

**BUY**

Changed from: HOLD

# Autoliv

Sweden, Auto Parts &amp; Equipment

ALIVsdb.ST (REUTERS) - www.autoliv.com – ALIV SS (BLOOMBERG)

Share price: USD 36.0

Target price: USD 42.0 (34.0)

Market Cap (m): USD 3,034

Daily traded shares, -3m (k): 501

## Forecast changes

	Old	New	%	Old	New	%
Year	2009	2009		2010	2010	
Net Sales	4809	4920	2	5340	5685	6
EBIT	4	35	827	294	331	13
EPS	-0.54	-0.23	-57	1.96	2.22	13

Source: ABG Sundal Collier

## Key assumptions, y-o-y (%)

USD	2008	2009e	2010e	2011e
Volume sales	-6	-16	14	10
Price and mix effect	-4	-4	-4	-4
Currency effect	5	-4	5	0
Acquisition/divestment	1	0	0	0
Total	-4	-24	16	6

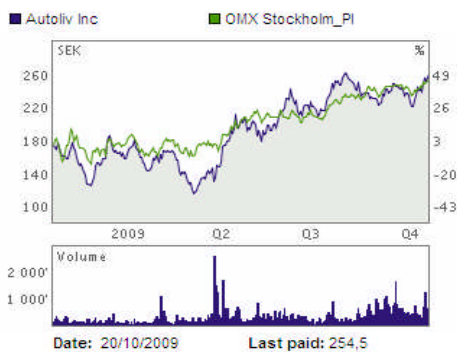
Source: ABG Sundal Collier

## Q3'09 deviation table

	2008 Q3		2009 Q3	
	Actual	ABG SC	SME Cons.	Actual
Sales	1,545	1,321	1,301	1,325.9
Gross Profit	261	221	217	238.8
EBIT	58	28	23	60.0
EBIT adj	91	55	51	74.0
EBIT margin	3.8%	2.1%	1.8%	4.5%
EBIT adj margin	5.9%	4.1%	3.9%	5.6%
Pretax	47	14	8	39
EPS	0.4	0.09	0.06	0.37
Organic growth	5.9%	-12.5%	-12.5%	-11.8%

Source: ABG Sundal Collier, company data

## Share price



Source: SIX

## Safety comes first

We upgrade Autoliv to **BUY (Hold)** and increase our target price to **USD 42 (34)** following yesterday's solid Q3'09 report. We argue that 1) market share gains, 2) a positive sales mix and 3) the likelihood of a dividend and/or buybacks already in Q1'10e form an interesting case to BUY into. The stock has lagged our M&E index by 15% in the last 6m and at an EV/S for 2011e of 0.56x, we see valuation upside to our 7.2% 2011e margin estimate. We raise our EPS by 13% and 11% for 2010e and 2011e, respectively.

## Entering 2010e with favourable exposure...

- With 29% of sales outside of Europe and N. America in Q3 and with China expected to reach ~10% of sales for FY'09e, Autoliv is gaining market share as emerging markets progress. We also expect a positive mix driven by a return to more highly specified vehicles, as stimulus packages targeting smaller cars draw to a close – an effect which partially explains the 5.6% adjusted operating margin in Q3 compared to our 4.1% estimate.
- Although global car sales are likely to trend lower near-term in the absence of further scrappage incentives, light vehicle production should still offer significant growth in 2010e as destocking ends. We estimate Autoliv to start the year with 39% sales growth y-o-y, split 70/30 between organic growth and exchange rate changes.

## ...and with financial policy compliance in sight

- Due to stronger growth and greater profitability we expect Autoliv to reach both its targets, i.e. to be below 3.5x NET Debt/EBITDA and to have an interest coverage ratio above 2.75x, as early as Q1'10e. With an expected Net Gearing of 30% ending 2009e, dividends and/or buybacks could offer share price support sooner than we previously anticipated. We expect a free cash flow yield of 8-10% for 2010e and 2011e.
- Valuation wise, the stock is at a 20-36% discount on P/E and EV/EBIT for 2010-2011e compared to our Nordic M&E sector.

## Key Highlights

Year	Net sales USDm	EBITDA USDm	EBIT USDm	EBIT %	PTP USDm	EPS USD	EPS Chg %	Adj. div.	EV/S (x)	EBITDA (x)	EBIT (x)	P/E (x)	Yield %
2005	6,205	823	513	8.3	483	3.27	-3.6	1.19	0.81	6.1	9.7	13.8	2.6
2006	6,188	823	520	8.4	481	4.88	48.9	1.36	0.98	7.4	11.6	12.4	2.3
2007	6,769	823	502	7.4	446	3.68	-24.6	1.54	0.81	6.6	10.8	14.7	2.8
2008	6,473	653	307	4.7	249	2.29	-37.8	0.21	0.42	4.2	8.8	8.7	1.1
2009e	4,920	363	35	0.7	-33	-0.23	-110.1	0.21	0.76	10.2	95.0	Neg	0.6
2010e	5,685	643	331	5.8	287	2.22	1,056.5	0.42	0.65	5.7	10.9	16.2	1.2
2011e	6,042	726	432	7.2	399	3.07	38.1	0.46	0.56	4.6	7.7	11.7	1.3
Share price:	36.0	Total shrs (m):	89.1	P/BV %:	138	WACC %:	8.0	1M perf. %:	2.0				
Mkt cap (m):	3,034	Fully dil shrs (m):	89.1	EV/Cap empl %:	121	RoE 06-11 %:	7.7	3M perf. %:	17.0				
Net Debt (m):	706	Daily tr. shrs (k):	501	Net gearing %:	30	ATROCE 06-11 %:	6.8	12M perf. %:	57.8				

EPS excludes nonrecurring items and goodwill impairment. For definitions, see footnotes under Income Statement and Valuation and Return Analysis at the end of this report.

Target price: USD 42.0

Risk: Economic cycle

Methodology: DCF, multiples

	2008 Q3		2009 Q3		Deviation vs.	
	Actual	Actual	ABGSC	SME Cons.	ABGSC	SME Cons.
Net Sales	1,545	1,326	1,321	1,301	0%	2%
-Airbag products	979	858	825	N.a.	4%	N.a.
-Seatbelt products	566	468	496	N.a.	-6%	N.a.
Cost of sales	-1,284	-1,087	-1,100	-1,084	-1%	0%
Gross Profit	261	239	221	217	8%	10%
S,G&A	-86	-77	-77	N.a.	0%	N.a.
R&D, engineering costs	-81	-83	-81	N.a.	3%	N.a.
Amortization	-6	-6	-6	N.a.	0%	N.a.
Other Income	-30	-14	-30	N.a.	-54%	N.a.
Operating Income	58	60	28	23	117%	156%
Adj. Operating Income	91	74	55	51	35%	45%
Equity in earnings of affiliates	1	1	1	N.a.	17%	N.a.
Interest Income	3	1	2	N.a.	-65%	N.a.
Interest expense	-17	-18	-17	N.a.	8%	N.a.
Other Financial Items Net	1	-5	0	N.a.	1433%	N.a.
Pretax Profit	47	39	14	8	188%	378%
Income Taxes	-13	-6	-4	N.a.	39%	N.a.
Minority Interest	-3	-1	-2	N.a.	-55%	N.a.
Net Profit	31	33	8	5	329%	583%
EPS	0.44	0.37	0.09	0.06	311%	517%
Items affecting comparability	33	14	27	28	-48%	-49%

	2008 Q3		2009 Q3		Deviation (Bbs) vs.	
	Actual	Actual	ABGSC	SME Cons.	ABGSC	SME Cons.
Gross margin	16.9%	18.0%	16.7%	16.7%	131	133
S,G&A/Sales	5.6%	5.8%	5.8%	N.a.	-3	N.a.
R,D&E/Sales	5.2%	6.2%	6.1%	N.a.	14	N.a.
Amortization/Sales	0.4%	0.4%	0.4%	N.a.	0	N.a.
Operating margin	3.8%	4.5%	2.1%	1.8%	243	273
Underlying operating margin	5.9%	5.6%	4.1%	3.9%	144	165
Pretax margin	3.1%	3.0%	1.0%	0.6%	193	233
Net margin	2.0%	2.5%	0.6%	0.4%	189	210
Tax Rate	-28.0%	-14.0%	-29.0%	N.a.	1497	N.a.

