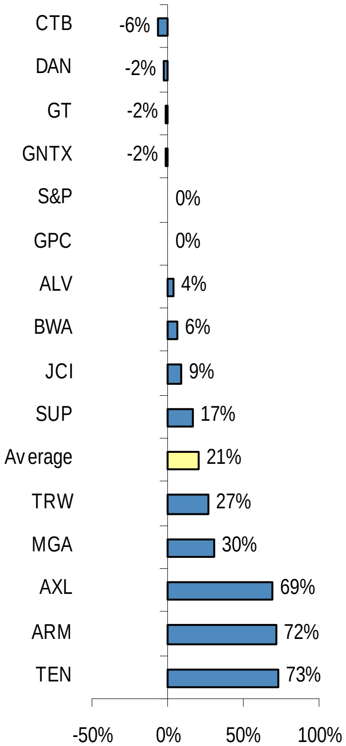
J.P.Morgan

North America Equity Research
08 July 2009

Auto Parts Value Tracker: July

TRW/MGA Top Picks, Like Tires/BWA; Cautious AXL; Expect Q2 Upside at Several Names

June Stock Price Performance



Source: Bloomberg

Priced as of 30th June 2009 COB.

- **Shares of US auto-parts companies continued their advance in June (+21% vs. a flat S&P), but we believe recent covenant concerns as well as second-guessing of H2 consumer recovery have prompted a July sell-off thus far.** That said, while the recent correction may have a bit more to go, we think this makes the argument stronger that the group should be owned into Q2 earnings season -- we see the most Q2 upside versus consensus at: *TRW*, *MGA*, *Ford*, and to lesser extent *TEN* and *CTB*. Near-term market mood aside, we believe fundamentals in the auto industry are clearly less bad now: sequentially stable SAAR for nine months and sharply improved used vehicle prices, and a potentially positive scrappage program pending.
- **2nd Covenants Trips Are Not the Same as 1st Trips.** In general, we think investors have become overly desensitized to covenant issues after many suppliers received amendments over the past 9 months (TRW, TEN, AXL, DAN). But these were all *first* covenant trips -- *second* covenant trips are much riskier to equity, in our view (witness LEA) as companies generally have far fewer carrots (eg, additional collateral, revolver capacity reduction, etc.) to offer banks. As such, we find the risk/reward less attractive on stocks at risk of second covenant breaches. We generally view high leverage supplier stocks in order of greatest-to-least riskiness as: AXL; DAN; ARM; TEN; TRW. We see a greater than 50% chance of an in-court reorganization at AXL and view an out-of-court restructuring as potentially highly harmful to the equity. At DAN, we worry about contentious negotiations with potentially hostile term-loan investor group after all-but-sure covenant breach in 3Q, by our model. ARM offers better risk/reward than AXL or DAN, but it does have sizable European truck market exposure and a likely trip in the 9/30 quarter.
- **Like TRW/BWA/MGA Medium Term; Tires Near Term.** We view **TRW** as a clear survivor (minimal chance of 2nd covenant trip and large revolver retained); our recent upgrade is predicated on $1.50-2.00 per share of normalized EPS and 10x normal P/E. We continue to like what we view as under-loved **MGA** -- $5.50 normalized EPS and 10x normal P/E; as for Opel, as recent slowdown of talks indicates, MGA is being highly disciplined and investors should not be concerned that Stronach will risk the company, in our view. As for the other strong balance sheet names, we had been growing agnostic to them on valuation, but **BWA's** recent pullback from $36 to $30 makes us like the stock more at this stage. We also like **CTB** on Q2 and **GT** on Q3, but a more bullish long-term view on tire stocks requires more visibility on 2010 pricing.

Auto Parts, Tires

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See page 22 for analyst certification and important disclosures.

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J.P. Morgan Auto Parts Coverage Universe by Rating

$ per share; priced as of June 30, 2009; JPMorgan ratings: Overweight, Neutral, and Underweight

Overweight		*Neutral*		*Underweight*
ALV	$28.77	ARM	$4.39	
BWA	$34.15	AXL	$3.44	
GT	$11.26	DAN	$1.28	
CTB	$9.92	GNTX	$11.60	
TRW	$11.30	GPC	$33.56	
MGA	$42.24	JCI	$21.72	
TEN	$10.60			

Source: FactSet, J.P. Morgan.

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All data and valuation in the body of this report priced as of and up to 30th June 2009 COB. Note: The authors acknowledge the contribution of Vivek Aalok of J.P. Morgan Services India Private Ltd., Mumbai, to this report.

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Sector Valuation: Comparison Table

Table 1: Sector Comps

Name	Ticker	Price $	Rating	Mkt Cap $ MM	EV/EBITDA 2009E	2010E	EV/sales 2009E	2010E	P/E 2009E	2010E	EV/IC 2009E	ROIC/WACC 2009E	Net Debt** $ MM	Net Debt/Cap (latest)	Net Debt/EBITDA 2009E
Autoliv	ALV	28.8	O/W	2,028	8.9	5.8	74%	70%	NM	32.0	104%	0.0	1,021	31%	3.0
American Axle	AXL	3.4	N	178	8.8	5.5	95%	77%	NM	NM	230%	0.1	940	193%	7.6
ArvinMeritor*	ARM	4.4	N	317	11.9	8.3	42%	40%	NM	NM	121%	0.3	1,352	232%	3.3
Borg Warner	BWA	34.2	O/W	3,961	12.2	7.6	125%	100%	16.5	96.7	147%	0.4	626	24%	1.7
Dana	DAN	6.3	N	128	4.5	3.0	22%	19%	NA	NA	NA	NA	45	2%	0.1
Gentex	GNTX	11.6	N	1,590	16.7	12.9	276%	244%	61.3	30.3	201%	0.4	(333)	-95%	-4.4
Genuine Parts Comp	GPC	33.6	N	5,358	7.4	7.1	60%	58%	14.3	13.4	246%	2.4	367	14%	0.5
Johnson Controls*	JCI	21.7	N	12,891	14.7	8.3	62%	58%	82.3	17.3	136%	0.3	4,480	36%	1.6
Lear	LEA	0.5	N	39	12.2	3.1	27%	24%	NM	NM	-85%	0.0	2,288	104%	12.7
Magna	MGA	42.2	OW	4,714	23.1	5.2	22%	21%	NM	42.2	59%	0.2	(1,338)	-23%	-10.3
Superior Industries*	SUP	14.1	-	376	-15.7	11.0	57%	50%	NM	NM	NA	NA	(163)	-67%	10.6
TRW	TRW	11.3	OW	1,143	7.7	3.7	36%	33%	NM	7.5	102%	0.1	2,423	71%	5.2
Tenneco	TEN	10.6	OW	493	8.4	5.2	50%	42%	NM	53.2	118%	0.4	1,474	130%	6.2
	Sec. Avg.				**9.6**	**6.7**	**54%**	**48%**	**43.6**	**36.6**	**126%**	**0.0**		**36%**	**3.1**
Goodyear Tire	GT	11.3	O/W	2,718	6.5	5.4	61%	58%	NM	8.7	121%	1.0	3630	86%	2.7
Cooper Tire	CTB	9.9	O/W	585	6.0	4.4	58%	55%	18.1	7.7	103%	0.7	400	60%	3.0
	Global Tire Sector Average				6.3	4.9	59%	56%	NM	8.2	112%	0.8		82%	2.7

Source: Bloomberg, First call, company reports, and J.P. Morgan estimates.

*:JPM Estimates for all the companies except SUP.

**: Based on latest reported data.

Global Tire Sector Average based upon 6/30/2009 closing prices.

Note: Based on closing prices as of 30th June 2009. J.P. Morgan ratings: OW = Overweight, N = Neutral, and UW = Underweight.

EV/Sales: 2009E & 2010E Sector Average multiple excludes GNTX

P/E: 2009E & 2010E sector Average multiple includes ALV, BWA, GPC, GNTX and JCI.

EV/IC 2008E & 2009E sector Average multiple excludes DAN and SUP.

Net Debt/Cap: Based on latest reported net debt

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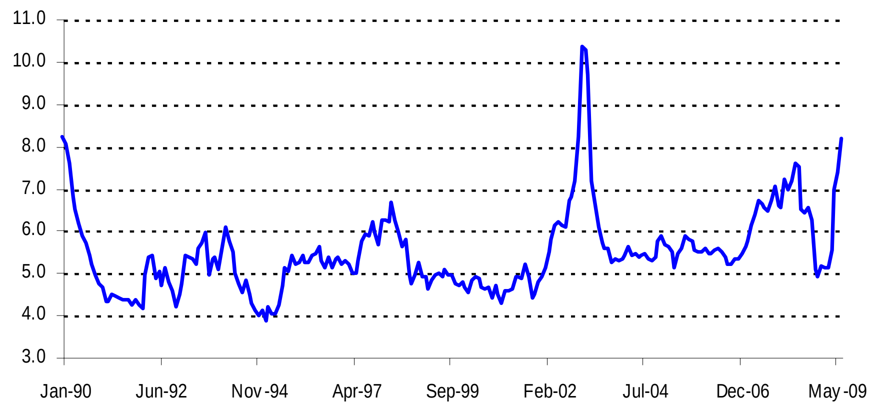
Sector Valuation: ROIC-Based and Market-Relative Metrics

Figure 1: Auto Parts Sector Average EV/EBITDA, 1-yr forward



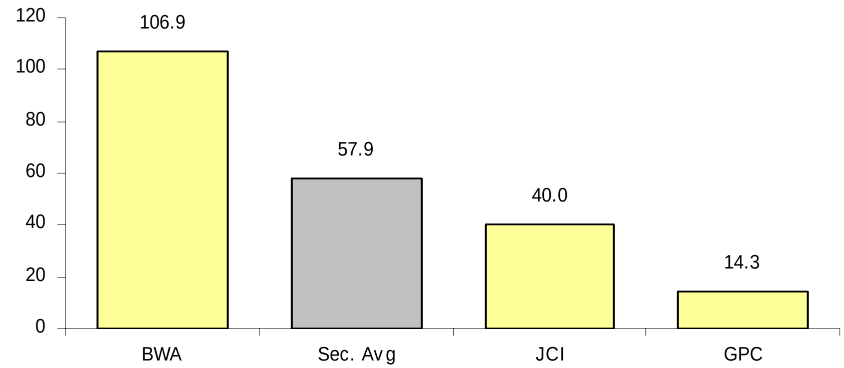
Source: J.P. Morgan estimates. Excludes GPC,GNTX and SUP. Does not include GT & CTB

Figure 2: Average EV/Sales Auto Parts (One Year Forward)

