

January 23rd, 2018

Europe | Germany | Automotive

DR. KALLIWODA
RESEARCH GmbH

Update

BUY

Target price: EUR 89

Industry: Automotive
 Country: Germany
 ISIN: DE 000 7100000
 Bloomberg: DAI:GR
 Reuters: DAIGn.DE
 Website: www.daimler.com

Last Price: 75.54
 High Low
 Price 52 W 75.62 59.01
 Market Cap. (EURbn) 80.83
 No. of Shares (in m) 1070.00
 Avg. Daily Volume (in m) 4.40

Shareholders

Kuwait 6.80%
 Renault/Nissan* 3.10%
 Institutional Investors 72.40%
 Private Investors 17.70%
 *: each with 1.54%

Performance

4 Weeks 5.80%
 26 Weeks 23.30%
 52 Weeks 7.50%

Dividend

	in EUR	in %
2011	2.20	5.78%
2012	2.20	5.82%
2013	2.25	3.52%
2014	2.45	2.79%
2015	3.25	5.42%
2016	3.25	4.71%

Chart: 1 year



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Daimler AG

Solid growth with focus on innovation

- Daimler's outlook for the rest of 2017 continues to be strong and we anticipate strong sales growth and a higher EBIT compared to the previous year. The Group's solid line up of products and almost 10 new models of Mercedes Benz Cars ready for a rollout in 2018 are main drivers its growth next year. China continues to be a strong area for the Group where the share of locally developed vehicles is raising gradually.
- Favorable development of world economy contributed to good results of Daimler Group in Q3/2017 and achieved best-ever figures for unit sales, revenue and EBIT.
- Overall, in the Q3/2017, Daimler reported strong sales in Q3 2017 but profitability was lower than anticipated, due to one-time items affecting the EBIT of its Mercedes Benz division. Daimler Group sold 824,100 cars and commercial vehicles globally, exceeding the total for the previous year period by 9%. The Daimler Group's third-quarter revenue reached €40.8bn, which is 6% more than in the same period of 2016. The Daimler Group's Q3/2017 EBIT amounted to €3,458m and was considerably beneath the prior-year figure of €4,037m. Net profit reached €2,268m (Q3/2016: €2,726m).
- Daimler is carrying on to follow a three-lane drive system strategy including electric vehicles, hybrid models and combustion engines. The Group is utilizing a holistic strategy to electrification under the new EQ technology and product brand. Furthermore, there will be a complete ecosystem that contains the required charging infrastructure.
- Given a significant upside to the Groups's current share market price, we stick to our Buy LT fundamental recommendation and an Overweight market-relative bias vs. the Groups's shares. Strong 9M/2017 financials, positive momentum in German economic indicators and opportunity in SE Asia and Japan – should constitute a positive trigger and help the Groups to close the significant valuation gap. Based on our 12M EFV of €89 per share we hold our LT fundamental Buy recommendation for the stock.

EURbn	2013	2014	2015	2016	2017E	2018E	2019E
Net sales	117.98	129.87	149.47	153.26	167.05	172.90	177.22
EBITDA	15.18	15.74	18.57	18.38	20.15	20.48	20.58
EBIT	10.81	10.74	13.19	12.90	14.80	15.28	15.62
Net income	6.84	6.96	8.41	8.41	9.78	10.12	10.35
EPS	6.40	6.51	7.86	7.86	9.15	9.46	9.67
BVPS	39.90	40.82	51.06	54.17	60.51	65.30	70.29
RoE	16.98%	16.13%	17.11%	14.95%	15.95%	15.04%	14.27%
EBIT margin	9.16%	8.27%	8.82%	8.82%	8.87%	8.92%	8.97%
P/E	11.81	11.61	9.61	9.61	8.26	7.99	7.81
P/BVPS	1.89	1.85	1.48	1.39	1.25	1.16	1.07
EV/EBITDA	9.39	9.06	7.68	7.76	7.08	6.96	6.93

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1 Company profile

Overview

Daimler AG is a German-based automotive company. Headquartered in Stuttgart/Germany, Daimler develops, manufactures, distributes and sells a wide range of automotive products, mainly passenger cars, trucks, vans, and buses. It also provides financial and other services relating to its automotive business. The Group is comprised of five divisions: Mercedes-Benz Cars, Daimler Trucks, Mercedes-Benz Vans, Daimler Buses, and Daimler Financial Services, operates in nearly all the countries of the world and has production facilities in Europe, North and South America, Asia, and Africa. Its current brand portfolio includes, in addition to the world's most valuable premium automotive brand, Mercedes-Benz, as well as Mercedes-AMG and Mercedes-Maybach, the brands smart, Freightliner, Western Star, BharatBenz, Fuso, Setra and Thomas Built Buses, and Daimler Financial Services' brands: Mercedes-Benz Bank, Mercedes-Benz Financial, Daimler Truck Financial, moovel and car2go. The Group is listed on the stock exchanges in Frankfurt and Stuttgart (stock exchange symbol DAI).

Daimler Group structure 2016

	Mercedes-Benz Cars	Daimler Trucks	Mercedes-Benz Vans	Daimler Buses	Daimler Financial Services
Revenue	€89.3 billion	€33.2 billion	€12.8 billion	€4.2 billion	€20.7 billion
Employees	139,947	78,642	24,029	17,899	12,062
Brands	  MAYBACH  Mercedes me 	     	 	  	Mercedes-Benz Bank Mercedes-Benz Financial Services    

Source: Daimler AG

Business Model

Daimler have tradition covering 130 years – a history that extends back to Gottlieb Daimler and Carl Benz, the creators of the automobile, and highlights pioneering accomplishments in automotive engineering. In these modern times, the Daimler Group is an internationally leading vehicle producer that provides an unparalleled range of premium automobiles, trucks, vans and buses. Daimler AG is one of the biggest producers of premium cars and the world's biggest manufacturer of commercial vehicles with global reach. Daimler offers its products in five segments: Mercedes-Benz Cars, Daimler Trucks, Mercedes-Benz Vans, Daimler Buses, and Daimler Financial Services.

With its strong brands and innovative products, Daimler operates in nearly all the countries of the world. The most important markets for Mercedes-Benz Cars in 2016 were China with 22% of unit sales, the United States (16%), Germany (14%) and the other European markets (30%). The Group has production facilities in a total of 19 countries and more than 8,500 sales centers worldwide.

