

12th April 2016

Construction & Building Materials

Saint Gobain

Price EUR38.63

Sika: steady Q1 2016 sales growth

Fair Value EUR42 (+9%)

BUY

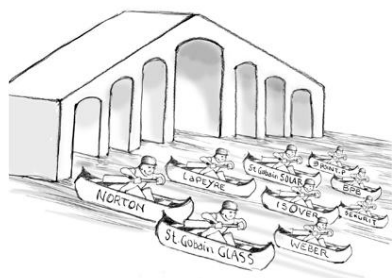
Bloomberg	SGO FP
Reuters	SGOB.PA
12-month High / Low (EUR)	44.5 / 32.1
Market Cap (EURm)	21,669
Ev (BG Estimates) (EURm)	28,230
Avg. 6m daily volume (000)	2,051
3y EPS CAGR	19.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	1.9%	6.9%	-2.5%	-3.1%
Cons & Mat	-0.2%	4.1%	1.1%	-2.5%
DJ Stoxx 600	-2.7%	-2.2%	-8.3%	-9.0%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	41,054	39,623	39,305	40,812
% change		-3.5%	-0.8%	3.8%
EBITDA	4,151	3,844	4,070	4,660
EBIT	2,797	2,636	2,870	3,410
% change		-5.8%	8.9%	18.8%
Net income	1,103	1,165	1,478	1,892
% change		5.6%	26.9%	28.0%

	2014	2015e	2016e	2017e
Operating margin	6.8	6.7	7.3	8.4
Net margin	2.4	1.1	3.2	4.1
ROE	6.1	6.1	7.6	9.3
ROCE	6.3	6.2	7.0	8.2
Gearing	39.2	24.8	22.4	17.8

(EUR)	2014	2015e	2016e	2017e
EPS	1.97	2.06	2.64	3.37
% change	-	4.4%	28.0%	28.0%
P/E	19.6x	18.8x	14.7x	11.5x
FCF yield (%)	NM	5.7%	4.9%	7.1%
Dividends (EUR)	1.24	1.24	1.30	1.40
Div yield (%)	3.2%	3.2%	3.4%	3.6%
EV/Sales	0.7x	0.7x	0.7x	0.7x
EV/EBITDA	7.4x	7.3x	6.9x	5.8x
EV/EBIT	10.9x	10.7x	9.7x	8.0x



Sika has reported steady Q1 sales y/y growth at 5.4% l-f-l, with double-digit organic performance in North America. Based same forex exchange but included acquisitions, every geographic zones reported an acceleration in growth (vs same period last year), except LatAm, which furthermore has been impacted by negative forex. 2016 target confirmed, with 6-8% sales growth. Uncertainties remain regarding the deal between SGO and the Burkard family. Zug Court decision on voting rights expected this summer. Sika AGM today.

Sika has reported 6.6% sales growth in Q1 at CHF1274m. Organic growth stands at 5.4% (deducted), currency effects are negative at -1.7% and perimeter positive at +2.9%. The 8.3% growth reported by Sika corresponds to the growth in local currencies included acquisitions.

By region, in local currencies included acquisitions, every zone, except LatAm, reported an acceleration in growth versus last year: EMEA at 8.7% y/y in Q1 2016 vs 1.1% y/y last year in Q1 2015; North America at 12.6% (vs 10.7% last year) and Asia/Pacific at 4.3% (2.5% last year). Deceleration of the growth is dramatic in LatAm, with 4% reported in Q1 vs +17% for the same period last year. Combined with negative forex effect, LatAm sales in Q1 is down -13.5%.

Sika continues to be busy on the expansion side, with 4 new factories or 1 new subsidiary opened in Q1. 2016 annual targets confirmed with 6-8% sales growth expected in 2016, with "above-average rise in margins", combined with 6-8 new factories and 3-4 new subsidiaries..

Sika Q1 sales performance

y/y %	CHFm	y/y in CHF	y/y local curr incl. scope	curr. effect	scope effect	like-for-like (deducted)
EMEA	604	8.7	8.7	0.0	5.0	3.7
North America	184	16.8	12.6	4.2	0.8	11.8
LatAM	131	-13.5	4.0	-17.5	0.0	4.0
Asia/Pacific	235	4.3	4.3	0.0	2.3	2.0
Others	121	14.4	14.2	0.2	0.0	
Net sales	1274	6.6	8.3	-1.7	2.9	5.4

Source : Company Data; Bryan Garnier & Co. ests.

ANALYSIS

- Although Sika AGM is scheduled for today, we doubt something significant could happen here. The local press already said that all members of the board will ask for a new mandate. Besides, in the last release of the Sunday newspaper *Schweiz am Sonntag*, Chairman Paul Hälg said that he intends to ask again the shareholders to limit the family holding SWH voting rights. Hence the board is likely to remain unchanged and the SWH voting rights limited.
- The next key event remains the first instance decision from the Zug Court regarding the voting rights of SWH. The family holding has 16% of the capital but 52% of the voting rights of Sika and these rights have been limited at the last two EGMs.
- This decision is expected this Summer. As it is a first instance, appeals could add up to approx. 2 years of delays to the process, we understand. Bear in mind Saint-Gobain and Sika have extended their agreement to the end of June 2017 and that Saint-Gobain has an option for another extension until the end December 2018.

VALUATION

- EUR42 FV from the application of historical EV/EBIT to our 2017 estimates, discounted back.

NEXT CATALYSTS

- SIKAMG today at 1pm
- SGO Q1 revenues on 27 April, after trading

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