

# Industrials

## Sector Review - November

### 1. Introduction

- This report aims at looking into the industry of industrial companies, in different sectors to have an idea of what is going on in the industrial world. In order to represent the sector, we have chosen Volkswagen AG, ArcelorMittal, Novartis AG and Procter & Gamble. Moreover, we will analyze Portucel as a portuguese representative .
- Industrial companies, more than in any other sector, have the capacity of being present worldwide and are, therefore, influenced by generic macroeconomic factors and indicators, and not so much by country specific changes.

#### Industrial Companies:

- Volkswagen AG
- ArcelorMittal
- Novartis AG
- Procter & Gamble
- Portucel

#### This month's detailed company review:

- Volkswagen AG



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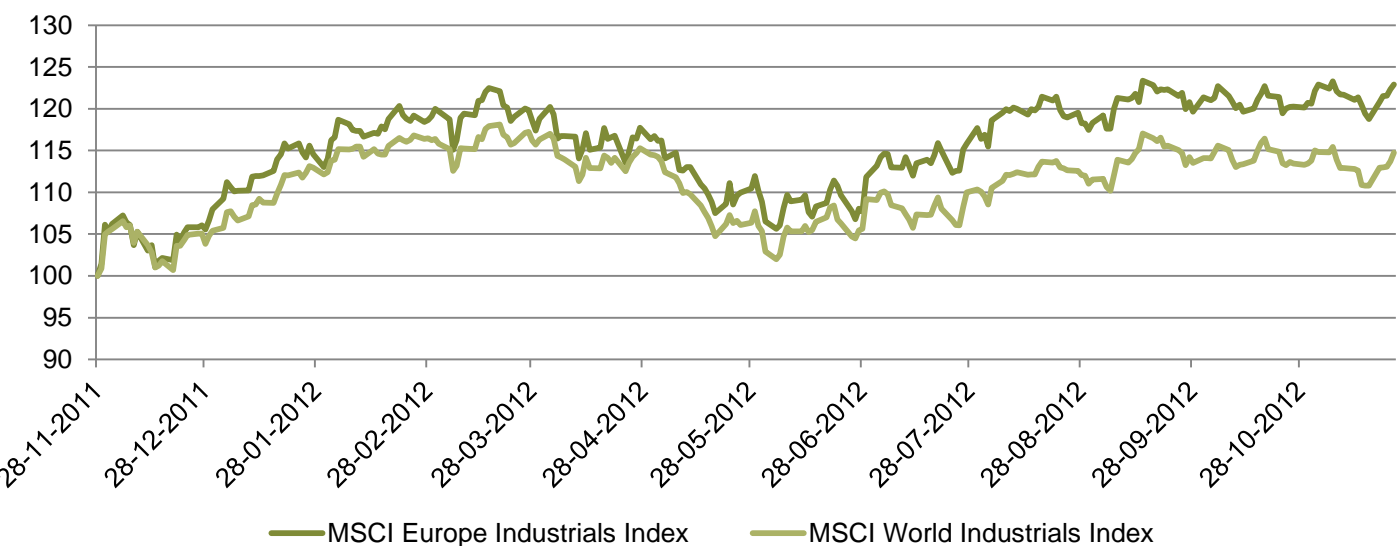
### 2. Sector Overview

- In the past year, the industrials sector presents some growth, with a declining period from March to May, in line with the world indexes.
- While in the the MSCI World Industrials Index grew 15% in the past year, the European equivalent almost 25%. Taking into consideration the problems we are witnessing in Europe, and the shrinking demand this might indicate a trend for future economic balance in Europe.