	2008 Q3		2009 Q3		Deviation (Bbs) vs.	
	Actual	Actual	ABGSC	Reuters Cons	ABGSC	Reuters Cons
Organic growth	-7.3%	-11.8%	-12.5%	-12.5%	74	70
Acquisitions/divestitures	5.7%	0.4%	0.3%	N.a.	8	N.a.
FX	0.8%	-2.8%	-2.3%	N.a.	-52	N.a.
Total growth	-0.8%	-14.2%	-14.5%	-15.8%	30	158

Source: Company data, ABG Sundal Collier estimates

Driven by slightly higher sales than expected, favourable sales mix and currency revaluation effects (USD 3m) to some extent, Autoliv delivered an adjusted operating profit of USD 74m leading to an adjusted operating margin of 5.6%. This compared to our estimate of 4.1% and SME consensus of 3.9%.

Top line was driven by -11.8% organically, +0.4% structurally and -2.8% from FX compared to our estimates of -12.5%, +0.3% and -2.3% respectively.

#### Outlook for Q4'09

Autoliv expects organic growth of more than 10% for the fourth quarter of 2009 based on an expected change in light vehicle production in N. America and W. Europe of slightly more than +4% y/y. The company also expects 13% top line growth due to FX changes taking group sales growth to ~25%. The operating margin is expected to reach at least 7%, adjusted for restructuring costs.

Source: Company management

	Previous forecast			New forecast			Percentage change		
	2009e	2010e	2011e	2009e	2010e	2011e	2009e	2010e	2011e
Sales	3,059	3,384	3,587	3,175	3,664	3,921	3.8%	8.3%	9.3%
Airbags	1,750	1,957	2,055	1,745	2,020	2,121	-0.3%	3.3%	3.3%
Seatbelts	4,809	5,340	5,641	4,920	5,685	6,042	2.3%	6.5%	7.1%
COGS	-4,076	-4,375	-4,581	-4,148	-4,649	-4,888	1.8%	6.3%	6.7%
Gross Profit	734	965	1,061	772	1,036	1,154	5.3%	7.3%	8.8%
S,G&A	-293	-300	-309	-296	-314	-328	0.8%	4.8%	6.3%
R,D&E	-304	-337	-343	-313	-357	-368	2.8%	5.8%	7.2%
Amortization of intangibles	-23	-22	-14	-23	-22	-14	0.0%	0.0%	0.0%
Other income/expense, net	-109	-12	-12	-106	-12	-12	-2.8%	0.0%	0.0%
Operating Profit	4	294	383	35	331	432	827.1%	12.5%	12.9%
<b>Operating Profit ex. eo.</b>	<b>104</b>	<b>294</b>	<b>383</b>	<b>135</b>	<b>331</b>	<b>432</b>	<b>29.7%</b>	<b>12.5%</b>	<b>12.9%</b>
Net financial items	-62	-57	-44	-72	-50	-40	16.2%	-12.6%	-10.0%
Associated income	5	6	6	5	6	6	4.3%	0.0%	0.0%
Pretax profit	-54	243	345	-33	287	399	-39.1%	18.1%	15.6%
Minority	-3	-6	-6	-2	-6	-6	-35%	0%	0%
Tax	24	-70	-103	15	-83	-120	-37.7%	18.1%	15.6%
Net Profit	-33	166	235	-19.6	197.7	273.1	-39.8%	18.8%	16.0%
<b>Earnings per share</b>	<b>-0.54</b>	<b>1.96</b>	<b>2.77</b>	<b>-0.23</b>	<b>2.22</b>	<b>3.07</b>	<b>-57.6%</b>	<b>13.4%</b>	<b>10.8%</b>

	Previous forecast			New forecast			Percentage diff.		
	2009e	2010e	2011e	2009e	2010e	2011e	2009e	2010e	2011e
Forecast assumptions	-21.0%	8.1%	5.6%	-20.2%	10.1%	6.3%	0.8%	2.1%	0.7%
Volume/price/mix	0.3%	0.0%	0.0%	0.3%	0.0%	0.0%	0.0%	0.0%	0.0%
Acquisition	-4.9%	3.0%	0.0%	-4.0%	5.4%	0.0%	0.9%	2.4%	0.0%
Currency	-25.7%	11.0%	5.6%	-24.0%	15.5%	6.3%	1.7%	4.5%	0.7%
Total sales change									
Gross margin									
Total	15.3%	18.1%	18.8%	15.7%	18.2%	19.1%	0.4%	0.1%	0.3%
Operating margin									
Reported	0.1%	5.5%	6.8%	0.7%	5.8%	7.2%	0.6%	0.3%	0.4%
Excluding one-offs	2.2%	5.5%	6.8%	2.7%	5.8%	7.2%	0.6%	0.3%	0.4%
Tax rate	45.2%	29.0%	30.0%	46.2%	29.0%	30.0%	1.0%	0.0%	0.0%
USD/EUR	1.38	1.44	1.44	1.40	1.49	1.49	0.9%	3.5%	3.5%
JPY/USD	94	90	90	94	90	90	0.0%	0.0%	0.0%

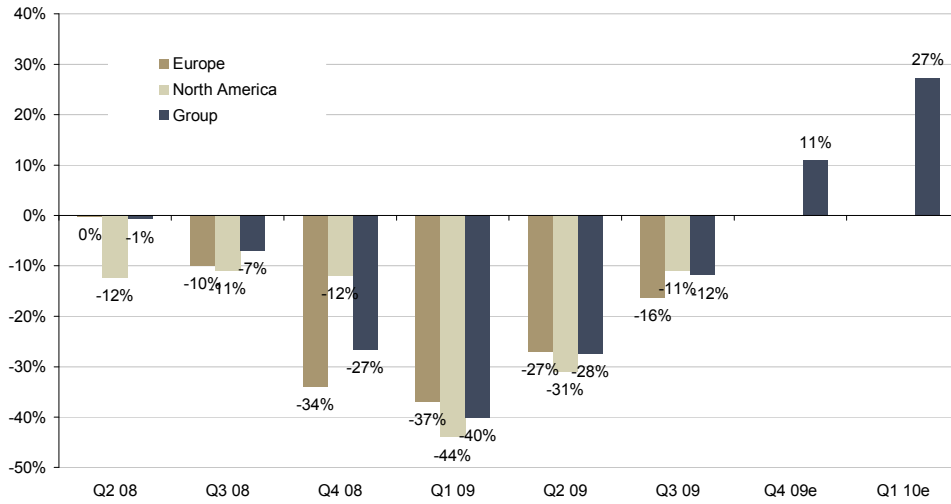
Source: ABG Sundal Collier estimates

We have made the following changes to our forecast:

1. We have raised our organic growth outlook for 2010e from 8.1% y-o-y to 10.1% due to the positive effects expected from market share gains and positive mix.
2. Implementing new exchange rates (USD/EUR of 1.49 vs. 1.44 previously) means our new FX contribution for 2010e is 5.4%.
3. Mainly due to the favourable mix, our EBIT margin estimate is up by 30bps for 2010e.
4. Our financial net is reduced by 13% and 10% for 2010e and 2011e, respectively, due to a more efficient capital structure (we have increased debt-payments due to strong cash flow).

