3rd November 2016

Automotive

Faurecia

Price EUR32.50

Poor visibility on 2017 market growth, but the group should outperform for sure

Fair Value EUR47 (+45%) **BUY**

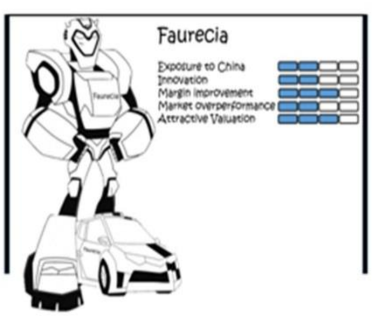
Bloomberg	EO FP
Reuters	EPED.PA
12-month High / Low (EUR)	37.3 / 27.2
Market Cap (EURm)	4,481
Ev (BG Estimates) (EURm)	5,288
Avg. 6m daily volume (000)	537.6
3y EPS CAGR	20.2%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-6.9%	-7.6%	-9.9%	-9.2%
Auto & Parts	1.6%	2.9%	0.4%	-12.8%
DJ Stoxx 600	-2.2%	-1.3%	-1.8%	-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	12.5x	9.0x	8.4x	7.2x
FCF yield (%)	4.7%	5.5%	4.8%	7.5%
Dividends (EUR)	0.65	1.01	1.09	1.27
Div yield (%)	2.0%	3.1%	3.3%	3.9%
EV/Sales	0.3x	0.3x	0.3x	0.2x
EV/EBITDA	4.4x	3.4x	3.3x	2.8x
EV/EBIT	7.7x	5.7x	5.0x	4.3x



Yesterday we hosted Faurecia (*Head of IR*) during a breakfast meeting organised with French investors. The global tone for the short term was not alarming, but not bullish either, with the group noting production cuts in Europe and in North America as most OEMs have started to optimise their year-end stocks. Visibility on 2017 market growth remains poor at this stage but the group should outperform for sure thanks to new contracts and a positive scope effect. The group's 6% EBIT margin target for 2018 does not seem at risk so far despite market fears. In the sector, Faurecia is among the stocks offering the highest EPS CAGR despite trading at a discount compared with peers and hist. multiples.

ANALYSIS

- **2017 sales growth should come from Interior Sytems:** While this segment (*28% of the group's sales and 26% of EBIT*) suffers in 2016 from production cuts for the **Ford F-150** in the US, from the timid success of the **Mercedes S Class** in Europe as well as from poor orders in 2012-13 (*back then the group entered a more selective mode when looking at future contracts, with managers deciding to protect margins to the detriment of future growth*), it should strongly contribute to 2017 sales growth at the group level thanks notably to a sales acceleration driven by **Chinese JVs** (*DongFeng and ChangAng*) as well as from the launch of **Jeep Renegade in Brazil** and the new **Peugeot 3008 and 5008 models** in Europe in 2017. In our model, we estimate the segment should grow by **5%** in 2017 and by **6%** in 2018 ahead of our group sales estimates of **4.2% and 4.3%.**
- **M&A remains a priority, with a group active but not too hasty**: With a net debt/EBITDA ratio close to zero following the disposal of FAE to Plastic Omnium, there is no secret that the group is clearly active in the M&A area. Its top priority is still to acquire technological companies in the **Interior System** field (*EUR200-400m of sales*) to gain value added within the HMI interface. Acquisitions dedicated to consolidation processes are not excluded yet and will mainly focus on expanding the group's presence outside of Europe, and if possible with Japanese OEMs. **So far in our model we do not include any M&A deals**.
- **A lower diesel share within new car production is unavoidable but represents only 6% of EBIT:** Market concerns about a lower diesel share in new car production are rational, especially when looking at recent statistics in Europe. However, we consider recent short-term pressure on the Faurecia share is overdone as diesel in light vehicles only represents **6%** of group's EBIT. Besides this, it is important to bear in mind that despite a lower share of diesel within new registrations, the share of **SCR systems** in remaining future diesel engines is set to surge to comply with stricter regulations (*Euro 6d in 2020*). At BG we assume the diesel share will fall from **19%** of 2015 registrations to **10%** by 2026 and assume SCR technology will equip **>70%** of new diesel by 2026 vs. only **21%** today, softening the EBIT drop due to a lower diesel share within new registrations. In addition, note that Faurecia should benefit from its partnership with Cummins in trucks and from stricter regulations for off-road vehicles in mature markets in China.
- **No change to our 2016-17 estimates:** We remain confident that the group can deliver its 2016 sales and EBIT targets and believe investors should now start to focus on 2017 and beyond. In our model we assume Faurecia will be able to generate **>4%** of sales growth for 2017, which combined with self-help measures would allow the group to raise its EBIT margin to **5.3%.** Fears linked to Chinese and US markets are in our view already priced in by the market. We confirm our Buy recommendation with FV unchanged at **EUR47.**

VALUATION

- At the current share price Faurecia trades at **5x** its 2017e EBIT and at **8.4x** its 2017e EPS
- **Buy**, FV @ **EUR47**

NEXT CATALYSTS

- 9th February 2017: 2016 earnings

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