

Imerys

Price EUR67.43

Another strong operating margin increase, but still not top-line organic growth

Fair Value EUR72 (+7%)

BUY-Top Picks

Q3 revenues are down -2.5 % on a like-for-like basis at EUR1030m. Volumes (-3.2%) have been penalised by the usual weak markets, steel and papers, while mix-price is still positive (+0.7%), notably thanks to new products. The good news is that the current EBIT is up 10% at EUR149m. This is another steady improvement of margin: +130 bps at 14.4% in Q3, following +30bps in Q1 and +100bps in Q2. Hence we expect a positive market reaction today. Conference call at 10am.

Quarterly trends

EURm	Q115	Q215	Q315	Q415	Q116	Q216	Q316 rep.	Q316 est.
Revenues	974	1084	1027	1002	1038	1059	1030	1062
Volumes (y/y%)	-5.9	-4.8	-6.5	-6.2	-2.6	-3.3	-3.2	0.0
Price/mix (y/y%)	1.3	1.5	0.9	1.1	0.8	0.8	0.7	0.0
Organic (y/y%)	-4.5	-3.3	-5.6	-5.1	-1.8	-2.6	-2.5	-0.7
Total growth (y/y%)	7.7	16.1	8.8	10.6	6.6	-2.3	0.3	3.4
Current Op. income	123	151	135	129	135	158	149	145
Current Op. margin (%)	12.7	13.9	13.1	12.9	13.0	14.9	14.4	13.6

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

Q3 revenues increase by 0.3% in Q3 at EUR1.03bn, a combination of 3.2% volume decline, 0.7% positive price/mix effect (leading to a -2.5% organic change), a limited 0.4% forex effect and a 2.3% scope effect. In term of current operating margin, it is worth underlying the quarterly y/y improvement acceleration.

By division, we don't see any obvious change of trends compare to Q2. **Energy Solutions & Specialties** remain under pressure (Q3 sales down -3.2% l-f-l) penalised by lower maintenance operation in the European steel business, impacting refractories sales, while proppant market is still weak. **High Resistance Materials** are weak too (Q3 sales down -5.5% l-f-l), penalised by a poor refractories markets. On contrary, **Filtration & Performance Additives** continue to report flat growth (-0.5% l-f-l in Q3), thanks to the new products contribution; while sales decline for Ceramic Materials is limited to -2.1% l-f-l in Q3. The tile market remains tepid in France (-0.5% for the first 9M according to the French Federation), while the division is penalised by the paper market lack of dynamism.

Despite negative organic growth, Imerys continue to report strong operating margin (14.1% at end September). Actually, the increase of profitability is strengthening : +30bps in Q1, +100bps in Q2 and +130bps in Q3. Part of this good performance is explained by the BRL weakness, but of course this is likely to be less the case in Q3. Besides, the inflation in Brazil takes its toll too (-EUR13.4m in the first 9 months, while forex positive impact was +EUR29.8m, mostly due to the Real).

ANALYSIS

- Top-line organic growth is still negative despite easier comparison basis. The pace of decline is clearly reducing compare with 2015 though, but of course it remains very sluggish overall.
- On the positive, profitability improvement continue to be impressive, new products contribute to the top line and S&B integration is going well. Besides, Imerys confirms 2015 pre-tax losses in the proppants business (-EUR27m) should not be exceeded this year.
- Guidance of an increase of the 2016 current net profit similar to H1 reiterated (ie approx. 6.2%). At end September, the trends are actually bang in line, with a recurring net profit, group share, at EUR275m, up 6.2% exactly. All in all, we suspect share price reaction to be positive today.

VALUATION

- 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.

NEXT CATALYSTS

- Conference call today at 10am.

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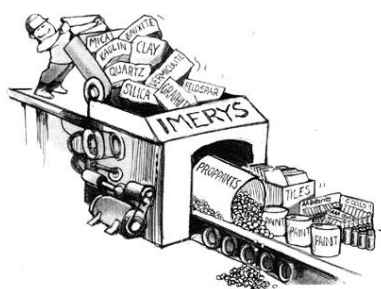
Bloomberg	NK FP
Reuters	IMTP.PA
12-month High / Low (EUR)	68.0 / 51.6
Market Cap (EURm)	5,366
Ev (BG Estimates) (EURm)	7,073
Avg. 6m daily volume (000)	61.80
3y EPS CAGR	9.2%

	1 M	3 M	6 M	31/12/15
Absolute perf.	6.8%	11.2%	6.1%	4.7%
Cons & Mat	-0.7%	3.6%	2.4%	3.9%
DJ Stoxx 600	0.4%	-0.3%	-1.9%	-6.6%

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	18.9x	17.0x	15.4x	14.5x
FCF yield (%)	5.2%	3.6%	4.8%	5.4%
Dividends (EUR)	1.75	1.86	1.98	2.11
Div yield (%)	2.6%	2.8%	2.9%	3.1%
EV/Sales	1.7x	1.7x	1.6x	1.6x
EV/EBITDA	9.6x	8.9x	8.2x	7.8x
EV/EBIT	15.2x	13.8x	12.7x	12.1x



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