

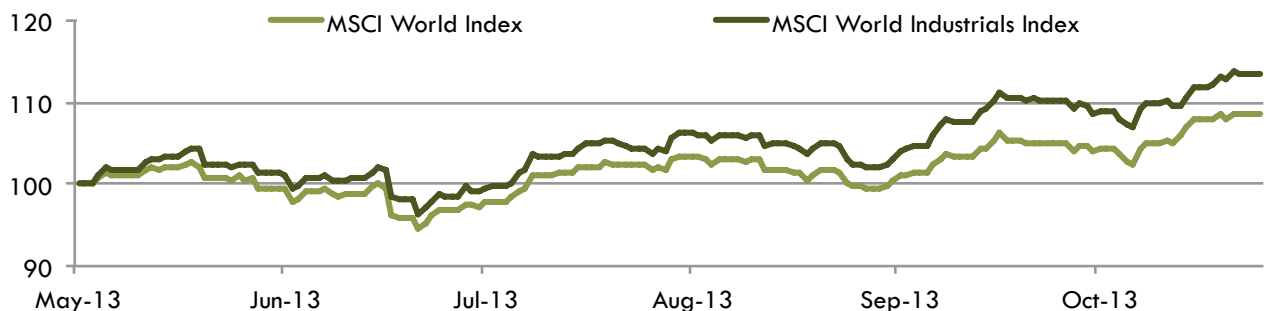
Industrials

Sector Review – September & October

1. Sector Overview

- In September and October the Industrial sector, as represented by the MSCI World Industrials Index, has achieved a better performance, when compared to the previous month (August), achieving positive monthly returns of 7.05% in September and 3.12% in October.
- The extraordinary performance in September can be explained by the news on the accelerating growth not only in the United States of America's and China's economies, but also on these countries' construction and manufacturing sectors.
- On the other hand, in October, investors' expectations were influenced by the uncertainty caused by the debt ceiling crisis in the USA. In the aerospace sector, for instance, Boeing's military aircraft unit suffered with the defense cuts and Airbus has been unable to deliver four aircrafts during the shutdown.
- However, car purchases in the USA increased 13% on a YoY basis compensating for the low European demand. Furthermore, China's manufacturing sector accelerated in October to its strongest reading in 18 months.
- The Industrials sector is strongly correlated with the market. On that sense, the beginning of the world's recovery forecasts a better future for the sector."

2. Industrials Sector vs. Overall market



- In the last two months, The MSCI World index had the exact same performance as MSCI World Industrials Index (monthly returns of 7.05% in September and 3.12% in October), meaning that the Industrials sector closely followed the market in this period. 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 .

Industrials Universe:

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

This month's detailed company review:

- Volkswagen



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3. Followed Companies

Semapa

(Ticker: SEM PL)

- During the first semester of 2013, Semapa Group's profits decreased by 52.3% to EUR 39.3 million. This disappointing result was pushed by the drop in volume of the business in Portugal and Angola, as well as financial results and impairment losses.

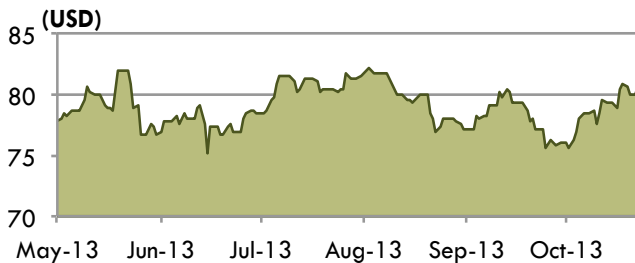


Price (EUR):	↓	7.32
Target Price (EUR):		6.53
Up/downside:		-10.8%
Performance 3M:		11.5%
P/E Ratio:		10.0x
ROC/WACC:		1.1x

Procter & Gamble

(Ticker: PG US)

- After two very volatile months, the world's largest consumer-products maker seems to be back on track. Reporting a 7.6% growth in profits, P&G's results were in line with analysts estimations. However, the slow growth of the industry, particularly in emerging markets may be worrisome, as there are a lot of companies fighting over slow growth.



