INDEPENDENT RESEARCH UPDATE

17th February 2016

Construction & Building Materials

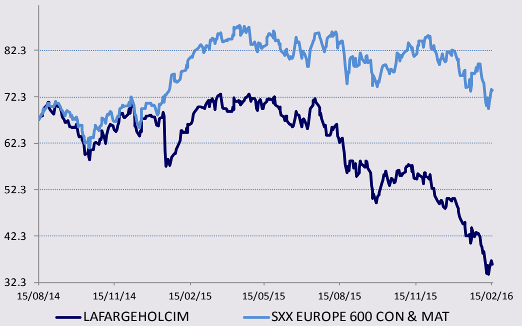
LafargeHolcim

Everything can't be that bad.

Fair Value CHF50 vs. CHF60 (price CHF36.24) **BUY vs. SELL**

Bloomberg	LHN VX
Reuters	LHN.VX
12-month High / Low (CHF)	72.9 / 34.1
Market capitalisation (CHFm)	21,994
Enterprise Value (BG estimates CHFm)	42,192
Avg. 6m daily volume ('000 shares)	2,029
Free Float	73.1%
3y EPS CAGR	19.5%
Gearing (12/14)	42%
Dividend yield (12/15e)	4.14%

YE December	12/14	12/15e	12/16e	12/17e
Revenue (EURm)	31,814	30,144	30,741	32,518
EBIT (EURm)	3,765	2,993	3,474	4,504
Basic EPS (EUR)	2.06	0.81	1.33	3.09
Diluted EPS (EUR)	2.06	1.66	2.39	3.51
EV/Sales	1.26x	1.40x	1.36x	1.24x
EV/EBITDA	6.2x	7.4x	6.8x	5.6x
EV/EBIT	10.7x	14.1x	12.1x	9.0x
P/E	17.6x	21.8x	15.2x	10.3x
ROCE	3.4	3.4	4.0	5.2



In this short report, we revisit our position on LafargeHolcim. A strong share price underperformance (-45% on the last 6 months) and an overplayed China export risk, motivate us to upgrade to Buy (vs Sell). Not only do we see no significant downside risk to the current share price, but we suspect investors might start to consider the glass full half: a decent entry point, unique diversification and synergies. FV adjusted to CHF50 (vs CHF60), based on new estimates (-7% on EBITDA in average on the 2015e-2017e period).

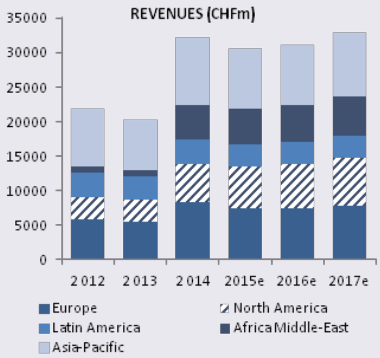
- Strongly exposed to the emerging markets (~60% of revenues 2014PF, ~70% of cement capacities), LafargeHolcim's shares have been massively sold by investors in the last 6 months, leading to a -45% price decline.

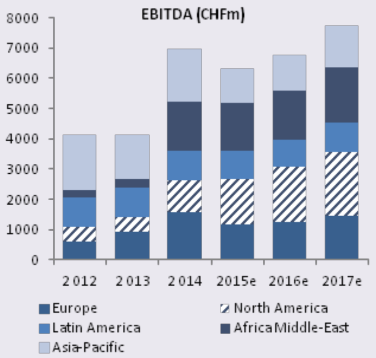
- We do not deny risks exist: overcapacity (e.g. India, Indonesia, China) sometimes combined with modest volume growth, China's macro slowdown impact, LatAm's recession, geopolitical uncertainties in the Middle East, oil price pressure on some countries' budgets (e.g. Algeria, Nigeria)…yet, it is worth underlying the unique diversification of LH, spread over 90 countries, with none representing more than 10% of sales except India and the US. Moreover, the Chinese export risk is not a myth but is overplayed, in our view.

- Besides, the market seems to have priced in a harsh scenario. The current share price corresponds to no top-line growth – almost – for the 2015-2017 period, while we estimate 3%. Actually, we calculate the low range of a cost of replacement very close to the current share price, which clearly reflects the current undemanding valuation.

- Our new estimates are derived from lower volume and price assumptions by zone, combined with lower synergies (88% vs 100% of the CHF1.1bn). The FV is still derived from the application of historical EV/EBITDA multiples to our 2017 estimates, discounted back.

Analyst:
Eric Lemarié
33(0) 1.70.36.57.17
elemarie@bryangarnier.com





Company description

LafargeHolcim is the global leader in cement manufacturing. Present in 90 countries and employing 115,000 people, the group has cement production capacity of approaching 400 mt, of which 300mt (c. 80%) in emerging markets. The group is also a leader in aggregates with 288mt of volumes sold in 2014PF and 57m3 for ready-mix concrete (including Lafarge JV at 100%). No one country represents more than 10% of revenues with the exception of India and the United States (11% each) while emerging countries account for 60% of revenues.

