

Valeo

Price EUR50.28

Innovation as DNA

Fair Value EUR49 (-3%)

NEUTRAL

Bloomberg	FR FP
Reuters	VLOF.PA
12-month High / Low (EUR)	50.3 / 34.9
Market Cap (EUR)	11,986
Ev (BG Estimates) (EUR)	14,091
Avg. 6m daily volume (000)	823.3
3y EPS CAGR	14.2%

Yesterday afternoon, on the sidelines of the Paris Auto Show, Valeo hosted a "TECH" event focusing specifically on its two businesses offering the biggest sales growth potential: *Comfort & Driving Assistance* and *Powertrain Systems*, notably in view of the market transformation affecting the automotive industry (greener vehicles and self-driving vehicles). The general tone was very positive while figures/metrics unveiled were quite interesting, making us comfortable with our 2016-20 estimates.

	1 M	3 M	6 M	31/12/15
Absolute perf.	9.6%	26.0%	16.3%	-64.2%
Auto & Parts	-0.7%	13.3%	-2.6%	-15.1%
DJ Stoxx 600	-0.3%	8.2%	2.2%	-6.4%

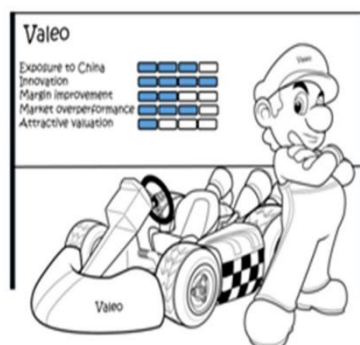
YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	14,544	15,996	17,602	18,716
% change		10.0%	10.0%	6.3%
EBITDA	1,847	2,036	2,341	2,504
EBIT	1,060	1,225	1,402	1,520
% change		15.5%	14.5%	8.4%
Net income	729.0	853.2	996.6	1,092
% change		17.0%	16.8%	9.6%

	2015	2016e	2017e	2018e
Operating margin	7.3	7.7	8.0	8.1
Net margin	5.0	5.3	5.7	5.8
ROE	21.0	21.2	21.2	20.1
ROCE	23.7	19.6	20.8	21.3
Gearing	0.5	27.7	17.5	8.5

(EUR)	2015	2016e	2017e	2018e
EPS	3.11	3.62	4.23	4.64
% change	-	16.4%	16.8%	9.6%
P/E	16.2x	13.9x	11.9x	10.8x
FCF yield (%)	4.6%	4.0%	4.5%	5.5%
Dividends (EUR)	1.00	1.09	1.27	1.39
Div yield (%)	2.0%	2.2%	2.5%	2.8%
EV/Sales	0.9x	0.9x	0.8x	0.7x
EV/EBITDA	7.0x	6.9x	5.9x	5.3x
EV/EBIT	12.2x	11.5x	9.8x	8.8x

ANALYSIS

- Financial targets reiterated:** While the afternoon was dedicated to technology, and to high growth potential markets, Valeo's CEO Jacques Aschenbroich took the opportunity to restate his 2020 financial targets. The previous 2020 **EUR20bn sales objective** was logically revised up (*from EUR20bn before to >EUR20bn today*) especially in view of the positive scope effect following acquisitions of Peiker, Spheros and LTE (*EUR1bn additional sales*) in 2016, while the profitability target was unchanged (*EBIT margin between 8 and 9%*). For the business unit targets, the management team indicated the group was ahead of the plan. As a reminder, we were already expecting Valeo to post 2020 sales of **EUR21.2bn**, and to generate **8.8%** EBIT margin (*Valeo definition*). **The confirmations and positive comments are clearly welcome but do not alter at all our 2016-20 estimates. As a reminder, the group's guidance is still based on a 3% YoY market growth assumption while at BG we are more cautious with a +1.7% YoY market assumption over 2016-18 and then +1.5% afterwards.**
- Focus on Confort & Driving Assistance business:** From the presentation, we mainly retained the fact that Valeo should benefit from the progressive development of self-driving vehicles within new registrations thanks to its expertise in sensors. The group indicated it delivered **560m ADAS sensors** (*ultrasonic systems, rain sensor, front camera, laser scanners...*) between 1990 and 2015 (*implying an average of >22m per year*) and unveiled it will deliver **140m in 2016**. With a **45%** market share (*MS*) within ultrasonic systems market last year and a **30%** MS within viewing camera market, Valeo is clearly well established in this market. Its partnerships with **Safran, Mobileye and IAV**, combined its internal expertise on this market should allow Valeo to benefit over coming years from the rise in **content per car value** linked to the deployment of **Level 2/Level 3 and Level 4/5 self-driving car equipment** within new vehicles. According to the group, **Level 4/5 ADAS equipment** could represent up to **EUR5k** vs. only **EUR0.5k** for **Level 2 vehicles** (*for Valeo*). As a reminder, for its CDU business (*18% of group's sales and 26% of group's EBITDA*) the group is targeting a sales CAGR of **8%** leading to **EUR4bn**, and growth in **EBITDA margin of 300bp to 17.5%**.
- Focus on Powertrain Systems business:** Through this presentation, the group elaborated on the growth potential in this business unit that should benefit from a **higher penetration rate of electrification** within new car registrations (*trend driven by stricter regulations on CO₂ / NO_x emissions but also the VW scandal*). First, Valeo through its historical presence in transmissions components for ICE should continue to benefit from higher ICE vehicle demand (*notably for automatic transmission where value is twice more important compared with manual transmission*) while its expertise on **12V and 48V** and now on **60V** electrical systems (*through its new JV with Siemens*) would allow it to enjoy the rising share of **BEV** (*Battery Electric Vehicle*) and **PHEV** (*Plug-in Hybrid Vehicle*) with new car demand. The group's current base scenario implies that by 2026 **conventional ICE vehicles** (*including Stop & Start*) will still represent **57%** of car production, while **Mild Hybrid** (*equipped with 12V & 48V electrical systems*) will represent roughly **20%** of the market and full hybrid/PHEV and HP BEV will represent respectively **18%** and **4%** of the market. Given the higher average content per car for Valeo between PHEV/BEV vehicles and traditional ICE vehicles in electronics and transmission components (*see table page 2*) the group expects to easily outperform global automotive production over coming years in this business unit. Valeo indicated it is targeting a **40%** MS in 2020 on **48V Mild Hybrids** vehicles market thanks notably to its **25 contracts signed** in China and in Europe, and a **60%** MS when including superchargers. On this business which represents **26%** of group's sales and **26%** of group's EBITDA, Valeo aims to post a **sales CAGR of 9.5%** while boosting its EBITDA margin by **70bp to 13.5%**.



