

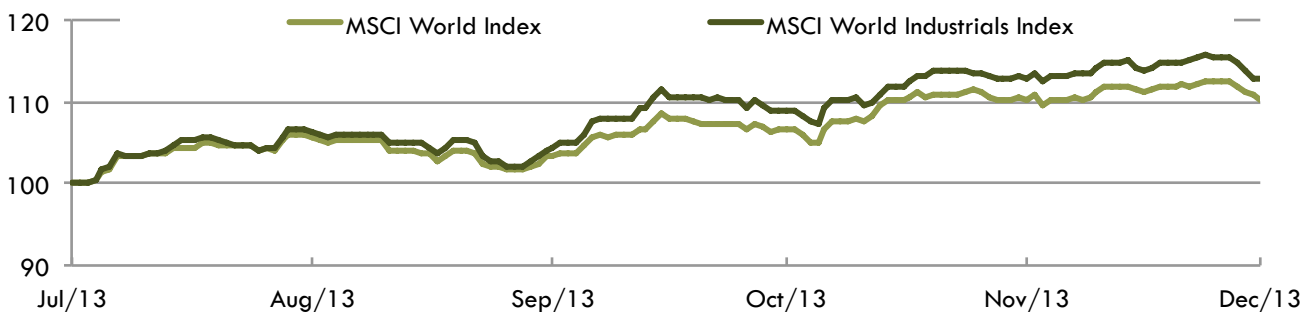
Industrials

Sector Review – November & December

1. Sector Overview

- Worldwide industrial production continued to grow, although at a lower pace, in these past two months, which reinforces the view that economic growth picked up in the last quarter of 2013. Both in Europe and the US, industrial production grew about 0.3% in December – the fifth consecutive month with positive results.
- In the US, the fourth quarter represented a 6.8% growth when compared to the same period of 2012. In December, this sizeable growth was felt in most of the sub-sectors, such as manufacturing, growing annually about 2.6% and mining with about 6.6%, per year. However, when looking at utilities, even though it grew a lot from the previous year, a negative trend is reported in December of about 1.4%.
- By analyzing the industrials sector in Europe, similar tendencies are visible. In November, industrial output increased 1.8% on an annual basis, mainly pushed by Germany and France, as well as some distressed countries, such as Spain and Portugal. This may indicate signs of economic recovery in these economies.
- In Asia the same trends are still felt. Chinese industrial production is slowing, with 6% annual growth in December, down from 9.7% (annually) in November. This is a result of China's reforms to restructure its economy.

2. Industrials Sector vs. Overall market



- In the last two months, the MSCI World Industrials index has followed the same performance as the MSCI World Index (monthly returns of 2.04% in November and 3.10% in December). The performance of the Industrials' sector is, therefore, strongly correlated with the market and is largely driven by supply and demand for building construction and demand for manufactured products.



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Industrials Universe:

- Semapa
- Volkswagen
- ArcelorMittal
- Novartis
- Procter & Gamble

This month's detailed company review:

- ArcelorMittal



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- Detailed review: ArcelorMittal

3. Followed Companies

Semapa

(Ticker: SEM PL)

- In November, Semapa disclosed results for the first 9 months of 2013. Turnover increased 3.5% to EUR 1.5bn, but the recurrent EBITDA decreased 2.6% (explained by an increase in the Group's net debt, related to the acquisition of 49% of Secil).



Price (EUR):	↑	8.14
Target Price (EUR):		9.15
Up/downside:		12.4%
Performance 3M:		16.2%
P/E Ratio:		12.5x
ROC/WACC:		1.2x

Procter & Gamble

(Ticker: PG US)

- Procter&Gamble reported sales of USD 84.2bn in 2013 and c.a. 10bn of net earnings. 38% of the sales come from developing markets. In this geography there was some underperformance since the company, in opposition to some competitors, decided to increase prices in result of currencies extreme volatility.

