

Senior (SNR.L)

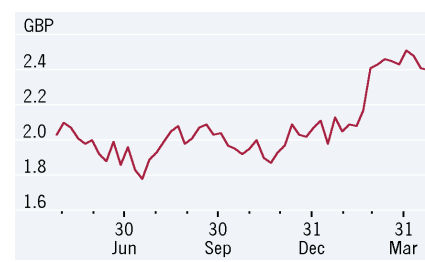
Alert: Piloting markets well

■ Company Update

- **Solid start to FY 13** — Senior, the high tech component manufacturer for Aerospace, Automotive and Industrial markets, has issued a scheduled IMS this morning which is gently upbeat in tone. Trading is said to have been slightly ahead of expectations, however FY guidance is unchanged given macro uncertainty.
- **Impact on estimates** — We are already at the top end of the consensus range with 18.8p of EPS for 2013E, 20.4p for next year. We retain these forecasts and can see some positive momentum building for H2, particularly if sterling remains weak (£ sales only c. 10% group). Consensus looks to be on around 18.1p so we may see a small uptick come through.
- **H1 investment already flagged** — Management has previously indicated that H1 will likely see higher investment costs, meaning a slightly larger H2 weighting of earnings this year. We are comfortable with this and view the investment as likely to drive growth opportunities in the future.
- **Divisional details – Aerospace** benefited from Boeing and Airbus deliveries increasing (despite the well publicised 787 Dreamliner issues, where only 1 aircraft was delivered in the period). Total Boeing and Airbus deliveries of 281 aircraft were up 5% YoY. The expected resumption of 787 growth augers well for SNR. No mention of shipset gains has been made, but we expect the long run positive trend to endure though 2013. In **Flexonics**, US volumes were decent (particularly North American heavy truck) and operational improvements were made. Europe (and particularly France) partially offset this, however we were already expected France to be slightly loss making this year. We continue to look for full year margins of 15.0% and 14.3% in Aero and Flexonics respectively. As a reminder there were some large Industrial contracts in 2012 that may not recur in full in FY13, however we remain confident SNR has enough flexibility in its cost base to maintain growth.
- **Net debt slightly up, mainly FX** — At end Q1 net debt was £93m, up £7m from the full year. This likely reflects the H1 investment program and some working capital seasonality. We remain comfortable with cash generation in the full year, and look for Net Debt / EBITDA of c. 0.3x by YE, giving significant flexibility. No M&A comments are made, however we assume the pipeline remains promising.
- **Remain buyers** — We continue to view SNR as a relatively defensive industrial stock on a modest PE rating given its strong track record of delivery. With scope to invest both organically and via M&A, we see the 2013E valuation of 13.4x PER / 8.1x EV/EBITDA / 1.3x EV/Sales for 2013E as supportive.

Buy	1
Price (24 Apr 13)	£2.40
Target price	£2.77
Expected share price return	15.4%
Expected dividend yield	2.1%
Expected total return	17.5%
Market Cap	£998M
	US\$1,524M

Price Performance (RIC: SNR.L, BB: SNR LN)



David I Phillips
+44-20-7986-4130
david.phillips@citi.com

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Senior

Valuation

We value Senior using a DCF model, which we cross reference against peer group multiples and EV/IC analysis. Our DCF is conservatively based and uses a WACC of 9% (towards the high end of our pan euro industrial peer group) and terminal growth of 2%. This delivers a fair 277p per share. At our target price the shares would trade on a 2014E PER of 13.6x and EV/EBITDA of 8.2x, which still represents a decent discount to sector M&A valuations.

Risks

Senior's risk is mitigated by its low financial gearing, strong track record of delivery and long-term nature of order books in Aerospace.

We therefore see the main risks to SNR as macroeconomic, as witnessed in the 2001-2003 recession. Given the largest part of the group is involved in Aerospace, the major downturn which hit this sector had a big impact on SNR, with sales falling 25% 2001 to 2004. The subsequent recovery has delivered a CAGR (inc M&A) of 16%.

