

Sector View

Construction & Materials

Steady residential sales for Nexity in Q4. 2016 market sales expected to rise 4-9%.

	1 M	3 M	6 M	31/12/15
Cons & Mat	-0.6%	-8.9%	-11.9%	-10.1%
DJ Stoxx 600	-2.4%	-12.9%	-16.7%	-12.0%

*Stoxx Sector Indices

Companies covered

Company	Recommendation	Target Price
CRH	BUY	EUR30
Last Price	EUR22.35	Market
EIFFAGE	BUY	EUR71
Last Price	EUR61.32	Market
HEIDELBERGCEMENT	BUY	EUR86
Last Price	EUR66.26	Market
LAFARGEHOLCIM	BUY vs. SELL	CHF50 vs. 60
Last Price	CHF36.98	Market
SAINT GOBAIN	BUY	EUR42
Last Price	EUR33.845	Market
VICAT	NEUTRAL	EUR56
Last Price	EUR50.45	Market
VINCI	BUY	EUR70
Last Price	EUR60.36	Market

Nexity has reported steady residential sales figures for Q4, up 16%. For the full year, residential sales rose 13%, still underpinned by individual investors, and the company estimates the market increase for residential sales at close to 16% to 101,000 sales (so-called "reservations"). Nexity's market outlook has been updated with 105,000-110,000 sales expected in 2016, vs 105,000 previously and a 10-year average of 103,000. This is positive for companies exposed to the French new residential market, in particular Saint-Gobain, Eiffage and Vinci in our coverage.

Nexity (not covered) has reported French residential sales ("réservations") up 13% in 2015 to 11,741 units. This was mostly explained by the success of the Pinel buy-to-let investment scheme. As such, sales to individual investors rose 24% in 2015 (like-for-like), slightly less than in H1 (+54%), which had benefited from a catch-up effect, as the Pinel scheme was implemented in Q4 2014.

Nexity says French market sales stood at approx. 101,000 units in 2015, up 16% y/y, vs guidance for 100,000. Q4 looks less dynamic but this was due to a harsher comparison basis, as the market started to recover in Q4 2014 (with the Pinel scheme). 2016 guidance stands at between 105,000 and 110,000, a bit higher than the previous guidance of 105,000. The market should benefit from low interest rates, combined with various governments aids (zero-interest loan, Pinel scheme), while prices have stabilised (home price index relative to disposable income).

New residential sales in France

y/y%	Q1 14	Q2 14	Q3 14	Q414	Q115	Q215	Q315	Q415
sales	-1.4	-8.6	-8.2	7.5	18.0	25.8	16.0	6.2

Source: French government, Nexity; Bryan Garnier & Co. ests.

Note that the recovery in the new residential market combined with much better figures in existing-homes transactions, up +16% in 2015 to 800,000 deals.

The Pinel scheme is supposed to end in December 2016. There is also uncertainty beyond the current year, especially as the French Housing minister has recently changed. Sylvia Pinel has been replaced by Emmanuelle Cosse, who is very close, politically speaking, to Cécile Duflot - who launched a buy-to-let scheme which was not a success. We cannot rule out decisions and/or comments from the new housing minister that could disturb prospects on financial markets. That said, she will only be minister until the next presidential election in April/May next year.

Impact of the buy-to-let scheme on housing starts and sales (residential segment)

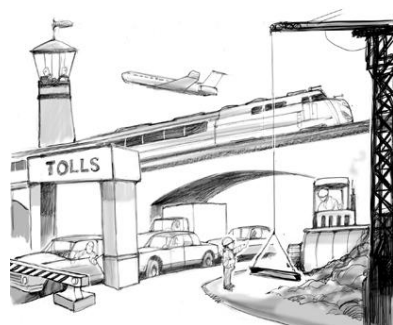
Scheme	Scellier 2009	Scellier 2010	Scell. adjusted 2011	Scell. adjusted 2012	Duflot 2013	Duflot/Pinel 2014	Pinel 2015
Housing starts	346600	415100	422700	398600	391500	350600	351800
y/y	-13%	20%	2%	-6%	-2%	-10%	0%
Sales	105802	115285	105000	88904	89313	86950	101000
y/y	35%	9%	-9%	-15%	0%	-3%	16%

Source: Datastream, French Government; Bryan Garnier & Co. ests.

ANALYSIS

- Saint-Gobain would benefit from a better new residential market, as the sector represents 6% of consolidated sales. French renovation in the residential area accounts for around 13% of SGO sales.
- Eiffage, and to a lesser extent Vinci, should benefit from it as well, as the new residential segment represents 10% and 4% of revenues, respectively.

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