Source: Bloomberg

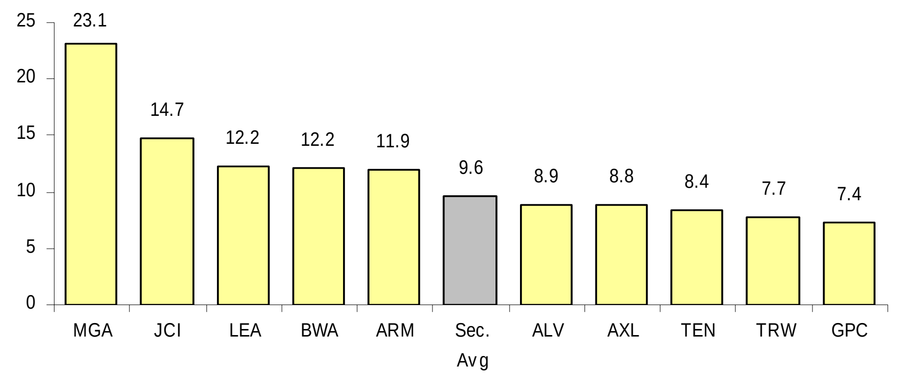
Absolute Sector one year forward EV/Sales excludes GPC, GNTX, LEA and SUP. Does not include GT & CTB

Figure 3: 2009E P/E (Consensus)



Source: I/B/E/S. Sec Avg. Sector average does not include GT & CTB

Figure 4: 2009E EV/EBITDA



Source: J.P. Morgan estimates; Sector average does not include GT & CTB

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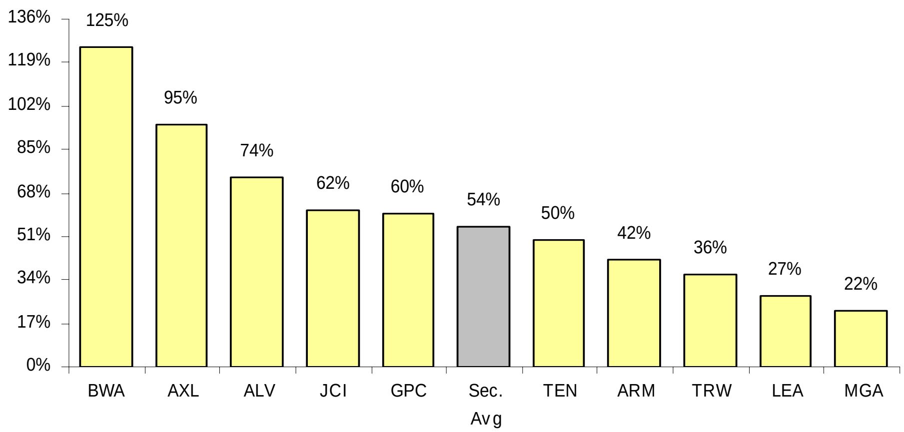
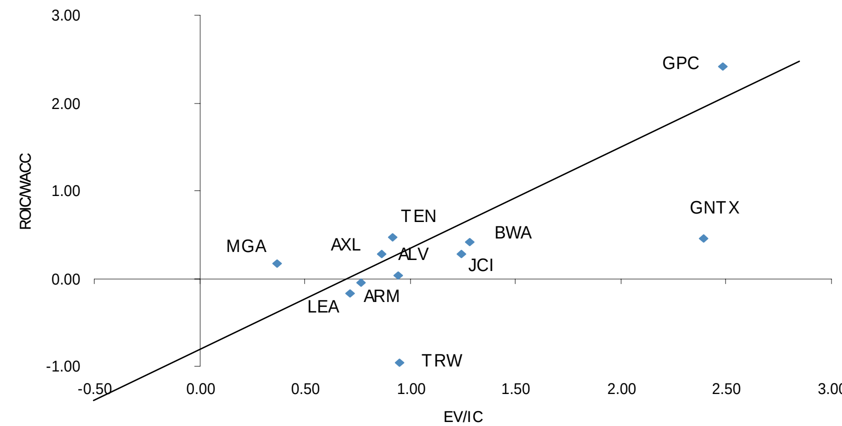
Sector Valuation: Traditional Metrics

Figure 5: 2009E EV/sales



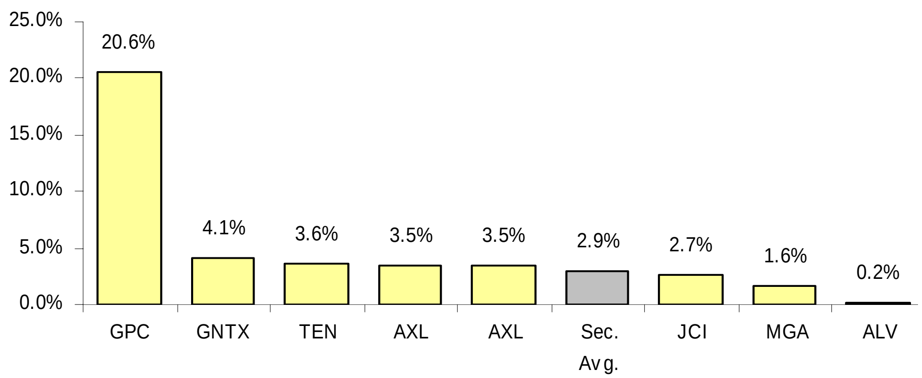
Source: J.P. Morgan estimates. Sector average does not include GT & CTB

Figure 6: EV/IC vs. ROIC/WACC, 2009E



Source: J.P. Morgan estimates. Definitions: EV=market cap + net debt + after tax retiree obligations + minorities

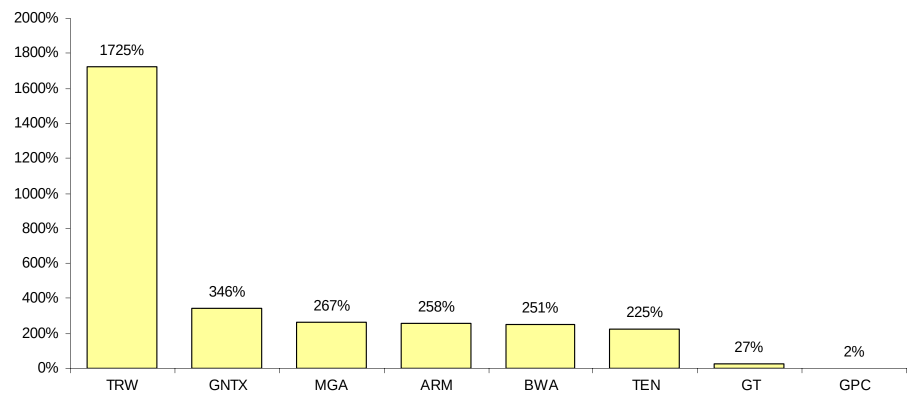
Figure 7: 2009E ROIC



Source: J.P. Morgan estimates. Sector average does not include GT & CTB

Definitions: ROIC = NOPAT/IC. IC = Net debt + equity + after tax retiree obligations.

Figure 8: Premium/(Discount) of EV/IC to ROIC/WACC, 2009E



Source: J.P. Morgan estimates.

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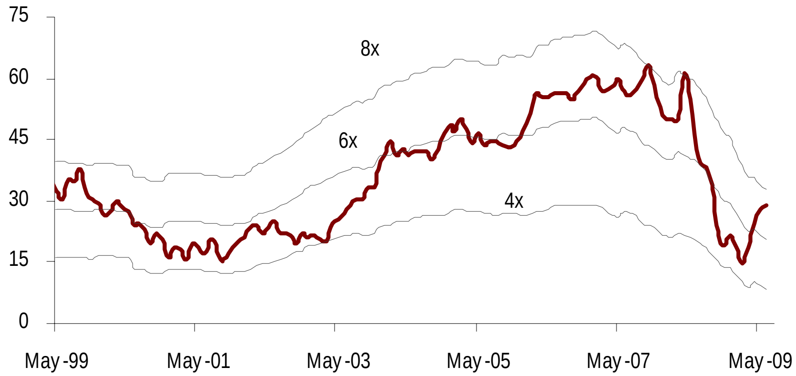
Autoliv (Overweight)

Figure 9: ALV Actual Sh. Price vs. Implied Sh. Price at Various EV/EBITDA Multiples

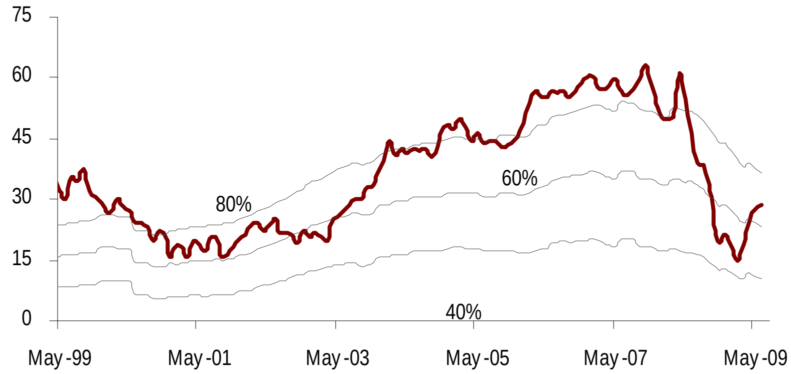
$, dark line = *actual* price, light lines = *implied* price at various multiples



Source: J.P. Morgan estimates.

Figure 10: ALV Actual Share Price vs. Implied Share Price at Various EV/Sales Multiples

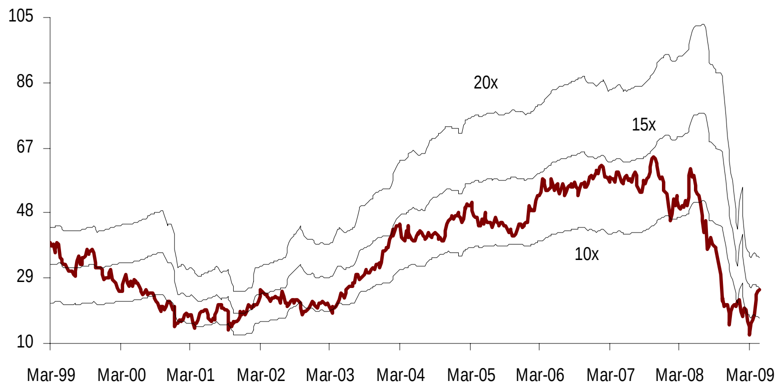
$, dark line = *actual* price, light lines = *implied* price at various multiples



Source: J.P. Morgan estimates.

Figure 11: ALV Actual Share Price vs. Implied Share Price at Various P/E Multiples

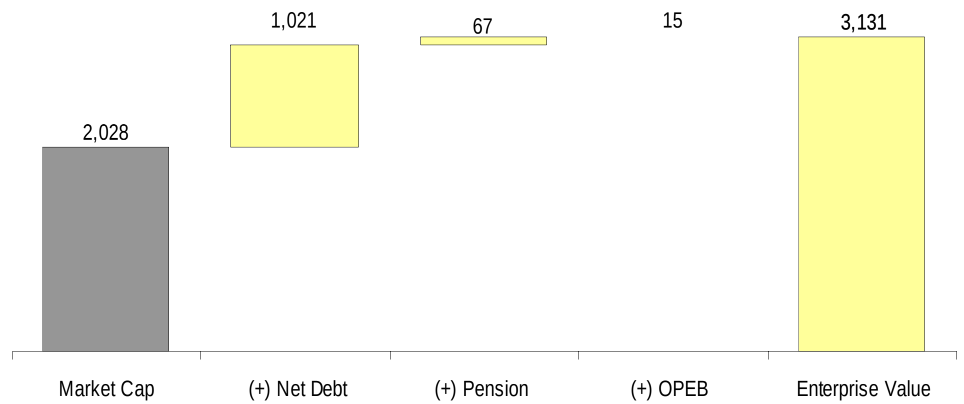
$, dark line = *actual* price, light lines = *implied* price at various multiples



Source: FactSet.