In 2016, the Group sold almost 3 million vehicles and employed a workforce of 282,488 people. The Group's five divisions contributed to total sales of €153.3 billion in 2016 : Mercedes-Benz Cars 56%, Daimler Trucks 21%, Mercedes-Benz Vans 8%, Daimler Buses 3% and Daimler Financial Services 13%. EBIT amounted to €13.2 billion.

2 Strategy 2017

The Group constantly adapts its strategy to changing market. The new strategy focuses on digitalization, global growth and electromobility.



Source: www.daimler.com

Strengthening core business. In order to strengthen core business, Daimler puts emphasis on first-rate products, competitive cost-structures, flexible processes and a customer-oriented sales organization. With a comprehensive model offensive, Daimler will renew and extend the product range, with a vision to launch more than 30 new car models between 2012 and 2020. The new four areas of development are named CASE: connectivity (Connected), autonomous driving (Autonomous), flexible use (Shared & Services) and electric drive systems (Electric). All the fields are related to the new trend in automobile market and Daimler wants to be a game changer in the revolutionary vision of automobile industry.

Growing globally. Outside the core market in Europe, NAFTA, and Japan, Daimler targets expansion in Brazil, Russia, India, and China. Daimler aims to improve strong position in passenger-car and commercial-vehicle markets in Europe, North America and Japan, while also entirely taking advantage of growth potential in Asia and numerous emerging markets. The Asian region - and most importantly China - plays a central role especially for the Group's car business strategy.

Leading in technology: autonomous driving, electromobility and green. With a goal to make the future of mobility safe and sustainable, Daimler offers a portfolio ranges from optimized internal combustion engines to hybrid drives and locally emission-free driving

solutions. Daimler introduces a three-lane drive system strategy including electric vehicles, hybrid models and combustion engines. Additionally, Daimler AG focuses on extensive ecosystem that contains the necessary charging infrastructure. The Group considerably widened their actions in electric mobility. By 2025 Mercedes-Benz Cars plans to produce between 15 % to 25 % all-electric models.



Mercedes-Benz Concept EQ: zero-emission electric car. Source: www.daimler.com

Mercedes-Benz Cars will spend more than 10 billion EUR in the development of electric field and launch ten new electric vehicles on the market by 2025. The Concept EQ, the new generations of battery electric vehicles have a range of up to 500 kilometers. The first cars should be delivered by 2019. The other important Daimler's focus is autonomous driving and finally driverless cars. The plan assumes to introduce step-by-step enhanced version of autonomous vehicles, from basic, currently produced, with driver assistant to fully autonomous systems (driverless) that expect the vehicle's performance to equal that of a human driver.



Mercedes Benz, future autonomous car. Source: www.daimler.com

Mercedes-Benz pays attention to the optimization of modern, internal combustion engines in its road map to sustainable mobility. The Group produces clean and economical engines with example of new four-cylinder OM 654 diesel engine, which will be the first passenger car diesel engine, that uses the stepped-bowl combustion process.

Driving ahead with connectivity and mobility concepts. Digital technologies are changing products and services and impacting the entire value chain of Group in a manner that was previously unimaginable. This is creating new business opportunities for Daimler. The Group pay strong attention to changes in society related to digitalization. Daimler AG's activities consist of enhancing the *connectivity* of their products and services. These will be accomplished by developing customer-focused digital services and new business models and strengthening digital communication with clients, beginning with the preliminary contact and expanding throughout the whole relationship. The Group are further expanding their range of mobility services. These include various mobility concepts for private, business and public transport applications – for example, car sharing (car2go) and ride hailing (mytaxi) to mobility platforms (moovel). The number of customers globally using digital mobility services more than doubled. There are 15 million clients signed up to work with Daimler mobility services in more than 100 cities throughout Europe, North America and China. The Group will continue to promote “Mercedes me” a service/application that provides digital access to the world of Mercedes-Benz and keep people in touch with their vehicle, and connect their vehicle with everything that’s crucial in everyday life. Other vehicles: Busses, Vans and Trucks are also very important in terms of digitalization strategy, for example, Daimler Trucks is the leader, with approximately 400,000 connected vehicles worldwide.

Global battery production network.

Daimler has considerable know-how in terms of the development and production of highly complex drive batteries. The Group plans to invest over one billion euros in global battery production with two factories in Kamenz, Saxony and further sites in Stuttgart-Untertürkheim, Beijing (China) and Tuscaloosa (USA).

3 SWOT

Strengths

- # Business and geographic diversification
- # Strong balance sheet
- # Strong focus on research and development
- # Strong brand and innovative products
- # Strong performance of Mercedes Benz Car division
- # Leading manufacturers in Bus and Van divisions
- # A wide range of product models
- # Appropriate objectives and strategies in the changing automotive industry
- # car2go, mytaxi and moovel with 15.9 million customers (+116%)
- # Expansion of the mobility services business by investments in Turo, Via and flinc
- # Mercedes-Benz Cars has globally balanced sales structure
- # Daimler Trucks increased sales in Q3/2017 by 30% mainly driven by NAFTA region and Asia
- # Market Leader in Trucks

Opportunities

- # Shifts in customer demand in the automotive industry
- # Relatively low crude oil price
- # The emergence of new wealth in emerging markets creates new opportunities for luxury brands
- # Perspectives for growth in China (10% of total sales and growth at 10% annually)
- # New products range in Mercedes-Benz Vans
- # Launch of the FUSO eCanter – the world's first series-produced all-electric truck
- # Commitment to further investment of appr. €1.5 billion in e-mobility in China and the United States

Weaknesses

- # Diesel scandal; Trust in the German auto industry has been misplaced

Threats

- # New entrants; the megatrends across the sector are attracting new entrants
- # Mobility as a Service; growth of shared mobility may induce people to lose attention to quality of a shared car
- # Stricter regulation concerning average CO2 emissions for European manufacturers being imposed by the EU commission (95g Co2/km by 2020)
- # High risks for Daimler Trucks in Brazil and Turkey, as well as in NAFTA region
- # Increased investment costs; The emission-related risks above all entail significant upfront investment costs

Source: Dr. Kalliwoda Research GmbH

4 Valuation

We decided to employ peer group pricing and discounted cash flows (DCF) model to value the Group equity. We are convinced that these are appropriate to capture the Group's long-term growth opportunity as well as to reflect valuation. Intrinsic value of Daimler is calculated by assigning 80% of our valuation to DCF, and the rest 20% to peer group pricing. Our 12M EFV for the Group's equities equals € 8 per share.

