

20th January 2016

Construction & Building Materials

Saint Gobain

Price EUR36.71

France likely to be a positive catalyst in 2016. Upgrade to Buy. (report published today)

Fair Value EUR42 (+14%)

BUY vs. NEUTRAL

Bloomberg	SGO FP
Reuters	SGOB.PA
12-month High / Low (EUR)	44.5 / 35.0
Market Cap (EUR)	20,589
Ev (BG Estimates) (EUR)	27,280
Avg. 6m daily volume (000)	2,132
3y EPS CAGR	19.2%

Following pretty good Q4 figures from SIG plc in France, combined with the recent improvement in existing-home transactions, our view on the French renovation market has clearly improved. Mixed with good trends from new residential, France is likely to be better oriented in the course of 2016. In addition, apart from Brazil (c4.5% of sales), EM exposure is well spread out, thereby diluting risk. In view of share price weakness over the past two months and a FV unchanged at EUR42, the timing looks right for an upgrade to BUY (vs NEUTRAL).

	1 M	3 M	6 M	31/12/15
Absolute perf.	-6.8%	-4.3%	-14.9%	-7.9%
Cons & Mat	-5.7%	-2.1%	-11.4%	-7.4%
DJ Stoxx 600	-7.8%	-8.6%	-17.9%	-9.0%

ANALYSIS

- At end-October last year, we downgraded Saint-Gobain following a poor Q3 performance in France, due to a worse-than-expected renovation market, while emerging markets (no less than one third of EBIT) were frightening and exposure to the US was fine but not that significant for Saint-Gobain (one fifth of EBIT).
- However, the healthy Q4 figures from SIG plc in France in Q4 have struck a chord. Admittedly, unemployment is high and is negative for household confidence and renovation in turn. However existing home transactions have picked up since September while distribution could start to benefit from stronger new residential figures. In all, France distribution (c20% of sales) is likely to provide positive catalysts in 2016.
- Brazil (c4.5% of sales) is of course a key uncertainty but the rest of EM exposure is well spread out and SGO has proven its resilience so far. The US industrial segment might be at risk too, although the drop in proppant prices in 2015 is set to provide a welcome easy comparison basis this year.

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	41,054	39,429	39,575	40,996
% change		-4.0%	0.4%	3.6%
EBITDA	4,151	3,987	4,104	4,628
EBIT	2,797	2,648	2,904	3,378
% change		-5.3%	9.7%	16.3%
Net income	1,103	1,282	1,502	1,875
% change		16.2%	17.2%	24.8%

VALUATION

- FV maintained at EUR42. Recent weakness (since end-November) provides some upside. We believe momentum will improve, with and undemanding (in our view) consensus. Upgrade to BUY vs NEUTRAL. Bullet (Bullet)Bullet

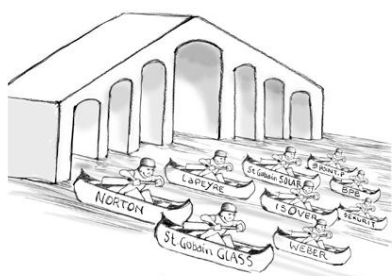
	2014	2015e	2016e	2017e
Operating margin	6.8	6.7	7.3	8.2
Net margin	2.4	2.6	3.2	4.0
ROE	6.1	7.2	8.2	9.8
ROCE	6.3	6.5	7.0	8.0
Gearing	39.2	27.5	24.7	19.6

NEXT CATALYSTS

- Saint-Gobain is to publish FY results on 25th February 2016.

(EUR)	2014	2015e	2016e	2017e
EPS	1.97	2.27	2.68	3.34
% change	-	14.9%	18.2%	24.8%
P/E	18.6x	16.2x	13.7x	11.0x
FCF yield (%)	NM	4.2%	5.4%	7.5%
Dividends (EUR)	1.24	1.24	1.30	1.40
Div yield (%)	3.4%	3.4%	3.5%	3.8%
EV/Sales	0.7x	0.7x	0.7x	0.6x
EV/EBITDA	7.1x	6.8x	6.6x	5.7x
EV/EBIT	10.5x	10.3x	9.3x	7.8x

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NEUTRAL ratings 33.1%

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