Simplified Profit & Loss Account (CHFm)	**2012**	**2013**	**2014**	**2015e**	**2016e**	**2017e**
Revenues	21,160	19,719	31,814	30,144	30,741	32,518
Change (%)	*2.0%*	*-6.8%*	*61.3%*	*-5.2%*	*2.0%*	*5.8%*
Adjusted EBITDA	3,889	3,896	6,495	5,723	6,204	7,234
Adjusted EBIT	2,485	2,357	3,765	2,993	3,474	4,504
Change (%)	*7.7%*	*-5.2%*	*59.7%*	*-20.5%*	*16.1%*	*29.7%*
Reported EBIT	1,749	2,357	4,082	2,393	2,774	4,104
Cost of the net debt	(550)	(594)	(1,448)	(1,219)	(1,121)	(930)
Financial results	(342)	(390)	(1,601)	(1,367)	(1,269)	(1,082)
Pre-Tax profits	1,407	1,967	2,481	1,027	1,505	3,022
Tax	(550)	(533)	(990)	(287)	(421)	(846)
Profits from associates	147	161	180	200	177	180
Minority interests	392	324	424	446	456	485
Net profit	612	1,272	1,247	493	805	1,871
Restated net profit	612	1,272	1,247	1,005	1,445	2,127
Change (%)	*123%*	*108%*	*-1.9%*	*-19.4%*	*43.8%*	*47.2%*
Cash Flow Statement (CHFm)						
Change in working capital	(552)	(217)	(494)	(507)	(139)	(295)
Operating cash flows	2,643	2,787	3,172	3,257	3,953	4,896
Capex, net	(1,593)	(2,001)	(2,701)	(2,400)	(2,000)	(1,500)
Free Cash flow	NM	NM	NM	NM	NM	NM
Dividends	(532)	(576)	(1000)	(1,116)	(1,228)	(1,432)
Financial investments, net	396	335	1,107	(618)	0.0	0.0
Others	243	1.0	(81.0)	0.0	0.0	0.0
Net debt change	NM	NM	NM	NM	NM	NM
Net debt	10,326	9,461	18,056	18,933	18,208	16,244
Balance Sheet (CHFm)						
Tangible fixed assets	21,791	20,029	44,481	44,151	43,421	42,191
Intangibles assets	8,131	7,486	17,067	17,685	17,685	17,685
current assets	5,101	4,590	9,290	8,802	8,977	9,496
Other assets	3,056	3,595	8,430	8,335	8,233	8,127
Cash & equivalents	3,119	2,244	11,621	10,121	8,621	7,121
Total assets	41,198	37,944	90,889	89,095	86,937	84,621
Shareholders' funds	16,437	16,205	37,809	37,476	37,373	38,184
Minorities	NM	NM	NM	NM	NM	NM
Provisions	2,361	1,956	4,398	4,398	4,398	4,398
L & ST Debt	13,445	11,705	29,677	29,054	26,829	23,365
Current liabilities	4,456	4,104	8,310	7,315	7,350	7,574
Others liabilities	1,702	1,503	5,150	5,150	5,150	5,150
Total Liabilities	41,198	37,944	90,889	89,095	86,937	84,621
Capital employed	30,567	28,001	62,528	63,323	62,733	61,798
Ratios						
EBITDA margin	18.38	19.76	20.42	18.99	20.18	22.25
Operating margin	11.74	11.95	11.83	9.93	11.30	13.85
Apparent cost of the avrg rgross debt	5.60	6.18	5.90	5.10	4.70	4.20
Tax rate	43.65	29.51	43.02	28.00	28.00	28.00
Net margin	4.74	8.09	5.25	3.12	4.10	7.24
ROE (after tax)	3.72	7.85	3.30	2.68	3.87	5.57
ROCE (after tax)	4.58	5.93	3.43	3.40	3.99	5.25
Gearing	53.69	50.66	41.65	43.85	42.14	36.81
Net debt / EBITDA (x)	2.66	2.43	2.78	3.31	2.94	2.25
Pay out ratio	37.25	26.58	63.12	90.38	73.34	56.94
Number of shares, diluted	325	326	606	606	606	606
Data per Share (CHF)						
EPS	1.88	3.91	2.06	0.81	1.33	3.09
Restated EPS	1.88	3.91	2.06	1.66	2.39	3.51
% change	*-%*	*108%*	*-47.3%*	*-19.4%*	*43.8%*	*47.2%*
BVPS	50.25	49.54	62.30	61.75	61.58	62.92
Operating cash flows	8.12	8.56	5.24	5.38	6.53	8.08
FCF	3.23	2.41	0.78	1.42	3.22	5.61
Net dividend	1.15	1.30	1.30	1.50	1.75	2.00

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

1. Investment strategy: after the carnage

We initiated coverage of LafargeHolcim on 17 November with a Sell recommendation and a CHF60 Fair Value vs a CHF54.75 share price. The key theme then was that the geographical exposure of LafargeHolcim, particularly exposed to emerging markets (EM), was a disadvantage, due to current uncertainties: the Chinese macro slowdown impact on the rest of the world, particularly Asia; overcapacity in India and Indonesia, the impact of low oil prices on some local countries' budgets…

The share price reaction over the last two months has been very clear: it has even slipped below CHF35. But at the current share prices level, we are no longer comfortable with our Sell rating.

Current multiple significantly below historical median

- The current share price levels correspond to a 12% discount versus 2007-2015 EV/EBITDA median multiples, based on current 2016 ratios (27% discount based on 2017e). The gap is larger for EV/IC (~30%).

With a value of replacement basis between CHF37 and CHF60, the current share price looks undemanding.

- An asset-oriented valuation, derived from a value of replacement for the cement assets, leads to a CHF37 per share valuation, at the low-end of a CHF37-CHF60 valuation range. This is very close to the current share price, which reflects an undemanding valuation in our view.
- While our top-line organic growth is close to 3% over the 2015-2017 period, it looks to us as if the market is currently pricing almost no growth at all. We are clearly not today of this kind of view.

Investors are currently pricing almost no organic growth until 2017

- Roughly 60% of revenues and 70% of cement capacities are exposed to EMs (depending on the EM definition, these figures can be lower of course), but LafargeHolcim is particularly diversified: no country represents more than 10% of revenues, apart from the US and India, at ~11% each.
- Additionally, some EM countries have performed quite well in 2015 as far as is known. LafargeHolcim has reported, for instance, 2.6% growth in cement volumes sold for Malaysia at end September, +9.2% for the Philippines or even +21.7% for Mexico. In LatAm in particular, excluding Brazil, Ecuador and Nicaragua, every key country has reported volume growth in the first 9 months of 2015.
- Finally, China's export risks can't be excluded, but it looks to us as if this may have been overplayed by the market. Chinese cement is of course cheaper, but, for instance, import terminals and logistics are controlled by local players in the US. We can't exclude import taxes being implemented in some countries either.

We have revisited our core scenario of volumes and prices in our Global Cement Model and fine-tuned our estimates on LafargeHolcim. Our 2016 and 2017 revenue forecasts are now 3% below our previous estimates; EBITDA 8%/9% below and EBIT 16%/14% below. This is mostly explained by more cautious top-line growth (organic growth at 3% over the 2015-2017 period vs 4.5% previously) and lower synergies (88% of the CHF1.1bn taken into account, while India's synergies account for 12% and are unlikely to be generated considering the current disposal of Lafarge India).

FY 2015 results due to be published on 17 March.

2. Three reasons to turn positive

2.1. What's priced in today?

2.1.1. Well below historical multiples…

We have revisited our key forecasts with more conservative assumptions on volumes and prices in emerging countries, in order to reflect the deteriorated outlook in that part of the world.

Even based on new estimates, the current share price reflects a very harsh discount versus historical multiples, in particular a ~50% on p/book.

Fig. 1: 2016 multiple discount vs historical average

x	2007	2008	2009	2010	2011	2012	2013	2014	14PF	2015E	2016E	2017E	2018E	2019E	2020E	07-15 MED	2016 discs	2017 disc.
EV/Revenues	1.6	1.4	1.6	1.5	1.5	1.4	1.6	1.8	2.0	1.9	1.4	1.3	1.2	1.1	1.0	1.6	-11%	-19%
EV/EBITDA	6.2	6.5	7.1	7.4	7.8	7.8	8.3	9.1	9.6	10.2	6.8	5.6	5.1	4.6	4.2	7.8	-12%	-27%
EV/EBIT	8.6	10.4	11.8	12.8	13.3	12.2	13.8	13.8	16.5	19.5	12.2	9.1	7.8	7.0	6.2	12.8	-5%	-29%
EV/IC	1.1	1.0	0.9	1.0	1.0	1.0	1.2	1.1	1.0	0.9	0.7	0.7	0.6	0.6	0.6	1.0	-32%	-34%
P/E	9.9	10.8	12.0	18.2	66.5	30.3	17.7	18.4	35.3	38.0	15.5	10.5	8.8	7.9	7.1	18.2	-15%	-42%
P/Book	1.5	1.3	1.0	1.2	1.1	1.1	1.4	1.4	1.2	1.0	0.6	0.6	0.6	0.6	0.5	1.2	-48%	-50%
CF yield (%)	16.7	16.9	18.8	14.9	13.0	12.4	11.1	9.5	6.4	7.4	14.0	17.3	19.3	20.6	21.7	13.0		
FCF yield (%)	6.4	-3.1	7.6	8.4	5.3	4.9	3.1	2.8	1.0	2.0	6.9	12.0	13.0	14.3	15.4			
Div yield (%)	3.0	3.0	2.7	2.2	1.7	2.0	1.9	1.8	1.8	2.4	4.7	5.4	6.1	6.8	7.4			
EV/Ton(CHF)	219	179	161	159	143	145	157	165	166	156	113	109	105	100	94	159	-29%	-31%