Price (USD):	↑	81.52
Target Price (USD):		88.50
Up/downside:		8.6%
Performance 3M:		1.3%
P/E Ratio:		20.1x
ROC/WACC:		1.6x

ArcelorMittal

(Ticker: MT NA)

- Investors reacted very positively to a few announcements in the beginning of October. The largest steel-maker in the world is to increase its investment in France. In addition, a strategic agreement with Nigerian Government includes an investment plan of USD 763 million. Finally, it has recently been upgraded by Deutsche Bank from Hold to Buy.

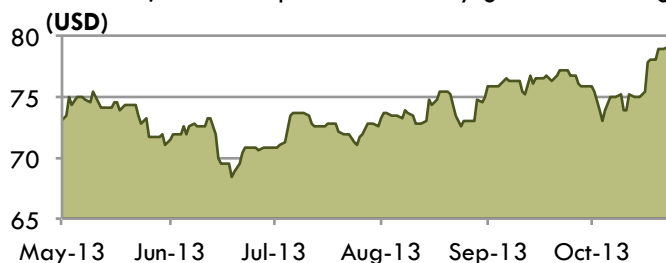


Price (EUR):	↑	11.50
Target Price (EUR):		12.35
Up/downside:		7.4%
Performance 3M:		16.0%
P/E Ratio:		#N/A N/A
ROC/WACC:		0.0x

Novartis

(Ticker: NOVN VX)

- On the surface Novartis' Q3 results were not very impressive, with an increase in total revenue, but a drop in profits. However it is important to mention that its underlying business (excluding expired patents) has demonstrated strong growth of 16% in the first 9 months of the year. In addition, it also experienced heavy growth in emerging markets (i.e. China and Russia).



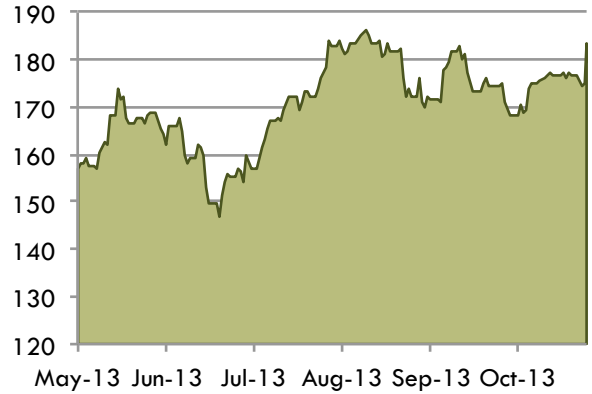
Price (USD):	↑	78.87
Target Price (USD):		83.38
Up/downside:		5.7%
Performance 3M:		10.9%
P/E Ratio:		#N/A Field
ROC/WACC:		1.4x

3. Stock Analysis: Volkswagen

Corporate News

- Several factors worry investors in what concerns to Volkswagen's future. With low demand in Europe, which drove revenues down in Q3, lower growth in the US market and China's growth slowing, analysts are skeptic as to how VW may improve its net income from 2014 onwards.
- Porsche, fully owned subsidiary of Volkswagen, has announced a reduction in investment and cost cutting strategy for next in year, in order to be able to maintain its profits.

