

[Valeo \(VLOF.PA\)](#) | Neutral / High Risk

## Quick thoughts on the outsized Valeo share price reaction today – anything but auto narrative continues

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### CITI'S TAKE

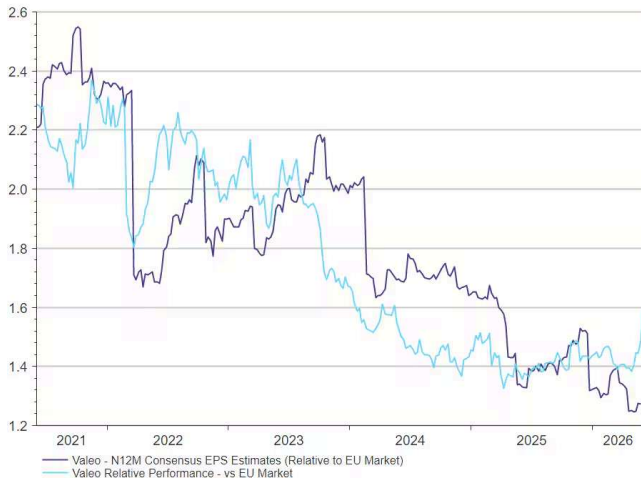
We believe suppliers/OEMs can and should be re-allocating capital/deploying their balance sheet/R&D efforts into the highest ROIC products. Clearly, the market has not been rewarding auto stocks for huge investment spend over the past 10Y, so making small bets into strategic growth markets, especially adjacent ones, makes a great deal of sense to us. Equally, overcapacity in EU automotive comes in stark contrast to under-capacity in other high growth industries like defense/AI/robotics; we encourage suppliers to reinvent themselves by entering these markets to the degree this is: i) low incremental R&D commitments; ii) reduces through-cycle cash-out restructuring burdens; and iii) allows suppliers to grow revenues/EBIT and ultimately margins to levels that would otherwise not have been possible. Clearly, placing some small chips for potential 2030 moonshots is prudent and adds incremental upside to equity narratives. We provide some brief thoughts on the Valeo share price reaction today in this context:

- **Investors are hungry for thematic laggards:** Non-auto investors often have lower valuation sensitivity and longer time horizons and understand why scale and precision engineering are important factors for winning contracts in big thematic markets.
- **Longer-term TAMs are hard to value:** Valuing suppliers on a SOTP basis is fraught with difficulties when companies target growth into an industry from zero revenues, into themes that may or may not emerge in 2030 and beyond. We generally think investors should not re-rate stocks too aggressively until there is some tangible evidence of order book momentum from which to provide some baseline revenue targets on which to value. In this regard we note that Schaeffler have only started to re-rate YTD when management became more explicit around 2030 revenue targets for their respective thematic exposures. This is important, as for moves, such as today's in Valeo to sustain itself, it will require: i) evidence of order momentum, and ii) Valeo financial KPI ambitions from new activities over the mid-term. This is ultimately important to ensure investors right-size how to value non-auto exposures for suppliers and to better calibrate SOTP type analysis.
- **Shares can run ahead of fundamentals, but not for long:** Schaeffler shares – where we continue to like the non-auto growth optionality – have seen periods of being both the best performing auto stock and the worst-performing EU auto stock over the past 12m. The under-performance seen around FY25 results effectively reflected a below-consensus FY26 margin guidance on the core business. The conclusion here is that even when there is a positive non-auto narrative, the mid-term driver of share prices has been and remains the underlying fundamental picture, albeit Schaeffler did not fully re-test prior lows on the guidance disappointment. **To this end, the 50% rally in value shares from recent lows will clearly raise the bar for a clean set of financials on 2Q26 results.**
- **ETF/Passive buyers can be powerful (eventually):** One obvious impact of allocating capital to non-automotive themes can be the eventual support from more passive or less fundamental structural buyers such as ETFs/Thematic funds. We show below the key thematic ETF themes by AUM, according to Bloomberg, and their respective performance YTD. Being associated with these themes is no bad thing, but as seen with Schaeffler, inclusion into such products tends only to happen when commercial momentum is evidenced ([LINK](#)).

