

Imerys

Price EUR70.23

Exposure to construction technologies strengthened

Fair Value EUR75 vs. EUR72 (+7%)

BUY

Although the deal will not be closed before mid-2017, we have decided to take the Kerneos consolidation into account in our estimates. It adds EUR3 to our FV. Kerneos is likely to add growth and profitability to Imerys, although the part of the business exposed to refractories is probably not a must-have. In any case, the deal will offset a lack of volume growth at Imerys. This underpins our Buy recommendation, but admittedly upside is more limited, after the recent "rally" in the share price.

ANALYSIS

- Organic decline, mostly due to a volume decline, is currently one of the key issues in the investment case. The group is able to generate a positive price-mix but this is not enough to offset the volume decline. The group's ability to generate growth through M&A is also a key element of the strategy. At end-September, the 1.4% in revenue growth was a combination of a 3% volume decline, a +0.7% price-mix, -0.7% FX impact, more than offset by a positive 4.4% scope effect. This scope impact is likely to be reduced in Q4 2016 onwards, but the Kerneos acquisition will contribute in H2 2017. 2017 sales growth is likely to be decent then (>7%), mostly thanks to the scope effect (+5%) despite virtually no volume effect in our model (-0.1%) but another positive price-mix (+1%). Note that Kerneos generated EUR415m in annual sales at end September for EUR100m in EBITDA. The group is also more dynamic (3.3% sales CAGR in the last three years, virtually entirely organic) and more profitable (24% EBITDA margin vs 19% for Imerys), but is likely to report similar capex and capital intensity profiles than Imerys.
- Beyond top line growth, this acquisition should have a positive mix effect on EBIT margin, with Kerneos likely to stand at around 18% (estimated vs 13.8% expected for Imerys in 2016e). Nevertheless, capex will be significant in the next couple of years, above EUR40m vs maintenance capex around EUR30m to EUR35m pa.
- The benefits of Kerneos' products are very similar to those of Imerys, but they are not similar. The key product is calcium aluminate clinker (CAC, a combination of lime and alumina – Kerneos being the world leader), used in specialty cements and the key application is flooring (60% of construction technologies revenues or 46% of total revenues). It can give various qualities to screeds (rapid hardening, self-leveling, sealing etc). Also, like Imerys' products, the Kerneos products provide real value-added to the final product but represent a small share of its cost (but the final products, ie specialty cements, are much more expensive than common cement). Its worth underlying the fact that Kerneos is exposed to some niche markets in particular within the construction sector, usually more dynamic than the construction market per se. Imerys considers the construction segment where CAC is used increases by 4% to 5% per annum. Hence a top line growth more sustainable than Imerys. While c25% of Imerys revenues are exposed to construction, the group says there is a good fit with Kerneos, with no overlap (no cannibalisation of products). Interestingly, Sika, which currently reports steady revenues growth, is one of the clients of Kerneos.
- While 68% of Kerneos sales is exposed to construction technologies, 32% is exposed to refractories. The CAC can be used as an ingredient for products used in the insulation of furnaces. It provides resistance to heat or corrosion. One of its clients is Calderys, the Imerys subsidiary specialised in monolithic refractories. This part of the business is exposed to steel, in particular. This is of course a much more mature market. In the last three years, the sales decline has been -c5% according to our calculations. Imerys CEO Gilles Michel considers the worst should be behind us and expect this market to be more stable and "at some point to recover".

VALUATION

- Our new FV increased by roughly EUR3 per share, both through a DCF approach and with the application of historical multiples to our forecast. Our new FV stands at EUR75 (vs EUR72).

NEXT CATALYSTS

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

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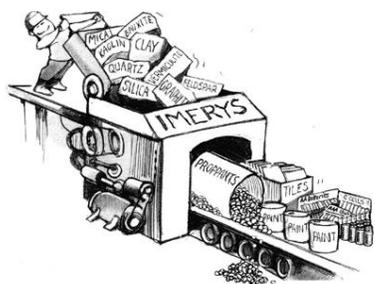
Bloomberg	NK FP
Reuters	IMTP.PA
12-month High / Low (EUR)	70.3 / 51.6
Market Cap (EUR)	5,588
Ev (BG Estimates) (EUR)	7,266
Avg. 6m daily volume (000)	62.20
3y EPS CAGR	13.1%

	1 M	3 M	6 M	31/12/15
Absolute perf.	7.5%	11.1%	13.9%	9.0%
Cons & Mat	2.0%	3.3%	9.6%	6.6%
DJ Stoxx 600	4.8%	3.4%	6.3%	-3.3%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	4,087	4,139	4,445	4,777
% change		1.3%	7.4%	7.5%
EBITDA	745	795	901	985
EBIT	468.2	526.7	608.7	673.1
% change		12.5%	15.6%	10.6%
Net income	285.9	339.3	371.0	409.9
% change		18.7%	9.3%	10.5%

	2015	2016e	2017e	2018e
Operating margin	11.5	12.7	13.7	14.1
Net margin	1.7	7.5	8.2	8.6
ROE	12.9	13.8	13.7	13.9
ROCE	7.9	8.0	8.3	8.3
Gearing	55.4	52.8	77.7	70.1

(EUR)	2015	2016e	2017e	2018e
EPS	3.56	4.26	4.66	5.15
% change	-	19.4%	9.6%	10.5%
P/E	19.7x	16.5x	15.1x	13.6x
FCF yield (%)	5.0%	4.0%	3.8%	4.4%
Dividends (EUR)	1.75	1.94	2.06	2.27
Div yield (%)	2.5%	2.8%	2.9%	3.2%
EV/Sales	1.8x	1.8x	1.8x	1.7x
EV/EBITDA	9.9x	9.1x	9.0x	8.1x
EV/EBIT	15.7x	13.8x	13.3x	11.9x



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