

Sector View

Car Part Manufacturers

Q4 2016 auto & parts Top Picks: Plastic Omnium

	1 M	3 M	6 M	31/12/15
Auto & Parts	0.8%	0.7%	-3.2%	-15.7%
DJ Stoxx 600	0.5%	-0.3%	1.5%	-6.8%

*Stoxx Sector Indices

Companies covered

FAURECIA	BUY	EUR47
EUR34.6	EUR4.8bn	
HELLA	BUY	EUR45
EUR35.45	EUR3.9bn	
PLASTIC OMNIUM	BUY	EUR36
EUR29	EUR4.44bn	
VALEO	NEUTRAL	EUR49
EUR49	EUR11.9bn	

LOOKING BACK ON Q3 2016

Over Q3 2016, the Stoxx 600 Automotive Index performed strongly, outpacing the Stoxx 600 Index by **7.7pp** (+11% vs. +3.1%) after having disappointed in Q1 (-11.2% vs. -7.7%) and in Q2 (-15.5% vs. -2.3%). The solid H1 2016 earnings released by almost all automotive players, OEMs as well as suppliers, reassured investors. **All 2016 targets were confirmed**, despite fears of a slowdown stemming from the European and North American automotive markets since the beginning of the year. Interestingly, this solid performance was driven predominantly by suppliers, while OEMs continued to lag despite impressive earnings performances over the first semester (even from European mass makers such as Renault or Peugeot). Within our BG Auto & Parts coverage, **Hella** was the best performer over Q3 2016 (+24%), followed by **Valeo** (+22%), **Faurecia** (+20%) and **Plastic Omnium** (+15%).

WHAT WE SEE FOR Q4 2016

Despite the risk linked to Brexit that could alter both auto demand and production in Europe over Q4 2016, we remain confident that full year guidance for the four stocks we recently initiated (*see report: [Car parts manufacturers: Innovation the only way to stand out!](#)*) will be maintained during Q3 2016 earnings publications (Faurecia will set the ball rolling on 13th October). We then still expect global auto demand and production to rise **2.4% globally** after dropping **1.7% in 2015**. Recent comments made by some European suppliers confirm a potential slowdown in Europe is possible during the second half, a slowdown that should be partially offset by still ongoing solid output in the North American market. Investor attention is set to focus on SMMT UK statistics for September (first week of October) given the weight of this month for the UK automotive market (17% vs. 10% on average for all other European markets) and given the weight of the UK market within the European market (>17%).

CONCLUSIONS AND TOP PICKS

Despite our solid positive view on Faurecia, we have decided to place **Plastic Omnium** on the BG Q4 2016 Top Pick list as we believe the group should be able to post solid Q3 2016 sales growth as in H1 2016, boosted by a positive scope effect (FAE) and as the group should benefit from positive share price recovery effect compared with its other French peers (-6pp). We see recent investor concerns over Dieselgate as exaggerated, especially given the group's still limited sales exposure to SCR tank systems (5% of 2016e sales). We recently initiated **Plastic Omnium** with a **Buy rating** and a **FV of EUR36** ([Playing in the big league – Buy FV @ EUR36 – Coverage initiation](#)). However, **Faurecia remains our LT favourite within our coverage.**



Stock	Init. date	Price @ init.	Last price	Perf.	Rating	FV	Upside
Faurecia	15/09/2016	36,2	34,6	-4,4%	Buy	47	35,8%
Hella	15/09/2016	36,9	35,7	-3,3%	Buy	45	26,1%
Plastic Omnium	15/09/2016	29,5	29,0	-1,7%	Buy	36	24,1%
Valeo	15/09/2016	48,7	49,0	0,6%	Neutral	49	0,0%

Auto Top pick (pointing to Plastic Omnium)

BG Q4 Top pick (pointing to Plastic Omnium)

BG auto and parts – Valuation table

Yield	Faurecia	Hella	Plastic Omnium	Valeo	Average suppliers
FCF yield 2015	4,4%	1,1%	4,8%	5,2%	3,9%
FCF yield 2016e	5,5%	3,4%	2,7%	4,1%	3,9%
FCF yield 2017e	4,4%	4,6%	6,1%	4,7%	4,9%
FCF yield 2018e	6,9%	5,8%	6,6%	5,7%	6,3%
Average 16-18	5,6%	4,6%	5,1%	4,8%	5,0%
Dividend Yield 2015	1,9%	2,2%	1,4%	2,3%	1,9%
Dividend Yield 2016e	3,0%	2,7%	1,8%	2,2%	2,4%
Dividend Yield 2017e	3,2%	2,9%	2,3%	2,6%	2,7%
Dividend Yield 2018e	3,7%	3,3%	2,6%	2,8%	3,1%
Average 16-18	3,3%	3,0%	2,2%	2,5%	2,8%
Valuation	Faurecia	Hella	Plastic Omnium	Valeo	Average suppliers
EV/EBIT 2015	9,1x	11,1x	11,6x	12,0x	11,0x
EV/EBIT 2016e	6,3x	8,9x	10,9x	11,6x	9,4x
EV/EBIT 2017e	5,5x	8,0x	8,1x	9,9x	7,9x
EV/EBIT 2018e	4,7x	6,9x	6,9x	8,8x	6,8x
Average 16-18	5,5x	7,9x	8,6x	10,1x	8,0x
Premium/Discount	-31,8%	-1,3%	7,6%	25,5%	-
P/E 2015	13,3x	14,7x	17,2x	14,2x	14,9x
P/E 2016e	9,4x	11,1x	13,7x	13,5x	11,9x
P/E 2017e	8,8x	10,2x	11,1x	11,6x	10,4x
P/E 2018e	7,5x	9,0x	9,8x	10,6x	9,2x
Average 16-18	8,6x	10,1x	11,5x	11,9x	10,5x
Premium/Discount	-18,6%	-3,9%	9,5%	13,1%	-
PEG 2015-18					
PEG 2015	0,14x	-2,28x	1,09x	0,49x	-0,14x
PEG 2016e	0,22x	0,34x	0,53x	0,82x	0,48x
PEG 2017e	1,33x	1,22x	0,47x	0,69x	0,93x
PEG 2018e	0,46x	0,69x	0,74x	1,10x	0,75x
Average 17-18	0,67x	0,75x	0,58x	0,87x	0,72x
Premium/Discount	-6,4%	4,4%	-19,3%	21,3%	-

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