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## **No surprises as stricken Peugeot beats consensus in 2013**

*Jon Brager, Senior Analyst at Hermes Credit, reacts to today's Peugeot full year results:*

Peugeot's full year 2013 results today were broadly positive. Operating income of -€177m was ahead of the consensus estimate of -€247m and an improvement on the -€560m recorded the previous year. By segment, the Peugeot auto business reported an operating loss of €1.04bn, while Faurecia and Banque PSA reported operating incomes of €538m and €368m respectively.

Peugeot's industrial business burned €1bn of cash in FY13, an improvement compared to previous year's figure of €2.7bn, but still a very large hole. To this end, the company revised its guidance and now targets 'positive operation free cash flow in 2016'. The prior guidance was to achieve breakeven free cash flow in 2014. However, we suspect this could be due to an increase in expected capital expenditure given the capital raise.

Pro forma for the €3bn equity raise, net industrial debt decreased to €1.8bn from €3.9bn at June 2013 and net leverage now sits at 1x, or 1.4x adjusting for pensions. This compares to Renault at 0.0x and Fiat at 1.6x.

The details of the capital increase provided no surprises. Both the French government and Dongfeng will invest €800m each for 14% stakes. The Peugeot family's stake will be diluted down to 14% as well. The company will also issue €770m of 3-year warrants. Peugeot indicated it expects the revised JV with Dongfeng to realise annual synergies of €400m by early 2020. This includes the creation of a joint R&D centre for emerging markets, and plans to launch two to three new models a year globally.

The company also announced further details on the JV with Santander. The two companies are in discussion to create a JV where 90% of Peugeot's captive finance arm, Banque PSA, will be contributed. Santander (BBB/Baa2/BBB+) is rated higher than Banque PSA (Ba1/BB+), hence the latter could be upgraded as a result of the partnership. This would be clearly positive for Banque PSA bonds.

Additionally, the company announced that Carlos Tavares will take over for departing CEO Philippe Varin effective from April. Tavares is expected to present his medium-term plan to investors in June of this year.

In summary, this is a mainly positive release from Peugeot. The stock is up 3.48% this morning and credit spreads are moderately tighter.

**-ENDS-**

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**Notes to Editors:**

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