

4th February 2016

Construction & Building Materials

**LafargeHolcim**

Price CHF39.89

**Birla deal cancelled + third largest shareholder to exit**

Fair Value CHF60 (+50%)

**SELL**

|                            |             |
|----------------------------|-------------|
| Bloomberg                  | HOLN VX     |
| Reuters                    | HOLZn.VX    |
| 12-month High / Low (CHF)  | 72.9 / 39.9 |
| Market Cap (CHFm)          | 24,210      |
| Ev (BG Estimates) (CHFm)   | 42,746      |
| Avg. 6m daily volume (000) | 1,808       |
| 3y EPS CAGR                | 30.4%       |

In a press release this morning, LafargeHolcim confirms it is no longer in discussions with Birla (regarding the disposal of 5mt in cement capacity) because of regulatory issues. A new proposal with the Indian anti-trust authorities is underway. According to the press, Birla has decided to take legal action against the Swiss group. Finally, Bloomberg said this morning that Russian bank Sberbank is about to sell the 37.2 million shares it acquired recently from Russian cement group Eurocement. The stake would be valued at CHF1.5bn at the current LafargeHolcim share price.

|                | 1 M    | 3 M    | 6 M    | 31/12/15 |
|----------------|--------|--------|--------|----------|
| Absolute perf. | -20.7% | -29.8% | -37.8% | -20.7%   |
| Cons & Mat     | -7.2%  | -7.4%  | -11.0% | -7.2%    |
| DJ Stoxx 600   | -9.9%  | -12.9% | -17.5% | -9.9%    |

| 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% | 39.6% |
| P/E             | 19.4x | 19.3x | 12.2x | 8.7x  |
| FCF yield (%)   | 2.0%  | 7.4%  | 8.6%  | 13.0% |
| Dividends (EUR) | 1.30  | 1.30  | 1.30  | 1.30  |
| Div yield (%)   | 3.3%  | 3.3%  | 3.3%  | 3.3%  |
| EV/Sales        | 1.3x  | 1.4x  | 1.3x  | 1.2x  |
| EV/EBITDA       | 6.5x  | 7.2x  | 6.2x  | 5.1x  |
| EV/EBIT         | 11.3x | 13.1x | 10.3x | 7.7x  |

Firstly : last August, LafargeHolcim signed a deal with Indian group Birla to sell some assets in India, mostly two plants in the east with 5m tonnes in cement capacity, for an EV of CHF750m. Due to some legal issues regarding the transfer of mining rights, which cannot simply be transferred anymore since the new Mining Act voted last year, the process has not been finalised. Finally, according to the press, Birla has not only decided to cancel the deal signed last summer, but also to take legal action against LafargeHolcim. It is difficult to foresee what could be the issue of such a legal process, especially in a complex country like India.

Secondly : in a press release published this morning, LafargeHolcim confirms it is no longer in discussions with the Birla group. It confirms the mining rights transfert was an issue. Furthermore it announced it has submitted a new proposal to the CCI, the Competition Commission of India. This alternate remedy would be to divest Lafarge India as a whole. This would resolve the mining rights issue, as they would stay within the company, LafargeHolcim IR said to us yesterday. In this scenario, 11 million tons of cement capacity would be sold. LafargeHolcim would remain a very strong player in India though, with 62 mt of capacity.

Finally, regarding Sherbank: the Russian institution acquired last month from Eurocement the 37 millions shares it is about to sell (the two groups have a cooperation agreement, says Bloomberg). Eurocement was the third largest shareholder of LH with 6.12% stake. The first shareholders are Thomas Schmidheiny vehicle SC-IG with 12% of voting rights, Groupe Bruxelles Lambert with 10% and Egyptian Nasser Sawiris holding NSS with 5%. Sherbank shares are valued at CHF1.5bn, based on the current share price.

**ANALYSIS**

- The difficulties faced in India are not very positive for LH, as the disposal of 5mt of capacity was mandatory, in order to comply with the Competition Commission of India. So in any case, they must find a solution but we suspect it is just a matter of time here and that selling 5 or 11 mt will not be that different – except for the synergies expected to be generated by the combination of Holcim and Lafarge assets (knowing that India represents 11% of LH sales and that EBITDA level synergies are estimated at CCHF1.1bn).
- Sberbank is likely to be seen as negative newsflow, the amount to be sold is significant. We ignore the reasons behind the operation, but the share price is likely to be under pressure today.

**VALUATION**

- CHF60 FV derived from the application of historical multiples to our 2017 estimates, then discounted back.

**NEXT CATALYSTS**

- 2015 FY results to be published on 17th March 2015, pre-market.

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|         |   |
|---------|---|
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