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## **Il Sole 24 Ore**

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Industry: earnings down, but less than expected

# **INDUSTRIAL SECTOR: THE CRISIS IS WEIGHING ON EARNINGS BUT LESS THAN EXPECTED**

Profits down 8% in Europe over the half-year

By Maximillian Cellino

Viewed overall, the financial statements published by industrial companies in Europe in the first six months of 2016 in many ways resemble a glass that's half full. It seems half (if not entirely) empty, however, if we compare the performance of sales and earnings with those of the previous year, but fills up, at least in part, if we consider that a few months ago we feared that the figures would be much worse.

At the start of the year, the key words each time anyone spoke about the economy were "global slowdown", and the fears aroused by developments in China were able to stir up the financial markets. It's no mystery that the analysts drastically cut their forecasts of sales and earnings in the sector, which is clearly one of the most exposed to the dynamics of the cycle. The fact that their forecasts turned out to be far too pessimistic (especially as regards the second quarter) is a partial consolation and indeed leaves the impression of a glass half full.

Overall, notes Morgan Stanley, at the European level earnings per share in the industrial sector fell in the first half of 2016 by 8% compared with the same period of 2015. The slowdown was less than the average recorded by MSCI Europe (-13.5%), which was, however, strongly influenced by the debacle of financial (-21.3%) and energy stocks, the latter worn down by the fall in the price of crude oil (down 52.3%).

The "surprises" with respect to the consensus forecasts were ultimately more or less balanced. According to the analysis by Silvia Ranauro, Investment Director at DNCA Investments, negative projections exceeded positive ones for 35 to 25 companies in terms of sales, while for earnings 25 companies did better than expected and 20 were disappointing. The latter factor is a discrepancy attributed by Morgan Stanley essentially to the relative strength of the euro, which in the first quarter of the year weighed more on companies' revenues than on their profits.

## **PRICES AND EVALUATIONS**

*There is an estimated discount of between 10% and 15% when we compare the evaluations of Italian stock with those of our European competitors*












From this perspective, Italy was no exception and did not diverge to any notable degree from the dynamics seen in the rest of Europe. "Given their fears of a global slowdown, analysts had reviewed their estimates for listed companies downwards, in some cases aggressively. But the financial statements for the second quarter showed more than anything that they had been too cautious: overall, the figures for the sector showed light and shade, but tended towards the positive", confirms Paolo Rizzo, partner at Anthilia Capital Partners and manager of the Anthilia Red fund.

FCA, and the automobile sector in general, and CNH Industrial are examples, but they're not the only ones. Atlantia, Leonardo-Finmeccanica and Buzzi Unicem (to mention only the blue chip companies in the FTSE MIB) increased their profits over the half-year, as did Prysman. However, the surprises also came from smaller companies – smaller, but with recognised brands in Italy and above all abroad. "Names like IMA, Interpump and Datalogic are well known around the world. They've always made profits and continue to do so, in spite of the forecasts", adds Rizzo. The "pocket-sized multinationals" don't seem to fear a slowdown, at least for now.

But when we look to the stock market results the gap with the rest of Europe remains significant. The FTSE All-Share Industrials index has lost ground to the Stoxx 600 Industrials since early 2015 (the former down 3.2%, the latter up 1.3%), although over the last 5 years it has maintained a similar pace (up 38% for both indexes). "The discount can be put at 10% to 15% when we compare the evaluations of Italian stocks with those of our European competitors: the difference is linked in part to the political situation and in part to the country's low growth and the difficulties of the financial system, which inevitably have repercussions on industrial companies", underscores Angelo Meda, Head of Equities at Banor SIM. Irrespective of the banks, the "Italy discount" penalises everybody to some extent, but in the medium to long term could actually translate into an added appeal for Italian industrial stocks.

