Buy	
EUR 18.00	(EUR 22.00)
Price	EUR 12.75
Upside	41.2 %

Value Indicators:	EUR
DCF:	18.39
FCF-Value Potential:	19.01

Share data:	
Bloomberg:	SFQ GR
Reuters:	SFQN.DE
ISIN:	LU0307018795

Description:

Europe's largest listed commercial vehicle supplier for chassis-related systems

Market Snapshot:	EUR m
Market cap:	578
No. of shares (m):	45
EV:	665
Freefloat MC:	578
Ø Trad. Vol. (30d):	1.89 m

Shareholders:	
Freefloat	100.0 %

Risk Profile (WRe):	2018e
Beta:	1.3
Price / Book:	1.8 x
Equity Ratio:	34 %
Net Fin. Debt / EBITDA:	1.5 x
Net Debt / EBITDA:	1.9 x

All fears priced in; Megatrends increase the appeal of the sector

SAF's share price has taken a battering in recent months, probably triggered by a profit warning in mid-June and general investor caution towards the sector as a whole. However the market seems to be overlooking the favourable impact of structural megatrends. Besides significant population growth and the resulting need for new logistics concepts, the era of the digitised truck and autonomous-drive truck-trailer solutions will offer SAF significant upselling potential in future. Meanwhile, the short-term situation is positive too for the following reasons:

- SAF's market position in the **EMEA** region has been strengthened by the acquisition of the No. 3 player in fifth-wheels and couplings, the Italian company V.Orlandi S.p.A. Orlandi offers adjusted EBIT margins in the mid-teens is thus margin-accretive for SAF's EMEA segment.
- Net orders for class 8 trucks and trailers in **North America** increased by ~110% and ~53% respectively in the first nine months. Order visibility for truck OEMs stretches well into 2019 and SAF management said it did not see any indication of double-booking by customers. The excellent sector conditions are explained by a continuation of the shift in demand towards complete axle systems rather than "naked" axles and the increasing penetration of disc brakes, an area in which SAF is highly competitive owing to its longstanding experience with similar systems in Europe. We anticipate revenue growth of c. 5% yoy in the Americas regions in 2018e and 2019e.
- SAF's **APAC/China** business has been benefitting from recent regulatory changes regarding maximum size and weight for trucks/trailers. In January 2018, a new regulation came into effect requiring certain trailers to be equipped with disc brakes (from 2019 onwards) and air suspension (from 2020). The constellation of SAF's market-leading position for such systems in Europe and the limited experience of local competitors with this technology should ensure that SAF gains a high market share (>30%) in the relevant market segment. With the acquisition of Indian company York Transport Equipment Pte. Ltd, SAF will become a market leader in trailer and suspension systems in India and is simultaneously enlarging its service & spare parts network.
- **Valuation offers margin of safety:** Following a comprehensive model update, we derive a DCF-based price target of **EUR 18 per share**, equivalent to a one-year forward EV/adj. EBIT target multiple of 9.7x and an upside of ~40%. Our price target already accounts for potential dilution resulting from the complete conversion of the convertible bond, which implies valuation upside if less than 100% is converted. We confirm our **Buy** recommendation.

Changes in Estimates:

FY End: 31.12. in EUR m	2018e (old)	+ / -	2019e (old)	+ / -	2020e (old)	+ / -
Sales	1,241	1.2 %	1,335	-1.0 %	1,388	-1.5 %
EBIT adj.	100	-9.7 %	118	-10.3 %	123	-0.2 %
EPS	1.22	-15.6 %	1.56	-12.8 %	1.65	-0.6 %

Comment on Changes:

- Revision of estimates following a transfer of coverage.
- We increased our revenue projections for 2018 reflecting the strong sector environment in North America and tailwind from a growing premium segment in China
- We have reduced the EBITDA margins in our DCF model to reflect a more realistic over-the-cycle terminal value margin

Rel. Performance vs SDAX:	
1 month:	9.5 %
6 months:	-15.4 %
Year to date:	-21.2 %
Trailing 12 months:	-13.9 %

Company events:	
08.11.18	Q3

FY End: 31.12. in EUR m	CAGR (17-20e)	2014	2015	2016	2017	2018e	2019e	2020e
Sales	6.3 %	960	1,061	1,042	1,139	1,256	1,321	1,367
Change Sales yoy		12.0 %	10.5 %	-1.8 %	9.3 %	10.3 %	5.2 %	3.5 %
Gross profit margin		*18.2 %*	*19.1 %*	*19.8 %*	*18.0 %*	*17.0 %*	*18.5 %*	*19.5 %*
EBITDA	12.1 %	74	101	99	95	97	116	134
Margin		*7.7 %*	*9.5 %*	*9.5 %*	*8.4 %*	*7.7 %*	*8.8 %*	*9.8 %*
EBIT adj.	10.5 %	71	94	90	91	90	106	123
Margin		*7.4 %*	*8.9 %*	*8.7 %*	*8.0 %*	*7.2 %*	*8.0 %*	*9.0 %*
Net income	20.1 %	33	52	44	43	47	62	74
EPS	20.0 %	0.72	1.14	0.98	0.95	1.03	1.36	1.64
EPS adj.	15.6 %	0.96	1.37	1.18	1.17	1.26	1.53	1.80
DPS	18.6 %	0.32	0.40	0.44	0.45	0.45	0.60	0.75
Dividend Yield		2.9 %	3.0 %	4.0 %	2.9 %	3.5 %	4.7 %	5.9 %
FCFPS		0.03	0.59	1.24	0.36	0.61	1.06	1.43
FCF / Market cap		0.3 %	4.4 %	11.2 %	2.3 %	4.8 %	8.3 %	11.2 %
EV / Sales		0.6 x	0.6 x	0.5 x	0.7 x	0.5 x	0.5 x	0.4 x
EV / EBITDA		7.7 x	6.7 x	5.5 x	7.9 x	6.9 x	5.5 x	4.5 x
EV / EBIT adj.		8.2 x	7.2 x	6.0 x	8.3 x	7.4 x	6.0 x	4.9 x
P / E		15.2 x	11.8 x	11.4 x	16.5 x	12.4 x	9.4 x	7.8 x
P / E adj.		11.4 x	9.8 x	9.4 x	13.4 x	10.1 x	8.3 x	7.1 x
FCF Potential Yield		7.5 %	8.6 %	13.0 %	8.4 %	8.2 %	11.8 %	14.7 %
Net Debt		177	162	137	140	183	155	117
ROCE (NOPAT)		9.1 %	12.1 %	11.4 %	11.7 %	11.1 %	12.9 %	15.0 %
Guidance:	Organic sales growth of 5-7%; Adjusted EBIT margin of 7-8%							

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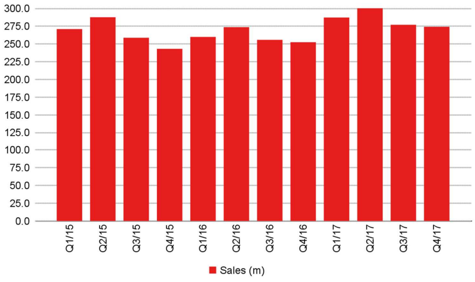
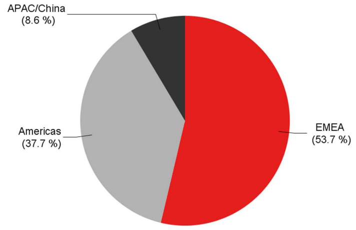
Sales development
in EUR m



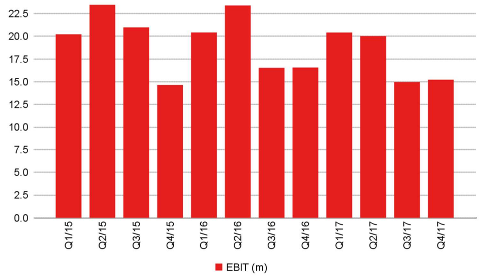
Source: Warburg Research

Sales by segments
2017; in %



Source: Warburg Research

EBIT development
in EUR m



Source: Warburg Research

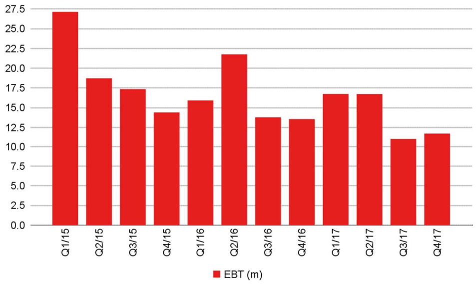
Company Background

- Europe's largest listed commercial vehicle supplier and major manufacturer of chassis-related systems and components such as axle and suspension systems, kingpins, landing gear and fifth wheels
- SAF-Holland's products are used in trailers (~63% of group sales), trucks and buses (~14% of group sales) and the aftermarket business (~23% of group sales)

Competitive Quality

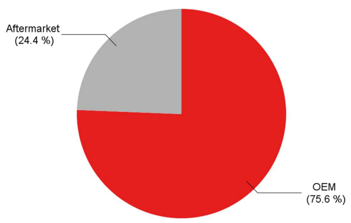
- Among the global top-three players in all its relevant end markets
- Comprehensive product portfolio and established reputation for high-quality and lightweight products that help fleet operators to reduce total cost of ownership and raise efficiency
- Positioned as a one-stop-shop for chassis-related systems with significant engineering capacity to offer entire systems that target the needs of the transport sector
- Unique selling model: the company liaises directly with the large fleet operators, as fleet operators rather than OEMs generally select the components to be used in trailers
- Superior geographic scope and the most comprehensive spare parts and service point network with more than 10,000 locations worldwide, which is crucial for the business and difficult to replicate

EBT development
in EUR m



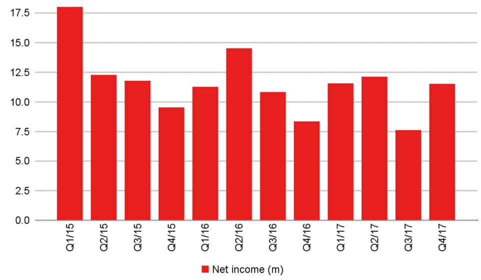
Source: Warburg Research

Sales by way to market
2017; in %



Source: Warburg Research

Net income development
in EUR m



Source: Warburg Research

Summary of Investment Case

Investment triggers

- Potential catalysts to higher valuations are, in our view, sustained revenue growth and improved profitability as a result of the completion of restructuring activities in the US.
- The Americas segment reaches breakeven: The realignment of production plants in North America will be finished by the end of the year, reducing additional expenses.
- Steel prices stabilise at high levels and SAF successfully manages to pass on the increase from H1 2018 to customers.

Valuation

- We derive a DCF-based PT of EUR 18, which includes the potential dilution from a complete conversion of the convertible bond.
- Our FCF Value Potential model derives EUR 13.03 for 2018 and EUR 19.01 for 2019 which is, in our opinion, more appropriate.
- We regard the positioning of SAF-Holland and its closest peer JOST Werke as equally strong in highly consolidated markets and therefore believe they should be trading at comparable multiples. Based on EV/adj. EBIT multiples, SAF trades at a premium to JOST Werke of ~15% (appropriately adjusted for conversion of the convertible bond and changes in JOST's capital structure). However we have to note that we also derive upside potential for JOST based on our DCF model.
- We regard the downside as limited given that the current share price level offers a solid dividend yield (**WRe:** ~3.5% 2018).

Growth

- Revenues CAGR 2014-2017: 5.9% vs. forecasted revenues CAGR of 6.3% for 2017-2020e. Adjusted EBIT CAGR 2014-2017 amounted to 8.9% vs. a forecasted CAGR 2017-2020e of 10.5%.
- Growth drivers include a) strong performance of North American truck and trailer production due to higher content-per-vehicle as fleet operators increasingly order entire axle systems and appreciate the benefits of disc brake technology, b) favourable regulatory changes in China which benefit Western component suppliers with proven technology in hand, c) the York acquisition will make SAF one of the market leaders in trailer axle and suspension system business in India and d) Orlandi will increase margins in Europe.
- SAF is set to benefit from megatrends like digitisation, telematics, or the realignment of the entire logistic supply chain to urbanisation as demand increases for heavy trucks & trailers and as opportunities arise to sell hardware + software as a package. Margin accretions will be achieved with cross-selling opportunities from additional acquisitions which will strengthen SAF's market position with well-established brands in fast growing markets.