**All in all, our earnings per share estimates are increased by +13% and +11% for 2010e and 2011e, respectively.**

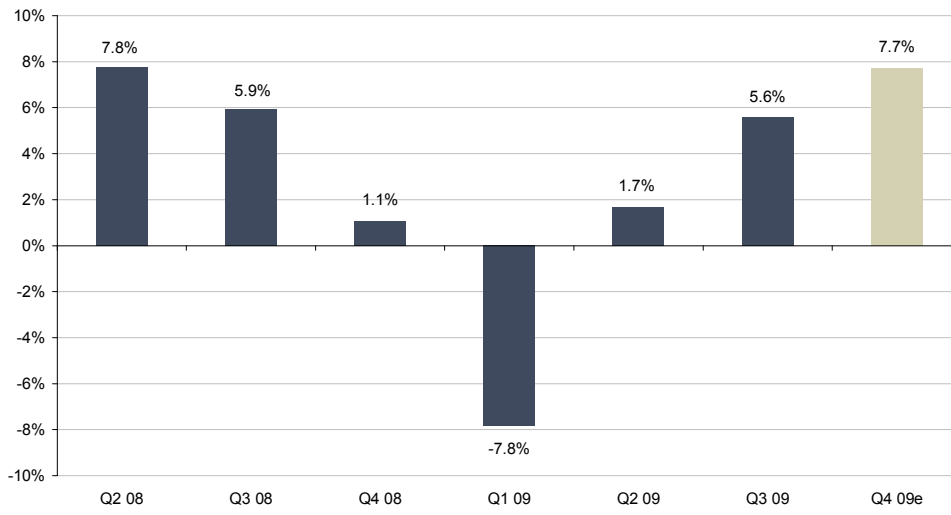
**Autoliv organic growth y-o-y**



Due to strong the performance in N. America and emerging markets, Autoliv once again outgrew light vehicle production in the Triad. For Q4'09e and going into 2010e, we expect this to continue driven by market share gains and positive mix.

Source: Company data, ABG Sundal Collier

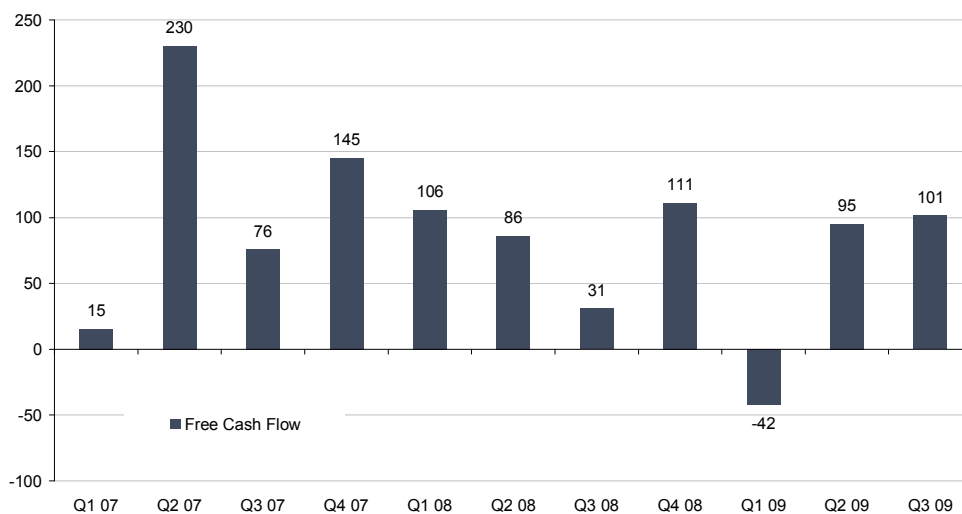
**Autoliv operating margin (adjusted for restructuring charges)**



Supported mainly by favourable mix and improved sales volume, Autoliv exceeded consensus by 170bps with an adjusted operating margin of 5.6% in Q3. For Q4, we forecast 7.7% driven by mix, raw material costs and restructuring gains.

Source: Company data, ABG Sundal Collier estimates

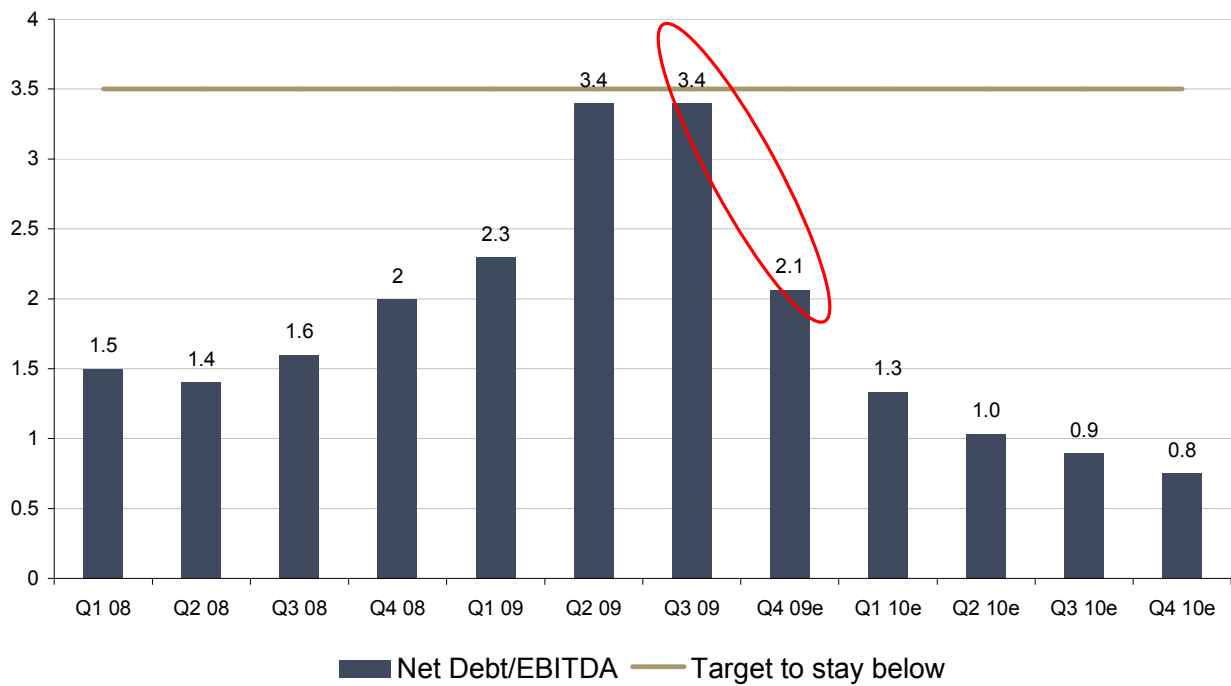
**Autoliv free cash flow**



Cash flow generation continued to be strong, despite the volume improvement. Net Debt was reduced to USD 878m (917m) and Net Gearing fell to 38%. We estimate it to end 2009e at ~30%.

