

Brembo

Italy | Autos & parts

Buy (None)

Target price
EUR 19.00

Current price
EUR 15.20

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More value to come

Brembo has just come out of a spectacular run, with the stock doubling since mid-October last year. However, we see more value to come, as the supporting trend of premium cars worldwide is still in place and Brembo is carrying out a substantial investment plan, set to boost sales and margins. We expect an 8% CAGR in sales and 17% in EBIT in 2013-15E. The stock offers an attractive 7.3% FCFY 2015E at the end of the plan. We initiate coverage of Brembo with a Buy rating and a EUR19 TP.

World leader in high-performance braking systems

Brembo is the world leader in the production of high-performance braking systems for passenger cars (over two-thirds of sales), motorbikes and commercial vehicles. Over its 50-year history, its strong commitment to R&D (spending 5.5% of sales in the last 15 years) has enabled the company to establish its technological leadership, allowing it to become the sole supplier of names like Ferrari, Porsche, Maserati and Lamborghini, as well as a leading operator in racing (today equipping five F1 teams, including Ferrari, Red Bull and Mercedes, and 21 MotoGP pilots).

Sound growth to continue

Brembo has recorded a sound 9% annual sales growth over the last decade. This is expected to continue, mostly thanks to the company's current heavy investments in new capacity, aimed at serving nicely rising demand, in particular in the premium segment. The investment plan entails EUR245m total expansion capex in 2011-15, concentrated in China, the Czech Republic (entering the medium/high-end sedan segment), the US and Brazil. We expect it to translate into EUR315m additional sales in 2012-15E, fully reflected in our estimates. We assume a 3Y CAGR of 8% in sales, 17% in EBIT (thanks to the indexation of prices and operating leverage on the new capacity) and 8% in EPS (as the tax rate will cease to benefit from fiscal incentives in Poland).

Initiating at Buy, with EUR19 TP

We see more value in Brembo, even after the stock's strong run – doubling over the last nine and a half months and up 56% year-to-date. In our view, the execution risk of the investment plan is limited, as it is backed by customers' indications, and thus visibility on earnings is quite high. On our current estimates, the stock is trading below its historical levels on P/E 2013E and offers an attractive 7.3% FCFY 2015E at the end of the plan. We initiate Brembo with a Buy rating and a DCF-based EUR19 TP.

Reuters BRBL.MI
Bloomberg BRE IM
Index DJ Stoxx 600

Market data

Market cap (EURm)	1,015
Free float	43%
No. of shares outstanding (m)	67
Avg. daily trading volume('000)	191
YTD abs performance	55.8%
52-week high (EUR)	15.94
52-week low (EUR)	7.57



FY to 31/12 (EUR)	2013E	2014E	2015E
Sales (m)	1,513.6	1,634.7	1,765.5
EBITDA adj (m)	189.6	220.1	247.2
EBIT adj (m)	99.6	120.5	142.1
Net profit adj (m)	79.8	82.2	98.4
Net fin. debt (m)	318.3	293.1	247.6
FCF (m)	28.6	51.9	72.9
EPS adj. and fully dil.	1.19	1.23	1.47
Consensus EPS	1.10	1.26	1.36
Net dividend	0.41	0.42	0.51

FY to 31/12 (EUR)	2013E	2014E	2015E
P/E (x) adj and ful. dil.	12.7	12.4	10.3
EV/EBITDA (x)	7.3	6.1	5.3
EV/EBIT (x)	13.8	11.2	9.2
FCF yield (%)	2.9%	5.2%	7.3%
Dividend yield (%)	2.7%	2.8%	3.3%
Net debt/EBITDA (x)	1.8	1.4	1.1
Gearing (%)	70.3%	57.7%	42.8%
ROIC (%)	9.9%	11.4%	12.9%
EV/IC (x)	1.8	1.7	1.6

IMPORTANT. Please refer to the last page of this report for "Important disclosures" and analyst(s) certifications

Summary

Company profile

Brembo is the world’s leading producer of high-performance disc braking systems for cars, motorbikes, commercial vehicles and racing. It operates in 16 countries and employs around 7,000 people (10% of whom work in R&D).

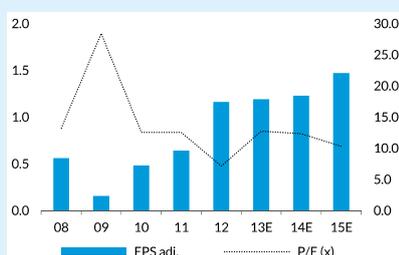
Management structure

Alberto Bombassei	Chairman
Matteo Tiraboschi	Deputy Chairman
Andrea Abbati Marescotti	CEO

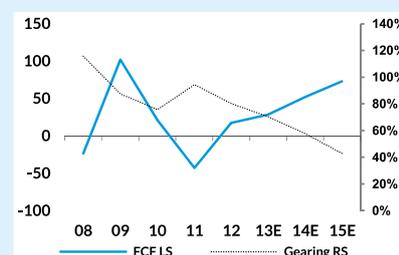
Key shareholders

Alberto Bombassei	56.5%
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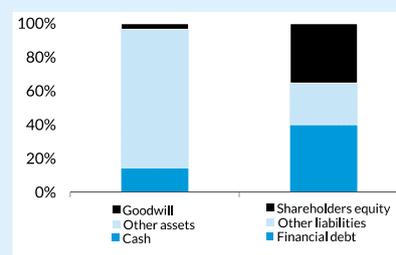
EPS and PE



FCF and gearing



Balance sheet structure, 2013E



Valuation

Base case

DCF is based on long-term 6% growth in sales.

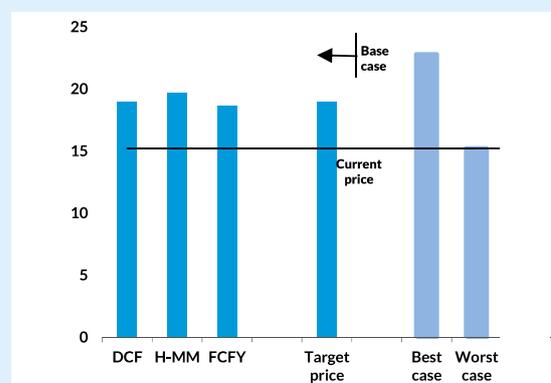
Best case

DCF is based on long-term 10% growth in sales.

Worst case

DCF is based on long-term 2% growth in sales.

Target price



Risk to our rating

A sharp contraction in volume demand is the main (and only real) risk. Prices do not pose a risk, as they are now mostly automatically indexed to raw materials. The relevance of fixed costs tends to amplify the impact of volumes on margins.

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When made in Italy is high-tech

Brembo is the world leader in high-performance braking systems. Sales come mostly from passenger cars (68% of the total) and Europe (62%). Germany is the biggest market (24%), reflecting the company’s strong positioning with German premium car makers. The company’s competitive edge is based on technological know-how, built up over its 50-year history (15Y R&D expenses of 5.5% of sales).

The high-performance brakes specialist

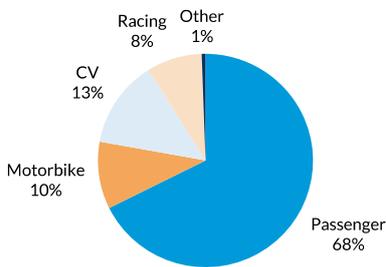
Brembo is one of the world leaders in the production of braking systems for passenger cars, motorbikes, commercial vehicles and racing. The group is the undisputed world leader in the high-performance segment, as well as an acknowledged innovator in brake disc technology. It operates directly in 16 countries worldwide and employs around 7,000 people (10% of whom working in R&D), selling its products in 70 countries.

Looking at business segmentation, passenger cars account for the lion’s share, with 68% of total sales last year. As for geographies, Germany is the single biggest market for the group, with 24% of sales last year, while Europe is the biggest region, making up 62% of the total (this reflects the geographical footprint of customers’ production rather than their sales).

The world leader in high-performance braking systems

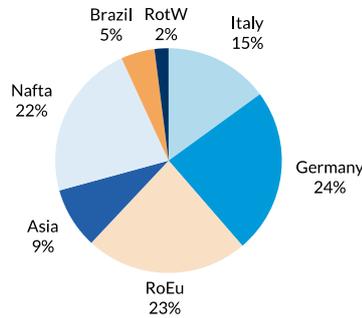
Germany 24% of sales, Europe 62% (2012)

Chart 1: Brembo, 2012 sales by segment...



Source: Company data

Chart 2: ...and country/region



Source: Company data

In its niche Brembo is well diversified, operating in both the original equipment market and the aftermarket, with eight brands and a range of products including:

- Car and commercial vehicle OE applications, brake discs, brake callipers, the side-wheel module and, increasingly often, complete braking systems, with integrated engineering services (Brembo brand).
- Motorbike OE applications, brake discs, brake callipers, brake master cylinders, light-alloy wheels (Marchesini brand) and complete braking systems (ByBre is the brand for small-to-mid sized engines for emerging markets like Bric and Asean).
- Car and motorcycle racing applications, braking and clutch systems (Brembo Racing and AP Racing brands, serving F1, Indy Car, Nascar, Rally, MotoGP, Superbike, Enduro and Cross Championships).

Eight brands, for OE and aftermarket

- Aftermarket applications, particular brake discs, pads, drums, brake shoes, drum-brake kits and hydraulic components (AP and Breco brands).
- Passive safety applications, seats, seat belts and other accessories (Sabelt brand).

