



26th July 2019

SAINT GOBAIN

| Technology
| Smart Industries

BUY vs. NEUTRAL

Fair Value	EUR47(+34%)
Share price	EUR35.28
EPS 3Y Cagr	25.8%

Solid operating margin in H1. Acceleration in cost savings. Upgrade to BUY.

Revenues in line with market expectation

H1 sales came in at EUR21,677m up 3.5% lfl in line with consensus expectations. Q2 organic growth stood at 1.5%, of which +2.0% for pricing and -0.5% for volumes, according to our calculations. Note the base of comparison was particularly high with 8% organic growth last year in Q2, while the group was also penalized by one less working day. Basically, this was a satisfying performance, largely expected.

Quarterly organic growth

y/y %	Q118	Q218	Q318	Q418	Q119	Q219	H119
Prices	2.1	3.0	3.5	3.4	2.6	2.0	2.3
Volumes	-0.5	5.0	-0.4	1.4	3.1	-0.5	1.2
Organic	1.6	8.0	3.1	4.8	5.7	1.5	3.5

Source: Saint-Gobain; Bryan, Garnier & Co

But operating income 3% better than expectations

H1 operating income rose 8.3% like-for-like to EUR1.638bn, 3% above consensus expectations (and 7% above our forecasts), yielding a 7.6% operating margin up 30bp while the consensus expected a flat performance. Apart from high performance materials, penalised by a tough comparison basis (H1 2018 was supported by the autos market and by ceramics) and the Americas division (margin flattish, down 10bps), all divisions reported far better margins, especially in the European zones.

Cost-cutting plan implemented faster than expected

The group indicated the 2019 cost savings target has been raised from over EUR50m to over EUR80m (and EUR150m vs EUR120m in 2020 while the 2021 target is unchanged at EUR250m). The EUR30m difference should inflate EBIT expected by the consensus (EUR3,300m, IBES) by approx. 1%. This should be enough to generate some organic growth in EBIT in H2 (a new guidance), despite a more difficult comparison basis. (op. income increase lfl by 1.7% in H1 and 7.2% in H2 last year). Note the positive comments from management regarding main markets ("upbeat trends" observed in H1), although in H2 it should be a less supportive environment. In any case, we slightly upgrade our 2019 EBIT from EUR3299m to EUR3340m, which doesn't impact our FV.

Back to Buy one year after our downgrade

We downgraded Saint-Gobain on the 11th July 2018 (share price at EUR38), due to difficult momentum, uncertainties in the residential segment in France and the trade war impact on emerging markets. Momentum looks better now, with the gradual ramp-up of the "transform & growth" programme initiated last November. The group has notably already secured EUR2.8bn in sales out of the EUR3bn bearing in mind that these divestments should impact operating margin by 40bps. Regarding France, management continues to make some positive comments (notably market share gains in distribution), while Emerging Markets look well oriented (6% growth in Asia-Pacific), apart from Middle-East, Africa and Turkey.

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Market Data

Bloomberg / Reuters	SGO FP/SGOB.PA
Market Cap.	EUR19,284m
E.V.	EUR27,790m
Free Float	87,9%
Avg. Daily volume (6m)	1 823
12m high / low	EUR38.6 / EUR28.2
Ytd Perf.	21.0%

EURM	12/18	12/19e	12/20e	12/21e
Sales	41,774	43,419	44,863	46,312
% Change		3.9%	3.3%	3.2%
EBITDA	4,324	4,589	4,838	5,097
% Change		6.1%	5.4%	5.3%
EBIT	3,122	3,340	3,589	3,847
% Change		7.0%	7.5%	7.2%
Net Income	1,729	1,887	2,078	2,265
% Change		9.1%	10.1%	9.0%
ROE	0.10	0.10	0.10	0.10

	12/18	12/19e	12/20e	12/21e
EV/Sales	0.7x	0.6x	0.6x	0.5x
EV/EBITDA	6.4x	5.7x	5.2x	4.7x
EV/EBIT	8.9x	7.9x	7.0x	6.2x
EPS	2.17	3.59	3.96	4.31
% change		65.5%	10.3%	9.0%
P/E	16.3x	9.8x	8.9x	8.2x
Div Yield	3.8%	4.3%	4.7%	4.7%

Next Catalyst: Q3 sales on 24th October 2019

Last rating Change:

[2018-7-11, Downgraded on the back of uncertainties and lack of positive catalysts](#)