Competitive quality

- SAF has a strong brand and reputation which are key success factors in its oligopolistic markets and a main reason for its achievement of sustainable price premiums. Loyalty and strong customer relationships are backed by a strong customer portfolio serving both truck and trailer OEMs. This customer-related competitive advantage was further strengthened by the acquisitions of Orlandi and York.
- The increasing importance of higher content value in vehicles and trailers increases the significance of technical capabilities, high quality products and innovative strength.
- SAF operates the #1 network in Europe and North America which is a key asset for fleets and a major barrier to market entry. No other player in the industry has such a comprehensive aftermarket spare parts network featuring 10,000 partners in more than 80 countries.

Warburg versus consensus

- Our revenue forecast for the years 2018-2020 and our target share price (EUR 18 per share) are broadly in line with consensus.

Company Overview

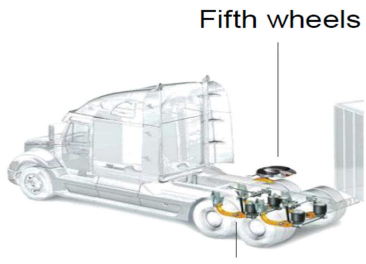
Segments	EMEA	Americas	APAC/China	Group
Sales in EUR m	611.8	429.4	97.7	1138.9
in % of total	*53.7%*	*37.7%*	*8.6%*	*100.0%*
Adj. EBIT	67.7	16.1	7.4	91.2
Adj. EBIT Margin	*11.1%*	*3.7%*	*8.6%*	*8.0%*
Ø last 3 years	*9.9%*	*7.0%*	*6.0%*	*8.5%*

Key products, market shares and competitors

EMEA		
	Trailer axles	**Fifth Wheels**
1/2	SAF-Holland	Jost
1/2	BPW	SAF-Holland
3	Schmitz	Fontaine

Leading in European trailer axles

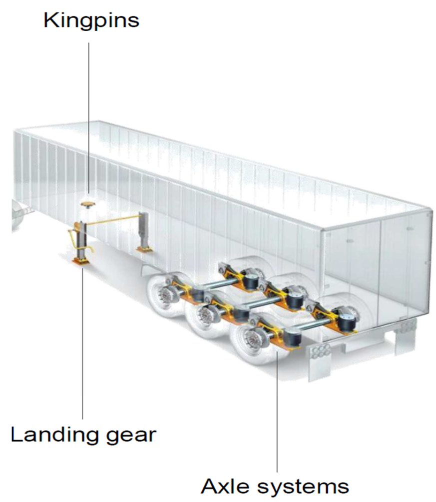
Nr. 2 position in fifth wheels



North America		
	Trailer axles + suspensions	**Fifth Wheels**
1	Hendrickson	SAF-Holland
2	SAF-Holland	Jost
3	Meritor	Fontaine

Market-leading position in fifth wheels

Already Nr. 2 position in trailer axles



Nr. 1 position in trailer axles in the fastest growing TA market

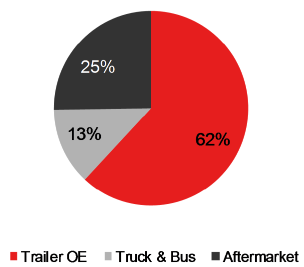
Legislation boosting the premium segment in China

China (Premium segment)	
	Trailer axles
1	BPW
2	SAF-Holland
3	Fuwa

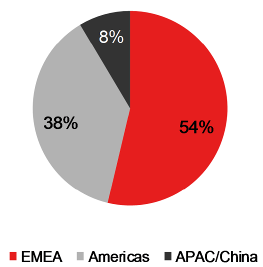
India	
	Trailer axles + suspensions
1	SAF-Holland
2	Tata Motors
3	H.D. Trailers

Sales split

Revenues by way to market 2017



Revenues by region 2017



* numbers relate to FY 2017

Source: Warburg Research, Roland Berger

Megatrends in the truck & trailer industry

- Digitisation is set to dramatically change maintenance and repair processes and transform the aftermarket business.
- SAF is in a good position to “surf the autonomous wave” with a product that enables the automated coupling of tractors and trailers.
- Trends in the logistics industry point to stronger demand for heavy trucks with the potential for upselling activities.
- While all three trends will have a tremendous impact on the industry, their realisation will heavily depend on the speed of regulators.

Digitalisation: The era of the digitised truck & trailer

The application of new digital technologies ultimately aims to reduce TCO for fleet operators and increase safety. As digital technology and culture evolves, new use cases are emerging in the context of advanced truck & trailer telematics. Some of the use cases for truck management include predictive maintenance, remote diagnostics or engine and fuel consumption improvements in real time. Other solutions could focus on parking, route planning as well as driver assistance (warnings for inappropriate driving or road assistance including augmented reality). IT and software solutions will result in greater coordination and integration of transporters into the systems of the Industry 4.0 value chain.

We expect SAF’s management to strategically position the company as a provider of truck and trailer management solutions (implementation under its “smart steel” strategy). SAF will serve customers with well-established hardware combined with suitable software products. The content per trailer will continue to grow and the higher value sold-in will generate even greater aftermarket potential. Equipped with the relevant technology, the increasing “intelligence” of axles and other parts will automate maintenance and repair processes.

SAF makes proactive move by acquiring Axscend

SAF acquired the telematics and connectivity specialist Axscend Ltd. in June 2018. The company develops solutions to digitally manage trailers, enabling fleet operators to achieve notable cost reductions and higher fleet efficiency. With Axscend’s expertise SAF is able to increasingly integrate sensors and electronics into mechanical components and is making further progress on issues such as the automated coupling of tractors and trailers. Key features that can be integrated from now on include lighting function control, load monitoring and optimisation, maintenance condition checks, tyre pressure monitoring, EBS data evaluation, patented performance data, an evaluation of braking system performance and GPS data transmission for trailer tracking.

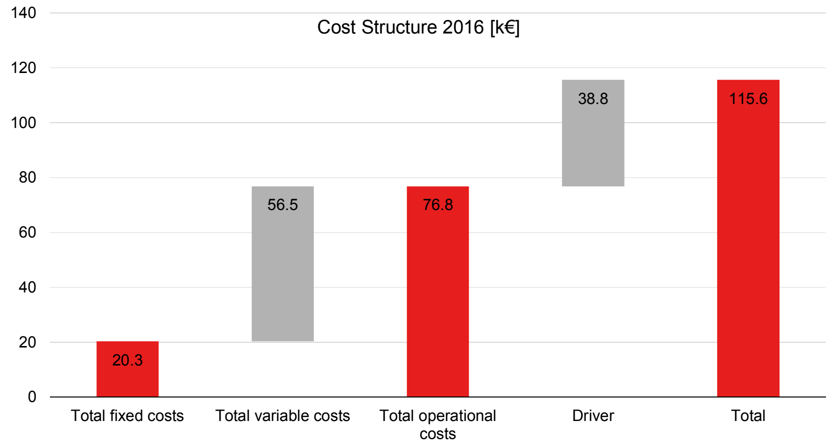
In the UK ~3,500 trailer licenses have already been sold to fleet operators under a license-based model. While telematics currently account for ~ 2% of the purchase price of a truck, this share will expand up to 8% by 2026 (Source: Deloitte). We expect roughly the same share for trailers. A variety of small telematics suppliers offer telematics solutions as do the industry giants, MAN and Scania, but these are tied to the specific brand. SAF presents a globally open platform which offers a great deal of potential with considering the more than 20,000 SAF fleet customers worldwide. The business model intends to sell the box at a fixed price plus the relevant data on a subscription-based model. Since most of the trailer OEMs are relatively small (no consolidation anticipated), they do not have the financial firepower for such a system.

While we acknowledge that SAF is working in the right direction, from our conversations with management and industry experts, we understand that there are currently ~600 comparable systems on the market. Furthermore, we estimate the subscription fee to be only EUR ~18 per month (**WRe:** 3,500 licenses x EUR 18 x 12 months = EUR 756,000 revenue). Therefore we do not expect a substantial impact from that business in the short to mid term.

Autonomous drive: How far are we from autonomous trucks & trailers?

We expect driverless trucks are still a long way down the road considering the safety-related regulatory concerns associated with their implementation. Theoretically, however, automated trucks would address several acute challenges facing the industry today such as increasing hours-of-service, safety improvements, driver shortages and fuel costs. The total fixed costs of running a truck currently include tax, testing costs, fixed rates for cleaning and communication, insurance and costs for breakdown days. Variable costs include operating depreciation, fuel costs, lubricants, and repair costs, among others. Autonomous-drive trucks could reduce some of these costs but significant cost savings are only expected in the long term.

Truck driver accounts for one-third of total costs



Source: strategy&

Autonomous driving means automated coupling

Autonomous driving is one of the key disruptive trends and will trigger changes in products and services along the value chain. However, the evolution of self-driving trucks/trailers will come in small steps. In the near term, conditional automation of multiple functions is realistic (platooning will be a major topic). As a next step, automatic driving could be engaged for parts of a journey during which the driver need not necessarily monitor the road. Only in the final phase (>2030) are trucks and trailers expected to cruise fully independently on the roads. During each phase of this transformation new technologies are needed from suppliers like SAF.

Automated solutions from SAF

Autonomous driving means automated coupling: SAF offers a solution which uses two inductive sensors, one for the kingpin and the other for the lock. With a dynamic magnetic field, the sensors check the correct position of the kingpin and lock and report the result to a small computer mounted to the bottom of the fifth wheel.

The next step in automation is fully automated coupling at loading terminals and logistics centres. Today, the driver must leave the truck to connect the pneumatic and electrical connectors by hand. This process is difficult and time-consuming. Furthermore, most of the damages are consequences of the coupling process. Automated solutions eliminate such problems. The good thing for SAF is that those products could easily be sold in a range of EUR 3,000-5,000 compared to a standard fifth wheel selling at EUR 500 on average. Since the fifth wheel market in particular is highly concentrated we expect only SAF and JOST-Werke to have the adequate technology to bring that solution to the market in the next three to five years, depending on legislation.

New logistics concepts: Emergence of new business models

Urbanisation, changing demographics, regulation and a growing middle class are leading to fundamental changes in supply concepts for major urban areas. In future, we are likely to see a much more established hub-and-spoke network, similar to the aviation industry in the future. Large distribution centres outside of conurbation areas and last-mile delivery with electrified small-to-medium sized trucks. Heavy trucks will dominate long-distance transportation between large distribution centres outside of conurbations because heavy commercial vehicles always have lower operating costs than medium vehicles due to lower personnel and fuel costs per ton-kilometre.

Therefore we expect structural growth in the market for heavy trucks, which will slowly crowd out mid-sized trucks. This underlying trend should benefit SAF in two ways. Firstly, with an increasing number of heavy trucks (which is the relevant truck classification for SAF) there will be constant growth in the demand for standard products. Secondly we see potential for up-selling and even greater potential in the aftermarket where SAF can capitalise on its 10,000 partner strong network.

Alternative drive systems are not a major issue for SAF

Drive systems will change in the commercial vehicles sector as partial access restrictions are already in place and many more are in the pipeline. The share of combustion engines will shrink and we will see an electrification of trucks and trailers. However, this is not a game-changer for SAF since its standard products, especially the axles, are compatible with every engine technology.

Moreover, SAF offers niche products for special application vehicles like dump trailers and walking floor vehicles operating in the area of construction sites or landfills. The hydraulic drive axle supports the truck on inclines and difficult terrain with its integrated additional drive. Those axles offer a boost for ~10 seconds to maneuver out of difficult situations.