The aforementioned revenue model by segment and geography has remained quite stable over the last five years, with the only exception of Italy, which shrank from 24% to 15% of group sales over 2008-12. Two major drivers were passenger cars and Germany, with 10% and 9% CAGR in sales, respectively, over 2008-12, versus 7% for the whole group. This underlines the importance of the German (premium) car makers for Brembo, which has taken advantage of their strong growth (we estimate that overall Daimler, BMW and Volkswagen account for 20-25% of group sales).

**Growing with German
(premium) car makers**

Table 1: Brembo, sales breakdown by segment

(EURm)	2008	2009	2010	2011	2012
Passenger cars	651	530	705	808	939
% of total	61%	64%	66%	64%	68%
Motorbikes	125	101	115	137	141
% of total	12%	12%	11%	11%	10%
Commercial vehicles	180	113	156	194	184
% of total	17%	14%	15%	15%	13%
Racing	94	78	92	109	116
% of total	9%	9%	9%	9%	8%
Miscellaneous	11	4	7	7	8
% of total	1%	0%	1%	1%	1%
Total sales	1,061	826	1,075	1,255	1,389

Source: Company data

Table 2: Brembo, sales breakdown by country/region

(EURm)	2008	2009	2010	2011	2012
Italy	252	171	199	224	208
% of total	24%	21%	18%	18%	15%
Germany	235	167	237	273	330
% of total	22%	20%	22%	22%	24%
France	49	35	45	60	58
% of total	5%	4%	4%	5%	4%
UK	66	47	61	85	101
% of total	6%	6%	6%	7%	7%
Rest of Europe	162	119	154	175	164
% of total	15%	14%	14%	14%	12%
Nafta	185	163	207	239	312
% of total	17%	20%	19%	19%	22%
Brazil	43	53	67	68	67
% of total	4%	6%	6%	5%	5%
India	3	18	28	36	34
% of total	0%	2%	3%	3%	2%
China	12	22	49	55	60
% of total	1%	3%	5%	4%	4%
Japan	39	18	17	18	20
% of total	4%	2%	2%	1%	1%
Rest of Asia	6	10	6	9	8
% of total	1%	1%	1%	1%	1%
RotW	8	3	5	13	28
% of total	1%	0%	0%	1%	2%
Total sales	1,061	826	1,075	1,255	1,389

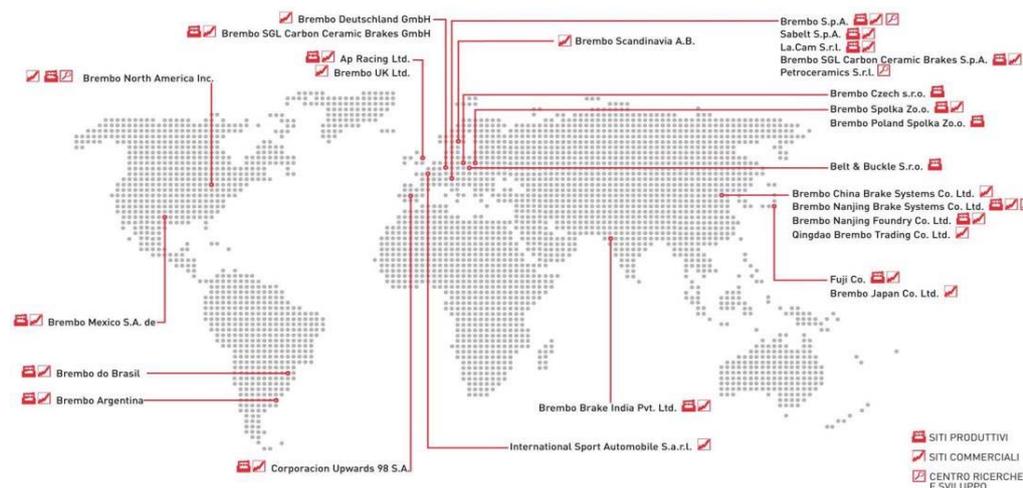
Source: Company data

Worldwide footprint

Brembo operates through 20 production plants across 14 countries worldwide. They are located in Italy (4), Germany (1), the UK (1), Spain (1), Poland (2), Czech Republic (1), Slovak Republic (1), the US (2), Mexico (1), Brazil (2), Argentina (1), China (1), Japan (1) and India (1). Four R&D centres are located in Italy (2), the US (1) and China (1).

Twenty production sites, four R&D centres

Chart 3: Brembo worldwide



Source: Company data

Brembo is rapidly expanding its production capacity, following the global expansion of demand for vehicles as well as the worldwide evolution of OEMs' supply.

Investing heavily in new capacity

The latest investments concerned the new plants in:

- Poland (Dabrowa Gornicza): EUR100m capex plan ended in 2011, for brake discs for cars and CVs;
- China (Nanjing): EUR70m capex plan ended in 2012, for brake callipers and discs for cars and CV;
- The Czech Republic (Ostrava): EUR60m capex plan ended in 2012, for new braking systems for the medium/high-end sedan segment.

Moreover, new significant investments are planned in 2013-15: EUR83m in the US, to increase the capacity of the Detroit site, and EUR32m in Brazil, to move the São Paulo plant to a new larger location, close to the city.

Today, apart from Italy, which is currently slightly under-utilised, the other production facilities of the group are working at full capacity, with the exception of two of the latest additions, China and Czech Republic, which are expected to reach full tilt between the end of this year and the beginning of next year. Brembo currently does not face over-capacity issues and carefully manages the capacity installed in strict correlation with the trend in demand – meaning in close contacts with its customers.

No overcapacity issues

Fifty years of technological leadership

Brembo's competitive edge is based on its distinctive technological know-how, specifically in the high-performance segment, built up over its 52-year history. It is worth a quick recap, as we believe the company's leading position is highly defensible, over a (reasonably) long period of time, essentially thanks to such a unique and unrepeatable set of competencies.

The company was founded in 1961 by Emilio Bombassei, the father of the current majority shareholder and chairman of the company, Alberto Bombassei, at that time 20 years old.

In 1964, the company started producing the first Italian brake discs for the aftermarket. Then it added other components, becoming the leader in Europe in the spare part brake disc market. In 1972 Brembo started supplying Moto Guzzi motorbikes and in 1975 Ferrari racing cars, establishing a clear leadership in motorsports braking systems. Since 1975, Brembo has won 17 drivers' and 22 constructors' championships in F1. In 500cc/MotoGP, the company has won 21 of the last 22 championships.

In 1980, as a part of a strategic effort focused on innovation and diversification, the company introduced a breakthrough aluminium brake calliper for cars, which was gradually adopted by major high-performance car makers, such as Porsche, Mercedes, Lancia, BMW, Nissan and Chrysler. In the mid-80s, it also expanded into the industrial vehicle disc brake segment, working with Iveco, Renault and Daimler. This was also the time of internationalisation, as in 1983 Brembo acquired a stake in the US-based braking system producer Kelsey-Hayes, finalising the acquisition of the entire share capital ten years later.

In 1995, Brembo was listed on the Milan stock exchange (IPO price ITL11.300, EUR5.84).

During 2000s, Brembo proceeded with its internationalisation and diversification. It bought Alfa Real Minas in Brazil (brake discs and engine flywheels), AP Racing in the UK (brake and clutch systems for racing cars and motorcycles and sports cars) and 70% of Italian Marchesini (magnesium wheels for racing motorcycles). From 2000, it progressively entered the Chinese market, creating an integrated production centre for brake callipers and discs for cars and commercial vehicles (Nanjing hub). From 2005, it also entered India, producing braking systems for two-wheelers (Pune district). In 2006, the company invested in Poland, establishing a new hub for the production of brake discs for cars and commercial vehicles. In 2007 it inaugurated the flagship R&D centre in the "Kilometro Rosso" Technology and Science park in Italy and acquired the Brakes division of Hayes Lemmerz in the US. In 2010, Brembo invested in a new plant in the Czech Republic for car braking systems, entering the new mid-premium segment (medium/high-end sedan), serving customers like BMW, Audi, Land Rover and GM.

At present, Brembo is actively working on the application of carbon ceramic technology. Originally used in the aerospace industry ('70s) and then in motorsports ('80s), carbon ceramic subsequently expanded into sports cars ('00s). Brembo has been a pioneer also in this field and is currently focusing its efforts on the development of carbon ceramic brake discs for larger scale applications. Its present customers are Aston Martin, Audi, Bentley, Bugatti, Daimler, Ferrari, GM, Lamborghini and Porsche.

The next challenges, for which Brembo is actively preparing, arise from the ongoing car makers' search for more electronic and lighter vehicles.

Distinctive technological know-how

Founded in 1961

Started with Ferrari in 1975

First acquisition: Kelsey-Hayes, US 1983

Listing in Milan, 1995

Proceeding with internationalisation and diversification

The new challenges: from new materials (carbon ceramic)...

...to electrification and weight reduction

R&D commitment

Braking systems are quite sophisticated products, involving elements related not only to pure performance but also to comfort, duration and aesthetics. Historically, Brembo has put a great deal of emphasis on R&D activities, absorbing significant expenses. Typically, the company's product and process innovations are patented.

Brembo's competitive edge is decisively connected to its R&D effort, which has translated into its distinctive technological know-how, built up over half a century history.

Today, the group's R&D activities are carried out by about 700 people (10% of the total workforce), through four dedicated organisations, two in Italy (the parent company in the "Kilometro Rosso" Technology and Science park near Bergamo and the 20%-owned Petroceramics), one in the US (Brembo North America subsidiary) and one in China (Brembo Nanjing Brake Systems subsidiary).