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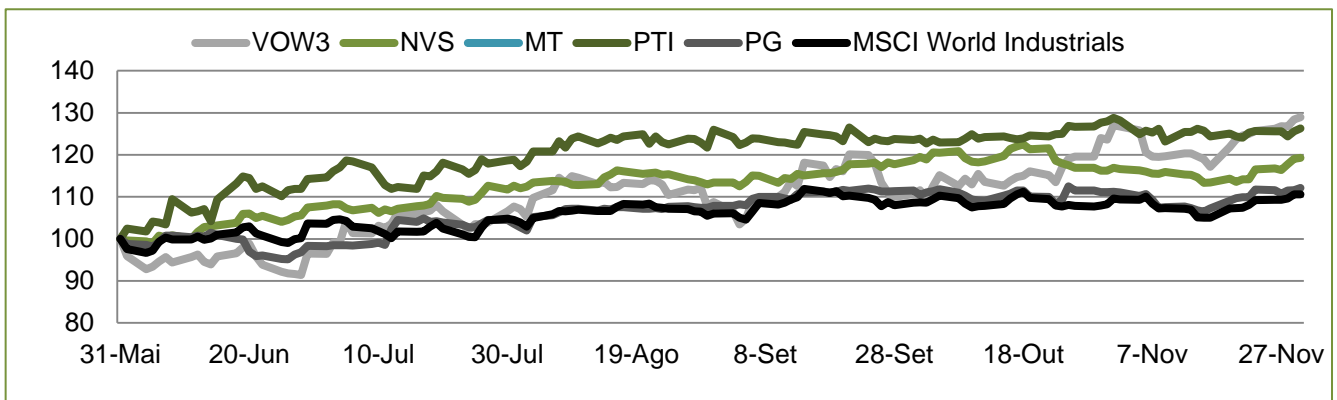
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### Sector Performance (MSCI World vs Europe Industrials)



## 2. Universe News

### Share price over the last 6-month



All the companies analyzed in this report performed better than the Industrials industry in the past 6 months.

#### ARCELORMITTAL (Ticker: MT NA)

- ArcelorMittal is finding some problems in relating with the new government in France. Two of its factories, located in the country are now at risk of being taken over by the government. Minister Arnaud Montebourg announced they are no longer welcome in France.

Price (EUR)	11,56
Last Week	-0,95%
Last Year	-2,71%
P/E Ratio	N.A.
Beta	1,68
Market Cap	18,15 Bn

#### NOVARTIS (Ticker: NVS US)

- After its continuing decrease in share price from its year maximum in mid October, Novartis seems to be recovering due to FDA approval of its seasonal flu vaccine. These news came just after EU approving the first meningitis B vaccine, also from Novartis.

Price (USD)	60,62
Last Week	1,90%
Last Year	18,88%
P/E Ratio	17,13x
Beta	0,56
Market Cap	163,11 Bn

#### PROCTER & GAMBLE (Ticker: PG US)

- Struggling to find new investment opportunities, as the world growth remains unforeseen, P&G has announced it will cut more than 10% of its non manufacturing workforce, and has shown a sign of lack of good new investments as it is set to buyback \$6 billion in shares.

Price (EUR)	69,59
Last Week	2,46%
Last Year	15,58%
P/E Ratio	22,70x
Beta	0,45
Market Cap	190,28 Bn

#### PORTUCEL (Ticker: PTI PL)

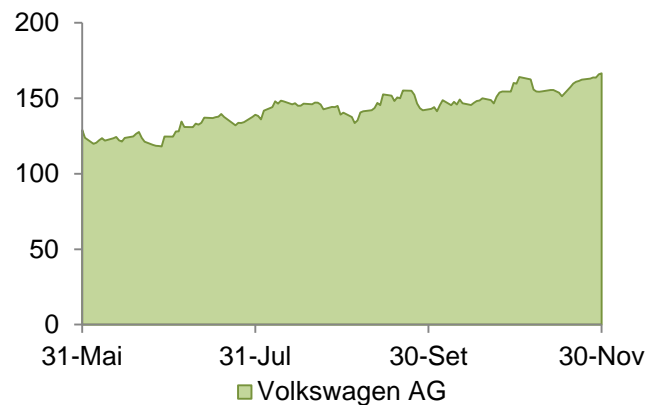
- A relevant worldwide player in the production and commercialization of pulp and paper. Most of its production is exported, making the company very independent from internal economy, and making it less likely to fire and present bad results in the near future.