Peer Group Analysis

Company	EV/Sales			EV/EBITDA			EV/EBIT			P/E			EBITDA mar		P/BVPS
	2015	2016	2017E	2015	2016	2017E	2015	2016	2017E	2015	2016	2017E	Latest	Latest	
BMW (EUR)	1.59x	1.55x	1.49x	10.28x	10.21x	9.82x	15.37x	15.70x	15.10x	9.91x	9.15x	8.80x	15.21%	1.23x	
Toyota (JPY)	1.23x	1.26x	1.21x	7.92x	9.68x	9.31x	12.44x	17.42x	16.75x	10.36x	12.69x	12.20x	13.04%	1.30x	
Nissan (JPY)	0.52x	0.54x	0.52x	3.97x	4.10x	3.95x	7.98x	8.53x	8.20x	9.30x	7.05x	6.78x	13.16%	0.81x	
Median	1.23x	1.26x	1.21x	7.92x	9.68x	9.31x	12.44x	15.70x	15.10x	9.91x	9.15x	8.80x	13.16%	1.23x	
Daimler (EUR)	1.23x	1.20x	1.10x	9.88x	9.99x	9.11x	13.92x	14.23x	12.40x	9.61x	9.61x	8.26x	11.99%	1.25x	
Premium/Discount	0.1%	-5.1%	-9.5%	24.8%	3.2%	-2.1%	11.9%	-9.4%	-17.8%	-3.0%	4.9%	-6.2%			
Fair value Daimler (EUR)	78.42														

Source: Dr. Kalliwoda Research GmbH

According to our peer group, Daimler currently trades at fair value of €78.42

Our peer group comprises of three listed automobile manufacturers:

- (1) Volkswagen AG:** Volkswagen AG is a Germany-based automobile manufacturer and a carmaker in Europe. The company develops vehicles and components, and produces and sells vehicles, in particular passenger cars and light commercial vehicles for the passenger cars and commercial vehicles brands. The activities of the Company's Automotive division consist of the development of vehicles and engines, the production and sale of passenger cars, light commercial vehicles, trucks, buses and motorcycles, as well as the genuine parts, large-bore diesel engines, turbomachinery, special gear units, propulsion components and testing systems businesses. Its Financial Services division combines dealer and customer financing, leasing, banking and insurance activities, fleet management and mobility offerings. The Company is a vertically integrated energy company performing electricity generation, sales and distribution together with a subsidiary.
- (2) Toyota Motor Corp.:** Toyota Motor, which in 2014 was the world's largest car manufacturer by revenue, is a Japanese producer of cars, busses and trucks. The company operates under the brands Toyota, Scion, Daihatsu (all mainly serve the mass car market), Hino (trucks and busses) and Lexus (premium cars). As of March 31, 2015, the Company had 545 subsidiaries. The multinational corporation consisted of 364,445 employees worldwide and had total revenues of \$ 27,597 bln for the fiscal year 2017/March.

- (3) **Nissan Motor Co. Ltd.:** Nissan Motor, which is based in Japan, has employed 142,925 people in 2014. Apart from cars and trucks, the company, in which Renault has held a stake of 43.5% since 1999, also produces forklifts and boats. Nissan Motor operates under the following brands: Nissan, which mainly sells cheaper vehicles for the mass market, and Infinity, which is the company's premium brand. Nissan is also involved in a strategic partnership with Daimler since 2010. In fiscal-year 2017, Nissan's net revenues amounted to \$ 11,720 bln.

Discounted Cash Flow

According to our DCF analysis, we calculate the share price of Daimler at €93.78. The DCF model is sensitive mostly to the following three factors:

- **Revenue:** We expect the Group's sales will enjoy growth at 2.7% per year during 2017-2022.
- **Terminal Growth Rate:** Revenues are anticipated to gradually converge to the long-term global growth of 2%.
- **WACC:** WACC is a weighted average of cost of equity and cost of debt. Our calculation points to a discount rate of 6.73%

WACC assumptions

Growth propositions

Long-term growth rate	2.0%
Assimilation phase (from 2015)	5 Jahre
Revenue growth at the beginning	8.5%
Margin development (p.a)	-1 BP

Equity

Long-term risk-free rate	2.8%
Market risk premium	5.7%
Company beta (from Thomson Reuters)	1.40
Equity costs	10.8%

Debt

Debt costs (before tax)	6.5%
Tax rate on debt interest	30.0%
Debt costs (after tax)	4.6%

Equity value

Equity value	35%
Debt value	65%
Gearing	185.7%
WACC	6.73%

in EURbn	2014	2015	2016	2017E	2018E	2019E	2020E	2021E	2022E
Total revenues	129.87	149.47	153.26	167.05	172.90	177.22	181.65	186.20	190.85
(y-o-y change)	10.1%	15.1%	2.5%	9.0%	3.5%	2.5%	2.5%	2.5%	2.5%
EBIT	10.74	13.19	12.90	14.80	15.28	15.62	15.90	16.31	17.01
(operating margin)	8.3%	8.8%	8.8%	8.9%	8.9%	9.0%	9.1%	9.1%	9.2%
NOPLAT	7.70	7.70	9.01	8.98	10.36	10.70	10.93	11.13	11.41
+ Depreciation & amortisation	5.00	5.38	5.48	5.35	5.19	4.97	4.73	4.47	4.20
= Net operating cash flow	12.70	14.39	14.46	15.71	15.89	15.90	15.85	15.89	16.11
- Total investments (Capex and WC)	-18.36	-21.93	-18.82	-4.27	-10.52	-10.84	-7.26	-7.77	-13.72
Capital expenditure	-5.06	-7.33	-9.58	-10.24	-9.11	-7.93	-6.00	-5.78	-11.54
Working capital	-13.30	-14.60	-9.24	5.97	-1.41	-2.90	-1.26	-1.99	-2.18
= Free cash flow (FCF)	-5.67	-7.54	-4.37	11.44	5.37	5.06	8.60	8.12	2.39
PV of FCF's	0.00	0.00	-4.09	10.04	4.41	3.90	6.21	10.99	4.54

PV of FCFs in explicit period	20.47
PV of FCFs in terminal period	135.28
Enterprise value (EV)	155.75
+ Net cash / - net debt	-60.41
+ Investments / - minorities	-1.32
Shareholder value	94.02
Diluted number of shares (bn)	1.07