**Implications:** When we hosted Valeo for an expert call on their data center business 2 weeks ago ([LINK](#)), it was clear that DC activities remain in an early stage but that Valeo do have certain in-house competencies in electronics and thermal management that **could be** applicable to BESS/Data Center markets. Absent clear order momentum, however, we would expect shares to go back to trading on fundamentals after this rally; while the mood music over 2Q so far remains stable, clearly suppliers are pricing this in to a greater degree now with reduced room to talk numbers down.

**Figure 1. Valeo's relative performance vs relative EPS:** It is possible for thematic laggards to re-rate, but sustaining higher multiples for EU Auto stocks is only possible provided fundamentals improve/stabilize. In this regard it will be increasingly important for Valeo to deliver on their CMD growth/margin profile guidance:

**Figure 2. Valeo EPS trends have been on a downward track; clearly this will need to start to inflect to justify higher multiples**

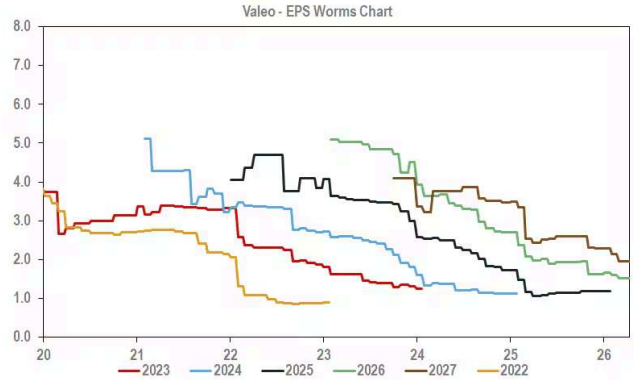


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Source: Citi Research, LSEG Datastream

**Figure 3.** To state the obvious, the data centre theme is a popular thematic and a helpful one to be associated with. Correlating with this theme we think requires management teams to showcase commercial momentum and give 2030 revenue ambitions for start up activities:

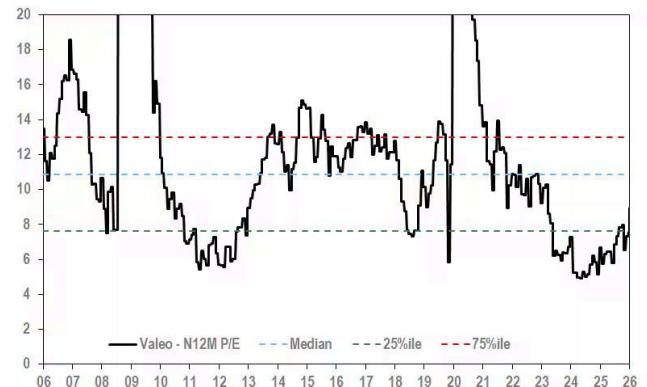
Global Thematic ETFs - AUM by Theme (\$m)		
Theme	AUM (\$m)	Avg YTD Perf (%)
Infrastructure	74,704	20.5
Artificial Intelligence	71,608	36.8
Defense	69,271	9.5
Cybersecurity	25,375	24.6
Nuclear	21,614	19.2
Robotics & Automation	20,119	21.0
Electric Car & Battery	19,924	29.2
Natural Resources	16,920	16.5
Clean Energy	16,172	43.7
EM Tech	14,904	-14.9
Innovation	14,757	18.0
Tech & Communications	14,580	24.4
5G	10,589	84.6
Water	9,977	-2.6
Healthcare	8,129	-2.0
Blockchain & Crypto	7,416	32.7
Cloud Computing	7,067	7.7
Space	6,176	65.3
Quantum Computing	5,787	47.2
Housing	4,709	1.3
Corporate Culture	4,071	10.7
Consumer	3,616	-1.5
Agriculture	2,785	0.4
Low Carbon	2,528	37.1
IPO & SPAC	2,111	15.0
Inflation	2,101	16.1
FinTech	2,089	-6.3
Strategy	1,910	12.8
Travel, Vacation & Leisure	1,478	-2.9
Sports & Esports	1,255	-8.6
Environment	1,211	16.5
Metaverse & Video Gaming	889	29.9
Cannabis and Psychedelics	599	5.1
Biodiversity	536	8.2
E-Commerce	367	-1.9
Transition Metals	209	16.6
Future of Food	177	6.9

