

Volkswagen

Automobiles & Parts

2007-10-29

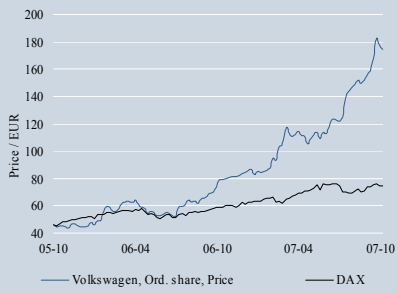
Applied disclosures can be found in the appendix

Neutral

Fair Value EUR180.00

Price EUR174.50 (Closing price as of 2007-10-25)

Price and rel. Performance



Market Data

Reuters	VOWG.DE
Bloomberg	VOW GR
Market cap €bn	62.5
Free float %	50.0

Key Data

Yr.end 12/31	2006	2007e	2008e
Revenues bn	104.9	109.4	113.3
Net profit bn	2.0	4.2	4.9
Adj. EPS	7.01	10.61	12.41
PER	8.9	16.4	14.1
EV/EBIT	11.4	10.3	9.2
EBIT mgn. %	1.9	5.4	5.6

EPS CAGR 06-09e: 26 %

Next Events

Analysts' conference	2008-03-13
AGM	2008-05-24

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Q3 MARGINS BETTER THAN EXPECTED, STRONG Q4 AHEAD

WE ARE NEUTRAL ON THE ORDS, WOULD BUY THE PREF. SHARES

The strong Q3 profit numbers and the continuing strong free cash flow give VW's long-term profitability targets to reach Toyota margins and ROCE's ever increasing credibility. Even if we are skeptical that these levels can be reached, the current level of VW valuation is justifiable and we see significant upside for the preference shares.

FACTS

VW's Q3 operating profit was stated at €1.459bn, compared to our estimate and consensus €1.3bn, thus, around 11% better than expected. The stronger than expected earnings come mainly from cost savings materializing faster than originally anticipated, with VW reaching the €1bn full year product cost savings target already by the end of Q3.

Net liquidity in the automotive business rose to €13.8bn, after €11.8bn end of H1. This is a Free Cash Flow generation of about €2bn in Q3, indeed a very strong number. YTD the net liquidity improvement reached more than €6bn.

In the conf. call the CFO Pötsch agreed that based on current circumstances the earnings trend in Q4 should resemble what we have seen so far this year.

ASSESSMENT

Taking the CFO's confidence that Q4 will follow the YTD trend, it is probably still conservative to extrapolate the Q3 PBT number for Q4, which gives us a new PBT estimate of €6.56bn, compared to our old estimate of €5.6bn and the "old" consensus of €5.5bn. This also adds about €1.5 to our 2007 EPS estimate now at €10.6. Our estimates for 2008 and 2009 stand at €12.4 and €13.9 (prev. €10.1 and €11.1).

We would recommend to play this strong "earnings-upgrade-story" at VW through the VW preference shares and by buying into Porsche. VW's preference shares should get more into focus of institutional investors due to 1) control issue is/or will be resolved shortly with Porsche taking 50% of the ords by exercising its options 2) with the strong VW free cash position and Porsche's financing needs related to the increase in the stake, we should see significant increases in dividends at VW and 3) the prefs are the perfect stock for the late-comers to the story (or for those who sold out to early and want to get back in).

VALUATION

Based on the stronger margin prospects and the strong free cash generation, we can easily upgrade our FV to €180.

Volkswagen - P&L (Cost of Sales)

