

Sector View

Car Part Manufacturers

	1 M	3 M	6 M	31/12/15
Auto & Parts	1.4%	2.4%	6.2%	-12.7%
DJ Stoxx 600	0.9%	0.0%	1.8%	-6.9%

*Stoxx Sector Indices

Companies covered

FAURECIA	BUY	EUR47
Last Price	Market Cap.	
HELLA	BUY	EUR45
Last Price	Market Cap.	
PLASTIC OMNIUM	BUY	EUR36
Last Price	Market Cap.	
VALEO	NEUTRAL	EUR49
Last Price	Market Cap.	



What if market went too far down on auto suppliers? (report published today)

We publish a report this morning in which we come back on most of the fears investors are starting to price into the automotive sector, and, most importantly, with the suppliers subsector. Risk of a stronger market slowdown exists yet these risks are not new and, even if this risk occurs, it should further reinforce our preference for suppliers vs. carmakers given inventories seems under control and given innovation will continue to drive sales growth.

ANALYSIS

- **The end of suppliers' supremacy?** Since end September, investors started favouring the carmakers within the auto sector to the detriment of suppliers, after almost three years of market overperformance from the latter vs. their own customers, reflecting their ability to outperform worldwide market growth easily. Given the recent market perception change, we assume investors now believe this overperformance will progressively soften, a perception we do not share given innovation will continue to drive the sales growth of most technological suppliers.
- **Market fears over a massive slowdown in demand next year are unjustified we believe:** Despite Brexit and Trump's election, global worldwide demand in mature markets remains relatively solid despite an unfavourable base comparison. It is not that new market growth should slowdown next year in the main markets, but that we judge investors' fears on suppliers' share prices as being excessive.
- **Even after simulating a massive fall in 2017 we still find upside:** We simulated a **4%** market fall for 2017 vs. the **+1.7%** we currently have in our model and found that, after the recent share price drops, **we still have upside** on three of the four stocks we cover (*Valeo being the exception*) vs. the latest share price, after cutting our 2017/18 estimates by **14%** on average. We believe the market has been too harsh on auto suppliers.
- **We still favour Faurecia and Plastic Omnium among our coverage:** We keep unchanged our estimates for 2016-18 (*except for Plastic Omnium as we integrate recent disposal*) but still believe our four auto suppliers will outperform the market by around **4-5pp** over 2016-18 while raising EBIT margin. Faurecia and Plastic Omnium remain our best preferred stocks offering respectively **48%** and **27%** upside. *Black Friday is in advance!*

VALUATION

- At current share price automotive supplier subsector is trading at **9.3x** 2017e EBIT and at **12x** 2017e EPS
- We have a **Buy rating** on **Faurecia** (FV of EUR47), **Plastic Omnium** (FV of EUR36) and **Hella** (FV of EUR45) with **Buy recommendations** and **Valeo** (FV of EUR49) with **Neutral recommendation**.

NEXT CATALYSTS

- **30th November** – Valeo – Lunch with IR @ Bryan Garnier Paris
- **14th December** – Plastivaloire // 2015/16 results
- **11th January** – Continental // 2016 preliminary results

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Distribution of stock ratings

BUY ratings 72%

NEUTRAL ratings 0%

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