

13th January 2016

Construction & Building Materials

LafargeHolcim

Price CHF44.84

Uncertainties regarding LH asset disposals in India

Fair Value CHF60 (+34%)

SELL

Bloomberg	HOLN VX
Reuters	HOLZn.VX
12-month High / Low (CHF)	72.9 / 44.8
Market Cap (CHF)	27,214
Ev (BG Estimates) (CHF)	45,750
Avg. 6m daily volume (000)	1,893
3y EPS CAGR	30.4%

	1 M	3 M	6 M	31/12/14
Absolute perf.	-10.0%	-20.5%	-35.7%	-37.2%
Cons & Mat	-4.1%	-2.9%	-6.9%	8.9%
DJ Stoxx 600	-4.4%	-6.2%	-12.5%	-0.7%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	31,564	29,968	31,571	33,640
% change		-5.1%	5.3%	6.6%
EBITDA	6,495	5,899	6,751	7,907
EBIT	3,765	3,273	4,111	5,268
% change		-13.1%	25.6%	28.1%
Net income	1,247	1,249	1,983	2,769
% change		0.1%	58.8%	39.6%

	2014	2015e	2016e	2017e
Operating margin	11.9	10.9	13.0	15.7
Net margin	5.3	3.8	5.6	8.6
ROE	3.3	3.3	5.2	6.9
ROCE	3.4	3.8	4.7	6.1
Gearing	41.6	39.9	37.0	31.0

(EUR)	2014	2015e	2016e	2017e
EPS	2.06	2.06	3.27	4.57
% change		-	0.1%	58.8%
P/E	21.8x	21.7x	13.7x	9.8x
FCF yield (%)	1.7%	6.6%	7.7%	11.6%
Dividends (EUR)	1.30	1.30	1.30	1.30
Div yield (%)	2.9%	2.9%	2.9%	2.9%
EV/Sales	1.4x	1.5x	1.4x	1.3x
EV/EBITDA	7.0x	7.8x	6.7x	5.5x
EV/EBIT	12.1x	14.0x	11.0x	8.3x

In order to comply with the Indian anti-trust entity CCI's demands, LH had signed last August an agreement with a local company Birla to sell some assets in India, mostly two plants in the East with a 5.2m tonnes of cement capacity, for an EV of CHF750m. Unfortunately, due to legal changes, the press reports Birla had some difficulties in securing the mining rights, which can't be simply be transferred anymore, but have to be attributed by auction. Still, according to the press, LH might sell its whole Lafarge Indian subsidiary, representing 11mt of cement capacities, with the mining rights directly included. It has not been officially confirmed though, but the new CCI chairman recently said an "alternative proposal" was "on the table", but no additional details were given. In any case, several potential bidders have been mentioned by the press, included CRH. LH would in any case remain a strong player in the country, with 62mt of capacity, although we can't see how "merger" synergies can be generated in the country in a scenario where all the Lafarge assets are disposed of.

In August 2015, LH signed an agreement with Birla Corporation in order to divest some assets located in the eastern part of the country and to comply with the Competition Commission of India (CCI)'s requests. EV was INR50bn or CHF750m for 5.15m tonnes of capacity, for mainly one cement plant and one grinding station. LafargeHolcim's combined capacity in India was 73 mt: 62mt from Holcim and 11mt from Lafarge. The initial plan was to retain 68mt after the Birla deal. Unfortunately, the Indian government amended the Mining Act a bit later. With the new policy, mining rights have to be won at auction and can't be simply transferred. And, according to the press since early January, Birla has faced some difficulties in securing the acquisition of the limestone reserves rights, while it was a condition of the deal with LH, as limestone access is essential for a cement plant. One of the solutions suggested by the press would be for LafargeHolcim to directly sell the Lafarge India company as a whole: all assets (plants, brands, mining rights...) included. In that case, limestone reserve rights do not have to be transferred but would stay within the same entity.

Whether LH sells the entire Lafarge India business or not, the Indian CCI new chairman has recently (6 January, CNBC) confirmed that LH has come back with an "alternative proposal", but he wasn't more specific. In any case, some potential buyers for the 11mt have been mentioned by the press, including CRH (BUY, FV EUR30). The EV of the deal is likely to be close to CHF1.5bn, if based on the same EV/tonnes ratio.

We have contacted LafargeHolcim. It admits the process has been delayed but didn't disclosed much details. However, it expects a decision from the CCI in the next couple of weeks. We have contacted CRH as well but it doesn't comment on speculation.

ANALYSIS

- As far as we understand, we will ignore today what might be the new proposal of LafargeHolcim until we get further details. However, in any case, the current issue underlines how India can be a complex, hard-to-predict country.
- If LH is forced to sell all Lafarge assets in India, then we can't see how "merger" synergies can be generated within India. Nevertheless, LH would in any case remain a strong player in the country, the leader with 62mt of capacity, with only 10% in the South, where utilisation rates are the lowest at c.60%. As a reminder, as a whole, LH got c.375mt of capacity and the first exposure is India.
- CRH has invested in 2015 EUR6.5bn in the LH assets and EUR1.2bn in CRLaurence and the leverage is likely to stand above 3x by the end of 2015 (we have 3.3x) and the target is less than 2.5x at end 2016. Investing EUR1.4bn in a new asset is likely to postpone this objective. Besides, integrated various assets from LH will take time and energy from the management.

