

Faurecia

Price EUR34.02

A technological deal in line with group's strategy on infotainment

Fair Value EUR47 (+38%)

BUY

Bloomberg	EO FP
Reuters	EPED.PA
12-month High / Low (EUR)	37.3 / 27.2
Market Cap (EURm)	4,691
Ev (BG Estimates) (EURm)	5,499
Avg. 6m daily volume (000)	542.0
3y EPS CAGR	20.2%

Faurecia announced yesterday after market that it has entered into exclusive negotiations for a strategic partnership with Parrot Automotive, a French leading supplier of infotainment and connectivity solutions for the automotive industry. This deal which makes sense from a technological point of view, once fully completed, will have an 10bp accretive impact on Faurecia 's EBIT margin. We confirm our Buy rating with FV unchanged at EUR47/sh.

ANALYSIS

- A quick word on Parrot Automotive:** Representing more than one third of Parrot SA sales, Parrot Automotive is a French tech company that designs, develops and markets infotainment products for PC and commercial trucks. Firstly, present on the aftermarket automotive market through Bluetooth hands free car kits and car radios the group is now focusing its R&D and commercial efforts to address OEM market by providing carmakers infotainment platforms and connectivity modules. OEM segment now represents around 60% of group's sales. This entity is generating around **8-9% EBIT margin**.
- A deal in three steps:** The first step would be an initiation participation of **20%** in Parrot Automotive through a reserved capital increase based on an EV of 100% of Parrot Automotive. At the same time the group would subscribe to a convertible bond issued by Parrot SA which would allow Faurecia to increase its shareholding in Parrot Automotive to **50.01%** from 2019. By 2022 Faurecia would also be in a position to own all the shares in Parrot Automotive. We assume the first step implies a cash out of **EUR25m** for Faurecia to get **20%** of Parrot Automotive. The deal is subject to consultation with the employee representatives of Parrot Group (Q1-17).
- Innovation or nothing else:** This strategic partnership will give Faurecia a solid base in electroic applications and infotainment for connected vehicles. Combined with group's interior and HMI expertise, this deal would definitively reinforce group's position on connected vehicle market.
- Accretive on margin once fully consolidated:** While this deal implies a very limited potential impact on group's EPS assuming the group gets full control of Parrot Automotive, it is worth mentioning it will have a **10bp potential accretive impact** on group's EBIT margin, making us more comfortable with group's mid term target to raise EBIT margin close to **6%**.
- Positive:** We expect positive share price reaction today. We confirm the Buy rating with FV unchanged at EUR47/sh.

VALUATION

- At current share price Faurecia is trading at **5.2x** its 2017e sales and at **8.8x** its 2017e EPS
- Buy, with FV at **EUR47/sh**

NEXT CATALYSTS

- 9th February 2017: 2016 results

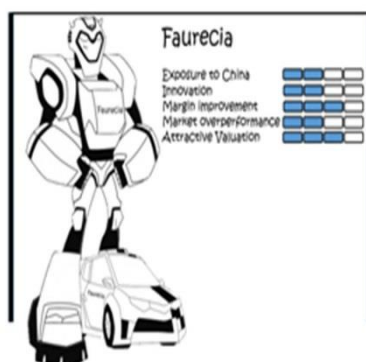
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	1 M	3 M	6 M	31/12/15
Absolute perf.	10.3%	-6.1%	-2.9%	-4.9%
Auto & Parts	5.3%	1.9%	5.0%	-11.3%
DJ Stoxx 600	3.8%	-2.7%	0.0%	-6.7%

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	9.4x	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	0.2x
EV/EBITDA	4.6x	3.6x	3.4x	2.9x
EV/EBIT	7.9x	5.9x	5.2x	4.5x



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Distribution of stock ratings

BUY ratings 72%

NEUTRAL ratings 0%

SELL ratings 28%

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