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

2.1.2. Cost of replacement

Apart from regular earnings-based multiples (e.g. EV/EBITDA), the valuation can be viewed through an EV/ton ratio, i.e. Enterprise Value compared to production of cement capacity. This is a ratio often mentioned when an acquisition is announced. In the current situation, we understand investors will not buy LafargeHolcim on M&A multiples. However, it looks to us an interesting exercise to estimate a cost of replacement valuation.

According to the *Cement plant operations handbook*, a new cement plant costs USD150 to USD230 per ton of capacity. However, the cost is lower in India (USD90 to USD120) and much lower in China (USD50 to USD80). Then, we get brownfield expansion, with a very large cost per ton reported (c.USD60, to USD200). Here, we are considering replacement cost from scratch or course.

Fig. 2: Cost of construction of a new greenfield cement plant

Cost of construction in USD/t	low	high	mid
New greenfield plant	150	230	190
Indian plant	90	120	105
Chinese plant	50	80	65
Cost of construction in CHF/t	**low**	**high**	**mid**
New greenfield plant	137	210	173
Indian plant	82	109	96
Chinese plant	46	73	59

Source: The cement plant operations handbook, Bryan Garnier & Co ests.

We apply cost per ton of capacity to LafargeHolcim's first 16 countries (out of the 90), representing two-thirds of the group's capacity of 374 million tons (as reported by the CMA which excludes the 11mt of Lafarge India). We then apply 7x EV/EBITDA for aggregates, RMX and others businesses. We obtain an EV, of which we deduct net debt, minorities and provisions, and we add back associates, long-term investment and Lafarge's debt accounting re-evaluation.

Fig. 3: Cost-replacement-derived valuation range

		CHFm	per ton	CHFm	per ton	CHFm	per ton	use rate %
Countries	mt capacities	low-end	low-end	mid-range	mid-range	high-end	high-end	%
India	62.0	5084	82	5932	96	6779	109	100
China	31.6	1440	46	1872	59	2303	73	100
US	27.9	3813	137	4830	173	5847	210	100
Malaysia	13.7	1123	82	1311	96	1498	109	100
Indonesia	13.2	1082	82	1263	96	1443	109	100
Mexico	12.2	1000	82	1167	96	1334	109	100
France	10.6	1449	137	1835	173	2221	210	100
Morocco	11.9	976	82	1139	96	1301	109	100
Egypt	10	820	82	957	96	1093	109	100
Spain	9.9	1353	137	1714	173	2075	210	100
Philippines	9.9	812	82	947	96	1082	109	100
Korea	9.6	787	82	918	96	1050	109	100
Russia	9.5	779	82	909	96	1039	109	100
Algeria	9.4	771	82	899	96	1028	109	100
Brazil	8.9	730	82	851	96	973	109	100
Nigeria	8.2	672	82	785	96	897	109	100
Others	121.8	11986	98	14483	119	16980	139	100
Total		**34679**	**91**	**41812**	**110**	**48944**	**129**	
Aggregates @ 7x EV/EBITDA		4644		4644		4644		
RMC@ 7x EV/EBITDA		2199		2199		2199		
others @ 7x EV/EBITDA		636		636		636		
EV estimated		42158		49290		56423		
Equity value per share (CHF)		**37**		**48**		**60**		

Source: The cement plant operations handbook, Bryan Garnier & Co ests.

We obtain CHF37 per share at the low-end of our valuation range, which can be viewed as an attractive entry point

2.1.3. Scenario implied by the current share price

Of course, cement volumes are disappointing in numerous key markets, not to mention the offer/demand off balanced in China, Indonesia, Brazil and Greece notably, which could lead to plant closures (Eric Olsen; French and Swiss press, 24/01/2016). The current global utilisation rate is low (66%, said the CEO of LH) and LafargeHolcim's target is 80%.

- In our new forecast, we have considered 88% of the CHF1.1bn synergies at the EBIDTA level in 2018 onwards (run-rate at end 2017 precisely). At 0% synergies, our Fair Value would stand at less than CHF41.

- In our new forecast, our top-line organic growth stands at 3% CAGR over the 2015-2017 period (vs 4.5% in our previous forecast). No organic growth at all leads to a CHF33 per share for the Fair Value.

- We can combine flat organic growth with 0% synergies. In that scenario, the FV stands at CHF24.

Fig. 4: Valuation relative to organic growth and % of synergies in the model

Valuation				
% of synergies	***0***	***50***	***88***	***100***
2015-217 organic growth (%)				
0	24	29	**33**	35
1	30	35	39	40
2	35	41	45	46
3	**41**	46	**50**	52
4	47	52	56	58
5	53	58	62	64

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

These scenarios look harsh to us.

- In order to manage the current difficult environment, we believe LafargeHolcim's management will be particularly keen to generate as much synergies as possible, with a strong focus on any cost-cutting opportunities. It is always difficult to say if implementation delays are likely or not. After all, the several governance issues in the last few months (new CFO, new co-Chairman) could have disturbed some managers. But the current difficult environment might have put additional pressure on them.

- A lasting cement volumes decline in emerging countries looks very unlikely. Populations in India, Africa or LatAm are believed to continue to grow; which should have a favourable impact the residential market and cement will be used to answer this natural expansion.

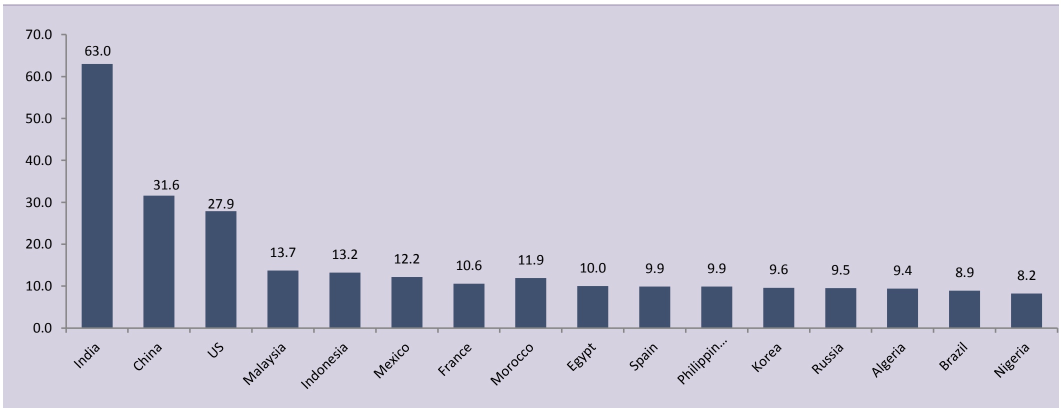
- Finally, we can't rule out that competition, price wars, new entrants, etc, can put pressure on LafargeHolcim's performance, even if market fundamentals are well oriented. But this is probably answered by one of the purposes of the merger: be stronger to better take up the challenge of new entrants, in particular players from the emerging countries.

