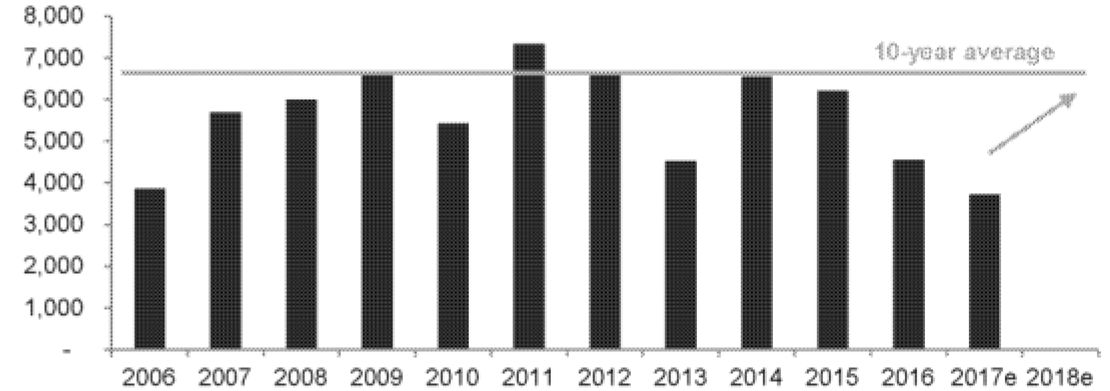
Deutsche Bank

# 13 ABB – Gael de Bray, BUY, close CHF26.7, CHF29 tgt, 9% upside

- **ABB has a late cycle profile** (60% of sales - skewed towards process/hybrid industries). We expect the shares to track orders, rather than earnings in 2018.
- **We foresee a rebound in orders from a trough in 2017.** 2017 was a transition year, with large orders falling to a ten-year low. Improved macro, favourable financing conditions and ageing assets should provide a supportive environment.
- **IP growth has historically led capex growth by around one year**, and from unsustainably low levels we believe a rebound in heavy and process industries is on the way. Previously-delayed, large projects in grid connections are also expected to move forward in the US and Europe over the next few years
- **Acquisitions should deliver benefits.** The costs of the expensive acquisitions of B&R and GE IS are now sunk, whereas the benefits of #2 positions in automation (behind Siemens) and electrification (behind Schneider) should be substantial.
- **ABB has market-leading offerings** in areas such as robotics, EV fast chargers, energy storage and smart grid offerings. R&D expenses have increased by c.100bps since 2008, reinforcing the group's innovation capabilities.
- **We expect re-rating relative to the sector.** Given favourable conditions, ABB's former premium to the market should return after a hiatus since 2009. ABB currently trades on 18.4x 18E P/E.
- Catalysts: 4Q17 results on 08-Feb

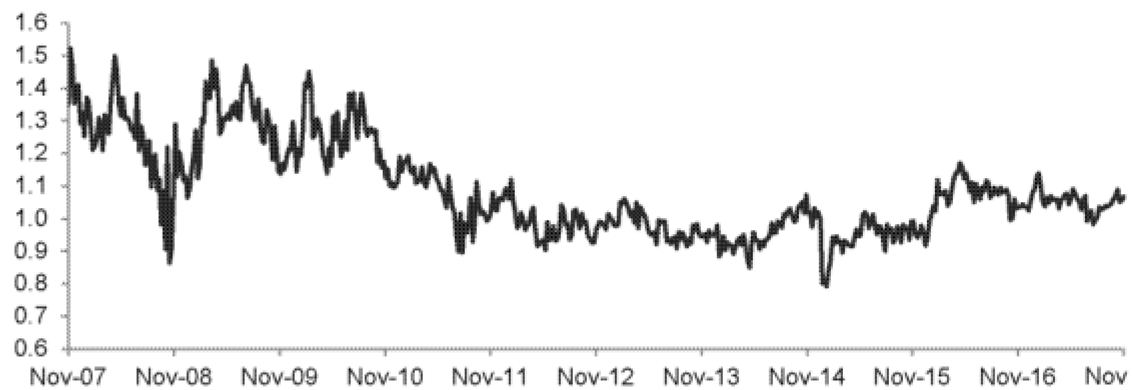
**Related DB Research:**
ABB: Better late (cycle) than never (de Bray)

**ABB's large orders ($m) hit a low in 2017 – we expect improvement**




Source: Deutsche Bank, ABB

**ABB 12m fwd P/E relative to sector average – premium has eroded post-crisis**




Source: Factset