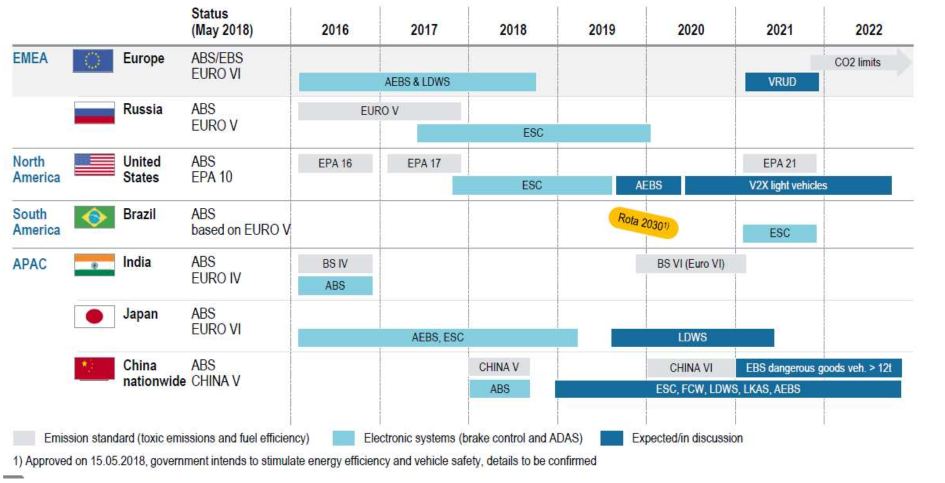
E-axles are developed for recuperation and drive which are expected to be on the market 2019-2020, depending on legislation. The business case is to allow delivery of refrigerated transports in inner city areas at night time as well as a reduction in fuel consumption and emission levels of the truck-trailer combination. Those axles can be sold with a premium of EUR ~9,000 (standard axle sell for ~1,600-3,000) however the main reason for the development of this axle was to show engineering capability.

In this respect we would like to emphasise SAF's outstanding position regardless which drive system dominates the future.

Megatrends are driven by regulation

In general, the regulatory push is considered to be the major driving force for technology upgrades in commercial vehicle systems globally. The speed of development of the megatrend depends on the relevant regulation. Overall, regulatory pressure is increasing.

Regulatory pressure is increasing



Source: Roland Berger

Not just a long-term bet – positive short term too

- EMEA regional indicators show a strong business environment.
- Disc brakes and entire axle systems speed up demand in the Americas.
- Specific regulations and a growing premium segment keep APAC/China sales at a high level.

While the megatrends described above will disrupt the industry as we know it today SAF is not merely a long-term bet. The short-term environment is favourable too. Various drivers will ensure that demand for SAF's core products will be strong in the next few years.

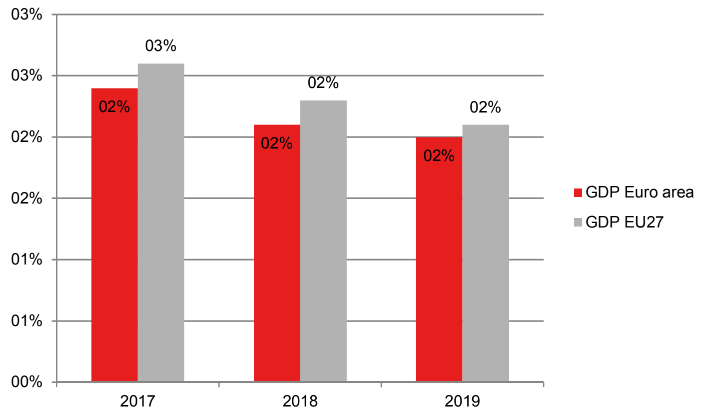
EMEA

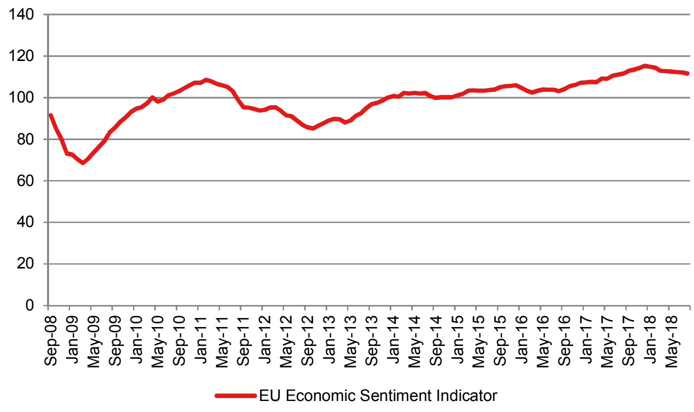
In Europe, besides the impact of megatrends, a set of region-specific drivers will determine the development of the market

Short-term and mid-term GDP in Europe will drive global truck and trailer demand. The European economy continues to benefit from supportive monetary conditions with low financing costs for companies and governments, improving labour market conditions and improving corporate and household balance sheets. In its summer forecast, the European commission expects the economy in Europe to grow by more than 2% in 2018 and 2019 with the EU27 growing at a slightly faster pace than the euro area.

After a small decline during the first quarter of 2018, the euro area (EA) Economic Sentiment Indicators (ESI) remained essentially unchanged in Q2 2018. Over the last months, the indicator showed a minor decrease but nevertheless remained at historically elevated levels of 111.6 points at the end of August.

Macro indicators remain solid



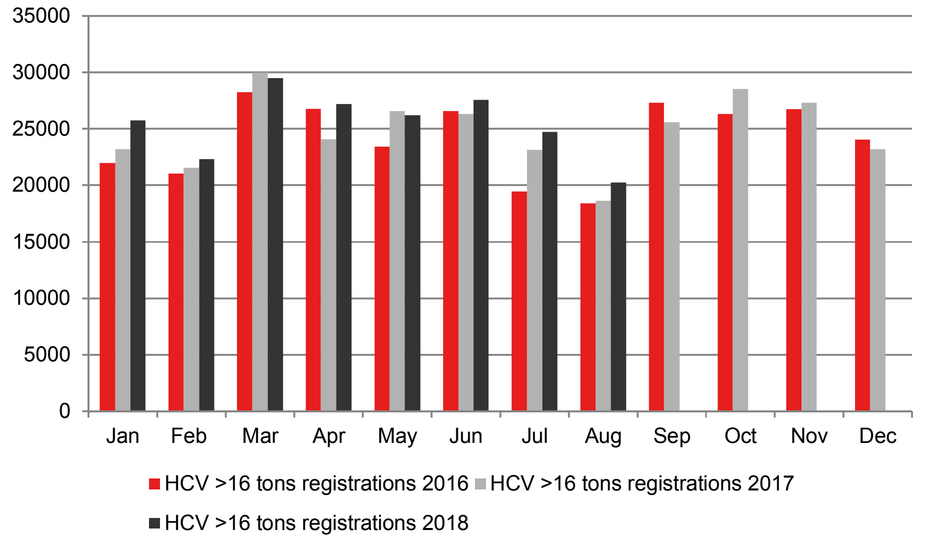


Source: European Commission

Contrary to most expectations, new heavy vehicle registrations in Europe continued to increase during the first half of 2018 and are expected to remain at those elevated levels for the remainder of the year. Heavy truck registrations showed a strong start to 2018 with an increase in registrations of 5.1% for the first eight months.

Over the full year 2018, we expect heavy truck registrations in Europe to grow by a minimum of 5%. While truck product sales in Europe only account for approximately 3-4% of SAF sales, trailer products account for ~40%. According to a study from Clear in May this year, the European trailer market is forecast to increase by 1% in 2018. Conversations with market participants make us confident that this target is a conservative one.

Solid trend continues with moderate economic growth



Source: ACEA

M&A activity will foster top-line and profit growth

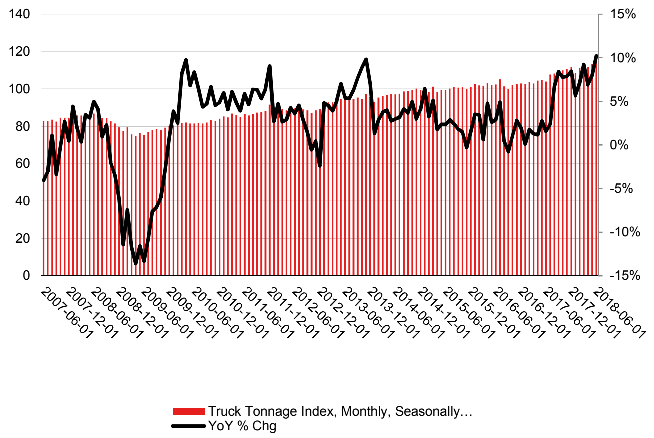
The acquisition V. Orlandi S.p.A. has been contributing as of April 2018 (**WRe:** full year sales of ~ EUR 22mn). SAF strengthened its No. 2 position (after JOST Werke) in the fifth-wheels and couplings business in the European market by taking over the third-largest player. Not only is SAF opening significant cross-selling potential for Orlandi products but this deal is also margin accretive (V. Orlandi S.p.A has adjusted EBIT margin in the mid-teens).

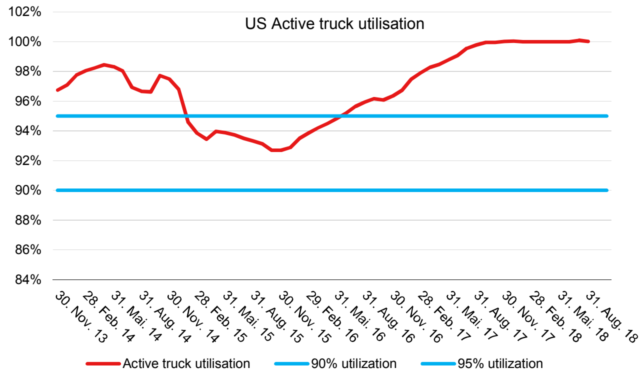
While we see SAF taking a market-leading position for trailer axles and fifth wheels in Europe, the challenge in the years to come will be to defend market share rather than to outperform the market.

Americas

Business in North America is also going well with strong road-freight transport volume and constant 100% equipment utilisation in FY 2018. Together with still moderate fuel costs, these factors keep demand at a high level. This combination enables fleets to increase earnings and, in turn, increase spending on new trucks and trailers.

Road freight transport volumes remained strong and truck utilisation is at 100%





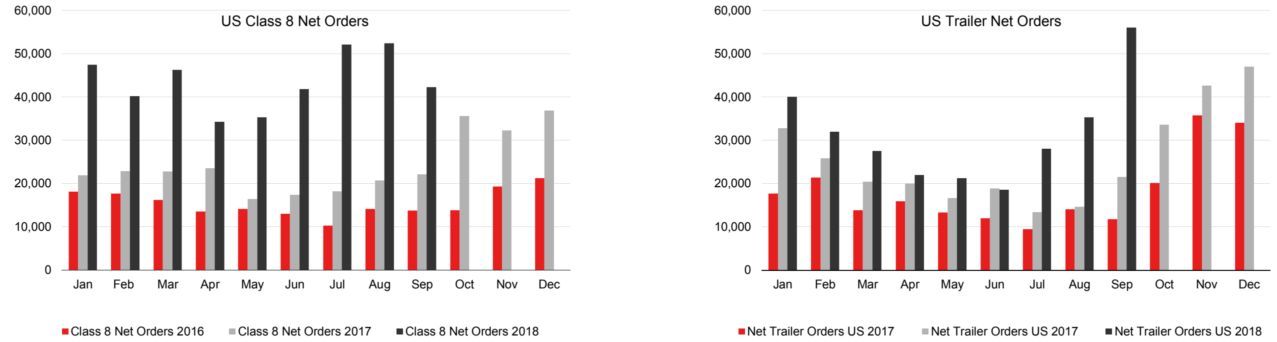
Note: A figure above 95% indicates a tight market where the majority of active truck population is at work. A figure below 90% indicates a weak market where a significant portion of the truck population is idle.

