

## Valeo

Price EUR52.11

Solid Q3 performance, reassuring outlook on 2016 but already priced in

Fair Value EUR49 (-6%)

NEUTRAL

Bloomberg	FR FP
Reuters	VLOF.PA
12-month High / Low (EUR)	52.8 / 34.9
Market Cap (EUR)	12,422
Ev (BG Estimates) (EUR)	14,505
Avg. 6m daily volume (000)	792.9
3y EPS CAGR	14.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	6.3%	23.4%	16.4%	-62.9%
Auto & Parts	4.4%	6.6%	-2.4%	-12.0%
DJ Stoxx 600	1.0%	1.0%	-1.8%	-5.9%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	14,544	16,372	17,942	19,045
% change		12.6%	9.6%	6.2%
EBITDA	1,847	2,071	2,364	2,523
EBIT	1,060	1,260	1,421	1,532
% change		18.8%	12.8%	7.8%
Net income	729.0	880.4	1,011	1,102
% change		20.8%	14.9%	8.9%

	2015	2016e	2017e	2018e
Operating margin	7.3	7.7	7.9	8.0
Net margin	5.0	5.4	5.6	5.8
ROE	21.0	21.7	21.3	20.1
ROCE	23.7	20.1	21.0	21.2
Gearing	0.5	27.0	17.4	8.6

(EUR)	2015	2016e	2017e	2018e
EPS	3.11	3.74	4.29	4.68
% change	-	20.1%	14.9%	8.9%
P/E	16.8x	13.9x	12.1x	11.1x
FCF yield (%)	4.4%	4.0%	4.3%	5.2%
Dividends (EUR)	1.00	1.12	1.29	1.40
Div yield (%)	1.9%	2.2%	2.5%	2.7%
EV/Sales	0.9x	0.9x	0.8x	0.7x
EV/EBITDA	7.3x	7.0x	6.0x	5.5x
EV/EBIT	12.6x	11.5x	10.0x	9.0x

Yesterday after market Valeo posted a solid Q3 sales performance leading the group to be more confident in its EBIT margin guidance for 2016 (*margin of around 8% vs. >7.7% targeted before*), as already anticipated by the market. Valeo continued to outperform the global auto market (+7pp) but at a slower pace than in Q1 and Q2 and compared with Plastic Omnium, confirming our preference for the latter in the short-term. We have lifted our 2016 sales and earnings estimates by respectively 2.3% and 2.9% notably on the back of a less unfavourable FX effect. At this stage, we are making no change to our EUR49/share FV and Neutral recommendation for valuation reasons.

## ANALYSIS

- Main Q3 2016 metrics:** Total Q3 sales came out at **EUR4bn up 16%** compared with last year, thanks to a positive scope effect (+4pp) following the integration of **Spheros & Peiker** and thanks to a solid LfL performance (+12%) in the group's OE business, leading to **7pp of outperformance vs. the market. However, despite being quite impressive, this outperformance was slightly below the +8pp reported by Plastic Omnium yesterday and below what Valeo reported in Q1 and Q2.** Despite this lower outperformance, Q3 sales came out **4%** above consensus and BG estimates (*BGe @ EUR3.85bn*) with the FX effect the main contributor as we were anticipating a negative FX effect as seen during the first quarters, whereas the group benefited from a neutral FX effect in Q3 (*thanks notably to its exposure to Japan*). Unexpected sales growth from Miscellaneous business also contributed positively. By region, the group's sales performance came from **all main markets except Japan (due to Nissan)** with **European sales up 9% LfL**, while sales in **North America** and in **Asia** were rose **7%** and **23%** respectively. The performance in Asia was notably helped by favourable comparison with low production in China in Q3 2015. By business, sales growth was mostly generated by the Powertrain and Visibility segments (*sales growth accelerating in Q3 vs. H1 at respectively +11% and +16%*).
- What to retain from this publication?** **1/Q3 metrics came out 4% above** our expectations thanks to a better than expected FX effect and an unexpected higher than average contribution from the group's "Miscellaneous" business (*higher prototype contracts re-invoiced to final customers*). Excluding these two specific effects, metrics were in line with our expectations. **2/** the group's outperformance during Q3 in the OE segment softened compared with Q1 and Q2 at **+7%** vs. respectively **+9%** and **+11%** mainly due to its country mix. **3/**In view of better visibility on the rest of the year in Europe and in China, the group slightly upgraded its EBIT margin guidance for 2016 from **>7.7%** to around **8%** despite higher R&D expenses than initially anticipated. **This was not a surprise given that the consensus was already at 7.9% like BG.**
- Conclusion:** While these metrics were quite reassuring, at the end of the day, they were no a surprise and were in line with market expectations. **We have lifted our 2016 sales and earnings estimates by +2.3% and +2.9% respectively** on the back notably of a less unfavourable FX effect than previously modelled. We are making no change to our **EUR49/share FV** and our **Neutral recommendation**. Valeo currently trades with an average (*EV/EBIT & P/E for 2017*) **20% premium** compared with Plastic Omnium despite lower LfL sales growth and a lower EBIT margin.

## VALUATION

- At the current share price the stock is trading at **6.1x** its 2017e EBITDA & at **12.4x** its 2017e earnings
- Neutral, FV @ EUR49**

## NEXT CATALYSTS

- 30th November – Valeo – Lunch with IR @ Bryan Garnier Paris**
- 16th February 2017 – 2016 annual results**

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