



Cyclical



Daimler AG - Buy

5th October 2012

Price	€38.67
12 Month Price Target	€45.00
Risk Rating	Medium
Forward P/E Ratio	8x
Forward Dividend Yield	6%

Company Profile:

DaimlerAG is one of the world's largest automotive producers. Its business segments include:

Cars (51% of revenues)

With the Mercedes-Benz, Smart, Maybach and Mercedes-Benz AMG brands, Daimler offers top class premium automobiles in all vehicle segments.

Trucks (21% of revenues)

Daimler has established its global market leadership in the truck segment with the Mercedes-Benz, Freightliner Trucks, Western Star Trucks and Fuso brands.

Vans

With its perfection and attention to detail, Mercedes-Benz Vans achieves outstanding product quality with its Sprinter, Vito and Viano, Sprinter and Vario models.

Company Profile (cont):

Buses

Daimler AG manufactures and distributes buses of the Mercedes-Benz, Setra, Thomas Built Buses and Fuso brands. With this brand portfolio the company not only has a global presence but also covers all segments as a full-line provider – from the minibus through to the inter-city bus.

Daimler's biggest segment is thus "passenger cars" of which the Western European markets account for more than half of sales, followed by the US market representing 20% of sales and Asia representing more than 10%.

Recent financial performance has been good with Daimler achieving revenues of more than €55bn in the first half of 2012. Daimler plans to constantly increase its vehicle sales, aiming to sell 1.6 million cars in 2015. The company was able to increase its second quarter earnings by 10% on a group level. The strongest growth in that context came from the Daimler Truck segment with +22%. The company's market capitalisation reached €37.70bn in the second quarter of 2012.

Analysts View:

Goldman Sachs rates Daimler a "Conviction Buy" with a 12 Month Price Target of €98, believing the company has the strongest model-cycle momentum (10 additional new models) of the three German car makers over the next two years. Citi has a more conservative €45 price target.



Cyclical (cont)

Auto Sector:

Goldman Sachs sees 44% upside potential for the European autos sector. In periods of increasing equity risk premia, well-positioned companies with sector-leading returns tend to outperform. Autos have shown the highest earnings momentum of any sector in the European market over the last one and a half years. Still, Goldman Sachs states that European autos is by a significant margin the least expensive cyclical sector in the region.

Catalysts to the share price:

1) *Stabilisation of news flow*

We view a stabilisation in incremental news flow relative to consensus expectations as a catalyst for Daimler.

2) *Improving quarterly financial results*

Evidence of a closing of the performance gap to peers (BMW and Volvo) would be a further key catalyst for relative share price outperformance. This appears to be happening with Mercedes relative sales momentum starting to improve.

3) *QE3*

UBS has recently raised its 2012 S&P 500 price target to 1,525 on the belief that the near term liquidity-driven rally will continue. Over the short-run, they believe that pro-cyclical groups such as energy, materials, autos, homebuilders and diversified financials are likely to lead the market.

4) *Relative performance*

If Daimler can simply maintain forecasts, we see plenty of upside. Daimler's P/E relative to the Eurostoxx 600 is just 65%, close to the 60% 2009 level discount trough. Trading some 40% below their 2011 high, Daimler is clearly cheap and a mere reversion to its historical multiple will see a large market move.

5) *China*

In the key growth market of China, we believe the market has now overstated concerns on pricing and note that discounts have started to reverse.

Technicals:

Technically, the stock looks attractive having rebounded off its lower bollinger band and now starting to break out to the upside. A rounding of the 50 day moving average suggests a reversal of the downtrend and the stock has strong support within 10% of the current level.

Summary:

The company looks to be in the right place at the right time and the stock's low valuation (8x P/E) and high dividend yield (6%) certainly sets a floor to the share price. Added to that the sectors earnings momentum and low valuation, and we see the stock poised for a period of strong share price performance ahead.



Cyclical (cont)

Chart Legend:

	20 day moving average	(signifies the short-term direction of the security. prices tend to gyrate around their 20 day m/a)
	50 day moving average	(signifies the medium-term direction of the security)
	200 day moving average	(signifies the long-term direction of the security - whether it is in a bull or bear market)
	bollinger bands	(an indicator that measures 2 standard deviations away from the 20 day m/a)

Technical Analysis Guide:

ADX (average directional index) - indicates whether a security is in a trend (above 20) or not in a trend (below 20). For trending markets moving averages work best when considering lines of support/resistance. For non-trending markets bollinger bands work best (sell at upper band, buy at lower band).

RSI (relative strength index) - indicates whether a security is overbought (above 70) or oversold (below 30). Also when the RSI moves above 50 that is considered bullish (or vice versa).

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