

4th May 2016

Construction & Building Materials

VINCI

Price EUR64.94

Vinci London Roadshow reinforces our positive stance on the stock

Fair Value EUR72 (+11%)

BUY

Bloomberg	DG FP
Reuters	SGEF.PA
12-month High / Low (EUR)	66.3 / 51.0
Market Cap (EURm)	38,295
Ev (BG Estimates) (EURm)	49,074
Avg. 6m daily volume (000)	1,764
3y EPS CAGR	7.1%

We organised a roadshow with Vinci in London. Several topics were raised, notably the still difficult construction environment in France. This was nevertheless offset by a 12% increase in order intake at end-March on a 12-month basis, while construction margins should gradually recover. We confirm our positive stance on the stock. Its defensive qualities, with 69% of EBITDA generated by concessions, offer some visibility in this complicated environment.

We organised a one day roadshow with Vinci in London. Several topics were raised.

	1 M	3 M	6 M	31/12/15
Absolute perf.	-0.5%	3.3%	5.6%	9.8%
Cons & Mat	1.3%	5.8%	-0.1%	-0.1%
DJ Stoxx 600	2.4%	2.0%	-9.4%	-6.7%

ANALYSIS

- First, Vinci confirmed that the construction environment remains tough in France. Eurovia and Vinci Construction sales fell sharply in Q1 - although part of the decline in roadworks was due to lower prices, because of asphalt deflation (note that this is mostly a pass-through to customers). Anyhow, sentiment is that the cycle trough is not far ahead. Actually order intake is pretty strong, up double digit at 12% in Q1 and this should be reflected in stronger sales in coming years, although the order book will now be executed over a longer period of time compared with a year ago. Of course, no growth can be expected for contracting revenues in 2016. 2017 and 2018 are likely to be better however.
- Secondly, the challenge remains of how to improve operating margins in the construction business. While the UK should be close to breakeven this year, with a lower burden from the Nottingham tramway contract, France should benefit from further reorganisation with, in particular, a new manager transferred internally to the head of Vinci Construction France. The aim is to gradually increase the margin in order to offset, at least, the 40bp Ebit margin decline in 2015. In 2016, this could add as much as 50 to 60bp to last year's 2.1% EBIT margin in construction. Vinci Energies' profitability should remain solid at 5.6%, while the 3% margin in roadwork, a pretty decent level considering the environment, is expected to be flat too.
- Finally, regarding concessions, the very good performance in Q1 toll roads (7.2% apparent, around 4% excluding calendar effects) might have been driven by various factors, especially for cars: oil prices, consumer confidence, private consumption, development of car-sharing, new bus offers (the "Macron" busses), while the terrorist attacks in Paris and Brussels may have favoured roads rather than public transport systems like aeroplanes or trains. For trucks, the Spanish industrial production recovery might have underpinned volumes, as Spain usually accounts for roughly 30% of Vinci Autoroutes traffic growth. In any case, note that Vinci is maintaining its full year traffic growth guidance for 1.7-1.8%, despite this pointing to just 0.4% traffic growth for the rest of the year... We have 2% in our model and this seems conservative. But Vinci will not update its guidance before having a better view on summer traffic anyway.

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	38,518	38,272	39,607	40,984
% change		-0.6%	3.5%	3.5%
EBITDA	5,664	5,772	6,074	6,281
EBIT	3,758	3,972	4,273	4,494
% change		5.7%	7.6%	5.2%
Net income	2,109	2,258	2,469	2,597
% change		7.1%	9.3%	5.2%

	2015	2016e	2017e	2018e
Operating margin	9.8	10.4	10.8	11.0
Net margin	5.4	6.0	6.3	6.4
ROE	13.9	14.2	14.7	14.5
ROCE	7.4	7.8	8.4	8.8
Gearing	81.5	72.4	59.8	47.9

(EUR)	2015	2016e	2017e	2018e
EPS	3.58	3.83	4.19	4.41
% change	-	6.9%	9.3%	5.2%
P/E	18.1x	17.0x	15.5x	14.7x
FCF yield (%)	7.8%	7.3%	7.6%	8.2%
Dividends (EUR)	1.84	2.03	2.22	2.34
Div yield (%)	2.8%	3.1%	3.4%	3.6%
EV/Sales	1.3x	1.3x	1.2x	1.1x
EV/EBITDA	8.8x	8.5x	7.9x	7.4x
EV/EBIT	13.3x	12.4x	11.2x	10.3x

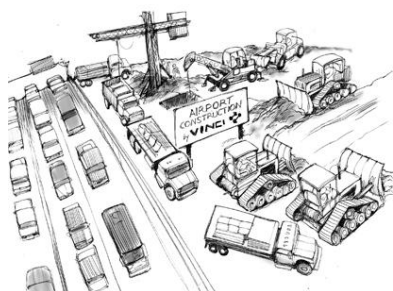
VALUATION

- EUR72 FV derived from a SOTP

NEXT CATALYSTS

- H1 2016 results in 29th July, before market

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Distribution of stock ratings

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