EURm (Yr. end: 12/31)	2005	2006	2007e	2008e	2009e
Sales	95,268.0	104,875.0	109,448.0	113,258.0	118,930.0
Cost of goods sold	-82,391.0	-91,020.0	-91,825.8	-94,165.1	-98,536.4
Gross profit	12,877.0	13,855.0	17,622.2	19,092.9	20,393.6
Selling costs	-8,905.0	-9,180.0	-9,380.3	-9,913.8	-10,410.3
Administrative costs	-2,383.0	-2,312.0	-2,212.8	-2,496.8	-2,621.8
Other operating income/expenses (net)	1,203.0	-354.0	-169.4	-382.3	-401.4
EBITDA	8,436.2	7,971.0	11,839.1	12,230.8	12,875.1
EBIT	2,792.0	2,009.0	5,859.7	6,300.0	6,960.0
Interest result	-183.0	125.0	320.3	370.7	407.6
Other Financial income / expenses	-940.0	-714.0	-340.0	-364.0	-300.0
Financial result	-1,070.0	-216.0	700.3	806.7	1,007.6
Participation result	53.0	373.0	720.0	800.0	900.0
Other income / expenses (net)	0.0	0.0	0.0	4.0	0.0
Profit or loss on ordinary activities	1,722.0	1,793.0	6,560.0	7,106.7	7,967.6
EBT	1,722.0	1,793.0	6,560.0	7,110.7	7,967.6
Taxes	-602.0	162.0	-2,296.0	-2,132.0	-2,390.3
Profit / loss for the year (cont. operations)	1,120.0	1,955.0	4,264.0	4,978.7	5,577.3
Minority	20.0	1.0	60.0	60.0	60.0
Net profit	1,100.0	1,954.0	4,204.0	4,918.7	5,517.3
+/- Net profit adjustments	0.0	795.0	0.0	0.0	0.0
Adjusted net profit	1,100.0	2,749.0	4,204.0	4,918.7	5,517.3

Key ratios and figures

EURm (Yr. end: 12/31)	2005	2006	2007e	2008e	2009e
Valuation					
PER	14.1	8.9	16.4	14.1	12.5
P/BV	0.7	0.9	2.3	2.1	1.8
Dividend yield %	2.6	1.8	0.7	1.4	2.3
EV/Sales	0.2	0.2	0.6	0.5	0.5
EV/EBITDA	2.8	2.9	5.1	4.7	4.3
Sustainable FCF yield %	20.2	23.4	2.7	3.6	3.8
Data per share					
Weighted avg. number of shares	383.81	392.22	396.25	396.25	396.25
EPS (reported)	2.87	4.98	10.61	12.41	13.92
adj. EPS	2.87	7.01	10.61	12.41	13.92
Dividend	1.15	1.15	2.50	4.00	4.00
Book value per share	61.49	68.59	74.82	84.71	94.61
Sustainable FCFPS	7.4	19.3	8.8	11.3	12.5
Growth rates %					
Sales	7.1	10.1	4.4	3.5	5.0
EBITDA	16.1	-5.5	48.5	3.3	5.3
EBIT	72.3	-28.0	191.7	7.5	10.5
Net profit	62.5	77.6	115.1	17.0	12.2
adj. EPS	62.5	144.6	51.4	17.0	12.2
Margins %					
Gross	13.5	13.2	16.1	16.9	17.1
EBITDA	8.9	7.6	10.8	10.8	10.8
EBIT	2.9	1.9	5.4	5.6	5.9
Net profit	1.2	1.9	3.8	4.3	4.6
Expense ratios %					
Personnel cost to sales	15.4	16.6	15.7	15.5	15.1
Cost of material to sales	65.7	-63.8	-63.8	-63.8	-63.8
Depreciation to sales (Cost of sales)	5.9	5.7	5.5	5.2	5.0
Tax rate	35.0	-9.0	35.0	30.0	30.0
Other ratios					
Interest cover	nm	nm	nm	nm	nm

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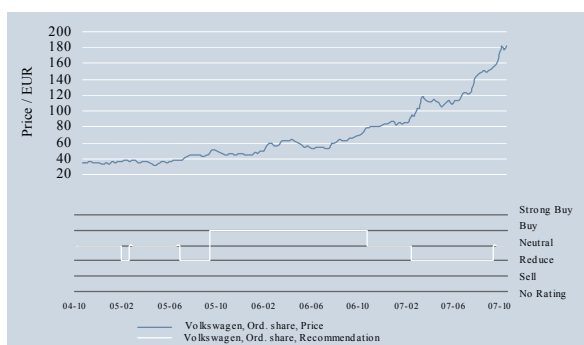
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Neutral	140	36.8	16	29.1
Reduce	26	6.8	0	0.0
Sell	0	0.0	0	0.0
No rating	23	6.1	2	3.6

Previous report with differing recommendation published at 2007-03-12.

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