Risks to Aerospace OEM demand include global recession, war, terrorist attacks and unexplained air crashes. None of these are easily mitigated.

In Flexonics, demand is linked more to industrial production / consumer spending on vehicles. N. America is an important market so recession here would clearly impact. Margins are also high in this area relative to history - a drop off in utilisation rates would have negative operational gearing impacts.

Management is a strong part of the investment case, with the CEO Mark Rollins having been a key part of the group's turnaround since 2000 (first as FD, latterly CEO). Should he leave the group it could present a risk to the company, however, we believe the operating team is high quality and this should be manageable.

Foreign Exchange - Given the international nature of the group this is a potential issue. However, as the group tends to manufacture in the currencies where its sales are recorded, the risk is translational rather than transactional. Sterling strength against the dollar and euro could negatively impact translation, however, with most costs in local currency there is a natural hedge in place.

These risks could impede the share price from reaching our target price.

Appendix A-1

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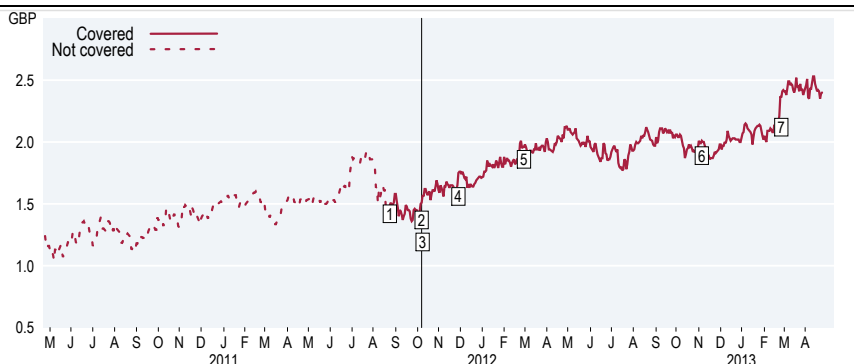
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Senior (SNR.L)

Ratings and Target Price History Fundamental Research

Analyst: David I Phillips

Covered since August 25 2011



	Date	Rating	Target Price	Closing Price
1	24-Aug-11	*1M	*1.83	1.49
2	7-Oct-11	Stock rating system changed		
3	8-Oct-11	*1	1.83	1.51

* Indicates change

	Date	Rating	Target Price	Closing Price
4	29-Nov-11	1	*2.04	1.75
5	29-Feb-12	1	*2.30	1.96
6	6-Nov-12	1	*2.38	2.01

	Date	Rating	Target Price	Closing Price
7	26-Feb-13	1	*2.77	2.36

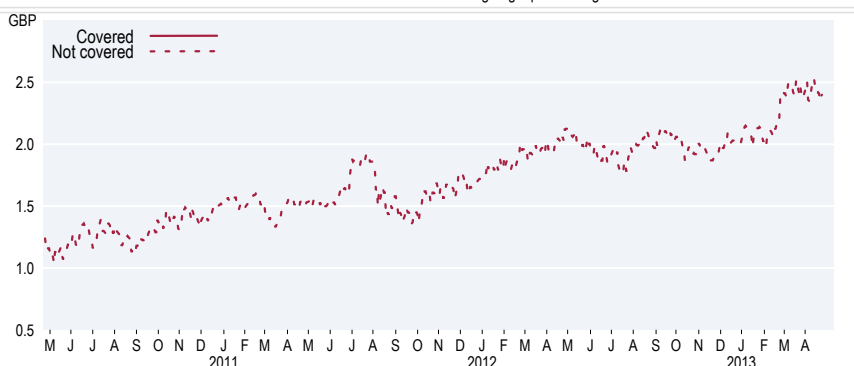
Rating/target price changes above reflect Eastern Standard Time

Senior (SNR.L)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: David I Phillips

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Rating/target price changes above reflect Eastern Standard Time

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12 Month Rating			Relative Rating		
Buy	Hold	Sell	Buy	Hold	Sell
48%	39%	12%	7%	87%	7%
53%	49%	43%	65%	49%	51%

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