

Elementis

Investment summary: More from more focus

At a well-attended capital markets event (CMD) on 14 November, new senior management presented a cohesive approach for improving earnings, returns and cash. This was no radical change, but greater emphasis is being placed on focused growth investment and operational efficiency. The platform is there, the strategy logical, so share price performance will be driven by execution.

Seeking operational leverage and growth

Elementis has a product portfolio with some market-leading positions, such as US chromium chemicals and speciality additives for applications in the international coatings, personal care and oil field segments. The CMD provided a wide-ranging overview of the current business in the context of its markets and key areas of internal and external opportunity. Deepening key customer relationships through service and innovation was a common growth theme in both coatings and personal care supplemented by driving newly launched formulations into adjacent, relatively under-represented segments and geographies (especially Asia, ex-China). Rigour in financial measurement and management – through prioritised and raised growth capex, sweating existing manufacturing assets, reducing costs/improving supply chain efficiency – is to be a key facilitator in targeting enhanced group returns.

Monitoring returns and cash

This was a 'state of the nation' address by the new executive team and senior management, now aligned with the stated objectives. The CMD was relatively light on specific group financial targets, but there was enough context at subsector level to gauge the scale of opportunity there. The rate of progress at group level may be influenced by the timing of any prospective M&A and rationalisation activity. We feel that ROCE development (FY15 18% pre-tax) and cash performance are likely to be key indicators of progress for the next couple of years. Investor attention will reflect the level of confidence in regaining FY14 profitability within a reasonable timescale.

Valuation: Near-term income, growth to come

The year to date share price performance (+10%) is slightly ahead of that for the FTSE All-Share Index. With the relatively weaker segments (Chromium ex-US and oil field drilling chemicals) appearing to have bottomed out, FY16 may well be the trough year for profitability. Consensus estimates already endorse this and may not yet fully reflect new strategy implications. We believe that the P/E multiple is about right currently, so earnings upgrades should translate into share price performance. The prospect of ongoing special dividend payouts fixes short-term interest.

Consensus estimates

Year End	Revenue (\$m)	PBT (\$m)	EPS (c)	DPS (c)	P/E (x)	Yield (%)
12/14	790.4	141.9	24.8	15.40	12.6	4.9
12/15	678.4	116.2	20.8	16.45	15.0	5.3
12/16e	651.5	95.4	17.1	16.45	18.3	5.3
12/17e	676.5	104.1	18.1	16.10	17.3	5.1

Source: Bloomberg

Speciality chemicals

17 November 2016

Price 250.1p

Market cap £1,159m

£/US\$1.25

Share price graph



Share details

Code	ELM
Listing	LSE
Shares in issue	463.5m

Business description

Elementis is an international speciality chemicals business with primary activities in Specialty Products (FY15: 67% of group revenue/60% of underlying EBIT before central costs) and Chromium (25%/36%). Specialty Products is further split out into coatings (FY15: c 78% divisional sales), personal care (12%) and energy (10%). Elementis also has a relatively small, single site Surfactants division.

Bull

- Product portfolio with a number of strongly profitable market positions.
- New management catalyst for growth focus, not relying on market improvement.
- Good cash credentials, pensions impact reduced.

Bear

- Ex-US Chromium contribution currently weak.
- Oil field chemical additive demand also at lower levels.
- Significant UK pension obligations, but well managed.

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