Source: American Trucking Association, FTR Associates, Warburg Research

Structural changes in demand and market share gains to drive outperformance in North America

In the recent past, US fleet operators have increasingly been ordering entire axle systems (comprising the axle tube, the wheel end fitted with brakes and suspension) and have started to appreciate the benefits of disc brake technology compared to drum brakes (e.g. superior brake performance and lower total cost of ownership; sell for ~30% more). For peer company Haldex it is clear that the disc brake is on the agenda for OEMs, distributors and fleets. While knowledge of disc brakes, in terms of maintenance and related costs, is still being built up in the different customer groups, the issue is no longer whether a change will happen but rather how fast. The change in technology is expected to have a minor effect in 2018 but will primarily affect the demand for disc brakes in the next few years. Capitalising on its longstanding experience in this field, SAF was able to win several major orders in the US, including from XTRA Lease (**WRe:** 6,000 trailers and ~20mn sales in FY 2019), which will provide SAF with strong order intake visibility until well into 2019 and will allow SAF to significantly outperform the market in the coming quarters.

Net order intake for US Class 8 trucks and trailers indicates further improvement in demand



Source: FTR Associates, Warburg Research

The trailer business in North America accounts for ~20% of group revenues and the truck business for ~10%. Net orders are at very high levels with order intake visibility for truck OEMs reaching well into 2019. Management emphasised that there was no indication of double-booking by customers. Market outperformance in H1/18 was clearly limited in our view by production bottlenecks, as plant consolidation in the US (reduction from seven plants to five) coincided with the unexpected strong market recovery. However we also believe SAF temporarily lost market share in its OE business as major competitor JOST Werke stated that it had benefitted from restructuring activities by one of its competitors in Q3/17 and announced further market share gains in H1/18.

While we fear there might still be some production bottlenecks in H2/18, SAF should begin to outgrow the market again in 2019 thanks to

a) a continued shift in demand towards entire axle systems and rising penetration of disc brake technology in North America (current penetration of disc brake in the US is only ~10-15% compared to ~80-85% in Europe) as fleet operators increasingly appreciate the benefits of disc brakes (Two (UPS & XTRA Lease) of the three large American fleets already made the transition to disc brakes)

b) SAF-Holland's longstanding expertise in this field in Europe, where it is already the market leader, should allow it to gain further market share in the US

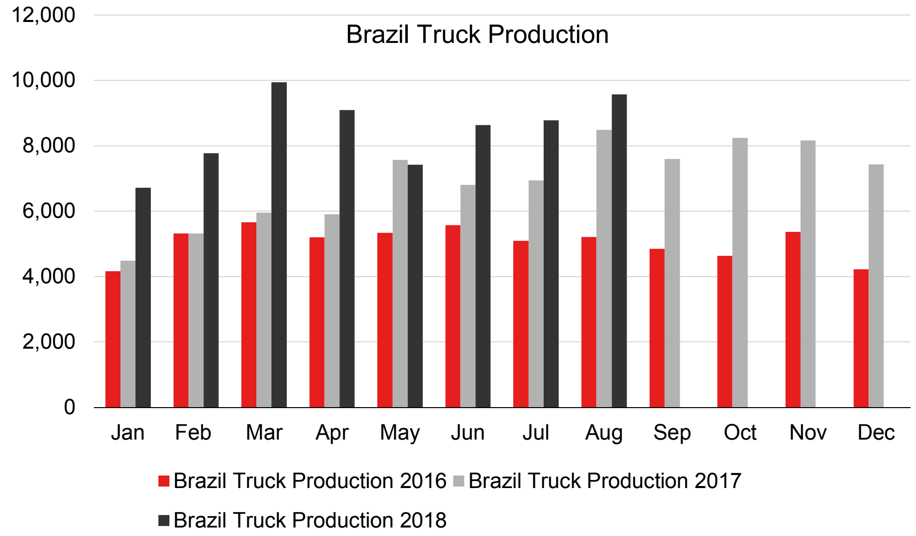
c) The higher content per vehicle in accordance with the shift in demand towards entire axle systems equipped with disc brake technology. These systems can sell for as much as EUR 2,500-3,000 compared to the price of simple axles of about EUR 700-EUR 900

…but North America is not the only strong market environment, Brazil is slowly returning to its former strength

Truck production 2013 amounted to more than 180,000 vehicles and dropped to ~ 60,000 in 2016. Even if current levels are still a long way from past production levels in Brazil, figures are clearly pointing in the right direction. Truck production was up ~32% for the first eight months of 2018. According to Volvo, the average fleet in Brazil is significantly older than in Europe or North America. As well as the need for renewals, the truck market is supported by low interest rates.

In 2017 the business in Brazil was loss-making for SAF. However, historically the Brazilian business generated margins above group level. After reaching breakeven this year (**WRe:** EUR ~20m revenue), we expect the Brazilian business to reach mid-teen margins with increased volume.

Truck production pointing in the right direction



Source: Anfavea

APAC/ China

New regulation in China to boost revenues further

Apart from the brightening sector environment in North America, new regulations to be introduced in China in January 2019 and 2021 should be advantageous for SAF-Holland in the coming years.

Recent regulatory changes in China have already boosted APAC sales

In October 2016, China's Ministry of Transport and the Ministry of Public Security updated instructions for stricter enforcement of the existing regulation GB 1589 (GB 1589-2016) which establishes stricter limits on the maximum permissible size and weight of trucks/trailers. GB 1589 has actually been in place since 2004 (GB 1589-2004) but had not been strictly enforced by local Chinese authorities. As the updated version is now being rigorously enforced, it effectively reduces available transport capacity in China as common vehicle configurations are no longer allowed to use motorways. This has led to higher replacement demand than usual on the part of fleet operators, to the benefit of components suppliers like SAF-Holland. Largely as a result of this regulation, SAF's revenues in the APAC/China region rose by c. 66% yoy in H1/18.

Imminent regulations to benefit premium suppliers like SAF-Holland

While SAF-Holland is still benefiting from the positive effects of the overload ban

(GB 1589-2016), another new regulation came into effect in China in January 2018 (GB 7258-2017) that requires **new** trailers used for hazardous goods transportation as well as **new** sidewall and fence trailers to be equipped with disc brakes (starting from January 2019) and air suspension (starting from January 2020).

SAF-Holland will be one of the major beneficiaries of this development in the Chinese commercial vehicle supplier landscape. Until now, drum brakes and mechanical suspension were the common choice among Chinese fleet operators. Disc brake technology and air suspension systems were of little significance as they were not obligatory and are more expensive.

As disc brake technology is not yet widespread in China, domestic component suppliers have very limited experience. European competitors, like SAF and BPW, have been offering this technology for decades in Europe and have proven technology in hand. As a consequence, these two players are likely to dominate the relevant market segment - at least in the early years – and we expect them to claim market shares of >30% each in the relevant segments. Additonally, such systems come at higher prices than conventional "naked" axles.

We derive incremental revenue potential of ~5% of today's group revenues in our base case scenario

We conduct a scenario analysis based on price and volume assumptions and forecast incremental revenue potential from the new regulation of as much as ~5% of today's group revenues in our base case scenario and of >8% in a more optimistic scenario.

Potential incremental revenue resulting from new regulations

	Conservative scenario	Basecase scenario	Optimistic scenario
Avg. trailer production p.a. in China	350,000	350,000	500,000
Addressable market in % of total trailer market	5.0%	15.0%	15.0%
Adressable market in units	**17,500**	**52,500**	**75,000**
Market share of SAF-Holland in relevant market segment	30%	30%	35%
Potential market for SAF-Holland in trailer units p.a.	**5,250**	**15,750**	**26,250**
Avg. number of axles per trailer	2.7	2.9	2.9
Avg. price per axle in EUR	1,100 €	1,250 €	1,250 €
Potential incremental revenue p.a.	**15,592,500 €**	**57,093,750 €**	**95,156,250 €**
Group revenue forecast for FY 2018		1,256,100,000 €	
Revenue forecast for segment APAC/China in FY 2018		152,700,000 €	
Potential incremental revenue in % of FY 2018 group revenues	1.2%	4.5%	7.6%
Potential incremental revenue in % of FY 2018 APAC/China	10.2%	37.4%	62.3%

Source: SAF-Holland, Warburg Research

Our assumptions in detail:

- **Annual trailer production:** The total trailer population in China is between 2.5m and 3m units with high output levels in the last years. Healthy economic development and especially new regulations, which should force fleet operators to replace existing equipment also in future, should keep annual trailer production at elevated levels for the next few years. SAF has held out the prospect of 500,000 units p.a. However we only use this figure in our optimistic scenario. Our conservative and base case scenario assumes 350,000 units.
- **Addressable market:** Regulation GB 7258-2017 will apply to hazardous goods transport as well as to sidewall and fence trailers. In 2010, about every twentieth ton (i.e. 5%) transported on the road in Germany was related to the category of hazardous goods. We use this 5%-figure in our conservative scenario. However, the 10-15% of total trailer production assumed by SAF appears to be more realistic to us, considering that a) regulation GB 7258-2017 not only applies to hazardous goods transport but also to sidewall and fence trailers and b) our assumption that a higher proportion of hazardous goods is transported by road in China than in Germany owing to China's larger size and its many rural areas. We assume 15% in our base case scenario.
- **The new systems come at a higher price.** We estimate that the cost of a system of disc brakes plus air suspension in China will be lower than in other regions like Europe

or North America (as much as EUR 2,500-3,000) but nevertheless around EUR 1,250 per axle. An average trailer has about 2.9 axles.

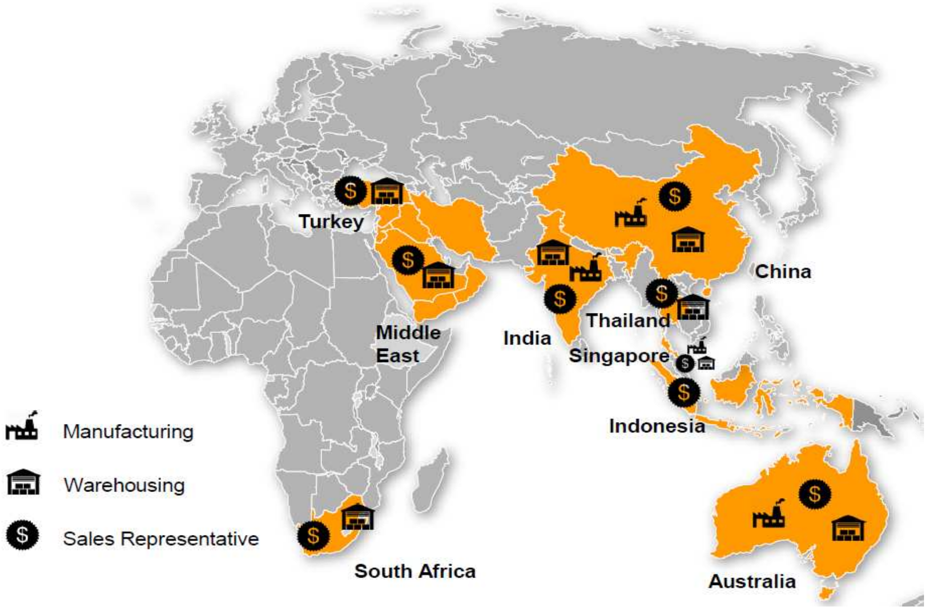
A new plant in Yangzhou (China) will start production in mid-2019. This facility will be SAF's biggest plant and can easily generate more than EUR 100m in revenues. The primary goal of this project is to drive organic growth while increasing efficiency and margins in the APAC/China segment.

Ticket to India: Acquisition of York Transport Equipment

The Indian transportation market is one of the fastest growing worldwide supported by structural trends such as a growing population and increasing purchasing power.

With the acquisition of York Transport Equipment (York), SAF is expanding its position in India and will become one of the market leaders in trailer axle and suspension systems. Additionally, SAF gains access to R&D centres in the APAC region and a strong service and spare parts business.

Geographic footprint York



Source: SAF-Holland

As well as a generally positive market environment in India, we see some catch-up potential in terms of axels. The average number of axels per trailer in India is 2.2 while the average in Western Europe is 2.9. We expect an increase in the medium term as we think safety regulations will close the gap, meaning that new trailers will be equipped mainly with an average of three axles. In FY 2018, we expect York to make a sales contribution of EUR ~50m for the full year. For 2019, we see potential to leverage the service and spare parts network of York and are confident that a doubling of revenues should be achievable relatively quickly.

