

INDEPENDENT RESEARCH

14th September 2016

Car Part Manufacturers

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Innovation: the only way to stand out!

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FAURECIA	BUY	FV EUR47
Bloomberg	EO FP	Reuters
Price	EUR36.29	High/Low
Market cap.	EUR5,004m	Enterprise Val
PE (2016e)	9.8x	EV/EBIT (2016e)

Coverage initiation

HELLA	BUY	FV EUR45
Bloomberg	HLE GR	Reuters
Price	EUR36.67	High/Low
Market Cap.	EUR4,074m	Enterprise Val
PE (2016e)	11.5x	EV/EBIT (2016e)

Coverage initiation

PLASTIC OMNIUM	BUY	FV EUR36
Bloomberg	POM FP	Reuters
Price	EUR28.605	High/Low
Market Cap.	EUR4,362m	Enterprise Val
PE (2016e)	13.5x	EV/EBIT (2016e)

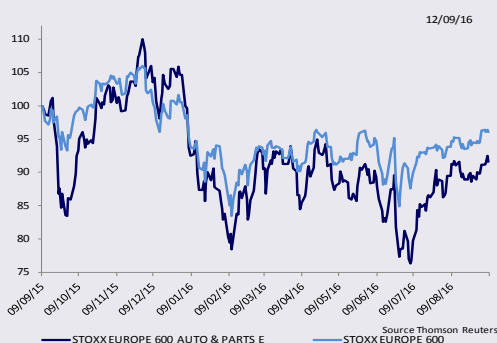
Coverage initiation

VALEO	NEUTRAL	FV EUR49
Bloomberg	FR FP	Reuters
Price	EUR49.74	High/Low
Market Cap.	EUR11,857m	Enterprise Val
PE (2016e)	13.7x	EV/EBIT (2016e)

Coverage initiation

We are initiating coverage of the automotive sector with car components manufacturers Faurecia, Hella, Plastic Omnium and Valeo, four players present on high growth potential markets. Previously considered to be ageing and with low value added, the sector is currently entering a structurally transforming cycle for historical players in favour of more innovative and more technological groups and in favour of their “pricing power” and their margins.

- **Heading for a slowdown in the cycle...** Although the automotive sector is entering a period of slowdown after delivering a CAGR in volumes of **3%** over 2007-15, we estimate that the market should continue to grow over the next three years, albeit at a slower pace (+1.9%). This growth should primarily be driven by the **expansion of middle classes in emerging markets**, whereas mature markets are set to suffer gradually from the cultural change in mind-set relative to car travel (*ride sharing, car-sharing*), after enjoying a catch-up phase since the crisis.
- **...but more contents and more technology ...** After entertainment, information and services, the auto industry is now set to suffer from **the digital era**, which is altering the way cars are used and the sector business model. Carmakers now have no other choice but to invest alongside components suppliers in connected and autonomous vehicles implying **more contents and more technology** per vehicle than previously (*more cameras, sensors, radars and driver assistance systems*). The development of **lower carbon or carbon-free vehicles** should also play in favour of car parts suppliers offering **weight-reduction solutions** and/or lower **CO₂/ particle emissions**.
- **...In favour of parts manufacturers:** As such, we believe certain components makers should benefit from the **higher value of contents per vehicle** enabling them to outstrip market growth and widen margins. With prospective sales CAGR of **7.4%** and margin improvement of **30bp** over 2016-2018, **Faurecia, Hella, Plastic Omnium** and **Valeo** fit perfectly into this category. In this report we initiate coverage of **Faurecia** (FV of EUR47), **Plastic Omnium** (FV of EUR36) and **Hella** (FV of EUR45) with **Buy** recommendations and **Valeo** (FV of EUR49) with **Neutral** recommendation).



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