Overall R&D expenses comprise the following:

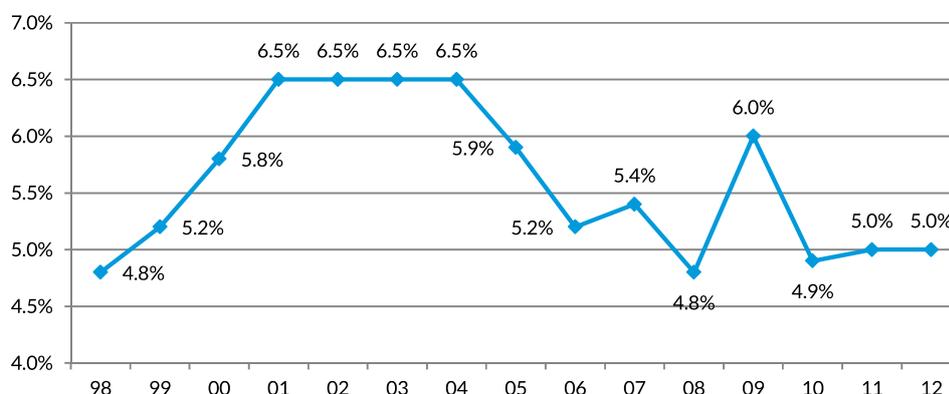
- Costs capitalised as intangible assets in the BS (5-year amortisation), and
- Costs charged to the P&L (personnel and other items).

Over the last 15 years, Brembo's R&D expenses have averaged c5.5% of sales, which is a remarkable level. It still stood at 5% in the last two years.

R&D is a key activity

**R&D/Sales 15Y-average
c5.5% of sales**

Chart 4: Brembo, R&D/Sales



Source: Company data

Table 3: Brembo, R&D expenses

(EURm)	2007	2008	2009	2010	2011	2012
Charged	37	37	40	42	50	57
Capitalised	12	14	10	10	13	13
Total	49	51	50	53	63	69
% of sales	5.4%	4.8%	6.0%	4.9%	5.0%	5.0%

Source: Company data

Three main competitors

Today Brembo is the sole supplier of foundation brakes for top-end names like Ferrari, Porsche, Maserati and Lamborghini. In most of the premium car segments (sedan, super-sport and luxury SUV – as a whole making up a segment that is well represented in Europe, but less developed in the US and Japan), and with most of its customers, Brembo has a clear monopoly. Compared to the competition, the group looks to be the only all-brakes, global and high-end player in the car segment today.

Brembo’s major competitors are:

- Japanese Akebono, the most similar to Brembo as it focuses only on braking systems, but mostly exposed to Japan and US, with just a small presence in Europe;
- German Continental Teves and US-based TRW, both operating in various segments of active/passive safety, with a global footprint.

Japanese Akebono (listed in Tokyo) is focused on braking systems for passenger cars, motorcycles and commercial vehicles, with a presence also in racing (F1, working only with McLaren, and Tour Car Racing), and does not operate in other businesses. It is positioned in the medium/high-end segments of the market, working with all the main Japanese names as well as some European and North American ones, such as Mercedes, GM and Ford. In the fiscal year ended last March, the group recorded sales of JPY206bn (EUR1.57bn), with an 11.4% gross margin and a 2.1% operating margin. 41% of sales came from Japan (40% market share in OE segment), 45% from the US (after the acquisition of Bosch US’s brake business in 2009), 11% from Asia ex-Japan and only 2% from Europe.

German Continental Teves is the Continental group’s subsidiary for the chassis & safety business, with regard to braking systems focused on high-end segment. Last year the company generated EUR7.05bn sales and an operating margin of 9.7%. 27% of sales came from Germany, 21% from the rest of Europe, 28% from Asia and 21% from Nafta.

With regard to braking systems, US-based TRW is focused on the medium/high-end segments of the market. Last year the company generated sales of USD16.4bn, of which c45% from Europe, c35% from the US and c15% from Asia.

Brembo’s leading position is less contested in the motorbike high-performance segment. Proof of this is the fact that Brembo is the sole supplier of Japanese names in racing. Its main competitors are two Japanese players: Nissin Kogyo (listed, 35%-owned by Honda, concentrated on Asian and North American markets and not present in racing, JPY174bn or EUR1.32bn sales in the last fiscal year, with a 5.1% operating margin) and Tokico (concentrated on the domestic market and small/medium displacement segment).

In our view, distinctive know-how, a long track record and well established relationships with customers are the barriers which make Brembo’s leadership defensible in the foreseeable future. The three main competitors are large, well-performing groups but they would need to refocus their strategy and heavily invest in order to attack Brembo in the upper-end segment of the market.

...Ferrari and Porsche are quite demanding counterparts.

Brembo is the only global player in the premium car segment

Akebono, the most similar competitor

Continental Teves

TRW

Nissin and Tokico in motorcycle segment

Brembo’s leadership looks defensible

New investments to fuel growth

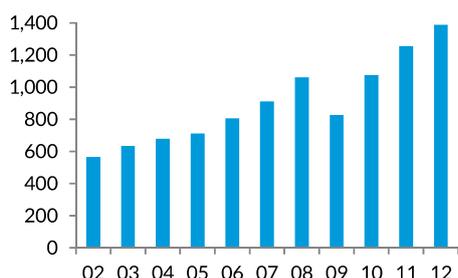
Brembo is a growth story: the 10Y CAGR in sales is a sound 9% (8% organic). This is expected to continue, mostly driven by world demand for premium cars, nicely rising and primarily served by German OEMs (Brembo’s main clients). Brembo is investing heavily in growth: the EUR245m capex plan should translate into a 3Y CAGR of 8% in sales and 17% in EBIT – in our view, with limited execution risk.

A growth story

Brembo has a solid growth profile. Over the last 16 years (1996-2012) – looking at the longest available data series – the company recorded a 14% CAGR in sales, moving from EUR181m to EUR1,389m, mostly driven by the expansion of volumes.

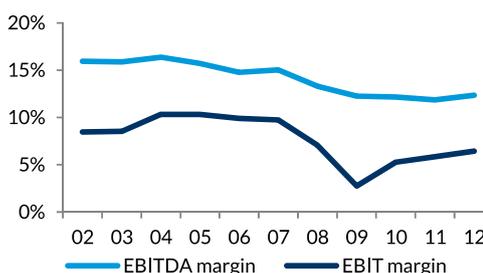
Over the last ten years (2002-12), the company has recorded a 9.4% CAGR in sales, 6.5% in EBITDA and EBIT and 14% in net profit. Over the period, sales rose from EUR566m to EUR1,389m, with EUR192m additional sales from acquisitions (adding the sales of acquired companies in year-1 of consolidation), for a solid 7.8% CAGR in organic terms.

Chart 5: Brembo, sales and...



Source: Company data

Chart 6: ...margins 2002-12



Source: Company data

It was practically an unstoppable run, with the only significant exception being 2009, when sales were down 22% YOY (-25% at a constant perimeter). This was essentially caused by the drop in car registrations worldwide that year and the year before (-4.4% YOY in 2008 and -3% YOY in 2009, more pronounced in the company’s major markets), which translated into a sharp fall in demand, also due to a certain de-stocking effect. Already the year after, in 2010, the company returned to its 2008 level.

Brembo’s historical sales performance, mostly driven by the organic expansion of volumes, has been sustained by the rising global demand for vehicles, approximately in the region of mid-single digit annual growth over the last decade, for passenger cars, motorcycles and commercial vehicles – and substantially faster in the premium segments.

In the period, margins have been eroded (EBITDA -360bp and EBIT -200bp) essentially due to: 1) raw material hyper-inflation, only partially offset by price adjustments; and 2) the progressive enlargement of the product mix, to include lower value-added products.

Solid growth profile

10Y CAGR: sales 9.4%, EBITDA/EBIT 6.5% and net profit 14%

2009 was the only negative year

Demand for (premium) vehicles has been supportive

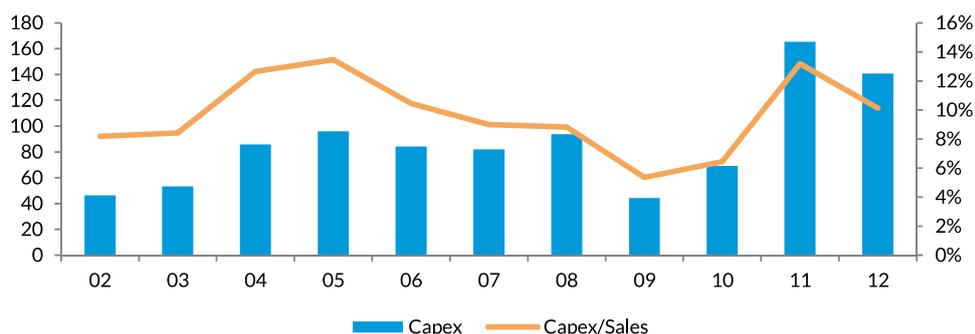
Margins eroded by raw materials and mix

It must be highlighted here that when the commodity mega-trend started at the beginning of 2000s, Brembo’s contracts with OEMs did not provide any automatic indexation mechanism, thus margins were exposed to the impact of the price swings of raw materials (aluminium and cast iron are the main items for the company, accounting for c15% of sales).

The company accompanied the demand expansion with an intense investment effort. Over the last decade, accumulated capex has totalled almost EUR1bn, i.e. 10% of almost EUR10bn accumulated sales.