Source: Company data, ABG Sundal Collier estimates

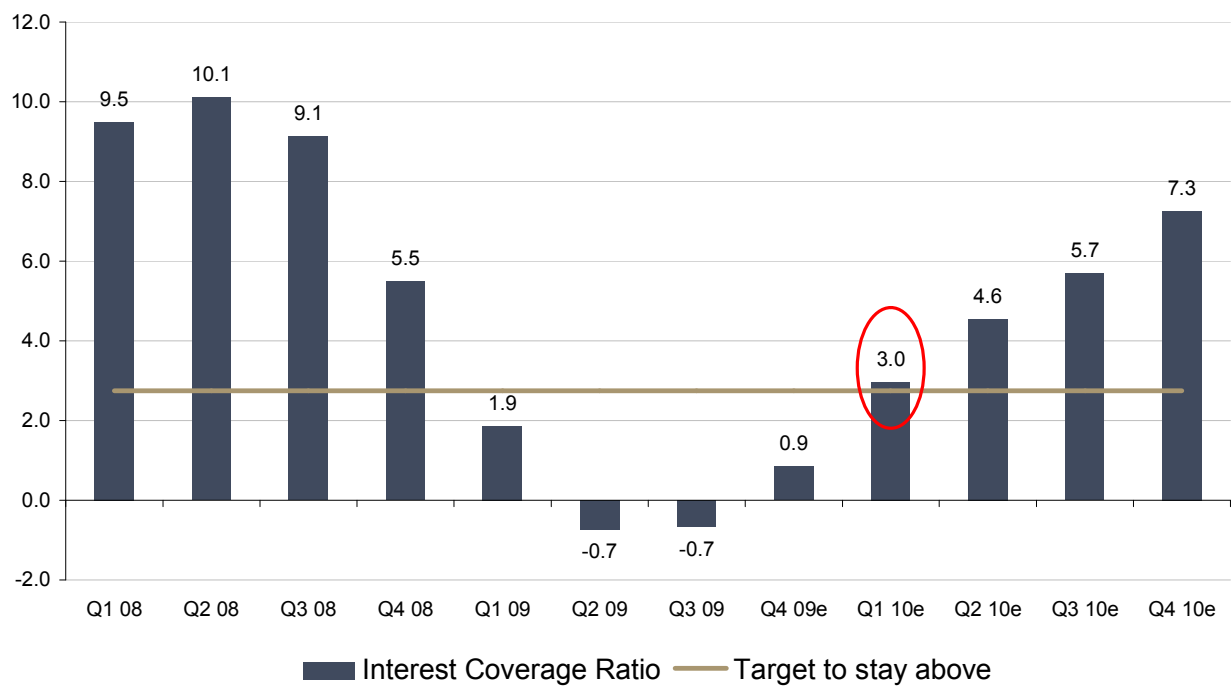
**Autoliv, Net Debt/EBITDA**



Source: Company data, ABG Sundal Collier estimates

Until Autoliv meets its policies of a Net Debt/EBITDA ratio below 3.5x and an Interest Coverage Ratio of above 2.75x, we do not expect the company to distribute money via dividends and buybacks again. However, due to the improved growth and earnings outlook, we now expect this to happen in Q1'10e rather than Q2'10e, which we argue could be a positive trigger for the share price. We estimate a free cash flow yield of 8-10% for 2010e and 2011e.

**Autoliv interest coverage ratio**



Source: Company data, ABG Sundal Collier

	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09e	Q1 10e	Q2 10e	Q3 10e	Q4 10e
<b>Net Sales</b>	<b>1,828</b>	<b>1,908</b>	<b>1,545</b>	<b>1,193</b>	<b>927</b>	<b>1,193</b>	<b>1,326</b>	<b>1,474</b>	<b>1,291</b>	<b>1,463</b>	<b>1,412</b>	<b>1,519</b>
Cost of sales	-1,478	-1,536	-1,284	-1,051	-846	-1,007	-1,087	-1,207	-1,063	-1,201	-1,155	-1,230
<b>Gross Profit</b>	<b>350</b>	<b>372</b>	<b>261</b>	<b>142</b>	<b>80</b>	<b>186</b>	<b>239</b>	<b>267</b>	<b>229</b>	<b>262</b>	<b>257</b>	<b>289</b>
S,G&A	-103	-102	-86	-64	-72	-74	-77	-74	-79	-82	-78	-76
R,D&E	-113	-110	-81	-64	-75	-84	-83	-71	-90	-97	-85	-85
Amortization of intangibles	-6	-6	-6	-6	-6	-6	-6	-6	-6	-6	-6	-6
Other income/expense, net	0	-6	-30	-36	-16	-35	-14	-41	-3	-3	-3	-3
<b>Operating Profit</b>	<b>127</b>	<b>148</b>	<b>58</b>	<b>-27</b>	<b>-89</b>	<b>-12</b>	<b>60</b>	<b>76</b>	<b>51</b>	<b>75</b>	<b>86</b>	<b>119</b>
Items affecting comparability	0	0	33	40	16	32	14	38	0	0	0	0
<b>Operating Profit ex. eo.</b>	<b>127</b>	<b>148</b>	<b>91</b>	<b>13</b>	<b>-73</b>	<b>20</b>	<b>74</b>	<b>114</b>	<b>51</b>	<b>75</b>	<b>86</b>	<b>119</b>
Equity in earnings of affiliates	1.1	1.1	1.2	0.5	0.9	1	1.4	1.4	1.5	1.5	1.5	1.5
Interest income	2	2	3	6	3	1	1	0	1	1	1	0
Interest expense	-16	-16	-17	-24	-18	-18	-18	-17	-16	-14	-11	-12
Other financial items, net	0	-1	1	-2	0	0	-5	0	0	-1	0	-1
<b>Pretax Profit</b>	<b>114</b>	<b>135</b>	<b>47</b>	<b>-47</b>	<b>-104</b>	<b>-28</b>	<b>39</b>	<b>60</b>	<b>37</b>	<b>63</b>	<b>78</b>	<b>109</b>
Income Taxes	-30	-42	-13	9	39	7	-6	-26	-11	-18	-23	-31
Profit after tax	84	93	34	-38	-64	-20	34	33	27	45	55	77
Minority Interest	-2	-2	-3	-1	1	0	-1	-2	-2	-2	-1	-1
<b>Net Profit</b>	<b>82</b>	<b>90</b>	<b>31</b>	<b>-38</b>	<b>-63</b>	<b>-20</b>	<b>33</b>	<b>31</b>	<b>25</b>	<b>43</b>	<b>54</b>	<b>76</b>
EPS	1.11	1.24	0.44	-0.55	-0.90	-0.24	0.37	0.35	0.28	0.48	0.61	0.85
Average no. of shares in millions	73.7	72.7	71.5	70.3	70.5	85.1	89.1	89.1	89.1	89.1	89.1	89.1
<b>Change y/y</b>												
Net Sales	7.6%	10.4%	-0.8%	-33.1%	-49.3%	-37.4%	-14.2%	23.6%	39.3%	22.6%	6.5%	3.0%
Operating Profit	1.0%	45.4%	-47.0%	-117%	-170%	-108%	3%	-377%	-157%	-709%	44%	58%
PTP	0.3%	51.6%	-50.3%	-131%	-191%	-121%	-17%	-228%	-136%	-326%	99%	82%
Net Profit	11.3%	57.2%	-50.6%	-141%	-178%	-122%	5%	-182%	-139%	-311%	65%	143%
COGS	8.5%	10.9%	2.3%	-26.9%	-42.7%	-34.4%	-15.3%	14.9%	25.5%	19.3%	6.3%	1.9%
S,G&A	11.5%	9.0%	1.3%	-28.7%	-30.0%	-27.8%	-10.8%	15.9%	9.4%	11.3%	1.5%	3.0%
R,D&E	1.2%	-0.1%	-13.0%	-21.6%	-33.4%	-23.4%	2.2%	10.9%	20.2%	14.9%	2.5%	20.2%
<b>Margins and tax rate</b>												
Gross margin	19.1%	19.5%	16.9%	11.9%	8.7%	15.6%	18.0%	18.1%	17.7%	17.9%	18.2%	19.0%
S,G&A/Sales	5.6%	5.3%	5.6%	5.3%	7.8%	6.2%	5.8%	5.0%	6.1%	5.6%	5.5%	5.0%
R,D&E/Sales	6.2%	5.7%	5.2%	5.3%	8.1%	7.0%	6.2%	4.8%	7.0%	6.6%	6.0%	5.6%
<b>Operating margin</b>	<b>7.0%</b>	<b>7.8%</b>	<b>3.8%</b>	<b>-2.3%</b>	<b>-9.6%</b>	<b>-1.0%</b>	<b>4.5%</b>	<b>5.1%</b>	<b>3.9%</b>	<b>5.1%</b>	<b>6.1%</b>	<b>7.8%</b>
<b>Operating margin ex. eo.</b>	<b>7.0%</b>	<b>7.8%</b>	<b>5.9%</b>	<b>1.1%</b>	<b>-7.8%</b>	<b>1.7%</b>	<b>5.6%</b>	<b>7.7%</b>	<b>3.9%</b>	<b>5.1%</b>	<b>6.1%</b>	<b>7.8%</b>
Pretax margin	6.2%	7.1%	3.1%	-3.9%	-11.2%	-2.3%	3.0%	4.0%	2.9%	4.3%	5.5%	7.1%
Net margin	4.5%	4.7%	2.0%	-3.2%	-6.8%	-1.7%	2.5%	2.1%	1.9%	2.9%	3.8%	5.0%
Tax rate	26.4%	31.2%	28.0%	19.1%	38.1%	26.5%	14.0%	44%	29.0%	29.0%	29.0%	29.0%
<b>Sales breakdown</b>												
Organic	-2.7%	-0.8%	-7.0%	-26.7%	-40.1%	-27.5%	-12%	11.0%	27.3%	13.6%	3.0%	3.0%
Structure	0.6%	0.8%	0.7%	0.6%	0.3%	0.3%	0.3%	0.0%	0.0%	0.0%	0.0%	0.0%
FX	9.6%	10.4%	5.7%	-7.1%	-9.5%	-10.1%	-2.8%	12.6%	12.1%	8.9%	3.5%	0.0%
<b>Total</b>	<b>7.5%</b>	<b>10.4%</b>	<b>-0.6%</b>	<b>-33.1%</b>	<b>-49.3%</b>	<b>-37.3%</b>	<b>-14.2%</b>	<b>23.6%</b>	<b>39.3%</b>	<b>22.6%</b>	<b>6.5%</b>	<b>3.0%</b>
<b>Organic Growth</b>												
Europe	-4%	0%	-10%	-34%	-37%	-27%	-16%					
North America	-11%	-12%	-11%	-12%	-44%	-31%	-11%					
Japan	21%	12%	10%	-24%	-70%	-56%	-40%					
RoW	5%	13%	-2%	-22%	-18%	-4%	32%					
<b>Geographical Sales Breakdown</b>												
- Europe	56%	57%	52%	44%	54%	54%	48%					
- North America	22%	21%	24%	29%	22%	21%	23%					
- Japan	11%	10%	12%	15%	9%	8%	10%					
- RoW	11%	13%	13%	12%	15%	17%	19%					
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>					

