Other News

FUCHS PETROLUB (EUR62.21) — 2/Outperform

Target Price: EUR83.00 — Market Cap: EUR0.487bn

CHEMICALS — GERMANY

Growth story intact despite increasing raw material costs

At annual investors day, management stated that the strong increase in base oil prices (= 50% of raw material costs) will lead to declining gross margins. However, profit margins should increase further due to ongoing streamlining of the organisation in Europe and Asia. We reiterate our net profit growth estimate of +20% in 2004. Attractive P/E bef. goodwill of 8x (05E).

	2004E	2005E	2006E
Sales (m)	1059.1	1096.3	1132.4
Net profit (m)	35.8	55.1	60.5
EPS	4.55	7.01	7.70
EPS bef. GW	6.51	7.01	7.70
P/E	13.7	8.9	8.1
P/E bef. GW	9.6	8.9	8.1
EV/EBITDA	5.6	5.1	4.6
EV/EBITA	7.3	6.6	5.9
Net yield	3.1	3.5	3.9

- **Base oil prices increased again to a consternating level of USD430 per tonne:** Base oil costs account for 50% of FUCHS' raw material costs (around 25% of sales). Management stated that passing on higher material costs to end-consumers is difficult at these levels. In the US, FUCHS already increased prices in April and initiated a second price increase. Further price increases in all regions will follow. Due to the increase in base oil prices, gross margins are declining in Q3. We expect slightly more pressure on gross margins than already seen in Q2, when gross profit margins declined by 25bp.
- **Continuing streamlining will more than offset higher material costs:** FUCHS mentioned that it will save in particular on personnel costs (UK and France) and also administrative costs should come down as a % of sales. In the regions Europe and Asia we expect further decline in operational costs in Q3 and Q4. Consequently, FUCHS reiterated its guidance of double-digit earnings growth in 2004. In 2004, EBITA margin should reach at least the level of 2003 (9.1%) which is in line with our 9.2% estimate.
- **We reiterate our 2/Outperform rating:** Due to the ongoing cost-reduction measures, we expect EBT to increase by 15% in Q3 to EUR18m. FUCHS is still trading at an undemanding P/E before goodwill of 8x (05E) and offers a free cash flow yield of 9% (05E).

Christoph ECKERT **(49) 69 47 89 75 75** **ceckert@cheuvreux.com**