Margin recovery ahead

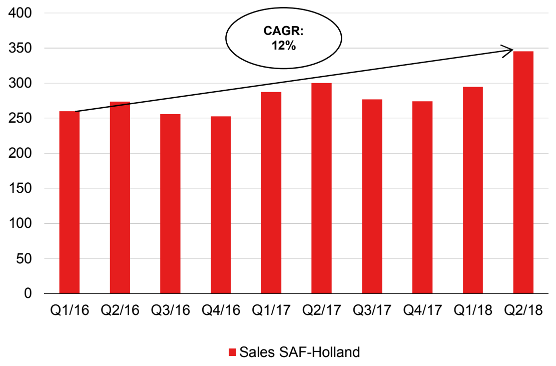
- Contracts with customers are linked to steel prices and are renegotiated for the second half of the year
- No further costs expected from the realignment of the US production network.
- New acquisitions will contribute in H2

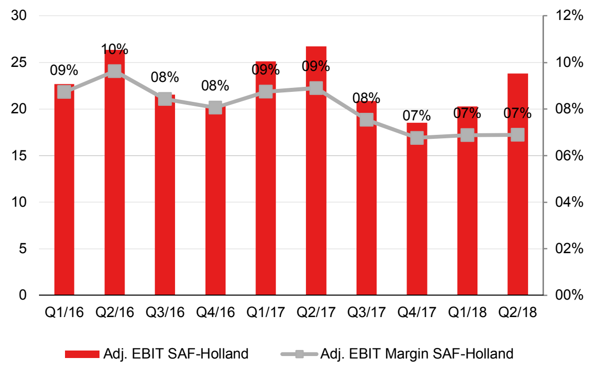
Increased steel price passed on to customers in H2

Price increases will boost margins

SAF recently suffered from margin contraction due to soaring customer demand, slower than expected reduction of additional expenses for the reorganisation in North America and rising steel prices. After talking to the company we are confident that at least two of these causes have been eliminated by the end of the second half of 2018. Sequential sales development (qoq) shows strong growth over the last two years, despite the seasonality. However, adjusted EBIT shrank over the same period for the reasons stated above. However we are confident of a margin recovery in the short term.

While sales increased in recent quarters, adjusted EBIT disappointed





Organic sales trend is ahead of strategy 2020 targets

Taking all of the above into consideration, we are increasing our revenue estimates for the year 2018e to reflect the structural shift in North America as well as the anticipated positive impact of regulatory change in China. We forecast that sales will grow by 10.3%, 5.2% and 3.5% in 2018, 2019, 2020 respectively.

For the **EMEA** region we see major challenges for SAF in defending its market share. Moreover, trailer production is currently at elevated levels, therefore we forecast a conservative revenue CAGR of only 0.5% for 2018-2020. Revenue for the same period in the **Americas** is forecast to grow by a CAGR of 3.5% based on the structural shift, explained above, and EUR 20m revenues from the XTRA Lease order. The high growth segment for SAF is **APAC/China**. We expect a CAGR of 21.5% in the years 2018-2020. Our revenue forecast for the APAC/China region in 2019e considers an estimated contribution of EUR 15m related to an order for heavy-duty truck air suspension assigned to SAF's Chinese subsidiary Corpco as well as half of the incremental revenue potential resulting from the new regulation in China that we derive in our base case scenario (EUR 28.5m for the first year). In light of this, early achievement of SAF-Holland's 2020 revenue target of EUR 1,500m is within the realm of possibility. While SAF delivered on the "organic growth" target (**WRe**: 2020 sales excl. further M&A EUR1,367), a possible ~150m in revenue from M&A transactions remain.

Revenue and earnings projections

in EUR m	2015	2016	2017	2018e	2019e	2020e
Sales	**1060.7**	**1042.0**	**1138.9**	**1256.1**	**1321.4**	**1367.4**
in % yoy	-	*-1.8%*	*9.3%*	*10.3%*	*5.2%*	*3.5%*
thereof						
EMEA	540.0	568.8	611.8	655.3	658.3	661.9
in % yoy	-	*5.3%*	*7.6%*	*7.1%*	*0.5%*	*0.5%*
Americas	449.4	402.3	429.4	448.1	472.1	480.2
in % yoy	-	*-10.5%*	*6.7%*	*4.4%*	*5.3%*	*1.7%*
APAC/China	71.3	70.9	97.7	152.7	191.0	225.4
in % yoy	-	*-0.6%*	*37.8%*	*56.2%*	*25.1%*	*18.0%*
Cost of sales	-857.8	-835.5	-933.9	-1042.5	-1077.0	-1100.8
in % of sales	*-80.9%*	*-80.2%*	*-82.0%*	*-83.0%*	*-81.5%*	*-80.5%*
Gross Profit	**202.9**	**206.5**	**205.1**	**213.5**	**244.5**	**266.7**
Gross profit margin	*19.1%*	*19.8%*	*18.0%*	*17.0%*	*18.5%*	*19.5%*
EBITDA	**101.0**	**98.9**	**95.3**	**96.8**	**116.4**	**134.3**
EBITDA Margin	*9.5%*	*9.5%*	*8.4%*	*7.7%*	*8.8%*	*9.8%*
EBIT	**81.6**	**78.4**	**72.7**	**76.0**	**95.2**	**112.5**
EBIT Margin	*7.7%*	*7.5%*	*6.4%*	*6.1%*	*7.2%*	*8.2%*
Adjustment bridge						
D&A from Purchase Price Allocation	7.0	5.3	5.3	9.0	8.8	8.6
Restructuring, integration and other	5.4	6.6	13.2	5.0	2.0	2.0
Adjusted EBIT	**94.0**	**90.3**	**91.2**	**90.0**	**106.0**	**123.1**
Adjusted EBIT Margin	*8.9%*	*8.7%*	*8.0%*	*7.2%*	*8.0%*	*9.0%*
Net Income	**51.6**	**44.2**	**42.9**	**46.9**	**61.6**	**74.2**
Net Margin	*4.9%*	*4.2%*	*3.8%*	*3.7%*	*4.7%*	*5.4%*
EPS (in €)	1.14	0.98	0.95	1.03	1.36	1.64
Adjusted EPS (in €)	1.37	1.18	1.17	1.26	1.53	1.80

Source: SAF-Holland, Warburg Research

Earnings to recover in 2019 as US plant consolidation is concluded

While we highlighted the strong top-line prospects, we also see strong grounds for a return to rising margins. An improvement is anticipated in H2 18 for two main reasons. Firstly, higher steel prices are being passed on to customers in the second half of the year. Furthermore, we saw an increase in working capital per end of June which guarantees that SAF's inventory was not purchased at peak steel prices. However, since steel prices only started to rise in Q4/17, we are likely to see a burden in Q3/18 compared to Q3/17 (**WRe**: 1.5m). Secondly, the ongoing realignment of the US production network will be finished at the end of the year. Once the ongoing consolidation of SAF-Holland's US sites has concluded, we expect a marked increase in profitability and earnings in FY 2019 and beyond (see P&L projections above). Our projections are based on the following assumptions:

- **Lower restructuring costs:** One-off costs for restructuring activities in the US were stated at EUR 10m in FY 2017. With the release of preliminary H1 2018 results, SAF stated ~EUR 3.5m restructuring and transaction costs for H1. The surprising market recovery seen in the latest quarters coincided with the current restructuring measures. As a consequence, SAF faced capacity shortages and incurred additional costs of ~ EUR 6.2m for logistics and personnel in H1 2018. We expect additional cost overruns of ~EUR 1.5m for H2 2018, arising from production bottlenecks and restructuring.
- **Steel price burden:** During the first half of 2018 SAF faced a drastic increase in steel

prices which had a negative impact of EUR 8.3m. According to management commodity prices are now at a level where it would make sense to import even though 25% must be paid in tariffs. Since most contracts include a steel price adjustment clause, we expect the bulk of these effects to disappear in H2.

- **Ongoing cost savings of ~EUR 5m p.a.** SAF's plant consolidation reduced the number of production sites in North America from seven to five and relocated the production of important parts closer to customers to save costs, e.g. on logistics. This will result in estimated cost reductions of ~EUR 5m p.a.
- **Negative mix effects considered.** The lower-margin OE business grew faster than the higher-margin aftermarket business in H1. As this trend is expected to continue in the near future, we expect negative mix effects. We have modelled in margin headwinds of 25bps for 2019.

We are broadly in line with consensus

With our revenue projections, we are broadly in line with consensus for the years 2018e to 2020e. For 2018e we expect an adjusted EBIT margin of 7.2%, which meets SAF's guidance of 7-8%. For 2019 we are more cautious than consensus, expecting an adjusted EBIT margin of 8% vs. 8.6% to reflect expected ramp-up costs for the new production facility in China.

Warburg estimates vs. consensus

	2017		2018			2019			2020	
	Reported	WRe	Cons	Δ in %	WRe	Cons	Δ in %	WRe	Cons	Δ in %
Sales	**1138.9**	**1256.1**	**1248.6**	**0.6%**	**1321.4**	**1319.3**	**0.2%**	**1367.4**	**1369.0**	**-0.1%**
in % yoy	-	*10.3%*	*9.6%*	-	*5.2%*	*5.7%*	-	*3.5%*	*3.8%*	-
EBIT adjusted	**91.2**	**90.0**	**92.7**	**-2.9%**	**106.0**	**113.2**	**-6.4%**	**123.1**	**120.7**	**1.9%**
Adjusted EBIT Margin	*8.0%*	*7.2%*	*7.4%*	-	*8.0%*	*8.6%*	-	*9.0%*	*8.8%*	-
Net Income	42.9	46.9	50.6	-7.2%	61.6	64.9	-5.0%	74.2	72.5	2.3%
Net margin	*3.8%*	*3.7%*	*4.1%*	-	*4.7%*	*4.9%*	-	*5.4%*	*5.3%*	-
EPS	**0.95**	**1.03**	**1.05**	**-1.7%**	**1.36**	**1.36**	**0.3%**	**1.64**	**1.54**	**6.4%**

Source: FactSet, Warburg Research

Valuation

- Conservative DCF model assumptions indicate strong intrinsic value
- Free Cash Flow Value Potential indicates this year could be the ideal entry point since FCF is expected to surge in 2019
- JOST Werke, a major SAF peer, is trading at a discount. However, we also find significant value there.

Our valuation models send clear signals

We strongly believe SAF is undervalued and therefore stick to our Buy recommendation for the following reasons:

- **Comfortable margin of safety:** Our DCF model - which is our preferred valuation tool - indicates upside potential of ~40% reflecting the strong cash generating ability and a decent margin level through-the-cycle.
- **FCF Value Potential**: Our timing model also points to strong FCF generation, especially from 2019 onwards.
- **Peer comparison with Jost Werke**: SAF is trading at a small premium to Jost Werke which is also down more than 25% ytd.

DCF offers ~ 40% upside potential

As our primary valuation tool we use a DCF model and derive a target price of EUR 18 per share. The price target implies upside potential of ~40%.

Weak FCF in 2018 is expected to be temporary and mainly caused by the cash outflow for the Orlandi & York acquisitions. We expect SAF's EBITDA margin to increase from 7.7% in 2018 to 9.8% in 2020 before declining gradually over the transitional period to a more sustainable level of 7.8% in 2031. Note that this assumption seems rather conservative but it is reasonable, in our view, as it is the through-the-cycle EBITDA margin from 2009 to 2017, before the restructuring and efficiency activities were undertaken by SAF. The higher EBITDA margin during the forecast period reflects not only efficiency gains but also positive mix effects resulting from higher aftermarket business during the transitional phase. The same rationale applies to the decreasing EBIT margin. While we observed an average margin of only 4.6% over the cycle (dragged down by -7.1% in 2009), we consider SAF to be structurally better positioned than in the past and therefore project a terminal value EBIT margin of 5.8%.

In 2014, SAF-Holland issued a convertible bond with a nominal value of EUR 100.2m and a conversion price of EUR 11.9235 (last adjusted April 27, 2018), which given current share price levels of EUR ~13, makes conversion a likely scenario. If fully converted at the current conversion price, the share count would increase by c. 8.4m shares to 53.8m. As yet, we have no information as to whether and to what extent investors have opted for conversion. Thus, we assume complete conversion and account for potential dilution in our valuation and price target. We increase the share count accordingly and reduce financial liabilities by EUR 97.99m, which is the balance sheet value attributed to the convertible bond as of 31 December 2017.