WACC	6.7%
Cost of equity	10.8%
Pre-tax cost of debt	6.5%
Normal tax rate	30.0%
After-tax cost of debt	4.6%
Share of equity	35.0%
Share of debt	65.0%
Fair value per share in EUR (today)	87.87
Fair value per share in EUR (in 12 months)	93.78

WACC	Terminal EBIT margin						
	7.7%	8.2%	8.7%	9.2%	9.7%	10.2%	10.7%
5.2%	80.07	111.13	142.18	173.23	204.29	235.34	266.39
5.7%	60.92	87.18	113.44	139.70	165.96	192.21	218.47
6.2%	46.20	68.81	91.43	114.04	136.66	159.27	181.89
6.7%	34.51	54.27	74.02	93.78	113.53	133.29	153.04
7.2%	25.00	42.46	59.91	77.36	94.82	112.27	129.72
7.7%	17.10	32.67	48.23	63.79	79.36	94.92	110.49

We value Daimler Group based on a 70%/30% combination of DCF and peer-relative valuation approaches. **Our 12M EFV for the Group's equities equals €89 per share.**

5 Financials Q3 2017

Favorable development of world economy contributed to good results of Daimler Group in Q3/2017 and achieved best-ever figures for unit sales, revenue and EBIT.

In the Q3/2017, Daimler Group sold 824,100 cars and commercial vehicles globally, exceeding the total for the previous year period by 9%. The Daimler Group's third-quarter revenue reached €40.8bln, which is 6% more than in the same period of 2016. The Daimler Group's Q3/2017 EBIT amounted to €3,458m and was considerably beneath the prior-year figure of €4,037m. Net profit reached €2,268m (Q3/2016: €2,726m). The solid demand for SUVs positively affected EBIT in the Q3/2017. In contrast, the bottom line results were dragged mostly by expenses for a specific vehicle recall (€230million) and expenses for voluntary service activities in association with a comprehensive plan for diesel engines (€223 million). Moreover, advance expenses for R&D and prospect vehicles as well had negative an influence on EBIT.

in EURbn	Q3 2016	Q3 2017	% Change
Net sales	38.57	40.80	5.8%
EBITDA	5.40	4.86	-10.0%
<i>EBITDA margin</i>	<i>14.0%</i>	<i>11.9%</i>	
EBIT	4.04	3.46	-14.3%
<i>EBIT margin</i>	<i>10.5%</i>	<i>8.5%</i>	
Net income	2.72	2.27	-16.6%
<i>Net margin</i>	<i>7.1%</i>	<i>5.6%</i>	

Source: Dr. Kalliwoda Research GmbH, Group Data

Daimler Group achieved 5.6% of net margin in Q3/2017 which was lower than in Q3/2016 by 1.5%. However, the Daimler Trucks division's was the only one that achieved the increase (Q3/2017: 6.7% vs. Q3/2016: 5.9%).

Return on Sales	Q3 2016	Q3 2017
Mercedes-Benz Cars	11.8%	9.2%
Daimler Trucks	5.9%	6.7%
Mercedes-Benz Vans	10.0%	7.1%
Daimler Buses	4.8%	2.6%
Total ROS	7.1%	5.6%

Source: Dr. Kalliwoda Research GmbH, Group Data

All automotive divisions participated in to the successful quarterly unit sales, especially Mercedes-Benz Cars (Q3 2017: 597,300 units, +6%), and Daimler Trucks (126,600 units, +30%).

Mercedes-Benz and smart automobiles posted sales of 597,300. The Q3/2017 was the most successful quarter up to now in the history of Mercedes-Benz Cars (+6%). Demand in China counting Hong Kong improved by 21% providing in third-quarter sales of 153,300 units. Europe also contributed to great sales results with sales of 252,800 units (increase by +3%)

Daimler Trucks was the most successful division on terms of percentage changes and amplified also its unit sales in the third quarter by 30%, trading 126,600 vehicles. NAFTA and Asia contributed the most to the sales in this division, respectively 45,300 unit sales (Q3/2016: 31,400) and 40,000 units (Q3/2016: 28,100). Interestingly, the Group doubled sales in Indonesia with 4,900 trucks (Q3/2016: 2,400).

Mercedes-Benz Vans improved its unit sales by 9% to the new highest level of 93,100 vehicles in the Q3/2017. In the EU30 region, the van division realized growth of 2% to 59,000 units.

Daimler Buses increased unit sales by 17% to 7,200 vehicles. In the EU30 region, it was sold 1,900 buses of the Mercedes-Benz and Setra brands, resulting in an increase of 1% on year-on-year basis. The table below presents revenues and unit sales data.

in EURbn	Q3 2016	Q3 2017
Mercedes-Benz Vans	23.25	23.45
<i>(% of net sales)</i>	60.3%	57.5%
<i>Units sold (in k)</i>	565	597
Daimler Trucks	7.85	9.20
<i>(% of net sales)</i>	20.4%	22.5%
<i>Daimler Buses</i>	97	126
Mercedes-Benz Vans	3.10	3.10
<i>(% of net sales)</i>	8.0%	7.6%
<i>Price per unit (in k)</i>	85	93
Daimler Buses	1.00	1.00
<i>(% of net sales)</i>	2.6%	2.5%
<i>Units sold (in k)</i>	7	6
Daimler Financial Services	5.10	5.80
<i>(% of net sales)</i>	13.2%	14.2%
Total net sales	38.57	40.80

Source: Dr. Kalliwoda Research GmbH, Group Data

In Q3/2017, cash generated by operating activities reached €3.8 billion and was over the level of the previous year period (Q1-3/2016: €3.4bln). Overall, in the 9M/2017, the free cash flow of the industrial business levelled at €5.8 billion(Q1-3/2016: €2.6bln).