Source: Company data, ABG Sundal Collier estimates

	2001	2002	2003	2004	2005	2006	2007	2008	2009e	2010e	2011e
<b>Net Sales</b>	<b>3,991.0</b>	<b>4,443.0</b>	<b>5,301.0</b>	<b>6,143.9</b>	<b>6,205.0</b>	<b>6,188.0</b>	<b>6,769.0</b>	<b>6,473.2</b>	<b>4,920.3</b>	<b>5,684.9</b>	<b>6,042.4</b>
COGS	-3,336.2	-3,632.6	-4,298.1	-4,922.7	-4,936.9	-4,922.8	-5,438.4	-5,349.0	-4,148.0	-4,648.9	-4,888.3
<b>Gross Profit</b>	<b>654.8</b>	<b>810.4</b>	<b>1,002.9</b>	<b>1,221.2</b>	<b>1,268.1</b>	<b>1,265.2</b>	<b>1,330.6</b>	<b>1,124.2</b>	<b>772.4</b>	<b>1,036.0</b>	<b>1,154.1</b>
S,G&A	-196.7	-219.0	-273.2	-307.4	-331.0	-325.5	-359.8	-354.3	-295.8	-314.3	-328.4
R,D&E	-200.8	-229.8	-305.4	-368.4	-385.8	-397.6	-395.7	-367.2	-312.7	-356.7	-367.9
Amortization of intangibles	-73.3	-19.4	-21.1	-21.1	-15.5	-15.1	-20.3	-23.6	-23.1	-22.0	-13.5
Other income/expense, net	-10.3	-11.8	23.8	-11.2	-23.0	-7.0	-52.8	-72.6	-106.2	-12.0	-12.0
<b>Operating Profit</b>	<b>173.7</b>	<b>330.4</b>	<b>427.0</b>	<b>513.1</b>	<b>512.8</b>	<b>520.0</b>	<b>502.0</b>	<b>306.5</b>	<b>34.6</b>	<b>331.0</b>	<b>432.3</b>
<b>Operating profit ex. eo.</b>	<b>238.7</b>	<b>330.4</b>	<b>427.0</b>	<b>513.1</b>	<b>512.8</b>	<b>520.0</b>	<b>536.0</b>	<b>379.5</b>	<b>134.6</b>	<b>331.0</b>	<b>432.3</b>
Equity in earnings of affiliates	5.7	4.1	11.5	9.6	7.1	5.2	6.4	3.9	4.8	6.0	6.0
Interest income	6.2	6.1	3.9	4.0	6.7	8.6	9.0	12.8	4.5	4.0	5.6
Interest expense	-66.3	-55.0	-47.7	-40.2	-44.1	-46.9	-62.5	-72.9	-71.6	-52.6	-43.9
Other financial items, net	-2.5	0.7	2.5	-2.0	-0.4	-5.5	-8.7	-1.6	-5.0	-1.4	-1.2
<b>Pretax Profit</b>	<b>116.8</b>	<b>286.3</b>	<b>397.2</b>	<b>484.5</b>	<b>482.1</b>	<b>481.4</b>	<b>446.2</b>	<b>248.7</b>	<b>-32.7</b>	<b>286.9</b>	<b>398.7</b>
Income taxes	-59.8	-94.6	-120.2	-149.0	-173.2	-58.9	-150.3	-76.3	15.1	-83.2	-119.6
Profit after tax	57.0	191.7	277.0	335.5	308.9	422.5	295.9	172.4	-17.6	203.7	279.1
Minority interest	-9.1	-11.6	-8.4	-9.2	-16.2	-20.2	-8.0	-7.7	-2.0	-6.0	-6.0
<b>Net income</b>	<b>47.9</b>	<b>180.1</b>	<b>268.6</b>	<b>326.3</b>	<b>292.7</b>	<b>402.3</b>	<b>287.9</b>	<b>164.7</b>	<b>-19.6</b>	<b>197.7</b>	<b>273.1</b>
EPS	0.50	0.42	0.60	0.54	0.54	0.39	0.20	0.23	-0.42	2.22	3.07
Average no. of shares in millions											

**Change y/y**

<i>Net Sales</i>	-3.0%	11.3%	19.3%	15.9%	1.0%	-0.3%	9.4%	-4.4%	-24.0%	15.5%	6.3%
<i>Operating Profit</i>	-48.8%	90.2%	29.2%	20.2%	-0.1%	1.4%	-3.5%	-38.9%	-88.7%	857%	30.6%
<i>PTP</i>	-59.8%	145.1%	38.7%	22.0%	-0.5%	-0.1%	-7.3%	-44.3%	-113.1%	-977.5%	39.0%
<i>Net Profit</i>	-72%	276.0%	49.1%	21.5%	-10.3%	37.4%	-28.4%	-42.8%	-111.9%	-1110%	38.1%
<i>COGS</i>	0.2%	8.9%	18.3%	14.5%	0.3%	-0.3%	10.5%	-1.6%	-22.5%	12.1%	5.1%
<i>S,G&amp;A</i>	3.5%	11.3%	24.7%	12.5%	7.7%	-1.7%	10.5%	-1.5%	-16.5%	6.2%	4.5%
<i>R,D&amp;E</i>	2.6%	14.4%	32.9%	20.6%	4.7%	3.1%	-0.5%	-7.2%	-14.9%	14.1%	3.1%

**Margins and tax rate**

Gross margin	83.6%	18.2%	18.9%	19.9%	20.4%	20.4%	19.7%	17.4%	15.7%	18.2%	19.1%
S,G&A/Sales	4.9%	4.9%	5.2%	5.0%	5.3%	5.3%	5.3%	5.5%	6.0%	5.5%	5.4%
R,D&E/Sales	5.0%	5.2%	5.8%	6.0%	6.2%	6.4%	5.8%	5.7%	6.4%	6.3%	6.1%
<b>Operating margin</b>	<b>4.4%</b>	<b>7.4%</b>	<b>8.1%</b>	<b>8.4%</b>	<b>8.3%</b>	<b>8.4%</b>	<b>7.4%</b>	<b>4.7%</b>	<b>0.7%</b>	<b>5.8%</b>	<b>7.2%</b>
<b>Operating margin ex. eo.</b>	<b>6.0%</b>	<b>7.4%</b>	<b>8.1%</b>	<b>8.4%</b>	<b>8.3%</b>	<b>8.4%</b>	<b>7.9%</b>	<b>5.9%</b>	<b>2.7%</b>	<b>5.8%</b>	<b>7.2%</b>
Pretax margin	2.9%	6.4%	7.5%	7.9%	7.8%	7.8%	6.6%	3.8%	-0.7%	5.0%	6.6%
Net margin	4.9%	4.1%	5.1%	5.3%	4.7%	6.5%	4.3%	2.5%	-0.4%	3.5%	4.5%
Tax rate	5.0%	33.0%	30.3%	30.8%	35.9%	12.2%	33.7%	30.7%	46.2%	29.0%	30.0%

