

Industrials

Sector Review – February

1. Sector Overview

- Peugeot will benefit from a capital increase from Dongreng (a Chinese car maker) and the French government. That will buy a 14% stake for \$7.5 per share (a 40% discount to market value). Volkswagen announced a €6.7bn buyout of Scania in order to boost the group's truck alliance. VW is offering €22.66 per share, meaning a 57% premium on preferred shares and a 53.3% on common shares. Ferrari has intentionally reduced its sales on 5% to 6,922 cars in order to increase exclusivity. With this action the company saw its revenues increase the same 5% to €2.3bn.
- Airbus reported a 5% increase in revenues to €59.3bn and a 22% increase of Net Income to €1.5bn. Mirroring Boeing's last month decision, Airbus will increase production of a more fuel efficient aircraft (A320), responding to an increase in demand.
- The congress announced it was planning to shave \$450bn from US defense budget, which negatively impacted the stock price of BAE on more than 3% and of Rolls-Royce on 13.6%.
- Lafarge cement group forecasts that global demand will expand between 2% and 5% this year and its net profit of the year rose 65% to €69bn, boosted by asset sales
- In Portugal, Fepicop* estimates that in 2013 construction has shrunk for the 12th consecutive year (by 15%). Cement sales decreased 24%. However, Cimpor was able to reduce its loss to €19.4mm, focusing on exports and debt restructuring.

2. Industrials Sector vs. Overall market



- In the last month, the Industrials sector has followed the market tendencies. In the beginning of the month, the performance reflects the disappointing data releases from US and China but the increasing path was then recovered after Janet Yellen's testimony in Congress with no surprises about the future of Fed's monetary policy.

Industrials Universe:

- Boeing
- Peugeot Citroen
- Siemens
- Rio Tinto
- Semapa

This month's detailed company review:

- Peugeot Citroen



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3. Followed Companies

Boeing

(Ticker: BA US Equity)

- Boeing was awarded a \$2.4bn contract from the US Navy. The company estimated this month that Asia Pacific demand for airplanes will be of \$1.9tr over the next 20 years. Surprisingly, Boeing is developing a smartphone that deletes all its call and message data if any unauthorized attempt is made to crack it open.



Price (USD):	↑	128,92
Target Price (USD):		154,50
Up/downside:		19,8%
Performance 3M:		-4,3%
P/E Ratio:		20,6x
ROC/WACC:		1,1x

Siemens AG

(Ticker: SIE GR)

- Siemens has introduced the Chinese renminbi (CNY) as an additional currency with the same payment status within the company as other established cross-border trade-settlement currencies. With this step Siemens wants to improve competitiveness and to reduce foreign exchange risk.



Price (EUR):	↑	96,21
Target Price (EUR):		106,00
Up/downside:		10,2%
Performance 3M:		-1,9%
P/E Ratio:		18,8x
ROC/WACC:		0,8x

Rio Tinto

(Ticker: RIO LN)

- Rio Tinto boosted dividends by 15% to \$1.92 per share after reporting a Net Income of \$3.7bn. The company has outperformed in its cost-cutting program, achieving a \$2.3bn cut last year. For the next years, a capital expenditures slowdown is expected: \$11bn in 2014 and \$8bn in 2014.



Price (GBP):	↑	34,33
Target Price (GBP):		40,55
Up/downside:		18,1%
Performance 3M:		-98,9%
P/E Ratio:		28,9x
ROC/WACC:		-0,2x

Semapa

(Ticker: SEM PL Equity)

- The Net income of Semapa Group increased 15.5% to €146.1mm from last year. The turnover grew 1.9% to €1,990mm. Portucel (the paper pulp subsidiary) contributed positively with a turnover of €1,530mm. Secil (the cement subsidiary) stated a 6.7% decrease in turnover to €463mm.



Price (EUR):	→	10,29
Target Price (EUR):		10,15
Up/downside:		-1,4%
Performance 3M:		28,3%
P/E Ratio:		8,1x
ROC/WACC:		-0,8x

3. Stock Analysis: Peugeot Citroen

Corporate News

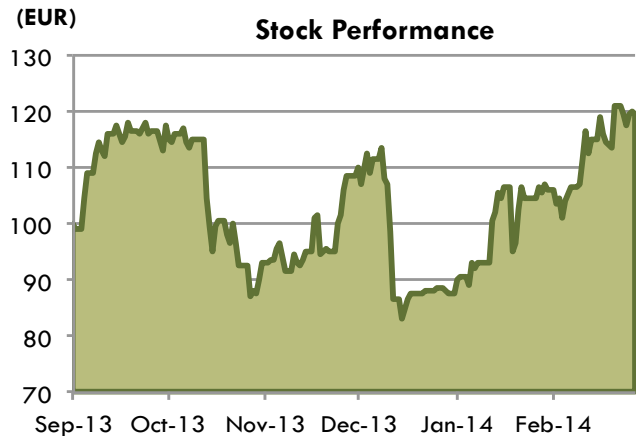
- February has been an important month for SA Peugeot Citroen. Firstly, the group released its financial results for the year of 2013. In this was depicted the €54.1 bn in revenue, showing a decline of 2% compared to the previous year. In addition, an expected €177 mm operating loss was announced.
- On the other hand, the Peugeot's management team announced a €3 bn tie-up with China's Dongfeng, bringing renewed leadership to the troubled french group, along with more time to turn the business around. In a consolidating industry such as the automotive one, where giants such as Ford or Toyota enjoy relevant scale economies, this tie-up is very important for the French group and is expected to bring long-term benefits.

