

Imerys

Price EUR65.68

Before the cycle recovery; feedback of our London roadshow (24 Nov.).

Fair Value EUR72 (+10%)

BUY-Top Picks

Bloomberg	NK FP
Reuters	IMTP.PA
12-month High / Low (EUR)	68.0 / 51.6
Market Cap (EURm)	5,226
Ev (BG Estimates) (EURm)	6,919
Avg. 6m daily volume (000)	61.60
3y EPS CAGR	9.1%

	1 M	3 M	6 M	31/12/15
Absolute perf.	4.3%	4.3%	3.3%	2.0%
Cons & Mat	-0.5%	-1.7%	1.8%	3.4%
DJ Stoxx 600	-0.3%	-1.1%	-2.8%	-7.1%

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	18.4x	16.3x	15.0x	14.2x
FCF yield (%)	5.4%	4.0%	4.8%	5.5%
Dividends (EUR)	1.75	1.89	2.00	2.10
Div yield (%)	2.7%	2.9%	3.0%	3.2%
EV/Sales	1.7x	1.7x	1.6x	1.6x
EV/EBITDA	9.4x	8.8x	8.0x	7.7x
EV/EBIT	14.9x	13.5x	12.4x	11.9x

The share price has almost entirely recovered from its sharp drop on 30 October and YTD performance is decent at +2% (vs -7% for the DJ Stoxx 600). Although this roadshow didn't provide any really fresh news, it reminds us that most Imerys' markets should benefit from a gradual recovery of their cycle, apart from paper, structurally declining (excl. packaging). The main uncertainty remains the timing of the recovery of course. In any case, 2017 should benefit from an easier comp. basis on the volumes, while energy cost increase is manageable. Finally, some M&A activity would not surprise us.

ANALYSIS

- Although top-line volumes were still under pressure at end September (-3%), there are numerous reasons to be less pessimistic today. **1)** About two-thirds of the organic decline in revenues for the first 9 months is explained by the tepid dynamic of European steel markets. Fortunately, the anti-dumping measures to protect European steel industries, which should be in place by the end of 2017, should have positive impact on the market. A lot of players have postponed maintenance capex because of the market slowdown. Any improvement in the outlook should then underpin the need for refractories replacement. Imerys is well placed as its key products (refractories monolithic) are very convenient and quick to install inside furnaces. Let's not forget that crude steel production in European Union is down 4.2% on the first 10 months, but slightly up (+0.3%) in October, according to Wordsteel; **2)** Renovation in construction in France remains weak admittedly, but leading indicators are promising: individual houses starts are better oriented (+5% y/y at end September on a 12-month basis). Besides, markets are decent in some other parts of Europe like the Nordic countries, the UK or Germany. But, **3)** Paper markets (printing, publishing) remains structurally down by 2-3% (although packaging is dynamic). Finally, it's worth stressing some of Imerys' markets are actually dynamic today, like minerals for the automotive industry or for the energy (lithium-ion batteries) or cosmetic sectors, amongst others.
- No fresh news regarding the ceramic proppants business exposed to the shale oil & gas market in the US. The oil price has to reach and stay around USD55-USD60 before to see producers start to operate rigs with more proppants. In any case, Imerys remains convinced the market is cyclical and has reminded us that, back in 2014, the proppant business has generated a EUR98m sales for an EBIT at the breakeven in H2.
- While energy and raw material price increases are likely next year. Imerys is not especially concerned. Energy represents a bit more than 10% of its (direct) cash costs, of which half is electricity (usually bought through multi-year contracts), 20% is oil and less than 30% gas. But the company is partly hedged on energy. Besides, the group has usually been able to more than balance the variable cost increase with a positive price-mix effect, notably thanks to innovation (new products represented 12% of sales last year and Imerys spends 1.6% of its revenues on R&D).
- We would not be surprised to see Imerys closing some acquisitions in the coming quarters. The company used to acquire an average of 4 to 5 firms per year. Volumes are under pressure this year and this could be a way for Imerys to report top-line growth, as was the case at end September (1.4% situation of Imerys sounds healthy, with a 1.8x debt/EBITDA ratio at end June, cost of debt at 2.3% for 5.1 years duration. The group has recently issued a EUR600m bond (a 12-year tranche at 1.8% and a 6-year one at 0.9%) to repay a EUR500m bond with a 5% coupon. In any case, the group's fire power stands probably around EUR1bn (depending of the target profile of course).

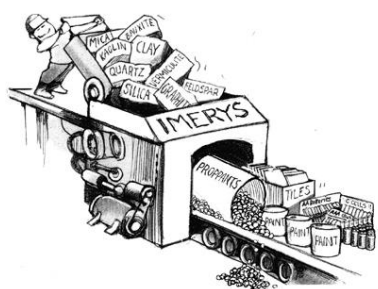
VALUATION

- Fair Value EUR72 is based on a combination of historical multiples (EUR68) and DCF (EU74)

NEXT CATALYSTS

- FY 2016 results to be released on 16th February 2017.

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