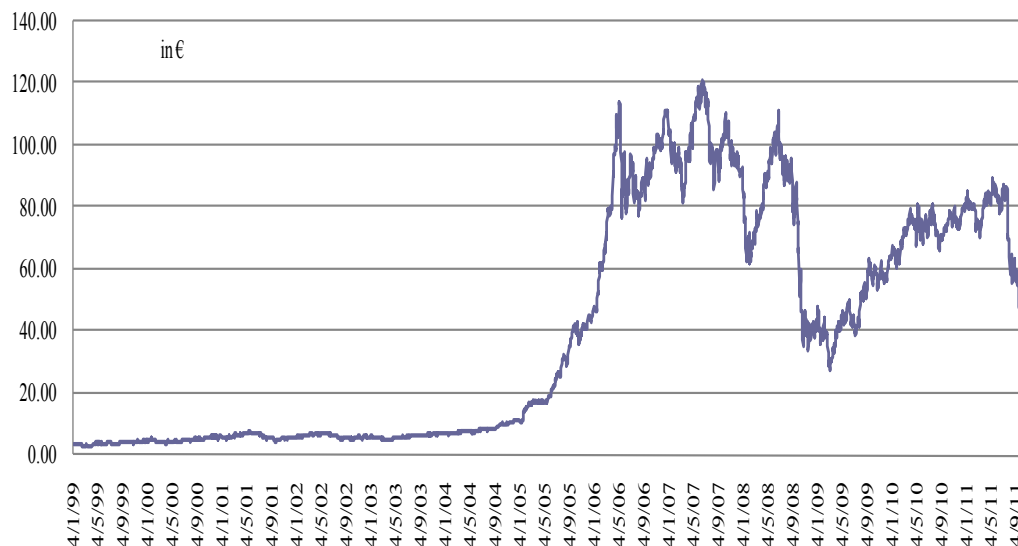


## DESCRIPTION

Vallourec is the 2nd largest seamless tube maker in the world, with 19,300 employees, a turnover of €4.9bn (LTM) and a production of 2.1 mt. Vallourec's key markets are the oil & gas, petrochemicals, power generation, automotive and mechanical engineering industries. Since 2000, VK has both expanded its production capacity through the acquisition/investment in key assets in Americas (US/Brazil), and has built a partnership with SMI (Japan). VK has also invested in high margin products (VAM brand) to limit the impact of the industry cycle on its profitability. This strategy has been partially successful, largely thanks to the booming envt for OCTG tubes in the 2nd half of 2000 and to price discipline in a somewhat concentrated industry. The key challenge in the future will be the ability to withstand the competition of rising challengers from emerging countries (China, Russia...).

Share Price	46.79€
Nb of shares	119m
<b>Market Capitalization</b>	<b>€5,572m</b>
Net Debt 2011e	€1,123m
<b>Enterprise Value</b>	<b>€6,695m</b>

**FAIR @ ~34€**  
**Valuation Range**  
**[€25.1-€73.8]**



## Market profile

High 52 weeks	89.58€
Low 52 weeks	46.26€
Average volume	1.3m

Free float	87%
Insiders	13%

## Shareholders

FSI	6.02%
Employees	3.41%
Bolloré	1.71%
Sumitomo	1.67%
Treasury shares	0.47%
Public	86.72%

## Valuation ratios

P/E 2011e/2012e	16.0x/9.4x
P/CF 2011e/2012e	8.3x/5.7x
P/B 2011e/2012e	1.1x/1.0x
EV/EBIT 2011e/2012e	7.6x/5.4x
Rendement du dvd	2.6%/3.0%
FCF Yield 2011e/2012e	6.2%/10.6%
Gearing 2011e/2012e	23%/21%

## 5 year-forecast (CAGR)

Revenue	9.3%
EBIT	15.1%
EPS	16.8%
DPS	3.5%

## What's the call ?

Vallourec clearly has lots of intrinsic qualities: fully integrated manufacturing process, high quality products (VAM brand), leading market shares (#2 in OCTG behind Tenaris), and a geographically diversified industrial footprint. But the industry remains cyclical and in times of recession, VK's margin can fluctuate a lot. In the short term, VK has to prove its ability to absorb raw material price increases and to better manager currencies fluctuations. A higher utilization rate of its plants and a more solid environment in terms of price would of course help a lot in this matter, although this scenario doesn't seem to materialize right now.

VK has a strong balance sheet and during the 2000's has had the right strategy in terms of acquisitions. Recently, VK bought assets in Saudi Arabia and a 19.5% stake in a Chinese pipe maker. The question is: is this sufficient to stand in front of the competition of emerging actors in China or Russia (TMK, TPCO). Currently, most of them are manufacturing low priced products, but they are ramping-up the quality of their offering.

## Catalysts

- 1) Return of pricing power with a pick-up in volumes (better capacity utilization and less volatility due to raw materials).
- 2) Better management of the start-up costs of the VSB plant in Brazil (600kt pipe mill) and better visibility on its breakeven threshold.
- 3) New contract wins in the oil & gas industry and higher share of premium products in the mix.

## Risks

- 1) Uncertainty regarding the new power generation capacity additions in emerging markets (financing; nuclear matter after Fukushima).
- 2) Sensitivity to raw material prices and currencies effects.
- 3) Volatility of oil price could threaten some E&P capex plans.
- 4) Risk of surcapacity in emerging market.

## Valuation

I think €34 is a bargain price, where the margin of safety is pretty significant and might protect the investor from the uncertainty regarding the current macroeconomic environment, the evolution of prices and the potential development of emerging markets where there might be some risk of overcapacity in the medium term (China).