2.2. EM is a risk but LH is diversified…a lot

2.2.1. Overcapacities remain an issue

We disclose below the first 16 countries for LafargeHolcim, based on cement capacities. All together, they represent approximately 70% of the group's capacity. The remaining 30% corresponds to an impressive number of c.75 countries.

Fig. 5: First key countries in terms of cement capacities (units)



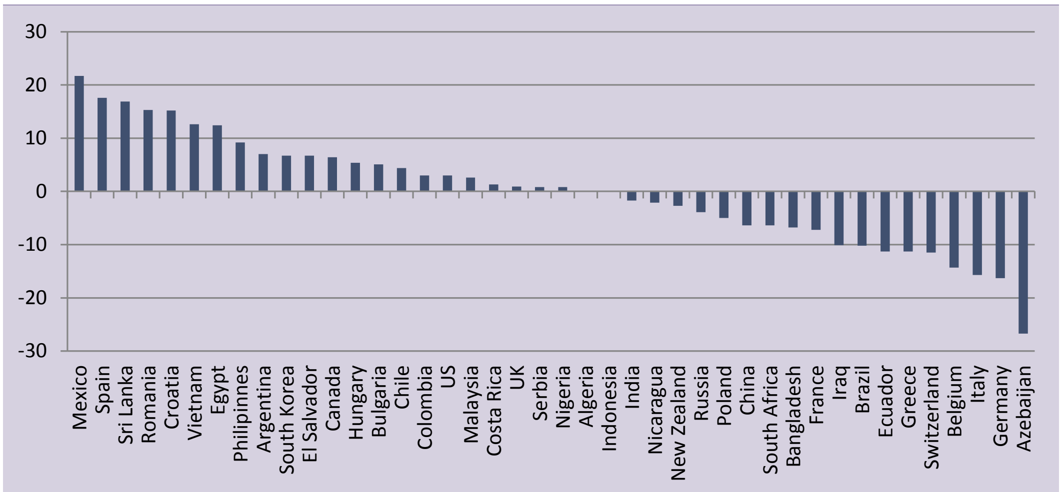
Source: Company Data; Bryan, Garnier & Co ests.

Apart from the US, France and Spain, most of the countries face specific issues: In Asia, the impact of a China slowdown on the region remains a question mark on countries like Malaysia, Indonesia, South Korea and the Philippines; while overcapacities remain an issue in India, Indonesia or China. Some emerging countries have to manage with the current level of oil prices, like Nigeria, Brazil, Algeria, Russia or Mexico. In addition, recession is a reality in Brazil, while geopolitical risk cannot be ignored in some other countries, in Egypt for instance.

2.2.2. But LafargeHolcim is very well diversified

LafargeHolcim is located in 90 countries and no country represents more than 10% of consolidated sales, apart from the US and India.

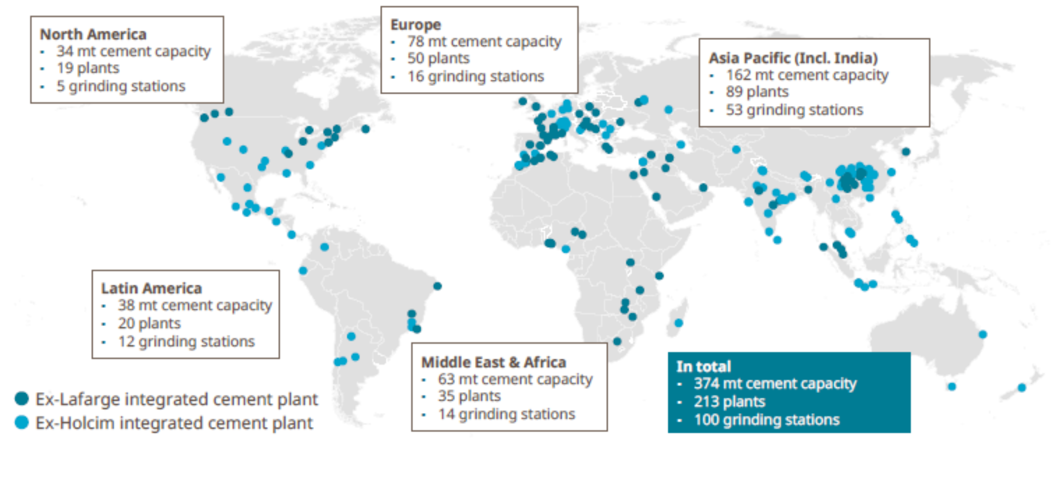
Fig. 6: -9 month 2015 cement volume change by country (%, y/y)



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

At end September 2015, although some countries like China or Brazil have been severely hit by macro woes, some others, including in the emerging world, have performed well, like Colombia, Argentina, Mexico, the Philippines, Kenya, etc… Therefore, although we don't deny the EM macro slowdown is a risk, the quite unique diversification of LH is an advantage.

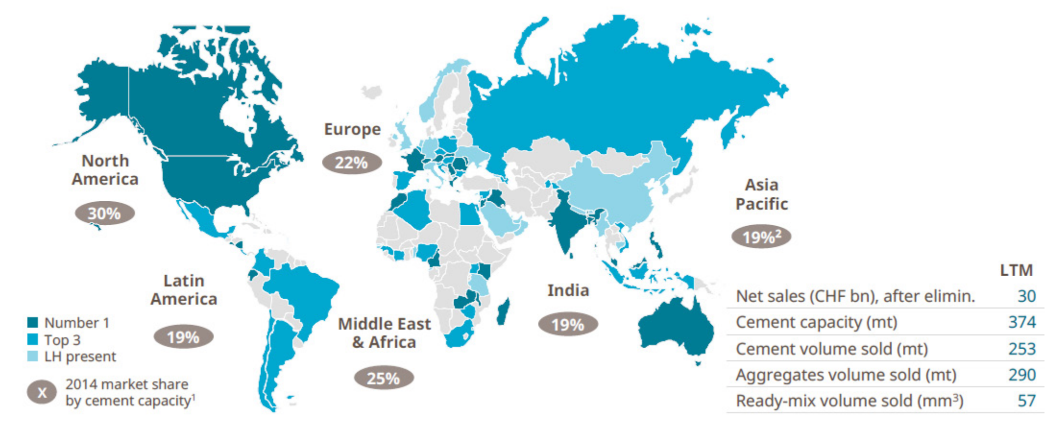
Fig. 7: Cement operations – 213 plants & 100 grinding stations around the globe*