DCF model

	Detailed forecast period			Transitional period										Term. Value
Figures in EUR m	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	
Sales	1,256	1,321	1,367	1,408	1,451	1,494	1,533	1,568	1,599	1,627	1,652	1,673	1,693	
Sales change	*10.3 %*	*5.2 %*	*3.5 %*	*3.0 %*	*3.0 %*	*3.0 %*	*2.6 %*	*2.3 %*	*2.0 %*	*1.7 %*	*1.5 %*	*1.3 %*	*1.1 %*	*1.0 %*
EBIT	74	93	110	110	110	110	110	110	109	107	106	104	102	
EBIT-margin	*5.9 %*	*7.0 %*	*8.0 %*	*7.8 %*	*7.6 %*	*7.4 %*	*7.2 %*	*7.0 %*	*6.8 %*	*6.6 %*	*6.4 %*	*6.2 %*	*6.0 %*	
Tax rate (EBT)	*28.0 %*	*28.0 %*	*28.0 %*	*28.0 %*	*28.0 %*	*28.0 %*	*28.0 %*	*28.0 %*	*28.0 %*	*28.0 %*	*28.0 %*	*28.0 %*	*28.0 %*	
NOPAT	53	67	79	79	79	80	79	79	78	77	76	75	73	
Depreciation	23	24	24	25	26	27	28	29	30	31	31	32	33	
in % of Sales	*1.8 %*	*1.8 %*	*1.8 %*	*1.8 %*	*1.8 %*	*1.8 %*	*1.8 %*	*1.9 %*	*1.9 %*	*1.9 %*	*1.9 %*	*1.9 %*	*1.9 %*	
Changes in provisions	0	0	0	0	0	0	0	0	0	0	0	0	0	
Change in Liquidity from														
- Working Capital	6	8	6	7	5	6	5	5	4	4	3	3	2	
- Capex	39	28	28	29	30	30	31	32	32	33	33	34	34	
Capex in % of Sales	*3.1 %*	*2.1 %*	*2.0 %*	*2.0 %*	*2.0 %*	*2.0 %*	*2.0 %*	*2.0 %*	*2.0 %*	*2.0 %*	*2.0 %*	*2.0 %*	*2.0 %*	
Other	50	0	0	0	0	0	0	0	0	0	0	0	0	
Free Cash Flow (WACC Model)	-19	54	70	68	71	71	71	72	72	72	71	71	70	69
PV of FCF	-19	50	60	55	53	50	47	44	41	38	36	33	30	498
share of PVs	8.96 %			42.06 %										48.98 %

Model parameter

Derivation of WACC:		Derivation of Beta:	
Debt ratio	24.63 %	Financial Strength	1.10
Cost of debt (after tax)	1.8 %	Liquidity (share)	1.20
Market return	7.00 %	Cyclicality	1.50
Risk free rate	1.50 %	Transparency	1.30
		Others	1.50
WACC	**7.05 %**	**Beta**	**1.32**

Valuation (m)

Present values 2030e	519		
Terminal Value	498		
Financial liabilities	345		
Pension liabilities	34		
Hybrid capital	0		
Minority interest	2		
Market val. of investments	16		
Liquidity	337	No. of shares (m)	53.8
Equity Value	**989**	**Value per share (EUR)**	**18.39**

Sensitivity Value per Share (EUR)

		Terminal Growth						
Beta	WACC	0.25 %	0.50 %	0.75 %	**1.00 %**	1.25 %	1.50 %	1.75 %
1.56	8.0 %	15.00	15.22	15.44	15.69	15.95	16.23	16.53
1.44	7.5 %	16.11	16.36	16.64	16.94	17.26	17.60	17.98
1.38	7.3 %	16.72	17.00	17.30	17.63	17.99	18.38	18.80
1.32	7.0 %	17.37	17.68	18.02	**18.39**	18.79	19.23	19.70
1.26	6.8 %	18.07	18.42	18.80	19.21	19.66	20.15	20.69
1.20	6.5 %	18.83	19.22	19.64	20.10	20.61	21.16	21.77
1.08	6.0 %	20.54	21.03	21.57	22.15	22.80	23.52	24.32

		Delta EBIT-margin						
Beta	WACC	-1.5 pp	-1.0 pp	-0.5 pp	**+0.0 pp**	+0.5 pp	+1.0 pp	+1.5 pp
1.56	8.0 %	11.30	12.76	14.23	15.69	17.15	18.61	20.07
1.44	7.5 %	12.22	13.80	15.37	16.94	18.51	20.08	21.65
1.38	7.3 %	12.74	14.37	16.00	17.63	19.27	20.90	22.53
1.32	7.0 %	13.30	14.99	16.69	**18.39**	20.09	21.79	23.48
1.26	6.8 %	13.90	15.67	17.44	19.21	20.98	22.75	24.52
1.20	6.5 %	14.56	16.41	18.25	20.10	21.95	23.80	25.65
1.08	6.0 %	16.07	18.09	20.12	22.15	24.18	26.21	28.24

- Beta of 1.32 reflects the company's high exposure to the cyclical truck and transport industry
- Investments in associates and joint ventures are considered at their book values
- Share count used in our model differs from actual share count as we have assumed complete conversion of convertible bond
- To reflect conversion of the convertible bond we have reduced financial liabilities by its balance sheet value
- The line item Other reflects the net cash outflow from V. Orlandi S.p.A. and York Equipment

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	2014	2015	2016	2017	2018e	2019e	2020e
Net Income before minorities	33	52	43	41	47	62	74
+ Depreciation + Amortisation	20	22	23	25	23	24	24
- Net Interest Income	-8	-4	-13	-17	-11	-10	-9
- Maintenance Capex	16	18	7	17	25	18	18
+ Other	-1	-2	-1	-2	-2	-2	-2
= Free Cash Flow Potential	**43**	**58**	**71**	**64**	**54**	**75**	**88**
FCF Potential Yield (on market EV)	7.5 %	8.6 %	13.0 %	8.4 %	8.2 %	11.8 %	14.7 %
WACC	7.05 %	7.05 %	7.05 %	7.05 %	7.05 %	7.05 %	7.05 %
= Enterprise Value (EV)	**576**	**677**	**546**	**755**	**665**	**638**	**600**
= Fair Enterprise Value	**611**	**821**	**1,009**	**905**	**772**	**1,066**	**1,251**
- Net Debt (Cash)	106	106	106	106	148	121	83
- Pension Liabilities	34	34	34	34	34	34	34
- Other	-98	-98	-98	-98	-98	-98	-98
- Market value of minorities	2	2	2	2	2	2	3
+ Market value of investments	16	16	16	16	16	16	16
= Fair Market Capitalisation	**583**	**794**	**982**	**877**	**701**	**1,023**	**1,246**
Aktienanzahl (Mio.)	45	45	45	45	45	45	45
= Fair value per share (EUR)	**12.86**	**17.50**	**21.64**	**19.34**	**15.45**	**22.53**	**27.44**
premium (-) / discount (+) in %					21.1 %	76.7 %	115.2 %

Sensitivity Fair value per Share (EUR)

		2014	2015	2016	2017	2018e	2019e	2020e
	10.05 %	7.45	10.19	12.64	11.28	8.75	13.10	16.21
	9.05 %	8.33	11.38	14.10	12.59	9.86	14.63	18.01
	8.05 %	9.43	12.86	15.91	14.21	11.25	16.55	20.26
WACC	**7.05 %**	**10.84**	**14.75**	**18.24**	**16.30**	**13.03**	**19.01**	**23.15**
	6.05 %	12.72	17.28	21.35	19.08	15.41	22.29	27.00
	5.05 %	15.34	20.80	25.68	22.97	18.72	26.87	32.37
	4.05 %	19.26	26.07	32.15	28.77	23.67	33.71	40.40

- Maintenance capex assumed to be 60% of capex for PP&E and 80% of capex for intangible assets (ex. goodwill)
- Others comprises the required adjustment for income from equity method investments
- Investments in associates and joint ventures are considered at their book values
- Share count used in our model differs from actual share count as we have assumed complete conversion of convertible bond
- To reflect conversion of the convertible bond we have reduced financial liabilities by its balance sheet value

SAF-Holland is trading at a premium to JOST Werke

We also benchmark SAF-Holland against its closest peer JOST Werke (Buy, EUR 47). While we see upside potential for JOST based on intrinsic valuation, the following points are important for valuation comparison:

- **In our calculations we rely on conensus estimates for JOST.** In our view, it adds more value to feed a comparable valuation model with consensus data to assess the rationale of market participants. However, we are broadly in line with consensus estimates for EBIT adjusted.
- **JOST's balance sheet now appropriately reflects its capital structure:** JOST worked heavily on its financial restructuring in the last several years (for details see "*Hidden champion trading at bargain price; Initiation with Buy*" published August 15, 2017). For an appropriate reflection of Jost's debt in our calculation we also consider the refinancing completed in June 2018.
- **EV/Sales multiples reflect structural margin differences:** Despite JOST's smaller size (in terms of revenue, SAF is more than 60% larger than JOST), the underlying profitability of JOST is higher than that of SAF, which is largely explained by SAF's higher exposure to the generally less profitable trailer business (SAF: ~70-80% of group revenues vs. ~55% in the case of JOST).
- **EV/EBIT adjusted mutiples provide a more suitable comparison:** Based on EV/adj. EBIT multiples, SAF-Holland trades at a premium of ~15% to JOST, even factoring in the potential dilution resulting from the conversion of the convertible bond. The most realistic scenario is probably somewhere in the middle since we have assumed complete conversion, which is the highest possible level of dilution. We argue that SAF earns a premium for the time being because, in the next few years, we expect it to better capitalise on its axle business, outperforming the market in North America and Asia.

SAF-Holland & JOST Werke both down more than 25% YTD

In general, we see the positions of SAF-Holland and JOST as similarly strong in a highly consolidated industry and therefore believe they should trade at comparable EV/adj. EBIT multiples. Both stocks are down this year by more than 25%. One of the main reasons for the sluggish share price development at SAF could be the profit warning and investors' fear of margin contraction as a result of higher steel prices. However we think SAF & Jost have put their toughest quarters behind them and investor confidence in the stocks should revert with the publication of Q3 figures in November at the latest.

Target multiple is in line with SAF's historical market valuation

On a one-year time horizon, our price target of EUR 18 implies a one-year forward target EV/adj. EBIT (based on 2019e adj. EBIT) multiple of 9.7x for the SAF share. This is in line with the historical five-year average one-year forward EV/EBIT multiple of SAF of 9.6x.