Figure 12: ALV Enterprise Value Components*

$ millions

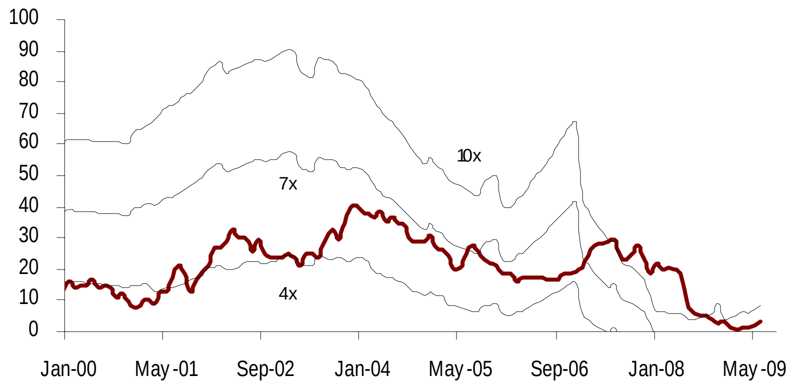


Source: J.P. Morgan estimates. * Based on latest reported data.

American Axle (Neutral)

Figure 13: AXL Actual Sh. Price vs. Implied Sh. Price at Various EV/EBITDA Multiples

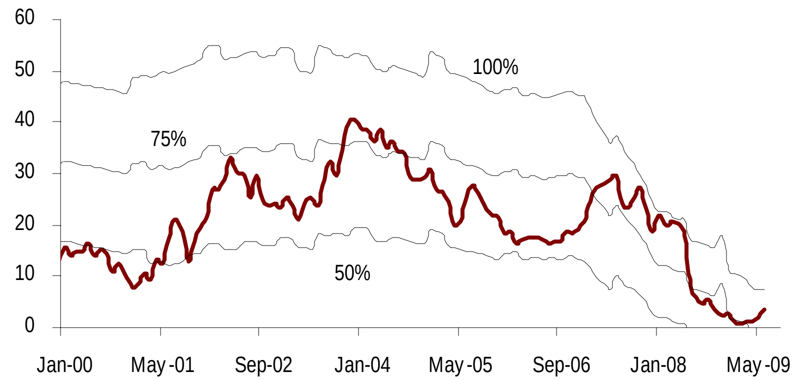
$, dark line = *actual* price, light lines = *implied* price at various multiples



Source: J.P. Morgan estimates.

Figure 14: AXL Actual Share Price vs. Implied Share Price at Various EV/Sales Multiples

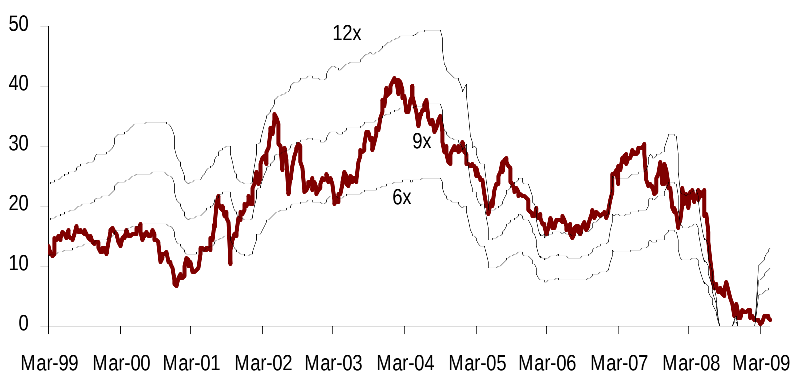
$, dark line = *actual* price, light lines = *implied* price at various multiples



Source: J.P. Morgan estimates.

Figure 15: AXL Actual Share Price vs. Implied Share Price at Various P/E Multiples

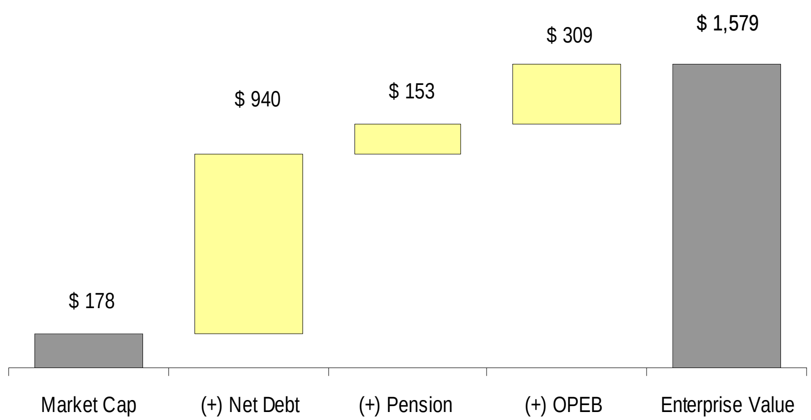
$, dark line = *actual* price, light lines = *implied* price at various multiples



Source: FactSet.

Figure 16: AXL Enterprise Value Components*

$ millions



Source: J.P. Morgan estimates. * Based on latest reported data.

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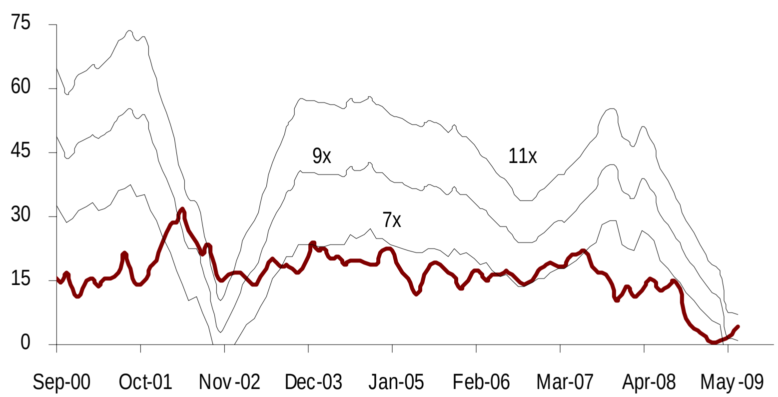
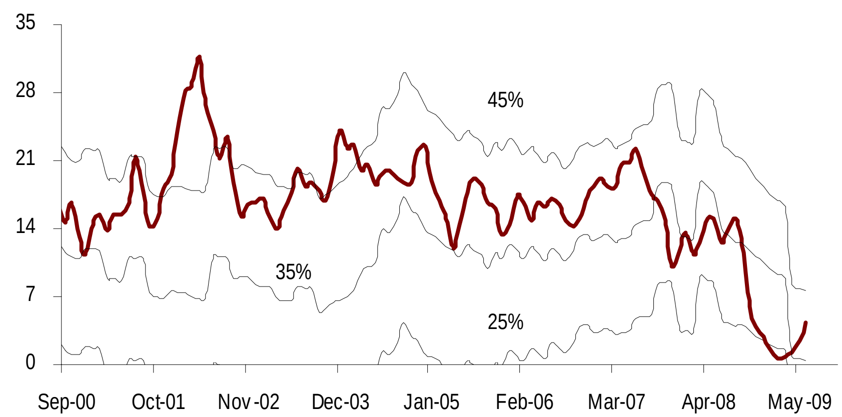
ArvinMeritor (Neutral)

Figure 17: ARM Actual Sh. Price vs. Implied Sh. Price at Various EV/EBITDA Multiples
$, dark line = *actual* price, light lines = *implied* price at various multiples



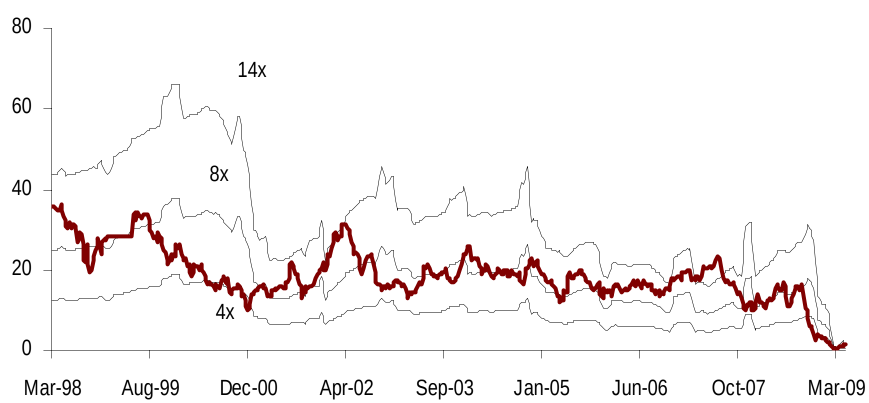
Source: J.P. Morgan estimates.

Figure 18: ARM Actual Share Price vs. Implied Share Price at Various EV/Sales Multiples
$, dark line = *actual* price, light lines = *implied* price at various multiples



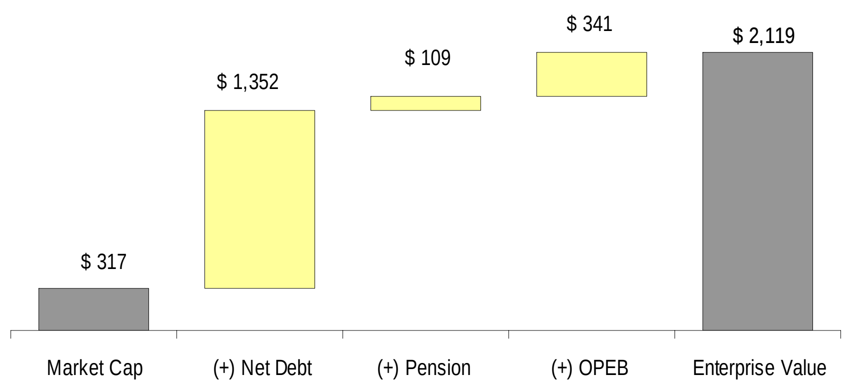
Source: J.P. Morgan estimates.

Figure 19: ARM Actual Share Price vs. Implied Share Price at Various P/E Multiples
$, dark line = *actual* price, light lines = *implied* price at various multiples



Source: FactSet.

Figure 20: ARM Enterprise Value Components*
$ millions



Source: J.P. Morgan estimates. * Based on latest reported data.

