

# Continental

Automobiles & Parts

2007-12-18

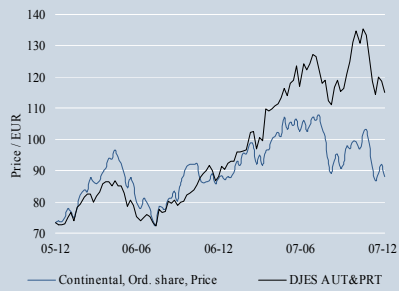
Applied disclosures can be found in the appendix

Buy

Fair Value EUR146.13

Price EUR88.06 (Closing price as of 2007-12-14)

## Price and rel. Performance



## Market Data

Reuters	CONG.DE
Bloomberg	CON GR
Market cap €bn	12.9
Free float %	85.0

## Key Data

Yr.end 12/31	2006	2007e	2008e
Revenues bn	14.9	16.4	28.3
Net profit bn	1.0	1.2	1.4
Adj. EPS	6.72	8.29	8.86
PER	12.7	10.6	9.9
EV/EBIT	9.2	7.5	10.2
EBIT mgn. %	10.8	11.5	9.6

EPS CAGR 06-09e: 13 %

## Next Events

Full year results	2008-02-21
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## DOES CONTI NEED MORE SNOW? NO!

### INVESTMENT CASE AND PERFORMANCE TRIGGER

On the back of the weak sales over the last months, this year's winter tire sales in Germany will likely fall short of expectations and are expected to drop by 17% in 2007, according to the German tire dealer association BRV. Although such newsflow is bad for tire stocks' sentiment, the financial impact on Conti is very limited. Consequently, we recommend buying into the shares ahead of the upcoming positive newsflow regarding the SiemensVDO integration over the weeks to come.

### FACTS

\_\_\_ In contrast to the initial expectations of a 5% volume growth this year, German winter tire sales are expected to drop by 17.4% on the year, according to the German tire dealer association BRV. This is on the back of a very mild start to the winter tire season.

\_\_\_ In this context, yesterday, Conti stated that it expects to sell less winter tires in 2007 vs. last year (2006: 19.1m winter tires globally), while the company originally guided for flat winter tires in FY 2007.

\_\_\_ This is not good news for Conti's most profitable division "Passenger & Light Truck Tires" (= 31% of Group sales), which is expected to generate a 2007 EBIT of €809m (a margin of 16%), equal to 44% of Group operating profit. However, the negative financial impact should remain extremely limited.

### ASSESSMENT

\_\_\_ In FY 2007, Conti is expected to sell some 105m passenger & light truck tires (PLT) for overall divisional revenues of €5.05bn (=revenues per tire: €47). Winter tire sales are estimated to represent some 18% of the 105m PLT tires or 19m units.

\_\_\_ In our view, some 40% of the 19m global PLT winter tires or 7.6m units are sold to the German market. Therefore, an inline-with-the-market drop of 17% in Conti's 2007 German winter tire sales (vs. our flat expectations) would lead to 1.1m less winter tires to be sold this year.

\_\_\_ Assuming a 25% pricing premium of winter tires over the average revenues per tire of €47, this would lead to a loss in revenues of €65m (= €59 x 1.1m) or 1.3% of segment sales. By applying a 25% EBIT margin to winter tires, this leads to an EBIT loss of €16m throughout this year, representing 2% of segment EBIT and less than 1% of the Group EBIT.

\_\_\_ These calculations clearly show that, the financial impact from a weak German winter tire business - although being negative for the sentiment - is limited and will lose even more importance after the SiemensVDO consolidation. Therefore, we recommend buying into the shares ahead of the SiemensVDO integration update on Feb 21, 2008.