<b>Sales breakdown</b>	2001	2002	2003	2004	2005	2006	2007	2008	2009e	2010e	2011e
Organic	-2.7%	5.9%	4.6%	7.9%	0.3%	-0.7%	4.2%	-9.5%	-20.2%	10.1%	6.3%
Structure	2.7%	2.5%	3.6%	1.3%	0.2%	0.0%	0.1%	0.7%	0.3%	0.0%	0.0%
FX	-3.0%	3.0%	11.1%	6.7%	0.3%	0.4%	5.1%	4.5%	-4.0%	5.4%	0.0%
<b>Total</b>	<b>-3.0%</b>	<b>11.4%</b>	<b>19.3%</b>	<b>16.0%</b>	<b>0.9%</b>	<b>-0.3%</b>	<b>9.4%</b>	<b>-4.3%</b>	<b>-24.0%</b>	<b>15.5%</b>	<b>6.3%</b>

<b>Incremental margin ex. eo.</b>	2001	2002	2003	2004	2005	2006	2007	2008	2009e	2010e	2011e
- Total	N.a.	20.3%	11.3%	10.2%	-0.5%	-42.4%	2.8%	52.9%	15.8%	25.7%	28.3%

<b>Sales breakdown</b>	2001	2002	2003	2004	2005	2006	2007	2008	2009e	2010e	2011e
- Airbags	2,817	3,160	3,608	4,028	4,116	4,085	4,377	4,130	3,175	3,664	3,921
- Seat Belts	1,174	1,283	1,693	2,116	2,089	2,103	2,392	2,343	1,745	2,020	2,121
<b>Total</b>	<b>3,991</b>	<b>4,443</b>	<b>5,301</b>	<b>6,144</b>	<b>6,205</b>	<b>6,188</b>	<b>6,769</b>	<b>6,473</b>	<b>4,920</b>	<b>5,685</b>	<b>6,042</b>

<b>Organic growth</b>	2001	2002	2003	2004	2005	2006	2007	2008	2009e	2010e	2011e
- Airbags	-4.8%	5.6%	3.3%	5.5%	1.1%	-1.0%	3.0%	-10.1%	-20.6%	10.2%	7.0%
- Seat Belts	2.5%	6.7%	7.9%	13.1%	-1.2%	0.1%	6.5%	-8.6%	-19.6%	10.0%	5.0%
<b>Total</b>	<b>-2.7%</b>	<b>5.9%</b>	<b>4.6%</b>	<b>7.9%</b>	<b>0.3%</b>	<b>-0.7%</b>	<b>4.2%</b>	<b>-9.5%</b>	<b>-20.2%</b>	<b>10.1%</b>	<b>6.3%</b>

<b>Geographical Sales Breakdown</b>	2001	2002	2003	2004	2005	2006	2007	2008
- Europe	53%	52%	56%	57%	55%	53%	54%	53%
- North America	33%	32%	30%	27%	28%	28%	25%	23%
- Japan	9%	8%	7%	8%	9%	9%	9%	11%
- RoW	5%	8%	7%	7%	9%	11%	11%	12%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: Company data, ABG Sundal Collier estimates

M&E multiple valuation table

	P/E			EV/EBITA			EV/EBITDA			EBIT-margin			EV/Sales		
	2009e	2010e	2011e	2009e	2010e	2011e	2009e	2010e	2011e	2009e	2010e	2011e	2009e	2010e	2011e
ABB	18.9	19.3	16.3	11.1	10.7	9.0	9.3	8.8	7.6	12.3	12.1	13.3	1.4	1.3	1.2
Alfa Laval	14.1	18.5	16.1	9.7	11.6	10.1	8.2	9.5	8.5	15.0	14.3	14.8	1.5	1.7	1.5
Assa Abloy	14.7	15.1	13.8	11.7	11.7	10.6	9.8	9.8	8.9	14.9	14.9	15.3	1.8	1.7	1.6
Atlas Copco	19.4	17.9	16.4	14.9	13.0	11.8	11.7	10.6	9.9	14.2	16.1	16.6	2.1	2.1	2.0
Cargotec	-34.7	16.1	9.7	-88.8	12.1	8.0	36.0	8.1	6.0	-0.6	4.6	6.5	0.6	0.6	0.5
SKF	29.1	14.4	11.3	18.5	9.5	7.3	11.3	7.1	5.8	6.1	11.1	12.6	1.1	1.0	0.9
Electrolux	19.8	16.2	13.9	12.5	10.3	8.5	6.8	6.0	5.2	3.6	4.3	4.8	0.5	0.4	0.4
Hexagon	21.1	15.3	13.2	21.1	15.1	12.6	14.6	11.0	9.2	12.9	17.0	18.1	2.7	2.6	2.3
Husqvarna	18.9	15.5	13.4	14.7	12.1	10.6	9.7	8.4	7.6	7.0	8.7	9.1	1.0	1.1	1.0
Höganäs	102.2	18.1	12.7	66.1	15.6	10.6	15.3	8.9	6.9	1.8	7.0	9.4	1.2	1.1	1.0
KONE	15.6	16.6	15.8	11.2	11.4	10.3	10.1	10.2	9.3	11.8	12.2	12.6	26.4	1.4	1.4
Konecranes	16.8	16.3	13.0	11.4	10.8	8.5	9.1	8.7	7.1	6.1	6.6	7.5	0.7	0.7	0.6
Nokian Tyres	36.3	18.4	14.3	22.6	12.6	10.0	13.9	9.0	7.3	12.5	19.8	21.6	2.8	2.5	2.2
Sandvik	-36.9	23.9	16.8	-123.4	16.5	12.2	42.0	10.7	8.6	-1.4	10.3	12.5	1.8	1.7	1.5
Scania *	169.3	48.5	21.6	47.1	28.5	14.3	14.8	12.6	8.7	2.5	4.7	8.2	1.3	1.2	1.1
Trelleborg	28.3	16.3	10.5	25.9	14.4	9.9	10.3	8.2	6.4	2.6	5.4	7.3	0.7	0.8	0.7
Volvo *	-9.3	122.0	23.2	-10.9	48.6	17.3	-257.2	9.0	6.6	-8.4	2.0	4.2	0.9	0.8	0.7
<b>Flat average</b>	<b>26.1</b>	<b>25.2</b>	<b>14.8</b>	<b>4.4</b>	<b>15.6</b>	<b>10.7</b>	<b>-1.4</b>	<b>9.2</b>	<b>7.6</b>	<b>6.6</b>	<b>10.1</b>	<b>11.4</b>	<b>2.8</b>	<b>1.3</b>	<b>1.2</b>
<b>Autoliv</b>	<b>-155.0</b>	<b>16.2</b>	<b>11.7</b>	<b>95.0</b>	<b>10.9</b>	<b>7.7</b>	<b>10.2</b>	<b>5.7</b>	<b>4.6</b>	<b>0.7</b>	<b>5.8</b>	<b>7.2</b>	<b>0.76</b>	<b>0.65</b>	<b>0.56</b>
<i>Difference</i>	<i>-694%</i>	<i>-36%</i>	<i>-21%</i>	<i>2047%</i>	<i>-30%</i>	<i>-28%</i>	<i>-812%</i>	<i>-38%</i>	<i>-39%</i>				<i>-73%</i>	<i>-51%</i>	<i>-54%</i>

