

14th May 2019

IMERYS

| Technology
| Smart Industries

BUY vs. NEUTRAL

Fair Value EUR52 vs. EUR65 (+28%)
Share price EUR40.56
EPS 3Y Cagr -5.8%

Digging for treasure

We appreciate some issues persist

In just over a year, the share price has halved due to some unfortunate events combined with specific issues. **Firstly**, the macro environment has been challenging since mid-2018 and volumes have been declining since Q3 2018. End markets are more difficult and there is no indication the situation will improve. **Secondly**, Imerys had and has to manage significant issues: **a)** the group passed a EUR250m provision to deal with the legal talc issue in the US and its local subsidiaries has filed for chapter 11 protection; **b)** the venture within the ceramic proppants has been definitely abandoned; **c)** the Namibia natural graphite project is still suspended and **d)** the Wollastonite tainted with Asbestos in the US has been the negative surprise for Q1, even if the Asbestos level is 20 times below the US threshold for labelling.

But there is a silver lining

While we expect no positive news flow on the volume side, pricing-mix should continue to be decent and offset input cost inflation. Besides, comparisons basis will start to be easier as from Q3 this year. In addition, we suspect recent acquisitions, in particular Kerneos (-EUR400m of revenues, -EUR55m of EBIT) will start to contribute more significantly to the results (EUR23m synergies by 2020). Lastly, note that in the past Imerys has successfully managed to generate strong margins in a difficult environment. This was the case in 2016 for instance, with a 14% current operating margin, although the group faced seven quarters of decline in revenue growth.

That should be appreciated by the market

We also observed that operating profitability performance usually has more impact on the share price than organic growth. While we suspect that management will be particularly focused on margin performance in the next quarter, we think momentum will actually start to be favourable for the share price. Note also that the 13th June Capital Market Day will be an opportunity for the new CEO to present new cost control measures as well as the new organisation.

Not mentioning valuation

Beyond momentum, it is obviously very tempting to mention valuation, as the share price is at its lowest since mid-2012. Based on a similar approach (historical multiples applied to our 2019e and 2020e forecast, then discounted at 9.7%), our new fair value now stands at EUR52 (20% below the previous one), on the back of more conservative forecasts (talc in the US deconsolidated weighting 3% of EBIT, lower organic growth with 0.5% vs 2.6% in 2019e and 1.5% versus 3.0% in 2020e), as well as a prudent approach on the talc impact (EUR250 provision doubled, arbitrary). Note that our 2019e current operating income now stands at EUR520m (9% below our previous forecast) and at EUR541m in 2020e (11% below). At the current share price, Imerys trades in a 10-30% discount range versus average 2007-2018 multiples. The trade war also remains a key risk for Imerys.

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Market Data

Bloomberg / Reuters	NK FP/IMTP.PA
Market Cap.	EUR3,224m
E.V.	EUR5.721m
Free Float	40.6
Avg. Daily volume (6m)	152.2
12m high / low	75.2 / 40.4
Ytd Perf.	-3.4%

EURM	12/17	12/18e	12/19e	12/20e
Sales	4,598	4,590	4,692	4,833
% Change		-0.2%	2.2%	3.0%
EBITDA	889.3	793.0	766.0	801.7
% Change		-10.8%	-3.4%	4.7%
EBIT	648.1	562.1	520.1	540.8
% Change		-13.3%	-7.5%	4.0%
Net Income	403.4	356.6	350.5	360.6
% Change		-11.6%	-1.7%	2.9%
ROE	0.14	0.11	0.10	0.10

	12/17	12/18e	12/19e	12/20e
EV/Sales	1.3x	1.2x	1.2x	1.1x
EV/EBITDA	6.9x	7.1x	7.3x	6.9x
EV/EBIT	9.4x	10.1x	10.7x	10.2x
EPS	4.81	3.62	3.84	4.02
% change		-24.7%	6.0%	4.8%
P/E	8.4x	11.2x	10.6x	10.1x
Div Yield	5.1%	5.3%	4.9%	4.9%

Next Catalyst: Capital Market Day on 13th June.

Last rating Change:

2018-5-15, 2018 likely to be a year of transition

Last FV Change:

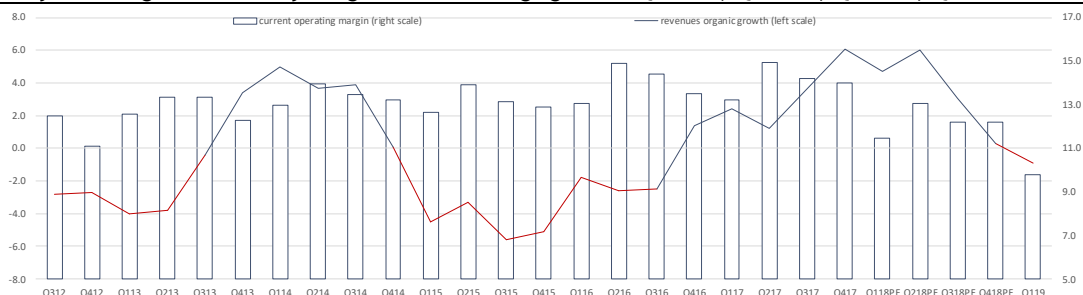
2018-12-12, In needs of proper catalysts (management contact)

Last Reports:

