

# Alstom (ALSO.PA)

## Results: 1Q13/14 Orders Ahead, Retain Buy

- Citi's Take** — Alstom's reported orders were ahead of expectations. As expected, the book to bill dropped below 1x for the first time in 11 quarters. However, it was notably ahead of consensus expectations. Reiterated guidance should support forecasts and we continue to see three key attractions for Alstom: (1) guidance is conservatively set, with upside risk; (2) cash flow remains an area of potential upside; (3) the valuation remains attractive even adjusting for lower forecasts.
- 1Q13/14 Orders Ahead** — Alstom announced total 1Q orders of €4,071m which were ahead of consensus estimates of €3,650m and our forecast of €3,400m. Sales at €4,583m were a touch light of consensus estimates of €4,700m and our forecast of €4,750m. This equated to a book to bill of 0.89x which was stronger than consensus estimates 0.78x and our estimates of 0.72x.
- Orders in All Divisions Better than Expected** — Orders in all divisions were better than our expectations. Notably, Thermal Power registered orders of €1,550m versus our estimates of €1,500m despite no large order outside Thermal Service. Orders in Renewable Power at €527m were also ahead of our estimates at €200m driven by a number of hydro projects.
- Sales Slightly Light in Thermal Power and Grid** — Sales in Thermal Power at €1,921m missed our forecast of €2,050m with the company citing limited milestone recognition over the quarter. Sales in Grid at €915m were also light of our forecast of €1,000m. Transport and Renewable Power sales both were slightly better than our expectations.
- Book to Bill of 0.89x** — Driven by a strong order number relative to expectations the book to bill was ahead of our expectations in all divisions. Encouragingly, the book to bill of 0.81x in Thermal Power was ahead our expectations of 0.73x and Renewable Power was most notably ahead with a book to bill of 1.28x versus our expectations at 0.5x.
- Guidance Maintained** — As expected, Alstom expects sales to "ramp up" over the current year and has renewed its previous guidance of low single digit organic sales growth and a stable operating margin in 2013/14, which should increase to 8% over next 2-3 years. FCF is expected to be positive each year over these periods.
- Implications** — Given the reiterated long-term guidance and the better than expected orders we expect no meaningful changes to consensus estimates post the results.
- Conference Call** — There will be a conference call at 9am (BST) / 10am (CET) on +44 (0)20 3427 1912 (Pin code: 9700022).

<b>Buy</b>	<b>1</b>
Price (23 Jul 13)	€25.72
Target price	€34.00
Expected share price return	32.2%
Expected dividend yield	3.1%
<b>Expected total return</b>	<b>35.3%</b>
Market Cap	€7,934M
	US\$10,492M

### Price Performance (RIC: ALSO.PA, BB: ALO FP)



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Figure 1. Alstom 1Q13/14 Summary

Euros in Millions March Year End	Reported 1Q12/13	Citi Forecast 1Q13/14	Consensus 1Q13/14	Difference
<b>Orders by Division</b>				
Thermal Power	1,550	1,500		
Renewable Power	527	200		
Grid	871	800		
Transport	1,123	900		
<b>Total Orders</b>	<b>4,071</b>	<b>3,400</b>	<b>3,650</b>	<b>11.5%</b>
<b>Sales by Division</b>				
Thermal Power	1,921	2,050		
Renewable Power	411	400		
Grid	915	1,000		
Transport	1,336	1,300		
<b>Total Sales</b>	<b>4,583</b>	<b>4,750</b>	<b>4,700</b>	<b>-2.5%</b>

Source: Citi Research and Company Reports

## Alstom

### Valuation

We set our target price at €34, based on an EV/Sales of 0.7x relative to our forecast margin of 7-8%. The implied EV/EBIT at c.9x March 2014E would still be a slight discount to the Electrical peers and a more notable sector discount.

