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Rheinmetall increases Group earnings and operating margin

- Operating earnings for the Group grow by €20 million to €154 million in the first half of the year
- Operating margin in the Group increased from 4.8% to 5.6%
- Group sales with €2,753 million approximately at previous year level adjusted for currency effects
- Automotive increases sales to €1,491 million and operating margin to 8.9%
- Defence: sales decline to €1,263 million – earnings rise by €17 million to €31 million
- Order backlog for the Group stable at €7 billion

Rheinmetall AG, Düsseldorf, is presenting another rise in consolidated operating earnings for the first half of the year. Both sectors of the technology group are making a positive contribution to the earnings growth. For the current fiscal year, the forecasts for the Group have been refined within the existing ranges.

Armin Papperger, CEO of Rheinmetall AG: "We have successfully increased earnings in the Group overall and continued to improve our operating margin. Given the good development, especially in the second quarter, we are confident of achieving the targets we have set ourselves in the current fiscal year. We want to keep growing profitably and building on our positions in international markets. We are helped here by the fact that we are convincingly represented on the key growth markets with our pioneering technologies."

The Rheinmetall Group's sales decreased by €55 million or 1.9% year-on-year to €2,753 million in the first half of 2018 (previous year: €2,808 million). Adjusted for currency effects, however, the decline is only 0.6%. This sales development related exclusively to the first quarter, in which, in particular, bottlenecks in the supply chain, deliveries postponed at customer request and a lack of export licenses due to the delayed formation of a government in Berlin had a negative effect on business volume in the Defence sector.

By contrast, the sales trend in the Defence sector in the second quarter again showed growth compared to the previous year. In addition, the Automotive sector increased its sales by €26 million year-on-year in the first half of the year.

Consolidated operating earnings performed positively. They rose by €20 million or 15% to €154 million. The Group's operating margin thus grew from 4.8% to 5.6%.

The order backlog in the Rheinmetall Group remains at record level. As of June 30, 2018, it amounted to €7.0 billion after €7.1 billion on the same date of the previous year.

The proportion of international business activities remains high at 77% at Group level.

Automotive: growth in sales and earnings

In the first six months of 2018, the Automotive sector recorded sales growth of 1.7% compared to the same period of the previous year to €1,491 million. Adjusting for currency effects increases the growth to 4.2%. The sector therefore surpassed the development of the global production of light vehicles in the first half of the year, which grew by 1.7%. All divisions contributed to the increase in sales.

The operating earnings for the first half of 2018 rose by €4 million or 2.8% to €133 million, which resulted in a slight improvement in the operating margin to 8.9% compared to the previous year's 8.8%.

The Mechatronics division's sales grew by 1.6% to €846 million in the first half of 2018 (+2.7% after adjustment for currency effects). The high demand from automotive manufacturers for solutions from the future-oriented product portfolio to reduce pollutant emissions continued. However, the growth was weakened by the decline of the diesel market. As in the previous year, operating earnings amounted to €90 million after the first six months of 2018.

The Hardparts division generated sales growth of 0.8% to €504 million in the first half of 2018 (+5.5% after adjustment for currency effects). The division's operating earnings increased by €2 million to €35 million.

The Aftermarket division increased its sales by 7.6% year-on-year to €189 million in the first six months of 2018 (+9.8% after adjustment for currency effects). Products of the Group's Kolbenschmidt and Pierburg brands once again proved to be the main drivers of growth here. The division's operating earnings amounted to €17 million in the first half of 2018, compared with €16 million in the same period of the previous year.

Joint ventures with Chinese partners grow faster than the market

The activities of the joint ventures in China have again performed better than the market there. While light vehicle production in China in the first half of 2018 grew by 2.8% year-on-year, the joint ventures in China increased their sales by 4.5% in the first half of 2018 (+7.9% after adjustment for currency effects) to €447 million.

Sales of the German joint venture KS HUAYU AluTech Group grew by 9.5% to €172 million in the first six months of the current fiscal year, mainly owing to increased sales of research and development as well as equipment and tools.

Defence: earnings increase and persistently high order intake

The Defence sector increased its operating earnings despite a declining sales volume in the first half of the year. Sales fell by 6.0% from €1,343 million to €1,263 million (-3.4% after adjustment for currency effects), with the decline in the first quarter of 2018 being partly offset in the subsequent quarter. After €509 million in the first quarter of 2018, Defence already increased the sales volume to €754 million in the second quarter of 2018.

Operating earnings were increased from €14 million to €31 million in the first half of the year.

At €1,427 million, incoming orders for the Defence sector in the first half of 2018 remained at the high level of the previous year (H1 2017: €1,422 million) despite negative currency effects of €-33 million. Larger individual orders were an order in the Weapon and Ammunition division from an international customer worth around €380 million for the delivery of artillery and tank ammunition and an order in the Electronic Solutions division worth €102 million to supply air defence products in Asia. The order backlog totaled €6,510 million, down slightly on the previous year's figure of €6,661 million.

In the Weapon and Ammunition division, sales fell by €108 million or 22% year-on-year. This was primarily because the previous year still included a trading contract amounting to around €110 million. The division is reporting operating earnings of €4 million after €12 million in the previous year. However, the division's earnings improved significantly quarter-on-quarter: After €-19 million in the first three months, Weapon and Ammunition generated significantly better operating earnings of €23 million in the second quarter of 2018.

The Electronic Solutions division posted an increase in sales of €44 million or 16% compared with the previous year's figure. The Air Defence and Radar Systems business unit was the main driver behind this. Operating earnings improved by €9 million to €4 million, thanks to sales growth and cost-cutting measures.

The Vehicle Systems division recorded a slight year-on-year drop in sales of €15 million or -2% in the first half of 2018. Adjusted for currency effects, the division's sales remained at the same level as in the previous year. Sales of military trucks were down year-on-year in the first half of 2018, as bottlenecks in capacity continued at some suppliers in the second quarter. However, sales of other types of vehicles increased. Operating earnings were increased to €34 million and thus more than doubled year-on-year.

OUTLOOK:

Sales growth continues in both corporate sectors

Rheinmetall expects the Group's growth to continue in the current fiscal year. Rheinmetall AG's annual sales are expected to grow organically by around 8% in the current fiscal year, based on €5.9 billion in 2017. Sales are expected to increase in both corporate sectors.

Sales performance in the Automotive sector is strongly influenced by economic development in global automotive markets and by external factors such as the adjustment of European test cycles. Based on current expert forecasts regarding trends in global automotive production this year, which predict growth of 2.1%, Rheinmetall still expects sales growth of 3% to 4% for the Automotive sector.

On the basis of the business performance in the first half of the year, Rheinmetall projects sales growth of around 12% for the Defence sector in fiscal 2018. This corresponds to the lower end of the previous sales forecast. As in the previous year, the sales forecast for 2018 is largely assured based on relatively high coverage through the existing order backlog.

The growth forecast assumes that exchange rates for the remainder of fiscal 2018 will not change significantly compared to current levels.

Further improvement in earnings expected in fiscal 2018

Assuming stable economic development, Rheinmetall expects an absolute improvement in operating earnings and an operating margin of around 8.5% for the Automotive sector in fiscal 2018. Rheinmetall also anticipates a further improvement in operating earnings in the Defence sector in 2018 and expects an operating earnings margin of around 6.5%. This corresponds to the upper end of the previous forecast range of 6.0% to 6.5%.

Taking into account holding costs and including expenses for the realization and marketing of new technologies, the Rheinmetall Group's margin comes to around 7%.