- **Conclusion:** The group's presentation was very clear and detailed, allowing us to better understand the different market potentials the group is currently positioned on. We appreciated the transparency of management on the assumptions used for 2026 automotive production (*on the mix between ICE and non-ICE vehicles*) as well as the data unveiled on the potential impact on content per value. Valeo is clearly one of the most innovative companies within the automotive sector with Continental, Bosh or Delphi, and is definitively the most innovative stock within our coverage. We appreciate the group's positioning as well as its strategy, bt see very limited upside in the short term relative to the latest share price despite being already above the group's middle range guidance on EBIT (*we are at 8.8% vs. 8-9% targeted by the group*). We believe at some point the group will have difficulties maintaining its R&D expenses under control.
- **At this stage we confirm our Neutral rating with FV unchanged at EUR49/share.**

VALUATION

- At the current share price Valeo is trading at **9.7x** its 2017e EBITDA and at **11.7x** its 2017e EPS.
- **Neutral, with FV @ EUR49/share.**

NEXT CATALYSTS

- 20th October – Q3 2016 sales

Table 1: Valeo powertrain – MS of technology in 2026 compared with average content per car compared with ICE

Electronic systems	Vehicle type	Market today in volumes	Market in volumes in 2026	MS Today	MS 2026	Valeo powertrain content
Stop & Start	ICE	83,7	66,5	94%	57%	x1
Low Voltage solutions (12V & 48V)	Low power BEV	0,8	3	1%	3%	x2
	12V Mild Hybrid	0,8	8	1%	7%	x3
	48V Mild Hybrid	0,2	12,5	0%	11%	x2
High Voltage solutions (>60V)	PHEV	2,6	21	3%	18%	x9
	High Power BEV	0,5	5	1%	4%	x7

Source: Valeo

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Analyst :
Xavier Caroen
33(0) 1.56.68.75.18
xcaroen@bryangarnier.com

Research Assistant :
Clément Genelot

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London	Paris	New York	Munich	New Delhi
Beaufort House	26 Avenue des Champs Elysées	750 Lexington Avenue	Widenmayerstrasse 29	The Imperial Hotel Janpath
15 St. Botolph Street	75008 Paris	New York, NY 10022	80538 Munich	New Delhi 110 001
London EC3A 7BB	Tel: +33 (0) 1 56 68 75 00	Tel: +1 (0) 212 337 7000	Germany	Tel +91 11 4132 6062
Tel: +44 (0) 207 332 2500	Fax: +33 (0) 1 56 68 75 01	Fax: +1 (0) 212 337 7002	+49 89 2422 62 11	+91 98 1111 5119
Fax: +44 (0) 207 332 2559	Regulated by the	FINRA and SIPC member		Fax +91 11 2621 9062
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Financial Conduct Authority (FCA)	Autorité de Contrôle prudentiel et de			rue de Grenus 7
	resolution (ACPR)			CP 2113
				Genève 1, CH 1211
				Tel +4122 731 3263
				Fax+4122731 3243
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