** including minority positions*

Source : LafargeHolcim 2015 Capital Market Day; Bryan, Garnier & co

Fig. 8: LafargeHolcim market share by cement capacity



1. Only including countries where LH has capacity

2. Ex-China; represents 3% market share including China

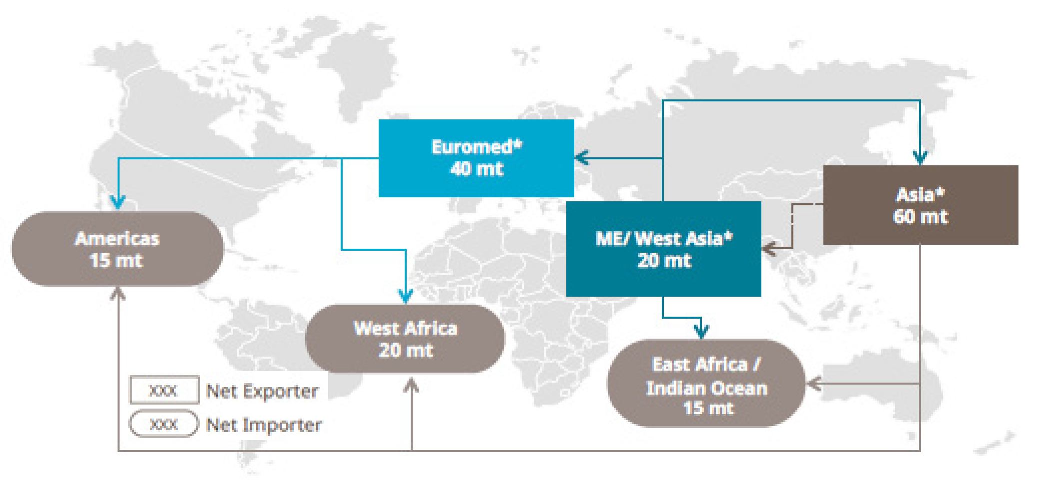
Source : LafargeHolcim 2015 Capital Markets Day; Bryan, Garnier & Co

2.3. China export risk is not a myth but is over played

While cement doesn't travel beyond 200km by road, it does by sea. First, because the cost of travel is lower, especially (but not only) with the current Baltic Dry Index level (-c.40% YTD) and, secondly, because international trades take opportunities with price differences.

According to the *Global Cement Report*, China is a leading export country but volumes exported remain low compare with the capacity installed. 15 mt were exported in 2014e, mostly to Africa. The main Chinese exporter is Conch with 1.5mt in 2014, representing less than 3% of the c.60mt sold. Even if Conch's export sales were up by only 5% in 2014, it has accelerated this in H1 with 11% growth.

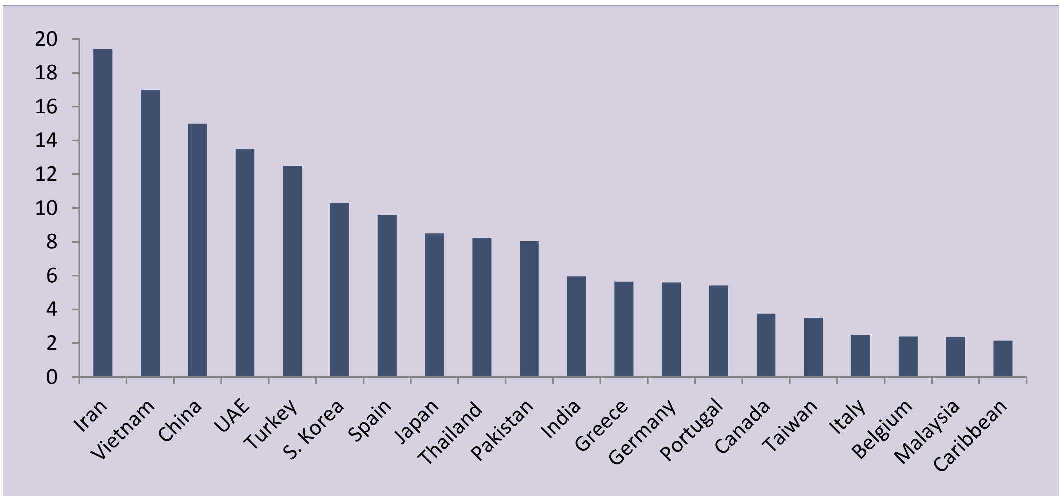
Fig. 9: Trading market : 120 mt world while



** includes intra-regional trades*
Source : LafargeHolcim 2015 Capital Market Day

2.3.1. China export risk is not a myth…

Fig. 10: Leading cement export nations (2012-2014e)



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

Investors are, in particular, but not only, worried about China's potential disruption in the world, with cheap cement flooding overseas.

- Technically, cement can't travel beyond 200km by road, but can be transported by sea for a much longer distance. Hence, it is technically possible to sell Chinese cement in the US. Besides, prices in China are notoriously low, around USD35-45 per ton, compared with USD100 in the US or France, and FOB prices (includes terminal costs) stood at ~USD60/t according to the *Global Cement Report*, while cost of transport per ton by sea is very low, especially today. Basically then, from China, it is possible to export from coast to coast at attractive prices.

- Chinese cement capacity is estimated at more than 3.2bn tonnes (*Global Cement Report*) for a consumption presumably of around 2.5bn, leading to an approx. 700mt overcapacity. This is a rough estimation but it explains why the market is worried, although the utilisation rate is not that low at around 80%.

- Furthermore, the Chinese market is currently under pressure. Numerous local players have warned on the 2015 results, including the 41.9% LafargeHolcim subsidiary Huaxin. The profit warnings are massive: CNBM estimates its 2015 net profit to be down 70% y/y mainly because of lower demand and overcapacity leading to pricing pressure. The 41.9% LafargeHolcim subsidiary said it expects its net earnings to fall by 90-95%.

Fig. 11: Huaxin's counter-performance in 2015

Yuan bn	FY13	FY14	Q115	Q215	Q315
Sales	**15984**	**15996**	**2793**	**3657**	**3431**
y/y %	28%	0%	-9%	-13%	-15%
Operating profit	**1597**	**1689**	**-4**	**102**	**82**
y/y %	-	6%	-103%	-80%	-82%
Operating margin	**10.0%**	**10.6%**	**-0.1%**	**2.8%**	**2.4%**
Change bps	**-**	**57**	**-440**	**-947**	**-852**
Net profit	1181	1222	29	60	36
y/y %	112%	3%	-78%	-84%	-89%

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

- In any case, the overall outlook is that cement consumption will gradually slowdown.

- Some players have started to complain about more intense competition in the export trading market from Chinese producers.

  - According to the local association for cement, Vietnamese producers are facing more intense competition from China. Any further pressure could damage the Vietnamese industry. Out of 90 million tonnes of cement capacity, 50 are consumed locally and 20 are exported. The utilisation rate would be only 60% without exporting, which should start to translate in lower prices. LafargeHolcim has a 5.7 mt of cement capacity (vs 374 mt at the group level) in the country.

