

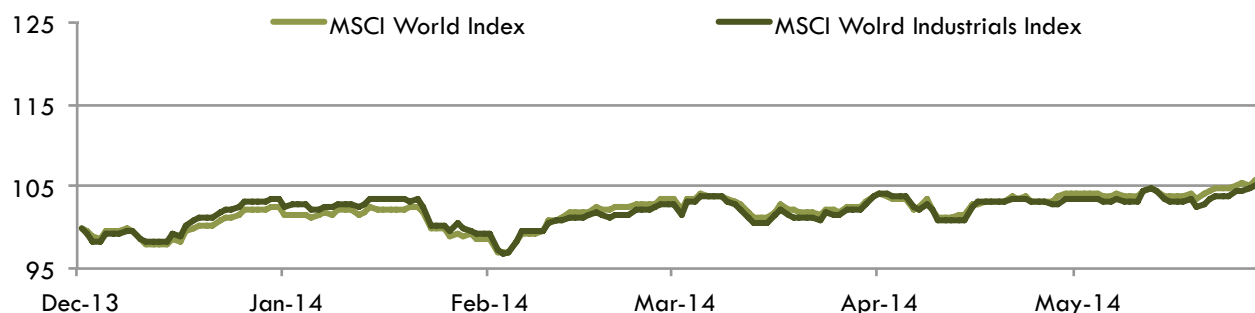
Industrials

Sector Review – May

1. Sector Overview

- US steel imports have risen 25.7% in 1Q2014 driven by overcapacity in China, South Korea and India. Also, the price of US-made steel products has dropped which illustrates the problems of American companies when facing external competition.
- In Europe, car sales have risen every month so far this year, leading to a 7.4% increase in the first four months of the year. However, analysts are pointing out heavy levels of discounting, warning that these figures should be analyzed deeper. Also, Ford's CEO, Allan Mulally, argued that European car makers are facing a period of overcapacity with consequences such as factories being closed and negative results being presented at the end of last year. Mr. Mulally explained that a car factory needs to be producing at 70% of its capacity to be able to offset its high fixed costs, which points out how the excess capacity can be a severe problem in the industry.
- Car sales in the UK are up 12.5% YoY over the first four months of 2014, a figure that has been used to announce a recovery in the country. However, the increased proportion of cars bought on credit questions the sustainability of this rise if interest rates begin to increase.
- In Portugal, the Industrials' turnover index increased 0.3% YoY. The Portuguese market had a 2.7% increase but the external market suffered a 2.7% decline, with the energy sector contributing with a 70% decrease. The industry has employed less 0.4% of people YoY.

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. Although in the last months the Industrials sector has slightly underperformed the market, the sector has recovered more than the market this month. As a consequence, the MSCI World Industrials Index is starting to approach the MSCI World Index.



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Industrials Universe:

- Boeing
- Ford
- Tata Motors
- Mota-Engil

This month's detailed company review:

- Siemens AG



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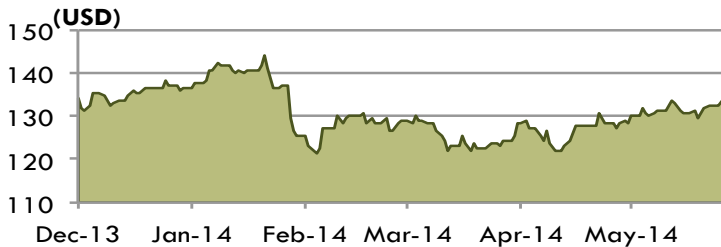
- Sector Overview
- Universe News
- Detailed review: Siemens AG

2. Followed Companies

Boeing

(Ticker: BA US Equity)

- Boeing announced the acquisition of ETS Aviation, a company dedicated to a software that allows a better fuel efficiency. Stan Deal, the vice president of the commercial aircrafts area at Boeing, said that fuel costs account for c.a. 40% of the company's costs. Thus, this deal aims to increase Boeing's competitiveness.

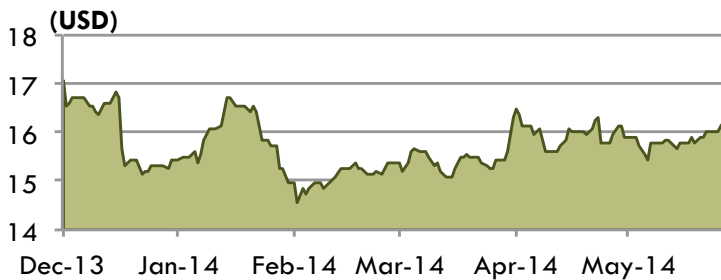


Price (USD):	↑	135.25
Target Price (USD):		160.00
Up/downside:		18.3%
Performance 3M:		4.9%
P/E Ratio:		22.14
ROC/WACC:		1.5x

Ford

(Ticker: F US Equity)

- Ford announced the repurchase of c.a. 116mm shares of common stock (c.a. \$1.8bn), with the goal of reducing diluted shares by c.a. 3%. This action aims to offset the dilutive effect of potential conversions of employee compensations and convertible senior notes.