Price (EUR)	2,1
Last Week	2,46%
Last Year	28,34%
P/E Ratio	7,63x
Beta	0,89
Market Cap	1,62 Bn

### 3. Stock Analysis

#### Volkswagen AG (VOW3 GY)

- For historical reasons, VW AG has a very complicated shareholder structure, which makes the most commonly traded shares to be preferred. These are listed in Xetra (the German electronic trading system, based in Frankfurt).
- It is constantly renewing its products offers, and has presented new models in the motor shows of Moscow, Hannover, Paris and Berlin, only in the third quarter of this year.
- Being a highly recognized brand throughout the world, it is able to sustain its turnover by compensating in developing markets, what it loses in the Western Europe, due to shortage in demand for new automobiles in this market. Still, Volkswagen AG has shown much more resilience here, due to the recognized value for money on its products.
- Proof of this is how the company (despite the decreasing in delivered units in Western Europe in the 3<sup>rd</sup> quarter) has sold almost 10% more cars this year, when compared to the equivalent period of 2011, and it is being able to capture the growing economies from emerging markets. When compared to the first three quarters of 2011, sales in Russia have increased 50%, in Asia-Pacific they have sold 18.2% more vehicles and in South America another 7.4%.
- Another proof of quality of the group is how it is taking advantage of the American market. After 2008, the largest US car makers have been struggling, as people are becoming more aware of car's consumption, and build quality. In the first three quarters of 2012, VW AG has sold 34% more cars in the United States, when compared to the same period in 2011.



Volkswagen AG (VOW3 GY)	
Current Price (30/11/2012)	€166.45
Median Target Price	€180
Market Capitalisation (Milion)	€74,164.81
Return on Common Equity	33.69%
Dividend Yield	-
Beta	1.15
Total Debt/Equity	157%

Source: Bloomberg

#### Comparables Analysis

##### VOLKSWAGEN-PREF Comparables

Company Name	Currency	Equity Value	Enterprise Value	EV/Sales			EV/EBITDA			P/E			EBITDA Margin		
				2012E	2013E	2014E	2012E	2013E	2014E	2012E	2013E	2014E	2012E	2013E	2014E
VOLKSWAGEN-PREF	USD	74.557	169.775	0,8x	0,9x	0,8x	7,3x	7,8x	6,7x	3,5x	4,6x	6,9x	12,5%	11,6%	12,6%
DAIMLER AG	USD	40.519	112.264	1,0x	1,0x	1,0x	9,0x	9,1x	8,7x	7,3x	8,1x	7,8x	11,0%	11,0%	11,1%
BAYER MOTOREN WK	USD	43.639	101.345	1,3x	1,3x	1,3x	-	7,8x	7,7x	9,5x	8,8x	8,8x	-	17,2%	16,7%
RENAULT SA	USD	11.372	35.962	0,8x	0,9x	0,8x	9,3x	9,9x	8,7x	7,0x	6,0x	4,4x	9,1%	8,8%	9,6%
PEUGEOT SA	USD	1.674	27.310	0,5x	0,5x	0,5x	8,2x	9,7x	7,9x	-	-	-	5,7%	5,0%	6,1%
TOYOTA MOTOR	INR	12.188.671	21.375.604	0,9x	1,0x	0,9x	10,0x	10,8x	9,3x	-	12,8x	10,6x	10,0%	9,2%	10,1%
FORD MOTOR CO	HKD	42.844	108.278	0,8x	0,9x	0,8x	8,4x	10,6x	9,9x	8,9x	8,5x	7,8x	9,7%	8,2%	8,3%
Mean				0,9x	0,9x	0,9x	8,7x	9,4x	8,4x	7,2x	8,1x	7,7x	9,7%	10,1%	10,6%
Median				0,8x	0,9x	0,8x	8,7x	9,7x	8,7x	7,3x	8,3x	7,8x	9,8%	9,2%	10,1%

**BUY**

- For its growth capacity in a shrinking market, its ability of successfully entering unexplored markets, and the loyalty of its customers in the regions where it is leader, for the recognition if the products it sells, we recommend to invest in VW AG.