

## European Autos

### Iran sanctions lifted: PSA & Renault best positioned

#### Equities

Global  
Automobiles

#### PSA and Renault best positioned to benefit from Iran sanctions lifted

International sanctions on Iran were lifted on Saturday. We believe PSA and Renault are best positioned to benefit given 1) both highlighted they could resume operations very quickly and 2) both aim at becoming more integrated by shifting from a pure assembly business model with Complete Knock Down ("CKD") to local production of fully built units ("FBU") with a local partner and potentially scope for exports. PSA's competitive edge in Iran relates to its historic and established positioning while Renault could leverage its strong presence in the Mediterranean region and its "low cost" strategy.

#### What is the state of the Iran auto market?

The auto market is currently running 40% below 2011 levels with about 1.1m cars sold per year, compared to close to 1.8m at the peak. Car penetration remains very low with an average of 60 cars per 1,000 people (vs China at 100, US at 800 and Germany at 600). In 2011, PSA with its partner Iran Khodro Company (IKCO) had a market share of almost 30% while Renault with its partner Saipa controlled about 10%. Since then, the market has become more fragmented with Chinese OEMs expanding market share from c1% in 2011 to above 8% today.

#### What could be the financial impacts for PSA and Renault?

PSA: Pre- sanctions, Iran contributed about €150m to the auto profitability. Resuming operations and assuming no change in the business model would translate into c40bps of auto EBIT margin (vs 5% in H115), €0.1/share or 5-6% impact on our '16E EPS. Renault: Using similar assumptions, it would translate into c10bps of auto EBIT margin (vs 3.1% in H115), €0.1/share and 1% impact on our '16E EPS. In addition, Renault had to book a provision of c€500m in 2013. There is upside risk to the numbers mentioned above should PSA and Renault become more integrated in Iran and start exporting cars.

#### We continue to prefer Renault (Buy, €110) over PSA (Neutral, €16)

We continue to like Renault on a combination of strong organic growth (new launches/sales to partners), margin expansion potential (CMF platform, low-cost) and optionality on emerging markets. Post emissions concerns, Renault now trades on a PE of 5.6x ('16E). We think PSA offers limited margin expansion left given the strong delivery and lack of new products. PSA trades on a PE of 7.4x ('16E).

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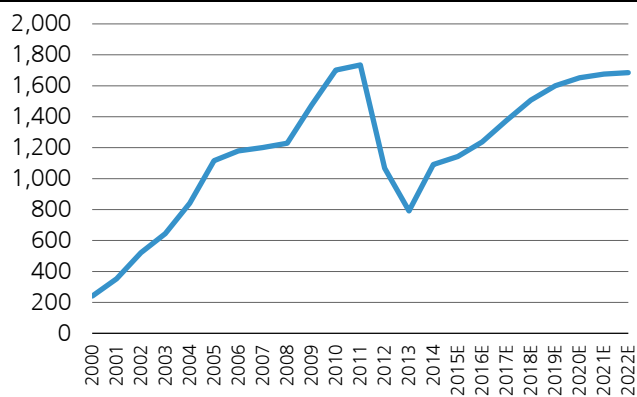
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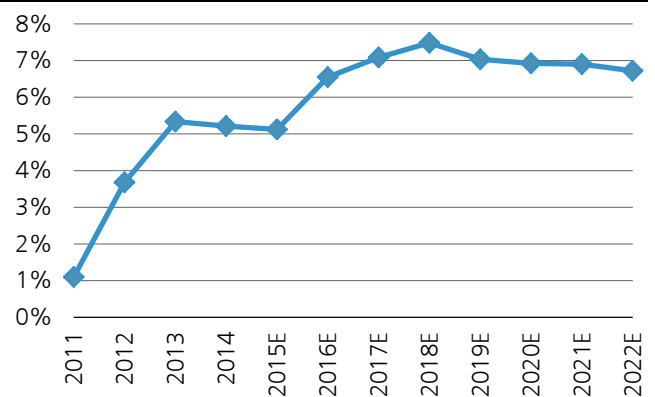
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**Figure 1: Unit sales in Iran (thousand units)**



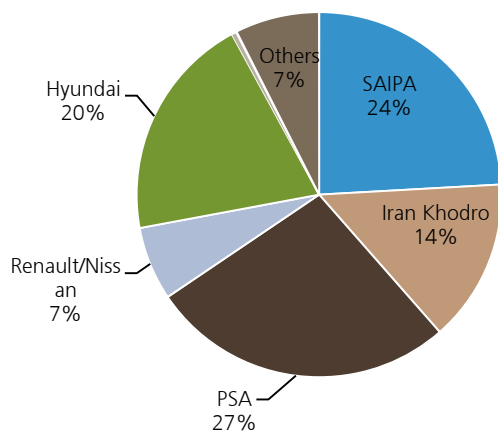
Source: Global Insight, UBS

**Figure 2: Market share of Chinese OEMs**



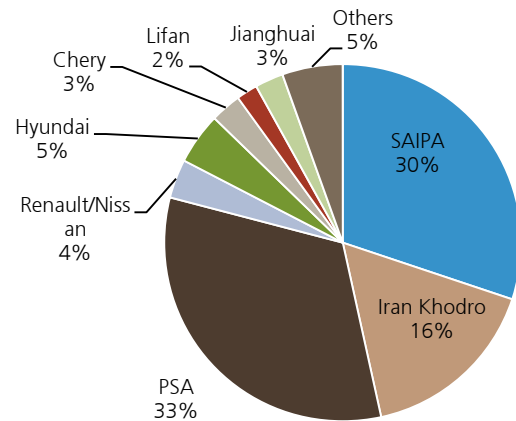
Source: Global Insight, UBS

**Figure 3: Market share by OEM (2011)**



Source: Global Insight, UBS estimates

**Figure 4: Iran car market by OEM (2015)**



Source: Global Insight, UBS estimates

**Figure 5: Top 10 models represent 78% of the market**

Model	Unit sold in '15	Market Share
PSA 405	268,027	23%
SAIPA 100-Series	208,221	18%
PSA 206	103,719	9%
Iran Khodro Samand	96,715	8%
SAIPA Tiba	87,894	8%
Renault Logan	28,242	2%
Iran Khodro Runna	24,846	2%
SAIPA Z24 N	24,137	2%
Iran Khodro Bardo	23,700	2%
Iran Khodro Dena	21,441	2%

