

LafargeHolcim

Price CHF36.24

Everything can't be that bad. Upgrade to Buy. (report released today)

Fair Value CHF50 vs. CHF60 (+38%)

BUY vs. SELL

Bloomberg	LHN VX
Reuters	LHN.VX
12-month High / Low (CHF)	72.9 / 34.1
Market Cap (CHFm)	21,994
Ev (BG Estimates) (CHFm)	42,192
Avg. 6m daily volume (000)	2,029
3y EPS CAGR	19.5%

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).

	1 M	3 M	6 M	31/12/15
Absolute perf.	-14.2%	-33.5%	-42.0%	-28.0%
Cons & Mat	-0.9%	-9.7%	-12.1%	-10.3%
DJ Stoxx 600	-2.9%	-13.6%	-17.1%	-12.4%

ANALYSIS

- 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.

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	31,814	30,144	30,741	32,518
% change		-5.2%	2.0%	5.8%
EBITDA	6,495	5,723	6,204	7,234
EBIT	3,765	2,993	3,474	4,504
% change		-20.5%	16.1%	29.7%
Net income	1,247	1,005	1,445	2,127
% change		-19.4%	43.8%	47.2%

	2014	2015e	2016e	2017e
Operating margin	11.8	9.9	11.3	13.9
Net margin	5.3	3.1	4.1	7.2
ROE	3.3	2.7	3.9	5.6
ROCE	3.4	3.4	4.0	5.2
Gearing	41.6	43.9	42.1	36.8

(EUR)	2014	2015e	2016e	2017e
EPS	2.06	1.66	2.39	3.51
% change		-19.4%	43.8%	47.2%
P/E	17.6x	21.8x	15.2x	10.3x
FCF yield (%)	2.1%	3.9%	8.9%	15.5%
Dividends (EUR)	1.30	1.50	1.75	2.00
Div yield (%)	3.6%	4.1%	4.8%	5.5%
EV/Sales	1.3x	1.4x	1.4x	1.2x
EV/EBITDA	6.2x	7.4x	6.8x	5.6x
EV/EBIT	10.7x	14.1x	12.1x	9.0x

VALUATION

- CHF50 new Fair Value derived from the application of historical multiples (10-year average EV/EBITDA at 7.5x) to our 2017 estimates, then discounted back.

NEXT CATALYSTS

- 2015 full year results publish on 17 March.

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Distribution of stock ratings

BUY ratings 72%

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