## From Bourse to reality. Industrial companies: accounts and stock market evaluations

**Tra Borsa e realtà: bilanci e valutazioni di Borsa delle società industriali**

	BORSA		BILANCIO		ANALISTI			
	Capitalizzazione	Var. %	Utile	Ricavi	Multiplo	Buy	Hold	Sell
	In milioni	Da inizio anno	Var. % I sem 2015 I sem 2016	Var. % I sem 2015 I sem 2016	Prezzo/Utile	%	%	%
<b>SOCIETÀ ITALIANE</b>								
 Atlantia	18.514	-8,49%	+9,5%	+2,8%	17,8	81	19	0
 CNH Industrial	8.765	+2,25%	-384 mln*	-6,1%	20,7	63	25	13
 Leonardo Finmeccanica	5.585	-25,12%	+89,0%	-9,4%	10,8	50	44	6
 Prysmian	4.649	+5,87%	+43,8%	+1,8%	15,2	65	35	0
 Italmobiliare	3.692	+3,12%	-373 mln*	-2,1%	-	0	87	13
 Buzzi Unicem	3.458	+11,20%	+158,9%	+1,9%	17,7	80	20	0
 Ansaldo STS	2.100	+6,38%	-30,7%	-4,7%	22,9	0	100	0
 Soc. Iniziative Autostradali e Serv.	1.910	-14,34%	-	+6,2%	11,4	75	25	0
 Interpump	1.621	+3,98%	-39,1%	+1,2%	17,4	86	14	0
 Cerved Inform. Solutions	1.504	+0,19%	+46,3%	+5,5%	17,3	78	22	0
 Italmobiliare	1.378	-8,29%	-37,6 mln*	-12,0%	2,9	0	100	0

## Foreign companies

**SOCIETÀ STRANIERE**

 Siemens	87.867	+14,93%	-2,20%	+5,00%	15,0	56	41	4
 Abb Ltd N	42.805	+21,88%	+21,00%	-6,00%	19,0	25	50	25
 Vinci	40.042	+13,75%	+12,60%	-1,82%	16,3	86	14	0
 Airbus group	38.897	-18,81%	+15,60%	-0,34%	15,5	70	26	4
 Schneider electric se	35.089	+12,82%	+11,00%	+10,00%	16,4	45	36	18
 Deutsche post	33.531	+6,35%	+29,10%	-6,10%	13,6	57	36	7

## Automobile sector

SETTORE AUTO									
	Toyota	177.997	-19,1%	-14,54%	-5,70%	11,2	58	38	4
	Volkswagen	63.986	-7,9%	-36,80%	-0,77%	7,7	40	40	20
	Bmw	50.248	-21,1%	+9,95%	+2,26%	7,9	48	45	6
	Honda	47.890	-23,2%	-6,13%	-6,29%	11,2	46	38	17
	Ford	43.701	-13,6%	+33,54%	+8,49%	6,5	37	58	5
	General Motors	43.553	-9,2%	+133,45%	+7,77%	5,3	50	50	0
	Nissan	38.436	-22,3%	-10,73%	-8,45%	7,3	67	33	0
	Renault	22.635	-17,4%	+7,92%	+13,46%	6,3	57	38	5
	Peugeot	10.674	-18,5%	+92,08%	-0,92%	6,7	52	33	14
	Fiat	7.819	-28,0%	+181,34%	+0,15%	4,3	41	32	27

(\*) Perdita in milioni di euro nel I semestre 2016. Fonte: elaborazione Ufficio Studi Il Sole 24 Ore su dati Factset.

## Keywords

### The indicators

#### Sales

- The term "sales" means the sum of all earnings from the sale of products and/or services, but also companies' other earnings and revenue in the tax year arising from invoices issued. Sales, for which "proceeds" is a synonym, indicates a company's volume of sales: the amount it receives from selling its products or services.

#### Price/earnings ratio

- The price/earnings ratio is an indicator commonly used in stock exchanges, because it indicates whether a share is over- or under-valued. The ratio (often abbreviated to p/e) is obtained by dividing the price of the share by the earnings (sub-divided by the number of shares, naturally). The p/e is often calculated on future earnings. The higher the p/e rises, the more the share is over-valued.

#### Earnings

- To understand whether the company's business has been profitable over the year, we calculate the economic outturn for the period. This result is calculated as the difference between proceeds from sales, and costs. If this is negative, the result is described as a loss. Earnings can be calculated before tax, i.e. gross. Net earnings are the amount after tax has been paid.

#### Capitalisation

- This term indicates a company's value in the stock exchange. It is obtained by multiplying the value of one of the company's shares by the total number of shares. The capitalisation therefore changes constantly, as the price of the shares changes in the Bourse. When the shares are sold in the stock market and the price falls, the capitalisation is reduced too.