

Imerys

Price EUR63.00

Roadshow feedback and follow-up after a harsh market reaction

Fair Value EUR72 (+14%)

BUY-Top Picks

Bloomberg	NK FP
Reuters	IMTP.PA
12-month High / Low (EUR)	68.0 / 51.6
Market Cap (EURm)	5,013
Ev (BG Estimates) (EURm)	6,706
Avg. 6m daily volume (000)	62.80
3y EPS CAGR	9.1%

The share price has been under strong pressure following the publication of the 9 months figures, penalised in particular by tepid volumes and higher non-recurring charges, mostly some Chinese asset write-offs within the refractories activity. We don't deny the environment is tough for Imerys, hence the modest organic growth. But the group doesn't rest on its laurels and continues to generate operating margin improvement and to regularly integrate new acquisitions. We are buyers.

ANALYSIS

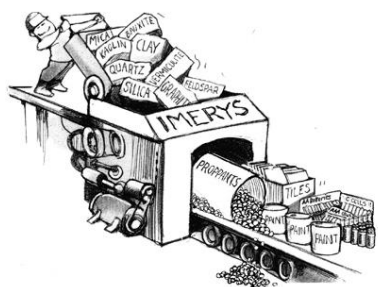
- Volumes are still under pressure in Q3 despite an easier comparison basis, but rolling 12 months figures suggest trends might start to stabilise progressively. Admittedly, steel markets have been disappointing in Q3, and were down again as anti-dumping measures in the US start to ease. Paper markets are not dynamic either, although the trend is finally similar to the last quarters. Finally, the France tiles market is down -0.5% YTD. But overall, the negative trends are gradually fading.
- The increase in non-recurring charges is worth mentioning. While they were down in H1, the increase is significant in Q3, with a - EUR30m charge vs -EUR12m last year, post tax. A large part of this is explained by the write-off of some Chinese assets within the refractories activity. This is of course always disappointing, as it reflects lower-than-expected results from this asset. But, contrary to the usual restructuring costs that we consider quite recurring, this write-off should more be seen as a one-off charge, in our view. Also we don't view the deterioration of the non-recurring charges as a warning on Imerys' financial health. Our clean earnings are not impacted.
- Imerys continues to believe the ceramic proppants markets will improve eventually. Actually, the number of rigs has increased in the US since end May. Logically, however, the first rigs to open are the rigs with the lowest cost price, usually located in basins where ceramic proppants are less or not used. Imerys considers oil prices have to reach USD55-USD60 in order to see producers opening rigs that are more demanding (technically speaking) and increase their use of ceramic proppants.
- We are positive on the stock. We recognize volumes are tepid but they are progressively improving and a stabilization in 2017 is not excluded. In any case, with a c50% operating leverage, any improvement on the top line will have a significant impact on the current operating income. Besides, the group has been able to fully compensate negative forex on the 9 months (-0.7%) and negative organic growth (-2.3%) by a significant scope impact (+4.4%). With a net debt/ EBITDA ratio <2x in 2016E, we can not rule out further acquisitions in the near future.

	1 M	3 M	6 M	31/12/15
Absolute perf.	-1.4%	-1.0%	-1.3%	-2.2%
Cons & Mat	-1.7%	4.2%	2.0%	3.9%
DJ Stoxx 600	-0.5%	0.4%	-2.3%	-6.8%

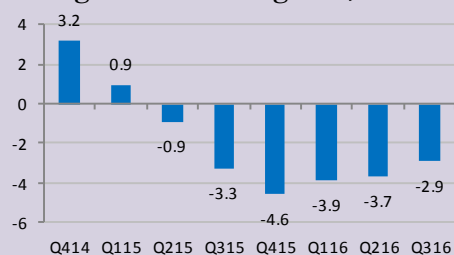
YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	4,087	4,141	4,233	4,317
% change		1.3%	2.2%	2.0%
EBITDA	745	791	848	875
EBIT	468.2	511.9	549.8	564.5
% change		9.3%	7.4%	2.7%
Net income	285.9	321.7	349.5	368.5
% change		12.5%	8.6%	5.4%

	2015	2016e	2017e	2018e
Operating margin	11.5	12.4	13.0	13.1
Net margin	1.7	7.0	8.3	8.6
ROE	12.9	13.6	13.4	13.2
ROCE	7.9	7.8	8.2	8.4
Gearing	55.4	53.7	47.6	41.1

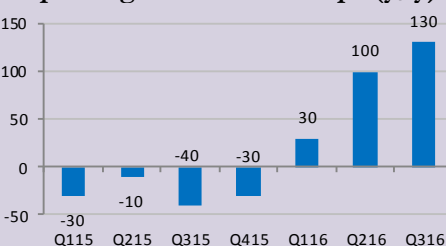
(EUR)	2015	2016e	2017e	2018e
EPS	3.56	4.03	4.39	4.63
% change	-	13.2%	8.9%	5.4%
P/E	17.7x	15.6x	14.3x	13.6x
FCF yield (%)	5.6%	4.1%	5.0%	5.8%
Dividends (EUR)	1.75	1.89	2.00	2.10
Div yield (%)	2.8%	3.0%	3.2%	3.3%
EV/Sales	1.7x	1.6x	1.6x	1.5x
EV/EBITDA	9.1x	8.5x	7.8x	7.4x
EV/EBIT	14.5x	13.1x	12.0x	11.5x



L-f-l growth*: still negative, but less



Op. margin increases in bps (y/y)



* rolling 12 months in %, Source : Imerys, Bryan Garnier & co

VALUATION

- Our FV is unchanged at EUR72, which is the average of a DCF and the application of historical EBIT and EBITDA multiples to our 2018 estimates, discounted back.

NEXT CATALYSTS

- FY 2016 results to be reported on 16th February 2017

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