

Sector View

Car Part Manufacturers

Innovation: the only way to stand out! (full report released today)

	1 M	3 M	6 M	31/12/15
Auto & Parts	-2.2%	5.8%	-1.5%	-14.9%
DJ Stoxx 600	-2.1%	3.6%	-1.0%	-7.4%

*Stoxx Sector Indices

Companies covered

Company	Recommendation	FV
FAURECIA	BUY	EUR47
Last Price	EUR35.425	Market Cap. EUR4,885m
HELLA	BUY	EUR45
Last Price	EUR36	Market Cap. EUR4,000m
PLASTIC OMNIUM	BUY	EUR36
Last Price	EUR28.375	Market Cap. EUR4,327m
VALEO	NEUTRAL	EUR49
Last Price	EUR48.895	Market Cap. EUR11,656m

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.

ANALYSIS

- **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** (FV of EUR47), **Plastic Omnium** (FV of EUR36) and **Hella** (FV of EUR45) with **Buy** recommendations and **Valeo** (FV of EUR49) with **Neutral** recommendation.

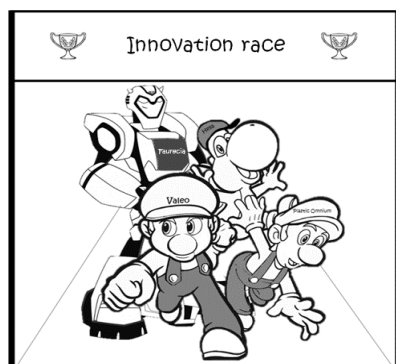
VALUATION

- At current share price the sector is trading at **12x** its 2017e EBIT & **14x** its 2017e EPS
- We initiate the 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.

NEXT CATALYSTS

- 26th September – Renault // Renault Scenic Test Drive
- 28th September – Hella // Q1-16/17 earnings
- 28th September – Valeo // Driving assistance & powertrain electrification presentation

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Distribution of stock ratings

BUY ratings 55.3%

NEUTRAL ratings 33.3%

SELL ratings 11.3%

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