

Industrials

Sector Review – March

1. Sector Overview

- On February, Volkswagen announced a €6.7bn buyout of Scania which represented a premium of about 50% to the target's share price. However, the independent committee of the board of the Swedish truck maker said VW's bid does not reflect the long-term fundamental value of Scania. Therefore, the deal structure and the final price are still being negotiated.
- In the aerospace and defense sector, the improving US defense outlook benefited BAE Systems that, on March 18, has climbed 2.9% to 407.8p. In fact, the US Ministry of Defense counted for c.a. of one third of the firm's sales last year. On the other hand, Airbus dropped the goal of generating \$10bn of revenues in North America for defense, helicopter and satellite businesses. However, the company insists it can still compete on the helicopter and other military hardware even amid government spending cuts.
- The Office for National Statistics of the UK released information stating an output raise on 9 of 13 industry sectors. One industry showing strong growth is non-metallic mineral sector. Metals and machinery are expected to fully recover to pre-recession levels by the end of 2015.
- In Portugal, sales of new cars in the first quarter of the year increased 43,8% (YoY)*. Although better than 2013, it is a lower increase than in the years before 2012 (excluding 2009). Volkswagen Autoeuropa plans to invest €670mm until 2009, creating 500 new jobs. This action can duplicate the exporting capacity of the factory.



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Industrials Universe:

- Boeing
- Caterpillar
- Hyundai
- Mota Engil
- Scania

This month's detailed company review:

- Scania



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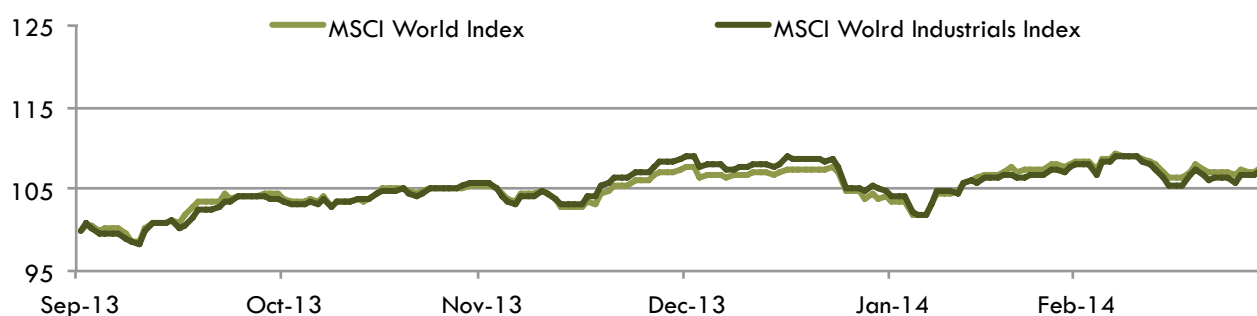


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Table of Contents

- Sector Overview
- Universe News
- Detailed review: Scania

Industrials Sector vs. Overall market



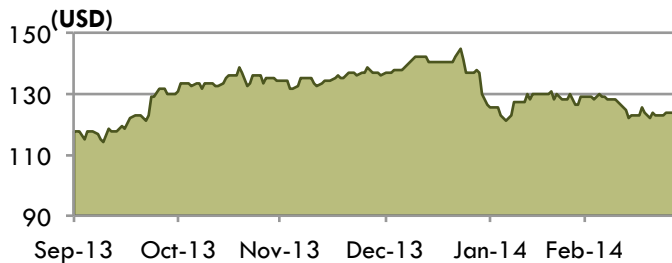
- The graph above shows that the Industrials Sector, represented by the MSCI World Industrials Index, continued to exhibit a behavior very similar to that of the market, represented by the MSCI World Index. In fact the two indexes had an equal monthly return of -0.01%.

2. Followed Companies

Boeing

(Ticker: BA US Equity)

- Boeing is disputing its market share maintenance in the Japanese market. This month, Airbus won a \$16.6bn order from All Nippon Airways (ANA), which is equivalent to 30 of the 70 contracts. Boeing traditionally hold 80% market share on this market.



Price (USD):	↑	124.46
Target Price (USD):		154.00
Up/downside:		23.7%
Performance 3M:		-9.1%
P/E Ratio:		N.A.
ROC/WACC:		1.1x

Caterpillar

(Ticker: CAT US Equity)

- Caterpillar is facing accusations of shifting 85% of its profits to a Swiss affiliate in order to avoid paying \$2.4bn in US taxes. With this move, the firm wants to take advantage for a special 4% to 6% corporate tax negotiated with the Swiss government instead of an effective tax rate of 29% in the US.