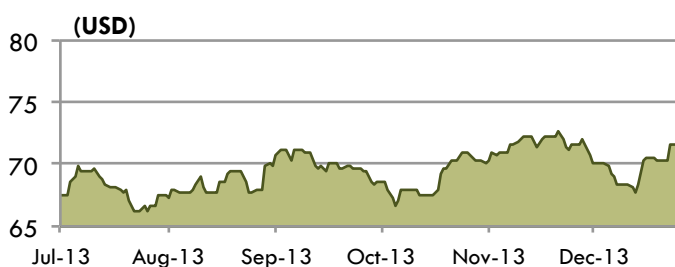


Price (USD):	↑	81.41
Target Price (USD):		89.00
Up/downside:		9.3%
Performance 3M:		6.9%
P/E Ratio:		19.3x
ROC/WACC:		1.5x

Novartis

(Ticker: NOVN VX)

- In 2013, net sales were USD 57.9 bn, up 2% over 2012. Operating income was USD 10.9 bn (-3%). Core operating income was USD 14.5 billion (-2%). Currency volatility has negatively impacted this figures. Core operating income margin decreased by 0.3 percentage points.



Price (EUR):	↑	71.20
Target Price (EUR):		78.00
Up/downside:		9.6%
Performance 3M:		2.4%
P/E Ratio:		21.3x
ROC/WACC:		1.1x

Volkswagen

(Ticker: VOW3 GY)

- From January to September 2013 compared to the same period in 2012 deliveries to customers of Volkswagen Group have increased 4.8%. Operating profit in the period from January to September 2013 was of EUR 8.6bn, a slight decrease from last year's EUR 8.9 bn figure.



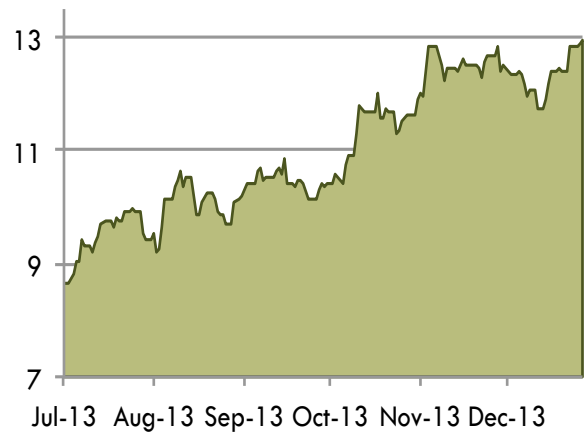
Price (EUR):	↑	204.15
Target Price (EUR):		220.00
Up/downside:		7.8%
Performance 3M:		N/A
P/E Ratio:		N/A
ROC/WACC:		1.3x

3. Stock Analysis: ArcelorMittal

Corporate News

- Synergies will amount to c.a. USD 60mm annually. The deal will help the firm to cash-in on the growing demand of steel from the automotive and energy sectors in NAFTA (North America Free-Trade Agreement Zone).
- The company wants to continue investing to protect and grow the automotive steel franchise.
- The stock is trading at a price aligned with analyst estimates. ArcelorMittal announced the acquisition of Thyssenkrupp (Germany's largest steel maker) for USD 1.5bn. A Joint Venture was formed with Nippon Steel & Sumitomo, which will finance the deal with equity and debt, having a minimal impact in ArcelorMittal's net debt

(EUR) Share Price



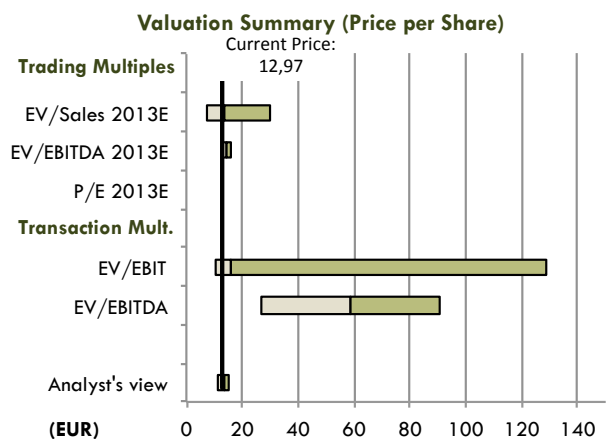
Market Performance

- ArcelorMittal's profitability is recovering: Q3'13 EBITDA of USD 1.7bn was 24% higher than Q3'12, beating the USD 1.5bn analysts consensus.
- Profits boosted 19% after cost cuts and plant closings. Next year's outlook is increasingly positive.
- The consensus EPS forecast for the quarter is \$-0.16. The reported EPS for the same quarter last year was \$-1.47. This implies that, even though results are still negative, they have been improving.

