

## Equities

14 February 2012 | 7 pages

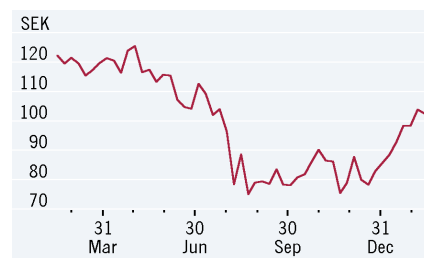
# Sandvik AB (SAND.ST)

## Alert: China Nuclear – 2020 Target Above Expectations

### Company Update

<b>Buy</b>	<b>1</b>
Price (14 Feb 12)	SKr102.20
Target price	SKr115.00
Expected share price return	12.5%
Expected dividend yield	3.4%
<b>Expected total return</b>	<b>15.9%</b>
Market Cap	SKr128,198M
	US\$19,245M

### Price Performance (RIC: SAND.ST, BB: SAND SS)



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- **China Revises 2020 Target** – China Securities Journal reported today that China's target for nuclear power capacity by 2020 is 80GW in the "China mid-long term nuclear power development plan" drafted by the NDRC (China's National Development and Reform Commission), revised down from 86GW previously, following the suspension of nuclear power plant construction and approval in the wake of the Japan Disaster in March 2011.
- **New 2020 Target Higher than Industry Expectations** – The Journal notes that industry expectations were for a cut to the previous target of 86GW to the 60-70GW level, vs. our China utilities analyst Pierre Lau's expectation of "at least 70GW". Today's revised 2020 target of 80GW is notably above expectations and is a sign of China's continued support for nuclear energy. China currently has nuclear power capacity of 12GW (in 2010); not much was added in 2011 due to the Japan Disaster in March 2011.
- **2015 Target of New Capacity Has Already Been Reiterated** – In August 2011 China has already confirmed the 12th FYP (2011-2015) target to start construction of an additional 40GW of nuclear capacity.
- **Citi View** – China will resume approvals of nuclear projects in 1H12. Today there is also evidence that suggests some nuclear power plants have resumed construction in the mainland (Oratio Muse, 19 January). Sandvik is starting to see some positive momentum in nuclear (4Q11 conference call).
- **When Is a Step-Up in Orders Likely?** China is targeting nuclear power capacity of 80GW, which would imply an additional capacity of 68GW vs. 12GW in 2010 and of which 40GW of additional capacity should be added during 2011-2015 (as per 12th FYP target that was reiterated in August). With the delay due to the Japan Disaster and the fact that it typically takes about 7-8 years for the construction of a nuclear power plant in China, and if China is to meet its target and complete the projects before 2020, 2013-2015 could see a more notable step-up in nuclear-related orders (prior to the Japan Disaster, expectations were for 2012-2013).
- **For more detail view our report from yesterday: [Sandvik AB \(SAND.ST\) - Play on Nuclear Revival in China](#)**
- **Reiterate Buy** – Sandvik continues to be one of our top picks in the sector and nuclear is another angle to our Buy case on Sandvik (admittedly there other stocks that are not in our coverage that could be a pure play on this nuclear theme). Sales to the nuclear industry currently account for <1% of annual sales for Sandvik, but we note that since 2009 up to the Japan disaster, Sandvik had booked more than SKr13bn of orders (14% of group sales). We could see upside to our SMT peak EBIT margin forecast of 9% (vs. Sandvik's guidance of 10-12%), if nuclear-related orders were to return. We see today's news as supportive and reiterate our Buy rating on Sandvik.

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

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## Sandvik AB

### Valuation

Our target price is SKr115 based on our DCF fair valuation of SKr116, rounded. We assume the following key parameters within our DCF valuation: through-cycle growth rate of 3% and a terminal growth rate of 2.5%, a through-cycle margin of 13.7% and WACC of 8.5%.

