



Polaris Inc.

“Higher Costs Weigh on Adjusted PATMI”

Bloomberg: PII:US | **Reuters:** PII.N | **NYSE:** PII

Valuation

We are maintaining our BUY recommendation and TP of USD158.71 for Polaris. At our TP, Polaris will have a PE of 18.6x our FY22 adjusted EPS estimate of USD8.53 (excluding impairment of discontinued operations net of tax). We think that a FY22 forward PE of 18.6x is fair considering Polaris’ decent growth prospects and respectable pricing power.

Investment Highlights

2Q22 revenue rose 7.9% to USD2.06 bn (2Q21: USD1.91 bn). The increase in revenue was attributed to increased pricing on new and pre-sold orders, partially offset by lower volume.

2Q22 net loss of USD4.6m (2Q21: USD158.4m PATMI); 2Q22 net profit from continuing operations of USD142.0m. The net loss was mainly due to impairment of discontinued operations net of tax amounting to RM142.2m in relation to the sale of Transamerican Auto Parts (TAP). Polaris also faced increased costs including raw materials, freight and inefficiencies associated with supply chain challenges.

Divestment of TAP. We view the divestment of TAP positively as it would allow Polaris to focus on growing its more profitable segments. The sale was completed on 1 July 2022 for a sales price of USD50.0m, subject to customary post-closing purchase price adjustments.

Updating revenue and EPS estimate. To adjust for the divestment of TAP, we are reducing our FY22 and FY23 revenue estimate to USD8.7 bn and USD8.8 bn respectively (previous: USD9.3 bn and USD9.8 bn). We are also cutting our FY22 and FY23 EPS forecast to USD6.15 and USD8.58 respectively (previous: USD9.02 and USD9.42 respectively).

Risk factors. Lingering supply chain issues may negatively impact profitability. An economic slowdown or recession in Polaris’ markets could adversely impact its financial performance and position.

Share Information	Top 3 Shareholders (%)		
Market Cap (USD bn)	7.0	Vanguard Group Inc	9.71
Issued Shares (m)	59.6	BlackRock Inc	8.07
52W High (USD)	135.57	State Street Corp	6.95
52W Low (USD)	94.24		
Estimated Free Float (%)	94.0		
Adjusted Beta vs S&P 500	1.0		
65-Day Average Vol. ('000)	645		

Sources: Mercury Securities, Bloomberg, Wall Street Journal

INVESTMENT STATISTICS FY Dec	FY19	FY20	FY21	FY22F	FY23F
Revenue (USD m)	6,782.5	7,027.9	8,198.2	8,711.3	8,821.9
Adjusted EBITDA (USD m)	721.8	855.0	946.1	982.2	1,017.6
PATMI (USD m)	324.0	124.8	493.9	367.4	506.9
EPS (USD)	5.27	2.02	8.06	6.15	8.58
EPS Growth (%)	(1.7)	(61.7)	299.0	(23.7)	39.6
PE (x) ¹	18.3	46.0	14.5	19.0	13.6
Gross Dividend Yield (%) ¹	2.5	2.7	2.2	2.2	2.2
Net Gearing (x) ²	1.4	0.7	1.1	0.7	0.5
ROAA (%)	7.6	2.8	10.2	7.4	9.9
ROAE (%)	32.8	11.1	41.7	29.6	36.2

Sources: Mercury Securities, Company

¹PE and gross dividend yield for FY19-20 are based on the closing share price on the last trading day of 2019 and 2020

²Net gearing is calculated as: (total debt - cash and equivalents)/shareholder’s equity

NYSE
CONSUMER DISCRETIONARY
BUY
TP: USD158.71
Price: USD117.03

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Business Overview

Polaris Inc. is engaged in the manufacturing of powersports vehicles namely snowmobiles, off-road vehicles (ORV), motorcycles, boats, and parts, garments & accessories. The Group’s portfolio of brands include Polaris Snowmobiles, Indian Motorcycle, RZR off-road vehicles, and Bennington boats.

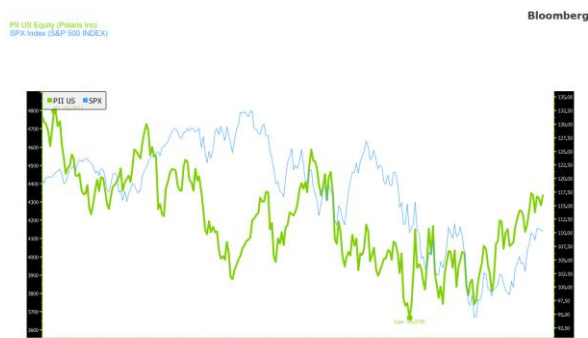
Polaris’ products are sold through a network of approximately 2,300 independent dealers in North America, approximately 1,400 independent international dealers through over 30 subsidiaries, and approximately 90 independent distributors in over 120 countries outside of North America.

Stock Return Information

S&P 500 (pts)	4,140.1
Expected Capital Gains (%)	35.6
Expected Gross Dividend Yield (%)	2.2
Expected Total Gross Return (%)	37.8

Price Performance

	1M	3M	12M
Absolute (%)	4.5	12.4	(9.0)
Relative to Index (%)	(1.7)	12.0	(2.3)



Sources: Mercury Securities, Bloomberg, Company

RESULTS (RM m) FY Dec	2Q22	2Q21	yoy %
Revenue	2,062.8	1,911.1	7.9
EBITDA	245.5	258.7	(5.1)
Depn & Amortization	52.4	48.0	-
EBIT	193.1	210.7	(8.4)
Finance Costs	(14.9)	(10.7)	-
Profit Before Tax from Continuing Ops	181.4	203.0	(10.6)
Tax	(39.4)	(47.8)	-
Net Profit from Continuing Ops	142.0	155.2	(8.5)
Profit from Discontinued Operations, Net of Tax	(4.2)	3.3	-
Impairment of Discontinued Operations, Net of Tax	(142.2)	-	-
Net Profit	(4.4)	158.5	-
Non-Controlling Interest	(0.2)	(0.1)	-
PATMI	(4.6)	158.4	-
EPS	(0.08)	2.58	-
EPS from Continuing Operations	2.37	2.53	(6.3)

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