

Imerys

Price EUR70.00

Acquisition of Kerneos would add c10% of sales.

Fair Value EUR72 (+3%)

BUY

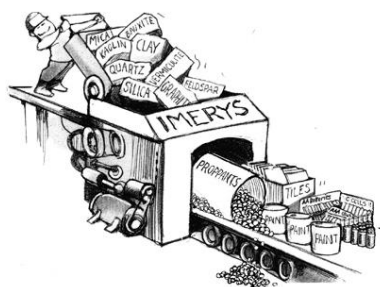
Bloomberg	NK FP
Reuters	IMTP.PA
12-month High / Low (EUR)	70.3 / 51.6
Market Cap (EURm)	5,570
Ev (BG Estimates) (EURm)	7,263
Avg. 6m daily volume (000)	61.70
3y EPS CAGR	9.1%

	1 M	3 M	6 M	31/12/15
Absolute perf.	7.1%	8.1%	10.4%	8.7%
Cons & Mat	0.4%	3.2%	7.5%	7.2%
DJ Stoxx 600	4.6%	2.9%	4.1%	-2.9%

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	19.6x	17.3x	15.9x	15.1x
FCF yield (%)	5.0%	3.7%	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	1.8x	1.7x	1.6x
EV/EBITDA	9.8x	9.2x	8.4x	8.0x
EV/EBIT	15.7x	14.2x	13.0x	12.5x



Imerys announced last night the contemplated acquisition of Kerneos, specialised in mineral-based binders, in particular for the construction industry. Kerneos is a decent size business (EUR415m of sales), profitable (EUR100m of EBITDA, i.e. a 24% margin vs 19% for Imerys) and reports dynamic organic growth for some markets. The price offered looks reasonable at 8.8x and does not deteriorate Imerys' investment profile (post deal net debt/EBITDA at 2.6x 2017e). In all, this looks positive for NK as M&A offsets the lack of organic growth. 2018e EPS to be enhanced by 4.5%, before synergies.

ANALYSIS

- Imerys has announced the (contemplated) acquisition of Kerneos. Kerneos develops binders (calcium aluminate based) for the building (i.e. mortars), civil engineering (i.e. sewage infra) and refractories (i.e. blast furnace) industries. The Kerneos binders offer several properties (rapid hardening, self-leveling, sealing, resistance). Kerneos has nine production units in five countries and does business in Europe, North America and Emerging Markets. 1,500 people work for the group.
- The size of the business is very comparable with the last Imerys acquisition, S&B. Kerneos had EUR415m in annual revenues at end-September (vs EUR400m for S&B when acquired) representing 10% of Imerys' 2016e revenues, for EUR100m in EBITDA, ie a 24% margin (vs 20% for S&B when acquired, or 19% for Imerys in 2016e). The mix impact will also be positive on Imerys' consolidated accounts. Kerneos generated a 3.3% CAGR in revenues in the last three years but we do not have the organic performance, except for the part of the business exposed to construction technologies - which was a very decent 7.1% increase. EBITDA grew 8% over the same period.
- The price stands at EUR880m, included debt, ie 8.8x EBITDA, which looks fine compared to Imerys multiple (9.2x 2016e) and below S&B ratio (9.5x) - all before synergies. Kerneos net profit is not disclosed here, but if we assume a net margin roughly similar to Imerys (8%), combined with a deal entirely financed through debt (3% cost) and a tax rate of 29%, Imerys EPS would be enhanced by c4.5% in 2017e and 2018e, before synergies (which are expected around EUR23m, very similar to those of S&B of EUR25m).
- Imerys' management will develop further on the deal today at 9.00am Paris time with a conference call (+33 1 70 77 09 46 or +44 203 367 94 53) or through a webcast on the company website. As far as we are concerned, we think the market should react positively to the deal. Any acquisition is a way for Imerys to balance the lack of organic growth and to reinforce the part of the business exposed to more dynamic markets. Execution risks should be limited, as the nature of Kerneos' business is likely to look familiar to Imerys. Finally, Kerneos looks profitable and dynamic at least on some markets, although reported top line growth does not look that impressive, although we do not have the growth breakdown.
- The deal is not completed, but based on the application of historical EV/EBITDA multiples (8.6x to 2018e estimates including Kernos annual contribution (EUR107m of EBITDA + EUR23m of synergies) this would add EUR3 to our valuation based on multiples. The deal should be completed by mid-2017. It should not deteriorate Imerys' credit rating, which will remain investment grade. 2017e net debt/EBITDA post deal stands at 1.7x vs 2.4x previously.

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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