(EUR) Stock Performance



Market Performance

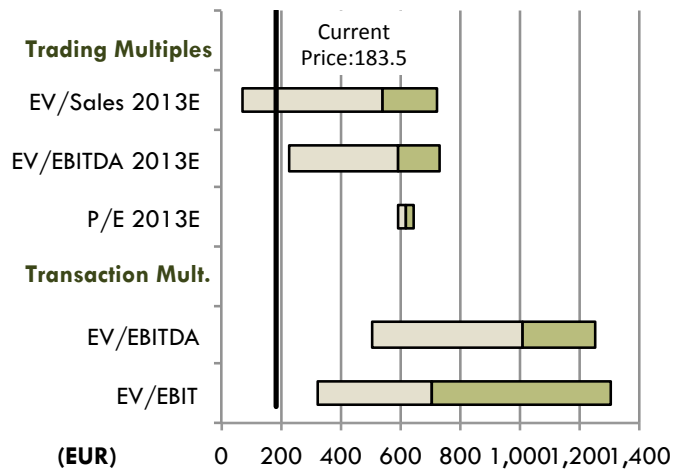
- Currently, analysts estimate a 12-months target price of EUR 206.46 for Volkswagen, implying a premium of 12.51% over the current stock price.
- Procter & Gamble has yielded a 6.62% return in September and October, therefore underperforming the MSCI World Industrials benchmark.

Volkswagen (EUR)	
Current Price (30/10/2013)	183.5
52-week high % change	-4.1%
Median Target Price	206.46
Market Capitalisation (mn)	85,515
Return on Common Equity	10.2%
Dividend Yield	1.9%
Beta (vs. S&P500)	1.2x
Total Debt/Equity	143.8%

Valuation Summary

- In terms of the sales multiple, Volkswagen seems to be in the lower decile of its peers. More so when valued in terms of its EBITDA multiple and P/E ratio, the company seems to be trading at values just under its comparable companies.
- When valuated in terms of transactions multiples, Volkswagen seems to be trading well below its comparable companies. Note however that this valuation differential may be due to the control premium typically found within transactions.

Valuation Summary (Price per Share)



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
Volkswagen AG	EUR	85,515	174,875	0.9x	0.9x	0.8x	6.9x	7.4x	6.7x	11.0x	9.2x	8.0x
Daimler AG	EUR	64,401	132,906	1.1x	1.1x	1.1x	11.9x	9.3x	9.2x	15.9x	11.9x	10.7x
Bayerische Motoren Werke (BMW) AG	EUR	53,269	110,745	1.3x	1.4x	1.4x	6.9x	8.8x	8.6x	10.5x	10.5x	10.2x
Renault SA	EUR	18,125	40,186	0.9x	1.0x	0.9x	9.7x	10.8x	8.7x	11.4x	11.2x	6.7x
General Motors Co	USD	51,934	42,115	0.3x	0.3x	0.3x	7.3x	3.1x	2.6x	13.7x	11.0x	8.1x
Ford Motor Co	USD	66,622	56,649	0.4x	0.4x	0.4x	4.4x	4.9x	4.4x	10.3x	10.2x	9.2x
75th Percentile				1.1x	1.1x	1.0x	9.1x	9.2x	8.7x	13.1x	11.1x	10.0x
Median				0.9x	0.9x	0.9x	7.1x	8.1x	7.7x	11.2x	10.8x	8.6x
25th Percentile				0.5x	0.5x	0.5x	6.9x	5.5x	5.0x	10.6x	10.3x	8.0x

- Considering the estimates for the present year, the American car makers – GE and Ford - seem to have the lowest multiples in terms of EV/Sales and EV/EBITDA, which might represent efficiency. On the other hand they are among the most expensive stocks of the considered group of peers.
- As it can be seen from the table above, Volkswagen AG's stock can be considered "cheaper" than its peers – lower Price-to-Earnings ratio. Even though the trend of the industry is expected to go along a discount in the P/E ratio of most companies, Volkswagen AG is expected to remain below the median. In addition, in terms of EV/EBITDA multiples, VW is also below the median of the industry (and is expected to remain that way), meaning that it uses up less assets to produce a unit of profit.

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	PT	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 these past two months not many big acquisitions took place. However, it is interesting to notice that one of the most relevant ones was the acquisition of ANA Airports which was just finalized on September 17th for the amount of EUR 3,080 million.
- In the table above it is possible to see some of the most relevant transactions of the past years in the Industrials sector.