SAF-Holland vs. closest peer JOST Werke

	Price	MC	Sales			EBITDA			EBIT adjusted			EPS adjusted		
			2018e	2019e	2020e	2018e	2019e	2020e	2018e	2019e	2020e	2018e	2019e	2020e
JOST Werke	30.95	461.2	740.6	765.1	784.0	95.9	100.1	103.3	81.4	85.4	89.3	3.92	3.91	4.15
SAF-Holland	12.75	578.8	1256.1	1321.4	1367.4	96.8	116.4	134.3	90.0	106.0	123.1	1.26	1.53	1.80

	EV/Sales			EV/EBITDA			EV/EBIT adjusted			P/E adjusted		
	2018e	2019e	2020e	2018e	2019e	2020e	2018e	2019e	2020e	2018e	2019e	2020e
JOST Werke	0.8x	0.7x	0.6x	6.2x	5.5x	4.9x	7.3x	6.4x	5.6x	7.9x	7.9x	7.5x
SAF-Holland	0.6x	0.6x	0.5x	7.9x	6.3x	5.2x	8.5x	6.9x	5.7x	10.1x	9.9x	8.4x
Fair value per SAF share based on JOST multiples	18.09	17.48	16.69	9.11	10.63	11.77	10.37	11.59	12.64	9.91	12.11	13.46
Fair value per SAF share based on JOST multiples*	17.07	16.55	15.89	9.50	10.78	11.74	10.56	11.59	12.48	8.36	10.21	11.35
Implied upside	41.9%	37.1%	30.9%	-28.5%	-16.6%	-7.7%	-18.7%	-9.1%	-0.8%	-22.3%	-5.0%	5.6%
Implied upside*	33.9%	29.8%	24.6%	-25.5%	-15.4%	-7.9%	-17.2%	-9.1%	-2.1%	-34.4%	-19.9%	-11.0%

Derivation of Enterprise Value

JOST	**2018e**	**2019e**	**2020e**
Market capitalisation	461.2	461.2	461.2
Net debt (cash)	70.1	27.4	-19.9
Pensions	61.6	61.6	61.6
Minorities	0.0	0.0	0.0
Enterprise value	592.8	550.1	502.8

SAF-Holland	**2018e**	**2019e**	**2020e**
Market capitalisation	578.8	578.8	578.8
Net debt (cash)	148.5	120.8	83.3
Net debt (cash)*	50.7	23.0	-14.5
Pensions	34.1	34.1	34.1
Minorities	2.4	2.5	2.6
Enterprise value	763.7	736.1	698.7
Enterprise value*	666.0	638.4	601.0

SAF-Holland share count:	
Current:	45
Assuming complete conversion of convertible:	54

Note: For comparison reasons we provide valuation indications based on actual share count (45 million) as well as for the case that the convertible bond will be completely converted with a correspondingly higher share count of 54 million shares.

Unmarked value indications are based on current share count and capital structure. Value indications marked with (*) are based on an assumed share count of 53.8m. To reflect the conversion we reduce net liabilities in this case by EUR 97.99m, which is the balance sheet value attributable to the convertible bond as of December 31 2017.

Target price 18.00 €

Target multiples	**Assuming no conversion**			**Assuming full conversion**		
	2018e	**2019e**	**2020e**	**2018e**	**2019e**	**2020e**
EV/Sales	0.8x	0.7x	0.7x	0.8x	0.8x	0.7x
EV/EBITDA	10.4x	8.4x	7.0x	10.9x	8.8x	7.4x
EV/adj. EBIT	11.1x	9.2x	7.6x	11.7x	9.7x	8.0x
P/E adj.	14.3x	11.8x	10.0x	17.0x	14.0x	11.8x

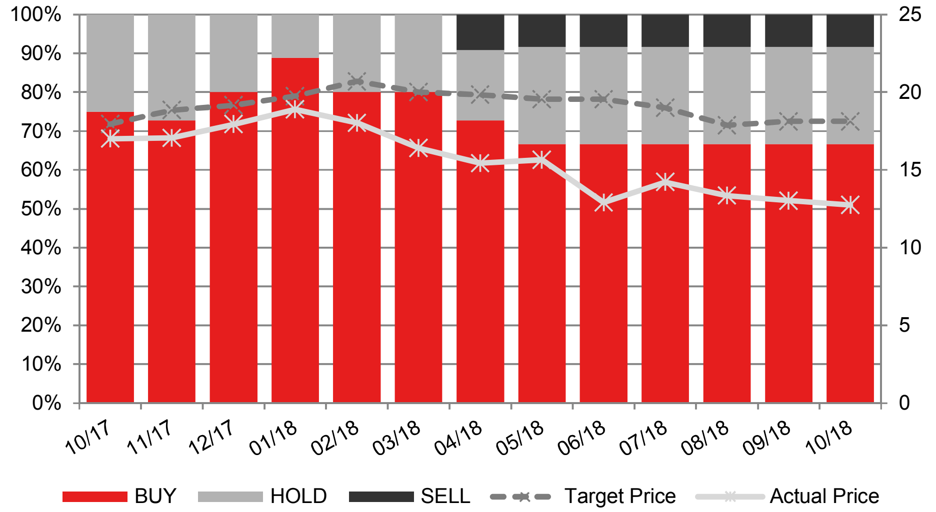
Source: JOST Werke, SAF-Holland, FactSet, Warburg Research

Spread between actual share price and analysts' target is widening

There is a relatively large gap between the average target price of analysts and SAF's actual share price. This is explained by the weak share price development ytd (~-30%) most likely triggered by the adjustment of the 2018 outlook in mid-June and a general caution towards the sector.

Our target price of EUR 18 per share is well above the current price, offering decent upside potential of ~40%.

Targets & ratings

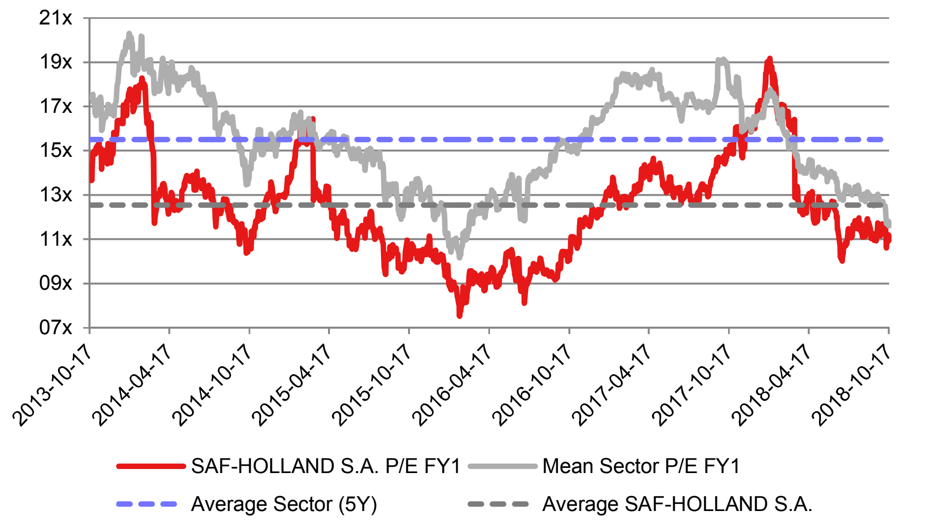


Source: FactSet

SAF share and sector popularity is down

Based on one-year-forward price to earnings ratio, SAF historically (five-year average) traded at 12.5x earnings. The five-year average mean sector PER (SAF, Jost Werke, Brembo, Haldex, Meritor and Wabco) was 15.5x. At the moment, SAF (10.9x) and the the sector mean 11.6x show a discount to historical numbers. In our view, given the excellent fundamental conditions described in this report, such a discount is by no means justified.

SAF vs. sector mean



Source: FactSet

Valuation

	2014	2015	2016	2017	2018e	2019e	2020e
Price / Book	2.0 x	2.1 x	1.7 x	2.4 x	1.8 x	1.6 x	1.4 x
Book value per share ex intangibles	1.19	1.93	2.09	2.30	2.14	3.09	4.18
EV / Sales	0.6 x	0.6 x	0.5 x	0.7 x	0.5 x	0.5 x	0.4 x
EV / EBITDA	7.7 x	6.7 x	5.5 x	7.9 x	6.9 x	5.5 x	4.5 x
EV / EBIT	10.5 x	8.5 x	7.2 x	10.7 x	9.0 x	6.9 x	5.5 x
EV / EBIT adj.*	8.2 x	7.2 x	6.0 x	8.3 x	7.4 x	6.0 x	4.9 x
P / FCF	345.5 x	22.7 x	8.9 x	43.6 x	24.8 x	14.3 x	10.6 x
P / E	15.2 x	11.8 x	11.4 x	16.5 x	12.4 x	9.4 x	7.8 x
P / E adj.*	11.4 x	9.8 x	9.4 x	13.4 x	10.1 x	8.3 x	7.1 x
Dividend Yield	2.9 %	3.0 %	4.0 %	2.9 %	3.5 %	4.7 %	5.9 %
FCF Potential Yield (on market EV)	7.5 %	8.6 %	13.0 %	8.4 %	8.2 %	11.8 %	14.7 %

*Adjustments made for: -

Consolidated profit and loss

In EUR m	2014	2015	2016	2017	2018e	2019e	2020e
Sales	**960**	**1,061**	**1,042**	**1,139**	**1,256**	**1,321**	**1,367**
Change Sales yoy	12.0 %	10.5 %	-1.8 %	9.3 %	10.3 %	5.2 %	3.5 %
COGS	785	858	835	934	1,043	1,077	1,101
Gross profit	**175**	**203**	**206**	**205**	**214**	**244**	**267**
Gross margin	*18.2 %*	*19.1 %*	*19.8 %*	*18.0 %*	*17.0 %*	*18.5 %*	*19.5 %*
Research and development	20	21	20	20	21	26	27
Sales and marketing	58	61	61	62	63	69	71
Administration expenses	45	45	51	54	58	60	62
Other operating expenses	0	0	0	0	0	0	0
Other operating income	2	3	1	2	2	3	3
Unfrequent items	0	0	0	0	0	0	0
EBITDA	**74**	**101**	**99**	**95**	**97**	**116**	**134**
Margin	*7.7 %*	*9.5 %*	*9.5 %*	*8.4 %*	*7.7 %*	*8.8 %*	*9.8 %*
Depreciation of fixed assets	12	14	15	16	15	15	16
EBITA	**62**	**87**	**84**	**79**	**82**	**101**	**118**
Amortisation of intangible assets	8	8	8	8	8	8	8
Goodwill amortisation	0	0	0	0	0	0	0
EBIT	**55**	**79**	**76**	**71**	**74**	**93**	**110**
Margin	*5.7 %*	*7.5 %*	*7.3 %*	*6.2 %*	*5.9 %*	*7.0 %*	*8.0 %*
EBIT adj.	**71**	**94**	**90**	**91**	**90**	**106**	**123**
Interest income	0	0	1	0	1	1	1
Interest expenses	10	9	12	14	10	9	9
Other financial income (loss)	2	2	2	2	3	3	3
EBT	**49**	**78**	**65**	**56**	**65**	**86**	**103**
Margin	*5.1 %*	*7.3 %*	*6.2 %*	*4.9 %*	*5.2 %*	*6.5 %*	*7.5 %*
Total taxes	-16	-26	-21	-15	-18	-24	-29
Net income from continuing operations	**33**	**52**	**43**	**41**	**47**	**62**	**74**
Income from discontinued operations (net of tax)	0	0	0	0	0	0	0
Net income before minorities	**33**	**52**	**43**	**41**	**47**	**62**	**74**
Minority interest	0	0	-1	-2	0	0	0
Net income	**33**	**52**	**44**	**43**	**47**	**62**	**74**
Margin	*3.4 %*	*4.9 %*	*4.2 %*	*3.8 %*	*3.7 %*	*4.7 %*	*5.4 %*
Number of shares, average	45	45	45	45	45	45	45
EPS	**0.72**	**1.14**	**0.98**	**0.95**	**1.03**	**1.36**	**1.64**
EPS adj.	0.96	1.37	1.18	1.17	1.26	1.53	1.80

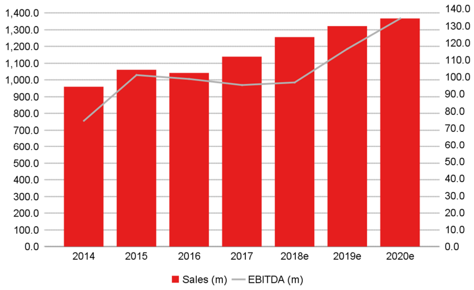
*Adjustments made for:

Guidance: Organic sales growth of 5-7%; Adjusted EBIT margin of 7-8%

Financial Ratios

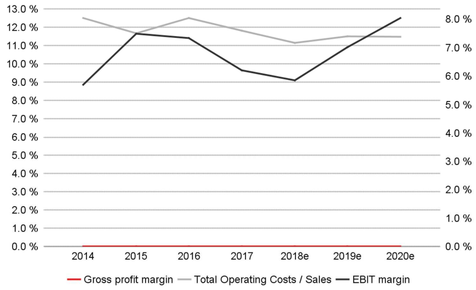
	2014	2015	2016	2017	2018e	2019e	2020e
Total Operating Costs / Sales	12.5 %	11.7 %	12.5 %	11.8 %	11.1 %	11.5 %	11.5 %
Operating Leverage	0.9 x	4.3 x	2.1 x	-0.8 x	0.4 x	5.0 x	5.4 x
EBITDA / Interest expenses	7.8 x	11.2 x	8.0 x	6.9 x	9.5 x	13.0 x	15.3 x
Tax rate (EBT)	33.3 %	33.4 %	33.1 %	27.1 %	28.0 %	28.0 %	28.0 %
Dividend Payout Ratio	44.4 %	35.1 %	45.9 %	49.8 %	43.5 %	44.2 %	45.9 %
Sales per Employee	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sales, EBITDA
in EUR m



