

7th October 2016

Construction & Building Materials

**Saint-Gobain**

Price EUR38.91

Endless sluggishness is not our scenario (report released today)

Fair Value EUR46 (+18%)

**BUY**

Bloomberg	SGO FP
Reuters	SGOB.PA
12-month High / Low (EUR)	41.8 / 32.1
Market Cap (EURm)	21,590
Ev (BG Estimates) (EURm)	27,927
Avg. 6m daily volume (000)	1,690
3y EPS CAGR	16.8%

Earlier this week, we organised a roadshow with Saint-Gobain. The company remains cautious regarding France, but admits new builds have started to positively impact the business and this underlies craftsmen's order books which have increased in 2016. The comparison basis should improve in Pipes, while Emerging Markets are remarkably resilient. Q3 on 27/10.

**ANALYSIS**

- France: the trend has clearly changed since last year. In H1 2016, organic growth stood at only 0.6%, but this would have exceeded 2% when adjusted for the difficult Pipes business. Adjusted for a positive 1% calendar effect, the growth is still positive and much better than the 2015 trend (-4.1%), despite various strikes (and floods) in France in May-June. We expect better trends in H2, with a further new-build positive impact, a better comp base for Pipes and a gradual recovery in renovation, which has been sluggish so far.
- The Rest of Europe is doing fine (4.3% organic growth in H1), in particular the Nordics (Sweden and Norway) with the distribution business, Germany (while 2015 was disappointing) and the UK (mostly distribution), where the group is not worried today despite Brexit. North America's (3.6%) performance has benefited from a healthy roofing business and from a positive construction environment so far. Industrial markets (~40% of US sales) are more complicated but Saint-Gobain is exposed to dynamic niches as well (medical, aerospace, high tech...). Finally, EM are remarkably strong (+4.9%), despite Brazil and China.
- Sika: the next step will in the first instance be the decision made by the Court of Zug (regarding the voting rights' limitation of the Burkard family) which is now expected in Q4 (said the Court). With appeals, legal delays may add up to 2 years. The current deal between SGO and the family ends in June 2017 but with an option to extend it until end 2018. EUR2.4bn is totally fixed, whatever the performance of Sika or CHF exchange rate.
- We are buyers of Saint-Gobain at the current share price. We believe the company will eventually benefit from the recovery in the French renovation market. Thanks to a strong 20-30% operating leverage in building distribution, this should be translated into stronger results.

	1 M	3 M	6 M	31/12/15
Absolute perf.	-1.5%	19.5%	3.7%	-2.4%
Cons & Mat	-1.1%	15.6%	8.4%	5.2%
DJ Stoxx 600	-1.9%	7.5%	3.7%	-6.3%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	39,623	39,343	40,661	42,120
% change		-0.7%	3.4%	3.6%
EBITDA	3,844	4,027	4,533	4,959
EBIT	2,636	2,827	3,283	3,709
% change		7.2%	16.2%	13.0%
Net income	1,165	1,189	1,520	1,817
% change		2.0%	27.9%	19.5%

	2015	2016e	2017e	2018e
Operating margin	6.7	7.2	8.1	8.8
Net margin	1.1	3.2	3.9	4.5
ROE	6.1	6.2	7.6	8.7
ROCE	5.9	6.7	7.6	8.4
Gearing	24.8	24.7	21.7	17.6

(EUR)	2015	2016e	2017e	2018e
EPS	2.06	2.13	2.75	3.28
% change	-	3.7%	28.6%	19.5%
P/E	18.9x	18.2x	14.2x	11.9x
FCF yield (%)	5.6%	4.9%	6.0%	7.2%
Dividends (EUR)	1.24	1.30	1.30	1.30
Div yield (%)	3.2%	3.3%	3.3%	3.3%
EV/Sales	0.7x	0.7x	0.7x	0.6x
EV/EBITDA	7.3x	6.9x	6.0x	5.3x
EV/EBIT	10.7x	9.9x	8.3x	7.1x

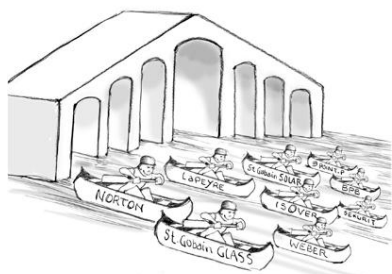
**VALUATION**

- EUR46 with the application of historical EV/EBIT to our 2018 estimates, discounted back.

**NEXT CATALYSTS**

- Q3 revenues on 27th October 2016

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