  - Last year, Ghana's cement association continuously complained about suffering from cheap Chinese cement imports. Finally, the local authorities decided to increase the FOB charge to USD60 per ton of imported cement vs USD26/t previously.

- Chinese cement imports in Costa Rica have lowered local prices by 20%, said local news services. Imports have been made possible following a change in the regulation, as previously imports have been penalised by the requirement that cement must be sold within 45 days after being produced.

2.3.2. …but risks can be managed

There are a number of reasons why we doubt world markets will be flooded by cheap Chinese cement.

- First, all 700mt of overcapacity is not located along a sea coast or a river. While we ignore the percentage of cement capacity ready to export, we notice that the cement industry was firstly built to answer local demand. Actually, according to Heidelberg, a "large amount of excess capacity is located inland". Besides, brand-new plant construction is not authorised unless it replaces old capacity, which means overcapacity might not deteriorate because of new plants.

According to Heidelberg, a "large amount of excess capacity is located inland" in China

- China is a very large country and some regions are more dynamic than others. If local demand is slowing, that doesn't mean it has disappeared. In particular, the Western part of the country is much less built up than the Eastern part. LafargeHolcim is very well exposed to the West, through Lafarge Shui On Cement. At end June 2015, Conch's sales were down 9% in West China, a better performance than South China (-13%); Central China (-11%) and much better than East China (-27%).

- Duty taxes can be implemented in countries exposed to imports, depending on government behaviour and lobby pressure from local players.

- Historically, exports from China are modest and its government seems to prefer to close capacities instead of stimulating exports. 150 mt of obsolete capacity have been recently closed. Cement production is a very polluting process. Politically speaking, it might be difficult to justify local production with cheap cement exports. Keeping open plants just for exports doesn't seem in line with a policy of CO_2 emission control.

According to Cemex, "most imports in the US are made by local producers, and most facilities, most permits, most integrated value chains are owned and managed by local producers".

- In the US, as recently underlined by the management of Cemex, "most imports in the US are made by local producers, and most facilities, most permits, most integrated value chains are owned and managed by local producers". So it is technically very difficult for a new competitor to flood the US with cheap cement. We understand the situation is similar in Europe.

- In Western Europe, for instance, markets are very strictly integrated vertically, in particular in France. Imported cement means selling to RMX producers, which are controlled by the cement majors.

- One needs to answer to a demand anyway. It is not possible to export to the coast and transport cement well inside the country, because of logistical costs.

- Cement majors control the trading. In particular, LafargeHolcim is an important player in trading, with 19mt of sales or 16% market share. In APAC, the group is particularly strong with 85% of its volumes traded within its own network of import positions.

Fig. 12: 2015 cement and clinker footprint (LafargeHolcim)

	Americas	EMEA	APAC
19 mt breakdown	12%	46%	42%
Vol traded within the group	50%	35%	85%
Vol traded within 3rd parties	50%	65%	15%

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

- Although prices are low in China, Chinese players don't benefit from very good variable cost levels in their plants, according to LafargeHolcim, HeidelbergCement but also Vicat, it is not so easy for them to be that competitive. Other countries like Turkey benefit from very good cost bases from which to compete.

Fig. 13: Variable cost margin for Chinese players: the Huaxin example

Yuan bn, 2014	2013	2014	H1 14 estimation	H1 15 estimation
Revenues	15984	15996	7267	6450
Variable costs - estimated	10206	9905	4565	4395
Margin on variable costs (1)	**5778**	**6091**	**2703**	**2056**
Margin %	36%	38%	37%	32%
Fixed costs (2) – estimated	**4181**	**4401**	**2058**	**1957**
(1) / (2) ratio (x)	1.4	1.4	1.3	1.1
Operating profit	**1597**	**1689**	**644**	**98**
Margin %	**10%**	**11%**	**9%**	**2%**

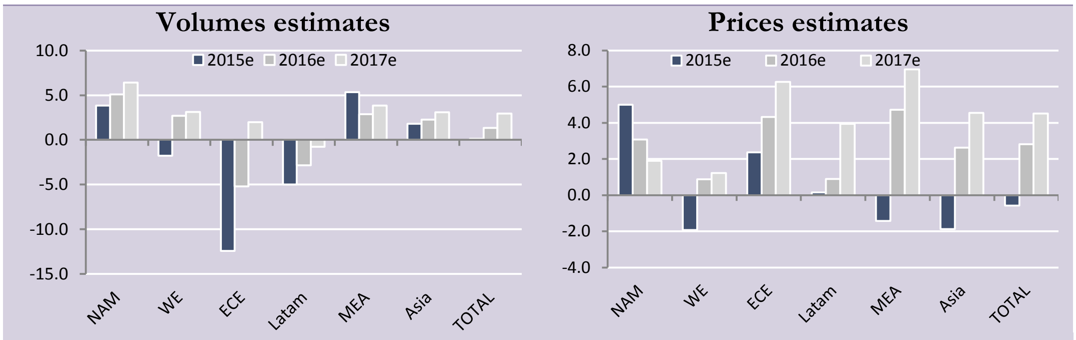
Source: Company Data; Bryan, Garnier & Co ests.

Conclusion: we don't deny there is a risk here, but we suspect the risk will be limited to some countries (Asia and Africa) and the scenario of cheap Chinese cement flooding into the US or Europe looks highly unlikely. We can't exclude, however, a more proactive "go abroad" policy, like Conch, which has recently put in service a 1.5mt cement plant in Indonesia. The target is to obtain more than 13mt of capacity but so far, however, only 1.5mt of one line in one plant has been completed, as Conch is apparently facing several difficulties (land acquisitions, road conditions, power supply…).

3. New forecast and valuation

We have revisited our key assumptions per countries. Then we have applied our new underlying assumptions to our LafargeHolcim model.

