

Faurecia

Price EUR34.05

A poor Q3 as expected, affected by decline in Europe & unfavourable FX/scope effects

Fair Value EUR47 (+38%)

BUY

Bloomberg	EO FP
Reuters	EPED.PA
12-month High / Low (EUR)	37.3 / 27.2
Market Cap (EUR)	4,694
Ev (BG Estimates) (EUR)	5,502
Avg. 6m daily volume (000)	556.3
3y EPS CAGR	20.2%

As expected, Faurecia posted poor Q3 sales yesterday after market, with group business affected by production decline in Europe and by unfavourable FX/scope effects. All targets were reiterated, yet we negatively adjusted our 2016 sales and EBIT estimates by respectively 2% and 1%. We continue to play Faurecia for its margin and EPS improvement, thanks notably to self-help measures, and not for its ability to outperform automotive production.

ANALYSIS

- Main Q3-16 metrics:** Total sales for Q3 came out at **EUR4.24bn**, down 1.9% YoY and up 1.6% LfL while its value added sales were almost flat at EUR3.53bn compared with last year, but up 3.7% on a LfL basis. This should be compared with +3.4% and +5% LfL sales growth posted by the group during first semester. Consensus stood at **EUR4.374bn** in line with our estimates (BG @ EUR4.38bn). Over this quarter, the group suffered from lower precious metal (-9%) affecting its monolith (*pass-through*) revenues, from negative FX effect (-1.9%) and from negative scope effect (-1.5%) following the disposal of the Foutain Inn plant.

- What to retain from this publication?** 1/European sales (-3% YoY and -1.9% LfL) were hit by lower output from VW and Ford (*Ford Focus & Ford Fiesta*). Market production fall by 2% over the quarter. The group indicated that the region should not be better in Q4 (*stability of production due to one working day less and production adjustment of key customer (Daimler and Ford)*). 2/Group's North American sales was almost flat organically while market production was up 2%. This underperformance was mainly due to the **Chrysler 200** production cut, as well as the **F-150** lower output. 3/Group's performance in Asia was impressive at +18% LfL (*vs. only +3.8% in published in H1-16*) yet the group indicated that it has underperformed Chinese LV production, still penalized by its exposure to PSA. Interestingly Faurecia indicated its sales to Chinese OEMs increased by 40% and now represented 14% of group's Chinese business, vs. 13% previously. On a more mid-term view, the group indicated that 4/it saw a strong order intake acceleration since 2015 (*contrasting with 2013 & 2014*) for which impact on sales will be visible from H2 2017. H1 2017 will be driven by JVs activity launch/ramp-up in China and Brazil. It also indicated that 5/LatAm seems to stabilize and a change of trend in Brazil should positively impact production in the next quarter. Its JV in Brazil should be close to breakeven by H1 2017 (*-EUR20m FY2016e*). Finally the group confirmed its 2016 guidance (*total LfL sales growth of +1/+3%, operating margin of 5% minimum and minimum net cash flow of EUR300m*) while indicated its 2016 group's sales will be affected by -2% on FX effect and by -1% on scope effect. It also upgraded its restructuring costs in US linked to FCA issue by EUR10m to EUR70m.

- We adjust our 2016 estimates by 2%:** We adjusted our 2016 estimated with more unfavourable FX and scope effect and integrated now expect the group to post LfL sales growth of 2.5% vs. +3% previously. **We then adjusted our 2016 sales estimates by 2% and our 2016 EBIT estimates by less than 1%.**

- Conclusion:** This poor third quarter is not a surprise given that we knew the group would be negatively affected by a production decline in Europe. Despite these negative adjustments to our sales estimates, we keep our FV unchanged at **EUR47/share**. Faurecia is not an equity story based on sales growth, but on margin and EPS improvement, thanks notably to self-help measures.

VALUATION

- At current share price Faurecia is trading at 5.2x its 2017e EBITDA and at 8.8x its 2017e EPS
- Buy, FV @ EUR47

NEXT CATALYSTS

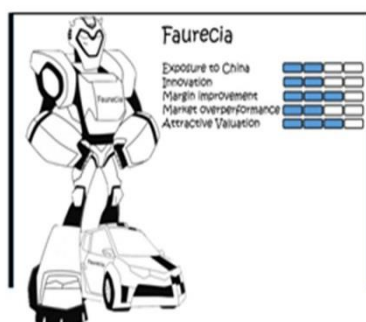
- 02nd November – Faurecia – Breakfast with IR @ Bryan Garnier Paris

	1 M	3 M	6 M	31/12/15
Absolute perf.	-3.9%	8.0%	-1.1%	-4.9%
Auto & Parts	0.3%	7.0%	-1.2%	-14.7%
DJ Stoxx 600	-0.9%	-0.1%	-2.2%	-8.3%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	18,770	18,804	19,591	20,433
% change		0.2%	4.2%	4.3%
EBITDA	1,442	1,547	1,588	1,769
EBIT	830.0	928.7	1,034	1,146
% change		11.9%	11.4%	10.9%
Net income	371.8	497.2	536.2	623.6
% change		33.7%	7.8%	16.3%

	2015	2016e	2017e	2018e
Operating margin	4.4	4.9	5.3	5.6
Net margin	2.0	2.6	2.7	3.1
ROE	14.2	23.1	15.7	16.0
ROCE	12.6	16.6	17.0	17.5
Gearing	36.2	4.2	1.5	-3.5

(EUR)	2015	2016e	2017e	2018e
EPS	2.60	3.60	3.88	4.52
% change	-	38.4%	7.8%	16.3%
P/E	13.1x	9.5x	8.8x	7.5x
FCF yield (%)	4.5%	5.3%	4.6%	7.2%
Dividends (EUR)	0.65	1.01	1.09	1.27
Div yield (%)	1.9%	3.0%	3.2%	3.7%
EV/Sales	0.4x	0.3x	0.3x	0.3x
EV/EBITDA	4.6x	3.6x	3.4x	2.9x
EV/EBIT	8.0x	5.9x	5.2x	4.5x



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