10% average capex/sales in 10Y

Chart 7: Brembo, 10-year investment cycle



Source: Company data

In the same way, still investing heavily in order to serve nicely rising demand, Brembo is expected to keep growing in the future.

Market outlook is favourable

The outlook for demand for high-performance braking systems looks sound.

One of the key drivers will be rising demand for premium cars. According to BMW’s latest estimates, the premium segment accounted for 9.4% of world car registrations in 2012.

This reflects quite different situations, with regard to:

- Developed markets, which are above the world average: Germany with 29.6% of car registrations represented by premium cars, the UK with 25%, Italy with 16.3%, the US with 11.9% and France with 11.8%;
- Developing markets, which are below the world average: Russia with 7.2%, Turkey with 6.8%, South Korea with 5.7%, India with 1% and Brazil with 0.9%; and
- Special cases, like Japan with only 3.9% (which is structurally well below similarly developed economies) and China with 9.1% (which has rapidly grown and is today the world’s biggest market for premium cars).

On a global scale, in 2012-20 BMW estimates a c5% CAGR for premium car registrations. China should remain the best performer, with a 10% CAGR over the period.

Premium cars represent 9.4% of global registrations...

...expected CAGR of c5% up to 2020 (by BMW)

Table 4: Premium car world market

'000 units	2012	2020	Change	CAGR
Western Europe	2,626	3,116	19%	2.2%
North America	1,884	2,559	36%	3.9%
Japan	194	194	0%	0.0%
China	1,224	2,609	113%	9.9%
BRIKT*	407	687	69%	6.7%
RotW	500	720	44%	4.7%
World	6,836	9,884	45%	4.7%

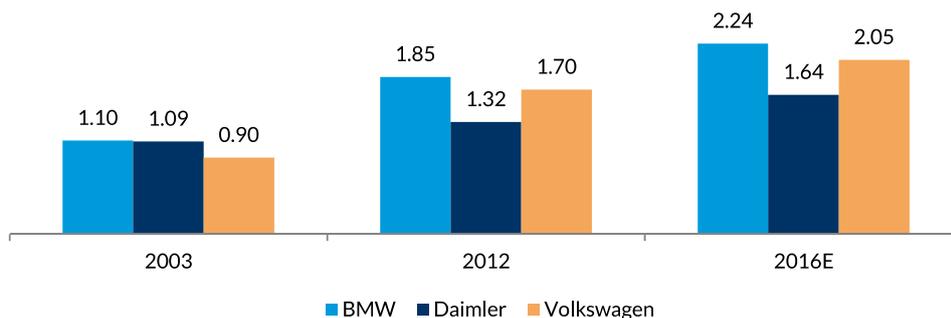
* BRIKT refers to Brazil, Russia, India, South Korea and Turkey Source: BMW (June 2013)

Driven also by China, German BMW, Daimler and Volkswagen’s premium volumes are expected to continue on their growth path. This is a key driver for the demand of high-performance braking systems and for Brembo in particular, which we estimate derives 20-25% of its sales from the “big 3” Germans put together.

According to current Kepler Cheuvreux estimates, the “big 3” should overall achieve a 5% CAGR in premium volumes over 2012-16 – with Daimler (Brembo’s biggest single customer) slightly outperforming BMW and Volkswagen.

We expect a 5% CAGR for the “big 3” Germans up to 2016

Chart 8: Big-3 Germans’ premium volumes (m units)



Source: Kepler Cheuvreux (German premium OEMs go into battle, June 2013)

As for the other main segments, over a three-year horizon we assume mid/high-single digit growth in global premium motorcycle registrations (high displacement, high performance) and low/mid-single digit growth for commercial vehicles.

The latest forecast for the global two-wheeler market points to 7% annual growth up to 2016, with registrations reaching 135m units, mostly driven by China, India and Indonesia. The premium segment is expected to move broadly in line with the market as a whole. Brembo should take advantage of its well positioned customer base, which includes Harley-Davidson (50% of the total client supply), Ducati (almost 100%), BMW and KTM (for high-displacement models), Suzuki (started at the end of 2010, with a special brake calliper for the GSX-R 600 and 750cc, marking the first supply to a Japanese OEM for non-racing models), Piaggio (with the exclusion of Aprilia) and all the main players in the Indian market, such as Bajaj, Hero, Honda Motors, Yamaha, Suzuki and Royal Henfield (the company’s plant in Pune, the Indian automotive district, is fully dedicated to braking systems for

Faster motorcycles...

motorcycles and controls approximately 50% of the market – the second biggest market worldwide, after China, with a very low level of penetration, at only around 7%).

With regard to commercial vehicles, where Brembo works with Iveco, Renault Trucks, Mercedes Benz and Volvo, among others, the outlook appears more uncertain, particularly in Europe. Looking at the 2013 scenario outlined by Continental, regional trends should vary substantially: in terms of registrations, Europe is seen to be down 3%, Nafta up 5%, South America up 11% and Asia 8%. It is not clear, at this stage, whether a rebound can be expected in Europe already next year.

The investment plan

Brembo is setting up new capacity to serve growing market demand. It has embarked on a major expansion plan, as mentioned before, entailing large investments in:

- China (Nanjing): EUR70m capex up to 2012, aimed at expanding the capacity of the local hub for brake callipers and discs for cars and CVs, following German customers. We assume additional sales of around EUR25m up to 2015E (roughly half of the company's indications, taking a more conservative view on China).
- The Czech Republic (Ostrava): EUR60m capex up to 2012, aimed at entering the medium/high end sedan segment, which is estimated to be ten times bigger than the segment currently served by the company. Additional sales from this new business were guided at EUR55m in 2014.
- The US (Detroit): EUR83m capex up to 2015, intended to increase the capacity of the local hub for car braking systems. Additional sales with main North American customers such as Chrysler, GM and Ford were guided at EUR172m in three year time, with the US-based subsidiary Brembo North America reaching EUR350m in 2015 versus EUR179m in 2012.
- Brazil (São Paulo): EUR32m capex up to 2015 for the purpose of moving the plant to a new larger and more modern location in San Antonio de Posse, north of São Paulo. Additional sales in the country were guided at EUR63m in three year time, with the local subsidiary Brembo do Brasil reaching EUR130m sales in 2015 versus EUR67m in 2012.

We refer here only to investments in new capacity which has not been saturated yet – thus excluding EUR100m capex for the new capacity in Poland, which is now working at full tilt.

Overall, the plan is worth EUR245m capex over 2011-15. Based on our estimates, which are in line with the company's indications except for our more conservative assumptions on China, it should generate EUR315m additional sales from 2012 to 2015E, which account for a large part (84%) of the EUR377m sales increase we estimate from 2012 to 2015E.

If the company has correctly assessed the potential of the markets where it is investing – an assessment which should in some respects be backed by its customers' indications, thus we would consider it reliable– the execution risk of the plan looks quite limited.

...and slower CVs

A major expansion plan to serve growing demand

EUR245m capex in 2011-15 for EUR315m additional sales in 2012-15E

Limited execution risk

New capacity to boost sales and margins

We translate all the foregoing into an 8% CAGR in sales over 2012-15E – assuming 9% YOY growth in 2013E, in line with the company's guidance. This 3Y CAGR is made up of:

- In terms of segment: 11% CAGR for passenger cars (driven by German customers and new capacity), 5% for motorbikes (broadly in line with the market), -1% for commercial vehicles (assuming the bear case on the sector) and 4% for racing.
- In terms of geography: 8% CAGR for Germany (also thanks to new capacity in the Czech Republic), flattish Italy, 16% for China (lower than the 25% implied by the company's target), 14% for Nafta and 24% for Brazil (in line with the company's targets, with Nafta local-for-local sales to substantially replace overseas supply).

**8% 3Y CAGR in sales
driven by...**

...car segment...

**...and Germany, China,
Nafta and Brazil**

Table 5: Brembo, sales breakdown by segment

(EURm)	2011	2012	2013E	2014E	2015E	CAGR 3Y
Passenger cars	808	939	1,071	1,173	1,284	11%
Growth %	15%	16%	14%	10%	10%	
Motorbikes	137	141	146	154	163	5%
Growth %	19%	4%	4%	6%	6%	
Commercial vehicles	194	184	170	173	177	-1%
Growth %	24%	-5%	-8%	2%	2%	
Racing	109	116	118	124	130	4%
Growth %	19%	6%	2%	5%	5%	
Miscellaneous	7	8	9	11	12	16%
Growth %	-8%	14%	12%	23%	11%	
Total sales	1,255	1,389	1,514	1,635	1,765	8%
Growth %	17%	11%	9%	8%	8%	

Source: Company data, Kepler Cheuvreux

Table 6: Brembo, sales breakdown by country/region

(EURm)	2011	2012	2013E	2014E	2015E	CAGR 3Y
Italy	224	208	206	208	212	1%
Growth %	13%	-7%	-1%	1%	2%	
Germany	273	330	372	391	411	8%
Growth %	16%	21%	13%	5%	5%	
France	60	58	47	47	47	-7%
Growth %	34%	-3%	-20%	0%	2%	
UK	85	101	106	110	113	4%
Growth %	38%	19%	5%	4%	3%	
Rest of Europe	175	164	159	162	167	1%
Growth %	13%	-6%	-3%	2%	3%	
Nafta	239	312	375	431	461	14%
Growth %	15%	30%	20%	15%	7%	
Brazil	68	67	70	84	127	24%
Growth %	1%	-1%	5%	20%	50%	
India	36	34	31	32	34	0%
Growth %	26%	-5%	-10%	5%	5%	
China	55	60	78	86	94	16%
Growth %	12%	9%	30%	10%	10%	
Japan	18	20	18	18	19	-2%
Growth %	5%	8%	-10%	3%	3%	
Rest of Asia	9	8	6	7	7	-6%
Growth %	56%	-2%	-25%	5%	5%	
RotW	13	28	47	60	74	39%
Growth %	180%	110%	71%	27%	24%	
Total sales	1,255	1,389	1,514	1,635	1,765	8%
Growth %	17%	11%	9%	8%	8%	

Source: Company data, Kepler Cheuvreux

The following table summarises the correlation between the 2011-15 investment plan and the expected growth in sales over 2012-15E – which broadly confirms Brembo’s “rule of thumb” pointing to EUR1+ additional sales for each EUR1 capex. Our estimates for total capex 2011-15E (EUR686m) combine the expansion investments entailed by the plan (EUR245m) with estimated maintenance capex of about EUR90m per year over the period (EUR441m in total).

