



Polaris Inc.

“3Q22 Revenue Surged 31.7% YoY”

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

9M22 revenue and PATMI within our expectations. Polaris’ 9M22 revenue stood at USD6.2 bn or 74.0% of our FY22 full year revenue forecast of USD8.4 bn. The Group had PATMI of USD251.6m for 9M22 or 68.5% of our FY22 full year PATMI forecast of USD367.4m.

3Q22 revenue jumped 31.7% to USD2.3 bn (3Q21: USD1.8 bn). The rise in revenue came on the back of accelerated shipments towards the latter part of the quarter, higher pricing, and a favourable product mix. The improvement in revenue was across the board with the off-road, on-road, and marine segments reporting an increase in revenue of 33%, 30%, and 42% respectively to USD1.7 bn, USD334.0m, and USD260.2m respectively.

3Q22 PATMI surged 62.6% yoy to USD186.3m (3Q21: USD114.6 m). The jump in PATMI was due to higher revenue as well as higher operating margin of 10.9% (3Q21: 8.9%). Gross margins expanded at its off-road and on-road segments to 25.7% and 18.0% respectively (3Q21: 22.3% and 15.0% respectively) but declined to 21.5% (3Q21: 22.4%) at its marine segment.

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. Malaysian investors in Polaris will experience a negative impact on returns if the USD weakens against the Ringgit.

Share Information	Top 3 Shareholders (%)		
Market Cap (USD bn)	6.0	The Capital Group Cos Inc	10.3
Issued Shares (m)	59.2	The Vanguard Group Inc	10.0
52W High (USD)	127.37	BlackRock Inc	8.3
52W Low (USD)	91.86		
Estimated Free Float (%)	93.8		
Adjusted Beta vs S&P 500	1.0		
65-Day Average Vol. (‘000)	547		

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	12.5	16.4	11.7
Gross Dividend Yield (%) ¹	2.5	2.7	2.5	2.5	2.6
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: USD100.59

Justin Teo
justin-teo@mersec.com.my

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.

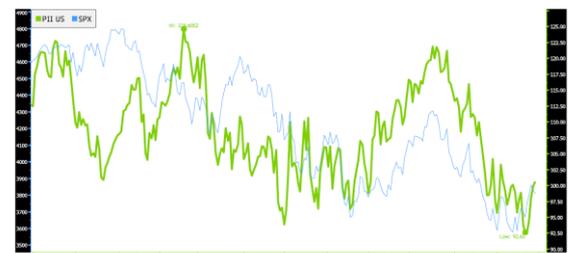
Stock Return Information

S&P 500 (pts)	3,807.3
Expected Capital Gains (%)	57.8
Expected Gross Dividend Yield (%)*	2.6
Expected Total Gross Return (%)	60.4
*Dividends paid by US companies are subject to 30% withholding tax.	

Price Performance	1M	3M	12M
Absolute (%)	0.5	(9.1)	(12.3)
Relative to Index (%)	(3.9)	(3.8)	4.1

PII US Equity (Polaris Inc)
S&P Index (S&P 500 INDEX)

Bloomberg



Sources: Mercury Securities, Bloomberg, Company

RESULTS (USD m) FY Dec	3Q22	3Q21	yoy %	9M22	9M21	yoy%
Revenue	2,340.6	1,777.7	31.7	6,184.9	5,446.6	13.6
EBITDA	310.5	212.8	45.9	717.5	714.3	0.4
Depn & Amortization	56.2	54.6	-	169.9	162.2	-
EBIT	254.3	158.2	60.7	547.6	552.1	(0.8)
Finance Costs	(20.1)	(10.7)	-	(46.8)	(33.0)	-
Profit Before Tax from Continuing Ops	241.6	147.6	63.7	514.7	524.5	(1.9)
Tax Expense	(50.9)	(30.4)	-	(107.9)	(119.0)	-
Net Profit from Continuing Ops	190.7	117.2	62.7	406.8	405.5	0.3
Profit from Discontinued Operations, Net of Tax	(3.5)	(2.4)	-	(11.9)	2.0	-
Loss from Sale/Impairment of Discontinued Operations, Net of Tax	(0.6)	-	-	(142.8)	-	-
Net Profit	186.6	114.8	-	252.1	407.5	(38.1)
Net Profit Attributable to Noncontrolling Interest	(0.3)	(0.2)	-	(0.5)	(0.4)	-
PATMI	186.3	114.6	62.6	251.6	407.1	(38.2)