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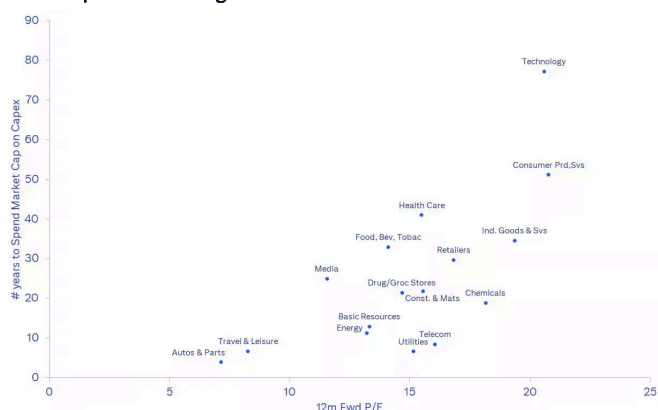
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**Figure 4.** As with the Auto space more broadly suppliers are not expensive stocks but equally are not high ROE stocks – hence big re-ratings require big changes in the equity story:



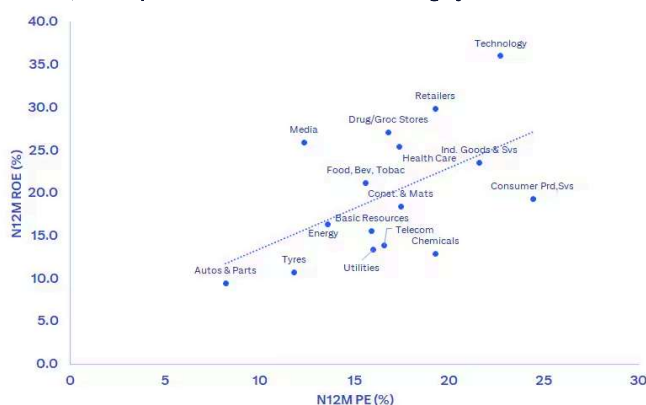
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**Figure 5. With high capex not being valued by investors we understand why auto companies want to grow in non-auto end markets**



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**Figure 6. We also believe that the capacity and ability to deliver precision at scale can be a strong enabler for auto companies to make this pivot. However, such a pivot will take time and are still highly uncertain:**



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Price (02 Jun 26 17:30)	€14.06	Expected share price return	-24.6%
Target price	€10.60	Expected dividend yield	3.3%
Market Cap	€3,453M	Expected total return	-21.3%
	US\$4,007M		

**Valeo**

**Valuation**

We reach our target price using a 10-year DCF and terminal value calculation, which results in a EUR 10.6. We use 1.5% mid term and 0.5% terminal sales growth and 5.5% mid-term EBIT margin and 4.5% terminal EBIT margins. We use a WACC of ~8%.

**Risks**

We rate Valeo High Risk to reflect share price volatility of auto suppliers as a whole, as well as uncertainty (on the upside and downside) around several key top-line and earnings growth drivers.

Upside risks to our target price include: 1) brain organic growth acceleration; 2) increase in content per vehicle surprises to the upside; and 3) higher-than-expected order intake translates into better sales growth and lower than expected R&D costs.

Downside risks to our target price include: 1) slower recovery in light-vehicle demand would lead to lower volumes and therefore likely pressure organic growth and margins; and 2) largest customers losing share / switching content to competitors.

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