

Imerys

Price EUR69.30

Reverse roadshow feedback – out of the top pick list following very good performance.

Fair Value EUR72 (+4%)

BUY

We met with Imerys CEO Gilles Michel last Monday on our reverse roadshow. Mr Michel is still very prudent regarding markets trends, but there are several reasons to be slightly optimistic: the worst regarding steel markets looks to be behind us, French existing-homes transactions are well-oriented, proppants situation will not deteriorate more while there are some discussions at the OPEP levels and some markets are actually well oriented (autos, consumer goods, etc...). All in all, a decent support for our Buy rating, but due to the lack of upside, we remove NK from our top pick list.

ANALYSIS

- The question of volumes trends is more than ever a key theme for Imerys. Of course, Gilles Michel noted Imerys has several ways to mitigate a difficult environment: prices increases (Imerys' minerals represents a small part of its client product cost of production), price-mix improvement, notably through innovation (R&D weighed 1.6% of sales and new products represented 12% of sales last year) and acquisitions (4.4% positive impact in the first 9 months this year vs -2.3% organic decline and +0.7% FX). The question of volumes has still to be answered.
- Regarding this issue, Gilles Michel doesn't promise the moon, but stressed that : **1)** steel markets are still under pressure, but its looks like the worst is behind us. This sounds positive as about two thirds of the organic decline in 9M 2016 revenues was explained by the tepid dynamic of European steel markets. In October 2016, crude steel production was up 0.3% in the EU (down -4.2% YTD); **2)** lead indicators are positive for renovation in France (existing-home transactions up 16% YTD at end August), while housing starts are up 6% on a 12-month basis at end October (Imerys is c75% exposed to revovation within the construction sector in France). However, renovation market is still tepid (CAPEB says +1% y/y in Q3 following +0.5% in H1 2016). The lack of confidence of the craftsmen may explain the reluctance to hire, despite a growing order book. The French presidential election probably reinforces the uncertain climate, too; **3)** finally, this is not a surprise, but some markets are dynamic: talc for the auto industry, minerals for the lithium-ion batteries or to replace chemical additives in the cosmetic industry or in fertilizers in farming.
- Proppants... with an oil price above USD60, the proppants market will make a comeback. Of course, Gilles Michel doesn't provide any guidance on the timing. We can note that there are some discussions about oil production at the OPEP level.
- What about leverage ? We think operating leverage for Imerys probably stood around 30% since 2011 (1€ in the top line to be translated into 30 cents in the operating income – all based on organic variation). With the current Imerys margin, EBIT organic growth is also roughly equivalent to 2x the top line organic growth. Hence, any rebound of volumes will have a positive impact on margin. Still, the mix can be slightly penalised, depending of the nature of the volumes. A few bps of margin deterioration is not an issue for the Imerys management anyway, who remain primarily focused on ROCE.
- Last but not least, Imerys is well placed to benefit from a Donald Trump infrastructure plan, as 25% to 30% of the group sales generated in the US are exposed to infrastructures. At end September, 25% of Imerys 9M revenues is generated in the US and Canada.
- The share price performance has been strong yesterday (+3.6%), probably underpinned by some asset rotation (in favour of Basics Resources) . Due to the lack of sufficient upside, we removed Imerys from our top pick list.

VALUATION

- EUR72 of Fair Value, based on a combination of historical multiples (EUR68) and DCF (EUR74).

NEXT CATALYSTS

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

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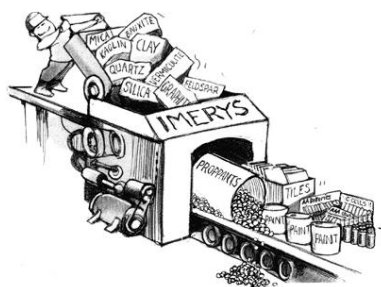
Bloomberg	NK FP
Reuters	IMTP.PA
12-month High / Low (EUR)	69.3 / 51.6
Market Cap (EUR)	5,514
Ev (BG Estimates) (EUR)	7,207
Avg. 6m daily volume (000)	61.90
3y EPS CAGR	9.1%

	1 M	3 M	6 M	31/12/15
Absolute perf.	9.6%	6.1%	6.6%	7.6%
Cons & Mat	3.2%	-0.9%	4.9%	6.0%
DJ Stoxx 600	4.2%	-0.8%	0.4%	-5.0%

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	19.4x	17.2x	15.8x	15.0x
FCF yield (%)	5.1%	3.8%	4.5%	5.2%
Dividends (EUR)	1.75	1.89	2.00	2.10
Div yield (%)	2.5%	2.7%	2.9%	3.0%
EV/Sales	1.8x	1.7x	1.7x	1.6x
EV/EBITDA	9.8x	9.1x	8.4x	8.0x
EV/EBIT	15.5x	14.1x	12.9x	12.4x



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