DISCLAIMERS AND DISCLOSURES

Disclaimers

This report is prepared primarily for the use of Mercury Securities' clients in Malaysia and not for publication purposes, should not be reproduced, altered in any way, transmitted to, copied or distributed to any other party in whole or in part in any form or manner without the prior express written consent of Mercury Securities. Mercury Securities, companies and individuals related to it accept no liability whatsoever for the actions of third parties in this respect.

This research report is prepared for general circulation and for information purposes only and under no circumstances should it be considered or intended as an offer to sell or a solicitation of an offer to buy the stocks or securities referred to in the report. Investors should note that the price, values or fundamentals of any securities may fluctuate over time. Past performance of any securities may not be an accurate guide to its future performance.

This report is not intended to provide personal investment advice and does not take into account the investment objectives, financial situation and risk appetite of persons who may receive or read this report. Investors are advised to trade at their own absolute discretion, and to seek financial, legal and other pertinent professional advice regarding the appropriateness of investing in any securities or the investment strategies discussed or recommended in this report.

Any information, views, opinions, recommendations and advice in this report are given in good faith but without any legal responsibility or liability to Mercury Securities and connected parties. Information contained in this report has been obtained from public sources believed to be reliable but such sources are not independently verified by Mercury Securities and consequently no representation is made as to the accuracy or completeness of this information and it should not be relied upon as such. The views, recommendations and opinions in this research report are our own as of the date hereof and are subject to change without prior notice.

Mercury Securities expressly disclaims any obligation to update or revise any views, recommendations, forward looking statements and forecasts in a timely manner to reflect new information, events or circumstances after the date of this report publication or to reflect the occurrence of unanticipated events. Our views and recommendations are based on our own analysis of publicly available information. A subject company's fundamentals and prospects are subject to various risks and uncertainties that could cause its actual performance to differ from our opinion.

As such, Mercury Securities and its directors, officers, associates, connected parties and employees shall not be liable for any direct, indirect or consequential losses or damages that may arise from the use of or reliance on this research report.

Disclosures

Mercury Securities Sdn Bhd Registration No. 198401000672 (113193-W) is a Participating Organisation of Bursa Malaysia Securities Berhad and a principal holding a Capital Markets Services Licence ("CMSL") issued by the Securities Commission ("SC") of Malaysia. Its research analysts hold a Capital Markets Services Representative's Licence ("CMSRL"). Principals holding a CMSL and representatives holding a CMSRL are regulated by SC in accordance with the Capital Markets and Services Act 2007 ("CMSA").

Mercury Securities, companies or individuals connected with it may have used research material before publication and may have positions in or may be materially interested in any stocks or securities in the markets mentioned. Some of the subject companies covered by Mercury Securities for research purposes may be a client of Mercury Securities in the past, current or may be a potential client in the future. Possible business dealings may include, but is not limited to share trading, market making, underwriting, corporate finance and corporate advisory services.

RECOMMENDATION RATING

Mercury Securities maintains a list of stock coverage. Stock can be added or dropped subject to needs with or without notice. Hence, the recommendation rating only applicable to stocks under the list. Stocks out of the coverage list will not carry recommendation rating as the analyst may not follow the stocks adequately.

Mercury Securities has the following recommendation rating:

BUY	Stock's total return is expected to be +10% or better over the next 12 months (including dividend yield)
HOLD	Stock's total return is expected to be within +10% or -10% over the next 12 months (including dividend yield)
SELL	Stock's total return is expected to be -10% or worse over the next 12 months (including dividend yield)

Published and printed by:

MERCURY SECURITIES SDN BHD

Registration No. 198401000672 (**113193-W**)

L-7-2, No 2, Jalan Solaris, Solaris Mont' Kiara, 50480 Kuala Lumpur

Telephone: (603) - 6203 7227 Website: www.mercurysecurities.com.my

Email: mercurykl@mersec.com.my