

16 Continental – Tim Rokossa, BUY, close €232.3, €250 tgt, 8% upside

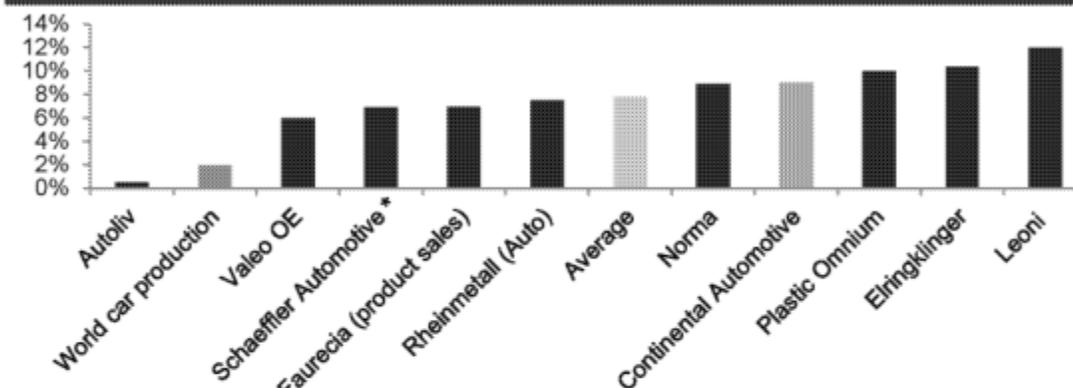
- **1) Automotive outperformance is at an inflection point.** Continental has taken Valeo's mantle as the fastest-growing European supplier. Automotive organic growth was 9% in Q3 (700bps above global production and 250bps above Valeo).
- **2) Continental is the best play on the autos 'mega trends.'** Continental is a leader in all of:
 - Autonomous driving – indeed, the *world's largest* player. This segment grew 41% yoy in 9M17. This is not limited to Chassis & Safety but also includes software, consolidated in the Interior division.
 - Electrification. According to Continental, its content per car could be up to 3x higher for a full EV compared to a standard gasoline engine.
 - Digitalisation
- The mix shift away from diesel helped turbochargers grow >50% in Q3.
- **3) Rubber should accelerate further.** The margin was a slight beat in Q3. With a negative raw mat impact abating in coming quarters, and given our expectation that price increases (+2% in Q3) will prove sticky, we expect earnings momentum to accelerate.
- **4) Valuation:** Continental has €20 upside just to reach a valuation in line with peers (current 18E P/E is only 11.2x), despite robust growth
- **Cash generative** (€2.4bn ex M&A this year). We see scope to increase pay-out, given CFO guidance of no major transactions in the short term.
- Catalysts: FY results 09-Jan – talk around ADAS could offset cautious guidance

Related DB Research:

[What Conti's CFO statements mean for our view on 2018 \(Rokossa\)](#)

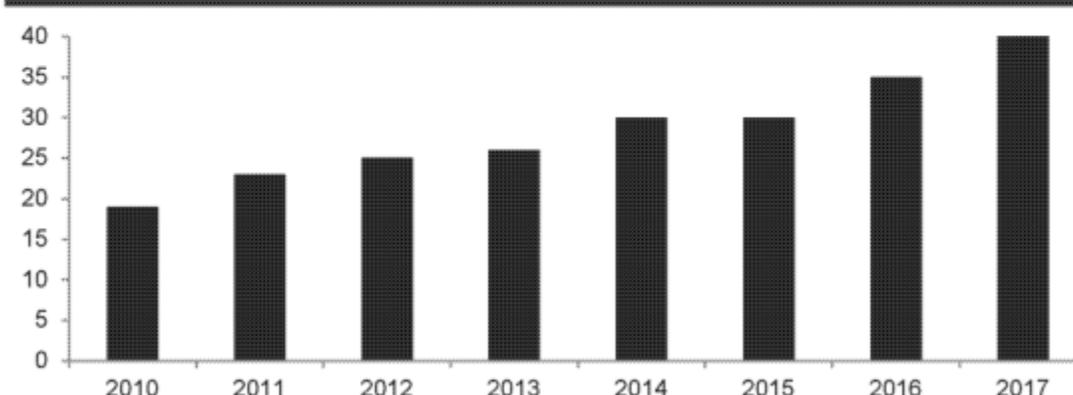
[Get ready for a good 2018 \(Rokossa\)](#)

Continental was one of the fastest growing auto suppliers in Q3



Source: Company data, HIS (* (OE since 2014, OE+RT before)

Order intake backs thesis of stronger growth ahead



Source: Company data