

29th July 2016

Construction & Building Materials

Saint Gobain

Price EUR37.28

A good publication with decent figures in H1 and a reassuring outlook

Fair Value EUR46 (+23%)

BUY

Bloomberg	SGO FP
Reuters	SGOB.PA
12-month High / Low (EUR)	44.5 / 32.1
Market Cap (EURm)	20,687
Ev (BG Estimates) (EURm)	27,011
Avg. 6m daily volume (000)	1,941
3y EPS CAGR	16.2%

	1 M	3 M	6 M	31/12/15
Absolute perf.	11.3%	-8.4%	0.5%	-6.4%
Cons & Mat	10.4%	-2.1%	5.2%	-0.3%
DJ Stoxx 600	7.2%	-2.7%	1.4%	-7.2%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	39,623	39,551	41,048	42,520
% change		-0.2%	3.8%	3.6%
EBITDA	3,844	4,040	4,559	4,989
EBIT	2,636	2,840	3,309	3,739
% change		7.7%	16.5%	13.0%
Net income	1,165	1,189	1,511	1,811
% change		2.1%	27.1%	19.8%

	2015	2016e	2017e	2018e
Operating margin	6.7	7.2	8.1	8.8
Net margin	1.1	3.1	3.8	4.4
ROE	6.1	6.1	7.5	8.5
ROCE	5.9	6.7	7.6	8.4
Gearing	24.8	22.7	19.1	14.3

(EUR)	2015	2016e	2017e	2018e
EPS	2.06	2.12	2.69	3.23
% change	-	3.0%	27.1%	19.8%
P/E	18.1x	17.6x	13.8x	11.5x
FCF yield (%)	5.9%	5.6%	7.1%	8.3%
Dividends (EUR)	1.24	1.30	1.30	1.30
Div yield (%)	3.3%	3.5%	3.5%	3.5%
EV/Sales	0.7x	0.7x	0.6x	0.6x
EV/EBITDA	7.1x	6.7x	5.8x	5.2x
EV/EBIT	10.3x	9.5x	8.0x	6.9x

Acceleration in organic sales growth in Q2: +3.8% after +1.8% in Q1, with sales at EUR10413m (in line). H1 2016 operating income stood at EUR1.368bn (c2% above consensus) up 10% on lfl, with a 7% margin, up 60bp y/y. Most of the businesses were well-oriented except pipes, while organic growth in France was finally positive at 1.3% in Q2. The outlook is fine with promising comments for France in particular. Guidance for lfl growth in operating income in H2. Positive.

Saint-Gobain reported H1 results last night. H1 revenues came in at EUR19.549bn, with 2.9% organic growth and an acceleration in Q2 (+3.8%). The group benefited from a positive calendar effect (1% effect on H1). Forex was clearly negative at -3.5% and the scope effect was limited at -1%. Operating income rose by +10.2% to EUR1368m roughly 2% above consensus (EUR1345m). Current net income was up 13% to EUR624m. Net debt dropped 17% to EUR6.6bn (ie 1.7x EBITDA).

Quarterly organic growth in revenues and H1 operating margins

%	Q115	Q215	Q315	Q415	Q116	Q216	H115 mg	H116 mg
Flat Glass	5.8	5.5	5.5	3.3	4.9	8.0	7.4	8.8
HPM	-2.2	0.3	-1.3	-1.0	3.6	0.4	13.5	14.0
Interior	0.9	3.4	1.3	2.3	5.8	4.8	9.0	10.2
Exterior	-7.2	5.7	-0.6	-3.5	-4.4	0.1	8.3	8.3
Distrib.	-2.6	0.1	-1.0	0.7	1.4	4.6	2.6	2.8
France	-4.7	-3.3	-4.8	-3.1	-0.2	1.3	2.6	2.4
Europe	0.9	2.4	1.4	3.5	2.0	6.3	5.4	5.9
NAM	-9.7	4.9	-1.5	-2.4	3.2	4.3	9.5	11.6
EM&Asia	4.0	5.8	4.9	1.3	4.5	3.9	10.0	10.6
Total	-1.2	2.1	0.2	0.4	1.8	3.8	6.4	7.0

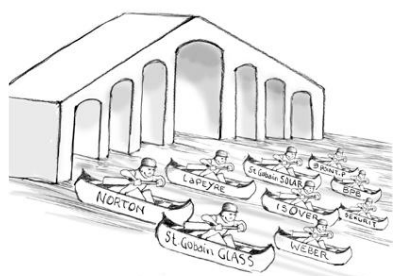
Source : Company Data; Bryan Garnier & Co. ests.

ANALYSIS

- By business, flat glass margin continued to improve significantly in H1 with 8.8% vs 7.4% last year, thanks to the automotive and construction markets. Roofing volumes accelerated and distribution benefited from favourable trends in construction in western Europe. Pipes remained difficult and explained the 2% organic decline in exteriors solutions in H1.
- By zone, apart from Brazil and China, comments were positive, in particular for India, the US (construction) and western Europe. Note that France stabilised in H1, with renovation still “sluggish” although the SGO stated that “new-build activity showed the first signs of improvement”.
- Outlook is fine in our view. Growth is expected in H2 in western Europe (the Brexit effect remains a question mark, though), in North America (despite uncertainty for the industrials segment) and Asia/Emerging (apart from Brazil). Regarding France (a quarter of sales), Saint-Gobain stated “France should gradually benefit from the recovery in new-builds after stabilising over the six months to 30th June”. As far as we know, this is the first time the SGO has mentioned growth for its core country.
- Guidance: management “expects a like-for-like improvement in operating income in the second half versus the second-half of 2015”, which is achievable in view of double-digit growth in H1. We are forecasting around 12% organic growth for H2 in our model today. Comparison bases are ok (organic growth in operating income was +1.2% in H1 2015 and around 3% in H2 2015 according to our calculations). We stand 3% above the consensus however.
- H1 2016 results were satisfying and outlook promising with, at last, some hope of a gradual recovery in France for Saint-Gobain businesses. This is definitely positive for sentiment as it is viewed as a key catalyst for the stock. Hopefully the 8h30 meeting will reinforce this positive sentiment.

VALUATION

- EUR46 derived from the application of historical EV/EBIT to our 2018 forecast, discounted back.



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