

Saint Gobain

Price EUR39.50

Follow-up on existing-home transactions impact

Fair Value EUR46 (+16%)

BUY

Bloomberg	SGO FP
Reuters	SGOB.PA
12-month High / Low (EUR)	41.8 / 32.1
Market Cap (EUR)	21,919
Ev (BG Estimates) (EUR)	28,243
Avg. 6m daily volume (000)	1,748
3y EPS CAGR	16.2%

	1 M	3 M	6 M	31/12/15
Absolute perf.	4.2%	1.0%	4.9%	-0.9%
Cons & Mat	5.8%	6.7%	9.5%	6.4%
DJ Stoxx 600	2.4%	2.1%	2.2%	-4.5%

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%

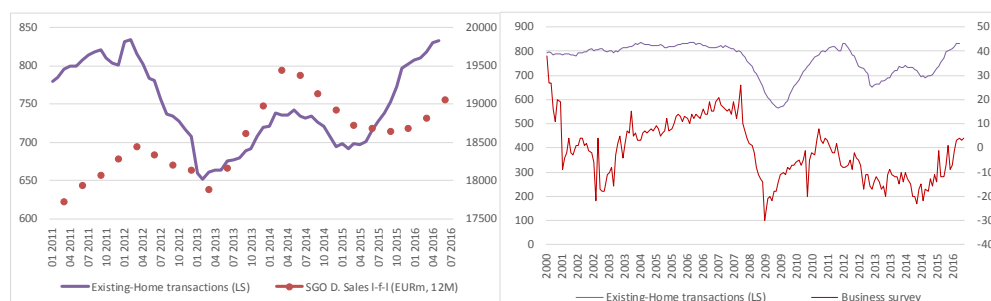
	2015	2016e	2017e	2018e
Operating margin	6.7	7.2	8.1	8.8
Net margin	1.1	3.1	3.8	4.4
ROE	6.1	6.1	7.5	8.5
ROCE	5.9	6.7	7.6	8.4
Gearing	24.8	22.7	19.1	14.3

(EUR)	2015	2016e	2017e	2018e
EPS	2.06	2.12	2.69	3.23
% change	-	3.0%	27.1%	19.8%
P/E	19.2x	18.6x	14.7x	12.2x
FCF yield (%)	5.5%	5.3%	6.7%	7.8%
Dividends (EUR)	1.24	1.30	1.30	1.30
Div yield (%)	3.1%	3.3%	3.3%	3.3%
EV/Sales	0.7x	0.7x	0.7x	0.6x
EV/EBITDA	7.4x	7.0x	6.1x	5.4x
EV/EBIT	10.8x	9.9x	8.4x	7.2x

We continue to see the current share price as a decent entry point. Despite promising pre-indicators for the French construction sector, and positive comments from management regarding the new residential market in France, the share price is still under pressure. In this note, we present a view on the correlation between SGO distribution trends and existing-home transactions. We clearly expect recent improvements to strengthen in the near future. Buy reiterated.

We have been frustrated by the market reaction following the publication of H1 results, which were robust with operating income up 10% lfl and a 60bp improvement in margin. Most businesses reported decent figures, in particular flat glass. Additionally, we pointed out that **1)** distribution sales showed a clear rebound in Q2 at +4.6% compared with a decline or poor growth over the past five quarters and margin was up 20bp, **2)** France top line was up 1.3%, vs a decline for the last five quarters, while the margin decline was due to the pipes business, not distribution. This could be a turning point in our view. Admittedly, while comments on the French residential market have not changed ("renovation market remains sluggish for the time being"), management has made positive comments on France ("new-build activity showed the first signs of improvement"), bearing in mind that Saint-Gobain is more exposed to the French renovation sector (12% est of consolidated sales) than French new residential (6%) however.

Existing-home transactions vs distribution sales - Transactions vs business survey in RMI segment*



(*transactions in thousand). Source : Saint-Gobain, CGEDU/FR. MINISTER OF ENVIRONMENT, INSEE, BRYAN, GARNIER & CO

The left-hand chart compares existing home transactions in France with revenues at Saint-Gobain Distribution. We have recalculated annual revenues based on organic top line growth. Approx. 40% of SGO distribution is generated in France, while 75% of France sales are generated by the distribution business. France remains a pretty good proxy for the distribution business. The Business Survey is actually a monthly survey on French craftsmen measuring the trend of planned activity for the RMI (renovation, maintenance, improvement) segment. These numbers are collected by INSEE.

ANALYSIS

- Firstly, as shown in the right-hand chart, we can see some correlation between transactions and the confidence of craftsmen in the future. Secondly, there is a decent correlation between existing-home transactions and Saint-Gobain revenues within the distribution segment. However, there has been a lag recently, that we estimate at around two quarters roughly.
- We think the improvement seen in Q2 (in France and distribution) is likely to strengthen in H2. We view it as a positive catalyst for the SGO share price, as distribution benefits from genuine operating leverage, around 20-30% (less than industrial businesses at 35-55%).

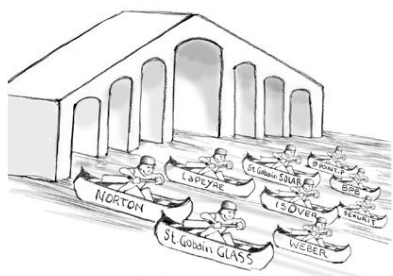
VALUATION

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

NEXT CATALYSTS

- 9 month revenues on 27th October 2016, after market

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Analyst :

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

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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
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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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