Last FV Change:

[2018-7-11, Downgraded on the back of uncertainties and lack of positive catalysts](#)

Last Reports:

[2019-7-5, SAINT GOBAIN \(NEUTRAL, FV EUR47\) | French renovation market under pressure in Q1](#)

SAINT GOBAIN

BUY vs. NEUTRAL

Fair Value	EUR47 (+33%)
Share price	EUR35.28
Market Cap.	EUR19,284m
EPS 3Y CAGR	25.8%

Simplified Profit & Loss Account (EURm)	2017	2018	2019e	2020e	2021e
Revenues	40,810	41,774	43,419	44,863	46,312
<i>Change (%)</i>	4.4%	2.4%	3.9%	3.3%	3.2%
Adjusted EBITDA	4,234	4,324	4,589	4,838	5,097
Adjusted EBIT	3,028	3,122	3,340	3,589	3,847
<i>Change (%)</i>	7.5%	3.1%	7.0%	7.5%	7.2%
Reported EBIT	3,028	3,122	3,340	3,589	3,847
Cost of the net debt	-275	-278	-260	-240	-240
Financial results	-448	189	-460	-447	-447
Pre-Tax profit	2,063	987	2,596	2,859	3,117
Tax	-438	-490	-625	-691	-754
Profit from associates	0	0	0	0	0
Minority interests	59	77	83	91	98
Net profit	1,566	420	1,887	2,078	2,265
Restated net profit	1,631	1,729	1,887	2,078	2,265
<i>Change (%)</i>	16.7%	6.0%	9.1%	10.1%	9.0%
Cash Flow Statement (EURm)					
Change in working capital	27	-453	30	31	32
Operating cash flows	2,765	2,492	3,339	3,538	3,734
Capex. net	-1,554	-1,849	-1,665	-1,665	-1,665
Free Cash flow	1,211	643	1,675	1,873	2,069
Dividends	-731	-751	-768	-838	-920
Financial investments. net	-667	-1,445	0	0	0
Others	-124	-685	21	164	0
Debt net change	-311	-2,238	928	1,199	1,349
Net debt	5,955	8,193	7,265	6,066	4,717
Balance Sheet (EURm)					
Tangible fixed assets	11,590	11,335	11,751	12,167	12,581
Intangibles assets	13,178	12,514	12,514	12,514	12,514
Current assets	12,774	13,115	13,632	14,085	7,609
Other assets	2,091	4,390	4,622	4,863	4,591
Cash & equivalents	3,284	2,688	2,688	2,688	2,688
Total assets	42,917	44,042	45,206	46,316	47,430
Shareholders' funds	18,468	17,931	19,071	20,475	22,019
Minorities	384	331	414	505	603
Provisions	3,980	3,561	3,651	3,741	3,831
L & ST Debt	9,239	10,881	9,953	8,754	7,405
Current liabilities	10,007	10,079	10,626	11,110	11,597
Others liabilities	839	1,259	1,459	1,666	1,872
Total Liabilities	42,917	44,042	45,174	46,250	47,326
Capital employed	27,535	26,885	27,271	27,656	28,038
Ratios					
EBITDA margin	9.7%	9.8%	10.0%	10.3%	10.5%
Operating margin	7.4%	7.5%	7.7%	8.0%	8.3%
Apparent cost of the avrq gross debt	3.2%	3.0%	2.7%	2.8%	3.2%
Tax rate	20%	20%	24%	24%	24%
Net margin	4.0%	1.2%	4.5%	4.8%	5.1%
ROE (after tax)	8.8%	9.6%	9.9%	10.1%	10.3%
ROCE (after tax)	8.7%	9.1%	9.2%	9.7%	10.3%
Gearing	32%	45%	37%	29%	21%
Net debt / EBITDA (x)	1.4	1.9	1.6	1.3	0.9
Pay out ratio	43%	42%	42%	42%	0%
Number of shares, diluted	554	547	526	525	525
Data per Share (EUR)					
EPS	2.94	3.16	3.59	3.96	4.31
Restated EPS	2.71	2.17	3.59	3.96	4.31
<i>% change</i>	7.8%	-20.1%	65.5%	10.3%	9.0%
BVPS	33.36	32.81	34.89	37.46	40.28
Operating cash flows	4.99	4.55	6.35	6.74	7.11
FCF	2.19	1.17	3.18	3.57	3.94
Net dividend	1.30	1.33	1.50	1.65	1.65

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

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