EUR1 capex = EUR1+ additional sales

Table 7: Brembo, the investment plan

(EURm)	Capex	Ended	Saturated	Sales delta
China	70	2012	2014	25
Czech Republic	60	2012	2014	55
US	83	2015	2015	172
Brazil	32	2015	2015	63
Total	245			315

Source: Company data, Kepler Cheuvreux

As for margins, we assume unchanged EBITDA in 2013E, in line with the company’s guidance, and progressing by 100-50bp in 2014-15E (in 2015E still 1pp below the pre-crisis 2007 level). Our CAGR of 13% for EBITDA and 17% for EBIT over 2012-15E is based on:

13% and 17% 3Y CAGR in EBITDA and EBIT over, driven by capacity saturation

- Stable 48.7% gross margin, reflecting Brembo’s strong pricing power – today, most of the contracts with OEMs are automatically indexed to raw material prices.
- Increasingly relevant operating leverage effect, starting from next year, thanks to progressive saturation of new capacity as well as zero start-up costs.
- Depreciation increasing by 10% per year, following the heavy investments planned (EUR140m capex in 2013E and EUR120m for both 2014E and 2015E, at the top end of the company’s range).

To sum up, our CAGR for net profit over 2012-15E is “only” 8% due to the normalisation of the tax rate, rising to 25% in 2014-15E versus 6-13% in 2012-13E, when it benefited from fiscal incentives for the new investments in Poland.

Net profit CAGR of “only” 8%, as tax rate normalises

Table 8: Brembo, margin evolution

(EURm)	2007	2008	2009	2010	2011	2012	2013E	2014E	2015E
Sales	912	1,061	826	1,075	1,255	1,389	1,514	1,635	1,765
Cost of materials	450	532	411	541	640	715	777	839	906
Gross profit	462	529	415	534	614	673	737	796	859
Margin %	50.7%	49.8%	50.2%	49.7%	49.0%	48.5%	48.7%	48.7%	48.7%
Personnel expenses	173	211	185	213	254	278	306	326	350
Overheads	152	177	129	190	211	224	241	249	262
EBITDA	137	141	101	131	149	172	190	220	247
Margin %	15.0%	13.3%	12.3%	12.1%	11.9%	12.4%	12.5%	13.5%	14.0%
Depreciation	41	52	60	55	55	64	70	79	85
o/w Impairment	1	0	5	0	1	0	0	0	0
EBITA	96	89	41	75	94	107	120	141	162
Margin %	10.5%	8.4%	5.0%	7.0%	7.5%	7.7%	7.9%	8.6%	9.2%
Amortisation	7	14	19	19	20	18	20	20	20
o/w R&D costs	4	5	7	8	8	8	9	10	11
o/w Impairment	1	4	5	3	4	2	0	0	0
EBIT	89	75	23	56	73	89	100	120	142
Margin %	9.7%	7.0%	2.7%	5.2%	5.8%	6.4%	6.6%	7.4%	8.0%

Source: Company data, Kepler Cheuvreux

Table 9: Brembo, capex evolution

(EURm)	2007	2008	2009	2010	2011	2012	2013E	2014E	2015E
Capex	82	94	44	69	165	141	140	120	120
Capex/Sales	9%	9%	5%	6%	13%	10%	9%	7%	7%
o/w Tangibles	62	69	30	52	146	121	120	100	100
o/w Intangibles	20	24	14	17	19	19	20	20	20
Capital employed	550	629	546	572	649	720	771	801	827
ROCE post-tax	13%	8%	4%	7%	9%	12%	11%	11%	13%
Capital turn	1.7	1.7	1.5	1.9	1.9	1.9	2.0	2.0	2.1

Source: Company data, Kepler Cheuvreux

Table 10: Brembo, tax impact

(EURm)	2007	2008	2009	2010	2011	2012	2013E	2014E	2015E
EBT	76	54	11	45	55	83	92	109	131
Taxes	15	17	1	14	11	5	12	27	33
Tax rate %	19%	32%	11%	30%	21%	6%	13%	25%	25%
Minorities	1	-1	-1	0	0	0	0	0	0
Net profit	61	38	11	32	43	78	80	82	98

Source: Company data, Kepler Cheuvreux

Buy the plan, buy the stock

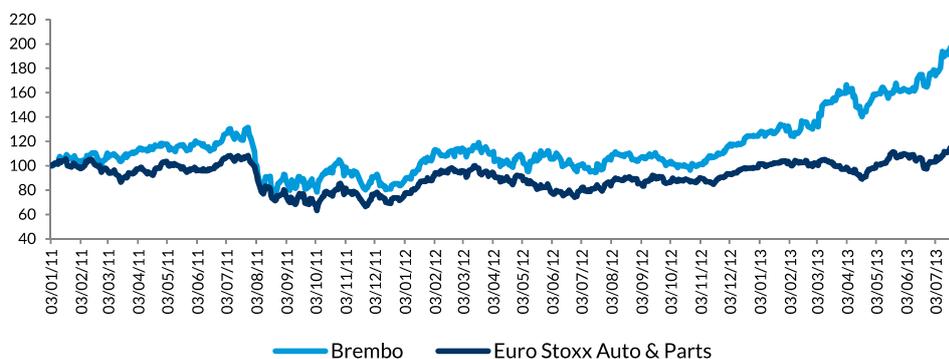
Brembo’s shares have had a strong run, doubling over the last nine and a half months and up 56% year-to-date, 40% better than the sector. On 2013E, it is trading below its 5Y average only on P/E, but on 2015E, when the new capacity will be saturated, it is trading c30% below. We buy the plan in advance. Our DCF-based TP is EUR19 (for 25% upside). We initiate Brembo with a Buy rating.

Looking beyond the plan

Brembo’s shares have seen quite a spectacular outperformance. The stock has doubled over the last nine and a half months and year-to-date is up 56% (vs EUR9.755 on 31/12/2012). In relative terms, versus the Euro Stoxx Auto & Parts index, the stock started outperforming at the end of last year and year-to-date is 40% above.

Doubled in last 9 ½ months, up 56% YTD

Chart 9: Brembo, the stock outperformance (3 Jan-2011=100)



Source: Kepler Cheuvreux

In terms of 2013E multiples, the stock is trading above its historical levels (5-year average) with the only exception of P/E: 0.9x EV/Sales versus 0.7x, 7.3x EV/EBITDA versus 5.7x, 13.8x EV/EBIT versus 13.3x and 12.4x P/E versus 13.9x.

Trading mixed on 2013E...

However, in our view, it would be more correct to look at 2015E, at the end of the investment plan, when all the new capacity will be in place and virtually fully utilised. In terms of 2015E multiples, the stock is trading at a discount: 0.7x EV/Sales versus 0.7x, 5.3x EV/EBITDA versus 5.7x, 9.2x EV/EBIT versus 13.3x and 10.1x P/E versus 13.9x.

...at a discount on 2015E (end of investment plan)

This reflects our view that the execution risk on the 2011-15 investment plan is limited, as it is backed by: 1) quite visible demand in the high-end segment; 2) well-known customers to which the new capacity is dedicated; and 3) best-in-class know-how and track record.

Table 11: Brembo, historical market multiples

(EUR)	2007	2008	2009	2010	2011	2012
Price / avg	10.30	7.43	4.48	6.06	8.06	8.33
Price / max	12.36	10.86	6.00	8.28	10.31	9.80
Price / min	9.10	3.72	2.22	4.45	6.08	6.57
EV/Sales / avg	1.0	0.8	0.7	0.6	0.7	0.6
EV/Sales / max	1.2	1.0	0.8	0.7	0.8	0.7
EV/Sales / min	1.0	0.6	0.5	0.5	0.6	0.5
EV/EBITDA / avg	7.0	6.1	5.5	5.0	5.7	5.1
EV/EBITDA / max	8.0	7.8	6.5	6.1	6.8	5.7
EV/EBITDA / min	6.4	4.3	4.0	4.2	4.8	4.4
EV/EBIT / avg	10.8	11.6	24.4	11.5	11.7	9.8
EV/EBIT / max	12.4	14.7	28.9	14.2	13.7	10.9
EV/EBIT / min	9.9	8.2	17.7	9.6	9.8	8.5
PE / avg	11.3	12.9	27.8	12.3	12.2	7.0
PE / max	13.5	18.9	37.2	16.8	15.6	8.2
PE / min	9.9	6.5	13.8	9.0	9.2	5.5

Source: Kepler Cheuvreux

Peer comparison

Brembo is trading at a premium versus European OEM suppliers, but in terms of EV/EBIT the premium is an average of c30%, as in 2011-12, when the expansion plan was ongoing.