### Risks

We see a number of industry- and company-specific risks in the case of Sandvik where fluctuations could cause significant changes to our earnings forecasts and valuation and cause the shares to deviate significantly from our target price. Most notably, Sandvik is economically sensitive. High leverage, however, works both ways; when recovery eventually comes, the profit bounce-back should be equally strong. Sandvik's financial leverage could amplify the recovery. Sandvik also has notable currency risk and its Materials Technology business is exposed to metals price fluctuations.

## Appendix A-1

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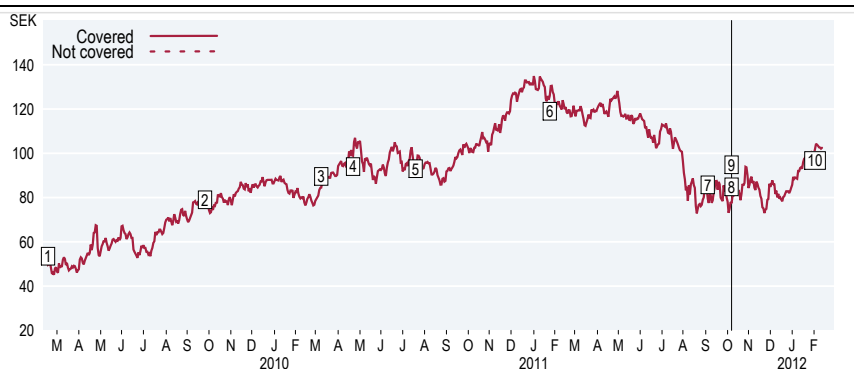
#### Sandvik AB (SAND.ST)

#### Ratings and Target Price History

#### Fundamental Research

Analyst: Natalia Mamaeva

Covered since July 9 2009



	Date	Rating	Target Price	Closing Price
1	17-Feb-09	2H	*55.00	49.60
2	25-Sep-09	2H	*78.00	76.40
3	9-Mar-10	*1H	*100.00	84.50
4	22-Apr-10	1H	*120.00	98.85

\* Indicates change

	Date	Rating	Target Price	Closing Price
5	20-Jul-10	1H	*125.00	94.75
6	25-Jan-11	1H	*175.00	126.00
7	5-Sep-11	1H	*110.00	79.55
8	7-Oct-11	Stock rating system changed		

	Date	Rating	Target Price	Closing Price
9	7-Oct-11	*1	110.00	77.40
10	2-Feb-12	1	*115.00	102.00

Rating/target price changes above reflect Eastern Standard Time

## Sandvik AB (SAND.ST)

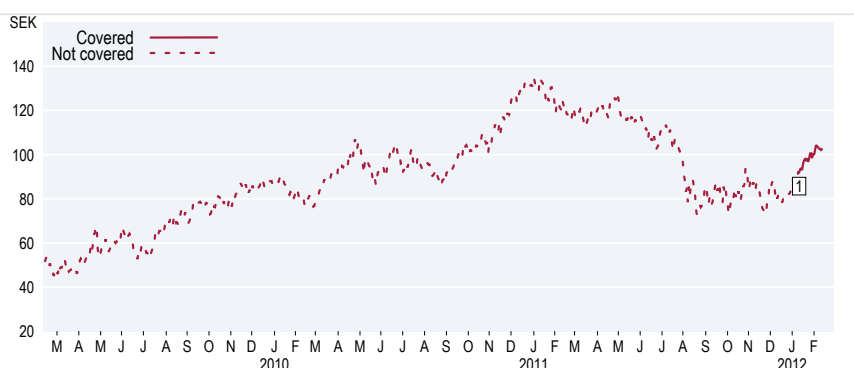
### Ratings and Target Price History

#### Best Ideas Research

#### Relative Call (3 Month)

Analyst: Natalia Mamaeva

Covered since July 9 2009



Date	Rating	Target Price	Closing Price
11-Jan-12	*ADD MP	-	91.95

\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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#### Data current as of 31 Dec 2011

	12 Month Rating			Relative Rating		
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