Fig. 14: New core estimates



Sources: Bryan, Garnier & co

Fig. 15: Revenues & EBITDA forecast by geographical zones

REVENUES - CHFm	2014	2014PF	2015E	2016E	2017E
Europe	5 554	8 425	7 405	7 496	7 782
North America	3 336	5 457	6 066	6 396	6 919
Latin America	3 012	3 544	3 234	3 176	3 274
Africa Middle-East	861	4 969	5 226	5 340	5 679
Asia-Pacific	6 970	9 787	8 673	8 793	9 323
Adjust	-623	-368	-460	-460	-460
Total	**19 110**	**31 814**	**30 144**	**30 741**	**32 518**
LFL Revenues growth (%)	**2014**	**2014PF**	**2015E**	**2016E**	**2017E**
Europe	0.2	-	-2.5	1.4	3.8
North America	10.7	-	4.7	8.0	8.2
Latin America	0.6	-	2.5	0.7	3.1
Africa Middle-East	0.8	-	0.7	4.6	6.4
Asia-Pacific	3.8	-	-3.9	2.8	6.0
Adjust	-	-	25.0	0.0	0.0
Total	**3.0**	**-**	**-0.7**	**3.6**	**5.8**
EBITDA - CHFm	**2014**	**2014PF**	**2015E**	**2016E**	**2017E**
Europe	991	1 589	1 196	1 265	1 444
North America	600	1 061	1 493	1 804	2 128
Latin America	861	965	913	898	973
Africa Middle-East	276	1 611	1 586	1 646	1 823
Asia-Pacific	1 332	1 776	1 147	1 166	1 404
Adjust	-313	-507	-612	-575	-538
Total	**3 747**	**6 495**	**5 723**	**6 204**	**7 234**
EBITDA margin (%)	**2014**	**2014PF**	**2015E**	**2016E**	**2017E**
Europe	17.8	18.9	16.2	16.9	18.6
North America	18.0	19.4	24.6	28.2	30.8
Latin America	28.6	27.2	28.2	28.3	29.7
Africa Middle-East	32.1	32.4	30.3	30.8	32.1
Asia-Pacific	19.1	18.1	13.2	13.3	15.1
Adjust	-	-	-	-	-
Total	**19.6**	**20.4**	**19.0**	**20.2**	**22.2**

Source : LafargeHolcim; Bryan, Garnier & co

Fig. 16: New forecast vs previous and vs consensus*

CHFm	2015e	2016e	2017e
Revenues			
New	**30144**	**30741**	**32518**
Previous	29968	31571	33640
Difference %	1	-3	-3
Consensus	28784	30489	32158
Difference %	5	1	1
EBITDA			
New	**5723**	**6204**	**7234**
Previous	5899	6751	7907
Difference %	-3	-8	-9
Consensus	5495	6196	6938
Difference %	4	0	4
EBIT	**3273**	**4111**	**5268**
New	2993	3474	4504
Previous	3273	4111	5268
Difference %	-9	-16	-14
Consensus	2815	3440	4206
Difference %	6	1	7

** This is not a corporate consensus*
Source: Company Data; Bryan, IBES consensus, Garnier & Co ests.

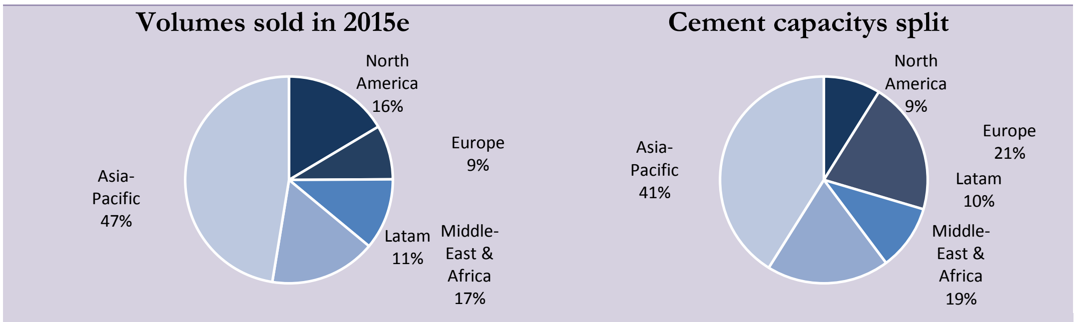
Our new Fair Value stands at CHF50. As usual since we initiated coverage on cement, we apply historical EV/EBITDA multiples (7.5x) to our 2017 estimates, then discounted back.

Fig. 17: FV at CHF50 (vs CHF60)

CHFm			
EV/EBITDA target (x)	7.5	Equivalent Equity value	35894
EBITDA	7234	Number of shares (m)	606
Equivalent EV value	54258	Value per share (EUR)	59
Less net debt	-16244	Risk free rate (%)	2.0
Less net debt adjustments	-1793	Risk premium (%)	6.4
Less minorities	-5950	Beta (x)	1.0
Plus associates	4416	Cost of equity (%)	8.4
Plus LT investments	1159	Years discounted back	2.0
Plus treasury shares	47	**Discounted Equity value**	**50.4**
Others adjustments	-2121	**Bryan Garnier Fair value**	**50.0**

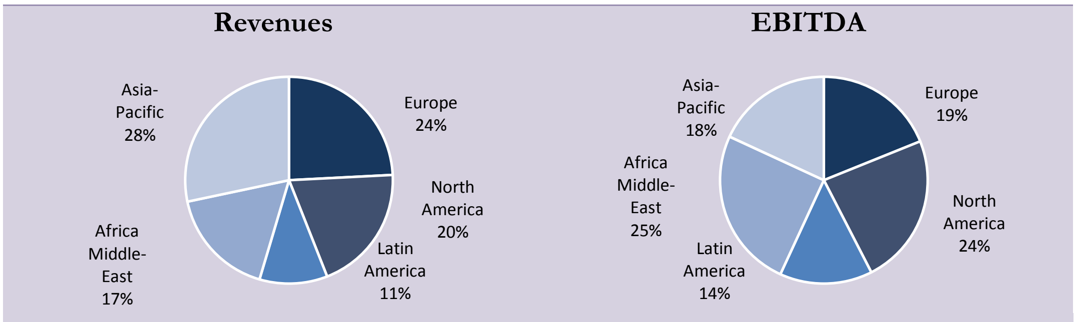
Source : LafargeHolcim; Bryan, Garnier & co

Fig. 18: Cement volume breakdown



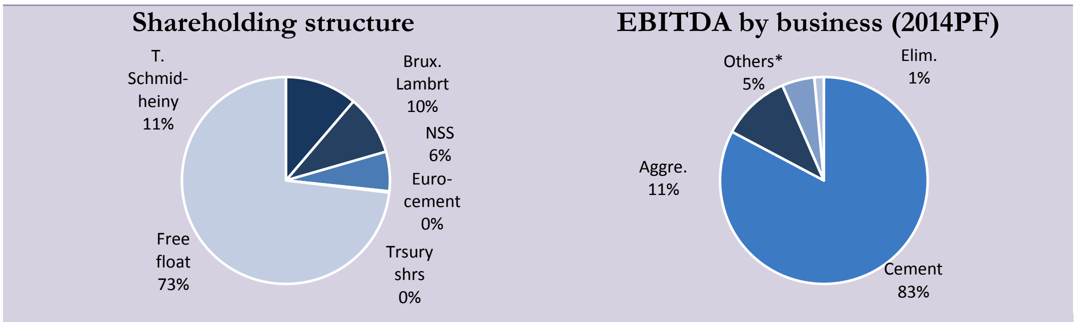
Sources: LafargeHolcim; Bryan, Garnier & co

Fig. 19: Revenues & EBITDA breakdown (2015e)