**Trading at the usual
premium versus peers**

Table 12: European OEM suppliers, EV/EBIT

	2007	2008	2009	2010	2011	2012	2013E	2014E	2015E
Autoliv	10.9	13.2	44.5	6.0	6.5	8.4	9.2	8.3	7.2
Autoneum	NA	4.8	5.9	35.8	19.2	9.0	11.6	5.5	4.4
Continental	15.6	NM	NM	9.1	7.5	8.5	8.6	7.8	6.5
ElringKlinger	11.6	18.3	14.6	12.8	11.0	12.9	13.3	10.7	9.4
Faurecia	25.9	26.9	0.0	6.9	6.2	7.4	7.7	5.7	4.7
Georg Fischer	11.3	18.2	0.0	11.9	8.2	7.8	9.7	7.7	6.4
Leoni	11.4	23.8	0.0	8.6	5.4	5.7	9.5	8.0	7.0
Plastic Omnium	13.7	NM	9.8	11.1	5.6	5.2	8.6	6.9	5.7
Rheinmetall	8.1	4.1	NM	8.3	7.1	8.2	14.4	8.3	6.9
Valeo	12.2	12.7	18.1	4.8	6.0	6.1	8.0	7.1	6.3
Average	13.4	15.2	22.0	11.5	8.3	7.9	10.1	7.6	6.5
Brembo	10.8	11.6	24.4	11.5	11.7	9.8	13.8	11.2	9.2

Source: Kepler Cheuvreux

Table 13: European OEM suppliers, P/E

	2007	2008	2009	2010	2011	2012	2013E	2014E	2015E
Autoliv	15.9	18.1	NM	8.9	9.9	13.3	14.5	13.4	12.5
Autoneum	NA	0.1	0.1	0.1	0.1	33.3	65.6	9.3	7.4
Continental	14.3	NM	NM	16.4	9.4	12.3	13.2	9.8	8.6
ElringKlinger	16.5	25.3	20.1	18.3	14.1	16.2	17.2	13.3	11.8
Faurecia	-5.6	-1.1	-1.4	8.5	6.8	11.7	12.7	6.3	4.9
Georg Fischer	13.5	28.8	-3.6	16.1	8.7	11.5	12.8	10.6	9.2
Leoni	12.5	NM	-2.7	9.3	6.3	6.7	12.1	9.8	8.2
Plastic Omnium	13.6	-5.2	7.0	12.2	5.7	5.7	12.2	8.3	8.0
Rheinmetall	13.5	5.9	-27.6	14.2	6.2	7.3	16.1	8.0	6.4
Valeo	35.8	-7.7	-7.7	6.0	6.9	7.2	10.8	9.4	8.3
Average	16.9	15.6	NM	11.0	7.4	12.5	18.7	9.8	8.5
Brembo	11.3	12.9	27.8	12.3	12.2	7.0	12.4	12.0	10.1

Source: Kepler Cheuvreux

DCF-based EUR19 TP

We value Brembo with a DCF model. Our main assumptions are the following:

- 2016-22E “second-stage” sales CAGR of 6%, which is backed by the company’s indications of a sustainable long-term growth rate in the range of 5-7%.
- EBIT margin progressing from 8.0% in 2015E to 8.8% in 2020E, then remaining stable (well below the 9.7% margin in pre-crisis 2007), for a 7% CAGR.
- Post-plan 2016-22E capex from 7% to 6% of sales, still implying some capacity expansion in the period.
- WACC of 8.2% – derived from a pre-tax cost of debt of 5.5%, required return on equity of 10% (beta 1), and debt/equity of 1:2 – and a zero perpetual growth rate.

The model yields a value of EUR19 per share, which we set as our target price. In light of the 25% upside potential, together with the company’s high competitive quality and sound growth profile, we initiate coverage of Brembo with a Buy rating.

Based on 6% CAGR in sales and 7% in EBIT...

...and 8.2% WACC...

...DCF yields EUR19 TP (25% upside)

Table 14: Brembo, DCF model

EUR m	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	TV		
Sales	1,514	1,635	1,765	1,871	1,984	2,103	2,229	2,363	2,504	2,655			
Growth %	9.0%	8.0%	8.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%			
EBIT	100	120	142	154	167	181	195	209	222	235			
Margin %	6.6%	7.4%	8.0%	8.2%	8.4%	8.6%	8.7%	8.8%	8.8%	8.8%			
Taxes	-13	-30	-36	-39	-42	-45	-49	-52	-55	-59			
NOPAT	87	90	107	116	125	135	146	157	166	176			
Change in WC	-1	-10	-11	-9	-9	-10	-10	-11	-11	-12			
Depreciation	90	100	105	108	111	114	118	122	138	154			
Capex	-140	-120	-120	-126	-132	-139	-146	-154	-154	-154			
Net cash flow	36	60	81	89	95	101	107	114	139	164	2,001		
Present value	34	53	67	68	66	65	64	63	71	78	946		
WACC	8.2%	8.2%	8.2%	8.2%	8.2%	8.2%	8.2%	8.2%	8.2%	8.2%			
											Perpetual growth rate	0%	
Share value derived from:												WACC derived from:	
Enterprise value	1,576											Interest costs, pre-tax	5.5%
thereof Terminal value	60%											Tax rate	25.0%
Net debt at year start (incl. PP)	340											Interest costs, after taxes	4.1%
Equity value	1,236											Required ROE	10.2%
Shares outstanding (m)	65											Risk premium	5.0%
Share value (EUR)	19.00											Risk-free (10y bond)	5.0%
												Beta	1.0

Source: Kepler Cheuvreux

Valuation

FY to 31/12 (EUR)	2008	2009	2010	2011	2012	2013E	2014E	2015E
Per share data								
EPS adjusted	0.56	0.16	0.48	0.64	1.16	1.19	1.23	1.47
% Change	-38.3%	-71.9%	206.5%	33.1%	81.1%	2.6%	3.0%	19.7%
EPS adjusted and fully diluted	0.56	0.16	0.48	0.64	1.16	1.19	1.23	1.47
% Change	-38.3%	-71.9%	206.5%	33.1%	81.1%	2.6%	3.0%	19.7%
EPS reported	0.56	0.16	0.48	0.64	1.16	1.19	1.23	1.47
% Change	-38.3%	-71.9%	206.5%	33.1%	81.1%	2.6%	3.0%	19.7%
EPS Consensus						1.10	1.26	1.36
Cash flow per share	1.05	2.19	1.35	1.83	2.36	2.53	2.57	2.89
Book value per share	4.19	4.25	4.76	4.85	5.82	6.62	7.45	8.52
DPS	0.23	0.23	0.30	0.30	0.40	0.41	0.42	0.51
Number of shares, YE (m)	66.8	66.8	66.8	66.8	66.8	66.8	66.8	66.8
Number of shares, fully diluted, YE (m)	66.8	66.8	66.8	66.8	66.8	66.8	66.8	66.8
Share price								
Latest price / year end	3.8	5.2	7.7	6.6	9.8	15.2	15.2	15.2
52 week high (Year high)	10.9	6.0	8.3	10.3	9.8	15.9		
52 week low (Year low)	3.7	2.2	4.5	6.1	6.8	9.7		
Average price (Year)	7.4	4.5	6.1	8.1	8.3	15.2		
Enterprise value (EURm)								
Market capitalisation	496.2	299.2	404.4	538.7	556.8	1,015.1	1,015.1	1,015.1
Net financial debt	337.4	255.0	246.3	315.0	320.7	318.3	293.1	247.6
Pension provisions	22.8	21.9	20.2	19.6	19.6	19.6	19.6	19.6
Market value of minorities	21.4	7.9	10.0	17.2	15.0	23.9	21.1	18.3
Market value of equity affiliates (net of tax)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Enterprise value	877.8	584.0	680.9	890.5	912.2	1,377.0	1,348.9	1,300.7
Valuation								
P/E adjusted	13.2	28.4	12.5	12.5	7.2	12.7	12.4	10.3
P/E adjusted and fully diluted	13.2	28.4	12.5	12.5	7.2	12.7	12.4	10.3
P/E consensus						13.8	12.1	11.2
P/BV	1.8	1.1	1.3	1.7	1.4	2.3	2.0	1.8
P/CF	7.1	2.0	4.5	4.4	3.5	6.0	5.9	5.3
Dividend yield (%)	3.0%	5.0%	5.0%	3.7%	4.8%	2.7%	2.8%	3.3%
FCF yield (%)	na	35.0%	5.3%	na	3.2%	2.9%	5.2%	7.3%
ROE (%)	12.4%	3.6%	10.5%	13.0%	21.2%	18.7%	17.1%	18.1%
ROIC (%)	9.2%	2.8%	7.5%	9.0%	9.7%	9.9%	11.4%	12.9%
EV/Sales	0.8	0.7	0.6	0.7	0.7	0.9	0.8	0.7
EV/EBITDA	6.2	5.8	5.2	6.0	5.3	7.3	6.1	5.3
EV/EBIT	11.7	25.8	12.1	12.1	10.2	13.8	11.2	9.2

