

## Sector View

## Construction &amp; Materials

TOP PICKS Q1 2016 :HeidelbergCement (FV updated to EUR86 vs EUR85) as a new Top Pick.

	1 M	3 M	6 M	31/12/14
Cons & Mat	-3.7%	0.6%	-1.0%	12.6%
DJ Stoxx 600	-4.4%	-1.7%	-6.4%	3.4%

\*Stoxx Sector Indices

## Companies covered

Company	Recommendation	Target Price
<b>CRH</b>	<b>BUY</b>	<b>EUR30</b>
Last Price	EUR25.76	Market Cap. EUR21,203m
<b>IEFFAGE</b>	<b>BUY</b>	<b>EUR63</b>
Last Price	EUR58.65	Market Cap. EUR5,597m
<b>HEIDELBERGCEMENT</b>	<b>BUY</b>	<b>EUR85</b>
Last Price	EUR72.56	Market Cap. EUR13,635m
<b>LAFARGEHOLCIM</b>	<b>SELL</b>	<b>CHF60</b>
Last Price	CHF47.58	Market Cap. CHF28,877m
<b>SAINT GOBAIN</b>	<b>NEUTRAL</b>	<b>EUR42</b>
Last Price	EUR38.095	Market Cap. EUR21,368m
<b>VICAT</b>	<b>NEUTRAL</b>	<b>HKD64</b>
Last Price	EUR53.25	Market Cap. EUR2,391m
<b>VINCI</b>	<b>NEUTRAL</b>	<b>EUR65</b>
Last Price	EUR57.71	Market Cap. EUR34,615m

## LOOKING BACK ON Q4 2015

The last quarter of 2015 was a very contrasting one for Construction & Materials stocks. Vinci's and Eiffage's share prices have performed well in absolute terms (+4.3% and +7.6%, respectively) but faded a bit compared to Q3 (+9.3% and +10.8%, respectively, in absolute terms). The two stocks have benefited from the end of the order intake deterioration in France for roadworks and from the steady traffic trends on toll roads but have been gradually penalised by a more demanding valuation.

Building materials companies' share price performances have been particularly contrasting. While both CRH and HeidelbergCement have rebounded in Q4 after a poor Q3 (+13% and +23%, respectively), LafargeHolcim and Vicat have continued to be under pressure (-1.5% and -0.9%, resp.), while Saint-Gobain was slightly up (+2.9%) in Q4. CRH has benefited from a sound performance in the US (H1 EBITDA +30% lfl for the Americas zone) but LafargeHolcim has been penalised, we believe, by its emerging markets' exposure (60% of pro-forma revenues). Finally, worries regarding the French renovation market in the residential segment have taken its toll on Saint-Gobain.

## WHAT WE SEE FOR Q1 2016

On one side, the weather has been mild in Q4 2015 and the results will benefit from this. HeidelbergCement's CEO has recently underlined that he expected strong November and December trends thanks to a favourable weather impact. On the other, we are expecting contrasting trends from the emerging markets, either impacted by recession (Brazil), geopolitical tension (Russia, Middle-East) oil prices (Africa, Middle-East) or macro slowdown (China). We need to understand in particular what the extent of the impact of the Chinese slowdown on the rest of the emerging world might be. As a reminder, the risk of Chinese exports pressure in the Asian region looks modest but Vietnam's National Cement Association declared at end December that "*Vietnamese cement makers have been facing fierce competition from China*". We ignore this if this reflects any break in trends but, in any case, visibility looks poor.

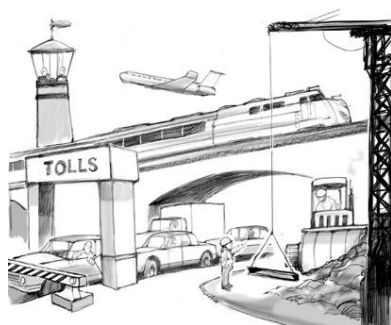
## CONCLUSIONS AND TOP PICKS

## HeidelbergCement (Buy, FV EUR86 vs EUR85)

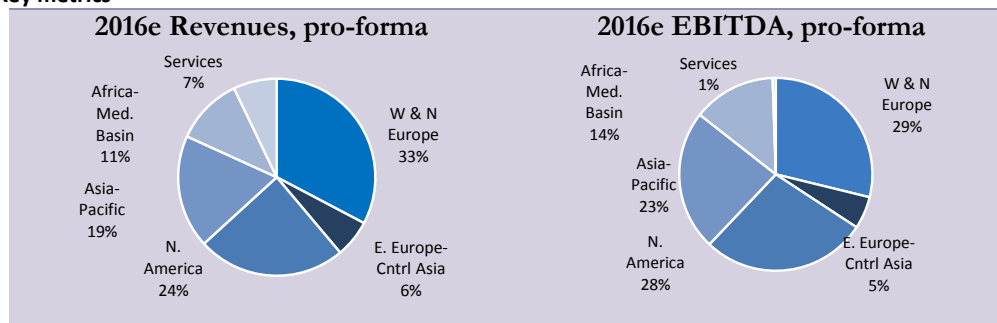
2016 is likely to be a good year for HeidelbergCement's share price, as the group should benefit from numerous positive newsflows and catalysts.