Price (USD):	→	99.39
Target Price (USD):		98.50
Up/downside:		-0.9%
Performance 3M:		9.4%
P/E Ratio:		18.7x
ROC/WACC:		0.9x

Hyundai

(Ticker: 005380 KS Equity)

- Hyundai announced plans to build a new factory in China, signaling a return to capacity expansion, after 2 years focusing on quality improvements. This announcement sent the shares up 4.5% on March 24th. Hyundai is also expected to build a new factory in the US where it has no sufficient capacity to face demand.



Price (KRW '000):	↑	248
Target Price (KRW '000):		300
Up/downside:		21.0%
Performance 3M:		-99.9%
P/E Ratio:		7.8x
ROC/WACC:		0.8x

Mota Engil

(Ticker: EGL PL Equity)

- Mota Engil sold, at the end of last year, a 37% stake on Tertir-Terminais Portuários, by a total of €59mm. Until the end of the year, the Group wants to list Mota-Engil África in an European stock exchange. The company was already created in the Netherlands with €100mm.



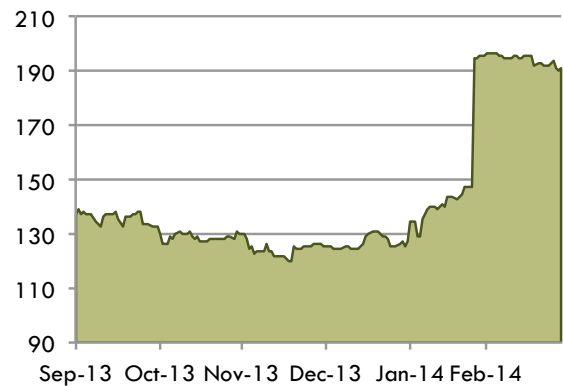
Price (EUR):	→	5.73
Target Price (EUR):		5.55
Up/downside:		-3.2%
Performance 3M:		31.6%
P/E Ratio:		21.3x
ROC/WACC:		1.3x

3. Stock Analysis: Scania

Corporate News

- On February 21st Volkswagen announced a tender offer to acquire a minority stake in Scania for €6.7bn. Together with MAN, VW owns 62.6% of Scania's equity and 89.2% of its votes. The goal is to delist Scania once it reaches 90% and has expected synergies of over EUR 650 million per year.
- The bid price reflect a ratio of 24 times 2014 earnings and a premium of €2bn, or 50% over Scania's undisturbed stock price. Even though this represents a less favorable distribution of synergies between VW and Scania's shareholders, they reacted very positively.

(SEK) **Stock Performance**



Market Performance

- It is clear that by the end of February Scania's stock price rocketed with the announcement of a tender offer from VW. However since then with negotiations not yielding fast enough results, stock has declined slightly by about 4.1%.
- With negotiations still on the go, analysts seem to agree with Scania's Management's opinion that the bid "does not reflect the long-term fundamental value of Scania" and therefore the target price is above the current share price.

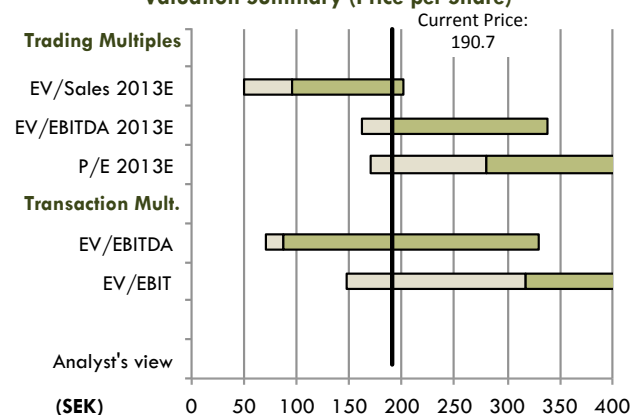
Scania (SEK)

Current Price (28/03/2014)	190.7
52-week high % change	-4.1%
Median Target Price	199.64
Market Capitalisation (mn)	153,280
Return on Common Equity	17.2%
Dividend Yield	2.5%
Beta (vs. S&P500)	1.2x
Total Debt/Equity	118.1%

Valuation Summary

- By looking at trading multiples of Scania's stock we see that, except for the sales multiples, it is currently trading in the lower range of its peers. This happens regardless of the "jump" in price occurred last month and still supports analysts view that the stock is currently undervalued.
- As for transaction multiples, even though Scania's management believed the bid (which pushed share price up) did not reflect the value of the company, it seems to be in line with comparable companies in terms of EBITDA. However it is slightly undervalued in terms of EBIT.

