

Hella

Price EUR37.15

Solid Q1 2016 metrics expected, helped by a favourable base effect and market growth

Fair Value EUR45 (+21%)

BUY

Bloomberg	HLE.GR
Reuters	HLE.DE
12-month High / Low (EUR)	39.3 / 27.7
Market Cap (EURm)	4,128
Ev (BG Estimates) (EURm)	4,152
Avg. 6m daily volume (000)	132.0
3y EPS CAGR	17.5%

Next week, German supplier Hella is set to post solid Q1 2016/17 sales and profit growth helped by positive market growth, an outperformance vs. auto production and favourable comparison with the poor operating performance seen in Q1 2015/16. We expect the group to reiterate its positive tone for the year making us comfortable with our 2016/17 estimates. Buy with FV @ EUR45.

ANALYSIS

- Solid quarterly growth on the cards:** We expect the group to post total sales growth of **3.4%**, penalised by a negative **1.3%** forex effect, implying organic sales growth of **4.7%** over Q1 2016/17, to **EUR1.55bn** (consensus @ EUR1.56bn, up 4.3%). Thanks to favourable comparison with the year-earlier period (Q1 2015/16 margin and earnings were penalized by negative one-off elements linked to supplier failure), we anticipate impressive YoY growth in reported EBIT and net profit for the quarter (respectively +59% and +80%). EBIT margin should then improve by **250bp to 7.1%** while the group's net margin should rise by **210bp to 5%**. On a LfL basis (after restating Q1 2015/16 metrics) we still expect double digit growth in reported EBIT (+11.4%) and net profit (+19%) to respectively **EUR109m** and **EUR77.6m** (consensus @ EUR112m for reported EBIT).
- We are comfortable with our 2016/17 estimates...** At this stage we remain confident in our full year estimates and still expect solid earnings growth compared with last year thanks notably to robust sales growth (helped by market outperformance) in both Europe and Asia. The group's profitability should then move back towards the 2015 level at **7.6%**, which should drive ROCE closer to **10%**.
- ...and with our Buy recommendation:** We recently initiated coverage of Hella with a Buy recommendation and a FV of EUR45 ([In the headlights – Buy FV @ EUR45 – Coverage initiation](#)) and still see >**20%** upside vs. the latest share price. Hella is currently trading on a discount of >**15%** relative to historical multiples and **10%** relative to rivals, offering an excellent entry point to play long-term growth themes in the sector with the group being present in both the automotive lighting and electronics markets.

VALUATION

- At the current share price Hella is trading at **9.3x** its 2016/17 EBIT and **11.6x** its 2016/17 EPS
- Buy, FV @ EUR45**

NEXT CATALYSTS

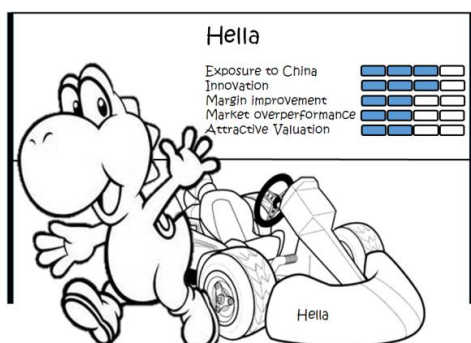
- Q1 2016/17 earnings: 28th September

	1 M	3 M	6 M	31/12/15
Absolute perf.	5.9%	10.1%	-0.5%	-3.6%
Auto & Parts	-0.1%	1.6%	-4.2%	-15.2%
DJ Stoxx 600	0.7%	0.7%	0.5%	-6.4%

YEnd May (EURm)	05/16	05/17e	05/18e	05/19e
Sales	6,352	6,611	6,940	7,288
% change		4.1%	5.0%	5.0%
EBITDA	816	875	944	1,037
EBIT	366.5	446.7	479.6	538.3
% change		21.9%	7.4%	12.2%
Net income	268.5	355.7	385.6	436.1
% change		32.5%	8.4%	13.1%

	05/16	05/17e	05/18e	05/19e
Operating margin	5.8	6.8	6.9	7.4
Net margin	4.2	5.4	5.6	6.0
ROE	13.6	15.9	15.3	15.3
ROCE	8.5	9.6	9.8	10.4
Gearing	28.6	23.0	17.4	11.5

(EUR)	05/16	05/17e	05/18e	05/19e
EPS	2.42	3.20	3.47	3.93
% change	-	32.5%	8.4%	13.1%
P/E	15.4x	11.6x	10.7x	9.5x
FCF yield (%)	1.0%	3.2%	4.4%	5.5%
Dividends (EUR)	0.77	0.96	1.04	1.18
Div yield (%)	2.1%	2.6%	2.8%	3.2%
EV/Sales	0.7x	0.6x	0.6x	0.5x
EV/EBITDA	5.2x	4.7x	4.3x	3.8x
EV/EBIT	11.6x	9.3x	8.4x	7.2x



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