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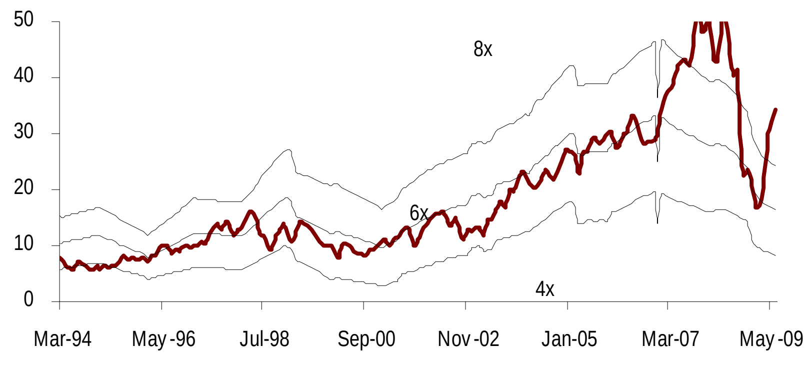
BorgWarner (Overweight)

Figure 21: BWA Actual Share Price vs. Implied Share Price at Various EV/EBITDA Multiples

$, dark line = *actual* price, light lines = *implied* price at various multiples



Source: J.P. Morgan estimates.

Figure 22: BWA Actual Share Price vs. Implied Share Price at Various EV/Sales Multiples

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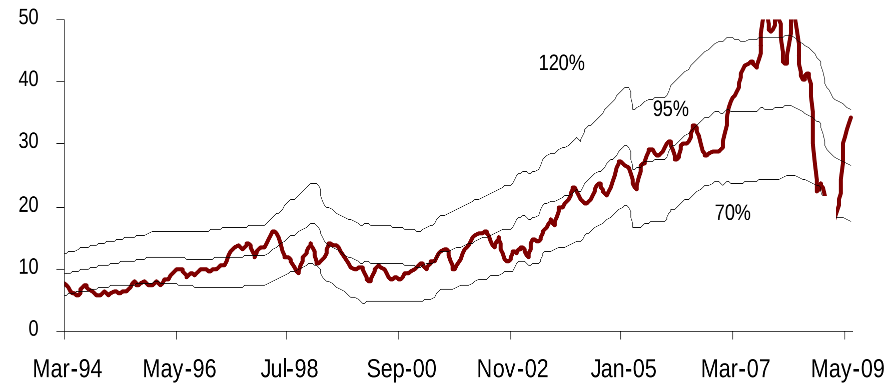
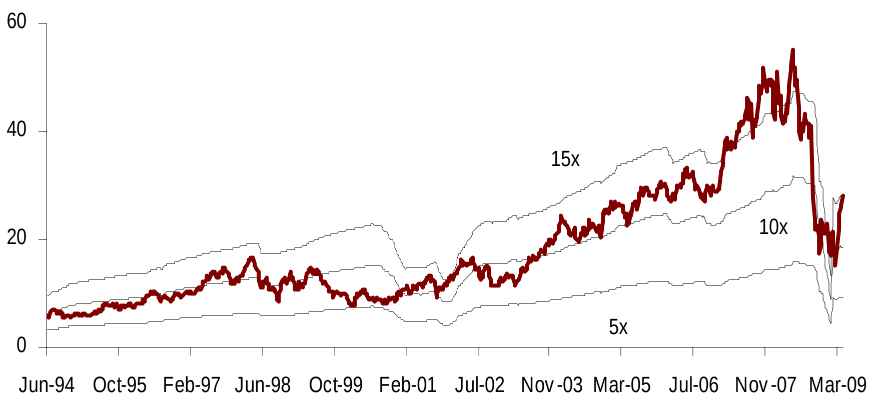


Source: J.P. Morgan estimates.

Figure 23: BWA Actual Share Price vs. Implied Share Price at Various P/E Multiples

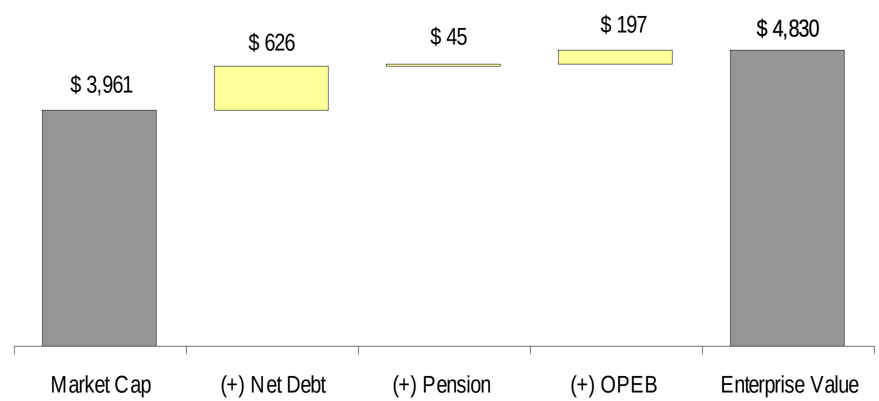
$, dark line = *actual* price, light lines = *implied* price at various multiples



Source: FactSet.

Figure 24: BWA Enterprise Value Components*

$ millions



Source: J.P. Morgan estimates. * Based on latest reported data.

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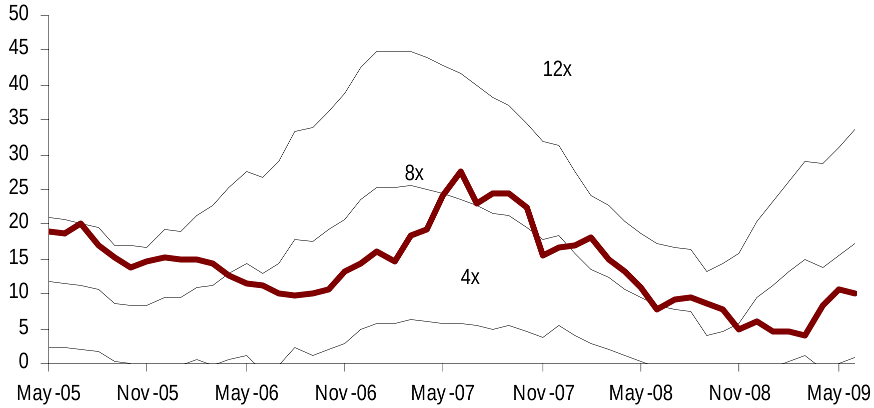
Cooper Tire (Overweight)

Figure 25: CTB Actual Share Price vs. Implied Share Price at Various EV/EBITDA Multiples
$, dark line = *actual* price, light lines = *implied* price at various multiples



Source: J.P. Morgan estimates.

Figure 26: CTB Actual Share Price vs. Implied Share Price at Various EV/Sales Multiples
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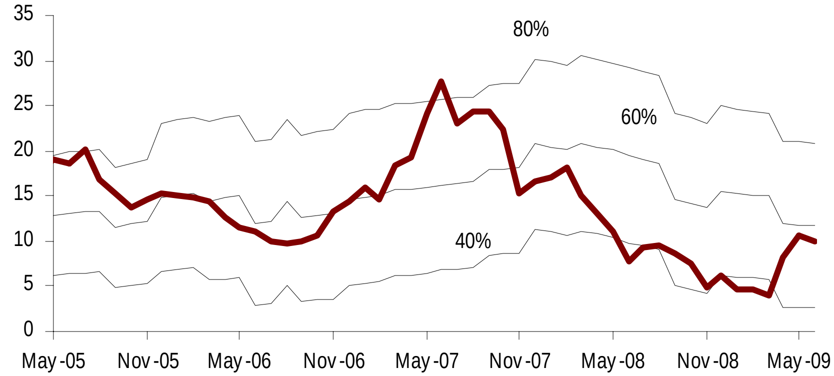

Source: J.P. Morgan estimates.

Figure 27: CTB Actual Share Price vs. Implied Share Price at Various P/E Multiples
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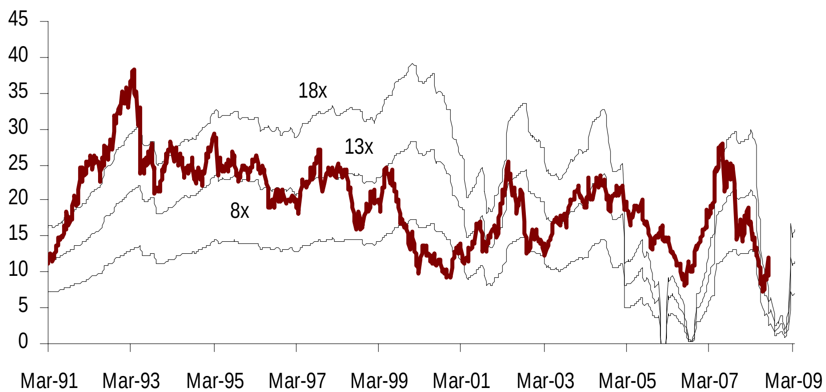
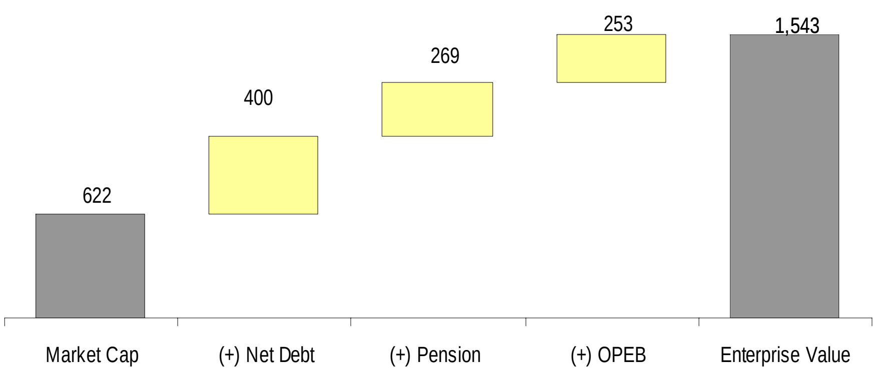


Source: FactSet.

Figure 28: CTB Enterprise Value Components*
$ millions



Source: J.P. Morgan estimates. * Based on latest reported data.