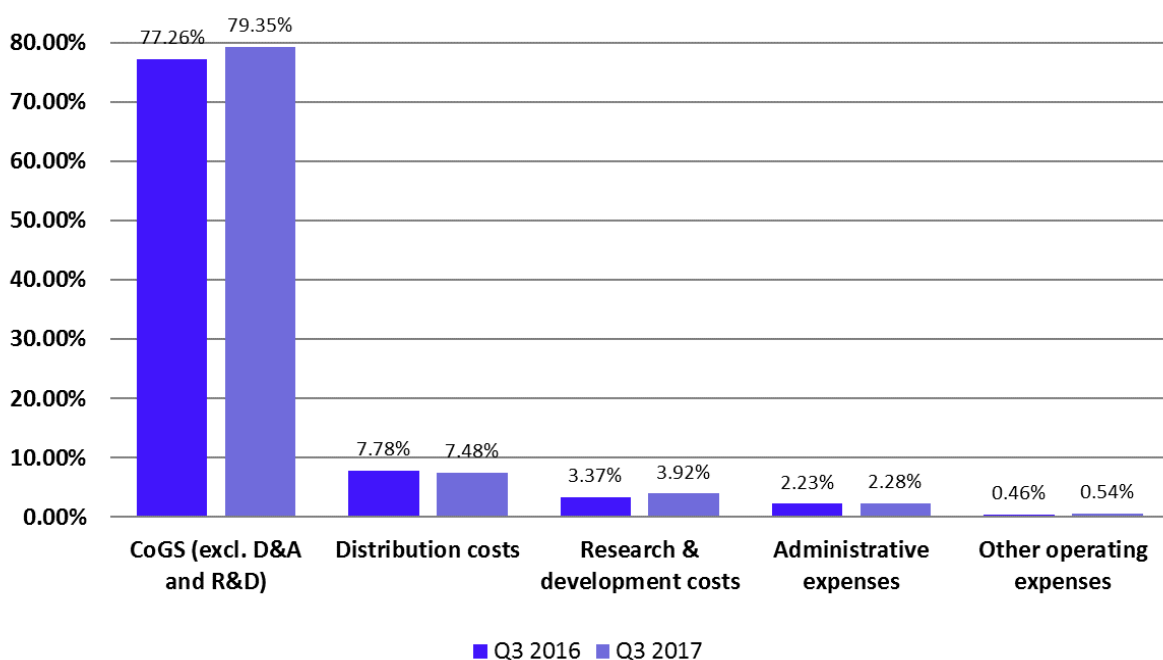
In comparison with December 31, 2016, the net liquidity of the industrial business improved from €19.7bln to €20.8bln. The boost was primarily due to the higher free cash flow.

Additionally, the Group has many positive developments in Q3/2017. Daimler Group expanded mobility services portfolio through car2go, mytaxi and moovel with 15.9 million customers (+116%). Further investments were made in the mobility services business by purchasing in Turo, Via and flinc.

Additionally, Daimler raised capital of €16.6bln from the issue of bonds during that last 9M period. In August, Daimler AG issued a three-year bond with an amount of RMB 5.0 billion in the Chinese capital market.

Overall, Daimler reported strong sales in Q3/2017, but profitability was lower than anticipated, due to one-time items affecting the EBIT of its Mercedes Benz division. Although the Mercedes Benz segment displayed lower profitability in Q3 2017, we consider the Group is on track to achieve solid results for the year 2017.

Costs relative to net revenues



6 Outlook

Daimler's outlook for the rest of 2017 continues to be strong and we anticipate strong sales growth and a higher EBIT compared to the previous year. The Group's solid line up of products and almost 10 new models of Mercedes Benz Cars ready for a rollout in 2018 are main drivers of growth next year. China continues to be a strong area for the Group where the share of locally developed vehicles is raising gradually.

Daimler is following a three-lane drive system strategy including electric vehicles, hybrid models and combustion engines. The Group is utilizing a holistic strategy to electrification under the new EQ technology and product brand. Furthermore, there will be a complete ecosystem that contains the required charging infrastructure.

The Group's strategy is very ambitious and put a lot of emphasis on electromobility. Mercedes-Benz will offer electric versions of all its models in near future, adapting its Smart city car brand to become fully electric. Daimler Group is among the pushiest legacy automakers when it comes to the electrification of their vehicle lineup with plans for 10 new all-electric models and 15 to 25% of all their production being electric by 2025. Additionally, Daimler is investing \$1 billion in its battery supply chain, including through its subsidiary ACCUmotive, to support those plans.

We trust that the performance of global automotive market this year will be outstandingly good. Given solid financial results in Q3/2017 and well performing world economy, we believe that the Group revenue and EBIT will increase significantly in the year 2017.

We forecast that worldwide demand for cars is likely to rise by roughly 2.1% this year. The demand in Europe and China should remain at solid prior-year level. The growth in demand should be expected, especially in India and Japan.

The financials of Q4/2017 should be specifically backed by growth in sales of Mercedes-Benz Cars through bestselling model families, the C-Class and E-Class, along with SUVs. Since September, the adequately refreshed S-Class sedan has been obtainable also in the United States and its most important sales market, China and should also increase unit sales in the approaching months. Therefore, we are bullish on Q4/2017 results in Mercedes-Benz Cars division.

We provide our net sales forecast for specific divisions in the year 2017:

- Mercedes-Benz Cars: substantially above the prior-year level,
- Daimler Trucks: substantially above the prior-year level,
- Mercedes-Benz Vans: slightly above the prior-year level,
- Daimler Buses: around the prior-year level,
- Daimler Financial Services: substantially above the prior-year level.

in EURbn	2016	2017
Mercedes-Benz Cars <i>(% of net sales)</i>	89.28 58.3%	97.23 58.2%
Daimler Trucks <i>(% of net sales)</i>	33.19 21.7%	36.58 21.9%
Mercedes-Benz Vans <i>(% of net sales)</i>	12.83 8.4%	13.36 8.0%
Daimler Buses <i>(% of net sales)</i>	4.18 2.7%	4.18 2.5%
Daimler Financial Services <i>(% of net sales)</i>	20.66 13.5%	22.05 13.20%
Total net sales	153.26	167.05

Source: Dr. Kalliwoda Research GmbH, Group Data

It is important to note, that the revenue figures of Mercedes-Benz Vans in 2016 included about €1bln contract manufacturing for Volkswagen AG. This contract expired at the end of 2016. Mercedes-Benz Vans in 9M/2017 generated €9.39m vs. €9.37m in 9M/2016. After excluding the contract, the revenues net of Volkswagen contract in 9M/2016 should be calculated at about €8.37m. Therefore, the Groups managed to generate €1bln more revenues in 9M/2017 from its core business.

We forecast the Group's SG&A costs to remain under control given previously introduced cost optimization initiatives and the Group to deliver the high end of its FY17 net profit numbers, which should translate into an 16% yoy EPS growth in 2017E.