VALUATION

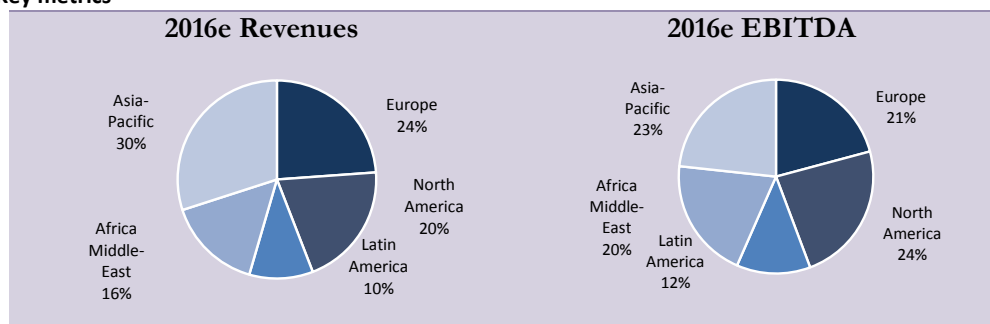
- CHF60 FV derived from the historical multiples application to our 2017e EBITDA, discounted back. Current EV/EBITDA stands at 6.7x 2017e, below c7.5x historical average or European sector ratio.

NEXT CATALYSTS

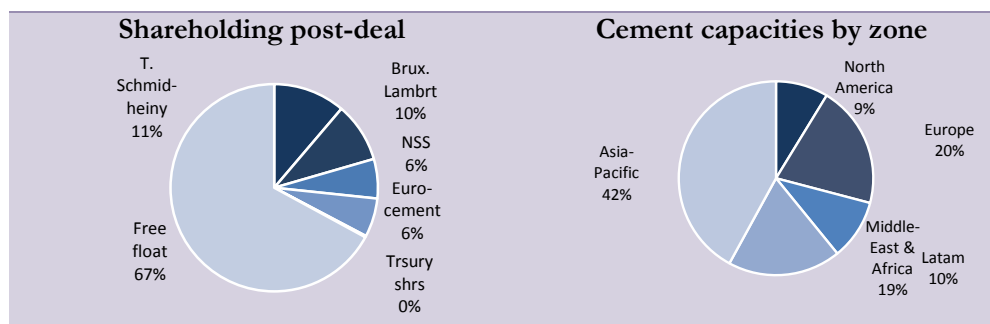
- FY results on 17 March 2016



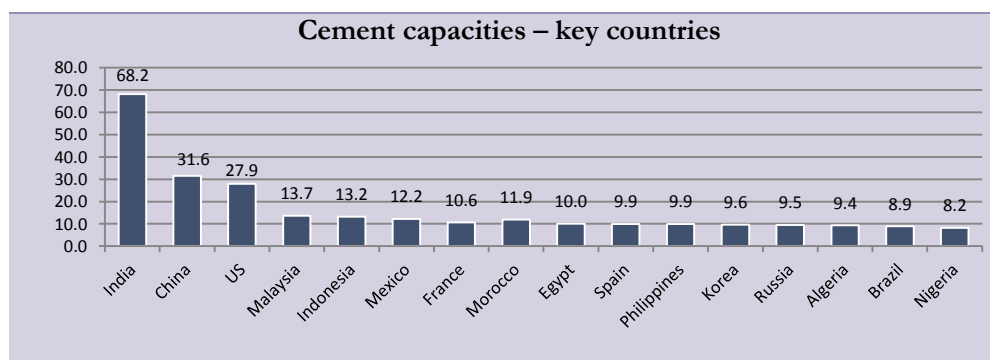
Key metrics



Sources: LafargeHolcim, Bryan, Garnier & co



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Valuation multiples

BG multiples x	Price*	Mk.	PE	EV/EBIT			Div.		
	11/01/16	000 2015e	2016e	2015e	2016e	2017e	2015e		
LafargeHolcim (CHF)	44.84	27 214	21.7	13.7	9.8	7.8	6.7	5.5	2.9%
Vicat	51.18	2 298	16.1	13.2	10.0	7.7	7.0	5.7	2.9%
CRH	24.74	20 364	33.4	17.5	13.7	11.9	8.8	7.5	2.5%
HeidelbergCement	69.00	12 966	18.1	15.0	9.8	8.4	7.3	5.9	1.6%
Saint-Gobain	36.15	20 275	16.6	13.4	10.8	7.5	6.4	5.6	3.4%
Vinci	58.09	34 183	17.8	15.9	14.4	8.3	7.5	6.8	3.0%
Eiffage	57.15	5 454	17.6	15.2	12.7	9.2	8.9	8.5	2.1%
<i>Cement average</i>			23.7	14.8	11.2	9.1	7.5	6.2	2.8%
<i>Building Materials average</i>			22.3	14.9	10.8	9.0	7.2	6.2	2.5%

* in EUR, except LafargeHolcim

Source : Bryan Garnier & Co. ests.

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