Source: Global Insight, UBS estimates

## **Valuation Method and Risk Statement**

The automobile sector has in the past shown high levels of volatility in terms of profitability and valuation. Sector earnings and performance are highly sensitive to variations in volume, pricing, raw material costs and currency, all of which have been volatile recently. Long-term structural trends continue to improve as a result of higher demand in EM, early signs of sector concentration improving and structurally lower currency exposure, but near-term cyclical drivers have become more challenging after several years of strong earnings and share price performance. We are also concerned that in a macro recovery rising interest rates would become a material headwind for the industry.

Renault: our PT of €110 is based on DCF for core + DDM mid-point for associates.  
PSA: our PT of €16 is DCF-based.

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Neutral	FSR is between -6% and 6% of the MRA.	39%	28%
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Source: UBS. Rating allocations are as of 31 December 2015.

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<b>Peugeot</b>	PEUP.PA	Neutral	N/A	€13.65	15 Jan 2016
<b>Renault<sup>7</sup></b>	RENA.PA	Buy	N/A	€75.13	15 Jan 2016

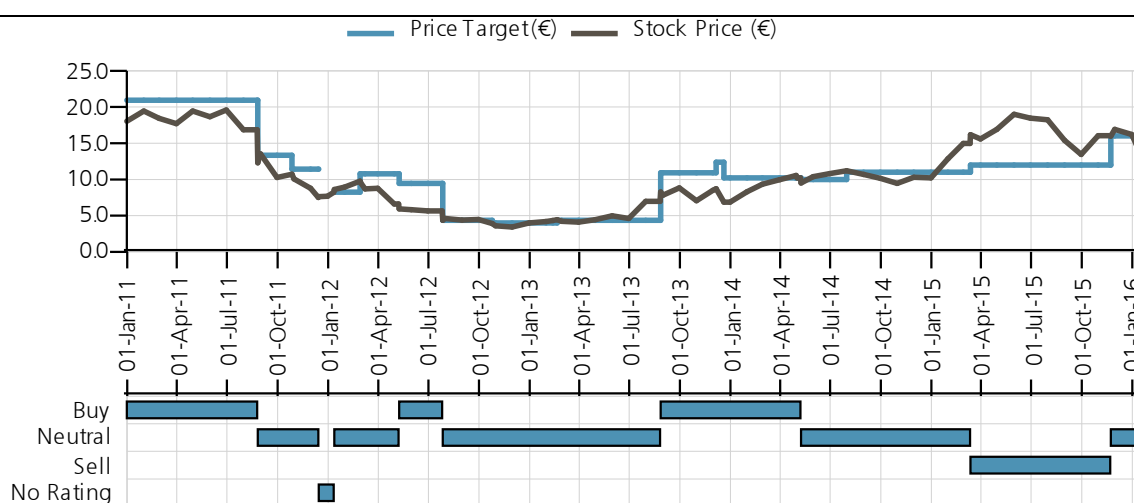
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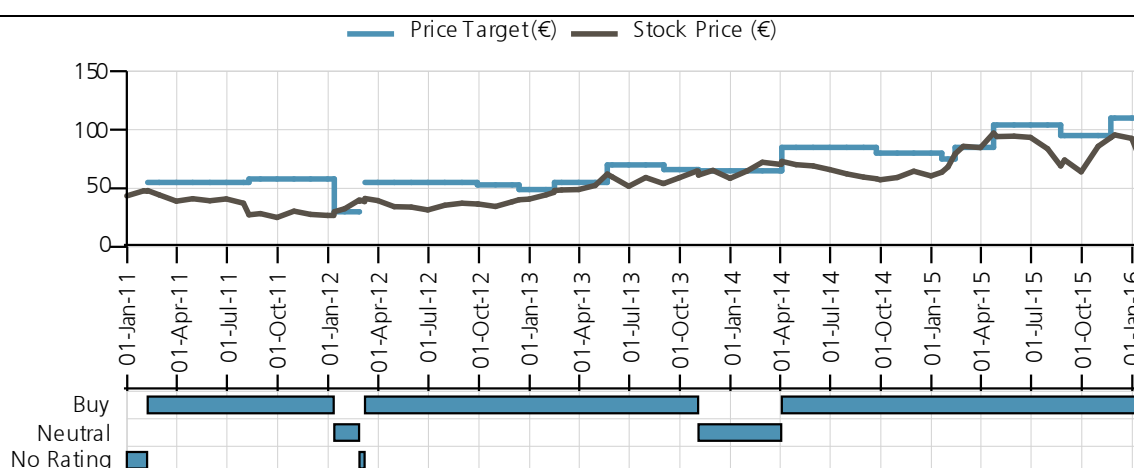
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### Peugeot (€)



Source: UBS; as of 15 Jan 2016

### Renault (€)



Source: UBS; as of 15 Jan 2016

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