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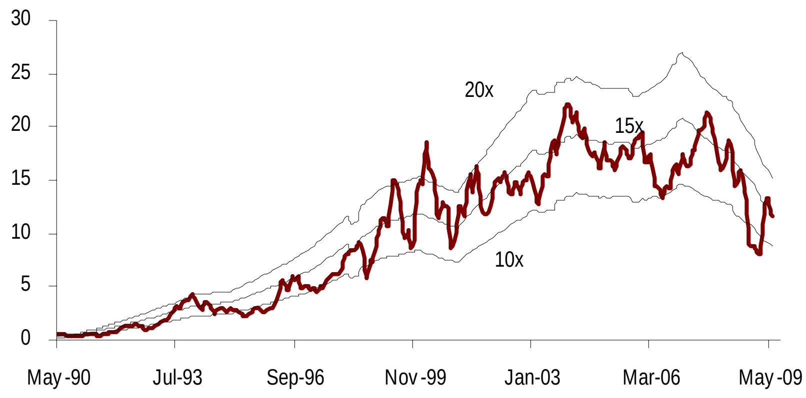
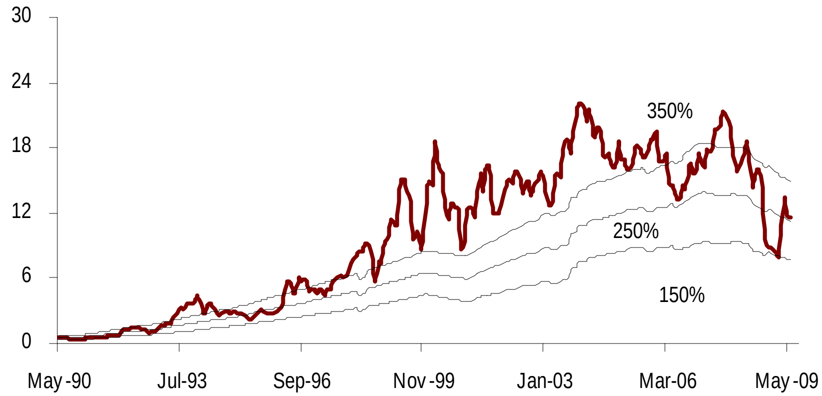
Gentex (Neutral)

Figure 29: GNTX Actual Sh. Price vs. Implied Sh. Price at Various EV/EBITDA Multiples
$, dark line = *actual* price, light lines = *implied* price at various multiples



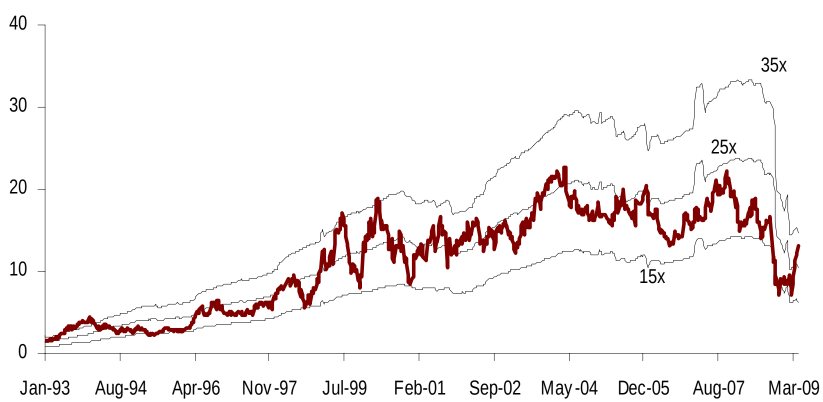
Source: J.P. Morgan estimates.

Figure 30: GNTX Actual Share Price vs. Implied Share Price at Various EV/Sales Multiples
$, dark line = *actual* price, light lines = *implied* price at various multiples



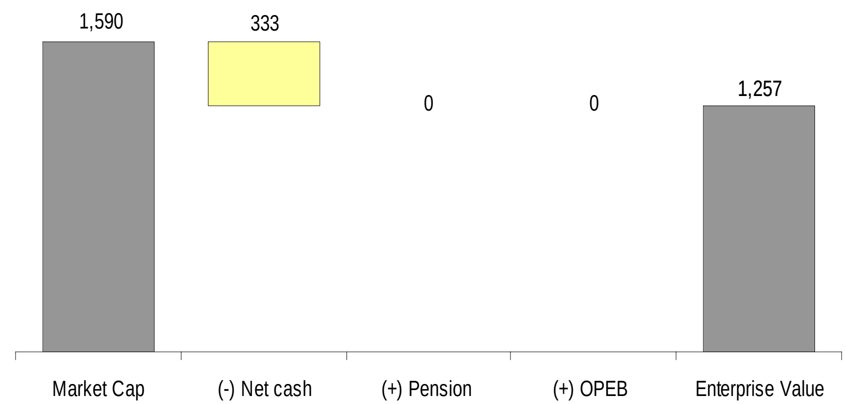
Source: J.P. Morgan estimates.

Figure 31: GNTX Actual Share Price vs. Implied Share Price at Various P/E Multiples
$, dark line = *actual* price, light lines = *implied* price at various multiples



Source: FactSet.

Figure 32: GNTX Enterprise Value Components*
$ millions



Source: J.P. Morgan estimates. * Based on latest reported data.

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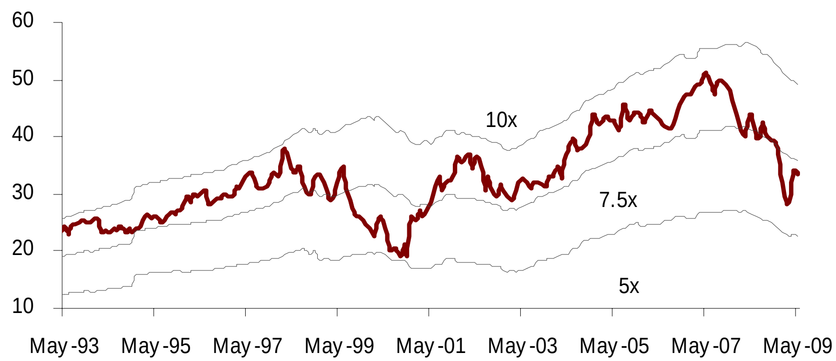
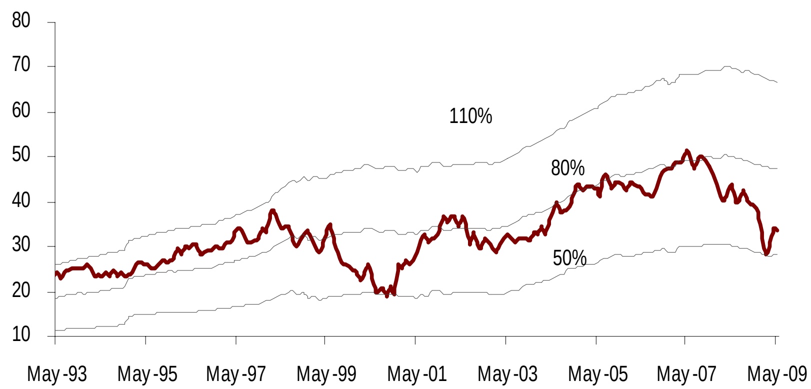
Genuine Parts Company (Neutral)

Figure 33: GPC Actual Sh. Price vs. Implied Sh. Price at Various EV/EBITDA Multiples
$, dark line = *actual* price, light lines = *implied* price at various multiples



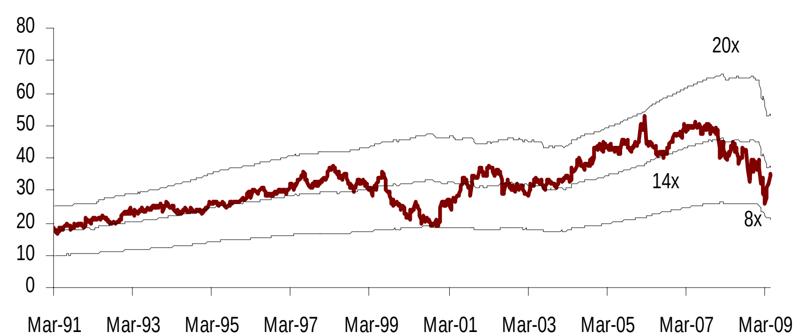
Source: J.P. Morgan estimates.

Figure 34: GPC Actual Share Price vs. Implied Share Price at Various EV/Sales Multiples
$, dark line = *actual* price, light lines = *implied* price at various multiples



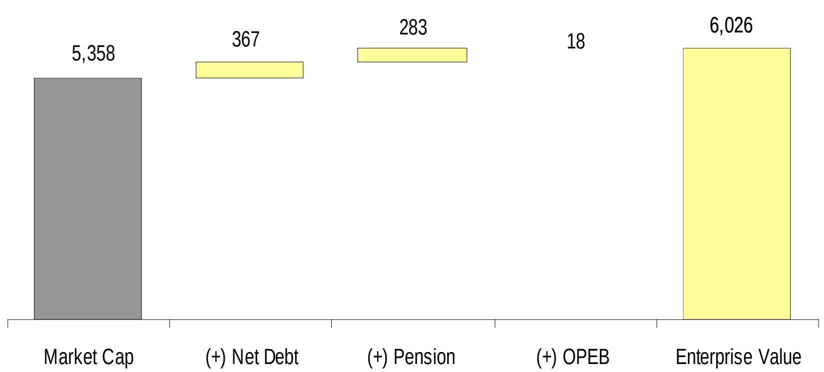
Source: J.P. Morgan estimates.

Figure 35: GPC Actual Share Price vs. Implied Share Price at Various P/E Multiples
$, dark line = *actual* price, light lines = *implied* price at various multiples



Source: FactSet.

Figure 36: GPC Enterprise Value Components*
$ millions

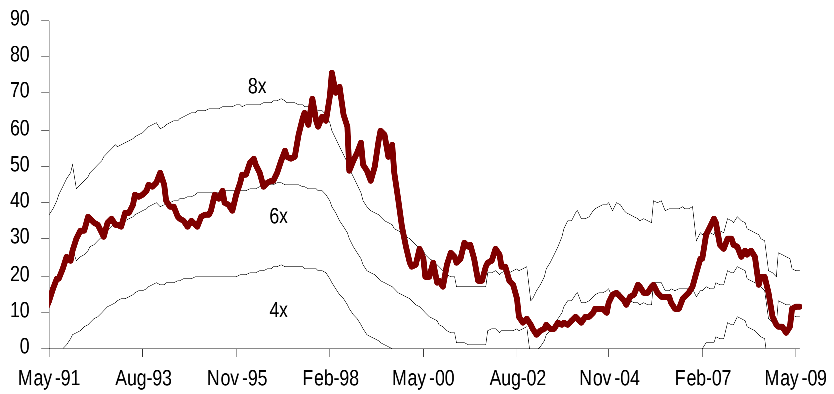


Source: J.P. Morgan estimates. * Based on latest reported data.

Goodyear Tire and Rubber (Overweight)

Figure 37: GT Actual Share Price vs. Implied Share Price at Various EV/EBITDA Multiples

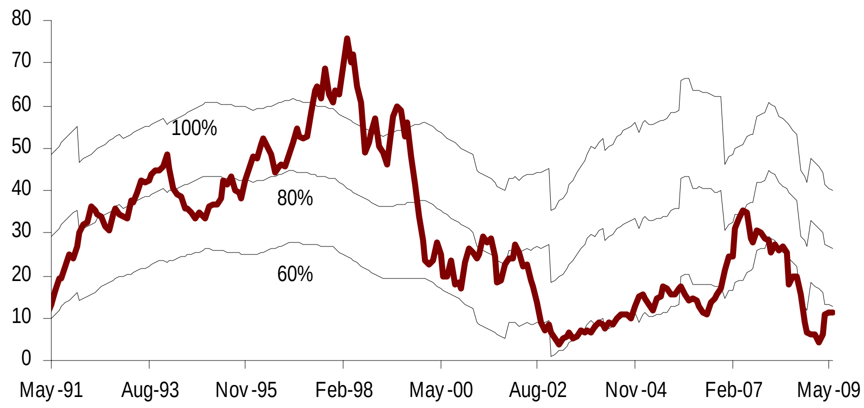
$, dark line = *actual* price, light lines = *implied* price at various multiples



Source: J.P. Morgan estimates.