\*) Valuation excludes customer finance

Source: ABG Sundal Collier estimates

**Income Statement**

USD	2005	2006	2007	2008	2009e	2010e	2011e
Net sales	6,205	6,188	6,769	6,473	4,920	5,685	6,042
Other income	0	0	0	0	0	0	0
Operating expense	-5,692	-5,668	-6,267	-6,167	-4,886	-5,354	-5,610
EBITDA	823	823	823	653	363	643	726
Depreciation on tangibles	-295	-288	-301	-323	-305	-290	-280
Depreciation on intangibles	-16	-15	-20	-24	-23	-22	-14
EBITA	513	520	502	307	35	331	432
Goodwill amortisation and impairment	0	0	0	0	0	0	0
<b>EBIT</b>	<b>513</b>	<b>520</b>	<b>502</b>	<b>307</b>	<b>35</b>	<b>331</b>	<b>432</b>
Interest net	-40	-38	-54	-60	-67	-49	-38
All other financial items	3	-6	-9	-2	-5	-1	-1
Associated income	7	5	6	4	5	6	6
<b>Pretax profit</b>	<b>483</b>	<b>481</b>	<b>446</b>	<b>249</b>	<b>-33</b>	<b>287</b>	<b>399</b>
Minority interest	-16	-20	-8	-8	-2	-6	-6
Tax	-173	-59	-150	-76	15	-83	-120
<b>Profit after tax</b>	<b>293</b>	<b>402</b>	<b>288</b>	<b>165</b>	<b>-20</b>	<b>198</b>	<b>273</b>
XO items after tax	0	0	0	0	0	0	0
Net profit	293	402	288	165	-20	198	273
<b>Margins and tax rate</b>							
EBITDA margin, %	13.27	13.29	12.16	10.09	7.37	11.31	12.01
EBITA margin, %	8.26	8.40	7.42	4.73	0.70	5.82	7.15
EBIT margin, %	8.26	8.40	7.42	4.73	0.70	5.82	7.15
Pretax margin, %	7.78	7.78	6.59	3.84	-0.66	5.05	6.60
Net margin %	4.72	6.50	4.25	2.54	-0.40	3.48	4.52
Full tax rate, %	35.90	12.24	33.68	30.68	46.24	29.00	30.00

**Balance Sheet**

USD	2005	2006	2007	2008	2009e	2010e	2011e
Cash and liquid assets	296	168	154	489	376	350	446
Receivables	1,381	1,385	1,380	1,005	836	966	1,027
Inventories	485	545	561	592	418	512	544
<b>Current assets</b>	<b>2,163</b>	<b>2,098</b>	<b>2,095</b>	<b>2,086</b>	<b>1,631</b>	<b>1,828</b>	<b>2,017</b>
Long-term interest bearing assets	0	0	0	0	0	0	0
Shares and participations	143	176	191	216	221	227	233
Goodwill	1,525	1,537	1,613	1,608	1,608	1,608	1,608
Other intangibles	154	139	146	137	114	92	79
Other fixed assets	1,081	1,160	1,260	1,158	1,013	923	858
<b>Fixed assets</b>	<b>2,903</b>	<b>3,012</b>	<b>3,210</b>	<b>3,119</b>	<b>2,956</b>	<b>2,850</b>	<b>2,778</b>
<b>Total assets</b>	<b>5,065</b>	<b>5,111</b>	<b>5,305</b>	<b>5,206</b>	<b>4,587</b>	<b>4,678</b>	<b>4,795</b>
Short-term debt	508	294	312	270	270	270	270
All other ST liabilities	1,256	1,238	1,351	1,111	984	1,137	1,208
<b>Current liabilities</b>	<b>1,764</b>	<b>1,532</b>	<b>1,663</b>	<b>1,381</b>	<b>1,254</b>	<b>1,407</b>	<b>1,478</b>
Long-term interest bearing debt	807	982	1,104	1,512	812	562	362
All other LT liabilities	112	110	137	139	139	142	146
<b>Long-term liabilities</b>	<b>919</b>	<b>1,091</b>	<b>1,241</b>	<b>1,651</b>	<b>951</b>	<b>704</b>	<b>508</b>
<b>Shareholders equity</b>	<b>2,316</b>	<b>2,403</b>	<b>2,349</b>	<b>2,117</b>	<b>2,323</b>	<b>2,502</b>	<b>2,737</b>
Minority	66	85	52	57	59	65	71
<b>Total equity</b>	<b>2,382</b>	<b>2,488</b>	<b>2,401</b>	<b>2,174</b>	<b>2,382</b>	<b>2,567</b>	<b>2,809</b>
<b>Total liab and equity</b>	<b>5,065</b>	<b>5,111</b>	<b>5,305</b>	<b>5,206</b>	<b>4,587</b>	<b>4,678</b>	<b>4,795</b>

**Cash Flow Analysis**

USD	2005	2006	2007	2008	2009e	2010e	2011e
<b>Cash earnings in operations</b>	<b>630</b>	<b>756</b>	<b>684</b>	<b>560</b>	<b>345</b>	<b>549</b>	<b>599</b>
Change in working capital	-135	-82	103	103	216	-70	-21
Capital expenditure	-311	-295	-314	-279	-160	-200	-215
<b>Operating cash-flow</b>	<b>185</b>	<b>379</b>	<b>473</b>	<b>384</b>	<b>401</b>	<b>278</b>	<b>362</b>
Net of acquisitions and divestments	0	0	0	0	0	0	0
Other investments	156	-28	-11	-22	0	0	0
<b>Free cash-flow</b>	<b>341</b>	<b>350</b>	<b>462</b>	<b>362</b>	<b>401</b>	<b>278</b>	<b>362</b>
Financial cost after tax	-24	-38	-42	-43	-39	-36	-28
Dividend paid	-74	-112	-121	-115	-15	-19	-37
Equity increase	-377	-222	-380	-174	241	0	0
XO items after tax	0	0	0	0	0	0	0
Other cash-items	-60	-67	-74	-62	0	0	0
<b>Decrease in net debt</b>	<b>-194</b>	<b>-88</b>	<b>-154</b>	<b>-32</b>	<b>588</b>	<b>223</b>	<b>297</b>

EBITDA, EBITA and EBIT are calculated excl. associated income, dividends received and interest cost charged to operating cost.

Source: ABG Sundal Collier, company data

Valuation and return analysis							
USD	2005	2006	2007	2008	2009e	2010e	2011e
<b>Valuation</b>							
Market capitalisation	4,038	4,985	4,234	1,440	3,034	3,203	3,203
Enterprise value	5,057	6,093	5,496	2,733	3,740	3,685	3,389
Price/Sales (x)	0.65	0.81	0.63	0.22	0.62	0.56	0.53
EV/Sales (x)	0.81	0.98	0.81	0.42	0.76	0.65	0.56
EBITDA adjusted-multiple (x)	6.1	7.4	6.6	4.2	10.2	5.7	4.6
EBIT adjusted-multiple (x)	9.7	11.6	10.8	8.8	95.0	10.9	7.7
P/CEPS (x)	6.7	7.0	6.6	2.8	9.9	6.2	5.6
P/E (x)	13.8	12.4	14.7	8.7	Neg	16.2	11.7
P/OCFPS (x)	25.1	14.7	9.8	4.2	8.4	13.2	9.6
EV/OCF (x)	27.3	16.1	11.6	7.1	9.3	13.3	9.4
Dividend yield, %	2.6	2.3	2.8	1.1	0.6	1.2	1.3
P/BV, %	163	201	170	66	138	128	117
P/NAV, %	163	201	170	66	138	128	117
EV/Cap employed, %	149	169	150	79	121	121	113
<b>Return analysis, %</b>							
Capital employed turnover	179	177	187	182	150	185	200
EBIT adjusted-margin, %	8.4	8.5	7.5	4.8	0.8	5.9	7.3
Full tax rate, %	36	12	34	31	46	29	30
<b>ATROCE</b>	9.6	13.2	9.3	6.0	0.6	7.8	10.2
ATROCE, excl goodwill depr	9.6	13.2	9.3	6.0	0.6	7.8	10.2
<b>WACC (cost of capital)</b>					<b>8.0</b>	<b>8.0</b>	<b>8.0</b>
<b>Profitability, %</b>							
Return on equity, ROE	11.6	18.1	12.6	7.3	-0.9	8.5	10.9
Return on capital employed, ROCE	15.0	15.0	14.0	8.7	1.2	11.0	14.5
After tax return on total assets, ROA	5.6	7.9	5.5	3.1	-0.4	4.3	5.8
<b>Capital efficiency, %</b>							
Total assets turnover	119	122	130	123	100	123	128
Receivables/Sales	22.3	22.4	20.4	15.5	17.0	17.0	17.0
Inventories/Sales	7.8	8.8	8.3	9.2	8.5	9.0	9.0
<b>Gearing, liquidity, debt service, %</b>							
Net debt	1,019	1,108	1,262	1,294	706	483	186
Net gearing	43	45	53	60	30	19	7
Net gearing at market	25	22	30	90	23	15	6
Equity ratio, %	47	49	45	42	52	55	59
Quick ratio	95	101	92	108	97	94	100
Interest cover	1103	1127	818	438	55	636	997
<b>Investment ratios, %</b>							
Investment cover	160	228	250	238	351	239	268
Capital expenditure/sales	5.0	4.8	4.6	4.3	3.3	3.5	3.6
Capital expenditure/depreciation	100	97	98	80	49	64	73
Capital expenditure/assets	6.1	5.8	5.9	5.4	3.5	4.3	4.5
Depreciation/assets	10.8	11.0	11.3	11.5	11.3	11.4	11.2
<b>Share data</b>							
Adjusted price year end	45.1	60.4	54.1	20.0	36.0	36.0	36.0
Earnings per share, EPS	3.27	4.88	3.68	2.29	-0.23	2.22	3.07
Adjusted dividend per share	1.2	1.4	1.5	0.2	0.2	0.4	0.5
Payout ratio of EPS, %	36	28	42	9	-91	19	15
Book value per share, BVPS	28	30	32	30	26	28	31
Net debt per share	12	14	17	18	8	5	2
Adjusted fully diluted shares average	89.5	82.5	78.3	72.1	84.4	89.1	89.1

