

Imerys

Price EUR60.63

Strong operating margin, modest top line growth in Q2. Cautious guidance.

Fair Value EUR72 (+19%)

BUY-Top Picks

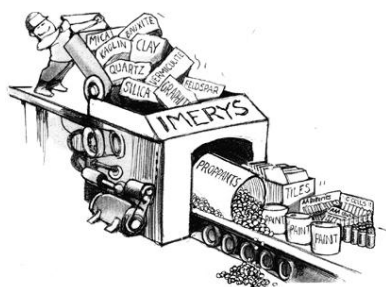
Bloomberg	NK FP
Reuters	IMTP.PA
12-month High / Low (EUR)	69.4 / 51.6
Market Cap (EUR)	4,824
Ev (BG Estimates) (EUR)	6,532
Avg. 6m daily volume (000)	85.40
3y EPS CAGR	9.2%

	1 M	3 M	6 M	31/12/15
Absolute perf.	10.3%	-4.6%	6.4%	-5.9%
Cons & Mat	14.2%	-1.2%	4.6%	0.2%
DJ Stoxx 600	11.0%	-1.6%	0.7%	-6.3%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	4,087	4,181	4,221	4,305
% change		2.3%	1.0%	2.0%
EBITDA	745	792	846	873
EBIT	468.2	513.4	547.1	565.8
% change		9.7%	6.6%	3.4%
Net income	285.9	316.1	347.3	369.2
% change		10.6%	9.9%	6.3%

	2015	2016e	2017e	2018e
Operating margin	11.5	12.3	13.0	13.1
Net margin	1.7	7.6	8.2	8.6
ROE	12.9	13.2	13.2	13.1
ROCE	7.9	7.8	8.2	8.4
Gearing	55.4	53.8	47.4	40.8

(EUR)	2015	2016e	2017e	2018e
EPS	3.56	3.96	4.37	4.64
% change	-	11.3%	10.1%	6.3%
P/E	17.0x	15.3x	13.9x	13.1x
FCF yield (%)	5.8%	4.0%	5.4%	6.0%
Dividends (EUR)	1.75	1.86	1.98	2.11
Div yield (%)	2.9%	3.1%	3.3%	3.5%
EV/Sales	1.6x	1.6x	1.5x	1.5x
EV/EBITDA	8.8x	8.2x	7.6x	7.2x
EV/EBIT	14.1x	12.7x	11.7x	11.1x



Top line momentum remained modest, with a 2.6% sales decline in Q2 on an organic basis (-1.8% in Q1) penalised by difficult markets while the comparison basis didn't help. However the run-rate suggests the trough has been hit. Current operating margins are very strong with a 70bps improvement in H1 (+100bps in Q2), thanks to synergies, innovation and usual cost control. The increase in 2016 current net income should be comparable to the H1 level (i.e. 5.2%) vs 7% for our estimates.

Key figures in H1 2016

EURm	Q115	Q215	Q315	Q415	Q116	Q216 est	Q216 rep
Revenues	974	1084	1027	1002	1038	1100	1059
Volumes (y/y%)	-5.9	-4.8	-6.5	-6.2	-2.6	-2.5	-3.3
Price/mix (y/y%)	1.3	1.5	0.9	1.1	0.8	1.0	0.8
Organic (y/y%)	-4.5	-3.3	-5.6	-5.1	-1.8	-1.5	-2.6
Total growth (y/y%)	7.7	16.1	8.8	10.6	6.6	1.5	-2.3
Current Op. income	123	151	135	129	135	158	158
Current Op. margin (%)	12.7	13.9	13.1	12.9	13.0	14.3	14.9
Margin y/y change (bps)	-32	-5	-31	-33	30	43	98

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

ANALYSIS

- Imerys reported H1 2016 results yesterday after market close. Revenues rose 1.9% to EUR2097m, but were down 2.2% on an organic basis and 2% below our estimates. By quarter, the like-for-like decline worsened, with -2.6% in Q2 following -1.8% in Q1. The comparison basis part explained this poor performance (for some divisions in particular) but some end-markets remain difficult, in particular steel and paper. Note that 12-month organic growth clearly reflected a modest but regular improvement in the trend (-4.6% in Q4 2015, -3.9% in Q1 2016, -3.7% in Q2 2016). In addition, comparison definitely becomes easier as of Q3.
- On the contrary, operating margins are strong in almost every division. Current operating income rose by 6.9% in H1 2016 to EUR293m, in line with our estimates, implying a margin of 14%, up 70bps in H1 showing a fine acceleration in Q2 (+100bps), following an already decent (+30bps) Q1. Filtration & Performance Additives current operating margins benefited in benefit from the integration of S&B (no details disclosed).
- Imerys expects current net income growth in 2016 to be comparable to the increase in H1, i.e. around 5.2%. We are at 7% (restated in order to be comparable with reported figures). In any case, management confirmed half of the EUR25m of synergies from S&B should be generated this year.
- Top line growth was not impressive. We expected slightly better organic growth. However, management considers the economic environment is a bit brighter, and, combined with a further easier comparison basis in Q3 and Q4, the organic decline should be more limited from now on and consensus is not a risk.
- In contrast, profitability is very strong and slightly better than our estimates in H1. This is positive of course and should underpin the share price. But guidance is not aggressive. In our view, this is partly due to some seasonality in the business, with usually lower margins in H2. This prevents us from being more optimistic here.

VALUATION

- We have made virtually no changes to our estimates, apart from very light fine-tuning. Hence our FV is unchanged at EUR72, which is the average of a DCF and the application of recent EBIT and EBITDA multiples to our 2018 estimates, then discounted back (EUR68).

NEXT CATALYSTS

- Q3 2016 results: 28th October 2016



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