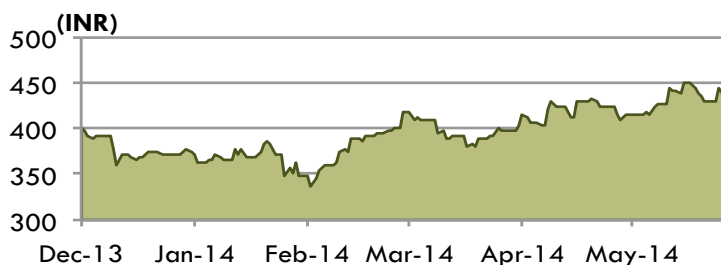


Price (USD):	↑	16.44
Target Price (USD):		19.00
Up/downside:		15.6%
Performance 3M:		6.8%
P/E Ratio:		11.5x
ROC/WACC:		0.9x

Tata Motors

(Ticker: TTMT IN Equity)

- Tata Motors posted a standalone loss after tax of INR 8.2bn in 1Q2014, compared with a loss of INR 3.1bn in 1Q2013, as a consequence of a 4.7% YoY decline in the Indian car market. However, Jaguar Land-Rover helped to shore up the group, with an increase in profit after tax at the UK unit of 54.7% YoY.

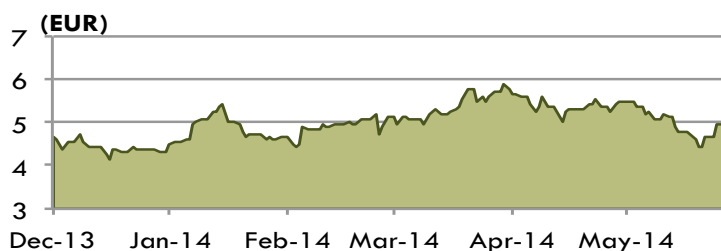


Price (INR):	↑	415.05
Target Price (INR):		482.00
Up/downside:		16.1%
Performance 3M:		-0.5%
P/E Ratio:		9.7x
ROC/WACC:		1.3x

Mota Engil

(Ticker: EGL PL Equity)

- Mota-Engil profit increased 33% in the 1Q2014. The group presented a Net Income of €7.3 mm in the first quarter of this year. Consistent with the group's strategy, the international activity was responsible for 68% of the turnover. Also, Mota-Engil was awarded the first public-private partnership in Colombia.

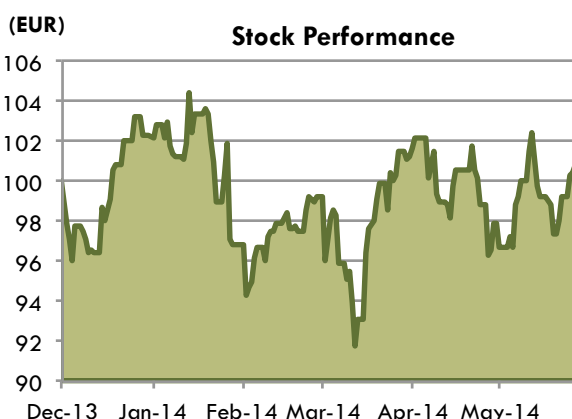


Price (EUR):	↑	5.30
Target Price (EUR):		6.40
Up/downside:		20.8%
Performance 3M:		3.2%
P/E Ratio:		19.8x
ROC/WACC:		0.9x

3. Stock Analysis: Siemens AG

Corporate News

- Siemens' chief executive as called for a period of calm, stating that the company did not need to reinvent itself. Instead the company should shift to a consolidation strategy, with tightened focus in its core areas. Based on this perspective it does not come as a major shock the announcement of 12,000 job cuts in the company for the coming years.
- Siemens is split into four major business areas: Healthcare, Energy, Infrastructure and Industry. With €26.6bn in revenue coming from its energy business, despite its lower EBITDA margins (compared to its healthcare or industry businesses), this is a source of potential consolidation.
- This is one of the major reasons why the market has responded positively to acquisition bids made by Siemens to acquire Alstom's energy sector (in a bidding war with GE over the French energy provider) and some power generation assets from Rolls-Royce. This further announces the need to focus on core businesses and increased investment expenditure, even amid job cuts and a general cost cutting program.



