

Plastic Omnium

Price EUR28.39

Focusing on key businesses is margin-accretive

Fair Value EUR36 (+27%)

BUY-Top Picks

Bloomberg	POM FP
Reuters	PLOF.PA
12-month High / Low (EUR)	31.2 / 24.5
Market Cap (EUR)	4,329
Ev (BG Estimates) (EUR)	4,807
Avg. 6m daily volume (000)	192.2
3y EPS CAGR	20.6%

Plastic Omnium announced last Friday it has received a binding offer from German group mutares for the acquisition of its heavy duty truck business, which represented around 3-4% of reported 2015 sales and 1.5% of EBIT (BGE). While the impact of this deal on the group's EPS will be marginal, we appreciate the 20bp accretive impact it should imply for the group by 2018. Positive.

ANALYSIS

- **A quick word on the business sold off:** the Plastic Omnium truck business designs and manufactures body and structural parts for the heavy duty truck industry, has more than **1,500 employees** and generates around **EUR190m in sales**, representing around **3.8%** of reported sales. We estimate the **nine sites** concerned (five in France, one in Germany, one in Mexico and two in China) generated around **EUR6-7m** in EBIT, or only **1.5%** of the group's EBIT (before exceptionals) given that this business was generating a margin below the group average.
- **A disposal that makes sense:** In line with the disposal of two subsidiaries in the Plastic Omnium Environment Division back in August (disposal of Emballagen GmbH, specialised in the development, production and marketing of metal containers for the chemicals industry and disposal of Signature Limited, its subsidiary specialised in highway signage businesses), two non-core business activities for the group, this new disposal is in line with the group's strategy to focus on its most profitable businesses.
- **We have cut our 2017/18 sales estimates by 2% on average, with almost no changes on our EPS:** We have adjusted our model by assuming the deal closes at end Q1 2017. We have therefore cut our 2017/18 sales estimates by **2%** on average and kept almost unchanged our 2017/18 EPS due to the very poor profitability of the business. We assume a positive net debt impact for the group of around **EUR22m**.
- **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 innovative solutions, we believe the group will be able to generate a **21% EPS CAGR over 2016-18** ahead of most of its European peers. Assuming the dividend pay-out ratio remains unchanged at **25%**, dividends distributed by the group could rise by **40%** over 2016-18 (from **EUR0.53/sh** in 2016e to **EUR0.74/sh**) ahead of **Valeo (25%), Faurecia (25%)** and **Hella (23%)**.

VALUATION

- At the current share price Plastic Omnium trades at **7x** its 2017e EBIT and at **10.8x** its 2017e EPS
- **Buy, FV @ EUR36**

NEXT CATALYSTS

- 23rd February – Plastic Omnium // 2016 results

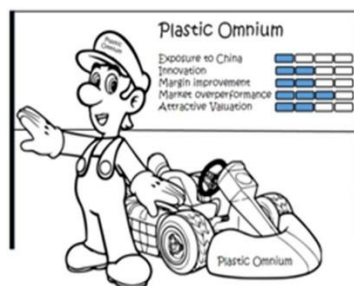
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	1 M	3 M	6 M	31/12/15
Absolute perf.	-4.0%	1.5%	1.2%	-1.2%
Auto & Parts	1.2%	2.1%	6.5%	-12.4%
DJ Stoxx 600	-0.9%	-1.0%	0.5%	-7.2%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	5,010	5,813	6,720	7,113
% change		16.0%	15.6%	5.9%
EBITDA	691	774	977	1,046
EBIT	470.0	533.3	626.0	694.8
% change		13.5%	17.4%	11.0%
Net income	258.7	323.8	399.7	451.9
% change		25.2%	23.5%	13.1%

	2015	2016e	2017e	2018e
Operating margin	9.4	9.2	9.3	9.8
Net margin	5.2	5.6	5.9	6.4
ROE	20.4	21.4	22.0	21.0
ROCE	20.0	15.7	19.2	20.2
Gearing	20.8	54.8	22.6	10.0

(EUR)	2015	2016e	2017e	2018e
EPS	1.68	2.12	2.61	2.95
% change	-	25.7%	23.5%	13.1%
P/E	16.9x	13.4x	10.9x	9.6x
FCF yield (%)	4.8%	2.8%	6.6%	7.0%
Dividends (EUR)	0.41	0.53	0.65	0.74
Div yield (%)	1.4%	1.9%	2.3%	2.6%
EV/Sales	0.9x	0.8x	0.7x	0.6x
EV/EBITDA	6.2x	6.2x	4.5x	4.0x
EV/EBIT	9.1x	9.0x	7.0x	6.0x



Analyst :
Xavier Caroen
33(0) 1.56.68.75.18
xcaroen@bryangarnier.com

Research Assistant :
Clément Genelot

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London	Paris	New York	Munich	New Delhi
Beaufort House	26 Avenue des Champs Elysées	750 Lexington Avenue	Widenmayerstrasse 29	The Imperial Hotel Janpath
15 St. Botolph Street	75008 Paris	New York, NY 10022	80538 Munich	New Delhi 110 001
London EC3A 7BB	Tel: +33 (0) 1 56 68 75 00	Tel: +1 (0) 212 337 7000	Germany	Tel +91 11 4132 6062
Tel: +44 (0) 207 332 2500	Fax: +33 (0) 1 56 68 75 01	Fax: +1 (0) 212 337 7002	+49 89 2422 62 11	+91 98 1111 5119
Fax: +44 (0) 207 332 2559	Regulated by the	FINRA and SIPC member		Fax +91 11 2621 9062
Authorised and regulated by the	Financial Conduct Authority (FCA) and the			Geneva
Financial Conduct Authority (FCA)	Autorité de Contrôle prudentiel et de			rue de Grenus 7
	resolution (ACPR)			CP 2113
				Genève 1, CH 1211
				Tel +4122 731 3263
				Fax+4122731 3243
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