First, the German management will without doubt regularly communicate on the acquisition process of Italcementi. Recently, CEO Bernd Scheifele lifted the synergies target from the deal from EUR300m (which is actually the top of a EUR275-300m range, of which EUR215-230m regards EBITDA) to EUR400m. Further details will be communicated, presumably in Q1 (FY release is expected on 17 March), but we have already updated our valuation with the new guidance. Hence, our FV is lifted to EUR86 with EUR300m synergies targeted at the EBITDA level vs EUR230m previously).

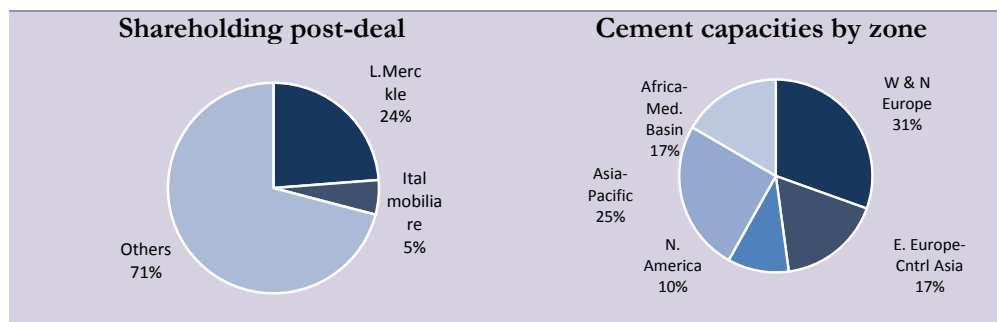
Secondly, we view the Italcementi deal as a very attractive one: **1)** there is a good geographical fit between the two footprints, with limited overlap (except Belgium and US), **2)** no specific governance risks contrary to the Lafarge-Holcim deal, as it is a proper and friendly bid with a straightforward change of control of the Italian company; **3)** timing and multiples are fine. It is better to acquire Italcementi now, which generated less than EUR650m of EBITDA in 2014 vs almost EUR1.5bn in 2006 at less than 8x EV/EBITDA 2016e, than, for instance, Hanson in 2007 at more than 12x; **4)** some countries acquired are presumably very close to their trough, in particular Spain (80% below, 3.2mt of cement acquired), Italy (50% below peak, 12.5mt acquired), France (30% below, 11.9mt acquired included Belgium) or Morocco (16% below peak, 5.5mt acquired with Mauritania); **5)** debt will stay reasonable (EUR8bn targeted post-disposal, to compare with EUR8.6bn forecasted by end 2016e, i.e. 2.5x the EBITDA). Thirdly, the footprint is attractive, with a decent exposure to North America (~28% EBITDA 2016e) and reasonable exposure to emerging markets (~43%) with no exposure to LatAm, and Indonesia's weight to be reduced from ~19% of the EBITDA to ~13% thanks to the Italcementi deal. Finally, the valuation is fine with 2017e EV/EBITDA at 6.0x vs more than 7.5x historically and the sector close to 6.5x (consensus). Yield is not bad at ~2% for the dividend to be paid in 2016 and 7.9% for FCF 2017e.



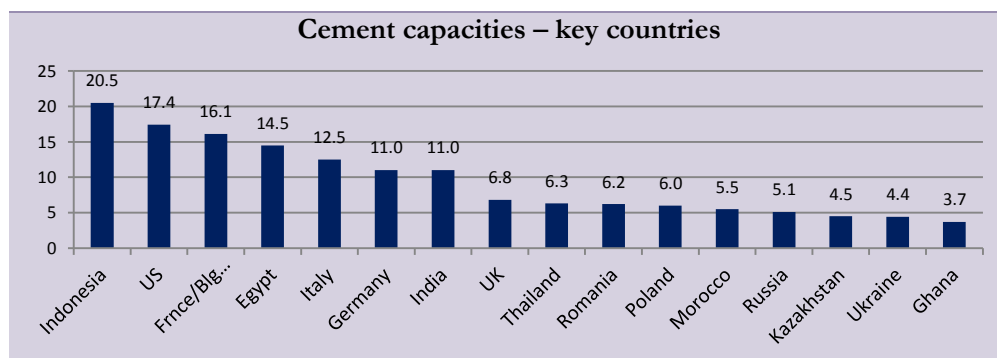
## Key metrics



Sources: HeidelbergCement, Italcementi, Bryan, Garnier & co



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## Valuation multiples

BG multiples x	Price* Mk. cap.		PE			EV/EBITDA			Div.
	06/01/1	000	2015e	2016e	2017e	2015e	2016e	2017e	2015e
LafargeHolcim (CHF)	47.58	28 877	23.1	14.5	10.4	8.0	6.9	5.7	2.7%
Vicat	53.25	2 391	16.7	13.7	10.4	7.9	7.2	5.9	2.8%
CRH	25.78	21 220	34.8	18.2	14.3	12.3	9.0	7.7	2.4%
HeidelbergCement	72.56	13 635	19.0	15.8	10.3	8.7	7.5	6.1	1.5%
Saint-Gobain	38.10	21 368	17.5	14.1	11.3	7.8	6.7	5.8	3.3%
Vinci	57.71	34 615	17.6	15.8	14.3	8.4	7.6	6.9	3.1%
Eiffage	58.65	5 597	18.1	15.6	13.0	9.2	8.9	8.5	2.0%
<i>Cement average</i>			24.9	15.5	11.7	9.4	7.7	6.4	2.7%
<i>Building Materials average</i>			23.4	15.6	11.4	9.2	7.7	6.4	2.4%

\* in EUR, except LafargeHolcim

Source : Bryan Garnier & Co. ests.

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