2019-5-7, Difficult Q1, no improvement before Q3

Steady profitability in difficult times

Imerys able to generate steady margins after challenging times: Q2 2013, Q3 2013, Q2 2016, Q3 2016



Source: Imerys; Datastream; Bryan, Garnier & co

No perfect correlation, but the share price apparently reacts more to profitability than to organic growth

Share price quarterly performance vs current operating margin change in bps (previous quarter)

Share price quarterly performance vs organic growth (previous quarter)



Source: Imerys; Datastream; Bryan, Garnier & co

New forecast - top line growth

y/y %	2018	2019e	2020e	2021e
Apparent growth	6.8	-1.6	1.5	1.5
Volumes effect	-0.2	-1.8	0.0	0.0
Pricing-mix effect	3.7	2.2	1.5	1.5
Organic growth	3.4	0.5	1.5	1.5
Forex impact	-3.4	1.5	0.0	0.0
Scope impact	6.8	-3.5	0.0	0.0

Source: Imerys; Datastream; Bryan, Garnier & co

EURm	2018	2019e	2020e	2021e
Previous current EBIT	551	562	520	541
SCOPE	33	-18	0	0
FX	-22	10	0	0
VOL	-5	-50	0	0
Pricing-mix	146	101	68	69
Variable costs change	-112	-101	-33	-34
Fixed costs change	-45	20	-19	-19
Inventories & others	16	-5	5	0
Current EBIT	562	520	541	557
y/y change %	2.0%	-7.5%	4.0%	3.0%
Current EBIT margin (%)	12.2	11.5	11.8	12.0
Δbps	-57	-74	28	17

Source: Imerys; Datastream; Bryan, Garnier & co

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BUY vs. NEUTRAL

Fair Value	EUR52 vs. EUR65 (+28%)
Share price	EUR40.56
Market Cap.	EUR3,224m
EPS 3Y CAGR	-5.8%

Simplified Profit & Loss Account (EURm)	2016	2017	2018e	2019e	2020e
Revenues	4,165	4,598	4,590	4,692	4,833
Change (%)	1.9%	10.4%	-0.2%	2.2%	3.0%
Adjusted EBITDA	819	889	793	766	802
Adjusted EBIT	582	648	562	520	541
Change (%)	13.0%	16.2%	-21.3%	-3.2%	5.5%
Cost of the net debt	-53	-47	-42	-41	-40
Financial results	-85	-65	-42	-48	-40
Profits from associates	2	6	2	2	2
Pre-Tax profits	437	515	-150	429	449
Tax	-142	-146	-89	-134	-139
Minority interests	2	1	-10	-10	-10
Net profit	293	368	560	306	320
Restated net profit	362	403	357	351	361
Change (%)	6.0%	11.4%	-11.6%	-1.7%	2.9%
Cash Flow Statement (EURm)					
Change in working capital	88	-12	-25	-25	-25
Operating cash flows	646	632	621	546	582
Capex, net	-279	-341	-343	-345	-355
Free Cash flow	368	291	278	201	227
Dividends	-139	-150	-168	-170	-158
Financial investments, net	-3	-306	724	0	0
Other	-60	-4	-6	0	0
Net debt change	165	-168	829	31	69
Balance Sheet (EURm)					
Tangible fixed assets	2,272	2,489	2,166	2,230	2,289
Intangibles assets	1,756	2,441	2,421	2,421	2,421
current assets	1,555	1,819	1,821	1,861	1,917
Other assets	297	299	302	308	307
Cash & equivalents	852	420	884	884	884
Total assets	6,732	7,468	7,594	7,704	7,818
Shareholders' funds	2,862	2,828	3,217	3,353	3,515
Minorities	53	51	36	26	16
Provisions	662	743	981	981	981
L & ST Debt	2,207	2,663	2,186	2,155	2,087
Others liabilities	111	155	142	142	142
Total Liabilities	6,732	7,468	7,594	7,704	7,818
Net debt	1,355	2,243	1,302	1,271	1,202
Capital employed	4,745	5,719	5,376	5,465	5,549
Ratios					
EBITDA margin	19.7	19.3	17.3	16.3	16.6
Operating margin	12.7	13.4	10.5	10.0	10.2
Apparent cost of the avra gross debt	3.2	2.3	1.8	2.0	2.0
Tax rate	29.7%	28.9%	28.9%	29.0%	29.0%
Net margin	7.1%	8.0%	12.0%	6.3%	6.4%
ROE (after tax)	12.7%	14.3%	11.1%	10.5%	10.3%
ROCE (after tax)	8.0%	8.4%	6.2%	6.1%	6.4%
Gearing	46.9%	78.0%	39.9%	37.6%	34.0%
Net debt / EBITDA (x)	165%	252%	164%	166%	150%
Pay out ratio	41.3%	41.6%	47.6%	45.1%	43.8%
Number of shares, diluted	80	80	80	80	80
Data per Share (EUR)					
EPS	4.48	4.99	4.45	4.37	4.50
Restated EPS	4.04	4.81	3.62	3.84	4.02
% change	10.0%	19.1%	-24.7%	6.0%	4.8%
BVPS	35.96	35.52	40.41	42.12	44.15
Operating cash flows	8.10	7.88	7.80	6.85	7.31
FCF	4.61	3.63	3.49	2.52	2.85

Source: Company Data; Bryan, Garnier & Co ests.

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