The expected expansion of earnings in the automotive divisions will have a positive effect on the free cash flow of the industrial business as well in the year 2017. Despite an additional rise in costs for new products and technology, the free cash flow from the industrial business ought to be substantially above the level of 2016.

All in all, we expect the Group to generate €20.15m of adjusted EBITDA in FY2017 vs. €18.4 of adjusted EBITDA delivered in FY2016. The Group's bottom line should reach €9.78. We remain strongly optimistic with regard to the Group's equities (and the stock clearly remains one of our most preferred picks in our coverage). **Based on our 12M EFV of €89 per share we hold our LT fundamental Buy for the stock.**

7 Profit and loss statement of Daimler Group

in EURbn	2011	2012	2013	2014	2015	2016	2017E	2018E	2019E	2020E	2021E
Revenues	106.54	114.30	117.98	129.87	149.47	153.26	167.05	172.90	177.22	181.65	186.20
CoGS (excl. D&A and R&D)	-81.02	-88.82	-92.86	-101.69	-117.67	-121.30	-131.85	-136.64	-140.23	-143.92	-147.70
Gross profit	25.52	25.48	25.13	28.18	31.80	31.96	35.20	36.26	36.99	37.74	38.49
Other operating income	1.38	1.51	1.53	1.76	2.11	2.35	2.40	2.44	2.49	2.54	2.59
Distribution costs	-9.82	-10.46	-11.05	-11.53	-12.15	-12.23	-12.95	-13.23	-13.20	-13.17	-13.13
Administrative expenses	-3.86	-3.97	-3.19	-3.33	-3.71	-3.42	-4.35	-4.53	-4.68	-4.64	-4.58
Research & development costs	-4.17	-4.18	-4.21	-4.53	-4.76	-5.26	-6.16	-6.37	-6.71	-7.06	-7.42
Other operating expenses	-0.36	-0.29	-0.40	-1.16	-0.56	-1.30	-0.74	-0.83	-0.92	-0.87	-0.93
EBITDA	12.33	12.68	15.18	15.74	18.57	18.38	20.15	20.48	20.58	20.62	20.78
Depreciation & amortisation	-3.58	-4.07	-4.37	-5.00	-5.38	-5.48	-5.35	-5.19	-4.97	-4.73	-4.47
EBIT	8.76	8.61	10.81	10.74	13.19	12.90	14.80	15.28	15.62	15.90	16.31
Net financial result	-0.31	-0.70	-0.67	-0.57	-0.46	-0.44	-0.45	-0.46	-0.47	-0.48	-0.49
EBT	8.45	7.91	10.14	10.17	12.73	12.46	14.35	14.83	15.15	15.42	15.82
Income taxes	-2.42	-1.29	-1.42	-2.88	-4.03	-3.79	-4.30	-4.45	-4.54	-4.63	-4.75
Minorities	-0.36	-0.40	-1.88	-0.33	-0.29	-0.26	-0.26	-0.26	-0.26	-0.26	-0.26
Net income / loss	5.67	6.22	6.84	6.96	8.41	8.41	9.78	10.12	10.35	10.54	10.82
EPS	5.31	5.81	6.40	6.51	7.86	7.86	9.15	9.46	9.67	9.85	10.11
DPS	2.30	1.74	1.92	1.95	2.36	2.36	2.74	2.84	2.90	2.95	3.03

Source: Dr. Kalliwoda Research GmbH, Group Data

8 Balance sheet

in EURbn	2011	2012	2013	2014	2015	2016	2017E	2018E	2019E	2020E	2021E
Current assets	61.12	67.46	70.44	77.15	91.85	102.05	106.26	107.07	109.48	114.43	120.78
Inventories	17.08	17.72	17.35	20.86	23.76	25.38	25.60	26.00	26.40	26.80	27.20
Trade receivables	7.85	7.54	7.80	8.63	9.05	10.61	10.12	10.47	10.74	11.00	11.28
Receivables from sales financing	20.56	22.00	23.00	26.77	35.16	37.63	36.79	36.78	37.52	38.28	39.05
Financial assets	2.01	2.07	2.72	2.35	2.55	2.84	2.15	2.25	2.32	2.39	2.47
Current tax	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deferred tax assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other assets	2.71	3.07	3.12	3.60	4.27	4.96	2.77	2.94	3.06	3.19	3.32
Securities	1.33	4.06	5.40	5.26	7.13	9.65	7.63	7.72	7.74	7.93	8.13
Cash & cash equivalents	9.58	11.00	11.05	9.67	9.94	10.98	21.21	20.91	21.70	24.83	29.34
Non-current assets	87.01	95.60	98.08	112.49	125.32	140.94	145.03	150.48	156.38	159.74	163.18
Property, plant and equipment	19.18	20.60	21.78	23.18	24.32	26.38	29.43	32.85	35.44	36.33	37.24
Leased assets	22.81	26.06	28.16	33.05	38.94	46.94	46.45	47.62	48.33	49.04	49.76
Shareholdings at-equity	4.66	4.30	3.43	2.29	3.63	4.10	4.66	4.20	4.31	4.42	4.53
Other financial assets	2.96	3.89	3.52	3.63	4.91	2.90	3.00	3.00	3.00	3.00	3.00
Receivables from sales financing	25.01	27.06	27.77	34.91	38.36	42.88	42.93	43.57	45.55	46.69	47.86
Financial assets	0.95	1.54	1.67	1.37	1.15	1.10	1.28	1.33	1.36	1.40	1.43
Deferred tax assets	2.77	2.73	1.83	4.12	3.28	3.87	2.67	2.80	2.89	2.99	3.09
Other assets	0.42	0.53	0.53	0.56	0.65	0.67	0.74	0.76	0.77	0.80	0.82
Intangible assets	8.26	8.89	9.39	9.37	10.07	12.10	13.87	14.35	14.71	15.08	15.45
Total assets	148.13	163.06	168.52	189.64	217.17	242.99	251.29	257.55	265.85	274.17	283.96
Current liabilities	54.86	58.72	59.11	66.97	77.08	84.46	86.03	83.27	85.43	88.46	88.85
Other provisions	6.80	6.29	6.62	7.27	9.71	9.43	9.35	9.67	9.92	10.16	10.42
Current tax liabilities	1.03	1.01	0.52	0.76	0.78	0.75	0.97	1.01	1.03	1.06	1.09
Financial liabilities	34.48	39.61	39.57	44.35	50.80	56.83	55.76	52.53	53.85	55.19	54.57
Trade payables	9.52	8.83	9.09	10.18	10.55	11.57	13.08	13.97	14.40	15.66	16.23
Other liabilities	3.03	2.98	3.32	4.42	5.25	5.88	6.87	6.07	6.23	6.38	6.54
Long-term liabilities	51.94	65.02	66.05	78.08	85.46	99.40	99.02	102.64	103.17	102.67	105.99
Pension provisions	3.18	11.30	9.87	12.81	8.66	9.03	9.02	10.37	10.63	10.90	11.17
Other provisions	5.63	5.15	5.27	6.71	6.12	6.63	5.84	6.08	6.26	6.44	6.62
Deferred tax liabilities	3.58	1.00	1.72	1.92	3.09	3.47	4.45	5.75	5.85	4.94	6.04
Financial liabilities	37.38	45.09	46.45	53.04	62.71	73.73	73.16	73.89	73.89	73.85	75.62
Other liabilities	2.17	2.48	2.75	3.60	4.88	6.54	6.54	6.54	6.54	6.54	6.54
Shareholder's equity	39.62	37.91	42.68	43.67	54.62	57.95	64.73	69.86	75.20	80.74	86.55
Minority interests	1.71	1.43	0.68	0.92	1.32	1.18	1.51	1.80	2.06	2.31	2.57
Total shareholder's eq. and liab.	148.13	163.06	168.52	189.64	218.49	242.99	251.29	257.55	265.85	274.17	283.96

