

Large caps

Mid caps

By sector

By company

By company

Target
EUR18.50

Hold

Philips

Company contact
Feedback from IR presentation

Electronic & electrical equipment

Large cap

Netherlands

DJ Stoxx 600

Current price	EUR18.07	Target price	EUR18.50
Mkt. cap (m)	EUR16,741	EV (m)	EUR16,848
YTD abs. perf.	30.6%	YTD rel. perf.	4.8%
Reuters	PHG.AS	Bloomberg	PHIA NA

FY ending: 31/12	2009E	2010E	2011E
Sales (EURm)	22,802	22,721	23,247
EBITDA	1,981	2,789	2,947
EBIT	830	1,591	1,749
Pretax profit	748	1,364	1,549
Net profit (adj)	385	909	1,052
EPS (adj)	0.41	0.98	1.13
DPS	0.70	0.70	0.70
PE	43.6	18.5	16.0
EV/sales	0.7	0.7	0.7
EV/EBITDA	8.5	5.8	5.4
EV/EBIT	20.3	10.2	9.2
Net debt/EBITDA	0.2	-0.1	-0.1
FCF Yield	1.5%	7.3%	5.3%
Net dividend yield	3.9%	3.9%	3.9%

Facts: We had Stewart McCrone, head of IR, present yesterday.

Analysis: 1) The rate of revenue decline will continue to decelerate in the coming quarters, but it is yet unclear when growth will resume with limited benefit from government stimulus spending so far. Internally, the planning assumption is for zero growth in 2010. Focus remains on costs and cash, items on which Philips has delivered in recent quarters. For Q4 the body language was generally relaxed, although visibility within consumer lifestyle is limited to four weeks while December is typically crucial for healthcare. 2) While the formal cost savings target of more than EUR600m by 2010 was reiterated, it was suggested that the figure could ultimately end up at over EUR700m (full impact in 2011). As CFO Sivignon hinted at this in the Q3 conference call, we believe this to a large extent to be embedded already in consensus figures. 3) It was suggested that the former Vision 2010 group EBITA margin target of 10-11% may be reintroduced, sooner rather than later, potentially for 2011. On EUR24bn in sales, this would translate in EPS of EUR1.32-1.50, somewhat ahead of both our and consensus estimates. 4) With regard to the balance sheet, the aim is to maintain the A rating. With this in mind, we believe Philips will maintain dividend at EUR0.70. While there is some room for M&A, we believe the focus will remain on bolt-on acquisitions for the time being.

Opinion: Lacking a clear catalyst, the stock looks fully valued.

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Target
EUR0.37

Reduce

Pirelli & C.

Company update
We lift our 2009-10 tyre division estimates

Automobiles & parts

Small & mid cap

Italy

DJ Stoxx 600

Current price	EUR0.40	Target price	EUR0.37
Mkt. cap (m)	EUR2,133	EV (m)	EUR2,270
YTD abs. perf.	51.0%	YTD rel. perf.	21.2%
Reuters	PECI.MI	Bloomberg	PC IM

FY ending: 31/12	2009E	2010E	2011E
Sales (EURm)	4,371.6	4,419.0	4,525.1
EBITDA	468.4	513.1	564.4
EBIT	223.5	308.8	365.4
Pretax profit	109.9	253.2	315.4
Net profit (adj)	38.9	158.2	222.4
EPS (adj)	0.01	0.03	0.04
DPS	0.00	0.00	0.00
PE	54.8	13.5	9.6
EV/sales	0.5	0.5	0.5
EV/EBITDA	4.8	4.4	4.0
EV/EBIT	10.2	7.3	6.2
Net debt/EBITDA	1.5	1.1	1.0
FCF Yield	13.2%	-1.5%	0.6%
Net dividend yield	0.0%	0.0%	0.0%

Facts: We are lifting our tyre division estimates after better than expected Q3 results. On 9M Ebit margin is ahead of 2009-11 industrial plan set at 6.5%-7%. Based on new FY09 guidance of EUR3.9m revenues and equal or above 7% EBIT margin post restructuring cost, we are increasing our FY09 EBIT from EUR261m to EUR290m.

Analysis: Q3 tyre results have been led by volume performance (-3.3%YOY vs -9%YOY exp mainly led by winter tyre sales in consumer segment), the reduction of raw material costs, a favourable price/mix (focus on premium products like winter tyres) and by the cost efficiency measures (in 9M reached 85% of EUR200m gross savings expected in FY09). We are also increasing our FY2010E tyres figures although we believe the raw material price volatility is a question mark for next year. However 2010 will start with a more efficient cost structure, with an increasing capacity utilisation of factories and a supportive replacement market. Furthermore as raw material price increase should start progressively from Q1-09, management expects to keep up with prices (10% increase already announced in Middle East and Africa) when raw material price increases.

Opinion: We have thus increased our equity value for Tyres from EUR1,278m to EUR1,474m putting the division on almost 10x PE2010E and 8x EV/EBIT2010E. Leaving unchanged our NAV discount at 25% we are adjusting our NAV based target from EUR0.31 to EUR0.37. We confirm our Reduce rating as we believe that the bulk of stock rerating is already factored into current prices.

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