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
Scania	SEK	153,280	187,561	1.6x	2.1x	2.0x	13.1x	15.5x	13.5x	N.A.	22.8x	19.3x
Navistar International Corp	USD	2,813	6,534	0.6x	0.6x	0.5x	-22.2x	17.3x	7.5x	N.A.	N.A.	20.4x
Commercial Vehicles Group Inc	USD	276	453	0.5x	0.6x	0.5x	16.8x	8.6x	7.3x	N.A.	27.7x	13.5x
Volkswagen	EUR	86,927	179,065	0.9x	0.9x	0.8x	6.6x	7.1x	6.6x	N.A.	8.6x	7.6x
Accuride Corp	USD	226	523	0.7x	0.8x	0.7x	12.6x	8.0x	6.1x	N.A.	N.A.	28.8x
BMW	EUR	59,487	116,756	1.5x	1.5x	1.4x	7.8x	9.6x	9.3x	11.4x	10.8x	10.2x
75th Percentile				1.3x	1.3x	1.3x	13.0x	14.0x	8.8x	11.4x	24.0x	20.1x
Median				0.8x	0.8x	0.8x	10.2x	9.1x	7.4x	11.4x	16.8x	16.4x
25th Percentile				0.6x	0.6x	0.6x	6.9x	8.1x	6.8x	11.4x	10.2x	11.0x

- In terms of all three multiples being analyzed – Sales, EBITDA and Price-Earnings – it is clear that Scania seems to be overvalued in all fronts. However it is relevant to pay attention that this price is reflecting not only the intrinsic value of the company, but also the value of the premium in talks regarding VW's acquisition. This has inflated the stock price last month and may be the reason why it is being traded at such high multiples, when compared to its peers.
- On the other hand we can see VW is trading at the lowest multiples of the analyzed companies. In fact, this may also be due to the negotiation talks. By the end of February the stock dropped and is still struggling to reach such high pre-announcement levels.
- Finally, on a different note, it is interesting to notice how truck makers are being traded at higher multiples than car makers – VW and BMW – reflecting a change in subsector that one should account for when undertaking peer valuations.

Precedent Transactions

Announced Date	Target		Buyer		EV		
	Company	Country	Company	Country	(EUR mn)	EV/EBITDA	EV/EBIT
07-Dec-13	Invensys PLC	UK	Schneider Electric	FR	3,507	18.5x	23.2x
06-Jan-14	Pacer International Inc	US	XPO Logistics Inc	US	192	12.1x	18.1x
25-Jul-12	Cemento Andino SA	PE	Union Andina de Cementos SAA	PE	554	13.7x	10.6x
23-Jun-08	Cooper Industries PLC	US	Vinci SA	FR	16,591	12.9x	18.7x
29-Aug-11	Confab Industrial SA	BR	Tenaris SA	LU	718	8.7x	9.8x
24-Oct-11	Carso Infraestructura y Construccion	MX	Grupo Carso SAB	MX	362	14.7x	18.2x
29-Nov-11	Fibrek Inc	CA	Resolute Forest Products Inc	CA	218	3.9x	10.8x
26-Oct-11	Industrias Forestales SA	CL	Empresas CMPC SA	CL	96	25.2x	52.1x
75th Percentile						14.9x	19.8x
Median						12.5x	18.3x
25th Percentile						5.8x	10.8x

- In the past month 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 relevant transaction in the industrials sector in this past month is Schneider Electric's acquisition of Invensys for €3.5bn, finalized in February 2014. The goal is to significantly enhance its position as a provider of efficiency solutions, integrating power and automation. The transaction will allow the combined entity to have a unique position in industrial and infrastructure end-markets. This is probably one of the reasons why it was so well above other precedent transactions in terms of EBITDA and EBIT multiples. In addition, upon announcement Invensys' stock rose by 17% (reflecting the premium paid) whilst Schneider's dropped 4.9%. Investors' confidence in the acquisition is shaky, it is now necessary to see whether Schneider Electric is able to reach its goal and achieve the proposed synergies.