Figure 38: GT Actual Share Price vs. Implied Share Price at Various EV/Sales Multiples

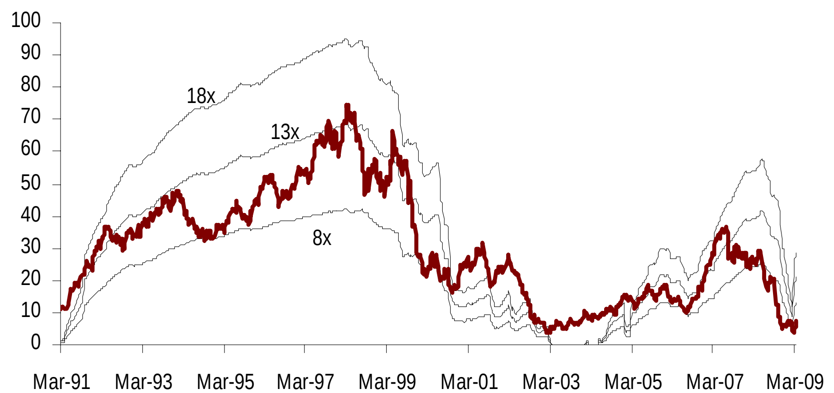
$, dark line = *actual* price, light lines = *implied* price at various multiples



Source: J.P. Morgan estimates.

Figure 39: GT Actual Share Price vs. Implied Share Price at Various P/E Multiples

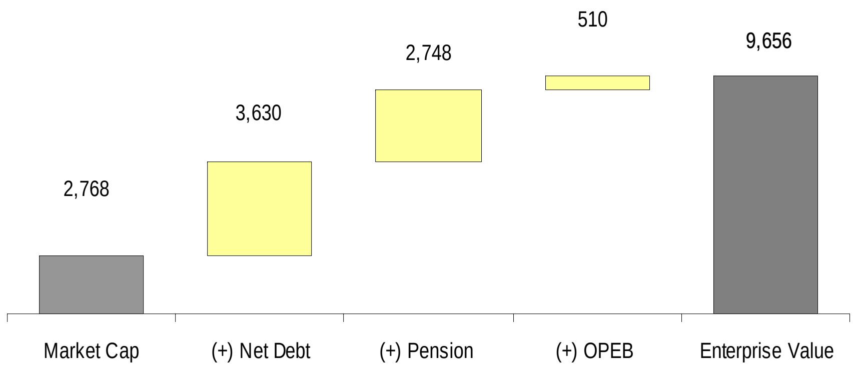
$, dark line = *actual* price, light lines = *implied* price at various multiples



Source: FactSet.

Figure 40: GT Enterprise Value Components*

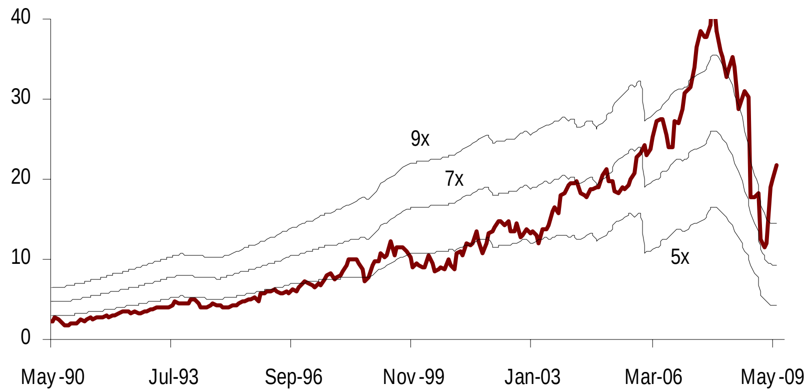
$ millions



Source: J.P. Morgan estimates. * Based on latest reported data.

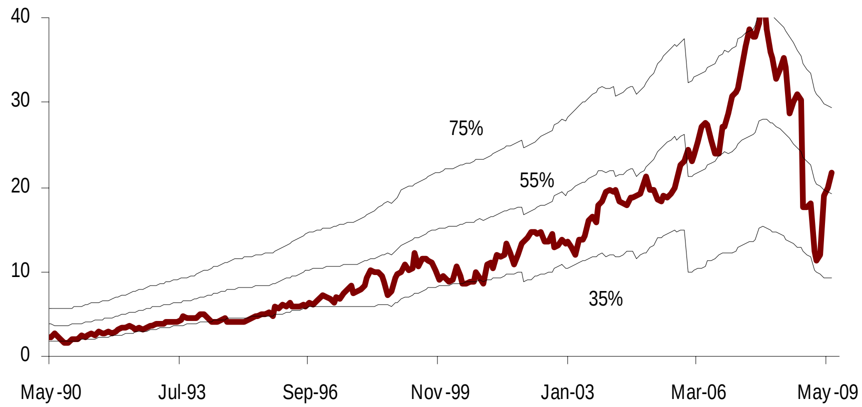
Johnson Controls (Neutral)

Figure 41: JCI Actual Share Price vs. Implied Share Price at Various EV/EBITDA Multiples
$, dark line = *actual* price, light lines = *implied* price at various multiples



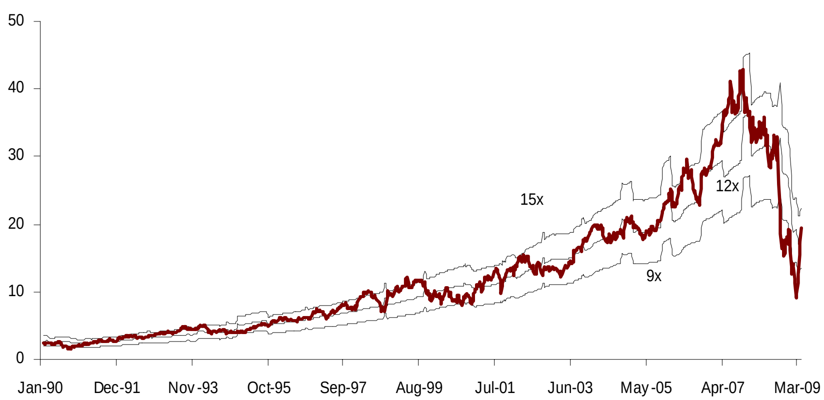
Source: J.P. Morgan estimates.

Figure 42: JCI Actual Share Price vs. Implied Share Price at Various EV/Sales Multiples
$, dark line = *actual* price, light lines = *implied* price at various multiples



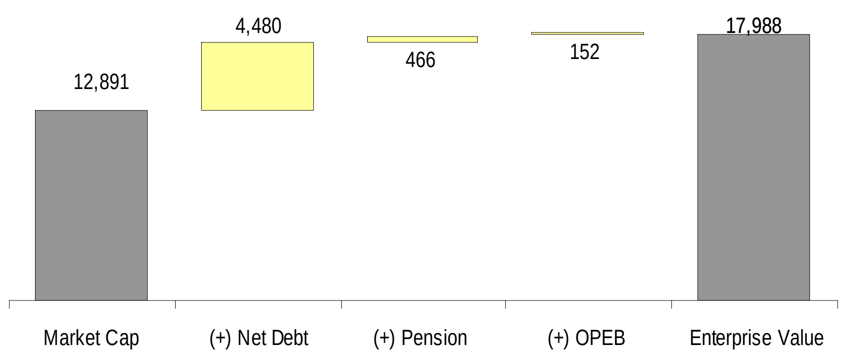
Source: J.P. Morgan estimates.

Figure 43: JCI Actual Share Price vs. Implied Share Price at Various P/E Multiples
$, dark line = *actual* price, light lines = *implied* price at various multiples



Source: FactSet.

Figure 44: JCI Enterprise Value Components*
$ millions



Source: J.P. Morgan estimates. * Based on latest reported data.

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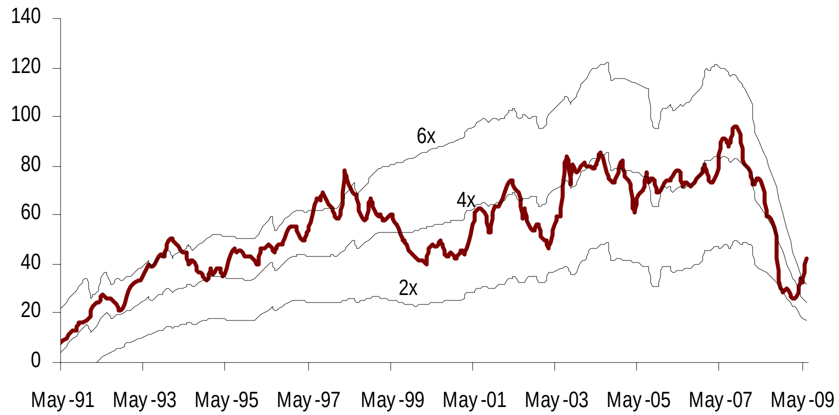
Magna (Overweight)

Figure 45: MGA Actual Share Price vs. Implied Share Price at Various EV/EBITDA Multiples

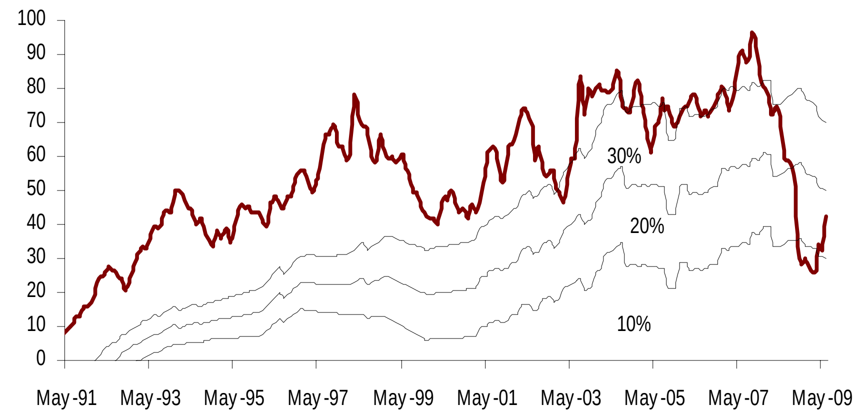
$, dark line = *actual* price, light lines = *implied* price at various multiples



Source: J.P. Morgan estimates.