### Risks

We believe the uncertain outlook for the global economy could result in significant earnings risk over the next 18 months. Stock-specific risks that may affect achievement of our target price include: Contracting risk on large Power and Transport projects of over €500m. Free cash flow volatility (positive and negative) from customer pre-payments as the order book grows and contracts through the cycle. Our forecasts assume that economic growth will be moderate in the next two years but that Alstom will continue to deliver its order book. Any downgrading of this outlook due to cancellations could prevent the shares achieving our target price.

## Appendix A-1

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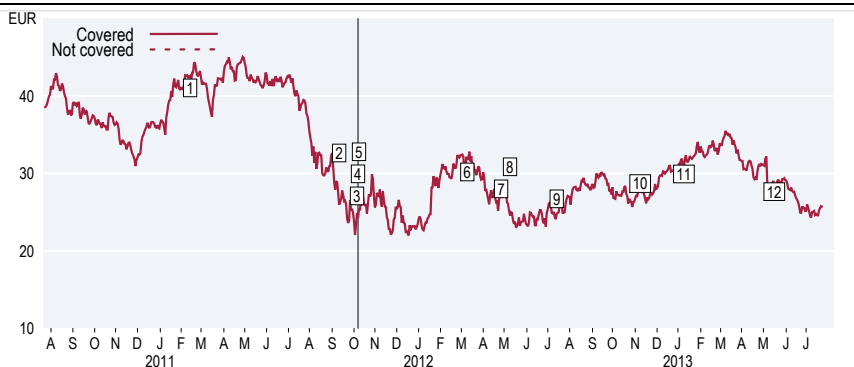
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#### Alstom (ALSO.PA)

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Analyst: Mark Fielding



	Date	Rating	Target Price	Closing Price
1	14-Feb-11	*2H	*45.00	42.60
2	12-Sep-11	2H	*33.00	25.95
3	6-Oct-11	2H	*24.50	24.90
4	7-Oct-11	Stock rating system changed		

\* Indicates change

	Date	Rating	Target Price	Closing Price
5	8-Oct-11	*2	24.50	24.22
6	9-Mar-12	2	*32.00	31.92
7	26-Apr-12	2	*29.50	27.12
8	9-May-12	2	*27.00	24.55

	Date	Rating	Target Price	Closing Price
9	13-Jul-12	2	*26.00	24.83
10	8-Nov-12	2	*30.00	28.69
11	9-Jan-13	*1	*38.00	30.82
12	16-May-13	1	*34.00	28.22

Rating/target price changes above reflect Eastern Standard Time

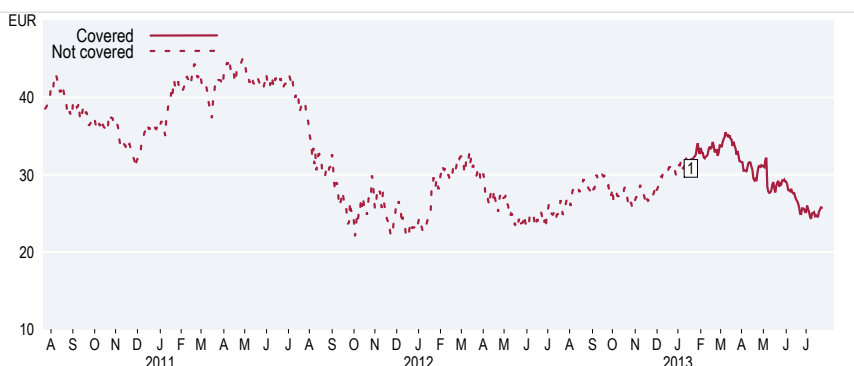
## Alstom (ALSO.PA)

### Ratings and Target Price History

#### Best Ideas Research

#### Relative Call (3 Month)

Analyst: Mark Fielding



	Date	Rating	Target Price	Closing Price
1	18-Jan-13	*ADD MP	-	32.01

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12 Month Rating			Relative Rating		
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53%	50%	45%	58%	51%	49%

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