

8th June 2016

Construction & Building Materials

Imerys

Price EUR65.00

Stronger than Kryptonite

Fair Value EUR72 (+11%)

BUY

Coverage initiated

Speciality minerals world leader Imerys relies on the outstanding quality of its products which are useful if not vital for its customers, fairly cheap in general and offer real value added. The market has recognised the group's fundamental qualities through the re-rating seen since 2013 (+1 point in EBITDA multiple). The stock should now benefit from the gradual improvement in the construction market and the automotive segment, whereas proppants should no longer take a toll on profitability.

Bloomberg	NK FP
Reuters	IMTP.PA
12-month High / Low (EUR)	71.6 / 51.6
Market Cap (EURm)	5,172
Ev (BG Estimates) (EURm)	6,879
Avg. 6m daily volume (000)	85.70
3y EPS CAGR	9.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	3.2%	12.6%	3.2%	0.9%
Cons & Mat	4.4%	4.6%	-0.5%	1.1%
DJ Stoxx 600	4.4%	1.6%	-7.0%	-5.3%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	4,087	4,206	4,225	4,310
% change		2.9%	0.5%	2.0%
EBITDA	745	787	843	870
EBIT	468.2	518.1	544.6	564.3
% change		10.7%	5.1%	3.6%
Net income	285.9	325.1	351.2	373.8
% change		13.7%	8.0%	6.4%

	2015	2016e	2017e	2018e
Operating margin	11.5	12.3	12.9	13.1
Net margin	1.7	7.7	8.3	8.7
ROE	12.9	13.2	13.3	13.2
ROCE	7.9	7.9	8.2	8.4
Gearing	55.4	53.7	47.2	40.7

(EUR)	2015	2016e	2017e	2018e
EPS	3.56	4.08	4.41	4.70
% change	-	14.4%	8.3%	6.4%
P/E	18.2x	15.9x	14.7x	13.8x
FCF yield (%)	5.4%	3.7%	5.0%	5.6%
Dividends (EUR)	1.75	1.86	2.00	2.13
Div yield (%)	2.7%	2.9%	3.1%	3.3%
EV/Sales	1.7x	1.6x	1.6x	1.5x
EV/EBITDA	9.3x	8.7x	8.0x	7.6x
EV/EBIT	14.8x	13.3x	12.4x	11.8x

ANALYSIS

- While Imerys is clearly cyclical, it benefits from undeniable assets for resisting in a difficult environment. Its products are often vital, generally represent a small share of the cost of products for its industrial customers and provide real value-added for their production and investment processes. The wealth of its product portfolio (more than 30 minerals) and a global industrial base (260 sites, 50 countries), enable it to adapt, albeit gradually, to changes in trends.
- Although the group is suffering from a depressed macro-economic environment, resulting in sluggish volume momentum, its capacity to generate a positive price-mix (3% p.a. on average over 10 years), combined with cost control, enabled it to post EBITDA margin of 18.2% in 2015, close to the 2007 level of 19%, whereas materials groups generally noted greater declines in their EBITDA or EBIT margins over the period (-c300bp for HEI and SGO). Even in a low-inflation environment, pricing power remains widely positive with a EUR55m positive price/cost delta in 2015.
- The gradual improvement in construction markets (a quarter of the group's business) and the automotive segment (10% of sales), together with the rising momentum of new production sites, the innovation strategy (EUR490m of sales in 2015) and easier comparison in proppants should underpin the share price.
- We are initiating coverage with a Buy recommendation and a Fair Value of EUR72.

VALUATION

- EUR72 is the average of a DCF (EUR76, 6.6% WACC, 1% perpetual growth) and the application of recent EBIT and EBITDA multiples to our 2018 estimates, then discounted back (EUR68).
- The current EV/EBITDA ratio stands at 8.0x 2017e and 7.6x 2018x, compared with 8.6x on average over the past 3 years. The stock has benefited from a re-rating since 2013, as the market has recognised the defensive qualities of the group (strong fundamentals, pricing power, diversification).

NEXT CATALYSTS

- Interim figures due out Wednesday 27th July, post market.

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Analyst :
 Eric Lemarié
 33(0) 1.70.36.57.17
 elemarie@bryangarnier.com

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Distribution of stock ratings

BUY ratings 72%

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London	Paris	New York	Munich	New Delhi
Beaufort House	26 Avenue des Champs Elysées	750 Lexington Avenue	Widenmayerstrasse 29	The Imperial Hotel Janpath
15 St. Botolph Street	75008 Paris	New York, NY 10022	80538 Munich	New Delhi 110 001
London EC3A 7BB	Tel: +33 (0) 1 56 68 75 00	Tel: +1 (0) 212 337 7000	Germany	Tel +91 11 4132 6062
Tel: +44 (0) 207 332 2500	Fax: +33 (0) 1 56 68 75 01	Fax: +1 (0) 212 337 7002	+49 89 2422 62 11	+91 98 1111 5119
Fax: +44 (0) 207 332 2559	Regulated by the	FINRA and SIPC member		Fax +91 11 2621 9062
Authorised and regulated by the	Financial Conduct Authority (FCA) and the			Geneva
Financial Conduct Authority (FCA)	Autorité de Contrôle prudentiel et de			rue de Grenus 7
	resolution (ACPR)			CP 2113
				Genève 1, CH 1211
				Tel +4122 731 3263
				Fax+4122731 3243
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