Figure 46: MGA Actual Share Price vs. Implied Share Price at Various EV/Sales Multiples

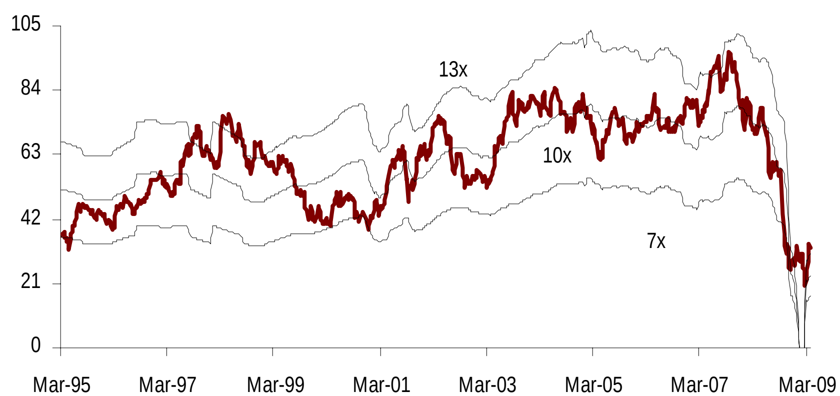
$, dark line = *actual* price, light lines = *implied* price at various multiples



Source: J.P. Morgan estimates.

Figure 47: MGA Actual Share Price vs. Implied Share Price at Various P/E Multiples

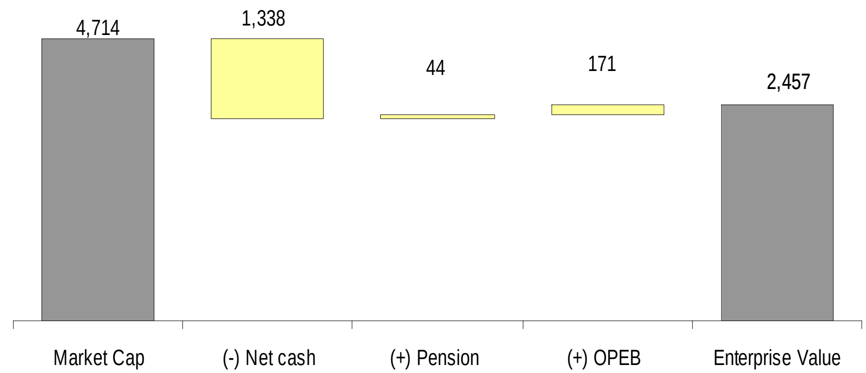
$, dark line = *actual* price, light lines = *implied* price at various multiples



Source: FactSet.

Figure 48: MGA Enterprise Value Components*

$ millions



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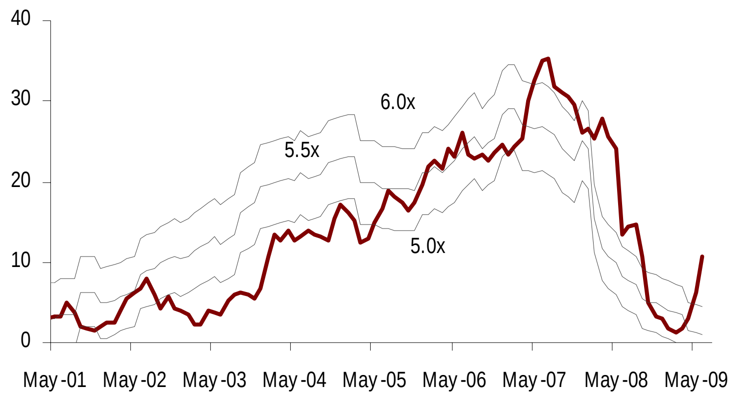
Tenneco Automotive (Overweight)

Figure 49: TEN Actual Share Price vs. Implied Share Price at Various EV/EBITDA Multiples

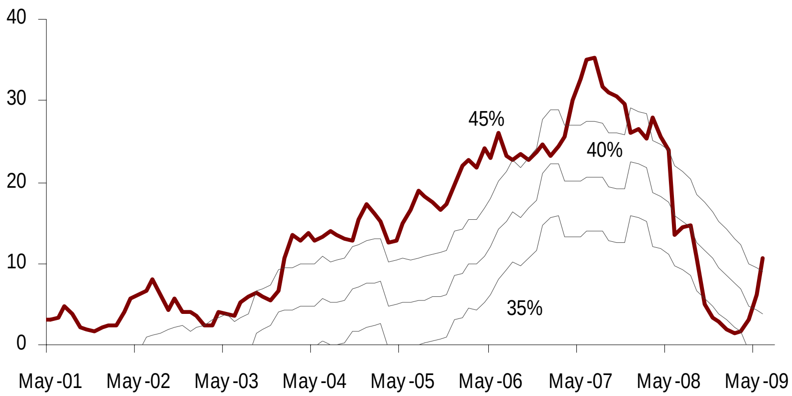
$, dark line = *actual* price, light lines = *implied* price at various multiples



Source: J.P. Morgan estimates.

Figure 50: TEN Actual Share Price vs. Implied Share Price at Various EV/Sales Multiples

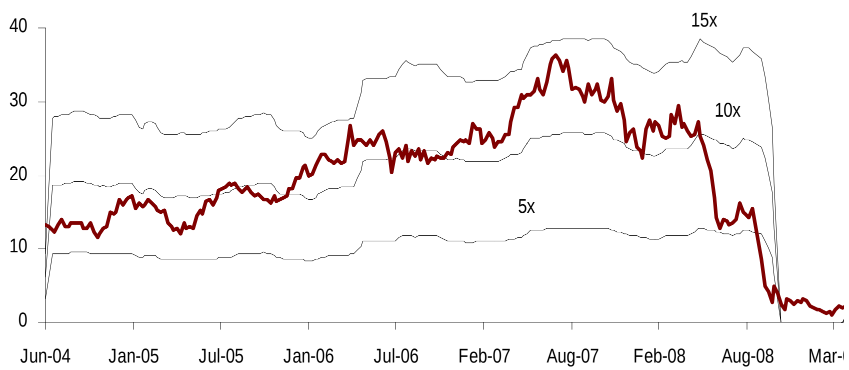
$, dark line = *actual* price, light lines = *implied* price at various multiples



Source: J.P. Morgan estimates.

Figure 51: TEN Actual Share Price vs. Implied Share Price at Various P/E Multiples

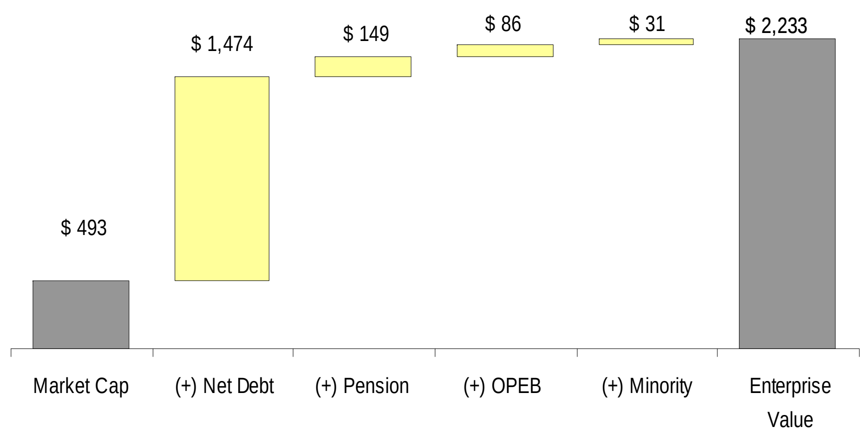
$, dark line = *actual* price, light lines = *implied* price at various multiples



Source: FactSet.

Figure 52: TEN Enterprise Value Components*

$ millions



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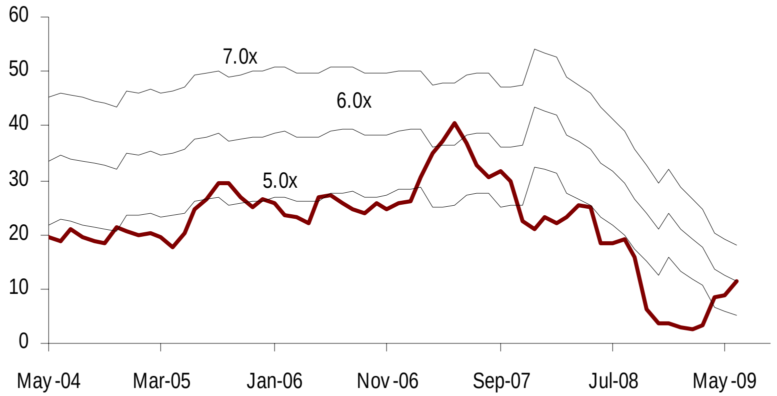
TRW Automotive (Overweight)

Figure 53: TRW Actual Share Price vs. Implied Share Price at Various EV/EBITDA Multiples

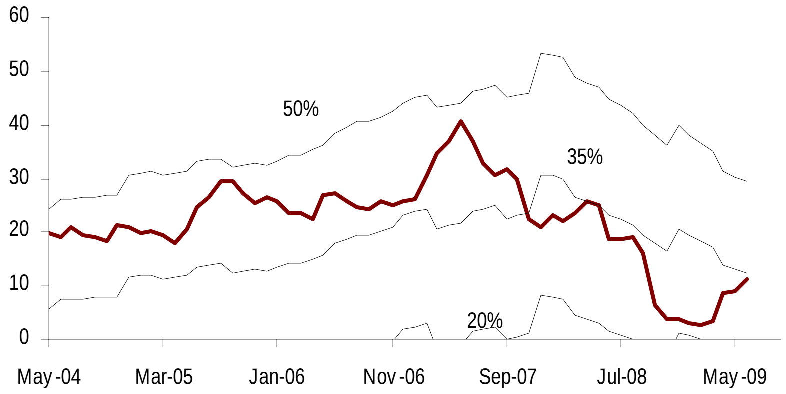
$, dark line = *actual* price, light lines = *implied* price at various multiples



Source: J.P. Morgan estimates.

Figure 54: TRW Actual Share Price vs. Implied Share Price at Various EV/Sales Multiples

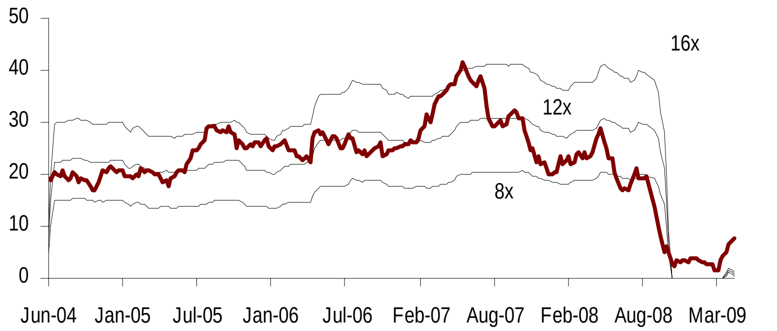
$, dark line = *actual* price, light lines = *implied* price at various multiples



Source: J.P. Morgan estimates.

