

Saint Gobain

Price EUR40.47

Q1 in line. Buy reiterated despite cautious comments on outlook in France.

Fair Value EUR46 vs. EUR42 (+14%)

BUY

Bloomberg	SGO FP
Reuters	SGOB.PA
12-month High / Low (EUR)	44.5 / 32.1
Market Cap (EURm)	22,701
Ev (BG Estimates) (EURm)	29,015
Avg. 6m daily volume (000)	1,970
3y EPS CAGR	16.8%

	1 M	3 M	6 M	31/12/15
Absolute perf.	9.9%	9.6%	3.4%	1.6%
Cons & Mat	3.2%	6.0%	1.3%	0.3%
DJ Stoxx 600	3.6%	2.4%	-7.6%	-5.1%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	39,623	39,369	40,821	42,285
% change		-0.6%	3.7%	3.6%
EBITDA	3,844	4,054	4,586	5,030
EBIT	2,636	2,854	3,336	3,780
% change		8.3%	16.9%	13.3%
Net income	1,165	1,200	1,530	1,840
% change		3.0%	27.5%	20.2%

	2015	2016e	2017e	2018e
Operating margin	6.7	7.2	8.2	8.9
Net margin	1.1	3.2	3.9	4.5
ROE	6.1	6.2	7.6	8.6
ROCE	5.9	6.7	7.7	8.5
Gearing	24.8	22.6	18.8	14.0

(EUR)	2015	2016e	2017e	2018e
EPS	2.06	2.14	2.73	3.28
% change	-	3.9%	27.5%	20.2%
P/E	19.7x	18.9x	14.8x	12.3x
FCF yield (%)	5.4%	5.2%	6.6%	7.8%
Dividends (EUR)	1.24	1.30	1.30	1.30
Div yield (%)	3.1%	3.2%	3.2%	3.2%
EV/Sales	0.7x	0.7x	0.7x	0.7x
EV/EBITDA	7.6x	7.2x	6.2x	5.5x
EV/EBIT	11.1x	10.2x	8.5x	7.3x

SGO has published decent Q1 revenues, up 1.8% lfl to EUR9.136bn, with a 2.3% volume increase. France is not a drag anymore, with a flattish performance. While Pipes heavily impacted Exterior Solutions, other businesses were well oriented. Unchanged guidance. Cautious comments regarding France, with a prudent outlook from management. However we believe the market is very likely to anticipate a further recovery in the French market. Buy reit. new FV at EUR46 vs EUR42.

Saint-Gobain has published revenues very much in line with our expectations, at EUR9.136bn generated in Q1. The apparent change is a 1.9% decline, a combination of a 0.7% negative scope effect, 3% negative forex effect (LatAm currencies impact in particular) and 1.8% organic growth. This like-for-like increase is a combination of healthy volumes (+2.3%) but slightly negative price (-0.5%) effects. By business, organic growth was strong for most of the industrial divisions, except Exterior Solutions impacted by a still difficult Pipes business; while Distribution was not very impressive but positive at +1.4%. By geographical zone, while France (a quarter of sales last year) was flattish (-0.2%), other zones were robust: +2% in Western Europe (>40% of 2015 sales); +3.2% in North America (13% of 2015 sales) and +4.5% in Emerging/Asia (20% of 2015 sales).

Guidance for a further like-for-like improvement in operating income was reiterated. The backdrop is set to remain difficult for Brazil, uncertain for North American industrial markets, and France is expected to stabilise. Regarding France in particular, note that Saint-Gobain's CEO said it is too early to call for a recovery in the market in France, with April actually having been a bit slower.

Key data for Q1 revenues

EURm	Q1 16 est.	org. y/y % est.	Q1 16 rep.	org. y/y % rep.	vol. y/y %	price y/y%
Flat Glass	1,313	4.0	1,276	4.9	2.1	2.8
HPM	1,035	-1.0	1,123	3.6	2.1	1.5
Interior solutions	1,553	3.0	1,609	5.8	6.6	-0.8
Exterior solutions	1,215	-3.5	1,208	-4.4	-1.5	-2.9
Distribution	4,190	2.0	4,170	1.4	2.7	-1.3
Total	9,087	1.4	9,136	1.8	2.3	-0.5

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

ANALYSIS

- Of course, we would have preferred more bullish comments from management regarding France. With very positive early indicators (French new residential sales expected to be up 5% to 10% in 2016 in volumes said Nexity yesterday, 16% increase in existing home transactions last year), we are convinced Saint-Gobain will benefit from a French residential cycle improvement. c6% of SGO revenues are exposed to new residential and c13%e to renovation. This is the key reason why we maintained our positive stance on the stock.
- Actually, we believe investors are likely to follow our logic here. Year to date, the share price performance has been positive (+3%), clearly outperforming the CAC40 (-2%).

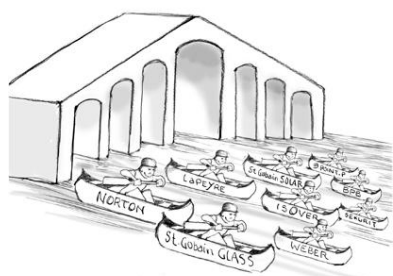
VALUATION

- We clearly want to reiterate our positive opinion on the stock and we believe investors are likely to follow us here. We have roll-over our valuation approach and now use 2018 EBIT as a reference instead of 2017. Our estimates are roughly unchanged however and we are admittedly still above the consensus for 2016 (+c2.5%) and 2017 (+c5%) at the EBIT level.
- New EUR46 FV derived from the application of historical EV/EBIT of 10x to our 2018 estimates, then discounted back to mid-2016.

NEXT CATALYSTS

- AGM on 2nd May. Interim results on 28th July.
- Zug Court first instance decision on the SWH voting rights expected this Summer.

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