Market Performance

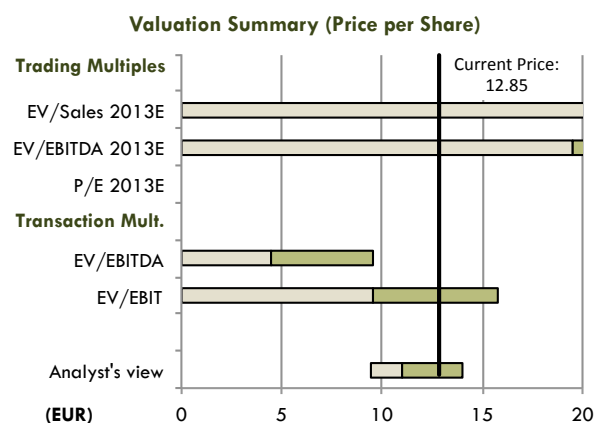
- After a troubled beginning of 2014, Peugeot's stock seems to be gaining back some of the ground it had lost during the month of January. News about the Dongfeng tie-up cheered up investors who are now anxious to see some results.
- Even though end-of-year results were not satisfactory, they were expected. Moreover, Peugeot shows that it is closer to reaching its 2015 goal of having more than 50% of its sales coming from outside Europe, having experienced growth in other markets, such as China.

Valuation Summary

- Having reported negative income the multiples valuation summary does not seem as clear as usual. However, it is still possible to take some conclusions out of it. It is clear that Peugeot Citroen's stock is trading in lower multiples than its peers.
- However, by looking at precedent transactions and analyst's opinions, Peugeot is trading in the 75th percentile, giving it mix reviews.



Peugeot (EUR)	
Current Price (28/02/2014)	12.85
52-week high % change	-5.8%
Median Target Price	11.03
Market Capitalisation (mn)	4,560
Return on Common Equity	-28.3%
Dividend Yield	0.0%
Beta (vs. S&P500)	1.9x
Total Debt/Equity	401.8%



Comparable Analysis

Company Name	Currency	M Cap (mn)	Enterprise Value (mn)	EV/Sales			EV/EBITDA			P/E		
				LTM	2013E	2014E	LTM	2013E	2014E	LTM	2013E	2014E
Peugeot	EUR	4.560	28.190	0,5x	0,5x	0,5x	8,5x	10,0x	7,8x	n/a	n/a	n/a
Renault	EUR	21.354	42.750	0,9x	1,0x	1,0x	9,7x	9,6x	8,4x	n/a	9,3x	7,1x
BMW	EUR	53.828	110.409	1,4x	1,4x	1,4x	7,3x	8,8x	8,5x	n/a	10,5x	10,3x
Fiat	EUR	9.487	24.501	0,3x	0,3x	0,3x	3,1x	2,7x	2,5x	n/a	10,4x	7,2x
Ford	USD	60.705	51.636	0,4x	0,4x	0,3x	4,3x	4,9x	3,8x	9,9x	11,4x	8,1x
Volkswagen	EUR	86.557	175.917	0,9x	0,9x	0,8x	6,9x	7,0x	6,4x	10,1x	8,5x	7,6x
75th Percentile				0,9x	1,0x	0,9x	8,2x	9,4x	8,3x	10,1x	10,5x	9,8x
Median				0,7x	0,7x	0,7x	7,1x	7,9x	7,1x	10,0x	10,4x	7,8x
25th Percentile				0,4x	0,4x	0,4x	4,9x	5,4x	4,4x	9,9x	9,3x	7,3x

- Considering the estimates for the present year, the American car maker - Ford - seems to have the lowest multiples in terms of EV/Sales and EV/EBITDA, which might represent efficiency. On the other hand it is among the most expensive stocks of the considered group of peers (P/E).
- As it can be seen from the table above, Peugeot's stock can be considered "more expensive" than its peers – higher 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, Peugeot Citroen is expected to remain above the median. In addition, in terms of EV/EBITDA multiples, PSA is also above 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		
	Company	Country	Company	Country	(USD mn)	EV/EBITDA	EV/EBIT
25-Jul-12	Union Andina de Cementos SAA	PE	Cemento Andino SA	PE	554	10.62x	13.68x
24-Oct-11	Carso Infraestructura y Construccion	MX	Grupo Carso SAB	MX	362	14.73x	18.19x
29-Aug-11	Confab Industrial SA	BR	Tenaris SA	LU	718	8.68x	9.8x
23-Jun-08	Cooper Industries PLC	US	Vinci SA	FR	16,591	12.9x	18.7x
15-Jun-07	Hanson Ltd	UK	Linde AG	DE	15,599	12.2x	20.4x
7-Feb-07	Coles Group Ltd	AU	Wesfarmers Ltd	AU	15,175	14.6x	23.8x
3-Jun-06	BOC Group Ltd	UK	Eaton Corp PLC	IR	12,846	14.2x	16.7x
14-Dec-05	Autoroutes du Sud de la France SA	FR	Enel SpA	IT	12,287	5.6x	7.4x
75th Percentile						13.5x	16.5x
Median						12.8x	16.3x
25th Percentile						10.8x	14.4x

- This past month did not experience many large acquisitions in the industrials sector. However, it is interesting to see the multiples with which these transactions in recent years have taken place. The industrials M&A scenery is expected to improve in 2014, however this is still not going to be the "hot M&A industry". The most relevant sub-sector within Industrials is expected to be the automation industry or even the automotive (with a larger concentration in terms of competitors and Peugeot-Dongfeng's tie-up signaling some activity).
- In the table above it is possible to see some of the most relevant transactions of the past years in the Industrials sector.