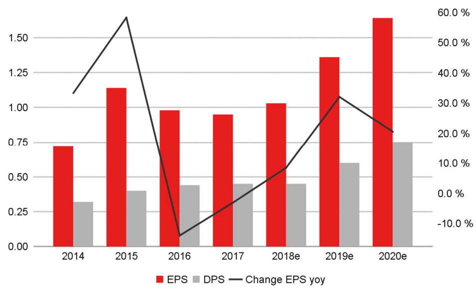
Source: Warburg Research

Operating Performance
in %



Source: Warburg Research

Performance per Share



Source: Warburg Research

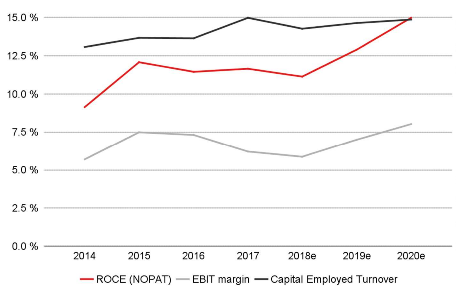
Consolidated balance sheet

In EUR m	2014	2015	2016	2017	2018e	2019e	2020e
Assets							
Goodwill and other intangible assets	193	198	206	194	228	226	224
thereof other intangible assets	142	145	150	140	159	157	155
thereof Goodwill	0	0	0	0	0	0	0
Property, plant and equipment	117	128	144	138	170	176	182
Financial assets	0	1	1	1	1	1	1
Other long-term assets	12	14	15	16	18	19	20
Fixed assets	**322**	**342**	**367**	**349**	**417**	**422**	**427**
Inventories	122	118	131	134	148	156	161
Accounts receivable	103	117	117	136	141	148	153
Liquid assets	44	261	345	337	218	241	273
Other short-term assets	12	13	16	14	14	14	14
Current assets	**281**	**508**	**608**	**620**	**520**	**558**	**601**
Total Assets	**645**	**889**	**1,015**	**998**	**965**	**1,009**	**1,057**
Liabilities and shareholders' equity							
Subscribed capital	0	0	0	0	0	0	0
Capital reserve	269	269	269	270	270	270	270
Retained earnings	-1	36	45	68	95	136	183
Other equity components	-22	-20	-20	-39	-39	-39	-39
Shareholders' equity	247	286	300	299	325	367	414
Minority interest	2	2	5	2	2	2	2
Total equity	**249**	**288**	**306**	**301**	**328**	**369**	**416**
Provisions	59	53	61	61	61	61	61
thereof provisions for pensions and similar obligations	37	37	38	34	34	34	34
Financial liabilities (total)	184	385	443	443	366	361	356
thereof short-term financial liabilities	4	4	6	81	5	5	5
Accounts payable	94	90	107	114	127	134	139
Other liabilities	60	72	98	80	84	84	86
Liabilities	**397**	**601**	**709**	**697**	**638**	**640**	**641**
Total liabilities and shareholders' equity	**645**	**889**	**1,015**	**998**	**965**	**1,009**	**1,057**

Financial Ratios

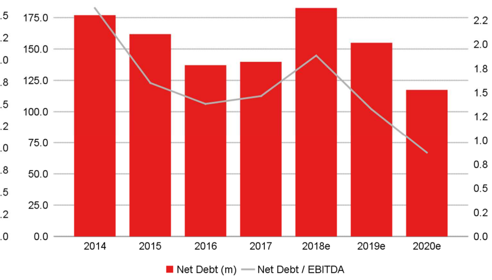
	2014	2015	2016	2017	2018e	2019e	2020e
Efficiency of Capital Employment							
Operating Assets Turnover	3.9 x	3.9 x	3.7 x	3.9 x	3.8 x	3.8 x	3.8 x
Capital Employed Turnover	2.3 x	2.4 x	2.4 x	2.6 x	2.5 x	2.5 x	2.6 x
ROA	10.2 %	15.1 %	12.1 %	12.3 %	11.3 %	14.6 %	17.4 %
Return on Capital							
ROCE (NOPAT)	9.1 %	12.1 %	11.4 %	11.7 %	11.1 %	12.9 %	15.0 %
ROE	13.9 %	19.4 %	15.1 %	14.3 %	15.0 %	17.8 %	19.0 %
Adj. ROE	0.0 %	0.0 %	0.0 %	0.0 %	18.3 %	20.1 %	21.0 %
Balance sheet quality							
Net Debt	177	162	137	140	183	155	117
Net Financial Debt	139	124	99	106	148	121	83
Net Gearing	71.1 %	56.2 %	44.9 %	46.4 %	55.8 %	42.0 %	28.2 %
Net Fin. Debt / EBITDA	187.4 %	123.1 %	99.8 %	110.8 %	153.4 %	103.7 %	62.0 %
Book Value / Share	5.4	6.3	6.6	6.6	7.2	8.1	9.1
Book value per share ex intangibles	1.2	1.9	2.1	2.3	2.1	3.1	4.2

ROCE Development



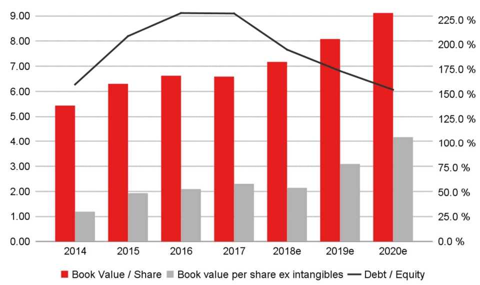
Source: Warburg Research

Net debt
in EUR m



Source: Warburg Research

Book Value per Share
in EUR



Source: Warburg Research

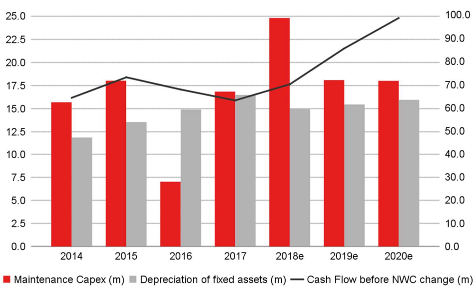
Consolidated cash flow statement

In EUR m	2014	2015	2016	2017	2018e	2019e	2020e
Net income	33	52	44	43	47	62	74
Depreciation of fixed assets	12	14	15	16	15	15	16
Amortisation of goodwill	0	0	0	0	0	0	0
Amortisation of intangible assets	8	8	8	8	8	8	8
Increase/decrease in long-term provisions	12	0	1	-4	0	0	0
Other non-cash income and expenses	0	0	0	0	0	0	0
Cash Flow before NWC change	**64**	**73**	**68**	**63**	**70**	**85**	**99**
Increase / decrease in inventory	-22	4	-13	-14	-14	-8	-5
Increase / decrease in accounts receivable	-27	-14	0	-27	-5	-7	-5
Increase / decrease in accounts payable	15	-4	17	14	13	7	5
Increase / decrease in other working capital positions	-5	-4	10	7	3	-1	0
Increase / decrease in working capital (total)	-38	-18	14	-20	-4	-9	-6
Net cash provided by operating activities [1]	**26**	**55**	**81**	**43**	**67**	**76**	**93**
Investments in intangible assets	-4	-6	-6	-5	-7	-6	-6
Investments in property, plant and equipment	-21	-22	-19	-22	-32	-22	-22
Payments for acquisitions	-5	0	-8	0	-50	0	0
Financial investments	0	-115	121	-58	0	0	0
Income from asset disposals	1	4	1	0	0	0	0
Net cash provided by investing activities [2]	**-30**	**-139**	**89**	**-85**	**-89**	**-28**	**-28**
Change in financial liabilities	34	202	76	1	-76	-5	-5
Dividends paid	0	-15	-18	-20	-20	-20	-27
Purchase of own shares	-12	0	0	0	0	0	0
Capital measures	0	0	0	0	0	0	0
Other	1	-3	-31	-1	0	0	0
Net cash provided by financing activities [3]	**23**	**185**	**27**	**-20**	**-97**	**-25**	**-32**
Change in liquid funds [1]+[2]+[3]	**19**	**100**	**198**	**-61**	**-119**	**23**	**32**
Effects of exchange-rate changes on cash	1	1	1	-5	0	0	0
Cash and cash equivalent at end of period	**44**	**146**	**345**	**279**	**218**	**241**	**273**

Financial Ratios

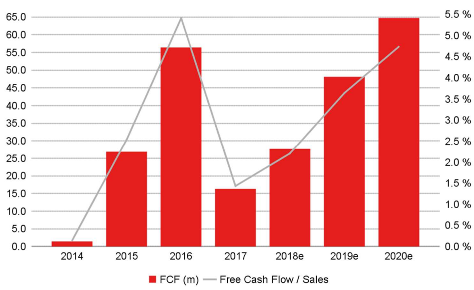
	2014	2015	2016	2017	2018e	2019e	2020e
Cash Flow							
FCF	1	27	56	16	28	48	65
Free Cash Flow / Sales	0.1 %	2.5 %	5.4 %	1.4 %	2.2 %	3.6 %	4.7 %
Free Cash Flow Potential	43	58	71	64	54	75	88
Free Cash Flow / Net Profit	4.4 %	52.0 %	127.5 %	38.0 %	58.9 %	78.1 %	87.2 %
Interest Received / Avg. Cash	0.4 %	0.1 %	0.2 %	0.1 %	0.3 %	0.3 %	0.3 %
Interest Paid / Avg. Debt	5.7 %	3.2 %	3.0 %	3.1 %	2.5 %	2.5 %	2.5 %
Management of Funds							
Investment ratio	2.6 %	2.6 %	2.4 %	2.4 %	3.1 %	2.1 %	2.0 %
Maint. Capex / Sales	1.6 %	1.7 %	0.7 %	1.5 %	2.0 %	1.4 %	1.3 %
Capex / Dep	125.8 %	129.1 %	110.6 %	110.1 %	168.0 %	117.5 %	114.6 %
Avg. Working Capital / Sales	11.9 %	13.0 %	13.7 %	13.0 %	12.6 %	12.5 %	12.6 %
Trade Debtors / Trade Creditors	109.1 %	129.6 %	109.3 %	118.8 %	110.5 %	110.5 %	110.5 %
Inventory Turnover	6.4 x	7.3 x	6.4 x	7.0 x	7.0 x	6.9 x	6.8 x
Receivables collection period (days)	39	40	41	43	41	41	41
Payables payment period (days)	44	38	47	45	45	45	46
Cash conversion cycle (Days)	19	17	17	14	13	13	13

CAPEX and Cash Flow
in EUR m



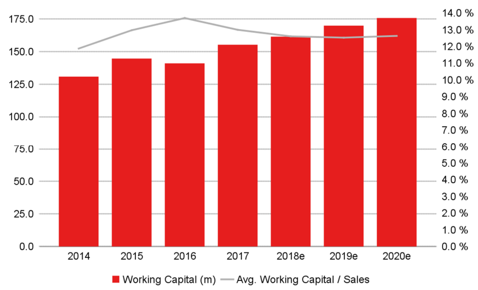
Source: Warburg Research

Free Cash Flow Generation



Source: Warburg Research

Working Capital



Source: Warburg Research

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“-“	**Rating suspended:**	The available information currently does not permit an evaluation of the company.

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Rating	Number of stocks	% of Universe
Buy	119	57
Hold	85	41
Sell	3	1
Rating suspended	0	0
Total	**207**	**100**

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	33	67
Hold	16	33
Sell	0	0
Rating suspended	0	0
Total	**49**	**100**

PRICE AND RATING HISTORY SAF-HOLLAND AS OF 18.10.2018

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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