Source: Dr. Kalliwoda Research GmbH, Group Data

9 Cash flow statement

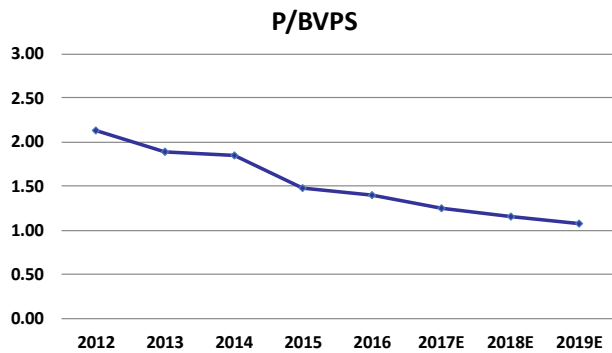
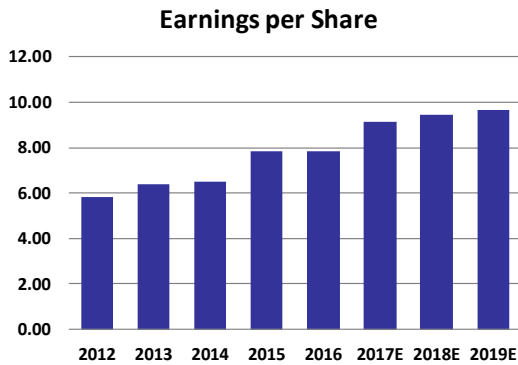
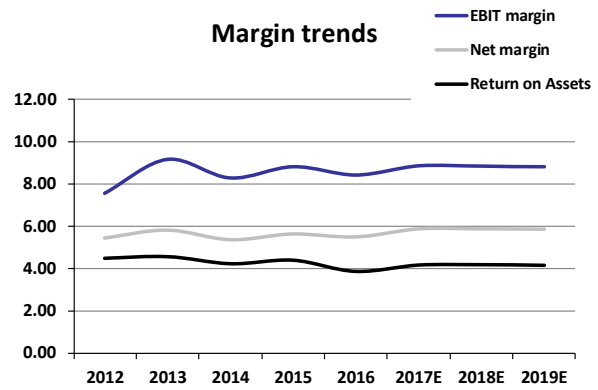
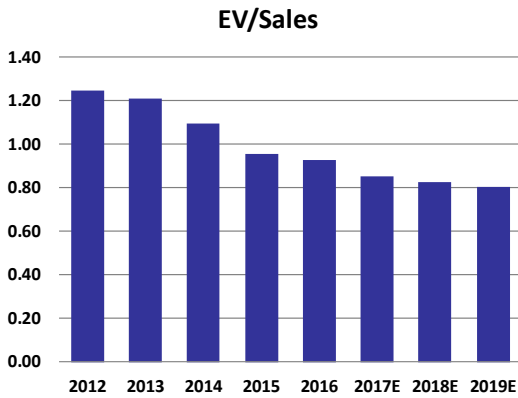
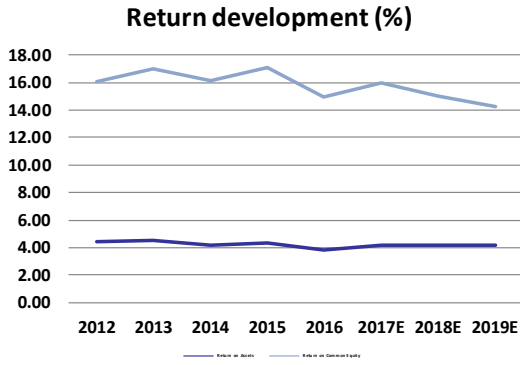
Cash flow statement											
	Fiscal year										
Figures in EURbn	2011	2012	2013	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Net income	5.67	6.22	6.84	6.96	8.41	8.41	9.78	10.12	10.35	10.54	10.82
Depreciation	3.58	4.07	4.37	5.00	5.38	5.48	5.35	5.19	4.97	4.73	4.47
Change of working capital	-9.68	-4.95	-1.54	-13.30	-14.60	-9.24	5.97	-1.41	-2.90	-1.26	-1.99
Others	-0.26	3.86	0.02	1.31	1.74	0.42	-0.57	1.44	0.45	0.91	0.53
Net operating cash flow	-0.70	9.20	9.69	-0.03	0.93	5.06	20.54	15.34	12.86	14.92	13.83
Cash flow from investing	-6.54	-7.33	-9.58	-10.24	-9.11	-7.93	-6.00	-5.78	-11.54	-3.64	-9.50
Free cash flow	-7.23	1.88	0.12	-10.27	-8.18	-2.87	14.53	9.56	1.32	3.35	0.97
Cash flow from financing	5.84	-0.46	-0.06	8.89	8.45	3.91	-4.31	-9.85	-0.53	-2.54	-0.09
Change in cash	-1.35	1.42	0.06	-1.39	0.27	1.05	10.23	-0.30	0.79	3.13	4.50
Cash, start of the year	10.90	9.58	11.00	11.05	9.67	9.94	10.98	21.21	20.91	21.70	24.83
Cash, end of the year	9.58	11.00	11.05	9.67	9.94	10.98	21.21	20.91	21.70	24.83	29.34