EBITDA, EBITA and EBIT multiples and return analysis are calculated incl. associated income, dividends received and interest cost charged to operating cost.

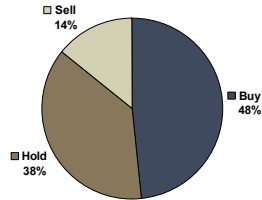
Source: ABG Sundal Collier, company data

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**Recommendations as of 16/10/2009**



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Type of Rating	Research Coverage	Investment Banking Clients (IBC)	
	% of Total Rating	% of Total IBC	% of Total Rating by Type
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Hold	38%	31%	11%
Sell	14%	6%	6%

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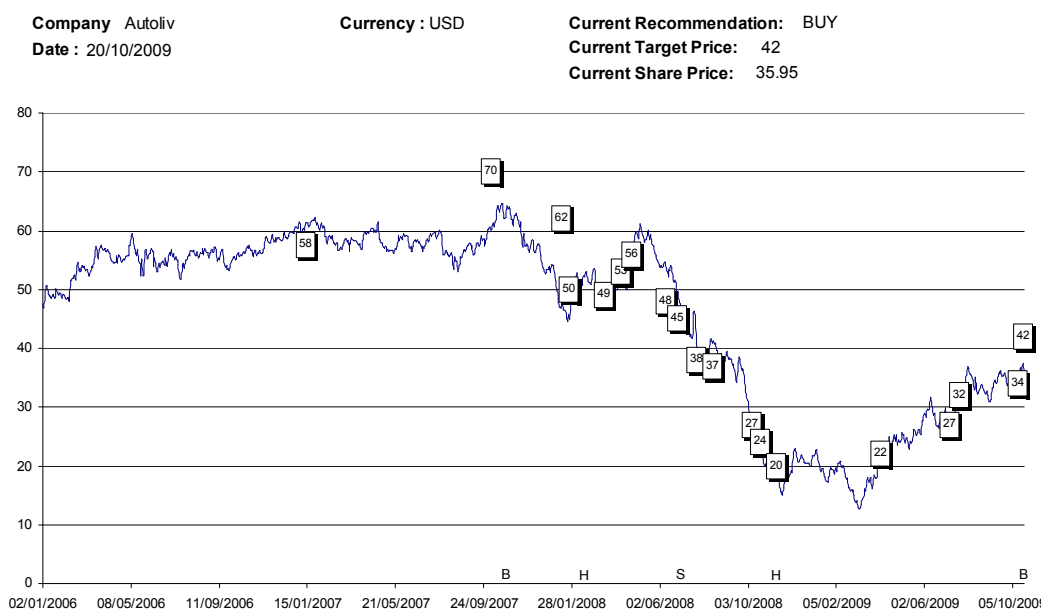
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**Stock price, company ratings and target price history**



Source: Datastream & ABG Sundal Collier

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**ABGSC Research Department****Global Head of Research**

Malene Brondberg +44 207 905 5658

**Regional Heads of Research**

Karl Berglund, Sweden +46 8 566 28 647

Dag Sletmo, Norway +47 22 01 61 65

**Strategy**

Magnus Tell +46 8 566 28 621

Christer Linde, Technical +46 8 566 28 690

Anders Hillerborg +46 8 566 28 684

**Banks / Financials**

Rickard Henze +46 8 566 28 646

Magnus Andersson +46 8 566 294 69

Jan Erik Gjerland +47 22 01 60 54

Claus Højmark Jensen +45 33 18 61 13

**Construction & Real Estate**

Fredric Cyon +46 8 566 29 478

Markus Steinby +46 8 566 28 694

**Engineering**

Erik Ejerhed +46 8 566 28 664

Christer Fredriksson +46 8 566 28 625

Erik Pettersson +46 8 566 28 635

Stig Frederiksen +45 33 18 61 17

Robert Redin +46 8 566 286 39

**Fish Farming**

Dag Sletmo +47 22 01 61 65

**Food & Beverage**

Hans Gregersen +45 33 18 61 16

Dag Sletmo +47 22 01 61 65

**Healthcare**

Peter Hugrefte Ankersen +45 33 18 61 12

Alexander Lindström +46 8 566 28 692

Morten Larsen +46 8 566 28 693

**IT / Media**

Karl Berglund +46 8 566 28 647

Hallgeir Hollup +47 22 01 61 40

Dag Sletmo +47 22 01 61 65

**Metals & Mining**

Petter Nyström +47 22 01 61 35

Markus Steinby, Steel +46 8 566 28 694

**Oil & Gas**

Oddvar Bjørgan +47 22 01 60 28

Ole Martin Westgaard, Oil Service +47 22 01 61 60

Anders Hagen, Equipment +47 22 01 60 48

Anders Kirkhorn Rosenlund, Oil Service / Renewable Energy +47 22 01 60 59

Marius Magelie +47 22 01 61 62

Øyvind Mossige +47 22 01 60 83

**Pulp & Paper**

Martin Melbye +47 22 01 61 37

Petter Nyström +47 22 01 61 35

**Retail**

Anna-Karin Enval +46 8 566 28 627

Christian Anderson +46 8 566 28 561

**Shipping/Transport**

Lars Heindorff +45 33 18 61 15

Anders Kirkhorn Rosenlund +47 22 01 60 59

Marius Magelie +47 22 01 61 62

Daniel Fugmann, Assistant +45 33 18 61 14

**Smallcaps**

Stig Frederiksen +45 33 18 61 17

**Telecom Equipment**

Anders Bratenius +44 207 905 635

Magnus Innala +46 8 566 28 633

**Telecom Operators / Services**

Jesper Wilgodt +46 8 566 28 631

Henrik Vikström +46 8 566 28 610

Norway (Oslo)	Norway (Bergen)	Sweden	Denmark	United Kingdom	USA
Pb. 1444 Vika	Rådhusgaten 4	Box 7269	Esplanaden 34 A	10 Paternoster Row, 5th fl	535 Madison Avenue, 17th fl
NO-0115 OSLO	NO-5014 BERGEN	SE-103 89 STOCKHOLM	DK-1263 COPENHAGEN K	LONDON EC4M 7EJ	NEW YORK, NY 10022
Norway	Norway	Sweden	Denmark	UK	USA
Tel: +47 22 01 60 00	Tel: +47 55 21 60 00	Tel: +46 8 566 286 00	Tel: +45 33 18 61 00	Tel: +44 20 7905 5600	Tel: +1 212 605 3800
Fax: +47 22 01 60 60	Fax: +47 55 21 60 60	Fax: +46 8 566 286 01	Fax: +45 33 18 61 10	Fax: +44 20 7905 5601	Fax: +1 212 605 3801