Valuation Summary

- From the valuation summary, it is clear that the current stock price is in line with the trading multiples.
- As far as Transaction multiples are concerned, the current stock price is aligned with the lower quartile in the EV/EBIT multiple, but is well below the EV/EBITDA. In such capital intensive industries, depreciation plays a real role in valuation.

ArcelorMittal (EUR)	
Current Price (03/12/2013)	12.41
52-week high % change	-7.4%
Median Target Price	13.29
Market Capitalisation (mn)	20,318
Return on Common Equity	N/A
Dividend Yield	N/A
Beta (vs. S&P500)	N/A
Total Debt/Equity	46.7%



Comparable Analysis

Company Name	Currency	MCap (mn)	Enterprise Value (mn)	EV/Sales			EV/EBITDA			P/E			
				LTM	2013E	2014E	LTM	2013E	2014E	LTM	2013E	2014E	
ArcelorMittal	EUR	20,318	48,700	N/A	0.6x	0.6x	N/A	7.2x	6.0x	N/A	N/A	N/A	
ThyssenKrupp	EUR	10,702	15,524	0.4x	0.4x	0.4x	12.6x	7.0x	5.6x	#N/A	N/A	41.0x	14.5x
AK Steel Holding Corp	USD	946	2,822	0.5x	0.5x	0.5x	8.2x	6.3x	5.4x	#N/A	N/A	17.8x	9.2x
United States Steel Corp	USD	3,714	7,050	0.4x	0.4x	0.4x	8.8x	5.5x	5.1x	#N/A	N/A	15.6x	11.8x
Nippon Steel	JPY	2,993,512	5,826,841	1.1x	1.1x	1.0x	10.1x	9.0x	7.8x	15.5x	12.7x	10.3x	
Posco	KRW	26,025,270	30,714,849	1.0x	1.0x	0.9x	7.6x	6.3x	6.1x	#N/A	N/A	11.0x	10.4x
75th Percentile				1.0x	0.9x	0.8x	10.1x	7.2x	6.1x	15.5x	17.8x	11.8x	
Median				0.5x	0.5x	0.5x	8.8x	6.7x	5.8x	15.5x	15.6x	10.4x	
25th Percentile				0.4x	0.4x	0.4x	8.2x	6.3x	5.4x	15.5x	12.7x	10.3x	

- Considering the estimates for the present year, Nippon Steel and Posco (Asian steel Companies) seem to have the highest multiples in terms of EV/Sales as well as in terms of EV/EBITDA. Considering both these multiples along with the P/E it seems as if these two companies are more expensive than the rest. These two companies are the ones that profit the most by China's records of steel production – the planning authority announced 800mm metric tones of crude steel to be produced in 2014.
- ArcelorMittal is estimated to stay close to the median of the considered peers for both years. This may imply that it is correctly priced.

Precedent Transactions

Announced Date	Target		Buyer		EV (USD mn)	EV/EBITDA	EV/EBIT
	Company	Country	Company	Country			
11-Mar-09	Burlington Northern Santa Fe LLC	US	Berkshire Hathaway Inc	US	46,211	8.8x	12.5x
23-Jun-08	Cooper Industries PLC	US	Eaton Corp PLC	IR	12,846	14.2x	16.7x
09-May-11	Man SE	DE	Volkswagen AG	DE	20,385	11.4x	17.5x
15-Nov-10	Bucyrus International Inc	US	Caterpillar Inc	US	8,609	15.7x	19.5x
21-Sep-11	Goodrich Corp	US	United Technologies Corp	US	17,975	12.8x	16.3x
20-Jul-11	Nalco Holding Co	US	Ecolab Inc	US	9,042	11.2x	14.7x
20-Mar-12	Viterra Inc	CA	Glencore Xstrata PLC	CH	7,432	10.7x	15.6x
30/03/2012	Camargo Correa SA	BR	Cimpor Cimentos de Portugal SGPS SA	PT	6,592	9.4x	15.0x
75th Percentile						11.9x	15.5x
Median						9.4x	13.6x
25th Percentile						7.4x	9.9x

- In the past two months not many big acquisitions took place in the Industrials sector. Therefore, the table above presents some of the most relevant and bigger transactions of the past years in the Industrials sector.
- The most recent transaction in the table is the acquisition of Cimpor-Cimentos de Portugal SGPS SA by Camargo Correa SA, a Brazilian cement producer. The company bought the 67% percent of the Portuguese company it doesn't already own, becoming the owner of Cimpor.