



10 March 2016

TomTom

Netherlands/Software & Computer Services

Analysier

**Buy**

Recommendation unchanged

Share price: EUR 7.94

closing price as of 09/03/2016

Target price: EUR 12.25

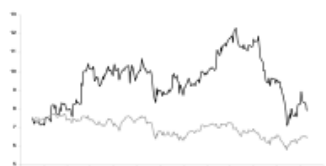
Target Price unchanged

Reuters/Eloomberg

TOM2AS/TOM2NA

Market capitalisation (EURm)	1,819
Current N° of shares (m)	229
Free float	56%
Daily avg. no. trad. sh. 12 mth	1,207,318
Daily avg. trad. vol. 12 mth (m)	9,596
Price high 12 mth (EUR)	12.29
Price low 12 mth (EUR)	7.13
Abs. perf. 1 mth	-1.94%
Abs. perf. 3 mth	-31.57%
Abs. perf. 12 mth	4.20%

Key financials (EUR)	12/15	12/16e	12/17e
Sales (m)	1,006	1,024	1,065
EBITDA (m)	124	164	202
EBITDA margin	12.3%	16.0%	19.0%
EBIT (m)	1	40	78
EBIT margin	0.1%	3.9%	7.4%
Net Profit (adj.) (m)	49	64	94
ROCE	0.0%	2.8%	5.2%
Net debt(cash) (m)	(99)	(110)	(156)
Net Debt/Equity	-0.1	-0.1	-0.2
Debt/EBITDA	-0.8	-0.7	-0.8
Int. cover(EBITDA/Fin. int)	133.7	164.2	high
EVI/Sales	2.6	1.7	1.6
EVI/EBITDA	20.8	10.5	8.3
EVI/EBITDA (adj.)	20.8	10.5	8.3
EVI/EBIT	nm	43.5	21.5
PIE (adj.)	nm	28.5	19.4
P/BV	2.7	1.9	1.8
Op/CF yield	0.4%	2.1%	4.5%
Dividend yield	0.0%	1.5%	1.9%
EPS (adj.)	0.21	0.28	0.41
BVPS	4.23	4.27	4.40
DPS	0.00	0.12	0.15



Shareholders: P.Geelen 11%; P.F. Pauwels 11%;
C.Goddijn 11%; H.Goddijn 11%;

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Here to be allowed to step up investments

The facts: At a Mercedes Benz event in Portugal last week, Daimler CEO Zetsch confirmed that the consortium (Daimler, BMW and Audi) was in talks with various OEMs and Tier1s about taking a stake in Here. According to Reuters, Renault-Nissan and Continental are contemplating a stake with CEO Zetsch adding that "interest will not only be limited to Renault-Nissan and Continental". CEO Zetsche also states that "it is clear that we [the consortium] want to aggressively expand this platform [Here] and we will make the means available to do this". Acquisitions are apparently also a possibility. Closer cooperation between the Here consortium members is also in the cards as "when it concerns navigation, we have broadly identical needs" according to Daimler CEO Zetsch.

Our analysis: We do not fully understand why any OEM or Tier1 would want to lock in capital by acquiring a 5% or more stake in Here. Here is currently the market leader in Automotive maps so most if not all OEMs and Tier1s already work with Here and have been for many years. As the consortium that owns Here will want to maintain those relationships (it is after all a company that needs to make a profit and a decent return), competing OEMs are practically assured of getting access to Here maps if they so desire, now and in the future. And with Daimler (for the majority of its models), BMW and Audi are still firmly in the Here camp, Here will be allowed to invest in the quality of its maps because otherwise the owners themselves will suffer. So frankly, we do not see any reason to invest.

But even if OEMs and Tier1s invest in Here, it is likely, looking at the industry practices today, that most will want to maintain a dual sourcing strategy as that leads to a better bargaining position. Taking a stake in Here does not necessarily mean that the market share of Here will increase or that TomTom will be hampered in gaining market share. If TomTom offers better quality for the same or lower price, it will gain the business.

What is worrying is the statement of the Daimler CEO that the consortium wants to aggressively expand the Here platform and that it will make the necessary funds available. As a clear market leader in Automotive grade maps, Here has been resting on its laurels, benefitting from a better plain vanilla turn by turn navigation database. But TomTom has invested heavily in a new automated map update process and their market leading Traffic services. Combined with RoadDNA, TomTom has clearly taken a lead in the development of HD maps and the technology roadmap towards semi-autonomous driving. Here talks often about ADAS, HD maps and autonomous driving but there have been few tangible signs that R&D and product development efforts have stepped up. That may change. If Here is allowed to invest heavily, even if it means lower profitability in the near term, that could result in Here being able to catch up with TomTom earlier than expected, which would diminish its ability to gain market share, a key component of our investment case.

Conclusion & Action: Other OEMs and Tier1s taking a stake in Here does not make any sense to us but if it happens, it is not expected to hamper TomTom's ability to gain market share. What could have an impact is Here being allowed to invest heavily in its map database update process and the development of HD maps. TomTom has a clear lead in both, which is why we assume market share gains will continue, but if Here catches up more quickly, gaining market share will become more difficult. And that is a key pillar of our investment case for TomTom Automotive. We rate the shares Buy with a DCF based pt of EUR 12.25. FY17 EV/EBITDA is at an undemanding level of 7.3X relative to other Automotive and Fleet management solution providers.