Source: Dr. Kalliwoda Research GmbH, Group Data

10 Financial ratios

Fiscal year	2012	2013	2014	2015	2016	2017E	2018E	2019E	2020E
Gross margin	22.29%	21.30%	21.70%	21.27%	20.86%	21.07%	20.97%	20.87%	20.77%
EBITDA margin	11.09%	12.87%	12.12%	12.42%	11.99%	12.06%	11.84%	11.61%	11.35%
EBIT margin	7.53%	9.16%	8.27%	8.82%	8.82%	8.87%	8.92%	8.97%	9.05%
Net margin	5.44%	5.80%	5.36%	5.62%	5.49%	5.86%	5.85%	5.84%	5.80%
Return on equity (ROE)	16.05%	16.98%	16.13%	17.11%	14.95%	15.95%	15.04%	14.27%	13.51%
Return on assets (ROA)	4.45%	4.53%	4.21%	4.36%	3.85%	4.14%	4.16%	4.13%	4.08%
Return on capital employed (ROCE)	6.91%	8.50%	6.28%	6.43%	5.66%	6.27%	6.14%	6.06%	5.99%
Net debt (in EURm)	58.99	59.62	70.12	82.35	115.02	105.68	104.59	105.25	103.38
Net gearing	155.6%	139.7%	160.6%	150.8%	198.5%	163.3%	149.7%	140.0%	128.0%
Equity ratio	23.2%	25.3%	23.0%	25.2%	23.8%	25.8%	27.1%	28.3%	29.4%
Current ratio	1.15	1.19	1.15	1.19	1.21	1.24	1.29	1.28	1.29
Quick ratio	0.42	0.46	0.39	0.37	0.40	0.48	0.50	0.50	0.52
Net interest cover	12.23	16.09	18.85	28.73	29.26	32.89	33.31	33.37	33.30
Net debt/EBITDA	4.65	3.93	4.45	4.43	6.26	5.25	5.11	5.11	5.01
Book value per share	35.43	39.90	40.82	51.06	54.17	60.51	65.30	70.29	75.47
CAPEX/Sales	5.04%	4.70%	3.90%	4.90%	6.25%	6.13%	5.27%	4.48%	3.30%
Working capital/Sales	56.50%	56.04%	61.15%	62.91%	67.38%	58.24%	57.09%	57.33%	56.63%
EV/Sales	1.25	1.21	1.10	0.95	0.93	0.85	0.82	0.80	0.78
EV/EBITDA	11.24	9.39	9.06	7.68	7.76	7.08	6.96	6.93	6.91
EV/EBIT	16.55	13.19	13.27	10.81	11.05	9.63	9.33	9.13	8.97
P/BVPS	2.13	1.89	1.85	1.48	1.39	1.25	1.16	1.07	1.00
P/E	12.99	11.81	11.61	9.61	9.61	8.26	7.99	7.81	7.67

Source: Dr. Kalliwoda Research GmbH, Group data



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B. Disclosures according to Section 34b of the German Securities Trading Act (WpHG) and to the German Regulation governing the Analysis of Financial Instruments (FinAnV).

I. Information about author, company held accountable, regulatory authority:

Company responsible for the content of this document: DR. KALLIWODA RESEARCH GmbH, Frankfurt am Main, Germany.

Regulatory authority for DR. KALLIWODA RESEARCH GmbH is the Federal Financial Supervisory Authority (BaFin), Graurheindorfer Straße 108, 53117 Bonn, Germany and Lurgiallee 12, 60439 Frankfurt am Main, Germany.

Author of this research: Dr. Norbert Kalliwoda, Analyst, CEO and founder of DR. KALLIWODA RESEARCH GmbH.

II. Additional Information:

1. Sources of information:

Essential sources of information for the compilation of this document are publications from domestic and international information services and media (e.g. Bloomberg, dpa-AFX, Reuters, VWD, among others), financial press (e.g. *Allgemeine Zeitung Frankfurter, Börsenzeitung, Financial Times Handelsblatt and others*), specialized trade press, published statistics, rating agencies as well as publications by peer group companies and the company itself. Additionally, conservation has been held with the management of the company. This document was made available to the company before publishing to ensure the correctness of the information provided.

2. Summary of the basis of valuation principles and methods used to prepare this document:

Within the scope of the evaluation of companies the following valuation methods are applied: Multiple-based models (Price/Earnings, Price/Cash-flow, Price/Book value, EV/Sales, EV/EBIT, EV/EBITDA), peer group comparisons, historic valuation methods, discounting models, sum-of-the-parts-approaches, substance-valuation methods and swot-analyses. The valuation principles and models are dependent on macroeconomic factors, such as interest rates, exchange rates, raw materials and on basic assumptions about the economy. Besides, the market moods and market sentiment affects the valuation of enterprises. The approaches are based on expectations that

could change rapidly and without advance warning according on developments specific to individual branch. The valuation results and fair values derived from the models might therefore change accordingly.

The ratings are the evaluation results and refer to a fair value pricing reflecting a time-horizon of up general relate to a twelve-months. Nevertheless, evaluation results are subject to changing market conditions and constitute merely a snapshot. The evaluation results and fair values may be reached faster or slower than expected by the analysts. The results and fair values may to be scale upwards or downwards.

DR. KALLIWODA RESEARCH GmbH uses the following rating model:

BUY:	Based on our analysis, we expect the stock to appreciate and produce a total return of at least 10% over the next twelve months
ACCUMULATE:	Based on our analysis, we expect the stock to appreciate and produce a total return between 5%- 10% over the next twelve months
HOLD:	Based on our analysis, we expect the stock to produce a total return between -5% and +5% over the next twelve months
REDUCE:	Based on our analysis, we expect the stock to cause a negative return between - 5% and -10% over the next twelve months
SELL:	Based on our analysis, we expect the stock to cause a negative return exceeding - 10% over the next twelve months

3. Date of first publication of this document: 23rd of January 2018

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