Income statement

FY to 31/12 (EURm)	2008	2009	2010	2011	2012	2013E	2014E	2015E
Sales	1,060.8	825.9	1,075.3	1,254.5	1,388.6	1,513.6	1,634.7	1,765.5
% Change	16.3%	-22.1%	30.2%	16.7%	10.7%	9.0%	8.0%	8.0%
EBITDA reported	140.9	101.2	130.5	148.8	171.6	189.6	220.1	247.2
% Change	2.9%	-28.2%	29.0%	14.0%	15.3%	10.5%	16.1%	12.3%
Depreciation and amortisation	-66.2	-78.5	-74.1	-75.4	-82.2	-90.0	-99.6	-105.2
Goodwill impairment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financial result and associates	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT reported	74.8	22.6	56.4	73.3	89.4	99.6	120.5	142.1
% Change	-15.6%	-69.7%	149.0%	30.1%	21.9%	11.4%	21.0%	17.9%
Net financial items	-19.4	-10.6	-9.0	-17.2	-6.5	-7.5	-10.5	-10.5
Associates	-1.7	-1.4	-2.0	-1.5	-0.2	-0.5	-0.5	-0.5
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Earnings before tax	53.6	10.7	45.4	54.7	82.8	91.6	109.5	131.0
% Change	-29.9%	-80.1%	325.5%	20.4%	51.3%	10.7%	19.5%	19.7%
Tax	-17.4	-1.2	-13.6	-11.4	-5.1	-11.9	-27.4	-32.8
Net profit from continuing operations	36.2	9.5	31.8	43.3	77.7	79.7	82.1	98.3
% Change	-41.2%	-73.7%	234.1%	36.2%	79.2%	2.6%	3.0%	19.7%
Net profit from discontinuing activities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit before minorities	36.2	9.5	31.8	43.3	77.7	79.7	82.1	98.3
Minorities	1.3	1.0	0.5	-0.4	0.1	0.1	0.1	0.1
Net profit reported	37.5	10.5	32.3	42.9	77.8	79.8	82.2	98.4
% Change	-38.3%	-71.9%	206.5%	33.1%	81.1%	2.6%	3.0%	19.7%
Adjustments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit adjusted	37.5	10.5	32.3	42.9	77.8	79.8	82.2	98.4
% Change	-38.3%	-71.9%	206.5%	33.1%	81.1%	2.6%	3.0%	19.7%
Gross profit	528.7	414.9	533.9	614.2	673.3	736.6	795.5	859.2
EBITDA adjusted	140.9	101.2	130.5	148.8	171.6	189.6	220.1	247.2
EBIT adjusted	74.8	22.6	56.4	73.3	89.4	99.6	120.5	142.1
Gross profit margin (%)	49.8%	50.2%	49.7%	49.0%	48.5%	48.7%	48.7%	48.7%
EBITDA margin (%)	13.3%	12.3%	12.1%	11.9%	12.4%	12.5%	13.5%	14.0%
EBIT margin (%)	7.0%	2.7%	5.2%	5.8%	6.4%	6.6%	7.4%	8.0%
Net profit margin (%)	3.5%	1.3%	3.0%	3.4%	5.6%	5.3%	5.0%	5.6%
Tax rate (%)	32.4%	10.8%	30.0%	20.8%	6.1%	13.0%	25.0%	25.0%
Payout ratio (%)	32.5%	39.2%	139.7%	60.7%	45.4%	33.5%	33.5%	33.5%
EPS reported (EUR)	0.56	0.16	0.48	0.64	1.16	1.19	1.23	1.47
% change	-38.3%	-71.9%	206.5%	33.1%	81.1%	2.6%	3.0%	19.7%
EPS adjusted (EUR)	0.56	0.16	0.48	0.64	1.16	1.19	1.23	1.47
% change	-38.3%	-71.9%	206.5%	33.1%	81.1%	2.6%	3.0%	19.7%
EPS adj and fully diluted(EUR)	0.56	0.16	0.48	0.64	1.16	1.19	1.23	1.47
% change	-38.3%	-71.9%	206.5%	33.1%	81.1%	2.6%	3.0%	19.7%
DPS (EUR)	0.23	0.23	0.30	0.30	0.40	0.41	0.42	0.51
% change	-19.6%	0.0%	33.3%	0.0%	33.3%	2.6%	3.0%	19.7%
Consensus Sales (EURm)						1,503.1	1,609.5	1,704.5
Consensus EBITDA (EURm)						190.5	219.7	239.0
Consensus EBIT (EURm)						101.7	125.0	139.6
Consensus EPS (EUR)						1.10	1.26	1.36
Consensus DPS (EUR)						0.42	0.45	0.48

Cash flow statement

FY to 31/12 (EURm)	2008	2009	2010	2011	2012	2013E	2014E	2015E
Net profit before minorities	36.2	9.5	31.8	43.3	77.7	79.7	82.1	98.3
Depreciation and amortisation	66.2	78.5	74.1	75.4	82.2	90.0	99.6	105.2
Goodwill impairment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in working capital	-32.3	58.1	-15.7	3.8	-1.9	-1.0	-9.7	-10.5
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash Flow from operating activities	70.1	146.2	90.3	122.5	157.9	168.6	171.9	192.9
% Change	-16.4%	108.5%	-38.2%	35.7%	28.9%	6.8%	1.9%	12.2%
Capex	-93.7	-44.2	-69.2	-165.3	-140.6	-140.0	-120.0	-120.0
Free cash flow	-23.6	102.0	21.1	-42.8	17.3	28.6	51.9	72.9
% Change	na	na	-79.3%	na	na	65.4%	81.3%	40.4%
Acquisitions	-38.7	-4.7	-9.4	-0.5	-2.5	0.0	0.0	0.0
Divestments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividend paid	-19.8	-14.7	-14.7	-19.6	-19.5	-26.0	-26.7	-27.5
Share buy back	-7.9	0.0	0.0	-2.0	0.0	0.0	0.0	0.0
Capital increases	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	-11.6	-0.2	11.7	-3.8	-1.0	-0.3	0.0	0.0
Change in net financial debt	-101.6	82.5	8.7	-68.7	-5.7	2.4	25.3	45.4
Change in cash and cash equivalents	-9.5	19.0	12.1	28.8	19.9	56.2	25.3	45.4
Attributable FCF	-24.5	104.6	21.6	-44.1	17.8	29.3	53.0	74.2
Cash flow per share (EUR)	1.05	2.19	1.35	1.83	2.36	2.53	2.57	2.89
% Change	-16.4%	108.5%	-38.2%	35.7%	28.9%	6.8%	1.9%	12.2%
FCF per share (EUR)	na	1.57	0.32	na	0.27	0.44	0.79	1.11
% Change	na	na	-79.4%	na	na	64.9%	80.8%	40.1%
Capex / Sales (%)	8.8%	5.3%	6.4%	13.2%	10.1%	9.2%	7.3%	6.8%
Capex / D&A (%)	141.6%	56.3%	93.4%	219.2%	171.1%	155.6%	120.5%	114.1%
Cash flow / Sales (%)	6.6%	17.7%	8.4%	9.8%	11.4%	11.1%	10.5%	10.9%
FCF / Sales (%)	-2.2%	12.4%	2.0%	-3.4%	1.2%	1.9%	3.2%	4.1%
FCF Yield (%)	na	35.0%	5.3%	na	3.2%	2.9%	5.2%	7.3%
Unlevered FCF Yield (%)	na	16.0%	2.2%	na	1.8%	1.9%	2.9%	4.3%

Balance sheet

FY to 31/12 (EURm)	2008	2009	2010	2011	2012	2013E	2014E	2015E
Cash and cash equivalents	45.6	64.7	76.7	105.5	125.5	181.7	206.9	252.4
Inventories	197.6	142.9	181.7	225.0	207.1	225.7	243.8	263.3
Accounts receivable	189.1	161.7	201.3	208.3	202.3	220.5	238.2	257.2
Other current assets	-14.9	-10.3	-11.2	-22.8	-13.7	-26.6	-30.3	-34.3
Current assets	417.4	358.9	448.5	516.1	521.1	601.4	658.6	738.6
Tangible assets	354.2	311.8	323.0	406.6	475.4	525.4	546.0	560.9
Goodwill	44.2	40.9	44.8	42.3	41.8	42.2	42.2	42.2
Other Intangible assets	65.3	62.3	59.4	60.5	61.4	61.4	61.3	61.1
Financial assets	0.8	24.5	22.5	20.8	20.5	20.4	20.4	20.4
Other non-current assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-current assets	464.5	439.6	449.7	530.2	599.1	649.4	669.8	684.6
Short term debt	189.1	197.1	97.6	165.9	175.7	200.0	200.0	200.0
Accounts payable	178.9	159.4	224.0	266.6	247.3	269.5	291.1	314.4
Other short term liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current liabilities	368.0	356.4	321.6	432.5	422.9	469.5	491.1	514.4
Long term debt	193.9	122.6	225.5	254.6	270.5	300.0	300.0	300.0
Pension provisions	22.8	21.9	20.2	19.6	19.6	19.6	19.6	19.6
Other long term provisions	5.0	6.1	5.0	5.6	8.1	8.8	9.5	10.3
Other long term liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	221.8	150.6	250.6	279.8	298.2	328.4	329.1	329.9
Shareholders' equity	280.0	284.0	318.0	323.6	388.6	442.4	497.9	568.7
Minority interests	12.1	7.5	7.8	10.3	10.5	10.4	10.3	10.3
Total equity	292.0	291.5	325.9	333.9	399.1	452.8	508.2	579.0
Balance sheet total	881.9	798.5	898.1	1,046.2	1,120.2	1,250.7	1,328.4	1,423.2
% Change	7.8%	-9.5%	12.5%	16.5%	7.1%	11.6%	6.2%	7.1%
Book value per share (EUR)	4.19	4.25	4.76	4.85	5.82	6.62	7.45	8.52
% Change	-7.1%	1.4%	12.0%	1.8%	20.1%	13.8%	12.5%	14.2%
Net debt	360.3	276.9	266.5	334.6	340.3	337.9	312.7	267.2
Net financial debt	337.4	255.0	246.3	315.0	320.7	318.3	293.1	247.6
Trade working capital	207.7	145.2	158.9	166.7	162.1	176.7	190.9	206.1
Working capital	192.8	134.8	147.7	144.0	148.4	150.2	160.6	171.9
Inventories/sales	18.6%	17.3%	16.9%	17.9%	14.9%	14.9%	14.9%	14.9%
Invested capital	656.5	550.0	574.8	653.3	727.0	779.2	810.0	836.1
Net debt / EBITDA (x)	2.6	2.7	2.0	2.2	2.0	1.8	1.4	1.1
Net debt / FCF (x)	na	2.7	12.7	-7.8	19.6	11.8	6.0	3.7
Gearing (%)	115.5%	87.5%	75.6%	94.3%	80.3%	70.3%	57.7%	42.8%
Goodwill / Equity (%)	15.1%	14.0%	13.7%	12.7%	10.5%	9.3%	8.3%	7.3%