**Continental - P&L (Cost of Sales)**

EURm (Yr. end: 12/31)	2005	2006	2007e	2008e	2009e
<b>Sales</b>	<b>13,837.2</b>	<b>14,887.0</b>	<b>16,375.9</b>	<b>28,347.9</b>	<b>29,767.6</b>
Cost of goods sold	-10,327.8	-11,205.2	-12,165.1	-22,904.8	-23,926.7
<b>Gross profit</b>	<b>3,509.4</b>	<b>3,681.8</b>	<b>4,210.8</b>	<b>5,443.1</b>	<b>5,841.0</b>
Selling costs	-1,429.9	-1,429.1	-1,600.8	-1,033.6	-1,179.5
R&D costs	-589.4	-677.0	-736.2	-1,700.8	-1,695.2
Other operating income/expenses (net)	17.0	26.2	10.0	0.0	0.0
<b>EBITDA</b>	<b>1,914.5</b>	<b>2,175.7</b>	<b>2,580.3</b>	<b>3,934.9</b>	<b>4,176.5</b>
<b>EBIT</b>	<b>1,507.1</b>	<b>1,601.9</b>	<b>1,883.8</b>	<b>2,708.7</b>	<b>2,966.3</b>
Interest result	-104.4	-110.6	-95.0	-607.0	-604.5
<b>Financial result</b>	<b>-104.4</b>	<b>-110.6</b>	<b>-95.0</b>	<b>-607.0</b>	<b>-604.5</b>
<b>Profit or loss on ordinary activities</b>	<b>1,402.7</b>	<b>1,491.3</b>	<b>1,788.8</b>	<b>2,101.7</b>	<b>2,361.8</b>
<b>EBT</b>	<b>1,402.7</b>	<b>1,491.3</b>	<b>1,788.8</b>	<b>2,101.7</b>	<b>2,361.8</b>
Taxes	-450.5	-486.7	-572.4	-672.6	-755.8
<b>Profit / loss for the year (cont. operations)</b>	<b>952.2</b>	<b>1,004.6</b>	<b>1,216.4</b>	<b>1,429.2</b>	<b>1,606.0</b>
Minority	-22.5	-22.6	-5.0	-5.0	-50.0
<b>Net profit</b>	<b>929.7</b>	<b>982.0</b>	<b>1,211.4</b>	<b>1,424.2</b>	<b>1,556.0</b>
<b>Adjusted net profit</b>	<b>929.7</b>	<b>982.0</b>	<b>1,211.4</b>	<b>1,424.2</b>	<b>1,556.0</b>

**Key ratios and figures**

EURm (Yr. end: 12/31)	2005	2006	2007e	2008e	2009e
<b>Valuation</b>					
PER	9.7	12.7	10.6	9.9	9.1
P/BV	2.5	2.8	2.4	1.7	1.5
Dividend yield %	1.3	1.1	2.3	2.3	2.3
EV/Sales	0.8	1.0	0.9	1.0	0.9
EV/EBITDA	5.9	6.8	5.5	7.0	6.6
Sustainable FCF yield %	12.9	8.4	9.6	3.0	5.7
<b>Data per share</b>					
EPS (reported)	6.39	6.72	8.29	8.86	9.68
adj. EPS	6.39	6.72	8.29	8.86	9.68
Dividend	0.90	2.00	2.00	2.00	2.00
Book value per share	24.55	30.60	36.89	50.52	58.38
<b>Growth rates %</b>					
Sales	9.8	7.6	10.0	73.1	5.0
EBITDA	5.8	13.6	18.6	52.5	6.1
EBIT	30.2	6.3	17.6	43.8	9.5
Net profit	29.8	5.6	23.4	17.6	9.3
adj. EPS	23.1	5.3	23.4	6.9	9.3
<b>Margins %</b>					
Gross	25.4	24.7	25.7	19.2	19.6
EBITDA	13.8	14.6	15.8	13.9	14.0
EBIT	10.9	10.8	11.5	9.6	10.0
<b>Net profit</b>	<b>6.7</b>	<b>6.6</b>	<b>7.4</b>	<b>5.0</b>	<b>5.2</b>
<b>Expense ratios %</b>					
Personnel cost to sales	22.1	22.2	23.6	27.6	27.1
Cost of material to sales	49.5	49.1	46.4	48.8	49.2
R&D to sales	4.3	4.5	4.5	6.0	5.7
Depreciation to sales (Cost of sales)	5.4	4.7	4.3	4.3	4.1
Tax rate	32.1	32.6	32.0	32.0	32.0
<b>Other ratios</b>					
EVA @ SOP	1,089.8	1,157.8	1,176.3	1,125.4	973.2
Interest cover	-18.3	-19.7	-27.2	-6.5	-6.9

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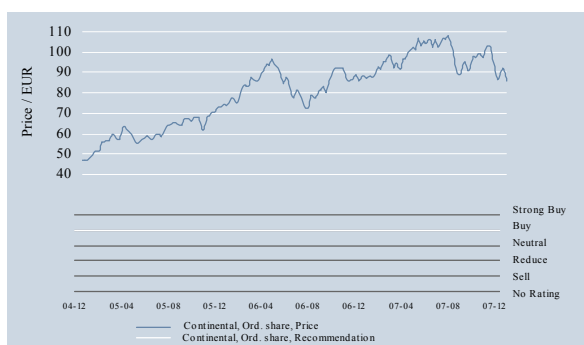
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