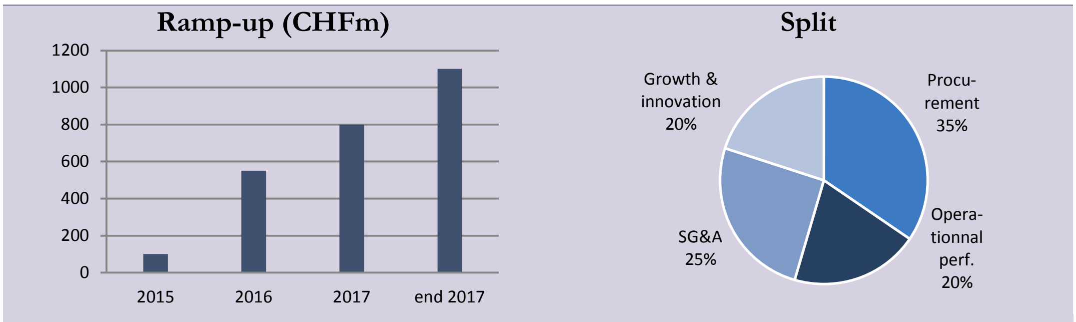
Sources: LafargeHolcim; Bryan, Garnier & co

Fig. 20: Others



Sources: LafargeHolcim; Bryan, Garnier & co

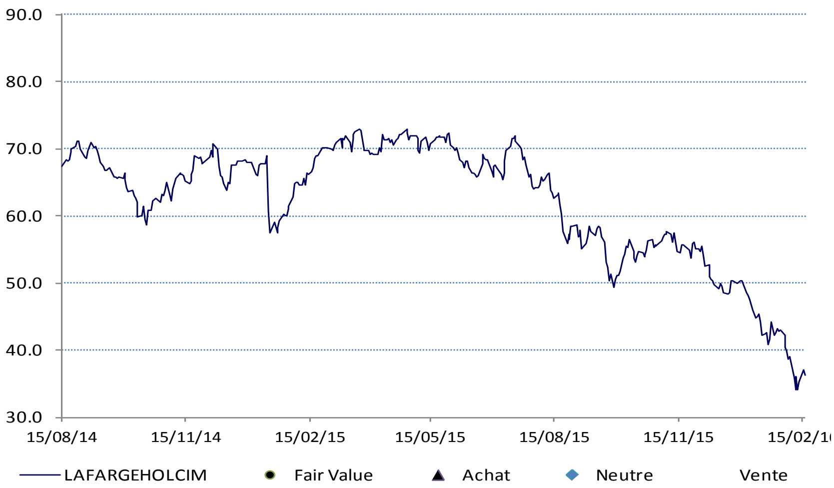
Fig. 21: EBITDA Synergies



Sources: LafargeHolcim; Bryan, Garnier & co

Price Chart and Rating History

LafargeHolcim



Ratings		
Date	**Ratings**	**Price**
17/11/15	SELL	CHF56.1

Target Price	
Date	**Target price**
17/11/15	CHF60

Page left blank intentionally

Page left blank intentionally

Bryan Garnier stock rating system

For the purposes of this Report, the Bryan Garnier stock rating system is defined as follows:

Stock rating

BUY Positive opinion for a stock where we expect a favourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential upside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

NEUTRAL Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

SELL Negative opinion for a stock where we expect an unfavourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential downside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

Distribution of stock ratings

BUY ratings 62.7% NEUTRAL ratings 28.4% SELL ratings 9%

Research Disclosure Legend

1	Bryan Garnier shareholding in Issuer	Bryan Garnier & Co Limited or another company in its group (together, the "Bryan Garnier Group") has a shareholding that, individually or combined, exceeds 5% of the paid up and issued share capital of a company that is the subject of this Report (the "Issuer").	No
2	Issuer shareholding in Bryan Garnier	The Issuer has a shareholding that exceeds 5% of the paid up and issued share capital of one or more members of the Bryan Garnier Group.	No
3	Financial interest	A member of the Bryan Garnier Group holds one or more financial interests in relation to the Issuer which are significant in relation to this report	No
4	Market maker or liquidity provider	A member of the Bryan Garnier Group is a market maker or liquidity provider in the securities of the Issuer or in any related derivatives.	No
5	Lead/co-lead manager	In the past twelve months, a member of the Bryan Garnier Group has been lead manager or co-lead manager of one or more publicly disclosed offers of securities of the Issuer or in any related derivatives.	No
6	Investment banking agreement	A member of the Bryan Garnier Group is or has in the past twelve months been party to an agreement with the Issuer relating to the provision of investment banking services, or has in that period received payment or been promised payment in respect of such services.	No
7	Research agreement	A member of the Bryan Garnier Group is party to an agreement with the Issuer relating to the production of this Report.	No
8	Analyst receipt or purchase of shares in Issuer	The investment analyst or another person involved in the preparation of this Report has received or purchased shares of the Issuer prior to a public offering of those shares.	No
9	Remuneration of analyst	The remuneration of the investment analyst or other persons involved in the preparation of this Report is tied to investment banking transactions performed by the Bryan Garnier Group.	No
10	Corporate finance client	In the past twelve months a member of the Bryan Garnier Group has been remunerated for providing corporate finance services to the issuer or may expect to receive or intend to seek remuneration for corporate finance services from the Issuer in the next six months.	No
11	Analyst has short position	The investment analyst or another person involved in the preparation of this Report has a short position in the securities or derivatives of the Issuer.	No
12	Analyst has long position	The investment analyst or another person involved in the preparation of this Report has a long position in the securities or derivatives of the Issuer.	No
13	Bryan Garnier executive is an officer	A partner, director, officer, employee or agent of the Bryan Garnier Group, or a member of such person's household, is a partner, director, officer or an employee of, or adviser to, the Issuer or one of its parents or subsidiaries. The name of such person or persons is disclosed above.	No
14	Analyst disclosure	The analyst hereby certifies that neither the views expressed in the research, nor the timing of the publication of the research has been influenced by any knowledge of clients positions and that the views expressed in the report accurately reflect his/her personal views about the investment and issuer to which the report relates and that no part of his/her remuneration was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.	Yes
15	Other disclosures	Other specific disclosures: Report sent to Issuer to verify factual accuracy (with the recommendation/rating, price target/spread and summary of conclusions removed).	No

Summary of Investment Research Conflict Management Policy is available www.bryangarnier.com

BRYAN, GARNIER & CO

London	Paris	New York	Geneva	New Delhi
Beaufort House	26 Avenue des Champs Elysées	750 Lexington Avenue	rue de Grenus 7	The Imperial Hotel
15 St. Botolph Street	75008 Paris	New York, NY 10022	CP 2113	Janpath
London EC3A 7BB	Tel: +33 (0) 1 56 68 75 00	Tel: +1 (0) 212 337 7000	Genève 1, CH 1211	New Delhi 110 001
Tel: +44 (0) 207 332 2500	Fax: +33 (0) 1 56 68 75 01	Fax: +1 (0) 212 337 7002	Tel +4122 731 3263	Tel +91 11 4132 6062
Fax: +44 (0) 207 332 2559	Regulated by the	FINRA and SIPC member	Fax+4122731 3243	+91 98 1111 5119
Authorised and regulated by	Financial Conduct Authority (FCA)		Regulated by the	Fax +91 11 2621 9062
the Financial Conduct	and the Autorité de Contrôle		FINMA	
Authority (FCA)	prudential et de resolution (ACPR)			