

## Heidelbergcement

Price EUR66.89

Italcementi 2015 EBITDA in line with consensus. Relatively decent outlook.

Fair Value EUR86 (+29%)

BUY-Top Picks

Bloomberg	HEI GY
Reuters	HEIG.F
12-month High / Low (EUR)	77.0 / 60.1
Market Cap (EUR)	12,570
Ev (BG Estimates) (EUR)	19,422
Avg. 6m daily volume (000)	683.8
3y EPS CAGR	38.3%

	1 M	3 M	6 M	31/12/15
Absolute perf.	4.7%	-8.9%	-5.6%	-11.5%
Cons & Mat	3.1%	-8.0%	-9.1%	-6.6%
DJ Stoxx 600	0.1%	-13.3%	-15.3%	-10.1%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	12,614	13,373	17,703	19,110
% change		6.0%	32.4%	8.0%
EBITDA	2,117	2,371	3,356	3,884
EBIT	1,424	1,621	2,206	2,734
% change		13.9%	36.1%	23.9%
Net income	498.4	689.8	960.2	1,392
% change		38.4%	39.2%	45.0%

	2014	2015e	2016e	2017e
Operating margin	11.3	12.1	12.5	14.3
Net margin	5.5	6.9	6.5	8.6
ROE	3.8	5.1	6.5	8.9
ROCE	6.4	5.3	5.9	7.4
Gearing	48.6	35.2	51.9	43.7

(EUR)	2014	2015e	2016e	2017e
EPS	2.66	3.68	4.85	7.03
% change	-	38.4%	31.8%	45.0%
P/E	25.2x	18.2x	13.8x	9.5x
FCF yield (%)	5.3%	5.7%	9.3%	10.1%
Dividends (EUR)	0.75	1.10	1.50	2.80
Div yield (%)	1.1%	1.6%	2.2%	4.2%
EV/Sales	1.7x	1.5x	1.3x	1.2x
EV/EBITDA	10.1x	8.2x	6.9x	5.8x
EV/EBIT	15.0x	12.0x	10.6x	8.2x



Italcementi has reported 2015 results in line before non-recurring items. Revenues are up by 3.5% at EUR4302m (1% above est.), a combination of -3% organic decline, +6.1% FX and +0.4% scope positive effects. Cement volumes sold are flat. Recurring EBITDA is down 3.1% at EUR636m (EUR630m exp.), mainly due to Egyptian prices under pressure, and margins are down 100bps at 14.8%. Outlook is actually not bad, with operating margins improvement and positive volume growth expected.

While Revenues and recurring EBITDA are in line with the consensus (IBES), reported EBITDA has been impacted by re-organization expenses (-EUR52m) and EBIT by impairment losses (-EUR14m).

By geographical zones, volumes were up in North America, Middle-East North Africa but under pressure in Europe and Asia, as well as for the trading business. In Europe, Italy is still under pressure with volumes down -4.1%, as well as France and Belgium (-5.5% and -2.9% resp.), North America is satisfying but growth in volumes in Q4 was flat. In MENA, Egypt was strongly impacted by prices pressure due to fiercer competition. Morocco performance was decent, thanks to better prices, easier base comparison for volumes in Q4 and variable costs improvement. In Asia, EBITDA margin improves thanks to a strong positive margin effect in India, thanks a welcome price recovery in the country while domestic volumes were declining by 14% (partly compensated by exports, as overall volumes were down -11%). Thailand was subdued, penalised by the slowdown of the construction market and lower prices.

## 2015 performance by geographical zone

EURm	vol y/y%	Revenues	y/y%	EBITDA	Margin%	y/y bps	Split EBITDA
Europe	-2.3	2018	-5.5	236	11.7	-106	37
NAM	1.4	584	28.5	71	12.2	99	11
MENA	1.7	1008	14.5	200	19.8	-559	31
Asia	-1.5	617	-16.8	108	17.5	167	17
Trading	-15.3	168	2.5	16	9.6	443	3
Elim	-	-92	-	5	-5.6	-1122	1
<b>Total</b>	<b>-0.1</b>	<b>4302</b>	<b>3.5</b>	<b>636</b>	<b>14.8</b>	<b>-100</b>	<b>100</b>

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

## ANALYSIS

- 2015 was a difficult year but figures released looks not surprising compared with consensus expectations. Outlook is not bad actually. Positive in the US, combined with flattish volumes for the rest of the countries and even "moderate growth in sales volumes in Egypt". Prices are likely to increase, except in India and Thailand. Finally, operating margin should improve thanks to lower operating expenses (lower energy cost + impact of new facilities).
- Neutral or slightly positive read-across for HeidelbergCement. For the reminder, the German group offers EUR10.6 per share for the 45% of capital hold by Italmobiliare. Minorities offer at similar price to follow. Deal to be completed in 2016.

## VALUATION

- HeidelbergCement FV is derived from the application of historical multiples to our 2017 estimates, then discounted back. Our forecasts in 2016 onwards include Italcementi deal impact on a pro forma basis.

## NEXT CATALYSTS

- Italcementi conference call today at 3.30pm.
- HeidelbergCement complete 2015 results to be released on 17 March.

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