

Hella

Price EUR35.79

Q1-2016/17 fist take: a solid year start despite unfavourable FX effect

Fair Value EUR45 (+26%)

BUY

Bloomberg	HLE.GR
Reuters	HLE.DE
12-month High / Low (EUR)	39.3 / 27.7
Market Cap (EURm)	3,977
Ev (BG Estimates) (EURm)	4,001
Avg. 6m daily volume (000)	137.0
3y EPS CAGR	17.5%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-0.9%	25.2%	-2.0%	-7.1%
Auto & Parts	-1.9%	13.6%	-3.8%	-16.1%
DJ Stoxx 600	-1.0%	10.2%	1.5%	-7.0%

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	14.8x	11.2x	10.3x	9.1x
FCF yield (%)	1.0%	3.3%	4.6%	5.7%
Dividends (EUR)	0.77	0.96	1.04	1.18
Div yield (%)	2.2%	2.7%	2.9%	3.3%
EV/Sales	0.6x	0.6x	0.6x	0.5x
EV/EBITDA	5.0x	4.6x	4.1x	3.6x
EV/EBIT	11.2x	9.0x	8.1x	7.0x

Hella posted this morning solid Q1-2016/17 earnings this morning, despite unfavourable FX and disposal effects. All earnings metrics came out slightly above our expectations, with adjusted EBIT margin up 80bp to 7.6% (BG @ 7.2%). Full year objectives were reiterated with the group confirming both its market outlook for 2016 (+3% growth) and its internal sales and margin targets. We expect positive share price reaction this morning especially after the recent share price drop observed over past five days. Buy, FV @ EUR45.

ANALYSIS

- Main Q1-16/17 figures:** Total sales for first quarter are up **3.8%** YoY to **EUR1.55bn**, and up **5.2%** LfL when adjusted from FX and disposal effects. Automotive segment revenues are up **3.2%** to **EUR1.16bn** while sales from Aftermarket grew by **7.3%** to **EUR313m** due to positive wholesale and strong workshop development. The growth in auto segment was driven particularly by innovative LED solutions and energy management products. Despite a **60bp rise in R&D expenses ratio** (to 9.9%) due to strong investments in new product generations in lighting and electronics, group's adjusted EBIT is strongly up, as expected, by **17%** to **EUR117m**, above BG and market expectations (respectively **EUR109m** & **EUR114m**), allowing Hella to improve its adjusted EBIT margin from **6.8%** to **7.6%**. As a reminder the group is benefiting over first quarter from **positive base effect** as last year margin in the Automotive segment was affected by the failure of a Chinese supplier that had caused high one-time expenses. On a LfL basis the group's adjusted EBIT then grew by **17%** to **EUR118m** (BG @ **EUR112m**) helped by improved earnings contribution from the JVs. Net Q1-16/17 earnings came out at **EUR83m**, and more than doubled compared with last year, slightly above our expectations (BG @ **EUR76.6m**). As anticipated group's adjusted operative CF decreased compared with last year, due to payment of trade liabilities after build-up at year-end. Net capex spent remained stable though, at **EUR106m**.
- Elements to retain from this publication:** **1/Earnings** are strongly up compared with last year on a YoY basis, helped by favourable base comparison, **2/Even** adjusted from this, group's adjusted EBIT is **up 17%** while group's net profit is **up >29%** thanks to positive sales growth coming from both Automotive segment (+3.2%) and Aftermarket segment (+7.3%) despite unfavourable FX effect. **3/R&D expenses continued to surge**, yet this effect was more than offset by gross margin improvement (*higher capacity utilization*) and by lower SG&A expenses ratio allowing the group to generate higher profitability. **4/Market** assumptions for 2016 & for 2017 were reiterated despite more cautious comment on U.S. and on China. We hope to get more details during the conference call this afternoon given the uncertainties linked to these two markets for 2017.
- Conclusions:** 2016/17 guidance was confirmed by the group. Hella still expects sales and adjusted EBIT to grow in **the middle single-digit % range** and **the adjusted EBIT margin** to be in line with 2015/16 (*around 7.5%*). We expect positive share price reaction this morning especially after the recent share price drop observed over past five days. **Buy, FV @ EUR45**

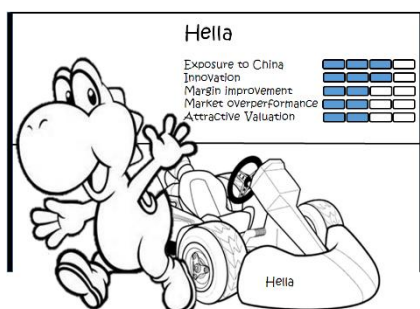
VALUATION

- At current share price Hella is trading at **9.0x** its 2017e EBIT and **11.2x** its 2017e EPS
- Buy, FV @ EUR45**

NEXT CATALYSTS

- Conference call @ **01.30pm CEST time**

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