Siemens AG (EUR)	
Current Price (30/05/2014)	97.59
52-week high % change	-3.8%
Median Target Price	107.91
Market Capitalisation (mn)	85,792
Return on Common Equity	17.2%
Dividend Yield	3.1%
Beta (vs. S&P500)	0.9x
Total Debt/Equity	76.7%

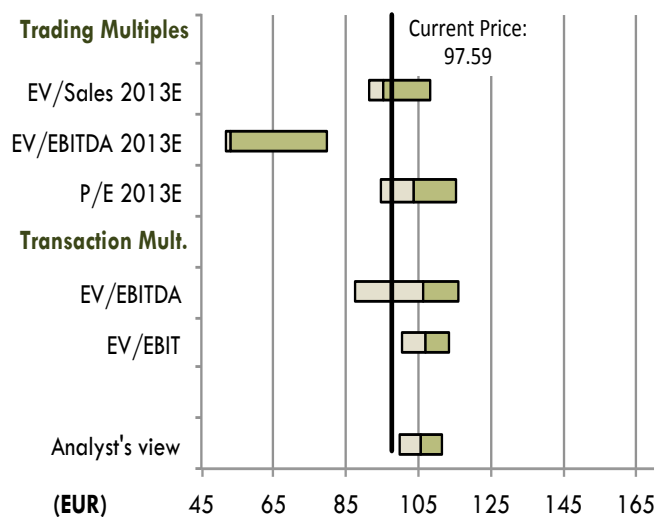
Market Performance

- As previously mentioned the market has responded positively to Mr. Kaeser's moves in what concerns company focus and business consolidation. This has reflected in a target price over €10 above its current share price. However some concerns come from how Mr. Kaeser will be able to achieve an improvement in capital efficiency from its asset swap with Rolls-Royce (target ROCE of 15%-20%).

Valuation Summary

- Currently, even though analysts expect the company to be undervalued – target price is way above its current trading stock price – the company seems to be in line with its peers in trading multiples. However it is important to note that in one important metric for this capital intensive industry, EV/EBITDA it is overvalued compared to peers. This may have some investors wondering whether analysts' projections.

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	
Siemens AG	EUR	85,748	99,188	1.3x	1.3x	1.3x	12.1x	9.8x	8.8x	18.5x	14.8x	12.9x	
General Electric	USD	269,045	279,271	1.9x	1.9x	1.9x	11.4x	12.4x	11.4x	16.2x	15.9x	14.8x	
Alstom	EUR	9,000	12,448	0.5x	0.6x	0.6x	6.0x	7.3x	6.7x	13.0x	12.2x	10.8x	
Toshiba Corp	JPY	1,796,743	3,638,845	0.6x	0.5x	0.5x	7.7x	6.3x	5.8x	27.4x	12.1x	10.2x	
Dongfang Electric	CNY	22,640	18,101	#N/A	N/A	0.4x	n/a	5.1x	4.8x	#N/A	N/A	9.8x	9.2x
Hyundai Heavy Industries Co	KRW	14,098,000	25,923,265	0.5x	0.5x	0.4x	21.2x	19.0x	12.0x	153.8x	70.8x	16.0x	
75th Percentile				1.3x	1.1x	1.1x	12.1x	11.7x	10.8x	27.4x	15.6x	14.3x	
Median				0.6x	0.6x	0.6x	11.4x	8.5x	7.7x	18.5x	13.5x	11.8x	
25th Percentile				0.5x	0.5x	0.5x	7.7x	6.6x	6.0x	16.2x	12.1x	10.3x	

- By looking at all three multiples – EV/Sales, EV/EBITDA and P/E – it is quite clear that Siemens seems to be overvalued when compared to its closest competitors (in the main businesses it operates in). It is also interesting to see that China's Dongfeng and Japan's Toshiba seem to be the most undervalued stocks in this pick, trading at the lowest multiples.
- On the other hand, Korea's Hyundai Heavy Industries Corporation is trading at the highest, in particular in P/E terms. By looking at Sales multiples we see that it is actually trading at lower multiples than most of its peers. Therefore this difference in ranking may imply some difficulty in converting sales into profits, due to lower profit margins or some unexpected losses (i.e. negative currency effects).

Precedent Transactions

Announced Date	Target		Buyer		EV		
	Company	Country	Company	Country	(EUR mn)	EV/EBITDA	EV/EBIT
07-Apr-14	Lafarge SA	FR	Holcim Ltd	CHF	27,298	8,5x	13,2x
29-Mar-12	Cimpor Cimentos de Portugal SGf	PT	Camargo Correa SA	BZ	4,071	12,5x	17,5x
14-Jun-07	Hanson Ltd	UK	HeidelbergCement AG	GER	13,660	11,1x	15,1x
19-Feb-07	Florida Rock Industries Inc	US	Vulcan Materials Co	US	3,410	11,4x	14,1x
06-Feb-07	Lafarge North America Inc	US	Lafarge SA	FR	2,462	8,0x	11,6x
02-Aug-05	BPB Ltd	UK	Cie de St-Gobain	FR	6,176	9,9x	14,0x
75th Percentile						11,3x	14,8x
Median						10,5x	14,1x
25th Percentile						8,8x	13,4x

- In the past months not many big acquisitions took place in the Industrials sector. Therefore, the table above presents some transactions comparable to the merger of Lafarge and Holcim that has been analyzed throughout this report.
- The biggest transaction after the abovementioned was the acquisition of Hanson (a British heavy materials company) by the German HeidelbergCement with the purpose of increase market share and boost margins. The transaction valued the target on £8bn, which represented a 34% premium to the average closing price for the three months before the announcement of the transaction. It is a significant premium compared to other deals on the sector, such as the Vulcan Materials acquisition of Florida Rock Industries.