

Plastic Omnium

Price EUR29.68

Growth from SCR is not a chimera

Fair Value EUR36 (+21%)

BUY-Top Picks

Bloomberg	POM.FP
Reuters	PLOF.PA
12-month High / Low (EUR)	31.2 / 24.5
Market Cap (EURm)	4,525
Ev (BG Estimates) (EURm)	5,003
Avg. 6m daily volume (000)	186.6
3y EPS CAGR	20.8%

Last Friday we hosted Plastic Omnium (*IR & Executive Vice President of Communications*) during a breakfast organised with French investors. Global tone on short term was quite reassuring, with the group confirming Chinese and North American markets are so far still offering growth, thanks to new contracts, while sales growth on mid to long term would come from innovation mainly. Plastic Omnium remains our top pick for Q4-16. Buy rating confirmed with FV unchanged at EUR36/sh.

ANALYSIS

	1 M	3 M	6 M	31/12/15
Absolute perf.	3.7%	8.2%	-0.1%	3.3%
Auto & Parts	3.0%	5.6%	-3.7%	-12.6%
DJ Stoxx 600	0.5%	1.1%	-1.5%	-5.9%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	5,010	5,813	6,878	7,310
% change		16.0%	18.3%	6.3%
EBITDA	691	774	982	1,057
EBIT	470.0	533.3	630.6	701.6
% change		13.5%	18.3%	11.2%
Net income	258.7	323.8	400.7	453.8
% change		25.2%	23.8%	13.2%

	2015	2016e	2017e	2018e
Operating margin	9.4	9.2	9.2	9.6
Net margin	5.2	5.6	5.8	6.2
ROE	20.4	21.4	22.0	21.0
ROCE	20.0	15.7	19.0	20.0
Gearing	20.8	54.8	24.7	12.2

(EUR)	2015	2016e	2017e	2018e
EPS	1.68	2.12	2.62	2.97
% change	-	25.7%	23.8%	13.2%
P/E	17.6x	14.0x	11.3x	10.0x
FCF yield (%)	4.6%	2.7%	5.9%	6.5%
Dividends (EUR)	0.41	0.53	0.65	0.74
Div yield (%)	1.4%	1.8%	2.2%	2.5%
EV/Sales	0.9x	0.9x	0.7x	0.6x
EV/EBITDA	6.5x	6.5x	4.7x	4.2x
EV/EBIT	9.5x	9.4x	7.3x	6.3x

- A few words on Q3:** **1/** All Q3 metrics were strong and in line with our expectations. **2/** The group continued to strongly outpace global automotive production in Q3 thanks to higher business from JLR and the SCR segment. **3/** 2016 sales guidance was confirmed (*pro-forma economic sales of around EUR7.5bn*). **4/** The group indicated it continued its ongoing effort to optimise its industrial footprint with the closing of its exterior body parts production site in Norcross (*Georgia, U.S.*) with transfer of production to the Chattanooga and Anderson sites. **5/** The **EUR70m in potential synergies** coming from the FAE integration were confirmed, while the group indicated that the disposal process for the French sites and a Spanish site for the bumper business and of the front-end assembly business in Germany is ongoing (*representing in total around EUR700m of sales*).
- Reassuring tone on Q4:** Comments on Q4 were reassuring on China (*8-9% of group's sales*) where the group will continue to strongly outperform market growth (*+24.5% in 9M vs. 11.6% for the market*) as well on North America where the group sees no sign of slowdown on the short term (*at least on its business*) despite production cut of Ford F-150. As a reminder group's target is to generate by 2016 **EUR7.5bn** of pro-forma economic sales (*with Faurecia consolidated during full year*) implying roughly **EUR5.8bn** of consolidated sales and most importantly implying **16%** of YoY sales growth and of **9.4%** LfL sales growth for 2016 (BGe). We expect the group to post **26%** YoY sales growth during last quarter after **+22%** in Q3 and **+7.5%** in H1-16.
- Growth from SCR is not a chimera:** The VW gate is accelerating the need for SCR technology and so the need for SCR ammonia tank system, to the profit of POM. Since the beginning of the year, group's sales within this field increased by **37%** making the group confident it will reach its 2016 **EUR300m** sales target (*+50% vs. 2015*). As a reminder the group ambitions to achieve **EUR600m** of sales on SCR by 2019/20. While we admit the uncertainties linked to diesel market share decline within new production are important (*diesel currently represent 19% of total worldwide auto production*) and could lead to lower than expected sales growth for the group from this business, we also believe stricter regulation in Europe from **Euro 7** implementation (*2020/21*) could lead to SCR demand from gasoline engines equipped with direct injection. The group could also enter within the industrial market (buses, high
- POM, an auto supplier offering the highest EPS CAGR within our universe over 2016-18:** Thanks to the integration of FAE and thanks to its innovation solutions we believe the group will be able to generate **21%** EPS CAGR over 2016-18 ahead of most of its European peers. Assuming dividend pay-out ratio will remain unchanged at **25%** implies dividend distributed by the group will rise by **40%** over 2016-18 (*from EURO.53/sh in 2016e to EURO.74/sh*) ahead of **Valeo** (25%), **Faurecia** (25%) and **Hella** (23%).
- We confirm our **Buy recommendation with FV and estimates unchanged at EUR36/share**.

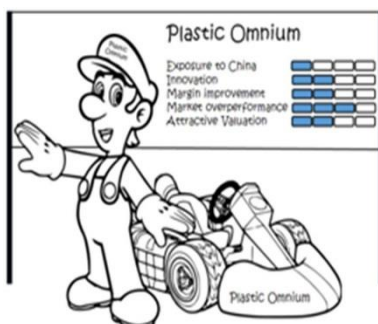
VALUATION

- At current share price the group is trading at **4.7x** its **2017e** EBITDA and at **11.3x** its **2017e** earnings
- Buy, FV @ EUR36**

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