Divisions and regions

FY to 31/12 (EUR)	2008	2009	2010	2011	2012	2013E	2014E	2015E
Key assumptions								
Western Europe	15.4	15.0	14.4	14.3	13.1	12.3	12.6	
Eastern Europe	5.6	3.3	3.9	4.7	4.8	4.7	5.0	
North America	15.9	12.6	13.9	15.2	17.1	18.0	18.7	
South America	4.2	4.2	5.0	5.4	5.3	5.5	5.8	
China	8.8	13.0	17.2	18.0	19.3	21.0	22.5	
Rest of Asia	19.8	23.9	30.0	30.3	33.8	36.3	38.7	
World	66.0	63.9	72.4	75.3	79.1	81.1	84.5	
o/w Passenger cars	57.3	54.9	61.4	64.3	67.9	69.6	72.4	
o/w Light commercial vehicles	8.7	9.0	11.0	11.0	11.3	11.5	12.2	
Sales by division								
Passenger car	651.0	530.4	705.1	808.1	939.5	1,071.0	1,172.7	1,284.1
Motorbike	125.1	100.7	114.9	136.5	141.4	146.4	154.4	162.9
Commercial vehicle	179.8	113.0	156.2	194.4	184.5	169.7	173.1	176.6
Racing	94.1	78.2	91.6	108.7	115.6	117.9	123.8	130.0
Miscellaneous	10.8	3.5	7.4	6.8	7.7	8.7	10.7	11.9
Geographic breakdown of sales, adjusted (%)								
Eurozone	65.8%	59.5%	59.0%	58.4%	54.7%	51.8%	49.4%	47.4%
of which France	4.6%	4.2%	4.2%	4.8%	4.2%	3.1%	2.8%	2.7%
of which Germany	22.2%	20.2%	22.0%	21.8%	23.7%	24.6%	23.9%	23.3%
of which Italy	23.8%	20.7%	18.5%	17.8%	15.0%	13.6%	12.7%	12.0%
Europe ex Eurozone	6.2%	5.6%	5.7%	6.7%	7.2%	7.0%	6.7%	6.4%
North America	17.5%	19.7%	19.3%	19.1%	22.5%	24.7%	26.4%	26.1%
Latam	4.1%	6.5%	6.2%	5.4%	4.8%	4.7%	5.2%	7.2%
of which Brazil	4.1%	6.5%	6.2%	5.4%	4.8%	4.7%	5.2%	7.2%
Asia	5.7%	8.2%	9.4%	9.4%	8.8%	8.8%	8.7%	8.7%
of which China	1.1%	2.7%	4.6%	4.4%	4.3%	5.1%	5.2%	5.3%
of which India	0.3%	2.2%	2.7%	2.9%	2.4%	2.0%	2.0%	1.9%
of which Japan	3.7%	2.1%	1.6%	1.5%	1.4%	1.2%	1.1%	1.1%
Currency exposure of sales (%)								
EUR	65.8%	59.5%	59.0%	58.4%	54.7%	51.8%	49.4%	47.4%
USD	17.5%	19.7%	19.3%	19.1%	22.5%	24.7%	26.4%	26.1%
GBP	6.2%	5.6%	5.7%	6.7%	7.2%	7.0%	6.7%	6.4%
JPY	3.7%	2.1%	1.6%	1.5%	1.4%	1.2%	1.1%	1.1%

Hedging policy

Minor transactional currency risk is hedged with forward contracts. Most of the production is local-for-local, then naturally hedged.

Research ratings and important disclosures

Disclosure checklist - Potential conflict of interests

Stock	ISIN	Disclosure (See Below)	Currency	Price
Akebono Brake Ind.	JP3108400007	nothing to disclose	JPY	515
Autoliv	US0528001094	nothing to disclose	USD	80.73
Autoneum	CH0127480363	nothing to disclose	CHF	83.00
Brembo	IT0001050910	nothing to disclose	EUR	15.20
Continental	DE0005439004	14, 16, 18	EUR	116.30
ElringKlinger	DE0007856023	nothing to disclose	EUR	26.90
Faurecia	FR0000121147	nothing to disclose	EUR	19.22
Georg Fischer	CH0001752309	nothing to disclose	CHF	489.75
Leoni	DE0005408884	nothing to disclose	EUR	37.46
Nissin Kogyo	JP3675300002	nothing to disclose	JPY	1908.00
Plastic Omnium	FR0000124570	nothing to disclose	EUR	50.00
Rheinmetall	DE0007030009	nothing to disclose	EUR	40.48
Valeo	FR0000130338	6	EUR	56.01

Source: Factset closing prices of 26/07/2013

Stock prices: Prices are taken as of the previous day's close (to the date of this report) on the home market unless otherwise stated.

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Rating history:

KEPLER CHEUVREUX current rating for Brembo is Buy and was issued on 29 July 2013.

(No rating history listed)

We did not disclose the rating to the issuer before its publication and dissemination.

Rating ratio Kepler Cheuvreux Q1 2013

Rating breakdown	A	B
Buy	51%	0.0%
Hold	31%	0.0%
Reduce	17%	0.0%
Not Rated/Under Review/Accept Offer	1%	0.0%
Total	100.0%	0.0%

Source: Kepler Cheuvreux

A: % of all research recommendations

B: % of issuers to which Investment Banking Services are supplied

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Analyst disclosures

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Name of the Equity Research Analyst(s): Giorgio Iannella

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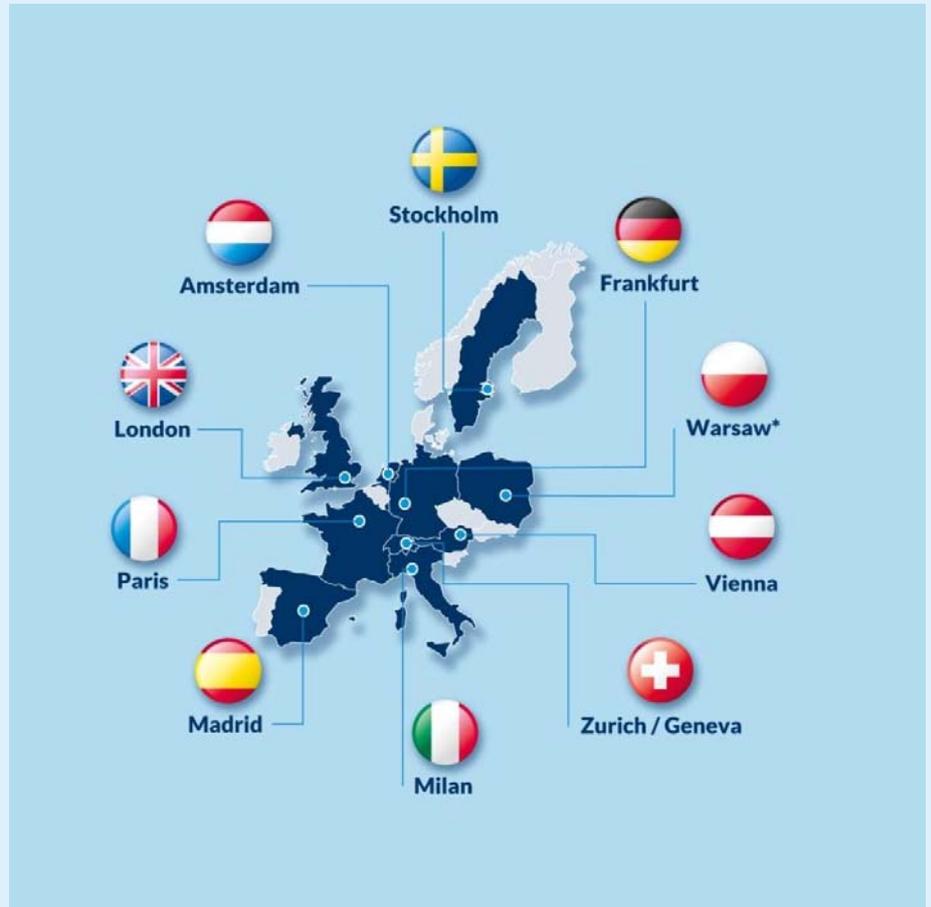
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