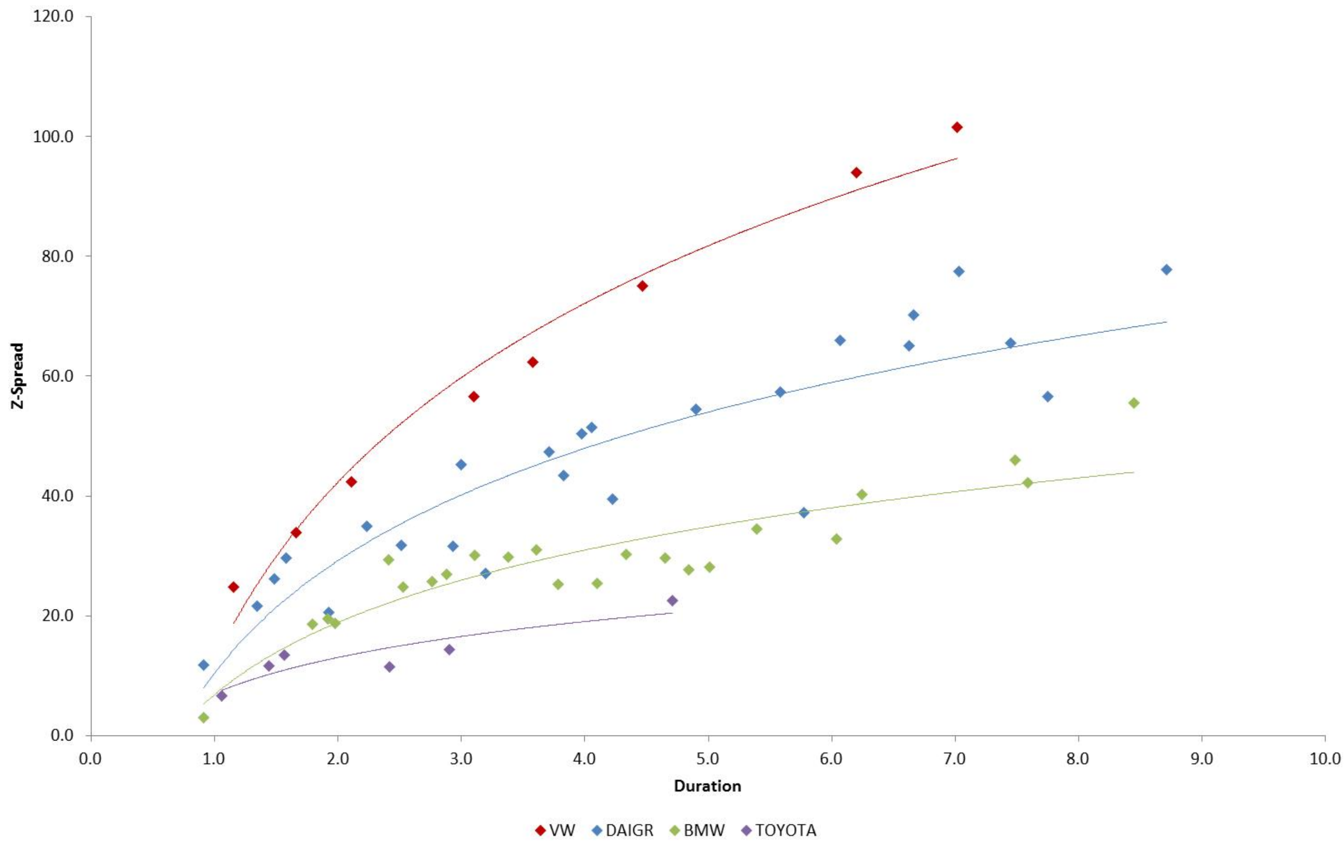
Daimler rounded off a bad year with significantly lower year on year results after numerous profit warnings and rating/outlook revisions. The results themselves didn't surprise given the headwinds and issues facing the issuer and the industry are evident. There was an optimistic note from management included upped 2020 EBIT guidance, we note that Daimler's new product offering is set to expand in 2020 with a number of important launches including a new S class, all electric SUV's and Vans names the EQA and EQV respectively. However we continue to view spreads as expensive given the groups profitability headwinds and high capex needs; hence we see better value in the likes of VW which still offers a decent pickup across the curve.

CHART 1: INVESTMENT NEEDS REMAIN SIGNIFICANT



Source: Company disclosure

CHART 2: BETTER ALTERNATIVES TO DAIMLER WITHIN AUTO SPACE



Source: Bloomberg, MUFG

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