Figure 55: TRW Actual Share Price vs. Implied Share Price at Various P/E Multiples

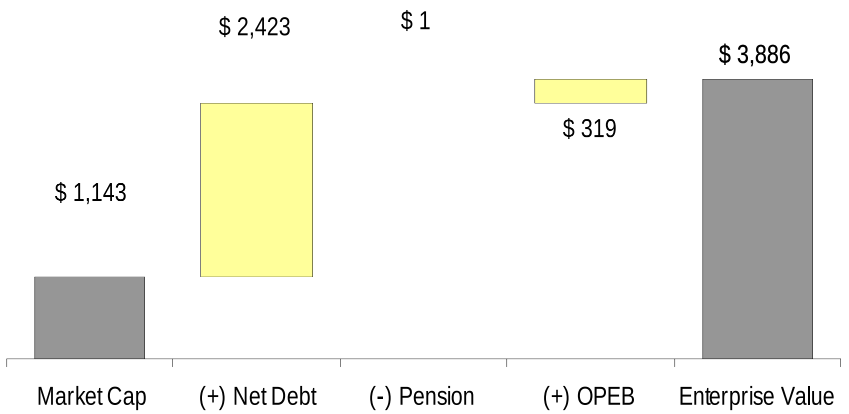
$, dark line = *actual* price, light lines = *implied* price at various multiples



Source: FactSet.-

Figure 56: TRW Enterprise Value Components*

$ millions



Source: J.P. Morgan estimates. * Based on latest reported data.

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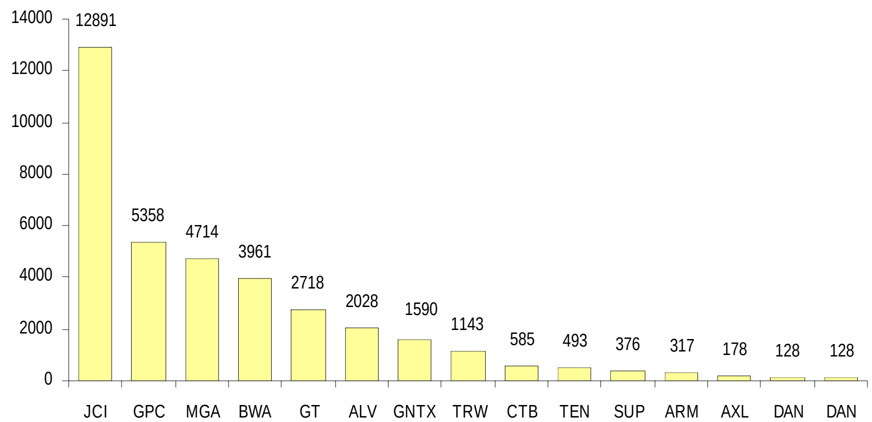
Appendix I: Summary Data

Figure 57: US Auto Parts: Rank Ordered Market Capitalization

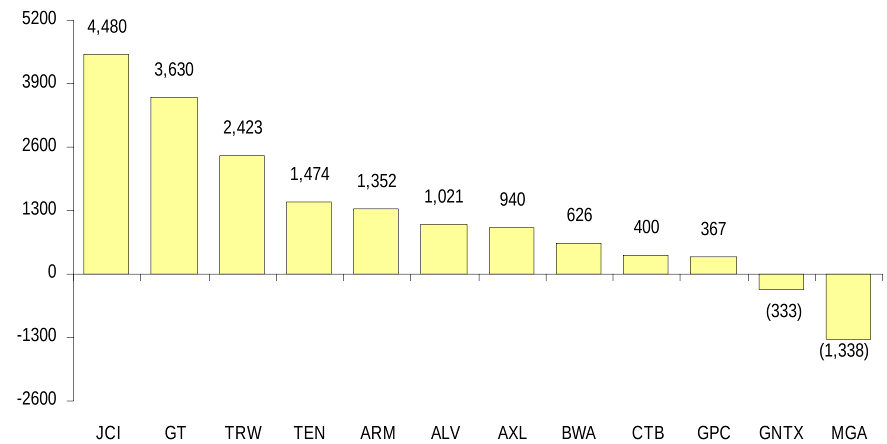
$ millions



Source: Bloomberg.

Figure 58: Net Debt/(Cash)*

$ millions

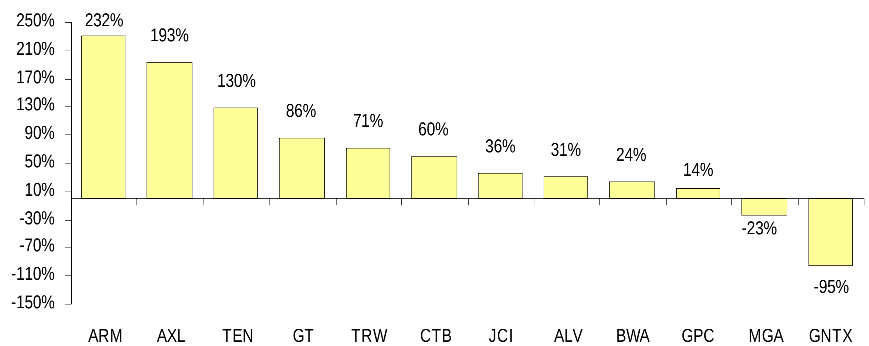


Source: J.P. Morgan estimates.

* Latest reported.

Figure 59: Net Debt to Cap

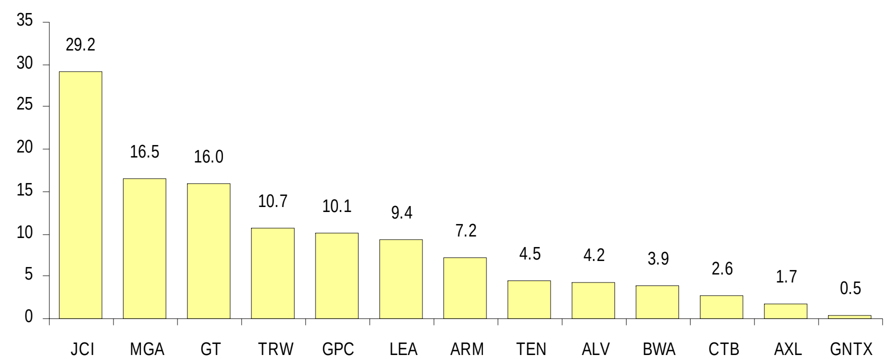
based on latest reported data



Source: J.P. Morgan estimates.

Figure 60: US Auto Parts: Rank Ordered Sales (2009E)

$ billions



Source: J.P. Morgan estimates.

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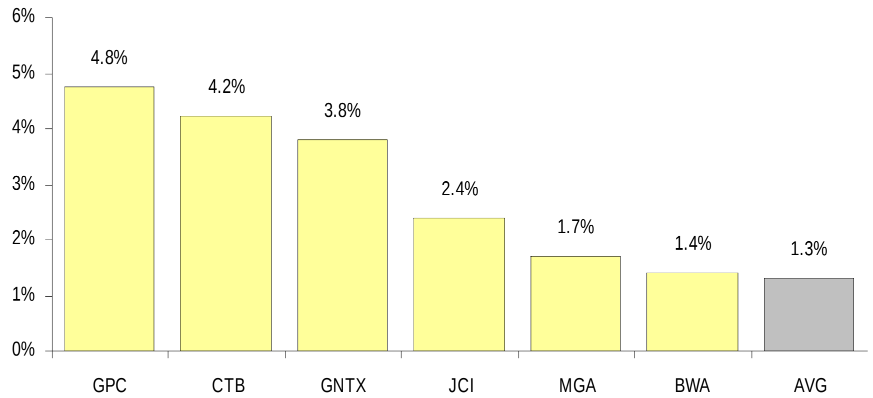
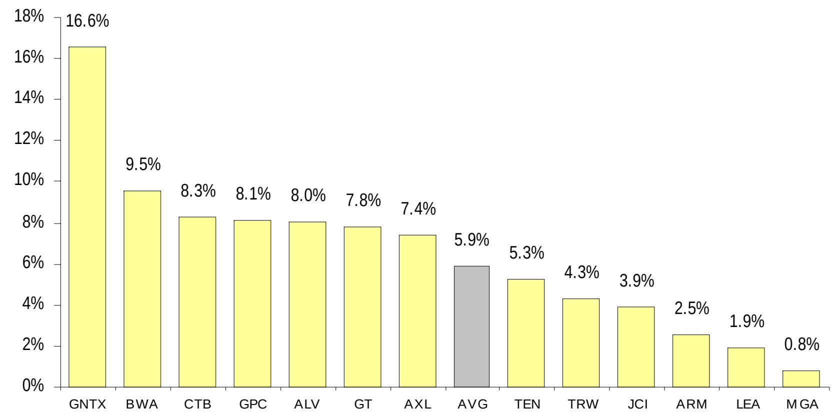
Appendix I: Summary Data (cont.)

Figure 61: US Auto Parts: 2009E Dividend Yield



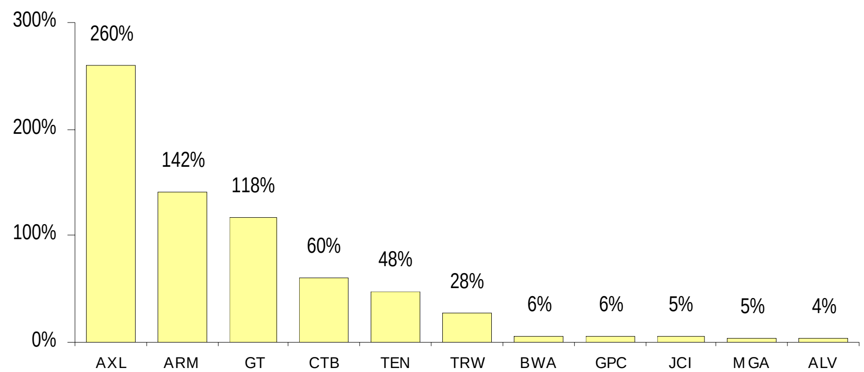
Source: Company releases. Yield based on latest announced quarterly dividends for 08. For MGA 05 figures are used.

Figure 62: US Auto Parts: 2009E EBITDA Margin



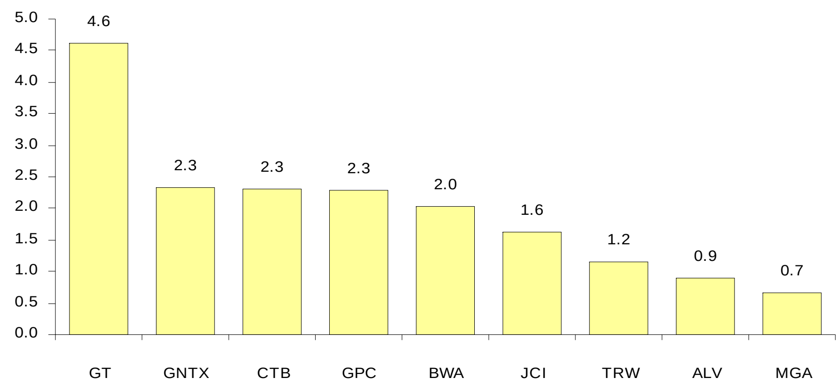
Source: J.P. Morgan estimates.

Figure 63: US Auto Parts: Pension & OPEB Under-funding as % of Current Market Cap.



Source: FactSet, Pension and OPEB under-funding based on latest reported company data.

Figure 64: US Auto Parts: Price to Book



Source: Bloomberg.

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